

# **Financial Sector's Resource Mobilization Under Federal Structure of Nepal**



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## Foreword

Nepal has entered into the federal governing system after the promulgation of new constitution in 2015. With the implementation of fiscal federalism, allocation of financial resources across the province and local levels has been a key concern among policy makers and practitioners. The recent policy efforts from government and the Nepal Rastra Bank (NRB) are directed to channelize financial resources across the sub-national levels. For equitable mobilization of financial resources, many efforts have been introduced subsequently by the government of Nepal and NRB. Financial inclusion has been focused widely during the last couple of years. As a result, for instance, 750 out of 753 local levels are equipped with the access of commercial bank in their front yard. In the context of increasing access to financial services, now, the uses side of financial resources provided by the banking sector under the federal structure has to be analyzed.

This study analyses the data related to financial access, uses of financial services such as deposit mobilization and credit expansion, concessional financing, deprived and directed sector credit and other important types of credit in provincial level. The study finds that the financial resource mobilization is still imbalanced among provinces. However, the indicators are in positive direction towards balanced financial resource mobilization. I hope that the findings of this study are useful to all stakeholders and scholars.

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## Executive Summary

1. As Nepal has entered into federal system along with the promulgation of Constitution of Nepal 2015, Government of Nepal and Nepal Rastra Bank have given higher priority for making balanced and inclusive distribution of financial infrastructure and resources throughout all part of the country. In this context, the study has intended to examine the financial resource mobilization of banking sector under the federal structure of Nepal.
2. The study is based upon secondary sources of data collected from Banks and Financial Institutions. The data are collected using a common data template for Bank and Financial Institutions (BFIs) and Microfinance Financial Institutions (MFIs). Since the data were received from BFIs and MFIs on fixed format and for particular time, they may not perfectly match with other published aggregate data. However, the study report indicates the trend and pattern of financial resource flows on provincial basis.
3. The supply side data indicates that the financial access is growing rapidly in recent years. Out of total 753 local levels, commercial banks extended their branches at 750 levels as of mid-April 2021 compared to 296 in mid-July 2017.
4. Total number of BFI and MFI branches reached 5915 and 4272 respectively in mid-January 2021 compared to 3173 and 1895 respectively in mid-July 2017. The distribution of BFIs' branches is unbalanced on provincial basis. Around 34 percent of BFIs branches are located in Bagamati Province whereas only 4 percent of such branches are in Karnali Province. However, branches of MFIs are slightly more dispersed.
5. Population per branch of BFIs (including MFIs) recorded 2945 in mid-January 2021. However, it varies across the provinces. The lowest number of population per branch is found in Gandaki Province with 1907; whereas the highest number is stood in Province 2 with 4135 in mid-January 2021.
6. The digital payment infrastructure and service use is significantly increased in recent years; however it is also concentrated in Bagamati Province. Out of the total number of POS terminal (27.9 thousand), about 71 percent are located in Bagamati Province only.

7. Deposit accounts and Loan accounts of BFIs reached 34.57 million and 1.58 million respectively in mid-January 2021. Bagamati Province and Karnali Province hold the highest and the lowest number of both accounts respectively.
8. Out of Rs. 4.28 trillion deposit mobilizations of BFIs in mid-January 2021, more than two-third deposit is mobilized in Bagamati province. The lowest share of deposit mobilization is in Karnali Province followed by Sudarpashchim Province. Lumbini province has the highest share (27.8 percent) of deposit mobilization through MFIs.
9. The per capita deposit at BFIs and MFIs stood Rs.142.8 thousand and Rs. 3.8 thousand respectively in mid-January 2021. At the same time, the average deposit per account in national level at BFIs and MFIs reached Rs.123.9 thousand and Rs. 6.1 thousand respectively.
10. Of the Rs. 3.66 trillion outstanding credits of BFIs in mid-January 2021, Bagamati province holds 56.6 percent. Meanwhile, Province 2 holds the highest (26 percent) credit flows of MFIs.
11. The average per account credit of BFIs and MFIs reached Rs.2.3 million and Rs. 91.3 thousand respectively in mid-January 2021. At the same time, the average credit to deposit ratio (CD ratio) of BFIs stood at 85.4 percent. All the provinces other than Bagamati Province have higher CD ratio than national average. It depicts that the resources collected from Bagamati province are being flowed to other provinces.
12. Concessional financing such as refinance facility and interest subsidized loans has increased significantly in recent years. The highest share and the lowest share of such loans are flowed to Bagamati Province and Karnali Province respectively. However, such loans are flowed more in other provinces in recent year. The proportion of concessional loans on total loan holds similar in provinces as well as in national average.
13. Directed credits such as deprived sector loans, agriculture sector loans, SMEs sector loans, energy sector loans and tourism sector loans have been growing over years. The highest share of such loans extended by BFIs is in Bagamati Province and lowest share is

in Karnali Province. Meanwhile, the highest share of such loans from MFIs is extended to Lumbini Province and Province 2.

14. Almost the same trend is found in all aspect of industrial production sector loans and real sector loans except the share of real estate loans of MFIs are concentrated in Province 1, Province 2 and Bagamati Province respectively.

15. In conclusion, the study has indicated that the financial resources of BFIs are still more concentrated in Bagamati Province. However, it is gradually shifting from Bagamati Province to other provinces in line with the policy priority of improving access to financial resources in less developed provinces. Both supply and demand side interventions need to be implemented to make more equal distribution of financial resources provincewise.

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# Chapter 1: Introduction

## Background

- 1.1. Nepal formally embraced the Federal Republic Democratic System along with the promulgation of new constitution in 2015. As of the constitutional provision, the country has three tiers of government: central, provincial, and local governments. Under the new system of governance, sub-national governments (provincial and local governments) have priority to implement fiscal decentralization effectively for the balanced development of the country. The federal government has also initiated inclusive development process in recent years. As of the constitutional provision, the NRB has also initiated to increase access to finance. Likewise, priority is given on financial resources mobilization as well as flows on the specific sector and areas.
- 1.2. Financial resource mobilization has crucial role in inclusive and sustainable economic development. There are predominantly two types of system to mobilize the financial resources viz. Bank-based and Market-based financial system. On the one hand, Bank-based financial system promotes the debt financing and prevails mostly in developing countries. On the other hand, the market-based financial system encourages equity and debt financing both and found mostly in the advanced economies (Demirguc-Kunt & Levine, (1999). As in many developing countries, compared to the market-based financial system, the bank based financial system is more developed in Nepal.
- 1.3. Under bank-based financial system, banks and financial institutions (BFIs) accept deposits from the surplus units by promoting savings and lend to the borrowers so that the investment in the economy is encouraged. Banking sector credit has significant role in encouraging investment which ultimately increases production, employment and entrepreneurship in the economy. So, either through channels of deposits or credits, BFIs play a significant role in accelerating economic growth through mobilizing financial resources (Kharel & Pokhrel, 2012).
- 1.4. A balanced and inclusive financial resource mobilization is essential for financial stability as well. The mobilization of deposits plays a pivotal role in the bank financing as it is a dominant part of BFIs' liabilities, collected mainly from public. If such deposits are

mobilized from the differentiated region, BFIs rarely face problems of short term solvency. Similarly, the balanced distribution of loans and advances in various sector and region automatically minimize the risk of default of large portions of loans. If loan portfolio is properly diversified, then problem faced in one sector has the lesser probability to impact other sectors so that the BFIs will bear minimum loss and can avoid the potential systemic risk. Therefore, the balanced distribution of financial resources from different perspective is important for the sustainable development of both the financial sector and the economy as a whole (UNCTAD, 2020).

- 1.5. The optimal utilization of resources also indicates the efficiency of BFIs. Concentration of resources to a particular sector makes that sector over heated with asset price bubble and creates imbalance between the sources and uses of funds. Similarly, if the resources are concentrated to a particular region, then there will be regional imbalance in production, distribution, employment, income and also on economic activities. So, a planned and balanced approach to generation and mobilization of resources parallel to definite strategy is crucial for sustainable development of BFIs (Raipuria, 1991).
- 1.6. Balance distribution of financial infrastructure is also needed for the achievement of expected role of financial sector in the economy. In the absence of financial infrastructures and prerequisites, operations of BFIs become difficult and they are not interested to extend their services in such places. Electricity, telecommunication, internet facilities, security for branches and transportation facilities are the basic requirements for the operation of banks branches. Also, these are the minimum infrastructures for smoothing of banking services and carry out financial transactions. Development of such infrastructures facilitates and encourages BFIs to mobilize resources to the backward areas which accelerate inclusive finance (Morgan & Lamberte, 2012).
- 1.7. As guided by the Constitution of Nepal 2015, the country is restructured from centralized system to federal system (SoCA, 2015). Accordingly, several efforts have been initiated to make balance distribution of resources among all provinces. In order to implement federal system effectively, Government of Nepal and Nepal Rastra Bank (NRB) have adopted policies to smooth out financial services and resources throughout all part of the country. The Fifteenth Plan (Fiscal Year 2019/20 – 2023/24) of Nepal has taken strategies to

mobilize adequate resources and means in the national priority areas and; expand access to finance to remote and backward areas (NPC, 2020).

- 1.8. Likewise, the commercial banks are encouraged to extend their branches in each local level. The government transactions are allowed to do only through commercial banks so that banks become motivated to expand their branches at local level. With the effort of this policy, commercial banks have extended their branches in 750 out of 753 local levels as of mid-April 2021 (NRB, 2021). Furthermore, NRB has directed commercial banks to open and operate provincial offices so that they are encouraged to distribute their financial resources and infrastructure in provincial level. Besides this, NRB has encouraged BFIs to spend at least 10 percent of their CSR fund in each province.
- 1.9. Federal system itself does not guarantee the balancing of financial resources. For example, in Pakistan, SBP (2014) finds that the deposit of the scheduled commercial banks of Pakistan is concentrated in two provinces as of June, 2014. Of the total deposits, Panjab holds 43.4 percent, Sindh 32.8 percent, KPK 6.9 percent, Balucistan 2.1 percent, Federal Capital 11.5 percent, FATA 0.2 percent, Galgit-Baltistan 0.4 percent and AJK 2.7 percent. Similarly, credit of scheduled commercial banks is also concentrated in two provinces holding 91 percent of it. Of the total outstanding credits, Panjab holds 46.8 percent, Sindh 44.9 percent, KPK 1.2 percent, Baluchistan 0.3 percent, Federal Capital 6.5 percent and AJK 0.2 percent. The two provinces, FATA and Galgit-Baltistan hold very negligible amount (Rs. 2.7 billion) out of the total credit of Rs. 4068 billion.
- 1.10. Despite long experience of federal system, India has an unbalanced distribution of financial resources. RBI (2020) finds that more than half of the deposits and about two third of the credits of the Scheduled Commercial Banks (SCBs) are mobilized in the metropolitan areas as per the fourth quarter report of 2019/20. During that period, of the total Rs. 137501.45 billion of deposits; metropolitan area holds 50.1 percent; rural area 11.4 percent, semi urban area 16.8 percent and urban area 21.7 percent. Similarly, out of Rs. 104495.63 billion outstanding credit, metropolitan area holds 63.3 percent, rural area 8.7 percent, semi-urban 12.6 percent and urban 15.4 percent.
- 1.11. In case of Nepal also, despite high priority of inclusive finance policy of NRB and the government of Nepal, the branches of financial institutions and resources of financial market are unevenly distributed. As of mid-July 2020, more than one third (35.0 percent) of

the commercial banks branches are concentrated in Bagmati Province, followed by province one 15.5 percent, province two 11.6 percent, Gandaki province 12.5 percent, Lumbini province 14.8 percent, Karnali province 4.0 percent and Sudurpashchim Province 6.6 percent (NRB, 2020). As of mid-July 2019, more than two third of the deposits and half of the credits of commercial banks is concentrated in Kathmandu valley (NRB, 2019).

1.12. The financial access of Nepal has improved significantly in recent years. As of mid-June 2020, 67.3 percent of population has at least one bank account in Nepal (NRB, 2021), which was 60.9 percent in mid-June 2019 (NRB, 2020b). However, the uses paradigm of the financial resources is less discussed. While most of the financial indicators are available on aggregate level only, key financial indicators on provincial basis are also on high demand. So this study seeks to find out the access and uses of financial services in provincial level. It also tries to analyze distribution of concessional financing, directed credit and other important types of credit from the banking sector in provincial level. In a nutshell, this study intends to discuss on overall financial resource mobilization focusing on the banking sector under the federal structure of Nepal.

## **Objective**

1.13. The overall objective of this study is to identify the current status of financial resource mobilization of the banking sector in federal structure of Nepal. Specific objectives of this study are:

- To analyze the province-wise status of access to financial services of the banking sector.
- To analyze the provincial distribution of financial resources such as the deposit mobilization and credit expansion of banking sector and cooperatives.
- To identify the provincial distribution of various types of concessional financing, directed sectoral credit, and other important sectoral credit.

## **Rationale of the study**

1.14. After becoming a federal democratic republic, a systematic, detailed and rigorous study about the financial resource mobilization in Nepal has not been carried out yet. Since this study seeks to identify the current status of financial resource mobilization from the

banking sector in the federal structure, it helps the central bank to prioritize its policy measures for equitable distribution and optimum utilization of financial resources. It also helps the BFIs to diversify their portfolio investment and managing resources for financing of loans and advancement. The study also helps the government to adopt appropriate policy measure for allocation of resources in order to financing for development.

- 1.15. The information and analysis exploring the financial resource mobilization in a federal context is important to make required strategy for balancing financial development and overall development. The results of this study can be useful for policy makers to prioritize their policies so as to achieve balanced and sustainable development of the economy as a whole. The findings are also useful for province government to develop their policy and programs.

### **Scope of the study**

- 1.16. The study focuses on access, uses and resource mobilization aspects of BFIs only. It does not look upon the access, uses and resource mobilization of Nonbanking Financial Institutions (NBFIs). Moreover, the study analyzes financial resource mobilization in provincial level aggregates. It does not elaborate the further distribution within the provinces, according to local bodies or districts level.

### **Methodology**

- 1.17. The study is descriptive and exploratory in nature based on the secondary sources of data and information. It primarily analyzes financial flows of banks and financial institutions done through deposit mobilization and credit. It also covers access to financial services by provinces.
- 1.18. On deposit side, deposit mobilization by provinces is analyzed. On credit side, flow of total credit as well as subsidized loans, refinance facilities, deprived sector loans, priority sector loans and other targeted loans flows have been analyzed by provinces.
- 1.19. BFIs and MFIs data are collected using a common data template (Annex 2). The data are received from BFIs and MFIs in NRB reporting system.
- 1.20. Throughout the study, for analysis purpose, the term 'BFIs' is used for 'A', 'B' and 'C' class Bank and Financial Institutions. Likewise, the term 'MFIs' is used to denote 'D' class Financial Institutions.

## **Limitations of the Study**

1.21. The study has the following limitations:

- The study uses the financial data of BFIs transacted from offices in a particular area. So, it could not consider cross provincial transactions of the financial resources, if any.
- The study analyses the data from the balanced approach of financial resource mobilization. Because of the nature of available data, the study could not use the point of view according to efficiency approach.
- The study is based on the data from BFIs in a particular point of time, so the result obtained from this study may not be generalized over time.

## **Organizations of the Study**

1.22. The study is divided into five chapters. Following the Chapter I, Chapter 2 discusses on various aspects of fiscal resource mobilization under federal Nepal. Chapter 3 provides information indicating the status of access to finance in Nepal. Chapter 4 analyses the status of financial resource mobilization under federal structure of Nepal. Chapter 5 summarizes and concludes the study.

## Chapter 2: Fiscal Resource Mobilization under Federal Structure of Nepal

### Federal System of Nepal

2.1. Nepal has been restructured into federal system after the promulgation of 'Constitution of Nepal' in 2015. As provisioned in the constitution, there are three tiers governing system, viz. federal, provincial and local. The nation has been divided into 7 provinces (SoCA, 2015). Furthermore, there are 753 local levels. The rights of three tiers' governments are provisioned in Annex 5 to 9 of the constitution.



Source: Drawn SourSource: Drawn according to Constitution of Nepal [SoCA (2015) including Second amendment 2020.]

### Fiscal Resource Mobilization through Federal Government

2.2. The realized expenditure and revenue mobilization of the federal government are expected to be Rs. 1110.5 billion and Rs. 959.7 billion respectively in 2020/21 (Table 2.1). These figures were Rs. 1091.3 billion and Rs. 831.4 billion respectively in 2019/20. The federal government is expected to have transferred a total of Rs. 104.2 billion and Rs. 261.9 billion grants to provinces and local levels respectively in 2020/21. Accordingly, in the same fiscal



year, the federal government is expected to share revenue worth of Rs. 108.9 billion to province and local level governments.

**Table 2.1: Resource Flows through Federal Government**

(Rs. in billion)

Description	2018/19	2019/20	2020/21*
Expenditure	1110.5	1091.3	1266.3
Revenue	839.7	831.4	959.7
Grants (all type) to Provinces	110.5	107.4	104.2
Grants (all type) to local level	210.7	243.0	261.9
Revenue sharing to sub-national governments	97.0	100.2	108.9

Source: MoF (2020) & MoF (2021a)

\* refers preliminary estimates

### **Fiscal resource mobilization in Provinces**

2.3. In federal system of Nepal, there are predominantly three major dimensions of fiscal federalism regarding revenue mobilization. The first dimension is "right to collect the revenue" which is based on single tax administration principle. So, it mandates only one government to collect and generate the revenue before sharing, if any. Second dimension is related to "revenue sharing" which allows the governments to distribute revenue of particular type among the concerned governments under the guided provisions of law. Third dimension is "intergovernmental fiscal transfer". Under this, the federal government can provide grants to all sub-national governments whereas the provincial governments can provide grants to local levels in their jurisdiction.

### **Provision of Revenue mobilization in Provinces**

2.4. Revenue mobilization in all three tier governments is done as per the "Intergovernmental Fiscal Arrangement Act, 2074 (2017)". According to the act, the provincial government can generate revenue mainly through five types of taxes (viz. House & land registration fee, Motor vehicle tax, Entertainment tax, Advertisement tax and Agro -income tax) and three types of non-taxes (viz. Service Charge/fee, Tourism fee and Penalty & Fine). Accordingly, the Local level government can generate their major revenue through eight kinds of taxes (viz. Wealth tax, House rent tax, House & land registration fee, Motor vehicle tax, Land tax, Entertainment tax, Advertisement tax and Business tax) and three kinds of non-taxes (viz. Service Charge/fee, Tourism fee and Penalty & fine).

2.5. Apart from tax and non-tax revenue, the major revenue sources of provinces and local governments are revenue sharing and grants provided by federal government. The revenue sharing model of Nepal mandates that the province and local governments receive 15 percent each of the value added tax and excise duty collected from domestic products. Likewise, the both tiers' of sub-national governments received 25 percent each of the royalty from natural resources. Prevailing revenue right and sharing model in federal system of Nepal is presented in Table 2.2.

**Table 2.2: Revenue Collection Right and Revenue Sharing Model in Nepal**

(Percentage)

<b>Revenue Heading</b>	<b>Right of Collection</b>	<b>Federal level</b>	<b>Province level</b>	<b>Local level</b>
Value Added Tax	Federal	70	15	15
Excise Duty collected from Domestic Products	Federal	70	15	15
Other Excise Duty	Federal	100	-	-
Income Tax	Federal	100	-	-
Custom Duty	Federal	100	-	-
Motor vehicle tax	Province	-	60	40
House & land registration fee	Province	-	40	60
Entertainment tax	Province	-	40	60
Advertisement tax	Local	-	40	60
Agro -income tax	Province	-	100	-
Wealth tax	Local	-	-	100
House rent tax	Local	-	-	100
Land tax	Local	-	-	100
Business tax	Local	-	-	100
Royalty from Natural Resources	Federal	50	25	25

Source: LPoN (2017) [including Arthik Ain, 2075]

2.6. Other sources of revenue mobilization of provinces and local levels are grants; internal loans; loans from federal government; and foreign grants and assistance for the plan or program to be implemented by them.

2.7. There are four types of grants provisioned in the act such as fiscal equalization grants, conditional grants, complementary grants and special grants. The province and local level governments can issue internal loans by taking prior consent of the federal government. Additionally, the province and local level may submit request to federal government for loans by mentioning the use of loans amount, mode of payment and time-frame as well.

Apart from that the federal government may obtain foreign grants and assistance for the plan or program to be implemented by the province and local level. (LPoN, 2017).

### Distribution of Revenue mobilization in Provinces

2.8. The total revenue mobilization of all provinces amounted to Rs. 172.8 billion in 2018/19 which was estimated to increase by 27.7 percent to Rs. 220.7 billion in 2019/20. The largest share of such a mobilization in 2019/20 i.e. 19.8 percent was found in Bagamati province. While Lumbini province registered the highest growth of 41.4 percent, Province 1 witnessed the lowest growth of 11.2 percent in revenue mobilization in 2019/20 (Table 2.3).

**Table 2.3: Share and Growth of Revenue by Provinces**

Province	2018/19		2019/20*		
	Amount (Rs. in Billion)	Share (Percentage)	Amount (Rs. in Billion)	Share (Percentage)	Growth (percentage)
Province 1	27.9	16.1	31.0	14.0	11.2
Province 2	23.4	13.5	29.8	13.5	27.3
Bagamati	31.9	18.4	43.7	19.8	37.1
Gandaki	21.2	12.3	27.1	12.3	28.0
Lumbini	24.6	14.2	34.7	15.7	41.4
Karnali	23.8	13.8	27.2	12.3	14.2
Sudurpashchim	20.2	11.7	27.3	12.4	35.1
<b>Total</b>	<b>172.8</b>	<b>100.0</b>	<b>220.7</b>	<b>100.0</b>	<b>27.7</b>

Source: Budget Document of all provinces for FY 2020/21 [MoEAaPoP1 (2020), MoEAaPoP2 (2020), MoEAaPoBP (2020), MoEAaPoGP (2020), MoEAaPoLP (2020), MoEAaPoKP (2020) & MoEAaPoSP (2020)]

Note: Revenue Mobilization, here, includes internal resources of the particular province, revenue sharing with federal & local governments and Grants received from federal government.

\*refers preliminary estimates.

2.9. Among the total revenue of all provinces, the huge contribution comes from revenue sharing and grants provided by federal government. In 2018/19, a sum of 25.8 percent of total revenue of all provinces was revenue sharing of Value Added Tax and Excise Duty. Accordingly, a total of 58.5 percent of such revenue was grants provided by the federal government.

### Distribution of Expenditure in Provinces

2.10. The expenditure of all provincial government stood Rs. 112.1 billion in 2018/19 and increased by 39.3 percent to Rs. 156.1 billion in 2019/20. The highest share of such expenditure in 2019/20 was 19.1 percent in Province 1 and the lowest was 10.3 percent in

Karnali Province. However, the highest growth rate of such expenditure experienced in Karnali Province (68.5 percent), and the lowest growth of 19.4 percent was realized in Province 2.

**Table 2.4: Share and Growth of Expenditure by Provinces**

Province	2018/19		2019/20		
	Amount (Rs. in Billion)	Share (Percentage)	Amount (Rs. in Billion)	Share (Percentage)	Growth (percentage)
Province 1	21.2	18.9	29.8	19.1	40.7
Province 2	15.1	13.5	18.0	11.5	19.4
Bagamati	20.7	18.4	28.0	17.9	35.3
Gandaki	13.9	12.4	20.4	13.1	46.6
Lumbini	17.0	15.2	25.4	16.3	49.6
Karnali	10.0	8.9	16.9	10.8	68.5
Sudurpashchim	14.2	12.6	17.6	11.3	24.4
<b>Total</b>	<b>112.1</b>	<b>100.0</b>	<b>156.1</b>	<b>100.0</b>	<b>39.3</b>

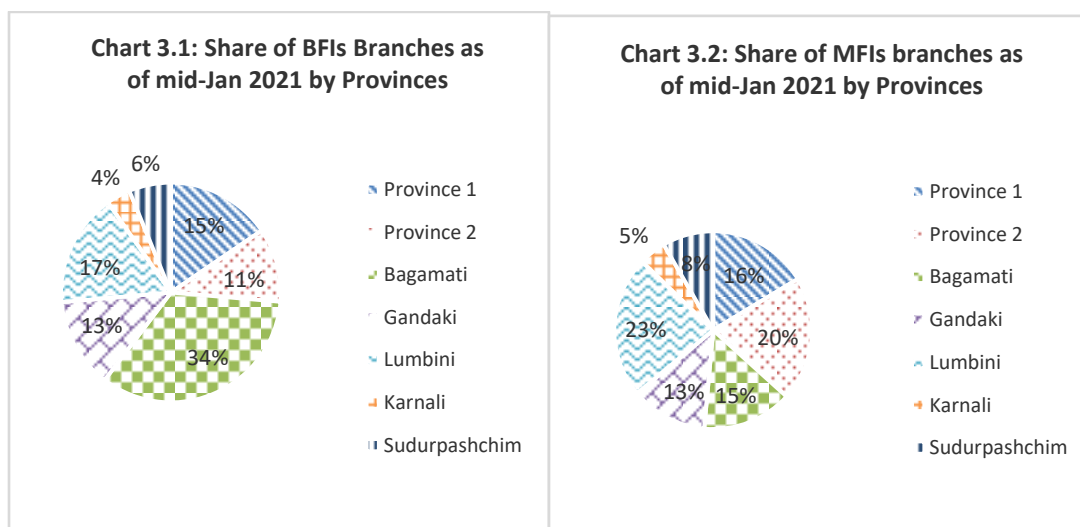
Source: MoF (2021)

## Chapter 3: Access to Financial Services

3.1. This chapter analyzes the access to financial services in Nepal. The distribution of bank branches, deposit and loan accounts holdings, availability and use of payment instruments etc. determines financial resources mobilization.

### Bank Branches

3.2. Bank branches have been increasing rapidly in recent years. Total number of BFIs and MFIs branches in mid-July 2017 were 3173 and 1895 respectively which increased to 5915 and 4272 respectively in mid-January 2021. Around 34 percent of BFIs branches are located in Bagamati Province in mid-January 2021 whereas only 4 percent of such branches are in Karnali Province (chart 3.1). At the same time, branches of MFIs are slightly more dispersed. The highest and lowest numbers of MFIs branches are located in Lumbini Province and Karnali Province respectively (chart 3.2).



Source: NRB (2021a)

3.3. Out of total 753 local levels, commercial banks extended their branches to 750 levels as of mid-Jan 2021. The number of local levels having commercial bank branches was 296 in mid-July 2017 (NRB, 2021b).

## Population per Branch

3.4. With expansion of bank branches in recent years, population per BFI branch has been decreasing. Per branch population of BFIs (including MFIs) in National level stood 2945 in mid-January 2021 which was 3363 in mid-July 2019 and 3072 in mid-July 2020. Gandaki Province has the lowest number population per branch (1907) whereas Province 2 has the highest number of population per branch (4135) in mid-January 2021 (Table 3.1).

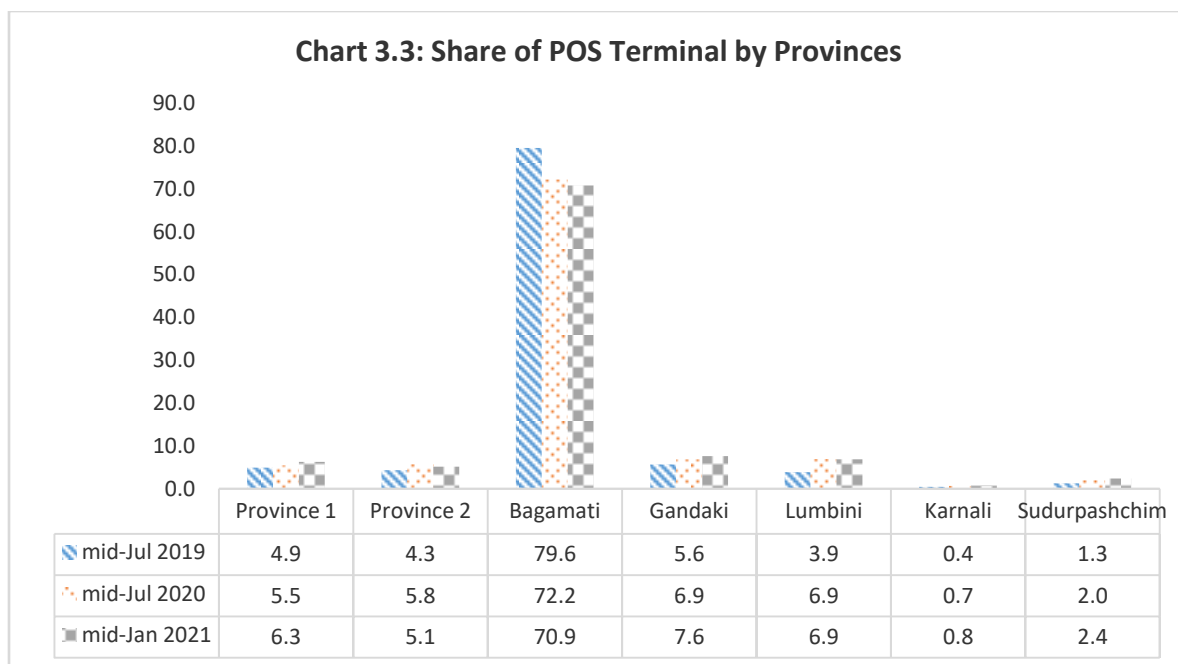
**Table 3.1: Population per Branch of BFIs by Provinces**

Province	BFIs including MFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	3392	3131	3065
Province 2	5061	4456	4135
Bagamati	2826	2547	2439
Gandaki	2125	1956	1907
Lumbini	2936	2723	2576
Karnali	5002	4713	4536
Sudurpashchim	4474	4129	4060
<b>National</b>	<b>3363</b>	<b>3072</b>	<b>2945</b>

Note: Projected population for 2019 & 2020 (CBS, 2014) has been used (Annex 1).  
Source: NRB (2021a)

## POS Terminal

3.5. There are 27.5 thousand POS (point of sale) terminal as of mid-January 2021. It was 19.9 thousand in mid-July 2019 and 29.3 thousand in mid-July 2020. Almost all POS Terminals are owned by 'A' and 'B' class BFIs. The POS terminals are highly concentrated in Bagamati province. In mid-January 2021, almost 71 percent of POS Terminals are located in Bagamati Province. Karnali province has the lowest number of POS Terminal with 0.8 percent share followed by Sudurpashchim Province with 2.4 percent.



Source: Bank and Financial Institutions

### Per POS Terminal population

3.6. In mid-January 2021, there were around 1090 people per POS terminal. Bagamati province has the lowest number of people per POS terminal (330 people) whereas Karnali province has the highest (almost 8 thousands). Conversely, there were 9.2 POS Terminal per ten thousand people in mid-January 2021. Bagamati province has the highest 30.3 POS Terminal per ten thousand people and the Karnali province has the lowest with only 1.3 POS (Table 3.2).

**Table 3.2: Population per POS Terminal and POS Terminal per Ten Thousand People**

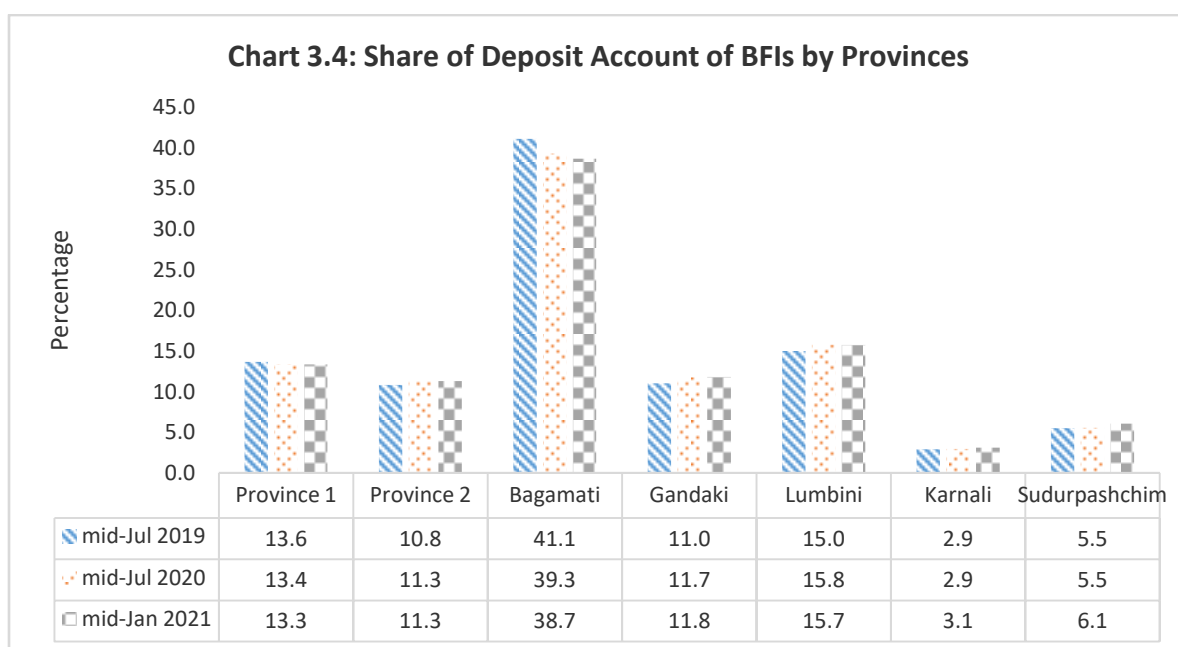
Province	Population Per POS Terminal (people in thousands)			Number of POS Terminal Per Ten Thousand People		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	4,928	3,078	2,868	2.0	3.2	3.5
Province 2	7,033	3,706	4,446	1.4	2.7	2.2
Bagamati	393	304	330	25.5	32.9	30.3
Gandaki	2,219	1,246	1,200	4.5	8.0	8.3
Lumbini	6,473	2,516	2,705	1.5	4.0	3.7
Karnali	20,900	9,140	7,973	0.5	1.1	1.3
Sudurpashchim	11,383	4,994	4,482	0.9	2.0	2.2
<b>National</b>	<b>1,465</b>	<b>1,024</b>	<b>1,092</b>	<b>6.8</b>	<b>9.8</b>	<b>9.2</b>

Note: Projected population for 2019 & 2020 (CBS, 2014) has been used (Annex 1).

Source: Bank and Financial Institutions

## Deposit Account

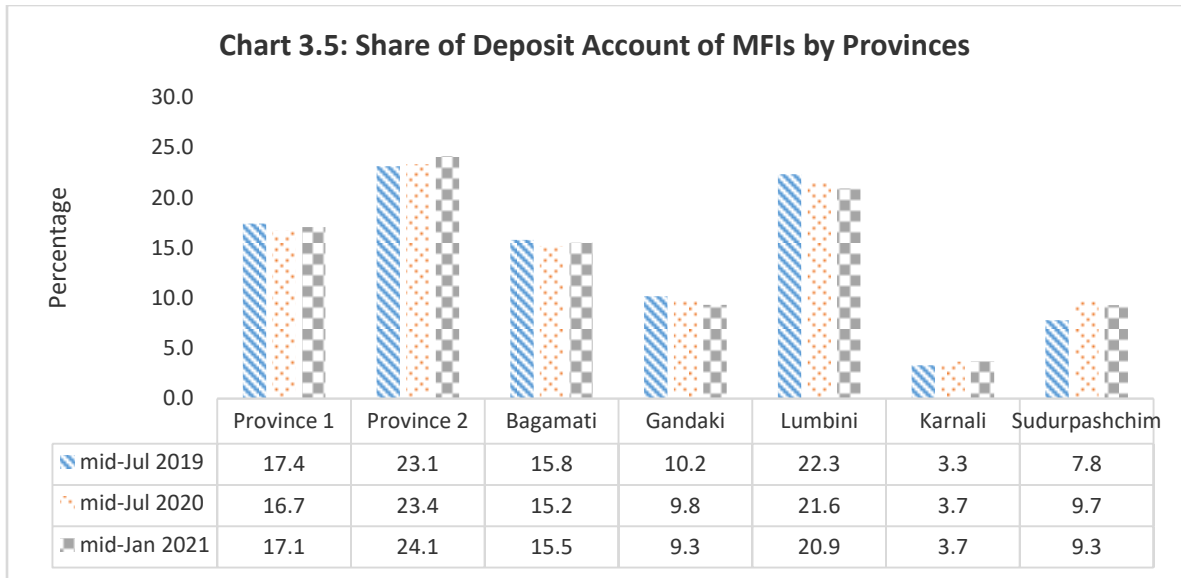
3.7. The nationwide number of deposit accounts of BFIs reached 34.57 million in mid-January 2021. It was 25.77 million in mid-June 2019 and 31.83 million in mid-June 2020 (NRB, 2020). The largest share of deposit account of BFIs lies in Bagamati Province with 38.7 percent in mid-January 2021 followed by Lumbini province with 15.7 percent. Accordingly, the smallest share of such accounts in Karnali Province with 3.1 percent followed by Sudurpashchim Province with 6.1 percent (Chart 3.4). There has been gradual decline share of deposit account in Bagamati Province and gradual increment in Karnali and Sudurpashchim Province, indicating improvement in access to financial services.



Source: Bank and Financial Institutions

3.8. The total number of deposit account of MFIs institutions (MFIs) reached 14.18 million in mid-June 2019, which further increased to 17.27 million in mid-June 2020 and 18.75 million in mid-January 2021. The largest share 24.1 percent of deposit accounts of MFIs is in Province 2 followed by Lumbini Province with 20.9 percent in mid-January 2021. Accordingly, the smallest share of MFIs' deposit account (3.7 percent) is in Karnali Province (Chart 3.5).

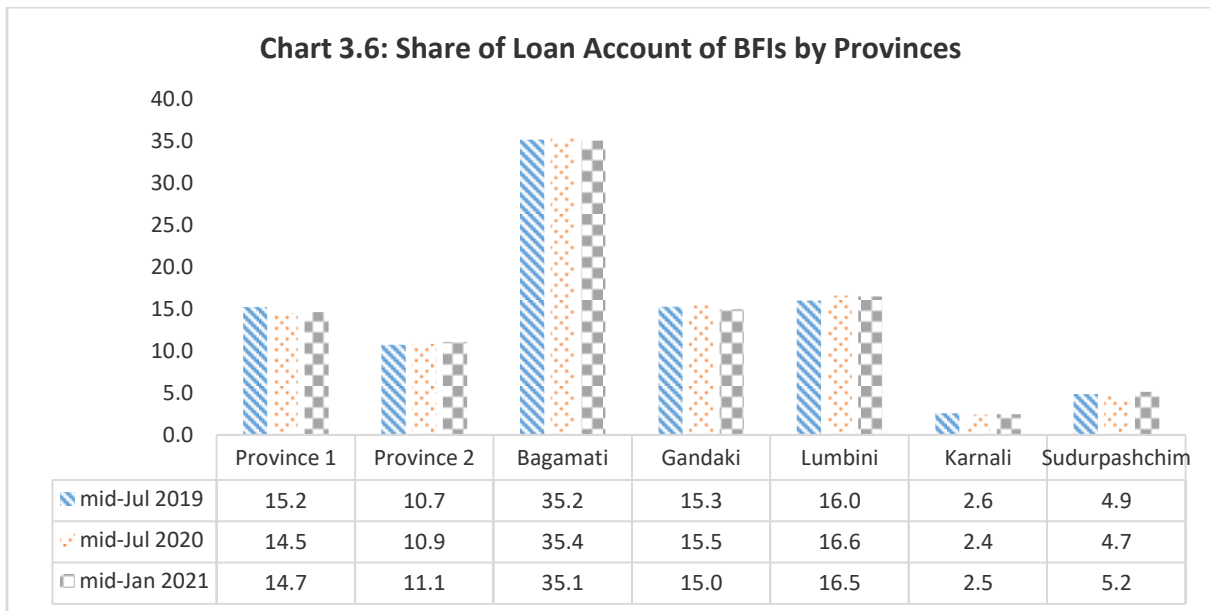




Source: Bank and Financial Institutions

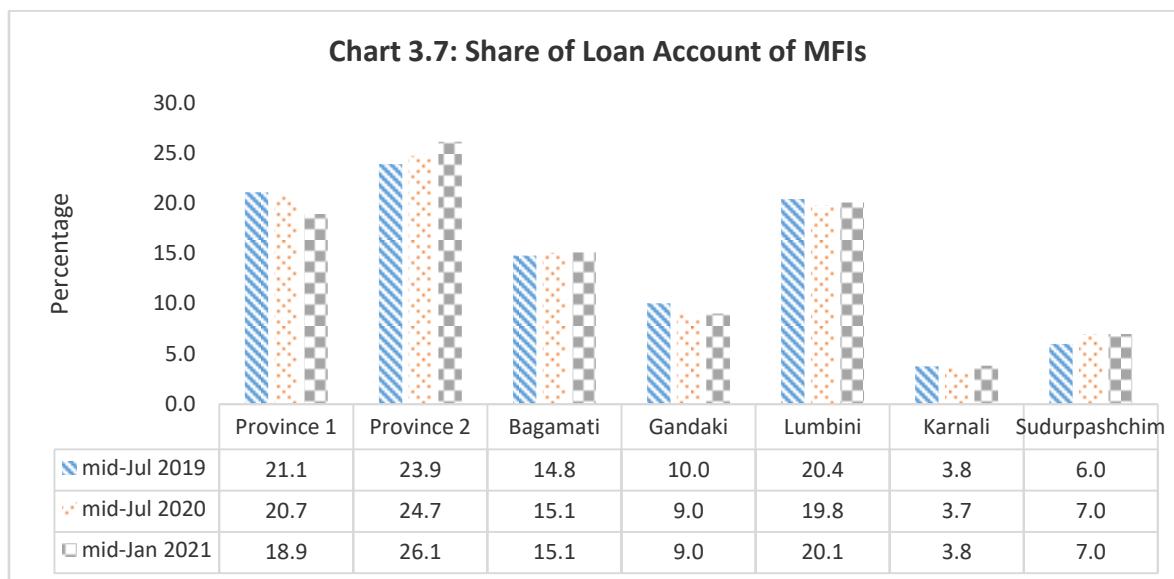
### Loan Account

3.9. The nationwide total number of loan accounts of BFIs reached 1.58 million in mid-January 2021, compared to 1.31 million in mid-June 2019 and 1.46 million in mid-June 2020. Bagamati Province has the largest share of credit accounts of BFIs with 35.1 percent in mid-January 2021 followed by Lumbini province with 16.5 percent. Conversely, Karnali Province has the smallest share of such account with 2.5 percent followed by Sudurpashchim Province with 5.2 percent (Chart 3.6).



Source: Bank and Financial Institutions

3.10. The total number of loan accounts of MFIs stood 3.25 million in mid-June 2019, which was 3.39 million in mid-June 2020 and 3.33 million in mid-January 2021. The largest share of such accounts was in Province 2 with 26.1 percent followed by Lumbini province with 20.1 percent in mid-January 2021(Chart 3.7). Conversely, the smallest share of such accounts was in Karnali Province with 3.8 percent followed by Sudurpashchim Province with 7 percent.

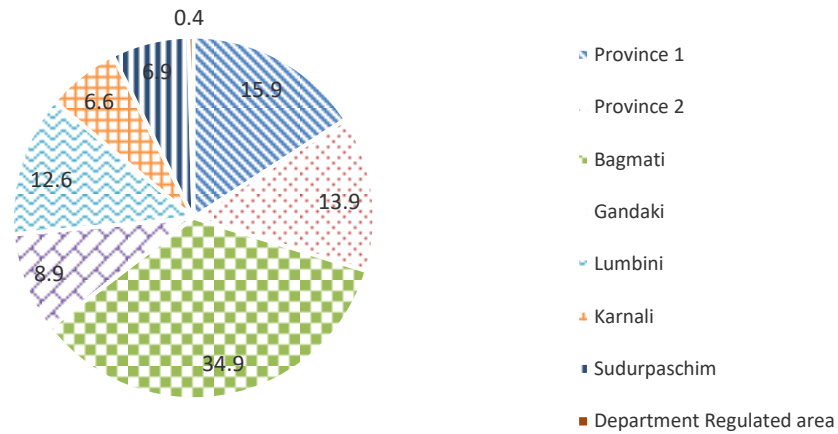


Source: Bank and Financial Institutions

### Access to Cooperatives

3.11. Total number of cooperatives reached 29,886 in mid-July 2020. Of which, around 35 percent cooperatives are located in Bagamati Province whereas 6.6 percent are in Karnali Province (Chart 3.8). The number of cooperatives under the registration of Department of Cooperatives constitutes only 0.4 percent (Chart 3.8).

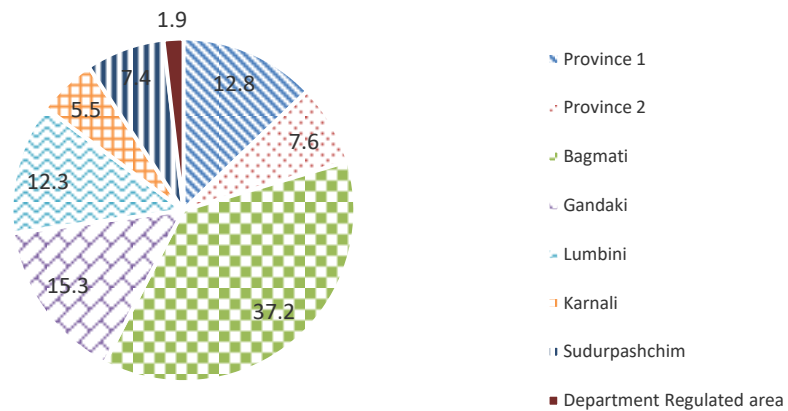
**Chart 3.8: Share of Cooperatives by Provinces as of Mid-July 2020 (in percent)**



Source: DoC (2020)

3.12. Total number cooperative members remained 7.31 million in mid-July 2020. A largest number of cooperative members are in Bagamati Province (37 percent); whereas the Karnali province holds the lowest share in number (5.5 percent). Around 2 percent cooperatives member belong to cooperatives registered by the Department of Cooperatives (Chart 3.9).

**Chart 3.9: Share of members of cooperatives by Provinces as of Mid-July 2020 (in percent)**



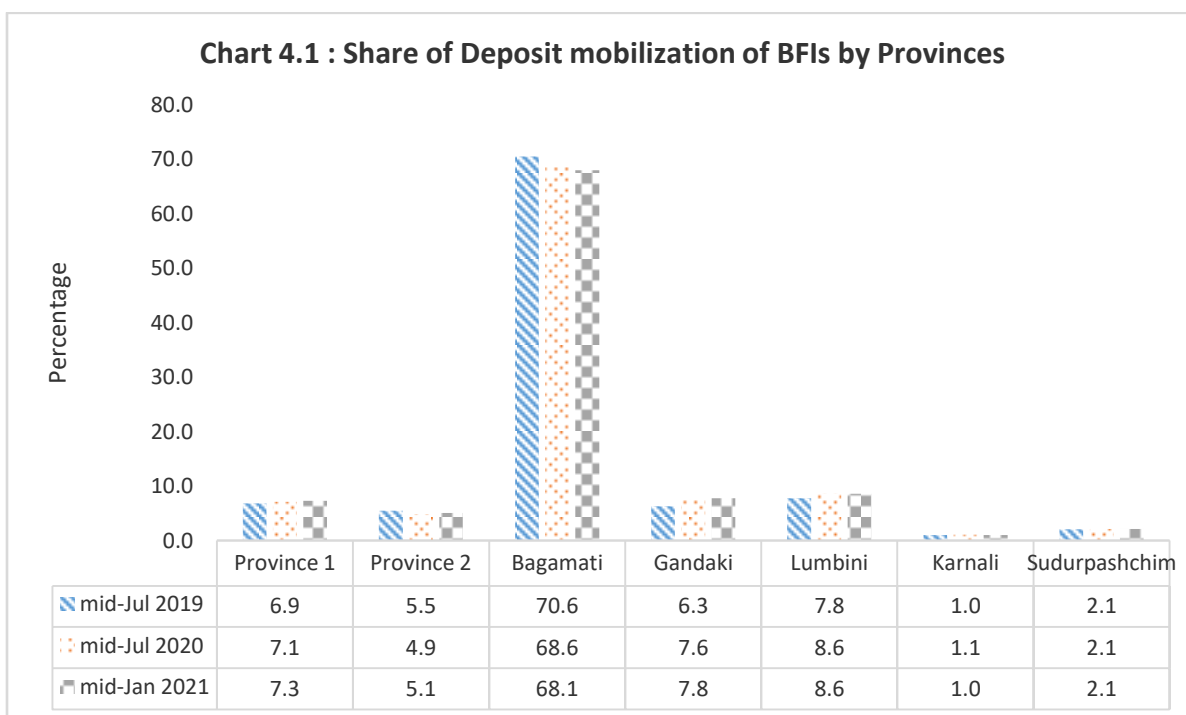
Source: DoC (2020)

## Chapter 4: Financial Sector's Resource Mobilization

4.1. The status of the deposit mobilization and credit flows indicates the situation of financial resource mobilization in the economy. It represents the situation of financial resource distribution from the perspective of resource use.

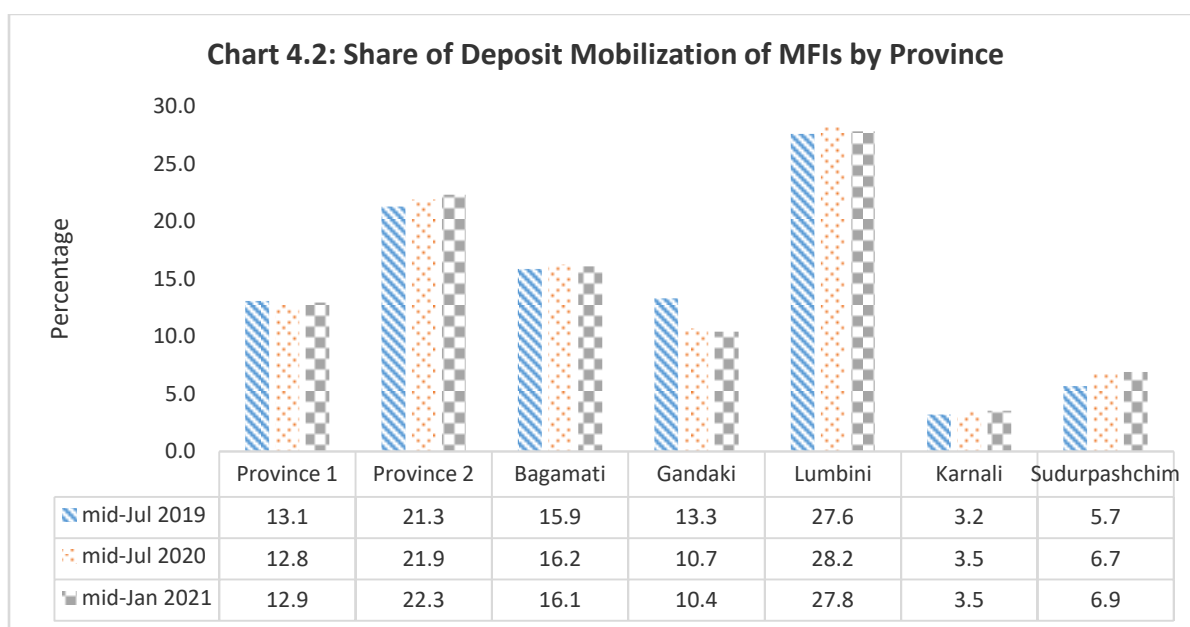
### Deposit Mobilization

4.2. As of mid-January 2021, deposits at BFIs reached Rs. 4.28 trillion, which was Rs. 3.18 trillion in mid-July 2019 and Rs. 3.91 trillion in mid-July 2020. Of which, more than two-third of deposits is mobilized in Bagamati Province only (Chart 4.1). The lowest share of deposit mobilization is in Karnali Province followed by Sudarpashchim Province. As of mid-January 2021, Karnali and Sudurpashchim Province hold 1 percent and 2.1 percent of total deposits respectively. It indicates that the deposit mobilization of BFIs is concentrated in Bagamati Province. However, compared to mid-July 2019, the share of Bagamati Province has declined to 68.1 percent in mid-Jan 2021.



Source: Bank and Financial Institutions

- 4.3. Deposits at Microfinance financial institutions (MFIs) reached Rs. 113.87 billion in mid-January 2021, which was Rs. 81.59 billion in mid-July 2019 and Rs. 99.56 in mid-July 2020.
- 4.4. The deposit mobilization of MFIs is more balanced on provincial basis compared to that of BFIs. As of mid-January 2021, Lumbini province has the highest share (27.8 percent) of deposit mobilized by MFIs followed by Province 2 (22.3 percent), Bagamati Province (16.1 percent), Province 1 (12.9 percent), Sudurpashchim Province (6.9 percent) and Karnali province (3.5 percent).



Source: Bank and Financial Institutions

### Per Capita Deposit

- 4.5. As of mid-January 2021, the national level per capita deposit of BFIs and MFIs are Rs.142.8 thousand and Rs. 3.8 thousand respectively. During the same period, the highest per capita deposit of BFIs stood at Rs. 452.8 thousand in Bagamati Province and remaining provinces have lower than the national average. The highest and the lowest per capita deposit of MFIs stood at Rs. 6.2 thousand in Lumbini Province and Rs. 2.7 thousand in Karnali Province (Table 4.1).

**Table 4.1: Per Capita Deposit by Provinces**

(Rs.in thousands)

Province	BFIs			MFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	45.0	56.2	63.3	2.2	2.6	3.0
Province 2	28.6	30.4	34.8	2.9	3.5	4.1
Bagamati	360.5	417.1	452.8	2.1	2.5	2.8
Gandaki	80.3	118.1	132.7	4.4	4.2	4.7
Lumbini	49.8	66.2	72.2	4.5	5.5	6.2
Karnali	18.0	23.1	24.0	1.5	1.9	2.2
Sudurpashchim	23.1	28.6	31.3	1.6	2.3	2.7
<b>National</b>	<b>109.0</b>	<b>130.5</b>	<b>142.8</b>	<b>2.8</b>	<b>3.3</b>	<b>3.8</b>

Note: Projected population for 2019 &amp; 2020 (CBS, 2014) has been used (Annex 1).

Source: Bank and Financial Institutions

**Average Deposit (Per account)**

4.6. As of mid-January 2021, the national average (per account) deposit at BFIs is Rs.123.9 thousand. During that period, the national average deposit at MFIs stood Rs. 6.1 thousand. The highest average deposit at BFIs stood Rs. 218 thousand in Bagamati Province. All other provinces have average per account deposit lower than the national average. Per account deposit at MFIs have more balanced distribution compared to that of BFIs, three provinces (Lumbini, Gandaki and Bagamati) have above the national average.

**Table 4.2: Average Deposit by Provinces**

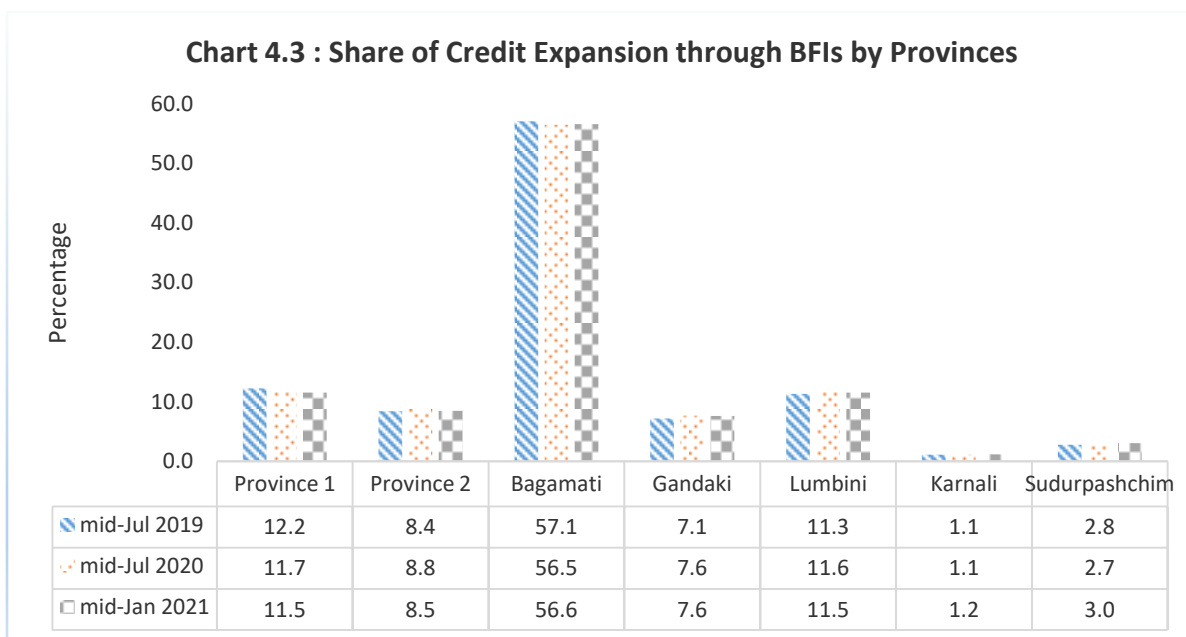
(Rs. in thousands)

Province	BFIs			MFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	62.1	65.3	67.9	4.3	4.4	4.6
Province 2	62.3	52.8	55.9	5.3	5.4	5.6
Bagamati	212.2	214.6	218.0	5.8	6.2	6.3
Gandaki	70.6	79.6	82.0	7.5	6.3	6.8
Lumbini	64.0	67.2	67.6	7.1	7.5	8.1
Karnali	42.3	45.0	40.6	5.6	5.5	5.8
Sudurpashchim	46.4	47.5	43.7	4.2	4.0	4.5
<b>National</b>	<b>123.6</b>	<b>123.0</b>	<b>123.9</b>	<b>5.8</b>	<b>5.8</b>	<b>6.1</b>

Source: Bank and Financial Institutions

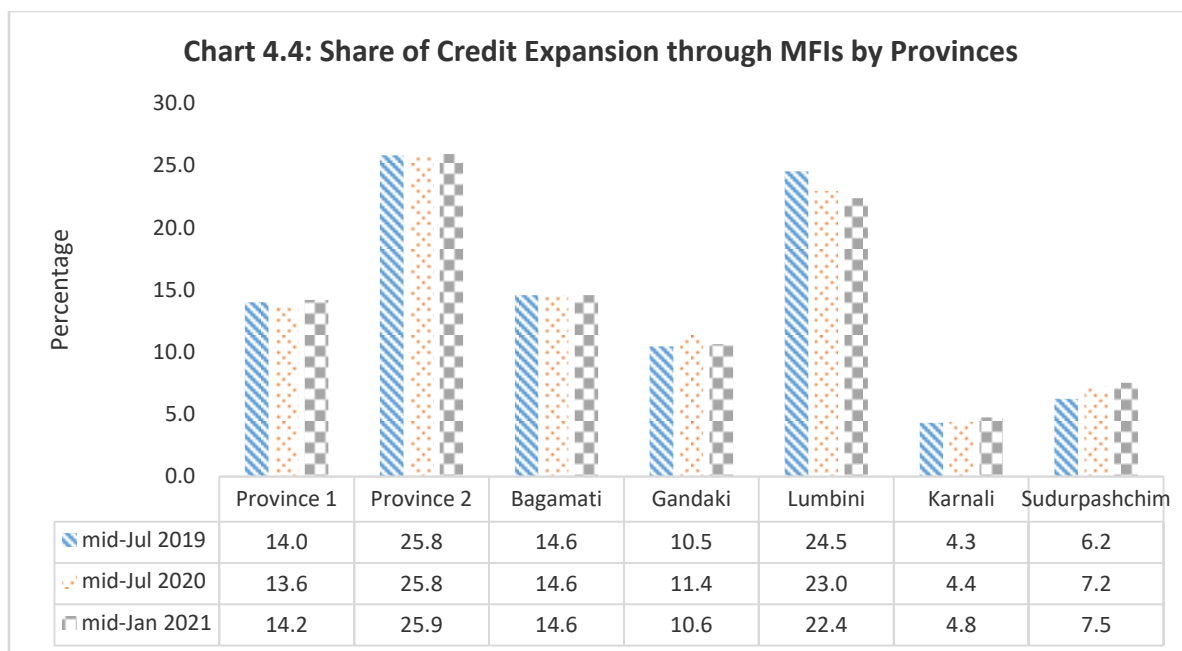
## Credit Flows

4.7. The outstanding credit of BFIs stood Rs. 3.66 trillion in mid-January 2021, which was Rs. 2.74 trillion in July 2019 and Rs. 3.26 trillion in July 2019. Out of total credit, Bagamati province holds 56.6 percent in mid-January 2021 (Chart 4.3). In the same period, such shares of Karnali and Sudurpashchim Province were 1.2 percent and 3.0 percent respectively. It indicates that the credit expansion of BFIs is also concentrated in Bagamati province. However, share of credit flows in provinces other than Bagamati and Gandaki are greater than that of deposit mobilization. It seems that some excess resources collected through deposit mobilization from Bagamati province are being mobilized through credit expansion to other provinces.



Source: Bank and Financial Institutions

4.8. The outstanding credit of MFIs remained Rs. 216.03 billion, Rs. 247.52 billion and Rs. 304.52 billion in mid-July 2019, mid-July 2020 and mid-January 2021 respectively. Though the credit disbursement in Province 2 and Lumbini Province is relatively higher, the credit flow of MFIs is more balanced in all provinces compared to other BFIs. In mid-January 2021, Province 2 has the highest share with 25.9 percent followed by Lumbini Province (22.4 percent). While, the share of Karnali Province in credit flow has the lowest share with 4.8 percent followed by Sudurpashchim Province (7.5 percent) (Chart 4.4).



Source: Bank and Financial Institutions

### Average Credit (Per account)

4.9. The average per account credit of BFIs and MFIs reached Rs.2.3 million and Rs. 91.3 thousand respectively in mid-January 2021. At that time, the highest average per account credit of BFIs was Rs. 3.7 million in Bagamati Province and the lowest 1.1 million in Karnali Province (Table 4.3). The average per account credit of MFIs is more proportionally distributed than that of BFIs. While average per account credit is lower than national level in all provinces except Bagamati in case of BFIs, only in three provinces such as Province 1, Province 2 and Bagamati Province, average per account credit is lower than national average. Surprisingly, in case of MFIs, per capita credit in Bagamati Province is lower than that of in Karnali Province.

**Table 4.3: Average Credit by Provinces**

(Rs. in thousands)

Province	BFIs			MFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	1680.6	1794.3	1825.1	44.2	48.1	68.5
Province 2	1638.9	1799.1	1771.2	71.8	76.3	90.6
Bagamati	3396.8	3553.1	3744.3	65.6	70.6	88.3
Gandaki	981.0	1099.7	1179.3	69.3	92.7	108.0
Lumbini	1481.6	1557.9	1621.6	79.8	84.8	101.7

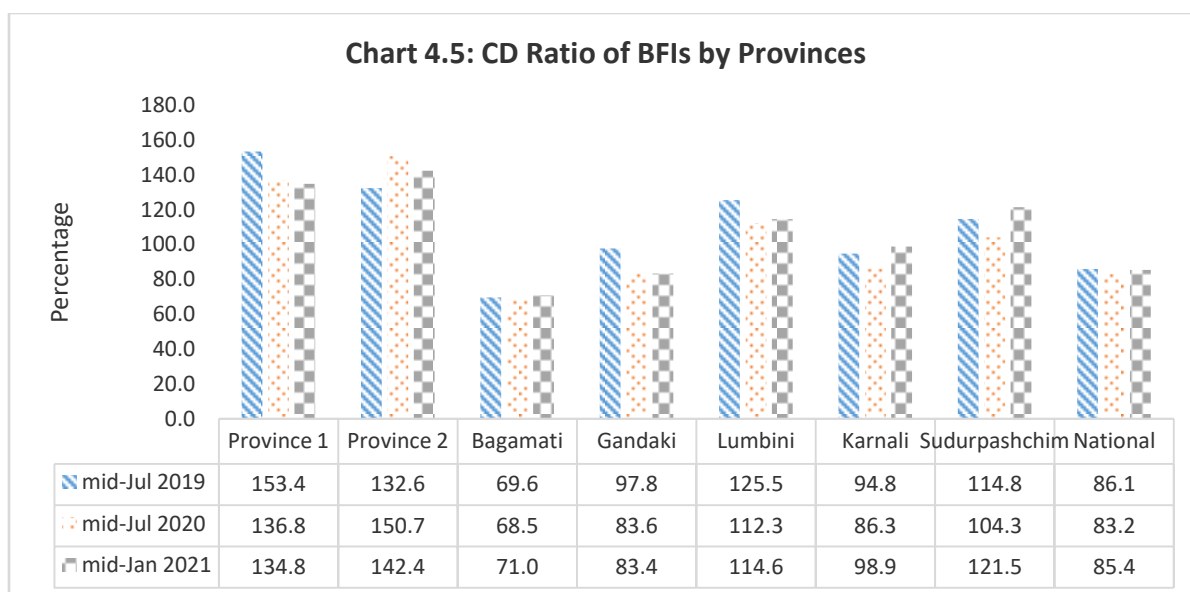


Karnali	880.4	1013.8	1104.2	76.4	87.4	114.1
Sudurpashchim	1186.3	1264.1	1371.8	69.3	75.6	98.5
<b>National</b>	<b>2096.8</b>	<b>2226.5</b>	<b>2320.7</b>	<b>66.5</b>	<b>73.1</b>	<b>91.3</b>

Source: Bank and Financial Institutions

## CD Ratio by provinces

4.10. In mid-January 2021, the average credit to deposit ratio (CD ratio) of BFIs stood at 85.4 percent (Chart 4.5). The CD Ratio in Bagamati, Gandaki and Karnali Provinces is relatively lower (less than 100) which indicates the situation of deposit mobilization more than credit expansion. The situation is opposite in other provinces. However, all the provinces other than Bagamati Province have higher CD ratio than national average. This also indicates flowing out of resources from Bagamati Province. Among the Provinces, CD ratio in Province 2 is the highest (142.4) in mid-January 2021; followed by Province 1 (134.8), Sudurpashchim Province (121.5), Lumbini Province (114.6), Karnali Province (98.9), Gandaki Province (83.4) and Bagamati Province (71.0).



Source: Bank and Financial Institutions

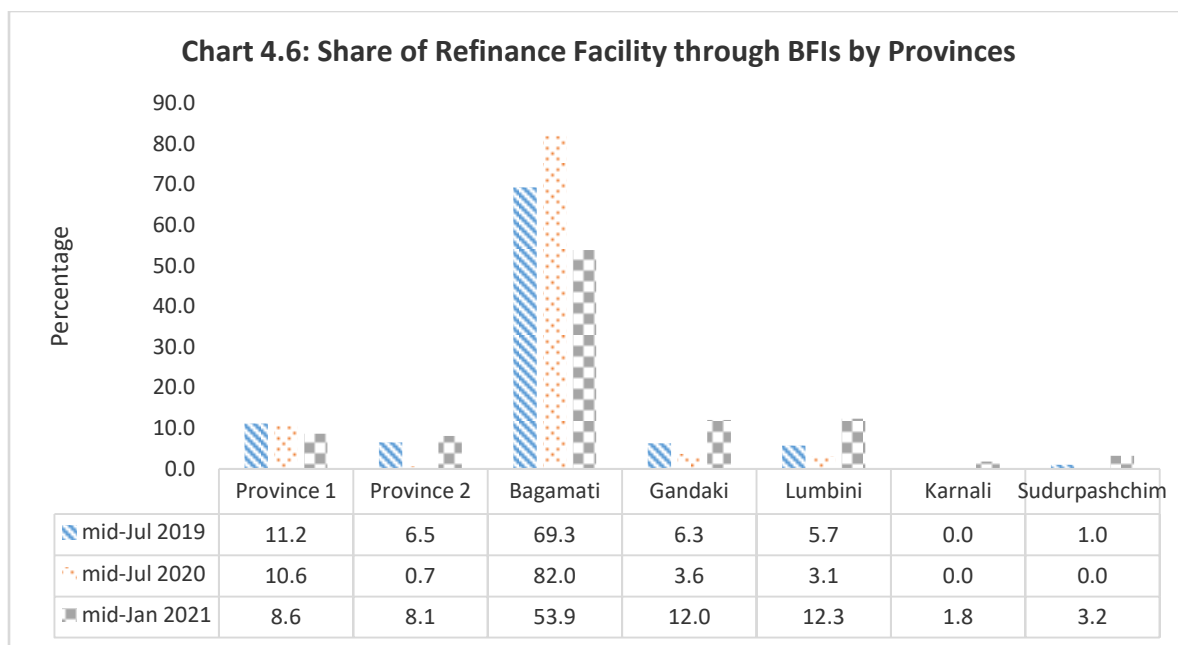
## **Concessional Financing**

4.11. The major concessional lending programs implemented in Nepal are interest subsidized lending program of government and refinance program of NRB. Though these both are implemented by BFIs and look similar in availing resources, they are strategically different mainly from the perspective of goals and priorities.

### **Refinance**

4.12. The refinance program of NRB has long history, which was started in 1967 with refinance for export and industrial credit. The refinance rates and recipients have been changed several times during the last five decades (NRB, 2018). The NRB has extended this program to facilitate earthquake victims in 2015. However, with outbreak of covid-19 pandemic, the NRB has extended this program significantly by modifying the procedure. As of the existing provision, NRB can extend up to five times of available fund. Likewise, the refinance facilities are availed through all types of BFIs under bulk as well as client evaluation basis (NRB, 2021). Through Refinance Procedure, 2020, the NRB has ensured the balance distribution of refinance facility to high extent.

4.13. The refinance use has increased more than four times during the period of mid-July 2019 to mid-January 2021. BFIs used Rs. 65.11 billion refinance as of mid-January 2021. The outstanding refinance were Rs. 15.38 billion and Rs. 8.14 billion in mid-July 2019 and mid-July 2020 respectively. As of mid-January 2021, the largest share of refinance facility was availed in Bagamati province which comprises 53.9 percent (Chart 4.6). The Karnali Province holds the smallest share of refinance facilities of 1.8 percent in mid-January 2021, where this facility was almost nil before that. Except Bagamati Province and Province 1, the refinance facility has been increasing, however.



Source: Bank and Financial Institutions

4.14. In mid-January 2021, the share of total refinance in total loans of BFIs reached 1.8 percent. The highest and the lowest share of such a facility on total loans of respective province was 2.8 percent and 1.3 percent in Gandaki Province and Province 1 respectively (Table 4.4). In relative term, refinance availability in Karnali and Sudurpashchim Province has increased substantially having the ratio of refinance loans to total loans 2.74 percent and 1.88 percent respectively. These ratios are higher than that of Bagamati Province.

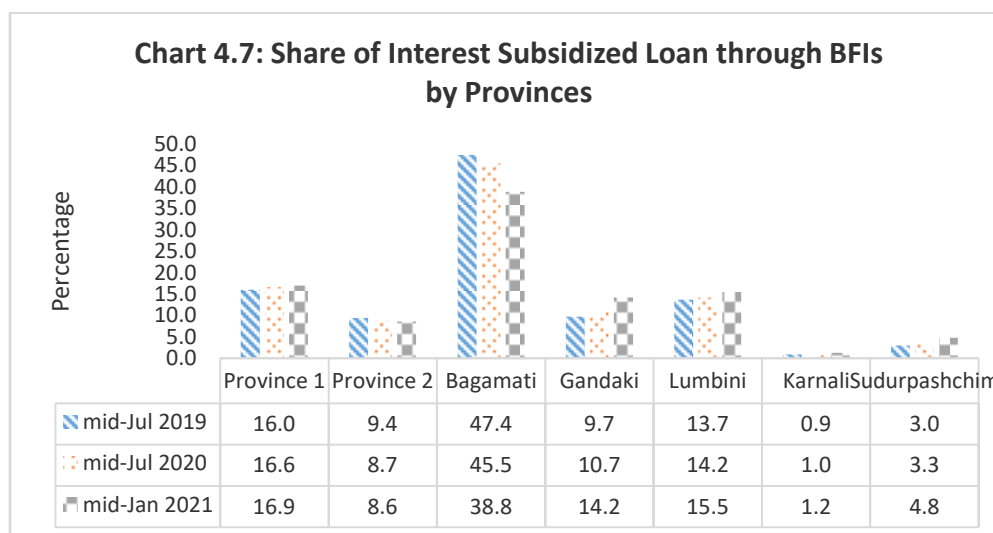
**Table 4.4: Share of Refinance Loans on Total Loans by provinces**  
(percentage)

Province	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	0.51	0.23	1.33
Province 2	0.44	0.02	1.70
Bagamati	0.68	0.36	1.69
Gandaki	0.49	0.12	2.81
Lumbini	0.28	0.07	1.90
Karnali	0.00	0.00	2.74
Sudurpashchim	0.20	0.00	1.88
<b>National</b>	0.56	0.25	1.78

Source: Bank and Financial Institutions

## Interest Subsidized Loans

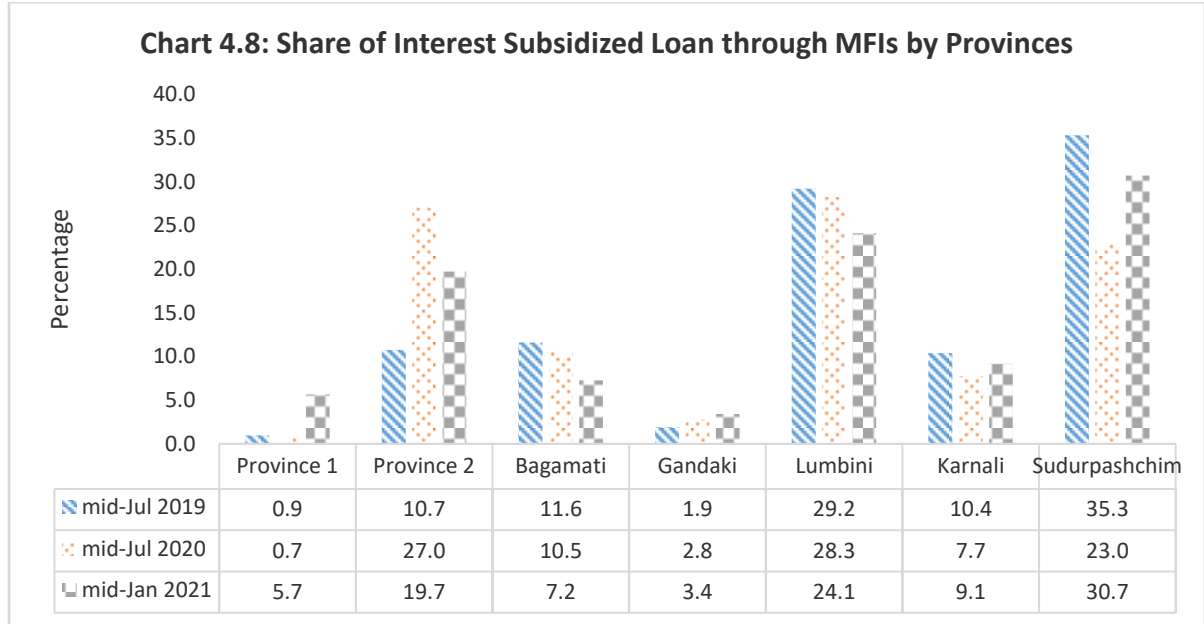
- 4.15. The government of Nepal introduced the subsidized loans for youths involved in commercial agriculture through the budget speech for 2015/16. Government made provision of 4 percent subsidy through Interest subsidized loans procedure for commercial agriculture operated by youths in 2014. That program has been gradually reformed during the last six years.
- 4.16. As provisioned by the Government of Nepal, BFIs have extended the interest subsidized loans significantly in 2019/20 and 2020/21. The interest subsidized loans has become instrumental in addressing the covid-19 affected businesses. Now, as of the Unified Procedure for Interest Subsidized loans, 2020, BFIs provide loans to ten different categories.
- 4.17. BFIs have extended interest subsidized loans more than three times during the period of mid-July 2019 to mid-January 2021. Total interest subsidized loans of extended by BFIs as of mid-January 2021 reached Rs. 99.70 billion, which was just Rs. 31.11 billion in mid-July 2020. As of mid-January 2021, the largest share of such loans was flowed in Bagamati province comprising 38.8 percent. The lowest share of such loans was disbursed in Karnali Province (1.2 percent) (Chart 4.7).



Source: Bank and Financial Institutions

- 4.18. MFIs mobilized interest subsidized loans of Rs. 177.2 million as of mid-July 2021. The outstanding amount of such loans was Rs. 55.6 million and Rs. 89 million in mid-July 2019

and mid-July 2020 respectively. As of mid-January 2021, the largest share of such loans was disbursed in Sudurpashchim Province with 30.7 percent followed by Lumbini Province (24.1 percent) and Province 2 (19.7 percent). The lowest share of such loans was flowed in Gandaki Province (3.4 percent) followed by Province 1(5.7 percent) (Chart 4.8).



Source: Bank and Financial Institutions

4.19. The share of interest subsidized loans of BFIs on total loans of BFIs reached 2.73 percent as of mid-January 2021. Such a share is negligible in case of MFIs (0.06 percent). The highest and the lowest shares of interest subsidized loans of BFIs on total loans of respective provinces were 5.1 percent and 1.9 percent in Gandaki province and Bagamati Province respectively (Table 4.5). Relatively, interest subsidized loans seem to flow more in Provinces other than Bagamati Province.

**Table 4.5: Share of Interest Subsidized Loans on Total Loans**

(in percent)

Province	BFIs			MFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	1.49	2.61	4.00	0.00	0.00	0.02
Province 2	1.27	1.81	2.76	0.01	0.04	0.04
Bagamati	0.94	1.48	1.87	0.02	0.03	0.03
Gandaki	1.53	2.57	5.07	0.00	0.01	0.02
Lumbini	1.37	2.23	3.66	0.03	0.04	0.06

Karnali	0.89	1.59	2.85	0.06	0.06	0.11
Sudurpashchim	1.22	2.24	4.28	0.15	0.11	0.24
<b>National</b>	<b>1.13</b>	<b>1.83</b>	<b>2.73</b>	<b>0.03</b>	<b>0.04</b>	<b>0.06</b>

Source: Bank and Financial Institutions

## Directed Credit

4.20. NRB has been adopting directed credit programs to promote financial access and inclusion.

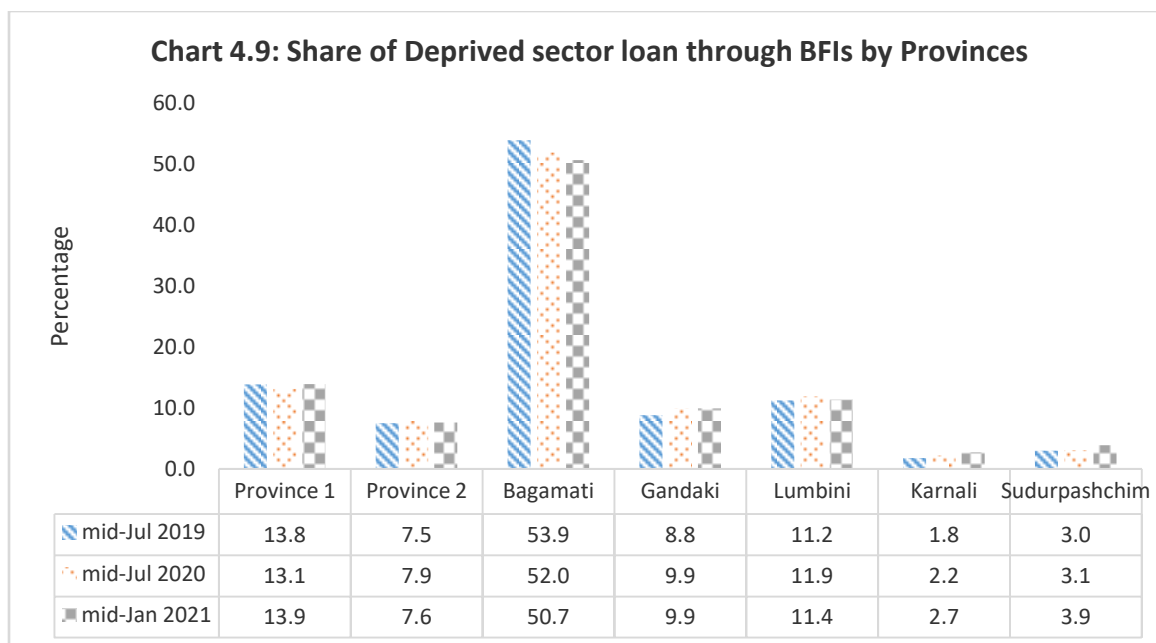
Though the priority and targets have been changed, the directed credits have been continued for many years. The major directed credits are lending to the deprived sector, agriculture sector, SMEs sector, energy sector and tourism sector.

4.21. Currently, BFIs have to extend at least 5 percent of their total credit to the deprived sector.

Commercial banks have to invest at least 15 percent of their total credit in agriculture sector by mid-July 2023. Likewise, they have to provide at least 10 percent of their credit in energy sector by mid-July 2024. They also have to extend at least 15 percent of total loans to micro, small and medium enterprises (MSMEs) with loan limit up to Rs. 10 million by mid-July 2024. Development banks and finance companies are also required to disburse at least 20 percent and 15 percent loan respectively to the specified sectors such as agriculture, MSMEs, energy and tourism by mid-July 2024 (NRB, 2021c).

## Deprived Sector Loans

4.22. Total deprived sector loans of BFIs, which was Rs. 162.62 billion in mid-July 2019, increased to Rs. 243.25 billion in mid-January 2021. The largest share of such loans was in Bagmati Province which comprises 50.7 percent as of January 2021. At the same time, the lowest share of such loans was in Karnali Province (2.7 percent) (Chart 4.9). Whereas, all loans provided by MFIs is classified as the deprived sector loans. The share of deprived sector lending in Bagmati Province has been declining gradually.



Source: Bank and Financial Institutions

4.23. In mid-January 2021, the share of deprived sector loans on total loans of BFIs stood 6.6 percent. The highest and the lowest shares of such loans on total loans of respective provinces was 15.2 percent and 6.0 percent in Karnali Province and Bagamati Province respectively (Table 4.6). This shows that relatively Karnali Province has been benefiting from the provision of deprive sector lending more than other provinces, though the share in total remains low.

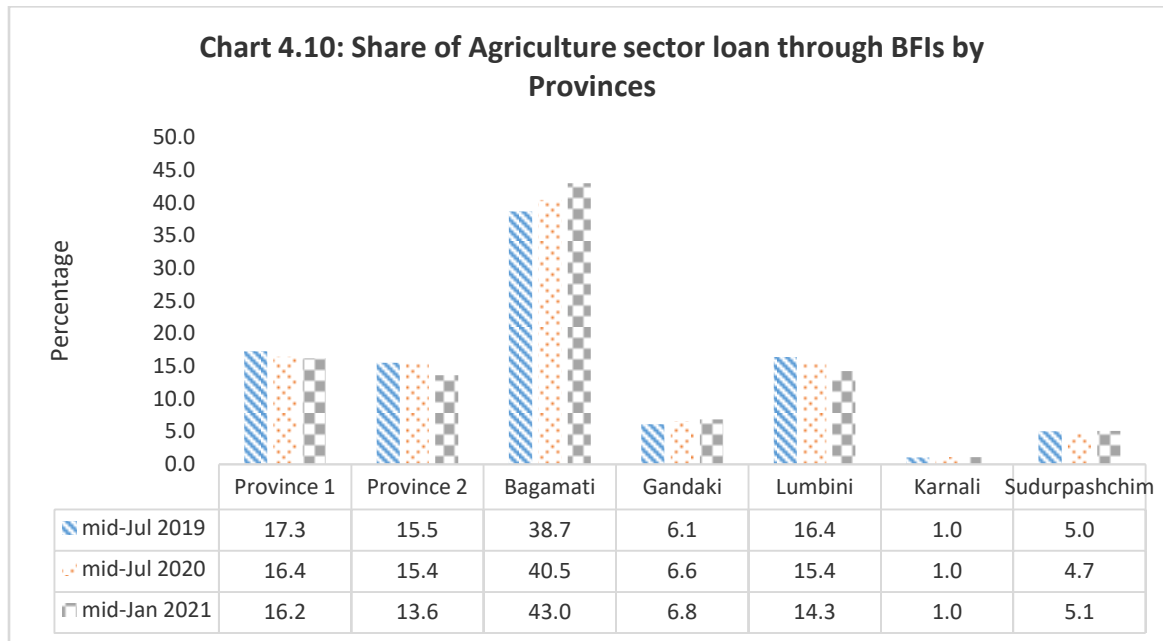
**Table 4.6: Share of Deprived Sector Loans on Total Loans by Province**  
(percentage)

Province	BFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	6.7	6.8	8.0
Province 2	5.3	5.5	6.0
Bagamati	5.6	5.6	6.0
Gandaki	7.3	7.8	8.7
Lumbini	5.9	6.2	6.6
Karnali	9.5	11.8	15.2
Sudurpashchim	6.4	6.9	8.4
<b>National</b>	<b>5.9</b>	<b>6.0</b>	<b>6.7</b>

Source: Bank and Financial Institutions

## Agriculture Sector Loans

4.24. The outstanding credit to agriculture sector from BFIs reached Rs. 332.1 billion in mid-January 2021, which was Rs. 220.4 billion in mid-July 2019 and Rs 269.9 billion in mid-July 2020. The largest share of such loans flowed in Bagamati province (43 percent) in mid-January 2021. The lowest share of such loans remained in Karnali Province with (1.0 percent) at that time (Chart 4.10). In such a way, agriculture sector loans is mostly concentrated in Bagamati Province, which may be due to becoming more commercialization of agriculture activities in this province relative to other provinces. The share of agriculture sector loans flowed in Bagamati Province has been increasing in the last three years.

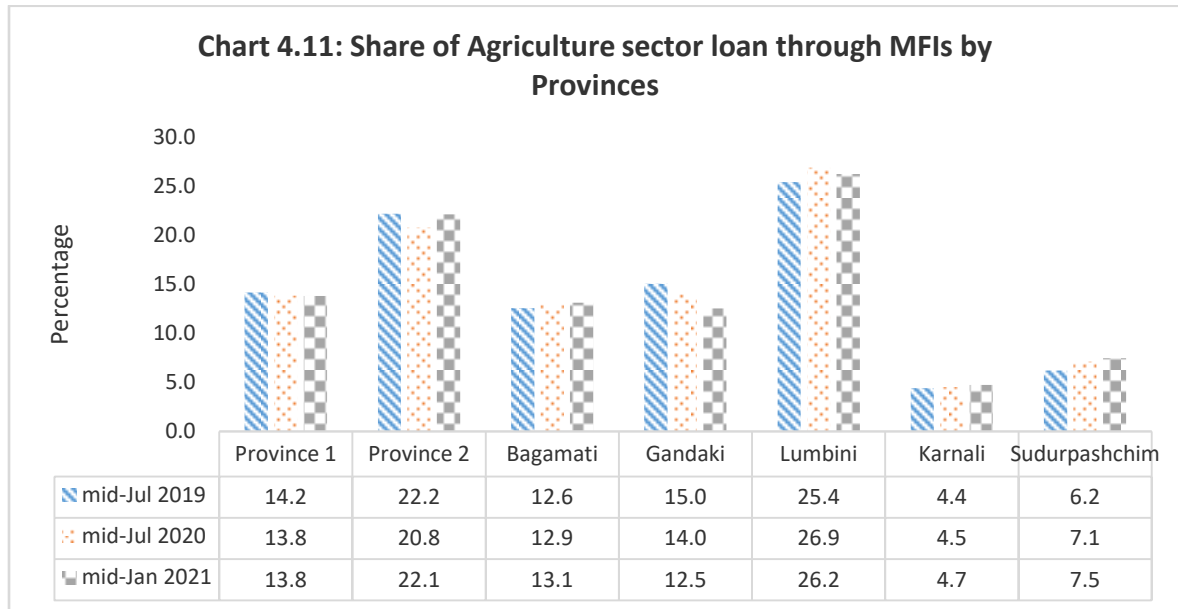


Source: Bank and Financial Institutions

4.25. MFIs extended agriculture sector loans of Rs. 116.2 billion as of mid-January 2021. The outstanding amount of such loans was Rs. 78.4 billion in mid-July 2019 and Rs. 89.8 billion in mid-July 2020. In mid-January 2021, the largest share of agriculture loans was flowed in Lumbini province (26.2 percent) followed by Province 2 (22.1 percent). The lowest share of such loans was provided to Karnali Province (4.7 percent) (Chart 4.11). MFIs' loans to agriculture sector relatively more dispersed than that of BFIs, slightly more share in Lumbini Province and Province 2. In this way, MFIs are supplementing the gap



created by BFIs in terms of financial resources flows to agriculture sector in provinces other than Bagamati Province.



Source: Bank and Financial Institutions

4.26. As of mid-January 2021, the share of agriculture sector loans of BFIs on total loans was 9.1 percent. The share of agriculture sector loans of MFIs was 38.2 percent of their total loans. The highest and the lowest share of agriculture sector loans of BFIs on total loans of respective province was 15.1 percent and 6.9 percent in Sudurpashchim Province and Bagamati Province respectively. Relatively, more credit from BFIs flows to agriculture sector in Sudurpashchim Province followed by Province 2. However, it is found that MFIs are lending more proportion almost 45 percent of credit to agriculture sector in Gandaki Province followed by Lumbini Province.

**Table 4.7: Share of Agriculture Sector Loans on Total Loans by Provinces**

(in percentage)

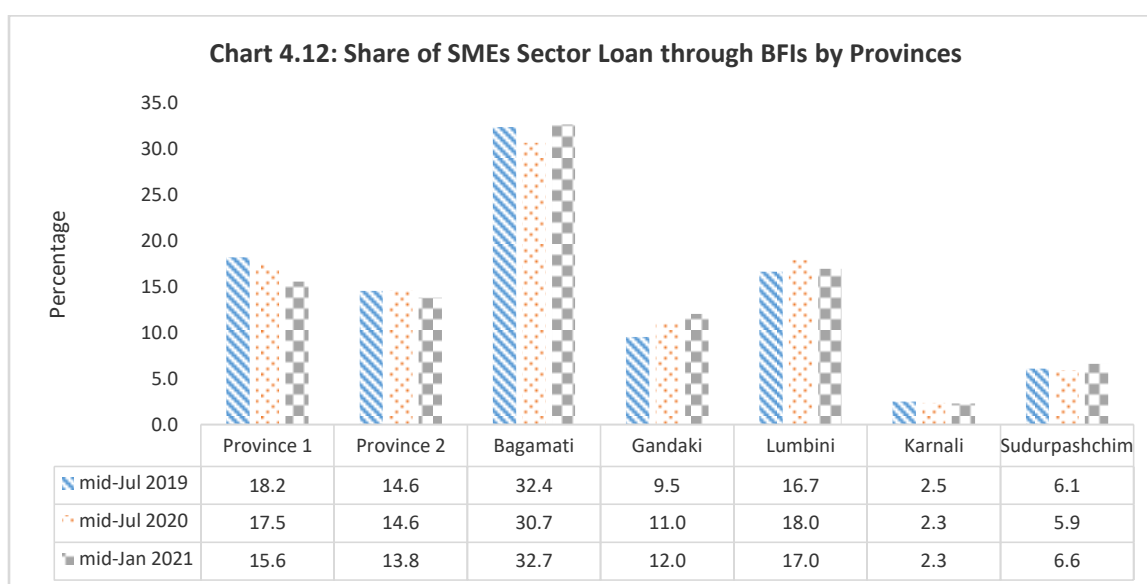
Province	BFIs			MFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	11.4	11.7	12.7	36.6	36.8	37.1
Province 2	14.8	14.5	14.6	31.2	29.2	32.6
Bagamati	5.5	5.9	6.9	31.3	32.3	34.3
Gandaki	6.9	7.1	8.1	52.1	44.4	44.9
Lumbini	11.7	11.0	11.2	37.6	42.5	44.7

Karnali	7.3	7.9	8.0	37.1	37.2	37.9
Sudurpashchim	14.7	14.4	15.1	36.0	35.7	37.9
<b>National</b>	<b>8.0</b>	<b>8.3</b>	<b>9.1</b>	<b>36.3</b>	<b>36.3</b>	<b>38.2</b>

Source: Bank and Financial Institutions

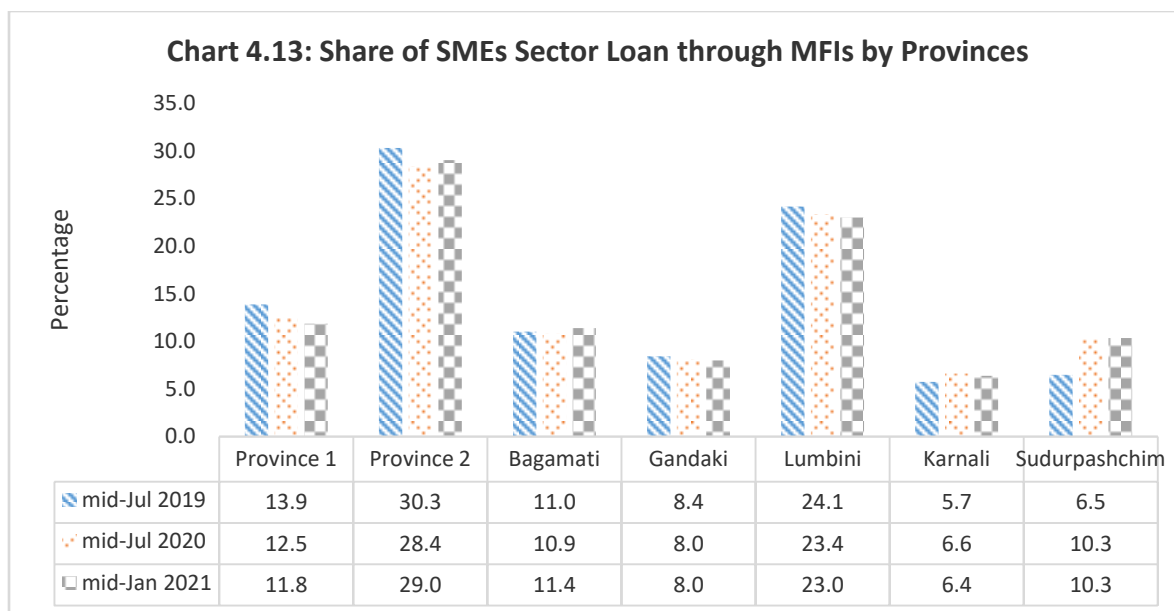
## SMEs Sector Loans

4.27. SMEs sector loans of BFIs stood at Rs. 275.28 billion in mid-January 2021. It was Rs. 159.37 billion in mid-July 2019 and Rs. 203.22 billion in mid-July 2020. Bagamati province holds the largest share with 32.7 percent and Karnali province holds the smallest share 2.3 percent of such loans in mid-January 2021 (Chart 4.12).



Source: Bank and Financial Institutions

4.28. SMEs sector loans of MFIs reached Rs. 48.85 billion in mid-January 2021. It was Rs. 34.17 billion and Rs. 39.22 billion in mid-July 2019 and mid-July 2020 respectively. In mid-January 2021, the largest share of such a loan was in Province 2 with 29 percent followed by Lumbini with 23 percent. The lowest share of such a loan was in Karnali Province with 6.4 percent (Chart 4.13). Relatively, more SMEs in Province 2 are getting credit from MFIs.



Source: Bank and Financial Institutions

4.29. In mid-January 2021, the share of SMEs loans on total loan of BFIs and MFIs for national level was 7.5 percent and 16 percent respectively. The highest and the lowest share of such a loan of BFIs on total loan of respective province was 16.4 percent and 4.4 percent in Sudurpashchim Province and Bagamati Province respectively (Table 4.8). In relative term, SMEs are getting higher share of loans in other provinces than in Bagamati Province. In case of MFIs', loan flows to SMEs sector, the share of loan flows to this sector is more than national average in Sudurpashchim Province and Karnali Province.

**Table 4.8: Share of SMEs Sector Loans on Total Loans**

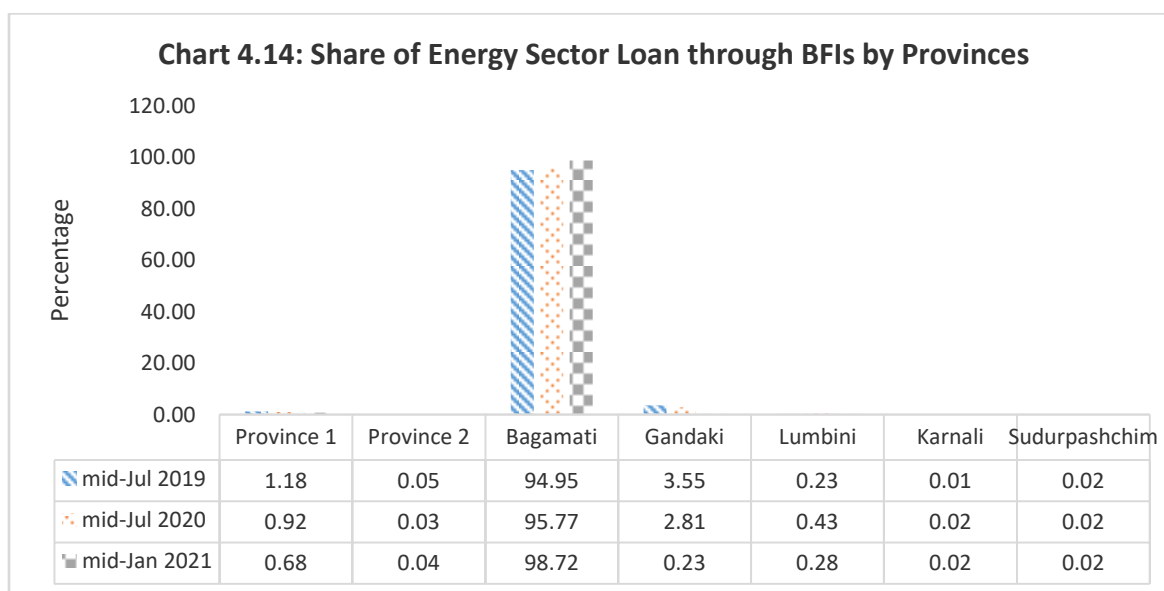
(in Percentage)

Province	BFIs			MFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	8.7	9.3	10.2	15.7	14.5	13.4
Province 2	10.1	10.4	12.3	18.6	17.4	18.0
Bagamati	3.3	3.4	4.4	12.0	11.8	12.5
Gandaki	7.8	9.0	11.9	12.8	11.2	12.0
Lumbini	8.6	9.6	11.1	15.6	16.1	16.5
Karnali	13.3	13.2	14.7	21.0	23.9	21.5
Sudurpashchim	12.9	13.7	16.4	16.4	22.5	22.0
<b>National</b>	<b>5.8</b>	<b>6.2</b>	<b>7.5</b>	<b>15.8</b>	<b>15.9</b>	<b>16.0</b>

Source: Bank and Financial Institutions

## Energy Sector Loans

4.30. Total outstanding energy sector loans of BFIs reached Rs. 171.8 billion in mid-January 2021. It was Rs. 119.6 billion in mid-July 2019 and Rs. 154.2 billion in mid-July 2020. Almost 99 percent of such a loan was provided in Bagamati province till mid-January 2021.



Source: Bank and Financial Institutions

4.31. As of mid-January 2021, the share of energy sector loans on total loans of BFIs is 4.7 percent. The highest and the lowest shares of energy sector loans of BFIs on total loans of respective province was 8.2 percent and 0.2 percent in Bagamati province and Province 2 respectively (Table 4.9).

**Table 4.9: Share of Energy Sector Loans on Total Loans by Provinces**

(in Percentage)

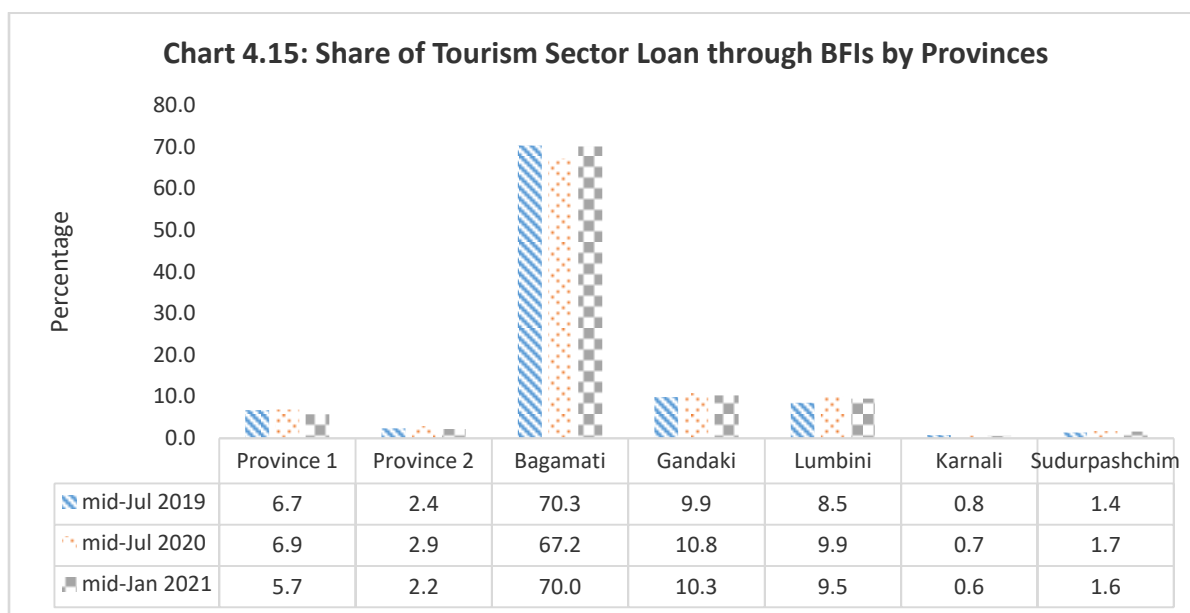
Province	BFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	0.42	0.37	0.28
Province 2	0.03	0.01	0.02
Bagamati	7.26	8.03	8.19
Gandaki	2.17	1.74	0.14
Lumbini	0.09	0.17	0.12
Karnali	0.03	0.10	0.10
Sudurpashchim	0.03	0.03	0.03

<b>National</b>	<b>4.36</b>	<b>4.73</b>	<b>4.70</b>
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Source: Bank and Financial Institutions

## Tourism Sector Loans

4.32. Tourism sector loans of BFIs reached Rs. 162 billion in mid-January 2021. It was Rs. 115.6 billion in mid-July 2019 and Rs. 145.7 billion in mid-July 2020. Bagamati province shared maximum with 70 percent and Karnali province shared less than 1 percent of such a loan in mid-January 2021 (Chart 4.15).



Source: Bank and Financial Institutions

4.33. In mid-January 2021, the share of tourism sector loans on total loans of BFIs for national level was 4.4 percent. The highest and the lowest share of such a loan of BFIs on total loans of respective province was 6 percent and 1.2 percent in Gandaki province and Province 2 respectively (Table 4.10).

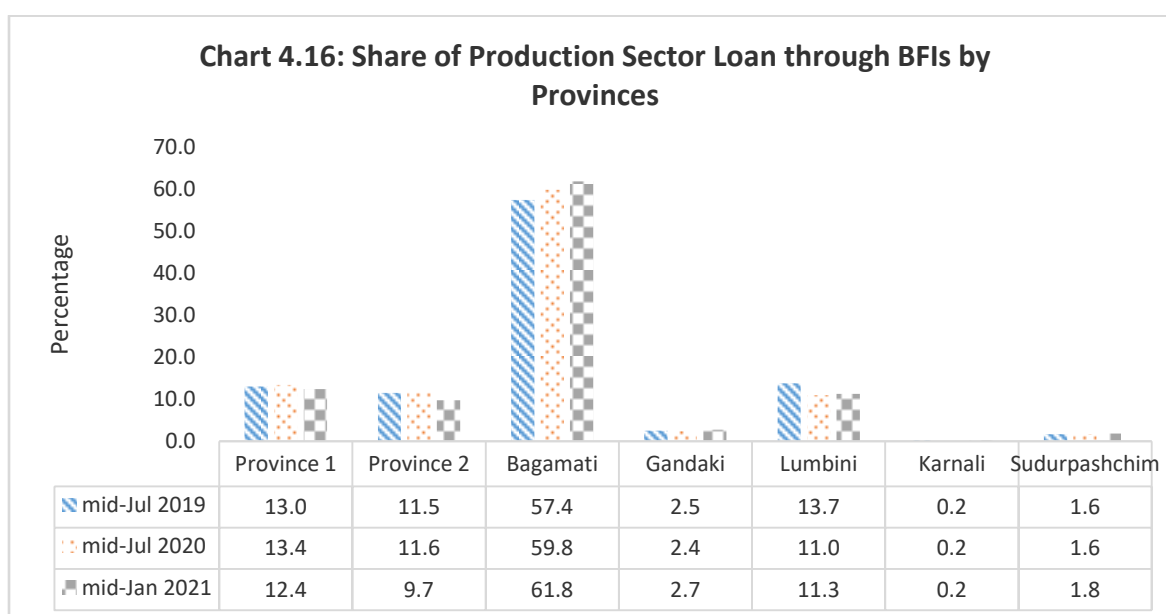
**Table 4.10: Share of Tourism Sector Loan on Total Loan by Provinces**  
(in Percentage)

Province	BFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	2.3	2.7	2.2
Province 2	1.2	1.5	1.2
Bagamati	5.2	5.3	5.5
Gandaki	5.8	6.3	6.0
Lumbini	3.2	3.8	3.7
Karnali	3.0	2.7	2.4
Sudurpashchim	2.1	2.8	2.4
<b>National</b>	<b>4.2</b>	<b>4.5</b>	<b>4.4</b>

Source: Bank and Financial Institutions

## Industrial Production Sector Loans

4.34. The industrial production sector loans of BFIs remained Rs. 555.12 billion in mid-January 2021. It was Rs. 432.85 billion in mid-July 2019 and Rs. 525.48 billion in mid-July 2020. Bagamati province has a maximum share of such a loan with 61.8 percent followed by Province 1(12.4 percent) in mid-January 2021. At the same time, Karnali Province has negligible share (0.2 percent) (Chart 4.16). Bagamati Province has been registered a growing share of loans flowed to industrial production sector.



Source: Bank and Financial Institutions

4.35. In mid-January 2021, the share of production sector loans on total loans of BFIs for national level remained 15.2 percent. The highest and the lowest share of production sector loans of BFIs on total loans of respective province was 17.4 percent and 2.9 percent in Province 2 and Karnali Province respectively (Table 4.11). Relatively, the higher share of total loans of Province 2 has been used in production sector.

**Table 4.11: Share of Production Sector Loans on Total Loans**

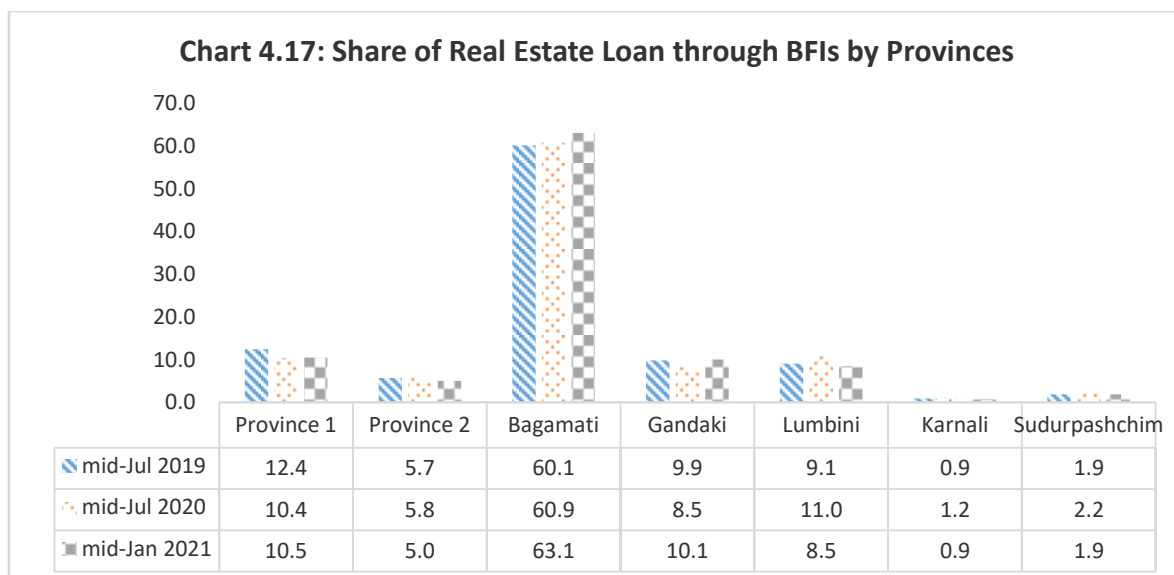
(in Percentage)

Province	BFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	16.9	18.5	16.3
Province 2	21.6	21.4	17.4
Bagamati	15.9	17.1	16.6
Gandaki	5.5	5.0	5.5
Lumbini	19.2	15.2	14.8
Karnali	2.9	2.9	2.9
Sudurpashchim	9.3	9.8	9.0
<b>National</b>	<b>15.8</b>	<b>16.1</b>	<b>15.2</b>

Source: Bank and Financial Institutions

## Real Estate Loans

4.36. Total real estate loans of BFIs remained Rs. 406.5 billion in mid-January 2021. It was Rs. 326.75 billion in mid-July 2019 and Rs. 381.25 billion in mid-July 2020. Bagamati province has a maximum share of such a loan with 63.1 percent and Karnali province has a minimum share with 1 percent in mid-January 2021 (Chart 4.17).



Source: Bank and Financial Institutions

4.37. In mid-January 2021, the share of real estate sector loans on total loans of BFIs for national level was 11.1 percent and 16 percent respectively. The highest and lowest share of real estate loans of BFIs on total loans of respective province was 14.7 percent and 6.6 percent in Gandaki Province and Province 2 respectively (Table 4.12).

**Table 4.12: Share of Real Estate Loans on Total Loans**

(in percentage)

Province	BFIs		
	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
Province 1	12.1	11.5	10.1
Province 2	8.1	6.8	6.6
Bagamati	12.6	12.6	12.4
Gandaki	16.4	16.5	14.7
Lumbini	9.6	9.2	8.2
Karnali	10.0	10.4	8.3
Sudurpashchim	8.1	8.0	6.8
<b>National</b>	<b>11.9</b>	<b>11.7</b>	<b>11.1</b>

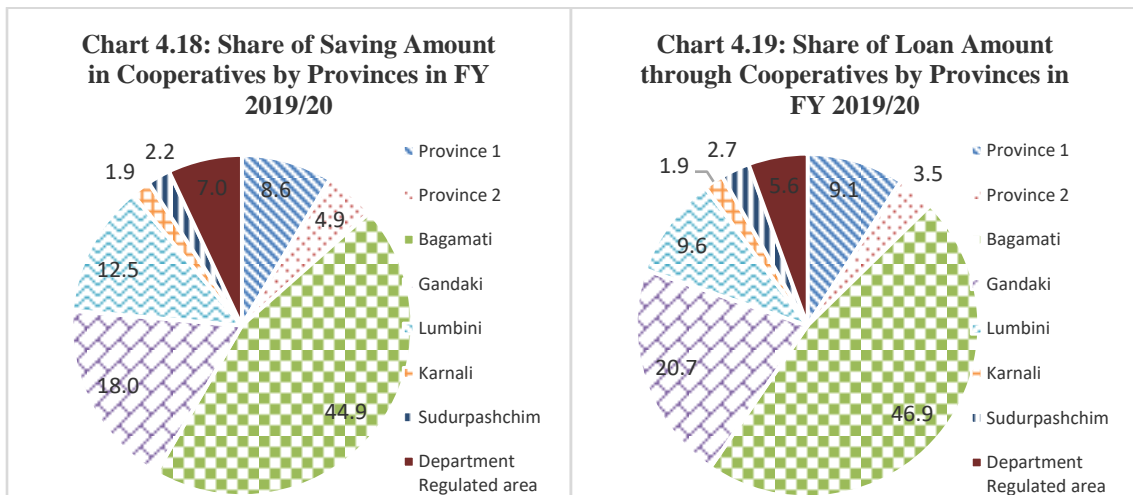
Source: Bank and Financial Institutions



## Resource Mobilization through Cooperatives

4.38. Cooperatives have significant role in financial resource mobilization. They are instrumental mainly for mobilizing scattered savings and small credit disbursements. The nationwide network of cooperatives has long been contributing to balanced distribution of financial resources. Among the dimensions of financial resource mobilization of cooperatives, the saving mobilization and credit flows are of major concern.

4.39. The aggregate saving and credit of cooperatives reached Rs. 477.96 billion and Rs. 426.26 billion respectively in mid-July 2020. Of which, 44.9 percent of saving and 46.9 percent of the loans are mobilized in Bagamati Province only (Chart 4.19). Gandaki Province and Karnali Province stood at the second and the last in both aspects respectively. Contribution of cooperatives is also very high in Bagamati Province.



Source: DoC (2020)

## Chapter 5: Summary and Conclusions

- 5.1. Besides presenting some basic information on fiscal federalism of Nepal, this study has explored the situation of some key financial indicators on a provincial basis. The major dimensions of financial resource mobilization examined in the study are: status of financial access and resource flows. This study examined the BFIs' and MFIs' data of mid-July 2019, mid-July 2020 and mid-Jan 2021. The deposit mobilization and credit flows are examined in this study based on existing reporting systems of BFIs. Though the findings of this study do not reflect resource mobilization perfectly, it indicates the existing situation and scope of policy reforms.
- 5.2. The study has found that the distribution of BFIs branches have more concentration in some provinces compared to branches of MFIs. As of mid-January 2021, around 34 percent of BFIs branches are located in Bagamati Province; whereas only 4 percent of such branches are in Karnali Province. Consequently, the population per branch of BFIs is also significantly different registering the lowest in Bagamati Province and Gandaki Province and the highest in Province 2.
- 5.3. The distribution of electronic payment instrument such as POS terminal is also unbalanced. As of mid-January 2021, almost 71 percent of POS Terminals are located in Bagamati Province, whereas Karnali Province has the lowest number of POS Terminal only (0.8 percent). As a result, population per POS Terminal is significantly different in provinces.
- 5.4. The number of deposit and loan account irrespective of the size of economy and population varies among the provinces. As of mid-January 2021, Bagamati Province holds the largest share of deposit account (38.7 percent) and the Karnali Province holds the smallest share of such accounts (3.1 percent). Likewise, Bagamati Province holds largest share of loan account (35.1 percent) and Karnali Province holds the smallest share of such account (2.5 percent).
- 5.5. The deposit mobilization of BFIs is concentrated in Bagamati Province, holding two-third of the outstanding deposit of BFIs as of mid-January 2021. The lowest share is in Karnali Province followed by Sudarparashim Province. However, the share of Bagamati Province has been declining in recent years. The deposit mobilization of MFIs is more balance in provinces.

- 5.6. Though the credit flow is also concentrated in Bagamati province, credit flows is more balanced compared to deposit mobilization. As of mid-January 2021, 56.6 percent of outstanding credit of BFIs is mobilized in Bagamati province, which is lower than the share of deposit mobilization (68.1 percent) in the province. The share of credit flow in Karnali and Sudurpashchim Provinces are around 1.2 percent and 3.0 percent respectively. The credit expansion of MFIs is more concentrated in Province 2 and Lumbini Province.
- 5.7. The distribution of deposit and credit is reflected in CD ratio as well. In mid-January 2021, the average CD ratio of BFIs stood at 85.4 percent, whereas it was higher in all provinces except in Bagamati Province, indicating resources flows from these provinces to others.
- 5.8. The access to refinance has been gradually improving indicating the flow of resources from Bagamati Province. Likewise, the use of refinance facility has also increased significantly during the period of mid-July 2018 to mid-January 2021. The share of refinance facility reached 1.8 percent of total loans of BFIs as of mid-January 2021. The highest and the lowest share of such a facility remained in Gandaki province (2.8 percent) and Province 1(1.3 percent) respectively.
- 5.9. The outstanding amount as well as access to interest subsidized loans has increased significantly in recent years especially in 2020/21.Total interest subsidized loans of BFIs has been more than tripled between mid-July 2019 and mid-January 2021. The highest and the lowest share of interest subsidized loans in total loans of respective province was 5.1 percent and 1.9 percent in Gandaki province and Bagamati Province respectively.
- 5.10. The disbursement of the deprived sector loans has remained unbalanced despite the continuous encouragement of NRB to BFIs. As of mid-January 2021, the largest share of deprived sector loans remained in Bagamati province (50.7 percent) and the lowest share of such a loan in Karnali Province (2.7 percent). However, the share of Bagamati Province has been declining in recent years.
- 5.11. The disbursement of agriculture sector loans of BFIs has remained more balanced. As of mid-January 2021, the share of agriculture sector loans on total loans of BFIs and MFIs for national level was 9.1 percent and 38.2 percent respectively. The highest and the lowest share of agriculture sector loans of BFIs on total loans of respective province was 15.1 percent and 6.9 percent in Sudurpashchim province and Bagamati Province respectively.

- 5.12. In case of SMEs loans of BFIs, Bagamati province holds the largest share (32.7 percent) and Karnali province smallest share (2.3 percent) as of mid-January 2021. The largest share of such a loan mobilized by MFIs remained in Province 2 (29 percent) followed by Lumbini (23 percent). The lowest share of such a loan was in Karnali Province (6.4 percent).
- 5.13. The Bagamati province holds the most of the energy sector loans (98.7 percent) of BFIs. Whereas, the Lumbini province holds the largest share (29.4 percent) of such a loan disbursed by MFIs.
- 5.14. Bagamati province holds 70 percent tourism sector loans of BFIs as of mid-January 2021, whereas the Karnali province received only 1 percent of outstanding Tourism sector loans of BFIs.
- 5.15. In case of loans to industrial production sector, Bagamati province has a maximum share (61.8 percent) as of mid-January 2021. Whereas, Karnali province holds a negligible share (0.2 percent) of such a loan.
- 5.16. Bagamati province has a maximum share of outstanding real estate loans of BFIs (63.1 percent) and Karnali province has the lowest share with 1 percent as of mid-January 2021.
- 5.17. In conclusion, the study has indicated that the financial resources of BFIs are still more concentrated in Bagamati Province. Karnali Province and Sudurpashchim Province has been obtaining less resources compared to other provinces. However, the resources of MFIs are more balancedly dispersed across the provinces; however, the study also shows that the financial resources are gradually shifting from Bagamati Province to other provinces in recent years in line with the policy priority of improving access to financial resources in less developed provinces.
- 5.18. Along with the improving supply side through effective implementation of existing policy and introducing new policies, demand side factors like capacity enhancement, entrepreneurship development and financial literacy should also be enhanced to absorb the financial resources available in the provinces other than Bagamati Province.
- 5.19. Though Bagamati Province has significant position in financial resources mobilization, not all districts of this province may have benefitted from this. Hence, detail districtwise exploration is needed further.

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## Annexes

### Annex 1: Projected population by Provinces

Province	For 2076 BS	For 2077 BS
Province 1	4854506	4944070
Province 2	6062788	6256166
Bagamati	6232027	6437788
Gandaki	2494421	2519139
Lumbini	4965063	5098262
Karnali	1755596	1809783
Sudurpashchim	2845717	2931269
<b>Total</b>	<b>29210118</b>	<b>29996478</b>

Source: CBS (2014) <http://cbs.gov.np/image/data/Population/Population%20projection%202011-2031/PopulationProjection2011-2031.pdf>



## Annex 2: Data Template

Email : monetary@nrb.org.np

Contact : 4443871, Ext: 384

**Nepal Rastra Bank  
Economic Research Department  
Monetary and Capital Market Division**

**Supply Side Survey  
on**

**"Financial Resource Mobilisation Under Federal Structure of Nepal"**

1	Introductory Information			
	Name of BFIs:			
	Address:			
	Contact Person for Data Inquiry:			
	Name:			
	Phone:			
2	Financial Information			
2.1	Deposit (Rs. in Million)	mid-July 2019	mid-July 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudur Paschim Province			
	<b>Total</b>			
2.2	Credit (Rs. in Million)	mid-July 2019	mid-July 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudur Paschim Province			
	<b>Total</b>			
2.2.1	Refinance Loan (Rs. in Million)	mid-July 2019	mid-July 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudur Paschim Province			
	<b>Total</b>			

2.2.2	Interest Subsidized Loan (Rs. in Million)	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

2.2.3	Deprived Sector Loan (Rs. in Million)	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

2.2.4	Agriculture Loan* (Rs. in Million)	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

2.2.5	Energy Sector Loan* (Rs. in Million)	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

2.2.6	Tourism Sector Loan* (Rs. in Million)	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

2.2.7	SMEs Sector Loan* (Rs. in Million)	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

2.2.8	Real State Loan <sup>s</sup> (Rs. in Million)	mid-Jul 2019	mid-Jul 2020	mid-Jan 2021
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

<b>2.2.9</b>	<b>Production Sector Loan<sup>#</sup> (Rs. in Million)</b>	<b>mid-Jul 2019</b>	<b>mid-Jul 2020</b>	<b>mid-Jan 2021</b>
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

<b>3</b>	<b>Miscellaneous Information</b>			
<b>3.1</b>	<b>No of POS Terminal</b>	<b>mid-Jul 2019</b>	<b>mid-Jul 2020</b>	<b>mid-Jan 2021</b>
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>3.2</b>	<b>No of Deposit Accounts</b>	<b>mid-Jul 2019</b>	<b>mid-Jul 2020</b>	<b>mid-Jan 2021</b>
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>3.4</b>	<b>No of Loan Accounts</b>	<b>mid-Jul 2019</b>	<b>mid-Jul 2020</b>	<b>mid-Jan 2021</b>
	Province 1			
	Province 2			
	Bagmati Province			
	Gandaki Province			
	Lumbini Province			
	Karnali Province			
	Sudurpashchim Province			
	<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* NRB Directive Form No. 17.2

\$ NRB Directive Form No. 9.3(Ka) Points (5 + 6)

# NRB Directive Form No. 9.3 Points (4 + 5 - 4.2)