

Country: Nepal

UNDAF Outcome(s): By 2010, sustainable livelihood opportunities expanded, especially for socially excluded groups in conflict affected areas.

Joint Programme Outcome(s): Increase the use of formal financial services (credit, savings, etc.) from profitable financial institutions (banks, Microfinance Institutions, etc.) by urban micro, small and medium enterprises and urban and rural low income households.

Project Title: Enhancing Access to Financial Services
(Building Inclusive Financial Sector in Nepal)

Project Duration: July. 2008 – Dec. 2012

Fund Management Option: Combination Parallel and Pass-Through

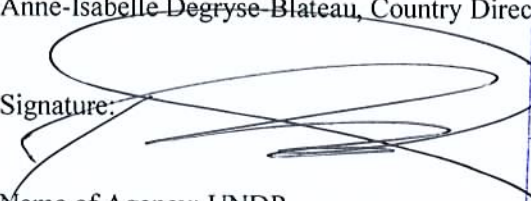

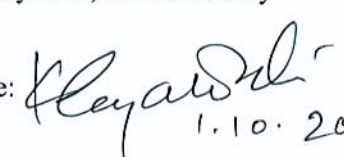

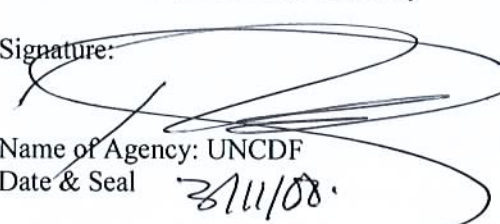

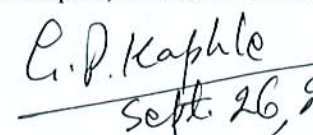

Managing or Administrative Agent: UNDP

Total estimated project budget: \$ 9,966,065

- UNDP: \$ 1,500,000
- UNCDF: \$ 1,500,000

Funding Gap: \$ 6,966,065

Names and signatures of (sub) national¹ counterparts and participating UN organizations

UN Organizations	National Partners ²
<p>Name of Representative: Anne-Isabelle Degryse-Blateau, Country Director</p> <p>Signature: </p> <p>Name of Agency: UNDP Date & Seal: 28/11/08</p> 	<p>Name of Head of Partner: Krishna Gyawali, Joint Secretary</p> <p>Signature:  1.10.2008</p> <p>Name of Institution: Foreign Aid Coordination Division, Ministry of Finance Date & Seal</p> 
<p>Name of Representative: David Morrison, Executive Secretary</p> <p>Signature: </p> <p>Name of Agency: UNCDF Date & Seal: 28/11/08</p> 	<p>Name of Head of Partner: Gopal Prasad Kaphle, Executive Director</p> <p>Signature:  Sept. 26, 2008</p> <p>Name of Institution: Microfinance Department, Nepal Rastra Bank Date & Seal</p> 

¹Governmental, and any NGO/civil society, private sector or other partners

²For UNDP, national signatories must include the national coordinating agency and the relevant national cooperating agency

Executive Summary

"The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. The International Year of Microcredit offers a pivotal opportunity for the international community to engage in a shared commitment to meet this challenge. Together, we can and must build inclusive financial sectors that help people improve their lives." UN Secretary General Kofi Annan, 29 December 2003 Announcing 2005 as the International Year for Microcredit

The poor and low-income earners ("Bottom of Pyramid" (BOP)) in Nepal make up around 90% of the economically active population. While a significant number of potentially bankable clients among BOP have been mobilized by community development projects, they remain largely excluded from access to sustainable financial services, and thus form the core target group for the development of an inclusive financial sector. A total of 1,012,000 households representing 4.55 million people should have access to financial services by the end of 2012, for significant progress toward the goal of a fully inclusive financial sector to have been made.

The financial sector in Nepal is quite diversified, with a large number of varied institutions offering a relatively wide array of financial services, but the outreach by the financial service providers (FSPs) to BOP remains limited. The Access to Financial Services Survey conducted by the Government of Nepal, DFID and the World Bank shows that despite Government's effort only 26% of the Nepali households have a bank account and informal sector lending dominates, with 37% of the households borrowing exclusively from the informal sector, while only 10% from banks. Informal lending is also preferred by small businesses, which usually purchase on credit from suppliers due to lack of cash at the time of purchase. The present policy environment is fragmented, but presents no immediate constraints for financial service providers to develop and expand.

Financial services to BOP have been driven by quantitative 'coverage' targets supported by generous provision of subsidized loan capital facilities. Comparatively less attention has been paid to the quality of the financial services provided, the sustainability of the institutions providing the service, and – in particular for the very poor in remote areas - the ability of borrowers to utilize credit for gainful enterprise, earn a profit and repay loans rather than increasing their debt. The business support infrastructure (training, audits, insurance, IT etc.) for financial services in Nepal has not developed strong commercially viable linkages with its customer base of FSPs, largely due to distorting subsidization. There is much scope for increased coordination of investments, as good practices for funding of sector development takes root. At present, many FSPs serving BOP thus display significant institutional weaknesses, static methodologies, weak financial and portfolio management systems and limited product development.

With coherent and focused institutional capacity building support, the financial sector should be able to increase its outreach to BOP by 20-25% per year, reaching a total of 1 million BOP clients at the end of the programme. Baseline/targets will be confirmed once the programme commences. The level of capacity building required in order to attain these targets is considerable, both at the retail FSP level and at the meso- (industry-)level to enhance coordination, enable capture of the potential market of already mobilized bankable clients, and ensure transparency and accurate performance monitoring. Linking the demand for business services and the existing supply contribute to a more sustainable sector development and lower the cost of FSP operations.

The programme proposes interlinked results to support a dramatic improvement in the access by the poor and low-income earners of Nepal to demand-driven, high-quality and sustainable financial services over the coming five years.

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LIST OF ACRONYMS

ADB	Asian Development Bank
ARCS	Audit Report Compliance System
ARR	Assistant Resident Representative
AROA	Adjusted Return on Assets
AST	Advisory Service Team
AWP	Annual Work Plan
AWPBs	Annual Work Programme and Budgets
BAN	Bankers' Association of Nepal
BOP	Bottom of Pyramid
BSPs	Business Service Providers
CAS	Country Assistance Strategy
CCA	Common Country Assessment
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
COO	Chief Operating Officer
CP	Country Programme
CPA	Certified Public Auditor
CPAP	Country Programme Action Plan
CQ	Consultant's Qualification
CTA	Chief Technical Advisor
DFID	Department for International Development
DLGSP	Decentralized Local Governance Support Programme
ED	Executive Director
EOI	Expression of Interest
FC	Fixed Cost
FCGO	Financial Controller General's Office
FIF	Fund for Inclusive Finance
FI-NGOs	Financial Intermediary Non-Government Organizations
FNCCI	Federation of Nepal Chamber of Commerce and Industries
FSPs	Financial Service Providers
GDP	Gross Domestic Product
GNI	Gross National Income
GoN	Government of Nepal
GtZ	Gesellschaft für Technische Zusammenarbeit (Germany)
HACT	Harmonized Approach to Cash Transfers
HDI	Human Development Index
HR	Human Resource
IAD	Internal Audit Department
IC	Investment Committee
ICT	Information Communication Technology
IDA	International Development Assistance
IFAD	International Fund for Agriculture Development
INGO	International Non-government Organization
IPRs	Implementation Progress Reports
IT	Information Technology
LC	Low Cost

M&E	Monitoring and Evaluation
MBB	Micro Banking Bulletin
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MEDEP	Microenterprise Development Programme
MFD	Microfinance Department
MFDs	Microfinance Development Banks
MFI	Microfinance Institutions
MGEP	Mainstreaming Gender Equity Programme
MIS	Management Information System
MIX	Microfinance Information eXchange
MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprises
NCB	National Competitive Bidding
NEX	National Execution
NGO	Non-government Organization
NMBA	Nepal Micro-Bankers' Association
NPC	National Planning Commission
NORAD	Norwegian Agency for Development Cooperation
NRB	Nepal Rastra Bank
OAG	Office of Auditor General
PAD	Project Appraisal Document
PAF	Poverty Alleviation Fund
PAR	Portfolio at Risk
PCP	Participatory Conservation Programme
PD	Project Director
PEB	Project Executive Board
PFI	Participating Financial Institution
PLWHA	People Living with HIV-AIDS
PMF	Programme Monitoring Framework
QCBS	Quality Cost Based Selection
QBS	Qualification Based Selection
REDP	Rural Energy Development Programme
RFP	Request for Proposal
RMDC	Rural Microfinance Development Centre
RMG	Results Management Guide
RRDBs	Regional Rural Development Banks
RRF	Result and Resource Framework
RSBB	Rastriya Sahakari Bikas Bank
RSRF	Rural Self Reliance Fund
RUFIN	Rural Finance in Nepal
RUPP	Rural Urban Partnership Programme
SBAA	Standard Basic Assistance Agreement
SC	Steering Committee
SCCs	Savings and Credit Cooperatives
SCGs	Savings and Credit Groups
SHGs	Self-Help Groups
SKBB	Sana Kisan Bikas Bank
SMART	Specific, Measurable, Achievable, Result Orientated and Time Bound

SMEs	Small and Medium Enterprises
SOEs	Statements of Expenses
ST	Secured Transaction
TA	Technical Assistance
TORs	Terms of References
TRPAP	Tourism for Rural Poverty Alleviation Programme
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDG	UN Development Group
UNDP	United Nations Development Programme
WB	World Bank

1. Situation Analysis

1.1 Country Context

Nepal ranks 142 of 177 in the UN Human Development Index (2007)³, and the GNI per capita of US\$ 270.5 in 2006 is the lowest in South Asia⁴. Despite its difficult geography, a feudal history, and a late start in development, the policy and economic reforms introduced in the mid 1980s resulted in significant if unequal economic progress, poverty reduction and improving human development indicators. 31% of the population of 25.2 million, growing at a rate of 2.3% per year, lives at or below the national poverty line, and some 90% of the poor are surviving on subsistence agriculture in the rural areas⁵.

Starting late from a very low base of development, the poverty reduction efforts in the past two decades, while producing results, have not attained a sufficient level of growth to adequately address the legacy of geographic, social and ethnic exclusion. Literacy rates and access to basic social services remain low; lack of connectivity and infrastructure contributes to the regional disparities, and is compounded by the legacy of stratification based on gender, ethnicity and caste and the centralization of power.

The Nepalese Government appreciates the importance that access to finance plays and for the past 50 years it has been concerned with increasing access for low income and rural households as well as small businesses. Thus the Government has introduced directed lending for small businesses and low income households, has mandated banks to open branches outside of the Kathmandu valley, has created specialized wholesale and retail institutions and has lowered market entry requirements in the financial sector by creating different types of financial institutions.

Despite the Government's effort, access to financial services is declining. Financial intermediation is stagnating, the number of bank deposit and loan accounts per 1,000 people has decreased, lending targets to low income households have generated excess liquidity in the microfinance sector, while not translating into a significantly larger outreach. After forty years of directed lending to small businesses, as the targets are decreased, the banks are slowly withdrawing from the segment. Access to bank branches has also decreased.

1.2 Microfinance Sector Development in Nepal

The Access to Financial Services Survey conducted by the Government of Nepal, DFID and the World Bank shows that despite Government's effort only 26% of the Nepali households have a bank account and informal sector lending dominates, with 37% of the households borrowing exclusively from the informal sector, while only 10% from banks (data disaggregated by sex is not available). Informal lending is also preferred by small businesses, which usually purchase on credit from suppliers due to lack of cash at the time of purchase.

In fact banks focus mainly on the wealthier households and the larger corporates and, when they do serve smaller clients, they apply the same policies, procedures and products that they apply to the larger clients, thus making low value transactions often unprofitable.

The growth of the formal microfinance sector has also been slow despite its high liquidity. An analysis of the sector shows that the limited outreach is the outcome of several factors: (i) a complicated geo-political environment; (ii) weak technical capacity in key areas (e.g., accounting and auditing, strategic planning,

³ UNDP: Human Development Report 2007

⁴ World Bank: Nepal's Economy at a Glance

⁵ CBS/WB as reported in UNDP: MDG Progress Report 2005.

financial analysis, and human resource management), (iii) lack of commercial orientation and a slow professionalization as microfinance is still considered by planners and policy makers as a charitable activity, (iv) distortions arising from the directed lending program which generates high liquidity among many microfinance institutions, as these institutions are encouraged to borrow beyond their needs and invest these low cost funds in financial institutions (thereby earning a welcome investment income).

While access and usage is limited in general, not surprisingly access and usage are closely correlated to households' income and business loan size. For example only 12% of the households in the bottom three quintiles have a bank account (versus 26% Nepali households), while 43% borrow exclusively from the informal sector (versus 37% Nepali households).

Access to microfinance services has been estimated to be 825,000 households in July 2007. Women are considered to be good credit risk for microfinance service, hence, most MFIs target their services to women and over 90% of the active loan clients of the leading MFIs are women. In general, microfinance services have been assisting the poor to break the vicious cycle of poverty, however, there exist evidences that microcredit is an inappropriate intervention in situations where conditions pose severe challenges to standard microcredit methodologies such as the Populations that are geographically dispersed or nomadic; with a high incidence of debilitating illnesses (e.g., HIV/AIDS), depending on a single economic activity or single agricultural crop or reliance on barter rather than cash transactions, etc. Microfinance is not a magic bullet to address poverty problems of people at all strata of the society. This intervention is very much suitable to borderline poor and poor rather than ultra poor who requires series of social preparation to benefit most out of the microfinance services.

1.3 Prior and Ongoing Assistance to the Microfinance Sector

Numerous donor agencies and international organizations have been assisting Nepal in all sectors of the economy for decades, but the escalating conflict in the country resulted in some donor agencies pulling out or reducing their aid since 2002. The key donor agencies for financial sector development are World Bank and ADB; IFAD supporting large rural development projects which include provision of credit; and GtZ through their Rural Finance in Nepal (RUFIN) project, providing technical assistance to the Small Farmers Cooperatives. Seven of the UNDP-supported local development, sector development and micro-enterprise development projects include revolving credit funds. CIDA funds a technical service providing NGO supporting cooperatives in the Hills and Mountains, and several other donor agencies are funding INGO to implement poverty reduction programmes with a financial component. An Access to Financial Services study was recently carried out by the World Bank, DFID and the Government of Nepal to understand households' and small businesses' access to financial services.

To date the World Bank has not directly engaged in microfinance, although it has indirectly done so through the Poverty Alleviation Fund (PAF). A recent review of the fund has revealed that 70% of the funds have been used to create savings and credit community groups. The proposed programme would target primarily banks/microfinance institutions, however it could assist community funds such as those created by PAF to strengthen their technical capacity and to link up to existing institutions in line with recent best practice⁶. Increasing access to financial services is a crucial component of the World Banks' strategy in Nepal⁷, as the

⁶ See CGAP Focus Note "Community Managed Loan Funds: Which Ones Work?"

http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Documents/FocusNote_36.pdf

⁷World Bank support is in line with the Bank's Country Assistance Strategy (CAS) for Nepal (2004-2007), which is based on three main pillars: broad-based economic growth, social inclusion, governance and social sector development. Under the first pillar, great emphasis is placed on financial sector reforms, which are being pursued through a three phase program: strengthening of the central

privatization/liquidation of the two largest banks is likely to reduce substantially the bank branch network in the country and the government policy of reducing mandated lending for small businesses is already resulting in reduced lending to the market segment.

As of June 2006, the UNDP-supported programme portfolio with revolving credit funds were the Decentralised Local Governance Support Programme (DLGSP), Micro enterprise Development Programme (MEDEP), Rural Urban Partnership Programme (RUPP), Rural Energy Development Programme (REDP), Mainstreaming Gender Equity Programme (MGEP), Tourism for Rural Poverty Alleviation (TRPAP) and the Participatory Conservation Programme (PCP). In these programmes some 30% of the resources (approximately US\$ 6.7 million) have been allocated as grants to formalized local Funds, which have been revolved as loans to local communities i.e. Savings and Credit Groups (SCGs). Under these projects a vast number of rural poor have been mobilized into SCGs (over 141,200 borrowers and 1040,000 savers as at April 08), provided with business enterprise services (MEDEP) and market linkages (RUPP), and a number of these potential clients are ready to be linked to more specialized and sustainable FSPs. The programmes such as RUPP, PCP, MGEP and TRPAP were closed in 2007. However, based on the recommendations of several reviews⁸, a re-alignment strategy was implemented to convert credit capital into grants managed by the Local Funds, as neither substantial outreach including good performance nor sustainability is achievable within the current structure. The re-alignment strategy included linkages of SCGs and/or members with FSPs, and enhanced coordination and collaboration to enable the UNDP-projects to focus on their core functions of service delivery, while facilitating the access by bank-ready clients to interested FSPs.

1.4 Government Policy and Strategy on Microfinance

Government has used microfinance as one of the policy interventions to address poverty problems in Nepal since early 1970s. However, overall Government policies have not achieved the desired outcomes because they have tackled the symptoms, not the root causes of limited access to financial services. For example, directed lending to small businesses has not addressed the sustainability of the bank's lending to this market segment, while mandated lending to low income households has not addressed the microfinance sector's capacity to extend large volumes of loans. The achievement of both these goals (i.e. increasing financial access for small businesses and for low income households) depends on financial institutions being able to serve these segments in a financially sustainable manner. However, lending profitably to small businesses requires a very high degree of efficiency, whilst operating microfinance institution with large outreach requires high levels of professionalism and technical skills. The recent Microfinance Policy 2008 tries to address much of the challenges and issues facing Nepalese microfinance sector.

With the peace process underway, there is now a renewed interest from the government to take a fresh look at access to finance issues and policies. In response to the Government and NRB requests of November 2006 and to support a comprehensive reform of access to financial services, a USD 30 million multi-donor project could be designed. The request of designing a multi-donor program was explicitly formulated by the Government, which would like to ensure donor coordination and, at the same time, reduce the transaction costs of coordination.

banks and regulatory regime, privatization of large state owned banks and expanding access to financial services in a sustainable manner.

⁸Clark et al.: Microfinance Portfolio Review Report, DLGSP, RUPP and MEDEP, February 2004; Mersland et al.: DLGSP Micro Credit Review Mission report, August 2005; Centre for Microfinance: Report on Micro-Credit Strategy for MEDEP, October 2005.

2. Strategies, Lessons learned and the Proposed Joint Programme

2.1 Programme Strategy

World leaders have pledged to achieve the Millennium Development Goals (MDGs), including the overarching goal of cutting absolute poverty by half by 2015. UNDP coordinates global and national efforts to reach these Goals. The Government of Nepal is committed to attaining the MDGs as they apply for Nepal, aiming to cut absolute poverty to 21% by 2015. The proposed project is designed to support the Government of Nepal's efforts to improve access to finance for low income households and small businesses. The project builds on the findings of a recent Access to Financial Services study that the World Bank, DFID and the Government of Nepal, have undertaken to understand households' and small businesses' access to financial services. The project will contribute to UNDAF CP outcomes C1 (Sustainable Livelihoods) and CP output C.1.1. and expected outcomes 3.1 of UNDP Programme component 3 under CPAP and expected outputs and indicators 3.1.2.

Better access to finance can play a vital role in spreading economic opportunity and fighting poverty. For example, through access to savings the poor can better cope with shocks, such as illness and death. Through access to credit, they can invest in income generating activities or in the future, by obtaining an education or migrating. Access to financial services also plays an important role in supporting the growth of small businesses, which in turn are crucial in employment generation for the low skilled labor force.

The vision of inclusive finance⁹ can be characterized by:

- (a) Access by all bankable households and enterprises to a full range of financial services at a reasonable cost, including savings, short and long-term credit, mortgages, insurance, pensions, payments, local money transfers, international remittances, leasing and factoring;
- (b) Soundness of institutions, which is maintained through performance monitoring by stakeholders and, where required, sound prudential regulation;
- (c) Financial and institutional sustainability as a means of providing access to financial services over time;
- (d) Multiple providers of financial services, wherever feasible, to bring cost-effective alternatives to customers, including sound private, non-profit and public providers.

To realize the vision of financial inclusion, financial services for poor and low-income people and micro and small enterprises should be seen as an important and integral component of the financial sector. This sector should include a continuum of financial institutions, each with its own comparative advantages, and each presenting the market with an emerging business opportunity.

Tackling access to financial services issues requires a comprehensive approach, i.e. one that looks at the whole market to identify gaps and both at industry and legal regulatory framework bottlenecks. A few donors are involved in this area, but none in a comprehensive fashion. Hence the proposed program will both take a comprehensive approach and will be designed in a way that it becomes a donor coordination mechanism.

To address these constraints the proposed programme is designed to expand access to financial services (both in terms of quantity and quality), especially for small businesses and low income households (especially poor youth and excluded groups), in a sustainable fashion.

⁹See the "Blue Book" on Building Inclusive Financial Sectors (UNCDF and UNDESA) 2006.

2.2 Programme Components

The Access to Finance Project designed jointly by UNDP and UNCDF in collaboration with World Bank consists of five closely interrelated components:

- (i) A Fund for Inclusive Finance to strengthen the capacity of financial institutions to expand access to underserved market segments and to carry out a financial literacy campaign. The underserved segment that will be targeted include urban MSMEs and rural and urban households.
- (ii) Technical assistance to support reforms of the legal/regulatory and supervisory framework for microfinance, and the implementation of a secured transactions registry
- (iii) A line of credit for financial institutions with limited liquidity and interest in serving MSMEs, especially previously unbanked ones
- (iv) Technical assistance to reform state-owned microfinance institutions, i.e., the Rural Self-Reliance Fund and the Regional Rural Development Banks
- (v) Technical assistance to fund a public information campaign, project implementation, monitoring and evaluation

This project is the sub-set of above project and will support the implementation of first (A Fund for Inclusive Finance) and fifth (Technical assistance to fund a public information campaign, project implementation, monitoring and evaluation) component of the larger project. Of the total cost (US\$ 9,966,065), UNDP and UNCDF will finance 30% (15% each) and there will be funding gaps of about US\$ 6,966,065 (70%) that need to be mobilized.

The components to be financed and various activities to be started under this project are outlined hereunder.

Component I: Fund for Inclusive Finance

This component will be implemented by the Fund for Inclusive Finance (FIF), a new technical assistance fund. The Fund will have two¹⁰ sub-components.

Sub-Component I-A: FIF Management: This sub-component will cover the cost of the management and operation of the fund. Under this sub-component services and goods will be procured.

Sub-Component I-B: Outreach and Innovation: The aim of the sub-component is to:

- Expand access to financial services in remote regions, rural areas and new market segments. Provision of smart subsidies¹¹ will be made for financial institutions to develop new products, use technology, technical assistance and expand financial services for women, poor and unemployed youth and other households so far un-served by financial institutions.
- Support the expansion of the frontier of financial services in remote areas by promoting linkages of savings and credit groups with FSPs/MFIs¹². Smart subsidies will be provided to financial institutions to collaborate with government projects/programmes, UNDP programmes and NGOs to serve their credit ready savings and credit groups and/or members.

¹⁰There are three components included in the project document prepared by World Bank and component dealing with Urban MSME lending by commercial and/or development banks and/or finance companies will not be financed from UNDP/UNCDF resource. Refer Annex 2 for details on "Enhancing Access to Financial Services" Project. UNDP/UNCDF resources will be used to finance initial cost of the programme.

¹¹Smart subsidies relates to performance based limited time support to financial institutions to assist them to expand their services to previously unserved populations and develop innovative products and services suitable to them based on their business plan.

¹²Considering that microfinance services are concentrated in Tarai and accessible hills districts, preference will be given to MFIs willing to expand their services to expand the frontier of financial services.

- Enhance the technical capacity of microfinance institutions (FINGOs, credit cooperatives, MFDBs, RRDBs) and Savings and Credit Groups (SCGs) to increase outreach, including inaccessible and mountain areas, in a sustainable fashion. Technical assistance would be provided to improve business planning, accounting and financial reporting, financial planning, MIS, internal controls, product development (including micro-insurance), staff training, rating and auditing. It is estimated that 30 microfinance institutions and about 10,000 SCGs will receive TA. In general institutions with high potential to grow will receive a comprehensive TA package.
- Strengthen the capacity of Nepal's microinsurance sector through; a) helping the GON to formulate and adopt suitable microinsurance policy and regulations including reviewing the current policies and regulations, and improving the current insurance regulatory framework to make it more conducive to microfinance development; b) enhancing capacities of GON insurance regulators and microinsurance providers through training and mentoring; and c) increasing access by the poor to a range of microinsurance services through financial literacy activities.
- Create a market for microfinance business development services by establishing a roster of providers and promoting commercial transactions between these providers and (i) microfinance institutions and (ii) government projects/programmes, UNDP programmes and non-government organizations to strengthen the capacity of SCGs and/or their members to facilitate linkages and/or community based banking. Initially grants will enable microfinance institutions partner with government and non-government organization to implement linkages and/or community banking to pay business development service providers directly. When short-term, specialized international technical assistance is needed for specific capacity building needs, the FIF will partner international business development service providers with local providers. The FIF will also work to enhance the capacity of private business development services providers to the microfinance industry, for example auditors, IT providers, etc. through specialized trainings.
- Coordinate/Liaison with on-going (GOs, NGOs and UNDP) projects/programmes and enhances the capacity of key staff on linkages of SCGs with FSPs/MFIs for financial services.
- Improve the capacity of microfinance provider networks and support organizations to collect, analyze and report data about sector outreach and financial performance.
- Improve financial literacy amongst the Nepali public at large, but especially in remote and rural areas and amongst migrants to be. The campaign will introduce concepts of savings, credit, interest rates, money transfer methods etc.

This sub-component will prepare the FSP for technical assistance. Preference will be given to select those FSPs/MFIs willing to work in more remote areas in order to contribute on expanding the frontier of microfinance operation. FSPs will come from a range of both (i) mature national level FSPs and (ii) young, promising yet not fully institutionalized FSPs (mainly localized NGO-MFIs). The project will focus at developing the capacity of the FSPs/MFIs up to the international standards. FSPs qualified and approved for technical assistance will be rated by an internationally recognized microfinance rating agency, which will set the institutions' baseline in terms of governance, outreach, portfolio quality, profitability/sustainability, etc. In addition, the rating will identify the major operational shortcomings and make recommendations to improve them. This assessment will form the basis for technical assistance agreements that will be signed by the selected institutions, the FIF and the technical assistance providers. These agreements will outline the minimum targets that have to be achieved during project implementation. If the financial institution fails to meet the agreed targets for two quarters, technical assistance will be terminated. Under this sub-component both services and goods will be procured.

Component II: Public Information Campaign, Implementation, Monitoring and Evaluation:

This component includes both the development and execution of a public information campaign and support to the project Advisory Services Team (AST), Project Board, National Advisory Committee and Microfinance Department as a whole for the effective implementation of the project. The implementing agency for this component will be the NRB.

Sub-component II-A Public Information Campaign: The sub-component will aim to build consensus for all the suggested reforms, to communicate the key components and outcomes of the project to all stakeholders.

The project would support the acquisition of goods and services to carry out a series of communications campaigns. This effort will include awareness campaigns for financial institutions on the FIF. The target audience for this campaign will be financial institutions (Microfinance Development Banks, FINGOs, Commercial Banks, Development Banks, Financial Credit Cooperatives, Financial Companies, Remittance Companies, etc), the Nepali public at large, Ministries and national organizations.

Both services and goods will be procured under this component.

Sub-component II-B Implementation, Monitoring and Evaluation: This sub-component would include the procurement of

- goods, training and consultants for the AST (i.e. the procurement expert and the assistant procurement expert)
- technical experts for the technical evaluation committee, and
- performance based allowance for AST and allowances for the steering committee,

2.3 Key principles of program design and implementation

- *Donor coordination:* The program will be designed to: (i) address areas that are not being covered successfully by other donors and (ii) to promote coordination amongst interested donors in line with the Paris Declaration on Aid Effectiveness¹³. With respect to (i), based on a donor mapping that the team conducted no donor is active or and only UNDP and UNCDF were planning to cover some of the areas proposed in this programme. UNDP and UNCDF have delayed the approval of their programme to facilitate a harmonized approach. With respect to (ii), the proposal was put forward by the MoF which was concerned with ensuring donor coordination and reducing its transactions costs. Experience in other countries (e.g., Bosnia, Afghanistan, Sierra Leone, etc.) has shown that, if properly structured, the creation of microfinance technical assistance funds can play a crucial role in donor coordination. From the very beginning a multi donor team will be formed and will be involved in the design of the programme.
- *Sustainability:* Sustainability will be the underlying principle in the design of any component following international best practices. With respect to small business lending, the component will be designed to ensure that the banks actually develop a new profitable small business line. With respect to the Fund for Inclusive Finance (FIF), the programme will strengthen MFIs technical skills to improve their financial performance, to create a market for business development services and to link credit and savings groups to long lasting private financial institutions that provide them with financial services on a sustainable basis.
- *Monitoring and evaluation.* Every component will have a robust framework for the M&E of outcomes/results, which will be developed in partnership with the government, designated implementing

¹³Paris Declaration on Aid Effectiveness, Ownership, Harmonization, Alignment, Results and Mutual Accountability, OECD-DAC, March 2, 2005 <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

agencies, and other key stakeholders. The M&E will be based both on an analysis of the demand (the Access to Financial Services Survey will provide the baseline) and the supply. E.g., with respect to the Fund for Inclusive Finance, every MFI that will bid for capacity building/TA will have to report on selected quantitative indicators which will have to demonstrate improved performance. Such indicators will be monitored on a quarterly basis.

3. Results framework

This programme has been designed under joint programme framework of the larger World Bank project on “Enhancing Access to Financial Services” which is consistent to UNDAF outcome. The programme seek to Increase the use of formal financial services (credit, savings, etc.) from profitable financial institutions (banks, MFIs, etc.) by urban MSMEs and urban and rural low income households. The result framework of the programme is provided in Table 1.

Table 1: Results Framework of the Programme

UNDAF Outcome: By 2010, sustainable livelihood opportunities expanded, especially for socially excluded groups in conflict affected areas.

CPAP outcome: Employment and income opportunities and access to financial services enhanced, especially for youth and excluded groups and PLWHA in partnership with the private sector and CSOs.

Outcome of Joint Programme: Increase the use of formal financial services (credit, savings, etc.) from profitable financial institutions (banks, MFIs, etc.) by urban micro, small and medium enterprises and urban and rural low income households.

Joint Programme Outputs	SMART Outputs and Responsible UN Organisation	Reference to Agency priority or Country Programme	Implementing Partner	Indicative activities	Resource allocation ('000 US\$) and indicative time frame					
					Y1	Y2	Y3	Y4	Y5	Sub-total
Mechanisms developed for micro-finance service providers to provide access to financial services to the poor in remote areas.	Fund for Inclusive Finance established by November 2008 and operated / managed till Dec. 2012	CPAP 3.1.2	NRB	Establish FIF and finalise operational mechanism	8	65	3			76
Output Indicators:				Training and on-the-job mentoring programme for FIF staff and management	8	16	41			65
Indicator 1: # of clients of selected micro-finance service providers (disaggregated by district)	Responsibility: Primary: UNDP; Secondary: UNCDF			Prepare an operational manual and establish procedures and criteria FSPs/MFIs assessment for technical assistance	2	16	5			23
Indicator 2: # of service delivery units of micro-finance service providers in remote districts				Sub-total	18	97	49	0	0	164
Indicator 3: % of female clients of micro-finance service providers (disaggregated by districts)	At least nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services (reaching 1,155,000 active loan clients) by Dec. 2012.	CPAP 3.1.2	NRB	Selection of partner FSPs/MFIs	37	160	0			197
Indicator 4: Average loan size as a % of per capita GDP										
Indicator 5: Financial self-sufficiency of partner micro-finance service providers										

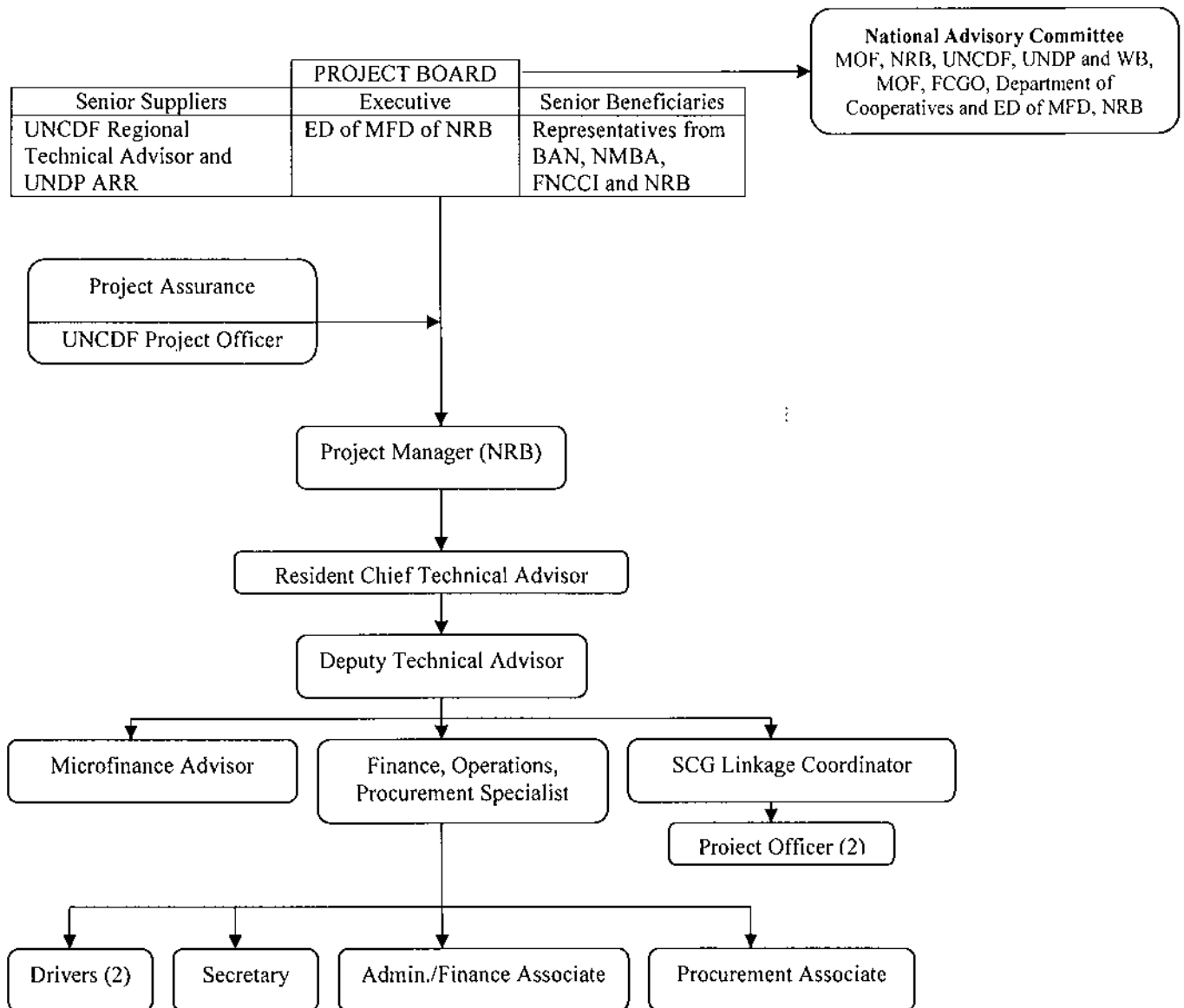
Joint Programme Outputs	SMART Outputs and Responsible UN Organisation	Reference to Agency priority or Country Programme	Implementing Partner	Indicative activities	Resource allocation (‘000 US\$) and indicative time frame						
					Y1	Y2	Y3	Y4	Y5	Sub-total	
<p>Indicator 6: Number of active clients (including women and disadvantaged groups) accessing financial services</p> <p>Estimated Baseline for active loan clients in 2007: 825,000</p>	<p>Responsibility: UNCDF</p>			Ratings of selected FSPs/MFIs to establish their baseline situations and support to prepare and implement technical assistance plan	4	675	560				1239
				Mapping of microfinance BDS providers	4	12	0				16
				Technical assistance to build the capacity of the local microfinance BDS providers and FSPs/MFIs	0	82	184	0	0		266
				Monitoring operational and financial performance and reporting in MIX market the FSPs / MFIs performance	0	50	50	0	0		100
				Sub-total	45	979	794	0	0		1818
	10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012	CPAP 3.1.2	NRB	Prepare the inventory of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes	15	50	0				65
	Responsibility: UNDP			Rating of the SCGs promoted by UNDP and/or other GOs/NGOs supported programmes	11	98	25				134

Joint Programme Outputs	SMART Outputs and Responsible UN Organisation	Reference to Agency priority or Country Programme	Implementing Partner	Indicative activities	Resource allocation ('000 US\$) and indicative time frame						
					Y1	Y2	Y3	Y4	Y5	Sub-total	
				Technical support to FSPs/MFIs and SCGs to ensure linkage banking	3	122	150				275
				Sub-total	29	270	175	0	0	0	474
	Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided	CPAP 3.1.2	NRB	Procure goods and services including appointment of project team	5	10	4				19
	Responsibility: UNDP;			Review, planning, monitoring, study, observation and reporting	0	82	23				105
	Primary: UNDP;			Training and capacity building for Advisory Support Team (AST) staff	18	35	5				58
	Secondary: UNCDF			Outreach/Information campaign	2	10	5				17
				Sub-total	25	137	37				199
	Project operation and management			Overall Technical Support							0
	Responsibility: UNDP			Contractual services	0	6	30				36
				Travel and subsistence	15	11	11				37
				Equipments and furniture	71	0	0				71
				Stationeries and supplies	1	2	3				6
				Rental, repair and maintenance	0	11	8				19
				Facilities and administration	0	6	5				11
				Miscellaneous	0	4	5				9
				Sub-total	87	40	62	0	0	0	189
		Total			204	1523	1117	0	0	0	2844
				Contingencies	11	84	61	0	0	0	156

Joint Programme Outputs	SMART Outputs and Responsible UN Organisation	Reference to Agency priority or Country Programme	Implementing Partner	Indicative activities	Resource allocation (*000 US\$) and indicative time frame						
					Y1	Y2	Y3	Y4	Y5	Sub-total	
		Grand Total			215	1607	1178	0	0	0	3000
					Y1	Y2	Y3	Y4	Y5		subtotal

4. Management and coordination arrangements

The Nepal Rastra Bank (NRB - Central Bank) will be the implementing agency for this programme. Proposed management structure is outlined hereunder.



As per the Results Management Guide (RMG) of UNDP, project management arrangements include the following roles:

Outcome Board:

The implementation status of the project will be monitored by the outcome board consisting of the representatives from MOF, FCGO, Department of Cooperatives, ED of MFD/NRB, World Bank, UNDP, UNCDF, etc. The Head of the AST that is, the Project Director, will also participate in outcome board.

Project Executive Board (PEB): The PEB is the group responsible for making consensus-based management decisions related to the project including recommendations for Implementing Entity / Implementing Partner, and for UNDP's approval of project revisions. Project reviews by this group can be made at designated decision points during the implementation of the project, or as necessary when raised by Project Director (PD)/Chief Technical Advisor (CTA). The group will be consulted by the project manager for decisions when tolerances have been exceeded.

The PEB will have three roles:

- Project executive role - will be played by the Executive Director of Microfinance Department of NRB as the representative of Implementing Partner. S/he will also chair the Board.
- Senior supplier role - to provide guidance regarding the technical feasibility of the project will be played by UNCDF - UNDP Regional Technical Advisor and the Assistant Resident Representative (ARR) of Governance Unit of UNDP and
- Senior beneficiary role – will be played by the representative from MOF, Bankers Association of Nepal, Nepal Micro-Bankers' Association, to ensure the interest of the beneficiaries.

MoF as Government Cooperating Agency will be involved in annual work plan preparation and its final approval. As and when required, the PEB may invite the PD/CTA and UNDP concerned Programme Officer in PEB meetings and ask to support in project operations as needed. PEB will receive the required advisory support from National Advisory Committee comprising of representatives from MOF, NRB, UNCDF, UNDP and WB, MOF, FCGO, Department of Cooperatives and ED of MFD, NRB.

Implementation Arrangement

The AST at NRB will have primary responsibility to implement the project. NRB will manage the Fund for Inclusive Finance (FIF) in a flexible manner with a focus on producing the desired results. The AST is staffed by three dedicated NRB staff (a Director, a Deputy Director with CPA – to look after financial management issues, and a secretary), supported by an externally-hired procurement expert and a procurement assistant. The AST will (i) hire a team of private individuals or a private company to manage the FIF and (ii) set technical unit to facilitate SCG linkages. The team/management company will operate on the basis of an implementation manual which will be reviewed and approved by UNDP, UNCDF and the World Bank (see indicative Organogram of the FIF in next page). Refer Annex 3, 4 and 5 for ToR of the (i) FIF, (ii) implementation of FIF respectively and (iii) technical unit for SCG linkages. While the team/company managing the FIF will include a team leader, a procurement and financial management expert, an MSME and an MFI expert a driver and an assistant, the technical unit for SCG linkages will include a senior microfinance expert and two assistants. The technical unit for SCG linkages will work to facilitate the linkages of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes with the FSPs/MFIs. The team will be responsible for mapping, ratings and capacity building of SCGs and support the concerned UNDP and/or other GOs/NGOs supported programmes to link these SCGs with FSPs/MFIs.

The human resources required for implementing this project will not be recruited in the beginning of the project. Rather, they will be recruited on an as needed basis once preparatory work has been addressed. To start with, implementation of the project should be started with the recruitment of the few key staff and number of staff should be increased as and when needed. The Resident Chief Technical Advisor will be recruited initially for a period of two years with and his/her services will be extended for another one year subject to the availability of funding.

Financial institutions receiving assistance from the FIF will provide periodic reports (monthly/quarterly). The reporting template will be agreed upon in the technical assistance agreements that are signed at the beginning of the cooperation. In general, monitoring will include outreach (including number of borrower and savers, portfolio size), portfolio quality (i.e. portfolio at risk for 30 days or more), profitability/sustainability (including adjusted return on assets and financial self sufficiency). Reporting requirements will use standard terms and definition as developed by CGAP. Finally, the financial institutions' independent external auditors will be required as part of each annual statutory audit to provide a report to the NRB regarding the accuracy of the MSME loan balance information supplied by the financial institution to the NRB when determining the amount of its MSME lending eligible for re-financing.

Project Assurance:

Project assurance is the responsibility of each Board members but the role can be delegated. The project assurance role ensures that works are done in line with the objectives and targets set for the programme and

supports the PEG by carrying out objective and independent project oversight and monitoring functions. The role also ensures appropriate project management milestones are managed and completed. The concerned UNCDF Project Officer will play the Project Assurance role to support the PEB.

Cash transfer modalities:

Cash transfer modalities, the size and frequency of disbursements, and the scope and frequency of monitoring, reporting, assurance and audit will be agreed prior to programme implementation taking into consideration the capacity of implementing partners and can be adjusted in its course in accordance with applicable policies, UNDP/UNCDF processes and procedures. In general two cash transfer modalities such as (i) direct cash transfer as advances and (ii) direct payments by UNDP/UNCDF to vendors or participating financial institutions (case of large expenditures). Under the first method, UNDP/UNCDF will advance the project expenses consistent to the AWPB to NRB which will submit SOE for liquidation of advances and request for subsequent advances. Direct payments will be made in case of large expenditures such as contracts for equipments and vehicles, performance-based grants to FSPs, consulting firms, and individual consultants costing more than US\$ 10,000. Further, the provisions required under the Harmonized Approach to Cash Transfers (HACT) as detailed in their CPAPs or in other agreements covering cash transfers will also apply.

5. Fund Management Arrangements

Joint Programme Arrangements: This programme is a “Joint Programme”, as defined by the UN Development Group (UNDG), and associates UNDP and UNCDF as follows:

- Fund management will be a combination of “parallel funding” (whereby UNDP and UNCDF manage their respective core funds through their separate business units) and “pass-through” (whereby Donor and other third party co-financing funds will be transferred to each of the two agencies according to their budget management responsibilities as detailed in the budget, through the intermediary of an Administrative Agent);
- UNDP will act as Administrative Agent on behalf of both agencies, according to UNDG rules, and this will be reflected in (a) an inter-agency Memorandum of Understanding to be signed by both UNDP and UNCDF, and by other UN agencies which opt later to support this programme and (b) the Letter of Agreement signed between the Administrative Agent and Donor and other co-financing partners;
- In the course of implementation of this programme, and in monitoring and reporting on progress, UNDP, UNCDF and other future associated UN agencies will collaborate according to the regulations for Joint Programmes as these are issued by UNDG.

For utilization of UNDP/UNCDF share of eligible expenditure, NRB will open one Designated Accounts at the Banking Office Kathmandu of NRB in US Dollars under terms and conditions acceptable to UNDP/UNCDF. Designated Account will be operated under the joint signatures of the AST Director and Deputy Director (acting also as Finance Officer); both will be authorized to issue checks, and submit withdrawal of funds from UNCDF and UNDP consistent to NEX guideline. The AST will ensure that the bank/cash books are reconciled with bank statements every month. They will separately submit replenishment applications for their respective Designated Accounts on a monthly basis, or when 25 percent of the authorized allocation has been used, whichever occurs first. Replenishment applications will be accompanied by reconciled statements from the bank in which the account is maintained, showing all Designated Account transactions. Supporting documentation will be maintained by the AST and FIF for at least one fiscal year after the year in which the last disbursement from the credit/grant took place, and will be available for review by UNDP and UNCDF staff and independent auditors.

6. Feasibility, Risk Management and Sustainability of Results

Sustainability is the underlying principle of the overall project. Risk factors and mitigation measures are discussed hereunder.

Political risk: With the Maoists leading the government, they might not be amenable to idea of sustainable microfinance. To ensure that the Maoist led government fully understand what the programme is about and are brought on board, the programme will carry out an extensive dissemination campaign of the Access to Financial Services Report starting in December 2008. In conjunction with the dissemination campaign, the programme will organize in-depth workshops and early on during programme preparation and implementation, the programme will also organize study tours for key government officials to sustainable microfinance institutions.

Weak institutional capacity both of the implementing agencies and of the industry participants (both banks and MFIs). To ensure that industry participants have enough capacity to bid (and hence prepare adequate proposals with monitorable indicators), the microfinance fund working rules will be designed in cooperation with a cross segment of the microfinance industry. As far as weak institutional capacity of the implementing agencies is concerned, the government will appoint a working group which will work very closely with stakeholders in the more detailed design of the programmes components. Moreover, programme preparation will include in-depth training on access to finance issues for all the members of the working group. Finally the investment committee of the microfinance fund will per se be an on the job training, as both MoF and NRB representatives will discuss, approve or reject application by MFIs together with microfinance practitioners/experts appointed as donor representatives and/or the donors.

The effect of the TA will be limited to the Kathmandu valley: While financial intermediation will clearly and always occur more in the central region and in urban areas, where there is more economic activity, the programme will try to ensure that the benefits of the TA go beyond the valley by conducting an extensive information campaign also amongst smaller MFIs and by earmarking some funds for MFIs that operate or intend to operate outside of the valley.

Future of the project on the absence of parallel funding from World Bank: The overall focus of enhancing access to financial services (building inclusive financial sector in Nepal) will be diluted if the World Bank is unable to provide parallel funding. Major set-back will be on continued management of FIF and support to FSPs/MFIs through FIF after July 2010.

Transition from re-alignment exercises: The re-alignment project uncovered that SCGs promoted and nurtured by UNDP supported project are at varying degree of maturity and development. There exist substantial variation with regard to attendance, transparency in decision making, capacity, book keeping, accounting, financial management, savings and credit system; and empowerment. The exercise on building the capacity of the SCGs and gradually link them with FSPs requires more systematic works. Regarding increasing access by credit ready clients to sustainable FSPs, due to thin distribution of FSPs' networks, there is a need to explore the possibilities of using a mix of strategies ranging from linkages with FSPs to the federation of SCGs into Savings and Credit Cooperatives. This project can build on foundation created by re-alignment project (ratings tools, SCGs mapping, policy support to NRB on SCG linkages, mapping of MFIs/FSPs, etc.) and facilitate its phase-out.

A risk log and issues logs highlighting the likely risks and inherent issues of this project is included in Annex 6. Despite these risks, the programme is highly feasible.

7. Accountability, Monitoring, Evaluation and Reporting

Financial Service Providers (FSPs) and business service providers receiving assistance under the Fund for Inclusive Finance will submit quarterly progress reports to the Secretariat on performance against standard indicators and targets as set in the Grant Agreements as adopted by the Investment Committee. FSPs will maintain the outreach related information dis-aggregated by sex, social groups and economic status and depth of outreach of financial services will be monitored using standard outreach indicators such as loan size, loan size as a percentage of per capital GDP, etc. In addition, FSPs will post their data on the MIX Market¹⁴ facilitating international exposure, and FSPs will consent to the MIX Market forwarding their data to the Micro Banking Bulletin (MBB) for global and regional benchmarking. The Secretariat will compile the reports received into a consolidated semi-annual report for the Fund for Inclusive Finance Investment Committee. This report will include information on: 1) Investments made; 2) Results achieved by FSPs based on standard performance and financial indicators; 3) Constraints and opportunities for further developing the sector; 4) Policy changes needed to remove the constraints or seize opportunities. Reports will be posted on UNCDF Microfinance Unit's website with links to other programme partners upon request. Besides, monitoring will be done based on Programme Monitoring Framework (PMF) provided in Table 2.

Table 2: Programme Monitoring Framework (PMF)

Expected Results	Indicators	Means of verification	Collection method	Responsibilities	Risks and assumptions
Output					
Mechanisms developed for microfinance service providers to provide access to financial services to the poor in remote areas.	Number of clients of selected microfinance service providers (dis-aggregated by district, gender and social groups). Baseline: 825,000 Target: 1,155,000	Outreach report of the partner FSPs/MFIs	NRB receive outreach report from partner FSPs/MFIs and compile them every month.	NRB	Political instability
	Number of service delivery units of microfinance service providers in remote districts Baseline: to be established Target: at least one service delivery unit in 10 remote districts.	Outreach report of the partner FSPs/MFIs	NRB receive outreach report from partner FSPs/MFIs and compile them every month.	NRB	Political instability and unreliable local infrastructure (road and communication) system.
	Average loan size as a % of per capita GDP (disaggregated by FSPs/MFIs) Baseline: to be established Target: < 50% for all partner FSPs/MFIs	Outreach report of the partner FSPs/MFIs	NRB receive outreach report from partner FSPs/MFIs and compile them every month and compute the indicator.	NRB	Low level of poverty targeting by FSPs/MFIs.
	Financial self-sufficiency of partner microfinance service providers Baseline: to be established Target: > 100% for all partner FSPs/MFIs	NRB annual report that include results on analysis of audited financial statement of FSPs/MFIs	NRB receives audited financial statements of the FSPs/MFIs and analyse it annually.	NRB	Deteriorating market for microfinance services may affect FSPs/MFIs operational and financial performance.

¹⁴<http://www.themix.org/en/index.html>. UNCDF is discussing with the MIX market a dashboard to capture quarterly reporting in addition to the current capacity for annual reporting.

Expected Results	Indicators	Means of verification	Collection method	Responsibilities	Risks and assumptions
	Number of SCGs promoted by UNDP and other development programmes linked with FSPs/MFIs. Baseline: 0 Target: 10,000	Project (Enhancing Access to Financial Services) progress report	NRB receive monthly progress report and analyse it.	NRB	Linkage banking scheme is new in Nepalese financial market and FSPs/MFIs may be reluctant to take part on such scheme.

The programme is subject to an independent evaluation (mid-term and final), managed by the UNCDF Evaluation Unit, to assess its overall performance, the outputs and outcomes produced against its initial targets, the impact it has brought or would likely to bring about with a focus on the progress toward sustainability of the FSPs, its relevance to the national context, and management efficiency. The evaluation will be forward looking offering lessons learned and recommendations to improve programme performance or national policy for the next phase of the programme. The evaluation should be completed and available in time to provide input to formulation of the next phase.

At the end of the Program, a follow-up household survey against the initial baseline Access to Finance survey carried out by the Government, World Bank and DFID will be carried out, and feed into the final evaluation. This programme would serve as a vehicle to ensure that a follow-up to this survey is made, feeding into the MDGs larger poverty reduction agenda, helping FSPs identify further opportunities for expanding access, and policymakers to take appropriate policy actions.

The communication plan of the project is included in Annex 5.

8. Ex-ante Assessments and Cross-cutting Issues

The project will contribute at increasing access to financial (savings, loans, insurance, remittance) services to the poor. The need for the financial services for the poor households varies, according to a family's level of poverty, its skills, life cycle needs and local market opportunities and properly designed financial services help poor families benefit from economic opportunities to build up incomes and assets to lift them out of poverty. In other circumstances, financial services provide protection from sliding further into poverty. All over the world, MFIs not only provide key services, but also play an important role in building up community-based groups, local networks, and leadership skills, especially for poor women. A functional financial sector reduces poverty indirectly, sometimes dramatically, by promoting broad-based economic growth. There is a strong correlation between financial development and economic growth and mainstreaming financial services for the poor into the formal financial sector is essential to ensure improved competitiveness, sustainable service delivery, and advances in management and marketing skills, and in the application of new technology. For this achieving scale and outreach is vital. Existing financial institutions can often be harnessed to deliver pro-poor financial services quicker and to greater scale than new institutions.

Women are considered to be a good credit risk; hence, most of the FSPs/MFIs target their services to women. Access to financial services has been instrumental to increase their empowerment in the family, enable them to finance their children's education, reduce their vulnerability and invest on their health. However, pro-poor financial service delivery is not a panacea. It can particularly assist those on or around poverty line by reducing their vulnerability. But those that are not economically active, and the old and sick or other disadvantaged groups, may not be the appropriate target group for microfinance, but instead should be the focus for other forms of support.

9. Legal Context or Basis of Relationship

For UNDP and UNCDF, this document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement (SBAA) between The Government of Nepal and the United Nations Development Programme, signed on 23 February 1984. The host country implementing partner agency shall, for the purposes of the Standard Basic Assistance Agreement, refer to the government co-operating agency described in the agreement. The following types of revisions may be made to this document with the signature of the UNDP Resident Representative only, provided he/she is assured that the other signatories of the document have no objections to the proposed changes:

- Revision in, or addition to, any of the annexes of the document;
- Revisions which do not involve significant changes in the immediate objectives, outputs, or activities of the Programme, but are caused by the rearrangement of inputs already agreed to, or by cost increases due to inflation, and
- Mandatory annual revision, which re-phase the delivery of agreed inputs or increased expert or other costs due to inflation or take into account agency expenditure flexibility.

10. Exit Strategy

The exit strategy of the project has been (i) use of NRB as an implementing agency, (ii) implementing the project in partnership with MSPs/FSPs and (iii) focus on local (FSPs/MFIs and Microfinance service providers) capacity building so that various initiatives started by the project during project period can be continued without un-interrupted upon phase-out. The project will not create any extra structure (permanent or temporary) for project implementation rather it will working within existing structure of the NRB and focus on building there capacity. Rather than having its own agenda, the project supports FSPs/MFIs to implement their business plan for expanding the frontier of microfinance services.

Annex 1a: Work Plan (Resource Mobilisation)
Enhancing Access to Financial Services
(July – December 2008)

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
A FIF established and operational.	Activity Result 1: A FIF established and operational Actions: Action 1: Establish FIF and finalise operational mechanism Action 2: Training and on-the-job mentoring programme for FIF staff and management Action 3: Prepare an operational manual and establish procedures and criteria for FSPs/MFIs assessment for technical assistance						Core	Contractual services	5,100	2	10,200		10,200	
						XX	UNCDF	Core	Travel and subsistence	2,500	2	5,000		5,000
						XX	UNCDF	Core	Supplies	1,000	2	2,000	2,000	
				XX		XX	UNCDF	Core	Miscellaneous expenses	500	2	1,000	1,000	
					XX	UNDP	NRB							
											18,200	3,000	15,200	
								Sub-total						

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Select eligible FSPs/MFIs to provide technical assistance from FIF and establish baseline of active clients of selected FSPs/MFIs.	Activity Result 2: Selection of eligible FSPs/MFIs and establishment of the baseline of the active clients Actions: Action 1: Prepare EO/RFP document and call for proposal from FSPs / MFIs Action 2: Screen, appraise and select the qualified FSPs / MFIs for technical assistance						Core	Contractual services	16,400	2	32,800		32,800	
						XX	UNCDF	Core	Travel and subsistence	1,500	2	3,000		3,000
						XX	UNCDF	Core	Supplies	2,500	2	5,000	5,000	
						XX	UNCDF	Core	Miscellaneous expenses	2,000	2	4,000	4,000	

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
	Action 2: Project related reporting				XX	UNCDF	NRB	Core	Miscellaneous expenses	1,500	2	3,000	3,000	
	Action 3: Training and capacity building for Advisory Support Team (AST) staff					UNDP	NRB							
	Action 4: Outreach campaign				XX	UNDP	NRB							
	Action 5: Review and planning				XX	UNCDF	NRB							
									Sub-total			25,000	20,000	5,000
Operation and management						UNDP	NRB	Core	Contractual services	3,500	2	7,000	7,000	
						UNDP	NRB	Core	Travel and subsistence	1,500	2	3,000	3,000	
						UNDP	NRB	Core	Equipments and furniture	-	-	70,019	43,019	27,000
						UNDP	NRB	Core	Stationeries and supplies	250	2	500	500	
						UNDP	NRB	Core	Rental, repair and maintenance	2,000	2	4,000	4,000	
						UNDP	NRB	Core	Facilities and administration	500	2	1,000	1,000	
						UNDP	NRB	Core	Miscellaneous subtotal	500	2	1,000	1,000	
												86,519	59,519	27,000
								Total				203,519	120,519	83,000
	Monitoring and communication (6% UNDP and 5% UNCDF)					UNDP + UNCDF		Core				11,381	7,231	4,150
	Grand Total for 2008											214,900	127,750	87,150
	Total					UNDP		Core				127,750		
	Total					UNCDF		Core				87,150		

**Enhancing Access to Financial Services
(January – December 2009)**

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame					UN Agency	Responsible party	Planned Budget							
		Q1	Q2	Q3	Q4	Sources of fund			Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF		
A FIF established and operational.	Activity Result 1: FIF operational Actions:									Core	Contractual services	5,442	12	65,300	19,590	45,710
	Action 1: FIF Management	XX	XX	XX	XX		NRB		Supplies	Core		2,083	12	25,000	25,000	
	Action 2: Training and on-the-job mentoring programme for FIF staff and management	XX	XX	XX	XX	UNDP / UNCDF	NRB		Miscellaneous expenses	Core		167	12	2,000	2,000	
									Sub-total					97,300	51,590	45,710

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Provide technical assistance to selected FSPs/MFIs from FIF and monitor their operational and financial performance.	Activity Result 2: Technical assistance provided to at least nine FSPs/MFIs and their operational and financial performance monitored. Actions: Action 1: Screen, appraise and select the qualified FSPs / MFIs for technical assistance									Core	Contractual services	17,500	12	210,000	105,000	105,000
									Contract-out	Core		8,750	20	175,000	175,000	
						UNDP / UNCDF	NRB		Capacity building grants to FSP	Core + TBM		81,250	20	1,625,000	487,500	1,137,500
	Action 2: Ratings of qualified selected FSPs/MFIs to establish baselines on outreach, portfolio quality and viability level	XX	XX	XX	XX	UNCDF	NRB		Travel and subsistence	Core		7,100	10	71,000	49,700	21,300
	Action 3: Support to FSPs/MFIs prepare and implement technical assistance plan		XX	XX	XX	UNDP / UNCDF	NRB		Supplies	Core		1,100	10	11,000	11,000	

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget							
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF	
	<p>Action 4: Technical assistance to local microfinance BDS providers and FSPs/MFIs</p> <p>Action 5: Training on FSPs / MFIs capacity building</p>		XX	XX	XX	UNDP / UNCDF	NRB	Core	Miscellaneous expenses	1,200	10	12,000	12,000		
		XX				UNCDF	NRB	Core	Sub-total			2,104,000	665,200		1,438,800

JP Output 3: 10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012

<p>2,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked to FSPs/MFIs.</p> <p>Activity Result 3: SCGs linked with FSPs/MFIs for financial services</p> <p>Actions:</p> <p>Action 1: Prepare inventory of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes</p> <p>Action 2: Rating of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes</p> <p>Action 3: Technical support to FSPs/MFIs to develop products/services to SCGs</p> <p>Action 4: Technical support to concerned programme on SCGs capacity building and linkages with FSPs/MFIs</p>	Core	Contractual services	11,250	12	135,000	135,000	
	Core	Contract-out	5	10,000	50,000	50,000	
	Core	Travel and subsistence	7	10,000	65,000	65,000	
	Core	Supplies	667	12	8,000	8,000	
	Core	Miscellaneous expenses	1,000	12	12,000	12,000	
		Sub-total				270,000	270,000

JP Output 4: Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided

Operationalise project implementation, monitoring and evaluation system and	Core	Contractual services	3,333	3	10,000	10,000	
Activity Result 4: Project implementation, monitoring and evaluation system and public information campaign							

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget												
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF						
public information campaign	Actions:																			
	Action 1: Procure goods and services including appointment of project team		XX	XX		UNCDF	NRB	Core	Travel and subsistence	5,450	20	109,000	54,500						54,500	
	Action 2: Project related reporting		XX	XX	XX	UNCDF	NRB	Core	Supplies	4,600	5	23,000	23,000							
	Action 3: Training and capacity building for Advisory Support Team (AST) staff			XX	XX	UNCDF	NRB	Core	Miscellaneous expenses	750	12	9,000	9,000							
	Action 4: Outreach campaign				XX	UNCDF	NRB													
	Action 5: Review and planning				XX	UNCDF	NRB													
	Action 6: Monitoring visits Action 7: Review, study and observation			XX	XX	UNCDF	NRB													
									Sub-total			151,000	86,500						64,500	
Operation and management						UNDP	NRB	Core	Contractual services	667	12	8,000	8,000							
						UNDP	NRB	Core	Travel and subsistence	333	12	4,000	4,000							
						UNDP	NRB	Core	Equipments and furniture	68	12	811	811							
						UNDP	NRB	Core	Stationeries and supplies	250	12	3,000	3,000							
						UNDP	NRB	Core	Rental, repair and maintenance	917	12	11,000	11,000							
						UNDP	NRB	Core	Facilities and administration	500	12	6,000	6,000							
						UNDP	NRB	Core	Miscellaneous	583	12	7,000	7,000							
						Total						2,662,111	1,113,101						1,549,010	

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Sources of fund	Planned Budget					
		Q1	Q2	Q3	Q4				Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
	Monitoring and communication (6% UNDP and 5% UNCDF)					UNDP + UNCDF		Core				144,237	66,786	77,451
	Grand Total for 2009					UNDP + UNCDF		Core				2,806,348	1,179,887	1,626,461
	Total					UNDP		Core				1,179,887		
	Total					UNCDF		Core				1,626,461		

**Enhancing Access to Financial Services
(January – December 2010)**

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
A FIF established and operational.	Activity Result 1: FIF operational Actions: Action 1: FIF Management Action 2: Training and on-the-job mentoring programme for FIF staff and management							Core + TBM	Contractual services	5,833	12	70,000	70,000	
			XX	XX	XX		NRB	Core + TBM	Travel and subsistence	417	12	5,000	5,000	
			XX	XX	XX		NRB	Core + TBM	Supplies	83	12	1,000	1,000	
			XX			UNDP	NRB	Core + TBM	Miscellaneous expenses	167	12	2,000	2,000	
									Sub-total			78,000	78,000	0

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Provide technical assistance to selected FSPs/MFIs from FIF and monitor their operational and financial performance.	Activity Result 2: Technical assistance provided to at least nine FSPs/MFIs and their operational and financial performance monitored. Actions: Action 1: Support to FSPs/MFIs to implement technical assistance plan. Action 2: Technical assistance to local microfinance BDS providers and FSPs/MFIs Action 3: Training on FSPs/MFIs capacity building Action 4: Monitoring operational and financial performance of FSPs/MFIs							Core + TBM	Contractual services	18,750	12	225,000		225,000
								Core + TBM	Contract-out	6,250	4	25,000		25,000
		XX	XX	XX	XX	UNDP / UNCDF	NRB	Core + TBM	Capacity building grants to FSP	81,250	20	1,625,000	487,500	1,137,500
			XX	XX	XX	UNCDF	NRB	Core + TBM	Travel and subsistence	2,950	20	59,000	29,500	29,500
								Core + TBM	Supplies	750	12	9,000	9,000	
			XX	XX	XX	UNDP	NRB	Core + TBM	Miscellaneous expenses	833	12	10,000	10,000	

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget												
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF						
	Action 5: Reporting operational and financial performance of FSPs/MFIs in MIX market			XX		UNDP / UNCDF	NRB													
																	1,953,000	536,000	1,417,000	

JP Output 3: 10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012

4,500 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked to FSPs/MFIs.	Activity Result 3: SCGs linked with FSPs/MFIs for financial services Actions: Action 1: Rating of the SCGs promoted by UNDP and/or other GOs/NGOs supported programmes Action 2: Technical support to FSPs/MFIs to develop products/services to SCGs Action 3: Technical support to concerned programme on SCGs capacity building and linkages with FSPs/MFIs	Core + TBM	Contractual services	12,000	12	144,000	144,000	Core + TBM	Contract-out	10,000	2	20,000	20,000	Core + TBM	Travel and subsistence	3,000	12	36,000	36,000	Core + TBM	Supplies	500	12	6,000	6,000	Core + TBM	Miscellaneous expenses	750	12	9,000	9,000	Sub-total	215,000	215,000	-

JP Output 4: Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided

Operationalise project implementation, monitoring and evaluation system and public information	Activity Result 4: Project implementation, monitoring and evaluation system and public information campaign Actions:	Core + TBM	Contractual services	1,286	7	9,000	9,000	Core + TBM	Travel and subsistence	2,143	7	15,000	15,000

Annual targets	Activities	Time Frame					UN Agency	Responsible party	Planned Budget					
		Q1	Q2	Q3	Q4	Sources of fund			Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
campaign	Action 1: Project related reporting	XX	XX	XX		UNCDF	NRB	Supplies	1,571	7	11,000	11,000		
	Action 2: Training and capacity building for AST staff		XX	XX	XX	UNCDF	NRB	Miscellaneous expenses	857	7	6,000	6,000		
	Action 3: Outreach campaign	XX				UNDP	NRB							
	Action 4: Review and planning				XX	UNDP	NRB							
								Sub-total			41,000	17,000	24,000	
Operation and management						UNDP	NRB	Contractual services	833	12	10,000	10,000		
						UNDP	NRB	Travel and subsistence	333	12	4,000	4,000		
						UNDP	NRB	Equipments and furniture	-	12	0	0		
						UNDP	NRB	Stationeries and supplies	253	12	3,038	3,038		
						UNDP	NRB	Rental, repair and maintenance	917	12	11,000	11,000		
						UNDP	NRB	Facilities and administration	583	12	7,000	7,000		
						UNDP	NRB	Miscellaneous	583	12	7,000	7,000		
								Sub-total			42,038	42,038	0	
								Total			2,329,038	888,038	1,441,000	
		Monitoring and communication (6% UNDP and 5% UNCDF)					UNDP+ UNCDF					125,332	53,282	72,050
	Grand Total for 2010					UNDP+ UNCDF					2,454,370	941,320	1,513,050	
	Total					UNDP					941,320			
	Total					UNCDF					1,513,050			

**Enhancing Access to Financial Services
(January – December 2011)**

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget									
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF			
A FIF established and operational.	Activity Result 1: FIF operational Actions: Action 1: FIF Management Action 2: Training and on-the-job mentoring programme for FIF staff and management																
							TBM	Contractual services	6,250	12	75,000	39,000	36,000				
							TBM	Travel and subsistence	417	12	5,000	-	5,000				
							TBM	Supplies	83	12	1,000	1,000	-				
						TBM	Miscellaneous expenses	167	12	2,000	2,000	-					
							Sub-total			83,000	42,000	41,000					

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Provide technical assistance to selected FSPs/MFIs from FIF and monitor their operational and financial performance.	Activity Result 2: Technical assistance provided to at least nine FSPs/MFIs and their operational and financial performance monitored. Actions: Action 1: Support to FSPs/MFIs to implement technical assistance plan Action 2: Technical assistance to local microfinance BDS providers and FSPs/MFIs Action 3: Training on FSPs/MFIs capacity building Action 4: Monitoring operational and financial performance of FSPs/MFIs																	
							TBM	Contractual services	4,500	12	54,000	28,080	25,920					
							TBM	Contract-out	12,500	2	25,000	25,000	-					
							TBM	Capacity building grants to FSP	81,250	20	1,625,000	487,500	1,137,500					
						TBM	Travel and subsistence	2,833	12	34,000	34,000	-						
						TBM	Supplies	750	12	9,000	9,000	-						
						TBM	Miscellaneous expenses	833	12	10,000	10,000	-						

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
	Action 2: Training and capacity building for AST staff		XX	XX	XX	UNCDF	NRB	TBM	Miscellaneous expenses	500	12	6,000	6,000	-
	Action 3: Outreach campaign	XX		XX		UNCDF	NRB							
	Action 4: Review and planning		XX		XX	UNCDF	NRB							
	Action 5: Monitoring visits	XX	XX	XX	XX	UNCDF	NRB							
									Sub-total			41,000	32,000	9,000
Operation and management						UNDP	NRB	TBM	Contractual services	917	12	11,000	11,000	-
						UNDP	NRB	TBM	Travel and subsistence	250	12	3,000	3,000	-
						UNDP	NRB	TBM	Equipments and furniture	-	12	-	-	-
						UNDP	NRB	TBM	Stationeries and supplies	333	12	4,000	4,000	-
						UNDP	NRB	TBM	Rental, repair and maintenance	965	12	11,585	11,585	-
						UNDP	NRB	TBM	Facilities and administration	583	12	7,000	7,000	-
						UNDP	NRB	TBM	Miscellaneous	667	12	8,000	8,000	-
									Sub-total			44,585	44,585	-
												70,000	-	70,000
	Mid-term evaluation by Evaluation Unit, UNCDF	XX						Total				2,175,885	892,465	1,283,420
	Monitoring and communication (6% UNDP and 5% UNCDF)					UNDP+ UNCDF		TBM				117,719	53,548	64,171
	Grand Total for 2011					UNDP+ UNCDF		TBM				2,293,604	946,013	1,347,591
	Total					UNDP		TBM				946,013		
	Total					UNCDF		TBM				1,347,591		

**Enhancing Access to Financial Services
(January – December 2012)**

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
A FIF established and operational.	Activity Result 1: FIF operational Actions:	XX	XX	XX	XX	UNDP / UNCDF	NRB	TBM	Contractual services	6,667	12	80,000	41,600	38,400
								TBM	Travel and subsistence	417	12	5,000	-	5,000
	Action 1: FIF Management	XX	XX	XX	XX	UNCDF	NRB	TBM	Supplies	83	12	1,000	1,000	-
	Action 2: Training and on-the-job mentoring programme for FIF staff and management	XX	XX	XX	XX	UNDP	NRB	TBM	Miscellaneous expenses	167	12	2,000	2,000	-
									Sub-total			88,000	44,600	43,400

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Provide technical assistance to selected FSPs/MFIs from FIF and monitor their operational and financial performance.	Activity Result 2: Technical assistance provided to at least nine FSPs/MFIs and their operational and financial performance monitored.	XX					NRB	TBM	Contractual services	4,833	12	58,000	30,160	27,840
								TBM	Contract-out	2,500	2	5,000	5,000	-
	Action 1: Support to FSPs/MFIs to implement technical assistance plan	XX	XX	XX	XX	UNCDF	NRB	TBM	Capacity building grants to FSP	81,250	20	1,625,000	487,500	1,137,500
	Action 2: Technical assistance to local microfinance BDS providers and FSPs/MFIs		XX	XX	XX	UNCDF	NRB	TBM	Travel and subsistence	500	12	6,000	6,000	-
	Action 3: Training on FSPs / MFIs capacity building						NRB	TBM	Supplies	250	12	3,000	3,000	-
								TBM	Miscellaneous expenses	417	12	5,000	5,000	-

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget											
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF					
	Action 3: Outreach campaign	XX		XX		UNCDF	NRB												
	Action 4: Review and planning				XX	UNCDF	NRB												
	Action 5: Monitoring visits	XX	XX	XX	XX	UNCDF	NRB												
								Core + TBM						41,000	32,000		9,000		
Operation and management						UNDP	NRB							667	12	8,000	8,000		
						UNDP	NRB							167	12	2,000	2,000		
						UNDP	NRB							-	12	-	-		
						UNDP	NRB							167	12	2,000	2,000		
						UNDP	NRB							478	12	5,736	5,736		
						UNDP	NRB							417	12	5,000	5,000		
						UNDP	NRB							417	12	5,000	5,000		
																27,736	27,736		
	Evaluation by evaluation unit, UNCDF																80,000	80,000	
	Monitoring and communication (6% UNDP and 5% UNCDF)					UNDP + UNCDF											112,107	47,220	64,887
	Grand Total for 2012																2,196,843	834,216	1,362,627
	Total					UNDP											834,216		
	Total					UNCDF											1,362,627		

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget									
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF			
	Summary																
	GRAND TOTAL (2008-2012)					UNDP+ UNCDF		Core + TBM					9,966,065	4,029,186	4,029,186	5,936,879	
	Total					UNDP		Core + TBM					4,029,186				
	Total					UNCDF		Core + TBM					5,936,879				

**Annex 1b: Work Plan (UNDP/UNCDF)
Enhancing Access to Financial Services
(July – December 2008)**

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Sources of fund	Planned Budget				
		Q1	Q2	Q3	Q4				Budget Description	Unit cost	No. of Units	Amount	UNDP
A FIF established and operational.	Activity Result 1: A FIF established and operational. Actions: Action 1: Establish FIF and finalise operational mechanism Action 2: Training and on-the-job mentoring programme for FIF staff and management Action 3: Prepare an operational manual and establish procedures and criteria for FSPs/MFIs assessment for technical assistance						Core	Contractual services	5,100	2	10,200		10,200
							Core	Travel and subsistence	2,500	2	5,000		5,000
				XX			Core	Supplies	1,000	2	2,000	2,000	
				XX	XX		Core	Miscellaneous expenses	500	2	1,000	1,000	
								Sub-total			18,200	3,000	15,200

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Select eligible FSPs/MFIs to provide technical assistance from FIF and establish baseline of active clients of selected FSPs/MFIs.	Activity Result 2: Selection of eligible FSPs/MFIs and establishment of the baseline of the active clients Actions: Action 1: Prepare EO/RFP document and call for proposal from FSPs / MFIs Action 2: Screen, appraise and select the qualified FSPs / MFIs for technical assistance						Core	Contractual services	16,400	2	32,800		32,800
							Core	Travel and subsistence	1,500	2	3,000		3,000
				XX			Core	Supplies	2,500	2	5,000	5,000	
				XX	XX		Core	Miscellaneous expenses	2,000	2	4,000	4,000	

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Sources of fund	Planned Budget							
		Q1	Q2	Q3	Q4				Unit cost	Budget Description	No. of Units	Amount	UNDP	UNCDF		
	Action 3: Ratings of qualified and selected FSPs/MFIs to establish baselines on outreach, portfolio quality and viability level				XX	UNDP	NRB									
								Sub-total					44,800	9,000		35,800

JP Output 3: 10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012

Awareness among Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes on linkage banking scheme with FSPs/MFIs.	Activity Result 3: SCGs of the selected districts prepared for linkages with FSPs/MFIs Actions: Action 1: Prepare inventory of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes Action 2: Review/revise the SCG rating tools Action 3: Rating of the SCGs promoted by UNDP and/or other GOs/NGOs supported programmes						Core	Contractual services	10,500	2	21,000	21,000			
					XX	UNDP	NRB	Core	Travel and subsistence	1,500	2	3,000	3,000		
								Core	Supplies	1,500	2	3,000	3,000		
					XX	UNDP	NRB	Core	Miscellaneous expenses	1,000	2	2,000	2,000		
					XX	UNDP	NRB								
								Sub-total			29,000	29,000		0	

JP Output 4: Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided

Operationalise project implementation, monitoring and evaluation system and public information campaign	Activity Result 4: Project implementation, monitoring and evaluation system and public information campaign Actions: Action 1: Procure goods and services including appointment of project team						Core	Contractual services	7,500	2	15,000	15,000		
							Core	Travel and subsistence	2,500	2	5,000		5,000	
						UNDP / UNCDF	NRB	Core	Supplies	1,000	2	2,000	2,000	

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget							
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF	
	Action 2: Project related reporting				XX	UNCDF	NRB	Core	Miscellaneous expenses	1,500	2	3,000	3,000		
	Action 3: Training and capacity building for Advisory Support Team (AST) staff					UNDP	NRB								
	Action 4: Outreach campaign				XX	UNDP	NRB								
	Action 5: Review and planning				XX	UNCDF	NRB					25,000	20,000	5,000	
									Sub-total						
								Core	Contractual services	3,500	2	7,000	7,000		
Operation and management						UNDP	NRB	Core	Travel and subsistence	1,500	2	3,000	3,000		
						UNDP	NRB	Core	Equipments and furniture	-	-	70,019	43,019	27,000	
						UNDP	NRB	Core	Stationeries and supplies	250	2	500	500		
						UNDP	NRB	Core	Rental, repair and maintenance	2,000	2	4,000	4,000		
						UNDP	NRB	Core	Facilities and administration	500	2	1,000	1,000		
						UNDP	NRB	Core	Miscellaneous subtotal	500	2	86,519	59,519	27,000	
								Total					203,519	120,519	83,000
								Core					11,381	7,231	4,150
		Monitoring and communication (6% UNDP and 5% UNCDF)					UNDP + UNCDF								
		Grand Total for 2008							Core					214,900	127,750
	Total							Core					127,750		
	Total							Core					87,150		

Enhancing Access to Financial Services
(January – December 2009)

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Unit cost	No. of Units	Amount	UNDP	UNCDF		
A FIF established and operational.	Activity Result 1: FIF operational Actions: Action 1: FIF Management Action 2: Training and on-the-job mentoring programme for FIF staff and management		XX	XX	XX		NRB / NRB				12	65,300	19,590	45,710
		XX	XX	XX	XX	UNDP / UNCDF					12	25,000	5,000	
			XX								12	2,000	2,000	
												97,300	51,590	45,710

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Provide technical assistance to selected FSPs/MFIs from FIF and monitor their operational and financial performance.	Activity Result 2: Technical assistance provided to at least nine FSPs/MFIs and their operational and financial performance monitored. Actions: Action 1: Screen, appraise and select the qualified FSPs / MFIs for technical assistance Action 2: Ratings of qualified selected FSPs/MFIs to establish baselines on outreach, portfolio quality and viability level Action 3: Support to FSPs / MFIs prepare and implement technical assistance plan Action 4: Technical assistance to local microfinance BDS providers and FSPs/MFIs											17,500	210,000	105,000	105,000
		XX					NRB	UNDP / UNCDF			20	175,000		175,000	
							NRB	UNCDF			10	500,000	150,000	350,000	
			XX	XX			NRB	UNCDF			10	71,000	49,700	21,300	
				XX	XX		NRB	UNDP / UNCDF			10	11,000	11,000		
					XX	XX	NRB	UNDP / UNCDF			10	12,000	12,000		

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget					
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNCDF
	Action 5: Training on FSPs / MFIs capacity building	XX			XX	UNCDF	NRB	Core	Sub-total		979,000	327,700	651,300

JP Output 3: 10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012

2,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes to FSPs/MFIs.	Activity Result 3: SCGs linked with FSPs/MFIs for financial services							Core	Contractual services	11,250	12	135,000	135,000	
	Actions:							Core	Contract-out	5	10,000	50,000	50,000	
	Action 1: Prepare inventory of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes		XX	XX			NRB	Core	Travel and subsistence	7	10,000	65,000	65,000	
	Action 2: Rating of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes		XX	XX			NRB	Core	Supplies	667	12	8,000	8,000	
	Action 3: Technical support to FSPs/MFIs to develop products/services to SCGs				XX	XX	NRB	Core	Miscellaneous expenses	1,000	12	12,000	12,000	
	Action 4: Technical support to concerned programme on SCGs capacity building and linkages with FSPs/MFIs				XX	XX	NRB							
									Sub-total			270,000	270,000	0

JP Output 4: Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided

Operationalise project implementation, monitoring and evaluation system and public information campaign	Activity Result 4: Project implementation, monitoring and evaluation system and public information campaign							Core	Contractual services	3,333	3	10,000	10,000
	Actions:							Core	Travel and subsistence	4,750	20	95,000	54,500
	Action 1: Procure goods and services including appointment of project team		XX	XX			NRB	Core	Supplies	4,600	5	23,000	23,000

Annual targets	Activities	Planned Budget												
		Time Frame				UN Agency	Responsible party	Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
		Q1	Q2	Q3	Q4									
	Action 2: Project related reporting		XX	XX	XX	UNCDF	NRB	Core	Miscellaneous expenses	750	12	9,000	9,000	
	Action 3: Training and capacity building for Advisory Support Team (AST) staff			XX		UNCDF	NRB							
	Action 4: Outreach campaign				XX	UNCDF	NRB							
	Action 5: Review and planning			XX		UNCDF	NRB							
	Action 6: Monitoring visits				XX	UNCDF	NRB							
	Action 7: Review, study and observation				XX	UNCDF	NRB					137,000	86,500	50,500
									Sub-total					
								Core	Contractual services			8,000	8,000	
								Core	Travel and subsistence			4,000	4,000	
								Core	Equipments and furniture			811	811	
								Core	Stationeries and supplies			3,000	3,000	
								Core	Rental, repair and maintenance			11,000	11,000	
								Core	Facilities and administration			6,000	6,000	
								Core	Miscellaneous			7,000	7,000	
								Core				39,811	39,811	0
												1,523,111	775,601	747,510
												83,912	46,536	37,376
								Total						
								UNDP + UNCDF	Core					
	Monitoring and communication (6% UNDP and 5% UNCDF)							Core				1,607,023	822,137	784,886
	TOTAL 2009													
	Total							Core						
	Total							Core						

**Enhancing Access to Financial Services
(January – July 2010)**

JP Output 1: Fund for Inclusive Finance established by November 2008 and operated/managed till Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget									
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description #	Unit cost	No. of Units	Amount	UNDP	UNCDF			
A FIF established and operational.	Activity Result 1: FIF operational Actions: Action 1: FIF Management Action 2: Training and on-the-job mentoring programme for FIF staff and management																
		XX	XX	XX	XX	UNDP	NRB	Core	Contractual services	5,833	7	40,833	40,833				
							NRB	Core	Travel and subsistence	714	7	5,000	5,000				
							NRB	Core	Supplies	143	7	1,000	1,000				
							NRB	Core	Miscellaneous expenses	286	7	2,000	2,000				
									Sub-total			48,833	48,833				0

JP Output 2: Nine FSPs/MFIs obtain technical assistance from FIF to expand the frontier of microfinance services by Dec. 2012

Provide technical assistance to Five FSPs/MFIs from FIF and establish baseline of active clients of selected FSPs/MFIs.	Activity Result 2: Technical assistance provided to at least nine FSPs/MFIs and their operational and financial performance monitored. Actions: Action 1: Support to FSPs/ MFIs to implement technical assistance plan Action 2: Technical assistance to local microfinance BDS providers and FSPs/MFIs Action 3: Training on FSPs/ MFIs capacity building Action 4: Monitoring operational and financial performance of FSPs/MFIs Action 5: Reporting operational and financial performance of FSPs/MFIs in MIX market	XX	XX	XX	XX	UNDP / UNCDF	NRB	Core	Contractual services	18,750	7	131,250					131,250
							NRB	Core	Contract-out	6,250	4	25,000					25,000
							UNCDF	Core	Capacity building grants to FSP	56,000	10	560,000	168,000				392,000
							UNCDF	Core	Travel and subsistence	5,900	10	59,000	29,500				29,500
							NRB	Core	Supplies	1,286	7	9,000	9,000				
							NRB	Core	Miscellaneous expenses	1,429	7	10,000	10,000				
							UNCDF		Sub-total			794,250	216,500				577,750

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF

JP Output 3: 10,000 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes linked with FSPs/MFIs by Dec. 2012

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
4,500 Savings and Credit Groups (SCGs) promoted by UNDP and/or other GOs/NGOs supported programmes to FSPs/MFIs.	Activity Result 3: SCGs linked with FSPs/MFIs for financial services							Core	Contractual services	12,000	7	84,000	84,000	
	Actions:							Core	Contract-out	10,000	2	20,000	20,000	
	Action 1: Rating of the SCGs promoted by UNDP and/or other GOs/NGOs supported programmes	XX	XX			UNDP	NRB	Core	Travel and subsistence	8,000	7	56,000	56,000	
	Action 2: Technical support to FSPs/MFIs to develop products/services to SCGs	XX	XX	XX		UNDP	NRB	Core	Supplies	857	7	6,000	6,000	
	Action 3: Technical support to concerned programme on SCGs capacity building and linkages with FSPs/MFIs	XX	XX	XX	XX	UNDP	NRB	Core	Miscellaneous expenses	1,286	7	9,000	9,000	
									Sub-total			175,000	175,000	-

JP Output 4: Technical assistance on project implementation, monitoring and evaluation system and public information campaign provided

Annual targets	Activities	Time Frame				UN Agency	Responsible party	Planned Budget						
		Q1	Q2	Q3	Q4			Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF
Operationalise project implementation, monitoring and evaluation system and public information campaign	Activity Result 4: Project implementation, monitoring and evaluation system and public information campaign							Core	Contractual services	1,473	7	10,311	10,311	
	Actions:							Core	Travel and subsistence	1,429	7	10,000	10,000	
	Action 1: Project related reporting	XX	XX	XX		UNCDF	NRB	Core	Supplies	1,571	7	11,000	11,000	
	Action 2: Training and capacity building for AST staff	XX	XX	XX		UNCDF	NRB	Core	Miscellaneous expenses	857	7	6,000	6,000	
	Action 3: Outreach campaign Action 4: Review and planning	XX	XX	XX	XX	UNDP	NRB							
									Sub-total			37,311	17,000	20,311

Annual targets	Activities	Planned Budget													
		Time Frame				UN Agency	Responsible party	Sources of fund	Budget Description	Unit cost	No. of Units	Amount	UNDP	UNCDF	
		Q1	Q2	Q3	Q4										
Operation and management						UNDP	NRB	Core	Contractual services	3,965	7	27,752	27,752		
						UNDP	NRB	Core	Travel and subsistence	571	7	4,000	4,000		
						UNDP	NRB	Core	Equipments and furniture	-	7	0	0		
						UNDP	NRB	Core	Stationeries and supplies	434	7	3,038	3,038		
						UNDP	NRB	Core	Rental, repair and maintenance	1,571	7	11,000	11,000		
						UNDP	NRB	Core	Facilities and administration	1,050	7	7,351	7,351		
						UNDP	NRB	Core	Miscellaneous	1,214	7	8,500	8,500		
									Sub-total				61,641	61,641	0
								Total					1,117,035	518,974	598,061
		Monitoring and communication (6% UNDP and 5% UNCDF)					UNDP+ UNCDF		Core				61,042	31,138	29,903
	TOTAL 2010							Core				1,178,077	550,113	627,964	
	Total					UNDP		Core				550,113			
	Total					UNCDF		Core				627,964			
	GRAND TOTALS (2008-2010)							Core				3,000,000	1,500,000	1,500,000	
													UNDP	UNCDF	

Annex 1C UNCDF Budget Atlas Format									
UNCDF	Sector Development								
Description	Activity Type	Budget Line Manager	Total Initial budget						
				2008	2009	2010	2011	2012	
1. Policy									
TSP-CTA	ADVPL	UNCDF	86,151	7,534	48,400	30,217	-	-	
Training	CAPMF	UNCDF	20,000	20,000					
UNCDF Missions	TECHB	UNCDF	40,818	20,000	10,000	10,818			
Mission Travel	TECHB	UNCDF	0	-		-	-		
Subtotal			146,969	47,534	58,400	41,035	0	0	
2. Supportive Infrastructure									
TSP-CTA	ADVPL	UNCDF	0	-	-	-	-	-	
Grants	CAPMF	UNCDF	0						
Subtotal			0	0	0	0	0	0	
3. Retail: FSP Capacity Building									
TSP-CTA	ADVPL	UNCDF	344,603	30,136	193,600	120,867	-	-	
Contract: Rating	ADVPL	UNCDF	195,000		175,000	20,000			
Training	TRAIN	UNCDF	0						
Grants	CAPMF	UNCDF	742,000	0	350,000	392,000			
Soft Loans	CAPMF	UNCDF	0	-	-	-	-	-	
Subtotal			1,281,603	30,136	718,600	532,867	0	0	
Programme	IMPAG	EXEC							
			71,429	3,884	38,850	28,695	0	0	
Support Costs									
TOTAL			1,500,000	81,554	815,850	602,596	0	0	

ANNEX 2: COMPONENTS OF ACCESS TO FINANCE PROJECT

The project consists of five closely interrelated components:

- (i) A Fund for Inclusive Finance to strengthen the capacity of financial institutions to expand access to underserved market segments and to carry out a financial literacy campaign. The underserved segment that will be targeted include urban MSMEs and rural and urban households. (US\$ 14 million)
- (ii) Technical assistance to support reforms of the legal/regulatory and supervisory framework for microfinance, and the implementation of a secured transactions registry (US\$ 2.7 million)
- (iii) A line of credit for financial institutions with limited liquidity and interest in serving MSMEs, especially previously unbanked ones (US\$ 12 million)
- (iv) Technical assistance to reform state-owned microfinance institutions, i.e., the Rural Self-Reliance Fund and the Regional Rural Development Banks (US\$ 0.75 million)
- (v) Technical assistance to fund a public information campaign, project implementation, monitoring and evaluation (US\$ 0.55 million)

Component I: Fund for Inclusive Finance (US\$ 14 million of which \$11M of IDA)

This component will be implemented by the Fund for Inclusive Finance (FIF), a new technical assistance fund. The implementing agency for this component will be NRB. NRB will manage the FIF in a flexible manner with a focus on producing the desired results. The Fund will have three sub-components.

Sub-Component I-A: FIF Management (US\$ 3.5 million): This sub-component will cover the cost of the management and operation of the fund. Under this sub-component services and goods will be procured.

Sub-Component I-B: Urban MSME lending by commercial and/or development banks and/or finance companies (budget US\$ 4.0 million): The objective of this sub-component is to assist selected financial institutions to increase lending to MSMEs, especially those that are unbanked. Under this sub-component services in the form of technical assistance would be procured to help financial institutions develop new products and procedures, so that they can profitably scale up their lending operations to MSMEs. The technical assistance will include a complete redesign of the loan cycle (from marketing to loan process, loan analysis to monitoring and enforcement), creation of appropriate MSME units, selection and training of new staff and design and implementation of an incentive system for MSME staff. Annex 1 provides a detailed description of the MSME credit technology that will be introduced in the selected financial institutions.

The selected financial institutions, the technical assistance providers and the FIF will sign technical assistance agreements outlining the key tenets of the lending methodology that will be adopted by the financial institutions and identifying minimum targets to be reached during project implementation. These include number and volume of MSME loans disbursed and outstanding to be achieved by a given date and an indicator of portfolio quality.

Under this sub-component FIF will procure only services for the selected institutions. Technical assistance will be provided free of charge for up to two years during the initial project implementation period. Thereafter, FIF and the financial institutions will arrive at a mutually satisfactory cost sharing arrangement. Although the technical assistance will be free of cost for the first period, financial institutions will be required to incur costs (e.g. recruitment of staff, introduction of MIS, payment of incentives, marketing of new products etc.) to implement the new MSME lending technology. Moreover, institutions benefiting from technical assistance will

have to refund 20 percent of the cost of the same if they fail to meet the targets agreed upon in the technical assistance agreements.

Sub-Component I-C: Outreach and Innovation (USD 6.5 million): The aim of the sub-component is to:

- Expand access in remote regions and rural areas and new market segments, including smart subsidies for financial institutions to develop new products, use technology and technical assistance to link existing communities and savings and credit groups with microfinance institutions and promote community based banking. Small subsidies will act as an incentives to financial institutions to collaborate with government organizations including seven UNDP supported projects and other projects/programme and non-government organizations to serve the credit ready SCGs and/or members.
- Enhance the technical capacity of microfinance institutions (FINGOs, credit cooperatives, MFDBs, RRDBs) and SCGs to increase outreach in inaccessible and mountain areas in a sustainable fashion. Technical assistance would be provided to improve business planning, accounting and financial reporting, financial planning, MIS, internal controls, product development, staff training, rating and auditing. It is estimated that 30 microfinance institutions and about 10,000 SCGs will receive TA; institutions with high potential to grow will receive a comprehensive TA package, including performance-based capacity building grants.
- Create a market for microfinance business development services by establishing a roster of providers and promoting commercial transactions between these providers and (i) microfinance institutions and (ii) government organizations including seven UNDP supported projects and other projects/programme and non-government organizations to strengthen the capacity of savings and credit groups and/or their members to facilitate linkages and/or community banking. Initially grants will enable microfinance institutions and government and non-government organization implementing linkages and/or community banking to pay business development service providers directly. When short-term, specialized international technical assistance is needed for specific capacity building needs, the FIF will partner international business development service providers with local providers. The FIF will also work to enhance the capacity of private business development services providers to the microfinance industry, for example auditors, IT providers, etc. through specialized trainings.
- Improve the capacity of microfinance provider networks and support organizations to collect, analyze and report data about sector outreach and financial performance.
- Improve financial literacy amongst the Nepali public at large, but especially in remote and rural areas and amongst migrants to be. The campaign will introduce concepts of savings, credit, insurance, interest rates, money transfer methods etc.

Under this sub-component both services and goods will be procured, and grants made.

Institutions that have been approved for technical assistance will be rated by an internationally recognized microfinance rating agency, which will set the institutions' baseline in terms of outreach, portfolio quality, profitability/sustainability. In addition, the rating will identify the major operational shortcomings and make recommendations to improve them. This assessment will form the basis for technical assistance agreements that will be signed by the selected institutions, the FIF and the technical assistance providers. These agreements will outline the minimum targets that have to be achieved during project implementation. If the financial institution fails to meet the agreed targets for two quarters, technical assistance will be terminated.

Component II: Legal and Regulatory framework Reform (USD 2.7 million)

This component would have two sub-components, one supporting the reforms of the legal/regulatory and supervisory framework for microfinance, and the other supporting the implementation of a secured transactions registry. The implementing agency for this component will be the NRB.

Sub-Component II-A: Microfinance Legal and Regulatory Framework reform (US\$ 1.5 million): This component would support the drafting of a national microfinance policy, inventory, review and amendment of the existing legal/regulatory framework, including consultation with the industry, and training for key decision makers, feasibility study for a strengthened regulator and establishment and training of the microfinance regulator. As part of project preparation a mapping of the microfinance sector is being conducted. The mapping will provide the information needed to develop criteria for determining which institutions should be licensed and regulated by NRB and which institutions might only have a reporting requirement to the regulator or some other institution. Progress under this sub-component will be monitored by a panel of experts. The panel will develop a rating tool and assess program on a four-monthly basis. Under this component both goods and services will be procured.

“““

Sub-Component II-B: Implementation of a Secured Transactions Registry (US\$ 1.2 million): The aim of this component is to implement the secured transactions law by creating a secured transactions registry, and by training the professionals involved in the implementation of the law (e.g., judges, lawyers, loan administration departments of banks, commercial courts, etc.).

In November 2006, the new Secured Transactions Law (ST Law) of Nepal was ratified by Nepal's legislature. The law creates a unified system of granting and taking security interest over collateral by bringing all transactions that, in effect, secure an obligation with collateral (including pledge, hypothecation and hire-purchase) under its umbrella, regardless of the form or terminology used in the agreement. The law also calls for the creation of a notice-filing collateral registry that would allow all entities taking and receiving security interests over all types of collateral to have their interest registered, and places no restrictions on who may search these public records. Finally, the law allows out-of-court enforcement whether or not parties have agreed to self-help remedies in the contract

While the ST Law sets out the basic framework for the registry there are many details that have to be resolved before implementation of the registry can begin. To speed up the implementation of this sub-component, a feasibility study is being conducted during project preparation. The key issues that the feasibility study will explore include: options for location of the registry (where does the capacity lie to implement the registry? How should access be controlled and what are the implications of these choices?), fee structure of the registration (does the fee structure in the new law need to be amended?), requirement for IT Infrastructure (what are the hardware, software and maintenance requirements for the registry?), most appropriate methods of search and registration (should filings be done on paper, electronically or both? Should there be one central registry office or regional outposts and should users be able to access the registry remotely from their own computers?).

On the basis of the outcomes of the feasibility study, the GoN will need to make the relevant policy choices, mostly by way of implementing regulations, and, on the basis of such policy choices, the registry will be implemented.

This sub-component will involve the procurement of the hardware, software and implementation of the IT system, of local and international legal expertise to assist in the implementation of the registry, design of a

users' guide targeted to both the financial and entrepreneurial community, and delivery of seminars and outreach events for lawyers, bankers and judges.

The registry will be designed in a way that it will be technically expandable to the land registry.

Component III: MSME Lending (US\$ 12 million):

This component includes a line of credit for commercial and/or development banks and/or finance companies with limited liquidity and interest in targeting urban MSMEs, especially those that are un-banked. Participating financial institutions will belong to the second tier, as identified in the Financial Institutions Selection and Eligibility Criteria in Attachment 1. The financing mechanism will give the participating financial institutions the right market-based incentive to build rapidly a large number of good quality MSME loans. Since the success of the credit facility depends on application of the appropriate lending methodology, financial institutions will have access to funds under the credit facility only if they enter into a technical assistance agreement with FIF (see Component 1 sub-component B above). The implementing agency for this component will be NRB.

To ensure that lending to the sector is sustainable, in addition to assisting with the creation of a secured transactions registry, NRB will amend existing regulation on provisioning requirements that increase the cost of lending to the segment.

Component IV: Reforming state owned microfinance institutions (US\$ 0.75 million):

This component would support the transition of the Rural Self-Reliance Fund (RSRF) into an independently and professionally managed fund with a strong governance structure and the development of a restructuring plan for the regional rural development banks. This component would include the procurement of both goods and services. The implementing agency for this component will be NRB.

Sub-component IV-A: Professionalization of the RSRF (US\$ 0.55 million): This sub-component will assist the government in reforming RSRF and spinning it off NRB. The central bank has already drafted an act that would spin RSRF off the central bank.

While the law is being finalized and is going through the approval process, this subcomponent will assist NRB to purchase and install a basic software to computerize RSRF operations, audit RSRF portfolio to assess its true value (before it is transferred to the balance sheet of the new institution) and to prepare a business plan for the new institution, including an assessment of the financial needs of microfinance institutions in Nepal.

Once NRB proposed legislation is approved and RSRF portfolio is transferred to a separate and independent entity, this sub-component will provide capacity building for the new RSRF, especially in those areas identified as key weaknesses in the rating. This will include:

- advisory services and training to improve RSRF's portfolio-at-risk, by strengthening its recovery policy, development of new products, design and implementation an HR policy that would serve the needs of a microfinance wholesaler institution, governance training to the new Board and management of RSRF to ensure that there will be no political interference in RSRF's lending (in terms of type of activity, interest rate and selection of partners) and to enshrine a culture of independence from the government
- purchase of a modern and customized MIS and IT platform to help improve portfolio management and training to staff and management on how to use the new MIS

Sub-component IV-B: Restructuring plan for the Regional Rural Development Banks (US\$ 0.2 million): This sub-component will assist the government take stock of the outcome of the 2001 privatization program and help identify viable options to improve the performance of the RRDBs, while keeping them focused on their original mandate to serve low income households. The sub-component will include:

- Audit and rating of all the five RRDBs to assess their current financial performance and their strengths and weaknesses
- Evaluation of the privatization of the Western and Eastern regional rural development banks. The evaluation will assess both the current financial performance of the two institutions as well as their current focus on their original mandate
- Reform plan for the all RRDBs (for those that have been privatized, the reform plan will take into account their new status) to ensure a better financial performance and their continued focus on low-income households. The proposed reform plan will include a few options as a way forward.

Component V: Public Information Campaign, Implementation, Monitoring and Evaluation (US\$ 0.55 million):

This component includes both the development and execution of a public information campaign and support to the project Advisory Services Team (AST) and the Steering Committee, the unit within NRB that will lead project preparation and implementation. The implementing agency for this component will be the NRB.

Sub-component V-A Public Information Campaign (US\$ 0.25 million): The sub-component will aim to build consensus for all the suggested reforms (e.g., the creation of the secured transactions registry), to communicate the key components and outcomes of the project to all stakeholders.

The project would support the acquisition of goods and services to carry out a series of communications campaigns. This effort will include awareness campaigns for financial institutions on the FIF, for MFIs on the new legal/regulatory framework, for Nepali citizens at large to explain the role of the various legal reforms. The target audience for this campaign will therefore be: financial institutions (Microfinance Development Banks, FINGOs, Commercial Banks, Development Banks, Financial Credit Cooperatives, Financial Companies, Remittance Companies, etc), the Nepali public at large, Ministries and national organizations.

Both services and goods will be procured under this component.

Sub-component V-B Implementation, Monitoring and Evaluation (US\$ 0.3 million): This sub-component would include the procurement of

- goods, training and consultants for the AST (i.e. the procurement expert and the assistant procurement expert)
- technical experts for the technical evaluation committee
- performance based allowance for AST and allowances for the steering committee.

Implementation Arrangements – Reforming State-Owned Microfinance Institutions; Legal and Regulatory Framework Reform; Public Information Campaign (Components II, IV and V)

The AST at NRB has overall responsibility for carrying out the acquisition of goods and services to be financed under these components and for all financial management activities, including periodic financial reporting to the Bank. The AST is staffed by three dedicated NRB staff (a Director, a Deputy Director with CPA – to look after financial management issues, and a secretary), supported by an externally-hired procurement expert and a procurement assistant.

Implementation Arrangements for Small business Lending Line of Credit (Component III)

AST will be the implementing agency for this component.

NRB will select three financial institutions from a group of pre-identified intermediaries. The pre-selected institutions will undergo an in-depth due diligence by a team of two NRB supervisors, an AST members, a FIF staff, a staff from the firm providing TA and an international consultant. The due diligence will be based on documentation review, including audited financial statements, and meeting with PFI senior management, as well as key managers and staff.

The selected institutions will be responsible for-on-lending to MSMEs in local currency. As no subloans are expected to exceed Rs. 3 millions, there will be no prior review by the Bank or NRB of subloans. Reviews will take place only during the course of regular project monitoring and supervision. All Subsidiary Loan Agreements between NRB and financial institutions will be subject to prior review with the Bank.

Monitoring: PFI monitoring will be undertaken by the AST in collaboration with the FIF. PFI will report on a semi-annual basis to the AST on compliance with NRB prudential requirements. In addition, PFIs will report on a monthly basis to the FIF and NRB on the MSME loan portfolio (see above).

ANNEX 3: TERMS OF REFERENCE FOR FUND FOR INCLUSIVE FINANCE

1. Rationale for the Fund for Inclusive Finance

The Fund for Inclusive Finance (FIF) is a Fund initiated by the Government of Nepal, UNCDF, UNDP and the World Bank supported by key donors and other stakeholders in the financial sector of Nepal. The overall aim of FIF is to promote the development of an inclusive financial sector,¹⁵ characterized by:

- i) Access by all bankable households and enterprises to a full range of financial services at a reasonable cost, including savings, short and long-term credit, mortgages, insurance, pensions, payments, local money transfers, international remittances, leasing and factoring;
- ii) Soundness of institutions, which is maintained through self-regulation and standard setting, performance monitoring by stakeholders and, where required, sound prudential regulation;
- iii) Financial and institutional sustainability ensuring the ability of Financial Service Providers (FSPs) to continue to provide access by customers to financial services over time;
- iv) Multiple providers of financial services, wherever feasible, to bring cost-effective alternatives to customers, including sound private, non-profit and public providers.

To realize the vision of financial inclusion, financial services for poor and low-income people and micro and small enterprises should be seen as an important and integral component of the financial sector. This sector should include a continuum of financial institutions, each with its own comparative advantages, and each presenting the market with an emerging business opportunity.

The FIF provides a coordinated donor-funding mechanism for capacity building grants to financial service providers (FSPs: FINGOs, Commercial Banks, Development Banks, Credit Unions, Credit Cooperatives, Financial Companies, Remittance Companies, etc.) based on agreed Good Practice principles¹⁶, responding in a flexible manner in ways that would increase outreach, market responsiveness and sustainability. In order to coordinate funding of FSPs serving in particular the poor and low-income segments of the financial sector, funders will be encouraged to channel their capacity building support to the sector through the Fund. The premise of pooling resources is that it would create efficiencies and better adherence to good practices, resulting in greater return in terms of outreach and sustainable institutional development per dollar invested. The Investment Committee mechanism is also in line with the Paris Declaration on Aid Effectiveness¹⁷ call for donors' actions to be more harmonized, transparent and collectively effective.

2.1 Role of the Fund

The aim of the FIF would be to:

- enhance the technical capacity of financial service providers (FSPs) in areas such as accounting, financial planning, MIS, internal control, product development, etc. and of private business development services providers to the microfinance industry (auditors, IT providers, consultants, trainers, credit bureau, etc.),

¹⁵See the "Blue Book" on Building Inclusive Financial Sectors (UNCDF and UNDESA) 2006.

¹⁶Best-practices in microfinance are reflected in the "Donor Guidelines on Good Practice in Microfinance, Building Inclusive Financial Systems", and CGAP Focus Notes, Technical Papers, Consensus Guidelines and other publications.

¹⁷Paris Declaration on Aid Effectiveness, Ownership, Harmonisation, Alignment, Results and Mutual Accountability, OECD-DAC, March 2, 2005 <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

- stimulate innovation in the sector, including incentives to reach remote areas beyond the Kathmandu valley and in rural centers; and to introduce new products such as micro-insurance;
- strengthen and possibly link credit and savings community groups to financial institutions (e.g., those created under UNDP SHGs or PAF) and link them to financial service providers
- increase the monitoring capacity of networks of microfinance providers.

The FIF will provide a framework that minimizes transaction costs to the industry where stakeholders can:

Form Strategic Partnerships to Tailor Capacity Building to the Sector:

- Complement relative strengths and weaknesses (provision of only technical assistance) in order to tailor capacity building packages to the applicants;
- Complement relative interests and mandates (rural only, NGOs only, Commercial Banks only);
- Form Partnerships with wholesalers (e.g. RMDC, RSRF, SKBB, RSBB, Commercial Banks) of funds to FSPs;
- Identify constraints and opportunities to building an inclusive financial sector;

Harmonize and Streamline Processes:

- Jointly issue requests for proposals, review and take decisions on potential investments;
- Utilize standard reporting and performance based contracts with FSPs;
- Jointly supervise the technical assistance provided to participating FSPs;
- Jointly carry out needed technical reviews, field monitoring visits, evaluations, audits, etc. within a commonly (scheduled) agreed time period;

2.2 Institutional Form:

The CB will exist within the legal framework of this UNDP, UNCDF and World Bank programme support to the Government of Nepal. Thus the FIF will be created with a mandate of five (5) years. After four years, the Steering Committee will discuss with the World Bank, UNDP and UNCDF whether to extend the mandate for up to five (5) years, or to wind down operations. The decision on extension will include consideration of whether grant capacity building is still needed to build an inclusive financial sector and funding is available to support operations. Each time the mandate is extended, it will include the provision (sunset clause) requiring a positive decision to continue, otherwise operations will cease at the end of the five-year period.

2.3 Governing Board: the Steering Committee (SC)

The governing body of the FIF will be a Steering Committee (SC). The GON has created a steering committee for project monitoring, major policy decision and to approve/reject the award of large/technical contract. The steering committee will include a first-class gazetted officials from the Ministry of Finance, the FCCGO, and the Department of Cooperatives, and the microfinance Executive Director of NRB. The Head of the AST that is, the Project Director, will act as the Secretary to the Committee.

The (IC) will seek to take decisions by consensus after discussion where possible. When voting is required, each member shall have one vote. In the case of a tie vote, the vote of the Chair (NRB) will be considered as the tie-breaking vote.

Donors who wish to provide funding to the FIF may do so either directly to the FIF or through a cost-sharing mechanism with UNCDF, UNDP or the World Bank.

2.4 Guiding Principles for FIF Funding

- Decisions to provide funding will be made on merit, and should not be subject to political or disbursement pressures;
- Proposals deemed to be in violation of the Government's policy as advised by the NRB, applicants will be requested to provide amended proposals;
- Proposals will normally be approved on a multi-year basis if the IC determines that the business plan outlines a credible path to sustainability, or on a shorter term if the business plan requires strengthening. For multi-year approvals, the performance agreements will set annual performance targets and tranches of funding to be released if targets are met so that the grantee need not reapply in future years. Targets will be normally be drawn from the business plan.
- The FIF funding will focus on results, utilizing uniform:
 - Performance based agreements, with key indicators of FSP minimum performance standards, including:
 - Outreach: number of active borrowers and savers; portfolio size
 - Portfolio quality: Portfolio at Risk (PAR) ;
 - Profitability/Sustainability: Adjusted Return on Assets (AROA) and Financial Self-Sufficiency
 - Reporting requirements, using standard terms and definitions as developed by the Consultative Group to Assist the Poor (CGAP). Reporting will include a proxy for financial depth e.g. Average savings balance/GDP per capita; Average loans outstanding/GNP per capita; Percent of loans at or below GDP per capita.

The FIF will monitor performance of grantees against the agreed indicators and targets, and will advise the SC, if a recipient is non-compliant. Grantees that miss a performance target by more than 20% will need to explain the circumstances that caused the problem, and the remedial steps to address the cause. The FIF will have the right to cease support to a grantee, if deemed necessary (non-fulfillment of performance criteria, misappropriation of funds). The FIF would normally cease support to a grantee that misses performance targets by more than 20% for two years.

3. Outline of FIF Operations

The FIF's operations will fall into three categories: 1] Capacity building grants for FSPs providing microfinance services, including new products such as microinsurance; 2] Strategic Partnerships with providers of business development services to the financial sector; 3] Technical Assistance to Commercial Banks to serve Small and Medium Enterprises (SMEs).

3.1 Capacity building grants: FIF will channel funds to recipients as flexible grants to fill funding gaps as based on applicants' business plans, giving priority to two main areas of support:

(i) Flexible support to individual FSPs (FINGOs, Commercial Banks, Development Banks, Credit Unions, Credit Cooperatives, Financial Companies, Remittance Companies, etc.) to strengthen institutional capacity for sustainable financial service provision (e.g. training, technical assistance, systems development, MIS, rating and auditing, IT/ICT, operational costs of expansion and outreach to under-served areas, etc.);

The FIF will establish strategic partnerships with wholesalers of funds (e.g. RMDC, RSRF, Commercial Banks) for on-lending to facilitate access of the FSPs supported by the FIF to capital. FIF will work to broaden the

number of FSPs able to access capital through its capacity building assistance, and give priority to those wholesalers that recognize FIF's support to FSPs as reducing the risk of lending.

- (ii) Business Service Providers (BSPs) or FSP Networks that provide support services (audit, rating, MIS, ICT, training, financial literacy, SHG facilitation, SHG rating), based on business plan targets; and
- (iii) other investment opportunities for building an inclusive financial sector that may arise.

3.2 Strategic Partnerships with providers of business development services to the financial sector: The FIF will establish its roster of service providers through a request for proposal process that allows providers to indicate the services they could provide while also applying for capacity building assistance required. Business transactions: Promoting commercial business transactions between the provider and recipient of services. Grants will primarily be placed on the demand-side of the equation, enabling recipients of services to pay providers directly. FIF does not seek to become a permanent source of business development services to the financial sector, but rather organize its capacity building programmes in partnership with local service providers. When short-term, specialized international technical assistance is needed for specific capacity building needs, FIF will take a training of trainers approach to partnering the international technical assistance with its strategic partners.

3.3 Technical Assistance to Commercial Banks for Small and Medium Enterprise (SME) Lending:

The FIF would provide a technical assistance package to increase small business lending within and outside of the Kathmandu valley. The technical assistance would be geared at reforming the banks products and procedures, so that they can profitably scale-up their lending operations to small businesses. The financing mechanism (line of credit) will fulfill a very important incentive function in the early months of the project, when the banks have not yet reaped the benefit of the technical assistance. In fact banks need to build large numbers of small loans in order to achieve profitability, and hence sustainability of small business lending. However, they are often reluctant to build such large numbers at the beginning, as they are not yet comfortable with the newly acquired credit methodology.

4. Staffing

The Fund will be managed by either a management team of private individuals or a private company to be hired by the AST. The management team will include a team leader, deputy technical advisor, procurement and financial management experts, an MSME and a microfinance expert, SHG Linkage coordinator and project officers, and support staff.

5. Criteria for Applications from FSPs

Proposals may be made from start-ups, institutions currently operating in the country, or those outside, wishing to start-up operations.

In order to assess the scope for potential investments, the IC applies a set of eligibility criteria for the grants made available, and disseminates information on these to the sector at large via the FIF Secretariat. The criteria are based on Good Practices, and include:

- Firm and demonstrated commitment to full financial sustainability, flexible product development, cost effectiveness and transparency;
- Disciplined management;
- Transparency, with donors, government, clients and the public having the right to know status;

- Reporting and accountability, with regular operational, financial and audit reports;
- Gender and social inclusion considerations, enabling the participation of women and vulnerable groups;
- Governance, sound structures suitable to the institutional type, and largely free from government and political interference;
- Contribution to enhanced access to financial services by the low-income client base, especially in under-served areas of the country.

4.2 Appraisal and Approval of Investments

Proposals received will be scored according to the following criteria:

1. Outreach: change in number of active clients (borrowers/savers);
 2. Portfolio quality: Trend in PaR(30 days);
 3. Profitability: Trend in Adjusted Return on Assets, Financial Self-Sufficiency;
 4. Quality of the governance structure, management and organizational set up (commitment and motivation of the leadership/staff, capacity for planning and management);
 5. Quality of Management information systems and internal controls;
 6. Financial performance and quality of projected financial plan;
 7. Leverage: Amount of funding from other sources (donor grants, savings, loans, equity) over funding requested, and change in value of loans outstanding/savings mobilized over funding requested;
 8. Track record of applicant in producing stated results for requested funds in similar situations;
- Competitiveness: Encourage the entrance of a range of providers to ensure that services offered are competitively priced, and customer responsive;
 - Financial Frontiers, Specialization, Diversity and Innovation: Encouraging expansion of services to under-served rural areas and innovations that reduce transaction costs, provide specialization, and promote product diversity, including introduction of new products such as microinsurance;

FSPs applying should indicate in their proposals if they have a technical partner supporting the proposal, and the funds dedicated to cover the costs of this technical assistance. Technical partners are encouraged to jointly sign proposals with their partner FSPs to indicate mutual commitment to meeting proposed targets.

For proposals that are deemed to meet the selection criteria, the FIF Secretariat will conduct an appraisal/analysis with a recommendation to the Investment Committee prior to the IC's formal review of the funding proposal. To assist in the scoring and appraisal process, the FIF secretariat may hire short-term technical assistance (consultants) as necessary.

5. Reporting to Government

The FIF will provide reporting¹⁸ on an annual basis to The Government of Nepal and international stakeholders on:

- 1) Investments made;
- 2) Results achieved by FSPs based on Good practice performance and financial indicators;
- 3) Constraints and opportunities for further developing the sector;
- 4) Recommended policy changes needed to remove the constraints or seize opportunities.

¹⁸These reports will also be posted on the FIF initiators website with links to programme partners, based on request. Websites will list donor/investor contributions by value of funds committed (in U.S.\$).

ANNEX 4: TERMS OF REFERENCE FOR IMPLEMENTATION OF FUND FOR INCLUSIVE FINANCE

1. Background

The World Bank, UNDP and UNCDF are supporting the Government of Nepal (GON)'s efforts to increase access to financial services especially for urban micro and small enterprises (MSEs) and urban and rural low income households through a USD 30 million Access to Financial Services Project. The project consists of five closely interrelated components:

- (i) A technical assistance fund to strengthen the capacity of financial institutions to expand access to new underserved market segments and to carry out a financial literacy campaign.
- (ii) Technical assistance to support reforms of the legal/regulatory and supervisory framework for microfinance, and the implementation of a secured transactions registry
- (iii) A line of credit for financial institutions interested in serving urban MSE, especially previously unbanked ones
- (iv) Technical assistance to reform state-owned microfinance institutions, i.e., the Rural Self-Reliance Fund and the Regional Rural Development Banks
- (v) Technical assistance to fund a public information campaign, project implementation, monitoring and evaluation

Component (i) will be implemented by the Fund for Inclusive Finance (FIF), which will be managed by a private firm, components (ii) to (v) will be implemented by the Advisory Services Team of Nepal Rastra Bank. These TORs refer to the firm that will manage the FIF.

2. Technical Assistance Provided under the FIF

The Fund will have two windows and part of the USD 14.0 million will be used to cover the management cost of FIF.

MSE lending by commercial and/or development banks and/or finance companies (budget USD 3 million): The objective of this window is to assist selected financial institutions to increase lending to MSEs, especially those that are unbanked. Under this window services in the form of technical assistance would be procured to help financial institutions develop new products and procedures, so that they can profitably scale up their lending operations to MSEs. The technical assistance will include a complete redesign of the loan cycle (from marketing to loan process, loan analysis to monitoring and enforcement), creation of appropriate MSE units, recruitment and training of new staff and introduction of an incentive system for MSE staff.

Selection of financial institutions will be based on financial situation, governance, institutional and management capacity, interest in and commitment to servicing the MSEs, willingness to adopt and mainstream the required policies and procedures, commitment to hire and train new loan officers.. The section will be carried out by a team of NRB staff, FIF staff and an international consultant.

The selected financial institutions, the technical assistance providers and the FIF will sign technical assistance agreements outlining the key tenets of the lending methodology that will be adopted by the financial institutions and identifying minimum targets to be reached during project implementation. These include number and volume of MSE loans disbursed and outstanding to be achieved by a given date and an indicator of portfolio quality.

Under this window FIF will procure only services for the selected institutions. Technical assistance will be provided free of charge for up to two years during the initial project implementation period. Thereafter, FIF and the financial institutions will arrive at a mutually satisfactory cost sharing arrangement. Although the technical assistance will be free of cost for the first period, financial institutions will be required to incur costs (e.g. recruitment of staff, introduction of MIS, payment of incentives, marketing of new products etc.) to implement the new MSE lending technology. Moreover, institutions benefiting from technical assistance will have to refund 20% of the cost of the same if they fail to increase their outstanding loans to MSEs by at least US\$2 million equivalent within 3 years of the date of commencing technical assistance.

Outreach and Innovation (indicative budget USD 8 million): The aim of this window would be to:

- Expand access in remote regions and rural areas and new market segments, including incentives for financial institutions to develop new products such as microinsurance, use technology and partner with existing community groups that want access to credit.
- Enhance the technical capacity of microfinance institutions (FINGOs, credit cooperatives, MFDBs, RRDBs) and about 10,000 SCGs to increase outreach in a sustainable fashion. Technical assistance would be provided to improve accounting and financial reporting, financial planning, MIS, internal controls, product development, such as microinsurance, staff training, rating and auditing.
- Create a market for microfinance business development services by establishing a roster of providers and promoting commercial transactions between these providers and microfinance institutions. Initially grants will enable microfinance institutions to pay business development service providers directly. When short-term, specialized international technical assistance is needed for specific capacity building needs, the FIF will partner international business development service providers with local providers. The FIF will also work to enhance the capacity of private business development services providers to the microfinance industry, for example auditors, IT providers, etc. through specialized trainings.
- Improve the capacity of microfinance provider networks and support organizations to collect, analyze and report data about sector outreach and financial performance.
- Improve financial literacy amongst the Nepali public at large, but especially in remote and rural areas and amongst migrants to be. The campaign will introduce concepts of savings, credit, microinsurance services, interest rates, money transfer methods etc.

Under this window both services and goods will be procured.

FIF will call proposals by the financial institutions. The fund management will pre-screen the proposals to verify compliance with the fund objectives and soundness. The proposals deemed appropriate will be submitted to the FIF board for consideration.

Institutions that have been approved for technical assistance will be rated by an internationally recognized microfinance rating agency, which will set the institutions' baseline in terms of outreach, portfolio quality, profitability/sustainability. In addition, the rating will identify the major operational shortcomings and make recommendations to improve them. This assessment will form the basis for technical assistance agreements that will be signed by the selected institutions, the FIF and the technical assistance providers. These agreements will outline the minimum targets that have to be achieved during project implementation. If the financial institution fails to meet the agreed targets for two quarters, technical assistance will be terminated.

3. Responsibilities of the Technical Service Provider (Management Team)

The objective is to set-up FIF with qualified staff to carry out implementation of the Project effectively and in accordance with Bank and UNDP/UNCDF guidelines or any other procedures set forth by the Bank and UNDP/UNCDF. Specifically, the firm will:

- i. Provide the following interim staff to set-up FIF and conduct its operations: a Chief Executive Officer (CEO), a Chief Operations Officer (COO), a Small business Lending Manager, a Procurement Officer, a Training/ Capacity building Coordinator, and Financial Management/Accountant. Support staff and other field/monitoring staff would be hired by the firm as appropriate;
- ii. Implement a training and on-the-job mentoring program for all FIF staff positions, including management;
- iii. Carry out all activities related to the project necessary for the successful implementation of the Project;
- iv. Follow the Project documents (Project Agreement etc.) as its mandate for the design, preparation and implementation of its work plans;
- v. Prepare an operational manual and establish procedures and criteria for monitoring and evaluation of the project and of the participating PFIs;
- vi. Be responsible for the procurement, accounting and disbursement processes and administrative services related to planning, organizing, coordinating, implementing and monitoring of all aspects of the Project;
- vii. Set-up an accounting and financial management system and prepare quarterly reports, as required, by NRB, GoN, Bank, UNDP, UNCDF and other donors;
- viii. Provide the quarterly progress reports to NRB for consolidation of overall project implementation reporting;
- ix. Utilize project management tools to document and maintain the status of the Project and monitor progress in Project implementation, including the impact of activities in each component;
- x. Facilitate any external evaluation, impact assessment required of the Project, including financial audits;
- xi. Prepare operations policies and principles for FIF future operations

4. Disbursement and Flow of Funds

To facilitate project implementation and disbursement, an account with NRB will be established on terms and conditions satisfactory to the Bank and other donors. The Grant allocation would be deposited in the account for eligible expenditures as identified under the Project. The Firm would maintain a separate identifiable account to be used exclusively for project-related expenditures and retain all supporting documentation for audit purposes and review by the Bank, UNDP, UNCDF, and other donors.

The Firm will develop an accounting and Management Information System (MIS) for managing and monitoring financial and operational aspects of the Project. The information should be as detailed as possible to allow monitoring and evaluation of all aspects of Firm as well as Project operations. The MIS would cover detailed information including (but not limited to):

- i. Administration and operations of each participating institution.
- ii. Capacity building activities and their impact – should include details on activities e.g. terms, outreach, sizes.
- iii. Institution building activities and their impact – should include details of capacity building programs e.g. trainings received, equipment procured.
- iv. Performance indicators against which the implementation experience is measured.
- v. Sector data that would assist in assessing impact

5. Reporting, Accounting, and Auditing

For the financial control of project operations, the Firm would be responsible for keeping the above mentioned up to date data. The Firm would maintain records of accounts (all statement of expenditures, flow of funds) in such manner that they meet the requirements the Bank, UNDP, UNCDF and other donors. The accounts should be prepared in accordance with acceptable accounting principles and must be audited every 6 months, by an independent auditor. Supporting documentation will be maintained and kept by the Firm and made available to the donors and independent auditors as required.

The Firm will prepare quarterly progress reports on the overall project implementation for review by NRB, Bank and other donors.

At the end of the contract period, the firm will prepare a comprehensive project completion report (supported by data) which would include project implementation experience, impact on institutions and clients. The firm will also have to ensure that adequate capacity is available for the FIF to continue for the duration of its 5 years life.

6. Duration of Appointment - 24 months.

7. FIF structure

The AST will hire a firm to manage the FIF. FIF will cease to exist after five years unless the project Steering Committee decides to extend its term. The initial funding from World Bank, UNCDF and UNDP will only be for a period of five years, at least in the first instance. Other donors are welcome to join provided they contribute more than \$500,000 to the FIF during the five years of its existence.

Management: The management of the FIF will be headed by a Chief Executive Officer, who will report to the FIF board. The senior management team will include a Chief Operating Officer, a Small business Lending Manager, a Procurement Officer, and an Accountant, all of which will be Nepali individuals hired according to a certain profile for three years, renewable. For at least the first two years the FIF management will be advised by an in situ international microfinance advisor with worldwide experience. The microfinance expert's role is to ensure that the FIF activities are in line with international best practice. The international expert is being recruited through a separate tender.

ANNEX 5: TERMS OF REFERENCE FOR TECHNICAL UNIT FOR SCG LINKAGES

Background

The World Bank, UNDP and UNCDF are supporting the Government of Nepal (GON)'s efforts to increase access to financial services especially for urban MSEs and urban and rural low income households through a USD 30 million Access to Financial Services Project. The project consists of five closely interrelated components:

- (vi) A technical assistance fund to strengthen the capacity of financial institutions to expand access to new underserved market segments and to carry out a financial literacy campaign.
- (vii) Technical assistance to support reforms of the legal/regulatory and supervisory framework for microfinance, and the implementation of a secured transactions registry
- (viii) A line of credit for financial institutions interested in serving urban MSE, especially previously unbanked ones
- (ix) Technical assistance to reform state-owned microfinance institutions, i.e., the Rural Self-Reliance Fund and the Regional Rural Development Banks
- (x) Technical assistance to fund a public information campaign, project implementation, monitoring and evaluation

While component (i) will be implemented by the Fund for Inclusive Finance (FIF), which will be managed by a private firm, components (ii) to (v) will be implemented by the Advisory Services Team of Nepal Rastra Bank. Savings and Credit Group (SCG) Linkages is one of the activity within outreach and innovation sub-component of component on FIF. SCG Linkage Unit headed by SCG Linkage Coordinator will support the linkages of SCG promoted by UNDP, GOs and NGOs with FSPs/MFIs. This TOR corresponds to the SCG Linkage Unit.

Composition of the Unit:

The unit will be very small and consist of one SCG Linkage Coordinator and two Project Officers. The unit will work under the direct supervision and control of Team Leader/Project Manager, FIF.

Scope of work:

The SCG Linkage Unit will focus on promoting the collaboration between SCG promoted by UNDP/GOs/NGOs and FSPs/MFIs to increase access to microfinance services to credit ready SCGs. More specifically s/he will be responsible, among other, on following.

Inventory of SCGs

- Update inventory of SCGs promoted by UNDP supported programmes prepared under re-alignment of microcredit project,
- Prepare inventory of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes
- Ensure that the inventory prepared/updated will be owned by the microfinance sector involving them in the process

Ratings of the SCGs

- Review/revise the SCG rating tools
- Build the rating capacity within microfinance industry by organising series of Training of Trainers courses on SCG rating tools
- Undertake the rating of SCGs promoted by UNDP and/or other GOs/NGOs supported programmes

Develop the capacity of SCGs

- Undertake the SCG benchmarking on their current status and performance,
- ◆ Support to upgrade booking and accounting system, formulate SCG operation policy, financial management system and decision-making process,
- ◆ Improvement on portfolio quality of the SCGs,
- ◆ Support to develop the capacity of the SCG to be eligible for borrowing from FSPs – based on rating findings,

Policy support on SCG linkages

- ◆ Study on different models of promoting SHG linkages
- ◆ Building on the work started under re-alignment exercises work with NRB to amend the policy on legal provision to FSPs/MFIs to extend a line of credit directly to SCGs.
- ◆ Consultations with potential FSPs/MFIs to involve as partner to extent microfinance services to identified SHGs
- ◆ Devise institutional linkages between SCGs and FSPs/MFIs either indirectly by involving NGOs and other SCG Promoting Institutions as financial intermediaries or direct.
- ◆ Disseminate policy framework and other conditions among UNDP/GOs/NGOs programme and potential FSPs/MFIs.

Technical support to FSPs/MFIs

- Selection of partner FSPs/MFIs
- Assist FSPs/MFI on preparing and/or incorporating SCG linkage banking scheme in their business plan and prepare the project proposal for the project,
- Develop the microfinance products/services suitable to SCGs including wholesale loan product;
- Train the staff of the partner FSPs/MFIs on SCG linkage banking scheme including ratings of SCGs, appraisal loan application, monitoring and technical backstopping support to SCG;
- Review, planning and scale-up;

Technical support to concerned UNDP/GOs/NGOs programme

- Assist concerned programme in rationalizing and selecting staff to serve exclusively as SCG facilitators, and support them to conduct their training as per need on current good practices for facilitation of internal SCGs, including the use of compulsory savings as collateral for loans and interest bearing, withdrawable voluntary savings;
- Following training, establish performance indicators (productivity) and targets for each SCG facilitator and link performance to remuneration and continued employment;
- Assist SCG facilitators in implementing a participatory categorization (segmentation) of existing SCG membership to identify those members that need and can benefit from external credit;
- Facilitate *self-selected* re-organization of current SCG as per the categorization, ensuring that any member leaving a group will have repaid all loans and withdrawn savings;
- Develop transparent criteria for establishing 'credit readiness' by using a simple 'credit assessment' tool adapted to the Project context and facilitate the credit readiness rating of members of SCGs as per demand;
- Compile the results of the credit readiness assessment into a portfolio of potential clients by group, VDC and district. Ensure the presentation of the portfolio of potential clients to registered FSPs active in the project areas;
- Facilitate the successful access by the financially more mature credit-ready SCGs and/or members to services as per demand from registered FSPs/MFIs.

Organisation and Reporting:

The unit will report to Project Manager, FIF through Deputy Technical Advisor and Resident Chief Technical Advisor. The SCG Linkage Coordinator will be entrusted for the successful accomplishment of SCG linkages initiatives and at least 10,000 SCGs will be linked with FSPs/MFIs¹⁹. S/he will be assisted by two Project Officers to serve as his/her assistant. The SCG linkage focal points of UNDP/GOs/NGO supported Projects involved in the SCG linkage exercise will identify a senior staff in their project to serve as SCG Linkage Focal Point, reporting in a simple format to the SCG Linkage Coordinator on a monthly basis. The SCG Linkage Coordinator will hold monthly progress meetings as per need with the SCG Linkage Focal Point of all projects, based on the reports. The SCG Linkage Coordinator will compile the reports into a quarterly progress report to be presented to the Project Executive Group and Outcome Board.

Day to day operation SCG Linkage Coordinator will be supervised by a Project Manager in FIF and Project Executive Group and Outcome Board which meets quarterly to review progress and facilitate implementation at the policy- and agency level. The Project Manager in FIF will serve as Secretariat for the both Committee on matters related to SCG linkages while SCG Linkage Coordinator will prepare and present consolidated quarterly progress reports. Upon completion of the exercise, a final Completion report will be submitted to the Project Executive Group and Outcome Board.

TOR of the Workforce in SCG Linkage Unit:

Post Title: SCG Linkage Coordinator

Duty Station: Kathmandu, with frequent travels in the districts throughout Nepal

Number of Position: One

Responsibilities:

Work under overall guidance and supervision of the Project Manager and Resident Chief Technical Advisor, the SCG Linkage Coordinator will be responsible for all overall implementation of SCG linkages scheme of the project and lead the SCG Linkage Unit. The incumbent will have the following specific responsibilities:

- Prepare and submit a detailed annual work plan for the SCG linkages exercises and implement the exercise as per approved annual work plan;
- Implement the activities related to (i) prepare inventory of SCGs, (ii) ratings of SCGs, (iii) develop the capacity of SCGs, (iv) policy support to NRB on SCG linkages, (v) technical support to concerned UNDP/GOs/NGOs programme and (iv) technical support to selected FSPs/MFIs to implement the SCG Linkage banking scheme.
- Identify UNDP/GOs/NGOs projects to be supported for SCG linkages exercises in close consultation with Project Manager (FIF) and present in Project Executive Group and Outcome Board meeting for approval.
- Identify one senior project staff in each UNDP/GOs/NGOs programme to serve as SCG linkage Focal Point for microfinance component of the concerned programme;
- Develop and disseminate a brief monthly progress report format to SCG linkage focal points of the concerned projects;
- Hold joint monthly meetings as per need with SCG linkage focal points;
- Compile monthly SCG linkages focal point reports into a quarterly progress report and a final Completion report at the end of the project;

¹⁹Available information indicates that there are over 95,000 SCGs with 1465506 members in 10 larger UNDP and GO programmes.

- Present the quarterly progress report at quarterly meeting of the Project Executive Group and Outcome Board;
- Serve as secretariat to SCG Linkages initiatives and ensure that policy and operational level snags in the linkage process are suitably addressed in consultation with key stakeholders including UNCDF, UNDP, and World Bank and Project staff;
- Provide regular briefings and facilitate technical orientation and training of UNDP/GOs/NGOs projects management, SCG linkage focal points in international good practices and principles of microfinance;
- Interact with FSPs/MFIs and microfinance resources in Nepal and facilitate their linkages and contact to the credit-ready clients of the UNDP/GOs/NGO supported projects;
- Perform any other relevant work, as per the requirements of the task or as assigned.

Qualifications and Experiences

- University degree from a reputable institution in finance, economics or a related social field, and will have at least 10 years of relevant, practical working experience on microfinance.
- A dynamic, results-oriented and self-motivated personality with a sense of initiative,
- Documented deep technical knowledge and experience in Microfinance Good Practices, including linkage banking scheme;
- In-depth familiarity with facilitation of SCGs capacity building and Self-Help Group based micro-lending methodology;
- Strong commitment and believe on SCGs led community based microfinance operation,
- Demonstrated experience in development project planning, implementation and monitoring;
- Strong inter-personal and human resource development skills – training and facilitation skills will be a distinct advantage;
- Excellent organizational, communication and administrative skills, including solid experience in financial projections and management;
- Fluency in written and spoken English, excellent computer skills.
- Familiarity with UN/UNDP/UNCDF and World Bank rules and procedures is an advantage.

Post Title: Project Officer

Duty Station: Kathmandu, with frequent travels in the districts throughout Nepal

Number of position: Two

Responsibilities:

Work under overall guidance and supervision of the Project Manager (FIF), the Project Officer will be responsible for all overall implementation of SCG linkages scheme of the project in the field. The incumbent will have the following specific responsibilities:

- Assist to prepare a detailed annual work plan for the SCG linkages exercises and implement the exercise as per approved annual work plan;
- Assist to implement the activities to (i) prepare inventory of SCGs, (ii) ratings of SCGs, (iii) develop the capacity of SCGs, (iv) policy support to NRB on SCG linkages, (v) technical support to concerned UNDP/GOs/NGOs programme and (iv) technical support to selected FSPs/MFIs to implement the SCG Linkage banking scheme.
- Support to prepare the monthly progress report,
- Conduct on-site monitoring and supervision of SCG linkage scheme,
- Perform any other relevant work, as per the requirements of the task assigned by the SCG linkage coordinator.

Qualification:

- Graduate in economics or finance and training on best practices on microfinance operation
- Demonstrated 3-5 years relevant, practical working experience within community based microfinance,
- Documented deep technical knowledge and experience in Microfinance Good Practices, including linkage banking scheme;
- In-depth familiarity with facilitation of SCGs and Self-Help Group methodologies.
- Fluency in written and spoken English, excellent computer skills.
- Familiarity with UN/UNDP/UNCDF and World Bank rules and procedures is an advantage.

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ANNEX 6: RISK LOG, ISSUES LOG AND COMMUNICATION PLAN OF THE PROJECT

RISK LOG

ID	Type	Date Identified / Authors	Description	Comments	Status	Status Change Date	Counter Measures	Owner
1	Political	March 2007 and June 2008 / Project Formulation Mission	Volatility of field situation	Political direction after assembly polls not yet clear.	The situation is currently sensitive	-	-	Responsible GON
2	Organisational	March 2007 / Project Formulation Mission	Donor coordination	Involvement of three donors	All three donors aware of the situation	-	-	Project Executive Board
3	Security	November 2007 / Project Formulation Mission	Social unrest especially in Terai districts	-	Regular disruption of normal life	-	-	Project Executive Board
4	Operational	November 2007 / Project Formulation Mission	Poor technical capacity of MFIs	-	Capacity issues	-	-	Project Director
5	Financial	-	Project funding after July 2008	Need for resource mobilisation	World Bank involvement	October 2008	-	GON
6	Environmental	-	-	-	-	-	-	-
7	Strategic	March 2007 / Project Formulation Mission	Lack of comprehensive microfinance policy	Many microfinance policy currently exist	-	-	-	-
8	Regulatory	March 2007 / Project Formulation Mission	Lack of MFI friendly laws	-	-	-	-	Project Director
9	Legal	-	-	-	-	-	-	-
10	Technical	March 2007 / Project Formulation Mission	Policy on linkages and community based banking	Linkages and community based banking is yet new	Realization among key stakeholders on Linkages and community based banking	March 2008	-	Project Executive Board

ISSUES LOG

ID	Type	Date Identified	Description and Comments	Status	Status Change Date	Author
1	Problems Project design	March 2007	Project designed based on parallel funding approaches and quite innovative.	Issues discussed at various	June 2008	Design team
	Management	March 2007	Most of the activities to be done through service provide and clearance from concerned stakeholder on contract out may take time.	Orientation on project concept	Dec. 2008	Design team
	Coordination and understanding	November 2007	Willingness of key stakeholders actively participate on project activities,	Orientation to stakeholders	Dec. 2008	UNDP Nepal
2	Change Project concept	November 2007	Establishment and management of Fund for Inclusive Finance	Education on smart subsidy	Dec. 2008	Design Team
	Attribution of contribution	October 2007	Some donors keen to separate their outputs and outcomes	Orientation on aid harmonization and SWAP modality	Dec. 2008	UNDP Nepal
3	Other Attitude	March 2007	Procurement of services being questioned by executing agency	Orientation	June 2008	Design team

Communication and Monitoring Plan

Actions	Type of Action	Stakeholders	Due By	Completed On	Status
Annual review	Review project implementation status against annual target	MOF, World Bank, NRB, UNDP and UNCDF	December each year	-	NA
Annual report (PIR)	Document annual progress against targets	MOF, World Bank, NRB, UNDP and UNCDF	December 15, each year	-	NA
Audit	Assess financial compliance	MOF, World Bank, NRB, UNDP and UNCDF	1 st quarter of next financial year	-	NA
Donor Report	Report project performance and financial status	World Bank, UNDP and UNCDF	December 15, each year	-	NA
Final Evaluation	Assess the extent to which project has achieved design outputs and outcomes	MOF, World Bank, NRB, UNDP and UNCDF	December 2012	-	NA
Mid-term evaluation	Assess relevance of project design, likelihood of success and identify the required revision (if any)	MOF, World Bank, NRB, UNDP and UNCDF	February 2011	-	NA
Monitoring visit	Quality assurance/control and project benefit monitoring and evaluation	FSPs, MOF, World Bank, NRB, UNDP and UNCDF	Every quarter	-	NA
Work-plan	Annual work-plan preparation	FSPs, MOF, World Bank, NRB, UNDP and UNCDF	December each year	-	NA
Workshop	Fund for Inclusive Finance and contemporary issues on microfinance operation	FSPs, microfinance clients, MOF, World Bank, NRB, UNDP and UNCDF	TBD	-	NA

Note: NA = Not applicable, TBD = to be decided

ANNEX 7: Human Resource Plan and Procurement Plan for 2008 (July to December)

Human Resource Plan for 2008 (July to December)

Name of the Project: Enhancing Access to Financial Services (Building Inclusive Financial Sector in Nepal)

S.N.	Description of goods, services or works	Unit of Measure	Quantity	Budget Description	Budget	Responsible party	Estimated Delivery date	Remarks
1	Resident Chief Technical Advisor	No.	1	UNCDF	71200	UNCDF HQ	November 1, 2008	
2	Deputy Technical Advisor	No.	1	UNCDF	71300	UNDP HR Unit	November 1, 2008	
3	Microfinance Advisor	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
4	Savings and Credit Group Linkage Coordinator	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
5	Finance, Operations and Procurement Specialist	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
6	Project Officers	No.	2	UNDP	71300	UNDP HR Unit	November 1, 2008	
7	Admin./Finance Associate	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
8	Procurement Associate	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
9	Secretary	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
10	Drivers	No.	2	UNDP	71300	UNDP HR Unit	November 1, 2008	

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Procurement Plan for 2008 (July to December)

Name of the Project: Enhancing Access to Financial Services (Building Inclusive Financial Sector in Nepal)

S.N.	Description of goods, services or works	Unit of Measure	Quantity	Budget Description	Budget	Responsible party	Estimated Delivery date	Remarks
A	Procurement of services (human resources)							
1	Resident Chief Technical Advisor	No.	1	UNCDF	71200	UNCDF HQ	November 1, 2008	
2	Deputy Technical Advisor	No.	1	UNCDF	71300	UNDP HR Unit	November 1, 2008	
3	Microfinance Advisor	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
4	Savings and Credit Group Linkage Coordinator	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
5	Finance, Operations and Procurement Specialist	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
6	Project Officers	No.	2	UNDP	71300	UNDP HR Unit	November 1, 2008	
7	Admin./Finance Associate	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
8	Procurement Associate	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
9	Secretary	No.	1	UNDP	71300	UNDP HR Unit	November 1, 2008	
10	Drivers	No.	2	UNDP	71300	UNDP HR Unit	November 1, 2008	
B	Procurement of equipments and furniture	Set	10	UNDP		UNDP Procurement unit	November 1, 2008	
C	Procurement of services							
1	International consulting firm for rating of FSPs	No	1	UNCDF		UNDP Procurement unit and Investment Committee (IC) of FIF	December 30, 2008	
2	Local consulting firm/individuals for preparing inventory of SCGs	No	1	UNDP		UNDP Procurement unit and IC of FIF	December 30, 2008	
3	Local consulting firm/individuals for SCGs ratings	No	1	UNDP		UNDP Procurement unit and IC of FIF	December 30, 2008	
D	Procurement of vehicles	No	2	UNDP / UNCDF		UNDP Procurement unit	November 1, 2008	
E	Procurement of motor-cycle	No	1	UNDP		UNDP Procurement unit	November 1, 2008	

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