

United Nations Economic and Social Commission for Asia and the Pacific

MSME Financing Series No. 3

# Micro, Small and Medium-sized Enterprises' Access to Finance in Nepal



Unlocking Public and Private  
Finance for the Poor



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## About this series

Micro, small and medium-sized enterprises (MSME) make a significant contribution to economic growth and job creation across Asia and the Pacific. However, they often encounter difficulties in accessing finance. Women-headed MSME's are particularly underserved by financial institutions due to economic, regulatory and socio-cultural factors. In recent decades, governments and related agencies have set 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.

To gain more understanding about this issue, key questions need to be addressed, including the following: Is finance still a constraint, including for certain classes of enterprises, such as medium-sized ones? What mechanisms, such as credit guarantees, collateral support, and directed credit, have been the most beneficial in closing the gap? Is there gender disparity in access to finance? And are there public and/or private sector measures to overcome any existing regulatory, normative and contextual barriers to women entrepreneurs' equal access to finance? How have demand-side programmes, such as financial literacy, aided MSMEs? And how have FinTech and digital finance helped to increase access to finance?

To seek answers to these and other important questions, the Economic and Social Commission for Asia and the Pacific (ESCAP) developed *A Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific*. The Framework provided direction for the preparation of detailed national studies on MSMEs' access to finance in selected countries of Asia and the Pacific. The studies were prepared by researchers and specialized consultants under the guidance of a lead country agency with policy responsibilities in MSME financing. In some of the studies, an advisory committee composed of representatives from departments, agencies, financial institutions, and organizations involved in MSME promotion and financing provided direction and support to the authors.

This series presents the Framework along with national studies that were prepared following its guidelines. Each national study is expected to contribute, through policy analyses and recommendations, to policy discussions on how to improve access to finance by MSMEs. The preparation of national studies based on a common framework is also expected to facilitate comparisons across countries to share experiences, identify good practices, and understand common challenges.

Some of the studies contributed to ESCAP capacity building projects. The studies for Cambodia and Nepal were funded by the United Nations Regular Programme of Technical Cooperation, and the studies for Bangladesh and Samoa were funded by the Government of Canada, through Global Affairs Canada, in the context of ESCAP's Catalysing Women's Entrepreneurship Programme. The preparation of these four studies benefitted from a partnership between ESCAP and the United Nations Capital Development Fund (UNCDF). The latter contributed financial support for the Nepal study through UNNATI-Access to Finance (A2F) Project funded by the Government of Denmark. In addition, the Task Force on Banking and Finance of ESCAP's Sustainable Business Network funded a comparative study of MSME financing in Singapore and Hong Kong, China.

## About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The report was prepared by a study team led by Achyut Hari Aryal, a member of the Board of Directors of Nepalese microfinance institution Vijaya Laghubitta, licensed under the Central Bank of Nepal. The other team members included Madan Sharma, Binisha Nepal, and Dharmendra Lekhak. Alberto Isgut, from ESCAP, provided an extensive revision and additional research to the report.

This report was financially supported by ESCAP, through the United Nations Regular Programme of Technical Cooperation, and UNCDF, through UNNATI-Access to Finance (A2F) Project, funded by the Government of Denmark. The preparation of the report was guided by the High Level Financial Inclusion Roadmap Implementation Committee of Nepal Rastra Bank, the central bank of Nepal, as well as by ESCAP and UNCDF, which has been a partner of ESCAP in the production of studies on MSMEs access to finance in Asia and the Pacific. The preparation of the report was based on ESCAP's *Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific*, MSME Financing Series No. 1, Bangkok: United Nations, 2020. Key informant interviews were conducted to gain a better understanding of the financing environment from the perspectives of both the demand and the supply sides of the market. Secondary data collection involved extensive reviews of intergovernmental reports. The bulk of the data was gathered between July and December 2018, with an update to the quantitative analysis in 2019 in order to include recently published data from the National Economic Census 2018.

To gather information on the demand side, the study team conducted interviews with entrepreneurs in agriculture and manufacturing industries based in different areas of the Eastern and Mid-Western Regions of Nepal. Critical information was also received from the Municipality of Ilam and from the Mayor of Suryodaya Municipality.

On the supply side, the study team conducted interviews at six major financial institutions in the Central Region, including microfinance institutions (MFIs) Nirdhan Utthan Laghubitta Bittiya Sanstha, Laxmi Laghubitta Bittiya Sanstha and Chhimek Laghubitta Bittiya Sanstha. The small and medium enterprise (SME) departments of several commercial banks in the region, including Siddhartha Bank, Nepal Investment Bank and Nabil Bank, were also interviewed. In the Eastern Region, the team interviewed the Ilam Bazaar branch manager of local microfinance bank Nirdhan Utthan Laghubitta Bittiya Sanstha and at the commercial Sunrise Bank. In the Mid-Western Region, SBI Bank's Dhangadhi branch manager participated in the study. To gain clarity on the role that financial technology (FinTech) and digital finance play in expanding MSME access to finance, the team conducted interviews with UK Aid-Nepal's Sakchyam's Access to Finance Program and UNCDF's UNNATI Access to Finance (A2F) Project.

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## Abbreviations

ADB	Asian Development Bank
ADBN	Agriculture Development Bank of Nepal
BFI	Banks and Financial Institutions
BLB	Branch Less Banking
BS	Bikram Sambat
CBS	Core Banking System
CGFTSM	Credit Guarantee Fund Trust for Small and Medium Enterprises
CHGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIB	Credit Information Bureau
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
FI	Financial Institutions
FinTech	Financial Technology
FNCSI	Federation of Nepal Cottage and Small Industries
GDP	Gross Domestic Product
GESI	Gender Equity and Social Inclusion
GoN	Government of Nepal
IFC	International Finance Corporation
IME	International Money Express
IVR	Interactive Voice Recording
KYC	Know Your Customer
MCSI	Micro, Cottage and Small Industries
ME	Micro Enterprises
MEDEP	Micro Enterprise Development Programme
MEDPA	Micro Enterprises Development for Poverty Alleviation
MFI	Micro Finance Institutions
MIS	Management Information System
Mol	Ministry of Industry
MSME	Micro, Small and Medium Enterprises

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