

Report Prepared for Multi-Stakeholder
Forestry Program.

Risk Financing Models

A Rapid Assessment

Biruwa Ventures Pvt. Ltd.

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TABLE OF ABBREVIATIONS

BAFIA	Bank and Financial Institution Act
Biruwa	Biruwa Ventures Pvt. Ltd.
BHCT	The Blueberry Hill Charitable Trust
BMZ	Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit
CGMSE	Credit Guarantee Fund Scheme for Micro and Small Enterprises
CGS	Credit Guarantee Scheme
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CRM	Credit Risk Management
DCGC	Deposit and Credit Guarantee Corporation
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
ECA	Export Credit Agencies
EGF	The EMPRETEC Ghana Foundation
FI	Financial Institution
GTZ	German Agency for Technical Cooperation
IA	Implementing Agency
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
KGF	Kredit-Garantie-Fazilität (Credit Guarantee Fund)
LI-BIRD	Local Initiatives for Biodiversity, Research and Development
MDB	Multilateral Development Bank
MFI	Micro Finance Institution
MGS	Mutual Guarantee Schemes
MSFP	Multi-Stakeholder Forestry Programme
MSME	Micro, Small and Medium Size
NGO	Non-Governmental Organization
NRB	Nepal Rastra Bank
PAN	Permanent Account Number
SAFAL	Sustainable Access to Finance and Livelihood
SBCG	Small Business Credit Guarantee Corporation
SIDBI	Small Industries Development Bank of India
SME	Small or Medium Enterprise
USAID	United States Agency for International Development
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations International Children's Emergency Fund

1. Introduction, Purpose and Objectives

The Multi-Stakeholder Forestry Programme (MSFP) is a multi-donor initiative that aims to contribute to the national goal of poverty reduction through forestry sector. The programme builds on the achievements of the past 20 years of forestry work supported by the UK, Switzerland and Finland.

The programme envisions four major outcomes over 10 years:

- Government and non-state actors jointly and effectively implementing inclusive forest sector strategies, policies and plans
- Private sector (farmers, entrepreneurs, and financial institutions) increase job creating investment in the forestry sector
- Rural communities – especially poor, disadvantaged and climate vulnerable people and households - benefit from local forest management and other investments
- Forest and trees sustainably managed by government, communities and private sector and climate resilient

The programme is currently being implemented in 43 districts by state and non-state implementing agencies. A major outcome envisioned by MSFP is an increase in job creating investment in forestry and forest-based activities by the private sector.

1.1. Rapid Assessment Study

Given the widely recognized link between access to finance and growth, financial-access and inclusion is now universally accepted means to achieve poverty reduction targets, MSFP delegated the study keen to explore this financial inclusion approach. MSFP aims to go beyond the 'micro credit only' approach to include variety of products and services that poor and disadvantaged people need. Further, it also recognizes that these products and services could be cost effectively provided by a variety of financial service providers.

1.2. Objectives:

- Explore best national and international practices of risk or other appropriate financing models
- Review appropriate national financial policies and procedures
- Suggest an intervention model for the pilot project
- Identify financial institutions capable to carry out the activities
- Identify particular district or cluster of districts to conduct the pilot project

Steps Adopted for assessment of Risk-financing Models:

Desk research

- Risk and other appropriate national and international financing models
- National banking and financing laws, regulations, policy and

Focus Group Discussions or interaction sessions with

- Financial institutions
- MSFP program implementation partners of the district or cluster (over phone)
- Banking and Finance experts

1.3. Background of Financing in MSME sector

Micro, small and medium size (MSME) businesses play a major role in the economy of any country. Nepal is not an exception in that matter. According to International Finance Corporation (IFC), MSMEs account for more than half all the private sector jobs around the world. In emerging economies, the same accounts for nearly two-thirds of all the private sector jobs. (Assessing Private Sector Contributions to Job Creation and Poverty Reduction, IFC Jobs Study, Jan 2013)

IFC estimates that there is credit gap of well over \$2 trillion for MSMEs in emerging markets. According to the IFC study, nearly 70% of all MSMEs in emerging economies still do not use any external funding from formal financial institutions, and another 15% are underfinanced from formal sources. The study revealed that MSMEs pointed out access to finance as the major constraint globally for their business. In South Asia access to finance was the second major constraint after access to electricity.

Though no such studies have been carried out specifically in Nepal, rudimentary evidence suggests that there is a huge financing gap for MSMEs and that forestry related activities are mostly carried out by such MSMEs.

Financial institutions identify the following four reasons as to why they are averse to providing financing to MSMEs:

- MSMEs are regarded as high risk borrowers due to insufficient assets and low capitalizations;
- MSMEs are more vulnerable to market fluctuations and have a higher mortality rate;
- MSMEs do not maintain proper accounting records resulting to information asymmetry, inadequate financial statements and business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals;

- Financial institutions face a higher administrative / transaction costs of lending or investing to MSMEs thus making it less profitable;

Although, Forestry sector has a significant role in the economic development of the country, no comprehensive study has been done yet to account the contribution of forestry sector in the Gross Domestic Product (GDP)¹.

2. Innovative International MSME financing model cases

Bringing innovative ways of financing SMEs, especially in least developed and developing countries, is a major topic of discussion among governments, policymakers, development agencies and financial institutions around the world. Most of the innovative financing models attempt to do the following using one of the three models listed below:

- Replace traditional collateral with new types of security – Financing Models
- Mitigate risks more effectively – Risk Mitigating Models
- Lowering transaction costs – Distribution Models

Most of the international models are ethnically grown considering wide array of local situations. They are based on following essential factors

- Social capital (larger interaction of social components that contribute to social values)
- Entrepreneurial Infrastructures
- Entrepreneurial ecosystem
- Financial policies

Based on the international financial model interventions study, it can be concluded that international models are ethnically generated to support the entrepreneurs (not restricted to forestry alone). While in the case of Nepal, the number of enterprises' potentiality awareness is less in forestry sector. This is apparent in Baglung, Parbat and Myagdi where the number of forestry based enterprises accounts for only 2% of total loan portfolio of VLBS (MSFP partners).

3. Existing National MSME financing

¹ Source: Asia Forestry Outlook Study 2020: Country Report NEPAL

<http://www.forestrynepal.org/images/publications/Forestry%20Outlook%20study%20Country%20Paper%20Nepal%202008.pdf>

3.1. Sustainable Access to Finance and livelihoods (SAFAL)

Name of the Project	Sustainable Access to Finance and livelihoods (SAFAL)
Implementing Partner/s	The Blueberry Hill Charitable Trust (BHCT) and Mercy Corps Nepal
Commencement Date	August 2013
Expected End Date	July 2015
BHCT Implementation Region/Districts and Budget	Ilam Panchthar Doti Achham Bajura Dadeldhura districts for two years from, with a budget of £1,000,000;
Mercy Corps Implementation Region/Districts and Budget	Taplejung Bhojpur Sankhuwasabha Tehrathum Banke Jumla Rukum Kalikot Bajhang Kanchanpur Baitadi for a combined total budget of £2,200,000

SAFAL has a three pronged approach:

- a) **Community Institution Wholesale Financing:** The project will build the capacity of local formal and informal community institutions (SACCOS, Agri Coops, etc) to improve their access to financial services from private sector financial institutions. The project will also work closely with loans clients of community institutions to provide livelihood and market linkage support.
- b) **Deficit Financing Plus:** The project will work with a number of interested Micro Finance Institutions (MFIs) and provide initial support (catalytic subsidy) to MFIs to open new

branches in rural and remote locations of Nepal. SAFAL will also assist these MFIs in providing financial literacy and livelihoods trainings to their clients.

- c) **Guarantee Funds:** The project will pilot and scale-up innovative practices and technology such as guarantee funds to provide financial services through participating financial institutions to reach out to clients in rural and remote areas.

3.2. Deposit & Credit Guarantee Corporation (DCGC) , Tangal, Kathmandu

Name of the organization	Deposit & Credit Guarantee Corporation (DCGC)
Form of the organization	Public (government sponsored scheme)
Financing model	Guarantee Scheme
Target Group	SMEs, deprived sector, and livestock
Guaranteed By	Nepal Rastra Bank, Rastriya Banijya Bank, Nepal bank Ltd, and Ministry of finance
Implementing Institutions	Commercial banks, Development banks, Finance companies and Micro credit development banks
Loan amount guaranteed	up to Rs. 1.5 million per loan
Premium rate	0.375% per annum
Claiming period for the unrecovered outstanding loan	After the due date of payment of the loan
Claiming period for the default loans	Before the due date of the loan.
Compensation rate	75% of the outstanding balance of the loan at due date.

3.3. Small Farmers Development Program

Name of the Program	Small Farmers Development Program
Initiator	Agricultural Development bank
Supporters of the Program	IFAD UNICEF USAID British government
Program Commencement date	1976 A.D.
Target Group	Small Farmers in rural areas
Financing Model	Group Guarantee Basis
Program Revision	Establishment of Small Farmers Cooperatives Limited (1992) with support from German Agency for Technical Cooperation
	Establishment of Small Farmers Development Bank (Sana Kisan Bikas Bank) (2001)
Financing Model of Small Farmers Development Bank	-Micro Enterprise Loans -Wholesale funds/credits to small farmers cooperatives limited

4. Interviews with Financial Institutions

Biruwa conducted interviews with representatives of nine financial institutions during the course of this study. The financial institutions interviewed is listed below:

'A' Class Commercial Banks	'B' Class Development Banks
- Global IME Bank - Laxmi Bank - Sanima Bank	- Shangrila Development Bank

'C' Class Finance companies	'D' Class Micro Credit Development Banks
<ul style="list-style-type: none"> - Goodwill Finance - ICFC finance limited 	<ul style="list-style-type: none"> - Nirdhan Utthan Bank Ltd - Rural Micro Finance Development Center (RMDC) - Clean Village Microfinance

NOTE: Summary notes of the interview is included in Appendix A

4.1. Key Findings

- During our interview sessions with the personnel's at various financial institutions, almost all were showing their interest to collaborate with MSFP. All classes of financial institutions have their own area of expertise and reach, which becomes the strength of such financial institution on the basis of its founding objectives and regulations that are guided by NRB.
- 'A' Class financial institutions are loaded with a huge capital base that can provide the project with better financial support, but their reach is limited to major cities and urban areas. Additionally, as the overall market has access liquidity, financial institutions are on the lookout for new business opportunities. However, most A Class financial institutions are concentrated in urban areas and due to their higher transaction cost prefer lending to more established enterprises who can take larger loans.
- 'B' and 'C' Class financial institutions have programs focused on SMEs and are more willing to take risks with new business opportunities. However, they too have limited reach in rural areas and there are few 'B' and 'C' class institutions with major national coverage.
- In rural areas of Nepal, the presence of 'D' Class financial institution i.e. micro finance institutions is strong. These institutions have a significant reach/coverage to those who are economically deprived and are engaged in improving their livelihoods. These financial institutions are not only engaged in providing financing but are also involved in providing financial literacy and promoting savings activity. However, D Class financial institutions rarely give out loans of over Rs. 5 lakhs and do not generally provide loans to enterprises.
- At the moment Financial Institutions falling under the 'A-C' category have their own obligation towards 'Deprived Sector Lending' which comes under the provisions laid down by NRB to the financial institutions. For commercial banks the deprived sector

lending stands to be 4.5% of the total lending portfolio. As per NRB the financial institutions can fulfill their Deprived Sector Lending obligation by lending funds to the Micro Finance Institutions as well. In order to fulfill the NRB requirement most of the Banks and Financial institutions meet their obligation for Deprived Sector Lending via the channel of Wholesale Micro Finance Companies like Rural Micro Development Centre (RMDC), and through Retail Micro Finance Institutions and Cooperatives that are governed by NRB.

- Financial Institutions have various loan instruments and use them based on the type of enterprise, the size of the loan, whether or not collateral is available, the cash flow of the enterprise and previous credit history among many other factors. Without these details available, information regarding potential risk financing or credit guarantee models cannot be discussed.

4.2. Limitation of this research

- It is important to note that though financial institutions showed strong interest in potential partnership with MSFP in reaching out to forestry based enterprises, they were not able to divulge details due to the limited information about the enterprises that are seeking these loans. As a result, the responses we gathered from the financial institutions are quite generic.

5. Laws, policies and NRB directives

All financial institutions have to obtain license from NRB to carry out financing activities in Nepal. Nepal Rastra Bank has been given the regulatory role for all institutional financial activities in Nepal. The main statutes through which NRB exercises its authority are:

- a. Nepal Rastra Bank Act, 2058 (2002)
- b. Banking and Financial Institutions Act, 2063 (2006),
- c. NRB Directives

Licensed financial institutions are authorized to provided loan based on appropriate guarantee.[\[1\]](#) On such loans, additional “Loan Loss Provision” of 20% has to be made in the financial statement of financial institutions under category A, B and C.[\[2\]](#) Conditions have been laid out for a guarantee to be qualified to be used as security against a loan. [\[3\],\[4\], \[5\]](#). However, most of the Financial Institutions in Category A, B and C provide loan on guarantee basis only in exceptional cases as a policy.

In case of Micro Finance Institutions, all types of credit granted against collateral shall not exceed more than 1/3 of the total credit.^[8] MFIs can provide upto 25% of their primary capital to an individual, firm, company, institutions or interrelated related groups.^[9]

5.1. MFIs vs. Other Financial Institutions

- MFIs are open to provide loans to unregistered informal groups whereas other FIs only provide loans to registered business entities.
- Supervision and monitoring can be effectively handled by MFIs due to their grass-root level presence and reach.
- Risk of change of rules and regulations is high in Banks compared to MFIs since NRB closely monitors the activities of commercial banks which consist of high public involvement and diverse stakeholders.
- Influencing capacity of MSFP will be high when dealing with MFIs compared to commercial banks based on their funds availability and organizational size.
- Extra provision of 20% as a loan loss provision is required only in commercial banks. MFIS do not have to comply with such provision which ease the lending process and willingness of such institutions to participate in such credit models.
- Minimum loan amount for business for Commercial banks are higher:
- Bank procedures for small business loans are too complex, making such lending unnecessarily long and expensive for both the businesses and the banks.
- The interest rates that banks charge on loans to small businesses do not adequately reflect the costs of serving them
- MFI's can go to the potential debtors for issuing loan in case of commercial banks the debtors need to come to the branch.

6. Recommendations and Conclusion

The rapid assessment of risk financing models adopted internationally and in Nepal along with interviews with financial institutions reveals that this is a fairly new concept for the financial sector in Nepal. No financial institution has thus far provided loans based on third-party guarantee and NRB regulations do not allow banks to provide loans solely on the basis of such guarantees.

Biruwa research team makes the following recommendations to MSFP based on our findings.

- A thorough review is needed of the status of forestry based enterprises with special focus on those currently seeking bank financing to better understand their financing needs. We recommend that MSFP conduct this review before having further conversation with financial institutions.
- During our conversations with financial institutions, bankers showed very little understanding of forestry based enterprises thus MSFP can organize programs to disseminate information regarding the sector.
- Based on the strengths and weaknesses of the financial institutions, it is highly recommended that MSFP forge a partnership with a consortium of financial institution of different categories rather than one particular financial institution. Adopting such a model will allow MSFP to leverage the large capital base and branch network of an established 'A' Class bank as well as allow it to have a reach in rural areas where 'C' and 'D' Class financial institutions operate.
- Since financial institutions are under pressure to provide loans to the deprived sector, there is no lack of willingness among these institutions to consider new business opportunities in the forestry sector. Once, MSFP has a thorough understanding of the financing needs of forestry based enterprises, the financial institutions itself may be able to propose innovative financial models to reach out to such enterprises.

REFERENCES

- [1] BAFIA (Bank and Financial Institution Act), Section 56 (2).
- [2] NRB 2071/2072 Circular No. 6 (Guarantee related to loan) for licenced A, B and C categorized institutions.
- [3] Unified directives 2071 issued by BRB for licenced A, B and C categorized institutions, section 3.4, P: 16.
- [4] *ibid*, section 3.4(a), P: 16
- [5] Unified directives 2071 issued by BRB for licenced A, B and C categorized institutions, section 3.4 (a) (6), P: 17.
- [6] *ibid*, section 3.4 (a) (7), P: 17
- [7] <http://www.nepalenergyforum.com/bank-lending-to-agriculture-rises-but-borrowers-from-the-hydropower-sector-few-and-far-between/> accessed on 2014/09/24.
- [8] NRB directive for micro finance companies 2071, section 3.2 p:6.
- [9] *ibid*, section 3.1

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APPENDIXES

Annex A

Nirdhan Uthhan Bank Ltd

Contact Office Address: Bhagwatibahal, Naxal

Contact Person/Designation: Mr. Iswar Atreya, Manager- Planning, Monitoring and Research Department

Contact Number: 977-1-4413711, 4413794, 4413840

Institution class: D class Micro credit Development bank

Establishment Date: March 1993

Coverage Area: 144 branches in 63 districts

Ideology / objectives: To extend financial services and social awareness to the poor in under-served and un-served areas of Nepal in a sustainable manner.

Major products and services: Credit services, Savings and Deposits Services, Micro-Insurance Services, Remittance Services

The amount of funding based on collateral depends on the type of products offered by the bank. For instance, Housing Loan is up to NPR 3 lakhs at max, Seasonal Loan is up to NPR 30K, Foreign Employment is up to NPR 80K

Lending activities: Individual lending based on Group Solidarity and without collateral (Grameen Banking Model), Wholesale lending to Self Reliant Group (SRG Model), Collateral based lending for micro entrepreneurs.

Legal Regulation: NRB allows microfinance to fund a maximum amount of NPR 2 Lacs without collateral to individuals and up to 5 lacs with collateral. But in general practice Micro Finance companies disburse up to NPR 1.5 Lacs without collateral to group based individuals

Sources of Funds: Own reserves and capital, A class, B class and C class financial institution for fulfilling their deprived sector lending (4.5%)

Interest rate: interest is 20% plus 1% processing fees (without collateral). This is a competitive rate provided by Nirdhan Utthan to its customers, since the other Micro Finance players are providing the same loan at a rate of 25% on an average.

The interest rate is 17-18% (with collateral)

Involvement in collaborative projects: Mercy Corps, Blueberry Hill Charitable trust, PLAN International, AgriFin project, UNDP/UNCDP. These donor's help establish new branches in rural areas, provide deficit financing for few years, training programs etc.

Social Cause: Nirdhan Utthan is focused towards social welfare along with financial sustainability.

Sangrila Development Bank Ltd

Contact Office Address: Baluwatar, Kathmandu

Contact Person/Designation: Mr. Jayandra Bahadur Khadka, Head-Operations Department

Contact Number: 977-9858022951

Institution class: B class Development Bank

Establishment Date: October 2004 A.D

Coverage Area: The bank has 25 branches with 5 micro finance units, 14 districts

Ideology / objectives: To deliver quality banking services for the development of economy of the country through appropriate new and improved banking techniques.

Major products and services: Deposits, Loans and Advances,

Lending activities: Business Loan, Deprived Sector Microfinance, Personal Loan (all collateral based mostly)

Legal Regulation: Not any. If third party collateral is accepted then 20 % extra loss provision should be kept by the bank.

Sources of Funds: Public deposits, share capital

Interest rate: Average interest rate is 15-16 % (with collateral)

Involvement in collaborative projects: USAID, MEDEP (Micro Enterprise Development Program. Initially it was started with an idea of working without collateral but in the later stages collateral based funding was made from the bank.

Social Cause: Local development and accessibility

Global IME Bank Ltd.

Contact Office Address: Kamalpokhari, Kathmandu

Contact Person/Designation: Mr. Rupendra Wagle, Head-Retail credit

Contact Number: 9851024190

Institution class: A class Commercial bank

Establishment Date: 2007 A.D

Coverage Area: 84 Branches throughout the country

Ideology/ objectives: The bank shares a common vision of “The Bank for All” amongst its Promoters, Directors, Management Team and Staff in commitment to providing the highest standard of services for customers from all regions and societies.

Major products and services: Deposits, Loans and Advances,

Lending activities: Consumer/personal loan, Global Small Business loans, SME loans, Corporate loan

Specific Products:

- Global Small Loan:
Maximum loan amount is up to Nrs 5 lakh that includes insurance coverage for borrower in case of their death or permanent disabilities. Here, they provide them loan

on the basis of their property valuation as a collateral where they are not allowed to sell their property (sampati Rokka)

Interest charge is around 9 % to 12 %

- Global Krishi Kraja

Here, they have two offerings: Up to Nrs 5 lakh and Nrs. 5 lakh or more

Insurance coverage is provided only to those clients who take loan up to 5 lakh or less.

Interest charge is around 13% (including insurance coverage charges)

Legal Regulation: Not any. If third party collateral is accepted then 20 % extra loss provision should be kept by the bank. Bank therefore doesn't accept "Third party Collateral".

Sources of Funds: Public deposit, share capital

Interest rate: around 15-16 % (including insurance coverage)

Involvement in collaborative projects: Finalizing a project that deals with deprived sector lending. However, no official announcement has been made. Open and willing to collaborate with such agencies in future days.

Social Cause: SMEs and Global Small Loans has been the focus for the year 2011/12. In continuation of living with its vision "The Bank for All", the bank has launched Agricultural Loan in co-ordination with food processing industries as about 70% of the Nepalese population depend on agriculture for their livelihood. The Bank is one of the five commercial banks which are authorized to perform Government transactions.

Rural Micro Finance Development Centre (RMDC)

Contact Office Address: Putalisadak, Kathmandu

Contact Person/Designation: Mr. Bhol Nath Regmi-Senior Officer

Contact Number: 977-1-4268019/ 4268020

Institution class: D class (Wholesale Lending Institution)

Establishment Date: 1998 A.D under the recommendation of Asian Development Bank, Government of Nepal and Nepal Rastra Bank

Coverage Area: 68 Districts. Its partners' outreach shares nearly 70% of the entire microfinance industry's business in the country.

Ideology / objectives: Reaching out to the largest number of the poor and disadvantaged households with appropriate microfinance services to enable them to realize their untapped potentials of development through the network of partner MFIs.

Major products and services:

- Wholesale lending institution: It lends to other Micro Finance companies.
- Institutional Capability Building and Capability Enhancement of MFIs: Maintenance of Books of Accounts and free of cost training and regular guidance to Micro Finance across the country
- Monitoring and follow-up of Partner Organizations.

Lending activities: Help financial institutions, mostly A and B class, fulfil their “Deprived Sector Lending” obligation (4.5% of their total lending) via lending it to those Micro Finance Companies who are listed out by RMDC.

Legal Regulation: RMDC, as a wholesale lending institution, is not allowed to lend directly to clients like that of retail MFIs. Only allowed to lend to retail MFIs.

Sources of Funds: NRB, Commercial Banks, Asian Development Bank in the form of soft loan, Paid up Capital of NPR 52 Crores and the accumulated Reserves and Surplus amounting to NPR 1 Billion.

Interest rate: Funds Inflow from NRB and other A, B, and C Class Financial Institution cost in the range of 3-4%. This fund is further given to Micro Finance and Cooperatives at a Rate of 6-7%

Involvement in collaborative projects:

- YUVA Access Project: Completed in August 2014
- Federation of Nepal Cottage Small Industries (FNCSI), Planet Finance (Funding Institution) and RMDC’s involvement as a Capability Builder and Fund Channelling via Cooperatives and Micro Finance Companies.
- Community Irrigation Project-Ongoing Governmental Project based in Jumla, Bhajang, and Doti
- Few Projects with AUS Aid.

Social Cause: A partner for Safe, sensible and sustainable microfinance

Sanima Bank Ltd.

Contact Office Address: "Alakapuri", naxal, Kathmandu

Contact Person/Designation: Mr. Bobby Singh Gadtaula (Chief-Operating Officer),

Mr. Sunil Khatiwada (Head-Microfinance)

Contact Number: 977-1- 4428979/80

Institution class: A class commercial Bank

Establishment Date: 2004 A.D.

Coverage Area: 37 branches throughout the country

Ideology / objectives: To be innovative and keep up with changes to satisfy investors, staff, customers, regulators and the people of the community we serve

Major products and services: Deposit, Loan, remittances

Lending activities: Sanima Small Business Growth Loan, Women Entrepreneurs' loan, Retail Shops loan (all on collateral basis)

Legal Regulation: Not any. If third party collateral is accepted then 20 % extra loss provision should be kept by the bank. Bank therefore doesn't accept "Third party Collateral".

Sources of Funds: Public deposit, share capital

Interest rate: 11 to 14 % to individuals

Involvement in collaborative projects: not yet collaborated with any donor based project till date. However, they are exploring for the opportunities in future.

Social Cause: Women empowerment, national development

Laxmi Bank Limited

Contact Office Address: Lagankhel, Lalitpur

Contact Person/Designation: Mr. Prakash Pokhrel, Manager-Micro Finance

Contact Number: 977-1-5548375/6

Institution class: A class Commercial bank

Establishment Date: April 2002

Coverage Area: 27 branches throughout the country

Ideology/ objectives: technologically driven progressive Bank with strong risk and corporate governance foundations

Major products and services: Deposits, loans, Remittance

Lending activities: Home loan, Auto Loan, Sana Byawasai Karja, laxmi Udyami Karja, Supply Finance loan. The bank also provides loans for livestock, cottage based loans (group guarantee), micro-enterprise loans up to 5 lacs, and for low cost housing up to NPR 4 lacs.

Legal Regulation: Not any. If third party collateral is accepted then 20 % extra loss provision should be kept by the bank. Bank therefore doesn't accept "Third party Collateral".

Sources of Funds: Citizens Investment Trust (CIT), Public deposits, Share capital

Interest rate: around 13-15%

Involvement in collaborative projects:

- Worked with an INGO named LUMANTI (British INGO named Homeless International): Low cost urban housing project.
- The Bank has worked under the concept of Branchless banking in places like Bhojpur, Salyan, Rukum where Mercy Corps had fund guarantee for 50% of operational losses for a period of 1 year. Currently, the bank is having similar talks with DFID for community based programs.

Social Cause: Support responsible lending practice by providing financial advisory services to small businesses

Clean Village Microfinance Bittiya Sanstha Ltd.

Contact Office Address: Hemja, Kaski

Contact Person/Designation: Mr. Tejendra Lamsal (CEO), Mr. Samyog Baral (Senior Program Officer)

Contact Number: 061-400427

Institution class: D class Micro credit Development banks

Establishment Date: 2013 A.D

Coverage Area: 22 branches in 15 districts

Ideology/ objectives: To be a pioneer microfinance institution committed to improving quality of life through the provision of inclusive and sustainable microfinance services to the economically disadvantaged people of Mountainous & Hilly area of Nepal

Major products and services: Saving, Loan, Remittance & Trainings

Lending activities: General loan, Discipline loan, Alternative energy loan, Emergency loan, Micro enterprise loan, foreign Employment loan

Legal Regulation: As the rules and regulation of Nepal Rastra Bank they can only provide their services to the individuals

Sources of Funds: Public deposit, shareholders, A class commercial Bank, Grant from NRB for mountainous and remote area operation.

Interest rate: around 17 % (with and without collateral)

Involvement in collaborative projects: currently working in Myagdi with DMEGA under the supervision of MEDEP.

Social Cause: Skill Development, Women empowerment

ICFC Finance Limited

Contact Office Address: Thirbam sadak, Bhatbhateni, kathmandu

Contact Person/Designation: Mr. Amit Shrestha (Manager-Credit and Operation)

Contact Number: 977-1-4425292

Institution class: C class Finance Company

Establishment Date: 2003 A.D

Coverage Area: 11 branches, 4 districts

Ideology/ objectives: to facilitate the increasing credit demands of its customers through innovative and sophisticated financial instruments through the state of the art technology and best international practices.

Major products and services: Deposits, loans and advances, Remittances

Lending activities: Easy Business loan, Housing loan, Hire Purchase loan, Personal loan (All based on collateral)

Legal Regulation: compulsory requirement of Immovable property as a collateral for lending purpose

Sources of Funds: Public deposit, shareholders

Interest rate: around 12-16 % (with collateral)

Involvement in collaborative projects: Not yet

Social Cause: Best value added services, efficient operation, technology driven

Goodwill Finance limited

Contact Office Address: Hattisar, Kathmandu

Contact Person/Designation: Ms. Seema Khadka (Senior Supervisor, Credit Department)

Contact Number: 977-1-4444039

Institution class: C class Finance Company

Establishment Date: 1995 A.D.

Coverage Area: 9 branches

Ideology/ objectives: To be the best financial service provider in the basis of operational excellence, while establishing a successful relationship with our customers.

Major products and services: Deposits, loans and remittances

Lending activities: Housing loan, Hire purchase loan, Gold loan, trading loan, Educational loan etc.

Legal Regulation: compulsory requirement of Immovable property as a collateral for lending purpose

Sources of Funds: Public deposit, shareholders

Interest rate: 14 -18 % (with and without collateral)

Involvement in collaborative projects: Not yet

Social Cause: Customer centric quality products

ANNEX 2

Innovative International MSME financing model cases

Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE)

The Government of India has undertaken a major program to provide loan guarantee to MSMEs. The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the Government of India to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme. The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. The scheme was formally launched on August 30, 2000 and is operational with effect from 1st January 2000. The corpus of CGTMSE is being contributed by the Government and SIDBI in the ratio of 4:1 respectively and has contributed Rs.1906.55 crore to the corpus of the Trust up to March 31, 2010.

Name of the project	Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
Implementing partners	Government of India and SIDBI (Small Industries Development Bank of India)
Commencement Date	August 30, 2000
Eligible Credit Facility	Both term loans and working capital facility up to Rs.100 lakh per borrowing unit
Financing Model	Credit Guarantee Scheme (CGS)
Tenure of Guarantee	Agreed tenure of the term loan/composite credit and in case of working capital, the guarantee cover is of 5 years or block of 5 years
Fee for Guarantee	One-time guarantee fee of 1.5% and annual service fee of 0.75% on the credit facilities sanctioned. For loans up to Rs.5 lakh, the one-time guarantee fee and annual service fee is 1% and 0.5% respectively. Further, for loans in the North-East Region, the one-time guarantee fee is only 0.75%.

Target Group	Micro Enterprises, Women entrepreneurs/ Units located in North East Region (incl. Sikkim) other than credit facility upto Rs.5 lakh to micro enterprises, and others
Eligible Lending Institutions	Commercial banks (Public Sector Banks/Private Sector Banks/Foreign Banks) and select Regional Rural Banks (which have been classified under 'Sustainable Viable' category by NABARD), National Small Industries Corporation Ltd. (NSIC), North Eastern Development Finance Corporation Ltd. (NEDFi), SIDBI and other 112 eligible Lending Institutions registered as (MLIs) of the Trust, comprising of 27 Public Sector Banks, 16 Private Sector Banks, 61 Regional Rural Banks, 2 Foreign Bank and 6 other Institutions viz., NSIC, NEDFI, SIDBI and The Tamil Nadu Industrial Investment Corporation(TNIIC).

Credit Guarantee Facilitation Program (Afghanistan)

Name of the Program (Country)	Credit Guarantee Facilitation Program (Afghanistan)
Started by	DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH) and member of KfW Bankengruppe
Type of program	Credit guarantee facilitation program
Financed by	United States Agency for International Development (USAID) and Germany's Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit, BMZ)
Target Group	Start-up businesses and SMEs

Range of loan	Working loan credit between \$ 3,000 and \$ 300,000
Program type	Guarantee fund
Supports from KGF	Management consulting to partner banks, designing of the "KMU-Credit" program, and providing staff training.

Halkbank, Turkey

Name of the Program (country)	Halkbank (Turkey)
Program Type	Credit Guarantee Fund (KGF)
Partners	Chamber of Commerce and GTZ
Financing Model	Partial Guarantee model
Provision of KGF	Guarantee up to 80% of the credit (except 100% guarantees to Turkish Eximbank)
Total capital	60 million

EMPRETEC Ghana

Name of the Program (country)	EMPRETEC Ghana Foundation (EGF) (Ghana)
Started in	1990
Sponsored by	UNDP, Barclays Bank, and the government of Ghana
Target Group	Growth-orientated SMEs
Main Services	Broad range of Training and consultancy services
Products	Entrepreneurship workshop, short management Program, Technology and entrepreneurship development fund, Business development fund, book keeping services etc

Additional Services	Management of loan fund of \$1 million available to business in tourism, construction, non -traditional export sectors through five centers throughout country.
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EMPRETEC Columbia

Name of the Program (country)	EMPRETEC ,Columbia
Program Type	Columbia's National Guarantee Fund
Target Group	SMEs
Financing Model	Guarantee up to 80% of the collateral
Eligibility criteria	Approved membership from the fund and approved business plan