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SUCCESS STORY

Applying the Social Merchant Bank Approach to Help the Poor in Nepal

Supporting small-scale infrastructure investments in Nepal



Photo: Ian Taylor for the ADB

The initial focus of the SARI/Energy - S³IDF partnership is to facilitate local micro and small-scale financing that the people of Nepal can use to improve traditional water mills for grain milling, like the one pictured above.

S³IDF's Social Merchant Bank Approach will support small, pro-poor investments through technical, financial and business development assistance.

USAID's SARI/Energy Program has partnered with the Small-Scale Sustainable Infrastructure Development Fund (S³IDF) to promote the application of its Social Merchant Bank Approach (SMBA) in Nepal. The SMBA fosters small-scale investments and related enterprises for infrastructure services the poor need for economic growth by applying the technical, financial and business organizational innovations common in large projects.

The investments S³IDF supports must explicitly benefit the poor (for example, customers, employees, and asset owners), be environmentally sound in construction and operation, and operate in a financially sustainable fashion. The SMBA, which received one of the first World Clean Energy Awards and a Top Innovation Award in the Clean Energy Finance category from the Asian Development Bank's Asia Clean Energy Forum Secretariat, provides access to the financing, technology and know-how that are not normally available to the poor. The approach facilitates the establishment of viable micro, small and medium-sized enterprises to provide pro-poor infrastructure services. S³IDF helps previously non-bankable infrastructure investments attract local financing by leveraging its "gap-filling" financing and credit conditioning.

Under a cost sharing arrangement between SARI/Energy and S³IDF, a reconnaissance study for Nepal confirmed the expected applicability of S³IDF's approach to expand and accelerate the market penetration of an ongoing program for improving traditional water mills for increased grain milling, additional agro-processing and electricity generation. Then a second cost-shared effort prepared a concept note for the local financing component based on a revolving fund.

These two initiatives established the basis for applying the SMBA in Nepal. They were coordinated with an interested funder (the Asian Development Bank) for implementation and scale-up, which has now begun. The financing component implemented via leveraging local banks will expand local entrepreneurs' ability to improve and expand their services in rural areas. This approach is applicable to other small infrastructure projects in Nepal that reduce poverty. SARI/Energy is now partnering with S³IDF to examine bringing the SMBA to other South Asian countries.