Banking and Financial Concerns:
Hydropower | Agriculture | Tourism

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Abstract

Nepal's current banking policies are impacting key sectors like hydropower, agriculture and tourism industries. The financial instability has led to limited access to loans, which is crucial for project development, expansion, and innovation.

The declining credit-to-deposit (C/D) ratio, rising net liquidity, high dependence on real estate as loan collateral, and increasing non-performing loans (NPLs) impacts banks' ability to diversify investments into key productive sectors such as agriculture, tourism, and hydropower in Nepal.

While bank's investments in agriculture and hydropower are growing incrementally, systemic challenges like collateral preferences, rising NPLs, and cautious credit policies continue to restrict broader economic diversification and growth.

ISSR aims to build a collaborative environment where all stakeholders contribute to shaping the amendments. The report includes discussions regarding diverse viewpoints of representatives from the various sectors: Hydropower, Agriculture, Tourism and Bank. The discussion aims to address critical issues for making Nepal's banking system inclusive and future-ready.

Time: January 16th, 2025

Location: Pavilion Hall, Durbarmarg, Kathmandu

Acknowledgement

We would like to extend our sincere gratitude to all the stakeholders and participants who contributed their time, insights, and expertise to this important dialogue on Nepal's banking policies and their impact on key sectors such as hydropower, agriculture, and tourism.

We are especially grateful to the representatives from the banking industry, government institutions, and the hydropower, agriculture, and tourism sectors for sharing their valuable perspectives during the discussions held on January 16th, 2025, at Pavilion Hall, Durbarmarg, Kathmandu.

Our appreciation also goes to the Institute for Strategic and Socioeconomic Research (ISSR) for organizing and supporting this multi-sectoral conversation. Their commitment to promoting inclusive, evidence-based policy reform has been central to the preparation of this report.

Finally, we acknowledge the dedication of the entire research and coordination team, whose efforts have made this report possible. We hope it serves as a constructive step toward building a more inclusive and future-ready banking system in Nepal.

Naresh Shrestha
Director, ISSR

Opening Remarks by Mr. Naresh Shrestha (Director, ISSR)

Mr. Naresh Shrestha director of the Institute for Strategic and Social Research (ISSR), commenced the event by extending a warm welcome to all stakeholders from the relevant sectors. In his address, he highlighted critical issues facing the economy, including the shift of economy from a liquidity crunch to the current liquidity surplus in banks and the resulting impact on investments across various sectors.

Reflecting on the previous discussions, Mr. Shrestha revised that ISSR organized the event titled "Challenges in the Banking and Financial Sector" which brought together representatives from key organizations such as FNCCI, CNI, NCC, ICC, NRB, CBFIN, and the Automobile Association. For this session "Banking and Financial Concerns: Hydropower, Agriculture and Tourism", ISSR specifically invited stakeholders from the hydropower, agriculture, and tourism sectors, given the significant investments in these areas and their importance to Nepal's economy. In context of agriculture, Mr. Shrestha raised a pressing concern, questioning the widely held narrative that over 65% of Nepal's population's engagement in the sector. Despite this, the country remains heavily reliant on imports of food and agricultural products. He also questioned the effectiveness of subsidies in driving growth within the agricultural sector and their contribution to Nepal's overall development.

With substantial investments flowing into hydropower, Mr. Shrestha emphasized the need to assess its contributions to national development. He set the stage for a discussion on whether the sector is realizing its potential as a cornerstone of Nepal's economic growth. Acknowledging the growth in tourist arrivals—reaching 1.145 million last year—and the rapid expansion of infrastructure, Mr. Shrestha commended the progress in the sector. However, he expressed concern about the government's focus on numbers rather than quality. He raised critical questions: Has there been sufficient improvement in the quality of tourism? Are the average length of stay and per capita spending by tourists adequate to drive sectoral development?

He further highlighted the disparity between Nepal's growing number of 4- and 5-star hotels and the competition from budget accommodations like $5-$6 hostels in Thamel. This raises a vital question: How can Nepal create an environment that encourages higher spending and longer stays by tourists? Mr. Shrestha urged the government to develop targeted policies to address these issues and enhance the sector's sustainability.

Turning to the banking sector, Mr. Shrestha addressed the persistent problem of non-performing loans (NPLs). Despite increased auctions and the blacklisting of businesses and individuals, recovery efforts remain slow. He called for a deeper analysis of this issue and emphasized the need for actionable solutions.

Mr. Shrestha concluded by reiterating ISSR's commitment to fostering dialogue among stakeholders and experts to identify actionable recommendations for the government. The goal, he stressed, is to strengthen governance and promote sustainable development across sectors.

He then invited Hon. Kalyan Shrestha, former Chief Justice of Nepal, to chair the session, expressing gratitude for his continued guidance and support.

Agendas For Discussion

Hon. Kalyan Shrestha, former Chief Justice, chaired the event and highlighted several critical issues across key sectors of Nepal's economy. He emphasized the importance of ensuring that the nation benefits from investments in agriculture, hydropower, tourism, and banking. Despite the rapid growth in financial institutions and banking transactions, the expected progress in these sectors has been lacking.

He questioned why high liquidity and deposits in banks have not translated into sufficient credit flow, noting a lack of confidence in loan repayment and uneven treatment of businesses. While small businesses face harsh measures, larger businesses often receive favorable restructuring policies. He underscored that business ideas, not just capital, should be prioritized, and that the practice of blacklisting businesses may discourage entrepreneurial efforts. Although banks aim to secure their positions, this often leaves the broader economy vulnerable.

In the hydropower sector, Hon. Shrestha expressed optimism regarding potential exports to Bangladesh and India but questioned why investments in this area are not yielding optimal results. He stressed the need for more efficient investments to realize hydropower's potential. Regarding agriculture, he highlighted the government's significant subsidy spending, questioning its impact and progress in modernizing the sector. He stressed that Nepal should strive for self-sufficiency in agriculture and reduce dependency on imports.

In tourism, he acknowledged increased infrastructure investments, hotel expansions, and rising tourist numbers. However, he questioned whether these investments are translating into meaningful outcomes, such as higher-quality tourism experiences and longer tourist stays. Overall, he urged stakeholders to address these challenges, emphasizing that strategic and inclusive approaches are essential for sustainable national development.

Banking and Financial Potentials and Challenges in Hydropower Sector

Ganesh Karki, the President of IPPAN (Independent Power Producers' Association of Nepal), discussed the current and future state of Nepal's hydroelectric sector. Currently, the country produces 3500 MW of electricity, with 2700 MW coming from private sector projects. By 2035, it's projected that Nepal will produce 28,500 MW of electricity, with 13,500 MW for local use and 15,000 MW for export. Karki mentioned that if more licenses were given to private companies, Nepal could exceed these projections. He also noted that over 65 lakh people have invested in the hydro sector, showing strong public confidence. The total budget needed to achieve this target is 65 kharab.

However, Karki highlighted several challenges in the sector. One major issue is that banks are unwilling to finance projects smaller than 10 MW, even though these smaller projects are feasible and important. Another challenge is delays in building transmission lines, which are managed by the Nepal Electricity Authority (NEA). These delays make it difficult for projects to repay loans. Karki also pointed out that environmental concerns are becoming a bigger barrier, and the policies need to be more flexible to address these concerns and allow for faster project development. Despite these challenges, Karki noted that no hydroelectric project has defaulted on its loans so far.

Surya Adhikari, added that banks are focusing too much on Foreign Direct Investments (FDIs) instead of local projects. He raised concerns about the difference in interest rates, where FDIs get loans at 8.5%, while local projects are charged 11%. He questioned why local investors are treated unfairly. Adhikari also criticized the current debt-equity ratio of 70-30, which he believes is putting a financial strain on local projects. Due to poor loan distribution, developers are having to use their equity funds to pay off loans. Furthermore, the provision that requires 40% of the profits from projects to go to the NEA is hurting the hydro sector, according to Adhikari. He warned that if debt issues aren't fixed, banks might turn into asset management companies, which would harm the financial stability of the entire sector.

Batu Lamichhane, another expert, mentioned that 60% of hydroelectric projects are delayed due to environmental concerns. He called for more flexible rules in dealing with environmental issues to allow projects to move forward faster. Lamichhane also talked about the challenges that come from local communities, who often make high demands on hydro projects. These demands can delay or stop the progress of projects. Many investors are also feeling insecure because of these challenges. Despite all these issues, Lamichhane remains hopeful about Nepal's hydroelectric potential. While the country is projected to generate 83,000 MW, he believes it has the capacity to generate up to 150,000 MW, which could significantly boost Nepal's energy industry.

Similarly, Pawan Golyan, Chairman of FNEA and Golyan Group mentioned that about 200 MW of electricity is being wasted from the Dordi Corridor. He suggested that the Nepal Electricity Authority (NEA) and Nepal Government should work towards incorporating storage battery project developed by China in order to convert the wasted power during peak load. As per Mr. Golyan, this can be a beneficial project for the banks to invest.

In the hydropower sector, Mr. NP Saud, Member of Parliament highlighted the significant potential of power trade with India. India's assurance to purchase 10,000 MW of electricity for the next 25 years presents a lucrative opportunity, provided a formal agreement is established. Such a deal would encourage banks to invest in the sector. Nepal must maintain a balanced geopolitical relationship with India to maximize monetary benefits and expedite the installation of cross-border transmission lines. Additionally, exploring hydrogen energy as an emerging global trend is essential for diversifying Nepal's energy portfolio.

In conclusion, Nepal has great potential for hydroelectric power, but it faces several challenges that need to be addressed. Issues such as financing difficulties, environmental concerns, and demands from local communities need to be resolved to unlock the full potential of the sector. With the right support and changes in policies, Nepal could become a leader in hydroelectric power production in the region.

Banking and Financial Potential and Challenges in Agriculture Sector

Regarding agriculture banks have been supporting Agriculture sector but lacks support from the state regarding providing trainings, back up and facilities.

Government has provided 5% subsidy in interest to loans up to 5 Cr. in agriculture which has been facilitated by NRB. However, the government has not provided the fund to NRB further impacting commercial banks. The commercial banks did provide the fund to the farmers but are now asking back the fund saying the government has not provided them the fund. This shows that banks are focused in only profiting their sector despite heavy losses in other sectors. This has demotivated investment in various sectors including agriculture.

Similarly, the insurance companies conducted strike since the government did not provide the 80% subsidy as stated in the fiscal policy impacting farmers like Mr. Govinda Thapaliya. Due to such in inefficiencies, it isn't banks, insurance companies or state who bears the loss but farmers who are at the bottom of the pyramid of the receiving end. He questions the accountability of the government regarding the issues.

The dairy industry is in 5 Arab debt to local farmers practicing animal husbandry. He mentioned that within 60% of people practicing agriculture 80% are women and yet they are dependent to their husbands who send money for household from abroad. This data states the scenario of woman empowerment in our country. If such population does not get the reward (income) from various industries like the dairy industry as mentioned earlier, what should the agriculture sector expect from banking sector.

Furthermore, in the context of agriculture sector in Nepal, Mr. Golyan, chairman of Golyan Groups mentioned that 45% of Nepal's land is covered by forests which has not been optimally used. He stressed on the fact that farmer centric policies have not yet been formulated. The reason for decline in farming as a profession needs to be addressed and solved soon. He suggested that each family from the agriculture sector should be provided with at least Rs. 3 Lakhs per annum to sustain. Mr. Golyan further suggested that smart agriculture, certified organic farming and high-quality coffee production should be promoted to uplift the agriculture sector in Nepal as it will also bring monetary benefits to the farmers. Mr. Golyan also added that production of Simal Tarul (Cassava) and banana farming can be a beneficial investment opportunity for banks as they have multiple socio-economic as well as health benefits.

Mr. Golyan highlighted that banks should trust the long-term vision in agriculture sector in Nepal as there are multiple investment prospects. He suggested that banks should incorporate interest capitalization in all three sectors i.e. hydropower, agriculture and tourism. Regarding agriculture sector, he added that farmers should get easy access of credit and ensure buy-back guarantee. Mr. Golyan suggested that local government should also be mobilized to take responsibility of farmers for agro-processing with the backing of central government for farmer's food security, transportation and subsidized fertilizers for optimum agricultural production.

Concluding the discussion in agriculture Mr. Saud, suggested that agriculture should be the top priority, with a focus on policy reform, a more accessible banking system, and investment-friendly laws to support farmers and stakeholders. The sector requires skilled manpower, modern irrigation systems, and technological advancements to boost productivity. However, misuse of funds and subsidies is a persistent issue, along with excessive bureaucratic interference. Policies must be liberal, and laws should cater to the needs of all stakeholders, ensuring fair returns. Financial institutions also need to address the undue pressure they place on farmers to repay loans without considering their struggles.

He further highlighted that the government must prioritize agricultural development, as it remains the backbone of Nepal's economy, engaging over 65% of the population. Failing to promote and support this sector effectively undermines the prospects of equitable development in the country. Creating an environment that facilitates investment opportunities across sectors is crucial for ensuring sustainable and inclusive economic progress.

Banking and Financial Potential and Challenges in Tourism Sector

Binayak Shah, President of HAN, discussed Nepal's tourism recovery and challenges. Despite the pandemic's impact, the sector rebounded by 96% in 2024, attracting 11,47,000 tourists compared to 11,97,000 in 2019. Nepal can host 35,00,000 tourists annually, but infrastructure deficits hinder progress. Non-functional airports in Pokhara and Bhairahawa, despite significant foreign investments, and poor road conditions to key destinations like Pokhara, Chitwan, and Lumbini limit growth. Delayed road construction, lack of safety features, and government inaction have led to financial losses. Additionally, Nepal has invested 6 Kharba in the hotel sector, but limited infrastructure reduces productivity and economic contribution.

Tourism creates 10,00,000 jobs and drives foreign currency inflow, yet uncertainty remains regarding strategic steps to promote the sector. Shah emphasized the importance of operationalizing existing international airports and targeting Indian and Chinese tourists, aiming to attract 60,00,000 visitors due to their high purchasing power. Although the government declared the coming decade as Tourism Year, unclear responsibilities among local, provincial, and central authorities and a lack of concrete planning have hindered the sector's growth. Shah urged prioritizing infrastructure development and strategic planning to unlock Nepal's full tourism potential and contribute significantly to the national economy.

Mr. Shah raised serious concerns about dormant 5-star hotels near Pokhara and Bhairahawa Airports. Despite government encouragement, airport non-functionality has hindered hotel operations, leading to owners being blacklisted by banks due to unpaid loans. He urged the government to take responsibility for poor planning, causing significant financial losses.

Jyoti Adhikari, the founder of Holy Himalaya Eco Trek highlighted that in relation to Mr. Binayak Shah's concern about non-functionality of airports, aimless investment by hotel owners has impacted the financial side of tourism sector. He further added that a long-term vision was lacking through the stakeholders such as investors, banks, government and hotel owners' side.

Further in the discussion, Mr. Golyan emphasized on lack of marketing of underrated potential tourism sites with a focus on religious tourism all over Nepal. He suggested that Nepal's tourism sector should move past the already popular tourist attractions. Mr. Golyan raised his concern regarding nonoperational international airports in Pokhara and Bhairahawa. He added that the operation of these airports will boost the agro-tourism and eco-tourism of these cities.

In tourism, Mr. Saud suggested targeting Indian and Chinese tourists, given their large populations and strong purchasing power. Strategies to attract more tourists from these countries could significantly boost Nepal's tourism industry.

Banking and Financial Concerns in Sectoral Investment

Gunakar Bhatta, the Executive Director, emphasized key aspects of the current economic landscape, particularly in the context of Nepal's external sector. Nepal holds a strong foreign reserve of 16.76 billion USD, sufficient to cover foreign product and service imports for 14.6 months. However, he pointed out a slowdown in remittance growth, which has decreased from double-digit increases to just 4%. While tourism has seen high arrivals, the corresponding high spending effecting the economy. Bhatta also noted the availability of high liquidity in the economy, creating investment opportunities for both the private and public sectors. Yet, this liquidity surplus may not be same in the long term. A crucial area for growth is increasing capital spending, which would drive overall economic development and long-term economic stability.

Bhatta stressed that collateral management is essential for securing loans and reducing financial risk, which would foster a more robust lending environment. Alongside this, he advocated for the establishment of more business training institutes, especially for those in agriculture. These institutes would equip farmers with essential business knowledge and modern agricultural practices, helping them improve productivity and profitability. Additionally, Bhatta highlighted the work of CICL on a credit scoring system that focuses on project ideas rather than just physical collateral. This innovation could open up more loan opportunities for aspiring entrepreneurs who may lack traditional assets but possess promising business plans, thereby diversifying and expanding economic opportunities in the country.

Mr. Gyanendra Prasad Dhungana, CEO of Nabil Bank Ltd, discussed several crucial aspects impacting Nepal's economy, focusing on the importance of improving capital expenditure to generate overall demand. He emphasized that the construction sector with significant loan dues are negatively impacting the economy. Additionally, he mentioned that the total agricultural grants receivable from the government currently stand at 16 billion Nepali Rupees, indicating a significant amount of financial support pending for the agriculture sector. Mr. Dhungana also addressed concerns about interest rate biasness, clarifying that the bank applies risk-based pricing for both Foreign Direct Investment (FDI) and local investors, meaning the rates are not biased but depend on the risk level associated with the investments.

In relation to the hydro-power sector, he stated that the bank does not invest in multiple projects from a single river, reflecting a cautious and diversified investment strategy. He also explained the concept of the "equity first provision," which is a safety measure to secure loans by ensuring sufficient equity is available as collateral. On the topic of tourism, Mr. Dhungana pointed out that despite high investments, the sector has seen low returns, still suffering from the post-COVID effects. He also assured that loans offered by the bank will carry a single-digit interest rate, as the minimum base rate for interest is 7%. He stressed the need for more investment in sectors like IT and cement to drive economic growth.

Mr. Dhungana also highlighted issues within the forest department, where political intervention is causing delays in project completion. He clarified that loans alone are not enough to drive production, as factors like technical expertise, geopolitical issues, and market conditions also play a significant role. He warned that if the Non-Performing Assets (NPA) exceed 5%, both national and international agencies would question the country's financial stability, leading to stricter conditions on imports, such as requiring 100% cash for Letter of Credit transactions.

Finally, Mr.Saud added that banks should prioritize providing loans for skill development and education rather than focusing solely on financing foreign employment. This shift could generate sustainable revenue for the country. He also stressed that the government must create an environment conducive to investment, as public confidence in investing remains low. Above all, agriculture must remain the nation's foremost priority to achieve inclusive and sustainable development.

Concluding Remarks by Hon. Kalyan Shrestha

Hon. Kalyan Shrestha stated that issues and challenges discussed in this event are achievable but questions why werent these issues regarding the three sectors highlighted. However, interdisciplinary discussions like this event supports in understanding eachother and finding common ground. Multisector dialogues like this event titled "Banking and Financial Concerns: Hydropower, Agriculture and Tourism" must be continued further involving other various sectors as well. This event viewed the three sectors through the lenses of banking and financial sector. Similarly, there are other various sectors that must also be perceived through the lenses of bnanking and financial sector. This will support in focusing various sectors through a common lense to develop a comprihensive framework for development of various sectors. There must be proper coordination and cooperation between all the sectors including government.

He further stressed in hydropower sector mentioning the challenges of climate change. He stated that the industry should capitalize from the sector before climate change impacts the hydropower industry of our country. He also asked concerned stakeholders to look for other alternative energy sources for future investment in energy.

He mentioned that the nation is facing significant challenges the discussed sectors is due to poor governance. Due to this issues, small investors investing in share market and other sectors as well should not be impacted. This will lead to more citizens leaving the country. There must be good governance in every sector including government.

He further stated that banks should not pressure small business owners instead banks must support such business by providing credit support, skill development programs and be present as a guardian. Since banks are multisectoral in nature they should not only focus in banking sector but in overall develoment.

Key Issues Raised in the Discussion:

1. The state and banks need to facilitate investment in the sectors of energy, agriculture, and tourism development.
2. It is necessary to increase investment in these sectors and justify the investments made.
3. The agricultural sector should be modernized to make it more productive.
4. The state should provide declared subsidies and facilities to farmers, entrepreneurs, and developers.
5. Productivity should be sought from investments made in all three sectors.
6. The scope of utilizing financial resources for development should be expanded.
7. Proper valuation should be ensured when auctioning collateralized assets in banks.
8. Banks should support enterprises until they reach a successful stage.
9. The banking sector must be serious about its governance issues.
10. Investments in small enterprises with tourism potential should be increased.
11. There should be a bold and revolutionary approach to transforming the agricultural sector.
12. The feasibility, opportunities, and challenges of all three sectors should be understood comprehensively.
13. Entrepreneurs should not be discouraged during times of crisis.
14. Agriculture should be given special priority to ensure food security and sovereignty of the country.
15. A high-level commission should be formed to ensure good governance across multiple sectors.

Conclusion

In conclusion, the declining CD ratio, from 87.21% in 2022 to 77.98% in 2024, highlights challenges in Nepal's financial sector that affect key industries like hydropower, agriculture, and tourism. The slowdown in credit utilization suggests the need for policy reforms and improved banking stability to enhance investment in these sectors. For hydropower, addressing project financing and ensuring diversified investments are crucial. In agriculture, strengthening financial support and providing training to farmers can drive productivity. For tourism, revitalizing post-COVID growth through targeted investments and less tourist spending with increasing high number of tourist is required. Reforming banking and government policies ensures financial stability are key to unlocking these sectors' full potential.

List of Speakers

SN	Names	Organization	Designation
1	Kalyan Shrestha	Nepal Government	Fmr. Chief Justice
2	Ganesh Karki	IPPAN	President
3	Surya Prasad Adhikari	Green Energy Enterprise	Chairman
4	Batu Lamichhane	Orbit Energy Ltd.	Chairman
5	Govinda Prasad Thapaliya	Meat Maker	Chairman
6	Binayak Shah	Hotel Association Nepal	President
7	Jyoti Adhikari	Holy Himalaya	Team Leader
8	Pawan Golyan	FNEA/Golyan Group	Chairman
9	Gunakar Bhatta	Nepal Rastra Bank	Executive Director
10	Gyanendra Dhungana	Nabil Bank	CEO

Media Links

The news and analysis, compiled based on the views of speakers present at the policy debate program, have been published/broadcasted on **Khabarhub.com**, its multimedia platforms, the **ISSR** website and social media, as well as **Radio Candid**. The articles published on **Khabarhub.com** are titled and linked as follows:

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