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Intersectoral Financial Flow of Funds in the Nepalese Economy with Particular Reference to Industrial Corporate Sector

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Theoritical Framework

Various systems of national accounts have been devised in recent years to describe the economic activities of a nation. Thay are mainly of four catagories viz., national income accounts, input-output tables, flow of funds statement and balance sheets (national and sectoral). Each system offers a different perspective of the economy, while also supplimenting the one prepared by the other.

The national income accounts present the income, expenditure, savings and investment of the nation in flow terms. The input-output tables reflect the interdependence of different industries or commodities or services in a production process. The national and sectoral balance sheets exhibit the assets and liabilities respectively of the nation and various sectors outstanding at various points of time. Flow of funds (FOF) accounts are closely related to the balance sheet accounts. The only difference between the two is that while the former deals with the flows, the latter with the stocks. Balance sheet system is the only national accounts system that deals with the stock concept.

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FOF Account and its Construction

According to Lawrence S. Ritter[1], the FOF is a system of social accounting in which (a) the economy is divided into a number of sectors, and (b) a "sources and uses of funds statement" is prepared for each sector. When sources and uses of funds statements of all sectors are placed side by side, one gets the FOF matrix for the whole economy.

As stated above, an FOF account is closely associated with the balance sheet. In fact, FOF statement is obtained from the balance sheet account. A balance sheet of a sector shows all its assets and liabilities at a particular point of time in a following manner:

Statement: 1

Liabilities	*Assets*
Net worth	Real Assets
Liabilities	Financial Assets
	Money

$$E = E$$

This sectoral balance sheet is the basis for constructing a sectoral FOF account. If one takes two successive balance sheets and brings out the net changes under each balance sheet item, then one gets the FOF statement of a sector as follows:

Statement: 2

Sources	*Uses*
$\triangle$ Net worth	$\triangle$ Real Assets
$\triangle$ Liabilities	$\triangle$ Financial Assets
	$\triangle$ Money

$$\Sigma = \Sigma$$

Thus, the stocks shown in the balance sheets are converted into flows in the FOF account. As liabilities should equal assets in a balance sheet, sources should tally uses in a FOF statement.

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1 Lawrence S. Ritter, The Flow of Funds Accounts: A Framework for Financial Analysis. New York University, 1968.

Financial Flows and Non-financial Flows

FOF can be divided into two parts – financial and non–financial, Only those funds which are exchanged against financial instruments can be admitted in the category of financial flows. In other words, increase or decrease in liabilities as a result of external borrowing or repayment to the outside sector, and increase or decrease in financial assets can be regarded as financial flows. Increase or decrease in money stock also is a part of financial flow. Statement: 2 shows that changes in liabilities on the sources side and those in the financial assets and money stock on the uses side are financial flows. Change in net worth is the non–financial use of fund. Net worth is defined as a sector's total assets minus its total liabilities. Therefore, any increases in a sector's net worth should be equal to its increase in assets minus increase in its liabilities. This is saving. Purchase in real asset such as acquisition of a land, machinery results an increase in real asset. This is referred as investment. It is only in this sense that the term investment is used here. Purchase of financial assets such as stocks or bonds will be referred as financial investment.

If we want to construct a financial FOF statement ignoring the non–financial fiows, it will be as follows:

Statement; 3

Sources	*Uses*
Δ Liabilities	Δ Financial Assets
	Δ Money

Unlike the sources and uses of funds statement presented in Statement 2, the financial sources and uses need not tally here. Similarly, non–financial sources and uses may not balance. As is obvious from the statement itself, financial sources and uses of funds statement is derived from partial balance sheet, ignoring out net worth and real assets there of. Here fiinancial source to a sector means obtaining funds by net in ocurrence of liabilities i.e., by borrowing, while financial use means net acquisition of financial assets i.e., net lending or build up stocks of money generally regarded as hoarding.

So far changes in assets and liabilities are assumed to be positive. But these changes can be negative too. In such a situation, there will be more possible sources and uses of funds. On the sources side, decrease in financial assets and decrease in money holding (e.g. negative of uses) can appear as financial sources, beside an increase in liabilities. On the uses side, a decrease in liabilities (e.g. negative of source) can also appear as a financial flow, besides the increase in financial asset nd money hoarding. All the source and uses of a FOF accounts in such a case will be as follows:

Statement: 4

Sources	*Uses*
1. Increase in liabilities	1. Decrease in liabilities
2. Decrease in financial assets	2. Increase in financial assets
3. Decrease in money hoarding	3. Increase in money hoarding

This is a gross financial FOF account. However, owing to the difficulty in collecting data for such a gross FOF accounts most financial FOF accounts are prepared in the net form as presented in Statement 3. Regarding the financial FOF account, the UN Monograph entitled "A System of National Accounts" says.[2]

"A considerable, though smaller, amount of effort has been put into separating out the many financial sectors of the economic system and into examining in detail their issue (or redemption) of various kinds of financial liabilities and their acquisition of different kinds of financial assets .... A number of countries have also prepared flow of funds tables which show the flows of financial claims that enable the surplus saving of some groups of financial units to provide the external funds needed by sectors whose capital expenditure exceeds their savings".

Surplus Sector and Deficit Sectors

As noted earlier, sources and uses do not balance at the sectoral financial FOF accounts. If the source is greater than use, the sector is said to be a deficit sector i.e., net borrower. On the other hand, if the use is greater than the source, the sector is regarded as a surplus sector i.e., net lender. Thus, at the sectoral level, the difference between financial sources, and financial uses represents either net lending or net borrowing of the sector concerned. The magnitude of the source-use gap is a reflection of the saving-Investment gap. Evidently, from an integrated intersectoral financial FOF statement of the whole economy, one can clearly see which sectors are 'ultimate' lenders experiencing excess of saving over their investment and which

2 Monograph Series No. 2, Rev. 3, 1963, quoted by V.V. Divata and T.R. Venkatachalam "Flow-of-Funds Accounts" Reserve Bank Staff Occassional Papers, Vol. 1, No. 2 Dec., 1976, pp. 109—10.

sectors are 'utimate' borrowers for whom investmentneed is in far excess of current saving. For the nation as a whole, saving is equal to investment. Therefore, surpluses and deficits add up to zero. When the whole nation is considered as a sector by integrating all the sectoral FOF accounts, the financial sources will equal financial uses. This means at the overall level total claims issued is equal to total obligations held.

A Complete FOF Account

In the FOF statement considered so far, we have considered only capital accounts and ignored the current account. However, a truely complete FOF accounts should take into account the current transactions too. In other words, till now we have considered only balance sheet items and not the items of income statement. An income statement comprises of non-financial sources and uses of funds on the current account. Current receipts such as sales receipts of a business firm, current income of a household, tax receipt of the Government etc. are sources of funds while current expenditure such as expenses on salary, wages, non-durable goods and services are the examples of uses of fund. It may be noted that these sources and uses of funds of the current nature are of non-financial nature. Therefore, they are not taken into account in a financial FOF account.

Intersectoral Financial Flow Of Funds In The Nepales Economy

On the basis of the theoritical framework presented about may now be an attempt made to prepare an inter-sectoral flow of funds (hence forth called FOF) table for the Nepalese economy. Such a table will show each sector of the economy in its dual role i.e. as a lender as well as a borrower. The aggregation ot the borrowing and lending of all sectors will give a picture of total borrowing and lending of the whole economy. Thus, the FOF accounts, aside from presenting the changes in claims and obligations of various sectors of the economy against one another over time, also shows their respective shares in the total borrowings and lendings and pin point the surplus sectors characterised by an excess of lending over borrowings and deficit sectors characterised by an cxcess of borrowings over lendings and thus provide an overview of the financial system of the country.

In the narrative portion of the FOF accounts here, a particular focus was given on the industrial corporate sector in the context of industrial financing in Nepal. The significance of such an approach for the study industrial financing is clear. Industrial sector may receive funds from various sectors. But it also lends finances to them by purchasing the financial claims, which may of a different variety, be issued by the latter. For example, an industry borrows money from from the banks. All the same, it also lends them in the form of deposit. Similarly, an industry may borrow from the government in the form of equity capital and/ or loan. But at the same time, it may also lend to the latter by purchasing the bonds issued by the Treasury[3]. Therefore, one can have a better perspective of the role of various external sources in financing the industrial sector by observing both its borrowing and lending roles vis-a-vis other sectors of the economy. Use of such a framework enables one to have an idea about the net contribution of other sectors to the sector in question as will as an insight into the direct and indirect contributors to it. One can make similar analysis about other sectors too with the data presented in our tables.

Such an attempt to prepare the intersectoral financial FOF accounts and see the place of industrial sector in it is rather a crude one, since it is best with a number of limitations. For want of data, it was not possible to cover the financial flows pertaining to the industrial sector as a whole. Instead we have confined to industrial corporate sector comprising manufacturing, electricity and construction the balance sheets of which were collected on a large scale for the purpose of this study. Besides, there are other limitations associated with the methodology of the study, particularly with regard to sectoring, sources of data, the period to which the data pertain and estimation procedure as noted below. Therefore, the findings of the study may be regarded as only tentative.

Methodology

Sectoring:

The economy has been divided into six sectors, namely banking; Other Financial Institutions (OFI), Government; Industrial Corporate Sector (ICS), Rest Of the World (ROW); and Non-industrial Corporate and Households (NICH). The banking sector consists of two sub-sectors viz. NRB and Commercial Banks. OFI consists of development banks, Provident Fund Corporation and National Insurance Corporation. The Government sector comprises of

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3 Thus, the terms borrowing and lending are used in a much broader sense here including all financial obligatives and claims.

only departmental undertakings and not public eompanies. Industrial corporate sector includes, as noted above, manufacturing, electricity and construction companies including public sector ones. ROW is the external sector, NICH is the residual sector which comprises of the corporate undertakngs not included in ICS (such as transport and communication, trading, hotels, etc.), non-corporate aud non-farm business, farm business, consumer's sector non-profit organisations etc. In a FOF matrix, it is customary to treat corporate sector and household sector separately. Such a distinction opviously can provide more useful informations. However, no data on the financial position of the total corporate sector is available in the country till now. As the author had collected data for the industrial corporate sector, it was found expedient to treat it as a separate sector and clup the non-industrial corporate sector with households. This was also in conformity with the objective to see the financial flows pertaining especially to the industrial sector.

Sources of Data

Data on the financial flows of these sectors have been derived from various sources. For the banking sector, the annual balance sheets of NRB and commercial banks published regularly in the NRB quarterly Economic Bulletins represented the primary sources of data. For the OFI sector also, annual balance sheets formed the primary sources of data. The balance sheets of the development bank are published in the NRB bulletins. In the cases of provident Fund and Insurance Corporation, they were procured from their respective offices. Data pertaining to the ICS have been derived from the balance sheets of industrial companies compiled by us. The number of such companies was 54 for the year 1972 and 62 for 1975 accounting respectively for 90 percent and 86 percent of the total paid-up capital of the whole sector in the two years. [4] For the purpose of estimation, the aggregate figures of the companies were suitably blown upon the basis of their paid-up capital coverage. [5] Data on the Government sector were not available at a single sources, therefore have ben derived from various sources. On the sources side, data on its borrowings from the domcstic market and foreign sources

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4 For further financial information and list of these compancs see Chapter VII; VIII and Appendix 8-E in the author's forthcoming book Capital Market, Financial Flow and Industral Finance in Nepal, Sajha publication, Kathmandu, Nepal.

5 The blow—up was to the extent of 10 percent for 1972 figures and 14 percent for 1975 figures, as the paid-up capital of the companies covered by our compilation was 90 percent and 86 percent of the existing companies respectively in 1972 and 1975

and issues of coins are available in the NRB Bulletins. On the uses side, information on its investment in the equity of various non-departmental enterprises and loans and advances were collected from the Financial Comptroller General's Office of the Ministry of Finance. Data on subscription to international agencies were found in Auditor General's reports, while data on cash balances were available in the NRB bulletins. Some other minor items of the financial flows of the government sector such as trade dues on the sources side, balances at the foreign embassiies and receivables on the uses side have been excluded for want of data.6 Regarding the ROW sector, data on the financial flows were found very scanty. In India, financial flows of the ROW are recorded in the capital accounts of the balancc of payments compiled by the RBI. No. such compilation was available in Nepal for the period under review. Therefore, all the data used by us pertaining to this sector here have been derived from the indirect sources. The flows recorded a sources from ROW in other sectors have been treated as uses in the ROW accounts against the respectives sectors and the flows recorded as uses agginst ROW in other sectors have been treated here as sources from the respective sectors. NICH is a residual sector the claims or obligations of which have been obtained as a residual after eliminating the shares of other sectors. In other words, it covers the residual financial flows which do not fall under the above mentioned five sectors.

Period of study

The period covered by this study is 1972–75 as it was only for this period that data could be collected for all sectors-

One limitation of the study of this kind arises due to lack of uniformity in the accounting dates of all sectors. In the course of this study also this problem was experienced though only to a trivial extent. Data pertaining to a particular point of time i. e., mid-july of each year under review were available for all sectors except the ICS. Ih the case of ICS, the accounting dates of all the companies under review were not the same. However, even here bulk of the companies accounting for more than 90 percent of the aggregate paid–up capital of the companies were found to have mid-july as their balancing data. No further adjustment has been made here because there was no uniformity in the accounting dates of the few com-

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6 It is difficult to estimate the extent of the importance ot these items in the total sources and uses. Iu India, trade dues and other liabilities represented about 8 percent of the total sources of the government sector while receivables and balance with high commission outside 12 percent of the total use duing the period 1969–70 1971–72.See RBI Bulletin, August 1975 p' 578

panies which accounted for the rest, less than 10 percent of the total paid-up capital. As the data of the ICS sector also pertains predominantly to mid-july, the FOF data which we are going to present may be broadly considered as pertaining to a period in between mid-july 1972 and mid-july 1975

Estimation procedure

Exclusion of Non-financial FlOW

A balance sheet presents assets and liabilities of both financial and non-financial nature at a particular point of time. Since we have confined our study to financial flows only, while taking out the data from the balance sheets we have considered only these changes in balance sheet items which constitute financial flows. For example, on the liabilities side, we have taken into account only changes in liabilities due to borrowings (including paid-up capital with new subscription) and ignored changes in items like capitalised reserves, reserves and surpluses and provisions. Similarly, on the assets side, only changes in financial investment and money holding have been taken into account and real assets like fixed assets inventories have been ignored.

Financial Flows in Net of Repayment

Financial FOF accounts can be presented as gross as well as in net of repayment form. In the latter form, sources of funds would consist of only changes in liabilities and uses of funds would consist of only changes in financial assets and money hoarding. In such a form any pluses and minuses are netted out and net change is assumed as positive. However, in a gross form there are more possible sources and uses of funds. As noted in statement 4 earlier, here the sources of funds would also include the negative of the uses of funds, besides an increase in liabilities, similarly, the uses of funds would also comprise of the negative of sources besides increase in financial assets and money hoarding. Although, the flow of funds in a gross form is regarded as theoretically a better system, in practice there is general preference for the net form for want of data on the gross basis. Most published data show only net changes in liabilities and assets. While presenting accounts in a net form, if the net change in any entry turns out to be negative over the period conventionally it is proceded by a minus sign but the classification of the item beween sources and uses is not altered. [7] For example, if there is net change in the liability it will be recorded on the sources side only but preceded by a minus sign and referred to as negative source. In the present study, we have followed this method.

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7 Lawrence S. Ritter. The Flow of Funds Accounts. A Framework For Financial Analysis, NEW york University Graduate Sohool. of Business Administration,1968, p. 13.

Elimination of Intra-sectoral Accounts

As noted earlier, some of the sectors under review also have sub-sectors and/or individual units. As for example, the banking sector consists of the NRB and commercial banks. OFI comprises of several financial institutions. Therefore, while aggregating the accounts of the various sub-sectors and/or individual units in order to arrive at the sectoral accounts, intra-sectoral claims and obligations have been eliminated

Getting over Discrepancies

While constructing the inter-sectoral flow-of-funds accounts, one often finds the statistics for the same item reported by the issuing sector differing from the one reported in the holding sector accounts. Such a discrepancy occurs mainly because of the valuation differences and timing differences in recording the transactions in two sectors. In our case, such differences, however, are negligible (See Table 1). The differences which get reflected as the total discrepancy between the total source and use was just 0.62 percent of the total sources/ uses.[8] In order to get over such discrepancies in the final table, we have taken the average of the two figures given respectively in the financial flow accounts of borrowers and lenders. This is the method used by the Reserve Bank of India in preparing the FOF accounts for the Indian economy.

Dealing with Unclassified Data

There was one problem of properly classifying the data into various sectors chosen by us, since the data in various items were not available in the classified form. Even if they were classified, it did not exactly meet our requirments of sectoral classification. Let us explain the procedure adopted by us to overcome this difficulty. With regard to banking sector comprising of NRB and the commercial banks, data on most of the items are sufficiently classified to reveal the claims and obligations of all sectors except ICS and NICH. Here, we separated the share of ICS by making use of the data from its own accounts and accounted the remaining portion to the NICH. There were some other items like 'currency in circulation', miscellaneous domestic liabilities and miscellaneous assets in the banking sector for which no sectoral break-up

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8 This insignificant discrepancy must, however, be attributed largely to the fact that data on many of the item could be drawn from only one account (either borrower's or lender's), since they were not independently available from both sources.

was found in the balance sheets. In the case of 'currency in circulation', the currency held by each sector has been established on the basis of 'cash in hand' data of sectoral accounts and the residue has been accounted to the NICH sector. In the case of the item miscellaneous domestic liabilities, it represents heterogeneous obligations such as bills payable, staff provident fund, provision for gratuity, taxation, interest payable, gold revaluation adjustments, branch adjustments, dis count, etc. Of all these items, only bills payable and staff provident fund represent financial flows.[9] Since data on their proportion to the item 'miscellaneous liabilities' were not available, (not to talk of their sectoral break-up), this item has been ignored altogether in the presentation of accounts. Similarly, the item miscellaneous assets on the uses side comprises various claims such as fixed assets, statiouaries, suspense accounts, tax advances, sundry debtors, silver etc. The only item representing the financial flow here is 'sundry debtors'. Here also data under this item is not separately available. Therefore, the item 'miscellaneous assets' also has been excluded from the purview of our study.

With regard to OFI sector, let us take the development banks first. On their sources side, we recorded the increased obligations to various sectors in the form of paid-up capital, borrowings and deposits on the basis of the data published in the balance sheets. Additional information was obtained from the concerned offices in some items where the data were not sufficiently classified.[10] On the uses side, no sectoral break-up of data especially on loans, advances and stock participation is available in the published accounts. The development banks in Nepal lend only to Government (through the purchase of Government bonds only), ICS and NICH. Data on lending to the Government are separately available. The distribution of rest of the lending between ICS and NICH has been made on the basis of the data available from the sources accounts of the ICS. The entire amount exceeding the one recorded as the claims of development banks in the ICS accounts has been assumed to have gone to the NICH sector.

In the case of Provident Fund, data provided in its balance sheet are fairly detailed to make the sectoral classification easy. On the sources side, increase in provident fund con-

9 They are generally minor items in the banking sector. Bills payable as a source of funds of the Indian banking sector represented less than 2 percent during the period 1969–70 and 1971–72. See RBI Bulletin, op. cit., 569.

10 This was particularly so in the case of the item 'deposits' in ADB's balanee sheet and 'Paid-up capital' in NIDC's.

tribution was the main source which has been recorded as the obligation to the NICH sector. The other sources were borrowings from banks and the Government. On the uses side, the only item for which sectoral break-up is not available in the balance sheet is 'institutional credit'. This was made available to us by the office concerned. Coming to the National Insurance Corporation the main sources were found to be increase in paid-up capital, life funds and general insurance fund and claims. Data on sectorwise break-up of the increase in paid-up capital has been collected from its office. The source of life and general insurance funds and claims has been recorded to be NICH.[11] On the uses side the main items were investment in Government bonds, outstanding premiums, and cash anb bank balances. All outstanding premiums have been included under NICH, while cash and bank balances under banking sector. It may be mentioned here that in the OFI sector also 'other liabilities' on the sources side and 'other assets' on the uses side (both items representing negligible shares in their respective sides) have been omitted from the compilation of accounts for the same reasons noted in the case of banking sector.

Regarding the ICS sector, the main sources contituting financial flows were increase in paid-up capital net of capitalised reserves, borrowings and trade dues. The sectorwise break-of the inerease in the paid-up capital has been estimated by using the data available from various sources like other financial institutions especially NIDC and Comptroller General's Office. As banking sector has not made any equity investment in ICS, the rest has been accounted to the NICH. Regarding borrowings, available data were fairly classified to reveal the claims of various sectors. The item trade dues on the sources side includes sundry creditors, trade bills, trade deposits, consumer deposits, employees' contribution to provident fund etc. Corresponding to this is the item trade debt on the uses side. Trade credit and trade debt are partly intercorporate transactions. Part of the amount under this head may also result from its transactions with the Government, ROW and NICH. As there was no way of separating them out by sector in the absence of detailed data, we have accounted the difference between the trade debt and trade credit wholly to the NICH sector.[12] On the uses side, the two items representing financial flows are investments and cash and bank balances. Problem arose here because most of the

11 It is rrue that a part of the increase in general insurance claims may be of other sectors also. This is assumed to be very negligible since the flow of general insurance fund and claims itself was found to be a very minor item during the period, constituting just 0.37 percent of the total sources of OFI sector.

12 This method is usually adopted by Reserve Bank of India in compiling its FOF accounts, RBI Bulletin, March, 1967, pp 269-70.

companies have not shown details of their investments in published accounts. Some of the companies which provided the details showed that it was on Government bonds.[13] Therefore, all investment has been assund to be in Government bonds. Cash in hand and bank balances have been recorded as the claims against the banking sector.

Available data on the financial flows with regard to the Government and ROW sectors are more or less, sufficiently classified to meet our requirements.

Some Results

Within the limitations of data and the coverage noted above, let us look at the main findings of the study. Data on gross intersectoral and net intersctoral financial flows have been presented respectively in Tables 2 and 3. In Tables 4 and 5 have been presented respectively the gross intersectoral borrowing and lending coefficients of the period under study, while the net borrowing and lending coefficients have been set forth in Tables 6 and 7 respectively.

The total gross financial flows in the Nepalese economy during the period 1972–75 amounted Rs 3801.6 million i.e., Rs 1267.2 million on average per year. This represented 10 percent of the average annual GDP during the same period. Comparing this figure with that of India, we found that this level of gross financial flows in relation to the national income was achieved by the latter around the year 1961–62. The total financial flows as percentage of the GNP was around 15 percent in 1970–71 in India.[14] Although the findings may not be strictly comparable due to some differences in coverage, sectoring and other limitations associated in the compilation of data, this broadly shows the comparatively lower level of financial activity (and indirectly also that of financial development) in Nepal in relation to that of India. A look at the lending side shows that banking sector was the biggest lender during the period accounting for 36 percent of the total gross lending/borrowing, followed by NICH (27 percent), ROW (16 percent), OFI (10 percent), Government (9 percent) and ISC (1 percent). Looking from the side of borrowing, NICH was found to be the biggest borrower accounting for 31 percent of the

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13 Generally, employees provident fund was fond to have been invested in Government bonds.

14 See V.V. Divatia and T.R. Venkatachalam "Flow-of-Funds Accounts, Reserve Bank Staff Occasional Paper, Vol. 1, No. 2 December, 1976, p. 124. Also see S.B. Swami, Financial Flows in the Indian Economy: 1956–57 to 1970–71' (Mimeograph) Staff Seminar of Gokhale Institute of Politics & Economics, 28th January, 1978, p. 18.

total borrowing followed by banking (27 percent), ICS (13 percent), Government (13 percent), OFI (9 percent) and ROW (5 percent). If we consolidate all banking and other financial institutions into one sector (by eliminating mutual claims and obligations) it will account for 41 percent of the lending and 31 percent of the total borrowing. Annual average gross lending of this consolidated sector to other sectors as a percentage of GDP came to round about 4 percent during the period under review. It was 5.2 percent in India in the year 1970-71.[15]

While observing the net inter-sectoral financial flows in the economy (Table 3), it may be contended that the banking sector was the largest lending sector accounting for 29 per cent of the total net lending, followed by ROW (25 per cent), Government (24 per cent), NICH (11 per cent) and OFI (11 per cent). From the borrowing side, it is seen that the Government was the largest net borrower accounting for 33 per cent of the total borrowing followed by ICS (28 per cent), NICH (21 per cent), banking (10 per cent) and OFI (8 per cent). One important revelation made by the Table is that banking, OFI and ROW were net surplus sectors during the period as their total net lendings were higher than their respective total net borrowings. Of all these surplus sectors, Row was the largest one followed by banking[16] and OFI. The ICS, Government and NICH were the net deficit sectors. Usually, one finds the household sector to be an important surplus sector in the economy. But it has appeared as a deficit sector here because it was lumped together with the non-industrial corporate sector which generally is an important deficit sector in the Nepalese economy.

Now let us look at the financial flows pertaining to the ICS. Its gross borrowing during the period was Rs 511.7 million which was 13 percent of the gross borrowing in the total economy, while its total lending was just Rs 41.9 million i.e., 1 percent of the total gross lending. Obviously, this was a deficit sector, the amount of deficit being Rs 469.8 million. Looking at the sectoral sources of its total borrowing it is found that out of its gross borrowings of Rs 511.7 million, the Government provided Rs 207.8 million, the NICH Rs 182.4 million, ROW

15 Ibid.

16 It may be noted that one does not normally expect the banking sector to be a big surplus sector because of its intermediary role between the ultimate lenders and borrowers. However, it has appeared as the second important surplus sector in our case during the period under study. Lending in far excess of borrowing by this sector was made possible owing to the sharp increase in reserve and other internal resources and miscellaneous domestic liabilities generally of the non-financial nature during the period.

Rs. 48.1 million, OFI Rs 44.1 million and banking Rs 29.3 million. In relative terms, the shares of these sectors as shown by Table 4 were 41 percent, 36 percent, 9 percent, 9 percent and 6 percent respectively. Looking at the lending side of ICS, the only two sectors which had borrowed from it were the banking and the Government, the amount being Rs 28.7 million and 13.2 million respectively. Looking from the side of lenders, one can see from Table 5 that ICS accounted for 59 percent of the gross lendings of the Government sector, 18 percent of NICH, 11 percent of OFI, 8 percent of ROW and 2 percent of the banking sector.

From the above data, one can deduce that the Government and the NICH were the main lenders to the ICS. This becomes even more apparant when we look at their roles in the net borrowings of ICS As shown by Table 6 the Government and the NICH respectively accounted for 41 percent and 39 percent of the total net borrowing of ICS during the period. Table 7 shows that lending to ICS represented 48 percent of the Government's total lending and 98 percent of that of NICH. A few relevant and interesting facts regarding the nature of lending to this sector may be mentioned in this regard. The high share of ICS in the total lending of the Government (despite the fact that industrial sector accounts for a relatively low share in Government's budgetary allocatson[17]) was due to the fact that almost the entire of its investment in ICS has been made in the financial form, while its investment in other sectors like agriculture, transportation, social services etc. has taken the non-financial form (like formation of physical assets, training, services, etc.). Another imyortant point to be noted here is that a large part of funds acquired by the ICS from the Government was mainly due to the grants made available by the foreign sources to the Government. Our enquiry into this matter showed that at least 75 percent of the gross and 86 percent of the net lending of the Government to ICS was due to the availability of foreign grants.[18] This (foreign grants) being a unilateral transfer is not reflected as source of the Government sector in the FOF Table. It is significant that despite this a significant proportion of the Government's net borrowing (34 percent) has come from the ROW sector (Table 6) Coming to the nature of net borrowings by by the ICS from NICH, it was found largely (73 percent) in the form of net trade credit which may be regarded as a sort

17 The combined share of industry and mining in the total annual development expenditure of the Government was on average 8.9 pereent during the period 1972–75. See, HMG/N, Ministry of Finance, Economic Survey, F. Y. 1975 -76, p.43

18 This finding is based on the data collected by the author on the role of foreign aid behind Government investment in industrial sector.

of forced borrowing achieved largely by postponding the payment of bills. Besides let it be recalled that the net trade credit of the ICS was accounted wholly to the NICH sector as there was no way of finding the sectoral distribution of this item. Therefore, one cannot say that the entire net credit came from NICH. Lending in the other form (i.e. mainly equity) was found to represent only 27 oercent of the NICH's total net lending to ICS which represented just around 11 percent of the latier's total net borrowing. This reflects the negligible role of direct finance from the investlng public in financing the ICS.

Next important sources of borrowing for the ICS were ROW and OFI each fo which accounted for 9 percent of its gross borrowings and respectively 10 percent and 9 percent of its total net borrowing. Regarding OFI, it may be remarked that it has in turn borrowed mainly from Government and ROW which respectively accounted for 74 petcent and 26 percent of its total net borrowing (Table 6). Therefore, it can be said that Government and ROW have also financed the ICS indirectly through OFI, although the latter itself represented a relatively very minor source of funds to ICS.

Coming to the banking sector, as we saw earlier, it had lent an amount of Rs 29.3 million the ICS which was about 6 percent of the latter's total gross borrowing. But nearly an equal amount i.e., Rs 28.7 million was borrowed by it from the ICS. Thus, the net lending of the banking sector to the ICS was an insignificant Rs. 6 million which did not represent even 1 percent of the total net borrowing of the ICS during the period. This brings into sharp focus the negligible role played by the banking system in financing the industrial sector in Nepal inspite of its being the largest lending sector of the economy. One may, however, argue that the banking sector has indirectly financed the ICS by lending heavily to Government and NICH sectors which in turn have been the main lenders to the ICS. Government and NICH sectors accounted respectively for 74 percent and 25 percent of the banking sector's total net lending But we have already noted that bulk of the Government lending to the ICS was accounted for by foreign aid. Government sector's lending to ICS through OFI is as noted above, relatively very minor. In other words, funds mobilised by the Government through bank borrowings have found way largely to other sectors and ICS as such has benefited very little from it. Thus, one can say that the access of the ICS to the ultimate savings of the economy through the banking system or to the resources of the banking system via Government investment also has been extremely limited. As far as NICH's lending to ICS is concerned, it has already been noted that it was mainly in the form of current net trade credit. The limitation associated with this data has already been remarked. Beside, NICH is a residual sector comprising of a number of economic activities not classified elsewhere. In the absence of detailed break-up of data we cannot say how far the economic units borrowing from the banking sector have made the trade crecit available to the ICS.

To sum up, it may be inferred that the industrial corporate sector has, boto directly and indirectly, made very negligible use of internal saving for its long-term development. It has heavily relied on foreign capital which is channelled largely through Government and OFI (mainly NIDC).

Table 1: Financial Flows in the Nepalese Economy (1972–75)

(Rs in Million)

	Banking		OFI		ICS		Government		ROW		NICH		Total	
	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses
1. Banking	–	–	115.3	114.8	29.3	28.7	285.7	–82.9	171.0	324.0	784.6	658.8	1385.9	1043.4
2. Other financial institutions	114.8	96.1	–	–	44.1	–	–39.4	73.6	–	36.9	271.7	140.5	400.2	347.1
3. Industrial Corporate Sector	28.7	29.3	–	44.1	–	–	13.2	207.8	–	48.1	–	182.4	41.9	511.7
4. Government	–82.9	285.6	77.9	–30.4	207.8	13.2	–	–	9.6	198.6	144.0	42.7	356.4	509.7
5. Rest of the World	324.0	171.0	36.9	–	48.1	–	198.6	9.6	–	–	–2.9	–	604.7	180.6
6. NICH	658.8	784.6	140.5	271.7	182.4	–	42.7	144.0	–	–2.9	–	–	1024.4	1197.4
TOTAL	1043.4	1366.6	370.6	400.2	511.7	41.9	509.8	352.1	180.6	604.7	1197.4	1024.4	3813.5	3789.9

Table 2: Gross Intersectoral Financial Flows in the Nepalese Economy (1972–75)

(Rs in Million)

Lenders	Borrowers							
	Banking	OFI	ICS	Government	ROW	NICH	Total Gross lendings	Ratio of total lendings to GDP*
1. Banking	–	105.7	29.3	285.6	171.0	784.6	1376.2 (36.2)	.036
2. OFI	114.8	–	44.1	–30.4	–	271.7	400.2 (10.5)	.011
3. ICS	28.7	–	–	13.2	–	–	41.9 (1.1)	.001
4. Government	–82.9	75.7	207.8	–	9.6	144.0	354.2 (9.3)	.009
5. ROW	324.0	36.9	48.1	198.6	–	2.9	604.7 (15.9)	.016
6. NICH	658.8	140.5	182.4	42.7	–	–	1034.4 (26.9)	.027
7. Total borrowings	1043.4 (27.4)	358.8 (9.4)	511.7 (13.5)	509.7 (13.4)	180.6 (4.7)	1197.4 (31.5)	3801.6 (100.0)	.100

* Annual average at current prices.

(Figures in brackets indicate percentages to the total gross lendings/borrowings of all sectors).

Table 3: Net Intersectoral Financial Flows in the Nepalese Economy (1972–75)

(Rs in Million)

Lenders	Borrowers						
	Banking	OFI	ICS	Govern-ment	ROW	NICH	Total net lendings
1. Banking	–	–	.6	368.5	–	125.8	494.9 (29.2)
2. OFI	9.1	–	44.1	–	–	131.2	184.4 (10.9)
3. ICS	–	–	–	–	–	–	–
4. Government	–	106.1	194.6	–	–	101.3	402.0 (23.7)
5. ROW	153.0	36.9	48.1	189.0	–	–	427.0 (25.2)
6. NICH	–	–	182.4	–	2.9	–	185.3 (10.9)
7. Total net borrowings	162.1 (9.6)	143.0 (8.4)	469.8 (27.7)	557.5 (32.9)	2.9 (0.2))	358.3 (21.2)	1693.6 (100.00)
8. Financial surplus/ deficit	332.8	14.4	–469.8	–155.5	431.1	–173.0	–

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(Figures in brackets indicate percentages to the total net lendings/borrowings of all sectors).

Table 4: Gross Intersectoral Borrowing Coefficients in the Nepalese Economy (1972-75)

Borrowers	Lenders						
	Banking	OFI	ICS	Govt.	ROW	NICH	Total gross borrowings
Banking	–	.110	.027	Neg.	.310	.631	1
OFI	.295	–	–	.211	.103	.392	1
ICS	.057	.087	–	.406	.094	.356	1
Govt.	.560	Neg.	.026	–	.390	.084	1
ROW	.947	–	–	.053	–	–	1
NICH	.655	.227	–	.120	Neg.	–	1

Table 5: Gross Intersectoral Lending Coefficients in the Nepalese Economy (1972-75)

Lenders	Borrowers						
	Banking	OFI	ICS	Govt.	ROW	NICH	Total gross lending
Banking	–	.077	.021	.208	.124	.570	1
OFI	.287	–	.110	Neg.	–	.679	1
ICS	.685	–	–	.315	–	–	1
Govt.	Neg.	.214	.587	–	.027	.407	1
ROW	.536	.061	.079	.328	–	Neg.	1
NICH	.643	.137	.178	.042	–	–	1

Table 6: Net Intersestoral Borrowing Coefficients in the Nepalese Economy (1972–75)

Borrowers	Lenders						
	Banking	OFI	ICS	Govt.	ROW	NICH	Total net borrowings
Banking	–	.055	–	–	.944	–	1
OFI	–	–	–	.742	.258	–	1
ICS	.001	.094	–	.414	.103	.288	1
Govt.	.661	–	–	–	.339	–	1
ROW	–	–	–	–	–	1	1
NICH	.351	.366	–	.283	–	–	1

Table 7: Net Intersectoral Lending Coefficients in Nepalese Economy (1972–75)

Lenders	Borrowers						
	Banking	OFI	ICS	Govt.	ROW	NICH	Total net lending
Banking	–	–	.001	.745	–	.254	1
OFI	.049	–	.239	–	–	.711	1
ICS	–	–	–	–	–	–	–
Govt.	–	.264	.484	–	–	.252	1
ROW	.358	.086	.113	.443	–	–	1
NICH	–	–	.984	–	.616	–	1