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# Mafatlal Consultancy's Entry Into Nepal<sup>1</sup>

KATHMANDU, NEPAL

## The Valley Bandh Program

ASHADH 12, 2050<sup>2</sup>

**M**r. Brahma Lall Shrestha, the Executive Director of National Finance Company, Ltd. (NFC), stood outside of the office building where his newly-created financial institution was located. Shrestha stared in amazement at the extensive damage to the firm's offices produced by a mob of demonstrators the previous day. Every window was smashed, and the air conditioning units were badly damaged. Prem Bahadur, a security guard who had been injured in the attack, was busy sweeping the broken glass and hundreds of stones that still littered the street in front of the building. He swept three broken, blue-and-white *National Finance Company, Ltd.* fluorescent signboards into a neat pile for disposal.

Although destruction from the riot was extensive throughout the capital city, the neighboring Hindu temples, commercial buildings, and sprawling medieval palace that lined Basantapur Square were not damaged. Shrestha wondered if his company had been singled out for attack, or if the damage to his firm was just a random event. He was nonetheless relieved that things were returning to normal in Kathmandu, almost as quickly as the riots began. It was a warm South Asian morning, and the summer monsoon had already begun.

Dozens of Nepali commuters on Chinese bicycles, rickshaws, and Bajaj three-wheeled motor rickshaws were on their way to work. Human porters carrying their cargo on their backs weaved among the billowing fumes of Indian Tata trucks and buses. A tourist haggled with a street vendor over the price of a Khukuri knife, and a sacred cow wandered around the square.

An emergency meeting had been called earlier in the morning by NFC's Board of Directors. Only six weeks into operation, NFC was temporarily closed for a few days until repairs could be made and a plan for reopening implemented. Several pending issues were placed on hold, including negotiations with an Indian software consulting firm.

Across town at the Yak & Yeti Hotel, two gentlemen, Umesh Tawde and Yusef Lanewala, were visiting Kathmandu to negotiate the terms and conditions of a business proposal already submitted to NFC's management regarding the firm's computer system. The two men were marketing executives from the India-based Mafatlal Consultancy Services, Ltd., an information technology consulting firm specializing in business solutions. The executives traveled from Bombay to meet with the management of NFC for the third time and hoped this time to finalize their first systems integration project in Nepal.

Unfortunately, their meeting with NFC's management scheduled three days before was postponed due to the civil disturbance that occurred throughout the Kathmandu Valley. Communications were temporarily disrupted over the weekend because of the extensive rioting. Once a direct line to India was reinstated, Lanewala faxed Mafatlal's headquarters in Bombay to relay the events in Nepal of the past four days. Their letter summarized the following article from the morning newspaper:

### GORKHAPATRA

Kathmandu, Nepal

Ashadh 12, 2050

#### Three People Killed as Rioting Continues, Night Curfew Imposed on Capital

Social unrest and rioting continued yesterday in the Kathmandu Valley's three cities of Kathmandu, Patan and Bhaktapur, culminating a four-day general strike organized by the United Marxist & Leninist Communist Party. Three more people were killed and two were severely injured by riot police in firings to control unruly crowds from engaging in acts of vandalism, arson and destruction of public property. The death toll rose to ten persons.

Police killed one person as he obstructed a fire brigade trying to extinguish a fire at the Kathmandu Municipality Office which had been set ablaze. Another person died when police shot at a crowd attempting to burn several telephone junction cabinets to disrupt the city's communications. A third person died after being shot at Basantapur while a crowd attacked the office of National Finance Company. Other destructive acts included blocking of roads, arson attempts on city buses and police stands, stoning of motor vehicles and windows at the Dairy Development Corporation, the Nepali Congress District Committee office building, National Finance Company and the American Library on New Road. Police also resorted to baton charges, tear gas bursts and plastic bullets to control the crowds.

The situation began about six weeks ago when members of the United Marxist & Leninist Communist Party (UML), which helped transform Nepal from a monarchy to a democracy in 1990, began leading protests to unseat Nepal's current Prime Minister Girija Prasad Koirala. The conflict between the Communists and Koirala's Nepali Congress Party

began after two leaders of the UML were killed in a road accident on Jeth 1 under "suspicious circumstances." A bandh program or general strike was called for the entire Kathmandu Valley beginning on Ashadh 8, which actually started as peaceful marches and processions. However, by the end of the first day thousands were rioting in the streets, vandalizing public and private buildings by arson, theft and stoning windows . . . .

For six months, Mafatlal had been trying to establish an inroad into the lucrative, albeit limited, market in Nepal for business software. There were only two vendors providing such services for medium- and large-scale business systems. However, despite entering a marketing agreement with a local firm four months before, Mafatlal had not yet sold its software products in Nepal. Consequently, Tawde and Lanewala contemplated two main issues: (1) whether NFC would indeed hire Mafatlal for the project, and (2) if Mafatlal's market entry strategy in Nepal was appropriate, particularly in light of the political unrest.

They waited patiently for the rescheduled meeting with NFC.

### Mafatlal's First Visit to Nepal

MAGH 8, 2049 (FIVE MONTHS EARLIER)

As a growing company, Mafatlal was looking to expand internationally, and particularly throughout South Asia, as many lesser developed countries in the region began to liberalize their economies. Although quite predictable, the sweeping political and economic changes taking place in Nepal were closely followed by Mafatlal's management. Political and economic events transpiring in India were usually mirrored by the government of Nepal. For example, India had recently moved to a fully convertible rupee and Nepal followed suit, allowing their rupee to become fully convertible only two weeks later. (For cultural and economic background information on Nepal, see the Appendix.)

Mafatlal's management believed there was excellent potential for a business venture in Nepal, as private sector involvement was being encouraged as a means towards development. To create a market opportunity for their firm, on Magh 5, 2049, Yusef Lanewala and Umesh Tawde attended the Nepal Investment Forum, a series of seminars and conferences sponsored by the

United Nations Industrial Development Organization, the United Nations Development Programme, and the Nepalese government. The conference was organized in order to pave the way for investment in commerce and industry for the Nepalese private sector. The symposium attracted 345 industrialists and investors from 21 countries to discuss possible foreign investment and joint ventures in Nepal. The following types of collaboration were under consideration:

- Joint Venture Investment
- 100% Foreign Direct Investment
- Technology Transfer/Licensing Arrangements
- International Marketing/Management Arrangements
- Subcontracting and Buyback Arrangements
- Financing through Medium- and Long-Term Loans
- Equipment Supply/Turnkey Arrangements

Participants in the forum represented a number of Nepal's private sector businesses in industries such as sericulture, medicinal plants and herbs, multi-modal containerization, hydro-electric and diesel power, and, of course—the reason Mafatlal attended—computer software development. Nepal was hoping to exploit its position as a country of low production costs relative to more developed countries.

The forum was highly successful. According to the Ministry of Industry, 110 letters of intent were signed, worth over \$423 million. Indian nationals signed most of the letters, but in terms of value, the largest amounts were signed by Germans, then by Indians, Chinese, British, and French investors. The letters of intent outlined certain obligations of both parties over the next three months. The letters stated that “if within three months the participants do not reach an agreement on a future course of action, this letter shall cease to express their intent to develop the project.” It was expected that 10% of the letters would result in actual investments.

Mafatlal met with several local software houses and was particularly interested in collaborating with a startup firm called Technology Consulting Services. In fact, both parties at the time signed a nonbinding letter of intent agreeing to further explore potential collaboration. In assessing foreign business opportunities, Mr.

Lanewala's primary concern was his firm's ability to make, keep, and repatriate profits. At the forum, Lanewala gathered all possible information regarding a venture in Nepal. (See Exhibit 1 for a summary of Nepal's Foreign Investment and One Window Policy).

Lanewala and Tawde also visited potential clients directly in order to gauge both the Nepalese business climate and the level of interest in his firm's services. Mafatlal met with several textile firms, four-star hotels, banks, and finance companies. In these meetings, the Indians discovered responses regarding the use of computers and information technology ranging from “genuinely interested in utilizing tools to increase productivity and assist management in the decision-making process,” to “having many computers around the office because the customers will like it. It will be good for business!!”

During the meetings with several financial institutions, it was discovered that Mafatlal had an ideal product for the financial services industry in Nepal, a powerful software package called Ex-Chequer that effectively integrated an accounting system, client database, and management information system. The system was already being used by several financial institutions in India. During this period, Mafatlal became aware that NFC was building its operation as a startup business. The Indian executives met Brahma Lall Shrestha and listened as he outlined Nepal's banking and financial services industry. He also described the type of organization he planned to assemble in order to compete in this sector. Shrestha indicated that every effort would be made to create an efficient and streamlined organization committed to *service*:

Our corporate mission aims to greatly simplify customer deposit and loan services with a staff of no more than twenty-five, so we need to maximize productivity from our employees. We believe operating in this fashion will allow us to achieve an aggressive pattern of growth.

Shrestha's proposed organization chart and projected financial statements appear in Exhibits 2 and 3.

Even before his meeting with Mafatlal, Shrestha knew computers could help NFC in some way. He had been to the West and seen, for example, modern financial institutions in operation in London and New York. They all had computers. He was not exactly sure how they could help NFC, however, since computers were

**Exhibit I****SUMMARY OF NEPAL'S FOREIGN INVESTMENT AND ONE WINDOW POLICY 1992**

*Background:* In the wake of changes to the world economic order, Nepal has introduced reforms to various sectors of its economy to bring dynamism to the process of economic development. The recently elected government has expressed a strong commitment to framing a liberal foreign investment policy. This document summarizes the objectives, forms, procedural aspects, facilities, and institutions of this new policy.

*Objective:* To build a strong and dynamic economy by generating opportunities for income and employment through expanding productive activities. It is believed that liberalizing foreign investment will lead to the import of capital, modern technology, management, technical skills, access to international markets, development of competitive attitudes, and awareness about increasing productivity.

*Forms of Foreign Investment:* Equity investments and loans made by foreign investors in the form of foreign currency or capital assets and the income generated thereon. The use of rights, specialization, formulas, processes, foreign-owned trademarks, good will, and patents, as well as technical, consultancy, management, and marketing services.

*Permission for Industries to be Established Under Foreign Investment:* Investment in defense-related industries (arms and ammunition), cigarettes and bidi, and alcohol (excluding 100% export-oriented) are not permitted. In the case of other industries, permission for foreign investment should be obtained. Foreign investment will be permitted up to 100% in medium- and large-scale industries. Permission may be granted for the transfer of technology in cottage and small scale industries.

*Provisions for Repatriation:* Foreign investors may repatriate the following amounts outside of Nepal at the prevailing rate of exchange: the sale of equity investment, the benefits and dividends from investment, the principal and interest on foreign loans, the amounts received under agreement for technology transfer, the compensation for property acquisition, and the compensation for foreign experts permitted up to 75%.

*Facilities and Concessions:* Interest income on foreign loans and royalties and technical and management fees will be taxed at 15% only, while income generated from export will not be taxed. Relief from double taxation will be afforded to foreign investors, while customs duty, excise duty and sales tax levied on raw materials and intermediate goods shall be reimbursed to exporters on the basis of the export quantity. An industry exporting 90% of its products is entitled to facilities in the Export Processing Zone. No taxes will be levied on machinery and equipment, raw materials, and exportable products of such industries. No industry will be nationalized.

*Arbitration:* Arbitration will be used to settle disputes between foreign investors, the concerned industry, and the Department of Industries. Arbitration will be held in Kathmandu according to the prevalent arbitration rules of the United Nations Commission for International Trade Law (UNCITRAL).

never used at any of the state-run banks in Nepal where Shrestha had spent essentially his entire career.

I don't know how we did it, but all of our accounts were maintained in giant desktop ledgers by hand. Amazingly in this day and age, these dust-covered ledgers contained thousands of the bank's customer accounts. It took us weeks to simply calculate interest on client loans and deposits, and by the time we generated a trial balance or financial statement for the bank, it was already outdated. It always seemed like there were customers standing around in long lines to make deposits. Decisions on loan requests usually took months.

Lanewala and Tawde discussed at length how private sector banks and finance companies in India utilized information technology to assist in operations and in the managerial decision-making process. Tawde cited how Mafatlal's software had a module that helped one firm, Ceat Financial Services in New Delhi, manage its

fund position of maturing assets (loans) and maturing liabilities (deposits), as well as generate a cost-of-funds report on a daily basis for strategic loan pricing purposes. Before Tawde and Lanewala returned to India, they submitted a proposal to Shrestha for a computer and management information system. Shrestha's assistant filed Mafatlal's proposal (shown in Exhibit 4) along with three other proposals submitted by local firms. A detailed demonstration of Ex-Chequer's capabilities was performed on a subsequent visit during the following month of Falgun.

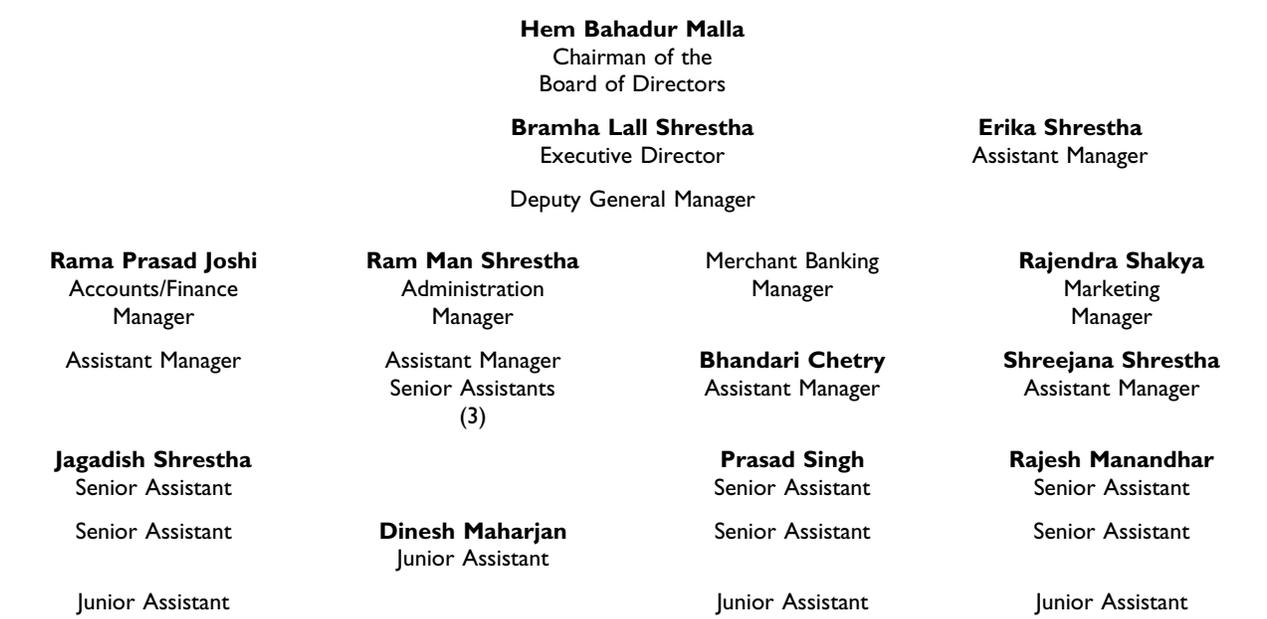
### **Nepal's Banking and Financial Services Sector**

For decades, Nepal maintained only three state-run commercial banks throughout the entire economy: Nepal Bank, Ltd., Rastriya Banijya Bank, and the Agricul-

**Exhibit 2**

**NATIONAL FINANCE COMPANY, LTD.  
ORGANIZATIONAL CHART**

positions without names have not been filled\*



\*Note: at the time Shrestha submitted NFC's organizational chart to Mafatal, there were no employees in the company. The chart above reflects the organization at the time of opening.

tural Development Bank. In the mid-1980s, the monetary authorities allowed three foreign banks to develop joint venture arrangements with local banks in order to book trade finance letters of credit. More recently, Citibank, American Express, and Standard Chartered opened representative offices for this same purpose. The expertise of these private foreign banks facilitated the expansion of exports in hand-made woolen carpets and ready-made garments.

The government's traditional regulatory approach required banks to open rural branches and make loans in specific economic sectors to impoverished citizens. The cost to Nepalese banks was prohibitive and contributed to the financial difficulties of the major state-owned banks. A change in policy had been implemented two years before as part of the government's overall program of economic liberalization. HMG/Nepal (abbreviation for His Majesty's Government of Nepal) established a rural bank with private capital to underwrite loans to cottage industries in remote areas, and it allowed more banks and non-bank financial institutions to compete in the private sector.

As a result of *The Commercial Bank Act, Finance Company Act 2042*, and the *Security Exchange Act*, three new banks, three finance companies, and two leasing companies were in various phases of being established. The government was also attempting to attract merchant banks and securities brokers to issue and trade public shares at the Kathmandu Stock Exchange. This was considered essential to attracting foreign capital. Furthermore, all these institutions were to offer new financial services to citizens and alternative means of credit and trade finance to businesses, because these facilities were seen as necessary for industrial development. (See Exhibit 5 for a complete list of Nepal's financial institutions.)

The Nepalese state-owned banks, Nepal Bank, Ltd. and Rastriya Banijya, controlled the vast majority of the formal markets for loans and advances and deposits. Collectively, these two financial institutions controlled 73.4% and 76.9% of these market shares, respectively (See Exhibit 6). Ironically, they provided the poorest service due to archaic and bureaucratic operations. For example, a simple deposit transaction in Nepal Bank, Ltd. often took over 45 minutes to complete through

**Exhibit 3****NATIONAL FINANCE COMPANY, LTD.  
PROJECTED FINANCIAL STATEMENTS**

millions NRs

<b>Sources &amp; Uses of Funds</b>			
	2049	2050	2051
<b>Sources:</b>			
Paid Up Capital	30	30	30
Reserves	0.6	2.4	4.7
Retained Earnings	1.8	5.4	6.7
Fixed Deposits	100	120	150
Small Deposits	50	70	98
Bonds	50	60	72
Other Liabilities	<u>2.6</u>	<u>7.2</u>	<u>13.6</u>
Total	235	295	375
<b>Uses:</b>			
Term Lending	100	120	150
Hire Purchase	75	90	110
Leasing	50	70	100
Trading Fund	5	5	5
Other Assets	<u>5</u>	<u>10</u>	<u>10</u>
Total	235	295	375
<b>Profit &amp; Loss Statement</b>			
Interest Payment	15	33.8	42.8
Operating Expenses	<u>4</u>	<u>5.7</u>	<u>7.2</u>
Total Expenditure	19	39.5	50
Interest Income	23	51.5	65
Profits Before Tax	4	12	15
Tax	<u>1.6</u>	<u>4.8</u>	<u>6</u>
Profits After Tax	2.4	7.2	9
Reserve	0.6	1.8	2.3
Retained Earnings	1.8	5.4	6.7

a process where a chit was issued and several staff members handled the transaction. Concurrently, Ras-triya Banijya Bank was unable to convey definitive, current account balances to their customers due to an inoperable manual system with poor internal controls. And yet, these banks viewed themselves as focusing on customer service. Conversely, the foreign joint-venture banks, such as Nepal Grindlays, Nepal Indo Suez, and Nepal Arab, offered much better service in these areas, principally due to automated systems and modern policies and procedures. However, their core activities focused on trade finance as opposed to corporate finance and commercial lending.

**A Company on the Move**

The impetus for starting NFC came from the Salt Trading Corporation, Ltd. (STC), reportedly Nepal's largest

business. Salt Trading was established in the Nepali year 2021 as a public limited company through a joint venture of the Government of Nepal, local Nepalese entrepreneurs, and the general public. STC's main objectives were:

1. To deal in the import/export and distribution of essential commodities such as salt, sugar, wheat flour, grains, and construction materials;
2. To implement the Nepal-India Goitre Control Project to make iodized salt readily available for public health purposes (see Exhibit 7); and,
3. To promote new industries and/or acquire sick industries in order to revamp them and put them back into production.

With annual sales turnover in excess of NRs 200 crores (US\$40 million), STC had diversified interests in the manufacturing of food commodities, transportation, and textiles through the following subsidiaries:

Hetauda Khadya Udyog (Pvt.), Ltd.	Wheat Flour Mill
Butwal Spinning Mills, Ltd.	Sewing Threads & Spinning Mill
Morang Sugar Mill, Ltd.	Sugar Production
Nepal Vanaspati Ghee Udyog, Ltd.	Vegetable Ghee & Cooked Butter
Gorakhkali Rubber Udyog, Ltd.	Tyre and Rubber Industry
Gharelu Hastakala Udyog Pvt, Ltd.	Traditional Handicraft Center

STC's management recognized that the increased industrialization and economic liberalization taking place in Nepal would require additional financial services like corporate lending and merchant banking. Less than 12 months before, they had announced their decision to enter the financial services sector at the company's Annual Shareholders Meeting. This action was seen as part of the group's continued program of diversification into different lines of business. Furthermore, it was also a method to enhance STC's fund position by effectively mobilizing a consumer deposit base and then channelling loans to the Salt Trading Group for its various capital needs. According to Mr. Hem Bahadur Malla, STC's Executive Director, "by entering this line of business, STC will assert itself in the financial sector

**Exhibit 4**

**MAFATLAL'S PROPOSAL FOR COMPUTERIZATION OF NATIONAL FINANCE**

Magh 11, 2049

Mr. Brahma Lall Shrestha  
 Executive Director  
 National Finance Company, Ltd.  
 P.O. Box 483  
 Basantapur  
 Kathmandu, Nepal

Re: Proposal for Computerization at National Finance Company, Ltd.

Dear Mr. Shrestha:

Based on our discussions during my visit to Nepal this past week, I submit herewith the following proposal for computerization of NFC's operations. This proposal is based on an analysis by myself and Umesh Tawde of the accounting and management information needs of your firm.

**NFC System Requirements:**

Initially, the accounting and management information system of NFC requires computerization of three specific manual functions:

- (1) record, monitor and automatically accrue interest on the company's earning assets such as loans and advances;
- (2) record, monitor and automatically accrue interest on the company's deposit liabilities; and,
- (3) record NFC's daily accounting transactions as dual (debit/credit) journal entries.

We here at Mafatlal are pleased to announce a recently developed financial package for the banking and finance industry called Ex-Chequer which will more than adequately meet your reporting needs. In addition to the system requirements outlined above, Ex-Chequer will manage your cash book, generate bank- and finance company-style balance sheets and profit/loss statements, funds flow statements, funds position statements (to match maturing loans and deposits), as well as a financial ratio analysis reports to measure liquidity, capital adequacy and reserves, weighted average cost of funds, and interest margin spreads.

The Ex-Chequer system can be easily integrated into NFC's organizational structure. Based on our analysis of your needs, three workstations should be configured to operate in administration, finance/accounting, and financial marketing. These workstations would be linked to a centralized file server storing all account information and client data.

The Ex-Chequer system is a modular software package which encompasses an array of functions. Based on our discussion, we feel the following modules should be included as part of your package (corresponding prices are included in Indian Rupees):

**Recommended Modules of Ex-Chequer Banking Software:**

General Ledger	IRs 75,000
Cash Book	IRs 75,000
Loans & Advances	IRs 75,000
Deposits	IRs <u>75,000</u>
	IRs 300,000

**System Software:**

Ex-Chequer Banking Software	IRs 300,000
Novell Netware 3.11 (LAN) Software	IRs <u>112,200</u>
Total (1)	IRs 482,200

**Terms and Conditions:**

Payment	50% in advance
	50% after completion
Warranty	90 Days
Training	Up to 10 Users

(1) In order to operate in a network environment, the Ex-Chequer system requires operation with Novell Software. This increases the cost by IRs 112,200. In addition, all necessary computer hardware will need to be procured. We recommend this be done locally in order to avoid additional duties and tariffs. Mafatlal is prepared to work directly with your vendors in Kathmandu for this purpose. As such, we are prepared to service your entire system, including computer hardware.

**Exhibit 4 (continued)****MAFATLAL'S PROPOSAL FOR COMPUTERIZATION OF NATIONAL FINANCE**

Please note, the Ex-Chequer system is installed in many banks in India, including Kapol Bank, Abhudaya Bank, Samastha Nagar Bank, Capital Trust, Bank of India Finance, Tata Finance, Ltd. and CEAT Financial Services, Ltd. in both LAN and mainframe-based versions. I have also included the following background information regarding the Mafatlal group of companies.

**Mafatlal Background**

On a consolidated basis, the Mafatlal Group of Companies is one of the largest and most respected business houses in India, with revenues exceeding Indian Rupees (IRs) 15 billion. The Mafatlal Group is over one hundred years old, operating with companies in the following sectors:

- Textiles
- Chemicals
- Organic Chemicals (joint venture with Royal Dutch Shell)
- Engineering (joint venture with W. Schlafhorst, Germany)
- Plastics (ventures with Hoechst AG, Germany and BHD, Malaysia)

Mafatlal had been successful by keeping abreast of the latest evolving technology, identifying new markets, anticipating client needs and satisfying them with global quality products. To strengthen its leadership position in these industries, in the 1960s Mafatlal began to utilize information technology, both strategically and as a part of its data processing function. Subsequently, to leverage its experience in this area, in 1973 Mafatlal established a technology consulting/information subsidiary, Mafatlal Consultancy Services (MCS), which began to offer these services to outside clients. Over the past twenty years, MCS grew into one of the premier firms by developing a clear-cut corporate mission: to be a leading provider of quality Information Systems Consulting and related services to business houses in India and overseas and to achieve this by recruiting, training and providing career opportunities to outstanding personnel.

The full-time consulting staff at MCS consists of graduates from leading universities in India, the USA and Europe, with backgrounds in Computer Science, Engineering, Business Management, Operations Research and Professional Accountancy. The company's prime expertise is on IBM Mainframe and Unix hardware platforms, while several consultants also have substantial working experience on other platforms such as DEC-VAX, Data General, Unisys, etc.

With offices in Bombay, Ahmedabad, Calcutta, Madras and New Delhi, the broad spectrum of MCS services includes Strategic Information Planning, Application Design, Application Development, Information Technology Consulting, Data Processing and Education/Training. MCS also has expertise and hands-on experience in catering to the diverse needs of overseas clients in the areas of Offshore Software Development, On-site Software Development and Offshore Data Processing (through high speed telecommunication lines). Apart from these services, MCS also developed various application-specific software packages such as:

Cobag: COBOL Application Generator  
 Clariant: COBOL Software Maintenance Tool  
 Hotlink: Data Transfer Software over telephone lines  
 Ex-Chequer: Branch Automation for Banks/Finance Companies  
 Speedvat: Excise Documentation-cum-Modvat Package  
 Maf-tex: A series of Textile Industry-specific software  
 CEMS: Cloth Export Management System  
 Secretarial Index: Software for Company Secretaries  
 Personnel Information System: For Personnel Data  
 RES/MIS: Hotel Reservation and Management Information System

MCS clients come from diverse fields such as banking/financial services, engineering, textiles, atomic power, pharmaceuticals, petrochemicals, hotels and restaurants, chemicals and educational institutions. I would like to confirm that as a client, National Finance will have the full support of the Mafatlal group at its disposal. We will be posting our software and hardware engineers in Kathmandu as soon as we receive a written order from you. Our offer is valid for 30 days after which any extensions would only be possible with written confirmation from us. We hope the above is in order and we look forward to your concurrence so that we are in position to complete the project prior to your inauguration.

Thanking you,

YUSEF LANEWALA  
 VICE PRESIDENT-MARKETING

**Exhibit 5**

**NEPAL'S FINANCIAL INSTITUTIONS**

**Joint Venture Arrangements**

**COMMERCIAL BANKS**

Nepal Bank, Ltd.	government
Rastriya Banijya Bank	government
Nepal Grindlays Bank, Ltd.	foreign joint venture
Nepal Indo Suez, Ltd.	foreign joint venture
Nepal Arab Bank, Ltd.	foreign joint venture

Citibank	foreign
Himalayan Bank, Ltd.	foreign joint venture
American Express Bank	foreign
State Bank of India-Pending	foreign joint venture
Everest Bank-Pending	foreign joint venture
Premier Bank-Pending	

**FINANCE COMPANIES\***

National Finance Co., Ltd.	Salt Trading Corp.
Nepal Finance & Savings Co.	
Alpic Everest Finance-Pending	foreign managed**

**NON-BANK DEVELOPMENT AND CREDIT INSTITUTIONS**

Nepal Industrial Development Corporation (NIDC)	
NIDC Capital Markets	
Agricultural Development Bank	government
Employee Provident Fund Corp.	

**Majority Interest**

ANZ Gindlays—U.K.  
Banque Indosuez—France  
Bank of the Middle East—  
Saudi Arabia

Himalayan Bank—Nepal

State Bank of India—India  
Union Bank of India—India

**Minority Interest**

Nepal Bank, Ltd. -Nepal  
Rastriya Banijya Bank -Nepal  
Agricultural Development Bank

Habib Bank-Pakistan

Employee Provident Fund Corp.  
Everest Bank—Nepal

Alpic Finance of India—India

\*In addition, two new leasing companies are being developed, one as a subsidiary of Nepal Grindlays Bank and the other with a Korean collaborator and technical assistance from the Asian Development Bank.

\*\*The joint venture arrangement for Alpic Everest Finance is being structured as a management contract whereby Alpic Finance of India will manage the operation in Nepal for an annual fee.

while also supporting the group's capital requirement, which will remain high in the coming decade."

Although STC's Directors believed the services of a financial institution could be marketed along with their diversified range of operations, they also recognized their lack of proprietary knowledge and managerial experience in financial services. Therefore, Bramha Lall Shrestha, the former Deputy General Manager of Nepal Bank, Ltd., was recruited to serve as Executive Director of the new venture.

**Bramha Lall Shrestha: Portrait of a Third World Banker**

Bramha Lall Shrestha was no stranger to Nepalese business, particularly among the high-caste Newar community, the indigenous ethnic tribe of the Kathmandu

Valley. For over 35 years he had worked in the financial services industry, including all aspects of banking, insurance, and leasing at the state-run Nepal Bank. With over 225 branches throughout Nepal, it was the country's largest commercial bank.

Shrestha spent most of his career scorning the inefficiency and the highly bureaucratic operations of Nepal Bank, which severely inhibited the bank's strategic decision-making. Although Nepal Bank was a government-run enterprise, Shrestha tried to maintain a level of dynamism within the organization he managed. Shrestha designed and implemented new-risk methodologies, loan recovery strategies, and credit management systems. Furthermore, he worked closely with Nepal Bank's Board of Directors and senior management to strengthen organizational policies and procedures. His intelligence, motivation, and persistence allowed him

**Exhibit 6****BANKING MARKET SHARE DISTRIBUTIONS****FORMAL BANKING INSTITUTIONS**

Nepali Rs. in Millions

	Deposits				Loans and Advances	
	Savings	Fixed	Total	Market Share	Loans	Market Share
Nepal Bank, Ltd.	3,186	7,029	10,215	43.7%	6,285	38.5%
Rastriya Banijya Bank	2,247	5,517	7,764	33.2	5,697	34.9
Agricultural Development Bank	1,011	1,392	2,403	10.3	1,910	11.7
Nepal Indo Suez Bank, Ltd.	149	1,008	1,157	4.9	881	5.5
Nepal Grindlays Bank, Ltd.	513	492	1,005	4.3	604	3.7
Nepal Arab Bank, Ltd.	391	461	852	3.6	898	5.5

**INFORMAL FINANCE**

The Sahu Mahajan

In addition to the above-mentioned market participants in Nepal's formal banking sector, there also exists an informal finance sector. Largely hidden from view, informal finance serves as an important source of working capital for enterprises of all sizes in Nepal and provides the credit gap to commerce and industry which is not met by the formal banking sector.

Although in many cases it charges exorbitant rates of interest, sometimes as high as 36%, this sector continues to thrive due to the ease and flexibility of providing credit. Cost is generally higher to the borrower because of greater risk, a lack of collateral, and the high costs per transaction of underwriting several small loans. It should be noted that informal finance also mobilizes considerable savings deposits. This industry offers face-to-face personal dealings with individuals, flexible working hours, less stringent collateral requirements, and greater flexibility with regard to maturity periods and debt re-scheduling, if needed.

There are many estimates on the size and importance of informal finance in Nepal. According to the 1985 Agricultural Credit Review, approximately 76% of rural farm families borrow from the informal sector. A World Bank officer recently estimated that 50% of *all* credit in Nepal is funded in this manner. In terms of commerce and industry, it has been conservatively estimated that the financial gap not being met by the formal banking sector is NRs 2,000 crore.

to rise to senior management sooner than any of his predecessors. At the age of 49, he became the Deputy General Manager of Nepal Bank, Ltd. and, not long thereafter, was appointed Executive Chairman of one of the bank's subsidiaries, Nepal Insurance Company. However, his career peaked with the coming of Nepal's economic liberalization, and it was only a matter of time before layers of senior management were "peeled" from the top of the bank. Shrestha was given his "golden-handshake" on Baishak 10, 2049.<sup>3</sup>

A devout Hindu, Bramha Lall Shrestha was well known to most of Nepal's industrialists including STC's management. As the former banker to STC, he provided years of dedicated service assisting STC when it crucially needed capital for expansionary purposes. Upon learning of Shrestha's "retirement," Salt Trading's management immediately notified Shrestha of their plans to enter the financial services sector. Shrestha was well

aware of the bureaucratic operations and the poor service offered at Nepal Bank, and he saw in their plans an opportunity to compete by providing better service to customers. He was recruited as an equity partner in the new venture and as its manager, becoming NFC's Executive Director.

Over an eight-month period, Shrestha undertook a number of steps to bring NFC into operation. For example, he identified an appropriate office building at Basantapur Square for NFC to lease, assembled contractors and architects to undertake the necessary leasehold improvements to the building, organized the company into functional areas, hired and arranged for managers and support staff to be trained in a financial services training program sponsored by the U.S. Agency for International Development and negotiated the purchase of all of the firm's office equipment. Shrestha also worked closely with NIDC Capital Markets to

Exhibit 7

NEPAL-INDIA GOITRE ADVERTISEMENT FROM HIMAL MAGAZINE

# Iodised Salt for the Nation's Health

Goitre and cretinism have always been a curse on the Himalayan region, but only recently have we to do anything about it.

It is a curse that came guaranteed with geography. Normally, humans get their supply of iodine, which is an essential 'micronutrient', from foodcrops. In the Himalayan belt, however, natural iodine in the soil gets washed away easily. As a result, foodcrops are low on iodine and the population does not receive the required dose.

It is iodine deficiency that causes goitre. If the deficiency is severe, cretinism results, characterised by mental retardation, deaf-mutism, and lack of muscular coordination. About 40 percent of the Nepali population is said to be afflicted with some degree of goitre. And it is estimated that four out of every thousand citizen shows symptoms of cretinism. Controlling the Iodine Deficiency Disorders (IDD) is therefore one of the Nepal's gravest public health challenges.

Since 1973, a unique collaboration of private business and government has been actively engaged in battling the age-old endemic. His Majesty's Government, the Government of India, and the Salt Trading Corporation have been involved in iodising and distributing salt throughout Nepal's high himal, hill and tarai districts.

Salt is one condiment that everyone uses. And salt that is iodised is considered to be the most efficient way to get the iodine micronutrient into the diets of the country's far-flung communities. It has been Salt Trading's responsibility to ensure that all the salt distributed in Nepal is iodised.

And it has been working. Studies have shown that the incidence of goitre in Nepal has gone down considerably. Whereas 55 percent of the population

was afflicted in the 1960s, one study showed that the incidence was down to about 40 percent by 1985-86.

Because iodine tends to evaporate from salt that is in storage for too long, with the help of the Indian Government, Salt Trading has set up three iodisation plants, in Bhairawa, Birgunj and Biratnagar, so as to reduce the time gap between iodisation and consumption. These plants presently iodise up to a quarter of the salt that is distributed in the country, while the rest of the salt comes iodised from India.

Since the last three years, polythene packaging has been used, which eliminates the evaporation of iodine. The Ayo Nun is powdered iodised salt. Since the communities of the high himal prefer to use salt crystals rather than powder, Salt Trading recently introduced Bhanu Nun. This new brand uses iodised crystals of granular size.

We at Salt Trading are committed to ensuring even better delivery of iodised salt to Nepal's population and the introduction of Bhanu Nun is just one demonstration of this commitment. We are presently engaged in adding three more iodisation plants in the Western Tarai, and by 1994 Salt Trading expects to be iodising all the salt in Nepal itself.

In so doing, we will also proudly continue to be part of this unique experiment in bilateral cooperation between Nepal and India, whose goal is to eliminate IDD in Nepal by the year 2000. This is a programme which is directly helping to raise the standards of public health in Nepal, and saving hundreds of thousands from the curse of goitre and cretinism.

Together with the nation, we look forward to the day when goitre is virtually eliminated from these hills and plains.

Iodised salt is distributed by the Salt Trading Corporation Ltd. both in loose form and in one kg packets. Packet salt is available under the brand names Ayo Nun and Bhanu Nun. An Ayo Nun packet costs four and a half rupees. Bhanu Nun is distributed only in the remote areas at subsidised prices.

GOITRE CONTROL PROJECT  
MINISTRY OF HEALTH  
(HMG/NEPAL AND GOVERNMENT OF INDIA  
COOPERATION)

Programme Implementing Agency:

**Salt Trading Corporation Ltd. Kalimati, Kathmandu. Tel: 271593, 271014 Fax: 271704**



raise additional funds for NFC through an initial public offering of common stock. In addition to the NRs 18 million provided by NFC's core investor group, another NRs 12 million was raised, providing NFC with primary capital of NRs 30 million (approximately US\$600,000). Collectively, these 300,000 shares (each valued at NRs 100) would soon be traded on the fledgling Kathmandu Stock Exchange.

### **Profile of National Finance Company, Ltd.**

NFC was registered with the government on the day Bhadra 14, 2049 as a public company with limited liability. The company was established to enhance the economic development and welfare of the general public subject to *Finance Company Act 2042*. In order to carry out this objective, NFC categorized its business activities as follows: the collection of fixed term public deposits and the investment of those funds as credit and leasing facilities to corporations, industry, and trade. Most loans would be disbursed for working capital or for the purchase of transportation, machinery, tools, equipment, and other business assets. In addition, NFC's articles of incorporation indicated that the firm would also purchase, sell, and underwrite securities and bonds issued by HMG/Nepal and private sector companies.

Shrestha planned a two-stage market strategy. First, NFC would provide traditional financial services such as deposit collection and corporate loan services with a flexible and personalized approach in order to gain market share. Thus, NFC would offer an alternative to the rigid practices and impersonal service imposed by the Nepalese banks. In the second stage of business, NFC planned to offer specialized financial services like merchant banking activities, but only after having created the requisite infrastructure and upon stabilization of the company's operations. This strategy was implemented on Baishak 25, 2050, the date NFC commenced operations.

Many delays and setbacks, however, were encountered along the way. First, Shrestha patiently waited for the only merchant bank in Nepal, NIDC Capital Markets, to manage the offering of 40% of NFC's primary share capital to the general public. Because there was no competition in the securities market, NIDC controlled the timing and sequence in which shares were offered;

Nepal Finance & Savings, Soaltee Oberoi Hotels, Himalayan Bank and even the shares of NIDC Capital Markets were offered to the public before NFC's. However, NFC's shares were still oversubscribed by the local public. Shrestha also had problems hiring NFC's marketing officer. Many potential candidates from Nepal Bank had to be overlooked since they demanded higher salaries "to offset reductions in status by moving to the private sector." Shrestha made it clear to these candidates that the corrupt practice at Nepal Bank of receiving bribes from loan customers would not be tolerated.

Finally, NFC's originally scheduled opening date was chosen by a Joshi, or astrologer, as being auspicious. However, Nepal's King Birendra Bir Bikram Shah Dev announced a National Day of Mourning on this day following the assassination of Sri Lanka's President.<sup>4</sup> Rather than risk an ill-starred opening the following day, an alternate opening date had to be determined. After consulting the Joshi again, the next auspicious date suitable for NFC's opening was identified as being one week later!<sup>5</sup>

### **Mafatlal's Entry Strategy in Nepal**

Shortly after Lanewala and Tawde's first visit to Nepal during the month of Magh, a marketing collaboration with a local firm was arranged. Mafatlal's management decided they would "test the waters," rather than commit capital and staff to the Nepalese market initially. A business venture in this manner would provide Mafatlal with the opportunity to gauge the economic climate in Nepal as well as the demand for the firm's products and services. Thus, an agreement was signed in Kathmandu between Mafatlal and Technology Consulting Services (TCS) on Falgun 12, 2049.

Under terms of their agreement, Mafatlal would market its business software through TCS. Once a local project was obtained, Mafatlal would then station two hardware/software engineers in Kathmandu to carry out systems integration projects and to train local staff in the service and maintenance of Mafatlal business systems. Revenue generated from various projects would cover the operating costs of the venture, such as the salaries of local staffs and office overhead. A percentage of the profits would then be remitted to Mafatlal as a licensing fee. If the venture was successful,

Mafatlal's management would then evaluate whether to purchase this distribution channel.

Subsequent to signing the agreement, both partners expected that a large number of clients would be obtained quickly, as it was recognized that Mafatlal offered superior business systems compared to competition in the local market. Most software houses in Nepal had to custom build their application packages for each individual client. This inhibited a firm from realizing economies of scope, as well as economies of scale in systems integration projects. While Mafatlal had a significant competitive advantage in this regard, no clients had been obtained by the Mafatlal/TCS venture despite the fact that several proposals were made to various businesses.

Two weeks before the rioting occurred in Kathmandu, Yusef Lanewala contacted Brahma Lal Shrestha from Mafatlal's Bombay office. Lanewala called Nepal to learn if Shrestha had made a decision regarding NFC's computer system. While Shrestha expressed a strong interest in Mafatlal's Ex-Chequer system, he also indicated a degree of apprehensiveness in hiring the Indian firm. Shrestha felt that Mafatlal was not committed to the Nepalese market. Lanewala arranged a meeting on Ashadh 9 with NFC's management in Kathmandu to address Shrestha's concerns. Lanewala hoped a Memorandum of Understanding could be negotiated at that time with NFC, which would give Mafatlal a presence in Nepal from which to grow.

### **The Bargaining Positions**

Lanewala and Tawde knew that Mafatlal offered a superior product relative to alternatives in the Nepalese market. This fact allowed Mafatlal to pursue a premium pricing strategy based on Ex-Chequer's differentiation. Compared to competitive products, Mafatlal's proposal was approximately 50% higher. Above all else, Lanewala and Tawde felt that it was important to establish a client base in Nepal. The Indian executives believed that once a substantial customer was obtained, Mafatlal could leverage this relationship to yield additional clients. Mafatlal's position was to station personnel from India in Nepal only upon receipt of a formal order. This was seen as a way to minimize project expenditures. After Shrestha's telephone conversation with Lanewala, the four-member Finance Subcommittee of NFC's

Board of Directors met to discuss their bargaining position in relation to Mafatlal's proposal. This group acknowledged the superiority of Mafatlal's system. But in spite of Mafatlal's relationship with TCS, NFC's management still viewed the terms of the marketing arrangement as "temporary" for two reasons: (1) Mafatlal had not yet placed its hardware/software personnel in Kathmandu, and (2) Mafatlal's venture was not an equity investment, so they could exit the market at any time. Shrestha believed this created a substantial risk:

Who will maintain and service the computer system in the event Mafatlal pulls out of the market?

Shrestha believed that this risk had to be mitigated to a great extent. Mahesh Lal Pradhan, a senior board member, then addressed the committee as to the cost of Ex-Chequer as presented in Mafatlal's proposal:

Mafatlal's proposal is substantially higher than those for other computer systems. This makes little sense to me. When I was a young boy, tea consumption was not so widespread in Nepal as it is today. I remember an Indian tea plantation came right here to Basantapur and offered the people of Kathmandu free milk tea to try the product. For several months, they served thousands of people free cups of tea. They made a large concession to create demand for their product. I believe the same holds true in this circumstance as well. Mafatlal has a fine product, but if they want to do business in Nepal, they must also make a large concession.

Ram Krishna Manandhar, a fellow board member agreed and then focused on the seemingly unreasonable nature of Mafatlal's terms and conditions:

They want us to pay half up front, and then the other half after the system is installed. If they decide that the market is inadequate to warrant a presence, believe me, they will leave Kathmandu the following day. What will then become of our computer investment? I propose a change be made to the terms and conditions to reflect our concerns. Furthermore, we should make TCS accountable if Mafatlal does not fulfill its legal obligations.

The committee felt an opportunity existed for integrative bargaining with Mafatlal. In this regard, they outlined a minimum set of criteria which had to be met before an order was placed with Mafatlal. If their conditions were not met, the committee would simply pursue a substitute alternative product.

## The Negotiations

ASHADH 14, 2050

Umesh Tawde accompanied Lanewala on the trip to Nepal. The two men flew to Kathmandu on Ashadh 7. Before meeting with NFC, they planned to follow-up on outstanding proposals, make new presentations, and finalize various logistical/marketing details with TCS. Unfortunately, their meeting with NFC was postponed until the following week due to rioting that occurred during the Valley Bandh Program.

Once things returned to normal, Tawde and Lanewala returned to NFC prepared to negotiate a deal. They were surprised that the office looked so well. Although all of the broken windows had not been replaced yet, the company was back in operation. As the two business executives proceeded into the office building, they noticed several customers in the reception area. The Indian executives went upstairs to the Director's Conference Room.

Bramha Lall Shrestha and the members of NFC's Finance Subcommittee were already present and seated around a wooden table. On the wall above Shrestha's head was a picture of Laxmi, the Hindu goddess of wealth, which had been adorned with flowers, incense, and tika powder as offerings. On the opposite wall, there were framed photographs of the King and Queen of Nepal. Two oscillating fans cooled the warm, humid room. As the two men entered the room, the traditional Hindu greeting of "namaste"<sup>6</sup> was exchanged and they joined NFC's management at the conference table. Hot milk tea was promptly served by NFC's staff peon.<sup>7</sup>

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## APPENDIX

### Background Notes on Nepal

Landlocked between the Autonomous Tibetan Region of the People's Republic of China to the north and the Republic of India to the south, Nepal is an independent sovereign Himalayan Kingdom (see map on page 146). There are about 19 million people living in Nepal who can be divided into two distinct ethnic groups: Indo-Aryans who are culturally tied to India, and Mongoloids who are of Tibeto-Burmese ancestry. Officially, Nepal is a Hindu state, although its 35 separate tribal groups practice a unique form of Hindu and Tantric Buddhist

religion that essentially links all culture. Although forbidden by law, a caste system is still practiced that stratifies society into the ruling, merchant, working, farming, and untouchable classes.

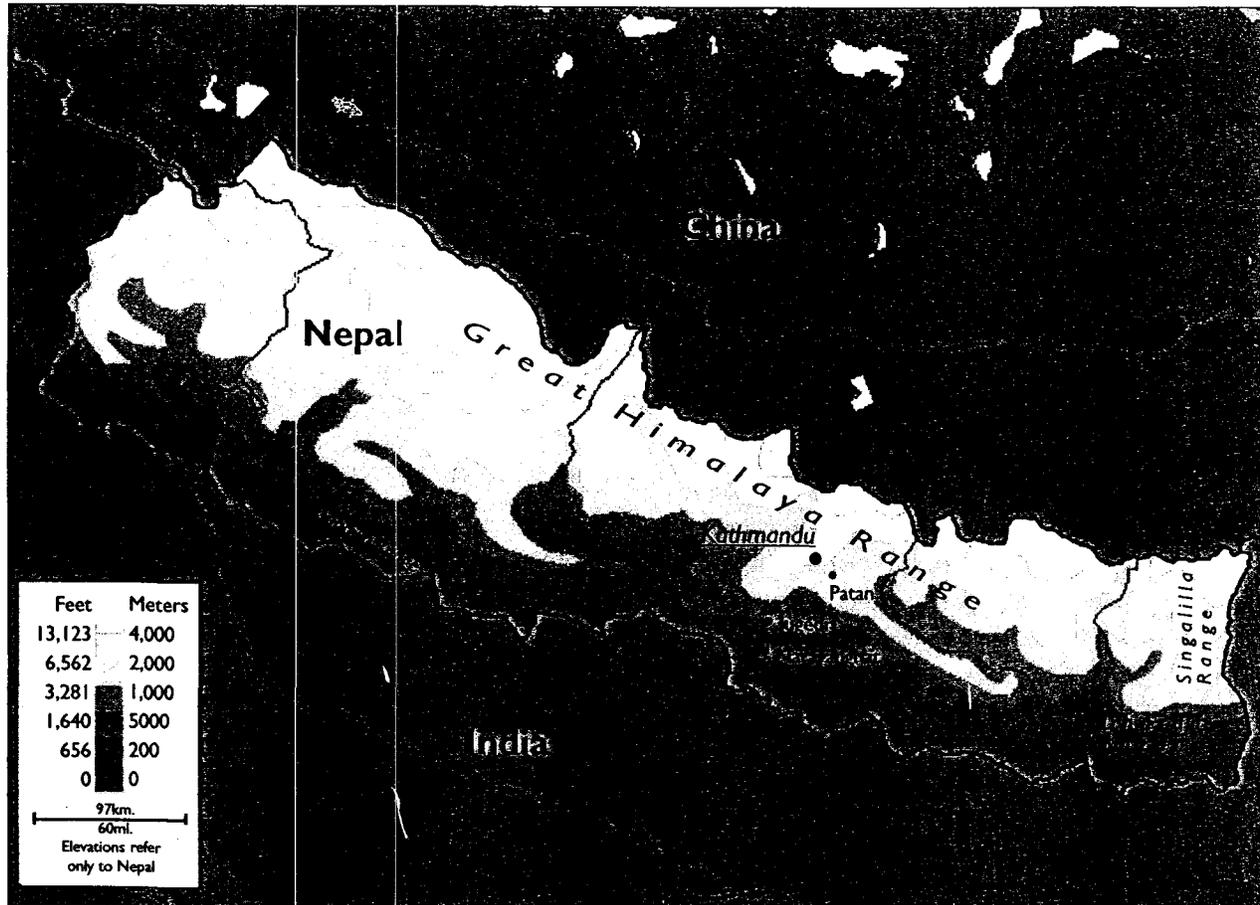
As a landlocked country, Nepal's nearest sea coast is several hundred kilometers to the southeast, in Calcutta. Over the centuries, Nepal has exploited its strategic position by acting as a trading center for salt and other commodities between India and China. Although many Nepalese tribes originate from Tibet, the Himalayan mountain range (25,000 to 30,000 feet above sea level) has limited Nepal's interaction with its northern neighbor. Conversely, in the Terai or plains region of Nepal, there is a 500-mile free and open border with India where hundreds of thousands of Nepalese and Indians cross unhindered on a daily basis. This border is also porous with regard to exports and imports, so a large percentage of Nepal's trade with India goes unreported.

Nepal is one of the world's poorest countries. According to the World Bank, per capita income in 1992 was about \$170 (only four countries rank lower), while 42.5% of the population live below the poverty line. Agriculture absorbs about 93% of the economically active work force and accounts for over half of Nepal's Gross National Product. More than 90% of the kingdom's population live in rural areas. There are several factors which impede Nepal's ability to develop, including few natural resources, its landlocked geographic position, institutional weaknesses such as a lack of technology and an unskilled workforce, and poor governmental economic policies. Also, the country's mountainous and rugged terrain causes small pocket economies to exist, making it difficult to link all areas and villages into a modern, market economy. As in most developing countries, economic growth in Nepal is often offset by a staggering population growth rate.

Until the 1950s, Nepal was an isolated, traditional rural society whose economy was based solely on subsistence agricultural farming. At that time, there were virtually no schools, hospitals, roads, telecommunications, electric power or industry. Over the past 40 years, there has been a concerted effort to bring Nepal into the twentieth century. Political reforms and assistance from developed countries—including the United States, England, Japan and Germany, as well as multina-



## MAP OF NEPAL



tional sources such as the World Bank, United Nations and the Asian Development Bank—have laid a foundation for infrastructure improvements as well as economic and social development. Nonetheless, Nepal's poor economic base has made the country dependent on other countries (especially India), not only for capital and technology, but also for the supply of raw materials and consumer goods.

The country's first democratically elected government in 1990 made its highest priority the economic development and regulatory liberalization of the country by encouraging private sector involvement in the country's industrialization. Three state industries were recently privatized (leather, bricks, and paper), with several more slated. These government's policies reflected a major shift from pre-democracy Nepal, when it was felt that business must be controlled.

## POLITICAL CLIMATE

Never colonized by a European power, Nepal's political history is tied to a large number of widely dispersed and fragmented kingdoms that were unified in 1769 by the first king of the Shah dynasty, Prithvi Narayan Shah. A period of centralized rule under the Shah dynasty lasted until 1846 when the monarchy was replaced by an oligarchy under the Rana family. During these two periods, control was emphasized over development. The country was feudal, so its rulers discouraged education and extracted funds from the people to build palaces and accumulate massive wealth. As the rest of the world developed, Nepal was kept in oppressive isolation until 1950 when the Rana-inherited prime ministers were overthrown.

Since then, Nepal has searched for a proper form of government. A brief period of multi-party democracy

was stifled by the returning king in 1960, when he established a non-party panchayat system, which again ensured absolute monarchical control. This system was again overthrown in a mass movement for multi-party democracy in 1990 as part of the world-wide shift towards democracy. In early 1990, street protesters staged pro-democracy demonstrations, which were orchestrated by the Nepali Congress Party and seven factions of the Communist Party. Many of these demonstrations turned violent as an estimated 300 people were shot to death in the streets by the police and military. Eventually the King was forced to relinquish his absolute rule, to lift a ban on all political parties, to release political prisoners, and to dissolve the government. The country now maintains a constitutional monarchy based on a directly-elected bicameral parliament.<sup>8</sup>

There is little experience with democracy in the country, so Nepal's sweeping political changes have had mixed results. While a new constitution was drafted to lift censorship and ensure individual sovereignty and basic freedoms, expectations of greater economic opportunity have not been realized by most Nepalese citizens. Furthermore, both foreign and domestic business activity occurs within a political and economic system that has little tradition of stability. Bribes and favors (baksheesh) are still expected from private businesses by government employees. Baksheesh is viewed as a fundamental right to offset their low government salaries.

**NEPALESE CALENDAR**

Nepal maintains a lunar calendar with months beginning and ending according to phases of the full moon. The Official Nepalese New Year begins on or about April 13 and is 57 years ahead of the Gregorian calendar used in the West. Generally, Nepalese businesses maintain a fiscal year which ends July 15 and begins July 16.

<b>Gregorian Month</b>	<b>Nepalese Month</b>
Mid-April to Mid-May	Baisakh
Mid-May to Mid-June	Jeth
Mid-June to Mid-July	Ashadh
Mid-July to Mid-August	Saun
Mid-August to Mid-September	Bhadra

<b>Gregorian Month</b>	<b>Nepalese Month</b>
Mid-September to Mid-October	Ashwin
Mid-October to Mid-November	Kartik
Mid-November to Mid-December	Mangsir
Mid-December to Mid-January	Poush
Mid-January to Mid-February	Magh
Mid-February to Mid-March	Falgun
Mid-March to Mid-April	Chaitra

**Notes**

<sup>1</sup>This case was written by Robert Carter of the University of Houston. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

<sup>2</sup>Dates in this country follow the lunar calendar, described further at the end of the Appendix.

<sup>3</sup>Golden handshakes were retirement packages offered by His Majesty's Government/Nepal to reduce public sector employment within the government. At the time, Nepal Bank purged 2,500 managers and employees out of a total staff of 10,000.

<sup>4</sup>A day of mourning was announced since Nepal and Sri Lanka are members of the South Asian Association for Regional Cooperation (SAARC), an organization that encourages international cooperation in agriculture, rural development, science and technology, culture, health, and population control. Other members include India, Pakistan, Bangladesh, Bhutan, and The Maldives.

<sup>5</sup>Most Nepalese are fatalists, believing strongly in the predestination of life. Because of this attitude, Nepalese believe that events are controlled in the universe. One's Karma (fate) cannot be changed. It is, therefore, imperative to ensure special events are carried out on an auspicious date. This attitude is reinforced by the Hindu caste system, a belief that one cannot break out of their caste during a lifetime. One must wait for reincarnation and hope for merited rebirth into a higher caste.

<sup>6</sup>Literal translation: "A salute to the divinity within you."

<sup>7</sup>A common term used to classify low-caste, unskilled laborers who carry out menial office duties.

<sup>8</sup>Despite having overthrown the monarchy in favor of democracy, the government is still referred to as His Majesty's Government of Nepal (HMG/Nepal). Although the king's role is now largely ceremonial, he still controls the military. The Nepalese strongly revere their King. He is regarded as an incarnation of the Hindu God Vishnu.