

# MEM 203: Micro Finance

*Credits 3*  
*Lecture Hours: 48*

## **Course Objective**

The main purpose of this course is to acquaint students with the role and significance of micro-finance in the development of a poor country like Nepal. Besides, it also provides with the products and services and functions of micro-finance institutions operating in Nepal.

## **Course Description**

This course contains introduction, micro-finance products and services, micro-finance in Nepal, micro-finance policy, legal and regulatory framework, wholesales lending micro-finance institutions, Risks in Micro-finance Institutions, Micro-finance and Development, Activities of Micro-finance Institutions in Nepal.

## **Course Details**

### **Unit 1: Introduction**

**LH 5**

Concept and nature of micro-finance; Evolution of micro-finance; Growth of micro-finance industry; Micro-finance and related terms micro credit, microcredit loans, sustainable microfinance, micro saving, micro finance institution (MFI), micro insurance, micro finance services, micro finance products, micro enterprise, microfinance clients and agriculture micro finance; Difference between micro-finance and micro credit

### **Unit 2: Micro-finance Products and Services**

**LH 3**

Concept and nature of micro-finance products and services; types of micro-finance products – micro credits, micro savings, micro insurance, Pension and provident fund and payment transfers; Types of micro-finance services – financial intermediations, social intermediations and social services

### **Unit 3: Micro-finance in Nepal**

**LH 7**

Evolution of micro-finance in Nepal; Micro-finance credit lending models – association model, community banking model, cooperative model, credit union model, rural joint liability group model, self-help group (SHG) model and village banking model; Micro-finance models in Nepal – cooperative model, small farmers cooperative model, rural development bank model, SHG or community-based organization (CBO) model and village bank model; National Micro-finance Policy, 2005

### **Unit 4: Micro-finance Policy, Legal and Regulatory Framework**

**LH 6**

Micro-finance policy; MF regulatory authority and institutions – Nepal Rastra Bank (NRB), Department of Cooperatives (DoC), Laws and regulations – Nepal Rastra Bank Act, Bank and Financial Institutions Act, Cooperative Societies Act, Financial Intermediaries Act, NRB Directives for MFIs

### **Unit 5: Wholesale Lending Micro-finance Institutions**

**LH 7**

Rural Self-reliance Fund (RSRF); Rural Micro-finance Development Centre Ltd. (RMDC); Small Farmers Development Bank Ltd. (SFDBL); Commercial Banks (CBs); The four-tier apparatus – tier I SHGs, tier II NGOs, tier III micro finance institutions (MFIs and Non Banking Finance Companies) and tier IV NBFCs and cooperatives

**Unit 6: Risks in Micro-finance Institutions****LH 7**

Concept and nature of micro-finance risks, Risks in MFIs – functional, financial and external risks; Functional risks – mission drift, staff fraud, inefficient performance, inefficient tracking system of loans, overdependence on donors and staff turnover; Financial risks – interest rate risk and foreign exchange risk; External risks – calamities, market speculation, market competition, theft and government policies; Strategies for risks minimization – securitization, controlling internal frauds, developing effective MIS, efficient human resource management, disaster risk management, developing secured cash transportation, disbursement and collection system and hedging

**Unit 7: Micro-finance and Development****LH 5**

Role of micro-finance in development; Women empowerment; Health; Micro entrepreneurs and enterprise development; Handicrafts and handloom and cottage industry development; Agri-industry and agriculture development; education development; Networking and linkage building

**Unit 8: Activities of Micro-finance Institutions in Nepal****LH 6**

Overview of micro-finance institutions (MFIs) in Nepal; Major MFIs in Nepal and their programs – Agriculture Development Bank Ltd, commercial banks (NBL and RBB), Rural Micro-finance Development Center (RMDC), and Rural Development Banks; Micro-finance programs of major MFIs – Small Farmer Development Program (SFDP), SFDP's Institutional Development Program, Intensive Banking Program, Women Development Program, Saving and Credit Programs, Production Credit Program for Women, Women Awareness Program, Banking with the Poor and Cottage and Small Industry Development Program

**Basic Books**

Shah, R. K., *Micro Finance in Nepal*, New Delhi: Serials Publications

**Reference Books**

Baral, S.K. and Bihari, S.C. *Rural Marketing and Micro Finance: Text and Cases*, New Delhi: A.I.T.B.S. Publishers, India

The Banking with the Poor Network, *Micro Finance Industry Report Nepal*, Singapore: BWTP

Ledgerwood, Joanna (ed), *The New Micro Finance Handbook: A Financial Market System Perspective*, Washington D.C.: The World Bank

Shrestha, Shanker Man, *State of Micro Finance in Nepal*, Dhaka: Institute of Micro Finance