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Changing Structure of Concessional Loan in Nepal

Shyam Sunder Gautam*

¹Manager, Rastriya Banijya Bank Limited

Corresponding Author Email: shyamgb39@gmail.com

ABSTRACT

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This article highlights the changing scenario of concessional loan in Nepal. It examines the policies, trends, and structural shifts within the country's financial framework. A concessional loan is a crucial tool for the economic development of Nepal. It aimed at promoting economic efficiency and equitable distribution of income throughout the country. Using secondary data from FY 2017/18 to FY 2021/22, this

study evaluates the trend and structure of concessional loan in Nepal. The findings reveal that there is a significant surge in both the volume of concessional loan and the number of borrowers across different headings of concessional loan. Particularly, the number of borrowers of Women entrepreneurship loan are remarkably increased in the recent years. However, the concentration of loan among larger borrowers and the misappropriation of funds raises concerns regarding the program's effectiveness. Furthermore, the commercial banks play a dominant role in disbursing concessional loan. Agricultural Development Bank Limited is a key contributor, aligning with the government's focus on promoting the agricultural sector. This study recommended a call for a comprehensive evaluation of the concessional loan program. The reevaluation of the program could be crucial to fine-tune the policies, address challenges, and focus the program toward its goals of enhancing productivity, promoting financial inclusion, and fostering equal distribution income distribution in Nepal.

Keywords: Concessional loan, economic efficiency, interest rate subsidy, structure, trend

INTRODUCTION

Directed credit program, small farmer development program, production credit for rural women program, the cottage and small industry projects, etc. are the different subsidy programs before 1990 in Nepal. Access to agricultural credit and other directed lending decreased after the liberalization of the financial sector. To increase the credit in the priority sector, Nepal Rastra Bank introduced subsidized loan schemes in 2075 BS. The main objective of the unified subsidy procedure is to mobilize limited resources in productive sectors, create jobs for youth, and promote traditional skills through entrepreneurship. Banks and financial institutions provide loan in 10 categories including commercial agriculture and livestock, educated youth self-employment, foreign returnee migrants, and more.

A concessional loan is a cheap credit at an interest rate below the market rate for the development of the targeted sector. To achieve economic efficiency and equitable distribution of income throughout the population, the government or central monetary authority implements a subsidized or targeted credit program (Buttari, 1995). Government and international development institutions favored cheap credit to promote development in developing countries from the 1950s until recent years (World Bank, 1989). Although concentrated in agricultural and livestock credit, such cheap credit covered a broad range of economic activities, including small enterprises (Buttari, 1995). The directed credit and subsidization are reasonable from both an economic and a political point of view. Economically, cheap credit can promote industrialization, increase production, employment generation, more equitable income distribution, and finally overall development of the country. The concept of cheap credit to “help the poor” and “promote development” is popular and used to fulfill political interests by allocating credit to political members at a cheaper rate (Duesenberry & McPherson, 1991). Interest rate subsidies are the most common tool used to control the allocation of credit. In this scheme, the government specifies an interest rate below the market rate for a specific line of credit.

These programs are supply-driven and create the problem of market failures. Cheap credit created an excess demand for credit in the unproductive sector. It was concentrated in the richer class and politically powerful persons (Gonzalez-Vega, 1984). A culture of non-repayment persisted among the borrowers considering concessional loan as a direct cash transfer from the government. Government failure replaced market failures in the 1980s (Holf and Stiglitz, 1990). Directed credit programs dropped with the shift in the financial paradigm in the 1980s. However, new approaches have not provided satisfactory solutions and

cannot address the financing needs of targeted groups i.e. poor farmers, women, and another endogenous groups (Westerkamp, Nouri, and Oertel, 2015).

Directed lending is an instrument to channel credit to strategic sections of the economy at preferential rates. Mandatory lending requirements, refinancing schemes, interest rate subsidies, credit guarantees, and development financial institutions are the various forms of directed credit programs (Nathen, 2013). Kane (1981) found that the collusion of economic and political forces influenced the issue and implementation of subsidized credit programs and negatively affected the overall economy. Buttari (1995) found that subsidized credit missed its target, i.e., poor and small industries. However, Maily and Sahu (2020), Bhanot, Farias, and Sinha (2021), and Kharel (2022) found positive impacts of subsidy programs that increased the volume and participation of people in the targeted programs.

Nepal's government also introduced such type of interest rate subsidy credit in 1974 AD in the name of a directed credit program. Now, a unified procedure for subsidy loan is in operation to provide loan to 10 targeted groups at a concessional rate. The procedure includes the subsidized loan to targeted groups under 10 different headings, i.e., agriculture and livestock, educated youth self-employment, foreign employment returnees, women entrepreneurs, marginalized communities, higher education, earthquake victims, clothing industries, training from CTEVT, and youth self-employment loan.

This paper analyzes the trend and structure of concessional loan in Nepal. The Nepal Rastra Bank introduced the unified procedure to address the issue raised by the Nepal Government in its FY 2018/19 budget speech. The limit of the loan according to the unified procedure ranges from 0.2 million to 5.0 million depending on the nature of the loan, and the government has introduced a minimum 5 percent interest subsidy on these loan schemes. There is a significant increase in the total volume of concessional loan and the number of borrowers in Nepal. The participation in the Women Entrepreneurship loan is maximum i.e. 84001 even if a portfolio of the loan is in second position due to the limit. Commercial agriculture and livestock have the highest share in the portfolio. The increase in women's participation in business and the industrial sector is good, but there might be a fear of misappropriation of funds that may transfer ownership from men to women, i.e., no establishment of new enterprises.

This article contains five different sections. Section 1 includes the introduction of concessional loan and the rationale for the interest rate subsidy. A literature review and research gap are presented in Section 2, followed by the research methodology in Section 3. Section 4

presents the data analysis and findings of the study. Finally, this study ends with a conclusion and recommendations for policy implications.

LITERATURE REVIEW

Every government, whether it is developed or developing, introduces subsidy schemes in different sectors of the economy, especially the priority sector. The banking sector is the channel to implement these policies. There are many studies focused on different dimensions of interest rate subsidies. Using secondary data, Kane (1981), Buttari (1995), and so on analyzed the impact of interest rate subsidies. Maity and Sahu (2020), Bhanott, Faris, and Sinha (2021), and so on, found positive impacts of interest rate subsidies. However, Kane (1981), Buttari (1995), Velde and Warner (2007), and so on, found negative impact of such programs in respective countries. Kane (1981) claimed that subsidizing agricultural credit increased the unintended budgetary expenses of the government, the loss of freedom, distributional inequality, and the wastage of resources in developing countries. Buttari (1995) found the subsidized credit had missed its target, i.e., the rural poor and cottage and small industries. Farmers and small entrepreneurs need access to financial services rather than cheap credit. Eighty percent of the subsidized agriculture loan went to large farmers in Costa Rica in 1974. Velde and Warner (2007) found that DFIs lacked risk-taking behavior even though they had high rigidity. Similarly, they concluded that there was a lack of transparency in the use of technical assistance and DFI operations. They suggested drawing up operational guidelines to operate the DFIs.

Maity and Sahu (2020) examined the role of public sector banks in financial inclusion during the pre-and post-introduction of PMJDY, a subsidized program in India. They conducted a comparative analysis between the pre-and post-structure phases on the technical efficiency of the bank using the data involvement analysis. They concluded that overall efficiency toward financial inclusion increased in significance during the post-phase even though not all the banks were performing equally. There was significant variation in efficiency between the two periods and between banks. They saw a huge opportunity to enhance the technical efficiency with the same resources, which will help to achieve the targeted financial inclusion. Bhanot Farias and Sinha (2021) observed a substantial increase, i.e., 35%, in new loan and a 20% decrease in the overall loan amount. They found repayment rate fall in the post-introduction of the interest subvention scheme. Kharel (2022) discussed the concept, approach, and current situation of subsidized credit in Nepal using secondary data. They found that there was no subsidized

credit in any other sector except agriculture before the implementation of the unified interest rate subsidy procedure in 2075. There is a 16 times increase in the number of borrowers and the loan amount increased by 20 times in four years of its implementation. In recent years, the amount of subsidy has also been increasing due to the increase in subsidized loan volume.

MATERIALS AND METHODS

This is a descriptive study based on the secondary data which covers FY2017/18 to FY2021/22. The concessional loan covers (i) commercial agriculture and livestock loan (ii) educated youth self-employment loan (iii) foreign employment returnee project loan (iv) women's entrepreneurship loan (v) marginalized community skill development loan (vi) higher education loan (vii) residential home loan for earthquake victims (viii) loan to commerce the clothing industries (ix) training from the institutions of CTEVT; and (x) youth self-employment loan. NRB reports these loan quarterly online. The data were collected from official publications of the Ministry of Finance and Nepal Rastra Bank. Ratios, percentages, trend lines, etc. have been used to present and analyze the data.

RESULTS AND DISCUSSIONS

Interest rate subsidies are not a new concept in Nepal. Before 1990, Nepal had also experienced subsidized direct credit through the directed credit program (1974), the small farmer development program (1975), the production credit for rural women program (1981), and the cottage and small industry project (1982). After the liberalization policy, there has been a gradual shrinkage in access to agricultural finance and other-directed lending, especially in rural areas of Nepal (Dhakal, 2019). The NRB issued subsidized loan schemes in 2075 to increase the volume of credit in the priority sector. The main aim of the scheme is to mobilize scarce resources in productive sectors, create employment opportunities for educated and unemployed youth, and promote and develop traditional skills through entrepreneurship within the country (NRB, 2018). This procedure includes loan for targeted groups under 10 different headings at a lower interest rate. They are commercial agriculture and livestock loan; educated youth self-employment loan; foreign employment returnee project loan; women's entrepreneurship loan; marginalized community skill development loan; higher education loan; residential home loan for earthquake victims; loan to commerce the clothing industries; training from the institutions of CTEVT; and youth self-employment loan (NRB, 2018).

The maximum loan limit for commercial agriculture and livestock and commercial clothing is Rs. 50 million, Rs. 1.5 million is for women entrepreneurship loan, Rs. 1.0 million is for foreign employment returnee project loan and marginalized community skill development loan, Rs. 0.5 million is for educated self-employment loan and higher education loan, Rs. 0.3 million is for residential home loan of earthquake victims, and Rs. 0.2 million is to take the training from the institutions' of CTEVT, and youth self-employment loan. Certain parts of the interest rate on these loan are borne by the government. The government provides a 5 percent subsidy on such loan except for women entrepreneurship loan, which has 6 percent. Similarly, all concessional loan except commercial agriculture, livestock, and cloth industry loan exceeding \$10 million have provisions for insurance from the Deposit and Credit Guarantee Fund. These loan are collateral-free except for commercial agriculture and livestock loan to more than 1 million and loan to the clothing industry (NRB,2018).

The concessional loan have floated on personal guarantees, whether individual or collective. The educated fourth self-employment loan have been provided against the certificates of Bachelor's degree and to loan to foreign returnee migrants on project security. The trend and structure of concessional loan in Nepal are presented below:

The Trend of Concessional Loan in Nepal

The trend of concessional loan has been increasing in recent years after the introduction of a unified procedure, in 2075.

Table 1

Number of Borrowers of Concessional Loan in Nepal

Heading	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Agriculture & Livestock	8930	17203	24763	46057	60545
Educated Youth Self Employment		24	65	140	157
Returned from Foreign Employment		49	221	839	952
Women Entrepreneurship		796	6682	55551	84001
Marginalized Community		70	351	965	1097
Higher Education		60	84	111	148
Earth Quake Victims		93	221	231	208
Clothing Industries			61	210	255
Training from CTEVT				2	2
Youth self-employment				3	28
Total	8930	18295	32448	104109	147393
Growth rate		104.87	77.36	220.85	41.58

Note: Current Macroeconomic and Financial Situation, NRB

Table 1 depicts the number of loan disbursed under the sub-heading of concessional loan in Nepal. In FY2017/18, only commercial agriculture and livestock loan were disbursed to 8930 borrowers. After the implementation of the unified working procedure in 2075, the BFIS started to disburse loan under different sub-headings. We can observe a significant increase in the disbursement of loan to women entrepreneurs, going from 796 in FY 2018–19 to 84001 in FY 2021–22. The number of borrowers has also been increasing in commercial agriculture and livestock loan, from 8930 in FY 2017/18 to 60545 in FY 2021/22. The number of borrowers taking training from CTEVT is very discouraging, i.e., only 2, followed by youth self-employment loan, i.e., 28. Finally, the loan for educated self-employment, foreign employment returnees, marginal community skill development, higher education earthquake victims, and loan commerce in the clothing industries are also increasing trend.

A similar trend was observed in the volume of different types of concessional loan. This is further explained with the help of Table 2.

Table 2*The Trend of Concessional Loan in Nepal*

Heading	Amount in Rs. Million				
	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Agriculture and Livestock	10,661.70	32,189.50	54,114.10	106,978.40	165,434.51
Educated Youth Self Employment		11.5	35.2	63.7	103.06
Returned from Foreign Employment		32.9	151.7	598	777.08
Women Entrepreneurship		512.2	4,353.50	50,984.40	88,984.30
Marginalized Community		36.3	185.3	572.9	767.21
Higher Education		14.5	20	25.3	50.09
Earth Quake Victims		24.6	54.7	49.4	60.75
Clothing Industries			648.5	2,162.50	3,369.92
Training from CTEVT			-	0.4	0.4
Youth self-employment			-	1.1	10.6
	10,661.70	32,821.50	59,563.00	161,436.10	259,557.91
		207.84	81.48	171.03	60.78

Note: Current Macroeconomic and Financial Situation, NRB

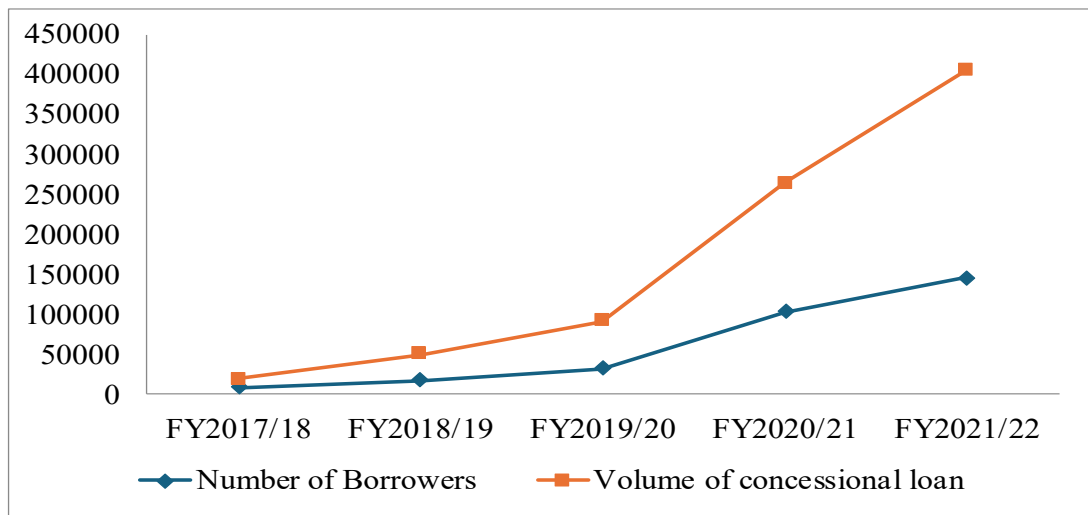
Table 2 shows that the volume of agriculture credit was Rs. 10.66 billion in FY 2017/18, which was continuously increased and reached Rs. 32.18, 54.11, 106.97, and 165.43 billion

at the ends of FY 2018/19, 2019/20, 2020/21, and FY 2012/22, respectively. The amount of women’s entrepreneurship loan has also increased, i.e., Rs. 0.51, 4.35, 50.98, and 88.98 billion at the end of successive fiscal years. Even though the volume of women entrepreneurship loan is lower as compared to the increase in borrowers of the loan because of the loan limit i.e. Rs. 1.5 million as compared to commercial agriculture and livestock loan i.e. Rs. 5.0 million. However, while the volume of all loan headings has been increasing, the volume of loan to take the training from the CTEVT, the south self-employment loan, the residential home loan for earthquake victims, and the higher education loan is not satisfactory, i.e., 0.40, 10.60, 60.75, and 50.09 million, respectively. Finally, there is no doubt the increment of the total volume of concessional loan from 10.66 billion in FY 2017/18 to 259.55 billion at the end of FY 2021/22.

The trend of subsidized loan in terms of volume and number of borrowers is shown in the figure below:

Figure 1

The Trend of Concessional Loan in Nepal



Note: Tables 1 and 2

In the above figure, both the volume and number of borrowers of concessional loan are in increasing trend in Nepal. The sharp increase in the volume and number of borrowers in agricultural loan, women entrepreneurship loan, marginalized community loan, and so on is a good signal of the policy adopted by the government.

Structure of Concessional Loan in Nepal

Banks and financial institutions have disbursed subsidized loan in all headings of Unified procedure-2075. They are commercial agriculture and livestock loan, both educated and uneducated youth self-employment loan, foreign employment returnee project loan, women entrepreneurship loan, marginalized community skill development loan, loan to commerce the clothing industries, higher education loan, to take training from the institutions' of CTEVT, and residential home loan for earthquake victims. The structure of a subsidized loan is further explained with the help of the given table.

Table 3

Structure of Concessional Loan in Nepal

SN	Heading	No. of Borrowers	Percent	Amount in Rs. Million			
				Approved Limit	Percent	Total Outstanding	Percent
1	Agriculture and Livestock	60,545	41.08	165,434.51	63.74	139,234.08	65.10
2	Educated Youth Self Employment	157	0.11	103.06	0.04	76.08	0.04
3	Returned from Foreign Empl	952	0.65	777.08	0.30	564.25	0.26
4	Women Entrepreneurship	84,001	56.99	88,984.30	34.28	70,996.06	33.19
5	Marginalized Community	1,097	0.74	767.21	0.30	582.34	0.27
6	Higher Education	148	0.10	50.09	0.02	36.52	0.02
7	Home Loan/ Earth Quake Victims	208	0.14	60.75	0.02	32.3	0.02
8	Clothing Industries	255	0.17	3,369.92	1.30	2,358.51	1.10
9	Training from the CTEVT	2	0.00	0.4	0.00	0.26	0.00
10	Youth self-employment	28	0.02	10.6	0.00	8.87	0.00
	Total	147,393	100	259,557.91	100.00	213,889.28	100.00

Note: Current Macroeconomic and Financial Situation, NRB

Table 3 shows the structure of concessional loan in Nepal. The banks and financial institutions disbursed Rs. 259.55 billion in loan in different headings of subsidized credit to

147393 customers. The current outstanding amount of the loan is Rs. 213.88 billion at the end of FY 2021–2022. The largest volume of concessional loan, i.e., Rs. 165.43 billion, have been disbursed in the commercial agriculture and livestock sectors to 60545 individuals and commercial agriculture firms, which is 63.74 percent of total subsidized credit. Rs. 88.98 billion and 33.69 billion loan have been disbursed in women’s entrepreneurship and clothing industries respectively which is 34.28 and 1.30 percent of the total portfolio respectively. The minimum amount of loan, i.e., Rs. 0.40 million, was given to only two individuals to take the training from the CTEVT. Similarly, commercial agriculture and livestock loan are at the top of the table with Rs. 139.23 billion, which is 65.10 percent of the total outstanding. Nevertheless, the number of borrowers has a maximum in women entrepreneurship loan i.e. 56.99 percent.

This table highlights the concentration of borrowers in women entrepreneurship loan. The number of borrowers in training from CTEVT, youth self-employment, the clothing industry, and so on is minimal. The number of borrowers in women entrepreneurship which was started in 2075 BS, is higher than the agriculture and livestock loan which was started in 2071BS is questioning the effective utilization of these loan.

If we look at the comparative figures of commercial banks, development banks, finance companies, and microfinance organizations, commercial banks contribute the most, followed by development banks, finance companies, and microfinance organizations, respectively. Table 4 presents the comparative figures of different classes of BFIs disbursed concessional loan.

Table 4

Concessional Loan in Different Class BFIs

		Amount in Rs. Million				
SN	Heading	Commercial Bank	Development Bank	Finance Company	Micro finance	Total Limit
1	Agriculture and Livestock	150177.54	13429.07	1794.06	33.84	165434.51
2	Educated Youth Self Employment	94.36	8.70	-	0	103.06
3	Returned from Foreign Employment	727.02	41.41	8.65	0	777.08
4	Women Entrepreneurship	71703.10	15828.30	1384.05	68.85	88984.30

5	Marginalized Community	628.58	119.89	18.74	0	767.21
6	Higher Education	49.29	0.80	-	0	50.09
7	Home Loan for Earth Quake Victims	59.25	1.50	-	0	60.75
8	Clothing Industries	3369.92	-	-	0	3369.92
9	Training from the CTEVT	0.40	-	-	0	0.40
10	Youth self-employment	9.60	0.50	0.50	0	10.60
	Total	226819.06	29430.16	3206.00	102.69	259557.91

Note: Current Macroeconomic and Financial Situation, NRB

Table 4 shows that the commercial banks have 87.38 percent of the share in concessional loan followed by 11.34, 1.24, and 0.04 percent respectively by B, C, and D class institutions. Commercial banks and finance companies disbursed more in the agriculture sector, i.e., Rs 150.17 and 1.79 billion, respectively, as compared to other subheadings. Similarly, development banks and finance companies have granted a higher portion of the loan for women entrepreneurship 15.82 and 0.68 billion respectively. Commercial banks granted loan under all headings. However, development banks have not provided loan to commerce clothing industries or loan to take training from CTEVT, while finance companies have not given higher education loan or home loan for earthquake victims. Similarly, the finance company has provided loan only in two subheadings, i.e., commercial agriculture and livestock and women’s entrepreneurship.

All 26 commercial banks of Nepal have invested in concessional loan. The share of different commercial banks in total borrowers, total limit, and total outstanding concessional loan has been further explained with the help of the given table.

Table 5

Share of Commercial Banks in Concessional Loan

Name	Amount in Rs. Million					
	Total Borrowers	Percentage	Total Limit	Percentage	Total Outstanding	Percentage
ADBNI	15,566.00	10.56	25,526.17	9.83	22,623.29	10.58
RBBL	11,501.00	7.80	13,696.29	5.28	11,291.04	5.28
NABIL	7,707.00	5.23	14,781.23	5.69	12,598.68	5.89
NBL	6,994.00	4.75	9,912.72	3.82	8,873.70	4.15
LAXMI	6,924.00	4.70	5,769.42	2.22	4,056.45	1.90

NMB	6,304.00	4.28	11,223.31	4.32	8,968.82	4.19
MEGA	6,199.00	4.21	9,082.01	3.50	6,190.83	2.89
GIME	5,497.00	3.73	12,917.70	4.98	9,841.75	4.60
NIBL	5,445.00	3.69	6,221.88	2.40	4,989.69	2.33
SUNRISE	5,162.00	3.50	8,852.07	3.41	7,244.07	3.39
PRAVU	4,550.00	3.09	6,367.31	2.45	5,074.41	2.37
PCBL	4,348.00	2.95	11,695.75	4.51	10,091.84	4.72
SBL	4,110.00	2.79	10,806.09	4.16	7,756.66	3.63
SANIMA	4,054.00	2.75	7,974.12	3.07	6,745.25	3.15
CITIZEN	3,848.00	2.61	6,046.40	2.33	4,838.10	2.26
NICASIA	3,484.00	2.36	17,832.76	6.87	16,212.71	7.58
CBL	3,356.00	2.28	6,941.23	2.67	4,070.63	1.90
EBL	3,039.00	2.06	4,819.72	1.86	3,927.26	1.84
KBL	2,900.00	1.97	6,659.55	2.57	5,584.05	2.61
SBI	2,744.00	1.86	5,236.06	2.02	4,003.61	1.87
BOK	2,585.00	1.75	5,395.11	2.08	4,556.49	2.13
MBL	2,466.00	1.67	4,028.96	1.55	3,219.28	1.51
CCBL	2,389.00	1.62	3,163.27	1.22	2,777.60	1.30
NCC	2,386.00	1.62	5,980.22	2.30	5,402.69	2.53
HBL	1,736.00	1.18	3,928.12	1.51	3,630.23	1.70
SCB	477.00	0.32	1,961.61	0.76	1,660.49	0.78

Note: Concessional loan, NRB

This table has depicted the share of each commercial bank in terms of number, approved limit, and outstanding concessional loan at the end of FY 2021/22. The Agricultural Development Bank topped the list at all three indicators, which are 10.56, 9.83, and 10.58 percent, respectively. It has served 15566 customers with concessional loan disbursed and an outstanding limit of Rs. 25.52 billion and Rs. 22.62 billion, respectively. The RBBL has approved a total of Rs. 13.69 billion, or 5.28 percent, of concessional loans to 11501 borrowers, or 7.80 percent. According to several borrowers, it stands in second position but it lies in fourth position in both disbursed limit and total outstanding. NICASIA and Nabil Bank are in second and third place in both approved and outstanding loan limits. Standard Chartered Bank Limited has lied at the bottom in all three indicators i.e. approved limit, total outstanding, and number of loan customers i.e. Rs. 1.96 billion, Rs. 1.66 billion, and 477 respectively. Recently, the number of loan accounts greater than Rs. 10 million has been increasing day by day (NRB,

2022). Commercial banks are increasing investment among a higher class of people with low risk. If this trend continues in the future, this is a violation of the objectives of the program, and there might be an increase in the income gap between rich and poor.

CONCLUSION AND POLICY IMPLICATION

The government implements a subsidized credit program to achieve economic efficiency and reduce the gap between rich and poor. The interest rate subsidy is a part of direct lending, which is reasonable for both economic and political considerations. Using, secondary time series data, the changing structure of concessional loans in Nepal has been discussed in this study. There is a significant increase in the total volume of concessional loans and the number of borrowers in Nepal.

The participation in the Women Entrepreneurship loan is maximum i.e. 84001 even if a portfolio of the loan is in second position due to the limit. Commercial agriculture and livestock have the highest share in the portfolio. The increase in women's participation in business and the industrial sector is good, but there might be a fear of miss-utilization of funds by transferring ownership from men to women, i.e., no establishment of new enterprises.

Agricultural Development Bank Limited has the maximum contribution in implementing such a scheme, which is justifiable. It is because recently, the government of Nepal has tried to establish a bank, especially for the promotion of the priority sector, i.e., agriculture. The RBBL has contributed the second position only in the number of borrowers not in loan limit. Similarly, NIC Asia has a high loan limit with a low customer base.

The BFIs are increasing lending to the big borrowers with both low administrative costs and risk. Even though it is beneficial to financial institutions and borrowers, it is not the motto of concessional loans. It is a violation of the objectives of the program and increases the gap between rich and poor.

Almost five years have passed past the implementation of the scheme. There is a need to evaluate the effectiveness of the program and revise the subsidy scheme to increase the productive capacity of the country and equal distribution of income among people in the society. It will protect against the misuse of scarce resources and reduce the financial burden on the Government of Nepal.

Possible Extension

This research is fully descriptive. There are lots of possible extensions in this area. The impact of concessional loans, utilization of concessional loan, role of different BFIs in implementing these loan schemes, etc. are the possible areas for further extension of this topic.

ORCID

Shyam Sundar Gautam, <https://orcid.org/0009-0009-0896-8204>

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