

## Improvement Needed in Nepalese Banking Activities

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### INTRODUCTION

A glimpse towards the Nepalese economy runs like this: price hike by 9.1 percent, rising interest rates (interest awarded to depositors ranges from zero percent to 8½ percent, 8.75 percent to 14 percent and interest rate charged by private money-lending business houses ranges from 2 percent to 4 percent every month and that charged by organized sectors-the banking sectors - ranges from 15 percent to 22 percent depending on securities or collaterals and also the nature of business, including overdraft facilities), not lessening the number of unemployed people and increasing number of educated unemployed people, billions worth public debt and foreign grants (that the foreign loan due to be paid by Nepal upto first nine months of 1986/87 stood at Rs. 14470 million as a resultant effect of increase in foreign assistance in terms of loans and grants at the rate of 34.7 percent in the last five years), deficit trade (increasing at the rate of 17.1 percent with reference to our trade with India and other third group of countries), precipitate fall in agricultural produce despite extensive cultivation (only in the last year, there was fall by 7.8 percent, with a sufficient provision of such fall this year too), steady, sometimes steep rise in money supply (28 percent), etc.

Nepal saw decreasing trend in savings and increasing trend in consumption (which rose up to Rs.45 billion). Per capita income stands at Rs. 1364. All these lead us to conclude that we have no place for feeling quiet at home, but it cautions us for continuous labour as to traverse a long road of socio-economic development.

The given reality about the socio-economic status of Nepal is evidently clear as to what the banking sector should do to bring improvement in the economic sector.

### EXPANSION OF THE BANKING SECTOR IN THE CHANGED CONTEXT

For the last few years, His Majesty's Government of Nepal has been trying to encourage private sector (than taking responsibility by government itself) to step up measures towards economic development. The idea behind such intention is, of course, clear that the works like processing, production, import, export, be dealt with by the private sector. The scope for trade is widened for the private sector, no doubt, and, in the same way, scope for private sector needs to be widened even in production; but in this production sector the entrepreneurs don't like

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to invest their own money; they like to utilize the resources of the financing houses, for which these financing houses should ever develop capability for loan and investment purposes.

The district panchayats too seem to flutter their wings from their motherly nests of slumber for keeping industrial and business houses at their door steps in concomitant with the decentralization process of His Majesty's Government of Nepal. This reveals the compulsive fact that the banking sector should, besides developing their branch offices, be ready to expand its businesses to near-rurally dominated areas of seventy five districts of the country. To emphasise on privatization would mean sacrifice of doing business by government. So district panchayats won't be doing development works themselves and better they should give place for private sector, which would do so in a spirit of tough competition. Role of banking sector would, obviously, be astoundingly great as to avail financial help to private sector.

#### CONTRIBUTION OF BANK IN FOREIGN COUNTRIES

Long upto eighteenth century Britain too had weekly markets, yearly or half yearly fair; and these seasonal marketing systems constituted 75 percent of the total purchases and sales. Nepal too still has primarily to preserve this sort of tradition of village bazars, seasonal fairs, even if Nepal has entered into politico-business agreements with numerous countries of the world. Trade promotion and introduction of development projects in mass scale are in process, but the old structure remains virtually dominant. There are some seasonal fairs which give place for sale/purchase of big quadrupeds like elephants and oxes.

According to passage of time, we have to mend our ways. And we did this by entering into trade agreements with the foreign agencies, by inviting influx of tourists, by becoming ready to participate in international fairs. If the private sector of Nepal would participate in such international fairs, capability of the sector shall have to be increased by manyfold, mass production at home and mass sale abroad aided by technologies, and financing houses would be imperatives to cope with the changed business world.

Sometimes we find similarity between the British banking inceptional matters and the Nepalese banking inceptional matters. In Britain, there was an evolutionary process in matters of banking development - beginning from goldsmith's acceptance of people's valuables for safe deposit to slow and steady progress of lending out money deposits even in terms of bank money, including overdraft, thereby making profit. In the form of historical perspective, we in Nepal can also quote money-lenders, indigenous bankers, Tijarath, Nepal Bank Ltd. and host of other financing houses which had resorted to money-making businesses by availing monetary facilities.

Trade promotion and bank facilities are correlated with each other. Of host of pre-conditions for development, bank is one of the top subjects. Banking sector had made great contribution to the pre-Bolshevik

USSR in developing agriculture, industry. Banking sector had similar contributions to Japan's economic development (24 percent to 40 percent) of the total GNP. Banks in the USSR and Japan could mobilize resources of the personal savings (20 to 30 percent). So ratio of investment and profit could be made appreciably high in those countries. This reveals the fact that banking sector in Nepal too can make a confirmed programming for financing the economy. The increasing responsibility is to be borne by our banking system.

#### NEPAL'S BANKING ACTIVITIES: OVERVIEW

- a. Either because of rosy feasibility report, or because of banks' own entrepreneurial venture, or because of the assured compensation of the Nepal Rastra Bank (NRB) (Nepal's Central Bank) four commercial banks upto 2043, Ashad (Mid-1986) had altogether 393 branches in different parts of the country. According to the NRB news published in 1987, Nepal Bank Ltd. alone had 205, Rastriya Banijya Bank 183, Nepal-Arab Bank Ltd. 4 and Indo-Swiss Bank Ltd. 1. Now, bank branches have exceeded 400. Now the banking sector has been facing tough competition, although report from the banking sector is otherwise. It has been reported that seventy percent of those branches is in the rural centres. Agricultural Development Bank of Nepal (ADB/N) has raised the interest rates to be given to rural depositors in savings account. Concrete verification is needed whether hike in interest rate is in favour of the rural people. Similar verification is also needed regarding the benefits of branch expansion enjoyed by rural people or by urbanites. The benefit of doubt arises whether the bank loans have been used more for consumption or for production purposes. The target to make coverage of 3000 population for bank branch is also to be decided with the same kind of question. Bank expansion, upto Falgun, 2043 (March, 1987), has incurred expense to the extent of Rs. 2.31 crore as compensation for loss borne by our central bank, besides interest free loans as working capital by the central bank to commercial banks. So the time has come when we should be able to make firm assessment of the impact of the bank expansion on our economy. Identification alone is not sufficient; we need its quantification too, which will, ultimately, pave way for qualitative evaluation.
- b. Government through banks is trying to award facilities to develop the priority sectors of the economy, viz., agriculture, cottage industry, including service industries. Altogether 201 bank branches were engaged in 67 districts. Investment in such a sector is showing its good trend. Out-come of such investment is reported to be worth Rs. 25 crores (250 million rupees) and employment opportunity to one lakh (100 thousand) persons has been generated; but because of stiff competition of the imported articles, our cottage industries are facing difficulties. In this regard, governor of Nepal's Central Bank (Nepal Rastra Bank) has raised question during his study tour of the eastern sector. He showed some armoyance over works done by cottage industries of the Central Development Region of the country.

- c. Cottage and Small Industries Project: It has become obviously necessary to control over foreign goods if at all World Bank aided project is to become a successful venture.
- d. NRB is equally taking interest towards agricultural loans. It is notable that NRB right from inception has been taking keen interest towards this. Similar step NRB has been taking up to this - instruction has been issued to commercial banks to make a definite amount of investment to priority sector, including agriculture. ADB/N's obligation to such work is beggars description. Refinancing facility has been granted by NRB to ADB/N for such loaning business to agriculture - ADB/N, in its turn, gives refinancing facility to Sajha (co-operatives) to float loans to rural and urban farmers). As there is difficulty to make best use of agricultural loans, so there is stupendous amount of difficulty for ADB/N or Sajha to re-collect loans. Government's daily papers do almost constitute long notices to numerous parties for remitting the borrowed amount. Even if scope for banks seems to be expanded, but because of near stagnant amount of dexterity and skill on the part of the co-operatives, lack of ethical values, the targeted agricultural loans are yet to be fulfilled.

#### FEW OTHER THINGS ABOUT OUR BANKING SYSTEM: NECESSITY OF IMPROVEMENT

The savings deposits in the banks have not shown any sign of decline. During the first quarter of 1986, deposits were made to the extent of Rs. 418 million and now during the same period of 1987, the amount has increased to Rs. 514 million. The credit investment during the same period has increased from Rs. 454 million to Rs. 463 million.

Of the objective based loans, biggest amount has been extended to commercial purposes followed by consumption, industry, agriculture, transport, warehouse.....

In view of problems cited in the beginning of this article, if depositors be paid less interest rate, it will pave way for lessening the interest rates to be charged against borrowers. Minimum amount of interest rate given by bank is zero, and maximum amount it charges is worth 21 percent - this gap is to be minimized. Fifteen percent interest on long-term loans charged by Nepal Industrial Development Corporation also needs to be reviewed.

As to confer benefit to targeted group, bank should accept things like vehicles, buildings and other equipments of purchases as collaterals.

Sometimes, somewhere, risk is found to be involved in matters of loaning business or the facility to a certain selected party of showing money as overdraft. It is also a grim reality that bank loan has also played a notorious part to have price hikes in the marketing since bank has accepted consumption goods as securities for loan and investment. The central bank, the government of the country should have judicious

approach towards availing bank loan facility to business people. The backdoor influence for loaning business is also not all negligible. Pressure politics is the watchword in matters of loan to a certain favoured party. Production target is then affected. Resistance on the part of the banker for the right cause is utmost necessity. It has been proved that the miscreants in terms of recollection of loans are those who get favoured treatment for loans.

No less important is the bank commission, since some cases are exorbitantly high. Payment of high commission, high interest rate will have similar effect on price to soar high.

Which bank at what time resorted to what amount of overdraft/credit issuance must be made public regularly. Besides the commercial, industrial, agricultural banks, our central bank also cannot be away from criticisms in matters of NRB's obedience to His Majesty's Government's instruction for issuance of notes. Under country's Proportional Reserve System, NRB might equate total note issue with the reserve ratio in its vault. Earned assets should actually serve as real security for issuing notes. Case sometimes might be otherwise. Ethical values should be the guiding force for all banks, including central bank of the country.

It is a curious paradox to note that a bank in Nepal has gained so much of good will that the deposits made in this bank are maximum; but its loaning business - in terms of percentage as compared to absolute terms - is not maximum. Similarly, there are banks which draw low deposits but issue maximum amount of loans in terms of percentage. These cases amply clarify the matter that the former case is not only a matter of great sense of security and confidence to the depositors, also it is a case of traditionalism as to have some stringent policy towards borrowers because their borrowers should pass through numerous kinds of official procedures, including adequate and sound collaterals so needed for loans. Because of sense of security to depositors on the one hand, and the traditional but too much sound/adequate collateral oriented approach to loaning business, more deposits could be mobilized, even if the amount of loan/investment would be less. In other words, this sort of banking system would constitute more security, less profitability, which is not a balanced approach.

The other banking system, driving in less amount of deposits against increasing amount of loaning business, is a matter of less confidence of the depositors with a proviso of less stringent policy towards borrowers. Here it is the case of less security with more profitability - which is a matter of unscientific balance. Here in this system there is the range of 'run', as to collapse itself, keeping the depositors under domocles' sword of total loss. Nepalese banking system, thus, constitutes both. This is the hard core of the problem. This can be solved by bringing in some amount of moderation in the former type of bank with some stringent but cautious measures in the latter type of bank.

ARE BANKS REALLY READY FOR VIDEO BANKING ?

Really it is embarrassing to bank clients to remain waiting for ones' own turn to deposit or draw money; it is as embarrassing as a journey by bullock cart for one very much used in aerospace. Modernization, in every sense, is mechanization. Unless the bank would resort to video system, it cannot claim for modernization, and unless clients get prompt, quick service, they don't remain satisfied. If satisfaction of the customers is the motto of any business house, including that of banking system, it should resort to mechanization, which means modernization. By having video system in the quadrangle, a bank can encourage customers to pay their bills electronically using a telephone or a computer terminal and then the banks have to convert the electronic messages to paper payments in order to complete the transaction (Martin Mayer says this). Financial services of a modern bank would mean home service, which, over and above many other things, would mean the home service - dialing phone to bank to transmit money either to telephone office or to tax office or to - ..... In other words, there is the need of automated clearing house system involved in bill payment side of video banking - video banking may mean home banking.

If cheque system is the first wave of home banking, then telephone bill paying is the second wave.

So a modest beginning towards video banking system needs be made. This can be introduced not in all banks at a time. Determination on the part of the bank management should be there.

So improvement in bank needs good understanding, not ignorance.