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A role of development of asset management and banking sector in Nepal

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ABSTRACT

This paper examines the role of asset management and banking sector in Nepal. The study employs five different tests of random walk: autocorrelation test, runs test, unit root tests (ADF, PP, and KPSS), variance ratio test and autoregressive conditional heteroskedasticity test. The results of the tests are in broad agreement, conclusively rejecting the presence of random walk in daily returns of the eight stock market indices. The serial correlation tests and the runs tests both revealed that the successive price changes are not random and are serially dependent. Similarly, the unit root tests conclude that unit roots, as necessary conditions for a random walk, are absent from all of the return series. Finally, the study found that in pre-merger period on the average, banks were 93.83% cost efficient, whereas, this figure rose to 94.15% for post merger period. It reflected 0.32% improvement in cost efficiency. The result was significant at 10% level of significance. In case of profit efficiency, the post merger gain was -5%, however, the result was insignificant.

Introduction

The commercial banks play an important role in accelerating the development of an economy. The commercial bank is the great institution that conducts the payment mechanism of country. The individuals and institutions make payments to each other through the mechanism of commercial bank. The commercial bank plays a leading role in the smooth operation of an economy it makes available all financial services to individuals and institutions. The banking institutions are the most important thing for the economic growth as developing or developed countries. Developing countries have welcomed the multinational banking in order to attract more foreign investments and facilitate the industrial development. There are a number of countries which changed their economic status after the multinational banking intervention such as Korea, Thailand, and Mexico etc [Mantravadi, P. & Reddy, A.V. 2008]. All of these countries opened the door for the foreign investment through MNBs when they were in deep financial trouble. Now MNBs' banking concept is adopted by all countries as a tool to meet the need of capital and funding needs to boost the industrial sector. Economic growth for developing countries has important indications for poverty elimination and world economic development. This has been the goals of world financial institutions such as World Bank and IMF. To study economic development of Nepal can provide a real world example of a politically complicated and poverty stricken country's development process freedom of the country to its development and indications to the future path of the development. Over the past few years, service sector has been growing rapidly and accounted for about 20 percent of total international trade. The rate of increase of the service sector is higher than the goods sector [Mishra, P. & Chandra T.2010] Their role is also important for the poverty reduction, raising employment opportunities between the richer and poorer section of the society. These are also called financial intermediator. Therefore it is called an engine economic growth. Development of the commercial banks has become the basis for measuring the level of economic growth of a nation.

Functions of commercial banks

Major functions of commercial banks are :

To accept deposit from the Nepalese people government as well as from the foreigners with or without the interest form.

To provide advance loans on sufficient securities of gold, silver, orrnaments, government securities and promissory notes , movable properties or documents of little connected therewith, share and debentures of the companies registered in the Nepalese companies act , bill of exchange to the reliable person or clients. Besides, they are bound to provide advance loans in certain minimum percentage of their total deposit in the priority sector of which are fixed on the direction of Nepal Rastra bank.

On joint security of two or more reliable persons accepted by board, they act to provide loan to reliable persons. These are repayable on demand and for periods not exceeding six months.

For the purpose of import and export business or other commercial purpose they issue letter of credit to the entrepreneurs [Badreldin, A., & Kalhoefer, C. 2009].

They act as agents of commission on behalf of clients in selling, purchasing, transferring and receiving in safe custody shares and debentures of companies with limited liabilities and also in sending remittance to any part of country and other countries. Thus they transfer money from one place to another through cheques, Telegraphic Transfer (T.T.), draft, fax etc and charge certain commission instead of this act.

Although the transactions of foreign exchange are handled by the central bank, in general yet in certain circumstances, the commercial banks act to transact foreign exchange. But all the statement relating to foreign exchange transaction that have done by the commercial banks should point out to the central banks.

In the places, where central banks services are absent, the commercial banks act as a government's bank. This paper is described to study the asset management banking sector in Nepal [.Kumar, S., & Bansal, L. K. 2008]

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Research Methodology

Study is based on the quantitative research design. Business combinations' effects are investigated on firm's performance measures. The information about the variables of the study, sample of study, hypotheses formulated, quantitative methods used and analysis tools.

Variables of Study

As research study is based on the comparative analysis, so that's why it mainly focuses on independent variables. Dependent variable here is the acquisition of firm, and independent variables are six performance measures:

- Gross Profit Margin
- Operating Profit Margin
- Net Profit Margin
- Return on Capital Employed
- Return on Net Worth
- Debt Equity Ratio

These variables are analyzed to measure the financial performance of companies, whether there was a momentous improvement of the monetary condition of the company after acquisition [Dahal, Navin et.al.1996].

Objectives

Collection of immobilized money from public, organization etc and investment in government securities and company equities, lending to commercial as well as productive sectors, foreign exchange, remittance, merchant banking, correspondent banking etc.

To provide banking services to the people and business in the country and to provide micro credit to the priority sector of government sector [Dahal, Navin and Bhaskar,2001]

Some Achievements of the Commercial Banks

The number of commercial bank branches operating in the country increased to 1245 in Mid – July 2011 from 980 in mid July 2010. Among the total bank branches, 50.5 percent bank branches are concentrated in the central region followed by Western18.0 percent, Eastern 17.3 Mid Western 8.0 percent and Far Western 6.0 percent respectively. The share of loans and advances to total assets remained 60.1 percent in Mid - July 2011. Similarly, share of investment and liquid funds to total assets registered 17.0 percent and 11.2 percent respectively.

Out of the Rs. 528,023 million outstanding sector wise credits in Mid - July 2011, the largest proportion of the loans and advances is occupied by manufacturing sector. The share of this sector is 21.7 percent followed by wholesale & retailers 20.8 percent, other sector 12.7 percent, finance, insurance & real estate by 11.3 percent and construction 9.8 percent. Similarly, transportation, communication & public services comprise 4.7 percent, consumable loan by 6.2 percent, other service industries by 4.3 percent and agriculture by 2.4 percent in the same period.

Capital fund of commercial banks increased by 45.0 percent compared to previous year and reached to Rs. 59,064 million in Mid - July 2011. It was Rs. 40,720 million in Mid - July 2010. The total investment including share & other investment of commercial banks in Mid - July 2011 increased by 11.6 percent and remained to Rs. 149,557 million from Rs. 134,041 million in Mid – July 2010. Similarly liquid fund decreased by 4.6 percent and amounted to Rs. 98,072 million in Mid – July 2013[Demetriades, Panicos O.2013]

List of class a licensed commercial banks of Nepal :

1 Nepal Bank Limited, Estd. in 1937/11/15 Dharmapath, Kathmandu

2 Rastriya Banijya Bank, Estd. in1966/01/23 Singhdarbarplaza, Kathmandu

3 Nabil Bank Limited, Estd. in1984/07/16 Kantipath, Kathmandu

4 Nepal Investment Bank Limited ,Estd. in1986/02/27 Durbar Marg, Kathmandu

5 Standard Chartered Bank Nepal Limited., Estd. in 1987/01/30 NayaBaneshwar, Kathmandu

6 Himalayan Bank Limited ,Estd. in1993/01/18 Thamel, Kathmandu

7 Nepal SBI Bank Limited ,Estd. in1993/07/07 Hattisar, Kathmandu

8 Nepal Bangladesh Bank Limited ,Estd. in1993/06/05 NayaBaneshwar, Kathmandu

9 Everest Bank Limited ,Estd. in1994/10/18 Lazimpat, Kathmandu

10 Bank of Kathmandu Limited ,Estd. in1995/03/12 Kamaladi, Kathmandu

11 Nepal Credit and Commerce Bank Limited ,Estd. in1996/10/14 Siddharthanagar, Rupandehi

12 Nepal Industrial & Commercial Bank Limited ,Estd. in1998/07/21 Biaratnagar, Morang

13 Lumbini Bank Limited ,Estd. in1998/07/17 Narayangadh, Chitawan

14 Machhapuchhre Bank Limited ,Estd. in2000/10/03 Prithvichowk, Pokhara

15 Kumari Bank Limited ,Estd. in2001/04/03 Durbarmarg, Kathmandu

16 Laxmi Bank Limited ,Estd. in2002/04/03 Adarshanagar, Birgunj

17 Siddhartha Bank Limited ,Estd. in2002/12/24 Hattisar, Kathmandu

18 Agriculture Development Bank Ltd.,Estd. in 2006/03/16 Ramshahapath, Kathmandu

19 Global Bank Ltd.,Estd. in 2007/01/02 Birgunj, Parsa 4231198 4231057

20 Citizens Bank International Ltd. ,Estd. in2007/06/21 Kamaladi, Kathmandu

21 Prime Commercial Bank Ltd. ,Estd. in2007/09/24 New Road, Kathmandu

22 Bank of Asia Nepal Ltd. ,Estd. in2007/10/12 Tripureswor, Kathmandu

23 Sunrise Bank Ltd.,Estd. in 2007/10/12 Gairidhara Crossing, Kathmandu

24 Development Credit Bank Ltd. ,Estd. in2008/05/25 Kamaladi, Kathmandu

25 NMB Bank Ltd., Estd. in2008/06/05 Babarmahal, Kathmandu

26 Kist Bank Ltd., Estd. in2009/05/07 AnamNagar, Kathmandu

27 Janata Bank Nepal Ltd., Estd. in2010/04/05 NayaBaneshwar, Kathmandu

28 Mega Bank Nepal Ltd. ,Estd. in2010/07/23 Kantipath, Kathmand

29 Commerz& Trust Bank Nepal Ltd. ,Estd. in2010/09/20 Kamaladi, Kathmandu

30 Civil Bank Litd., Estd. in2010/11/26 Kamaladi, Kathmandu

31 Century Commercial Bank Ltd. , Estd. in2011/03/10 Putalisadak , Kathmandu

Investment Policy of Commercial Banks

To every bank board of directors generally formulates as investment policy statement in order to define the objectives of the bank, liquidity management and investment portfolio. Investing the deposits and capital in varieties of earning assets is known as portfolio management. The basis of loan portfolio depends on the deposit mix it has. Change of acquiring profitable assets in high in permanent funds. On the contrary, if the funds are of short term nature, the banks give full attention for its liquidity position than its investment. Hence a sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on one hand and provides maximum safety and security to the depositors and bank on the other hand. The five basic principles of investment, which they follow while making loans and advances are liquidity, profitability, safety, security and suitability of dispersa [Qayyum, A. and S. Khan 2013].

Agriculture sector loans and advances of some Commercial Banks : (mid July 2013)

Banks	Loan in million(Rs)	Banks	Loan in million(Rs)
SBL	222.8	ADBNL	5280.6
PRIME	203.7	KIST	153
CTBNL	211.6	NBL	222.2
RBB	426.2	NABIL	298.9
NBB	68	KUMARI	414
NICB	298	LUMBINI	166

Financial Investment Procedures of Commercial Banks

Basically, there are two types of lending by banks;

1. Collateral lending; the borrower has to provide some security of collateral.
2. Personal lending; the banks extended credit on the basis of his creditability.

In regarding to discount and advances, a customer is lent funds in two ways;

1. By discounting or purchasing bill of the customer.
2. By lending money against the promissory executed by the customer without collateral security.

Some of the commercial banks having major roles in investing sector for agricultural development:

Agricultural Development Bank (ADB/N)

Agricultural Development Bank, Nepal (ADB/N) is one of the largest financial institutions of the country and it was established in 1968. Since its inception it has been contributing to the socio-economic development of the rural populace of the country by providing the rural credit extensively. It occupies more than 71% share of institutional credit.

Meanwhile delivers services through three windows such as Development Financing, banking in 1984 with envisaging the major aim to collect urban resources thereby mobilize savings in the form of rural credit in order to fulfill the demand of rural populace so far.

Besides, ADB/N initiated Small Farmer's Development Program in 1975 undertaking the major objective to improve socio-economic condition of poor people of countryside. After 1993, this poverty reduction program has been transferred into Small Farmer's Cooperative Ltd with the support of German Technical Cooperation Agency (GTZ).

As per its mandate, Major objective of ADB/N has been envisaged:

To provide rural credit across the country particularly to ameliorate socio-economic condition of rural populace.

However, specific objectives of ADB/N are:

- To provide institutional credit to support the needs of rural people.
- To supply credit for promoting technical activities.
- To mobilize urban resources in the rural areas.
- To extend credit services in cottage and agro-based industries.
- To support poverty reduction program through different target oriented micro-credit and micro finance programs.
- To fulfill these objectives, ADB/N provides credit on the basis of short, medium and long-term form to the individual farmers, entrepreneurs, groups and co-operatives societies.

Nepal Bank Limited

Nepal Bank Limited (NBL) was established on November 15, 1937 A.D. (Kartik 30, 1994 BS). This marked the beginning of an era of formal banking in Nepal. The bank's 51% share is held by the government and rest by private individuals.

Vision

To remain the leading financial institution of the country.

Objectives

- Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- Provide competitive and customer oriented banking service to all customers through competent and professional staff.

RastriyaBanijya Bank (RBB)

It is fully government owned largest commercial bank in Nepal. RBB was established on 23 January 1966. It provides various banking services to a wide range of customers including banks, insurance companies, industrial trading houses, airlines, hotels and many other sectors. It has Nepal's most extensive banking network with over 113 branches.

Himalayan Bank Limited

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector.

Vision

To become a leading bank of the country by providing premium products and services and then ensuring attractive and substantial return of the stakeholder.

Objectives

To become the bank of first choice parts of the country; these program are intended living standard. **Products and Services** Credits card, tele banking, automatic teller machine (ATM), 24 hours banking.

Kumari Bank Limited (KBL)

It was established as the fifteenth commercial bank of Nepal in April 03, 2001 (Chitra 21, 2057) with an objective of providing competitive and modern banking services in Nepal. KBL has been able to recognize itself as innovative and growing institution starving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organization mission.

Mission

- Provide world class services to our consumers at high satisfaction level.
- Practice total quality management and embrace good governance.
- Optimize our assets to achieve sound business growth.

Vision

- Customer oriented. Client is always our first priority.
- Employees have direct input and control over work processes.
- Employees are treated equitably with respect and good faith.

Laxmi Bak Limited (LBL)

It was established in April 2002 as a commercial bank with a view to provide safe, seamless, quick and advance banking services. The bank has been heavily investing in contemporary banking technologies.

Mission

Bank is committed to excellent in delivery of entire gamut of finance services in order to achieve sound business growth and maximize stakeholder values by embracing team spirit, progressive technology and good corporate governance.

Vision

It has envisioned that it shall be/ have:

- Provider of most integrated financial services.
- Key player in consumer banking
- The best capability
- The best It capability
- Preferred employer in finance sector.

Nepal Industrial and Commercial Bank Limited (NIC Bank)

Nepal industrial and commercial Bank Limited (NIC Bank), established on 21st July 1998, is the first commercial bank in the country to capitalize at Rs. 500 million. NIC Bank is committed to provide superior banking products and financial services to its patrons through efficient and cost-effective service delivery, offering of new innovative product and friendly consumer service and at the same time maintaining confidentiality, professionalism and good governance. Monetary markets play a key role in the development of a country. They are the conciliator link in facilitating the flow of fund from domestic savings into productive investment which ultimately help to lower the cost of capital to investors and accelerate. The economic liberalization policy adopted in the mid of 1980s brought about a surge in the banking industry [Rehana Kouser, 2011]. The large numbers of banks were established and the numbers continue to grow to the present day. Economic growth of the country, financial intermediation between borrowers and savers is done by commercial banks and other non bank entities. Now a day, the crucial importance of financial intermediation in economic development has come under the increasing scrutiny by both economists and policy makers in developing countries. However, financial development in many developing economies is still faced by a number of obstacles such as macroeconomic instability, the fragility of stock markets. The real GRDP is primarily created by three basic factors in context of Nepal. Total output of study area (Urban and Rural areas of a country

a) Total quantity of capital (K)

b) Total quantity of labor (L),

c) Total population of study area (N).

The equation of these three factors that shows increment in the real GRDP due to, labor and capital is called growth accounting. Other definitions exist; a method whereby a set of economic techniques or theories are used to determine what specific factor, or factors, contributed to an economy's growth. The objective behind the growth accounting is to decompose the factors that contribute to output or real GDP growth with the increases in labor, capital and technology. The tool that measures the growth accounts is popularly known as production function .

Let $G = f(K, L, N)$ be the function which is considered as a transformation function related to the whole banking institutions. They play an elucidation role in development of a national economy because it works as a medium of collecting and mobilizing resources to finance a business and development project that are essential for economic development. A country without good financial system can't solve a major problem for the economy to the function properly. Financial institutions ease market friction and influence the allocation of resources over different sectors of the country. This paper makes an attempt to focus on the public and private sector commercial banks where public sector bank is representing to the rural sided banks and they try to solve the most economic problems of the rural areas. Where as the private banks could not utilize the rural sectors because of the various problems in the rural areas so the private banks are represented to the urban areas banks. The major works by the banking institutions in a developing country.

1. Produce information about possible investment and allocation capital
2. Monitor investments and provide expert corporate governance
3. Facilitate the trading, diversification and management of risk
4. Mobilize and pool saving
5. Ease the exchange of goods and services

Poor competition in the banking sector

The competition in the banking sector was poor which made intermediation of funds within the banks and non-banks inefficient leading to poor services as against providing more efficient and cost-effective solutions to the banking public. Credit information system was not effective to get necessary information on non-performing borrowers; capacity building in the sector remained very weak; and the general publics' low level of understanding about financial sophistication was indicating "that it did not serve as an effective check and balance within the system." In the context, generic lessons learned from previous interventions in the financial sector towards reform were equally noteworthy, which compelled to think on the following aspects:

(a) Sustainable banking sector reforms require that the autonomy and technical skills of the regulator to be enhanced.

(b) Legal framework reforms are critical to ensure successful implementation.

(c) Sequencing is important for successful financial sector reform.

(d) Reforms should include rationalization of processes and procedures and should be backed by vigorous enforcement.

(e) Reforms should focus on a limited number of key activities.

(f) Forcing reforms from outside is not sustainable.

(g) Re-capitalizing commercial banks without fundamental reforms in the ownership and governance structures of the banks are not likely to be successful.

In consideration of these, a comprehensive reform package was designed in 2000/2001 and put to implementation in July 2002 with the financial and technical support of a number of donors under the co-ordination of the World Bank. The overarching objective of the Reform Programme in the Financial Sector was to improve the sector in order to bring macro-economic stability and promote private-sector-led economic growth: the development of an efficient banking system that is capable of developing new financing mechanisms and instruments to meet private sector needs. The reform package consisted of three key dimensions i.e. the reengineering of the central bank - NRB, restructuring of two state owned commercial banks - RBB and NBL, and the overall capacity building of the financial sector including legal and institutional reforms. On the restructuring of the RBB and the NBL, the reform measures mainly focused on right-sizing the banks and improving operational levels through the professional management teams. The following sectoral, outcome and output indicators were defined for the financial sector reform programme:

Sectoral indicators:

Comprehensive financial sector reform that eliminates the need for additional (real or contingent) budgetary support for the financial system - once the banks have been restructured and privatized or liquidated.

Outcome/Impact Indicators:

1. Laying the basis for a modern legal framework for the financial sector;
2. Strengthening of NRB's supervisory function - in particular, its ability to enforce prudential regulations and relevant banking legislation - based on internationally accepted norms;
3. An increase in the range and sophistication of financial instruments and services available at competitive prices;
4. Enhanced accounting and auditing standards within the banking sector; and
5. A more prudently operated financial sector with better trained staff, a better informed general public, andan enhanced system of credit information.

Output Indicators:

1. Producing quarterly off-site and annual on-site bank supervision reports (with accompanying analysis), on a timely basis, for each of the banks operating in Nepal;
2. Finalizing a new Central Banking Act, Banking and Financial Institutions Act, and other ancillary financial sector legislations (Companies Act, Debt Recovery Tribunal Act/ Insolvency Law);
3. Producing audited financial data for Rashtriya Banijya Bank (RBB) and Nepal Bank Limited (NBL), conforming to international accounting standards, within four months of the end of the financial year;
4. Preparing a restructuring plan for privatization/liquidation of RBB and NBL;
5. Creating a leaner, more efficient, and professional Central Bank;
6. A strengthened Bankers' Training Center and more reliable and timely data from the Credit Information Bureau; and
7. Enhanced financial performance within the two largest banks managed by the professional management teams.

Accordingly, the financial sector reform plan was conceived in the following phases and comprised of the following components:

Phase I: Diagnostic and planning 2002-2007

Bringing in management consultant teams to restructure and re-engineer the central bank; and reform the two large commercial banks (RBB and NBL).

Phase II: Implementing the agreed actions 2004-2008

(i) right-sizing the two commercial banks through the implementation of voluntary retirement schemes (VRS) to reduce operating costs and make them viable for privatization; (ii) bringing in a Sales Advisor to assist in the privatization; (iii) providing further assistance to a second phase of central bank re-engineering; and (iv) supporting the continuation of professional management team support up until the point of bank privatization.

Phase III: Intensive training for Nepal Rashtra Bank (NRB) staff and a follow-up evaluation

Phase III (not included in the existing project agreement) would involve support for financial reengineering of the banks (re-capitalization) at the point of sale after satisfactory changes in governance arrangements and cost restructuring have taken place. Initially, the time schedule for the project activities was fixed as follows:

Restructuring for better future

No economy can afford abnormality in the banking sector; a failure of a bank can lead to a systemic failure. The need of restructuring is vital when the NPA level is higher, further justified by the following:

a) The current picture of the balance sheets of some financial institutions needs to be restructured as expeditiously as possible not only to revitalize the institutions but also to aid economic growth. Hence, it has become necessary that the financial regulator take the initiative in assessing the true value of the loan portfolio of such banks and take the necessary remedial actions for banks with insufficient capital.

b) Financial institutions should initiate and expand the process of establishment of Assets Management Companies (AMCs) who help collect loans repayment. These steps would help the process of debt restructuring. The functions of AMC should be explicitly focused on purchase, restructure and sell the assets and receivables of financial institutions. Setting up AMC makes the loan recovery business professional and competitive. In addition, government should hence grant such companies generous tax perks when acquiring bad assets from financial institutions and selling them onto the third parties[Kemal, M. U. 2011].

Table 1: Schedule of Project Activities

Components	Duration	Start	Finish
Re-engineering NRB	4 years	July 1, 2002	June 30, 2006
Restructuring the two banks: RBB	3 years	May 1, 2002	April 30, 2005
NBL		June1, 2002	May 31, 2005
Capacity building in the financial sector	4 years	June 30, 2002	June 29, 2006
Source: Appendix C			

Table 2: Key Activities and Target Dates

Activities	Date
1. Restructuring and ownership reform of RBB:	
- Arrangements to commence management team work	May 1, 2002
- Preparation of ownership reform	May 1, 2004
2. Restructuring and ownership reform of NBL:	
- Arrangements to commence management team work	June 1, 2002
- Preparation for ownership reform	June 1, 2004
3. Reform in financial sector legislation	Jan 16, 2002
4. Strengthening bank supervision and inspection	
- Implementation of Ms. Santos' Manual for ISD/NBISD	Jan 16, 2002
- Logistics support programme	Dec 15, 2001

Increase competencies for 2010 and beyond

As evident FSS of Nepal will be completely open for foreign participation after 2010 as per the commitments of FSS liberalization. Further it is evident that liberalization coupled with inadequate strengthening of regulatory and supervisory framework, is an open invitation for financial crisis[Kumar, S., & Bansal, L. K. 2008]. Hence, the opportunities and threats of liberalization of the financial sector need to be properly accessed. The budding stage of Nepalese financial sector is in no way ready for competing hand in hand with our foreign counterparts. Hence, banking sector seriously needs to focus on:

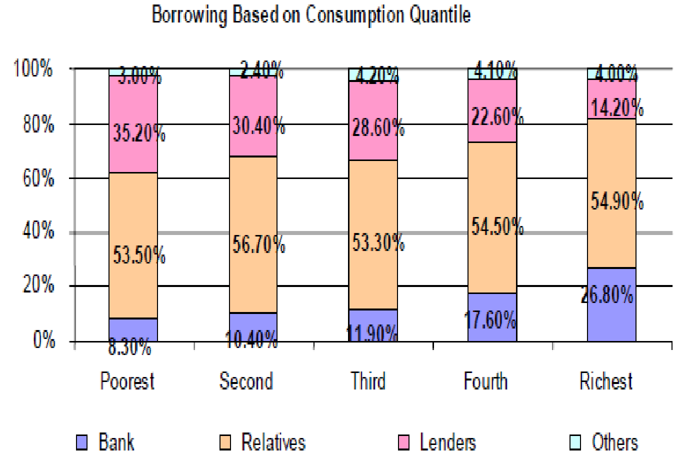
a) By the year 2010, Nepalese financial sector will be completely open to foreign investors and organization. Any financial institutions (as permitted in the commitments) will be allowed to open up branches or even a subsidiary in Nepal. Foreseeing these Nepalese financial institutions must act quickly, before 2010. In order to develop competitiveness, and compete in par with foreign financial institutions Nepalese financial institutions not only needs to develop in terms of skills but also in terms of size and reach. Advancement in communication and technology is rapidly changing the way business is being conducted. The ability to tap right technology becomes increasingly important to meet the more sophisticated demands. As such financial services entities will require large amounts of capital investments to remain competitive and be able to assume higher risks. To provide for stronger capitalization of the domestic institutions, the financial institutions (more so banking institutions) will have to embark on a merger program. The merger of institutions will not only promote the financial capability but will also promote domestic reach and competitiveness through shared skills.

b) Another greatest challenge facing the domestic institutions is their ability to compete effectively in a more liberalized environment due to skill gaps which are still lacking in critical areas, particularly in the area of credit and treasury risk management. In the banking sector, it was acknowledged by the Basel Committee on Banking Supervision on the New Capital Accord that the emerging economies in Asian do face difficulties in implementing the BASEL requirements due to the lack of skills. For safeguarding the Nepalese banking sector provisions has been made in the specific schedules of commitments such that financial institutions will not be permitted to deal in derivative products under sub-sector and settlement of and clearing services for financial assets, including securities, derivative products, and other negotiable instruments until Nepal Government determines what types of entities can conduct these services, the related laws and regulations are established and such business is authorized by the government or other designated authority. As the provision made is only intended for safeguarding and not for restricting it is necessary to identify that sooner or later Nepalese financial sector will have to develop its skills in order to compete with foreign financial institutions. Hence, keeping this in mind policies regarding settlement of and clearing services for financial assets, including securities, derivative products, and other negotiable instruments should be prepared at the earliest such that the Nepalese banking sector can gain enough know how before 2012[Talat Afza and Muhammad Usman Yusuf,2012].

Banking with the non-bankable

In almost all the developing country, for a common, banking is mere a simple deposit and lending centre. This is mainly due to the large gap between the rich and the poor where the poverty amongst the poor never lets them to be facilitated with the banking as a whole. Basically two factors governs it, first is the banks had limited vision to innovate the need in the areas that suits the need for the common; at the second place nor did the customer had knowledge how could s/he bank upon his needs. Apart from this, the banks vision was to target the big which provides a logical sense to serve and earn. Except few banks in all the economy which were established with a prior objective to promote a specific philosophy like agriculture, health care, community development and/or others, financial institutions financed by government or private sector could not came out of the box to cache the financing need of poor, and even if they did the reach was far. This led the poor to rely on the traditional money lenders to manage their financial needs by pledging all their assets which has a market value.

Cashing the needs and a practiced mechanism since early times, the money lenders had every opportunity to charge high costs of finance or interest on such finances which ranges from 30 percent to over 60 percent at times. At the end, the burden of repayment of principal itself, the additional interest on it forced to forgo the assets or collateral offered to the money lender ultimately leaving them much poorer. The structured micro financing came in the year since 1990 with the establishment of Grameen Bikas Bank (GBB) in the regional level. Since then the micro financing movement has been intensified with the involvement of Financial Intermediary NGOs (FINGOs), Credit Unions, private and state owned Micro Finance Development Banks (MFDBs).



Collectively known as microfinance, these financial services include loans for business and personal use, savings and other deposit products, remittances and transfers, payment services, insurance, and potentially any financial product or service a bank can offer to this market segment. The market segments include micro-enterprises, small farmers, low-income salaried employees, day laborers, pensioners, and poor households, which have historically been un-served or underserved by banks. The products and services can be targeted to meet the financial needs of the households as well as their income generating activities [Devkota, R. 2008]

Conclusion

The theoretical and empirical studies of the efficient banking hypothesis have made an important contribution to the understanding of the asset, although the present state of understanding of the issue, especially in the emerging and developing financial sectors, is far from being conclusive. The study employed the most comprehensive set of management efficiency tests on cash flow market indices of different sectors of the banks and the findings indicate that the Nepalese banks are increasing on way. The absence of random walk in the stock indices return series infers distortions in asset pricing and risk, a mark of market inefficiency. This provides an opportunity to the traders for predicting the future prices and earning abnormal returns. There is chance of hardworking analysts to consistently outperform the market. The informational efficiency of the market is low. As an institutional policy to improve the capital market, the timely disclosure and dissemination of information to the shareholders and investors on the performance of listed companies should be emphasized. Institutional investment and informed trades should be promoted. It is necessary to gain more insights into the operation and characteristics of the stock market of Nepal in terms of its efficiency to make an informed assessment of the empirical characteristics of the Nepalese banks.

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