PRESENTS

PRIORITY SECTOR LENDING

Background

Priority sectors are the real sectors of the economy. Sectoral components of GDP such as agriculture, industry and services are the productive sectors. It reflects the viable, creditworthy picture of an economy emerging. Investment on the productive sectors has been a main focus of the government thus to stimulate economic growth and generate income and employment opportunities. Though NRB has made mandatory provision of lending in agriculture and productive sector to support economy, BFIS are still behind as expected to lend on productive sector. The deficiency of Capital in those sectors is one of the main reasons for low productivity and sluggish growth. In order to achieve the sustainable economic growth of the country, NRB has directed BFIs to lend in some priority sectors of the economy. Currently, such directed lending is focused on priority sector and deprived sector.

Despite dismal lending demand from the growth accelerator agriculture, a deliberate focus on the agriculture sector by both government and central bank with rapid agriculture insurance implementation helps boost lending. However, the lending idea and decisions are still in bleak for many Banks/FIs due to the lack of the nature of business and inherent risks occupied by such sectors.

Priority-sector lending is mandatory, but is hurdled in many ways mainly because of lack of qualified human resources. The bank officials also lacks technical expertise and know-how of the nature of business, its performance and success stories which is making Banks/FIs fearing to invest.

NATIONAL BANKING INSTITUTE LTD.

Central Plaza, 6th Floor, Narayanchour, Naxal, Kathmandu, Nepal.
T : 977-1-4415903/905, 4436001 • F: 977-1-4441351
info@nbi.com.np • www.nbi.com.np

Program Details

Rationale	The monetary stance of NRB is designed to ensure that the credit envelope would be sufficient for productive investments to support the attainment of the government's GDP growth target. In management of liquidity by the NRB should ensure adequate flow of credit to the productive sectors. Thus, this policy is to encourage the BFIs to float the loan in productive sector and decrease their lending in unproductive sector which also helps BFIs to minimize their credit risk. Due to various policies adopted by NRB to increase the exposures on these sectors, the total loan floated on these sectors has been increased significantly over the years. NRB has made the mandatory requirement for BFIs to lend in those sectors, where class — the 'A' class commercial banks must float 25 percent of their total loans to productive sectors by mid-July, 2018, among which they are required to flow at least 10 percent of their credit in agriculture, 5 percent in hydroelectricity, 5 percent in tourism and rest in other priority sectors by mid-July, 2018. Likewise, class —B and —C BFIs are required to lend 15 percent and 10 percent respectively on productive sectors. The main objective of this policy is to encourage the BFIs to diversify the loan in productive sector and discourage lending in unproductive sector to ensure economic dynamism and stability. Even after the unexpected earthquake and reconstruction on its aftermath, the business activities in the country has been narrowed, yet recent blockade has spurred the focus of investments on real sector significantly. Though investment buoyantly in the agriculture, tourism and SMEs sectors is not possible following recent blockades and obstructions, the direct lending is essential to meet the mandatory lending requirement. According to the Financial Stability Report 2016, the commercial banks, as on mid-July 2016 had provided 16.59 percent of their total loan on productive sector which includes 7.22% in agriculture, 2.73% in energy sector and 3.27% in tourism sector and 3.37% in cottage and small industries respectively. Commercial banks have lent 9.95% in combined agriculture and energy sector which is less than the then regulatory limit of 12 %. The productive sector lending of commercial banks in mid-July 2015 was 22.5%. Thus, as evident from figure, commercial banks are still below regulatory requirements of NRB on productive sector.
Course Overview	Training Program on Priority-sector Lending shows Banks/FIs how to identify segments within the productive sectors where profitable and safe lending can be undertaken. It involves primarily to know the business, its size, viability and overall risk analysis. It also examines the specific credit, financial analysis, preparations, issues, regulatory requirements, policies and procedures that are needed to ensure that BFIs make sound credit decisions. The government has considered automobile and real estate loan as unproductive sectors, but the private sectors has been demanding to put it under the productive sector. NRB have set the provision to calculate 50 percent of banks' total exposure to the productive sector and marginalized community loan. Moreover banks' investment on productive sectors is also increasing, but not up to the target. Dearth will increase with the increasing investment of BFIs on unproductive sectors. And it might increase lack in domestic production which is consider as counterproductive for sustainable development of economy. This curriculum is specifically designed with the Cottage and Small Scale Industries (CSSI), Tourism and Agribusiness lender in mind. The lender will develop solid knowledge of such lending principles and practices that will enable them to confidently manage portfolio loans. The overall learning objective is to understand customer goals, credit strengths and weaknesses that will enable the lender to deliver a sound financial solution to support their clients businesses.

Program Details

Level (Low/Mid/Senior/ High)	Up to Sr. Officers
Duration (in Days)	1.5 Days
Target Audience	Relationship Managers (Junior/Senior Officers)
Program Takeaways	After attending the session, the participant will be able to: • Understand the nature of productive sectors, nature of particular business • Ability to assess the factors associated with lending to productive-sector businesses, and utilize techniques for mitigating risks that affect overall borrower creditworthiness • Identify the unique risks inherent in CSSI, tourism and agricultural lending deals and an underwriting framework to ensure the quality of lending decisions. • Each learning module highlights questions that a lender should ask the borrower to support credit risk assessment and lending decision skills for the lender.
Contents	• Regulatory Provisions & Updates • Agribusiness: Concept, Farm Product Design & Marketing • Agribusiness: Accessing & evaluating borrowers • Exercises, Q & A & Discussions • Tourism, CSI& SME: Product Design& Marketing • Exercises & Dummy Credit Appraisal • Risk Characteristics, Assessment & Mitigation Techniques
Methodology	The methodology will be class-lecture, group exercise, interaction and case-study based ensuring the bank staff can return to their workplace, ready to implement their new skills.
Date & Time	2nd (3:00pm to 6:00pm) & 3rd (9:30am to 5:00pm) February 2018
Venue	**NBI Hall, Kathmandu**
Facilitator/s 	Mr. Giri is Deputy Director at Nepal Rastra Bank (Central Bank of Nepal) and has over 20 years of experiences in central banking primarily in economic research, priority sector investments, financial market analysis, anti-money laundering and CFT bank compliances, internal audit and financial crime research. Recently, Mr. Giri has led a research on electronic banking fraud in Nepal. Mr. Giri, has participated as panelist and Conference Speaker at various international conferences. He has got in-depth knowledge and experiences on emerging investment tactics and policies around the Asia and pacific. Currently, Mr. Giri is specialized Trainer at Bankers' Training Centre of Nepal Rastra Bank and closely supervises, plans, design and develop training programs on financial reporting, AML/CFT, public relations of Banks/FIs, payment & settlement. Mr. Giri was amongst the central bankers who initiated Electronic Cheque Truncation in Nepal and successfully launched it since 2011. In his personal capacity, Mr. Giri is visiting faculty member of various colleges as Guest Lecturer on Financial Market Analysis, Financial Crime Prevention, AML compliances and also noted commentator and columnist of prominent economic and financial newspapers of Nepal.