

# “MAKE IN NEPAL – SWADESHI” ABHIYAN

THE ROADMAP TO A LARGER INDUSTRIAL BASE IN NEPAL



CNI PUBLICATION



# “MAKE IN NEPAL – SWADESHI” ABHIYAN

THE ROADMAP TO A LARGER INDUSTRIAL BASE IN NEPAL

**“Make in Nepal – Swadeshi” Abhiyan  
The Roadmap to a Larger Industrial Base in Nepal**

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**Acknowledgements:** This publication would not have materialized without a series of consultations with the Secretaries of the Government of Nepal and members of the Confederation of Nepalese Industries.

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KATHMANDU  
NEPAL

The Prime Minister

### Message

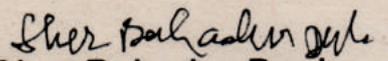
I am pleased to note that the Confederation of Nepalese Industries (CNI), a private sector representative of larger industries of Nepal, is fully committed to the Sustainable Development Goal (SDG) 9, which aims to raise the industrial share of GDP to 21.7% by 2025 and 25% by 2030.

There is a widespread acceptance for the primary goal of "Make in Nepal- Swadeshi Abhiyan", that seeks to promote Swadeshi industries and subsequently generate well-paid industrial jobs for the Nepali youth. Through this campaign, CNI has proposed a detailed roadmap to achieving these goals. The Government of Nepal is committed to provide necessary policy support to Nepali industries in their endeavours of economic and social development of the nation through industrialization.

It is imperative for us to assert Nepal's position in this emerging "Asian Century" where many Asian nations are the burgeoning economies. Most importantly, Nepal, situated between the two great industrializing global centers, China and India, needs to take an inspiration from them and work to capitalize their exemplary growth, which I believe will lead us to become more economically ambitious.

Finally, I can see that campaigns like "Make in Nepal- Swadeshi Abhiyan" symbolize the beginning of the robust partnership between the public and the private sector to realize our ultimate national aspiration of sustained economic growth.

Wishing the campaign a great success.

  
Sher Bahadur Deuba

19 July, 2021



Government of Nepal

# MINISTRY OF FINANCE



Hon. Janardan Sharma 'Prabhakar'  
Finance Minister

SINGHADURBAR  
KATHMANDU, NEPAL

July 18, 2021

## MESSAGE

*Industrialization has been central to development strategies in many economies. Based on the book "Make in Nepal – Swadeshi" Abhiyan (The Roadmap to a Larger Industrial Base in Nepal), I have two important reflections to share.*

*First, the bottom line is creating job opportunities for our youth. Around half a million youth enter the job market every year, and are often compelled to find work in distant lands. Creation of jobs within Nepal help workers improve productivity as they become more skilled at technical roles. As a consequence, this improves the standards of living. I request Nepali industries to put more effort to promote the idea of industrial apprenticeship and on-the-job training. From the side of the government, I will help facilitate these activities.*

*Second, it is important to determine where Nepal's industrialization efforts can draw inspiration from. This is because there is already wisdom out there regarding what works and what does not. It is quite astonishing that China accounted for almost 30 percent of global manufacturing output in 2019. While India, another bordering country, has been advancing itself in "Make in India" campaign. Let us make the best of the opportunities to learn from nearby countries that have managed to rapidly industrialize in the past few decades.*

*This book is the product of a long series of consultations with Nepali industries. The implementations of the proposed roadmap will be instrumental in making Nepali industries more competitive.*

*I would like to thank the Confederation of Nepalese Industries for undertaking and formalizing this much needed initiative "Make in Nepal – Swadeshi" Abhiyan to revive Nepal's industrial ambitions.*

Hon'ble Finance Minister



Kathmandu, Nepal

Chief Secretary

### Message

The Private sector has been playing a crucial role in economic development of Nepal. The Fifteenth Plan projects the private sectors' contribution to more than 55 percent of total investment requirement compared to 39 percent from public sector. Realizing the fact that strong collaboration between public and private sectors helps Nepal to achieve its national goals, the Government of Nepal is committed to enhancing productive capacity of private sector. The increased engagement, with representative organizations of private sectors in recent days, reflects our governments' commitment to facilitate them for better performance.

In a bid to increase productivity and production of domestic goods and services, the Government of Nepal has supported the "Make in Nepal – Swadeshi" campaign initiated by Confederation of Nepalese Industries, CNI. I am confident that this campaign will be successful in increasing production and consumption of Nepali products, further contributing to stronger economy. I am happy to learn that the CNI is transcribing this campaign into a book form. This is a good initiative to promote the campaign from producers to consumers and exporters. I believe the contents of this book help readers understand the campaign, the targets and the roles of actors of development. I congratulate the CNI for this publication.

I am pleased to note that the CNI is organizing its 18<sup>th</sup> Annual General Meeting. Such regular meetings strengthen internal governance of the organization and connect the wider membership for common agendas. As this meeting is also expected to elect the new chairperson of the CNI, I would like to thank and congratulate the outgoing chairperson for his outstanding performance. I would also like to congratulate incoming chairperson and wish him a successful tenure. I strongly believe that the partnership between the Government of Nepal and the private sector will be further strengthened in the days ahead.

Thank you.

Sankerdas Bairagi



PRESIDENT, CNI

KATHMANDU  
NEPAL

## MESSAGE

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The private sector has achieved tremendous growth over the years. It must be regarded as a success that it is confident enough to articulate what it needs. “*Make in Nepal – Swadeshi*” *Abhiyan* is a testament to this fact.

Today, the Government of Nepal is convinced that economic growth is only possible through collaboration with the private sector. We must appreciate the leadership taken by respected Chief Secretary Mr. Sankerdas Bairagi who helped organize numerous consultations between dozens of Secretaries and CNI. We also thank the constructive feedback from Secretaries of numerous line ministries. It is this kind of leadership that will

help build mutual trust between the public and the private sector.

It is heartbreaking that even today our youth are compelled to migrate to the Gulf Cooperation Council (GCC) countries and Malaysia to work under unimaginably difficult conditions, just to put food on the table. Our vision for this *Abhiyan* is inspired by this harsh reality, so that we can witness our own human resources building this country.

Finally, we feel assured that this *Abhiyan* will help bring a positive momentum towards achievement of prosperity.

**Satish Kumar More**  
*President, CNI*



SENIOR VICE PRESIDENT, CNI

KATHMANDU  
NEPAL

## MESSAGE

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Manufacturing is key to job generation and achieving inclusive and sustainable industrial development. It is no surprise that more countries around the world are taking the agenda of industrialization seriously today. This is evident from North America to Japan.

In this context, it is essential for the private sector to envision a precise set of agendas that can contribute to the enhancement of domestic industries. Changes and reforms initiated by the government might differ from what industries actually need. Realizing the same, the Confederation of Nepalese Industries (CNI) has come up with a clear roadmap that relies on joint efforts of the private sector and government to achieve a common goal.

Although, it is not sufficient to simply produce goods and services. There needs to be sufficient demand for them. One of the core initiatives to achieve the goals of the “*Make in Nepal – Swadeshi*” *Abhiyan* is making Nepali goods and services more attractive to domestic consumers. CNI has already begun issuing the *Swadeshi* logo to Nepali businesses that have had a history of stellar performance.

Finally, it needs to be emphasized that success is possible only through consistent collaboration. Over the years, the Government of Nepal has appreciated suggestions and recommendations from CNI. This is because CNI conducts extensive consultations with different industrial clusters to form its opinions before presenting it to the government.

**Vishnu Kumar Agarwal**  
*Senior Vice President, CNI*



VICE PRESIDENT, CNI

KATHMANDU  
NEPAL

## MESSAGE

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*Swadeshi's* logo is that of a one-horned rhino – an animal that represents durability and is native to Nepal. Often, Nepali goods are not perceived as being reliable. We are committed to changing this perception. The logo attests to the authenticity and standard of quality of goods and services that are produced within Nepal. “*Make in Nepal – Swadeshi*” *Abhiyan* seeks to harness the power of domestic consumption in driving Nepal's industrialization by enabling a virtuous cycle.

With consumers being able to trust the ‘*Swadeshi*’ brand to provide high quality goods and services made locally, there will be a demand shift towards

these products. This will allow producers and providers to scale up, invest in the right technology and systems, drive down costs, and increase local employment. In turn, this will help fuel a further demand shift as the cost savings get passed on to consumers, and the higher employment increases disposable incomes. As domestic consumption increases, it will stimulate a circle of consumption, production, employment, and further consumption.

Finally, I must thank the *Swadeshi* Operations Committee, composed of a stellar group of young industry captains who have helped steer this movement until now.

**Anuj Agarwal**  
Vice President, CNI



CHIEF ECONOMIC ADVISOR, CNI

KATHMANDU  
NEPAL

## FOREWORD

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The Government of Nepal formally began aspiring to industrialize Nepal since 1935 AD. However, right now while the world is preparing itself for the fourth industrial revolution, Nepal is still struggling to achieve a modest level of industrialization.

Since the industrial sector is widely regarded as the driver of sustainable growth in the long term, Nepal cannot achieve a middle-income country status by 2030 and sustain it if industrialization is not prioritized and facilitated. The impetus for the *Abhiyan* comes from such a realization, as it attempts to persuade the key stakeholders to follow a well-determined path to industrialization.

The book starts with a brief introduction to the “*Make in Nepal – Swadeshi*” *Abhiyan* followed by its overarching goals. The goals anchor the movement and proposed interventions are based on the goals. They have been determined to not only help us achieve a larger industrial base, but also generate

well-paying industrial jobs. It must be noted that the *Abhiyan* only seeks to promote industries that can realistically excel in the country.

Each pillar represents clear and present opportunities that can be seized to enhance industrial growth. Though the seven pillars and corresponding interventions are standalone initiatives, they are often interrelated and reinforce one another. A central rubric to judge the utility of a policy recommendation is its specificity. The *Abhiyan* offers 34 concrete interventions that can be carried out by policymakers immediately.

Irrespective of which government assumes office, it will face the challenge to identify the determinants of sustainable economic growth in Nepal. The Roadmap to a Larger Industrial Base in Nepal is an earnest effort from CNI to identify those determinants.

**Dr. Biswo Nath Poudel**  
*Chief Economic Advisor, CNI*



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## ABBREVIATIONS

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BS:	Bikram Sambat
CBS:	Central Bureau of Statistics
CIAA:	Commission for Investigation of Abuse of Authority
CIDA:	'Construction Industry Development Authority'
CIP:	Commercially Important Persons
CNI:	Confederation of Nepalese Industries
COVID:	Corona Virus Disease
CTEVT:	Council for Technical Education and Vocational Training
DDA:	Department of Drug Administration
DGTR:	Directorate General of Trade Remedies
Dol:	Department of Industry
EDB:	Ease of Doing Business
EHV:	Extra High Voltage
EIU:	Economic Intelligence Unit
ERC:	Electricity Regulation Commission
FCAN:	Federation of Contractors' Associations of Nepal
FDI:	Foreign Direct Investment
FLDA:	'Footwear and Leather Development Authority'
FMCG:	Fast Moving Consumer Goods
GATT:	General Agreement on Tariff and Trade
GDP:	Gross Domestic Product
GIDC:	Gujarat Industrial Development Corporation
GoN:	Government of Nepal
GW:	Gigawatt
IBN:	Investment Board Nepal
ICEB:	'Industry Competitiveness Enhancement Board'
IDA:	International Development Association
IEA:	Industrial Enterprise Act
IFA:	Institute of Foreign Affairs
IFC:	International Finance Corporation
IIDS:	Institute for Integrated Development Studies
IIFS:	Integrated Industry Facilitation Strategy
INR:	Indian Rupees
kVA:	kilovolt-ampere
LDC:	Least Developed Countries
LPG:	Liquid Petroleum Gas
LPI:	Logistics Performance Index

<b>MFA:</b>	Multi-Fiber Agreement
<b>MIGA:</b>	Multilateral Investment Guarantee Agency
<b>MoCIT:</b>	Ministry of Communication and Information Technology
<b>MoF:</b>	Ministry of Finance
<b>MoICS:</b>	Ministry of Industry, Commerce and Supplies
<b>MoICT:</b>	Ministry of Information, Communications and Technology (Kenya)
<b>MoU:</b>	Memorandum of Understanding
<b>MRP:</b>	Maximum Retail Price
<b>MT:</b>	Metric Tons
<b>MW:</b>	Megawatt
<b>NEA:</b>	Nepal Electricity Authority
<b>NERC:</b>	Nepal Electricity Regulatory Commission
<b>NIFRA:</b>	Nepal Infrastructure Bank Limited
<b>NPC:</b>	National Planning Commission
<b>NPR:</b>	Nepali Rupees
<b>NRB:</b>	Nepal Rastra Bank
<b>NSTB:</b>	National Skills Testing Board
<b>NTIA:</b>	Nepal Textiles Industries Association
<b>NTIP:</b>	Nepal Trade Information Portal
<b>NTIS:</b>	Nepal Trade Integration Strategy
<b>OPMCM:</b>	Office of the Prime Minister and Council of Ministers
<b>PPP:</b>	Public-Private Partnership
<b>PRoR:</b>	Peaking Run of the River
<b>SAARC:</b>	South Asian Association of Regional Cooperation
<b>SACA:</b>	Safeguards, Anti-dumping and Countervailing Act 2076
<b>SAFTA:</b>	South Asian Free Trade Area
<b>SAWTEE:</b>	South Asia Watch on Trade, Economics and Environment
<b>SDG:</b>	Sustainable Development Goals
<b>SEZs:</b>	Special Economic Zones
<b>TAF:</b>	The Asia Foundations
<b>TDS:</b>	Tax Deduction at Source
<b>TEPC:</b>	Trade and Export Promotion Centre
<b>UNIDO:</b>	United Nations Industrial Development Organization
<b>USD:</b>	United States Dollar
<b>VAT:</b>	Value Added Tax
<b>WTO:</b>	World Trade Organization
<b>WTTC:</b>	World Tourism and Travel Council

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# Executive Summary

*"Make in Nepal – Swadeshi" Abhiyan* is a multi-year campaign initiated by the Confederation of Nepalese Industries based on a strategic public-private collaboration to create a national climate that promotes domestic industrial production, enhances competitiveness of local firms and stimulates demand for Nepali goods and services.

After consulting with the Secretaries of Government of Nepal and representatives of Nepali industries and incorporating efficient practices of different governments across the world, the *Abhiyan* proposes 34 interventions.

These interventions range from specific legal and regulatory reforms required to introduce new statutory bodies. Collectively, they will help achieve the *Abhiyan's* four main objectives:

- Registering 1,000 industries with the Department of Industry (DoI) annually,
- Increasing the industrial share of GDP (as per Sustainable Development Goal 9) to 22 percent by 2025 and 25 percent by 2030,
- Generating 150,000 industrial jobs annually, and
- Achieving exports worth USD 4.6 billion in the next 5 years.

The proposed interventions will benefit policymakers and stakeholders seeking to advance the industrialization agenda in Nepal.

Finally, the content of this publication needs to be regarded as an evolving framework, recognizing that the enterprise of policy making is a dynamic one.

## कार्यकारी सारंश

नेपाल उद्योग परिसंघले परिकल्पना गरेको “मेक इन नेपाल–स्वदेशी” सार्वजनिक निजी साझेदारीको बहुवर्षे रणनीतिक अभियान हो । यसले स्वदेशी औद्योगिक उत्पादन प्रवर्द्धन गर्ने, स्थानीय उद्योगको प्रतिस्पर्धात्मक क्षमता विस्तार गर्ने र नेपाली वस्तु तथा सेवाको माग अभिवृद्धि गर्ने लक्ष्य राखेको छ ।

नेपाल सरकारका सचिवहरू र स्वदेशी उद्योगका प्रतिनिधिसँगको परामर्श तथा संसारभरका विभिन्न देशका असल अभ्यासहरूको अध्ययनपछि यस अभियानले ३४ वटा नीतिगत मध्यस्थताका (interventions) विषय प्रस्तुत गरेको छ ।

प्रस्तावित मध्यस्थताका उपायले निश्चित कानुनी र नियामकीय सुधारको साथै नयाँ कानुनी संरचनाको निर्माण परिकल्पना गरेका छन् । यस्ता संरचनाले अभियानका निम्न चार उद्देश्य प्राप्तमा संयुक्तरूपमा योगदान दिनेछन् ।

- उद्योग विभागमा वार्षिक एक हजार नयाँ उद्योग दर्ता गर्ने,
- नेपालको कूल गार्हस्थ्य उत्पादनमा उत्पादनमूलक क्षेत्रको योगदानलाई सन् २०२५ सम्ममा २२ प्रतिशत र सन् २०३० सम्ममा २५ प्रतिशत पुर्याउने,
- वार्षिकरूपमा एक लाख पचास हजार औद्योगिक रोजगारी सिर्जना गर्ने, र
- आगामी पाँच वर्षमा ४.६ अर्ब डलर बराबरको निर्यात गर्ने ।

हामीलाई विश्वास छ, प्रस्तावित मध्यस्थताका उपायले नीति निर्माता र सरोकारवालाहरूलाई औद्योगीकरणको मुद्दामा थप अघि बढ्न प्रेरित गर्नेछ ।

अन्त्यमा, नीति निर्माणको विषय गतिशील भएकाले यस प्रकाशनका विषयवस्तु समय सापेक्षरूपमा परिवर्तन हुने सक्नेछन् ।



# 1. Introduction

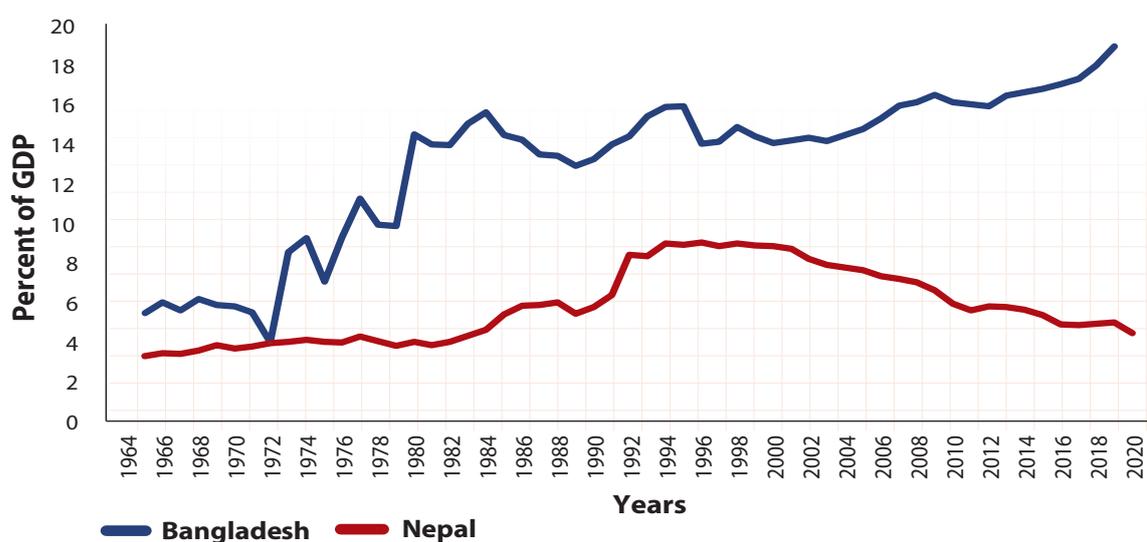
**“Make in Nepal – Swadeshi” Abhiyan is multi-year campaign based on public-private collaboration to create a national climate that stimulates domestic industrial production, enhances competitiveness of local firms and stimulates demand for Nepali goods and services.**

There is consensus among economists that a country cannot prosper without increasing its industrial production. Even rural areas cannot prosper without considerable industrialization in city centres. Developed countries in Western Europe and North America experienced considerable urban migration as people move to cities in search of employment, mainly in the industrial sector. This causes cities to expand, which in turn increases per capita land area ownership in villages; thus resulting in the prosperity that is inclusive and sustainable. However, Nepal has not successfully transitioned from agriculture to industrialization. Instead it has skipped forward to the service sector, and the resulting prosperity is atypical and may not be sustainable.

The lines in Figure I illustrate the growth trend of industrial contribution to GDP of Nepal (in red) and Bangladesh (in blue). Nepal’s inverted “U” shaped trend indicates the industrial sector’s shrinking contribution to national income after reaching a peak in the late 1990s. In contrast, Bangladesh experienced a slow but steady rise from 1980 to 2005, followed by an exponential growth trend in recent years (World Bank, 2020). Action is needed to restore industrial growth and shift from the current U-shaped curve to an N-shaped growth path. But is it possible? “Make in Nepal – Swadeshi” Abhiyan provides a roadmap to make this a reality.

Realizing the need for a holistic intervention for industrial development, four tangible Abhiyan goals have been identified.

**FIGURE I: NEPAL AND BANGLADESH MANUFACTURING VALUE ADDED GDP**



Source: World Bank (2020)

# THE FOUR GOALS OF THE ABHIYAN



① Register **1000** Industries Annually with DoI



② Increase Industrial Share of GDP to **22%** by 2025



③ Create **150,000** Industrial Jobs Annually



④ Export Goods and Services Worth USD **4.6 billion** by 2025

# 2. The Goals

## Goal I: Register 1,000 industries annually with the Department of Industry

Over the past 30 years, an average of 273 new industries were registered with the Department of Industry (DoI) each year. Looking at past trends, it appears that Nepal may have reached peak industrialization in the early 1990s, evident both in terms of number of industries registered as well as number of jobs generated (Figure II). In 1992, around 600 industries were registered, which in turn created an estimated 90,000 jobs. After this peak, the numbers have never returned to those levels<sup>1</sup>. Through numerous proposed interventions, the *Abhiyan* aims to register 1,000 industries every year<sup>2</sup>.

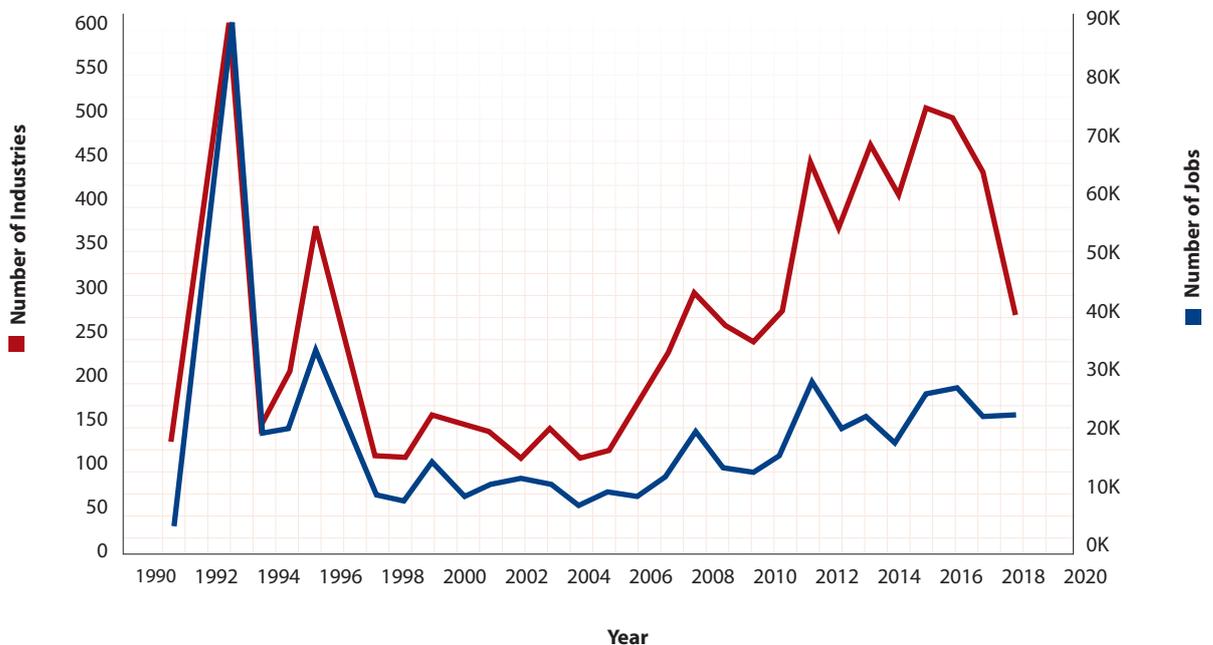
## Goal II: Increase industrial share of GDP to 22% by 2025

In 2019, the industrial share of GDP was 14.6% (NRB). The second goal of the *Abhiyan* is to contribute to the Government of Nepal's (GoN) efforts to achieve Sustainable Development Goal (SDG) 9. This will be done by increasing the industrial share of GDP to 22% by 2025<sup>3</sup> and 25% by 2030.

Among its peer countries, Nepal ranks lowest in terms of its industrial share of GDP (Figure III). It is the only country with a continuous decrease in the industrial share over the last two decades.

It appears that Nepal may have reached peak industrialization in the early 1990s.

**FIGURE II: INDUSTRIES AND INDUSTRIAL JOBS IN NEPAL IN THE PAST 30 YEARS (ANNUAL ADDITIONS)**



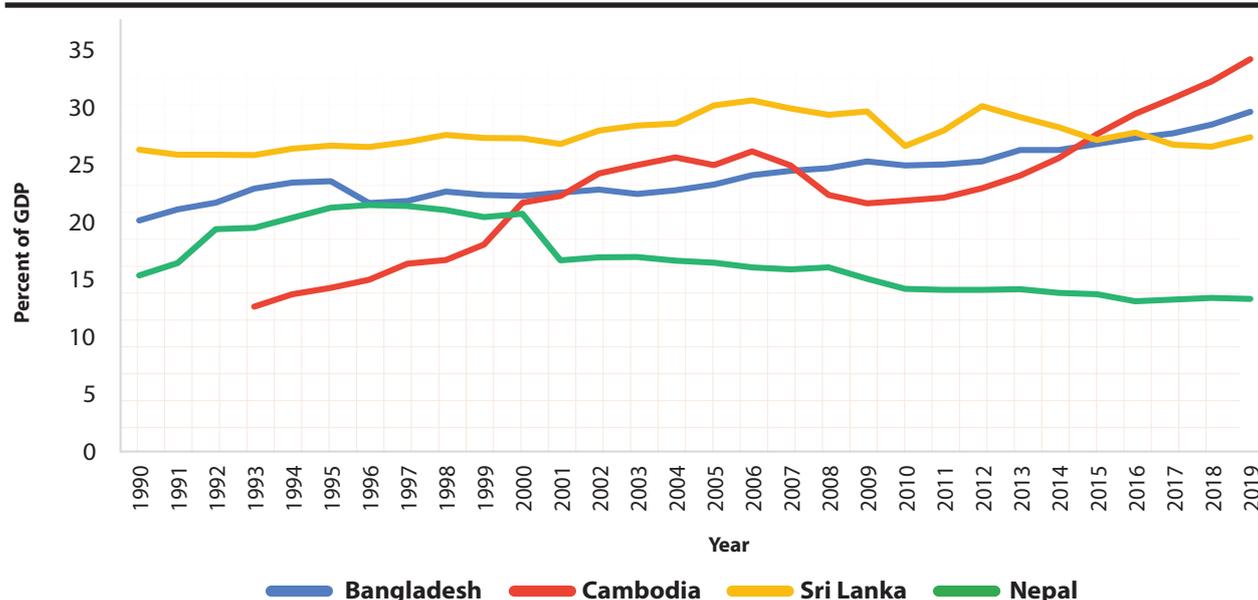
Source: Department of Industry, Government of Nepal (2019)

<sup>1</sup> These are based on registered industries that proposed the respective capital and employment numbers. It is the closest proxy one can find on current employment due to the absence of updated data.

<sup>2</sup> Micro and cottage industries are not registered with DoI, which represent 98 percent of all registered industries while generating three-fourth of employment (as per DoI). The primary focus of the *Abhiyan* is to create an environment to increase the number of small, medium and large industries through the interventions proposed. The Industrial Enterprise Act 2076 defines small, medium and large industries as having fixed capital of up to NPR 150 million, NPR 150-500 million and above NPR 500 million respectively.

<sup>3</sup> The SDG 9 target set by the National Planning Commission is to achieve 21.7 % industrial share by 2025. Taking this as a reference, the *Abhiyan* sets a slightly higher target.

**FIGURE III: PERCENT SHARE OF INDUSTRIES IN GDP (NEPAL VS PEER COUNTRIES)**



Source: World Development Indicators (2019)

### Goal III: Create 150,000 industrial jobs annually

Each year, approximately 450,000 youth enter Nepal’s job market<sup>4</sup>. However, they are driven to seek employment abroad because of the lack of employment opportunities at home.

The *Abhiyan* seeks to create industrial jobs in Nepal while also improving wages and encouraging employees to acquire technical skills. This will create a steady labor flow into the industrial sector and allow for greater growth.

There is an established link between industrial expansion and job creation. On average, every USD 1 million invested in industrial equipment translates into 150 new industrial jobs per year. Using this rule of thumb, the *Abhiyan* will promote investment in industrial

machinery and plants worth USD 1 billion, laying the foundation for the employment of 150,000 youth.

The industrial jobs referred to in the *Abhiyan* relate to employment from industries newly registered with the Department of Industries, taking into account only small, medium and large industries.

### Goal IV: Export goods and services worth USD 4.6 billion in 5 years

In the next five years, the *Abhiyan* further aims to increase Nepal’s exports from USD 1 billion to USD 4.6 billion. Table I outlines target growth rates over the next five years.

**TABLE I: EXPORT GROWTH TARGETS**

Year	Percent Growth	Amount (USD)
1	25 percent	1.25 billion
2	30 percent	1.63 billion
3	35 percent	2.19 billion
4	40 percent	3.07 billion
5	50 percent	4.60 billion

<sup>4</sup> <https://www.ilo.org/kathmandu/areasofwork/employment-promotion/lang-en/index.htm>

**FIGURE IV: EXPORTS IN THE PAST FIVE YEARS AND ABHIYAN TARGETS<sup>5</sup>**

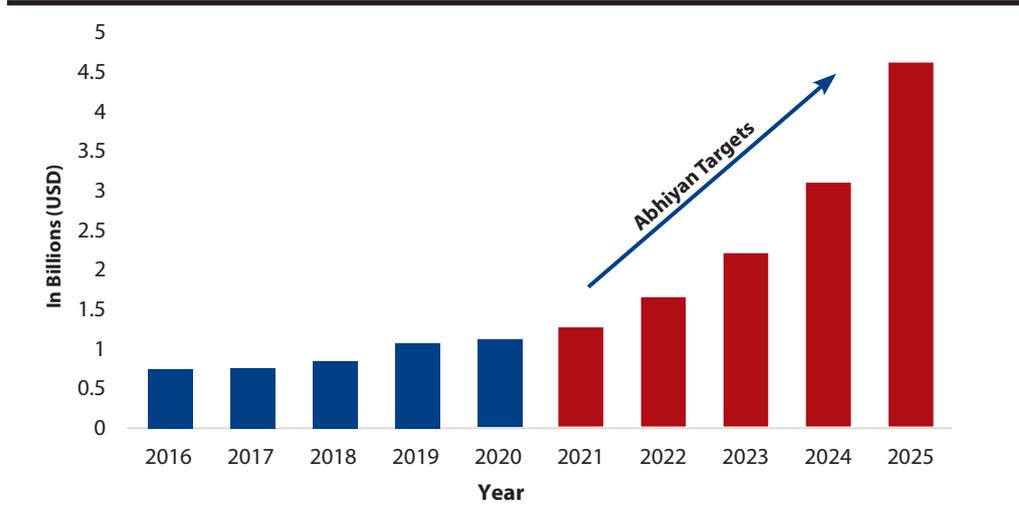
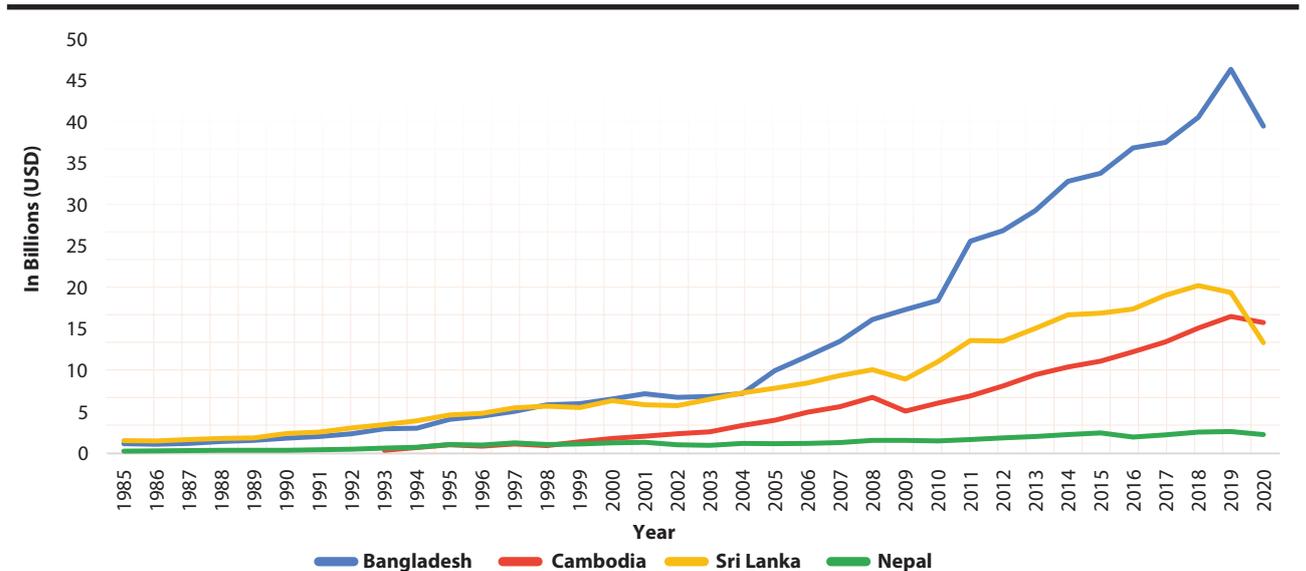


Figure V shows growth trends in exports for Nepal’s peer countries from 1985-2020, and contrasts it with Nepal’s stagnant exports.

**FIGURE V: EXPORT GROWTH OVER 1985-2019 (NEPAL VS PEER COUNTRIES)**



Source: World Development Indicators (2020)

## How to achieve these goals?

Seven interrelated avenues, or pillars, have been identified for achieving these goals. Each pillar represents opportunities to enhance industrial growth, and targeted intervention from the private and public sectors will be critical to their success.

The pillars are clustered under two overarching categories: production and consumption.

The four production pillars aim to augment the capacity of Nepali industries to supply a diverse set of goods and services. The three consumption pillars seek to stimulate demand for goods and services produced within Nepal.

Thirty-four interventions have been proposed to achieve the objectives of each pillar. A wide suite of interventions, from specific legal and regulatory reforms to the introduction of new statutory bodies are identified.

<sup>5</sup> Trade and Export Promotion Centre (TEPC) (constant NPR 100 = 1 USD)

# THE ABHIYAN IN A NUTSHELL



1

- 1 Introduce 'Integrated Industry Facilitation Strategy' (IIFS)
- 2 Revenue Policy for Industrial Growth
- 3 Introduce 'Industry Exit Procedure'
- 4 Harmonious Industrial Relations
- 5 Functional Public Land Lease Action Plan 2071
- 6 Repeal Laws that have Outlived their Legislative Intent
- 7 Introduce Anticipatory Bail
- 8 Improve 30 Ranks in the Ease of Doing Business Index

2

- 9 Control Nepal-India 'Unauthorized Trade'
- 10 Impose Trade Remedy Measures against Unfair Trade Practices
- 11 Introduce 'Industry Competitiveness Enhancement Board' (ICEB)
- 12 Displace Carbon-based Fuels with Hydropower
- 13 Upgrade Electricity Infrastructure with Swadeshi Equipment
- 14 Established 'Footwear and Leather Development Authority' (FLDA)

3

- 15 15-Year Tax Free Infra Bonds
- 16 Nodal Institution for Commercial Blending
- 17 Operationalize Hedging
- 18 Targeted Improvements in Logistics Infrastructure
- 19 Widely Adopt Project Readiness Budgeting
- 20 Established 'Construction Industry Development Authority' (CIDA)
- 21 Raise Domestic Bidding Threshold
- 22 Introduce 'Overall Infrastructure Master Plan'
- 23 Infrastructure for Industries

4

- 24 Conduct Dynamic Skills Assessment Survey
- 25 Operationalize 2019 Digital Nepal Framework
- 26 Introduce E-commerce Bill at the Earliest
- 27 PPP in Health Care Services

5

- 28 Mobilize the Swadeshi Board

6

- 29 Strictly Monitor Procurement of Domestic Goods
- 30 Procurement of Swadeshi Logo-recipient Products
- 31 Provincialize the Swadeshi Movement

7

- 32 Institutionalize Functional Economic Diplomacy
- 33 Repeal Act Restricting Foreign Investment Abroad, 2021 BS
- 34 Electricity for Energy-intensive Industries in South Asia



हाम्रो सामान, हाम्रो स्वाभिमान

# THE 34 INTERVENTIONS



# 3. Production Pillars

The four production pillars collectively aim to significantly increase the productivity of Nepali industries. Through them, the *Abhiyan* envisions to reduce the average cost of producing goods and services in Nepal.

Recognizing that an industry-friendly climate is a precursor to enhanced industrial competitiveness, the central objective of pillar I is to streamline and simplify existing regulations and make the prospects of starting a business more attractive.

Pillar II proposes incentives for promising domestic industries to grow beyond their current situation. This pillar advocates for select goods and services that Nepali industries are already supplying to an established domestic market.

The dismal state of Nepal's infrastructure is attributed to inadequate capital financing, failure to sufficiently expend allocated budget by the Government of Nepal each year, and the sluggish adoption of innovative financing mechanisms offered by public-private partnership arrangements. Pillar III seeks to address them.

Finally, pillar IV aims to make the service sector competitive internationally. Achievement of the objectives of the first three pillars will inadvertently translate to a more regionally and globally competitive service sector.

On the whole, by successfully executing interventions under the production pillars, domestic industries will see an increase in productivity, national unemployment will reduce, and industrial contribution to GDP will expand.

**The *Abhiyan* envisions to reduce the average cost of producing goods and services in Nepal.**



Picture: Steel factory

## PILLAR I: BUSINESS-FRIENDLY CLIMATE FOR NEPALI INDUSTRIES

The introduction of an 'IIFS' would symbolize a departure in government policy from trade to industry facilitation.

Nepali industries face different kinds of operational challenges on a day-to-day basis. The government has made efforts to address them, but lack a holistic, long-term approach to making Nepal more business friendly.

For example, in 1992 AD<sup>6</sup>, the government classified the challenges of industries into three main categories: customs, arbitrary excise duty listings, and tax payment hurdles. Customs duties were high, income taxes were numerous slabs, and the list of excise duty items was extensive. These problems were accompanied by other administrative hassles. In some cases, there was a monopoly on the import of raw materials, while domestic electricity production was significantly lower than domestic demand.

This *Abhiyan* recognizes that many of these challenges persist, limiting the productive capacity of Nepali industries and the basic functions of doing business, from registering a company to paying taxes. It is vital to categorically target problems and reduce these kinds of setbacks in order to improve the business climate in Nepal. This can be done by, among other things, evaluating measures like the Ease of Doing Business index.

### 1. Introduce 'Integrated Industry Facilitation Strategy' (IIFS)

Similar to the Nepal Trade Integration Strategy (NTIS) 2016 that promotes high export-potential goods, the Government of Nepal (GoN) should introduce a strategy

exclusively aimed at industrial facilitation. Over the years, the government has prioritized trade facilitation through numerous subsidy programs, tax concessions, and procedural simplification. Similarly, the proposed 'Integrated Industry Facilitation Strategy' will streamline inter-ministerial coordination and recommend relevant laws, procedures, incentives, and priorities so that the state machinery collectively facilitates industrial growth.

While the Industrial Enterprise Act, 2076 provides an overarching framework to regulate Nepali industries, introducing an 'IIFS' can resolve the grievances of industries and help improve day-to-day operations. Nepali industries cannot compete against goods and services produced across the world unless clearly defined protective measures and a business-friendly climate are provided by the state.

CNI, bringing together the entirety of concerns of industries, and the DoI could work together to determine the content of the IIFS. An MoU will be signed 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. The IIFS will also cover issues like land and labour facilitation,

### CASE REFERENCE 1

#### General Guidelines for Industrial and Commercial Venture in Bhutan 1997

This specific legal instrument consolidates the four different laws and rules in a single guideline to streamline the legal procedures required for establishing and operating an industry. The four legal instruments are Rules and Regulations for Establishment and Operation of Industrial and Commercial Ventures in Bhutan 1995, Companies Act of the Kingdom of Bhutan 2000, Bhutan Package Commodities Rules and Regulations 1995, and Mines and Minerals Management Act 1995. The consolidated guidelines cover the major rules and regulations regarding the issues of licenses for trade and industrial activities and their operations and are intended to facilitate private sector development. Among other things, it covers policy guidelines for the industrial sector, tax rates, power tariffs, provisions related to infrastructure for industries, industry license and fee, registration fee, and land leasing procedures. This guideline is applicable to trade, service, production, and manufacturing industries in Bhutan.

<sup>6</sup> All dates in the publication are based on the Gregorian calendar, unless while referring to a Nepali law.

registration, operation and exit of industry, financing, demand projection, government service delivery, and the procurement of raw materials. Further, the 'IIFS' will also provide guidance on optimal ways to establish new industrial estates and make Special Economic Zones (SEZs) more functional.

The introduction of an 'IIFS' would also symbolize a departure in government policy from trade to industry facilitation. This will contrast with the prevailing revenue-target modality and will help generate skilled employment opportunities within Nepal. This will also help achieve higher revenue collection from industrial growth in the long run.

## 2. Revenue Policy for Industrial Growth

Since Nepal's economy is largely open to international 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

CASE REFERENCE 2

**India's Experience: Industrial Facilitation Laws**

Many Indian states, including Karnataka, Punjab, Orissa, Tripura, and Rajasthan, have industrial facilitation laws. These legal instruments seek to promote industrial development, facilitate investments, and simplify the regulatory framework by reducing procedural requirements.

of technological inadequacies, the need to import most raw materials and machines, and management inefficiencies. Hence, the country's revenue policies should help alleviate these unique disadvantages. While interventions are needed in all these areas, a conducive revenue policy can be an important starting point.

Although, this will be challenging. As an illustration, during the first eight months (*Shrawan-Falgun*) of Fiscal Year 2077/78, the state received NPR 267 billion from customs tariffs on NPR 943.9 billion worth

**FIGURE VI: REGULATIONS AND LAWS THAT GOVERN THE INDUSTRIES<sup>7</sup>**



<sup>7</sup> This is still a non-exhaustive list but helps demonstrate that the regulatory environment for industries is excessively complex due to the presence of large number of statutory laws and related policies. 'Integrated Industry Facilitation Strategy' would assist domestic as well as foreign investors navigate the intricate legal landscape. Refer to the list (the regulatory landscape) in the next page to see how these numbers are derived.

## The regulatory landscape

### Industry Administration Laws and Regulations

- Industrial Enterprise Act, 2076
- Industrial Enterprise Rules, 2076
- Special Economic Zones Act, 2073
- Company Act, 2063
- Mines and Minerals Act, 2042
- Mining and Minerals Regulations, 2056

### Taxation Laws and Regulations

- Income Tax Act, 2058
- Income Tax Rules, 2059
- Customs Act, 2064
- Customs Rules, 2064
- Excise Duty Act, 2058
- Excise Duty Rules, 2059
- Value Added Tax Act, 2052
- Value Added Tax Rules, 2053

### Quality and Standards Laws and Regulations

- Standard Measurement Rules, 2076
- Standard Measure and Weights Act, 2025
- Nepal Quality Act, 2037
- Nepal Quality Rules, 2040

### Intellectual Property Laws and Regulations

- Patent Design and Trademark Act, 2022
- Copyright Act, 2059
- Copyright Rules, 2061

### Environmental Compliance Laws and Regulations

- Environment Protection Act, 2076
- Environment Protection Rules, 2077

### Labour Laws and Regulations

- Labour Act, 2063
- Labour Rules, 2075
- Right to Employment Act, 2075
- Child Labour Prohibition Act, 2056
- Child Labour Prohibition Rules, 2062
- Contribution Based Social Security Act, 2075
- Bonus Act, 2031

### Investment and Banking Laws and Regulations

- Investment Board Act, 2068
- Investment Board Rules, 2069
- Foreign Investment and Technology Transfer Act, 2019 (2075)
- Foreign Investment and Technology Transfer Rules, 2077
- Foreign Direct Investment and Loan Management Regulation, 2078

### Trade and Trade Remedies Laws

- Export and Import Control Act, 2013
- Safeguards, Anti-Dumping and Countervailing Act, 2076
- Safeguards, Anti-Dumping and Countervailing Regulations, 2077
- Consumer Protection Act, 2075
- Consumer Protection Rules, 2076

of imported goods (Nepal Trade Information Portal). Creating political will to move from this relatively comfortable position to a new direction with a seemingly uncertain future will be a challenge. However, in the long-run supporting the growth of Nepali industries is a more sustainable approach to achieving the twin goals of generating higher revenues for the government and better jobs for people in Nepal.

For illustrative purposes, the following policies are suggested to catalyze industrial growth:

### Corporate tax as a function of employment generated

Corporate tax rates should be a function of the employment opportunities that a given industry generates. For example, the IEA 2076 exempts manufacturing industries employing more than 500 individuals 100% of income tax for the first 5 years and 50% for the next 3 years. Some manufacturing industries may plan to employ 400, 300, 200 or even 100 individuals. Income tax exemptions should account for these numbers because generating employment for even 100 individuals has a huge multiplier effect.

### Reinvestment or dividend reinvestment policies in industries (with minimal taxes)

Nepali industries have asked for tax exemptions or lower tax rates on 40% of their income if it is reinvested in establishing new industries or improving existing ones. This not only increases overall investments, but also encourages companies to disclose higher profits because they will receive tax concessions on the income earned.

### Simplify mechanism for tax refunds on expired goods

After food products pass the expiration date, retailers are able to return them to manufacturers. However, in these cases the taxes paid by manufacturers before distributing the product to retailers are not refunded. It is unfair that manufacturers are compelled to pay taxes on goods where no transactions were actually made. This also increases the costs of production incurred while manufacturing goods locally. A more streamlined mechanism is needed for ensuring initial taxes paid on goods that are eventually returned by retailers to Nepali industries are refunded.

### Expedite VAT refund

For goods and services that qualify for the VAT refund outlined in the Value Added Tax Act, 2052, the refund process needs to be quick and efficient. Nepali businesses often complain about the long time and cumbersome process they have to go through to claim their VAT refund, freezing a considerable chunk of capital that can be put to productive use. The process of refunding payments made into state coffers is overly cumbersome and time consuming. A simplified refund process would make businesses more forthcoming in paying their dues, especially as it is in the case of VAT returns.

### Bring anti-dumping laws into force immediately

The government endorsed the Safeguards, Anti-Dumping and Countervailing Regulation in January 2021. However, the Nepali market remains flooded with goods priced at levels that local industries cannot compete with. For example, footwear manufacturers complain that a pair of shoes can be purchased with a mere NPR 100. Hence, bringing these laws into force is imperative to industrial growth. (More details about anti-dumping in pillar II).

### Expedited and simplified procedures for medium and large industries

As provisioned in the Industrial Enterprise Act (IEA), 2076, a 'One-Stop Service Centre' has been introduced at the Department of Industry (DoI). Domestic and FDI-based industries still complain that industrial administration is far from streamlined. Medium and large industries – categorized by IEA as having fixed capital up to NPR 150 million and more than NPR 500 million, respectively – contribute significantly to the industrial share in GDP and employ a considerable number of people. Expediting and simplifying administrative procedures related to their operations could encourage investment in new industries while promoting growth in existing ones.

This is not a new idea. Since the mid-2010s, the government has honored a few dozen 'Commercially Important Persons' in an effort to recognize their contribution as large exporters, investors, and employers. Recognizing foreign investors that have contributed significantly to the economy could encourage them to become ambassadors for doing business in Nepal and may encourage other foreign investors.

## 3. Effective 'Industrial Exit Procedure'

The continuation of non-viable businesses locks up funds and capital assets that could be productively deployed elsewhere to generate higher output, incomes and employment. An 'Industrial Exit Procedure' covering the following provisions needs to be introduced. First, it should provide clear guidelines for a simple and expeditious exit mechanism for the closure of industries (including the sick ones). Second, it should make it easy to redeploy assets from non-viable businesses to more productive uses. In India, a 'no gains tax' on the sale of industrial plants and machinery means that both the buyer and seller are better off during the handover of assets. In Nepal, the government should give partial or complete fee exemptions on the purchase of machinery, plants, parts, raw materials, and other equipment required to rehabilitate ailing industries.

**The continuation of non-viable businesses locks up funds and capital assets that could be productively deployed elsewhere to generate higher output, incomes and employment.**

**The definition of a 'sick industry' under the Industry Enterprise Act 2076 should be expanded. Also, it should include provisions that qualify an industry to exit voluntarily.**

Third, the policy should permit exit after three years of operations, including the sale of land purchased by the industry. Fourth, if the 'sick industry' in question does not seek to exit, Nepal Rasta Bank (NRB) should refinance the loans at a 3% interest rate as long as the industry is still viable. To implement such an "Industry Exit Procedure", a permanent committee as stipulated by the Industry Enterprise Act 2076 needs to be established immediately. Such a body will also help in identifying, classifying, rehabilitating, restructuring and managing sick industries. Finally, GoN should recognize and implement recommendations outlined in the report by the Sick Industry Rehabilitation High Level Task Force 2068 BS.

To introduce an 'Industrial Exit Procedure', the definition of a 'sick industry' under the Industry Enterprise Act 2076 should be expanded. Also, it should include provisions that qualify an industry to exit voluntarily.

**Voluntary winding up (liquidation) in Nepal**

According to present legal provisions, a company can only voluntarily wind up if the time frame mentioned in the article of association has expired and the company has excess liabilities making it impossible to continue. However, for a company in this situation to voluntarily liquidate, it must be

able to pay its debts or other liabilities in full. (See 125 (2) (a) Companies Act, 2063).

**Findings of Sick Industry Study of Nepal Government, 2077**

A committee comprised of six members headed by former secretary Dipak Subedi was formed by the Council of Ministers in 2077 B.S. This committee was assigned with the task to determine the "sickness or health" of numerous companies based on physical, technical, financial and management aspects. Based on this determination, the committee recommended remedial measures.

The study focused on public industries that were earlier privatized. However, it also discusses issues associated with the sickness of privately-owned industries. In the case of sick industries owned by the government, the report suggested measures such as mergers between companies of similar nature, liquidating similar industries, and using assets of sick industries to start new industry or expand existing healthy industries.

In the case of former government-owned sick industries that have been privatized, the report suggested the liquidation process be initiated. In the future, the study suggested not to privatize government-owned industries.

**TABLE II: INDUSTRIAL EXIT POLICY ACTS AND PROVISIONS IN OTHER SOUTH ASIAN COUNTRIES**

Countries of reference	Relevant Act	Provisions
<b>Sri Lanka</b>	Companies Act 2007: Section 267 states any company can be wound-up by the court or voluntarily. Among others reasons, the inability to pay its debts is one justification for exit.	There is no specific provision that deals with the exit of a company/industry. However, when a company is not able to pay its debts, such company is allowed to close its business during which all the assets of the company are liquidated and disbursed to debtors and owners.
<b>Bangladesh</b>	Companies Act, 1994: Company can be wound-up through the order of the court (Section 241) and also voluntarily (Section 291). As in the case of Sri Lanka, the inability to pay outstanding debts is one reasons for voluntarily exiting.	The inability to pay debt is considered legal grounds for closing a company/industry. Once it is established that the company is unable to pay its debts the process of liquidation commences. All of the company's assets are liquidated and disbursed to pay the debt, while the remaining amount is handed over to the owners.
<b>Pakistan</b>	Companies Act, 2017: Section 292 includes provisions for the rehabilitation of Sick Public Sector Industries.	Primarily focuses on the rehabilitation of sick industries. Restructuring of loans, amendment of MoUs, and debt rescheduling are some of the tools used for rehabilitation.

Whereas, for privately-owned sick industries, the report recommended the need for the timely and continuous recognition of such industries. And that, the government should establish a permanent mechanism to oversee subsidies and other facilities required for the rehabilitation. The committee's findings also suggested that rehabilitation should be the preferred government measure; however, in cases where rehabilitation or reoperation are not possible, the government should enable those industries to exit easily. The government needs to develop necessary laws and policies for this purpose.

#### 4. Harmonious Industrial Relations

It is well-known that a large number of non-Nepali workers are hired across industries in Nepal, hindering the acquisition of new skills and earning by the local workforce. Harmonious industrial relations will encourage more industries to hire Nepali workers. Regulations are needed to outline hiring and firing practices that don't worsen existing power asymmetries between employees and employers.

Strategies that the lower the cost of production should be promoted among Nepali industries to improve the global competitiveness of Nepal goods and services.

While 'no work, no pay' has been addressed by the Labour Act 2074, industrialists have demanded a provision of 'hire and fire'. They believe Nepali workers are difficult to manage and the resulting tension can get in the way of the smooth operation of their industries.

##### **Quick glance at the contribution-based social security scheme:**

While it is estimated that there are 900,000 private firms or employers in operation, only 13,887 employers have been registered under the social security scheme. So far, 204,968 employees have registered.

Many employers perceive cost increases resulting from signing up for the social security scheme. Many would like for this to be an optional measure and are pressing for a phase-wise implementation of the scheme. Small- and medium-scale industries, which have small workforces and limited resources, have demanded more time for enrolment.

This scheme aims to reduce the financial burden of employers by fixing the contribution to be made. Likewise, the employee will have greater job security. This will create an environment where business operations run smoother.



##### **Need for increased engagement of labour courts to settle industrial issues:**

Labour courts oversee all of the labour-related issues faced by Nepali and foreign-returned workers. The seat of the main labor court is in Kathmandu; however, high courts can also function as labour courts in the absence of an official labour court.

Labour offices are the preliminary body to hear labour issues. Their decisions can be appealed to a labour court. District-level labour offices are delegated to function as labour courts at the district level, high courts at the provincial level, and a specialized labour court is tasked with hearing this issues in the capital.

Labour courts are assigned with adjudicating cases related appointment, termination, probation period, and issues of holidays, among other things.

This legislation intends to address labour-related issues nation-wide and provide decisions in a timely manner. Laborers and industrialists should use this mechanism to address disputes harmoniously.

**CASE  
REFERENCE 3**

**An Unfortunate Outcome of 'Disharmonious Industrial Relations' in Nepal**

Surya Nepal started a garment industry in 2004 in Biratnagar with an initial investment of NPR 300 million. The company transformed into Nepal's largest garment producer in a short span of time. It was also the most technologically advanced garment industry in the country. It produced readymade garments of international brands such as John Player, as well as its own brand, Springwood, which was gaining wide popularity.

Their products were being exported to India, the United States, Canada, France, and Europe. Of the total production, 85% was exported and 15% was domestically consumed. In 2010, the annual turnover was over NPR 1 billion. This company was one of the largest employers, with more than 650 workers directly employed.

This company, with a strong profile and market presence, suffered from an unlikely phenomenon that tore it apart. Workers demanded a pay increase and threatened to halt work. The strike continued for months, completely halting production lines. At the time, the pay scale was higher than the minimum wage. Along with the labour strike, managerial staff were locked in by laborers, leading to a further deterioration of industrial relations. The continued strike caused irreparable losses as the goodwill and credibility of the company in the national and international market was lost. The company was eventually shut down in 2014. This is not a stand-alone incident in Nepal's history of a company affected by excessive trade union activities.

**While the Public Land Lease Action Plan, 2071 provides clear guidelines regarding the concessional rates at which public land can be leased, it does not incentivize newer industries.**

**5. Make the Public Land Lease Action Plan, 2071 more functional**

The cost of acquiring land for industrial purposes is exorbitant. If land were made available at subsidized rates, it would free up capital for industries to purchase machines to set up manufacturing plants and, as a result, employ more people. The average cost of land and the opportunity costs, for example those associated with setting up a manufacturing plant, tend to be significant, especially considering the large amount of land required for these types of operations.

While the Public Land Lease Action Plan, 2071 provides clear guidelines regarding the concessional rates at which public land can be leased, it does not incentivize newer industries. This Action Plan should be made more functional and operational. The Land Management Division of the Ministry of Land Management, Cooperatives and Poverty Alleviation should work together to make land allocation system useful.

Although there are provisions for acquiring public land at subsidized rates, industries are quoted inflated land prices. For example, along the Tribhuvan Highway connecting Gandak to Pathlaiya, industries have been quoted rates as high as NPR 10 million per kattha<sup>8</sup>, while the land adjoining the feeder road is being sold at NPR 2-3 million. Making the current action plan more feasible would help industries use their capital more productively.

**Salient features of the Public Land Lease Action Plan 2071:**

This action plan aims to provide the government land in lease for social, economic and business purposes. Annex 1 of the action plan lists reasons for which an individual or institution can apply for a lease. These include agricultural and animal husbandry purposes, industry, economic and industrial areas purposes, and tourism industry business. The annual lease amount ranges from 0.5% to 1.50%. Further, the plan identifies three kinds of leases: short-term leases lasting for 5 years, mid-term leases lasting for 20 years, and long-term leases lasting for 30 years. However, the government reserves the discretion to increase the term of lease.

**Using SEZs for cheaper land**

The Government of Nepal first institutionalized the concept of Special Economic Zones through the Special Economic Zone Formation Order 2012 and the resulting establishment of the Special Economic Zone Development Committee on 11 February 2013

Bangladesh institutionalized the Export Processing Zones Authority Act of 1980<sup>9</sup>. Rather than focusing on individual land acquisition and land leases, Bangladesh facilitated and promoted industrial production by directly providing land through these zones. However, it wasn't until 2012 that Bangladesh allowed private entrepreneurs to build 257 industrial units on unused land owned by state companies. The government decided issue initial leases of public land to private entrepreneurs for 35 years<sup>10</sup>.

<sup>8</sup> <https://www.newbusinessage.com/Articles/view/13169>

<sup>9</sup> <https://openknowledge.worldbank.org/bitstream/handle/10986/30555/The-Rise-of-Special-Economic-Zones-in-Bangladesh.pdf?sequence=1&isAllowed=y>

<sup>10</sup> <https://www.thedailystar.net/news-detail-227757>



Picture: Bhairawaha SEZ

### Land Facilitation in Gujarat, India

The Gujarat Industrial Development Corporation (GIDC) ensures that entrepreneurs can purchase land without complexities. GIDC operates and maintains 182 functional estates with an inventory of 36,000 hectares of land. The system is designed so that when an investor opts to acquire GIDC land, possession is transferred within 45 days.

The GIDC resulted in a four-fold increase in land allotment. Existing industries expanded to new units in the industrial estate. The Indian Planning Commission placed Gujarat in the top position for land and building related approvals. The modality used in Gujarat was appreciated by institutions

nationwide, including such as the Confederation of Indian Industries.

In India, land acquisition used to be a major bottleneck for starting industries. This caused Tata Nano to scrap plans to build a plant in West Bengal and Arcelor to scrap plans to build a steel plant in Odisha. Such examples inspired India's central government to recognize GIDC as a best practice and encouraged other states to follow the same model. This model operates virtually through a portal called GIDC MITRA, which addresses grievances. All the approvals and proposals are issued virtually with minimum physical presence.

### CASE REFERENCE 4

## 6. Repeal laws that have outlived their legislative intent<sup>11</sup>

### A. Black Market and Other Social Offence and Penalty Act, 2032

Unfair business practices do not serve the welfare of businesses or consumers. The Black Market and Other Social Offence and Penalty Act, 2032 has outlived its legislative intent. It was introduced at a time when there were no regulations in place to check for and regulate unfair market practices. This Act seeks to regulate offenses already being addressed by other laws such as the Consumer Protection Act, 2054, Competition Promotion and Market Protection Act, 2063, and National Criminal Code, 2075.

The Black Market and Other Social Offence and Penalty Act, 2032 has created an uneasy atmosphere among businesses and has failed to achieve its original purpose. Repealing this Act will convey the message that GoN seeks to promote a business-friendly climate for industries rather than intimidate them.

### B. Export and Import (Control) Act, 2013

As a member of the World Trade Organization (WTO), Nepal is committed to the principle of trade liberalization. It is also party to numerous bilateral and multilateral trade treaties and conventions. This Act contradicts the generally accepted principles of international trade and should be repealed.

**Repealing the Black Market and Other Social Offence and Penalty Act, 2032 will convey the message that GoN seeks to promote a business-friendly climate for industries.**

<sup>11</sup> The laws mentioned above are not an exhaustive list but are chosen to help make a case that there are a number of counter-productive laws that runs contrary to Government of Nepal's aspirations of achieving a vibrant market economy.

The Abhiyan's aim to improve Nepal's global ranking by 30 positions in five years will lead to higher entrepreneurial activities within the country leading to additional employment opportunities, higher incomes, and more revenue for the government.

### C. Essential Commodities Control (Authorization) Act, 2017 B.S.

This Act aims to protect the interest of the general public; however, subsequent enactments, including the Consumer Protection Act 2054 and Competition Promotion and Market Protection Act 2063, better address its legislative objectives in today's context. The Act primarily enlists the essential commodities on which citizens rely on a day to day basis. However, section 19 of the Consumer Protection Act 2075 also addresses this issue in more detail.

### 7. Introduce a provision for anticipatory bail

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. Reference Case 5 provides conditions that need to be satisfied for a person to be qualified for anticipatory bail in India.

### 8. MoU between CNI and the Office of the Prime Minister and Council of Ministers to improve the Ease of Doing Business (EDB) index:

Each year, industrialists, businesses, and governments around the world closely monitor improvements in the Ease of Doing Business index. Many use this score while deciding whether to invest in a given country.

Nepal's poor performance in this index helps explain its inability to attract Foreign Direct Investment (FDI). When the the overall recommendations of the "Make in Nepal – Swadeshi" Abhiyan are handed over to the Government of Nepal, the targets for reducing procedures and time taken on different Ease of Doing Business indicators will also be provided (Table 3).

The Office of the Prime Minister and Council of Ministers (OPMCM) has established a new unit that deals exclusively with easing the business environment in Nepal. It is already engaged in an exercise with line ministry secretaries to streamline administrative procedures.

CNI has identified the number of hours and procedures that needs to be reduced in order for Nepal to improve its global EDB ranking. An MoU between CNI and OPMCM to organize a series of consultations will help identify which areas need immediate reform.

#### Business climate and competitiveness.

Improving the business climate boosts industrial production and makes domestic enterprises more competitive. Having too many regulations is costly as they require financial resources and time that could be better allocated for productive use.

Our proposal to improve Nepal's global ranking by 30 positions in five years will lead to higher entrepreneurial activities within the country leading to additional employment opportunities, higher incomes, and more revenue for the government.

#### REFERENCE CASE 5

### Anticipatory Bail: Indian Legal Provision

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 offence, he may apply to the court to issue anticipatory bail. If the court agrees, 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.

## Improvement needed on the following indicators



### Paying Taxes

The annual EDB index that compiles responses from hundreds of Nepali business professionals shows that tax processes are cumbersome. As a result, the Nepal ranks 174 out of 190 countries on the Paying Tax Indicator. Our proposed goal is to reduce the time spent to pay taxes to 250 hours and the total number of processes to 30.<sup>12</sup>



### Contract enforcement

Nepal's global ranking in contract enforcement is an abysmal 151. Our proposed goal is to reduce the current enforcement period from 910 days to 600 days. Similarly, it now takes us 22.5 days to start a business and we have to go through 8 processes. The *Abhiyan* aims at bringing it down to 16 days and 14 processes.



### Starting a business

The ease of starting a business can attract investors and business executives to a particular place. To start a business, it currently takes 22.5 days and eight procedures. This *Abhiyan* aims to bring these numbers down to 16 days and four procedures.



### Getting Reliable Electricity

Electricity is a major input for manufacturing and service industries. It is essential to provide reliable, accessible, and affordable electricity to industries. The *Abhiyan* aims to reduce the cost of getting electricity from 785.8 percent of per capita income to 400 percent. Whereas, currently Nepal scores zero in the sub-index that measures reliability of supply and transparency of tariffs. The aim is to attain a score of four by making improvements in this sub-index.



### Dealing with Construction Permits

Long bureaucratic processes lower incentives to start work. Given that, in most cases, construction is the first thing that businesses do, there should be minimal hassle in acquiring construction permits. Nepal currently ranks 117th globally: it takes 118 days and eight procedures to acquire construction permits. The *Abhiyan* aims to reduce these to 85 days with ten procedures.



### Registering Property

This indicator measures the composite ease of getting reliable information and access to infrastructure, as well as the legality of dispute resolution. Businesses like to operate in an environment where the laws and institutions are strong and where there is easy access to necessary infrastructures. The *Abhiyan* aims to improve the score from 6 to 14.

<sup>12</sup> Manufacturing in Thailand has a flat tax of 20%, while in Ireland it is 12.5%. The EDB index survey shows that in a company's second year in Nepal, an average 377 hours are spent following 46 procedures to ensure compliance with tax requirements. Even for established companies, this process follows a similar pattern and can be a large hurdle.

**TABLE III: TARGETED IMPROVEMENTS<sup>13</sup> IN THE WORST PERFORMING INDICATORS**

Indicator	Current (Time, Cost and Procedures)	Abhiyan Targets
<b>Paying Taxes (global rank 174)</b>		
<b>Days taken:</b> The time it takes to prepare, file and pay (or withhold) corporate income tax, value-added tax (VAT) or sales tax, and labor taxes, including payroll taxes and social contributions (in hours per year).	377 hours	250 hours
<b>Procedures:</b> The total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for the standardized case study company during the second year of operation. It includes taxes withheld by the company, such as sales tax, VAT, and employee-borne labor taxes.	46 per year	30 per year
<b>Contract Enforcement (global rank 151)</b>		
<b>Days taken:</b> The time it takes to resolve a dispute, counted from the moment the plaintiff files a lawsuit in court until payment.	910 days	600 days
<b>Quality of judicial proceeding:</b> This index measures whether each economy has adopted a series of good practices in its court system in four areas: court structure and proceedings, case management, court automation, and alternative dispute resolution.	06 Index (scale 0-18, where 0 is the lowest and 18 is the highest)	12
<b>Starting a Business (global rank 135)</b>		
<b>Days taken:</b> The total number of days required to register a firm. This measure captures the median duration that incorporation lawyers indicate is necessary to complete a procedure with minimum follow-up with government agencies and no extra payments.	22.5 days	16 days
<b>Procedures:</b> The total number of procedures required to register a firm. A procedure is defined as any interaction of the company founders with external parties (for example, government agencies, lawyers, auditors, or notaries).	08 procedures	04 procedures
<b>Getting Reliable Electricity (global rank 135)</b>		
<b>Cost:</b> The cost is recorded as a percentage of the economy's income per capita. Costs are recorded exclusive of value added tax.	Cost: 785.8 percent	Cost: 400 percent
<b>The reliability of supply and transparency of tariffs index is calculated on the basis of the following six components:</b> Evaluates the duration and frequency of power outages, tools to monitor power outages, tools to restore power supply, regulatory monitoring of utilities' performance, financial deterrents aimed at limiting outages, and transparency and accessibility of tariffs.	0 Index (scale 0-8, where 0 is the lowest and 18 is the highest)	04

<sup>13</sup> The targets that the *Abhiyan* seeks to achieve are averages of countries that rank between 60 and 70 globally in 2020 on the mentioned indicators.

Indicator	Current (Time, Cost and Procedures)	Abhiyan Targets
<p><b>Dealing with Construction Permits (global rank 107)</b></p> <p><b>Days taken:</b> The total number of days required to build a warehouse. The measure captures the median duration that local experts indicate is necessary to complete a procedure in practice.</p> <p><b>Procedures:</b> The total number of procedures required to build a warehouse. A procedure is any interaction of the company's employees or managers with external parties.</p>	<p>118 days</p> <p>12 procedures</p>	<p>85 days</p> <p>10 procedures</p>
<p><b>Registering Property (global rank 97)</b></p> <p><b>Quality of the land administration index comprises of the following criteria:</b></p> <p>Reliability of infrastructure index (0-8)</p> <p>Transparency of information index (0-6)</p> <p>Geographic coverage index (0-8)</p> <p>Land dispute resolution index (0-8)</p>	<p>Nepal scores 6 out of 30</p>	<p>14</p>

## PILLAR II: SELECTED IMPORT SUBSTITUTION

A study of early American industrialization shows Americans also protected local industries in various ways. They implemented safeguards to develop institutions and infrastructure, promote research and development, and train the labor force to gain a competitive edge when they opened up to international markets. Similarly, Nepal needs to assess present opportunities by examining historical trade data and replace imports that have domestic substitutes.

### 9. Control “Unauthorized trade” between Nepal and India

Nepal and India signed the Agreement of Cooperation between India & Nepal to Control Unauthorized Trade (2009) in 2009. Article I of the agreement states, “This agreement aims to introduce necessary measures to protect the economic interests of the both parties so that they are not adversely affected by unauthorized trade. Likewise, this agreement also creates liability in each party to prevent infringement and circumvention of the laws, rules and regulation of either country. Enquiries and exchange of information in regard to matters of the infringements are to be shared mutually.” This agreement also states that customs officers should meet regularly to share information about unauthorized trade and to discuss potential control measures. Despite this joint governmental legal measure, unauthorized trade is still rampant in the

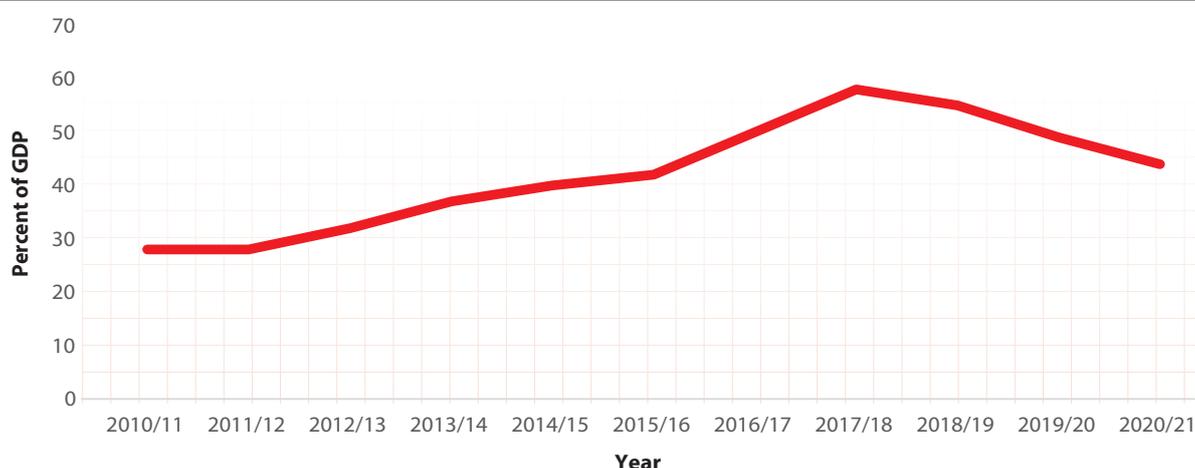
Nepali market, and Nepal’s manufacturing sector has suffered.

Industries have advocated for strict implementation of the prevailing laws and regulations, including mandatory labeling of imported goods. Any good that fails to comply with this provision should face legal action. Stricter labelling requirements in the domestic market would ease the burden on security forces working at the border to prevent unauthorized trade, as it provides them with additional ways of monitoring contraband goods as well as the domestic market. State authorities can ensure strict implementation of section 7 and 8 of the Consumer Protection Act 2075, which outlines the liabilities of Nepali importers.

This act states that the importer is liable for labelling goods in a way that is accessible and understandable by common people. If any importer imports goods without meeting labelling requirements, they are liable to pay compensation for any harm or injury incurred. Goods that fail to comply with this provision can be deemed “unauthorized imports”. It is hoped that this will discourage importers from purchasing goods from abroad on which taxes aren’t paid.

Likewise, section 2 of the Consumer Protection Act outlines information that must be included on the label: the name, address, and registration number of the producer;

**FIGURE VII: IMPORT AS A PERCENTAGE OF NEPAL’S GDP**



Source: Central Bureau of Statistics (2020)



Picture: Illegally smuggled garments in Rautahat

Source: *The Himalayan Times*

ingredients; determined quality; mode of usage; retail price; batch number and date of manufacturing; and deadline among others. If an importer fails to abide by set standards, they should not be allowed to import, sell or distribute these goods in Nepal.

## 10. Protect Nepali Industries with Trade Remedies

### A. Anti-Dumping Measures

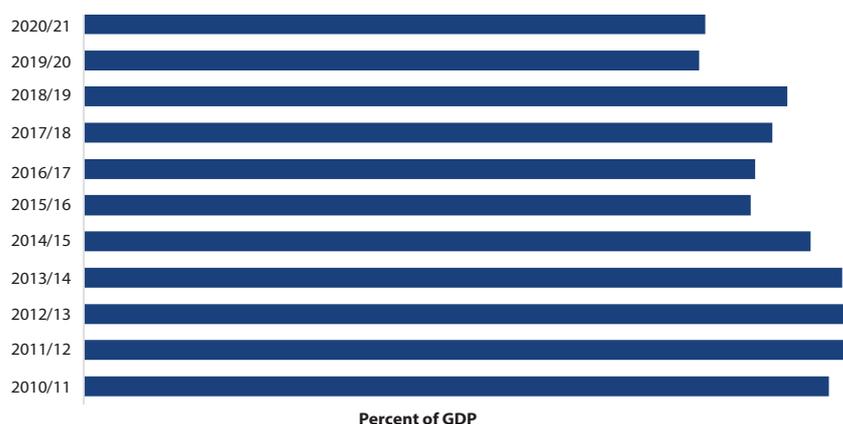
The inability to enforce antidumping laws harms even the most competitive of Nepali producers. For example, footwear manufacturers state that a pair of imported shoes can be found for a mere NPR 100. Realizing the need to address this issue, the government endorsed the Safeguards, Anti-

Dumping and Countervailing Regulation (SACA) in January 2021.

According to the World Trade Organization (WTO), “Dumping is, in general, a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country”<sup>14</sup>. The agreement on the implementation of Article VI of GATT 1994, otherwise known as the Anti-Dumping Agreement, elaborates how a country can investigate and determine dumping practices and subsequently implement duty measures against them. In other words, a country has to do its due diligence (as prescribed by WTO) before introducing any anti-dumping measures.

**Despite this joint governmental legal measure, unauthorized trade is still rampant in the Nepali market, and Nepal’s manufacturing sector has suffered.**

**FIGURE VIII: CONTRIBUTION OF THE MANUFACTURING SECTOR TO THE GDP**



Source: Central Bureau of Statistics (2020)

<sup>14</sup> [https://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_info\\_e.htm](https://www.wto.org/english/tratop_e/adp_e/adp_info_e.htm)

**TABLE IV: PROVISIONS OF SAFEGUARD, ANTI-DUMPING AND COUNTERVAILING ACT (SACA)**

	<b>Safeguards Duty</b>	<b>Anti-dumping Duty</b>	<b>Countervailing Duty</b>
<b>Grounds for Imposition</b>	If there is serious injury/ threat of injury to domestic industries due to an unprecedented and unconventional increase of import of similar goods.	If goods are imported at a value lower than the normal value of goods causing or likely to cause injury/serious injury to domestic industries producing similar products.	If there is import of concessional or directly or indirectly subsidized goods which causes or is likely to cause injury or threat of serious injury to domestic industries.
<b>Initiation of the process</b>	<i>Sou moto</i> by the ministry or complaint from domestic industry producing similar goods. Within three days of receiving the complaint, the ministry should call upon related departments to initiate investigation in the matter.	Complaint can be filed by domestic industrialists producing similar goods as per the format prescribed in Annex 2 of the rules.	Complaint can be filed by domestic industrialists producing similar goods as per the format prescribed in Annex 3 of the rules.
<b>Investigation Officer</b>	Appointment of investigation officer by the department.		
<b>Initial report</b>	Within 60 days from the initiation of investigation.		
<b>Interim Measures</b>	GoN can impose an interim safeguard duty to immediately prevent the injury imminent to domestic industries based on initial report and lasting a maximum of 200 days.	GoN can impose an interim anti-dumping duty to prevent injury/ threat of injury to domestic industries based on initial report and lasting a maximum of 120 days.	GoN can impose an interim countervailing duty to prevent injury/ threat of injury to domestic industries based on initial report and lasting a maximum of 120 days.
<b>Final report</b>	Generally, within a year from the commencement of investigation a final report should be submitted to ministry. The ministry can extend the investigation period for an additional 6 months.		
<b>Content of the report</b>	Among others, reports should contain the reason, basis, and issuance date of the safeguard, antidumping, and countervailing measures, respectively.		
<b>Decision by the ministry over report</b>	On the basis of the recommendations made in the submitted report, GoN can impose the safeguard, antidumping, and countervailing measures on the imported goods in question. The decision should be published in Nepal Gazette.		
<b>Measures</b>	Additional custom tariff Total or partial quantitative restriction on the import of such goods.	Anti-dumping duty in addition to the customs duty chargeable in goods.	Countervailing duty in addition to the customs duty chargeable on goods.
<b>Implementation of decision</b>	Through the Department of Commerce, Supplies and Consumer Protection.		
<b>Duration</b>	Maximum of 4 years Subject to 4-year extension.	Maximum of 5 years. Subject to 5-year extension.	

### How could anti-dumping measures protect Nepali industries?

An antidumping duty was developed to address the perceived unfair trade practice of foreign countries and to promote and protect domestic producers. Since Nepal joined the WTO in 2004, domestic production has gradually declined. Now, Nepal is a net importing country, in part due to imported goods with an unfair advantage. The other sections in the book also explain the primary reasons behind Nepal's lagging industrial performance.

Anti-dumping laws help nullify the negative effects that unfairly subsidized imported goods have on domestic producers. If imported goods are cheaper than their domestic alternatives consumers will buy those products and the production of domestic industries will decline. Over time, anti-dumping measures protect the Nepali jobs, reduce imports, and, thus, help reduce the trade deficit. For countries like Nepal that have struggled to expand their domestic industrial base, anti-dumping measures can provide a cushion until domestic industries become competitive.

As per WTO provisions, a member country can impose anti-dumping measures if the imported goods are found to inflict damage on domestic products. A country can impose an anti-dumping duty only if the dumping margin is more than 2% of the actual price of the products.

Nepal just formulated the law and is yet to reap benefits from it. SACA 2019 tasked the Commerce, Supplies and Consumer Protection Department with its implementation. However, there is still a question of whether the department is equipped to operationalize

### Trade Remedies- The Indian Context

Unlike Nepal, India has a dedicated mechanism to oversee trade remedies issues. Before 2018, there was a separate entity to look after the issues of anti-dumping and countervailing duties, quantitative restrictions, and safeguards measures. Presently, the Directorate General of Trade Remedies (DGTR) oversees all issues related to trade remedies. GDTR functions as quasi-judicial body under the Department of Commerce of the Ministry of Commerce and Industry, which is led by a group of experts specialized in different fields of trade.

From 2002 to 2020 India imposed five antidumping duties on Nepali exports: copper-related products, polyester yarn, copper products, jute and jute-related products among others. India ranks third in the list of countries imposing antidumping duties.

### REFERENCE CASE 6

this technical and complicated subject matter. Likewise, when it comes to deciding on whether to impose safeguards, antidumping, or countervailing measures, the Nepal government has the final say. It may create an administrative hassle while operationalizing this law.

Countries like Nepal should be able to use trade remedies to protect domestic industries. Antidumping and countervailing safeguards duties are legitimate instruments provisioned by the WTO that a member state can use to protect its domestic production against unfairly imported goods that are causing material injury to similar domestically produced goods.<sup>15</sup>

**TABLE V: TRADE REMEDIES IMPOSED BY INDIA AGAINST NEPALI PRODUCTS SINCE 2002**

Product	Types of Proceeding	Current Status
Jute products	Antidumping	Due expiry on: 04-01-22
Polyester spun yarn	Antidumping	Procedure initiated
Copper and alloy FRP	Antidumping	Under investigation
Zinc oxide	Antidumping	Expired on 07/02/2002
Acrylic yarn	Antidumping	Expired on 07/02/2002

Source: Directorate General of Trade Remedies, India

<sup>15</sup> Article VI of GATT 1994, and Article 2, Agreement on Implementation of Article VI of the GATT 1994.

### B. Expanding the SAFTA Sensitive List:

The South Asian Free Trade Area (SAFTA) is a free trade arrangement developed by the South Asian Association for Regional Cooperation (SAARC). The agreement came into force in 2006, succeeding the 1993 SAARC Preferential Trading Arrangement. SAFTA signatory countries are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

The government should take the initiative to introduce more goods to the SAFTA Sensitive List; CNI suggests adding textile and aluminum to the list first. This way tariff barriers can be introduced to protect Nepali manufacturers. These regulations can be imposed with a sunset clause.

### C. Slab difference between raw materials and finished goods:

Although the government has introduced a slab difference on the import duty between raw materials and finished goods for some products, it should be introduced across the board. At least a 10% slab difference needs to be in place. The economic rationale is rather simple: if there isn't a difference between import duties on finished imported goods and raw materials, Nepali industrialists won't be encouraged to take up manufacturing businesses. The arduous process of converting raw materials into finished products is a disincentive for Nepali industries to invest time and resources in manufacturing.

### 11. Introduce 'Industry Competitiveness Enhancement Board' (ICEB)

With the primary objective of reducing average costs of production of promising industries, 'ICEB' should be established. The board will help procure the cheapest raw materials and monitor regulations that may indirectly make production more expensive.

The Board will have to be established by the Office of the Prime Minister and Council of Ministers (OPMCM) considering the need for cross-ministerial coordination to support Nepali industries.

### 12. Displace carbon-based fuels with hydropower electricity

In the first eight months of FY 2077/78 (Shrawan-Falgun), Nepal imported NPR 105 billion worth of diesel, petrol, LPG, and coal (TEPC). This accounts for 11% of the total NPR 943 billion worth of imports during this time period. Nepal can aim to replace the NPR 36 billion worth of gas imports by shifting to electricity-based cooking.

Double-digit economic growth is only possible through aggressive development of domestic hydropower. There will likely be high demand for electricity in India as economic activity increases after the pandemic subsides.

**TABLE VI: WHEELING TARIFF IN BANGLADESH AND SOME INDIAN STATES**

Where?	Wheeling tariff per kWh
Bangladesh	NPR 0.33
Tamil Nadu	NPR 0.34
<b>Rajasthan</b>	
Extra high voltage (EHV)	NPR 0.02
33 kV	NPR 0.18
11 kV	NPR 0.51

Sources: Varied Government Sources

**Industrial consumption:** Billet industries are the highest consumers of electricity. Steel manufacturers that produce billet in Nepal should be provided with subsidized electricity tariff rates. This will reduce the costs of manufacturing billets in Nepal.

Hence, loan should be provided at base rate for the entire loan tenure to peaking run-of-the-river (PROR) & storage-based hydro projects. These projects take decades to build. PROR and storage-based projects have been prioritized by the 15th Five Year Plan too.

### Introduce procedures to operationalize power wheeling

The concept of 'wheeling' needs to be encouraged for two important reasons. First, it incentivizes industries to invest in hydropower projects as they can use the electricity generated for their own industries at a more competitive and affordable rate. This also results in higher investments in the sector. Second, it helps boost competition in the electricity market, as more parties are able to enter the distribution market. This requires new regulation based on dialogue between the Nepal Electricity Regulatory Commission (NERC) and Nepali industries.

Power wheeling is mentioned in the government's annual budget for Fiscal Year 2078/79 and one of the mandates of the Electricity Regulation Commission (ERC) is to determine 'wheeling rates'. But this can only be operationalized when the government

immediately introduces policies or guidelines elaborating on the details.

## 13. Upgrade Electricity Infrastructure with *Swadeshi* Equipment

Nepal foresees the generation of approximately 12 GW of hydroelectricity by 2030. This translates into a need for dramatic transformation of electricity infrastructure, including the construction of sub-stations, transmission lines, and distribution systems, to provide households and industries access to improved quality as well as higher amounts of electricity consumption.

Nepali industries already manufacture transformers, aluminum and copper wires, protection systems like household fuses, and concrete and steel poles. As electricity infrastructure is upgraded, the Nepal Electricity Association (NEA) should ensure that Nepal-produced equipment is used. This would help Nepali industries design long-term plans to expand industrial production capacity and encourage the establishment of new industries.

Ekarat Engineering Company (NEEK) is the largest producer of the electricity equipment in Nepal. By 2007, NEEK exported at least 3,000 transformers to Bhutan and is beginning to receive demand from India, Bangladesh, and a few countries in the Gulf and Africa.<sup>16,17</sup>



NEEK transformers used by Bhutan Power Corporation



Picture: Transweld transformers (produced in Nepal)

<sup>16.</sup> <https://www.newbusinessage.com/MagazineArticles/view/1961>

<sup>17.</sup> The publication does not commercially endorse any brands or products. The pictures used are for reference purposes only.

#### 14. Establish a 'Footwear and Leather Development Authority'<sup>18</sup>

Footwear is one of the products in which Nepal can easily be self-sufficient, as Nepali footwear brands have already established themselves among Nepali consumers.

According to a country-wide study from 2074/75, there were 1,500 small, medium and large footwear industries, among which there were 229 large and medium industries, 1,072 small and orthodox industries, and 200 felt and handmade industries. The sector provided direct jobs to 55,000 people, of which a third were women.

In the first 11 months of 2076/77, 21 million pairs of shoes were imported and 2.6 million pairs were exported. There is an estimated demand of 90 million pairs of shoes each

year. Current domestic production meets 63% of this demand with is at 56.5 million manufactured each year.

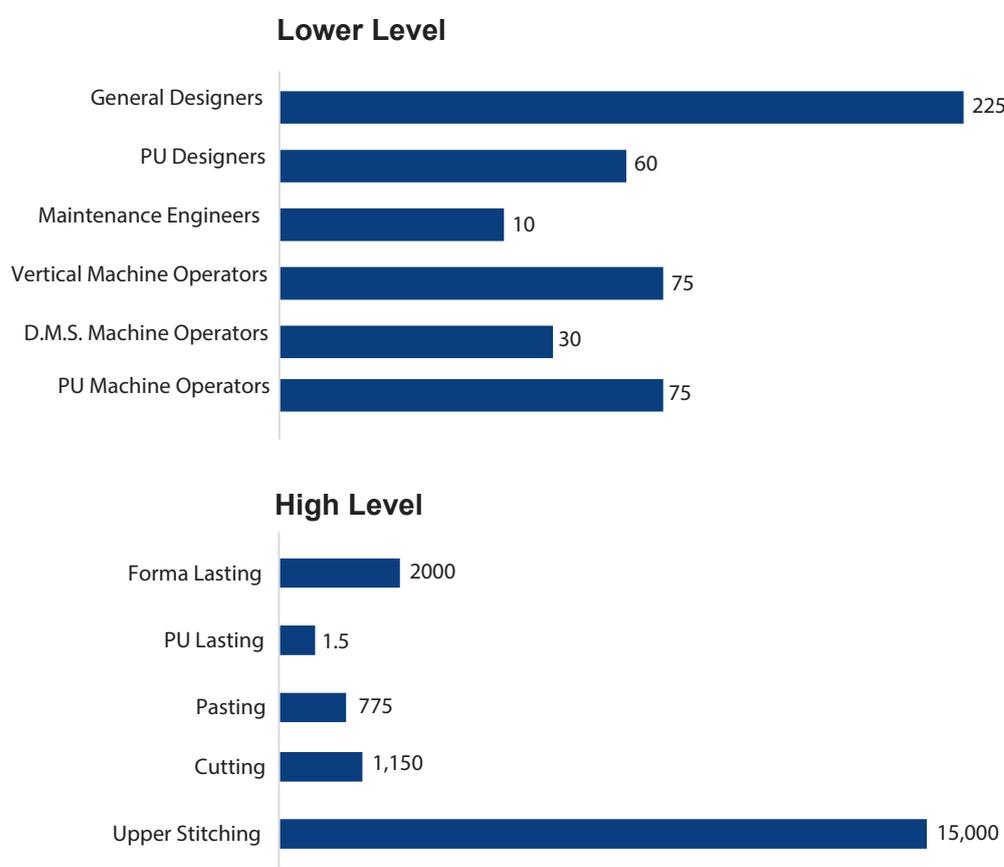
Most skilled people employed in the footwear industry have to be recruited from Bangladesh, India, Sri Lanka, and Kenya. Nepal urgently needs to develop its own skilled manpower. Estimations by Nepal's footwear industry in Figure IX show the demand and type of human skills needed across Nepali footwear producing factories.

Also, footwear industries seek support to improve technology in existing leather processing factories in Birgunj and Biratnagar. Sourcing most of the raw materials needed within Nepal itself will further make Nepali footwear more competitive.



Picture: Kiran Shoes Manufacturers

<sup>18</sup>. All data provided in this intervention are informed from consultations with footwear industries.

**FIGURE IX: NUMBER OF TRAINED INDIVIDUALS REQUIRED FOR THE FOOTWEAR INDUSTRY**

Source: Based on Consultation with Foot wear Manufacturers

**TABLE VII: SOME NOTEWORTHY POTENTIAL IMPORT SUBSTITUTION GOODS<sup>19</sup>**

Description	Import value (in thousand NPR)
Maize, excluding seed	8,295,612
Other paddy	7,922,525
Other wheat	6,330,854
Other potatoes, fresh or chilled	4,795,980
Apples, fresh	3,105,870
Petroleum bitumen	2,837,349
Raw jute	2,658,369
Cement clinkers	1,960,535
Other apparatus for switching electrical circuits >1000 V	1,375,698
Men's or boys' trousers, bib and brace overall, breeches and shorts of cotton	1,282,444
T-shirts, singlets, and other vests, of other textiles, knitted or crocheted	987,829
Sweet biscuits	984,771
Other footwear, not covering the ankle, of rubber or plastic	947,390
Men's or boys' jackets and blazers of synthetic fibers	887,538
Potatoes, frozen	884,398
Diapers	861,371
Dried onions	734,165
T-shirts, singlets, and other vests, of cotton, knitted or crocheted	619,126
<b>Total</b>	<b>NPR 289 billion</b>

Source: Nepal Trade Information Portal (FY 2077/78 Shrawan-Poush)

<sup>19</sup> Table IV shows a non-exhaustive list from Shrawan to Poush in fiscal year 2077/78 of imported goods worth NPR 289 billion that can be produced domestically. For example, around NPR 28 billion worth of bitumen (asphalt) – used primarily in the construction of roads – was imported. The Nepal Cement Producers' Association states that Nepal has become self-reliant in cement production in the last 16 years, adding that Nepal is expected to export cement from the next fiscal year.

## PILLAR III: CAPITAL EXPENDITURE ON INFRASTRUCTURE

**The dismal state of Nepal's infrastructure is attributed to inadequate capital financing, the government's failure to sufficiently expend allocated budget, and slow progress in adopting innovative financing mechanisms that public-private partnerships arrangements can offer.**

Despite the challenges of building infrastructure in Nepal's complex geography, it is, nevertheless, of utmost importance that the government finds innovative solutions to overcome them. Almost all literature on Nepal's industrialization agrees that infrastructure development is the only way to reduce the high cost of doing business. The lack of infrastructure also causes the cost of manufacturing in Nepal to rise, making it harder for domestic products to compete with foreign goods both in Nepal and in foreign markets.

A relevant example in this regard is what China did to substantially reduce the cost of producing hydropower. The state helped develop its road infrastructure, properly equipped hydroelectric contractors and engineers, and facilitated access to cheaper cement.

Nepal's infrastructure is constantly ranked lowest among other countries on indices like the Global Infrastructure Index and Logistics Performance Index.

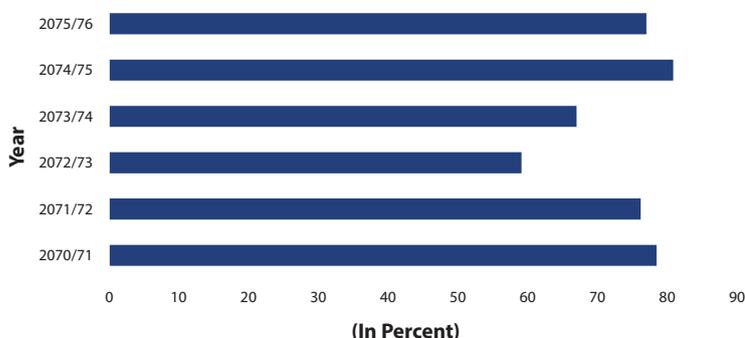
Since 1991, the government has prioritized rural transport and road construction, but contractors have not been able to complete projects on time. This is due to the limitations

of both the government and the contractors. Experience from around the world shows that it is necessary to enhance the capacity of construction businesses by creating a climate in which they execute infrastructure projects in a timely manner, and the public and private sectors cooperate with each other on identifying and solving operational problems. An environment in which construction companies can hire more engineers and workers in the long run needs to be created to build capacity within this industry. This will only be possible when long-term infrastructure strategies are in place. Long-term development plans and the efficient allocation of resources across multi-year projects are needed for this.

The objectives of this pillar are to identify infrastructure projects that help industries run more efficiently, including support such as transmission lines, paved roads, dry ports, sewerage and water supply systems, telecommunications networks, and power plants. It seeks commitment from the government to spend 20% of GDP on infrastructure over the next five years. The state apparatus also needs to be able to utilize 100% of the capital expenditure allocated for infrastructure in order to prioritize Nepali companies in big projects. It is important to encourage transparent and effective contract enforcement with contractors and develop the appropriate procurement mechanisms to increase the capacity of Nepali construction companies.

The dismal state of Nepal's infrastructure is attributed to inadequate capital financing, the government's failure to sufficiently expend allocated budget, and slow progress in adopting innovative financing mechanisms that public-private partnerships arrangements can offer. In this context, the following interventions are expected to increase, expedite, and introduce innovation in the infrastructure sector.

**FIGURE X: PERCENTAGE OF CAPITAL EXPENDITURE BUDGET USED**



Source: Office of the Auditor General (2018)

## 15. 15-Year tax free infra bonds issued by a government-authorized entity

It is estimated that an annual four-fold increase in capital expenditure is needed for minimum economic growth and to achieve the Sustainable Development Goals (SDGs).

Infrastructure bonds are borrowings to be invested in infrastructure projects within a country. Infra bonds will introduce fresh capital that can be used to finance infrastructure development.

Since bonds accrue dividends over long periods, they are usually not preferred by the public. Hence, to make them attractive, a 15-year tax exemption on bonds should be provided to both individuals and institutions for the amount spent purchasing bonds. This means the interest on the income earned is entirely tax-exempt. In addition, tax deducted at source (TDS) does not apply to these bonds. To streamline activities related to the management of such bonds, the government needs to designate an authority that will issue the 15-year bonds. This also entails amending the Income Tax Act 2058.

This will reduce pressure on the government's treasury. The annual government budget has

### Infrastructure Bonds in India

In the last decade, India raised over INR 500 billion through infra bonds. Similar to the USA, Indian municipalities also issue municipal bonds for investing in infrastructure projects. In 2019, the Ahmedabad Municipal Corporation raised INR 2 billion by selling 'muni bonds' with a maturity of five years and an 8.7% interest rate to fund urban infrastructure development. In addition to government infrastructure bonds, private banks too have been issuing infra bonds and have been finance infrastructural investment.

On 11 June 2021, ICICI Bank – India's largest private sector lender by asset size – raised INR 30 billion through infrastructure bonds for the first time in four years, reflecting the emerging optimism in building ports and roads in an economy that is expected to rebound steeply as vaccinations and slowing infections raise hopes. The bonds offered 6.45% with seven year maturity. ICRA rated those papers with AAA (Stable) grade financing.<sup>20,21</sup>

### REFERENCE CASE 7

been the only source of infrastructure funding. Infra bonds will help fill the gap by raising low cost, long-term investments through domestic institutions.

### Public-Private Partnership: Measuring Nepal's Capacity for Implementation

The Economist Intelligence Unit (EIU) provides a handy and insightful tool known as the Infrascopes Index<sup>22</sup>, which Nepali policy makers can use as a guide to improve the enabling environment in the country. The Infrascopes Index is a benchmarking tool that assesses the capacity of a country to implement key infrastructure projects through PPP in transport, electricity, water and solid waste management. Hence, it allows policy makers to quickly identify major hindrances and "unlock the power of PPPs and support the broader development agenda"<sup>23</sup>. The following indicators are assessed for 69 countries to determine country ranking. Nepal ranked 46 in 2019.

<sup>20</sup> [https://economictimes.indiatimes.com/markets/bonds/icici-bank-raises-rs-3001-crore-through-infrastructure-bonds/articleshow/83435234.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/markets/bonds/icici-bank-raises-rs-3001-crore-through-infrastructure-bonds/articleshow/83435234.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

<sup>21</sup> [http://timesofindia.indiatimes.com/articleshow/80438771.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://timesofindia.indiatimes.com/articleshow/80438771.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

<sup>22</sup> <https://infrascopes.eiu.com/>

<sup>23</sup> Ibid.

**TABLE VIII: INFRASCOPE INDEX 2019 (NEPAL)**

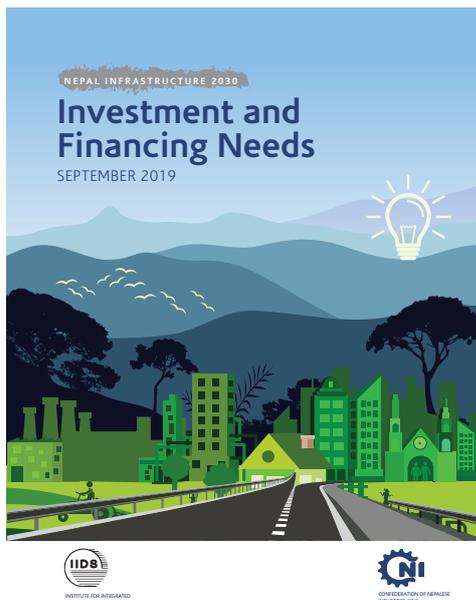
Sub-category	Score / 100	Rank / 69
<b>REGULATIONS</b>		
1.1) CONDUCTIVE REGULATORY ENVIRONMENT	67	=46
1.2) PPP SELECTION CRITERIA	100	=1
1.3) FAIRNESS/OPENNESS OF BIDS AND CONTRACT CHANGES	41	50
1.4) CONCILIATION SCHEMES	88	=21
1.5) REGULATORS' RISK-ALLOCATION RECORD	0	=42
1.6) COORDINATION AMONG GOVERNMENT ENTITIES	25	=51
1.7) RENEGOTIATIONS	56	=14
1.8) SUSTAINABILITY	38	=34
<b>INSTITUTIONS</b>		
2.1) PPP INSTITUTIONAL FRAMEWORK	75	=43
2.2) STABILITY OF PPP DEDICATED AGENCY	100	=1
2.3) PROJECT PREPARATION FACILITIES	50	=24
2.4) TRANSPARENCY AND ACCOUNTABILITY	73	=12
3.1) EXPERIENCE WITH INFRASTRUCTURE PPP CONTRACTS	51	=12
<b>MATURITY</b>		
3.2) EXPROPRIATION RISK	100	=1
3.3) CONTRACT TERMINATION	50	=51
<b>INVESTMENT &amp; BUSINESS CLIMATE</b>		
4.1) POLITICAL EFFECTIVENESS	41	=41
4.2) BUSINESS ENVIRONMENT	81	9
4.3) POLITICAL WILL	63	=44
4.4) COMPETITION ENVIRONMENT IN THE LOCAL INDUSTRY	100	=1
<b>FINANCING</b>		
5.1) GOVERNMENT PAYMENT RISK	22	66
5.2) CAPITAL MARKET FOR PRIVATE INFRASTRUCTURE FINANCE	34	31
5.3) INSTITUTIONAL INVESTORS AND INSURANCE MARKET	5	=34
5.4) CURRENCY RISK	74	=26

## 16. Establish a nodal institution for commercial blending/blended finance

The idea of blended financing was first recognized at the Third International Conference on Financing for Development in 2015 as a way to bridge the wide funding gap.<sup>24,25</sup> Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development. Blended financing provides an opportunity to unlock private financing to meet the significant financing gap that has hindered the attainment of the country's development goals, including the SDGs. Nepal is one of five (along with Bangladesh, Senegal, Tanzania, and Uganda) countries jointly selected by the United Nations Capital Development Fund and the United Nations Foundation for a pilot study on 'Blended Finance in Least Developed Countries'.<sup>26</sup>

Blended finance can be used not only to finance the gap in SDG-related welfare projects, but significant infrastructure projects as well. The Upper Trishuli-1 Hydropower Project is a recent example of a large-scale blended financing project.

As per a study conducted by CNI and IIDS, it is estimated that a baseline infrastructure investment of USD 29.72 billion is required



<sup>24</sup> <https://www.uncdf.org/article/6379/blended-finance-in-the-ldcs-2020>

<sup>25</sup> [https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

<sup>26</sup> <https://kathmandupost.com/opinion/2018/04/17/blending-hopes>

<sup>27</sup> [https://www.ifc.org/wps/wcm/connect/news\\_ext\\_content/ifc\\_external\\_corporate\\_site/news+and+events/news/cm-stories/nepal-sustainable-hydropower](https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/cm-stories/nepal-sustainable-hydropower)

## Upper Trishuli-1 Hydropower Project

## REFERENCE CASE 8

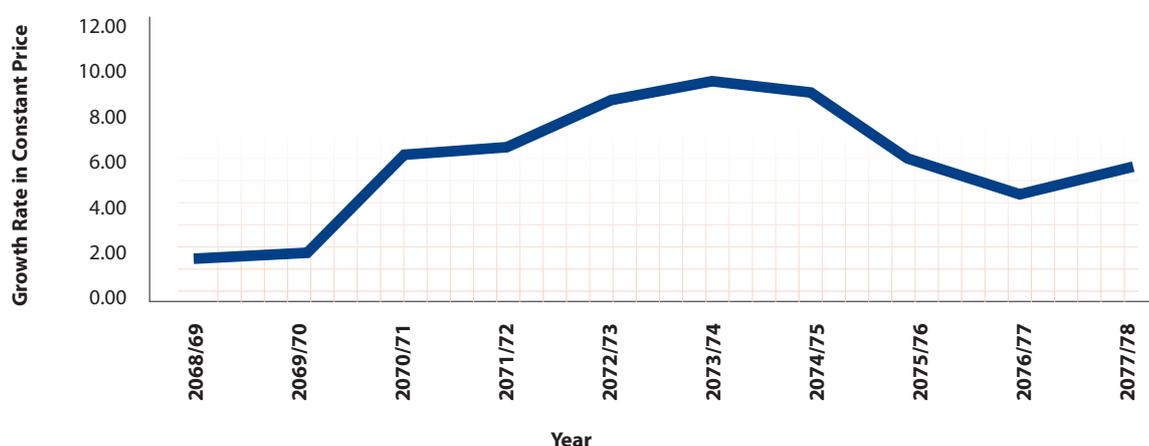
The Upper Trishuli-1 Hydropower Project is a run-of-the-river hydropower project that will add 217 megawatts of electricity to the national grid once completed. While being one of the largest FDI in Nepal to date, the hydropower project is also an example of blended financing.<sup>27</sup>

Various international agencies and governments have invested in the hydropower project. The International Finance Corporation led a USD 453 million debt financing package which, included nine international lenders. The project brought together several World Bank Group financing mechanisms. It received more than USD 100 million in support from the IDA Private Sector Window – an instrument that allows IFC and the Multilateral Investment Guarantee Agency (MIGA) to extend its reach into more challenging markets – while MIGA will provide USD 135 million in guarantees to cover political risk for the sponsors. The project is also supported by the Finland-IFC Blended Finance for Climate Program and the Climate Investment Fund. The environmental and social advisory components of the project are implemented in partnership with the governments of Australia, Japan, and Norway. Financing from the Asian Development Bank is also being supported by the Government of Canada.



to maintain 5% annual GDP growth, USD 36.92 billion to maintain 7.5% growth, and USD 45.25 billion to maintain 10% growth between 2019 and 2030. Blended financing in infrastructure will help break the 'low-and-slow' capital expenditure mold while bringing in much-needed dynamism and efficiency to achieve the infrastructural needs of the country. Therefore, blended finance can be an important

**FIGURE XI: GROWTH RATE IN FINANCIAL AND INSURANCE ACTIVITIES**



Source: Central Bureau of Statistics (2021)

source of financing for such infrastructure projects if it is planned and prioritized.

In order to streamline and coordinate between investors, the government, and other infrastructure-related stakeholders, a nodal institution needs to be established. IBN, NIFRA, or other commercial banks could potentially be a nodal institution to streamline commercial blending activities in Nepal.

### 17. A lead agency to facilitate hedging

The government introduced Hedging Regulations, 2075 that allows locking-in a fixed foreign exchange rate, which would allow a foreign investor to repatriate foreign loan investments at the same exchange rate that is agreed to when the foreign investor initially deposits foreign currency in Nepal Rastra Bank (NRB). While this has brought much enthusiasm for higher FDI in

infrastructure, a lead agency is needed to facilitate hedging arrangements for larger infrastructure projects. Such a nodal agency would help operationalize the Hedging Regulations 2075.

### 18. Tangible improvements in logistics infrastructure

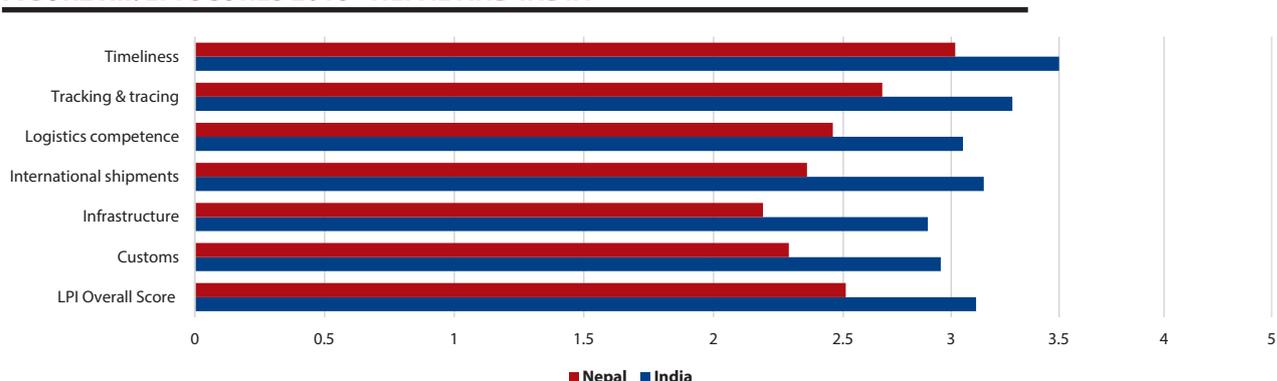
In 2018, Nepal garnered a Logistics Performance Index (LPI) score of 2.51, which is 114th in the world. This was an increase by 10 ranks as compare to 2016. At the moment, Nepal stands at the average LPI of other SAARC countries, which is 2.66. Figure XII shows where Nepal stands in comparison to India, which has the highest LPI among SAARC countries. The top score a country can achieve is 5.

Along with the modernization of customs, tariffs, tracking, and certification of goods, huge infrastructure investments are needed. With effective incentive structures, the government can expedite the construction of such logistics infrastructure models with new PPP models.

Furthermore, the logistics policy should have special provisions for time-sensitive products such as agricultural goods and dairy products, as they have a lower shelf life. There should be adequate infrastructure to store and transport agricultural and dairy products in every district, ensuring that the products face minimal damage before reaching consumers. Moreover, the policy should integrate existing and new logistics infrastructure and ensure the smooth operation of logistics services even during crises or natural calamities.

#### The Hedging Regulations, 2075 allows hedging for the following

- Hydroelectricity projects with a capacity of 100 MW or more
- Construction of electricity transmission lines that are more than 30 kilometers in length with a capacity of 220 kVA or more
- Construction of rail, metro and mono railway lines that are more than 10 kilometers in length
- Construction of fast-track roads that are more than 50 kilometers in length
- Other projects as specified by the Council of Ministers, Government of Nepal

**FIGURE XII: LPI SCORES 2018 - NEPAL AND INDIA**

Source: LPI Index, World Bank (2018)

### The Logistics Performance Index

The Logistics Performance Index uses six key dimensions to benchmark logistics performance and derive an overall LPI score. It allows global and regional comparisons, as well as comparisons within a specified income group. The index ranges from 1 to 5, with a higher score representing better performance. In 2018, Nepal ranked 114th among 167 assessed countries.

The six key dimensions are:

- 1) Efficiency of the clearance process (i.e, speed, simplicity and predictability of formalities) by border control agencies, including customs;
- 2) Quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology);
- 3) Ease of arranging competitively priced shipments;
- 4) Competence and quality of logistics services (e.g., transport operators, customs brokers);
- 5) Ability to track and trace consignments; and
- 6) Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

## 19. Project readiness budgeting

Lack of project readiness is a central problem to lagging expenditure in infrastructure. In 2020, the National Planning Commission began prescribing Project Readiness Assessment for identification appraisal, selection, and prioritization of development projects. It is highly advised that such criteria are widely adopted across ministries and different levels of governments.

**TABLE IX: PROJECT READINESS ASSESSMENT TOOL**

Sub-criteria (a)	Weight (b)	Status: Yes (1)/ No(0) (c)	Score (d)= b*c
Completion of FS/DPR	30%		
Development of Logical/ Result Framework	5%		
Fund for Project/Resource Commitment	20%		
Completion of Legal Process of Land Acquisition	25%		
Environment Impact Study (EIA/IEE)	10%		
Finalization of Implementation Plan	5%		
Development of M&E Plan	5%		
<b>Total Scores</b>	<b>100%</b>		

Source: National Planning Commission

## 20. Establish a 'Construction Industry Development Authority'

The construction sector is complex and plays a central role in helping build infrastructure across the country. It employed 978,000 workers in 2018. It has been growing and it is assumed that this sector employed around 1.2 million people before the pandemic.<sup>28</sup>

Beyond providing technical inputs for policy making, 'CIDA' could help develop a common language between the construction industry and government stakeholders.

To support the sector's growth, an autonomous entity to oversee construction-related activities needs to be established. Beyond providing technical inputs for policy making, 'CIDA' could help develop a common language between the construction industry and government stakeholders. It should interpret relevant laws and ensure that contracting parties work optimally.

Slow progress in projects is often the result of fear among the bureaucracy in making 'fast-tracked' decisions. This is because oversight agencies such as the Commission for the Investigation of Abuse of Authority (CIAA) often lack technical personnel that understand procurement and construction-related issues, and consequently they may fail to clearly understand the complexities related to the sector. With 'CIDA' in place, entities such as CIAA can rely on it for expert judgment. This might help increase discretionary flexibility among relevant bureaucrats to make faster decisions regarding construction activities. While it is important to encourage transparent and effective procurement

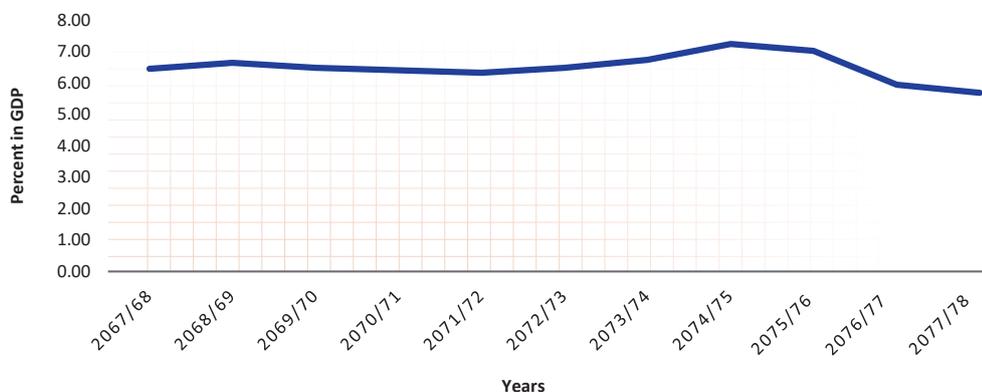
practices among both the bureaucracy and construction industries, heavy scrutiny by corruption watchdogs such as CIAA has heavily disincentivized decision makers for the fear of retroactive penalization.

### Immediate role of 'CIDA' in reviving the construction sector

Public Procurement Rules, 2064, Rule 123 (4) states the 5% of a project cost must be deposited as retention money. Billions of rupees have been collected in the government treasury under this heading. Construction industries demand the release of this money against a bank guarantee which will function as an enabler for post-COVID-19 revival of Nepal's construction sector. Once the economic situation is normalized, the 5% retention money can be returned. The Federation of Contractors' Associations of Nepal (FCAN) suggests that this money has not been put into productive use.

The provision in Public Procurement Rules, 2064, Rule 120 relating to a one-year recovery grace period for sick projects is not sufficient due to COVID-19, lockdowns, rainy season, and the unavailability of construction goods and laborers. There are currently 2,772 sick contracts and projects that are in limbo, despite having been provided a one-year extension in the last fiscal year. Hence, there is a need to increase the extension according to the needs of the project or at least mitigate the current crisis facing the construction industry.

**FIGURE XIII: CONTRIBUTION OF THE CONSTRUCTION INDUSTRY TO THE GDP**



Source: Central Bureau of Statistics (2021)

<sup>28</sup> <https://asiafoundation.org/publication/the-impact-of-covid-19-lockdown-on-nepals-construction-sector/>

Without an extension, the expenditure the government has already made on these projects will be of no further use. There is a need for a win-win solution to resolve this issue for the current sick projects and the ones that are likely to become sick in the near future.

'CIDA' can immediately play a constructive role in helping address these two challenges faced by the industry, among others.

## 21. Raise domestic bidding threshold (from NPR 1 billion to NPR 5 billion)

The Public Procurement Rules, 2064 sets the global tendering threshold at NPR 1 billion and above. Despite the fact that international bidders win most of these tenders, Nepali sub-contractors have played a critical role in implementing these projects on the ground.

In recognition of the increased capacity of Nepali construction industries, the global tender threshold needs to be raised from NPR 1 billion to NPR 5 billion. Further, after increasing the threshold to NPR 5 billion, the government should raise the price ceiling for global tendering by an average of 20% every year.

## 22. Introduce Overall Infrastructure Master Plan

The government has introduced a number of master plans for different types of infrastructure over the years. Yet, there is a need for a 30-year overall Infrastructure Master Plan that integrates existing master plans and anticipates possible sectoral master plans that will be introduced in the near future. While it is common practice in most American cities to launch infrastructure master plans, African countries such as Nigeria and Kenya have also devised integrated infrastructure master plans by recognizing the need for overall infrastructure development.

Therefore, the Government of Nepal and the National Planning Commission should formulate an overall Infrastructure Master Plan that integrates various sectoral master plans.

The recommended master plan should not only cover a wide variety of master plans, but also foresee infrastructure development 30 years into the future. This kind of long-term commitments from the state to prioritize and upgrade infrastructures help contractors and potential investors plan their activities, including enhancing their capabilities and managing their finances. Contractors tend to hire quality individuals if they are certain about the future investments in the country. They are incentivized to invest in training and upgrading the skills of their human resources. As of now, contractors are unable to predict future government expenditure. There is a need to promote certainty in investment. This can be done by promoting long-term infrastructure plans and investment commitments.

An all-encompassing master plan will strengthen government commitments and resolve uncertainty regarding government investment and expenditure. This will further strengthen the country's position to attract more investment in the projects outlined in the master plan.

Furthermore, the Infrastructure Master Plan could also encourage an integrated approach to managing infrastructure development. Through this measure, roads, sewage systems, electricity infrastructure, water supply systems, and ICT can be included in mega-construction projects as well. This will help streamline inter-ministerial and departmental coordination for the implementation of various projects and would, in return, reduce the cost of construction. For example, the same section of the road will not be dug multiple times to install sewage pipes, drinking water pipes, and electric wire pipes.

### Income tax exemptions up to Chaitra 2080 to be extended to Chaitra 2085 for hydropower projects

The Industrial Enterprise Act, 2076 mentions that income tax will be exempted in hydropower projects up to Chaitra 2080 BS. This was one of the reasons many investors were attracted to this sector. This exemption needs to be extended until Chaitra 2085.

### 23. Prioritize infrastructure for industries

Based on the number of jobs and capital that a given industry proposed, the government should provide roads and electricity, just like it currently does for cement industries. We propose the following priority rule for industries to get this facility: the industry that proposes the top 20% of capital or jobs among firms registered with the Department of Industry should be prioritized. Infrastructure that helps run industries more efficiently (e.g., transmission lines, paved roads, sewerage and water supply, telecommunications, and power plants) will also be prioritized.

### No income source asked for investments in infrastructure

To boost investments in infrastructure, similar to the provision in GoN Budget 2074/75 and 75/76 for hydropower projects, the requirement to disclose income sources should be waived. The staggering growth in the hydropower sector can be attributed to this provision. The government's return on investment resulting from infrastructure projects is also high, and the infrastructure sector deserves this facility.



## PILLAR IV: MODERNIZED SERVICE SECTOR

Nepal's service sector has grown significantly, but it is still not in a position to compete internationally. Although Nepal's medical sector, IT sector, hotel, and education sector can attract foreign customers, they have not been nurtured to meet their potential. Furthermore, the service sector has not created well-paying jobs on the whole. For instance, there are many people in Nepal creating mobile applications, but because of the lack of basic rules and regulations they are not allowed to start a company. This forces them to take their business abroad.

### Inter-relation between pillars

A robust infrastructure (the objective of pillar III) and better business climate (the aim of pillar I) will both help modernize and strengthen the service sector.

A recent unofficial study by the Ministry of Labor showed that modernization of the service sector alone could create up to 200,000 jobs. This can be achieved through economy-wide digitization in both the government and private sector, something that the GoN's 2019 Digital Nepal Framework already seeks to achieve. Unlike manufacturing and trade, 'landlockedness' is not limitation for these services, and Nepal can create a comparative global advantage. Nepal can learn from ICT-induced development in cities like Hyderabad, India.

This pillar aims to integrate information technology into Nepali services within five years, and bring more than 80% of records, documents, and forms needed to serve the government's customers online. It also aims to make the private sector more IT-oriented and remove barriers to investment in the IT sector. This will make Nepal more competitive with peer countries like Bangladesh, Cambodia, and Sri Lanka in terms of attracting investment in the IT sector. Finally, efforts should be made to establish the National Skills Testing Board (NSTB) under Council for Technical Education and Vocational Training (CTEVT) as a world class institution.

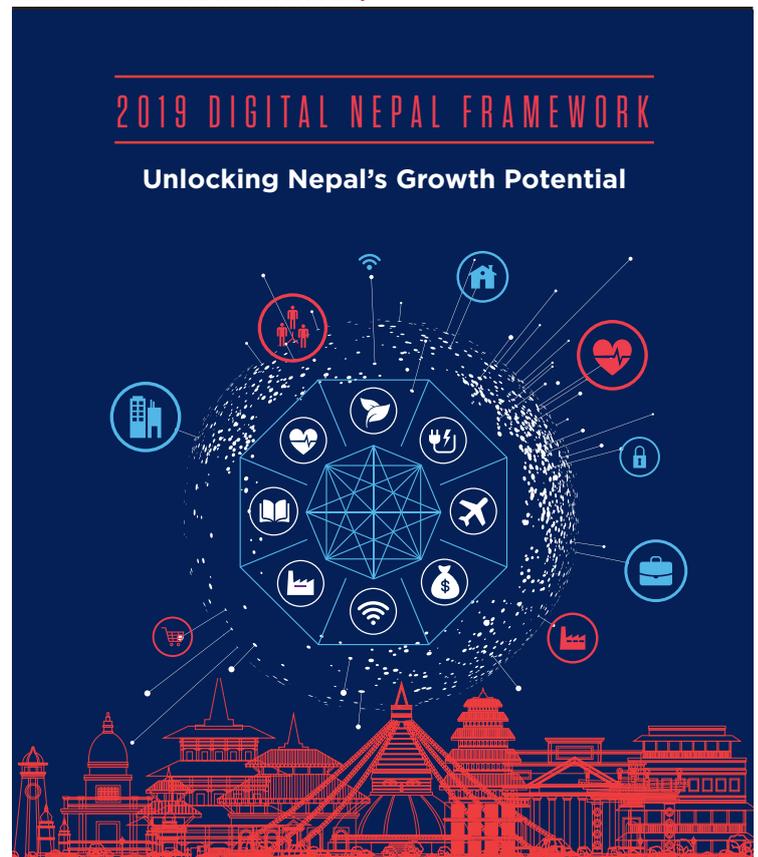
### 24. Effective operationalization of the 2019 Digital Nepal Framework

Recent growth in the service sector is mainly based on labour market arbitrage. Moving forward, Nepal can no longer rely on 'low costs for low value-added services'. For higher returns in the service sector, the suite of services the sector can offer within Nepal itself must be modernized.

The private sector should build on the framework laid out by the Ministry of Communication and Information Technology in the 2019 Digital Nepal Framework. While the Framework applies to the entire economy, the eight sectors and the 80 'Digital Initiatives' identified largely caters to the service sector, and will be useful in the efforts to modernize the service sector. As part of the "*Make in Nepal – Swadeshi*" *Abhiyan*, the private and public sectors will collaborate on the initiatives proposed.

**A robust infrastructure (the objective of pillar III) and better business climate (the aim of pillar I) will both help modernize and strengthen the service sector.**

**FIGURE XIV: 2019 DIGITAL NEPAL FRAMEWORK (8 SECTORS AND 80 DIGITAL INITIATIVES)**



### 25. Dynamic Skills Assessment Survey (MoU between CNI and NPC)

Despite a large number of skills programs currently running in Nepal, industries often find it challenging to source skilled-workers from within the domestic labour market. This skills-mismatch not only induces higher unemployment and lower wages, but also hinders productivity in domestic industries.

Hence, it is crucial to bridge the gap between demand and supply of skills in a dynamic fashion due to the changing needs of the market. At present there is no such mechanism to measure current and future skills demand as per the need of specific industries. The right skill-set for the right job is necessary for a flourishing service and industrial sector.

Therefore, CNI and NPC jointly plan to conduct a periodic industry-specific skills assessment surveys. This survey will give a clear picture of what the employers currently need.

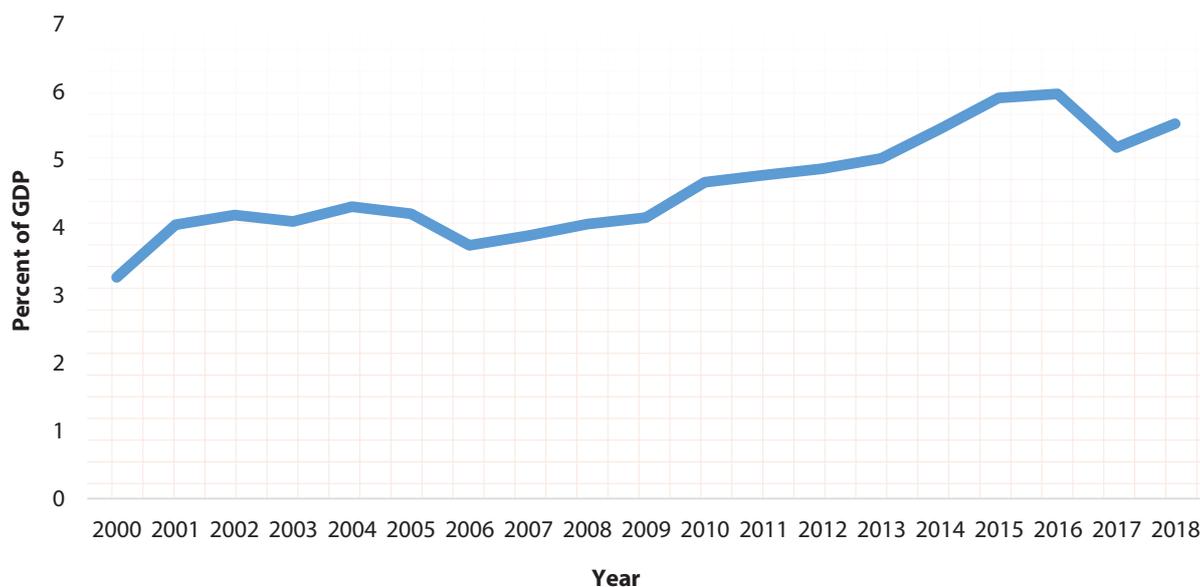
Also, such a holistic resource will equip the employees, employers, governments, INGOs

to effective target apprenticeship and skill enhancement programs.

### 26. Introduce an e-commerce bill and guidelines at the earliest

While e-commerce has been booming in Nepal, there is no related legislation. The first e-commerce website was launched in 2001, although, it wasn't until 2021 that the National Strategy on Development and Use of E-commerce in Nepal 2076 was introduced. Promotion and regulation of e-commerce will be a win-win for all stakeholders: the government earns revenue from unregistered online service providers, there will be healthy competition among e-commerce service providers and substandard sellers and service providers will be driven out, and the consumers will be able to formally complain if services are not provided as promised. To regulate this booming service sector, an e-commerce bill with a simple registration process, flexibility in the mode of operation, and easier credit access is needed.

**FIGURE XV: NEPAL'S HEALTH CARE EXPENDITURE**



Source: World Bank (2018)

## 27. Encourage public-private partnerships in health care services

In 2018, the average global health expenditure was 9.86% of GDP. While Nepal lagged behind with 5.86% expenditure in health, it was higher than the SAARC average (which was 5.07% of the GDP). At the same time, Nepal ranks lowest in the number of hospital beds per 1,000 people and fifth in the number of physicians per 1,000 people. While the GoN has prioritized the health sector, a lot of work needs to be done.

Public-private partnerships (PPP) are a key approach to attracting investment and building and operating development projects. PPPs can be leveraged in constructing hospitals and providing health services. Countries like the United Kingdom, Australia, and India have adopted PPP in health services and have been able to provide quality health services to their citizens. In Nepal, Nyaya Health Nepal has been making health care services more affordable, inclusive, and within reach of all citizens by operating in a PPP framework (Reference Case 9).

### Nyaya Health Nepal

Since 2008, Nyaya Health Nepal (NHN) has been working in rural communities to improve healthcare in partnership with the Ministry of Health and Population and municipal governments. NHN is currently working in two municipalities and four rural municipalities in Achham District. They run Bayalpata Hospital at Sanfebagar Municipality, a municipal primary health center in Chaurpati Rural Municipality, and a community health workers network in other rural municipalities to improve access to health care. They have also been able to integrate hospital-based health care in their own electronic health record network and provide free medical services to rural populations.

In the last year, NHN provided care to 151,943 patients, and 128,730 people were served by community health workers despite the pandemic. The goal of NHN is to build integrated care delivery systems and design and implement interventions at scale using a new model for health care. With its progress so far, it provides a good example of the potential of the private public partnership model in Nepal's health sector.

### REFERENCE CASE 9

**TABLE X: HOSPITAL BEDS AND PHYSICIANS PER PEOPLE IN SAARC COUNTRIES**

Country	Year reported	Hospital beds (per 1,000 people)	Year reported	Physicians (per 1,000 people)
Afghanistan	2017	0.4	2016	0.3
Bangladesh	2016	0.8	2018	0.6
Bhutan	2012	1.7	2018	0.4
India	2017	0.5	2018	0.9
Maldives	2009	4.3	2018	4.6
Nepal	2012	0.3	2018	0.7
Pakistan	2017	0.6	2018	1
Sri Lanka	2017	4.2	2018	1

Source: World Bank (2018)

## TOURISM

Tourism spurs economic growth, and it is even more relevant in developing countries like Nepal where the service sector is growing. In 2019, Nepal's tourism sector contributed 8% of the GDP and supported 1.05 million jobs (World Tourism and Travel Council). Tourism in Nepal can be used to help meet government poverty alleviation targets, especially the eradication of rural poverty. For this the government has initiated the Rural Poverty Alleviation Program (TRPAP) to alleviate rural poverty through tourism. Although the government has made efforts to promote the tourism sector, they have not produced the expected results relative to the potential of Nepal's tourism sector.

Each year Nepal is ranked among the top global best travel destinations, but this has not translated into the expected benefits. Reasons for this may include the failure to promote a compelling campaign and brand at the international level and the lack of tourism infrastructure needed to facilitate tourists.

### Issues to be addressed by the government:

#### a. Investment in tourism infrastructure

The government is unable to provide timely services because of the absence of information related to hotels, travel, and trekking. This could be addressed by establishing a real-time monitoring system. Likewise, inability to reach out to the probable tourists through direct air route needs to be addressed. The majority of Nepal's tourist destinations lack proper infrastructure, including hotels and road access. Strategic investments in the development of tourism infrastructure will have long-lasting returns.

#### b. Campaigning and branding

Data shows that two-thirds of tourists come to Nepal for vacation<sup>29</sup>. On the contrary, rural populations are migrating into urban areas and abroad. Locals are unaware of the potential of tourism. This is combined with the inability of the government to promote the potential of local destinations in the tourism market. Globally, tourism promotion campaigns are used to reach potential customers at initial stages of brand establishment. Nepal needs to do the same: establish local destinations as a brand through campaigning in national and international marketplaces.

#### c. COVID-19 survival and revival strategy

A historically low 230,000 tourists arrived in Nepal in 2020. The government's Visit Nepal 2020 campaign, which was expected to rejuvenate the tourism sector, was cancelled. The government should again plan a multi-year strategy for the tourism sector with the slogan of "survive, revive and thrive".

#### d. Appraisal of Tourism Policy 2065

The Tourism Policy 2065 outlines a strategy the government believed would help reach sustainable tourism growth targets. Now, more than two decades since the introduction of the policy, the government needs to evaluate efforts it put toward the achievement of the policy's envisioned goals.

<sup>29</sup> Nepal Tourism Statistics 2019, Ministry of Culture, Tourism, and Civil Aviation, 2020, p.42.





# 4. Consumption Pillars

The consumption pillars are underpinned by the unprecedented availability of money within Nepal as well as rising levels of disposable income among Nepali consumers (see Figure XVI and XVII). However, much of this is spent on imported goods. The *Abhiyan* aims to refocus Nepali spending habits to encourage the purchase of Nepali goods and services. Domestic industries can use the boost in demand to scale up and improve competitiveness in international markets. A lack of trust in local goods and stiff competition from imports has kept domestically produced consumer goods like footwear, sugar, tea, beverages, carpets, fast moving consumer goods (FMCG), pharmaceuticals, garments, textiles, and seed oils from reaching all consumers. Yet, if the *Abhiyan* can call on the sentiments of the Nepali consumers, these consumption pillars will bolster industrial growth in the country.

Nepal's gross foreign exchange reserves reached NPR 1506.06 billion in mid-November of 2020<sup>30</sup>. There was NPR 170 billion surplus liquidity in banks in mid-November as well. Inducing demand for Nepali goods and services will have a positive impact on domestic industries<sup>31</sup>.

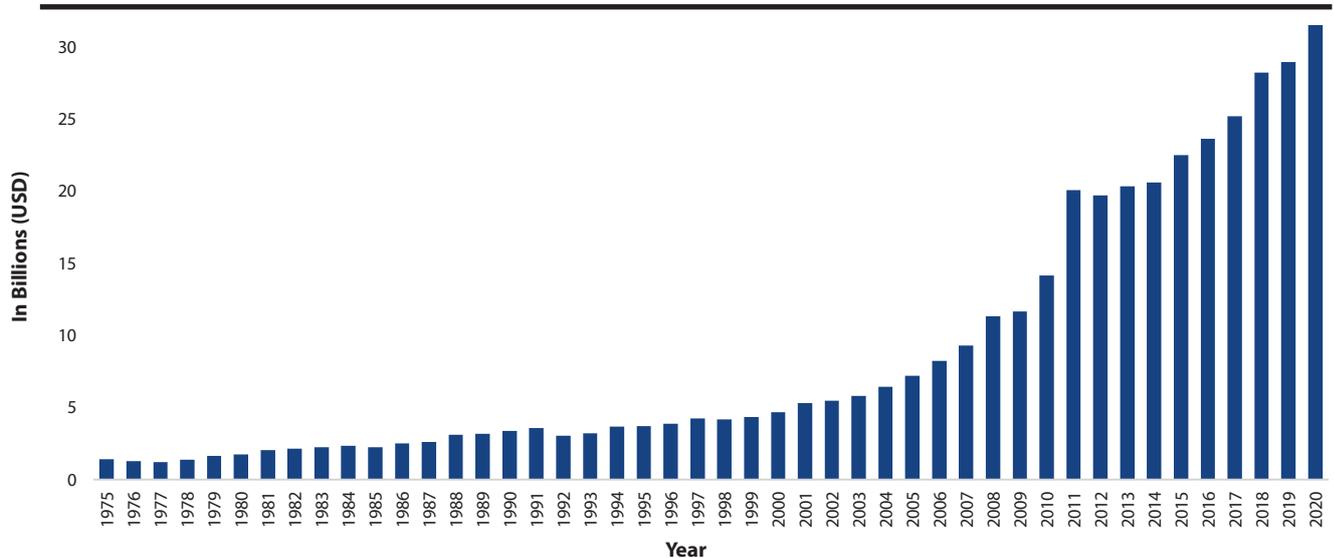
## How can domestic consumption drive industrialization?

Consumption and industrial development reinforce each other. As the consumers demand more goods and services, there is commensurate increase in production. This further leads to a rise in demand for workers. More people joining the workforce leads to an increase in the workers' income (Industrial Development Report, UNIDO)<sup>32</sup>. The demand for goods and services further increases with rising disposable income among workers and their families. This, in turn, will spur demand for a diversity of goods and services in the country.

As domestic consumption increases, it can stimulate a circle of consumption, production, employment, and further consumption. Such a virtuous circle can also be initiated by the increase in demand for domestic goods from foreign markets.

When domestic production can meet demand, it provides stimulus for income growth at the national level. When demand is met through imports, income generated in Nepal leaks to producers in source countries. Finding a balance between domestic and foreign supply is crucial for countries attempting to industrialize.

**FIGURE XVI: FINAL CONSUMPTION EXPENDITURE (CURRENT USD)**



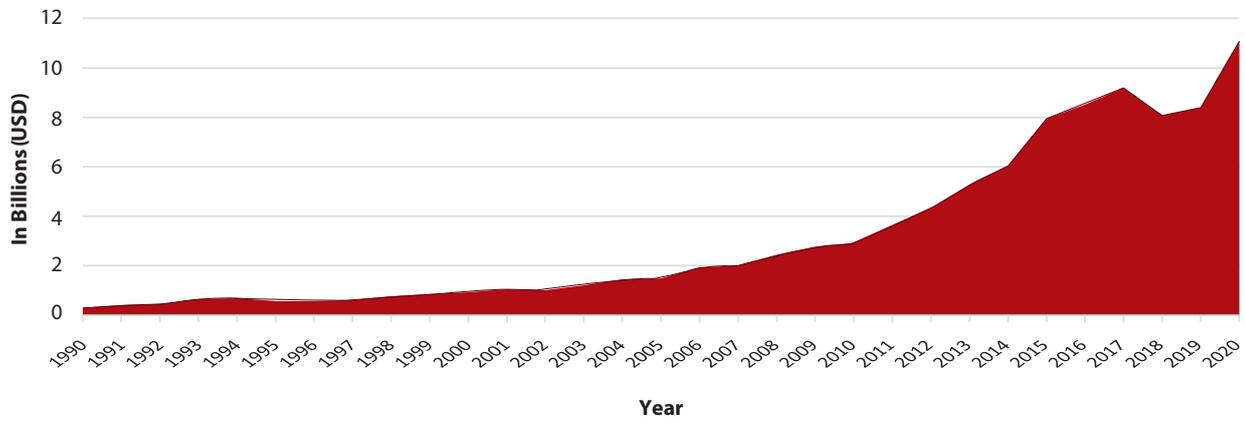
Source: World Bank (2020)

<sup>30</sup> Nepal Rastra Bank

<sup>31</sup> Industrial Development Report 2018 | UNIDO

<sup>32</sup> [https://www.unido.org/sites/default/files/files/2019-07/20190613\\_IDR\\_Brief\\_2.pdf](https://www.unido.org/sites/default/files/files/2019-07/20190613_IDR_Brief_2.pdf)

**FIGURE XVII: TOTAL RESERVES (EXCLUDES GOLD, CURRENT USD IN BILLIONS)**



Source: World Bank (2020)



## PILLAR V: NEPALI CITIZENS CONSUME SWADESHI<sup>33</sup>

The *Abhiyan* aims to boost demand for Nepal-manufactured goods within Nepal.

Developing a brand for products made in Nepal will help consumers easily identify Nepali goods. Through this initiative, consumers will be informed how purchasing Nepali-made products generate employment opportunities for Nepalis and help industry outputs and revenues (and proportional tax revenues). Additionally, e-commerce also presents an opportunity for the industry by reducing hurdles to market access and allowing retailers to build an online presence without a large initial investment. By establishing a mechanism to make Nepali products more identifiable and guaranteeing minimum quality standards, the *Abhiyan* aims to build trust in Nepali products and encourage Nepali industries. The government and CNI can work together to build this brand and outline a process to certify *Swadeshi* products.

Over time, the trust in Nepali products will be strengthened, encouraging local industries as a result. The Government of Nepal has already recognized the logo (refer to the MoU below).

### 28. Mobilizing the *Swadeshi* Board to gain consumer confidence

The *Abhiyan* has already started assigning the *Swadeshi* logo to Nepali goods and services that have a record of exceptional quality standards. The objectives of this logo is to improve confidence in Nepali goods by assigning an identifier (see next page). This quality assurance mechanism helps guarantee minimum quality standards among *Swadeshi* goods.

A *Swadeshi* Board, comprising of a GoN representative and CNI, provide support at the policy level (as per the MoU).

**The *Abhiyan* has already started assigning the *Swadeshi* logo to Nepali goods and services that have a record of exceptional quality standards.**



## MoU Between GoN and CNI

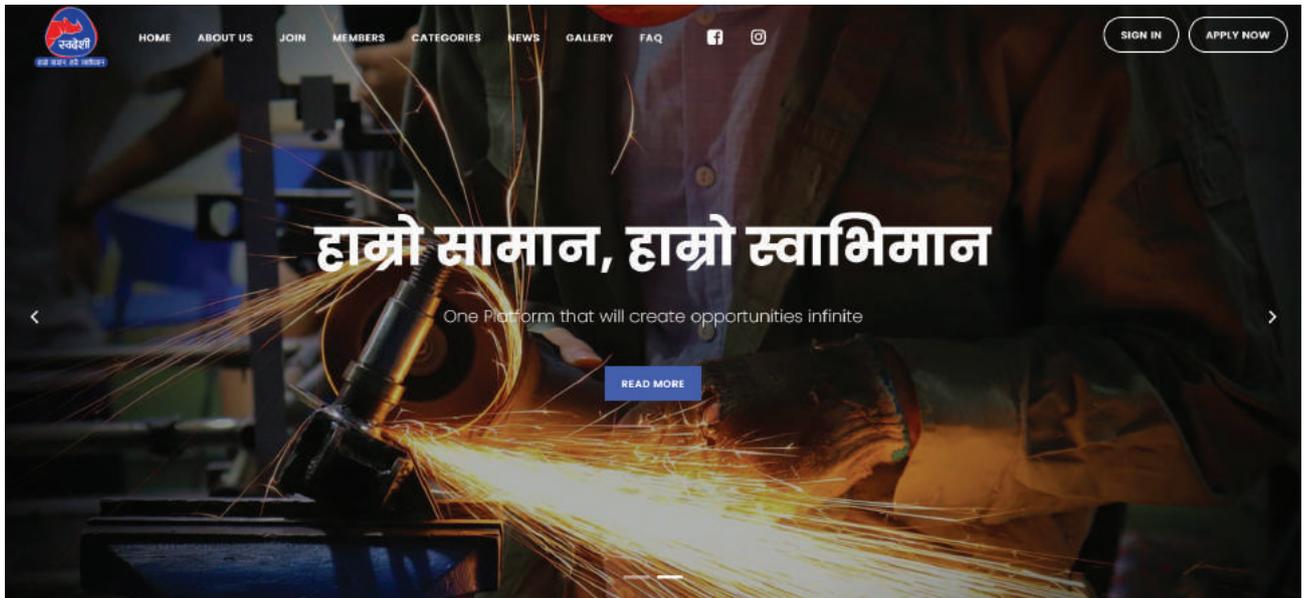
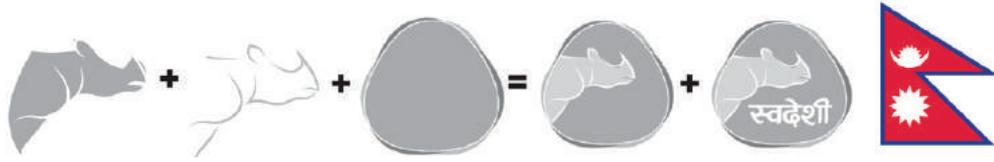
On June 24th, 2021 (Asad 10, 2078) the Ministry of Industry, Commerce and Supply and the Confederation of Nepalese Industries concluded a partnership agreement for the implementation of "Make in Nepal- *Swadeshi*" *Abhiyan*. This joint effort of CNI and the government aims to promote self-reliance through the promotion of Nepal produced goods and services. The aim of the *Abhiyan* initiated by the CNI is in line with the government's objectives to create the employment within the nation and promote export of domestic products in the foreign markets.

The agreement elaborates on the role of government, which includes introducing a policy to promote the use goods with *Swadeshi* logo in governmental offices. Being the largest consumer of goods and services, the use of domestic products by government will immediately increase the demand for domestic products in the market.

The agreement further mentions the role of CNI which includes, formulating the standards and work plan required for the operationalization of the *Abhiyan*, bringing the *Swadeshi* logo into practice and regulating the use of logo. On the whole, the MoU aims is to stimulate demand and encourage production of locally produced goods and services.

<sup>33</sup> The "*Swadeshi* movement" is a sub-component of the broader "Make in Nepal – *Swadeshi*" *Abhiyan*, which assigns a logo/brand to goods/products exhibiting excellence.

### Logo Development



The website: Interested businesses can register to become a logo-recipient through <https://swadeshi.com.np>

## PILLAR VI: GOVERNMENT OF NEPAL PROCURE SWADESHI GOODS

The Government of Nepal recognizes "*Make in Nepal- Swadeshi*" *Abhiyan* in the FY 2078/79 budget as an important initiative to help Nepal build a stronger industrial base.

The government budget has hovered around NPR 1.5 trillion. A great share of the budget is used in consumption of goods and services. This amount includes procurement through e-tendering, manual tendering, and the discretionary purchase of goods and services under NPR 2 million. Therefore, the GoN's procurement preferences affect the country's industrialization, but its procurement processes have yet to become industry-friendly.

### 29. Monitoring mechanism for public procurement rules of Nepali goods

The Public Procurement Regulation 2064 (2007) states, "A public entity shall, in making procurement by selecting any method set forth in this Regulation, procure the Nepali goods even though the price of the goods manufactured in Nepal is higher by up to 15% than the foreign goods."<sup>34</sup> There is no mechanism to monitor this provision. The *Abhiyan* aims to motivate the GoN to establish a mechanism so it is possible to further understand government expenditure.

### 30. Prioritize the procurement of products with the *Swadeshi* logo

The Government of Nepal should prioritize the procurement of products with the *Swadeshi*

logo. This will help improve the credibility of goods and services produced in Nepal and increase the industrial share of GDP.

Such recognition has been done through the Finance Bill or amendment to current procurement laws.

Further, to encourage higher value addition in the country itself, the GoN can refer to a useful practice in India. For example, as part of the Make in India campaign, the Government of India amended procurement laws to prioritize goods and services whose added value locally is at least 50%. These are called 'Class I local suppliers'<sup>35</sup>. Similar procurement incentives could be introduced in Nepal. This will encourage Nepali producers to add more value into a final product in country.

### 31. Provincialize the *Swadeshi* Movement

Lumbini Province mentioned in its Finance Bill that procurement of *Swadeshi* goods will be prioritized. Similar practice needs to be carried out by other provinces too. The province and local government should identify the *Swadeshi*-produced goods and services, and promote its consumption throughout the given province.

For this the province governments should formulate policies that prioritize the use of local production.



**The Government of Nepal's procurement preferences affect the country's industrialization, but its procurement processes have yet to become industry-friendly.**

<sup>34</sup> The Public Procurement Regulation, 2064 (2007) Date of publication in the Nepal Gazette 2064.5.3 (20 August 2007) Amendment 1.

<sup>35</sup> In June 2020, the amendment to the Public Procurement Order (2017) in India required all Central Ministries/Departments to prioritize goods and services that have a higher value addition in the country.

**PILLAR VII**

**FOREIGN MARKETS FOR SWADESHI GOODS**

**Only when Nepali goods are competitive within the Nepali market, will they have a better chance of competing abroad.**

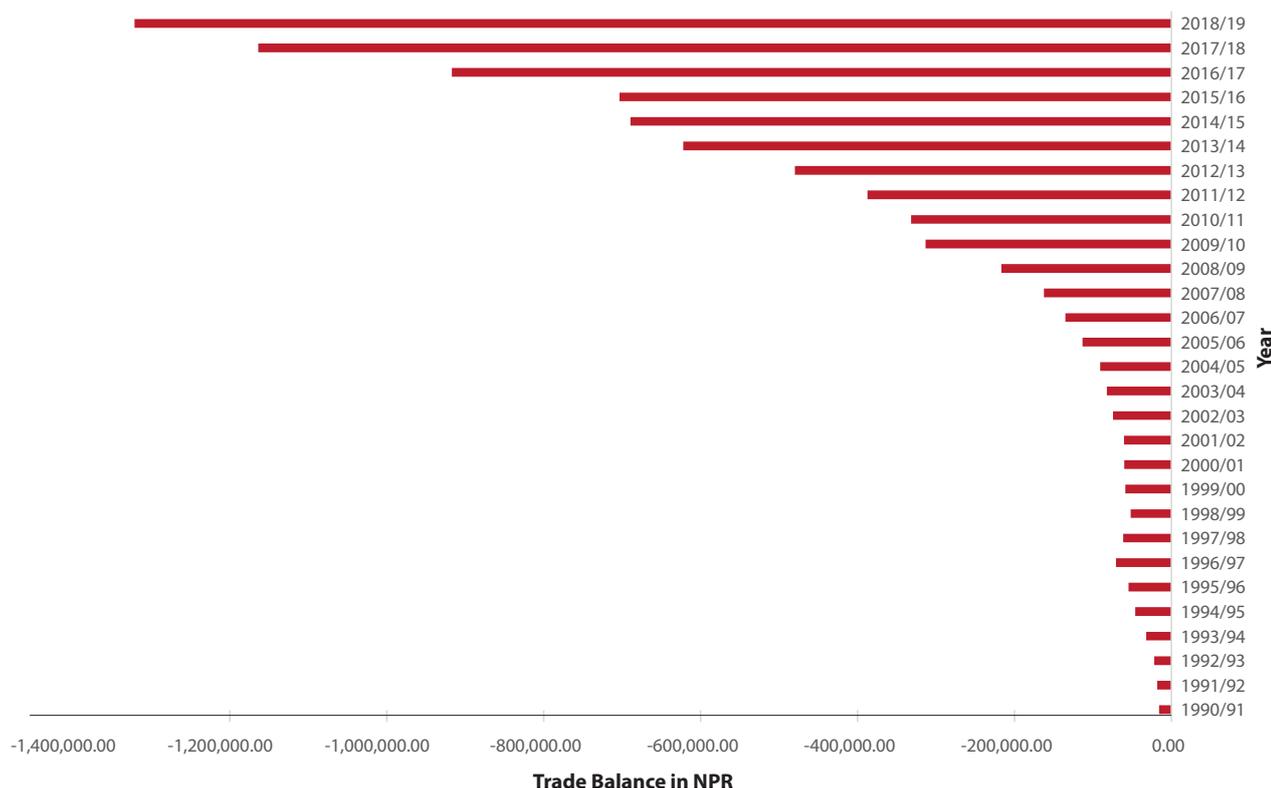
The seventh pillar focuses on foreign markets. The National Planning Commission's *Envisioning Nepal 2030* states that the immediate goal of Nepali production should be supplying intermediate goods to companies abroad rather than compete globally in the market for final products. The government should also use foreign diplomacy to make Nepali products a part of regional value chains. For example, different countries provide varied types of duty-free facilities to Least Developed Countries (LDCs). China and the United States have given special concessions to Nepal through bilateral agreements. Nepal should explore trade-related facilities provisioned in regional trade frameworks like SAFTA and BIMSTEC along with peer countries in order to promote exports. Nepali embassies should actively engage in the process to create an integrated mechanism for public-private and international partnerships. To promote Nepali goods abroad, it is imperative to conclude bilateral and regional trade agreements with all export markets and countries with large Nepali diaspora within five years.

Only when Nepali goods are competitive within the Nepali market, will they have a better chance of competing abroad. This is why interventions in the production pillars are crucial for improving the quality and cost-competitiveness of Nepali goods.

**32. Institutionalize functional economic diplomacy**

Nepal's diplomatic apparatus and Nepali industries often fail to be on the same page, resulting in the poor promotion of goods produced in Nepal. This is clearly demonstrated by the following two facts. First, despite being one of the core tenants of Nepal's foreign policy for the last three decades, economic diplomacy has not become more sophisticated. Second, Nepal, as a least developed country (LDC) that has received preferential treatment in multiple markets, has not improved export volume or diversification in commodities.

**FIGURE XVIII: TRADE BALANCE OF NEPAL**



Source: Nepal Rastra Bank (2019)

Although addressing these requires a substantive shift in how the public and private sectors engage to promote Nepali exports abroad, another progressive step would be to equip diplomatic missions with a comprehensive understanding of what Nepal is capable of offering to the global market.

In this context, CNI and the Institute of Foreign Affairs (IFA) should formalize systematic consultations so that Nepali diplomats are well-equipped to promote Nepali exports. Another important aspect of successful economic diplomacy would be understanding demand, including the ability to deal with business communities in importing countries.

CNI membership represents a large number of Nepali industries producing a broad variety of goods ranging from footwear to electrical transformers. It has bilateral agreements with private sector associations stretching from China and India to Turkey. CNI is in a position to leverage these bilateral relationships to connect Nepali producers with foreign markets. CNI and IFA can sign an MoU with the objective of arranging periodic consultations for diplomats whereby the best way to promote Nepali manufactured goods abroad can be shared. During these sessions, areas where Nepal should attract foreign investments can also be explored.

There is already an informal practice at IFA of inviting industry captains to provide the diplomatic community with an orientation on economic issues. However, this could be done in a more systematic manner through efforts between CNI and IFA. These steps would help in realizing the *Abhiyan*'s goal of increasing exports from USD 1 billion to USD 4.6 billion.

**CNI can facilitate the arrangement between Indian industries and Nepali stakeholders.**

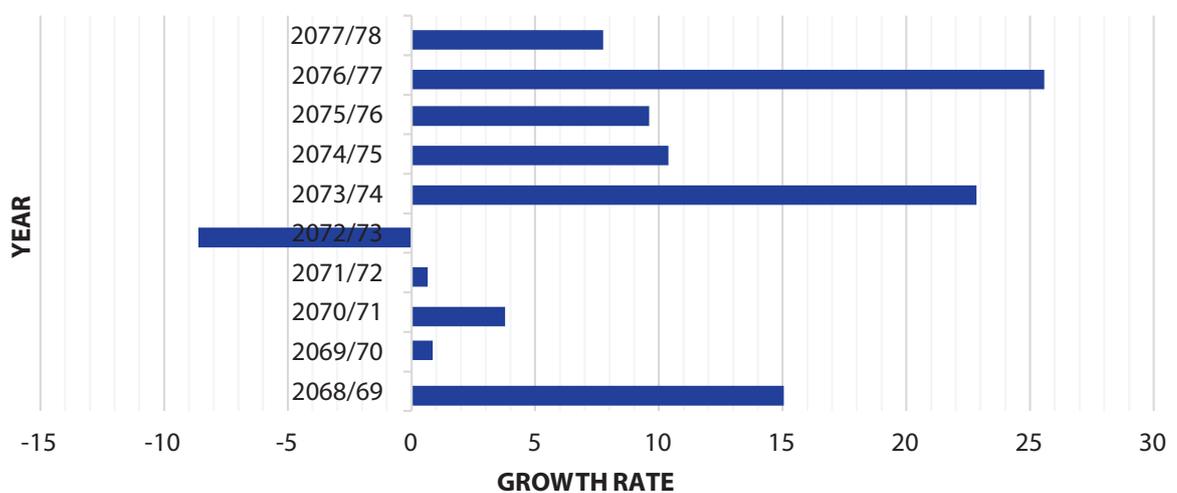
### 33. Repeal the Act Restricting Foreign Investment Abroad 2021 B.S.

By allowing Nepali industrialists to invest 10% of total profit to expand business abroad, they will be in a better position to promote their exports and bring back more capital to the country. The 2021 B.S. Act needs to be repealed because Nepali industries are not even allowed to invest a minimal amount abroad to establish an 'export promotion office'.

### 34. Electricity for energy-intensive industries in South Asia

This intervention seeks to increase cooperation in energy markets adjacent to the Nepal-India border for energy-intensive industries. Bhutan currently exports 1,615 MW of electricity to India accounting for 25% of its GDP.<sup>36</sup> Given

**FIGURE XIX: GROWTH RATE OF ENERGY SECTOR IN NEPAL**



Source: Nepal Rastra Bank (2020)

<sup>36</sup> <https://openknowledge.worldbank.org/handle/10986/15474>

Nepal's energy sector growth over the past few years, Nepal can leverage it in the same way Bhutan has.

Industries producing chemicals, iron and steel, pulp and paper, and fertilizer and those in the refining sector use a lot of energy. The

government should reach out to potential energy-intensive industries in northern and western India (Haryana, Gujarat, Punjab, Maharashtra, New Delhi).

CNI can facilitate the arrangement between Indian industries and Nepali stakeholders.

## REFERENCE CASE 10

### Hydropower export of Bhutan

Bhutan is a landlocked, least developed country that is rich in water resources. An estimated hydropower potential of 30,000 MW and 23,760 MW has been identified and assessed to be technically feasible, respectively. Since 2019, Bhutan has been producing 2,326 MW (9.8% of its feasible capacity).

Bhutan's economic development is directly linked to the growth of its hydropower sector. Hydropower exports provide more than 40% of Bhutan's domestic revenues. Of the total energy generated in Bhutan, it exports around 70% to India. 52 % of exported energy is used by commercial consumers and 48% is used by households, mostly in the Indian states of Assam, Odisha, and West Bengal. Because of this, even though COVID-19 pandemic reduced domestic consumption of electricity by 8%, exports to India have not been affected, said Mr. Dasho Chhewang Rinzin, Druk Green Power Corporation (Managing Director).

# 5. The 34 Interventions

THE SPECIFIC INTERVENTION	JUSTIFICATION	RELEVANT AUTHORITY TO IMPLEMENT	ACTION
<b>PILLAR 1</b>			
<b>1. 'Integrated Industry Facilitation Strategy' (IIFS)</b>	The introduction of 'IIFS' will help streamline and simplify the dispersed legal provisions relating to industry registration, operations, and exit into a single framework.	Confederation of Nepalese Industries and Department of Industry	MoU between CNI and DoI
<b>2. Revenue policy for industrial growth</b>	The cost of producing goods in Nepal is relatively high due to technological backwardness and the need to import almost all raw materials and machines, as well as managerial and other inefficiencies. Hence, the country's revenue policies should help alleviate these unique disadvantages as a way to catalyze industrial growth.	Ministry of Finance, Ministry of Industry, Commerce and Supplies, Nepal Rastra Bank	Integrate, simplify and revise taxation laws
<b>3. Introduce "Industry Exit Procedure"</b>	The continuation of non-viable businesses leads funds and capital assets to be locked up. These can be more productively deployed elsewhere for the generation of higher output, incomes, and employment. Introducing an "Exit Procedure" will enable industries to release non-performing and non-viable business assets for further business purposes.	Ministry of Industry, Commerce and Supplies, Department of Industry	First revise IEA 2076 and Introduce New Industry Exit Procedure
<b>4. Harmonious industrial relations</b>	Harmonious industrial relations encourage more industries to hire Nepali workers. A regulation that clearly spells out provisions for both hiring and firing is needed that doesn't worsen asymmetries that already exist between employees and employers.	Ministry of Labour, Employment and Social Security, Ministry of Industry, Commerce and Supplies Department of Labour	Effectively implement existing labour laws (Labour Act, 2074; Contribution Social Security Act)
<b>5. Public Land Lease Action Plan 2071</b>	This Action Plan provisions for easy availability of government land for industrial and business purposes, but industries have not made use of public land at cheaper rates to decrease their cost of operations. GoN needs to also evaluate why industries are not availing of the facilities provided by the Action Plan.	Land Management Division, Ministry of Land Management, Cooperatives and Poverty Alleviation	Make this Action Plan more functional and operational

THE SPECIFIC INTERVENTION	JUSTIFICATION	RELEVANT AUTHORITY TO IMPLEMENT	ACTION
<b>6. Laws that have outlived their legislative intent</b>	Repeal the Export and Import (Control), Act 2013 B.S., Black Market and Other Social Offence and Penalty Act, 2032 B.S., Essential Goods Protection Act, 2012 B.S. because their legislative intents have been covered by subsequent legal enactments.	Ministry of Industry, Commerce and Supplies Consumer Protection Department Ministry of Law, Justice and Parliamentary Affairs	Repeal the laws
<b>7. Anticipatory bail</b>	A vibrant economy is dependent on the absence of arbitrary legal provisions. Introducing anticipatory bail overcomes the constant fear of wrongful arrests among Nepali industrialists.	Ministry of Law, Justice and Parliamentary Affairs	Introduce provision of Anticipatory Bail in Criminal Code
<b>8. The Ease of Doing Business (EoDB) index</b>	Improve the Nepal's Ease of Doing Business ranking by 30 positions in five years to enhance the business climate of Nepal.	Office of Prime Minister and Council of Ministers - Doing Business unit	MoU With Doing Business Division of OPM/CM

## PILLAR 2

<b>9. Controlling "unauthorized trade" between Nepal and India</b>	Nepali industries cannot compete with illegally imported, excessively low-priced goods. Unaccounted for imports have led to a massive reduction in government revenue collection too..	Border Customs Offices Department of Commerce, Supplies and Customers Protection	Effective Joint Implementation
<b>10. Protect Nepali industries with trade remedies</b>	Imposing the proposed trade remedy measures will protect and promote the interests of domestic products from low cost and unfairly produced/subsidized imported goods.	Department of Commerce, Supplies and Customers Protection Ministry of Industry, Commerce and Supply	Effective Implementation of SACA (2076); expand SAFTA Sensitive List; maintain slab difference between finished goods and raw materials
<b>11. 'Industry Competitiveness Enhancement Board'</b>	This board will lobby and help to procure the cheapest raw materials and dynamically monitor regulations that increase the average industrial cost of production.	Office of Prime Minister and Council of Ministers	Formation of a new board
<b>12. Displace carbon-based fuels with hydropower electricity</b>	Displacing carbon-based fuels with domestically generated hydropower will help decrease imports of petrol, diesel, LPG, and coal. Power wheeling will encourage Nepali industries to invest in hydropower projects because they can generate and consume cheaper hydropower electricity.	Ministry of Energy, Irrigation and Water Resources Electricity Regulatory Commission	Lower electricity tariff for domestic industries Introduce policies or guidelines to operationalize power wheeling

THE SPECIFIC INTERVENTION	JUSTIFICATION	RELEVANT AUTHORITY TO IMPLEMENT	ACTION
<b>13. Upgrade the electricity infrastructure with Swadeshi equipment</b>	Nepal foresees the generation of 15 GW of hydroelectricity in the next ten years. Nepali industries already manufacture transformers, aluminum and copper wires, protection systems, and concrete and steel poles that can be used to upgrade the electricity infrastructure.	Nepal Electricity Authority , Ministry of Energy, Water Resources and Irrigation	Prioritize domestically produced equipment
<b>14. Footwear and Leather Development Authority' (FLDA)</b>	'FLDA' will regulate and provide much-needed support to the Nepali footwear industry. It will also ensure the development of the skilled human resources for the industry within Nepal.	Ministry of Industry, Commerce and Supply	Establish (FLDA)
<b>PILLAR 3</b>			
<b>15. 15-year tax-free infra bonds</b>	15-year tax exemptions on infra bonds will introduce fresh capital for infrastructure financing. Since bonds accrue dividends over long periods, they are usually not preferred by the public.	Nepal Rastra Bank, Securities Board of Nepal, and Nepal Infrastructure Bank Limited	Designate an authorized entity to issue infra bonds
<b>16. Commercial blending</b>	The nodal institution will streamline and coordinate between investors, the government, and other infrastructure-related stakeholders for financing projects.	Ministry of Finance, Nepal Rastra Bank	Establish a nodal institution
<b>17. Operationalize hedging</b>	The lead institution will facilitate hedging arrangements for larger infrastructure projects and effectively implement the Hedging Related Regulations 2075.	Nepal Infrastructure Bank Limited, Ministry of Finance, Confederation of Nepalese Industries	Establish a lead institution
<b>18. Logistics infrastructure</b>	An enhanced logistics infrastructure will reduce the costs of production, in terms of both transport and storage.	Ministry of Industry Commerce and Supplies, Ministry of Physical Infrastructure and Transport	Tangible improvements in logistics infrastructure
<b>19. Project readiness budgeting</b>	Adopting the Project Readiness Assessment tool in all government-funded projects will help address the issue of time and cost overruns.	By all public entities	Widely adopt Project Readiness Assessment tool by public institutions

THE SPECIFIC INTERVENTION	JUSTIFICATION	RELEVANT AUTHORITY TO IMPLEMENT	ACTION
<p><b>20. Construction Industry Development Authority' (CIDA)</b></p>	<p>Establishing 'CIDA' will help develop 'common language' between the construction industry and government stakeholders.</p> <p>After carefully developing the scope of work for 'CIDA', create a statutory body through a separate act. This is to establish 'CIDA' as an oversight agency for the construction sector.</p>	<p>Confederation of Nepalese Industries, Federation of Contractors' Associations of Nepal</p> <p>Ministry of Physical Infrastructure</p>	<p>MoU between CNI and FCAN to determine mandate of CIDA</p> <p>Create a separate act to form 'CIDA' as a statutory body</p>
<p><b>21. Raise Domestic Bidding Threshold</b></p>	<p>Amending the Public Procurement Rules, 2064 will help increase the capacity of the Nepali construction industry and acknowledge the fact that competent and well-equipped contractors are national assets.</p>	<p>Public Procurement Monitoring Office</p>	<p>Amend the threshold for global tender from NPR 1 to 5 billion</p>
<p><b>22. Overall infrastructure master plan</b></p>	<p>Long-term commitments from the state to develop infrastructure help contractors plan their activities, including enhancing their capabilities and managing their finances.</p>	<p>National Planning Commission</p>	<p>Introduce an overall master plan</p>
<p><b>23. Infrastructure for industries</b></p>	<p>Availability of utilities and infrastructure such as transmission lines, paved roads, sewerage, water supply, telecommunications, and power plants encourage establishment of new industries.</p>	<p>Department of Industry</p>	<p>Prioritize utilities for industry</p>
<p><b>24. Dynamic skills assessment survey</b></p>	<p>Despite a large number of skills programs currently running in Nepal, industries often find it challenging to source skilled workers from the domestic labour market. This skills mismatch not only induces higher unemployment and lower wages, but also hinders productivity in <i>Swadeshi</i> industries.</p>	<p>Confederation of Nepalese Industries and National Planning Commission</p>	<p>MoU between CNI and NPC</p>
<b>PILLAR 4</b>			
<p><b>25. 2019 Digital Nepal Framework 2019</b></p>	<p>To modernize the service sector, the private sector should build on the framework that the Ministry of Communication and Information Technology has already laid out in the form of the 2019 Digital Nepal Framework.</p>	<p>Relevant public entities and the private sector</p>	<p>Operationalize and Implement the Framework</p>

THE SPECIFIC INTERVENTION	JUSTIFICATION	RELEVANT AUTHORITY TO IMPLEMENT	ACTION
<b>26. E-commerce bill</b>	The bill will facilitate the growth of e-commerce and regulate the industry	Ministry of Communication, Information and Technology	Introduce new law at the earliest
<b>27. Health care services</b>	Private Public Partnerships, which is a key approach to invest, build and operate developmental projects can be leveraged in constructing hospitals and providing health services.	Nepal Rashtira Bank, Ministry of Health and Population	Encourage PPP in health care services
<b>PILLAR 5</b>			
<b>28. The Swadeshi Board</b>	This Board will help facilitate the <i>Swadeshi</i> Movement by bridging GoN and CNI.	Confederation of Nepalese Industries and Government of Nepal	Establish the <i>Swadeshi</i> Board
<b>29. Public Procurement Rules, 2064</b>	Effective monetary mechanism for ensuring compliance of existing provisions requiring public entities to procure <i>Swadeshi</i> goods even when they are 15% more expensive will boost immediate demand.	Public Procurement Monitoring Office	Introduce a monitoring mechanism
<b>PILLAR 6</b>			
<b>30. Procurement of Swadeshi logo-recipient products</b>	The Government of Nepal should prioritize the procurement of <i>Swadeshi</i> logo-recipient products. This will help improve the credibility of Nepal-produced goods and services and increase the share of industries in the national GDP.	Government of Nepal	GoN to procure <i>Swadeshi</i> logo-recipient products
<b>31. Provincialize the Swadeshi movement</b>	Lumbini Province mentioned in its Finance Bill that the procurement of domestic goods will be prioritized. Similar practices need to be carried out by other provinces.	Local and Province Government units	Encourage to formulate policies that prioritize the local production and consumption

THE SPECIFIC INTERVENTION	JUSTIFICATION	RELEVANT AUTHORITY TO IMPLEMENT	ACTION
<b>PILLAR 7</b>			
<b>32. Institutionalize functional economic diplomacy</b>	An MoU between CNI and the Institute of Foreign Affairs (IFA) under MOFA, will facilitate periodic consultations for diplomats. This will equip and inform them on how best to promote Nepal manufactured goods abroad.	Institute of Foreign Affairs (IFA) Ministry of Foreign Affairs and private sector umbrella associations	MoU between IFA and CNI
<b>33. Act Restricting Foreign Investment Abroad 2021 B.S.</b>	Allow at least 10% of total profit to be used to expand business abroad so that investors and businesses can promote their exports overseas.	Nepal Rastra Bank	Repeal the law
<b>34. Electricity for energy-intensive industries in South Asia</b>	With the massive electricity surplus that Nepal will achieve in the coming years, the <i>Abhiyan</i> seeks to find opportunities to export power to energy-intensive industries in the neighborhood.	CNI, NEA, MoFA	Create a favorable environment for energy exports

# अभियान कार्यान्वयनका लागि ३४ मध्यस्थता (Interventions)

प्रस्तावित मध्यस्थता	औचित्य	कार्यान्वयन गर्ने निकाय	आवश्यक कार्य
<b>१. एकीकृत उद्योग सहजीकरण रणनीति'</b>	यस रणनीतिले उद्योग दर्ता, सञ्चालन र बहिर्गमनसँग सम्बन्धित छरिएर रहेका कानुनी व्यवस्थालाई एउटै संरचनाको छाता भित्र ल्याई सरलीकृत गर्न मद्दत गर्दछ।	उद्योग विभाग, नेपाल उद्योग परिसंघ।	नेपाल उद्योग परिसंघ र उद्योग विभागबीच समझदारीपत्रमा हस्ताक्षर गर्ने।
<b>२. औद्योगिक विकासका लागि राजस्व नीति</b>	मेसिनरी उपकरण र कच्चा पदार्थको पूर्ण आयातको साथै पुराना प्रविधिको प्रयोगले नेपालमा औद्योगिक उत्पादनको लागत तुलनात्मक रूपमा धेरै छ। तसर्थ राजस्व नीति यस्ता समस्या समाधान गर्ने गरी तर्जुमा गर्नुपर्दछ।	अर्थ मन्त्रालय, उद्योग, वाणिज्य तथा आपूर्ति मन्त्रालय, नेपाल राष्ट्र बैंक।	कर सम्बन्धी कानुनलाई एकीकृत र सरल बनाउने।
<b>३. उद्योग बहिर्गमन कार्यविधिको तर्जुमा</b>	अनुत्पादक व्यवसायको निरन्तरताले नयाँ उद्योग तथा व्यवसाय सञ्चालनका लागि आवश्यक पुँजीलाई अड्काइ सम्भावित रोजगारीको अवसर र औद्योगिक वृद्धिलाई संकुचित गर्दछ। उद्योग बहिर्गमन कार्यविधि जारी भएमा उद्योगसँग भएका अनुत्पादक पुँजी फुकुवा भई नयाँ औद्योगिक गतिविधि विस्तारमा सहयोग पुग्नेछ।	उद्योग, वाणिज्य आपूर्ति मन्त्रालय, श्रम विभाग र उद्योग विभाग।	उद्योग बहिर्गमन लागि कार्यविधि बनाई कार्यान्वयन गर्ने।
<b>४. सन्तुलित औद्योगिक सम्बन्ध</b>	सन्तुलित औद्योगिक सम्बन्ध स्थापित भएमा उद्योगहरूले नेपाली श्रमिकलाई रोजगारीका लागि प्राथमिकतामा राख्दछन्। रोजगारदाताले श्रमिकलाई काममा राख्ने र कामबाट निष्काशन गर्ने सम्बन्धमा स्पष्ट कानुनी प्रावधान हुन जरुरी छ।	श्रम, रोजगार तथा सामाजिक सुरक्षा मन्त्रालय, उद्योग, वाणिज्य र आपूर्ति मन्त्रालय र श्रम विभाग।	विद्यमान श्रम ऐन, २०७४ र योगदानमा आधारित सामाजिक सुरक्षा ऐन २०७४ को प्रभावकारी कार्यान्वयन गर्ने।
<b>५. सरकारी जग्गा दर्ता तथा लिजमा उपलब्ध गराउने सम्बन्धि कार्यनीति, २०७१</b>	यो कार्यनीतिले औद्योगिक र व्यावसायिक प्रयोजनका लागि सरकारी जग्गा भाडामा उपलब्ध गराउने व्यवस्था गरेको छ। औद्योगिक उत्पादनको लागत घटाउन महत्त्वपूर्ण यस व्यवस्था उद्योगहरूले किन कार्यान्वयन गरेका छैनन् भन्ने विषयमा सरकारले मूल्यांकन गर्न जरुरी छ।	भूमि व्यवस्था, सहकारी तथा गरिबी निवारण मन्त्रालय अन्तर्गत भूमि व्यवस्थापन महाशाखा।	कार्यनीतिलाई थप प्रभावकारी रूपमा कार्यान्वयन गर्ने।

## स्तम्भ १

प्रस्तावित मध्यस्थता	औचित्य	कार्यान्वयन गर्ने निकाय	आवश्यक कार्य
<b>६. विधायकी मनसाय पुरा गरेका कानूनको खारेजी</b>	आयात निर्यात नियन्त्रण ऐन २०१३, कालोबजार तथा केही अन्य सामाजिक अपराध तथा सजाय ऐन २०३२, आवश्यक पदार्थ नियन्त्रण अधिकांश ऐन २०१७ ले आफ्नो विधायकी मनसाय पुरा गरेका र यसपछि लागू गरिएका ऐनले समेत उल्लेखित कानूनका प्रावधान सम्बोधन गरेको हुनाले यी ऐनहरू खारेज गरिनु पर्दछ ।	उद्योग, वाणिज्य र आपूर्ति मन्त्रालय, कानून, न्याय तथा संसदीय मामिला मन्त्रालय र उद्योग विभाग ।	ऐनहरूको खारेजी ।
<b>७. अग्रिम जमानतको प्रावधान</b>	गतिशील अर्थतन्त्रको पूर्वशर्त अधिकार प्राप्त निकायहरूको स्वविवेकीय अधिकारमा सिमितता हो । यसर्थ अग्रिम जमानतको कानूनी प्रवधान मार्फत नेपाली व्यवसायीहरूले सामना गर्दै आएको गलत मनसायबाट प्रेरित थुनाको वर्तमान अवस्थालाई अन्त्य गर्न जरुरी छ ।	कानून, न्याय तथा संसदीय मामिला मन्त्रालय ।	फौजदारी संहितामा अग्रिम जमानत सम्बन्धी व्यवस्था गर्ने ।
<b>८. व्यावसायिक सहजता सूचक</b>	आगामी ५ वर्षमा नेपालको व्यावसायिक सहजता सूचकलाई ३० स्थानले बृद्धि गरी व्यावसायिक वातावरणमा सुधार गर्ने ।	प्रधानमन्त्री तथा मन्त्रिपरिषद्को कार्यालय ।	प्रधानमन्त्री तथा मन्त्रिपरिषद्को कार्यालयसँग समन्वयकारीपत्रमा हस्ताक्षर गर्ने ।
<b>स्ताम्भ २</b>			
<b>९. नेपाल-भारत अनाधिकृत व्यापार नियन्त्रण</b>	नेपाली उत्पादनले सीमा नाकाबाट अत्यधिक कम मूल्यमा अवैध आयात हुने वस्तुसँग प्रतिस्पर्धा गर्न सक्दैनन अवैध पैठारीले नेपाल सरकारले प्राप्त गर्ने राजस्व समेत गुमेको छ ।	प्रधानमन्त्री तथा मन्त्रिपरिषद्को कार्यालय, भन्सार कार्यालय र उद्योग, वाणिज्य तथा उपभोक्ता संरक्षण विभाग ।	अनाधिकृत व्यापार नियन्त्रण सम्मतिता कार्यान्वयन गर्ने ।
<b>१०. अनुचित व्यापार विरुद्ध 'ट्रेड रीमेडी' लागू गर्ने</b>	स्वदेशी उत्पादनको संरक्षण र प्रवर्द्धनका लागि न्यून लागत र अनुचित उत्पादन भएका वस्तुको आयातलाई निरुत्साहन गर्न प्रस्तावित उपचारका उपायहरू अवलम्बन गरिनुपर्ने ।	उद्योग, वाणिज्य तथा उपभोक्ता संरक्षण विभाग ।	सेफगार्ड, एन्टिडम्पिङ र काउन्टरभेलिङ सम्बन्धमा व्यवस्था गर्न बनेको ऐन २०७६ को प्रभावकारी कार्यान्वयन, साफ्टा सेवेदनशील वस्तुको सूची विस्तार, कच्चापदार्थ र तयारी वस्तु बिचको कर अन्तरलाई कायम गर्ने ।

प्रस्तावित मध्यस्थता	औचित्य	कार्यन्वयन गर्ने निकाय	आवश्यक कार्य
<b>११. औद्योगिक प्रतिस्पर्धी प्रवर्द्धन बोर्ड</b>	यस बोर्डले उद्योगको विकासको वकालत गर्दै उद्योगलाई आवश्यक कच्चापदार्थको खरिदमा सहजीकरण र उद्योगको उत्पादन लागत कम गर्न आवश्यक सम्पूर्ण कानुनी प्रवधानको सक्रियतापूर्वक रूपमा अनुगमन गर्ने ।	प्रधानमन्त्री तथा मन्त्रिपरिषद्को कार्यालय, उद्योग, वाणिज्य तथा आपूर्ति मन्त्रालय ।	नयाँ बोर्ड गठन ।
<b>१२. जलविद्युतबाट उत्पादित ऊर्जा मार्फत कार्बनमा आधारित ऊर्जाको विस्थापन</b>	देशमा नै उत्पादित विद्युतको खपत मार्फत कार्बनमा आधारित इन्धन जस्तै: पेट्रोल, डिजेल, खाना पकाउने ग्यास र कोइलाको आयातलाई प्रतिस्थापन गर्ने । पावर डिवलिटिड मार्फत नेपाली उद्योगहरूलाई जलविद्युत आयोजनाहरूमा लगानीको लागि प्रोत्साहनको साथै जलविद्युत उत्पादन र उपभोगको वृद्धि गर्ने ।	ऊर्जा, जलस्रोत तथा सिँचाई मन्त्रालय, विद्युत नियमन आयोग ।	आन्तरिक उद्योगको लागि विद्युत महसुलमा छुट दिने तथा पावर डिवलिटिड संस्थागत गर्न आवश्यक कानुन ल्याउने ।
<b>१३. स्वदेशी उपकरणको प्रयोग गरी विद्युतीय पूर्वाधारको स्तरोन्नति</b>	नेपालले आगामी १० वर्षमा करीब १५ गिगावाट जलविद्युत उत्पादन गर्ने लक्ष्य लिएको छ । यसका लागि आवश्यक उपकरणहरू जस्तै: ट्रान्सफार्मर, एल्युमिनियम र तामाका तारहरू, सुरक्षा प्रणाली- घरेलु फ्यूज, कन्क्रिटिलका पोलहरू नेपाली उद्योगले उत्पादन गरिरहेको हुनाले विद्युतीय पूर्वाधारको निर्माणमा स्वदेशी उत्पादनको प्रयोग गर्नुपर्ने ।	ऊर्जा, जलस्रोत तथा सिँचाई मन्त्रालय, नेपाल विद्युत प्राधिकरण र उर्जा उत्पादक कम्पनी ।	स्वदेशमै उत्पादित उपकरणलाई प्राथमिकता दिने ।
<b>१४. 'जुता चप्पल तथा छाला विकास प्राधिकरण'</b>	प्राधिकरणले नेपाली जुता चप्पल तथा छाला उद्योगलाई नियमन र आवश्यक सुविधा प्रदान गर्दछ । यसका साथै हाल अन्यत्रैबाट ल्याइएका जुता चप्पल उत्पादन गर्न आवश्यक दक्ष मानव संसाधनको विकास सुनिश्चित गर्ने ।	उद्योग, वाणिज्य तथा आपूर्ति मन्त्रालय ।	प्राधिकरण गठन गर्ने ।
<b>स्तम्भ ३</b>			
<b>१५. १५ वर्षका लागि कररहित इन्फ्रा बन्ड</b>	१५ वर्षे कररहित पूर्वाधार बन्डले ठुला पूर्वाधार आयोजनालाई आवश्यक पूँजी परिचालन गराउँदछ ।	नेपाल राष्ट्र बैंक, नेपाल धितोपत्र बोर्ड र नेपाल पूर्वाधार विकास बैंक ।	इन्फ्रा बन्ड जारी गर्ने आधिकारिक निकाय बनाउने ।
<b>१६. कर्मासियल ब्लेन्डिङ</b>	यस निकायले लगानीकर्ता, सरकार र अन्य सरोकारवालाहरूको सम्बन्धलाई व्यवस्थित बनाइ आयोजनाको वित्तीय व्यवस्थापन सहज बनाउँछ ।	अर्थ मन्त्रालय र नेपाल राष्ट्र बैंक ।	कर्मासियल ब्लेन्डिङ लागि छुट्टै संस्था खडा गर्ने ।

प्रस्तावित मध्यस्थता	औचित्य	कार्यान्वयन गर्ने निकाय	आवश्यक कार्य
<b>१७. हेजिड कार्यान्वयन</b>	यस निकायले ठूला पूर्वाधार आयोजनालाई आवश्यक हेजिडको व्यवस्थापन गर्ने हुनाले हेजिड सम्बन्धि कार्याविधि २०७५ को प्रभावकारी कार्यान्वयन गर्ने।	अर्थ मन्त्रालय, नेपाल राष्ट्र बैंक र नेपाल पूर्वाधार विकास बैंक।	आधिकारिक संस्थाको स्थापना गर्ने।
<b>१८. लजिस्टिक पूर्वाधार</b>	विस्तारित र विकसित लजिस्टिक पूर्वाधारले उद्योगको उत्पादन, भण्डारण र ढुवानीको लागत घटाउँछ।	उद्योग, वाणिज्य तथा आपूर्ति मन्त्रालय र भौतिक पूर्वाधार तथा यातायात मन्त्रालय।	लजिस्टिक पूर्वाधारमा ठोस परिवर्तन।
<b>१९. आयोजना पूर्वतयारी</b>	सरकारी लगानीमा कार्यान्वयन हुने आयोजनाको समय र लागत वृद्धिको समस्या समाधान गर्न आयोजना पूर्वतयारीका साधन अपनाउनुपर्ने।	सम्बन्धित सबै सार्वजनिक निकायहरु।	विस्तृत रूपमा आयोजना पूर्वतयारी विधि अपनाउने।
<b>२०. निर्माण उद्योग विकास प्राधिकरण</b>	प्राधिकरण स्थापनाले निर्माण उद्योग र सरकारी सरोकारवालाहरु बीच "साभ्ना भाषा" विकास गर्न मद्दत गर्नेछ। प्राधिकरण सञ्चालनको कार्यक्षेत्र निर्धारण भएपश्चात सोको कार्यान्वयन लागि प्राधिकरण ऐनको मस्यौदा गर्ने। यस संस्थाले निर्माण क्षेत्रको छाता संस्थाको रूपमा कार्य गर्नेछ।	नेपाल उद्योग परिसंघ र नेपाल निर्माण व्यवसायी महासंघ।	प्राधिकरणको कार्यक्षेत्र निर्धारण गर्ने परिसंघ र नेपाल निर्माण व्यवसायी महासंघबीच समझदारीपत्रमा हस्ताक्षर गर्ने।
<b>२१. सार्वजनिक खरिदको लागि अन्तरिक सिमा</b>	सार्वजनिक खरिद नियमावली २०६४, संशोधन गर्दा नेपाली निर्माण उद्योगको क्षमता वृद्धि हुनेछ। सक्षम र सुसज्जित निर्माण व्यवसायीबाट मात्रै देश विकासको परिकल्पना गर्न सम्भव छ।	भौतिक पूर्वाधार तथा यातायात मन्त्रालय। सार्वजनिक खरिद अनुगमन कार्यालय।	प्राधिकरणलाई छुट्टै ऐन मार्फत संस्थागत बनाउने। स्वदेशी निर्माण व्यवसायीले मात्र आवेदन दिन सक्ने सीमालाई ५ अर्ब रूपैयाँ बनाउनुपर्ने।

प्रस्तावित मध्यस्थता	औचित्य	कार्यान्वयन गर्ने निकाय	आवश्यक कार्य
<b>२२. समग्र पूर्वाधार गुरुयोजना</b>	पूर्वाधार निर्माणमा राज्यले दीर्घकालीन प्रतिवद्धता व्यक्त गरेको खण्डमा मात्रै निर्माण व्यवसायीहरू आफ्ना गतिविधि तथा योजनाहरू निर्धारण गर्न, क्षमता वृद्धि गर्न र स्रोत परिचालन गर्न सक्ने अवस्थामा हुन्छन्।	राष्ट्रिय योजना आयोग।	समग्र पूर्वाधार गुरुयोजना बनाउने।
<b>२३. उद्योगका लागि पूर्वाधार</b>	औद्योगिक पूर्वाधार जस्तै: विद्युत प्रसारण लाइन, पक्की सडक, ढल निकास, खानेपानी, दूरसञ्चार र विजुलीको उपलब्धताले नयाँ उद्योग स्थापना हुन प्रोत्साहन गर्दछ।	उद्योग विभाग।	उद्योगका लागि आवश्यक सेवा सुविधाहरूलाई प्राथमिकता दिने।
<b>२४. समयसापेक्ष सीप मूल्यांकन सर्वेक्षण</b>	हाल नेपालमा धेरै संख्यामा सीप कार्यक्रमहरू सञ्चालन भइरहे पनि उद्योगहरूले अन्तरिक श्रम बजारमा दक्ष र सीपयुक्त श्रमिकको पाउन सकेका छैनन्। यस किसिमको बेमेलले उच्च बेरोजगारी र कम पारिश्रमिक पाउने अवस्थालाई बढावा दिनुका साथै स्वदेशी उद्योगको उत्पादकत्व वृद्धिमा समेत बाधा उत्पन्न गर्दछ।	राष्ट्रिय योजना आयोग र नेपाल उद्योग परिसंघ।	नेपाल उद्योग परिसंघ र राष्ट्रिय योजना आयोगबीच समझदारीपत्रमा हस्ताक्षर गर्ने।
<b>स्तम्भ ४</b>			
<b>२५. २०१९ डिजिटल नेपाल फ्रेमवर्क</b>	सञ्चार र सूचना प्रविधि मन्त्रालयले तयार गरेको २०१९ डिजिटल नेपाल फ्रेमवर्कको प्रभावकारी कार्यान्वयन मार्फत सेवा क्षेत्रलाई आधुनिकीकरण जरुरी भएकाले।	सम्बद्ध सार्वजनिक निकायहरू र निजी क्षेत्र।	फ्रेमवर्कलाई प्रभावकारीरूपले कार्यान्वयनमा ल्याउने।
<b>२६. ई-कमर्स विधेयक</b>	विधेयकले ई-कमर्स उद्योगको वृद्धिको साथै नियमन गर्न समेत सहयोग पुऱ्याउँछ।	सूचना प्रविधि तथा, संचार मन्त्रालय।	यथाशीघ्र नयाँ कानुन ल्याउने।
<b>२७. स्वास्थ्य सेवा</b>	पूर्वधार विकासका परियोजनाको लगानी, निर्माण र संचालनमा प्रभावकारी साधित भएको सार्वजनिक निजी साझेदारी अवधारणालाई अस्पताल निर्माण र स्वास्थ्य सेवा प्रवाहको क्षेत्रमा समेत प्रयोग गर्ने।	स्वास्थ्य तथा जनसंख्या मन्त्रालय।	स्वास्थ्य सेवामा सार्वजनिक निजी साझेदारीलाई प्रोत्साहन दिने।

प्रस्तावित मध्यस्थता	औचित्य	कार्यान्वयन गर्ने निकाय	आवश्यक कार्य
<b>स्तम्भ ५</b>			
<b>२८. स्वदेशी बोर्ड</b>	यो बोर्डले नेपाल सरकार र नेपाल उद्योग परिसंघबीच समन्वय गरी स्वदेशी अभियानलाई सफल बनाउन महत्वपूर्ण भूमिका निर्वाह गर्नेछ।	नेपाल सरकार र नेपाल उद्योग परिसंघ।	स्वदेशी बोर्डको स्थापना गर्ने।
<b>२९. सार्वजनिक खरिद नियम, २०६४</b>	सार्वजनिक निकालयले मल्यमा १५ प्रतिशत महँगो भए पनि स्वदेशी वस्तु खरिद गर्नुपर्ने व्यवस्थाको प्रभावकारी कार्यान्वयनका लागि छुट्टै अनुगमन संयन्त्र निर्माण गर्ने। यसले तत्काल मार्ग बढाउन मद्दत गर्दछ।	प्रधानमन्त्री तथा मन्त्रिपरिषद्को कार्यालय।	अनुगमन संयन्त्र खडा गर्ने।
<b>स्तम्भ ६</b>			
<b>३०. स्वदेशी लोगो प्राप्त वस्तुको खरिद</b>	नेपाल सरकारले स्वदेशी लोगो भएका उत्पादनहरूको खरिदलाई प्राथमिकता दिनुपर्छ। यसले नेपालले उत्पादित वस्तु र सेवाहरूको विश्वसनीयतामा सुधारका साथै कूल गार्हस्थ्य उत्पादनमा उद्योगको हिस्सा बढाउन समेत सहयोग पुऱ्याउँछ।	नेपाल सरकार।	नेपाल सरकारले स्वदेशी चिन्ह प्राप्त वस्तुको खरिदलाई प्राथमिकता दिने।
<b>३१. स्वदेशी अभियानको प्रादेशिकरण</b>	लुम्बिनी प्रदेशले आफ्नो आर्थिक ऐनमा प्रादेशिक सार्वजनिक खरिदमा आन्तरिक उत्पादनलाई प्राथमिकता दिने उल्लेख गरेको छ। यस्तै अभ्यास अन्य प्रदेशहरूले आत्मसाथ गर्न जरुरी छ।	स्थानीय र प्रादेशिक सरकारका निकायहरू।	स्थानीय उत्पादन र उपभोगलाई प्रथमिकता दिन नीति नियम बनाउन प्रोत्साहन गर्ने।

प्रस्तावित मध्यस्थता	औचित्य	कार्यन्वयन गर्ने निकाय	आवश्यक कार्य
<b>स्तम्भ ७</b>			
<b>३२. आर्थिक कूटनीतिलाई संस्थागत बनाउने</b>	आर्थिक कूटनीतिको माध्यमबाट नेपालमा उत्पादित वस्तुको प्रवर्द्धनमा नेपाल सरकार र नेपाली उद्योगी व्यवसायीहरू असफल देखिएका छन् । विदेशस्थित नेपाली नियोगहरूमा पदस्थापन भइ जाने कूटनीतियहरूलाई आवधिक रुपमा प्रशिक्षण प्रदान गर्नका लागि परराष्ट्र मन्त्रालयको सहकार्यमा नेपाल उद्योग परिसंघ र परराष्ट्र मामिला अध्ययन प्रतिष्ठानबीच समझदारी गर्ने ।	परराष्ट्र मन्त्रालय, निजी क्षेत्रका छाता संगठन र परराष्ट्र मामिला अध्ययन प्रतिष्ठान ।	परराष्ट्र मामिला अध्ययन प्रतिष्ठान र नेपाल उद्योग परिसंघबीच समझदारीपत्रमा हस्ताक्षर गर्ने ।
<b>३३. विदेशमा लगानी गर्न प्रतिबन्ध लगाउने ऐन, २०२१</b>	संस्थाको कूल नाफामध्ये कम्तिमा पनि १० प्रतिशत नाफालाई विदेशमा व्यापार विस्तार गर्ने प्रयोजनको लागि निर्यात अनुमति प्रदान गरेमा लगानी र व्यापारको प्रवर्द्धन हुनेछ ।	अर्थ मन्त्रालय र नेपाल राष्ट्र बैंक ।	कानूनको खारेजी ।
<b>३४. दक्षिण एसियामा अधिक ऊर्जा खपत गर्ने उद्योगहरूका लागि विद्युत</b>	आगामी केही वर्षमा नेपालको जलविद्युत उत्पादनमा उल्लेखनीय वृद्धि हुने सन्दर्भमा छिमेकी राष्ट्रका धेरै ऊर्जा खपत गर्ने उद्योगहरूलाई विद्युत निर्यात गर्ने वातावरण सिर्जना गर्ने ।	परराष्ट्र मन्त्रालय, नेपाल विद्युत प्राधिकरण र नेपाल उद्योग परिसंघ ।	विद्युत निर्यातको उचित वातावरण निर्माण गर्ने ।

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**ANNEX**

## Annex I

# SELECTED IMPORT SUBSTITUTES (PROMISING INDUSTRIES)

While the interventions mentioned in pillar II are for a wider range of *Swadeshi* goods, the following goods have great potential for import substitution already. This campaign does not seek to substitute all traded goods, but the ones that already command a strong share in the Nepali market that, with targeted support, can get a firm domestic stronghold.

### Textiles and Garments

Nepal has more than 250 textile firms, employing 50,000 people and receiving investments of more than NPR 20 billion.

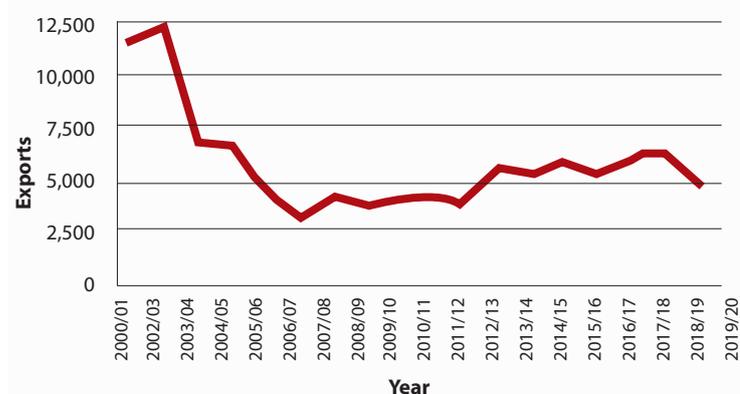
However, only NPR 1.5 billion additional investments have been made since 2071 B.S.<sup>37</sup>

Similarly, there are 36,103 establishments in the garment industry employing 76,223 workers according to the National Economic Census of 2018.

Garment and textile products were major exports until 2004. Recent export data shows the industry is slowly growing after a decade and half long decline (NPR 6 billion of exports in 2019). Higher production costs resulting from the high cost of labour and unavailability of raw materials are major hurdles faced by domestic producers. The illegal import of textile products from India is another major problem. There is a need to establish production units for fabric and thread – raw materials for the textile and garment industries – to make domestic production sustainable.

The Nepal Trade Integration Strategy 2016 recognized textile as a high export potential product, while readymade garments was identified as another potentially high-performing sector. Textiles and garments were one of the first industrial sectors to experience massive export growth, which lasted until the early 2000s. Garments alone constituted on average 27% of exports in the 1990s (Yadav 2006).

**ANNEX FIGURE 1: VALUE OF EXPORTS OF NEPAL GARMENTS**



Source: NTIP (2020)

### Multi Fibre Agreement and the Downfall of the Garments/Textile Industry

Since the end of the Multi Fibre Agreement (MFA) with the US in 2005, exports of Nepali garments have been on a downhill path. Meanwhile, neighboring countries have made significant progress in producing and exporting textiles and garments over the same period. Although the MFA – which guaranteed Nepali products access to US markets – led to exponential growth of textile and garments industries, Nepal did not effectively plan its transition to a post-MFA world and lost out to other countries after textile and garment imports were liberalized in 2005. One of the primary reasons Nepal lost out to other countries was that the government did not prioritize and support the garment industry during its initial stage and the start of the Maoist insurgency.

The MFA did not disappear overnight; there was a ten-year transition period. Without active intervention from the government, most private business owners could not sustain and eventually exited the industry.

<sup>37</sup> Data provided by Nepal Textile Industries Association (NTIA).

## Existing legal framework for textile producers

1. Industrial Enterprise Act 2020<sup>38</sup>
  - A manufacturing industry producing and processing local tea products, dairy industry dealing in milk products and a textile manufacturing industry is entitled to fifty percent exemption on the rate of income tax liable on the income earned by it from the sale of its products;
2. Working Procedure on Export Subsidy 2075<sup>39</sup>
  - 3 percent cashback on domestically produced textiles; readymade garment; carpet and wool products;
  - Up to 5 percent cash incentive if the value addition of their products is 50 percent. Similarly, if the value addition of these products is higher than 40 percent and they are exported under a collective trademark then such products can avail an additional 4 percent cash back.
4. Facilitate Integration in the regional supply chains:
  - Bangladesh, India, China, Myanmar, Pakistan are the top producers and exporters of textiles and garments and are in the vicinity of Nepal. Nepal can identify its comparative advantage and integrate in the various stages of production and export of textile.
5. Provide training to people regarding different skillset required in different stages of manufacturing. Also train people for being good managers.
6. Impose equalization tariff on goods imported from other countries if the same goods or the goods of equal quality can be produced in Nepal-
  - We are already unable to compete with Indian textiles as they have been entering the country illegally. We are being priced out of the market because the government charges 13 percent value added tax on domestically manufactured fabrics while there is only a 5 percent goods and services tax on textiles in India<sup>41</sup>.

### Recommendations:

1. Introduce Integrated textile-garments policy that addresses issues such as
  - The kind of fabrics we aim to produce domestically and the kind that we should import
  - legal and physical facilities needed to advance the sector
  - Preparation of sector specific strategy to gain investment and produce skilled labour in this sector
2. Provide interest subsidy on investment in upgrading technology:
3. This increases the productivity of the industry; interest subsidy on long term project based loans will help mitigate the risk of an interest rate hike Provide power subsidy:
  - Currently, per unit cost of power is at least three times higher for industries in Nepal than in India. After raw materials and workforce, power is the biggest cost head for textile industries. A power subsidy will help in bringing the costs down and compete in the international market<sup>40</sup>.
7. Implementation of existing policy and schemes
  - To support the textile industries, the government had announced a concessional loan facility of NPR 50 million at 5 percent interest rate for textile industries. However, according to NTIA, the industries have not been able to avail that facility. Similarly, a cabinet decision in 2018 provided textile industries with a 50 percent reduction in electricity bill; however, that too remains mostly unimplemented as even the industries located inside the industrial estates have not been able to access that concession according to NTIA<sup>42</sup>.

<sup>38</sup> [https://moics.gov.np/uploads/shares/laws/Industrial percent20Enterprises percent20Act percent20 percent202020.pdf](https://moics.gov.np/uploads/shares/laws/Industrial%20Enterprises%20Act%20percent202020.pdf)

<sup>39</sup> <https://www.nepaltradeportal.gov.np>

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## AGRICULTURE

### Grains

Nepal is a net importer of some grain products despite being predominantly agricultural country. With proper interventions, CNI believes this can be changed.

### Rice

Annually, Nepal consumes around 3.2 million metric tons (MT) of rice, of which only 0.5-0.6 million MT is domestically produced.<sup>43</sup>

Nepal lacks technical capacity, milling technology, and a well-developed value chain. Nepali farmers rely on on-farm seeds, which produce low yields, whereas half of the world's crop production in the last century was attributed to the contribution of genetic components alone.

On average, 100 kg of nitrogen is needed to produce 3 MT of rice per hectare.<sup>44</sup> Nepali rice fields get around 60 kg of fertilizer per hectare. Each year there is a demand for 150,000 MT of agricultural fertilizer in the paddy plantation season, but the demand is rarely met. Last year, only 70,000 tons of fertilizer was available for farmers (Panta, 2018).

### Maize

Nepal has an annual demand of 4.2 MT of maize but the domestic production is limited to 3 million MT.<sup>45</sup> Some 80% of maize consumption in Nepal is for poultry and animal feed. Domestic production can meet only 30% of current demand. India exported 5 MT of feed and maize seeds to Nepal in 2018/19.

Problems that need to be address include the quality seed and fertilizer availability, inefficient production system, inadequate scientific and technological knowledge among the maize farming communities, irrigation, agro-inputs, insurance, mechanization and technological services, weather forecasts, and the diagnosis of insect-pest, diseases.

Need for contract farming arrangements: The current laws that govern contract farming are Agricultural Business Promotion Policy 2063, Policy 3.6, and Agricultural Business Promotion Act, a model law by the federal government adopted by various local and provincial governments.

Contract farming addresses the specific needs of the quantity, quality and timing of delivery of agro-products. It provides farmers with production inputs such as seeds and fertilizers, quality control and advice on new production methods. For investors and contractors, contract farming overcomes land size constraints. Quality is controlled by the investors and crop risks are shared with the farmers. It also helps ensure international quality and safety standards for food and agricultural production and trade and improves relationships between farmers and the markets on a sustainable basis.

## IRRIGATION

The World Bank states that irrigated agriculture is, on average, at least twice as productive per unit of land as rain-fed agriculture, thereby allowing for more production intensification and crop diversification. Nepal has 2.6 million



Picture: Sikta Irrigation Project

<sup>43</sup>. <https://www.karobardaily.com/news/145150>

<sup>44</sup>. <https://www.nepalitimes.com/banner/the-rise-of-rice-in-nepal/>

<sup>45</sup>. <https://ekantipur.com/business/2020/05/10/158907852331253968.html>

### Irrigation related issues that need to be sorted out to boost agriculture

- Introduce geographical and topographical features based irrigation techniques
- Ensure timely completion of irrigation projects
- Initiate large and dam based irrigation projects
- Replace monsoon based irrigation through all year round irrigation projects.
- Right crop for right soil campaign should be promoted.

hectares of cultivable land. Out of this, 1.7 million hectares is suitable for irrigation, but only one-fourth of such land is irrigated.<sup>46</sup> Around 60% of the total cultivable land depends on the monsoon rain for cultivation.<sup>47</sup> This is because most farmers are dependent on small rivers and not dams that could provide irrigation perennially. Inter-river basin diversion irrigation projects need to be implemented to ensure year-round irrigation. The Sunkoshi-Marine Diversion, Babai-Bheri Diversion, Kaligandaki-Tinau projects should be completed as planned. Electricity and solar power-based irrigation projects for hills and mountains and deep tube-well irrigation in the Terai should be initiated as well.

## Cement

The Department of Geology and Mines has discovered 1.07 billion MT of limestone deposits, of which 540 million MT are proven, 110 MT are semi-proven, and 420 MT are feasible deposits (Nepal Geological Society).<sup>48</sup> These have been discovered in different districts including Udayapur, Dhankuta, Sindhuli, Makwanpur, Lalitpur, Dhading, Syangja, Arghakhachi, Sukhet, Dang, Salyan, Baitadi and Palpa.

If Nepal is able to decrease the cost of mining for cement by introducing regulations for controlled mining explosions and reduce electricity tariffs, the industry can grow by leaps and bounds.

Petroleum bitumen can be replaced by cement: Nepal imported bitumen worth NPR 4.3 billion in the first eight months of FY 2077/78 (NTIP). The country is self-sufficient in cement today. Prioritizing concrete roads in place of asphalt roads can help substitute petroleum bitumen with cement. While building concrete roads is more expensive than asphalt roads, the former have greater longevity. They also hold up better under weight and pressure. Asphalt roads are known to be eroded by water, and roads need to be repaired frequently. To promote concrete roads, heavy subsidies on equipment like concrete road pavers and concrete paving machines need to be provided.

## Plastic<sup>49</sup>

In Fiscal Year 2075/76, 12,087 MT of plastic articles were produced in Nepal. To promote more manufacturing activities, plastic producers have asked for an import duty difference for finished products and raw materials. Nepal imported NPR 36 billion worth of plastic during the first eight months of the current fiscal year.

Nepali industries are already self-sufficient in multilayer, flexible packaging film. However, cheaper alternatives are being imported at a low price, which makes it hard for Nepali industries to compete. It is argued that at least a 30% customs duty on these goods is needed for Nepali manufacturing to be competitive.

Most SAARC countries charge 5-7.5% on import duty for plastic raw materials known as plastic granules. Nepal is currently charging 10%. Bringing this down to 5 percent will help Nepali plastic manufacturing be more cost-competitive vis-à-vis SAARC countries.

<sup>46</sup> <https://www.himalkhabar.com/news/120957>

<sup>47</sup> Ibid.

<sup>48</sup> [ngs.org.np/mineral-resources-of-nepal-and-their-present-status/](https://ngs.org.np/mineral-resources-of-nepal-and-their-present-status/)

<sup>49</sup> The following data were provided by plastic manufacturers.

Finally, there is a need to promote plastic recycling industries. A significant fraction of used plastic is wasted and not put into productive use. Tax free and holiday schemes for industries seeking to enter the recycling business can be provided with special tax exemptions.

## Pharmaceutical

Between Shrawan-Falgun of FY 2077/78, pharmaceutical imports were worth NPR 19 billion (NTIP). There are 66 pharmaceutical companies in Nepal, including the sole state-run Nepal Drug Limited under the Department of Drug Administration (DDA) (DoI 2021).<sup>50</sup>

The total pharmaceutical market of Nepal is estimated to be NPR 53 billion (approx. USD 430 million).<sup>51</sup> In FY 2076/77 Nepal imported NPR 26.59 billion worth of pharmaceuticals from India and other countries. The total market in FY 2076/77 was around NPR 51.11 billion, of which while NPR 24.53 billion worth of medicines are produced by domestic industries making up 45.5% of the total market share.<sup>52</sup> Nepal imports 70-75% of raw materials for the pharmaceutical industry from India and 25-30% from China.<sup>53</sup>

Pharmaceuticals is a promising sector to decrease the import bill of Nepal. But for that, the government needs to address issues related to availability of raw materials and credit financing.

Nepali pharmaceutical industries currently complain about the unavailability of raw materials, especially after the advent of COVID-19. If the private sector is finding it difficult to source raw materials on a consistent basis, the state might have to facilitate this. The flexibility provided by WTO agreements on intellectual property should be utilized by these firms with facilitation by the government to enhance the production capacity of Nepal's pharmaceutical industry. In the context of the extension of Nepal's transition to the WTO

agreement on trade and intellectual property, the concerned stakeholders now need consider how to prevent price rises while ensuring access to essential medicines. The local production of medicines should be put on the national development agenda and made a priority for the future. For that, increased commitment and patronage from the government is necessary.

## FMCG

The fast-moving consumer goods (FMCG) sector has been growing at a remarkable pace (at around 20% annually) and multinational companies like Unilever, Carlsberg, Coca-Cola, PepsiCo, and Dabur have been able to excel.

However, many opportunities remain untapped. Nepal's imports of sweet biscuits swelled to NPR 984 million in the first six months of 2077/78 (NTIP). The biscuit industry is one examples where the potential is very high for domestic manufactures to supply the Nepali market. The total number of biscuit producers has decreased from 53 to 14.<sup>54</sup> The main reason for this is due to the inability of domestic products to compete with unfairly imported, cost-competitive Indian biscuits. Moreover, the government is not able to regulate unauthorized trade of FMCG along the Nepal-India border. Nepali biscuit industries import sugar and flour – essential raw materials for biscuits – from India, for which the government imposes a customs duty as well. Recent pandemic lockdowns showed that if the illegal import of biscuits is controlled, Nepali biscuit industries can operate at full capacity to meet market demand.

The government needs to revisit the customs tariff being imposed on the raw materials for biscuits and the regulation of unauthorized trade of biscuits and other FMCG in border areas which have compelled Nepali industries to operate at low capacity and sometimes shut down operations.

<sup>50</sup>. Detail Study of Pharmaceutical and Medicine Manufacturing Industries in Nepal by DoI.

<sup>51</sup>. Ibid.

<sup>52</sup>. Ibid.

<sup>53</sup>. Ibid.

<sup>54</sup>. <https://www.newbusinessage.com/Articles/view/13067>

## Steel & aluminum

The Nepal Steel Rolling Mills Association states that the annual demand for iron and steel currently stands at around 2 million MT. Almost 90% of raw materials are imported from India. The remaining comes from third countries. Raw materials worth NPR 86 billion were imported from India and around NPR 15 billion were imported from China in FY 2077/78 (NTIP).

The government's initiation of large infrastructure projects is essential to keep the domestic steel industry afloat. Similarly, it needs to provide electricity to steel industries at reduced tariff rates. As raw material imports for steel production cannot currently be substituted with domestic sources, the probable means to make domestic production cost competitive is through the access of cheap electricity and better use of local manpower. Likewise, the government needs to think about ways to replace imported raw materials by using domestic iron ore where possible.

# ENDNOTES

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