

**A proposal
on
Credit Management of Agriculture Development Bank
Nepal**

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*In Partial fulfillment of the requirements for the
Degree of
Master of Business Studies (M.B.S.)*

**Butwal, Nepal
March, 2010**

INTRODUCTION

1.1 Origin of Banking:

Bank is financial institution that deals with monetary transactions. Bank collects savings as deposits from general sectors, invests this fund in productive sectors and earns interest. The term “Bank” has been derived from the Latin word “Bancus” which refers to the bench on which the banker would keep the money and its records. Some people trace its origin to the French word “Banque” and the Italian word “Banca” which means a bench used for keeping, Lending and exchanging the money or coins in the market place by moneylenders and moneychangers. After a long period, the word bench was pronounced as bank.

Now days, we have seen many branches of banks working in towns and villages. They offer different types of services to the people. In past days, the functions of bank were limited to acceptance of deposits and granting of loans to the public. With the passage of time, there is change in the concept of banking. The principal types of banking in modern industrial world are commercial banking and central banking.

Banking plays a significant role in the development of the economy. It provides an effective payment and credit system, which facilitates the channeling of the funds from the surplus sending units (savers) to the deficit spending units (investors) in the economy. Bank is the financial institution that is mainly confined to finance for the development of the trade, commerce and industry. The banking services now a days perform the essential and valuable function for the development of the nation.

Some of the definitions of bank given by different writers are as follows:

According to Kent, “A bank is an organization whose principal operation is concerned with the accumulation of the temporary idle of the general public for the purpose of advancing to other expenditure.”

As per Oxford dictionary “A bank is an establishment for custody of money which it pays out customers order.”

According to Crowther, “The bankers business is to take the debts of other people to offer his own in exchange and thereby create money.”

According to Sayers, “A bank is an institution whose debts (bank deposits) are widely accepted in settlement of their people’s debt to each other.”

A bank is an institution which deals with money by accepting various types of deposit, disbursing loan and rendering other financial services. Because of providing wide range of services, banks are essential.

1.2 Historical Background of Banking:

In previous days goldsmiths, merchant and moneylenders were the ancient banker of the world as well as of Nepal. In 1175 A.D. ‘The bank of Venice’ of Italy was established as the first banking association in the world. Then after that “The bank of Barcelona” was established in 1401 A.D. in Spain. ‘The Bank of Bombay’ in India in 1840 A.D. ‘The bank of Bengal’ in 1843 A.D. ‘The Bank of Madras’ in 1843 A.D. was established. They were known as presidency bank and later in were established as “The imperial Bank of India” in 1921 A.D. In 1955 A.D. "The imperial bank of India" was altered and name as `State Bank of India'(SBI).

In 1933 B. S. for a sample banking transaction during the tenure of the Prime Minister Ranodip Singh "Tejarath Adda" was established in Nepal. And this was first step that was led to the institutional development of banking in Nepal. "Tejarath Adda" never used to collect deposit but instead it used to give loans to employees and public against the bullion. In 1994 B.S. Nepal Bank Ltd. Was established as first commercial Bank.

Nepal Rastra Bank was established in 2012 B.S. as a central bank of Nepal. It has been functioning as the government's bank and has contributed to the growth of financial sectors. Nepal Rastra Bank had some limitation so to copy up with the limitation. Rastra Banijya Bank was established in 2022B.S.The above mentioned is commercial bank performed commercial transactions only. It didn't give importance to-the service motive. Since our country is and agriculture country, and despite of being Agricultural country, our farming system is traditional one. Using traditional system, it involves more cost and less yield. So to overcome some problem, scientific agriculture system is imperative. It involves financial requirement and specialist to the field. To meet these ends, Agriculture Development Bank was established in 2024 B.S. and other bank was established then after.

1.3 Background in Nepal Context:

Nepal is a small landlocked country surrounded by India in the East, West and South and China in the North. The area covered by Nepal is 147181Sq. Km. It is one of the least developed country in the world. Nepal is very rich in natural resources and scenic beauty. It is the second richest country resources in the world after Brazil. Geographically, Nepal is divided into three regions: Himalayan region, Hilly region and Terai region. These three regions are totally different from one another with respect to climatic condition, living style economic condition etc. Nepal is also divided into five development regions, fourteen zones and seventy five districts. The reason behind these divisions is the balanced economic growth of the country.

Geographically, Nepal is at disadvantage in that it is a landlocked country, which has greatly hindered its foreign trade situation. Nepal has an agro-based economy; more than 80% of people are engaged in agriculture. Agriculture is the backbone and foundation of Nepalese Economy. But it is traditional and fully depends upon monsoon. Out of total land of Nepal, only 26.5% of land is cultivable. Again, among this cultivable land only 20% of it is suitable for farming. Also there is irrigation problem in Nepal. Only one third of cultivable land is provided irrigation facility. In this difficult situation, agriculture sector has to cover the whole economic condition. It means agriculture plays a significant role in order to develop the whole economy.

In Nepal; agriculture is it is only the basis of industrial development It plays a vital role in economy in different ways like, it meet food demand of increasing population, provides maximum necessary raw materials to the industries, provides employment to the 80% of the qualified and active population and supply 40% of GDP in the fiscal year 2063/2064. Important thing is that our economic growth totally depends upon agriculture sector.

Since Nepal is one of the least developed countries, growth of the industrial sector is very slow. This happens due to the different and difficult topography. In this situation it is only the sector, which provides opportunities. Even though it is backbone and mainstay of the whole economy, it is traditional type and it is not much developed. Farmers are used Traditional

techniques. There are - many problems like lack of modern technology, efficient and effective source of finance, lack of modern equipments and tools, chemical fertilizers and seeds, inadequate and unreliable irrigations facilities and many more. There are some other major problems, which are playing vital and dominating role in every society, and they are poverty and lack of education. The result of all these are low level of production, low level of income, low saving and low level of investment.

Besides being a major source of food supply, the role of this sector is important for the raw materials supply for export and industries. But it couldn't contribute to bring continuity in the supply of raw materials required for agro-based industry thereby increasing the export of agriculture production. To end this, it is necessary to deliver adequate agriculture inputs. Technology and agriculture credit on timely basis by making adequate and scientific improvements on the existing system. Similarly it seems necessary to pay special attention on crop development in accordance with agriculture research, irrigation, geographic conditions and diversification. Because of unreliable and inadequate irrigation facilities, agriculture sector is still depending on monsoon.

Most of Nepalese people are landless. More than 80% of the people have less than 1 Hecter of land. Because of rapid growth of population, there is more pressure of population on land. Currently agriculture production doesn't only depend upon natural resources, climate but also depend upon various tools used by the farmers. Nepalese agriculture has been suffering from different problems.

In Nepalese society, Nepalese people still depend upon non-institutional money lending organization such as local lender called land lords, merchants and Mahajans. They charges very high interest rates and called back whenever they like, there is no fixed term and conditions while lending and borrowings. Because of high interest rates, borrowers are unable to repay the loan in fixed time. So their small amount of loan increases day by day and their whole life passes with debt. This all happens because of the absence of guarantor, terms and conditions.

There is "saying in Nepalese context" Farmers are born in debt, live in debt and die in debt.' This system force them to transfer their property whatever they have to the landlord. This is another major problem, which creates obstacles in the agriculture development process.

For improvement of agriculture production by adopting modern methods of agriculture operation, huge investment is required .A person doesn't use modem methods due to the lack of purchasing power. To solve the financial problems of the people and develop the agriculture sector, Agriculture Development Bank was established under the Agriculture Development Act. The main objective of the bank is to provide financial support to the required people for the development of agriculture sector.

1.4 Focus of the Study:

This study is basically focused on the credit management of ADBN and its overall financial performance. Since its establishment as compare to other banks and agriculture credit is the nucleus this is system of farm operation to increase the output of agriculture products. It provides a flow to the system averting, which would have occurred due to the lack of monetary capacity of the farmers. During its established ADBN has been working as a premier rural tending institution with market share of more than 80°0 of rural institution credit in Nepal. To increase productivity, agricultural credit is most essential. Most of farmers in Nepal are suffering from poverty. They don't have essential financial resources, invest able surplus with them being almost nil, credit has to play a dominant role in enabling them to participate in new technology.

Financial ratio analysis is a widely used tool of financial analysis and its performance of the banks credit management and its policies are usually focused such that bank becomes financially sound enough to meet investors demand and be the safe place for the people to deposit their saving providing them with good customer service Financial analysis tries to analyze profitability income and expenditure, sources and uses of funds of these institutions. Financial ratios are evaluated with the help of accounting g data and financial statement like balance sheet and profit and loss accounts. With the help of these tools we can measure

the liquidity, profitability, leverage and activity in rational way. On the other hand, the study also analysis the overall credit policy of the bank and analysis the effective use of its policy and monitoring of investment and its documentation part as per the NRB rules.

1.5 Introduction of Agriculture Development Bank:

Agriculture is the backbone of Nepalese economy. It is the major source of food supply to the population. It provides raw materials to the small industries and agriculture as well. It is the major source of livelihood for a majority of the countries population. Agriculture has major contribution in GOP i.e. about 60%. But agriculture sector in Nepal faces different problems like lack of proper irrigation facility, lack of improved seeds, lack of adequate capital, lack of fertilizers and insecticides, lack of agricultural tools etc.

Development of agriculture sector is very important. Thus, to overcome all the problems of agriculture and to uplift the living standard of the rural people, first Cooperative Bank was established in 1963 A.D. (2019 B.S.) which later converted into Agriculture Development Bank in 1968 A.D. (2024 B.S. Magh 7) under Agriculture Development Act 1947 A.D. The land reform Savings Cooperative, a similar institution established in 1966 A.D. was merged with the bank in 1977 A.D. to avoid the further possibility of over financing. Since then, Agriculture Development Bank is only the Bank which provides services in the agriculture field.

The bank has been working as premier rural institution since last three decades contributing more than 80% of share in meeting institutional needs in Nepal. It is an autonomous organization under the supervision of the Ministry of Finance of Government of Nepal. Under the ADBN Act, the bank committed to raise the economic conditions of the farmers by providing credit and other necessary inputs in the easy way.

The act also empowered the bank to finance small farmers on group liability and expand its scope of financing to promote cottage industries. It has permitted the bank to engage in commercial banking activities for the mobilizing of domestic resources.

The ADBN is only development bank, which has been adopting a 'Three

Window System' to operate its activity in easy way. They are 'Development Banking', 'Small Farmers Development Programs' and three is 'Commercial Banking'. Development Bank works for the development of rural as well as agriculture sector. Small Farmers Development Programs committed uplift tile economic conditions of target groups by providing credits and other inputs and educational programs. Like wise Commercials Banking operates its transactions in urban areas to collect capital to fulfill the credit demand of rural sectors

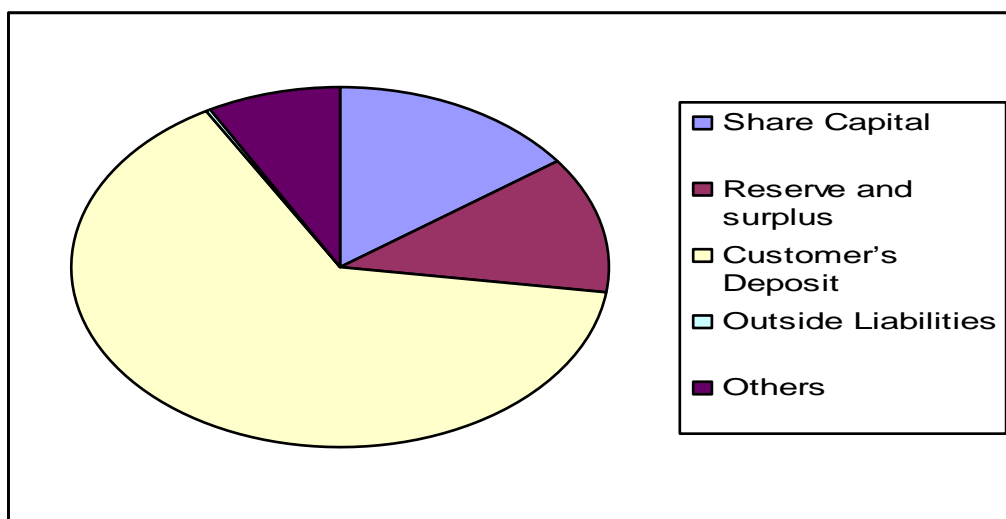
Rural Development Bank, Co-operative Savings bank, Currency exchange bank, Small farmers development project (SFDP) as program of ADBN, are other types of banks working in the various economic sectors. The major sources of financial resources are as under. (By 2007)

Table No. 1
Financial Sources of Bank

S. N.	Sources	Amount in Percentage
1	Share Capital	14.8%
2	Reserve and surplus	12.34%
3	Customer's Deposit	63.97%
4	Outside Liabilities	0.073%
5	Others	8.084%

Source: Annual Report of ADBN

Figure No. 1
Pie Chart Showing Sources of Capital Generation
Financial Sources of Bank in %



Source: Table No. 1

Agriculture Development Bank at a place

Established Date: 2024 B.S. Magh 7

Share Capital 9,27,80,00 (in thousands)

No. of offices: 236

No of SEDP: 310

No of transferred program:

No of employees: 3856

Investment till now: 5,473,229 (in thousands)

Income till now: 1,966,734 (in thousands)

Expenditure till now: 1,571,282 (in thousands)

Deposit till now: 32,614,732 (in thousands)

1.4.1 Objectives of ADBN

To overcome the financing problems faced by the co-operative banks and individual, The ADBN came into with the followings objectives:

- a. To attain production, credit. Irrigation and marketing loan to the co-operatives and rural banks.
- b. To encourage the establishment of rural banks.
- C. To provide loan to individuals and other for the purchase of agriculture inputs, tractors and agriculture implements. It also finances for construction of Govar-Gas plants.
- d. To provide loan to individuals to start agriculture business like poultry farming, dairy production, sheep farming and animal husbandry.
- e. To provide banking facilities to co-operatives, individuals and others in the remote areas.
- f. To protect the farmers from high interest rates and provide them timely and adequate credit according to theirs needs and purpose of investment.

1.4.2 Functions of ADBN

To solve the financial problems, to support the farmers to uplift their living standard as well as the economic growth of the country,

ADBN was established with border aspects .To fulfills it's objective, it has been operating followings activities:

- a. Provide short, medium and long term agriculture loan to individual fanners, group of farmers, corporate bodies and village committee.
- b. Provide loan and technical services for the purchase of inputs and capital items such as fertilizers, insecticides, feeds, farm machinery, irrigation equipment, canal construction, boring of pumps sets and sprinklers.
- c. Provide loan for the purchase of livestock.
- d. Finance for the agro-based small cottage industries.
- e. Finance of cold storage, ware housing and other marketing facilities.
- f. Finance for capital goods necessary for the development of alternative sources of energy like solar energy, bio-gas and wind energy.
- g. Organize and Supervise the Small Farmers Development Programs to increase the existing knowledge of the farmers about modern techniques of agriculture.
- h. Under take banking functions to generate resources.
- i. Provide training to the beneficiaries and the bank staff to support each other.
- j. Collect capital to mobilize domestic resources
- k. Credit to customer.

Table No. 2

List of Branches office of ADBN

S.N.	Districts	No. of Branches
1	Biratnagar	23
2	Birgunj	19
3	Birtamode	13
4	Bhairhawa	24
5	Dhangadi	27
6	Ghorahi	11
7	Janakpur	16
8	Kathmandu	33
9	Nepalgunj	31
10	Pokhara	31
11	Rajbiraj	20
		233

Source: Annual Report of ADBN

1.6 Statement of the Problem:

Nepal is a small country with limited market. Economic condition of the country is degrading. Due to conflict since 2052 B.S. overall economic sectors either manufacturing or commercial, have undergone heavy losses. Agriculture sector is the basic sector that must be developed for economic development of the country. About 80% of people in Nepal are engaged in agriculture and agriculture contributes about 60% of the country's GDP. For the development of agriculture sector, ADBN plays a superior role in the country. Since 1967 A.D. it has launched so many programs in the sector of rural poverty.

ADBN has a huge amount of loan for the agriculture development since 1967. ADBN has disbursed millions of loan for various purposes like cereal crops, cash crops, tourism, livestock, cold storage, horticulture, agro-tools etc. agriculture sector of Nepal is mainly comprised of four sub sectors.

-) Agriculture
-) Irrigation
-) Forestry and
-) Land Reform

The growth of agriculture sector has always been dismal and fluctuating. Saving and investment capacity of Nepal is becoming poor day to day because of decreasing agriculture production and increasing population. In this context, the agriculture product is must necessary to promote all over development of the country. A number of farmers under both the project and controlled groups are facing starvation due to insufficient production and opportunity of operating income from non-agricultural sector. So, high priority should be given to agricultural finance programs and policies designed to increase the agriculture production.

ADBN is the main specialized bank in agriculture financing in Nepal. Many other institutions are also financing in agriculture sector but their contribution is comparatively very low because they are not meeting the higher demand of agriculture loan. The financial position of ADBN affects the total agriculture finance of the nation.

On the other hand, unsuitable political situation greatly affecting the nation's economy as well as bank's positions. So the government must take corrective actions to make political stability and also make program and policies to remove

weakness of the financial position of bank for its perpetual growth and development.

1.7 Objectives of the Study:

Undoubtedly, the role of ADBN in the development of the agriculture sector through the implementation of different plans and programs is the praise worthily one. The basic objective of the study is to have true insight into the credit management aspect (Practice of disbursing loans and recovery) of the ADBN. This aims to examine its efficiency, effectiveness, systematization and sincerity in disbursing and recovery of loan as well under the supervision of the Ministry of Finance of Government of Nepal. However, following are the objectives of this study:

-) To evaluate financial position of bank.
-) To analyse the strength and weaknesses of the bank in terms of liquidity, profitability, leverage and other ratios.
-) To analyse the progressive statement about the loan activities of the bank.
-) To point out the major contribution of ADBN in the agriculture sector.
-) To know the effectiveness of the banks credit management in mobilizing its resources.

1.8 Significance of the study:

ADBN has facing many more financial problems relating to loan like recollection, relating better investment, relating to investment in non earning assets etc. To over come the above problems financial analysis is key tool. It gives the clear vision about the agricultures bank's current position and helps to make the better prospective plan and policies for its perpetual growth and success. On the other hand, the studies also help shareholders, investor's and other creditors to identify the productivity of their funds in ADBN.

Besides, these studies will also help the mgmt. of the bank to analyze the effectiveness of their credit management. And its policies of the bank in comparison to the government and central bank to formulate the new credit policy.

1.9 Limitation of the Study:

Every study has its own limitation. Following are the limitations:

-) This study is mainly concerned to credit management of ADBN which would otherwise be in descriptive form.
-) This study is only based on five years data.
-) The study is based only on the major financial statements like balance sheet, income statement, profit/loss A/c and cash flow statements.
-) It is based on the annual report published by ADBN.
-) Time value of money has been fully ignored while analyzing.
-) There is lack of sufficient time and resource.

1.10 Organization of the Study:

The whole study is divided into five different chapters as follows:

This research has been organized into five chapters the title of the chapter is listed below with brief description of their containment

Chapter 1:

It contains the introduction part of research. In introduction part background, Focus of the study, Statement of problem, Objectives of the study, Significance of the study and limitation of the study are included.

Chapter 2:

It contains review of literature. Here theoretical analysis and brief review of literature is available It also includes discussion on the conceptual frame work and published and unpublished master degree thesis.

Chapter3:

It explains about research methodology .It Includes Research design, Population and sample, Sources of data, Data collection procedure, Methodology of Analysis and definition of statistical Tools.

Chapter 4:

It deals with the presentation and analysis of data to indicate qualitative factors on saving of deposit using both financial and statistics tools and techniques.

Chapter 5:

It includes summary, findings, conclusion and recommendations. Also at the end of this research Bibliography and Appendices are attached.