WEBINAR ON
Micro, small and medium-sized enterprises’ access to finance in Nepal
05 Oct 2020, Monday
11:00 AM NPT
**Opening remarks**
Mr. Richard Howard, United Nations Resident Coordinator, a.i. Dr. Narayan Regmi, Joint Secretary, Ministry of Industry

**Session 1: Presentation of the report – Main findings and recommendations**
Mr. Alberto Isgut, Economic Affairs Officer, UNESCAP
Mr. Achyut Hari Aryal, Study Team Leader

**Session 2: MSME Finance under COVID-19 and its aftermath – Impact of recent measures and the way forward**
Mr. Prakash Kumar Shrestha, Executive Director, Nepal Rastra Bank

**Session 3: Digital innovations in MSMEs access to finance**
Mr. Rajeev Kumar Gupta, MSME Lead, UNCDF

**Session 4: Credit infrastructure mechanisms to enhance MSMEs access to finance: Global examples**
Ms. Mimu Raghubanshi, Nepal Country Coordinator, Good Return
Ms. Fifi Rashando, Impact Investment Manager, Good Return

**Questions and Answers**

**Key take-aways and concluding remarks**
Ms. Deanna Morris, Programme Management Officer, Catalysing Women’s Entrepreneurship, UNESCAP
Ms. Tientip Subhanij, Chief, Financing for Development Section, UNESCAP
Session 1: Main findings and recommendations of the study
ESCAP’s MSME Financing Series

Micro, Small and Medium-sized Enterprises’ Access to Finance in Asia and the Pacific

In the developing countries of Asia-Pacific region, micro, small and medium-sized enterprises (MSME) represent on average, 96 per cent of all enterprises, 62 per cent of the labour force and 42 per cent of the GDP. Their development, both through the growth of individual businesses and through the emergence of new start-ups, contributes significantly to economic growth, the creation of jobs, and the development of skills.

MSMEs, however, are often constrained in their access to finance. In the microenterprise segment, microfinance institutions usually...
A STUDY REPORT ON
ACCESS TO FINANCE OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN NEPAL
Study Team from IIDS:

1. **Team Leader:** Mr. Achyut Hari Aryal
2. **Advisor:** Mr. Madan Sharma
3. **Senior Statistician:** Mr. Dharmendra Lekhak
4. **Economist:** Ms. Binisha Nepal
Context and Rationale of this Study

- Micro, small and medium enterprises (MSMEs) are key players on agriculture and other value chain finance as they are the important engines for innovation, economic growth and job creation.
- But they often encounter difficulties in accessing finance.
- Governments and related agencies over the years have been setting up mechanisms to facilitate the flow of finance.
- The result has been an increase in financial inclusion but the extent to which the financing gap has been reduced is not well known.
Objectives of the Study

The overall objective of the study on MSMEs access to finance was to answer difficulties in accessing finance. The specific objectives were to study, analyze and recommend on:

- The gap between financing needs and access to credit and harnessing full potential for MSMEs and financial constraints for these enterprises
- Difficulties faced by the supply side while catering to MSMEs financial needs and demand side while asking for loans
- The difficulties faced by women entrepreneurs and women led MSMEs to access finance, availability of special provisions for women entrepreneurs and ways to support them
- Use of FinTech and digital finance in increasing access to finance
Study Framework

Study was carried out by following "A Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific (v.1)“ prepared by UNESCAP. The study framework includes the following key contents to guide the scope of study:

- Financial access for MSMEs
- Policy and regulatory framework
- Lending infrastructure and support
- Dedicated banks and funds
- Equity and related support
- Financial Technology (FinTech)
- Business models and partnerships
- Demand-side support
Methodologies used

- Desk review using secondary data
- Primary information collection from banks, MFIs, Entrepreneurs, Business houses and Municipalities through Key Informant Interview (KII)s and Focus Group Discussions (FGDs)
  - Eleven entrepreneurs of MSMEs in the Far-Western and Eastern part of the country
  - Three MFIs including visit to branch office of Nirdhan in Ilam
  - SMEs department of three commercial banks in Kathmandu and two branches of other commercial banks during field visit
  - Two municipality offices
  - An access to finance program-Sakchyam
FINDINGS
MSMEs in Nepal

- As per National economic census 2018, there were 923,356 establishments operating in Nepal in 2018:
  - 95.5 per cent of micro enterprises,
  - 4.2 per cent small enterprises,
  - Remaining medium and big-sized enterprises.
- Only half of them were registered.
- This sector employed 84.7% of labour force in Nepal
- Employees are predominantly men with male-female ratio of 62:38.
- Gender disparity is higher for ownership and managerial positions where male-female ratio is roughly 73:27
Global Scenario

- There are about 365-445 million MSMEs in emerging markets:
  - 25-30 million are formal SMEs,
  - 55-70 million are formal micro,
  - 285-345 million are informal enterprises
- Half of them do not have credit access
- Financing gap of USD 5.2 trillion in those MSMEs
- A report published by UN Department of Economic and Social Affairs confirms that MSMEs can contribute to all most all sustainable Development Goals
Potential causes for such gap:

- Severe information asymmetries
- Prevalence of informal business practices
- High costs of underwriting relative to available margins
- Heterogeneity of the market
- Impediments to MSMEs growth and productivity
- Lack of adequate skills and capacities at the entrepreneur’s end and
- Regulatory constraints.
Financing Gap in MSMEs in Nepal

A total of USD 3.56 billion) financing gap is found in Nepal for MSME.

- Micro Enterprises (MEs) financing gap : USD 2.5 billion
- Small and Medium Enterprises (SMEs) financing gap - USD 1.06 billion

This gap is in line with the ADB’s 2018 Comprehensive Assessment of the SME Sector in Nepal.
## Financial Gap in the MSMEs in Nepal

<table>
<thead>
<tr>
<th></th>
<th>Micro enterprises</th>
<th>Small enterprises</th>
<th>Medium-sized enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of Enterprises</strong></td>
<td>880,254</td>
<td>38,737</td>
<td>2,253</td>
<td>921,244</td>
</tr>
<tr>
<td><strong>% of enterprise with no credit access</strong></td>
<td>64.4</td>
<td>67.5</td>
<td>47.1</td>
<td></td>
</tr>
<tr>
<td><strong>Estimated financial needs per enterprise (NRP, million)</strong></td>
<td>0.5</td>
<td>2.5</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td><strong>Estimated financial needs per enterprise (USD)</strong></td>
<td>4,439</td>
<td>22,195</td>
<td>443,892</td>
<td></td>
</tr>
<tr>
<td><strong>Estimated financial gap (NRP, million)</strong></td>
<td>283,442</td>
<td>65,369</td>
<td>53,058</td>
<td>401,869</td>
</tr>
<tr>
<td><strong>Estimated financial gap (USD, million)</strong></td>
<td>2,516</td>
<td>580</td>
<td>471</td>
<td>3,568</td>
</tr>
<tr>
<td><strong>Share in the financial gap (%)</strong></td>
<td>70.5</td>
<td>16.3</td>
<td>13.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Harnessing Optimum MSMEs Portfolio

- Nepal is not able to harness its optimum portfolio in MSME even in the current regulatory framework
  - Current SMEs portfolio of commercial Banks: merely five percent for majority of the banks
  - Commercial banks have shown their intention to go up to ten percent for SMEs
- Current MEs portfolio of MFIs: around 13 percent
  - MFIs are allowed by NRB to go up to thirty three percent
- Harnessing of optimum portfolios can provide up to NRs. 129 billion (NRs 31 Billion from MFIs and NRs 98 Billion from banks) – (USD 1.15 Billion) within existing policy and willingness

This will help meet one third of current gap!
Missing Middle

- MSMEs Entrepreneurs requiring medium to long-term financing
- Too big for microfinance but too small and even too risky for commercial banks.
- Current minimum loan size of Commercial Banks - NRs 2.5 million - few have less than that but mostly for non-funded facility (guarantee, LOC etc.)
- Current average size of ME loan is less than NRs 300,000 (even though they can go up to NRs 700,000) but the average need of ME entrepreneurs is NRs 500,000
- NRs 1.5 million loan for women entrepreneurs without collateral is in theory only.
Key issues for Missing Middle

- Costs consideration to commercial banks to reduce the SME loan size
- Lack of adequate guidelines and tool for women entrepreneurs loan
- Capacity constraints at MFIs to manage larger size ME loans
- Lack of appropriate credit/financial appraisal tools to cover diverse areas of SME
- Collateral issues
- MSMEs in most of the cases are diverse in terms of their activities, objectives, and loan size and difficult to understand growth potential.
- MSME entrepreneurs lack expertise and face capacity constraints
MSMEs Ecosystem

- A comprehensive ecosystem for MSMEs financing is very important to improve financing opportunity for MSMEs
- Following are some of the elements of ecosystem that are largely missing in Nepal
  - Effective institutional arrangement in BFIs and their regulatory system
  - Separate department at NRB
  - Supportive schemes such as credit guarantee fund, insurance arrangement as there are risk associated in MSMEs
  - Providing avenues for MSMEs to seek information, advice and redress as well as assistance through debt resolution and management programs
  - Forward linkage for value chain support and financing- Bhat Bhateni, Salesberry, Big Mart etc.
  - Venture capital financing for MSMEs
Financial Technology that are used in Nepal that helps MSMEs

- Branchless Banking
- Mobile banking
- Internet Banking customer
- ATM
- Debit/credit holders
- Digital wallet
- Tablet Banking

Most of these Fintech are not specifically focused to MSMEs and these technologies are mostly used by urban dwellers
Few other demand Side Initiatives that can support MSME

- Financial Literacy using technology-IVR with short messages
- Small Video clip on financial and business literacy
- Establishing MEDPA unit in all 753 local government levels
RECOMMENDATIONS
1. Improving Financial access for MSMEs through enabling policy and regulatory environment

1.1 Easing Collateral requirements:

- Use the local market value of the assets rather than making the access road mandatory
- Each bank should prepare guidelines and necessary tools to appraise loan for women entrepreneurs without physical collateral following the NRB framework
1.2 Harnessing optimal MSMEs loan portfolio both at MFIs and Commercial banks

- Separating loan size between group loan and ME loan at MFI level
- Mandate all banks to maintain at least 10 percent of the portfolio in SME (this has been addressed by recent monetary policy)
  - At least three percent for non-collateralized loans of which
  - Up to fifty percent of the non-collateralized SME loans for women entrepreneurs
- Maintain record of MSME portfolio at bank and publish it regularly

1.3 Simplifying (easing) tax requirement for MSME entrepreneurs

- Differentiated tax bracket and simplified tax system
2. Lending infrastructure and support

2.1 Promoting Ecosystem for MSMEs

- Exploring possibilities of establishing a separate division at NRB for MSMEs
- Policy and regulatory support for BFI for MSMEs lending
  - Example relaxing in provisioning, differentiating spread rate etc.
- Strengthening the MEDPA units at local government level to perform as MSMEs capacity strengthening unit
- Institutionalizing Guarantee mechanism to support MSMEs - Initiative taken by Sakchyam with the strategic guidance from UNCDF should continue.
- Promoting mandatory micro insurance scheme for entrepreneurs of MSM
  - Provision of premium subsidy for women entrepreneur using CSR fund
- Linking MSME with big markets for MSMEs value chain and easing financing constraints
- Involving credit rating agency with appropriate regularity framework
3. Financial Technology (FinTech)

3.1 Expanding FinTech targeting to MSME that can also help review borrowers’ past loans performance

- Expanding Tablet/Smartphone banking
- Internet Banking for MSME borrowers
- Use of Social Media for KYC and loan appraisal
- Open source system for financial services with application programming interface to serve multiple institutions and millions of people
4. Demand side support

4.1 Using technology for financial literacy—Media, social network, IVR

4.2 Developing short video/audio on financial literacy (complete package) and telecasting it through TV/Radio by encouraging all TV/Radio stations to use their CSR for broadcasting/telecasting this.
Session 2:
MSME Finance under COVID-19 and its aftermath – Impact of recent measures and the way forward
MSME Finance under Covid-19 and its aftermath: Impact of recent Measures and the way forward

Prakash Kumar Shrestha, PhD
Executive Director
Microfinance Institution Supervision Dept.,
Nepal Rastra Bank
Outline

• Covid-19 and its impact on MSMEs
• Recent measures for MSME finance
• Impact and the way forward
Covid 19 and its impact on MSMEs

• Nepal has been suffering from Covid-19 since March 2020.
• Although partially opening up economy now, the spread of corona virus still obstructing economic activities.

Results of Online Survey of Industries and Enterprises (by NRB):
Conducted during 8 June to 24 June 2020; 674 Respondent (Respondents) from 52 districts

<table>
<thead>
<tr>
<th>Sector</th>
<th>Full Operation</th>
<th>Partial Operation</th>
<th>Not in operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry &amp; Fishing</td>
<td>31.58</td>
<td>52.63</td>
<td>15.79</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>16.67</td>
<td>66.67</td>
<td>16.67</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.69</td>
<td>60.16</td>
<td>34.15</td>
</tr>
<tr>
<td>Electricity gas and water</td>
<td>0</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Construction</td>
<td>4.17</td>
<td>37.5</td>
<td>58.33</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>2.11</td>
<td>40</td>
<td>57.89</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.8</td>
<td>7.21</td>
<td>90.99</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>0</td>
<td>23.53</td>
<td>76.47</td>
</tr>
<tr>
<td>Communication</td>
<td>27.27</td>
<td>45.45</td>
<td>27.27</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>0</td>
<td>11.11</td>
<td>88.89</td>
</tr>
<tr>
<td>Education</td>
<td>0</td>
<td>4.26</td>
<td>95.74</td>
</tr>
<tr>
<td>Health and social work</td>
<td>23.08</td>
<td>69.23</td>
<td>7.69</td>
</tr>
<tr>
<td>Other Sectors</td>
<td>6.25</td>
<td>15</td>
<td>78.75</td>
</tr>
<tr>
<td>National Average</td>
<td><strong>4.05</strong></td>
<td><strong>34.92</strong></td>
<td><strong>61.03</strong></td>
</tr>
</tbody>
</table>
Covid 19 and its impact on MSMEs

### Operational Status

<table>
<thead>
<tr>
<th></th>
<th>Full Operation</th>
<th>Partial Operation</th>
<th>Not in operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cottage</td>
<td>2.74</td>
<td>33.56</td>
<td>63.7</td>
</tr>
<tr>
<td>Micro Industry / Small retail trade</td>
<td>5.9</td>
<td>32.29</td>
<td>61.81</td>
</tr>
<tr>
<td>Small (&lt;Rs. 15 Crore)</td>
<td>7.64</td>
<td>28.66</td>
<td>63.69</td>
</tr>
<tr>
<td>Medium (15&lt; 50 Crore)</td>
<td>5.56</td>
<td>50</td>
<td>44.44</td>
</tr>
<tr>
<td>Large (&gt; 50 crore)</td>
<td>6.9</td>
<td>44.83</td>
<td>48.28</td>
</tr>
</tbody>
</table>

### Employment Status

<table>
<thead>
<tr>
<th></th>
<th>% of employment Cut</th>
<th>% of Contract / Temporary Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cottage</td>
<td>30.52</td>
<td>64.52</td>
</tr>
<tr>
<td>Micro Industry / Small retail trade</td>
<td>27.80</td>
<td>73.67</td>
</tr>
<tr>
<td>Small (&lt;Rs. 15 Crore)</td>
<td>20.96</td>
<td>55.93</td>
</tr>
<tr>
<td>Medium (15&lt; 50 Crore)</td>
<td>16.93</td>
<td>60.00</td>
</tr>
<tr>
<td>Large (&gt; 50 crore)</td>
<td>13.98</td>
<td>45.00</td>
</tr>
</tbody>
</table>
Covid 19 and its impact on MSMEs

Problems faced during Lockdown

<table>
<thead>
<tr>
<th>Problem</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>77.15</td>
</tr>
<tr>
<td>Problem in Sales</td>
<td>61.13</td>
</tr>
<tr>
<td>Lack of Demand</td>
<td>51.78</td>
</tr>
<tr>
<td>Lack of Raw Material</td>
<td>30.27</td>
</tr>
<tr>
<td>Lack of Labour</td>
<td>25.22</td>
</tr>
</tbody>
</table>

Expectation of Industries / Enterprises

<table>
<thead>
<tr>
<th>Benefit</th>
<th>% Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate reduction</td>
<td>76</td>
</tr>
<tr>
<td>Flexible Repayment Installment</td>
<td>57.9</td>
</tr>
<tr>
<td>Reduction in Income tax</td>
<td>54.7</td>
</tr>
<tr>
<td>Additional working capital loan</td>
<td>49.7</td>
</tr>
<tr>
<td>Extension of loan repayment period</td>
<td>47</td>
</tr>
</tbody>
</table>
Recent measures for MSME finance

In Government’s budget for FY2020/21

• Interest subsidy lending at 5% interest rate (Rs. 13.96 billion budget for interest subsidy)
• Separate Fund of Rs. 50 billion for Covid-19 Impacted Business and Industries, fund is available at 5%.
• Establishment of Innovation fund of Rs. 500 million to provide concessional loans @ 2% interest,
• Rebate on Income tax: 75% for MSMEs with turnover of Rs. 2 million, 50% for turnover between Rs. 2 – 5 million, 25% for turnover of Rs. 5-10 million. And 20% for Tourism Industry related business
Recent measures for MSME finance

In Monetary Policy for FY2020/21

• Loose monetary policy stance
  • Reduction of CRR from 4% to 3%
  • Reduction of Bank rate from 6% to 5%
  • Reduction of Repo Rate from 4.5% to 3.5%
• Reduction of interest rate by 2 percentage point from the rate existed in April for the last quarter of 2019/20. (3% point reduction by MFIs)
• No fees on digital payments (ATM, mobile banking, internet banking, wallet etc)
• Repayment time and Grace period extension as per the degree of impacts-2 years for tourism sector.
• Increment of CCD (Credit to capital and deposit) ratio from 80% to 85%.
• Status quo on loan loss classification.
• Restructuring and Rescheduling facility until mid-Jan 2021 for BFIs.
Recent measures for MSME finance

In Monetary Policy for FY2020/21

- **Refinance facility of Rs. 100 billion** (provision of increasing more than that) availing at very concessional rate (1% for export, 2% for MSMEs and 3 % for other).
- 10 percent of total fund is also available for Microfinance Institutions.
- Provision of increasing credit flows to agriculture, energy and MSMEs.
- By mid- July 2024, credit to MSMEs (Rs. 10 million and less) should be 15% of total portfolio of commercial banks.

<table>
<thead>
<tr>
<th>Mid July 2021</th>
<th>Mid-July 22</th>
<th>Mid-July 23</th>
<th>Mid-July 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>12%</td>
<td>14%</td>
<td>15%</td>
</tr>
</tbody>
</table>

- Development banks and Finance Companies have to also increase their loan portfolio to 20% and 15 % respectively by mid-July 2024 including agriculture, cottage, MSMEs, energy and Tourism.
Recent measures for MSME finance

**In Monetary Policy for FY2020/21**

- Increasing the limit to Rs. 1.5 million for lending against collateral by MFIs.
- Allowing MFIs to open branches at ward level of municipality.
- Cap on processing service fees (Commercial banks 0.75%, development banks 1%, finance companies 1.25% and MFIs 1.5%)

**New Regulations**

- Each branch of commercial bank should lend at least 10 loans (total at least 500) and each branch of national level development bank should provide at least 5 loans (total 300) of interest subsidy concessional loan. Other development banks and finance companies should lend minimum 200 and 100 loans respectively such loans.
- No tax clearance certificate needed for loan up to Rs. 5.0 million (Directive no. 2-31 page 111).
- PAN is needed only to provide loan above Rs. 5.0 million to individuals.
Impact of Recent measures for MSME finance

• Interest rates are declining

• Loanable fund is increasing

Interbank rate
Way forwards for MSME finance

• Meeting unmet demand for credit of MSMEs, but finance is just one of the problems facing by MSMEs.
• Uniform definition of MSMEs used by all stakeholders is needed.
• Quality data on MSME finance.
• Utilizing the available finance – mainstream banks, microfinance institutions and Cooperatives
• Formalization (one-window registration) and Capacity building (i.e. Accounting, documentation etc.) of MSMEs.
• Financial literacy, financial education and financial management.
• Professionalization, specialization, commercialization and modernization.
• In-depth study on MSMEs – identifying problems and solutions.
Session 3:
Digital innovations in MSMEs
access to finance
Different UNCDF portfolio solutions for enterprises

Digital Marketplace/ E-Commerce platforms

Loan/ Payment/ E-wallet App/platform

Financial/Digital Literacy App/Services

Book keeping App/Services

Alternate Credit Scoring

P2P/ Crowdfunding

PayGo

Inventory management app

Payment

Receivables/ Supply Chain Finance

Enterprise promotion

FSP TA and financial linkages

Individual and Institutional Agents

Wealth Management app

Logistics Expansion

Psychom... Tests

Digital Tokens

E-ticketing platform

e-KYC

Contract finance
MSME IDE Strategy – Build Back Better

**Formalization**
- Payments as channels to digitization
- Digitisation of local government issued trade licenses
- Leveraging digital transaction platforms for registrations

Almost 60 per cent of the world’s employed population works in the informal economy. Mobile money facilitates transition to formal economy.

**Alternate Investment Platform**
- Risk Management products for resilience
- Crowdfunding and digital solutions
- Capital Markets based blended solutions

Upscaling P2P, crowdfunding, digital market place, receivables, supply chain, etc.. Promoting more investor linked MSME portfolio investments through private placements or alternate trading platforms. Banks, MFIs, FinTech partnerships, open APIs, Alternate credit scoring mechanisms etc. Data and research based product development for FSPs financing to MSMEs. Blended Finance mechanisms

**Digital Transformation**
- Digitisation of sales and marketing
- Financial and business transactions led Digitisation
- Digital and Business Capacity Enhancements
- Data value proposition

Development of digital apps, training modules, videos and use of social media channels and digital networks led intervention. Digital Transformation Capacity Enhancement services based in HCD. Book keeping, inventory digitization, supply chain digital transaction etc. E-commerce, marketing and sales platforms through various social and interactive digital platforms
DAIRY SUPPLY CHAIN INTERVENTION

DAIRY SUPPLY CHAIN

Small Holder Dairy Farmers → Collection Center/Small Cooperatives → Milk Cooperatives/Chilling Units → Dairy Processing Unit

UNCDF INTERVENTION WITH PRABHU MANAGEMENT

1. Dairy Ledger Digitalization and Payment disbursement to Wallet and Cooperatives Account [Status: Completed]
2. Offering Digital Credit to Dairy Farmers through their Cooperatives [Status: Going to Start Piloting]

DAIRY DIGITALIZATION RESULT (June 2020)

• Nearly 5000 Dairy Farmer (1000 Women) onboarded to Wallet (1564 active users)
• 20 Cooperatives Digitalized
• Uses of DFS services spiked by 600% during COVID19

DIGITAL CREDIT TARGET

• Nearly 5000 Dairy Farmer (1000 Women) onboarded to Wallet (1564 active users)
• 20 Cooperatives Digitalized
• Uses of DFS services spiked by 600% during COVID19
DIGITIZING MSMES IN NEPAL’S RETAIL SECTOR

UNCDF INTERVENTION WITH KHALTI MANAGEMENT

- Access to wider markets,
- Ability to leverage online and home delivery distribution channels,
- Integrate digital payments,
- Integrate supply chains,
- Optimize their stock management,
- Leverage other digital solutions for better efficiency and revenue generation

KHALTI BAZAAR TARGET

- 400 MSMES targeted during Pilot phase
- 30,000 transaction
<table>
<thead>
<tr>
<th>Business Innovation Pilots for Micro-merchants</th>
<th>Partners Onboarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Led by the private sector</td>
<td></td>
</tr>
<tr>
<td>6 Pilots Rolled Out</td>
<td>1. PayWell</td>
</tr>
<tr>
<td>6,300+ Retailers Onboarded</td>
<td>2. SureCash</td>
</tr>
<tr>
<td>6 Retailer-facing Apps</td>
<td>3. field•buzz</td>
</tr>
<tr>
<td>4 Pilot Districts</td>
<td>4. Bank Asia</td>
</tr>
<tr>
<td>5 Pilots Completed</td>
<td>5. iSocial</td>
</tr>
<tr>
<td>4 Pilots in the pipeline</td>
<td>6. Synesis IT</td>
</tr>
</tbody>
</table>

| 1. DFS Aggregator Platform for Micro-Merchants | 2. Accelerating Mobile Money Payments and Credit for Micro Merchants |
| 3. Digitizing transactions between micro-retailers and distributors for managing purchases, stocks, payments, and leveraging transactional data to access credit worthiness | 4. Facilitating Digital Payment and Credit Services for Micro Merchant |
| 5. Promoting Digital Financial Services for Women Micro-Merchants in Rural Bangladesh | 6. Promoting micro merchants as E-commerce Agents and transaction points through aggregator e-commerce platform |
Lessons Learnt
From 5 Completed Pilots

- Hands-on and on-the-job training worked best for MMs
- MMs see more growth only if service charge for customers reduced, more value-added services included, and more value chain partners onboarded
- MM points showed promising results for assisted e-commerce, especially in terms of aspiring products for rural customers
- Disbursement of commission earnings through digital platforms made “digitally-laggard” MMs stick around and gradually catch up

- Cash-out still dominates as a use case at the rural customer level. More value-added services should be integrated.
- Customer awareness about use cases need to be worked on through coordinated omni-channel campaigns.
- Business size of some MMs in deep rural areas can’t cover the cost of distribution operations of partners.
- Lack of formal business identities and documentation often create entry barriers for MMs in the digital economy.
The Market approach to MSME Financing

- High Cost of due diligence
- Long term financing options limited
- Distributed benefits of financing limited
- Lack of portfolio structuring
- Lack of integrated platform to meet dedicated SME growth needs

- New Models – Crowdfunding, P2P
- Use of Alternative Data
- Emerging one to one partnerships – Banks – FinTechs
- Blended Finance
A solution that addresses the major bottlenecks

An Integrated Platform
Brings all Stakeholders, Alternative and Traditional Data sets, lowers cost of due diligence and portoliosation based on needs

- Allows MSMEs to apply on one common platform
- Segregate MSMEs based on their growth needs
- Uses Alternative data to create MSME profile
- Categorises MSMEs into investment portfolios and IPO listings
- Brings Investors, Investees, Advisors and Underwriters on same platform
Solution – MSME Focus (GEM Portal)

Private Placement and OTC Infrastructure
- Assessment
- Rating & Scoring
- Enterprise Evaluation
- Private Placement
- OTC Trading & Settlement

Exchange Infrastructure
- Pre-Trade Validation
- Trade Clearing & Settlement

Automated Application
- SMEs

Qualifying Applicants
- Visibility
- Acceleration
- IPO & Listing

Pre-IPO Financiers

Nominated Advisors

Platform Providers

Brokers

Custodian Banks

NSE TRADING ENGINE
- Order Posting
- Order Management
- Order Matching Engine
- Market Watch

NSE CLEARING & SETTLEMENT SYSTEM
Thank You

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Session 4: Credit infrastructure mechanisms to enhance MSMEs access to finance: Global examples
Lesson learned: Credit Infrastructure mechanism to enhance MSMEs access to finance: Global examples

Oct 5 – 2020

Micro, Small and Medium-sized Enterprises’ Access to Finance in Nepal Webinar
Good Return is an international development agency that works across the Asia Pacific region to deliver economic and social development programs for the financially and socially excluded. We hold Australia Financial Services License 504804 granted by the Australian Securities and Investments Commission.

**What we do**

**Responsible loans**
We enable people to build pathways out of poverty, by providing access to responsible finance, as well as financial education and business skills.

**Financial education and business skills**
An integrated approach like this is crucial to long-term success. Our programs and initiatives are designed to get the right resources to people to help them escape poverty permanently.

**Access to Finance**

**Active Countries** - Cambodia, Nepal, Philippines, Myanmar, Nauru, Solomon Islands, Tonga, Fiji

**Invest in Good**
Financial Capability

CAFE Technology

Our digital solutions strengthen the capacity of financial service provider (FSP) staff to deliver training to low-income vulnerable consumers.

- **CAFE eLearning** courses, comprised of training content and facilitation techniques, are used to build trainer capacity.
- **My Money Tracker** will empower micro and small enterprise owners to track both their household and business cash flows using a smartphone.
- **CAFE.app** captures real-time data directly from learners during CAFE training to monitor learner engagement and program quality.

Digital Tools

Digital innovation achieves scale and impact in financial capability and small business management.

Consumer Experience

Directly supporting FSP partners in visualising and understanding the experience of their consumers through journey mapping workshops.

100% of learners are female

Financial Foundations & Applied Coaching

Empowers vulnerable consumers of financial services through a 10-20 week face-to-face training program which focuses on building financial capability to take mindful, informed action.

Individual or small group coaching supports coachees to identify their financial priorities and goals. Money management tools are used to help them work towards these over 5-7 weekly visits.

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Responsible Financial Inclusion

Smart Certification is a way for financial service providers to demonstrate their commitment towards client protection. Smart Certification provides an independent, objective seal of confidence that a financial institution is doing everything it can to treat its clients well and protect them from harm.
Our track record

- 50,800 vulnerable and low-income people with improved financial capability following participation in our financial education programs.
- Built a network of over 50 partner agencies spanning Asia and the Pacific; 16-year track record of delivering innovative financial inclusion solutions.
- 2,000 staff from 30 Financial Service Provider partners with improved capacity to serve more than 1.5 million clients with responsible and inclusive finance.
- 10,000 micro loans funded. 98% women. 99.9% repayment.
- In the past year, twelve Pacific Island SMEs in Solomon Islands and in Tonga have been supported through our impact investment program, generating employment and income in their communities.
THE LINK BETWEEN POVERTY, WOMEN & AGRICULTURE

- 70% of the world’s extremely poor live in rural areas (IFPRI, 2019)

- Growth in agriculture is two to three times more effective at reducing poverty than an equivalent amount of growth generated in other sectors (World Bank, 2018)

- MSMEs represent 90% of businesses and more than 50% of employment worldwide (World Bank, 2019)

- 46% of adults in developing economies do not have a bank account compared to 94% of adults in high-income economies (ANU, 2018)

- 42% of women are unbanked compared to 35% of men (ANU, 2018)
Key Challenges for MSMEs in the Agricultural Sector

- Lack of collateral and documented financial records
- Limited number of customers due to low purchasing power
- Lack of quality agricultural products that can be purchased
- Lack of access to market information
- Lack of credit access
- Lack of local champions
- Perceptions/stereotypes on tasks suitable for men and women leading to lower productivity
- Lack of gender, minority people groups and disability participation
- Selling products to farmers living in inaccessible areas
- Getting supply from farmers living in inaccessible areas
- Farmers' incapacity to buy agricultural inputs to diversify
- Not able to provide environmentally-friendly technology
Key Challenges for Financial Service Providers

- Lack of diversified products and services which could serve the agricultural sector
- Reluctance to provide agricultural loans due to lack of expertise in designing and managing agricultural value chain financing, covariance of production and price risks
- Reluctance to provide agricultural value chain financing due to borrowers’ lack of collateral and lack of financial records
- High cost of funds and low liquidity (poor financial health)
- Poor governance, senior management, and operational staff
- Poor risk management systems
- Poor MIS
- Poor digital capabilities
- Lack of documented policies and procedures for ensuring gender equity across staff
- Reluctance to provide agricultural loans due to high transaction costs to reach rural populations
- Cannot access and adopt international best practice due to language barrier

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WHO WE PARTNER WITH

We work with:

• **Financial service providers** to assist them in providing responsible and inclusive financial services

• **Social Investors, multilateral, and bilateral** organisations to invest in the agricultural value chain financing.

• **Ecosystem actors** (government agencies, industry associations, private sector, market development agencies, business accelerators, etc.) to exchange learning to support SDGs.
Impact Investment in the Asia Pacific Region

Our impact investment programs operate in:

• **Cambodia** (DFAT Frontier Brokers & UNESCAP)
• **Indonesia** (DFAT Frontier Brokers)
• **Nepal** (UNESCAP - 2021)
• **Solomon Islands** (Pacific RISE)
• **Tonga** (Pacific RISE)
• **Fiji** (Pacific RISE & UNESCAP)
• **PNG** (Pacific RISE & Good Return)
• **Samoa** (UNESCAP - 2021)
MSME FINANCING & AGRICULTURAL VALUE CHAINS

Improving the Financial Wellbeing of Farming Communities, Advancing Agricultural Value Chain Financing, Creating employment, and Ensuring Food Security.
Impact Investment Model

**Engage Partners**

- Financial Service Provider (FSP) partners
  ✓ Negotiate financial arrangements & de-risk investment (loan guarantee)
- Technical & referral partners
  ✓ Assist with gender analysis & business advisory services

**Coordinate and Monitor**

- Assess and report results
- Use insights to inform expansion

**Financial Service Provider (FSP) partners**

- ✓ Negotiate financial arrangements & de-risk investment (loan guarantee)

**Investee businesses**

- ✓ Investment readiness coaching
- ✓ Technical support from partners
- ✓ Loan from FSP partner

... enabled to thrive

**Identify value chains offering the best opportunities for families in poverty & benefits for women in partnership with FSPs and Market Development Specialists (e.g., input supply, off-taker, rice miller, agri-tech, irrigation)**

**Understand what prevents banks lending to MSMEs**

**good return**

**invest in good**
GENDER MAINSTREAMING
IN THE BANKING AND AGRICULTURE SECTOR

Note: Gender champions are male and female decision makers determined to break down gender barriers and make gender equality a working reality in their spheres of influence. Each champion assigns a focal point and team to spearhead gender mainstreaming in their institution including in their product and service development.

Local Gender Lens Champions & Focal Points

- Loan Guarantee
- Gender Organisational Assessment & Action Plan
- Gender-focused Loan Review
- FSP Diagnostic
- Impact Monitoring

Financial Service Provider (FSP)

Agriculture (Value-Chain) Financing

Good Return

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Partnership
Good Return’s first impact investment of $50,000 in the Solomon Islands involved partnering with local bank Pan Oceanic Bank, as well as social business Kokonut Pacific Solomon Islands Ltd (KPSI).

Impact Investment
The guarantees provided enabled KPSI to sell Direct Micro Expelling (equipment) to rural SMEs helping farmers to increase and diversify their incomes by producing high quality virgin coconut oil. KPSI buys this to supply to international markets. Additionally, gender value chain analysis identified areas to strengthen gender equitable workplace practices supporting business sustainability.

Impacts to-date
Loans totalling $125,000 have been made by Pan Oceanic Bank to finance five SMEs, generating income and employment for 72 people in remote communities, now earning an average income of $2,200 per year. This has positively impacted on 360 lives.
Partnership
Heilala Vanilla was established after a tropical cyclone hit Vava’u in 2002 when a New Zealand family partnered with a Tongan family to start a vanilla farm. Good Return now works with Heilala Vanilla and the Tonga Development Bank to provide finance to farmers to increase production of vanilla beans.

Impact Investment
Heilala Vanilla purchases green vanilla beans from the network of smallholder farmers, then processes the beans to export dry to New Zealand where the company makes vanilla products such as vanilla extract, vanilla paste and vanilla syrup.

Impacts to date
Working with the Tonga Chamber of Commerce & Industry, Good Return co-facilitated financial literacy training and provided 1:1 business planning support to empower smallholder vanilla farmers access loans to secure their farms and increase their yields. To date, 6 SMEs have been financed positively impacting 60 lives.
| AGRICULTURE       | Agriculture employs more than 78.1% of the total workforce and account for about 39 per cent of GDP.  
(Government of Nepal, 2018) | Agriculture employs 80% of women in the workforce.  
(FAO, 2013) |
|-------------------|---------------------------------------------------------------------------------|--------------------------------------------------|
| MSMEs             | MSMEs account for approximately 80% of employment.  
(Government of Nepal, 2018) | Women own 13% of SMEs.  
(UK Aid, 2014) |
| GENDERED VIOLENCE | 1 in 3 women have experienced physical violence, 15% of women had experienced sexual violence and 8% economic violence.  
(UNFPA, 2016) | Economic violence is act or behaviour which causes economic harm to an individual: restricting access to resources and work opportunities.  
(European Institute for Gender Equality) |
| FINANCIAL ACCESS  | Approximately 60% of Nepali adults do not have access to formal financial services.  
(UNFPA, 2016) | Ownership of formal financial accounts is higher for men than women, with an 8% gap on average.  
(World Bank, 2017) |

Contextualising
Good Return Impact Investment & GLI Model in Nepal
THANK YOU!

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Q & A
Key take-aways and concluding remarks