

CHAPTER - I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Nepal is a landlocked country, which lies in South Asia with the total land area of 147,181 sq. The total population of the country is 23,151,423 according to census of 2001., (Nepal Population Report, 2000:11) Agriculture is the backbone of Nepalese economy. About 38% of the country's total population are below the line of poverty., (Sharma, 2060: 54) However, non-government sources claim that this percentage is high and about 70% of the people are under the national poverty line., (Thakuri, 2003:41)

Being rich in natural resources, the income standard of people is very low. Development of agriculture depends upon the state priority and commitment. Concerned authorities are not serious on this issue. Similarly, the development of banking sector leads to the development of industry and economy as a whole. Development of banking sector is not satisfactory in Nepal.

The world is presently becoming more integrated with globalization. Globalization gives nations the various opportunities to increase their product efficiency and attain their comparative advantage. This reward has been attractive to many nations and can be seen by the even increasing membership in the world trading organization and advance in technology and communication.

In this regard, the kingdom of Nepal has also pursued membership in this organization for many years.

During the fifth ministerial conference at Cancun Mexico on 11th September 2003. The membership of the kingdom of Nepal into the World Trade Organization(WTO, 1003) was approved. Nepal subsequently notified the WTO that the process of ratification and acceptance of the Protocol of As session had been completed in parliament on 23rd April 2004 become the 147th member of the rule based international organization (WTO2004) membership in WTO entails both general and negotiated commitments whose aim is for transparency and stability of international trade for an overall review of the organization.

In a similar vein, Nepal's membership in the WTO entails a whole range of negotiated commitments made during accession process while analyzing the special impact if those specific commitments are outside the preview of Nepal Rastra Bank, the nature of those commandments will have an effect on trade and payments with impact on the demand and supply of foreign.

Banking development and agricultural reform is very necessary in the current period. So, a brief description of pioneer banks is done here. Nepal bank Limited is one among them, which has started the banking system in our country. Agriculture Development Bank is other which is mainly responsible for agricultural development of the country. These two financial institutions play great role in economy.

Commercial banks are those who pool together the saving of community and arrange for their productive use. Nepal Bank Limited is the first commercial bank of Nepal. It was established on September 15,1937. It was established with the view of collecting scared saving of the people and uses it for the productive areas. It also plays a great role for the development of trade and industry. In an initial stage its total authorized capital was one million. NBL was now on 69 years of successful operation, passing many ups and downs in the past., (News Bulltein, 2006:1) On past period, NBL was able to take the role that economy demand and the service the people expect. It is a matter of great pleasure that it is now competing with dozens of commercial banks with international technology and manpower. It can be said that NBL was established for fulfilling the limited objectives of Rana's regime in the past. Today, the banking and finance business of NBL is very vast, wide and competitive. NBL is now in high competition between 16 commercial banks,60 finance companies and 26 development banks. (Banking& Financial Statistics, 2006:45) All these institutions are engaged in the same task, which it had done alone in the past. NBL is now aiming to perform these role in an effective manner and in different way. NBL performed the role of central bank and commercial bank at one time in the past. It was established before the establishment of central bank. Its role in the past new and challenging because our country economy was based on agriculture. Similarly, NBL had to maintain the account of Nepalese and Indian currency individually in the past. NBL remain as only

commercial bank prior to the establishment of Rastraiya Banijya Bank in 1966. NBL had started modern banking system since that period. Now every people can easily understand the meaning of cheques, drafts, remittances, loan and so on. All these terminologies were introduced by NBL. NBL is now committed for expanding the service sector and effectiveness with changed monetary infrastructure. The effectiveness of bank remains largely upon prompt service that customers demand. So, NBL is planning to computerize its 44 branches in near future almost of them have already started their function., (Corporate Planning Department & Marketing Department, NBL, 2003) introduced cheap auto loan, housing loan and margin loan from the fiscal year 2063/064.

The economy of Nepal is least developed. This is due to low infrastructure, education and agricultural development. Without the development of agricultural sector, the development of other sector is impossible. Most people of Nepal are poor and they depend upon agriculture. The distribution of land is not efficient. More that 60% of people are directly or indirectly engaged on agricultural farming and agro-based industries. Agricultural sector alone generates 37.4% of total national product.,(Economic Survey, 2002:11) Thus, the agricultural sector have great role on economy. Considering all these facts, government of Nepal established Agriculture Development Bank on January 21, 1968 under the Agricultural Development Act, 1967.

Being engaged in national development sectors, ADBL started commercial operation in 1984 by the first banking branch at Ratnapark. The bank has expanded its urban banking operation through 47 banking offices in major urban areas of the country.

ADBL mainly deals with the problems and prospects of agricultural sector. Being a financial institution it is mainly concerned with farmers. Passing 38 years of successful history ADBL achieve a lot of progress.

Contribution of NBL is great for the current progress of banking and financial sector in Nepal. Ignoring the development services, the focus is on commercial banking services of ADBL for full period of study. In other word, a commercial banking service ADBL is only taken into consideration and study is forwarded. Besides, every attempt is directed towards

making research comparative and analytical. As our topic is related with loan, focus is concentrated toward it.

1.1.1 Background of Nepal Limited (NBL)

Nepal Bank Limited (NBL) is the first and oldest bank in modern banking history of Nepal. The modern banking history in Nepal has begun since 1997 A.D. The establishment of Nepal bank Limited there were no financial institutions operating modern banking transaction. Industry, business and commerce were really in a pity condition. In short, Nepalese economy was facing and suffering from many economic and banking problems in absence of modern banking institution and such modern banking facilities were of an urgent need for socio-economic development of the country.

Keeping their views into consideration and in order to fulfill the demand and need of a modern banking transaction and to remove all the inconveniences facing by the country. Nepal Bank Limited was established in 1937 A.D. under the Nepal Bank Act 1937 as the first commercial bank of Nepal.

The main objectives of setting up the Nepal Bank Limited under the circumstances prevailing at that time are highlighted in the preamble of the Nepal Bank Act 1937, that states.

In the absence of any bank in Nepal, the economic progress of the country was being hampered and causing inconvenience to the people therefore with the objective of fulfilling that need by providing services for the people and for the betterment of the country this law is here by promulgated for the establishment of the bank and its operation.

Accordingly, Nepal Bank Limited, the first commercial bank in Nepal, was originally incorporated under a special character the Nepal Bank Act 1937 with the objective to render the services.–

- To accept deposits.
- To extend credit facilities for the promotion of trade cottage industries, agriculture and other many business sectors.

- To render customer related services i.e. issue of bill of exchange hundis ets.
- To invest in government bond and securities.
- To perform agency functions and to act as bankers to the government.

As stated above the establishment of Nepal Bank Limited contributed to great extent towards boosting agriculture trade and industry in the country along with relieving the people especially to the poor, from the exploitation conflict indigenous moneylenders.

Nepal Rastra Bank (NRB) was established as a central bank on April 26th 1956. The bank was empowered by the act to have direct control over banking institutions within the country. It also took over the treasury functions of government treasury and started issuing currency in 1959. The functioning of Nepal Bank Limited, first commercial bank and its pioneer contribution has not been in significant. In the absence of central bank, the first commercial bank to manage apart from commercial banking function portions of the accounts of the government. Since the central bank was founded only in 1956, the government had entrusted this bank for the entire business of currency notes exchange and other concerned activities. Rastra Banijya Bank(RBB) was set up in the public sector in 1966. The second commercial bank Rastriya Banijya Bank had also opened number of branches in difference parts of the country.

Key Objectives of Nepal Bank Limited

Nepal Bank Limited has the following objectives:

- Continue to maintain lending share of banking sector with a significant presence in all major geographical areas in the country.
- Provide competitive and customer oriented banking services to all customers through competent and professional staffs.
- Reclaim leadership within the national financial community.

1.1.2 Background of The Agriculture Development Bank Limited (ADBL)

Agriculture Development Bank is a kind of co-operative bank. It helps different kinds of agriculture sectors of country to develop agricultural business and organization. ADBL was established in 2024 B.S. The economy development of our country depends on agriculture sectors, so that ADBL supports different agricultural sectors for economic development.

Agriculture Development Bank significant contribution to support country's economic system and also agriculture development efforts. In established time 2024 B.S. , the authorized capital of Agriculture Development Bank was 50 millions. During the past 40 years the bank experienced many ups and down. At present condition it has an authorize capital near 2,000 thousand million and paid up capital 1,004.4 thousand million.

The sources of capital of ADBL are:

- Share Capital
- Deposited Amount
- Debenture etc.

Agriculture Development Bank is the foundation of the country's overall economic development. But to attain agricultural development agricultural credit is an important policy instrument more so in the context of Nepal where bulk of the farmers are small and agriculture continues to dominate their livelihood. The demand for agricultural credit is ever increasing to meet the requirements of agricultural operations and improving productivity and livelihood of farmers.

Agriculture credit has always been an important factor in improving agricultural productivity and strengthening the rural economic. But in recent year the operational mechanism of agriculture credit service is getting more complicated by emerging newer challenges that are changing the context in which Nepal's rural economic landscape operates. The need to address rural credit issues has now become more vital amidst the increasing forces of globalization and economic liberalization on the financial and agricultural markets.

In this context, the Agriculture Development Bank Limited (ADBL) was established in 1968 with an objective "to provide quality banking and financial services to clients through the adoption of a market-driven strategy delivering sustained and competitive return on investment" [(CTI) 05/06]. The bank performs a variety of functions including the supply of

credit to support to poverty alleviation efforts of the country. The ADBL has come a long way; against many odds, with a network of 242 offices spread over different parts of the country (05/06) around 74 percent of its offices are involved in agriculture to meet 52.8 percent of the total credit requirement estimated to be around Rs.100.75 billion (at current prices).

Major Activities of ADBL

- Commercial Banking Activities
- Development Financing Activities
- Small Farmers Development Program (SFCL)
- Small Farmers Co-operative Ltd. (SFCL)
- Sana Kisan Bikas Bank Ltd. (SKBBL)

Key Issues of ADBL

- Limited competency to conduct empirical research.
- Lack of monitoring mechanism in place.
- Weak corporate governance and control mechanism.
- Lack of human resources of development plan.

1.2 FOCUS OF THE STUDY

NBL and ADBL are two large banks. The study becomes very vague if their whole matters are analyzed. So, the focus is on loan disbursement, recovery and outstanding. Each and every topic are fully tried to compare. But due to the nature of data and lack of updated and necessary one, they are presented differently. Loan disbursement refers supporting certain project with financial need. It is very essential for development of any sector. Recovery is essential as disbursement for granting additional loan and for smooth running of business and nation. Loan that is committed to pay back is known as outstanding. This ration is always supposed to be small. Full study will be related with these topics.

1.3 STATEMENT OF THE PROBLEM

NBL and ADBL is two oldest bank of Nepal. Nepal Bank Limited is committed for economic and industrial development of the country. Similarly, Agricultural Development Bank is responsible for agricultural reforms of the country, by innovating new tools and techniques on farming and banking.

But these banks do not have successful results and operations. Due to tough competition and lack of peace and political instability, these banks are facing problems on loan disbursement and recovery patterns due to lack of supervision. The loan granted by these banks for one purpose is used for another. Similarly, the lending procedures are cumbersome and lengthy. The terms, conditions and language are unfamiliar to the general people.

The problem of the study is directed to find the solution of following questions:

- Purpose and sector: For what purpose and in which sector the loan of NBL and ADBL are mobilized? Does there exist a relationship on loan disbursement and recovery of NBL and ADBL?
- Process : What process is adopted by NBL and ADBL be for granting loan? Do they both follow same?
- Comparison : Can a comparison between NBL and ADBL be done?
- Relationship : Does there existing a relationship between the principal amount collection and outstanding loan on invested loan? Which bank has satisfactory performance?

1.4 OBJECTIVES OF THE STUDY

The general objectives of this research is to analyze, examine and interpret the loan disbursement and recovery practices adopted by Nepal Bank Limited and compare the same with Agriculture Development Bank.

The major objectives of the study are:

- a. To identify condition of loan disbursement & loan recovery system of NBL and ADBL.
- b. To examine present loan disbursement process of NBL and ADBL respectively.
- c. To analysis efficiency of new management on recovery of loan.
- d. To give suggestions and recommendations to respective banks.

1.5 RESEARCH QUESTIONS AND HYPOTHESIS

For the fulfillment of above mentioned objectives and for facilitating the research study mainly 3 questions are designed :

1. Whether there is a significant relationship between loan disbursement and recovery?
2. Whether there is a significant relationship between loan disbursement and outstanding loan? Between two which bank has satisfactory performance?
3. Can we make comparison between two banks?

1.6 SIGNIFICANCE OF THE STUDY

Banking development is a must for the development of a nation. Banks are backbone of economy. Our country is a developing country with agro-based economy. The distribution of land is not efficient. Actual farmers do not have sufficient land. Peoples who do not deal with mud have lot of land. Most land are uncultivated in the urban and sub-urban areas. Corporate and institutional farming is unknown in our context. Farmers hesitate to involve in economic activities. Farmers feel banking requirement and loan taking process is difficult and lengthy. In such a scenario, it is very difficult to analyze the banking activities with

agricultural performance. There should be a proper and rational relationship between agricultural sector and banking sector for the healthy economic development of a nation. Farmers must be familiar with interest rate, loan, cheques and drafts and so on.

In the present context, the study has large use. It can be advisable for the related financial institution in defining the appropriate rate of interest. Socio-economic factors and country's topography must not be neglected while decisions on such matters are done. This study may be useful to maximize the utilization of loan taken for specific purpose. Similarly it will help to mobilize the loan into productive area. Hence, it is clear that it has large use. Interested persons, researchers, policy makers, institutions and government agencies may be benefited from such a study. Furthermore, a comparative analysis helps to draw a mid-path for one who wants to minimize risk maximize the profit.

1.7 LIMITATION OF THE SUTDY

Every research has to be conducted with in certain period. This study will be related with financing of NBL and ADBL with reference to loan disbursement and recovery pattern. Furthermore, a comparison will be made between both. The following points will determine the certain limitations for the study.

- I. The focus is on loan disbursement and recovery pattern of NBL and ADBL. Only these aspects are touched by research.
- II. The study is based on primary as well as secondary data received from the concerned institutions.
- III. The study analyzes the data and information for 5 years. A consolidated trend for 5 years will not be sufficient for the work and accurate projection.
- IV. Some figure is compared using different method.

1.8 ORGANIZATION OF THE STUDY

The study will be organized into 5 chapters :

1. First Chapter : introduction

It will be sub-divided into eight heads. These are background of the study, focus of study, statement of the problems, objectives of the study , research question and hypothesis, significance of the study, limitations of the study and organization of the study.

II. Second Chapter : Review of Literature

It will be sub-divided into two heads. These are theoretical review and research review. Theoretical review will be concerned with origin of Bank, objectives of banks functional areas, major programs, types of loan, lending areas, interest rate, loan disbursement procedure, recovery procedure, security and margin requirements and terms and conditions to disburse loan. Research review will be related to various studies to the present study. It will be research studied during the period.

III. Third Chapter : Research methodology

It will be presented in the third chapter. Which will be sub-divided into introduction, research design, selection of the and topic of the study, procedure of data collection, data processing procedure, statistical tools used, variable studied and procedure employed.

IV. Fourth Chapter : Analysis of Data

It will be presented in fourth chapter which will be sub-divided into introduction, loan disbursement, recovery and outstanding purpose-wise loan disbursement, recovery and outstanding, miscellaneous analysis of research questions and major findings of the study.

V. Fifth Chapter : Summary, Conclusion and Recommendation

CHAPTER – II

REVIEW OF LITERATURE

2.1 THEORETICAL REVIEW

This study is concerned with loan disbursement, recovery and outstanding of NBL and ADB are taken on research work. So the following theoretical review of NBL and ADBL are taken for study.

2.1.1. Nepal Bank Limited

The modern banking system started in Nepal since 1937 after the establishment of NBL. The age of industrialization introduced after the First World War around the world. Nepal cannot be aloof from it. Nepal made friendship to the third world except India in 1934, and established office of legation in London, Gunja Man Singh was appointed secretary of that legation. Due to his innovation, international effect, national need and active government participation, NBL was established under Nepal Bank Law 1937. (Timalsina Yogendra,2003:3) Initially it was authorized to perform the role of central bank. After the establishment of central bank this role was handed over to NRB.

The starting branch of NBL was only one that is Kathmandu office. But after the phase of time, its branches increased and reached to 234 till end of December15,2007. But, due weak security situation because of 12 year long internal conflict, the overall economic activities gradually shrunk. This hampered the branch expansion program of NBL. It in reverse decreased its branches to 109 till period. Similarly, the number of coverage district decreased to 56 from 67 till date.

Table no. 2.1
Branches and cover of district of NBL

	Previous (December 15,1989)	Now (December 15,2007)
Branches	234	109
Cover of Districts	67	56

Source : *Corporate Planning and Marketing Department, NBL*

After undertaking of NBL management by ICCMT, it cut-off the regional office and adopted the policy of centralization central office now directly control, supervise and advice other branches.

NBL has branches in all development regions. Its branches in Kathmandu numbered 27, Biratnagar 28, Birgunj 16, Pokhara19, Nepalgunj 15, Kathmandu Banking Office 1.

Table no. 2.2
Number of branches of NBL

Kathmandu Region	27
Biratnagar Region	28
Birgunj Region	26
Pokhara Region	19
Nepalgunj Region	15
Kathmandu Banking Office	1

Source : *Corporate Planning and Marketing Department, NBL*

NBL was established will an authorized capital of 10 million. Out of total authorized capital 51 percent was owned by government and 49 percent by general public in the percent by public and 4.92 percent by NCC Bank.

Table no. 2.3

Share proportion of NBL

	Previous	Now
Government Share	51%	40.49%
Private Share	49%	54.59%
NCC	—	4.92%

Source : *Corporate Planning and Marketing Department, NBL*

Upto August 15, 2007 number of staff of NBL is 3001 and branches under computerization is 49.

2.1.2. Present Condition of NBL

Nepal Bank Limited (NBL) is pleased to announce complication of fiscal year 2005/06 with an operating profit of Rs. 705 million and net profit for the year of Rs. 1,399 millions. These results represent a 45.6% growth in operating results and a 151.9% increase in net profit over prior year results.

The net profit of the bank during the FY 2005/06 has reached Rs. 1,399 million. This net result includes extraordinary items like profit on sale of Standard Chartered Banks's shares provisions made for probable expenses and losses, provision for staff gratuity and accumulated leave and voluntary retirements scheme payments.

The primary reasons supporting the growth in operating results are increased interest income aided by strong recovery in NPA's tight control in overhead costs and a significant reduction in the cost of funds. These results reflect newly implemented systems and procedures installed during the restructuring project. The bank has been successful in collecting Rs. 1.5 billion (principal+interest) cash from NPA accounts during FY 2005/06. To cope with the existing competitive business environment, has introduced 3 new products normally Home Loan, Auto Loan and Margin Lending which will have a continuing positive impact as income in the years to come. Since the initiation of the restructuring project at NBL on July 21st, 2002 under the World Bank DFID Financial Sector Reform Project administered by the Nepal Rastra Bank. NBL has shown significant improvement in operating result. Prior audited financial statements show the bank posted a loss of Rs. 3,071 million during FY

2003/04. In the first year of the project itself the bank has posed operation profit of Rs. 3,071 million, 2003/04 a 92% reduction, 2003/04 NBL returned to sustainable profitability with net profits of Rs. 710 million and operating profits Rs. 511 million during FY 2005/06.

The bank has made a provision of Rs. 9,056 million till end of last year which sufficient to come all loan losses. Due to effective recovery of NPA's during FY 2005/06. The actual provision required might be less than the existing provision amount, which ultimately might increase the net profit of the bank. The information regarding actual requirement of LLP based on the loan classification is being gathered by the credit department and will be finalized within very short time period.

The management and staff a NBL are dedicated retuning Nepal Bank Limited to the prior leadership position enjoyed in earlier years.

2.1.3. Agricultural Development Bank

Agricultural Development Bank of Nepal established on January 21, 1968 under the Agricultural Development Bank Act 1967. The bank inherited the assets and liabilities of the co-operative bank which was established in 1973 the land reform saving corporation a similar institution established in 1966 was merged with the bank.

ADBL is an autonomous organization under the supervision of the Ministry of Finance, Government of Nepal. And the bank has been working as a premier rural credit institution since last three decades. ADBL has obtained license from NRB for a commercial bank of Class A category after fulfilling all the requirements and now it is registered as a public limited company with Company Registrar's Office. (Economic Survey, 2006 : 70) The bank has been undergoing its restructuring with the guidelines of banking and financial institution ordinance of Nepal Rastra bank under the financial sector reform program adopted by the government in order to develop it as a development oriented financial institution.

ADBL consists of 1 head office, 11 regional offices, 2 development main branches, 115 development branches, 62 development sub-branches, 5 regional training centers, 12 commercial main branches and 34 commercial branches. This study is only concerned with commercial banking of ADBL. Other development banking patterns are ignored in this study.

2.1.4 Present Condition of ADBL

At present ownership of ADBL is fully held by government of Nepal. Although it has equity capital base of NRs. 1.7 billion, it has huge negative net worth (NRs. 6 billion) as of mid-July 2005 mainly due to large accumulated loss.

ADBL co-operates from its head office located in Kathmandu and 11 regional offices across Nepal function as business center. Employee strength of ADBL stood at 3,554 divided into 1,291 officers and 2,263a desistants (Annual Report, 05/06). The ration of officers to non-officers being 1:75 The bank provides credit services broadly on short term (for the period of maximum 2 years), medium term (for the period of 2 to 7 years) and long term (for the period of more than 7 years) basis to individuals, co-operatives and corporate bodies. The profit loan distribution is heavily in favor of short (55% in 05/06) followed by medium term (42%) and long term (4%). The bank is undertaking commercial banking operations since 1985. Out of 242 total offices, many of which are located in Kathmandu valley, around 21% or 51 officers are found to be involved in commercial banking activities (Annual Report, 05/06) the activities of commercial banking loading operation. Between 07/02–05/06, loading increased at an annual rate of 10.6%(from Rs. 10–4 billion in 01/02 to Rs. 17.6 billion in 05/06). Likewise, the collection also increased by around 10.8% (from Rs. 9.63 billion in 01/02 to Rs. 16.8 billion in 05/06). The outstanding loan also grew at an annual rate of 11.1 percent during the same period from Rs. 6.4 billion in 01/02 to Rs. 11.6 billion in 05/06. The fact that the rate of growth of outstanding loan exceeding those of lending and collecting rate likely to create problems to the bank in future.

As regards deposits the fastest growth took place in current deposits which increased at an annual rate of almost 12% while the savings deposits increased at the rate of around 8.8 percent during 01/02 – 05/06. Fixed deposits showed an increase at the rate 98.3% during the same period and the total deposits at an annual rate of 8.8%

During the period of 01/02 – 05/06, credit delivery one of the principal function of the bank increased by 75% (from Rs. 8.9 billion to Rs. 12.9 billion in 05/06). The bank is providing short-term loans (55.5% in 05/06) more than medium (41.5%) or long terms (3%) loans.

Between 01/02 and 05/06 the term loan of 4.9% and long-term loan of 21.1% Despite the high cost of administering large numbers of small loan, the bank has apparently shown the tendency to resist providing longer-term loans to better off farmers.

Table no. 2.4
Number of branches of NBL

Head Office	1
Regional Office	11
Development Main Branches	2
Development Branches	115
Development Sub-branches	62
Regional Training Centers	5
Commercial Main Branches	12
Commercial Branches	34
Total Branches	242

Source : *General Service Division, Information and Publication Section, ADBL*

2.1.5 Objectives Of Banks (NBL and ADBL)

With full concentration of commercial banking services of ADBL, both banks have almost same objectives, they are

1. To provide loans for the purpose of expansion of trade, business, industries tourism and social services.
2. To protect the public from high rate of interest charged by other institutions and money lenders.
3. To provide banking facilities to all people living elsewhere in the country.
4. To perform other tasks directed by Nepal government and NRB for socio-economic development of the country.

Apart from above mentioned objectives establishment and profit making objectives of both are different they are:

Table no. 2.5

Comparative objectives analysis of NBL & ADBL

NBL	ADBL
1. Establishment first in Nepal. Effort is directed towards introducing banking system and collecting and granting deposit and loans easily.	Established with the objectives of initiating effective approaches to raise the economic status of farmers by making agricultural credit easily available.
2. Objectives of earning profit are not ignored.	Profit is not considered. Focus is on economic and status upliftment of people living in urban and rural area.

Source : *Information and Publication Section of NBL and ,ADBL*

After entering commercial banking services in 1984, ADBL also take into consideration of earning profit by serving customers.

2.1.6 Functional Areas Of Banks (NBL & ADBL)

Major functional areas of NBL and ADBL are not different. After commencing commercial banking services in 1984, ADBL achieve lot of progress. The common functional area of NBL and ADBL are:

1. Deposit Transaction

Accepting deposit is the main function of both banks. Mainly three accounts can be opened for this purpose.

- Current Account

- Saving Account
- Fixed Deposit Account

Special deposit account can sometimes be used.

2. Loan Transactions

Categorization of loan may be more depending upon management. NBL and ADBL both disburse loan on different headings. Some common headings are :

- Consumable, Foreign Employment and Overdraft Loan,
- Educational Loan,
- Industrial Business Loan,
- Service Business Loan,
- Construction Loan,
- Structure and Demand Loan.

3. Bank Guarantee

NBL and ADBL give bank guarantee to its valued customers. It is also their major functional area. Some common heading under this are :

- Bid Bond Guarantee
- Performance Bond Guarantee
- Advance Payment, Mobilization Guarantee
- LC Guarantee
- Miscellaneous

4. Miscellaneous

Some common functional areas under it are :

- Remittances
- Lockers
- Economic and Business Consultancy

2.1.7 Major Programs Of NBL and ADBL

2.1.7.1 Structural Reform of NBL

Nepal Rastra Bank and ICC Consulting Bank of Scotland (Ireland) entered into contract on June 17, 2002 for management contract of Nepal bank Limited for two years. Upon the expiry of this contract, it was extended twice once in July 22, 2004 for one more year and next on July 22, 2005 for two more years.

Although the status of bad loan recovery of NBL has not been satisfactory there have been progress in other fronts, such as it has been able to make some profit in FY 2006/07, improvement in the negative capital base, preparation of operation manuals of international standard and norms, and preparation of procedures and processes commensurate with international practices. This suggests that the progress is generally satisfactory. Nepal Bank Ltd. was incurring losses in billions of Rupees since year 2002 In FY 2004/05, loss was brought down to Rs. 258 millions and in FYs 2005/06 and 2006/07, it could earn net profit of Rs. 710 million and Rs. 1.73 billion respectively. After the initiation of restructuring, the capital base of NBL was negative by Rs. 9.80 billion at the time of mid-July 2005 declined to Rs. 8.90 billion in mid July 2006 and Rs. 7.13 billion in mid-July 2007. Although the bad debt has not declined to the extent desired, but the level of bad debt has definitely gone down. The non-performing assets of NBL in mid-July 2005 stood at 60.47 percent which steadily came down to 53.74 percent in mid-July 2006 and 49.64 in mid-July 2007.

On the loan recovery front, the management team in Nepal Bank Ltd. Could recover Rs. 7.61 billion in three and half years time. For many years in the past, NBL has not been able to complete audit of its account in time. With new management team at work, Nepal Bank Limited completed its audit reports for 2006/07, 2005/06, 2004/05, 2003/04, 2002/03 and 2001/02. Now the audit reports are updated. In order to improve human resource of NBL, they have prepared and implemented the management plan, human resources development plan, and capacity building plan. Staff needs assessment is completed. Likewise, it submitted its succession plan, In order to bring down the staff size, Nepal Bank Ltd. Implemented voluntary retirement scheme and reduced the staff new skilled staff, NBL has now staff strength of 2979 by mid-January 2007.

For improving the system from within, the management team introduced various management plans, policies and operational manuals particularly credit policy and

operational manual, assets liability management guidelines, assets liability management committee is formed. New accounting guidelines, new internal audit guidelines, new chart of account portfolio status and plan, budget plan and strategic plans etc. Were prepared and implemented. In order to modernize the banking services with the introduction of IT, computerization has been started in the bank branches, under this scheme 44 branches of Nepal Bank Ltd. Are planned to be computerized. By mid-January 43 branches of NBL have already been computerized.

2.1.7.2 Restructuring of ADBL

Under the restructuring process, three components are being taken care of namely financial restructuring organizational, restructuring and staff restructuring.

Under the financial restructuring, the ADBL has to work under Nepal Rastra Bank's prudential norms and improve in preparing financial statement and identify areas meeting the capital deficiency of the bank, so that it will not be difficult for the banks to work smoothly. Similarly, under the organizational restructuring, the bank earlier was working opening its offices without seeing viability, but from now onwards, the bank will strictly reduce unnecessary expenses, remove duplications and reform structural in changed competitive banking environment.

The bank, under the staff restructuring has already reduced 348 staff through the voluntary retirement scheme for which about Rs. 200 million was spent, according to the bank. The bank is also under going vigorous review of the past policies and making them compatible in the present context, other reform initiatives taken by the bank are on training for 700 staff in Nepal in the subjects namely lending, accounting, system, risk, management, internal audit, planning, information technology. Etc. The three-year long restructuring program of the bank is hoped to bring financial improvement as a whole making the bank stronger in the days ahead. Asian Development Bank's experts are also working in the bank in a bid to improve accounting, planning, improving auditing system, management, information system among others.

The bank has been successful to operate its branches through headquarters which are difficult to operate in rural areas. The bank has also started commercial banking activities

due to increased demand of the consumers and being emerged as a modern bank serving the poorest of the poor in the country. The total ADBL is also known as rural bank and has social responsibility as well and also donates to different institution.

The lending of the bank in rural loan portfolio comes to be over Rs. 81 billion, whereas it has already collected Rs. 61 billion. The outstanding loans to be recovered from the invested are Rs. 20 billion. Not only has this, the bank invested in small farmers development banks, irrigation and other projects. The bank has 500,000 borrowers and 600,000 depositors.

2.1.8. Types of Loan

Classification of loan is not an easy task. It can be many depending upon volume and nature of transaction of institution. Here we deal with loans mainly used by NBL and ADBL.

Classification of loan can be presented on the basis of security, time and use.

I. Loans Classified According to Security

Loans granted by bank may be secured and unsecured. Secured loans represent that which has marketable assets as collateral. It may include stocks, bonds, private property of persons, negotiable bills and trust receipts.

Unsecured loan means that which do not have sufficient collateral pledged for granting loan. But bank do not disburse loan without studying financial performance of person. If a person have good financial image, strong willingness to pay back loan and is believed by bank, loan may granted to him/her.

II. Loan Classified According to Time

It will be wise to classify the loan into short, medium and long term for loan classified according to time.

(A) Short Term Loan

It includes the loan for the period not exceeding 24 months. NBL and ADBL grant loan that have maturing period of 24 months. Speculative businessman seeks this type of loan to take quick advantage.

(B) Medium Term Loan

Medium term loan period may be extended to five years from two years. Businessman usually takes this type of loan for business promotion, trade expansion and meeting short period capital need. Middle-class businessman mainly takes this type of loan.

(C) Long Term Loan

Bank provides long term loan for the period exceeding 15 years to 20 years. This type of loan is very necessary for the smooth operation of business. For installation of plant, construction of building this type of loan is necessitated. Companies and other national and multinational institutions generally use this type of loan.

III. Loan Classified According to Use

Loan classified according to use can further be classified into commercial loan, capital loan and consumption loan.

(A) Commercial Loan

This type of loan is given to the businessman to make their productive use. Loan granted may be used for purchasing raw materials, machines, tools and equipments. Risk level is low in such type of loan.

(B) Capital Loan

Capital loan means the investment for long term assets that have long period use. It may include machinery, land, building, vehicles, etc.

(C) Consumption Loan

This type of loan does not help to prosper business, It is for individual use. Daily consumable product comes under it.

2.1.9 Lending Areas Of NBL And ADBL

Lending areas of NBL and ADBL vary from each other. Beneficiaries of NBL and ADBL programs vary from marginal person to institutional businessman. After study, the common lending areas are identified. They are :

(A) Overdraft

If the amount withdrawn exceeds the amount of deposit, and the presented cheque is considered good for payment, that facility is called overdraft. Bank gives this type of facility to its specified customers. This facility is given to current account holders only. It is risky. It is given to very trustworthy and loyal customers. The period of overdraft is usually 90 days. NBL and ADBL charge different rates of interest. In this type of lending, a specific project is not required. But alternative sources of income and collateral must be presented. It can be renewed after paying interest.

(B) Industrial Area

Industrial area refers to the loan disbursed for industrial promotion. Industries are the backbone of the economy. Industrial development is concerned with whole economic affairs. Both NBL and ADBL provide industrial loans. For production, import and export, this loan is granted. The loan provided by NBL in this sector is high.

(C) Commercial Area

Commercial lending includes retail lending and corporate lending. Commercial loans are necessary for the promotion of business. NBL and ADBL both disburse loans for commercial development. The rate of interest charged by each bank and their terms and conditions vary from each other.

(D) Hire Purchase

Hire purchase includes the lease or private use of automobiles either for personal use or business use. Loans are provided for purchasing cars, buses, trucks, tractors, tempo and other electrical transport modes. ADBL makes a provision for the repayment of principal within 5 years.

from the date of loan disbursement. Both banks provide hire purchase loan on different interest rates. Year from the date of loan disbursement. Both banks provide hire purchase loan on different interest rates.

(E) Others

It may include educational loan, consumable and foreign employment loan, service business loan and so on. Both banks have different lending policy.

Being a pioneer bank, NBL's areas of lending is wider. Some of NBL's lending sectors are :

- Priority Sector
- Poorer Sector
- Working Capital
- Export Credit
- Against Fixed Deposit Receipt (FDR)
- Against Nepal Government (NG) Bond

2.1.10 Interest Rate On Loan

Both NBL and ADBL are not authorized for fixing rate of interest. But rate of interest on overdue loan can be fixed by respective banks. While interest is charged, following three factors are taken into consideration:

- Cost of fund for loan,
- Cost of service for granted loan, and
- Reasonable margin on loan.

Banks are always in mood of charging low rate of interest to its customers. There in an inverse relationship between interest rate and amount of loan and advance. Higher the interest rate lower amount of loans and advances and vice-versa.

Rate of interest charged by NBL and ADBL are as:

Table No. 2.6
Interest Rate Structure of NBL and ADBL

(Mid-July 2007)

S.N.	Factors/Sector	NBL		ADBL	
		B.C.	Exis	B.C.	Exis
1.	Overdraft	10	10	14.5–16	11.5–15.5
2.	Hire Purchase	11	10.5	13	10.13
3.	Others	5–11–5@	5–11@	13.5	12.5–15.5
4.	Industrial Loan	–	–	13	10.13
5.	Commercial Loan	–	–	14	11.14
6.	Export Credit	8.50	8.0	–	–
7.	Against FDR	-1.5%	+1.5%	–	–
8.	Against NH Bond	7	6.5	–	–
9.	Priority Sector	10.5	10	–	–
10.	Poorer Sector	8	7.5	–	–
11.	Working Capital	10	10	–	–

Source: Banking and Financial Statistics Mid July, 2007,45

BC = Before Change

Exis = Existing

@ = Pledge, hypothecation construction, mini-market, housing, gold and silver warehouse, cold storage, construct loan.

Effective Date		
Banks	Before Change	Existing
Nepal Bank Ltd.	2063/01/23 (06 May 2006)	2064/03/01 (15 June, 2007)
Agricultural Development bank	2062/09/08 (23 Dec. 2004)	2064/04/01 (16 July 2006)

Source: *Banking and Financial Statistics, Mid-July, 2007, No. 45*

2.1.11 Loan Disbursement Procedure of NBL and ADBL

Loan is not granted only upon an personnel or institutional request. Certain process, rules and regulations must be fulfilled while loan is approved. Lending policy largely depends upon the management attitude and way of evaluating risk. Both NBL and ADBL may take the same proposal in different way. But their lending poli and procedures are almost similar. The procedure to be followed while disbursing loan are as :

01. Person or organization willing to borrow loan must fill up the prescribed loan application from prepared by bank.
02. Supportive documents such as business proposal, projected financial statement and certificate of government registration must be presented with loan-request application. In case of big project, feasibility report is required.
03. Presented documents are studied. Project site is inspected. Security is valued by concerned person and department. This is the main step. Decisions are made taking different factors into consideration.
04. If the project seems technically feasible, economically viable, politically suitable and socially acceptable loan is sanctioned.

Supervision and direction

The supervision and directions of NRB for commercial bank and development banks while disbursing loan are :

- a. Adequate provision of core capital and subsidiary capital.
- b. Loan classification and loan loss provision.
- c. Financial source collection limit.
- d. Compulsory stock and working capital management
- e. Provision on institutional good governance.
- f. Provision on sector wise loan limit.
- g. Provision on disbursement.

- h. Provision on audit and audit committee.
- i. Provision on accounting policy and financial statements.
- j. Provision of effective monitoring follow up and supervision of loan utilization.
- k. Provision on banks right sizing.

2.1.12 Recovery Procedures of NBL and ADBL

Persons and institutions taking loan from NBL and ADBL must follow the recovery rule and regulation of concerned organization. They may be benefited by following such rules. Usually additional loan is necessitated for the expansion of business and project. Bank may help them by granting additional loan in such a case. Person and institution that pay loan before due date are considered respectable bodies in the eyes of bank and society. Similarly their economic burden tends to decrease, which ultimately increase their assets in near future. There is also a provision of rebating half percent interest, if the person or organization taking loan are supposed to pay loan amount before due date. On the contrary, if a person or institution is unable to repay the amount of loan n due date, they are charged more additional interest as punishment. Thus the bank considers the principle of prize and penalty. Inefficient person or organization are panelized, while good are prized. The policy of prize and penalty compelled the person and institution taking loan to work hard. It also helps to make the loan management more effective and efficient.

2.1.13 Security and Margin Requirements

Security is considered as a most important basis for granting loan. Security is also known as collateral. The following 3 factors must be considered while accepting security as collateral.

- a. Safety and Security
- b. Liquidity
- c. Profitability

Before granting loan the market price of security should be calculated. The amount of loan must not exceed the market price of security. Liquidity is another important factor for bankers. Liquidity generally means capacity cash on demand. (sayers, RS, 1958:23) Profitability is the main source of commercial bank's earning. The spread or mark. Liquidity generally means capacity to produce cash on demand. (up between the interest rates they earn on their assets cover their cost and is the source of their profits. (Aliber Reborsts, 1973:151)

Banks want their loan and advances to be properly secured. Furthermore, a reasonable margin on loan is also taken into consideration. Both NBL and ADBL's margin requirement and security evaluating process are different. The volume of security is determined by bank according to prevailing market price. Generally, during the period of study, it is found that 30% is the minimum margin requirement on medium and long term loan. Similarly 40% is the minimum margin requirement on short term loan. This policy seems advantageous for wealthy businessman and corporations. Marginal business holders may not be benefited from current margin on short term loan.

2.1.14 Terms and Conditions to Disburse Loan

As mentioned earlier that loan is not simply granted upon a personnel or organizational request. Certain rules and regulations must be followed while loan. For making loan administration effective, terms and conditions are present between bankers and loan-taker. NBL and ADBL both have different terms and condition that suit their own situation, organization and customers. However safety, liquidity and profitability are prime considerations for bankers to formulate advance policy. Taking this fact on consideration the terms and conditions adopted by both banks can be categorized as:

(A) Period of Loan Amortization

Every loan has to be repaid within stipulated time. The duration of loan repaid is fixed upon an mutual agreement between bank and loan-taker. Fixation of amortization period is very difficult. If any mistake occurs in this stage the whole loan recovery may become doubtful. Generally banks offer the due period for loan. Higher the amortization period higher period.

ADBL has Risk Management Section in west and east according to its organizational structure in the fiscal year 2006/07.

(B) Interest Rate on Loan

Rate of interest is also fixed before granting loan. Higher interest rate is charged for the project of short duration while lower interest rate comparative to project of shorter duration is charged on long-projects. Higher interest rate means high risk in repayment. So it is also an important factor of loan administration. Generally, NRB fixes the rate of interest ranging from higher to lower for the commercial banks. NBL and ADBL both cannot fix the rate of interest on loan. However rate of interest on overdue loan can be fixed by both.

(C) Recovery of Installments

Both NBL and ADBL facilitate to make the recovery in several installment dues. Such installment gaps generally ranges from 6 months to 1 year or more. Installment amount is fixed on first hand on an equal basis. The larger the amount of loan the greater will be the installment figure and vice-versa. In case of interest it can be paid on same way.

(D) Security Take as Collateral

Although security is not an important matter for person who utilizes the loan for right purpose and work according to plan. But bank does not grant loan without security. The security take as collateral is evaluated and priced with growth rate for the period. If a person or an organization failed to pay the loan within time, collateral is either self-assumed by bank or sold to third party.

(E) Legality to Borrow Loan

To get loan from NBL and ADBL, the applicant should possess the following qualification:

- a. Must be a Nepali citizen. In case of corporate body, it must be registered in the related government department.

- b. Applicant or his representative must have required knowledge, experience and skill to operate enterprise.
- c. The applicant must not be in arrears in repayment of principal or interest or any existing loan expect for reasons behind their reasonable reasons.
- d. The applicant must be willing to meet the equity contribution for the project as required by NBL and ADBL rules and regulation.

(F) Soundness of the Project

A project is a set of one-time-only activities designed to attain. 12 (Agrawal, GR., 2003:124)

- Specific objectives within the constraints of time, cost and quality performance in a dynamic environment.
- Through the planning, use and control of variety of resources.
- To create a unique product or service within a temporary life span.

For the project to be accepted it should technically, managerially and economically sound. Banks do not invest without studying the performance potentiality of the project. Risk Management Division is established in both NBL and ADBL for studying soundness of the project.

(G) Repayment Capacity of Borrower

Repayment capacity of borrower means his/her willingness to pay back the loan within specific period. Repayment capacity of borrower is essential for extending loan. If a bank thinks that the borrower is not economically confidential, loan may not be sanctioned to him/her.

Hence NBL and ADBL both impose different terms and conditions to make their loan administration efficient and effective.

2.2 REVIEW OF PREVIOUS RESEARCH

Research review is an important part of review of literature. On this topic various research work on related subject are studied, analyzed and summarized. The author than draws conclusion. Earlier researcher recommends the matter for further study to later. They may be important subject which remained unstudied by researcher. These uncovered topic and subject are critically analyzed and studied. Good researchers suggest for further study not for duplication of effort.

Taking spiritually the fact mentioned above, some research works are studied. They are summarized as below.

A Study of Tikaram Banstala (2003) : “ Loan Disbursement and Repayment Pattern of Agricultural Development Banks of Nepal”.

He studies whether is a significant relationship between loan disbursement and repayment. His second research question is whether there is a significant relationship between loan disbursement and outstanding loan. His first question is solved through the test of Karl Pearson’s coefficient of correlation and regression analysis. Repayment loan of bank seems to be directly proportional to the loan disbursement because both have shown movement in same direction i. e. there was increasing order. His second question is also solved through same analysis. Outstanding loan of the banks seems to be directly proportional to the loan disbursement. Because both have shown movement in same direction i.e. there was increasing order. Based on the conclusion of the study and analysis of finding. His five most important recommendations are :

- A. The amount of the bank’s loan disbursement is largely dependent upon the amount of loan repayment in each year. So, the bank should encourage to farmers by various policy such as subsidy on loan, interest etc. for the repayment of loans.
- B. The bank should provide the facilities of supervision for the effective utilization of its loans.
- C. The decision making power should be given to manage of branch and sub-branch offices to disburse large amount of loan to farmers.

D. The bank should focus to disburse short-term loan.

E. The bank should case to collect long-term loan.

A Study of Bhumi Prasad Pathak (2004) : “ Loan investment and Collection Analysis of Development Banking of Agricultural Development Bank Nepal”.

The main objective of study is top examine the achievement of purpose wise, term wise and development region wise loan investment, collection and outstanding from 1998/99 to 2002/03. He also study the impact of last ten years’ political insurgency and instability to farmer and ADBL with special reference to loan investment collection and outstanding. His research shows that actual loan investment and collection is in an increasing ratio and weighted growth rate is in a fluctuating trend. He suggests that agricultural sector requires more investment. Similarly ADBL has to invest continue in current profitable purpose, revise unprofitable purpose, have to identify other possible line of agricultural opportunities as well as should create portfolios on different purpose to be operationally and economically viable.

A study of Nini Ratna Bajracharya (2004): “ A Study on the Deposits and Loans and Advance Of NBL During the year 1973-1978”.

The main objectives of the study are to describe and analyze the deposits and loans and advance of Nepal Bank Limited. His other specific objectives were :

- a. To show the change in deposits and according to change in the rate of interest.
- b. To examine the relationship between deposits and loans and advances of the bank.
- c. To show the resources (deposits) mobilization of the bank.

During the course of analyzing the problem, he found that there is the increasing trend in deposits but there is up and down position in the case of loans and advance. The deposits increased in increasing trend up to 1973 and after that it is increased in the 1974, but decreased in 1975 and 1976 and again increased in 1077 and 1978. But it is due to the cause of changes in rate of interest. His finding shows that the interest rate structure affects both deposits and loans and advances. If there is a provision of suitable interest rate, then the bank

can enjoy maximum profit. Hence, according to his research the bank should decrease the rate of interest. He also found the situation of inequality in branch expansion process. He comments on centralization of loan granting procedure. He found that most of the powers are concentrated on board of directors and head office. To invest a small amount of loan, it requires the approval of head office. He heavily criticizes the system.

A Study of Saroj Pyakurel (2006): “Loan Disbursement and Recovery of Nepal Bank Limited”

The objectives to see loan disbursement process, to analyze the condition of loan recovery and to see the efficiency of new management of recovery of loan. For this trend analysis, correlation analysis and regression analysis have been used. Trend for five years is studied and interpreted. Loan disbursement trend shows that it is decreasing every year. He says that what ever the disbursement process is, is not decreasing.

Similarly, he analyzes the priority sector loan into agriculture sector, cottage industry, service sector, hire purchase and deprived sector loan. Although he present the data of disbursement, collection and outstanding figures are excluded. He found the present disbursement and recovery of NBL is normal. It is able to recover due loan unexpected. By the conflict bank reduces many branches and it can not disburse additional loan in priority sector. He claims that new management of NBL is highly effective. His opinion is that the new management of NBL is not only effective for collecting over due loan, it is effective in managing every essential factors of bank. He concludes that bank face a lot of fraud by bad-employee in case of loan disbursement, recovery and expenses. His recommendation is related with supervision and inspection. His view is that the system must be strict, effective and efficient. Loan should be provided with technical facility. Policy should be formulated taking into consideration of geographical features and infrastructure development of the country.

A Study of Deepak Man Shrestha (2006): “Role of Agricultural Development Bank of Nepal”

The main objectives of the study were to analyze the loan disbursement of purpose-wise and term wise by Agricultural Development Bank, to analyze the loan recovery and to find the loan outstanding. For this he studies the related topic for 7 years commencing from FYs 1996/97 to 2002/03. His study revealed that bank liberal policy helps to cover all types of customers. All of them are unbiased while granting loan. Bank activity increases which shows increasing demand for agricultural credit. He comments that the actual performance of the bank is not satisfactory because it is not able to provide loan especially in rural sector where bank financing is almost necessary. The reason for slow collection may be attributed to liberal policy, weak supervision and controlling system, negligence towards collection procedure, poor economic condition of the people, overvaluation of security on loan sanctioning period and difficult geographic condition of the country. The present unstable situation negatively affects the activities and bank has experienced five general managers for a period of last ten years. Bank has provided discount on interest, extended the repayment period of loan to recover loan on time. Likewise, bank introduction reform program which focused priority to make farmers more laborious, take loan with refundable capability, maintain financial discipline and restructure past due loans. Besides, this it organizes training programs to staff as well as farmer, which may bring changes in performance of bank.

From above studies, it is found that most loans granted by ADBL are subjected to development aspects, No researcher analyzes the commercial loan of ADBL. So, this untouched chapter is attempted to be analyzed.

In case of NBL only few research are conducted. During the period of 1981 to 2006, very few studies are seemed have done. Furthermore, the management of NBL hesitate to provide data of collection and outstanding. Frequent and regular visit to concerned authorities make possible to gather some relevant information. These gathered data are then interpreted and analyzed.

Besides this comparative study is unable to cover many topic on loan investment, recovery and outstanding, Coming researcher are suggested to study such uncovered topic.

2.3 RESEARCH GAP

In the context of Nepal very weak management in the sector of government, weak accounting system, information system and believes less auditing system is major important problem in Banking system. So, this study focus in the main were activities in the sector of loan disbursement and recovery system. How and what kind of process are following by bank to investment sector. What are major problem of investment process of both bank. What kind of mechanism of mechanism are used by bank in the sector of recovery. What kind of problem are facing by bank to process in recovery system. So this study wants to find out present problem and present effectiveness of banking activities in the special case on disbursement recovery.

The study wants to recommended to respective Bank, in the basis of major findings.

CHAPTER–III

RESEARCH METHODOLOGY

3.1. INTRODUCTION

Research methodology is the overall framework for when/how to conduct, process, analyze and present data on tables and diagrams to find answer of the research problems/questions/objectives. Secondary data have been presented in this study to see the relationship between the figures of loan disbursement, recovery and outstanding and to analyze loan disbursement, recovery and outstanding of NBL and ADBL.

The research explains the various important causes of none and delayed payment of loan made by individual persons and institutions for various for purposes from NBL and ADBL. Hence, it follows a chapter deals with research design, procedure of data collection, processing procedure, statistical tools used and procedure employed for the study.

3.2 RESEARCH DESIGN

Being an academic research, the purpose of this research is to answer the queries raised and control the variances. Analytical and descriptive research design is followed for accessing

the loan disbursement and recovery of NBL and ADBL. Regression analysis and coefficient of correlation techniques are applied for determining the relationship between the figures of loan disbursement and recovery. A comparative study of both banks is attempted to be done.

3.3 POPULATION & SAMPLES

List of Commercial bank in Nepal

S.N.	Banks	Sample of Banks
1	Rastriya Banijya Bank	
2	Nepal Bank Limited	1
3	Nepal Investment Bank Limited	
4	Standard Chartered Bank Nepal Limited	
5	Himalayan Bank Limited	
6	Nepal SBI Bank Limited	
7	Nepal Bangladesh Bank Limited	
8	Everest Bank Limited	
9	Nepal Credit and Commerce Bank Limited	
10	Nepal Industrial and Commercial Bank Limited	
11	Bank of Kathmandu Limited	
12	Lumbini Bank Limited	
13	Machhapuchhre Bank Limited	
14	NABIL Bank Limited	
15	Laxmi Bank Limited	
16	Kumari Bank Limited	
17	Siddhartha Bank Limited	
18	Agricultural Development Bank	1
19	Global Bank	
20	Bank of Asia Nepal Limited	
21	Prime Bank Limited	
22	Sunrise Bank Limited	
23	Citizen Bank Limited	
	Total 23	2

Source: Annual Reports of NRB, 2007

Nepal Bank Limited is the first for developing banking system in Nepal. But our economy is agro-based. Agricultural sector cannot be neglected when more than 60% of the total

population are directly or indirectly engaged on this sector. Taking the fact on consideration a comparative analysis is done here on loan disbursement and recovery of NBL and ADBL. A relationship between non-agricultural business and agro-based business is also attempted to establish here. Hence, the topic “A Comparative Study on Loan Disbursement and Recovery of Nepal Bank Ltd. And Agricultural Development Bank Ltd.” is chosen. Furthermore, very few studies are seemed on the related topic.

3.4 NATURE OF SOURCES OF DATA

The study is conduct on basis of secondary data. The relevant data are collection from annual report previous document and publication realign to the purposed study.

NBL and ADBL are now facing heavy challenges due to tough competition. In the past, their information was unknown for general public. They published limited information for public. Now both banks have realized that hiding information is a step-back in banking development. Today both are dissemination almost all information public. This study is based mainly on secondary data collected NBL and ADBL. Regular, formal and informal visit at NBL and ADBL also provide lot of information and working procedure of banks. Annual magazines, news and bulletins of both banks are collected and studied. Analysis and interpretation of all data are done mainly based on secondary data. Apart from above mentioned sources relevant data are collected from

- A. Economic surveys for various years published by Ministry of Finance, Government of Nepal
- B. Statistical records gathered from Central Bureau of Statistics.
- C. Banking and financial statistics published by Nepal Rastra Bank.
- D. Periodicals, bulletins, magazines and other published and unpublished reports of concerned authorities and research works.
- E. Websites of concerned banks.

3.5. DATA PROCESSING PROCEDURE

Data are collected from the fiscal year 2000/02 to 2005/06. These data are analyzed and tabulated as the work demand. Every attempt so as to describe the clear picture. They are

graphed, tabulated and interpreted taking into consideration of various factor that have corresponding effect.

Statistical tools regression and correlation analysis have used to analyze data and to draw accurate conclusion. Data are used in such a manner so that they can clear the pattern loan disbursement and recovery to the general public.

3.6 TOOLS AND TECHNIQUES OF DATA ANALYSIS

With a view of making the study reliable, concise and clear various techniques & tools have been used statistical and financial tools.

(A) Statistical Tools

The analysis of data is done according to the pattern of data available. Mainly test of hypothesis, Karl Pearson's coefficient of correlation is used that best describes the picture of loan disbursement, loan recovery and loan outstanding. Comparative is also done for the same using same statistical tools.

The Karl Pearson's r is used to see whether there is a significant relationship between amounts of loan disbursement, loan recovery and loan outstanding. If the value of r exceeds 6 types probable error occurs. Hence different formulas are used to find the correlation.

Karl Pearson's coefficient of correlation can be presented as:

Let,

Load Disbursement = x

Recovery=y

We have,

$$r_{xy} = \frac{\sum xy}{\sum x^2 \times \sum y^2}$$

Where,

r = coefficient of correlation

$$x = (x - \bar{x})$$

$$y = (y - \bar{y})$$

And,

X= amount of loan disbursement (i.e. independent variable)

Y= recovery amount (i.e. dependent variable)

Similarly,

$$\text{Probable error (p.Er)} = 0.6745 \times \frac{1 - r^2}{N}$$

Following rules are used to describe the relationship between variables:

Table No. 3.1

Value of r

If r is

-1	Perfect Negative
-0.7	Strong Negative
-0.3	Weak Negative
0	Perfect Independence
+0.3	Weak Positive
+0.7	Strong Positive
+1	Perfect Positive

The degree of relationship between the variables is measured by correlation while regression analysis shows how the variables are related.

Hence, the nature and strength of relationship between two variables is measured by regression and correlation analysis.

The regression equation on loan disbursement and recovery can be presented as :

$$y = a + bx$$

Where,

y = Dependent variable (invested loan)

x = Independent variable (repaid loan and outstanding loan)

The trend analysis is can similarly be done by the help of least square equation i.e., $y = a+bx$.

(B)

Financial Tools

For the used for financial tools, we used ration analysis between loan disbursement recovery, disbursement and outstanding and other relevant ration.

Formula is :

$$\text{i. Disbursement to Recovery Ratio} = \frac{\text{Total Disbursement}}{\text{Total Recovery}}$$

$$\text{ii. Disbursement to Outstanding Ratio} = \frac{\text{Total Disbursement}}{\text{Total Outstanding}}$$

$$\text{iii. Earning Per Share} = \frac{\text{Net Profit}}{\text{Equity Share}}$$

$$\text{iv. Investment to Total Deposit Ratio} = \frac{\text{Investment}}{\text{Total Deposit}}$$

$$\text{v. Priority Sector Loan to Total Deposit Ratio} = \frac{\text{Priority Sector Loan}}{\text{Total Deposit}}$$

3.7 VARIABLES STUDIES

Variable studied for the work can be categorized into two:

A. Dependent various = Loan disbursement

B. Independent variables = Recovery and outstanding loan.

3.8 PROCEDURE EMPLOYED

Loan is a topic of great interest. Initially the literatures available are identified. They are studied, analyzed and interpreted. Only the necessary are selected. Objective of study is considered while collection of data and statistics are done. They are tabulated in a simple manner. On topic presentation and analysis of data, statistics tools are used. Mainly, Karl Pearson's χ^2 is used that best describes the situation. Finally recommendations are made on basis of study for period.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 INTRODUCTION

This chapter is the most important chapter of whole study. This chapter makes an analysis and interpretation of all the relevant data related to study. All the matters dealt in this chapter are entirely related with loan disbursement, recovery and outstanding. NBL and ADBL are two banks having commercial banking operation throughout the whole country. So the study is very vast. It is difficult to make comparative analysis. Touching only commercial aspect of ADBL, it is compared with NBL. A mid-path conclusion is also attempted to drawn. The overall loan disbursement, recovery and outstanding situation of two banks are studied, analyzed and interpreted in this chapter. Research question raised here are also answered and described in this chapter. Truly speaking recommendations made in another chapter are based on the study of this chapter.

4.2 LOAN DISBURSEMENT, RECOVERY AND OUTSTANDING

NBL and ADBL both follow the principle of national interest. They operate even in remote areas. They are disbursing loan to different sector for different purpose. Loan disbursement is a backbone for the development of infrastructure, trade promotion and business expansion. The recovery aspect is also very important. Recovery situation must be satisfactory for granting additional loan. Loan disbursed one time may be partial for that sector. So, recovery of loan to the marginal level is very essential. Promotion of banking services is also subjected to recovery pattern. If a borrower repays the amount before the due date, bank would be able to mobilize that source in other sector. Which in result accelerate the pace of development of nation. Similarly, the bank's efficiency is measured by the extent to which is collected the amount of due loan on time. Hence, a country's development and bank's efficiency are highly affected by recovery of loan on time.

Loan that is committed to pay within certain time, but is not paid till now is known as outstanding loan. It is the difference between loan disbursement and recovery. For the

healthy development of banking and financial institution this proportion is assumed to be very low. Amount of outstanding loan represent the cumulative value of beginning to now.

4.2.1. Nepal Bank Limited

The investment and outstanding situation of NBL is presented under this topic. The recovery position is deal in next separate heading. Recovery figures are analyzed after undertaking of NBL's management by ICCMT on June 17, 2002. The priority sector loan and non-performing loan are also analyzed.

Table No. 4.1

Total Loan Disbursement & Outstanding of Nepal Bank Ltd.

(Rs. In million)

S.N.	Fiscal Year	Disbursement	Outstanding	% Disbursement to Outstanding
1.	2002/03	6776	20419	33.18
2.	2003/04	7151	19253	37.14
3.	2004/05	12464	18132	68.74
4.	2005/06	11021	17938	61.44
5.	2006/07	14220	16868	84.30
Average Percentage				56.96

Source: *Annual Report of Corresponding Fiscal Year, NBL*

Let us first see the trend of loan disbursement outstanding in different fiscal year covered by the study area. Table No. 4.1 shows that the flow of loan disbursement has gone from Rs. 6776 million in FY 2002/03 to Rs. 14220 million in 2006/07. Whereas the outstanding loan have reduced from Rs. 20419 million in FY 2002/03 to Rs. 16868 million in FY 2006/07. The outstanding figure decreased by Rs. 3551 million for the period of five years i.e. from FY 2002/07.

4.2.2 Agricultural Development Bank

The disbursement, recovery and outstanding situation of loan of ADBL on commercial banking is presented in the given table.

Table No. 4.2
Total Loan Disbursement, Recovery & Outstanding of
Commercial Banking Of ADBL

(Rs. In million)

S.N.	Fiscal Year	Disbursement	Recovery	Outstanding	% of Recovery to Disbursement	% of Outstanding to Disbursement.
1.	2002/03	8457	7365	5567	87.09	65.83
2.	2003/04	10456	9634	6389	92.14	61.10
3.	2004/05	12830	11137	8083	86.80	63.00
4.	2005/06	13830	12697	9657	91.81	69.83
5.	2006/07	17281	15959	10986	92.35	63.57
Average Percentage					90.04	64.61

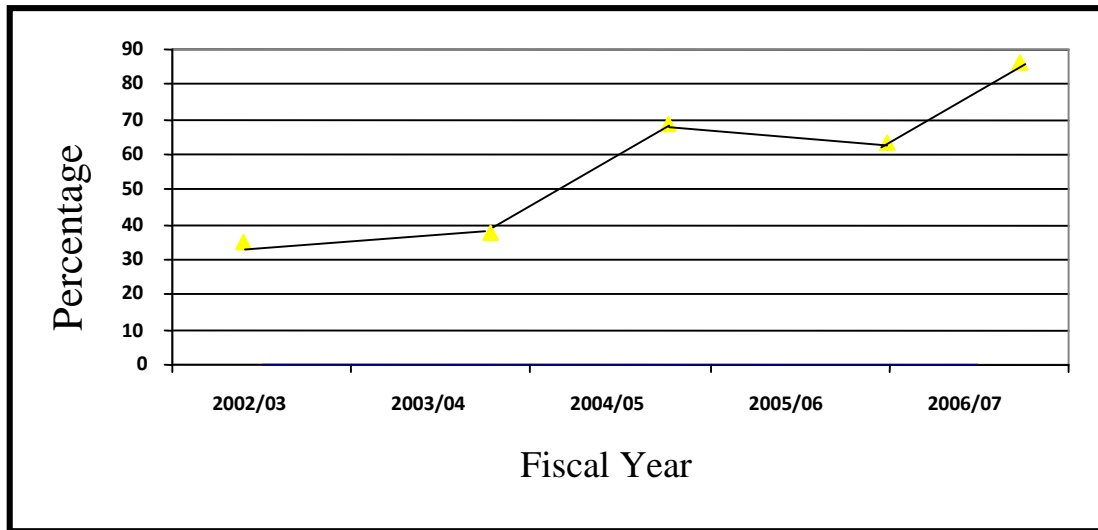
Source: *Annual Report of Corresponding Fiscal Year, ADBL*

Let us first see the trend of loan disbursement, recovery and outstanding in different fiscal. Year covered by the study area. Table No. 4.2 shows that the flow of loan disbursement has gone from Rs. 8457 ,o;;op mom FY 2002/03 to Rs. 17281 million in FY 2006/o7. The recovery and outstanding loans also have gone from Rs. 7365 million and Rs. 5567 million to Rs. 15959 million and Rs. 10986 million respectively from FYs 2002/03 to 2006/07.

According to abover both table of NBL and ADBL the disbursement, to outstanding ratio is 56.96 % and 64.61% respectivbely. So the recovery outstanding moving ituation of both bank as satisfactory position.

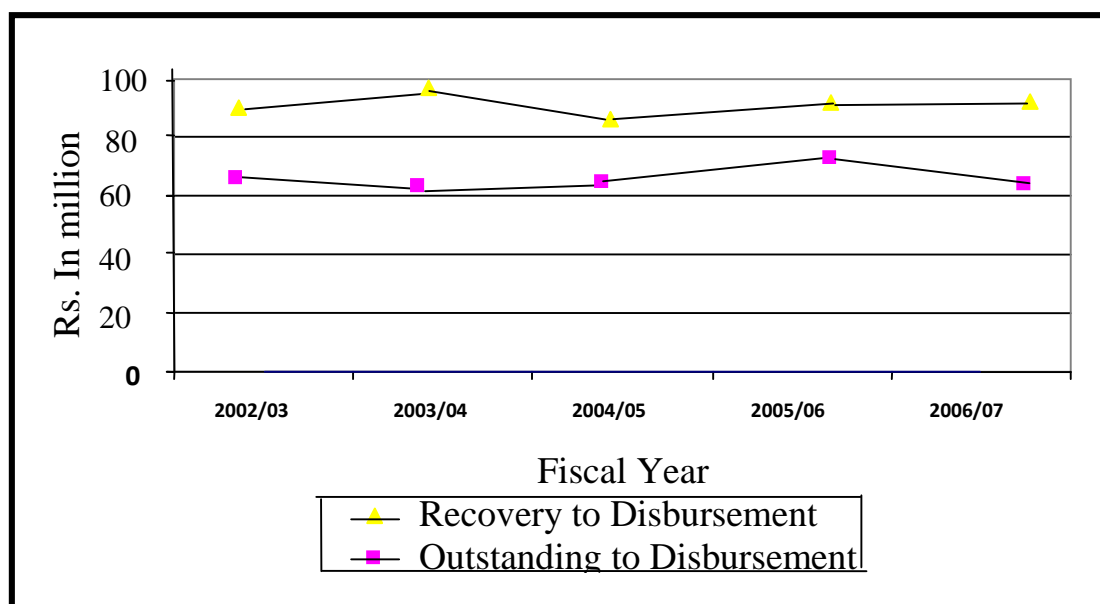
Fig. 4.1

Percentage of Disbursement to Outstanding of NBL



Data from Table No. 4.1 are plotted in figure No. 4.1 with fiscal year in horizontal axis and percentage in vertical axis. Viewing figure the percentage of disbursement to outstanding was highest in FY 2006/07 i.e. 84.30 percent and lowest in FY 2002.03 i.e. 33.18 percent. The percentage of disbursement to outstanding in FY 2002/03 was 33.18 percent, after that it is edged up to 37/.14 percent in 2003.04. After that it is sharply edged to 68.74 percent in fy 2004/05 and slightly declines to 61.44 percent in FY 2005/06 and again sharply edged up to 84.30 percent in FY 2006/07. In this way it has very fluctuating trend. This is due to decreasing trend of outstanding loan. Iyt means improvement in loan administration. Loan outstanding gradually declines from Rs. 20419 million in FY 2002/03 to Rs. 19253 million FY 2003/04. Similarly, to Rs. 18132 million, Rs. 17938 million and Rs. 16868 million for FYs 2004/05, 2005/06, 2006/07 respectively. With the introduction of new management recovery situation is moving towards satisfactory position.

Fig. 4.2
Percentage of Recovery to disbursement and
Outstanding to Disbursement



Date from Table No. 4.2 are plotted in figure No. 4.2 with fiscal year in horizontal axis and percentage in vertical axis. Viewing the Figure No. 4, the percentage of recovery to disbursement was highest in the FY 2006/07 i.e. 92.35 percent and lowest in FY 2002/03 was 87.09 percent, after that it is edged up to 92.14 percent in FY 2003/04. After that it decline to 86.80 percent in FY 2004/05 and gradually rises to 91.81 percent and 92.35 percent in FYs 2005/04 and 2006/07 respectively. In overall the4 percentage of recovery is in increasing trend during the observation period of 5 years i.e. from FYs 2002/03 to 2006/07.

The percentage of outstanding loan to disbursement was highest in the FY 2005/06 i.e. 69.83 percent. The percentage of outstanding to disbursement was lowest in FY 2003/04 i.e. 61.10 percent. After that it edged up to 63 percent in FY 2004/05. Similarly it declines to 63.57 percent in FY 2006/07. It is fluctuating trend.

The overall percentage of recovery is increasing trend of ADBL but the recovery trend of NBL only moving satisfactory position during the observation period of five years from 2002/03 to 2006/07.

Table No. 4.3

Annual Growth of Disbursed Loan of NBL

(Rs. In million)

S.N.	Fiscal Year	Disbursement	Annual Growth
1.	2002/03	6776	–
2.	2003/04	7151	5.53%
3.	2004/05	12464	74.30%
4.	2005/06	11021	29.03%
5.	2006/07	14220	24.32%
Average Percentage			24.32%

Source: *Annual Report of Corresponding Fiscal Year, NBL.*

Table No. 4.3 shows that NBL aggregate loan disbursement reached to Rs. 14220 million in FY 2006/07 from Rs. 6776 million in FY 2002/03, with average growth rate of 24.32 percent per annum.

Table No. 4.4

Annual Growth of Disbursed Loan of ADBL

(Rs. In million)

S.N.	Fiscal Year	Disbursement	Annual Growth
1.	2002/03	8457	–
2.	2003/04	10456	23.64%
3.	2004/05	12831	22.71%
4.	2005/06	13830	7.79%
5.	2006/07	17281	24.95%
Average growth rate per annum			19.77%

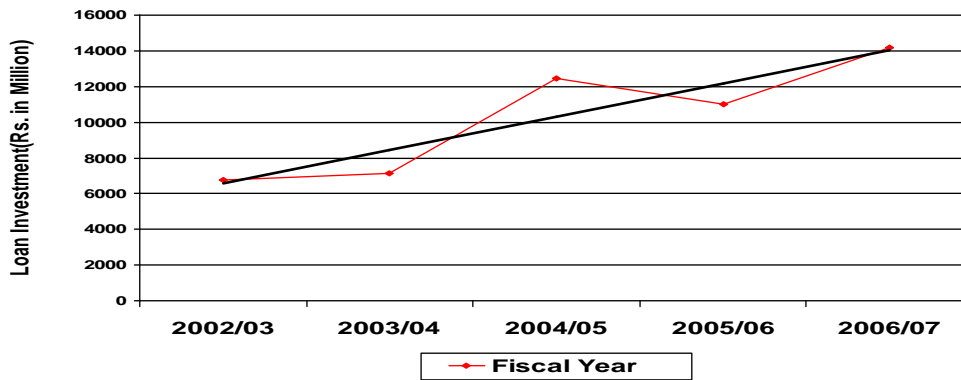
Source: *Annual Report of Corresponding Fiscal Year, ADBL.*

Table No. 4.4 shows that ADBL aggregate loan disbursement reached to Rs. 17281 million in the FY 2006/07 from Rs. 8457 million in FY 2002/03, with average growth rate of 19.77 percent per annum.

The average growth rate of NBL is 24.32% which is higher than average growth of ADBL i.e. 19.77% the comparison period of five years.

Fig. 4.3

Movement of Loan Disbursement of NBL



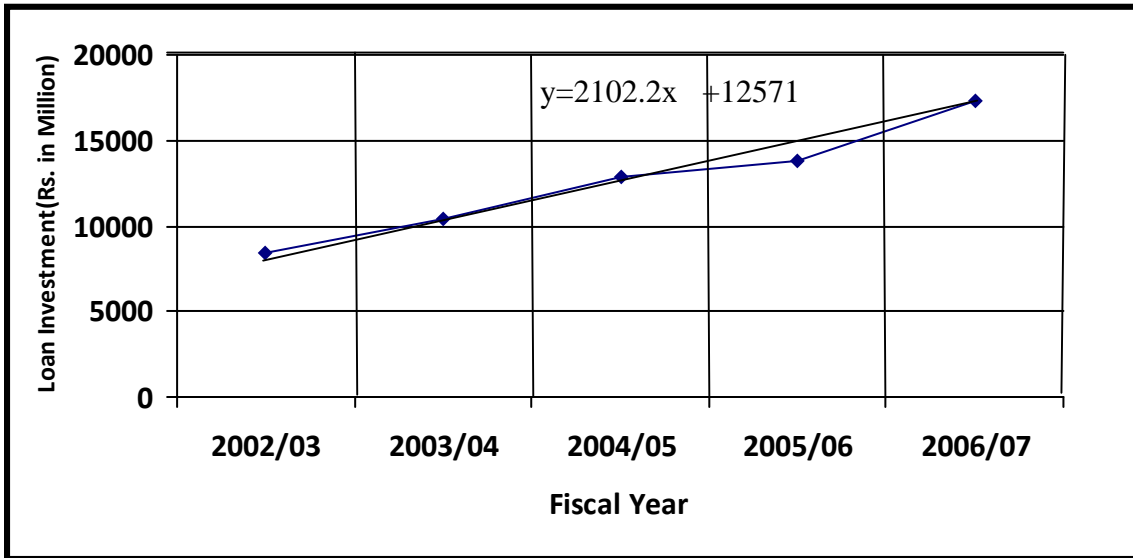
Data from table No. 4.3 is plotted in Figure No. 4.3 with loan disbursement on vertical axis and fiscal year on horizontal axis.

From the Figure No. 4.3, it is clear that annual growth rate is in fluctuating trend. Between FYs 2002/03 to 2006/07 growth rate of loan disbursement varied from minus 11.58 percent in FY 2005/06 to 74.30 percent in FY 2003/04. Initially it increase very rapidly and then with diminishing marginal rate. The least square line of loan disbursement $Y = 10326 + 1876x$.

Fig. 4.4

Movement of Loan Disbursement of

ADBL Commercial Banking



The data from Table No. 4.4 is plotted in Figure No. 4.4 loan investment on vertical axis. From the Figure 4.4, it is clear that annual growth rate increase year. Between FY 2002/03 to 2006/07 growth rate on loan disbursement of ADBL varied from lowest 7.79 percent in FY 2005/06 to a highest 24.95 percent in 2006/07. It was increasing with increasing a bit slow with diminishing marginal rate. The least square line of loan disbursement is $y = 12571 + 2102x$.

Movement of disbursement rate of NBL is initially it increase very repeatly and than with diminishing marginal rate, but in the case of ADBL it is increasing with increasing a bit slow with diminishing rat according to figure number 4.3 and 4.4

Table No. 4.5
Annual Growth of Outstanding Loan of NBL
(Rs. In million)

S.N.	Fiscal Year	Outstanding	Annual Growth
1.	2002/03	20419	–
2.	2003/04	19253	–5.71%
3.	2004/05	18132	–5.82%
4.	2005/06	17938	–1.07%
5.	2006/07	16868	–5.96%
Average Percentage			–4.64%

Source: Annual Report of Corresponding Fiscal Year, NBL.

Table No. 4.5 shows that NBL's aggregate loan outstanding declined to Rs. 16868 million in FY 2006/07.

However, this figure was Rs. 20419 million in FY 2002/03. It shows that loan administration of NBL is becoming effective. Outstanding loan should be in decreasing ratio for the healthy development of banking sector. But this figure goes on increasing as business increases.

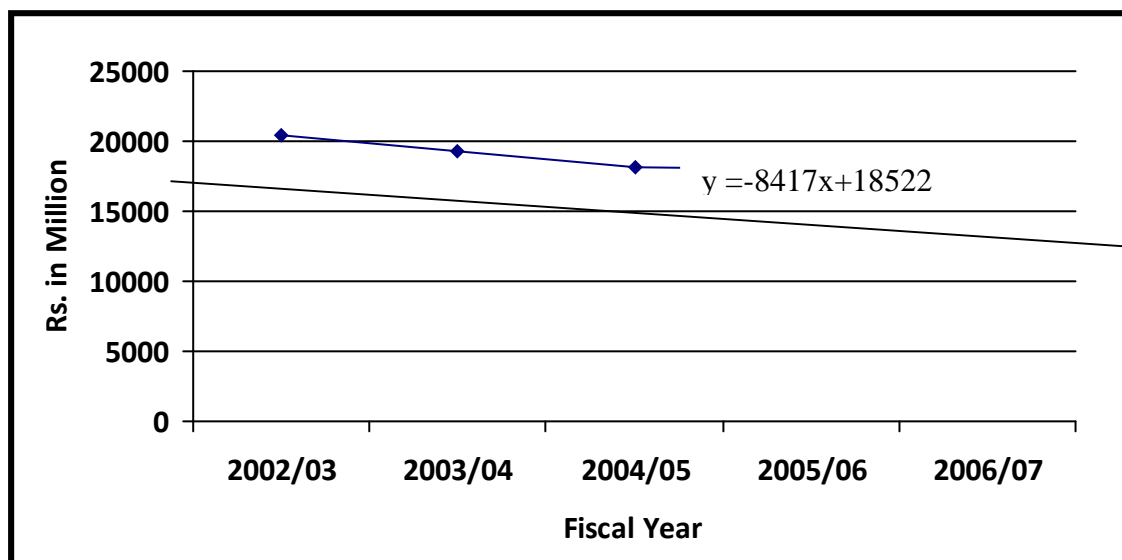
Table No. 4.6
Annual Growth of Outstanding Loan of Commercial Banking of ADBL
(Rs. In million)

S.N.	Fiscal Year	Disbursement	Annual Growth
1.	2002/03	5567	–
2.	2003/04	6389	14.77%
3.	2004/05	8083	26.51%
4.	2005/06	9657	19.47%
5.	2006/07	10986	13.76%
Average growth rate per annum			18.63%

Source: Annual Report of Corresponding Fiscal Year, ADBL.

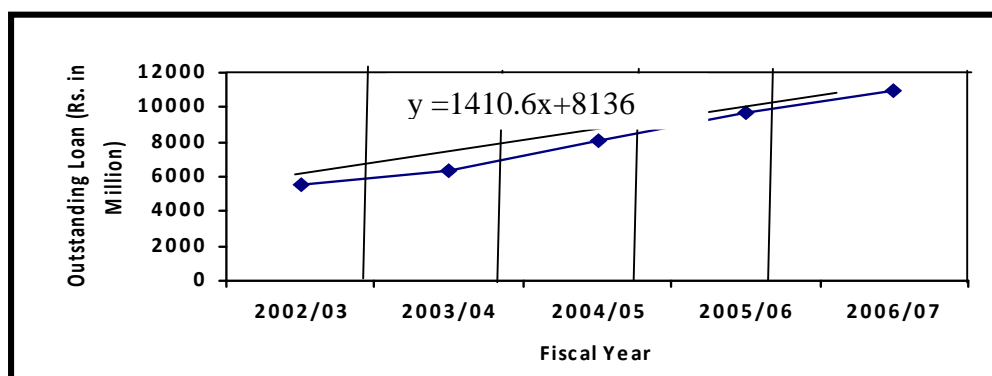
Table No. 4.6 shows that ADBL's aggregate commercial loan outstanding declined to Rs. 10986 million in FY 2006/07 from Rs. 5567 million in FY 2002/03, which has shown on average growth rate of 18.83 percent per annum.

Fig. 4.5
Movement of Outstanding Loan of NBL



Data of Table No. 4.5 is plotted in Figure No. 4.5 It shows that the average annual growth rate is in diminishing trend. Between the FYs 2002/03 and 2006/07 growth rate of outstanding loan varied from minus 1.07 percent to 5.96 percent. The annual growth rate declines by minus 5.71 percent in FY 2003/04. Similarly, declines by minus 5.82 percent, minus 1.07 percent, minus 5.96 percent in respective fiscal years 2004/05, 2005/06 and 2006/07.

Fig 4.6
Movement of Outstanding Loan of
ADBL Commercial Banking



Data of Table 4.6 is plotted in Figure No. 4.6 It shows that the average annual growth is in a fluctuating trend. Between the FY 2002/03 and 2006/07, the year to year growth rates of outstanding loan varied from lowest 13.76 percent in fiscal year 2006/07 to a highest 26.51 percent in FY 2004/05. On the fiscal year 2003/04, the average annual growth rate was 14.77, which rises heavily by 11.74 percent in the next fiscal year. After that it shows decreasing trend. For the year 2005/06, the growth rate was 17.47 percent while 13.76 percent on FY 2006/07.

Recovery Situation of NBL

Yearly data of recovery are not available. Hence, the performance of Risk Management Division under the management of ICCMT till November 5, 2007 is analyzed here. Old management of NBL was replaced by ICCMT on June 20, 2002. Only the performance situation of new management is studied analyzed here. Old management of NBL was replaced by ICCMT on June 20, 2002. Only the performance situation of new management is studied and analyzed here.

Table No. 4.7
Performance of Risk management Division Under the
Management of ICCMT, NBL till November, 2007

(Rs. In million)

Ways of Recovery	No. of A/Cs	Principal	Interest	Total
Cash Recoveries	12924	4139	1966	6105
Restructures	25	2224	376	2601
Workouts	2	42	19	1686
Collateral Assumed	217	828	858	832
Debt Recovery Tribunal	101	335	497	120
Repudiation of Loan Commitment	1	120	–	–
Total Net Netted of Gross Recoveries	13270	7688	3716	11405

Source: Risk Management Division,, NBL.

A. Cash Recovery

It means loan recovery by bank in form of cash. It represents that amount which is paid back by loan taker on his/her wisdom or upon bank's inquiry. Total of 12924 accounts are covered under this topic. Principal of Rs. 4139 million and interest of Rs. 1966 million is collected till the period November 2007 from June 2002.

B. Restructure

It means renewal of loan. Loan taken by big business or for development program are not fully cleared within certain period. Hence, they need to be renewed. Total of 25 accounts are treated by restructuring principal of Rs. 2224 million and interest of Rs. 376 million till November 2007 from June 2002.

C. Workout

It means self assumption of collateral pledged by loan taker. If loan taken is not paid till the pre-fixed period or due date, collateral is either sold or self-assumed by bank. A total of 217 accounts are recovered by this method. Principal of Rs. 828 million with interest of Rs. 852 million is recovered till November 5, 2007 by new management of NBL.

D. Collateral Assumed

It means self assumption of collateral pledged by loan taker. If loan taken is not paid till the pre-fixed period or due date, collateral is either sold or self-assumed by bank. A total of 217 accounts are recovered by this method. Principal of Rs. 828 million with interest of Rs. 852 million is recovered till November 5, 2007 by new management of NBL.

E. Debt Recovery Tribunal

It signifies the court and its law. Under this way of recovery 101 accounts are treated. A principal of Rs. 335 with interest of Rs. 947 is recovered till November 5, 2007.

F. Repudiation of Loan Commitment

It means rebuding loan commitments. Single accounts are treated under this mode. Principal of Rs. 120 million is collected by this way of recovery till November 5,2007 by new management of NBL.

Table No. 4.8

Annual Growth of Recovery Loan of Commercial Banking of ADBL

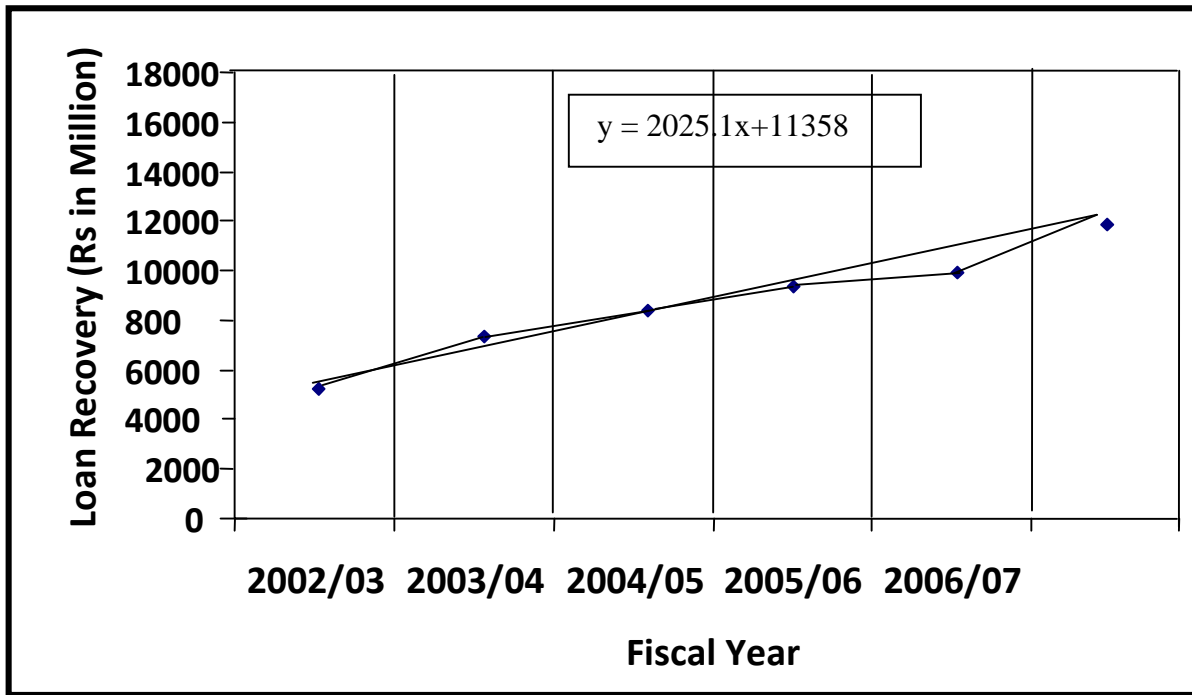
(Rs. In million)

S.N.	Fiscal Year	Disbursement	Annual Growth
1.	2002/03	7365	–
2.	2003/04	9634	30.81%
3.	2004/05	11137	15.60%
4.	2005/06	12697	14.00%
5.	2006/07	15959	25.69%
Average growth rate per annum			21.53%

Source: *Annual Report of Corresponding Fiscal Year, ADBL.*

Table No. 4.8 shows that ADBL aggregate commercial loan recovery reached to Rs. 15959 million in FY 2006/07 from Rs. 7365 million in FY 2002/03 with average growth rate of 21.53 percent per year.

Fig. 4.7
Movement of Recovery Loan of
ADB Commercial Banking



The data of table no. 4.8 are plotted in Figure No. 4.7. Loan recovery is shown on vertical axis while fiscal year on horizontal axis. From the Figure No. 4.7, it is clear that the annual growth rate in each year is increasing. Between the FY 2002/03 to 2003/04, the year to year growth rates of principal collection varied from a lowest 14 percent in FY 2005/06 while 30.81 percent highest in FY 2003/04. In FYs 2004/05 and 2005/06 annual the growth rate increases with diminishing marginal rate. Then after it increase with increasing rate for the FY 2006/07. The least square equation is $y = 11358 + 2025x$.

4.3 PURPOSE-WISE LOAN DISBURSEMENT, RECOVERY AND OUTSTANDING

4.3.1 Nepal Bank Limited

Purpose-wise loan can also be interpreted by categorizing it into priority and non-priority sector loan. Agriculture, cottage industries, hire purchase and deprived sector comes under priority sector while commercial and other general sector into non-priority sector.

Table No. 4.9
Purpose-wise Loan Segregation of Nepal Bank Limited

(Rs. In million)

Sector	Fiscal Year				
	02/03	03/04	04/05	05/06	06/07
Priority Sector Loan					
• Agriculture	567	780	468	279	119
• Cottage Industry	629	305	312	160	277
• Service	535	322	282	34	93
• Hire Purchase	268	194	–	–	98
• Deprived	333	448	316	3106	316
Total	2341	2049	1378	3579	903
Percentage in Total	11.76	10.64	7.60	19.95	5.35
Non-priority Sector Loan	18078	17204	16754	14359	15965
Percentage in Total	88.54	89.36	92.40	80.05	94.65
Total Loan	20419	19253	18132	17938	16868

Source: Corporate Planning and Marketing Department, NBL

NBL was established before Central Bank. Hence, it is responsible for the development of economy as a whole.

4.3.2 Priority Sector Loan

Following the guidelines of Nepal Rastra Bank. NBL invests its fund into following sector which is categorized as priority sector.

A. Agriculture

Due to low level of literacy, income and other infrastructural development, agriculture remain as backbone of Nepalese economy. Its importance is high for the development of economy.

Table. No. 4.10

Trend Analysis of Loan Disbursement In Agriculture

(Rs. In million)

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	576	-2	4	-1152
2003/04	2	780	-1	1	-780
2004/05	3	468	0	0	0
2005/06	4	279	1	1	279
2006/07	5	119	2	4	238
		$\sum x = 2222$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = -1415$

Source: Corporate Planning and Marketing Department, NBL

Here,

$$\sum x = 2222, \sum x^2 = 10, \sum xy = -1415, n = 5$$

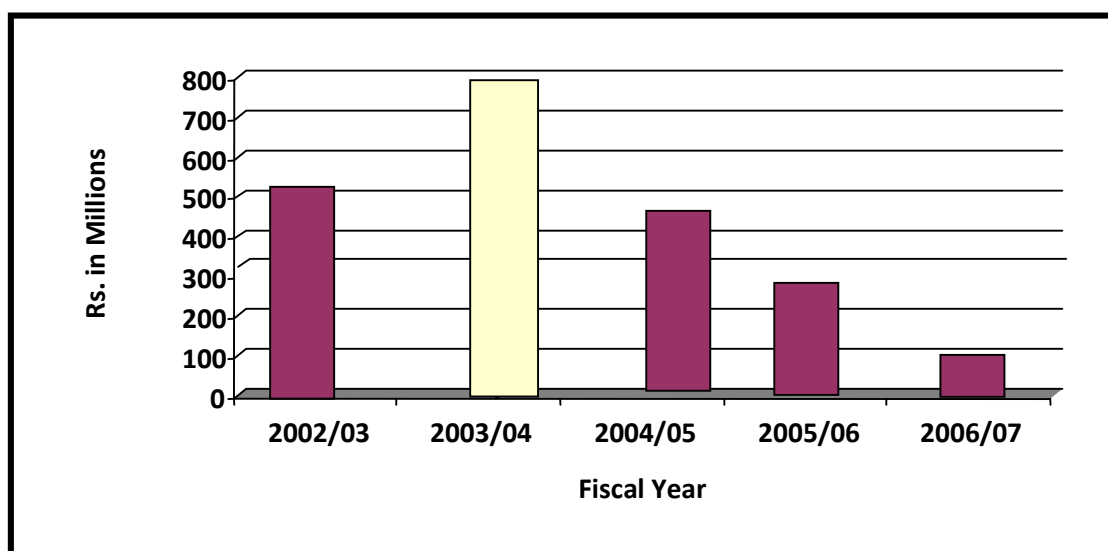
$$a = \frac{\sum y}{n} = \frac{2222}{5} = 444.4$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-1415}{10} = -141.5$$

Agriculture is directly affected by conflict arising since 10 years. Loan on agriculture sector is decreasing every by approximately minus 141.5 million

Fig 4.8

Agricultural Loan Disbursement For Various Years, NBL



From FYs 2002/03 to 2003/04, high investment of agricultural loan was in FY 2003/04, in which Rs. 780 million was apportioned and in FY 2006/07 only Rs. 199 million loans was segregated.

B. Cottage Industry

Cottage industry needs small scale disbursement. Local natural resources can be use din this sector. Finished product can be exported in foreign country. It also falls into priority sector.

Table. No. 4.11

Trend Analysis of Loan Disbursement In Cottage Industry of NBL

(Rs. In million)

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	629	-2	4	-258
2003/04	2	305	-1	1	-305
2004/05	3	312	0	0	0
2005/06	4	160	1	1	160
2006/07	5	277	2	4	554
		$\sum x = 1683$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = -849$

Source: Corporate Planning and Marketing Department, NBL

Here,

$$\sum x = 1683, \sum x = 0, \sum x^2 = 10, \sum xy = -849, n = 5$$

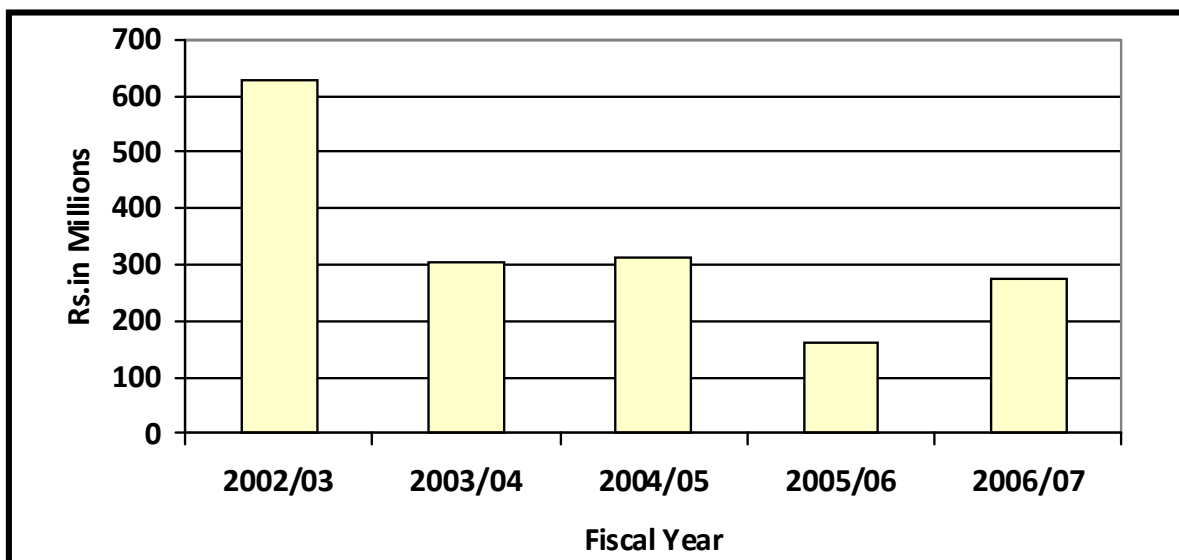
$$a = \frac{\sum y}{n} = \frac{1683}{5} = 336.6$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-849}{10} = -84.9$$

Cottage industries are severely affected by modern technology based multinational companies. Because of it, investment on cottage industry decreases every year approximately by minus 85 million.

Fig. 4.9

Cottage Industry Loan Disbursement for Various Years, NBL



On 5 year of study, cottage industry has high segregation of Rs. 629 million in FY 2002/03 and low segregation of Rs. 160 million in FY 2005/06. But after this period, it shows increasing trend.

C. Service

Service sector includes hospitals, banks, hotels, financial institutions, etc. Service sector occupies first place in international business. NBL is also investing loan in service business since long period.

Table. No. 4.12

Trend Analysis of Loan Disbursement In Service Sector of NBL

(Rs. In million)

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	535	-2	4	-1070
2003/04	2	322	-1	1	-322
2004/05	3	282	0	0	0
2005/06	4	34	1	1	34
2006/07	5	93	2	4	186
		$\sum x = 1266$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = -1172$

Source: Corporate Planning and Marketing Department, NBL

Here,

$$\sum x = 1266, \sum x = 0, \sum x^2 = 10, \sum xy = -1172, n = 5$$

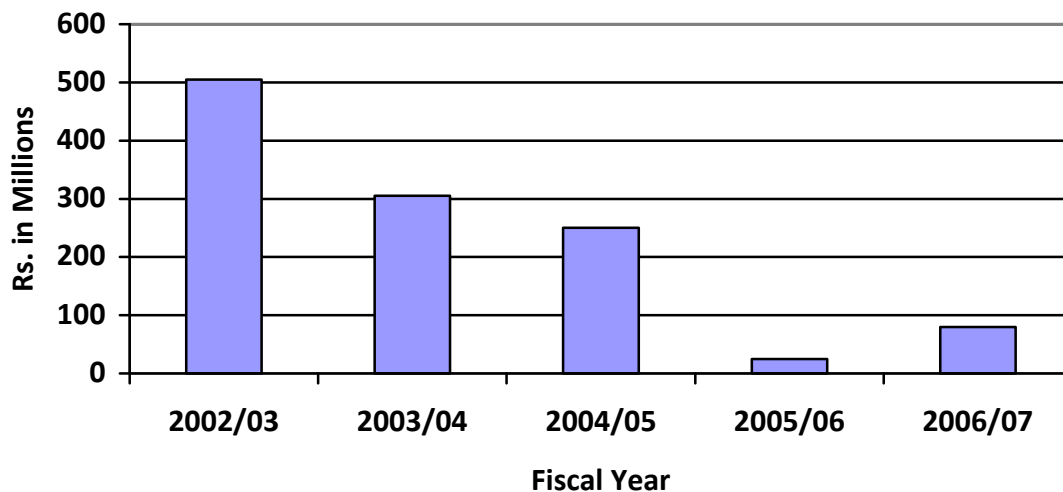
$$a = \frac{\sum y}{n} = \frac{1266}{5} = 253.2$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-1172}{10} = -117.2$$

Among service sector hotel business is highly affected by conflict of past. Not only this, other service business like, hospitals and many others of remote area are also affected. Because of this, it shows decreasing trend. Trend analysis shows that disbursement in this sector decreases approximately by minus Rs. 117 million every year.

Fig. 4.10

Service Sector Loan Disbursement for Various Years, NBL



Among five years of study, service business has low disbursement of Rs. 34 million in FY 2005/06 and highest disbursement of Rs. 535 million in FY 2002/03. But for the last period, it shows increasing trend.

D. Hire Purchase

Due to modernization, urbanization and literacy, hire purchase loan high demand in the present time. NBL announces cheap auto loan, home loan and marginal loan since 2006.

Table. No. 4.13**Trend Analysis of Loan Disbursement In Hire Purchase of NBL**

(Rs. In million)

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	268	-2	4	-536
2003/04	2	194	-1	1	-194
2004/05	3	0	0	0	0
2005/06	4	0	1	1	0
2006/07	5	98	2	4	196
		$\sum x = 560$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = -534$

Source: Corporate Planning and Marketing Department, NBL

Here,

$$\sum x = 560, \sum x = 0, \sum x^2 = 10, \sum xy = -534, n = 5$$

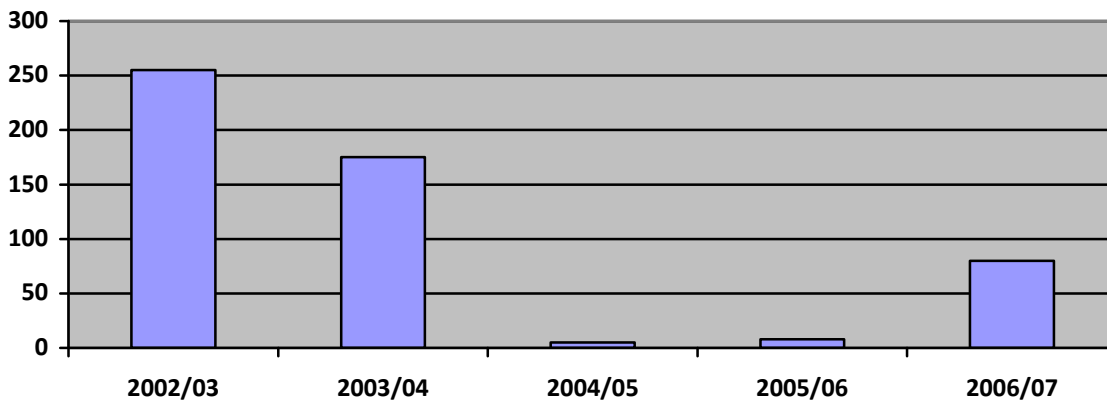
$$a = \frac{\sum y}{n} = \frac{560}{5} = 112$$

$$b = \frac{\sum xy}{x^2} = \frac{-534}{10} = -53.4$$

Conflict also affects the hire purchase. Hire purchase loan figure for FYs 2004/05 and 2005/06 are not available. It means no segregation was made for two fiscal years.

Fig. 4.11

Hire Purchase Loan Disbursement For Various Years, NBL



Hire purchase after the fiscal year 2005/06 shows increasing trend.

E. Deprived

Taking spiritually the sprit of national interest, NBL segregate loan to deprived sector. Loan to deprived sector is high among priority sector.

Table. No. 4.14

Trend Analysis of Loan Disbursement In Deprived Sector of NBL

(Rs. In million)

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	333	-2	4	-666
2003/04	2	448	-1	1	-448
2004/05	3	316	0	0	0
2005/06	4	3106	1	1	3106
2006/07	5	316	2	4	632
		$\sum x = 4519$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = -2624$

Source: Corporate Planning and Marketing Department, NBL

Here,

$$\sum x = 4519, \sum x = 0, \sum x^2 = 10, \sum xy = 2624, n = 5$$

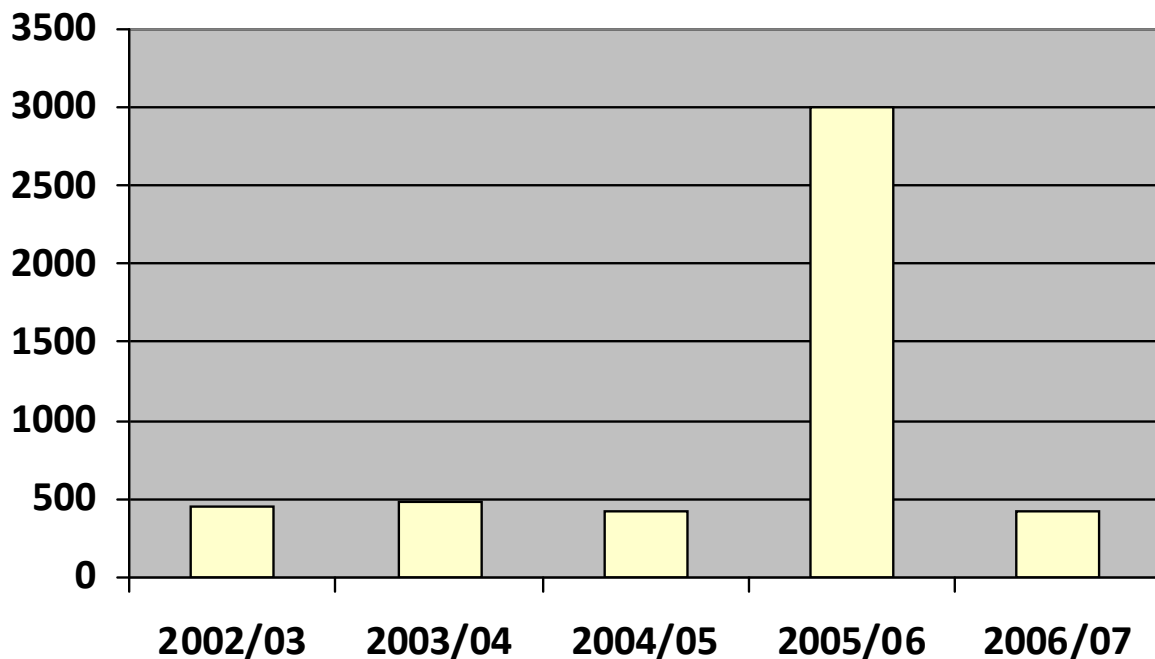
$$a = \frac{\sum y}{n} = \frac{4519}{5} = 903.8$$

$$b = \frac{\sum xy}{x^2} = \frac{-2624}{10} = 262.4$$

Deprived sector loan is increased with conflict. It increases approximately by Rs. 262 million per year.

Fig. 4.12

Deprived Loan Disbursement for Various Years, NBL



Deprived sector loan has increasing trend. In fiscal year 2005/06, disbursement on deprived sector was very high i.e. Rs. 3106 million and for FYs 2004/05 and 2006/07, it has equal disbursement of Rs. 316 million.

Non-priority sector loan presented in Table No.4.9 can further be classified into many topics. But by doing so, study will be very vast. So, they are summarized and presented here. Percentage of non-priority loan was 88.05 percent in FY 2002/03, 89.36 percent in FY 2003/04, 91.40 percent in FY 2004/05, 80.05 percent in FY 2005/06. Hence, it shows

increasing trend. But priority sector loan has decreasing trend. It cover 19.95 percent of total loan in FY 2005/06. However it reduced to 5.35 percent in FY 2006/07.

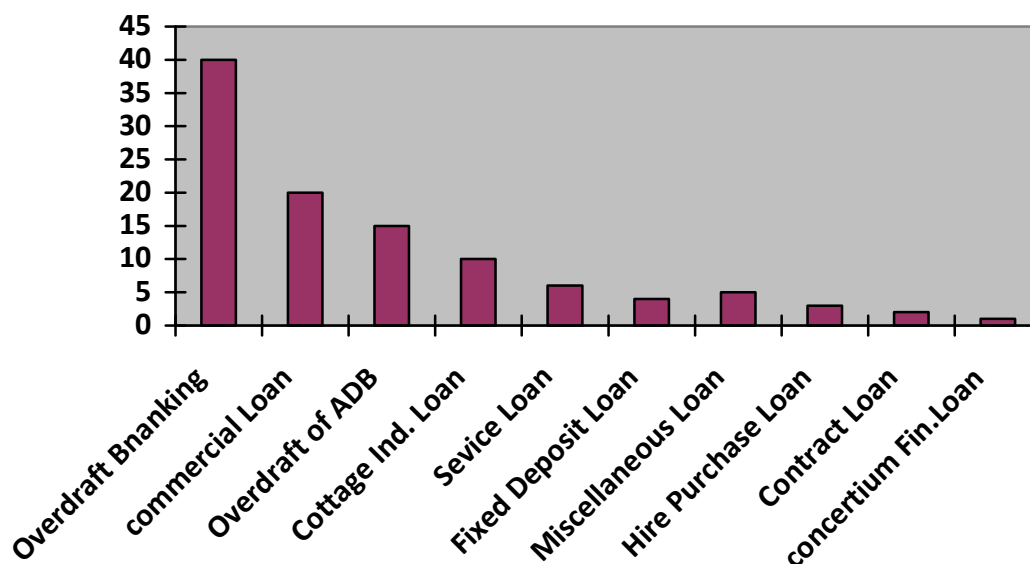
The trend of decreasing is considered good in the context of outstanding loan.

4.3.3 Agricultural Development Bank

Here we deal with purpose-wise loan disbursement, recovery and outstanding situation of ADBL commercial banking services.

Fig. No. 4.13

Loan Disbursement of Commercial Banking, ADBL : Loan Portfolio Share Percent By Purpose Wise (2002/03–2006/07)



As shown in Table No. 4.14 and Figure No. 4.13, Commercial Banking Department, ADBL has categorized loan portfolio into 9 purposes. The highest disbursement of Rs. 3990 million (47.33 percent of total) was recorded in overdraft banking in FY 2002/03. The second highest of Rs. 1643 million (11.71 percent of total) in overdraft of ADBL. The composition of investment portfolio has not changed much in subsequent fiscal year. The share of disbursement in overdraft banking remained at top ranging from Rs. 3990 million to Rs. 6463 million from fiscal year 2002/03 to 2006/07.

The amount of disbursement totaled Rs. 24792 million in overdraft banking. Whereas consortium finance loan has very low investment of Rs. 13 million from fiscal year 2002/03 to 2006/07. The average growth rate recorded for the period of 5 years. 10.41 percent in overdraft banking 26.89 percent in overdraft of ADB, 16.07 percent in commercial loan, 19.52 percent in cottage industry loan, minus 0.14 percent in contract loan, minus 20.64 percent in hire purchase loan, 28.65 percent in service loan, 33.87 percent in miscellaneous loan and 64.48 percent in fixed deposit loan. Fixed deposit loan has highest annual growth rate of 64.48 percent whereas hire purchase loan has lowest annual growth rate of minus 20.64 percent.

From figure it is clear that overdraft banking, commercial loan and overdraft of ADB has highest disbursement whereas consortium finance loan has very lowest and unequal disbursement.

Fig. 4.14

**Loan Recovery of Commercial Department, ADBL by Purpose Wise
(2002/03 – 2006/07)**

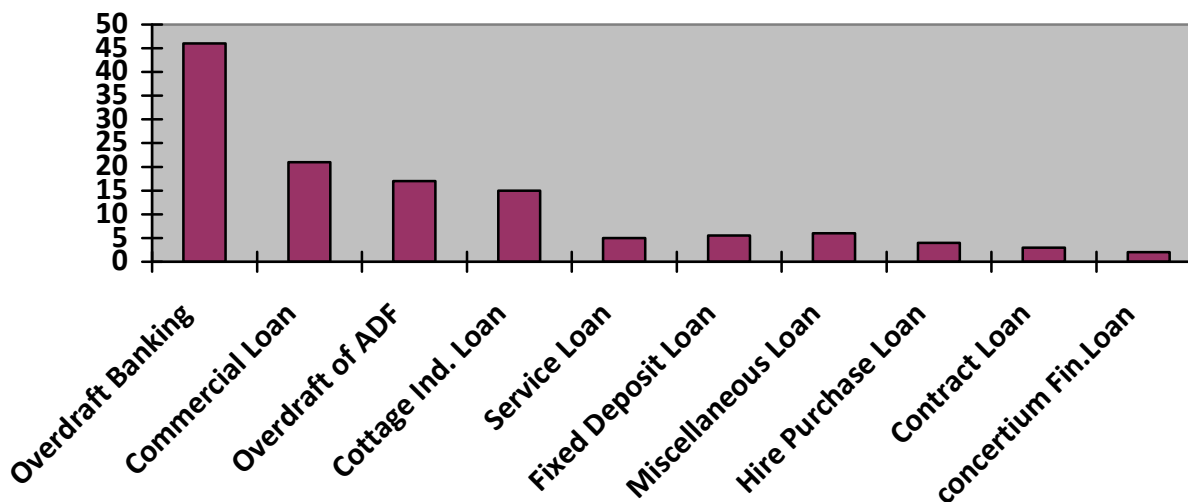


Table No. 4.16 and Figure No. 4.14 shows that the distribution of principal collection of ADBL's commercial banking services. Principal collection of ADBL's commercial banking services is categorized into 9 different purposes. In 2002/03, the highest collection of Rs. 3853 million (52.32 percent of total) was recorded in the overdraft banking. The share of overdraft banking remained at the top from the fiscal year 2002/03 to 2006/07. The recovery grows by 300 percentages the fiscal year 2006/07 as compared to the previous fiscal year 2005/06. Consortium finance loan has very unusual recovery. The average growth rate (see Appendix VIII) is 9.31 percent for overdraft banking, 31.23 percent for overdraft of ADB, 19.68 percent for commercial loan, 24.40 percent for cottage industry loan, 8.06 percent for contract loan, minus 8.30 percent for hire purchase loan, 75.98 percent for miscellaneous loan and 62.45 percent of fixed deposit loan. In fiscal year 2006/07, the highest amount of Rs. 5894 million was collected in overdraft banking, Rs. 3044 million in commercial loan and Rs.2711 million in overdraft of ADB. The lowest collection of principal is in consortium finance loan.

Fig. 4. 15

**Loan Outstanding of Commercial Department, ADBL by Purpose Wise
(2002/03–2006/07)**

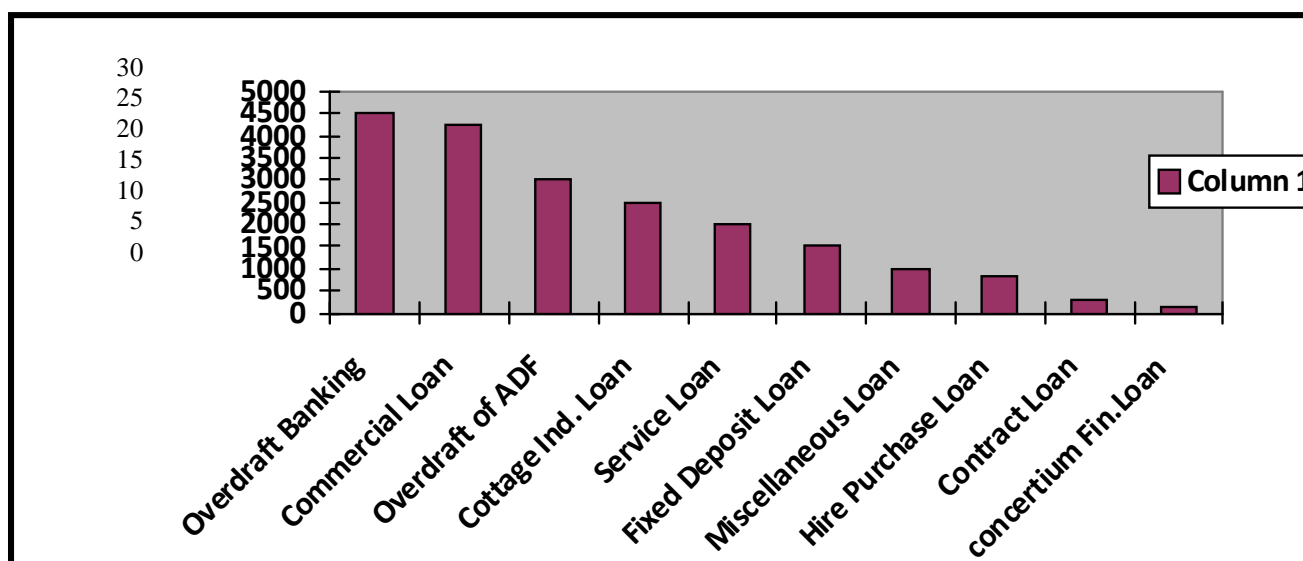


Table No. 4.16 and Figure No. 4.15 shows the distribution of outstanding loan of ADBL into 9 different purposes. The share of overdraft banking remains at top in each year i.e. from FYs 2002/03 to 2006/07. Commercial loan stands on second position. However, contract loan and consortium finance loan have low share of outstanding. The average percent in cottage industry loan, minus 4.98 percent in contract in overdraft ADB, 15.27 percent in cottage industry loan, minus 4.98 percent in contract loan minus, 2.08 percent in hire purchase loan 25.96 percent in service loan, 62.02 percent in miscellaneous loan and minus 3.34 percent on fixed deposit loan.

As overdraft banking and commercial loan are subjected to higher disbursement ratio, their outstanding figures are also in higher position.

4.4 MISCELLANEOUS ANALYSIS

Non-performing loan of NBL and total loan of ADBL are analyzed under this topic. Nepal Bank Limited has large portion of non-performing loan in the past. But in recent year, it has decreasing trend. Similarly, total loan of ADBL is segregated into commercial and agricultural loan. Study will be more specific by such data analysis.

4.4.1 Non-Performing Loan Analysis of Nepal Bank Limited

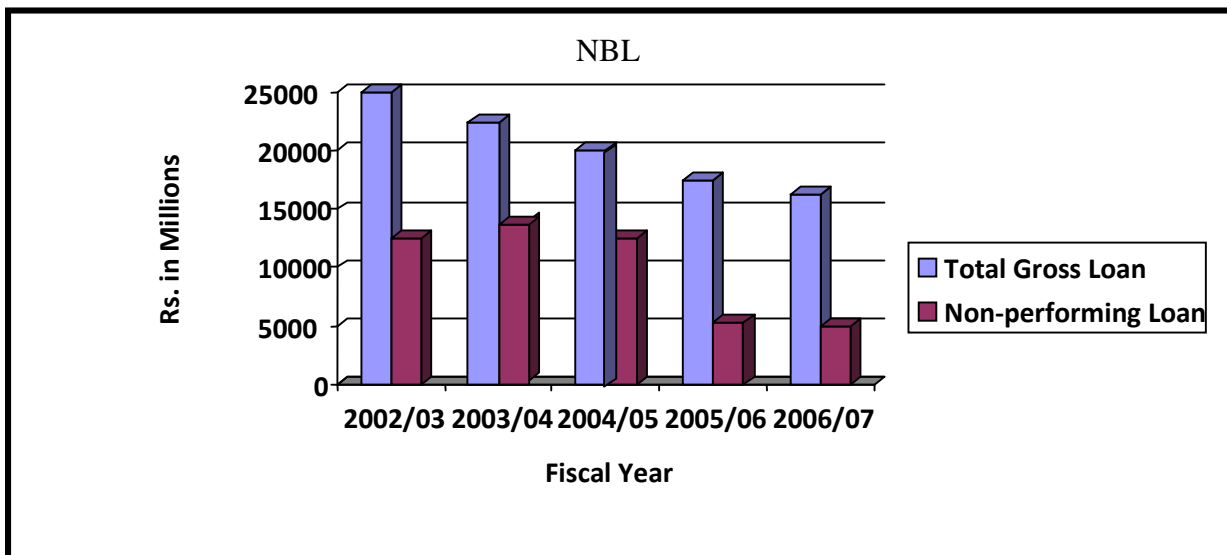
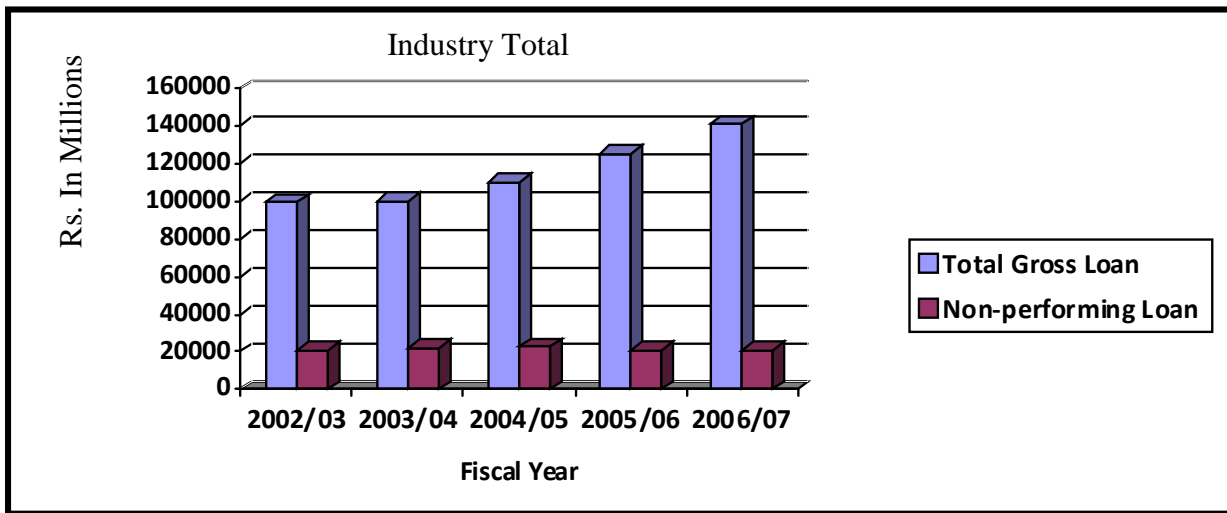
Bad debt and non-performing loan do not have same meaning. They have some fundamental differences in their meaning. Non-performing loan can be debt but bad debt can not be non-performing loan. Non-performing loan represent that which remain unpaid after loan due date.

NBL's non-performing loan is compared with its total outstanding figure and with outstanding amount of other commercial bank. The commercial banks taken for study are presented in following table.

Table No. 4.18 is divided into four main parts. First part includes industry total figures. Total gross loan, non-performing loan and NPL to gross loan in percentage are further segregated under industry total. Second section deal with NBL's share of described topic. Third section deal with NBL percentage of total gross in industry. Finally, the fourth section deal with NBL percentage of NBL in industry.

Fig. 4.16

Non-Performing Loan Status of Total Industry And NBL



Total Gross Loan of NBL for the FY 2002/03 was Rs. 20419 million, out of which NPL was Rs. 10373 million. It represents 50.80 percent of NBL's gross loan. For FY 2003/04 total gross loan of NBL was Rs. 19253 million, out of which NPL was Rs. 10834 million. It represents 56.27 percent of NBL's gross loan. For fiscal year 2004/05 total gross loan of NBL was Rs.18132 million, out of which NPL was Rs. 10965 million. It represents 60.476 percent of NBL's gross loan. For fiscal year 2005/06 total gross loan of NBL was Rs. 9640 million. It represents 53.74 percent of NBL's gross loan. And for fiscal year 2006/07 NBL's gross loan was Rs. 16868 million, out of which NPL was Rs 8372 million. It represents 49.64 percent of NBL's gross loan. In this way NPL goes on decreasing. After undertaking of NBL old management by IVVMT, lot of progress is obvious in loan administration. Other shares and ratio of outstanding are also gradually declining. It signifies good performance of whole organization.

4.4.2 Segregation Of Total Loan Of Agricultural Development Bank

Due to low infrastructure, Development and lack of other primary necessity, industrial and commercial sector is behind in our country.

Table no. 4.19

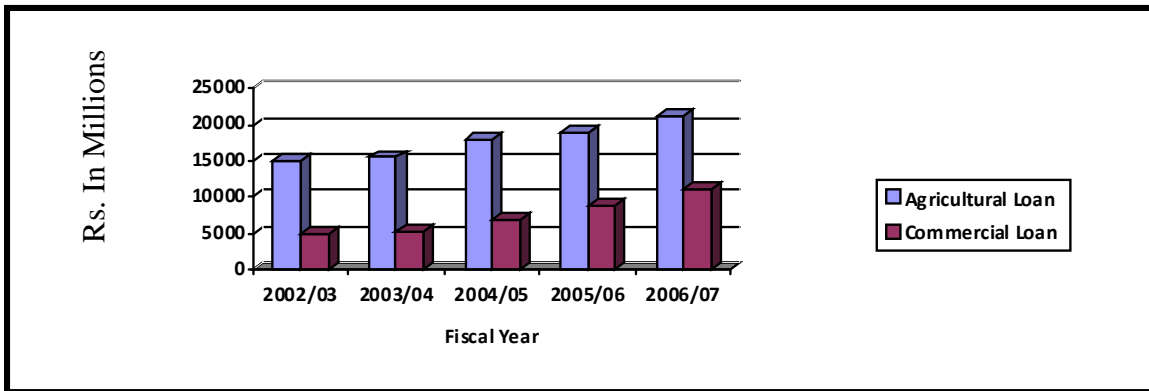
Segregation of Total Loan of Agricultural Development Bank

Fiscal Year	Loans		Total	Percentage of Commercial
	Agriculture	Commercial		
2002/03	14782	5567	20349	27.36
2003/04	16673	6389	23062	27.70
2004/05	18616	8083	26699	30.27
2005/06	19686	9657	29343	32.91
2006/07	21167	10986	32153	34.17

The above table shows that in fiscal year 2006/07 only 34.17 percentage loan is for commercial sector. Although, this percentage was 27.36 in fiscal year 2002/03. It shows that it has an increasing trend.

Fig. 4.17

**Total Loan Segregation of ADBL Into
Agricultural and Commercial**



The total segregation of loan Rs. 14782 million in agriculture sector increases to Rs. 21167 million from fiscal year 202/03 to 20607 respectively. It means 30.16 percentage increment for the period. Bit for the same period commercial loan increases from Rs. 5567 million to Rs. 10986 million. It shows the percentage increment of 49.33 Both loan outstanding on agricultural sector and commercial sector is increasing. This ratio should be low for healthy development of organization nation.

4.5 ANALYSIS OF RESEARCH QUESTION

Research Question No. 1

– Whether there is a significant relationship between loan disbursement and recovery?

This question is solved through the test Karl Pearson’s coefficient of correlation and regression analysis. Due to cumulative figure of NBL’s recovery, priority sector loan investment and recovery data are processed and presented. Recovery of loan of both banks seems to be directly proportiona, to the lan disbursement because both have shown movement in the same direction i.e. there was increasing order. Therefore, the increasing fund of recovery is associated with similar trend of loan disbursement. The coefficient of correlation between loan disbursement and recovery of NBL has brought = 0.9154 and ADBL has brought = 0.9961. It indicates that there is a high degree of position correlation between the two variables, which is nearer to plus 1. This, higher volume of recovery, grater

will be loan disbursement. The result can be verified by regression equation, loan disbursement (y) and recovery (z). The regression equation of NBL is $r_{nbl} = 3.78 + 0.95z$ and ADBL is $r_{adbl} = 1.24 + 0.99x$. Both have positive relation between loan disbursement and recovery.

Interpretation can be clarified by the probable errors of the coefficient of correlation. Reliability of coefficient of correlation can be measured by probable error[®]. If the value of r is less than six times of probable error, there is no evidence of correlation i.e. the value of r is not at all significant since the value of correlation r_{xy} is greater than 6 per i.e. $0.9154 > 0.2934$ for NBL and $0.9961 > 0.0144$ for ADBL the value of r_{xy} is significant. In other words, coefficient of correlation between loan disbursement and recovery is significant.

Research Question No. 2

–Whether there is a significant relationship between loan disbursement and outstanding loan? Between two which bank has satisfactory performance?

This question can be also solved through the test of Karl Pearson's coefficient of correlation and regression analysis. Total figures of loan disbursement and outstanding of both NBL and ADBL can be presented and processed.

Outstanding loan of NBL seems to be decreasing. However., investment seems to be increasing i.e. both do not have movement in same direction. But for ADBL, outstanding loan seems to be proportional to loan disbursement because both have shown movement in same direction i.e. there was increasing order.

All the data be processed as presented in research question no. 1 and their respective appendix for research no. 2. For NBL no significant relation between loan disbursement and outstanding can be recorded. But for ADBL significant relation between the variable can be recorded. This is due to reciprocal relation between loan disbursement and outstanding for NBL. But data of ADBL shows significant relationship.

Satisfactory Performance

Performance is not related to a single factor. As our research is concerned with loan disbursement, recovery and outstanding, recovery figures should analyzed and processed for interpretation performance.

After undertaking of NBL's management by ICCMT, lot of progress is viable in recovery pattern. But this level of performance can not be declared as satisfactory. Many factors are still remained to be managed and adjusted. As outstanding figure are decreasing and disbursement figure are increasing progress is seem achieved. But till now non-performing loan status is high (49.64%). Still NBL's percentage of non-performing NBL's percentage of non-performing loan in industry is high (i.e. 30.63%). So, it can be said that NBL is on the path of improvement.

ADBL has now diversified its disbursement portfolio. Non-performing loan of ADBL is low as compared to whole industry. Similarly, its commercial banking experience is low.

Performance of both banks are satisfactory.

Research question No. 3

- Can we make comparison between two banks?

A solid comparison can not be made between NBL and ADBL because of their priority, interest, commitment, way of rendering services and others. A hypothesis of commercial banking services of ADBL is hence taken in this research work. All factors of both banks are incomparable. But a simple comparative table is presented here.

NBL	ADBL
Established on September 15,1937.	Established on January 21,1968.
Shares owned by government and private sectors.	Shares owned by government only.
Established with concept of commercial bank. Profit earning factor is highly considered.	Established with concept of development bank. Poverty reduction factor is highly considered.
Started commercial banking activities from date of bor.	Commenced Commercial banking activities after 23 years of establishment.
Branches are many and are located in almost all regions.	Commercial branches are few are centralized.

Table No. 4.20

Comparison Between NBL and ADBL

4.6 MAJOR FINDINGS FROM THE STUDY

- Commercial disbursement of NBL and ADBL goes on increasing. This shows that there is an increasing demand of commercial credit.
- A total loan of Rs. 20419 million in FY 2002/03 of NBL dropped to Rs. 16868 million in FY 2006/07. But total loan of Rs. 20349 million of ADBL for FY 2002/03 climbed to Rs. 32153 million in FY 2006/07. Hence opposite movement is noticed.
- Average growth of disbursement for NBL is 24.32 percent. However outstanding loan of NBL goes on decreasing with average growth rate of minus 4.64 per annum. But for ADBL average growth rate on disbursement, recovery and outstanding are 19.77 percent, 21.53 percent and 18.63 percent respectively.
- Recovery figure report that a total of 13270 accounts are recovered by NBL since June 2002 to November 2007. However for ADBL recovery figures are satisfactory as compared to industry average.
- Purpose wise loan disbursement and recovery of NBL are not available. Hence outstanding figures are tabulated and described. However, for ADBL all three, disbursement, recovery and outstanding data are processed and analyzed. NBL's purpose wise loan is divided into priority and non-priority. Non priority loan for FY 2002/03 was 88.54 percent of total loan, 89.36 percent for FY 2003/04, 92.40 percent for FY 2004/05, 80.05 percent for FY 2005/06 and 94.65 percent for FY 2006/07. But for ADBL purpose wise loan is segregated into nine categories among which overdraft banking has higher segregation of disbursement.
- Non-performing loan of NBL is decreasing and segregation of commercial loan by ADBL is increasing. Also ADBL is going to dropout Small Farmers Development Program (SFDP) from coming fiscal year.
- Loan user of NBL includes businessman and industrialist. However, loan user of ADBL includes small entrepreneurs and cottage industries.

- High degree of positive correlation between loan investment, recovery and outstanding is noticed in case of ADBL. But this situation is just opposite in case of NBL

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

Nepal Bank Ltd. Started banking system in Nepal. Agricultural Development Bank is equally responsible for increment of life standard and country's development. They both have large share in today's economic development and urbanization.

Weakness seemed after 1997 were now tackled by new management ICCMT, at Nepal Bank Ltd. Accounting systems, expenses, staffing, loan disbursement process etc. are in correction and change. Disbursement seems increasing at slow rate. Recovery is at the level of satisfactory, outstanding loan seems decreasing. This indicates that the structure reform of NBL is effective.

Agricultural Development Bank dropped some projects while increased other in the recent period. This change is essential and considered good. Disbursement, recovery and outstanding of ABFBL are at the marginal level. Increased disbursement increases outstanding loan. But the pace is very satisfactory due to effective recovery. Financial and other technical support of Asian Development Bank helps in progress of Agricultural Development Bank.

5.2 CONCLUSION

From the analysis of this research work, following conclusions can be drawn.

This research is concerned with loan disbursement, recovery and outstanding. This is a comparative study and NBL and ADBL are taken on research work. For the purpose of gathering related matter, both organizations and their branches are regularly visited and formal/informal talks with related officers are done. Central bank is also concerned for gathering information. Initially, totally disbursement, recovery and outstanding figures of NBVL and ADBL are presented. In case of NBL it is found that disbursement and

outstanding figures have reciprocal. Disbursement goes on increasing but on other hand outstanding loans seems decreasing. This movement can be accepted and considered satisfactory. But for ADBL disbursement and outstanding both figures have increasing movement. Also a significant relationship between the variable is recorded. The increasing fund of loan disbursement is associated with similar trend of outstanding loan. The analysis also shows positive result. For recovery topic, the cumulative figure of NBL is taken and six way of recovery are analyzed. This analysis revealed that after undertaking of NBL management by ICCMT, recovery have positive movement, For ASBL, recovery is increased with increased figure of disbursement and outstanding. This trend also shows positive result.

Secondly, purpose-wise loan disbursement, outstanding and recovery figure are analyzed. Purpose wise loan of NBL is categorized into priority sector and non-priority sector priority sector includes agriculture, industry, service, hire purchase and deprived. Study revealed that non-priority loan has higher ratio. Priority sector loan have very irregular disbursement. It can be verified by deprived loan. Similarly for ADBL, purpose wise loan disbursement, recovery and outstanding are sub-divided into nine parts. Irregular disbursement, recovery and outstanding are not completely seemed. All of them have positive movement.

Finally, miscellaneous analysis OF LOAN IS DONE. Under this heading non-performing loan of NBL and total loan of ADBL are studied, analyzed and processed. Under non-performing loan industry total, NBL share, NBL percentage into total gross loan of industry and NBL percentage of non-performing loan in industry is analyzed. Non-performing loan of NBL shows 50.80 percent to total gross loan in FY 2002/03, 56.27 percent in FY 2003/04, 60.47 percent in 2004/05, 53.74 percent in 2005/06 and 49.64 percent in 2006/07. In other word, NBL to gross loan goes on decreasing. It can be notified as good. Similarly, ADBL's total loan is segregated into agricultural and commercial. Percentage of commercial load in FY 2002/03 was 27.36 percent however, it increased to 34.17 percent in FY 2006/07. Study shows increment in commercial loan.

5.3 RECOMMENDATIONS

Following recommendations can be made from the analysis of study. It will help the management to take the quick, rational and effective decisions.

- Short term loan must be largely distributed. This will help to utilize small and local resources.
- Loan disbursement is largely effected by recovery status. So, management should always adopt such a policy that lure the customers to pay loan before due date. Liberal action and subsidy can be schemed for this. Similarly, the outstanding loan must be in a decreasing trend.
- Non-performing loan of NBL must be at least on marginal level. Similarly, ADBL must segregate more proportion to its commercial banking sector dropping unnecessary program and project.
- Purpose-wise loan disbursement must follow the principle of nation interest.
- Supervision and inspection relate to loan must be unbiased, strict and efficient.
- Loan disbursement in priority sector is decreasing every year after new management. It is not positive activity like agriculture base country Nepal.
- To utilize small sources in Nepal, short term loan is necessary to poor people so that the bank must not forget nation necessary.
- Supervision and inspection system must be strict, effective it helps them to understand the use of loan if the borrower could not full fill the promise they made while taking loan and rules and regulation of the both bank.
- Policy should be formulated taking into consideration the geographical features and the infrastructure development within the country.

- These days new management is investing in safety fund with this the bank could invest in hydropower which will benefit for nation and bank.
- New management should be introduced modern accounting system in every branch of both bank.

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LEAST SQUARE TREND LINE OF LOAN DISBURSEMENT OF NBL

Let the straight line trend be,

$$y = a + bx \dots\dots\dots(i)$$

FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	6776	-2	4	-13552
2003/04	2	7151	-1	1	-7151
2004/05	3	12464	0	0	0
2005/06	4	11021	1	1	11021
2006/07	5	14220	2	4	28440
		$\sum x = 51632$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = -18758$

Since, $x = 0$

So,

$$a = \frac{\sum y}{n} = \frac{51632}{5} = 10326$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{18758}{10} = 1876$$

Substituting the values of a and b in equation (i), the equation of trend line is

$$y = 10326 + 1876x.$$

LEAST SQUARE TREND LINE OF OUTSTANDING LOAN OF NBL

Let the straight line trend be,

$$y = a + bx \dots \dots \dots (i)$$

FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	20419	-2	4	-40838
2003/04	2	19253	-1	1	-19253
2004/05	3	18132	0	0	0
2005/06	4	17938	1	1	17938
2006/07	5	16868	2	4	33736
		$\sum x = 92610$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = -8417$

Since, $x = 0$

So,
$$a = \frac{\sum y}{n} = \frac{92610}{5} = 18522$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-8417}{10} = -842$$

Substituting the values of a and b in equation (i), the equation of trend line is

$$y = 18522 - 842x.$$

LEAST SQUARE TREND LINE OF LOAN DISBURSEMENT OF NBL

Let the straight line trend be,

$$y = a + bx \dots\dots\dots(i)$$

FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	8457	-2	4	-16914
2003/04	2	10456	-1	1	-10456
2004/05	3	12831	0	0	0
2005/06	4	13830	1	1	13830
2006/07	5	17281	2	4	34562
		$\sum x = 62855$	$\sum x = 0$	$\sum x = 10^2$	$\sum xy = 21022$

Since, $x = 0$

$$\text{So, } a = \frac{\sum y}{n} = \frac{62855}{5} = 12571$$

$$b = \frac{\sum xy}{x^2} = \frac{21022}{10} = 2102$$

Substituting the values of a and b in equation (i), the equation of trend line is

$$y = 12571 + 2102x.$$

LEAST SQUARE TREND LINE OF LOAN DISBURSEMENT OF NBL

Let the straight line trend be,

$$y = a + bx \dots\dots\dots(i)$$

FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	7365	-2	4	-14730
2003/04	2	9634	-1	1	-9634
2004/05	3	11137	0	0	0
2005/06	4	12697	1	1	12697
2006/07	5	15969	2	4	31918
		$\sum x = 56792$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 20251$

Since, $x = 0$

So,
$$a = \frac{\sum y}{n} = \frac{56792}{5} = 11358$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{20251}{10} = 2025$$

Substituting the values of a and b in equation (i), the equation of trend line is

$$y = 11358 + 2025x.$$

LEAST SQUARE TREND LINE OF OUTSTANDING LOAN OF ADBL

Let the straight line trend be,

$$y = a + bx \dots \dots \dots (i)$$

FITTING OF TREND LINE BY LEAST SQUARE METHOD

Fiscal Year	Year (x)	Loan Disbursement (y)	X=x-3	X ²	Xy
2002/03	1	5567	-2	4	-11134
2003/04	2	6389	-1	1	-6389
2004/05	3	8083	0	0	0
2005/06	4	9657	1	1	9657
2006/07	5	10986	2	4	21972
		$\sum x = 40682$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 14106$

Since, $x = 0$

$$\text{So, } a = \frac{\sum y}{n} = \frac{40682}{5} = 8136$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{14106}{10} = 1411$$

Substituting the values of a and b in equation (i), the equation of trend line is

$$y = 8136 + 1411x.$$

APPENDIX-VI

Calculation of Average Growth Rate on purpose-wise loan disbursement of ADBL's commercial banking services.

1.a Overdraft Banking

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	3990	–
2003/04	4228	5.96%
2004/05	4868	15.14%
2005/06	5243	7.70%
2006/07	6463	2327%
		Total = $52.07/5 = 10.41\%$

1.b Overdraft of ADB

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	987	–
2003/04	1189	20.47%
2004/05	2318	94.95%
2005/06	2315	–0.13%
2006/07	2759	19.18%
		Total = $134.47/5 = 26.89\%$

2. Commercial

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	1643	–
2003/04	2369	44.19%
2004/05	2573	8.61%
2005/06	2794	8.59%
2006/07	3324	18.97%
		Total = $80.36/5 = 16.07\%$

3. Cottage Industry Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	753	–
2003/04	1044	38.65%
2004/05	1281	22.70%
2005/06	1524	18.97%
2006/07	1787	17.26%
		Total = $95.58/5 = 19.52\%$

4. Contract Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	36	–
2003/04	34	–5.56%
2004/05	46	35.29%
2005/06	32	–30.43%
2006/07	32	–
		Total = $0.7/5 = 0.14\%$

5. Hire Purchase Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	210	–
2003/04	174	–17.14%
2004/05	228	31.03%
2005/06	88	–61.40%
2006/07	39	–55.68
		Total = $103.19/5 = 20.64\%$

6. Service Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	297	–
2003/04	571	92.26%
2004/05	627	9.81%
2005/06	878	40.03%
2006/07	888	1.14%
		Total = $143.24/5 = 28.65\%$

7. Consortium Finance Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	0	–
2003/04	0	–
2004/05	8	
2005/06	5	–37.5
2006/07	0	–10

8. Miscellaneous Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	204	–
2003/04	391	91.67%
2004/05	540	38.11%
2005/06	668	23.70%
2006/07	774	15.87%
		Total = $169.35/5 = 33.87\%$

9. Fixed Deposit Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	337	–
2003/04	456	35.37%
2004/05	342	–25.0%
2005/06	283	–17.25%
2006/07	1215	329.33
		Total = $322.39 = 64.48\%$

Calculation of Average Growth Rate on purpose-wise loan recovery of ADBL's commercial banking services.

1.a Overdraft Banking

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	3853	–
2003/04	4321	12.15%
2004/05	4669	8.05%
2005/06	4939	5.78%
2006/07	5894	19.34%
		Total = $45.32/5 = 9.06\%$

1.b Overdraft of ADB

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	809	–
2003/04	988	22.13%
2004/05	1965	98.89%
2005/06	2410	22.64%
2006/07	2711	12.49%
		Total = $156.15/5 = 31.23\%$

2. Commercial Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	1330	–
2003/04	2095	57.52%
2004/05	2130	1.67%
2005/06	2466	15.77%
2006/07	3044	23.44%
		Total = $98.4/5 = 19.68\%$

3. Cottage Industry Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	574	–
2003/04	818	42.51%
2004/05	1041	27.80%
2005/06	1372	31.80%
2006/07	1652	20.41%
		Total = $121.98/5 = 24.40\%$

4. Contract Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	32	–
2003/04	31	–3.13%
2004/05	44	41.94%
2005/06	30	–3.82%
2006/07	40	33.33%
		Total = $40.32/5 = 8.06\%$

5. Hire Purchase Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	162	–
2003/04	156	–3.70%
2004/05	163	4.49%
2005/06	121	–25.77%
2006/07	101	–16.53%
		Total = $-41.51/5 = -8.30\%$

6. Service Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	199	–
2003/04	333	67.34%
2004/05	397	19.22%
2005/06	662	66.75%
2006/07	765	15.56%
		Total = $168.87/5 = 33.77\%$

7. Consortium Finance Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	0	–
2003/04	0	0
2004/05	0	0
2005/06	3	
2006/07	0	–100

8. Miscellaneous Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	103	–
2003/04	459	345.63%
2004/05	375	–18.30%
2005/06	384	19.25%
2006/07	512	33.33%
		Total = $379.91/5 = 75.98\%$

9. Fixed Deposit Loan

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	303	–
2003/04	433	42.90%
2004/05	353	–18.48%
2005/06	310	–12.18%
2006/07	1240	300.00%
		Total = $312.24/5 = 62.45\%$

APPENDIX – VIII

Calculation of Average Growth Rate on purpose-wise loan outstanding of ADBL's commercial banking services.

1.a Overdraft Banking

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	2014	–
2003/04	1800	–10.63%
2004/05	2137	18.72%
2005/06	2551	19.37%
2006/07	3132	22.78%
		Total = $50.24/5 = 10.05\%$

1.b Overdraft of ADB

(Rs. In million)

Fiscal Year	Disbursement	Annual Growth Rate
2002/03	285	–
2003/04	495	73.68%
2004/05	727	46.87%
2005/06	831	14.31%
2006/07	833	0.24%
		Total = $135.1/5 = 27.05\%$