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

INDUSTRY STATUS REPORT

BASED ON THE ONLY COMPREHENSIVE QUARTERLY INDUSTRIAL SURVEY OF NEPAL

CNI'S POLICY SUGGESTION FOR FY 2082/83

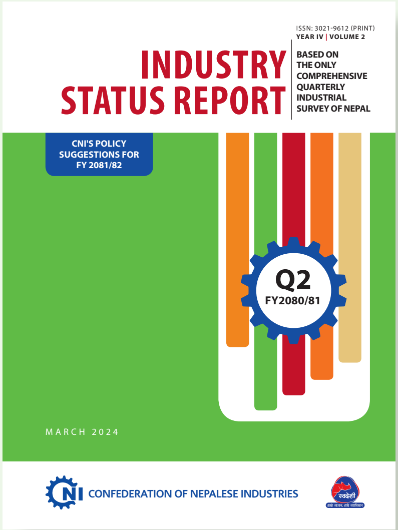
Q2
FY2081/82

APRIL 2025

CONFEDERATION OF NEPALESE INDUSTRIES

स्वदेशी
हाम्रो सामान, हाम्रै स्वाभिमान

INDUSTRY STATUS REPORT (PREVIOUS EDITIONS)



Scan the QR code to access digital ISRs

TABLE OF CONTENTS

ACKNOWLEDGMENTS

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

The team would like to extend sincere gratitude towards Dr. Ghanashyam Ojha, Mr. Rajeev Majgaiyan and Mr. Himal Poudel for their valuable insights. Also, many thanks to Moti Marasini for designing the ISRs impeccably.

About Industry Status Report

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

Industry Status Report (FY 2081/82, Q2 Edition)

The Industry Status Report (FY 2081/82, Q2 Edition) has the benefit of comparing survey data from four consecutive quarters. The current report covers the second quarter of the fiscal year 2081/82. (i.e Kartik to Poush 2081). The data was gathered from the survey conducted from 10 February 2025 to 28 March 2025.

Apart from presenting the findings of the survey, each ISR covers one theme in depth. The Second Edition of Fiscal Year 2080/81 covers Suggestions for Policy and Programmes of Fiscal Year 2081/82 presented by CNI to the Government of Nepal. Third Edition of Fiscal Year 2080/81 covers Private Sector in Industrial District (ID). Fourth Edition of Fiscal Year 2080/81 covers 'Nepal Infrastructure Summit 2024'. First edition of Fiscal Year 2081/82 covers Current Economic Scenario and Way Forward. This second edition of Fiscal Year 2081/82 covers Budget Suggestion for Fiscal Year 2082/83.

What does the survey cover?

1. **Business Performance:** industry capacity utilization, revenue trends, demand in domestic market and market competition, trade
2. **Finance:** interest rates, the share of the loan, access to finance
3. **Skills and Employment:** employment, share of employees that received training
4. **Industrial Ecosystem:** regulation and industry administration, transportation and infrastructure
5. **Business Outlook:** confidence in the industrial sector, new investment plans.
6. **Budget Suggestion for Fiscal Year 2082/83**

KEY STATISTICS (FY 2080/81, Q2 EDITION)

Number of surveyed industries:

64 (*Q1* 64)

Total employees covered:

18496 ↓ (*Q1* 18544)

Average employment per company:

289 ↓ (*Q1* 289.75)

Average operational capacity utilization:

62.35% ↑ (*Q1* 60.26%)

Share of loan on working capital:

43.19% ↑ (*Q1* 38.72%)

Average interest rate on loans:

9.18% ↓ (*Q1* 9.86%)

Average revenue growth rate:

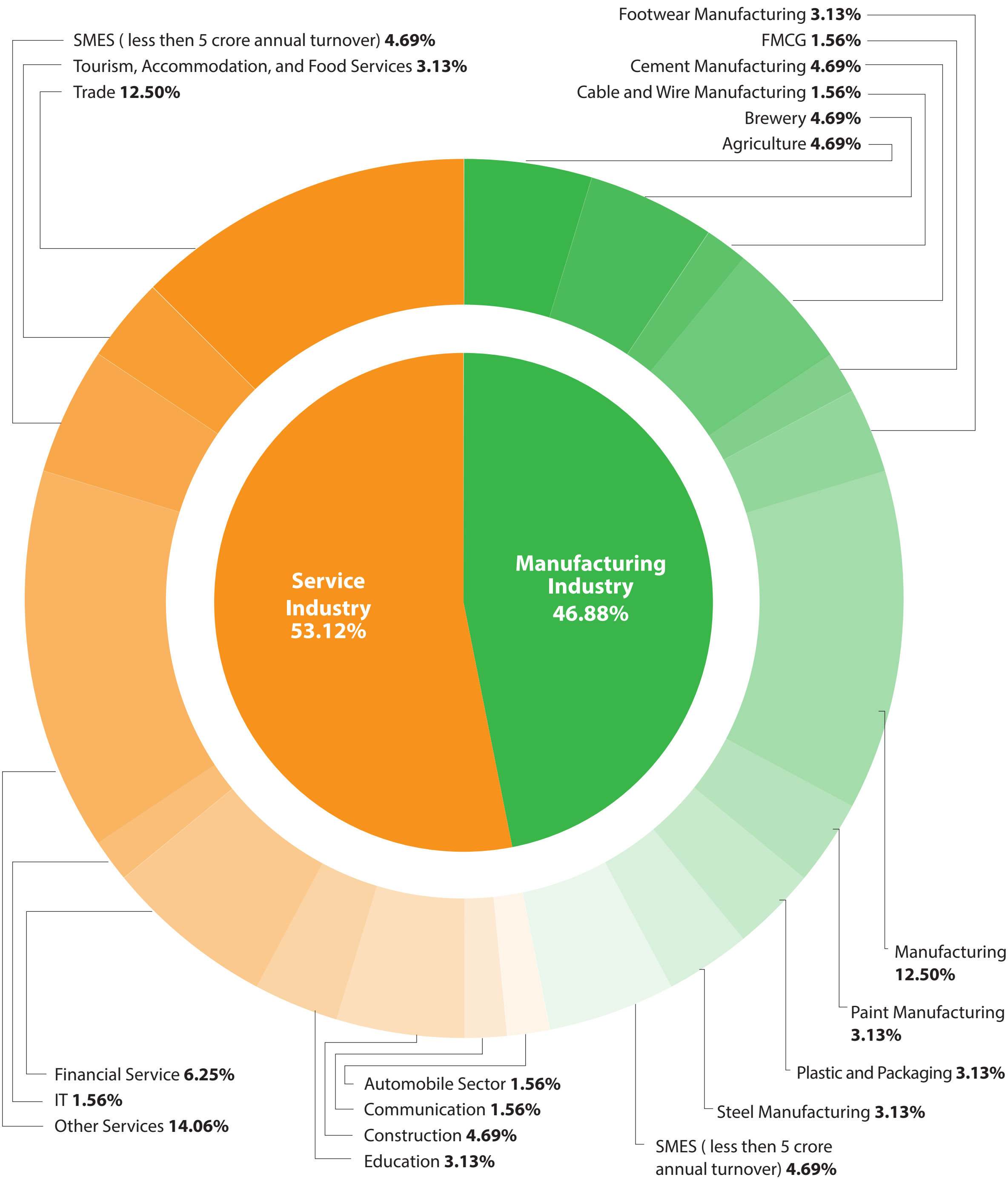
12.33% ↑ (*Q1* 10.26%)

Average share of imported raw materials by the manufacturing industry:

51.72% ↑ (*Q1* 35.64%)

Note: Q1 in the parenthesis denotes the First quarter of the FY 2081/82

COMPOSITION OF THE INDUSTRIES SURVEYED



METHODOLOGY

The Industrial Status Report (FY2081/82, Q2 Edition) is based on a quarterly survey of 64 industries.

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

The sample was drawn from CNI member's network located across Nepal.

Questions are tailored to specific industries. Respondents were asked questions, depending on their respective industries, using a survey platform called KoBoToolbox. The survey questions are available online.

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

THE UNIT OF ANALYSIS

The unit of analysis is one industrial establishment.

BUSINESS PERFORMANCE

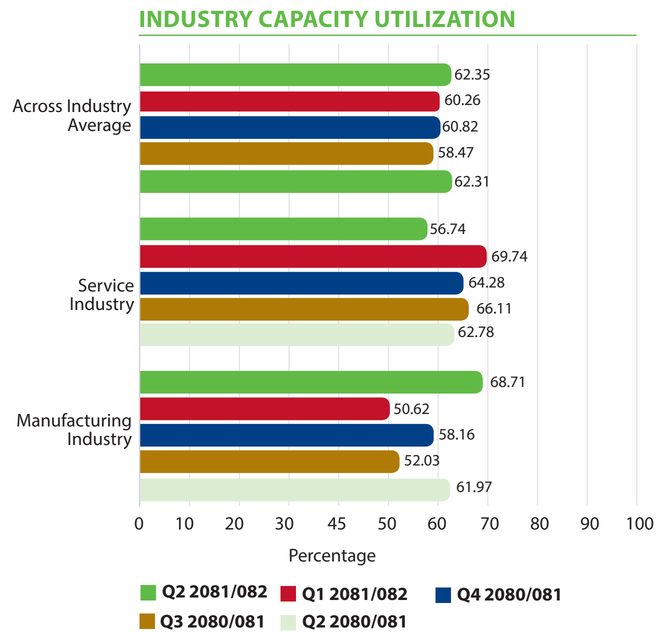
Periodic performance measurement is a vital part of monitoring the growth and progress of any business. This section summarises the performance of industries within key variables in Q2 2081/82 and compares it with the survey responses from previous quarters.

INDUSTRY CAPACITY UTILIZATION: 62.35%

KEY INDUSTRY INSIGHT I

On average, the industries were operating at **62.35%** in Q2 81/82 whereas they were operating at 60.26% in Q1 81/82. During Q2 81/82, the service industry was operating at **56.74%** which has decreased from **69.74%** in Q1 81/82.

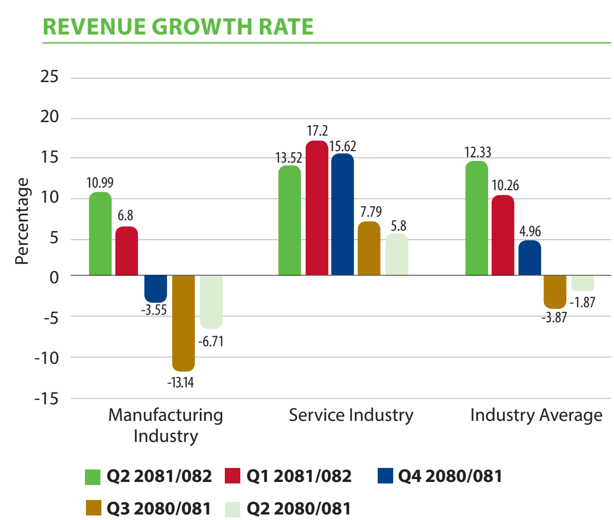
The capacity utilisation of the manufacturing industry in Q2 2081/82 remained at **68.71%** while it was **50.62%** in Q1 81/82.



REVENUE TRENDS: REVENUE GROWTH 12.33%

KEY INDUSTRY INSIGHT II

In Q2 81/82, the across-industry-average revenue growth rate was **12.33%,** whereas it was 10.26% in Q1 81/82. The revenue growth in the manufacturing sector in Q2 81/82 experienced a rise by **10.99%** It was 6.8% in Q1 81/82.



GROWTH IN MARKET DEMAND 19.67% AND *MARKET COMPETITION 75%

(* PERCEPTION-BASED QUESTION)

KEY INDUSTRY INSIGHT III & IV

The survey result shows that the average growth of demand for goods and services was **19.67%**. The highest recorded growth rate was an impressive**100%,** while the largest decline observed was a significant **50%.** The demand of manufacturing industries has increased by **12.93%**

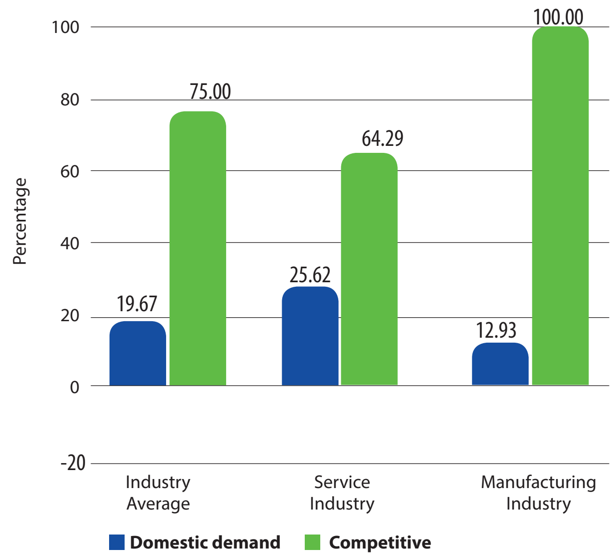
Furthermore, on average**75%** of the surveyed industries perceived their goods to be competitive in the market in relation to imported goods, which gives optimism to the domestic industries. The confidence among the domestic businesses regarding their competitiveness and sufficient market demand for domestic products is a critical factor for expanding a broader industrial base in Nepal.

SHARE OF RAW MATERIALS IMPORTED: 51.72%

KEY INDUSTRY INSIGHT V

The survey results show that manufacturing industries significantly rely on raw materials sourced from global markets. Out of the total raw material required, on average **51.72%** of raw materials was imported from the global market in Q2 81/82. There has been an increase in imports of raw materials as compared to Q1 80/81 which was 34.56%.

DOMESTIC MARKET DEMAND AND COMPETITIVENESS

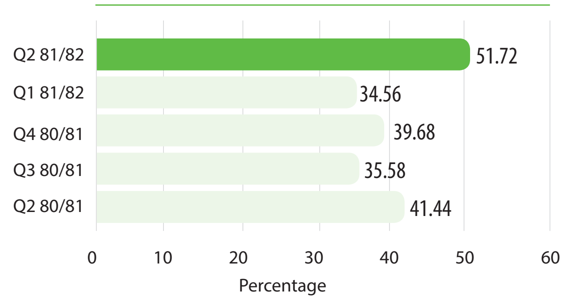


EXPORT: 31.25%

KEY INDUSTRY INSIGHT VI

In Q2 81/82 , **31.25%** of the respondent manufacturing industries successfully exported their goods. Compared to the previous quarter, which recorded an export rate of 34.38%. The export in this quarter has decreased. The average proportion of exports out of their production has increased from 33.65% in Q1 81/82 to **35.78%** in Q2 81/82. These findings suggest that firms are engaging in exporting their products, the overall share of exports is experiencing a rise.

RAW MATERIALS IMPORTED



FINANCE

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

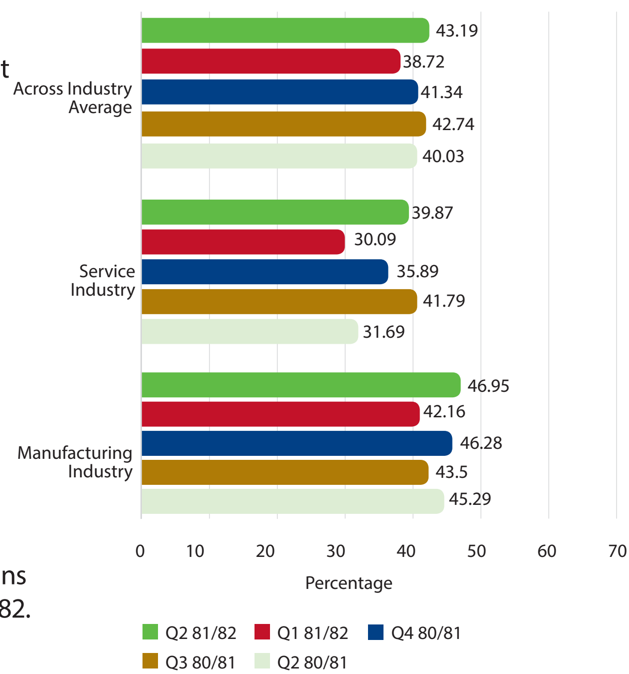
SHARE OF LOAN ON WORKING CAPITAL: 43.19%

KEY INDUSTRY INSIGHT VII

The result of the survey shows that in Q2 81/82, **43.19%** of working capital was met through credit from banks and financial institutions whereas it was **38.72%** in Q1 81.82.

The average rate of interest in working capital loan stands at **9.31%** in Q2 81/82 which is a decrease from 10.27% in Q1 81/82.

SHARE OF LOAN ON WORKING CAPITAL



INTEREST RATES: AVERAGE INTEREST RATE: 9.18%

KEY INDUSTRY INSIGHT VIII

In Q2 81/82, the average interest rate on loans was **9.18%** whereas it was **9.86%** in Q1 81/82.

In Q2 2081/82, average interest rates on loans for manufacturing industries was **8.75%** while for service industries it was **9.58%**.

AVERAGE INTEREST RATE

	Q2 80/81	Q3 80/81	Q4 80/81	Q1 81/82	Q2 81/82	WCL Interest
Across Industry Average	11.63	11.5	10.52	9.86	9.18	9.31
Service	11.41	11.24	10.52	10	9.58	9.78
Manufacturing	11.77	11.71	10.59	9.73	8.75	8.79

SKILLS AND EMPLOYMENT

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

TOTAL EMPLOYMENT: 18496

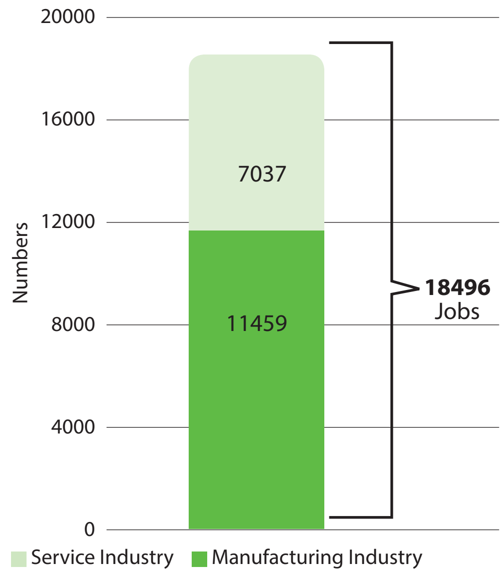
KEY INDUSTRY INSIGHT IX

The surveyed industries employed **18496** staff in total. On average, an industry establishment employed 289 individuals, with the range being 3-5000. This indicates, on average, CNI member networks comprise large business enterprises.

With **11459** employees, the manufacturing industry is the largest employing sector, followed by the service sector with **7037** employees.

Average employment among sectors: The manufacturing industry was at the top with 381.97 jobs while the service sector was right behind with 206.97 jobs.

EMPLOYMENT IN SURVEYED INDUSTRIES



NEW HIRING: 320

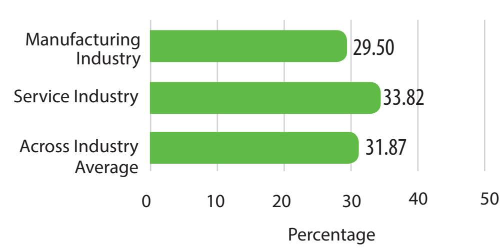
The surveyed industries collectively hired a total of **320** new staff members, while the number of applicants were **2717**. This indicates that, on average, more than 8.49 individuals applied for one announced position.

SKILL GAP AND TRAINING: 31.87 RECEIVED TRAINING

KEY INDUSTRY INSIGHT X

The survey result shows that across sectors **31.87%** of the total employees received training during Q2 of FY 81/82. The service industry sector trained around **33.82%** of the total workforce, while the manufacturing industry sector provided training to **29.50%** of its employees.

SHARE OF EMPLOYEE THAT RECEIVED TRAINING



INDUSTRIAL ECOSYSTEM

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

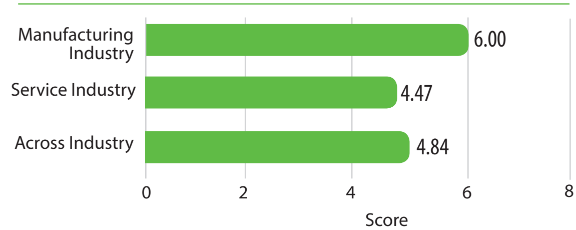
EXPERIENCE WITH GOVERNMENT ONLINE SERVICE

KEY INDUSTRY INSIGHT XI

Although the government has been prioritising digitization of the economy, the survey results reveal that respondents on average were not delighted with the quality of online services provided by various public entities. When asked to rank the quality of services on a scale of 1 to 10 (with 1 being the lowest and 10 being the highest) 25 respondents ranked the service. The average score of respondents was 4.84. Manufacturing-industry responded with a score of 6, while the service industry with an average score of 4.47.

Govt Online Service	Q2 81/82
Manufacturing	6.00
Service	4.47
Industry Average	4.84

GOVERNMENT ONLINE SERVICE



CONSTRAINT TO CURRENT OPERATIONS OF BUSINESS

KEY INDUSTRY INSIGHT XII

The surveyed respondents identified that the top three constraints for the business operations in the Q2 of FY 81/82 were, political instability, prevailing tax rates and tax administration.

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

Major Constraints

- Political Instability
- Prevailing Tax Rates
- Tax Administration

UTILITIES

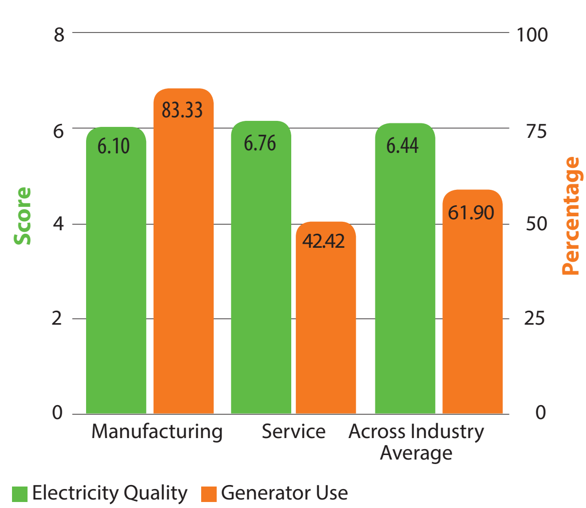
ELECTRICITY: 6.44 OUT OF 10 FOR QUALITY OF ELECTRICITY SUPPLIED

KEY INDUSTRY INSIGHT XIII

The survey result showed **61.90%** of the industries still use generators as the quality of electricity is not reliable. The respondents also mentioned, since the electricity supply provided by NEA is from a common feeder for an area, this reduces the reliability. Therefore, so a separate feeder is essential for commercial purposes. Those manufacturing industries using generators as alternative sources of energy stated there is an additional **11.67%** of cost increase due to the use of generators.

In response to the question that was asked to the respondents to rate the quality of electricity provided in the scale of 1 to 10, with one being the worst and 10 being the best, the average response was **6.44.**

ELECTRICITY QUALITY



Major Challenges

Out of the **64** respondents, **65.63%** responded to the question, and they had the option to select up to 3 choices from a total of 11 options regarding major challenges of business. Among the responses, excess competition affecting price margins, unauthorized goods in the market and low disposable income among Nepali consumers were the most common responses that respondents wanted to solve.

Major Challenges

- Excess Competition Affecting Price Margins
- Unauthorized goods in the market
- Low Disposable Income Among Nepali Consumers
- Consumer Bias for Foreign Goods/ Services

TRANSPORTATION AND LOGISTIC HURDLES

The respondents identified major challenges of transportation and logistics as administrative hassles on road, quality of roads and frequent road blockage.

Transportation and Logistic Hurdles

- Quality of Roads
- Administrative Hassles on Road
- Corruption

BUSINESS OUTLOOK

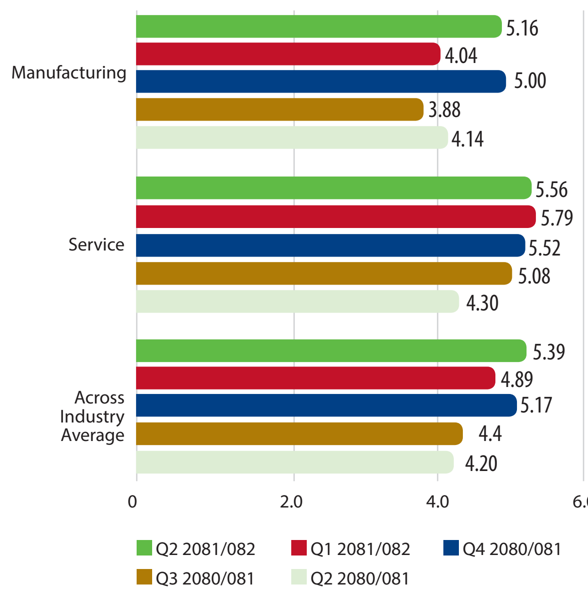
This section presents the confidence level of surveyed industries for their own business and aggregates responses regarding investment plans for the next quarter.

BUSINESS CONFIDENCE: MODERATE

KEY INDUSTRY INSIGHT XIV

On the whole, industrialists are not optimistic that their business is going to perform well for the next 3 months. When asked to rank the favorability (confidence measures) for their business on a scale of 1 to 10 (with 1 being the least favourable and 10 being the most favourable) in terms of revenue and investment opportunities, regulatory environment, access to finance, labour and better utility facilities, the across-industry-average score is **5.39.** The manufacturing industry is comparatively less confident as per the survey respondents. This can be a result of the unfavourable macroeconomic situation. Key Indicator XIV does not paint a conducive environment for businesses currently.

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

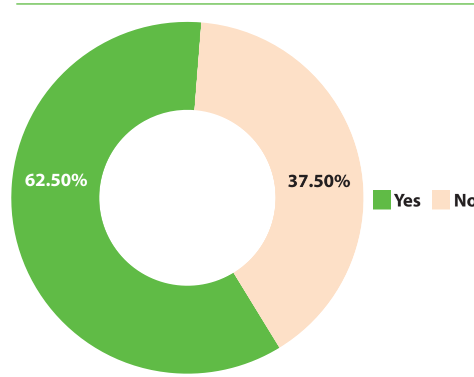


62.50% HAVE NEW INVESTMENT PLANS

KEY INDUSTRY INSIGHT XV

The survey result shows that **62.50%** of respondents have new investment plans for the upcoming quarter. Among respondents from the manufacturing sector, **53.33%** have a new investment plan. Similarly, among respondents from the service sector **70.59%** have planned for new investment. However, **37.50%** of respondents said they do not have any plans for new investment in the upcoming quarter.

NEW INVESTMENT PLANS



CONFEDERATION OF NEPALESE INDUSTRIES

POLICY RECOMMENDATIONS FOR INCLUSION IN THE BUDGET FOR FISCAL YEAR 2082/83

A. MAJOR POLICY SUGGESTIONS

- The provision under Section 57 of the Income Tax Act, 2002, should not be applied to cases of non-voluntary transfers, such as those arising from family-related circumstances or transfers occurring upon death.
- Repeal over a dozen laws such as Income Stamp Duty Act, 2019, Black Market and Certain Other Social Offences and Punishment Act, 2032, Nepal Agency Act, 2014, etc. that hinder economic freedom, increase costs, risk misuse, impose unnecessary controls, and are outdated.
- The government must focus on alternative financing instruments such as Viability Gap Funding (VGF), Minimum Revenue Guarantee (MRG), Value Capture Model (VCM), Hybrid Annuity Model (HAM) etc for developing infrastructure projects.
- The government should invest in high-yielding projects by issuing infrastructure bonds.
- For public construction projects, the project team will remain assigned for the entire duration, and transfers of the project manager and technical staff will occur only after project completion.
- NRB should make arrangements for providing loans at a fixed interest rate for a period of 3 to 5 years to manufacturing industries, small and micro enterprises and exporters.
- Base rate should be substituted by Marginal Cost of Lending Rate(MCLR) and External Benchmark Lending Rate (EBLR).
- The structure of the Revenue Tribunal should be improved and upgraded, and in light of the existence of other agencies for tax investigation, the Department of Revenue Investigation (DRI) should be abolished.

B. LONG TERM SUGGESTIONS

1. Industrial Development Strategy

The Government of Nepal should promptly formulate and implement "Industrial Development Strategy". The strategy needs to identify the products in which Nepal can self-sustain. This strategy should also prepare products or Industry or sector specific policies and ensure stability for the long-term and sustainable development of such industries.

2. Tax Regime reform

Nepal needs to simplify its tax regime through the removal of overlapping taxes and introduce streamlined tax structure comprising only a few key taxes— *Income Tax, Customs Duty, Excise Duty, and VAT.* The current VAT system should be updated to a Multi-VAT system (0, 5, 13 and 18% rates) and the minimum transaction threshold/ limit should be reduced to incorporate major businesses in the new system.

Introduction of the Multi-VAT system will reduce the cost of domestic production and leverage its competitiveness against imports, while reducing the unauthorised trade simultaneously. The tax collection and distribution system should be strengthened and streamlined through a centralized single-window mechanism, ensuring efficient allocation of revenue to federal, provincial, and local governments.

3. Unauthorised Import and trade management

Unauthorised import poses a major hurdle for domestic industries to grow and also causes tax revenue loss to the government, it is paramount for all the agencies to unanimously tackle the problem. The government should:

a. Have a definite guideline, clearly defining the roles among interrelated governmental agencies, should be enforced to control malpractices transpiring inside the customs and unauthorised trade from outside the customs to curb revenue loss and protect domestic industries. Concerned authorities such as the Internal Revenue Department (IRD), Department of Revenue Investigation, National Investigation Bureau, and related security agencies authorised by the government of Nepal should be accountable for carrying out their duties.

b. Ensure market surveillance conducted by the Department of Commerce and relevant agencies and enforce mandatory labelling regulations provisioned under Clause 6 of Consumer Protection Act 2075.

c. Repeal customs valuation reference book:

   i. Imported goods should be labelled prior to import from the customs entry point. The customs should be charged on a discounted rate of at least 40 to 60 percent of MRP on these products. It will minimize the issues of under and over invoicing, relevance of the customs reference book and this will help increase the revenue.

   ii. Custom Act, 2064 refers to the 'WTO Agreement on Custom Valuation'. The agreement has no provision of 'Customs Valuation Reference Book. So, Nepal should adhere to the WTO agreement and repeal the "Reference Book."

   iii. In the event of doubts regarding the declared price of imports, the Government should purchase such goods from the importer at mark up of 5 percent as stated in Clause 13, Sub-clause 15 (b) of Customs Act, 2064. The government can sell /distribute such goods through state-owned distribution agencies or national level cooperatives.

4. Quality Imports and Standardization of Goods:

Currently, Nepal has about 1170 Nepal Standards (NS) in practice, which adhere to only about 75 goods including product and process standardization. But, data shows that Nepal imports more than 5000 goods under 6 digit Tariff Line code.

Therefore, the quality of imported goods cannot be assured. Additionally, it has also resulted in a negative impact on the domestic products.On the other hand, domestic industries have to strictly comply with different standards and, while imported goods easily skip it, which reduces the competitiveness of Nepali products in our own market.

Hence, to safeguard such industries and assure the quality import, Nepal should prepare and enforce the standards on goods at least being imported. To carry on this, the government has to formulate at least 100 Nepal Standards in the Fiscal Year 2082/83.

5. Domestic Goods consumption promotion

The government has introduced "Guideline for Using Domestic Goods in the Public Sector, 2081". The guideline includes the concept of 'web portal' to identify domestic products and procurement from the same. For the effective implementation of the Guideline, the Government needs to update Public Procurement laws. Additionally, the government should incorporate provisions of procurement from domestic industries in the law.

The government can officially recognise and make possible use of the B2B portal of 'Make in Nepal Swadeshi Campaign', jointly being run by the government of Nepal, Ministry of Industry, Commerce and Supplies (MoICS) and Confederation of Nepalese Industries (CNI). At least Goods listed in the portal should be procured domestic only.

6. Sustainable and optimal use of existing natural resources

Nepal has abundant natural resources however, have not been able to utilize it as per countries requirement. Topographic challenges, lack of substantial investment required for extraction, rigid rules and regulations implemented by the government are some bottlenecks. The stringent policies hindering sustainable and effective utilisation of natural resources need to be reconsidered. Rules on utilization of forest land, timber and non-timber materials, medicinal herbs and aromatic plants, aggregates, water resources, mines and minerals etc. needs to be streamlined.

7. Decade of Investment and Priority Sectors

Prior to Covid pandemic, Nepal experienced an average investment growth of 16.98% for 8 years. After COVID, it shrunk to negative 7% in FY 2022/23 and it marginally recovered to 4% in 2023/24.

i. According to the government estimate, Nepal needs investment of over NPR 2025 billion to achieve SDG goals and graduate to a middle income country. *(Source: NPC-2018).*

To restore investor's confidence, the government must increase capital expenditure (CAPEX).

In addition, the government should address all the suggestions including tax reforms outlined by CNI to attract private sector investment.

In order to stimulate the growth and improve the economic conditions of the nation, government must prioritize the following sector for investment;

- Industries and Industrial District
- Digital Economy and ICT
- Energy
- Tourism, Urban and Industrial infrastructure
- Agriculture, Medicinal & Aromatic Plants (MAP)
- Education & Health
- Financial Innovation
- Optimal use of natural resource

C. POLICY SUGGESTIONS

1. Nepal must acknowledge the private sector as the driving force of its economy and work towards enhancing investor confidence. To achieve this, the government should formulate and implement an investment-friendly policy that fosters long-term growth, ensuring stability and continuity for at least the next decade.

2. The government should identify self-sufficient goods and goods which Nepal can be self-sufficient with simple import management and little subsidy to the domestic industries. The government should focus on such industries.

3. Cash incentive in export should be provided to any export yielding foreign currency. An eligibility criteria should be defined based on domestic value addition, potential increase in export, potential growth in quantity of export, potential diversification of market and others. The Government must allocate sufficient funds for this incentive.

4. The private sector should be allowed to establish and operate industrial districts. The government should bear the responsibility for providing essential infrastructure (road, electricity, water and drainage system) along with additional subsidies and benefits to the industries. (This has been announced in the current Fiscal Year Budget speech). CNI has proposed to build and operate Mayurdhap or Shaktikhor Industrial district in PPP model. Clear provisions for the benefits and subsidies have to be announced for the industries to be established in such Industrial Districts. Additionally, forest and other clearance has to be completed before handing over to the private sector.

5. Incentives provided by the various specialized Acts and Regulations have to be recognized by the Finance and Tax Acts. e.g., benefits provided by the Industrial Enterprise Act, 2076 (CSR expenses, benefits in duty drawback etc.) Similarly, in accordance with the provisions of the Industrial Enterprises Act, 2073, the exemption of integrated property tax and other local taxes for industries operating within industrial districts should be reinstated. Additionally, all the manufacturing industries. should be exempted from such local taxes.

6. The existing government policy, which mandates a minimum one-tier difference in customs duty between finished goods and their raw materials, should be revised to mandate a minimum two-tier difference.

   When the classification of raw materials or the 'final/ trading goods' proves difficult, a 50 percent customs duty refund should be granted to the importing Industry based on the recommendation from the Department of Industry for its raw materials.

D. SECTOR SPECIFIC REFORMS:

1. Industrialization, Export Promotion and Import Substitution

1.1. Land purchased by industries at market rate exceeding the legal land ceiling should be allowed to be sold during financial difficulties. Land ceiling provisions must be exempted for Industries up to specified quantity as mentioned in the project and or the scheme of the Industry during the registration. It should be clearly stipulated that no provisions relating to land ceiling will apply for such lands.

1.2. To enhance the productivity of the labor force, hire and fire for at least 10% of the workforce should be allowed.

1.3. The minimum thresholds should be increased for the specified provisions in Annex 1, 2, and 3 of the Environment Protection Regulations, 2077—pertaining to proposals requiring a Brief Environmental Study (Annex-1), proposals requiring an Initial Environmental Examination (IEE) (Annex-2) and proposals requiring an Environmental Impact Assessment (EIA) (Annex-3), respectively. Alternatively, the scope of the Initial Environmental Examination (IEE) (Annex-2) should be expanded.

1.4. Nepal should allow import of at least US-FDA or EU-GMP standard medicines. As Nepalese pharmaceuticals are able to produce quality medicines as specified by the government, Nepal Government should procure medicines locally for free distribution purpose through various hospitals and health posts/ centers by the government. Additionally, a timely and appropriate price revision mechanism for these life-saving medicines should be implemented.

1.5. Nepal should take the initiative to review and revise the SAFTA Sensitive List as the industrial base of Nepal has changed from the time of notification.

1.6. The Public Procurement Act and Regulations have to be revised for the effective implementation of the provisions outlined in the recently adopted 'Directives for Use of Domestic Products in Public

Institutions, 2081". Additionally, the government should incorporate provisions to procure directly from domestic industries in the law.

1.7. The government has been consistently increasing taxes on alcoholic beverages and tobacco as a means of revenue collection. However, products like cigarettes and alcoholic beverages are taxed significantly higher in Nepal compared to neighboring countries, making them available at much cheaper prices close to the border. As a result, excessive smuggling from the border has led to revenue losses for the government and a huge shrinkage in the market share of domestic industries. Therefore, annual tax hikes should be reconsidered.

2. Domestic product promotion and Market regulation

2.1. The portal mentioned in the 'Directive for the use of domestic products in public institutions, 2081' should be operationalized immediately. Effective implementation of directives should be ensured. Additionally, products listed in the portal should be procured domestic only.

2.2. There should be a provision of competing among domestic producers only for up to a certain limit/ quantity of procurement.

2.3. Domestic industries have to comply with different standards and, while imported goods can easily skip it. Such quality standards and rules have to be applied for imported goods as well. Additionally, Nepal Standards should formulate and implement standards for major imports.

2.4. Imports of look alike products should be restricted at the customs points.

2.5. There should be mandatory labeling before the customs points.

3. Infrastructure Development

3.1. An Infrastructure Development Authority needs to be established with a dedicated purpose of promoting and refining 'infrastructure development policy' and its implementation. The government must ensure private sector participation in this authority.

3.2. The government should establish a 'Longterm Infrastructure Fund' by utilising concessional loans offered to Nepal as LDC nation before its graduation. It should issue green bonds, infrastructure bonds and other innovative financial tools to collect larger investment for Infrastructure.

3.3. For timely completion of the infrastructure projects, only investment ready projects should be called for bidding. Projects without adequate early work should not be allowed to participate. Supplementarily, all stakeholders must be held accountable and liable for completion or delay of the project.

3.4. Despite the policy announcement to reimburse 75 percent of the construction cost for access roads and transmission lines built by industries on their own costs, this has not been implemented yet. The procedures for reimbursement should be simplified, there should not be any ceiling for the reimbursement. Furthermore, this provision has to be applicable for all the industries.

3.5. Despite the announcement of asset monetization of different operational or non-operational infrastructure projects, this program has not been advanced. Nepal should identify assets to monetize, different Industrial districts, Special Economic Zones (SEZ), operational and non operational airports might be some assets.

3.6. The current provision in Section 25 of the Public Procurement Act, 2063, which mandates the awarding of contracts to the lowest bidder, should be revised. Instead, project contracts should be awarded on the basis of different factors such as quality standard proposed, evaluation of bidder's past performance, assurance of post-completion maintenance etc.

3.7. CNI's study revealed that the lifecycle cost of 'Rigid Pavement' (concrete road) is 27.45 percent less compared to 'Flexible Pavement' (blacktop roads). Hence, concrete roads should be prioritised over blacktop.

3.8. As an example, the government should start a mega project in PPP to attract the private sector in infra projects. Various financing models like HAM, VGF, VCM etc. might be suitable for such projects.

3.9. In spite of multiple amendments in 'Hedging Regulations', it is yet to be implemented. The government needs to conduct comprehensive stakeholder dialogue to prepare implementable regulation.

3.10. A 40 to 50 year 'National Infrastructure Masterplan' needs to be prepared and enacted so as to attract and assure foreign investment in the infrastructure.

4. Youth, Innovation, Cottage and SMEs

4.1. A provision must be enacted to allow industries to invest capital or seed capital in innovative business or startups. Industries should be allowed to deduct such investment from their Income Tax.

4.2. An additional 1 percent cash incentive should be provided to promote export of goods produced by women led businesses.

5. Energy

5.1. The policy, previously adopted by the Government of Nepal, to allow industries to generate and transmit necessary energy with wheeling charges should be implemented by formulating and enforcing the required procedures. Furthermore, the private sector should be granted permission to engage in both domestic and international electricity trade.

5.2. Current Act should be amended to allow private sectors to participate in electricity generation, transmission, distribution, and trade.

5.3. PPA should be initiated immediately with projects that have already completed their surveys and other necessary requirements.

5.4. To increase domestic electricity consumption, tax incentives should be provided to Nepalese manufacturing industries producing domestic and Industrial electrical appliances.

5.5. Subsidies provided in the LPG should be gradually diverted to electric cooking appliances and other domestic electric appliances. The villages of Terai still using firewood and cow dung should be prioritized for grants and subsidies.

5.6. The private sector should be allowed to import LP gas. Additionally, subsidy or incentive should be provided to the hotels and other businesses that are willing to convert gas-powered equipment with electric alternatives.

5.7. Certain subsidies or benefits should be provided to the Industries to encourage them to switch to electric from conventional sources of energy.

5.8. Nepal needs to allow captive production of energy. (at least 51% self-consumption)

6.Tourism

6.1. Nepal needs to target the regional buddhist market. It should centralize its effort in India and China for our tourism promotion in the international market.

6.2. To market Nepal as a premier tourist destination, trekking routes need to be developed and upgraded. Public safety and amenities like lavatory should be ensured in such routes.

6.3. For improvement of Nepal's air connectivity, Pokhara and Bhairahawa airports should be transformed into regional aviation centers. Air routes from Pokhara to Indian cities like Lucknow, Kolkata, Bagdogra, Dehradun and from Bhairahawa to nations with substantial Buddhist populations including Thailand, Sri Lanka, Myanmar should be actively promoted.

6.4. To improve air connectivity in Nepal's hills and mountainous regions, the Civil Aviation Authority of Nepal should upgrade Biratnagar, Bhairahawa, Nepalgunj, and Dhangadhi airports as Sub-Stations and operate local flights from these locations.

6.5 The existing three international airports will soon be insufficient to accommodate the growing passenger flow; therefore, the construction of Nijgadh International Airport is essential.

6.6. To promote Nepal as a prime destination for movie filming, a centralized single-window system should be established to offer all the required services.

6.7. Domestic tourism ought to be promoted through 'provision of tourism/ mandatory leave' policy. Further, an individual family should be allowed to deduct at least 1 lakh worth of domestic tourism expenses from their taxable income annually.

6.8. Nepal Airlines should get an international strategic partner for competitive performance.

6.9. VAT should not be imposed on purchase of aircraft, its spare parts and air tickets.

6.10. Tax incentives should be extended to environmentally sustainable (green) hotels. Hotels incorporating eco-friendly technologies, (such as solar power, water recycling systems, and energy-efficient appliances) should also qualify for tax benefits.

6.11. Mechanism to allocate a certain percentage of collected tax through the hospitality sector in the "Tourism Promotion Fund". This fund should be utilized in the development of tourism industry and in promotion of Nepalese Tourism in international market.

6.12. Star-rated hotels should be provided the facilities in electricity tariffs, demand charges and time-of-day (TOD) meter at rates similar to the Industries.

6.13. Hotels constantly need new and essential equipments (furniture, equipment, decorative accessories, cutlery etc) to maintain the standards and upgrade their infrastructure regularly. Thus, taxes on the imports of such items need to be reduced for such hotels.

7. IT

7.1. VAT charged on digital payment has increased the cost of digital transactions hampering overall digitalisation of the country. Therefore, the VAT needs to be abolished to promote digitalisation and turn into a cashless economy.

7.2. As per the provision made by the Government of Nepal in the fiscal year 2079/80, the provision of levying only one percent income tax on foreign currency earnings from the export of information technology-based services such as software programming, business process outsourcing. This provision has to be reinstated for the next ten years.

7.3. Despite the announcement in the fiscal year 2079/80 budget speech, IT export has not received any cash incentive in its export. IT based export has to be listed in the list of goods receiving cash incentive in export.

7.4. To attract and gain the attention of the global tech industry, Nepal should be flexible in the tax regime including others, provide incentives etc. to invite any tech giant to operate from Nepal.

7.5. The private sector in Nepal should be permitted to establish IT Parks in public-private partnerships. The government should provide land on long-term lease to operate such parks. A guarantee of competitive, high-quality electricity supply should be ensured. Industries and businesses operating in these parks should be granted some of the income tax exemption for at least ten years.

7.6. A separate arrangement for labor practice, similar to a SEZ, should be formulated for IT professionals working in IT parks.

7.7. Since various hardware and software related to information technology, as well as royalties and other payments for IT services, must be paid in foreign currency, there are significant challenges in processing these payments at custom points, especially for software that cannot be physically verified. Therefore, immediate facilitation measures should be implemented to streamline foreign currency payments for IT-related imports and exports.

7.8. The student quota placed in colleges under different universities for information technology education should be removed. Additionally, non-degree IT education should be encouraged.

7.9. Tax incentives should be provided in the merger among IT industries, Digital payment providers etc.

7.10. In order to safeguard the financial stability of entities undergoing mergers, provisions must be established to permit the carry-forward of accumulated losses into the newly consolidated entity.

8. Agriculture

8.1. The advance income tax imposed on agricultural produce imported by industries as its raw material should be abolished. Industries should be allowed to adjust such advance income tax in the next year.

8.2. In order to promote the commercialization of agriculture and forest based industries, a ten-year income tax incentive should be provided for such industries.

8.3. Land ceiling provision should be exempted for Agricultural land. There should be a clear provision ensuring removal of land ceiling limits on land used for the agriculture sector.

8.4. In order to facilitate Nepalese Industries to access the international market, Nepal Government should build/ establish laboratories equipped to assess quality and parameters aligned with global standards and subsequently pursue international accreditation and Mutual Recognition (MRA) with our trade partners.

8.5. A seasonal tariff policy should be implemented on the import of agricultural products and fruits.

8.6. A mandatory quality and SPS (Sanitary and Phytosanitary) testing system should be implemented in import of agricultural products/ fruit and vegetables, meat products, dairy products etc.

8.7. A 'Know Your Farmer' program should be developed and implemented in collaboration with local governments to collect information of farmers, arable land, cultivated crops or produce and required quantity of fertilizer, improved seeds etc. Subsidies to be provided to the farmers should be provided on this basis directly to the farmer’s bank account.

8.8. There should be a mechanism to subsidise farmers diversifying, commercializing agriculture. Farmers should have easy access to quality seeds.

8.9. A clear provision should be made to exempt primary agricultural products from VAT. (e.g., green coffee beans, mustard, etc.)

8.10. A policy to utilize ethanol should be adopted, and a working procedure for its use should be developed and implemented.

About CNI

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

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

About CRC

CNI Research Cell was established due to a dearth of evidence-based research on Nepali industries, especially based on primary data. CNI aspires to be a trusted development partner of the Government of Nepal. The data and research generated by CRC is transparent, unbiased and will be kept confidential. The team comprises Director Mr. Ravi Kumar Prajapati, Officer Mr. Nikesh Man Napit and Senior Executive Mr. Chetman Syangtan.

CONFEDERATION OF NEPALESE INDUSTRIES