

Saving in Nepal -- A Missing Link in Development

GIRIJA SHANKAR RAJBANSHI*

The analysis of income, saving and investment in finding solution for many of the economic problems has been accorded a significant place in the study of economics. Although, the study of national income, saving and investment is no more regarded as the sufficient indicators of the country's economic performance, however, with Keynesian revolution in economic thought, its study assumed greater importance.

The national income is the measure of the money value of goods and services available, in a year, to the nation from the economic activities. Saving is the excess of income over consumption. In other words, it is the part of the income which is left over after consumption. And investment is the expenditure made for the construction of the fixed capital (fixed capital formation) assets and other expenditures made for reproductive purposes.

The national production of Nepal in 1978-79 was recorded at Rs. 2221.50 crores and it rose to the level of Rs. 4213.80 crores (at current prices) in the year 1984-85 and is expected to touch the level of Rs. 5251.20 crores (at 1984-85 prices) in 1990-91 i.e. at the end of the current Seventh Five Year Plan. It shows an increase of 236 percent in 1990-91 over the year 1978-79. The price index, however, rose from 100 in 1974-75 to 288 in 1984-85, indicating very nominal growth of national production (N.P.) in real term. During these years, on the percentage term, the consumption level remained more or less stagnant. It was 88.38 percent of the national production in the year 1978-79, and remained at the level of 89.06 percent in the year 1984-85 and is expected to increase upto 91.07 percent in 1990-91.

Saving, thus, remained very meagre. It was just 11.62 percent of the national production in the same year and came down to the level of 10.04 percent in 1984-85 and is expected to decrease further to the level of 8.03 percent in 1990-91. Table 1 shows the national production, consumption, saving and investment and capital formation in 1978-1991 at current prices.

As shown in the Table 1, there is very meagre saving naturally, there will be low investment. Indeed investment is conditioned by saving. Investment, therefore, in the year 1978-79 was at the tune of Rs. 351.35 crores or just 15.82 percent of the national production. It, however, increased to Rs. 793.60 crores or 18.08 percent of the national production in 1984-85 and is expected to touch the level of Rs. 935 crores or 17.08 percent in 1990-91. In the period of 1971-1981 the investment constituted just 11 percent of the gross domestic production. It is the lowest figure as compared with some of the countries of this region.

*Dr. Rajbanshi is a Reader in Economics at Saraswati Campus, Tribhuvan University.

Table I
National Production, Consumption, Savings and Investment (at Current Prices) (1979-1991)

Items/Year	(Rs. in crores)						
	1978-79	1979-80	1980-81	1981-82 I	1982-83	1983-84 II	1984-85 II+III
1. National Production	2221.50 (100.00)	2235.10 (100.00)	2730.70 (100.00)	3026.50 (100.00)	3362.10 (100.00)	3818.40 (100.00)	4213.80 (100.00)
2. Consumption	1963.12 (88.38)	2076.09 (88.90)	2433.30 (89.12)	2740.27 (89.01)	3056.38 (90.89)	3420.16 (89.57)	3774.10 (89.06)
3. Savings	258.38 (11.63)	259.01 (11.09)	297.40 (10.88)	286.23 (10.09)	305.23 (9.11)	398.34 (10.43)	439.70 (10.04)
4. Investment	351.35 (15.81)	427.01 (18.21)	480.80 (17.58)	509.80 (17.06)	679.90 (20.22)	740.20 (19.38)	793.60 (18.08)
5. Fixed C.F.	326.25 (14.67)	368.11 (15.76)	429.90 (16.49)	524.90 (17.34)	674.70 (20.06)	695.80 (18.22)	744.80 (17.67)
(a) Public Sector	113.79	146.58	182.30	248.70	330.60	334.00	357.50
(b) Private Sector	212.46	221.53	247.60	276.20	244.10	361.80	387.30

(Figures in parentheses show the percentages of national production)

Source: HMG, National Planning Commission, Seventh Five Year Plan (I) Summary, 1985, Kathmandu, pp. 4, 44-45.

Note: I - Revised Estimate
II - Preliminary Estimate
II+III - At 1984-85 Price.

Table 2 shows the investment and saving ratio in some of the countries of the region in the period 1971-1981.

Table 2
Ratio of Investment, Saving and Gross Domestic Production of the South Asian Countries 1970-19

Countries	Investment as percentages of G.D.P.	Domestic saving as percentages of G.D.P.	Domestic saving as percentages of Investment
Bangladesh	12	2	25
India	22	21	93
Nepal	11	8	75
Pakistan	17	7	68
Sri Lanka	23	12	53

Source: Asian Development Bank, Asian Development Review, Vol. 3, No. 1, Manila, 1985, p. 17.

RATIO OF SAVING-INVESTMENT IN NEPAL

The contribution of domestic saving to the gross national investment was 73.66 percent in the year 1978-79, however, steadily decreased, resulting in increasing dependence on foreign saving proportionately. The percentage contribution of domestic saving, thus, came to the level of 44.51 percent of the gross national investment in 1984-85, a fall of 29.51 percent over the year 1978-79. Furthermore, it is estimated that only 53.54 percent of the gross national investment of Rs. 935 crores in 1990-91 could be met through domestic saving while remaining 46.46 percent would come from foreign savings.

RURAL SAVING TREND

The national saving level or the saving trend is very dismal. It registered a fall from 11.62 percent of national production in 1978-79 to 10.4 percent in 1984-85 and further, it is estimated that in the year 1990-91 it will come down to the level of just 8.03 percent of the national production. Indeed, it is one of the very interesting puzzles in the process of economic development in Nepal.

There is no accurate data on rural saving in Nepal. One of the reports on the 'Study on Saving' says "Estimates of rural or agricultural saving do not exist in Nepal. An indirect method was, therefore, used to calculate the saving rate in agriculture for 1976-77, the year of Agricultural Credit Review Survey conducted by Nepal Rastra Bank. According to the finding of the Survey, "... the own saving component of investment in agriculture, thus, equalled to Rs. 693 per households. Multiplying this by the aggregate number of farm households in Nepal we had the gross saving in agriculture..." Gross saving, thus estimated, comprised 11.7 percent of the agricultural gross domestic production for 1976-77.¹

In order to make a study of rural saving in Nepal, therefore, there is no other way out except the recourse to the estimation of savings deposited in different commercial banks of Nepal. However, these deposits constitute a small fragment of the total saving, yet they might throw some light on the trend of saving of the rural as well as urban regions. Table 3 shows the regional deposits of the commercial banks from 1977 to 1984. These deposits include demand-saving and time-deposits.

Table 3
Regional Deposits of Commercial Banks - Rural and Urban (1977-84)

Rs. in Millions

Year 1	Total deposits 2	Urban deposits 3	Rural deposits 4	Rural deposits as % of 2
1977	2069.0	1727.8	341.2	16.5
1978	2416.5	1988.8	427.7	17.7
1979	2830.9	2316.6	514.3	18.2
1980	3216.5	2627.2	634.3	19.4
1981	3981.5	3127.6	853.9	21.4
1982	4729.2	3773.2	956.0	20.2
1983	5887.6	4701.3	1186.3	20.14
1984	6775.8	5371.3	1404.5	20.72

Source: Nepal Rastra Bank, Commercial Banking Statistics, Various Issues.

Table 3 indicates a constant enhancement in deposits both in urban as well as rural sectors. This might be due to greater monetisation of the economy on the one hand and expansion of the branches of banks, on the other. The total number of financial institutions in rural areas has increased from 175 in 1970-71 to 1111 in 1982-83, recording an annual growth rate of 16 percent.² Again, there has been more than 200 percent increment in the total deposits in 1984 against the deposits of 1977. The increment in the rural sector is much more encouraging and has recorded more than 400 percent increment in the deposits in 1984 over 1977.

The enhancement in the urban area too does not lag behind. It registered an increase of 300 percent during the same period i.e. (1977-1984). The share of the rural deposits which was just 16.5 percent of the total in 1977 continued to rise up and was registered at 20.72 percent in the year 1984, recording a 3.3 percent compound annual growth rate for seven year period. In absolute nominal term, the rural deposits have recorded an impressive growth during the last seven years 57.1 percent annually.

Considering, however, the vast scope for tapping rural sector saving i.e. 11.7 percent of the agricultural gross domestic product, these deposits however, appear to be very moderate.

REGIONAL VARIATION IN SAVING TREND

Geographically, Nepal has been divided into four ecological regions. However, in this study, for simplicity and economic reasons, the four regions are grouped into two distinctive regions i.e. Hills and Terai. Hills region includes Mountain region and Terai region covers inner Terai area as well. Furthermore, Nepal from administrative point of view, has been divided into seventyfive districts. Of these seventy five districts, fifty four districts come under the Hills region and accommodate roughly 56 percent of the total population, while Terai region is composed of remaining 21 districts and accommodates roughly 44 percent of the population.

Data on saving, on the basis of these regions i.e., Hills and Terai are totally lacking. Only very recently some data on deposits in the various commercial banks in these districts have become available. Table 4 shows the deposits of the commercial banks on the basis of these regions between 1980 and 1984. These data are computed on the basis of deposits available with different districts of Hills and Terai regions.

Table 4
Regional Deposits of Commercial Banks - Hills and Terai (1980-84)

Region/Year	Rs. in Millions				
	1980	1981	1982	1983	1984
Hills	2095.0 (70.24)	2451.0 (69.36)	3033.6 (69.94)	3972.1 (71.55)	4642.8 (72.49)
Terai	887.9 (29.76)	1983.6 (30.65)	1303.3 (30.06)	1579.7 (28.45)	1760.7 (27.51)
Total	2982.9 (100.0)	3534.6 (100.00)	4336.9 (100.00)	5551.8 (100.00)	6402.5 (100.00)

(Figures in parentheses represent the percentage of the total).

Source: Nepal Rastra Bank, Commercial Banking Statistics, Various Issues.

In these four years period, there has roughly been 121 percent increase in the deposits in Hills region, and 114 percent in the Terai region or a compound growth rate of 30 and 25 percent per annum respectively.

One of the very remarkable fact regarding the deposits in the Hills region is, that more than 80 percent of the total deposits of the Hill region, (of the fifty four districts), was recorded in only three districts of the Kathmandu valley, namely, Kathmandu, Lalitpur and Bhaktapur

in 1984. Furthermore, the deposits in Kathmandu district alone stood at 75.37 percent of the total deposits of the Hills region and only 25 percent of the total was scattered all over the remaining 53 districts of the Hills i.e. of the total deposits of Rs. 4641.8 millions, Rs. 3498.8 millions was deposited only Kathmandu district alone. However, in Terai region, there is no such concentration of deposits. All the deposits are roughly distributed proportionately among all districts of the Terai region.

In this period, there has been, of course, constant enhancement in deposits in both the regions. There is, however, no movement recorded in deposits from one region to another at the same time no significant variation recorded in the growth of deposits in both the regions. The increment in deposits, moreover, remained roughly proportionate in both regions.

INSTITUTIONAL STRUCTURE AND SAVING MOBILISATION

The role of financial institution in generating as well as mobilizing the saving is very crucial; since the savers as the economic unit might not act as the investors too. It is through these financial institutions that both savers as well as investors get their work done. Therefore, for promotion and for the use of saving, the functions of these institutions deserve special attention.

In Nepal, the history of financial institutions is of very recent origin. The first commercial bank with private individual share capital, was established in the year 1937 A.D. And, until the establishment of Rastriya Banijya Bank, the second commercial bank fully owned by His Majesty Government of Nepal, in 1956, it continued to be the only commercial bank serving as commercial bank in Nepal.

At present four types of financial institutions viz., Commercial Banks, Agricultural Development Bank, Cooperatives and Post Office Saving Banks are in operation. Table 5 presents the number and distribution of financial institutions by rural and urban locations in 1971-1983.

As shown in the Table 5 there has been constant expansion in the number of branches of all types of financial institutions between 1971 and 1983. Specially the progress, regarding the rural banking is very impressive. It increased from 175 in 1971 to 1111 in 1983. The number of financial institutions in urban regions also, during the same period, increased from 42 to 147. In 1982-83, the percentages distribution of the commercial banks, ADB/N, cooperatives and post office savings banks were 17, 17, 64 and 3 respectively in the rural areas. The highest percentage share of the cooperatives in the rural area is due to fact that these institutions are specially developed for rural people and they aim to serve each and every village of Nepal. In terms of density ratio as defined as the ratio of population to the total number of institutions, there is one financial institution for every 13,655 rural people, whereas the urban centres have the privilege of having one financial institution for every 6,912 people. These figures, however, were the highest (population) even among the least developed countries of this region.

Table 5
Number and Distribution of Financial Institutions by Location

Year/F. Inst.	Commercial Banks		A.D.B/N		Cooperatives		Post Office Savings Banks		Total		Grand Total		
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Both
1971	56	30	18	12	101	-	-	-	175	42	217		
1972	60	32	11	12	152	-	-	-	223	44	267		
1973	67	36	15	15	169	-	-	-	251	51	302		
1974	77	41	35	19	209	-	-	-	318	60	378		
1975	85	45	31	23	251	-	-	-	367	68	435		
1976	113	60	106	25	205	-	-	4	424	89	513		
1977	141	75	121	30	1058	-	3	5	1320	110	1430		
1978	150	81	180	31	573	-	12	9	853	121	974		
1979	146	85	138	33	573	-	13	15	857	133	990		
1980	148	86	145	31	561	-	15	19	854	136	990		
1981	154	87	135	44	708	-	21	23	995	154	1149		
1982	172	91	155	44	713	-	30	24	1040	159	1199		
1983	184	100	184	49	713 ¹	-	30 ¹	24 ¹	1111	173	1284		

Source: Agricultural Project Service Centre, Study on Rural Saving Mobilisation in Nepal, Final Report, Kathmandu, 1984, p. 12.

Note: 1 - Provisional Estimates.

POLICY IMPLICATIONS

Savings are of great importance in a developing economy like Nepal, because of their direct bearing on the investment capacity of the country. It has been recognised even in developed countries that the major portion of the nation's needs for investment must be met from its internal resources. Saving is an instrument for developmental financing and a means of economic growth. Efforts to mobilize saving in a country like Nepal, however, have to put up with controversy regarding nation's ability to save. Raising the national saving rate i.e. the ratio of gross national saving to gross national product, is very difficult and a complex task. Again, there are two divergent approaches concerning the policy to be adopted in mobilizing the saving in a poor country. The contention of these favouring the investment (first approach) and denigrating saving, first strategy is that in a poor country like Nepal, where consumption levels are already low, it may be harmful to induce a further reduction in consumption level so as to raise the saving rates. The argument is made to raise questions regarding an identification of minimum consumption needs which a policy of savings mobilisation should take into account. However, the problem with this approach is the existence of skewed distribution of income in most of the developing countries. A large portion of population in these countries might well be living below the 'minimum' level of consumption or below the 'poverty line' that may be held appropriate considering minimum required level of nutrition. It is simply for these reasons that Dr. K.K. Jha has stated with emphasis, that "unless masses of small cultivators are first brought to level of productivity which will give them adequate income, there will be little possibility of additional saving in rural areas."³

Nevertheless, an estimate of average propensity to save could provide a measure of the saving capacity of the country, and indicate the extent to which the policies might be geared towards mobilisation of savings. Table 1 presents the actual, estimated and expected gross national production, consumption and gross domestic saving in 1978-79 to 1990-91. Gross domestic saving is treated here as a residual of income minus consumption.

Since 1978-79, there has been constant reduction in the gross domestic saving (GDS) as it decreased from 11.62 percent of GNP in 1978-79 to 10.4 percent in 1984, and is expected further to decline to 8.03 percent in 1990-91. In such a situation, the mobilisation of saving in Nepal, is rather a very complex and difficult task.

Broadly, national saving consists of three components: public sector saving, corporate saving and household saving. Like all developing countries, in Nepal too, the household saving is the largest single component of national saving. Efforts to increase national saving, therefore, must be directed largely, but not solely, for improving the household saving.

The household saving can be considered as being determined by the "ability and willingness" of the constituents of the household, and their "opportunity" to save. If banks deposits are any indicators of "ability and willingness" of the household sector to save, Table 3 shows a very encouraging trend.

There are many factors which determine the ability and willingness to save. Ability obviously, depends on their dispensable income i.e. income minus taxes, and willingness to save is also influenced by a variety of factors, but opportunity to save largely depends on the availability of financial institutions and the types of financial instruments that these institutions made available.

In Nepal, where the average propensity to save (as percentage of GNP) is very meagre, an attempt to mobilise saving should aim at both factors i.e. to increase the ability as well as the willingness to save. Furthermore, it should be able to provide all types of opportunities and means to save at ease.

Again it is recognised that there is a dearth of benchmark statistics on such vital issues on national, corporate and household savings. It is thus, advisable to conduct a survey work in these areas.

It is well known fact that there is vast untapped rural saving waiting for mobilisation. Moreover, most of the savings in the rural areas might be in the form of kinds. However, there is no institution that mobilise the saving in kinds. And it is generally accepted that the method and means to mobilise this kind of rural saving, stand as one of the basic academic as well as the policy problems in an under developed country like Nepal. In this context the "compulsory saving scheme" of land act of 1964, can be regarded as one of the noble experiments in mobilising the rural savings in kinds. In the beginning of the scheme the rural people responded it in a very positive way and there was collection of saving by Rs. 120 million (approximately 110 millions in kinds) within the four years period. (2021-2025) unfortunately, the tempo to mobilize the resources could not last long. The failure of this scheme, however, attributed either to the lack of saving propensity, not to the lack of willingness to save on the part of rural people, but attributed to the (a) lack of pre-planning, (b) mis-management, (c) as well as the wrong book-keeping. It can be, therefore, convincingly said that one of the challenging problems in mobilizing the saving is not the lack of saving as such but the idea, appropriate method to mobilize it. In order to mobilise the saving, to meet the ever-increasing demand for investment, there is no other way out expect to recourse one kind or the other method of compulsory or voluntary saving scheme with sound pre-planning, imagination and well organise implementing mechanism so that it would be able to regenerate confidence in the rural mass.

Indeed, as Prof. Lewis argued, "The central problem in the economic growth is to understand the process by which a community is converted from being 5 percent to a 12 percent saver - with all the changes in attitudes, in institution and in techniques which accompany this conversing." Nepal, therefore, need to understand this process and methods which are applicable to our objective conditions. Because, the very essence of economic growth, is to enhance saving and use of increased saving for increasing profitable investment and use of increased profit for enhancing savings. This vicious circle of increasing saving and the increasing savings to increasing investment constitute the very secret of economic growth.

FOOTNOTES

1. Agricultural Project Service Centre (1984), Study on Rural Saving Mobilisation in Nepal, Final Report, Kathmandu, pp. 25-26.
2. Ibid., p. 9.
3. K.K. Jha (1978), Agricultural Finance in Nepal (New Delhi: Heritage Publishers), p. xiv.