Foreign Direct Investment in Financial Services: Impact on Nepalese Economy

Final Report

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With economic and financial liberalization since 1990, many joint venture banks and finance companies have been established in Nepal. Nepal has further opened up financial services while acceding to the World Trade Organization in 2004. However, there has not been any study carried out in analysing the financial profitability and the economic impacts of financial institutions, including the financial sector FDI. In the present study, financial profitability and economic benefits of joint venture financial institutions are assessed using cost-benefit analysis like benefit-cost ratio, profitability ratio and internal rate of return. Net income gain to labour from foreign equity investment is also estimated. The results are also compared with domestic financial institutions. Therefore, the result of the present study is expected to be useful to develop the financial reform policies in Nepal. The study will also be useful to all those interested in financial sector reforms.

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Abstract

Foreign Direct Investment in Financial Services: Impact on Nepalese Economy

The role of financial services is clearly understood for promoting the investment and efficiency of the market economy. In spite of the economic liberalization since 1990 and opening of financial services while acceding to the World Trade Organization in 2004, the foreign direct investment (FDI) in financial services is very limited in Nepal. Several terms and conditions are imposed upon FDI in financial sectors. The study analyses the financial profitability and economic impacts of the financial sector FDI. It also analyses the impact of joint venture financial institutions to the employment and labour income. A census of the joint venture financial institutions is done and equal number of domestically invested financial institutions is sampled randomly for comparison. A sample of 90 mid level employees of sample institutions is surveyed. Financial profitability and economic benefits are assessed using benefit-cost analysis like benefit-cost ratio, profitability ratio and internal rate of return. Two-thirds of the financial institutions with FDI are found to be beneficial to the economy and one-third not beneficial causing a cost of Rs 700 million to the economy. Net income gain to labour from foreign equity investment is also estimated to be Rs 161 million. The results will be useful to develop the financial reform policy to promote those FDI financial services that are beneficial to the Nepalese economy.

1. Introduction

Investment[1] is a key factor in economic growth. In fact, the economic theory and empirical evidences suggest strongly that countries, which devote a high proportion of output to investment, sustain more rapid growth than countries that invest less. In poor countries with open economies, inflows of Foreign Direct Investment (FDI) and official development assistance permit domestic investment to exceed domestic savings. However, most countries with high investment rates are also found to have high rates of domestic savings, implying that the role of FDI is generally to add to rather than replace domestic savings.

As FDI involves capital inflows invested directly by transnational corporations (TNCs), it affects the volume and characteristics of investible financial resources available to, as well as actual investment in host countries. The impacts of FDI on investible financial resources and investment depend on host-country conditions. It will be different in countries with abundant savings and other inflows of external capital than in countries without enough capital relative to their investment needs. It will also depend on the mode of entry of foreign affiliates (full investment or joint venture), the sector of investment (manufacturing or services) and the ways in which they affect the activities of domestic companies. FDI in services[2] is very limited.

But in other developed and developing countries, a boost to investment in services occurred when they started revising their policies towards the services sector in the second half of the 1980s. Governments set in motion a process of liberalization of policies with respect to domestic as well as international production and provision of services. Domestic as well as foreign competition have been increasingly viewed as tools for increasing the efficiency and productivity of service industries, which in turn are recognized as being critical for economic performance.

2. Rationale and Objectives of the Study

The growing significance of services FDI is mainly due to the incorporation of service trade in the bundle of World Trade Organization (WTO) agreements. The completion of the Uruguay Round and the adoption of the General Agreement on Trade in Services (GATS) have provided an additional force for further liberalization of developing and transition countries' policies related to FDI in services. The GATS has set the multilateral framework for the service trade. Though the GATS include four modes of service trade (i.e., cross-border supply, consumption abroad, commercial presence and presence of natural persons) (WTO, 1998), the third mode of commercial presence is the most important mode of service trade. Different members of the WTO have committed to open commercial presence of foreign firms on different conditions. Nepal, while acceding to this global body (in 2004) committed for opening FDI in financial services.

[1] Investment is defined as expenditure on capital goods and other expenditures that add to production capacity.
[2] The FDI in Nepal is 12 million US$ (2004/05) largely concentrated in the manufacturing sector (37.8 percent), followed by transport and communication (24.2 percent) and service industries (20.4 percent) (NRB, 2006).

The commitments in financial services are made in accordance with the GATS. However, all the commitments are subject to entry requirements, domestic laws, rules and regulations and the terms and conditions[3] of the central bank. The total foreign shareholding in any institution providing financial services is limited to 67 percent of the issued share capital. Nepal as a capital deficit country expresses the desire to simplify the entry conditions for financial service FDI. But the question arises whether we benefit from such FDI. Impacts of such openings of the service sector for FDI are never studied thoroughly. The available literatures are very thin and simply not adequate for the decision makers.

Keeping this background of the country in view, the study attempts to meet the following specific objectives.

a) Analyse the financial profitability of the joint venture based FDI in financial services and compare it with the domestically funded financial institutions
b) Assess impacts of joint venture financial institutions vis-à-vis those of domestically financed institutions in Nepalese economy.
c) Compare the net income gain to labor from joint venture and domestically funded financial institutions.

3. Foreign Direct Investment

Pertinent literatures are reviewed in this chapter.

3.1 Profitability of the Joint venture FDI in Financial Services

The impact of foreign investment in the development of low-income countries is still a controversial one. Empirical researches show both positive and negative impacts (Chitrakar: 1994). There are various empirical studies, which examined the role of foreign investment in the development. Lall and Streeten (1977:173) examined 159 TNCs and non-TNCs operating in six developing countries using cost benefit methodology and concluded that for 61 percent of the firms, the effects of foreign investment on national income was positive, but for other 39 percent negative. A study by Encarnation and Wells (referred to in Moran, 1989:5) found that a majority (ranging from 55 to 75 percent) of the proposed FI projects would have increased the national income. They did not, however, estimate any external costs and benefits.

3.2 Impacts of Joint venture Financial Institutions

Studying the effects of FDI on the aggregate growth of developing countries, Bornschier *et al.* (1978) have, however, argued that FDI inhibits developing-country growth. In a multiple regression analysis of variance in the rates of growth of gross national product (GNP) per capita in 76 developing countries between 1960 and 1975. They found that flows of FDI were associated positively, but stocks

[3] Only a licensed commercial bank, a licensed specialized bank or a registered finance company may accept deposits. Only financial institutions with rating of at least 'B' by Credit Rating Agency can have commercial presence in Nepal (WTO, 2003).

were associated negatively, with growth in per capita. According to them, flows of FDI inject new capital into a country and so initially spur growth, but over time the more powerful negative effects of multinationals begin to work their way through the economy and constrict further growth. A multiple regression analysis conducted by Dolan and Tomlin (1980: 51-53) of per capita GNP growth in 66 developing countries between 19970 and 19973 appeared to confirm these observations. However, the above cross country studies have been challenged on both methodological and empirical grounds.

Helleiner (1977) and Lall and Streeten (1977) have explained how multinational corporations can exacerbate developing countries' employment and income distribution problems if they employ capital intensive, labor-saving technologies in economies characterized by high rates of unemployment.

Over the years, the flow of FDI is shifting from primary and secondary sectors of the economy to the tertiary sectors (service sectors). During the 1950s, FDI was mainly concentrated in the primary sector and manufacturing. The latter FDI was of a market-seeking type, motivated by access to national markets, often sheltered from international competition by trade barriers. Today, it is mainly in services and manufacturing. In fact, the rapid growth of FDI in the recent past has been driven largely by FDI in services. The long-term shift towards services has also been consistent over time. For example, the services represented less than a quarter of the stock of FDI of major home and host countries at the beginning of the 1970s, 40 per cent in 1985 and almost a half in 1990 (Mallampally, 2000). The shift continued into the 1990s and 2000s. The share of the services sector in world FDI stock now amounts to some 60 percent. In inward FDI, the importance of services has also increased in both developed (from 49 percent in 1990 to 61 percent in 2003) and developing countries (from 47 percent to 55 percent during the same period) (UNCTAD Virtual Institute, 2006).

In absolute terms, in fact, the FDI stock has grown in all sectors and all major industries. Even in agriculture, hunting, forestry and fishing, traditionally not important FDI industries, inward stock increased nearly four times between 1990 and 2003, the same as in manufacturing. FDI stock in services, however, increased nearly six times, and the share of manufacturing in inward stock fell from 41 percent in 1990 to 33 percent in 2003 (UNCTAD, 2005: 260).

The UNCTAD transnationality index measure the relative role of FDI in the host country economies in terms of its contribution to investment, employment, valued added etc. Such an index represents the average of four shares, i.e.:

- FDI inflows as a share of gross fixed capital formation
- FDI inward stock as a share of GDP
- Value added of foreign affiliates as a percentage of GDP, and
- Employment in foreign affiliates as a percentage of total employment

The top three host developing countries according to such index are Hong Kong, China, Singapore and Trinidad and Tobago. Such transnationality index is useful for calculating the contribution of finance sector FDIs in Nepal.

Notwithstanding the rapid growth in services FDI, the degree of transnationalization of the services sector as measured by the transnationalization of service firms and the services sectors of host countries through FDI still lags behind that in the manufacturing sector (Mallampally, 2000 and UNCTAD, 2004, p. xxii). The scope for further expansion of FDI in non-tradable services remains considerable. Prospects for services FDI have been further enlarged by advances in information and communication technologies, which have greatly enhanced the abilities for processing and transporting information between geographic locations and, consequently, for the cross-border tradability of information-intensive services or parts thereof. As a result of this “tradability revolution” we are witnessing a fragmentation of the production of some services by TNCs in all sectors and its relocation to developing and transition economies, resembling the process that took place in labour-intensive manufacturing some 20-30 years ago. According to a recent survey of the world’s largest companies by A.T. Kearney, a global business consultancy firm, in the near future nearly 80 percent of cross-border business-services outsourcing (also called off-shoring), leading to export-oriented FDI and non-equity arrangements, takes place in services such as IT support, back office functions, R&D, call centres, distribution and logistics and treasury operations (Global Business Policy Council, 2003, pp. 5-6). According to UNCTAD, while the off-shoring of services is still in its infancy, the tipping point may be approaching rapidly. Off-shoring represents the cutting edge of the global shift in production activity, giving rise to a new international division of labour in the production of services (UNCTAD, 2004, p. xxiv).

In Nepal, figures of FDI are generally based on figures of approved FDI provided by the Department of Industry. In the year 2004/05, the approved FDI was US$ 12.2 million. However, it is believed that the actual disbursement of FDI in Nepal is lower than the approvals. Further, the share of India in total FDI was 25.5 percent while the share of other countries was 74.5 percent (NRB, 2006).

According to the recent available data as of mid March 2007, permission was granted in Nepal to 1207 foreign investment projects with the total project cost of 96.65 billion rupees, of which foreign investment amounted to Rs. 31.98 billion (33percent). The areas of investment include industrial products (manufacturing), services, tourism, construction, agriculture, minerals and energy. The major investments are from India followed bye China, Japan, USA, South Korea and UK. Around 50 countries have made investments in Nepal.

3.3 Income to Labor from Joint venture

According to Meier (1972:417), there is a national economic benefit if the value added to output by the foreign capital is greater than the amount appropriated by the investor: social returns exceed private returns. The increase in productivity out of the act of foreign investment is not wholly appropriated by the investor but shared with others. To quote Meier (1972) again, "These benefits can accrue to (a) domestic labour in the form of higher real wages (b) consumers by way of lower prices and (c) the government through expanded revenue. In addition and of most important in many cases, there are likely to be (d) indirect gains through the realization of external economies. It should, however, be remembered that there may also be indirect costs through diseconomies.

In fact, some argue that the major benefits from foreign investment arise in the form of external economies as foreign investment includes non-monetary transfer of other resources like technological knowledge, market information, managerial and supervisory personnel, organizational experience and innovations in products and production techniques all of which are in short supply in developing countries. Meier (1972:419) argues, "By being a carrier of technological and organizational change, the foreign investment may be highly significant in providing `private technical assistance' and demonstration effects' that are of benefit elsewhere in the economy. Foreign investment may also lead to the training of labour in new skills. The knowledge gained by these workers can be transmitted to other members of the labour force or local firms might later employ the newly trained workers. Foreign investment is, in fact, the major and significant channel for the transfer of technology to developing countries.

Similarly, the costs arise because of (a) special incentives and concessions offered by the host country, (b) adverse effects on domestic saving, (c) deterioration in the terms of trade, (d) pressure on the country's balance of payments and (e) negative external effects.

In order to attract foreign investment, the developing host countries have to provide special facilities, undertake additional public services, extend financial assistance and subsidized inputs to foreign firms. They may also have to offer tax concessions and these may have to be extended to domestic investors due to administrative and political reasons. In the process of encouraging foreign investment, the developing countries, thus, have to incur fiscal cost either through increased government expenditure or revenue forgone or both.

Foreign investment may also have adverse effects on domestic savings by way of redistribution of income away from domestic capital if the foreign investment competes with home investment and reduces profits in domestic industries. The terms of trade of the host country may deteriorate due to the transfer problem. In other words, the terms of trade normally improve with an inflow of capital. The inflow of foreign capital may also lead the structural changes at home and abroad in terms of supply and demand for exports, import substitutes and domestic commodities. These changes may affect and alter the terms of trade to either improve or worsen it. Potentially, an important cost of foreign investment is associated with the balance of payments adjustments. The problem arises when there is outflow of funds in the form of interest and loan repayment, profits and dividends on the accumulated investments and the repatriation of capital.

From the literature review we can see both beneficial and detrimental effects of FDI in capital deficit developing countries depending on the domestic situations. But, the literatures are not conclusive about the net effects on the economy. Further empirical analyses are required to find out the net effects of FDI on national economy and employment.

4. Research Methodology

The study is based on primary and secondary data. The secondary data are obtained from the publications of central bank and other financial institutions. The primary data are being collected from the sample institutions. The sample, survey and the analytical frameworks are presented in following sub-sections.

4.1 Sample and Surveys

Financial institutions having FDI is the study unit. Census of all six joint venture commercial banks and four financial companies working in Nepal are taken (Annex I). An equal number of banks and finance companies working in Nepal but having no FDI are also sampled for comparison using a simple random sampling (Please refer Annex III for the institution survey questionnaire).

Variables like inflows of foreign equity and loans, financial surplus to domestic investors, tax customs and duties paid by the firms, additional labour income and repayment of domestic loan and interest are measured for each sampling unit. Similarly, the domestic equity investment and domestic borrowing, financial surplus to foreign investors, technology fee paid to foreign investors and repayment of foreign loan and interest as costs are surveyed. A sample of 90 employees working at the middle level in the sample institutions are selected randomly and surveyed for technology transfer, employee benefits and job satisfactions. (Please refer Annex IV for the individual employee survey questionnaire).

4.2 Analytical Framework

Basically, two types of tools have been used to evaluate the impact of foreign investment, in terms of its contribution to the economy of developing countries. The first is macro-economic modeling as used in Bos and Sechhi (1974) and the second is cost benefit analysis following Little and Mirrless (1974) and Squire and Van Der Tak (1975) and UNIDO (1972, 1978, 1980). The Bos-Sechhi model is not widely used and is methodologically complex, whilst cost benefit analysis has been used in various studies relating to foreign investment particularly for ex-ante appraisal rather than the ex-post evaluation of foreign investment activities. The present study uses the cost benefit technique for the ex-post evaluation of FDI as used in Chitrakar (1994) in order to examine its economic impacts of financial service FDI in Nepal. A separate financial profitability analysis is carried out as such an analysis is important from investors' point of view and also as the starting point for economic analysis. All calculations concerning financial and economic analysis are done in constant prices. The study also examines the impact of foreign investment on the basis of the responses received from employees as part of the qualitative analysis.

4.2.1 Profitability and its measurement

Financial profitability has been defined as the ability of a firm to generate revenues in excess of its costs. It can be long or short term. In the long run, a firm should be able to maintain the value of invested capital and should be able to yield a profit, which exceeds the opportunity cost of capital. Short-term profitability, on the other hand, refers to a firm's ability to make an operating profit and is, analyzed on a yearly basis. On the other hand, the economic benefits can be defined as the ability of the firm to generate economic benefits in excess of economic costs. Here also, the yield generated by the firm should exceed the economic opportunity cost of capital.

The present study uses NPV, IRR and benefit cost ratio (BCR) for analysing the financial and economic performance of FDI financial institutions in Nepal. In order to differentiate between financial and economic analysis, the terms financial net present value (FNPV) financial International Rate of Reform (FIRR) are used in financial, and economic net present value (ENPV) and economic benefit cost ratio (EBCR) for economic analysis. Under financial profitability analysis, financial ratio analysis are also carried out to measure the short-term profitability of firms.

The FNPV of a firm in the present study can be expressed as:

$$FNPVj = \sum_{t=0}^{n} \frac{NCFt}{(1+r)t} - I \qquad (1)$$

Where,

$FNPV_j$ =Financial net present value of j foreign investment (FI) firm

$\sum_{t=0}^{n}$ =Summation over the years

NCF_t =Net cash flow at the end of year t i.e. the difference between operational cash receipts and operational cash expenditure including additional investment

r =discount rate

n =the life of the project in years

I =the initial cost of the investment (discounted where appropriate)

The financial net present value is, thus, obtained summing the net cash flow over the life of the project, discounted at an assumed opportunity cost of capital and deducting the initial investment. The project is considered profitable if the FNPV is positive. The life of the project is assumed to be 20 years.

Similarly, the financial internal rate of return (FIRR) is expressed as:

$$0 = \sum_{t=0}^{n} \frac{NCFt}{(1+i)t} - I \qquad (2)$$

Where i is the FIRR and all other symbols have the same meaning as above.

4.2.2 Profitability Ratios

There are basically two types of profitability ratios, those showing profitability in relation to investment and those showing profitability in relation to sales. In the present analysis, the profitability ratios are proportioned to equity investment, fixed assets and sales. They are, therefore, calculated as net profit/ equity investment, net profit/ fixed assets and net profit/sales.

4.2.3 Benefits and Costs in Economic Terms

The inflow of foreign capital is considered to contribute to the recipient country's development program in two-general ways- (a) by helping to reduce the shortage of domestic savings and (b) by increasing the supply of foreign exchange. To this extent, the receipt of private foreign investment may permit a more rapid expansion in real income and ease the shortage of foreign exchange. Beyond this initial contribution, the increase in real income resulting from the operation of investment is said to be greater than the resultant increase in the income of the foreign investor. The rational approach to the economic regulation of foreign investment is, therefore, to ensure that the benefit-cost ratio of each foreign investment project is greater than unity.

In case of economic analysis, ENPV of a financial institution are derived by deducting the present value of costs from present value of benefits. It can be written as:

$$ENPVj = \sum_{t=0}^{n} \frac{Bj}{(1+r)} - \sum_{t=0}^{n} \frac{Cj}{(1+r)} \qquad (3)$$

$ENPV_j$ =Economic net present value of j FI banks/ finance companies

B_j =Annual value of economic benefits of j FI banks/ finance companies

C_j = Annual value of economic costs of j FI banks/ finance companies

According to this criterion, a foreign investment bank/ finance company is profitable if ENPV > 0.

In case of economic benefit cost ratio (EBCR), the equation can be written as follows:

$$EBCRj = \sum_{t=0}^{n} \frac{Bj}{(1+r)} \div \sum_{t=0}^{n} \frac{Cj}{(1+r)} \qquad (4)$$

Where,

$EBCR_j$ =Economic benefit cost ratio of j FI banks/ finance companies and B_j and C_j are as in equation (3)

Here, a bank/ finance company is economically beneficial if EBCR ≥ 1.

4.2.4 Employment effect of foreign investment

The labour act of Nepal classifies labour by two different criteria, first, on the basis of skills like unskilled, semi-skilled, skilled and administrative/ managerial, and second, by citizenship, that is domestic and foreign. Adhikari (1986, 1988) treated unskilled and semi- skilled labour as non-traded goods and used the conversion factor (CF) of 0.45 to convert them into economic efficiency prices, whereas in case of skilled labour (including managerial/ administrative) the conversion factors of 0.82 for domestic and 1 for foreign labour were used. Phillips (1989) used the conversion factors of 0.80 and 1.00 for urban unskilled and skilled labour respectively.

In financial institutions, there is no unskilled labour or skilled labour as such. The only assumption that can be made is to take assistant level staff as semi-skilled and officer level staff as skilled. During data collection, the researchers, however, could not get a separate number and salary/wages paid to assistant staff and officer level staff separately. The survey also found that the difference between the salary paid by foreign investment firms and domestic firms is tentatively 25 percent. On this ground, a conversion factor of 0.75 is used to convert the labour expenses into economic efficiency prices, for both assistant level staff and officer level staff.

As one of the main reasons of attracting foreign investment in developing countries is also to create employment opportunities, as unemployment is one of the serious problems in developing countries like Nepal, the present study has also calculated the employment generated by foreign investment activities. By comparing the difference between market wage rate (MW) and shadow wage rate (SW), it has calculated the net income gain to labour.
Symbolically, it is expressed as:

$$NIGLj = \sum (MW - SW) \qquad (5)$$

Where,

$NIGL_j$ = Net income gain to labour from jth foreign equity investment

MW = Market wage

SW = Shadow wage

Alternatively, it can be rewritten as

$$NIGLj = (MW - SW) \times L \qquad (5a)$$

Where L= Number of workers/employees, and

Here, shadow wage is calculated by using conversion factor as below:

$$SW - MW \times CF \qquad (6a)$$

CF mean conversion factor . Other symbols mean the same as earlier.

5. Results and Discussions

The results are divided into four sub-sections. At the first, the financial service opening under WTO is discussed in the light of legislative provisions of Nepal governing the financial services. In the second, the financial profitability of the Joint Venture FDI and Domestic Financial Services are compared empirically. In the third sub-section, the impacts of Joint Venture Financial Institutions are investigated based on the institutional and employee survey data. Finally, the net income gain to labor from joint venture and domestically funded institutions are estimated.

5.1 Financial Service Openings under WTO

Under the financial service opening during the accession to the WTO, the major legislative provisions of Nepal for financial FDI, trade of financial services under WTO and Nepal's commitments on market access and national treatment are discussed.

5.1.1 Major policies and legislative provisions for foreign investment

In line with global whim to liberalization and changes in the development aid strategy of donors, Nepal departed to a new economic policy regime in the mid 1980s. During this period, Nepal drafted various economic reform policies including fiscal, trade and FDI policies. Reforms have also been executed on the foreign exchange front. Domestic regulations are the most significant means of exercising influence or control over financial services trade, the governments need to regulate financial services reasonably, objectively and impartially. Nepal attempted to regulate the financial services in most liberal manner. Introduction of open and liberal policies in 1990s, combined with full convertibility on current account transactions, explains the significant growth of the service sector. Public services enterprises were available in Nepal in sectors such as business, transport and communications, distribution, educational, environmental, health-related, social, tourism and travel related services, and recreational and sporting services and financial services. Recently, the open and liberal policy had helped to transform the financial sector, a leading services sector in Nepal.

The legal frameworks are still under development, but generally comply with the provisions of Articles II and XVII of the General Agreement on Trade in Services (GATS) concerning most favored nation and national treatments. According to the Industrial Enterprises Act, 1992, the manpower required for any industry, including all services, shall have to be recruited from among Nepali citizens. Nevertheless, foreigners were permitted to work in Nepal on technical grounds, and in accordance with the commitments made in Nepal's GATS schedule of specific commitments. A work permit issued by the Government is required for foreigners to work. The permits are provided for a maximum period of 10 years.

The Foreign Investment and Technology Transfer Act ((FITTA, 1992) limit foreign equity participation in joint venture companies. Sections 2, 3 and the annex of the FITTA are relevant for all foreign investment and cover the major criteria for the permission of foreign investment. The FITTA, opened avenues for investors, and had also simplified the administrative procedures. The statutory provision of FITTA guarantees full repatriation of the amount received from the sale of equity, profits, or dividends and interest on foreign loans, and the repatriation of the amount received under an agreement for the transfer of technology. Foreign investors were granted a business visa as long as the investment was retained. A resident visa would be provided for a foreign investor, who at a time makes an investment in excess of US$100,000 or equivalent and retains it. Nepal is a member of the Multilateral Investment Guarantee Agency (MIGA), has signed Reciprocal Encouragement and Protection of Investment Agreements with France, Germany, the United Kingdom and Mauritius. Agreements avoiding double taxation are effective with India, Norway, Thailand, Sri Lanka, Mauritius, Austria, Pakistan, China, and Republic of Korea. Under Section 7 of the FITTA, there is a provision for dispute settlement through arbitration in respect to disputes that may arise between a foreign investor, national investor or a concerning industry. The arbitration award may be appealed to the Appellate Court in accordance with the Arbitration Act, 1999. There was also a provision of appeal in such cases under Administration of Justice Act (1991).

With respect to financial services, the Insurance Act, 1992 established an Insurance Board and required, *inter alia* a license to operate an insurance business, to set an office in Nepal and to prove a paid capital of no less than NRs 250 million for life insurance and NRs 100 million for non-life insurance. With the deregulation of the sector, joint ventures had been initiated and some nine insurance companies are active in Nepal. Insurance services are regulated by the insurance-related legislation, while banking and non-banking institutions are regulated by the Nepal Rastra Bank, the Central Bank of the country, established under the Nepal Rastra Bank Act, 2002. The major thrust of these Acts and policies lies in their openness with emphasis on market-driven strategies, and the dominant role of private initiative and enterprise. The Government acts as a facilitator to the private sector. Approval for establishing a commercial bank is granted in the conditions set out by the Central Bank and in accordance with the Commercial Bank Act (1974) and other accompanying legislation. Any decision of the authority affecting trade in services is subject to judicial review.

The Industrial Policy of 1992 identifies foreign investment promotion as an important strategy in achieving the objectives of increasing industrial production, meeting the basic needs of the people, creating maximum employment opportunities, and paving the way for improvement in the balance of payments situation. Foreign investment is expected to supplement domestic private investment through foreign capital flows, technology transfer, and providing access to international markets.When the government makes an administrative decision that affects a financial service, it provides an impartial means for reviewing the decision.

5.1.2 Trade of Financial Services under WTO

International trade in services is not an easy idea to grasp. Trade in services is much more diverse covering telephone companies, civil airlines, accountancy firms and banks that provide their services in quite different ways. Principles of the trade in financial services are contained, like for all services, in the General Agreement on Trade in Services (GATS). Included in the GATS, is the Annex on financial services. As any instability in the banking system affects the whole economy, the governments is needed to make careful decisions on the matters to this sector. The financial services annex of GATS gives the members very wide latitude to take prudential measures, such as those for the protection of investors, depositors and insurance policy holders, and to ensure the integrity and stability of the financial system. The WTO Members are obliged under GATS (Article 6.5) to ensure that domestic regulation is based on objective and transparent criteria, is no more burdensome than necessary, and in the case of licensing procedures, does not in itself restrict the supply of the service. Empirical analysis of the impacts of liberalization of financial FDI is required to develop sound policies. But, the policies should be based on the provisions of the GATS.

GATS has three main elements (a) the main text containing general obligations and disciplines; (b) annexes dealing with rules for specific sectors; and (c) individual countries' specific commitments to provide access to their markets, including indications of where countries are temporarily not applying the most-favoured-nation principle of non-discrimination. The agreement covers financial services and all other internationally-traded services.

Table 5.1 Modes of the service trade under GATS

Mode	Name	Description
Mode 1	Cross border supply	Services supplied from one country to another
Mode 2	Consumption abroad	Consumers or firms making use of a service in another country
Mode 3	Commercial presence	A foreign company setting up subsidiaries or branches to provide services in another country (e.g. foreign banks setting up operations in a country)
Mode 4	Presence of natural persons	Individuals traveling from their own country to supply services in another (e.g. financial consultants)

As in other agreements, the GATS has also to observe the non-discrimination and transparency provisions. The non-discrimination has two provisions – most favored nation (MFN) and national treatment. The MFN treatment requires to treat all the trading partners equally on the principle of non-discrimination. Under GATS, if a country allows foreign competition in financial sector, equal opportunities in that sector should be given to service providers from all other WTO members.

5.1.3 Nepal's commitments on market access and national treatment

Under the rules set in GATS, individual members have specific commitments to open markets in specific service sectors like financial sector, and how open those markets are the outcome of negotiations. Every member country efforts to limit the opening of the services to save the policy space for government actions. However, other member countries attempt to open the services of the negotiating member as much as possible. The commitments are more to an acceding member than to founder members. As Nepal is an acceding member, it has comparatively more commitments. The commitments appear in service schedules that list the sectors being opened, the extent of market access[4] being given in those sectors and any limitations on national treatment[5]. A commitment to national treatment, for example, would only mean that the same regulations would apply to foreign suppliers as to nationals. So, for example, if a government commits itself to allow foreign banks to operate in its domestic market, that is a market-access commitment. And if the government limits the number of licenses it issues, then that is a market-access limitation. If it also says foreign banks are

[4] For example, whether there are any restrictions on foreign ownership.
[5] For example, whether some rights granted to local companies will not be granted to foreign companies

only allowed one branch while domestic banks are allowed numerous branches, that are an exception to the national treatment principle. Nepal has no such limitations. The only limitation Nepal having is the domestic supports. The domestic supports provided to the domestic banks are not obligatory for providing to the foreign banks.

Under the transparency principle of the GATS the members must publish all relevant laws and regulations, and set up enquiry points within their bureaucracies. Foreign companies and governments can then use these inquiry points to obtain information about regulations in any service sector. And they have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments.

These commitments are bound. They can only be modified after negotiations with members that affect. The commitments are virtually guaranteed conditions for foreign exporters and importers of services in financial sector. As an exception, the governmental services[6] are kept aside. Commitments to liberalize the financial services do not affect governments' right to set levels of quality, safety, or price, or to introduce regulations to pursue any other policy objective they see fit.

Nepal does not normally restrict money being transferred out of the country as payment for services supplied under current transactions. The only exception is when there are balance-of-payments difficulties, and even then the restrictions must be temporary and subject to other limits and conditions.

Considering the special nature of the financial services, GATS has established a separate annex for financial services. The financial services annex gives the members very wide latitude to take prudential measures, such as those for the protection of investors, depositors and insurance policy holders, and to ensure the integrity and stability of the financial system. The annex also excludes from the agreement services provided when a government is exercising its authority over the financial system, for example central banks' services.

The commitments in financial services are made in accordance with the GATS and its Annex on Financial Services. All the commitments are subject to entry requirements, domestic laws, rules and regulations and the terms and conditions of the central bank of Nepal) which is consistent with Article VI of the GATS and paragraph 2 of the Annex on Financial Services.

Financial services in 12 forms of operation (Annex V) can be carried out in Nepal through a locally incorporated company. Only a licensed commercial bank, a licensed specialized bank or a registered finance company may accept deposits from the public. Only a licensed commercial bank may accept deposits, which are repayable upon demand. Only financial institutions with rating of at least 'B' by Credit Rating Agency e.g. MOODI, Standard & Poor can have commercial presence in Nepal. The total foreign shareholding in any institution providing financial services is limited to 67 per cent of the issued share capital. It has, nevertheless, been bound for the existing foreign financial service providers as to their scope of operation and equity structure. The shares held by foreign nationals and

[6] Governmental services are defined in the agreement as those that are not supplied commercially and do not compete with other suppliers. These services are not subject to any GATS disciplines, they are not covered by the negotiations, and commitments on market access and national treatment

foreign financial institutions in their locally incorporated companies are not transferable without the prior written approval of the central bank. The members of the Board of Directors of a financial service supplier need to be in proportion to equity representation of that financial service supplier.

Nepal has made 12 major commitments in the opening up of financial services for foreign investment during the WTO accession negotiations. The opening includes the acceptance of deposits and other repayable funds from the public and lending of all types (including consumer credit, mortgage credit, factoring and financing of commercial transactions). Financial leasing and all payment and money transmission services are opened. Similarly, guarantees and commitments, and trading for own account or for account of customers, whether on an exchange, an over-the-counter market or otherwise, are available to foreign investors (Details in Annex V).

Foreign companies can participate in issues of all kinds of securities, including under-writing and placement as agent and provision of service related to such issues. Thus, the whole ranges of the financial services are open for foreign investment. Accordingly, the banking and financial companies have become attractive areas for FDI in Nepal. Still we are not sure how much the country is getting benefited out of these FDIs in the financial sector.

As mandated by GATS (Article 19) negotiations to further liberalize international trade in services started in early 2000. The first phase of the negotiations ended successfully in March 2001 when members agreed on the guidelines and procedures for the negotiations, a key element in the negotiating mandate. By agreeing these guidelines, members set the objectives, scope and method for the negotiations in a clear and balanced manner.

The fundamental principles of GATS are the rights of the members to (a) regulate and to introduce new regulations on the supply of services in pursuit of national policy objectives; (b) specify which services they wish to open to foreign suppliers and under which conditions; and (c) provide flexibility for developing and least-developed countries. Nepal is one of the 31 least developing country members of the WTO.

The 2001 Doha Ministerial Declaration incorporated these negotiations into the “single undertaking” of the Doha Development Agenda. Since July 2002, a process of bilateral negotiations on market access has been underway. Nepal has liberalized financial services on its own initiative since 1990s. The negotiating guidelines and procedures that members agreed in 6 March 2003 for the GATS negotiations take into account the autonomous or unilateral liberalization in service sectors

5.2 Financial Profitability of FDI and Domestic Financial Services

This section is divided into two sub sections. The first section is financial profitability analysis and another is economic efficiency analysis. The main objective of first section is to analyze the financial profitability and second section to evaluate the economic efficiency of Nepalese financial institutions. For these purposes, financial profitability has been analyzed using capital budgeting techniques. Financial data for 6 banks and 4 finance companies with FDI and equal number of banks and finance companies without foreign direct investment have been collected. The general hypothesis of the financial analysis is that the foreign investment activities in Nepal are financially profitable. Similarly, the economic analysis is done to find out the contribution of financial institutions with foreign investment to the economy of Nepal.

5.2.1 Analysis of financial profitability

Regarding the financial profitability analysis, two types of profitability analysis has been done, i.e. long term and short term. The first we present the long term profitability and then short term profitability. Long term profitability is based on capital budgeting techniques whereas short term profitability is based of financial ratios.

5.2.1.1 Long-term Profitability Analysis

Long term profitability aims to measure the investment efficiency of firms. Financial profitability here refers to a discounted cash-flow analysis using the financial net present value (FNPV) and financial internal rate of return (FIRR) indicators over the life time of the projects.

Firstly, long term profitability has been calculated using discounted cash-flow technique for each firm. A life time of 20 years is assumed for the analysis of long term profitability. Similarly, the cost of capital is assumed to be 12 percent. Then the results have been aggregated to give weighted average by types of financial institutions. The types of analysis is done on seven categories viz. i) banks with FDI, ii) banks without FDI, iii) finance companies with FDI, iv) finance companies without FDI, v) banks and finance companies with FDI and vi) banks and finance companies without FDI and vii) all the banks and financial institutions taken together. The weighted average has been calculated weighted on equity capital for all financial institutions under study. The results for different types of finance companies are presented in the following table and subsequent tables.

Table 1: Weighted FNPV and FIRR of Nepalese Banks with FDI

Firms	Financial Net Present Value and Internal Rate of Return	
	FNPV (Rs. million)	*FIRR (Proportion to 1)*
1	78.24	0.23
2	796.40	0.54
3	471.06	1.14
4	-17.15	0.06
5	588.55	0.24
6	74.27	0.90
Weighted average*	**386.83**	**0.49**
Decision criterion	**> 0**	**> 0.12**

Source: Appendix VIII, * Weighted Based on Equity Capital

The table 1 shows that one out of six banks has negative FNPV and the FIRR less than 12 percent. The overall weighted[7] average of FNPV of these institutions is positive (Rs 387 million) and the FIRR is 49 percent weighted on equity capital. This implies that majority of Nepalese banks with FDI are running at high profit.

[7] Equity capital of the institution is taken as the weight.

Weighted FNPV and FIRR for Nepalese banks without FDI are also examined. In these banks, three out of six (i.e. firm 7, 11 and 12) have negative FNPV. Among them, the FNPV for firm 11 is heavily negative and so this institution is excluded to get the overall picture of domestic banks and the failure of a bank does not mean the failure of the banking sector as a whole. The overall FIRR of these firms is 17 percent weighted on equity capital. This is less than those of banks with FDI but more than 12 percent cost of capital. It implies that the Nepalese banks without FDI are financially profitable but less profitable than those with FDI. The performance of domestic banks is presented in table 2 below.

Table 2: Weighted FNPV and FIRR of Nepalese Banks without FDI

Firms	**Financial Net Present Value and Internal Rate of Return**	
	FNPV (Rs.million)	*FIRR (Proportion to 1)*
7	-139.35	-0.07
8	466.80	0.70
9	103.09	0.02
10	37.37	0.21
11	-2523.52	-0.03
12	-6.58	0.12
Weighted average*	73.56	0.17
Decision criterion	**> 0**	**> 0.12**

Source: Appendix VIII, * Weighted Based on Equity Capital.

Similar to the Nepalese banks with and without foreign investment, comparative analyses are also done for finance companies with and without FDI. Results of long term profitability based on equity capital for Nepalese finance companies with FDI are presented in following table 3:

Table 3: Weighted FNPV and FIRR of Nepalese Finance Companies with FDI

Firms	**Financial Net Present Value and Internal Rate of Return**	
	FNPV (Rs. million)	*FIRR (Proportion to 1)*
13	-13.43	0.08
14	-6.55	0.01
15	48.64	0.34
16	-5.28	-0.02
Weighted average*	**11.50**	**0.16**
Decision criterion	**> 0**	**> 0.12**

Sources: Appendix VIII, * Weighted Based on Equity Capital.

The table 3 above shows that the finance companies have lowers FIRR (16 percent) as compared to those of the banks, weighted on equity capital. It is disappointing to note that three out of four institutions analyzed have negative FNPVs and FIRRs less than the cost of capital (12 percent). The financial viability of the group of institution is due to the better performance of only one institution i.e. institution 15. The result indicates that many Nepalese finance companies having FDI are not financially efficient. An important point to be noted here is that the institution level analysis shows a negative performance of some foreign invested institutions. However, finance companies as a whole are found to be running financially efficient measured in terms of both FNPV and FIRR criteria.

The Nepalese finance companies are found to perform slightly better than the companies with foreign investment, measured in terms of both weighted FNPV and FIRR (Table 4). The table also shows two out of four finance companies have negative FNPV and IRR for all the finance companies are less than 12 percent weighted on equity capital.

Table 4: Weighted FNPV and FIRR of Nepalese Finance Companies without FDI

Firms	Financial Net Present Value and Internal Rate of Return	
	FNPV (Rs. million)	*FIRR (Proportion to 1)*
17	-10.81	0.06
18	-1.39	-0.03
19	13.06	0.46
20	19.80	0.23
Weighted average*	**6.76**	**0.18**
Decision criterion	**> 0**	**> 0.12**

Sources: Appendix VIII, * Weighted Based on Equity Capital

Considering all the four finance companies as a whole, the FIRR weighted on equity capital is 18 percent. The weighted NPV is also positive i.e. Rs.6.76 million. This indicates that Nepalese finance companies established under domestic ownership as a whole, are running financially profitable.

An important point to be noted here is that performance of Nepalese finance companies without FDI is performing better than those with foreign investment. The reasons of this result may be two – first, the Nepalese finance companies have higher profits compared to foreign invested finance companies, and the second, the paid up capital of Nepalese finance companies is also lower than those of foreign investment institutions.

Table 5: Weighted FNPV and FIRR of all Nepalese Banks (With and Without FDI)

Firms	Financial Net Present Value and Internal Rate of Return	
	FNPV (Rs.million)	*FIRR (Proportion to 1)*
Banks with FDI		
1	78.24	0.23
2	796.40	0.54
3	471.06	1.14
4	-17.15	0.06
5	588.55	0.24
6	74.27	0.90
Banks without FDI		
7	-139.35	-0.07
8	466.80	0.70
9	103.09	0.02
10	37.37	0.21
11	-2523.52	-0.03
12	-6.58	0.12
Weighted average*	**208.52**	**0.36**
Decision criterion	**> 0**	**> 0.12**

Sources: Appendix VIII, * Weighted Based on Equity Capital

In order to sketch the aggregate picture of all banks with and without FDI, the result of profitability analysis is presented in table 5. The table shows that the overall FNPV of all banks (both with foreign investment and without) is 208.52 million and the FIRR 36 percent. This is, however, lower compared to banks having foreign investment and higher than those of domestically funded banks.

In case of finance companies, all finance companies taking together, both with foreign investment and wholly domestically owned, the overall FNPV is Rs 9.49 million and FIRR 16 percent. Unlike in banks, the weighted FIRR of finance companies with FDI is lower than for that of the domestically funded finance companies.

Table 6: Weighted FNPV and FIRR of all Nepalese Finance Companies (With and Without FDI)

Finance companies	**Financial Net Present Value and Internal Rate of Return**	
	FNPV (Rs.million)	*FIRR (Proportion to 1)*
13	-13.43	0.08
14	-6.55	0.01
15	48.64	0.34
16	-5.28	-0.02
17	-10.81	0.06
18	-1.39	-0.03
19	13.06	0.46
20	19.80	0.23
Weighted average*	**9.49**	**0.16**
Decision criterion	**> 0**	**> 0.12**

Sources: Appendix VIII, * Weighted Based on Equity Capital

Now, if we take all banks and finance companies together, both with and without foreign investment, the present value is positive and internal rate of return above cost of capital, implying that the finance institutions in Nepal is running profitably. This is seen from table 7 below.

Table 7: Weighted FNPV and FIRR of all Banks and Finance Companies, both with and without FDI

Firms	**Financial Net Present Value and Internal Rate of Return**	
	FNPV (Rs.million)	*FIRR (Proportion to 1)*
Banks with FDI		
1	78.24	0.23
2	796.40	0.54
3	471.06	1.14
4	-17.15	0.06
5	588.55	0.24
6	74.27	0.90
Banks without FDI		
7	-139.35	-0.07
8	466.80	0.70
9	103.09	0.02
10	37.37	0.21
11	-2523.52	-0.03
12	-6.58	0.12
Finance Companies with FDI		
13	-13.43	0.08
14	-6.55	0.01

Firms	Financial Net Present Value and Internal Rate of Return	
	FNPV (Rs.million)	*FIRR (Proportion to 1)*
15	48.64	0.34
16	-5.28	-0.02
Finance Companies without FDI		
17	-10.81	0.06
18	-1.39	-0.03
19	13.06	0.46
20	19.80	0.23
Weighted average*	**193.72**	**0.35**
Decision criterion	**> 0**	**> 0.12**

Sources: Appendix VIII, * Weighted Based on Equity Capital

Aggregate results of all the financial institutions weighted on equity capital are presented in above table 7. The table shows that the overall FNPV is positive (Rs 194 million) and overall FIRR is 35 percent that is greater the cost of capital (12 percent). This indicates that Nepalese financial institutions are financially profitable.

5.2.2 Short-term Profitability Analysis

Short-term profitability refers to the operating efficiency of firms. Here, the financial ratio analysis using annual data of various years have been used to measure short-term profitability. Two ratios namely - financial surplus to equity and financial surplus to assets have been used under short term profitability. The results have been presented below.

Table 8: Financial surplus to equity of all financial institutions, both with and without FDI

Year	Banks	Finance Companies	Weighted Ratio
2000/01	0.54	0.50	0.25
2001/02	0.69	0.51	0.21
2002/03	0.65	0.57	0.15
2003/04	0.61	0.51	0.15
2004/05	0.51	0.50	0.18
Annual Average	**0.60**	**0.52**	**0.19**

Sources: Appendix

The above table presents the profit on equity investment of all financial institutions with FDI. According to the table, financial surplus to equity investment for Nepalese institutions are fluctuating over the years. In the five years period of analysis, the return to equity for banks is seen increasing for the first two years and decreasing gradually for the last three years. The fluctuation takes place for finance companies as well. According to the table, this ratio is increasing for the first three years and decreasing for the last two years. However, weighted average shows that the return to equity for all banks and finance companies is 19 percent, which is above the normal standard.

Table 9: Financial surplus to assets of all Nepalese financial institutions, both for with and without FDI

Year	Banks	Finance Companies	Weighted Ratio
2000/01	1.65	0.76	1.48
2001/02	1.31	1.05	1.42
2002/03	1.34	1.07	1.26
2003/04	1.69	1.46	1.86
2004/05	1.15	1.61	1.64
Annual average	**1.43**	**1.19**	**1.70**

Sources: Appendix

The table above shows the that the overall ratio of financial surplus to assets is 1: 1.4 for banks and 1:1.2 for finance companies with an aggregate of 1:1.7 for all financial institutions. This is considered to be satisfactory comparing the normal ratio of 1:1 rule.

5.2.3 Economic Impact of Financial Institutions with FDI

Here we analyze the finance sector FDIs in terms of its contribution to Nepalese economy and then we examine the contribution in terms of employment and labour benefits.

A cost benefit analysis is used for this purpose. The two indicators used for analyzing the economic impact includes economic net present value (ENPV) and economic benefit cost ratio (EBCR). In order to apply these tools, the streams of costs and benefits for different years are considered and put into the format as shown in table 10. From the cost and benefit steams found as per the format, ENPV and EBCR are calculated first for each of the companies with FDI and then aggregated and weighted based on equity capital. The net benefits and costs are discounted at an assumed cost of capital of 12 percent. In order to eliminate the difference in performance due to inflation, all the data relating to benefits and costs were also converted to 1989/90 price. The format used for economic benefit cost analysis is presented in Annex VI.

Table 10: Weighted ENPV and EBCR of Nepalese Banks with FDI

Firm No	**Net Present Value and Benefit Cost Ratio**	
	ENPV (Rs.million)	*EBCR*
1	142.12	1.91
2	173.73	1.03
3	205.71	1.57
4	62.43	1.23
5	606.99	1.40
6	108.74	1.35
Weighted average*	**259.55**	**1.38**
Decision criterion	**> 0**	**> 1**

Sources: Appendix IX, * Weighted Based on Equity Capital

The results derived of economic net present value (ENPV) and economic benefit-cost ratio (ECBR) for each banks and finance companies with FDI has been presented and discussed hereunder. In order to evaluate the economic performance of the Nepalese financial institutions under study, analysis is done in three categories, viz. 1) banks, 2) finance companies and 3) banks and finance companies together. Firstly, the result of ENPV and EBCR for banks is presented in the table 10.

As presented in above table, ENPV for all the banks are positive and EBCR more than 1. The ENPV of Nepalese banks with FDI ranges between as low as Rs.62.43 million to as high as Rs.606.99 million. Similarly, the EBCR ranged from 1.03 to 1.91, with an aggregate figure of 1.38. As this is higher than the criteria of > 1 used in the study, it can be concluded that the banks with FDI in Nepal are economically beneficial for the country.

Like in banking sector, ENPV and EBCR have also been calculated for finance companies. According to table 12 below, the ENPV are also positive for all finance companies and EBCR are greater than unity, except in one case.

Table 11: Weighted ENPV and EBCR of Nepalese Finance Companies with FDI

Firm No	**Net Present Value and Benefit Cost Ratio**	
	ENPV (Rs.million)	*EBCR*
13	4.27	1.06
14	6.26	1.58
15	3.48	1.59
16	-0.56	0.03
Weighted average*	**3.36**	**1.07**
Decision criterion	**> 0**	**> 1**

Sources: Appendix IX, * Weighted Based on Equity Capital

The table above, however, shows that the ENPV and EBCR of finance companies are lower than banks, implying the need to focus on banks compared to finance companies. According to the results presented in above table, the ENPV for all finance companies are positive and EBCR are greater than unity, except in one institution.

Table 12: Weighted ENPV and EBCR Banks and Finance Companies (With FDI)

Firm No	**Net Present Value and Benefit Cost Ratio**	
	ENPV (Rs. million)	*EBCR*
Banks with FDI		
1	142.12	1.91
2	173.73	1.03
3	205.71	1.57
4	62.43	1.23
5	606.99	1.40
6	108.74	1.35
Finance Companies with FDI		
13	4.27	1.06
14	6.26	1.58
15	3.48	1.59
16	-0.56	0.03
Weighted average*	**131.32**	**1.27**
Decision criterion	**> 0**	**> 1**

Sources: Appendix IX, * Weighted Based on Equity Capital

The EBCR ranged from 0.03 to 1.59 while the ENPV ranged from Rs (-) 0.56 million to Rs.6.26 million. It shows that the weighted ENPV is Rs 3.36 million and weighted EBCR 1.07 meaning that Nepalese finance companies in general are economically efficient. That means these companies are contributing to the national economy.

While taking all financial institutions with FDI together, the results shows that ENPV ranged from Rs (-) Rs.0.56 million to as high as Rs.606.99 million (Table 12). Similarly, the EBCR ranges from 0.03 to 1.91. On the whole, the weighted average ENPV is Rs.131.32 million and that of EBCR 1.27 respectively. This indicates that all banks and finance companies together with FDI are contributing to the national economy.

The comparison of economic benefits and financial profitability of the financial institutions with FDI shows that the net external benefits due to the FDI is negative (Table 13). Out of the six banks with FDI, four gives some benefits to the society whereas two others cause heavy costs to the economy. The banks with FDI cause a cost to society to the tune of Rs 692 million. Similarly, the financial companies with FDI cost Rs 10 million to the society. It is interesting to note that some FDI banks and finance companies, though they are financially in loss, contribute to the society.

Table 13: External Benefits from Financial Institutions with FDI (Rs million)

Firms	Economic NPV	Financial NPV	External benefits from FDI
Banks with FDI			
1	142.12	78.24	63.88
2	173.73	796.40	-622.67
3	205.71	471.06	-265.35
4	62.43	-17.15	79.58
5	606.99	588.55	18.44
6	108.74	74.27	34.47
Total	**1299.72**	**1991.37**	**-691.65**
Finance Companies with FDI			
13	4.27	-13.43	17.7
14	6.26	-6.55	12.81
15	3.48	48.64	-45.16
16	-0.56	-5.28	4.72
Total	**13.45**	**23.38**	**-9.93**
Grand total	**1313.17**	**2014.75**	**- 701.58**

It can be concluded that some of the financial institutions with FDI are contributing to the economy whereas some other are costing the society. About one third of the financial institutions with FDI cause heavy loss to the society leading to the loss in aggregate. On the benefits to the society we conclude that the FDI should be restricted. But, before concluding, we need to analyse other benefits of the FDI, particularly, the labour benefit.

5.3 Net Income Gain to Labor from Joint Venture and Domestically Funded Institutions

One of the main reasons of attracting foreign investment in developing countries like Nepal is also to create employment opportunities. The study has examined the employment created by FDIs in finance sector. By comparing the difference between market wage rate and shadow wage rate, it has also calculated the net income gain to labour.

In addition to the quantitative analysis, the study also carried out employees' survey in the banks and finance companies, both with and without foreign investment. The survey included both officer and non-officer level staff (Table 14). The proportion of officer and non-officer staff responding to the survey is 51 percent and 49 percent respectively.

Table 14: Percentage of officer and non-officer employees responding to the survey

Level	No. of Respondents	%
Officer	46	51.1
Non officer	44	48.9
Total	90	100.0

Regarding the work experience, 77.7 percent of the sample employees have the work experience between 1 to 6 years in the present position (Table 15). Over 64 percent of the employees have 1 to 6 years of work experience in the same institution. It means some employees move from one institution to another at the same post. It can be inferred that the job attractions are different in different financial institutions.

Table 15: Work Experience of the Respondents

	In the Present Position		In the Institution	
Year	Nos.	%	Nos.	%
Below 1 Year	8	8.9	4	4.4
1 to 3 Year	58	64.4	36	40.0
4 to 6 Year	12	13.3	18	20.0
7 to 9 Year	1	1.1	9	10.0
10 to 12 Year	3	3.3	10	11.1
Over 12 Year	1	1.1	4	4.4
Not mentioned	7	7.8	9	10.0
Total	90	100.0	90	100.0

The survey has found majority of employees (81%) to have received training of one type or the other. Both the banks and finance companies with FDI are found to provide training to more employees than without FDI (Table 16). Over 88 percent of the employees in FDI banks and 87 percent of employees of FDI finance companies are found to have received training of one kind or another compared to 80 percent and 77 percent in banks and finance companies without FDI respectively. Similarly, only 7 out of 90 employees are found to have received foreign training, mostly by employees with foreign investment. It means foreign trainings are very limited among the bank employees.

Table 16: Having Training in at least once

Training in	Bank with FDI		Bank without FDI		Total Bank		Finance Co. with FDI		Finance Co. without FDI		Total Finance Co.		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Within the Org	5	22.7	7	29.2	12	26.1	5	38.5	5	35.7	10	37.0	22	30.1
Outside the Org	7	31.8	3	12.5	10	21.7	5	38.5	5	35.7	10	37.0	20	27.4
Foreign country	1	4.5	1	4.2	2	4.3	0	0.0	0	0.0	0	0.0	2	2.7
Within and Outside the Org	5	22.7	12	50.0	17	37.0	3	23.1	4	28.6	7	25.9	24	32.9
Within the Org. and Foreign	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Outside the Org and Foreign	2	9.1	1	4.2	3	6.5	0	0.0	0	0.0	0	0.0	3	4.1
Above all	2	9.1	0	0.0	2	4.3	0	0.0	0	0.0	0	0.0	2	2.7
Total No of Having Training at least once	22	88.0	24	80.0	46	83.6	13	86.7	14	70.0	27	77.1	73	81.1
Having no Trainings yet	3	12.0	6	20.0	9	16.4	2	13.3	6	30.0	8	22.9	17	18.9
Total	25	100.0	30	100.0	55	100.0	15	100.0	20	100.0	35	100.0	90	100.0

Note: Org = organization

About the duration, majority are found to have received trainings of less than a week. This is shown in table 17 below. The foreign trainings are not more than of a month. However, over six percent of the domestic training are of the duration three months or more.

Table 17: Employees receiving training at least once

Training Period	Within Organisation		Outside Organisation_in Nepal		Foreign		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
A week or Less	35	64.8	40	63.5	5	71.4	80	64.5
>a week<a month	15	27.8	15	23.8	2	28.6	32	25.8
>a month< 3 months	1	1.9	4	6.3	0	0.0	5	4.0
3 months and >	3	5.6	4	6.3	0	0.0	7	5.6
Total Nos. of Trained	54	100.0	63	100.0	7	100.0	124	100.0

There is not much difference regarding the level of satisfaction of employees in terms of investment, with and without FDI. However, higher percentage of the employees (33 percent) in banks with FDI is fully satisfied than those in the banks without FDI (8 percent). Similarly, there is a slight difference in the level of satisfaction between banks and finance companies, with the employees with the banks having satisfaction at the higher end (Table 18). Surprisingly, non of the employees of financial companies with FDI are fully satisfied as as high as 20 percent are not satisfied.

Table 18: Satisfaction with Job

Level of Satisfaction	Bank with FDI		Bank without FDI		Total Bank		Finance Co. with FDI		Finance Co. without FDI		Total Finance Co.		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Fully Satisfied	2	8.0	10	33.3	12	21.8	0	0.0	4	20.0	4	11.4	16	17.8
Satisfied	20	80.0	15	50.0	35	63.6	12	80.0	15	75.0	27	77.1	62	68.9
Not Satisfied	3	12.0	5	16.7	8	14.5	3	20.0	1	5.0	4	11.4	12	13.3
Total	25	100.0	30	100.0	55	100.0	15	100.0	20	100.0	35	100.0	90	100.0
Aggregate %						**61.1**						**38.9**		**100.0**

The overall perception of employees taking banks and finance companies together, the majority are of the opinion that the performance of their institutions in all the four aspects given in table 19 below, with a little less satisfaction in terms of operating costs, implying the need to explore the possibility of reducing such costs.

Table 19: Perceptions regarding the Financial Status of the Own Organization

Perceptions	Net Profit		Fixed Assets		Revenue Generation		Operating Cost	
	Nos	%	Nos	%	Nos	%	Nos	%
Good	58	64.4	56	62.2	59	65.6	39	43.3
Fair	28	31.1	30	33.3	25	27.8	39	43.3
Weak	4	4.4	4	4.4	5	5.6	11	12.2
Not response	0	0.0	0	0.0	1	1.1	1	1.1
Total	90	100.0	90	100.0	90	100.0	90	100.0

The descriptive statistics of salary and fringe benefits of and training to the employees of financial institutions are presented in Table 20 along with the independent variables used in the modeling. The average salary of the employee is Rs 12,499 per month and the fringe benefits are equivalent to Rs 3,987 per month.

Table 20: Descriptive statistics of study and independent variables (n=90)

	Variable	Unit	Mean	Standard Deviation	Minimum	Maximum
	Study variable					
1	Salary	NRs	12,498.96	6252.42	0	36000
2	Fringe benefits	NRS	3,987.14	3619.96	0	26500
3	Training	Number	2.20	2.47	0	15
4	Foreign training	Number	0.10	0.40	0	2
	Independent variable					
5	Officer (not assistant)	Yes/no	0.51	0.50	0	1
6	Years in this position	year	2.76	2.75	0	20
7	Institution with FDI (not domestic)	Yes/no	0.44	0.50	0	1
8	Banks (not finance company)	Yes/no	0.61	0.49	0	1
9	Head office (not branch office)	Yes/no	0.80	0.40	0	1
10	Working hours	hours/week	47.53	5.71	39	70

The salary received by the employees is regressed with the type of institutions and other relevant variables. The officers in the financial institutions are getting nearly Rs 5,000 more salary as compared to the assistant level employees. Similarly, the salary does also depend on the years of experience in the post (Table 21). One more year of experience in the position help to earn Rs 660 more per month.

The salary obtained by the employees of the FDI institution is significantly higher than that obtained by the domestically funded financial institutions. It means the employees of the FDI financial institutions on an average earn Rs 4,340 over an above their opportunity cost of working in the domestically funded financial institutions. This amount multiplied by the number of persons employed by the FDI fiancial institutions is the net labor income due to FDI in financial institutions. However, the employees working in the banks get significantly higher salaries that those in the financial companies.

Table 21: Effects of FDI on salary of the employees

Dependent variable: salary

	Variable	Coefficient	Standard Error	t	P>|t|	[95% Confidence Interval]	
1	Officer	4740.41***	1098.50	4.32	0.000	2555.54	6925.29
2	Year in the position	659.99***	214.09	3.08	0.003	234.17	1085.80
3	Institution with FDI	4340.02***	1162.84	3.73	0.000	2027.18	6652.86
4	Bank	3963.42***	1318.00	3.01	0.003	1341.97	6584.88
5	Working in head office	1410.16	1674.52	0.84	0.402	-1920.39	4740.70
6	Working hours	-108.55	99.71	-1.09	0.279	-306.86	89.77
7	Constant	7935.18	5071.42	1.56	0.121	-2151.68	18022.03
	n	90				F(6, 83)	8.45
	Adjusted R2	0.334				Prob > F	0.000

*** Significant at 1% level.

The employees working in FDI funded financial institutions are also getting higher fringe benefits by Rs 1,244 as compared to those working in domestically funded financial institutions (Table 22). The results also show that the officers are getting more fringe benefits than the non-officers, bank employees are getting more fringe benefits as compared to those working in financial companies and those working in head office are getting more than those working in branch offices. Surprisingly, more the working hours, the less is the fringe benefits.

Table 22: Effects of FDI on fringe benefits of the employees

Dependent variable: Fringe benefits

	Variable	Coefficient	Standard Error	t	P>|t|	[95% Confidence Interval]	
1	Officer	2263.86***	691.91	3.27	0.002	887.69	3640.04
2	Year in the position	114.39	134.85	0.85	0.399	-153.82	382.59
3	Institution with FDI	1244.47*	732.43	1.70	0.093	-212.31	2701.25
4	Bank	3853.04***	830.16	4.64	0.000	2201.87	5504.20
5	Working in head office	2253.41**	1054.72	2.14	0.036	155.62	4351.21
6	Working hours	-121.29*	62.80	-1.93	0.057	-246.20	3.62
7	Constant	3568.68	3194.31	1.12	0.267	-2784.68	9922.04
	n	90				F(6, 83)	4.99
	Adjusted R2	0.212				Prob > F	0.000

*** Significant at 1% level, ** significant at 5% level and * significant at 10 percent level.

There is a general proposition that FDI does technology transfer. To test this proposition, the foreign training provided by the FDI and domestic financial institutions are regressed (Table 23). The results show that the FDI funded financial institutions provide 25 percent more foreign training to their employees as compared to those by domestically funded financial institutions. However, the banks provide more foreign training to their employees as compared to those by the financial companies. As revealed by the analysis, the employees working in head office get more chances of foreign trainings as compared to those working in the branches.

Table 23: Effects of FDI on technology transfer through foreign training to the employees

Dependent variable: Number of foreign training

	Variable	Coefficient	Standard Error	t	P>|t|	[95% Confidence Interval]	
1	Officer	-0.07	0.08	-0.870	0.389	-0.23	0.09
2	Year in the position	-0.01	0.02	-0.590	0.557	-0.04	0.02
3	Institution with FDI	0.25***	0.09	2.860	0.005	0.07	0.42
4	Bank	0.23**	0.10	2.410	0.018	0.04	0.43
5	Working in head office	0.26**	0.12	2.060	0.042	0.01	0.50
6	Working hours	0.00	0.01	-0.430	0.668	-0.02	0.01
7	Constant	-0.14	0.38	-0.390	0.701	-0.89	0.60
	n	90				F(6, 83)	2.67
	Adjusted R2	0.101				Prob > F	0.020

The analysis shows that the FDI funded financial institutions, particularly the banks, provide more salary (by Rs 4,340 per person per month), more fringe benefits (by 1,244 per person per month) and more foreign training to their employees. It means, employment of a person by the FDI funded financial institutions adds value of labour by Rs 5584 per month and also adds to skills by better training. Considering the total number of employment in the FDI financial institutions as 2407 (please see annex VII for detail) the net labour benefit due to the FDI in financial sector is Rs 161 million per year. The effects of this higher wage in FDI financial institutions to the wage and labour supply in domestically funded financial institutions and other sectors of the economy are out of the scope of this study.

Considering the huge external costs to the society (to the tune of Rs 702 million) we estimated by comparing the economic benefits and financial profits of the FDI, the labour benefit is much lower (about 23 percent). One can think that the FDI is not in favor to the Nepalese economy. But, two thirds of the financial institutions with FDI are beneficial to the society. It can be recommended that the government should have strong policy measures to allow only those FDI that are beneficial to the economy.

6. Conclusions and Recommendations

In an income poor country like Nepal with market economy, inflows of foreign direct investment and other development assistances facilitate the domestic investment to utilize the locally available resource like increasing labour force. As the FDI involves capital inflows invested directly by private companies in other countries, it affects the volume and characteristics of investible finance available for investment in the countries. Though the FDI increases the volume of capital for investment, the actual impacts to the economy of the country depends on the situations like relative scarcity of the capita vis-à-vis other productive resources and policies and legislative framework of the country. There is not, however, any systematic study done in the past to find out the situation of FDI in financial services and whether such investment is financially profitable to the investors and economically beneficial for the country like Nepal. The present study is geared to examine and analyse these aspects. The study is also designed to find out better sets of policy framework for getting benefited from the FDI, rather than judging whether the FDI should be permitted or not.

6.1 Summary and Conclusion

Recently, the significance of service FDI is growing mainly due to the incorporation of service trade in the bundle of World Trade Organization (WTO) agreements. The results of the Uruguay Round General Agreement on Trade in Services (GATS) have provided an additional force for further liberalization of developing and transition countries' policies related to FDI in services. In this back drop, the study analyses the financial profitability of the joint venture based FDI in financial services and compare it with the domestically funded financial institutions in Nepal. It also assess the impacts of joint venture financial institutions vis-à-vis those of domestically financed institutions in Nepalese economy including employment and labour benefit.

The study is based on both primary and secondary data. The secondary data are obtained from the publications of central bank and other financial institutions. The primary data are collected from the census of FDI financial institutions and domestic financial institutions. The census of all six joint venture commercial banks and four financial companies with FDI working in Nepal (at the time of proposal writing) are taken. An equal number of banks and finance companies working in Nepal but having no FDI are also sampled for comparison. For economic analysis, variables like inflows of foreign equity and loans, financial surplus to domestic investors, tax and duties paid by the firms, additional labour income and repayment of domestic loan and interest are measured for each sampling unit. Similarly, data on the domestic equity investment and domestic borrowing, financial surplus to foreign investors, technology fee paid to foreign investors and repayment of foreign loan and interest as costs are collected and analyzed.

The economic analysis is based on the cost benefit technique for the ex-post evaluation of FDI in financial institutions in Nepal. The economic analysis examines the economic impact of financial services in terms of costs and benefits and is calculated in economic terms. A separate financial profitability analysis is also carried out for each group for comparison. Such an analysis is important from investors' point of view and also as the starting point for economic analysis. The net present value (NPV), internal rate of return (IRR) and benefit cost ratio (BCR) are estimated at market price (financial analysis) as well as at the shadow price (economic analysis) for analysing the performances of the FDI in financial institutions. The profitability ratios are estimated and proportioned to equity investment and fixed assets. The findings are related to the foreign investment policy set up in Nepal.

A sample of 100 employees working in financial institutions, at the rate of 5 employees per financial institutions were also selected randomly and surveyed for their opinion survey on various aspects of performance, i.e. profitability, technology transfer, employee benefits and job satisfactions, to supplement and complement the quantitative analysis. As the interviews could not be made in one bank for lack of permission and as a finance company was merged with a bank, only 90 interviews could be completed.

The major findings and the suggested recommendations of the study are presented as follows:

6.1.1 General Legal Environment

The Foreign Investment and Technology Transfer Act (1992) (FITTA) limits foreign equity participation to 51 percent for most of the services[8] in the manner consistent with the GATS. To be specific, there are some regulations specific to the financial institutions. The banking and non-banking financial institutions are regulated by the Nepal Rastra Bank, the Central Bank of the country under its own law. Approval for establishing a commercial bank is granted in the conditions set out by the Central Bank and in accordance with the Commercial Bank Act (1974) and other accompanying legislation. The FITTA simplifies the administrative procedures and opened avenues for investors. The statutory provision of FITTA guarantees full repatriation of the amount received from the sale of equity, profits, or dividends and interest on foreign loans, and the repatriation of the amount received under an agreement for the transfer of technology. Foreign investors are granted a business visa as long as the investment is retained.

6.1.2 WTO commitments

The foreign direct investment policy of Nepal is shaped by the global notion of liberalization for economic growth and aid strategy of the major donors. During 1990s Nepal drafted various economic reform policies including fiscal, trade and FDI policies. The domestic regulations that are most significant to determine whether the financial FDI can generate some benefits are still not well developed. Such regulations are necessary means of exercising influence or control over financial services trade to the benefit of the country. The regulations, however, comply with the General Agreement on Trade in Services (GATS), particularly, concerning the most favored nation and national treatment (Articles II and XVII). Principles of the trade in financial services are contained in GATS and its annex on financial services. The financial services annex of GATS gives the members very wide latitude to take prudential measures, such as those for the protection of investors, depositors and insurance policy holders, and to ensure the integrity and stability of the financial system.

Nepal has opened financial services for FDI through locally incorporated joint venture company. Only a licensed commercial bank, a licensed specialized bank or a registered finance company may accept deposits from the public. Only a licensed commercial bank may accept deposits, which are repayable upon demand. Only financial institutions with a good rating can have commercial presence in Nepal. The total foreign shareholding in any institution providing financial services is limited to 67 per cent of the issued share capital. It has, nevertheless, been bound for the existing foreign financial service providers as to their scope of operation and equity structure. The shares held by foreign nationals and foreign financial institutions in their locally incorporated companies are not transferable without the prior written approval of the central bank. The members of the Board of Directors of a financial service supplier can be at the most in proportion to equity representation of that financial service supplier.

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[8] Except for telecom services in which the foreign equity participation permitted is 80%.

Nepal has made 12 major commitments in the opening of financial services for foreign investment during the WTO accession negotiations. The opening includes the acceptance of deposits and other repayable funds from the public and lending of all types (including consumer credit, mortgage credit, factoring and financing of commercial transactions). Financial leasing and all payment and money transmission services are opened. Similarly, guarantees and commitments, and trading for own account or for account of customers, whether on an exchange, an over-the-counter market or otherwise, are available to foreign investors.

It can be concluded that Nepal has generated congenial business environment for foreign direct investment in financial services. This creates hopes for promoting other business in the country.

6.1.3 Financial Performance

The financial analysis in the study supports the general hypothesis that the financial services in Nepal, on the whole, are financially profitable. Aggregate result of all the financial institutions taken together (both with and without foreign participation) weighted on equity capital shows that the overall FNPV is positive and overall FIRR is greater than 12 percent assumed cost of capital.

A separate analysis of banks with and without FDI shows that the banks with foreign investment are performing at a higher profit compared to domestic banks. The overall FIRR of domestic banks is 17.23 percent weighted on equity capital compared to 49.28 percent for banks with FDI. In case of finance companies, however, the domestic finance companies are found to perform better than finance companies with foreign participation. The FIRR generated by domestic finance companies is 17.7 compared to 15.6 percent generated by finance companies with foreign investment.

6.1.4 Economic Performance

The examinations of the economic impacts of financial service FDI in Nepal delineate the benefits of 131.3 million rupees by 10 companies. As presented in above table, ENPV for all the banks are positive and ECBR more than 1. The ENPV of Nepalese banks with FDI ranged between as low as Rs.62.43 million to as high as Rs.606.99 million. Similarly, the EBCR ranged from 1.03 to 1.91, with an aggregate figure of 1.38. As this is higher than the criteria of > 1 used in the study, it can be concluded that the banks with FDI in Nepal are economically beneficial for the country.

6.1.5 Labour benefits

The analysis shows that the FDI funded financial institutions, particularly the banks, provide more salary, more fringe benefits and more foreign training to their employees. It means, employment of a person by the FDI funded financial institutions adds value of labour by Rs 5584 per month and also adds to skills by better training. Considering the total number of employment in the FDI financial institutions as 2407 the net labour benefit due to the FDI in financial sector is Rs 161.29 million per year.

Considering the huge external costs to the society (to the tune of Rs 702 million) from the FDI, the labour benefit is much lower (about 23 percent). One can think that the FDI is not in favor to the Nepalese economy. But, two thirds of the financial institutions with FDI are beneficial to the society. The government should have strong policy measures to allow only those FDI that are beneficial to the economy.

6.2 Recommendations

Several policy recommendations can be provided based on above analysis.

- As any instability in the banking system affects the whole economy, the government needs to make a careful decision on the matters to this sector. The domestic regulations that are most significant to determine whether the financial FDI can generate benefits are still not well developed, which implies the need of such regulation.
- The total foreign shareholding in any institution providing financial services is limited to 67 per cent of the issued share capital, though this restriction is not imposed on existing foreign financial service providers having more than this equity structure. As inflows of foreign investment does not guaranty the benefits, the lower share may mean the safer economy. Therefore, a detail analysis is needed to see the relationship between the percentage of equity holding and the generation of economic benefits.
- Though the financial institutions in aggregate, both with and without foreign investment are running financially profitable, the company level analysis shows some variation in performance, some with negative NPV and IRR below cost of capital. Some financial institutions are harvesting larger financial profit and causing a cost to the society whereas some other are harvesting less profit and benefiting the society. The tax and support policies of the government need to be reformed in favor of the financial institutions are benefit the society more.
- The economic analysis also shows the possibility of financial institutions with foreign investment contributing in terms of employment generation and gain to labour, resulting from difference in market wages and shadow wages. When permitting establishment of a joint venture bank or finance company, the costs and benefits should be compared ex ante conting the gain from the employment.
- As mentioned, Nepal has made 12 major commitments in the opening of financial services for foreign investment during the WTO accession negotiations. This implies that the financial market in Nepal is going to be more competitive in future. Therefore, the existing financial institutions need to increase their capability.
- The findings of the present study are based on the existing foreign investment policy set up. Such results of the study will be useful to attract and streamline FDI in financial services in the ways that benefit the country. At the time of unfavorable investment climate in the country and growth and liquidity problem in the banking sector, Nepal may need to be more specific in choosing the foreign direct investment in financial sector. Therefore, a thorough review of policy set up for the financial FDI is also necessary.

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Annex I: Joint venture financial institutions and their equity in Nepal

Identity	Institution	Code	Year of establishment	Paid up capital (Million Rs)	Foreign equity	Country
	Commercial Bank					
1	Everest Bank Ltd	EBL	1994	455	50	India
2	Standard Chartered Bank Ltd	SCBL	1986	375	75	UK, Australia
3	Himalayan Bank Ltd	HBL	1992	643	20	Pakistan
4	Nepal SBI Bank Ltd	SBI	1993	640	50	India
5	Nepal Arab (Nebil) Bank Ltd	NABIL	1984	492	50	
6	Nepal Bangladesh Bank Ltd	NBBL	1993	720	25	Bangladesh
	Finance Company					
13	International Legal and Finance Co. Ltd	ILF			39	Korea
14	Nepal Bangladesh Finance and Leasing Co. Ltd	NBF			35	Bangladesh
15	Nepal Merchant Banking and Finance Ltd	NMBF			15	Malaysia
16	Alpic Everest Finance Ltd	AEF			35	India

Note: Nepal Bangladesh Finance and Leasing Co. has recently been merged with Nepal Bangladesh Bank Ltd.

Annex II: Domestically funded sample financial institutions and their equity in Nepal

Identity	Institution	Code
	Commercial Banks	
7	Nepal Industrial and Commercial Bank	NIC
8	Bank of Kathmandu	BOK
9		KBL
10		SBL
11	Nepal Bank Limited	NBL
12		LBL
	Finance Company	
17	United Finance Company	UFC
18	Goodwill Finance Limited	GFL
19	Lalitpur Finance Company Limited	LFCL
20	National Finance Company Limited	NFCL

Annex III: Questionnaire for Survey of Financial Institutions (for 20 institutions)

Center for Economic Development and Administration
Kathmandu Nepal

Foreign Direct Investment in Financial Services: Impact on Nepalese Economy

Code No.:

Sampling Unit No:

Funding: ☐1.Joint venture ☐2.Domestic

Institution: ☐1.Bank ☐2.Financial institution

Name of Interviewer:

1. Name and address of the Institution:
   Name --
   Address:
   District ----------------------------
   Municipality/VDC -----------------
   Ward No --------
   Telephone -------------------------
   Fax ----------------------------------
   Post Box -------------------------------
   Email -----------------------------------
   Website ---------------------------------

2. Name of the respondent: -------------------------------

3. How many branches are there all over Nepal?
   No of branches---------------------------, Main locations ------------------------

4. Year of the establishment of the institution (in Nepal) --------------

5. Paid up capital

S.N	Particulars	At the time of establishment	In July 2007	Increase in any year	Decrease in any year
1	Paid up capital (Rs)				
2	Domestic equity (%)				
3	Number of share holders				
4	Foreign equity (%)				
5	Countries				

Loan capital

S.N	Loan	At the time of establishment	In July 2007	Increase in any year	Decrease in any year
1	Domestic loan (Rs)				
2	Foreign loan (US$)				

6. No. of employees working in this organization and average salary ?

S.N	Staff	Number	Average basic salary per month
1	High level managers		
2	Mid level managers		
3	Support staff		

7. Is there any foreign employees (Managers only) No.: …………Average salary per month --------------

8. Flow of costs and benefits, Increase /decrease in any year.

Year	Benefits						Costs				
	Inflows of foreign equity	Inflows of foreign loans	Financial surplus to domestic investors	Tax, customs and duties paid by the firms	Total payment to domestic employees	Repayment of domestic loan and interest	Domestic equity investment	Domestic borrowing	Financial surplus to foreign investors	Technology fee paid to foreign investors	Repayment of foreign loan and interest
	A	B	C	d	E	f	G	h	i	j	K
1992											
1993											
1994											
1995											
1996											
1997											
1998											
1999											
2000											
2001											
2002											
2003											
2004											
2005											
2006											

2007												

Note: *Year 1992 refers to the fiscal year (1991/92) ending in July 1992.*
Year 2007 refers to the fiscal year (2006/07) ending in July 2007

9. How do you feel about the financial status of this institution?

□1very-good, □2good, □3fair, □4bad, □5worse

10. How do you rate the performance of the institution regarding the following?

a) Able to generate revenues in excess of costs	□1very-good, □2good, □3fair, □4bad, □5worse
b) Able to maintain the value of invested capital	□1very-good, □2good, □3fair, □4bad, □5worse

11. Who are your main competitors in Nepal?

Competitors	**Banks**	**Finance companies**
Foreign invested		
Nepalese/domestic		
Institutions operating in foreign countries		

12. What do you think is your firm's competitive advantage in the Nepalese market place?

……….............………………………………………………………………………………

........................…………………………………………………………………………………

13. Do you pay separately for technology? □ 1 Yes □ 2 No

If yes, what is its mode of payment?

a) An initial lump-sum fee (Amount)……….
b) A percentage of sales (%) ……………
c) Royalty (rate) …………….
d) Any other (Please specify) …………………..

14. Would you claim that your firm has brought to Nepalese market a product, process or service, that Nepal did not have previously or are you essentially another entrant in an established field?

……….............………………………………………………………………………………

........................…………………………………………………………………………………

……….............………………………………………………………………………………

15. Have you been able to borrow fund in Nepal as much as you wanted? What are the problems you faced?

……….............………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

16. would you assess your performance in the following areas?
    - Product development ………………………………
    - Sales growth………………………………
    - Profitability ………………………………
    - Management development /training ………………………………

17. Are you satisfied with your performance (in Nepal)? If not, why not?

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

18. Have you been benefited from any particular government subsidies/tax rebates? Please explain briefly.

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

19. What are the basic problems you are facing in running your operation in Nepal?

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

Questions No. 20 & 21 to be asked for institution with Foreign Investment only

20. If you have borrowed locally from banks/financial intuitions, why have you done so rather than borrowing from your parent institution or other foreign institutions?

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

    ………………………………………………………………………………………………

21. How would you rank the following problems in relation to foreign investment promotion in Nepal in financial sector. Please rank 0 to 5 in each of the problems giving 5 to the most serious problem and 0 to no problem at all.

Problems	**Rank**
1. Difficult to find local partner	☐
2. Small domestic market	☐
3. Less preferential treatment in Nepal as compared to other South Asian Countries	☐
4. Less preferential treatment in comparison to ASEAN countries	☐
5. Long procedure to start business	☐
6. Preferential treatment not materialized	☐
7. Bureaucratic harassment	☐
8. Corruption	☐
9. Country's land-locked position	☐
10. Lack of trained and experienced manager	☐
11. Lack of skilled labour	☐
12. Any other (Please specify)…………………………	☐

22. Any other comments or suggestions?

THANK YOU VERY MUCH

(Note to interviewer: Please collect financial statements of the institutions)

Annex IV:

Questionnaire
for
Employees working at the Middle level in the Sample Institutions
(For 100 employees of 20 institutions)

1. Name of the respondent: -------------------------------
   Position in the institution ------------------------
   Years of service in this position -------------------
   Total years of service in this institution -------------------
   Contact phone: --------------------------
   Email ------------------------------------

2. Name of the institution -------------------------------------
   ☐1 Head office ☐2 Branch ------------------

3. What is your working hours per week?

4. Could you please mention your basic salary? (Per months Rs ------------------------)

5. What other benefits you get apart from the basic salary (Allowance, fare, rent, vehicle etc.)? -------
   How much you value these benefits per month? Rs ………………………

6. Do you work overtime? How many hours per month or per week?
   1. Hour Per month ☐ 2. Per week ☐

7. How much is paid for overtime?……………………
   Is the overtime rate higher than normal rate? ……………………………………………………

8. How many trainings you attended as an employee of this institution?

S.N	Training period	Within the Organization	Outside the organization in Nepal	Other than Nepal?
A	A week or less			
B	More than a week and less than a month			
C	More than a month and less than three months			
D	Three months or more			

9. How satisfied you are with your job?
   ☐1 Fully satisfied, ☐2 Satisfied, ☐3 Not satisfied

If not, what are the reasons?

....

10. How would you rate the financial status of your institution in relation to:

a) Net profit ☐1. Good, ☐2.Fair, ☐3.Weak

b) Fixed assets ☐1. Good, ☐2. Fair, ☐3.Weak

c) Revenue Generation ☐1. Good, ☐2. Fair, ☐3.Weak

d) Operating Cost ☐1. Good, ☐2. Fair, ☐3.Weak

11. Who do you think are the main competitors of your institution?

Competitors	**Banks**	**Finance companies**
Foreign invested		
Nepalese/domestic		
Institutions operating in foreign countries		

12. What do you think is your firm's competitive advantage in the Nepalese market place?

----

13. How would you assess the performance of this institution (in Nepal) in terms of :

- Product development …………………………………………………………………………

- Sales growth………………………………………………………………………………….

- Profitability ……………………………………………………………………………….

- Management development /training ……………………………………………………………….

  ----

14. How do you evaluate the contribution of your institution in terms of the economic development of Nepal?

----

15. From your experience, what do you think are the main problems of running this institution in Nepal?

----

15. Finally, do you want to make any other suggestions?

Thank you for your help

Annex V Financial services Opening Commitment of Nepal

(a) Acceptance of deposits and other repayable funds from the public
(b) Lending of all types, including, inter-alia, consumer credit, mortgage credit, factoring and financing of commercial transactions.
(c) Financial leasing
(d) All payment and money transmission services
(e) Guarantees and commitments
(f) Trading for own account or for account of customers, whether on an exchange, an over-the-counter market or otherwise, the following:
- money-market instruments (cheques, bills, certificates of deposits, etc.)
- foreign exchange
- derivative products including, but not limited to, futures and options
- exchange rate and interest rate instruments, other than swap.
- transferable securities
- other negotiable instruments and financial assets, including bullion.

(g) Participation in issues of all kinds of securities, including under-writing and placement as agent (whether publicly or privately) and provision of service – related to such issues.
(h) Money broking
(i) Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services.
(j) Settlement of and clearing services for financial assets, including securities, derivative products, and other negotiable instruments
(k) Provision and transfer of financial information, and financial data processing and related software by providers of other financial services.
(l) Advisory services on all the activities listed above

Annex VI: Format Used for Economic Benefit Cost Analysis

(All figures are in 1989/90 price)

SN	Year	0	1	2	4…	n
	Consumer Price Index					
A	***Benefits to the economy:***					
1	Foreign equity					
2	Foreign loan					
3	Return to domestic equity					
4	Domestic investor's share of depreciation					
5	Tax, custom and duties (Sum of Excise, sales tax, tariff, income tax etc.)					
6	Labor Income:					
	Market Value					
	Shadow wages (75%)					
	Benefit (25%)					
7	Repayment of local loan and interest					
Total benefits: (A.1+A.2+A.3+A.4+A.5+A.6+A.7)						
B	*Costs to the economy:*					
1	Domestic equity					
2	Domestic loan					
3	Financial surplus to foreign investors					
4	Foreign investor's share of depreciation					
5	Technology fee to foreign investors					
6	Repayment of foreign loan and interest					
Total Costs: (B.1+B.2+B.3+B.4+B.5+B.6)						
Net Benefits: (A-B)						

Annex VII Employees and branches of the sample financial institutions

Annex Table 7.1. Standard Chartered Bank Nepal Ltd.

Year	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total Employees	268	264	256	243	275	263	302	345	351
Officers	44	42	42	39	41	40	49	53	56
Non-officers	224	222	214	204	234	223	253	292	295
No of Branches	7	7	7	7	9	9	9	10	15

Annex Table 7.2. Nepal Bangladesh Bank Ltd.

Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Total Employees	147	221	305	362	365	351	435
Officers	31	52	63	77	77	71	89
Non-officers	116	169	242	285	288	280	346
No of Branches	6	10	12	15	15	15	17

Note: Nepal Bangladesh Leasing and Finance Company Ltd. is merged with this bank.

Annex Table 7.3. Nepal SBI Bank Ltd.

Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Total Employees	93	117	133	135	141	148	153	161
Officers	37	43	49	49	50	52	54	59
Non-officers	56	74	84	86	91	96	99	102
No of Branches	10	13	14	14	14	14	15	16

Annex Table 7.4. Himalayan Bank Ltd.

Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Total Employees	248	290	311	359	357	385	455	501	561
Officers	43	51	57	64	63	69	83	86	98
Non-officers	205	239	254	295	294	316	372	415	463
No of Branches	7	8	9	10	10	11	13	14	16

Annex Table 7.5 Everest Bank Ltd.

Year	199/96	199/97	199/98	199/99	199/00	200/01	200/02	200/03	200/04	200/05	200/06	200/07
Total Employees	31	56	98	130	158	188	217	239	250	257	306	393
Officers	9	16	29	41	52	63	69	72	73	83	96	107
Non-officers	22	40	69	89	106	125	148	167	177	174	210	286
No of Branches	2	3	6	8	10	12	13	14	14	16	18	21

Annex Table 7.6. Nabil Bank Ltd.

Year	1998/99	99/00	00/01	01/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total Employees	389	392	388	382	326	372	426	441	427
Officers	41	41	41	41	39	42	45	46	46
Non-officers	348	351	347	341	287	330	381	395	381
No of Branches	6	6	9	15	18	19	21	23	27

Annex Table 7.7. International Leasing and Finance Company Ltd.

Year	2003/04	2004/05	2005/06
Total Employees	30	31	28
Officers	7	9	10
Non-officers	23	22	18

Annex Table 7.8 Nepal Merchant Banking and Finance company Ltd.

Year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total Employees	22	24	25	26	30	32
Officers	5	5	5	5	6	6
Non-officers	17	19	20	21	24	26

Annex Table 7.9 Alpic Everest Finance Company Ltd.

Year	2001/02	2002/03	2003/04	2004/05	2005/06
Total Employees	20	18	15	19	19
Officers	5	5	5	5	6
Non-officers	15	13	10	14	25

Annex 8: Estimation of economic indicators

Annex Table 8.1 Worksheet for NPV & IRR for EBL (Firm 1)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-212.09	1.0000	-212.09
1	-134.58	0.8929	-120.16
2	-99.34	0.7972	-79.19
3	-131.66	0.7118	-93.71
4	139.03	0.6355	88.36
5	196.09	0.5674	111.26
6	-93.84	0.5066	-47.54
7	-318.54	0.4523	-144.09
8	212.27	0.4039	85.73
9	574.97	0.3606	207.34
10	434.27	0.3220	139.82
11	969.04	0.2875	278.58
12	1176.80	0.2567	302.06
13	208.65	0.2292	47.82
14	208.65	0.2046	42.69
15	208.65	0.1827	38.12
16	208.65	0.1631	34.04
17	208.65	0.1456	30.39
18	208.65	0.1300	27.13
19	208.65	0.1161	24.23
20	208.65	0.1037	21.63
NPV			**782.40**
IRR			**23.40%**

Note: Values for 13 to 20 years are average of previous years.

Annex Table 8.2 Worksheet for NPV & IRR for SCBL (Firm 2)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-3291.06	1.0000	-3291.06
1	1599.56	0.8929	1428.18
2	2102.91	0.7972	1676.43
3	2002.95	0.7118	1425.66
4	2038.38	0.6355	1295.43
5	2114.09	0.5674	1199.59
6	1094.47	0.5066	554.49
7	1094.47	0.4523	495.08
8	1094.47	0.4039	442.04
9	1094.47	0.3606	394.68
10	1094.47	0.3220	352.39
11	1094.47	0.2875	314.63
12	1094.47	0.2567	280.92
13	1094.47	0.2292	250.83
14	1094.47	0.2046	223.95
15	1094.47	0.1827	199.96
16	1094.47	0.1631	178.53
17	1094.47	0.1456	159.40
18	1094.47	0.1300	142.32
19	1094.47	0.1161	127.08
20	1094.47	0.1037	113.46
NPV			**7964.01**
IRR			**54.40%**

Note: Values for 6 to 20 years are average of previous years.

Annex Table 8.3 Worksheet for NPV & IRR for HBL (Firm 3)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-648.59	1.0000	-648.59
1	752.48	0.8929	671.85
2	773.27	0.7972	616.45
3	707.85	0.7118	503.84
4	464.58	0.6355	295.25
5	690.70	0.5674	391.92
6	946.13	0.5066	479.34
7	647.26	0.4523	292.79
8	718.89	0.4039	290.35
9	670.79	0.3606	241.89
10	803.12	0.3220	258.58
11	1165.55	0.2875	335.07
12	641.00	0.2567	164.53
13	641.00	0.2292	146.90
14	641.00	0.2046	131.16
15	641.00	0.1827	117.11
16	641.00	0.1631	104.56
17	641.00	0.1456	93.36
18	641.00	0.1300	83.36
19	641.00	0.1161	74.42
20	641.00	0.1037	66.45
NPV			**4710.58**
IRR			**113.60%**

Note: Values for 12 to 20 years are average of previous years.

Annex Table 8.4 Worksheet for NPV & IRR for SBI (Firm 4)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-634.46	1.0000	-634.46
1	259.34	0.8929	231.56
2	144.20	0.7972	114.95
3	218.92	0.7118	155.82
4	123.67	0.6355	78.59
5	-901.16	0.5674	-511.34
6	263.68	0.5066	133.59
7	261.11	0.4523	118.11
8	295.74	0.4039	119.45
9	-227.34	0.3606	-81.98
10	48.68	0.3220	15.68
11	48.68	0.2875	13.99
12	48.68	0.2567	12.49
13	48.68	0.2292	11.16
14	48.68	0.2046	9.96
15	48.68	0.1827	8.89
16	48.68	0.1631	7.94
17	48.68	0.1456	7.09
18	48.68	0.1300	6.33
19	48.68	0.1161	5.65
20	48.68	0.1037	5.05
NPV			**-171.47**
IRR			**5.60%**

Note: Values for 10 to 20 years are average of previous years.

Annex Table 8.5 Worksheet for NPV & IRR for Nabil (Firm 5)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-6688.50	1.0000	-6688.50
1	950.27	0.8929	848.45
2	1765.90	0.7972	1407.76
3	1944.71	0.7118	1384.20
4	2161.84	0.6355	1373.89
5	1705.68	0.5674	967.85
6	1705.68	0.5066	864.15
7	1705.68	0.4523	771.56
8	1705.68	0.4039	688.90
9	1705.68	0.3606	615.08
10	1705.68	0.3220	549.18
11	1705.68	0.2875	490.34
12	1705.68	0.2567	437.81
13	1705.68	0.2292	390.90
14	1705.68	0.2046	349.02
15	1705.68	0.1827	311.62
16	1705.68	0.1631	278.23
17	1705.68	0.1456	248.42
18	1705.68	0.1300	221.81
19	1705.68	0.1161	198.04
20	1705.68	0.1037	176.82
NPV			**5885.54**
IRR			**24.25%**

Note: Values for 5 to 20 years are average of previous years.

Annex Table 8.6 Worksheet for NPV & IRR for NBBL (Firm 6)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-253.78	1.0000	-253.78
1	224.36	0.8929	200.32
2	102.45	0.7972	81.68
3	458.87	0.7118	326.61
4	611.23	0.6355	388.45
5	-256.55	0.5674	-145.57
6	336.46	0.5066	170.46
7	86.26	0.4523	39.02
8	-772.13	0.4039	-311.85
9	98.87	0.3606	35.65
10	98.87	0.3220	31.83
11	98.87	0.2875	28.42
12	98.87	0.2567	25.38
13	98.87	0.2292	22.66
14	98.87	0.2046	20.23
15	98.87	0.1827	18.06
16	98.87	0.1631	16.13
17	98.87	0.1456	14.40
18	98.87	0.1300	12.86
19	98.87	0.1161	11.48
20	98.87	0.1037	10.25
NPV			**742.69**
IRR			**90.12%**

Note: Values for 9 to 20 years are average of previous years.

Annex Table 8.7 Worksheet for NPV & IRR for NIC (Firm 7)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-1260.41	1.0000	-1260.41
1	-325.35	0.8929	-290.49
2	-557.10	0.7972	-444.12
3	182.90	0.7118	130.19
4	53.98	0.6355	34.30
5	109.46	0.5674	62.11
6	264.32	0.5066	133.91
7	407.85	0.4523	184.49
8	19.44	0.4039	7.85
9	19.44	0.3606	7.01
10	19.44	0.3220	6.26
11	19.44	0.2875	5.59
12	19.44	0.2567	4.99
13	19.44	0.2292	4.46
14	19.44	0.2046	3.98
15	19.44	0.1827	3.55
16	19.44	0.1631	3.17
17	19.44	0.1456	2.83
18	19.44	0.1300	2.53
19	19.44	0.1161	2.26
20	19.44	0.1037	2.02
NPV			**-1393.52**
IRR			**-6.93%**

Note: Values for 8 to 20 years are average of previous years.

Annex Table 8.8 Worksheet for NPV & IRR for BOK (Firm 8)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-345.81	1.0000	-345.81
1	-222.63	0.8929	-198.78
2	597.29	0.7972	476.16
3	550.04	0.7118	391.51
4	627.59	0.6355	398.85
5	-631.99	0.5674	-358.61
6	977.29	0.5066	495.13
7	1457.09	0.4523	659.11
8	1511.07	0.4039	610.30
9	2309.97	0.3606	833.00
10	797.30	0.3220	256.71
11	797.30	0.2875	229.21
12	797.30	0.2567	204.65
13	797.30	0.2292	182.72
14	797.30	0.2046	163.14
15	797.30	0.1827	145.66
16	797.30	0.1631	130.06
17	797.30	0.1456	116.12
18	797.30	0.1300	103.68
19	797.30	0.1161	92.57
20	797.30	0.1037	82.65
NPV			**4668.03**
IRR			**69.92%**

Note: Values for 10 to 20 years are average of previous years.

Annex Table 8.9 Worksheet for NPV & IRR for KBL (Firm 9)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-1212.01	1.0000	-1212.01
1	-1371.24	0.8929	-187.32
2	38.38	0.7972	38.38
3	83.66	0.7118	83.66
4	368.99	0.6355	368.99
5	358.88	0.5674	358.88
6	10.28	0.5066	10.28
7	172.04	0.4523	112.15
8	172.04	0.4039	112.15
9	172.04	0.3606	112.15
10	172.04	0.3220	112.15
11	172.04	0.2875	112.15
12	172.04	0.2567	112.15
13	172.04	0.2292	112.15
14	172.04	0.2046	112.15
15	172.04	0.1827	112.15
16	172.04	0.1631	112.15
17	172.04	0.1456	112.15
18	172.04	0.1300	112.15
19	172.04	0.1161	112.15
20	172.04	0.1037	112.15
NPV			**1030.90**
IRR			**2.33%**

Note: Values for 7 to 20 years are average of previous years.

Annex Table 8.10 Worksheet for NPV & IRR for SBL (Firm 10)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-183.01	1.0000	-183.01
1	-427.79	0.8929	-381.95
2	81.63	0.7972	65.08
3	263.41	0.7118	187.49
4	83.49	0.6355	53.06
5	142.84	0.5674	81.05
6	142.84	0.5066	72.37
7	142.84	0.4523	64.61
8	142.84	0.4039	57.69
9	142.84	0.3606	51.51
10	142.84	0.3220	45.99
11	142.84	0.2875	41.06
12	142.84	0.2567	36.66
13	142.84	0.2292	32.74
14	142.84	0.2046	29.23
15	142.84	0.1827	26.10
16	142.84	0.1631	23.30
17	142.84	0.1456	20.80
18	142.84	0.1300	18.57
19	142.84	0.1161	16.58
20	142.84	0.1037	14.81
NPV			**373.75**
IRR			**21.37%**

Note: Values for 5 to 20 years are average of previous years.

Annex Table 8.11 Worksheet for NPV & IRR for NBL (Firm 11)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-2114.86	1.0000	-2114.86
1	-22433.47	0.8929	-20029.88
2	-30653.74	0.7972	-24436.97
3	-2447.37	0.7118	-1741.99
4	7177.26	0.6355	4561.28
5	17402.18	0.5674	9874.46
6	12201.23	0.5066	6181.52
7	735.91	0.4523	332.89
8	735.91	0.4039	297.22
9	735.91	0.3606	265.38
10	735.91	0.3220	236.94
11	735.91	0.2875	211.56
12	735.91	0.2567	188.89
13	735.91	0.2292	168.65
14	735.91	0.2046	150.58
15	735.91	0.1827	134.45
16	735.91	0.1631	120.04
17	735.91	0.1456	107.18
18	735.91	0.1300	95.70
19	735.91	0.1161	85.44
20	735.91	0.1037	76.29
NPV			**-25235.22**
IRR			**-3.50%**

Note: Values for 8 to 20 years are average of previous years.

Annex Table 8.12 Worksheet for NPV & IRR for LBL (Firm 12)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-3074.84	1.00	-3074.84
1	791.00	0.89	706.25
2	822.59	0.80	655.76
3	16.96	0.71	12.07
4	702.83	0.64	446.66
5	72.46	0.57	41.12
6	156.11	0.51	79.09
7	5.33	0.45	2.41
8	366.75	0.40	148.12
9	366.75	0.36	132.25
10	366.75	0.32	118.08
11	366.75	0.29	105.43
12	366.75	0.26	94.14
13	366.75	0.23	84.05
14	366.75	0.20	75.04
15	366.75	0.18	67.00
16	366.75	0.16	59.83
17	366.75	0.15	53.42
18	366.75	0.13	47.69
19	366.75	0.12	42.58
20	366.75	0.10	38.02
NPV			**-65.82**
IRR			**11.60%**

Note: Values for 8 to 20 years are average of previous years.

Annex Table 8.13 **Worksheet for NPV & IRR for ILF (Firm 13)**

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-345.81	1.0000	-345.81
1	-105.94	0.8929	-94.59
2	-59.22	0.7972	-47.21
3	48.32	0.7118	34.39
4	88.63	0.6355	56.33
5	46.44	0.5674	26.35
6	61.13	0.5066	30.97
7	61.13	0.4523	27.65
8	61.13	0.4039	24.69
9	61.13	0.3606	22.04
10	61.13	0.3220	19.68
11	61.13	0.2875	17.57
12	61.13	0.2567	15.69
13	61.13	0.2292	14.01
14	61.13	0.2046	12.51
15	61.13	0.1827	11.17
16	61.13	0.1631	9.97
17	61.13	0.1456	8.90
18	61.13	0.1300	7.95
19	61.13	0.1161	7.10
20	61.13	0.1037	6.34
NPV			**-134.29**
IRR			**7.92%**

Note: Values for 6 to 20 years are average of previous years.

Annex Table 8.14 Worksheet for NPV & IRR for NBF (Firm 14)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-93.08	1.0000	-93.08
1	-0.71	0.8929	-0.63
2	-11.18	0.7972	-8.91
3	6.52	0.7118	4.64
4	3.32	0.6355	2.11
5	6.86	0.5674	3.89
6	6.86	0.5066	3.48
7	6.86	0.4523	3.10
8	6.86	0.4039	2.77
9	6.86	0.3606	2.47
10	6.86	0.3220	2.21
11	6.86	0.2875	1.97
12	6.86	0.2567	1.76
13	6.86	0.2292	1.57
14	6.86	0.2046	1.40
15	6.86	0.1827	1.25
16	6.86	0.1631	1.12
17	6.86	0.1456	1.00
18	6.86	0.1300	0.89
19	6.86	0.1161	0.80
20	6.86	0.1037	0.71
NPV			**-65.48**
IRR			**1.15%**

Note: Values for 5 to 20 years are average of previous years.

Annex Table 8.15 Worksheet for NPV & IRR for NMBF (Firm 15)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-317.23	1.0000	-317.23
1	129.85	0.8929	115.94
2	100.15	0.7972	79.84
3	44.37	0.7118	31.58
4	127.23	0.6355	80.85
5	126.55	0.5674	71.81
6	167.66	0.5066	84.94
7	122.71	0.4523	55.51
8	37.90	0.4039	15.31
9	107.05	0.3606	38.60
10	107.05	0.3220	34.47
11	107.05	0.2875	30.77
12	107.05	0.2567	27.48
13	107.05	0.2292	24.53
14	107.05	0.2046	21.90
15	107.05	0.1827	19.56
16	107.05	0.1631	17.46
17	107.05	0.1456	15.59
18	107.05	0.1300	13.92
19	107.05	0.1161	12.43
20	107.05	0.1037	11.10
NPV			**486.37**
IRR			**34.05%**

Note: Values for 9 to 20 years are average of previous years.

Annex Table 8.16 Worksheet for NPV & IRR for AEF (Firm 16)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-75.28	1.0000	-75.28
1	-24.79	0.8929	-22.13
2	23.37	0.7972	18.63
3	24.60	0.7118	17.51
4	28.82	0.6355	18.32
5	-36.95	0.5674	-20.97
6	3.37	0.5066	1.71
7	1.99	0.4523	0.90
8	2.92	0.4039	1.18
9	2.92	0.3606	1.05
10	2.92	0.3220	0.94
11	2.92	0.2875	0.84
12	2.92	0.2567	0.75
13	2.92	0.2292	0.67
14	2.92	0.2046	0.60
15	2.92	0.1827	0.53
16	2.92	0.1631	0.48
17	2.92	0.1456	0.42
18	2.92	0.1300	0.38
19	2.92	0.1161	0.34
20	2.92	0.1037	0.30
NPV			**-52.83**
IRR			**-2.39%**

Note: Values for 8 to 20 years are average of previous years.

Annex Table 8.17 Worksheet for NPV & IRR for UFC (Firm 17)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-190.34	1.0000	-190.34
1	0.07	0.8929	0.06
2	-4.67	0.7972	-3.72
3	-83.17	0.7118	-59.20
4	11.53	0.6355	7.33
5	29.75	0.5674	16.88
6	45.96	0.5066	23.29
7	29.08	0.4523	13.15
8	29.08	0.4039	11.75
9	29.08	0.3606	10.49
10	29.08	0.3220	9.36
11	29.08	0.2875	8.36
12	29.08	0.2567	7.46
13	29.08	0.2292	6.66
14	29.08	0.2046	5.95
15	29.08	0.1827	5.31
16	29.08	0.1631	4.74
17	29.08	0.1456	4.24
18	29.08	0.1300	3.78
19	29.08	0.1161	3.38
20	29.08	0.1037	3.01
NPV			**-108.06**
IRR			**5.59%**

Note: Values for 7 to 20 years are average of previous years.

Annex Table 8.18 Worksheet for NPV & IRR for GFL (Firm 18)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-31.72	1.0000	-31.72
1	7.78	0.8929	6.95
2	4.52	0.7972	3.61
3	12.94	0.7118	9.21
4	-0.22	0.6355	-0.14
5	-6.62	0.5674	-3.76
6	10.99	0.5066	5.57
7	-8.76	0.4523	-3.96
8	17.35	0.4039	7.01
9	-26.17	0.3606	-9.44
10	1.31	0.3220	0.42
11	1.31	0.2875	0.38
12	1.31	0.2567	0.34
13	1.31	0.2292	0.30
14	1.31	0.2046	0.27
15	1.31	0.1827	0.24
16	1.31	0.1631	0.21
17	1.31	0.1456	0.19
18	1.31	0.1300	0.17
19	1.31	0.1161	0.15
20	1.31	0.1037	0.14
NPV			**-13.87**
IRR			**-2.88%**

Note: Values for 10 to 20 years are average of previous years.

Annex Table 8.19 Worksheet for NPV & IRR for LFCL (Firm 19)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-32.41	1.0000	-32.41
1	0.02	0.8929	0.02
2	17.62	0.7972	14.05
3	27.65	0.7118	19.68
4	-9.84	0.6355	-6.25
5	42.17	0.5674	23.93
6	34.70	0.5066	17.58
7	63.41	0.4523	28.68
8	-3.25	0.4039	-1.31
9	22.32	0.3606	8.05
10	59.39	0.3220	19.12
11	9.63	0.2875	2.77
12	23.98	0.2567	6.16
13	23.98	0.2292	5.50
14	23.98	0.2046	4.91
15	23.98	0.1827	4.38
16	23.98	0.1631	3.91
17	23.98	0.1456	3.49
18	23.98	0.1300	3.12
19	23.98	0.1161	2.78
20	23.98	0.1037	2.49
NPV			**130.65**
IRR			**45.89%**

Note: Values for 12 to 20 years are average of previous years.

Annex Table 8.20 Worksheet for NPV & IRR for NFCL (Firm 20)

All figures in 1990 price (Rs.in 00,000)

Year	CF	DF at 12%	DCF
0	-225.83	1.0000	-225.83
1	2.51	0.8929	2.24
2	32.98	0.7972	26.30
3	47.82	0.7118	34.04
4	65.64	0.6355	41.71
5	68.07	0.5674	38.62
6	95.70	0.5066	48.48
7	122.12	0.4523	55.24
8	88.22	0.4039	35.63
9	96.70	0.3606	34.87
10	83.08	0.3220	26.75
11	56.10	0.2875	16.13
12	51.15	0.2567	13.13
13	92.40	0.2292	21.18
14	-93.29	0.2046	-19.09
15	57.80	0.1827	10.56
16	57.80	0.1631	9.43
17	57.80	0.1456	8.42
18	57.80	0.1300	7.52
19	57.80	0.1161	6.71
20	57.80	0.1037	5.99
NPV			**198.02**
IRR			**22.67%**

Note: Values for 15 to 20 years are average of previous years.

Annex Table 9.1: Worksheet for ENPV & ECBR for EBLL (Firm 1)

All figures in 1990 price (Rs.in 00,000)

Year	Net Benefit	DF at 12%	Discounted NB
0	-109.1732	1	-109.1732
1	-75.13915	0.892857	-67.08853
2	-44.08904	0.797194	-35.14751
3	-59.78338	0.71178	-42.55263
4	175.6572	0.635518	111.63331
5	210.9001	0.567427	119.67035
6	90.65785	0.506631	45.930088
7	-30.5246	0.452349	-13.80778
8	262.9594	0.403883	106.20489
9	606.8061	0.36061	218.82036
10	513.0532	0.321973	165.18939
11	934.7875	0.287476	268.72908
12	1155.643	0.256675	296.62489
13	279.3658	0.229174	64.023429
14	279.3658	0.20462	57.163776
15	279.3658	0.182696	51.039086
16	279.3658	0.163122	45.570612
17	279.3658	0.145644	40.688047
18	279.3658	0.13004	36.328613
19	279.3658	0.116107	32.436262
20	279.3658	0.103667	28.960948
	ENPV		1421.2435
	EBCR		1.9138418

Annex Table 9.2 Worksheet for ENPV & ECBR for SCBLL (Firm 2)

All figures in 1990 price (Rs.in 00,000)

2.Standard Chartered Bank

Year	Net Benefit	DF at 12%	Discounted NB
0	1645.531	1	1645.5314
1	320.269	0.892857	285.95446
2	-558.8336	0.797194	-445.4987
3	-492.1477	0.71178	-350.301
4	-523.5621	0.635518	-332.7332
5	563.1999	0.567427	319.57477
6	159.0762	0.506631	80.592932
7	159.0762	0.452349	71.957975
8	159.0762	0.403883	64.248192
9	159.0762	0.36061	57.364457
10	159.0762	0.321973	51.218265
11	159.0762	0.287476	45.730594
12	159.0762	0.256675	40.830887
13	159.0762	0.229174	36.456149
14	159.0762	0.20462	32.550133
15	159.0762	0.182696	29.062619
16	159.0762	0.163122	25.948767
17	159.0762	0.145644	23.168542
18	159.0762	0.13004	20.686198
19	159.0762	0.116107	18.46982
20	159.0762	0.103667	16.490911
	ENPV		1737.3042
	EBCR		1.0296457

Annex Table 9.3.Himalayan Bank Ltd

Year	Net Benefit	DF at 12%	Discounted NB
0	141.4054	1	141.40541
1	275.1681	0.892857	245.68576
2	56.74327	0.797194	45.235391
3	149.8669	0.71178	106.67227
4	113.5773	0.635518	72.180442
5	205.8225	0.567427	116.78923
6	295.5768	0.506631	149.74842
7	94.35182	0.452349	42.679973
8	426.0207	0.403883	172.06261
9	461.1144	0.36061	166.28246
10	657.2572	0.321973	211.61923
11	528.8197	0.287476	152.02303
12	283.8103	0.256675	72.847044
13	283.8103	0.229174	65.042004
14	283.8103	0.20462	58.073218
15	283.8103	0.182696	51.851087
16	283.8103	0.163122	46.295614
17	283.8103	0.145644	41.335369
18	283.8103	0.13004	36.90658
19	283.8103	0.116107	32.952303
20	283.8103	0.103667	29.421699
	ENPV		2057.1091
	EBCR		1.5742971

Annex Table 9.4.Nepal SBI Bank

Year	Net Benefit	DF at 12%	Discounted NB
0	0.545285	1	0.5452852
1	118.4036	0.892857	105.7175
2	-51.54944	0.797194	-41.0949
3	149.4743	0.71178	106.39288
4	53.85857	0.635518	34.228095
5	-25.12529	0.567427	-14.25676
6	96.5268	0.506631	48.903479
7	175.4855	0.452349	79.380748
8	154.6206	0.403883	62.448671
9	170.6694	0.36061	61.545091
10	84.29094	0.321973	27.139427
11	84.29094	0.287476	24.231631
12	84.29094	0.256675	21.635385
13	84.29094	0.229174	19.317308
14	84.29094	0.20462	17.247596
15	84.29094	0.182696	15.39964
16	84.29094	0.163122	13.749678
17	84.29094	0.145644	12.276498
18	84.29094	0.13004	10.961159
19	84.29094	0.116107	9.7867493
20	84.29094	0.103667	8.738169
	ENPV		624.29333
	EBCR		1.2311482

Annex Table 9.5.Nabil Bank Ltd

Year	Net Benefit	DF at 12%	Discounted NB
0	0	1	0
1	1485.076	0.892857	1325.9603
2	627.2323	0.797194	500.02577
3	781.6708	0.71178	556.37783
4	737.3597	0.635518	468.60544
5	726.2677	0.567427	412.10379
6	726.2677	0.506631	367.94981
7	726.2677	0.452349	328.52662
8	726.2677	0.403883	293.32734
9	726.2677	0.36061	261.89941
10	726.2677	0.321973	233.83876
11	726.2677	0.287476	208.78461
12	726.2677	0.256675	186.41483
13	726.2677	0.229174	166.44181
14	726.2677	0.20462	148.60876
15	726.2677	0.182696	132.68639
16	726.2677	0.163122	118.46999
17	726.2677	0.145644	105.77678
18	726.2677	0.13004	94.443553
19	726.2677	0.116107	84.324601
20	726.2677	0.103667	75.289822
	ENPV		6069.8563
	EBCR		1.3955565

Annex Table 9.6.Nepal Bangaladesh Bank Ltd

Year	Net Benefit	DF at 12%	Discounted NB
0	-126.841	1	-126.841
1	202.8957	0.892857	181.15687
2	42.88704	0.797194	34.189284
3	288.0877	0.71178	205.05517
4	354.7877	0.635518	225.474
5	-433.5846	0.567427	-246.0276
6	512.3598	0.506631	259.57744
7	3.637206	0.452349	1.6452873
8	467.093	0.403883	188.65101
9	145.7025	0.36061	52.541786
10	145.7025	0.321973	46.912309
11	145.7025	0.287476	41.88599
12	145.7025	0.256675	37.398206
13	145.7025	0.229174	33.391255
14	145.7025	0.20462	29.813621
15	145.7025	0.182696	26.619304
16	145.7025	0.163122	23.767236
17	145.7025	0.145644	21.220746
18	145.7025	0.13004	18.947095
19	145.7025	0.116107	16.917049
20	145.7025	0.103667	15.104508
	ENPV		1087.3996
	EBCR		1.3518885

Annex Table 9.7. International Leasing and Finance Co. Ltd.(13)

Year	Total Benefit	DF at 12%	Discounted NB
0	-74.90292	1	-74.90292
1	10.25116	0.892857	9.1528194
2	3.097893	0.797194	2.4696217
3	28.30486	0.71178	20.146839
4	51.03698	0.635518	32.434923
5	20.81583	0.567427	11.811462
6	-3.11021	0.506631	-1.575729
7	-3.11021	0.452349	-1.406901
8	15.32661	0.403883	6.1901624
9	15.32661	0.36061	5.5269307
10	15.32661	0.321973	4.9347596
11	15.32661	0.287476	4.4060353
12	15.32661	0.256675	3.9339601
13	15.32661	0.229174	3.5124644
14	15.32661	0.20462	3.1361289
15	15.32661	0.182696	2.8001151
16	15.32661	0.163122	2.5001028
17	15.32661	0.145644	2.2322346
18	15.32661	0.13004	1.9930666
19	15.32661	0.116107	1.7795238
20	15.32661	0.103667	1.5888605
	ENPV		42.66446
	EBBR		1.0617045

Annex Table 9.8.Nepal Bangladesh Leasing and Finance Company Ltd.

Year	Net Benefit	DF at 12%	Dis Net Benefit
0	-5.1579846	1	-5.15798463
1	2.68417902	0.892857	2.39658841
2	17.530114	0.797194	13.9748996
3	7.0971974	0.71178	5.05164492
4	17.1164993	0.635518	10.8778448
5	6.59744509	0.567427	3.74356752
6	10.205087	0.506631	5.17021466
7	8.33998482	0.452349	3.77258559
8	7.83998482	0.403883	3.16643838
9	7.83998482	0.36061	2.82717712
10	7.83998482	0.321973	2.52426529
11	7.83998482	0.287476	2.25380829
12	7.83998482	0.256675	2.01232883
13	7.83998482	0.229174	1.79672217
14	7.83998482	0.20462	1.60421623
15	7.83998482	0.182696	1.43233592
16	7.83998482	0.163122	1.27887135
17	7.83998482	0.145644	1.14184942
18	7.83998482	0.13004	1.01950841
19	7.83998482	0.116107	0.91027537
20	7.83998482	0.103667	0.81274586
	ENPV		**62.6099035**
	EBBR		**1.5780138**

Annex Table 9.9.Nepal Merchant Banking and Finance Company Ltd.

Year	Net Benefit	DF at 12%	Dis Net Benefit
0	-15.157985	1	-15.1579846
1	5.68417902	0.892857	5.07515984
2	7.53011405	0.797194	6.00296082
3	3.85687368	0.71178	2.7452465
4	12.1164993	0.635518	7.70025437
5	-1.2037177	0.567427	-0.68302175
6	5.59678968	0.506631	2.83550783
7	7.83998482	0.452349	3.54641098
8	7.83998482	0.403883	3.16643838
9	7.83998482	0.36061	2.82717712
10	7.83998482	0.321973	2.52426529
11	7.83998482	0.287476	2.25380829
12	7.83998482	0.256675	2.01232883
13	7.83998482	0.229174	1.79672217
14	7.83998482	0.20462	1.60421623
15	7.83998482	0.182696	1.43233592
16	7.83998482	0.163122	1.27887135
17	7.83998482	0.145644	1.14184942
18	7.83998482	0.13004	1.01950841
19	7.83998482	0.116107	0.91027537
20	7.83998482	0.103667	0.81274586
	ENPV		**34.8450766**
	EBCR		**1.59172**

Annex Table 9.10.Alpic Everest Finance Company Ltd.

Year	Net Benefit	DF at 12%	Discounted NB
0	-15.157985	1	-15.1579846
1	2.68417902	0.892857	2.39658841
2	7.53011405	0.797194	6.00296082
3	7.0971974	0.71178	5.05164492
4	17.1164993	0.635518	10.8778448
5	6.59744509	0.567427	3.74356752
6	8.20508698	0.506631	4.15695241
7	7.83998482	0.452349	3.54641098
8	7.83998482	0.403883	3.16643838
9	7.83998482	0.36061	2.82717712
10	7.83998482	0.321973	2.52426529
11	7.83998482	0.287476	2.25380829
12	7.83998482	0.256675	2.01232883
13	7.83998482	0.229174	1.79672217
14	7.83998482	0.20462	1.60421623
15	7.83998482	0.182696	1.43233592
16	7.83998482	0.163122	1.27887135
17	7.83998482	0.145644	1.14184942
18	7.83998482	0.13004	1.01950841
19	7.83998482	0.116107	0.91027537
20	7.83998482	0.103667	0.81274586
	ENPV		**43.3985279**
	EBCR		**1.7369701**