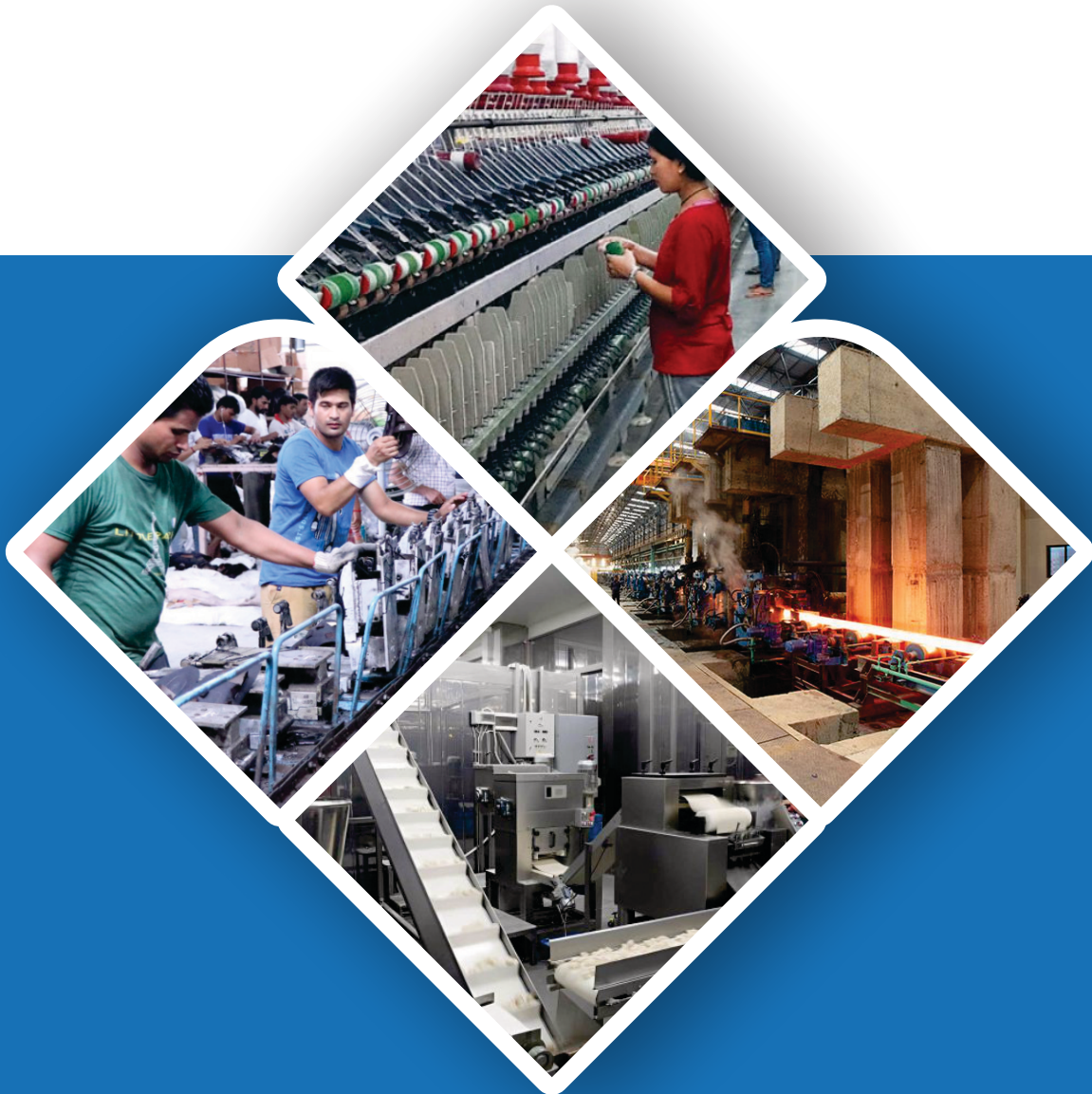


Micro, Cottage & Small Scale Industries (MCSI) in Gandaki Province

*the province level policy instruments
and challenges facing them*



**Micro, Cottage & Small Scale Industries (MCSI) in Gandaki Province:
the province level policy instruments and challenges facing them**

February, 2024

Binita Subedi
Barun Chhetri
Pokhara Research Centre

Authors:

Binita Subedi

Researcher

Pokhara Research Centre

Barun Chhetri

Researcher

Pokhara Research Centre

Supported by:



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Tel.: 061-587111

Email: centre.pokhara@gmail.com

Website: www.pokharacentre.org

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Executive Summary

Micro, cottage, and small industries (MCSIs) are considered the backbone of every economy and especially play a vital role in the economies of the developing countries. However, in the case of Nepal, MCSIs have been underperforming, and most of the issues arise from the policies surrounding the MCSI sector or the overall industry sector. While there are several spheres within the MCSI sector including financing and taxation that are mired with challenges, this study looks into the challenges existing at the provincial level regarding registration, renewal, and cancelation of the MCSIs.

Like all other sectors MCSIs are guided by federal, provincial and local level plans, policies and budget. At federal level, MCSI sector is currently being guided by the Industrial Promotion Policy, Industrial Enterprise Act, 2020, Private Firm Registration Act, 2014, Annual five year plans. At provincial level, Provincial Act relating to industrial enterprise and firm registration along with provincial plans, and the province level budget guide the sector. Further at local level, the Local Government Operations Act (LGOA) along with plans and programs at the local level guide MCSIs. While these policies and programs directly affect the functioning and operation of MCSIs, several other sectoral programs under the line ministries at the federal and provincial levels indirectly impact MCSIs. The available provisions and relevant policies have not been able to fully realize the expected results in the growth of MCSIs at both federal and provincial levels.

The challenges that plague MCSIs emanate mostly from the unclear roles and responsibilities of the three tiers of the government. This is owed to the fact that there are overlaps and deficits in the existing, newly formulated¹ and amended laws after federalization. The lack of clarity among the three tiers as per a World Bank report is compounded by their conflicting priorities concerning MCSIs. This has been attributed to the poor delivery of local and provincial governments. As such, the industry sector of the country has to spend many more hours than the rest of the world in complying with the regulations².

Even though provincial governments have been provided with the jurisdiction of most of the MCSIs, the unclear legislation and haphazard regulation pose quite a challenge at the sub-national level. While the unbalanced center-province relationship affects the growth of MCSIs, there are policy bottlenecks within the provincial system itself that render the policy instruments designed to address MCSI growth in provincial capacity ineffective. A pre-consultative meeting with the concerned stakeholders in the private sector revealed that there is a severe information gap regarding the various provisions and programs targeted toward the growth of MCSIs in the Gandaki province. Further, a lot of administrative difficulties have also been arising due to lapses at the provincial levels that have prevented the authorities at the provincial level from coming up with all the regulating legislations required by the law. This, along with other challenges, has riddled Gandaki Province with major policy potholes in the governance of MCSIs within the province. The study conducted two focus group discussions (FGDs) with multiple stakeholders, seven key informant interviews (KIIs), and desk research to identify challenges within the MCSI sector and the role of provincial level in addressing them. Further, based on the finding of the research, an implementation plan

¹ Ibrahim, N. & Irwin, D. (2023). Market study to understand job growth potential in SMEs in Nepal <https://documents1.worldbank.org/curated/ru/441621592596897607/pdf/Market-Study-to-Understand-Job-Growth-Potential-in-SMEs-in-Nepal.pdf>

² International Labour Organization. (2023). Building inclusive entrepreneurship ecosystems in Nepal https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/ifp_seed/documents/publication/wcms_871950.pdf

has been drafted to support provincial authorities in identifying key targets for reformation.

The study identifies that a robust online system and digitization of the processes involved in the registration, renewal, and cancellation of industries could ease the processes, eliminating several challenges. Additionally, the study found that there is a need for adopting collaborative mechanisms to build collaboration at the local levels; without which, the study concludes effective measures to simplify registration, renewal, and cancellation are not possible.

Industry and business

As per the Industrial Enterprises Act, 2020, a person, firm, or company can establish an industry in Nepal. Industry upon establishment works as a legal entity that can conduct its own business-related activities. Such businesses are categorized as industry-related businesses, other one is commerce-related businesses. Industry-related businesses function by producing/trading goods or providing services by utilizing any type of raw materials, labor, capital, machinery, equipment, technology, or intellectual property rights. Industry registration is thus one of the steps involved in operating a business in Nepal. Industry-related businesses are required to register their industry.

Further, any kind of business (either industry-related or commerce-related) in Nepal is categorized as either a limited liability company (LLC) or an unlimited liability company (ULC) based on the legal responsibility of the owners in all matters including debt obligations. While LLCs are usually protected from personal responsibility for their debts and liabilities, most of the Micro and Small businesses in Nepal choose to be registered as ULCs as there are considerably fewer hassles in registering and operating a ULC among other reasons. These companies often operate with much less capital and resources. Under the ULCs are two types namely, sole trader and partnership firms. While sole trader refers to businesses with single owners, partnership firms have more than one owner.

In this study, the point of analysis is industry-related business operating at micro, cottage, and small levels with a focus on sole trader and partnership firms.

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List of abbreviation

MCSI	Micro, Cottage, and Small Industries
MoTICS	Ministry of Tourism, Industry, Commerce and Supplies
ICCRPD	Industry, Commerce and Consumer Rights Protection Directorate
MALM	Ministry of Land Management
SME	Small and Medium Enterprise
MSME	Micro, Small and Medium Enterprise
GDP	Gross Domestic Product
IFC	International Finance Corporation
NPR	Nepali Rupees
KW	Kilo Watt
IEA	Industrial Enterprise Act, 2020
CTEVT	Council for Technical Education and Vocational Training
MoICS	Ministry of Industry, Commerce and Supplies
MoFESC	Ministry of Industry, Tourism, Forest and Environment
MoALD	Ministry of Agriculture and Livestock Development
MEDEP	Micro Enterprise Development Program
MEDPA	Micro Enterprise Development for Poverty Alleviation
UNDP	United Nations Development Program
PMAMP	Prime Minister Agriculture Modernization Program
NLSIP	Nepal Livestock Sector Innovation Project
DLSU	Decentralized Level Support Units
NLBO	National Livestock Breeding Office
REED	Rural Enterprise and Economic Development Project
MoFAGA	Ministry of Federal Affairs and General Administration
PAN	Permanent Account Number
IRD	Inland Revenue Department

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Background

The largest part of the private sector in Nepal is made up of micro, cottage, and small industrial enterprises (MCSIs). In the last fiscal year alone, more than 60% of the total industries registered in the country were MCSIs³. Of the total number of industries in the country, there are 488,239 small industries, followed by 41,099 micro industries and 23,374 cottage industries⁴. The rise in the number of these enterprises in Nepal has been evident after the economic liberalization in the 1990s⁵. The decades since then have seen the number of MCSIs go from 28,660 in 1983 to 587,802 in 2022⁶. These enterprises are often dubbed as the backbone of economic growth in developing economies like Nepal along with emerging economies, and rightly so. The global average suggests that MCSIs along with medium industries in emerging economies account for almost 40% of the national GDP and more than 90% of the private business sector and contribute to 35% of the national GDP in developing countries⁷. In Nepal, while MCSIs along with medium industries account for more than 90% of the private business sector, their contribution to the national GDP is 22%⁸.

A priority sector in developing economies, they not only constitute the bigger portion of the overall business enterprise but also account for employing a large section of the country's population with 2.5 million people (approximately 13.5% of the country's total workforce) employed in the sector as per the National Economic Census report 2018⁹. The government has also prioritized the sector for tailoring programs directed toward poverty reduction¹⁰.

The institutionalization of federalism resulted in the amendment of many policies and acts to accommodate the new system, which after the promulgation of the constitution in 2015, resulted in the formation of seven provincial and 753 local authorities. Following this, the Industrial Enterprise Act, 2020 was formulated to replace the previous Industrial Enterprise Act, 1992 to regulate the private sector. The shift toward federalism came with the decentralization of power and resources from central to provincial and local levels. This has been reflected in the amended acts and policies that have incorporated the roles and functions of provincial and local authorities. This has paved the way for smoothing if not expediting the economic growth of the country. The constitution promulgated in 2015 has tasked the seven provinces with

³ Ministry of Finance (MOF). (2023). *Arthik sarveschan 2022/23*. <https://www.mof.gov.np/site/publication-detail/3248>

⁴ Department of Industries. MOICS. (2022). *Laghu, gharelu tatha sana udhyog tathyanaka 2078/79*. <https://doind.gov.np/uploads/notices/Notices-2022112813094321.pdf>

⁵ ILO. (2013). A report on micro and small enterprise policy review in Nepal https://www.ilo.org/wcmsp5/groups/public/@asia/@ro-bangkok/@ilo-kathmandu/documents/publication/wcms_116688.pdf

⁶ Department of Industries. MOICS. (2022). *Laghu, gharelu tatha sana udhyog tathyanaka 2078/79*. <https://doind.gov.np/uploads/notices/Notices-2022112813094321.pdf>

⁷ WTO. Nd. Small business and trade. https://www.wto.org/english/tratop_e/msmesandtra_e/msmesday20_e.htm

⁸ Nepal Rastra Bank (NRB). (2019). SMEs financing in Nepal. <https://shorturl.at/ALT06>

⁹ CBS. (2020). National Economic Census 2018. <https://nsonepal.gov.np/wp-content/uploads/2020/10/1-1-National-Economic-Census-2018-National-Report-1-1-by-Industry-Final.pdf>

¹⁰ Ibrahim, N. & Irwin, D. (2020). Market study to understand job growth potential in SMEs in Nepal. <https://documents1.worldbank.org/curated/ru/441621592596897607/pdf/Market-Study-to-Understand-Job-Growth-Potential-in-SMEs-in-Nepal.pdf>

functions encompassing more than one local level, regulating and monitoring province-wide activities, and coordinating with the federal and local governments as per the new constitution¹¹. As such, the Industrial Enterprises Act, 2020 has authorized the provincial governments to regulate other matters including the registration, renewal, and cancellation of enterprises that fall under their jurisdiction¹². Most of the micro, cottage, and small industries (MCSIs) as per the act fall under the jurisdiction of the province given that the provincial governments formulate a provincial enterprise act if they haven't already. Gandaki Province having come up with the Province Industrial Enterprise Act, 2019 thus has jurisdiction over the small and medium enterprises within the province.

By that effect, the MCSIs make up a significant portion of the provincial economy, both in terms of total MCSIs and total human resources employed by them within Gandaki Province¹³.

Their pivotal role in creating jobs and reducing poverty besides contributing to the national and provincial GDP is almost always at the center of any discussion surrounding MCSIs. As such, 40% of all jobs are attributed to MCSIs in Nepal. The 15th five-year plan estimates that yearly 60,000 additional jobs will be created via an additional 15,000 new MCSIs every year.

Rationale of the study

Pokhara Research Centre (PRC) has been continuously working to strengthen the provincial government of Gandaki Province in order to support the strengthening of the existing policy instruments and formulation of new ones. This research project seeks to aid the provincial government and its line agencies in reflecting and responding to the policy challenges in registration, renewal and cancellation of MCSIs within the province. It further seeks to provide evidence-based recommendations to the relevant provincial government agencies including policymakers to amend and revise the policy documents/plans/programs relevant to the findings of the study. The findings are presented in Annex A's implementation plan which outlines specific action plans for the relevant provincial authorities.

MCSIs categorization

The government of Nepal has categorized MCSIs, as per the Industrial Enterprises Act of 2020. Small, medium, and large enterprises are characterized by the amount of fixed capital. Enterprises with less than 150 million NPR in fixed capital are categorized as small enterprises and more than 500 million in fixed capital are considered large enterprises. Unlike small, medium, and large enterprises, the categorization of micro and cottage enterprises take into account other factors as well.

¹¹ The Constitution of Nepal. (2015).

https://www.mohp.gov.np/downloads/Constitution%20of%20Nepal%202072_full_english.pdf

¹² Ministry of Industries, Commerce and Supplies (MoICS). (2020). The Industrial Enterprises Act, 2020.

<https://moics.gov.np/uploads/shares/laws/Industrial%20Enterprises%20Act%20%202020.pdf>

¹³ Ministry of Finance (MOF). (2023). *Arthik sarveshan 2022/23*. <https://www.mof.gov.np/site/publication-detail/3248>

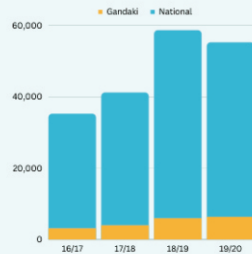
Table 1: Categorization of the Micro and Cottage Enterprises as per IEA 2020

Micro Enterprise	- Fixed capital below 2 million NPR excluding house and land.
	- Self-involvement of entrepreneurs in operation and management.
	- Employing fewer than 9 people.
	- The annual transaction below 10 million NPR.
	- Energy or fuel consumption below 20 KW.
Cottage Enterprise	- Based on traditional skills and technology
	- Labour-oriented and based on the specific skills or local raw materials and local technology, art and culture
	- Energy or fuel consumption below 50 KW

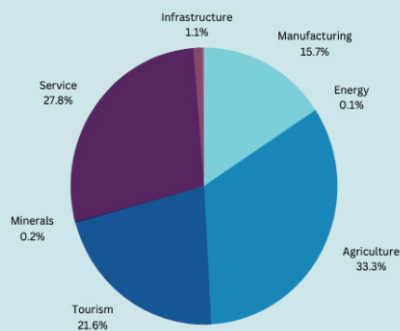
Although initially the Province Industrial Enterprise Act, 2019 of Gandaki Province had set a slightly different capital cap for micro, small, medium, and large industries than the federal demarcation, the amendment in January 2023 brought the categorization in line with the federal one.

MCSIs in Gandaki Province

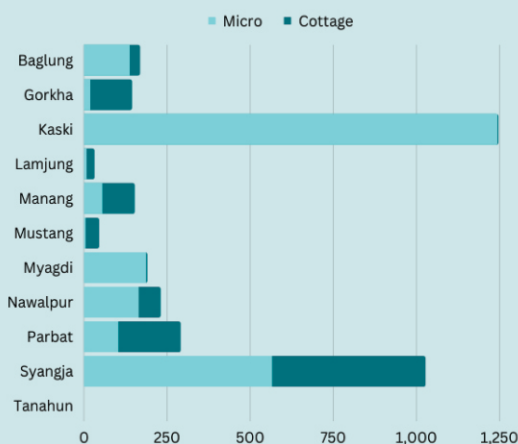
MCSIs IN GANDAKI



Sectorwise composition of Micro, Cottage and Small Industry in Gandaki Province



Continued registration of small industries of the total continued registration of MCSIs in Gandaki Province



Continued registration of micro and cottage industries of the total MCSIs in Gandaki Province

Source: laghu, gharelu तथा saana udhyog tathayanka 2022, DOI, MOICS
Source: National Economic Census 2018, CBSO

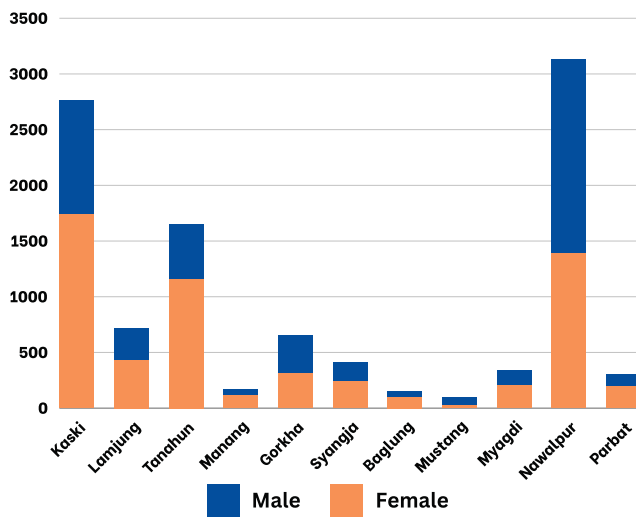
Gandaki Province has a total of 69,782 registered MCSIs of the total 673,244 MCSIs in the country. Per the economic survey 2022/23, Gandaki has the 5th highest number of MCSIs among the seven provinces in the country.

Economic survey report of the fiscal year 2022/23 found that Gandaki Province contributed to 9% of the total GDP of the country. Last fiscal year (FY 2021/22), the GDP growth rate of Gandaki province was 6.1%, which was the highest of all provinces. The quarterly statistical bulletin, published by the National Statistics Office, further estimated this year's growth to be 3.3%, which is still the highest among the provinces. The share of Gandaki Province in the total value addition of manufacturing industries is 13% as per the same report. Bagmati has the highest share of 49% followed by Lumbini at 16%.

According to a study conducted by the International Labour Organization in 2023 titled, 'Building inclusive entrepreneurship ecosystems in Nepal,' tourism is the most prominent sector in Pokhara city. Province wide, however, the agriculture and forest sector have the highest share of MCSIs followed by the service industry, tourism, and manufacturing as per the MCSI statistics of 2022 published by Department of Industries (DOI). All the sectors, except for service industries and IT industries fall under the priority sector as specified in the Province Industrial Enterprise Act, 2019.

The sector analysis of the MCSIs at the national level by Asian Development Bank (ADB) in 2021 suggests that the growth of MCSIs in the manufacturing sector has declined and there is an increment in tourism and agriculture, forestry, and fisheries. The same is true for Gandaki Province as per the statistics maintained by the DOI.

Gender Disaggregated data of Employers



Gender Disaggregated data of Employees

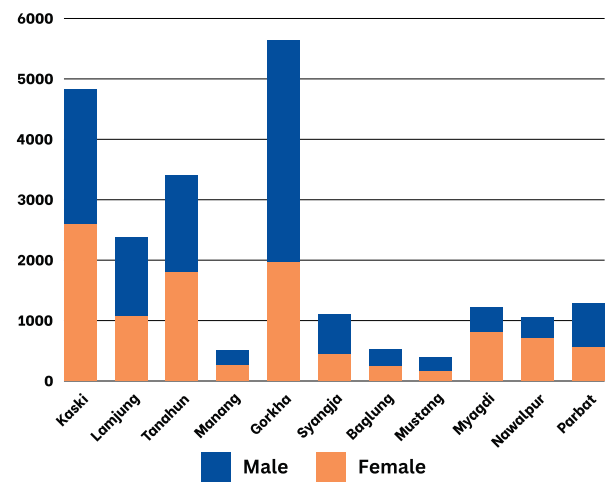


Figure 2: Gender disaggregated data of employers and employees in MCSIs in Gandaki province

In the MCSI sector, Gandaki Province employs a total of 32,762 people. The male-to-female ratio of both employees and entrepreneurs that make up the total workforce of the province looks to be mostly balanced. However, a World Bank study in 2019¹⁴ suggested that the actual number of women led enterprises may not come close to men-led enterprises as suggested by the figure, as the rise in women-owned businesses might be the result of government policies that facilitate exemptions and tax deductions for enterprises registered under a woman's name. As such, actual women ownership might be far-less than the number of enterprises registered under a woman's name.

Methodology and Scope

The research applied three primary methods for information collection. Desk research was supported by a total of seven key informant interviews (KII) with government officials and business owners which were carried out adjacent to two focus group discussions (FGD) with the relevant stakeholders. The first one was conducted on 31 July 2023 and it incorporated members from the Nepalese Young Entrepreneurs Forum (NYEF), Pokhara chapter. The first focus group discussion sought to identify the key issues faced by the entrepreneurs of multiple MCSI sectors operating within Pokhara metropolitan. It focused on identifying specific challenges faced by them during registration, renewal, and cancelation of MCSIs.

Another FGD was conducted with 14 participants on 25 August 2023 and the stakeholders comprised representatives from multiple sectors including entrepreneurs, private sector, and advocacy groups. It was conducted towards the end of desk research and mostly aimed at discussing prospective solutions to

¹⁴ World Bankf. (2019). Women's non-farm employment in Nepal: a landscape review of organizations and interventions. <https://documents1.worldbank.org/curated/en/880741611555598446/pdf/Women-s-Non-Farm-Employment-in-Nepal-A-Landscape-Review-of-Organizations-and-Interventions.pdf>

challenges identified by the study. It was especially concerned with bringing in the perspective of each relevant stakeholder in identifying solutions. However, the session did build on other challenges concerning registration, renewal, and cancelation of MCSIs.

KIIs on the other hand were conducted on need basis. It was mostly carried out to understand/identify specific details including the bureaucracy and sectorial experience of specific MCSIs. While FGDs were targeted towards identifying challenges and their complexities as faced by industries, private sector, and advocacy groups, KIIs were mostly targeted towards understanding the functioning of the provincial government units, the limitations they face and the gaps that are existent in policy and practice.

All major legislations formulated by the provincial bodies of Gandaki Province concerning MCSIs were reviewed along with relevant policy documents at the central and local levels. The policies and acts were analyzed to understand the legal basis governing the major aspects of registration, renewal and cancelation of MCSIs and the steps involved in preparing documents required for the same. The major policy documents namely, Industrial Promotion Policy; Industrial Enterprise Act, 2020; Private Firm Registration Act, 2014; Province Industrial Enterprise Act, 2019; Gandaki Province Private Firm Registration Act, 2021; and Gandaki Province Private Firm Registration Regulations, 2022 were reviewed. Similarly, *Laghu, gharelu tatha saana udhyog tathyanaka 2078/79* (Micro, cottage and small industries statistics 2021/22); *Aarthik sarvekshan 2079/80* (Economic survey 2022/23); National Economic Census 2018; National 15th five-year plan; First five-year plan of Gandaki Province; and Annual development programs (2021/22 – 2023/24) are the major national and provincial level reports that were reviewed. For developing the implementation plan for the recommendations provided in the report, major acts guiding the registration, renewal, and cancellation of MCSIs in all seven provinces was compared in order to come up with the best possible implementation strategy. Besides these, other important policy documents relevant to the MCSI sector, within the province have been mapped and reviewed.

Regulating MCSIs

With the federal government currently in the process of finalizing the draft SME policy, which is specifically designed to address the needs of the MCSI sector, there aren't any policies that serve as a concrete framework dedicated entirely to guide the MCSI sector. The existing policies already in place at federal, provincial, and local levels that encompass various aspects of this sector thus guide the plans and programs related to MCSIs at present.

Timeline of Acts/Policies Guiding Registration, Renewal and Cancellation of MCSIs'

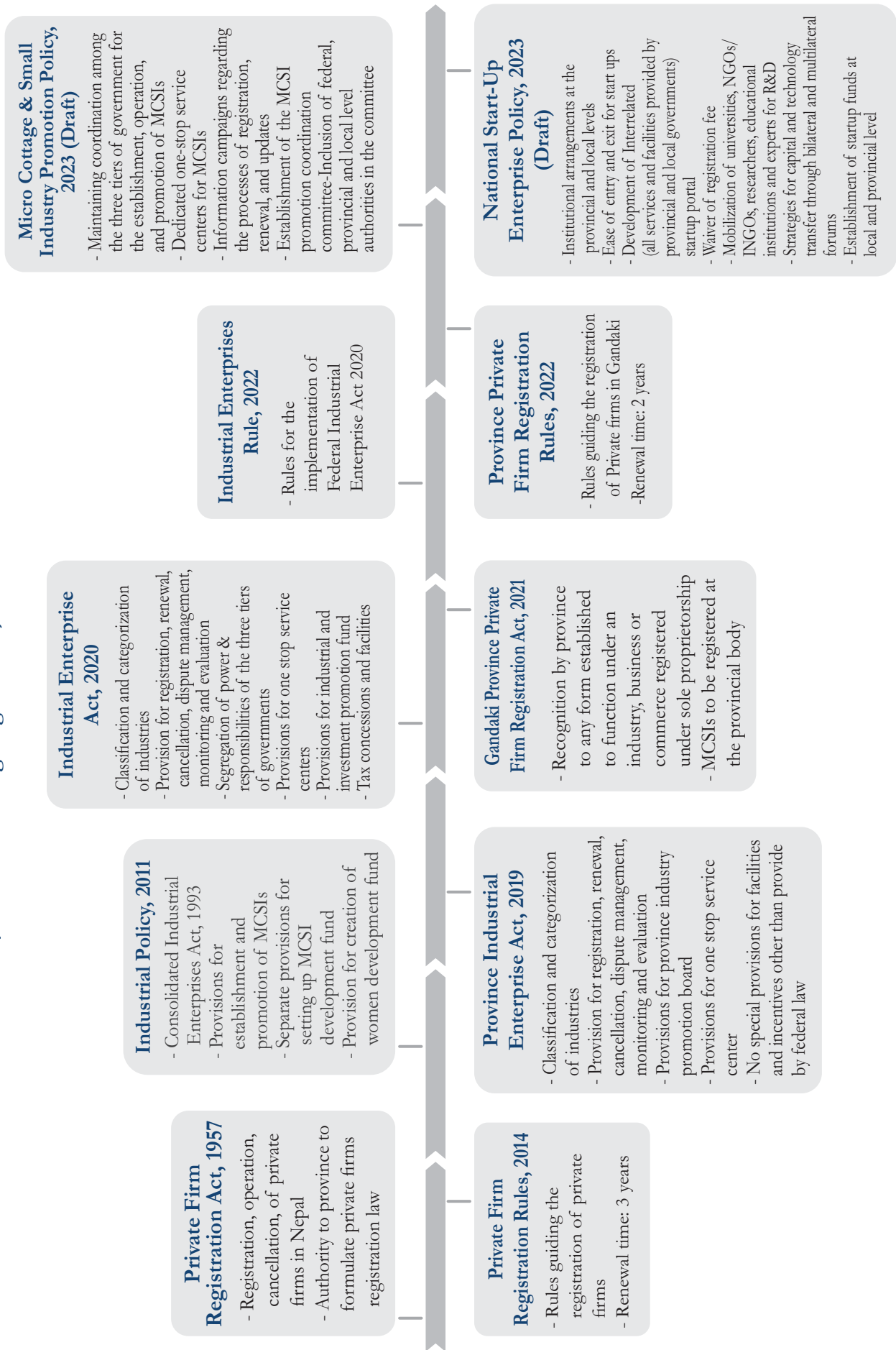


Figure 3: Timeline of formulation of acts and policies guiding registration, renewal, and cancellation of industries at federal and provincial levels

All three tiers of the government are involved in regulating. The institutionalization of federalism in 2015 thus paved the way for decentralization of not only power but services from central to provincial and local levels.

For MCSIs, a major outcome of federalism was supposed to be the simplification of the process of registration, renewal, and cancellation. The 15th five-year plan of the country even hailed this as an opportunity whereby the institutionalization of the business registration mechanisms and other services rooted in policies and laws under provincial arrangements would aid entrepreneurship development. However, as the federal government delegated the task to provincial and local governments, the lack of clarity in roles and responsibilities along with the lack of proper coordination among the three tiers has rendered the process mired in multiple bureaucratic processes.

A recent ILO study expanding on how deep the issue is analyzes Nepal's improved ranking in the World Bank's Ease of Doing Business Index and points to the fact that the improvement has nothing to do with change in the registration process. Rather, the same report outlines the hurdles surrounding the registration process among others as major impediments to the creation of an enabling business environment¹⁵.

This section maps the legal as well as bureaucratic framework that regulates registration, renewal and cancellation of MCSIs and the intricate characteristics of the framework. It delves into the specific challenge MCSIs face in maneuvering the legal and bureaucratic makeup for registration, renewal, and cancellation.

Province regulation

In Gandaki Province, Ministry of Industries, Tourism, Forest and Environment (MoFESC) functions as the lead government unit regulating industry within the jurisdiction of the province. Directorate of Tourism, Industry, Commerce and Consumers Protection (ICCRPD) under the Ministry is provisioned with undertaking the activities previously (before federalism) being carried out by the department of cottage and small industries under federal government.

¹⁵ International Labour Organization. (2023). Building inclusive entrepreneurship ecosystems in Nepal: an analysis of Kathmandu and Pokhara https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_871950.pdf

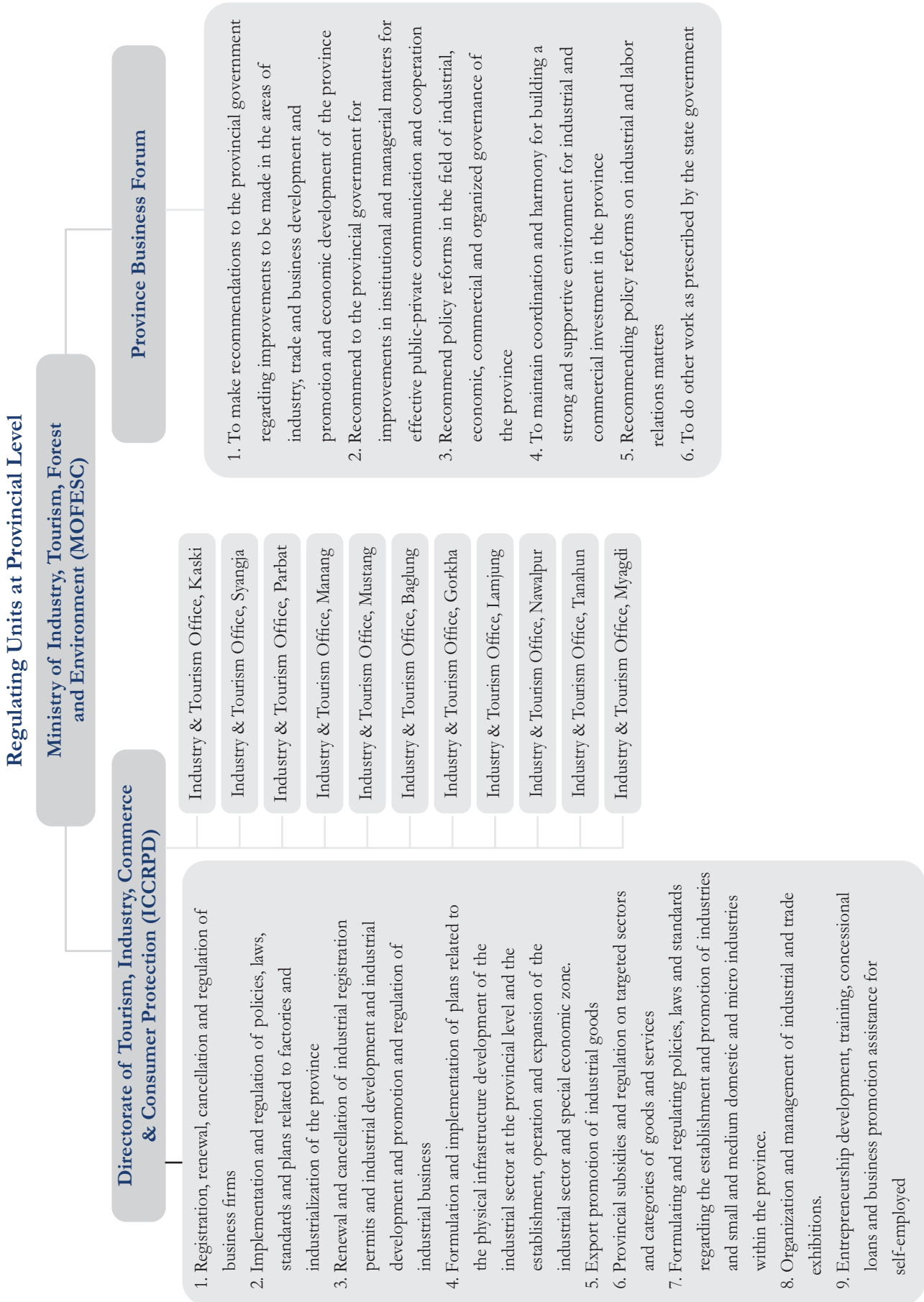


Figure 4: Flowchart of regulating units at provincial levels

Local level regulation

At the local level both ward level offices and the metropolitans/municipalities/village municipalities perform functions to regulate MCSIs that operate within the area of specific local level authority.

All kinds of business-related enterprises are required to register at the local levels and renew the registration each year as per the Local Governance Operations Act, 2017, and pay a fee when registering or renewing. Such procedures are mostly handled by the ward level authorities. For a few specific business enterprises, registration and renewal is handled by the municipality/village municipality. In Pokhara metropolitan city, homestay businesses, 25-bed local hospitals, education institutions, fourth-level construction contracting businesses, and auto workshops are required to be registered under the Metropolitan office. These businesses also require permission from the relevant departments before registering at the local levels.

Any business firms or industries are required to be registered at the local level even if they are registered at the provincial level.

Legal framework

The constitution of Nepal, along with the acts and policies formulated at the federal, provincial, and local levels, guides the registration, renewal, and cancelation of MCSIs. As per the constitution of Nepal, the functions of provincial and local levels regarding MCSI registration, renewal, and regulation are as below:

Table 2: Functions of provincial and local levels as per the constitution

Provincial Government	1. Industrial business promotion and regulation
	2. Industry permission, renewal, dismissal, and regulation
Local Government	1. Policy, law, criteria, implementation along with registration and regulation related to local business/ commerce, demand/supply, market management and monitoring and consumer rights and interest
	2. Regulating local goods production, Regulating import and export of goods related facilities
	3. Regulating local business/ commerce related infrastructure
	4. Registration, permission, renewal, dismissal and regulation of local-level business firm

Further, the acts formulated at the federal, provincial, and local levels expand on the authority of the three tiers for registration, renewal, and cancelation of MCSIs.

Table 3: Provisions for registration in the relevant acts/laws of federal, provincial, and local levels

Acts/Laws	Provisions
LGOA	<ul style="list-style-type: none"> - Registration, renewal, cancellation, and granting of permission/license to the business firms established within local levels. - Permission for operation of MCSIs - Registration of certain specific industries as per the provision of each local unit
Industrial Enterprise Act 2020	<ul style="list-style-type: none"> - Provision for registration, renewal, and cancellation of MCSIs at the provincial units
Province Industrial Enterprise Act 2019, Gandaki Province	<ul style="list-style-type: none"> - Registration, cancellation and regulation of MCSIs at provincial units (Tourism and Industry Office) <i>(Renewal process is guided by Province Private Firm Registration Act and Rules, for proprietorship firms and Partnership Act, 1964)</i>

The confusion surrounding registration, renewal, and regulation for MCSIs stems largely from a lack of clarity in the roles of provincial and local governments.

Registration:

MCSIs are required to register themselves as businesses at the local level as well as in the industry sector at the provincial level. In Gandaki Province, the tourism and industry office is authorized as the provincial body responsible for industry registration. The challenge as such emanates from the need to visit multiple authorities for registration which requires submitting multiple documents and fees.

This creates a complex and redundant process for MCSIs, who have to visit multiple authorities, submit multiple documents, and pay multiple fees to be able to operate their businesses. In addition to registering at two different government bodies, industry owners also have to register for PAN at the IRD.



Figure 5 : Authorities involved in registration of an industry at all three tiers of the government

Further, the process is very lengthy and requires submitting multiple documents and a lot of documents at each level along with the registration fee required to be paid at the sub-national as well as local level.



Figure 6: Steps involved in registration of an MCSI in Gandaki Province

Naming the industry:

Industries, firms, and companies alike cannot be registered under the same name as any other industry, firm, or company in Nepal. In order to make sure that the names of the two companies are not the same and that the person can access the name before preparing any required documentation, the company registration body has provisions that facilitate the selection of available names for the company through an online portal. This not only eases the naming process but also saves anyone from having to prepare all the documentation required for registration all over in case the name has already been taken.

The same is not the case with the registration of industries and firms. One can only access the taken names through a register maintained by the province registration unit at the tourism and industry office.

Registration charges:

The registration and renewal charges have been brought forward by the stakeholders as yet another challenge facing them. The charges are often set without any scientific research or study but rather on the whim of the responsible authority, cited one of the stakeholders. While the charges are fixed in all the 11 provincial offices across the province, they vary from one local government to another. Such haphazard allocation of charges affects uniformity and standard practice. It leads to confusion and unfairness among the MCSIs, as they have to pay different amounts for the same services depending on their location. This further discourages new MCSIs willing to formally register themselves and affects the overall growth and promotion of the MCSI sector.

Requirement of approval from neighbors:

The requirement of immediate neighbors' permission prior to the establishment of MCSIs is guided by the Civil Code 2074. As per the code, any person/s who carries out any act that may disturb/damage the neighbors' property shall acquire consent from the immediate neighbors. The establishment of any MCSI thus requires approval from one's immediate neighbors or renters in case you are planning to operate an MCSI in a rented building. The citizenship document along with the property papers and/or renters' agreement from the neighbor/renter is then required to be submitted at the local government unit. While the process itself is deemed necessary and valid, the stakeholders expressed that it is rather difficult for individuals, especially those who are new in the community. This is owed to the fact that the neighbors are often rightly suspicious and not easily convinced of the motive of the individuals asking for a copy of their citizenship and property papers. As such, the process itself has become a tiresome step towards registering an MCSI.

Renewal:

The federal Industrial Enterprise Act, 2020 provides for the provincial government to undertake the renewal of industries. The industries under proprietorship within the province are guided as per the rules of the provincial Private Firm Registration Act and the industries within the province established under partnership is guided by the federal-level Partnership Act. An industry is further required to renew its business registration (including operating permit) every year at the local level.

While the MCSIs within Gandaki Province are required to renew themselves every year at the local levels, they are only required to do so every two years at the provincial levels.

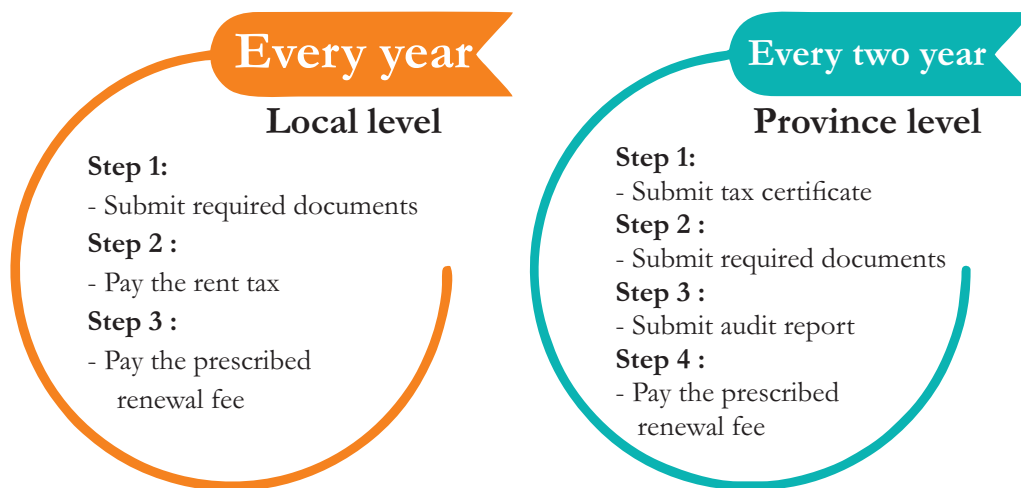


Figure 7: Steps involved in renewal of an MCSI in Gandaki Province

As both local and provincial governments undertake renewal, the industries are required to visit all the units they visited for registration again for renewal or cancellation. Policies and acts that aim to provide these services at one place and avoid multiple visits to government offices have not been implemented even after years of formulation of the policies.

Tax clearance and audit report for renewal:

Both renewal and cancellation at the provincial level require the tax clearance certificate from the IRD and audit report among other documents, which is challenging for MCSIs due to their lack of financial knowledge and accounting skills along with the tedious process involved in tax clearance that is mired in procedural ambiguity.

While the daily accounts are kept by the entrepreneurs themselves, a registered accountant needs to be hired to prepare the audit report. Due to the lack of proper financial record keeping of the entrepreneurs, the registered accountants end up preparing a report which may not contain accurate information.

Taxation differs sector-wise, ownership-wise, and starting capital-wise. There are three major types of tax systems: presumptive tax system, installment-based income tax system, and turnover-based income tax system. The stakeholders consulted during the study have cited this as a challenge for MCSIs as most of them cannot navigate through the multiple systems and identify what kind of tax system is applicable to their businesses.

Cancellation:

Cancellation of an industry requires visiting multiple authorities and clearing taxes. It is a tedious process.

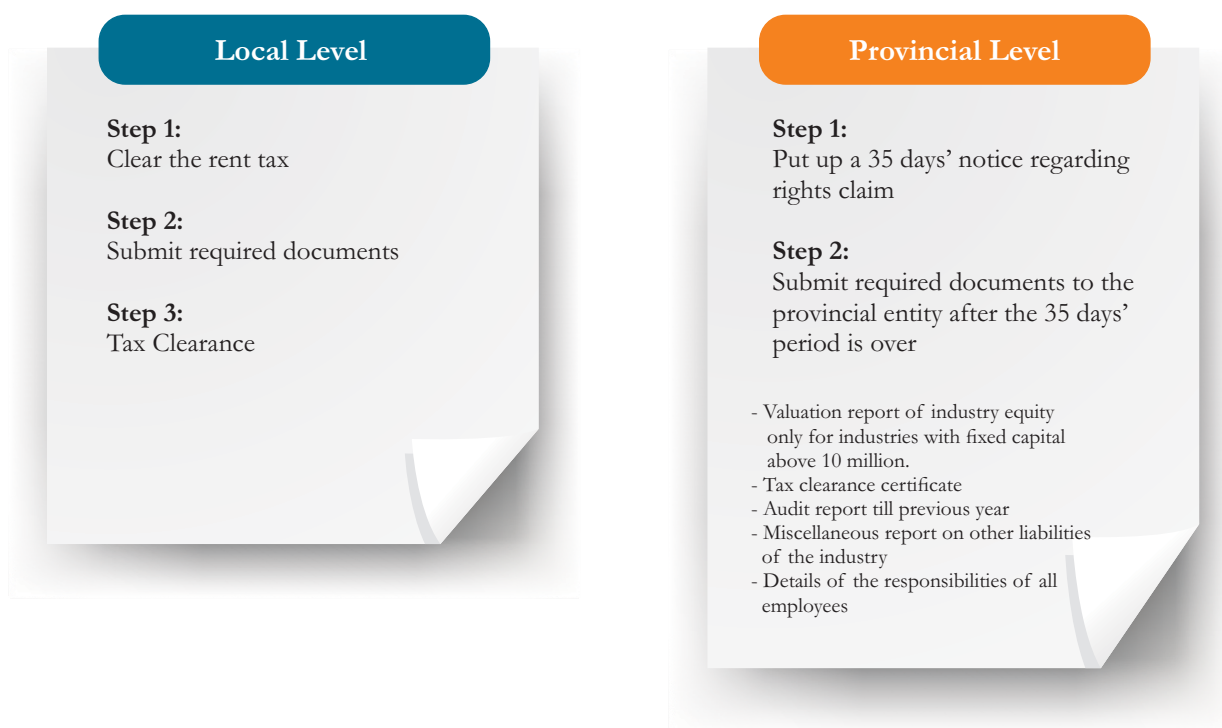


Figure 8: Steps involved in the cancellation of an MCSI in Gandaki Province

Tax clearance:

Before cancellation, taxes are to be paid for the entire time the industry remained dysfunctional and/or was not making profits. The stakeholders have expressed that this discourages entrepreneurs from taking risks in business. They complained that both cancellation and registration are complex and involve many authorities, which demotivates entrepreneurs. Most of them also thought that this was a big reason for why informal industries do not register and join the formal economy.

35 days' notice and presence of all involved:

The requirement for the cancelling party to be physically present for cancellation adds to the woes. In the case of partners involved in a business firm or industry, if one of the partners is abroad then there is no provision for solving matters digitally.

Further, the requirement of putting up a 35 days' notice regarding the rights claim and valuation report of industry equity for cancelling the registered industry at the provincial level adds to the complexities involved in closing an MCSI.

Five-year plans

Besides the policies and acts, the federal 15th five-year plan and the provincial first five-year plan guide the MCSI sectors.

Table 4: Details incorporated in current federal and provincial five-year plans

Federal 15th Five Yearly Plan	<p>Key working policies</p> <ul style="list-style-type: none"> - Modernization and upgrading of traditional skills and knowledge. - Prioritizing entrepreneurship development in policies. - Utilization of locally available skills; viability of operating the industry and market demand analysis. - Incentives, subsidies, and concessions. - Implementation of MEDPA locally. - Systematic reforms for the simplification of registration and operation processes
	<p>Key Strategies</p> <ul style="list-style-type: none"> - Develop, execute, and monitor provincial plans, policies, and programs. - Help create an investment-friendly environment within the province - Establishment of business development centers, challenge fund, innovation fund and a credit guarantee scheme within 5 years
Gandaki Province First Five Yearly Plan	<p>Key working policies</p> <ul style="list-style-type: none"> - Leveraging local resources. - poverty reduction through MCSIs - Fostering tourism entrepreneurship. - Providing seed capital for returning youth's businesses. - Incubation and insurance programs - Entrepreneurial development through technology. - Self-employment and skill development - Financial support - Simplifying access to loans for women
	<p>Key Strategies</p> <ul style="list-style-type: none"> - Favorable loans for agri-enterprises. - Industrial villages and corridors. - Entrepreneurship in the renewable energy sector. - Financial support for the disadvantaged. - Operationalizing the concepts of mountain economy and industrial product sharing - collection and Processing centers for valuable natural resources like <i>yarsagumba</i>, precious stones, and natural fibers.

As per the five-year plans, the programs related to MCSIs are focused on three key areas:

1. Increasing production and establishing industries in order to increase the contribution of the industry sector to the total global production
2. Increasing domestic and foreign investment in the sector to increase employment creation
3. Boosting domestic production and contributing towards import substitution

While the five-year plan of the province has major programs related to the promotion of digitization of various processes involving industries, there are no concrete plans that outline the exact steps that will be taken to achieve this.

Major provincial government initiatives

The Ministry of Tourism, Industry, Commerce and Supplies (MoTICS) conducts yearly projects and programs related to MSMEs including but not limited to entrepreneurship development and skill development training, technology transfer, and infrastructure construction. The major initiatives and programs of the provincial government in the MCSIs sector have been enlisted in the annual development program 2023/24 of MoTICS and the annual report 2021/22 of the provincial policy and planning commission.

Timeline

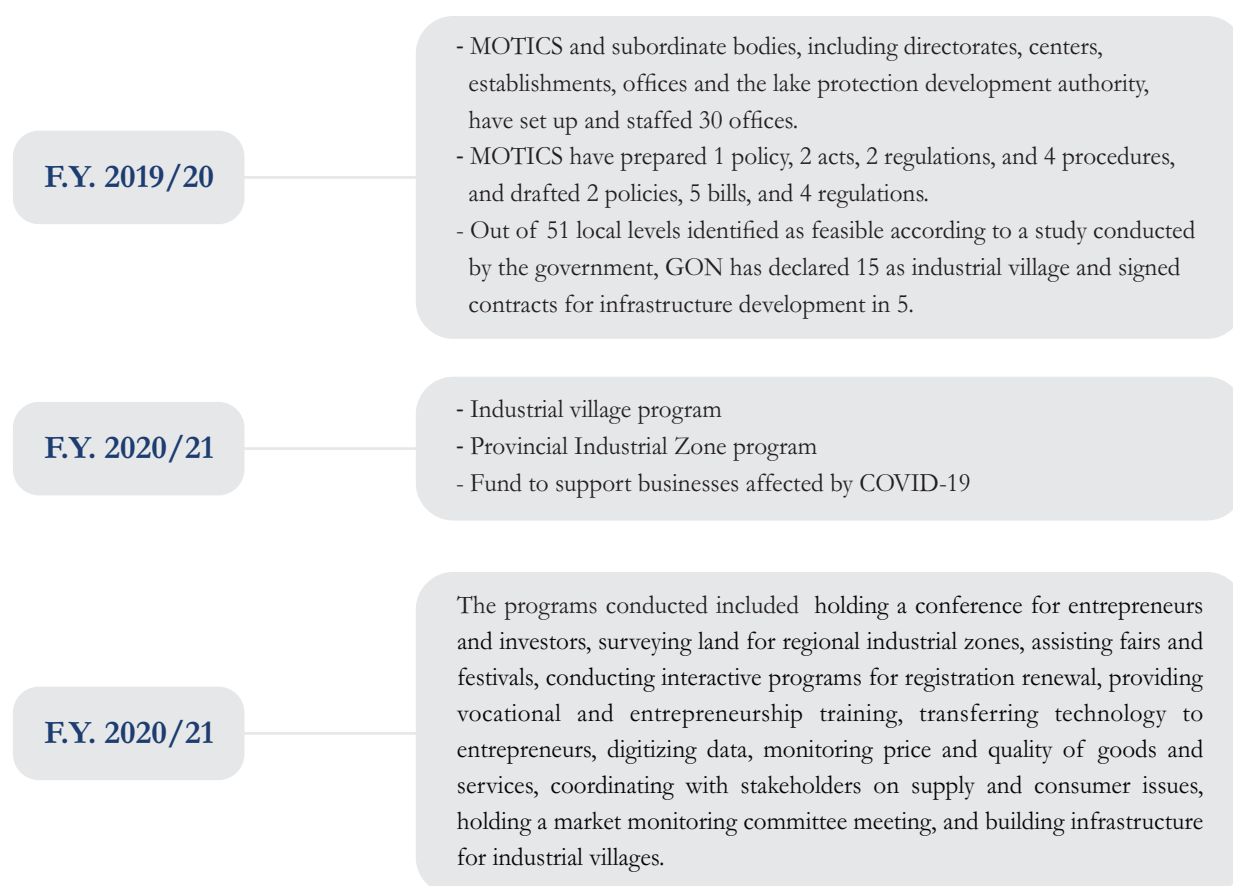


Figure 9: Key programs conducted by MOTICS as per the yearly reports published by the Gandaki province's policy and planning commission of three consecutive years (2020/21-2022/23)

Personal communication with a ministry official suggested that among the programs, the province has currently prioritized two major projects: Pradesh Aaudhogik Gram and Industrial estate.

Pradesh Aaudhogik Gram is a joint project of all three tiers of government. In this project, a certain area is identified, and infrastructure is developed. Later, the spaces and infrastructure are rented to businesses and industries. To date, 26 villages are declared as industrial villages. The local level identifies and proposes the idea of establishing an industrial village (*aaudhogik gram*) as per criteria defined by the local levels themselves. The province provides recommendations to the federal government and the federal government passes/declares the idea. All three orders of government invest in this project. The budget allocated by Gandaki Province in the last three years (2021, 2022, and 2023) are 15 million, 10 million and 10 million respectively.

Two sites have been identified for establishing provincial industrial estates in Gandaki Province. This is the sole project of the province. Detailed Project Report (DPR)of both projects have been done but Environment Impact Assessment (EIA) has not been done. The construction project has not moved forward, mainly due to the problem of land acquisition and others.

Besides the two priority programs, the ministry in the current fiscal year has planned to develop a browser-based application to provide industrial and commercial services through an online system. However, this doesn't ensure that the services provided by all three tiers of the government will be incorporated, including registration of firms, acquiring permission for industries at local levels, and PAN/VAT registration at the IRD.

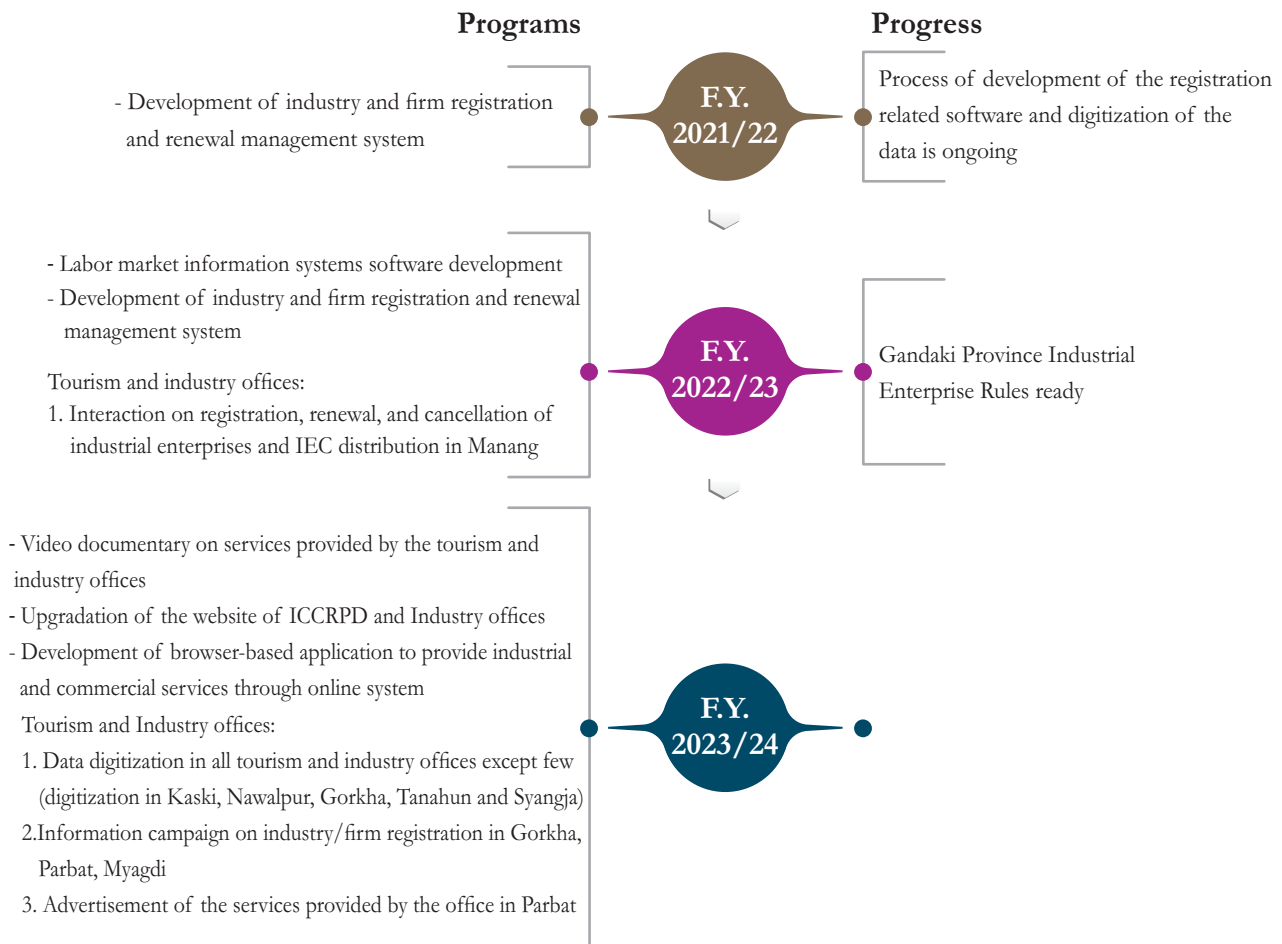


Figure 10: Key programs conducted by MOTICS as per the annual development programs and yearly reports published by MOTICS.

Further, the yearly programs proposed by the MOTICS in the FY 2022/23 contain digitization of data at the tourism and industry offices across five districts in the province, excluding the other six districts. There are no programs planned specifically to address the challenges in registration, renewal, and cancellation of the businesses except for information campaigns planned by the industry and tourism offices in three of the 11 districts of the province. As such, there is no uniformity in programs planned by the tourism and industry offices within the provinces.

The digitization process is still ongoing in the province and there is as of yet no major development in the installation of the registration software. As per the yearly report of FY 2022/23, the ministry has already drafted the province industrial enterprise rules. However, its finalization is yet to take place stalling implementation.

Further, the stakeholders lament that the authorities have misplaced priorities as there are few training programs and subsidies available for MCSIs. As per the entrepreneurs who were interviewed for the purpose of this study, the training provided to MCSIs is more focused on creating new businesses rather than empowering the existing ones and supporting their operation, growth, and sustenance. The subsidies have not benefitted the ones in need of them but those who are close to the government officials managing subsidies.

Since all three levels of government have plans and programs for MCSI promotion, it is essential to have a proper mechanism for information sharing among them. This would help in designing programs according to the capacity of each level of government and avoiding duplication. However, without the committee and the information-sharing mechanism, it is difficult to come up with sustainable and effective programs.

Programs conducted by other line ministries

Other line ministries have programs aimed towards the promotion of MCSIs but none regarding easing the registration, renewal, and cancellation of businesses. The programs conducted by the Ministry of Land Management, Agriculture and Cooperatives (MOLMAC) are categorized as provincial grants programs and special grants programs¹⁶.

¹⁶ MOLMAC, Soil and Fertilizer testing laboratory. (2022). Third quarterly and yearly progress review meeting. <https://soillabgandaki.gov.np/sites/default/files/2023-07/final%20saftl%2079-80.pdf>

Table 5: Key programs conducted by the provincial line ministries

Program based on provincial grants	1. Chief Minister Model Agricultural Village Program
	2. Chief Minister Program in Destitute Communities
	3. Establishment and expansion of small commercial agricultural firms
Program based on special grants	1. Apple-specific program
	2. Temperate fruit development project
	3. Maize seed production and maize crop promotion project

Other programs

The federal government and its line ministries, along with some government agencies in partnership with national and international organizations, have also undertaken other projects, for example the 'Innovation Fund' and 'Rural Enterprises and Remittances Project', to name a few. The projects and programs related to enterprise establishment, development, and promotion cross over multiple sectors including but not limited to youth empowerment, women empowerment, return and reintegration from foreign employment, labour and employment. Thus, besides the above-mentioned major programs and projects, there are several others that incorporate aspects of enterprise and industry establishment, growth, and promotion.

Besides these, there are various government funds that support MSME development by providing wholesale credits, collateral-free subsidized loans, and direct fund support. Besides the government, there are private sector, not-for-profit sector, and many other organizations including educational institutions and investors that also support MCSIs across Nepal through various programs and initiatives. While the programs and policies of all the three tiers are in place, the MCSI sector is riddled with challenges. However, with the federalization of the registration, renewal, and cancellation processes, the challenges plaguing these processes lies mainly with the province and the local levels.

Major challenges

Lack of competitive advantage for registered and rule-following businesses:

The registration process, as complex as it is, demotivates many businesses from registering themselves formally. Further, the requirement for paying registration and renewal fees at two different authorities along with a lack of information regarding the registration process pushes businesses away from the formal registration process. The basic etiquette of the service delivery personnel at the service delivery units is yet another demotivating factor for industries. As such, the majority of industries function without registration. The ones that do register themselves and routinely follow the renewal and other processes lose a competitive advantage, as they spend more resources including time and money complying with the regulations. Rule compliance can thus increase the cost of production of goods and services for the registered businesses creating an unfair advantage for the ones that do not register.

The registration process has not been able to motivate industries to register themselves and come under formal stature. While the unregistered MCSIs do not face many challenges and can operate without having to pay anything to authorities, registered industries are required to pay taxes and fees to multiple authorities. This gives an unfair advantage to the unregistered industries and affects the cost of overall products and services. Therefore, there aren't any significant advantages to being registered formally and no strict penalization of unregistered ones. This is a major challenge facing registration and regulation of MCSIs. As such streamlining the registration process in a way that the unregistered businesses are eventually incorporated into the system through formal means is necessary.

Information, awareness, and data management

The tourism and industry office in Gandaki Province is mandated with the management of data of the industries and business firms within the province. However, this office faces several challenges in ensuring the quality and sustainability of its data management system. The office is overworked, understaffed, and lacks resources. It has recently started to digitize the data, both old and new, but this process is not without difficulties. The head of the office shared the following challenges in a key informant interview:

Software reliability: The office needs dependable software to store the data securely and avoid data loss. However, there have been cases where the software became dysfunctional due to disputes with the software development companies, resulting in losing all the stored data and wasting the resources invested in the previous digitization process.

Data access: The office does not have access to the data stored by the ministry, but the ministry can access the data stored by the office. This creates an asymmetry in data availability and utilization.

Funding and manpower: The office lacks sufficient budget and skilled manpower to carry out the digitization process effectively and efficiently. This makes the process time-consuming and demanding for the existing staff.

Besides data management, information dissemination is yet another challenge that affects the MCSI sector in Gandaki. A study¹⁷ that examined the factors influencing the performance of Nepali SMEs found that political access to local and provincial government officials was a key driver of growth. The study, which collected data from MCSI owners, suggested that this was mainly because political access enabled them to benefit from government support programs and schemes. Decentralization was supposed to increase access to services and information for people, especially for MCSI owners who need to know about the available support and incentives for their businesses. A World Bank¹⁸ survey-based study reported that the lack of government support schemes was one of the major constraints faced by Nepali MCSIs. However, an ILO study¹⁹ found that there was a lower level of awareness about such programs, which limited their accessibility. Therefore, due to insufficient information, MCSI owners do not access the programs and schemes that they need, assuming that they do not exist.

¹⁷ Khan, M., Mainali, S., Neupane, S., Rana, S., Roy, P., & Shrestha, A. (2023). Characteristics of better-performing Nepali SMEs and implications for policy. <https://eprints.soas.ac.uk/39532/1/Characteristics-of-better-performing-Nepali-SMEs-and-implications-for-policy.pdf>

¹⁸ Ibrahim, N. & Irwin, D. (2020). Market study to understand job growth potential in SMEs in Nepal. <https://documents1.worldbank.org/curated/ru/441621592596897607/pdf/Market-Study-to-Understand-Job-Growth-Potential-in-SMEs-in-Nepal.pdf>

¹⁹ ILO. (2013). A report on micro and small enterprise policy review in Nepal https://www.ilo.org/wcmsp5/groups/public/@asia/@ro-bangkok/@ilo-kathmandu/documents/publication/wcms_116688.pdf

Lack of information does not just limit access to government services and schemes but also awareness of the registration, renewal, and cancellation processes and changes in the MCSI regulation. There is no proper channel to obtain information regarding the processes involved in every step of MCSI establishment. Each unit of the government involved in the processes poses and conveys information regarding the requirements for accessing the services of their own unit. This disconnected approach where information is not available in one place according to the stakeholders makes it difficult to access correct and credible information regarding registration, renewal, and cancellation. In addition to the complex bureaucracy surrounding the registration process, the stakeholders shared that the unavailability of information regarding it is a major factor demotivating the businesses from registering.

Information gap and coordination

Similarly, the lack of coordination among the three tiers has led to an increased information gap between the federal, provincial, and local governments; there is no data-sharing mechanism between provincial and local authorities in Gandaki. Provincial tourism and industry offices as well as local offices (wards and municipalities) require MCSI owners to submit the same documents and register themselves whenever necessary rather than doing it at one government body and circulating the collected data through an information sharing system among the three tiers. Currently, within the Gandaki Province, all the data on registration, renewal, and cancellation is being recorded at two different government levels. The tourism and industry offices at the provincial level are digitizing the data and in the process of doing so the offices are exhausting entire human and financial resources available there. The same data is also collected at the wards and metropolitan/municipality levels. For that matter, Pokhara Metropolitan has kept the records digitally while the annual development program of the fiscal year 2023/24 indicates that digitization is being undertaken province-wide.

The data collected at the ward and provincial levels is not consistent. Some businesses only register at the ward level and operate without provincial registration. However, they have to register at the provincial level to qualify for certain government support programs. This discrepancy may justify keeping the data at separate levels, but if registration were done at only one administrative unit of the government, the problem would not exist in the first place.

Data sharing mechanism

The establishment of a data-sharing mechanism is expected to enhance coordination among the relevant government authorities, reduce the chances of duplication, and save time as well as resources that are being spent on digitization processes across the country. It is equally important for enhancing transparency and accountability in governance. While the province has planned certain programs to strengthen its data digitization, so have local-level governments within the province. As such, the major challenge for the MCSIs within the province remains the lack of provincial and local government coordination in data sharing. Further, the lack of a clear legal and institutional framework for data sharing and a common data standard and protocol remain two major policy challenges.

Stakeholder participation

Participation of the relevant stakeholders besides the government authorities in the policy-making process is not highly prioritized in Nepal. Consideration of any input from stakeholders is not a primary practice among the lawmakers in the country. The Constitution of Nepal 2015 has accorded the federal, provincial,

and local governments the power to formulate legislations on different matters of their jurisdiction. The constitution has also provisioned for the coordination among the three tiers in the law-making process. However, there are no provisions that require the three tiers to involve relevant stakeholders including the public in the process. The involvement of the stakeholders and public is also not provided by the Legislative Management Act, 2017, which regulates the federal law-making process.

At the province level, several provinces including Gandaki have conducted consultations with the stakeholders and local public. However, this is not a standardized and uniform practice across the provinces. As such, the consultations have taken place for only a few acts and policies. However, several working committees are known to have provisions that require them to involve all the members in decision-making processes.

The stakeholder consultation done for this study included the participants who were directly involved in decision-making processes of a few of such working committees. However, they questioned the transparency and effectiveness of the very decision making processes they were involved in. Most of them were of the view that the consultations were only carried out to fulfill the requirements outlined in the guiding policies that makes such consultations mandatory in order to form working committees.

Formulation of necessary legislation and programs

Subsection 2 of Section 23 of the Industrial Enterprise Act, 2020 outlines the functions of the provincial industry and investment promotion board. As per the provisions, the board shall be responsible for assessing the overall industry promotion across the province by conducting relevant studies or undertaking research. It is then responsible for making recommendations to the provincial government regarding reforms and guiding and facilitating the coordination between province and local levels where required. Further, as per the act, the committee may also provide suggestions and recommendations to MOICS through MOTICS, the provincial ministry on the necessary matters. The same functions have been ensured by the Province Industrial Enterprise Act, 2019 of Gandaki Province. The committee would help shape the plan and programs that are targeted at MCSIs within the province.

The provincial ministry however has not yet formulated the rules for the Province Industrial Enterprise Act, 2019, due to the lack of resources and priority. While the act allows the registration, renewal, cancellation, and regulation of industries without the rules, the formation of the industry promotion committee requires the rules to be in place, according to a provincial ministry official.

In Bagmati Province, however, a few committees have been formed under their Trade and Business Act, 2020 that guides the industry and business sectors within the province even in the absence of the rules. As per the concerned authority, although the province has not come up with the rules to implement the act, they have been able to smoothly implement all provisions by following the rules formulated by the federal government.

Business categorization:

The provincial government has yet to come up with supporting policies and acts that are required to encompass the entire MCSI sector and issues. As such, there is a nationwide challenge when it comes to registering new business ideas. Further, the federal and provincial governments are not flexible enough to amend or come up with supporting legislation (guidelines/directives/rules) at times of need, making it

impossible for certain kinds of businesses to register and operate. The dependency thus poses as a major challenge for provincial governments for making any changes to the existing business categories outlined by the federal policy. As such the autonomy of provinces comes into question. While the federal and province-level governments deliberate over such issues, stakeholders complain that they do not readily bring about policy changes on time hurting their businesses and any future prospect of bringing in innovative business ideas.

In Nepal, the vehicle renting business faces a unique challenge: it cannot exist legally due to the absence of specific government policies for its registration and operation. As a result, any business offering vehicle rental services is compelled to operate without legal registration.

While there is an option to register these vehicles under the ubiquitous black plate used for public transportation, it's an impractical solution for such enterprises. The majority of customers seeking rental cars have a distinct preference - they don't want a vehicle that bears the unmistakable label of a taxi, which is signified by the black number plate. Taxis operate under strict regulations and criteria. One of them is that they require route permissions and must pay specific fees for their movements. For customers, this isn't a feasible option and creates unwelcome hassles. The absence of a clear legal framework leaves both the vehicle rental industry and its customers in a challenging and uncertain situation.

Currently, there is no existence of the body assigned with the function of assessing plans and programs supporting industry growth at the provincial level and suggesting reforms, as well as coordinating with the local level on matters of interest to both governments, among other functions.

Stakeholders lament that the authorities have misplaced priorities when it comes to few training programs and subsidies that are available for MCSIs. As per the entrepreneurs who were interviewed for the purpose of this study, the training provided to MCSIs is more focused on creating new businesses rather than empowering the existing ones and supporting their operation, growth, and sustenance. The subsidies have not benefitted the ones who actually need them but rather only those who are close to the government officials managing subsidies.

Since all three levels of government have plans and programs for MCSI promotion, it is essential to have a proper mechanism for information sharing among them. This would help to design programs according to the capacity of each level of government and avoid duplication. However, without the committee and the information-sharing mechanism, it is difficult to come up with sustainable and effective programs.

Provincial infrastructure and human resources

Another major challenge for MCSI regulation at the provincial level is the lack of basic infrastructure, including financial and human resources, for the provincial authority. Most of the provincial offices, including the MoTICS, are understaffed. The ministry authority blames this on the lack of *Kitab Khana*, the government authority responsible for hiring and selecting government staff. Some vacant positions are filled by federal staff or temporary contract staff, but most of them remain vacant due to the lack of funding for human resources. This means that there are few officials at the provincial offices to perform the functions assigned to them. For example, the tourism and industry office is supposed to perform almost all functions related to MCSIs, but it has only been able to provide registration, renewal, and cancellation services due to the lack of financial and human resources.

The industry and tourism office was previously a micro cottage, and small industry office. The change was

made in November 2022. The change has meant that the office now has additional responsibility for tourism as well. The recent change has expanded the office's working area without adding more staff or resources. As such, the concerned authorities at the office complained that their functions have been limited to registering industries and firms.

Further, the province-level governance entities face challenges in retaining their institutional memory. The frequent transfers and rotation of civil servants between the federal and provincial levels, due to the human resource crunch, disrupt the stability and continuity of institutional knowledge and practices. Moreover, the poor documentation and archiving of data, along with the limited digitization of data for sustainable storage, reduce the efficiency of information sharing and service delivery along with planning processes in the provinces. The stakeholders consulted for the study reported that most offices have mostly one person in charge because of the lack of human resources. Additionally, the province-level authorities are in the nascent stage of data digitization. As such, without adequate tools to strengthen institutional memory, the current situation poses further risks to its preservation.

Retention of skilled human resource in MCSIs

MCSIs often struggle to find and keep a skilled workforce. The education system focuses more on theory-based approaches than practical approaches, leaving graduates often unprepared for industry jobs. MCSIs thus end up training new hires, who often leave for better-paying jobs abroad. This hurts MCSI's growth and sustainability and creates a vicious cycle of a skills gap, making it hard to adapt to changing industry needs. A labour market survey, conducted by CTEVT in 2023²⁰ revealed that more than 70% of its graduates are absorbed in the labour market. This report attributed this to stronger coordination between the institution and the industry sector within the country. However, retention of employees is a major challenge facing the country's employment sector. The better prospects of foreign employment and living standards abroad often attract Nepali skilled, semi-skilled, and unskilled workers.

Recommendations:

Upon analyzing the primary and secondary data and conducting multifold discussions, the team has come up with the following recommendations:

One stop service center

To make it easier for entrepreneurs and industries to access government services such as registration, renewal, operation, cancellation, and support, Industrial Policy 2011 envisioned a one stop service center. This is especially important in the context of federalism, where different tiers and institutions of government are involved in regulating MCSIs. However, despite the provision for the one stop service center in both the federal Industrial Enterprise Act, 2020 and the Gandaki Province Industrial Enterprise Act, 2019, they have not yet been established.

The Industrial Enterprise Act, 2020 covers most of the vital functions to be performed by the one stop service centers including the service of registration, renewal, and cancellation to be provided by the center itself along with PAN registration. However, the functions as prescribed by the Province Industrial Enterprise Act, 2019 cover the following:

²⁰ CTEVT. (2016). Labour market survey: analysis of emerging needs of technical human resources in the country. <http://www.ctevt.org.np/files/2073%20Publication%20LABOUR%20MARKET%20SURVEY%20%281%29.pdf>

1. Recommending industries to the ministry to help them obtain the available exemptions, facilities, or concessions for which they qualify.
2. To make necessary decisions to make time-bound arrangements regarding the provision of infrastructure services required by the industry and to implement them.
3. Perform tasks as per the prevailing provincial laws.

Moreover, there is no effective regulation, working procedure, or directive to implement the provision of the one stop service center and expand on its functions. The Province Industrial Enterprise Act has also designated the tourism and industry office as the one stop service center. While the office is responsible for registration, renewal, and cancellation-related activities, it only covers province-level registration, renewal, and cancellation. The office would act as the one stop service center envisioned by the MCSI sector and the national framework if it incorporated local-level functions encompassing industry registration, renewal, and cancellation with the Inland Revenue Department (IRD) for PAN/VAT registration.

While the provincial act has not provided for the type of one stop service center as described in the Federal IEA, the one envisioned by the provincial IEA itself has limited functions. Either way, the establishment of any kind of service center has not yet been materialized. While this is often attributed to the lack of resources at the government offices, the study has found that there are other major factors affecting implementation. Lack of clarity regarding the roles of provincial and local levels and lack of coordination between the two governments are found to be major impediments. While provincial and local authorities are involved in the processes of registration, renewal, cancellation, and dispute management along with other services, there is minimal to no coordination among these authorities. Further, there seems to be a lack of coordination between these authorities and the federal taxation authority, IRD, which functions as a tax registration unit for MCSIs.

Local level mobilization:

As per the consulted stakeholders, the formation of such a service delivery unit and the use of the electronic medium as prescribed in the policy and acts would ease a lot of existing bureaucratic hassles. The stakeholders within Pokhara Metropolitan City are of the view that setting up such a service center at any location would be acceptable as far as it means that they would only have to visit one institution to access the services. However, stakeholders aside from those within the city are of the view that such a service delivery unit needs to be stationed at the ward level or near it as wards are the nearest government unit they can access. Again, coordination is key to this.

Stakeholders have also suggested that local-level authorities should be mobilized to obtain neighbors' approval for industry setup, given that individuals generally respond well to official authorities rather than individuals alone.

Industries requiring permission

While such a strategic location of a one stop center can prove to be a major solution for a myriad of issues faced by the MCSI sector, it is still no respite for the industrial enterprises that are required to obtain permission from specialized authorities. The Province Industrial Enterprises Act, 2019 should add provisions to include the departments/ministries of the government that are required to provide approval for the opening of certain kinds of industries like schools, hospitals, etc. under the one stop service center.

The decision of what kind of enterprise requires special permission is also not uniform across all provinces

and local governments which further complicates the situation. As such, in coordination with the local governments, the province should add the representatives of the departments/ministries that are required to provide the industries with their permission. The same should be curated for each municipality so that it covers the list produced by the municipality as well as the province.

One stop information center

In order to counter the challenge facing the effectiveness of government support schemes and programs, a major aspect of reformation should be focused on information dissemination.

Consultations with the multiple stakeholders and our desk research has found that along with the one stop service center, it is pertinent that there be a one stop information center. The purpose of this center would be to disseminate information regarding registration, renewal, cancellation, and available government support schemes along with priority sectors as identified by the nation-state and all other related information. Further, a portal could be added for accessing the available names required for industry or firm registration. It should not be limited to just one service delivery unit or a website, and instead could be highly impactful if the government runs it as a campaign with the information made available at every service delivery unit so that people can access it with ease. The same goes for the use of media for information dissemination. Every media platform including social media should be mobilized.

Most of the stakeholders were of the view that a **message alert system** would be the most effective way to keep the MCSIs informed of the due processes they need to follow in the operation of their industries. This would mean alerting them via text messages regarding the due time for their renewal or tax payment along with the information about the documents required and the service delivery unit they are required to visit. Other options included the operation of a hot-line number, regular updates via social media, and a chat-bot service among others.

The private sector representatives consulted for this study also emphasized the need for effective information sharing. They suggested that while the availability of information at one stop centers would bridge the major gaps in the availability of information, there should be active campaigns run to make sure everyone is aware of where the information can be accessed. Local network groups and private sector network groups could play a major role, according to the stakeholders, as information dissemination partners.

Incentivizing information collection/ update

Incentivizing the MCSIs themselves to update their information (as required by the Gandaki province) with the provincial authorities could curb the challenges facing the information update and collection at the provincial level.

Pokhara Metropolitan City has incentivized the agricultural industries within the city to update the information regarding their industries including the resource capacity, production per year, manpower management, and overall functioning of the various units involved in the industry among others. The metropolitan does this by providing tax breaks to the agricultural industries across the city. To be eligible for tax breaks, agro-based industries are required to update their comprehensive profiles. Unlike other MCSIs within the city that are taxed based on their starting capital, agro-based industries are divided into five categories based on their scale of operation and monthly income. Each category is taxed differently, with amounts ranging from 1,000 to 5,000 NPR. For instance, an agro-based industry with a starting capital of 5,000,000 NPR and a monthly income of 250,000 NPR will only pay 4,000 NPR in yearly taxes. In contrast, any other industry with the same starting capital and monthly income is required to pay 11,000 NPR.

Identifying the priority sectors among the MCSIs and making targeted programs/plans or reforming policy for the same would support MCSIs in their growth and promotion and could be used as a means by the province to incentivize MCSIs to update their information with the authority.

Modernization of information dissemination tools

The Good Governance (Management and Operation) Act of 2008 mandated that public bodies set up citizen charters. Charters are supposed to include details regarding the services, fee, time frame, standards, contact details, and grievance redressal mechanism of the concerned government body. The act also calls for updating the charter annually. The state of information dissemination by most of the government offices is in a sorry state. An information board is usually put up in every government office that is supposed to contain information regarding services, access points, and required documents. However, in most of the government offices, the information board is only filled with sample-filled forms, and whatever information is there is almost unintelligible.

Although an information officer is appointed at every government office in accordance with the Right to Information Act, 2007, the information they can provide is very limited.

Until and unless digitization and the use of electronic medium is fully operational, the information board at every government office should be modernized. A stakeholder suggested adding a step-by-step navigation chart to the board as the service seekers are required to go from one window to the other and are often confused about which window provides what services. Along with the navigation chart, the information board should also include important general information required by most of the service seekers in the form of infographics to render the information intelligible. It should also contain information about where can one find the information officer inside the office.

Use of electronic medium in governance

The provincial and local authorities have not been able to provide e-governance facilities to the people. The stakeholders felt that this is yet another challenge facing the MCSI sector as they are required to visit the authorities for every minor task.

According to the UN E-government Survey of 2022²¹ which assesses the digital governance landscape based on online service delivery, telecommunication infrastructure, and human capacity, Nepal ranks 114th globally and 7th in South Asia. The study is conducted every two years and the latest survey included an assessment of 193 countries. Nepal also ranks very low in terms of digital entrepreneurship and innovation according to the Asian Development Outlook 2022²².

²¹ United Nations (UN). (2022). E-Government Survey 2022, the future of digital government.

<https://desapublications.un.org/sites/default/files/publications/2022-11/Report%20without%20annexes.pdf>

²² Asian Development Bank (ADB). (2022). Asian Development Outlook (ADO) 2022 Update: Entrepreneurship in the digital age. <https://www.adb.org/publications/asian-development-outlook-2022-update>

Case 01: Digitization and automation of business-related services in Rwanda

As per the doing business index of the World Bank²³, Rwanda ranked 150th globally and 35th in Africa. The business registration-related challenge was the major impediment to business development in Rwanda before 2008. It took more than two weeks and a number of hassles, including the requirement of Article of Association (AoA) and authentication of documents via public notary. The process cost around 450 USD. The manual delivery of services and overlapping responsibilities of the government institutions were further adding to the woes of MCSIs. There were exactly nine sets of procedures that needed to be completed for business registration which took around 16 days.

The new business registration model implemented an online system and introduced one-stop service centers that performed all services related to business registration and VAT registration. The digitization of the registration system significantly reduced cost, time, and effort as well as bureaucratic hassles previously involved. Now, business registration takes less than a day in Rwanda and the country ranks among the best globally for starting a business as per the Doing Business Index 2020²⁴.

Lack of awareness and motivation among the political leadership and civil servants as well as lack of citizen involvement, especially in evaluating services and analyzing their effectiveness, have been identified as two of the key factors hindering the enforcement of the e-governance process²⁵. As such, despite the provisions for using electronic medium to simplify the administrative processes in both the Industrial Enterprise Act, 2019 and the Province Industrial Enterprise Act, 2020, the implementation of this medium has not yet been realized. Further, insufficient ICT infrastructure along with a lack of integration have been found to cause duplication and inefficiency in service delivery²⁶.

Digitization of the registration process

Stakeholders were of the view that the digitization process involved in registration, renewal, and cancellation would solve most of their problems related to time management and bureaucratic hassles. Therefore, expediting the process of implementing an electronic mechanism should be the major priority of the concerned authorities.

²³ World Bank doing business. Doing business 2020: Comparing business regulation in 190 economies. <https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

²⁴ World Bank. (2020). Doing business 2020: Comparing business regulation in 190 economies. <https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

²⁵ Rai, S.K. (2022). Issues, challenges, and ways ahead to develop citizen-centric e-governance in Nepal. <https://nasc.org.np/journal/issues-challenges-and-ways-ahead-develop-citizen-centric-e-governance-nepal>

²⁶ Wagle, A. (2021). Nepal's e-governance pipe dreams. <https://kathmandupost.com/columns/2021/12/06/nepal-s-e-governance-pipe-dreams>

Case 02: Udyog Aadhar India

Udyog Aadhar is an initiative of the Indian government to simplify the registration process of micro, small, and medium enterprises (MSMEs) in India. Udyog Aadhaar is a 12-digit unique identification number that is issued to MSMEs by the Ministry of MSMEs through an online portal. Udyog Aadhaar aims to provide various benefits to MSMEs such as easy access to credit, subsidies, incentives, and schemes; reduced compliance burden and paperwork; enhanced market opportunities and competitiveness; and improved data availability and transparency among others. Udyog Aadhaar is voluntary and free of cost for MSMEs. To obtain Udyog Aadhaar, MSMEs need to fill out a simple online form with basic information such as the name of the enterprise, owner, address, category, type, bank details, etc. The form can be filled out by the owner or authorized representative of the MSME. After submitting the form, the MSME will receive an acknowledgment email with the Udyog Aadhaar number and certificate.

Research and Development (R&D)

According to a 2018 study conducted by the World Bank²⁷, Nepal spent 0.3% of its total GDP in Research and Development (R&D) in 2016. The percentage is lower than the average for low and middle-income countries, which is 1.7%. R&D has always been a neglected area in the development plans of the country.

In every aspect of the MCSI sector, R&D is vital. Market identification, export promotion, and innovation within the sector are some of the areas that can benefit from investment in R&D. Besides these, regulation and policy formulation are two vital aspects that must involve R&D in order to formulate evidence-backed, implementable, supportive, need-based, scientific, and relevant regulations and policies to guide MCSIs.

Research and development in relation to MCSIs is missing from the MCSI policy drafted at the federal level, which is in the process of finalization. On the other hand, the new startup policy draft has outlined the use of research and study as a major strategy for the promotion of the start-up enterprises along with understanding and exploration of the recognized practices at the national, regional, and international levels. The policy envisions mobilizing researchers and experts working in government and non-government sectors along with universities and educational institutions for research work to support the growth and competitiveness of such businesses. Research and study will facilitate the identification of comparative advantage for Nepali businesses and increase competitive ability.

MCSI policies that will be drafted at the province level need to integrate the aspect of R&D to ensure the all-round development of the sector and to ensure that the legal provisions, plans, and programs formulated are coherent with the needs and capacity of the sector.

Consultation

An important process involved in policy research and development is the consultation with relevant stakeholders within the sector. As such, stakeholder identification and involvement should be a major step in the process of formulation of MCSI-related policies, acts, or decisions of any working committee.

Further, stakeholders believed that there should be a practice of counseling individuals as they apply for business registration.

²⁷ World Bank. (2018). Annual report documents1.worldbank.org/curated/en/630671538158537244/pdf/The-World-Bank-Annual-Report-2018.pdf

Stakeholders were of the view that facilitating consultation prior to opening an industry would not only guide the potential MCSI owners in the right direction but also bridge a major information gap regarding the steps involved in registering, renewing, and cancelling the industry.

One policy to cover all legislation

The need to enact two separate pieces of legislation guiding the registration of private firms and registration of partnership firms is redundant as both could be categorized as types within a single legal document for ease of process.

While Gandaki Province has formulated the Private Firm Registration Act in 2021 and Regulations in 2022, it does not include partnership firms in it. Instead, the province and related authorities have to refer to the federal Partnership Act, 1964 for the registration and regulation of partnership firms.

Bagmati Province has enacted the Provincial Trade and Business Act, 2019 which acts as the key legislation for registration, renewal, cancellation, and regulation of both private firms and partnership firms encompassing the province. While Chapter 2 of the act deals with the registration, renewal, cancellation, and regulation of private firms, Chapter 3 deals with the registration, renewal, cancellation, and regulation of partnership firms.

With the new MCSI-related policy in the finalization stage, there is an opportunity for advocacy and awareness-raising so that when adopted at the provincial level, the required reforms will be incorporated leading all the processes of registration and others to come under a singular framework.

Conclusion

The MCSI sector, despite being crucial to the national as well as provincial economy, faces multifold policy challenges that affect its growth. These challenges exist at every tier of the government and need to be studied minutely in order to identify the necessary steps to effectively tackle them. While this study probes into the challenges pertaining to registration, renewal, and cancellation of MCSIs in Gandaki Province, there are other interconnected aspects of MCSIs that need to be studied for a better analysis of the challenges.

Similarly, a thorough understanding of the province's role in defining the boundaries of the roles and responsibilities governing the MCSI sector in relation to the federal mandate is equally important. Along with this, additional research on the coordination trajectory of local and provincial governments, would greatly aid in the process of mapping workable solutions for the MCSI sector's anticipated growth and development within the province.

There were certain limitations while conducting the research which will most likely affect future research as well. The most challenging limitation faced by the research team was the unavailability of updated secondary data at the provincial and local levels. In many instances, national data was therefore used for analysis. Although the data limitation is a nationwide problem, accessing the province-specific data proved even

more challenging. Further, data incoherency between data maintained at the federal and provincial levels posed challenges in analysis.

Additionally, most of the stakeholders consulted for the study are from within Pokhara valley. While the provincial representatives of a few organizations have been consulted for the study, the research team faced time and resource limitations to reach all the major stakeholders across the province. The research team further delimited themselves by covering only the four largest sectors comprising MCSIs in Gandaki Province – agriculture, tourism, manufacturing, and service – for the purpose of mapping and assessing sectoral policies and programs.

Annex A: Implementation plan

1. Allow regulation, registration, renewal, and administration of a certain number of MCSIs at the local level:

Registration at the local level

Section 61 of the federal Industrial Enterprise Act 2020, allows the local level to perform functions relating to the registration, administration, and regulation of MCSIs with the fixed capital as provisioned in the respective provincial law.

Provisions for local-level registration and regulation as per the provincial laws governing registration, renewal, cancellation, and regulation of the MCSIs:

Province	Private Firms	MCSIs
Koshi Province		The local level can perform the functions of registration, renewal, and regulation of micro-enterprises upon approval of the working procedures in accordance with the Act.
Madhesh Province		
Bagmati Province	Private firms established with capital up to 500,000 NPR can also operate by registering with the local level	Micro industries to be registered only at local levels
Gandaki Province		
Lumbini Province	Private firms established with capital up to 500,000 NPR in Lumbini province can also operate by registering with the local level.	
Karnali Province	Registration of private or partnership firms established with the capital of up to 1,000,000	Micro and cottage industries established with up to 300,000 NPR in Karnali province can operate by registering with the local level.
Sudur Paschim Province		

Suggestion:

Based on the above-mentioned provisions of the federal acts and provisions in the Industrial Enterprise Acts of other provinces, Gandaki province could allow for MCSIs to register at the local level and increase the renewal time.

2. One stop service center

Provisions regarding one stop service centers in different policies guiding MCSIs in Nepal:

Acts/ Policies	Provisions
Constitution of Nepal	Provinces have the power to make laws on matters relating to provincial affairs and concurrent affairs of the federation, province and local level.
Industrial Policy	Provision for the establishment of one stop service center for permission for establishment, registration, expansion and exit of an industry and to ensure the availability of services in simple and transparent manner within specified period.
Industrial Enterprise Rules	Section 22 and 23 of the industrial enterprise rules: 1. The concerned province may establish a one stop service center as per the requirement to provide discounts, facilities, or concessions to the micro, domestic and small industries registered or to be registered at the provincial level in accordance with the Act and this regulation. 2. A one stop service center may be established under the direct control and direction of the chairman or head of the respective village or municipality to provide the concessions, facilities or concessions received by small household and small industries registered or to be registered in the village or municipality in accordance with the Act and these regulations
Industrial Enterprise Act, 2020	Section 38 of the federal Industry Enterprise Act has outlined the following functions to be provided via one-stop-service centers (In relation to MCSIs) a. Functions related to industry and business administration, including registration, permission or licensing, renewal, approval for transaction, enhancement of capacity of and dissolution (except insolvency) of, any company, firm or industry under the prevailing law, b. foreign investment, visa facility related functions c. Functions related to labor permit and consent for work approval d. Functions related to IEE and EIA e. Coordination with concerned bodies for the provision of infrastructure services such as electricity, water, means of communication, land, roads required for industries and perform function related to focal point between other bodies f. To implement or cause to implement decisions made by the GON on the provisions of the incentives, exemptions, facilities or concessions to which industries and investors are entitled g. Provision of PAN h. To identify and receive all the documents required for the registration of industrial enterprises electronically, by developing and enforcing an electronic system that links bodies within it. i. To perform functions related to recommendation and facilitation of every kind required for industrial enterprises
Province-level Comparision	
Other Provinces (Koshi & Madhesh)	Koshi province and Madhesh province have outlined comparatively detailed functions and responsibilities of the one stop service centers in their respective provincial Industrial Enterprise Acts.
Gandaki Province	a. Recommending industries to the Ministry in order to help them obtain the available exemptions, facilities or concessions for which they qualify. b. To make necessary decisions to make time-bound arrangements regarding the provision of infrastructure services required by the industry and to implement them. c. Perform tasks as per the prevailing provincial laws

Suggestion:

1. The provincial level one stop service centers should incorporate more detailed functions as done by Koshi and Madhesh Provinces.
2. The provincial authorities should further work towards incorporating the local level registration, renewal, and cancellation units along with other services in coordination with the local units to ensure that people do not need to visit multiple authorities to access services.
3. The province should coordinate with the local levels by formulating a standard/ guideline for the incorporating the services as the center needs to incorporate services provided by local units as well.
4. The one stop service centers of the province should not be independent of local-level service centers. Merging the services of both is the best way to support MCSIs through one stop solutions. As such, the

following departments/institutions should be incorporated with the one stop service centers:

- Industry and tourism office (provincial level)
- Local-level permission and registration units
- Licensing departments. As these differ from municipality to municipality, one stop service centers need to be established at each municipality level or every industry and tourism office could incorporate all the departments involved in granting licenses at every local unit within the district.
- PAN/VAT registration unit
- Renewal unit (both provincial and local level)
- Cancellation unit (both provincial and local level)

5. Name of industry/firm

Industries, firms, and companies alike cannot be registered under the same name as any other industry, firm, or company in Nepal. The company registration body has provisions that facilitate the selection of available names for the company through an online portal. This not only eases the naming process but also saves anyone from having to redo all the required registration documentation in case the name has already been taken.

The same is not the case with the registration of industries and firms. One can only access the taken names through a register maintained by the province registration unit at the tourism and industry office. As such, an individual has to visit the industry and tourism office first to confirm the availability of names through the registry then visit the local level and again come to the industry and tourism office for further processing.

Suggestion:

- a. Maintain an online database for the listing of available names of the industries and firms and make it accessible.
- b. The list of registered industries/firms should be available at the local level as well which would resolve cases where internet services are not easily accessible.

6. Acquiring immediate neighbors' permission

The requirement of immediate neighbors' permission prior to the establishment of MCSIs is guided by the Civil Code, 2017 which requires any person/s who carries out any act that may disturb/damage the neighbors' property to acquire consent from the immediate neighbors. The establishment of any MCSI thus requires approval from one's immediate neighbors or renters in the case of operating an MCSI in a rented building. The citizenship document along with the property papers and/or renters' agreement from the neighbor/renter is then required to be submitted at the local government unit. While the process itself is deemed necessary and thus valid, the stakeholders have expressed that it is rather difficult for individuals, especially those new in the community. This is owed to the fact that the neighbors are often rightly suspicious and not easily convinced of the motive of the individuals asking for a copy of their citizenship and property papers. As such, the process itself has become a tiresome step towards registering an MCSI

Suggestion:

- a. Facilitation through the concerned authorities at the local level to facilitate obtaining neighbors' permission.
- b. Zoning (long-term solution)

7. Electronic medium/digitization

Strategy related to the use of electronic medium and digitization in the first five-year plan of the province:

Strategy	Plan
Strategy 3	Encouraging the production of exportable goods by emphasizing the establishment of industries with competitive advantage and comparative advantage
Working procedure 3.1	The use of electronic medium for performing functions related to Industry and Business

The same is not reflected in the three priority programs set by the same plan. Currently, the three priority programs in the industry sector as per the five-year plan are:

Priority Programs

1. Supporting the establishment of industrial villages in 51 local levels
2. Establishment of province-level industrial zones in *bhotepokhari* in Kaski and *lokabakhola* in Nawalpur
3. Supporting the establishment of agro-processing, forest products, and mineral-related industries

The Industrial Enterprise Rules has provided for the establishment of a portal and website for providing services and facilities electronically and has outlined the list of services to be provided.

Suggestion:

1. Digitization process and information campaigns across the districts within the province should be reflected proportionately in yearly plans and programs.
2. Digitization of the services encompassing registration, renewal, and cancellation of industries should be one of the priority programs in the upcoming five-year plan along with running massive information campaigns across the province.

8. Special Provisions for micro, cottage, and small industries

Section 19 of the Gandaki Province Industrial Enterprise Act, 2019 has provided that the facilities, incentives, and discounts for the industries within the province be guided as per the existing law on the same. By this definition, the province follows the federal Industrial Enterprise Act, 2020 and its provisions outlined in Chapter 5.

Gandaki Province has not made any special provisions for any industry beyond the federal provisions, whereas the Bagmati Province Industrial Enterprise Act has provided for added provisions in the case of micro, small, and cottage industries in subsection 19 of the act.

Comparison of concessions and facilities in the federal mandate as well as the mandate of other provinces:

Federal	Bagmati Province
<ol style="list-style-type: none"> 1. MCSIs established with fixed capital of less than 10,000,000 registered as per the act to receive 50% exemption in income tax leviable on them 2. No fee or charges levied for the registration of a micro-industry under the act 3. Full income tax exemption for micro industries 4. Facilities for female entrepreneurs 5. Seed money for MCSIs in the least developed areas via publication of the notification in Nepal Gazette 6. Exemption may be granted on customs duty for the imports by micro, cottage, and small industries of novel technology such as machinery and equipment 7. GON may make special provisions in relation to incentives, facilities or concessions for industries established in an industrial zone, product specific zone and industrial village. 	<p>Additional concessions and facilities for MCSIs as per the province industrial enterprise act of Bagmati Province</p> <ol style="list-style-type: none"> 1. 20 percent of investment as seed capital could be provided for micro enterprises, small and cottage industries established in rural and remote areas by women, <i>dalits</i>, differently abled, minorities, third gender and persons returning from foreign employment along with such industries established by cooperatives. (Progressive. While the federal act only provides concessions for women-led industries, Bagmati has tried to incorporate other minorities as well) 2. Separate identification of products produced by micro, cottage and small industries, by registering the collective mark of the province level, to promote the product market. 3. Collaboration with universities for research and development of new innovation in MCSIs. 4. In addition to protecting the industrial property of MCSIs, concessions will be made in the fee charges applicable during the process 5. Arrangements will be made to provide loans on project collateral for access to finance for the enterprise 6. Further provisions for MCSIs established by cooperatives and sick industries

Suggestion:

- a. Gandaki Province should prioritize industries based on provincial priorities and frame suitable facilities and concessions accordingly.
- b. The province should also draft concessions and facilities specifically targeted to the MCSI sector to achieve the growth and promotion promised by the province.

9. Stakeholder Consultation

Participation of the relevant stakeholders besides the government authorities in the policy-making process is not highly prioritized in Nepal. Consideration of any input from stakeholders is not a primary practice among the lawmakers in the country. The Constitution of Nepal 2015 has accorded the federal, provincial, and local governments the power to formulate legislations on different matters of their jurisdiction. The constitution has also provisioned for the coordination among the three tiers in the law-making process. However, there are no provisions that require the three tiers to involve relevant stakeholders including the public in the process. The involvement of the stakeholders and public is also not provided by the Legislative Management Act, 2017 which regulates the federal law-making process.

At the provincial level, several provinces including Gandaki have held stakeholder and public consultations. However, this is not a standardized and uniform practice across the provinces. The consultations take place for only a few acts and policies. However, several working committees are known to have provisions that require them to involve all the members in decision-making processes.

The stakeholder consultation done for the study included the participants who were directly involved in the decision-making processes of a few such working committees. However, they questioned the transparency and effectiveness of such decision-making processes.

Suggestion:

- a. Stakeholder consultations should be made mandatory and a standard/guideline for such consultations needs to be drafted.
- b. The information gathered from stakeholder consultations and the process involved in the incorporation of concerns should be transparent.

10. Registration of new businesses

Registering a new business is already ridden with challenges as it is. Further, registering a business whose categories are not well defined by the existing policies is even more challenging. A lot of new and upcoming businesses are not positive about the registration process of the government because of it. Making sure the up and coming businesses are covered by the existing policies should be a major priority as such.

Suggestion:

- a. Conduct a market survey regarding the categories of businesses operating/looking to operate within the province like vehicle renting and outsourcing (gig economy) among others.
- b. Conduct a study to identify potential businesses being operated around the world that might in the future be a part of the province's economy.
- c. Immediately add the categories of businesses including vehicle renting that were not included in the act but that have been operating anyway though with difficulties from not being included in the act.
- d. Add other plausible business/industry categories identified after the study.

11. Finalization of Province Industrial Enterprise Rules

While the province has set up the Province Industry and Business Forum, it has still not formed the Industry and Investment Promotion Board.

The federal Industrial Enterprise Act, 2020 has provided for the formation of the province Industry and Investment Promotion Board in section 23 of the act and has outlined its functions in sub-section two of the same.

Gandaki Province has cited the delay in the finalization of regulations that have prevented them from forming the committee. In the case of Bagmati Province, they have added the provision for the formation of the committee in the province Industrial Enterprise Act, 2019 itself. Section 31 of the act has listed the members required to form the committee and section 32 has outlined its functions. **However, there is no inclusion of the local level in the committee.**

Suggestion:

- a. Finalization of the province Industrial Enterprises Rules should be prioritized in upcoming yearly plans, and the committee should be formed without any delay.
- b. Gandaki Province should include a representative from the local level as well when forming the committee.

12. Coordination for data sharing mechanism with local level

Currently, due to the lack of any data sharing mechanism, the provincial as well as local levels, store and manage data individually. It has led to multiple redundancies and overlaps at each levels. Local levels as such have been found to be in possession of more data regarding businesses and MCSIs than provincial levels. Local levels have also initiated data digitization processes within the province. The sharing mechanism would thus mean saving time and valuable resources of the provincial authorities.

Suggestion:

- a. Form a committee including both provincial and local level authorities to coordinate the data-sharing mechanism.
- b. Develop a coordination plan.
- c. Allocate provincial resources to ensure implementation of the plan.

13. Information campaign

Amending citizen charter

The Good Governance (Management and Operation) Act, 2008 made it mandatory for public bodies to set up citizen charters. The charter is supposed to include details about the services, fee, time frame, standards, contact details, and grievance redressal mechanism of the concerned government body. The act also calls for updating the charter annually. The state of information dissemination by most of the government offices is in a sorry state. An information board is usually put up in every government office and is supposed to contain information regarding the services, access points, and required documents so that individuals understand how to access the services. However, in most government offices, the information board is only filled with sample-filled forms, and whatever information is there is almost unintelligible.

Although an information officer is appointed at every government office in accordance with the Right to Information Act, 2007 the information they can provide is very limited.

Introducing a message alert system

Most of the stakeholders were of the view that a **message alert system** would be the most effective way to keep the MCSIs informed of the due processes they need to follow in the operation of their industries. This would mean alerting them via text messages of the due time for their renewal or tax payment, the information about the documents required for the processes, and the service delivery unit they are required to visit. Other suggestions included the operation of a hot-line number, regular updates via social media, and a chat-bot service among others.

Suggestion:

- a. The citizen charter should be amended. Until and unless digitization and use of the electronic medium is fully operational, the information board at every government office should be modernized.
- b. Include a step-by-step navigation on the board, as the service seekers are required to go from one window to the other and are often confused about which window provides what services.
- c. The information board should also include important general information required by most of the service seekers by using infographics to render the information intelligible. It should also contain information about where can one find the information officer inside the office.
- d. A message alert system should be introduced.

Annex B: List of participants in the focus group discussions

S.N.	Name	Organization
1	Shrijana Subedi	

Date: 31st July 2023

S.N.	Name	Organization
1	Niran KC	Aayam Intercontinental Pvt. Ltd.
2	Pooja KC	Taal Pari Hotel
3	Suyash Malla	Malla Emporium
4	Bibek Shrestha	Ratna Emporium Bibek Shrestha & Associates
5	Pratik Raj Pahari	Hotel Sarowar Pvt. Ltd.
6	Saroj Kayastha	Nyokas Concern P. Ltd.
7	Aswin Karki	Pokhara Kasta Udhog

Date: 25th August 2023

S.N.	Name	Organization
1	Uttam Man Buddhacharya	PCCI
2	Rudra Lal Shrestha	Pokhara Industrial Area Industries Association
3	Amrit Regmi	Pokhara Industrial Area Industries Association
4	Lucky K. Chhetri	3 Sisters Adventure Treacking
5	Bharat Adhikari	CNI Gandaki
6	Pradip Subedi	Business Promotion Center
7	Shova Gautam	PCCI
8	Chhatra Dhar Atreya	LCCI
9	Ashok Khadka	Gyan Food and Beverages Pvt. Ltd.
10	Milan KC	Gurukul School
11	Nikesh Dwa	Midtown Galleria
12	Binayak Poudel	Urja Lab
13	Bala Ram Acharya	PCCI
14	Basanta Regmi	Pokhara Steel Fabricators Association

About Pokhara Research Centre (PRC)

Pokhara Research Centre (PRC) is a research-based non-partisan organization based in Pokhara. Established in 2019, PRC focuses on socioeconomic dimensions of domestic public policy research.

Guided by the motto of "*Economic Freedom with Good Governance*", PRC is following the international principle of individual choice and liberty translated into the equal opportunity of enterprise, rule of law, and the democratic principle of free expression as a tool to design its programs and initiatives; creating positive impact at the province level, through policy reform; PRC works under three broad functional domains; Research, Training, and Advocacy.

PRC's one of flagship program Youth in Policy and Governance Fellowship Programme (YPG Fellowship) aims to train the youth of Gandaki Province in law-making and public policy. The primary role of a PPSP Fellow is to deliver extensive research support to their assigned MP for their parliamentary work. The organization is also focusing on other youth training programs on the free market, entrepreneurship, and economic freedom in the region supported by Atlas.

The organization's core values are; Creating public values, Evidence-based policy-making, and the investment approach to public service delivery. PRC intervenes in areas viz. Enterprise Development, Economic Policy Reform, Governance & Advocacy, and Public Policy Delivery.

The organization has launched programs such as Gandaki Discourse, Political Economic Discussion Series (PEDS), and Formation of Gandaki Leader Circle (GLC) dedicating it to establishing itself as a state-level policy think tank.

Further, PRC is the partner of Atlas Network, Centre for International Private Enterprise, National Endowment for Democracy, United States Embassy in Kathmandu, Samridhhi Foundation, Hriti Foundation, and Bikalpa an Alternative.



Pokhara, Kaski, Gandaki Province, Nepal

Tel.: 061-587111

Email: centre.pokhara@gmail.com

Website: www.pokharacentre.org