

ISSN: 3021-9612 (PRINT)
YEAR IV | VOLUME 2

INDUSTRY STATUS REPORT

BASED ON
THE ONLY
COMPREHENSIVE
QUARTERLY
INDUSTRIAL
SURVEY OF NEPAL

CNI'S POLICY
SUGGESTIONS FOR
FY 2081/82



MARCH 2024



CONFEDERATION OF NEPALESE INDUSTRIES



INDUSTRY STATUS REPORT (PREVIOUS EDITIONS)



Scan the QR code to access digital ISRs



TABLE OF CONTENTS

KEY STATISTICS	2
METHODOLOGY	4
BUSINESS PERFORMANCE	5
Industry Capacity Utilization: Key Industry Insight I	5
Revenue Trends: Key Industry Insight II	5
Growth in Market Demand and Market Competition: Key Industry Insight III & IV	6
Share of Raw Materials Imported: Key Industry Insight V	6
Export: Key Industry Insight VI	6
Share of Loan on Working Capital: Key Industry Insight VII	7
Interest rates: Key Industry Insight VIII	7
SKILLS AND EMPLOYMENT	8
Total Employment: Key Industry Insight IX	8
New Hiring	8
Skill Gap and Training: Key Industry Insight X	8
INDUSTRIAL ECOSYSTEM	9
Experience with Government Online Service: Key Industry Insight XI	9
Constraint to Current Operations of Business: Key Industry Insight XII	9
Utilities: Key Industry Insight XIII	10
Major Challenges	10
Transportation and Logistic Hurdles	10
BUSINESS OUTLOOK	11
Business Confidence: Key Industry Insight XIV	11
New Investment Plans: Key Industry Insight XV	11
CNI'S POLICY SUGGESTIONS FOR FY 2081/82	12

ACKNOWLEDGMENTS

CNI Research Cell (CRC) expresses its gratitude to CNI President Mr. Rajesh Kumar Agrawal for his support for the execution of the survey. We extend sincere thanks to Vice President Mr. Birendra Raj Pandey for constant encouragement, and to the respondents of the survey for their time and inputs.

The team would like to extend sincere gratitude towards Mr. Deepak Raj Joshi and Mr. Rajeev Majgaiyan. Also, many thanks to Moti Marasini for designing the ISRs impeccably.

About Industry Status Report







The Industry Status Report (ISR) provides a comprehensive analysis on the state of various industries in Nepal, leveraging an in-house survey. In Nepal, what explains misdirected policy interventions aimed at private sector growth? The absence of periodically available primary data on Nepali industries is one of the key reasons. 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.

Industry Status Report (FY 2080/81, Q2 Edition)

The Industry Status Report (FY 2080/81, Q2 Edition) has the benefit of comparing survey data from five consecutive quarters. The current report covers the second quarter of the fiscal year 2080/81. (i.e Kartik to Poush 2080). The data was gathered from the survey conducted from 17 January to 28 March 2024.

Apart from presenting the findings of the survey, each ISR covers one theme in depth. The First Edition of FY 2079/80 focused on the CNI Business Assessment Survey. The Second Edition of FY 2079/80 covered the Comparison Study of Rigid Pavement and Flexible Pavement. The Third Edition covered CNI's suggestions on Federal Budget 2080/81. The Fourth Edition covered Nepal Rastra Bank's Unified Directives. The First Edition of Fiscal Year 2080/81 discussed the CNI Business Assessment Survey 2023, a follow-up to the previous year's survey to analyze YoY status. This Second Edition of Fiscal Year 2080/81 covers Suggestions for Policy and Programmes of Fiscal Year 2081/82 presented by CNI to the Government of Nepal.

What does the survey cover?

<p></p> <p>Business Performance: industry capacity utilization, revenue trends, demand in domestic market and market competition, trade</p>	<p></p> <p>Finance: interest rates, the share of the loan, access to finance</p>	<p></p> <p>Skills and Employment: employment, share of employees that received training</p>	<p></p> <p>Industrial Ecosystem: regulation and industry administration, transportation and infrastructure</p>	<p></p> <p>Business Outlook: confidence in the industrial sector, new investment plans.</p>	<p></p> <p>CNI's Policy Suggestions for FY 2081/82</p>
---	--	---	--	---	--

KEY STATISTICS (FY 2080/81, Q2 EDITION)



No of surveyed industries:

62 ↓ (Q1 93)



Total employees covered:

14562 ↓ (Q1 21164)



Average employment
per company:

234.87 ↑ (Q1 227.57)



Average operational
capacity utilization:

62.31% ↓ (Q1 65.49%)



Share of loan on working
capital:

40.03% ↓ (Q1 43.22%)



Average interest
rate on loans:

11.63% ↑ (Q1 11.49%)



Average revenue
growth rate:

-1.87% ↑ (Q1 -5.56%)

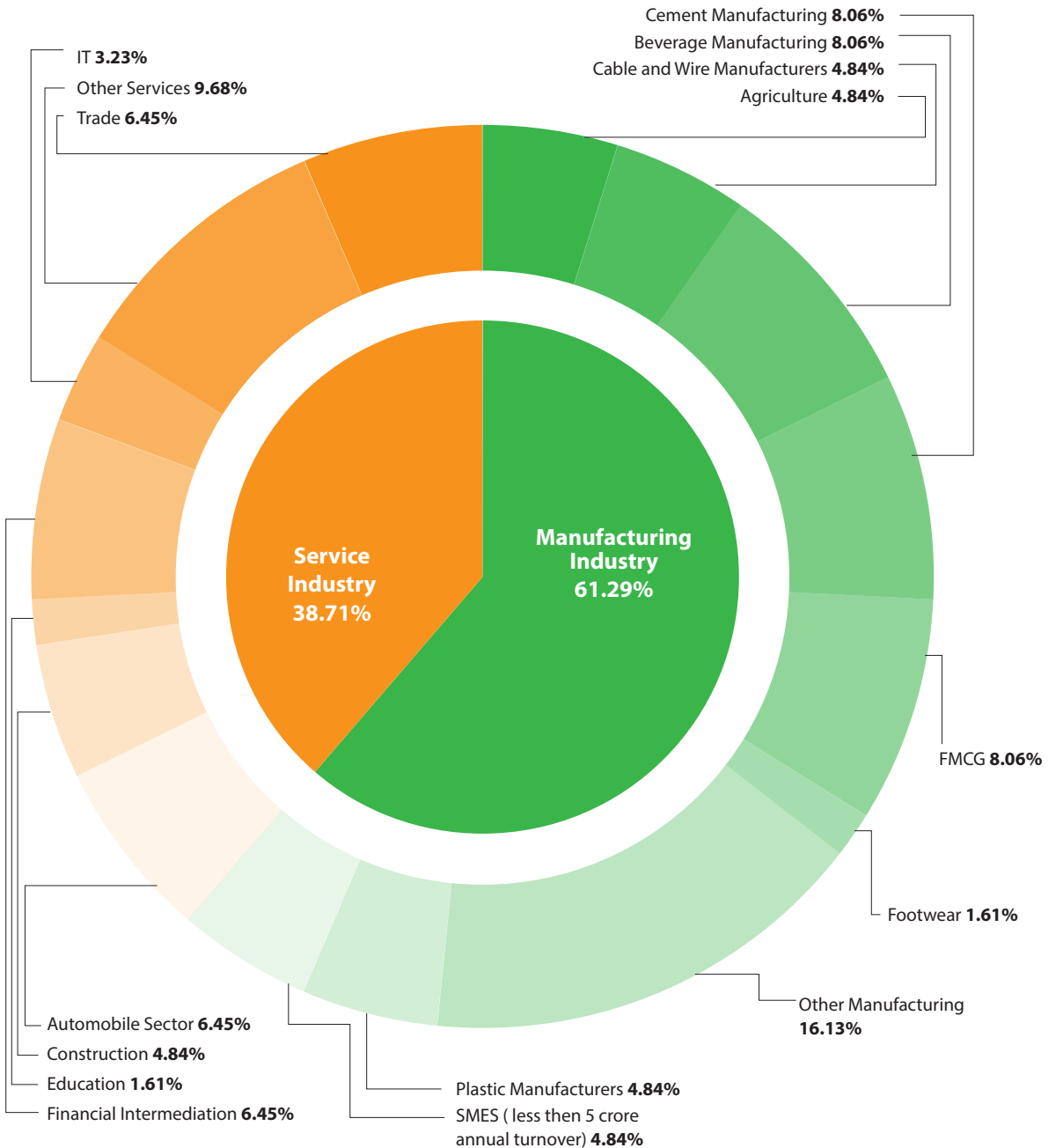


Average share of imported
raw materials by the
manufacturing industry:

41.44% ↑ (Q1 36.09%)

Note: Q1 in the parenthesis denotes the first quarter of the FY 2080/81

COMPOSITION OF THE INDUSTRIES SURVEYED



METHODOLOGY

The Industrial Status Report (FY 2080/81, Q2 Edition) is based on a quarterly survey of 62 industries.

The respondents are categorised 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 member's network located across Nepal.

Questions are tailored to specific industries. Respondents were asked questions, depending on their respective industries, using a survey platform called KoBoToolbox. 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 summarises the performance of industries within key variables in Q2 2080/81 and compares it with the survey responses from previous quarters.

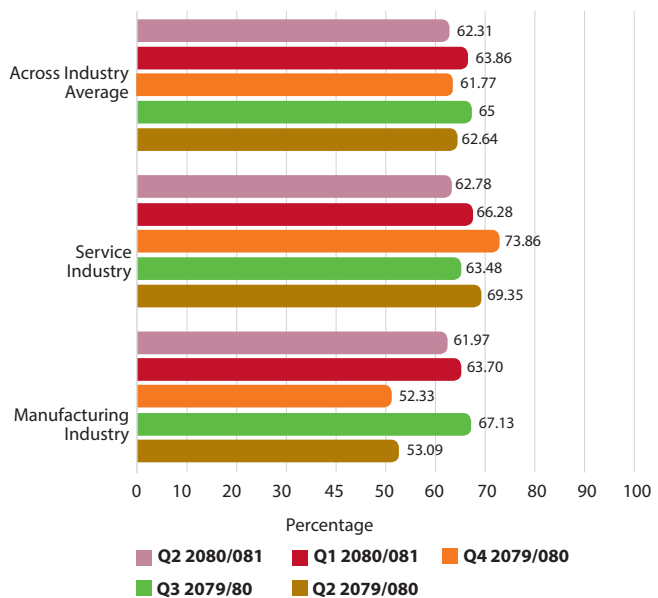
INDUSTRY CAPACITY UTILIZATION: : 62.31%

KEY INDUSTRY INSIGHT I

On average, the industries were operating at **62.31%** in Q2 80/81 whereas they were operating at 63.86% in Q1 80/81. During Q2 80/81, the service industry was operational at **62.78%**, which has decreased from 66.28% in Q1 80/81.

The capacity utilisation of the manufacturing industry in Q2 80/81 remained at **61.97%** while it was **63.7%** in Q1 80/81.

INDUSTRY CAPACITY UTILIZATION

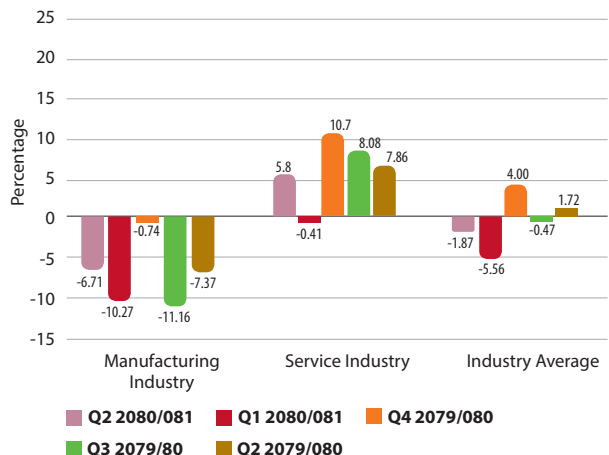


REVENUE TRENDS: REVENUE GROWTH -1.87%

KEY INDUSTRY INSIGHT II

In Q2 80/81, the across-industry-average revenue growth rate was -1.87%, whereas it was -5.56% in Q1 80/81. The revenue growth in the manufacturing sector in Q2 80/81 experienced a decline of 6.71%. It was -10.27% in Q1 80/81.

REVENUE GROWTH RATE



GROWTH IN MARKET DEMAND -1.65% AND *MARKET COMPETITION 66.67%

(* PERCEPTION-BASED QUESTION)

KEY INDUSTRY INSIGHT III & IV

The survey result shows that the average growth of demand for goods and services was -1.65%. The highest recorded growth rate was an impressive 64%, while the largest decline observed was a significant 80%. The demand of manufacturing industries has declined by 6.00%.

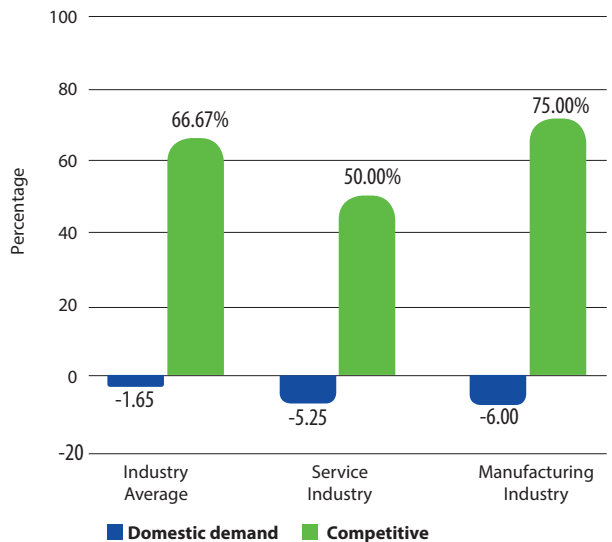
Furthermore, on average 66.67% of the surveyed industries perceived their goods to be competitive in the market in relation to imported goods, which gives optimism to the domestic industries. The confidence among the domestic businesses regarding their competitiveness and sufficient market demand for domestic products is a critical factor for expanding a broader industrial base in Nepal.

EXPORT: 27.78%

KEY INDUSTRY INSIGHT V

In Q2 80/81, 27.78% of the respondent manufacturing industries successfully exported their goods. Compared to the previous quarter, which recorded an export rate of 44.00%, the export in this quarter has decreased. The average proportion of exports out of their production has increased from 22% in Q1 80/81 to 24.88% in Q2 80/81.

DOMESTIC MARKET DEMAND AND COMPETITIVENESS

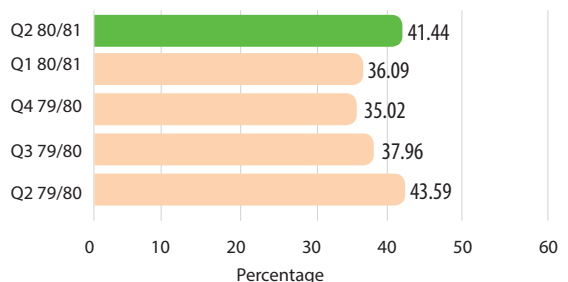


SHARE OF RAW MATERIALS IMPORTED: 41.44%

KEY INDUSTRY INSIGHT VI

The survey results show that manufacturing industries significantly rely on raw materials sourced from global markets. Out of the total raw material required, on average 41.44% of raw materials was imported from the global market in Q2 80/81. There has been an increase in imports of raw materials as compared to Q1 80/81 which was 36.09%.

RAW MATERIALS IMPORTED



FINANCE

This section provides insights into the ability of industries to access credit and prevailing interest rates.

SHARE OF LOAN ON WORKING CAPITAL: 40.03%

KEY INDUSTRY INSIGHT VII

The result of the survey shows that in Q2 80/81, **40.03%** of working capital was met through credit from banks and financial institutions whereas it was **43.22%** in Q1 80/81.

The average rate of interest in working capital loan stands at 11.52% in Q2 80/81 which is a decrease from 11.57% in Q1 80/81.

INTEREST RATES: AVERAGE INTEREST RATE: 11.63%

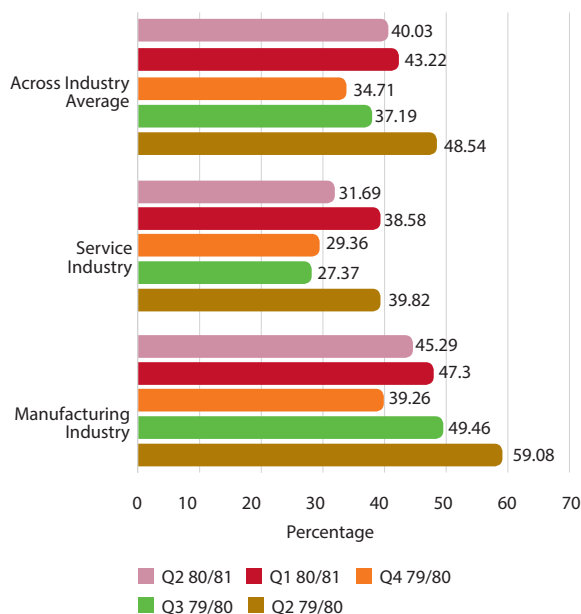
KEY INDUSTRY INSIGHT VIII

In Q2 80/81, the average interest rate on loans was **11.63%** whereas it was 11.49% in Q1 80/81. In Q2 2080/81, average interest rates on loans for manufacturing industries was **11.77%** while for service industries it was **11.41%**.

INTEREST RATES

Sectors	Q2 79/80	Q3 79/80	Q4 79/80	Q1 80/81	Q2 80/81
Across-industry-average	13.13	11.74	12.51	11.49	11.63
Service Industry	12.78	11.2	12.69	11	11.41
Manufacturing Industry	12.94	12.41	12.41	11.91	11.77

SHARE OF LOAN ON WORKING CAPITAL



SKILLS AND EMPLOYMENT

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

TOTAL EMPLOYMENT: 14562

KEY INDUSTRY INSIGHT IX

The surveyed industries employed **14562** staff in total. On average, an industry establishment employed **234.87** individuals, with the range being **4-4500**. This indicates, on average, CNI member networks comprise large business enterprises. With **11481** employees, the manufacturing industry is the largest employing sector, followed by the service sector with **3081** employees.

Average employment among sectors: The manufacturing industries was at the top with **302.13** jobs while the service sector right behind with **128.38** jobs

NEW HIRING: 718

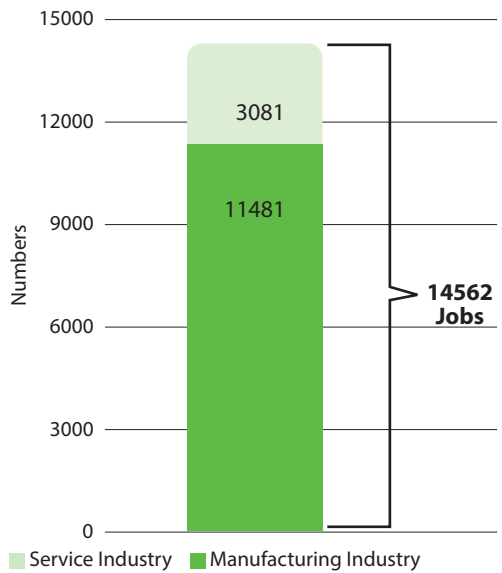
The surveyed industries collectively hired a total of 718 new staff members, while the number of applicants were 3731. This indicates that, on average, more than 5.20 individuals applied for one announced position.

SKILL GAP AND TRAINING: 27.14% RECEIVED TRAINING

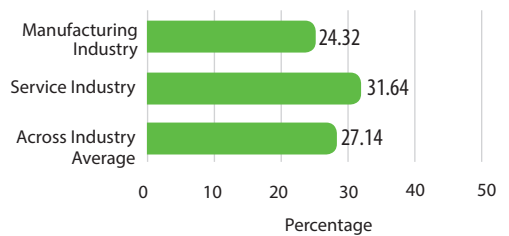
KEY INDUSTRY INSIGHT X

The survey result shows that across sectors **27.14%** of the total employees received training during Q2 of FY 80/81. The service industry sector trained around **31.64%** of the total workforce, while the manufacturing industry sector provided training to **24.32%** of its employees.

EMPLOYMENT IN SURVEYED INDUSTRIES



SHARE OF EMPLOYEE THAT RECEIVED TRAINING



INDUSTRIAL ECOSYSTEM

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

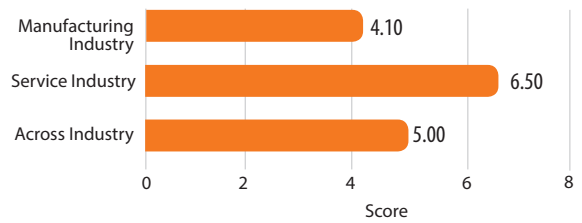
EXPERIENCE WITH GOVERNMENT ONLINE SERVICE

KEY INDUSTRY INSIGHT XI

Although the government has been prioritising digitization of the economy, the survey results reveal that respondents on average were not delighted 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) 8 respondents ranked the service. The average score of respondents was 5. Manufacturing-industry responded with a score of 4.10, while the service industry with an average score of 6.50.

Govt Online Service	Q2 80/81
Manufacturing	4.10
Service	6.50
Industry Average	5.00

GOVERNMENT ONLINE SERVICE



CONSTRAINT TO CURRENT OPERATIONS OF BUSINESS

KEY INDUSTRY INSIGHT XII

The surveyed respondents identified that the top three constraints for the business operations in the Q2 of FY 80/81 were Political Instability, Corruption and Prevailing Tax Rates

For the manufacturing and service sector the top issue was political instability.

Constraint to current operations of Business

- Political Instability
- Corruption
- Prevailing Tax Rates

UTILITIES

ELECTRICITY: 6.36 OUT OF 10 FOR QUALITY OF ELECTRICITY SUPPLIED

KEY INDUSTRY INSIGHT XIII

The survey result showed **63.64%** of the industries still use generators as the quality of electricity is not reliable. The respondents also mentioned, since the electricity supply provided by NEA is from a common feeder for an area, this reduces the reliability so a separate feeder is essential for commercial purposes. Those manufacturing industries using generators as alternative sources of energy stated there is an additional **14.17%** of cost increase due to the use of generators.

In response to the question that was asked to the respondents to rate the quality of electricity provided in the scale of 1 to 10, with one being the worst and 10 being the best, the average response was **6.36**.

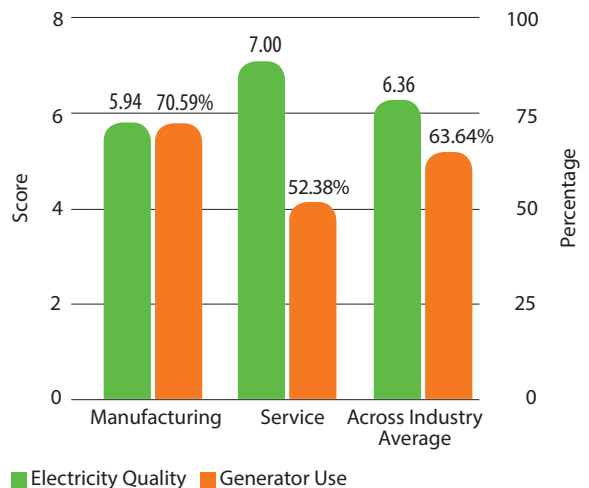
Major Challenges

Out of the 62 respondents, 28 responded to the question, and they had the option to select up to 3 choices from a total of 11 options regarding major challenges of business. Among the responses, Excess Competition Affecting Price Margins, Low Disposable Income Among Nepali Consumers and Unauthorized goods in the market were the most common responses that respondents wanted to solve.

Major Challenges

- Excess Competition Affecting Price Margins
- Low Disposable Income Among Nepali Consumers
- Unauthorized goods in the market
- Access to Finance

ELECTRICITY QUALITY



TRANSPORTATION AND LOGISTIC HURDLES

The respondents identified major challenges of transportation and logistics as quality of roads, frequent road blockage and Trucking Syndicate.

Transportation and Logistic Hurdles

- Quality of Roads
- Arbitrary Price
- No problem
- Frequent Road Blockage

BUSINESS OUTLOOK

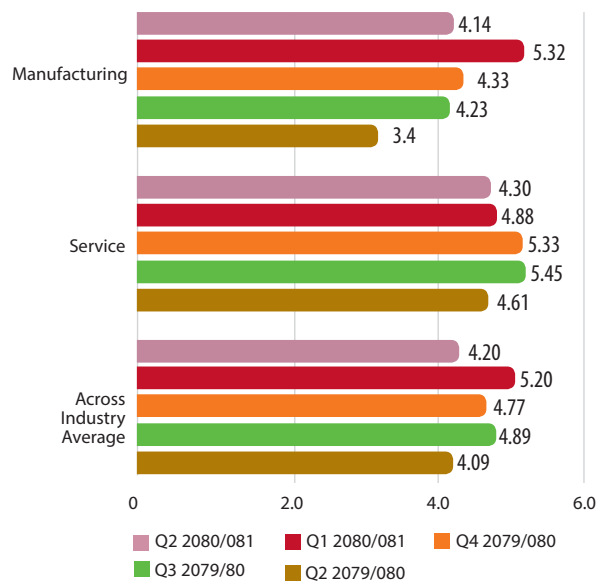
This section presents the confidence level of surveyed industries for their own business and aggregates responses regarding investment plans for the next quarter.

BUSINESS CONFIDENCE: LOW

KEY INDUSTRY INSIGHT XIV

On the whole, industrialists are not optimistic that their business is going to perform well for the next 3 months. When asked to rank the favorability (confidence measures) for their business on a scale of 1 to 10 (with 1 being the least favourable and 10 being the most favourable) in terms of revenue and investment opportunities, regulatory environment, access to finance, labour and better utility facilities, the across-industry-average score is **4.2**. The service industry is comparatively less confident as per the survey respondents. This can be a result of the unfavourable macroeconomic situation. Key Indicator XIV does not paint a conducive environment for businesses currently.

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

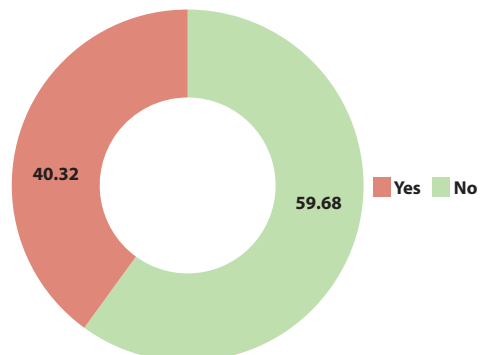


59.68% DO NOT HAVE NEW INVESTMENT PLANS

KEY INDUSTRY INSIGHT XV

The survey result shows that **59.68%** of respondents do not have any new investments planned for the upcoming quarter. Only **40.32%** of respondents said they have planned for new investment in the upcoming quarter.

NEW INVESTMENT PLANS



CNI'S POLICY SUGGESTIONS FOR FY 2081/82

A. LONG TERM POLICY SUGGESTIONS

1. Legal Refinement and Policy Consistency

The legal system plays a pivotal role in fostering the industrial advancement of a nation, nurturing its manufacturing sector, and cultivating an environment conducive to investment. It is imperative to overhaul outdated and incongruous economic laws to uphold a favorable legal framework essential for holistic economic progress. Legal steadfastness is paramount in averting political and policy volatility. To achieve this, a comprehensive overhaul of laws pertaining to industrial and commercial domains should be done in the upcoming fiscal year, guaranteeing their resilience. A holistic reform and amendment of various statutes influencing industry and businesses are essential to foster an investment-friendly ambiance domestically and communicate a lucid message to international investors. Moreover, ensuring stability in legal frameworks and investment-oriented policies for at least a decade is indispensable. This longevity in legal arrangements will fortify industrial and investment promotion efforts, underpinning policy consistency and assurance.

2. Tax System Administration Revitalization Initiative

In the forthcoming fiscal year, a streamlined tax system ought to be implemented in Nepal, consolidating various existing tax categories into a select few, namely income tax, customs duties, excise duty, and value-added tax (VAT). The VAT structure should encompass multiple rates (0%, 5%, 13%, and 18%), encompassing all taxpayers by reducing the minimum

transaction threshold. This strategic measure aims to enhance the competitiveness of Nepalese goods vis-à-vis Indian products, stabilizing market prices and curbing illicit trade. Furthermore, there is a pressing need to establish a centralized tax collection mechanism, whereby all taxes are collected from a singular point and subsequently distributed to respective levels or agencies by the state. This consolidation of tax collection systems will streamline administrative processes and enhance efficiency.

Additionally, the practice of outsourcing tax collection to third parties should be promptly abolished to ensure transparency and accountability within the tax regime.

3. Policy Initiative for Importing High-Quality Goods

In Nepal, although quality standards have been established for approximately 1150 goods and services, the reality is that over 5000 different products are typically imported into the country. This lack of certainty regarding the quality of imported goods not only undermines consumer confidence but also adversely impacts the market for domestically produced items, which are vital for safeguarding indigenous industries and serving the general people. To address this issue, it is imperative to enforce strict quality standards for imported goods, ensuring that they meet or exceed the established criteria upon entry into Nepal. Furthermore, a system should be implemented to prioritize the importation of goods that align with Nepal's quality standards or equivalent benchmarks whenever possible. This proactive approach will not only boost consumer trust but also promote the growth and sustainability of local industries, ultimately benefiting the broader economy and society.

4. Campaign for identification and consumption of local products

In the upcoming year, the Government of Nepal (GoN) is urged to develop a dedicated online platform aimed at showcasing local products. This portal needs to encompass products from members of the Swadeshi Campaign initiated by the Confederation of Nepalese Industries (CNI), alongside other locally manufactured goods meeting specified standards. Features of the portal should include comprehensive product listings detailing prices, availability, and quality standards. Government should ensure that, while public procurement, goods available in the portal should be procured domestic only. Alternatively, the GoN might endorse a unified B2B portal, showcasing local products, as part of the Make in Nepal: Swadeshi initiative led by the government and the CNI.

5. Initiate Kishan Pahichan Program

In partnership with local authorities, a comprehensive 'Know Your Farmer' initiative should be developed and executed to gather crucial information about farmers within specific regions. This program should include data collection on arable land, crops under cultivation, as well as the fertilizer and high-yielding seed requirements. Additionally, through the 'Kisan Pahichan' program, close collaboration with local bodies is essential to accurately monitor the cultivated land by farmers each year. Establishing a robust system to directly allocate subsidies for fertilizers and seeds into farmers' accounts, proportionate to their individual requirements, is imperative for efficient resource distribution and agricultural support.

6. Key Investment Promotion Sectors

- Amidst the prevailing economic stagnation, there arises an urgent necessity for both public and private sector investment to stimulate economic growth.
- To boost the confidence of industrialists, the government must substantially augment its capital expenditure. Furthermore, fostering an environment conducive to private sector investment is imperative. It is crucial to direct investment towards the following sectors, at least for the ensuing five years, to catalyze sustainable growth:
 - Key Sectors:
 - New Industries and Industrial Areas
 - Information Technology
 - Energy
 - Physical Infrastructure
 - Tourism Infrastructure
 - Agriculture and Herbs
 - Health and Education
 - Channeling investments into these sectors will yield the following outcomes:
 - Strengthen Nepal's ascent to a middle-income status and achieve sustainable development objectives, it is imperative to heed the government's 2018 estimation, indicating an annual investment requirement exceeding 20 billion USD (Source: NPC-2018).
 - Additionally, in pursuit of sustaining a robust economic growth rate of at least 5 percent, the required investment stands at USD 16.54 to 20.54 billion per annum in Transport, Energy, Urban Development and Water and Sanitation sectors, as projected by the CNI Report 2019 (Source: CNI-IIDS Investment Financing Needs-2019).

B. POLICY SUGGESTIONS

- 1) To promote investment in Nepal by leveraging the private sector as an engine of development and gaining its confidence, it is crucial to ensure the continuity of such policies for the next 10 years through the adoption of measures aimed at creating a conducive environment for investment promotion.
- 2) The Government of Nepal should formulate and implement an '**Industrial Development Strategy**' for the next ten years in order to promote industry and business. In this strategy, the focus should be given to identify products in which Nepal can achieve self-sufficiency, fostering the development and stability of industries producing these products, formulating an industrial/sectoral policy, and ensuring the stability of that policy.
- 3) By implementing general regulations on imports and offering concessions on domestic production, industries that can boost investment, increase production, or move toward self-sufficiency should be encouraged, import of such goods should be discouraged.
- 4) Given the significant challenges posed by unauthorized trade to domestic industries and the consequential revenue loss incurred by the government, it is imperative for all pertinent agencies to collaborate in its effective control and regulation. For this;
 - a) The Customs Department should take decisive action to curtail irregularities within customs points, fostering seamless coordination with distinct mandates and clearly defined responsibilities to combat unauthorized imports and prevent revenue diversion beyond these points. Furthermore, governmental bodies entrusted with the oversight of unauthorized trade, including security agencies, the Internal Revenue Department, the Revenue Investigation Department, and the National Investigation Department, must be held accountable for their roles. Effective mobilization of local bodies is also crucial in this endeavor.
- b) During market inspections conducted by various authorities, including the Department of Commerce, strict adherence to the provisions outlined in the Consumer Protection Act, 2075, should be ensured.
- 5) Abolition of Customs Reference Manual Reference to:
 - a) The labeling of imported goods must occur prior to reaching the customs point. A systematic approach should be adopted, aligning the customs rate with the minimum retail selling price indicated at that level, with a reduction ranging from 40 to 60 percent depending on the nature and value of the goods. This strategic adjustment will effectively address issues of under and over invoicing, thereby rendering the customs reference book unnecessary.
 - b) The current Customs Act of Nepal specifies that the World Trade Organization's Customs Valuation Agreement serves as the primary basis for valuation. It is noted that Nepal is a party to this agreement, which does not include any provision mandating the maintenance of a value equal to the reference value. Consequently, the customs reference manual, which contradicts the World Trade Organization, should be dismissed immediately.
 - c) At the customs point, the Customs reference manual should be removed, with priority given to the transaction price. As per the provision made in the Customs Act of 2064, Section 13, Sub-section 15(b), which states that

the government can purchase the products at 5% more than the price if there is doubt in the declared price of the products, should be implemented at least as an example. The goods purchased in this way should be sent to the market through the government's sales and distribution agencies or national level cooperatives.

- 6) Cash incentives should be granted based on value addition, potential growth in export and other factors that encourage foreign currency inflows into the country, thereby promoting exports.
- 7) Permissions should be given to the private sector to establish and operate industrial districts. The government has to ensure accessibility to infrastructure required for industrial districts, including roads, electricity, water, and sewage facilities. Additionally, industries operating within these districts should receive additional facilities. CNI has already presented a proposal to the Government of Nepal to operate the Shaktikhor and Mayurdhap industrial districts under a PPP model.
Clear provisions of benefits and facilities should be defined for industries establishing in new industrial areas developed by the private sector.
- 8) Nepal possesses abundant natural resources, yet their proper utilization is impeded by geographical challenges, insufficient investment for extraction, and stringent government policies. To ensure the sustainable utilization of these resources, it is imperative to review and streamline existing policies and regulations. Simplifying rigid rules is essential to unlock the potential of natural resources for industrial use, encompassing both timber and non-timber products, herbs, rocks, ballast, water, as well as facilitating long-term mining and mineral consumption.
- 9) The facilities provided to Nepalese industries under the Industrial Enterprise

Act should be guaranteed through the Financial Act. (Expenditure for CSR, provisions related to duty drawbacks etc.) The Industrial Enterprise Act of 2073 had provision exempting industries within industrial districts from local taxes like integrated property tax etc., but this provision was removed by the Industrial Enterprise Act of 2076. Therefore, clear provisions should be reinstated to exempt such local taxes for all manufacturing industries.

- 10) As per the policy provisions made by the Nepal government, the customs duty imposed on raw materials used in finished goods will be at least one level lower than the customs duty applicable to finished goods, and this difference should be at least two levels. In cases where the customs rate is not different or in cases where the industrial or commercial goods are not identifiable, a provision of 50% subsidy should be provided on the customs duty of raw materials paid by the industry on the recommendation of the Department of Industry.

C. SECTOR WISE SUGGESTIONS

1) Industrialization, Export Promotion and Import Substitution:

- 1.1) Industries often encounter challenges regarding land acquisition, especially when seeking mortgages for their operations. To mitigate these difficulties and ensure smooth transactions, a lasting solution should be established. For any Industries, it should be explicitly stated that there should be no land ceiling and or any provisions relating to land ceiling mentioned elsewhere up to the land area mentioned in the scheme or the proposal of the industries approved by the registering authority of the government.

- 1.2) To catalyze productivity growth in industrial establishments, a dynamic approach is essential. Implementing a system where industries can promptly hire and dismiss workers, with an immediate turnover rate of 10 percent, is imperative. This arrangement is necessary for fostering productivity of worker in industrial setups.
- 1.3) Nepal must prioritize the revision of the SAFTA Sensitive list notified by Nepal.

2) Domestic product promotion and market regulation:

- 2.1) Establishing a fixed procurement quota exclusively for domestically produced indigenous goods in Nepal fosters competition and stimulates local industries up to a certain amount of procurement.
- 2.2) To foster a conducive environment for industrialization within the country, incentives should be provided to encourage the consumption of domestically produced goods. This includes the implementation of the 'Make in Nepal - Swadeshi', which aims to promote local manufacturing. Additionally, a grant amount of two crore rupees needs to be made available to support this initiative.

3) Infrastructure development:

- 3.1) Efforts are underway to reform development policies and streamline infrastructure projects. The establishment of an **Infrastructure Construction Development Authority** is crucial in this regard. Ensuring representation from private sector in the operational areas of this authority is imperative for its effective functioning.
- 3.2) In the current phase of infrastructure project operations, it is imperative to ensure that a designated amount is available for personnel in specified areas. This arrangement, facilitated through asset monetization, must be promptly announced. To catalyze

advancement, a proactive approach is needed in identifying infrastructure projects and accelerating the assets monetization process.

- 3.3) As per Section 25 of the Public Procurement Act, 2063, there is a provision to award to minimum bid amount for tenders. However, it is imperative to make an arrangement emphasizing quality assurance. This needs to include assessing the quality of past work and ensuring maintenance reliability post-completion, all in alignment with the project contract. These adjustments are crucial to uphold standards and ensure the effectiveness of public procurement processes.
- 3.4) Over the long term, constructing rigid pavement yields significant advantages compared to flexible (blacktop) roads, rigid pavement incur approximately 27.45% less in lifecycle costs. Therefore, in new road construction projects, a minimum of 20% of roads should incorporate rigid pavement to maximize cost-efficiency and durability.

4) Energy

- 4.1) The implementation procedure for wheeling charges must be formulated. Furthermore, it is essential to ensure the applicability of this policy through effective implementation procedures. Additionally, private sector should be allowed for electricity trading in domestic and international market.
- 4.2) Amendments to the current legislation regarding private sector obtaining permissions for electricity production, distribution, and business operations is essential to streamline the process and ensure efficient allocation of permissions for all aspects of the energy sector.
- 4.3) Upon the successful completion of surveys and obtaining government approval, the Power Purchase Agreement (PPA) needs to be promptly executed to move the project forward.

- 4.4) Authorize industries to generate their required electricity, ensuring they consume a minimum of 51% of the produced energy. The remaining surplus can be distributed without the need for licensing. (Captive Production)
- 4.5) The restructuring of the Nepal Electricity Authority is paramount, alongside the establishment of a comprehensive policy framework governing power generation, transmission, generation, transmission, trading and distribution by diverse entities.
- 4.6) To increase the domestic consumption of electricity, Manufacturing Industries should be offered electricity at subsidized rates.

5) Tourism

- 5.1) Nepal should aim to become a premier international film shooting destination. To facilitate this, a streamlined system should be established for obtaining various necessary permits, including drones, filming equipment through a single window platform.
- 5.2) Nepal should envision in becoming a coveted wedding destination for Indians. To encourage Indian weddings in Nepal, provisions should be made for Indians to declare gold and silver jewelry at customs upon arrival. Upon departure, arrangements should be in place for them to reclaim their declared goods.
- 5.3) Nepalese airlines face restrictions on flights between Nepal and Europe due to Nepal's inclusion in the European Union's unsafe airline list. Efforts must be accelerated to fulfill the criteria necessary for Nepal's removal from this list, ensuring seamless air travel accessibility.
- 5.4) The restructuring of the Civil Aviation Authority is imperative. Legal provisions should be enacted to segregate regulatory and service functions into

distinct agencies, enhancing efficiency and accountability.

- 5.5) Nepal Airlines Corporation need to form strategic partnership to enhance competitiveness in the international aviation market. Through strategic collaborations, Nepal Airlines Corporation can undergo transformational growth and meet global standards.

6) Information Technology IT

- 6.1) In accordance with the government's directives established in 2079/80, income derived from information technology-based services such as software programming, business process outsourcing, and cloud computing, resulting in foreign currency earnings, shall be subject to a mere one percent income tax. This arrangement is proposed to be upheld for the ensuing decade, fostering continuity and stability in the sector's growth trajectory.
- 6.2) In the fiscal year 2079/80 budget speech, a focus was placed on identifying and promoting information technology-based services and business process outsourcing for export stating that 8% cash incentive will be provided for eligible exports as part of export promotion efforts, However, **नियतिमा अनुदान प्रदान गर्ने सम्बन्धि कार्यविधि, २०७९** fails to include these services under the incentive scheme, this needs to be included in the procedure.
- 6.3) To showcase Nepal's international presence in the Information Technology market, efforts should be made to attract major players such as Facebook, Google, and Indian tech giants to establish their presence in Nepal. To facilitate this, the government should offer maximum flexibility and support.
- 6.4) In Nepal, the establishment of IT Parks in Public-Private Partnership is crucial. Permission should be granted

expediently for this purpose. Additionally, government-owned land should be made available for long-term lease at affordable rates to facilitate park construction. Ensuring a reliable and high-quality electricity supply is essential for park operations. Moreover, industries operating within the parks should be eligible for a 10-year income tax exemption. Specific arrangements should be made for employees and workers related to information technology, with various industries operating within the park. Furthermore, in addressing the shortage of efficient manpower in Nepal, measures should be taken to allow foreign skilled labor without any restrictions.

7) Agriculture

- 7.1) To boost the commercialization of agriculture, agriculture and forest based industries should be granted a 10-year exemption from income tax.
- 7.2) The Government of Nepal should establish laboratories capable of testing the quality of agricultural and herbal products to meet international standards. Furthermore, efforts should be made to secure international accreditation and mutual recognition of the laboratories with Nepalese export destinations.
- 7.3) Implementing a seasonal tariff policy for agricultural products and fruits is essential to support domestic agriculture.
- 7.4) It is imperative to establish a mandatory testing for Sanitary and Phytosanitary (SPS) for imported vegetables, fruits, meat, and dairy agricultural products to ensure food safety standards are met.

- 7.5) A policy framework should be established to enable the private sector to import chemical fertilizers and micronutrients, subject to approval from the relevant department, and distribute them at competitive prices.

8) Education sector

- 8.1) To facilitate the operation of foreign universities in Nepal, comprehensive policy and legal frameworks should be established, accompanied by appropriate incentives.
- 8.2) The student quota system enforced by universities on their faculties and campuses for higher education studies should be eliminated to promote fair and equitable access to education.
- 8.3) Curricula should be tailored to meet the technical demands of industries, ensuring the production of skilled graduates. Policies governing study and teaching methodologies should be aligned with this objective.

9) Health

- 9.1) Initiating a policy to promote medical tourism, leveraging its significant potential, is imperative.
- 9.2) To ensure Nepalese patients have access to specialist services within Nepal, a policy framework should be established to facilitate hospitals in Nepal to invite internationally renowned specialist doctors to provide their expertise locally.

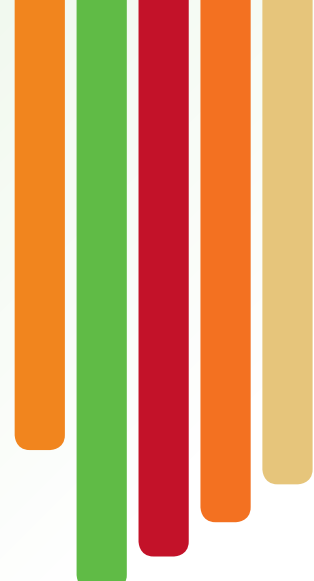
About CNI

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 Director Mr. Ravi Kumar Prajapati, Senior Officer Ms. Rashmi Poudyal and Executive Mr. Chetman Syangtan.



CONFEDERATION OF NEPALESE INDUSTRIES