

**A STUDY ON
GROWTH, PROBLEM AND PROSPECTS OF
LEASING BUSINESS IN NEPAL
A case study of
International leasing & finance company ltd.
Union finance company ltd.
Nepal srilanka merchant banking & finance ltd. and
World merchant banking and finance ltd.**



Submitted by:

SARITA JOSHI

Shankar Dev Campus

Campus Roll No: - 2087/064

T.U. Regd. No: - 7-1-271-206-2002



A thesis Submitted to:

**Office of the Dean
Faculty of Management
Tribhuvan University**

**In partial fulfilment of the requirement for the degree of
Master of Business Studies (M.B.S)**

**Kathmandu, Nepal
January, 2012**

TABLE OF CONTENTS

Page No.

RECOMMENDATIONS	
VIVA SHEET	
ACKNOWLEDGEMENTS	
DECLARATION	
ABBREVIATIONS	
CHAPTER I : INTRODUCTION	
1.1 Background	1
1.2 Objective of the Study	3
1.3 Significance of the Study	3
1.4 Limitation of the Study	4
1.5 Organization of the Study	5
CHAPTER II : CONCEPTUAL REVIEW	
2.1 Introduction to lease	6
2.2 Basic elements of Leases	7
2.2.1 Parties of the contract	7
2.2.2 Assets	8
2.2.3 Ownership	8
2.2.4 Lease rental	8
2.2.5 Term of Lease	8
2.3 Modes of Termination of Lease	9
2.4 Types of Leases	9
2.5 Types of Assets that can be leased	11
2.6 Advantage of the Lease to the Lessee	12
2.7 Advantage of Lease of the Lessor	14
2.8 Accounting for Lease	14
2.8.1 Method of Accounting for lease	15
2.9 Tax Consideration in Leasing	16
2.10 Sources of Value in Leasing	16
2.11 Limitation of leasing	20
2.12 Evaluation of lease agreement	22
2.13 Things to be considered while leasing	23
2.14 Growth of leasing in different nations	24
2.15 Fundamentals of leasing Business	27
2.16 Important Aspects of Leasing Business	29
2.16.1 Organizational Aspects	29
2.16.2 Marketing Aspect of Leasing Business	33
2.16.3 Financial Aspect of Leasing Business	40
2.16.4 Credit and Leasing Management	47

2.17 Origin of the concept of the leasing	50
2.18 Review of Previous Studies	52
2.19 Research Gap	57
 CHAPTER III : RESEARCH METHODOLOGY	
3.1 Research Design	59
3.2 Population and Sample	59
3.3 Sampling Procedure	59
3.4 Methods of Data Collection	60
 CHAPTER IV : DATA PRESENTATION AND ANALYSIS	
4.1 Briefing of Leasing Business in Nepal	63
4.2 Leasing Practices and Procedures in Nepal	66
4.4 Growth of Leasing Financing in Nepal	68
4.5 Hypothesis Testing	80
4.6 Primary Data Presentation and Analysis	84
4.7 Major Findings of the Study.....	99
 CHAPTER V : CONCLUSIONS & RECOMMENDATIONS	
5.1 Summary	104
5.2 Conclusions	106
5.3 Recommendations	106
 Bibliography	 110
Annexes	114

CHAPTER I

INTRODUCTION

1.1 Background

A lease is a contract whereby the owner of an asset (the lessor) grants to another party (the lessee) the exclusive right to use the asset, usually for an agreed period of time, in return for the payment of the rent. Most of us are familiar with leases of houses, apartments, offices, or telephones. Leasing has been an important part in business in recent decades, like leasing of business assets such as cars and trucks, computers other equipment and manufacturing plants. This has been growing business for owner of the certain asset as most of the new business firms do not possess enough capital to own an asset or rather they find it beneficial to lease than to purchase. So, the business firms usually leases the assets and uses if in their business without having to buy it. For this advantage, the lessee incurs several obligations.

The concept of leasing is traceable to old writing. Leasing was adopted in real estate. Historians claim origin of operating leasing to the age of Sumerians before 2000 B.C. for agriculture implements and hand tools. The concept continued developing and its coverage went on increasing from immovable to movable like equipment, ships or vessels or domestic animals like oxes and cows, etc. (Verma, 994:2).

In simple word, a lease is a sort of contract. A lease contract can be defined as a contract whereby the owner of an asset (called lessor) grants to another party (called lessee) the exclusive right to use the asset usually for an agreed period of time in return for the payment of rent. In other words, lease is a contract under which one party, the lessor of an asset agrees to grant the use of that asset to another, the lessee, in exchange for periodic rental payments (Khanka. 1991: 152).

If you look into an international arena there is no limitation to take any asset on lease, i.e. movable, immovable, small large etc. It has been established as a growing industry in these countries, in such developing economics, leasing

business is getting more rapid developed because of its effectiveness in supporting small-scale industries instead of large industrial established. In Nepal Except familiarization with the term lessee traditionally used for real estate leasing, equipment leasing is rarely heard. It is quite new for financial community of Nepal.

This situation of Nepalese leasing business has created serious need to conduct research, which can explore and highlight the real picture of leasing business in Nepal. Therefore, this research is being motivated and directed towards following research problem.

- How the leasing is being practicing in Nepal?
- What are legal provisions available in lease financing in Nepal?
- What are foremost problem faced by finance companies regarding lease financing in Nepal?

1.2 Objectives of the Study

The main objective of the study is to analyze the growth, problem and prospect of the lease financing in Nepal, To examine the growth trend of lease financing in Nepal, To identify the problem related to the lease financing in Nepal, To forecast the prospect of lease financing in Nepal.

1.3 Significance of the Study

This study will try to disclose the scenario of current lease financing in Nepal. It will help enhancing awareness about the lease financing in Nepal. It will help to those who are searching for new investment opportunity. It will benefit to those who are investing for new research in lease financing.

1.4 Limitations of the Study

As every research has its own limitation this study is not biased. So, this has some limitations, This study covers only finance companies, which have been located at valley. This study is constrained only to financial lease excluding

the short term operating lease. Major portion of analysis and interpretation will be done on the basis of available secondary data and information. So the consistency of findings and conclusion is strictly dependent upon the reliability of secondary data and information. Best effort will be done to make this report with minimum error. Being almost impossible without error, existence of unnoticed errors is also a major limitation of the study.

1.5 Organization of the study

The study will be organized into following five chapters listed below;

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of Data

Chapter 5: Summary, Conclusions and Recommendations

CHAPTER- II

CONCEPTUAL REVIEW

As already stated above, this chapter will contain some details about the various conceptual aspects of leasing. So, this chapter contains topics like: introduction of leasing, basic elements of leasing, forms of leasing, accounting for leases, advantages of leasing, limitation of leasing, etc. The above mentioned topics explained in the following part will greatly help to understand the growth, problems and the prospects of lease financing in Nepal.

2.1 Introduction to lease

A lease is a contract whereby the owner of an asset (the lessor) grants to another party (the lessee) the exclusive right to use the asset, usually for an agreed period of time, in return for the payment of the rent. Most of us are familiar with leases of houses, apartments, offices, or telephones. Leasing has been an important part in business in recent decades, like leasing of business assets such as cars and trucks, computers other equipment and manufacturing plants. This has been growing business for owner of the certain asset as most of the new business firms do not possess enough capital to own an asset or rather they find it beneficial to lease than to purchase. So, the business firms usually leases the assets and uses it in their business without having to buy it. For this advantage, the lessee incurs several obligations. First and foremost is the obligation to make periodic lease payments, usually monthly or quarterly and in advance. Also, the lease contract specifies who is to maintain the asset. Under a maintenance lease, the lessor pays for maintenance repairs, taxes and insurance. Under a net lease, the lessee pays these costs.

The lease may be cancelable or non cancelable. When cancelable, there sometimes is a penalty. And operating lease for office space, for example, is relatively short-term in length and is cancelable with proper notice. The term of Ibis type lease is shorter than the asset's economic life. In other words, the lessor does not recover its investment during the first lease period. It is only

releasing space over an over, either to the same party or to others, that the lessor recovers its cost.

The lease contract typically specifies some kind of option to the lessee at expiration. It may involve renewal, where the lessee has the right to renew the lease for another period, either at the same rent or at a different, usually lower rent. The option might be to purchase the asset at expiration. For tax reasons, the purchase price must not be significantly lower than fair market value. If the lessee does not exercise its option, the lessor takes possession of the asset and is entitled for any residual value associated with it.

Because of the contractual nature of a financial lease obligation, it must be regarded as a form of financing; it is used in place of other methods of financing to acquire the use of an asset. An alternative method of financing might be to purchase the asset and finance its acquisition with debt. Both the obligations must be met. Inability to meet these obligations will result in financial embarrassment.

2.2 Basic elements of lease

For every composition in the world, there exist certain elements without which the final product would not exist. This statement truly fits in the case leasing business also. Therefore this part of the conceptual review will try to help the leader better understand leasing business and its related problems.

2.2.1 Parties of the contract

2.2.2 Assets

2.2.3 Ownership

2.2.4 Lease rental

2.2.5 Term of lease

2.3 Modes of termination of lease

Termination of the lease means the end of the lease contract and there are various ways possible for this purpose.

- i) The lease is renewed on a perpetual basis or for a definite period,
or
- ii) The asset reverts to the lessor, or
- iii) The asset reverts to the lessor and the lessor sells it to a third party,
or
- iv) The lessor sells the asset to the lessee.
- v) The parties may mutually agree to and choose any of the aforesaid alternatives at the beginning of the lease contract.

2.4 Types of leases

Lease may take different forms depending upon the terms and conditions agreed by the lessee and lessor. There are number of classifications classified by different writers. Some important are presented as follows:

- (A) Financial lease
- (B) Operating leases
- (C) Sale and leaseback lease
- (D) Leveraged Lease
- (E) Direct Lease

2.5 Types of Assets that can be leased

A firm can lease almost any kind of asset needed to conduct business. Firms lease land, building and even factories with all their equipment Manufacturers with a desire to make sales to customers that are short of encourage leasing and may even help a customer make arrangements to lease (Hampton, 1994: 486). Normally two types of assets are preferred for leasing. The asset having high cost like land and building, heavy equipments, airplane etc. and another the asset in which technology changes rapidly such as computer, television, medical equipments and vehicles etc.

2.6 Advantage of the Lease to the Lessee

The success of any business depends upon the level of need satisfying capacity of the offered product or service. Therefore, points of advantage that the lessee may get should be studied. Here are some advantages of leasing to the lessee.

- (A) Financing of the Capital Goods
- (B) Additional Source of Financing
- (C) Less costly
- (D) Off balance sheet financing
- (E) Ownership Preserved
- (F) Avoid conditional ties
- (G) More flexible
- (H) Simplicity
- (I) Tax Benefits
- (J) Avoidance of obsolescence risk

2.7 Advantage of lease to the lessor

- (A) Tax Benefit
- (B) High profitability
- (C) Full Security
- (D) Trading on Equity
- (E) High growth potential

2.8 Accounting for Lease

The concern for a proper accounting method for leasing transactions exists in almost all the countries where leasing have passed a certain phase development. The problem of the lease accounting in the western has been looked at mainly from a point of view of a lessee i.e. from the point of view of distortions likely to be caused in the lessee's balance sheet, if the assets taken on lease are not disclosed there in. In fact the problem has both the factors- lessor accounting as well as lessee accounting. The accounting problem for lessor is income recognition, whereas that for the lessee is asset recording. If the normal method of accounting is applied to record the leasing transaction, this intention does not appear in the statements made by the lessor and lessee. Failure to disclose long-term lease obligations in the balance sheet has the effect of distorting the true and the fair view of the states of affairs of the company.

2.8.1 Method of Accounting for lease

Finance Method

Accounting by the lessee

Accounting by the lessor

2.9 Tax Consideration in Leasing

Leasing makes sense whenever the parties to a lease contract face different managerial tax rates because leasing is primarily a tax driven means of financial (Kean, 1995: 642). Taxes play a very important role in structure of lease and in value of leases to both the lessor and the lessee. (Rao, 1992: .801). Considering impact of leasing in a macro economic perspective. Government or Governmental agencies issue certain guidelines regarding leasing. These guidelines are important for the deal of leasing. Guidelines issued by Internal Revenue Service (TR.S) USA are important consider. The explanation is given in following sections.

The full amount of the lease payment is tax-deductible expenses for lessee provided the IRS agrees that a particular contract is a genuine lease and simply installment loan called lease. This makes it important that a lease contract be written in- a form acceptable to IRS. A lease that complies with all IRS requirements is called guideline or tax-oriented lease and the tax benefits ownership (depreciation and any tax credit) belong to the lessor. The IT provisions of the tax guidelines are as follows:

- (A) The lease term (including any extensions or renewals at fixed rental rate must not exceed 80 percent of estimated useful life of the equipment at commencement of lease transaction. Further the remaining useful life must no less than one year.
- (B) The equipment's estimated residual value at the expiration of the lease is equal at least 20 percent of its value at the start of the lease. This requirement has the effect of limiting the maximum lease term.
- (C) Neither the lessee nor any related party can have the right to purchase property at a predetermined fixed price at the lease's inception. However, lessee can be given an option to buy the asset at its fair market value.

- (D) Neither the lessee nor any related party can pay or guarantee payment of any part of the price of the leased equipment, other than through lease payments.
- (E) The leased equipment must not be "limited use" property, defined as equipment that can only be used by the lessee or a related party at the end of the lease.

The reason for the IRS's concern about lease term is that without restrictions a firm could set up a "lease" transaction calling for very rapid payments that would be tax benefits. The lease that does not meet the tax guidelines is called a non-tax oriented lease. For this type of lease, the lessee (i) is the effective owner of the leased property (ii) can depreciate it for tax purpose and (iii) can deduct only the interest portion of each lease payment. (Brigham, Gapensaki, and Etrhardt. 2001: 738-739)

2.10 Sources of Value in Leasing

Following are the factors that give rise to leasing being a thing of value in the capital markets.

(A) Effects of differing taxes

- (i) Different tax Rates among economic units in the economy
- (ii) Different levels of past and current taxable income among economy units:
- (iii) Different effects related to the alternative minimum tax:

(B) Leasing financing in perfect Capital Markets

(C) Bankruptcy costs to the lender or lessor

(D) Market Equilibration process

(E) Other Alleged Advantages

2.11 Limitation of leasing

- (A) Most of the growth of leasing was due to the fact that it was an off balance-sheet method of financing. Critics of leasing have strongly argued that leasing is only a disguised form of debt financing. Donald Gant says, "Lease financing is then essentially a form of borrowing- perhaps borrowing an asset rather than the funds with which to purchase

it, but resulting in obligation which are substantially the same as those incurred in debt financing." He further advances his argument by saying that after all, we have seen that lease financing results in an assumption of capital risk on the part of the company and with it an objection similar to that imposed by debt, it would seem, then that whether the company uses its credit in the form of direct borrowing or to support lease commitments the total amount its obligations will be the same. There is evidence to believe that leasing regarded by the business community only as another form of debt. In a survey carried by Vancil and Anthony in USA in 1959 indicated that maximum respondents regard leasing as an intermediate between secured debt and unsecured debt. Further, off balance sheet is so far as the balance sheet is placed before a financial analyst has no relevance, as accounting rules in most of the countries require disclosure of lease in lessee's balance sheet.

- (B) In most of the cases, leasing may be costlier than a straight borrowing because the lessor is only a financial intermediary and himself borrows from the market at the prevailing or higher borrowing rates to which he adds his own profit also.
- (C) When rate of depreciation is quite high, taking assets on a lease may result in loss of tax benefits particularly when the asset is being acquired towards the year-end. Had the company bought the asset rather than leased in it, it would have claimed a full year's depreciation under tax laws.
- (D) As, at the termination of lease period, the asset reverts to the owner, the lessee loses his claims on the residual value. At times, the equipments may have much higher residual value than what was provided at the inception of lease, so that lessee loses a substantial ownership benefit. The sale of residual is sometimes protection against inflationary erosion of money value.
- (E) Leasing does not provide the lessee the pride of ownership. Many people would not be satisfied merely by the right to use, which is provided under lease. They psychologically crave for ownership.
- (F) The lessor himself finances the lease by funds borrowed from banks and financial institutions and the leased asset is hypothecated to the banks. In

case the lessor fails to meet his obligation to banks, banks shall seize the asset, causing loss to the lessee.

(G) "Leasing as a mode of finance is limited to equipment needs only. It cannot help a company secure working capital.

(H) An environment of uncertainty prevails in the leasing industry, which is still annoying stage. (Kothari, 1991; 26-28)

2.12 Evaluation of Lease Agreement

Whether to go or not to go for leasing is like an investment decision. Leasing is judged under NPV or IRR method. The NPV for both the party should be positive to involve in the agreement.

Lessee evaluates the project by comparing capital preserved plus the discounted lease rental benefit minus discounted opportunity cost of not owning the asset minus discounted lease rental minus discounted residual value. In this calculation negotiating variables are lease rentals and residual value only. Therefore for lease contract, lease calculates lease rental where NPV is zero which would be in turn be possible highest benchmark of lease rental for lease agreement to be acceptable for lessee.

Similarly lessor calculates NPV by taking difference of discounted lease income and associated benefit of owning the asset over the initial cost involved buying an asset and other related cost discounted by rate of return. For negotiation lessor calculates lease rental making NPV equals to zero, which would be in turn, be the minimum lease rental at which lessor would just required rate of return.

Through- the calculation, minimum lease rental benchmark, for lessor maximum lease rental benchmark for lessee would be estimated. Agreement would be feasible, if the minimum lease calculated lessor calculates less than maximum lease rental by the lessee. The margin between these gives the room for negotiation; otherwise, the agreement between the two parties could not be feasible.

2.13 Things to be considered while leasing

- (A) Default by the lessee
- (B) Different charges associated with lease contract
- (C) Renewal Option
- (D) Purchase Option
- (E) Conditional sale
- (F) Residual Value
- (G) Useful or economic life
- (H) Payment Schedule
- (I) Required rate of return

2.14 Growth of leasing in different nations.

The concept of leasing was pioneered from India in 1973 when the first-leasing company named first Leasing Company of India Ltd. was set up. For almost 7 years in the country, this company was the sole leasing company. The- second stage of the growth in the industry was heralded with the entry of twentieth century leasing limited in 1980.

The industry entered the growth phase in late 1982, when numerous financial institution and commercial banks either started leasing or announced plan to do so. ICICI, prominent among financial institutions, entered the industry in 1983 giving boost to the concept of leasing. Thereafter, leasing business became the new gold mine. This was the time when the profit performance of the two dozen companies FLC and twentieth century leasing company had been made public, which contained all the fascinations for many more companies to join the industry. In the mean time, international finance corporation announced its decision to open four leasing joint ventures in India. To add the leasing boom, the finance ministry announced strict measures for enlistment of investment. Companies on stock exchanges, which made many investment companies to turn overnight to leasing companies. Foreign banks in the country, Grind lays being the prominent, did appreciable work in marketing the leasing in India. As per RBI's records as on 31st march 1986, there were 339 equipment-leasing companies in India, whose asset leased totaled Rs.2395.5 million. Their net owned funds were Rs.811.4 million and

their total debt. Rs.1634.9 million. Besides there were a composite companies engaged in various activities including leasing as one of such activities and gross assets by them were Rs. 1814.9 million. That is the total cumulative leasing market as on 31st march 1986 stood at Rs.4210.4 million. Their annual volume of leasing done in India is estimated at around 300 corers. One of the most notable features of the development of leasing in India is the entry of public sector banks in the field. In fact, this is very much in tune with the experience in other countries where initially leasing companies sprang up as alternative bank financing but gradually the banks themselves started leasing operations and they soon outstripped the pure ones, because of obvious reasons-strong fund positions, long credit experiences and so on.

In India, the entry of banks in the leasing area has been permitted by the banking laws amendment act 1984, under which banks are allowed to open their subsidiaries, which will engage in leasing activities. Lately, almost every nationalized bank in the country has indicated intention to offer leasing facilities and some of the banks-sponsored leasing subsidiaries have already become operational. These subsidiaries have been provided with a large initial capital, to running into a few cores, and they are also eligible to raise resource by loans from their promoting banks up to five times of their net owned funds deposit.

These bank subsidiary leasing companies are, therefore, in an enviable position to succeed in the leasing business. Thus entry of banks in leasing becomes remarkable phenomenon in Indian leasing industry. This removes the marketing inefficiency viz., lessor trying to operate in a field which already being well-served by the banks without being materially different in order to compete with bank lending, the lessor had to sell, and sometimes oversell their qualitative features including the special tax treatment. This inefficiency may not be totally removed even now because of the fact that the subsidiaries which offer leasing facilities have a different organizational set up, any may remain slightly compartmented from their bank principals, but in ideal form, leasing and lending should either in different markets, or should be choices offered by the same entity. Another market inefficiency, which is slowly being removed, in India as well as other parts of the world, is role played by the

differential treatment under tax laws-both direct and indirect in a lessee's choice between leasing and lending. In India, income taxation remains a factor only in certain extreme or artificial situation. In retrospective, the leasing market in India seems to have undergone to crucial phases of its existence, one was the boom phase and the second was the phase of the slide downhill. Such tendency is evinced with almost every innovation, which gets an acceptance. At first, it is accepted with over-optimism, resulting from a fancy appeal in the instruments. But the fancy soon turns into antipathy when some of the over expectation are belied. The Indian leasing atmosphere today is by no means that of over-optimism nor is it that of gloom. The lessors have shed their miracle-psychosis, and today, their prime concern is to search new markets for their products. The tax proposals in the union budget 1990-91, the most significant once being the abolition of section 115 j and the scrapping of investment allowances have once again brightened the future of tax advantage based leasing (Kothari, 1991:37-40).

There have been two principal reasons which contributed to the development of equipment leasing in the developed countries, namely

(i) the high rate of technological obsolescence of most of the industrial equipments which made "use of that equipment" through leasing a better proposition than ownership; and (ii) the earning capacity of the equipment had primary important to the psychological factor of ownership. Governments in the developed nations also encouraged the equipment-leasing concept by providing specific monetary and fiscal incentives for companies to lease on equipment. Leasing is rapidly becoming a more and more pronounced part of financing industrial development of all industrialized capitalist countries. The UN paper on leasing cited the financial data that go to establish the importance of the leasing companies gathered in these nations. According to the UN paper, leasing is an important new method of financing and dates back from the times since the Second World War. Lease firms play a role analogous to that of banks and other independent financial institutions, but act by buying and then leasing equipment to their clients rather than loaning them money to buy it. Some manufacturing firms have already introduced leasing by establishing subsidiary or captive leasing in the marketing of their own goods. The first independent leasing company was the United States Leasing

Corporation Incorporated in 1952. It proved successful, and the industry spread to England, with the establishment of the 1960s, leasing industries were flourishing throughout Western, the United States of America and Japan. Financial institutions with long standings established the equipment leasing companies due to attractive profitable leasing business trying legal treatment, circumstances and tax policies have made leasing more appealing in some countries than in others. Circumstances and policies also affect the precise forms the leasing tends to take, or can take, and in what situations it can be applied. For example, in Austria Financial leases on real estate accounted for one fourth of the growth of leasing industry in 1979-1980, whereas elsewhere this is rare.

Leasing covers mainly the transactions in industrial goods, in Western Europe, about one third of leasing business is devoted to automobile leasing and another third to industrial machinery. About one fifth of the business represents computers and office machines, with the rest divided, up among ships, aircraft, railroad rolling stock and other miscellaneous. The distribution in Australia and China is approximately the same. The automotive portion in Australia is a bit larger, and in Canada the industrial position is smaller but the aircraft portion is larger. In Japan however computers and office machines represent more than two thirds of the market, about one fifth relates to industrial machines and the rest is miscellaneous equipment.

2.15 Fundamentals of leasing Business

A lesser is basically financial intermediary collecting funds from several sources (including owner's fund) and investing in various leases. He tries to raise the fund at a cost lower than the interest, which he earns from the lessee. Thereby he makes a spread, which meets his costs and gives a reward to the owners. The function of pure financier may be compared to that of trader who buys and sells things and makes margin. A lessor buys and sells finance trying to make a thin differential, which pays for his intermediation. Thus profitability of the owner funds depends on the magnitude of the spread being made by the lessor company because this difference is owner's profit. In fact, the lessor's profitability rests on the

availability that he has access to certain sources of funds to which own lessor's business to be profitable, his source of funds have to be less costly than the lessee's sources and if the lessees were directly able to tap the sources which the lessor depends, the lessee would not afford to pay a higher cost to lessor. Therefore two factors will determine the profitability of leasing in Year to come. One the lessor's ability to tap cheap source of funds not available to his clients and two his client composition that may consist of People who find it difficult or inconvenient to tap the normal sources of finance available (Kothari : 1991:194-196).

Apart from above leasing deal is supported by other quantitative factors from lessee's point of view:

- [i] Shifts in risks associated with ownership to lessor.
 - [ii] Freedom of cash for more profitable investment.
 - [iii] Flexibility.
 - [iv] Piecemeal financing.
 - [v] Avoidance of restrictions accompanying debt.
 - [vi] Cost saving.
 - [vii] Tax saving and etc.
- (Johnson, 1996: 465-470)

2.16 Important Aspects of Leasing Business

Leasing business involves following important aspects.

- [1] Organizational aspects
- [2] Marketing aspects
- [3] Financing aspect
- [4] Credit management aspects

2.17 Origin of the concept of the leasing

The concept of leasing is traceable to old writings. Leasing was adopted in real estate. Historians claim origin of operating leasing to the age of Sumerians before 2000 B.C. for agricultural implements and hand tools. Leasing of farmland in the early civilization of Babylonia around 1800 B.C. and Greece around 370 B.C. The concept continued developing and its,

coverage went on increasing from immovable to moveable like equipment, ships or vessels, or domestic animals like oxes and cows, etc. Most phenomenal growth in leasing was noticed around nineteenth century when many firms took to leasing of railway wagons in the United Kingdom in the 1840s. These firms were known as wagon companies. One company established in 1895 which switched over its functioning to leasing railway wagon to coal and mine owners for fixed returns.

Leasing developed on similar pattern in the United States of America. In the last of the 19th century, the railroad and railcar manufacturers were undercapitalized and unable to finance rail cars, which were not available through conventional lending sources. Equipment trust certificate was evolved to evidence security interest in the equipment, which was similar to non-tax oriented equipment lease in use today. Such rail car financing aided the growth of Industrial revolution by providing railroads as means to expand their services of getting goods to and from market in western world-and the United States. Post World War II reconstruction of the European countries much depends upon leasing financing using equipment trust certificate.

From 1950s the development, of airlines was done only through the use of lease financing in the USA for acquiring aircrafts from the manufacturers. In 1960s, true lease came into vogue, which had stimulant on account of favorable tax laws in 1963. Thus, by slow and gradual paces, leasing has become one of the important means of financing the project cost of the industrial enterprises, procuring consumer durables for family dwellings for better life standards, etc. It is being used of both lessor and lessee.

In May 1952, the United States leasing corporation was set up followed by Canadian subsidiary- Canada Dominion Leasing Corporation in June, 1959. In 1960s Mercantile Leasing Co. was established in London by Mercantile credit Co. and, thus, the leasing activity spread in Western European nations like France, Italy, Germany, etc. In 1963 one of the largest leasing companies in the world known as Orient Leasing Co. was established in Japan. It spread to other parts of the world. Leasing afforded as a marketing device helping the manufacturers to retain control of the market and customer.

In India, the first leasing company of India set up in Madras developed leasing in modern sense as a professional financial service with the start up in 1973.

In 1980s onwards as much as 500 leasing companies were noticed in existence (Verma, 1994: 2).

2.18 Review of Previous Studies

(A) Review of previous Articles and Journals

Mahat (2001)

Munankarmi (2002)

Dhungyel (2005)

Rima Devi shrestha

(B) Review of Previous Thesis

In this section, the previous research work done about the leasing business in Nepal is reviewed. Although there are not many research works were found related to this topic, there are some studies round relevant to the topic of the researcher.

Dahal (2002)

Joshi (2003)

Shrestha (2003):

Bajracharya (2006)

Singtan (2007)

Ojha (2007)

2.19 Research Gap

In this way, many researchers have studied about the leasing business in Nepal from different angles. Obviously the conclusion that they present is also varied according to focus, size of the sample and the methodology they followed but none of the researchers have studied about the “Technical Analysis of leasing business” in Nepalese context. It is therefore, a pioneering study, a contribution to knowledge on a vital aspect concerning investment decision and in order to overcome the different of past works and to fill up the research gap.

CHAPTER III

RESEARCH METHODOLOGY

The primary objective of this study is to evaluate the problems and try to find out the solutions for the problems thus found. This chapter contains a discussion about methodologies employed in order to achieve the objectives of the research. To summarize the details going to follow, this chapter includes the population of universe of the research, sources of data, sampling procedure, how the data and information has been collected, how it will be presented in the analysis and limitations of methodologies.

1.1 Research Design

Research design refers to the overall framework of the research. It is a plan, structure and strategy of investigation. It is the arrangement of condition for collection and analysis of data in manner that aims to combine relevance to research process with economy in procedure. The study is an attempt to find the problems faced by finance companies regarding leasing business. Therefore, it has been directed towards finding out facts and views on the growth problems and prospects lease financing. Depending upon the nature of the study, survey and direct interaction were followed to gather and join all the facts about the lease financing and its growth and prospects.

1.2 Population and Sample

The population or the universe means the total population of the sample. The population for this study comprises of all the lease operating finance companies of Nepal. However, for the specific purpose of the study only 4 finance companies performing leasing business are taken as the universe. All of these 4 finance companies are population for primary data collection. Among them 20 staff are taken as the sample for primary data collection.

1.3 Sampling Procedure

In Nepal there are altogether 78 non- bank financial institutions. And for the purpose of the study of growth, problems and prospect of leasing business 4

finance companies operating leasing business are taken. Due to the fact that there are only four finance companies operating leasing business there is not much room to take sample from the population. However, sampling has been done taking location as its prime factor. Therefore, for studying in detail all 4 finance companies are taken as sample for study. Sample companies are International Leasing and Finance Company, Union Finance Company, Nepal Sri Lanka Merchant Bank and World Merchant Bank and Finance Company.

3.4 Methods of Data Collection

Secondary data are collected from different source i.e. publication of finance companies, publications of NRB. Primary data are collected meeting the staff in their office and residence and filling the questionnaire.

3.5 Data Analysis Tools

Collected data are tabulated and analyzed. Percentage, trend line, ranking and F-test are used to analysis the data.

3.6 Statistical Analysis

- A. Arithmetic Mean or Average (\bar{X})
- B. Standard deviation ():
- C. Coefficient of Variation (C.V.)
- D. F-Statistics
- E. ANOVA
- F. Coefficient Correlation

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter includes the presentation and analysis of qualitative as well as quantities data and information to achieve the stated objectives of the study.

4.1 Briefing of Leasing Business in Nepal

Leasing business of Nepal is a new concept of the finance companies to finance the organization or an individual to acquire an asset, which can benefit both the users and the finance company. This concept of financing method is only about fifteen years old. Leasing business in Nepal started with operation of finance company named "Union Finance company Ltd." on 21st of Mangsir in 2051 B.S. It was the first step of entering of leasing business in Nepal, done professionally by the finance company. Then other two finance companies named "International leasing and Finance Company Ltd." and "Nepal Srilanka Merchant Banking & finance Ltd." also joined the market of leasing in 2052 B.S. And it was lately the "World Merchant Banking & Finance Ltd." which entered the finance industry doing leasing business also in the mid of the year 2058 B.S. in Hetauda, Nepal.

Though we can find financial and operating lease in Nepal, it is the financial lease that mostly prevails in the market. And this study also focuses mostly on financial lease, performed by the finance companies. Till now, no market and regulatory compulsions have yet forced any major move towards operating leases. As here are not any specific rules or acts regarding leasing business, finance companies are allowed to do leasing business under the Finance Company Act 1986. Beside this, there is not any act that directs the leasing business.

In order to highlight the history of beginn of leasing business in Nepal, the evolution and development history of Nepalese financial system has been analyzed with the perspective of identifying the institution which started the equipment leasing business for the first time in Nepal as well as the date

when the equipment leasing business was started and the legal provision made regarding leasing business in the past.

This analysis has been done because no any Literature in Nepalese context is found which proves the beginning of leasing business in Nepal. Along with this analysis, sufficient personal inquiry with the concerned authorities, people having knowledge on leasing business has been made.

The study thus made show that in the very beginning days of its development, which goes back to the Malla tenure at the end of 14th century, the financial system was completely unorganized. At that time, one of the group named 'Tankadhari' accepted deposit in form of cash and other valuable properties from and extended credit to those people. In 1877, Rana Prime minister Ranodip Singh as Governmental financial institution established 'Tejarath Adda'. 'Tejarath Adda' used to extend credit to the people but it did not accept deposit from them. Its functions were of partial banking nature. It was just primal step towards the development of financial systems in the Country. The business of leasing was not in existence at that time.

After a long time in 1937, Nepal Bank Ltd was established under Nepal Bank Act 1937. This was the first organized financial institution established within the Nepalese financial system. With the establishment of Nepal Bank Ltd, 'Tejaraih Adda was abolished and inconvenience caused by absence of formal banking was finally removed. There was vast lack of awareness about the importance of mobilizing capital through which the economic condition of the people can be uplifted. Moreover there was not single money used throughout the country.

Therefore, the focus was on developing foundation for promotion fundamental financial activities rather than on such innovative financial services like leasing. The concept similar to the concept of leasing might have existed but as a professional financial service, leasing was not developed.

In 1956, as a central Bank, Nepal Rastra Bank (NRB) was established under Nepal Rastra Bank Act 1955. With the established of NRB, Nepalese financial sector got momentum. After that, new commercial Bank Act 1964 was

enacted replacing role of old Nepal Bank act 1937. This new Act fulfilled the need of general banking legislation reflecting real circumstances of that time. Since the private sector did not take any initiative to establish a public sector Rastriya Banijya Bank in 1965 under the Rastriya Banijya Bank Act 1965. Again in 1974, commercial Bank Act 1965 and RBB Act 1965 were replaced by a new commercial banking Act. 1974. Thus the direction of development in the financial system shows that till 1960's financial system was concentrated on banking activities rather than on other non-banking activities. Till the period, there is no any initiative for developing non-banking activities like leasing, merchant banking activities, etc.

Similarly, the study reveals that, after 1960's several other financial institutions such as NIDC, ADB were established. Besides these institutions, other specialized financial institutions like employee provident fund, Rastriya Beema Sansthan, Credit Security Corporation, Industrial Development Center, Security Exchange Center etc. were established. It indicates that financial system has been developed covering various banking, non-banking and specialized financial agencies during the period 1960's to 1980's. But it seems that for the purpose of promoting saving and mobilizing capital for the economic benefit of people, emphasis was on accepting deposit and extending credit for the productive use. Alternative of conventional lending was not experienced. The fundamental lending practice was not been changed. Therefore leasing business could not be developed during that period.

When the country adopted open, liberal and market oriented economic policy from mid 1980's, there came remarkable development in the Nepalese financial system. In the banking sector, many joint ventures as well as Nepalese private sector banks came into existence and in the non banking sector, large no of finance companies were established. Besides, many development banks, saving and credit co-operatives, financial intermediary NGOs were established in the financial system.

In Nepal, there is no special Act enacted for leasing business till the year 2005. But while the study of above relevant acts is made to identify the functions prescribed in the act that the institutions covered under that act are

legally allowed to do. It has been known that only the finance companies act 1986 has made provision about leasing business. Except this act, no other acts have mentioned any thing about leasing business. Hence it can be said that the equipment leasing business in Nepal was started only after the enactment of finance companies act in 1986. And till the year 2002, among all the financial institutions only finance companies are legally allowed to do leasing business. Other financial institutions cannot do leasing business, as they have not received legal authority to do Leasing business.

4.2 Leasing Practices and Procedures in Nepal

As the study has taken the objective to study and examine practices and procedures concerned with learning business, various records and documents provided by the sample companies have been studied. In addition to such study, intensive personal dialogue with eminent persons of these organizations is made. Therefore, this section includes the examination of the practices and procedures regarding leasing business followed by these companies.

Procedure for Entering Into Leasing Agreement.

There is no formal connection between the lessor and lessee before making formal written application by the lessee to the lessor to take asset on lease providing all the necessary documents specified by the lessor company.

When the lessee makes a written application to the lessor company stating his intention to enter into a lease agreement, formal relationship is linked and further process is made thereafter. The lessor company evaluates the lessee's request on various grounds like financial, economical, technical, legal commercial etc. depending upon the company's policy and existing circumstances. The negotiations between lessor company and lessee are finalized concerning various issues like purchase agreement with the supplier of equipment, length of lease period, the distribution collecting rentals, remedies incase of default and other necessary details. Finally written lease agreement is made. The lessor company pays to the supplier and retains of lease rentals over the period, amount of rental, mechanism of necessary

ownership papers of the equipment. The lessee takes possession of the asset and continues thereafter to discharge his obligation under lease agreement. The procedure for entering into leasing business is found fundamental same for all the companies under study. As per information provided by the concerned organizations, very few people know about the leasing finance as the alternative source of financing. Mostly, people make approach to the compass only with their financing need. They do not come with clear and definite financial source from which they want to fulfill their financing need. It is only the terms are cost which they use for checking appropriateness of the financing scheme of the cases. They select the financial company on the basis of person relationship, which support their confidence for being fairly treated Professionalism has not been developed at its satisfactory level. Personal matters have remained important agreement For Leasing Transaction. All of the companies under study have developed their own standard lease agreement format as a guiding document for every lease transaction. Legal and other policy issues remain same for all the cases whereas the functional terms and conditions are negotiated case to case.

As per the practice of G-FC, the lessee becomes solely responsible for all the procedures required, for the acquisition of equipment such as ordering, obtaining approvals for importing, custom clearance etc. the lessee must perform these, activities in such a way that the lessor company's ownership of the equipment is expressed and clear. Within the previously agreed time limit by both the parties, the lessee must complete all the acquiring process. Upon arrival of the equipment, lessee issue and forward to the lesser company a certificate of the equipment acceptance and lease execution certificate. From that date, the lessee is entitled to use the equipment.

As far as the practice of UFCO is concerned, it also appoints the lessee to act as the company's representative for the purpose of acquiring asset. Lessee is required to take all the responsibilities for this entire process and the lessee cannot refuse the asset in any way after its acceptance. The lessee must sign an acceptance certificate. Being the representative, lessee does not acquire any right, title or interest in or to the equipment other than accepted by the company.

NSLMB also makes the lessee responsible as agent of the company for all the matters in connection with the obtaining and use of such equipment. Lessee himself is responsible for any delay and defaults in delivery. The lessee must issue acceptance receipt as expeditiously as practicable and in any case with 14 days after receipt of equipment. After issuing this certificate, the lessee can use the equipment.

4.3 Growth of Lease Financing in Nepal

Leasing is a new concept in Nepalese financial market. Leasing business didn't start along with the first establishment of finance company, it was lately in 2051 (B.S) with the establishment of Union Finance Ltd. And later other finance companies also started doing leasing business, which is already mentioned in part 4.1. In this part, we are going to discuss about the leasing business has grown since establishment by analyzing the amounts investment in the leasing business by various finance companies in the past.

As stated earlier leasing business in Nepal started with the establishment of UFCO in 4th of Mangsir, 2051 B.S. During the year of first operation, Rs.26.3 million was invested in lease finance by UFCO. And later in the year 2052 B.S. International Leasing and Finance Company Ltd. and Nepal Srilanka Merchant Banking & finance Ltd. also entered in the leasing market. The three finance companies' total investment in the year 2052/53 B.S. stood at Rs.54.5 million. This shows a good indication of probable growth of leasing business in Nepal. And it has indicated the following year showed an astonishing growth in leasing business by doing business.

(A) Growth of Companies Operating Lease Finance in Nepal

(B) Extension of Leasing Around the Country

(C) Total amount of fund used in Leasing Business

(D) Uses of funds in lease finance by different finance companies

(E) Segregation of Lease finance

1. International Leasing and finance company

2. Union Finance company
3. Nepal Srilanka Merchant Banking & finance ltd.

F. Comparative Study of Leasing Business of ILFCO, UFCO and NSLMB

4.4 Hypothesis Testing

- A. Hypothesis Test and Analysis of Variance of Finance Co. performing Leasing Business.
- B. Hypothesis Test of Share of Lease Finance from Total Lease Finance
- C. Hypothesis Test of Share of Vehicles Lease Finance
- D. Hypothesis Test of Share of Tools & Equipment Lease Finance

4.5 Primary Data Presentation and Analysis

Primary data are collected through a questionnaire, which is given in the Annex-I. Twenty staff of four finance companies ILFCO, NSLMB, UFCO and WMBFC were met in their office and residence and requested to fill up the questionnaire.

1. Growth Trend of Leasing Financing in Nepal
2. Performance of Lease Financing For the Development of National Economy
3. Performance of Finance Companies on Leasing Business
4. Proper Sole Leasing Act
5. Current Income Tax from the View Point of Leasing Business
6. Evaluation of Leasing Business from Different Point of View
7. Problems of Lease Financing in Nepal
8. NRB and Lease Financing
9. Prospect of Lease Financing in Nepal
10. Way to Improve Lease Financing in Nepal
11. Challenges of leasing business in Nepal
12. Determinants for the Success of Leasing Business in Nepal
13. Prospects of leasing Business in Nepal

4.6 Major Findings of the Study

- 1) It is found that, finance companies Act 1986 is the first and only act which has provided the legal right to finance companies for carrying leasing business in Nepal and it has performs from 1995 in Nepal. It is found that pioneer institutions introducing leasing business in Nepal are ILFCO, UFCO and NSLMB. It is further found that except finance companies, so other financial institution like commercial banks, insurance companies are legally to do leasing business.
- 2) Till the year 2010, there are only 4 finance companies carrying leasing business. Out of them 3 companies are in valley and 1 is outside the valley.
- 3) Leasing business in Nepal found in decreasing trend as leasing investment during past 5 years.
- 4) Leasing business is mainly governed by contract Act 2001 but at the same time other general laws are also applied depending upon the terms and condition covered by lease agreement but there is no special act made for leasing business till 2005. As per the provision of income tax Act, lease is treated as the owner of leased asset and lessor is treated as the holder of debt claim against the lessee for the leased asset.
- 5) Directives issued from NRB to finance companies (2001) have laid down that finance companies can invest on leased should be segregated into good, doubtful and bad. The provision to be made for each category is respectively 1%, 25%, 50% and 100% of total amount classified respectively.
- 6) All the companies have developed their own standard lease agreement format as a guiding document, legal and policy issues remain same for all the cases of lease whereas lease amount, lease term and structure of lease rental are negotiated case to case.
- 7) Regarding the acquisition of asset it is found that all the companies make lessee solely responsible as agent of the company for all the procedure

required for the acquisition of the equipment. The lessee is required to issue the certificate of acceptance after acquisition of the asset. Being the representative, lessees does not acquire any right, title of interest to asset.

- 8) Regarding the use of the asset by the lessees following points have been found a. Asset must not be used for any purpose for which it is not designed or suited. B. All legal provision, rules, regulations, relating to operation must be adhered. C. Asset must be operating under the technical operating standard. D. Lessee bears third party liability arises from operation of the asset.
- 9) In connection to the lease term and lease rental, it is found that all the companies take decision for lease term and lease rental on the basis of appraisal of the lessee and his business. For all the companies lease period begins from the date when the lessee issues certificate of lease execution to the company. For and in consideration of the lease of the equipment, companies demand lease rental. Lease term and pattern of collecting lease rental differ case to case. All the companies demand initial rental on the lease execution date.
- 10) It is found that companies themselves determine the amount, coverage and insurer and obtain and maintain insurance policy for the entire period of the lease at the companies' name. The lessee through the companies account pays the premium.
- 11) It is further found that all the companies require certain deposit or security from the lessee on lease execution date in order to secure the performance of all obligation of the lessee.
- 12) Regarding attachment, alteration and transfer the equipment, it found that lessee is not allowed without prior consent of the company to attach the leased equipment to any other personal property. Besides, lessee is not allowed to alter, add, improve, assign, transfer, pledge, hypothecate or otherwise dispose to the equipment.

- 13) Regarding the renewal of lease, it found that ILFCO and NSLMB provide the facility of renewing lease but ILFCO does not renew the lease for secondary period. In case when the lease is renewed, lease rental, structure of collection, stipulated loss values are changed. Other terms and conditions remain same.
- 14) Regarding accounting practice, following method has been found applied:
 - a. Asset is capitalized in the books of lessee and subject to a period depreciation charge. Each period rental paid is split between interest and principal portion and only interest portion is expensed in profit and loss account.
 - B. The lesser reports a right to receive rentals as an asset appropriately split between current and deferred.
- 15) It is found that, there is no presence of lease broker in Nepalese leasing industry that provides advisory and technical services in the selection and structuring of lease.
- 16) It has been found that in the lease practiced in Nepal, relative risks and rewards of the lessor and lessee are the same as those of borrower and lender. The leasing companies have been taking no risk except that of investing the fund with the lessee.
- 17) As per the survey in lease operated finance companies 10% respondents have found satisfied with growing trend and lease finance in Nepal whereas 45% are not satisfied and remaining are unknown about it.
- 18) 5% of respondents have opined that there is rare performance of lease financing toward the development of national economy but 60% are found on satisfied. 30% of respondents have been evaluated the performance of leasing companies as poor, 60% are recorded as fair and 10% are revealed as good.
- 19) Regarding to the proper and separate format and legal provisions should be made for the development of leasing industry. It has been found that all must respondents are in view of that the proper and sole leasing act should be made.

- 20) Reference to the appropriateness of income tax act for the development of lease financing 80% respondents think that current income tax is not favorable for the development of lease financing. None of the finance companies have agreed that income tax is favorable. 20% are unknown about it. It is found that 35% of the respondents have evaluated the growth, effectiveness of practice, awareness about leasing and government's support and publicity for leasing ranking as fair.
- 21) With respect to the foremost problem that lease and finance companies are facing in lease financing. Respondents have ranked in different level to bad economic condition, lack of conducive environment delay payment of lease results, lack of proper collateral as the factors of making problem in lease financing.
- 22) Regarding to views of various respondents on role of NRB and support from its part, it is found that 25% respondents have accepted that the NRB has clear vision 40% of the respondents have advocated that NRB has no clear vision and not creating conducive environment 35% have unknown about it.
- 23) It is found that high credit risk in leasing business remained as the most dominant problem due to which finance companies are not entering into leasing industry. Market problem is found to be the second dominant problem. Likewise capital problem management problem and legal problem are found third fourth and fifth dominant problem respectively.
- 24) In reference to the future prospect of lease financing, 20% of the respondents have rated as excellent, 40% as good, 25% as satisfactory 10% as fair and 5% as poor.
- 25) Respondents have enquired as what should be done for upliftment of lease finance in Nepal. The different views have been collected from respondents have priorities in first category to the tax is a there incentive should be given, and so on development of skilled manpower, collection of efficient fund, effectiveness in practice procedures, sole leasing act.

26) In order to identify the important factors needed for successful leasing business. Respondents have ranked in first priority to credit assessment empire and speed in utilization of funds. Similarly flexibility in leasing deal is in second priority and likewise access to cheap source of fund is searching new market come into the third is fourth priority.

CHAPTER - V

CONCLUSIONS AND RECOMMENDATIONS

1.1 Summary

The main objective of the study was to find the practices followed by the leasing companies regarding lease and its growth, problems and prospects of leasing business in Nepal. To attain the objective of the study, various analytical and descriptive techniques have been used.

These studies comprises of identification of the history of financial institutions and the leasing business performed by the finance companies. The history of Nepalese financial institutions has been going on since the ancient time, which started with the act of giving loan to the needy people by the people who have excess money upon deposit of some collateral. This system of transaction prevailed until the government started organized business, which led to today's modern age of financial transaction through banks and finance companies. Today there are 78 financial institutions performing financial transaction in Nepal.

Leasing business is a new concept for Nepalese financial market. Till this date there are only 4 finance companies performing leasing business in Nepal. To name them, they are: International Leasing and Finance Company Ltd. (ILFCO), Union Finance Company Ltd. (UFCO), Nepal Shree Lanka Merchant Bank Ltd. (NSLMB) and World Merchant Banking and Finance Company Ltd. (WMBFC). Through the study it has been found that most of the share in uses of funds in leasing has been done by ILFCO. During the study period, in the fiscal year 2007, there was a highest investment in lease finance in Nepal i.e. 246.3 million. On that part ILFCO contribute 130.25 million, Union finance contribute 87.50 million and NSLMB contribute 28.60 million and WMBFC contribute 0.1 million.

It has been almost 16 years since the first leasing business started with the establishment of Union Finance Company in the year 2052 B.S. and till today

there does not exist a specific act solely made for leasing business. The Finance Companies Act 1986 is the act, which has provided the legal right to finance companies for carrying leasing business in Nepal. Other Acts like, Contract Act 2000, Income Tax Act, NRB Directives issued in the interest of finance companies and other notices from NRB, governs leasing business in Nepal.

Due to the lack of specific legal framework it has been found that there is no any specific standard to be followed in course of leasing business. Due to this the finance companies have different views and ways of treating lease finance, making the clients difficult to compare and to choose between the existing finance companies. Desperate need of the leasing act has been felt to bring about the parallel way of leasing business amongst the country and to expand the business.

Finance companies face great challenges to build faith among them. Finance companies usually don't have faith on new clients regardless of their capability, which should be changed to bring trust among themselves to bring livelihood in the leasing business. The other challenge is to convince the customer that the collateral are for the security purpose only, not to give trouble to the lessee. The finance company may doubt in the client if the client opposes for the collateral and should find about the credibility of the perspective before turning it to the client. The bad client or lessee, who has attempted the fraud, should be stopped from doing another business but here such person can easily get loan from another financial institution. The government or the concerned should eliminate these things in order to protect rights of the financial institutions. The finance companies are struggling to enhance the features of the lease to benefit both the parties. They are seeking for the market to invest and are destitute to have a thorough research in the lease market.

During the period of the study, no prominent problems were found that could not be solved at any cost. The risk is involved in every aspect of life and that too with the business it is inevitable. However, upon careful study analysis the

problems can be reduced to minimum in order to get the most of the business. And the finance companies are just waiting for the proper rules and regulations or the specific act to be enacted by the government to start a fully fledged leasing business in Nepal to benefit both the finance companies or the lessor and the lessee or the user of the leased asset and even the country as a whole.

5.2 Conclusions:

Finance companies Act 1986 is the first and only act which has provided the legal right to finance companies for carrying leasing business in Nepal and it has performed from 1995 in Nepal. It is found that pioneer institutions introducing leasing business in Nepal are ILFCO, UFCO and NSLMB. It is further found that except finance companies, other financial institution like commercial banks, insurance companies are legally to do leasing business. Till the year 2005, there are only 4 finance companies carrying leasing business. Out of them 3 companies are in valley and 1 is outside the valley. Leasing business is mainly governed by contract Act 2001 but at the same time other general laws are also applied depending upon the terms and condition covered by lease agreement but there is no special act made for leasing business till 2005. As per the provision of income tax Act, lease is treated as the owner of leased asset and lessor is treated as the holder of debt claim against the lessee for the leased asset.

Investment by finance companies in leasing business in Nepal is fluctuating. However the growth of lease financing is positive. Its trend line is upward. Lack of separate law, lack of awareness about lease financing, lack of conducive environment is the major problem of lease financing in Nepal. Future prospectus of lease financing companies in leasing business is increasing. Some other finance companies are going to expand their business in leasing.

5.3 Recommendations

Based on findings of the study, following recommendations are proposed in order to develop leasing business in the country.

[1] Till now, among all the financial institutions, only finance companies are legally allowed to carry leasing business. In the countries where leasing has achieved significant growth, commercial banks are also allowed to do leasing business. Commercial banks have played significant role for the development of leasing business in these countries. If we see Nepalese financial system, it can be found dominated by the commercial bank. Banking sector in Nepal has gained more public confidence than finance companies. Therefore, rapid development of leasing can be expected, if commercial banks are legally permitted to enter into leasing industries.

[2] Under this research, it has also been found that there is no special act for leasing business in Nepal. Mainly it is governed by contract act 2001 and at the same time, other general laws are also applied depending upon the terms and conditions. Legislative framework is the most important prerequisite for the development of leasing business. In the absence of clear and adequate legal provisions development of leasing business cannot be expected. Therefore, special act for leasing business is needed to be enacted.

[3] Foreign exchange (Regulation) act has made any provision relating to the transactions made under international or cross boarder leasing. The provision, made in general, create difficulties for efficient and effective implementation of leasing deal. It is, therefore, recommended that special provision for the transaction of international leasing is to be included in foreign exchange

[4] Tax is the greatest strategic consideration for business organization as well as for the government. Government use tax as an effective measure for channeling available resources in the country. Literature has shown that fundamental reason behind development leasing activities is the concession provided to the leasing companies as user of the leasing service in those countries where economic boost has been achieved after adoption of leasing. In Nepal, current Income tax Act has not provided tax concession to the companies carrying leasing and user of the lease service. This research recommends providing tax concession to both parties because such tax concession would not result into loss in the revenue to the government rather in generate speedily in economic activities from which tax loss is compensated and economy is uplifted.

[5] It has been found that even NRB has not made clear vision regarding leasing business and is not actively creating conducive environment for the development of leasing activities. This could be one of the major hindrances for the development of leasing activities in the country. NRB Act has empowered NRB to lead the banking the financial system of the country. Thus it can play significant role in the development of leasing business. Therefore NRB is recommended to assess the macro economic impact of the leasing activities and make policy accordingly.

[6] Being the new concept for the Nepalese financial sector, there are problems in almost all the dimensions of leasing business. Companies under study have ranked their problems as high credit risk in the business, market problem, capital problem, management problem and legal problem in most dominated to least dominated form. Statistical analysis has shown that all the problems are equally important. Therefore, united efforts from all stakeholders are recommended. Government should develop mechanism that will help reduce credit risk for the companies. Companies are recommended to train their staff for gaining necessary expertise to overcome the management problem. Specific legal provisions should be made for leasing business. Public awareness should be increased.

[7] Companies carrying leasing business are found using standard prepared formal contract document. Moreover, these companies are found following take or leave policy while availing leasing service. Flexibility is nil except little flexibility in structuring of payment of rental. This has increased the risk for users of leasing service. Therefore, companies are recommended to adopt policy that will provide sufficient flexibility for leasing transactions. Companies should develop objective base with sufficient subjective in leasing deal.

[8] Existing infrastructures for carrying leasing business are not sufficient. This has clearly reflected the need to be focused on development of necessary infrastructure. Companies will not be ready to carry leasing business until they think those infrastructures are sufficient. Therefore, it is recommended that any development strategy should give priority to the development of necessary infrastructure for carrying leasing business first.

[9] Regarding present growth in leasing business, effectiveness of practice made by companies, awareness about leasing, efforts made for publicity and government's support, evaluation has been found below satisfactory level. It may be because of being new concept, which has just been entered into Nepal. This evaluation has clearly indicated the attitude of the companies and state of the industry. Government should be aware about this fact. Companies that are carrying leasing business are recommended to organize awareness programmes on leasing to inform the real economic substance of leasing and its appropriateness for companies and national economy. Government is recommended to increase support from its part.

[10] Due to the lack of capital many finance companies have not been able to enter into the leasing industry. In Nepal commercial banks have adequate capital and the greater portion of that have remained stagnant, which could be invested in the lease finance. This can help boost the leasing industry and its favorable effects on the country. And looking at the capability of the commercial banks in Nepal, it is recommended that the commercial banks also should be allowed to do the leasing business in Nepal.

[11] The general public of this country do not have clear concept of lease financing and its benefits. The finance companies are required to market their product in the local market so that the smallest business can also benefit by getting the desired asset leased instead of borrow. The adequate marketing of the lease is a must to increase the awareness of leasing business among general public. This would help to increase the leasing business in Nepal.

[12] Despite the inadequate regulations to govern the lease and other hindrances, leasing in Nepal should be considered as well going business and with the fulfillment of the shortcomings, Nepal has much brighter future in leasing industry. It is suggested to other finance companies that are not performing leasing business currently to enter into the leasing industry and thus provide and get benefits inherited on it.

BIBLIOGRAPHY

- Barealy, R.A. and Myers, S.C. (1991). *Principles of corporate finance*.
Newyork: McGraw Hill Company
- Bhatta, M.P. (1992). *Financial Liberalization*. NRB samachar. Annual
Publication.
- Bhatta, M.P. (1994). *Financial Innovation*. NRB Samachar. Annual
Publication.
- Bista, B. (1992). *The Changing Nepalese Financing Sector*. NRB Samachar.
Annual Publication.
- Bista, B. (1994). *Lease Financing in Nepal*. Nepal Bank Patrika.
- Block, S.B. and Hirt, G.A. (1997). *Foundation of financial management*.
Chicago: Richard D Irwin Inc.
- Bolten, S.E. and Conn, R.L. (1981). *Essentials of managerial finance*.
Boston: Houghton Mifflin Company.
- Breally, R.A. Myers, S.C. and Marcus, A.J. (2001). *Fundamental of Corporate
finance*. Newyork :McGraw Hill Irwin Inc.
- Brigham, E.F.; Gapenski, L.C. and Etorhardt, M.C. (2001). *Financial
management Theory and practice*. Singapore: Hourt court Asia.
- Cliffered, W.S. (1990). *The modern of corporate finance*. Singapur Mc Graw
Hill Publishing Company.
- Cooley, P.L. (1994). *Business Financial Management*. New York : Harcourt
Brace College Publishers.
- Dainbrosio, C.A. and Hodges, S.P. (1984). *Principles of corporate finance*.
Newyork: McGraw Hill Publication Company.

- Finnerty, J.D. (1989). Corporate financial Analysis. Singapore: McGraw Hill International.*
- Gitman, L.J. (1988). Principles of managerial finance. San Diego: Harpur Collins publisher.*
- Hamton, J.J. (1994). Financial Decision Making. New Delhi: Prentice Hall of India Pvt. Ltd. Publishing Company.*
- Harrington, R.D. (1993). Corporate Financial Analysis. Homewood: Richard D. Irwin Inc.*
- Hickman, K.A.; Hunter H.O and Byrd, J. (1996). Foundation of Corporate finance. New York: West Publishing Company.*
- Joshi, R.P. (2003), 'A Study on Equipment Learning Bussiness in Nepal' an unpublished Master's Thesis, T.U. Kathmandu.*
- Kaen, F.R. (1995). Corporate Finance: Concept and policies. London : Cambridge Blackwell Publication.*
- Karki, R.B. (2000). Nepalese Financial Sector: Challenges and Some Solutions. NRB Samachar. Annual Publication.*
- Khan, M.Y. and Jain, P.K. (2000). Basic of Financial Management. New Delhi: McGraw Hill Publishing Company.*
- Kothari, C.R. (1999) Research Methodology. New Deelhi: Wishwa Prakashan.*
- Kothari, V (1991). Lease Financing and Hire Purchase. Nagpur; Wadhwa and Company Pvt. Ltd.*
- Mahat, L.D. "Leasing Looses Competitive Edge". The Kathmandu Post (29th May 2002). P.4*
- Mathema, S.R. (1998). Financial Sector Reform and Prospects for off-shore Financial centre in Nepal. NRB Samachar. Annual Publication.*

- Michael, F. and Simon, M.K. (1986). *Issues in Finance*. New Delhi: Heritage Publications.
- Nepal Rastra Bank (2001). *Lease Financing Training Manual*, Kathmandu, NRB.
- Pant, R.R. and Wolff, H.K. (1999). *A handbook for social science research and Thesis Writing* (2nd ed.). Kathmandu: P.R. Pant, Kha 1-647, Ghattekulo, Dillibazar, Kathmandu.
- Prashan, S. (2000). *Basic of Financial Management* (2nd ed). Kathmandu: Educational Enterprise.
- Rao, R.K. (1992). *Financial Management*. New York: Macmillan Publishing House.
- Rijal, B.R. (1991). *Financial Reform Measures in Nepal*. NRB Samachar. Annual report.
- Ross, S.A.; Westernfield, R.W. and Jaffee, J.F. (1993). *Corporate Finance*. London: John Murray (Publishers) Ltd.
- Serraino, W.J.; Singhvi, S.S. and Soldofsky, R.M. (1984). *Frontiers of Financial Management*. West Chicago : South Western Publishing Pompany.
- Shrestha, Rima Devi (2005) *Leasing business in Nepal concept and implications*. Nepal. *The rising Nepal*.
- Dahal S (2002) *Finance companies with Special Reference to the marketing performance of ILFCO, Nepal*. An unpublished Master's Thesis, T.U
- Shrestha A. (2003) *A study on problems and prospects of leasing business in Nepal*. An unpublished master's Thesis T.U.
- Ojha Hari (2007) *Leasing Business in Nepal*. An unpublished Master's Thesis T.U

Singtan, B (2007) Problems and prospects of leasing business in Nepal. An unpublished Master's Thesis T.U.

Bajracharya, A (2006) Problems and prospects of leasing business in Nepal. An unpublished Master's Thesis T.U.

Shrestha, M.K. (1995). Finance Companies in Nepal. Kathmandu: Investment Management Training and Research Centre (IMTREC).

Shrestha, S.S. (2001). Leasing Business in Nepal. Mirmire. Vol. 188.

Verma, J.C. (1994). Lease Financing and Hire Purchase. New Delhi: Bharat Law House.

Weston, J.F. and Copeland, T.E. (1992). Managerial Finance. New York: The Dryden Press. A Hrcourt Brace Javanovich College Pub.