

# **Nepal**

# **Business Climate Survey**

## **2010 Report**

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 *Interdisciplinary Analysts*

March 2011

First published, March 2011

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ISBN: 978.....

The report can be obtained by contacting IDA in the address given below.

Published by



**Interdisciplinary Analysts (IDA)**  
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Kathmandu, Nepal  
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Kathmandu, Nepal

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# ACKNOWLEDGEMENT

This survey was successfully completed due to the support of various institutions, organizations and individuals.

I am grateful to the sampled proprietors and managers of micro, small and medium enterprises and businesses in Morang, Kaski, Rupandehi and Banke districts for willingly giving the interview. Without them sharing their frank views with us during face-to-face interviews, this study would not have been underway in the first place.

Interdisciplinary Analysts (IDA) is fortunate to have received the support of The Asia Foundation (TAF) for undertaking this survey. At TAF, we were encouraged by Dr. Sagar Prasain who saw the value and relevance of the business climate survey for Nepal. We benefitted from intensive discussions with him in 2009 when the first wave of the survey was undertaken and once again in 2010. At TAF we also benefited from Nirjan Rai and from Nirjan's interpretation of the survey data. Certain sections of the report, such as the synopsis, are due primarily due to Nirjan's inputs.

I would also like to express my gratitude to Mr. Laxman Acharya for his assessment of the present macroeconomic scenario of Nepal in chapter one. His contribution provides a context for this survey as well as a comparison between the survey findings and the larger economic trends in Nepal.

While researchers and supervisors from IDA provided the training, the actual collection of data was undertaken by enumerators and supervisors hired by Institute for Governance and Development (IGD). We would like to thank IGD and particularly its executive director, Mukti Risal and senior administrative officer Mahendra Lamsal for overseeing the fieldwork.

I sincerely appreciate the perseverance of my colleague, Bal Krishna Khadka. Bal Krishna not only took up the challenge, he worked systematically through each stages of the survey: from the formulation of the questions to the training of the enumerators and the analysis and interpretation of the data.

Bal Krishna and I have benefitted from the conversations we have had with Pawan Kumar Sen, who had provided valuable inputs during the first wave of the business climate survey, in 2009.

At IDA once preliminary draft had been prepared, Bandana Gyawali Gautam worked in it systematically. I sincerely appreciate Bandana's thorough editorial inputs, without which the report would not have come to this final stage.

At IDA Kiran Prasain, worked further on the software and helped in generating the necessary tables and charts and deserves my sincere thanks.

On behalf of IDA the training for the fieldwork was managed by Lila Acharya. I would like to thank Lila for this, for being in regular contact with IGD during the course of the fieldwork, not to mention his inputs in managing the processing of the data.

Finally my thanks goes to Chiran Ghimire in doing a perfect job in the design and layout of the report.

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# SYNOPSIS

This section provides a brief synopsis of the major findings of the Business Climate Survey – Wave II (hereafter BCS-II) conducted in 2010. For detailed findings of BCS-II, please refer to Chapter 4.

## **Research objective**

The broad objective of this study was to gauge the business climate of Nepal. It also attempts to generate basic data on businesses and industries and to assess the level of confidence of the business community, including their orientations to the future.

## **Research method**

The survey was conducted in four districts of Nepal, namely, Morang, Rupandehi, Kaski, and Banke. Industries were stratified on the basis of their contribution to Gross Domestic Product (GDP). Categories of industry were classified as per the International Standard Industrial Code (ISIC). From every sample district, approximately 250 industries and enterprises were included. The 250 sample industries and shops were further divided into general sample of 80 percent and panel sample of 20 percent, i.e. the latter sample were those that were included in the BCS-I in 2009. Both general and panel samples were proportionally distributed across the strata as defined by ISIC. In total, 1023 industries and shops were included in the sample from the four sample districts in the survey for 2010.

The survey sample included micro scale industries and enterprises – with total sales value of production or service less than Rs. 1,000,000 during a fiscal year; small scale industries and enterprises – with total sales value of production or service between Rs. 1,000,000 and Rs. 10,000,000, and medium scale industries and enterprises – with total sales value of production or service exceeding Rs. 10,000,000. Big industries were excluded from BCS-II.

## **Composition of the firms surveyed**

The legal status of a large percentage of sampled micro, small and medium enterprises (MSMEs), 76 percent, was sole proprietorship. A little more than half of them were micro scale businesses; small scale businesses constituted the second majority with 35 percent and the

rest were medium scale business. Additionally, most MSMEs were relatively young: almost half of them had been established in the past five years and about 19 percent between six and nine years: only 18 percent had been in operation for over 15 years.

The average capital asset, such as buildings, machinery, and vehicle, of these MSMEs was Rs. 1,401,984 in the first year of operation and had reached Rs. 4,287,491 in the FY66/67. The average amount of operation expenses, such as rent, cost of raw materials, repair, and other utility expenses had increased from Rs. 910,109 to Rs. 1,904,879 between the first year of operation and in FY66/67. Average total sale value of production or service had increased from Rs. 1,969,369 in the first year to Rs. 5,483,240 in FY66/67.

There was an average of 3.6 hired full-time employees and 2.1 full-time family workers in FY66/67. Between the year the firm was established and FY66/67, the number of hired full-time employees more than doubled while the number of full-time family workers remained the same. The average number of employees laid off in FY66/67 was only 0.3.

Forty-eight percent of the respondents stated plans to increase the size of their operation while another 24 percent stated plans to *considerably* increase the size of their operation. Only three percent reported plans to close their business. Examining the trends in turnover and staffing, it is but natural for businesses and enterprises to want to increase the size of operations.

Seventy-six percent mentioned the role of market in determining the price of products while some 20 percent mentioned the role of syndicates.

### **Transparency**

Local government bodies can promote a healthy business environment by establishing an efficient and equitable playing field for all. For this, it is necessary to make information and other resources relating to local laws and regulations easily accessible to the private sector.

Approximately 60 percent of respondents found it relatively easy to find information and obtain the necessary application requirements for their enterprises. This was also the case for information on taxation policies such as income tax, customs duties, local taxes and fees. On the other hand, 60 percent of the respondents stated that access to information on facilities, trainings, and technologies from local government agencies as being either difficult or very difficult, and about half of respondents stated so in regards to access to information on government policies and regulations relevant to their sector.

The prevalent perception, of over 75 percent of survey respondents, that informal relationship with government officials in accessing the public documents and information is important indicates the level of relationship-based transactions that occur at the local level. Clearly, this culture promotes an inequitable playing field where people with privileged access to public officials have an advantage over the general public.

### **Dispute resolution**

Dispute resolution speaks for the availability of processes and formal institutions available for the private sector to resolve their business-related disputes; at the same time an indication of

their level of confidence in the fairness and equity of the legal system. Of the total respondents, 35 percent stated that they had experienced some form of dispute while conducting business: these disputes were primarily with customers; others were with competitors, suppliers, and management and employees. To note, 14 percent of the respondents indicated disputes with public officials, including the police.

Most respondents seemed to resolve their disputes through negotiations between themselves or through friends and families; only few resolved through institutionalized mechanisms – business associations, District Administrative Office (DAO), or through an appeal process to the District Development Committee (DDC).

Roughly half of the respondents indicated a general sense of satisfaction on the final resolution of their disputes. Over a quarter of them, indicated ambivalence at the outcome; and less than 20 percent indicated a sense of dissatisfaction.

Despite a minimal use of the legal mechanisms for dispute resolution, 60 percent of the respondents expected the existing legal system to uphold the contract and property rights in their business disputes.

### **Informal charges**

Informal charges increase the cost of doing business, which includes not only the need to bribe officials or make other informal payments but also the time and effort associated in overcoming unnecessary bureaucratic procedures. Furthermore, it decreases the trust of private sector on the commitments of public officials to improve their local business environment. These create a disincentive for the private sector to invest.

BCS-II shows that the prevailing perception of a significant majority of the respondents, over 75 percent, is that private establishments are not required to make informal payments to the public officials to ‘get things done’. Additionally, 49 percent of the respondents stated that it was not essential to make informal additional payments to obtain government services. Of the respondents who perceived the need to make such payments; 9 percent responded as less essential, 23 percent responded as somewhat necessary, 7 percent responded as very necessary, and 9 percent as essential.

### **Bureaucracy**

A transparent bureaucracy can contribute towards creating an efficient and equitable business environment. For this reason, The Public Procurement Act (2007) was designed with the goal of promoting transparency and accountability in the procurement process. However, it is evident from this survey that the general public does not perceive the public procurement contracts to be transparent: 73 percent of the respondents indicated that such contracts are never transparent and an additional 7 percent as the process bring rarely transparent. Neither does the public consider the procurement process to be fair: 88 percent of the respondents did not believe the procurement process to be fair. These respondents perceive, with varying degrees, that personal connection to government officials (88 percent) and political parties (87 percent) play an important factor in winning public procurement contracts.

### **Organizational membership**

It is evident from the survey that when public officials interact with private sector, they either initiate their outreach through conversations with business associations or through business forums involving government officials and private sector representatives. Additionally, business organizations serve as an institutionalized platform for individual entrepreneurs to come together to achieve a coherent, strategic, and influential voice. However, the survey shows that a significant percent of the small scale businesses and medium scale business entrepreneurs are not part of any business associations, membership groups, or chambers of commerce. This figure is even higher among micro scale business entrepreneurs. Not only does this deprive weaker private sector constituencies of the capacity to raise their issues, but also shows a lack of participation in the policy process from a significant population of the business community. This finding indicates the need for public officials to find innovative ways to reach out to these non-represented private sector.

### **Labor issues**

The flexibility in labor market is essential for businesses to thrive: it gives firms the opportunity to retain and invest in good labor while discarding unproductive labor. Overall, there was an equal split among the respondents between those who felt that dismissing employees was an easy process and those that did not perceive it to be so. However, there are significant differences, upon further breakdown of the data by the scales of business, where larger the scale of business, harder they found the process of dismissing their employees. The primary reason given by firms that had on occasions not been able to dismiss their employees, at 38 per cent, was the opposition from trade unions. Interestingly, 25 per cent of the respondents indicated the shortage of skilled labor, which indicates the lack of availability of skilled labor in Nepal.

### **Confidence in the business climate**

In concurrence with BCS-I, respondents seemed to be more confident for the local economy to improve than the national economy. However, in comparison to the previous year, there is a sharp decrease in the optimistic attitude towards the business climate, both locally and nationally.

At the national level, the percent of respondents who believed that the economic situation will improve fell from 26 percent to 15 percent; the percent of respondents who believed that the economy will remain the same hovered around 30 percent. The decrease in optimism was evident that 47 percent of the respondents, an increase from 34 percent from the previous year, believed that the national economy will worsen in the next 12 months.

Similarly, at the local level, there was a drop from 31 percent to 19 percent of respondents who believe that their local economy will improve; a slight increase, from 31 percent to 38 percent who believed that it will remain the same. The largest increase, from 28 percent to 39 percent, was in the pessimistic attitude that their local economy will worsen in the next 12 months. However, there was only 1 percent that stated plans to reduce their size of operation and 3 percent who had plans to close their businesses – a response not entrepreneurial given

the growth experienced by these firms. On the other hand, 22 percent had plans to continue to operate at the same level and 48 percent had plans to increase the size of their operation, both a 2 percent increase from the previous year. Although still at 24 percent, there was a 3 percent decrease from the previous year, who stated having plans to considerably increase the size of their operation.

### **Participation**

The commitment of public offices to consult with their private sector counterparts reveals their willingness to invest in a business-friendly environment. These dialogues can help contribute towards an understanding between these two entities – in creating and maintaining an efficient market system and policies that are grounded in the needs of the private sector as well as identifying workable solution to local impediments in running a business. Clearly, the perception of a significant majority of the respondents, around 80 percent, is that government officials do not consult with the private sector to discuss existing policies, rules or regulation that may affect these local enterprises. Not surprisingly, the public office that interacts most with the private sector is the Inland Revenue Department (IRD).

### **Law & order**

Creating and preserving a sense of safe and secure environment for businesses to flourish can have a large impact on the level of investment from the private sector, and local government bodies have a large role in ensuring such environment. In 2010 76 of the respondents reported as not incurring any loss as a result of extortion, theft, robbery, vandalism or arson; an increase of 5 percent from the previous year. By district, Morang had the highest percentage of establishment, at 33 percent, that suffered losses due to lack of security, followed by Kaski, Banke, and Rupandehi. Of establishments that had faced losses, the average loss reported was Rs. 136,637, an increase from Rs. 91,550 from the previous year. This reveals that while there were lesser amount of extortions this year, there was an increase in the amount extorted. Not surprisingly, larger industries suffered more in this regard. Further data reveals that entrepreneurs paid to police officers (mean of Rs. 24,070), local gangs or criminal groups (mean of Rs. 53,138) and to groups affiliated to political parties (mean of Rs. 53,698). While the amount of money paid to police and criminal groups decreased from last year, the contributions to groups affiliated to political parties more than doubled this year.

### **Impediments to doing business**

Although still the primary impediment to business growth in Nepal, there was a decrease in the percentage of respondents that reported strikes and shutdowns from the previous year. However, 38 percent – an increase of 7 percent from the previous year, identified political instability as an impediment to business growth in Nepal. Of note, micro-scale business seem to identify strikes and shutdowns as a far greater impediment than political instability (61 percent versus 29 percent) than small scale business (62 percent versus 44 percent) and medium-scale businesses (51 percent versus 52 percent). The lack of adequate physical infrastructure ranked third, with 23 percent of respondents, an increase of 5 percent from previous year, mentioning this as the impediment to business growth in Nepal. On infrastructure, however,



the respondents reported a higher degree of satisfaction with the telecommunication service, which can be explained by the increase in investment in the telecommunication sector after the entry of private sector in recent years.

### **Registration, license and permit**

The ease and efficiency of entering the formal market system can be a significant incentive for private entrepreneurs to register and formalize their enterprise. Seventy-seven percent of the respondents stated that their enterprise was registered. Their responses also indicated that it took on average 15 days for medium and big industries to get their registration certificate from Department of Industries. This was slightly less, at 12 days, for cottage and small industries. Furthermore, a significant percent of respondents across all business categories mentioned the necessity of renewing concerned documents each year. The average registration fees required for obtaining documents ranged from Rs. 38,289 for export license to Rs. 2,826 for registration certificate for small and cottage industries. Renewal of the necessary documents ranged from Rs. 5,352 for PAN/VAT certificates to Rs. 1,376 for export license. Of those who stated their firm as registered revealed that they required on average eight days to comply with the government requirements.

Seventy three percent respondents reported that they learned about registration and permit on their own. Business colleagues, newspaper, neighbors and friends, radio and association and federations were also mentioned by some.

While around half of the respondents stated that no one came for inspection, 17 percent mentioned labor and employment generation office, followed by income tax department (13 percent) and department of cottage and small industries (7 percent). About five percent of the respondents mentioned the police. Equal proportion of people said Ministry of Health, Nepal Rastra Bank and municipality (i.e. 4 percent for each answer)

### **Land access**

The ease of obtaining a suitable location for conducting business means increased potential for commercial transaction resulting in greater profitability. In this regard, 55 percent of the respondents stated that they had no problems in finding an appropriate place to run their enterprises. Out of the problems mentioned, 53 percent stated that they did not find a place of their liking, 32 percent mentioned high rents, and 12 percent mentioned congestion and poor parking facilities.

### **Tax administration**

As mentioned earlier, IRD is among the most active government agencies that interacts with the private sector in regards to policies, rules and regulations. In the same vein, 38 percent of the respondents perceive this government agency to be fully effective, additional 29 percent very effective and 25 percent moderately effective, in collecting taxes from enterprise. Publicly listed companies tended to perceive more, at 62 percent, the government as being fully effective in collecting taxes from their type of enterprise than other business status: sole proprietorship



(37 percent), partnership (39 percent), cooperative society (30 percent), private limited liability company (42 percent).

However, further questions reveal that enterprises are employing ways to hide or minimize the taxable amount. This is validated by the findings from BCS-I and BCS-II that on average firms show about 81 percent of their total sales.

### **Government attitude**

The LSGA mandates the local government bodies to invest in ensuring an environment for economic development. However, the survey reveals that the private sector feels that the government is doing little in this regard.

Approximately two-thirds of the respondents had a favorable view of government officials when asked about their attitude towards private business. When inquired upon further though, the responses indicated otherwise: when asked about their perception on their local government bodies, a) two-thirds of the respondents disagreed that they were very good at creating a profitable private business environment; b) 71 percent of them disagreed that they were creative and clear about solving new business problems; c) 69 percent disagreed they were willing to risk to aid local businesses; and d) 73 percent agreed that there were not enough initiatives at the district level to support private sector development.

### **Access to finance**

The ability of people to access the necessary financing for their businesses speaks for the capacity of the market to attain its full potential, which can have a significant impact on local development. Slightly more than half of the respondents indicated that they had obtained loan from a financial institution, family members, friends or local money lender to run their enterprise. Of these, 71 percent stated that the source of their loan was from a financial institution; which broken down by scale of business indicated that larger the scale of business the more they are likely to use such financial institutions. 73 percent of these firms, those that had obtained loans from financial institutions, relied on banks as their source of finance, 16 percent each from finance companies and cooperatives.

For those that did not obtain any loan for establishing their enterprise, 81 percent indicated either having enough resources through savings/earnings or through other sources. The rest mentioned banking-related issues such as high interest rates, inadequate collateral, and burdensome loan application process. Among the principal reasons cited for having their loan application turned down, 55 percent indicated insufficient collateral and 18 percent for not having proper documents proving ownership of collateral.



# MACROECONOMIC SCENARIO OF NEPAL 2010

| LAXMAN ACHARYA

## 1.1 GROSS DOMESTIC PRODUCT<sup>1</sup> (GDP)

GDP is an indicator for overall economic performance of the country and the material wellbeing of its population. High growth rate of GDP of a country is considered as an indicator of fast economic development of the country and rapid improvements in general welfare of its population. The rationale behind this is that economic production and growth, the areas that GDP represents, has a large impact on nearly every one within that economy.

### 1.1.1 Trend of Gross Domestic Product

According to preliminary estimates, the real GDP<sup>2</sup> (at 2000/01 prices) of Nepal increased at a growth rate of 3.5 percent in 2009/10. Such growth rates were 3.9 percent and 5.8 percent in 2008/09 and 2007/08 respectively. What this further means is that the GDP growth rate has shown decreasing trend in the last three years.

Along with the adoption of liberal macroeconomic policy in late 1980s, Nepal's GDP growth rate started to increase and it stood at 4.8 percent in an average in 1990s (1990/91 -1999/00). However, the growth rate sharply declined and recorded a very low rate in 2001/02. This year was considered unfavorable both internally as well as externally. Internally, 2001/02 was the peak year of Maoist insurgency that had started 6 years back. Externally the nine-eleven incident brought multidimensional adverse effects in world economy. Nepal was affected specifically in tourism sector and international trade.

Major factors for low growth of GDP in Nepal are mainly due to low growth rate of agriculture production which has a significant stake (more than one-third) in total GDP. In Nepal agriculture sector is highly influenced by under and over rains given the deficiency of irrigation

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1 The gross domestic product (GDP) or gross domestic income (GDI) is the amount of goods and services produced in a year, in a country. It is the market value of all final goods and services made within the borders of a country in a year. It is often positively correlated with the standard of living, alternative measures to GDP for that purpose. GDP can be determined in three ways, all of which should in principle give the same result. They are the product (or output) approach, the income approach, and the expenditure approach.

2 Real GDP is a macroeconomic measure of the value of output economy adjusted for price changes (that is, inflation or deflation). The adjustment transforms the money-value measure, called nominal GDP into an index for quantity of total output. Nominal gross domestic product is defined as the market value of all final goods and services produced in a geographical region, usually a country.

facilities. Likewise *bandhs*, strikes, labor problem and lack of reliable supply of electricity are some of the factors that have hampered growth in non-agricultural sectors.

**Table 1.1: Trend of Real GDP in Nepal (at 2000/01 Prices)**

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10*
<b>Real GDP</b>	<b>0.2</b>	<b>3.8</b>	<b>4.4</b>	<b>3.2</b>	<b>3.7</b>	<b>2.8</b>	<b>5.8</b>	<b>3.9</b>	<b>3.5</b>
<b>Agriculture</b>	<b>3.1</b>	<b>3.3</b>	<b>4.8</b>	<b>3.5</b>	<b>1.8</b>	<b>1.0</b>	<b>5.8</b>	<b>3.0</b>	<b>1.1</b>
<b>Non-Agriculture</b>	<b>-1.1</b>	<b>3.5</b>	<b>5.3</b>	<b>3.2</b>	<b>5.3</b>	<b>4.4</b>	<b>5.9</b>	<b>4.7</b>	<b>5.1</b>
Industry	0.9	3.1	1.4	3.0	4.5	3.9	1.7	-0.2	3.9
Service	-1.8	3.7	6.8	3.3	5.6	4.5	7.3	6.3	5.5

\* Annual preliminary estimate

Source: The economic survey, 2009/10, The MOF, Nepal

The trend of GDP growth in the country for the past nine years shows three things. First, GDP growth rate of agriculture sector is, in an average lower than the non-agriculture sector where as the growth rate of both sectors seem irregular, without however following a certain trend. The low growth rate of agriculture sector is due to lack of sufficient irrigation facilities and dependent upon the monsoon. Second, the growth rate of the service sector is, in average, much higher than the agriculture sector and the industry sector. Third, comparing the GDP growth rate with political instability, the GDP growth rate reached a minimum during 2001/02 at the peak of insurgency in the country which was the result of negative growth rate of service sector and very low growth of industry sector. After that, the overall GDP growth rate started to rise but after two years it again declined. Again, FY 2007/08 recorded a high growth rate. The sharp increase may be due to the signing of the Comprehensive Peace Agreement in November 2006: it increased from 2.8 percent in 2006/07 to 5.8 percent in 2007/08. This growth was possible due in turn to 7.3 percent growth in service sector and also due to high growth rate (5.8) in agriculture sector.

To reiterate, the GDP growth rate of agriculture sector depends primarily upon the monsoon. In order to maintain high growth rate in this sector, irrigation facilities need to be extended. The availability of chemical fertilizer, seeds and pesticides and their timely application is equally important. In the case of industry and service sector, peace and security have a direct bearing. Peace and security encourages industrialists and entrepreneurs to invest more in these sectors. Growth in these sectors depends upon the international situation as well. For example, the arrival of tourist in the country and Nepal's international trade (eg. Carpet, handicraft) depend highly on the international economy.

### 1.1.2 Contribution of agriculture and non-agriculture sector in GDP

According to international norms, the total GDP of a country is measured under two headings: agriculture and non-agriculture sector. The non-agriculture sector is further divided into two: industry and service sector. In Nepal, agriculture, forestry and fishery are grouped under agriculture sector while industry sector is composed of mining and quarrying; manufacturing; electricity gas and water; and construction. Likewise, service sector is comprised of wholesale and retail trade; hotels and restaurant; transport, storage and communications; financial intermediation; real estate, renting and business; public administration and defense; education; health and social work; and other community, social and personal service

### *Agriculture sector*

The history of the countries that are developed shows a trajectory of progression from an economy based on agriculture to one based on industry/manufacturing, and ultimately to one based on service. This is the general trend followed by most of the nations in the world during the process of development. For example, even in case of India, the share of agriculture sector in total GDP is merely 18 percent in 2009 while that of industry and service sector are 22 and 60 percent respectively.<sup>3</sup>

The share of agriculture sector in total GDP of Nepal in FY2009/10 is 35.5 percent. Based on aforesaid standard, Nepal's development position is far behind others as the share of agriculture in total GDP is comparatively very high. Further 76 percent<sup>4</sup> of the populations are engaged in agriculture sector that produces just 35.5 percent of GDP. This means that three-fourth of Nepal's population produces only about one-third of the GDP. Naturally, the productivity of the populations involved in agriculture is very low. This means that people who are engaged in agriculture are comparatively poor. This has further implication for income inequality in the country.

Looking at the trend of past decades, the share of agriculture sector in total GDP in the country was 58.8 in 1980 which declined by 10 percent and reached 48.8 percent in 1990 and further declined with the same rate and reached 37.7 percent in 2000. But, at present the share of agriculture sector is not very different from the statistics of ten years ago. In other words, the contribution of agriculture to total GDP has stabilized in the past 10 years – a phenomenon which can also be interpreted as a decline in the modernization of the economy.

### *Non –agriculture sector*

Industry sector and service sector are two major branches contributing to total GDP as non-agriculture sector. In the process of modernization and economic development, industrial sector gradually replaces agriculture sector and is further replaced by service sector. Rough statistics show that the share of non-agriculture (combination of industry and service) sector increased from around 40 percent in 1980 to 50 percent in 1990 and further increased to 60 percent in 2000. This means growth of non- agriculture sector was very encouraging during 1980s and 1990s but decelerated after the 2000s.

### *Industry sector*

The statistics of Nepal shows that the industry sector has never quite flourished in the country. Further, the share of industry sector in total GDP has in fact declined during the decade of the 2000s. The contribution of industry sector in total GDP was more than 17 percent in 2001/02 which gradually declined to 15.5 percent in 2009/10.

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3 [http://en.wikipedia.org/wiki/Economy\\_of\\_India](http://en.wikipedia.org/wiki/Economy_of_India) download on Nov 18,2010

4 [http://www.theodora.com/wfbcurrent/nepal/nepal\\_economy.html](http://www.theodora.com/wfbcurrent/nepal/nepal_economy.html) down load on Nov 18, 2010

**Table 1.2:** Share of agriculture, industry and service sectors in total GDP

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09 <sup>R</sup>	09/10 <sup>P</sup>
<b>Agriculture</b>	37.5	37.5	37.4	37.4	36.6	35.9	35.9	35.5	34.6
<b>Non-Agriculture</b>	62.5	62.5	62.6	62.6	63.4	64.1	64.1	64.5	65.4
Industry	17.4	17.3	16.7	16.6	16.7	16.8	16.2	15.5	15.5
Service	45.1	45.2	45.9	45.9	46.6	47.3	47.9	49.0	49.8

R = Revised estimate

p = Annual preliminary estimate

Source: The economic survey, 2009/10, The MoF, Nepal

The general trajectory of agriculture sector being replaced by industry sector and then by service sector during economic modernization process is not being followed in Nepal. Instead, the economy has jumped directly from one based on agriculture to one based on service, in the process bypassing the industrialization phase. The fall in 3 percent of agriculture share in total GDP during the period 2001/02 to 2009/10 is made up by the growth in the service sector.

Certain factors act as discouragements for industrialization in Nepal. *Bandha, chakkajam* and strike have been a regular phenomenon that has affected business. Also, the rise of labor unions demanding greater facilities has acted as deterrents to industrial expansion. Likewise, lack of law and order is another factor making investment risky. Generally, a business man looks for two things: security in investment and benefits that he can earn. The aforementioned factors are unfavorable for industrial expansion especially in the manufacturing sector. However, a noticeable change within the industrial sector is the replacement of manufacturing sector by the construction sector. The rationale behind this may be that construction sector needs less investment and a shorter period to get returns.

**Table 1.3:** Share of different components in industry sector

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09 <sup>R</sup>	09/10 <sup>P</sup>
Mining and Quarrying	2.7	2.7	2.6	2.7	2.8	2.7	2.8	2.9	2.9
Manufacturing	49.0	47.6	47.9	47.7	46.6	46.0	44.8	44.4	43.9
Electricity Gas and Water	11.6	13.4	13.8	13.9	13.8	15.1	15.0	14.9	14.4
Construction	36.7	36.3	35.7	35.7	36.8	36.2	37.4	37.8	38.8

R = Revised estimate

p = Annual preliminary estimate

Source: Macroeconomic Scenario, 2010, NRB, Nepal

In industry sector, manufacturing and construction are the two largest sub-sectors contributing more than 80 percent to the sector GDP. Manufacturing is the largest sector over the period which has contributed about 44 percent in total industry sector in 2009/010 followed by construction (43%) and electric gas and water (14 %) respectively. The share of mining and quarrying is negligible (2%). Looking at the past ten years data, the share of construction sector is slowly increasing while that of manufacturing sector is declining. In 2001/02, the share of manufacturing sector and construction sector in total industrial production sector was 52% and 35 % respectively.

### *Service Sector*

In comparison to industrial sector, the growth of service sector is flourishing. In 2009/10, the contribution of service sector was more than three times that of industry sector. Further, the

annual growth rate of service sector has remained much higher than that of agriculture sector and industry sector.

In service sector, at present, wholesale and retail trade is the largest contributor that supplies around one fourth of the service sector GDP followed by transport, storage and communications (19%) and real estate, renting and business (17 %) respectively. The contribution of these sub sectors in service sector has remained almost same since last 10 years.

## 1.2 INFLATION

Inflation is a rise in the general level of prices of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation is also erosion in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account in the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the Consumer Price Index) over time.

### 1.2.1 Consumer Price Index<sup>5</sup> (CPI)

The annual average consumer price inflation moderated to 10.5 percent in 2009/10 which was 13.2 and 7.7 percent in 2008/09 and 2007/08 respectively. The consumer price had a gradual increment from 2.9 percent in 2001/02 to 13.2 percent in 2008/09. The following table shows the high level of inflation in the prices of food and beverages group in comparison to non-food and services.

Regarding food and beverages, the prices of sugar and sugar related products increased with a maximum value - more than 45 percent in last two consecutive years. Similarly, the annual average price indices of spices, pulses, meat, fish and eggs went up by 27.3 percent, 26.1 percent and 20.6 percent respectively while their respective rise was 12.3 percent, 25.0 percent and 23.4 percent in 2008/09. The annual price index of vegetables and fruits grew by 19.9 percent compared to a 12.7 percent rise in the previous year.

**Table 1.4:** Rate of Inflation over the period

	2005/06	2006/07	2007/08	2008/09	2009/10*
<b>Annual average consumer price inflation</b>	<b>8.0</b>	<b>6.4</b>	<b>7.7</b>	<b>13.2</b>	<b>10.7</b>
Inflation in prices of food and beverages	7.8	7.2	10.1	16.7	15.4
Inflation in non-food and services	8.1	5.6	5.1	9.5	4.7
<b>Overall National salary/wage rate index</b>	<b>3.9</b>	<b>9.8</b>	<b>9.7</b>	<b>15.4</b>	<b>13.9</b>
Salary index	0.3	6.3	10.9	10.5	13.8
Wage rate index	5.3	10.9	9.4	16.9	14.0

\* Annual preliminary estimate

Source: The economic survey, 2009/10, The MOF, Nepal

5 A consumer price index (CPI) measures changes through time in the price level of consumer goods and services purchased by households. The CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically. Sub-indexes and sub-sub-indexes are computed for different categories and sub-categories of goods and services, being combined to produce the overall index with weights reflecting their shares in the total of the consumer expenditures covered by the index.



Likewise, under the non-food and services group, the yearly average indices of sewing services as well as tobacco and related products recorded comparatively high rise in the group with 13.0 percent and 12.1 percent respectively in 2009/10. The increase in price index of these two products was high (10.6 and 15.4 % respectively) in 2008/09 as well. Interestingly, the price index of transportation and communication (- 4.5%) and petroleum product (- 1.2 %) remained negative in 2009/10. This fall may be due to decrease in the price of petroleum product in the international market. However, the price index was around 10 percent in 2008/09.

In terms of region-wise inflation, the Hills recorded the maximum annual average price indices of 11.2 percent followed by Tarai (10.7 %) and Kathmandu Valley (9.7 %). The trend was similar in 2008/09. One of the reasons for the higher price index in Hills may be due to higher transportation cost of goods and materials in the hilly regions.

### **1.2.2 National salary and wage rate index**

The annual average salary and wage rate index rose by 13.9 percent in 2009/10 which had increased by 15.3 percent the previous year. In 2009/10, annual average price index of salary as well as wage rate went up by 20.2 percent and 16.3 percent respectively which was 10.5 % and 16.9 % respectively in 2008/09.

The annual salary index of civil servants, staff of public enterprises, army and police and teachers increased by 23.6%, 18.6%, 22.7% and 29.7% respectively. In the previous year, such growth rates were 18.7 %, 14.2%, 20.6% and 9.5 % respectively. An increase in the salary of agricultural, industrial and construction laborer led to such increments in the annual salary indices.

### **1.2.3 Comparison between consumer price index and wage/salary index**

A comparison between the consumer price index and salary/wage rate index reveals that wage earners were in a slightly better position as wage/salary rate index was slightly higher than consumer price index. Similarly, the position of farmers (agro-producer) is also getting better, which is revealed by the fact that the price index of food and beverage is higher than the inflation in non-food and services.

## **1.3 PER CAPITA GROSS NATIONAL INCOME (GNI)<sup>6</sup>**

In its true sense, GDP per capita or GNP per capita is not a measurement of the standard of living in an economy. However, it is often used as such an indicator on the assumption that all citizens would benefit from their country's increased economic production. Similarly, GDP per capita is not a measure of personal income. GDP may increase while real incomes for the majority could decline. It all depends on how the increased GDP gets distributed among people. Nevertheless GDP per capita is considered as a proxy indicator of standard of living as GDP or GNP is measured frequently, widely, and consistently for almost every country in the world. This also helps in deriving inter-country comparisons.

<sup>6</sup> GNI per capita is the value of a country's final income in a year (Gross National Income, or GNI), divided by its population. It reflects the average income of a country's citizens.



The absolute value of per capita income of the country shows that average income of Nepali citizen has increased by double in the last eight years: it was Rs. 19,385 in FY 2001/02, while it reached Rs. 42,291 in FY 2009/10. In terms of current prices, the per capita gross national income of the country has increased, in an average annual growth rate of 10 percent. But if the inflation rate of the country is adjusted, the rise in per capita income becomes only around half of the absolute amount of per capita. In other words, if inflation is adjusted, the average growth rate of per capita income is limited to only 2.3 percent per annum.

**Table 1.5: Per capita income over the period**

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10*
Per capita GNI (NRS)	19,385	20,312	21,626	22,336	25,482	27,806	30,465	36,290	42,291
Per capita GNI (US \$)	254	261	292	329	352	394	469	472	568
Per capita GNI at constant price (NRS)	18,658	18,964	19,406	19,809	20,194	20,540	21,313	21,924	22,417

\* Annual preliminary estimate

Source: The economic survey, 2009/10, The MOF, Nepal

As mentioned earlier, the increasing trend of aggregate per capita income does not necessarily mean that the income of all people is also increasing, if the GDP is not proportionally distributed among people. NLSS 2003/04 has shown that the inequality between rich and poor has increased, as the value of Gini Coefficient<sup>7</sup> has increased to 41.4 in 2003/04 from 34.2 in 1995/96<sup>8</sup>. It is assumed that the value of Gini has further increased to 47.2 in 2008<sup>9</sup>.

**Table 1.6: A comparison between NLSS 1995/96 and 2003/04**

Description	Nepal Living Standard Survey	
	1995/96	2003/04
<b>Average household income( in nominal NRs. )</b>	<b>43,732</b>	<b>80,111</b>
<b>Average per capita income ( in nominal NRs.)</b>		
All Nepal	7,690	15,162
Poorest 20% of population	2,020	4,003
Richest 20% of population	19,325	40,486

Source: Nepal Living Standard Survey, 2003/04, Statistical Report (2004), volume II, CBS, HMG Nepal

The above table also proves that there is no reduction in income inequality between poor and rich strata of population. The gap between them in terms of absolute income has sharply increased. According to above statistics, the income gap in terms of absolute amount between poorest 20 percent and richest 20 percent of population has increased by double (from Rs.17,000 to 36,000) between 1995/96 and 2003/04.

#### 1.4. MACROECONOMIC GAPS AND DOMESTIC/EXTERNAL DEBT

Nepal is facing a resource gap. This is not a recent phenomenon, however Nepal has been facing a resource gap for several decades. Almost 90 percent of Nepal's income is consumed, thus resulting in very low savings (around 10 percent of GDP), while the level of investment

7 The Gini coefficient is a measure of the inequality of a distribution. The Gini coefficient can range from 0 to 1; it is sometimes multiplied by 100 to range between 0 and 100. A low Gini coefficient indicates a more equal distribution, with 0 corresponding to complete equality, while higher Gini coefficients indicate more unequal distribution, with 1 corresponding to complete inequality.

8 Poverty trends in Nepal (1995/96 to 2003/04), (September 2005), CBS, NPC, HMGN Nepal

9 [http://www.theodora.com/wfbcurrent/nepal/nepal\\_economy.html](http://www.theodora.com/wfbcurrent/nepal/nepal_economy.html) down load on Nov 18, 2010

in the country has remained much higher (more than 30 percent of GDP in current years). Likewise, due to low internal resource mobilization and ever-increasing regular expenditure, very little is left to finance development activities in the country. This has created an income-expenditure gap. Similarly, the earnings from export of goods and services is very low and that does not meet the amount expended to import goods and services into the country. Thus, extra resources are needed to bridge the macroeconomic gap such as saving-investment, income-expenditure and the national trade deficit. Foreign grant is one of the sources of income to bridge these gaps. Additionally, the country has to take foreign loan as well as domestic loan to bridge the budget deficit.

#### 1.4.1 Saving-investment gap

The consumption rate of the country is very high. More than 90 percent of GDP is used for consumption purposes, leaving only around 10 percent of GDP as saving for investment. There have been no changes in occurred no change in the high consumption pattern in the last decade. The following table illustrates the high consumption ratio over the period.

**Table 1.7:** Share of consumption, domestic saving, and national investment in GDP (%)

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10*
Consumption	90.5	91.4	88.3	88.4	91.0	90.2	90.2	90.3	90.5
Saving	9.5	8.6	11.7	11.6	9.0	9.8	9.8	9.7	9.5
Investment	20.2	21.4	24.5	26.5	26.9	28.7	30.3	31.9	38.2
S-I gap	-10.8	-12.8	-12.8	-14.9	-17.9	-18.9	-20.5	-22.2	-28.8

\* Annual preliminary estimate

Source: The economic survey, 2009/10, The MOF, Nepal

The per capita income of people is very low which hardly meets the basic necessities of people. Hence, most of the earned income is spent for consumption purpose. Even if some percent of income is saved, all savings are not invested and spent in unproductive sector, as a consequence of which these do not contribute to economic growth. Moreover, a country needs to invest certain percent<sup>10</sup> of its GDP in order to maintain the economic balance and to achieve the desired growth rate. As a result, Nepal has been investing more than it's savings resulting in an increasing saving –investment gap over a long period.

#### 1.4.2 Income-expenditure gap

Despite impressive progress in revenue collection in this decade (from 11.0 percent of GDP to 15.1 percent in 2009/10), there is an increasing gap between government revenue and government expenditure. The growth rate of internal revenue recorded 22.7 and 33.3 percent in the FY 2008/09 and 2009/10 respectively while this rate was merely 8.2 percent in an average from 2001/02 to 2005/06. But there is still a big gap between expenditure and income of the government as expenditure is increasing at higher rate than revenue mobilization. The following table shown the high revenue expenditure gap over the period.

<sup>10</sup> The amount to be invested of a country is calculated based on the incremental capital output ratio (ICOR). This ratio gives the amount of capital to put in investment in order to increase the amount of out put. This ratio is different for different countries depending upon the efficiency of the economic system. Higher the efficiency of the economy lower will be the capital output ratio.

**Table 1.8:** Government revenue-expenditure gap (as a percentage of GDP)

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10*
<b>Revenue</b>	<b>11.0</b>	<b>11.6</b>	<b>11.9</b>	<b>11.1</b>	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>	<b>14.5</b>	<b>15.1</b>
Total Gov. expenditure	17.4	17.1	16.7	17.4	17.0	18.4	19.8	22.2	22.5
Revenue-Exp. Gap	-6.4	-5.7	-5.2	-6.3	-3.8	-5.2	-6.6	-7.7	-7.4

\* Annual preliminary estimate

Source: The economic survey, 2009/10, The MOF, Nepal

### 1.4.3 Trade gap<sup>11</sup>

Like saving-investment gap and government income-expenditure gap, the trade deficit of Nepal is also increasing tremendously. In 2007/08, Nepal was able to export goods worth of 59 billion rupees only whereas its total import recorded 222 billion. The total import amount was almost four times its total export. In 2008/09 the export increased by 14.2 percent while import increased by 28.2 percent. FY 2009/10 recorded a decline in export with 9.7 percent while import further increased by 33.2 percent of previous year resulting in increase in trade deficit of 46.5 percent in 2009/10 compared to 33.3 percent in 2008/09.

**Table 1.9:** Direction of foreign trade (Rs. in million)

Particular	2007/08	2008/09 <sup>R</sup>	2009/10 <sup>P</sup>	Percent Change	
				2008/09	2009/10
Total Exports	59266.5	67697.5	61126.8	14.2	-9.7
Total Imports	221937.7	284469.6	378795.6	28.2	33.2
Total Trade Balance	-162671.2	-216772.1	-317668.8	33.3	46.5

Note: the Trade balance with – sign indicates the trade deficit

R = Revised estimate

P = Provisional

The import export statistics in relation to GDP gives a clearer picture. According to provisional data, Nepal was able to export only 5 percent of its GDP in 2009/10 while import remained 31 percent of its GDP. This means Nepal faced trade deficit of 25.8 percent of GDP for that year. Trade deficit is not a new phenomenon for Nepal. But what is worrisome is that it has increased at a galloping rate during this decade. In 1990s, trade deficit, on an average was around 15 percent. But in the last five years, it increased very sharply and reached 26 percent in 2009/10. In 2009/10, Nepal was able to export only 16.1 percent of its total import while it was 26.7 percent in 2007/08. This means, at present Nepal's export is less than one sixth of the total import. The following table gives a picture of the alarming trade deficit trend of Nepal.

**Table 1.10:** The share of total export, import and trade deficit (as a percentage of GDP)

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10*
Export/GDP	10.2	10.1	10	10	9.2	8.2	7.3	6.8	5.2
Import /GDP	23.4	25.3	25.4	25.4	26.6	26.8	27.2	28.7	31.0
Trade Deficit/GDP	-13.2	-15.1	-15.3	-15.4	-17.4	-18.6	-19.9	-21.9	-25.8

\* annual preliminary estimate

Source: The economic survey, 2009/10, The MOF, Nepal

11 The balance of trade is the difference between the monetary value of exports and imports of output in an economy over a certain period. It is the relationship between a nation's imports and exports. A positive or favorable balance of trade is known as a trade surplus if it consists of exporting more than is imported; a negative or unfavorable balance is referred to as a trade deficit or, informally, a trade gap.

The main reason for this increase in trade deficit is due to the country's unstable political situation and changing economic structure. As the share of industrial sector in GDP is decreasing Nepal is producing comparatively less commodities. On the other hand, more and more Nepali citizens are going abroad leaving old people and children at home. This unproductive population consumes but does not produce. At the same time, living standard of people is on the rise. These phenomena have resulted in more import and less export of the country leading to acute trade deficit.

India is the major trading partner of Nepal and it alone accounted for about two-thirds of Nepal's international trade in 2007/08. But after this year, the share of total trade with India has slowly gone down.

**Table 1.11:** Nepal's export and import with India and other countries

	07/08	08/09 <sup>R</sup>	09/10 <sup>P</sup>		07/08	08/09 <sup>R</sup>	09/10 <sup>P</sup>
<b>1. Exports/Import Ratio</b>	26.7	23.8	16.1	<b>4. Share in Trade Balance</b>			
India	27.1	25.2	18.4	India	63.8	56.0	56.0
Other Countries	26.0	21.9	13.1	Other Countries	36.2	44.0	44.0
<b>2. Share in Total Exports</b>				<b>5. Share in Total Trade</b>			
India	65.1	60.6	65.6	India	64.3	57.8	58.7
Other Countries	34.9	39.4	34.4	Other Countries	35.7	42.2	41.3
<b>3. Share in Total Imports</b>				<b>6. Share of Exports and Imports in Total Trade</b>			
India	64.2	57.1	57.5	Exports	21.1	19.2	13.9
Other Countries	35.8	42.9	42.5	Imports	78.9	80.8	86.1

R = Revised

P = Provisional

Source: Current Macroeconomic Situation (Based on annual data of 2009/10), NRB

Regarding Nepal's export, polyester yarn is the commodity which is exported to India with highest value (Rs. 3.3 billion) followed by textiles, jute goods, sacking threads, zinc sheet, juice, catechu, cardamom and wire respectively. Each of these items are exported with a value of more than of one billion rupees and these commodities alone contribute to more than fifty percent of total exported commodity with India. Likewise, Nepal earns highest dollars by exporting woolen carpet to the third country followed by pulses, readymade garments, pashmina and handicrafts. The following table gives Nepal's export with third country and its trends in the last three years.

Likewise, regarding import from India, petroleum product and vehicle spare parts are the two major commodities that consume the highest amount of foreign currency. In 2009/10, these two products were imported from India worth of Rs. 75.2 billion where as the total earning from total export to India was merely Rs. 40 billion only. The other major commodities in terms of value imported from India are mild steel billet, other machinery and parts, medicines, cold rolled sheet in coil, mild steel wires, electric equipment, cement etc in order. Similarly, Nepal spends large amounts to import gold from the third country followed by telecommunication equipments and parts, other machinery and parts, electric goods, polythene granules, computer and parts, crude soyabean oils and transport equipment and parts.

Table 1.12: Exports of major commodities with other countries (Rs. In million)

Particulars	Annual			Percent Change	
	2007/08	2008/09 <sup>R</sup>	2009/10 <sup>P</sup>	2008/09	2009/10
<b>A. Major Items</b>	<b>13144.0</b>	<b>20956.1</b>	<b>15594.2</b>	<b>59.4</b>	<b>-25.6</b>
Handicraft ( Metal and Wooden )	194.0	1077.8	1044.6	455.6	-3.1
Herbs	97.9	412.0	236.8	320.8	-42.5
Nepalese Paper & Paper Products	347.1	361.2	553.3	4.1	53.2
Nigerseed	1.2	1.0	0.0	-16.7	-100.0
Pashmina	643.4	1526.9	1267.6	137.3	-17.0
Pulses	1458.4	6247.1	3952.0	328.4	-36.7
Readymade Garments	4755.8	4904.7	3887.3	3.1	-20.7
Readymade Leather Goods	22.9	58.2	59.6	154.1	2.4
Silverware and Jewelleries	269.4	262.4	126.6	-2.6	-51.8
Tanned Skin	248.7	305.4	307.0	22.8	0.5
Tea	57.0	63.9	91.2	12.1	42.7
Woolen Carpet	5048.2	5735.5	4068.2	13.6	-29.1
<b>B. Others</b>	<b>7566.8</b>	<b>5735.5</b>	<b>5417.7</b>	<b>-24.2</b>	<b>-5.5</b>
<b>Total (A + B)</b>	<b>20710.8</b>	<b>26691.6</b>	<b>21011.9</b>	<b>28.9</b>	<b>-21.3</b>

R = Revised

P = Provisional

Source: Current Macroeconomic Situation (Based on annual data of 2009/10), NRB

It is noteworthy to mention that, due to high trade deficit with India and insufficient inflow of Indian currency by other means, Nepal is selling US\$ in order to buy Indian currency. This has been happening for last couple of years. In FY 2205/06, Nepal sold US\$ 350 million to buy 15.4 billion of Indian currency. This phenomenon is continuously increasing, and in 2009/10, the government had sold US\$ 2,190 million in order to meet the Indian currency gap of 102.1 billion Indian rupees.<sup>12</sup>

#### 1.4.4 Domestic and external debt

Theoretically, certain percentage of GDP is necessary for investment in order to maintain certain economic balance and to achieve certain economic growth rate. This is, technically calculated, based on the existing Incremental Capital Output Ratio (ICOR) which ultimately depends upon the productivity of the economic system of a country. In such conditions the government takes debt (domestic or external) if the existing revenue does not meet the required expenditure. Thus, to bridge the increasing saving - investment gap and the government income-expenditure gap, Nepal's domestic and foreign debts has been increasing over the years. The total outstanding debt of Nepal is continuously increasing. In 2000/01 the total outstanding debt was 293.8 billion where the internal debt and external debt amounted to 73.6 and 220.1 billion rupees respectively. After a nine-year period, in 2009/10, the total outstanding loan was 386.8 billion rupees, of which the domestic and external debt was 140.7 and 240.6 billion rupees respectively. The foreign debt in each Nepali's head or the per capita outstanding debt comes to be Rs. 13,686. In this total outstanding debt, the ratio of foreign debt to total GDP is 23.3 percent and that of domestic debt to total GDP ratio has remained at 10.5 percent point.

12 Current Macroeconomic Situation (Based on annual data of 2009/10), NRB

### 1.4.5 Balance of payment<sup>13</sup>

Despite high deficit in balance of trade for the year 2009/10, Nepal's balance of payment had remained favorable, in general, over the period. This is mainly due to the remittance from foreign employment, earning of foreign currency from tourism and the development assistance received from the donor community. These have also made it possible to have positive foreign exchange reserve. The following table gives the record of balance of payment and foreign exchange reserve during this decade.

**Table 1.13:** Balance of payment and foreign exchange reserves (in Billion Rs.)

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09 <sup>R</sup>	09/10 <sup>P</sup>
Balance of Payment	-3.34	4.36	16.01	5.74	25.60	5.90	29.68	41.28	-19.57
Foreign Exchange Reserves	105.9	108.2	130.2	129.9	165.0	165.1	212.62	279.9	253.4

R = Revised

P = Provisional

Source: Current Macroeconomic Situation (Based on annual data of 2009/10), NRB

## 1.5. GOVERNMENT EXPENDITURE, REVENUE AND OTHER SOURCE OF INCOME

Government expenditure is a means of allocating resources to maintain the country's macroeconomic stability and regional balances through development activities that also includes general administration including securities. It means, besides paying for routine expenses to keep the country functioning, the government expenditure is made to achieve the planned development goals. The total government expenditure is broadly categorized under three headings: recurrent expenditure, capital expenditure and principle repayments. Till 1990s, it was categorized into two headings – regular expenditure and development expenditure. What in yesteryears was referred to as regular expenditure is today made up of recurrent expenditure and principle repayment, while what was in yesteryears referred to as development expenditure is today referred to as capital expenditure.

### 1.5.1 Government Expenditure

The preliminary estimate of government expenditure for 2009/10 remained 265.6 billion rupees. This expenditure accounts to Rs. 9,386 per capita expenditure and 22.5 percent of GDP. The share of government expenditure in GDP has remained fairly constant since 1980s. This figure ranged from 17 to 20 percent from 1980s to 2007/08. However, the revised and preliminary statistics of 2008/09 and 2009/10 has shown the figure to be 22.2 and 22.5 percent respectively, slightly higher than the past trends.

Till early 1990s, the government development expenditure (capital expenditure) was more than 60 percent of total budget. The recurrent government expenditure started to increase after 1996 due to increase in security expenses, due in turn to the Maoist insurgency. In addition, the growing internal conflict made it difficult for the government to be present in all parts of the country and to spend its capital expenditure (eg. spending for development-

<sup>13</sup> A balance of payments (BOP) sheet is an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, and financial capital, as well as financial transfers. The BOP summarises international transactions for a specific period, usually a year.



related activities). As the government was unable to spend the amount allocated under capital expenditure, less tended to be allocated under it in subsequent years and more tended to be allocated under recurrent expenses. By 2001/02 almost seventy percent of the government expenditure was used as a recurrent expenditure and principal repayment, and only around thirty percent was spent as capital expenditure. If the ratio between capital expenditure and recurrent (including repayment) was 70:30 before the commencement of the conflict, after the conflict, it was just the opposite i.e., 30:70.

In the same way, during 2002-2007, the government was spending around 12 percent of its total expenditure for principal repayment of outstanding debt, both external and internal. This amount did not include the interest payments. However, the share of principal repayment had slightly declined in 2008/09 and 2009/10. One of the reason for this decline was due to the devaluation of US\$ with respect to Nepali currency. Another reason for this was due to higher growth rate of government expenditure in comparison to principal repayment schedule.

It is interesting to note that total government expenditure, government revenue, recurrent expenditure, capital expenditure and principle repayment have all recorded an annual increment of around 17 percent in average during 2001/02 to 2009/10.

**Table 1.14: Government expenditure and revenue**

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09 <sup>R</sup>	09/10 <sup>P</sup>
Total Gov. exp (billion Rs.)	80.1	84.0	89.4	102.6	110.9	133.6	161.3	219.7	265.6
Recurrent exp. (%)	61.0	62.0	62.2	60.1	60.4	57.7	56.7	58.1	60.2
Capital exp. (%)	31.0	26.7	25.8	26.6	26.7	29.7	33.2	33.3	32.9
Principle repayment (%)	8.0	11.4	12.1	13.2	12.9	12.6	10.2	8.6	7.0
Revenue (%)	62.9	66.9	69.7	68.3	65.2	65.6	66.7	65.3	67.3
Population (in million)	23.7	24.2	24.7	25.3	25.9	26.4	27.0	27.6	28.3
Per capita gov. exp. (in Rs.)	3380	3471	3619	4055	4282	5061	5974	7960	9386

R = Revised estimate

P = Provisional

Note: Revenue, Recurrent exp., Capital expenditure and Principle repayment all are measures a % of Total government expenditure,

Source: The economic survey, 2009/10, MOF, Nepal,  
Budget speech 2010/11, MOF, Nepal

Surprisingly, even after the signing of the Comprehensive Peace Agreement between the government and the rebel forces in November 2006, there has been no change in the expenditure pattern compared to the period of active hostility. In other words, the recurrent expenditure is still very high in comparison to the capital expenditure. In the past several years increasing expenditure on special security plan and growing amount of spending on education in public schools are considered two main reasons for a rise in the recurrent expenditure. Similarly, political instability, delay in the budget approval, lingering contract processes, lower presence of employees and lack of elected representatives in local bodies, has led to a lower-than-expected performance of capital expenditure in the past several years.

### **Sector-wise breakdown of government expenditure**

At present social services is the priority sector of government. Beginning from mid 1990s, the share of government expenditure in social sector program began accelerating. Before this trend

began, government's priority was economic sector. In 2002/03 government had spent around 30 percent of its total spending in social sector services; overtime it has increased and it has now reached 40 percent. The reasons behind higher allocation in this sector has to do with the emphasis in social aspect of development such as MDGs, education for all, social inclusion and specially targeted programs to the poor. Education sector is the sector that consumes the highest proportion of government's expenditure: it consumes one-sixth of total government expenditure and half of the social service expenditure.

**Table 1.15: Sector-wise breakdown of government expenditure (As a % of total expenditure)**

	2002/03	2008/09	2009/10 <sup>R</sup>	2010/11 <sup>E</sup>
<b>Royal Family</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Constitutional Bodies</b>	<b>1.1</b>	<b>1.2</b>	<b>1.1</b>	<b>0.8</b>
<b>General administration</b>	<b>10.9</b>	<b>9.7</b>	<b>9.8</b>	<b>9.0</b>
Police	7.4	6.5	6.8	5.7
<b>Defense</b>	<b>8.8</b>	<b>6.6</b>	<b>6.8</b>	<b>5.3</b>
<b>Social Service</b>	<b>30.3</b>	<b>41.6</b>	<b>43.5</b>	<b>44.4</b>
Education	15.7	16.1	17.9	17.1
Health	4.3	6.1	6.4	7.3
Drinking water	2.6	3.2	2.7	2.8
Local development	5.8	8.6	8.4	8.3
<b>Economic Services</b>	<b>22.4</b>	<b>20.5</b>	<b>23.3</b>	<b>25.3</b>
<b>Loan Payment</b>	<b>19.2</b>	<b>12.3</b>	<b>11.0</b>	<b>9.0</b>
<b>Miscellaneous</b>	<b>6.7</b>	<b>8.2</b>	<b>4.6</b>	<b>5.6</b>
Retirement Benefits & Staff Facility	6.7	7.7	4.4	4.4
<b>Total Expenditure (Rs. in billion)</b>	<b>84.01</b>	<b>219.66</b>	<b>259.15</b>	<b>337.90</b>

R = Revised estimate

E = Estimate

Source: Various red book, MOF, GON

Economic service is the second largest sector consuming government expenditure followed by debt servicing and security sector. The trend of spending in economic sector tends to be somewhat stable with the sector receiving from 20 to 25 percent of government expenditure. Interestingly, the share of spending in loan repayment (principal and interest of both internal and external loan) has sharply increased in present years and has reached around 10 percent annually.

Likewise, spending for the police consumes most of the government expenditure (more than two-third) allocated for general administration expenditure. If we consider police and defense expenditure as a single head under security spending then this sector is consuming more than 13 percent of government expenditure. The following table gives the per capita government expenditure in different sectors.



**Table 1.16:** Per capita expenditure made by government for different purposes (Rs.)

	2002/03	2008/09	2009/10 <sup>R</sup>
1. Security (police and army)	562	1042	1,242
2. Social Service	1,054	3,310	3,980
Education	544	1,279	1,636
Health	151	484	589
Drinking water	89	257	246
Local development	200	683	770
<b>Economic Services</b>	<b>779</b>	<b>1632</b>	<b>2,131</b>
<b>Loan Payment</b>	<b>669</b>	<b>978</b>	<b>1,004</b>

R = revised estimate

Source: Various Red Books, MOF, Nepal

### 1.5.2 Composition of government revenue

Tax, custom duty, excises duty, fees and registration are the major source of every government's revenue. Broadly speaking, the government revenue is categorized into tax and non-tax revenue. Tax is further categorized into direct tax and indirect tax. Income tax is direct tax where as value added tax, custom duty, and excise duty are indirect tax.

Value added tax is the main source of government revenue that accounted for almost 30 percent of total revenue collected in 2009/10. The other major sources of revenue are costumes duty, income tax, non-tax revenue and excise duty respectively. The newly provisioned tax, educational tax, was also able to collect revenue of 183.6 million rupees in 2009/10. The trend of different forms of tax has shown no major shift regarding contribution in total revenue of the government in last three years as the table below illustrates.

**Table 1.17:** Annual government revenue collection (in billion rupees)

Particular	2007/08	2008/09	2009/10 <sup>P</sup>
<b>Total Revenue</b>	<b>107.6</b>	<b>143.5</b>	<b>179.9</b>
Value Added Tax	28.9	27.6	29.7
Customs	18.4	18.6	19.5
Income Tax	17.7	19.2	18.7
Excise duty	10.4	11.3	13.5
Registration Fee	3.2	3.7	3.1
Vehicle Tax	1.4	1.3	1.4
Educational Service Tax	-	0.0	0.1
Non-Tax Revenue	19.9	18.4	14.0

P = Provisional

Source: Current Macroeconomic Situation (Based on annual data of 2009/10), NRB

### 1.5.3 Budget deficit and sources of deficit financing

Similarly, government's internal revenue is able to meet only around two-thirds of the government expenditure. What can be inferred from this is that Nepal's own revenue collection cannot meet the recurrent expenditure and principal repayment. For development activities (or capital expenditure) the government has to depend entirely upon internal debt and foreign aid (both their grant and loan forms).

In FY 2008/09, out of the government expenditure of 219.7 billion rupees, internal revenue could meet only 143.5 billion rupees (65 percent) while the gap of expenditure – revenue was

bridged by foreign grant (26 billion rupees), foreign loan (10 billion rupees) and internal loan (18.4 billion rupees). In bridging such a gap, in reference to the year 2001/02, external loan has slowly decreased in absolute amount while foreign grant and domestic loan has increased sharply within this nine year period.

**Table 1.18:** Government Expenditure-Revenue Gap and Source of Financing (billion Rs.)

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09
Total Gov. Expenditure	80.1	84.0	89.4	102.6	110.9	133.6	161.3	219.7
Revenue	50.4	56.2	62.3	70.1	72.3	87.7	107.6	143.5
Foreign Grant	6.7	11.3	11.3	14.4	13.8	15.8	20.3	26.3
Foreign Loan	7.7	4.5	7.6	9.3	8.2	10.1	9.0	10.0
Internal Loan	8.0	8.9	5.6	8.9	11.8	18.0	20.5	18.4

Source: The economic survey, 2009/10, MOF, Nepal

### Foreign aid

Foreign aid has played a crucial role in Nepal's development financing since 1950s. In terms of macroeconomic framework, foreign aid has been used as an important resource to fulfill the saving –invest gap, import-export gap and government income expenditure gap. The following table gives a glimpse of how foreign aid has contributed in bridging the macroeconomic gap in the different decades and during the past few years.

**Table 1.19:** Bridging the resource gap by foreign aid

Share of Foreign Aid (%) in	1976-80	1980s	1990s	2007/08	2008/09
GDP	4.1	6.9	5.8	3.5	3.7
Development Expenditure	46.6	54.0	55.3	33.5	54.8
Trade Deficit	61.8	51.9	34.9	18.0	12.2
S-I gap	93.7	73.7	55.1	26.8	16.3

Source: Calculated from economic surveys/HMGN.

Note: 1. Aid data consist only loan and grant that is shown in government budget. It does not include the amount of foreign aid that is channeled out of government budgetary system.

2. For F.Y. 2007/08-2009/10, capital expenditure is calculated as development expenditure

Foreign loan and grant are the two major types of aid. Foreign grant are like gifts, which are not to be paid back whereas foreign loans are taken in a concessional rate (with low interest rate, long gestation period) and are to be paid back over a period of 30 to 40 years. Bilateral aid, multilateral aid and aid from INGOs are other ways of classifying foreign aid (which is essentially based on the nature of donors). Generally, bilateral donors, multilateral donors such as UN agencies and European Union, and INGOs provide foreign grant where as Nepal takes foreign loan from multilateral financial institution such as the World Bank and Asian Development Bank. But after 1990s, these institutions have also increased their grant element sharply.

Along with an increase in its magnitude, the structure as well as composition of foreign aid has also changed over time. The following table shows the budgetary support provided by foreign aid. This does not include the amount that is channeled by INGOs or disbursed by bilateral donors directly.

**Table 1.20:** Composition of foreign aid in Nepal

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09
<b>1. Bilateral</b>	<b>467.5</b>	<b>1000.4</b>	<b>901.3</b>	<b>923.1</b>	<b>765.8</b>	<b>1640.6</b>	<b>1020.8</b>	<b>933.3</b>
Grant	458.8	938.7	894.7	910.4	761.8	740.2	957.6	972.0
Loan	8.7	65.7	6.6	12.7	4.1	900.5	63.2	61.3
<b>2. Multilateral</b>	<b>971.0</b>	<b>584.1</b>	<b>990.0</b>	<b>1442.7</b>	<b>1438.3</b>	<b>944.8</b>	<b>1909.3</b>	<b>2701.9</b>
Grant	209.8	195.2	233.6	528.7	621.0	840.0	1074.5	1766.3
Loan	761.2	389.0	756.3	914.0	817.4	104.9	834.8	935.6
<b>3. Total</b>	<b>1438.5</b>	<b>1588.6</b>	<b>1891.2</b>	<b>2365.7</b>	<b>2204.2</b>	<b>2585.4</b>	<b>2930.1</b>	<b>3635.2</b>
Grant	668.6	1133.9	1128.3	1439.1	1382.8	1580.1	2032.1	2638.3
Loan	769.9	454.6	762.9	926.6	821.4	1005.4	898.0	996.9

Source: The economic survey, 2009/10, MOF, Nepal

The composition of aid (loan versus grant) over time show mixed features. The loan component in foreign aid started to increase since 1970/71, especially after the multilateral funding started in the country. However, it was significantly lower than the grant component till 1982/83 (10 percent of the total). Then from mid 1980s, the loan component began to rise sharply, mainly after the structural adjustment program. As a result, the loan component peaked in 1991/92 (80 % of total aid) and again started to decline and reached around fifty percent in 2000/01. Then, interestingly, the grant component sharply increased while the loan component increased only in a moderate way. In 2008/09, the share of grant and loan in total aid has become 72.5 and 27.5 respectively.

Similarly, the composition of aid in terms of bilateral versus multilateral aid is also changing. Generally, the increasing loan in total aid represents the increasing aid provided by the multilateral donors (especially by ADB and WB). The assumption was true up to 2000. But in the last couple of years, ADB and WB have increased their grant component. This was another reason for the increase in the share of grant component in total aid in recent years.

#### 1.5.4 Remittance and foreign employment

Remittance has been one of the major sources of income of the country. Preliminary estimate of remittance of 2009/10 remained almost 225 billion Nepali rupees, which is more than 90 percent of government expenditure of that year. The remittance income has remained around one fifth of the GDP in last two years. It is noteworthy that not all the money earned abroad is sent through the banking system. If the total amount entering the country both formally and informally (such as through the *hundi* system) is considered, remittance is more than the government annual budget. The following table summarizes the remittance record of the country of the decade of the 2000s.

**Table 1.21:** Remittance and its share in GDP

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10*
<b>Remittance Income (billion Rs.)</b>	47.2	47.5	54.2	58.6	65.5	97.7	142.7	209.7	224.3
<b>Remittance Income (% changes)</b>	0.7	14	8.1	11.9	49	2.5	42.5	47.0	7.0
<b>Remittance income/GDP (%)</b>	10.3	11	10.9	11.1	14.9	13.8	17.5	21.2	19.0

\* Annual preliminary estimate

Source: The economic survey, 2009/10, The MOF, Nepal

Malaysia, Qatar, Saudi Arabia and U.A.E are the four major destinations for Nepali citizen looking for employment. In the past nine years (2001/02 to 2009/10), 514 thousand, 465 thousand, 321 thousand and 205 thousand laborers have reached these four countries respectively seeking for jobs. Out of total 1620 thousand people who went abroad for work during this period, these four countries account for around 93 percent. However, many more go to these countries through informal channels as well.

Apart from unskilled laborers working in gulf countries and Malaysia, many other educated and high skilled Nepali citizens work in Europe, Australia and the USA. But the record of earning from these people is not clearly known. It could be because most of the people who go to these countries settle there and do not send back remittances. It need not be overlooked that annually thousands of students go to the USA, Australia and Europe, which means that a large amount of money flows out from the country.

### 1.5.5 Income from tourism sector

Tourism is the third largest source of foreign currency earning of the country. There has been a general increment in income from tourism in absolute terms. However it contributes a more or less constant share (6-7 percent) in total foreign exchange earning. Likewise, the tourism sector has contributed to around 2 to 3 percent of GDP of the country. The increase in earning from tourism may be due to the increasing number of tourist entering into the country. In 2001 the total number of tourist arriving was around 361 thousand which has increased each year and reached 510 thousand in 2009. Indians tourists are the largest in numbers followed by Western European and North American tourists respectively. The following table gives the absolute income from tourism sector and its contribution in GDP.

Table 1.22: Foreign Exchange Earning from Tourism

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09
Total Foreign Exchange Earnings from Tourism (Rs. in billion)	8.7	11.7	18.1	10.5	9.6	10.2	18.7	28.0
As % of Total Value of Merchandise Exports	14.9	23.1	32.9	17.5	15.5	16.1	30.1	40.0
As % of Total Foreign Exchange Earnings	6.1	8.2	11.4	6.1	4.6	4.5	6.7	6.5
As % of GDP	1.9	2.4	3.4	1.8	1.5	2.3	2.3	2.9

Source: Economic Survey 2009/10, MOF, Nepal

### 1.6. CONCLUSION

This paper reviewed the present macroeconomic scenario of Nepal. GDP growth rate, inflation, macro economic gaps and government income/expenditure are used as macroeconomic indicators to analyze the situation.

Low economic growth rate and irregular trend in growth rate are the two basic features of the Nepali economy. Compared to the neighboring countries Nepal's GDP growth rate is very low, recording an average of 3 percent growth annually during this decade (2001/02 to 2009/10).

Nepal has been unable to take advantage of large markets in neighboring countries and their

growing economies. The economic survey attributes the adverse monsoon for low agriculture growth rate while political instability has caused several obstacles which have in turn led to low growth rate in non-agriculture sectors. In addition to the features pointed out by the economic survey are the low productivity of the economy and comparative high cost to produce goods and services, which in turn means that Nepal is not able to compete with its neighbors.

Examining sector-wise contribution in GDP, one could identify two major features in Nepal's economy. First, Nepal's economy is directly shifting from agriculture to service sector while the world's modernization trend had followed a agriculture to industry to services trajectory. Second, the economic modernization process has slowed down in this decade in comparison to past three decades. The share of agriculture in GDP had been reduced by, in general, 10 percent in each of the decades since 1970s, while in this decade, it has been reduced by less than 5 percent. Further, the share of industrial sector in GDP has slowly declined during this decade.

Poverty has been reduced to a limited extent. Absolute value of per capita income of the country has doubled in the last eight years (as has been attested to by NLSS). But the distribution of increased income has been unequal over the period. Statistics show that income inequalities among individual as well as geographic regions are increasing.

Remittance has been one of the major sources of income of the country and its people. It is also one of the factors contributing to poverty reduction. Remittance in 2009/10 was around 225 billion Nepali rupees, which is more than 90 percent of government expenditure of that year. This is the record of remittances that flows in through the banking channel only. If the total amount of remittances is considered, it would likely become more than the government's annual budget. Nevertheless the country has been unable to channel these incomes into the productive sector. Experience show that remittance incomes is used either for consumption purposes or invested to purchase land and buildings around district headquarters and capital of the country. Such types of unproductive investment have the unintended consequence of raising inflation.

After the Maoist insurgency, government's recurrent expenditure started to increase at a high rate while the share of capital expenditure reduced sharply. Even after the signing of the CPA in November 2006, the expenditure pattern has not changed. Increasing expenditure on special security plan and growing amount spending on social sector (especially in education) are the two main reasons behind such a rise in the recurrent expenditure. On the other hand government is still unable to spend all the capital expenditure that is allocated for development activities. Political instability, delay in the budget approval, lingering in the contract-awarding processes, low presence of state employees and lack of elected representative in local bodies, have been some of the factors that have led to a lower than expected performance of capital expenditure during the past few years.

Value added tax is the main source of government revenue. Despite an impressive mobilization of internal resources in current years, it does not yet meet the regular expenditure of the country. The government has not been able to control the raising trend of recurrent expenditure. In addition to this, high saving-investment gap, government income-expenditure gap and trade

deficit, Nepal is compelled to take more and more loans (internal as well as external) to bridge the gap. Foreign aid has played a crucial role in financing the development process. The total outstanding debt of Nepal has increased from 293.8 billion in 2000/01 to 386.8 billion rupees in 2009/10.

The picture as far as trade deficit is concerned is bleak: in comparison to export, import has increased sharply over the years. In 2001/02, the trade deficit was merely 13 percent of its GDP. In the last four years it has increased dramatically and has reached 26 percent in 2009/10. This means that the growing demands of people are being met by imported goods and services rather than through domestic supply.

In sum, the income and expenditure of the country is expanding. The main reason for such an expansion is due to increased remittances from foreign employment. But the share of consumption in GDP is very high (90%) and has remained the same as that of last three decades. This means that the growing income has mainly increased the demand of goods and services and has not really led to productive investments. On the supply side, the domestic production is not being able to meet the total increased demand. Consequently, the import of the country has tremendously increased. If the increased demand could be met internally, the increased income would have a multiplier effect in the economy.

## OBJECTIVES AND METHODS

### 2.1 OBJECTIVES OF THE STUDY

The broad objective of the study is to measure the business climate of Nepal for the year 2010.

The specific objectives of the study are:

1. To generate basic data on businesses and industries, including their annual turnover.
2. To assess the money and time it takes for obtaining registration, licenses and permits.
3. To document the types of disputes faced by businesses and industries as well as mechanisms for their resolution.
4. To document the incidence of crime, including extortion, stealing, robbery and protection payment.
5. To document the incidences of “informal” charges sought by concerned government agencies.
6. To assess the level of confidence of the business community, including orientations to the future.

### 2.2 METHODOLOGY

#### 2.2.1 Sampling design

The business climate survey I was administered in four districts – Kaski, Rupandehi, Morang and Banke during the year 2009 with sample size of 1,008 enterprises/businesses. During the year 2010 business climate survey II was administered in those same four sample districts – Kaski, Rupandehi, Morang and Banke. Those four sample districts were purposively selected for two reasons. First, there is high degree of economic transaction and industrial activities in these districts as compared to other districts (excluding Kathmandu). Second, these districts are spread across the country: from Morang in the east to Banke in the west. The survey covered the enterprise/business located in the urban area and adjoining rural area of the municipality.

Categories of industry were classified as per the International Standard Industrial Code (ISIC). Industries were stratified on the basis of their contributions to gross domestic product (GDP). From every sample district, approximately 250 industries and shops were included. The 250 sample industries and shops were further divided into general sample (80%) and panel sample



(20%). Both general and panel samples were proportionally distributed across the strata as defined by ISIC. In total, 1023 industries and shops were included in the sample from the four sample districts.

Industries were selected from the list of cottage and small industries prepared by Department of Cottage and Small Industries as far as possible. Farmers' groups (who grow vegetables and produce meat or dairy products with sales in mind) were selected from the list prepared by District Agriculture Office of the respective districts if such lists were available. The survey sample included only small and medium scale industries, and excluded big industries.

For each of the four locations, the proportion of the various ISIC enterprises, including the types of businesses included under this category, is summarized in Annex 3.

### **2.2.2 Questionnaire**

A pre-coded structured questionnaire was formulated with the help of experts within the team. Length of the questionnaire was determined in such a way that its administration in the field would not take more than 45 minutes. The questionnaire was initially formulated in English and was later translated into Nepali. The Nepali version was used for administering the interview schedule in the field. In regions and communities where the mother tongue was a language other than Nepali, interviewers were asked to translate the questions in the local language (without however deviating from the meaning underlying the question) and administer it.

A pilot test was carried out and the questionnaire fine tuned before actually administering it in the field.

### **2.2.3 Fieldwork**

Field supervisors and interviewers with sufficient experience were employed for the fieldwork. In the selection of field supervisors and interviewers, local people that are well conversant in the local language were given preference. While selecting them; districts, ecological regions, local ethnic-caste makeup and gender balance were taken into consideration. The interviewers were supervised by field supervisors. Before deploying the field supervisors and the enumerators in the field, a three-day orientation training programme was conducted for them on the survey research methodology, their roles and responsibilities, and field operations plan. They were made familiar with the sampling techniques used in this particular survey. They were also briefed about the structured questionnaire so that they become fully familiar with the intention of each of the question. They were instructed on how to add clarification to a question and encourage the respondents if they are confused or hesitant to answer during the interview. To test their capacity, a mock-survey was conducted among themselves during the course of the training. The field supervisors were provided a special training on field supervision.

### **2.2.4 Data processing and analysis**

Data was processed and analyzed using the software programmes FoxPro, SPSS and MS Excel. A data entry programme was created using the Visual Basic software. In order to maintain the data clean, legal codes, authorized range check, consistency check and extreme



case check systems was developed in the data entry programme. After the completion of the data entry, the data was imported in the SPSS software where analysis and presentation in a tabular form was performed. After the analysis, the data was imported in the MS Excel to produce necessary charts and graphs.

### 2.2.5 Schedule

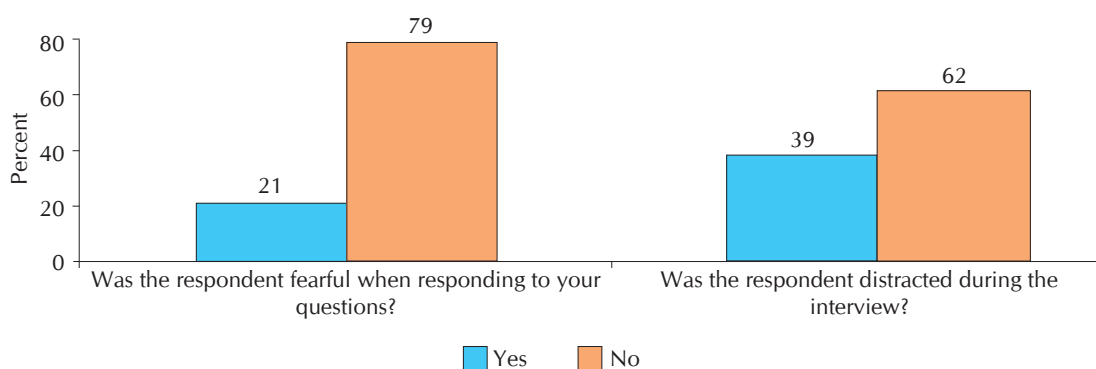
1. Methodology workshop: With the help of experts and peer reviewers, the team finalized the methodology, including the framing of the questions. The English questionnaire was then finalized.
2. The team then prepared the questionnaire in Nepali.
3. Questionnaire was pilot tested. This entailed actually testing out the questionnaire. The pilot test was undertaken on 17 August 2010.
4. Further refinements were made in the questionnaire.
5. Training for enumerators and supervisors responsible for the sample survey was done from 22 to 25 August 2010.
6. Field deployment commenced on 26 August and was completed on 19 September 2010.

### 2.2.6 Interview monitoring the interview process

On completion of the interview, the interviewers were requested to fill some questions to gauge the respondent's attitude on being questioned. The interviewers were asked to fill in two questions namely, 'was the respondent fearful when responding to your questions?' and 'was the respondent distracted during the interview'. It was noted that while 79 percent of the respondents were fearless and therefore not intimidated in answering questions, almost 39 percent of them were distracted during the interview process. What can be inferred from this is that while the interviews were conducted in a free and neutral environment, there were a number of times when the respondents were distracted by phone calls, visitors and such. Hence, unlike household surveys, surveys of this kind are more prone to distractions. However, it was also noted that 62 percent of the respondents were not distracted during the interview. Therefore these figures do not affect the validity and reliability of the data.

Chart 2.1 (S all):

a) Was the respondent fearful when responding to your questions? b) Was the respondent distracted during the interview? (S, base = 3000 )





## SAMPLE CHARACTERISTICS

### 3.1 Geographic composition

The BCS-I was administered in four districts – Kaski, Rupandehi, Morang and Banke during the year 2009. During the year 2010 BCS-II was administered in those four sample districts – Kaski, Rupandehi, Morang and Banke.

The sample size was equally distributed across four districts (i.e. 25 percent from each district). Approximately 255 micro, small and medium enterprises/businesses were interviewed in each of the four districts. In 2010, the sample size was further divided into general sample (80 percent) and panel sample (20 percent). About 20 percent of the business/industries surveyed in 2009 were again surveyed in 2010.

**Table 3.1:** District composition

Districts	Frequency	Percent
Rupandehi	255	24.9
Banke	255	24.9
Morang	263	25.7
Kaski	250	24.4
<b>Total</b>	<b>1,023</b>	<b>100.0</b>

### 3.2 Legal status of the enterprise/business

Of the 1,023 enterprises interviewed, most of the enterprises (i.e., 76 percent) were sole proprietorship. Another 13 percent were partnership and some 5 percent were private companies. Proportion of those enterprises that belonged to co-operative was 3 percent and that of public listed company was also 3 percent.

**Table 3.2:** Legal status of the enterprises

	Frequency	Percent
Sole proprietorship	779	76.13
Partnership	129	12.6
Co-operative society	35	3.4
Private limited liability company	54	5.3
Publicly listed company	26	2.5
<b>Total</b>	<b>1,023</b>	<b>100.0</b>

### 3.3 Business composition

A little more than half of the businesses (52 percent) were micro scale business. Small scale business constituted the second majority with 35 percent and rest 13 percent were medium scale business<sup>1</sup>. Compared to the fiscal year 2065/66, the micro scale business proportion has decreased while small scale and medium scale business proportion in the sample for the fiscal year 2066/67 has increased.

Table 3.3: Scale of business

Scale of business	F.Y. 2065/66 (%)	F.Y. 2066/67 (%)
Micro Scale Business	65.5	52.1
Small Scale Business	27.7	35.0
Medium Scale Business	6.8	12.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### 3.4 International Standard Industrial Code [ISIC]

The proportion of various ISIC (International Standard Industrial Code) enterprises is summarized in the table below. The top-three categories in the sample are agriculture and forestry (15.6%), wholesale and trade (14.6%) and transport and communications (12.3%). The sample size for each ISIC is further divided into general sample (80 percent) and panel sample (20 percent). The panel or in other words 20 percent of each ISIC was surveyed from the last year surveyed ISIC.

Table 3.4: ISIC composition

B1. In which category does your firm belong to out of the categories given below? [SA]

International Standard Industrial Code (ISIC)	All (%)	General Sample (%)	Panel Sample (%)
Agriculture and forestry	15.6	12.5	3.1
Fishing	3.0	2.4	0.6
Mining	3.5	2.8	0.7
Manufacturing	7.8	6.2	1.6
Water	2.8	2.2	0.6
Construction	7.7	6.2	1.5
Wholesale and retail trade	14.6	11.7	2.9
Hotels and restaurants	3.9	3.1	0.8
Transport and communications	12.3	9.8	2.5
Financial intermediation	6.6	5.3	1.3
Real estate, renting and business activities	9.1	7.3	1.8
Education	6.5	5.2	1.3
Health	4.1	3.3	0.8
Other community, social and personal service activities	2.2	1.8	0.4
<b>Total</b>	<b>100.0</b>	<b>80.0</b>	<b>20.0</b>

1 Micro scale business constitute those enterprise/business whose total sales value of production or service is less than one million rupees (Rs1,000,000) during Fiscal Year 2066/67. That enterprise/business whose total sales value of production or service lies between one million and ten million (Rs.1,000,000 and 10,000,000) has been classified as small-scale business. Those enterprises/businesses, whose total sales value of production or service that exceeds ten million (Rs.10,000,000) has been classified as medium scale business.

### 3.5 Year of operation of the enterprise/business

Of the 1,023 business/enterprises interviewed in the survey, about 27 percent of the enterprises/businesses were operating since the past two years while another 22 percent were operating since the past 5 years. Some 19 percent of the enterprises/businesses were operating since the past nine years. Those enterprises/businesses which were operating since the past fourteen years were fifteen percent and those enterprises which were operating for more than 15 years was 18 percent.

**Table 3.5: Year of operation of the enterprise/business**

Year of operation of the Business	Frequency	Percent
0-2	261	25.6
3-5	225	22.0
6-9	194	19.0
10-14	153	15.0
15 & above	188	18.4
<b>Total</b>	<b>1021</b>	<b>100.0</b>

### 3.6 Respondent's position

The survey revealed that majority of the respondents (78 percent) were owners and managers while some 11 percent of the respondents were only managers of the enterprise. About 6 percent of the respondents were employees. Very small proportion of the respondents (3 percent) were owners but not managers and another small proportion, 2 percent, were spouse of owners.

**Table 3.6: Respondent's composition**

Respondent's position	Frequency	Percent
Owner and manager	799	78.1
Owner but not manager	26	2.5
Manager	113	11.0
Spouse of owner	22	2.2
Employee	63	6.2
<b>Total</b>	<b>1,023</b>	<b>100.0</b>

### 3.7 Educational status of the respondents

The survey revealed that majority of the respondents (31 percent) had completed bachelor's degree and above while another big proportion (26 percent) had completed intermediate level and some one in five respondents had completed SLC level. Only 6 percent respondents were literate – increasing that they had no formal schooling. Proportion of the respondents who completed primary level and secondary level were 5 percent and 11 percent respectively.

Table 3.7: Educational level of the respondent

Education of the respondents	Frequency	Percent
Literate	57	5.6
Primary	50	4.9
Sec.	116	11.3
SLC	216	21.1
Inter.	263	25.7
Bachelor & above	321	31.4
<b>Total</b>	<b>1023</b>	<b>100.0</b>

### 3.8 Age of the respondents

About 39 percent of the respondents belonged to the age group 26 to 35 and another 29 percent of the respondents belonged to the age group 36 to 45. Proportion of the respondents aged 45 and above was 18 percent. Around 14 percent of the respondents were aged between 18 and 25.

Table 3.8: Age of the respondent

Age of the respondents	Frequency	Percent
18-25	141	13.8
26-35	403	39.4
36-45	300	29.3
Above 45	179	17.5
<b>Total</b>	<b>1023</b>	<b>100.0</b>

### 3.9 Sex of the respondents

There were more male than female respondents in this business climate perception survey (88 percent vs. 12 percent).

Table 3.9: Sex of the respondent

Sex of the respondents	Frequency	Percent
Male	904	88.4
Female	119	11.6
<b>Total</b>	<b>1023</b>	<b>100.0</b>

## SURVEY FINDINGS

### 4.1 BASIC INFORMATION

The survey revealed that about 76 percent of the enterprises/businesses were sole proprietorship.

The survey asked all the respondents ‘In how many other places of this district is this enterprise operating?’ On an average, all owners have this business in one place in the district (viz. indicated by the mean value 1) and an additional 20% of the owners (viz. indicated by 0.2 mean value) have it in one more location within this district.

‘In how many places of other districts is this enterprise operating?’ was asked to all the respondents. In response, the survey revealed that, on average, about 74 percent of the owners have their businesses in one location outside of the district (viz. indicated by 0.74 mean values).

The response to this question varied in terms of scale of business. On an average, all owners of medium scale business were operating their own business in two locations of this district and in four locations outside this district. While all owners of micro scale business and small scale businesses were operating their own business in only one place of the district a very small proportion – 20 percent of micro scale business and 40 percent of small scale business – were operating their own business in one place outside this district.

**Table 4.1:** In how many other places is this enterprise operating?  
(Including the one mentioned above)

A7 Response based on mean value	All		Scale of business		
	Base	Mean value	Micro scale business	Small scale business	Medium scale business
a. Within this district	1023	1.2	1.1	1.1	1.6
b. Outside this district	1023	0.74	0.2	0.4	3.6

### 4.2 BASIC BUSINESS INFORMATION

The survey sought to obtain basic business information regarding employee, year of operation, sales, price and raw material required to run their firms. In this context, the survey first asked how many hired full-time employees were there in the year the operation began and in the



fiscal year 2066/67. There were an average of 1.4 hired full-time employees in the year the operation began and an average of 3.6 hired full-time employees in the fiscal year 2066/67.

The response to this question was significantly different in terms of scale of business. All the owners of medium scale business had an average of 4 full-time employees in the year the operation began and this number reached 15 in the fiscal year 2066/67. All small scale business had an average of 2 hired full-time employees in the year the operation began and this number increased to 4 in the fiscal year 2066/67.

The survey then asked how many full-time family workers were there in the year the operation began in the fiscal year 2066/67. There were an average of 1.8 full-time family workers in the year the operation began and an average of 2.1 full-time family workers in the fiscal year 2066/67.

Between the year the firm was established and the last fiscal year, the numbers of hired full-time employees increased by more than hundred percent while the number of full-time family workers remained the same. The expansion in the number of full-time employees is an indication of the expansion of the firm.

**Table 4.2:** How many full-time/part-time employees did/does your firm have? (Base = 1,023)

<b>B3_1 Response based on mean value</b>	<b>Mean Number of hired full-time employees</b>	<b>Mean Number of full-time family workers</b>	<b>Mean Number of hired temporary employees</b>	<b>Mean Number of temporary family workers</b>
a. In the year the operation began	1.4	1.8	3.9	1.0
b. In F. Y. 2066/67	3.6	2.1	5.6	1.2

Another question ‘How many of your employees were temporary in the year the enterprise began and in the fiscal year 2066/67?’ was asked to all the respondents. In response, the average number of hired temporary employees was 4 in the year the operation began and the average number of hired temporary employees was 5.6 in the fiscal year 2066/67.

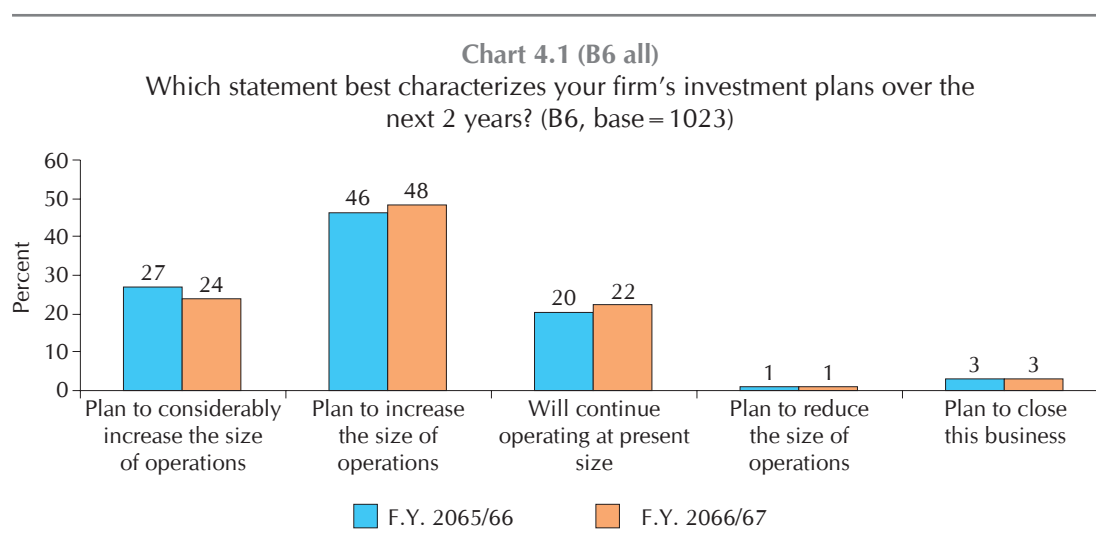
The survey then asked how many temporary family workers were there in the year the operation began and in the fiscal year 2066/67. The survey revealed that on average 1 temporary family worker was hired in the year the operation began and this number was 1.2 in the fiscal year 2066/67.

There has not been any major increase in the number of family workers in FY 2066/67 compared to the year the enterprise began and their proportion in micro, small and medium scale enterprises has remained the same.

Another similar question was asked: ‘During the Fiscal Year 2066/67 how many new full-time employees did your firm hire and/or lay off?’ In response to this question, the survey revealed that the average number of new full-time employees hired was 1.2 and the average number of employees laid off was only 0.3. What the data reveals is that, in net terms, more firms added full-time employees than they laid-off.

The survey sought to understand what the public thought about the contemporary business environment. In this context, the following question was asked: ‘Which statement best characterizes your firm’s investment plans over the next 2 years?’ The possible choice of responses was read aloud. A little less than half (48 percent) reported plans to increase the size of operation while another big proportion, 24 percent, reported plans to considerably increase the size of operation. A significant proportion, 22 percent, reported ‘will continue operating at present size’ and only 3 percent reported plans to close their business.

Proportion of respondents who mentioned ‘plan to considerably increase the size of operations’ decreased by 2 percent compared to the FY 2065/66 while those who mentioned ‘plan to increase the size of operations’ increased by 2 percent than the FY 2065/66. People who want to run their business at present size also increased by 2 percent compared to FY 2065/66. These figures show that whatever the business they are operating, people are more optimistic in running their own business.



The survey attempted to obtain information about the enterprise’s sales in a broader sense. All the respondents were asked first ‘What is the percentage of your enterprise’s sales in F.Y. 2066/67 in own district sold directly by self?’ About 89 percent of the sales were sold directly by themselves in their own district while some 10 percent were sold in other district and rest one percent was sold in other countries.

**Table 4.3:** What is the percentage of your enterprise’s sales in F.Y. 2066/67 in own district, other districts and exported?

B7	Sold directly by self		Sold through distributor/s	
	Base	Mean (%)	Base	Mean (%)
a. In own district	1015	88.8	84	58.0
b. In other districts	1015	10.2	84	41.9
c. Exported	1015	0.95	84	0.06
<b>Total</b>	<b>1015</b>	<b>100.0</b>	<b>84</b>	<b>100.0</b>

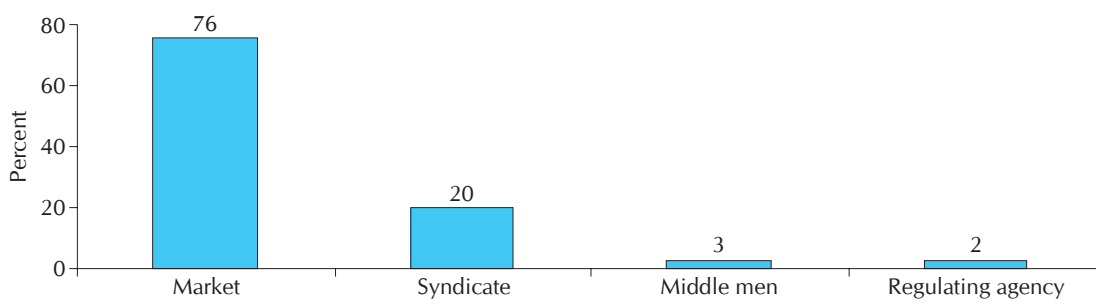
A similar type of question was asked to all the concerned respondents: ‘What is the percentage of your enterprise’s sales in F.Y. 2066/67 in own district, other districts and exported through distributors?’ The survey showed that about 58 percent of the sales were sold through

distributors in their own district while 42 percent were sold in other districts.

Another question ‘What percentage of raw materials necessary to run your enterprise come from own district, other districts and abroad?’ was asked to all the respondents. The survey reveal that about 77.5 percent raw materials came from own district and some 22.5 percent came from other districts.

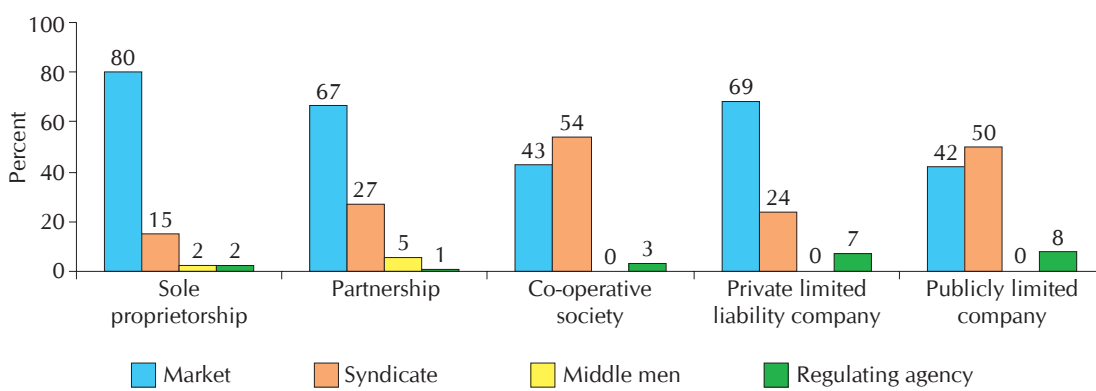
In response to the question ‘Who determines the price of your product?’ overwhelming majority of 76 percent mentioned ‘market’ while some 20 percent mentioned ‘syndicate’. Those who mentioned ‘middle men’ and ‘regulating agency’ were 3 percent and 2 percent respectively. This figure shows that a high proportion of respondents think that the price of the product is determined by market which is a positive factor for business environment.

**Chart 4.2 (B9 all)**  
Who determines the price of your product? (B9, base = 1023)



The response to this question varied in terms of legal status of the enterprise and ISIC. Majority of the respondents belonging to sole proprietorship (80 percent), partnership (67 percent) and private limited liability company (69 percent) mentioned market while majority of the respondents belonging to co-operative society (54 percent) and public limited company (50 percent) mentioned syndicate. Going by category of business, even though proportion of those who mentioned market was higher in all categories, this proportion was significantly lower in the categories ‘transportation and communication’ (50 percent) and financial intermediation’ (43 percent) than other categories. One may infer from this that the syndicate is entrenched in transportation and communication and in financial intermediation.

**Chart 4.3 (B9 by legal status)**  
Who determines the price of your product? (B9, base = 1023)



### 4.3 REGISTRATION, LICENSE AND PERMIT

The survey attempted to obtain information about registration, license and permit required for business activities. In this regard, a question ‘Is your enterprise registered?’ was asked to all the respondents. An overwhelming majority of 77 percent said that their enterprise was registered and rest 23 percentage said ‘no’.

The response on this question was found to vary in terms of year of operation of the enterprises/business. Greater the year of operation of the business/enterprise, higher the proportions of business reported that they were registered.

A series of follow up questions pertaining to registration, licence and permit were further asked to those respondents whose enterprises/businesses were registered (i.e. 77 percent of the total respondents). In this context, the first question was ‘Do you have the document for cottage and small industries (Registration certificate from cottage and small industries department)?’ In response to this question, 33 percent of the respondents said that they have this document. Again a similar type of question ‘Do you have the document for medium and big industry?’ was asked. Only 4 percent of the respondents said ‘yes’

Proportion of the people who had PAN/VAT certificate was 76 percent. Only 2 percent had export license while some 2 percent had import license. These figures indicate that most of the people have PAN/VAT certificate compared to other documents.

**Table 4.4:** Please mention about the registration, license or permit you have obtained to operate your business. (Read Aloud)

C2	Do you have this document? (Yes)	Average days required to obtain this document	Do you have to renew this document each year? (Yes)	Average registration fee required for obtaining	Average fee required during last renewal
a. For cottage and small industries (Registration certificate from Cottage and Small industries Department)	32.6	11.6	89.1	2,826	3,402
b. For medium and big industry (Registration certificate from the Department of Industries)	4.3	15.0	82.4	8,305	4,148
c. PAN/ VAT certificate	76.1	8.7	86.1	5,672	5,352
d. Export license	1.8	6.6	92.9	38,289	1,376
e. Import license	1.5	2.9	75.0	1,995	2,066

Again a series of follow-up questions was asked to those respondents who said ‘yes’ in response to ‘Do you have this document?’ The table above shows the number of days it took to obtain the concerned documents. Registration certificate from Department of Industries for medium and big industries seemed to require the most number of days – on average 15 days. On an average the number of days for obtaining the registration certificate from cottage and small industries department was 12 days.

A high percent of respondents across all business categories mentioned the necessity of renewing the concerned documents each year. The average registration fees required for obtaining documents ranged from Rs. 38,289 for export license to Rs. 2,826 for registration certificate for small and cottage industries. Renewal of the necessary documents ranged from Rs. 5,352 for PAN/VAT certificates to Rs. 1,376 for export license.

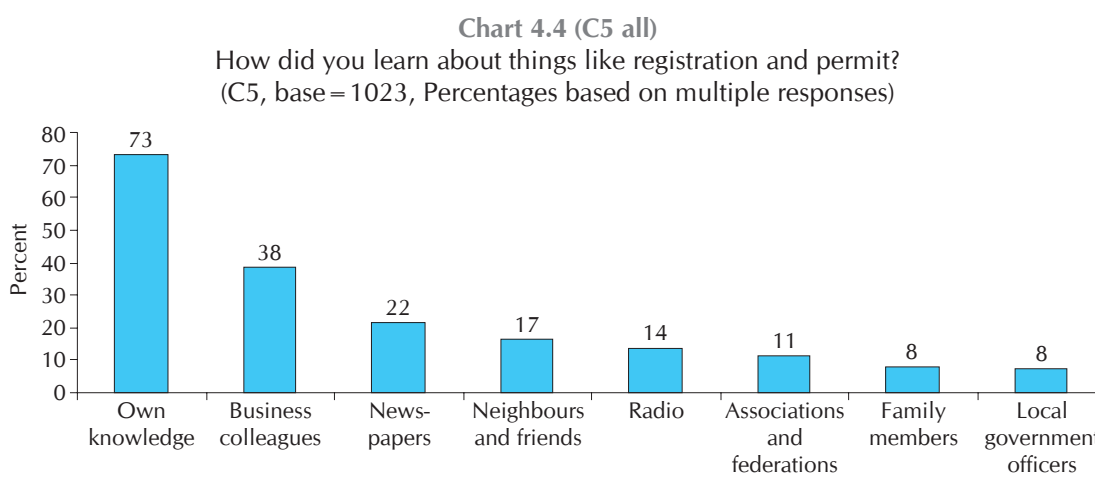
Seventy-seven percent of the total respondents who said that their firm is registered said that the average days required to comply with the government's requirements is 8 days. Response to this question was found to be divided in terms of legal status of the business. The survey showed that average days required to comply with the government's requirements is higher in publicly limited company (22 days) and private limited liability company (14 days) than businesses belonging to other legal status.

**Table 4.5:** In F.Y. 2066/67 how many days did it take for you to comply with requirements of the government's requirements? (For example taxes, customs, labour regulations, Nepal Standards Institute (NSI) regulations, licensing and registration) including dealings with officials, completing forms etc.)

	Base	All	Sole proprietorship	Partnership	Co-operative society	Private limited liability company	Publicly limited company
Average days required	743	7.6	5.8	10.0	11.0	13.7	21.5

Those respondents who say they did not register the enterprises/businesses (i.e. 23 percent of all respondents) were then asked to give two main reasons for this. The response to this question was found to be divided. The most commonly mentioned response included, 'it requires a lot of cost while there isn't much profit in the enterprise' (37 percent), 'the procedures are too complicated' (32 percent), 'the benefits of registration are not clear to me' (28 percent), 'once registered one has to begin paying taxes' (19 percent), and 'because it is not necessary' (12 percent).

A question 'How did you learn about things like registration and permit?' was asked to all 1,023 respondents. Multiple responses were possible. Majority of the people (73 percent) reported 'own knowledge' while a big proportion, 38 percent, mentioned 'business colleagues'. Some 22 percent mentioned 'newspaper' and proportion of those who mentioned neighbors and friend

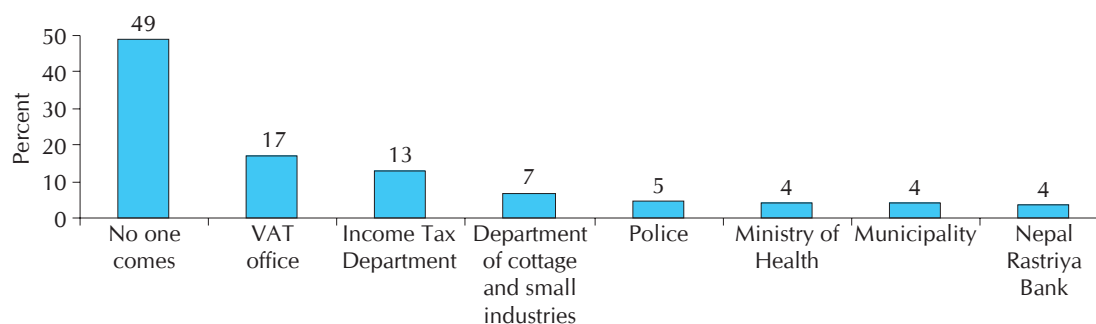


was 17 percent followed by radio (14 percent) and association and federations (11 percent). Equal proportion of people mentioned family members and local government officers (i.e. 8 percent for each response).

When asked ‘In F.Y. 2066/67 was your enterprise inspected by officials of the following agencies in the context of regulation of your business?’ around one in two respondents (49 percent) said that no one came for inspection while some 17 percent said labour and employment generation office followed by income tax department (13 percent) and department of cottage and small industries (7 percent). About five percent of the respondents said police. Equal proportion of people said Ministry of Health, Nepal Rastra Bank and municipality (i.e. 4 percent for each answer). The possible answers were read aloud and the options were multiple choice.

Chart 4.5 (C6 all)

In the F.Y. 2066/67 was your enterprise inspected by officials of the following agencies in the context of regulation of your business?  
(C6, base = 1023, Percentages based on multiple responses)

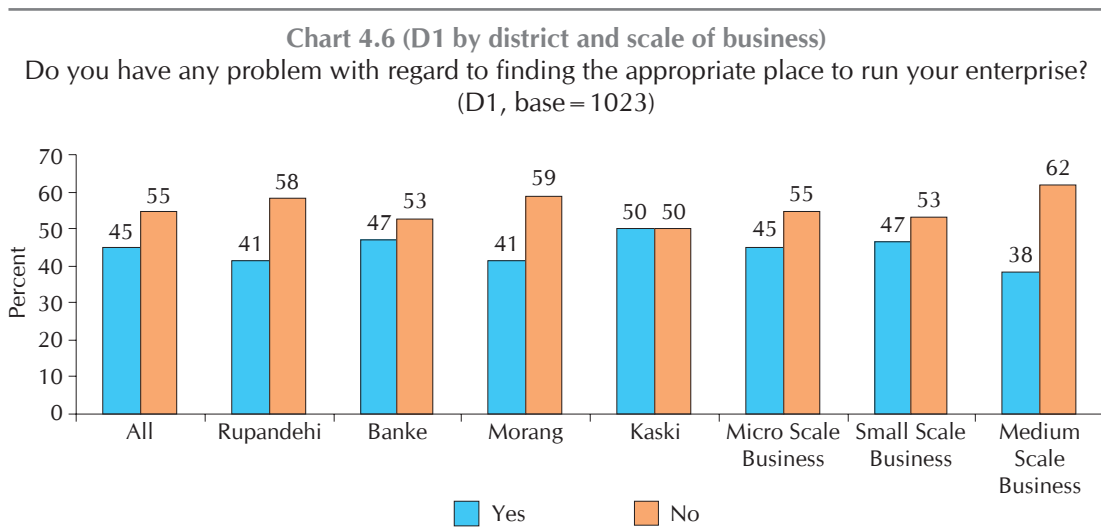


#### 4.4 GUARENTEE FOR THE RIGHT TO USE LAND

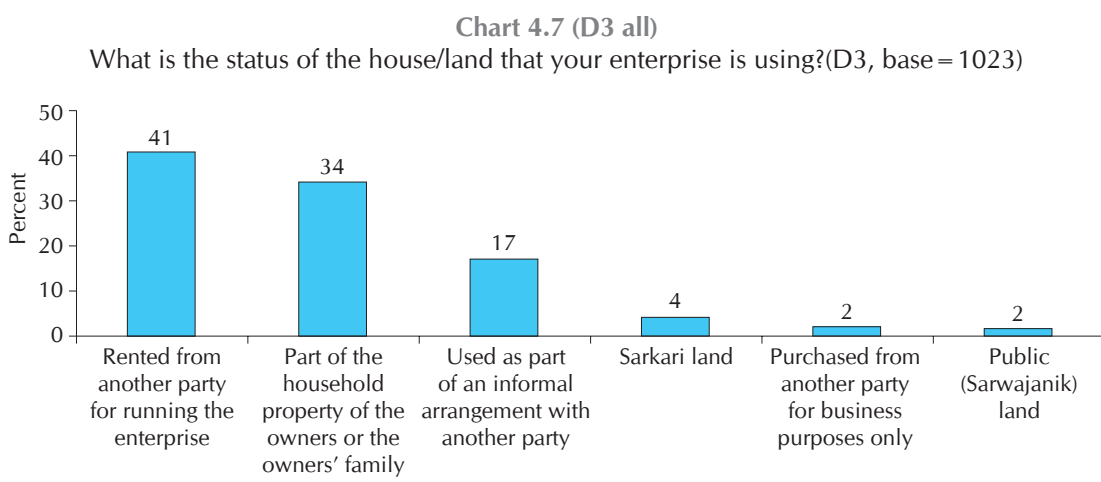
One of the aims of the survey was to gauge entrepreneur’s view about guarantee for the right to use land. In this context, the surveys asked, ‘Do you have any problem with regard to finding the appropriate place to run your enterprise?’ Some 55 percent said that there was no problem in finding an appropriate place to run their own enterprises/business while another 45 percent said that there were some problems.

There was some variation in response to this question across district, category of business and scale of business. Proportion of those who said that there were problems in finding the appropriate place to run the enterprise was higher in Kaski (50 percent) than other three districts. This proportion was also higher in ‘agriculture, forestry and fishing’ (52 percent), and ‘education and health’ (58 percent) than others. In term of scale of business, higher the scale of business, lesser the proportion of respondents who said that there were problems in finding the appropriate place.

Respondents who said that there were problems in finding the appropriate place to run the enterprise/business (i.e. 45 percent of all the respondents) were asked to mention the main problem. More than half (53 percent) mentioned ‘not finding the place one likes’ and some 32 percent mentioned ‘the place one likes is too expensive. A significant proportion, 12 percent, mentioned ‘congested place where parking facilities is weak.’



The survey also explored the status of the house/land that their enterprise was using. The possible list of answers was read out. Some 41 percent said that it was rented from another party, 34 percent mentioned that it was part of the household property of the owners and 17 percent said that it was used as part of an informal arrangement with another party. About 2 percent said that it was purchased from another party for business. Proportion of those who were using Sarkari land and public (Sarwajanik) land were 4 percent and 2 percent respectively.

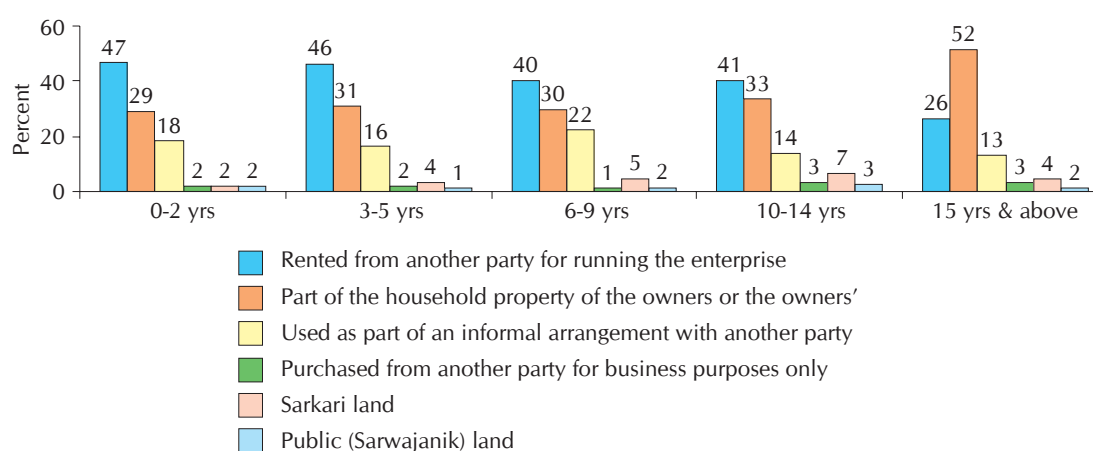


There was some variation in response to this question across district, year of operation and legal status of business. Proportion of those who mentioned 'part of the household property of the owners or the owner's family' was higher in Rupandehi (44 percent) while proportion of those who mentioned 'rented from another party for running the enterprise' was higher in Banke (50 percent), Morang (42 percent) and Kaski (36 percent). Majority of the enterprise which was operating from past 15 years (52 percent) mentioned 'part of the household property of the owners or the owner's family' while majority of the enterprise which was operating since past 14 years mentioned 'rented from another party for running the enterprise'. Going by legal status of the enterprise, majority of the respondents belonging to sole proprietorship (38 percent) mentioned 'part of the household property of the owners or the owner's family' while respondents from other status of the enterprise/business mentioned 'rented from another party for running the enterprise.'



Chart 4.8 (D3 year of operation)

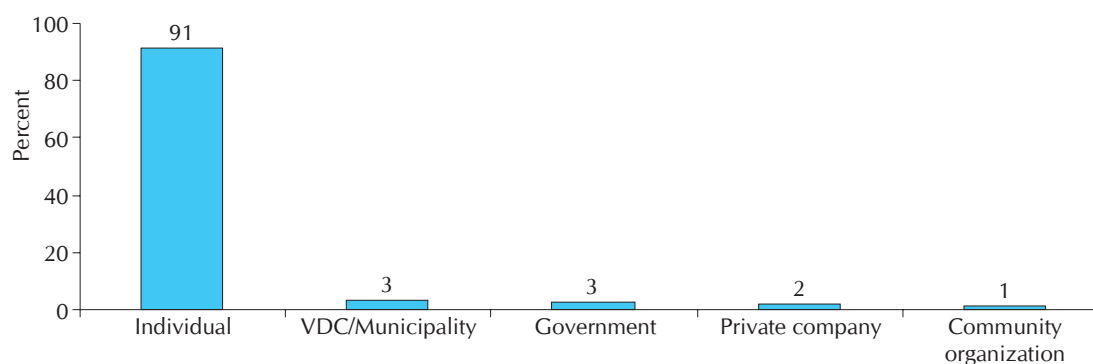
What is the status of the house/land that your enterprise is using? (D3, base= 1023)



Those respondents who rented the house/land from another party for running the enterprise (i.e. 41 percent of the total respondents) were then asked from where they rented it. Overwhelming majority, 91, percent mentioned individuals. Proportion of those who mentioned government and VDC/municipality was 3 percent each. Only two percent said private company followed by one percent who mentioned community organization.

Chart 4.9 (D4 all)

If you are renting house/land from another party to run your enterprise, who are you renting it from?(D4, base = 417 )



Another follow-up question 'Based on the rent agreement, what was the full length (in years) of the lease?' was asked to those respondents who said that they were renting the house/land from another party (i.e. 41 percent of all the respondents). The survey revealed that the average length of the lease agreement was 8 years.

Another follow-up question 'For renting the house/land, how much are you presently paying per month?' was asked to those respondents who said that they were renting the house/land from another party (i.e. 41 percent of the total respondents). The average amount per month for renting the house/land was Rs.13,782 (Nepali Rupees); this amount was much higher compared to the fiscal year 2065/66.

The response to this question varied across districts, category of business and scale of business.

The average amount was lower in Banke than other districts. In terms of category of business, those in financial intermediation (Rs. 35,792) and education and health sectors (Rs. 18,038) were paying large amounts for renting house/land than other category of business, while businesses belonging to other categories were paying below the national average (Rs. 13,782). In terms of scale of business, larger the scale of business, grater the amount for renting the house/land.

**Table 4.6:** For renting the house/land, how much are you presently paying per month? (D6, base = 417)

D6	All		Rupandehi	Banke	Morang	Kaski
	F.Y. 2065/66	F.Y. 2066/67				
Mean amount per month (Nepali Rupees)	7,665	13,782	16,392	9,764	13,888	16,785

D6	Micro scale business	Small scale business	Medium scale business
Mean amount per month (Nepali Rupees)	7,585	13,046	36,561

Another follow-up question 'Please evaluate the risk of changes in rent conditions if another party was to insert new conditions (i.e. rent increases, sales to new parties, etc)' was asked to those respondents who said that they were renting the house/land from another party (i.e. 41 percent of the total respondents). About 53 percent of them mentioned 'very high' while some 31 percent mentioned 'high'. Some 7 percent mentioned 'low' followed by 'moderate' (5 percent), and 'very low' (3 percent).

**Table 4.7:** Please evaluate the risk of changes in rent conditions if another party was to insert new conditions (i.e. rent increases, sales to new parties, etc) (D7, base = 417)

D7	Percent
Very high	53.0
High	31.4
Moderate	4.8
Low	6.7
Very low	3.1
DK/CS	1.0
<b>Total</b>	<b>100.0</b>

#### 4.5 DISPUTE RESOLUTION

The survey attempted to gauge people's perception about dispute and its resolution. A series of questions pertaining to dispute resolution was asked. The first question in the series was: 'Has your enterprise ever experienced any type of disputes?' About two-third of the respondents (65 percent) reported that they had never experienced any type of disputes while more than one-third (35 percent) mentioned that they had experienced some type of disputes.

A follow up question 'If yes, with whom has your enterprise experienced disputes?' was asked to those respondents who reported that they have experienced some type of disputes (i.e. 35 percent of the total respondents). The possible choices were read out and multiple. Sixty two percent of the respondents mentioned that they had experienced disputes with customers

(e.g. delayed payment, not paying etc.) while one in four respondents (26 percent) mentioned 'with competitors' followed by 'with suppliers (late delivery, poor quality etc.)' (20 percent), 'with local residents' (16 percent) and 'disputes between management and employees/labour' (15 percent).

Chart 4.10 (E2 all)

If yes, with whom has your enterprise experienced disputes?  
(E2, base = 359, Percentages based on multiple responses)

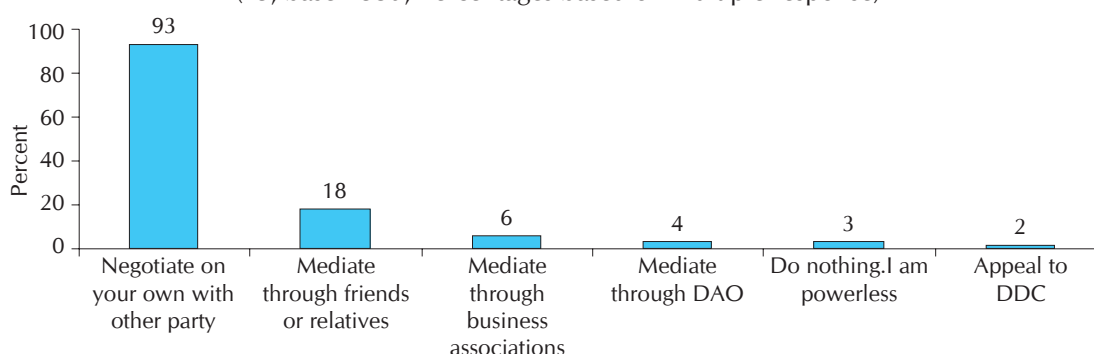


The response to this question varied across districts. Those respondents who had experienced dispute with customer were higher in Banke districts (73 percent) than other districts such as Rupandehi (57 percent), Morang (61 percent) and Kaski (58 percent).

Those respondents who have experienced some types of disputes (35 percent of all respondents) were then asked how they resolved these types of disputes. Overwhelming majority of 93 percent said that they resolve the dispute by negotiating with other party while some 18 percent say that they resolve the dispute by mediating through friends or relative. About 6 percent mentioned 'mediate through business association' and some 4 percent mentioned 'mediate through District Administration Office'. In this case too, the possible answers were read aloud and also multiple.

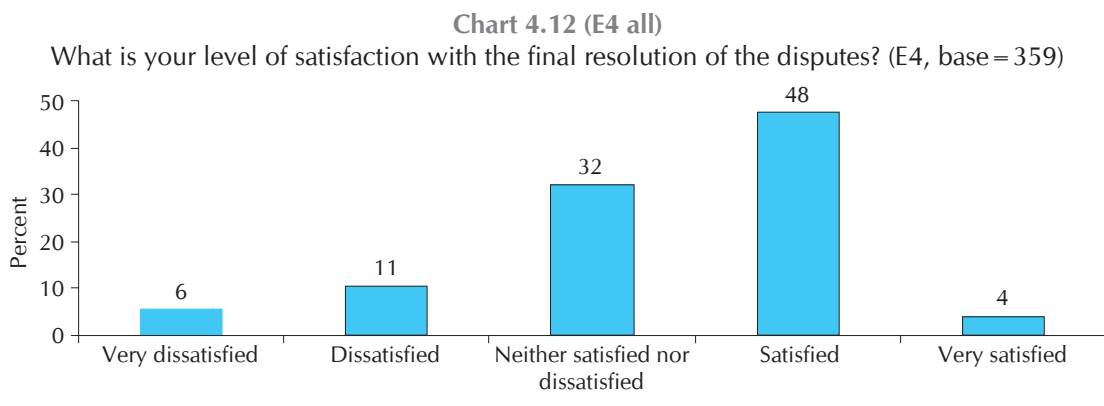
Chart 4.11 (E3 all)

How do you normally resolve these types of disputes?  
(E3, base = 359, Percentages based on multiple response)



Again a follow up question 'What is your level of satisfaction with the final resolution of the disputes?' was asked to those respondents who had experienced some types of disputes (35 percent of all respondents). In response, a little more than half (52 percent) were satisfied with the resolution of the disputes (including very satisfied and satisfied). In contrast, about 16

percent were dissatisfied with dispute resolution (including very dissatisfied and dissatisfied). Significant proportions, 32 percent, were neither satisfied nor dissatisfied. There was some variation in response between districts. Higher proportion of the people living in Banke district (68 percent) were satisfied with the dispute resolution than other districts – Rupandehi (52 percent), Morang (38 percent) and Kaski (56 percent).

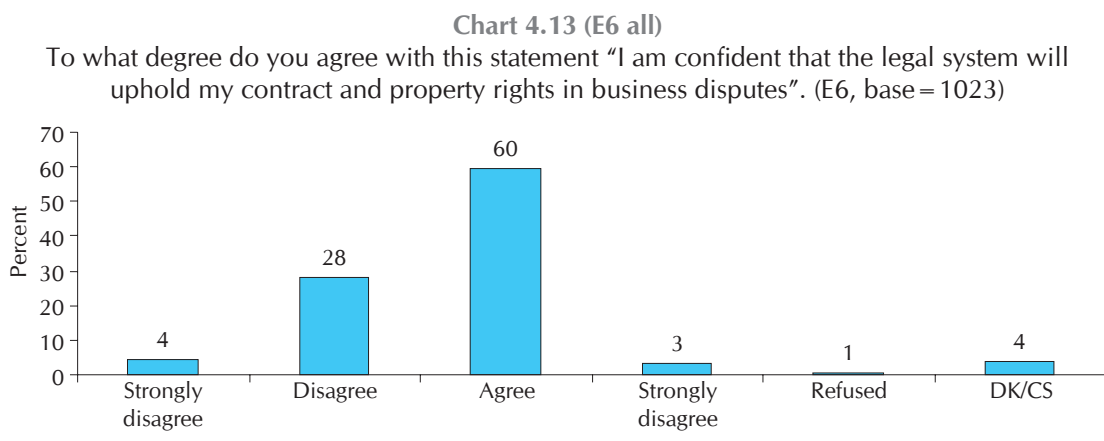


Thirty five percent of the all respondents who had experienced disputes were further asked: how many times were there dispute during the past one year? The survey revealed that the average number of disputes in the past one year that the enterprise experienced was 5. There was some variation across districts; higher number of disputes was encountered in Morang than other districts.

**Table 4.8:** How many times was there dispute during the past one year? (Base = 359, E5)

E5	All	Rupandehi	Banke	Morang	Kaski
Mean number of disputes	5.2	5.0	4.5	7.2	3.7

All the respondents were asked: To what degree do you agree with this statement “I am confident that the legal system will uphold my contract and property rights in business disputes” most of the respondents, 63 percent, agreed with this statement (including agree and strongly agree). In contrast, about 33 percent of the respondents disagreed with this statement (including disagree and strongly disagree).



## 4.6 TRANSPARENCY

The survey also attempted to measure the business community's perception toward whether or not the government was transparent and to what extent it was so. In this regards, a series of questions pertaining to government's transparency was asked to all of the respondents. A first question in the series, 'please rate your access to information on the permits and rules that are required for your enterprise' was asked. In response to this question, about 60 percent said 'easy' while some 30 percent said 'difficult'.

Likewise a second question was asked: 'Please rate your access to permits and application forms required for your enterprise.' In response to this question, most of the respondents (62 percent) said 'easy' while some 29 percent said 'difficult'.

Likewise another question asked was: 'Please rate your access to government policies and regulations relevant to your sector.' In response to this question, some 44 percent of them said 'easy' while another 43 percent said 'difficult'.

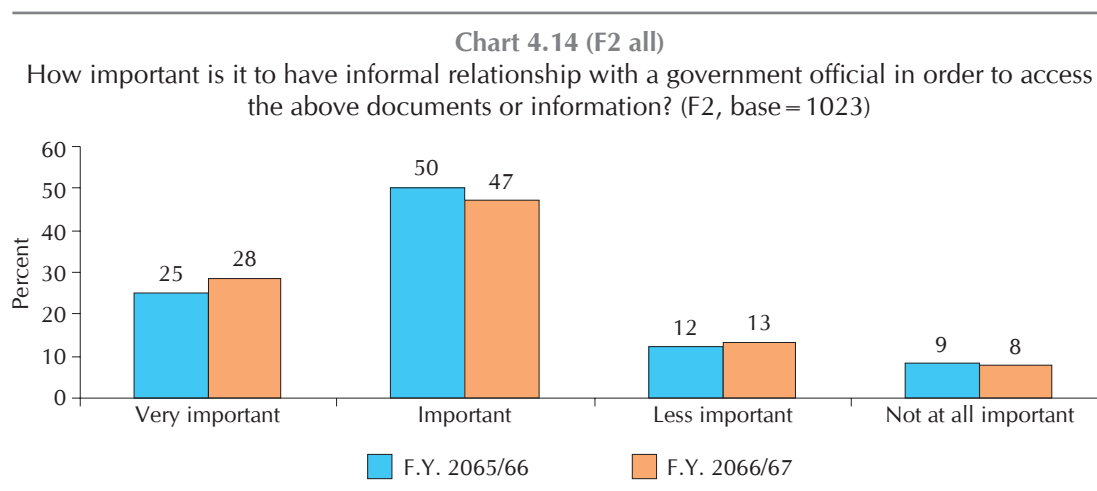
In this way, other questions of this series were asked and the responses are presented in the table given below. The data indicate that a majority perceive access to data and information to be 'easy' except for information on the facilities, training and technologies from local government agencies where a majority said it was 'difficult'. For most of the respondents access to information on various goods-specific clearances to be obtained before exporting was not applicable.

**Table 4.9:** Please rate your access to these documents and information  
(Base = 1,023, F1)

F1	Very difficult	Difficult	Easy	Very easy	DK/CS	NA
a. Information on what are the permits and rules that are required for your enterprise	4.3	30.4	59.6	1.8	3.0	0.9
b. How to obtain permits and application forms required for your enterprise	2.7	29.0	62.3	1.9	3.2	0.9
c. Government policies and regulations relevant to your sector	6.5	42.8	44.1	1.3	4.6	0.8
d. Information on the facilities, training and technologies from local government agencies	8.7	52.8	31.0	1.3	5.0	1.3
e. Information on taxation policies (income tax, VAT, customs duties, local taxes and fees)	4.0	26.8	58.7	2.8	4.9	2.7
f. Information on various goods-specific clearances to be obtained before exporting goods	1.5	6.2	10.1	0.4	8.3	73.6

In response to the question 'How important is it to have informal relationship with a government official in order to access the above documents or information?', a little less than half of the people said that it is important to have informal relationship with a government official in order to access the documents or information. A significant proportion, 28 percent said 'very important'. In contrast, some 13 percent said 'less important' and proportion of those

who said ‘not at all important’ is only 8 percent. This shows the continuing salience of informal relationship or what in Nepali is known as *afno manche*. The proportion of the people who feel that the informal relationship with a government official in order to access the document or information is important is the same compared to the fiscal year 2065/66. Majority of the people think that informal relationship with a government officials in order to access the documents or information is important; this factor is also a negative indication of business growth in Nepal.



A question ‘Do government officials come to discuss existing policies, rules or regulations that may affect your enterprise?’ was asked to all the respondents. Majority of respondents (78 percent) said that they never come to discuss existing policies, rules or regulations. Some 21 percent responded in the affirmative. Proportion of people who said that government official come to discuss existing policies, rules or regulations which affect their business slightly decreased in FY 2066/67 compared to the FY 2065/66.

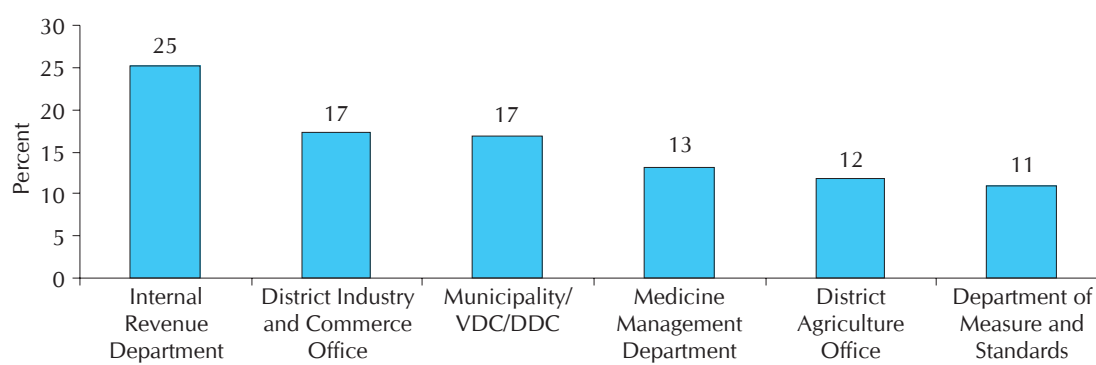
**Table 4.10:** Do government officials come to discuss existing policies, rules or regulations that may affect your enterprise? (F3, base = 1,023)

F3	F.Y. 2065/66	F.Y. 2066/67
Yes	22.0	21.4
No	75.6	77.5
Refused	0.8	0.2
DK/CS	1.6	0.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

A follow-up question ‘If they come please mention the name of the government agency that come in contact with you’ was asked to those respondents who said that they came to discuss existing policies, rules or regulations that may affect their enterprise/business (i.e. 21 percent of the total respondents). Multiple responses were possible. One-fourth of the respondents (25 percent) said that they were from Internal Revenue Department. Equal proportion of the people mentioned ‘Municipality/VDC/DDC’ and ‘District Industry and Commerce Office’ (17 percent for each). Some 13 percent mentioned ‘medicine management department’ followed by District Agriculture Office (12 percent), and ‘department of measures and standards’ (11 percent).

Chart 4.15 (F4 all)

If they come, please mention the name of these government agencies. (F4, base = 219, Percentages based on multiple responses)

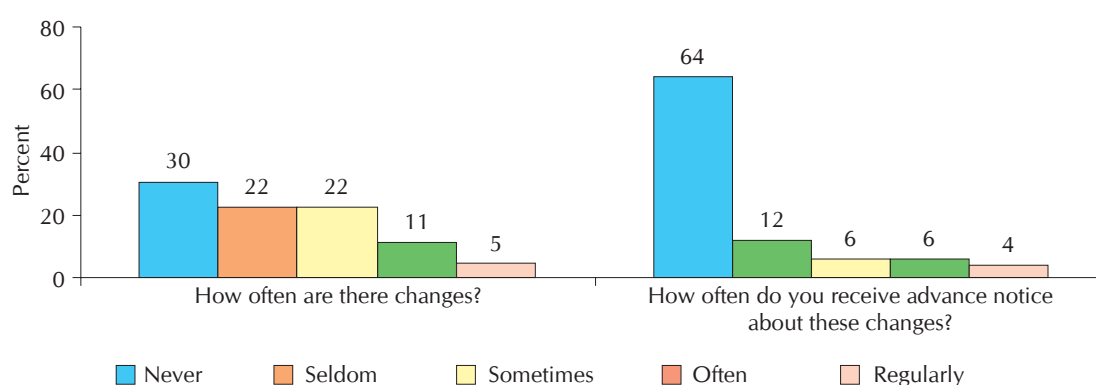


All of the respondents were asked ‘How often are there changes in central government’s laws, rules and regulations that affect your business?’ Some 30 percent mentioned ‘never’ followed by ‘seldom’ (22 percent), ‘sometimes’ (22 percent), and ‘often’ (11 percent). About 5 percent mentioned ‘regularly’. Nine percent professed ignorance on this matter.

A follow-up question ‘How often do you receive advance notice about the changes in central government’s laws, rules and regulations that affect your business?’ was asked to all the respondents. Some 64 percent mentioned ‘never’ followed by ‘seldom’ (12 percent), ‘sometimes’ (6 percent), ‘often’ (6 percent). Proportion of those who mentioned ‘regularly’ is low (4 percent). A significant proportion, 8 percent, professed ignorance on this matter.

Chart 4.16 (F5 all)

How often are there changes in central government’s laws, rules and regulations that affect your business, and how often do you receive advance notice about these changes? (F5, base = 1023)



## 4.7 PARTICIPATION

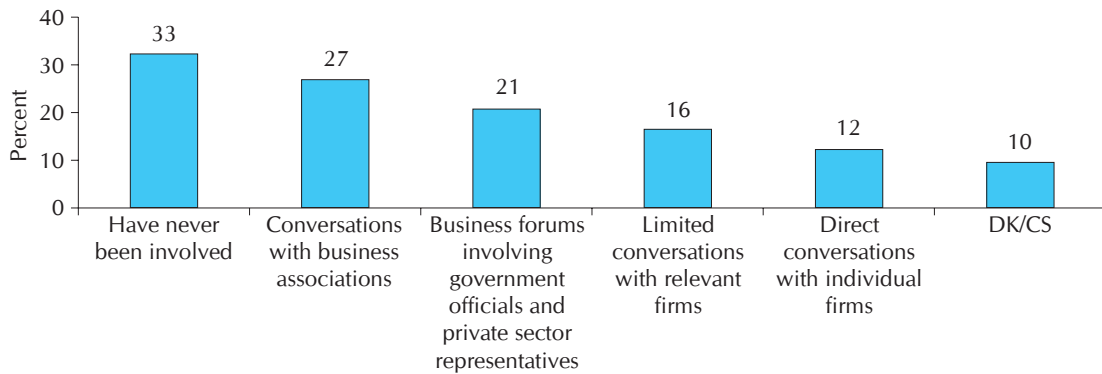
The survey asked some questions about the participation of the business community with government. All of the respondents were asked ‘What is the most common manner in which the government engages with private firms?’ Respondents were allowed to mention more than one answer and possible answers were read aloud. One-third (33 percent) of the people mentioned that the government was never involved with private firms and about one-fourth (27 percent) of the respondents mentioned that the government engaged with private firms



through conversations with business association. One in five respondents mentioned that the government engaged with private firms through business forums involving government officials and private sector representatives. Proportion of those who mentioned 'limited conversations with relevant firms' and 'direct conversations with individual firms' were 16 percent and 12 percent respectively.

**Chart 4.17 (G1 all)**

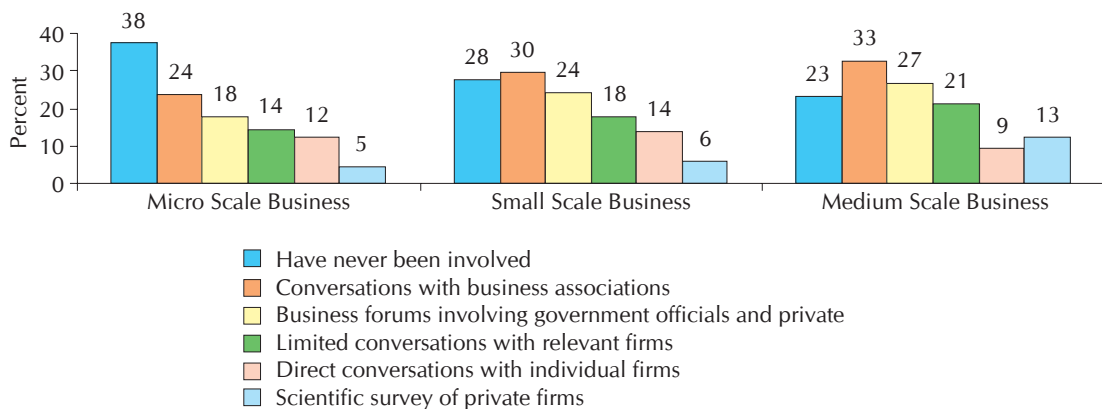
What is the most common manner in which the government engages with private firms? (G1, base = 1023, Percentages based on multiple responses)



There was some variation in responses between scales of business and legal status of the business. Those who mentioned 'conversations with business association' was higher in small scale business (30 percent) and medium scale business (33 percent) while those who mentioned 'have never been involved' was higher in micro scale business (38 percent). Going by legal status of the business, majority of the people belonging to sole proprietorship (34 percent) and partnership (32 percent) mentioned 'have never been involved' while majority of the people belonging to co-operative (40 percent) and public listed company (39 percent) mentioned 'conversations with business association'. In private limited liability company, the response is found to be divided: same proportion mentioned both responses 'conversations with business association' and 'have never been involved' (30 percent for each).

**Chart 4.18 (G1 by scale of business)**

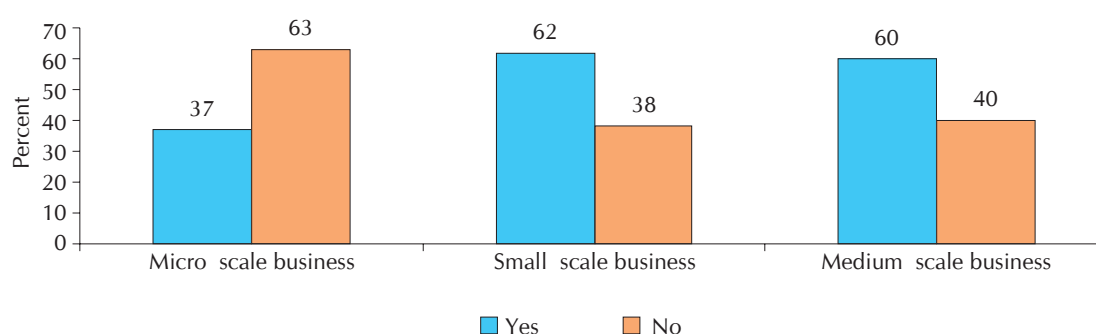
What is the most common manner in which the government engages with private firms? (G1, base = 1023, Percentages based on multiple responses)



When asked ‘Are you a member of any business association/membership group/Chamber of Commerce in your district?’ about one in two respondents reported that they are member of business associations. Going by districts, higher proportion of the people in Rupandehi (62 percent) were members of business associations compared to other districts – Banke (47 percent), Morang (40 percent) and Kaski (48 percent). In terms of scale of business too, the response is found to be divided. Majority of the people belonging to small scale business (62 percent) and medium scale business (60 percent) were members of any business association while most of the people of micro scale business (63 percent) were not members of any business association.

**Chart 4.19 (G2 by scale of business)**

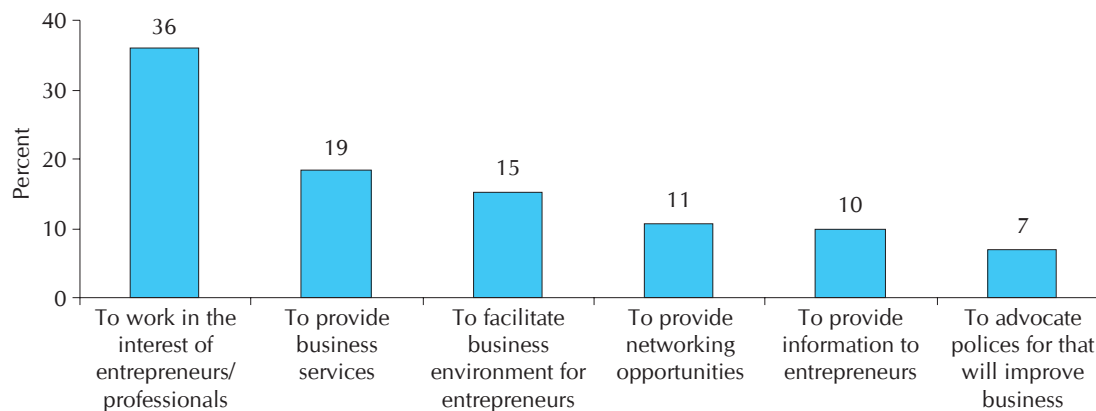
Are you a member of any business association/membership group/Chamber of Commerce in your district? (G2, base = 1023)



A follow-up question ‘In your opinion, what is the main role of your business association/membership group/Chamber?’ was asked to those respondents who were members of business association/membership group/Chamber of Commerce (i.e. 49 percent of the total respondents). Some 36 percent mentioned ‘to work in the interest of entrepreneurs/professionals’ while another 19 percent mentioned ‘to provide business services’. About 15 percent mentioned ‘to facilitate business environment for entrepreneurs’ followed by ‘To provide networking opportunities’ (11 percent). Proportion of those who mentioned ‘to provide information to entrepreneurs’ was 10 percent.

**Chart 4.20 (G4, all)**

In your opinion, what is the main role of your business association/membership group/Chamber? (G4, base = 502)

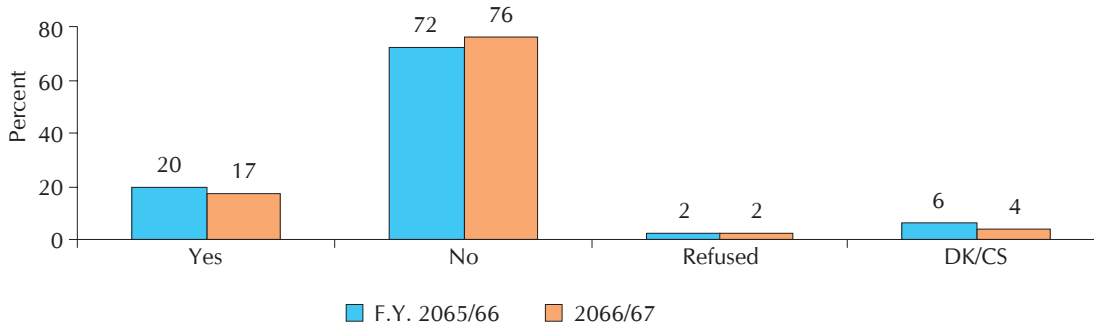


#### 4.8 INFORMAL CHARGES

The survey attempted to map the business community's perception towards the informal charges demanded by officials in the course of running their enterprises. In this regards, a statement was read out: 'We have heard that establishments are sometimes required to make gifts or informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services etc. Does this occur for establishments in your sector (not necessarily your business)?' Most of the respondents (76 percent) said 'no'. A significant proportion, 17 percent, said 'yes'. Proportion of the people who said yes decreased by three percent in FY 2066/67 compared to FY 2065/66. The informal charges are negative factors in business activities to improve the business, which is still 17 percent.

Chart 4.21 (H1 all)

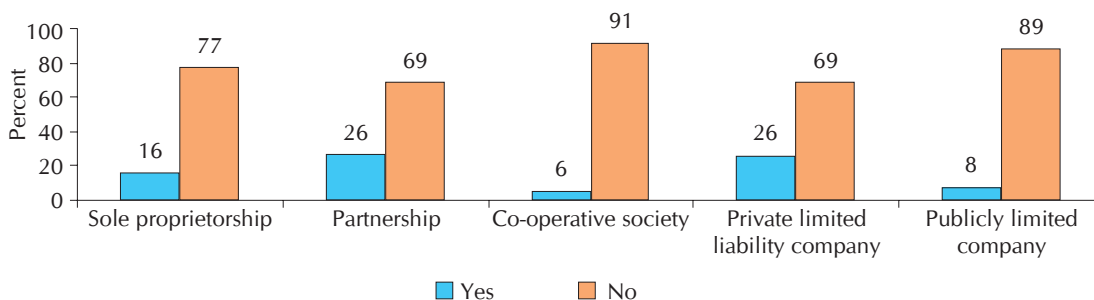
We have heard that establishments are sometimes required to make gifts or informal payments to public officials to "get things done". Does this occur for establishments in your sector?  
(H1, base = 1023)



The survey revealed that there is a significant difference in response to this question in terms of legal status of the business. Proportion of those people who said 'yes' was slightly higher in partnership (26 percent), private limited liability company (26 percent) than sole proprietorship (16 percent), co-operative society (6 percent) and publicly limited company (8 percent).

Chart 4.22 (H1 by legal status of the business)

We have heard that establishments are sometimes required to make gifts or informal payments to public officials to "get things done". Does this occur for establishments in your sector?  
(H1, base = 1023)



A follow-up question 'If yes, on average, over a year, how much do informal payments cost a typical establishment in your sector?' was asked to those respondents who said that they had paid informal payments (i.e. 17 percent of the total respondents, among 17 percent of them,

35 percent did not give response). The survey revealed that the average informal payments cost over a year was Rs.50,839 (In Nepali Rupees).

**Table 4.11:** If yes, on average, over a year, how much do informal payments cost a typical establishment in your sector?

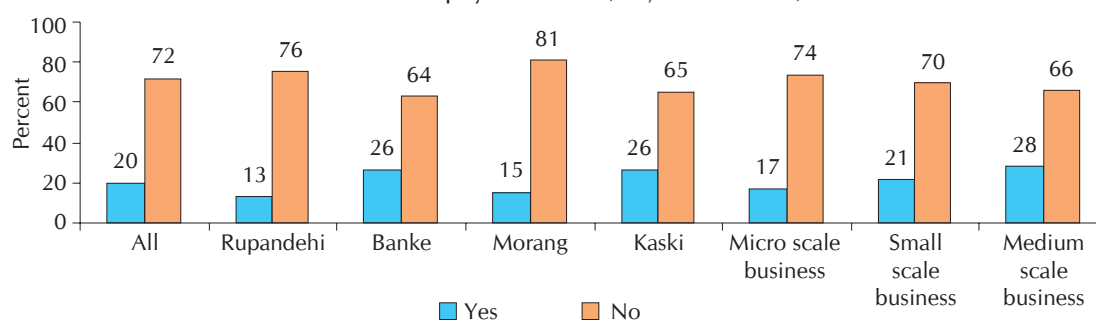
H2	F.Y. 2065/66	F.Y. 2066/67
Average informal payments cost per year	79,741	50,839

The survey asked all the respondents whether they agreed with this statement: “Firms in my sector usually know in advance how much this ‘additional payment’ is”. About 72 percent mentioned that they did not agree with this statement while some 20 percent mentioned that they agreed with this statement.

The survey revealed that the response to this question varies across districts and scale of business. Proportion of those peoples who were in agreement with this statement was higher in Banke (26 percent) and Kaski (26 percent) compared to Rupandehi (13 percent) and Morang (15 percent). Across the scale of business: larger the scale of business, the higher the proportion of people who agreed with the statement.

**Chart 4.23 (H3 by all, districts and scale of business combined)**

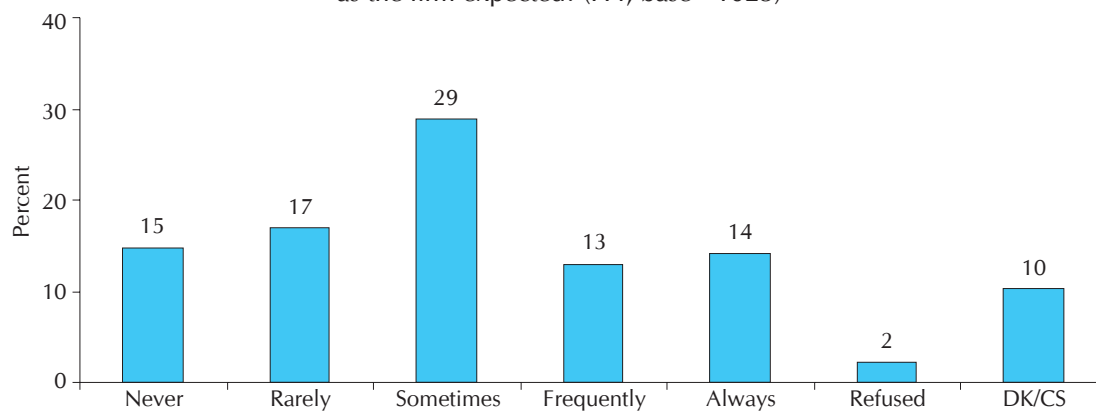
Do you agree with this statement: “Firms in my sector usually know in advance how much this ‘additional payment’ is”? (H3, base = 1023)



The survey also asked all the respondents if a firm pays the required ‘additional payment’ how often is the service delivered. About 15 percent of them said ‘never’ while another 17 percent

**Chart 4.24 (H4 all)**

If a firm pays the required ‘additional payment’ how often is the service delivered as the firm expected? (H4, base = 1023)

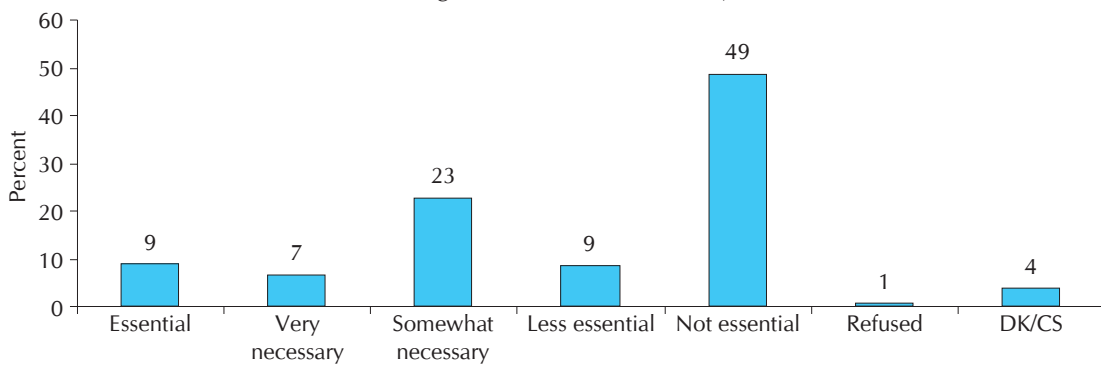


said 'rarely'. Some 29 percent said 'sometimes' followed by 'frequently' (13 percent) and 'always' (14 percent). A significant proportion, 10 percent, professed ignorance on this matter.

Likewise a similar question was asked: 'How necessary is it for you to make informal additional payments to government officials to obtain government services?' In response to this question, around one in two respondents mentioned 'not essential' while another 23 percent mentioned 'somewhat essential'. Only 7 percent of them mentioned 'very essential' followed by 'essential' (9 percent) and less essential (9 percent).

Chart 4.25 (H5 all)

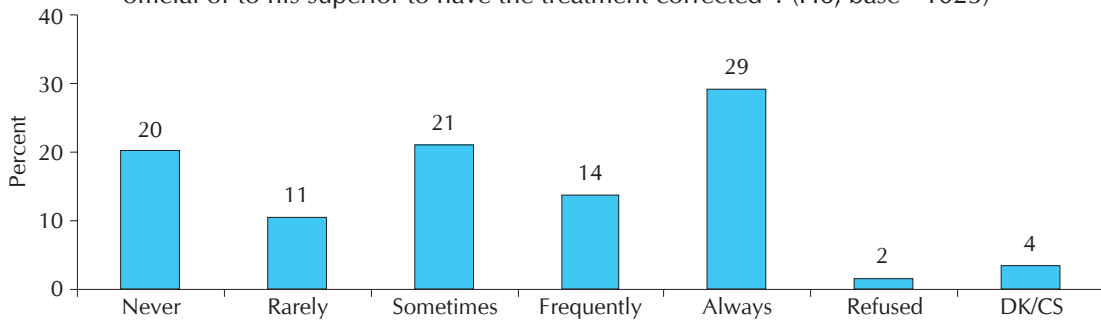
How necessary is it for you to make informal additional payments to government officials to obtain government services?(H5, base = 1023)



Another question asked was 'How often is the following statement true? "If a government agent acts against the rules (e.g. overzealous inspections or unofficial payments), I can usually go to another official or to his superior to have the treatment corrected?"' In response, about 29 percent of them said 'always' while some another 14 percent said 'frequently'. Proportion of those who said 'sometimes' was 21 percent and those said 'rarely' was 11 percent. A significant proportion, 20 percent, said 'never'.

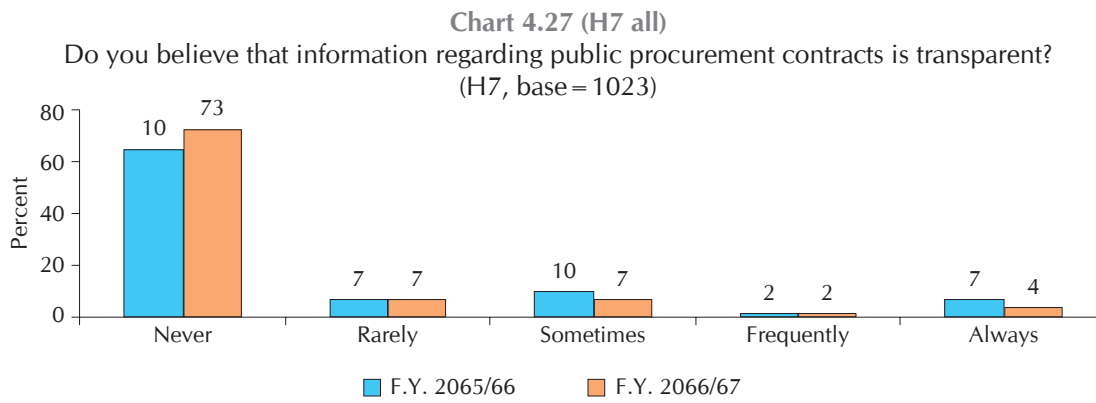
Chart 4.26 (H6 all)

How often is the following statement true? "If a government agent acts against the rules (e.g. overzealous inspections or unofficial payments), I can usually go to another official or to his superior to have the treatment corrected"? (H6, base = 1023)

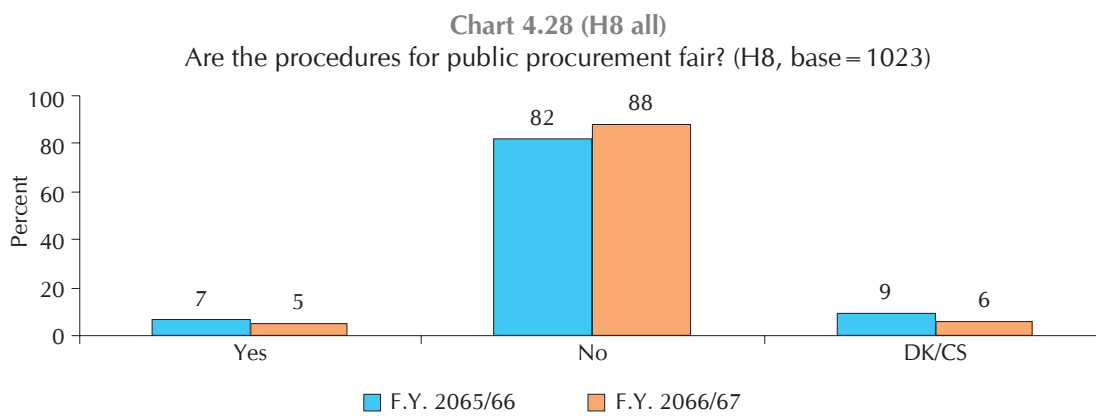


In response to the question 'Do you believe that information regarding public procurement contracts is transparent?' 73 percent of the people mentioned 'no'. Those who mentioned rarely, sometimes, frequently and always were 7, 7, 2 and 4 percent respectively. Compared to fiscal year 2065/66, proportion of those who thought that information regarding public

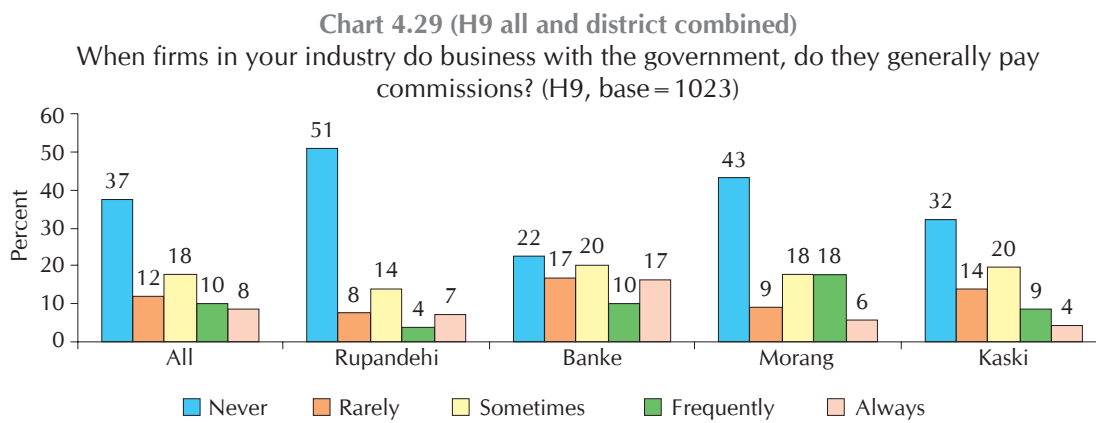
procurement contract was not transparent is higher in the fiscal year 2066/67.



A question ‘Are the procedures for public procurement fair?’ was asked to all the respondents. In response, overwhelming majority of 88 percent thought that the procedures for public procurement were not fair while only 5 percent thought it was fair. About six percent professed ignorance on this matter. People who thought that the procedures for public procurement was not fair increased in the fiscal year 2066/67 compared to the fiscal year 2065/66 (88 percent vs. 82 percent).



The survey asked ‘When firms in your industry do business with the government, do they generally pay commission?’. About 37 percent peoples mentioned ‘never’ while another 8 percent peoples mentioned ‘always’. Some 18 percent mentioned ‘sometimes’ followed by ‘rarely’



(12 percent) and ‘frequently’ (10 percent). A significant proportion, 12 percent, mentioned ‘DK/CS’. There was some variation in responses across districts. Those who mentioned ‘never’ was lower in Banke district (22 percent) compared to Rupandehi (51 percent), Morang (43 percent) and Kaski (32 percent). In contrast, those who mentioned ‘always’ was higher in Banke (17 percent) than other three districts.

A follow-up question ‘On an average, how large are the above commissions as a percentage of the total value of the public project?’ was asked to those respondents who mentioned that they paid commissions (i.e. 48 percent of the total respondents). The survey revealed that, on an average, 13.6 percent of the total value of the public project was paid as commissions. This commission remained the same compared to the fiscal year 2065/66.

**Table 4.12:** On average, how large is the above commissions as a percentage of the total value of the public project?

H10	N	F. Y. 2065/66	F. Y. 2066/67
Average commission as a percentage of the total value of the public project	332	13.4	13.6

As in the case with previous questions, the response varied in terms of districts and legal status of the enterprise/business. Going by districts, the survey revealed that on an average, the percentage of the total value of the public project for commissions was higher in Morang (15 percent) and Banke (14 percent) compared to Rupandehi (11 percent) and Kaski (12 percent). In terms of legal status of the enterprise/business, the survey revealed that on an average, the percentage of the total value of the public project for commissions is higher in publicly limited company (20 percent) and co-operative (19 percent) compared to other categories of legal status of the enterprise/business.

**Table 4.13:** On average, how large are the above commissions as a percentage of the total value of the public project? (H10, base = 243)

H10	Kaski	Rupandehi	Morang	Banke
Mean (%)	12.4	11.4	15.1	14.3

H10	Sole proprietorship	Partnership	Co-operative society	Private limited liability company	Publicly limited company
Mean (%)	13.7	11.7	19.3	14.5	20.3

The survey asked all the respondents whether personal connections to government officials for winning public procurement contracts are important. About 36 percent of them said that it is a must while another 35 percent said that it is very important. Proportion of those who said personal connection to government officials for winning public procurement contracts is necessary is 71 percent.



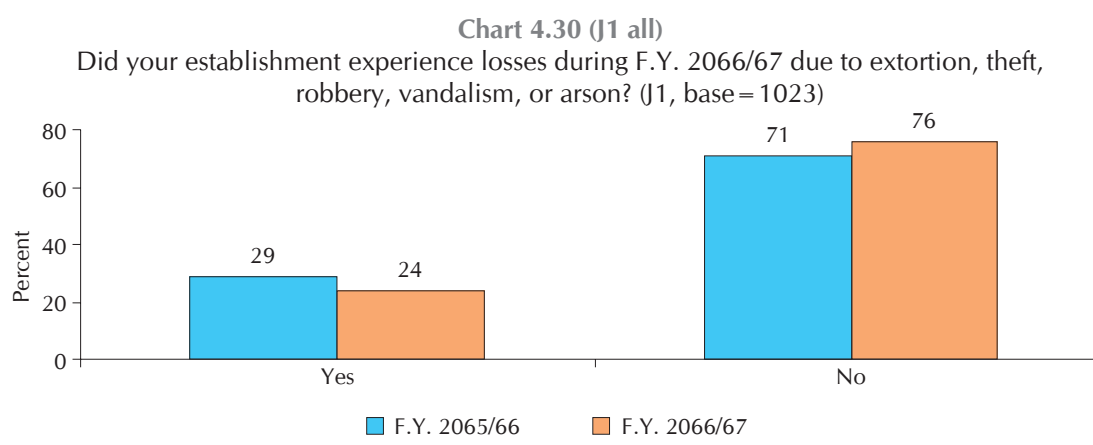
**Table 4.14:** How important are personal connections to a) government officials b) political party backing for winning public procurement contracts? (H11, Base = 1023)

H11	Government officials (%)	Political party (%)
It's a 'must'	36.0	35.1
Very important	35.4	31.5
Somewhat important	17.4	19.9
Not so important	3.8	5.7
Not important at all	1.9	2.4
Refused	0.7	0.6
DK/CS	4.9	4.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

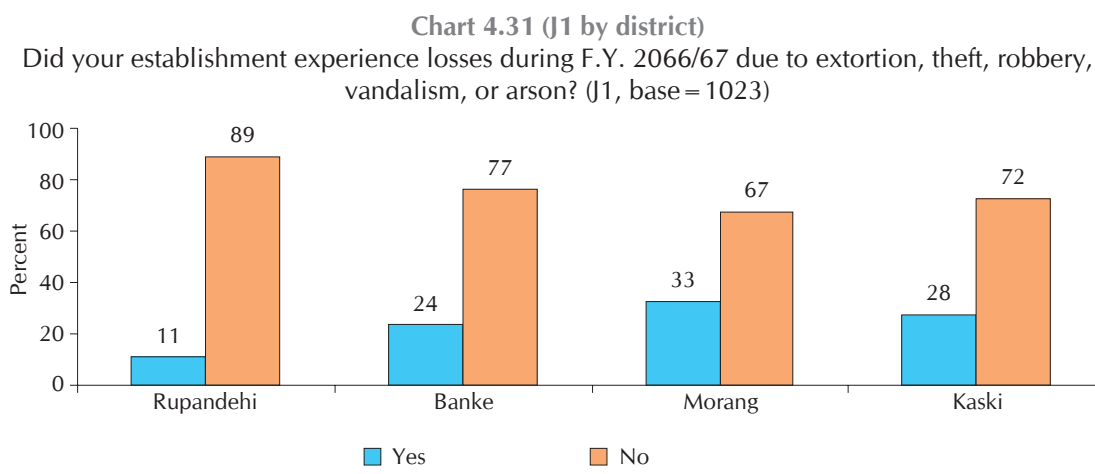
Likewise a similar question was asked: 'How important is political party backing for winning public procurement contracts?' In response, some 35 percent of them said that it is a must while another 32 percent said that it is very important. The survey revealed that proportion of those who said that political party backing for winning public procurement contracts is necessary is 67 percent. These figures indicate that personal connection to government officials is slightly more important than backings from political party for winning public procurement contracts.

#### 4.9 CRIME

The survey attempted to understand the losses/effect on enterprise/business due to crime (i.e. extortion, theft, robbery, vandalism, arson etc.). In this context, the survey asked, 'Did your establishment experience losses during F.Y. 2066/67 due to extortion, theft, robbery, vandalism, or arson?' In response, majority of the people (76 percent) said that they did not lose anything due to extortion, theft, robbery, vandalism and arson while a significant proportion, 24 percent, had lost something due to these causes. People who had lost something in their business/enterprise due to extortion, theft, robbery, vandalism or arson was slightly lower in the fiscal year 2066/67 than the fiscal year 2065/66 (i.e. 24 percent vs. 29 percent).



There is some variation across districts. Proportion of those who had experienced losses was higher in Banke (24 percent), Morang (33 percent) and Kaski (28 percent) compared to Rupandehi (11 percent).



A follow-up question 'If yes, how much loss did your establishment experience during F.Y. 2066/67 due to extortion, theft, robbery, vandalism, or arson?' was asked to those respondents who had faced losses (i.e. 24 percent of the total, among 24 percent of them, 5 percent did not give response). The survey revealed that the average amount of losses during the fiscal year 2066/67 due to extortion, theft, robbery, vandalism and arson was Rs.136,637 (Nepali Rupees). These figures show that the average losses was greater in the fiscal year 2066/67 than the fiscal year 2065/66 while proportion of those who experienced losses during the fiscal year 2066/67 (24 percent) was lower compared to the fiscal year 2065/66 (29 percent).

**Table 4.15:** If yes, how much loss did your establishment experience during F.Y. 2066/67 due to extortion, theft, robbery, vandalism, or arson? (J2, Base = 231)

Average losses due to extortion, theft, robbery, vandalism, or arson	F.Y.2065/66	F.Y.2066/67
	91,550	136,637

As in the case with previous question, the response varies in terms of districts. The survey revealed that the average loss (Nepali Rupees) in Banke (Rs.152,777) and Kaski (Rs.204,160) was more compared to Rupandehi (Rs.74,681) and Morang (Rs.92,293). In terms of scale of business, the larger the scale of business, the larger the losses experienced.

J2	Micro Scale Business	Small Scale Business	Medium scale business
Mean amount (In Nepali Rupees)	70,632	163,703	285,684

A series of questions were asked pertaining to protection payment to protect their own enterprise/business. In this context, the first question was: 'Do firms in your line of business ever make protection payments to police officers?' Only 1 percent of them said that they had paid protection payment to police officers.

Another question in the series was: 'Do firms in your line of business ever make protection payments to local gangs or criminal groups?' Only 3 percent said that they had paid protection payment to local gangs or criminal groups.

The third question in the series was: 'Do firms in your line of business ever make protection payments to groups affiliated to political parties?' Some 6 percent of them said that they had

made protection payment to groups affiliated to political parties. The survey revealed that proportion of people who paid protection payment to groups affiliated to political parties was higher compared to those who paid to police officers and local gangs or criminal groups.

**Table 4.16:** Do firms in your line of business ever make protection payments to: a) police officers b) local gangs or criminal groups c) groups affiliated to political parties? (base = 1023)

J3	Yes		If yes, then how much? (Mean amount In Nepali Rupees)	
	F.Y. 2065/66	F.Y. 2066/67	F.Y. 2065/66	F.Y. 2066/67
a. Police officers	1.2	1.2	1,28,942	24,070
b. Local gangs or criminal groups	1.8	2.7	76,994	53,138
c. Groups affiliated to political parties	4.8	6.0	23,835	53,698

Proportion of people who paid protection payment to groups affiliated to political parties had increased in the fiscal year 2066/67 compared to the fiscal year 2065/66. The average protection amount also increased in case of groups affiliated to political parties. In case of local gangs or criminal groups, proportion of people who paid protection payment increased but average amount paid by these people decreased than the fiscal year 2065/66. In case of police officers, proportion of those who paid protection amount remained the same while the average protection amount paid by these people decreased compared to the fiscal year 2065/66.

A series of follow-up question was asked to those respondents who had paid protection payments. The first follow-up question was: 'If yes, then how much do firms in your line of business make protection payments to police officers?' This question was asked to those respondents who had paid the protection payment to police officers (1 percent of the total). In response, the survey reveals that the average protection payment (Nepali Rupees) for police officers was Rs.24,070.

Of those who had made protection payment to local gangs or criminal groups (3 percent of the total), the average amount of protection payment was Rs.53, 138.

Likewise, of those who had made protection payment to groups affiliated to political parties (6 percent of the total), the average protection payment was Rs.53, 698.

#### 4.10 PRIVATE SECTOR DEVELOPMENT POLICIES

The survey attempted to measure the business community's orientation towards private sector development polices. In this regards, the survey asked a series of questions, the first being: 'What is the overall status of road quality as they apply to your enterprise?' Only 3 percent of them said that the road quality is very good while another 53 percent said that the road quality is good. Proportion of those who said very bad and bad were 10 and 34 percent respectively.

Likewise questions were asked about telecommunications quality, electricity availability, water services, sewerage services, emergency management for flooding and water-logging. The business community's response is shown in columns. What the table reveals is that eighty percent of the businessmen rate the telecommunications quality to be good. However, this is the only area in which an overwhelming majority rates the services to be good. The service

that was rated the worst was sewerage where 62 percent thought it was bad (derived through a combination of ‘very bad’ and ‘bad’). Electricity availability, water services and emergency management for flooding and water logging also received a poor rating. This is summarized in the table below.

**Table 4.17:** What is the overall status of physical infrastructure as they apply to your enterprise? (K1, base = 1023)

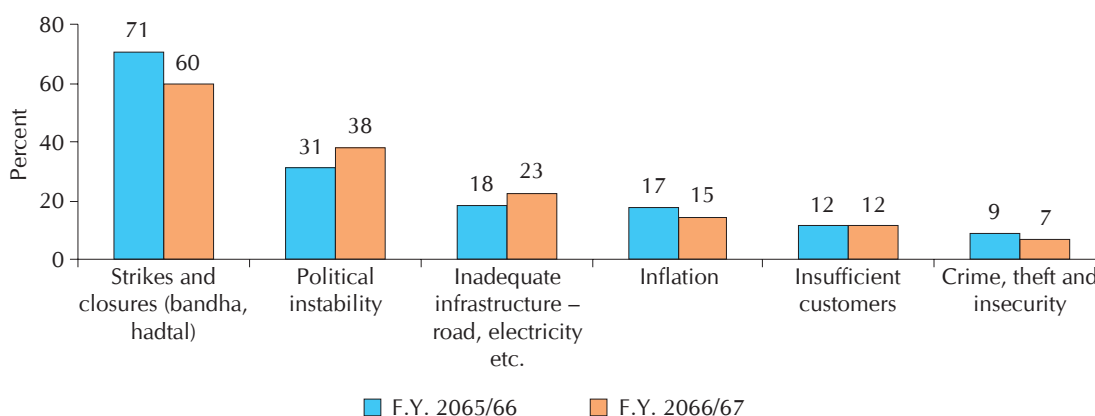
K1	Very bad	Bad	Good	Very good	NA
a. Road quality	10.2	34.3	52.7	2.5	0.3
b. Telecommunications quality	2.5	15.0	79.8	2.2	0.5
c. Electricity availability	15.7	38.6	44.1	0.8	0.8
d. Water services	7.7	35.0	51.9	2.3	3.0
e. Sewerage services	19.3	42.6	32.1	0.5	5.6
f. Emergency management for flooding and water-logging	12.8	24.6	12.2	1.1	49.3

The survey asked questions about the major problems of the enterprise/business growth in Nepal. All the respondents were asked, ‘What would you consider the most binding constraint to business growth in Nepal?’ The respondents were allowed to mention up to two major problems. Majority of the respondents cited strikes and closures (*bandha, hadtal*) as most binding constraints to business growth in Nepal (60 percent). More than one third, 38 percent, cited the political instability while another 23 percent cited inadequate infrastructure. A significant proportion, 15 percent, cited inflation and some 12 percent cited insufficient customers.

People thought that strikes and closures were the most binding constraints to business growth which slightly decreased in the fiscal year 2066/67 (71 percent in F.Y. 2065/67 to 60 percent in F.Y. 2066/67). Political instability was identified as the second most binding constraints, which increased in the fiscal year 2066/67 compared to the fiscal year 2065/66 (31 percent in the F.Y. 2065/66 to 38 percent in the F.Y. 2066/67). Inadequate infrastructure – road, electricity etc. was identified as the third most binding constraints, which also increased in the fiscal year 2066/67 compared to the fiscal year 2065/66 (23 percent vs. 18 percent).

**Chart 4.32 (K2 all)**

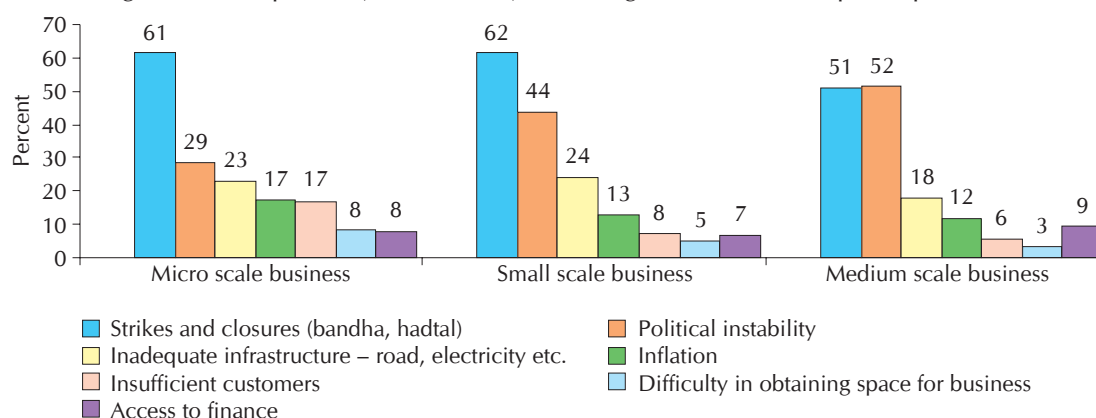
Among the following things, what would you consider the most binding constraint to business growth in Nepal? (K2, base = 1023, Percentages based on multiple responses)



Public opinion in this regard was found to be divided in terms of legal status of the business and scale of business. Proportion of those who identified strikes and closures was higher in sole proprietorship (60 percent), partnership (64 percent) and co-operative (54 percent) while those who identified political instability was higher in private limited liability company (50 percent) and publicly limited company (62 percent). Going by scale of business, majority of the respondents from micro scale business (61 percent) and small scale business (62 percent) cited strikes and closures while majority of respondents from medium scale business (52 percent) cited political instability.

**Chart 4.33 (K2 by scale of business)**

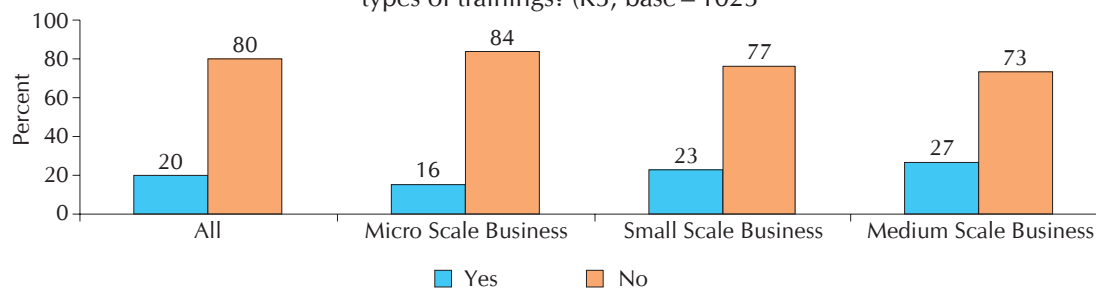
Among the following things, what would you consider the most binding constraint to business growth in Nepal? (K2, base = 1023, Percentages based on multiple responses)



The survey also sought to obtain information about free or subsidized training and extensions services provided by government. In this context, 'Have you ever participated in trainings?' was asked to all respondents. About one in five respondents said that they participated in the training provided by government. Going by scale of business: larger the scale of business, higher the proportion of those who had participated in the trainings.

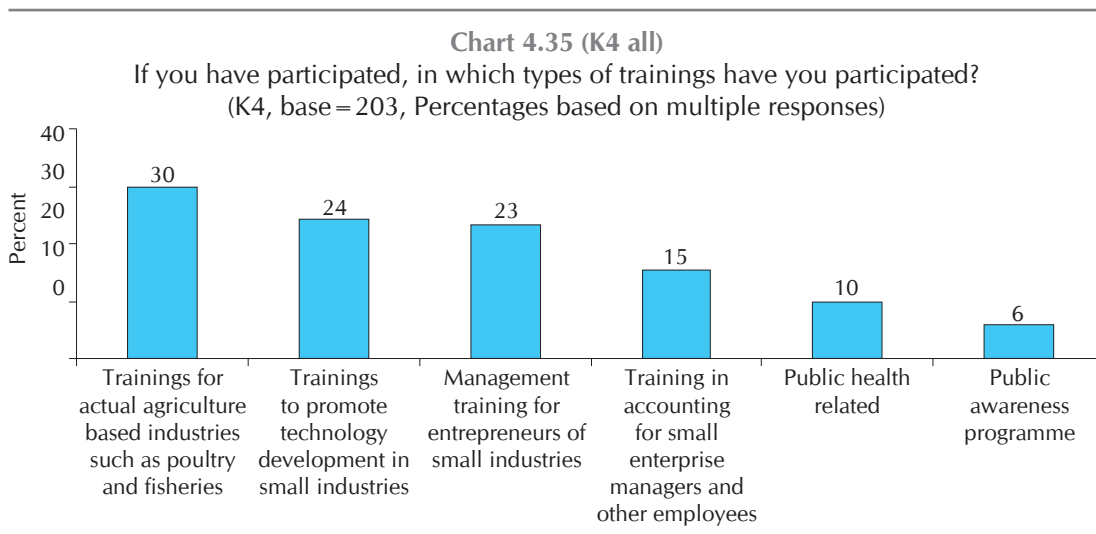
**Chart 4.34 (K3 all and scale of business combined)**

Government provides a number of business development and advisory services, mostly in the form of free or subsidized training and extension services. Have you ever participated in such types of trainings? (K3, base = 1023)



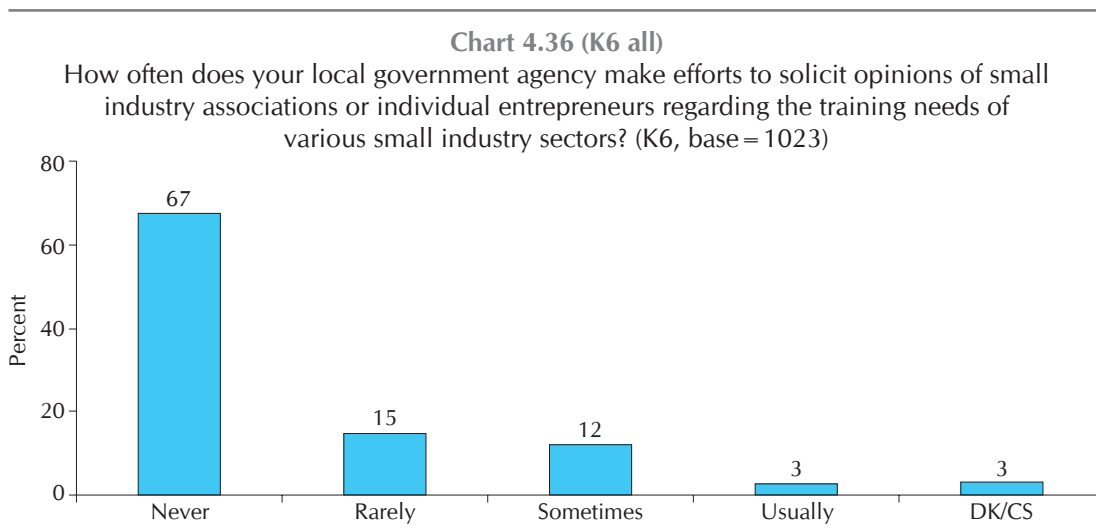
Twenty percent of the respondents who had participated in trainings were then further asked: in which types of trainings have you participated? The possible choices were read out and multiple. About 30 percent of them mentioned trainings for agriculture based industries such as poultry and fisheries followed by trainings to promote technology development in small industries (24 percent), management training for entrepreneurs of small industries (23 percent),

training in accounting for small enterprise managers and other employees (15 percent) and public health related educational trainings (10 percent).

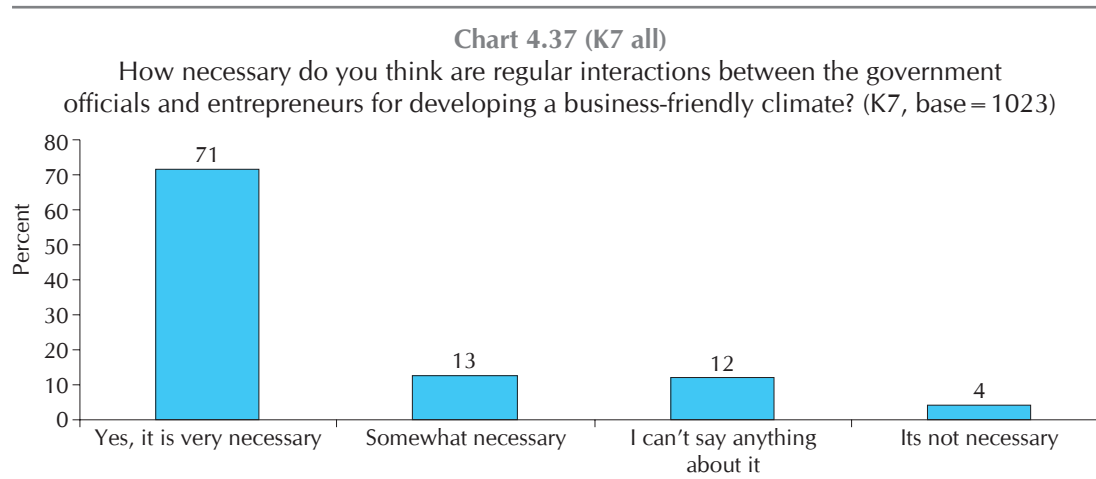


The survey also attempted to understand the efficiency of trainings provided by the government. In this regards, a follow-up question ‘How useful did you find the concerned trainings?’ was asked to those respondents who said that they had participated in trainings (20 percent of the total). In response to this question, 66 percent thought that it was fully useful and another big proportion, 32 percent, thought that it was somewhat useful. Only 2 percent thought that it was not useful. These figures show that although lower proportion of people participated in trainings provided by the governments those who had participated thought that the trainings were useful.

All of the respondents were asked ‘How often does your local government agency make efforts to solicit opinions of small industry associations or individual entrepreneurs regarding the training needs of various small industry sectors?’ About 67 percent mentioned ‘Never’ while another 15 percent mentioned ‘Rarely’ followed by ‘Sometimes’ (12 percent). A very small proportion mentioned ‘Usually’ (3 percent).



In response to the question: ‘How necessary do you think are regular interactions between the government officials and entrepreneurs for developing a business-friendly climate?’ majority of the respondents, 71 percent, thought that regular interaction between the government officials and entrepreneurs for developing a business-friendly was very necessary. Some 13 percent thought that it was somewhat necessary while another 12 percent said ‘I can’t say anything about it’. A small proportion (4 percent) thought that it was not necessary.



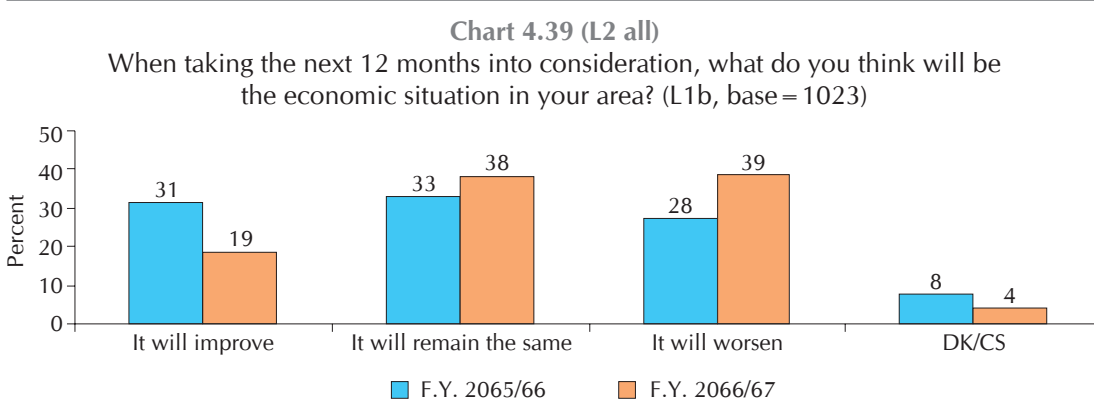
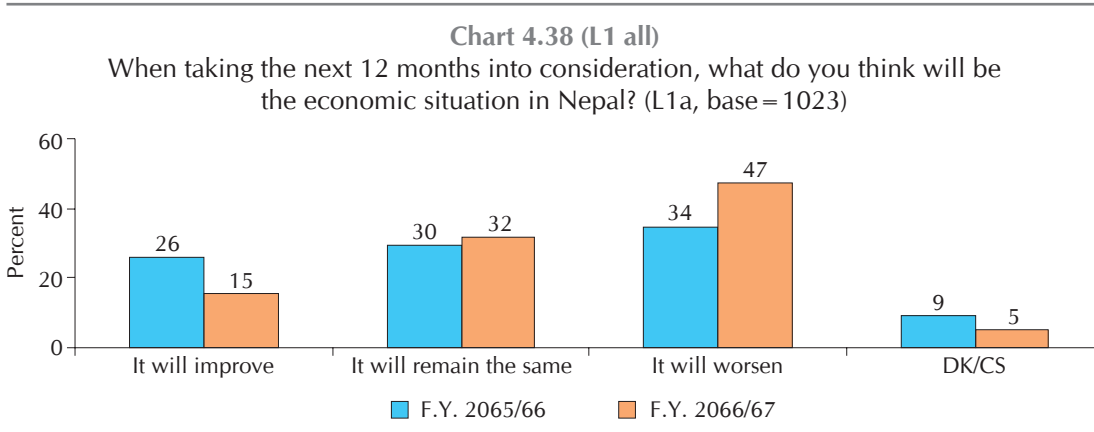
#### 4.11 CONFIDENCE OF THE BUSINESS COMMUNITY

The survey attempted to understand the confidence of the business community towards business climate. In this context, the survey asked, ‘When taking the next 12 months into consideration, what do you think will be the economic situation (a) in Nepal and (b) in your area?’ In response to this question, 47 percent were of the opinion that the economic situation of Nepal will worsen, while 32 percent were of the opinion that it will remain the same. Those who thought it will improve is only 15 percent. With regards to the question on the economic situation in the local area, 39 percent thought it will worsen, while 38 percent thought it will remain the same. A meager 19 percent thought it will improve.

Proportion of people who thought that the economic situation will improve in their local area in the next 12 months was higher compared to those who thought so in the case of Nepal; however, these proportions are lower when compared to the responses during the last survey.

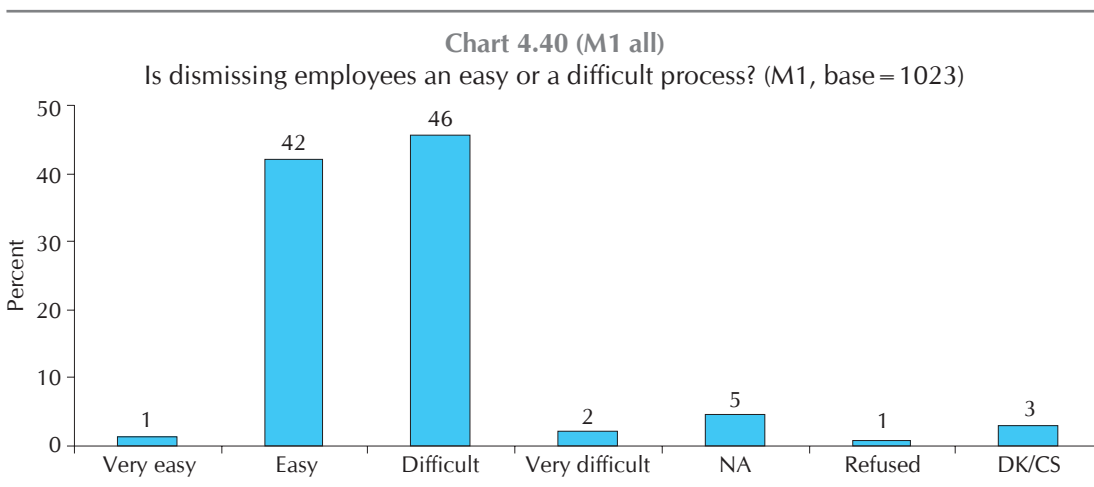
The survey revealed that respondents were slightly optimistic about the economic situation in their own local area compared to that of Nepal. Even though people were more optimistic about their own business activities (with as high as 48 percent saying they plan to increase the size of business) they were also more pessimistic taking the business environment in their own local area and in Nepal into account. The major reasons why people were pessimistic taking into account the business environment in their local area and in Nepal were frequent strikes/closures, growing political instability and inadequate infrastructure.



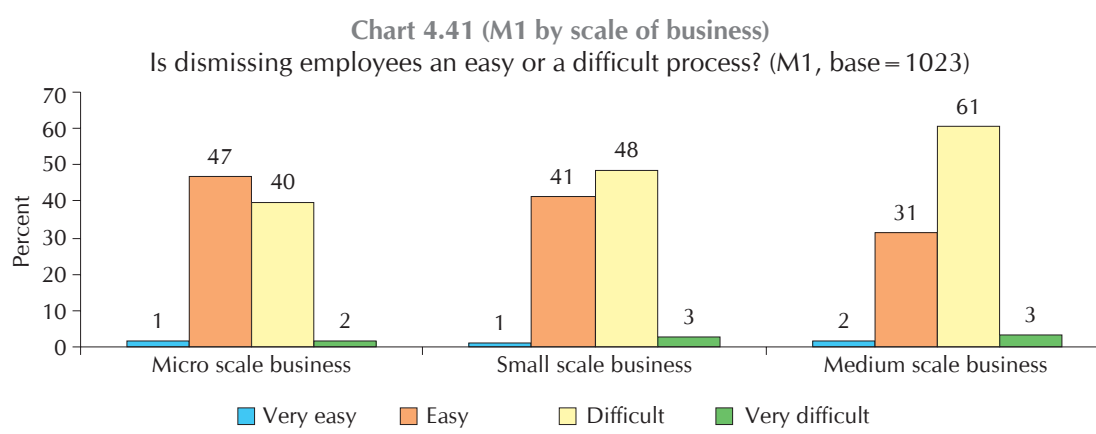


#### 4.12 FLEXIBILITY OF THE LABOUR MARKET

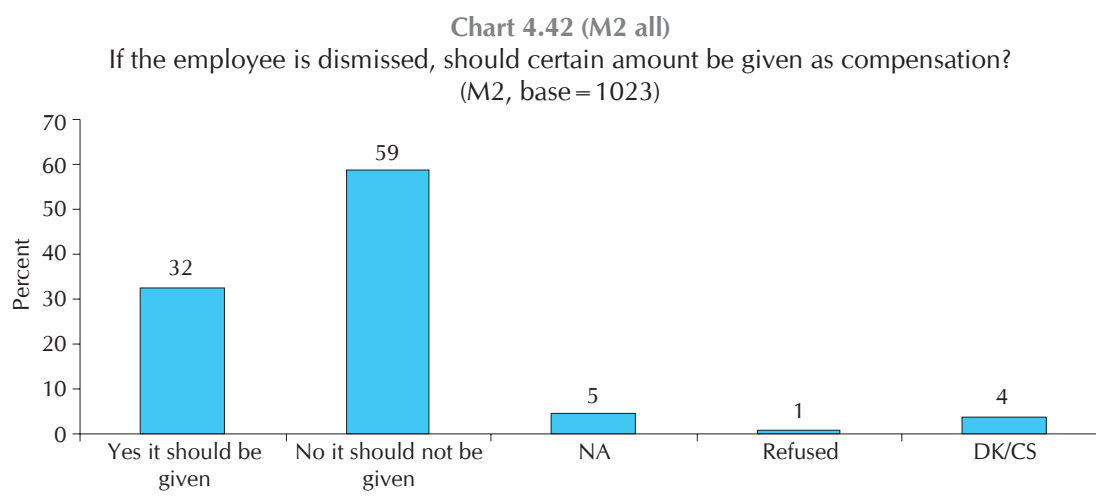
The survey also attempted to map the perceptions of the business community towards flexibility of the labour market. Regarding this issue, all the respondents were asked ‘Is dismissing employees an easy or a difficult process?’ The response to this question was found to be divided; about 43 percent of them mentioned that the process of dismissing employees was easy while another 48 percent mentioned that it was difficult.



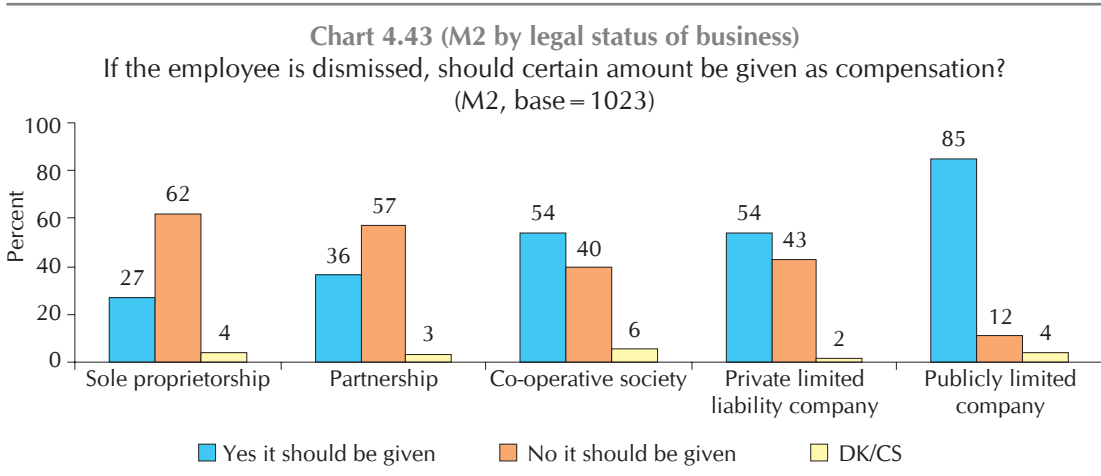
People's response to this question differed in terms of districts and scale of business. People living in Banke (55 percent) thought that the process of dismissing employees was easy compared to those living in Rupandehi (44 percent), Morang (45 percent) and Kaski (26 percent). In term of scale of business, proportion of the people who thought that dismissing employees was difficult was significantly higher in medium scale business (61 percent) than small scale business (48 percent) and micro scale business (40 percent).



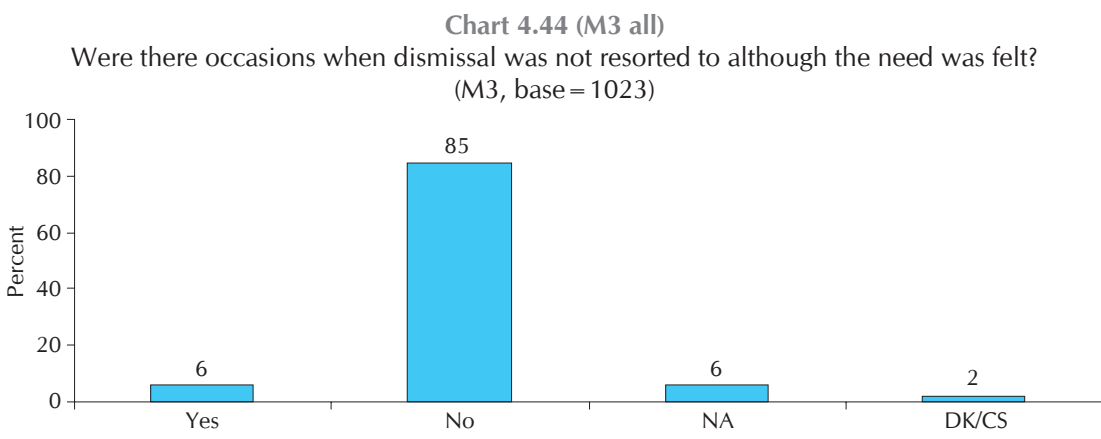
In response to the question: 'If the employee is dismissed, should certain amount be given as compensation?', about 32 percent mentioned that certain amount should be given to the employee as compensation while another 59 percent mentioned that it should not be given.



Response to this question varied significantly by legal status of business and scale of business. More people belonging to Co-operative (54 percent), private limited liability company (54 percent) and Publicly limited company (85 percent) mentioned that certain amount should be given to employees as compensation compared to those belonging to sole proprietorship (27 percent) and partnership (36 percent). In case of scale of business, larger the scale of business, higher the proportion of those who reported that certain amount should be given to employees as compensation.

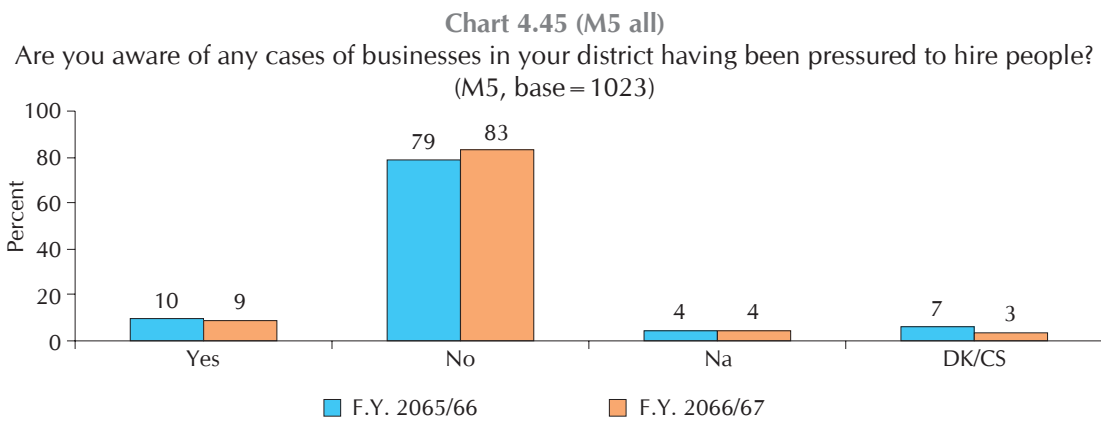


When asked ‘Were there occasions when dismissal was not resorted to although the need was felt?’ most of the respondents (85 percent) said no while another 6 percent said ‘yes’.



A follow-up question ‘If yes, what was the reason?’ was asked to those respondents who said that dismissal was not resorted, although the need was felt (i.e. 6 percent of the total respondents). About 38 percent of them said ‘opposition of trade unions’ while another 25 percent said ‘shortage of skilled workers’ followed by ‘humanitarian grounds’ (23 percent).

In response to the question: ‘Are you aware of any cases of businesses in your district having been pressured to hire people?’ majority of the respondents (83 percent) said ‘no’ while some



nine percent said 'yes'. Proportion of the people who say that they were pressured to hire people slightly decreased in the fiscal year 2066/67 (9 percent) compared to the last fiscal year 2065/66 (10 percent). In contrast, those who said that they were not pressured to hire people increased in the fiscal year 2066/67 (83 percent) compared to the last fiscal year 2065/66 (79 percent).

Response to this question varied significantly by legal status and scale of business. Even though proportion of those who gave an affirmative answer was low across all categories of business, this proportion was slightly higher in co-operative (17 percent), private limited liability company (24 percent) and publicly limited company (19 percent) compared to those belonging to sole proprietorship (7 percent) and partnership (12 percent). Going by scale of business, proportion of people belonging to medium scale business (16 percent) said 'yes' compared to those belonging to micro scale business (6 percent) and small scale business (11 percent).

#### 4.13 TAXES

The survey asked a battery of question to obtain information about the establishment's production, sales and expenses during the first year of operation and the fiscal year 2066/67. The first question asked was 'How much was your total capital asset (bought or built buildings, machinery, equipment, vehicle, etc. for running the enterprise) in the first year of operation?' The respondents were expected to give the reply in terms of Nepali rupees. All the respondents, excluding some 8 percent, responded to this question. What the response revealed is that the average capital asset was Nepali Rupees 1,401,984 in the first year of operation.

Other questions in the series pertained to total operation expenses and total sale value of production or services during the first year of operation. The responses revealed that the average operational expenses and the sales value during the first year of operation, on average, was Rs.910,109 and Rs.1,969,369 respectively.

**Table 4.18:** Please provide the following information on your establishment's production, sales and expenses in the first year of operation and F.Y. 2066/67.  
(In Nepali Rupees) [Excluding financial intermediation]

O1 Mean amount In Nepali Rupees	1st year of operation	F.Y. 2066/67
a. Total capital asset (Bought or built buildings, machinery, equipment, vehicle, etc. for running the enterprise)	1,401,984	4,287,491
b. Total operations expenses (Rent, cost of raw materials, repair, transportation, fuel, salary, remuneration and bonus; other utility expenses such as water, electricity, gas, etc.)	910,109	1,904,879
c. Total sale value of production or service	1,969,369	5,483,240

Likewise a similar question was asked about the establishment's production, sales and expenses in the Fiscal Year 2066/67. In response to the question 'How much was your total capital asset in the Fiscal Year 2066/67?' some 8 percent did not respond to this question. The survey revealed that the average capital asset was Rs. 4,287,491.

What the survey also revealed is that during the F.Y. 2066/67, the average amount of operations expenses was Rs. 1,904,879. The average sale value of production or service in the fiscal year 2066/67 was Rs. 5,483,240.

When the figure related to the sales value of production in F.Y. 2066/67 was compared to that of the first year of operation, it was seen that the average sale value of production increased by three times.

The response to this question in the first year of operation varied significantly across districts. The capital asset, operation expenses and sale value of production or service – in other words the volume of transactions – in Rupandehi was higher compared to other three districts while total operational expenses was higher in Morang than other districts.

**Table 4.19:** Please provide the following information on your establishment's production, sales and expenses in the first year of operation (In Nepali Rupees) [Excluding financial intermediation]

<b>O1</b> <b>1<sup>st</sup> year of operation</b> <b>(Mean amount in Nepali Rupees)</b>	<b>Rupandehi</b>	<b>Banke</b>	<b>Morang</b>	<b>Kaski</b>
a. Total capital asset (Bought or built buildings, machinery, equipment, vehicle, etc. for running the enterprise)	2,044,251	1,543,382	955,164	1,066,668
b. Total operations expenses (Rent, cost of raw materials, repair, transportation, fuel, salary, remuneration and bonus; other utility expenses such as water, electricity, gas, etc.)	944,991	918,337	1,246,498	507,263
c. Total sale value of production or service	2,359,499	2,032,661	1,588,232	1,905,473

Again in the fiscal year 2066/67, the responses to this question differed significantly across districts. These figures once more indicate that the capital asset, operation expenses and sale value of production or service – or in other words the total volume of transactions – in Banke was higher compared to other three districts while total capital asset was higher in Kaski than other districts. The operational expense was higher in Morang than other districts.

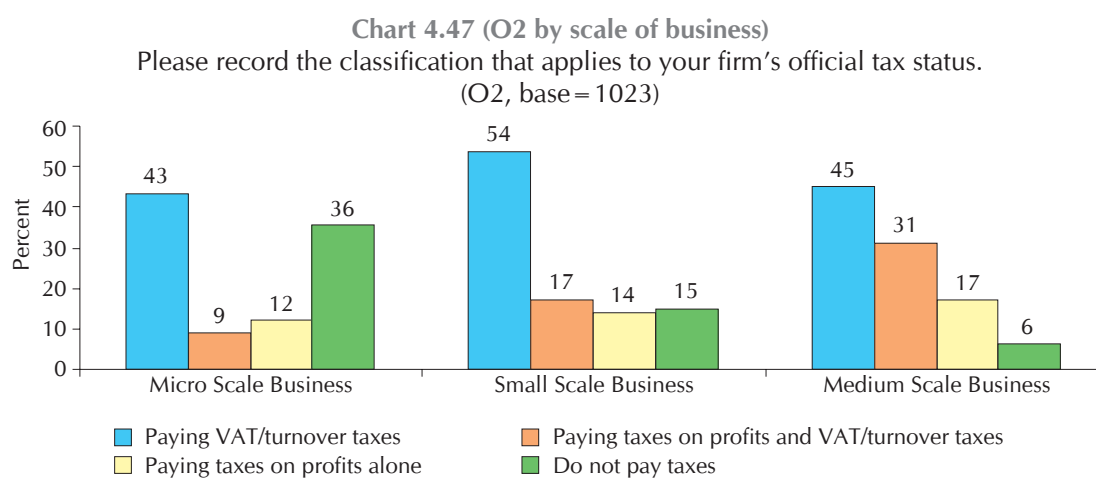
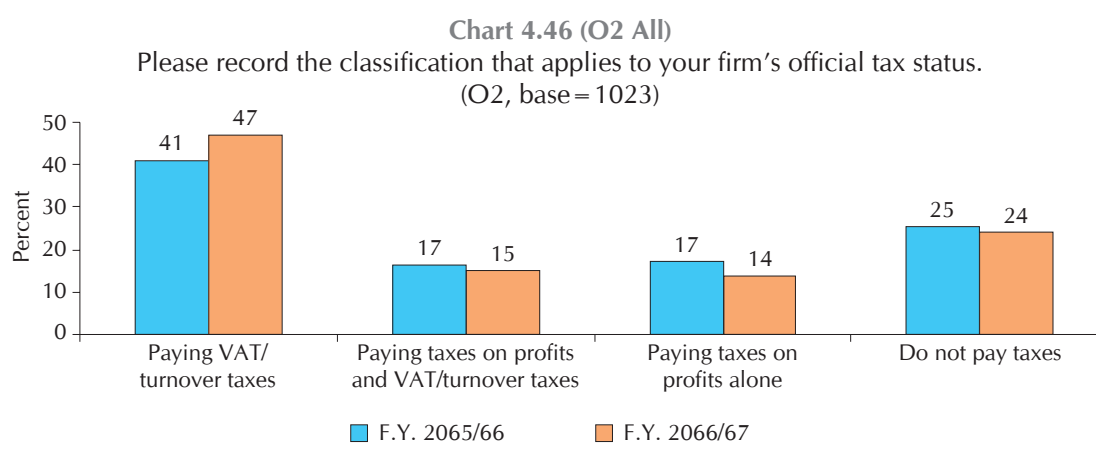
**Table 4.20:** Please provide the following information on your establishment's production, sales and expenses in the F.Y.2065/66 (In Nepali Rupees) [Excluding financial intermediation]

<b>O1</b> <b>F.Y. 2066/67</b> <b>(Mean amount in Nepali Rupees)</b>	<b>Rupandehi</b>	<b>Banke</b>	<b>Morang</b>	<b>Kaski</b>
a. Total capital asset (Bought or built buildings, machinery, equipment, vehicle, etc. for running the enterprise)	5,446,672	3,559,617	2,097,730	6,163,996
b. Total operations expenses (Rent, cost of raw materials, repair, transportation, fuel, salary, remuneration and bonus; other utility expenses such as water, electricity, gas, etc.)	1,480,247	1,661,335	2,857,747	1,576,671
c. Total sale value of production or service	6,054,275	7,197,593	4,238,332	4,437,846

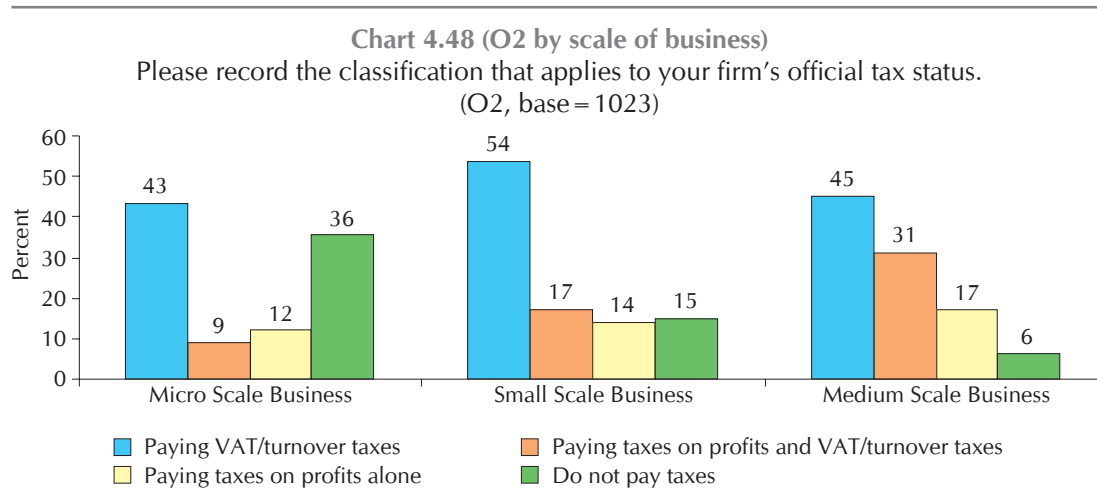
The survey asked some questions related to tax. The survey first asked: 'Please record the classification that applies to your firm's official tax status' about 47 percent said 'paying VAT/turnover taxes', Some of the respondents mentioned 'paying taxes on profits and VAT/turnover taxed' (15 percent) and paying taxes on profits alone (14 percent). A significant proportion, 24 percent, said 'do not pay taxes'.

The proportion of those who say paying VAT/turnover taxes was higher in the fiscal year 2066/67 compared to the fiscal year 2065/66 (from 41 percent in 2065/66 to 47 percent in

2066/67). Those who mentioned paying taxes on profits and VAT/turnover decreased in the fiscal year 2066/67 compared to the fiscal year 2065/66 (15 percent vs. 17 percent). Again those who mentioned paying taxes on profits alone also decreased in the fiscal year 2066/67 compared to the fiscal year 2065/66 (14 percent vs. 17 percent). Proportion of those who did not pay taxes decreased in the fiscal year 2066/67 compared to the fiscal year 2065/66 (24 percent vs. 25 percent).



A follow-up question 'How effective is the government administration in collecting taxes from enterprises like yours?' was asked to those respondents who said that their enterprise/business is paying taxes to the government (76 percent of the total). Some 38 percent thought that the government administration was fully effective in collecting taxes from their enterprises. While another 29 percent thought that the tax collection system was very effective followed by those who thought 'moderately effective' (25 percent). Only 5 percent thought that the government administration was ineffective in collecting taxes.



The response to this question differed across districts and legal status of the enterprise. Higher proportion of people living in all districts (except Banke district) thought that the government was fully effective in collecting tax while majority of people living in Banke thought that the government was very effective in collecting tax. Proportion of respondents who thought that the government administration was fully effective in collecting tax was higher in all types of legal status of business except co-operative.

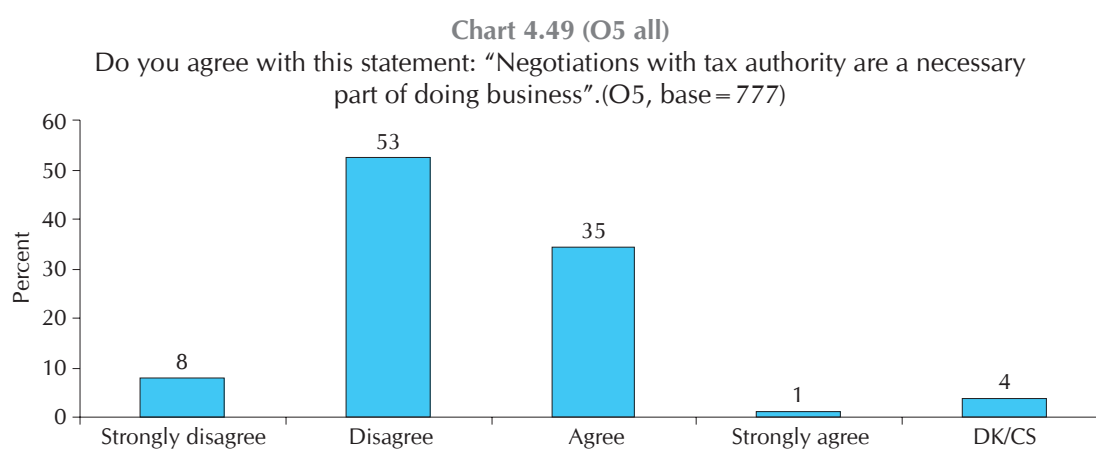
A follow-up question 'Many enterprises like yours face difficulties in fully complying with taxes and regulations. What percentage of total sales would you estimate the typical establishment in your sector reports for tax purposes?' was asked to those respondents who said that their enterprise/business was paying taxes to the government (i.e. 76 percent of the total: among the 76 percent, 21 percent did not respond to this question). The survey revealed that on an average 81.4 percent of total sales would be shown for tax purposes by enterprise/business; this percentage was the same with regard to the fiscal year 2065/66.

When disaggregating the response to this question in terms of districts, the survey found significant differences in the response. In Morang district, about 98 percent of the total sales were reported for tax purposes while in Kaski districts only 52 percent of the total sales were reported for tax purposes.

**Table 4.21:** Many enterprises like yours face difficulties in fully complying with taxes and regulations. What percentage of total sales would you estimate the typical establishment in your sector reports for tax purposes?

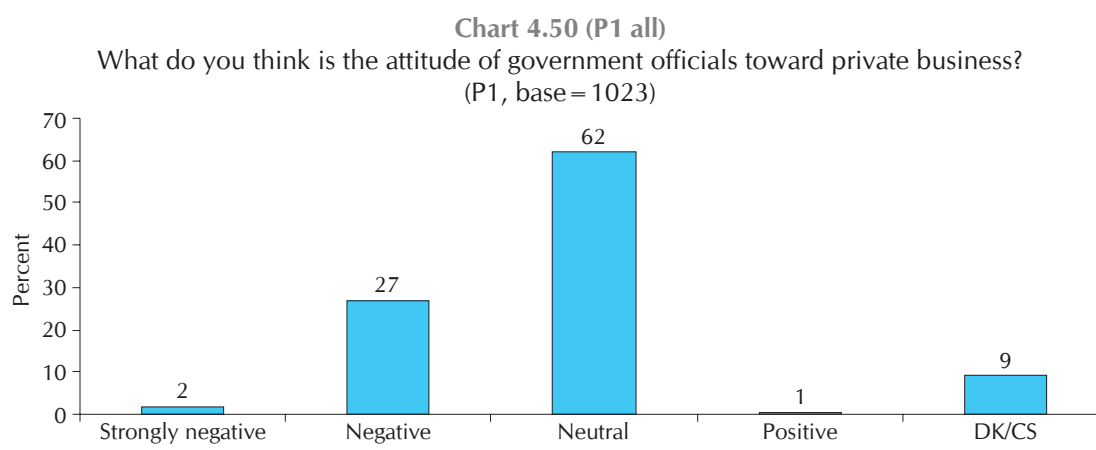
O4	Base	All		Rupandehi	Banke	Morang	Kaski
		F.Y. 2065/66	F. Y. 2066/67				
Average percentage of total sales shows for tax purpose	610	81.7	81.4	74.9	88.4	98.3	51.8

A follow-up question 'Do you agree with this statement: "Negotiations with tax authority are a necessary part of doing business"' was asked to those respondents who said that their enterprise/business is paying taxes to the government (76 percent of the total). More than one third (36 percent) agreed with this statement (including strongly agree and agree) while majority of the people (61 percent) disagreed with this statement (including strongly disagree and disagree).



#### 4.14 GOVERNMENT'S PROACTIVITY

The survey also attempted to map the business community's attitude towards the government as it relates to the business environment. In this context, the first question 'What do you think is the attitude of government officials toward private business?' was asked to all the respondents. Most of the respondents (63 percent) thought that the attitude of government officials toward private business was neutral. Another 29 percent of them thought it was negative (taking together negative and strongly negative). Around one in ten respondents professed ignorance on this matter.



The response to this question was found to be divided between legal status of business. Proportion of those who thought that the attitude of government officials toward private business was neutral was higher in co-operative society than others.

A series of statements was read out to the respondents and they were asked to state whether they strongly agreed, agreed, disagreed or strongly disagreed with the statements. The statements and the business community's response to each of these are summarized in the table below. The table illustrates that the business community believed that the local government was not committed to promoting local business environment.



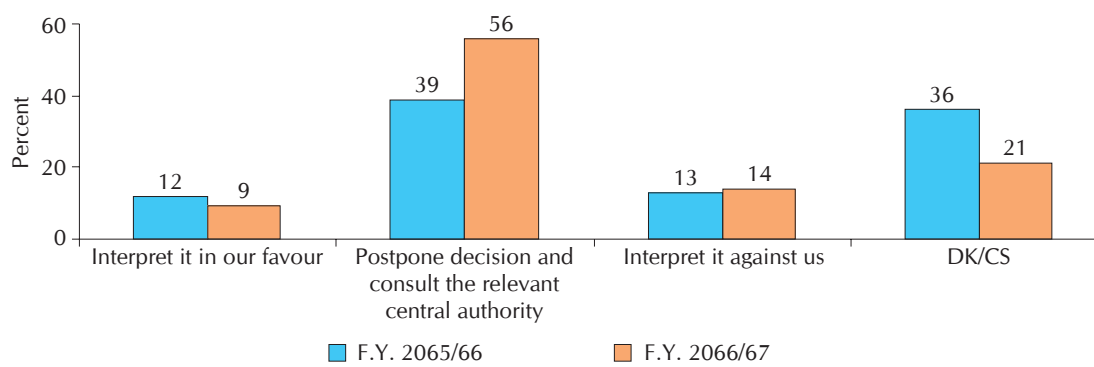
Table 4.22: Do you agree with the following statements? (Base = 1023)

P2 Statements	Strongly agree	Agree	Disagree	Strongly disagree	DK/CS
a. My local government (municipality/VDC) is very good at creating a profitable private business environment.	1.5	28.4	63.8	3.9	2.3
b. My local government (municipality/VDC) is creative and clever about solving new business problems.	1.7	18.8	71.3	5.6	2.7
c. My local government (municipality/VDC) is willing to take risks to aid my business.	4.9	6.4	69.3	18.1	1.4
d. There are good initiatives at the district level, but central laws and regulations frustrate their impact.	5.3	67.6	21.1	1.4	4.6
e. There are good policies at the central level, but local government officials frustrate implementation.	11.5	73.3	11.7	1.3	2.2
f. There are not enough initiatives at the district level to support private sector development.	13.3	73.3	9.0	1.1	3.3

To further ascertain the business community's orientation towards the local government, the following statement was read: 'if there is a lack of clarity on certain regulations, local government officials tend to interpret it in our favour or postpone decision and consult the relevant central authority or interpret it against us'. More than half (56 percent) mentioned 'Postpone decision and consult the relevant central authority'; this proportion was higher compared to the fiscal year 2065/66. Proportion of those who mentioned 'interpret it against us' was higher in the fiscal year 2066/67 compared to the fiscal year 2065/66 (14 percent vs. 13 percent) while those who mentioned 'interpret it in our favour' decreased in the fiscal year 2066/67 compared to the fiscal year 2065/66 (9 percent vs. 12 percent).

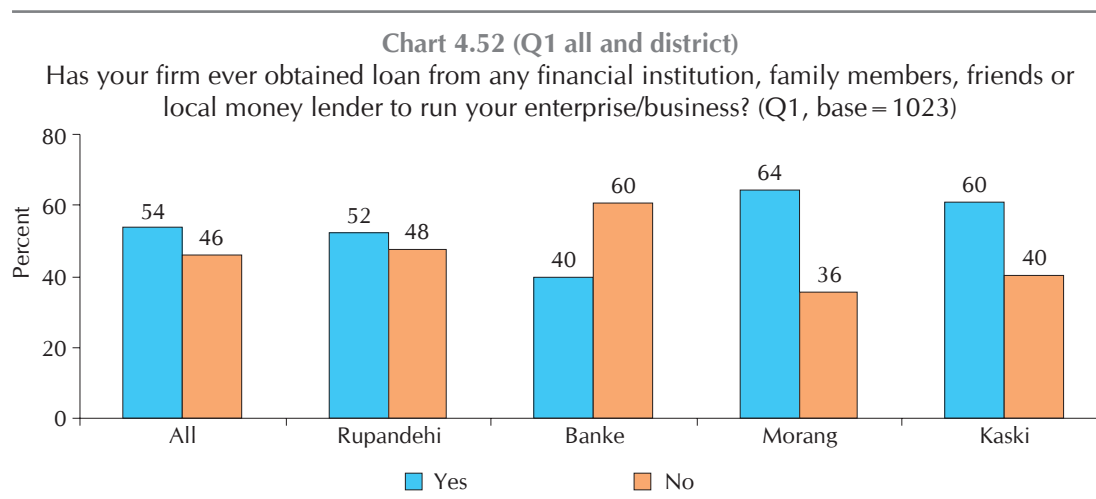
Chart 4.51 (P3 all – F.Y. 2065/66 and F.Y. 2066/67 combined)

If there is a lack of clarity on certain regulations, local government officials tend to:  
[Read Aloud] [P3, base = 1023]



#### 4.15 FINANCE

The survey asked several questions pertaining to finance. In this regard, the survey first asked 'Has your firm ever obtained loan from any financial institution, family member, friends or local money lender to run your enterprise / business?' In response to this question, more than half (54 percent) said that they obtained loan. While another 46 percent said that they never obtained loan.



The response to this question varied across districts, legal status of business and category of business. Most of the business people from Banke (60 percent) said that they never obtained a loan while most of the business people from other districts said that they obtained loan. Going by legal status of business, majority of the people belongs to co-operative society (80 percent) and public limited company (96 percent) said that they never obtained a loan while majority of the people belonging to other legal status – sole proprietorship (56 percent), partnership (59 percent) and private limited liability company (61 percent) said that they obtained loan.

Fifty four percent of the total respondents who obtained loan were further asked a follow-up question 'During the F.Y. 2066/67 which of the following financial sources (including specifying their percentage) was used to invest in your firm (both regular and fixed assets)'. The financial sources used to invest in their firm (both regular and fixed assets) during the fiscal year 2066/67 are shown in rows while the percentage this source constituted is shown in the column. The table highlights the point that internal funds or retained earnings constituted the main source of both regular and fixed assets.

**Table 4.23:** During the F.Y. 2065/66 which of the following financial sources (including specifying their percentage) was used to invest in your firm (both regular and fixed assets) [Q2, base = 552]

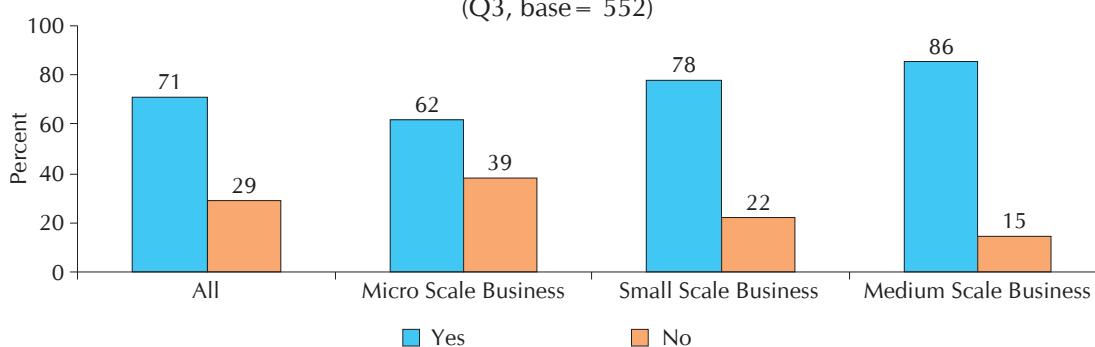
Source of funds	Mean (%)
a. Internal funds or retained earnings (own company resources /savings)	49.1
b. Private commercial banks (loan, overdraft)	16.0
c. Nationalized commercial banks (loan, overdraft)	4.3
d. Specialized public bank (e.g., Krishi Bikas Bank)	6.4
e. Other financial institutions (e.g., leasing companies)	5.9
f. Microfinance company	3.0
g. Family, friends	10.3
h. Local money lender	5.0
<b>Total</b>	<b>100.0</b>

Another follow up question ‘Has your firm ever obtained a loan from any financial institution except family members, friends or local money lender to run your enterprise?’ was asked to those respondents who obtained loan (54 percent of the total respondents). About 71 percent of the people said that they had obtained a loan from a financial institution except family member, friends or local money lender while another 29 percent of them mentioned that they had obtained loan only from family member, friends or local money lender to run their own business/enterprise.

The response to this question varied across types of business. Proportion of people who obtained loan from a financial institution was higher in medium scale business (86 percent) and small scale business (78 percent) compared to micro scale business (62 percent). In contrast, proportion of those who obtained a loan only from family member, friends or local money lender was higher in micro scale business (39 percent) than small scale business (22 percent) and medium scale business (15 percent).

**Chart 4.53 (Q3 all and scale of business)**

Has your firm ever obtained a loan from any financial institution except family members, friends or local money lender to run your enterprise/business?  
(Q3, base = 552)



Again a follow-up question was asked to those respondents who obtained a loan from financial institution except family member, friends or local money lender (38 percent of the total respondents). In this regard, ‘did you obtain a loan from bank?’ was asked. In response, about 73 percent mentioned that they had obtained a loan from bank. The survey reveals that the mean principal amount obtained from a bank was Rs.2,433,748 and mean duration of the

loan was 79 months. The annual rate of interest of bank is 13.7 percent. Majority of the respondents (94 percent) who obtain a loan from bank said that the loans required collateral.

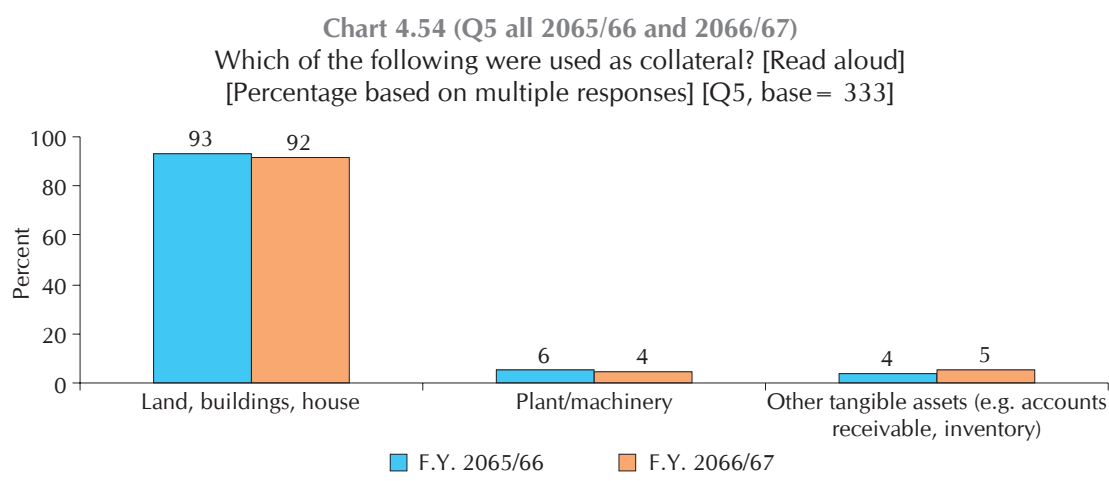
Similarly, a second question 'did you obtain a loan from finance company?' was asked. About 16 percent mentioned that they had obtained a loan from finance company. The survey revealed that the mean principal amount obtained from a finance company was Rs. 16, 23, 131 and average duration of the loan was 72 months. The survey also revealed that the annual rate of interest of finance company is 13.3 percent. Majority of the respondents (75 percent) who obtained a loan from finance company said that the loan required collateral. Some 16 percent mentioned that they had obtained a loan from cooperative. The survey showed that the mean principal amount of the loan obtained from cooperative was Rs. 290,578 and the average duration of the loan was 19 months. The annual rate of interest of cooperative (15.3 percent) was higher compared to bank and finance company. A little more than half (55 percent) who obtained loan from cooperative mentioned that the loan required collateral.

The table shows that majority of the people obtained a loan from bank than finance company and cooperative. The survey revealed that the mean principal amount of the loan and duration of the loan was higher in banks and finance companies than cooperative while average annual rate of interest was higher in cooperative than banks and finance companies. Proportion of those who mentioned that loans required collateral was higher in banks and finance company than cooperative.

**Table 4.24:** Did you obtain loan from a) Bank b) Finance c) Cooperative? (Q4, base = 391)

Q4	Did you obtain a loan from? [Yes]	Mean principal amount of the loan	Mean duration of the loan (in month)	Mean annual rate of interest (%)	Did the loan require collateral? [Yes]
Bank	72.6	2,433,748	78.5	13.7	93.7
Finance company	15.6	1,623,131	71.7	13.3	75.4
Cooperative	15.9	290,578	18.5	15.3	54.8

A follow-up question 'Which of the following were used as collateral?' was asked to those respondents who said they had required collateral while obtaining the loan (32 percent of the total respondents). The possible answers were read aloud and multiple responses were



possible. Majority of them (92 percent) said that they used land, building and house as collateral. Some 4 percent of them said ‘plant/machinery’ followed by ‘other tangible assets (e.g. account receivable, inventory)’ (5 percent). Only two percent mentioned ‘certification of profession/business’.

Another follow-up question ‘What percentage of the collateral constituted the total value of the loan?’ was asked to those respondents who said they had required collateral while obtaining the loan (32 percent of the total respondents). The survey revealed that, on average, the loan constituted about 45 percent of the collateral; this percentage was lower compared to the fiscal year 2065/66.

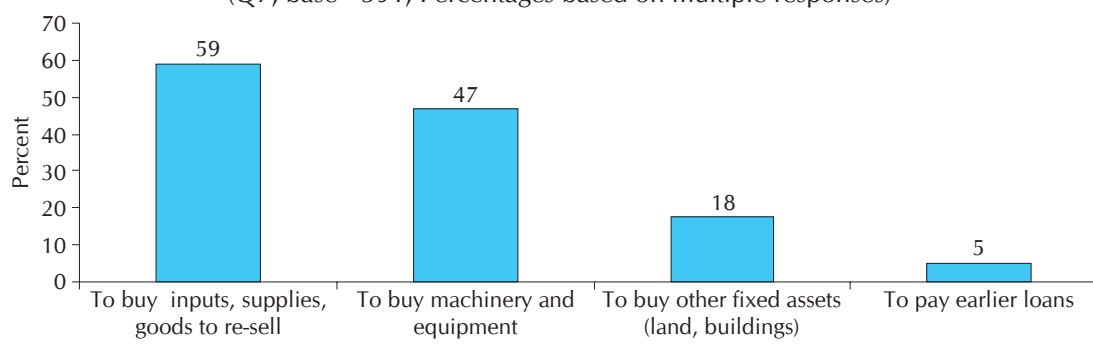
**Table 4.25:** What percentage of the collateral constituted the total value of the loan?  
(Q6, base = 333)

Q6	F.Y. 2065/66 Mean (%)	F.Y. 2066/67 Mean (%)
Average percentage of the collateral that constituted the total value of the loan	51.6	45.1

Another follow-up question ‘What is/was the main use of this loan?’ was asked to those respondents who said they had obtained loan (i.e. 38 percent of the total respondents). Respondents were allowed to mention more than one answer. About 59 percent of them mentioned that the main use of the loan was to buy inputs, supplies and goods to re-sell. Some 47 percent mentioned ‘To buy machinery and equipment’ followed by ‘To buy other fixed assets (land, buildings)’ (18 percent), and ‘to pay earlier loans’ (5 percent).

**Chart 4.55 (Q7 all)**

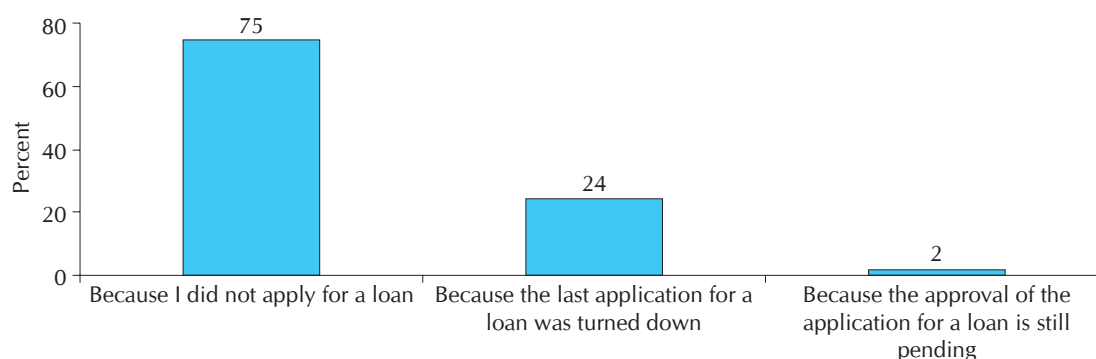
What is/was the main use of this loan?  
(Q7, base = 391, Percentages based on multiple responses)



A follow-up question ‘What is the main reason you have never taken a loan from a financial institution?’ was asked to those respondents who obtained a loan only from family member, friends and local money lender (i.e. 16 percent of the total respondents). Respondents were allowed to mention more than one answer. Most of the respondents (75 percent) said that they never obtained the loan from financial institution because they did not apply for a loan while another 24 percent said ‘because the last application for a loan was turned down’ and some 2 percent said ‘because the approval of the application for a loan is still pending’.

Chart 4.56 (Q8 all)

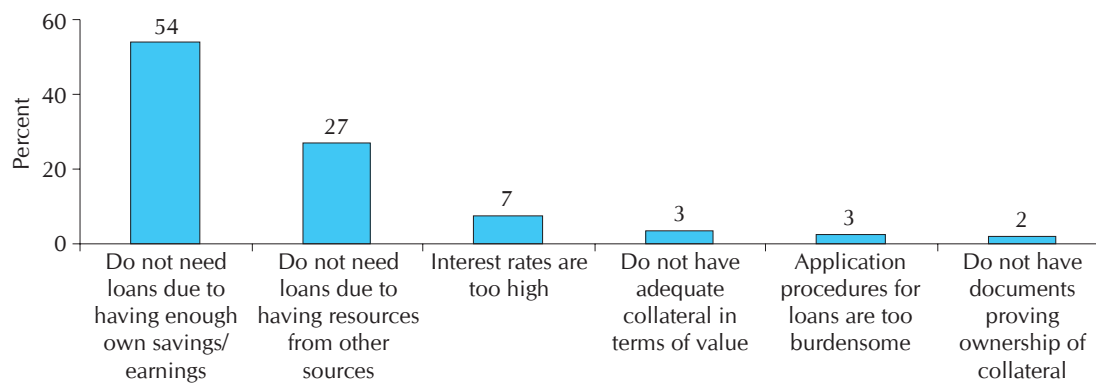
What is the main reason you have never had a loan from a financial institution?  
(Q8, base = 161, Percentages based on multiple responses)



Another follow-up question ‘What is the main reason you have never applied for a loan?’ was asked to those respondents who never obtained a loan (i.e. 46 percent of the total respondents). More than half (54 percent) of the people said that they do not need loans due to having enough savings/earnings while another 27 percent said that they do not need loans as they rely on other sources. Proportion of those who said ‘interest rate are too high’, ‘do not have adequate collateral in terms of value’ and ‘application procedures for loans are too burdensome’ are 7 percent, 3 percent and 3 percent respectively.

Chart 4.57 (Q9 all)

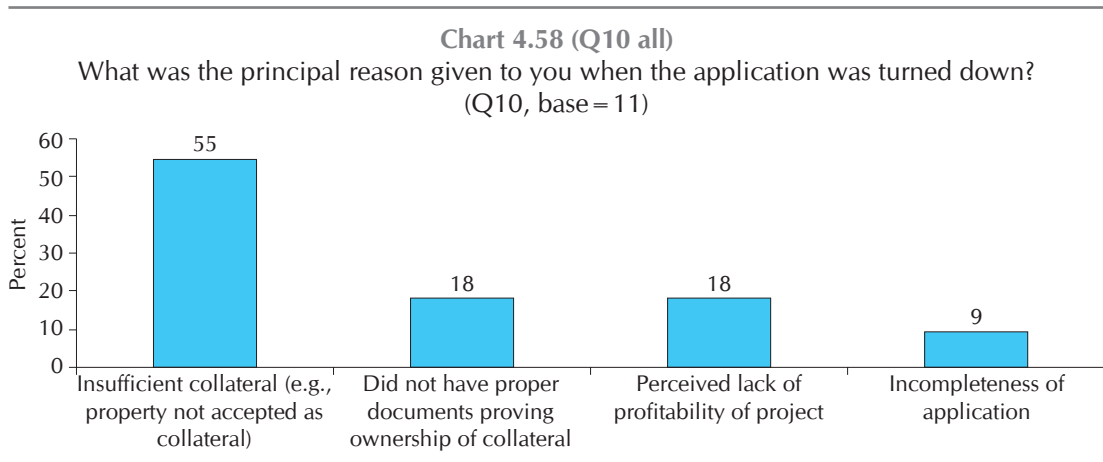
What is the main reason you have never obtained a loan? (Q9, base = 471)



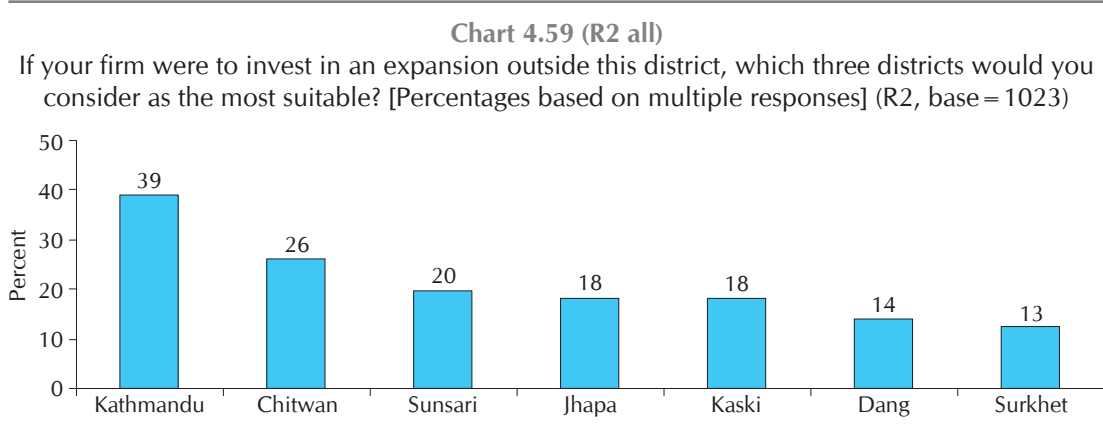
The response to this question varies in term of scale of business. Proportion of people belonging to medium scale business (71 percent) who mentioned ‘do not need loans due to having enough own savings/earnings’ was higher compared to those belonging to small scale business (46 percent) and micro scale business (54 percent)

Another follow-up question ‘What was the principal reason given to you when the application was turned down?’ was asked to those respondents who said that the last application for a loan was turned down (i.e. one percent of the total respondents). Proportion of those who mentioned insufficient collateral (e.g., property not accepted as collateral) was 55 percent. Equal proportion of people mentioned ‘did not have proper documents proving ownership of collateral’ and ‘perceived lack of profitability of project’ (18 percent for each response). Some 9

percent mentioned that incompleteness of application was the principal reasons given to them when the application was turned down.



All the respondents were asked 'If your firm were to invest in an expansion outside this district, which three districts would you consider as the most suitable?' Respondents were allowed to mention up to three districts. The survey revealed that about 39 percent of them wanted to expand their own business in Kathmandu district followed by Chitwan (26 percent), Sunsari (20 percent), Jhapa (18 percent), Kaski (18 percent), Dang (14 percent) and Surkhet (13 percent).



# CONCLUSION

The findings of the Business Climate Survey - II reveals a peculiar predicament: while micro, small and medium enterprises have increased their turnovers and while these would like to expand their businesses in the months to come, they remain pessimistic about economic prospects in the country. This section tries to account for this paradox by relating the survey data with the overall economic situation in the country.

The survey reveals an increase in the total amount and volumes of transactions of micro, small and medium scale enterprises compared to their initial year of operation. Similarly, there has been an increase in the number of employees working in these enterprises. This growth in turnovers that the survey data reveals could be explained by the growth in demands for commodities and services. During the last two fiscal years, for instance, the national GDP has grown by 3.7 percent on average. The economic growth that Nepal experiences is largely spurred by remittances. What remittances do is to increase demand: with more money in individual households, the purchasing capacity of individual households increases and households demand more commodities and services. Growth in demand propels businesses and enterprises to increase their supplies, which accounts for the increase in the business turnover (highlighted by the survey data). Likewise, in order to keep pace with the rising demands these businesses/enterprises have increased the number of their employees. It does not come as a surprise that the proprietors and managers of micro, small and medium industries want to increase the size of their businesses in the months to come.

Despite the keenness expressed by entrepreneurs to increase their future operations the business climate survey points to the bottlenecks that constrain growth. Strikes and closures (bandha and hadtal), political instability and inadequate infrastructure are the most binding constraints for business growth in Nepal. Strikes and closures increase the cost of transporting raw materials as well as finished products and limit the ability of private sector to freely access the necessary markets. Political instability hinders business in a number of ways. Inadequate infrastructure such as lack of electricity, sewerage services, and roads is a further constrain for business growth.

What the survey also reveals is that the local governments are not pro-active in promoting local businesses. There are hardly regular interactions between government officials and entrepreneurs. The government authorities do not solicit the opinions of the entrepreneurs in



policy-formulation processes. The significance of *afno manche* or the need to maintain informal relations with government officials in order to access information and documents remains paramount and so does political network. Due to these reasons the dominant perception of the business community is that the government is not interested in fostering a business friendly environment in the country.

The little outreach and training programs undertaken by the government is appreciated by the business community and the business community sees the need for more of these. The appreciation by entrepreneurs for whatever little trainings they have received from the government is an indication that the government should prioritize and expand these activities in the months to come.

The survey also reveals the Inland Revenue Department as the most prominent public body that directly interacts with local private entrepreneurs. In this regards too, the survey data resonates with the macro economic trends. Macro survey data reveal that the government has been expanding its revenue over the past few years. In the fiscal year 2065/66 B.S. the government was able to increase its revenue by as much as 33 percent compared to the previous year. It therefore does not come as a surprise that the interviewed businesses/enterprises report the Income Tax Office and VAT office as the government entities that most frequently visit them. Among the different state agencies, it is these have shown pro-activeness.

One could interpret the pro-activeness on the part of the VAT Office and Income Tax Department as the state fulfilling one of its core functions – revenue generation. However, as of now its role seems to be primarily extractive. From the tax it receives from the business community, it needs to spend more on the quality of infrastructure and inputs in the form of specialized trainings and outreach programs. Likewise, the business community expects the state to play its role more effectively in ensuring better law and order and the maintenance of public services.

Activities of labor unions such as bargains and even strikes for better wages, benefits, better working conditions etc. were not commonly encountered by businesses in the business climate survey. This could be because only 13 percent of the interviewed enterprises were medium scale where there could be organized labor exists. Instead of the activities of the labor unions per se, the survey reveals businesses being more likely to be affected by disputes with customers, with competitors and with suppliers. The role of the District Administration office in resolving such disputes is minimal. Most businesses prefer to settle such disputes on their own or through friends and relatives.

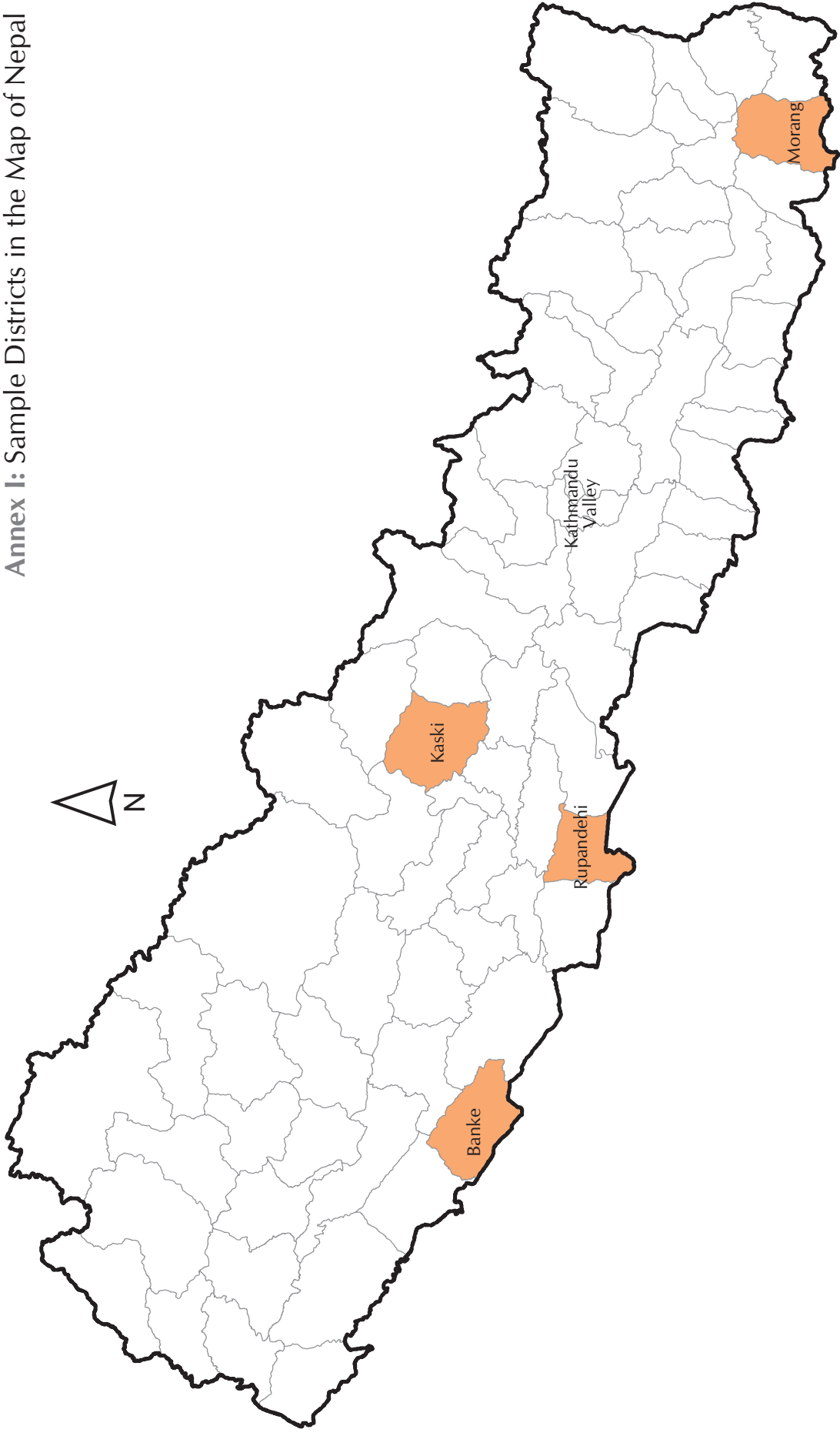
A substantial number of enterprises experience loss due to extortion, theft, robbery and vandalism. Though those reporting these incidences in fiscal year 2066/67 are less than in 2065/66, it remains considerable. This constitutes largely of protection payments made to police officers, local gangs and groups affiliated with political partner. Worrisome is the fact that more enterprises in 2010 report groups affiliated with political parties demanding and receiving protection payment compared to 2009. Likewise the absolute volumes demanded by these groups for 2010 has gone up compared to 2009.

The peculiar predicament outlined at the outset could be explained if one takes into account the extortion, theft, robbery and vandalism experienced by enterprises as well as the protection payments these have to make to the police officers, local gangs and groups associated with political partner. While micro, small and medium enterprises and businesses have indeed increased their turnovers and would like to expand their businesses in the months to come, the growing incidents of protection payments, has led to considerable pessimism on the part of the business community and has dampened their enthusiasm for expansion.



# **ANNEXES**

Annex I: Sample Districts in the Map of Nepal



## Annex II: Research Team

### Principal Survey Researchers

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1. Sita Bhattarai
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3. Surya Pd Niraula
4. Suvash Singh
5. Bed Kumar Khatri
6. Vishal Shrestha
7. Prerana Rai
8. Sonika Rajbhandari
9. Tileshwor Chaudhary
10. Dinesh Poudal
11. Saroj Pokhrel
12. Sagar Khatiwada
13. Sabita Sharma
14. Sita Pathak
15. Shiv Prasad Sharma
16. Pratikshya Paneru
17. Shankar Tripathi
18. Ranita Baral
19. Bijaya Khanal
20. Januka Sapkota
21. Bishnu Thapa
22. Santosh Rayamajhi
23. Devendra Khadka
24. Khubi Ram Pokhrel
25. Indra Pantha
26. Deepak Khanal
27. Durga Sharma
28. Puspa Raj Khatiwada
29. Shanta Pokhrel
30. Suraj Karki
31. Goma Oli
32. Surya Mani Paudel
33. Shanti Sharma
34. Rabin Sharma
35. Bishnu Pokhrel

### Database Assistance, IDA

1. Keshab Acharya
2. Sharmila Niroula

**Annex III: Sample Distribution of Each District (Morang, Kaski, Rupandehi and Banke) of Business Climate Perception Survey II**

Category (ISIC)	Sub-category	Total sample size	General sample size (77.6%)	Panel sample size (22.4%)
		(Each category)	(Each category)	(Each category)
<b>1. Agriculture and Forestry</b>	High value cash crops growers	40	31	9
	Cereal crops growers			
	Fruits and vegetables growers			
	Processing mills			
	Wholesalers (e.g. vegetables)			
	Retailers (e.g. meat, vegetable, dairy)			
	Inputs (pesticides and fertilizers manufacturers and sellers)			
	Machinery (tractors) sellers			
<b>2. Wholesale and Retail Trade</b>	Wholesalers	37	29	8
	Retailers (formal)			
	Retailers (informal)			
<b>3. Real Estate, Renting and Business Activities</b>	Housing companies	23	18	5
	Real estate broker			
	Commercial complexes			
<b>4. Transport and Communication</b>	Syndicate	31	24	7
	Carriers/cargo			
	Bus - long route			
	Bus - short route			
	Taxis			
	Informal - Rikshaw			
	Informal – Thela-gadi			
	Internet/email/STD centres			
<b>5. Manufacturing</b>	Medium scale industries	20	16	4
	Cottage and small industries			
<b>6. Construction</b>	Contractors	20	15	5
	Hardware sellers			
	Bricks/blocks manufacturers			
<b>7. Education</b>	Boarding schools	17	13	4
	Education consultants			
	Bridge course institutes			
	Plus 2 institutions			
<b>8. Financial Intermediation</b>	Banks	17	13	4
	Finance companies			
	Cooperatives			

Category (ISIC)	Sub-category	Total sample size	General sample size (77.6%)	Panel sample size (22.4%)
		(Each category)	(Each category)	(Each category)
<b>9. Other community, social and personal service activities</b>	Printing Press	6	4	2
	Media - radio, TV, print			
	Manpower office			
	Travel agency			
	Insurance company			
<b>10. Mining and Quarrying</b>	Stones, aggregates and sands suppliers	9	7	2
<b>11. Health</b>	Nursing homes	11	8	3
	Medicine manufacturing companies			
	Pharmacy, dispensary, medical stores			
<b>12. Water</b>	Mineral water manufacturers, tanker water suppliers	7	6	1
<b>13. Fishing</b>	Fish wholesalers	8	6	2
	Fist retailers			
<b>14. Hotels and Restaurants</b>	No star hotels (lodges)	10	8	2
	1/2 star hotels			
	No star restaurants			
	1/2 star restaurants			
	Snooker and pool houses			
<b>Total</b>		<b>256</b>	<b>198</b>	<b>58</b>



**Annex IV: Sector-wise Breakdown of government expenditure  
(Rs. in billion)**

	<b>2002/03</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
<b>Royal Family</b>	<b>0.39</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Constitutional Bodies</b>	<b>0.91</b>	<b>2.59</b>	<b>2.96</b>	<b>2.57</b>
<b>General administration</b>	<b>9.18</b>	<b>21.26</b>	<b>25.31</b>	<b>30.57</b>
Police	6.22	14.31	17.62	19.18
<b>Defense</b>	<b>7.38</b>	<b>14.46</b>	<b>17.52</b>	<b>17.96</b>
<b>Social Service</b>	<b>25.50</b>	<b>91.35</b>	<b>112.62</b>	<b>150.04</b>
Education	13.17	35.31	46.29	57.65
Health	3.65	13.37	16.66	24.51
Drinking water	2.15	7.10	6.96	9.35
Local development	4.84	18.84	21.80	27.89
<b>Economic Services</b>	<b>18.84</b>	<b>45.03</b>	<b>60.32</b>	<b>85.34</b>
<b>Loan Payment</b>	<b>16.18</b>	<b>26.99</b>	<b>28.41</b>	<b>30.56</b>
<b>Miscellaneous</b>	<b>5.63</b>	<b>18.03</b>	<b>11.98</b>	<b>18.88</b>
Retirement Benefits & Staff Facility	5.63	17.00	11.49	14.84
<b>Total</b>	<b>84.01</b>	<b>219.66</b>	<b>259.15</b>	<b>337.90</b>

Source: Various red book, MOF, GON

## Annex V: Nepal Business Climate Perception Survey II, August 2010 [Introduction to be read word for word by Enumerators]

Hello, my name is \_\_\_\_\_ and I am working for Institute for Governance and Democracy which is being supported by The Asia Foundation Nepal for this work. We are surveying private firms like yours to learn more about your business operations and some of the specific conditions you face in the local business environment. Your enterprise was randomly selected from a list of businesses in the district.

The ultimate goal of the survey is to help advise the Nepal Government on ways to change policies that hinder firms like yours, as well as developing programs that will help all private companies grow faster. Your answers are very important to this goal. The information you provide will be used along with responses from other firms to provide a comprehensive picture of the private sector in Nepal. We want you to answer as comfortably and honestly as possible. We guarantee that the strictest precautions will be observed in maintaining the confidentiality of your responses. Neither your name nor the name of your business will be used in any document based on the survey. Moreover, identifying information will be deleted from any dataset that is assembled based on this survey.

Please be aware that the validity of our conclusions rests on the quality of your responses. Try to be as honest and as open as possible in answering and make sure that your responses reflect only your experience of doing business in the district where your business is located.

Interview starting time: .....

Basic Information (applicable for corporate business only)

Please interview the owner wherever possible; otherwise interview the manager or most knowledgeable staff.

General	Panel
78%	22%

### A1. Respondent's identification

a. Name		
b. Telephone number		
c. Age of the respondent		

	Frequency	Percent
18-25	141	13.8
26-35	403	39.4
36-45	300	29.3
Above 45	179	17.5

d. Sex	Male: 88%	Female: 12%
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### e. Education of the respondent

	Frequency	Percent
Literate	57	5.6
Primary	50	4.9
Sec.	116	11.3
SLC	216	21.1
Inter.	263	25.7
Bachelor & above	321	31.4

## A2. Respondent's Position in Company [SA]

Respondent's position	Frequency	Percent
Owner and manager	799	78.1
Owner but not a manager	26	2.5
Manager	113	11.0
Spouse of owner	22	2.2
Employee	63	6.2
Total	1,023	100.0

A3. Name of Enterprise: .....

A4. Address of enterprise:

a. Location (current survey)		b. Location of Headquarters (if different)
District		
Municipality/V.D.C.		
Ward number		
Cluster name		
Telephone number		

## A5. Legal status of this enterprise/business [SA]

	Frequency	Percent
Sole proprietorship	779	76.13
Partnership	129	12.6
Co-operative society	35	3.4
Private limited liability company	54	5.3
Publicly listed company	26	2.5
Total	1,023	100.0

A6. Number of owners (including respondent if he/she is an owner) (base = 244):	31
---	----

A7. In how many other places is this enterprise operating? (Including the one mentioned above)

	Base	Mean value
a. Within this district	1023	1.2
b. Outside this district	1023	0.74

## B. BASIC BUSINESS INFORMATION

B1. In which category does your firm belong to out of the categories given below? [SA]

International Standard Industrial Code (ISIC)	Frequency	Percent
Agriculture and forestry	160	15.6
Fishing	31	3.0
Mining	36	3.5
Manufacturing	80	7.8
Water	29	2.8
Construction	79	7.7
Wholesale and retail trade	149	14.6
Hotels and restaurants	40	3.9
Transport and communications	126	12.3
Financial intermediation	68	6.6
Real estate, renting and business activities	93	9.1
Education	67	6.5
Health	42	4.1
Other community, social and personal service activities	23	2.2
Total	1,023	100.0

B2. When did your firm originally begin operations? ..... Year.....Month

Year of operation of the enterprise/business	Frequency	Percent
0-2	261	25.6
3-5	225	22.0
6-9	194	19.0
10-14	153	15.0
15 & above	188	18.4
Total	1021	100.0

B3. How many full-time employees did/does your firm have? (base = 1023)

	Number of hired full-time employees (Mean)	Number of full-time family workers (Mean)
a. In the year the operation began	1.4	1.8
b. In Fiscal Year 2065/66	3.6	2.1

B4. During the Fiscal Year 2066/67, how many new full-time employees did your firm hire and/or lay off? (base = 1023)

	Base	Mean value
Number hired	1,023	1.2
Number lay off	1,023	0.3

B5. How many of your workers were/are temporary? (base = 1023)

	Mean Number of hired temporary employees	Mean Number of temporary family workers
a. The year the enterprise began	3.9	1.0
b. In F.Y. 2066/67	5.6	1.2

B6. Which statement best characterizes your firm's investment plans over the next 2 years? [Read aloud][SA]

	Frequency	Percent
Plan to considerably increase the size of operations	247	24.1
Plan to increase the size of operations	494	48.3
Will continue operating at present size	227	22.2
Plan to reduce the size of operations	9	0.9
Plan to considerably reduce the size of operations	1	0.1
Plan to close this business	31	3.0
Refused	1	0.1
DK/CS	13	1.3
Total	1023	100.0

B7. What is the percentage of your enterprise's sales in F.Y. 2066/67 in own district, other districts and exported?

	Sold directly by self		Sold through distributor/s	
	Base	Mean (%)	Base	Mean (%)
a. In own district	1015	88.8	84	58.0
b. In other districts	1015	10.2	84	41.9
c. Exported	1015	0.95	84	0.06
Total	1015	100.0	84	100.0

B8. What percentage of raw materials necessary to run your enterprise come from own district, other districts and abroad? (base = 1014)

	Mean (%)
a. From own district	77.5
b. From other districts	22.5
Total	100.0

B9. Who determines the price of your product? [SA]

	Frequency	Percent
Market	775	75.8
Syndicate	200	19.6
Middle men	26	2.5
Regulating agency	22	2.2
Total	1023	100.0

### C. REGISTRATION, LICENSE AND PERMIT

C1. Is your enterprise registered? [SA]

	Frequency	Percent
Yes	785	76.7
No	237	23.2
DK/CS	1	0.1
Total	1023	100.0

C2. Please mention about the registration, licence or permit you have obtained to operate your business. [Read Aloud] (base = 785)

C2	Do you have this document? (Yes)	Average days required to obtain this document.	Do you have to renew this document each year? (Yes)	Average Registration fee required for obtaining	Average fee required during last renewal
a. For cottage and small industries (Registration certificate from Cottage and Small industries Department)	32.6	11.6	89.1	2,826	3,402
b. For medium and big industry (Registration certificate from the Department of Industries)	4.3	15.0	82.4	8,305	4,148
c. PAN/ VAT certificate	76.1	8.7	86.1	5,672	5,352
d. Export license	1.8	6.6	92.9	38,289	1,376
e. Import license	1.5	2.9	75.0	1,995	2,066

C3. In F.Y. 2066/67 how many days did it take you to comply with requirements of the government's requirements? (For example taxes, customs, labour regulations, Nepal Standards Institute (NSI) regulations, licensing and registration) including dealings with officials, completing forms, etc.) (base = 743)

7.6 Days	(In Mandays)
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C4. If no, then why? Please give two reasons. [Any two]

	Frequency	Percent
It requires a lot of cost; there isn't much profit in my enterprise	88	37.0
The procedures are too complicated	77	32.4
The benefits of registration are not clear to me	67	28.2
Once registered one has to begin paying taxes	45	18.9
Because its not necessary	29	12.2
DK/CS	21	8.8
It will make me subject to a variety of cost-increasing regulations	20	8.4
It requires a lot of cost; even if there is some profit in my enterprise	16	6.7
Once registered it will receive undue attention from the government and make my firm's accounts subject to undesirable scrutiny	13	5.5
In the name of enforcing regulations government inspectors will come inspecting and ask for bribes	8	3.4
Its in process	6	2.5
Insufficient membership size	3	1.3
Municipality has not registered it	3	1.3
Refused	1	0.4
Total	238	166.8

C5. How did you learn about things like registration and permit? [MA]

C6. In the F.Y. 2066/67 was your enterprise inspected by officials of the following agencies in the context of regulation of your business? [Read aloud] [MA]

	Frequency	Percent
No one comes	500	48.9
VAT Office	174	17.0
Income Tax Department	132	12.9
Department of Cottage and Small Industries	69	6.7
Police	47	4.6
Ministry of Health	43	4.2
Municipality	40	3.9
Nepal Rastra Bank	38	3.7
Department of Commerce	33	3.2
Division Co-operative Office	25	2.4
Labour and Employment Generation Office	24	2.3
Department of Medicine	20	2.0
Agriculture Office	19	1.9
Department of Standards	19	1.9
Department of Industries	18	1.8
Education Office	15	1.5
Food Co-operation	15	1.5
Department of Environment	14	1.4
Transportation Committee	10	1.0
Forest Office/ Department of Forest	7	0.7
Customs Department	6	0.6
District Administration Office	6	0.6
District Veterinary Office	6	0.6
Ministry of Information and Communication	5	0.5
Food Technology Department	4	0.4
Tourism Board	3	0.3
Higher Secondary Education Council	3	0.3
Insurance Committee Kathmandu	2	0.2
Professional Association	2	0.2
CTEVT	2	0.2

Press Council	2	0.2
District Post Office	2	0.2
Dairy Development Co-operation	2	0.2
Fishing Development Office	2	0.2
Public Health Office	1	0.1
PABSON	1	0.1
Veterinary Quarantine	1	0.1
UN	1	0.1
District Development Committee	1	0.1
Central Bureau Statistics	1	0.1
Land Administration Office	1	0.1
Meat Professional Association	1	0.1
Staffs of Nepal Telecom	1	0.1
University	1	0.1
DK/CS	1	0.1
Total	1023	129.0

#### D. GUARENTEE FOR THE RIGHT TO USE LAND

D1. Do you have any problem with regard to finding the appropriate place to run your enterprise? [SA]

	Frequency	Percent
Yes	459	44.9
No	562	54.9
Refused	2	0.2
Total	1023	100.0

D2. If yes, what is the main problem with regards to finding the appropriate place to run your enterprise? [SA]

	Frequency	Percent
Not finding the place one likes	242	52.7
The place one likes is too expensive	145	31.6
Congested space; lack of parking facilities	53	11.5
DK/CS	8	1.7
Have to pay forced donations for using the land	4	0.9
Lack of irrigation facilities	2	0.4
Refused	2	0.4
Sewerage problem	1	0.2
Expansion of unsystematic settlement	1	0.2
Transportation	1	0.2
Total	459	100.0

D3. What is the status of the house/land that your enterprise is using? [Read aloud][SA]

	Frequency	Percent
Rented from another party for running the enterprise	417	40.8
Part of the household property of the owners or the owners' family	350	34.2
Used as part of an informal arrangement with another party	174	17.0
Sarkari land	41	4.0
Purchased from another party for business purposes only	23	2.2
Public (sarwajanik) land	17	1.7
Parti land	1	0.1
Total	1023	100.0

Note: Ask question D4 to D7 if code 4 is marked in question D3 otherwise go to question E1

D4. If you are renting house/land from another party to run your enterprise, who are you renting it from? [SA]

	Frequency	Percent
Individual	380	91.1
VDC/Municipality	13	3.1
Government	11	2.6
Private company	7	1.7
Community organization	5	1.2
School	1	0.2
Total	417	100.0

D5. Based on the rent agreement what was the full length of the lease? (base = 417): 8 years

D6. For renting the house/land, how much are you presently paying per month? (base = 417), 13781.8 NRs.

D7. Please evaluate the risk of changes in rent conditions if another party was to insert new conditions (i.e. rent increases, sales to new parties, etc) [SA]

	Frequency	Percent
Very high	221	53.0
High	131	31.4
Moderate	20	4.8
Low	28	6.7
Very low	13	3.1
DK/CS	4	1.0
Total	417	100.0

#### E. DIPUTE RESOLUTION

E1. Has your enterprise ever experienced any type of dispute? [SA]

	Frequency	Percent
Yes	359	35.1
No	664	64.9
Total	1023	100.0

E2. If yes, with whom has your enterprise experienced disputes? [Read aloud] [MA]

	Frequency	Percent
With customers (e.g. delayed payment, not paying etc.)	223	62.1
With competitors	88	24.5
With suppliers (late delivery, poor quality etc.)	73	20.3
With local residents	59	16.4
Disputes between management and employees/labour	53	14.8
With local government agencies and/or officials	25	7.0
With police officers	24	6.7
With local organizations	8	2.2
Hooligan / Terrorist	7	1.9
Students union	6	1.7
Share member	4	1.1
Landlord	3	0.8
Management committee	2	0.6
National wild life preserve	1	0.3
Staffs welfare fund	1	0.3
Total	359	160.7



E3. How do you normally resolve these types of disputes? [Read aloud] [MA]

	Frequency	Percent
Negotiate on your own with other party	335	93.3
Mediate through friends or relatives	65	18.1
Mediate through business associations	22	6.1
Mediate through DAO	13	3.6
Do nothing. I am powerless	12	3.3
Appeal to DDC	7	1.9
Appeal to a court	3	0.8
By giving bribe	1	0.3
Total	359	127.6

E4. What is your level of satisfaction with the final resolution of the disputes? [SA]

	Frequency	Percent
Very dissatisfied	20	5.6
Dissatisfied	38	10.6
Neither satisfied nor dissatisfied	115	32.0
Satisfied	171	47.6
Very satisfied	15	4.2
Total	359	100.0

E5. How many times was there dispute during the past one year? (base = 359) 5.3 times

E6. To what degree do you agree with this statement "I am confident that the legal system will uphold my contract and property rights in business disputes". [SA] (base = 1023)

	Frequency	Percent
Strongly disagree	43	4.2
Disagree	289	28.3
Agree	611	59.7
Strongly disagree	33	3.2
Refused	8	0.8
DK/CS	39	3.8
Total	1023	100.0

## F. TRANSPARENCY

For any business to prosper, the government should be transparent. We are asking a few questions with regards to government's transparency.

F1. Please rate your access to these documents and information. SHOW CARD. (base = 1023)

	Very difficult	Difficult	Easy	Very easy	NA	DK/CS
a. Information on what are the permits and rules that are required for your enterprise	4.3	30.4	59.6	1.8	0.9	3.0
b. How to obtain permits and application forms required for your enterprise	2.7	29.0	62.3	1.9	0.9	3.2
c. Government policies and regulations relevant to your sector	6.5	42.8	44.1	1.3	0.8	4.6
d. Information on the facilities, training and technologies from local government agencies	8.7	52.8	31.0	1.3	1.3	5.0
e. Information on taxation policies (income tax, VAT, customs duties, local taxes and fees)	4.0	26.8	58.7	2.8	2.7	4.9
f. Information on various goods-specific clearances to be obtained before exporting goods	1.5	6.2	10.1	0.4	73.6	8.3

F2. How important is it to have informal relationship with a government official in order to access the above documents or information? [SA] (base = 1023)

	Frequency	Percent
Very important	290	28.3
Important	483	47.2
Less Important	134	13.1
Not at all important	83	8.1
Refused	5	0.5
DK/CS	28	2.7
Total	1023	100.0

F3. Do government officials come to discuss existing policies, rules or regulations that may affect your enterprise? [SA] (base = 1023)

	Frequency	Percent
Yes	219	21.4
No	793	77.5
Refused	2	0.2
DK/CS	9	0.9
Total	1023	100.0

F4. If they come, please mention the name of these government agencies. [MA]

	Frequency	Percent
Internal Revenue Department	55	25.1
District Industry and Commerce Office	38	17.4
Municipality/VDC/DDC	37	16.9
Medicine Management Department	29	13.2
District Agriculture Office	26	11.9
Department of Measure and Standards	24	11.0
District Administration Office	22	10.0
Department of Cooperatives	16	7.3
District Education Office	16	7.3
Food Investigation Division	16	7.3
District Animal Health Service	15	6.8
Ministry of Transport	14	6.4
Nepal Rastra Bank	13	5.9
District Public Health Office	12	5.5
Traffic Police	11	5.0
Ministry of Communication	10	4.6
Department for Labour and Employment Generation	10	4.6
Construction Professional Committee	8	3.7
Retailer Business Association	6	2.7
District Forestry Office	6	2.7
Small and cottage industry	6	2.7
Tourism Board	4	1.8
District Fisheries Development Office	4	1.8
Land Administration Office	3	1.4
Dairy development co-operation	3	1.4
Insurance committee	2	0.9
District Women's Development Office	1	0.5
CTEVT	1	0.5
Skill development training center	1	0.5
Higher secondary education council	1	0.5
Nepal rural development society	1	0.5
Forestry office	1	0.5
Press council	1	0.5
Total	219	188.6

F5. How often are there changes in central government's laws, rules and regulations that affect your business, and how often do you receive advance notice about these changes? (base = 1023)

	a. How often are there changes? (Percent)	b. How often do you receive advance notice about these changes? (Percent)
Never	30.2	64.4
Seldom	22.4	11.7
Sometimes	22.1	5.7
Often	11.1	5.9
Regularly	4.8	4.1
DK/CS	9.4	8.2

#### G. PARTICIPATION

G1. What is the most common manner in which the government engages with private firms? [Read Aloud] [MA]

	Frequency	Percent
Have never been involved	332	32.5
Conversations with business associations	275	26.9
Business forums involving government officials and private sector representatives	213	20.8
Limited conversations with relevant firms	168	16.4
Direct conversations with individual firms	125	12.2
DK/CS	99	9.7
Scientific survey of private firms	62	6.1
Total	1023	124.5

G2. Are you a member of any business association/membership group/Chamber of Commerce in your district? [SA] (base = 1023)

	Frequency	Percent
Yes	502	49.1
No	521	50.9
Total	1023	100.0

G3. If you are, please name the organization: .....

G4. In your opinion, what is the main role of your business association/membership group/Chamber? [SA]

	Frequency	Percent
To work in the interest of entrepreneurs/professionals	180	35.9
To provide business services	93	18.5
To facilitate business environment for entrepreneurs	77	15.3
To provide networking opportunities	53	10.6
To provide information to entrepreneurs	49	9.8
To advocate for policies that will improve businesses	35	7.0
To advise and provide information to government officials	9	1.8
DK/CS	4	0.8
To compensate for natural disaster	2	0.4
Total	502	100.0

#### H. INFORMAL CHARGES

H1. We have heard that establishments are sometimes required to make gifts or informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services etc. Does this occur for establishments in your sector (not necessarily your business)? [SA] (base = 1023)

	Frequency	Percent
Yes	178	17.4
No	782	76.4
Refused	25	2.4
DK/CS	38	3.7
Total	1023	100.0

H2. If YES, on average, over a year, how much do informal payments cost a typical establishment in your sector? (base = 113)

NRs. 50,838.5

H3. Do you agree with this statement: "Firms in my sector usually know in advance how much this 'additional payment' is"? [SA] (base = 1023)

	Frequency	Percent
Yes	206	20.1
No	731	71.5
Refused	14	1.4
DK/CS	72	7.0
Total	1023	100.0

H4. If a firm pays the required 'additional payment' how often is the service delivered as the firm expected? [SA] (base = 1023)

	Frequency	Percent
Never	150	14.7
Rarely	173	16.9
Sometimes	295	28.8
Frequently	132	12.9
Always	145	14.2
Refused	23	2.2
DK/CS	105	10.3
Total	1023	100.0

H5. How necessary is it for you to make informal additional payments to government officials to obtain government services? [SA] (base = 1023)

	Frequency	Percent
Essential	94	9.2
Very necessary	66	6.5
Somewhat necessary	232	22.7
Less essential	90	8.8
Not essential	496	48.5
Refused	6	0.6
DK/CS	39	3.8
Total	1023	100.0

H6. How often is the following statement true? "If a government agent acts against the rules (e.g. overzealous inspections or unofficial payments), I can usually go to another official or to his superior to have the treatment corrected"? [SA] (base = 1023)

	Frequency	Percent
Never	208	20.3
Rarely	107	10.5
Sometimes	217	21.2
Frequently	140	13.7
Always	299	29.2
Refused	16	1.6
DK/CS	36	3.5
Total	1023	100.0

H7. Do you believe that information regarding public procurement contracts is transparent? [SA] (base = 1023)

**Comment:** A public pro procurement contract is defined as any contract where firms must compete to provide goods or services to government offices. This can include large items such as roads, trucks or school buildings, or smaller items such as motorcycles, rice seed, computers, photocopy services or food catering services.

	Frequency	Percent
Never	743	72.6
Rarely	69	6.7
Sometimes	74	7.2
Frequently	18	1.8
Always	42	4.1
Refused	13	1.3
DK/CS	64	6.3
Total	1023	100.0

H8. Are the procedures for public procurement fair? [SA] (base = 1023)

	Frequency	Percent
Yes	53	5.2
No	903	88.3
Refused	10	1.0
DK/CS	57	5.6
Total	1023	100.0

H9. When firms in your industry do business with the government, do they generally pay commissions? [SA]

	Frequency	Percent
Never	381	37.2
Rarely	122	11.9
Sometimes	183	17.9
Frequently	104	10.2
Always	86	8.4
Refused	21	2.1
DK/CS	126	12.3
Total	1023	100.0

H10. On average, how large are the above commissions as a percentage of the total value of the public project? (base = 332)

Mean Percent	13.6 %
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H11. How important are personal connections to government officials or political party backing for winning public procurement contracts? [SA] (base = 1023)

	Its a 'must'	Very important	Somewhat important	Not so important	Not important at all	Refused	DK/CS
Personal connections with government officials	36.0	35.4	17.4	3.8	1.9	0.7	4.9
Political party backing	35.1	31.5	19.9	5.7	2.4	0.6	4.8

## J. CRIME

J1. Did your establishment experience losses during F.Y. 2066/67 due to extortion, theft, robbery, vandalism, or arson? [SA] (base = 1023)

	Percent	J2 Value of the loss (in NRs.) (base = 231)
Yes	23.9	1,36,636.8
No	76.1	

J3. Do firms in your line of business ever make protection payments to:

	J3 a (base = 1023)		J3 b If yes, then how much?	
	Yes [Continue]	No [Go to K1]		
a. Police officers	1.2	98.8	base = 10	NRs. 24,070.0
b. Local gangs or criminal groups	2.7	97.3	base = 24	NRs. 53,137.5
c. Groups affiliated to political parties	6.0	94.0	base = 52	NRs. 53,698.1

## K. PRIVATE SECTOR DEVELOPMENT POLICIES

K1. What is the overall status of physical infrastructure as they apply to your enterprise? [SA for each row] [Read aloud] (base = 1023)

	Very bad	Bad	Good	Very good	NA
a. Road quality	10.2	34.3	52.7	2.5	0.3
b. Telecommunications quality	2.5	15.0	79.8	2.2	0.5
c. Electricity availability	15.7	38.6	44.1	0.8	0.8
d. Water services	7.7	35.0	51.9	2.3	3.0
e. Sewerage services	19.3	42.6	32.1	0.5	5.6
f. Emergency management for flooding and water-logging	12.8	24.6	12.2	1.1	49.3

K2. Among the following things, what would you consider the most binding constraint to business growth in Nepal? [Read aloud]

	Frequency	Percent
Strikes and closures (bandha, hadtal)	611	59.7
Political instability	392	38.3
Inadequate infrastructure - road, electricity etc.	230	22.5
Inflation	148	14.5
Insufficient customers	119	11.6
Access to finance	77	7.5
Crime, theft and insecurity	68	6.6
Difficulty in obtaining space for business	65	6.4
Corruption	64	6.3
Unskilled labour	55	5.4
Poor work ethic of national labour force	33	3.2
Difficulty in registration, obtaining licenses and permits	28	2.7
Inefficient government bureaucracy	24	2.3
Tax rates and regulations	19	1.9
Unhealthy competition	17	1.7
Conflict between suppliers and buyers	14	1.4
Difficulties in import of business related inputs	12	1.2
Restrictive labour regulations	10	1.0
Weak government policies	10	1.0
Unfavourable climate	5	0.5
DK/CS	4	0.4
Insufficient land	3	0.3
Smuggling	2	0.2
Total	1023	196.5

K3. Government provides a number of business development and advisory services, mostly in the form of free or subsidized training and extension services. Have you ever participated in such types of trainings? [SA] (base = 1023)

	Frequency	Percent
Yes	203	19.8
No	816	79.8
Refused	3	0.3
DK/CS	1	0.1
Total	1023	100.0

K4. If you have participated, in which types of trainings have you participated? [Read aloud] [MA]

	Frequency	Percent
Trainings for actual agriculture based industries such as poultry and fisheries.	61	30.0
Trainings to promote technology development in small industries	49	24.1
Management training for entrepreneurs of small industries	47	23.2
Training in accounting for small enterprise managers and other employees	31	15.3
Public health related	20	9.9
Public awareness programme	12	5.9
Educational training	5	2.5
Cooking training	2	1.0
Travel and tourism	2	1.0
Construction related training	2	1.0
Journalism training	1	0.5
Beautification training	1	0.5
Total	203	114.8

K5. How useful did you find the concerned trainings? [SA] (base = 203)

	Frequency	Percent
Fully Useful	134	66.0
Somewhat useful	65	32.0
Not useful	4	2.0
Total	203	100.0

K6. How often does your local government agency make efforts to solicit opinions of small industry associations or individual entrepreneurs regarding the training needs of various small industry sectors? [SA] (base = 1023)

	Frequency	Percent
Never	690	67.4
Rarely	149	14.6
Sometimes	122	11.9
Usually	28	2.7
DK/CS	34	3.3
Total	1023	100.0

K7. How necessary do you think are regular interactions between the government officials and entrepreneurs for developing a business-friendly climate? [SA] (base = 1023)

	Frequency	Percent
Yes, it is very necessary	730	71.4
Somewhat necessary	129	12.6
I can't say anything about it	123	12.0
Its not necessary	41	4.0
Total	1023	100.0

K8. If it is, then what should these interactions focus on?

.....  
 .....

## L. CONFIDENCE OF THE BUSINESS COMMUNITY

L1. When taking the next 12 months into consideration, what do you think will be the economic situation (a) in Nepal and (b) in your area? (base = 1023)

	a. In Nepal	b. In your area
It will improve	15.4	18.6
It will remain the same	31.7	38.3
It will worsen	47.3	38.5
Refused	0.5	0.3
DK/CS	5.1	4.3

## M. FLEXIBILITY OF THE LABOUR MARKET

M1. Is dismissing employees an easy or a difficult process? [SA] (base = 1023)

	Frequency	Percent
Very easy	14	1.4
Easy	430	42.0
Difficult	467	45.7
Very difficult	24	2.3
NA	48	4.7
Refused	8	0.8
99	32	3.1
Total	1023	100.0

M2. If the employee is dismissed, should certain amount be given as compensation? [SA] (base = 1023)

	Frequency	Percent
Yes it should be given	330	32.3
No it should not be given	599	58.6
NA	46	4.5
Refused	8	0.8
DK/CS	40	3.9
Total	1023	100.0

M3. Were there occasions when dismissal was not resorted to although the need was felt? [SA] (base = 1023)

	Frequency	Percent
Yes	64	6.3
No	867	84.8
NA	64	6.3
Refused	4	0.4
DK/CS	24	2.3
Total	1023	100.0

M4. If yes, what was the reason? [Read aloud] [SA]

	Frequency	Percent
Opposition of trade unions	24	37.5
Shortage of skilled workers	16	25.0
Humanitarian grounds	15	23.4
DK/CS	4	6.3
High compensation	2	3.1
Refused	2	3.1
Strict labour laws	1	1.6
Total	64	100.0



M5. Are you aware of any cases of businesses in your district having been pressured to hire people? [SA] (base = 1023)

	Frequency	Percent
Yes	92	9.0
No	849	83.0
NA	45	4.4
Refused	4	0.4
DK/CS	33	3.2
Total	1023	100.0

#### O. Taxes

O1. Please provide the following information on your establishment's production, sales and expenses [in Nepali Rupees] [In case of bank and finance institution, exclude principal and deposited amount].

	1st year of operation		F.Y. 2066/67	
a. Total capital asset (Bought or built buildings, machinery, equipment, vehicle, etc. for running the enterprise)	base = 936	14,01,948	base = 937	42,87,491
b. Total operations expenses (Rent, cost of raw materials, repair, transportation, fuel, salary, remuneration and bonus; other utility expenses such as water, electricity, gas, etc.)	base = 938	9,10,109	base = 939	19,04,879
c. Total sale value of production or service	base = 924	19,69,369	base = 927	54,83,240

O2. Please record the classification that applies to your firm's official tax status (Read Aloud) [SA]:

	Frequency	Percent
Paying VAT/turnover taxes	481	47.0
Paying taxes on profits and VAT/turnover taxes	157	15.3
Paying taxes on profits alone	139	13.6
Do not pay taxes	246	24.0
Total	1023	100.0

O3. How effective is the government administration in collecting taxes from enterprises like yours? [SA] (base = 777)

	Frequency	Percent
Fully effective	298	38.4
Very effective	228	29.3
Moderately effective	195	25.1
Not effective	38	4.9
DK/CS	18	2.3
Total	777	100.0

O4. Many enterprises like yours face difficulties in fully complying with taxes and regulations. What percentage of total sales would you estimate the typical establishment in your sector reports for tax purposes? (base = 610)

Mean Percentage ..... 81.4 %

O5. Do you agree with this statement: "Negotiations with tax authority are a necessary part of doing business". [SA] (base = 777)

	Frequency	Percent
Strongly disagree	63	8.1
Disagree	408	52.5
Agree	268	34.5
Strongly Agree	9	1.2
DK/CS	29	3.7
Total	777	100.0

## P. GOVERNMENT'S PROACTIVITY

P1. What do you think is the attitude of government officials toward private business? [SA (base = 1023)]

	Frequency	Percent
Strongly negative	16	1.6
Negative	273	26.7
Neutral	633	61.9
Positive	6	0.6
DK/CS	95	9.3
Total	1023	100.0

P2. Do you agree with the following statements? Please check only one box per statement [SA for each row] (base = 1023)

	Strongly agree	Agree	Disagree	Strongly disagree	DK/CS
a. My local government (municipality/VDC) is very good at creating a profitable private business environment.	1.5	28.4	63.8	3.9	2.3
b. My local government (municipality/VDC) is creative and clever about solving new business problems.	1.7	18.8	71.3	5.6	2.7
c. My local government (municipality/VDC) is willing to take risks to aid my business.	4.9	6.4	69.3	18.1	1.4
d. There are good initiatives at the district level, but central laws and regulations frustrate their impact.	5.3	67.6	21.1	1.4	4.6
e. There are good policies at the central level, but local government officials frustrate implementation.	11.5	73.3	11.7	1.3	2.2
f. There are not enough initiatives at the district level to support private sector development.	13.3	73.3	9.0	1.1	3.3

P3. If there is a lack of clarity on certain regulations, local government officials tend to: (Read Aloud) [SA]

	Frequency	Percent
Postpone decision and consult the relevant central authority	573	56.0
DK/CS	215	21.0
Interpret it against us	141	13.8
Interpret it in our favour	94	9.2
Total	1023	100.0

## Q. FINANCE

Q1. Has your firm ever obtained loan from any financial institution, family members, friends or local money lender to run your enterprise/business? [SA] (base = 1023)

	Frequency	Percent
Yes	552	54.0
No	471	46.0
Total	1023	100.0

Q2. During the F.Y. 2066/67 which of the following financial sources (including specifying their percentage) was used to invest in your firm (both regular and fixed assets). (Read Aloud)

	base	Mean Percentage
a. Internal funds or retained earnings (own company resources /savings)	552	49.1
b. Private commercial banks (loan, overdraft)	552	16.0
g. Family, friends	552	10.3

d. Specialized public bank (e.g., Krishi Bikas Bank)	552	6.4
e. Other financial institutions (e.g., leasing companies)	552	5.9
h. Local money lender	552	5.0
c. Nationalized commercial banks (loan, overdraft)	552	4.3
f. Microfinance company	552	3.0
Total	552	100.0

Q3. Has your firm ever obtained a loan from any financial institution except family members, friends or local money lender to run your enterprise/business? [SA] (base = 552)

	Frequency	Percent
Yes	391	70.8
No	161	29.2
Total	552	100.0

Q4. What type/s of formal financial institution did you obtain loans from?

Q4	Did you obtain a loan from? [Yes]	Mean principal amount of the loan	Mean duration of the loan(in month)	Mean annual rate of interest (%)	Did the loan require collateral? [Yes]
Bank	72.6	24,33,748	78.5	13.7	93.7
Finance company	15.6	16,23,131	71.7	13.3	75.4
Cooperative	15.9	2,90,578	18.5	15.3	54.8

Q5. Which of the following were used as collateral? [Read aloud] [MA]

	Frequency	Percent
Land, buildings, house	305	91.6
Other tangible assets (e.g. accounts receivable, inventory)	18	5.4
Plant / machinery	14	4.2
Certification of profession/business	6	1.8
Total	333	103.0

Q6. What percentage of the collateral constituted the total value of the loan?

45.1%

Q7. What is/was the main use of this loan? [MA]

	Frequency	Percent
To buy inputs, supplies, goods to re-sell	230	58.8
To buy machinery and equipment	183	46.8
To buy other fixed assets (land, buildings)	69	17.6
To pay earlier loans	19	4.9
Total	391	128.1

Q8. What is the main reason you have never had a loan from a financial institution? [MA]

	Frequency	Percent
Because I did not apply for a loan	120	74.5
Because the last application for a loan was turned down	39	24.2
Because the approval of the application for a loan is still pending	3	1.9
Total	161	100.6

Q9. What is the main reason you have never obtained a loan? [SA]

	Frequency	Percent
Do not need loans due to having enough own savings/earnings	254	53.9
Do not need loans due to having resources from other sources	128	27.2
Interest rates are too high	35	7.4
Do not have adequate collateral in terms of value	16	3.4
Application procedures for loans are too burdensome	12	2.5
Do not have documents proving ownership of collateral	10	2.1
It is necessary to have contacts or give informal payments to get loans	9	1.9
Didn't know how to apply	3	0.6
Because the last application for a loan was turned down	3	0.6
Bank officials asked for informal payment	1	0.2
Total	471	100.0

Note: ask the question Q10 If code 11 is marked in question Q9

Q10. What was the principal reason given to you when the application was turned down? [SA]

	Frequency	Percent
Insufficient collateral (e.g., property not accepted as collateral)	6	54.5
Did not have proper documents proving ownership of collateral	2	18.2
Perceived lack of profitability of project	2	18.2
Incompleteness of application	1	9.1
Total	11	100.0

## R. INTER-DISTRICT AND INTERNATIONAL TRADE

R1. Please estimate the percentage of your monthly sales that you pay in fees (informal or formal) to customs officials as your goods are trucked across India

	Exports to India	NA	Exports to other countries	NA
% of monthly sales	%	444	%	444

R2. If your firm were to invest in an expansion outside this district, which three districts would you consider as the most suitable?

	Frequency	Percent
Kathmandu	401	39.2
Chitwan	269	26.3
Sunsari	201	19.6
Jhapa	186	18.2
Kaski	185	18.1
Dang	144	14.1
Surkhet	129	12.6
Bardiya	127	12.4
Palpa	111	10.9
Kapilbastu	93	9.1
Nawalparasi	90	8.8
Sayangja	80	7.8
Rupandehi	75	7.3
Tanhu	71	6.9
DK/CS	62	6.1
Baglung	59	5.8
Kailali	49	4.8
Gulmi	47	4.6
Illam	42	4.1
Dhankuta	42	4.1
Parwat	39	3.8
Saptari	38	3.7

Arghakhachi	37	3.6
Banke	27	2.6
Jumla	27	2.6
Siraha	22	2.2
Lamjung	22	2.2
Morang	20	2.0
Makwanpur	13	1.3
Parsa	12	1.2
Magdi	11	1.1
Puthan	10	1.0
Mustang	10	1.0
Lalitpur	10	1.0
Dailekha	9	0.9
Gorkha	9	0.9
Rolpa	8	0.8
Mugu	8	0.8
Refused	8	0.8
Humla	7	0.7
Terthum	7	0.7
Udayapur	7	0.7
Salyan	6	0.6
Jajarkot	6	0.6
Dhanusa	6	0.6
Manang	5	0.5
Kavre	5	0.5
Rukum	5	0.5
Kalikot	5	0.5
Panchathr	5	0.5
Bara	4	0.4
Kanchanpur	4	0.4
Sankhuwasabha	4	0.4
Taplejung	4	0.4
Dolpa	3	0.3
Aachham	2	0.2
Sarlahi	2	0.2
Solukhumbu	2	0.2
Okhaldhunga	2	0.2
Dhading	2	0.2
Doti	1	0.1
Bajura	1	0.1
Mohottari	1	0.1
Total	1023	283.4

INTERVIEWER: "Thank you for speaking with us today."

## S. INTERVIEWER FOLLOW-UP

The interviewer should complete this section alone, away from the household where the interview was conducted. Please provide your most accurate OPINION to the following questions.

	Questions	Coding Categories
S1	Name of the interviewer	
S2	Date of the interview	___ / ___ / ___
S3	Interview ending time	
S4	Duration of interview (in minute)	
S5	Time of the interview (base = 1023)	1. Morning ..... 30% 2. Afternoon ..... 54% 3. Dusk ..... 16%
S6	Was the respondent fearful when responding to your questions? (base = 1023)	1. Yes ..... 21% 2. No ..... 79%
S7	Was the respondent distracted during the interview? (base = 1023)	1. Yes ..... 39% 2. No ..... 61%

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