

Survey of financial institutions for the YSESEF programme in Chitwan and Palpa

By
Binod Prasad Humagain
Depesh Chackalamuriyil
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Abbreviations

CCI: Chamber of Commerce and Industry

CTEVT: Council for Technical Education and Vocational Training

DAO: District Administration Office

DDC: District Development Committee

DSL: Deprived Sector Loan

FI: Financial institution

FNCCI: Federation of Nepalese Chambers of Commerce and Industry

FNCSI: Federation of Nepal Small and Cottage Industries

GoN; Government of Nepal

GTZ: German Technical Cooperation

INCLUDE: Inclusive Development of Economy Programme

LDO: Local Development Office

MoF: Ministry of Finance

MoYS: Ministry of Youth and Sports

NBA: Nepal Banker's Association

NRB: Nepal Rastra Bank

PPP: Public Private Partnership

YSESEF: Youth and Small Enterprise Self-Employment Fund

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1 Background information of the study

1.1 The context

Youth are the precious asset of every nation. 38.8% of the total population of Nepal are youth (National Youth Policy 2066, MoYS, p.1). Poverty alleviation, sustainable economic development and maintaining peace in the country is based on how their energy, skills and inspirations are best used. They are the main partner for political, economic, social and cultural reformation (National Youth Policy 2066, MoYS, p.1). At the same time, the lack of employment opportunities can lead to social conflicts, violence and juvenile delinquency in the country.

Nepal has been suffering from unemployment and political conflicts for many years not being able to use the energy of the youths in a productive task. Addressing this issue and to promote youth employment in the country, the Government of Nepal (GoN) announced the Youth Self-Employment and Small Enterprise Fund (YSESEF) programme on 5 February 2009. The vision of this programme is to develop the entrepreneurship skills of unemployed youth and small business people in order to provide employment and achieve optimum utilisation of productive labour and local resources, alleviate rural poverty, relieve rural unemployment, minimize the increasing trend in rural-urban migration, contribute towards the development of peace and lessening of social injustice. To attain its vision, the government's strategy was to make use of banks and other financial institutions to provide short-term collateral-free loans up to 200,000 Rs. at low interest rates. For this, the government initiated a Youth and Small Enterprise Self-Employment Fund of Rs. 500 million. It is envisaged in the Self-Employment Fund Regulation 2065 to subsidise 60% of the total paid interest rate to the applicants who return back the money in time.

FNCCI, the umbrella organisation of Chambers of Commerce and Industry in Nepal, is the main partner of MoF in the implementation of the YSESEF programme. FNCCI assisted in registering the applicants through different CCIs. 628,303 people applied for this programme all over Nepal. Moreover, the CCIs conducted a three days orientation programme on small business and entrepreneurship for the applicants of the YSESEF programme. FNCCI had realised the need of further training on entrepreneurship development of the applicants and asked GTZ/INCLUDE for support to launch a complementary training programme.

GTZ/INCLUDE with its aim to promote a socially balanced economic development in selected regions is working in 14 districts; ranging from the eastern to the far-western development region of Nepal since July 2008. Providing technical assistance for entrepreneurship development and financial services are two of the eight intervention areas of INCLUDE. Linking with these intervention areas and with a view to address the above-mentioned situation INCLUDE has been supporting FNCCI to capacitate officers of local CCIs as trainers

for entrepreneurship development in four regions along with carrying out surveys to collect information on the district level concerning different aspects of the YSESEF programme.

The loans under the YSESEF programme will be provided by the financial institutions. For the successful implementation of the programme, an intensive relationship and trust building between all stakeholders is required.

1.2 The objectives

A regulation for the Self-Employment Fund has been adopted. However, during programme implementation additional needs and aspects might come up that have to be considered as well. In order to identify the gaps between the existing regulation and the actual situation in the districts a survey with financial institutions in Palpa and Chitwan was conducted. The overall objective of the study was to find out if the local level financial institutions are interested to be involved in the YSESEF programme and to collect their suggestions on how to implement the programme in a practical and sustainable way. Other specific objectives of the study were to:

- Find out what are the minimum requirements of the financial institutions for the provision of a collateral free loan to the YSESEF applicants/potential entrepreneurs that the regulation envisaged.
- Find out if the banks are willing to cooperate with local CCIs/FNCCI and GTZ in regards to the YSESEF programme.
- Find out the banks' demand on the contents of the entrepreneurship development training for YSESEF applicants.
- Inquire in which specific sectors the banks are interested to invest.
- Collect recommendations/suggestions of the banks and financial institutions for the successful implementation of the YSESEF programme.

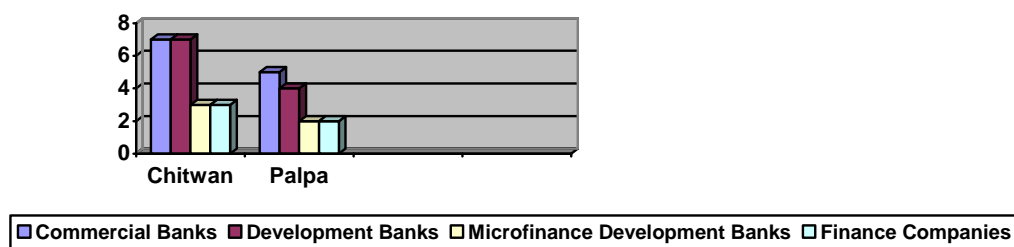
1.3 The study process

The study comprises of two components, viz. document review and financial institutions survey. The regulation of the government, project reports of other countries in which similar programmes were implemented and different circulars related to the YSESEF programme were examined. A simple checklist was developed and representatives of 33 financial institutions in Chitwan and Palpa were interviewed. Primary data was collected consulting managers and branch managers using closed-ended interviews. Commercial banks, development banks, microfinance development banks and finance companies were selected using the purposive random quota sampling procedure.

1.4 Study districts and types of financial institutions visited

33 financial institutions were consulted 20 and 13 in Chitwan and Palpa respectively. 12 commercial banks, 11 development banks, 5 microfinance development banks and 5 finance companies were visited during the study (see chart below). Only few financial institutions that were visited had their head office in one of the districts where as most of the financial institutions were branch offices of Kathmandu based institutions only. The branches of the same banks were consulted in both districts to get to know if there are district-wise differences with regard to the investment areas they would like to invest in.

Number of total Financial Institutions visited



2 Financial institutions and the YSESEF programme

Creating employment means to provide jobs/engage those unemployed in income generating activities. Employment promotion contributes to the economic development of the nation in particular and the overall development of the nation and maintaining peace in general. Both are complementary to each other. However, clear policies and strategies are required and all kinds of institutions have to be involved to assist in the process.

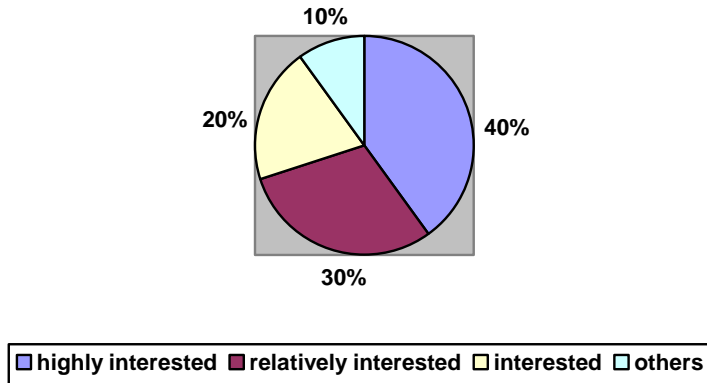
The YSESEF programme aims to create employment for the unemployed youth in Nepal. It is obvious that the loan under the YSESEF programme is to be provided by the financial institutions. Therefore, it is very crucial to ensure their cooperation and involvement in the programme implementation. This chapter deals among others with questions on the interest level of the financial institutions in Chitwan and Palpa to work for the YSESEF programme, motivation factors and incentives as well as documents and papers that the YSESEF applicants require in order to be able to apply for a loan at a bank.

2.1 Level of interest to work for the YSESEF programme

Among the 33 financial institutions visited in Chitwan and Palpa, 90% were found to be interested to work for the YSESEF Programme (see chart below). 40% of financial institutions consulted are highly interested followed by 30% relatively interested and 20% interested to work for the YSESEF programme. The remaining ones (10%) stated that they would have to

await the decision from the central level. They told that once Nepal Rastra Bank (NRB) decides on working for this programme they would follow that decision and do accordingly.

Level of interest of FIs to work for the YSESEF programme



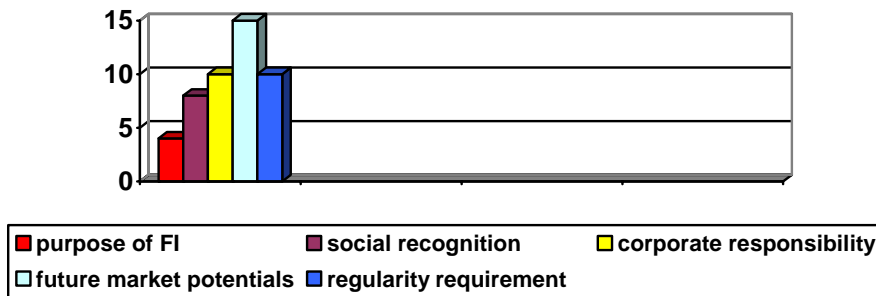
2.2 Factors that motivate to work for the programme

As shown in the previous paragraph the interest level of the financial institutions varies. Financial institutions have been involved in the YSESEF programme already in the sense that all of them paid the allocated percentage of the Deprived Sector Loan (DSL) into the YSESEF Fund as it is laid down in the Self-Employment Fund Regulation 2065.

Different reasons were found for the financial institutions' interest to work for the programme. All the financial institutions responded that banks/financial institutions would have a business motive aiming to earn profit in their venture. Therefore, they request the government to come up with incentives for their cooperation in the programme rather than imposing them to do so.

The following chart gives an overview on why FIs are interested in working for the YSESEF programme.

Factors motivating FIs to work for the YSESEF programme



The majority of the financial institutions consider that working for the YSESEF programme would enable them to explore future market potentials. This was followed by contribute to their Corporate Social Responsibility (CSR) strategy and being a regularity requirement. Some FIs told their involvement would help in getting social recognition/publicity. Only few financial institutions said that they would be interested because it comes under the purpose of their institution.

It became obvious during the survey that contradicting regulations would have to be reviewed and some kind of additional motivating factors would be needed to attract banks to take the initiative to work for the YSESEF programme. "The government should provide some incentives for working with this programme. It is one of the tools to motivate the financial institutions to work for such type of programme time and again," few financial institutions of both districts commented.

2.3 Financial institutions' knowledge of the YSESEF programme process

It is envisaged in the Self-Employment Fund Regulation 2065 and the Directive on Loan and Insurance Provision 2065 that the interested banks and financial institutions have to submit a proposal to the MoF describing among others the sectors they would like to invest in for the approval of the fund. Likewise, there is a provision of getting reimbursement from the government after entering all activities in the website that was developed by the government for this programme within seven days of the date of loan provision to the applicant. Most of the interested banks and financial institutions in the two districts were found unknown about the above-mentioned process and complained that the information has not reached them. Reason for this could be that NRB seems to have sent out so far only one circular informing about the YSESEF programme and requesting the support of the banks. Similarly, the ones who have already submitted a proposal have not got the approval from the MoF yet. Even though the majority of the banks and financial institutions seem to be interested to work for the YSESEF programme, they expect clear instructions and information on how to work for the programme from the government/NRB. The banks and financial institutions for example seem not to be clear about how to invest and how to recover the loan. They found that the sectors that are defined in the existing regulation partly are not useful/applicable for all districts and partly are described in a very general way (such as the clause on "one village one product"). Furthermore, the support of the government for the creation of a database at the local level providing all necessary initial information would be regarded as very useful by the banks.

2.4 Provision of microfinance loan to YSESEF applicants

In the past commercial banks did not provide microfinance loan directly to individuals but gave credit to microfinance development banks under the heading of the DSL. Their common practice was not to provide loans lower than 500,000 Rs. to individuals. Nowadays few commercial banks, e.g. Bank of Kathmandu, Investment Bank Chitwan etc. have started and others are in the process of starting to provide microfinance loans to individuals directly. This change in business practice has allowed the government to implement the YSESEF programme through commercial banks as well. 80% of the financial institutions consulted were found interested to provide microfinance loans to the applicants of the YSESEF programme. The maximum loan amount has been already determined by the government as 200,000 Rs. The commercial banks have set the minimum amount as 50,000 Rs. because the monitoring costs would be too high in case of loans less than 50,000 Rs.

In case of microfinance development banks the minimum amount of investment is 5,000 Rs. to 10,000 Rs. and the maximum amount would be 60,000 Rs. on a collateral-free basis. They like to get involved if the applicant's demand is in line with their policy.

2.5 Financial institutions' requirements for loan application and provision

More than 90% of the financial institutions see the provision of documents such as citizenship paper, certificate of acquired skills, loan application and of other details such as on family status, own property or property other family as well as a reference and a business plan as the minimum requirement that the applicants have to fulfil while applying for a loan. Additionally, having a group that is working in the same sector would be a bonus. They explained that based on their experience the certificate of the 3-day orientation programme alone would not be sufficient for them to rely on. They found that the participants of the orientation programme were under the impression they would get 200,000 Rs. after attending the orientation programme. Most of them had no vision on what they want to do with that money. While explaining the loan taking process, the branch managers were often blamed by the participants to be against the programme. The reason for this was that the participants were under the impression that they would receive a grant from the government and would not need to pay back the loan. The FIs further viewed that the orientation programme would also not be sufficient to make a person an entrepreneur.

10% of the financial institutions insisted on the necessity of taking some equity from the applicant's side. Based on their experience in the past they are of the opinion that the provision of loans on a collateral free basis is not practical and therefore fear a lot of problems and risks concerning the loan recovery. In this regard, the banks suggested involving the local government like VDC, DDO, DAO, and LDO from the beginning onwards in the whole

programme implementation process, i.e. for the recommendation of genuine applicants as well as in the programme implementation, monitoring and follow up. The Self-Employment Fund Regulation 2065 envisages the involvement of the local government in terms of loan recovery only.

Currently there is no separate or additional regulation for the provision of collateral-free loan to the YSESEF applicants put in place but the banks felt that a number of steps would have to be taken in order to make working for the YSESEF programme attractive for them. It seems that even though the YSESEF programme is based on the idea of giving out collateral-free loans, the banks are actually “punished” for it by another existing general regulation from NRB, which says that in case of collateral-free loan provision the banks would have to pay another 20% provisional. The banks are requesting that the collateral-free loan provided under the YSESEF programme is exempted from this particular regulation.

As envisaged in the existing regulation the majority of the financial institutions were interested in providing loan on group guarantee basis rather than on individual basis. According to them the group functions as a monitoring body and pressure group on community level which would lower the risk of loan default and the monitoring costs of the financial institutions. They viewed that there would be a leader in a group in the rotation basis, who monitors the group and would come to the bank for paying the instalment. Additionally, this would save also the costs of the loan borrowers.

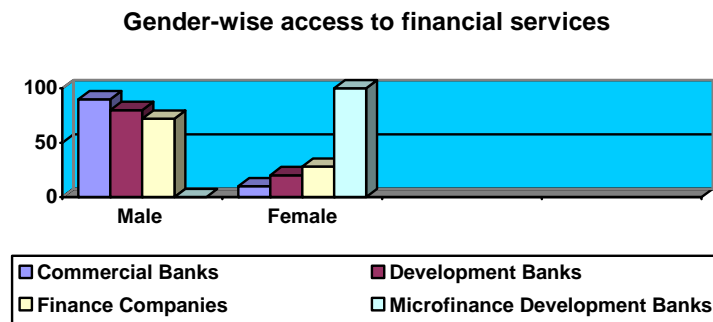
Providing collateral-free loan is not the only issue that makes the FIs hesitant to be actively involved in the programme implementation. They viewed that it would not be enough to deposit the allocated percentage of the Deprived Sector Loan (DSL) into the YSESEF Fund but that the financial institutions would have to actually utilise the fund for the implementation of the programme. For this they would have to be clear about each step of process that has to be followed.

2.6 Interested investment areas and target groups

The investment interests i.e., target groups and/or business sectors, of banks and financial institutions vary according to the structure of the organisations and also according to the district where they are located. For example, microfinance development banks such as Chhimek Bikas Bank, Nirdhan Utthan Bikas Bank and Paschimmanchal Bikas Bank like to work with the women entrepreneurs only. Branch offices of the same bank are likely to have different sectoral investment interests in different districts. The financial institutions in Chitwan are interested in investing in the sectors beekeeping, banana farming, papaya farming, fishery, vegetable farming (seasonal and non seasonal), poultry farming, livestock, commercial buffalo and cow farming (specially for milk), goat farming (for meat), *Dalmoth* (fried spice lentil), *Bhujjiya* (perched fried rice), fancy store, grocery store, sugarcane farming,

small canteen/hotels, repairing centres, foreign employment, vegetable vendors, fruits vendors, carpentry, cycle shops, tailoring, handicrafts, welding, electronic shops, and training centres. The financial institutions of Palpa are interested to invest in welding, carpentry-wood mill, handicraft (tourist attracting gifts made from straw, bamboo), foreign employment, fresh house, footpath shop, fruit selling, vegetable selling, herbal products, coffee, tourism (home stay the cooperative concept), decoration commodities made of copper and zinc, ginger, *Murtikala*, *Karuwa* (drinking vessels), livestock, commercial buffalo and cow farming, retailer shop, *Dhaka* Shops and factory, *Amriso* (bouquet grass), cinnamon and small dairy shops (*Goras Pasa*).

Commercial banks usually target customers that are having a higher or medium economic level. People with a medium and lower economical standard are the priority group of the development banks and the finance companies whereas people of lower economic level or even poor are the target group of the microfinance development banks. The financial institutions rated the YSESEF programme as useful in terms of providing financial access to the poor and disadvantaged population groups. The following chart shows the gender-wise access to financial institutions.



Women clearly still lag behind men in regard to their level of access to finance. Their main sources for obtaining loan are the microfinance development banks which are exclusively working with female entrepreneurs. Commercial banks have the highest number of male clients and at the same time the lowest number of female ones. However, the financial institutions believed that if the YSESEF programme is implemented successfully, men and women would get the same access to finance.

2.7 Investment strategy and loan application approval process

Most of the financial institutions have their own internal proceedings to assess a loan application. At first they review whether the client in general is capable to run a business or not. Thereafter, they go to the proposed project location, conduct a brief feasibility test and assess the business plan. After analysing the target, sales status, market, turnover and

stocks and in case of approval usually building and land is taken as collateral and 60% of the total budget is provided as loan by the financial institutions. The case of the microfinance development banks is different. They invest on a group guarantee basis if they agree to the proposal of the client. They invest up to 60,000 Rs. on a collateral free basis and up to 150,000 Rs. with collateral. The investment will be issued in instalments. Nirdhan Utthan Bank, Chhimek Bikas Bank and Panschimanchal Grameen Bikas Bank have been adopting this strategy in the districts.

The financial institutions are in the process of developing a strategy for investments in the YSESEF programme. They also stated that the strategy they are going to prepare would be customer-friendly. Further, they hope to get a sector-wise guideline for investments in the YSESEF programme from the NRB/government.

2.8 Banks' perceptions on self-employment opportunities

The financial institutions saw potential opportunities to be self-employed in the areas of *Sajiwani* (oil-bearing perennial) farming, fruits farming, communication centre, cyber café, beauty parlour, electronic shops, fancy shops, grocery, vegetable farming, ginger, small industries (e.g. making pickles, candles, jam and jelly), tailoring, *Amriso* (bouquet grass) farming, livestock (cows), buffalos, goats farming, poultry farming, pig farming, water mill, small diesel mills, coffee, training institutes, electronics, indigenous products like *Dhaka*, *Karuwa* (drinking vessels), bee keeping, dairy shops, *Dhaka* shops, tourism sector like home stay, herbal products, floriculture, sugarcane farming, fishery, rickshaw, stationery shop, handicrafts (gift items like baskets, tray, etc.), carpentry, wood mill (furniture), repairing centre, welding, banana farming, pullers, mobile shops, beauty parlours, embroidery, communication centres, spice industry, papaya, plumbing, canteens, plantation of olive and Aloe Vera.

In general they believe that hard-working, dedicated applicants can make money from their business ventures.

The manager of a development bank cited in this context the following example: "A woman forwarded a loan request to our bank to start a beauty parlour (barber shop and training centre) in Chitwan. Her loan demand was 150,000 Rs. After the interview we granted her the loan and visited her frequently. She started her business in Pulchowk, Chitwan and paid her instalments timely. By now she has opened branches in Butwal, Pokhara and Birgunj as well. She earns more than 100,000 Rs. in a month. She is one of our most reliable customers these days." He further added that this would be a good example for those who do not think that 200,000 Rs. would be enough to start a business. "Running a successful business is based on the person's skill and its proper management," the manager concluded.

2.9 Observations of the bankers on the use of loans

The general experience of the financial institutions shows that loans are mostly taken for investment in the production sector followed by the trading sector. In 15% of the cases the provided fund is misused for a different purpose by the client. For example, the loan received for buying buffalo is used for personal spending such as buying jewellery or expenditures for private ceremonies (wedding, funeral etc.). Another example would be that the loan received for communication is used for buying a motorbike and so on. The banks fear that the funds will be misused by the applicants of the YSESEF programme in a similar way. Therefore, they would prefer providing allowances in kind rather than in cash to the applicants. However, they stated that they would treat each case individually and as per the nature of the intended business.

2.10 Difficulties and hindering forces seen related to the YSESEF programme implementation

It is found that the lack of technical skills and knowledge is the main obstacle for the YSESEF applicants. On the other side, high monitoring costs and lack of trust make it difficult for the banks to serve the YSESEF applicants. Financial institutions could compromise on the monitoring costs but they see trust building as a basis that the government has to invest in. The following excerpt of a speech from Governor of NRB underlines that the unexpected high number of the applicants makes it difficult for the financial institutions to screen applicants and to provide loan to them.

'Inaugurating the new finance company, Governor Deependra Bahadur Chhetry also said that the government has taken a policy of supporting banks and financial institutions that have been established with an aim to invest in agro-based industries. Chhetry praised banks and business associations for positively supporting the government's Youth Self-Employment Program (YSEP), but he noted that more than the expected number of applications for loans under the program had made managing the program difficult. He went on to say that youth employment was an issue directly linked to the country's peace and security, and that supporting the YSEP could help create a more investment-friendly environment. He also said that the Rs. 200,000 to be pledged under the program was not a grant--that individuals taking the money would need to pay back the loan to the fund.'

Source: *Some Banks are at Risk: Governor* in www.nepalnews.com, 1 June 2009

The financial institutions in Chitwan and Palpa think that the YSESEF programme has been weakly implemented and monitored right from its inception. They noted that nothing much has happened since the registration of the applicants. Further, even though it was announced in the programme advertisement that only skilled persons can apply for the programme, the analysis of the applications found that more than 80% of the applicants actually lack skills.

Excerpts from a newspaper article show what other difficulties the financial institutions face in regard to how the programme is implemented.

'Nepal's leading bankers have strongly protested the Finance Ministry's recent direct communications with the commercial banks over the funding of the Youth Self-Employment Program... "We stressed that since NRB, the central bank, is the line agency for the commercial banks to communicate with the government, the government should follow the proper channel," said the banker requesting anonymity.'

'Instead senior executives of NBA urged the central bank to form a committee comprising representatives of NBA, MoF, NRB for formulating a modality to fund the employment program. "The modality should be acceptable to all stakeholders and should ensure lenders how can they recover their investment if the loans become problematic," said the banker. "It is good that we have been assured that the central bank will be in the process of forming the committee," he added.'

Source: *Banks Protest Govt's Direct Dealing over Funding* in REPUBLICA, 6 April 2009

From the excerpts it can be drawn that the bankers are not happy about the direct talks that the government held with commercial banks being of the opinion that this would set a wrong precedent. Moreover, they are not satisfied with the modality of the investment recovery. FIs request to develop an acceptable modality for investment and recovery and a strong mechanism to support genuine applicants registered in the programme.

3 Cooperation

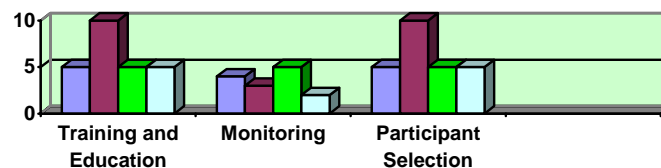
The YSESEF programme is based on the idea to conduct the programme following the Public Private Partnership (PPP) approach. For this the cooperation of public and private sectors is needed including MoF, FNCCI, banks and financial institutions as well as other service providers who could contribute to the successful implementation of the programme. In course of gathering the applications, the government has made use of local CCIs and cyber cafés for online registration. Similarly, it has made use of CCIs for providing orientation programme and other organisations like chapters of the Federation of Nepal Small and Cottage Industries (FNCSI) and Council for Technical Education and Vocational Training (CTEVT) for giving vocational training to the applicants. It is envisaged in the regulation of the Self-Employment Fund that the GoN would support the financial institutions in regard to the sharing of the risk by providing loan and project insurance to the applicants. Thereby, the insurance premium would be borne by the government.

The fund deposited by the financial institutions into the Self-Employment Fund opens up additional options for the government and decreases financial pressure by not relying only on the national funds for the programme implementation.

3.1 Cooperation with CCIs/FNCCI/GTZ and with the government

With more than six hundred thousand people applying for the programme the response of the public was overwhelming and unexpectedly high. The following chart gives a clear picture on the cooperation interests of the financial institutions with local private sectors organisations like FNCCI, CCIs and GTZ. About 75% of the financial institutions are willing to cooperate with the trained applicants by CCIs/FNCCI and GTZ. They believed that the training would help to reduce the risk for the financial institutions and would be the right way to go ahead. Though the banks are solely responsible to select the person to give a loan to, the high number of loan applications under the YSESEF programme has made it difficult for them to manage the process. The rest of the institutions are in favour of doing all these procedures by themselves because they think that ultimately it would be the bank that is solely responsible for the recovery of the loan. These institutions seek the involvement of government, bankers, CCIs/FNCCI and GTZ in establishing a district level mechanism and empower them towards the successful implementation of the programme. The following chart shows what kind of support financial institutions expect from the private sector.

Cooperation requirements from the private sector

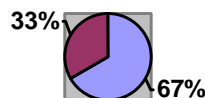


■ Commercial Banks ■ Development Banks ■ Finance Companies ■ Microfinance Development Banks

Obviously the financial institutions seek more support for the selection of participants and provision of training and education to the applicants than help in monitoring from the private sector.

The following chart shows what the banks and financial institutions expect from the government side.

Cooperation needs from the government side



■ strong commitment with clear policy ■ efficient monitoring of the programme

67% of the financial institutions demanded a strong commitment of the government along with a clear policy for the programme and 33% the set up of an efficient monitoring and evaluation system for this programme. Similarly, financial institutions are of the opinion that the government has to work for the risk minimising and loan recovery. As envisaged in the regulation the government has to assist also in the marketing of the products that the applicants produce through cooperatives. However, it seems that the cooperatives are not aware about this clause in the regulation.

The government intended to serve those unemployed youth who had some sort of skill. The reality however went beyond this assumption. Only 12% of the applicants have certified skills. The remaining persons have either indigenous skills or are laymen. Till now, it is unclear whether to work with those having indigenous skills or not because they have no certificate for their skills. It is strongly felt that the government now would have to openly clarify whether these applicants are eligible for the programme or not. Considering the actual situation a mechanism would have to be developed on how to work with all kinds of unemployed youth creating an environment conducive for investment.

3.2 Cooperation with insurance companies

Almost all the financial institutions also provide insurance services to their clients. The insurances they provide cover vehicle, building, accident and natural calamities. They have linkage with all insurance companies located in the respective district. The customer selects the insurance company he/she wants to be insured with. If the customer does not know about insurance schemes the banks refer insurance companies to the customer. They remarked that for the YSESEF programme it would be required to have a good cooperation with insurance companies as well. This would support the banks and other financial institutions in minimising the risk of the programme. It is envisaged in the Self-Employment Fund Regulation 2065 and the Directive on Loan and Insurance Provision 2065 to provide credit and project insurance, whereby the insurance company that seeks for the lowest premium is to be consulted. The premium would be borne by the government. However, the government has not yet announced with which insurance company the banks and financial institutions can work under the YSESEF programme. The financial institutions in this context requested to provide reimbursement from insurance to the customers in a timely manner without any delay. This would support to decrease the risks of the clients and banks.

4 Recommendations of the financial institutions

This chapter mainly focuses on the suggestions of the financial institutions for the improvement of the implementation of the YSESEF programme. It deals with the topics that the bankers feel would have to be incorporated in the entrepreneurship development training,

selection criteria for genuine applicants and their recommendations for a successful implementation of the programme.

4.1 Contents of the entrepreneurship development training

In regard to the contents of an entrepreneurship development training the bankers emphasised on the need of a personal development part of the participants along with information on project identification, selection and business plan development. Moreover, they felt that it would be necessary to provide also information on the banking process to make it easier for the participants to approach the financial institutions. Further, they suggested briefing the participants on the legal ramifications in case of obtaining credit by false pretence to raise the awareness level of the participants in this regard and prevent them from heading in the wrong direction.

4.2 Criteria for the selection of participants

The banks stated that the criteria for the selection of participants in the programme would have to be defined well already from the beginning. Thereby various criteria can be taken into consideration such as age, sex, ethnicity, educational background, skill level, commitment level and vision. They emphasised that criteria are to be analysed well. While the applicants should be able to read and write the focus should not lie on the applicants with good qualification. It is believed that those who have a good qualification would not consider getting a loan up to 200,000 Rs. as enough to start a business. Furthermore, the financial institutions think that family support would be very crucial for doing business. Therefore, they access and analyse the family background of the applicants before loan approval. The experience of the banks shows that the ones whose families are involved in the business and skilled people who can make use of their skill to earn money are the better ones for investment. Looking at the age of the applicant the preferred age group by the banks would be 20 to 35 years. It is widely assumed among the FIs that this would be the right age to start a business.

4.3 General recommendations

A strong involvement of the concerned government bodies is felt necessary at local as well as at central level. Further, as per the financial institutions bankers, CCI, LDO and other service providers should be involved in the screening of the applicants for the programme. The trainings to the applicants shall be provided by CCIs as well as other local organisations. Moreover, financial institutions consider the following points as crucial for a successful implementation of the programme:

- As envisaged in the directive on loan and insurance provision, the focus of the programme lies on loans that are to be given out on group guarantee basis. Loan

applicants having collateral could be eligible for individual loan but persons having no collateral should apply in a group. Thereby, the group should be formed involving applicants having collateral and those having no collateral at all. If the group does not include members having collateral, obtaining a loan would be very difficult for them.

- Re-design of the institutional programme set up and decentralisation of programme offices.
- Setting up of a strong monitoring system.
- Motivation of banks and creation of a trustful environment between the government and the banks.
- Coordination with different institutions for technical support like training, monitoring, information, marketing is required.
- Conduction of awareness raising programmes and mobilisation/utilisation of local newspapers and FM programmes.
- Maintenance of programme neutrality by not allowing politicians to influence the participant selection and loan provision process.
- Setting up a loan information centre to improve transparency at the local level and prevent obtaining credit by false pretence.
- Involvement of local service providers in the programme.
- Involvement of banks/financial institutions in the selection process of the applicants.
- Permitting banks to invest in their area of interest.
- Need of a concept from the government/NRB on how to proceed in providing loan and how to get back the loan.
- Piloting of the programme is suggested to find out inadequacies in the regulation and guideline etc.
- Motivating banks to make the best use of the DSL rather than collecting penalty from them.
- Launch of the programme on a package basis, i.e. one sector once, and one district once, and so on. If successful model can be replicated in other places as well.

5 The way forward

The involvement and cooperation of financial institutions in the programme is one of the crucial factors for its successful implementation. Based on the findings of the survey and discussions with experts the following would be recommended:

- Have a round table discussion with major banks/financial institutions on central level to seek their direct feedback and commitment and to clarify open questions and contradicting issues such as the “fine”, i.e. additional provisional payment in case of collateral-free loan provision, the investment process, modality of loan recovery etc.

- Clarify and make the programme process transparent for banks and financial institutions all over Nepal.
- Set up local level programme bodies incorporating also representatives of banks and financial institutions. Local level programme body shall be responsible for the analysis of potential sectors, database management, and programme implementation at district level as well as monitoring of district activities.
- Involve representatives from banks and financial institutions in entrepreneurship development trainings.
- Establish a database providing details on the granted loans such as information on which bank has given out loans, names of the persons who received the loans, in which sector, for which purpose in order to maintain programme transparency. Banks should be able to access the database.
- Inform the banks on the details of the insurance system and coverage of the YSESEF programme.

Probably several interactions with banks and financial institutions are needed to jointly sort out their concerns and questions as well as to push the programme implementation forward. Developing a common understanding on the programme process among all stakeholders is the basis for a trustful and good cooperation as well as the pre-condition for success.

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Appendices

Appendix 1: List of visited financial institutions, Chitwan

S.N.	Financial Institution	Type of the FI
1	Nirdhan Utthan Bank Ltd.	Microfinance Development Bank
2	Laxmi Bank	Commercial Bank
3	NDEP	Development Bank
4	Annapurna Finance	Finance Company
5	Prime Bank	Commercial Bank
6	Chhimek Bikas Bank	Microfinance Development Bank
7	Rastiya Banijya Bank	Development Bank
8	Everest Bank	Commercial Bank
9	Prabhu Finance Company	Finance Company
10	Infra Structure Development Bank	Development Bank
11	SBI Bank	Commercial Bank
12	Kist Bank	Commercial Bank
13	Narayani Development Bank	Development Bank
14	Himchuli Development Bank	Development Bank
15	Gandaki Development Bank	Development Bank
16	Udhyam Bikas Bank	Microfinance Development Bank
17	Agriculture Development Bank	Development Bank
18	Investment Bank	Commercial Bank
19	Machhapuchre Bank	Commercial Bank
20	Narayani National Finance	Finance Company

Appendix 2: List of visited financial institutions, Palpa

S.N.	Financial Institution	Type of the FI
1	Agriculture Development Bank Ltd.	Development Bank
2	Pashchimanchal Finance Company Ltd.	Financial company
3	Standard Finance	Financial company
4	Nirdhan Utthan Bank Ltd.	Microfinance Development Bank
5	Rastriya Baniya Bank	Development Bank
6	Pashchimanchal Grameen Bikas Bank Ltd.	Microfinance Development Bank
7	Nepal Investment Bank Ltd	Commercial Bank
8	Garima Bikas Bank Ltd.	Microfinance Development Bank
9	Pashchimanchal Development Bank Ltd.	Development Bank
10	Nepal Bank Ltd.	Commercial Bank
11	SBI Bank	Commercial Bank
12	Kist Bank	Commercial Bank
13	Himalayan Bank Ltd.	Commercial Bank

Appendix 3: Checklist for interviews

GTZ/Inclusive Development of the Economy (INCLUDE)

Financial Institution Survey for YSESEF Programme

General Information

Name of FI:

District:

No. of branches in the district:

No. of VDCs

covered:

No. of municipal wards covered:

Name and address of the branch:

Telephone & e-mail:

Year of the establishment:

Name of the interviewee:

Position in FI:

Bank's interest:

Are you interested in working with YSESEF applicants/potential entrepreneurs in this district?

1. Highly interested, 2. Relatively interested, 3. Interested, 4. Indifferent,
5. Not Interested

What are the minimum requirements that the YSESEF applicants must fulfil?

Citizenship.....1, Reference.....2, Meeting Minutes.....3, Application form...4, Feasibility study...5, Business plan.....6, Group guarantee....7, Collateral.....8, All above....9, Others.....10

What is the most important factor that would motivate you to work with YSESEF applicants/potential entrepreneurs?

1. Purpose of FI, 2. Corporate Social Responsibility, 3. Future market potentials, 4. Commitment with partners, 5. Remittances, 6. Regulatory requirements, 7. All points,
8. Others (multiple answers possible).

Cooperation:

Would you support YSESEF applicants trained by CCI/FNCCI/GTZ? Yes No

What are your requirements for cooperation?

1. Quality control, 2. Participant selection, 3. Training to the applicants, 4. Monitoring and follow up of the participants, 5. Others.....

What sort of cooperation do you seek from the government to provide loan to the YSESEF applicants?

1. Strong monitoring system, 2. Loan and subsidy, 3. Strong commitments with clear vision and strategy, 4. Timely information about the YSESEF programme, 5. Motivational part, 6. All of the above, 7. Others.....

Difficulties:

Difficulties in providing loans/serving YSESEF applicants/hindering factors for not working with the YSESEF applicants

1 Technical skill and knowledge of Entrepreneurs, 2 High risk exposure, 3 High monitoring cost, 4 Lack of trust, 5 Less profitable, 6 Collateral, 7 Missing government support, 8 All points, 9 Others (multiple answers possible).

Insurance:

Do you have insurance service provision? Yes No

If yes, what types of insurance you have? Please specify.

Which insurance company do you have linkages with?

What about the service provision of YSESEF programme?

Investment/Strategy:

In which business fields you have particular interest to invest in?

What strategy have you made for it?

What are the areas of potential opportunities for the future employment in this district? Please specify.

Training/Recommendation:

Do you provide training/skills to the loan burrowers? What kind of training do you provide?

What is your recommendation on the Entrepreneurship Development training/the minimum contents it must have?

What should be there in the selection criteria of the participants for the programme?

What are possible measures that are to be applied for the success implementation of the YSESEF programme?

How does the bank monitor the programme?

General Questions:

What is the maximum size of the enterprise loan for SMEs/specific loan policy/minimum requirement and the target group benefited (social groups and gender)?

On what purpose do you usually provide loan?

1. Agriculture 2. Non-agriculture 3. Enterprise 4. Others

