

CHAPTER - I

INTRODUCTION

1.1 General Background of the Study

Nepal is an overwhelming rural and agrarian economy. Over 85 percentage of its people live in rural areas and draw their livelihood primarily from agriculture in Gross Domestic Product (GDP) has fallen significantly from 72 percentage in 1975 to less than 41 percentage in 1997. Vast majority of rural people, in particular women, continue to depend heavily on the sector for income and employment opportunities (*NPC, 1998*).

Nepal's planned development efforts began with the implementation of the first five- year plan in 1956/57 and currently in the tenth plan (2002 to 2007). Until the 1970s, the main focus of development plan were on depending basic infrastructure, it thereafter shifted agriculture and rural development in the last decades, the overall pace of economic growth has been slow with an estimated per capita income level of \$ 217 in 1998 (*ADB,1991*). Nepal is among the least developed countries of the world, both socially and economically. Real (GDP) growth rate in 1998 is estimated less than 2 percent compared with 4 percent in 1997. This decline in (GDP) growth is attributed to poor agricultural growth. Agriculture is the largest sector, contributing around 40 percent of (GDP). Poor geographic terrain and underdeveloped infrastructure continue to constrain Nepal's economic growth.

Infrastructure facilities are poor and very greatly across the regions. As a result, regional disparities in income and employment opportunities are large and persistent. Nepal is typically divided into three distinct ecological regions Terai, hills and mountains. Almost all the main cities of Nepal except Kathmandu- the capital- are located in Terai. Goods and services flow more freely between Terai and bordering Indian towns than among the three regions. Nepal's major rural development policies, programs and institutions have also been disproportionately concentrated in the Terai. As a result the range of income and employment opportunities in Terai is wider than what is available in most parts of the hills and mountain regions. Nepal has a total land area of 14 million hectares (ha). Less than 20 percent (2.6 million ha) of this land is cultivated and major portion (56 percent) of this is located in Terai. The hills and mountain regions account for 37 percent of the total cultivated area. Because of better prospect for income and employment opportunities in the Terai, including for agriculture, many people have migrated from the hilly areas, especially after malaria was eradicated in the 1960s. As a result the Terai population has grown rapidly to reach almost half (48.43%) of the country's total population of 23151423 (*CBS, 2058*). Between 1981 and 1991, the Terai population grew at an annual rate of 2.75 percent, while the annual growth rates of

population in the mountains and the hills were 1.02 and 1.61 percent. Accordingly the population density is highest in the Terai and lowest in the mountains.

Poor agricultural growth has resulted in a high incidence of poverty. According to Nepal living standard survey concluded by Central Bureau of Statistics (CBS) during 1994/95, 42 percent of populations were living below the poverty line, defined as an income level of below NRS.4500 (about \$68). Of this population, one quarter was identified as poor and 17 percent as hard core poor (CBS, 1995). Reduction of poverty is both a challenge and an overarching developmental goal for Nepal. Given the crucial role of agriculture in rural growth, in 1995 the Nepal Government adopted the long-term agricultural prospective plan with a view to reducing poverty level from 42 percent to 10 percent over 20 years. This is to be achieved by increasing crop productivity, developing the commercial potential of horticulture and livestock sectors and promoting agro business in the country. The plan is an integrated rural development strategy of the government and focuses on the provision of key inputs and support services in an integrated manner. The tenth plan (2002/2007) is targeted to reduce poverty level from 38 percent to 30 percent by 2007; the major instrument is agricultural growth and industrial growth through improved technology and agricultural and industrial investment.

In this situation, industrialization in Nepal is an effective mean of achieving economic development. Industrialization in Nepal is major hope, which can raise the living standards and provide better quality of life to people. Nepal's problem of poverty, insecurity and over population can not be solved in the absence of industrialization. The agricultural sector can not only break the vicious circle of poverty. Thus industrialization is a major instrument of progress, modernization and social change in Nepal. In Nepal the possibility of industrialization exists, but still the country has not been industrialized due to shortage of favorable industrial policy, problems of capital formation, slow development of banking sector, under developed money and capital market, lack of creative entrepreneurs, lack of technical knowledge, high rate of interest etc. Now the contribution of industrial sector (including cottage industry) to the GDP is about 5.3 percent and employment available is about 2 percent of the total labor force. Considering the above facts, Government has initiated greater efforts to promote industrial production and encourage foreign investment. Private sector has an important role to play in the process of industrial development. So government has designed a series of reforms to create an atmosphere conducive to private sector improvement in the industrialization of the country. It has enacted Industrial Enterprise act. 1992, Foreign Investment and technology transfer Act 1992, industrial policy 1992 and Foreign Investment and one window policy 1992. In addition, the government has also constituted the "Nepal Investment Forum" to inform foreign entrepreneurs about investment possibility in Nepal.

In order to overcome difficult situation in the economy, government released the necessity to establish the separate institution to promote industries and provide all facilities to furnish industrial research and development function. In 1957 an Industrial Center was established. But it was converted into NIDC in

1959. Now new NIDC Act 1989 has been enacted with a view to carry out functions like establishment of industries, to encourage and assist in the establishment expansion and improvement of productivity of industrial enterprises by providing technical, financial and managerial consultancy services. It is also that scattered capital would be mobilized in industrial sector to fulfill above objectives; NIDC has created such policy, which is called investment policy of NIDC. NIDC has ascertained the financial assistance under its investment policy. So the effective investment policy of NIDC is very important to achieve the objectives of the corporation.

1.2 Focus of the Study

In Nepal the inadequacy of capital is the main problem. To solve this problem many financial institutions have been established namely Nepal Bank Ltd., Rastriya Banijay Bank, Rastriya Beema Sansthan, Provident Fund Corporation, Agriculture Development Bank and other commercial Banks. These institutions collect capital and invest it in any sector where it is needed, but it is not compulsory for them to invest their fund in industrial sectors. NIDC was established to encourage and assist in the establishment, expansion and improvement of industrial enterprises by providing technical, financial and managerial support and consultancy services. Since its establishment in 1959, NIDC has been playing a significant role in the industrialization of the country. According to the investment policy, the corporation gives high priority to invest the projects using indigenous raw materials and to invest in projects, which fulfill primary needs of the people. Emphases are been given to export promotional industries. In addition to this, it has been subsidized the industries that produce the goods of daily consumption like foods, cloths construction, educational and health materials. Thus the focuses of the study are as follows:

- a) Implementation pattern of formulated investment policy of the corporation.
- b) Difficulties in the investment activities of the corporation.
- c) Future opportunities of the corporation for the development of industrial sector.

1.3 Statement of the Problem

Dominance of agriculture is one of the most important problems of under developed countries. Although the most of population are engaged in agriculture sector, pre capita production is decreasing due to increasing dependency of population on agriculture. In developing countries, the contribution of industrial sector is also very low in the output and employment. In Nepal, the shares of manufacturing sector in its GDP consist of 10 percent and the portion of labor force involved in industry is low. Therefore the fundamental duty of government is to divert excess population from agriculture sector to industrial sector. Because the role of private sector has been given more important one in all development plans and it has been assigned greater role to public sector in Ninth and Tenth plans also. "There is a clear recognition of importance of the private sector in the industrialization program of the nation on the one hand and the potentialities of industrial growth in Nepal on the other hand" (*Mahat, 1981, P: 67*). But the investment of private sector has been low in the industrial sector. The private sector still considers industrial investment highly risky venture and has

been unsuccessful to clear such unfavorable environment. Besides this, technical expertise, skilled labor is essential factors for establishing the industries for any nations. In Nepal few industries have been established because of lack of adequate capital, technological knowledge. Therefore private institutions not will to invest their fund in this sector. So incentive could be created for private sector to invest their fund in industrial sector.

Industrialization is one of the most important factors for rapid economic development of the country. But the process of industrial development, however, is neither automatic nor easy, particularly so for the developing countries. A successful process of industrialization depends on a number of factors, e.g. entrepreneurship, and access to modern manufacturing techniques, efficient management, skilled personnel, market, government policy and of course capital. Such requisites depending upon the local conditions of an individual country are either to be imported from outside in collaboration with foreign firms or channelized locally. Therefore all countries of the world doth developed and developing, have established Development Bank to mobilized their capital and resources and channel them into the productivity sectors. In Nepal, NIDC was established as a development bank in 1959 to fulfill the needs of private sector industries. Government has fixed certain targets for the NIDC in various plans (*Pyakuryal and Bhattarai, 1991, P: 56*).

Government through the channel of NIDC is helping to finance and support the industrial development in the country. It is because industrialization is one of the alternatives which help to develop the economy of the nation. But it has been common to signal out “under – development” as one of the major hindrances of the industrial development. It is true to a greater extent and it is also true that land locked ness has been one of the strong factors in this case. Lacks of infrastructural supports have been strongly believed to be another set of reasons. Apart from this, NIDC is faced with number of problems of no being in a position to provide adequate amount of industrial loans due to exists resource crunch (*NIDC, 2001*).

Finance is the lifeblood of industry and plays significant role in the prosperity of the industry. But in developing countries like Nepal shortage of finance is a serious barrier handicapping the development of industries. So this study is focused to the investment policy of NIDC. Nepal Industrial Development Corporation is the only government organization which assists and contributes towards the establishment and development of industries in the private sector. By the study of annual reports and bulletins published by NIDC it is felt that due to the number of financial problem it is not able to contribute sufficiently towards welfare of private sector.

As NIDC is established under the public sector it should be able to finance the private sector in the way that is in consonance with the Government policy of regional development. It means that the financial assistance of NIDC should be well distributed among the regions. But has it been so? If the NIDC achieves its targets, it means that it has met the financial need of the private sector to an extent. But how far is the NIDC able to achieve its targets? Is there a significant gap between its disbursement targets and achievements? Has it been able to provide adequate amount of loan to the private sector? Is there any parallel relationship between its

approval amount and disbursement amount? Whether the entire disbursed amount is realized? Is its investment policy compatible with the government policy? Is NIDC able to provide financial assistance to the priority sector? If yes, what is the extent of such assistance?

In order to provide financial assistance to the private sector, it is necessary that NIDC generates sufficient financial resources of its own. Thus, NIDC needs to provide due attention towards the investment policy. Approval, disbursement and realization of amount are a necessary ingredient not only for the financial venture but also the financing institution itself. The lending capacity also depends on the rate and volume of the realization of past loans. If the outstanding loan could not be realized, it will affect its resources as well as hinder in financing new viable and upcoming projects, which is greater concern not only for the financing institution but the country as a whole. So a proper enquiry needs to be made to identify its disbursement and collection policies.

It seems that NIDC has provided very limited amount of loan to productive sectors as financial assistance. Although productive industrial sector can create export promotion and import substitution because it fully utilizes local resources, capital and labor. So it is the problem how to provide loan and other facilities to productive industrial sector with limited resources. The main problem of investment policy is to collect the fund and recollection of invest fund within maturity period. If maturity risk is not there corporation will get more and more opportunities for investment in industrial sector, for the balance industrial development in all regional area of Nepal, the corporation should implement effective investment policy. Timely repayment of loan should be collected from the industries otherwise the resources of the organization will be in decreasing term.

Therefore, a detailed through and analytical study covering the whole format of regional and sectors approval disbursement and realization of funds of NIDC is felt necessary. This would not only summarize the investment policy of NIDC but also spare valuable suggestion in the sphere of the activity development of the industries. Thus the purpose of the study is to analyze and examine how far the present investment policy of NIDC is effective in encouraging the entrepreneurs to invest in different industrial sector at different regions as well as to find the basic reason as to why the investment policy of the corporation not as fruitful to the corporation as it predicted.

1.4 Objectives of the Study

The objective of the study is to analyze the investment policy of NIDC. The specific objectives are as follows:

- a) To study and analyze the current investment pattern of NIDC.
- b) To examine how far NIDC is effective in allocating its funds in different development regions and different industrial sectoral industries.
- c) To highlight the growth of NIDC in the context of industrial development in the country.

- d) To evaluate the existing problem and suggest the suitable models of investment policy for its effectiveness.

1.5 Significance of the Study

It is an indisputable fact that the development of the industrial sector plays an important role in the economic enlistment of a nation. It is a key factor in the economic development. As long as this sector cannot be expanded on promotional basis, proper development of economy can not be possible. When promoted on efficient line, it can hold one prospect of abundant manufactured goods, increase employment, full utilization of natural and human resources and the capital of country improve balance of payment and above all create efficiency and modernization in the economy. Industrialization is one of the most powerful means of reducing the gap between the rich and the poor. Nepal is experiencing a lot of problems regarding industrialization such as small size of market, traditional agricultural sector, less infrastructure, lack of capital, ignorance of the industrial potential and so on.

NIDC is one of the development banks, which has been playing a significant role in the industrialization of the country. The purpose of the corporation is to provide technical and financial assistance for the establishment, expansion and modernization of industrial sector. It also helps the enterprises by providing managerial services and suggestions for their industrial prosperity and development. For the fulfillment of its objectives, it has formulated certain investment policy, which closely follows Nepal Government industrial policy. The investment policy of NIDC clearly indicates that it will give priority for investments to those industries which depend upon the local raw materials are produced the necessary goods to fulfill the basic requirements of the people. Emphasis will give to export orient industries and it will also continue to invest in tourism sector. It has granted loan in different industrial sectors and it can invest its capital on equity or on debenture of any industry as well. Now many industries are not capable of producing goods and services with its financial assistance yet, it has not been getting satisfactory result, there is a still regional industrial imbalance and the flow of investment has not been made to productive industrial sector. It was may be due to the weakness of investment policy of NIDC.

Thus the need of the study is to stimulate NIDC to provide proportional investment in different regions. It maintains regional industrial balance, and stimulate to provide investment in productive industrial sectors, which makes the country self reliant and helps in export promotion and import substitution. This study is also important for giving the real picture of the investment policy of the corporation which is essential for the development of industrial sector.

1.6 Limitations of the Study

This study has been made to evaluate the investment policy of NIDC. Significance and scope of the study can be observed through the importance of the study also. It has been tried to make the study more comprehensive and clear by collecting, tabulating, compiling and presenting recent information as far as

possible. Till now, very little work has been done on this subject matter. This study will emphasize and help those who want to study in further detail and widely in this field. It will also be helpful to those financial institutions and concerned entrepreneurs. Every study has its own limitations. This study is also not an exception. The scope was made limited due to some obvious constraints. The following are the limitations of the study:

- a) The study is based on both primary and secondary data.
- b) Secondary research has been carried out based on published financial documents such as balance sheet, profit and loss account, related journals, magazines and books. These published documents have their own limitations.
- c) For primary research, I have selected only 60 respondents. Each organization includes each respondent randomly. Accordingly, the respondents may not give the authentic and needed information as much as they were expected. They may not even respond to some questions. In such case, certain intuitions have been made.
- d) The study has covered eight consecutive years' data from Fiscal Year 1996/97 to 2003/04.
- e) The study focuses on the investment policy with the help of statistical tools and descriptive analysis method.
- f) Although, effort has been made to focus on investment policy of NIDC, it may not cover all important and pertinent investment procedures of the corporation.
- g) Stipulated time and resources are also limitations of this study.
- h) The reliability of the study depends upon the accuracy of published data and the genuineness of respondents.
- i) The conclusion drawn up from this study may or may not be applicable to other development banks.

1.7 Organization of the Study

The study is organized in five major chapters.

Chapter I: Introduction

The introduction chapter serves as an introduction to the study. It includes introduction and general background of the study, statement of the problem, focus of the study, objectives of the study, significance of the study and limitations of the study.

Chapter II: Review of Literature

This chapter deals with the theoretical aspect of the topic on "Investment Policy" in analytical and descriptive manner. It also includes the review of previous research on the same field especially from some relevant articles & journals and unpublished theses.

Chapter III: Research Methodology

This chapter presents the research methodology used for this study. It includes the research design, sample & population of the study, sources of data, data collection and processing techniques and necessary tools & techniques of analysis.

Chapter IV: Data presentation and Analysis

This chapter covers the body of research which includes the data presentation, analysis and its interpretation. The collected data are analyzed and interpreted by the research design set in methodology chapter.

Chapter V: Summary, Conclusion & Recommendations

The last chapter concludes with the summary and makes conclusion and recommendations on the basis of whole study.

An extensive bibliography and appendix are included in the study.

CHAPTER - II

REVIEW OF LITRATURE

This chapter deals with the theoretical aspect of the topic on “Investment Policy” in analytical and descriptive manner. Regarding the review of literature various texts, journals, and terminologies related with the topic is reviewed. This whole chapter is divided clearly into two parts: Conceptual Review and Review of Related Study.

2.1 Conceptual Review

In this study some relevant books are studied. As the topic concentrates on Investment Policy of Nepal Industrial Development Corporation (NIDC), the researcher has dealt with the topic accordingly, which is discussed as under:

2.1.1 Investment

The word investment brings four visions of profit, risk, speculation and wealth. Investment is done to earn profit which is not certain. It takes time and return is generated in future, whereas future is risky. Management of risk is a beauty of investment. Risk and return are part and partial of investment.

Investment, in its broadest sense, means the sacrifice of current dollar for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. In some cases the elements of predominates (for example, government bonds). In some other cases risk is the dominant attribute (for example, call potion on common stock). Some writer’s view about investment is presented here:

For manufacturing and trading firms the term investment will be “those long term expenditures that aims at increasing plant capacity of efficiency or at building up goodwill, thereby, producing and increase return over a period” (*Elton and Gruber, 1997, P: 631*).

The investment objective is to increase systematically the individuals’ wealth, defined as asset minus liabilities. The higher the level of desired wealth the higher must be received. An investor, seeking higher return must be willing to take higher level of risk (*Cheney and Moses, 1992, P: 13*).

Investment is any vehicle into which funds can be placed with the expectation, which will preserve or increase in value and generate positive returns (*Gitman and Jochnk, 1990, P: 1*).

An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit (*Francis, 1991, P: 1*).

Investment, in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value (*Sharpe & Bailey, 2000, P: 1*).

From the above definitions it is cleared that an investment means to trade a known rupee amount today for some expected future stream of payments or benefits, that will exceed the current outlay by an amount that will compensated the investor for the time the fund are committed for the expected change in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long term commitment of bank in the uncertain and risky environment. It is a very challenging task of commercial banks. So a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of it's invest able funds.

2.1.2 Investment policy

Generally, policy will be a plan or course of future action that are proposed to be adopted, regarding a particular field of activities. Similarly, investment policy will also be the plan or course of future action that are proposed to be adopted regarding the investment. The investment policy varies according to the field of operation relating particular firm or industries. Thus, investment policy will be to formulate the investment strategy based upon own objectives and nature of the investible fund and their future use. Such investment policy must be balanced as of the risk-return character, where the risk includes the stability in value, liquidity, marketability of the investment or similar inconveniencies caused by the readily unavailability of the fund and return includes the appreciation in value of the investment and the regular income or similar benefits. Various authors have expressed their views regarding investment policy of banks but formulation and implementation may be different.

The investment policies of the banks are conditioned to great extent, by the national policy frame work, every banker has to apply his/her own judgment for arising at a credit decision, keeping of course, his banker's credit policy also in mind. They further stated; the field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly, during recent years, credit function has become more complex (*Singh, 1992, P: 3*).

Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets (*Baxley, 1987, P: 2*).

The investment policy will be the outcome of various interrelated considerations. Regarding the banks also, it will be the outcome of various principles and other affecting matters. Investment management of bank is guided by investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk.

2.1.3 Features of Sound Lending and Investment policy

The income and profit of the banks depend upon its lending and investment policy of its fund in different sectors. The greater credit created by bank, the bigger will be the profitability. A sound leading and investment policy is not only a pre-requisite for the development banks profitability but also crucially significant for the promotion of industries of a backward country like Nepal. Many authors as under have given some necessities for sound lending and investment policies, which most of bank must consider:

(i) Safety and security

The bank should never invest its fund's in those sector, which are subject too much fluctuation because a little difference may cause a great loss. Development banks should accept that type of industries, which are safety from financial point of view. It must not invest its funds into speculative businessman who may earn million in a minute also. The bank should accept that type of securities, which are commercial, durable and marketable and have high market price. In this case, "MAST" should be applied for the investment. Where;

M = Marketability

A = Ascertain

S = Stability

T = Transferability

(ii) Liquidity

Development banks collect financial resources through different types of account, which are repayable when resource providers demand. To fulfill this option, bank must keep this in mind while investing in different industrial sector or at a time of lending.

(iii) Profitability

Development banks can maximize its wealth through maximization of return on their investment and lending. Therefore, these types of bank should invest their funds where they earn maximum return by promoting the industrial institutions of the least developed country like Nepal.

(iv) Diversification

"A bank should not lay all its egg on the same basket." This saying is very important to the bank and the thing should always be kept in mind while granting loan that the investment is made not only in one sector. To minimize risk and maximize wealth, a bank must diversify its investment in different sectors rather than in one sector. Diversification of loan helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way the loss can be recovered.

(v) Purpose of Loan

Why is customer in need of loan? This is very important question for any banker. If borrower misuses the loan granted by the bank, they can never repay and the bank will possess heavy bad debts. Detailed information about the scheme of the project or activities would be examined before lending.

(vi) Legality

Illegal securities will bring out many problems for the investors. A development bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Law and other while mobilization its funds.

(vii) Other factors affecting the investment policies

Beside above mentioned basic principles, some basic factors really affect the investment policies and composition of the components. However, their degree of affecting power may vary. These other factors that have significant affecting power are given as follows:

(a) Regulatory provision

Regulatory provision has the maximum impact upon the investment policies and the composition of portfolio. Usually, in every state there will be the legal restrictions for the investors to invest their funds in various components. Such restrictions might be in the form of the ingestible amount on particular securities or the allowed sectors of the investment.

(b) Management Perception

Another factor affecting the investment policy can be the management attitude as well as the self imposed limitations from their side. If management wishes to increase the yield, investment policy will be to divert the fund to the high yielding portfolios, rather than the more safe but low yielding components or vice versa. Beside this, the management may impose self – limitation of investment components according to the condition of the business and it also capable of changing the investment portfolio.

(c) Present composition of the investment portfolio

Investment policy and the composition are also affected by the size, maturity stage and rate of return on the capital etc. If it already holds the component having mid-term maturity, then the consideration of upcoming investments will be on the long or short term maturing components. Thus the composition of the investment in hand also affects the investment policy.

(d) Availability and accessibility of the investment components

When best – suited investment components are not available or accessible, then also the investment policy can be affected. When best – suited investment sector will not be available, then a strong search for the

investment area should be made. We can take the example of present condition of our Nepal in which the investment horizon has gone to minimum the situation is because of the political condition in the country.

2.2 About the Development Bank

2.2.1 Origin & Development of Development Bank

International Scenario:

The first development bank was emerged in Belgium in 1822 with the name of “The Society General de Belgique”. Its principal functions were to promote new industrial units establish financial subsidiaries and buy a considerable sum if shares of the companies promoted and established by it” (*Singh, 1981, P: 15*). Similar institutions were established with the name of “Credit Mobilize” on Nov. 18; 1852 in France with the initiative of Emile and Issac Periere. Although society General de Belgique was set up in 1822, it was French Credit Mobilize that not only “Symbolized the migration of skill and capital” for the economic enlistment of other continental nations but also acted as a inspirer to other countries which were in search of similar institution to supply the financial requirements of the industrial development. “The credit mobilize and similar institutions that followed it helped the development of Europe by mobilizing capital resources from individual and banking sources by offering loans and participating in equity of the industrial ventures, by creating financial institutions, facilitating the development of capital market, and above all, providing entrepreneurial services (*Mahat, 1981, P: 12*).

However, Japan chose the Model of Credit Mobilize for financing the industrial development establishing Industrial Development Bank of Japan in 1902. This institution was not purely an industrial bank but a ‘hybrid’ institution combining in itself the function of an issue house, a commercial bank and a mortgage institution (*Basu, 1965, P: 9*).

During the period following the First World War, the massive task of rehabilitation, development of industries and consequent need for long-term finance gave birth to formation of industrial mortgage banks in several European Countries. These banks were authorized to issue mortgage bonds and supply long-term loan to industrial undertaking upon first mortgage of industrial plants, buildings, machineries and real properties. Again the post depression period of 1930’s saw the emergency of a number of institutions of institutions like Industrial Credit Company of Ireland, Credit for Industry Limited in England, Company of Industrial Finance in Netherlands etc. which were different from the mortgage banks in that the former combined under writing and holding business with that of mortgage lending.

The next phase in the development of these institutions can be witnessed after the Second World War, when a large number of institutions like Industrial Development of Canada (1944), Herstel Bank in Holland (1949), Industriekreditbank in Germany (1949), Finance Corporation for Industry in England (1948), etc. were set up (*Mahat, 1981, P: 14*).

Thus the basic idea behind development bank was originated and developed from the industrialization European Nations. However, their emergence in the developing countries in Asia and Africa seems to have been strongly influenced by the organization of Corporation de Fomento in several Latin American Countries before and during the Second World War (*Mahat, 1981 P: 22*).

Nepalese Context:

In our country no financial and banking institutions were developed before 1937. Therefore, the financial and banking functions were carried out by local money lenders and village money lenders. There was “Tejarath Addha” set up by Rana Prime Minister Shri Rannodip Singh, which provided loan to government servants and the general public against the security of gold and silver at a low rate of interest. Since it simply provides loans and does not receive deposits so that it is not a development bank.

The first banking institution was introduced with the establishment of Nepal Bank Limited in 1937 in the form of the first commercial bank in Nepal. The bank performs the purpose of development bank since its inception. In 1956, Nepal Rastra Bank was established under the NRB Act of 1955 to work as the Central Bank. It worked as development bank also in a direct and indirect term. Direct in the sense that it performs the commercial bank activities where there was no such commercial banks and also, it issues development bonds and securities in order to meet development expenses. And indirect in the sense that, it provides loans to Development NIDC and also fixes suitable interest rates to industries for the promotion of development programs. In this way Central Bank acts as a development bank in our country.

The third financial institution established in Nepal, was the Industrial Development Center in 1957 and was converted into NIDC in 1959. It was set up as an industrial development bank with the objectives of providing financial assistance for the modernization and expansion of the old industrial units and providing technical and financial assistance to the new industrial units in the private sector. It is the only existing financial institution created by the government with the sole responsibility of meeting long term and medium term financial requirement of industrial sector (*Mahat, 1981, P: 32*).

The establishment of a financial institution to assist the industrial sector was followed by the establishment of Cooperative Bank in 1963, Agriculture Bank in 1967, the Provident Fund Corporation in 1963, Rastriya Banijya Bank Act of 1964 (later on replaced by Intermediary Bank Act 1964). The next financial intermediary set up in Nepal was an insurance company named National Insurance Corporation in 1968. In 1971, Small Industrial Development Corporation (SIDC) was established to provide financial and technical assistance to small, village and cottage industries. But after one year it was amalgamated with NIDC since its operation was same as of the NIDC expect for the fact that the latter dealt in medium and large scale industries.

2.2.2 Meaning of Development Bank

It is very difficult to define the concept of development bank in the specific manner because its actual nature, scope and functions depend on socio-economic conditions, factor endowment and policy of the government of that particular country. Simply, we can define the development bank as an institution which is directly concerned with the development activities of a nation. It provides appropriate capital and technology to the gradual development of the economic infrastructure such as agriculture industry, road, communication and health etc.

A development bank is an institution that often provides missing ingredients in the process of industrial development of a country. In some countries, the missing ingredients may be only capital, while in others there may be entrepreneurship, technical and managerial skill. A development bank is like a living organism that reacts to its socio-economic environment and its success depends on reacting promptly to the environment.

A development bank may be defined as an institution either wholly or partially owned by government or by private interests (both domestic and foreign) primarily devoted to the stimulation and invigoration of the national capital market to the provision of long term capital (both loans & equity) and to the supply of entrepreneurship including know how and management to the Private Corporation Sector (*Singh, 1981, P: 72*).

A development bank is synonymous usage for a finance corporation. It is an institution primarily engaged in the provision of loan finance to a particular category of business units by guaranteeing or granting long - term loans (*Sethuraman, 1970, P: 41*).

The development bank should be understood as the institution generally undertaking development function viz. promotion of industries, conduct of techno-economic surveys, market and investment research, promotion of technical, managerial and administrative guidance to the entrepreneurs etc. (*Basu, 1965, P: 102*).

A development bank is an institution that often provides the missing ingredients in the process of industrial development of a country. In some countries, the missing ingredient may be only the capital, while in others there may be other missing managerial skill also (*Mahat, 1981, P: 49*).

The functional approach of a “Development Bank” is defined by J. T. Dock Hock, as a development bank is an institution would be classified as development bank if it were designed to perform both banking and development function (*Dock Hock, 1967, P: 156*).

From the above definition it should be understood that any institution is called the development bank if it performs both banking and development functions. It means the development bank is the main infrastructure of national development of a nation.

On the basis of its nature, scope and functions, the development bank has been classified into three types:

a) Agricultural Development Bank

Banks that are established to develop the agricultural sectors of a country are known as agricultural development bank. It provides financial assistance; short term & mid term loan and technical assistance. It was established in 2024 B.S with an objective of improving the living standard of farmers by providing loans with simple procedure to increase production and productivity in agriculture sector. It has got authorized capital of five crores. The bank has been lending to individual farmers & co-operative societies for agriculture productions, farm improvement, irrigation, and allied purposes like business and industrial projects based on agriculture. The bank is the largest vehicle to impart agriculture credit and has wide network allover the country.

b) Industrial Development Bank

Bank which is established to provide the financial and technical assistance to the industrial sector is known as Industrial Development Bank. NIDC was established in 2016 B.S under NIDC Act 2016 in order to develop the industrial sector of the country. Then the NIDC Act, 2016 (1995 A.D) was amended and replaced by the NIDC Act, 2046 (1989 A.D).

c) Rural Development Bank

Banks established with the purpose to provide training and loan on the guarantee of group to promote them for generating income in the rural areas is known as Rural Development Bank. It provides loan to the poor people without security deposits. Rural Development Bank has already been established and functioned in the Eastern, Central, Western, Far-western, and Mid-western regions of Nepal.

2.2.3 Development Bank in Nepal

In Nepal, NIDC was established in 1959 as a development bank. To expand the work area of the corporation, the special charter 1959 has repeated with a view to carry out the functions like establishment of the industries, to encourage and assist the establishment of the industries, to encourage and assist in the establishment, expansion and improvement of productivity of industrial enterprises by providing technical, financial and managerial consultancy services. It is also expected to mobilize idea and scattered capital in industrial sector. The main objective of the corporation is to facilitate industrial development in private sector in Nepal.

Agriculture Development Bank was established in 1967 aiming at agricultural development. It collects capital from different sectors and invests it in agricultural section. It provides loan for various purposes to farmers with technical advice and suggestion as a promotional function. After restoration of democracy in 1990, new policies have been formulated like liberal policy, open market policy, industrial policy etc. These policies have promoted private investment for industrial sector. Then private investors have invested in industrial sector like development bank; till mid Jan 2003, twenty Development Banks (including ten rural

Development Bank) have been established in different areas of Nepal. Because of implementation of new economic policy, these development banks have been found more productive during the short period of operation.

List of Development Banks

S.N	Name	Licensed Date	Operation Date	Head Office
1.	Agriculture Dev. Bank	2024/11/7	204/11/7	Kathmandu
2.	NIDC	2016/3/1	2016/3/1	Kathmandu
3.	Nepal Dev. Bank	2055/10/17	2055/10/17	Kathmandu
4.	Uddam Dev. Bank	2055/11/10	2055/11/10	Chitwan
5.	Malika Dev. Bank	2055/9/12	2055/9/12	Kailali
6.	Siddhartha Dev. Bank	2055/5/4	2055/5/4	Butwal
7.	Development Credit Bank	2057/10/10	2057/10/10	Kathmandu
8.	United Dev. Bank	2057/12/31	2058/1/23	Bara
9.	Nepal Cottage & Small Ind. Dev. Bank	2058/2/17	2058/3/5	Kathmandu
10.	Narayani Industrial Dev. Bank	2058/6/30	2058/7/1	Chitwan

Source: Nepal Rastra Bank, Non Bank Financial Statistics, Mid Jan. 2003

2.2.4 Objectives of Development Bank

The objectives of the development bank are as follows:

- a) To standardization industrialization.
- b) To help to plans and projects with regard to industry.
- c) To provide capital for industrial development.
- d) To establish coordination in policy and functions of different agencies with regard to industry.
- e) To encourage industrialization for the national economic development and reduce regional industrial imbalance.

2.2.5 Functions of Development Bank

To fulfill its objectives, the development bank has performs the following functions:

A. Development Functions

- a) Formulation of industrial plans technical research and survey.
- b) To provide administrative advice for the industrial prosperity and development.
- c) Promotion of Capital Market.

- d) To help to import raw materials and other capital assets for industrial entrepreneurs.
- e) To encourage the investors in investing to the industrial sector by providing different facilities and also attract foreign capital in the country.
- f) To develop new industrial technologies.

B. Financial Functions

- a) **To provide loans:** Development bank provides loans to the entrepreneurs for establishing, modernizing and expanding industrial and agricultural sector.
- b) **Proportional participation:** Development bank invests its fund in different industrial institutions as proportional participation. The bank plays an important role in the development of medium and large scale industries with its share participation.
- c) **Underwriting function:** It manages the industrial finance by selling and purchasing stock, bond and debentures. It means development bank is the pool of investors and industrialists by rendering under writing services.
- d) **To provide guarantee:** It seems that all entrepreneurs may not have adequate capital for establishing and expanding their enterprises. In this situation, development bank provides guarantee to those who want to invest their funds in any enterprises. It solves the financial problem of industrialists.
- e) **Refinancing facility:** Development bank provides finance to other financial and cooperative institutions when they have financial problem. These institutions provide loans and grant financial facility to the industrial sectors.

2.2.6 Importance of Development Bank

In a developing country like Nepal institutional arrangements for the mobilization and challenging of financial resources must be continuously expended and adopted to the growing and various needs of the economy. Even in developed nations, it is needed for sustainable economic growth. Perhaps, in developing countries the need of such institution is much greater, that is why in our country a great deal of initiative and assistance is called for by the government and its agencies. The importances of such institutions are as follows:

- a) Development banks collect the individual saving and invest them in productive sectors, which makes the country self recipient.
- b) It promotes the industrial enterprises and provides technical and managerial knowledge and services for the formulation, implementation and evaluation of industrial plans and projects. It encourages the entrepreneurs to invest their fund in these sectors.

- c) It is an essential institute for the capital formulation.
- d) The development of agriculture and industrial sectors depends on different types of loans and facilities. But without capital market it is not possible to manage it. Development banks create capital market by providing promotional, underwriting and institutional finance and investment services.
- e) Development bank is necessary for the planned economic development because it provides a huge amount of capital for the development of infrastructure facilities of economy.
- f) It creates the flow of foreign capitals and technologies in a country.
- g) It renders consultancy services and training for the successful organization on and management of enterprises.
- h) Development banks have managed the capital and managerial services even in the fixation of small business and rural development of a nation.

Hence, from above description it is clear that the development bank plays a vital role to the economic development of the developing countries.

2.3 A Short History of Industrial Revolution:

Economically, the industrial revolution and economic development are very closely related. So the industrial revolution is a general term used to describe the series of economic changes as observed. “The industrial revolution has created societies in which the plainest lives are ruled by forces that are as wide as the world. In the middle Ages a man’s neighbor were those who lived near him his outlook was bounded by his village; he could watch the growing of his food, and spinning and weaving of his clothes. This, life, with the charm and danger of its simplicity, was extinguished by a series of changes, of which the most dramatic were the great mechanical inventions that began in the eighteen century and have succeed one in other with extraordinary rapidity from that time to this. The new industrial system has been associated through the world with the name of England, because the English people played the leading part in making and using the first discoveries, England that the new processes, the new machinery and the new discipline passed to the continental of Europe” (*Hammond and Hammond, 1951, P: 124*).

The significant turning point was sustained and substantial increase in per capita output which came up the industrial revolution. It was a radical change in the technology and organization on English industry which marked the beginning of economic growth (*Hartwell, 1971, P: 81*). So the economy of England in the early eighteen century, in comparison even with modern underdeveloped economies, was relatively advanced; in comparison with contemporary European economies, it has generally a higher level or real incomes in agriculture there was persistent innovation (for example, in the use of fodder crops) and a sustained increase in agriculture output in industry there was slow progress on a broad front, in textile and tool making, in iron production and coal mining, and its construction, in response to slowly increasing domestic demand and a

slowly increasing trade, there was also a sophisticated commercial and financial structure, with the Bank of England, about twenty London Banks and a dozen country banks by 1750 (*Hartwell, 1971, P: 81*).

The pioneer of the Industrial Revolution was Great Britain. The success by western countries in this field followed by the some other nations of America and Asia, after the Second World War the industrial revolution rapidly spread all over in the developing countries.

Industrialization has a major role to play in the economic development of the underdeveloped countries. The level of per capita income has been found to be correlated with the degree of industrialization. Kuznet's comparison of 50 countries has shown marked increase of manufacturing output with rising per capita income (*Singh and Sadhu, 1988, P: 69*).

2.4 Tenth five year plan's Strategies for the Industrial Development in Nepal

The current tenth plan has also adopted the long term development perspective of the ninth plan. The main objective of the long term development is to create cultured, modern and having competitive capacity, human society through the reduction of existing mass poverty.

Strategies will be focused mainly on the following four aspects in the tenth plan:

- High, sustainable and broad based economic growth
- Social sector and rural infrastructure development
- Targeted program
- Good governance

The strategy of sustainable and broad based economic growth which fosters the economic opportunities and its distribution to different sectors. Investment in the social sector would be increased to create the environment which benefits backwards groups.

2.5 Industrial Investment

Providing the financial assistance to those sectors where production and productivity of goods and services would be increased is called industrial investment.

The major importance of investment is two fold. First, output in the future depends upon the maintenance of existing means of production. Economic growth i.e. the increase of the rate of output depends largely upon investment in excess of wearing away of existing means of production. Second, the maintenance of "Full employment" or in general, the full utilization of existing resources requires that aggregate investment plus aggregate consumption equal the total output that would be produced if all individuals who wished to work could find employment.

The industrial investment is concerned with the establishment, modernization and expansion of the industries. But the allocation of funds may be different from one country to another country to another. It

depends upon the economic status of the country, nature of entrepreneurs, availability of natural resources, the political and social condition of the country and the policy of the Government.

The efficient allocation of resources is the base of economic and social development of the nation. So, it is the determining factor of economic growth. Thus it is clear that investment should be made in that sector where the production, productivity and the living standards of people would be raised. Efficient industrial investment helps to develop the economy, creates employment opportunities and availability of goods and services so industrial investment should be productivity and national development oriented.

2.6 New Industrial Policy 1992 and One Window System

Nepal government has implemented new industrial policy 2049, foreign investment and one window system. The specialties of this policy are adoption of comparative profit for the creation of open and liberal industrial environment and enhancement in the Participation of private sector. Besides, this simplicity, clarity and transparency have also been maintained in this policy.

The policy has reserved cottage and small scale industries to Nepalese nationals only. Foreign investment will not be allowed in some specific industries like arms and ammunition industries, which are related to defense, cigarette, bids factories and breweries. Only large and medium scale industries have been singled out for hundred percent foreign investments, while transfer of technology will be emphasized in the case of cottage and small industries.

In addition to this, there is a provision to give the industries established with foreign investment special electricity facility. The generating power for industrial purpose will be liable to any tariff.

To reduce the unnecessary delay and botheration in obtaining license, the new policy has done away with regulation of licensing. But this will not be applied to industries related with security, environment and public health.

In accordance with the suggestions received from various individuals, Nepal Government has categorized industries into cottage, small, medium, and large scale groups and ceiling of capital has also been fixed. To make industry as attractive as other economic activities, various facilities and incentives have also been provided. The tradition cottage industries have been exempted from exercise duty, sales tax and income tax.

In order to make investment more attractive in district where infrastructure facilities are not available Nepal Government has categorized those district into remote, underdeveloped and less developed areas and a rebate of 10 to 25 percent has been granted to industries to be established in such areas.

2.7 Industrial Policy 1992

The current industrial policy of Nepal was introduced in 1992. In order to create an environment necessary to enable the private sector to play a principal role in the industrialization of the country, the public sector

industries will mostly be privatized and no private sector industries will be nationalized. At the same time the government will make no interference in fixing the price of industrial products other than creating open and competitive atmosphere. If necessary, during the initial period of industrialization, Government may establish in the form of joint ventures either with the national or foreign private is reluctant to set up but essential for national economy as a whole. However, the shares owned by government and public sector corporations of such industries will also be gradually transferred to private sector.

A policy of determining the wages on basis of productivity will be adopted. Assurances will be provided to rehabilitate the sick industries which can not be rehabilitated and will only be burdens for the national economy shall be allowed to close down after payment of wages and facilities to the laborers and employees.

Private sector participation will be encouraged also in community and private forest development, generation and distribution of hydro-electricity and in construction and management of nursing home, hospital, power propelled railway, roads, bridge, tunnels, ropeway etc.

The important policies are pointed as:

- ❖ To protect industries through custom duties
- ❖ To eliminate such protection as permit bound schedule
- ❖ To develop industries for the utilization of national labor, skills and resources as well as industries having national importance
- ❖ To accelerate the pace of economic development through the export of national goods
- ❖ To put emphasis on the development of small, cottage and agro-based industries in order to create rural employment opportunities
- ❖ To attract foreign investment and emphasize the transfer of advanced technology and efficient management

Objectives:

- a) To increase the contribution of industrial sector to the national economy through the enhancement of industrial production and productivity.
- b) To emphasize the development of industries utilizing the local resources and industries which are export oriented.
- c) To reduce the pressure of unemployment and under employment in agriculture sector through the development of labor intensive industries.
- d) To adopt appropriate policy conducive to industrialization for the balanced regional development of the country.

For the purpose of industrial administration and facilities, the industrial policy 1992 has classified and scaled the industries as stated below:

Nature of production:

1. Manufacturing industries
2. Energy based industries
3. Agro and forest based industries
4. Mineral industry
5. Tourism industry
6. Service industry
7. Construction industries
8. Addition to the classification of industries

Division of scale:

1. Traditional cottage industry
2. Small cottage industry; fixed capital invested up to Rs.10 million
3. Medium industry; fixed capital invested between Rs.10 million to Rs.50 million
4. Large industry; fixed capital invested above Rs.50 million

2.8 Nepal Industrial Development Corporation (NIDC)**2.8.1 Introduction**

In the year 1957 an Industrial Development Center was established to furnish industrial research and development functions. Till then, there was no such instruction which could provide financial and technical assistance to industrial enterprises in Nepal. In 1959 (2016), the Industrial Development Centre was converted into NIDC by a special charter to provide financial and technical assistance to industries in private sector. To expand the work area of the corporation, the special charter of 1959 (2016) has been repealed and a new NIDC act 1989 (2064) has been enacted with a view to carry out functions like establishment of industries to encourage and assist in the establishment, expansion and improvement of productivity of industrial enterprises by providing technical, financial to mobilize idle and scattered capital in the industrial sector.

2.8.2 Objective

The main objective of the corporation is to facilitate industrial development in private sector in Nepal by providing financial, technical and managerial assistance and mobilizing the capital in the industrial sector.

2.8.3 Functions

As per the NIDC Act 1989, the functions of the corporation are as follows:

- (a) To made avail loan facilities for establishment, operation, modernization, diversification, expansion and improvement in productivity of the enterprises which are deemed to be feasible technically and economically.
- (b) To engage or to be engaged in the establishment of industries and purchase their shares and debenture or underwrite such shares and debentures.
- (c) To be a guarantor in favor of debtor industry to make available loans from banks or financial institutions of the country (Nepal) or abroad.
- (d) To avail loans to the industries on the basis of co-financing with banks or other financial institutions jointly and separately.
- (e) To make available necessary plants, machinery and equipment on land-lease or rent-lease by guaranteeing in their favor.
- (f) To extend loan against hypothecation of movable and immovable properties or raw materials or semi-finished goods of the industries.
- (g) To extend loans to industries against title deed of the property, bills of exchange, promissory notes, shares and debentures of a limited company or bonds issued by the Government as additional security.
- (h) To purchase and sells shares, debentures or bond of the industrial enterprises incorporated as public limited company through an institution recognized for security exchange in accordance with existing law of Nepal.
- (i) To engage or to be engaged in all kinds of study, research, survey, analysis in connection with establishment and operation of industry with or without taking service fees and provide training and consultancy services and avail other information.
- (j) To perform merchant banking function.
- (k) To mobilize necessary capital and provide banking facilities, subject to the provisions of existing Commercial Banking Act, for industrial promotion.
- (l) The corporation may take interest charges and security or guarantee, as prescribed, for the loan provided by it to the industries.
- (m) The corporation may, as prescribed, take service fee for rendering underwriting services or technical management or other consultancy services provided to the industries.

2.8.4 Financial Resources

The authorized capital of the corporation has now been increased to Rs.1 billion from the initial amount of Rs.10 million. It is divided into 10 million ordinary shares of rupees hundred each the issued capital will be as determined by the Board from time to time. The paid up capital is Rs.372.4 million. NIDC supplements its equity capital resources with domestic as well as bilateral borrowing to meet the industrial credit requirement.

Domestic sources of capital in share investment are:

- a. Nepal government.
- b. Nepal Rastra Bank.
- c. General public (Private Sector).

The Deutsche Inventions and Entwicklungsgesellschaftmbh of Germany (DEG) have also purchased equity worth one million DM.

The corporation so far has received credit from foreign agencies (institutions) such as Indian Loan Assistance, KWF, USAID, Danish assistance, Export-import Bank of Japan, World Bank and French assistance in foreign currencies and from Nepal Rastra Bank in local currency. Besides, the Corporation also helps industrial enterprises with guarantee arrangements of supplier's credit and working capital loan.

2.9 Investment Policy of NIDC

The investment policy of the corporation closely follows Government Policy. The Corporation gives high priority to invest in projects using indigenous raw materials and in projects which will fulfill primary needs of the people. Emphasize is being given to export oriented industries.

In accordance with the industrial policy of Nepal Government, NIDC provides financial assistance to industries on the basis of their nature and location. In this context NIDC has allocated priority for industrial projects manufacturing primary necessities of general consumption. Besides, NIDC will assist in the development of agro-processing sector, the healthcare and pharmaceutical sector, mineral and the construction sector including real estate development inclusive of industrial district and housing, tourism sector such as hotel, lodges, restaurants, resort hotel and tourism related activities. To improve the infrastructure, air and surface transport financing as well as financing of new hydro power plants will also be a part of NIDC activities as long as this is done by the private sector and duly incorporated in accordance with industrial policy of Nepal government.

The quantum of financial assistance could go up to 60% of the fixed assets and is dependent upon economic and financial merits of the project. With a view to achieve balanced industrial development of the country by establishing more industries in the Mid-western and Far-western Development Regions, the corporation has adopted a policy of providing facilities and incentives to the industries to be established in those regions. Accordingly, the quantum of loan investment has been raised to the maximum of 75 percent.

Likewise, cottage and village scale industries worth of Rs.1 lakh or more project cost are also being financed in Mid-western and Far western Development Regions where industrial districts have yet to be established but are provided with facilities like road and electricity.

NIDC provides financial assistance through the way of

1. Long-term Loan in domestic and/or foreign currencies.

2. Short-term or working capital in local currency.
3. Equity participation in publicly held companies.
4. Guarantee arrangement with commercial banks which provide direct loans to clientele industries.
5. Ordinary and preferential share participation in clientele industries.
6. Guarantee arrangement of supplier's credit.
7. Underwriting share issues of public limited companies.

In order to meet the objective and principal policy, the sub-policies are also made. The sub-policies are as follows:

2.9.1 General Terms & Conditions of Financing

Any small, medium or large enterprises registered as a limited company may apply for financial assistance from NIDC for the establishment, expansion and/or modernization of the enterprises. In addition, the cottage scale enterprises to be established within an industrial district and tourist lodges are also eligible for NIDC financial assistance. Further more, all enterprises under the industrial classifications of manufacturing, energy based, agro based, mines and mineral processing, tourism, textile and service based as recognized by Government industrial policy are generally eligible for financial assistance (*NIDC, 1997*).

2.9.2 Loan Maturity and Method of Repayment

Term loan may be granted for a maximum period of 15 years depending on the nature and debt servicing ability of the project. However 20 years loan period can be provided for hydro power projects. Interest dues are payable quarterly and principal dues are payable in semi-annual installment. A grace period for repayment of principal is granted on the basis of the time required for the project to come into operation. The interest dues during the construction period are capitalized.

Short term loan and working capital loan may be granted for the period of one to three years, which are subjected to renewal.

The following policy is adopted regarding the payment of principal and interest by the borrower.

- i) Interest dues has to be paid on quarterly basis i.e. Ashard (Mid-June), Ashwin (Mid-October), Poush (Mid-January) and Chaitra (Mid-April) of every year.

In the failure of above, the interest charged as above will automatically capitalized after one month and the capitalized interest will carry the same interest rates as on the prevailing loan.

- ii) Repayment of principal installment has to be made in every six months on any two quarterly dates as follows:

End of Chaitra (Mid-April)

End of Ashard (Mid-July)

End of Ashwin (Mid-October)

End of Poush (Mid-January)

Payment made by the enterprises will first be adjusted against other expenses including penalties, interest and finally principal dues- in that order.

2.9.3 Security

Client's fixed assets in land, building, machinery & equipment and other are to be mortgaged with NIDC as security against NIDC short term loan. The security will be inclusive of all assets which may subsequently be added under the ownership of the borrower company. Besides the fixed assets of the project as security the corporation may demand, according to the need, collateral security in the form of land and building. NIDC reserves the right to evaluate all fixed assets offered by the client as security and subsequent change or sale of fixed assets mortgaged will be subject to prior approval of the corporation. While granting loan to the transport enterprises and other project with mainly movable assets, the corporation also asks for collateral security.

For working capital loan, the client has to mortgage extra collateral security in the form of land and building or banks fixed deposit worth two hundred percent of loan amount.

If the value of the security pledged by the client is inadequate or insufficient to cover the loan, the corporation may ask for additional security or guarantee of a third party. With a prior approval of NIDC the enterprise can negotiate basis.

2.9.4 Rate of Interest

The rate of interest on NIDC loan differs according to the classification of industries as stated here under. The present relevant interest rate structure sheet is presented below:

Type of Industry	Rate of Interest	
	Long Term Loan	Working Capital
a) Agro-based manufacturing, service textile, hydro-electricity, carpet, garment industries, etc.	12.5%	12.5%
b) Tourism based aviation service cable car etc.	13.0%	13.0%
c) Housing complex, shopping apartments, cinema hall, etc.	13.5%	13.5%

Note: - Effective from 2058 Poush

The present interest rate will be reviewed on six monthly bases according to the market condition.

2.9.5 Classification of Industries

- (a) Agro-based, manufacturing, service, textile, hydro electricity, carpet and garment industries.
- (b) Tourism based, aviation service, cable car etc.

- (c) Housing complex, shopping apartments, cinema hall etc.
- (d) As regards the interest rate of consortium loan, consortium meeting will decide the interest rate which will not be less than prevailing interest rate of the corporation.
- (e) Preferences shares carry fixed dividends of two percent more than the interest on working capital loan.

2.9.6 Rebate/Penalty

An incentive or rebate up to one percent on the rate prevailing at the time of repayment on the interest due will be granted if payment of interest and other charges and repayment of principal are made within the stipulated periods.

The company which fails to pay principal, interest and other receivable dues on stipulated time will have to pay one percent liquidity damage charge and one percent penal interest charge on whole overdue amount.

2.9.7 Commitment Charge and Service Charge

The client is required to deposit a nominal amount of commitment charge prior to the receipt of the loan approval letter from the corporation. This charge will be 0.5% on the total approved loan amount. One percent of the total approved loan will be levied as service charge once in the beginning of the project.

Project under consortium financing will have to pay the commitment charge and services charge as decided by the consortium meeting.

2.9.8 Insurance

The fixed assets mortgaged to the corporation as security against loans must be insured by the borrower to cover all risks through a reputed insurance company (preferably Rsatriya Beema Sansthan) with the provision that both NIDC and borrower will be the joint beneficiaries of the policy. The loan should be renewed every year till the loan exists.

2.9.9 Incidental Expenses

The corporation may ask the clients for the full or partial payment of the incidental expenses incurred while carrying on the valuation of assets, examination of title, registration, etc. Charges debited to NIDC by commercial bank on opening of letter of Credit (L/C) will be borne by the borrower.

2.9.10 Auditing of Accounts

Client industries should keep their record of financial transaction up to date and registered auditor should do audit. The corporation can check the books of client industries whenever need arises.

2.9.11 Financial Procedures

The prospective borrower should fill out information as provided in the PROJECT ENQUIRY SHEET which is available free of charge at the Marketing and Planning Division (MPD) at the regional offices of NIDC at Biratnagar, Pokhara, Nepalgunj and Dhangadhi.

The duly filled out Enquiry Sheet will be processed by MPD and then referred to the Project Screening Committee for review over the desirability of the project in the context of established national priorities and financial policy of NIDC. MPD may request the prospective borrower to submit feasibility study report, detail supplementary report on the market, technology, raw material etc. in order to facilitate the committee to give a quick decision on the proposal. The meeting of the committee is held as per need.

Information on the acceptance or regret to promote the project will be sent as soon as possible by MPD to the applicant.

If accepted the applicant will be advised to fill the FORMAL APPLICATION LOAN FORM for financial assistance. MPD will help the entrepreneur in filling the form, if necessary.

At the time of formal loan application registration in NIDC, the borrower must pay Rs.1,000 (one thousand) as loan registration fee.

Soon after the receipt of the formal loan application, the MPD will forward the application form to the related sectoral division. At present there are two sectoral divisions in NIDC viz. Manufacturing and Service Industries Division, Agro-processing and Textile Industries Division. Each division prepares the appraisal report (analysis work), implements the project and monitors as well as realizes the loan and interest amount from the project.

The sectoral division will appraise the project in light of the information provided by the applicant. In course of appraisal, it will contact the applicant and discuss various aspects of the project. The applicant will have to provide additional information as and when required for appraisal. The concerned division will also undertake field visit to evaluate the information provided by the applicant. At this point the concerned sectoral division will observe whether the proposed project will be financed solely by NIDC or will seek consortium finance with other banks.

NIDC also mobilizes the financial resources of the commercial banks to provide loans to large projects by way of consortium project financing mechanism. Various projects have been financed with consortium package. This type of consortium financing will help to mobilize the necessary fund especially for large projects and also avoid the risk in financing in one single large project by a single institution.

With the above mentioned studies. If the concerned sectoral division finds the project bankable, an appraisal report together with the recommendations will be submitted for deliberation and final decision to the Internal Loan Investment Committee and/or the Board of the Directors for approval.

As soon as the loan is approved, pre-loan agreement containing information and commitment from both parties relating to sources of funding, terms and conditions of financing will be signed between the prospective borrower and the concerned division. After the agreement is signed, a letter will be issued to the borrower asking them to deposit the commitment charge. Soon after the deposit of commitment charge, the concerned division will issue a letter of approval.

2.9.12 Loan Agreement

The applicant will then be required to contact the Legal & General Services Division for the execution of the financial assistance agreement (Loan Documentation).

After the loan documentation, the borrower will have to contact the concerned sectoral division for the implementation of the project and for the disbursement of the approved financial assistance.

The borrow will be required to execute the financial assistance agreement with NIDC within three months from the date of issuance of approval letter, failing which the approval is automatically cancelled, except for substantial reasons beyond the control of the promoter.

2.9.13 Rehabilitation of Sick Industries

During the implementation stage, it is found that some of the projects become sick. To avoid this, the concerned sectoral division constantly monitors the project. Despite the regular monitoring if the project becomes without will-full default of the promoter, the concerned division will forward such project to the Rehabilitation Division for necessary rehabilitation.

A Rehabilitation Division has been created specially to rehabilitation the sick project financed by NIDC. The corporation has made a strategy to rehabilitate sick projects whenever possible. This division will study the sick project and, if necessary, will support with additional funding or by extending their pay back period either by restructuring or rephrasing. This activity will develop the sick units into productive units and at the same time NIDC's dead investment will be realized; with this the rehabilitated project will generate the economic and social benefits for the nation. But, for projects that cannot recover from financial restructuring or the lack of promoter's interest, NIDC will dispose-off such units and recovers its investment.

2.9.14 Institutional Strengthening

NIDC has been trying to strengthen the institution through privatization. In this process, some of the shares have already been sold the general public. DEG of Germany has also purchased equity share equivalent to one million (Deutsche Mark). With improvement of NIDC performance and services together with the distribution of dividend, the value of NIDC shares will increase and public will be sufficiently motivated towards investment in NIDC's share capital. This will also support HMF policy of privatization (*NIDC, 1997*).

2.10 Share Composition of NIDC

The latest share composition of the corporation is as follows:

S.N	Institution/Organization	Share Investment (Rs. in million)	Percentage of Shares
1.	Nepal Government	320.77	86.14
2.	Nepal Rastra Bank	29.00	7.79
3.	DEF, Germany	19.50	5.24
4.	General Public	3.10	0.83
	Total	372.37	100.00

2.11 Man Power Development

Efficient professional manpower is required for fulfillment of the set goals and objectives of the institution, which would include enhanced level of approval, disbursement and realization activities along with enhancing profitability. For this purpose, special attention is being given for personnel development and national and international training opportunities. NIDC has introduced the use of computer in almost all departments and is providing computer training to its staff.

With the computerization of its divisions, NIDC has strengthened the corporation with Management Information System (MIS).

2.12 Management

A Board of Directors manages NIDC. The Board of Directors consists of:

Chairman: - A person nominated by shareholder representing more than 50% of the share.

Member: - Six persons elected by the General Meeting of the Corporation.

Member: - A person nominated by the General Meeting of the Corporation from among the persons reputed in industry/banking sector.

Member: - General Manager of the Corporation.

The corporation companies of Five Deputy General Managers, Ten divisions at the Central Office and Four Branches Level Regional Office at various developments centers as follows:

A) Divisions:

1. Rehabilitation Division
2. Administration Division
3. Marketing and Planning Division
4. Agro-Processing & Textile Industries Division
5. Finance & Account Division
6. Manufacturing & Service Industries Division
7. Internal Audit Division
8. Legal & General Service Division
9. Commercial Banking & Legal Division
10. Secretariat of Board of Directors

B) Regional Offices:

1. Eastern Regional Office – Biratnagar
2. Western Regional Office – Pokhara
3. Mid-Western Regional Office – Nepalgunj
4. Far-Western Regional Office – Dhangadhi

2.13 Review of Related Studies

2.13.1 Review of Journals & Articles

There are few articles and journals in relation to Investment Policy of Nepal Industrial Development Corporation. The existence of business magazines in the country is also few, which hardly publish the topic related to Investment and Investment Policy. But special effort has been made to bring out the topic related from the articles which are as under:

Articles on “The Role of NIDC on the Industrialization of Nepal” written by Ramesh P. Upadhyay and published to Industrial Digest Nepal dated 1968 has been taken here as a reference for review. With a view to enhance the industrialization programs creating an industrial climate in the country, government has established NIDC in the year 1959 and has been charged with the following main task:

- i) To extend medium and long term loans against adequate security to industrial enterprise of Nepal for the sake of developing, modernizing and improving their condition.
- ii) To purchase and sell of shares, stocks, bonds and debentures of industrial concerns when done in the interest of furthering industrial development.
- iii) To engage industrial consultation and training raw material and product laboratory analysis surveys of markets, credit investigation promotion of private foreign investment.
- iv) To furnish the government and the industrialist’s financial advice and technical guidance as may be requested.
- v) To establish and administer industrial estates.

These objectives are all good in keeping with demands of the underdeveloped countries desiring to promote industries. However, any organization charged with such responsibilities has to evaluate the circumstances from time to time and shift priorities and emphasize in respect of any one or a group of objectives. The time has come when we have to look over our shoulders to assess the achievements of our efforts so far and to determine our future course.

Nevertheless NIDC has succeeded in creating much wider interest in public mind in industries than ever before valuable experiences has been gained so far to chart it pack for the future. It has been obvious that lending result. Good and constant supervision over the use of loan money is very essential. Supervision should be exercised at all stages. This is not to suggest that the NIDC should play the policeman rather that it should be family doctor. Good management should be the most important criterion for investment. Foreign investments are expensive. But until local entrepreneurs acquire skill and experience, expenses on foreign managers will pay handsome returns. It will be better still if foreign management terms can be persuaded to enter into partnership with local entrepreneurs. We can send young and promising candidates for training in business schools where they can learn an few things about industrial management but so much more remain to be acquired only through experience to our people seems to be by way of importing technical and managerial know-how. So it appears that the NIDC should insist that a sizeable part of its loan is utilized to acquire technical and managerial assistance. Meanwhile, the NIDC should employ the best efforts to seek foreign investors who would be willing to enter into partnership with local people such partnership will make more valuable and lasting contribution towards industrialization than any other single activity that NIDC could undertake.

The very basis requirement in the task of interesting the capitalists is to provide them with clear and reliable information on likely opportunities. It should be the business of NIDC, with adequate support from the government, to investigate into the profitability of the possible new industries. There is an acute shortage of experienced entrepreneurship in the country and many profitable opportunities go unnoticed for lack of knowledge. NIDC should use the services of experienced foreign consultant to analyze the locally unavailable raw materials and other relevant factors. Money and time invested on such activities will not go in vain. Situated as we are in the midst of a vast underdeveloped region, the competition for capital is really hot. Unless we can convince the industrialist on the relative advantages we can offer, they are not likely to invest here. We need a whole lot of solid facts to do the convincing. The results obtained from research should be widely published through seminars, information centers, pamphlets and brochure. The shortage of entrepreneurship is a big obstacle on the path of industrialization. All developing countries face this situation is relatively more or less, but in at least initially, in either Government or the NIDC taking over the role of pioneer entrepreneur to create on environment which encourages domestic entrepreneurs and foreign private investors to participate in the process of industrialization. The government has played the role to some extent, but it would be more appropriate it the NIDC, rather than were to play the role. Of course, the NIDC should seize the earliest opportunity to sell many ventures to private industrialists and there should be no

intention to hold into them indefinitely. This is what other countries also faced with similar situation and their experience has been very encouraging. Japan is often mentioned as a great exponent of the pioneering technique. The Japanese Government started a number of industries between 1870 and 1890 and later transferred their ownership to private hands.

Today there are very few major industries in Japan which were not started initially under government ownership. Even modern Italy has a big government owned organization called the Industrial Rehabilitation Institute, which was started to help rehabilitate industries in post war conditions but which also does the job pioneer entrepreneur in a very successful way. The Pakistan Industrial Development Corporation has undertaken this role in a big way. These countries can hardly be accused of being inspired by some doctrinaire approach. So all the fuss raised against the idea of Nepal Industrial Development Corporation playing similar role is incomprehensible. Rather in the present situation when Nepal Government has launched a land reform program and as a result, the erstwhile farmer's landowners are looking for new areas of investment, the NIDC would be missing a ready made opportunity if it does not use the pioneering technique. The only effective way of overcoming the land owner's traditional shyness towards industrial investment is to confront them the going concerns. Otherwise, as before, their capital is likely to find its way beyond the national borders and that will be very sad indeed.

NIDC could make significant and lasting contribution to the process of industrialization in Nepal. They are:

- i) Bringing about improvements in industrial management
- ii) Conducting research on profitable opportunities
- iii) Playing the role of pioneer entrepreneur

Although, it is obvious that the corporation has so far achieved substantial progress the stage has now come when it should give more emphasis than before on the three tasks outlined above. After all, the ultimate test of the NIDC lies not in how rapidly it helps to build up viable Nepalese enterprise (*Upadhyay, 1968, P: 61-66*).

2.13.2 Review of Related Thesis

Some studies related to the investment policy of NIDC are presented below; only the synopsis of these studies has been presented to give a brief insight into their findings of research:

Mr. Devendra Gopal Shrestha has studied "Resources Utilization of NIDC", he concluded the following points:

- a) NIDC should try to invest its resources most effectively on sound and profitable industrial projects.
- b) There is very big gap between approved amount and disbursement. Whatever may be the causes this gap is not good from development point of view.

- c) NIDC is financing its more funds on the hotel industries which have no direct link with general mass of people. In a country like Nepal where internal economy is based on agriculture, a good number of agriculture based industries could be set up which would help considerable in reducing our foreign dependence.
- d) In a country like Nepal where capital resources are limited, preferences should be given in establishing labor consuming projects (*Shrestha, 1982, P: 77-79*).

Mr. Purna B. Bajracharya on his study, “Industrial Finance in the Agro based industries in Nepal with special reference of NIDC,” analyzed the situation of industrial financing in agro based industries of Nepal.

His study is concluded in the following points:

- a) Feasible study should be carried out on each and every possible agro based industry.
- b) To finance in agro based industries, creation and generation of favorable atmosphere is must.
- c) Sufficient capital should be provided for establishing and operating of large scale industries.
- d) Both Government and NIDC should pay special attention to full capacity utilization with in the already existing industries before financing and issuing license to new undertaking (*Bajracharya, 1980, P: 70-74*).

Mr. Hari Shrestha in his study, “The Role of NIDC in Industrial Development of Nepal”, concentrated on role of NIDC in industrial development in Nepal and industrial pattern of the country.

The main recommendation is as follows:

- a) Interest rate structure should be made more responsive and applicable to the need of the industries by the NIDC.
- b) Loan processing procedures should be simplified.
- c) NIDC which has given more attention to tourism industry should divert its fund towards those industries which can increase export promotion and import substitution to the country.
- d) Economic imbalance indifferent region should be reduced.
- e) NIDC should equally try to execute the policy as prescribed by Government.
- f) NIDC should adopt a more flexible attribute towards working capital loan.
- g) NIDC should make loan repayment system more effective.
- h) The regular evaluation of industries should be carried out for the future investment (*Shrestha, 1980, P: 80-83*).

Mr. Dev Kamananda conducted “The investment policy of NIDC” and revealed that a major portion of NIDC investment has gone to the tourism based for the economic development; through rapid growth of tourism based industries have been a substantial contribution to Nepal’s performance is poor. It is not in basic principle of development bank of the investment of NIDC to the private sector is very minimum,

though the objective of NIDC as development bank is to promote and encourage the private sector industries (*Dev Kamananda, 1983, P: 86-89*).

The study “The Investment Policy of NIDC” conducted by **Mr. Kumar Dev** has revealed that a major portion of NIDC’s investment has gone to the tourism based for the economic development, though rapid growth of tourism based industries has been a substantial contribution to Nepal’s performance is poor. It is not in basic principle of development bank of the investment of NIDC to the private sector is very minimum, though the objective of the NIDC as development is to promote and encourage the private sector industries (*Dev Kumar, 1983, P: 86-89*).

Mr. Rajendra Karki has analyzed “The investment policy of NIDC” and concluded that the disbursement of loan pattern is very unprecedented i.e. there is great degree of divergence in the amount of loan approved and amount of loan disbursement. And more the percentage of loans disbursed to be on decreasing trend also. It has been found that the NIDC has been able to recollect the loans provided to the industries, quite efficiently. But the pattern of investment policy of NIDC is that more than 78% to 90% of total investment has gone to the central development region whereas 11.7%, 9.3%, 1.9%, and only 1.8% of the total loans are received by eastern, western, mid western and far western region respectively (*Karki, 1986, P: 73-78*).

The study on “Investment policy of NIDC” submitted by **Kasturi Shrestha** to T.U observed that the “Financial assistance disbursed by NIDC in accordance with geographical regions shows that Bagmati zone enjoy a large portion and second largest position amount went to Narayani zone and Koshi zone. In this regard NIDC has disbursed only development zone which have adequate economic facilities and infrastructure for industries. The financial assistance disbursed by NIDC in the five different types of industries like agro based, inner and mineral based, forest based and miscellaneous based industries were not equal. Tourism based industries get large portion of total investment (*Shrestha, 1988, P: 68-71*).

Mr. Puroshattam Manandhar pointed out that NIDC efforts to minimize its investment in Hotel sector (especially in Kathmandu valley) has been found successful since last few years. The corporation is promoting and investing more in agro-based industries than other sector (*Manandhar, 1987, P: 91*).

The study on “Investment criteria of NIDC” carried out by **Mr. Asha Kaji Maharjan** has revealed that the providing industrial financing has been growing in size but there have been delays in the precession of investment. Investment criteria take a long time. Such delay will be high cost not only to industrialist but also to the community as a whole. Thus there is need for a time board program (*Maharjan, 1989, P: 88-93*).

The Study on “Investment Policy of NIDC” conducted by **Mr. Aishwarya Lal Shrestha** has revealed that the regional pattern of allocating budget is not satisfactory, because the large portion of allocating fund has been opened in central development region of the country like; far western development region which shows the negligence of NIDC to minimize the regional imbalance. Again major portion of investment given in agro-based industries and it is trying to diversify its investment in miscellaneous industries. But NIDC

should try to divert its fund towards the basic industries. NIDC can not create a favorable condition among private sectors to invest industrial venture in country till then (*Shrestha, 1987, P: 91-94*).

The study on “Investment Policy of NIDC” conducted by **Mr. Purushottam Prasad Dhungel** has revealed that the performance of NIDC in financing industrial development provides a mixed picture. A few pioneering enterprises have been promoted with its own direct initiatives. It has financed its funds in small, medium, large scale industries and cottage and village industries but a large number of industries have been opened in backward region like far and mid western regions. It has created a greater imbalance between the regions which needs to be checked before it is too late. Again major portion of investment has gone to the hotel and tourism based industries. The disbursement policy of NIDC also required timely modification. There should be healthy balance between the disbursement and realization of the assistance being lent. The concluding remark is that the policy of NIDC has not sufficiently generated incentive among the people (*Dhungel, 1987, P: 78-81*).

The study on “A Financial Study of NIDC” conducted by **Mr. Jaya Krishna Pathak** has revealed with the justification that it is clear from NIDC investment policy that it is not working in the interests of general public because it has followed a policy of investment concentration. It has concentrated its fund into two main projects, namely Soaltee Hotel and Mahendra Sugar & General Industries Pvt. Ltd while other various sectors are starving. Thus it can easily point out that NIDC is not paying attention to the need of general investors and has become unable to provide industrial leadership (*Pathak, 1969, P: 97*).

Thus, the review of literature deals with the theoretical aspect of the topic “Investment Policy” in analytical and descriptive manner. It has been conducted to get idea and knowledge in related topic consulting various books, journal, other related materials and studies. The various studies related to investment policy of the corporation have been dealt. Moreover, studies related to the financial assistance of NIDC to industrial sectors were also studied. The present studies aim at to assess the investment policy of NIDC. Is corporation, able to realize its disbursed amount from time to time? The existence of present investment policy is viable or not for the organization to make adequate profit. The present study covers the eight years period from fiscal year 1996/97 to 2003/04.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter presents the research methodology used for this study. Research Methodology refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objectives in view (*Kothari, 1994, P: 9*). The main objective of the study is to evaluate the investment policy of Nepal Industrial Development Corporation (NIDC); growth of industry in Nepal. The research methodology consists of research design, sources of data, sample & population of the study, data collection & processing procedure, and necessary tools & techniques of analysis.

3.1 Research Design

Research design is the specification of methods and procedures for collecting and analyzing the data necessary to help identify or react to a problem or opportunity (*Tull and Hawkins, 1995, P: 44*). It is the overall operational pattern of framework for the project that stipulates what information to be collected, from which sources and by what procedures. Thus, a research design is a plan, structure and strategy of the investigation to obtain and answer the research questions. This study is concerned with both Historical and Field Study Research. The research design of this study is descriptive and analytical both. The analytical approach is used to study the investment policy of the corporation. It is not expressed in mathematical terms. The collected data is analyzed with appropriate statistical tools and presented in the tables and diagrams wherever necessary. This study tries to examine and analyze the contribution and activities of NIDC in the development of industry in Nepal. The research is a fact-finding process; hence it could provide innovative suggestions. To verify the stated objectives the relevant data are collected from annual reports and bulletin of NIDC and directly from the respondents through the methods of observation, interview and questionnaire survey.

3.2 Population & Sample of the Study

A group of study objects is collectively termed as the 'population'. A population refers to any collection of specified group of human beings or non-human entities. In other words, population refers not only to people but also to all items or universe that have been chosen for study in which the research is based (*Wolf and Pant, 2000, P: 75*). When some items of the 'population' are selected for inquiry it is known as 'samples' and the number of units in the sample is known as the sample size.

Population Size: All those industries are studied where NIDC has invested.

Sample Size: Out of those industries where NIDC has invested, only 60 industrialists have been observed as sample size. To collect the data, one respondent is selected from one industry randomly.

Hence, in order to fulfill the primary research objectives only 60 respondents have been observed as sample of the study among the various industrialists. So precisely saying, all industries invested by NIDC are taken as population of the study and among them 60 industries were chosen as sample of the study.

3.3 Nature and Sources of Data

The research is based on both primary and secondary sources of data. The required secondary data were collected from the Head Office of NIDC, which is situated at Darbarmagr, Kathmandu. The eight-year annual reports and bulletin of NIDC are the main sources of secondary data. Some data, which are useful for research, are collected from Central Bureau of Statistics and Nepal Rastra Bank. The primary data has been collected through the development of different questionnaires. The views of respondents are the main source of primary research study.

3.3.1 Secondary Data

Secondary data is information that has been collected by persons or institutions for purpose other than the solution of the problem at hand. The annual report and bulletin of NIDC are the main source of secondary data. The required data are also collected from Head Office of NIDC, Darbarmarg, Kathmandu. Some useful research data are also collected from Central Bureau of Statistic, Nepal Rastra Bank and Website, providing information regarding the corporation.

3.3.2 Primary Data

Primary data are collected for the first time for solving a particular problem under investigation. The primary data are collected directly from the respondents through the methods of observation, interview and questionnaire survey. Thus, primary data are also called first hand data or field data. For all possible, organization staffs and other related resources views is also taken during the study.

3.4 Data Presentation & Processing Procedures

The data will be mainly collected from published materials of NIDC. The obtained data are presented in various tables, diagrams and pie chart with supporting interpretations. Data are tabulated according to the nature of data. Data are tabulated for past eight years from Fiscal Year (FY) 1996/97 to 2003/04. Apart from this some data are collected from other sources and presented in the diagram wherever necessary to bring out the clear result. Also I have used descriptive analysis method, to describe various data.

3.5 Necessary Tools & Techniques of Analysis

The tools and techniques of analysis include both the statistical and the financial tools to analyze and interpret data and their empirical relationship to each other. The obtained data are presented with the help of index and necessary statistical tools as per the requirements.

Under statistical tools, tabular and graphic presentations, percentages, averages, and measures of spread of data are used to analyze the data in a meaningful way. Whereas in financial analysis, trend analysis and profitability ratios related to investment are done in past eight year fiscal years only. The financial analysis is related with the quantitative operation of investment pattern of NIDC with respect to development regions, industrial sectors and industrial growth.

3.5.1 Trend Analysis

One of the main tools of financial analysis is trend analysis. It suggests about what would be the investment and realization of funds in the coming year.

Trend analysis is valuable to compare the financial ratio for a given company overtime. In this way, the analysis is able to detect any improvement or deterioration in its financial condition and performance (*Van Horne, 2000:116*).

Trend analysis is used to estimate the next eight years loan approval, disbursement and realization of NIDC up to 2003/04, to make the forecasting for next four years loan approval, disbursement and realization, time factor is x variable and amount of loan is in the graph, step by step. To obtain trend value of approval the Least Square Method is used. The following condition should be satisfied for the Least Square Method.

- i) $(Y - Y_c) = 0$ (i.e. the sum of deviation of actual values of Y and the computed values of Y is zero).
- ii) $(Y - Y_c)^2$ is least (i.e. the sum of the squares of the deviation of the actual and computed value is least).

The trend of related variables can be calculated as:

$$Y_c = a + bX \quad \text{-----} \quad \text{[I]}$$

Where,

Y_c = to designate the trend values to distinguish them from the actual Y values.

a = Y- intercept

b = slope of trend line or yearly rate of financial assistance

X = time series i.e. deviation among the taken years.

To determine the value of 'a' & 'b', the following two normal equations are solved simultaneously:

$$Y = Na + b \sum X \quad \text{-----} \quad \text{[II]}$$

$$\sum XY = a \sum X + b \sum X^2 \quad \text{-----} \quad \text{[III]}$$

To make the calculation easier, the deviation is taken from the middle year such that:

$$X = 0$$

$$a = y/N$$

$$b = XY/ X^2$$

The analysis is related with quantitative explanation of investment pattern of NIDC with respect to development regions, industrial sector, and industrial growth.

3.5.2 Profitability Ratios Related to Investment

The profitability of the firm is also measured in relation to investments. The term may refer to total assets, capital employed or the owner's equity. The efficiency of an enterprise is judged by the amount of profit. But some time the conclusion drawn on the basis of profit to sales ratio may be misleading. Because it is possible that profit in terms of sales is sufficient but sales with regard to capital may be in adequate. Therefore, the state of efficiency can not be judged by volume of profit alone, we have to consider the size of the investment along with profit; the share holder can measure the success of the enterprise in terms of profit related to capital employed. The efficiency can only be judged by calculating return on capital employed with investment are represented by those assets which are required for conducting the business operation mainly production or sales and the size of investment certainly affects the volume of profit.

We can use the following important ratios to measure the efficiency of the investment of NIDC in terms of profit.

(i) Return on Assets

Profitability can be measured in terms of relationship between net profit and assets. This ratio is also known as profit to assets ratio. It measures the profitability of investment. The overall profitability can be known as:

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

There are various approaches possible to define net profit and assets, according to the purpose and intend of the calculation of ratios.

(ii) Return on Capital Employed

This is the second type of return on investment (ROI). This is also known as rate of return. The prime objective of making investment in any business is to obtain satisfactory return on capital invested. It includes the percentage of return on the capital played in the business and it can be used to show the efficiency of the business as a whole.

$$\text{Return on Capital Employed} = \frac{\text{EAT Interest}}{\text{Capital Employed}} \times 100\%$$

Where, EAT = earning after tax

The term capital employed refers to long term funds supplied by the creditors and owners of the firm.

(iii) Return on share holder's equity

This ratio establishes the profitability from the share holder's point of view.

$$\text{Return on share holder's equity} = \frac{\text{Net Profit}}{\text{Share Holder's Fund}} \times 100\%$$

The term net profit as used here means net income after payment of interest and tax include non operating income. Share holder's funds include both preference and common share capital and all reserves and surplus belonging to share holders. Funds include both preference and common share capital and all reserves and surplus belonging to shareholders.

In this study, eight years investment ratios of NIDC are calculated. These past eight years ratios of the corporation are analyzed to find out the investment efficiency in relationship with profit.

Chapter - IV

DATA PRESENTATION AND ANALYSIS

This chapter is basically focused upon the presentation, analysis and interpretation of collected data from different secondary and primary sources with the help of the figures, tables and charts.

4.1 An Evaluation of NIDC Contribution in Industrial Development of Nepal

Since the inception of Nepal Industrial Development Corporation (NIDC) in 1959, different types of industries have been established in Nepal with its financial assistance. The contribution of NIDC is very important in the field of industrial development of Nepal. The present political condition of the country has cut down the proper functioning of industrial activities in the country. Due to various problems NIDC has not been able to mobilize the resources as projected by the corporation and hence additional new businesses could not be financed as compared to the preceding years. As a development bank, it has also rendered technical and managerial consultancy services to industrial entrepreneurs for development of industry in private sector. The corporation has fully utilized concessional loans from financial institutions and so the corporation has solely restored to its internal resources mobilization due to unavailability of such concessional loans from foreign based financial institution. Therefore, the financial and technical assistance of NIDC must be intensified. In the context of increasing loan application and volume of loan request amount, the corporation is making its endeavor to mobilize alternate resources. NIDC contribution for industrial development can be observed in Table no. 4.1 below:

Table No. 4.1
Total number of industries & amount financed by NIDC since its inception to mid July 2003

(Rs. in crores)

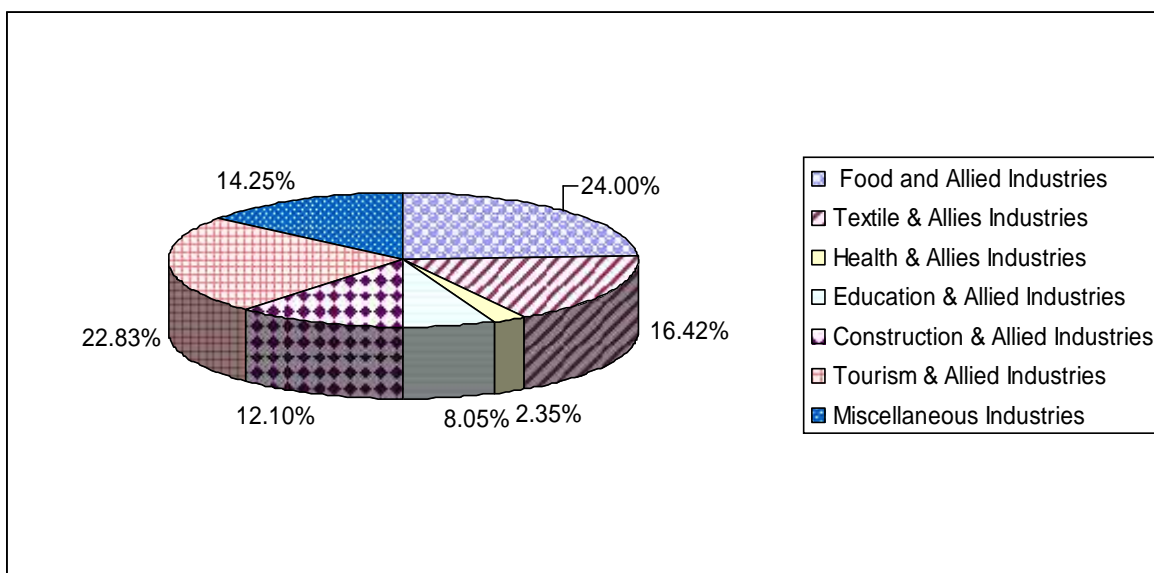
S.N.	Group of Industries	No. of Industries	Disbursed Amount	Disbursement (%)
	<i>A. Small, Medium & Large Scale Industries</i>			
1.	Food & Allied Industries	270	143.25	24.00
2.	Textile & Allies Industries	95	98.00	16.42
3.	Health & Allies Industries	45	14.02	2.35
4.	Education & Allied Industries	82	48.11	8.05
5.	Construction & Allied Industries	158	72.24	12.10
6.	Tourism & Allied Industries	201	136.25	22.83
7.	Miscellaneous Industries	336	85.06	14.25
	Sub Total	1187	596.93	100%
	<i>B. Cottage & Village Industries</i>	414	N.A	N.A
	Grand Total	1601	596.93	100%

Source: Proposed Work Plan, 2003

From the above Table No. 4.1, it is clear that the NIDC, since its inception up to Mid July 2003 has provided a total financial assistance of Rs.596.93 crores in industrial sectors except cottage and village industries. In the Fiscal Year (FY) 2003/04, the number of registered Cottage and Village Industries declined by 23.00 percent and the corporation did not make any investment in this sector. In case of the sectoral distribution of the investment 24.00 percent of total investment has been made on 270 Food and Allied Industries, 22.83 percent on 201 tourism & allied industries, 16.42 percent of the total investment has been contributed to 95 Textile and Allied Industries. Similarly, 2.35 percent of total investment has been made on 45 Health and Allied Industries, 158 Construction and Allied Industries has given 12.10 percent of the total investment, 82 Education and Allied Industries has given 8.05 percent of total investment, and for 336 Miscellaneous Industries 14.25 percent of total investment has been made. No investment is allotted for Cottage and Village Industries as there was decline in the establishment of this type of industries during the accounted period.

It seems from the above table that NIDC has given high priority to Food, Tourism and Textile industries. Most of the financial assistance has been allocated to these sectors; whereas no financial assistance has been made to Cottage and Village Industries. Similarly, least amount of financial assistance has been allocated to Health and Education Allied Industries. The percent of investment made on group of industries can be made more clear and easy to understand through the help of this Figure no: 4.1.

Figure No: 4.1
Industries wise Allocation of Financial Assistance in Percentage



4.1.1 Activities of NIDC in Industrial Development

The corporation has been playing vital role in mobilizing financial assistance to the industrial development in Nepal since its inception in 1959. The activities of NIDC are mostly concerned with the national economic plan of the industrial policy and priorities of National Planning Commission. In this context, it has performed the approval and disbursement function of financial assistance to meet its objectives. The following Table No. 4.2 shows the approval, disbursement and realization of financial assistance of the corporation during the period FY 1997/98 to 2006/2007.

Table No. 4.2
Approval, Disbursement and Realization of Financial Assistance

(Rs. in crores)

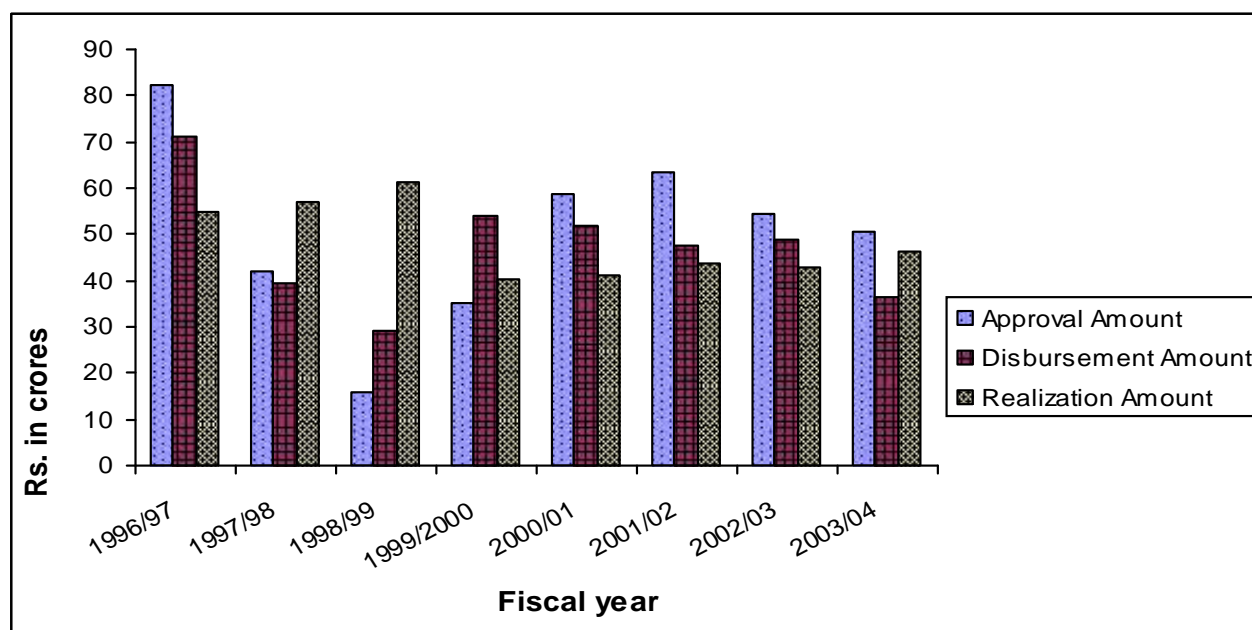
S.N.	Fiscal year	Financial Assistance					
		Approval Amount	% change	Disbursement Amount	% change	Realization Amount	% change
1.	1996/97	82.33	-	71.14	-	54.85	-
2.	1997/98	42.13	48.83	39.62	44.31	57.19	4.27
3.	1998/99	15.66	62.83	29.21	26.27	61.15	6.92
4.	1999/2000	35.06	123.88	53.82	84.25	40.26	34.16
5.	2000/01	58.52	66.91	51.67	3.99	41.23	2.41
6.	2001/02	63.50	8.51	47.69	7.70	43.71	6.02
7.	2002/03	54.59	14.03	48.98	2.66	42.80	2.08
8.	2003/04	50.69	7.14	36.28	25.93	46.17	7.87
	Total	402.48		378.41		387.36	

Source: Annual Report, NIDC 1996/97 to 2003/04

The Table No. 4.2 shows the activities of NIDC specially approval, disbursement and realization of financial assistance during the past eight years from FY 1996/97 to 2003/2004. During the study period the total approval, disbursement and realization of financial assistance were Rs.402.48 crores, Rs.378.41 crores and 387.36 crores respectively.

During the study period, the approval of financial assistance has shown a fluctuating trend. In the FY 1996/97 there was a maximum approval amount of Rs.82.33 crores. Similarly, the minimum approval amount was Rs.15.66 crores and it is in the fiscal year 1998/99. The highest percentage change for approval of financial assistance was 123.88% and it is in the fiscal year 1999/2000.

Figure No: 4.2
Approval, Disbursement and Realization of Financial Assistance



In the same period the tendency of disbursement of financial assistance has also shown fluctuating trend. During the period the maximum disbursement of financial assistance was Rs.71.14 crores in FY 1996/97. Similarly, the minimum disbursement of financial assistance was Rs.29.21 crores in FY 1998/99. The highest percentage change for disbursement of financial assistance was 84.25% that is in the FY 1999/2000.

It can be observed that financial assistance has shown a fluctuating trend during the period for realization amount as well. During the period the maximum realization of financial assistance was Rs.61.15 crores in the FY 1998/99 and the minimum realization amount was Rs.40.26 crores in the FY 1999/2000. The highest percentage change in those periods was 34.16% and it is in the FY 1999/2000.

From Table No. 4.2, it is clear that there were discrepancy between the approval and the disbursement amount in most of the cases and years. The reason may be the limited resources of the corporation or the investors could not run the industries in a planned way. But in some specific cases and years it disburses more than approved amount if new industries or projects were to start in that specific year. It shows the big gap between the total approval financial assistance and disbursement of financial assistance. On the basis of these observations, it can be said that NIDC performances and policies are not consistent.

We can also verify the data by using statistical tools. To determine the trend value, Least Square Method (LSM) is used. The result of LSM is presented in Table No. 4.3. As mentioned in chapter III, this study has been undertaken trend analysis to estimate the approval, disbursement and realization of financial assistance of NIDC for next four years using Least Square Method (LSM).

Table No. 4.3
Trend Values of Approval, Disbursement & Realization of Financial Assistance

(Rs. in crores)

S.N.	Fiscal Year	Financial Assistance		
		Approval Amount	Disbursement Amount	Realization Amount
1.	1996/97	49.99	53.32	56.09
2.	1997/98	50.08	51.60	53.90
3.	1998/99	50.17	49.88	51.71
4.	1999/2000	50.26	48.16	49.52
5.	2000/01	50.35	46.44	47.33
6.	2001/02	50.44	44.72	45.14
7.	2002/03	50.53	43.00	42.95
8.	2003/04	50.62	41.28	40.76
S.N.	Fiscal Year	Estimated Trend Values		
1.	2004/05	50.71	39.56	38.57
2.	2005/06	50.80	37.84	36.38
3.	2006/07	50.89	36.12	34.19
4.	2007/08	50.98	34.40	32.00

Note: The calculated trend values are shown on Annex 1, 2& 3

The Table No. 4.3 shows that the trend values of approval, disbursement and realization of financial assistance. In the table the trend of approval financial assistance was increased by Rs.0.09 crores each year since FY 1996/97. The original data of approval of financial assistance trend was increasing during the study period. The estimation of approval of financial assistance of NIDC for next four years (FY 2004/05, 2005/06, 2006/07, and 2007/08) would be Rs.50.71 crores, Rs.50.80 crores, Rs.50.89 crores, and Rs.50.98 crores respectively. The Figure No: 3 showing the trend value of approval of financial assistance of NIDC reveals the same behavior of approval as shown in Table No. 4.3. Similarly, the disbursement trend of financial assistance was decreased by Rs.1.72 crores each year since fiscal year 1996/97. The original data of disbursement of financial assistance trend is fluctuating. The estimation of disbursement of financial assistance of NIDC for next four years (FY 2004/05, 2005/06, 2006/07, and 2007/08) would be Rs.39.56 crores, Rs.37.84 crores, Rs.36.12 crores, and Rs.34.40 crores respectively. The realization trend of financial assistance was also decreased by Rs.2.19 crores each year since FY 1996/97. The realization of financial assistance shows the decreasing trend. Therefore, it can be said that the recovery of loans is not satisfactory. The trend analysis shows that in next four years (FY 2004/05, 2005/06, 2006/07, and 2007/08) Rs.38.57 crores, Rs.36.38 crores, Rs.34.19 crores, and Rs.32.00 crores would be realized respectively.

Figure: 4.3
Approval of Finical Assistance

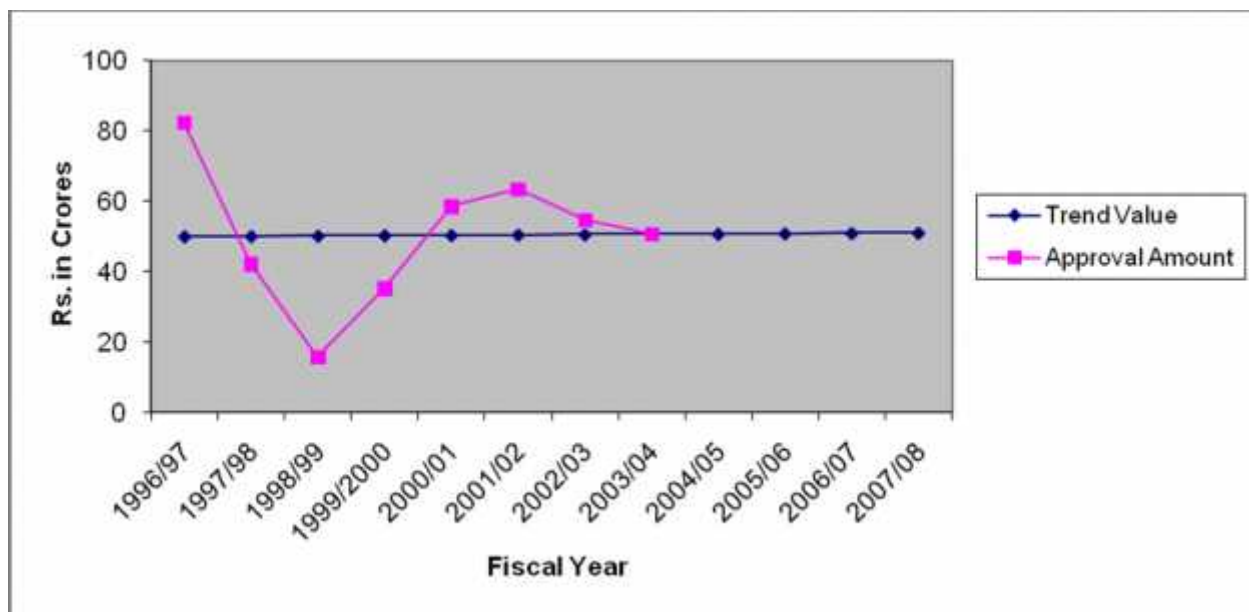


Figure: 4.4
Disbursement of Financial Assistance

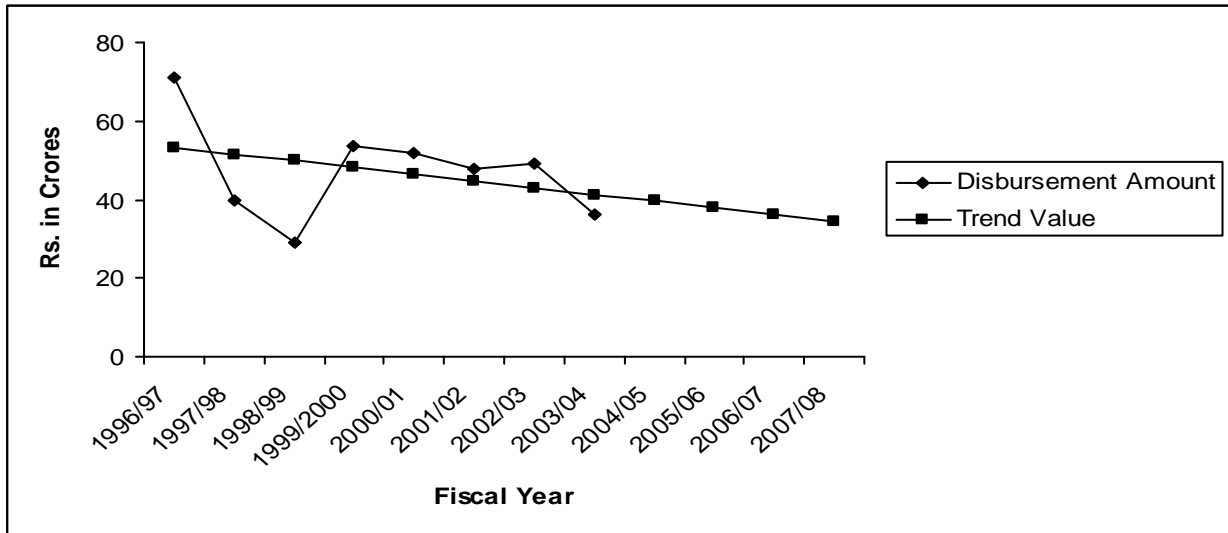
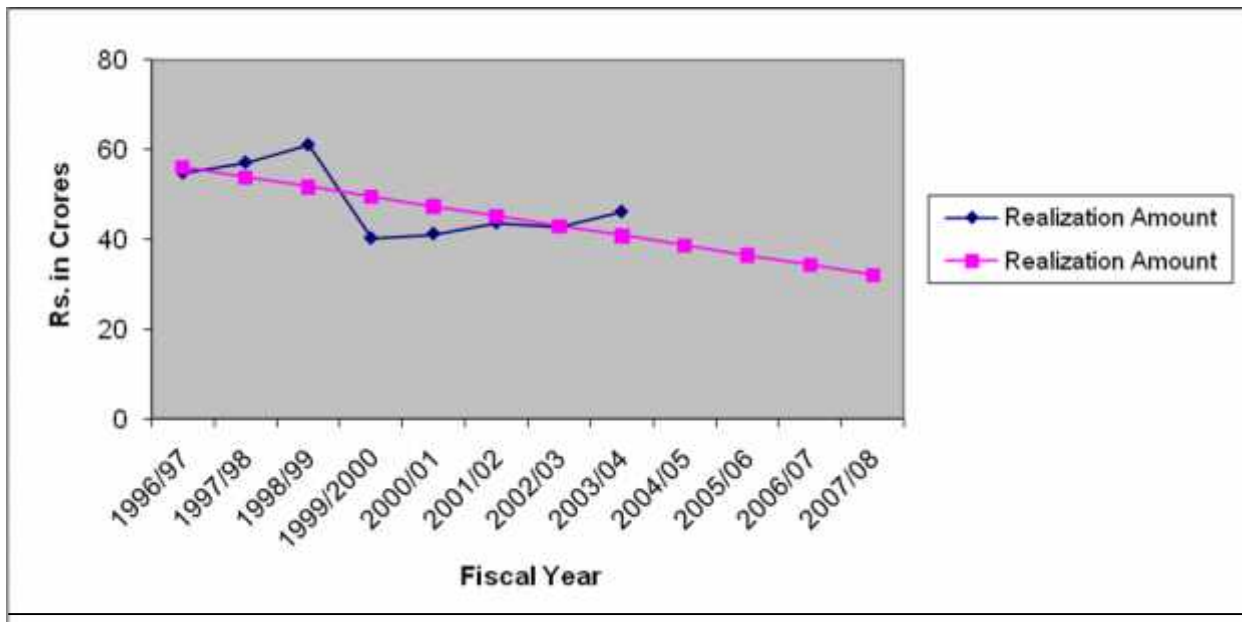


Figure: 4.5
Realization of Financial Assistance



The Table No. 4.3 shows the trend value of approval, disbursement and realization of financial assistance, which are clearly depicted in Figure no: 4.3, 4.4 & 4.5 respectively. In Figure no: 4.3, the line shows clearly the increasing trend of approval of financial assistance. On the contrary, Figure no: 4.4 and Figure no: 4.5 show the decreasing trend of disbursement and realization of financial assistance respectively.

4.1.2 Types of Investment

NIDC has been providing different types of investment to different industrial sector since its inception in 1959. It provides loan of different nature weeklong term. The types of investment provided by NIDC are shown in the following Table No. 4.4.

Table No. 4.4
Approval and Disbursement of Financial Assistance

(Rs. in crores)

Fiscal year	Direct Loan		Equity		Guarantee	
	Approval	Disbursement	Approval	Disbursement	Approval	Disbursement
1996/97	82.33	71.14	-	-	-	-
1997/98	42.13	39.62	-	-	-	-
1998/99	15.66	29.21	-	-	-	-
1999/2000	35.06	53.82	-	-	-	-
2000/01	58.52	51.67	-	-	-	-
2001/02	63.50	47.69	-	-	-	-
2002/03	54.59	48.98	-	-	-	-
2003/04	50.69	36.28	-	-	-	-
Total	402.48	378.41	-	-	-	-

Source: Annual Report, NIDC 1996/97 to 2003/04

(i) **Direct Loan:** The Table No. 4.4 shows the direct loan is the most important form of investment of the corporation which was the highest amount of investment in almost all fiscal year. The corporation had approved an amount of Rs.402.48 crores to be spent for FY 1996/97 to 2003/04 in the form of direct loan.

During the period, direct loan had disbursed amounting Rs.378.41 crores. In the FY 1998/99, and 1999/2000, the disbursement amount was greater than the approval and in the rest of fiscal year the disbursement amount was less than that of approval amount. The maximum approval and disbursement

of direct loan were Rs.82.33 crores and Rs.71.14 crores respectively in the FY 1996/97. Similarly, the minimum approval and disbursement of direct loan were Rs.15.66 crores and Rs. 39.62 crores respectively in the FY 1998/99. There was a sudden decrease in the approval and disbursement of direct loan in the FY 1997/98 and 1998/99 in comparison to the previous FY 1996/97.

- (ii) **Equity Investment:** The Table No. 4.4 shows that NIDC has given less priority to equity investment. During the study period no equity investment was made. That is why the equity investment was nil during the study period.
- (iii) **Guarantee Loan:** The Table No. 4.4 shows that NIDC has also given less or nominal priority to the guarantee investment. The corporation has neither approved nor disbursed any guarantee loan during the study period. So the guarantee investment was nil during the study period.

4.1.3 Trend of Investment

NIDC has been contributing towards industrialization in the country by continuously providing financial, technical and other assistances to industries since its establishment period. It has provided financial assistance to different types of industries and the volume of investment to those industries up to Mid July 2004 is Rs.596.93 crores, in which the contribution of Cottage and Village Industries is nil. The volume of industrial investment is not increasing in the manner that it should have been year by year. The reason behind this is the present political condition of the country which is not allowing the industry to grow in the pace of predicted. During the financial operation for the period of 40 years NIDC has extended financial investment to 1601 industries including various Cottages, Small, Medium and large industrial projects by Mid July 2003. Political factor is also one of the strong determinants of investment, but looking into the present political condition of the country, the state is not able to create a healthy environment for the purpose of investment.

Table No. 4.5
Volume of Investment within the Eight Years

(Rs. in Crores)

S.N.	Fiscal year	Total Investment	Investment %	Cumulative investment
1.	1996/97	71.14	18.80	71.14
2.	1997/98	39.62	10.47	110.76
3.	1998/99	29.21	7.72	139.97
4.	1999/2000	53.82	14.22	193.79
5.	2000/01	51.67	13.66	245.46
6.	2001/02	47.69	12.60	293.15
7.	2002/03	48.98	12.94	342.13
8.	2003/04	36.28	9.59	378.41
	Total	378.41	100	

Source: Work Plan, 2061

Table no. 4.5 shows that the volume of investment of NIDC during the past eight years is fluctuating. In the FY of study i.e. 1996/97, the trend is increasing and decreasing thereafter for two years and again increasing. The trend is decreasing in the FY 2003/04. Due to the lack of quick feasibility studies of industrial sector and some time technical difficulties its volume of investment is declining.

4.2 Financial Resources & Disbursement

4.2.1 Financial Resources:

The Corporation has been receiving loan under the guarantee of Government from national and international financial institution in addition to corporation's authorized capital. The corporation has fully utilized confessional loans from international financial institutions and so the corporation has solely restored to its internal resources mobilization due to unavailability of such confessional loans from foreign based financial institutions. The national institution providing credit to NIDC is Nepal Rastra Bank and the international institution providing credit to NIDC is World Bank and RFW. The yearly breakdown of financial resources is given in Table No. 4.6.

Table No. 4.6
Yearly Breakdown of Financial Resources

(Rs in crores)

S.N.	Fiscal year	Resources
1.	1996/97	69.64
2.	1997/98	35.33
3.	1998/99	18.25
4.	1999/2000	30.28
5.	2000/01	41.81
6.	2001/02	20.36
7.	2002/03	14.61
8.	2003/04	16.76
	Total	247.04

Source: Annual Report 1996/97 to 2003/2004

Table No. 4.6 depicts the received resources of the corporation. During the study period, the total resources of corporation were Rs.247.04 crores. The received resources of the corporation were in fluctuating trend. The received resources was very low in FY 2002/03 i.e. Rs.14.61 crores. The highest amount received was Rs.69.64 crores in the FY 1996/97. In order to understand the real status or position of the corporation a comparative study of the financial resources and disbursement was made and the data gathered from the study are tabulated in Table No. 4.7.

Table No. 4.7
Financial Resources and Disbursement

(Rs in crores)

S.N.	Fiscal year	Resources	Disbursement	Disbursement Percentage
1.	1996/97	69.64	71.14	18.80
2.	1997/98	35.33	39.62	10.47
3.	1998/99	18.25	29.21	7.72
4.	1999/2000	30.28	53.82	14.22
5.	2000/01	41.81	51.67	13.66
6.	2001/02	20.36	47.69	12.60
7.	2002/03	14.61	48.98	12.94
8.	2003/04	16.76	36.28	9.59
	Total	247.04	378.41	100

Source: Annual Report, NIDC 1996/97 to 2003/04

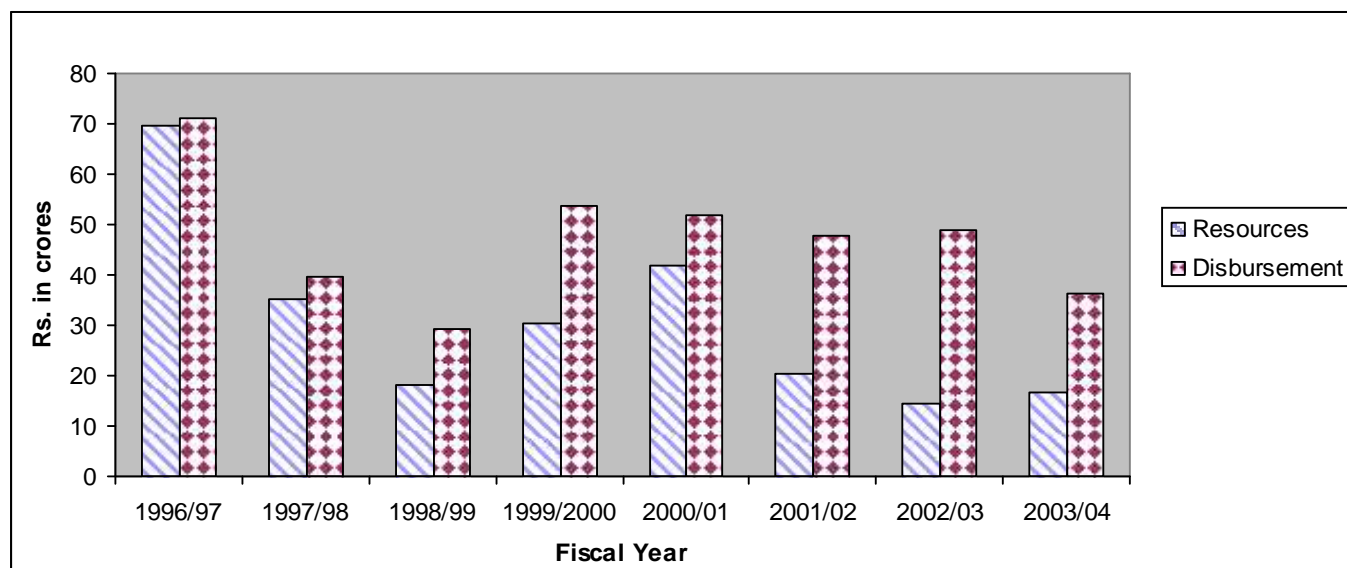
Table No. 4.7 shows that the corporation's invested amounts were more than its resources. Despite less resource the corporation was able to invest. The excess amount was invested by its internal and reserved fund.

On the basis of above Table No. 4.7, it is cleared that the corporation's resources and disbursement structure were not uniform over the past eight years. The highest resource during the periods was Rs.69.46 crores and the lowest was Rs.14.61 crores. The resources of the corporation were sharply declined in FY 2002/03 and 2003/04. Similarly, the maximum amount of disbursement during the periods was Rs.71.14 crores and the minimum was Rs. 29.21 crores.

If we see the resources and disbursement pattern of the corporation, from the initial year of the study period it shows that disbursement is more than available resources. The data shows that the condition was same during the whole period of study. Although the resources were limited and less, the corporation was able to invest. The excess amount was invested by its internal and reserve fund. Investing all its internal and reserve funds in new projects does not show the good health of the corporation. Internal funds are basically needed to meet the future contingencies and to overcome certain expenses, which cannot be predicted beforehand. So the corporation should be able to make balanced composition of resources and internal funds to invest new areas or projects. Before disbursing the financial assistance feasible study should be made from every

aspect so that more than required amount are not disbursed. The structure of financial resources and its disbursement has been presented in the following Figure no: 4.6 as well.

Figure No: 4.6
Financial Resources and Disbursement



4.2.2 Loan Disbursement and Overdue Loan

The soundness of development financial institution can be observed in term of loan disbursement and overdue loan. When the loan granted by the corporation is not paid within maturity period, the amount of loan is shown under overdue loan. Overdue loan greatly affects the financial planning of financial institution. The relation between loan disbursement and overdue loan of the corporation is given in Table No. 4.8:

Table No. 4.8
Loan Disbursement and Over-Due Loan

(Rs in crores)

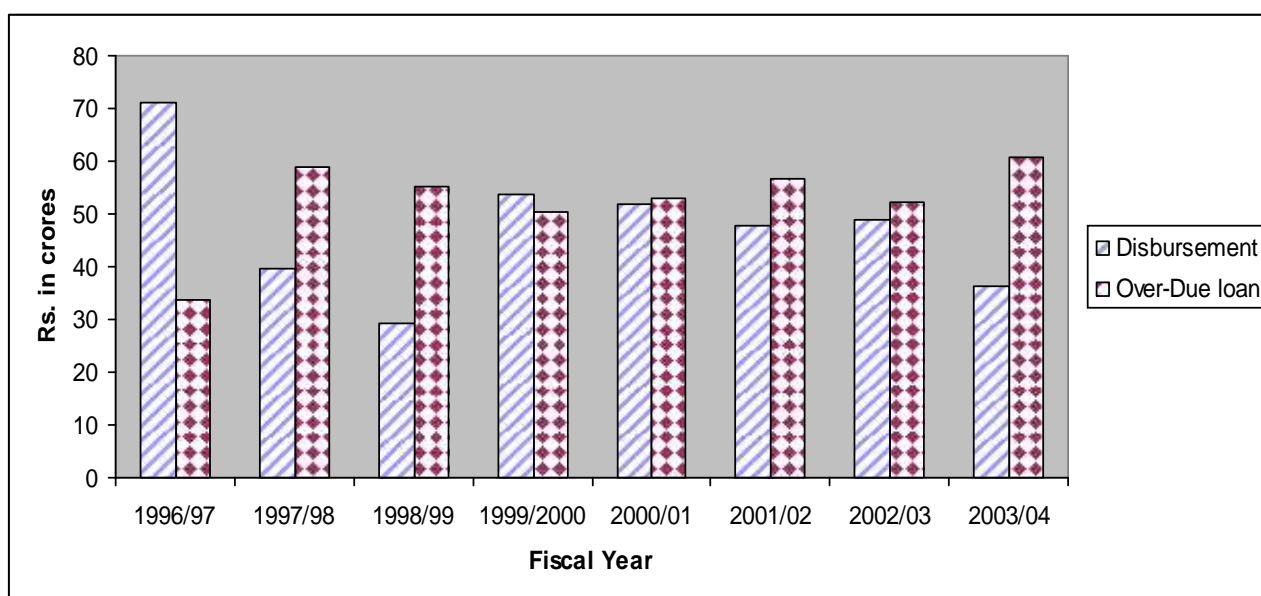
S.N.	Fiscal year	Disbursement	Cumulative Disbursement	Over-Due loan	Cumulative Over-Due
1.	1996/97	71.14	71.14	33.52	33.52
2.	1997/98	39.62	110.76	58.88	92.40
3.	1998/99	29.21	139.97	55.12	147.52
4.	1999/2000	53.82	193.79	50.48	198.00
5.	2000/01	51.67	245.46	53.01	251.01
6.	2001/02	47.69	293.15	56.74	307.75
7.	2002/03	48.98	342.13	52.24	359.99
8.	2003/04	36.28	378.41	60.66	420.65

Source: Annual Report, NIDC 1996/97 to 2003/04

Table no. 4.8 shows the overdue loan was Rs.33.52 crores in FY 1996/97 which cumulatively reached up to Rs.420.65 crores in FY 2003/04. The average overdue loan during the period was Rs.52.53 crores. Initially the disbursement loan was Rs.71.14 crores in fiscal year 1996/97 which was cumulatively reached up to Rs.378.14 crores in the FY 2003/04. The average yearly disbursement loan during the same period was Rs.47.30 crores. Taking into account, eight years study period comparison shows that overdue loan was exceeding the disbursement amount.

The above comparison can be seen more clearly by plotting in Figure no: 4.7 which are more easy and clear to understand.

Figure No: 4.7
Loan Disbursement and Overdue Loan



4.3 Credit Operation of Nepal Industrial Development Corporation

NIDC was established with a view to encourage and assist industries in private sector through financial and technical assistance. It extends loan against adequate security and also makes share participation in private sector industries for their establishment, improvement, expansion and thereof modernization. Nowadays the corporation has been facing liquidity problem because of lack of fund. However, Nepal Rastra Bank has already given approval to the corporation to arrange financial resources by accepting institutional deposits.

Loan disbursement, repayment and outstanding pattern of NIDC are shown in the Table No. 4.9 below from FY 1996/97 to 2003/04.

Table No. 4.9
Loan Disbursement, Repayment and Outstanding

(Rs. in Crores)

S.N	Fiscal Year	Loan Disbursed	% Change	Loan Repaid	% Change	Loan Outstanding	% Change
1.	1996/97	71.14	-	33.64	-	260.63	-
2.	1997/98	39.62	44.31	27.81	17.33	248.89	4.50
3.	1998/99	29.21	26.27	34.85	25.31	243.23	2.27
4.	1999/2000	53.82	84.25	38.00	9.04	240.29	1.21
5.	2000/01	51.67	3.99	31.45	17.24	246.54	2.60
6.	2001/02	47.69	7.70	28.19	10.37	254.01	3.03
7.	2002/03	48.98	2.66	25.25	10.43	205.69	19.02
8.	2003/04	36.28	25.93	27.23	7.84	198.42	3.53
	Total:	378.41		246.42		1897.70	

Source: Economic Report, Nepal Rastra Bank 2003/04

During the study period the total loan disbursement of NIDC was Rs.378.41 crores, total loan repaid was Rs.246.42 crores and total loan outstanding was Rs.1897.70 crores respectively.

In FY 1998/99, the loan disbursed was decreased by 26.27 percent and then increased by 84.25 percent in FY 1999/2000. In 2000/01 it was a sudden decrease by 3.99 percent. Similarly in the final year of the study period, it was increased by 25.93 percent. It shows that the loan disbursed was fluctuating.

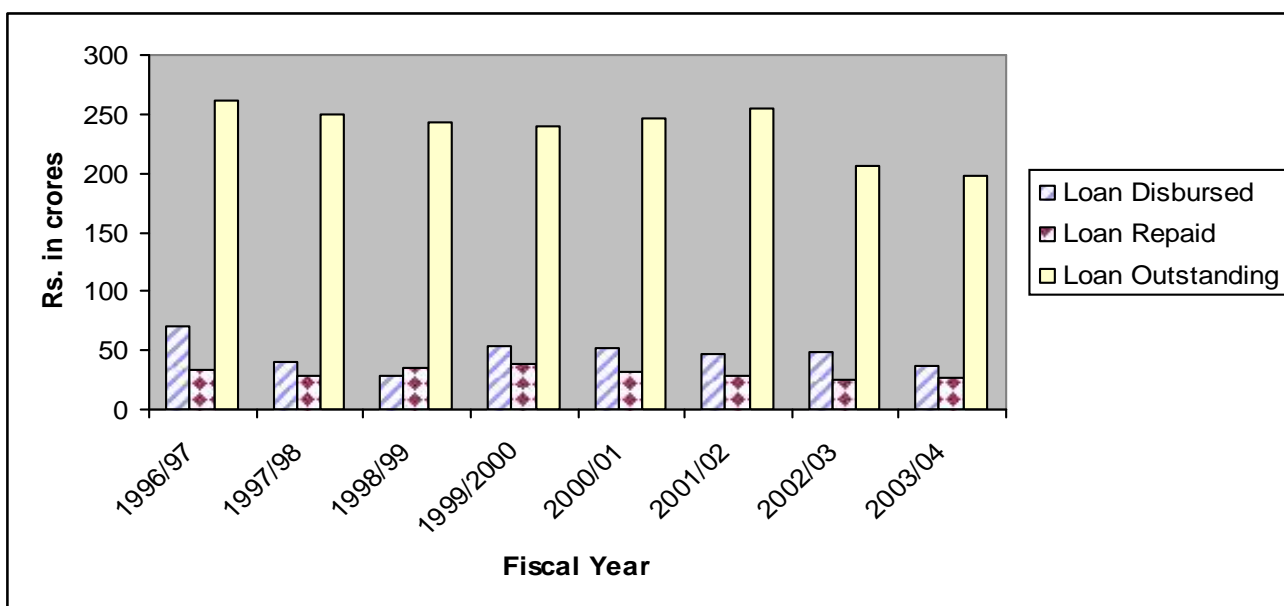
Total loan recovery during the study period was Rs.246.42 crores. The maximum loan recovery was Rs.38.00 and it was in the FY 1999/2000. Similarly, the minimum loan recovered was Rs.25.25 crores and it was in the year 2002/03. In FY 1998/99, the loan recovery increased by 25.31 percent and decreased by 9.04 percent in FY 1999/2000. Similarly, in the final year of the study period it was decreased by 7.84 percent. The loan recovery of the corporation is fluctuating as well.

Table No. 4.9 shows the loan outstanding of the corporation is also in fluctuating trend. The highest loan outstanding was Rs.260.03 crores in the year 1996/97 and the minimum was Rs.198.42 crores in FY 2003/04. Similarly, the highest percentage change in loan outstanding was 19.02 percent in FY 2002/03 and the lowest percentage change i.e. 1.21 percent was in FY 1999/2000. In most of the year there little difference in percentage changes in loan outstanding. Although there is little difference but this causes a

great difference to the corporation. If the outstanding loan is not paid in time, the corporation will not be able to finance its next project due to the lack of the fund.

From above data it can be observed that when total loan disbursed is Rs.378.41 crores, total loan repaid is Rs.246.42 crores and the difference is Rs.131.99 crores. If the amount of loan disbursed exceeds the loan repaid then loan outstanding increased. The increase in loan outstanding is not good for the organization. So in order to maintain sound health of the corporation, loan disbursed and loan repaid must be parallel and if this is maintained then there is no chance of loan outstanding.

Figure No: 4.8
Loan Disbursement, Repayment and Outstanding



4.4 Regional Disbursement of Financial Resources

A regional imbalance is one of the main problems of the developing countries in the world. In these countries, the Government concentrates their attention to limited areas, which will create vast imbalances within the country itself. The problem like inequality of income, inequality of consumption etc. is seen in these countries. It affects the whole national development, unity of people are even in a nationality of the country. So, the need is to create balanced development of the nation.

To avoid the regional imbalance, most of the developing countries adopt the policy of regional balanced economic growth by dividing in different regions in a country. In Nepal, the Nepal Government has also adopted the policy of regionally balanced economic growth by dividing the country in different five development regions.

NIDC has endorsed national economic objectives in pursuance of which it opened up regional office at Biratnagar, Pokhara, Nepalgunj and Dhangadi to promote and assist industries in development regions. Thus NIDC seems to be playing vital role to remove regional imbalance. And “with a view to achieve balanced industrial development of the country by establishing more industries in the Mid-Western and Far-Western Development Regions, the corporation has adopted a new policy of providing facilities and incentives to the

industries to be established in those regions. Accordingly, the quantum of loan investment has been raised to maximum of 75 percent. Likewise cottage and village scale industries worth more than Rs. one lakh are also being financed in Mid-Western and Far-Western Development Regions where industrial districts have yet to be established but are provided with facilities like road and electricity” (NIDC 1997).

Table No. 4.10
Regional Allocation of Financial Resources of NIDC up to Mid July 2004

(Rs in crores)

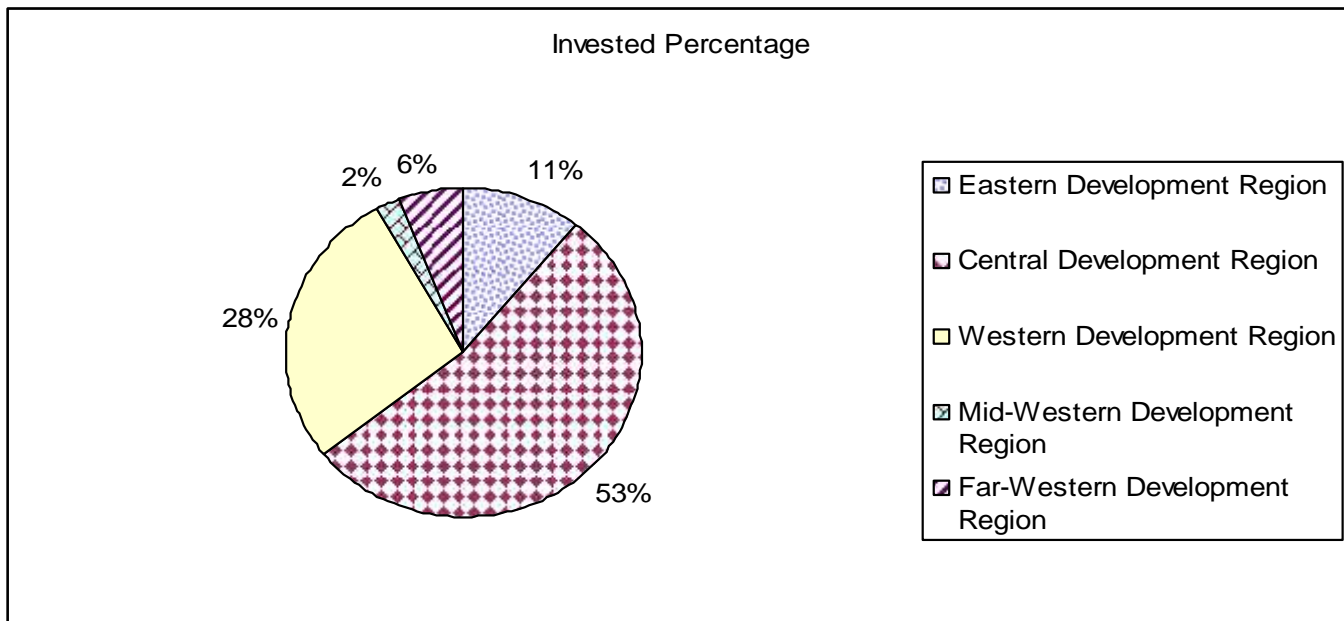
S.N.	Development Regions	No. of Industries	Invested Amount	Invested Percentage
1.	Eastern Development Region	212	64.38	10.78
2.	Central Development Region	442	319.82	53.58
3.	Western Development Region	266	164.33	27.53
4.	Mid-Western Development Region	145	13.78	2.31
5.	Far-Western Development Region	122	34.62	5.80
	Total	1187	596.93	100

Source: Annual work plan, 2003/2004

Table No. 4.10 shows the pattern of investment in different regions of the country. It shows NIDC has invested Rs.596.93 crores in industrial sector since its inspection up to Mid July 2004. It indicates that very high amount of financial assistance was provided to Central Development Region and very low amount to Mid Western and Far Western Development Regions implying that there was significant disparities among the development regions in terms of financial assistance provided by NIDC. The main reason of these disparities was due to the lack of entrepreneurial skills and infrastructures facilities i.e. transportation, electricity, water supply, communication etc.

The above data are presented in Figure no: 4.9 below:

Figure No: 4.9
Region-wise Allocation of Financial Resources



It is clearly seen that NIDC did not allocate the available funds in different development regions appropriately. It does not seem to give priority to Mid Western Development region and Far Western Development region. If the corporation does not correct this type of investment anomalies, the economic imbalances among these regions would be widened alarmingly.

On this ground, it is suggested that NIDC should diversify its financial assistance to other development regions besides the Central Development Region for the reduction of regional imbalance among the development regions. NIDC has been playing an important role on the Industrial Development of Nepal. It invested its loan to various new and existing projects in five development regions of Nepal. The allocation of financial resources of NIDC in different regions during the study period can be observed through Table no. 4.11.

Table – 4.11
Regional Allocation of Financial Assistance

(Rs in Corers)

S.N	Fiscal Year	EDR		CDR		WDR		MWDR		FWDR		Total	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1.	1996/97	9.95	13.98	24.70	34.72	25.48	35.82	1.29	1.81	9.72	13.66	71.14	100
2.	1997/98	5.28	13.33	16.61	41.92	11.45	28.90	1.43	3.61	4.85	12.24	39.62	100
3.	1998/99	6.47	22.15	15.79	54.06	6.40	21.91	0.05	0.16	0.50	1.71	29.21	100
4.	1999/2000	8.88	16.50	23.11	42.94	14.50	26.94	1.85	3.44	5.48	10.18	53.82	100
5.	2000/01	9.68	18.73	22.13	42.83	15.21	29.43	2.39	4.63	2.26	4.38	51.67	100
6.	2001/02	9.12	19.12	20.11	42.17	15.68	32.88	1.71	3.59	1.07	2.24	47.69	100
7.	2002/03	7.26	14.82	23.11	47.18	16.06	32.79	1.29	2.63	1.26	2.57	48.98	100
8.	2003/04	5.18	14.28	16.27	44.85	12.65	34.87	1.60	4.41	0.58	1.60	36.28	100
	Total:	61.28	132.91	161.83	350.67	117.43	243.54	11.61	24.64	25.72	51.89	378.41	

Source: NIDC Annual Report, NIDC 1996/97 to 2003/04

Table no. 4.11 shows that NIDC has invested its fund (worth Rs.378.41 crores) in different industrial sectors in different regions within the past eight years. Out of Rs. 378.41 crores, Rs.61.82 crores (123.91%) was invested in Eastern Development Region. Similarly Rs.161.83 crores (350.67%), Rs.117.43 crores (243.54%), Rs.11.61 crores (24.64%) and Rs.25.72 crores (51.89%) were invested to the Central, Western Mid Western and Far Western Development Regions respectively. The amount of investment in Mid Western and Far Western Region was lower than that of others. The highest percentage (350.67%) was invested in Central Development Regions.

In every fiscal year, the highest percentage of financial assistance has been provided to the Central Development Region and least percentage to the Mid Western Development Region. It means that the percentage invested in different regions is not proportionate. Above analysis shown that NIDC has not been able to implement its stated policy. There is still regional imbalance in industrial front.

4.5 Industry Wise Disbursement of Financial Resources

NIDC has disbursement its financial resources in various types of industries as direct loan, share participation and guarantee loan since its establishment. It has been providing financial assistance to different sectors. The sectors are:

- (a) Food and Allied Industries: - It includes Rice Mills, Oil Mills, Vegetable Ghee, Flour Mills, Biscuits and Confectioneries, Dairy Products, Noodles, Brewery and Distillery etc.
- (b) Textile and Allied Industries: - It includes Textile and Woolens, Foot Wears, Leather Industries etc.
- (c) Health and Allied Industries: - It includes Drugs & Pharmaceutical, Shop, and Tooth Products etc.
- (d) Education and Allied Industries: - It includes Writing Paper, Stationary etc.
- (e) Construction and Allied Industries: - It includes Brick and Tiles, Cement, Marble, Saw Mills, Furniture, Battery, Pipe, Glass, Rubber, and Plywood etc.
- (f) Tourism and Allied Industries: - It includes Hotels, Travel Agencies, and Resorts etc.
- (g) Miscellaneous: - It includes Gas, Ceramics, Jute, Pesticides, Cigarette, and Match Factories etc.

Now we examine the allocation of financial resources of NIDC in different industrial sectors since its inspection up to Mid July 2003.

Table No. 4.12
Industry wise Allocation of Financial Resources since its inspection up to Mid July 2003

(Rs in crores)

S.N.	Group of Industries	No. of Industries	Disbursed Amount	Disbursement (%)
	<i>A. Small, Medium & Large Scale Industries</i>			
1.	Food and Allied Industries	270	143.25	24.00
2.	Textile & Allies Industries	95	98.00	16.42
3.	Health & Allies Industries	45	14.02	2.35
4.	Education & Allied Industries	82	48.11	8.05
5.	Construction & Allied Industries	158	72.24	12.10
6.	Tourism & Allied Industries	201	136.25	22.83
7.	Miscellaneous Industries	336	85.06	14.25
	Sub Total	1187	596.93	100%
	<i>B. Cottage & Village Industries</i>	414	N.A	N.A
	Grand Total	1601	596.93	100%

Source: Proposed Work Plan, 2003

The above Table no. 4.12 represents that NIDC has given high priority to Food, Tourism and Textile Allied Industries respectively. Most of the financial assistances have been allocated to these sectors; whereas no financial assistance has been made to Cottage and Village Industries. Similarly, Education and Health allied industries have got less priority. In total the corporation has provided financial assistances of Rs.596.93 crores in 1601 establishments in the form of direct loan, share participation and guarantee loan. Detail industry wise allocation of financial resources in past eight years has been presented in the following Table no. 4.13.

The above data are presented in Figure no: 4.10 below:

Figure No: 4.10
Industries wise Allocation of Financial Assistance in Percentage

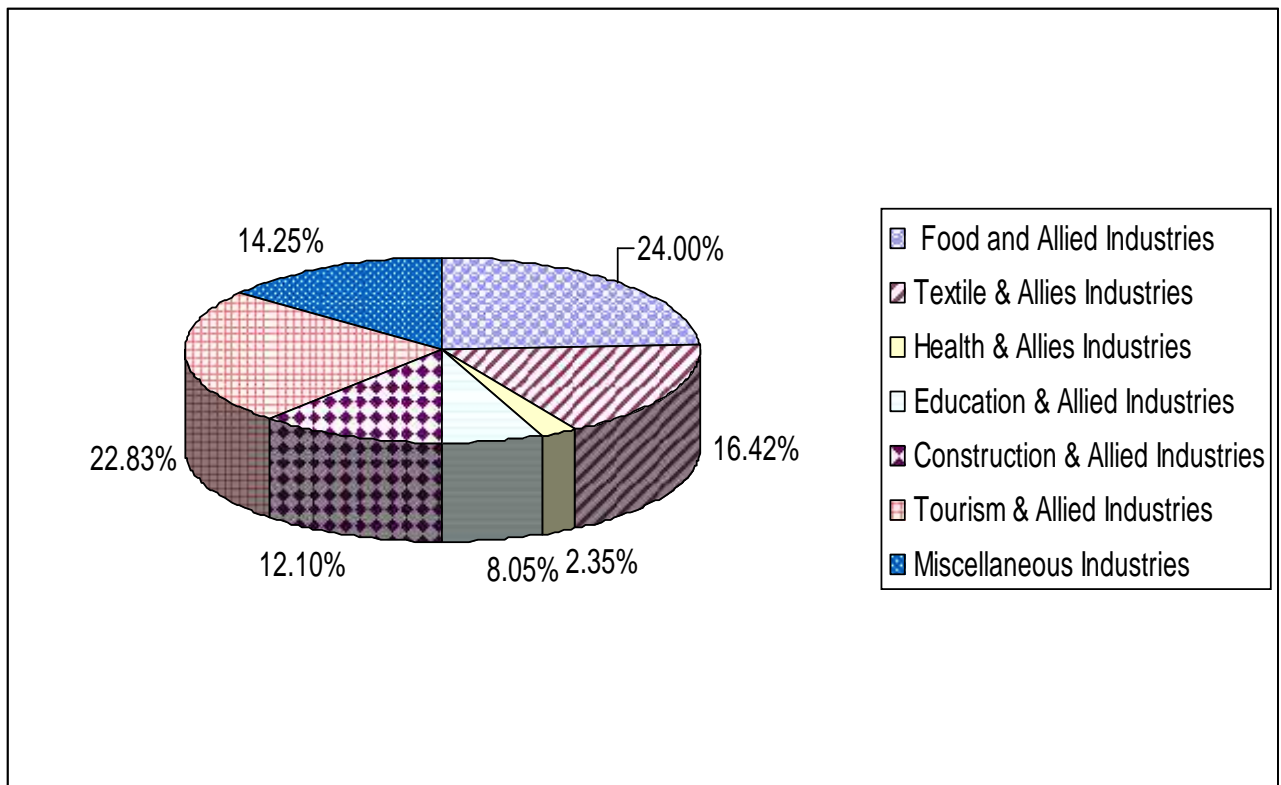


Table – 4.13

Industry wise allocation of Financial Resources in Past Eight Years (1996/97 to 2003/04)

(Rs in crores)

Types of Industries	Fiscal Year																	
	1996/97		1997/98		1998/99		1999/2000		2000/01		2001/02		2002/03		2003/04		Total	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Food & Allied	20.11	28.15	9.61	24.26	6.83	23.30	7.11	18.05	11.23	29.20	9.63	26.72	8.82	24.07	10.70	28.37	84.04	25.64
Textile & Allied	14.23	19.92	6.97	17.58	5.23	17.92	8.51	21.60	4.21	10.95	10.46	29.02	6.03	16.46	9.15	24.26	64.79	19.76
Health & Allied	1.39	1.95	0.90	2.27	0.65	2.24	1.28	3.25	1.00	2.60	0.70	1.95	0.97	2.65	1.12	2.97	8.01	2.44
Tourism & Allied	20.50	28.70	9.69	24.46	7.13	24.40	8.22	20.86	9.45	24.57	6.87	19.06	7.73	21.09	5.84	15.48	75.43	23.01
Constructi on & Allied	2.48	3.47	4.82	12.16	3.42	11.80	6.73	17.08	5.03	13.08	3.38	9.38	7.06	19.27	5.11	13.55	38.03	11.60
Education & Allied	6.05	8.47	2.42	6.12	1.93	6.60	3.48	8.83	2.09	5.43	1.87	5.19	2.19	5.98	1.64	4.35	21.67	6.61
miscellane ous	5.98	8.37	5.21	13.15	3.99	13.67	4.07	10.33	5.45	14.17	3.13	8.68	3.84	10.48	4.15	11.00	35.82	10.93
Total:	71.44	100	39.92	100	29.18	100	39.40	100	38.46	100	36.04	100	36.64	100	37.71	100	327.79	100

Source: NIDC, Annual Report 1996/97 to 2003/04

The Table no. 4.13 shows the investment pattern of NIDC in different sectors within the past eight years from FY 1996/97 to 2003/04. The corporation has invested highest percentage (25.64%) of its total financial resources to Food and Allied industries. Similarly, it allocates 23.01 percent of its total investment to Tourism and Allied industries, 19.78 percent to Textile and Allied industries, 11.60 percent to Construction and Allied industries. Finally, 10.93 percent, 6.61 percent, and 2.44 percent have been given to Miscellaneous, Education and Health industries respectively.

From above Table no. 4.13, it is clear that the corporation has provided major allocation of financial resources percentage to Food and Allied Industries and least percentage has been provided to Health and Allied Industries. Thus the corporation is successful on its stated policy of finance in manufacturing primary necessities of general consumption goods i.e. food and allied industries.

4.6 Profitability Ratio Related to Investment

The profitability of the corporation is measured in relation to investment. The term investment may be referring to total assets, capital employed and owner's equity. The efficiency of enterprise is judge by the amount of profit. Here we study the past five years (FY 1999/2000 to 2003/04) investment ratio of NIDC and analyze these ratios to find out the efficiency of the NIDC.

The following Table no. 4.14 shows the return on assets, return on capital employed and return on shareholder's equity of NIDC during the period of FY 1999/2000 to 2003/04.

Table No. 4.14
Profitability Ratios Related to Investment (in %)

(In %)				
S.N.	Fiscal Year	Return on Assets	Return on Capital Employed	Return on Shareholder's equity
1.	1999/2000	7.08%	7.36%	6.24%
2.	2000/01	6.74%	7.06%	3.91%
3.	2001/02	6.34%	6.79%	3.71%
4.	2002/03	8.51%	9.20%	13.01%
5.	2003/04	6.84%	7.27%	3.38%
	Average	7.10%	7.54%	6.05%

Note: Calculated figure is given in Annex 4.

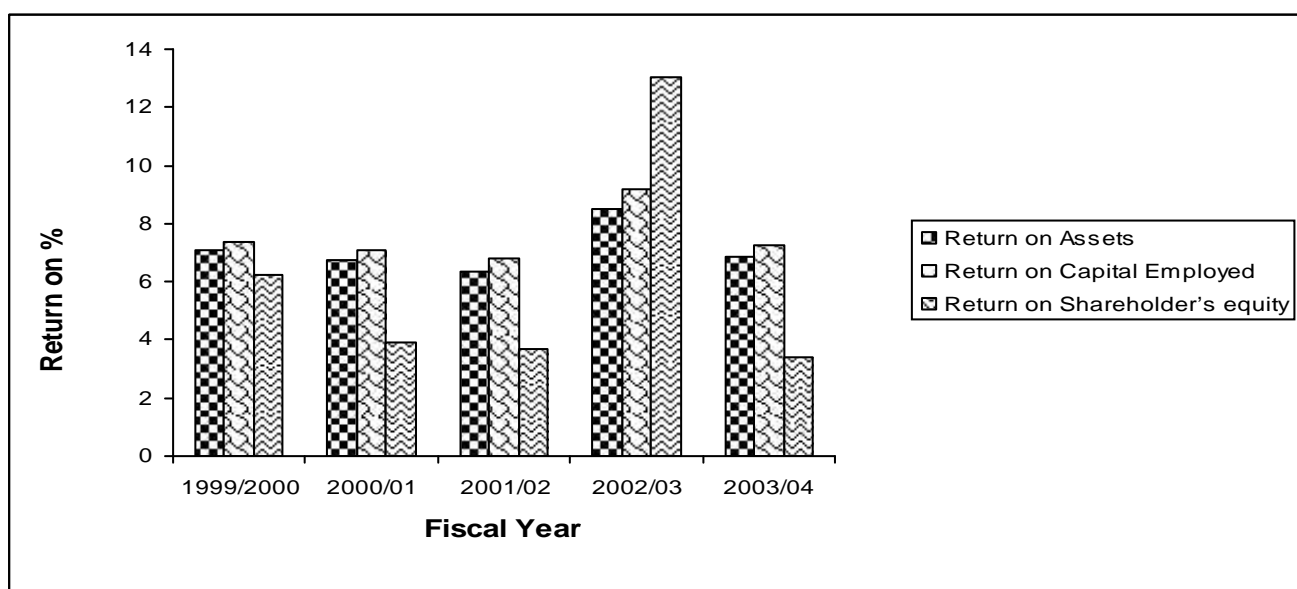
From above Table no. 4.14, the average return of assets of NIDC is 7.10%. Similarly, the average return on capital employed and return on shareholders' equity are 7.54% and 6.05% respectively. The highest percentage of return on assets is in the year 2002/03 which is 8.51%. The lowest return on assets is in the FY

2001/02 which is only 6.34%. The return on assets of NIDC is not equal in past five years which returns has been fluctuating during the year.

The highest return on capital employed is in FY 2002/03, which is 9.20% and the lowest return on capital employed is in FY 2001/02 which is 6.79% only. The return on capital employed has also been fluctuated during the year.

Similarly the highest return on share holder's equity is in FY 2002/03 which is 13.01% and the lowest return on FY 2001/02 which is 3.71% only. This return has been fluctuated during the years we can present the above data in the following Figure no: 4.11.

Figure No: 4.11
Return on Investment of Past Five year's of NIDC



In FY 2002/03, NIDC has been improved the return position of all the investors but in FY 2001/02 the lowest return of NIDC have been represented the weak profitability position of the corporation, which is not good to fluctuate the return position of the firm because it creates the uncertainty and risk for the investors and organization also.

4.7 Contribution of NIDC to Create Industrial Atmosphere in the Country

Industrialization though is dynamic in its nature and aims at marching along with the diverse need of the society, it therefore is equally important to maintain better quality of life, mass production of goods and services employment opportunities income redistribution, resource mobilization and regional development through rapid economic development supported by rapid industrialization as observed:

- i) The marginal value product of labor is higher in industry than in agriculture.
- ii) Developed countries have industries; therefore the way to become is industrialize.
- iii) Industrialization has external economies, whereas agriculture has not.
- iv) The improvement of agriculture waits on the availability of manufactured inputs such as fertilizer and from machinery. In order to increase efficiency on the farm one must start in the factory.

To create a proper industrial climate in the kingdom in some how the product or result of various economic, social, political and institutional factors but it is not only the responsibility of NIDC because it alone cannot ever create it. So it is not easy to calculate how much contribution NIDC could still now contribute for making country to industrial atmosphere. Nevertheless, NIDC, a public sector financial institution, so far with the responsibility of providing mainly long term finance to private sector industries, can contribute significantly to create a proper industrial climate in the kingdom.

NIDC not only perform a Development Finance Institution (DIF) function of providing loan or equity to the enterprise but also undertakes techno – economic feasibility studies and prepares viable industrial schemes until the establishment of industrial center in 1974 for preparing feasibility studies separately in NIDC providing the funds. In the initial stage NIDC helped in setting up and managing industrial district in Balaju, Patan and Hetauda which provided physical and infrastructural facilities to a large number of industrial ventures. NIDC also organizes industrial conferences and meetings, industrial promotion visits, industrial identification studies mainly for discussion on various problems and issues for the prompt solution relating to the industrial investment. Now NIDC has been working as a SAARC secretarial Fund Program successfully for the improvement on the industrial and other relation among the members' countries.

In the process of project appraisal by NIDC before approving any assistance has created awareness on the prospective investors to think of the validity of the project from production process and technology, rate of return, security point of view, taxes and management aspects etc.

NIDC whatever has been achieved now for the promotion of industrial investment in the industrial sector to create proper industrial atmosphere in the country still falls for short of country needs. Industrial investment by private sector investors has been very much negligible because they still are very much interested to lend in other non industry areas such as trade, real estate business and departmental area entertainment parks and share markets etc as they considered industrial sector is the least preferred field for investment. Some of the industrial units and enterprises established and managed by the NIDC are still making huge losses which widely make a poor reflection on the entrepreneurial and managerial ability and poor performance on NIDC.

Moreover beside this other more factors are responsible for the slow industrial growth and poor industrial atmosphere in the country they are small in size of geographically dispersed market, the land locked position of the country where then leads to high cost of imported raw materials and equipment, paucity of power supply, lack of exploitable natural resources , shortage of entrepreneurial and managerial talents, lack of proper laws and polices, political instability and less priority and slow return in industries investment. Nowadays the main problem is the terrorism. Due to the threat of terrorism the running industries are also closed down.

4.8 General Problem and Prospects of NIDC

NIDC was established in 1959. Since its inception, as a development bank, it has rendered financial, technical, and managerial consultancy services to industrial investors for the development of industry in private sector as stated its objectives. Until FY 2006/2007, NIDC has completed 49 operation years. During the study period, the corporation has following general problems and prospects are found.

- ❖ According to its security policy clients fixed assets in land, building, machinery and equipment and other are to be mortgaged with NIDC as security against NIDC term loan. As a development bank due to lack of liberal security policy of the corporation and existing security policy is not full applicable in industrialize because there is no discrepancy between commercial bank and development banks security policy.
- ❖ Collection of financial resources was very low during the first half period of the study. Due to the political situation of the country and disruption in the relation with India, it was decreasing in first half. The establishment of multi party democracy in the country helped to restore the trade relation with India; as a result the resources of the corporation were increased. The corporation is able to invest more than its financial resources. The excess financial resources were invested by its internal fund.
- ❖ The regional disbursement of financial resources and regional disbursement of industrial financed by NIDC show that there were not allocated its resources in different regions appropriately. Due lack of transportation, electricity, water supply, communication etc. in Mid-Western and Far-Western Development Regions the investors are hesitating to invest in those regions.
- ❖ According to its interest policy, the interest rate shall be determined from time to time on the basis of the interest market of Nepal. But it's stated interest rate some what higher than the other private financial institutions like commercial bank. It implies that its inconsistencies between policy and its implementation.
- ❖ The study of the approval, disbursement and realization of financial assistance found that there was discrepancy between approval and disbursement of financial assistance in the most of the years and realization of financial assistance is increasing trend but the total realization of financial assistance is less than the total disbursement of financial assistance. Thus the activities of the corporation are not consistent due to the limited resources of the corporation and investors could not also run the industries in planned way.
- ❖ Sector wise disbursement of financial resources show that the corporation is successful on its stated policy to financial in manufacturing primary necessities of general consumable goods i.e. food and allied industries. During the study period the country followed opened economic policy. As a result, most of the private investors invested in basic consumable goods as stated policy of NIDC.

Investment policy of NIDC closely follows the Nepal Government policy. Therefore its investment policy and activities are affected by political situation of the country. As a result, the corporation has been facing

weak managerial system. So the corporation is not able to compete with the private financial institutions like commercial banks. To make healthy, the corporation should correct its decentralization policy and managerial system.

4.9 Presentation, Analysis and Interpretation of Primary Research Study

Attitude on Investment Policy of NIDC:

This part of the study includes industrialists' attitude towards the investment policy of NIDC. To fulfill the objectives of this study, "an examination of investment policy of NIDC", a survey of 60 respondents including industrialists, staffs, experts and concerned persons has been conducted. The respondents were classified into five categories from very supportive to lowest support on the basis of reality of NIDC's investment policy. The analysis has been conducted by giving 1 to 5 scale where 1 for least supportive and 5 for the highest supportive. Where the scaling was not possible or necessary, a simple objective (yes/no) questions were used. For classification of the viewers, percentage method was used, considering the total number of respondent as 100%. Further, this classification is supported with the graphical and tabular presentation, wherever necessary.

This part of the study concentrates on using the aforementioned methodology to meet the objectives of the study and set forth a logical and qualitative framework to recommend probable solution to the problems that is in herein within investment aspect of NIDC. For this purpose some collected questionnaire answers are analyzed and studied. A sample of questionnaires is attached in Annex – 5. The focus of the study is on Investment Policy and problems faced by NIDC, so questionnaires are prepared to prepared the objectives.

(Note: Primary data collection model, tabulation and calculations are shown in Annex – 5, 6 & 7.)

4.9.1 Analysis of Margin of Security:

NIDC's quantum of financial assistance could go up to 60% of the fixed assets in dependent upon economic and financial merits. This assistance is not sufficient to help the industrialist in industrial development which can be seen in Table no. 4.15. On which the response of various industrialist has been analyzed.

Table No. 4.15
Attitude of the Industrialists on the Policy of Margin of Security

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	2	3.33	10
Highly supported	4	5	8.33	20
Moderately supported	3	11	18.33	33
Low supported	2	25	41.68	50
Very low supported	1	17	28.33	17
Total:		60	100.00	130

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.15 shows the reaction of respondents regarding the margin of security. Majority of the respondents (41.68%) has a low support to this margin of security. Similarly 28.33% claimed that this policy was unfavorable. 11 industrialists (18.33%) have moderately supported, 5 industrialists (8.33%) have supported highly and 2 industrialists (3.33%) has fully supported to this policy. Hence, it indicates that the industrialists did not favor the present policy of margin of security.

It can be also measured by calculating arithmetic mean. Calculated mean value 2.17 (Annex – 7) is below the average value (i.e. 3) which means that policy of accepting margin of security is unsuitable to the industrialist.

4.9.2 Analysis of Long-term Loan:

NIDC provides long-term loan either in foreign currency or in local currency. The opinion of respondents has been shown in Table no. 4.16.

Table No. 4.16
Support to the Policy of Long - Term Loan

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	14	23.33	70
Highly supported	4	22	36.67	88
Moderately supported	3	19	31.67	57
Low supported	2	2	3.33	4
Very low supported	1	3	8.33	3
Total:		60	100.00	222

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.16 clearly depicts that 14 (23.33%) respondents have very highly supported the provision of long-term loan either in foreign currency or in local currency. Similarly, 22 (36.67%) respondents have highly supported and 19 (31.67%) respondents have moderately supported to this policy while only 5 (8.33%) respondents have pleaded against it. Thus, majority of the respondents (60.00%) have supported the policy positively.

Through the calculation of arithmetic mean, the mean value 3.70 (Annex – 7) is above the average value (i.e. 3) which shows the long term loan in terms of foreign or local currency is favorable to the industrialists.

4.9.3 Analysis of Short – term Loan:

NIDC provides short term loan in local currency. The opinion of respondents has been shown in Table no. 4.17.

Table No. 4.17
Support to the Policy of Short – Term Loan

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	11	18.33	55
Highly supported	4	22	36.67	88
Moderately supported	3	18	30.00	54
Low supported	2	4	6.67	8
Very low supported	1	5	8.33	5
Total:		60	100.00	210

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.17 depicts that out of the total respondents 85.00 percent have supported positively and 15.00% have supported below the average or negative opinion. This indicates that the industrialists highly supported the policy. Most of the respondents were above the average (i.e. 3.00) short term or working capital loan providing in local currency favorable. Out of total respondents, 11 (18.33%) respondents have supported very highly, 22 (36.67%) respondents have supported highly, 18 (30.00%) respondents have supported moderately whereas 9 (15.00%) respondents have pleaded against it.

This can further be proved through the calculation of mean value of 3.50 (Annex – 7), which is above the average value (i.e. 3.00) which means that short term or working capital loan providing in local currency is moderately favorable to the industrialists.

4.9.4 Analysis of Equity Participation in Public Held Companies

Equity participation in public held companies is also one of the investment policies of NIDC. Table no. 4.18 shows the opinion on this policy from various respondents.

Table no. 4.18 clearly indicates that majority of the respondents have positively accepted in the equity participation in publicly held companies policies.

Table No. 4.18
Equity Participation in Publicly Held Companies

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	7	11.67	35
Highly supported	4	20	33.33	80
Moderately supported	3	13	21.67	39
Low supported	2	11	18.33	22
Very low supported	1	9	15.00	9
Total:		60	100.00	185

Source: Annex-5 (Information obtained from the Questionnaire)

In the same way, 7 (11.68%) respondents, out of total respondents have agreed that equity participation in publicly held company's policy is very much important to operate the industry, 20 (33.33%) respondents have only highly supported and 13 (21.67%) respondents have moderately supported to this policy. But 11 (18.33%) respondents have low support and 9 (15.00%) respondents have very low support to this policy. Thus, policy of equity participation in publicly held companies is favorable due to majority of respondents had supported it positively.

This can be further measured through the calculation of mean value of 3.08 (Annex – 7), which is also above the average value (i.e. 3.00) which means that this policy is moderately supported by the industrialists.

4.9.5 Analysis of Bridge – gap Loan:

Bridge – gap loan, one of the investment policies of NIDC, facilitates to those industries which are facing losses due to poor management or lack of proper management. Table no. 4.19 shows the opinion of the industrialists.

Table no. 4.19 clearly shows that out of total respondents, 43 (71.67%) did not support it. Only 17 (28.33%) respondents has supported as positively to this policy. In which 3, 7, and 7 respondents have very highly supported; highly supported; and moderately supported respectively. From this fact, it is clear that bridge – gap loan facilities is not favorable to the industrialists.

Table No. 4.19
Support on the Policy of Bridge – Gap Loan by the Industrialists

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	3	5.00	15
Highly supported	4	7	11.67	28
Moderately supported	3	7	11.67	21
Low supported	2	23	38.33	46
Very low supported	1	20	33.33	20
Total:		60	100.00	130

Source: Annex-5 (Information obtained from the Questionnaire)

This can be further measured through the calculation of mean value. Since the calculated mean value 2.17 (Annex – 7) is below the average value (i.e. 3.00), which indicates that the policy is unacceptable to the industrialists.

4.9.6 Analysis of Guarantee Arrangement with Commercial Banks:

Another investment policy of NIDC is guarantee arrangement with commercial banks which provides direct loan to clientele industries. Table no. 4.20 shows the response of various industrialists regarding this policy.

Table no. 4.20 clearly depicts that out of the total respondents, major i.e. 34 (56.67%) have positively supported to this policy. It means that industrialists can achieve their goal through this policy. Only 26 (43.33%) respondents have expressed as negatively.

In the same way, out of the total respondents, 28 (46.66%) industrialists have very highly and highly supported the policy. 6 (10.00%) industrialists have moderately supported to this policy, 17 (28.34%) industrialists have low supported and 9 (15.00%) have very low support to this policy.

Table No. 4.20

Support to the Policy of Guarantee Arrangement with Commercial Banks

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	14	23.33	70
Highly supported	4	14	23.33	56
Moderately supported	3	6	10.00	18
Low supported	2	17	28.34	34
Very low supported	1	9	15.00	9
Total:		60	100.00	187

Source: Annex-5 (Information obtained from the Questionnaire)

It can be determined through the calculation of mean value. The calculated mean value 3.12 (Annex – 7) is above the average value (i.e. 3) and below the high scale no. (i.e.4). It means that the policy of guarantee arrangement with commercial bank is moderately favorable to the industrialists.

4.9.7 Analysis of Time Period in Long – Term Loan:

Long – term loan may be granted for a maximum period of 15 years depending on the nature and debt – servicing ability of the project. This type of facilities may help to fulfill the objectives of the industrialists. Following Table no. 4.21 shows the response of various industrialists on this policy.

Table No. 4.21
Support to the Policy of Time Period in Long – Term Loan

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	14	23.33	70
Highly supported	4	23	38.33	92
Moderately supported	3	10	16.67	30
Low supported	2	9	15.00	18
Very low supported	1	4	6.67	4
Total:		60	100.00	214

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.21 shows that out of total respondents, 14 (23.33%) respondents have very highly supported this policy, 23 (38.33) have highly supported, 10 (16.67%) have moderately supported. Similarly 9 (15.00%) respondents have low supported and 4 (6.67%) respondents did not support. Thus, the majority of the respondents i.e. 47 (78.33%) have supported as positively and 13 (21.67%) have supported as negatively to the policy.

We can also determine this through the arithmetic mean. The calculated mean value 3.57 (Annex – 7) is above the average value (i.e. 3), so it indicates that they supported the long - term loan policy moderately.

4.9.8 Analysis of Time Period in Short – Term Loan:

Short – term loan or working capital loan may be granted for a period of one to five years. This facility may also help to fulfill the desired objectives of the industrialists which can be seen in Table no. 4.22.

On the Table no. 4.22 out of the total respondents, 49 (81.67%) have supported at positively to this policy and only 11 (18.33%) respondents have negatively supported. From this fact, time period in short – term loan is favorable to the industrialists.

Table No. 4.22
Support to the Policy of Time Period in Short – Term Loan

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	19	31.67	95
Highly supported	4	19	31.67	76
Moderately supported	3	11	18.33	33
Low supported	2	7	11.66	14
Very low supported	1	4	6.67	4
Total:		60	100.00	222

Source: Annex-5 (Information obtained from the Questionnaire)

In the same way, Table no. 4.22 clearly indicates that out of total respondents, 38 (63.34%) have supported very highly and highly to this type of facilities and 11 (18.33%) respondents have moderately supported, while 7 (11.66%) respondents have low support and according to 4 (6.67%) respondents, industrialists have not support to this policy.

Similarly, the calculated mean value (Annex – 7) 3.70 is above the average value and below the high scale no. (i.e. 4) which means that time period in short term loan is moderately favorable to the industrialists.

4.9.9 Analysis of Ordinary & Preferential Share Participation in Clientele Industries:

NIDC provides financial assistance with ordinary and preferential share participation in clientele industries. The opinion of the industrialists on this policy has been shown in Table no. 4.23. The table clearly depicts that out of total respondents, 7 (11.67%) industries have supported very highly; 13 (21.67%) industrialists have highly supported and 20 (33.33%) industries have moderately supported to this policy. In the same way 11 (18.33%) and 9 (15.00%) industries have low support and very low support to this policy respectively.

Table No. 4.23**Support on Ordinary & Preferential Share Participation in Clientele Industries**

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	7	11.67	35
Highly supported	4	13	21.67	52
Moderately supported	3	20	33.33	60
Low supported	2	11	18.33	22
Very low supported	1	9	15.00	9
Total:		60	100.00	178

Source: Annex-5 (Information obtained from the Questionnaire)

The majority of the respondents i.e. 40 (66.67%) have supported as positively and 20 (33.33%) respondents have supported negatively which means that the policy of ordinary & preferential share participation in clientele industries is favorable in the industrialists.

Similarly, the calculated mean value (Annex – 7) i.e. 3.00 also determined that this policy is moderately favorable to the industrialists.

4.9.10 Analysis of Guarantee Arrangement of Suppliers' Credit:

NIDC provides the financial assistance with guarantee arrangement of suppliers' credit for the establishment, expansion and development of the industries. The opinion of the industrialists on this policy has been shown in Table no. 4.24.

The Table no. 4.24 clearly depicts that out of 60 respondents, 9 (15.00%) respondents have supported very highly and 20 (33.33%) respondents have supported highly and moderately respectively to this policy. Similarly, 14 (23.33%) industrialists have low supported and 17 (28.34%) industrialists have very low supported to this policy.

Thus, out of the total respondents, major i.e. 31 (51.67%) respondents have said that guarantee arrangement of suppliers credit policy is not favorable. Only 29 (48.33%) industrialists have supported positively to this policy.

Table No. 4.24**Support to the policy of Guarantee Arrangement of Suppliers Credit**

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	9	15.00	45
Highly supported	4	9	15.00	36
Moderately supported	3	11	18.33	33
Low supported	2	14	23.33	28
Very low supported	1	17	28.34	17
Total:		60	100.00	153

Source: Annex-5 (Information obtained from the Questionnaire)

The result may be verified further with the help of mean value 2.55 (Annex – 7), which is below the average value (i.e. 3.00) which means that guarantee arrangements of suppliers' credit policy is not favorable to the industrialists.

4.9.11 Analysis of Under – Writing Share Issues of Public Limited Companies:

Under – writing share issue of public limited companies is also one of the investment policies of NIDC. It refers to the guarantee or under take to buy all shares at an agreed price if that is not bought by the public. The opinion of various industrialists on this policy has been shown in Table no. 4.25.

Table No. 4.25**Support to the Under – Writing Share Issues of Public Limited Companies**

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	3	5.00	15
Highly supported	4	9	15.00	36
Moderately supported	3	9	15.00	27
Low supported	2	17	28.33	34
Very low supported	1	22	36.67	22
Total:		60	100.00	134

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.25 clearly depicts that 3 (5.00%) respondents have very highly supported, 9 (15.00%) respondents have highly supported and again 9 (15.00%) respondents have moderate supported to this policy. Similarly, 17 (28.33%) respondents have low supported and 22 (36.67%) respondents have very low supported to this policy.

In this way, major respondents i.e. 39 (65.00%) did not support the policy, which shows that the policy of under – writing share issue of public limited companies is not favorable to the industrialists. While only 21 (35.00%) respondents have positively accepted this policy.

The same could be clarified with the help of mean value. The calculated mean value (Annex – 7) 2.23 is below the average value i.e. 3, which in turn indicates that this policy is not favorable to the industrialists.

4.9.12 Support to the Investment Policy of NIDC:

The opinion of various industrialists on the whole investment policy of NIDC is shown in Table no. 4.26.

Table No. 4.26
Support to the Investment Policy of NIDC by the Industrialists

Categories	Scale	No. of Respondents	Percentage (%)	Scale value
Very highly supported	5	3	5.00	15
Highly supported	4	14	23.33	56
Moderately supported	3	28	46.67	84
Low supported	2	11	18.33	22
Very low supported	1	4	6.67	4
Total:		60	100.00	181

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.26 clearly represents that out of total respondents, 3 (5.00%) respondents were highly satisfied with the investment policy, 14 (23.33%) respondents satisfied and 28 (46.67%) respondents moderately satisfied with present investment policy of NIDC. According to another 4 (6.67%) respondents, they were dissatisfied with investment policy. Thus, the majority of 45 (75.00%) of the respondents were satisfied with the present investment policy of NIDC. Only 15 (25.00%) respondents were dissatisfied with the investment policy of NIDC.

Calculated mean value (Annex – 7) 3.02 is also above the average value i.e. 3.00, which in turn indicates that the present investment policy of NIDC gives moderately satisfaction to the industrialist.

4.9.13 Influence of Loan:

Loan is necessary for the establishment, expansion and modernization of the industries. NIDC provides loan to the industrialists depending on the nature and debt servicing ability of the project. Influence of loan to the industrialists is shown in Table no. 4.27.

Table No. 4.27
Influence of Loan

Degree	No. of Respondents	Percentage (%)
Conducive	25	41.67
Not conducive	35	58.33
Total	60	100.00

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.27 clearly depicts that 35 (58.33%) respondents, out of total respondents were of the view that the loan provided by NIDC is not conducive in implementing the program of industries. It means that major respondents have not taken loan permit. Only 25 (41.67%) respondents are in favor of loan conducive.

4.9.14 Causes of not Conducive of Loan:

It is crucial and vital point to identify the causes behind not to conducive of loan granted by NIDC. The main causes identified by the industries have been tabulated in the following Table no. 4.28:

Table No. 4.28
Causes of not Conducive of Loan

S.N	causes	No. of Respondents	Percentage (%)
1.	Unfavorable interest rate	11	18.33
2.	Delay in getting loan	35	58.33
3.	Unnecessary paper work	14	23.34
	Total:	60	100.00

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.28 clearly indicates that the majority of 35 (58.33%) respondents, out of total respondents have stressed that the delay in getting loan is the important causes of not conducive loan to the industrialists. Another causes expressed by the respondents is unnecessary paper work. 23.34 percent respondents have stressed that loan is provided after the unnecessary paper work. Only 11 respondents show that the interest rate is not favorable rather than other causes.

4.9.15 Purpose of Taking Loan:

In the same way, the research made an attempt to know the purpose of taking loan. The main purposes identified to take loan have been tabulated in the following Table no. 4.29.

Table No. 4.29
Purpose of Taking Loan

S.N	Purpose	No. of Respondents	Percentage (%)
1.	Establishment of industries	16	26.67
2.	Expansion of industries	13	21.67
3.	Increment of fixed assets	10	16.67
4.	Working capital requirements	14	23.33
5.	Market feasibility & prospects	7	11.66
	Total:	60	100.00

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.29 indicates the maximum number of respondents i.e. 16 (26.67%) have taken loan for the purpose of establishment of industries. It was indicated by those during the interview that the major portion of the loan was conducive in newly established industries. The second important purpose shown by respondents was working capital requirements. Out of the total respondents, 13 (21.67%) have taken the loan for the purpose of expansion of industries and 10 (16.67%) have taken loan for the purpose of enhancement of fixed assets. But according to 7 (11.66%) respondents, the loan was taken for the purpose of market feasibility and prospects rather than others purposes.

4.9.16 Interest Rate:

NIDC charged the interest rate on fixed assets by 18% per annum and on working capital by 19% per annum. The opinion of the industrialists on interest rate charged by NIDC is shown in Table no. 4.30.

Table No. 4.30
Interest Rate Charged

Interest Rate	No. of Respondents	Percentage (%)
Desirable	39	65.00
Undesirable	21	35.00
Total:	60	100.00

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.30 clearly depicts that the majority 39 (65.00%) of respondents have stated that the present interest rate charged by NIDC is desirable, which means that most of the industrialists can generate profit and make repayment timely from this interest rate. Only 21 (35.00%) respondents have expressed their views against the interest rate.

4.9.17 Major Problems on Investment Policy of NIDC:

Though the investment policy of NIDC plays a vital role in industrial development, it exist some problems. The opinion of various respondents on problem associated with investment policy of NIDC has shown in Table no. 4.31.

Table No. 4.31

Major Problems Associated with Investment Policy of NIDC

S.N	Problems	No. of Respondents	Percentage (%)
1.	Long process of loan distribution	19	31.67
2.	Unnecessary paper work	22	36.66
3.	Insufficient of technical assistance	13	21.67
4.	Above all	6	10.00
	Total:	60	100.00

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.31 clearly depicts that among the various problems, 22 (36.66%) respondents have shown that unnecessary paper work is a major problem. Similarly, out of total respondents; 19 (31.67%) have said that long process of loan disbursement may obstruct to the work. The problems of unnecessary paper work and long process of loan disbursement are the major obstacles on the way of smooth development of industries. According to the respondents these two types of problems have severely hampered the industrial development activities. Likewise 13 (21.67%) respondents have shown that insufficient of technical assistance is also another problem associated with investment policy of NIDC. On the other hand, 6 (10.00%) respondents have specified that investment policy of NIDC is defective in all aspects.

4.9.18 Suggestive Framework from Industrialists point of view:

While analyzing the investment policy of NIDC, some suggestions have been pointed out by the respondents which are tabulated in the following Table no. 4.32.

Table No. 4.32**Suggestive Framework from Industrialists' Point of View**

Suggestions	No. of Respondents	Percentage (%)
1. Interest rate should be flexible as per the volume of loan	9	15.00
2. Its investment policy should be published as public.	6	10.00
3. Manage the maintenance, grading and quality control etc. of the industries	18	30.00
4. Simple lending procedures	22	36.67
5. Above all	5	8.33
Total:	60	100.00

Source: Annex-5 (Information obtained from the Questionnaire)

Table no. 4.32 shows that out of total respondents, 22 (36.67%) respondents have pointed out the simple lending procedure as the 1st priority among the various suggestive frameworks. Similarly, another important suggestion is manage the maintenance, grading and quality control etc. of the industries. According to them these two types of suggestions; if accepted may help to improve efficiency for the industrial development. Similarly, 3rd and 4th priorities have been given to the suggestion of “interest rate should be flexible as per the volume & terms of loan” and “its investment policy should be published as public” respectively. On the other hand, 5 (8.33%) respondents have specified that investment policy of NIDC should be improved in all aspects.

4.10 Major Findings of the Study

4.10.1 Findings on Secondary Data

Based on secondary data, presentation and analysis, some important findings were as follows:

In this regards NIDC has been able to contribute Rs.596.93 crores as a financial assistance to different 1601 industries, except village and cottage industries, since its inception to mid July 2003. It has provided financial assistance in the form of direct loan only during the study period. It is not able to make any share participation and guarantee loan during the study period that is from FY 1996/97 to 2003/04. This is the lagging of the corporation that it is not able to make any share participation and guarantee loan which is necessary for the active functioning of the investment policy of the corporation. NIDC supports the industries by equity participation, direct loan and guaranteed loan. Among these in the priority of NIDC, direct loan stands first and equity investment and guarantee loan come under second and third respectively.

During the FY 1996/97 to 2003/04, the total approval of financial assistance was Rs.402.48 crores. The yearly breakdown of financial assistance were Rs.82.33 crores , Rs.42.15 crores, Rs.15.66 crores, Rs.35.06

crores, Rs.58.52 crores, Rs.63.50 crores, Rs.54.59 crores, and Rs.50.69 crores, to 1996/97 respectively. The estimated approval of financial assistance for the next four years would be Rs.50.71 crores, Rs.50.80 crores, Rs.50.89 crores, and Rs.50.89 crores for the FY 2004/05, 2005/06, 2006/07 and 2007/08 respectively. By observing the percentage change of actual approval amount we find that there is percentage change of 48.83 percent and 62.83 percent in FY 1997/98 and 1998/99 respectively. In FY 1999/2000 there is increase in percentage change which means that actual approval amount has been increased by 123.88 percent than previous years. The percentage change was decreased continuously by 66.91%, 8.51%, 14.03% and 7.14% in FY 2000/01, 2001/02, 2002/03 and 2003/04 respectively. The approval of financial assistance, in turn, shows high fluctuation deviation from 7.14 percent to 123.88 percent.

In the disbursement side, Rs. 378.41 crores was invested in the industrial sector by NIDC during these fiscal years. The yearly breakdown of disbursed amount were Rs.71.14 crores, Rs.39.62 crores, Rs.29.21 crores, Rs.53.82 crores, Rs.51.67 crores, Rs.47.69 crores, Rs.48.98 crores and Rs.36.28 crores starting from the FY 1996/97 to 2003/04 respectively. Using the statistical tool trend analysis, the estimated disbursement for next four years starting from the FY 2004/05 to 2007/08 would be Rs.39.56 crores, Rs.37.84 crores, Rs.36.12 crores and Rs.34.40 crores. Now coming to the percentage change in the disbursement pattern of financial assistance we find that there is decrease in the percentage disbursement in FY 1998/99 by 26.27 percent as compared to the previous year. In FY 1999/2000 the percentage increase in the disbursement is by 84.25 percent. Again there decrease in the percentage of disbursement in FY 2000/01 by 3.99 percent as compared to previous. In FY 2001/02 the disbursement is higher by 7.70 percent as compared to previous year. Now we can observe that the disbursement pattern of the corporation is not uniform. This shows that the corporation is not able to maintain good disbursement pattern which is required in terms of industrial development in the country.

Similarly, the total realization of financial assistance during the period was Rs.387.36 crores. The yearly realization amount were Rs.54.85 crores, Rs.57.19 crores, Rs.61.15 crores, Rs.40.26 crores, Rs.41.23 crores, Rs.43.71 crores, Rs.42.80 crores and Rs.46.17 crores starting from the fiscal year 1996/97 to 2003/04 respectively. The estimated trend analysis of realization would be Rs.38.57 crores, Rs.36.38 crores, Rs.34.19 crores and Rs.32.00 crores starting from FY 2004/05 to 2007/08 respectively. There was increase in realized percentage change in the FY 1999/2000 by 34.16 percent as compared to the previous years. In FY 2000/01 there was sudden decrease in percentage change by 2.41 percent. Again it was increase and decrease by 6.02% and 2.08% in FY 2001/02 and 2002/03 respectively. In FY 2003/04 it was again increase by 7.87 percent. If we examine the value obtained by trend analysis it becomes clear that it is showing fluctuating trend. So the investment policy should be framed in such a way that the invested amount should be realized in due date.

During the study period i.e. FY 1996/97 to 2003/04, the total investment made was Rs.378.41 crores. The investment is made only through direct loan. The corporation has given less and nominal priority to equity

and guarantee loan investment. During the study period, the investment was nil in equity and guarantee loan. NIDC should make balanced disbursement in every type of investment.

The total of overdue loan was Rs.420.65 crores during the study period. The proportion of overdue loan was increasing every year. The amount of overdue loan was more than fifty percent every year. Total financial resources of the corporation were Rs.247.04 crores during the study period. The resource of the corporation also shows fluctuating trend from Rs.69.64 crores to Rs.16.76 crores. In every year of study period the disbursement amount is greater than that of financial resources.

NIDC has provided financial assistance of Rs.596.93 crores to the different 1601 small, medium, large scale and cottage & village industries. In the case of sectoral distribution, out of total investment 24.00 percent to 270 Food and Allied Industries, 16.42 percent to 95 Textile and Allies industries, 2.35 percent to 45 Health and Allies Industries, 22.83 percent to 201 Tourism and Allied Industries, 12.10 percent to 158 Construction and Allied Industries, 8.05 percent to 82 Education and Allied Industries and 14.25 percent to 336 Miscellaneous Industries were contributed. Whereas, no investment was allotted for Cottage and Village Industries as there was decline in the establishment of this type of industries during the accounting period. It is observed from the allocated data that in the allocation of fund Food, Tourism and Textile Industries got high priority. Health and Education Industries got less priority and no investment was made for Cottage and Village Industries. The sectoral allocation of fund do not reveal any parallel disbursement pattern. So the corporation should maintain balanced form of investment in all sectors such that to maintain its growth in the industrial development of the country. The sector wise allocation of fund shows that high volume of investment has been made to Hotel Lodges and Tourism based industries which are unproductive industrial sector.

The regional disbursement pattern shows that the highest amount has been invested in Central Development Region. It has given first priority to Central Region, second priority to Western Region and least or nominal priority to Mid Western and Far Western Development regions. Out of the total amount of Rs.378.41 crores it invested Rs.161.83 crores in Central region, Rs.11.61 crores and Rs.25.72 crores were invested in Mid Western and Far Western regions respectively. It shows that NIDC was not able to reduce regional imbalance. It makes problem for any developing countries.

From above description, NIDC has provided the financial resources, in the development of industries in Nepal. However, it is clear that the contribution of NIDC in the development of industries is not fully satisfactory. The regional allocation of funds is not effective i.e. high volume of assistance has been provided to Central Development region (CDR) and the nominal amount has been provided to the Mid-Western and Far-Western Development Regions. But this type of regional allocation of funds can not help in the reduction of regional imbalances. Similarly, the sector wise allocation of funds is not also effective because the high volume of investment has been made in the Food and Tourism based industries. However, according to the allocation of funds in past ten years it is in the improving way. Hence NIDC should

improve its investment policy, which can be helpful in industrialization in Nepal. If the investment policy of the corporation is improved and revised then it can ensure its growth in the long run development of industrial sectors in the country.

4.10.2 Findings on Primary Data:

Based on empirical investigation i.e. primary data, some important findings can be drawn from the investigation. The following results have been obtained from the opinion of respondents, in the process of examining investment policy. Table no. 4.33 clearly depicts the opinions of respondents about the investment strategies of Nepal Industrial Development Corporation (NIDC).

Table No. 4.33
Examination of Investment Policy

Investment policy of NIDC	Respondents		Mean value	Result
	Below the average	Above the average		
Margin of security	40	17	2.17	Unfavorable
Long term loan in local & foreign currency	5	52	3.70	Moderately favorable
Short term loan in local currency	7	50	3.50	Moderately favorable
Equity participation in publicly held companies	19	38	3.08	Moderately favorable
Bridge-gap loans	41	16	2.17	Unfavorable
Guarantee arrangement with commercial banks	25	32	3.12	Moderately favorable
Time period in long term loan	12	45	3.57	Moderately favorable
Time period in short term loan	9	48	3.70	Moderately favorable
Ordinary & preferential share participation	19	38	3.00	Moderately favorable
Guarantee arrangement of suppliers credit	31	26	2.55	Unfavorable
Under-writing share issues of public limited companies	37	20	2.23	Unfavorable

Note: the analysis has been conducted by giving 1 to 5 scale where 1 for least support and 5 for the highest support.

Table no. 4.33 clearly depicts that four investment policies, Margin of Security, Bridge – gap loan, Guarantee arrangement of suppliers’ credit and Under – writing share issues of public limited companies are unfavorable for the smooth development of industrial sectors. But the respondents argued that most of the policies are moderately favorable to improve the industrial sectors, such as ‘Long – term Loan in Local or Foreign Currency’, ‘Short – term Loan in Local Currency’, ‘Equity Participation in Publicly held Companies’, ‘Guarantee Arrangement with Commercial Bank’, ‘Time Period in Long – term loan & Short – term Loan’ and ‘Ordinary & Preferential Share Participation in Clientele Industries’. These policies may help the expansion and improvement of productivity of industrial enterprises.

- NIDC charges the interest rate on fixed assets by 18% per annum and on working capital by 19% per annum. This interest rate is desirable in the opinion of industrialists which is shown in Table no. 4.30
- In the opinion of respondents, loan has been taken for the purpose of establishment of industries. In the same way, they said that delay in getting loan was a major reason of unaccepted loan.
- In the opinion of industrialists, unnecessary paper work was a major problem in the investment policy of NIDC. So, they suggested that first priorities should be given to the simple lending procedures.
- The reaction of respondents regarding the Margin of Security indicates that the present policy Margin of Security is not favorable.
- The majority of the respondents regarding the Long – term Loan in Foreign & Local Currency and Short – term loan in Local Currency have supported the policy positively.
- The opinion of respondents to Bridge – gap loan, Guarantee Arrangement of Suppliers Credit and Under – writing loan indicates that, these policies are not favorable to the industrialists.
- The analysis of Time Period in Long – term & Short – term Loan indicates that these policies are favorable to the industrialists.
- Equity participation in publicly held companies, Guarantee arrangement with commercial banks and Ordinary & Preferential share participation policies of NIDC have satisfied the industrialists.

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This chapter summarizes the study in brief, reports the conclusion and finally outlines the recommendations observed on the basis of findings to eliminate the weakness and drawbacks of the investment policy of the corporation.

5.1 Summary

Industrialization is the major key factor of economic development both for the developed and developing countries. Nepal is one of the least developed countries in the world. Her economy is predominated by agriculture and bears characteristics of primary economy. Agriculture provides employment to more than 76 percent of the economically active people. The rapid growth of population and limited size of arable land, agriculture sector alone cannot bear the emerging economic burden of the country. Therefore, economic dependency should be gradually diverted from agriculture to other sectors. In this respect, industrialization gets the highest priority as viable alternative. It creates employment opportunities for growing population and solves the problems like under employment, low income unfavorable balance of payments, economic instability and several other setbacks of the country. It is a major instrument of progress, modernization and social change in the country. Hence, it can be conclude that the economic development and prosperity of the country depends upon the development of the industrial sector. So, Nepal also has been giving a high priority to industrialization to achieve the targeted economic growth but still its industrialization is in infancy. On the process of creating basic prerequisite for industrial development, among other things, the development of financial institution play an important role. Thus, Nepal Industrial Development Corporation (NIDC) was established in 1959 as the only development bank to promote and develop in the private sector by providing medium and long term financial and technical assistance.

After the establishment of NIDC, it has contributed a lot in the development of industries in the country; still a lot has to be done so that the industrial spirit and incentive should be generated among the people. NIDC has been fixing the disbursement targets from the beginning to fulfill the needs of the private sectors industrial enterprises. Similarly, it has been providing financial assistance to the various sectors development as enunciated in the industrial policy of Nepal government.

Among the problems as we see in the developing countries, we also lack to have some compulsory factors of industrial development as shortage of capital, lack of modern technology, unskilled entrepreneurship, lack of management skill and necessary infrastructures. In the early times, there were not sufficient financial institutions so as industrial sector also could not picked up its speed. Private sector also was not so conscious and organized in this concern. Only after the restoration of Democracy in 1990, different financial

institutions and private sector emerged to take part in the industrial sector to flow it in the mainstream of the development. In this concern, development banks were also involved to fulfill the nation's goal. Among them, NIDC was the pioneer development bank, which has carried out different industrial development aspects including services and management consultations, and further it has contributed for the industrial foundations of overall development of the industries in Nepal. Yet the corporation is not able to give performance at its best.

NIDC needs to provide due attention towards its investment policy to provide financial assistance to the industrial enterprises. There are various problems in terms of Financial Resource Problem which includes liquidity and no additional long term low cost fund management. Bad Loan Portfolio Problem, comprising of increasing non performing assets and swapping of performance assets. Human Resource Development Problem which includes no timely promotion and no proper motivation. Thus, NIDC should function well to achieve all above objectives. So it's very necessary to know how far NIDC is being able to fulfill aforementioned objectives. The present study is conducted with an objective to examine the investment policy and its impact on industrial development of Nepal, to highlight the growth of NIDC in the context of industrial development in the country. It also aims the investment policy so as to attain the desired objectives. This study also aims as to give suggestions and recommendation for the improvement of NIDC. To fulfill the above mentioned objectives a suitable statistical tool has been used which can give better result for the present and the future as well.

For the purpose of conducting this study both primary and secondary data were used. The secondary data were collected from the published and unpublished records of NIDC and Economic Survey, Census, Statistical Pocket Books, Industrial Policy and Planning etc. and the required primary data were collected from NIDC officials through the methods of observation, interview and questionnaire survey. Problems and possible suggestive measures were taken from the officials of NIDC.

Statistical tool Least Square Method is used. Trend Analysis is used to estimate the loan approval, disbursement and realization of NIDC up to Fiscal Year (FY) 2003/04, to make the forecasting of Loan approval, Disbursement and Realization. It is also used for showing the disbursement pattern for five development regions, and forecasting is also made with the help of trend analysis. Every data are presented in a figure to make it easily understandable so that a normal reader can also easily read and understand.

5.2 Conclusion

5.2.1 Conclusion from Secondary Data Analysis

Industrialization process is most essential for rapid economic growth of a developing country. It is a major instrument of progress, modernization, and social change in a country. So many developing countries of the world establish and develop industries. To achieve rapid economic growth, Nepal had also tried to establish

and develop more industries in this context, NIDC as a development bank can play an important role to rapid industrial development of Nepal.

NIDC was established in 1959 with the objectives of providing financial assistance, technical and managerial consultancy services to industrial entrepreneurs for the development of industry in Nepal. Since then, it has been providing financial assistance and adequate suggestion for entrepreneurs. The portion of direct loan is highest and other equity participation and guarantee loan are nil. No equity and guarantee loan was approved and disbursed during the study period.

Since the adoption of New Industrial Policy 1992, the corporation has made its investment policy more flexible and expanded it to resources mobilizing sector. The corporation has been giving priority to the project based on indigenous raw materials and man power as well as sought the policy to invest in small hydro electricity projects. Resource generation and mobilization are essential for the fulfillment of needs of private sector industrial enterprises. NIDC as a public corporation is guided by the government policy, rules and regulations. But the present study shows that the NIDC has not been able to follow the government policy especially with regards to the plan targets of disbursement, balance regional development and primary priority sectors such as food grains, clothing health etc.

The study found that the approval and realization of financial assistance is increasing. The trend was satisfactory and encouraging. But the major problem was the inconsistency trends of approval and disbursement of financial assistance. The realization of financial assistance has shown satisfactory against disbursement of financial assistance. The trend of overdue loan is continuously increasing. It shows that the corporation's financial activities and management is also poor. The overall corporation's financial activities have not shown its satisfactory performance in industrial sector.

It is also found that disbursement of loan was not balanced between different five development regions. Huge amount of investment has been made in Central Development Region and less priority has been given to Mid Western Development Region and Far Western Development Region. Similarly the sector wise disbursement pattern also shows that the highest percentage of financial assistance has been provided to Food, Tourism and Textile Allied Industries. Health and Education Allied Industries has got less priority. No investment was made to Cottage and Village Industries during the study period.

The corporation has not followed the risk and return factor at the time of investment. So the corporation's portfolio investment policy is not guided by modern model of investment policy. That policy has been followed by other private financial institutions of the country. Financial and investment function of the NIDC is not satisfactory because it has not fulfilled all the financial function which financial function is directly related to investment policy of the corporation.

Hence the overall conclusion of the study seems that the contribution of NIDC is helpful in development of the industries in Nepal, but less satisfactory. The public enterprises in Nepal have been established since

1956/57. Not only have these public enterprises including the NIDC not been able to provide a sound return on investment. The main reason behind this is the lack of clarification of the government policy, the operation of the NIDC has often been influenced by other imponderables which do not contribute directly towards the achievements of its objectives and targets. It has done more in industrial sector but there is also need for improvement in its policy. To reduce the regional imbalance, NIDC should provide more incentives to entrepreneurs, who invest in the Mid-Western Development Region and Far-Western Development Region for industrial development. It should give more priority to productive sector. The corporation should follow risk and return factor of portfolio investment to earn more and more benefits.

5.2.2 Conclusion from Primary Data Analysis

In the process of examining investment policy from industrialists' point of view, four investment policy of NIDC should be modified to meet the need and demand of industrialists. According to them the policies of Margin of Security, Bridge – gap Loan, Guarantee Arrangement of Suppliers Credit and Under – writing share issues of Public Limited Companies are not favorable for smooth development of industrial sector. But they further argued that most of the policy are moderately favorable to improve the industrial sectors, such as Long – term Loan in Local or foreign Currency, Short - term Loan providing in Local Currency, Equity Participation in Publicly held Companies, Guarantee Arrangement with Commercial Banks, Time period in Long – term loan & Short – term loan, Ordinary & Preferential Share Participation in Clientele Industries. These polices may help to the expansion and improvement of industrial enterprises.

On the basis of primary research the interest rate charged by NIDC on fixed assets and working capital is desirable. Whereas the majority of respondents were of the view that loan provided by NIDC is not conducive in implementing the program of industries. Thus, it should be motivated to the industrialists believing in profits by investment. For this it has to establish the industries at first with the assistance of financial institutions and Government, when it operates smoothly then handover to the Private Sector. Similarly, in the opinion of respondents, loans have been taken for the purpose of establishment of industries. In the same way, they said that delay in getting loan is the major reason of unaccepted loan. Likewise, unnecessary paper work is another major problem in the investment policy of NIDC. So, NIDC should give first priority to the simple lending procedures and the unnecessary paper work should be minimized.

For the industrial development of any country, the entrepreneurs should demand Short – term, Medium and long – term financial assistance to the financial institution. NIDC provides maturity period of the loan for 15 years which is not enough to those projects whose pay back period is long. So the period should be expanded to some extent because industrial development is a long term goal and it requires long term finance. So, NIDC should provide long term finance to the industrialists for the industrializing process of the country.

Lastly, investment policy should be modified to meet the demand of industrialist making it more appropriate, easily understandable and simple. The present investment policy of the corporation is not suitable for the

changing environment. For this there should be held inter-action between the entrepreneurs and the government regarding the policy matters to analyze the various problems faced by the corporation.

5.3 Recommendations

5.3.1 Recommendations from Secondary Data Analysis

On the basis of secondary study, recommendations are made for the betterment of investment policy of NIDC to make positive impact in the industrial growth, and so to ensure that the growth of industrial sector results in the growth of NIDC.

- (1) Fair and short-cut lending procedure is to be substituted in place of complex and conservative lending procedure to promote and encourage the industrialists making it easiest and secured. Moreover its policy should be competitive one so that it can compete with other financial institution of same category.
- (2) Investment policy should be modified to meet the demand of industrialist making it more appropriate, easily understandable and simple. The present investment policy of the corporation is not suitable for the changing environment. For this there should be held inter-action between the entrepreneurs and the government regarding the policy matters to analyze the various problems faced by the corporation.
- (3) Priority is to be given to the productive industrial sector so as to benefit all its stakeholders like organization, its promoters, its borrowers and social concerns.
- (4) A big gap between approval and disbursement has been found in course of the study. Therefore, lending procedures including interest rate have to be comprehensive and moderate so that it will contribute to bring approval and disbursement figure nearer and together.
- (5) The sectoral allocation of funds by the corporation is also imbalance. Food, Tourism and Construction Allied Industries get high priority. Health and Education Allied Industries gets less priority. No investment is made to Cottage and Village Industries. Hence the investment should be made in a balanced manner in each sector according to their nature and types. This type of imbalanced should be strictly checked so as to ensure a better investment policy.
- (6) The regional allocation of financial assistance provided by NIDC has not been equal in all the development regions. This is due to infrastructural differences, capital and motivational factors to the entrepreneurs. Most of the disbursed amount of the corporation is centralized in the Central Development Region. It shows serious imbalance in the country. NIDC should try to invite private entrepreneurs to establish industries in other regions as well by providing necessary facilities. If this is done the growth of NIDC is certain in the long run.
- (7) Its rules and regulations are to be made more effective to recover the conditions of overdue loan and to reach to the necessary financial strength.

- (8) Generally, the higher level of potential return, higher will be the risk. Investment risk is better covered through a large and diversified portfolio. Instead of making huge investment in one sector diversified portfolio investment can be made. Diversifying is a way of reducing the poor investment performance.
- (9) NIDC must make a special provision to encourage the export oriented and import substitution based industries.
- (10) As Nepal is agriculture based country, the corporation should give high priority using indigenous raw materials and fulfilling the primary needs of people. So to fulfill this objective, it should stimulate the agricultural area.
- (11) Administration should be made further efficient to check the performance. Financial position of the corporation is also not sound. So, it is suggest that NIDC should frame realistic annual plan and it should be undertaken by providing information about industrial investment opportunity and feasibility of viable project.
- (12) Lastly, there should be a special provision to monitor and review those industries status lime by time so that the corporation will be able to know the present condition and suggest if there is any weakness. Then this aspect will help to have the basic collection and further investments.

5.3.2 Recommendations from Primary Data Analysis

The primary study makes the following recommendation which may prove effective for NIDC in improving its activities.

- (1) NIDC's quantum of financial assistance could go up to 60% of the fixed assets. But it should go up to 50% of the fixed assets because higher ratio introduces inflexibility in the industries' operations due to the increasing inferences and pressure from industrialists.
- (2) For the industrial development of any country the entrepreneurs should demand short – term, medium and long – term financial assistance to the financial institutions. NIDC provides maturity period of the loan for 15 years which is not enough to those projects whose pay - back period is long. So this should be expanded to some extent because industrial development is a long term goals and it requires long term finance. That is why, long- term finance should be provided by NIDC for the industrializing process of the country.
- (3) Table no. 4.27 shows that major respondents were of the view that the loan provided by NIDC was not conducive in implementing the program of industries. Thus, it should motivate to the industrialists believing in profits by investment. For this it has to establish the industries at first with the assistance of financial institutions and Government, when it operates smoothly then handover to the private sectors.
- (4) According to respondents, unnecessary paper work is the major problem in loan disbursement process and delay in getting loan is another major reason of unaccepted loan. So NIDC should provide simple lending procedures and the paper work should be minimized.

- (5) The policy of NIDC on Margin of Security, Bridge – gap loan, Guarantee arrangement of Suppliers Credit and under – writing share issues of public limited companies are not favorable for the smooth development of industrial sector. So, in view point of industrialists these polices should be modified on behalf of industrialists.
- (6) Lastly, investment policy should be modified to meet the demand of industrialists making it more appropriate, easily understandable and simple.

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Appendix - 1

Approval of Financial Assistance

To obtain trend of approval of financial assistance the least square method can be used. The following conditions should be satisfied for least square method:

- (I) $(Y - Y_c) = 0$ (i.e. the sum of deviation of the actual value of Y and computed value Y is 0)
- (II) $(Y - Y_c)^2$ is least (i.e. the sum of the squares of the squares of the deviations of the actual and computed value is least).

Where,

$$Y_c = a + bX \text{ and } Y = \text{approval of financial assistance (Rs. in crores)}$$

The straight line trend is $Y_c = a + bX$ (I)

Where,

Y_c = to designate the trend values to distinguish them from the actual Y values.

a = Y intercept

b = slope of trend line or yearly rate of approval of financial assistance.

X = time series i.e. deviation from the fiscal year 1991/92

To determine the values of a & b the following two normal equations are to be solved simultaneously:

$$Y = na + b \ x \text{ (II)}$$

$$XY = a \ x + b \ x^2 \text{ (III)}$$

To make calculation easier the deviation is taken from the fiscal year 1999/2000.

(Rs. in Crores)				
Fiscal Year	Approval Amount (Y)	X	X ²	XY
1996/97	83.33	-3	9	-246.99
1997/98	42.13	-2	4	-84.26
1998/99	15.66	-1	1	-15.66
1999/2000	35.06	0	0	0
2000/01	58.52	1	1	58.52
2001/02	63.50	2	4	127.00
2002/03	54.59	3	9	163.77
2003/04	50.69	4	16	202.76
	Y = 402.48	X = 4	X² = 44	XY = 205.14

Substituting the above value in equation (II) & (III)

$$402.48 = 8a + 4b \dots\dots\dots (IV)$$

$$205.14 = 4a + 44b \dots\dots\dots (V)$$

Multiplying equation (V) by 2 and deducting (IV) from new equation (V)

$$205.14 \times 2 - 402.48 = 4a \times 2 - 8a + 44b \times 2 - 4b$$

$$\text{Or, } 7.8 = 84b$$

$$\text{Or, } b = 0.09$$

Substituting the value of b in equation (IV)

$$402.48 = 8a + 4(0.09)$$

$$\text{Or, } a = 50.26$$

Thus a = 50.26 & b = 0.09

Now, the straight will be: $Y_c = a + bX$

$$Y_c = 50.26 + 0.09 X$$

The trend values are obtained as follows:

When,

$$X = -3 \quad Y_c = 50.26 + 0.09 (-3) = 49.99$$

$$X = -2 \quad Y_c = 50.26 + 0.09 (-2) = 50.08$$

$$X = -1 \quad Y_c = 50.26 + 0.09 (-1) = 50.17$$

$$X = 0 \quad Y_c = 50.26 + 0.09 (0) = 50.26$$

$$X = 1 \quad Y_c = 50.26 + 0.09 (1) = 50.35$$

$$X = 2 \quad Y_c = 50.26 + 0.09 (2) = 50.44$$

$$X = 3 \quad Y_c = 50.26 + 0.09 (3) = 50.53$$

$$X = 4 \quad Y_c = 50.26 + 0.09 (4) = 50.62$$

The estimated approvals of financial assistances for the fiscal the year 2004/05, 2005/06, 2006/07, 2007/08 is as follows:

When,

$$X = 5 \quad Y_c = 50.26 + 0.09 (5) =$$

$$X = 6 \quad Y_c = 50.26 + 0.09 (6) = 50.80$$

$$X = 7 \quad Y_c = 50.26 + 0.09 (7) = 50.89$$

$$X = 8 \quad Y_c = 50.26 + 0.09 (8) = 50.98$$

Appendix - 2

Disbursement of financial Assistance

To obtain trend value of disbursement of financial assistance the Least Square Method (LSM) can be used. The following condition should be satisfied for least square method.

- (I) $(Y - Y_c) = 0$ (i.e. the sum of deviation of the actual values of Y and the computed value of Y is zero).
- (II) $(Y - Y_c)^2$ is least (i.e. the sum of squares of deviation of the actual and computed value is least)

Where,

$$Y_c = a + bX \text{ and } Y = \text{disbursement of financial assistance (Rs in crores)}$$

The straight line trend is $Y_c = a + bx$ (I)

Where,

Y_c = to designate the trend values to distinguish them from the actual Y values.

a = Y – intercept

b = slope of trend line or yearly rate of disbursement of financial assistance

X = time series i.e. deviation taken from the fiscal year 1991/92.

To determine the values of a & b the following normal equations are to be solved simultaneously:

$$Y = na + b \sum X \text{ (II)}$$

$$\sum XY = a \sum X + b \sum X^2 \text{ (III)}$$

To make the calculation easier the deviation is taken from the fiscal year 1999/2000.

(Rs. in Crores)				
Fiscal Year	Disbursement Amount (Y)	X	X ²	XY
1996/97	71.14	-3	9	-213.42
1997/98	39.62	-2	4	-79.21
1998/99	29.21	-1	1	-29.21
1999/2000	53.82	0	0	0
2000/01	51.67	1	1	51.67
2001/02	47.69	2	4	95.38
2002/03	48.98	3	9	146.94
2003/04	36.28	4	16	145.12
	Y = 378.41	X = 4	X² = 44	XY = 117.24

Substituting the above values in equation (II) & (III)

$$378.41 = 8a + 4b \dots\dots\dots (IV)$$

$$117.24 = 4a + 44b \dots\dots\dots (V)$$

Multiplying the equation (V) by 2 then deducting the equation (IV) from (V)

$$117.24 \times 2 - 378.41 = 4a \times 2 - 8a + 44b \times 2 - 4b$$

$$\text{Or, } -143.93 = 84b$$

$$\text{Or, } b = -1.72$$

Then substituting the value of b in equation (IV)

$$378.41 = 8a + 4(-1.72)$$

$$\text{Or, } a = 48.16$$

Thus $a = 48.16$ & $b = -1.72$

Now, the straight line will be, $Y_c = a + bX = 48.16 - 1.72X$

The trained values are obtained as follows:

When,

$$X = -3 \quad Y_c = 48.16 - 1.72 (-3) = 53.32$$

$$X = -2 \quad Y_c = 48.16 - 1.72 (-2) = 51.60$$

$$X = -1 \quad Y_c = 48.16 - 1.72 (-1) = 49.88$$

$$X = 0 \quad Y_c = 48.16 - 1.72 (0) = 48.16$$

$$X = 1 \quad Y_c = 48.16 - 1.72 (1) = 46.44$$

$$X = 2 \quad Y_c = 48.16 - 1.72 (2) = 44.72$$

$$X = 3 \quad Y_c = 48.16 - 1.72 (3) = 43.00$$

$$X = 4 \quad Y_c = 48.16 - 1.72 (4) = 41.28$$

The estimates disbursements of financial assistance for the fiscal year 2004/05, 2005/06, 2006/07 and 2007/08 are as follows:

When,

$$X = 5 \quad Y_c = 48.16 - 1.72 (5) = 39.56$$

$$X = 6 \quad Y_c = 48.16 - 1.72 (6) = 37.84$$

$$X = 7 \quad Y_c = 48.16 - 1.72 (7) = 36.12$$

$$X = 8 \quad Y_c = 48.16 - 1.72 (8) = 34.40$$

Appendix - 3

Realization of Financial Assistance

The Least Square Method (LSM) can be used to obtain trend value of realization of financial assistance.

- (I) $\sum (Y - Y_c) = 0$ (i.e. the sum of deviation of actual value of Y and the computed values of Y is 0)
- (II) $\sum (Y - Y_c)^2$ is least (i.e. the sum of the squares of the deviations of the actual and computed value is least).

Where,

$$Y_c = a + bX$$

Y = realization of financial assistance (Rs in crores)

The straight line trend is,

$$Y_c = a + bX \dots\dots\dots (I)$$

Where,

Y_c = to designate the trend values to distinguish them from the actual Y values

a = Y intercept

b = slope of trend line or yearly rate of realization of financial assistance

X = time series i.e. deviation taken from the fiscal year 1991/92

To determine the value of a & b, the following two normal equations should be solved simultaneously:

$$\sum Y = na + b \sum X \dots\dots\dots (II)$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots (III)$$

To make calculation easier the deviation is taken from the fiscal year 1999/2000.

(Rs. in Crores)

Fiscal Year	Realization Amount (Y)	X	X ²	XY
1996/97	54.85	-3	9	-164.55
1997/98	57.19	-2	4	-114.38
1998/99	61.15	-1	1	-61.21
1999/2000	40.26	0	0	0
2000/01	41.23	1	1	41.23
2001/02	43.71	2	4	87.42
2002/03	42.80	3	9	128.40
2003/04	46.17	4	16	184.68
	Y = 387.36	X = 4	X² = 44	XY = 101.55

Substituting the value in equation (II) & (III)

$$387.36 = 8a + 4b \dots\dots\dots (IV)$$

$$101.55 = 4a + 44b \dots\dots\dots (V)$$

Multiplying the equation (V) by 2 then deducting the equation (IV) from (V)

$$101.55 \times 2 - 387.36 = 4a \times 2 - 8a + 44b \times 2 - 4b$$

$$\text{Or, } -184.26 = 84b$$

$$\text{Or, } b = -2.19$$

Substituting the value of b in equation (IV)

$$387.36 = 8a + 4(-2.19)$$

$$\text{Or, } a = 49.52$$

Thus a = 49.52 & b = -2.19

Now, the straight line will be, $Y_c = a + bX = 49.52 - 2.19X$

The trained values are obtained as follows:

When,

$$X = -3 \quad Y_c = 49.52 - 2.19 (-3) = 56.09$$

$$X = -2 \quad Y_c = 49.52 - 2.19 (-2) = 53.90$$

$$X = -1 \quad Y_c = 49.52 - 2.19 (-1) = 51.71$$

$$X = 0 \quad Y_c = 49.52 - 2.19 (0) = 49.52$$

$$X = 1 \quad Y_c = 49.52 - 2.19 (1) = 47.33$$

$$X = 2 \quad Y_c = 49.52 - 2.19 (2) = 45.1$$

$$X = 3 \quad Y_c = 49.52 - 2.19 (3) = 42.95$$

$$X = 4 \quad Y_c = 49.52 - 2.19 (4) = 40.76$$

The estimates realizations of financial assistance for the fiscal year 2004/05, 2005/06, 2006/07 and 2007/08 are as follows:

When,

$$X = 5 \quad Y_c = 49.52 - 2.19 (5) = 38.57$$

$$X = 6 \quad Y_c = 49.52 - 2.19 (6) = 36.38$$

$$X = 7 \quad Y_c = 49.52 - 2.19 (7) = 34.19$$

$$X = 8 \quad Y_c = 49.52 - 2.19 (8) = 32.00$$

Appendix - 4 Return on Investment

(a) Calculation of Return on Asset

S.N	Fiscal Year	Net Profit	Interest	Total Asset	Return on Asset
1.	1999/2000	25866817	66721835	130695246	7.08%
2.	2000/01	16920170	7554303	1371434462	6.74%
3.	2001/02	16164991	80072582	1518513415	6.34%
4.	2002/03	63226735	114385044	2086658510	8.5%
5.	2003/04	16788636	166347437	2675933308	6.84%

Source: Annual report, NIDC (1999/2000 to 2003/04)

(b) Calculation of Return on Capital Employed

S.N	Fiscal Year	Net Profit	Interest	Capital employed	Return on Capital employed
1.	1999/2000	25866817	66721835	125795431	7.36%
2.	2000/01	16920170	7554303	1309504100	7.06%
3.	2001/02	16164991	80072582	1417590328	6.79%
4.	2002/03	63226735	114385044	1931058974	9.20%
5.	2003/04	16788636	166347437	2520068911	7.24%

Source: Annual report, NIDC (1999/2000 to 2003/04)

(c) Calculation of Return on Shareholder's Equity

S.N	Fiscal Year	Net Profit	Shareholder's Equity	Return on Shareholder's Equity
1.	1999/2000	25866817	414591915	6.24%
2.	2000/01	16920170	432788425	3.94%
3.	2001/02	16164991	436474764	3.71%
4.	2002/03	63226735	485807580	13.01%
5.	2003/04	16788636	496724864	3.38%

Source: Annual report, NIDC (1999/2000 to 2003/04)

Appendix - 5
Industrialists Attitude on Investment Policy of NIDC
A questionnaire for sample survey

Dear respondents,

This questionnaire is prepared only to assist the research conducted for the partial fulfill of requirements of the Master of Business Studies (MBS) Degree. The views and responses collected from you will be used for the study purpose only and will not be misused and published anywhere. All the views and opinions will be kept confidential. Further, I would like to request you to fill up the questionnaires and conferring your views with full cooperation and radiant participation. Your cooperation counts a lot for the success of the study. To attain your views and opinions please put the tick mark on the 'Box' and write your ideas, opinions, judgments and conclusion as for questionnaires.

Again, requesting and thanking you.

.....

Researcher

Puspanjali khadka

Nepal Commerce Campus

Tribhuvan University

Kathmandu, Nepal

Name of Industry:

Type:

Est.:

Scale:

Address:

1. Have you obtained the loan from NIDC?

Yes

No

2. If you have taken loan, for what purpose?

(a) Establishment of Industries

(b) Expansion of Industries

(c) Increment of Fixed Assets

(d) Working Capital

(e) Market Feasibility & Prospects

3. If you have not taken loan, what could be the reasons?

(a) Unfavorable Interest Rate

(b) Delay in getting Loan

(c) Unnecessary Paper Work

4. Is the loan period adequate to generate profit and make repayment timely?

Yes

No

5. Is the interest rate desirable?

Yes

No

6. Is the margin of security desirable?

Yes

No

7. Please tick the numbers from 1 to 5 for the least support and 5 for the highest support; for the following questions.
- (a) The quantum of financial assistance could go up to 60% of the fixed assets and is dependent upon economic and financial merits of the projects. Is this assistance sufficient for your purpose?
- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |
- (b) NIDC provides long term loan either in foreign or local currency. Is this facility suitable for your purpose?
- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |
- (c) NIDC provides short term loan in local currency. Is this facility suitable for your purpose?
- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |
- (d) Equity participation in public hold companies is also its financial assistance function, what do you think about this assistance?
- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |
- (e) What do you think about the Bridge – gap loan facilities?
- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |
- (f) One of the investment policies of NIDC is Guarantee Arrangement with commercial banks which provides direct loan to clientele?
- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |

(g) NIDC provides long term loan up to 15 years. Is this facility sufficient for your purpose?

- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |

(h) NIDC provides short term loan up to 5 years. Is this facility sufficient for your purpose?

- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |

(i) Clients' fixed assets are to be mortgaged with NIDC's long term loan. Are you satisfied with this value of security?

- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |

(j) NIDC provides assistance with ordinary & preferential share participation in clientele industries. Do you like this facility?

- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |

(k) What do you like about NIDC's Guarantee arrangement of suppliers credit policy?

- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |

(l) "Under – writing share issue of public limited company" is another policy of NIDC. Is this policy favorable for your industry?

- | | |
|--------------------------|---------------------|
| 1. Very Low Supported | 2. Low Supported |
| 3. Moderately Supported | 4. Highly Supported |
| 5. Very Highly Supported | |

8. Are you satisfied with the present investment policy of NIDC?

- (a) Highly Satisfied
- (b) Satisfied
- (c) Moderately Satisfied
- (d) Satisfied to some extent
- (e) Dissatisfied

9. Any comments,

- a) Long process of loan distribution
- b) Unnecessary paper work
- c) Insufficient technical assistance
- d) Above all

10. Have you any suggestion?

- a) Its investment policy should be published as public
- b) Interest rate should be flexible as per the volume and term of loan
- c) Financial assistance is not sufficient as well as the manage of maintenance, grading and quality control of the industries
- d) It provides simple lending procedures
- e) Above all

Appendix - 6

Name of Industries Associated with Primary Research

1. Everest Sugar Pvt. Ltd., Kathmandu, Nepal.
2. Katmandu Maida Mill Pvt. Ltd., Kathmandu, Nepal.
3. Chitwan Cement Pvt. Ltd., Kathmandu, Nepal.
4. Krishna Pipe Product Pvt. Ltd., Kathmandu, Nepal.
5. Mahalaxmi Sugar Pvt. Ltd., Kathmandu, Nepal.
6. Trikhanda Packers Pvt. Ltd., Kathmandu, Nepal.
7. Ranus Cottage and Snow View Pvt. Ltd., Kathmandu, Nepal.
8. Pashupati Agro Chem Pvt. Ltd., Kathmandu, Nepal.
9. Kalika Dana Udyog Pvt. Ltd., Kathmandu, Nepal.
10. Mount Everest Brewary Pvt. Ltd., Kathmandu, Nepal.
11. Mahakali Oven Bags Pvt. Ltd., Kathmandu, Nepal.
12. Arihant Multi Fibers Pvt. Ltd., Kathmandu, Nepal.
13. Baba Paper Mill Pvt. Ltd., Kathmandu, Nepal.
14. Gorakhkali Rubber Pvt. Ltd., Kathmandu, Nepal.
15. Hotel Everest International Pvt. Ltd., Kathmandu, Nepal.
16. Hotel D Fulbhari Pvt. Ltd., Kathmandu, Nepal.
17. Kathmandu Dwarika Village Pvt. Ltd., Kathmandu, Nepal.
18. Sanjeev Footwear Pvt. Ltd., Kathmandu, Nepal.
19. Tara Gaon Hotel Regency Pvt. Ltd., Kathmandu, Nepal.
20. Creative Press Pvt. Ltd., Kathmandu, Nepal.
21. Dolphin Manor Pvt. Ltd., Kathmandu, Nepal.
22. Sama Metal Pvt. Ltd., Kathmandu, Nepal.
23. Shree Ram Sugar Mill Pvt. Ltd., Kathmandu, Nepal.
24. Sunshine Beverage Pvt. Ltd., Kathmandu, Nepal.
25. Bashulinga Sugar Mill Pvt. Ltd., Kathmandu, Nepal.
26. Annapurna Textile Ltd., Kathmandu, Nepal.
27. Bhagabhati Textile Pvt. Ltd., Kathmandu, Nepal.
28. Bhaktapur Diary Pvt. Ltd., Kathmandu, Nepal.
29. Bijayapur Publication Pvt. Ltd., Kathmandu, Nepal.

30. Birat Shoes Industries Pvt. Ltd., Kathmandu, Nepal.
31. Durga Cold Store Pvt. Ltd., Kathmandu, Nepal.
32. Everest Joti Gas Pvt. Ltd., Kathmandu, Nepal.
33. Himal Cement Co. Ltd., Kathmandu, Nepal.
34. Himalayan Shangri-La Resort Ltd., Kathmandu, Nepal.
35. Himshila Carpet Pvt. Ltd., Kathmandu, Nepal.
36. Hotel Chautary Pvt. Ltd., Kathmandu, Nepal.
37. Hotel Everest Pvt. Ltd., Kathmandu, Nepal.
38. Hotel Kathmandu Ltd., Kathmandu, Nepal.
39. Hotel Nirwan Pvt. Ltd., Kathmandu, Nepal.
40. Joity Spinning Ltd., Kathmandu, Nepal.
41. Kama Dhenu Diary Pvt. Ltd., Kathmandu, Nepal.
42. Nepal Italian Leather Pvt. Ltd., Kathmandu, Nepal.
43. Nepal Packing Box Industries Pvt. Ltd., Kathmandu, Nepal.
44. Nepal Times Pvt. Ltd., Kathmandu, Nepal.
45. Panchakanya Oil Pvt. Ltd., Kathmandu, Nepal.
46. Pathivara Carpet Udyog Pvt. Ltd., Kathmandu, Nepal.
47. Prem Mandir Udyog Pvt. Ltd., Kathmandu, Nepal.
48. Kawality Concret Product Pvt. Ltd., Kathmandu, Nepal.
49. Kwality Wood & Fuel Industries Pvt. Ltd., Kathmandu, Nepal.
50. S. Laboratory Pvt. Ltd., Kathmandu, Nepal.
51. Sagun Metal Industries Pvt. Ltd., Kathmandu, Nepal.
52. Shakti Gas Industries Pvt. Ltd., Kathmandu, Nepal.
53. Shankar Flour Mill Pvt. Ltd., Kathmandu, Nepal.
54. Shivapuri Prakashan Pvt. Ltd., Kathmandu, Nepal.
55. Shree Bakery Pvt. Ltd., Kathmandu, Nepal.
56. Texyarna Recycling Mills Pvt. Ltd., Kathmandu, Nepal.
57. Times Pharmaceuticals Pvt. Ltd., Kathmandu, Nepal.
58. Unique Luggage Industries Pvt. Ltd., Kathmandu, Nepal.
59. West Himalayan Diary Pvt. Ltd., Kathmandu, Nepal.
60. Pragati Textile Pvt. Ltd., Kathmandu, Nepal.

Appendix - 7

Calculation of Mean Value

Let, X (observation) be denoted for the scale no. and F (frequency) be denoted for the no. of respondents. When we multiplied between X and F, we get Scale Value as fx. Now we can use formula for the calculation

of Mean Value i.e. $\bar{X} = \frac{fx}{N}$

1. Calculation of Mean Value for Margin of security:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{130}{60} \\ \bar{X} &= 2.17\end{aligned}$$

2. Calculation of Mean Value for Long – term Loan in Local or Foreign Currency:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{222}{60} \\ \bar{X} &= 3.70\end{aligned}$$

3. Calculation of Mean Value for Short – term Loan in Local Currency:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{210}{60} \\ \bar{X} &= 3.50\end{aligned}$$

4. Calculation of Mean Value for Equity Participation in Publicly Held Companies:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{185}{60} \\ \bar{X} &= 3.08\end{aligned}$$

5. Calculation of Mean Value for Bridge – gap Loans:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{130}{60} \\ \bar{X} &= 2.17\end{aligned}$$

6. Calculation of Mean Value for Guarantee Arrangement with Commercial Banks:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{187}{60}\end{aligned}$$

$$\bar{X} = 3.12$$

7. Calculation of Mean Value for Time Period in Long – term Loan:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{214}{60}\end{aligned}$$

$$\bar{X} = 3.57$$

8. Calculation of Mean Value for Time Period in Short – term Loan:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{222}{60}\end{aligned}$$

$$\bar{X} = 3.70$$

9. Calculation of Mean Value for Ordinary & Preferential Share Participation in Clientele Industries:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{178}{60}\end{aligned}$$

$$\bar{X} = 3.00$$

10. Calculation of Mean Value for Guarantee Arrangement of Suppliers Credit

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{153}{60}\end{aligned}$$

$$\bar{X} = 2.55$$

11. Calculation of Mean Value for Under – Writing Share Issue of Public Limited Companies:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{134}{60}\end{aligned}$$

$$\bar{X} = 2.23$$

12. Calculation of Mean Value for Investment Policy of NIDC:

$$\begin{aligned}\bar{X} &= \frac{fx}{N} \\ &= \frac{181}{60}\end{aligned}$$

$$\bar{X} = 3.02$$