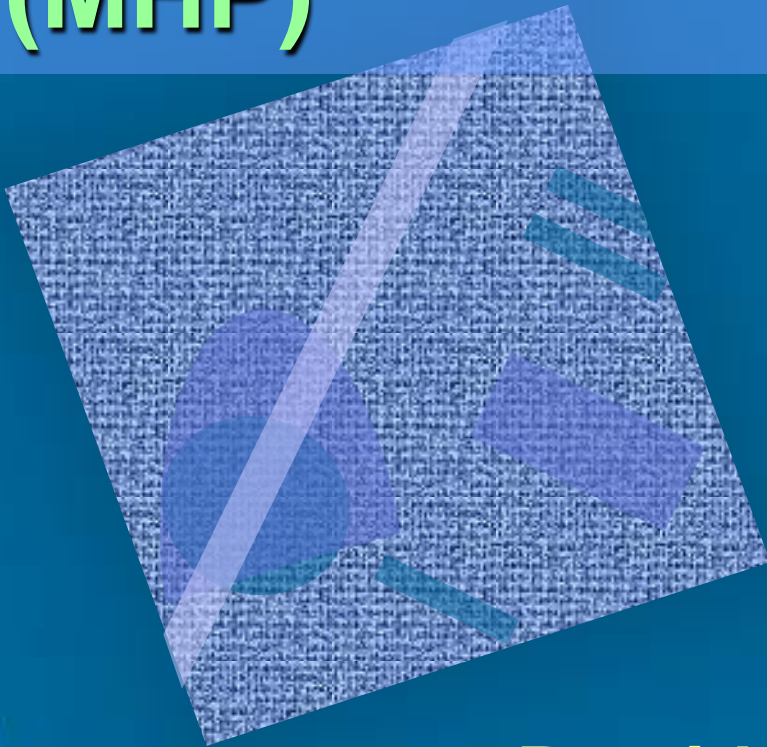


Financing Micro Hydro Project (MHP)



- **Prasiddha Suwal**
Section Chief



Agriculture Development Bank Ltd.

Preview

- Agriculture Dev. Bank Ltd. (ADBL)
- Credit History of Micro Hydro Projects (MHP)
- Status of ADBL financed MHP
- Conditions for financing
- Financing norms
- Lending procedure/Modality
- Potentials & perspectives of the program
- Issues/challenges
- Future strategy



1. Agriculture Development Bank Ltd. (ADBL)

- Agriculture Development Bank Nepal (ADBN) has been established in 1968AD with an objective of providing institutional credit to rural people.
- The bank has been functioning under own special ADBN act till last couple of years.
- It used to be the foremost financial institution providing institutional agricultural credits to rural communities and commercial banking services to urban people.
- From the year 2006AD, it has been operating under Company Act of Nepal as an 'A' class bank - Agriculture Development Bank Ltd. (ADBL)



Agriculture Development Bank ...

With a new gained status the bank has redefined its vision, mission and objective accordingly

- **Vision** – to be the pre-emptive bank, providing banking services throughout Nepal.
- **Mission** – to deliver comprehensive banking and financial services, capitalizing its extensive network in rural areas
- **Objective** – to provide quality banking and financial services to clients through the adoption of a market driven strategy, delivering sustained and competitive return on investment



Agriculture Development Bank...

Capital structure of the Bank

- The bank's authorized capital is NRs.12 billion and the paid up capital is NRs.11.20 billion.

Bank's financial resource

- Government of Nepal share 65%
- Shareholders (old & public - clients) 5%
- Agricultural cooperative, ADBL staff and public share will be 30%



Agriculture Development Bank...

Investment status (in FY 2008/09)

- Total Investment : NRs.34.32 billion
- Total Collection : NRs.32.07 billion
- Total Interest Coll. : NRs.6.26 billion



Agriculture Development Bank ...

- The bank has been providing credit supports through its 225 branches, 10 regional offices, one central office and five training centers spread all over the country.
- The bank is broadening its operational range of credit delivery and providing all types of credit facilities to meet the entire banking need of enterprises and the households.



2. Credit History of MHP

- The history of credit in MHP began with water turbine mills in the seventies. Later on, credit for add-on electrification on those mills began.
- Finance on stand-alone micro hydro electrification systems started in the eighties.
- ADBL is the pioneer and principal institution for making investments in micro hydro systems in Nepal
- It played an important role in initiating and promoting alternative energy in Nepal and creating environment for its easy access to rural people/small farmers.



Credit History of...

- The bank has created access of rural people to alternative energy sources like *biogas, solar home systems and micro hydro*
- In the beginning, the bank ventured into development of energy sectors to improve the living standards of rural communities.
- For this purpose it started providing credit supports and mobilizing government subsidy.
- After the transfer of subsidy mobilization role to AEPC, bank's activity is limited to credit delivery and management.



3. Status of ADBL financed MHP

(Up to FY2008/09)

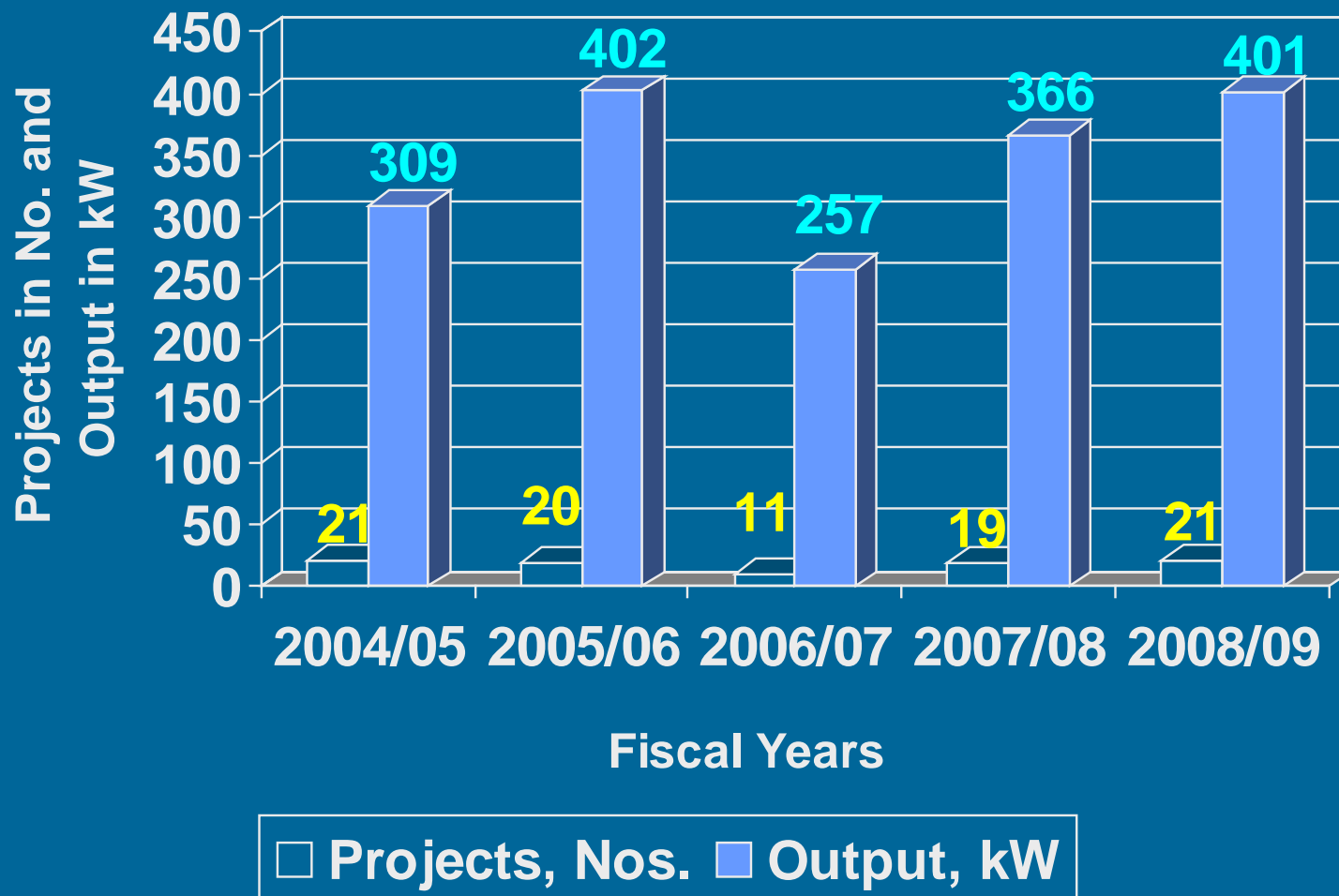
(NRs. in '000.)

Physical units	Investment	Collection	Outstanding	Over due	Int. Collection	Int. Balance
1084 (Nos.) 6272 (KW)	181364	162307	19057	4420 (23%)	9534	5082

(US\$ 1 = NRs.76)



Physical Achievements



Proposed Program for current year

Program in MHP - (FY 2009/10)

Program	Physical	Target (NRs. in '000)
• MHP	1000 KW	30,000



4. Conditions for financing

Bank's internal policy on lending has been conducive towards promoting rural energy.

- Credit delivery is based exclusively on feasibility of the project and repayment capability of the borrowers.
- MHP project must be technically feasible and financially viable.
- Recommendations of AEPC/REDP/ESAP
- Evidence of Capital subsidy from AEPC
- PPA (power purchasing agreement) from Nepal Electricity Authority for loan above 1 MW

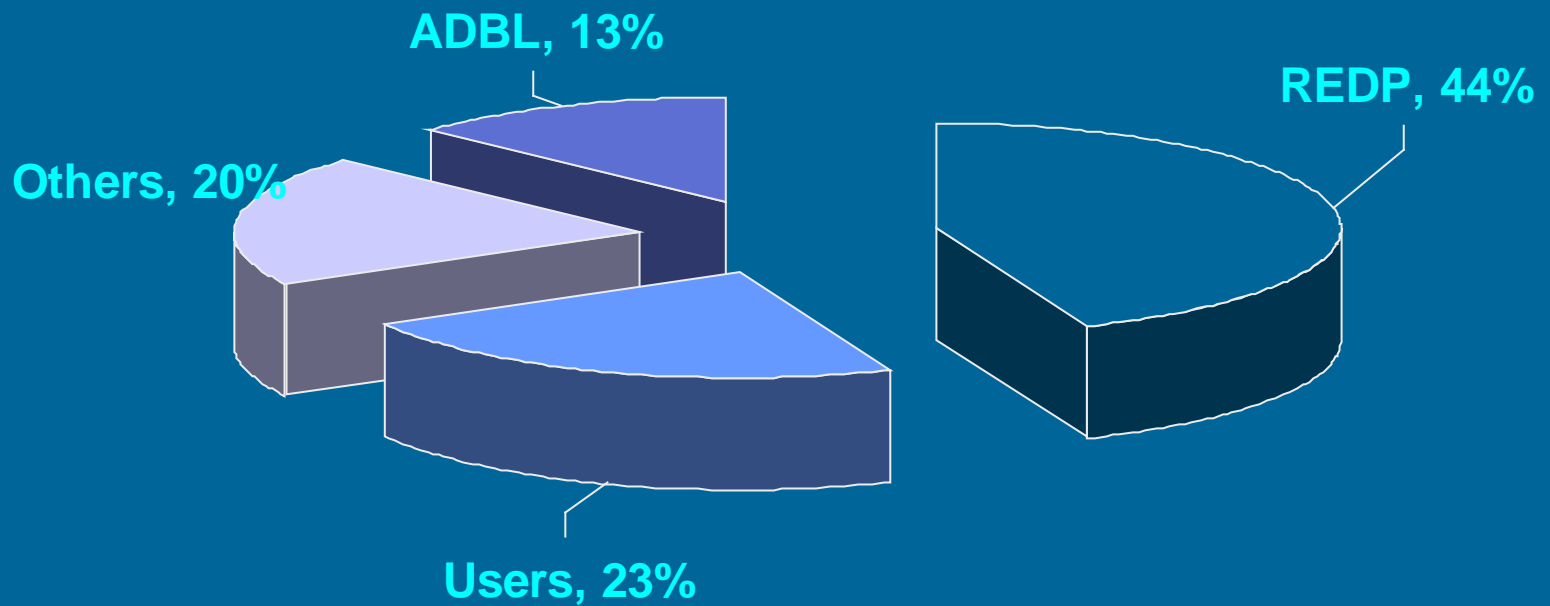


Conditions for financing ...

- The farmers/households should produce evidence of sufficient **income sources** to meet debt servicing.
- And/or, propose integrated income generating activities like agro-processing, small-scale rural industries with the project.
- Produce sufficient security/collateral
- Willing to pay monthly interest
- Bad loan of concerned branch <20%



Average Cost of Contribution



Source: Field study based on 16 MH systems



5. Financing Norms for MHP

- Credit limit : 80% of promoters' share
- Grace period : 1-2 years
- Interest Rate : 10.5%
- Service Charge : 0.75-1.5% (depends on size)
- Loan period : 5 years
- Repayment : Monthly Interest (Mandatory)
- Interest rebates : 0.5 to 1.0% for regulars
- Defaulters : penal interest & legal actions



6. Lending Procedures/Modality

- The bank's lending procedures/modality and lending process are guided by its credit policy.
- The policy focuses on credits based on assessing good clients for quality lending.
- A good client is the one who fulfills all the requirements of the bank and establish his/her creditworthiness.
- Once the bank receives project proposal and necessary documents it proceeds for credit processing...



6.1 Credit Processing

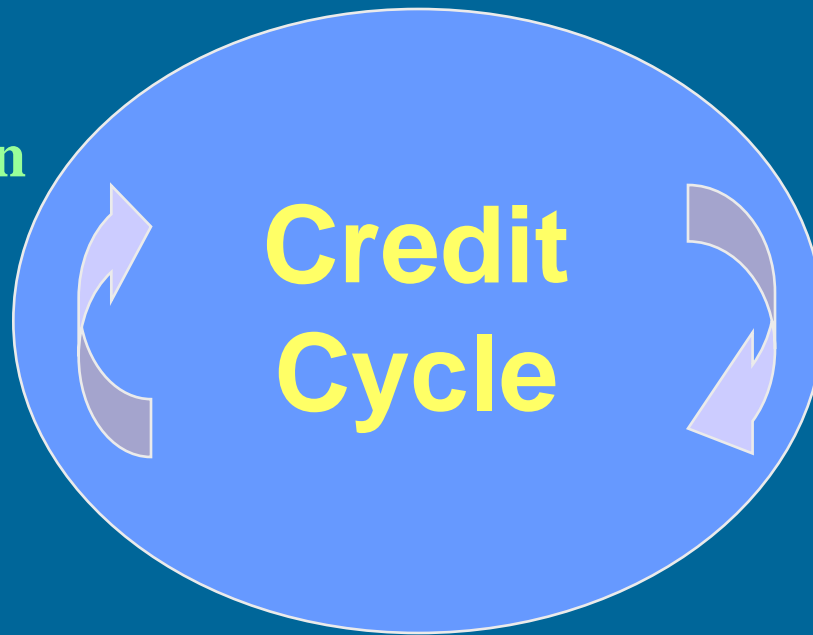
- Screening enquiry (client selection)
- Credit Application with Business Plan (*as per loan size*)
- Review of Application & Business Plan (*Credit Appraisal*)
- Security and Collateral (*evaluation and documentation*)
- Credit Approval (*three tier systems*)
- Selection of service providing companies
- Credit Disbursement (*in installments*)
- Monitoring and Supervision
- Collection/Recovery



I. Screening Enquiries

Post Evaluation

V. Collection
Recovery



II. Application
Appraisal
Approval

III. Disbursement

IV. Monitoring
& supervision



Credit Dept., ADBL

6.2 Requirements

- Business plans/Feasibility Study Reports/
Detailed Technical Reports
- Legal documents (*recommendations from
concerned agencies, Subsidy approval,
Property ownership certificate, etc.*)
- Decisions of executive committee (*of
company*)
- Passport size photo, etc.



6.3 Credit Approval Authority

- up to 3 KW : Sub-branch Office
- 3 - 10 KW : Branch & main branch
- 5 -100 KW : Regional office
- Over 100 KW : Head Office

Depending upon size and loan volume, approval authority varies... (Branch, Regional Office, Central Office)



7. Potentials & Perspectives

The bank has been looking its energy development program based on following broad perspectives:

- Great potential of promoting MH in Nepal where energy crisis is growing every year,
- No coverage of National grid in remote areas,
- Development through credit,
- Energy for rural development and environment protection,



Potentials & Perspectives...

- Creation of shoot-free and healthy households in rural society,
- Provide uninterrupted light sources to assist literacy in the rural society
- Household activities prolonged due to availability of reliable light source.



8. Issues/Challenges

- Financial viability & Institutional sustainability
- Instances of overdue loans & non payment of monthly interest
- Lack of sufficient and efficient technicians who are deputed for promotion of the systems.
- High overhead expenses due to smaller loan size.



Issues/Challenges ...

- Problem of repair and maintenance
- Inadequate stakeholders
- Security threat to operate MHP
- Effectiveness of joint projects
- Addressing low income families
- Sustainability of the program after subsidy
- Quality control



Issues/Challenges ...

- Subsidy provided for the project from concerned authorities are not sufficient
- Problems faced in tariff collection
- Political instability and project not functioned properly
- Lack of proper management



9. Future Strategies/Plan for Lending

- Future of the rural energy is bright provided all concerned agencies working in the sector, cooperate each other in its full capacity.
- As mentioned above, the bank has put rural energy sector in its priority area and has allocated sufficient budget in the current fiscal year and years to follow.



Future Strategies/Plan ...

- Inter-relational roles of stakeholders - the bank, donor agencies, companies and system-owners *should be enhanced and make them responsible for their parts.*
- **The bank** – project identification, appraisal, approval & monitoring of credits, collection/recovery of credits.



Future Strategies/Plan ...

- **Government Agencies** – mobilization of resources for regular subsidy
- **The Donor Agencies** – creation of awareness on use of micro hydro and other support systems (income generation & social activities.)
- **The Companies** – promotion & installation of systems and their maintenance (after sales services)



Future Strategies/Plan ...

- Noting the importance of the sector the bank is working with AEPC through an MoU.
- **Special Cells** have been created in bank's Regional Offices across the country to oversee existing energy portfolios and promote new ones.
- Bank is exploring potentials of mini and micro hydro for investment – single and/or in *consortium financing*



Future Strategies/Plan ...

- Bank's field offices are directed to carry out all measures to recover the overdue amount, so that they can be able to invest on new systems in their area
- Partnership with Local Community/Bodies
- Equity participation by the community/entrepreneur



Conclusion

- MHP is an appropriate technology for country like Nepal
- One of the most potential loan portfolios
- There is positive correlation between MH development and development of Nepal as it is indirectly related with the poverty alleviation.
- The bank is involved since its beginning and planning to expand its business in coming days.



- Bank policy is conducive for the development of MH and it keeps revising as per needs.
- Technical support, development of physical infrastructure, strong willingness and commitments from every sectors are essential for its development and promotion
- Recent study of micro hydro revealed that 94% of schemes are in running condition.





Thanks



Credit Dept., ADBL