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Development and Challenges of Capital Market of Nepal: A survey

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ABSTRACT

It is survey based article for the development and challenges of Nepalese capital market. Data are collected through open- ended and close- ended questionnaire. 80 respondents are selected from regulators (employees of SEBON, NEPSE, NRB, Insurance Board), employees of banking and insurance sectors, Government employees, Brokers, Lecturers/Students, and Corporate houses. Nepalese capital market is in the developing phase so there are many areas where it can focus for its systematic development. Many regulations have been formulated to support the current Nepalese capital market however political condition, limited participants of big investors and lack of proper implementation of rules and regulation had forced capital market as not favourable as it has to be.

1.1 Introduction

The development of capital market in Nepal cannot be considered satisfactory. This is evident from the facts and figures available in the stock market performance during the last 26 years starting from 1994. The growth rate of amount of issue approval is satisfactory. The number of issue approval of common shares as well as mutual funds, later corporate debenture issued by most of commercial banks, growth rate of listed shares and market capitalization and increasing number of stock investors are all positive. The trend of paid-up value is increasing. Decentralization of brokerage services, all over the nation, employing ASBA system and then ECRN in primary issue, adopting online trading system and margin lending facilities from brokerage office are the recent positive change in the role of regulated bodies. But annual turnover value, NEPSE Index and market capitalization are fluctuating. This indicate that the situation of growth of capital market in Nepal. (Panthi, 2018)

However the transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal regulatory and Supervisory are the urgent need of Nepalese Stock Market. The government has to play major role to encourage individual as well as institutional investors' participation and sustaining in stock market any effort for protecting investors' interest or boosting their confidence or developing the stock market is necessary.

Shrestha & subedi,(2014) explained the findings that Nepalese stock market has been quite responsive to macroeconomic development, especially monetary sector development. They explained that a loose monetary policy could cause an asset price practice in share market, which is mainly dominated by banks and financial institutions. Share investors seem to watch the political development closely. Hence, a positive political development with stability can promote share market further which can play a vital role for financial intermediation and resource mobilization through capital market. NRB's policy on lending against share collateral has been effective in influencing the share market. This indicates the significant role of NRB's policy in the share market. As their results reveal that share market is also influenced by rumors, news and speculations, transparency should be increased in this market by making information related to listed companies easily accessible. Transparency and communication should, in fact, be enhanced by the concerned authorities in order to clear rumors in the market. (Shrestha & subedi, 2014)

Koirala & Bajracharya,(2004) explained that the management of the companies and the attitude of the board of directors and intermediaries are to blame a lot. The actors of financial markets are loosely tied together from legal provisions, which are not effectively implemented. As the financial institutions pre-dominate the market, it has not been able to diversify. Increasing problems noted with the corporate governance, transparency and disclosure have seriously dented the Nepalese capital market. They examined that SEBON mainly acted as a formality rather than seriously attending to corporate governance. The result has been poor security to investors, particularly minority shareholders, who are not fully aware of the risk and return considerations. Hence, to make the stock exchange a vehicle of growth, initiatives must be taken to protect investors, improve corporate governance and make the companies operate in a conducive and transparent manner. (Koirala & Bajracharya, 2004).

Panthi (2018) revealed that despite of positive change in quantitatively in the stock market of Nepal, many qualitative improvements are missing to develop the stock market in Nepal. Regulation and role of regulatory bodies, government policies, protection of investors' rights, timely providing sufficient financial disclosure, controlling inside information and market rumors, awareness of investors to the risk and return considerations, transparency of disclosure and corporate governance, compliance of rules and regulation through proper punishment for non-complying party should be implemented into action effectively.(Panthi, 2018).

1.2 Data and Methodology

Data are collected through open- ended and close- ended questionnaire using Google docs. Email is chosen as channel to distribute questionnaire. The respondents are selected from regulators (employees of SEBON, NEPSE, NRB, Insurance Board), employees of banking and insurance sectors, Government employees, Brokers, Lecturers/Students, and Corporate houses. 100 questionnaires are distributed to the respondents. Out of distributed questionnaire, only 87 are returned back but only 80 respondents have been chosen for this article.

1.3 Discussion of close-ended questionnaire

Out of 100, only 87 questionnaires were responded and collected back. For the purpose of this article, only 80 questionnaires were qualified. The remaining seven were excluded due to the missing of important information.

1.3.1 Respondent's Demographic Information

Table No 1: Demographic Analysis

Characteristics	Category	Frequency	Percentage
Sex	Female	36	45
	Male	44	55
Employment Sector	Regulators(NRB, SEBON,BC, NEPSE,)	16	20
	Bank/ Finance	32	40
	Government	4	5
	Broker	6	7.5
	Lecturer/ Student	14	17.5
	Corporate House	8	10
Education Level	SLC	0	0
	Intermediate	6	7.5
	Bachelors'	42	52.5
	Masters & Above	32	40
Level of Investment (Rs.)	Below 1000,000	32	40
	1000,000-2000,000	28	35
	2000,000-4000,000	10	12.5
	Above 4000,000	10	12.5

Out of 80 respondents, 55% are male and 45% are female. More than 90% respondents have completed their Bachelor's degree and over. Therefore, respondents were categorized as highly qualified.

40% respondents have invested in the capital market below Rs. 1000,000. Thirty-five percent had have invested between Rs. 1000,000 to Rs. 2000,000, and 25% had an investment of more than Rs. 2000,000. Mean age of respondent is 34 years old, where the participated respondents' age are varied from 26 to 53 years.

Respondents Knowledge on Capital Market

82.5 % of the respondents have knowledge about capital markets, 7.5% have no knowledge of capital market and remaining 10 per cent have some general knowledge about capital market. It is surprised to realize that 7.5 per cent employees of brokers' offices and banking sectors still do not know about the capital market, which is actually the sensitive sector dealing with capital market.

Capital Market helps to invest in Security

65% respondents believe that capital markets help to invest in the securities they like. Remaining 35 % respondents do not believe that the capital market of Nepal help to invest in their liked securities.

Development of Capital Market in Nepal

30 per cent respondents expose their opinions average development of Nepalese capital market. 40% have very satisfied with the development of capital market, while 17.5 % have dissatisfied with its development.

Major problems of Capital Market

There are four options given to the respondents: small capital market, lack of investor's confidence, lack of co-ordination between monitoring bodies and restriction of foreign investors.

Thirty five per cent of respondent assume that investors' confidence is a major problem of capital market. 25 per cent reflects small capital market, 28 % reveal lack of co-ordination between monitoring bodies and remaining 12 % think restriction of foreign investors.

Types of Market Invested

74 per cent of respondents have invested in primary and secondary market while just 16 % have invested only in primary market (IPO, FPO). 6% have made their portfolio only from secondary market. 4 % respondents have not made any investment portfolio from Nepalese capital markets. Percentage invested in primary market.

Types of Security Invested

68% respondents invest only in shares 27 % invest in shares and corporate bonds. Very few (2% and 3%) respondents invest in Government bond and corporate bond respectively.

Objectives for Investment

23 percent of the respondents invest to achieve interest and dividends and 77 percent intends to make capital gains from their investments. 73 per cent of the respondents have achieved their objectives of investment and remaining 27 percent do not meet their investment objectives.

Investment in Future

65% of the respondents are willing to invest in common stocks if there are further investments opportunities available. 25 per cent are willing to invest in corporate and government bonds and 10 per cent want to invest in other sectors.

Evaluation of Investment in Stock Market

Only 28 per cent respondents assume that it is secure to invest in Nepalese capital market. 58 per cent assume that it is not secure and 10 percent have no knowledge about its security.

Secure Sector in Term of Returns and Price Stability

55% have stated banking and insurance as secured sector. Twenty per cent assume micro finance as secured sector, followed by hydropower, hotels, manufacturing & processing. Majority of respondent from regulators bodies assumes that other than banking and insurance sectors are less risky while respondent from banking employees reveal commercial bank as a secure sector to invest.

Factors needed to considered while making Investment Decision

Respondent stated that the financial stability should be considered while making investment decision. 30% have favoured to profitability and dividend policy. They are also (18%) intended to invest in the stocks where there is transparency and visibility of companies' policy. Over that, 43% had expressed financial stability as a major factor while considering investment decision. 7% considers corporate governance.

Reactions towards News and information of Government

43 % have expressed satisfied the news and information published by government agencies. 45 percent are neutral (i.e. they have neither satisfied nor dissatisfied) and 12 percent have completely dissatisfied .

1.4 Discussion of open-ended Questionnaire survey

- Nepalese capital market is in the developing phase so there are many areas where it can focus for its systematic development. Many regulations have been formulated to support the current Nepalese capital market however political condition, limited participants of big investors and lack of proper implementation of rules and regulation had forced capital market as not promising as it has to be.
- The respondents have viewed that the secondary market is very unpredictable. It has been compared with big investors have been playing in each condition and make gains but small investors are still in waiting.
- Nepal Stock Exchange has provided the role in very slow stage. As the NEPSE has introduced online trading mechanism with the help of CDSC. However, regulatory bodies (NEPSE, CDSC, SEBON, and NRB) are intending to make it more accessible for all investors.
- The major economic activity of the country focuses upon the service sector. In same context, banking is moreover systematic and the risk in investing in bank is least in comparison to others. Because of investor confidence level is very high in financial sectors investments.
- The major role of the Government of Nepal to take all sectors as equal preference and systemization of the sectors is the only measure to initiate the inclusion of the other sectors into capital market. This could not be done still now. Now, Nepal has stable government and powerful government, but investors' expectations of consistent capital markets policies have not been yet implemented.
- CDSC has reduced the manual action by introducing online services such as mero-share, and investors could apply primary shares (IPO, FPO, right issues), they can transfer their shares through EDIS function of CDSC service. However, it also creates new opportunities for innovation and techniques. It helps through creation of the platform for the investment.
- The demand and supply factors of the financial instruments in the stock market define the basic pricing of the stock. The company's performance currently has very less impact on the prices. However, major impacts are hit by the political constraints of the country, and then big players of secondary market play for gains throwing a rumour to the market that disrupts fair pricing of securities.
- The investors are currently in risk to invest due to absence of the return in the market. Big players of the market have secured their investments but the others are keeping their money get out at home. The sense of uncertainty and instability has discouraged the investors.
- Investors' awareness (proper understanding and guidance) about the capital market is only the way to attract investors. Unfair and dishonest online news channels do not provide the fair and real information to the investors.
- The views and conflict of individual policy maker (such as finance minister and water resource minister), market participants have always a dilemma to the stock market. Consistent and fair government policies such as capital gain taxes(short-term and long term), expansion of investment instruments and sectors, broker licencing to the bankers, approval of non-residence Nepalese in the market should be introduced in the stock market as soon as possible
- Nepal seeks opportunities in this field for improvement but due to the political influence level of the country, every sector has been pressed into its premature state. For every sector to enhance their capacity they suggest the leaders, current and future, shall keep eye over it.

1.5 Conclusion

Nepalese capital market still is in developmental stage. There are so many opportunities for the participants in this market. Government have generated huge amount of revenue through taxes from this market. So the government through the regulated authorities should establish good environment for the investor.

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