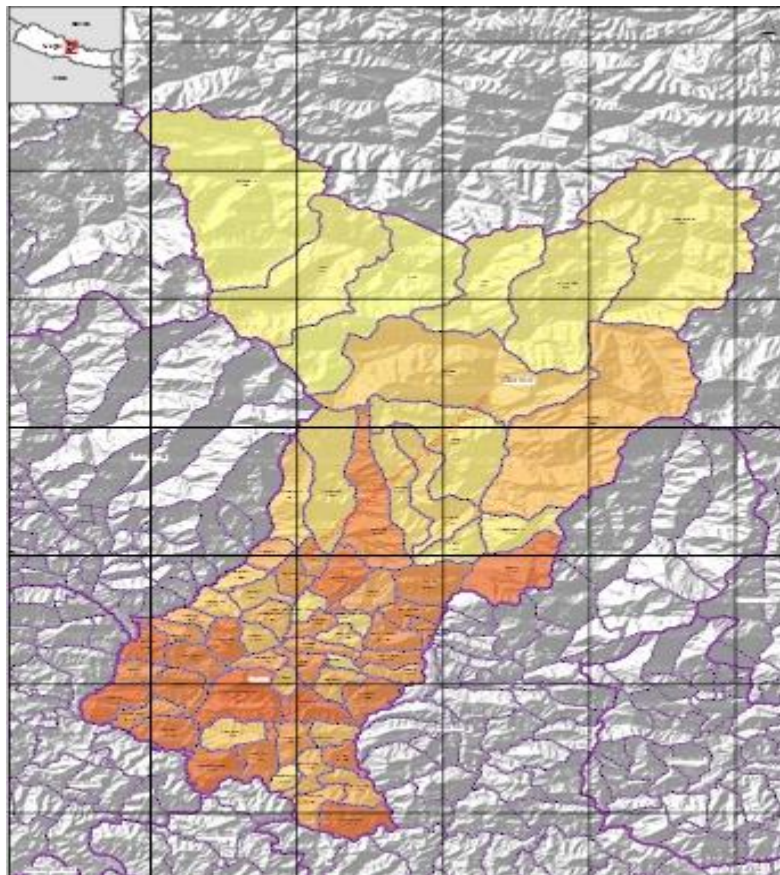


Enhancing Access to Finance for Enterprise Development

A study of Gorkha-01



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Abstract

Nepal has an immense potential for economic growth and development which can only be done by tapping into the entrepreneurial spirit and creating a highly nurturing entrepreneurship ecosystem. Among many requirements, access to finance is a critical one as it helps actualize innovative ideas and enterprise potentials. However, the problem of lack of access to financial products and services is prominent in rural areas. Moreover, the devastating earthquake in Nepal has affected livelihoods of people and there is an urgent need to help create massive employment and self-employment opportunities. In this context, the aim of this project is to carry out a study of policies and programmes to help create an enabling environment for entrepreneurs. The focus area is Gorkha, constituency number 1. The main research question of this study is to find out how access to finance can be enhanced and what could be possible models for enterprise development to realise the vision of developing Gorkha-1 as a prosperous, self-reliant and sustainable economic centre to promote productive employment-generating programmes to bring about massive transformation in the lives of communities who have fallen behind economically and socially. To answer this question, a variety of methods, including literature review, field study, informal interviews, group discussion and policy review were used. The study found that in Gorkha-1, most rural parts are served by saving and credit co-operatives and micro-finance institutions but there is a problem of loan duplication. There is still an untapped market of rural entrepreneurs. The report suggests co-ordinated business training programmes for entrepreneurs, emphasis on business security as opposed to business subsidy and formation of Gorkha Development Corporation, a joint venture of the people of Gorkha.

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Executive Summary

Background

Nepal has an immense potential for economic growth and development. This presents a critical opportunity to capitalize on these potentials and contribute to individual, community and national development. This can be done by tapping into the entrepreneurial spirit and creating a highly nurturing entrepreneurship ecosystem. Among many requirements, access to finance is a critical one as it helps actualize innovative ideas and enterprise potentials. However, the problem of lack of access to financial products and services is prominent in rural areas. Entrepreneurs with high aspirations lack necessary financial prerequisites- knowledge and information and the financial industry is yet to develop products that meet the rural enterprise needs. There have been many success stories related to micro-finance, micro-enterprise and co-operatives. However, there are concerns regarding the unaffordable interest rates and lack of insurance for enterprises. Moreover, the devastating earthquake in Nepal has affected livelihoods of people and there is an urgent need to help create massive employment and self-employment opportunities. In this context, the aim of this project is to carry out a study to help create an enabling environment for entrepreneurs. The focus area is Gorkha, constituency number 1.

Methodology

A variety of methods were used to carry out the study. Firstly, a detailed literature review was carried out. This involved studying policy documents, regulations, directives and relevant research reports. An initial field visit was carried out with Hon. Dr. Bhattarai. Although this was not a focused visit to the study area, it gave a chance to interact with the partner and gave more clarity about the contextual situation of Gorkha. Two further field visits were carried out which covered Gorkha Municipality and Borlang and Ghairung VDCs from Gorkha-1 and Palungtar Municipality from Gorkha-2. Informal interviews and discussions were carried out with entrepreneurs, representatives of financial institutions and other concerned stakeholders at the district and village level. Data collection was done by digitizing records of enterprises at the Cottage and Small Industries, Gorkha Office.

Key Findings

- There are thirteen commercial banks, nine development banks, no finance company and about six micro-finance institutions and many saving and credit co-operatives in Gorkha but in Gorkha-1, most rural parts are served by saving and credit co-operatives and micro-finance institutions
- Many co-operatives are successful and profit-generating and have interesting programmes like member social security programmes that gives money to new mothers and also to the family members of a person who passes away
- There is a problem of duplication of loans in micro-finance as commercial and development banks have also been given permission to give micro-loans
- Untapped market- Entrepreneurs who wish to borrow more than 8 lakhs and less than 50 lakhs find it difficult
- Entrepreneurs don't usually have verifiable income level and many enterprises are still not registered and do not have PAN and VAT number
- Cultural aspect- There is a generational conflict in the sense that the older generation is usually risk-averse generation and even see borrowing money as a social taboo while the younger generation is more risk-taking and eager to start enterprises
- Training programmes are not always impactful or effective as entrepreneurs are faced with a tough choice to make a living vs. work on their business that takes time to fetch return
- Successful entrepreneurs (low-scale) usually do not depend on only one enterprise. They usually use one enterprise as a hedge for risk in another enterprise. They are hard-working and are supported by their community
- Lack of co-ordinated programmes: The Office of Cottage and Small Scale Industries in Gorkha is not informed about the various training programmes organised by different I/NGOs and FNCCI, resulting in programme duplication and difficulty in accessing the actual training needs of the entrepreneurs

Key Recommendations

- Policy changes are needed to stop the duplication of microfinance loans, perhaps only one class of financial institution should be given the responsibility
- Business subsidy vs. business security: Some entrepreneurs would prefer the government to spend money on business security rather than subsidy as they would be willing to invest, even take loan at a higher interest rate and work hard if there was guarantee of markets for their products and their business
- Peer to peer lending: To bring in investment from Nepali diaspora and to bring down interest rates, an online marketplace of loans for entrepreneurs is recommended. But, due to the current regulations and difficulty with online payment, this is not possible.
- Business training for entrepreneurs: Potential entrepreneurs need to be given business training programmes to build their confidence, give them skills to write business proposals and approach banks in the most impactful manner
- Gorkha Development Corporation: a joint venture of the people of Gorkha and core entrepreneurs (focus on agribusiness and agriculture processing) could act as a much needed catalyst for enterprise promotion in Gorkha

1 Introduction

1.1 Background

Nepal has an immense potential for economic growth and development. This presents a critical opportunity to capitalize on these potentials and contribute to individual, community and national development. This can be done by tapping into the entrepreneurial spirit and creating a highly nurturing entrepreneurship ecosystem. Among many requirements, access to finance is a critical one as it helps actualize innovative ideas and enterprise potentials. However, the problem of lack of access to financial products and services is prominent in rural areas. Entrepreneurs with high aspirations lack necessary financial prerequisites- knowledge and information and the financial industry is yet to develop products that meet the rural enterprise needs. There have been many success stories related to micro-finance, micro-enterprise and co-operatives. However, there are concerns regarding the unaffordable interest rates and lack of insurance for enterprises. In this context, the aim of this project is to carry out a study of policies and programmes to help create an enabling environment for entrepreneurs. The focus area is Gorkha, constituency number 1.

On the occasion of new year 2072 B.S., Hon. Dr Baburam Bhattarai put forward his vision to develop Gorkha-1 as a model constituency area and a prosperous, self-reliant and sustainable economic centre with social justice. The mission at heart is to promote productive employment-generating programmes to bring about massive transformation in the lives of communities who have fallen behind economically and socially. In particular, the goal is to bring the Human Development Index of Constituency Number 1 to the national average within the next three years. The strategy to carry out his vision focuses on the co-ordination of the state, private and co-operative sector for resource mobilisation, maximum mobilisation of local labour, skills and capital, access to employment and self-employment opportunities, increase of access to microfinance and savings collection in the constituency, creation of investment friendly environment to attract private investment, inclusion of the young generation in agricultural enterprises, increase of access to co-operative businesses for women, poor, marginalised, landless, disabled and disadvantaged community. The project focuses on carrying out a preliminary study that will prepare evidence to help execute these strategies.

Most recently, the devastating earthquake in Nepal has affected livelihoods of people and there is an urgent need to help create massive employment and self-employment opportunities. According to the Post Disaster Needs Assessment carried out by the National Planning Commission, the figure for needs of the sector is given as NPR 1,085 million. Similarly, for the financial sector, the estimate for total damage is NPR 4,394 million, loss is NPR 26,891 million, disaster is NPR 31,285 million and total needs is NPR 32,856 million. These figures also represent opportunities to build back better.

1.2 Objectives

The objectives of this study are to:

- Carry out a mapping of financial systems in the constituency and district and to make rigorous assessment of existing financing mechanisms, community savings and credit groups (SCGs), banks and financial institutions (BFIs), and informal means
- Examine critical inefficiencies and gaps in the financial markets, including linkages between formal and community banking, unwillingness of banks to lend to aspiring entrepreneurs, information and knowledge gaps
- Carry out an assessment of the gaps, challenges and opportunities in the current local enterprises and entrepreneurs needs
- Study policy level challenges, explore banking policies, practices and decision-making on the banks that limit access to financial products for entrepreneurs
- Carry out an assessment of policy-level challenges in more effectively bringing in investments from Nepali diaspora
- Identify solutions that help to create an enabling environment for inclusive finance, allow for catalytic investment in Financial Service Providers (FSPs), and strengthen the financial industry infrastructure
- Identify innovative financial products that serve the need of the entrepreneurs and make good business for the BFIs or other lending mechanisms
- Identify plans and programmes to actualize Hon. Dr. Baburam Bhattarai's vision of developing Gorkha-1 as a prosperous, self-reliant and sustainable economic centre with social justice
- Study success stories related to micro-finance, micro-enterprises and co-operates so that it can be replicated to uplift socially disadvantaged communities (Chepang community in southern region of Gorkha and Kumal community in the outskirts within Gorkha municipality)
- Identify potential agri-businesses, industries and services that can be operated in Gorkha

2 Methodology

2.1 Research Questions

The main research questions to be answered by this study is: “How can access to finance be enhanced and what can be possible models for enterprise development to realise the vision of developing Gorkha-01 as a prosperous, self-reliant and sustainable economic centre to promote productive employment-generating programmes to bring about massive transformation in the lives of communities who have fallen behind economically and socially?”. To answer this main question, the following research questions need to be answered:

1. What kind of enterprises are there in Gorkha-1? What are the trends?
2. What are the existing financing mechanisms in Gorkha-1 for entrepreneurs?
3. What are the existing inefficiencies and gaps in the financial markets?
4. What are the gaps, challenges and opportunities in the current local enterprises and entrepreneurs’ needs?
5. What are some of the success stories related to entrepreneurs, co-operatives and financial institutions?
6. What are the policy level challenges faced by banks, entrepreneurs and investors?
7. What could be some possible solutions that help to create an enabling environment for inclusive finance?
8. What could be some plans and programmes to actualize the vision of developing Gorkha-1 as a prosperous, self-reliant and sustainable economic centre with social justice?

2.2 Research Design

The study will use mixed methods to answer the research questions. The following table summarises the methods used to answer each question:

Table 1 Methods used to answer research questions

Research Question	Method Used to Answer Question
What kind of enterprises are there in Gorkha-1? What are the trends?	Collection of data from Cottage and Small Industry Gorkha Office, digitization of data and mapping
What are the existing financing mechanisms in Gorkha-1 for entrepreneurs?	Field research, key informant interviews, informal discussions and use of financial statistics
What are the existing inefficiencies and gaps in the financial markets?	Field research, key informant interviews, informal discussions and use of financial statistics, literature review and analysis

What are the gaps, challenges and opportunities in the current local enterprises and entrepreneurs' needs?	Field research, key informant interviews, informal discussions, literature review and analysis
What are some of the success stories related to entrepreneurs, co-operatives and financial institutions?	Case based study, Key informant interviews
What are the policy level challenges faced by banks, entrepreneurs and investors?	Study of policies, directives, regulations and literature review on the topic
What could be some possible solutions that help to create an enabling environment for inclusive finance?	Literature review and analysis, interviews with concerned stakeholders
What could be some plans and programmes to actualize the vision of developing Gorkha-1 as a prosperous, self-reliant and sustainable economic centre with social justice?	Literature review and analysis, interviews with concerned stakeholders

2.3 Sample

The sample was selected purposefully. For enterprise mapping, the data was collected from the Department of Cottage and Small Scale Gorkha Office. Due to time and resource constraints, only a sample of about three years, including the last three years has been taken for enterprise mapping. Only the enterprises in Gorkha-1 has been taken as a sample. Cosmos Development Bank was selected for a case study of a financial institution as it is a financial institution that only operates in Gorkha district and has four different branches. Samundra Shrestha of Borlang VDC was selected for case study. Finally, Bhimkul Saving and Credit Co-operative of Borlang VDC was selected for a case study on a co-operative on the recommendation of Hon. Dr. Bhattarai.

2.4 Data Collection

The data was collected by the author through field research. The interviews were face to face. To digitize the data at the Cottage and Small Industry Gorkha Office, the author worked at the office for a couple of days.

2.5 Data Analysis

The data for enterprise mapping was entered onto the computer using MS-Excel programme.

2.6 Limitations

Despite the best efforts of the author, there were significant time constraints to the study. The research objectives were quite broad. So, it was difficult to explore each of the topic in extensive detail. Nevertheless, this could be a good reference research for further detailed studies on each of the sub-topics of the research.

3 Results

3.1 What kind of enterprises are there in Gorkha-1? What are the trends?

Although there are different types of enterprises registered at the Cottage and Small Industry Office, the majority, i.e. 360 of the total 1279 enterprises registered by the end of the Fiscal Year 2070/071 B.S. are *Kutani Pisani* mills followed by 256 hotel enterprises. There are also 166 enterprises related to construction industry.

3.2 What are the existing financing mechanisms in Gorkha-1 for entrepreneurs?

There are thirteen commercial banks, nine development banks, no finance companies, and about six micro-finance institutions and many saving and credit co-operatives in Gorkha but in Gorkha-1, most rural parts are served by saving and credit co-operatives and micro-finance institutions.

3.3 What are the existing inefficiencies and gaps in the financial markets?

Many co-operatives are successful and profit-generating and have interesting programmes like member social security programmes that gives money to new mothers and also to the family members of a person who passes away. There is a problem of duplication of loans in micro-finance as commercial and development banks have also been given permission to give micro-loans.

3.4 What are the gaps, challenges and opportunities in the current local enterprises and entrepreneurs' needs?

According to the data provided by the Gorkha Office of the Cottage and Small Scale Industry, by the end of the Fiscal Year 2070/071 B.S., various skill development trainings have been given to 2437 female and 912 male, enterprise development trainings have been given to 260 female and 68 male and accounts training to 22 women through the Small and Cottage Industry Office in Gorkha. In addition, many I/NGOs have given skills development training. But, these do not need to be reported to the Small and Cottage Industry Office. So, it is difficult to map what trainings have been given.

There is also an untapped market for financial institutions which can be termed as the 'missing middle' as there is difficulty for entrepreneurs who wish to borrow more than 8 lakhs and less than 50 lakhs.

3.5 What are some of the success stories related to entrepreneurs, co-operatives and financial institutions?

Entrepreneur: Samundra Shrestha

Samundra Shrestha is an inspiring young entrepreneur. After completing his BBS from Shankar Dev College, his first job was in a marketing role. He went to work in tie and suit but ended up carrying heavy luggage from one shop to another. Dissatisfied with his work, he tried to join the Army. He was rejected because of the deformity of his upper lip.

In the meantime, he heard that there was big electrification project coming to his village, Borlang VDC, in Gorkha. So he joined a six month training course in electronics at Kathmandu Technical Institute, Sundhara. He left his job and returned back to his village. At first, no one trusted him to wire their houses. People said, 'Samundra is going to blow your house'. So, he started with his own house, then, his sister's house. A neighbour agreed to be the next guinea pig to Samundra's electrification project. It worked. Others started to trust him. As his skill got recognised, he started selling electrical products as well.

Samundra was not satisfied with this. He sold some of his land and with an amount of 1 lakh 44 thousands he was all set to leave Nepal for foreign employment. But, his mother convinced him not to leave her. His two elder brothers had already left the village and were in Pokhara and Chitwan respectively. He decided to listen to his mother and spend the money on other enterprises. He started poultry farming. After some time he realised that there was more demand for chicken meat than hen. So, he also started a cold store. He also started pig farming. Not only has it fetched him good money, it has also provided a mechanism to manage the waste from poultry farming. He started fish farming as well but it didn't work well. But, Samundra has been unafraid to try new things, learn new things and put it in practice through hard work. He is satisfied with his earnings but wants to expand his activities.

I asked Samundra, his family members and neighbours why he has been more successful in comparison to others who are doing similar things in his village. The first unanimous answer was Samundra's positive demeanour. Samundra's mother said, 'He never gets angry. Everyone likes him.' Others agreed. Samundra is also extremely hard working. One of his close neighbours remarked, 'He wakes up at 4 and goes to bed at 11-12. I haven't seen anyone more hard-working that Samundra in this village'. Samundra believes his strategy of having multiple businesses has been key to his success as he can hedge failure of one business against the success of another. It also helps him manage his financing as some businesses, especially, farming takes some time to reap positive cash flow.

Samundra now wants to use more modern techniques to his farming. For example, he wants to use tunnel system to grow tomatoes. Some people in the neighbouring VDC of Ashrang have used the same system. He once queried them about the techniques. But, they discouraged him saying that the sheets needed to carry out the farming had to be imported from bidesh and they are quite expensive. He faces other challenges like getting cheap loans to expand his business. But he is determined, positive and hard-working. He has an understanding of the risk and has business knowledge and experience to make his enterprises successful. That's what makes him a successful entrepreneur.

3.6 What could be some plans and programmes to actualize the vision of developing Gorkha-1 as a prosperous, self-reliant and sustainable economic centre with social justice?

Naya Ghar and Innovation Challenge- a case study

In collaboration with a local partner NGO, Naya Ghar organizes a local Innovation Challenge to find and support high-growth entrepreneurs in selected districts of Nepal. The primary program beneficiaries are marginalized youth and women from non-urban districts of Nepal. In the challenge entrepreneur applicants are sought from every Village Development Committee of the selected district. Each application goes through rigorous selection process that involves business model and strategy analysis by experts, mobile SMS voting (at local level), facebook voting (at global level) and business site visit during various rounds of selection process. The selected entrepreneurs receive financial and technical assistance required for scaling up their business. They also receive mentoring and training in leadership building and creating meaningful social impact through their enterprises. Adequate networks for their business development are also created.

Naya Ghar also supports community-led local innovation labs, which provide a supportive environment for the entrepreneurs of the district through workshops, mentorships and networking at local and global levels. As NG expands its operations to several districts in Nepal, it fosters a network between the community innovation labs. In collaboration with other stakeholders such as local banks, universities, and the government, NG supports these labs and nurture a national entrepreneurial ecosystem. The Government of Nepal, Department of Cottage and Small Industries has signed a memorandum of understanding for collaboration with Naya Ghar in starting these innovation labs.

So, Naya Ghar is a successful NGO that promotes community entrepreneurship. It has been working in three districts of Nepal: Palpa, Gulmi and Syangja. Perhaps, this model could be replicated in Gorkha by running an innovation challenge in Gorkha district and providing a nurturing environment for high growth entrepreneurs.

4 Discussion

Enterprise development in Gorkha district has not been able to gain momentum due to geographical remoteness, lack of market for products, attraction of youth towards foreign employment and transitional period that the country has been for a long time. However, there are some positive signs, for example, the Dhaka training programme is showing signs of success. On the other hand, traditional professions such as Kumal, Kami, Damai, Sarki, etc. and their produce have slowly been replaced by cheap produce of modern industries. Similarly, the local resources such as bamboo, medicinal plants and fruits are not utilised wisely. Some agri-businesses such as bee-keeping, mapping *Doko*, *Namlo*, *Dalo* and other bamboo related products, etc. are in operation, but only at small scale.

Many I/NGOs have been providing skills development training to the entrepreneurs. But, these do not need to be reported to the Small and Cottage Industry Office. So, it is difficult to map what trainings have been given. It is also likely that many have been duplicated and many training needs have not been addressed.

The enterprises registered at the Cottage and Small Industry Office are not that diversified. In Gorkha-1, most rural parts are served by saving and credit co-operatives and micro-finance institutions. However, there is a problem of duplication of loans in micro-finance as commercial and development banks have also been given permission to give micro-loans. There is also an untapped market for financial institutions which can be termed as the 'missing middle' as there is difficulty for entrepreneurs who wish to borrow more than 8 lakhs and less than 50 lakhs. This presents a huge opportunity for entrepreneurs, investors as well as financial institutions. Although financial institutions have objectives to bank the poor, the impact is limited. There is in fact a confusion due to policy provisions that allows all financial institutions to take part in micro-lending.

5 Recommendations

Based on the results from the study the following recommendations are made:

- Policy changes are needed to stop the duplication of microfinance loans, perhaps only one class of financial institution should be given the responsibility
- Business subsidy vs. business security: Some entrepreneurs would prefer the government to spend money on business security rather than subsidy as they would be willing to invest, even take loan at a higher interest rate and work hard if there was guarantee of markets for their products and their business
- Peer to peer lending: To bring in investment from Nepali diaspora and to bring down interest rates, an online marketplace of loans for entrepreneurs is recommended. But, due to the current regulations and difficulty with online payment, this is not possible.
- Business training for entrepreneurs: Potential entrepreneurs need to be given business training programmes to build their confidence, give them skills to write business proposals and approach banks in the most impactful manner
- Gorkha Development Corporation: a joint venture of the people of Gorkha and core entrepreneurs (focus on agribusiness and agriculture processing) could act as a much needed catalyst for enterprise promotion in Gorkha-1.