

THE SUPPLY OF FINANCIAL SERVICES IN NEPAL

Although recent developments in Nepal's financial sector have moderately improved its performance, including the entry of many new actors, the sector remains fragile and access to financial services has been declining. This chapter reviews these developments, the performance of formal financial institutions, government efforts to increase access to financial services, and missed opportunities for remittances in the financial sector. Most of the analysis is based on data from Nepal Rastra Bank.¹

RECENT DEVELOPMENTS IN THE FINANCIAL SECTOR

In recent decades Nepal has seen exponential growth in the number of its financial institutions. In 1980 there were 4 licensed financial institutions; by 2005 there were 180.² In 2005 Nepal had 17 commercial banks, 25 development banks, and 59 finance companies.³ In addition, the regulated microfinance sector comprised 4 microfinance development banks, 5 regional rural development banks, 20 financial cooperatives, and 47 financial intermediary nongovernmental organizations (FINGOs), as well as 3 “apex” (wholesale) institutions that do not provide direct financial services to poor households (box 1.1).⁴

In recent years financial depth has increased in Nepal's financial sector (as measured by M2 relative to GDP), mainly due to growth in bank assets. But commercial banks' dominance of the financial sector is slowly being eroded by new entrants. M2 rose from 45 percent of GDP in 1999 to 57 percent in 2005, and financial sector assets jumped from 62 percent of GDP in 2000 to 93 percent in 2005. Yet commercial bank assets accounted for 87 percent of financial sector assets in 2005—6 percentage points less than in 2000, mainly due to the growth of development banks and finance companies (figure 1.1).

Although recent reforms have strengthened the banking sector, it remains weak. Since the late 1990s the authorities have improved the legal framework for banks, strengthened Nepal Rastra Bank, and partially restructured three insolvent state-owned commercial banks and development banks: Nepal Bank Limited, Rastriya

BOX 1.1

**NEPAL'S REGULATED AND UNREGULATED
RETAIL MICROFINANCE SECTOR**

The portion of Nepal's retail microfinance sector licensed and regulated by Nepal Rastra Bank includes nine microfinance development banks. Four are privately owned microfinance development banks and five are regional rural development banks, four of which are state owned.

All cooperatives and NGOs are required to register with the Department of Cooperatives and local authorities. In addition, all cooperatives and NGOs engaged in microfinance are supposed to be licensed and regulated by Nepal Rastra Bank—but many are not. Accordingly, the microfinance sector licensed and regulated by Nepal Rastra Bank, for which financial data are available, represents only a small portion of Nepal's microfinance activity.

Indeed, an estimated 2,300 cooperatives are involved in financial services, yet only 20 fall under the supervision of Nepal Rastra Bank. Similarly, of the estimated 15,000 NGOs undertaking financial activities, just 47 are under the bank's supervision, representing 39,000 loans. In 2005 the regulated microfinance sector had 360,000 clients (box table 1.1; see also appendix B).

BOX TABLE 1.1

What types of retail microfinance institutions are regulated?

Type of institution	Total number	Number regulated	Number of loans from regulated institutions
Financial cooperative	About 2,300 financial cooperatives and 190 small farmers cooperatives	20	28,000
Financial intermediary NGO	15,000	47	39,000
Microfinance development bank	4	4	104,000
Regional rural development bank	5	5	190,000

Banijya Bank, and the Agricultural Development Bank, including the appointment of new management teams for the first two (box 1.2). Although the sector has become more stable, the picture remains bleak. In 2005 commercial banks (public and private) had an average capital adequacy ratio of -6.3 percent and nonperforming loans of 19 percent—mainly due to the large accumulated losses of Nepal Bank Limited and Rastriya Banijya Bank (table 1.1).

Private banks perform better than public ones, but they also exhibit weaknesses. In 2005 the average capital adequacy ratio for private commercial banks was 11.4 percent, and nonperforming loans averaged 5.3 percent. But 4 of 15 private commercial banks did not meet capital adequacy requirements (whether based on national or international standards, which are very similar), and 3 had nonperforming loans of more than 10 percent (IMF 2006b).

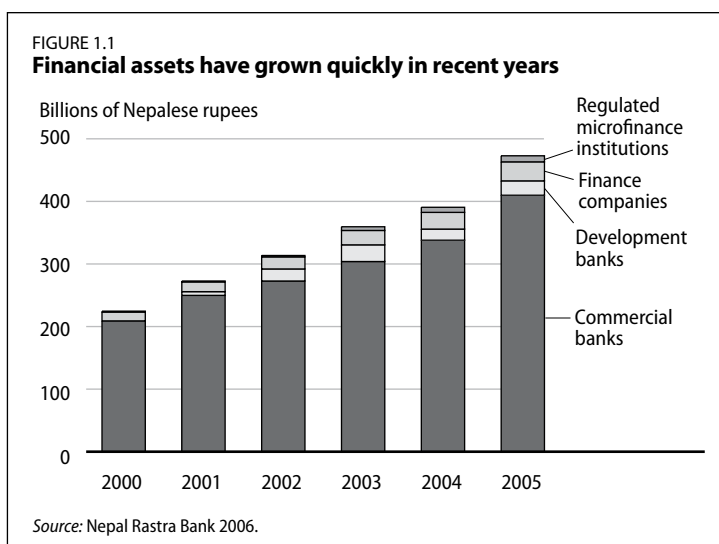


TABLE 1.1

Indicators of soundness for commercial banks, 2001–05

Indicator	2001	2002	2003	2004	2005
Profitability (millions of Nepalese rupees)	-7,843	-9,428	-3,317	3,707	5,205
Nepal Bank Limited	-2,178	-3,071	-252	710	1,730
Rastriya Banijya Bank	-7,083	-7,068	-4,839	1,040	1,323
Nonperforming loans (percentage of total)	29.3	30.4	28.8	22.8	18.9
Nepal Bank Limited	50.8	56.3	60.5	53.7	49.6
Rastriya Banijya Bank	48.2	55.1	60.2	57.6	53.0
Capital adequacy ratio	-5.5	-9.9	-12.0	-9.1	-6.3
Nepal Bank Limited	n.a.	n.a.	-28.3	-25.0	-19.5
Rastriya Banijya Bank	n.a.	n.a.	-44.3	-42.12	-40.5

Source: Nepal Rastra Bank 2006.

Even the nonbank financial sector shows serious shortcomings. At the end of the first quarter of fiscal 2006, 8 development banks and 24 finance companies did not meet capital adequacy requirements, and 2 had negative net worth (IMF 2006b). In addition, during 2004–06 the share of nonperforming loans has been rising for both types of institutions. The performance of microfinance institutions has also been fragile, with about a quarter of regulated institutions incurring losses.

BOX 1.2

**A HISTORY OF THREE BIG BANKS:
NEPAL BANK LIMITED, RASTRIYA BANIJYA BANK,
AND THE AGRICULTURAL DEVELOPMENT BANK**

Nepal Bank Limited, established in 1937, is Nepal's oldest bank. In 1998 the government reduced its ownership of the bank to 41 percent. But shortly after, the bank started being used as a "pocket bank," and connected lending and nonperforming loans increased considerably. Because of such mismanagement, in 2002 Nepal Bank Limited was taken over by Nepal Rastra Bank. Rastriya Banijya Bank was established in 1966 and is fully owned by the government.

Nepal Bank Limited and Rastriya Banijya Bank were put under new management in 2002. Nepal Bank Limited's performance has since improved dramatically, though it still has negative equity. The bank has run an operating profit since 2003, is on track to be fully computerized in 2007, and in 2006 nonperforming loans accounted for 25 percent of the total, compared with 61 percent in 2003. Rastriya Banijya Bank's reforms have been less successful, and it lags behind on these and other indicators of progress.

The Agricultural Development Bank was created in 1968. It is mainly owned by the government and Nepal Rastra Bank, with a small percentage owned by farmers. Its mandate is to extend credit to cooperatives, individuals, and enterprises engaged in agriculture. In addition to its agriculture and commercial banking divisions, in 1975 the Agricultural Development Bank established the Small Farmers Development Program to provide credit to small groups of farmers on a group guarantee basis. With support from the German Agency for Technical Cooperation, in 1992 Nepal introduced the Cooperative Act and the program started being reorganized into the Small Farmers Cooperatives Limited—a federation of autonomous cooperatives. In 2001 the Small Farmers Development Bank was established to provide wholesale funds to these cooperatives. By July 2004 there were 161 such cooperatives, with 90,000 members and about \$4.0 million in deposits and \$18.3 million in outstanding loans.

A 2003 review of the Agricultural Development Bank's financial performance revealed serious concerns about its financial health. Nonperforming loans were alarmingly high, reaching 40 percent in the Small Farmers Development Program. Accordingly, it was recommended that the program's transformation into independent cooperatives be accelerated.

Despite the uneven financial performance of these three banks, their extensive branch networks—which together account for 61 percent of Nepal's bank branches—offer enormous potential for expanding access to financial services. Moreover, while private banks focus on the "top end" of the market, these institutions are perceived as being closer to the general population and low-income households.

GOVERNMENT EFFORTS TO INCREASE ACCESS TO FINANCIAL SERVICES

Since the late 1950s Nepal's government has made many efforts to increase access to financial services, especially for low-income households and small businesses. These efforts have included:

- Requiring banks, private and public, to direct a certain percentage of their loans to low-income households and small businesses—so-called deprived and priority sector lending.
- Introducing policies to encourage banks to open more branches outside the Kathmandu valley.
- Creating institutions to cater to the underserved, such as cooperatives, postal savings banks, regional rural development banks, and the Small Farmers Development Bank, Rural Self-Reliance Fund, and Rural Microfinance Development Center.
- Licensing two new types of financial institutions—finance companies and development banks—with lower capital requirements, thus sharply increasing the number of financial institutions.

On the first point, in 2006 banks were required to invest 4 percent of their loan portfolios in the priority sector (this requirement is expected to be phased out in 2007) and 3 percent in the deprived sector. Priority sector loans are not to exceed NRs 2.5 million, and are limited to manufacturing and service firms whose total fixed investment does not exceed NRs 10 million. Deprived sector loans must be less than NRs 30,000. Banks can fulfill these targets by lending directly to these sectors or through intermediaries. Moreover, banks that invest in the equity of microfinance banks can classify these investments as deprived sector lending. Banks that do not meet the priority and deprived sector lending targets are subject to fines, which are calculated by multiplying the shortfall amounts against the highest interest rates that the banks charge to their clients.

On the second point, the government has required banks that want to expand their branch networks within the Kathmandu valley to also expand outside it. To encourage such expansion, Nepal Rastra Bank has introduced a policy that allows banks to open a branch in the valley only if they also open one outside it.

On the third point, the government has created a number of institutions aimed at increasing access for poor and rural households. In the late 1950s it created, by executive order, cooperatives catering to farmers. In the mid-1970s it created the Postal Savings Bank (with more than 100 branches), with the goal of mobilizing small savings in rural areas. In the early 1990s it established five regional rural development banks, one for each administrative region. All these institutions remain state-owned except one that was privatized in 2005.

In the 1990s the government also created the Rural Self-Reliance Fund (managed

by Nepal Rastra Bank; box 1.3); the independently managed Rural Microfinance Development Center, which lends funds to financial NGOs and financial cooperatives; and the Small Farmers Development Bank, which lends to Small Farmers Cooperatives (those created by the Agricultural Development Bank's Small Farmers Development Program; see box 1.2 and appendix B). All three of these are apex microfinance institutions—that is, they receive funds from different sources at subsidized rates and lend them to retail microfinance institutions. But in Nepal the apex institutions do not pass on the subsidies to the final borrowers.

In another effort to increase access, over the past 10 years Nepal Rastra Bank introduced two new types of financial institutions with lower capital requirements—finance companies and developments—sharply increasing the number of financial institutions. The new development banks include four private microfinance development banks that target low-income households (see box 1.1).

BOX 1.3

**ACTIVITIES AND PERFORMANCE
OF THE RURAL SELF-RELIANCE FUND**

Nepal Rastra Bank created the Rural Self-Reliance Fund in 1990 to supply funds to microfinance institutions. It also provides financing to development banks involved in national priority areas, such as tea growing and processing.

The Rural Self-Reliance Fund makes loans to financial cooperatives and financial NGOs at an annual interest rate of 8 percent, with the provision that three-quarters of the interest on principle be repaid on time. Loan tenors are three years, and institutions are only eligible for three loans—the first for NRs 1.0 million, the second for NRs 1.5 million, and the third for NRs 2.5 million. The fund provides longer-term loans to development banks and microfinance development banks.

Since the inception of the Rural Self-Reliance Fund, the government and Nepal Rastra Bank have given it nearly NRs 340 million in grant capital—yet only a bit more than half has been used for lending. In January 2005 outstanding loans to financial cooperatives and financial NGOs totaled NRs 25 million (NRs 22 million for the cooperatives and NRs 3 million for the NGOs), to the Agricultural Development Bank, NRs 92 million, and to regional rural development banks, NRs 15 million. Total outstanding loans were NRs 190 million.

Although the Rural Self-Reliance Fund reports that its repayment rate is 91 percent, it appears that the repayment performance of financial NGOs and cooperatives is unsatisfactory. Preliminary analysis has found that nearly 30 percent of this segment of the fund's loan portfolio is more than 90 days overdue.

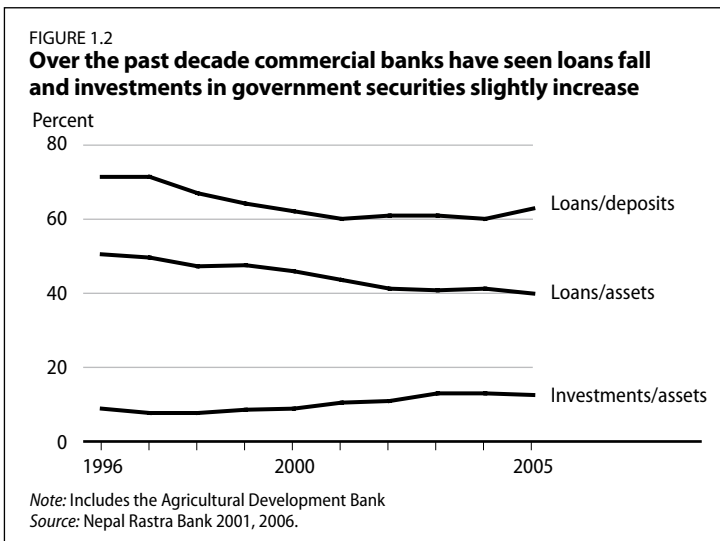
Source: Golden Jubilee 2005.

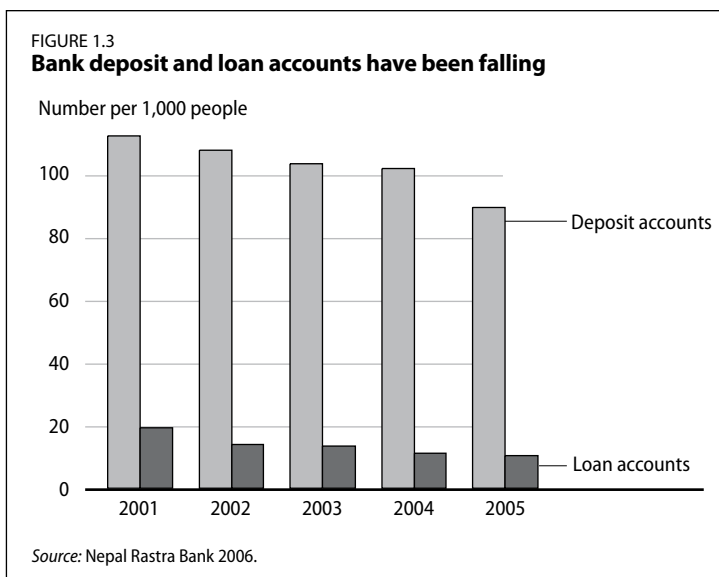
**DESPITE GOVERNMENT EFFORTS,
ACCESS TO FINANCIAL SERVICES IS DECLINING**

In recent years financial intermediation—the degree to which the banking sector puts its deposits back into the economy—has been stagnating. Over the past 10 years, despite the negative real interest rate on deposits, deposit volumes have grown faster than credit volumes. The ratio of credit to deposits fell from 71 percent in 1996 to 63 percent in 2005 (figure 1.2). Banks have also increased their investments in government securities, from 9 percent of total assets in 1996 to 12 percent in 2005.⁵

Access, as measured as the number of bank deposit and loan accounts per 1,000 people, has decreased. The number of deposit accounts per 1,000 people dropped from 113 in 2001 to 90 in 2005 (figure 1.3). Similarly, the number of loan accounts per 1,000 people fell from 19 to 10 during this period.

Lending targets for deprived sectors have generated excess liquidity among microfinance institutions (figure 1.4), yet this has not translated into larger outreach. As of July 2005, most deprived sector lending occurred indirectly, and 11 of the 17 commercial banks (excluding the Agricultural Development Bank) preferred to pay fines and not meet their targets for deprived sector lending.⁶ Despite this, deprived sector lending has led to high liquidity in the microfinance sector, with liquid funds and investments accounting for more than 20 percent of assets for all the institutions (see figure 1.4). Still, this has not resulted in large loan portfolios. In 2005 the microfinance sector had only 360,000 borrowers—not many, given that some microfinance institutions have been operating for more than 10





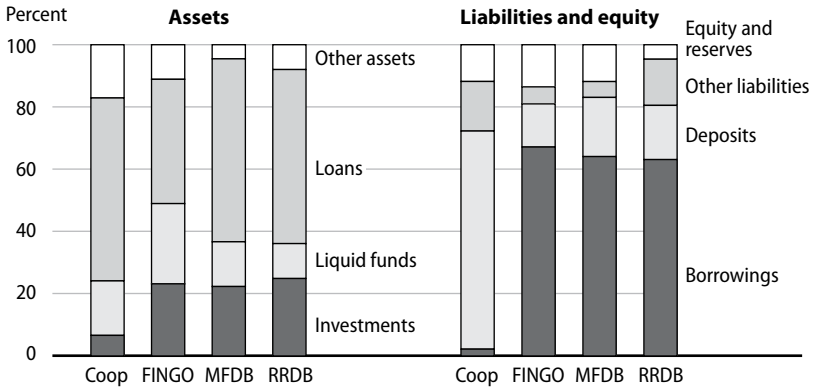
years. Detailed analysis of the financial performance of microfinance institutions is presented in appendix B.

Similarly, as Nepal Rastra Bank has lowered targets for priority sector loans, banks have reduced lending to priority sector—showing that the policy has not resulted in sustainable lending to the sector. In the 1970s, when the requirement was introduced, priority sector loans were to account for 12 percent of bank portfolios; as noted, the requirement is expected to be phased out in 2007. Moreover, in July 2005 only 84 percent of priority sector loans were made directly by banks; the rest went through intermediaries (microfinance institutions). Rastriya Banijya Bank and Nepal Bank Limited account for 40 percent of priority sector loans.

The Postal Savings Bank has also had disappointing outcomes. Despite its 30 years of operation, 117 branches, and higher interest rates on deposits, the bank has hardly made a dent in the financial sector. In 2005 it collected only NRs 151 million in savings and processed just 5,311 remittance transactions (615 foreign and 4,696 domestic, totaling about NRs 23 million). In July 2006 total deposits were NRs 422 million.

Despite a 2001 restructuring program (box 1.4), regional rural development banks—Nepal's largest providers of microfinance—are in poor financial health. In 2005 the loan portfolios of the five regional rural development banks account for 36 percent of loans from regulated microfinance institutions. But only two of the five recorded profits in 2005, and two had negative capital adequacy ratios. Moreover, one of the two profitable banks—the Western Region Rural Development Bank, privatized that year—made its profit by investing in deprived sector lending by other financial institutions rather than from its own lending operations.

FIGURE 1.4
Microfinance institutions have considerable liquidity, 2005



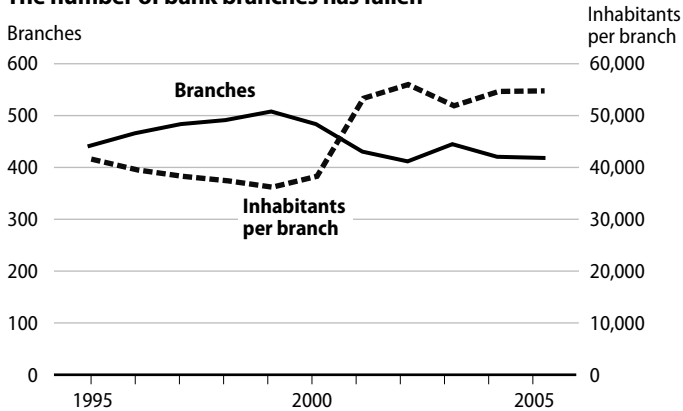
Note: Coop stands for financial cooperatives, FINGO for financial intermediary NGOs, MFDB for microfinance development banks, and RRDB for regional rural development banks.

Source: Nepal Rastra Bank 2006.

Since 1995—and especially since 1999—the number of bank branches per inhabitant has fallen, further reducing access to bank infrastructure (figure 1.5). This has been because of the closure of branches of the two state-owned commercial banks, due to both the Maoist insurgency and a process of rationalization. Between 1999 and 2005 the average number of inhabitants per branch rose from 36,100 to 54,000.

Although every district has at least one bank branch, access is skewed toward the Central region, where there is one branch for roughly every 50,000 inhabit-

FIGURE 1.5
The number of bank branches has fallen



Note: Includes the Agricultural Development Bank.

Source: Nepal Rastra Bank 2006.

BOX 1.4

THE REFORM PROGRAM FOR REGIONAL RURAL DEVELOPMENT BANKS

In 2001 the government and Nepal Rastra Bank committed to a five-year restructuring program for regional rural development banks. This program included recapitalization of four of the five banks (equivalent to NRs 163 million), reforms of the banks' operating practices, and progressive privatization of profitable ones. Reforms included introducing productivity measures for each bank, appointing executive directors through open competition, and implementing cost reduction schemes, such as for voluntary retirement. Under the restructuring program, 40–50 percent of shares of profitable regional rural development banks are to be sold to bank clients, while Nepal Rastra Bank keeps up to 10 percent and the government up to 20 percent. The remaining shares are to be split among employees, other banks, and other investors.

As a result of the recapitalization and the reforms, the Western Region Rural Development Bank and Eastern Region Rural Development Bank generated profits in 2005. Improvements have also been seen in the 3 other regional rural development banks.

As per the restructuring program, privatization was completed for the Western Region Rural Development Bank in 2005. The bank is now owned by its clients (40 percent) and employees (1 percent), five commercial banks (23 percent), the government (17 percent), Nepal Rastra Bank (10 percent), and Nirdhan Utthan Bank Limited (10 percent). Although the privatization was successful, the performance of the privatized bank has not been very good. In 2005 it made a profit only due to income generated by depositing its share of deprived sector lending in other financial institutions.

The other profitable regional rural development bank, covering the Eastern Region, started its privatization program in December 2004. Under the program Nepal Rastra Bank will divest all but 10 percent of its 67 percent share in the bank. Of that 57 percent, 42 percent is allocated for the bank's clients, 5 percent for its employees, and 10 percent for the public. It is not known when the program will be complete.

Divestment of shares from the regional rural development banks is an important step toward developing private sector involvement in the microfinance sector. Still, as a token of its commitment to the sector, Nepal Rastra Bank will continue to hold 10 percent equity in all five banks, even after their privatization.

Source: Golden Jubilee 2005.

ants—compared with one for every 111,000 in the mid Western region (table 1.2). This regional disparity is mainly due to the fact that private commercial banks are concentrated in the Central region, which contains 46 percent of their branches.⁷

Private banks offer much better services than do public banks. Many branches of public banks cannot offer the same range of products as their private counterparts due to lack of computerization.⁸ They also have very long delivery times. Moreover, none of the public bank branches offers electronic payment facilities.

Making matters worse, non-branch infrastructure is largely undeveloped. In

2004 Nepal had just 27 automated teller machines (ATMs)—all but one in the Central region (with the other in the Western region). Except for branches, which are more expensive to operate due to security requirements, banks are only allowed to open extension counters. But such counters cannot be used to sanction loans.⁹

The government's push to increase access, by allowing the creation of specialized institutions and introducing new types of institutions, has also complicated things for Nepal Rastra Bank. The bank now has to supervise 17 commercial banks as well as 163 other financial institutions. In addition to the increased regulatory and supervisory burden, the creation of various tiers of financial institutions can potentially create regulatory arbitrage and result in a fragmented, vulnerable sector (IMF 2006b).

REMITTANCES ARE A MISSED OPPORTUNITY FOR THE FINANCIAL SECTOR

Nepal's official remittance inflows have been increasing continuously over the past decade, reaching \$908 million in fiscal 2005—equivalent to 12 percent of GDP (IMF 2006a). But informal remittances far outweigh formal ones. The International Monetary Fund (IMF) estimates that 80 percent of foreign remittances are informal: 78 percent through migrants, their families, and friends, and 2 percent through the informal system (*hundi*).¹⁰ Informal channels dominate largely because 90 percent of remittances come from India, whose proximity and porous border facilitate informal channels (Khatiwada 2005). The importance of informal providers is also confirmed by the 2006 Access to Financial Services Survey and the 2003/04 Nepal Living Standards Survey II, which found data of a similar magnitude.

Among formal remittance channels, money transfer operators are the largest. Since these operators were allowed to enter the market in 2001, formal remittances have tripled. But the presence of money transfer operators remains limited on the India-Nepal corridor due to regulatory obstacles in India. Still, thanks to simple procedures for establishing and expanding them¹¹ and their more favorable exchange rates,¹² money transfer operators have grown rapidly in number and importance. Although no data exist on the various formal channels, this point is supported by both the Access to Financial Services Survey and Nepal Living Standards Survey II.

Both global (such as Western Union and MoneyGram) and national (such as International Money Express and Prabhu Money Transfer) operators have entered

TABLE 1.2
Inhabitants per bank branch by region, 2005

Region	Number
Eastern	70,954
Central (incl. Kathmandu)	49,617
Western	57,444
Mid Western	110,714
Far Western	100,654

Source: Nepal Rastra Bank 2006.

BOX 1.5

***PRABHU MONEY TRANSFER:
AN INNOVATOR IN NEPAL'S REMITTANCE BUSINESS***

The group to which Prabhu Money Transfer belongs started operations in 1991 with the establishment of a travel agency. Then in 1996 it established an agency specializing in sending workers overseas, and in 2002 it established Prabhu Money Transfer. Prabhu has contact offices in the Gulf countries, Hong Kong (China), Israel, the Republic of Korea, the United Kingdom, and the United States. Prabhu is Nepal's largest remittance company in terms of number of transactions (followed by Himalayan Bank and International Money Express). It transfers the equivalent of \$16 million a month—80 percent of which come from the Gulf countries.

Prabhu Money Transfer has 125 payout locations across Nepal (branches or agents), some in remote areas such as Dang and Myagdi. Even in remote areas, payments arrive on the same or next day. Prabhu usually has one agent per city (as opposed to Western Union, which often has many agents per city). Prabhu competes with international money transfer operators on price: for a \$1,000 transaction, Prabhu is about \$35 cheaper than international operators. Prabhu has also developed a partnership with Chhimek Development Bank, a microfinance development bank that acts as its agent in 18 locations.

In addition, in 2006 Prabhu established a finance company targeted at remittance senders and receivers. This company plans to offer foreign employment loans and to use Prabhu's agents in recipient countries to monitor them. It costs about \$1,000 to secure an overseas job, with the staffing agency usually requiring a 25 percent down payment. Prabhu's finance company will accept nontraditional collateral, such as group guarantees. In addition, it plans to tap into the deprived sector lending window of commercial banks to finance these loans.

The finance company has also proposed offering deposit accounts in Nepal for foreign workers. Such accounts would allow such workers to save money at home so that they can build savings for when they return. Workers would be able to open such accounts from abroad and wire remittances directly into them. The company advertises its services through newspapers and leaflets provided to workers; it also runs a staffing agency. In addition, Prabhu organizes cultural events in countries with large communities of Nepalese workers.

Prabhu's finance company is also considering other innovations, including electronic banking, running its operations every day of the year, and introducing credit and debit cards. The company plans to open about new 10 branches over the next two years, focusing on localities that traditionally send workers overseas. Just five months after its opening, the finance company had 1,000 accounts. The target is 5,000 by July 2007.

BOX 1.6

MICROFINANCE DEVELOPMENT BANKS ENTER THE REMITTANCE MARKET

Nirdhan Utthan Bank Limited, one of Nepal's largest microfinance development banks, has signed partnerships with several commercial banks—Nepal Investment Bank, Nabil Bank, Bank of Kathmandu, Laxmi Bank—that allow them to use Nirdhan Utthan's branch network for remittance services. (These banks have also developed such partnerships with international and national money transfer operators as well as foreign banks, such as Doha Bank.) Although Nirdhan Utthan has 43 branches, it offers remittance services in only 25. These partnerships provide the bank with additional income—it receives nearly half the commission from remittance transactions—and its clients appreciate having this additional service. Nirdhan Utthan provides the remittances in cash or bearer checks, based on the amount and the liquidity of the branch. Between February 2005 and July 2006 the bank conducted nearly 2,000 remittance transactions totaling \$686,000, with an average payment of \$344.

the market (box 1.5). Global money transfer operators have a broad agent network that includes commercial banks, local operators, and other companies (such as travel agencies). National money transfer operators tend to specialize in the main remittance corridors—such as the Gulf region and Malaysia—to Nepal. Interviews with money transfer operators have found that to remit funds from India to Nepal, special approvals are required from the Reserve Bank of India, and the process is cumbersome.

Other remittance providers include banks—including microfinance development banks (box 1.6)—and post offices. Banks offer basic remittance services through bank-to-bank transfers or bank drafts. Some banks serve as agents for international money transfer operators such as Western Union. Banks have also developed special partnerships with banks in remitting countries. For example, Nabil Bank, Himalayan Bank, Nepal Bangladesh Bank, and Nepal Investment Bank have partnered with Doha Bank to offer remittance services to Nepalese workers in Qatar. Still, banks are not large players in the remittance market. And the post office, despite its large network, is insignificant.

CHAPTER 1 NOTES

- 1 Unless otherwise stated, all the data in this chapter are as of mid-July (for the year indicated), which is the end of the fiscal year in Nepal.
- 2 Various other institutions complement Nepal's financial sector, including 18 insurance companies and specialized financial institutions such as the Employees Provident Fund and Nepal Stock Exchange. More than 100 branches of the Postal Savings Bank were created in 1977, but their activities have been very limited.
- 3 Development banks and finance companies offer almost all the same products as commercial banks, but have lower minimum capital requirements.
- 4 Appendix A provides an overview of the legal framework for the regulated microfinance sector; appendix B provides a summary of its performance.
- 5 The growth in deposits has been accompanied on the asset side by large growth (Nrs 75,289 million) in "reconciliation" accounts—indicating weak accounting and management information systems in the Agricultural Development Bank and a number of commercial and development banks.
- 6 Nepal Bank Limited and Rastriya Banijya Bank represent 35 percent of total deprived sector lending and they mostly lend directly (86 percent of their deprived sector lending is indirect). The 4 other banks that meet their target, they make 99.6 percent of their deprived sector lending indirectly.
- 7 Of Nepal's 75 districts, only 23 have a branch of a private commercial bank. Private commercial banks are concentrated in wealthier districts—17 of the 23 districts where private banks operate have a per capita GDP higher than the national average. Conversely, only 14 of the 52 districts where private banks do not operate have a per capita GDP higher than the national average.
- 8 For example, branches of public commercial banks often cannot offer real overdrafts (the most popular product for small businesses). In fact, they do not allow clients to use overdraft accounts for their businesses, because the branches are not computerized and have difficulties in calculating daily interest rates on overdrafts. Hence, while their clients receive overdrafts in theory, in practice they draw it down completely and use personal accounts for their daily business operations—thus paying interest on the full amount of overdrafts at all times.
- 9 Although mobile banking is not explicitly forbidden, it is also not encouraged by Nepal Rastra Bank.
- 10 Hundi is one of the names used to describe informal remittance systems used in the Middle East and South Asia. A typical hundi transaction involves the remitter, the recipient, and two intermediaries. The remitter makes payment in local currency in the sending country to a service provider. The provider contacts a partner service provider in the receiving country, who arranges payment in local currency to the recipient in exchange for a reference code given to the remitter by the provider in the sending country.
- 11 For money transfer operators seeking to obtain a branch or agent license, National Rastra Bank requires only that the licensee have electricity and a telephone line. Access to the Internet is not compulsory: if an agent does not have Internet access, it contacts the head office (using a toll-free number), which processes the transaction.
- 12 The central bank offers a higher buying rate, usually 15 paisa per \$1 more, than the lowest rate offered to money transfer operators by commercial banks.