

# Credit Supplementation Institution : Going Beyond Guarantee for SMEs



Deposit and Credit Guarantee Fund  
Nepal

## Background

- The World has witnessed radical changes over a period of a century and the entire earth has been converted to a global village.
- The current WTO regime has opened the doors for millions of opportunities be it for developed economies or for the developing economies.
- With opportunity, threats are also looming on existence of many entrepreneurs and entrepreneurship basically due to the throat cutting competition and the stress to enhance quality of products and the market share.

# Overview of Current Macroeconomic Situation of Nepal

- Real GDP change with previous year: 6.94%
- Per Capita Income : USD 853 (USD 746 on 2015/16)
- Consumer Price Index : 5.9 % (9.9% on 2015/16)
- Export increased by 12% (Growth was -ve from last two years)
- Import increased by 25.7%
- Export/Import=8.1%

# Common Features of SMEs in Nepal

- SMEs are family-level enterprise set up with family savings.
- The ownership and management is usually controlled by the same individual with powers over all decision issues of the enterprise.
- Since personal and family savings are the major sources of equity capital, credit worthiness of SMEs is low, which impedes their development.
- The technology used is usually locally innovated, limited in capacity and efficiency with frequent breakdowns which causes high wastage.
- Access to institutional credit for SMEs, despite provisions for the same, is limited due to individual entrepreneur's inability to contribute to equity capital and collateral security.
- Small and Medium Enterprises in Nepal are characterized by low productive capacity, use of obsolete techniques and family run businesses being inherited from fathers and forefathers.
- Lack of easy credit and a robust insurance mechanism.

# Snapshot of Deposit and Credit Guarantee Fund, Nepal

- Established under Deposit and Credit Guarantee Fund Act 2016
- Account balance up to Rs.200,000.00 (USD 2,000, approx.) per individual is being guaranteed under deposit guarantee scheme.
- Deposit Guarantee scheme came into operation since 2012.
- Currently 13.6 million deposit accounts with almost 400 billion (USD 4 Billion, approx.) amount is being guaranteed.
- The company has paid up capital of 3 Billion with total financial strength of 6 Billion.
- DCGF is guaranteeing SMEs, Live stocks, Microcredits and Agriculture Loan as well.
- Under SME Guarantee, credit extended by Bank and Financial Institutions up to Rs.10 million (USD 100,000.00,approx) is being guaranteed.

# Snapshot of Deposit and Credit Guarantee Fund, Nepal (Contd.....)

- The premium rate is 0.15% up to Rs.10 million and 0.175% up to Rs.5 million on the basis of outstanding balance of each half-year i.e, 0.30% and 0.35% respectively per annum.
- Bank can file the claim of the unrecovered outstanding loan till the due date of payment within two years of the due date of payment.
- The compensation rate is 80% up to Rs.5 million and 70% up to Rs.10 million of the outstanding balance of the loan at due date.

# How DCGF Functions on Guaranteeing SMEs?

Loan Disbursed by BFIs

Agreement is done with DCGF for Credit Guarantee



All Loans under SME gets coverage

Claim is settled within 7 days of receiving full sets of required documents.



The agreement gets renewed upon paying the required guarantee fee.

# Way forward towards Sustainability of SMEs and CSIs

- CSIs in co-ordination with the central bank should encourage bank and financial institutions to increase investment on SMEs.
- CSIs should work as a connecting link between the government and the private sector in order to boost the development of the SMEs.
- Policy frameworks should be always supportive be it on tax provisions or establishment norms or the renewal clauses so as to reduce administrative hassle. India is doing commendable job allowing entrepreneurs to register their entities via phone.
- Use of ICT on marketing and branding of the products.



# Empowerment of SMEs

## Government

- Levying low tax rate.
- Exploring and creating markets for products of SMEs
- Making arrangements for easy access to raw materials.
- Making arrangements for easy credit availability for working capital requirements.
- Exempting on taxes for import of raw materials, plants and machineries as well as export of finished or semi-finished goods.
- Adequate development of infrastructures for the growth and expansion of SMEs.
- Political consensus for the growth and development of SMEs.
- Arrangement of investment friendly environment in the country.

# Empowerment of SMEs (Contd....)

## Entrepreneur or Investor

- Should do appropriate market study and research before investment
- Psychological behavior of the society must not be undermined.
- Providing competitive wages to employees, making healthy working environment, maintaining sound relationship with vendors, consumers as well as retailers are the true mantras.
- Regular SWOT analysis
- Adequate financial back up plan.

# Empowerment of SMEs (Contd....)

## Bank and Financial Institutions

- Should give top priority on providing credit to SMEs on easy way.
- Regular guidance and feedback on their operation.
- Interest subsidy for few years will be a bonus.
- Should act like a friend in need such that development of SMEs is fostered.

# Empowerment of SMEs (Contd....)

## Credit Supplementation Institutions

- Liaising for easy availability of raw materials, export of finished goods and working on removal of non tariff barriers must be top priority as most of the CSIs are on close connection with policy making bodies.

# Way Forward: What to do next by Maturing CSIs?

- Provision of adequate legal authority to support and guide the SME units to be provided to CSIs.
- Working in close co-ordination and collaboration with the central bank and the member institutions (BFIs).
- Organize regular brainstorming sessions in order to understand the ground reality and make plans accordingly.
- Arrangement of training facility to encourage more youths attracted to initiate their own SME venture.
- Bridge gapping the distance between the government and the entrepreneurs in order to explore the possibilities.
- CSIs should liaise with line ministries in order to get the produces sold at the international market. Quality maintenance, outlook, finishing technique etc. should be taught with the use of quality manpower.
- One window policy for registration, renewal, export, import etc. which are major pre and post production functions of SME units should be there and CSIs should work on it in order to attract the attention of the government.
- The government like ours is equally serious on enhancing the entrepreneurial strength of the youth where CSI can be a very good helping hand.
- Institutional, structural and human resource capacity of CSIs should be enhanced to embrace the growing challenges.

# Way Forward: What to do next by Matured CSIs?

- Make SMEs aware that there is a helping hand in the backyard
- Easy claim settlements and gaining more confidence.
- Review the existing human and other resources to cope with changing dynamics of entrepreneurial world.
- Arrangement of technical and theoretical knowledge to such units in order to make them aware of changing environment of the business world.
- Regular discussions and interactions to open up their issues. This will help them heard at one end while help to analyze the changing basics of SMEs.
- Arrangement of the favorable market, do market research for them and extend the ideas which best suits them as CSIs understands the functioning of the SMEs the most.
- Learn ideas from the fellow CSIs and adopt the best practices happening in the world right now.
- Work with close co-ordination with banks such that the win win situation can be achieved without undermining the core objectives of one another.

# Summary

While the developed world is dreaming about the future of SMEs, we at the developing nations are fighting hard for the growth, foster and revival of SMEs. The government is on the venture not to leave any stone unturned, though the expected result has never rejuvenated. With the frequent change on policy frameworks, the country is witnessing the turmoil on growth of SMEs. Weak infrastructure set up, lack of persistent and proactive moderators between the government and the private sector, the efforts to grow entrepreneurs is going on vain. CSIs like ours is on the verge of getting huge responsibility, as we foresee, as we can be the potential triggering factors for the development of the SMEs in the country.





Thank You

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