

# INDUSTRY STATUS REPORT

BASED ON  
THE FIRST  
COMPREHENSIVE  
QUARTERLY  
INDUSTRIAL  
SURVEY OF NEPAL

GOVERNMENT OF NEPAL  
(FEDERAL BUDGET SPECIAL)

THE THIRD EDITION



MAY 2022



CONFEDERATION OF NEPALESE INDUSTRIES



## **ACKNOWLEDGMENTS**

CNI Research Cell (CRC) expresses its gratitude to CNI President Vishnu K. Agarwal for his relentless support for the execution of the survey. We extend further thanks to Vice President Birendra Pandey for constant encouragement and the respondents of the survey for their time and input. The team also would like to thank Nishchala Arjal for proof-reading the final draft of the report. As always, CRC is grateful to Moti Marasini for designing the ISRs impeccably.

# About Industry Status Report

The Industry Status Report (ISR) leverages an in-house survey to provide a comprehensive analysis on the state of various industries in Nepal. What explains misdirected policy interventions aimed at private sector growth in the country? A key reason identified is the absence of periodically available primary data on Nepali industries. Against this backdrop, ISR is produced as an effort to promote evidence-based policy-making. Each quarter, CNI Research Cell conducts an industrial survey and publishes this report to tease out changes across critical variables that either promote or stifle growth in industries.

## What does the survey cover?

<p><b>1</b></p> <p><b>Business Performance:</b> industry capacity utilization, revenue trends, demand in domestic market and market competition, trade</p>	<p><b>2</b></p> <p><b>Finance:</b> interest rates, share of loan, access to finance, working capital ratio to turnover</p>	<p><b>3</b></p> <p><b>Skills and Employment:</b> employment, skills gap &amp; training, employee retention, share of non-Nepali workers</p>	<p><b>4</b></p> <p><b>Industrial Ecosystem:</b> regulation and industry administration, utilities, transportation and infrastructure</p>	<p><b>5</b></p> <p><b>Business Outlook:</b> confidence in the industrial sector, new investment plans</p>
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## Industry Status Report (The Third Edition)

The Third Edition of the ISR has the benefit of comparing data from three consecutive quarters. It is based on a survey of 66 industries conducted between 10 February, 2022 and 5 April, 2022 to gather data on the second quarter of the Fiscal Year 2078/79 i.e. Kartik-Poush of 2078.

Apart from presenting the findings of the survey, each ISR covers one theme in depth. The First Edition focused on the energy industry. The Second Edition focused on the manufacturing industry. The Third Edition explores the Federal Government's budget making process and presents key policy suggestions made by CNI on behalf of Nepali industries. This ISR edition carries this theme for three primary reasons:

First, the Federal Budget is a policy-making exercise at the highest level in the country. Given that the government aims to achieve a double digit growth aided by industrialization (reflected in numerous Five Year plans), the nature of allocation of resources in the budget heavily impacts industries. Second, the budget making process is comprehensive spanning over a period of three months. The aim of this Budget Special is to highlight to the general public how the formulation process is carried out. Third, CNI seeks to communicate its key suggestions to the Government of Nepal (the primary recipient/target of the suggestions) through this report. It aims to make CNI's recommendations transparent to its Membership that comprises the largest industries in the country.

Finally, the budget suggestions mentioned in this report are broad recommendations to the government. Please contact CNI to learn more about the detailed elaborations on each recommendation.

## KEY STATISTICS (Q2 2078/79)



No of surveyed industries:

**66** ↑ (Q1 62)



Total employees covered:

**23563** ↑ (Q1 22,343)



Average employment  
per company:

**357** ↑ (Q1 397)



Average operational  
capacity utilization:

**71%** ↑ (Q1 70.5%)



Working capital  
as a percentage of  
turnover:

**33.9** ↓ (Q1 48.1%)



Average interest rate  
on loans:

**9.2%** ↑ (Q1 8.34%)



Average revenue  
growth rate:

**27.1%** ↓ (Q1 41.4%)

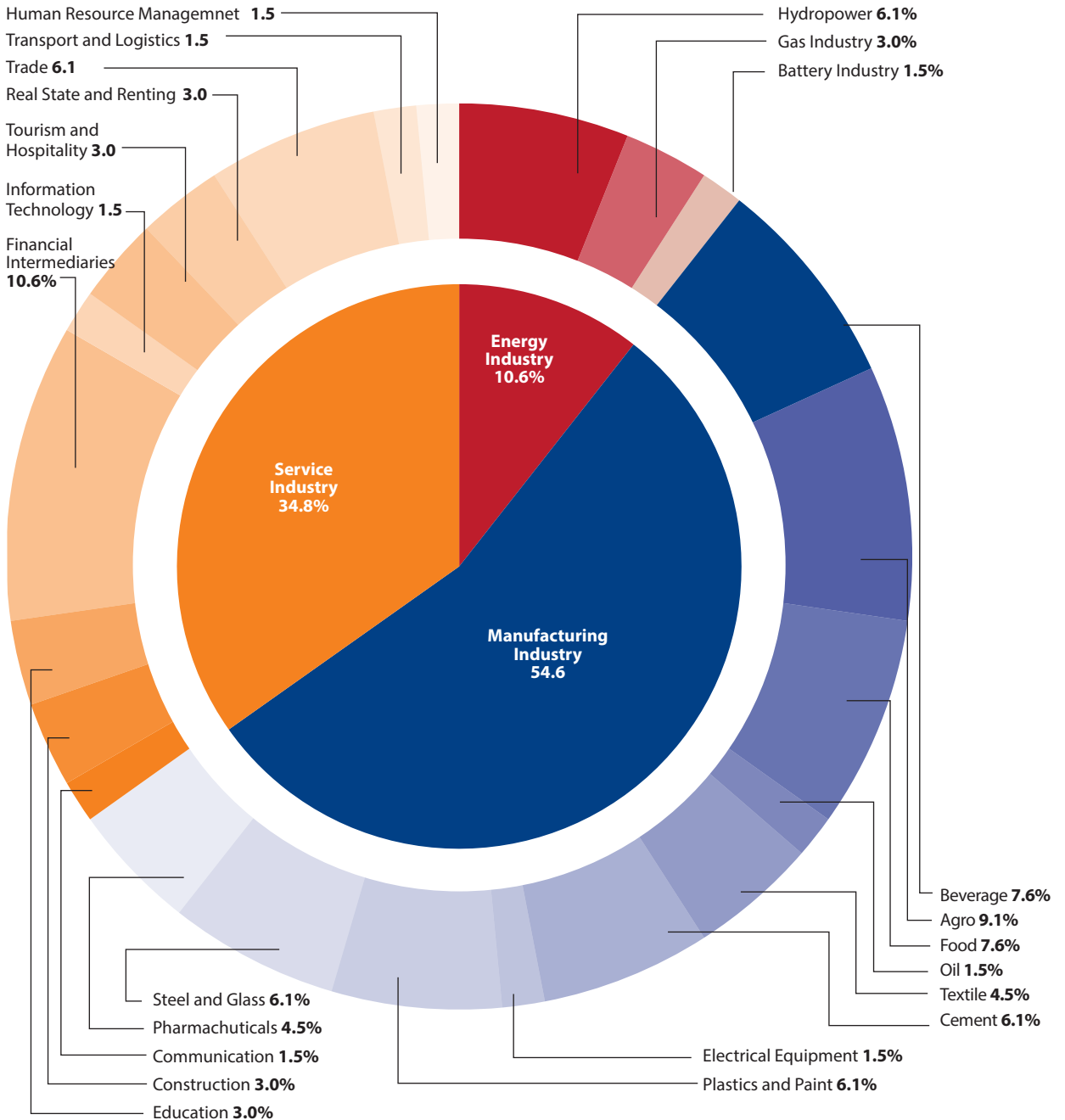


Average share of imported  
raw materials by the  
manufacturing industry:

**37.9%**

**Note:** Q1 in the parenthesis denotes the first quarter of the FY 2078/79

# COMPOSITION OF THE INDUSTRIES SURVEYED



# METHODOLOGY

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The Industry Status Report (Third Edition) is based on a quarterly survey of 66 industries.

The respondents are categorized under the Nepal Standard Industrial Classification (NSIC) Code for the purpose of the survey and further aggregated into two distinct industrial sectors: the manufacturing industry and the service industry. Since most of the agro-based industries in the survey sample were involved in the agro-processing business, they have been subsumed under the manufacturing category.

The sample was drawn from CNI membership located across Nepal.

Questions are tailored to specific industries. Respondents were asked questions, depending on their respective industries, using a survey platform called KoBoToolbox. Further analysis of the data was completed using Stata. The survey questions are available online.

The basic assumption in this report rests on the fact that the respondents have provided correct information.



## THE UNIT OF ANALYSIS

The unit of analysis is one industrial establishment.

# BUSINESS PERFORMANCE

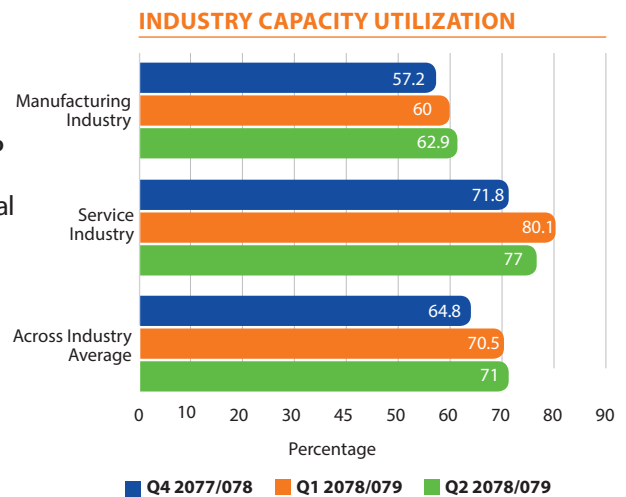
Periodic performance measurement is a vital part of monitoring the growth and progress of any business. This section summarizes the performance of industries within key variables in Q2 2078/79 and compares it with the survey responses from FY Q4 77/78 and FY Q1 78/79.

## INDUSTRY CAPACITY UTILIZATION: 71.0%

### KEY INDUSTRY INSIGHT I

On average, the industries were operating at 71.0% in Q2 78/79 whereas they were operating at 70.5% in Q1 77/78. The service industry was the most operational at 77% which is a slight decrease from 80.1% from the Q1 78/79.

The capacity utilization of the manufacturing industry was highest in Q2 78/79 at 62.9%, when compared with Q1 78/79 and Q4 77/78, which were 60% and 57.2% respectively. The continual increase in the capacity utilization of manufacturing industries shows an increase in the demand of domestic goods among consumers, thereby suggesting that the economy is recovering from the pandemic.



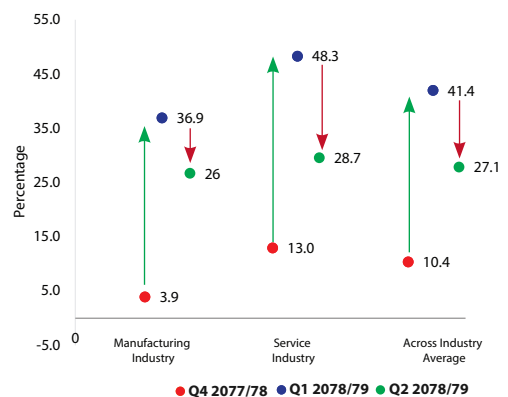
## REVENUE TRENDS: 27.1 % REVENUE GROWTH

### KEY INDICATOR II

In Q2 78/79, the across-industry-average revenue growth rate was 27.1% as compared to 41.4% in Q1 78/79, which is a 14.3 percentage point reduction between the two quarters. The declining pattern was consistent in both manufacturing and service industries.

Although industries were marginally operating at a higher capacity in Q2 78/79 as compared to Q1 78/79, it has not translated into a proportional increase in revenue growth. This may be attributed to two reasons. First, the increased production (as reflected in higher operation capacity) may not have been sold in the market yet. Second, revenue is increasing in absolute terms but at a slower rate than Q1 78/79.

### REVENUE GROWTH IN THE LAST 3 QUARTERS



## DOMESTIC MARKET DEMAND 93.2% AND MARKET COMPETITION 82.9%

### KEY INDICATOR III & IV

On average, **93.2%** of the respondents stated there is enough demand for their goods and services in the Nepali market, while 6.8% stated otherwise. As per the responses to this perception-based-question, the demand for goods and services produced by Nepali industries and businesses is encouraging.

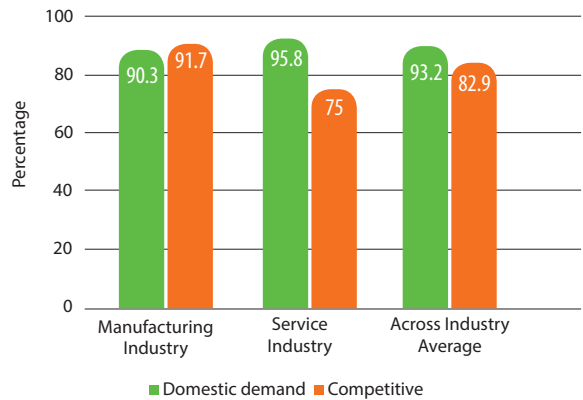
Furthermore, on average **82.9%** of the surveyed industries perceived their goods to be competitive in the market in relation to imported goods, which gives optimism to the domestic industries. The confidence among the domestic businesses regarding their competitiveness and sufficient market demand for domestic products is a critical factor for expanding a broader industrial base in Nepal.

## SHARE OF RAW MATERIALS IMPORTED: 37.9%

### KEY INDICATOR V

The survey results show that manufacturing industries significantly rely on raw materials sourced from global markets. In Q2 78/79, on average **37.9%** of it was imported from the global market. There has been a decline in imports of raw materials as compared to Q1 78/79 and Q4 77/78, which were 44.7% and 47.6% respectively.

## DOMESTIC MARKET DEMAND AND COMPETITIVENESS

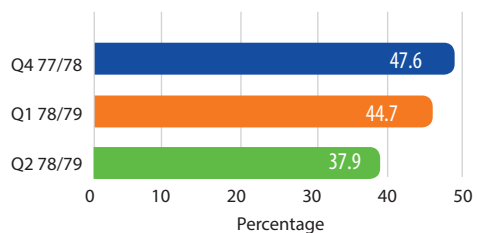


## SHARE OF EXPORT: 28.2%

### KEY INDICATOR VI

**28.2%** of the respondent manufacturing industries exported their goods in Q1 and Q2 78/79. The median share of export out of their total production was 35%. As a good share of industries are exporting goods, it indicates that their goods are competitive beyond the domestic market as well. The share of imported raw materials for manufacturing industries is 45.8%, which is higher than in both Q1 and Q2 78/79. It may also be extrapolated that exporting industries on average import more shares of raw materials, and **competitive industries can be established even if raw materials are not available in the country.**

## RAW MATERIALS IMPORTED





# FINANCE

This section provides insights into the ability of industries to access credit, the working capital as a percentage of turnover and prevailing interest rates in Q2 2078/79.

## WORKING CAPITAL: 33.9% OF WORKING CAPITAL AS A PERCENTAGE OF TURNOVER

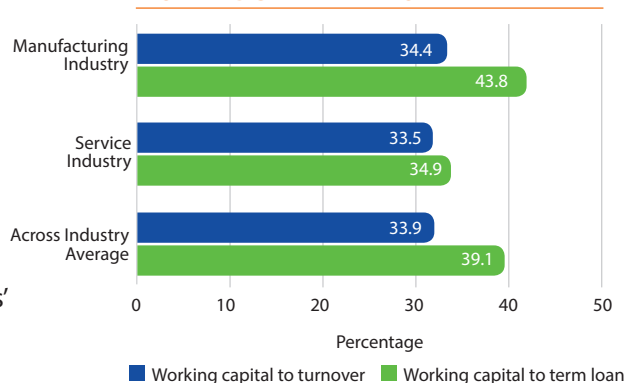
### KEY INDICATOR VII

The working capital\* to turnover ratio of the surveyed industries on average stood at 33.9%. Further, 43% of the surveyed industries' working capital ratio to turnover was above 40%.

The proposed Working Capital Guideline floated by NRB states that the drawing power of a firm against Fluctuating Working Capital limit should be restricted to 20 percent of the annual turnover. Putting in place an across-industry upper threshold of 20 percent is likely to seriously disrupt business operations for certain kinds of industries, especially for manufacturing companies.

The NRB Guideline should clearly define the distinction between permanent and fluctuating working capital. Finally, this may not be the ideal time to make drastic regulatory departures given that industries are just recovering from the pandemic and the global market is currently mired with uncertainties because of the ongoing conflict between Ukraine and Russia.

### WORKING CAPITAL RATIO



\* Capital required to meet the day to day capital requirement of the company.

## AVERAGE INTEREST RATE: 9.2%

### KEY INDICATOR VIII

In Q2 78/79, the average interest rate on loans was 9.2% which is 0.86 percentage points higher than in Q1 78/79. However, 9.2% is still lower than the Weighted Average Lending Rate (Commercial Banks) at the end of Poush which was at 9.44% (NRB's Poush Macroeconomic updates, 2022).

While the interest rate for all industrial sectors increased in Q2 2078/79, the highest increase was observed for the manufacturing industry.

### INTEREST RATES

Sectors	Q4 77/78	Q1 78/79	Q2 78/79
Manufacturing Industry	7.7	8.6	9.4
Service Industry	8.4	8.5	9.1
Across-industry-average	7.8	8.34	9.2

## ACCESS TO FINANCE: 5.2 OUT OF 10

### KEY INDICATOR IX

When asked to rate the access to finance for business operations on a scale of 1 to 10 (with 1 being the lowest and 10 being the highest), the across-industry-average score stood at 5.2, a downfall from 6.8 in Q1 78/79 and 7 in Q4 77/78 respectively. The lesser optimism across industries towards access to finance can be attributed to the present macroeconomic and financial situation of Nepal. Uncertainty generated by the ongoing liquidity crunch has been reflected in the financial indicators of the survey as well.

### SCORE ON EASE OF ACCESS TO FINANCE

Sectors	Q4 77/78	Q1 78/79	Q2 78/79
Manufacturing Industry	7.2	6.6	4.83
Service Industry	6.7	6.9	5.23
Across-industry-average	7	6.8	5.2

# SKILLS AND EMPLOYMENT

This section highlights the trends in employment and skills of the employees in the industries.

## TOTAL EMPLOYMENT: 23.56K

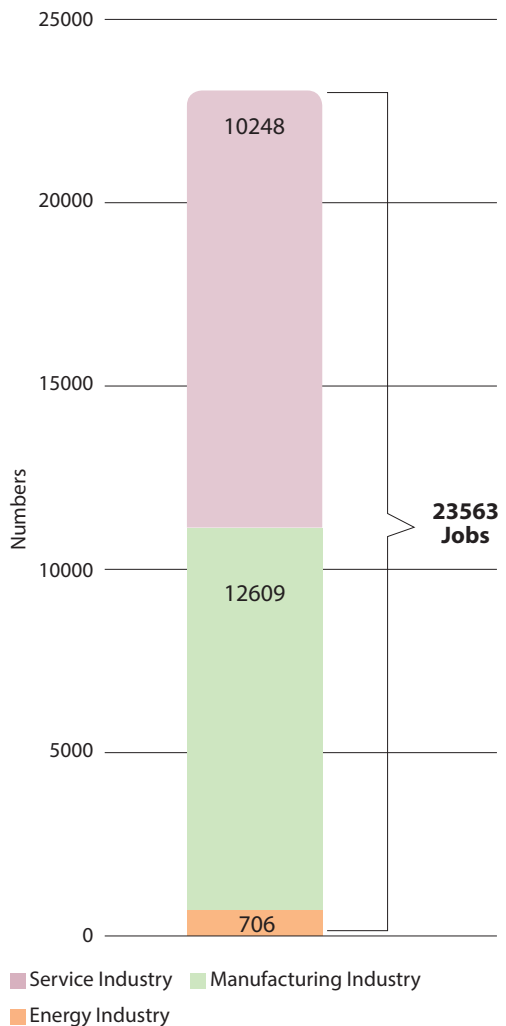
### KEY INDICATOR X

The surveyed industries employed 23,563 staff in total. On average, an industry establishment employed 357 individuals, with the range being 9 to 4200. This indicates, on average, CNI survey members are large business enterprises.

With 12,609 employees, the manufacturing sector is the largest employing sector, followed by the service industry with 10,248 employees and, the energy industry with 286 employees.

**Average employment among sectors:** The service sector was at the top with 452 jobs while manufacturing industries were right behind with 435 jobs.

### EMPLOYMENT IN SURVEYED INDUSTRIES

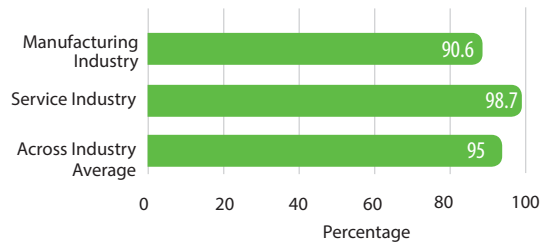


## SHARE OF NEPALI WORKERS: 95%

### KEY INDICATOR XI

95% of employees across industry were Nepali citizens, as reported by the respondents. The service sector had the highest share of Nepali workers at 98.7%, The manufacturing sector has the lowest share of national workforce at 90.6%

### SHARE OF NEPALI WORKERS



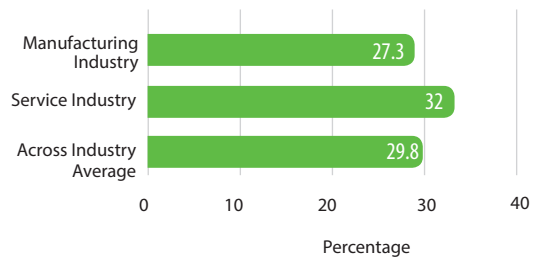
## SKILL GAP AND TRAINING: 29.8%

### RECEIVED TRAINING

### KEY INDICATOR XII

The survey result shows that across sectors 29.8% of the total employees received training during the Q1 and Q2 2078/79. The service industry sector trained 32% of the total workforce, while the manufacturing industry sector provided training to 27.3% of its employees.

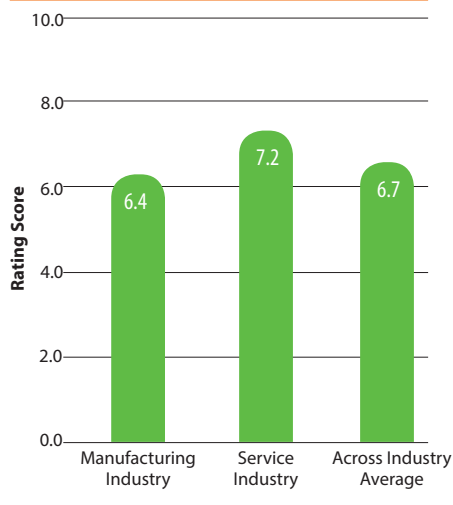
### SHARE OF EMPLOYEE THAT RECEIVED TRAINING



# INDUSTRIAL ECOSYSTEM

This section focuses on the various aspects of the regulatory environment, state-provided utilities, transportation and infrastructure that have a direct bearing on the competitiveness of industries.

## QUALITY OF ELECTRICITY



## 1. UTILITIES

### ELECTRICITY: 8.3 POWER OUTAGES PER WEEK

#### KEY INDICATOR XIII

On average, industries experience 8.34 power outages per week. Due to this high number of power outages, 64.4% of the respondent industries are compelled to deploy a generator. The use of generators has led to 5.3% increase in the monthly operation cost of the surveyed industries. This is reflected when industries were asked to rate the quality of electricity as well. When asked to rate the quality of electricity provided, based on voltage fluctuation and frequency of power tripping on a scale of 1 to 10 (with 1 being the lowest and 10 being the highest), the average rating is 6.7.

## 2. REGULATIONS

### Experience with government online service

Although the government has been prioritizing digitization of the economy, the survey results reveal that respondents on average were not satisfied with the quality of online services provided by various public entities. When asked to rank the quality of services on a scale of 1 to 10 (with 1 being the lowest and 10 being the highest), the average score of the respondents was 4.6.

Sector	Rating
Manufacturing Industry	4.3
Service Industry	4.8
Across Industry Average	4.6

## ENVIRONMENTAL COMPLIANCE

### KEY INDICATOR XIV

When asked if environmental compliance is an obstacle to their industry, moderate obstacle was the most recorded answer across all sectors. For the manufacturing industry, environmental compliance is a moderate obstacle (opted by 52.4%), whereas it is a minor obstacle for the service industry.

## 3. TRANSPORTATION, TRADE, AND LOGISTICS

### Percentage of goods lost during transport and storage

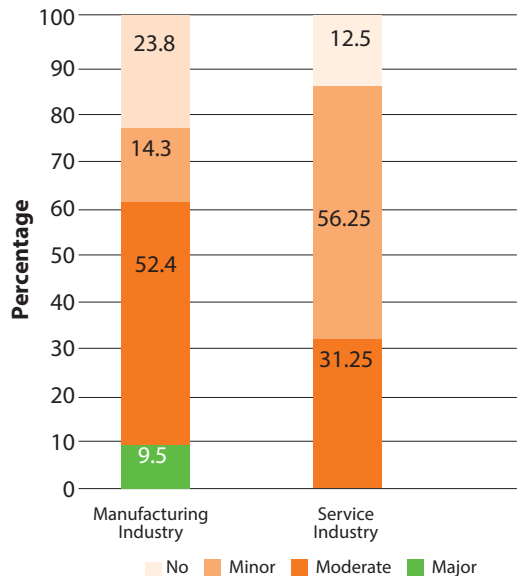
#### KEY INDICATOR XV

Transport and storage of goods is still an obstacle for the producers. This highlights the need for better transportation and logistics infrastructure for realizing an industrial-led economic growth in Nepal.

### Major Challenges

Among the specific challenges that the respondents want resolved, quality of roads was unanimously the biggest concern across all industrial sectors. In the case of the manufacturing industry, the trucking syndicate was the second biggest challenge. Arbitrary pricing of transportation and logistics was the second biggest concern for the service industry.

### IS ENVIRONMENTAL COMPLIANCE AN OBSTACLE TO YOUR INDUSTRY?



Manufacturing Industry	Service Industry
Quality of roads	Quality of roads
Trucking syndicate	Arbitrary Pricing

# BUSINESS OUTLOOK

This section presents the confidence level of surveyed industries regarding their own business for the remaining months of the fiscal year 2078/79.

## BUSINESS CONFIDENCE: MODERATE CONFIDENCE

### KEY INDICATOR XVI

On the whole, the outlook of industries towards their own business worsened for the remaining period of the fiscal year in comparison to the first and second quarters. For the rest of the year, businesses were asked to rank the favorability for their own firm on a scale of 1-10 (with 1 being the least favorable and 10 being the most favorable) in terms of revenue and investment opportunities, regulatory environment, access to finance, labor and better utility facilities.

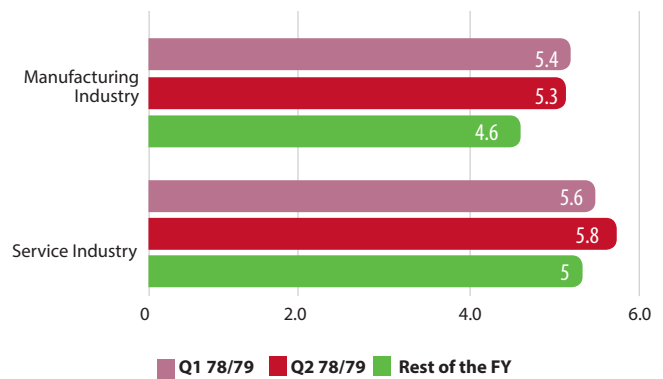
This can be a result of the unsolved liquidity crunch, unstable and higher interest rates, sharp increase in inflation rates of imported raw materials, and larger macroeconomic situation of the country which do not paint a conducive business environment.

## 65.5% HAVE NEW INVESTMENT PLANS

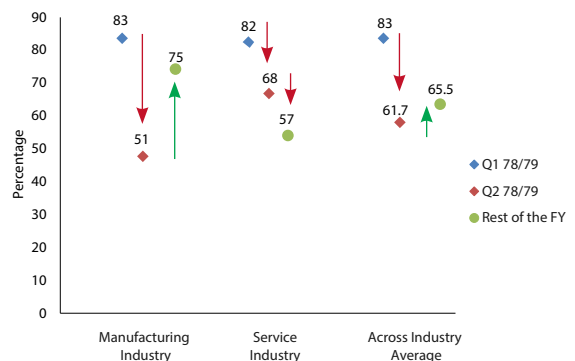
### KEY INDICATOR XVII

New investment plans are an indicator of how optimistic businesses are for the future. **65.5%** of the respondents across sectors plan to expand their business during the remaining period of the fiscal year. It is notable that while the businesses are not quite optimistic about their business, one-third of the respondents are planning some form of investment in the current fiscal year.

### HOW FAVORABLE IS REST OF THE FISCAL YEAR FOR YOUR OWN BUSINESS?



### NEW INVESTMENT PLANS IN REST OF THE FY











# GOVERNMENT OF NEPAL FEDERAL BUDGET FY 2079/80

## BACKGROUND TO BUDGET FORMULATION

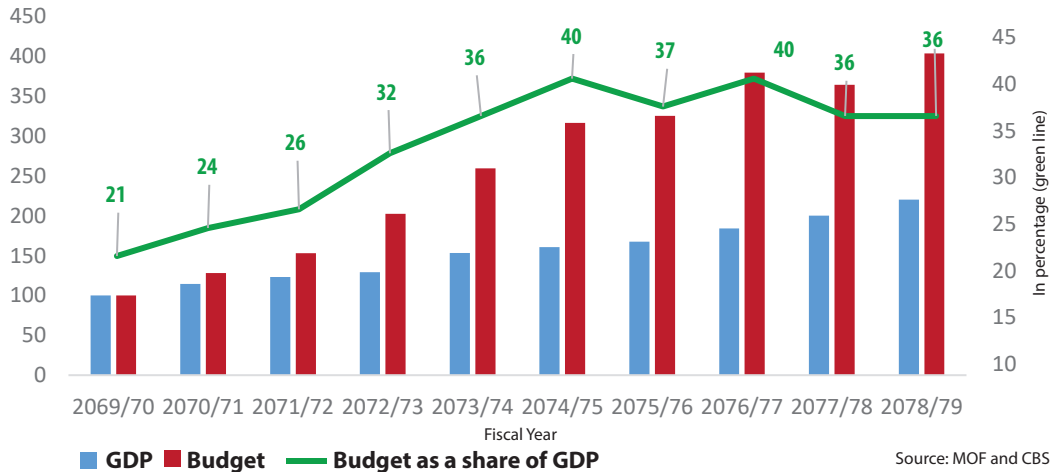
The first annual budget of Nepal was prepared and presented in 1951, with the overthrow of the Rana regime. Since the adoption of federalism in FY 2073/74, three tiers of budgets at the federal, provincial, and local level are prepared in Nepal. Article 59 (1) of the Constitution of Nepal 2072 confers power to the federal, provincial, and local governments to make annual budget decisions and formulate plans and implement policies on financial matters within their respective jurisdictions. **This edition of the ISR exclusively focuses on the federal budget.**

### Article 119: The Constitution of Nepal, 2072

-  (1) The Minister for Finance of the Government of Nepal shall, in respect of every financial year, lay before the joint sitting of both Houses of the Federal Parliament an annual estimate setting out, inter alia, the following matters:
- an estimate of revenues,
  - the moneys required to meet the charges on the Federal Consolidated Fund, and
  - the moneys required to meet the expenditure to be provided for by a Federal Appropriation Act.
- (2) The annual estimate to be laid pursuant to clause (1) shall also be accompanied by a statement of the expenses allocated to every Ministry in the previous financial year and particulars of whether the objectives of the expenses have been achieved.
- (3) The Minister for Finance of the Government of Nepal shall lay before the Federal Parliament an estimate of revenues and expenditures under clause (1) on the 15th day of Jesta (mid May) each year.<sup>1</sup> 

1. Constitution of Nepal 2072

## BUDGET SIZE VS GDP (OVER THE LAST DECADE)



Note: To observe the relative growth in the size of the budget vis-a-vis the GDP, the values for the FY have been rebased to 100.

Observing the size of the federal budget from the last ten years, we can see the annual budget contracted for the first time in FY 2077/78. While the GDP of the country increased by 2.4 times, the budget increased by a factor of four.

The following documents are presented during the budget speech:<sup>2</sup>

- Heading-wise Expenses Estimates
- Ministry-wise Progress Details
- Midterm Expense Structures
- Economic Projection
- Progress Report of Public Entities
- Details Relating to Technical Assistance
- Appropriation Bill
- Finance Bill
- National Loan Bill
- Loan and Guarantee Bill
- Advance Bill
- Other Subjects Specified by

### Intergovernmental Fiscal Management Act, 2074

The following three Bills along with budget document are the most integral part of the budget:

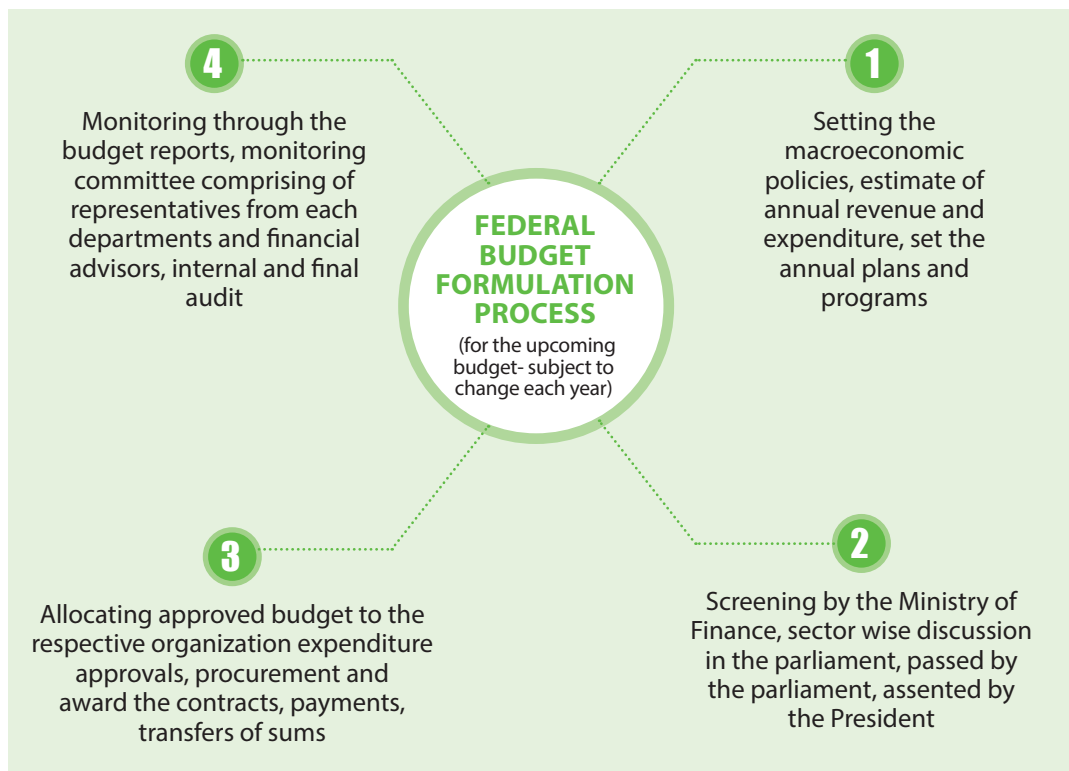
1. **Budget Document/Speech:** The government budget is an annual financial statement presenting the government's proposed revenues and spending for a year, which is passed by the legislature, approved by the head of government, and presented by the finance minister to the nation via parliament.
2. **Finance Bill (Act):** The Finance Bill is introduced each year to give effect to the financial proposals of the Government of Nepal for the following financial year. The Finance Act contains necessary amendments in the direct taxes (e.g. income tax

2. Budget Formulation Guideline 2075, MoF (बजेट तर्जुमा दिग्दर्शन)

and wealth tax) and indirect taxes (e.g. excise duties, custom duties, and service tax) signifying the policy decisions of the Federal Government.

**3. The Appropriation Bill (Act)** is a law containing the amount of money to be spent by each ministry, department and local government, and authorizing them to withdraw that money from the Consolidated Fund.

**4. Bill to Raise National Debt:** This bill authorizes the government to raise the loan amount provisioned by the budget for the given fiscal year. After the discussion on the bill presented and approved from the parliament, these bills acquire the status of Acts.



## FEDERAL BUDGET FORMULATION PROCESS<sup>3</sup>

(For the upcoming budget- subject to change each year)

S.N	Process	Relevant Authority	Timeline
1.	Determine the base for Budget through <ul style="list-style-type: none"> <li>- policy discussion and concept paper preparation</li> <li>- initial projection of resources and fund</li> </ul>	NPC/ MoFA and relevant ministries	2nd week of Kartik - 2nd week of Mangshir
2.	Provide guideline for Budget formation and budget limit <ul style="list-style-type: none"> <li>- to ministries</li> <li>- ministries sending it to departments, district and projects</li> </ul>	NPC and MoFA	Mangshir 3rd week - Mangshir 4th week
3.	Prepare and submit the budget and programmes	Relevant offices or unit making expenditure	2nd week of Poush - Magh 3rd week
4.	Discuss further on the Budget and Programmes	MoFA and relevant ministries in participation of NPC and the President of Nepal	Magh 4th week - Jestha 2nd week
5.	Present the Budget to the Federal Parliament and approval	Finance Minister	Jestha 15th
6.	Monitor and Evaluate <ul style="list-style-type: none"> <li>a) Every month</li> <li>b) Every two months</li> <li>c) Evaluation of previous budget</li> <li>d) Half-yearly budget review</li> </ul>	Every Ministry	a) Within 7th of each month b) 15 days after end of month c) within Mangshir d) within Magh

2. For more detailed breakdown of this process, refer to the Budget Formulation Guideline 2075, MoF (बजेट तर्जुमा दिग्दर्शन, २०७५)

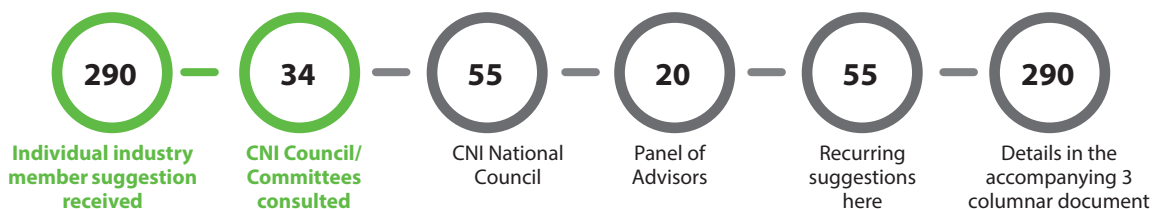
# CNI BUDGET SUGGESTIONS DRAFTING PROCESS

For two decades, CNI has been providing budget suggestions to the Government of Nepal on behalf of Nepali industries. CNI's budget suggestions are based on a series of consultations spanning over two months with dozens of industries and relevant experts.

The budget suggestion collection process constitutes the following steps:

- a. Call for budget suggestions from member institutions
  - i. Call in national dailies, emails etc.
- b. CNI Revenue Committee -
  - i. CNI Committee members discuss with different government GoN committees and subcommittees
- c. CNI intra-committee Consultations
- d. Discussion with CNI Panel of Advisors
- e. Final draft prepared by the CNI Revenue Committee
- f. Final suggestion draft approved by CNI Office Bearers
- g. Budget suggestions presented to the Finance Ministry in presence of the Finance Minister
- h. Post-budget assessment of recommendations that were addressed

## CNI'S BUDGET SUGGESTION FORMULATION PROCESS FY 2079/80



**The impetus behind CNI's recommendations for the upcoming budget is to mitigate the following six challenges the economy faces:**

- 1. Premature deindustrialization**
- 2. Skewed balance of payments**
- 3. Poor quality physical infrastructure**
- 4. Dearth of skilled human resource and scarce employment opportunities**
- 5. Policy inconsistency, poor governance, and staff stability within civil service**
- 6. Lack of capital and recurring liquidity crunch**

**NOTE:** The list of CNI's budget suggestions presented in this ISR are not exhaustive. In total, it presented 290 specific recommendations ranging from changes required in the Income Tax Act to implementing two-slabs import duties on raw materials and finished products.

## **OVERARCHING POLICY SUGGESTIONS:**

### **1) Policy stability for ten years:**

The private sector should be acknowledged as the engine of growth. This should be reflected in the orientation of policies that pertain to it. Policies that are currently beneficial to the private sector ranging from tax benefits to lower duties on imports of raw materials should remain stable for the next 10 years. Nepal has had a rather poor historical record in ensuring policy

stability attributable to rapid changes in government, and the influence of powerful lobbyists. Desired policy outcomes are not achievable without ensuring certainty, continuity, and certain level of predictability in regulations. Amendment of the Public Procurement Rules over five times in a single year attests to this. Stability in policies will help individual enterprises make new and bolder investment decisions. Finally, it also contributes to improving the credibility of the government.

**2) State protection for specific industries:** The Government of Nepal should declare and recognize products Nepal is on the verge of achieving self-sufficiency. The cost of producing goods in Nepal is relatively high due to technological backwardness and the need to import most of the raw materials and machines. The three published Industry Status Reports show that approximately 50% of industrial raw materials are imported. To further catalyze industrial growth in products such as cement, footwear, paint, biscuits, electric cables, pharmaceuticals, and textile, state

protection is critical. These products already play a positive role in import substitution, and they have potential for exports too.

**3) Streamline industrial regime:** Similar to the Nepal Trade Integration Strategy (NTIS) 2016 that promotes high export-potential goods, the (GoN) should introduce a strategy exclusively aimed at industrial facilitation. The proposed Integrated Industry Facilitation Strategy (IIFS) will help inter-ministerial coordination and streamline relevant laws, procedures, incentives, and priorities so that the state machinery collectively facilitates industrial growth.

**REGULATIONS AND LAWS THAT GOVERN THE INDUSTRIES (STILL NOT AN EXHAUSTIVE LIST)**



CNI, bringing together the entirety of concerns of industries, and the Department of Industries (DoI) could work together to determine the content of the IIFS 2078. An MoU can be concluded to initiate this strategy, develop associated policies, and establish monitoring mechanisms to provide inputs of industrialists to the government. This will ensure all the major stakeholders are on the same page. The NTIS explicitly supports 19 export-potential goods and services. Similarly, IIFS will also target industries that show promise for import substitution and those that produce goods and services with potential for rapid growth and job creation.

**Finally, the introduction of an IIFS would also symbolize a departure in government policy from trade to industry facilitation.**

**4) Export potential of service-based products:** With an increasingly talented pool of Nepali white-collar professionals, the country could export services. Leveraging this fact, policies need to encourage and facilitate the exports of Nepali service industry globally. This can be a strategic avenue to earn new sources of foreign currency for Nepal.

**A non-exhaustive list to export potential services:**

- Management consulting: studies, reports, business plans, financial advice Information and communication technology
- Internet service provider, cellular telephony

- Marketing: market research, advertising
- Consulting engineering: feasibility studies, drawings
- Health: tele-health
- Education and training: e-learning, distance learning, e.g. Veda
- Professional services (CAs, etc. engineering), nurses

**5) Multi-VAT system:** In order to make Nepali products competitive vis-a-vis Indian goods, Nepal needs to introduce a multi-VAT system akin to India. India's GST rate for various goods and services is divided into five slabs: 0% GST (like rice), 5% GST, 12% GST, 18% GST, & 28 GST, while Nepal at present only has a single 13% VAT system (except for 0% VAT on basic goods) As a consequence of the open border between the two countries and the multi-VAT system in India, Indian goods result in being cheaper as identical products attract different VATs in India and Nepal. The introduction of a Multi-VAT system will help mitigate unauthorized trade from India to an extent as the market price of similar products will be similar.

**6) Formulate and introduce a "Security of Payment Act":** A Security of Payment Act should be formulated and implemented for safe recovery of the amount which has not been recovered on the sale of goods by check, invoice, Vehicle & Consignment Tracking System (VCTS) or on loan by the seller. Some good examples that Nepal can replicate are the Building



and Construction Industry Security of Payment Act of Singapore and the Building and Construction Industry Security of Payment Act 2002 of Australia.

- 7) Removing draconian laws that cause fear among industrialists/ entrepreneurs is cursory to a friendly business environment. This will likely encourage the private sector to freely expand investments and engage in higher risk businesses that are important in any market-based economy. Those legal provisions which intimidate the industrialists should be amended and arrangements should be made to give them a fair hearing. A vibrant economy depends on the absence of arbitrary legal provisions. Introducing a provision for anticipatory bail will help address a persistent fear of wrongful arrests among Nepali industrialists. Henceforth, the government should introduce anticipatory bail in the National Criminal Procedure (Code) Act 2017.

- 8) **Swadeshi Decade:** The Government of Nepal in partnership with the private sector should declare and celebrate 2079-2089 as the Swadeshi Decade to enhance the production of domestic goods and promote the consumption of Nepal-produced goods. Since Nepal's economy is open to global trade, Nepali industries have to compete with goods and services produced all around the world. The cost of producing goods in Nepal is relatively high because of technological inadequacies, the need to import most raw materials and

## Anticipatory Bail (India Reference)

Sub-section 1 of section 438 in the Indian Criminal Code states, when a person has reason to believe that he/she may be arrested on an accusation of having committed an offense, he may apply to the court to issue bail. If the court sees fit, it will provide a directive that the person be released on bail.

### Conditions to be satisfied:

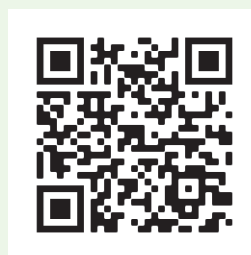
- The person shall make himself available for interrogation by a police officer.
- The person shall not make any inducement, threats or promise to the person acquainted with the facts.
- The person shall not leave the country without permission of the court.

If the accused can reasonably guarantee these conditions will be met during the period of trial and sentencing, then it is unfair to deprive the person of his/her liberty during the trial period.

The Constitution of Nepal places individual liberty on a high pedestal. On various occasions, the Supreme Court has emphasized the importance of due process of the law in the matter of arrest.

machines, and peculiar management inefficiencies. While interventions are needed in all these areas, a conducive revenue policy can be an important starting point. Good policies relating to industry exit, industrial relations, simplified tax system, effective implementation of anti-dumping, countervailing and safeguard measures, among others, will be important to make the **Swadeshi Decade** meaningful.

## INDUSTRY STATUS REPORT (PREVIOUS EDITIONS)



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## About CNI

The Confederation of Nepalese Industries (CNI) was established by the captains of Nepal's industrial and corporate sector on April 17, 2002. Its core mandate is to help enhance the business environment for the private sector.

It has a membership base consisting of nearly all of the big corporate houses of Nepal, Nepali blue-chip companies, joint venture companies, etc. spread across a wide and diversified spectrum of industries.

## About CRC

CNI Research Cell was established due to a dearth of evidence-based research on Nepali industries, especially based on primary data. CNI aspires to be a trusted development partner of the Government of Nepal. The data and research generated by CRC is transparent, unbiased and will be kept confidential. The team comprises Research Director Mr. Nirnaya Bhatta and Research Officers Mr. Pratap Adhikari and Ms. Astha Wagle.



CONFEDERATION OF NEPALESE INDUSTRIES