

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Finance is the lifeblood of any concern for establishment and development. The basic purpose of obtaining fund is to acquire assets. We don't acquire land and building, plants and equipment with the aim of reselling it at a profit. The core thing that really we need is only the service of those fixed assets. If we don't wish to have title to other assets, if it is just the service we seek, we should consider leasing the assets. Thus leasing is the means of acquiring both the services of fixed assets. Just as, the sell of bond is usually a means of acquiring both the service of and title to various assets. More specifically, lease is a contractual arrangement where by the owner of the property (lessor) allows another party (lessee) to use the service of the property for a specified period of time. The lessor retains the title of the property. The contract calling for periodic rental payment in fixed and may not be canceled for a definite period of time. Usually the lessee may continue to use the property after the initial period of the lease at a reduced rental specified in the lease. Sometimes, he also has been given an option to purchase the property.

Leasing simultaneously provides for the use of asset and their financing. One way obtaining their use is to buy them, but an alternative is to lease them. Virtually, any kind of fixed assets that can be purchased can be leased. In many cases, leasing can be a perfect substitute for borrowing. One advantage over debt is that the lessor has a better position than creditor if the user firm experiences financial difficulties. Since lease is a contract, both the parties should meet their obligations. If the lessee doesn't meet the lease obligations, the lessor has a stronger legal right to take back the assets, because the lessor still legally owns it. A creditor even a secured creditor encounters cost and delays in recovering assets that have been directly or indirectly financed. Since the lessor has less risk than other financing sources used in acquiring assets, the riskier the firm

seeking financing the greater is the reason for the supplier of financing to formulate a leasing arrangement rather than a loan. The relative tax positions of lessor and users of assets may also affect the lease versus borrow decision.(Weston and Copeland 1992: 995)

The foundation for the growth in leasing is I) differences in the protection afforded the lessor and lender in the event of bankruptcy and ii) differences in the ability of companies, financial institutions and individuals to take advantage of the tax benefits associated with owning of asset. Companies that pay no or low taxes may be able to realize some of the tax benefits associated with depreciation via high tax bracketed lessor passing them off through lower lease payment. (Van Horne 2002:559)

Leasing has become increasingly important source of financing during post world war II era. Since then, it has rapidly become a popular alternative to purchasing assets in both private and public sectors. Previously, leasing was mainly used in USA as a means of acquiring the use of real estate. Now the trend has spread to a wide variety of equipments. In the year 1984 the US companies leased almost \$75 billions of productive equipments constituting one third of all capital equipment acquired and helped in creating over 1.4 million new jobs. Due to its gained popularity in USA it has been widely employed in other parts of developed countries like UK, Japan and other free economies of the world. In fact, very large volumes of business are successfully carried out through leasing operating in advanced countries. (Mathur 1994:49)

History shows that rail car financing aided the growth of industrial revolution by providing railroads as means to expand their services of getting goods to and from market in western world and the United States in the last half of the 19th century. Similarly in USA, from 1950s the development of airlines was done only through lease financing. In 1960s true lease came into vogue, which stimulates on account of favorable tax laws. (Verma 1994:2)

Leasing companies can meet the requirement of finance for modernizations, expansion or diversification for industrial sector as an alternative source of finance rather than depending fully upon the help of financial institutions. Theoretically almost all the assets can be leased. Lease contract may be for short-term or long-term and every type of leasing has their own specialty in the business sector. Properties like plant, equipment and real estate etc are leased for long period of time.

Leasing financing is an activity of non-banking type. Leasing companies are therefore non-banking financial institutions, which acts as financing intermediaries in the economy. These non-banking financial institutions (NBFI) derive importance for providing convenience for the savers and borrowers in their capacity as repositories of saving and lending institutions. They do not accept deposit but compete with banks in time deposit. It is also a merchant banking activity, which has been included in the operational scope of merchant banks which acts as financial intermediaries offering various services to the business world including lease finance as their fund based activity. (Verma 1994: 2-4)

Leasing could be advantageous to society if its social benefits outweigh the loss in taxes. Shortage of investable funds constrains investment and therefore production. Leasing companies encourage investment by making funds available in less cumbersome and speedy way. On the other hand lease financing is real gap filler for non-priority and small-scale sector. Therefore, the objectives of government, banks and financial institutions should be to create policy and market conditions so that the leasing activity contributes to economic growth and financial efficiency. (Pandey 1995:960)

In global context, leasing business has been characterized as growing business and it has been common in business world in developed as well as many developing countries. It has been recognized as a major profit center. Leasing has been constantly helping the growth of commerce and industrialization. In India it has assumed momentum for the last few years as an additional source of financing the industrial and commercial projects covering supply of movable as well as immovable properties. Financial

institutions have been performing dual role in the sphere of leasing. In one way they finance the leasing companies and on the other they themselves, are engaged in the leasing business. Such, financial institutions have been motivated to give attractive financial services to the customers. Since leasing is a major profit center, it assumes tax liability to the government. For the tax planning purpose, leasing serves as a base thereby increasing the ensured profit. As countries willingness to be open to globalization is growing, there are numerous challenges ahead the financial sector of the nation. Consequently, it needs specialized skills, matured experiences and professional knowledge even to sustain at normal level of competition.

Leasing has been well recognized in financing the project cost of new industrial enterprises, financing the expansion, modernization and diversification programs of the existing industrial units. Further, leasing could serve the ends of enlivening the sick industrial units through indigenous as well as import leasing arrangement. For the full utilization of development potentials of any country market lead development strategy has proved its effectiveness and the government's role in this context should be to create favorable environment for the private sector investments, democracy, social justice and development. The least developed countries are in need of substantially large investment for development, particularly of the physical as well as social infrastructure. But such investment has been restricted due to low level of internal revenue mobilization in these countries. The developing countries today can neither ignore nor avoid the liberalization and globalization. The option of policy choice has been extremely limited particularly after the collapse o centrally planned economic system. At this moment liberalization and globalization has come to occupy a central stage all over the world. (Thapa 2002:9)

Leasing is one of the specialized facilities of the financial market. If it is well managed it will offer chances of tapping and establishing channels with the vast unorganized money market. The development of assets based financing to manifestation of the growing philosophy of business finance to shift emphasis from owned capital to loaned capital and now to rented capital. (Kothari 1991:12)

1.2 Focus of the Study

Financial sector can't take full speed on its development process, until there will be proper and timely reformation. Nepal has adopted open, liberal and market oriented economic policy since late 1980's and simultaneously financial sector reform programs have been initiated. But with the passage of time financial sector is becoming more exciting, challenging an ever-changing sector due to increased economic liberalization and globalization.

To cope with such critical situation, financial innovation should be given priority so that sophisticated financial market, improved financial instruments as well as efficient and effective financial process can be developed. Presently there is proliferation of various banking and non-banking financial institution in the country offering wide range of services including many new type of financial services like venture capital, leasing, merchant banking, mutual fund etc.

Among such new financial services leasing is one of the innovative financial service, which carries extremely different philosophical idea about the use of capital assets in productive activities. Leasing concept advocate that the important is the service we get from using asset, not the ownership on it. Therefore, it is wise to take service of any assets on rental basis without purchasing it. After the World War II, leasing has achieved significant growth in a global perspective. In Nepal also, it has been started, but people have not been well informed about this financial service. There are number of ambiguities about it. Its real financial meaning has not yet been realized in Nepalese financial community. It is therefore; this research is focused on the study of lease financing in the context of Nepal.

1.3 Statement of the Problem

The problem towards which this study is directed is to explore and highlight about leasing business in Nepal. In Nepal, except familiarization with the term lease traditionally used for real estate leasing, equipment leasing is rarely heard. Almost majority of people doesn't know what and how it is conducted. It is quite new for financial community of Nepal. Few companies have taken initiative to introduce the leasing business in Nepal. There is also a great scarce of literature regarding leasing business in the context of Nepal. It has been overlooked subject in the matter of finance. Even the academic society is not well acquainting with the leasing. From the discussion held with related officials of NRB, it is known that, it has not been well discussed and the micro and macro economic impact of leasing has not yet been assessed. Likewise, companies operating leasing business reported that, leasing in Nepal is as like as just borne baby who is familiar to his family members only. Therefore they are trying to introduce the leasing business in Nepal despite such extremely unfavorable circumstances.

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

1. How leasing came into existence in our country?
2. What are the terms, procedure and provisions of leasing?
3. What is the current situation of leasing?
4. How many companies are carrying this business?
5. What are the future prospects of leasing?

1.4 Objective of the Study

Almost every study is done to explore the reality and facts; this research is carrying for exploring and highlighting the relevancy of leasing business in Nepal. To find “leasing is known, sound appropriate source of financing for Nepali pupils and have good prospect” This objective is backed by some sub-objective they are:

1. To explore the origin and growth of leasing.
2. To study the clauses, terms, procedure and provision available for conducting lease business.
3. To find out the current position of leasing.
4. To identify the finance companies practicing leasing in our country.
5. To predict the future prospects of leasing.

1.5 Limitation of the Study

While conducting this study some limitation were coped. They are pointed below precisely.

- 1) As it is the partial fulfillment of the requirement for master degree it has certain time limit, the limit within which it has to be completed.
- 2) Sample period for this study is from 1980's to 2008.
- 3) This study uses mostly Secondary data as its quite reliable and accessible than Primary data but Primary data's are too used as per the requirement of the study.
- 4) This study encompasses part of financial sector conducting leasing in Nepal.
- 5) Presented data in this study are Valid and reliable as being published by NRB but valid for current year as it is published in yearly basis.

Beside this, the other factors may becomes constraint for this research but up to now aforementioned are the potential and quite certain limitation, would be coped while conducting this research.

1.6 Organization of the Study

This study is organized into five chapters as follows:

Chapter I: Introduction

This introduction chapter includes the background of the study, focus of the study, statement of the problem, limitation of the study and organization of the study.

Chapter II: Review of Literature

The second chapter of the study is being constituted by the conceptual review and review of the related studies.

Chapter III: Research Methodology

In this chapter the research methodology is being precisely explained. It compasses introduction of research methodology, research design, data/information collection procedure, research variables and limitation of methodology.

Chapter IV: Data Presentation and Analysis

It is a most significant part of this study. It includes data presentation and analysis of the research matters and the major finding of the study.

Chapter V: Summary, Conclusion and Recommendation

The last chapter of this study depicts summery of the study, conclusion and recommendation for the study.

CHAPTER II

REVIEW OF LITERATURE

Writing those are valued as works of art or writing on particular subject is literature. Literature is pre-requisite for any study as it provides literal meaning and highlights the views of different experts in different time period about the subject matter. So literature plays significant role in understanding the subject. This chapter encompasses reviews of literature and review of related studies to aid in obtaining the stated objective of the study.

2.1 Conceptual Review

2.1.1 Concept of Leasing

Rental agreement that extends for a year or more and involves a series of fixed payments is generally called a lease. “Leasing is a process by which a firm can obtain the use of a certain fixed assets for which it must pay a series of contractual, periodic, tax deductible payments. The lessee is the receiver of the services or the assets under the lease contract and the lessor is the owner of the assets. The relationship between the tenant and the landlord is called a tenancy, and can be for a fixed or an indefinite period of time (called the term of the lease). The consideration for the lease is called rent.” (*www.leasing-wikipedia, the free encyclopedia.com*)

In more specific term, leasing is a contract between two parties. The user of the assets is called the **lessee**. The lessee makes periodic payments to the owner of the assets, who is called the **lessor**. Leasing is an alternative to buying capital equipment for firm; every kind of assets has been leased including electric power plans, nuclear

fuel, handball courts and zoo animals. Leases come in many forms, but in all cases the lessee (user) promises to make a series of payments to the lessor (owner).

A lessor is basically financial intermediary collecting funds from several sources (including owner's fund) and investing in various leases. He tries to raise the fund at a cost lower than the interest, which he earns from the lessee. Thereby he makes a spread, which meets his costs and gives a reward to the owners. The function of pure financier may be compared to that of trader who buys and sells things and makes margin. A lessor buys and sells finance trying to make a thin differential, which pays for his intermediation. Thus profitability of the owner's funds depends on the magnitude of the spread being made by the leasing company, because this difference is owner's profit. In fact, the lessor's profitability rests on the availability that he has access to certain sources of funds to which his own lessor's business to be profitable, his source of funds have to be less costly than the lessee's sources and if the lessees were directly able to tap the sources on which the lessor depends, the lessee would not afford to pay a higher cost to the lessor. Therefore two factors will determine the profitability of leasing in years to come. One the lessor's ability to tap cheap source of funds not available to his clients and two his client composition that may consist of people who find it difficult or inconvenient to tap the normal sources of finance available. (Kothari 1999: 194-196)

The business of leasing company is two fold i.e purchasing of the assets is one aspect and leasing them out to the end user is another aspect. To carry on this activity the lessor has to view things from angles viz.

Searching for a client to avail of the services being offered by the lessor. Having located the clients and their specific assets needs, the next important and difficult task lies in financing the acquisitions of the assets.

Once cost of the assets and cost of capital invested in the assets is worked out, the lease rentals could be fixed based on the estimate of administrative overheads, expected reward for the promoters/ shareholders of the leasing company for their investments in the equity capitals of them company, available tax incentives in the form of depreciation deductibility etc and margin of profit desired by the lessor keeping in view the rates of the other leasing companies in the free market.

The most difficult thing in the entire operation of leasing company is the recovery of lease rentals when the lessee commits default. (Verma 1994:97)

The lease contract specifies the monthly or semiannual payments, with the first payment usually due as soon as the contract is signed. The payments are usually level, but this time pattern can be tailored to the user's needs.

Some leases are short-term and cancelable during the contract period at the option of the lessee. These are generally known as **operating leases**. Others extend over most of the estimated economic life of the asset and cannot be canceled or can be canceled only if the lessor is reimbursed for any losses. These are called **capital, financial or full payment leases**.

Financial leases are a source of financing. Signing a financial lease contract is like borrowing money. There is an immediate cash inflow because the lessee is relieved of having to pay for the asset. But the lessee also assumes a binding obligation to make the payments specified in the lease contract. The user could have borrowed the full purchase price of the asset by accepting a binding obligation to make interest and principal payment to the lender. Thus the cash flow consequences of leasing and borrowing are similar. In both case, the firms raises cash now and pay it back later. Leases also differ in the services provided by the lessor under a **full-service or rental lease**, the lessor promises to maintain and insure the equipment and to pay

any property taxes due on it. In a **net lease**, the lessee agrees to maintain the asset, insure it, and pay any property taxes. Financial leases are usually net leases.

Another type of lease contract is **leveraged lease**, which is also encountered in lease financing. From the standpoint of the lessee; it is not different from the other types of lease. The difference is that the leased assets, is financed with debt and equity. When the capital outlay is large the assets are financed with the amount borrowing from the bank or financial institutions and leased these assets. Hence, in contrast to the two parties involved in the lease contracts previously described, there are three parties involved in the leverage leasing: the lessee, the lessor (equity participant) and the lender. Leveraged lease is very popular in very expensive assets. (van horn 2002)

2.1.2 Term of a Lease

The term of the lease may be fixed, periodic or of indefinite duration. If it is for a specified period of time, the term ends automatically when the period expires, and no notice needs to be given, in the absence of legal requirements.

The term's duration may be conditional, in which case it lasts until some specified event occurs, such as the death of a specified individual. A periodic tenancy is one, which is renewed automatically, usually on a monthly or weekly basis. A tenancy at will lasts only as long as the parties wish it to, and be terminated without penalty by either party.

It is common for a lease to be extended on a "holding over" basis, which normally converts the tenancy to a periodic tenancy on a month-by-month basis. (Weston and Copland 1992)

2.1.3 Evaluation of Lease Agreement

Whether to go or not to go for leasing is like an investment decision. Leasing is judged under NPV or IRR method. The NPV for both the party should be positive to involve in the agreement. Lessee evaluates the project by comparing capital preserved plus the discounted lease rental benefit minus discounted opportunity cost of not owning the asset minus discounted lease rental minus discounted residual value. In this calculation negotiating variables are lease rentals and residual value only. Therefore for lease contract, lessee calculates lease rental where NPV is zero which would be in turn be possible highest benchmark of lease rental for lease agreement to be acceptable for lessee.

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

Through the calculation, minimum lease rental benchmark for lessor and maximum lease rental benchmark for lessee would be estimated. Agreement would be feasible, if the minimum lease calculated by the lessee. The margin between these two gives the room for negotiation; otherwise, the agreement between the two parties could not be feasible. (Van horn 2002)

2.1.4 Things to be considered while leasing

There are some crucial factors or things to be considered while carrying leasing business; if these were not kept in mind then it may almost drown the business. The risk of default by the lessee is present in leasing as well. The chances of lessee not paying the lease rental, present as in case of loan. Therefore, in lease rental calculation, through unlike in loan the lessor holds title of the asset; the default risk is to be incorporated. Moreover, different charges such as maintenance, insurance

etc are associated with lease contract. These responsibilities involve cost and directly affect the lease rental to be calculated either by lessee or lessor.

A lease provision allowing the lessee, at its option, to renew the equipment lease for a rental rate predetermined at lease inception that is substantially lower than the expected fair market rate at the date the option can be exercised. Similarly, A lease provision allowing the lessee, at its option, to purchase the equipment for a price predetermined at lease inception, that is substantially lower than the expected fair market value at the date the option can be exercised.

Another factor is conditional sale, which is also known as security agreement. It's a agreement with an option to purchase the leased property at the expiration of the lease term at a bargain purchase price. This purchase price is predetermined, and the user of the equipment is treated from the start as the owner of the equipment.

The period of time during which an asset will have economic value and be usable and the residual value are the furthermore things. The residual value being future value, it can be, at best be estimated only. This estimation at large determines benchmark of lease rental to be decided by both lessee and lessor.

Deciding in advance whether the payment has been made in advance or in arrears, which is also known as payment schedule and required rate of return are the last factors. Lessor determines lease rental by discounting the future cash flows by required rate of return, whereas lessee discount the future cash flow by the cost capital. In both the case, it needs to be taken care that required rate of return varies with time, either, agreement should reflect that the lease rental is subject to change in market or sufficient cushion be provisioned for such changes while deciding lease rentals. (Training Manual Bankers club NRB)

2.1.5 Origin of the Concept of the Leasing

The concept of leasing is traceable to old writing. Leasing was adopted in real state. Historians claim origin of operating leasing to the age of Sumerians before 2000 B.C. for agricultural implements and hand tools. Leasing of farmland in the early civilization of Babylonia around 1800 B.C and Greece around 370 B.C. The concept continued developing and its coverage went on increasing from immovable to moveable like equipment, ships or vessels, or domestic animals like ox's and cows etc. Most phenomenal growth in leasing was noticed around nineteenth century when many firms took to leasing of railway wagons in the United Kingdom in the 1840s. These firms were known as wagon companies. One company established in 1895 which switched over its functioning to leasing railway wagon to coal and mine owners for fixed returns.

Leasing developed on similar pattern in the United States of America. In the last of the 19th century, the railroad and railcar manufacturers were under capitalized and unable to finance rail cars, which were not available through conventional lending sources. Equipment trust certificate was evolved to evidence security interest in the equipment, which was similar to non-tax oriented equipment lease in use today. Such railcar financing aided the growth of industrial revolution by providing railroads as means to expand their services of getting goods to and from market in western world and the United States. Post World War II reconstruction of the European countries much depends upon leasing financing using equipment trust certificate. (Verma 1994)

From 1950s the development of airlines was done only through the use of lease financing in the USA fro acquiring aircrafts from the manufacturers. In 1960s, true lease came into vogue, which had stimulant on account of favorable tax laws in 1963. Thus, by slow and gradual paces, leasing has become one of important mean of financing the project cost of the industrial enterprises, procuring consumer

durables for family dwellings for better life standards etc. It is being used of both lessor and lessee.

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

In India, leasing was developed in modern sense as professional financial service with the start up in 1973 by the first leasing company of India, set up in Madras. In 1980s onwards as much as 500 leasing companies were noticed in existence. (Verma 1994:2)

2.1.6 Growth of Leasing in Developed Nations

There have been two principal reasons, which contributed to the development of leasing in the developed countries, namely (i) the high rate of technological obsolescence of most of the industrial equipments which made “use of the equipment” through leasing a better proposition than ownership; and (ii) the earning capacity of the equipment had primary importance to the psychological factor of ownership. Governments in the developed nations also encouraged the equipment-leasing concept by providing specific monetary and fiscal incentives for companies to lease out equipment.

Leasing is rapidly becoming a more and more pronounced part of financing industrial development of all industrialized capitalist countries. The UN paper on leasing cited the financial data that go to establish the importance the leasing companies gathered in these nations. According to the UN paper, leasing is an important new method of financing and dates back from the times since the Second World War. Lease firms play a role analogous to that of banks and other independent financial institutions, but act by buying and then leasing equipment to their clients rather than loaning them money to buy it. Some manufacturing firms have already introduced leasing by establishing subsidiary or captive leasing in the marketing of their own goods. The first independent leasing company was the United States leasing corporation incorporated in 1952. It proved successful, and the industry spread to England, with establishment of the 1960's, leasing industries were flourishing throughout Western Europe, the United States of America and Japan. Financial institutions with long standings established the equipment leasing companies due to partly attractive profitable leasing business varying legal treatment; circumstances and tax policies have made leasing more appealing in some countries than in others. Circumstances and policies also affect the precise forms the leasing tends to take, or can take, and in what situations it can be applied. For example in Austria financial leases on real estate accounted for one fourth of the growth of leasing industry in 1979-1980, whereas elsewhere this is rare.

Leasing covers mainly the transactions in industrial goods, in Western Europe, about one third of leasing business is devoted to automobile leasing and another third to industrial machinery. About one fifth of the business represents computers and office machines, with the rest divided up among ships, aircraft railroad rolling stock and other miscellaneous. The automotive portion in Australia is a bit larger, and in Canada the industrial portion is smaller but the aircraft portions is larger. In Japan however computers and office machines and the rest is miscellaneous equipment. Leasing in some developed nations is discussed below. (www.historyofleasing.com)

a) United States of America

America has largest financial leasing industry in the world. It has been significantly influenced by tax policy particularly ever since 1981 Economic Recovery Tax Act was adopted giving lessor and lessee new platform for negotiation. Another feature of American tax law is that certain tax benefits generally available to lessor may be lost if the leased property is used outside the United States. The phenomenal recent growth in leasing in United States of America is almost exclusive attributable to the generous treatment of leasing by the Act and the new “safe harbour” leasing rules adopted by United States tax authorities. It is called “safe harbour” leasing because United States taxing authorities have indicated that they will not challenge leased structured within their guidelines. Besides this, Tax reform Act 1986 has added more attractions to leasing business. Alternative Minimum Tax (AMT), changes in depreciation schedule, intense competition grapping the leasing industry, availability of computer based software packages etc are some of the present day main feature of lease business in USA. (www.leasinginamerica.com)

b) United Kingdom of Great Britain

Leasing has developed in UK only after 1960s and gathered momentum only in 1967-69 within the period of credit restrictions. In this period, commercial banks had been on look out for entering the leasing operations by acquiring controlling interests in the prominent finance but non-banking companies who had been engaged in hire purchase and leasing activities. Subsequently, these banks had restructured their activities. After that leasing became so popular that a number of “big ticket” contracts were entered into by consortia and partnership and number of banks combined to form Air lease international to finance the re-equipping the world airline and shipping lines.

In 1971, Finance Act provided the relaxation that helped in accelerating the growth of lease industry. Initially 60% of the cost of acquisition was treated as “capital allowance” deductible for the tax purpose in the year of acquisition or carried forward at the discretion of taxpayer, in whole or part, against future projects. In the following years, the taxation reflects was extended to 100% of the acquisition cost of business assets. The gain of this policy has been that leasing company becomes the purchaser and is entitled to the capital allowance. In case the leasing company has taxable profits to take advantage of capital allowances the benefits of the allowances will be passed on to the lessee company in rentals.

This is the reason that major banks in UK entered into leasing to take benefits of capital allowances out of the profits they generate from the entire banking business. Besides, development grants are also available and leasing company may obtain this benefit provided the assets are used by lessee company designated area. The benefits the UK banks availed include (i) taxation relief of capital allowance (ii) convenience and comparative safety of fixed contracts with built-in security and regular rental cost flow (iii) opportunity for using fund (iv) offering customer an attractive alternative source of finance; and (v) leasing can be done for non customer of bank as no continuing relationship is required for availing of the benefits. (www.leasinginuk.com)

c) West Germany

In recent years, the leasing industry of West Germany has played an important role in the achievement of investment plans. German laws give separate treatment to operating and financial leasing. General commercial law, as usually provided by manufacturing companies who act directly as lessors, regulates operating leasing. Financing leases on the other hand is regulated pursuant to decree issued by the Federal Minister of Financial affairs on 19 April 1971. Cross border leasing is very

little in West Germany but indirect international leasing does exist. Majority of the leasing finance is restricted to domestic transactions. (Verma 1994)

d) France

French lease market has been growing continuously. The most active areas were computers and electronic equipments, trucks specialized industrial equipment and machine handling and public works equipment. Operating lease in France is not so developed.

No better tax status is available in France to lessor as is available in United Kingdom or the United States. It is only the traditional inherent advantages of the leasing concept-flexibility, strong security, low capital requirements that suffice to drive the lease industry forward in France.

The French leasing market is highly segmented. It is regulated by a 1986 law, which gives it the name of “Credit Bail Mobilizer”. There are no attractive tax benefits from leasing but depreciation schedules are generous. Cross border leasing is still rare. (www.historyofleasing.com)

e) Japan

Leasing is adopted in Japan in 1963 and the ever since, leasing industry has experienced rapid growth. Main stress was laid down on its development in 1970s. Leasing companies have been set up with the support of commercial banks, general trading companies and large manufacturing firms. For the banks the development of leasing represented a diversification of the services, which they could offer to their client. For general trading companies and large manufacturing firms, leasing was a means of promoting sales while at the same time reducing financial burden and the

risk, which they had borne in the past. These factors encourage, banks, trading firms and manufacturers to invest in leasing companies.

Although there is no special legislation governing the modern financial equipment lease in Japan, yet leasing industry has experienced significant growth. The legal relationship is construed between the parties involved in accordance with the lease contract between leasing company and a lessee and the sales contract between the three parties. Leasing company enters into two separate contracts viz, one with the firm selling equipment and other with the lessee.

Most leasing companies in Japan deal with the financial lease transactions in the manner as follows: a) A lessee chooses equipment and a seller b) The lease contract is concluded between the lessee and the leasing company. c) The sales contract is concluded between the leasing company and the seller. d) The seller tenders the equipment to the lessee. e) The lessee examines the equipment and if the nature or the content of the equipment fulfill the necessary conditions of the contract, he gives his willingness thereof to the leasing company. f) The leasing company pays the price to the seller.

Thus the lease contract gets completed and formalized. The lease contract covers the special provisions like the nature of lease is non-cancelable and the lessee may not terminate the lease contract in the middle of the term of lease, the leasing company does not take any responsibility for the delay of delivery of the equipment or its defects and the leasing companies do not bear the risks of loss or damage of the equipment.

On the other hand, the sales contract covers the assignment of the right from the leasing company to the lessee to claim compensation for damages against the seller until the lessee hands over a receipt to the leasing company. This is so because it is the responsibility of the seller to ensure the leased equipment to the lessee in perfect

condition as the seller bears the risks of loss or damage of the equipment. (Verma 1994: 15-23)

2.1.7 Leasing in Developing Nations

Growth of leasing as compared to developed nations has been slow in developing countries. But it is now established as a growing industry in many such countries. Development of leasing in some of the developing countries has been discussed below:

a) Brazil

Leasing industry has grown in Brazil because of governmental regulations, which patronize only financial lease. The operating leases are not in vogue in Brazil, as government has put no efforts to cover them under regulatory control. Central bank of Brazil exercises control and regulates the activities of leasing companies because of the financial character of leasing, as essentially it is a financing method. As such only leasing companies authorized by the central bank of Brazil are permitted to enter into leasing business. This checks the growth of foreign companies doing leasing business in the country. The central bank of Brazil has established strict guidelines for both internal operation of leasing companies and required provision of lease agreements. Some of these provisions are stated below: i) The debt of leasing companies may not exceed 15 times the capital plus reserves. ii) At least 70 percent of all lease agreements must be entered into with Brazilian controlled corporation. iii) A single lessee may not represent more than 10 percent of a leasing company's receivable. iv) A leasing company, which desires to maintain more than 10 branch offices, must have additional capital for each new branch office. v) The law requires that lease agreements contain the following provisions: a) The lease terms must be at least three years, in the case of automobiles, however the term must be at least two years. b) A complete description of leased goods. c) The value of rental payments.

d) The right of the lessee to choose at end of the contract period to renew the contract, to purchase the leased good or to return it. The agreement may stipulate a guaranteed minimum residual value of the leased goods. e) A stipulation as to what method will be applied to the rental payments and sales opinion in order to account for monetary devaluation. f) A price or a criteria (such as market value) for exercising the option to purchase such an option may not be exercised, however before the contract period is terminated. g) The designation of the rights and obligation of the contracting parties, including the regulations of additional charges and expenditures, the improper use of leased goods, insurance terms, obligations resulting when damage is caused by third parties or when there are defects in the leased goods, provisions for substitutions, inspection and maintenance of a leased goods etc.

To boost overseas leasing business, Brazil had adopted a legal structure in 1981 for import leasing by which it expected to all for a greater amount of cross border leasing. Import leasing already covered such items like aircraft, ships and oilrigs, which were already being leased into Brazil. More ample participation by foreign lessors in the Brazilian market has also been made through the relaxed regulation for import leasing to cover equipment, computer or vehicle, the importance of which is authorized under existing regulations. The 1981 Brazilian import leasing law established the following conditions for leasing:

- a) The non-existence of similar nationally manufactured equipment.
 - b) A minimum lease term of five years.
 - c) The total cost of leasing may not exceed the price of a comparable import-financing alternative.
 - d) Payments must be distributed equally during the term of lease. The terms are attractive to lessors based in developed nations like multinational companies.
- (Shrestha, Amish-Unpublished dissertation of MBS)

b) Republic of Korea

In south Korea, leasing industry law adopted in 1973 which governs basically the finance leasing, a dominant leasing method in the country. Leasing finance has been promoted since the enactment of leasing industry law in 1973. The leasing regulations were revised in 1976 with the assistance of international finance corporation to provide greater flexibility for the parties and to clarify the distinction between lease and installment sales. After the revision, significant growth in the leasing industry was noticed in the country. Leasing has grown more rapidly than originally anticipated in 1976. In 1979, new equipment financing through leasing accounted for 1.3 percent of private fixed capital formations as compared to 0.4 percent in 1976. In 1980, this share had risen to approximately 2.5 percent. The law gives enough protection to lessors in Korea to make them feel care free of the risk-less nature of the transactions. The lessor provides an alternative means of financing a user's equipment by advancing funds. Typically the lessee selects the suppliers and the leased property and the supplier delivers the property directly to the lessee. In most case the lessor does not inspect or verify the technical features of the leased property, which he has purchased. Besides, the terms of lease are flexible. The terms provide the lease to usually extent to 64 months while traditional bank financing would be available only between 36 and 60 months for similar equipment. Moreover the terms of bonds sold in the security market usually extend to only 36months. Fiscal considerations have also rendered it attractive to private enterprises that faced acute shortage of medium and long-term capital and are now serviced by leasing companies. Merchant banks have become more prominent in Korea in providing lease finance. (Shrestha Amish – Unpublished dissertation of MBS)

c) Thailand

Equipment leasing has only recently been introduced in Thailand. There is no legislative or administrative regulation to cover leasing business; Traditional tax structure is main hindrance in developing the leasing business. However, international finance corporation has attempted to encourage leasing in Thailand by participation in the formation of leasing company. International Finance Corporation reports that the tax treatment applied to leasing companies is based on laws intended for traditional rentals of property and is not well suited for modern financial leasing. For example, a business turnover tax is charged on the total rental revenues of leasing companies instead of being limited to the interest portion of leasing companies' receipt. Besides, tariff and sales tax is applied to certain leasing transactions, which further reduce the competitive attraction of leasing as a method of financing. Recently the ministry of finance has authorized the board of investment to revise tax treatment of leasing transactions in the light of their essentially financial nature. With such amendments, leasing business is bound to become an attractive alternative method of financing. (www.historyofleasing.com).

d) Bangladesh

Leasing activities in Bangladesh commenced with the establishment of industrial development leasing company of Bangladesh Ltd in 1985. There are two or three private companies engaged in leasing plus hire purchase business of vehicles and household goods in small scale but they do not extend lease for industrial machinery and equipments. IDLC assumes full responsibility of developing lease market in Bangladesh through advertisement campaign direct contact with potential entrepreneurs direct mailing services and arranging meeting with members of the regional chambers of commerce and industries to familiarize the advantage of leasing.

Since leasing stand in its infancy in Bangladesh accounting principles for leasing has not been enliven so far by the accounting bodies. But operating method of account under which the leasing company capitalizes the lease assets and charges depreciation in the income statement is acceptable in both accounting and taxation. Lease Company has to declare the taxable income based on tax depreciation. (www.historyofleasing.com)

e) Indonesia

Leasing in Indonesia was introduced in 1974 and ever since it has emerged as a major financial medium for business expansion and replacement of capital equipment. The number of leasing companies grew from 3 in 1975 to 17 in 1982, 34 in 1983 and 72 in 1985 and 83 in 1987-1988. Since the volume of lease contracts have grown from Rp 700 million in 1975 to Rp 32 billion in 1981, Rp 419 billion in 1984 billion in 1985, Rp 645 in 1986 and Rp 1000 billion in 1987. Ministry of finance gives gull support for promoting leasing business besides Indonesian leasing association. Leasing activity is dominated by the joint venture with the state banks and the Japanese, American and French banks. Leasing in Indonesia has been mainly financial lease on full payment non-cancelable terms in the form of (1) direct financing lease (2) sale and lease back and (3) vendor program to selected equipment and suppliers or distributors. Other types of lease services like lease syndication and club deals are gaining ground. For funding leasing companies have to depend on private banks and finance companies. Raising deposits from public by leasing companies is prohibited. Lack of skilled professional, tax problems, complicated and lengthy legal procedure are source of bottlenecks on the growth of leasing business. (Shrestha Amish – Unpublished dissertation of MBS)

f) Taiwan

Taiwan's economy has been built by small and medium business, which represents 98 percent of all enterprises in private sector Taiwan, is a newly industrialized country of the four Asian NICS (namely South Korea, Taiwan, Hong Kong and Singapore as classified by OECD in 1979). Its economy depends mostly in exports of the products of its small and medium industry.

In Taiwan's economy leasing industry plays important role in financing the small and medium business. In Taiwan, it is not very easy for the small and medium business to obtain loans from the banks. When they need to procure a new production facility, the small and medium business can always find in leasing a ready means of financing. Without leasing, it will be extremely difficult for them to attain sustained growths.

The second oil crisis in 1979 brought about serious inflation in Taiwan which badly hurt the industries causing rapid rise in the prices of machinery and equipment making it impossible for the management of small and medium industry to plan ahead. The leasing industry continued to provide with timely financial assistance to the small and medium business enabled them to expand their production facilities whenever necessary, without incurring additional cost resulting from subsequent inflation and thus causing savings in the cost which greatly enhance the global competitiveness of the products of small and medium business. Even during the late 1980s the industries of Taiwan faced problem as sharp appreciation of the NT dollar, increasing wages and labor shortages causing some of the small and medium business to shift and relocated their production facilities to the southeast Asian country to take advantage of locally available low cost labor and those that remained in the country had to resort to automation in order to reduce labor cost, upgrade production technology and increase the added value of their products. The leasing industry took the initiative to provide the small and medium business with hi-tech,

hi-precision equipment to enable them to automate their operation and upgrade the quality of their products.

In recent years, the leasing industry has grown very rapidly in Taiwan. It provides financing for such other service industries as transportation, warehousing, communication, retail business and trading helping them to procure automation equipment and computers for expansion of their operation.

In sum leasing industry has made invaluable contributions toward the small and medium business in Taiwan. Because of key role the small and medium business have played in accelerating economic development in Taiwan, the leasing industry has indirectly helped Taiwan to attain the status of a NIC in Asia. In 1990 the total leasing contract value was NT dollar 17 billion, of which 66.8 percent was allotted to the small and medium business. This high ratio reflects the close relationship between the leasing industry and the small and medium business, as well as the importance of the leasing industry to Taiwan economy.

Leasing provides the specific benefits to small/medium business in Taiwan. They are leasing conserves working capital, leasing preserves alternative bank credit line, leasing can be 100 percent financing and does not require compensating balance to support, leasing permits payment through revenue generated from the use of equipment, rental terms of lease are negotiable to meet the specific need of each company, leasing is medium/Long term financing and hence will provide an uninterrupted means of financing even at tight money market situation, leasing is quick and flexible due to the simplified procedure and limited documentation required. (Verma 1994: 8-12)

g) India

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

The industry entered the growth phase in late 1982, when numerous financial institution and commercial banks either started leasing or announced plan to do so. ICICI, prominent among financial institutions, entered the industry in 1983 giving boost to the concept of leasing. Thereafter, leasing business became the new gold mine. This was the time when the profit performance of the two doyen companies FLC and twentieth century leasing company had been made public, which contained all the fascinations for many more companies to join the industry. In the mean time, international finance corporation announced its decision to open four leasing joint ventures in India. To add the leasing boom, the finance announced strict measures for enlistment of investment companies on stock exchanges, which made many investment companies to turn overnight to leasing companies. Foreign banks in the country, Grindlays being the prominent, did appreciable work in marketing the leasing in India. As per RBI's records as on 31st march 1986, there were 339 equipment-leasing companies in India, whose asset leased totaled Rs.2395.5 million. There net owned funds were Rs.811.4 million and their total debt Rs.1634.9 million. Besides there were a composite companies engaged in various activities including leasing as one of such activities and gross assets by them were Rs.1814.9 million. That is the total cumulative leasing market as on 31st march 1986 stood at Rs.4210.4million. The annual volume of leasing done in India is estimated at around 300 corers. One of the most notable features of the development of leasing in India is the entry of public sector banks in the field. Indeed, this is very much in tune with the experience in other countries where initially leasing companies sprang up as

alternative bank financing but gradually the banks themselves started leasing operations and they soon outstripped the pure ones, because of obvious reasons—strong fund positions, long credit experiences and so on.

In India, the entry of banks in the leasing area has been permitted by the banking laws amendment act 1984, under which banks are allowed to open their subsidiaries, which will engage in leasing activities. Lately, almost every nationalized bank in the country has indicated intention to offer leasing facilities and some of the banks-sponsored leasing subsidiaries have already become operational. These subsidiaries have been provided with a large initial capital, to begin with running into a few cores, and they are also eligible to raise resource by way of loans from their promoting banks up to five times of their net owned funds and raise public deposit up to ten times of their owned funds and raising such depositors they may activate the large branch network of their promoting banks. These bank subsidiary leasing companies are, therefore, in an enviable position to succeed in the leasing business. Thus, entry of banks in leasing becomes a remarkable phenomenon in the Indian leasing industry. This removes the marketing inefficiency viz, lessor trying to operate in a field which was already being well served by the banks without being materially different in order to compete with bank lending, the lessor had to sell, and some times oversell their qualitative features including the special tax treatment. This inefficiency may not be totally removed even now because of the fact that the subsidiaries which offer leasing facilities have a different organizational set up, any may remain slightly compartmented from their bank principals, but in ideal form, leasing and lending should either be in different markets, or should be choices offered by the same entity.

An other market inefficiency, which is slowly being removed, in India as well as other parts of the world, is the role played by the differential treatment under tax laws—both direct and indirect in a lessee's choice between leasing and lending. In India, income taxation remains a factor only in certain extreme or artificial situations. In

retrospective, the leasing market in India seems to have undergone to crucial phase of its existence-one was the boom phase and the second was the phase of the slide downhill. Such tendency is evinced with almost every innovation, which gets an acceptance. At first, it is accepted with over-optimism, resulting from a fancy appeal in the instruments. But the fancy soon turns into antipathy when some of the over expectation are belied. The Indian leasing atmosphere today is by no means that of over-optimism nor is it that of gloom. The lessors have shed their miracle-psychosis, and today, their prime concern is to search new markets for their products.

The tax proposals in the union budget 1990-91, the most significant once being the abolition of section 115 j and the scrapping of investment allowances, have once again brightened the future of tax advantage based leasing (Kotahri 1991: 37-40)

2.2 Review of Related Studies

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

Reviews of books, articles, journals and reports

Sterk, Arjen, Johnson, Anne (2001) in their book entitled “Face of Leasing” showed the basic and inevitable matters of leasing both in picture and in writing forms. This books aims to uncover the face of leasing business, which is still in shed in developing countries. It furthermore shows the terms and conditions and the origin of leasing so that one can understand and dare to carry on this business. It depicts that so far it is one of the most beneficial business and due to which at present developed countries are having strong economic condition.

Mahat's (2001) study entitled “Loosing leasing companies” explored that despite the fair length of time has passed leasing business has not been able to get momentum. The leasing companies are paying taxes for the recovery of their own capital also; the capital portion of the lease rental, as the whole of the lease rental is treated as an income. But as against this, the lessor can claim depreciation on leased asset, which is being use by the lessee.

He further adds that the over the period of lease, the tax benefit is equal to the tax loss, and if we consider the time value of money, then there is loss incurred. He says that the prevailing rate of the depreciation prescribed by the tax authorities discourages leasing business in Nepal. He concludes that the leasing has many potential in the development of the economic conditions of the country and says that the government should adopt soft and encouraging attitude towards the leasing industry at least in the initial stages.

Economist Kancha (2007) in his article entitled “History of financial market in Nepal” explored that, financial markets and institutions are the key to the development of any economy, whether developed or developing. Developed economies usually already have a highly sophisticated financial market in place whereas developing economist usually have no or rudimentary institutions in place. During the turn of the century a lot of countries gave up the moribund communist style economy towards a modern capitalist economy. In this process a large number of financial markets have developed across the world, including in Nepal. Some of the emerging markets, especially India and China, have been able to attract huge amounts of foreign investments because these countries have been able to show extra-ordinary amounts of economic growth. In 1994, the government of Nepal established a stock market with the technical assistance of the IRIS Center at the University of Maryland under the USAID sponsored Economic Liberalization Project.

Furthermore, his article states that the real boost into the capital market in the form of a private sector led growth began with the financial sector liberalization. In the mid-eighties, Nepal opened its doors to foreign investors as joint venture partners in the banking sector, which revolutionized commercial banking services in Nepal. Since then, a variety of private sector based financial institutions have evolved. In 1992, the Finance Companies Act was amended. This enabled finance companies to be established to function in various areas such as leasing, housing finance, and hire purchase.

It concludes that the government's privatization policy enabled new industrial companies to enter the stock market. In 1994/95, of the total public issue, 31% was issues of privatized companies. In 1992, the Government brought out the Industrial Enterprises Act and enforced the one-window policy to actively promote foreign investment in the country. This resulted in some new joint venture companies in the country, which accounted for 29% of the public issue in 1994/95.

Moreover his article suggests, it is the objective of all policymakers to try to ensure a healthy, sustainable and stable growth of capital markets. It is the responsibility of the policymakers to be help to help and sustain a favorable growth environment for the infant capital market. To promote a healthy, competitive market, policymakers should seek to increase the number of market intermediaries and investors, both individuals as well as institutional. The regulatory environment also needs to be strengthened. A lot of institutional changes are necessary if Nepal is to have a sophisticated capital market that will be able to cater to the needs of all market participants. It is only when there is a healthy, competitive institutional structure supported by liberal and stable economic policies facilitating increased savings and investments in the country that the capital markets can grow.

Luna (2008) in his article entitled "Equipment leasing and financing, for all industries" Flashes, for the equipment leasing and financing industry in 2008,

economic times were no different than most U.S Industries. The transaction and sale volume as a whole was rapidly declining as we draw to the close of this year. Many lenders, lessor/brokers were either in an illiquid position or possibly out of the business due to the declining economic times.

As gas prices and the rate the Federal Reserve charges it best customers have gone down, the interest/rate factors charged by lessors have not. The combination of the down payment, the additional lending requirements and the high cost of borrowing money has depressed the leasing industry.

In addition, the lenders/lessors in 2008 have seen record repossessions and they have assumed tremendous amounts of additional repossessed inventories. This problem combined with the difficult economic times has changed the leasing industry as we have recognized it in the past. Many lenders have had to focus on their repossessed inventories instead of normal business due to cash flow demands, out of balance credit lines with their own lenders, and competing with other lenders for the small supply of buyers in the market place.

In the prior better times, there were many application only programs up to \$250,000 and \$150,000. This meant there were no financial statements, tax returns or bank statements required. Today, there are less application only lending programs available, or the available programs require more information and their rate factors are higher than before. Due to problems in the industry, many lenders have gone back to more conventional lending requirements.

These lending changes have a tremendous impact on normal business for marginal credit buyers, startup businesses. And more mature businesses. One interesting area that has arisen out of this economic downturn is dealer/special financing. With all the repossessions in the market place today, buyers still have a unique business opportunity to acquire repossession. Repossessions can be obtained with very little

or no money down, sixty months to repay, regardless of age, and more favorable financing terms than conventional financing. Since new business capital is difficult to obtain, it is suggested that the startup and seasoned business examine the repo markets. This could be a rewarding in the combination of both price and financing.

The following types of industries are examples of what we are describing here for equipment leasing and financing construction trucks and equipment, work and commercial vehicles, over the road trucking including semis and big rigs, commercial trailers including flatbed, bottom and end dump, dry van etc and all types of construction equipment, backhoes, excavators, bulldozers, dump trucks, farm equipment, forestry equipment, heavy equipment, garbage trucks, etc. If conventional isn't available to you for whatever reason, please check out the repossession market and see what deals you may be eligible for.

Shrestha's (2008) in Gorkhapatra justified leasing more precisely in the editorial report "Leasing Business in Nepal Concept and Implications" she explored leasing is undeniably a business that has remained highly under exploited in Nepal, despite plenty of potential. In the global context, leasing is being increasingly used as an alternative vehicle of earning, as it offers tremendous prospects to both business and investors in maximizing their wealth. Her report is around the concept and implication of leasing business and suggesting for creating sound environment for carrying leasing business in Nepal. Furthermore, it lightens leasing business holds tremendous potential in Nepal. One very important rationale behind promoting the leasing practices in Nepal is that owning a business or property through purchase incurs a lot of investment, but leasing saves such big investment. Leasing offers the lessee to use the property productively without having to incur any big investment at all. Relieving the businesspeople out of the initial cash outlay on property is one of the best advantages of leasing.

Another equally important benefit is that it provides tax savings from expenses incurring in the leasing business. It is a good offer to the managers and business owners who always try to maximize their wealth by minimizing expenses.

Likewise, in this business world with rapidly changing technology, leasing also protects the business people from adverse effects stemming from technology changes in the world. As they - when leasing fixed assets like land and building - have not invested big amounts of money in long-term assets, they do not need to bear losses from the technology change which would otherwise hit them at least to the extent they have invested in the fixed assets. Capital assets may fluctuate in value. Leasing shifts risks to the leaser. Leasing also may provide more flexibility to a business, which expects to grow or move in the relatively short term, because a lessee is not usually obliged to renew a lease at the end of its term.

However, one should be aware of a common drawback of leasing. A net lease may shift some or all of the maintenance costs onto the tenant. Similarly, the leaser may demand higher rentals if the business becomes successful. To avoid such circumstances, terms and conditions should be clearly mentioned in the leasing contract.

In the Nepalese context, the leasing business has been least addressed and practiced. Only a few companies, namely International Leasing and Finance Co, Union Finance Ltd, Sri Lanka Merchant Bank Ltd. and Lumbini Finance and Leasing Ltd, have conducted leasing business activities. The multitude of companies that are struggling to grab their pie from the toughly competitive traditional banking market in the Nepalese financial sector market have failed to capitalize on the tremendous potential existing in the leasing business.

A number of environmental factors are responsible for the poor growth of the leasing business in Nepal. First of all, most people do not have even a basic concept

about leasing, while even those few doing this business lack a broader concept about leasing. As this business has grown in both breadth and depth in international practices, the leasing business in Nepal should also be conducted in compliance with global practices and standards.

At present, the leasing business is being regulated by the Contract Act. There are no leasing regulations in Nepal, and the central bank, Nepal Rastra Bank, is also required to look into it. The companies practicing leasing business in Nepal have been weak not only in informing the people about the business but also in creating adequate demand for it. The companies should also put forward the demand to enact separate legal provisions for conducting the leasing business.

There is also a need for learning from international leasing practices, which may be properly replicated in Nepalese practices, too. There are many instances where leasing is far more advantageous than owning.

A separate Leasing Act is essential for facilitating and supervising the leasing business in the country, so that the business activities do not divert from the planned course and produce good results. The existing Contract Act and other related laws are not adequate to properly address the emerging needs of the leasing business.

2.3 Review of Related Dissertation (thesis)

Gautam (2000) in his thesis entitle “Investment analysis of finance companies in Nepal” analyze the term of interest rate of crediting the repayment of credit, collection of credit and so on. The study found that the use of funds towards the hire purchase credit is decreasing rapidly as the direct data of goods and bad credit was not available than the credit loss provision used to analyze the credit quality, credit loss is increasing every year significantly and should be controlled. The loss provision of some companies is more alarming on individual analysis, the company having above average credit loss provision should re-think on their investment and repayment policy.

Joshi (2003) in his dissertation entitled “ A study on Equipment leasing Business in Nepal” has made a thorough study on how the equipment leasing business is done. His main area of study were practice and procedures followed in course of leasing business and analysis of existing legal provisions related to the leasing business.

After the completion of his survey, he concludes that the leasing business is in the stage of infancy and experimentation. He says that the leasing business has been overlooked within the Nepalese financial sector. He states that even the pioneers of the leasing business have not taken the leasing as the first priority. He says that the lack of act relating leasing business has created ambiguity and has not facilitated the development of leasing business in the country. He found that the lease that eh companies are providing is nothing more than a secured loan issued to the lessee. He further adds that the lessor/finance companies have more rights and less responsibility, whereas lessee has the less rights and more responsibilities.

His survey on opinion related finance companies/leasing business found that the due to the high credit risk and lack of market, the finance companies are hesitating to enter the market. He further found that the majority of the finance companies feel

that the existing infrastructure for carrying leasing business is not sufficient and are also not satisfied with the provision made by NRB regarding leasing business. He finds that the machinery and tools for small and medium scale industries need to be focused to develop leasing business in the country.

Shrestha (2003) in his dissertation entitled “Equipment leasing business in Nepal” explored the genuine scenario of leasing business in Nepal. His study is on the surrounding of studying and analyzing the introduction growth and development of equipment leasing in Nepal and clauses of the lease contract. Study conclude that leasing business is in its initial stage of experimentation, its effectiveness in contributing to the country have yet to be assessed. It has remained overlooked or ignored subject within Nepalese financial sector.

Joshi, R.P (2005) in his dissertation entitled “Problems and prospects of leasing business in Nepal” poked out the problems that leasing practitioners were coping, as its main objective was to find out the specific problems and solutions related to the leasing business in Nepal. This dissertation concludes that there is no prominent problems were found that could not be solved at any const. The risk is involved in every aspect of life and that too with the business it is inevitable. The finance companies are just waiting for the proper rules and regulations or the specific act to be enacted by the government to start a full fledged leasing business in Nepal to benefit both the finance companies or the lessor and the lessee or the user of the leased asset and even the country as a whole.

Rana (2007) “A comparative financial performance analysis of NBIL bank Ltd and Himalayan bank Ltd.” Drown major finding as follows: A study conducted by Rana has concluded that both banks had utilized its deposits very effectively on loan and advances but its return on investment of both the banks is not satisfactory. It found that both banks are using more debt in the capital structure. Both banks are able to earn high return on shareholder equity.

Dhungana (2007) in his dissertation entitled “Lending practice of finance companies” concludes that lending plays principle role for the endurance of any finance companies. His studies aim is to find out the policy and regulation being adhered while lending. Briefly, it states there should be b proficient loan policy and effective procedure to get success in this field. He recommended that there is need to increase liquidity position and to look for new areas for investment.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

“Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well-thought-out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problems or search the answer to questions is called research.”(Sekaran 1992)

This chapter contains a discussion about methodologies employed in order to achieve the objectives of research. It describes how the overall plan has been prepared and strategies have been developed to conduct the research. More specifically this chapter includes the population or universe of the research to which the result of the study will be finally generalized, sampling procedure, the data and information collection procedure and the method of presentation and analysis of data. In the last section of the chapter, some of the limitations of the methodologies applied in this research have also been mentioned.

3.2 Research Design

The research design is an integrated frame that guides the researcher in planning and executing the research work. The research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed. Specifically, research design describes the general plan for collecting, analyzing and evaluating data.

This research study is basically an attempt in disclosing the genuine picture of equipment leasing business of Nepal. Therefore, it has been directed towards finding out facts and view about equipment leasing business in Nepal. Depending upon the nature of the study survey cum exploratory research design has been followed to assemble all possible facts and views about equipment leasing business. For all the purpose of analysis of facts and views descriptive and analytical research design has also been followed.

3.3 Population of the Study

The population or universe for this study comprises all 79 finance companies licensed from Nepal Rastra Bank presently operating in the country. But in case of study of practice and procedure regarding leasing business, the population covers only the finance companies performing leasing (i.e 4 finance companies)

3.4 Sample of the Study and Sampling Procedure

There are, in total 79 licensed finance companies currently operating in our country. Among them 52 are in valley and remaining 27 are outside the valley. Among all licensed finance companies only 7 finance companies are performing leasing business (i.e. 5 at valley and 2 outside the valley), which were being shown in table 4.7.

The selection of sample finance companies carrying leasing business is done on the basis of: -

- The finance companies providing leasing service.
- More forward in leasing business.
- Long history in this field.

Where simple random sampling is done among the five finance companies located at valley, three finance companies are picked and choose as sample to study the practice and procedure followed in course of leasing business and for the purpose of opinion survey among finance companies located at valley (i.e.52) 32 have been selected randomly like wise the statistics of NRB from 1890's to 2008 is being used for analyzing. So its a sampling period

3.5 Data Collection Procedure

As this study aims to find the genuine picture and highlight about leasing business in Nepal. Data's used for this study need to be qualitative and quantitative too. So, this study has used published, unpublished and other primary data. Primary data's were being collected from financial institutions by using the following method: Depth interview's (conversational, not structural), Opinion leader survey, Historical investigation, Focus group studies through video conference, telephone and online using e-mail, chat room, web etc, Field notes, Observations, Open ended questions, Delphi technique.

Aforementioned techniques were being used for the collection of primary data however for reliable data, for having the reliable outcome various journals, magazines, the publication of Nepal Rastra Bank have been utilized as a secondary source of information. The official papers and documents (i.e statement, records) have been utilized as unpublished sources of information for the fulfillment of the third objective. Finally the views of finance companies on various aspects of leasing business in Nepal have been collected from structured questionnaires. The specimen questionnaire is given in appendix.

3.6 Research Variables

This study has included and studied under mentioned variables to achieve the stated objectives. These variables have been selected on the basis of researcher's own judgment, as they seem to be important especially in the context of Nepal. Furthermore, the availability of information is taken also as a base for selecting study variable.

A) Beginning of equipment leasing business in Nepal. B) Growth of leasing business in Nepal. C) Coverage of leasing business throughout the country:

- 1) Relative position of leasing investment to the total credit flows of finance companies.
- 2) Acts having relevancy with the leasing business i.e contract act 2000, income tax act 2001, Nepal Rastra bank act 2001, Finance companies act 1986, International financial transaction act 1998 and foreign exchange (regulation) act 1962 (II amendment 2002)
- 3) Current Directive issued to finance companies from Nepal Ratra bank 2001
- 4) Practice and procedure related variables are:
 - I) Procedure for entering into leasing agreement.
 - II) Acquisition of asset for leasing.
 - III) Lease term and lease deposit.
 - IV) Use or operation of the asset.
 - V) Loss or damage to the asset.
 - VI) Repair and maintenance of the asset.
 - VII) Insurance of the asset.
 - VIII) Lease depositor security.
 - IX) Attachment, alteration and transfer of the asset.
 - X) Default and remedies.
 - XI) Renewal of lease.

D) Variables used for opinion collection:

- a) Profitability of leasing business.
- b) Sufficiency of infrastructure for leasing business.
- c) Assets need to be given top priority.
- d) Markets segments need to be promoted.
- e) Views regarding current income tax act.
- f) Views regarding Nepal Rastra bank's role.
- g) Views regarding capital base needed to carry leasing business.
- h) Problem for leasing business
- I) Readiness of finance companies to enter into leasing business.
- j) Determinants of success of leasing business.
- k) Evaluation on growth, practice, awareness, publicity, government's support.
- l) Future prospects of leasing business.
- m) Suggestions for developing leasing business.

3.7 Financial and Statistical Tools used for Data Analysis

To achieve sound and proper result some financial and statistical tools and models are used in the dissertation which are briefly explained below.

Ratio analysis

Ratio analysis is the financial tool for comparing various items, it is a tool used to quantify the relationship between two or more sets of financial data or values. It is being used in this study for identifying the growth of leasing business in various years.

It is simply calculated in the following way:

$$G = \frac{t_1 - \tau_0}{\tau_0} \quad \text{or} \quad t_1 = \tau_0 (1 + g)^n$$

Where, G = growth

And t_1 = Trend value of current year

And τ_0 = Trend value of previous year.

Arithmetic mean

Arithmetic mean or simply a mean is a set of observations is the sum of all the observations divided by the number of observations.

For calculating Arithmetic mean (A.M) we have got formulas they are:

$$\bar{x} = \frac{\sum x}{n} \text{ for individual series}$$

$$\bar{x} = \frac{\sum fx}{N} \text{ for discrete and continuous series.}$$

Where, n = number of observations, N = total frequency,

\bar{x} = Arithmetic mean

F-test

F test is also known as variance ratio test as it is most suitable for test the equality of population variance and to test the equality of several population means or to test whether they establish the fact that both the samples have come from the same universe and have a common variance, or to test whether a given population follows an uniform distribution or how well one population compares with the others in terms of the uniformity or their distribution, it is being used in this study for testing whether there is significant difference between the factors or not.

Simply, F-test = Variance among the groups / variance within group
= Greater variance / smaller variance

Or, in more specifically

$$F = S_2^2 / S_1^2 \quad \text{if } S_2^2 > S_1^2$$

$$\text{And, } F = S_1^2 / S_2^2 \quad \text{if } S_1^2 > S_2^2$$

$$\text{Here, } S_1^2 = 1/n-1 \times (X_1 - \bar{X}_1)^2$$

$$\text{And, } S_2^2 = 1/n-1 \times (X_2 - \bar{X}_2)^2$$

Trend analysis

Trend analysis is a tool of financial analysis that indicates whether the financial condition of a firm is likely to improve or deteriorates. It doesn't only shows the past trend but also it aids in forecasting future of particular firm or business. It is done by using various methods but among them most applicable is least square method. This study used this analysis for forecasting the future of leasing. The trend value is being calculated by using equation expressed below:

$$Y = a + b X$$

Where,

Y = level of factor

X = level of years.

And , a = intercept of the line representing the relationship between X and Y

b = coefficients of years

Give the aforementioned equation, value of a and b can be estimated by using following relationship:

$$\text{And } b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2}$$

$$a = \sum Y / N - (b \times (\sum X / N))$$

3.8 Method of Data Presentation and Analysis

As the basic objective of the study, is to explore and highlight the true picture of leasing business in Nepal. The procedure for presentation and analysis has been intended to use more and more tools and technique applicable for the study.

As the second and fourth objective of the study: viz. examining existing legal provisions and examining practice and procedure followed in course of leasing business, there exists no need of any financial and statistical tools. Therefore, this study has been presented in a understandable manner by classifying the whole matter into number of heading and subheadings. Available information has been appropriately analyzed to explore much information about the leasing, which are in shade like problem coped by the practitioner, awareness and solutions.

But in case of the first and the third objective of the study, attempt has been made to analyze the data from different angles. Therefore, there data have been presented in tables, graphs, and figures in an appropriate place. Furthermore, mathematical and statistical tools like percentage analysis, trend analysis, and ranking and variance test are also used in the required place.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4 Introduction

“Data analysis is the relating or difference supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion” (Kothari 2000,10)

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

4.1 Growth and Development of Leasing Business in Nepal.

4.1.1 Beginning of Equipment Leasing Business in Nepal

In order to highlight the history of beginning of equipment leasing or leasing business in Nepal, the evolution and development history of Nepalese financial system has been analyzed with the perspective of identifying the institution which started the equipment leasing business for the first time in Nepal as well as the date when the equipment leasing business was started and the legal provision made regarding leasing business in the past.

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

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

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

Therefore, the focus was on developing foundation for promotion fundamental financial activities rather than on such innovative financial services like leasing. That was the time; leasing service was not developed at its present form even in the world. The concept similar to the concept of leasing might have existed but as a professional financial service, leasing was not developed.

In 1956, as a Central Bank, Nepal Rastra Bank (NRB) was established under Nepal Rastra Bank Act 1955. With the established of NRB, Nepalese financial sector got momentum. After that, new commercial Bank Act 1964 was enacted replacing the old Nepal Bank act 1937. This new Act fulfilled the need of general

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

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

When the country adopted open, liberal and market oriented economic policy from mid 1980's, there came remarkable development in the Nepalese financial system. In the banking sector, many joint venture as well as Nepalese private sector banks came into fray and in the non banking sector, large number of finance companies were established. Besides, many development banks, saving and credit co-operatives, financial intermediary NGOs were established in the financial system. Following is the table showing comparative institutional growth of banking and non-banking institutions:

Table 4.1

**COMPARATIVE GROWTH IN BANKING AND NON-BANKING
INSTITUTIONS**

Types of financial institution	Number of institution in mid-July								Mid-Jan 2008	Avg. growth per year
	1980	1985	1990	1995	2000	2005	2006	2007		
Commercial banks	2	3	5	10	13	17	18	20	23	36%
Development banks	2	2	2	3	7	26	28	38	58	52%
Finance companies				21	45	60	70	74	79	30%
Micro credit development banks				4	7	11	11	12	12	71%
Saving and credit co-operatives (limited banking activities)				6	19	20	19	17	16	22%
NGO's (financial intermediaries)					7	47	47	47	47	46.3%
Total	4	5	7	44	98	181	193	208	235	

Source:- Nepal Rastra Bank, Banks and financial institutions regulation department statistics division.

Table 4.1, gives comprehensive view of financial system of Nepal. From this table it has been know that the financial system of Nepal is continuously developing. During the last two and half decades the number of financial institutions has grown significantly. At the beginning of the 1980s there were only two commercial bank and two development banks in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new bank and Non-banks financial institutions. Consequently, by the end of mid-Jan 2008 altogether 235 banks and non-banks financial institutions licensed by NRB are in operation. Out of these, 23 are "A" class

commercial banks, 58 "B" class development banks, 79 "C" class finance companies, 12 "D" class micro-credit development banks, 16 saving and credit cooperatives, and 47 NGOs.

It could be illustrated more precisely by following figure:

COMPARATIVE GROWTH IN BANKING AND NON-BANKING INSTITUTIONS

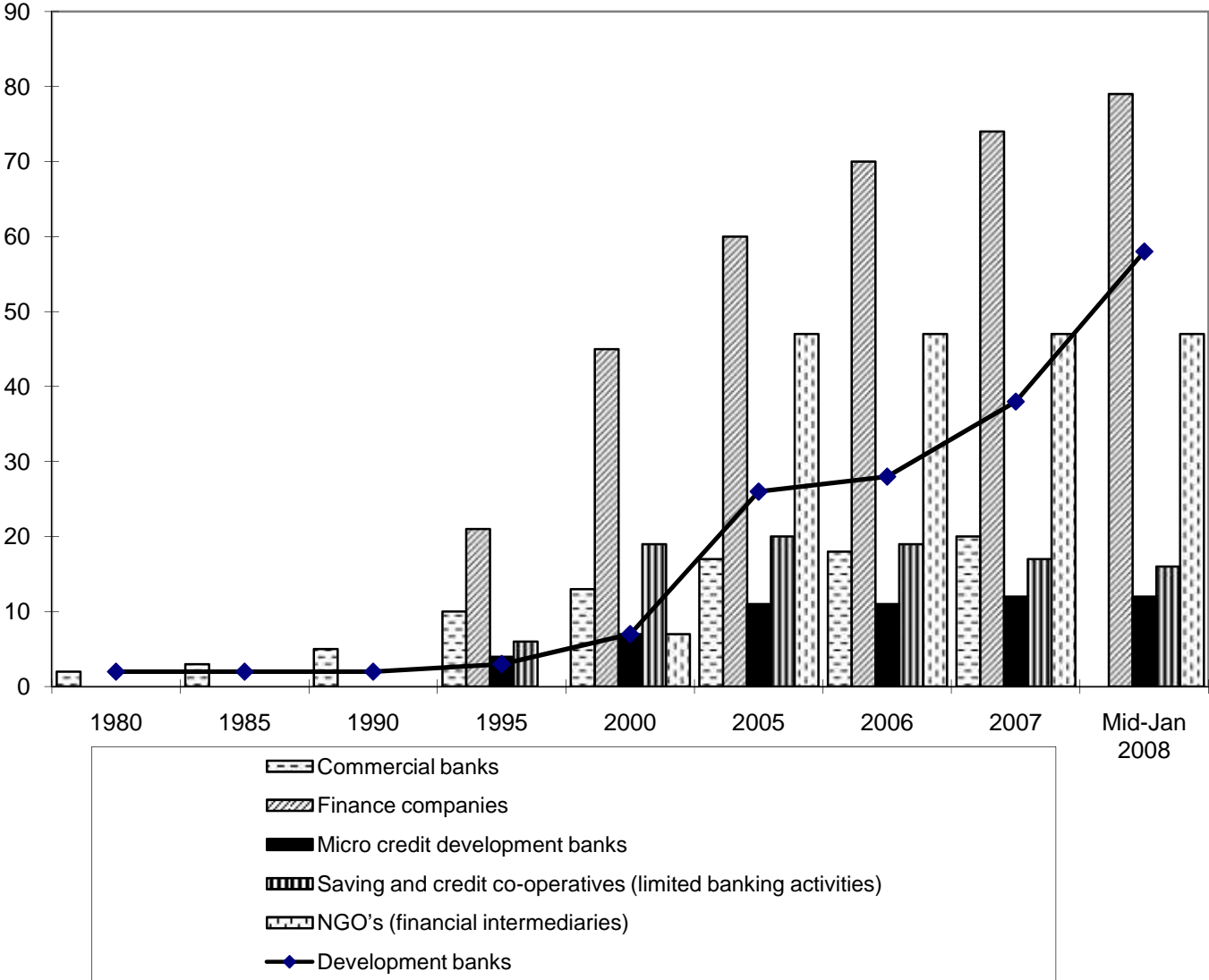


Chart No.1

So, different types of financial institutions have been established and their number has also been increased but special company for leasing business has not been established till the year 2008.

A survey has been conducted under this research in order to find any legal provisions regarding leasing business made in the past that proves the history of leasing business in Nepal. Following acts are found relevant with the financial sectors. 1) Nepal Rastra bank Act 1955. 2) Commercial bank act 1974. 3) Development Bank Act 1996. 4) Finance Companies Act 1986. 5) Agriculture Development Bank Act 1967. 6) Rastriya Beema Sansthan Act 1968. 7) Co-operative Act 1991. 8) Form Registration Act 1977. 9) Financial intermediary institutions act 1998. 10) Securities exchange act 1983. 11) Employee provident fund act 1962. 12) Postal saving bank act 1976. 13) Citizen investment trust act 1990. (Source: Nirmala Uperity list of act 2002 A.D.)

The survey shows that there is no special act enacted for leasing business till the year 2002. but while the study of above relevant acts is made to identify the functions prescribed in the act that the institutions covered under that act are legally allowed to do, it has been known that only the finance companies act 1986 has made provision about leasing business. Except this act, no other acts have mentioned anything about leasing business. Hence it can be said that the equipment leasing business in Nepal was started only after the enactment of finance companies act in 1986.

4.1.2 Institutional Growth of Finance Companies Performing Leasing Business.

According to the provision made under section-3 of finance companies act 1986, finance companies are legally allowed to make available leasing finance to any individual firm, company or institutions for the purchase of vehicles, machinery tools, equipment, durable household goods or similar movable property. Though the finance companies act is enacted in 1986, there is no any finance company established till 1993. The first finance company is established only in 1993, since then there is rapid growth in the number of finance companies but leasing business is started only in 1995. For the first time, ILFC, NSMB and UFCO start the leasing

business in Nepal. These pioneer companies hold the vital part of the leasing business in Nepal. Due to the lack of updated specific data and availability of concrete data of mid-July 2002 it could be traced precisely how much percentage share of individual finance companies of total lease finance.

Lease finance outstanding as of mid July 2002 stood at Rs.363.6 million representing 3.04% of the total credit granted by finance companies, which includes Rs.13.3 million from “World Merchant Bank and finance companies Ltd.”, Hetauda. and rest are from the finance companies of Kathmandu valley that are performing leasing business, in which major portion of around Rs 191.4 million is from ILFC. And the share of UFCO and NSLMB are Rs. 133.1 million and Rs 25.8 million respectively. The above discussion is presented in pie chart shown below.

Table 4.2

Share of Individual Finance Companies to the total Lease Finance in Year 2002

S.N	Name of companies	Total credit granted by finance co.	Share in percentage
1.	NSLMB	Rs.25.8 million	7%
2.	WMBFC	Rs.13.3 million	4%
3.	UFCO	Rs.191.4 million	37%
4.	ILFC	Rs.133.1 million	52%
	TOTAL	Rs.363.6 million	100%

Pie Chart Showing Percentage Share of Individual Finance Companies. (of total lease finance in the year 2002, mid-July)

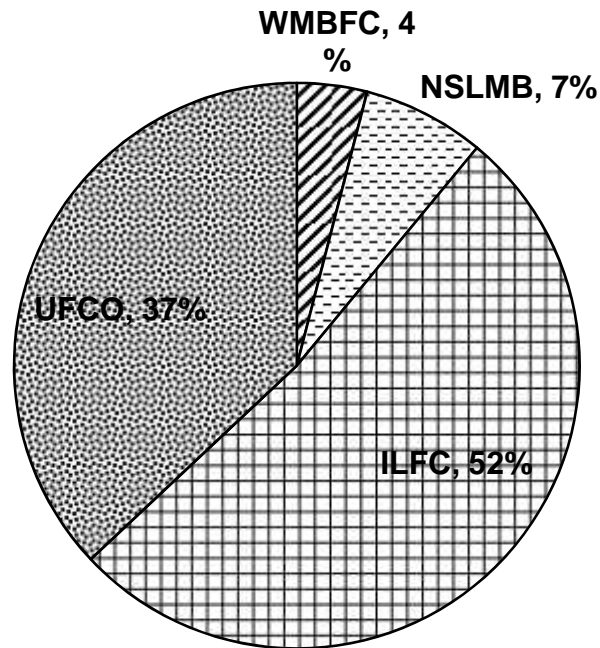


Chart No. 2

Pie-chart created from the information based on the data of NRB's non-bank financial statistics (mid-July 2002)

The chart no.1 shown above clearly shows that 52% of the lease finance has been done by international leasing and finance company, making company market leader. Then followed by Union finance company covering 37% of the total lease finance. The other two finance companies have very marginal share in the lease finance of only 7% by Nepal Sri Lanka Merchant Bank and 4% of World Merchant Banking and finance company. This clearly shows that there are only two market leader and indicates Nepal's infantry stage of the leasing business.

The study further more shows following growth in finance companies operating leasing business in relation with the growth of total finance companies.

Table 4.2

**TABLE SHOWING INSTITUTIONAL GRWOTH OF FINANCE COMPANIES
PERFORMING LEASING BUSINESS**

Year (A.D)	No. of finance companies	Growth rate for year (%)	No. of finance companies operating lease busniess	Growth percentage per year (%) $G = \tau_1 - \tau_0 / \tau_0$
1993	4		Nil	Nil
1994	7	75	Nil	Nil
1995	20	185.71	3	Nil
1996	34	70	3	Nil
1997	41	20.59	3	Nil
1998	43	4.88	3	Nil
1999	45	4.65	3	Nil
2000	46	2.22	3	Nil
2001	48	4.35	3	Nil
2002	52	8.33	4	33.33
2003	54	3.85	4	Nil
2004	58	7.41	4	Nil
2005	60	3.45	4	Nil
2006	70	16.67	5	25
2007	74	5.71	6	20
2008	79	6.76	7	16.67
(mid-march)2009	79		7	Nil

Source:- Non-banks financial statistics 2008

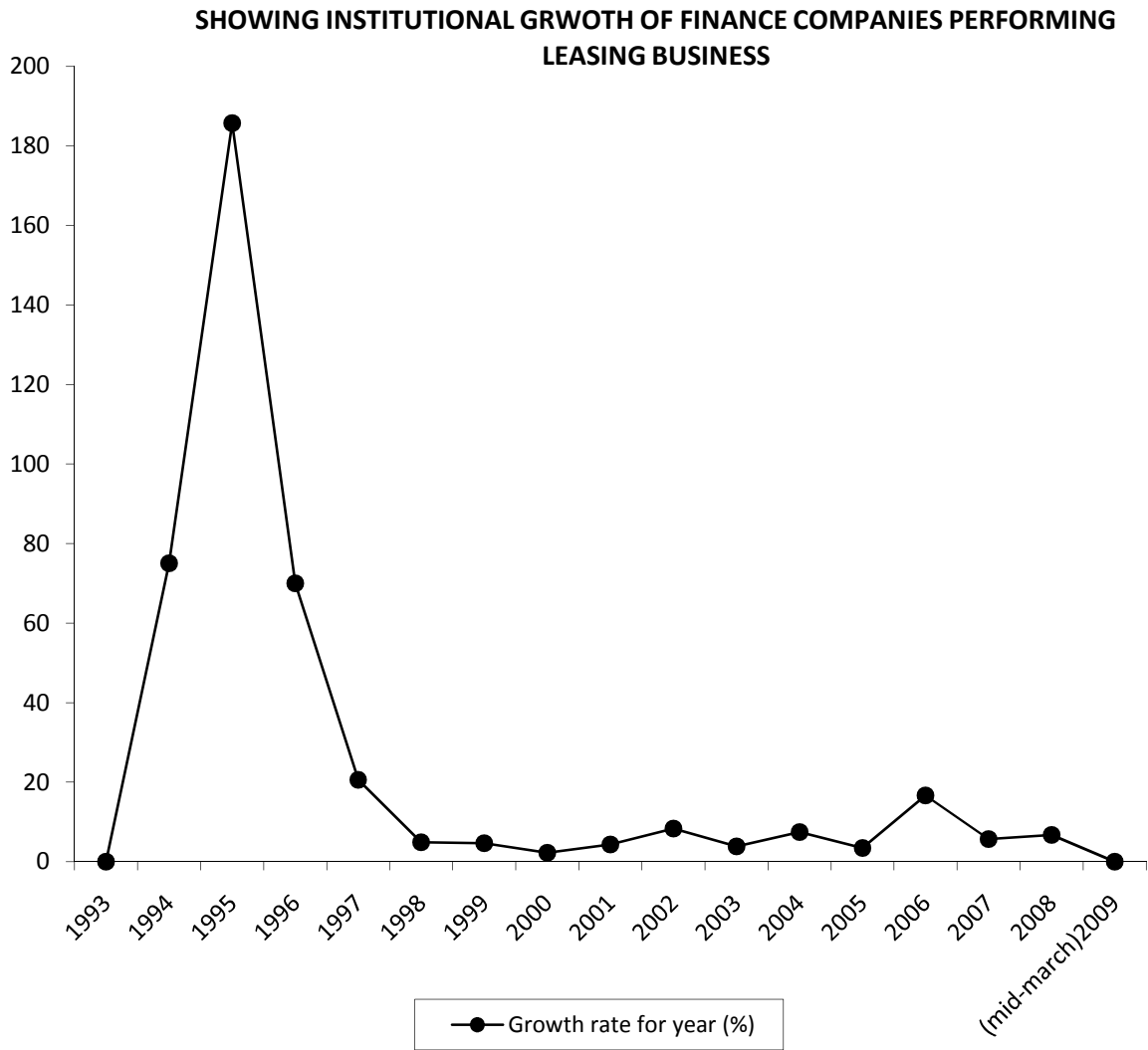


Chart No. 3

From the above table, it is clear that till the year 1995, there is rapid growth in the number of finance companies. But none of the finance companies have performed the business of leasing. This indicates that leasing business remained an unsighted area for investment during a two-year period to these finance companies. Since then there is a vast decrease in the number of finance companies. Due to tough competition among finance companies, some of the finance companies start to diversify their portfolio and as a result, in 1995, three finance companies namely ILFC, NSMB and UFCO start leasing business. Even after the introduction of leasing business by these companies, no other finance companies entered the industry till 2001. Only in 2002, only four companies are operating

leasing business as one of their investing activity. After it, there is gradual increment in entering of financial companies to this industry till 2009. This indicates that only 8.86% (i.e $7/79 \times 100$) of total finance companies established till the year 2009 are currently doing business of leasing. It flashes that there is lack of attraction towards this leasing business.

4.1.3 Extension of leasing business around the country

It is accepted principle that to achieve the balance development of the country, availability of financial services should be extended through out the country. Therefore, under this research, it has been concentrated in any particular region or spread over the country. To ease the research work, the extension of leasing business has been observed by categorizing the whole country as valley and outside valley. The position has been presented as follows:

Table 4.3

Extension of Leasing Business around the Country

Year	Total finance companies having lease business	Company established in valley	Percentage (%)	Total finance companies having leasing business outside the valley
2000	3	3	100	Nil
2001	3	3	100	Nil
2002	4	3	75	1
2003	4	3	75	1
2004	4	3	75	1
2005	4	3	75	1
2006	5	4	80	1
2007	6	5	83.33	1
2008	7	5	71.43	2
(mid march)2009	7	5	71.43	2

Source:-NRB's Non-Bank financial statistics 2008

Table 4.3 shows that before 2002 all the finance company operating leasing business was concentrated in valley only. But in the year 2002 one finance company,

established outside the valley, has started leasing business. It is the world merchant bank established in Hetauda. Like wise in year 2008 one finance company, established outside the valley, has also started leasing business. It is the Nepal Bangladesh finance and leasing company established in Biratnagar.

It indicates that, business of leasing has been just started outside the valley representing the positive steps for the development of leasing business.

4.1.4 Investment Trend of Leasing Business

Growth of any business can be expected if the situation is favorable for that particular business. The more favorable is the situation, the more will be the effectiveness and motivation towards that business. Considering this fact in the mind, an attempt has been made to identify the growth trend in the leasing business and get some ideas for its future development. It has been presented in graph first and then has been fitted in the trend lines as in fig 4.1

Table 4.4

Investment Trend of Leasing Business (in million)

Year	Total investment for leasing business	Trend value for lease investment
1995	26.30	124.30
1996	54.50	155.072
1997	185.00	185.85
1998	310.00	216.62
1999	260.10	247.39
2000	235.30	278.16
2001	277.80	308.94
2002	371.30	339.71
2003	395.50	370.48
2004	425.80	401.26
2005	477.90	432.02
2006	620.00	462.80
2007	545.20	493.58
2008	571.30	524.35

Source:- Non-bank financial statistics NRB, 2008

For details of calculation refers to appendix

The investment trend of leasing business could be illustrated more precisely with the help of following fig. 4.1

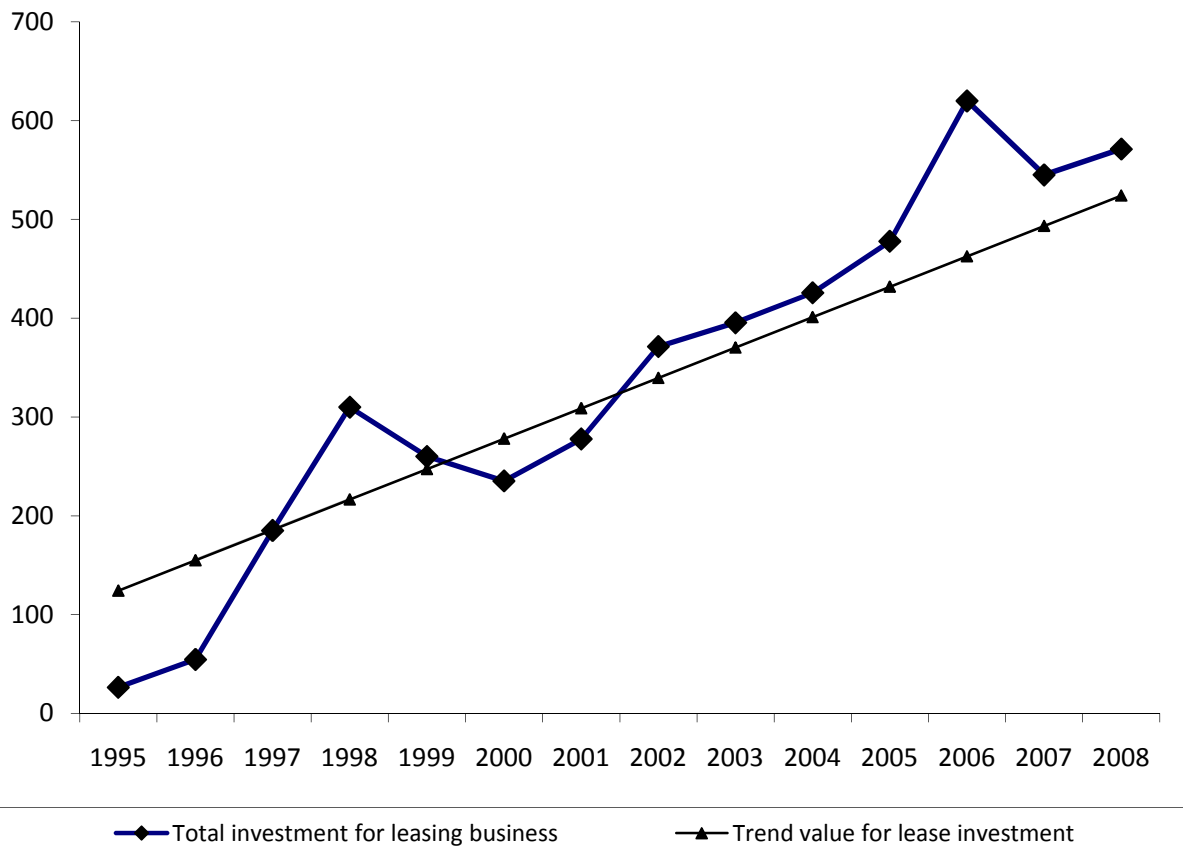


Chart No. 4

Above table 4.4 and fig 4.1 clearly shows that the business of leasing is in increasing trend and is expected to continue for coming years too. Under this research, with the help of trend analysis the value for leasing business for upcoming next five year are forecasted and same are given in following table. The Trend values are being calculated with help of least square method ($Y = a + bx$) Calculation is showed in appendix I

TABLE 4.5
Forecasted Value of Leasing Business

(In million)

Year	X (t-2002)	Forecasted value
2009	7	555.12
2010	8	585.894
2011	9	616.67
2012	10	647.44
2013	11	678.21

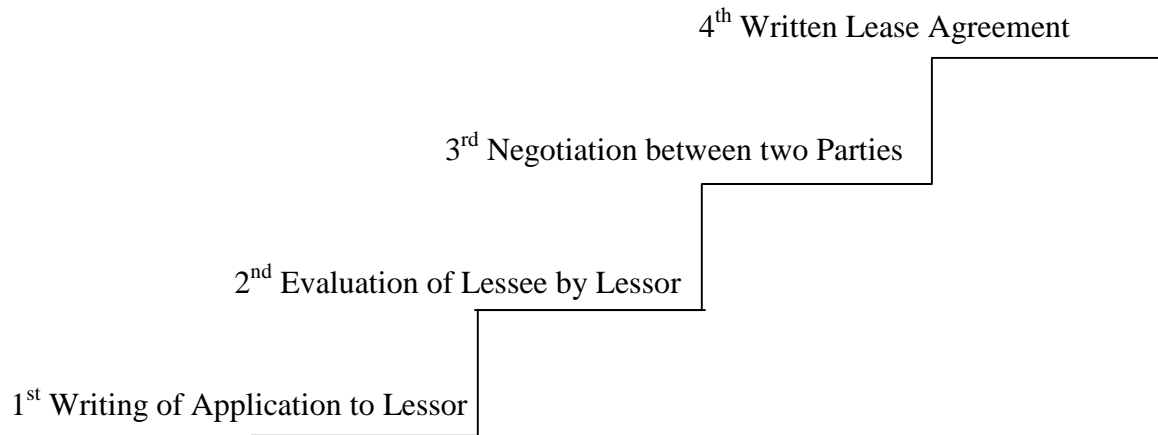
The table no.4.5 presented above shows the forecasted trend values for the total investment of the funds in the lease finance by the finance companies of Nepal. Since, as discussed above the finance companies of Nepal have many a times met the prediction made by the trend value we can rely partially on the forecasted value to predict the future of the lease finance unless hindered by the unfavorable contingencies and change in policy adversely affecting the business. If the companies can move as predicted by the trend, then just in couple of year the amount invested in the lease finance will reach up to Rs.678.21 million in the year 2013 A.D.

4.1.2 Presentation and Analysis of Leasing Practices and Procedure in Nepal

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

4.1.3 Procedure for Entering into Leasing Agreement

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



Procedure for Entering into Leasing Agreement

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

The procedure for entering into leasing business is found fundamentally same for all the companies under study. As per information provided by the concerned organizations, very few people know about the leasing finance as their alternative source of financing. Mostly, people make approach to the company only with their financing need. They do not come with clear and definite financial source from which they want to fulfill their financing need. It is only the terms and cost which they use for checking appropriateness of the financing scheme; in most of the cases, they select the financial company on the basis of personal relationship, which support their confidence for being fairly treated. Professionalism has not been developed at its satisfactory level. Personal matters have remained important.

Agreement for Leasing Transaction

All of the companies under study have developed their own standard lease agreement format as a guiding document for every lease transaction. Legal and other policy issues remain same for all the cases whereas the functional terms and conditions are negotiated case to case.

Acquisition of Asset for Leasing

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

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

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

Use or Operation of the Equipment

Regarding use or operation of the equipment, ILFC requires lessee to affix the ownership marking immediately upon taking delivery. The lessee can use asset at the place specified by the agreement but the lessee cannot remove the asset from that place without prior written consent of the company. The lessee must exercise due and reasonable care while using the equipment. He must ensure that equipment is being operated in accordance with applicable manufacturer's instructions and comply with all laws, regulations, ordinance and instructions of any governmental authorities concerning the use, operation and maintenance of the equipment.

The practice of UFCO is also similar to that of the practice of ILFC. As per the practice of UFCI also the lessee must ensure that the equipment is not used in any manner or for any purpose that contravenes any applicable legal provision, any certificate, licenses, or registration relating to the equipment or the insurance or for which it is not designed or suited. Lessee also must insure that equipment is at all

times operated in accordance with the manufacture's approved operating manuals and maintain all licenses certificates and manual that is required for operating equipment.

NSMB too, doesn't allow the lessee to use for any purpose for which it is not designed or other wise than in accordance with any operating instruction used by the manufacturer or supplier. The company, instruct the lessee to affix ownership label, plate or other marking on the equipment at the lessee's own cost and not to remove or change such markings. Moreover, NSMB requires the lessee to take all necessary steps to ensure that the equipment is safe and risk free for the health of employees and others. The company remains indemnified at all the times against any claim, which may be made by such employees and others.

Loss or Damage to the Equipment

In the practice of ILFC, the lessee is solely responsible for any loss or damage to the equipment as long as the lessee has possession of the equipment irrespective of the cause of loss or damage. In the case of damage which does not result in the total destruction of the equipment, the lessee repairs the equipment at his own expenses and lease agreement at all times continues to be in effective without modification, but in the case in which it is impossible to restore the equipment in good condition, the lessee can make request to the lessor to terminate the agreement with the payment of aggregate amount of stipulated loss value, all sums of the lessee's debts including rentals and delinquent charges on such unpaid sum at the rate as agreed. Thereafter, the lessor transfers to the lessee the right, title and other right to the third party.

Similarly, the practice of UFCO and NSMB in this regard seems to be similar to that of ILFC. They, too, make lessee responsible for all losses and damages. In case of partial damage, lessees require to repair and incase of full destruction, these

companies transfers title by terminating lease agreement after receiving all the amounts previously agreed by both the parties.

Repair and Maintenance of the Equipment

Regarding repair and maintenance of the equipment, the practice of ILFC has been found that the lessee maintains the equipment in good operating condition and working order as long as he has possession. For the purpose of repairing and maintenance, the lessee can enter into any agreement with any third party who has been designed by the manufacturer or supplier.

In case of UFCO also, the lessee must keep the equipment in good repaired condition and functioning all respects. All necessary repair and maintenance must be done at lessee's expenses and replacement (if necessary) of the same or greater utility designed or suitable for the equipment. UFCO holds ownership in all substitutions, replacement and renewals made without further act or deed as well as in removed parts until such time as replacement is made. Moreover, UFCO requires lessee to keep the proper records of all maintenance carried out and permit the lessor to examine and take copies of such records at any time upon giving the lessee reasonable prior notice.

NSMB also makes the lessee fully responsible for maintaining the equipment at the lessee's cost to keep the equipment in working condition. The lessee must give immediate notice to the company about any loss or damage case the lessee fails to repair the equipment, the company itself repairs the equipment and reimburses the cost from the lessee. Such loss or damage doesn't affect the obligations of the lessee. The lease agreement remains in full force and effect.

Insurance of the Equipment

The practice followed by ILFC and NSMB regarding insurance of the equipment is as follows:

- 1) Companies themselves determine the amount, coverage and insurer and obtain and maintain insurance policy for the entire period of the lease at the company's name but premium paid by the lessee through the company's account.
- 2) The companies paid insurance premium for the period before lease execution and it is included in the acquisition cost of the asset.
- 3) The companies require that at any time, the amount of insurance against loss or damage to the equipment must not be less than the corresponding stipulated loss value after execution date. However, before execution date, the companies themselves determine the amount of insurance, in consideration of the stipulated loss value of the first year.

Upon the occurrence of an event for which an insurance claim may be lodged, the lessees immediately notify and deliver all necessary documents to the company. The proceeds such received is applied either to pay for repairing or replacing the equipment or payment for stipulated loss value or any obligations of the lessee to the company or to pay for the third party liability if the lessee fulfills all the terms and condition of the agreement.

All for as UFCO is concerned; it requires the lessee to insure the equipment at the lessee's expenses through out the lease period for such amount as the lessee feel adequate with regards to its risk including lessee's legal liabilities to third party.

It is important to note the at UFCO enters into agreement only when the lessee agree if claim exceeds the amount of insurance contracted by the lessee, it shall be

considered as self insured for such excess amount, wave all rights of subrogation against the company and policy shall name the company as the owner and warrants no operational interests. For this purpose, company requires that insurance shall be invalidated by any action or inaction of the lessee or any other person and shall insure that lessor's interest as they appear regardless of any misrepresentation, non disclosure, breach or violation of any warranty and other declarations contained in such policies by the lessee or any other person.

Insurance money (other than total loss) received by lessor is paid to the lessee upon the complete adherence to the agreement. The insurance money received by the lessee for the company in respect of an event other than a total loss is applied in or towards the repair and replacement of the equipment and money received by the lessee in respect of total loss is paid to the company.

Lease Term and Lease Rental

It has been found from the study that all the companies take decision for lease term and lease rental on the basis of appraisal of the lessee and his business. For all the companies lease period begins from the date when the lessee issues certificate of lease execution to the lessor. For and in consideration of the lease of the equipment, companies demand lease rental. Lease term, amount of rental, and pattern of collecting lease rental differ from case to case of leasing transactions.

ILFC demands first rental, management fee and commitment fee in cash on the execution date and decides about other rentals on the execution date. In the event the lessee fails to make payment when due to the lessor, charging on such unpaid sum penalizes the lessee.

In the same way, UFCO demand the initial rental and management fee on the execution date and requires other installments without demand of the company

punctually as specified by the company. If prior to the execution date the company has paid any amount regarding the purchase of the equipment, the company demands pre-rental on those payments. UFCO gives utmost importance to the time of payment of rental and all other sums whatever due.

If any rental or any other amount payable to the company is not paid on the date on which it becomes due, the company charges interest at the default rate specified by the company.

As far as the lease term and lease rental is concerned, the practice followed by NSMB is not different from the practice of IFC and UFCO.

Lease Deposit or Security

The study has shown that, in order to secure the performance of all the obligations of the lessee, all the companies undertaken in this research require certain deposit or security from the lessee on lease execution date. None of the companies provide the interest to the lessee on such deposit or security.

Attachment, Alteration and Transfer of the Equipment

ILFC prohibits the attachment of the equipment to any real state or any other personal property and lessee is not allowed to modify the features, performances and specifications of the equipment without prior written consent of the company. Any modifications even with company's consent are done at lessee's own responsibility and expenses. If the lessee alters the original state of the equipment with the company's prior written consent all accessories, parts and replacement for or which are added to or become attached there to become the company's property. Regarding the transfer of the equipment, companies prohibit to assign, transfer, pledge,

hypothecate or otherwise dispose of the equipment or any part of the equipment to third party.

UFCO does not allow lessee to maintain the operating base for equipment in any country other than kingdom of Nepal or a country approved by the company. In addition to this provision, lessee doesn't get permission to do anything that might jeopardize the company's ownership of the equipment and results in the equipment being arrested, confiscated, sized, impounded or otherwise taken from the possession of the lessee. The company calls for immediate written notice and promptly procures release there from the equipment.

NSMB also doesn't allow, without prior written consent of the company, to affix or otherwise attached the equipment to immovable property, alter, add, improves the equipment. If the lessee does so, all the parts become company's property. Moreover, lessee cannot sell, gift, assign, let on hire or otherwise dispose the equipment in any manner.

Default and Remedies

In the practice of ILFC, if any of the following events occur and company thinks it unsatisfactory, agreement is deemed to be in default:

- 1) If the lessee defaults in the performance of any clause of the agreement.
- 2) If the cheque issued by the lessee dishonor.
- 3) If the lessee has suspended or closed its business or resolve to dissolve itself.
- 4) If the lessor determines that lessee's business cannot be continue further.
- 5) If the lessee filled application for public sale, liquidation, bankruptcy, provisional execution etc.

Upon occurrence of any event of default, the company may demand all unpaid rental, terminate the agreement, and repossess the equipment at its sole discretion.

UFCO's practice in connection to the default and remedies has been found as follows:

The company may terminate the lease and demand all the due amounts as well as repossess the equipment if following events occur:

- 1) If the lessee fails to pay any sum payable within five days of its becoming payable.
- 2) If the lessee is in breach of agreement of lease or any other contracts made between the lessee and the company.
- 3) If the lessee does any acts with prejudice the company's title or rights in the equipment.
- 4) If the equipment is arrested, impounded or detained and doesn't release within ten business days.
- 5) If any representation and warranty made by the lessee or any document or information furnished to the company are shown to have been wrong or misleading.
- 6) If a resolution is passed for the lessee's liquidation.

The Practice of NSMB in this Regard Seems as Follows:

In cases where the lessee fails to pay any due amount within seven days of its becoming due or fails to perform any of the obligations and if it does such acts which jeopardize the lessor's right in the equipment, the company, by notice may terminate the agreements.

Likewise, if the lessee permits any legal judgment against the equipment, if the lessee becomes bankrupt, if the lessee (in case the lessee is corporate body) goes on liquidation, the agreement is deemed to have been automatically terminated.

Renewal of Lease After Expiry

ILFC renew the lease if the lessee gives written notice to the company no later than two months before the expiry of the lease. In such case the rentals and stipulated loss value for the renewed lease are changed. The term of renewed lease is extended for the period of one year and other terms and conditions remain unchanged.

UFCO generally does not renew the lease for secondary period. On the termination of the lease the lessee return the equipment at the expenses of the lessee to the company at such a location as the company may designate but if the lessee wish to purchase the equipment, he must pay the residual value.

NSMB also provides the facility of renewing lease. It does not terminate the lease from its part, if it is fully satisfied with the lessee, until terminated by the lessee. Such renewed lease covers same terms and conditions as before except the lessee pay yearly rental in advance.

4.2 Presentation and Analysis of Existing Legal Provisions

Regarding Leasing Business in Nepal

For the purpose of studying and analyzing existing legal provisions regarding leasing business in Nepal, a survey is conducted to identify all the legal provisions made regarding leasing business. Along with the survey of relevant acts currently enacted, regular personal visit with the finance companies operating leasing business is made so as to support the process of finding legal provisions in connection to the leasing business in Nepal.

The survey made as above has shown that till now, there is no special legislation regarding leasing business in Nepal. Contract law mainly governs it and at the same time, it is influenced by other general laws based on the terms and conditions covered by the lease agreement. Following acts have been taken as most relevant for the analysis on the basis of importance of relevancy with the leasing business.

- 1) Contract act 2000
- 2) Income tax act 2001
- 3) Finance companies act 1986
- 4) Nepal Rastra Bank act 2001
- 5) Foreign exchange (Regulation) act 1962. (Second Amendment o 2002)
- 6) International Financial Transaction Act 1998.

Besides above acts, latest directive issued to finance companies from NRB has also been taken for the study.

4.2.1 Contract Act 2000

As per the intention of the act expressed in its preamble, the act has been designed to provide legal arrangement regarding contract. In the process of a business, there may involve various agreements on various matters of the business. But according to the contract law every agreement cannot be a contract. To be contract for an agreement, the law has mentioned various norms and conditions to be fulfilled. This law is applied for all type of contracts irrespective of their nature and subject matter. Therefore, law of contract is seemed to be applicable to the leasing business also as the lease is basically agreement made between two parties.

Present contract law of Nepal, contract ct 2000 has defined the contract as an agreement enforceable by law made between two or more than two parties to do or not to obtain from doing anything. It indicates that every agreement cannot be enforced at law and cannot, therefore, be a contract. Enforceability at law is the

necessary condition for an agreement to be called a contract. This is very much important while making any agreement in the process of leasing business because agreement of lease must follow the norms of contract law.

Contract act 2000 has prescribed number of norms that must be adhered while making any agreement. Such provisions are analyzed in the forth-coming paragraphs.

1) Parties to be Autonomous

According to the provision made under section 4, the parties with their free consent must establish the contract. The parties must be autonomous for selecting the form of contract, terms and conditions and the nature of remedy in the event of its violation and the measures for resolving disputes under the contract.

2) Contract to be Deemed Made.

According to the provision made under section 5, contracts become concluded when the person to whom the offer is presented, signifies his acceptance thereto.

3) Place of Contract

Regarding the place of contract the section 6 has specified that the place where the offered intends to get acceptance shall be deemed as the place of contract and if the intended place is not prescribed, the place where the offered gets acceptance shall be deemed as the place of contract.

Since the court having jurisdiction for setting disputes to be arise from contract are determined on the basis of place where the contract is made, both the parties should be careful about the place while making lease contract.

4) Offer and Acceptance

It has been provided under section 7 that the communication of offer shall be deemed as completed when it comes to the knowledge of the offered. Likewise, with respect to the acceptance, when the offered gets a notice of acceptance to the offer by the offered, the communication of acceptance becomes completed against the offered and when the offered comes to know about acceptance given by offered the communications of acceptance becomes completed against the offered. It is also provisioned that the communication of acceptance shall be deemed completed if the offered has not sent acceptance directly but obeyed any of the terms and conditions or received any consideration, benefit or service mentions in the offer signified his acceptance n any other way.

5) Revocation of Offer and Acceptance

Sometimes, situation may come to require the revocation of offer because of the unwillingness to make contract or any other reason even after advancing the offer by any one to any other with a view to make contract. In this regards, it has been provisioned under section 8 that offer can be revoked by giving notice. But it cannot be revoked when the acceptance given by offerer comes to the knowledge of offerer. If it is so, contract is deemed concluded. In the same way giving notice also can revoke acceptance. But if the offerer gets the notice of acceptance sent by offere, it cannot be revoked. Contract is deemed concluded. Similarly the person revoking the acceptance may again send the notice of revoking acceptance sent by him but, it he notice of sending offer or revoking it, sending acceptance or revoking acceptance or

re- accepting it, are reached simultaneously, it is deemed that the contractual parties do not have the intention of making contract. After sending the notice by one person to another and if such notice is at the state before reaching to the person to whom it is sent is not deemed as the communication of offer or notice or re-acceptance or notice of revocation.

According to the provision made under section 9, except the case of revocation by offerer himself, the offer shall be deemed revoked in any other circumstance. Accordingly, when the offerer prescribes time limit to get the acceptance to the offer while making it and he does not get the acceptance within that time the offer shall be deemed revoked. Similarly, if the time limit is not so fixed in offer to do or not to do any work, the offer shall be deemed revoked after the expiry of the reasonable time limit as required by the nature of that work. The offer is also deemed revoked when the acceptance is made by altering or adding the new conditions in offer when the contract is made in way that the offeree must accept the offer after performing any prior work or fulfilling any terms and conditions the offer comes to be revoked if he signifies his acceptance without performing such work or fulfilling such terms or condition.

6) Void and Violable Contracts

According to the provision made under section 13 all the contracts become void if they restrain anyone from exercising lawful profession, business or trade, restrain the legal right of any person from being enforced by any government office or court. Similarly, if the contract is made in violation of matter prohibited by prevailing law, if the contract is made for immoral purpose or against the public policy or interest, if the performance of the contract is impossible if the contract is made for unlawful consideration the contract is deemed void.

Similarly according to section 14, the party with whom the contract is made by fraud and misrepresentation without his consent may make the contract void or may demand the specific performance of contract without making it void or demand to restore him at the position what he would have before making contract by fraud or miss representation. Likewise, if anyone has made contract with the person who is under his influence or amendable to his wishes by exercising such undue influence. Similarly, if anyone has made contract with the person who is under influence or is amenable to his wishes, the burdens of proving that the contract has not been made by undue influences goes to the party who claims that no such undue influence has been exercised.

7) Time and Manner of Performing Contracts.

According to the provision made under section 71 the contract must be performed within the time and manner specified in the contract. If no such time and manner specified in the contract and if it is possible to perform within any specified time and any specific manner the contract must be performed within that time and in that manner. If it is not so possible, it must be performed within reasonable time following the reasonable manner.

8) Place for Performing Contract

It has been provisioned under section 72 regarding place performing contract that if the specific place to perform the work is mentioned in the contract, that must be performed at the same place and if not so mentioned, the contractual party who is under the obligation of performing the work must notify other party to specify the place and then other party must specify the place for the performance of contract.

In addition to above provision, there is provision that the contractual party need not perform contract if one party makes other free from fulfilling the obligations, if performance of contract is rendered impossible due to the breach of contract by other party, if it is not necessary to perform the work under the contract in accordance with the provision contained in this act or if the performance of contract become impossible due the occurrence of substantive change in the situation.

9) Performance of contract and obligations emerging from contract.

As per the provision made under section 74, every contractual party must fulfill the contractual obligations.

10) Devolution of contractual rights and liabilities

According to the section 76, except the rights and duties of contractual party obtained on the basis of his personal skill or qualification, all their rights and duties devolves to his heir after his death or after being unsound minded. After the rights and duties being devolved, the heir is deemed equivalent as the contractual party and he can enjoy the rights and he must fulfill the duties.

11) Persons Responsible to Perform the Contract.

It has been provisioned under section 77 that except when the contract is required to be performed by the person making it. He may have it performed by his agent or a person appointed by him or any other person on his behalf but no contractual party may transfer the contractual liabilities to any other person without the consent of other party. Except as otherwise provided in the contract, when any party accepts

performance of the contract from the third party, he can not afterwards claim in a way that the performance has to be made by the contractual party himself. If two or more than two persons are contractual parties the contractual liabilities can be made performed from any or all of the persons. While any party makes any other among the persons obliged to fulfill contractual liabilities free from his liability, the person other than him shall not be free from their liabilities.

12) Contracts, which need not be performed when the Substantive Changes in the Situation.

According to section 79, if the performance of contract becomes impossible due to the occurrence of substance change in the situation which was existed at the time of making contract, contractual parties become exempted from their contractual obligation, substantial change in the situation is deemed occurred if the performance of contract becomes illegal, if it becomes impossible due to the occurrence of situation beyond control of human being like war, flood, landslide, fires, earthquake, volcanic eruption, if the subject mater of contract is destructed or it is impossible to get such subject matter of contract, if the person obliges to perform the work under the contract by providing the services of his personal capability, skills or genius dies or becomes unsound minded or physically or mentally incapable to perform such contract.

Like wise, it has been provisioned that substantive change in the situation is not deemed occurred if the performance of contract becomes difficult, if less profit or loss is anticipated, if third person commits mistake or becomes incompetent upon whom the performance of contract is depended, if strikes or lockouts are made, if additional tax fee or any revenue are imposed, if one objective is become impossible to be fulfilled while the contract is made for more purpose.

Again it has been provisioned that if the performance of contract becomes impossible due to substantive changes in the situation, amount paid by one party to another for the purpose of contract before occurring such change must be refunded to other party. The amount, which had to be paid under the contract before the occurrence of such change, must not be paid.

13) Breach Contract and Remedies.

In the section 81, it is provided that the breach of contract is deemed made if any party has not fulfilled his obligations under contract, if he has given any notice to another party signifying his unwillingness to perform contract, if he is seen incompetent to perform the work under contract from the actions taken by him and his conduct. If contract is so breached or not seen performed fundamentally from his actions or conduct other party is not liable to perform the contract from his side and it is provided that such person may make the contract void by notifying other party.

4.2.2 Income Tax Act-2001

Income tax act has been found as the most important act for the leasing industry. It is because that income tax act contains many such provisions on depreciation, investment allowances, and other tax incentives, which are of interest to leasing companies as well as the lessee. These provisions have most powerful influence on the attraction of leasing companies to undertake leasing business.

The income tax law of Nepal i.e Income tax act 2001 has also made provisions regarding leasing activities. The act has covered the financial lease only.

Under subsection 5 of the section 32, the act has defined the financial lease. According to his provision, financial lease refers to the temporary right obtained by lessee to use other's asset other than cash. In its explanation clause the act has required following other characteristics to be possessed by the lease to be treated as financial lease.

1. There must be alternative provision disclosing whether the leased asset will be transferred to the lessee or the lessee will purchase the asset after expiry of the lease period.
2. Lease term must be more than 75% of the economic life of the asset.
3. Scrap value after the expiry of lease term must be less than 20% of the initial market price of the asset.
4. The provision must be so designed that asset leased will not remain useful after expiry of lease term so that it can be again leased out to another party.

Above provisions directly influence the leasing transaction of the leasing companies. The provision, which requires the lease term to be more than 75% of the economic life of the asset, impacts on the amount of lease rental to be fixed under lease

agreement. It ultimately impacts the pay back period of the investment made by the company on leased asset.

According to the provision made under 32 (7), the lessee is treated as the owner of property leased to the lessee and lessor is treated as the holder of a debt claim against the lessee. This means lessee for the asset obtained on lease will charge the depreciation. Similarly as per the section 32(6), the lease rental paid to the lessor needs to be segregated into the capita repayments and interest payment. It means that the lessee is not entitled to get tax concession on total lease rental paid to the lessor. Only the interest portion of the rental is considered while computing taxable income. From the review of literature, it has been known that leasing transaction be provided tax concession throughout the world where it is accepted as important for the economy. In these countries, depreciation facility is granted to the lessor company and lessee is entitled to take tax concession on total lease rental paid by him. Moreover in many countries, government has provided special allowance for leasing investment. Nepalese provision has been found not so attractive for leasing industry. Special recognition of leasing business has not been provided. It is seemed just like as granting loan.

4.2.3 Directives Issued to Finance Companies from Nepal Rastra Bank 2001

Following the intention of the concerned act i.e finance companies act 1986 and Nepal Rastra Bank act 2001, Nepal Rastra Bank issues directives to finance companies time to time. The present (latest) directives, issue in 2001, have contained some provision about leasing transactions.

According to the provision made under directive (1), finance companies need to maintain the minimum capital fund based on the risk-weighted asset of the company. The total asset must contain following two types of asset:

- 1) Total risk weighted assets as shown on the balance sheet.
- 2) Risk weighted asset not shown on the balance sheet.

Leased assets shown in balance sheet are treated as balance sheet asset and lease agreement value not yet implemented is treated as off balance sheet asset as per section 3 of directive 1. As per the same provision, the total risk weighted asset is obtained by adding all of the assets after multiplying risk factor to those respective assets. Risk factor has been specified as follows:

- 1) For on balance sheet leased asset-1
- 2) For off balance sheet leased value-1

For the purpose of minimizing risk arising from leasing investment, directive has made provision regarding the classification of leased asset and necessary provision to be made thereto. According to this provision, total leased asset must be segregated into following four category and make provision accordingly.

<u>Classification</u>	<u>Provision to be Made</u>
1) Good	-1% of total amount classified as good
2) Indicative of substandard	-25% of total amount classified as good
3) Doubtful	-50% of total amount classified as good
4) Bad	-100% of total amount classified as good

Similarly, for the purpose of minimizing the risk arising from investment being concentrated on single customer, the directive has made provision regarding investment function of financing companies. As per the provision made under directive 5, finance companies cannot extend their investment more than 25% of primary capital to single person, family, customer, industry, project, firm, company and single group of companies. If the company extends its investment in contrast of

the above provision, company necessarily requires maintaining 10% provision for such additional investment.

Again to minimize the risk arising from investment being concentrated on single sector, directive has made provision regarding sectoral investment made by the company, under directive no.7. As per this provision, company is not entitled to extend its leasing investment more than 40% of its total loans and advances including leasing investment. If the company goes in contrast of the limit specified in the directive, it must make provision of 25% of such additional amount.

4.2.4 Nepal Rastra Bank Act 2001

Nepal Rastra Bank Act 2001 is the special act of Nepal Rastra Bank providing legislative framework to act as a central Bank of the country. The act has envisioned many such objectives that are expected to be performed by the central Bank. They include maintaining price stability, making necessary monetary and foreign exchange policies, developing secured, sound and able payment system, regulating, supervising and monitoring the banking and financial system and increasing the confidence of people toward banking and financial system in order to attain the sustainable economic growth of the Republic of Nepal.

The act has empowered the Bank to perform all the functions considered necessary in order to achieve objectives intended by the act (section 4, sub 1).

NRB is placed on the apex of the banking and financial system and thus, leads the system toward achievement of objective specified by the act.

Under this act, there are many provisions, which establish the legal association between NRB and other banking as well as financial institutions. Depending up on such relationship, functioning of any banking and financial institutions is influenced.

As per provision made under section 78, all the banking and financial institutions are required to take license from NRB in order to begin operation. The NRB usually specifies many necessary terms and conditions while issuing license and the concerned institution are made responsible to obey such terms and conditions. If such terms and conditions are made in respect of leasing business, the leasing business will automatically be affected.

Similarly, there is another provision regarding deposit collecting and advancement of loan, according to which banking and financial institutions are not entitled to collect deposit and supply loan without getting prior acceptance of NRB (Section 76). As the leasing is fundamentally an intermediation function of collecting capital and providing leasing finance, it will naturally be affected by this provision also.

Likewise, section 77 of the act requires that the rate of interest to be charged and paid by such institutions on loans and deposit must be as prescribed by the NRB from time to time. This provision has a direct bearing upon leasing business because the spread made between interest paid and charged determines the margin to the leasing company which ultimately affects the investment on leasing business.

Again NRB holds full authority for regulating the function of banking and financial institutions. For this purpose, NRB can provide necessary rules and regulations. Further, NRB can issue directives, give order and may issue any notice in any matters concerning the functioning of such banking and financial institutions. NRB demand any of the information, documents and statements related with the operating activities of those institutions in any time. It is the responsibility of concerned banking and financial institution to obey all these provisions (section 79). On the basis of this provision, NRB can issue directives and notice regarding leasing activities also and at the same time, rules and regulation may be provided as a result leasing business is affected by this provision.

Section 80 and 81 are still more relevant with the functioning of the banking and financial institutions. As per the provision made under these sections, such financial institutions must comply with the provisions specified by the NRB from time to time regarding advancement of loan. NRB specifies the priority sector, the period of the loan, amount of loan and many other relevant provisions, beyond which these financial institutions cannot extend loan. Regarding leasing also such provisions may be required and if this is so, leasing business is necessarily being affected.

As per the provision made under section 84, the NRB is entitled to inspect, supervise and monitor each and every activities of every banking and financial institutions. If NRB thinks appropriate, it can give order or issue notice or prescribe directives in any matters of operation. To facilitate the inspection and supervision function, the NRB may demand any information, data or detailed description of any matter and these institutions are responsible to co-operate the NRB. They must obey all the instructions, orders, notices or directives. There exists possibility of such order, notices or directives being made in the matter of leasing business. Finally the NRB finds such institutions not competing their responsibility affecting the interest of shareholder as well as such institutions contravene the provision made by NRB, the NRB can suspend and take control over such institution.

From above discussion, it has been clear that there is great role of NRB for the development of leasing business in the country.

4.2.5 Finance Companies Act 1986

Finance company act 1986 is the main legislation for finance companies. All finance companies must comply with this act. The influence of this act is mainly on the organizational level rather than on any specific functional area because act does not have detailed description of any specific function.

Finance companies act 1986 contain altogether 66 sections, which specifies about the incorporation and operational procedures of finance companies. This act has empowered the finance companies to do leasing business. In section 3, the act has specified various eight functions that the finance companies can perform. As per this section, Finance companies can make available leasing finance to any individual, firm, company or institution for the purchase of vehicles, machinery, tools, equipment, durable household goods or similar movable property. This provision must be complied by the finance companies. No finance company can go in contrast of the intention of this provision. This provision works as a guideline for the leasing business of finance companies. Besides this provision, there are no other provisions regarding leasing business.

4.2.6 Foreign Exchange (Regulation) Act 1962 with Second Amendment on 2002

FERA is concerned with the foreign exchange. It has been enacted to regulate transactions relating to foreign exchange in order to maintain the economic well being of the public. There are altogether 23 sections in the act dealing with different issues of regulating foreign exchange. This act holds relevancy with leasing business only when the lease deal involves overseas transactions. Specifically, this law is applicable in import or cross border or international lease. The act has not mentioned any special provision in case of leasing business transactions. It has been designed in general. Therefore, depending upon the terms and conditions of the lease deal, various provisions of the act may be applicable. Some of the most relevant provisions are briefly discussed below:

Section 9 of the act has specified about restrictions on making or obtaining payment. Accordingly, leasing company in Nepal is not entitled directly or other wise take any of the following actions without obtaining the approval of the Nepal Rastra Bank:

1. To make payments of any kind to any person residing outside Nepal through any means.
2. To draw, accept or negotiate any bills of exchange or promissory notes or approve loans in such a way as to create the authority to receive payments in favors of or transfer to any person residing outside Nepal.
3. To make payments of any kind to any person on the orders or on behalf of any person residing outside Nepal.

Similarly section 4 of the act has provisioned about controlling measures of foreign exchange transactions. According to this provision, leasing company is not entitled to buy, borrow, accept, payment in exchange or otherwise obtain foreign exchange from or sell lend, pay exchange to any person other than license holder, without obtaining permission from the Nepal Rastra Bank. But there is another provision made in contrast to the above provision. Accordingly, His Majesty's Government may issue an order providing for the non-application of such control in respect to payments received in foreign exchange in consideration of any service provided or in circumstances mentioned in such order. The foreign exchange received by concerned person in this manner must be exchanged through license holder or through the Bank, with in a period of 60 days from the receipt thereof.

Again as per the provision made under sub section 2 of section 3, the leasing companies cannot do transactions in foreign exchange so as to exchange Nepalese currency for foreign currency or vice-versa at exchange rate different from those prescribed by Nepal Rastra Bank.

Similarly according to provision made under sub-section 3 of section 3, leasing company is not entitled to utilize foreign exchange received for any specific purpose or on any specific condition for any other purpose or violate the specified condition. In case the foreign exchange so obtained by it cannot be utilized for such specific

purpose or in case it is not in a position to fulfill the specified condition, it must sell foreign exchange to a license holder or the NRB at the exchange rate prescribed by the NRB within a period of 30 days from the date when it comes to know about such inability.

According to sub section 4 of section 3, In case the company obtains foreign exchange for importing any goods into the kingdom of Nepal and in case it fails to import such goods on appropriate time or in case it does not import goods corresponding to the value of such foreign exchange, it shall be deemed to have failed to utilize the foreign exchange obtained by it in that manner for the specified purpose or to fulfill the specified condition.

4.2.7 International Financial Transaction Act 1998

For the international leasing companies, this act holds special relevancy. This act has taken two objectives. One is to develop Nepal as a center for international financial transactions to foster the economic development of the nation in the context of open, liberal and market oriented economic policies pursued by the country and the globalization of international financial markets. The next one is to regulate and manage the financial activities of international financial entities in Nepal.

To achieve the above stated objectives, the act has made various provisions. According to the provision made under definition section, international leasing companies have been authorized to obtain license and by obtaining license, they can perform the leasing business in the country.

For the purpose of regulating the transactions of these international financial entities, the act has prescribed certain functions that these international entities cannot perform under section 5 of the act.

These functions are:

- 1) To buy any kind of immovable property within the kingdom of Nepal or to keep in their name otherwise.
- 2) To carry out any of international financial transactions with any person resident of Nepal.
- 3) To purchase share or debentures of any company incorporated in the kingdom of Nepal under existing laws.
- 4) To open an account in any commercial bank of the kingdom of Nepal.

In contrast of this provision, there is provision that an account may be opened in any commercial bank with the permission of accreditation committee for the purpose of running the day to day administrative business of the office up to such amount as may be fixed by the accreditation committee.

4.3 Presentation and Analysis of Views and Facts of Finance Companies

4.3.1 Profitability of Leasing Business

In order to know the attitude of finance companies towards the profitability of leasing business, their views have been collected. They were asked to state whether they think leasing business as being profitable for finance companies of Nepal. Options were provided as 'yes', 'no' and 'don't know'. The result shows that 25% (8 out of 32) of total finance companies are positive, thinking that leasing business is profitable, 66% (21 out of 32) of the finance companies think that leasing business is profitable business and 9% (3 out of 32) are unknown to the matter of profitability of leasing business (appendix iv). It is assumed that, positive attitude or perception of the key players is necessary for the development of any business. The accurate identification of attitude provide base for taking decisions on

its developmental issues. From the study, it has been revealed that majority of the finance companies have taken leasing business as not being profitable. Further, 9% of the finance companies are not aware about the fact. Only 25% of the total finance companies have taken leasing business as being profitable.

Profitability of Leasing Business

Total Finance Companies	Option to the companies		
	No	Yes	Don't know
32	66%	25%	9%

4.3.2 Sufficiency of Infrastructure for Leasing Business

Without necessary infrastructure, no business can be developed. Considering the fact, it has been identified under this research that whether the finance companies are assure to be sufficient infrastructure for leasing business or not. For this purpose, they were asked to specify whether they think existing infrastructure for leasing business is sufficient. Option were provided as 'yes' 'no' and 'don't know'. The result shows that none of the finance companies are confident that the existing infrastructure for leasing business is sufficient. Among the finance companies 12% (4 out of 32) have expressed their views to be unknown to the fact. (appendix v)

Sufficiency of Infrastructure for Leasing Business.

Total Finance Companies	Option to the companies		
	Yes	No	Don't know
32		88%	12%

4.3.3 Assets Need to be Given Top Priority for Leasing Business

Depending upon the circumstances of the economy, priority should be identified in respect of activities to be done. There are various types of asset that can be leased. But those assets should be given priority, which contributes most to the economy.

Considering this fact, attempt has been made identify which of the asset finance companies think appropriate to be given top priority for leasing purpose. Accordingly they were asked to select the asset that seems most important for providing top priority. Option were offered as vehicles, durable household goods and machinery and tools from the result, it has been revealed that 62% (20 out of 32) of the finance companies are in favor of machinery and tools, 22%(7 out of 32) are in favor of durable household goods and remaining 16%(5 out of 32) are in favor of vehicle leasing. (appendix vi)

Assets Need to be Given Priority for Leasing Business

Total Finance co.	Types of assets		
	Machinery & tools	Household goods	Vehicles
32	62.5%	21.9%	15.6%

4.3.4 Market Segment Need to be Promoted for Leasing Business

Every unit of the economy does not need same amount of capital at a time and each unit is not equaled important from the viewpoint of economic development. Some are expected to be dominant over others. To identify the most important market segment for promoting leasing business, a question was asked to the finance companies to choose the market segment. Options were provided as ‘individual segment’, ‘small and medium scale industries segment’, ‘government and non-government project segment’ and ‘large manufacturing industries segment’. The result has shown that 34% (11 out of 32) finance companies are in favor of small and medium scale industries segment, 28% (9 out of 32) are in favor of individual segment. (appendix vii) In such a way, small and medium scale industries segment has come to be the most important market segment need to be the most important market segment need to be promoted for leasing business.

Market Segment Need to be Promoted for Leasing Business

No. of Finance Company	Different market segment			
	Individual	Small and medium industries	Gov.& Non-government	Large manufacturing
32	28.13%	34.38%	21.88%	15.63%

4.3.5 Realization of Need to Develop Operating Leasing

There are mainly two types of leasing i.e. finance lease and operating lease. Both types of lease have their own special merits and demerits. The economic ground of the country influences their development. In order to find whether the finance companies have realized the need of operating leasing in addition to the financial lease, their views have been collected. Referring to appendix-viii, 66% (21 out of 32) finance companies, opined that there is the need to develop operating leasing in the country. None of the finance companies have opined against it. 34% (11 out of 32) of the finance companies have opined that they do not have knowledge about operating leasing. It indicates that majority of the finance companies have realized the need of operating leasing in addition to finance lease. Though the important pie of the finance companies the unknown about the need of operating lease, none of the finance companies have realized that operating lease is not necessary.

Realization of Need to Develop Operating Lease

Total Finance Companies	Option to the companies		
	Needed	Not needed	Unknown
32	66%		34%

4.3.6 Current Income Tax Act in Respect of Leasing Business

Tax concession provided by the income tax law plays most important role for the leasing business. Under this research finance companies are surveyed so as to know their view whether the act is favorable for leasing business or not. Referring to appendix-ix it is known that 75% (24 out of 32) of the finance companies think that

current income tax act is not favorable for leasing business. Other 25% (8 out of 32) of the finance companies do not have knowledge about it. None of the finance companies have agreed that current income tax is favorable for leasing business.

Income Tax Act in Respect of Leasing Business.

Total Finance Companies	Options to the companies		
	Favorable	Not favorable	Unknown
32		75%	25%

4.3.7 Nepal Rastra Bank's Role for Leasing Business

Central bank of any country is the leader of the banking and finance sector. Therefore, central bank plays significant role in the development of financial services in the country. How the finance companies have evaluated the role of NRB and support from its part has been surveyed under this research. Referring to appendix x, it is known that 44% (14 out of 32) of the finance companies thinks that NRB has not yet made clear vision about leasing business and actively creating conducive environment to promote the business. Similarly, 28% (9 out of 32) of the finance companies advocate that NRB has a clear vision and is creating conducive environment form its part. Again same 28% of total finance companies are found unknown to the matter.

NRB Role for Leasing Business

Total Finance Companies	Role played by NRB		
	Active	Non active	Unknown
32	28%	44%	28%

4.3.8 Appropriateness of Resent Notice of NRB Regarding Leasing Business

Referring to, appendix xi, it is found that 84% (27 out of 32) of the finance companies think that the provision which need 15 crore paid up capital to be

maintained in order to carry leasing business in addition to other function is need to be reduced. At the same time, 16% (5 out of 32) of the finance companies think that this provision is appropriate. None of the finance companies think that this level of capital requirement needs not to be increased.

Appropriateness of Recent Notice of NRB.

Total Finance Companies	Option to the companies		
	Need to reduced	Appropriate	Unknown
32	84%	16%	

4.3.9 Problems why the Most of the Finance Companies have not been Entered into the Area of Leasing Business

Though, there are 79 finance companies operated in the country, only few companies are currently offering leasing service. Therefore, it is tired to find the problem that has hindered these finance companies from entering into leasing business. Accordingly, finance companies are asked to priorities their problems on the basis of most dominant to least dominant. Referring to Appendix xiii, it is found that the dominant (highest score) problem for finance companies to enter into leasing business is high credit risk in the business. Then second dominant problem is found to be market problem. Like wise lack of capital, management problem, and legal problem are found respectively in third fourth and fifth priority position.

In addition, with the help of variance test (f test), it has been also tested that whether there is significant difference between the problems. It was hypothesized that there is no significant difference between problems responsible for hindering leasing business. The calculated value of F is 1.42 (Appendix xii) whereas the tabulated value of F at 5% significance level for $v_1=4$ and $v_2=20$ us 2.87. Since the calculated value of F is less than the tabulated value, the hypothesis is accepted. It indicates that there is no significant difference between problems of finance companies to enter into leasing business.

Problem coped by finance companies

Total Finance Companies	Various problems coped by finance companies				
	Credit risk	Market problem	Capital problem	Management problem	Legal problem
32	I st	II nd	III rd	IV th	V th

4.3.10 Readiness of Finance Companies for Entering into Leasing Business

In order to identify, whether the finance companies are ready to enter into leasing industry, these companies are asked whether the present time is appropriate to start leasing business. Referring to Appendix xiv, it is found that only 7% (2 out of 32) of the finance companies are in view that present time is appropriate to start leasing business. 67% of total finance companies are in view that it is not the appropriate time to enter into leasing industry and 26% (9 out of 32) are found unknown to the fact.

Readiness of finance companies for entering into leasing

Total Finance Companies	Options to the companies		
	Appropriate time	Not appropriate	Unknown
32	7%	67%	26%

4.3.11 Study Made by Finance Companies Regarding Leasing Business

Appendix xv show that 25% (8 out of 32) finance companies have studied in detail about leasing business to assess its suitability and feasibility for their company. 75% (24 out of 32) finance companies have not conducted detailed study about leasing business. Only 25% are found having performance detailed study about leasing business. It indicates that majority finance companies have not conducted detailed study.

Study made by finance companies regarding leasing business

Total Finance Companies	Option to the companies	
	Studied	Not studied
32	25%	75%

4.3.12 Determinants of Successful Leasing Business

In order to identify the important factors needed for successful leasing business, finance companies were asked to rank the factors that will determine the success of leasing business in future. As shown in Appendix xvi, the credit assessment expertise is in highest priority, speed in utilization of fund is in second priority and likewise, searching new market access to cheap source of fund and flexibility in lease operation come in third, fourth and fifth priority.

Further, variance test has also been conducted to analyze whether there is significant difference between determinant factors of leasing business. It was hypothesized that there is no significant difference between determinants. The calculated value of F is 1.83 (appendix xvii) whereas the tabulated value of F at 5% level of significance for $V1 = (n1 - 1) = 4$ and $V2 = (n2 - 1) = 20$ is 2.87. Since the calculated value is less than the tabulated value hypothesis is accepted. It means that there is no significant difference between factors that determine the success of leasing business in year to come.

Determinants of successful leasing business

Total Finance Companies	Various determinants of successful leasing				
	Credit assessment	Utilization of fund	Searching of new market	Access to cheap source of fund	Flexibility in lease operation
32	I st	II nd	III rd	IV th	V th

4.3.13 Evaluation of Finance Companies on Growth of Leasing, Effectiveness of Practice, Awareness about Leasing, Effort for Publicity and Government’s Support for Leasing

In order to study the evaluation by finance companies to the growth, effectiveness, awareness, effort and government’s support for the leasing business in Nepal, they were requested to provide how they have evaluated on the variables noted just before. Referring to appendix xiii has been revealed that 38% of the finance companies have evaluated the growth of leasing as satisfactory or above satisfactory. 62% finance companies have evaluated it below satisfactory. The effectiveness of practice made by companies has been evaluated satisfactory or above satisfactory by 18% finance companies whereas 82% finance companies have evaluated it below satisfactory. Regarding awareness, 11% finance companies have evaluated satisfactory and 89% have evaluated below satisfactory. Similarly in case of efforts made for publicity, it is been evaluated above satisfactory by only 8% finance companies whereas 92% finance companies have evaluated this below satisfactory. Finally for government’s supports, only 10% finance companies have evaluated above satisfactory and rest 90% have evaluated it below satisfactory.

Evaluation of finance companies on (1) Growth of Leasing, (2) Effectiveness of Practice, (3) Awareness about Leasing, (4) Effort for Publicity and (5) Government Support for Leasing

Total No. of Finance Companies	Above Satisfactory					Satisfactory					Below satisfactory				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
32	19%	9%			10%	19%	9%	11%	8%		62%	82%	89%	92%	90%

4.4 List of Finance Companies Doing Leasing Business in Nepal.

S. No	Leasing companies	Operation date	Head office
1.	Union Finance Co. Ltd	12/12/1995	Durbarmarg, Kathmandu
2.	United Finance and Leasing Co.	01/25/1996	Kamaladi, Kathmandu
3.	Lumbini finance and Leasing Co. Ltd	06/26/1995	Thamel, Kathmandu
4.	International Leasing and Finance Co. Ltd.	10/31/1995	Naya Baneshwor, Kathmandu
5.	Nepal Shree Lanka Merchant Bank Ltd	02/04/1996	Durbarmarg, Kathmandu
6.	Nepal Bangladesh Finance and Leasing Co.	04/18/1999	Main Road, Biratnagar
7.	World Merchant Banking and Finance Ltd.	08/10/2001	Main Road, Hetauda

Source:- NRB Non-Bank Financial Statistics, 2008

4.5 Future Prospects of Leasing Business in Nepal

Under this research, finance companies assessment of prospect leasing business in Nepal has also been studied. Table 14 Appendix I shows that 13% finance companies have evaluated the future prospects of leasing as excellent. Similarly 38% finance companies have evaluated as good. In a like manner, 29%, 10% and 10% finance companies have evaluated the prospect of leasing business as satisfactory, fair and poor respectively. It indicates to the facts that there is the largest pie of finance companies that have evaluated the prospect of leasing business as good. It is also revealed that 78% finance companies evaluation is above satisfactory level.

So, despite there are number of existing problems and challenges, it has been revealed that there exist unexplored prospects of leasing business in Nepal. In the analysis we have seen that there has been significant growth in the leasing business and that too with investment of four financial institutions only. Though among them NSLMB and WMBFC have low contribution in the total uses of fund in lease finance, the other two finance companies ILFC an UFCO have been able to explore the leasing industry of Nepal and the share of amount of lease in total credit is increasing every year. If we see the analysis of growth of lease finance despite downfall in earlier years, it has been able to again build its stands in the market. This business has multiplied many times in recent years. This shows the future of the leasing business is bright and there are lots of new areas still needed to be explored.

As of the situation of Nepalese economy and its infrastructure availed, we should say that leasing business is doing well despite the problems it faces. Leasing in Nepal is being done by the provisions made under finance company rules, NRB directives, income tax act, etc. as there does not exist any specific or separate act for leasing. Finance companies are optimistic about the future of leasing business if a separate leasing act comes into existence with proper guidelines taking into considerations the problems they are now facing. So, they hope that the leasing act comes into existence as soon as possible and hopes that there will be parallel way of doing leasing business amongst the finance companies. This will also help to establish a company doing leasing business only or a leasing company as of today, the finance companies are restricted to certain amount (40% of total credit) and can freely invest in lease finance.

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

companies are just waiting for the proper rules and regulations or the specific act to be enacted by the government to start a full fledged leasing business in Nepal to benefit both the finance companies or the lessor and the lessee or the user of the leased asset and even the country as a whole.

4.6 Challenges of Leasing Business in Nepal

Leasing business in Nepal is in its developing stage and with that there exists many challenges. The foremost challenge is the trust or faith between the clients and the financial institutions. The financial institutions usually do not have the trust or faith on its perspective client. This problem has probably arisen due to the current economic situation of this country and this problem may continue if the economic situation of this country does not improve. Low economic conditions can lead to lower profits in the business and the lessor may hesitate to invest in the people with whom the lessors have never dealt. The probable client of the lease finance can be a juvenile but may have lots of enthusiasm to do the business, upon which the lessor does not have full trust. The lessors have trust either on the older clients or to some big business persons whom they have known to perform successful business. These lack of trust between the clients and the finance companies have been one of the important challenges of the leasing business.

Finance companies are required to keep their investment in the safe side. So it has to keep the collateral to safeguard their investment. And the clients usually have complains that the finance companies asks too much collateral. This perception should be changed as the collateral is only for the security purpose, which the client must keep with the finance company to maintain the good professional relationship. If the client opposes for the collateral, then the finance company shall have doubt on the perspective client's performance. And the lessor / finance company may hesitate to give loan or invest on lease finance.

Many a times the clients even put the finance company with question like why there are too many clause in the contract. It is not the interest of the finance company to put too many clauses, but the clauses are there to clarify one's duties and responsibilities so that later on conflict may not arise.

There has been the concept among the lessee or clients that if they have provide the collateral more than the loan amount, then the borrower have to obey the finance companies. And if the finance company extends the loan amount without the further collateral then the finance companies have to obey its clients. This prevailing thought has led to low professional relationship between the two parties. These thoughts should be removes from the mind of general people or the perspective client in order to improve the relationship between clients and the finance companies.

There are also other practices going on unfavorable to the finance companies that the clients being bankrupt are easily allowed to start other business, getting loan from another financial institutions. This is because there is no system available to keep a track record of the borrower and these systems should be changed to keep the lease financing business safe. These types of practices can lead to mal practice by the user of the fund. Borrowers may not perform well in their business as, if their business goes wrong, then they can liquidate their business and will not be stopped from doing other business by taking loans from another financial institutions.

4.7 Major Finding of the Study

- 1) It is found that, finance companies act 1986 is the first and only act which has provided the legal right to finance companies for carrying leasing business in Nepal. Section 3 of the act has laid down that finance companies can make available leasing finance to any individual, firm, company or institution for

purchase of vehicles, machinery and tools, equipment and durable household goods or similar movable property.

- 2) It is further found that except finance companies, no other financial institutions like commercial banks, insurance companies are legally allowed to do leasing business.
- 3) Though the finance companies act open the door for leasing business in 1986, leasing business found actually being performed in 1995.
- 4) It is found that pioneer institutions introducing leasing business in Nepal are ILFC, UFCO and NSMB.
- 5) Till the year 2009, there are only 7 finance companies carrying leasing business. Out of them 5 companies are in valley and 2 outside the valley.
- 6) Leasing business in Nepal is in a growing trend.
- 7) In average, leasing investment has covered only 3.27% of total credit flows (loans and advances of finance companies during past 13 years)
- 8) Till the year 2002, there is no special act made for leasing business.
- 9) Leasing business is mainly governed by contract act 2001 but the same time other general laws are also applied depending upon the terms and conditions covered by lease agreement.
- 10) Beside contract act, income tax act 2001, finance companies act 1986, Nepal Rastra Bank 2001, foreign exchange (regulation) act 1955 second amendment on 2002 are found as other applicable major laws. In addition to these laws, directives issued from NRB 2001, notice form NRB 2002 is other applicable rules for leasing business.

- 11)** Income tax act 2002 has made provision regarding leasing activities. This act has defined only the financial lease, not the operating lease. This act has specified that lease must possess following provisions to be treated as financial lease:
- There should be provision, which disclose the option regarding transfer of asset at the expiry of the lease period whether the asset will be automatically transferred to the lessee or lessee will purchase the asset.
 - Lease term should be more than 75% of total economic life of the asset.
 - Scrap value of the asset must be less than 20% of initial market price of the asset.
 - There should be provision prohibiting the leasing of same asset to another party after expiry of the lease term.
- 12)** As per the provision of income tax act 2001, lessee is treated as the owner of leased asset and lessor is treated as the holder of debt claim against the lessee for the leased asset.
- 13)** Directives issued from NRB to finance companies (2001) have laid down that finance companies can invest on leased asset only up to 40% of total loans and advances including leasing investment. It also laid down that leased asset should segregate into good, indicative of substandard, doubtful and bad. The provision to be made for each category is respectively 1%, 25%, 50% and 100% of total amount classified respectively.
- 14)** It has been found that NRB has the great role over the leasing business in the country.

- 15)** It is found that foreign exchange (regulation) act 1962 (second amendment 2002) has not mentioned any special provision covering leasing transaction. It is applied in general.
- 16)** Practice and procedure followed in course of leasing business is found similar for all the companies under study from the viewpoint of authorities and responsibilities of the parties. Some difference can be found in the coverage of the terms and conditions.
- 17)** All the companies have developed their own standard lease agreement format as a guiding document, legal and policy issues remain same for all the cases of lease whereas lease amount, lease term and structure of lease rental are negotiated case to case.
- 18)** Regarding the acquisition of asset it is found that all the companies make lessee solely responsible as agent of the company for all the procedure required for the acquisition of the equipment. The lessee is required to issue the certificate of acceptance after acquisition of the asset. Being the representative, lessee does not acquire any right, title or interest to the asset.
- 19)** Regarding the use of the asset by the lessee following points have been found.
- Asset must not be used for any purpose for which it is not designed or suited.
 - All legal provision, rules, regulations, relating to operation must be adhered.
 - Asset must be operated under the technical operating standard.
 - Lessee bears third party liability arises from operation of the asset.
- 20)** In connection to the lease terms and lease rental, it is found that all the companies take decision for lease term and lease rental on the basis of appraisal

of the lessee and his business. For all the companies lease period begins from the date when the lessee issues certificate of lease execution to the company. For and in consideration of the lease of the equipment, companies demanded lease rental. Lease terms and pattern of collecting lease rental differ case to case. All the companies demand initial rental on the lease execution date.

- 21)** Regarding loss or damage to the equipment, lessee is found responsible for all losses or damages. In case of partial loss or damage, lessee requires repairing and in case of full destruction of the asset companies transfer title by terminating lease agreements after receiving the stipulated loss value and all the amounts agreed by the parties.
- 22)** With respect to the repair and maintenance of the equipment, it is found that lessee is required to keep the equipment in good repaired condition and functioning all respects at the lessee's own cost.
- 23)** It is found that companies themselves determine the amount, coverage and insurer and obtain and maintain insurance policy for the entire period of the lease at the company's name. The lessee through the companies account pays the premium.
- 24)** It is further found that all the companies require certain deposit or security from the lessee on lease execution date in order to secure the performance of all obligation of the lessee.
- 25)** Regarding attachment, alteration and transfer the equipment, it found that the lessee is not allowed without prior consent of the company to attach the leased equipment to any other personal property. Besides, lessee is not allowed to alter, add, improve, assign, transfer, pledge, hypothecate or otherwise dispose to the equipment.
- 26)** Regarding the renewal of lease, it found that ILFC and NSMB provide the facility of renewing lease but IFCO doesn't renew the lease for secondary

period. In case when the lease is renewed, lease rental, structure of collection, stipulated loss values are changed. Other terms and conditions remain same.

27) Regarding accounting practice, following method has found applied:

- Asset is capitalized in the books of lessee and subject to a period depreciation charge. Each period rental paid is split between interest and principal portion and only interest portion is expensed in profit and loss account.
- The lessor reports a right to receive rentals as an asset appropriately split between current and deferred.

28) It is found that, there is no presence of lease broker in Nepalese leasing industry that provides advisory and technical services in the selection and structuring of lease.

29) It has been found that in the lease practiced in Nepal, relative risks and rewards of the lessor and lessee are the same as those of borrower and lender. The leasing companies have been taking no risk except that of investing the fund with the lessee.

30) Among the finance companies under study, only 25% are convinced that leasing is profitable business available to the finance companies in Nepal. 66% of total finance companies are not convinced about the profitability of the leasing business and 9% of them ignorant about the fact.

31) None of the finance companies are assured that existing infrastructure for doing leasing business prevailing in the country are sufficient. Rather, some companies have opined that existing infrastructures are not sufficient. 12% of the companies are found unknown to the fact.

- 32)** 62% of the finance companies think that among the various capital assets, top priority should be given to machinery and tools for promoting leasing business. 22% are in favor of durable household goods and other 16% are in favor of vehicles.
- 33)** 34.38% of the finance companies think that market segment of small and medium scale industries need to be focused for promoting leasing business. Whereas 21.88% of the finance companies require focusing on project sector and 15.63% of them require focusing on large manufacturing companies. Further 28.13% have put their view for individual and offices segment.
- 34)** Regarding the need of operating leasing in the country, 66% of the finance companies have opined that there is the need for developing operating leasing. Although, none of the finance companies have apposed it, 34% are unknown to the need of operating leasing.
- 35)** Regarding the appropriateness of income tax act for the development of leasing business, 75% of the finance companies think that current income tax is not favorable for the development of leasing business. None of the finance companies have agreed that income tax is favorable. One-fourth part of the finance companies are found unknown about the appropriateness of the income tax law for leasing business.
- 36)** With respect to views of finance companies on role of NRB and the support from its part, it is found that 44% of the finance companies have kept view that NRB has not yet made clear vision about leasing business and is not actively creating conducive environment to promote the leasing business. 28% of the companies are found in favor of the statement. Again 28% are found unknown to the fact.

- 37)** With respect to the latest notice by NRB, 16% of finance companies think that the provision, which requires 15, crores paid up capital to be maintained in order to carry leasing business in addition to other functions is appropriate. Among the total finance companies 84% think that it should be reduced. None of the finance companies think that it should be increased.
- 38)** It is found that, high credit risk in leasing business remained as the most dominant problem due to which finance companies are not entering into leasing industry. Market problem is found to be the second dominant problem. Likewise capital problem, management problem and legal problem are found third, fourth, and fifth dominant problem respectively. Among these problems there is not significant difference. All of them have played role equally.
- 39)** Concerning the readiness of finance companies to enter into leasing industry, it is found that only 7% finance companies (not operating leasing business) are ready to enter into industry and 67% are not ready to enter into industry.
- 40)** It is found that 75% of the finance companies have not conducted detailed study about leasing business. Only 25% finance companies have conducted detailed study about leasing business to assess suitability and feasibility of leasing business toward their company.
- 41)** With respect to the determinants of successful leasing business, credit assessment expertise has been found as the main determinant for successful leasing business. Speed in utilization of fund comes in the second rank. Searching new market, access to cheap source of fund, providing flexibility in leasing deal come respectively in third, fourth and fifth rank as the determinant of successful leasing business.
- 42)** It is found that more than 80% of the finance companies have evaluated the growth, effectiveness of practice, awareness about leasing, and effort for publicity and government's support for leasing below satisfactory level.

- 43)** Regarding the future prospects of leasing, 13% of the finance companies have rated as excellent, 38% as good, 29% as satisfactory, 10% as fair and 10% as poor.
- 44)** With respect to the activities to be done for ensuring bright future of the leasing business, it is found that the first activity to be done is to increase efforts for publicity. Then the next activity is to create legal framework. Subsequently, development of skilled manpower, provision of tax and other incentives and increment of the effectiveness of practice are to be done in a third, fourth and fifth priority. None of the activities can be neglected because all of these activities are equally important. There is no significant difference between these activities.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

This chapter presents the summary, conclusion and recommendations of the study.

5.1 Summary

The main objective of the study is to explore and highlight the picture of leasing business in Nepal. To achieve the main objective, the study has envisioned other micro objectives based on the important aspects of leasing business. These objectives comprise to study and analyze the introduction, growth and development of leasing business in Nepal, to study and analyze practices and procedures followed in course of leasing business in Nepal, to study and examine existing legal provisions relating to the leasing business of Nepal, and to conduct an opinion survey of finance companies to collect and analyze views and facts on various aspects of leasing business in Nepal.

For the purpose of highlighting about equipment leasing business in Nepal the study has identified the macro level variables that are considered relevant to highlight. Accordingly, the history of its initial growth, its extension throughout the country, relative investment position has been analyzed and is being made highlighted. In order to gather required data and information number of books, journal, periodicals, publications of NRB have been used. Descriptive as well as analytical both the techniques have been applied while analyzing and presenting the data and information in order to meet the research objectives.

To study the legal provisions made for leasing business in Nepal, complete list of all the acts presently enacted are thoroughly checked. Relevant acts are identified and selected for study. Personal dialogues are made with senior executive of the companies in order to support the process of identifying analyzing the legal provisions. Required information is gathered from identified as relevant to this study. Descriptive methodology of analysis followed.

To study the practices and procedures followed by companies in course performing leasing business, the companies operating leasing business located at valley have been selected and regular personal visit is conducted. To achieve the objective, information has been gathered from official documents papers, provided by the companies. In addition to this information various information has been collected by regular inquiries.

In order to collect and analyze the views of finance companies about lease business, all the finance companies located at valley are selected as sample Questionnaire is distributed and response is collected. Primary data such collected have been analyzed with percentage analysis, ranking analysis and variance test in the applicable places,

Depending upon the objective of the study, many important finding has been revealed as the end result of the study.

This study has shown that finance companies Act 1986 is the first act which first time introduced leasing as one of the function of finance companies. The provision has made finance companies legally allowed to carry on leasing business. Though the act provided the legal right in 1986, leasing business found practiced only in 1995. UFCO, ILFC and NSMB are found to be pioneer for introducing leasing business in Nepal. Though the Nepal financial system comprises varieties of financial institution, only finance companies have obtained legal right to conduct

leasing business. Leasing business is continuously growing in terms of investment made for the business. But in terms of number of institution, there are only four finance companies that operate leasing business in the country. Out of them, 3 are located at valley and 1 is outside the valley. During past 13 years, the investment on leasing has covered only 2.6% to 5.66 % share on total credit flows (loans and advance) of all the finance companies. Share of leasing investment in the G.D.P of the country is also remained below 0.1031%.

Till the year 2002, legal framework for leasing business has not been provisioned. Leasing transactions are being mainly governed by contract act 2000 and at the same time other general laws are being applied depending upon the terms and conditions covered by the lease agreement. Most applicable laws include contract act 2000, income tax act 2001, Nepal Rastra Bank Act 2001, Finance Companies act 1986 and foreign exchange (regulation) act 1962 (second amendment on 2002). Besides, the directives issued from NRB (2001) and notices published by NRB are also found as rules laid down for leasing business. It is the most important point to note that income tax act 2001 has recognized only finance lease under which lessee is treated as the owner of the leased asset and lessor is treated as the holder of debt claim against lessee. NRB has directed, as finance companies should not extend investment on leasing more than 40% of total credit flows (loans and advance) including leasing investment. NRB has also provisions that finance companies need to hold 15 corers paid up capital in order to carry leasing business in addition to other functions.

Regarding practices and procedures, it is found that there is no any national standard to be followed in course of carrying leasing business. The normal process is that lessee makes the formal written application to the company to take the asset on lease. The company appraises the lessee and his business on various grounds. If the company thinks appropriate, negotiations are made between parties and written agreement is made. The company finances the acquisition of asset. Lessee takes

possession of the asset and continuous thereafter to discharge his obligation under lease agreement.

In connection to the acquisition of the asset, lessee is found being solely responsible for all the procedures. Likewise, while using the asset, lessee must comply with all legal provisions and technical instructions in addition to the rational use of the asset. Lease term and lease rental are determined on the basis of appraisal of the lessee and his business. Lessee takes full responsibility of any loss or damage to the asset. Insurance of the asset is made in the name of the company but the lessee pays premium. All the companies demand certain deposit or security in order to secure the performance of the lease contract. Any type of attachment, alteration, and transfer of equipment by the lessee is found prohibited.

Finally, the survey of the finance companies has revealed that majority of the finance companies (66%) are not convinced that leasing business is profitable business. Not only this, 88% of the total finance companies has opined that the infrastructures for carrying leasing business also are not sufficient. Regarding the promoting of particular type of asset, 62% of the total finance companies think that among various capital assets, top priority should be given to machinery and tools which could help initiating industrialization in the country. Similarly regarding the economic sector that is important for leasing business, majority of the finance companies have opined that leasing the currently practiced finance lease, 66% of the total finance companies have realized the need of operating leasing in the country.

In the survey of opinions of the finance companies regarding the current income tax act 2001, it is found that 75% of the total finance companies have taken the income tax act as unfavorable for the leasing business. In the next question, relating to the NRB's role. It is found that 44% of the total finance companies think that NRB has not yet made clear vision about leasing business and is not actively creating conducive environment for leasing business. Again finance companies have opined

that the current provision that needs 15 corers capital in order to carry the leasing business is to be reduced.

High credit risk in the business and lack of market are found as critical problems due to which finance companies are not carrying leasing business. Besides, lack of capital is also remained as the major problem. It was another research question intended to seek the answer as if the finance companies have conducted detailed study to assess suitability and feasibility of the business for their company, it is found that 66% of the total finance companies have not studied in detail about leasing business. From the research, it has also been revealed that credit assessment expertise and capacity to generate speedity in utilizing fund are the most critical requisites for successful leasing business.

Regarding present growth of leasing business, practice done by companies awareness of the leasing facility in the public, efforts done for its publicity and government's support for promoting this business, more than 80% of the total finance companies have evaluated below satisfactory level. But the future prospect is evaluated as good by majority of the finance companies. (38%)

Finance companies have suggested increasing the publicity and creating the conductive legal provision with highest priority in order to ensure bright future of the leasing business in Nepal.

5.2 Conclusions

After all the preceding study, the research has come to conclude that leasing in Nepal is in its infancy stage and is in stage of experimentation. It has just passed 13 years history. The appropriateness and its effectiveness in contributing to the country's economy have yet to be assessed. It has remained overlooked (or ignored) subject within the Nepalese financial sector. Finance companies like UFCO, ILFC and NSMB are putting effort for developing leasing business in Nepal. Still the investment for leasing is not in highest priority even of those finance companies that have taken the policy of being pioneer for leasing activities in Nepal. Leasing business has yet to get its financial recognition in Nepalese finance sector.

There is no special legal provision made for leasing business. Since it is contract, it is mainly governed by contract act 2000, but at the same time other general laws are applied depending upon the terms and conditions covers by the lease agreement. This situation has created many legal ambiguities and hence, has not facilitated the development of leasing business in the country income tax act 2001 has not recognized the real substance of the leasing. It has treaded leasing just as other traditional loans.

Due to the financial circumstance of the country, the companies are not offering all the benefits that are claimed under leasing service. Companies are not doing operating leasing. Analyzing the practice and procedure followed in course of leasing business, it has been revealed that, the lease that the companies are providing is nothing more than a secured loan issued to the lessee. In addition, it is found that lessor companies have the more rights less responsibilities whereas lessee has the less rights more responsibilities. Companies are following the standard formal contract which does not provide any scope, for flexibility except some flexibility in transaction detail like amount of lease, lease rental, payment schedule etc.

On the basis of opinion survey, it is concluded that finance companies are not entering into leasing industry mainly due to the high credit risk and lack of market. They are not found satisfactory with the practice made by the companies, which are operating leasing business. Besides, they think there is lack of awareness about leasing business in the country. There is no legal provision made for the business. Even the government from its part, is not supporting the business. Majority finance companies are not convinced that leasing is profitable for their company and still they are not interested to enter into the area of leasing business but they have realized the need of operating leasing in the country. Majority of the finance companies have thought that existing infrastructure for carrying leasing business is not sufficient. Machinery and tools for small and medium scale industries need to be focused to develop leasing business in the country. Majority of the finance companies are not satisfied with the provision made regarding leasing business by NRB. They have stressed on the need to increase the efforts for publicity and creating appropriate legal framework to development leasing business in the country.

5.3 Recommendations

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

- [1] Till now, among all the financial institutions, only finance companies are legally allowed to carry leasing business. In the countries where leasing has achieved significant growth, commercial banks are also allowed to do leasing business. Commercial banks have played significant role for the development of leasing business in these countries. If we see Nepalese financial system, it can be found dominated by the commercial bank. Banking sector in Nepal has gained more public confidence than finance companies. Therefore, rapid development of leasing can be expected, if commercial banks are legally permitted to enter into leasing industries. It is strongly recommended to permit commercial banks to do leasing business adding new provision in the commercial banking act 1974.
- [2] Under this research, it has also been found that there is no special act for leasing business in Nepal. Mainly it is governed by contract act 2001 and at the same time, other general laws are also applied depending upon the term and conditions. Legislative framework is the most important prerequisite for the development of leasing business. In the absence of clear and adequate legal provisions development of leasing business cannot be expected. Therefore special act for leasing business is needed to be enacted.
- [3] Foreign exchange (regulation) act has not made any provision relating to the transactions made under international or cross boarder leasing. The provision, made in general, create difficulties for efficient and effective implementation of leasing deal. It is, therefore, recommended that special provision for the transaction of international leasing are to be included in foreign exchange (regulation) act till the enactment of special leasing act.

- [4] Tax is the greatest strategic consideration for business organization as well as for the government. Government use tax as an effective measure for channeling available resources in the country. Literature has shown that fundamental reason behind development leasing activities is the tax concession provided to the leasing companies and user of the leasing service in those countries where economic boost has been achieved after adoption of leasing. In Nepal, current income tax act has not provided tax concession to the companies carrying leasing and user of the lease service. This research recommends to provide tax concession to both the parties because such tax concession would not results into loss in the revenue to he government rather it generate speedily in economic activities from which tax loss is compensated and economy is uplifted.
- [5] It has been found that even NRB has not made clear vision regarding leasing business and is not actively creating conducive environment for the development of leasing activities. This could be one of the major hindrances for the development of leasing activities in the country. NRB act has empowered NRB to lead the banking and financial system of the country. Thus it can play significant role in the development of leasing business. Therefore NRB is recommended to assess the macro economic impact of the leasing activities and make policy accordingly.
- [6] 84% of the total finance companies have opined that 15 crore capital required for carrying leasing business is to be reduced. Finance companies in a Nepal still have not gained full confidence of public. They may not be able to raise such a huge capital. In such situation only very few companies can enter into industry and therefore leasing will not be practiced widely. Hence, NRB is recommended to re-think the applicability of this capital requirement provision.
- [7] Being the new concept for the Nepalese financial sector, there are problems in almost all the dimensions of leasing business. Companies under study

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

- [8] Companies carrying leasing business are found using standard prepare formal contract document. Moreover, these companies are found following take or leave policy while availing leasing service. Flexibility is nil except little flexibility in structuring of payment of rental. This has increased that the risk for user of leasing service. Therefore, companies are recommended to adopt policy that will provide sufficient flexibility for leasing transactions. Companies should develop objective base with sufficient subjectivity in leasing deal.
- [9] Regarding leasing practice, it is found that there is no balance of rights and responsibilities taken by both the parties. Companies carrying leasing business are exercising more rights and fewer responsibilities than by the lessee. This implies unequal risk bearing condition. This is not optimal condition for the development of leasing service in the country. Therefore, leasing companies are recommended to balance rights and responsibilities in order to spread the overall risk inherent in the leasing business.
- [10] 66% of the total finance companies are found not being convinced that leasing is the profitable business. Profit is the lifeblood of the business organization. Without fully convinced about profitability of the business, the entry will only will be enthusiasm not the matured decision. Such immature decisions affect the sustainable growth of the business. Therefore, companies

are recommended not to enter industry without proper understanding of the inherent risks and rewards of the business.

- [11] 85% of the total finance companies have thought that existing infrastructures for carrying leasing business are not sufficient. This has clearly reflected the need to be focused on development of necessary infrastructure. Companies will not be ready to carry leasing business until they think those infrastructures are sufficient. Therefore, it is recommended that any development strategy should give priority to the development of necessary infrastructure for carrying leasing business first.
- [12] 62.5% of the total finance companies are found in view that top priority should be given to machinery and tools for leasing purpose. Likewise it is another finding of the study is that market segment of small and medium scale industries need to be focused. Basically finance companies provide medium term credit. They are experienced with the reality of economic activities of the country. They know very well which particular sector of the economy is in severe need of capital and which sector is comparatively more beneficial from the viewpoint of contribution made to the national economy. Therefore, it is recommended to give highest priority to the machinery and tools for the small and medium scale industries market segment. Government can offer special investment allowance in this regard. Favorable rules and regulation are to be made.
- [13] 66% of the total finance companies have realized the need of developing operating leasing in the country. In discussion some of the companies requested government to provide typical help for such sensitive credit business. During the research period, it is known that there is no proper coordination between government agencies and companies. This situation must be removed quickly. Legal provision is to be made regarding operating leasing and government is highly recommended to take initiation for the development of operating leasing business in the country.

- [14] It has been found that 75% of finance companies have not conducted detailed study about leasing business. It has been further found that 67% of the finance companies are not yet ready to enter into leasing industry. This has reflected non-innovative attitude of companies. There has been mushrooming increase in the number of institutions. Therefore, there is tough competition among institutions on other traditional investing activities. Leasing may be another fruitful alternative for them. Without detailed study of every available investment alternative, decision made in connection to the investment cannot be regarded as a wise decision. Real substance of lease can be understood only after detailed study, therefore such companies are recommended to conduct detailed study about leasing business.
- [15] Regarding present growth in leasing business, effectiveness of practice made by companies, awareness about leasing, efforts made for publicity and government's support, evaluation has been found below satisfactory level by more than 80% companies. It may be because of being new concept, which has just been entered into Nepal. This evaluation has clearly indicated the attitude of the companies and state of the industry. In this situation, companies cannot be expected to enter into the industry. Government should be aware about this fact. Companies that are carrying leasing business are recommended to organize awareness programs on leasing to inform the real economic substance of leasing and its appropriateness for companies and national economy. Government is recommended to increase support from its part.

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www.Nepalnews.com

www.Gorkhapatrasansthan.com

www.historyofleasing.com

www.leasingtrendinnepal.com

www.investorwords.com

Appendix

Appendix - i

List of Class C Licensed Financial Institution (Finance Company)

1	Nepal Housing Development Finance Co. Ltd. 8/3/1992 Kathmandu
2	Nepal Finance and Savings Co. Ltd. 1993/01/06 Kathmandu 4220031
3	NIDC Capital Markets Ltd. 1993/03/11 Kamaladi, Kathmandu 4423219
4	National Finance Co. Ltd. 1993/05/07 Pako Newroad, Kathmandu 4228380
5	Annapurna Finance Co. Ltd. 1993/09/30 Chipledhunga, Pokhara 061-522671
6	Nepal Share Markets Ltd. 1993/10/19 Ramshahapath, Kathmandu 4252332
7	Peoples Finance Ltd. 1993/04/15 Tripureshwor, Kathmadu 4260991 4262405
8	Himalaya Finance & Savings Co. Ltd. 1993/11/11 Kathmandu 4250172
9	United Finance and Leasing Co. 1996/1/25 Kathmandu 4240779/813
10	Union Finance Co. Ltd. 12/12/1995 Durbarmarg, Kathmandu 4241648/49
11	Mercentile Finance Co. Ltd. 1994/11/10 Adarshnagar, Birgunj 051-522274
12	Kathmandu Finance Ltd. 1994/11/10 Putalisadak, Kathmandu 430506/27
13	Inbesta Finance Ltd. 1995/07/17 Adarshnagar, Birgunj 051-526214 51-
14	Narayani Finance Ltd. 1995/03/08 Narayangadh, Chitwan 056-520313/45
15	Gorkha Finance Ltd. 1995/03/12 Kantipath, Kathmandu 4220337 4258239
16	Nepal Housing & Merchant Finance Co. Ltd. 1995/04/11 Kathmandu
17	Paschhimanchal Finance Co. Ltd. 1995/04/09 P.B.No.11, Butwal 541649
18	Universal Finance & Capital Markets. 1995/04/27 Kathmandu 4240998
19	Samjhana Finance Co. Ltd. 1995/05/03 Banepa, Kavre 011-664561
20	Goodwill Finance & Investment Co. Ltd. 1995/05/16 Kathmandu 4422878
21	Shree Investment & Finance Co. Ltd. 1995/06/01 Kathmandu 442616
22	Siddhartha Finance Co. Ltd. 1995/05/25 Bhairahawa, 071-521478 071-
23	Lumbini Finance & Leasing Co. Ltd. 1995/06/26 Kathmandu 4423443
24	Yeti Finance Co. Ltd. 1995/07/23 Bank Road, Hetauda 057-520822/521842

25	Standard Finance Ltd. 1995/07/23 Pautalisadak, Kathmandu 4244504
26	ACE Finance Co. Ltd. 1995/08/15 Kantipath, Kathmandu 4249396 4249477
27	International Leasing & Finance Co. Ltd. 1995/10/31 Kathmandu 4782010
28	Mahalaxmi Finance Co. Ltd. 1995/11/26 Birgunj 051-523271/529143 051-
29	Lalitpur Finance Co. Ltd. 1995/12/12 Lalitpur 5523850/5536598 5531916
30	Merchant Finance Co. Ltd. 1996/01/02 Kathmandu 4421244/4246402
31	Bhajuratna Finance & Saving Co. Ltd. 1996/01/09 Kathmandu 4249534
32	General Finance Ltd. 1996/02/02 Chabahil, Kathmandu 484753 4484753
33	Nepal Shreelanka Merchant Bank Ltd. 1996/02/04 Kathmandu 4440300
34	Alpic Everest Finance Ltd. 1996/07/16 Baghbazar, Kathmandu 4266936
35	Nepal Merchant Banking & Finance Ltd. 1996/11/26 Kathmandu 4246160
36	Nava Durga Finance Co.Ltd. 1997/02/09 Itachhe, Bhaktapur 6612999
37	Pokhara Finance Ltd. 1997/03/16 Gairapatan, Pokhara 61-531145
38	Janaki Finance Ltd. 1997/03/07 Janakpurdham, 041-521586/523339
39	Central Finance Co. Ltd. 1997/04/14 Kupondole, Lalitpur 5522289/5521402
40	Premier Finance Co. Ltd. 1997/05/08 Manbhavan, Lalitpur 5550412
41	Arun Finance & Saving Co. Ltd. 1997/08/17 Putalibazar, Dharan 025-23185
42	Multipurpose Saving & Invest. Finance Co.Ltd 1998/3/25 Saptari, 521170
43	Butwal Finance Co. Ltd. 1998/06/21 Butwal, Rupendehi 071-44288 / 44888
44	Nepal Bangladesh Finance & Leasing Co.Ltd. 1999/04/18 Biratnagar 530972
45	Shrijana Finance Ltd. 1999/12/14 Siraha, Lahan 033-560769 033-560769
46	Om Finance Ltd. 9/17/2000 New Road, Pokhara-9 061-532600/700 061-
47	Cosmic Merchant Banking & Finance Ltd. 2000/11/20 Kathmandu 4223154
48	World Merchant Banking & Finance Ltd. 2001/08/10Hetauda 057-521129
49	Capital Merchant Banking & Finance Ltd. 2002/02/01 Kathmandu 4471458
50	Crystal Finance Ltd. 2002/02/13 Bag Durbar, Kathmandu 4218269/270/271
51	Royal Merchant Banking & Finance Ltd. 2002/02/14 Kathmandu 4242900
52	Guheshworil Merchant Banking & Finance Ltd. 2002/06/13 Lalitpur
53	Patan Finance Ltd. 6/23/2002 Man Bhawan, Lalitpur 5539475 5544206

54	Kist Merchant Banking & Finance Ltd. 2003/02/21 Kathmandu 4444463
55	Fewa Finance Ltd. 2003/04/30 Pokhara, Chipledhunga 061-538300/400
56	Everest Finance Co. Ltd. 2003/07/02 Siddarthanagar, Bhairahawa
57	Birgunj Finance Ltd. 9/28/2003 Adarshnagar , Birgunj 051-523468
58	Prudential Merchant Banking & Finance Ltd 2003/06/06, Kathmandu
59	Investment Credit and Finance Co. Ltd. 2003/06/15, Kathmandu 4425292
60	Sagarmatha Merchant Banking and Finance Co. Ltd 2005/08/29, 5547841
61	Shikhar Bittiya Sanstha Ltd. 2005/09/15 Kathmandu, Thapathali 4239289
62	Civil Merchant Bittiya sanstha Ltd. 2005/09/18 Kathmandu, 4289524/596
63	Prabhut Bittiya sanstha Ltd. 2006/02/16 Kathmandu, Kantipath 254580/81
64	Imperial Bittiya sanstha Ltd. 2006/03/08 Kathmandu, 4432373/4427923
65	Kuber Bittiya sanstha Ltd. 2006/03/24 Kathmandu, Putalisadak 4239797/98
66	Nepal Express Financial Institutoins Ltd. 2006/05/04 Butwal 071-560769
67	Valley Bittiya sanstha Ltd. 2006/05/11 Kathmandu, Maharajganj 4374001
68	Seti Bittiya sanstha Ltd. 2006/06/07 Kailaly, Tikapur 091-560950
69	Hama Bittiya sanstha Ltd. 2006/06/16 Kathmandu, Tripureshwor 4249503
70	Reliable Investment Bittiya sanstha Ltd. 2006/09/06 Kathmandu, 4218927,
71	Loard Buddha Financial Institutions Ltd. 2006/11/19 Kathmandu, 4212770
72	Api financial Institution 2007/4/25 Lekhanath Chock, Kaski 061-561667
73	Nameste Bitiya Sanstha Limited. 2007/7/7 Ghorai, Dang 082-561659 082-
74	Suryadarshan Financial Institution Ltd. 2007/7/30, Kathmandu 4785211/17
75	Zenieth Merchant Financial Institution Ltd. 2007/10/08 Kathmandu 4233404
76	Unique Financial Institution Ltd. 2007/10/12 Putalisadak, Kathmandu
77	Manjushree Financial Institution Ltd. 2007/10/15 New Kathmandu 4782517
78	Swostik Merchant Finance Company Ltd. 2007/10/16, Kathmandu 4441734/
79	Subhalaxmi Finance Ltd. 2007/11/11 Naxal, Kathmandu 4233517/ 4233518

Calculation of Trend Values For the Lease Finance

Years (X)	Total investment for leasing business (y)	x = X - 2002	x ²	Σxy
1995	26.30	-7	49	-184.1
1996	54.50	-6	36	-327
1997	185.00	-5	25	-925
1998	310.00	-4	16	-1241.2
1999	260.10	-3	9	-780.3
2000	235.30	-2	4	-470.6
2001	277.80	-1	1	-277.8
2002	371.30	0	0	0
2003	395.50	1	1	395.50
2004	425.80	2	4	851.6
2005	477.90	3	9	1433.7
2006	620.00	4	16	2480
2007	545.20	5	25	2726
2008	571.30	6	36	3427.8
	Σy = 4756		Σx ² = 231	Σxy = 7108.6

Where, $a = \Sigma y / n = 4756 / 14 = 339.71$

$$b = \Sigma xy / \Sigma x^2 = 7108.6 / 231 = 30.773$$

Working note:

Calculation of trend values: i.e $T = a + bx$

$$1995 = 339.71 + (30.773 \times -7) = 124.30$$

$$1996 = 339.71 + (30.773 \times -6) = 155.072$$

$$1997 = 339.71 + (30.773 \times -5) = 185.85$$

$$1998 = 339.71 + (30.773 \times -4) = 216.62$$

$$1999 = 339.71 + (30.773 \times -3) = 247.39$$

$$2000 = 339.71 + (30.773 \times -2) = 278.16$$

$$2001 = 339.71 + (30.773 \times -1) = 308.94$$

$$2002 = 339.71 + (30.773 \times 0) = 339.71$$

$$2003 = 339.71 + (30.773 \times 1) = 370.48$$

$$2004 = 339.71 + (30.773 \times 2) = 401.26$$

$$2005 = 339.71 + (30.773 \times 3) = 432.02$$

$$2006 = 339.71 + (30.773 \times 4) = 462.80$$

$$2007 = 339.71 + (30.773 \times 5) = 493.58$$

$$2008 = 339.71 + (30.773 \times 6) = 524.35$$

REQUEST LETTER

Dear respondents,

I am a student of Master Degree of Lumbini Banijya Campus and I have to submit my thesis for the completion of master level studies. As I am a student of management the title of my thesis is “Future prospects and relevancy of leasing” for this purpose I have made a questionnaire. I therefore request you all to fill this form and help me for foundation of my thesis.

.....

Tuk Raj Gurung
Lumbini Banijya Campus
Date :

Profitability of Leasing Business

S.No.	Name of Finance Companies	Yes	No	Don't know
1	Union Finance Co. Ltd	✓		
2	United Finance and Leasing Co.	✓		
3	Lumbini Finance and Leasing Co. Ltd	✓		
4	International Leasing and Finance Co. Ltd.	✓		
5	Nepal Shreelanka Merchant Bank Ltd	✓		
6	Nepal Bangladesh Finance and Leasing Co. Ltd	✓		
7	World Merchant Banking and Finance Ltd.	✓		
8	Nepal Housing Development Finance Co. Ltd.		✓	
9	Nepal Finance and Savings Co. Ltd.		✓	
10	National Finance Co. Ltd	✓		
11	Peoples Finance Ltd		✓	
12	Himalaya Finance & Savings Co. Ltd		✓	
13	Kathmandu Finance Ltd		✓	
14	Nepal Housing & Merchant Finance Co. Ltd		✓	
15	Universal Finance & Capital Markets		✓	
16	Goodwill Finance & Investment Co. Ltd.		✓	
17	Shree Investment & Finance Co. Ltd		✓	
18	Swostik Merchant Finance Company Ltd.		✓	
19	Standard Finance Ltd		✓	
20	ACE Finance Co. Ltd.		✓	
21	Subhalaxmi Finance Ltd.		✓	
22	Lalitpur Finance Co. Ltd		✓	
23	Merchant Finance Co. Ltd		✓	
24	Bhajuratna Finance & Saving Co. Ltd.		✓	
25	General Finance Ltd		✓	
26	Alpic Everest Finance Ltd		✓	
27	Nepal Merchant Banking & Finance Ltd.			✓
28	Cosmic Merchant Banking & Finance Ltd.			✓
29	Crystal Finance Ltd		✓	
30	Royal Merchant Banking & Finance Ltd.		✓	
31	Kist Merchant Banking & Finance Ltd.			✓
32	Prudential Merchant Banking & Finance Ltd		✓	
	Total	8	21	3
	Percentage	25%	66%	9%

Sufficiency of Infrastructure for Leasing Business

S.No.	Name of Finance Companies	Yes	No	Don't know
1	Union Finance Co. Ltd		✓	
2	United Finance and Leasing Co.		✓	
3	Lumbini Finance and Leasing Co. Ltd		✓	
4	International Leasing and Finance Co. Ltd.		✓	
5	Nepal Shreelanka Merchant Bank Ltd		✓	
6	Nepal Bangladesh Finance and Leasing Co. Ltd		✓	
7	World Merchant Banking and Finance Ltd.		✓	
8	Nepal Housing Development Finance Co. Ltd.		✓	
9	Nepal Finance and Savings Co. Ltd.		✓	
10	National Finance Co. Ltd		✓	
11	Peoples Finance Ltd		✓	
12	Himalaya Finance & Savings Co. Ltd		✓	
13	Kathmandu Finance Ltd		✓	
14	Nepal Housing & Merchant Finance Co. Ltd		✓	
15	Universal Finance & Capital Markets		✓	
16	Goodwill Finance & Investment Co. Ltd.		✓	
17	Shree Investment & Finance Co. Ltd		✓	
18	Swostik Merchant Finance Company Ltd.		✓	
19	Standard Finance Ltd		✓	
20	ACE Finance Co. Ltd.		✓	✓
21	Subhalaxmi Finance Ltd.		✓	
22	Lalitpur Finance Co. Ltd		✓	
23	Merchant Finance Co. Ltd		✓	
24	Bhajuratna Finance & Saving Co. Ltd.		✓	
25	General Finance Ltd		✓	
26	Alpic Everest Finance Ltd		✓	✓
27	Nepal Merchant Banking & Finance Ltd.		✓	
28	Cosmic Merchant Banking & Finance Ltd.		✓	✓
29	Crystal Finance Ltd		✓	✓
30	Royal Merchant Banking & Finance Ltd.		✓	
31	Kist Merchant Banking & Finance Ltd.		✓	
32	Prudential Merchant Banking & Finance Ltd		✓	
	Total		32	4
	Percentage		100%	12.5%

Assets Need to be given Top Priority for Leasing Business

S. No.	Name of Finance Companies	Machinery and tools	Durable household goods	Vehicles
1	Union Finance Co. Ltd	✓		
2	United Finance and Leasing Co.	✓		
3	Lumbini Finance and Leasing Co. Ltd	✓		
4	International Leasing and Finance Co. Ltd.	✓		
5	Nepal Shreelanka Merchant Bank Ltd	✓		
6	Nepal Bangladesh Finance and Leasing Co. Ltd	✓		
7	World Merchant Banking and Finance Ltd.	✓		
8	Nepal Housing Development Finance Co. Ltd.		✓	
9	Nepal Finance and Savings Co. Ltd.		✓	
10	National Finance Co. Ltd	✓		
11	Peoples Finance Ltd	✓		
12	Himalaya Finance & Savings Co. Ltd	✓		
13	Kathmandu Finance Ltd	✓		
14	Nepal Housing & Merchant Finance Co. Ltd	✓		
15	Universal Finance & Capital Markets	✓		
16	Goodwill Finance & Investment Co. Ltd.	✓		
17	Shree Investment & Finance Co. Ltd	✓		
18	Swostik Merchant Finance Company Ltd.	✓		
19	Standard Finance Ltd	✓		
20	ACE Finance Co. Ltd.			✓
21	Subhalaxmi Finance Ltd.	✓		
22	Lalitpur Finance Co. Ltd		✓	
23	Merchant Finance Co. Ltd		✓	
24	Bhajuratna Finance & Saving Co. Ltd.		✓	
25	General Finance Ltd		✓	
26	Alpic Everest Finance Ltd		✓	
27	Nepal Merchant Banking & Finance Ltd.	✓		
28	Cosmic Merchant Banking & Finance Ltd.			✓
29	Crystal Finance Ltd			✓
30	Royal Merchant Banking & Finance Ltd.			✓
31	Kist Merchant Banking & Finance Ltd.	✓		
32	Prudential Merchant Banking & Finance Ltd			✓
	Total	20	7	5
	Percentage	62.5%	21.9%	15.6%

Market Segment Need to be Promoted for Leasing Business

S. No.	Name of Finance Companies	Market Segment*			
		A	B	C	D
1	Union Finance Co. Ltd		✓		
2	United Finance and Leasing Co.		✓		
3	Lumbini Finance and Leasing Co. Ltd		✓		
4	International Leasing and Finance Co. Ltd.		✓		
5	Nepal Shreelanka Merchant Bank Ltd		✓		
6	Nepal Bangladesh Finance and Leasing Co. Ltd		✓		
7	World Merchant Banking and Finance Ltd.				✓
8	Nepal Housing Development Finance Co. Ltd.	✓			
9	Nepal Finance and Savings Co. Ltd.	✓			
10	National Finance Co. Ltd	✓			
11	Peoples Finance Ltd	✓			
12	Himalaya Finance & Savings Co. Ltd	✓			
13	Kathmandu Finance Ltd	✓			
14	Nepal Housing & Merchant Finance Co. Ltd	✓			
15	Universal Finance & Capital Markets	✓			
16	Goodwill Finance & Investment Co. Ltd.	✓			
17	Shree Investment & Finance Co. Ltd			✓	
18	Swostik Merchant Finance Company Ltd.			✓	
19	Standard Finance Ltd		✓		
20	ACE Finance Co. Ltd.		✓		
21	Subhalaxmi Finance Ltd.		✓		
22	Lalitpur Finance Co. Ltd		✓		
23	Merchant Finance Co. Ltd		✓		
24	Bhajuratna Finance & Saving Co. Ltd.			✓	
25	General Finance Ltd			✓	
26	Alpic Everest Finance Ltd				✓
27	Nepal Merchant Banking & Finance Ltd.			✓	
28	Cosmic Merchant Banking & Finance Ltd.			✓	
29	Crystal Finance Ltd			✓	
30	Royal Merchant Banking & Finance Ltd.				✓
31	Kist Merchant Banking & Finance Ltd.				✓
32	Prudential Merchant Banking & Finance Ltd				✓
	Total	9	11	7	5
	Percentage	28.13%	34.38%	21.88%	15.63%

***Market Segment**

- A. Individual Segment
- B. Small and Medium Scale Industries Segment
- C. Gov. and Non-Government Project Segment
- D. Large Manufacturing Industries Segment

Realization of Need to Develop Operating Leasing

S. No.	Name of Finance Companies	Needed	Not needed	Unknown
1	Union Finance Co. Ltd	✓	–	
2	United Finance and Leasing Co.	✓	–	
3	Lumbini Finance and Leasing Co. Ltd	✓	–	
4	International Leasing and Finance Co. Ltd.	✓	–	
5	Nepal Shreelanka Merchant Bank Ltd	✓	–	
6	Nepal Bangladesh Finance and Leasing Co. Ltd	✓	–	
7	World Merchant Banking and Finance Ltd.	✓	–	
8	Nepal Housing Development Finance Co. Ltd.	✓	–	
9	Nepal Finance and Savings Co. Ltd.	✓	–	
10	National Finance Co. Ltd	✓	–	
11	Peoples Finance Ltd		–	✓
12	Himalaya Finance & Savings Co. Ltd	✓	–	
13	Kathmandu Finance Ltd	✓	–	
14	Nepal Housing & Merchant Finance Co. Ltd	✓	–	
15	Universal Finance & Capital Markets	✓	–	
16	Goodwill Finance & Investment Co. Ltd.	✓	–	
17	Shree Investment & Finance Co. Ltd	✓	–	
18	Swostik Merchant Finance Company Ltd.	✓	–	
19	Standard Finance Ltd		–	✓
20	ACE Finance Co. Ltd.		–	✓
21	Subhalaxmi Finance Ltd.		–	✓
22	Lalitpur Finance Co. Ltd		–	✓
23	Merchant Finance Co. Ltd		–	✓
24	Bhajuratna Finance & Saving Co. Ltd.		–	✓
25	General Finance Ltd		–	✓
26	Alpic Everest Finance Ltd		–	✓
27	Nepal Merchant Banking & Finance Ltd.	✓	–	
28	Cosmic Merchant Banking & Finance Ltd.		–	✓
29	Crystal Finance Ltd		–	✓
30	Royal Merchant Banking & Finance Ltd.	✓	–	
31	Kist Merchant Banking & Finance Ltd.	✓	–	
32	Prudential Merchant Banking & Finance Ltd	✓	–	
	Total	21		11
	Percentage	66%		34%

Current Income Tax Act in Respect of Leasing Business

S. No.	Name of Finance Companies	Favorable	Not-favorable	Unknown
1	Union Finance Co. Ltd		✓	
2	United Finance and Leasing Co.		✓	
3	Lumbini Finance and Leasing Co. Ltd		✓	
4	International Leasing and Finance Co. Ltd.		✓	
5	Nepal Shreelanka Merchant Bank Ltd		✓	
6	Nepal Bangladesh Finance and Leasing Co. Ltd		✓	
7	World Merchant Banking and Finance Ltd.		✓	
8	Nepal Housing Development Finance Co. Ltd.		✓	
9	Nepal Finance and Savings Co. Ltd.		✓	
10	National Finance Co. Ltd			
11	Peoples Finance Ltd			✓
12	Himalaya Finance & Savings Co. Ltd		✓	
13	Kathmandu Finance Ltd		✓	
14	Nepal Housing & Merchant Finance Co. Ltd		✓	
15	Universal Finance & Capital Markets		✓	
16	Goodwill Finance & Investment Co. Ltd.		✓	
17	Shree Investment & Finance Co. Ltd		✓	
18	Swostik Merchant Finance Company Ltd.		✓	
19	Standard Finance Ltd			✓
20	ACE Finance Co. Ltd.			✓
21	Subhalaxmi Finance Ltd.			✓
22	Lalitpur Finance Co. Ltd			✓
23	Merchant Finance Co. Ltd		✓	
24	Bhajuratna Finance & Saving Co. Ltd.		✓	
25	General Finance Ltd		✓	
26	Alpic Everest Finance Ltd			✓
27	Nepal Merchant Banking & Finance Ltd.			
28	Cosmic Merchant Banking & Finance Ltd.			✓
29	Crystal Finance Ltd			✓
30	Royal Merchant Banking & Finance Ltd.		✓	
31	Kist Merchant Banking & Finance Ltd.		✓	
32	Prudential Merchant Banking & Finance Ltd		✓	
	Total		24	8
	Percentage		75%	25%

Nepal Rastra Bank's Role for Leasing Business

S. No.	Name of Finance Companies	Active	Not-active	Unknown
1	Union Finance Co. Ltd		✓	
2	United Finance and Leasing Co.		✓	
3	Lumbini Finance and Leasing Co. Ltd		✓	
4	International Leasing and Finance Co. Ltd.		✓	
5	Nepal Shreelanka Merchant Bank Ltd		✓	
6	Nepal Bangladesh Finance and Leasing Co. Ltd		✓	
7	World Merchant Banking and Finance Ltd.		✓	
8	Nepal Housing Development Finance Co. Ltd.	✓		
9	Nepal Finance and Savings Co. Ltd.	✓		
10	National Finance Co. Ltd	✓		
11	Peoples Finance Ltd			✓
12	Himalaya Finance & Savings Co. Ltd	✓		
13	Kathmandu Finance Ltd	✓		
14	Nepal Housing & Merchant Finance Co. Ltd	✓		
15	Universal Finance & Capital Markets	✓		
16	Goodwill Finance & Investment Co. Ltd.	✓		
17	Shree Investment & Finance Co. Ltd			✓
18	Swostik Merchant Finance Company Ltd.			✓
19	Standard Finance Ltd			✓
20	ACE Finance Co. Ltd.		✓	
21	Subhalaxmi Finance Ltd.		✓	
22	Lalitpur Finance Co. Ltd		✓	
23	Merchant Finance Co. Ltd		✓	
24	Bhajuratna Finance & Saving Co. Ltd.		✓	
25	General Finance Ltd			✓
26	Alpic Everest Finance Ltd			✓
27	Nepal Merchant Banking & Finance Ltd.	✓		
28	Cosmic Merchant Banking & Finance Ltd.			✓
29	Crystal Finance Ltd			✓
30	Royal Merchant Banking & Finance Ltd.		✓	
31	Kist Merchant Banking & Finance Ltd.			✓
32	Prudential Merchant Banking & Finance Ltd		✓	
	Total	9	14	9
	Percentage	28%	44%	28%

Appropriateness of Notice of NRB Regarding Leasing Business.

S. No.	Name of Finance Companies	Need to reduced	Appropriate
1	Union Finance Co. Ltd	✓	
2	United Finance and Leasing Co.	✓	
3	Lumbini Finance and Leasing Co. Ltd	✓	
4	International Leasing and Finance Co. Ltd.	✓	
5	Nepal Shreelanka Merchant Bank Ltd	✓	
6	Nepal Bangladesh Finance and Leasing Co. Ltd	✓	
7	World Merchant Banking and Finance Ltd.	✓	
8	Nepal Housing Development Finance Co. Ltd.	✓	
9	Nepal Finance and Savings Co. Ltd.	✓	
10	National Finance Co. Ltd	✓	
11	Peoples Finance Ltd		✓
12	Himalaya Finance & Savings Co. Ltd	✓	
13	Kathmandu Finance Ltd	✓	
14	Nepal Housing & Merchant Finance Co. Ltd	✓	
15	Universal Finance & Capital Markets	✓	
16	Goodwill Finance & Investment Co. Ltd.	✓	
17	Shree Investment & Finance Co. Ltd	✓	
18	Swostik Merchant Finance Company Ltd.	✓	
19	Standard Finance Ltd	✓	
20	ACE Finance Co. Ltd.	✓	
21	Subhalaxmi Finance Ltd.	✓	
22	Lalitpur Finance Co. Ltd	✓	
23	Merchant Finance Co. Ltd	✓	
24	Bhajuratna Finance & Saving Co. Ltd.	✓	
25	General Finance Ltd	✓	
26	Alpic Everest Finance Ltd	✓	
27	Nepal Merchant Banking & Finance Ltd.	✓	
28	Cosmic Merchant Banking & Finance Ltd.		✓
29	Crystal Finance Ltd		✓
30	Royal Merchant Banking & Finance Ltd.		✓
31	Kist Merchant Banking & Finance Ltd.		✓
32	Prudential Merchant Banking & Finance Ltd	✓	
	Total	27	5
	Percentage	84%	16%

Problems Why the most of the Finance Companies have not been entered into the Area of Leasing Business. Following are Percentage or Marks out of Hundred provided by the Companies as per their Priority.

S. No.	Name of Finance Companies	Credit risk	Market problem	Capital problem	Mgmt. Problem	Legal Problem
1	Union Finance Co. Ltd	70	15	7	6	2
2	United Finance and Leasing Co.	60	20	10	6	4
3	Lumbini Finance and Leasing Co. Ltd	50	25	10	8	7
4	International Leasing and Finance Co. Ltd.	60	25	10	3	2
5	Nepal Shreelanka Merchant Bank Ltd	70	10	9	6	5
6	Nepal Bangladesh Finance & Leasing Co. Ltd	60	20	10	6	4
7	World Merchant Banking and Finance Ltd.	50	20	15	10	5
8	Nepal Housing Development Finance Co.Ltd.	65	20	10	3	2
9	Nepal Finance and Savings Co. Ltd.	70	15	7	6	2
10	National Finance Co. Ltd	55	20	10	9	6
11	Peoples Finance Ltd	50	25	10	10	5
12	Himalaya Finance & Savings Co. Ltd	60	20	10	5	5
13	Kathmandu Finance Ltd	65	20	10	3	2
14	Nepal Housing & Merchant Finance Co. Ltd	70	15	7	6	2
15	Universal Finance & Capital Markets	55	20	15	7	3
16	Goodwill Finance & Investment Co. Ltd.	60	15	15	6	4
17	Shree Investment & Finance Co. Ltd	65	15	10	7	3
18	Swostik Merchant Finance Company Ltd.	70	15	8	7	5
19	Standard Finance Ltd	65	20	10	3	2
20	ACE Finance Co. Ltd.	55	20	10	9	6
21	Subhalaxmi Finance Ltd.	60	20	10	5	5
22	Lalitpur Finance Co. Ltd	60	15	10	8	6
23	Merchant Finance Co. Ltd	80	10	5	3	2
24	Bhajuratna Finance & Saving Co. Ltd.	75	10	7	5	3
25	General Finance Ltd	55	20	10	9	6
26	Alpic Everest Finance Ltd	75	15	5	3	2
27	Nepal Merchant Banking & Finance Ltd.	65	15	10	7	3
28	Cosmic Merchant Banking & Finance Ltd.	60	20	10	5	5
29	Crystal Finance Ltd	80	8	7	3	2
30	Royal Merchant Banking & Finance Ltd.	75	15	5	3	2
31	Kist Merchant Banking & Finance Ltd.	55	20	10	9	6
32	Prudential Merchant Banking & Finance Ltd	75	10	7	5	3
	Total	2040	553	299	191	121
	Percentage	64%	17%	9%	6%	4%
	Priorities	I st	II nd	III rd	IV th	V th

Variance test (f-test) for testing that whether there is significant difference between the problems or not.

Sample 1	30	40	55	65	70																
Sample 2	20	25	31	35	40	50	45	26	35	46	58	60	66	75	78	81	85	76	70	60	55

Null Hypothesis:- $H_0: \sigma_1^2 = \sigma_2^2$

There is no significance difference between the problems responsible for hindering leasing business or the two populations have same variance.

Alternative hypothesis: $H_0: \sigma_1^2 \neq \sigma_2^2$ i.e the two populations have not same variance. In other words there is significant difference between two populations variance.

Calculation of S_1^2 and S_2^2

X_1	$X_1 - \aleph(52)$	$(X_1 - \aleph)^2$	X_2	$X_2 - \aleph_2(53)$	$(X_2 - \aleph_2)^2$
30	- 22	484	20	- 33	1089
40	- 12	144	25	- 28	784
55	3	9	31	- 22	484
65	13	169	35	- 18	324
70	18	324	40	- 13	169
			50	- 3	9
			45	- 8	64
			26	- 27	729
			35	- 18	324
			46	- 7	49
			58	5	25
			60	7	49
			66	13	169
			75	22	484
			78	25	625
			81	28	784
			85	32	1024
			76	23	529
			70	17	289
			60	7	49
			55	2	4
260		1130	1117		8056

Where, $\aleph_1 = 260 / 5 = 52$

And $\aleph_2 = 1117 / 21 = 53$

We have, $S_1^2 = 1/n-1 \times (X_1 - \bar{X}_1)^2 = 1130 / 4 = 283$

And $S_2^2 = 1/n-1 \times (X_2 - \bar{X}_2)^2 = 8056 / 20 = 403$

Test statistic, since, $S_2^2 > S_1^2$,

$F = S_2^2 / S_1^2 = 403 / 283 = 1.42$

Degree of freedom = $(n_1 - 1, n_2 - 1) = (5 - 1, 21 - 1) = (4, 20)$

Level of significance, $\alpha = 5\% = 0.05$

Critical value:- The tabulated value F at 5% level of significance for 4 and 20 degrees of freedom is 2.87, i.e $F_{0.05(4,20)} = 2.87$.

Decision:- Since the calculated value of F is less than the tabulated value of F, the null hypothesis H_0 is accepted. It indicates that there is no significant difference between problems of finance companies to enter into leasing business.

Readiness of finance companies for entering into leasing business

S. No.	Name of Finance Companies	Appropriate time to enter	Not appropriate time to enter	Unknown
1	Union Finance Co. Ltd		✓	
2	United Finance and Leasing Co.		✓	
3	Lumbini Finance and Leasing Co. Ltd	✓		
4	International Leasing and Finance Co. Ltd.	✓		
5	Nepal Shreelanka Merchant Bank Ltd		✓	
6	Nepal Bangladesh Finance and Leasing Co. Ltd		✓	
7	World Merchant Banking and Finance Ltd.		✓	
8	Nepal Housing Development Finance Co. Ltd.			✓
9	Nepal Finance and Savings Co. Ltd.			✓
10	National Finance Co. Ltd		✓	
11	Peoples Finance Ltd		✓	
12	Himalaya Finance & Savings Co. Ltd		✓	
13	Kathmandu Finance Ltd		✓	
14	Nepal Housing & Merchant Finance Co. Ltd			✓
15	Universal Finance & Capital Markets			✓
16	Goodwill Finance & Investment Co. Ltd.			✓
17	Shree Investment & Finance Co. Ltd			✓
18	Swostik Merchant Finance Company Ltd.			✓
19	Standard Finance Ltd		✓	
20	ACE Finance Co. Ltd.		✓	
21	Subhalaxmi Finance Ltd.		✓	
22	Lalitpur Finance Co. Ltd		✓	
23	Merchant Finance Co. Ltd		✓	
24	Bhajuratna Finance & Saving Co. Ltd.		✓	
25	General Finance Ltd		✓	
26	Alpic Everest Finance Ltd		✓	
27	Nepal Merchant Banking & Finance Ltd.		✓	
28	Cosmic Merchant Banking & Finance Ltd.		✓	
29	Crystal Finance Ltd		✓	
30	Royal Merchant Banking & Finance Ltd.		✓	
31	Kist Merchant Banking & Finance Ltd.			✓
32	Prudential Merchant Banking & Finance Ltd			✓
	Total	2	21	9
	Percentage	7%	67%	26%

Study made by finance companies regarding Leasing business

S. No.	Name of Finance Companies	Studied	Not-studied
1	Union Finance Co. Ltd	✓	
2	United Finance and Leasing Co.	✓	
3	Lumbini Finance and Leasing Co. Ltd	✓	
4	International Leasing and Finance Co. Ltd.	✓	
5	Nepal Shreelanka Merchant Bank Ltd	✓	
6	Nepal Bangladesh Finance and Leasing Co. Ltd	✓	
7	World Merchant Banking and Finance Ltd.	✓	
8	Nepal Housing Development Finance Co. Ltd.		✓
9	Nepal Finance and Savings Co. Ltd.		✓
10	National Finance Co. Ltd		✓
11	Peoples Finance Ltd		✓
12	Himalaya Finance & Savings Co. Ltd		✓
13	Kathmandu Finance Ltd		✓
14	Nepal Housing & Merchant Finance Co. Ltd		✓
15	Universal Finance & Capital Markets	✓	
16	Goodwill Finance & Investment Co. Ltd.		✓
17	Shree Investment & Finance Co. Ltd		✓
18	Swostik Merchant Finance Company Ltd.		✓
19	Standard Finance Ltd		✓
20	ACE Finance Co. Ltd.		✓
21	Subhalaxmi Finance Ltd.		✓
22	Lalitpur Finance Co. Ltd		✓
23	Merchant Finance Co. Ltd		✓
24	Bhajuratna Finance & Saving Co. Ltd.		✓
25	General Finance Ltd		✓
26	Alpic Everest Finance Ltd		✓
27	Nepal Merchant Banking & Finance Ltd.		✓
28	Cosmic Merchant Banking & Finance Ltd.		✓
29	Crystal Finance Ltd		✓
30	Royal Merchant Banking & Finance Ltd.		✓
31	Kist Merchant Banking & Finance Ltd.		✓
32	Prudential Merchant Banking & Finance Ltd		✓
	Total	8	24
	Percentage	25%	75%

Determinants of Successful Leasing Business

S. No.	Name of Finance Companies	Determinants*				
		A	B	C	D	E
1	Union Finance Co. Ltd	80	10	5	3	2
2	United Finance and Leasing Co.	60	20	10	6	4
3	Lumbini Finance and Leasing Co. Ltd	50	25	10	8	7
4	International Leasing and Finance Co. Ltd.	60	25	10	3	2
5	Nepal Shreelanka Merchant Bank Ltd	70	10	9	6	5
6	Nepal Bangladesh Finance and Leasing Co. Ltd	60	20	10	6	4
7	World Merchant Banking and Finance Ltd.	50	20	15	10	5
8	Nepal Housing Development Finance Co. Ltd.	65	20	10	3	2
9	Nepal Finance and Savings Co. Ltd.	70	15	7	6	2
10	National Finance Co. Ltd	55	20	10	9	6
11	Peoples Finance Ltd	50	25	10	10	5
12	Himalaya Finance & Savings Co. Ltd	60	20	10	5	5
13	Kathmandu Finance Ltd	65	20	10	3	2
14	Nepal Housing & Merchant Finance Co. Ltd	70	15	7	6	2
15	Universal Finance & Capital Markets	55	20	15	7	3
16	Goodwill Finance & Investment Co. Ltd.	60	15	15	6	4
17	Shree Investment & Finance Co. Ltd	65	15	10	7	3
18	Swostik Merchant Finance Company Ltd.	70	15	8	7	5
19	Standard Finance Ltd	65	20	10	3	2
20	ACE Finance Co. Ltd.	55	20	10	9	6
21	Subhalaxmi Finance Ltd.	60	20	10	5	5
22	Lalitpur Finance Co. Ltd	60	15	10	8	6
23	Merchant Finance Co. Ltd	80	10	5	3	2
24	Bhajuratna Finance & Saving Co. Ltd.	75	10	7	5	3
25	General Finance Ltd	55	20	10	9	6
26	Alpic Everest Finance Ltd	75	15	5	3	2
27	Nepal Merchant Banking & Finance Ltd.	65	15	10	7	3
28	Cosmic Merchant Banking & Finance Ltd.	56	24	10	6	4
29	Crystal Finance Ltd	70	10	7	8	5
30	Royal Merchant Banking & Finance Ltd.	75	15	5	3	2
31	Kist Merchant Banking & Finance Ltd.	55	30	8	7	5
32	Prudential Merchant Banking & Finance Ltd	75	15	5	3	2
	Total	2036	569	233	190	118
	Percentage	65%	18%	7%	6%	4%
	Priorities	I st	II nd	III rd	IV th	V th

Determinants*

- A. Credit assessment
- B. Utilization of fund
- C. Searching of new market
- D. Access to cheap source of fund
- E. Flexibility in lease operation

Variance test (f-test) for analyzing whether there is significant difference between determinant factors of leasing business or not

Sample 1	40	50	65	55	75																
Sample 2	71	76	77	78	80	82	83	62	64	66	70	75	79	81	84	88	89	90	55	60	66

Null Hypothesis:- $H_0: \sigma_1^2 = \sigma_2^2$

There is no significance difference between the determinant factors of leasing business or the two populations have same variance.

Alternative hypothesis: $H_0: \sigma_1^2 \neq \sigma_2^2$ i.e the two population have not same variance. In other words there is significant difference between two populations variance.

Calculation of S_1^2 and S_2^2

X_1	$X_1 - \aleph(57)$	$(X_1 - \aleph)^2$	X_2	$X_2 - \aleph_2(75)$	$(X_2 - \aleph_2)^2$
40	- 17	289	71	- 4	16
50	- 7	49	76	1	1
65	+ 8	64	77	2	4
55	- 2	4	78	3	9
75	+ 18	324	80	5	25
			82	7	49
			83	8	64
			62	- 13	169
			64	- 11	121
			66	- 9	81
			70	- 5	25
			75	0	0
			79	4	16
			81	6	36
			84	9	81
			88	13	169
			89	14	196
			90	15	225
			55	- 20	400
			60	-15	225
			66	-9	81
285		730	1576		1993

Where, $\aleph_1 = 285 / 5 = 57$

And $\aleph_2 = 1576 / 21 = 75$

We have, $S_1^2 = 1/n-1 \times (X_1 - \bar{X}_1)^2 = 730 / 4 = 182.5$

And $S_2^2 = 1/n-1 \times (X_2 - \bar{X}_2)^2 = 1993 / 20 = 99.65$

Test statistic, since, $S_1^2 > S_2^2$,

$F = S_1^2 / S_2^2 = 182.5 / 99.65 = 1.83$

Degree of freedom = $(n_1 - 1, n_2 - 1) = (5 - 1, 21 - 1) = (4, 20)$

Level of significance, $\alpha = 5\% = 0.05$

Critical value:- The tabulated value F at 5% level of significance for 4 and 20 degrees of freedom is 2.87, i.e $F_{0.05(4,20)} = 2.87$.

Decision:- Since calculated value of F is less than the tabulated value of F, the null hypothesis H_0 is accepted. Therefore, there is no significant difference between factors that determine the success of leasing business in year to come.

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Evaluation of finance companies on (1) growth of leasing, (2) effectiveness of Practice, (3) awareness about leasing, (4) effort for publicity and (5) government support for leasing

S. No.	Name of Finance Companies	Above Satisfactory					Satisfactory					Below satisfactory				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
1	Union Finance Co. Ltd	*				*								*	*	*
2	United Finance and Leasing Co.	*	*			*	*							*	*	
3	Lumbini Finance and Leasing Co. Ltd					*	*				*	*	*	*	*	
4	International Leasing and Finance Co. Ltd.	*	*			*	*	*						*	*	
5	Nepal Shreelanka Merchant Bank Ltd	*				*	*	*						*	*	
6	Nepal Bangladesh Finance and Leasing Co.	*				*								*	*	*
7	World Merchant Banking & Finance Ltd.	*												*	*	*
8	Nepal Housing Development Finance Co. Ltd.										*	*	*	*	*	
9	Nepal Finance and Savings Co. Ltd.										*	*	*	*	*	
10	National Finance Co. Ltd											*	*	*	*	*
11	Peoples Finance Ltd											*	*	*	*	*
12	Himalaya Finance & Savings Co. Ltd										*	*	*	*	*	
13	Kathmandu Finance Ltd										*	*	*	*	*	
14	Nepal Housing & Merchant Finance Co. Ltd										*	*	*	*	*	
15	Universal Finance & Capital Markets										*	*	*	*	*	
16	Goodwill Finance & Investment Co. Ltd.										*	*	*	*	*	
17	Shree Investment & Finance Co. Ltd										*	*	*	*	*	
18	Swostik Merchant Finance Company Ltd.										*	*	*	*	*	
19	Standard Finance Ltd											*	*	*	*	*
20	ACE Finance Co. Ltd.											*	*	*	*	*
21	Subhalaxmi Finance Ltd.											*	*	*	*	*
22	Lalitpur Finance Co. Ltd										*	*	*	*	*	
23	Merchant Finance Co. Ltd										*	*	*	*	*	
24	Bhajuratna Finance & Saving Co. Ltd.		*								*	*	*	*	*	
25	General Finance Ltd										*	*	*	*	*	
26	Alpic Everest Finance Ltd								*	*	*	*				*
27	Nepal Merchant Banking & Finance Ltd.										*	*	*	*	*	
28	Cosmic Merchant Banking & Finance Ltd.								*		*	*		*	*	
29	Crystal Finance Ltd										*	*	*	*	*	
30	Royal Merchant Banking & Finance Ltd.								*		*	*		*	*	
31	Kist Merchant Banking & Finance Ltd.									*	*	*	*		*	
32	Prudential Merchant Banking & Finance Ltd								*	*	*	*				
	Total	6	3			3	6	3	4	3	20	26	29	29	29	
	Percentage	19	9			10	19	9	11	8	62	82	89	92	90	

Future Prospect of Leasing Business

S. No.	Name of Finance Companies	Excel- lent	Good	Satis- factory	Fair	Poor
1	Union Finance Co. Ltd	✓				
2	United Finance and Leasing Co.	✓				
3	Lumbini Finance and Leasing Co. Ltd		✓			
4	International Leasing and Finance Co. Ltd.	✓				
5	Nepal Shreelanka Merchant Bank Ltd	✓				
6	Nepal Bangladesh Finance and Leasing Co. Ltd		✓			
7	World Merchant Banking and Finance Ltd.		✓			
8	Nepal Housing Development Finance Co. Ltd.		✓			
9	Nepal Finance and Savings Co. Ltd.		✓			
10	National Finance Co. Ltd		✓			
11	Peoples Finance Ltd		✓			
12	Himalaya Finance & Savings Co. Ltd		✓			
13	Kathmandu Finance Ltd		✓			
14	Nepal Housing & Merchant Finance Co. Ltd		✓			
15	Universal Finance & Capital Markets		✓			
16	Goodwill Finance & Investment Co. Ltd.		✓			
17	Shree Investment & Finance Co. Ltd					✓
18	Swostik Merchant Finance Company Ltd.			✓		
19	Standard Finance Ltd			✓		
20	ACE Finance Co. Ltd.			✓		
21	Subhalaxmi Finance Ltd.			✓		
22	Lalitpur Finance Co. Ltd			✓		
23	Merchant Finance Co. Ltd			✓		
24	Bhajuratna Finance & Saving Co. Ltd.			✓		
25	General Finance Ltd				✓	
26	Alpic Everest Finance Ltd					✓
27	Nepal Merchant Banking & Finance Ltd.				✓	
28	Cosmic Merchant Banking & Finance Ltd.					✓
29	Crystal Finance Ltd					✓
30	Royal Merchant Banking & Finance Ltd.			✓		
31	Kist Merchant Banking & Finance Ltd.				✓	
32	Prudential Merchant Banking & Finance Ltd			✓		
	Total	4	12	9	3	4
	Percentage	13	38	29	10	10

Activities to be done to ensure bright prospect of leasing business. Following are the percentage assign by different companies out of 100 for different activities.

S. No	Name of Finance Companies	Activities to be done to ensure bright prospects				
		A	B	C	D	E
1	Union Finance Co. Ltd	50	25	10	8	7
2	United Finance and Leasing Co.	60	25	10	3	2
3	Lumbini Finance and Leasing Co. Ltd	70	10	9	6	5
4	International Leasing and Finance Co. Ltd.	60	20	10	6	4
5	Nepal Shreelanka Merchant Bank Ltd	50	20	15	10	5
6	Nepal Bangladesh Finance and Leasing Co. Ltd	65	20	10	3	2
7	World Merchant Banking and Finance Ltd.	70	15	7	6	2
8	Nepal Housing Development Finance Co. Ltd.	55	20	10	9	6
9	Nepal Finance and Savings Co. Ltd.	50	25	10	10	5
10	National Finance Co. Ltd	60	20	10	5	5
11	Peoples Finance Ltd	65	20	10	3	2
12	Himalaya Finance & Savings Co. Ltd	70	15	7	6	2
13	Kathmandu Finance Ltd	55	20	15	7	3
14	Nepal Housing & Merchant Finance Co. Ltd	60	15	15	6	4
15	Universal Finance & Capital Markets	65	15	10	7	3
16	Goodwill Finance & Investment Co. Ltd.	70	15	8	7	5
17	Shree Investment & Finance Co. Ltd	65	20	10	3	2
18	Swostik Merchant Finance Company Ltd.	55	20	10	9	6
19	Standard Finance Ltd	55	20	10	9	6
20	ACE Finance Co. Ltd.	60	20	10	5	5
21	Subhalaxmi Finance Ltd.	60	15	10	8	6
22	Lalitpur Finance Co. Ltd	80	10	5	3	2
23	Merchant Finance Co. Ltd	75	10	7	5	3
24	Bhajuratna Finance & Saving Co. Ltd.	55	20	10	9	6
25	General Finance Ltd	75	15	5	3	2
26	Alpic Everest Finance Ltd	65	15	10	7	3
27	Nepal Merchant Banking & Finance Ltd.	56	24	10	6	4
28	Cosmic Merchant Banking & Finance Ltd.	70	10	7	8	5
29	Crystal Finance Ltd	75	15	5	3	2
30	Royal Merchant Banking & Finance Ltd.	55	30	8	7	5
31	Kist Merchant Banking & Finance Ltd.	75	15	5	3	2
32	Prudential Merchant Banking & Finance Ltd	85	8	5	2	1
	Total	2036	567	293	192	121
	Percentage	63	18	9	6	4
	Ranking	First	Second	Third	Fourth	Fifth

Activities to be done to Ensure Bright Prospects*

A. Publicity

C. Development of skilled manpower

E. Increasing effectiveness of present practice

B. Clear Legal framework

D. Granting tax incentives

Variance test (f-test) for testing whether there is significant difference between activities to be done to ensure bright future of leasing business

Sample 1	50	60	75	65	70																
Sample 2	61	66	67	85	78	63	85	86	88	91	92	93	95	98	99	95	85	86	89	90	95

Null Hypothesis:- $H_0: \sigma_1^2 = \sigma_2^2$

There is no significance difference between the activities or the two populations have same variance.

Alternative hypothesis: $H_0: \sigma_1^2 \neq \sigma_2^2$ i.e the two population have not same variance. In other words there is significant difference between two populations variance.

Calculation of S_B^2 and S_C^2

X_1	$X_1 - \bar{X} (64)$	$(X_1 - \bar{X})^2$	X_2	$X_2 - \bar{X}_2$	$(X_2 - \bar{X}_2)^2$
50	-14	196	61	-24	576
60	-4	16	66	-19	361
75	+11	121	67	-18	324
65	+1	1	85	0	0
70	+6	36	78	-7	49
			63	-22	484
			85	0	0
			86	+1	1
			88	+3	9
			91	+6	36
			92	+7	49
			93	+8	64
			95	+10	100
			98	+13	169
			99	+14	196
			95	+10	100
			85	0	0
			86	+1	1
			89	+4	16
			90	+5	25
			95	+10	100
320		370	1787		2660

Where, $\bar{X}_1 = 320/5 = 64$,

And $\bar{X}_2 = 1787/21 = 85$

We have, $S_1^2 = 1/n-1 \times (\sum X_1 - \bar{X}_1)^2 = 370/4 = 92.5$

And $S_2^2 = 1/n-1 \times (\sum X_2 - \bar{X}_2)^2 = 2660/20 = 133$

Test statistic, since, $S_2^2 > S_1^2$,

$F = S_2^2 / S_1^2 = 133 / 92.5 = 1.44$

Degree of freedom = $(n_1 - 1, n_2 - 1) = (5 - 1, 21 - 1) = (4, 20)$

Level of significance, $\alpha = 5\% = 0.05$

Critical value:- The tabulated value F at 5% level of significance for 4 and 20 degrees of freedom is 2.87, i.e $F_{0.05(4,20)} = 2.87$.

Decision: Since the calculated value of F is less than tabulated value of F, the null hypothesis H_0 is accepted. Therefore, it is concluded that the population variance is equal. Or there is no significant difference between activities to do for ensuring bright prospect of leasing business.

CURRICULUM VITAE

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