



SAKCHYAM ACCESS TO FINANCE



Sakchyam Challenge Fund

Concept Note Information Pack

January, 2018



Louis Berger

In Collaboration with



Monetics
SOLUTION SERVICES EXPERTS



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Contents

Executive Summary	2
Concept Note Format	5
Concept Note Self-Assessment Checklist for Bidders	9
Annex- I: Sample Concept Note 1	ii
Annex- II: Sample Concept Note 2.....	vii

Acronyms

ANM	Agent Network Manager
BLB	Branchless Banking
CN	Concept Note
Coop	Cooperative
DAG	Disadvantage Groups
DFID	Department for International Development
FA	Full Application
FSP	Financial Service Provider
G2P	Government to People
GBP	Great Britain Pounds
IAP	Independent Assessment Panel
IVR	Interactive Voice Response
MFS	Mobile Financial Services
MNO	Mobile Network Operator
MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organisation
NRB	Nepal Rastriya Bank
RFP	Request for Proposal
Sakchyam	Sakchyam Access to Finance Programme
UK	United Kingdom

Executive Summary

Sakcham is the first-generation Access to Finance programme in Nepal that started in September 2014. Sakcham partnerships are built through the Challenge Fund investment and the Technical Assistance. To date, Sakcham has committed GBP 10 million to 48 projects. Sakcham has additional funds to co-invest in the projects with private sector firms. This document intends to provide information on the modality of Sakcham Challenge Fund and guides the potential bidders on how to draft Concept Notes.

The Concept Note and Full Applications: Sakcham accepts the proposals from private sector financial service providers under two approaches- Pull and Push. Under the pull approach, financial service providers are encouraged to come up with innovative ideas that they think are either high risky or are high costly; and investing into those ideas without external funding is less likely to be pursued by the private sector. Whereas, those concepts also have developmental value of providing financial services to the underserved/unserved individuals and MSME. The first step to apply for the Sakcham Challenge Fund is to submit the Concept Note using the template suggested by Sakcham. The bidders whose concept is likely to address the Programme objective are encouraged to submit Full Application of their business model, in the second round.

Under the Push approach, Sakcham itself throws innovative business concepts in the market and asks the interested bidders to adapt those business model. In that situation, bidders need not to submit the Concept of their proposal. Rather they are directly taken into Full Application Stage.

Bidders interested to submit the Concept Note should refer to the [Concept Note Information Pack](#) for guidance on the preparation and submission of the Concept Note. Bidders either encouraged by Sakcham to submit the Full Application or those bidders willing to adapt the business model as suggested by specific RFPs issued by Sakcham should refer to the [Full Application Information Pack](#) for necessary guidance.

The bidding Cycle: Bidders are encouraged to submit a Concept Note of their innovative business models at any time. Sakcham will accept Concepts until the total funds available under its Challenge Fund are committed and invested fully. Sakcham reviews the Concept Notes on weekly basis and advises further steps to the interested bidders generally within 7 to 10 days of the receipt of the CNs. For the successful CNs, a specific deadline to submit the Full Application will be assigned by the Fund Manager. There is no deadline to submit the Concept Note.

Eligible Bidders: Any financial service provider licensed by the respective regulators in Nepal are eligible to apply for the Sakcham Challenge Fund. The bidders, to be considered for funding, should demonstrate their sound governance structure, ability to invest the bidder's contribution in the project, ability to deliver and the project results, and sound financial management system. Other interested bidders including Value Chain firms/not for profit organisations/ other entities interested to provide financial services should apply through a consortium led by a licensed financial institution.

Bidding Documents: Sakcham has prescribed specific templates and rules for bidding through the Concept Note and Full Application. Bidders can [download the templates for CN](#) from Sakcham's website or they can request to provide the templates to fundmanager@sakcham.com.np. Sakcham provides the templates to complete Full Applications at the time of encouraging the CNs to submit Full Applications or at the time of circulating RFPs. **Bids submitted in other formats or not following the Sakcham templates will not be considered for review.**

Summary Sheet: Sakcham Challenge Fund (S-CF)

Objective	<ul style="list-style-type: none"> • Mobilise the Nepalese financial sector to invest in and develop financial sector capacity in target districts where the Sakcham Challenge Fund is required to share the initial risk. • Catalyse the financial services sector in target districts to create or widen the range of products, or introduce new channels for delivery of financial services to rural communities (including innovative mobile financial service solutions) , improve the efficiency of intermediation and extend services to the poor.
Districts of implementation	<p>Sakcham priorities its investment that are focused in any of the 34 districts:</p> <p>Province 6 and 7: all districts</p> <p>Province 5: Bardiya, Banke, Dang, Rolpa, Pyuthan, Kapilvastu, Arghakanchi, and Rupandehi</p> <p>Province 4: Manang</p> <p>Province 3: Nuwakot and Dhading</p> <p>Province 2: Sarlahi</p> <p>Province 1: Illam, Jhapa, and Sunsari</p>
Type of funding available	<p>Grants to co-invest with the private sector to deliver innovative and eligible projects.</p> <p>Funding decisions are made on a competitive, deadline-driven basis. Only the best bids consistent with the project objectives will receive Sakcham investments</p>
Size of grants available	<p>Minimum S-CF contribution for each of the project should be NPR 30 million [NPR 20 million for Micro life insurance and Financial Literacy Projects]</p>
Projects eligible for funding	<ul style="list-style-type: none"> • Increase Downscaling by Commercial Banks: Introducing Alternate Scoring Models or Adaptation of Technology for credit decision and management. • Increase Value-Chain Financing Products: Concentrated efforts in selected agricultural value chains: honey, dairy, food grains, livestock, poultry, horticulture, and vegetables; Promotion of linkages across different FSPs for wider reach and coverage; selected products such as Warehouse Receipt Financing; Invoice Discounting/Reverse Factoring; Input Financing; Overdraft Facility for farmers; Purchase Order Financing; and Linkages with Coops • Extend Remittance-based Products: Pre-departure/Post-departure Loan for Migrant Workers; Loan and Saving Product for Returnee-Migrant Workers • Increase Uptake of Micro-Insurance • Replicate Technology for Loan Automation: Roll out of tablets for transaction recording, loan automation and developing ecosystem of digital operation of microfinance • Replicate and Scale Financial Literacy Initiatives: Technology-led initiatives (namely video, radio, and IVR); traditional financial literacy sessions to secondary-level students; and financial literacy initiatives to migrants and their families • Roll-out Mobile Financial Services (MFS): MNO led MFS • Create Bank Agent Ecosystem: 3rd-party ANM company/in-house dedicated ANM Unit; add more BLBs

	<ul style="list-style-type: none"> • Provide targeted support for G2P payments through formal banking channels: Increase outreach in these unserved areas; creating an information repository needed to prevent duplication and to allow for interoperability; make the G2P payments happen through bank accounts
Entities eligible to apply	<p>Entities registered anywhere in Nepal that are:</p> <ul style="list-style-type: none"> • for-profit (intending to generate a return for shareholders/members) private sector organisations operating or intending to operate (with Sakcham Support) in one of the Sakcham Districts of operation, or a consortium led by such an entity, and • in satisfactory financial health (in terms of being a “going concern” as defined by S-CF, and able to show at least three years of unqualified audited accounts <p>Such as:</p> <ul style="list-style-type: none"> • bank and non-bank financial institutions • private sector enterprises and value chain actors working with small-holder farmers or communities in priority districts • NGOs (including cooperatives) with proper governance structures, systems and successful track record working on income and wealth creation programmes in the priority districts. However, the project has to be led by a financial institution that will own the project and lead the implementation. • Other entities involved in establishing financial sector infrastructure that enables increased financial access
Application process	<p>Bidders should first submit Concept Notes on official S-CF forms. All Concept Notes must be submitted to the S-CF representative office. All bidders will be advised within 10 days whether they will be invited to submit a full application. Detailed full applications must be made on official S-CF forms, available from the Sakcham Programme office. All Bids must be submitted electronically. Bidders will be informed of decisions within two weeks of submission.</p> <p>Concept Notes are not required while responding to Request for Proposal issued by Sakcham. Applications should directly submit the Full Application.</p>
Assessment Process Options	<p>Concept Notes reviewed and approved/rejected for full application by the Sakcham Leadership Team (with IAP seeing summary of approvals/non-approved CNs); but the IAP only will approve/reject Final Applications. Approved FAs are sent to DFID for “no-objection”.</p> <p><i>An independent assessment panel drawn from a pool of independent experts will review and approve applications. These experts have been selected by the Sakcham Leadership Team in consultation with DFID. Experts will be respected professionals in the field of business, economics, finance and industry disciplines based on the nature of the applications received. The independent assessment panel will assemble to review and approve fast track applications on a pre-scheduled (bi monthly) basis.</i></p>
Contact Details	<p>Tel: +977 1 47 21 284/47 21 269/47 21 181 E Mail: fundmanager@sakcham.com.np</p>

Concept Note Format

Concept Note Proposal	
Please summarise information about your project in the space provided in the format below, within 4 pages of A4. Any additional information submitted will not be read, other than a covering letter which must not exceed one (1) page. If your bid is from a consortium, ensure that the covering letter is signed by each organisation involved and listing the key personnel responsible for the bid	
Business details	
Name of lead organisation	
Address for correspondence	
Contact name	
Telephone	email
Details of lead organisation's business (activities, ownership, major shareholders, directors and their backgrounds, years of operation, successes, number of employees, details of past assistance from DFID or/and other donors , including any issues outstanding with the donors). Please also cite any outstanding issues with the regulators that can have implications on the successful rollout of the concept?	
Summary Financial Performance for last three years (turnover, profits, net assets)	
Auditors:	
Are there any issues that were raised by your internal auditor, your external auditor, or from the NRB audit over the last three fiscal years?	
Project Title:	



Project Description – include key objectives, service/product proposed, time-scale, and how the project will be managed. Please indicate any activities that are new and/or specific to this project that will be different than your existing product programme.

Beneficiary Information. Who is the target group? How will the project improve their incomes and livelihoods? How will the project overcome weaknesses in the financial sector? Describe the key



achievements and results you expect in qualitative and quantitative terms as per the indicators in the Summary Sheet

Total Beneficiaries	Women Beneficiaries	DAG Beneficiaries	Youth Beneficiaries	SME Beneficiaries

Project Districts

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Large empty rectangular area for providing qualitative and quantitative achievements and results.

Project Justification. What evidence is there of need for the project? Why is Sakchyam Challenge Fund grant necessary for this to happen? What makes this project innovative?

Large empty rectangular area for providing project justification.

Financial Information: List principal categories of expenditure and indicate if to be paid for by bidder or Sakchyam Challenge Fund

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NRs	Source	Year 1	Year 2	Year 3	Total
1. Item:	Bidder				
	S-CF				
2. Item	Bidder				
	S-CF				
3. Item:	Bidder				
	S-CF				
4. Item	Bidder				
	S-CF				
5. Item:	Bidder				
	S-CF				
6. Total	funding from Bidder				
7. Total	funding from S-CF				
8. Total	Project Costs				
How will the Project be sustained following utilisation of Sakcham Challenge Fund grant?					

Declaration:

I hereby certify that we are:

- registered as a.....(type of organisation/ company/institution), under..... (state relevant legislation), since.....(date)
- have the relevant permissions to introduce the products/services as described in this note
- a going concern.
- willing to abide by the requirements of the Sakcham Challenge Fund and its managers.
- willing to provide all reasonable information as requested by the managers or their representatives.

Signed:

Date:

Concept Note Self-Assessment Checklist for Bidders

Before you submit your concept note to Sakcham Challenge Fund, please check the following:

Please tick as appropriate

Checks	Yes	No
Is your concept note <u>only 4 pages</u> , as stipulated?	<input type="checkbox"/>	<input type="checkbox"/>
Is the budget mathematically correct?	<input type="checkbox"/>	<input type="checkbox"/>
Have you presented budget items segregating the contribution from Sakcham Challenge Fund and your contribution, as per guidelines in Information Pack?	<input type="checkbox"/>	<input type="checkbox"/>
Is your project title short and clearly describes the project?	<input type="checkbox"/>	<input type="checkbox"/>
Have you clearly stated your proposed financial product or service?	<input type="checkbox"/>	<input type="checkbox"/>
Is your financial product or service or delivery mechanism innovative?	<input type="checkbox"/>	<input type="checkbox"/>
If you are not a Financial Institution, have you identified a partner Financial Institution who will be working on this project?	<input type="checkbox"/>	<input type="checkbox"/>
Are you serving existing clients, or new clients?	<input type="checkbox"/>	<input type="checkbox"/>
Is your project focused?	<input type="checkbox"/>	<input type="checkbox"/>
Have you clearly described and quantified your target group?	<input type="checkbox"/>	<input type="checkbox"/>
Have you quantified target group by gender and socially excluded groups?	<input type="checkbox"/>	<input type="checkbox"/>
Are you proposing to work in the Sakcham priority districts?	<input type="checkbox"/>	<input type="checkbox"/>
Have you identified the financial weakness that your project will solve?	<input type="checkbox"/>	<input type="checkbox"/>
Have you explained why you need Sakcham Challenge Fund money?	<input type="checkbox"/>	<input type="checkbox"/>
Have you explained how the project will be commercially sustainable?	<input type="checkbox"/>	<input type="checkbox"/>
Have you submitted financial details of your organization?	<input type="checkbox"/>	<input type="checkbox"/>
Have you been in operation for 3 or more years?	<input type="checkbox"/>	<input type="checkbox"/>
Are you sure you have completed all sections of the concept note?	<input type="checkbox"/>	<input type="checkbox"/>
Have you understood and signed the declaration?	<input type="checkbox"/>	<input type="checkbox"/>

If you have ticked all questions with "yes", then you can submit your concept note. If you have ticked any question with "no", think about revising your concept note; or, explain why in a covering letter.



Annexes

- Annex I: Sample Concept Note 1
- Annex II: Sample Concept Note 2



Annex- I: Sample Concept Note 1

Concept Note Proposal

Please summarise information about your project in the space provided in the format below, within 4 pages of A4. Any additional information submitted will not be read, other than a covering letter which must not exceed one (1) page. If your bid is from a consortium, ensure that the covering letter is signed by each organisation involved and listing the key personnel responsible for the bid

Business details

Name of lead organisation

Innovative Bank of Nepal (IBoN)

Address for correspondence

POB No: 99999999, IBoN Complex, Chundevi Marg, Maharajgunj, Kathmandu, Nepal

Contact name: Ms. I B Nepal, Chief Executive Officer

Telephone: +977 1 111111111, Cell: 9851000000

email: innovative@bankofnepal.com.np

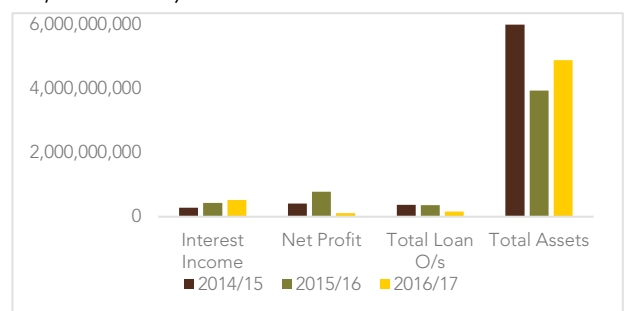
Details of lead organisation's business (activities, ownership, major shareholders, directors and their backgrounds, years of operation, successes, number of employees, **details of past assistance from DFID or/and other donors**, including any issues outstanding with the donors). Please also cite any outstanding issues with the regulators that can have implications on the successful rollout of the concept?

Innovative Bank of Nepal (IBoN) is registered as class A commercial bank with a capital of NPR 3B [proposed 8B]. It is operating profitably for last 5 years and operates 85 branches in 40 districts. It offers modern banking services from almost all the service outlets. It is promoted by renowned professionals, who have interest in research, trading, and consultancy service. It has 5 elected and 2 appointed BODs. Ms. I B Nepal heads the management as CEO. Along with 15 management staff, it has total staff strength of 800. It has total client base of 1.2M and asset size of NPR 4.9B. IBON was awarded with Bank of the Year in the year 20XX and it has received several other national awards in Nepal.

IBoN has been implementing a project with ABC donor organisation to provide financial services to 12,000 farmers in Rukum and Okhaldhunga district. The project was successfully completed within the agreed time.

Summary Financial Performance for last three years (turnover, profits, net assets)

Particulars	2014/15	2015/16	2016/17
Interest Income	280,500,966	431,543,654	523,533,659
Net Profit	406,875,170	775,468,632	108,658,181
Total Loan O/s	373,046,384	357,709,351	164,908,250
Total Assets	5,991,412,896	3,931,174,792	4,875,596,179



Surge in income and loan size in the years 2014/15 and 2015/16 is due to one-off fees income and short-term loan disbursement during the last quarter.

Auditors: AB Chartered Accountants

Are there any issues that were raised by your internal auditor, your external auditor, or from the NRB audit over the last three fiscal years that would materially affect your ability to execute the proposed project?

NRB had asked us to have Information Management System Security Policy based on the finding during their previous supervisory audit; It has been adopted satisfactorily.

Project Title: Start and Grow Business with Borrowed Funds

Project Description – include objectives, service/product proposed, time-scale and how the project will be managed

Objective: The project aims to provide financial services to the individuals and SMEs whose income generating activities/ business are facing challenge to arrange funds.

Proposed Activities:

1. BUSIE (Business Initiate and Expand) Loan – New Product

<i>Loan size:</i>	NPR 200,000 to 3,000,000 [60% of total limit or up to 90% of collateral value will be Term Loan; remaining will be either demand loan or an overdraft]
<i>Security:</i>	Current and/or Fixed Assets acceptable to the bank
<i>Term:</i>	up to 5 years for term loan
<i>Cost:</i>	13% p.a. for Term Loan/Demand Loan; 14% p.a. for OD; 1% Processing Fees upfront
<i>Target clients</i>	Registered businesses and individuals involved in income generating activities [they need to provide business registration documents for availing loan limit of NPR 1,000,000 or more]
<i>Top up:</i>	automatic eligibility for top up after a year up to 25% of most recent limit, higher top ups will be provided with separate assessment; no additional collateral required for any top ups

IBoN will initially train minimum of 500 individuals from different market place to appoint them as dedicated agents for sourcing loan clients. Then, every quarter 10 new agents will be appointed in different market place. The agent will earn 10% of interest income on performing loans.

IBoN will sign MOU with key MFIs and Cooperatives in the region. Such MFIs will be offered an attractive incentive [10% of yearly interest paid by the borrower during the first loan cycle] to refer loan clients.

2. BLB Service

Bank will also offer cash deposit, withdrawal, air time top up, utility bill payment and other facilities from selected agent locations through POS based BLBs. A total of 100 BLBs will be established over a period of three years. It is expected that 30% of loan fund for BUSIE will be raised through deposit collected from these BLB Touchpoints. The BLB agents will be incentivised through a fixed monthly remuneration and variable fee based on number of accounts opened, total deposit collected and other indicators.

3. **Establishment of regional credit and loan management units:** to support BLB operation, credit processing, and administration; cluster representative employees will be deployed through regional/field offices. 5 field office will be established to oversee operations in 5-8 districts. The clusters and regional offices will be managing loan approval, account opening, completing KYC, loan disbursement, and administration.

4. **Development of separate credit processing system:** new software application will be used for online loan processing. Each agent will also be able to access the system, through their mobile device or computers, to upload loan application and other documents.

5. Bank-assurance

IBoN will establish a bank assurance division that to sell insurance products. The products will also be offered through the agents identified for the loan product. 80% of the commission received from the insurance company will be shared with the agents.

Project Management: Initial targeted agents, 500, will be appointed by the third quarter. To support the agent network, one liaison staff per 30 agent will be appointed. Credit assessment staff will be deployed at cluster level and there will be a dedicated team at HO level to manage the entire project. Mr. C D Nepali, Head of Innovations, and Diversification division will lead the project implementation. Chief of New Business, Credit Risk and Head of Operations will be providing support to Mr. Nepali in managing the project. 5 dedicated staff will be appointed at HO to support the project steering committee.

Time Scale of the project: On-going; Sakchyam support is sought for a period of 3 years

Beneficiary Information. Who is the target group? How will the project improve their incomes and livelihoods? How will the project overcome weaknesses in the financial sector? Describe the key achievements and results you expect in qualitative and quantitative terms as per the indicators in the Summary Sheet

Total Beneficiaries	Women Beneficiaries	DAG Beneficiaries	Youth Beneficiaries	SME Beneficiaries
35,000	28,000	26,000	22,000	5,000

Target Groups: SMEs and individual entrepreneurs in the semi urban and rural market are the target groups. Key pocket areas for agricultural goods, small and rural market locations, and commercial farming locations will be prioritised to offer the products under this project. Bank will explore to sign MOU with MFIs to increase outreach.

Improve Incomes: A total NPR 9B will be lend to target beneficiaries during the project period to promote income generating activities. As a result, enterprises will be able to expand their business volume and increase income. Additional direct and indirect employment will also be created through this project.

Weaknesses of Financial System: currently the proposed locations are financially unserved/underserved. Local cooperatives and small scale FIs are offering services that are not adequate to meet the financing need. As a result, businesses are bound to go with money lenders or confine their activities up to the owner's capital investment. This has impacted business growth to a greater extent.

Minimum of 500 rural market locations from 30 districts will be targeted to launch this product. Bank will also offer this product in other select markets as pilots for future expansion. All districts of Western, Mid-Western and Far-Western development regions will be targeted. Beneficiaries availing financial service from IBoN will be able to start and expand income generating activities; there will be availability of general banking services to the nearest market place; and insurance product will also be available to cover risks to their lives, livestock, businesses, and crops.

Project Justification. What evidence is there of need for the project? Why is Sakchyam Challenge Fund grant necessary for this to happen? What makes this project innovative?

Need for Project: This project aims to develop a new and unique range of financial services to an entirely new segment of customers. It also tries to bridge the gap between the financial services offered by different categories of FIs.

Need for S-CF grant: In order to design and implement this project IBoN is going to incur large amount of additional costs that is not likely to be recovered from the volume of business generated by the project in initial years. Similarly, the segment is entirely new to the bank. It might take few more years (than in normal business cases) to streamline revenue lines and get a clear insight into recovery rates. IBoN may not undertake these activities in the proposed scale in foreseeable future. With S-CF providing co-investment in this project, IBoN can justify the commercial return in next three years. Within three years, IBoN will develop sufficient experience, volume of business and insight to continue the initiatives on its own.

Innovation:

- Development of suitable financial product mainly targeting SME
- Agent model to source loan clients
- Branchless banking services to increase the outreach
- Faster loan processing and approvals
- Offering a whole range of financial products to the rural population

Financial Information: List principal categories of expenditure and indicate if to be paid for by bidder or Sakchyam Challenge Fund

NRs	Source	Year 1	Year 2	Year 3	Total
1. Human Resource Cost	Bidder	8,000,000	9,000,000	9,000,000	26,000,000
	S-CF	8,000,000	7,000,000	5,000,000	20,000,000
2. Product Design and Promotion	Bidder	12,000,000	8,000,000	7,000,000	27,000,000
	S-CF	12,000,000	8,000,000	7,000,000	27,000,000
3. Project Support Cost	Bidder	4,000,000	5,000,000	6,000,000	15,000,000
	S-CF	4,000,000	5,000,000	4,000,000	13,000,000
4. Literacy and Awareness Campaigns	Bidder	7,000,000	7,000,000	7,000,000	21,000,000
	S-CF	8,000,000	4,000,000	3,000,000	15,000,000
5. Equipment and Other Assets	Bidder	5,000,000	5,000,000	6,000,000	16,000,000
	S-CF	5,000,000	4,000,000	4,000,000	13,000,000
6. Total	funding from Bidder	36,000,000	34,000,000	35,000,000	105,000,000
7. Total	funding from S-CF	37,000,000	28,000,000	23,000,000	88,000,000
8. Total	Project Costs	73,000,000	62,000,000	58,000,000	193,000,000

How will the Project be sustained following utilisation of Sakchyam Challenge Fund grant?

By the end of year three bank would have developed much matured portfolio of BUSIE loan; the BLB service would have deep penetration in the market and the bank assurance would be a major line of activity. The project would generate substantial return and the bank would be able to run similar activity from the operating income generated by the project. Our rough estimate shows that by the end of third year the project will be able to generate surplus income above 10 times of yearly cost.

Declaration:

I hereby certify that we are:

- registered as a Public Limited Company- Class A Commercial Bank under Companies Act 2063 since 20 April 2009
- have the relevant permissions to introduce the products/services as described in this note [approval from regulator is to be obtained]
- a going concern.
- willing to abide by the requirements of the Sakchyam Challenge Fund and its managers.
- willing to provide all reasonable information as requested by the managers or their representatives.

Signed: I B Nepal

Date: 26 January 2018



Annex- II: Sample Concept Note 2

Concept Note Proposal

Please summarise information about your project in the space provided in the format below, within 4 pages of A4. Any additional information submitted will not be read, other than a covering letter which must not exceed one (1) page. If your bid is from a consortium, ensure that the covering letter is signed by each organisation involved and listing the key personnel responsible for the bid

Business details

Name of lead organisation

Innovative Microfinance Bank of Nepal (IMBoN)

Address for correspondence

POB No: 99999999, IMBoN Complex, Chundevi Marg, Maharajgunj, Kathmandu, Nepal

Contact name: Ms. I B Nepal, Chief Executive Officer

Telephone: +977 1 111111111, Cell: 9851000000

email: reachtous@imbon.com.np

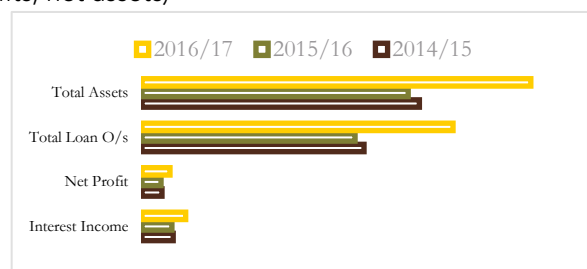
Details of lead organisation's business (activities, ownership, major shareholders, directors and their backgrounds, years of operation, successes, number of employees, **details of past assistance from DFID or/and other donors**, including any issues outstanding with the donors). Please also cite any outstanding issues with the regulators that can have implications on the successful rollout of the concept?

Innovative Microfinance Bank of Nepal (IMBoN) is registered as class D microfinance bank with a capital of NPR 1B [proposed 3B]. It is operating profitably for last 5 years and operates 85 branches in 40 districts across 5 development regions. It offers wide range of group based financial services to people categorised as poor in Nepal. It is promoted by Innovative Bank of Nepal along with other renowned professionals, who have interest in research, trading, and consultancy service. It has 7 elected and 2 appointed BODs. Ms. I M Nepal heads the management as CEO. Along with 8 management staff, it has total staff strength of 600. It has total client base of 0.4M and asset size of NPR 4.9B. It is recognised as one of the top 10 MFDBs in Nepal.

IMBoN has been implementing a project with ABC donor organisation to provide financial support to 12,000 farmers in Rukum and Okhaldhunga district. The project was successfully completed within the agreed time.

Summary Financial Performance for last three years (turnover, profits, net assets)

Particulars	2014/15	2015/16	2016/17
Interest Income	52,226,494	50,079,309	73,166,464
Net Profit	33,574,175	32,193,842	47,035,584
Total Loan O/s	373,046,384	357,709,351	522,617,601
Total Assets	466,307,980	447,136,689	653,272,001



Decrease in the net profit in the year 2015 is due to additional provisions made for a portfolio whose performance has slightly deteriorated and management has projected a minor growth in the income this year.

Auditors: AB Chartered Accountants

Are there any issues that were raised by your internal auditor, your external auditor, or from the NRB audit over the last three fiscal years?

NRB had asked us to change our Information System Policy based on the finding during their previous supervision audit; It has been closed satisfactorily.

Project Title: Exploring alternate Delivery Channel and Digitalisation of Operation

Project Description – include key objectives, service/product proposed, time-scale, and how the project will be managed. Please indicate any activities that are new and/or specific to this project that will be different than your existing product programme.

Objective: The following are the key objectives of the programme:

- Provide access to financial services to the rural people particularly the disadvantaged groups;
- Encourage entrepreneurship for self-sufficiency and support in the establishment of micro enterprises in rural areas both at individual and community levels;
- Enhance skills and knowledge on financial literacy, business plan development and other technical subjects for effective and smooth operations of enterprises;
- Support in the development of linkages for technical services and market;

Proposed Activities:

- **Financial Services (Loan and Savings):** IMBoN will roll out loan and savings product to beneficiaries individually and in a group. There are 6 existing loan products and 5 savings products that IMBoN is offering at the moment. However, the following new lending products will be developed to be rolled out in the project locations:
 - Remittance linked entrepreneurship development loan: It is targeted to the family members of foreign employment seeker. Based on the average remittance amount sent by the person working abroad for last six months, loan amount up-to 12 times of the average monthly remittance will be provided. Repayment period will be 2 years at 17% interest. Another feature of this product will be remittance linked savings at 2% p.a. higher interest rate than normal savings. The family member receiving remittance will be encouraged to deposit the receipt amount as personal/voluntary saving. A fixed portion of the amount saved can be withdrawn only if the remitting member {upon return} or his/her family member wishes to start income generating activity/business.
 - Individual Business Loan: IMBoN will develop a special product targeting the customer willing to graduate for higher amount loans. At the time of graduation, loan up-to 3 times of their current group based loan limit will be provided as top up. In addition, a limit up-to NPR 50K will be provided if they wish to go for a skill enhancement training. For the individuals willing to invest in equipment and fixed assets, a term loan up-to NPR 700,000 will be provided based on separate assessment.
- **Outreach expansion (physical and BLB service):** five new branches will be established in Mugu, Humla, Jumla, Kalikot and Jajarkot district. The branch locations have not been yet identified; however, any of the unbanked locations but with the potential for roll out of two new products will be explored for branch expansion. 55 branchless banking points will be added to the new and existing branches of Salyan, Bardiya, Dailekh, Humla, Jumla, Kalikot, Dadeldhura, Doti, Achham, Bajura and Mugu districts. 5 additional agents will be appointed in each of the branches. Individual agent will be offering deposits, remittance services along with the sales of lower amount micro loans and structured top up loans.
- **Use of tablets to automate centre transactions and facilitate financial literacy:** IMBoN will provide one tablet to each centre to perform their transactions. One loan officer will be able to record the transactions. Immediately upon record of transaction, a SMS alert will be sent to client. After the centre transactions are recorded, the loan officer will hand over the tablet to the members on rotation basis. The members then can view videos, audios and animated videos on financial literacy and entrepreneurship.
- **Technology enabled literacy programmes:** innovative literacy programmes including IVR, video and animated films, etc will be provided to the target beneficiaries. The main of these programmes will be to link them with any of the financial products offered by IMBoN. The literacy programme will digitalise pre-group training, financial literacy, business plan development, fund management etc and these modules will be delivered to the beneficiaries virtually.

Project Management: Mr. C D Thapa, Head of Innovations, and Diversification division will lead the project implementation. Chief of New Business, Credit Risk and Head of Operations will be providing support to Mr. Thapa in managing the project. 5 dedicated staff will be appointed at HO to support the project steering committee.

Time Scale of the project: the product launch and branch establishment will be completed within year 1. Establishment of BLB and automation of transaction processing through tablet banking will be completed by the end of year 2. However, it is estimated that by the end of 3 years the project activities will be transferred as regular operation of IMBoN.

Beneficiary Information. Who is the target group? How will the project improve their incomes and livelihoods? How

will the project overcome weaknesses in the financial sector? Describe the key achievements and results you expect in qualitative and quantitative terms as per the indicators in the Summary Sheet

Total Beneficiaries	Women Beneficiaries	DAG Beneficiaries	Youth Beneficiaries	SME Beneficiaries
35,000	28,000	26,000	22,000	5,000
Project Districts				
Salyan, Bardiya, Dailekh, Humla, Jumla, Kalikot, Dadeldhura, Doti, Achham, Bajura and Mugu				

Target Group: For the remittance loans, receiver of remittance will be sourced. Promotional materials outside the local remittance pay-out points will also be displayed. For the graduation loans, database of existing clients will be used. Pocket areas for agricultural item production (Kapurkot of Salyan, Rajapur of Bardiya, Joroyal and BP Nagar of Doti, Khanidanda of Dadeldhura etc) will be targeted for mass marketing of both the products.

Improve Livelihoods: The project will support the individuals engaging in income generating activities to expand their businesses and also support the families heavily relying on remittance to start income generating loans. With such association, the members will be able increase their income level that will have direct impact on their livelihoods.

Weaknesses of Financial Sector: FIs operating in these locations are not offering any of the products focused by this project. The remittance linked loan product will be the first of kind in the project locations. As a result, individuals are bound to continue similar level of income generating activities throughout their life. Though a good amount of money is received family members as remittance, they are not able to divert it for investing into income generating activity.

Project Justification. What evidence is there of need for the project? Why is Sakchyam Challenge Fund grant necessary for this to happen? What makes this project innovative?

Need of the project: As per the latest census, around 230,000 individuals are residing in the project locations. The number of individuals per MFDB present in these locations is over 20,000. During the field visits, IMBoN noted that many of the MSMEs lack availability of the right products for managing their finances. More than 60% of active youth are seeking foreign employment from these locations. With the availability of two products targeted around development of SMEs, the level of economic activity in these locations is likely to increase that will definitely contribute towards growth. Though there exists potential for many localised income generating activities, the entrepreneurs are not able to scale their businesses due to unavailability of finance.

Due to manual entries, all the loan officers are facing the challenge of over burden [single transaction should be recorded at three different times].

Need for S-CF support: IMBoN had been delaying intervention in the proposed five districts due to higher perceived risks that the branches may not be commercially sustainable in first 3 years. With S-CF providing co-investment in the project, IMBoN would be able to justify commercial return to its investment from the very first year. Due to high literacy costs, IMBoN was delaying launch of the two new products. With S-CF support financial literacy service to the target beneficiaries would be possible. IMBoN has been considering to automate the centre meeting function gradually over a period next 5-7 year. Even with the Sakchyam support, implementation of automation of centre functions is possible earlier than anticipated time. This will impact on improved efficiency of branches and loan officers.

Key Innovations of the project:

- Launch of innovative financing product linking remittance with a product mainly focused on developing entrepreneurship
- Automation of manual work in all centre meetings
- Innovative financial literacy techniques

Financial Information: List principal categories of expenditure and indicate if to be paid for by bidder or Sakchyam

Challenge Fund					
NRs	Source	Year 1	Year 2	Year 3	Total
1. Human Resource Cost	Bidder	4,800,000	5,400,000	5,400,000	15,600,000
	S-CF	4,800,000	4,200,000	3,000,000	12,000,000
2. Product Design and Promotion	Bidder	7,200,000	4,800,000	4,200,000	16,200,000
	S-CF	7,200,000	4,800,000	4,200,000	16,200,000
3. Project Support Cost	Bidder	2,400,000	3,000,000	3,600,000	9,000,000
	S-CF	2,400,000	3,000,000	2,400,000	7,800,000
4. Literacy and Awareness Campaigns	Bidder	4,200,000	4,200,000	4,200,000	12,600,000
	S-CF	4,800,000	2,400,000	1,800,000	9,000,000
5. Equipment and Other Assets	Bidder	3,000,000	3,000,000	3,600,000	9,600,000
	S-CF	3,000,000	2,400,000	2,400,000	7,800,000
6. Total	funding from Bidder	21,600,000	20,400,000	21,000,000	63,000,000
7. Total	funding from S-CF	22,200,000	16,800,000	13,800,000	52,800,000
8. Total	Project Costs	43,800,000	37,200,000	34,800,000	115,800,000
<p>How will the Project be sustained following utilisation of Sakchyam Challenge Fund grant?</p> <p>By the end of year three, the bank would have developed much matured portfolio of Business Loan and Remittance based loans. The project would generate substantial return and would be able to save a large portion of operational costs. Based on the lessons learnt, the products and automation will be gradually rolled out across Nepal.</p>					

Declaration:

I hereby certify that we are:

- registered as a Public Limited Company- Class D Microfinance Development Bank under Companies Act 2063 since 20 April 2009
- have the relevant permissions to introduce the products/services as described in this note [approval from regulator is to be obtained]
- a going concern.
- willing to abide by the requirements of the Sakchyam Challenge Fund and its managers.
- willing to provide all reasonable information as requested by the managers or their representatives.

Signed: I M Nepal

Date: 26 January 2018

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