

CHAPTER IV

INSTITUTIONS SUPPORTING INDUSTRIAL ESTATES PROGRAMMEIntroduction

In Chapter II, we had discussed the Industrial Estates Programme as undertaken in some of the developed and developing countries. This chapter gives an idea about how the Programme has been used to achieve varied objectives in these countries. Chapter III was devoted to the state of industrialisation in Nepal. So far, we have not discussed the major Institutions which support the Industrial Estates Programme in Nepal. Without an account of these Institutions, the discussion will remain incomplete. Accordingly, this chapter is devoted to selected specialised institutions which are directly or indirectly involved in Industrial Estates Programme in Nepal.

The discussion relates to the Nepal Industrial Development Corporation (NIDC), Industrial Services Centre (ISC), the Commercial Banks and the Agricultural Development Bank (ADB). Also, the chapter gives certain suggestions for their improvement.

1. Nepal Industrial Development Corporation

Introduction

The need for an institution to encourage and assist the development and modernisation of industries in private sector by providing financial and technical assistance was long felt. Consequently, a provision was made in the First Five Year Plan(1956-61) to set up an Industrial Research Bureau and an Industrial Finance Institution. The Industrial Development Centre was established in 1957 to carry out research and development functions. An institution to provide financial assistance to industry had not been established till then. It was later decided to convert the Industrial Development Centre itself into Nepal Industrial Development Corporation (NIDC) by a Special Charter in 1959 with a view to providing both financial and technical assistance to industries.

The Corporation had been performing promotional activities such as development and management of industrial districts at Hetauda and Balaju; preparation and dissemination of industrial feasibility reports and rendering consultancy services to potential investors. With the creation of the Industrial Services Centre (ISC) in 1975, these functions have been transferred from NIDC. For a few years following the dissolution of Small Industries Development Corporation (SIDC)

in 1972, NIDC was also engaged in financing cottage and village scale industrial sector till 1976. Presently, these enterprises are being financed by commercial banks.

Because of these recent developments, NIDC presently functions more as an industrial bank principally concerned with equity participation in and advancing medium and long term credit to industrial units rather than an institution responsible for preparing feasibility reports and providing technical help.

Objective

The main objective of NIDC is to encourage, assist, and develop industries in the private sector in Nepal. It provides financial and technical assistance to the industrial sector.

Functions

The general functions of this Corporation are:

1. To assist all types of private industrial enterprises which are technically feasible and economically sound.
2. To extend term loans against adequate security to the industrial enterprises for the sake of developing, modernising and improving their conditions.

3. To guarantee the loan raised by industrial concerns through commercial banking facilities in Nepal.
4. To engage in industrial consultation and training, survey of markets, credit investigation, promotion of private foreign investment, compilation and dissemination of industrial and commercial information relating to investment.
5. To encourage Nepalese citizens to purchase NIDC's shares.
6. To purchase and sell shares, stocks, bonds and debentures of industrial concerns.
7. To purchase, sell and own movable and immovable properties.
8. To provide suggestions and furnish necessary informations to HMG/N.
9. To enter into banking transactions with domestic and foreign banks.
10. To promote or establish industrial concerns with a view to selling the same to the public eventually so that the funds released can be used for re-investment in other industrial enterprises.

Sources of Funds

The Corporation was started with an initial capital of Rs.10 million, which stood at Rs.250 million in 1983. The subscribed and paid-up capital was Rs.171 million.

The main sources of funds available to it are:

- (a) Equity participation of HMG/N and Nepal Rashtra Bank (Central Bank)
- (b) Borrowing from domestic institutional sources like issue of development bonds and borrowing from Rashtra Bank
- (c) Borrowings from foreign Governments
- (d) Borrowings from international financial institutions

So far the borrowings from foreign Governments and international financial institutions are concerned, the Corporation has received different types of credit from the United States Agency for International Development (USAID), Kreditanstalt Fur Wiederaufbau, British Government, Indian Government, Export Import Bank of Japan, Danish Government and the World Bank.

Investment Policy

Any small, medium or large enterprise registered as a limited company may apply to the NIDC for financial assistance^{for} its expansion and/or modernisation. Enterprises located within an industrial district and tourist lodges, though of cottage scale are eligible for NIDC's financial assistance.

The NIDC extends financial assistance (in domestic or foreign currencies) to enterprises pertaining to manufacturing, processing, tourism, assembling, construction and other service industries. It is necessary that such enterprises must have received licence from the Department of Industry, HMG/N in accordance with Industrial Enterprises Act and have been duly incorporated.

In consonance with the Industrial Policy of HMG/N, NIDC provides financial assistance to industrial units on the basis of their nature and location. In this context, NIDC has allocated priority for industrial projects manufacturing five basic necessities of general consumption viz, food, clothing, construction materials, educational and health services. The quantum of financial assistance may vary from 50 to 95 percent of the fixed assets investment and is dependent upon economic and financial merits of the project. However, there are

different ways or methods of NIDC assistance for private enterprises:

- (a) For large scale industries, it may finance upto a maximum of 75 percent of the total value of fixed assets. However, in order to facilitate the tenant industrial units of the industrial districts, the NIDC may extend financial assistance upto 85 percent of their fixed assets. In case of transport services, the Corporation's financing will be limited to 50 percent of the fixed assets. Interest on loans in local or other available foreign currencies will be charged at the rate of 7.5 percent per annum payable half yearly. Loans may be granted for a period of 5 to 15 years (maximum) depending on the nature of the project. Interest and amortisation of the principal amount is payable in half-yearly instalments.
- (b) For small scale industrial units, the NIDC may finance upto a maximum limit of 85 percent of the total value of fixed assets and the working capital as well, if necessary. Interest on loan for fixed assets will be 4.5 percent and for working capital 7.5 percent. The fixed assets loans may be granted for a maximum period of 7 years and the working capital loans for one and half years.

General Terms and Conditions of Financing

Any enterprise registered as a limited liability company may apply for financial assistance from NIDC for new establishment, expansion and/or modernisation of the enterprise involving total fixed capital cost of Rs.2,00,000/- The minimum investment requirement is not applicable to tourism projects as well as industrial units located in industrial districts.

Usually the under mentioned industrial enterprises are eligible for NIDC's financial assistance viz.,:

- (a) Export-oriented industrial units based on the local raw materials such as jute, sugar, ghee, leather etc.
- (b) Import-substituting industrial units based on local or imported raw materials such as cotton textile, cigarettes, flour, glass etc.
- (c) Industrial units based on agriculture, forest and mining and producing domestic consumables.
- (d) Service industries such as transport, workshop, printing press, cold storage etc.

Review of NIDC's performance

To assess the performance carried on upto 1983, we take the help of the Table 4.1.

Table 4.1

A Review of the Performance of NIDC¹(Total Financial Assistance Since its inception in 1959
till Mid-April 1983)

(Amount in million Rs.)

Particulars	No. of units	Amount
A. By Scale of Industrial Projects		
Small, Medium and Large Scale	387	566.97
Cottage and Village Scale	414	8.74
Total	801	575.71
B. By Type of Investment*		
	Amount	Percentage
Loan	488.09	84.8
Equity Investment	53.82	9.3
Guraantee	33.80	5.9
Total	575.71	100.0
C. By Sector of Industrial Project		
1. Small,Medium & Large Scale		
Sector	No. of Unit	Amount
Agro-based	112	227.72
Forest based	25	16.04
Mining and Mineral Based	29	51.42
Tourism	75	224.05
Miscellaneous	146	47.74
Total	387	566.97
2. Cottage and Village Sector		
	414	8.74
Total(1+2)	801	575.71
D. By Development Region		
Small,Medium and Large Industries		
Development Region	Unit	Amount
Eastern	81	67.08
Central	202	429.15
Western	75	52.88
Mid-Western	20	11.59
Far-Western	9	6.27
Total	387	566.97
		Percentage
		11.8
		75.7
		9.3
		2.1
		1.1
		100.0

*Inclusive of loan amount of Rs.8.74 million to cottage and village scale industries.

1. Based on Operational Statistics of NIDC(from 1979-80 to 1982-83)

As per the above Table, it is clear that the cottage and village scale industrial enterprises constituted more than 50 percent of the total units financed by NIDC. Investment-wise, the lion's share has gone to small, medium and large scale units: and 414 units of cottage and village scale industrial units were allocated only Rs.8.74. Industry-wise too, the greatest share has gone to agro-based and tourism industries, i.e. around 40 percent each, of the total financial assistance. The mineral and forest-based units did not have adequate share of financial assistance from NIDC. While according to the availability of the resources in the country, forest and mineral-based industrial units must have been given priority.

Even though NIDC has arranged to widen its services through its four regional offices along with the centre playing the pivotal role, the central development region has got the most favourable treatment, the investment percent being 75.7, followed by eastern development region (11.8%) and western development region (9.3%). The mid-western and far-western regions have been allotted a very meagre and negligible share of 2.1 and 1.1 percent respectively, which points out that the concept of decentralization or regionalisation has not gained momentum.

Concluding Remarks

The performance of NIDC in financing industrial development provides a mixed picture. No doubt, the growth in the quantum of assistance annually disbursed has been growing over time. It has participated in the equity capital of a number of enterprises. A few pioneering enterprises have been promoted with its own direct initiative. It has also provided finance to a number of other pioneering industrial units promoted by others and has thus helped in diversifying the industrial structure of the country. The gaps between the loan request from NIDC and approval on the one hand and between approval and disbursement on the other have been gradually narrowing. The trend in repayment has also been improving. In spite of these plus points, there are certain aspects of its operation which cannot be regarded as satisfactory. It is said in certain quarters that the NIDC has favoured Central development region and within this region the Bagmati Zone and a large portion of its assistance has concentrated in a few undertakings. In this context, it may be pointed out that the disposition of funds, after all, is influenced mainly by the demand factor, which explains the concentration in a few regions and big projects. The central development region is relatively better equipped with most of the prerequisite infrastructural facilities necessary for industrial development. The three operating industrial estates

also are located here. Obviously bulk of the demand for industrial finance comes from this region.

Although the industrial enterprises financed by it come under the broad priority framework of the Government, there is a heavy concentration of funds in the hotel and agro-based industrial units. Further, the NIDC's contribution to the development of export-oriented units based on indigenous raw materials has been negligible though a lot of emphasis has been given in various plans. Moreover, it does not seem to have made any substantial contribution to the development of capital market. The tendency of concentration of assistance in one or two regions is not likely to stop merely with the effort of an agency like NIDC. The reversal of the process calls for the re-examination of various policy issues including investment, fiscal, monetary and licensing that affect entrepreneurial decisions.

Suggestions for Improvement

Despite the lack of demand for industrial finance from less developed regions, NIDC may attempt to uncover the investment opportunities in these regions and tap entrepreneurial talent for it, in cooperation with ISC. Moreover, efforts can be made to attract or divert entrepreneurs from developed to backward regions through necessary persuasion

and incentives. If these measures do not bring about the desired results, NIDC itself should take the initiative to promote the high-priority ventures by joining hands with private parties, wherever possible.

So far NIDC has participated largely in the equity of private limited companies. Even those companies whose shares are held almost entirely by NIDC are organised as private limited companies with no apparent justification. These concerns may be converted into public limited companies. Moreover, there is no apparent reason as to why NIDC should continue to retain the shares of these concerns, once they have stood on their own. As per the Charter itself, NIDC ought to have effected the sale of such concerns as rapidly as possible.

In the present state of industrialization in Nepal, when adequate risk capital is not forthcoming, NIDC should inspire the prospective entrepreneurs by promising a part of risk capital in addition to providing long term loans. This step will be welcomed by the parties concerned.

2. Industrial Services Centre

Introduction

Industrial Services Centre (ISC) was established in November 1974 by HMG/N under Section 3 of the Development Board

Act 2013(1956) to help promote industrial development in Nepal. The establishment of this institution is a land mark in the expansion of research and consultancy services. Earlier NIDC used to carry on the functions relating to research and consultancy.

Objectives

As envisaged in the Fourth Plan, the centre has the following objectives:

- (a) To prepare feasibility reports on different projects through the local or foreign experts and to make them available to the Government as well as to the prospective investors. Studies on existing industries will be made in order to furnish technical advice.
- (b) To execute its programme in cooperation with bodies like Food Research Laboratory, Royal Drug Research Laboratory, and to establish new laboratories, if necessary.
- (c) To have its own workshop for repairing the machineries, packaging units, weighing machines etc, so that it can provide such services to a number of industrial units which cannot afford such facilities.

This Centre is directly supervised by the Ministry of Industry of HMG/N which is responsible for all matters pertaining to industrial operations in Nepal. It is governed by a Board of Directors who represent various Institutions involved in industrial development in Nepal, viz., Ministry of Industry, Ministry of Finance, Department of Cottage and Village industries, NIDC, National Planning Commission. The Chairman and Executive Director are appointed by HMG/N. The Board has been authorised by HMG/N to formulate necessary rules and regulations according to its requirements. The proposed rules and regulations will be enforceable only after they have been approved by the Government. The Board has entrusted the task of day-to-day management of the Centre to the Executive Director, who is not only a member of the Board but is also its Secretary.

General Functions

The Centre is basically a research and consultancy organisation. Hence it does not involve itself as a financing and implementing organisation in the industrialization of the country. However, as an exceptional function, the Centre carries on the responsibility of operating Industrial Districts within the Kingdom. It has been investing a portion of its annual budget in this programme. So far as its financial sources are concerned, HMG/N provides a grant to the

Centre and it also generates its own revenues from consultancy services, feasibility studies, training and similar other industrial services. However, it is hoped that in course of time, it would no longer be dependent on the Government for its finances.

The Centre provides a package of non-banking services necessary for industrial promotion. In particular, the Centre carries out the following functions:

1. It conducts techno-economic feasibility studies on industries and subsidiary industries based on agriculture, forestry, mining and others.
2. It suggests methods for modernization, expansion and improvement in productive efficiency of industries.
3. It makes available reports of viable projects to both local and foreign entrepreneurs and informs them on possible aspects of industrial investment in Nepal.
4. It undertakes the management of Industrial Districts and plans for the establishment of new ones.
5. It studies the performance of industries within the context of the existing industrial policy and makes recommendations to HMG/N for changes necessary to help industrial growth.

6. It undertakes research and case studies on industrial management and publishes their findings in order to help industrialists to improve their management systems and practices.
7. Finally, it conducts industrial management training programmes for those engaged in management of industrial and related enterprises.

Facilities Provided to Industrial Estates

As mentioned earlier, all the industrial estates in the Country are under the direct management of this Centre. No doubt, many of the industrial estates were already operating before the inception of this Centre and hence were handed over to it. Those estates already existing were established by HMG/N with the financial and technical assistance of different friendly countries viz., Balaju industrial district was jointly sponsored by HMG/N and USAID in 1960; Hetaudu industrial district under the joint collaboration of HMG/USAID in 1963; Patan industrial estate with the financial assistance of the Indian Government in 1964; Pokhara industrial district by only HMG in 1974; Nepalgunj and Dharan industrial estates with the financial assistance of Indian Government. Butwal industrial district was set up in 1976 under the management of ISC. Bhaktapur

Small Industrial Area is being developed with the financial assistance of Federal Republic of Germany. According to the latest information available, ISC has started building industrial sheds in Surkhet (Mid-western region) industrial estate, named as "Prime-mover Industries Project", Surkhet, which owns 4.57 hectares of total area. The acquisition of land was started in the early 1982. In Dhankuta, the far-eastern mountainous part of the Country, land has been acquired for establishing one industrial estate there. With the Indian assistance, an industrial estate at Rajbiraj (eastern region) would be set up on the pattern of earlier Indian-assisted estates.

Through its Industrial districts coordination division, the Centre carries on the function of managing industrial districts within the country. The Centre coordinates the activities of the industrial districts and formulates programmes for their effective administration and operation. As a liaison agency of the industrial districts on official matters pertaining to HMG/N, it provides physical planning and engineering design services, technical and management assistance to the existing districts, studies the potentiality of new industrial districts, and draws up programmes for investment opportunities within the districts.

Industrial district operation branch of ISC controls the administrative and financial aspects of all the Industrial Districts within Nepal and promotes inter-district coordination. It supervises the administration of facilities within all the Industrial Districts and their development work and maintains liaison with Ministries and Departments of HMG/N, where necessary. It ensures that recommendations made by the District management on behalf of their client industrial units are taken up at the Government level. It regularly reviews the tariffs of the services provided by the Industrial Districts and makes necessary recommendations to top management, as required.

While trying to meet the common infra-structural needs of the industrial units in the industrial estates, the deputed managerial staff of this Centre usually looks after the provisions of water, electricity, developed land, drainage, roads and side-roads and security arrangement. In most of the old Industrial Districts, many factory buildings were also constructed by the institutions managing them before they were handed over to this Centre. But as the construction of factory buildings before-hand proved a risky job as it might not be suitable to each and every unit in addition to blocking-up of huge capital, the present tendency since the past few years is to let the units themselves construct the factory building or sheds in many Industrial Estates.

Some Industrial Estates also have warehouses, bank branch, clinic, post office, display centre, day-care centre, canteen, sports hall etc. within their premises. The following list will show the different facilities available in different Industrial Estates in the country.

List of Facilities available in all the estates

(by the end of 1984)

- | | |
|-------------------------------------|---|
| 1. Balaju Industrial District(BID) | Godown, bank branch, clinic, display centre, day-care centre, security arrangement. |
| 2. Hetauda Industrial District(HID) | Post office, clinic, canteen, sports hall, security arrangement and a primary school. |
| 3. Patan Industrial Estate(PIE) | Godown, post office, bank branch, canteen, clinic, workshop, day-care centre, security arrangement, display centre (proposed recently). |
| 4. Pokhara Industrial District(PID) | Bank branch, clinic, sports hall (recently built), canteen security arrangement. |

- | | |
|---------------------------------------|---|
| 5. Nepalgunj Industrial Estate(NIE) | Central repair shop (also running as production unit) and security arrangement. |
| 6. Dharan Industrial District (DID) | Bank branch, post office, display centre, canteen, workshop, clinic and security arrangement. |
| 7. Butwal Industrial District(But.ID) | Godown, security arrangement. |

Concluding Remarks

The performance of the ISC in relation to the establishment and operation of Industrial Estates in Nepal since 1975 provided a mixed picture. It can be easily concluded that the number of industrial estates being planned and established are increasing over time. It had been providing infrastructural facilities along with certain supportive facilities to the industrial units. Over and above these, the Centre had been giving top priority to industrial planning, programming and promotion, as it would be held responsible for industrial promotion in the country. In this regard the Centre, in association with the Department of Cottage and Village Industries conducts industrial surveys, to promote cottage industries in Nepal. To achieve this, it

prepares industrial schemes of rural, cottage and small scale industrial units and makes them available free of cost to the prospective small entrepreneurs. Moreover, the Centre also conducts training programmes for the improvement of skills of middle level and supervisory level of industrial management.

Inspite of all the attempts of the Centre, the respondent-entrepreneurs of this study had complained that facilities being provided by the Centre were inadequate and some of them were still in written form only. For example, the power was supplied by the estate authorities at the usual rate plus 5 percent service charge on the total power units utilised. Besides, there existed the problem of irregularity in supply of this facility. The irregularity factor in Butwal Industrial District was so pronounced that the units in this estate were not operating at day time because of frequent power breakdowns and hence, they actually worked at night. The same condition prevailed in Dharan Industrial District, Nepalgunj Industrial Estate and Pokhara Industrial District with slight improvement.

Moreover, nothing had been done regarding the setting up of repair workshop in any of the industrial estates. The repair workshops in PIE, NIE and DID were the

production units run by individual entrepreneurs instead of the Industrial estate management.

Over and above these, the basic requirements like security arrangement, clinic and canteen were found to be in such a wretched condition that the entrepreneurs arranged all these facilities on their own.

For improving the present situation, the Centre should be able to acknowledge itself about its performance in the field of industrial estates management. No doubt, the revision of one's own work or performance is not an easy task to perform, in case of ISC it has become very much essential. As has been mentioned in Chapter VI for improving its own performance in future in this respect, it should start collecting opinions of entrepreneurs in Industrial Estates at suitable intervals. This practice will definitely enlighten the management of ISC about the actual condition of industrial estates and the short comings on its own part. If taken seriously, these opinions will certainly guide the Centre to make necessary changes in its attitudes, approaches and system of management for operating industrial estates.

However, before making any drastic changes in the pattern of management of industrial estates, it will not be

out of context if it is said that the Centre should give proper attention towards improving the present situation in relation to the facilities being provided in the Industrial Estates. Prompt actions are to be taken to improve the power supply situation, along with the provision of repair workshop, showroom for product display and efficient and vigilant security guards.

For providing better common facilities, the heterogeneous character of the Industrial Estates in Nepal has to be changed into homogeneous character by making suitable alterations in admission policy. The target regarding the type, nature and scale of units must be pre-fixed by the Centre, so that only the interdependent industrial units be admitted in future, which will facilitate the estate management to provide common facilities in the estates.

3. Commercial Banks

Introduction

In Nepal, the history of development of Commercial Banks can be traced about fifty years ago, when in 1937, under a Special Charter, the Nepal Bank Limited was established. Till the establishment of Nepal Rashtra Bank (The Central Bank) in 1956, the Nepal Bank Limited was also authorised to

carry on certain transaction on behalf of the Government.

Before the year 1956, Nepal Bank kept its functions confined to accepting deposits from the public and granting loans for the commercial transactions. It rarely financed the agricultural and industrial sectors, even though the scale of operation had expanded many times, due to increase in deposits and advances made for the commercial transactions. With the beginning of the First Five Year Plan in 1956, various sorts of development programmes began to be launched in the country. In order to meet the needs of the funds for financing the development programmes, it became unavoidable to mobilise the scattered savings from the different parts of the country and invest them in productive sectors. Nepal Bank Limited alone was not capable enough to meet such needs of the economy. Hence, it became necessary to establish another full-fledged commercial bank for providing banking services even to remote parts of the country. The establishment of the second commercial bank called the 'Rashtriya Banijya Bank' in public sector in 1966 was the step towards this direction. This bank was also established under a Special Charter. It aimed at developing banking facilities in areas which are not served by the former commercial bank and operate there also as an agent of the Nepal Rashtra Bank alongwith all the general commercial banking functions.

In order to maintain absolute and effective control over the management of the Commercial banks, both these banks were brought under the Commercial Bank Act of 1974. Since then, they have been influenced by HMG/N in the formulation and execution of their policies and programmes. Further, with a view to increasing the commercial banking services in the country, a foreign commercial bank called Nepal Arab Bank (International) Limited was also set up in the year 1984. This bank is also supposed to conduct its business in accordance with the provisions of the Commercial Bank Act 1974. However, it is to be noted that as against the 51 percent share of HMG/N in Nepal Bank Ltd and Cent percent share in Rashtriya Banijya Bank, its share in Nepal Arab Bank appears to be non-existent. The controlling share of this bank is held by the Dubai Bank. Because of this, it is difficult to assume that this commercial bank will always follow the directions of Government of Nepal issued through Nepal Rashtra Bank. Even then, it has been provided in the Commercial Bank Act that Nepal Rashtra Bank is empowered to hold effective control over the activities of foreign commercial bank established in the country.

Role of Commercial Banks in Financing Industrial Sector

There seems to be an increasing realisation on the part of the developing nations that commercial banks can play

an important role in financing industrial development. The significance of these banks is greater in the countries which are at a lower level of economic development. The findings of R.W. Goldsmith suggest that "The share of commercial banks in the net issues of all financial institutions is much higher in such countries than in the ones with higher stage of economic development".¹ Given the concentration of nation's investible resources in their hands, their intimate knowledge regarding the credit worthiness of borrowers and their experience in the finance of working capital needs, it is reasonable to expect some contribution from commercial banks to foster industrial development.

In Nepal, the Commercial banks remained confined mainly to the commercial sector, because lending to the commercial sector was less risky. In addition, these banks have adopted a conservative credit policy. Accordingly, a great importance is attached to security as the basis of disbursing credit and little attention is given towards the purpose and feasibility of the project for which loan is required by an individual or an enterprise. Because of this practice, the commercial banks in the country could show the investment of only 9.58 percent of their total credit towards industrial sector in 1982 against 54.91 percent in the commercial sector.

1. Goldsmith, R.W: Financial Structure and Development
(London, Yale University Press) 1968, p.224.

Recently, the monetary authorities in Nepal are understood to have realised the seriousness of the situation caused by a conservative credit policy of the commercial banks. As a result, a certain liberal trend, though not very significant, has started developing in the present credit policy of the commercial banks. Towards this end, certain major change has taken place in the power delegated to the commercial banks in sanctioning loans and advances. The Commercial Banks Act has now authorised them to sanction loans and advances for the maximum period of 10 years. However, it is to be noted that inspite of the power vested in the commercial banks to sanction loans up to 10 years, the share of such loans in the total volume of loans of these banks has so far been insignificant. This has occurred because of certain controversial decisions taken by the Central Bank. For example, since June 1982, on certain long term loans to cottage industries and basic goods industries, the annual rate of interest fixed by NRB is 11 and 12 percent respectively, which are even lower than the rate of interest payable to the customers, on the fixed deposits, which is 12.5 percent for fixed deposit of one year and 13.5 percent for two or more years.

As empowered by the Commercial Banks Act 1974, the HMG/N has been directing the commercial banks to

diversify their resources towards industrial sector. Accordingly, these banks are involved in financing the small scale sector under various programmes viz., Priority Sector Credit Scheme, Intensive Banking Development Programme and Cottage and Small Industries Project. Brief discussions about these programmes are made in the following paragraphs:

(a) Priority Sector Credit Scheme (PSCS)

The Nepal Rashttra Bank(NRB) launched this scheme in 1974 with the objective of bringing change in the existing lending pattern of the Nepalese commercial banks. Accordingly, the commercial banks were asked by NRB to advance a part of their loans to the 'small sector' more popularly known as "priority sector" at the lower rate of interest in order to raise the standard of living of the poor people as small farmers, artisans and businessmen living below absolute poverty line. Under this Scheme, all the three sectors of the economy namely, the agriculture, the cottage industries and the services sector were accorded priority in granting loans. In 1976, only such cottage and small scale industries were declared covered under PSCS whose fixed capital did not exceed Rs.2,00,000. Rules were also framed to extend credit to weaker and poorer section of the society, on the basis of project reliability rather than collateral, as this section of people might not be able to meet the requirement of

collateral for getting loans from the Commercial Banks. However, for minimising the misuse of loans, attempts are made to see whether the borrowed amount was properly utilised or not. Moreover, the Commercial Banks are expected to provide loans to the weaker and poorer people at the lower rate of interest. According to the direction of NRB the Commercial Banks have been charging 11 percent interest annually on the loans to small scale and cottage industries and 14 percent on the loans to services sector. These rates are low as compared to the other loans. In the case of default in the repayment of the priority sector loans which are insured by Credit Guarantee Corporation, the banks can expect to be compensated up to 75 percent of the insured amount from the Corporation. This is possible as the Corporation charges a discount of 36 paise per 100 rupees annually from the borrowers to meet any such eventuality.

Further, the Commercial Banks are required to invest at least 10 percent of the total deposit liabilities as loans to the priority sector. Previously in 1974, they were required to invest at least 5 percent of their deposit liabilities in the priority sector which was raised to 7 percent in 1976 and to 10 percent in August 1982. Moreover, based on the observation of the gap between the actual requirement and available development finance, commercial

banks are being persuaded to raise their productive sector investment from 15 to 30 percent by 1985. With a view to coordinating the activities of various financial institutions involved in the priority sector credit, Priority Sector Coordination Committee has also been formed.

The investment of the Commercial Banks in the priority sector was only one percent of their total deposits in 1975 which increased merely to 2.5 percent in 1980. The break-up of the investment of the Commercial Banks in the different sectors indicates that there was an increase in the investment in the agricultural sector and cottage and small scale industries but decline in the services sector over the period 1975 to 1980. According to NRB sources, however, such lending oscillated in the range of 5-6 percent of the total deposit liabilities during the period from July 1980 to June 1982.

(b) Intensive Banking Development Programme

In view of the experience gained from the performance of the investment in priority sector, the objectives and policies of the programme have been redefined and streamlined. Since October 1981, the Intensive Banking Development Programme (IBDP) has been launched as an integral part of the priority sector lending programme with the two branches of Commercial banks in Kailali and Bardiya districts.

This Programme is based on regional development approach with due regard to the multi-dimensional services which the banks could provide, particularly in order to raise the standard of living of the small farmers and entrepreneurs and extricating them from the clutches of the local money lenders. To make this programme more effective, Commercial Banks have been advised to disburse loans in consideration of the local needs and viability of projects rather than on the basis of the securities.

Under this Programme, the credit is made available to the weaker sections through the formation of groups and special attention is given to provide such facilities as input, marketing, technical advice along with credit facilities. All the projects are expected to be supervised by the concerned staff of the commercial banks at least once in a month.

(c) Cottage and Small Scale Industries Project

In conformity with the objectives of the Sixth five year plan, which laid due stress on the development of cottage and small scale industries, NRB introduced a new programme known as "Cottage and Small Scale Industries(CSSI) Project" on July 16, 1982. This was actually the outcome of an agreement concluded among HMC/N, NRB and the World Bank. It has been launched in 9 districts of Bagmati and Gandaki

Zones of Nepal. A sum of Rs.4.5 million was earmarked for investment in CSSI Project through Nepal Bank Ltd., Rashtriya Banijya Bank and Agricultural Development Bank under the refinancing facility from NRB. According to NRB sources, Rs.5.0 million had been provided by NRB upto July 1984 to concerned lending institutions in the form of initial capital.

Under this Programme, loans are being disbursed through commercial banks and agricultural development bank, not only for the short-term projects but also for the long-term ones, the maximum limit of credit being Rs.0.8 million. The annual rate of interest to be charged is 11 percent. Collateral is not the only criterion for granting loans, other criteria such as genuine requirement of the enterprise, ability and managerial capability of an entrepreneur are also applied.

Concluding Remarks

So far the financing of cottage and small scale industries by commercial banks is concerned, as mentioned earlier, the monetary and fiscal authorities have made many efforts to direct these banks to raise the level of their investments in the priority sector. In addition to the

Priority Sector Credit Scheme, the Government introduced IBDP and CSSI Project. However the implementation of PSCS had fallen short of the objectives. Several factors have been responsible for this. Some of the basic reasons for poor investment in this sector may be attributed to absence of institutional infrastructure, lack of technically trained staff, uneven and difficult terrain of the country, lack of effective monitoring, supervision and evaluation system, lack of proper cooperation from different ministries, agencies and chief district officers in recovering such loans which failed to be repaid in time. In addition, the rules, regulations and lending procedures of the commercial banks are so complex that the ordinary and mostly illiterate people cannot comply with them. As a result of frequent delays in sanctioning the loans to the parties, certain malpractices such as bribery and pressure through political leaders have cropped up.

As the problems enumerated above are interconnected, there seems to be a need to make special efforts to minimise the deficiencies on the part of bank authorities and its employees, the local leaders, social workers and the Government employees responsible for district administration. To motivate the commercial banks to divert much of its investments to the cottage and small scale industrial sector along with agricultural sector,

certain new arrangements should be made. As suggested by H.B.Jha, "it is high time to establish and activate a Cell in the Ministry of Finance called "Banking Division" which will watch the general activities of the commercial banks including the PSCS and other Programmes affiliated to it. In addition, it will try to analyse and solve the problems of these banks in implementing the projects or programmes".¹ Further, to safeguard the return over the investments made, active cooperation of the concerned bodies should be available to bank managers for recovering loans. For this purpose, certain administrative power may be delegated to the branch managers of the commercial banks for taking direct action against all those who either misuse the borrowed loans or do not repay them in time. Moreover, the monetary authorities must ensure uniformity in the rules, regulations, and other facilities relating to the CSSI project, IBDP and the original Priority Sector Credit Scheme. The general public in remote and less developed parts of the country should be made ^{aware} of these schemes. For this purpose the Commercial Banks must first impart training to their employees on a massive scale. The system of reward and punishment may be effectively implemented in the management structure of the commercial banks in such a way that the general staff may become committed to achieve the objectives of the bank.

1. Jha, H.B: Crisis in Nepalese Commercial Banks,
(Nepal, Institute of Third World Economic Studies)
1984, p.93.

4. Agricultural Development Bank

It came into existence in 1968 under the Agricultural Development Bank Act of 1967 incorporating the assets and liabilities of the Cooperative Bank which was set up in 1963. In 1973, Land Reform Saving Corporation was also merged with it to avoid overlapping and undue competition of functions between the two similar agencies. The ADB was set up to provide institutional finance to the agricultural sector. Along with its basic function of providing loans to individual farmers, cooperatives and corporate bodies directly engaged in the task of agricultural development, it provides finance to small scale industrial units manufacturing agricultural tools and equipments needed for the development of agriculture. The loans provided are for various terms ranging from short-term(not exceeding 12 months) marketing and storage loans to long period loans upto twenty years for purposes such as land clearance and development, construction of farm buildings, storage and warehouse facilities, installation of rice mills, agro-processing units, cottage industrial units, tea plantation, plantation of horticulture orchards and processing of horticultural and plantation products.

In 1971, the total outstanding financial assistance made by ADB/N was Rs.61.5 million, out of which the industrial sector had received Rs.4.9 million i.e. 7.9 percent

of the total assistance. With the growth in the total financing operation of the ADB, the share of the industrial sector has also been increasing in absolute terms since then. The outstanding assistance provided to industrial sector reached Rs.25 million in 1977. Since its inception to July 1984, the ADB has disbursed 37.9 percent of its total loan disbursements for the development and promotion of agro-industries marketing and warehouse facilities taken together.

An encouraging feature that needs to be mentioned is that the ADB was able to collect back 80 percent of the loan disbursed to this sector. This indicates that this sector has been able to use the loans properly. As a result, the ADB was prompted to fix up enhanced targets for the financial year 1984-85. Table 4.2 shows data relating to the lending programme of the ADB for this particular year.¹

1. Source: 'ADB at a Glance', in The Rising Nepal, (January 20, 1985) Kathmandu.

Table 4.2

Lending Programme of ADB for the Fiscal Year 1984-85

	(Amount in million)	
	Amount (Rs.)	Percentage
Live stock and Fisheries	122.5	22.2
Cereal Crops	100.5	18.3
Agriculture and Cottage Industries	69.7	12.7
Cash Crops	63.5	11.5
Irrigation	60.8	11.0
Agricultural Marketing	57.5	10.4
Farm Mechanisation	40.9	7.4
Horticulture	15.2	2.8
Biogas	8.6	1.6
Warehouse and Cold Storage	6.6	1.2
Tea, Coffee and Cardamom	2.9	0.5
Land Development	2.1	0.4
	550.8	100.0

As shown in Table 4.2, agriculture and Cottage industries are categorised as one sector which has been allotted 12.5 percent of its total resources during the fiscal year 1984-85. Agricultural marketing and warehouses, which were previously included in the agro-industry sector, have been separated under this lending programme to make it more effective. Agricultural marketing has been allocated 10 percent of its targeted total lending.

To conclude, it may be mentioned that financing of agro-based industrial units is just one of the areas of operation of this bank. Hence, it is natural that the volume of financial assistance provided and planned to be provided to this sector do not seem impressive. As a matter of fact, this bank also has to operate under similar constraints as the commercial banks have to. Hence, as mentioned earlier, similar efforts suggested for minimising the deficiencies on the part of the commercial banks may be applied for enhancing its contributions towards cottage Scale industrial sector in the rural areas.