

ACCESS TO FINANCE, NEPAL

Unlocking Nepal's Agricultural Sector Potential through Innovative Financing

ITC GreenToCompete Hub Nepal has launched a new partnership with the NMB Bank Limited to scale up access to green finance for small agricultural businesses. This new financing approach, the first of its kind in Nepal, will support sustainable agriculture. The partnership aims to bridge the gap in access to finance so that farmers and agribusinesses can grow.

A vital sector that's underfinanced

About 60% of Nepalis work in agriculture, which contributes 26% to the national GDP. High-value crops like cardamom, tea and coffee are exported to South Asia, the United States and Europe.

But small agroprocessing businesses face challenges in securing financing. Commercial banks usually require real estate collateral. Hilly areas used to grow coffee and tea grow are often deemed unsuitable for financing.

The Central Bank of Nepal has mandated commercial banks to lend 15% of their total loan portfolio to the commercial farms by the end of 2023. As a result, agriculture lending jumped 168% from 2018 to 2021.

But agricultural output has increased at only 3% for the last seven years. This suggests that loans have not reached the intended recipients. Additionally, potential borrowers often don't know what documents lenders require, and need training in basic accounting and business planning.

Bridging the financing gap

The GreenToCompete Hub Nepal, hosted by Agro Enterprise Center, and NMB Bank signed an agreement on 28 September 2022 to scale up green financing for these farm businesses.



Coffee growers in Lamjung district.

Credit: Laxmi Prasad Ngakhusi

Although the agreement is not binding for either party, given the nationwide network of AEC and NMB Bank, the impact is expected to be far-reaching. Both parties agreed that the financing will be directed toward sustainable agricultural products which must be certified by a competent authority or company. Being the first of its kind in Nepal this innovating financing scheme will encourage commercial agro-SMEs to start implementing sustainable agriculture practices which are important to achieve the goal of SDG of the country in the long run. Moreover, if one commercial bank starts developing green finance products, it will pressure other banks to follow for both ethical and business reasons.

"This partnership aims to address the financing challenges faced by agro-SMEs and make a significant impact in the field of green agriculture financing. We are proud to be a part of this initiative and believe it will be a significant step forward in promoting sustainable agriculture practices in Nepal."

- Sunil KC, CEO of NMB Bank Nepal and President of the Nepal Bankers Association.

The NMB Bank will offer loans for activities approved by the Central Bank of Nepal, with a focus on sustainable agriculture. The GreenToCompete Hub, working largely with its beneficiary members, will help borrowers meet the NMB Bank's requirements.

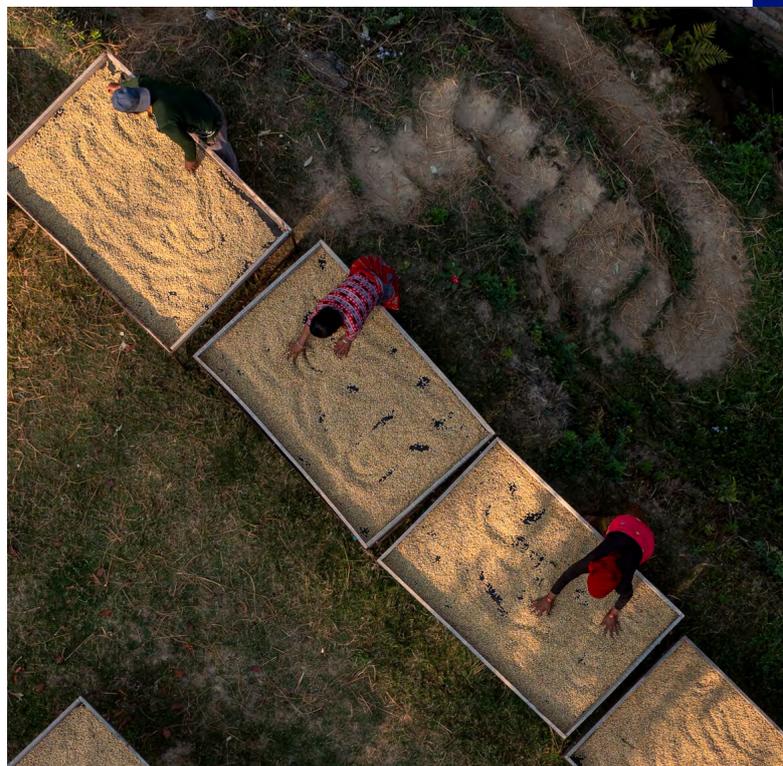
“This partnership has a dual benefit, as it not only increases access to finance for our members but also incentivizes them to adopt environmentally-friendly business practices. This agreement is a step towards achieving the country’s sustainable development goals and promoting sustainability in the agro industry.”

- Dinesh Parajuli, Executive Director of the Agro Enterprise Centre, Federation of Nepalese Chambers of Commerce and Industry

The agreement includes all types of loans, such as working capital, demand loans, project financing, trade financing, term loan facilities, and renewable energy loans. The bank will provide agricultural loans with a maximum amount of NPR 100 million (about \$750,000). For small and medium-size enterprises, the loan limit is between NPR 5 million to NPR 50 million (\$38,000 to \$380,000), depending on the viability and scope of the project.

Under the partially secured credit scheme, the bank provides loans for agro-SME through other BFIs (Banking and Financial Institutions) with the following conditions:

- ▶ **Credit range:**
NPR 5-50 million
- ▶ **Working Capital Limit:**
Based on the sales and cash conversion cycle
- ▶ **Working capital loan period:**
Up to 1 year, can be renewed
- ▶ **Capital Expenditure Loan/ Term Loan/ Project Finance:**
5 to 10 years
- ▶ **Loan Limit:**
80% to 100% of the Fair Market Value of the Property
- ▶ **Current Base Rate of the Bank:**
10.70% per annum (subject to change on a quarterly basis)
- ▶ **Interest Rate of the Agro SME Loan:**
Base rate+6%.
5% Interest refund from Central Bank



Nepal Coffee Company at Nuwakot.

Credit: Laxmi Prasad Ngakhushi

The GreenToCompete Hub in Nepal will assist SMEs in preparing loan proposals, providing training on good agricultural practices and good hygiene practices, mentoring, and raising awareness about financing options and incentives.

The Hub is actively seeking new partnerships with other commercial banks and financial institutions.

About the GreenToCompete Hub:

The GreenToCompete Hubs develops small businesses' capacity and knowledge to implement green business practices. In Nepal, the Hub is hosted by Agro Enterprise Center and is part of FNCCI (Federation of Nepalese Chambers of Commerce and Industry) with more than 2,700 members.

About NMB Bank:

NMB Bank Limited licensed as “A” class financial institution by Central Bank of Nepal in May 2008 and has been operating in the Nepal financial market for over twenty years. It is one of the leading commercial banks in the country.

CONTACT INFORMATION

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