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Enabling Environment for Sustainable Enterprises



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Enabling Environment for Sustainable Enterprises in Nepal



2017

Enterprises
Department

Enabling Environment for Sustainable Enterprises in Nepal

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Foreword

Making a definitive statement about the role of small and medium enterprises in Nepal's economy is difficult. This has to do with the variance in the definition of SMEs as used by different government and non-government entities. The data provided by the Central Bank of Nepal show that loans going to this sector have increased by more than five-fold in the five years since 2010, and their contribution to the economy, both formal and informal, has become significant. Other studies, using different definitions, provide another picture of the situation, but all of them point to a situation that needs to be improved.

The Nepal Living Standard Survey (2011) indicates that a full 94.7% of all enterprises are owned by individual households, and only 5.3% are jointly owned. Only 16.5% of the firms hire individuals from outside the household. Among those firms, 33.2% have only 1 worker. These household-owned enterprises are predominantly informal, and only 20.3% are registered with the government. The government itself provides jobs to less than 5% of the individuals who enter the job market each year.

Data from the Department of Industry show that the number of industries started in each fiscal year has hardly exceeded 500 in any given year in the last twenty-five years. Large industries are also struggling to create jobs: on average there are only 159 workers in the 686 registered large industries. In terms of number of workers employed, large industries are not very different from medium sized industries (100 workers per industry) and small industries (65 workers per industry). Employment generation in these industries has not exceeded more than 30,000 jobs per year in the last twenty-five years, except in 1991/92, 1992/93 and 1995/96.

In this situation, a representative entrant into Nepal's job market has a very low probability of finding a formal, wage-paying job. Many of these individuals eventually end up in agriculture, which still provides support to about 70 percent of all Nepali. But this perpetuates poverty and hinders upward social mobility. Nepal needs to focus on fostering small and medium sized industries because that is where most of the Nepali end up working, and the growth of these industries would herald the beginning of upward economic mobility for members of Nepali society.

But SMEs face many issues in relation to their growth. A recent Enterprise Survey by the World Bank, which uses a different definition for SMEs, finds that it takes medium sized firms more than 70 days to obtain an electricity connection compared to about 14 days for large firms. They also lose more due to theft and vandalism (2.3% of total value compared to 0.1% for large sized firms). The SMEs are significantly less likely to have a website

than big firms. Access to finance is a problem for small firms, with only about 8% getting bank financing compared to 40.4% of large firms. As much as 79% of medium sized firms reported having to pay to secure a government contract as opposed to 0% of large firms.

The EESE survey, which collected responses from 622 firms in Nepal, reports many results in line with these previous studies. SMEs in Nepal are predominantly young, with almost half of the informal firms being less than 4 years old. These firms feel corruption is a serious problem for the economy and question the government's commitment to reducing it. Although more than two-thirds report being optimistic that the federal structure will be helpful for their growth. Respondents also feel that trade unions are politicized and don't adequately represent the concerns of employees. The survey has many other results which will be useful for both the trade unions and the government and complement the results from other surveys carried out within Nepal by many other agencies. The ILO hopes that these results will help concerned authorities better design their programs to enhance labor relations.

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Abbreviations and Acronyms

ADB	Asian Development Bank
ANTUF	All Nepal Federation of Trade Unions
ASEAN	Association of Southeast Asian Nations
BBC	British Broadcasting Company
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CIA	Central Intelligence Agency
CIAA	Commission for the Investigation of Abuse and Authority
CRS	Congressional Research Service
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
DoLIDAR	Department of Local Infrastructure Development and Agricultural Roads
EESE	Enabling Environment for Sustainable Enterprises
EPI	Environmental Performance Index
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FWEAN	Federation of Women Entrepreneurs' Associations of Nepal
GDP	Gross Domestic Product
GEFONT	General Federation of Nepalese Trade Unions
GoN	Government of Nepal
ICTs	Information and Communication Technologies
ILC	International Labour Conference
ILO	International Labour Organization
IT	Information Technology
ITU	International Telecommunication Union
ITUC	International Trade Union Federation
JTUCC	Joint Trade Union Co-ordination Centre
MFI	Microfinance Institution
MoE	Ministry of Education
MoI	Ministry of Industry
NC	Nepali Congress
NGO	Non-Governmental Organisation

NPC	National Planning Commission
NR	Nepali Rupee
NRB	Nepal Rastra Bank
NRI	Networked Readiness Index
NTUC	Nepal Trade Union Congress
OCR	Office of Company Registrar
ODI	Overseas Development Institute
OHCHR	Office of the United Nations High Commissioner for Human Rights
PAYE	Pay as You Earn
PLA	People's Liberation Army
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SDGs	Sustainable Development Goals
SMEs	Small and Medium-sized Enterprises
SOEs	State Owned Enterprises
SSRP	School Sector Reform
TVET	Technical and Vocational, Education and Training
UML	Communist Party Nepal-Unified Marxist Leninist
UN	United Nations
UNAFEI	United Nations Asia and Far East Institute
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
USD	United States Dollars
VAT	Value Added Tax
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization

Executive Summary

The 96th session of the International Labour Conference, held in Geneva in 2007, adopted conclusions for the promotion of sustainable enterprises and identified 17 elements of an enabling environment for sustainable enterprises. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability, and decent work. In that context, the Federal Democratic Republic of Nepal (hereafter referred to as Nepal) is one of the countries that implemented the Enabling Environment for Sustainable Enterprises (ESEE) process that was developed as the ILO flagship programme following the conclusions of the Conference. The initiative will contribute to the economic reform undertaken by the Government of Nepal.

During this process, the tested ESEE methodology was applied – to collect and analyse all the necessary data and to present the report on the findings. In accordance with the methodology, focus groups were organised to identify the most important pillars for deeper analysis. With the support of external researchers, and using the ESEE questionnaire, a survey was conducted among 600 employers from the six districts of Kathmandu, Kaski, Rupandehi, Banke, Chitwan, and Morang.

Based on the ESEE methodology, there are 4 main segments analysed in this report: political, economic, social, and environmental elements. Tripartite constituents selected six countries, namely: Bangladesh, Cambodia, India, Lao PDR, Sri Lanka, and Uganda, as comparator countries for Nepal. This report synthesises the findings of the enterprise perception survey, data collection, and a literature review, assessing the enterprise environment against 17 key elements for enabling sustainable enterprises.

Political Elements

In 2008 the 239-year-old monarchy was established ; two years earlier a decade long civil war between Maoist-led forces and the state had come to an end, and the Maoists joined democratic politics. A new constitution was approved in 2015, creating seven states and affirming Nepal's secular federal system. Although much progress has been made, Nepal still faces the challenges of building a healthy democracy and economy in the context of fragile and nascent institutions, as well as limited human capital.

Pervasive corruption is a serious challenge to good governance and enterprise development in Nepal, as it reduces competitiveness and significantly increases the costs of starting a business. The Corruption Prevention Act of 2002 is the country's primary anti-corruption law, criminalizing corruption, bribery, money laundering, abuse of office, and facilitation payments in both the public and private sectors. Based on the ESEE Survey qualitative findings, the recent local elections have come as respite to many businesses, as they assume that this effort to decentralize the political and economic system of the country will not only make procedures easier and quicker for service recipients, but will also relieve government

officials of the pressure of having to provide services to businesses from all over the country at a single stop. Implementation of federalism and activation of all local bodies is also viewed by many as an opportunity to check corruption and ensure accountability, transparency, and good-governance.

Freedom of assembly is guaranteed by the constitution, though there are exceptions. In recent years the GoN has taken initiatives in the direction of improving social dialogue to advance the labour and employment agenda. Five pieces of legislation were drafted in 2012 following extensive tripartite discussion: the Labour Bill, the National Labour Commission Bill, the Trade Union Act Amendment Bill, the Bonus Act Amendment Bill, and the Unemployment Benefit Insurance Bill. The Labour Bill was adopted in 2017. These require implementation and monitoring, however, which remains a challenge. Nepal has a history of union activity and strikes to help to spearhead political change. The 2015 constitution protects the right to form trade unions, and labour laws protect the freedom to engage in collective bargaining; in general unions operate without state interference.

Nepal's legal framework provides for the protection of human rights. The constitution outlines the implementation of major international human rights provisions, including civil, political, economic, social, and cultural rights for citizens. Some human rights problems in Nepal include caste, gender, and ethnic discrimination; gender-based violence; unaddressed atrocities from the time of the civil war; and delay in reaching verdicts in courts.

Economic Elements

Economic growth has generally remained low but volatile in Nepal, where political instability and natural disasters have had a significant impact on the downturns. The recent peaceful elections were an important first step towards stability. To ensure that this continues the GoN needs to address the challenges of reducing widespread poverty, creating sustainable livelihoods, building human capacity, and creating efficient institutions of governance and regulation. Last year Nepal's economy recovered somewhat, due to a favourable monsoon season, better harvests, and normalisation in trade, as well as post-earthquake reconstruction work and a better supply of electricity. Potential sectors of growth and investment opportunities are agriculture tourism, infrastructure, and hydroelectric power.

Agriculture is the mainstay of the economy, and the processing of agricultural products (i.e., jute, sugarcane, pulses, tobacco, grain, etc.) forms the basis of most industrial activity in the country. In 2016 agriculture made up 29.2% of the GDP, industry made up 14.6% of the GDP, and services the remaining (more than 55 %); agriculture employed 69% of the labour force, 12% are engaged in industry, and the remaining 19% are engaged in services.¹

The GoN's most recently promulgated Trade Policy (2015) focuses on trade in the service sector, specifically hydropower, tourism, business process outsourcing, and labour. It addresses the need for disaster relief and for mobilizing technical assistance from development partners to this end, to enhance export capacities and improve trade-related infrastructure.

There are challenges to the rule of law and the enforcement of property rights in Nepal. The bureaucracy and the legal system are also poorly resourced, and the still prevailing sense of political uncertainty makes the delivery of services and enforcement of regulations difficult. In 2017 the GoN released a national intellectual property policy that provides a roadmap to

1 CIA World Factbook, October 2017.

developing an intellectual protection system that would contribute to significantly improving the investment climate in Nepal.

One of the indicators that measures competition is the Intensity of Local Competition indicators from the World Economic Forum's Global Competitiveness Reports. The available data shows that Nepal has improved, with its ranking going up from 117th in 2013/14 (out of 148 economies ranked) to 88th in 2017/18 (out of 137 economies ranked). The corresponding increase in the score was from 4.5 in 2013/14 to 4.9 in 2017/18 out of a maximum possible score of 7. The Information and Communication Technologies (ICTs) sector policies are decided by the Department of Information Technology under the Ministry of Science and Technology. A draft of the National Information and Communication Technology Policy produced in 2015 remains under discussion; it aims to mainstream the use of ICTs in all key sectors of the economy, including increased e-governance.

Several financial sector reforms have been introduced since 2000 and have improved the health of the banking sector in Nepal. In 2015 Nepal suffered a massive earthquake of 7.8 magnitude followed by aftershocks that killed over 8,790² people and destroyed housing and infrastructure; reconstruction costs have been valued at over USD 7 billion. Nepal's geography poses a significant barrier to the improvement of infrastructure, particularly in communications and transport. There is investment in improving strategic trade routes to improve connections with India and China, including improving bridges and facilities along the roads.

Social Elements

Widespread poverty and the rural-urban divide pose a continuing threat to social, economic, and political stability. While barriers to economic and social development exist for many sections of the population, specific groups are particularly marginalised when it comes to participating in economic processes--women, youth, persons with disabilities, and rural populations have significant hurdles to entrepreneurship and entering the formal economy.

As the economy tries to shift away from a dependence on agriculture, entrepreneurship and the promotion of SMEs are addressed in a variety of government programmes. The Ministry of Industry has recognised that promoting entrepreneurship is a key factor for industrial growth. Many other different initiatives exist to promote private sector development-- all of these, however, serve people who already have the skills that many persons in Nepal lack, basic numeracy, literacy, and business development skills; improving the standard of basic human resources is necessary before the following opportunities can be availed of.

In Nepal poverty is both a cause and a result of limited access to education, historically and at present. Aligning education and training with economic policies and ensuring coordination in skills development is crucial to promoting inclusive and sustainable growth. Each year about 450,000 youth enter the labour market, and they need marketable skills as a matter of urgency; many seek employment in neighbouring countries or the Middle East, largely in low-skilled jobs, due to a lack of opportunities in Nepal.

2 Post Disaster Need Assessment, National Planning Commission, Kathmandu (page XI)(2015).

Income, gender, and spatial inequities between rural and urban areas are rife in Nepal, and though the constitution goes a long way towards legislating against some of these, there is a lot of work to be done to achieve greater social justice and social inclusion. Women rarely have access to the same educational and employment opportunities as men. They face many challenges to participating in economic growth, including gender-based violence, lower incomes, and reduced participation in community planning. The informal economy, and indeed poverty, are highly feminised in Nepal.

A draft of the National Framework for Social Security, prepared by the National Planning Commission, is still being developed. The coverage of the social security system in Nepal is limited; pension benefits are available only to public sector employees, and there are to date no protections or schemes available to workers and employees in the unorganized or informal economy. The Labour Act (2017) and The Contributions-based Social Security Act (2017) have provisions to help improve the enforcement of occupational safety and health standards and widen the coverage of social protection schemes for workers in both the formal and informal sectors.

Environmental Elements

Nepal faces significant environmental challenges. Nepal is landlocked, dependent on agriculture, and vulnerable to natural hazards, including severe thunderstorms, flooding, landslides, drought, and famines. The dependence on agriculture points to a strong need for environmental stewardship. Natural resource management needs improvement, and sustainable farming and tourism practices must be implemented.

Pollution related environmental problems in Nepal are mainly related to poverty, rather than an unmonitored growth of industry and transportation. Sustainability and governance issues are linked, and as Nepal establishes efficient governance mechanisms its ability to responsibly manage environmental issues is expected to increase.



Introduction

The important role that the private sector plays in social and economic development led the International Labour Conference (ILC) to discuss the concept of sustainable enterprises in June 2007. The promotion of sustainable enterprises ensures that human, financial, and natural resources are combined equitably. An environment conducive to the creation and growth of enterprises on a sustainable basis must take into account the three dimensions of sustainable development – economic, social, and environmental – as interdependent and mutually reinforcing pillars.

The 2007 ILC adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability, and decent work. It underscores the principle that sustainable enterprises need sustainable societies and that business tends to thrive where societies thrive and vice versa.

The same conclusions invite the ILO to focus its interventions on practical responses, including tools, methodologies, and knowledge sharing, which are relevant to the social partners in their activities. This is why the ILO has developed a methodology to assess the degree to which the 17 conditions for an enabling environment for sustainable enterprises are met in different countries. This report describes the implementation of such an assessment in Nepal and is part of a series of country reports on the same topic. The report covers the political, economic, social, and environmental situation of the enabling business environment in Nepal. The political area comprises four of the 17 conditions, the economic includes eight, the social four, and the environmental dimension consists of one condition. Nine of the 17 conditions were prioritized.

An assessment of the enabling environment for sustainable enterprises in Nepal meets the existing need in the country to implement policies and strategies for national development. The enabling environment for sustainable enterprises in Nepal was assessed through a careful review of secondary data and findings from a national perception survey of workers and employers (including owners and managers of companies).

Survey Methodology

Consultants were engaged to administer a survey to collect primary data on the perception of **at least 622 employers** inclusive of owners and managers of enterprises. The survey assesses the perceptions of respondents as to nine of the 17 conditions. A specifically adapted version of the ILO Enabling Environment for Sustainable Enterprise (ESEE) questionnaire was used for the quantitative survey. The questionnaire provided by ILO was extracted specifically for nine pillars and was further screened through in order to tailor it to the Nepali context. After consultation with the ILO, the research covered both formal and informal enterprise. A different questionnaire was prepared to capture the perception of informal enterprises.

Qualitative information was gathered simultaneously through key informant interviews and focus group discussions with different government and business associations, employers, and workers.

The survey took a sector-wide approach and covered agro-based industries, tourism, manufacturing, and information and communication technology in the service sector. According to government data, agriculture is major contributor (29.2%) to the Gross Domestic Product (GDP). The tourism sector provides employment to about 20% of the economically active population and contributes about 3.0% to the GDP; manufacturing contributed about 5.5% to the GDP in 2015-2016. There is no data about the exact contribution of the ICT sector to the GDP; businesses based on ICTs have been identified as an emerging sector of the economy that can help promote economic sustainability.

Each of the four sectors have been further sub-divided along different size/class of industries/enterprises based on the classifications in the Industrial Enterprise Act of 2016:

Large (Fixed assets above NPR 250 million)

Medium (Fixed assets between NPR 100 million to NPR 250 million)

Small (Maximum fixed assets up to NPR 100 million)

Micro (Maximum fixed assets up to NPR 500,000)

Enterprises were also subdivided as formal or informal and women-led or not.

Altogether six districts — Kathmandu, Kaski, Rupandehi, Banke, Chitwan, and Morang — were covered by the survey. Given the high density of tourism and emerging ICT industries in the urban hubs of Kathmandu and Kaski, these two districts were selected for the study of tourism and ICT in service sector. Rupandehi and Morang were selected for the study of the manufacturing sector, given the high concentration of industries in these particular districts. According to the 10th National Census of Manufacturing Establishment 2011-12, released by Central Bureau of Statistics (CBS), Rupandehi outstrips the traditional manufacturing hubs of Parsa, Sunsari, Bara, and Kathmandu as having the highest number of industries, and Morang has a high number as well. Lastly, Chitwan and Banke were selected for the study of agro-based enterprises, as both these districts are predominantly inhabited by peasant farmers cultivating mainly food and cash crops, such as rice, maize, wheat, beans, lentils, mustard, fruits, and vegetables. Chitwan is a major maize producing area in Nepal, and Banke is known for cereals and mango production.

The study used stratified sampling to divide the given sample size (622) along sector, size, and male/female leadership of business enterprises. Under stratified sampling the population was divided into several sub-populations that are individually more homogeneous than the total population. Fifty percent of the targeted 622 sample-population is comprised of micro enterprises, as available data states that most industries in the country are micro enterprises. Proportional sample division was carried out for large, medium, and small enterprises as well. The sample was further divided along the variables of gender, formality or informality, and the sectors under study--tourism, manufacturing, agro-based industries, and ICT in the service sector.

A total of 622 enterprises were covered during the study. Out of them, 502 enterprises had been registered by government agencies, while 120 informal enterprises were not registered in the government system. Of the sample, 49% were micro enterprises, 32.87% were small enterprises, 11.75% were medium sized enterprises, and 6.3% were large enterprises.

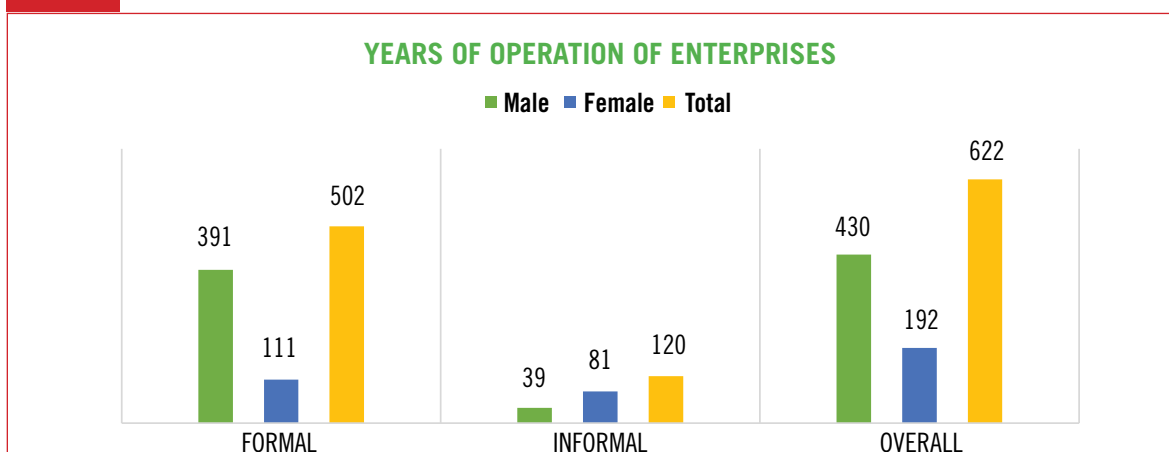
Table 1: Number of Firms by Formality and Size

Formal	Large	7	9	8	8
	Medium	14	15	15	15
	Small	39	41	46	39
	Micro	61	59	63	63
Informal		32	30	30	28
Total		153	154	162	153

Source: EESE Survey

Women comprised 30.9% of the total respondents; while women outnumbered men exceedingly in the informal sector, there was a lack of female participation in the formal sector.

Figure 1: Respondents Based on Gender



Source: EESE Survey

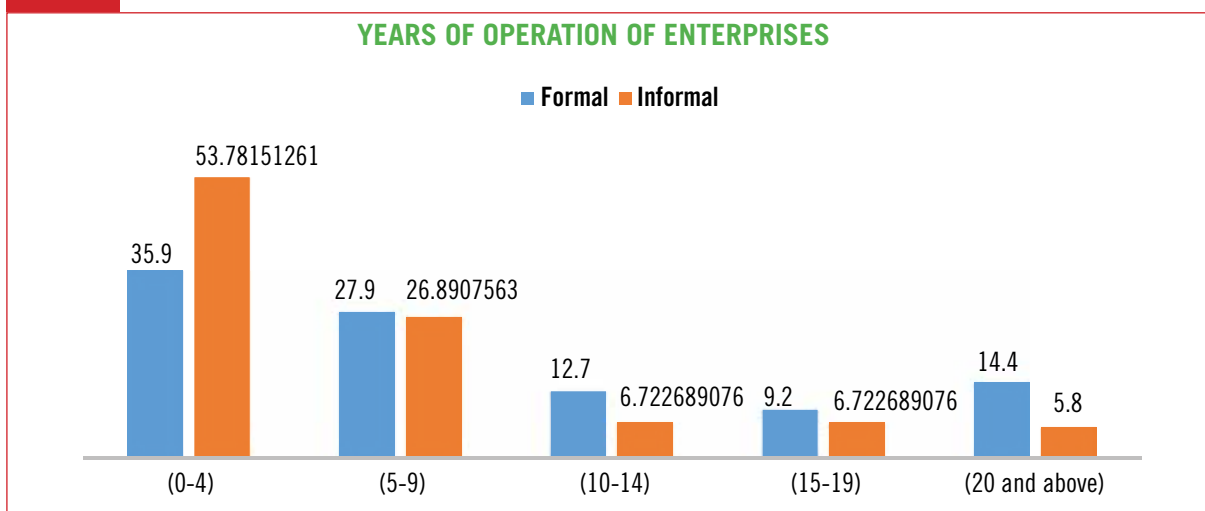
The employee size varied across enterprises, with one enterprise having as many as 4,030 employees. The average number of permanent employees for micro to large industries ranged from 6 to 338 employees. Small enterprises employed 12 people on average and medium enterprises on average employed 75 people.

The interviewed entrepreneurs identified their enterprise under different categories. 65.1% of entrepreneurs stated that their enterprise was a private company, while 24.1% were in a family business. Eight percent of entrepreneurs had established their companies as a joint investment with other people and identified their enterprise to be a joint venture. Other types

of enterprises included branches of foreign enterprises, government/public sector enterprises, and cooperatives. In terms of ownership, more than half of the informal enterprises were led by a single owner. 33.3% of the informal enterprises reached were run by a family, while 15% were jointly owned by a group.

45% of the total enterprises surveyed were relatively new and had been in operation for under five years. 35.9% of formal enterprises and 53.8% of informal enterprises surveyed had been in operation for under five years. For enterprises over five years old formal enterprises outnumbered informal ones.

Figure 2: Years of Operation



Source: EESE Survey

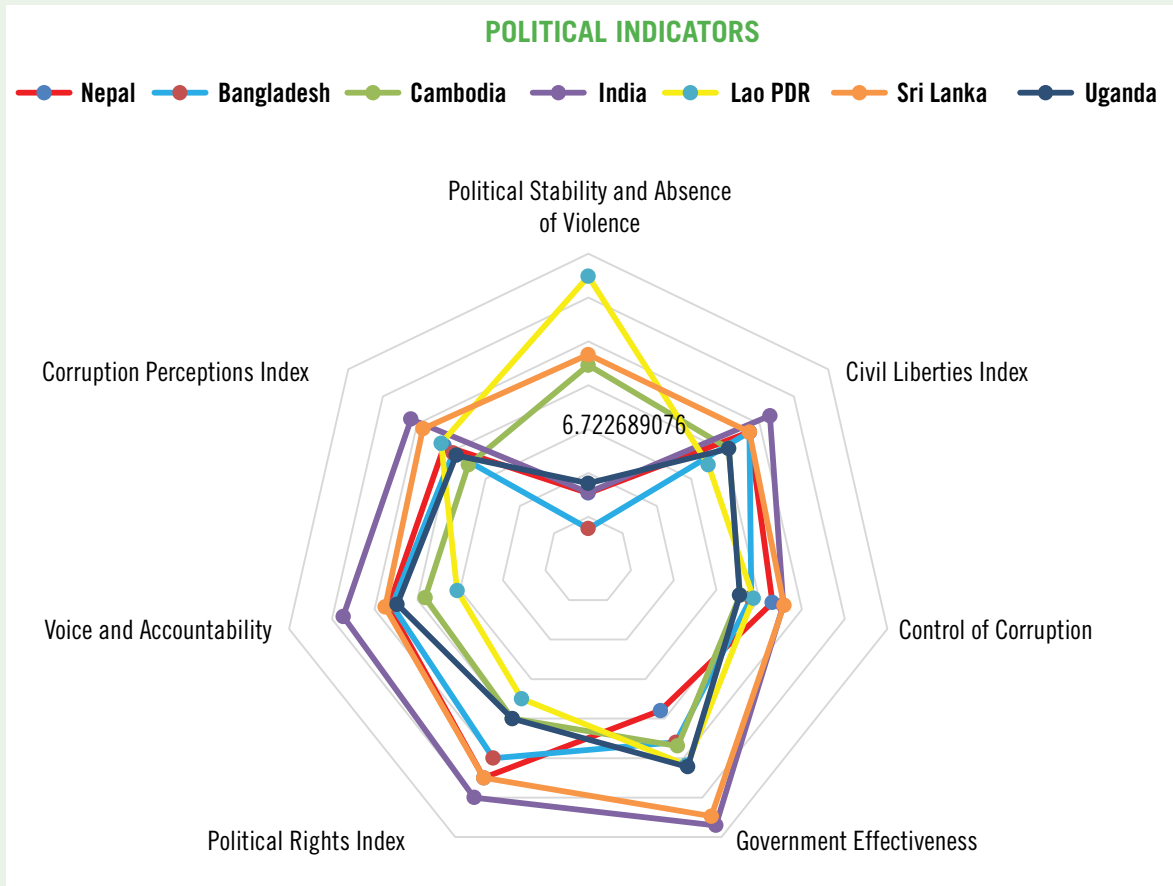
Limitations of the Survey

The approach undertaken to carry out the EESE Survey has some limitations. The quantitative survey was conducted only with owners of businesses and did not cover the perspectives of employees. The concerns of workers/employees were covered through qualitative methods. Many respondents in all study districts had limited prior knowledge about sustainable enterprises and technical terms like tripartite discourse, collective bargaining, and social dialogue, among others. In many cases, the surveyors had to provide detailed explanations of technical concepts to the respondents before beginning the survey.

The research design ensured coverage of at least 33% of women-led enterprises in the survey. However, although secondary data consulted earlier in the research-design phase suggested that there were an ample number of women-led enterprises, it was particularly difficult to identify an adequate number of women-led enterprises. It was found that some businesses registered under women’s ownership are run by male members of the family. Registered female ownership of businesses was found to be intended primarily for tax relief, their meaningful participation in business and decision-making authority was found considerably low in most of the cases. For this reason, it was challenging to find an adequate number of women respondents for the survey.

1 Political Elements

Indicators assessing Political Elements of an Enabling Environment for Sustainable Enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

Nepal was ruled by a monarchy until 2008.

Between 1996 and 2006 the Maoist-led People's Liberation Army fought a civil war against state forces.

In 2015 a new constitution was approved after a series of devastating earthquakes that killed more than 8790 people across the country.

The new constitution creates seven states and declares Nepal to be a secular federal state.

Peaceful elections were successfully held in 2017, with a new government formed in 2018.

Pervasive corruption is a serious challenge.

Nepal has a history of union activity that helped to spearhead political change.

The 2015 constitution protects the right to form trade unions, and labour laws protect the freedom to engage in collective bargaining; in general unions operate without state interference.

The new constitution outlines the implementation of major international human rights provisions, including civil, political, economic, social, and cultural rights.

Violence against women and children is high, including underage marriage, sexual assault, and trafficking.

Human rights abuses and war crimes committed during the civil war have largely remained unaddressed despite commissions having been established to investigate allegations.

2.1. Peace and Political Stability

Peace and political stability are critical to the development of sustainable enterprises, and in the case of Nepal, years of instability and violence have had an impact on the economy as well as the social and environmental indicators that help measure the quality of life and work in the country. Nepal's economy relies heavily on aid and tourism centred on it being the home to eight of the world's highest mountains, including Mount Everest.¹ Major political and social transformations have occurred in Nepal in recent decades accompanying the transition to a federal republic, moving from a Hindu state to a secular state, and drafting a democratic constitution. Peaceful elections were successfully held in two phases in late 2017 for seats to the lower house of the bicameral federal parliament of Nepal.

Nepal, the current boundaries of which were established after the Anglo-Nepalese War of 1814-1816, introduced a cabinet system and political parties into government in 1951.² A multiparty constitution was adopted in 1959, but in 1960 the parliament, the constitution, and party politics were suspended, with democratic elections involving multiple parties held again only in 1991.³ A new constitution in 1962 provided for a non-party system of councils known as panchayats, over which the king exercised sole power; the first elections to the Rastriya Panchayat, or national assembly, were held in 1963.⁴

In 2008 the then 239-year monarchy was abolished, seven years after an argument in the palace escalated and the crown prince killed the king and eight members of his family at the height of a Maoist uprising.⁵ The civil war, which began in 1996 after years of agitation for greater representation, was fought between the Maoist-led People's Liberation Army (PLA) and state forces. In 2006, the Maoists lay down their arms after a decade-long civil war and joined democratic politics. Nearly 16,000 people were killed between 1996 and 2006, during the conflict.⁶

1 BBC, 8 June 2017.

2 CIA World Factbook, 2017.

3 BBC, 8 June 2017.

4 BBC, 8 June 2017.

5 The Hindu, 20 September 2015.

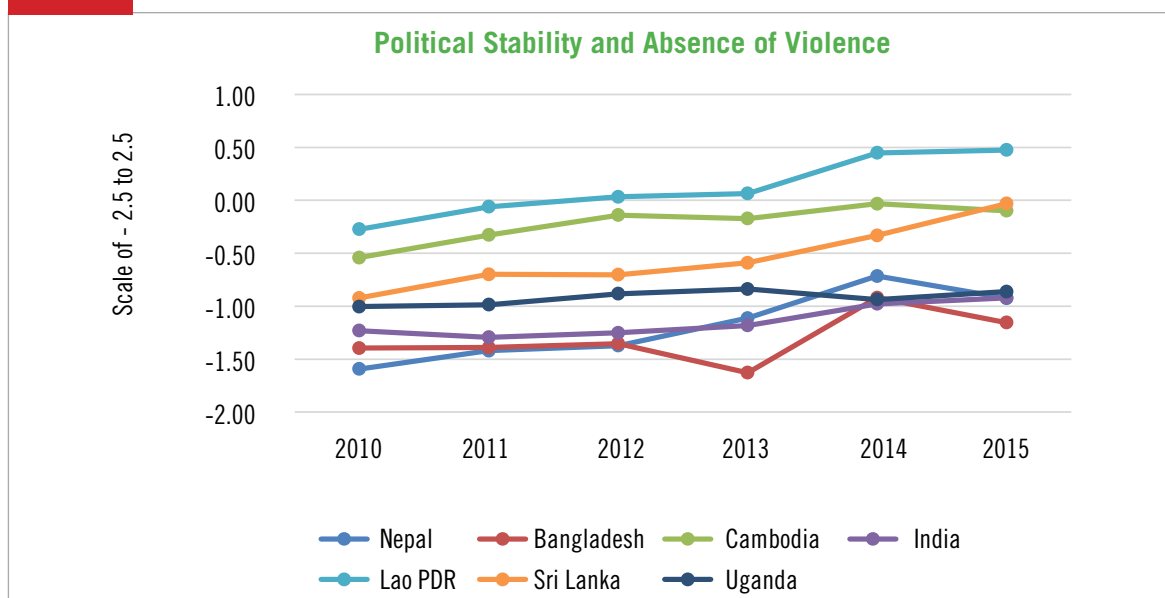
6 Al Jazeera, 2016.

In 2008, the Maoists won the country's first Constituent Assembly elections to become the ruling party, but the Constituent Assembly expired without a constitution in 2012.⁷ The years since the civil war ended have seen frequent political tussles and almost annual changes in government that have hampered social and economic progress, as well as political progress.⁸ Earthquakes killed at least 9000 people in Nepal in 2015, which galvanised political activity around the constitution; the charter had been under discussion for over seven years by then.⁹ In 2015, the first democratic constitution was adopted by the second Constituent Assembly after violent protests that saw at least 40 people killed.¹⁰ The constitution creates seven states in a secular, federal system.

Elections for the lower house were held in November and December 2017, with the Left Alliance emerging as the clear winner. Elections for the upper house are to be held in February 2018, after which the new government will be formed.¹¹ The Prime Minister is the head of the government, and the position of President is largely ceremonial. The Nepali Congress (NC) leader Sher Bahadur Deuba became the prime minister in June 2017 in a scheduled transfer of power among the two coalition members forming the government, the NC and the Maoists.

The Political Stability and Absence of Violence indicator presents the likelihood that the Government will be destabilised by unconstitutional or violent means, including domestic violence and terrorism, and estimates governance measured on a scale from approximately -2.5 to 2.5, with higher values corresponding to better governance. Based on this World Bank data the political situation in Nepal in 2015, measured at -0.93, which was similar to India at -0.92, better than Bangladesh at -1.15, and not as stable as Cambodia at -0.10, or Lao PDR at 0.48 for the same year. Nepal has shown improving values over the last five years, with a dip between 2014 and 2015.

Figure 3: Political Stability and Absence of Violence



Source: World Bank, Worldwide Governance Indicators

7 Al Jazeera, 2016.

8 The Diplomat, 26 July 2016.

9 The Hindu, 20 September 2015.

10 The Hindu, 20 September 2015.

11 The Daily Star, 5 February 2018.

Key Indicators		2010	2011	2012	2013	2014	2015	2016
Political Stability and Absence of Violence								
The likelihood that the Government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism.								
Source: World Bank Worldwide Governance Indicators								
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.								
	Nepal	-1.58	-1.42	-1.38	-1.13	-0.72	-1.00	-0.79
	Bangladesh	-1.43	-1.40	-1.38	-1.63	-0.90	-1.21	-1.24
	Cambodia	-0.50	-0.30	-0.10	-0.14	0.02	0.06	0.18
	India	-1.28	-1.33	-1.29	-1.23	-1.00	-0.95	-0.95
	Lao PDR	-0.28	-0.06	0.03	0.07	0.50	0.54	0.50
	Sri Lanka	-0.94	-0.72	-0.72	-0.61	-0.33	0.09	0.07
	Uganda	-1.00	-0.98	-0.87	-0.84	-0.94	-0.80	-0.72

2.2. Good Governance

Good governance, the absence of corruption, and efficient institutions foster entrepreneurship and promote private sector growth and development. Nepal faces the challenges of building a healthy democracy and economy in the context of fragile and nascent institutions as well as limited human capital. The fragile post-conflict nature of Nepal's political context compounds the difficulty of rebuilding the country's economy, physical infrastructure, and political institutions.¹² The executive branch in Nepal was affected by the long absence of a legislature, and this created a void in the political process that has hampered good governance.¹³

Pervasive corruption is a serious challenge to good governance and enterprise development in Nepal, as it reduces competitiveness and significantly increases the costs of starting a business.¹⁴ In 2016 Nepal ranked 131 out of 176 countries on Transparency International's Corruption Perceptions Index, placing it in the range of 'highly corrupt' countries, but it moved up to 122nd place in 2017.¹⁵ The Commission for the Investigation of Abuse and Authority (CIAA) is the apex body for the control of corruption, empowered by the 2015 constitution to investigate the abuse of authority committed through corruption by any person holding public office.¹⁶ The CIAA has tended to focus its arrests and investigations on lower level bureaucrats.¹⁷ The CIAA has a Chief Commissioner, appointed by the President and invested with the power of prosecution.¹⁸

The Corruption Prevention Act of 2002 is the country's primary anti-corruption law, criminalizing corruption, bribery, money laundering, abuse of office, and facilitation payments

¹² World Bank, 2011.

¹³ Transparency International, 2014.

¹⁴ GAN Business Anti-Corruption Portal, July 2016.

¹⁵ Transparency International, 2018.

¹⁶ U.S. Department of State, July 2016.

¹⁷ U.S. Department of State, July 2016.

¹⁸ UNAFEI, 2012.

in both the public and private sectors.¹⁹ A special court was also created to deliver speedy and effective justice in special types of cases, particularly those relating to corruption and money laundering.²⁰

Implementation and enforcement are inadequate, and corruption remains endemic at all levels in Nepal. The court system is subject to influence and interference from the executive branch, resulting in a lack of trust in the judiciary and legal processes.²¹ Commercial disputes can be long-drawn, typically taking several years to resolve. The constitution provides for an independent judiciary, but most courts suffer from endemic corruption, and few Nepalese, in practice, have access to justice.²² There are heavy case backlogs and lengthy appeals processes.

The public sector in Nepal does not have the capacity to fully cope with the demand for public services; attempts to improve the delivery of public services suffer due to political meddling, trade union activism, and the lack of a civil service independent of interference.²³ Public utility services, in particular, are strongly affected by corruption: bribes are required at many levels to activate utilities, such as an electrical connection or water, and informal payments are also often required in areas like construction permits.²⁴ A Good Governance (Management and Operation) Act was enacted in 2007 that outlines a code of conduct for civil servants and public employees, as well as provisions to manage certain conflicts of interest.²⁵ The Right to Information Act of 2007 is an important piece of legislation that details processes and makes provisions for information being made available to members of the public.²⁶

Law enforcement agencies are not effective, are poorly resourced, and are subject to being captured by political interests. Criminal violence is sometimes conducted under the guise of political activism, though this has declined in recent years.²⁷ General strikes are called by political parties and other groups that may halt transport and close business activity; violence sometimes breaks out.²⁸

Political parties still operate in a centralised manner, multi-party democracy is relatively recent, identity politics drive several processes, and informal mechanisms still continue to influence the making of public policy.²⁹ Government policies and laws regarding responsible business conduct exist that include environmental and social standards, but enforcement is lacking.³⁰ Political parties tend to be organised around the personalities of their leaders. Additionally, financial accountability is low.³¹ The Panchayat regime, which lasted from 1961-1990, exerted a tight control over society, resulting in the low involvement of NGOs and civil sector organisations (CSOs).³² NGOs may form and operate in the country under the

19 GAN Business Anti-Corruption Portal, July 2016.

20 UNAFEI, 2012.

21 GAN Business Anti-Corruption Portal, July 2016.

22 Freedom House, 2017.

23 Transparency International, 2014.

24 GAN Business Anti-Corruption Portal, July 2016.

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31 Transparency International, 2014.

32 ADB, July 2005.

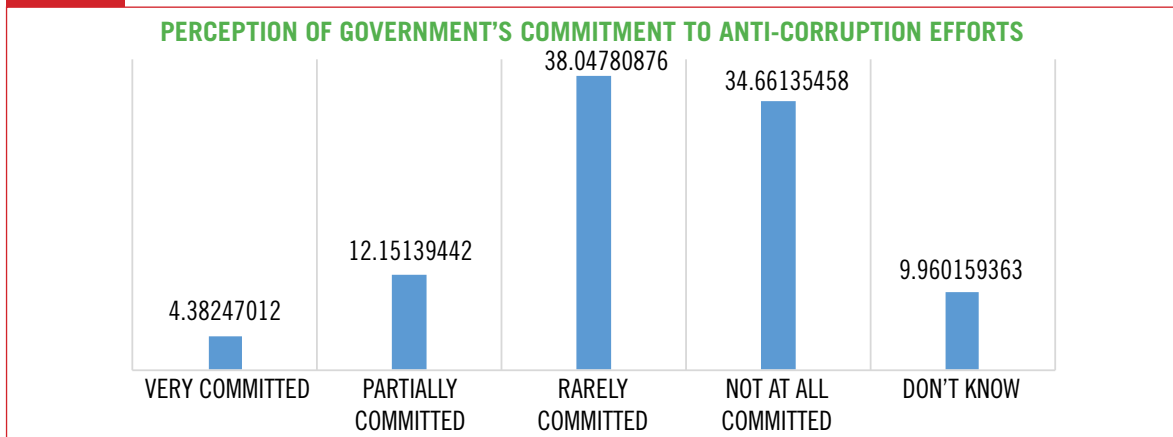
new constitution, but legal restrictions hamper the process in practice.³³

Radio is a key news source, and there are about 250 community stations, with some government operated radio networks as well.³⁴ There are a variety of independent and state radio and print outlets in Nepal. Internet usage is unrestricted. Journalists often face violence or harassment. Some have faced detention and physical assault.³⁵ While the constitution provides for freedom of expression and prevents restrictions on press freedom, media workers are often under threat, and the perpetrators, usually linked to political parties, generally go unpunished.³⁶

Freedom of assembly is guaranteed by the constitution, but exceptions are made for acts that undermine nationality, sovereignty, independence, and the indivisibility of Nepal, or that would jeopardise public order.³⁷ Protests are often allowed, but are sometimes violently dispersed. Based on the EESE Survey qualitative findings, the recent local elections have come as a respite to many businesses, as they assume that this effort to decentralize the political and economic system of the country will not only make procedures easier and more quick for service recipients, but will also relieve government officials of the pressure of having to provide services to businesses from all over the country at a single stop. Implementation of federalism and activation of all local bodies is also viewed by many as an opportunity to check corruption and ensure accountability, transparency, and good-governance.

When asked about the effect of bribery and corruption on the national economy, EESE Survey respondents stated that these had a crippling effect. The respondents strongly stated that bribery and corruption had crippled the national economy. 48.8% of respondents stated that the economy was very strongly negatively affected by bribery and corruption, while 22.5% stated that it had strongly affected the national economy. 15.7% responded that it had affected the economy to a limited extent.

Figure 4: Effect of Bribery and Corruption



Source: EESE Survey

When asked about anti-corruption activities of the government, a majority of EESE Survey respondents (38%) found the government rarely committed to act against corruption. A further 34.7% think that the government is not at all committed to anti-corruption activities.

33 Freedom House, 2017.

34 BBC, 18 April 2017.

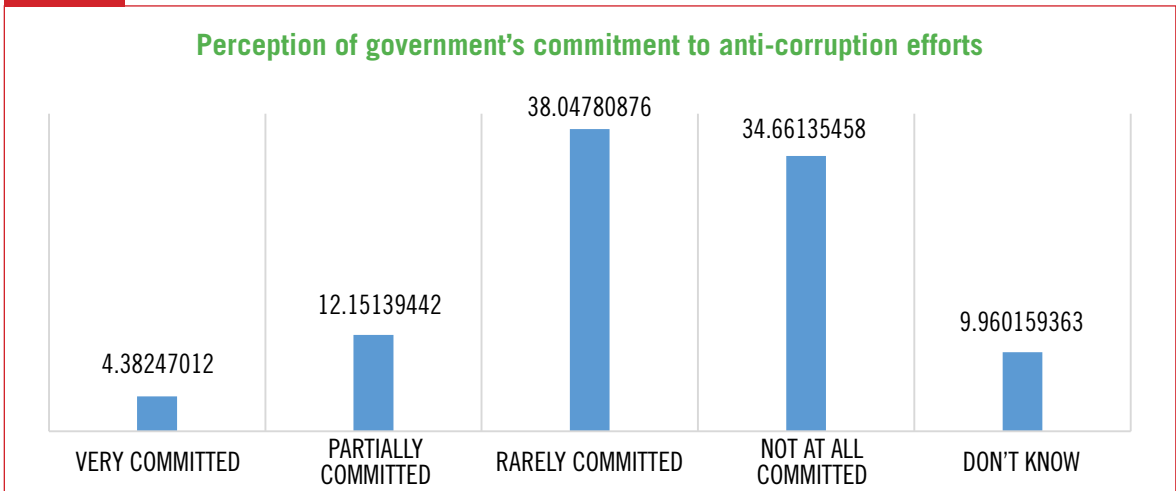
35 Freedom House, 2017.

36 Freedom House, 2017.

37 Freedom House, 2017.

On a positive note, 12.2% perceived the government to be partially committed, and 4.4% of survey respondents perceived the government to be very committed against corruption.

Figure 5: Perception of Government's Commitment to Anti-Corruption Efforts

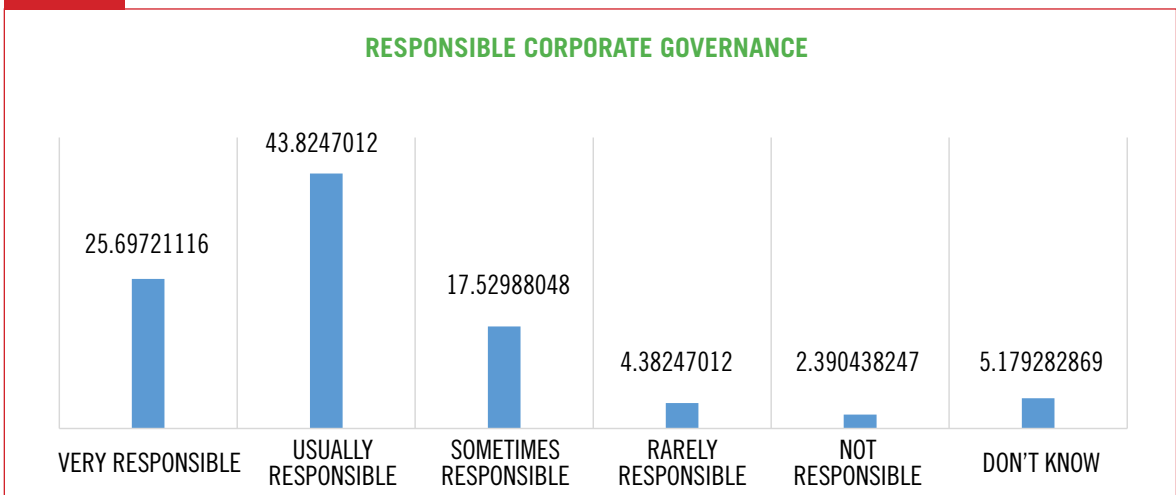


Source: EESE Survey

Survey respondents had mixed responses on the effectiveness of government policies and legislation concerning their business. There was a higher concentration of respondents who felt the policies and legislation to be sometimes effective. 27.3% of EESE Survey respondents believed that legislation is sometimes effective, while 19.3% found legislation to be rarely effective. 18.9% of survey respondents found the policies to be ineffective, while 7.2% found the legislation to be very effective.

With regard to their enterprises being socially responsible, the larger proportion of survey respondents believed their enterprises to be very responsible or usually responsible. One-fourth of the total respondents (25.7%) believed that they had been paying good attention to social and environmental aspects and are responsible in their actions. 43.8% stated their enterprise to be usually responsible while 17.5% believed that they were sometimes responsible for the social and environmental good

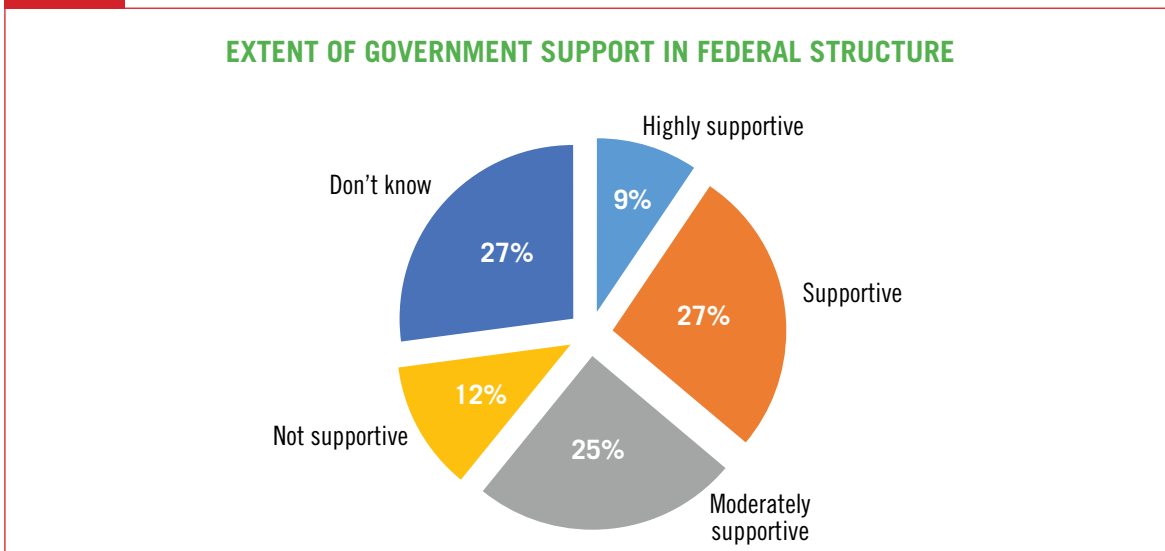
Figure 6: Responsible Corporate Governance



Source: EESE Survey

More than a quarter of survey respondents were uncertain about the impact of federalism on enterprise in Nepal. More than half the respondents were positive about the federal structure being supportive for the growth of businesses. 26.5% of respondents believed the new structure would be supportive for businesses, while 24.5% thought that the structure would be moderately supportive for the growth of enterprises. 9.4% were very hopeful that the structure will be highly supportive, with decentralized and swift bureaucracy.

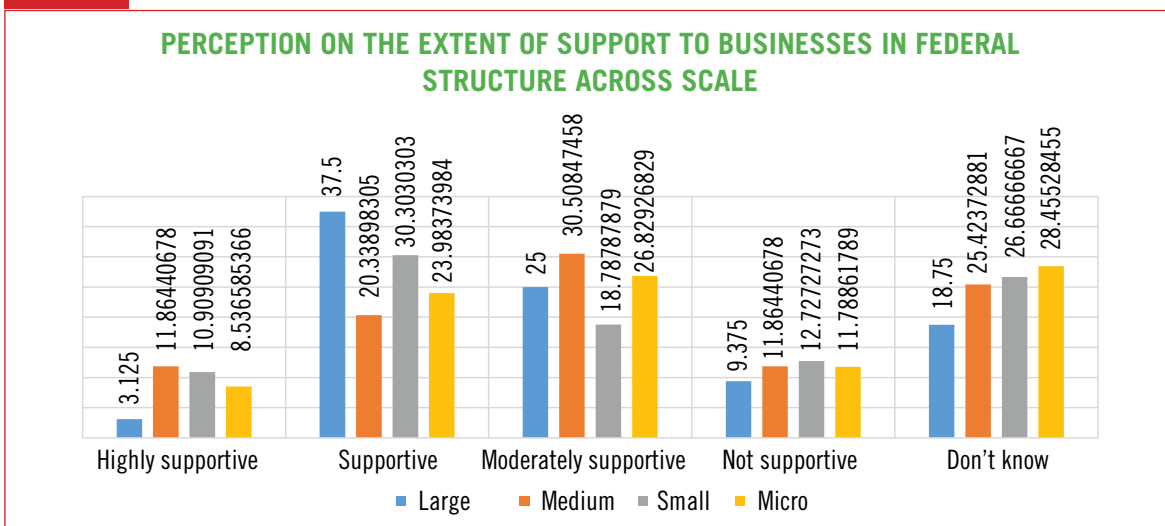
Figure 7: Federalism and Enterprises



Source: EESE Survey

A majority of survey respondents from the large-scale (37.5%) and small-scale (30.3%) enterprises perceived that the decentralized federal structure would be supportive toward enterprise growth. However, 30.5% of the medium scale enterprises and 26.8% of the micro-enterprises expected the federal structure to be only moderately supportive. Around one-fourth of the enterprises were undecided about the modality of the federal structure and its impact on enterprise.

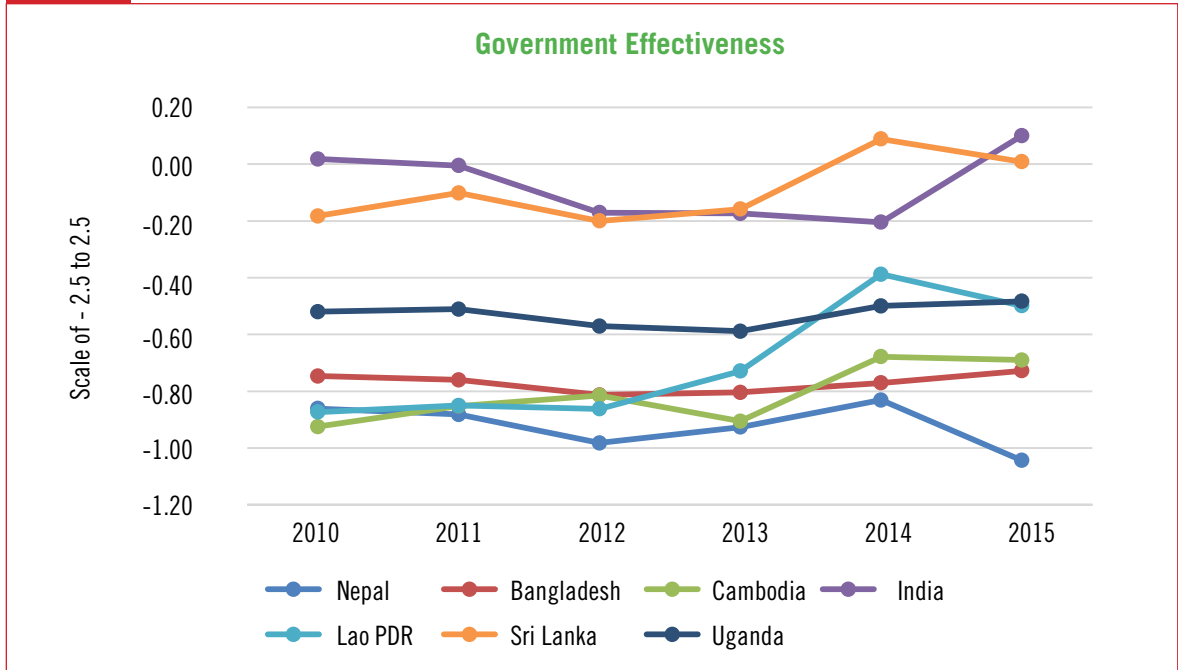
Figure 8: How Supportive Would the Decentralized Federal Structure Be?



Source: EESE Survey

The indicator “Government Effectiveness” measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government’s commitment to such policies.

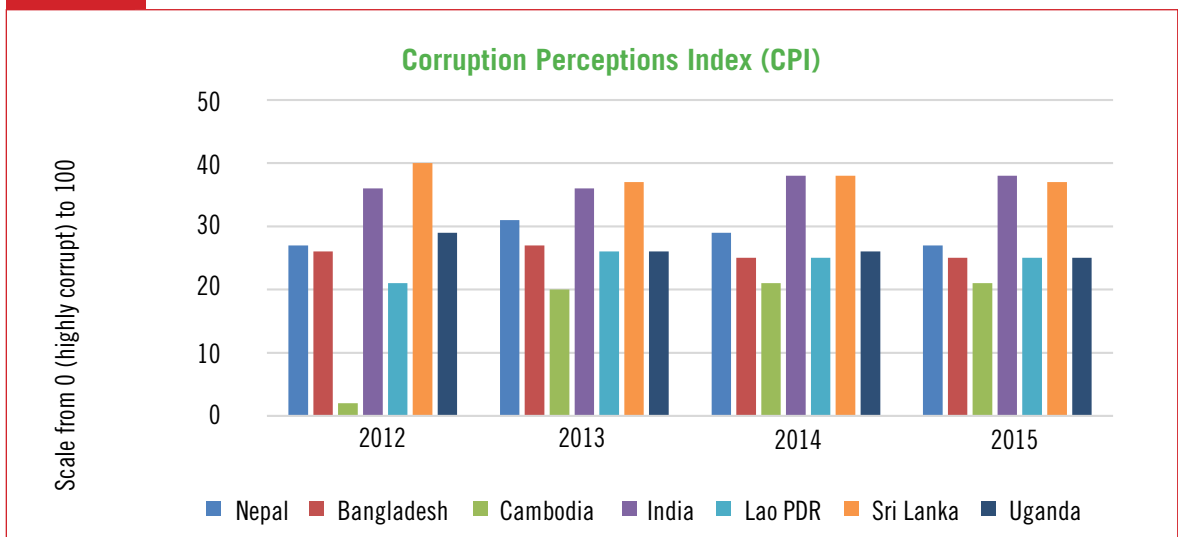
Figure 9: Government Effectiveness



Source: World Bank, Worldwide Governance Indicators.

In a range of values from -2.5 to 2.5, with higher values indicating better performance, Nepal in 2016 recorded a value of -0.81, which was the lowest of all the comparison countries. Over the period from 2010-15, this value has deteriorated, as the government changed several times in that period and there was uncertainty regarding the process of drafting the constitution. Over the same period the values improved for Sri Lanka, India, Cambodia, Lao PDR, Uganda, and very slightly for Bangladesh.

Figure 10: Corruption Perceptions Index

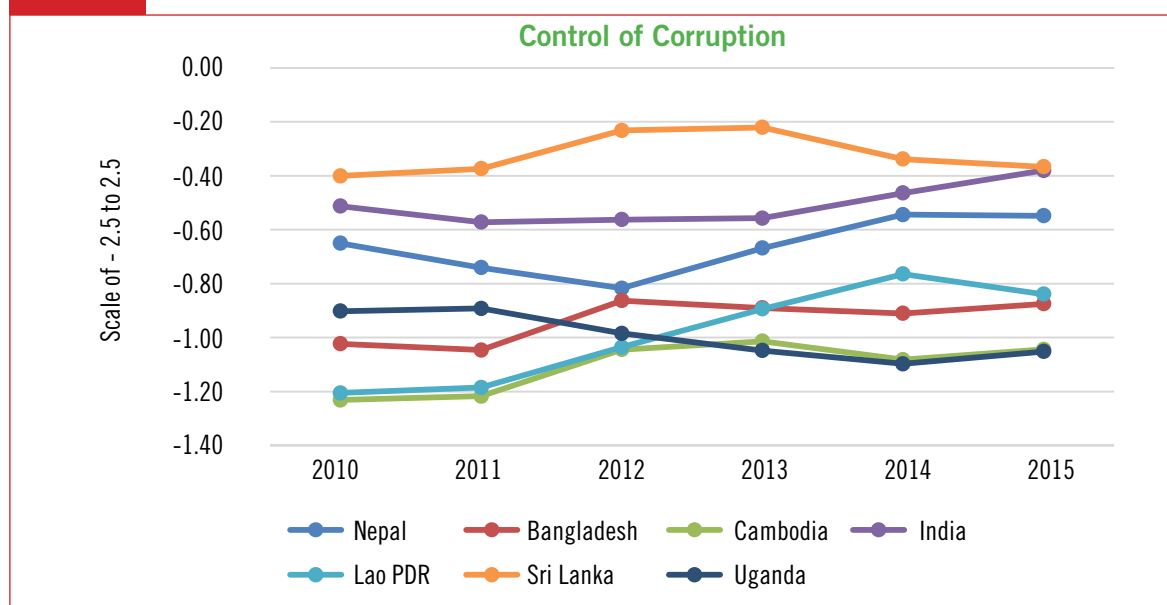


Source: Transparency International Database

The Corruption Perceptions Index measures the perceived levels of public-sector corruption as seen by business people and analysts in a given country and is a composite index, drawing on different expert and business surveys. Nepal's performance in this is not very steady. Its ranking has dropped from 146 in 2010 to 122 in 2017.

Similarly, the measurement index for the Control of Corruption prepared by the World Bank shows the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the "capture" of the state by elites and private interests. Estimates of governance are measured on a scale from approximately -2.5 to 2.5, where higher values correspond to better governance. Based on this, it can be concluded that the Control of Corruption indicator for Timor-Leste is low when compared to other countries subject to this report, though Bangladesh, Cambodia, Lao PDR, and Uganda have lower values. Nepal has improved between 2010 and 2015, going from -0.65 to -0.55. Sri Lanka performs best in 2015 at -0.37, and Uganda is lowest with a score of -1.05.

Figure 11: Control of Corruption



Source: World Bank, Worldwide Governance Indicators.

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<p>Political Rights Index</p> <p>The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government.¹</p> <p>Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.</p> <p>Source: Freedom House, The Freedom in the World Survey</p>	<table border="1"> <thead> <tr> <th></th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>Nepal</td> <td>4</td> <td>4</td> <td>4</td> <td>3</td> <td>3</td> </tr> <tr> <td>Bangladesh</td> <td>3</td> <td>3</td> <td>4</td> <td>4</td> <td>4</td> </tr> <tr> <td>Cambodia</td> <td>6</td> <td>6</td> <td>6</td> <td>6</td> <td>6</td> </tr> <tr> <td>India</td> <td>2</td> <td>2</td> <td>2</td> <td>2</td> <td>2</td> </tr> <tr> <td>Lao PDR</td> <td>7</td> <td>7</td> <td>7</td> <td>7</td> <td>7</td> </tr> <tr> <td>Sri Lanka</td> <td>5</td> <td>5</td> <td>5</td> <td>4</td> <td>3</td> </tr> <tr> <td>Uganda</td> <td>5</td> <td>6</td> <td>6</td> <td>6</td> <td>6</td> </tr> </tbody> </table>		2013	2014	2015	2016	2017	Nepal	4	4	4	3	3	Bangladesh	3	3	4	4	4	Cambodia	6	6	6	6	6	India	2	2	2	2	2	Lao PDR	7	7	7	7	7	Sri Lanka	5	5	5	4	3	Uganda	5	6	6	6	6								
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<p>Civil Liberties Index</p> <p>The Civil Liberties index measures freedom of expression, assembly, association, and religion.</p> <p>Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.</p> <p>Source: Freedom House, The Freedom in the World Survey</p>	<table border="1"> <thead> <tr> <th></th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>Nepal</td> <td>4</td> <td>4</td> <td>4</td> <td>4</td> <td>4</td> </tr> <tr> <td>Bangladesh</td> <td>4</td> <td>4</td> <td>4</td> <td>4</td> <td>4</td> </tr> <tr> <td>Cambodia</td> <td>5</td> <td>5</td> <td>5</td> <td>5</td> <td>5</td> </tr> <tr> <td>India</td> <td>3</td> <td>3</td> <td>3</td> <td>3</td> <td>3</td> </tr> <tr> <td>Lao PDR</td> <td>6</td> <td>6</td> <td>6</td> <td>6</td> <td>6</td> </tr> <tr> <td>Sri Lanka</td> <td>4</td> <td>4</td> <td>5</td> <td>4</td> <td>4</td> </tr> <tr> <td>Uganda</td> <td>4</td> <td>4</td> <td>5</td> <td>5</td> <td>5</td> </tr> </tbody> </table>		2013	2014	2015	2016	2017	Nepal	4	4	4	4	4	Bangladesh	4	4	4	4	4	Cambodia	5	5	5	5	5	India	3	3	3	3	3	Lao PDR	6	6	6	6	6	Sri Lanka	4	4	5	4	4	Uganda	4	4	5	5	5								
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2.3. Social Dialogue and Industrial Relations

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable, and mutually beneficial outcomes for all stakeholders and society at large. In recent years the GoN has taken initiatives in the direction of improving social dialogue to advance the labour and employment agenda.³⁸ Five pieces of legislation were drafted in 2012 following extensive tripartite discussion: the Labour Act, the National Labour Commission Act, the Trade Union Act, the Bonus Act, and the Unemployment Benefit Insurance Act.³⁹ These require implementation and monitoring, however, which remains a challenge in Nepal. The Ministry of Labour and Employment is in charge of administering labour relations in Nepal. The Federation of Nepalese Chambers of Commerce Industries (FNCCI) and the Confederation of Nepalese Industries (CNI) are two major associations of employers in Nepal.⁴⁰

Nepal has a history of union activity that helped to spearhead political change.⁴¹ During the 1980s sector-level trade unions were established in manufacturing, transport, tourism, and teaching, and these were prominent in the push for democracy.⁴² The first federation of trade unions, the General Federation of Nepalese Trade Unions (GEFONT), was established in 1989 and is linked with the UML.⁴³ In 1991, the Nepal Trade Union Congress (NTUC) was established, and it maintains a close association with the NC. A third national level body is the All Nepal Federation of Trade Unions (ANTUF); these three joined together in a broader platform of trade unions called the Joint Trade Union Co-ordination Centre (JTUCC), which forms the umbrella organization coordinating between the major trade unions in Nepal.⁴⁴

Total union participation is estimated at about one million, which is 10 percent of the total workforce; most of this one million are employed in the informal economy.⁴⁵ Other estimates put the total membership of JTUCC at about two million persons.⁴⁶ The 2015 constitution protects the right to form trade unions and labour laws protect the freedom to engage in collective bargaining; in general unions operate without state interference.⁴⁷ Some unions linked to the Maoists have been accused of using violence to threaten employers and government officials to have them comply with union demands during bargaining processes.⁴⁸ Nepali law makes it difficult to dismiss employees, and to get around this many enterprises hire contract workers even though the jobs are not temporary in nature.⁴⁹

When asked about freedom of association, most EASE Survey respondents responded positively. A majority of the respondents were positive regarding the freedom of association. After the restoration of democracy in 1990, greater flexibility was adopted by the government to allow the people to form and function as an association. In line with this political development,

40 Freedom House Database

41 ILO, 2014.

42 ILO, 2014.

43 ILO CO-Kathmandu

44 ILO, 2008.

45 ILO, 2008.

46 ILO, 2008.

47 ILO Factsheet.

48 U.S. Department of State, July 2016.

49 Mondiaal Nieuws, 20 September 2015.

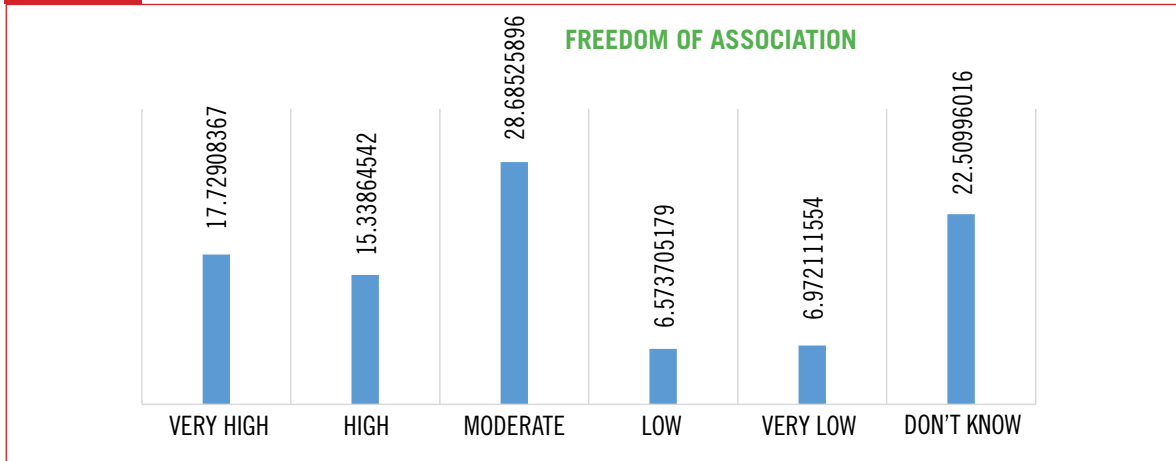
50 Freedom House, 2017.

51 Freedom House, 2017.

52 U.S. Department of State, July 2016.

33% of respondents thought that the Nepalese government did not impose any restriction in forming associations and being involved in them. 28.7% of respondents perceived the degree of freedom of association to be moderate. Only 13.6% of the respondents were critical about the government barring the right to freedom of association to be either low or very low.

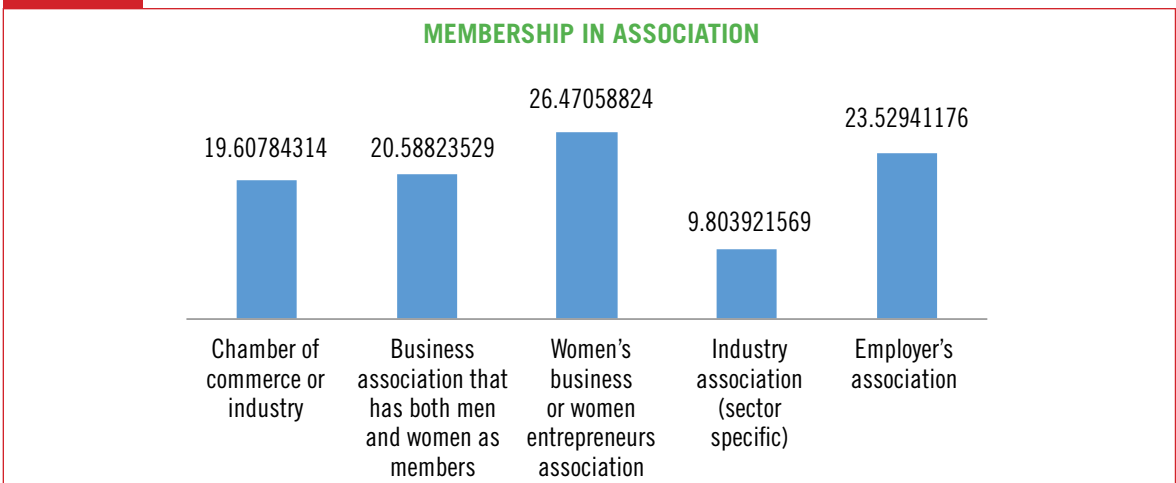
Figure 12: Freedom of Association



Source: EESE Survey

Women were generally found to be unrepresented or underrepresented in different state mechanisms. In the context of associations related to enterprises, 26.5% of the women interviewed stated that they were associated with women-specific entrepreneurs' associations. 23.5% were associated with employer's associations. Only 20.6% were associated with business associations that had both men and women.

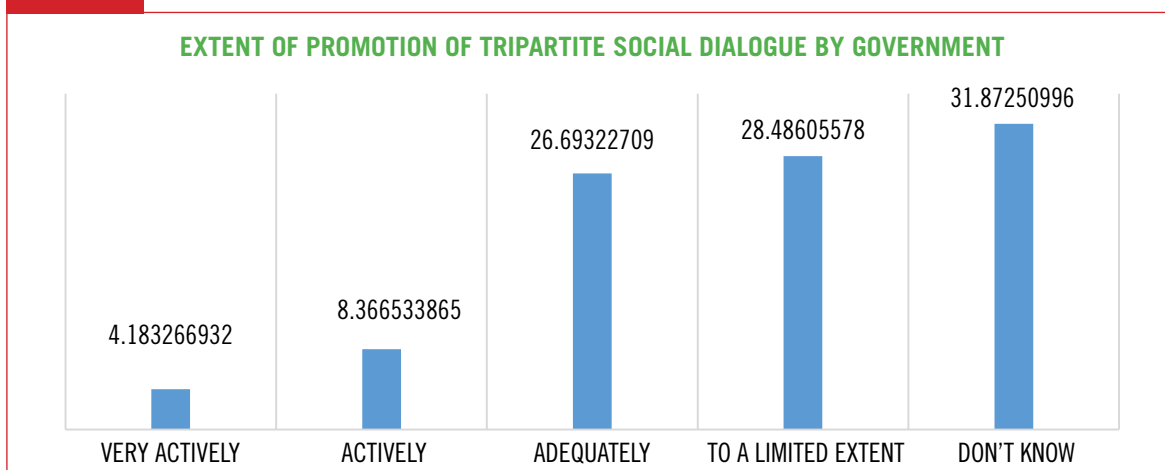
Figure 13: Membership of Women Entrepreneurs in Different Associations



Source: EESE Survey

31.9% of the EESE survey respondents were not aware of the engagement of government in the promotion of tripartite social dialogue. This indicates that either there is not sufficient information dissemination about tripartite dialogues or the mechanism is not effective/adequately implemented. 28.5% of survey respondents pointed out that the engagement of the government in promoting tripartite social dialogue has not been adequate. 26.7% find the government to be adequately involved, while 8.4% find active participation for social dialogue

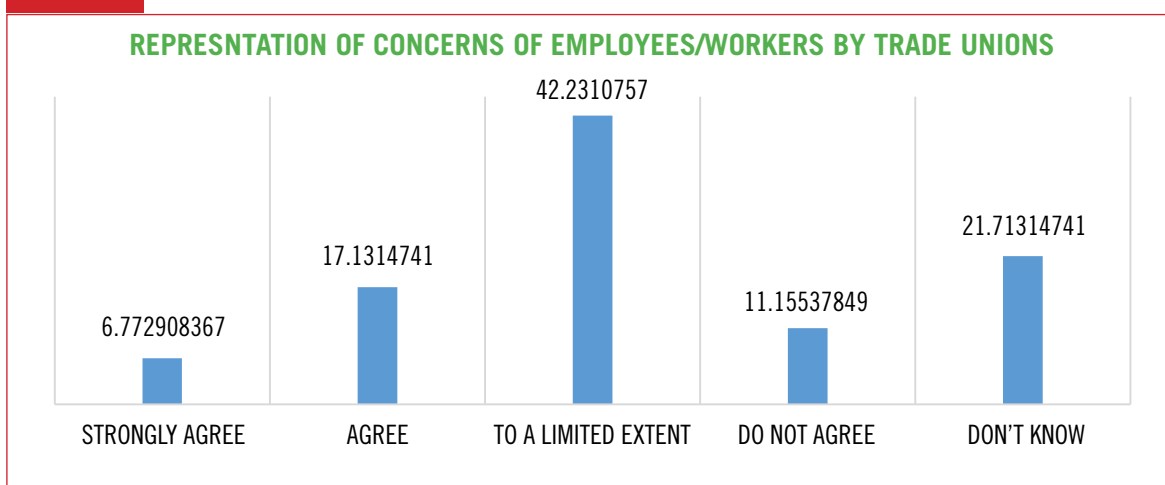
Figure 14: Perception of Promotion of Tripartite Social Dialogue by the Government



Source: EESE Survey

39.2% of survey respondents perceived collective bargaining to be generally easy; 15.5% felt workers did not have any trouble at all with collective bargaining. 17.1% of survey respondents felt that there might be some difficulty for workers to present and lobby for their rights and benefits collectively.

Figure 15: Representation of Concerns of Employees by Trade Unions



Source: EESE Survey

Despite the perceived ease of collective bargaining, the majority of respondents were rather sceptical about the representation of the concerns of the workers by trade unions. A plurality, 42.2%, of the respondents perceived that trade unions reflected the workers' concerns only to a limited extent. About the same proportion of the respondents, 42.4%, strongly felt that trade unions are highly politicized and are influenced by political interests rather than reflecting the genuine concerns of the workers. An additional 22.1% also agree to the trade unions being politicized.

Figure 16: Perception of Politicization of Trade Unions

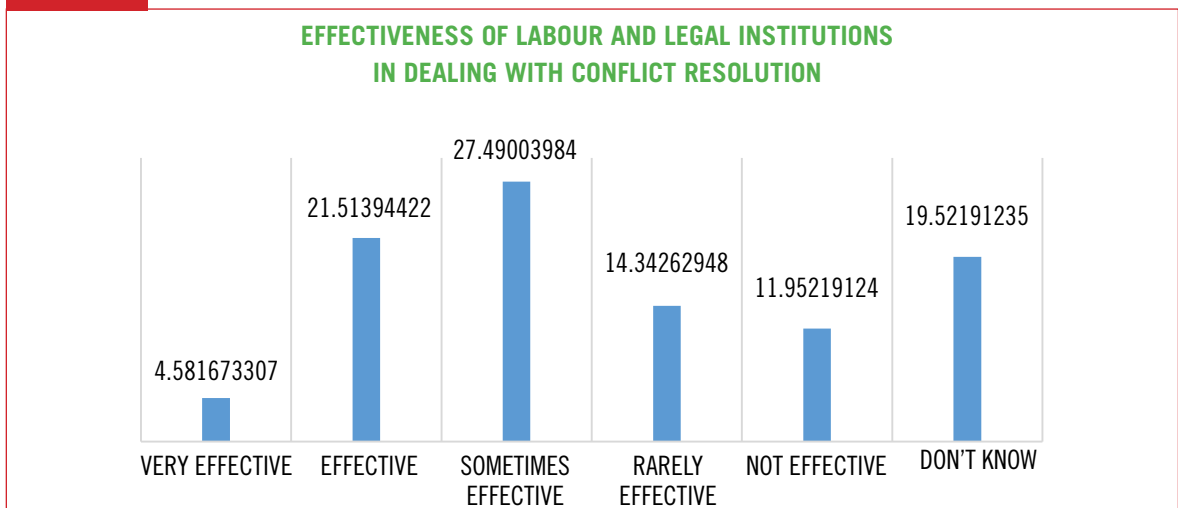


Source: EESE Survey

EESE survey respondents generally perceived that the concerns of small formal enterprises and informal enterprises were not adequately represented by employers' organizations. While 36.9% of respondents perceived that the interests of small enterprises were represented to a certain extent, 38.6% of respondents felt that the interests of informal enterprises are voiced to a limited extent by employers' organizations and informal organizations.

Generally, respondents found the effectiveness of labour and legal institutions in dealing with conflict resolution to be effective more than otherwise. When asked, 27.5% of respondents found labour and legal institutions to be sometimes effective, while 21.5% found them to be effective.

Figure 17: Perception of the Capacity of Labour and Legal Institutions



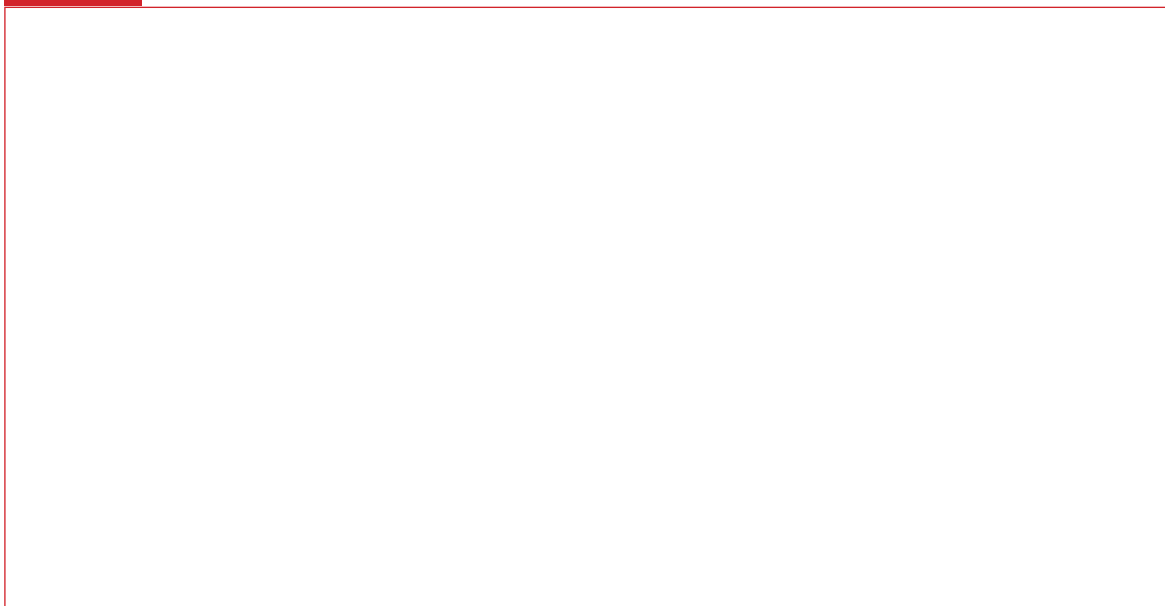
Source: EESE Survey

Nepal's labour force is characterised by a shortage of skilled workers and the existence of unions affiliated to political parties.⁵⁰ Strikes are common, though they are often unrelated to working conditions or labour issues. In August 2015, a general strike was called in the Terai that lasted six months and affected Nepal's industry.⁵¹

50 U.S. Department of State, July 2016.

51 U.S. Department of State, July 2016.

Figure 18: Global Competitiveness Ranking



Source: World Economic Forum Executive Opinion Surveys in Global Competitiveness Reports

One indicator relevant to social dialogue is “Cooperation in Labour-Employer Relations.” This indicator determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7, with higher values indicating more cooperation. Nepal performs worst of all the countries used for comparison on this indicator, at 3.5 in both 2016 and 2017, having improved from 3.2 in 2012. In 2017, Lao PDR and India performed best at 4.5.

Key Indicator							
Cooperation in labour-employer relations		2012	2013	2014	2015	2016	2017
The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: “Labour-employer relations in your country are”:	Nepal	3.2	3.0	3.2	3.5	3.5	3.5
1 = generally confrontational, 7 = generally cooperative.	Bangladesh	4.2	4.1	4.0	4.0	4.2	4.3
Source: World Economic Forum Global Competitiveness Reports.	Cambodia	4.2	4.3	4.2	4.3	4.4	4.4
	India	4.5	4.4	4.1	4.2	4.4	4.5
	Lao PDR			5.1	4.8	4.6	4.5
	Sri Lanka	4.5	4.5	4.7	4.8	4.6	4.3
	Uganda	4.2	4.1	4.1	4.2	4.6	4.4

2.4. Respect for Universal Human Rights and International Labour Standards

Respect for human rights and international labour standards is a distinctive feature of societies that have successfully integrated sustainability and decent work into their economies. Nepal’s legal framework provides for the protection of human rights, but the implementation of existing laws is problematic and de facto discrimination persists. The constitution outlines the implementation of major international human rights provisions, including civil, political, economic, social, and cultural rights, but these are recognized as rights for Nepali citizens, leaving the rights of resident non-citizens and migrants unprotected.⁵² The National Human

52 Freedom House, 2017.

Rights Commission, an independent and autonomous constitutional body, investigates allegations of abuses but faces severe resource constraints and limitations to its mandate.⁵³

Nepal has adopted 8 of the 10 main human rights conventions. These are the International Convention on the Elimination of All Forms of Racial Discrimination, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child, The Convention on the Prevention and Punishment of the Crime of Genocide, and the Convention on the Rights of Persons with Disabilities. Nepal has yet to ratify the International Convention on the Protection of the Rights of All Migrant Workers and the Members of their Families and the International Convention for the Protection of All Persons from Enforced Disappearance. Cambodia, Sri Lanka, and Uganda have ratified all ten, while Bangladesh, India, and Lao PDR have ratified nine of the ten.

Of the fundamental ILO Conventions on freedom of association and collective bargaining and the abolition of child labour, forced labour, and all forms of discrimination, Nepal and Bangladesh have ratified seven. Cambodia, Sri Lanka, and Uganda have ratified all eight, while Lao PDR has ratified five and India four.

Respect for Freedom of Association (Conventions No. 87 and No. 98) should strengthen respect for human rights, thus contributing to the goals of the Commission on Human Rights and Good Governance. Freedom of association will contribute to better labour relations, industrial and social peace, productivity growth, and the more stable environment for domestic and foreign investment needed for accelerated economic growth and poverty reduction.

Abolition of the worst forms of child labour arising from the application of Conventions No. 138 and No. 182 will liberate children from the drudgery and damage of hazardous work, which deprives them of education and adversely affects them mentally and physically. The benefits of a more educated work force for accelerated economic growth are incontestable.

The abolition of forced and compulsory labour required by Conventions No. 29 and No. 105 similarly should contribute to good governance and respect for human rights. If workers are free to choose where they work rather than to be forced into some occupations, they are more likely to be more productive and earn higher wages that will contribute more effectively to the growth of sustainable enterprises.

Nepal faces many challenges to securing human rights for all its citizens. Principal human rights problems in Nepal include caste, gender and ethnic discrimination, gender-based violence, unaddressed atrocities from the time of the civil war, and various inefficiencies linked to an understaffed judiciary that keeps citizens from having speedy and fair trials. Violence against women and children is high, including underage marriage, sexual assault, and trafficking, with some estimates suggesting as many as 15,000 girls are trafficked across the India-Nepal border each year.⁵⁴ UNICEF reported a spike in child trafficking following the April 2015 earthquake.⁵⁵ Other significant obstacles relate to government corruption, including among police officials. Bonded labour is illegal but remains a serious human

53 U.S. Department of State, 2016.

54 Freedom House, 2017.

55 Freedom House, 2017.

rights violation across Nepal; the legal minimum age for employment is 14 years, but about 1.6 million underage children, more girls than boys, are engaged in labour, often under hazardous conditions.⁵⁶ As many as one in ten women in Nepal face sexual violence, and one in five women experience physical violence, this based on a 2011 National Demographic Health Survey.⁵⁷

Human rights abuses and war crimes committed during the civil war have largely remained unaddressed by commissions having been established to investigate allegations of war crimes and disappearances.⁵⁸ The two transitional justice commissions established to help victims of the civil war access justice received a reported 59,000 submissions.⁵⁹ About 1300 people disappeared during the war; the war also left over 13,000 people dead.⁶⁰ In 2015 the Commission of Investigation on Enforced Disappeared Persons and the Truth and Reconciliation Commission were established to start the long-delayed process of providing transitional justice.⁶¹ There have been reports of victims filing cases being threatened by the accused, and some believe the Maoists have betrayed the victims of war crimes by protecting security personnel who may have been involved.⁶² Additionally, the new constitution does not address the rights of Nepal's estimated 4 million stateless people, who remain without official status.⁶³

56 Freedom House, 2017.

57 UNFPA, 20 March 2015.

58 Freedom House, 2017.

59 Human Rights Watch, 2016.

60 OHCHR, 2012.

61 Al Jazeera, 2016.

62 Al Jazeera, 2016.

63 Human Rights Watch, 2016.

Key Indicators

Ratification of Human Rights Conventions

This shows the status of human rights in regard to ratification of the following 10 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities; International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families.

Number of Conventions ratified out of 10.

Source: United Nations Treaty Collection Multilateral Treaties Deposited with the Secretary General (UNTC).

	As of June 2017
Nepal	8
Bangladesh	9
Cambodia	10
India	9
Lao PDR	9
Sri Lanka	10
Uganda	10

Ratification of fundamental ILO Conventions

This shows the status of labour rights conventions. It refers to ratification of the following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect to employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).

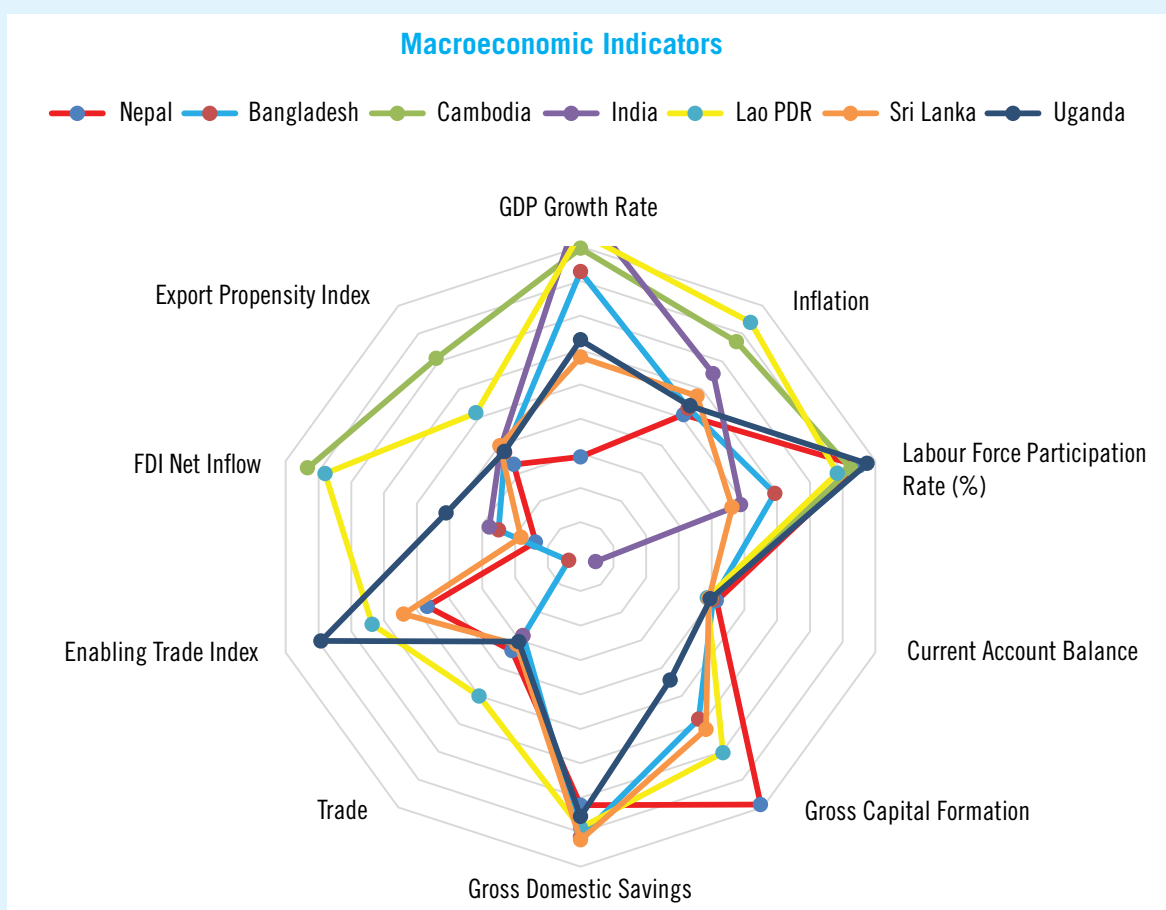
Number of Conventions ratified out of 8.

Source: ILO

	As of June 2017
Nepal	7
Bangladesh	7
Cambodia	8
India	4
Lao PDR	5
Sri Lanka	8
Uganda	8

2 Economic Elements

Indicators Assessing Economic Elements of an Enabling Environment for Sustainable Enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- The recent peaceful elections were an important first step towards economic stability in Nepal.
- Recent policy adjustments and efforts undertaken in Nepal are in line with the EESE framework.
- Nepal is extremely dependent on the monsoon rains for agricultural output, and on remittances for services output; investments in irrigation to reduce dependence on the rains, and greater capital formation to reduce dependence on remittances need to be prioritised.

- Agriculture is the mainstay of the economy.
- In 2016 agriculture made up 29.2% of the GDP, industry made up 14.6% of the GDP, and services more than 55%; agriculture employed 69% of the labour force, 12% were engaged in industry, and the remaining 19% were engaged in services.
- The GoN welcomes FDI, but corruption, bureaucracy, and a weak regulatory environment make the investment climate in Nepal challenging.
- There are challenges to the rule of law and the enforcement of property rights.
- In 2017 the GoN released a national intellectual property policy, which provides a roadmap to developing an intellectual protection system that would significantly improve the investment climate in Nepal.
- The 2007 Competition Promotion and Market Protection Act controls anti-competitive practices and protects consumers against monopolies.
- There have been some significant improvements in levels of connectivity in the last decade, mostly around increased mobile internet connectivity.
- Access to financial services could be improved by using technology-driven alternative delivery methods to improve accessibility, developing need-based innovative financial products, improving the focus on financial literacy and the awareness of financial services, and improving mechanisms to monitor client protection.
- Infrastructure development is crucial in Nepal.
- There is investment in improving strategic trade routes to improve connections with India and China, including improving bridges and facilities along the roads.

3.1. Sound and Stable Macroeconomic Policy and Good Management of the Economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. Economic growth has generally remained low but volatile in Nepal, where political instability and natural disasters have had a significant impact on the downturns.¹ The recent peaceful elections were an important first step towards stability. To ensure that this continues, the GoN needs to address the challenges of widespread poverty, creating sustainable livelihoods, building human capacity, and creating efficient institutions of governance and regulation. In the last year Nepal's economy has recovered somewhat due to the favourable monsoon, better harvests, and normalisation in trade, as well as post-earthquake reconstruction work, and a better supply of electricity.² Potential sectors of growth and investment opportunities are agricultural tourism, infrastructure, and hydroelectric power.³

1 Nepal Economic Forum, 16 October 2017.

2 ADB, September 2017.

3 U.S. Department of State, July 2016.

Recent policy adjustments and efforts undertaken in Nepal are in line with the broad framework provided by the 17 pillars of the conducive environment for sustainable enterprises. For instance, the Industrial Policy of 2010, which replaced the Industrial Policy of 1992, envisions the promotion

of industrial activity and increasing employment generation, thereby leading to a boost in per capita income. To do this, one of the Policy's pledges is to launch a campaign in order to attract creative youth talents to industrial enterprises by creating opportunities for self-employment and by capacity enhancement activities for the development of industrial skills and entrepreneurship and sound industrial management. In an effort to build conditions conducive to investment, the policy also introduces a number of tax concession schemes for different sizes and types of industries. Similarly, the new Industrial Enterprise Act of 2016 reinforces the vision of Industrial Policy 2010 by provisioning additional incentives to micro industry and women entrepreneurs, among others.

Moreover, the recent Nepal Investment Summit that led to significant investment pledges worth USD 13.5 billion from more than 250 potential international investors is a good indicator of a flourishing enterprise development environment in the country. Nonetheless, the government's bureaucratic approach to materializing these pledges, by channeling them through existing weak governance mechanisms, may become a challenge. Other potential challenges include unstable government, prolonged political deadlock, and politically motivated trade unions.

Historically there has been low industrialisation in Nepal due to a combination of factors; the economy that developed under the monarchy was a feudal agrarian one, additionally the porous border with India allowed cheaper Indian imports to flood Nepali markets and this competition curtailed the growth of cottage industries in Nepal.⁴ Between 1956 and 1990 there was a period of modernisation guided by the Five Year Annual Plans, but high levels of poverty remained in rural areas, and growth was not inclusive.⁵ Economic reforms, deregulation, privatization of businesses and industries under government control, and liberalisation of FDI were initiated in the 1990s, when sectors such as telecommunications, civil aviation, coal, print and electronic media, insurance, and hydropower were opened to private investment.⁶ After the establishment of democracy in 1990, improvements were effected in banking, tourism, infrastructure, health, education and others, but political instability has hampered growth.⁷ A period of de-industrialisation commenced along with the Maoist insurgency in 1997; in 1996 industry formed 22.3% of the GDP, while in 2017 it constituted 14.6% of the GDP.⁸ The absolute poverty rate went from 42% in 1995 to 21.6% at the end of fiscal year 2015/16.⁹

In 2017, Nepal had a GDP of slightly more than USD 25 billion and total trade of about USD 10 billion.¹⁰ Nepal's currency, the Nepali Rupee (NR) is pegged to the Indian Rupee (INR), to ensure stability in the financial system, and this is likely to continue until the country stabilises and grows further.¹¹ Agriculture is the mainstay of the economy, and the processing

4 Basnett, 2009.

5 Basnett, 2009.

6 U.S. Department of State, July 2016.

7 Basnet, 2009.

8 Nepal Economic Forum, 16 October 2017.

9 Economic Survey, 2017 (page 101), Ministry of Finance, Nepal

10 Economic Survey, 2017 (page xviii), Ministry of Finance, Nepal.

11 The Hindu, 9 May 2017.

of agricultural products forms the basis of most industrial activity in the country, for example the processing of pulses, jute, sugarcane, tobacco, and grain.¹² The major agricultural products are pulses, rice, corn, wheat, sugarcane, jute, root crops, milk, and water buffalo meat, while the major industries are tourism, carpets, textiles, small rice, jute, sugar and oilseed mills, cigarettes, and cement and brick production.¹³ In 2016 agriculture made up 29.2% of the GDP and employed 69% of the labour force.¹⁴

The agriculture sector in Nepal employs traditional farming technology, resulting in low productivity per worker. There is room for the development of agriculture as an industry. Most farming in Nepal remains small-scale, with small cultivation areas, a lack of access to finance to make improvements to farming inputs and methods, poor technological support, and poor infrastructure.

Nepal's population was estimated to be 26.6 million in 2011, with labour force participation rates of 87.5% for men and 80.1% for women in 2014.¹⁵ In the absence of domestic employment opportunities an increasing number of Nepalis emigrate, leading to remittances accounting for 25-28% of the GDP in 2015.¹⁶ Unemployment is much higher in urban areas than in rural ones. More than 90% of the economically active population is involved in the informal economy, leaving workers vulnerable to no employment security, lack of access to public benefits, salaries below the minimum wage, and poor working conditions.¹⁷

The National Planning Commission (NPC) is Nepal's apex advisory body for formulating a national vision and policies for development. It has six divisions addressing economic management, social development, infrastructure development, agriculture and rural development, monitoring, evaluation, and administration.¹⁸ Since the process of planned economic development started in 1956 with the first five-year plan, Nepal has implemented eight five-year plans and five three-year plans.¹⁹ In early 2017 the NPC endorsed a three-year plan which would guide development activities in the country till the end of 2019.²⁰ The most recent plan sets a target economic growth rate of 6.5% in 2016-2017, 7.2% in 2017-2018, and 7.9% in 2018-2019.

In 2016 the NPC also introduced the Envisioning Nepal 2030 long-term development strategy that focuses on achieving the sustainable development goals (SDGs) and bringing Nepal into middle income status by 2030.²¹ The long-term strategy involves identifying light manufacturing as a potential area of industrialization and achieving structural transformation in agriculture and tourism with the introduction of new technology.²² Significant investments are expected to be made in increasing domestic production by transforming the agricultural sector and investing in tourism, industry, and SMEs.²³ Investments are also planned in infrastructure relating to energy, roads, air travel, and ICT, as well as social protection systems.²⁴

12 CIA World Factbook, October 2017.

13 CIA World Factbook, October 2017.

14 CIA World Factbook, October 2017.

15 ILO, 2014.

16 ILO, January 2016.

17 ILO, 9 December 2016.

18 NPC, 2017.

19 The Kathmandu Post, 10 January 2017.

20 The Kathmandu Post, 10 January 2017.

21 ADB, June 2016.

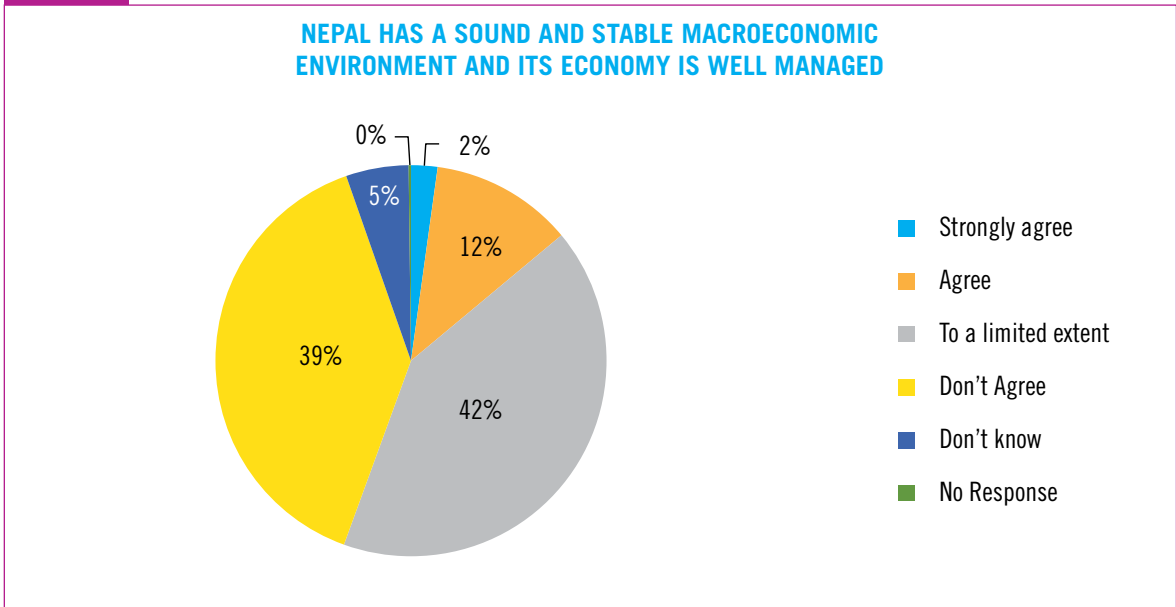
22 ADB, June 2016.

23 The Kathmandu Post, 10 January 2017.

24 The Kathmandu Post, 10 January 2017.

When asked about the management of the economy and a sound and stable macroeconomic environment, most survey respondents were sceptical: 42% of respondents thought that the economy was well managed to a limited extent, 39% thought it was not well managed, 12% thought the economy was well managed, and 2% strongly agreed that the economy was well managed.

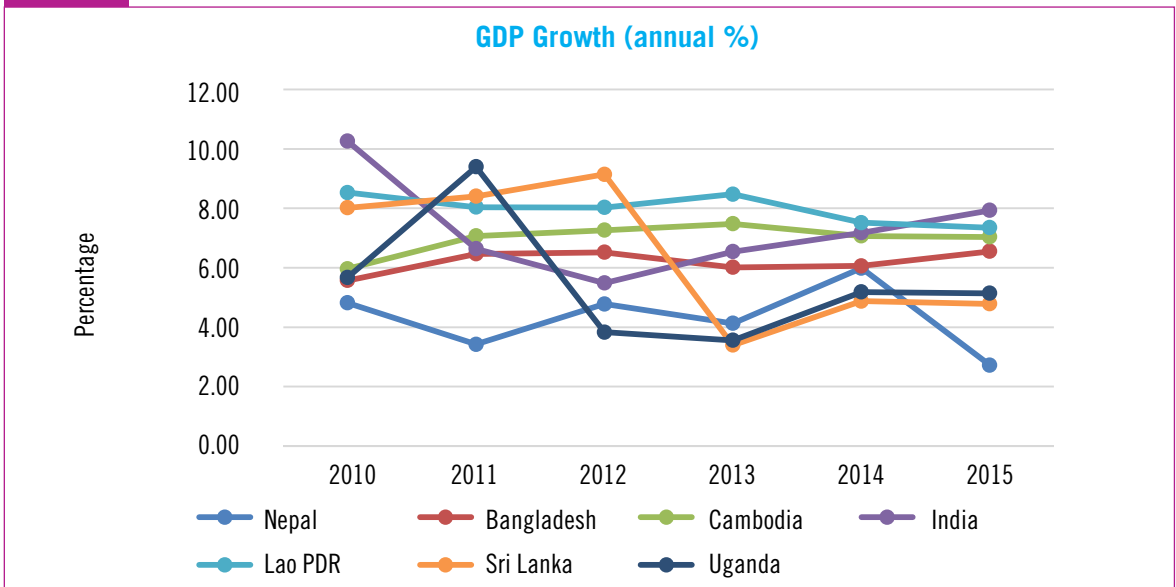
Figure 19: Perception of the Management of the Macroeconomic Environment



Source: EESE Survey

Additionally, 45.1% of the interviewed women entrepreneurs perceived that the overall business environment was conducive to promoting women entrepreneurs. This perception has likely been shaped by the government policies of tax exemptions for the women-owned enterprises or property and the special programmes targeting women entrepreneurs.

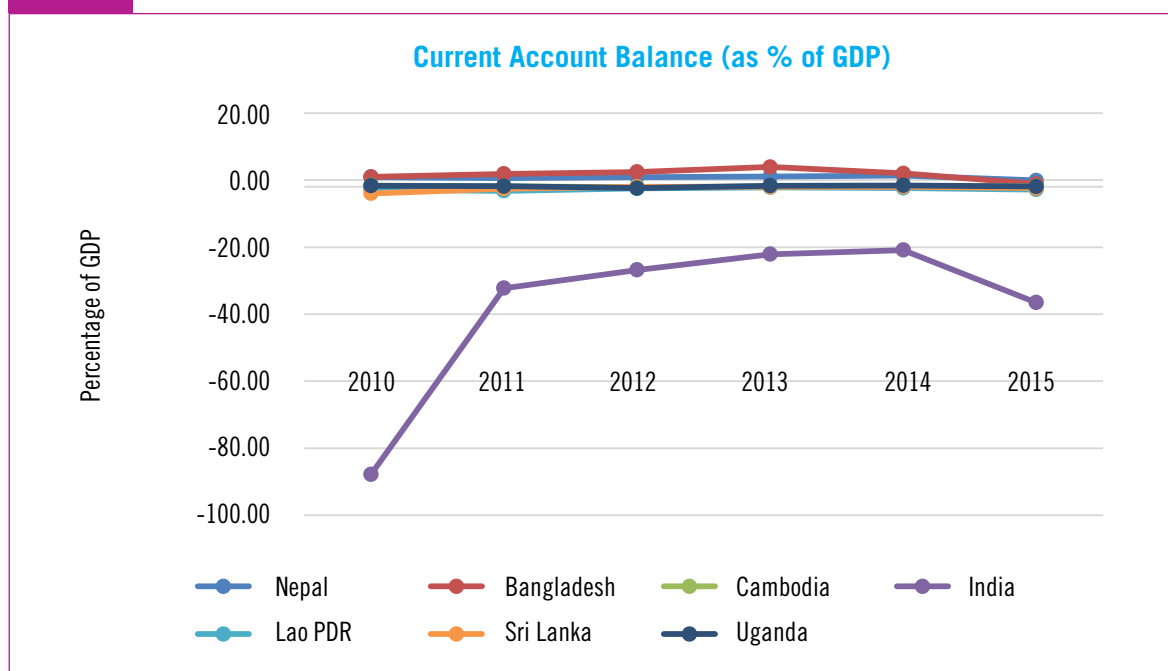
Figure 20: GDP Growth Rate



Source: World Bank, World Development Indicators

Nepal's economy went from a GDP growth rate of 4.82% in 2010 to 5.99% in 2014, but after the earthquake in 2015 this slipped to 2.73% and was the lowest of all the comparison countries in that year. It, however, rebounded the following year and achieved a growth rate of 6.9%. In the same period India, Lao PDR, Sri Lanka, and Uganda saw a reduction in the GDP growth rate. India went from 10.26% in 2010 to 7.11% in 2016, Lao PDR went from 8.53% to 7.02%, Sri Lanka went from 8.02% to 4.38%, and Uganda saw the smallest decrease, going from 5.64% to 5.66% in the same period. Bangladesh and Cambodia saw modest increases in the GDP growth rate, which was already high in 2010, over the period between 2010 and 2016.

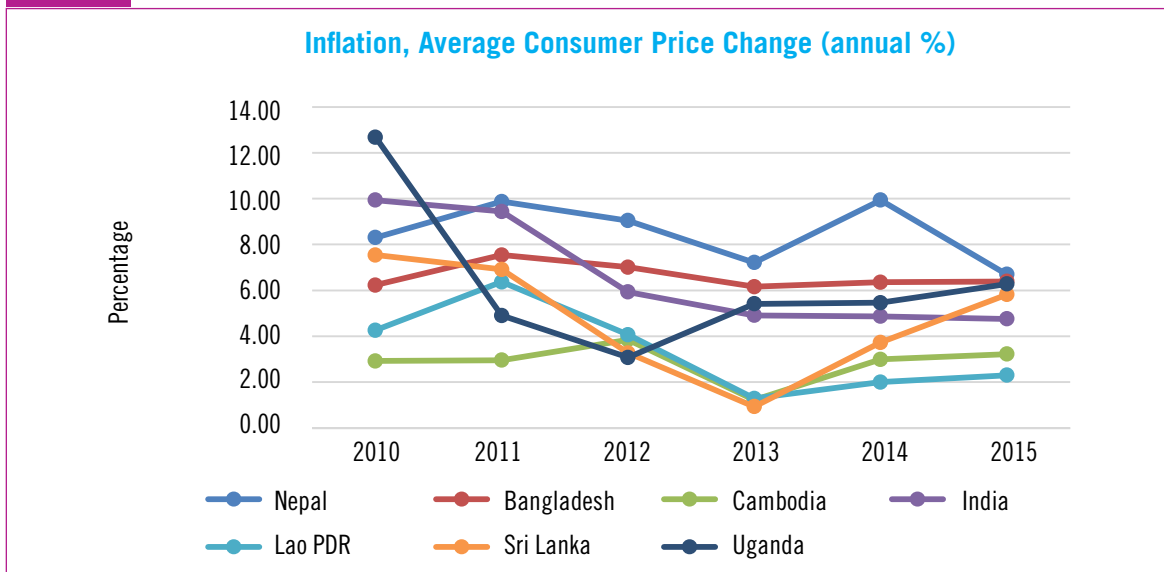
Figure 21: Current Account Balance



Source: World Bank, World Development Indicators

The current account balance as a percentage of the GDP went from 0.91% in 2012 to -0.07% in 2017 for Nepal. India has the most extreme figure with the current account balance being -36.51% of the GDP, reflecting the size of the domestic economy and the demand for imports. Nepal's is the highest among the comparison countries, which reflects net imports. Bangladesh is next highest at -1.15%, followed by Cambodia at -1.79%, Uganda at -1.91%, Sri Lanka at -2.35%, and Lao PDR at -2.82.

Figure 22: Inflation Rate



Source: World Bank: World Development Indicators

The inflation rate in Nepal has undergone some fluctuation in the last few years. Based on recorded data (see table below) inflation was 8.31% in 2012, 9.93% in 2016, and 6.7% in 2017. The inflation rate is much higher than for the comparison countries, except for Bangladesh and Uganda, which also have inflation rates of over 6%. All the countries listed saw a reduction in the inflation rate from 2012 to 2017, except Bangladesh and Cambodia, which saw a slight increase.

Key Indicators		2010	2011	2012	2013	2014	2015	2016	2017
GDP growth rate (%)									
Measures the annual percentage growth rates of all value-added goods and services produced in the country. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. 1	Nepal	4.82	3.42	4.78	4.13	5.99	3.32	0.41	6.94
	Bangladesh	5.57	6.46	6.52	6.01	6.06	6.55	7.11	7.28
	Cambodia	5.96	7.07	7.31	7.43	7.07	7.04	6.95	7.1
	India	10.26	6.64	5.48	6.39	7.51	8.01	7.11	7.10
	Lao PDR	8.53	8.04	8.03	8.03	7.61	7.27	7.02	6.9
	Sri Lanka	8.02	8.40	9.14	3.40	4.96	4.84	4.83	5.3
	Uganda	5.64	9.39	3.83	3.59	5.11	5.19	4.66	5.50
	Annual percentage growth rate of GDP.								
Source: World Bank, World Development Indicators and various newspapers for 2017									

Inflation, consumer prices (annual %)		2012	2013	2014	2015	2016	2017
Measures the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specific intervals, such as yearly.	Nepal	8.31	9.87	9.04	7.21	9.93	6.70
	Bangladesh	6.23	7.54	7.01	6.16	6.35	6.39
	Cambodia	2.93	2.96	3.85	1.23	3.00	3.22
	India	9.94	9.44	5.93	4.91	4.87	4.75
	Lao PDR	4.26	6.37	4.07	1.29	2.00	2.30
	Sri Lanka	7.54	6.91	3.27	0.93	3.73	5.82
	Uganda	12.68	4.90	3.08	5.42	5.46	6.28
Source: World Bank, World Development Indicators							
Current account balance (% of GDP)		2012	2013	2014	2015	2016	2017
Current account balance (also called 'current account surplus/deficit') is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country's transactions with the rest of the world. It shows whether a country is 'living within its means'. If a country is spending more abroad than it earns from the rest of the world, then corrective action will be necessary, e.g., to maintain the value of the country's currency in relation to other countries' currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice -- once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors, and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners' savings.	Nepal	0.91	0.64	0.91	1.07	1.34	-0.07
	Bangladesh	0.97	1.90	2.45	3.94	2.03	-1.15
	Cambodia	-1.55	-1.88	-2.02	-1.89	-1.68	-1.79
	India	-87.84	-32.26	-26.79	-22.09	-20.86	-36.51
	Lao P.D.R.	-2.81	-3.20	-2.45	-2.11	-2.35	-2.82
	Sri Lanka	-3.97	-2.54	-1.99	-2.01	-1.93	-2.35
	Uganda	-1.67	-1.81	-2.37	-1.67	-1.54	-1.91
Source: World Bank, World Development Indicators							

Gross Capital Formation (% of GDP)	2010	2011	2012	2013	2014	2015
Nepal	38.27	37.99	34.50	37.32	41.17	38.78
Bangladesh	26.25	27.42	28.26	28.39	28.58	28.89
Cambodia	17.37	17.10	18.53	19.72	22.00	22.45
India	40.67	39.58	38.27	34.20	34.18	32.75
Lao PDR	25.00	26.45	31.59	29.15	29.89	32.77
Sri Lanka	30.35	33.36	39.06	33.25	31.98	30.06
Uganda	25.56	27.06	26.86	27.91	26.83	24.33

Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and “work in progress.” Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. A high level of gross capital formation in a period of time refers to an increase in the value of inventories. A high level of gross capital formation or investment is conducive to economic growth.

Source: World Bank, World Development Indicators

1 World Bank: World Development Indicators

3.2. Trade and sustainable economic integration

Trade integration can lead to positive economic outcomes that can create positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality, and growing income inequality, the employment and decent work impact of trade policies must be carefully considered.

Nepal is a founding member of the South Asian Association for Regional Cooperation (SAARC) and has ratified the SAARC agreement on creating a South Asian Free Trade Area (SAFTA), under which Nepal, Bhutan, India, Bangladesh, Pakistan, Sri Lanka, Afghanistan, and the Maldives have agreed to cut tariffs on various products as well as accord over 5,000 items preferential duty treatment in at least one of the participating countries.²⁵ Nepal is also a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which includes Bangladesh, Bhutan, India, Myanmar, Sri

²⁵ U.S. Department of Commerce, 17 April 2016.

Lanka, and Thailand. BIMSTEC also aims to establish a free-trade area through an open and competitive investment regime.²⁶

Nepal joined the World Trade Organization (WTO) in 2004. In 2009 the GoN reformulated its trade policy to align with economic development and poverty alleviation efforts better and in 2010 adopted the Nepal Trade Integration strategy, which coordinated efforts to improve export promotion performance and outward trade in goods.²⁷ A new trade policy announced in 2015 focuses on trade in the service sector, specifically hydropower, tourism, business process outsourcing, and labour.²⁸ It addresses the need for disaster relief and for mobilizing technical assistance from development partners to this end, to enhance export capacities and improve trade-related infrastructure.²⁹

Nepal currently runs a trade deficit; low volumes of production, as well as insufficient compliance with required international quality standards, which keeps market share small, as well as high transaction costs for cross-border trade and bureaucratic obstacles hinder the growth of exports.³⁰ Export capacity in Nepal needs to be enhanced, but there are some significant barriers to this, including inadequate transport infrastructure in terms of roads, bridges, and customs points; an insufficient and inconsistent supply of energy, supply-side constraints such as the lack of value chain development of exportable products that exploit economies of scale; bureaucracy and corruption; high costs of transport; inadequate trade facilitation measures; and inadequate technical standards, including regulations and accreditation facilities.³¹

Nepal's location as a small landlocked buffer state between India and China defines the context of its foreign policy but also determines the form of its economic development options, as Nepal depends on routes through India and China for its imports and exports. Nearly 60% of imports, including fuel and gas for cooking, come from India.³² Obstructions in Indo-Nepal cross-border trade led to severe fuel shortages across the country.³³ New arrangements with China may reduce some of the dependence on India.

The GoN welcomes FDI, but corruption, bureaucracy, and a weak regulatory environment make the investment climate in Nepal challenging.³⁴ In 2015 a new Foreign Investment and One-Window Policy was issued that defines priority sectors for investment, including hydropower, transportation infrastructure, agro-based and herbal processing industries, tourism, mines, and manufacturing industries.³⁵ In 2016 Nepal's Doing Business rank slipped due to a decline in the business regulatory environment, but it still ranks second highest in South Asia.³⁶

Foreign investment is governed by the Industrial Promotion Board, which coordinates economic policies, establishes guidelines for investment, and approves foreign investment

26 U.S. Department of Commerce, 17 April 2016.

27 Richter, 2017.

28 Richter, 2017.

29 Richter, 2017.

30 Richter, 2017.

31 Richter, 2017.

32 Nepal Economic Forum, 16 October 2017.

33 CRS, 4 December 2015.

34 U.S. Department of State, July 2016.

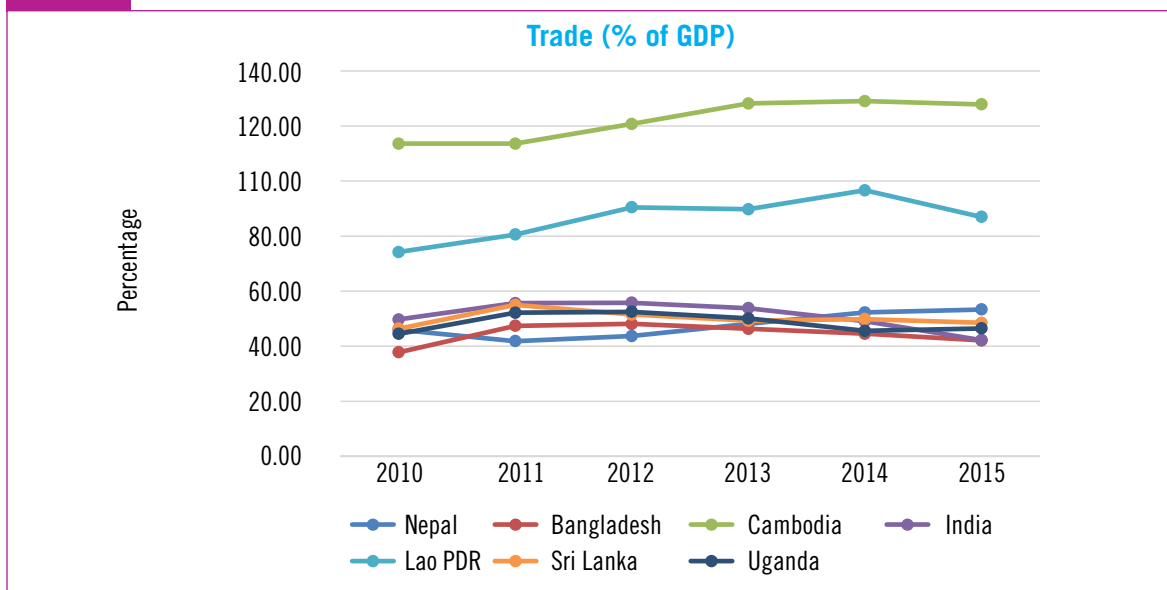
35 U.S. Department of State, July 2016.

36 World Bank, 25 October 2016.

proposals, and the Investment Board of Nepal which serves as a 'one window' facility for domestic and foreign investors with projects worth more than USD 100 million or projects in high priority sectors such as civil aviation, tourism, or hydropower.³⁷

Government laws and policies concerning responsible business conduct and environmental and social standards exist, but enforcement is weak.³⁸ Responsible business conduct and corporate social responsibility policies do not appear to factor into procurement decisions made by the GoN.³⁹

Figure 23: Trade (% of GDP)



Source: World Bank: World Development Indicators

Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and $+\infty$. The trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%. If we analyse the countries used for comparison, Nepal had trade at the value of 48.8% of its GDP in 2016. This was lower than Cambodia at 126.9% and Lao PDR at 77.6%, but higher than India at 39.8% and Bangladesh at 37.9% in the same year.

Nepal depends on imports for a lot of its general and household consumer goods. The major commodities imported are petroleum products, machinery and equipment, gold, electrical goods, and medicines; India is the source of 70.1% of these imports, while China is the source of 10.3% as of 2016.⁴⁰ The major commodities exported are clothing, pulses, carpets, textiles, juice, and jute goods that go primarily to India (56.6%), the US (11.5%) and Turkey (4%).⁴¹

37 U.S. Department of State, July 2016.

38 U.S. Department of State, July 2016.

39 U.S. Department of State, July 2016.

40 CIA World Factbook, October 2017.

41 CIA World Factbook, October 2017.

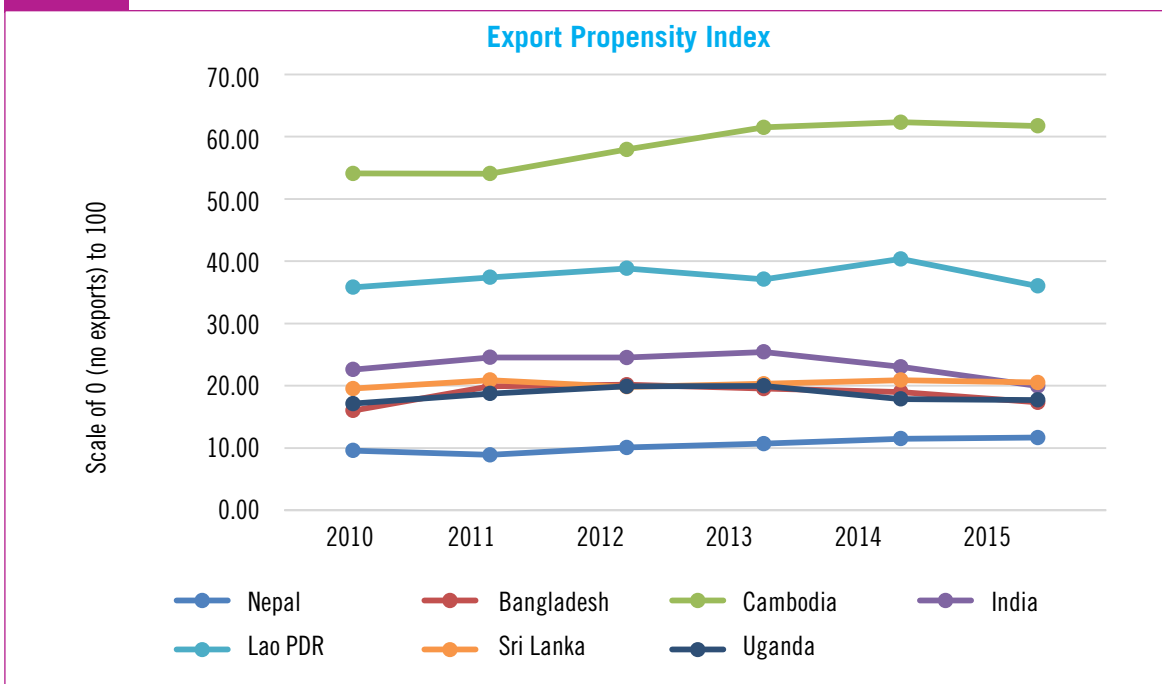
Table 2: Ease of Doing Business Ranking

	DB 2015 Report	DB 2016 Report	DB 2017 Report	DB 2018 Report
	2014	2015	2016	2017
Nepal	108	99	107	105
Bangladesh	173	178	176	177
Cambodia	135	128	131	135
India	142	131	130	100
Lao PDR	148	136	139	141
Sri Lanka	99	109	110	111
Uganda	150	116	115	122

Source: World Bank: Doing Business Reports

The Ease of Doing Business Index ranks economies from 1 to 190, with first place being the best. Based on the latest WB report Nepal is ranked 105th. As shown in Table 1 above, Nepal performs better than all of its neighbours, except India, used for comparison, and overall, the regulatory framework for the development of sustainable enterprises in Nepal is improving.

Figure 24: Export Propensity Index



Source: World Bank: World Development Indicators

The Export Propensity Index looks at the share of exports of goods and services in the GDP. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication,

construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments. The value of this indicator ranges from 0 to 100. Nepal performs very poorly on this indicator, with a value of 11.67% of exports of goods and services making up the GDP, which is the lowest of all the countries used for comparison. Bangladesh was the next lowest at 17.34%, while Cambodia was highest at 61.72%.

Key Indicators							
Trade (% of GDP)		2010	2011	2012	2013	2014	2015
Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product (GDP). ¹	Nepal	45.98	41.83	43.66	48.15	52.26	53.34
	Bangladesh	37.80	47.42	48.11	46.30	44.51	42.09
	Cambodia	113.60	113.58	120.74	128.18	129.03	127.86
Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%.	India	49.69	55.63	55.78	53.83	49.06	42.22
	Lao PDR	74.22	80.57	90.48	89.75	96.62	86.97
	Sri Lanka	46.36	54.98	51.49	49.26	49.83	48.48
Source: World Bank, World Development Indicators	Uganda	44.47	52.18	52.49	50.10	45.54	46.48
FDI net inflow/GDP, in percent		2010	2011	2012	2013	2014	2015
Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital, as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.	Nepal	0.55	0.50	0.48	0.38	0.15	0.24
	Bangladesh	1.07	0.98	1.19	1.74	1.47	1.73
	Cambodia	6.54	6.20	10.26	8.71	10.31	9.42
	India	1.65	2.00	1.31	1.52	1.70	2.11
	Lao PDR	3.91	3.64	3.15	3.81	7.78	8.72
	Sri Lanka	0.84	1.46	1.38	1.25	1.12	0.83
Source: World Bank, World Development Indicators	Uganda	2.69	4.37	5.13	4.39	3.81	3.84
Export Propensity Index= exports of goods and services/GDP, in percent		2010	2011	2012	2013	2014	2015
Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.	Nepal	9.58	8.90	10.07	10.69	11.51	11.67
	Bangladesh	16.02	19.92	20.16	19.54	18.99	17.34
	Cambodia	54.08	54.08	57.96	61.49	62.32	61.72
	India	22.59	24.54	24.53	25.42	23.03	19.95
	Lao PDR	35.81	37.41	38.85	37.11	40.37	36.01
	Sri Lanka	19.55	20.90	19.82	20.32	20.91	20.53
It ranges from 0 (with no exports) to 100 (with all domestic production exported).	Uganda	17.13	18.74	19.90	19.98	17.87	17.71
Source: World Bank, World Development Indicators							

Trading Across Border Data

Ease of doing business index ranks economies from 1 to 183, with first place being the best. The cost to export is the cost in US\$ per container. The number of import and export documents is how many of these are required to carry out an international trade transaction. The time to export and import is measured in days.

Source: World Bank, Doing Business Project

Nepal	2014	2015
Rank		
Cost to export (US\$ per container)	2295	2545
Documents to export (number)	11	11
Documents to import (number)	11	11
Time to export (days)	42	40
Time to import (days)	39	39
Bangladesh	2014	2015
Rank		
Cost to export (US\$ per container)	1203	1281
Documents to export (number)		
Documents to import (number)		
Time to export (days)	29	28
Time to import (days)	38	34
Cambodia	2014	2015
Rank		
Cost to export (US\$ per container)	795	795
Documents to export (number)	8	8
Documents to import (number)	9	9
Time to export (days)	22	22
Time to import (days)	24	24
India	2014	2015
Rank		
Cost to export (US\$ per container)	1332	1332
Documents to export (number)		
Documents to import (number)		
Time to export (days)	17.1	17.1
Time to import (days)	21.1	21.1
Lao PDR	2014	2015
Rank		
Cost to export (US\$ per container)	1950	1950
Documents to export (number)	10	10
Documents to import (number)	10	10
Time to export (days)	23	23
Time to import (days)	26	26
Sri Lanka	2014	2015

(Footnotes)

1 World Bank: World Development Indicators.

3.3. Enabling legal and regulatory environment

Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. While infrastructure and the provision of basic utilities have improved in Nepal, spurring economic growth, legislation remains unclear and incomplete in some areas, and enforcement remains problematic because of political upheaval and changes in government. Dispute resolution and regulatory mechanisms are still developing. There are a variety of challenges to smooth navigation of the regulatory environment in Nepal for citizens and businesses alike. The impartiality and transparency of the actions taken by the regulatory bodies is questioned by many businessmen and there is a shortage of qualified personnel in these bodies.

The informal sector is an important engine of growth in Nepal with more than 90% of the economically active population being involved in the informal economy.⁴² This makes formalization or extending protections to the informal economy a matter of urgency in order to improve the nature of work in Nepal. In 2017 a new Labour Act was passed that revised labour regulations following tripartite consultations, providing mechanisms for regular services to formalise and strengthen SMEs, and addressing other informal economy issues.⁴³

Market entry processes and entry regulations have eased in Nepal in general over recent years, with specific attention being brought to the reform of business registration procedures with the country's Office of Company Registrar (OCR).⁴⁴ Businesses must be registered with various agencies based on the nature of the operation, size, environmental implications, and location. Starting in 2013 Nepal's Ministry of Industry and the OCR implemented a series of reforms to encourage business registration online; a new mandatory online registration service was launched; help desks were installed to provide training for business owners; and an enabling legal directive eased the speed and efficiency of registration processes for businesses.⁴⁵

In 2014 Nepal made starting a business easier by reducing the administrative processing time at the company registrar, and by establishing a data link between agencies involved in the incorporation process.⁴⁶ Domestic businesses can now be registered in 30 hours, while those with foreign investment can be registered within one week of having filed an application.⁴⁷ Other technology solutions have been introduced that enhance the business environment in Nepal, including the development of an online tourism registration and licensing system.⁴⁸ In 2015, it became easier to deal with construction permits through the implementation of a new electronic construction permit system; however, the cost of obtaining building permits went up in 2017.⁴⁹

Taxation in Nepal is reportedly relatively uncomplicated, and tax rates are low, but paying taxes can involve procedural and other difficulties.⁵⁰ The Industrial Policy of 1992 and the Industrial Enterprises Act of 1992 extend a number of incentives to SMEs in the industrial

42 ILO, 9 December 2016.

43 ILO, January 2016.

44 Atlas Network, 14 April 2017.

45 World Bank, 28 June 2017.

46 World Bank, 2017.

47 Atlas Network, 14 April 2017.

48 World Bank, 28 June 2017.

49 World Bank, 2017.

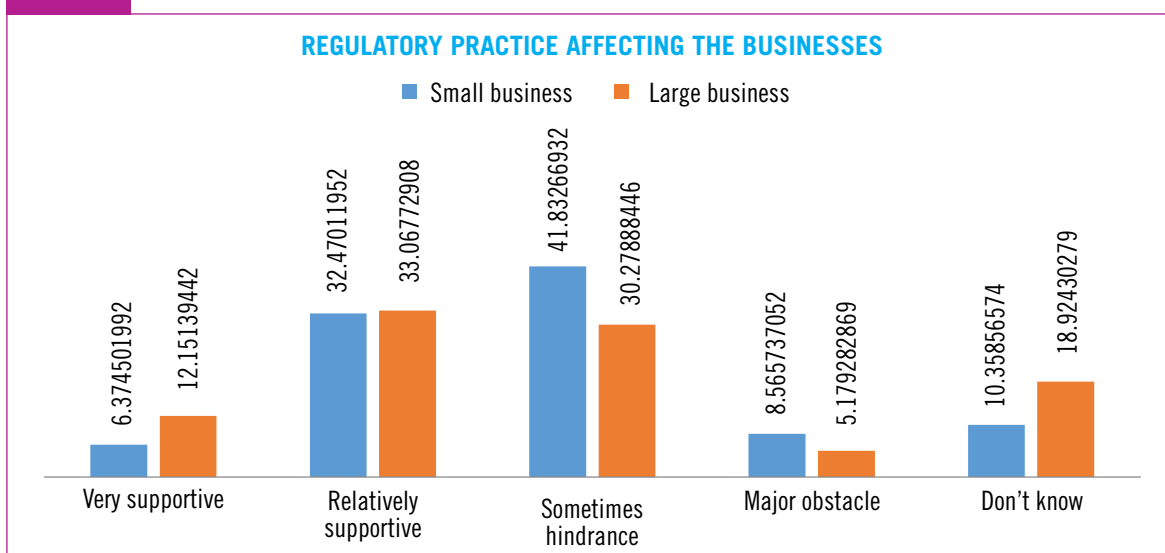
50 ILO, 2014 (2).

sector.⁵¹ Tax exemptions are available to cottage industries (industries which have a capital investment of less than NPR 200,000).⁵²

The legal system in Nepal can be cumbersome, which when combined with the considerable government bureaucracy and corruption can act as a deterrent to investment in Nepal and the growth of SMEs. Regulation is a challenge in Nepal, and foreign investors sometimes withdraw from projects because of this. For example, in early 2016 a proposed investment in a hydropower project was withdrawn by Stat Kraft (Norway) due to the lack of a conducive project development environment based on commercial, technical and regulatory factors.⁵³

When looking at the differing perceptions of respondents from small and large businesses towards the regulatory environment, in general those from large businesses were slightly more positive in their assessment. 41.8% of respondents from small and 30.3% from large businesses felt that the environment was sometimes a hindrance; 32.5% of respondents from small businesses and 33.2% from large businesses thought it was relatively supportive; 6.4% of respondents from small businesses and 12.2% from large businesses thought the environment was very supportive, while 8.6% from small businesses and 5.2% from large ones thought the regulatory environment was a major obstacle.

Figure 25: Perception of How Supportive the Regulatory Environment Is



Source: EESE Survey

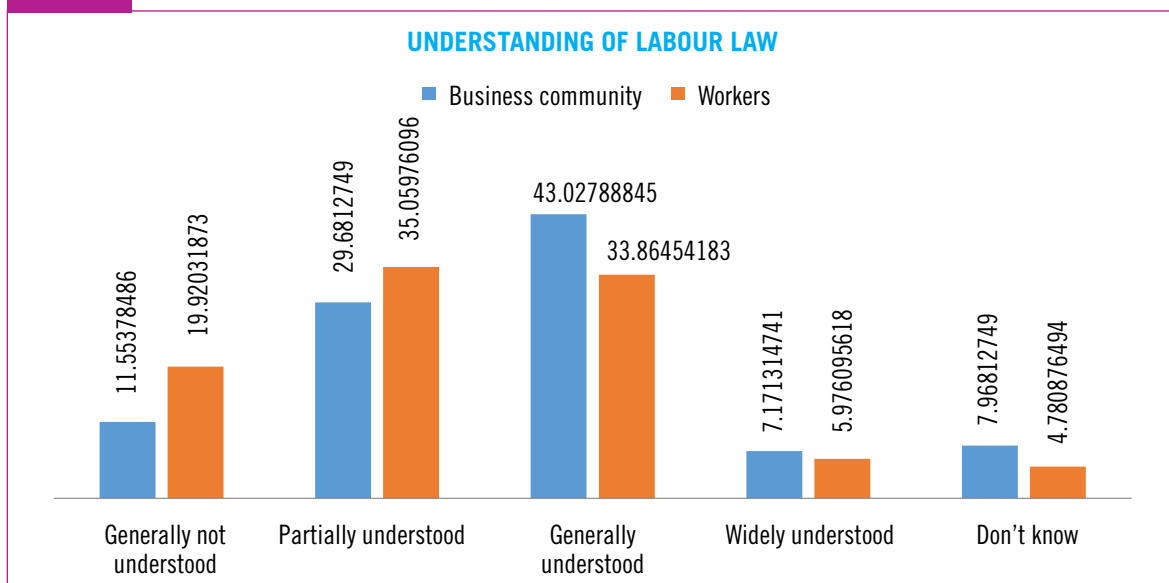
61.8% of women entrepreneurs specifically mentioned that they faced difficulty in adhering to the government rules and regulations. Only 16.7% of the female respondents have easy access to the information about the regulations related to business.

51 ILO, 2014 (2).

52 ILO, 2014 (2).

53 Reuters, 13 January 2016.

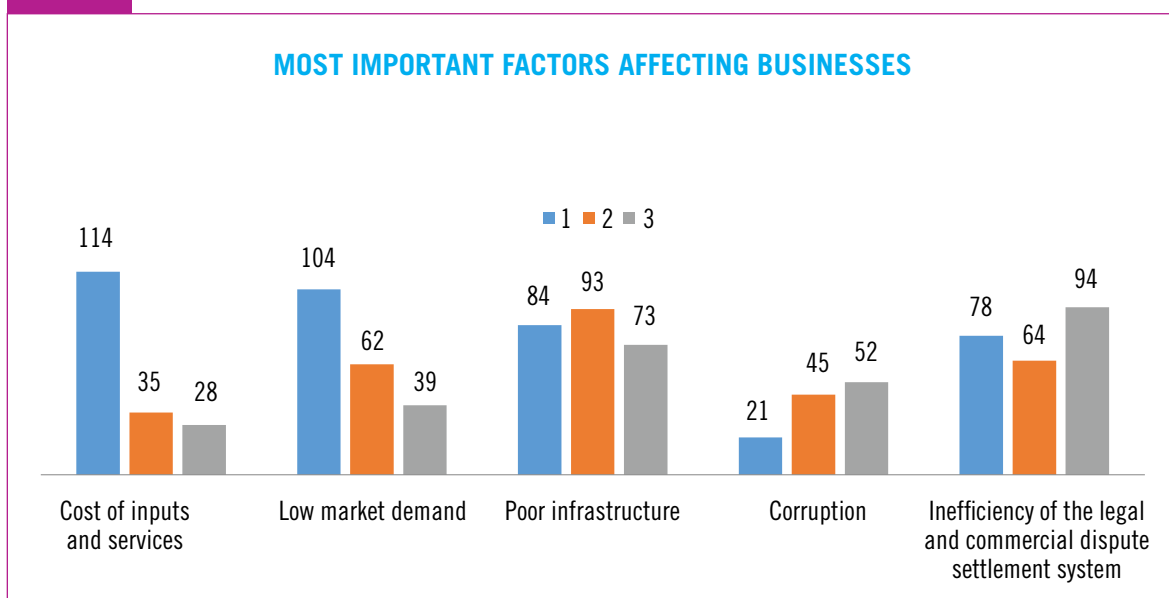
Figure 26: Perception of How Well the Business Community and Workers Understand Labour Laws



Source: EESE Survey

When comparing the understanding of the business community and workers on labour laws, based on the responses of employers from the EESE survey, it was felt that the business community understood labour laws better than workers. It was noted that 43% of respondents thought the business community generally understood labour laws, while 33.9% thought workers generally understood labour laws; 35.1% thought workers partially understood labour laws, while 29.7% of respondents thought the business community partially understood them; 19.9% thought workers generally did not understand labour laws, while 11.6% thought the business community generally did not understand them; and 7.2% thought the business community widely understood labour laws, while 6.0% thought workers widely understood them.

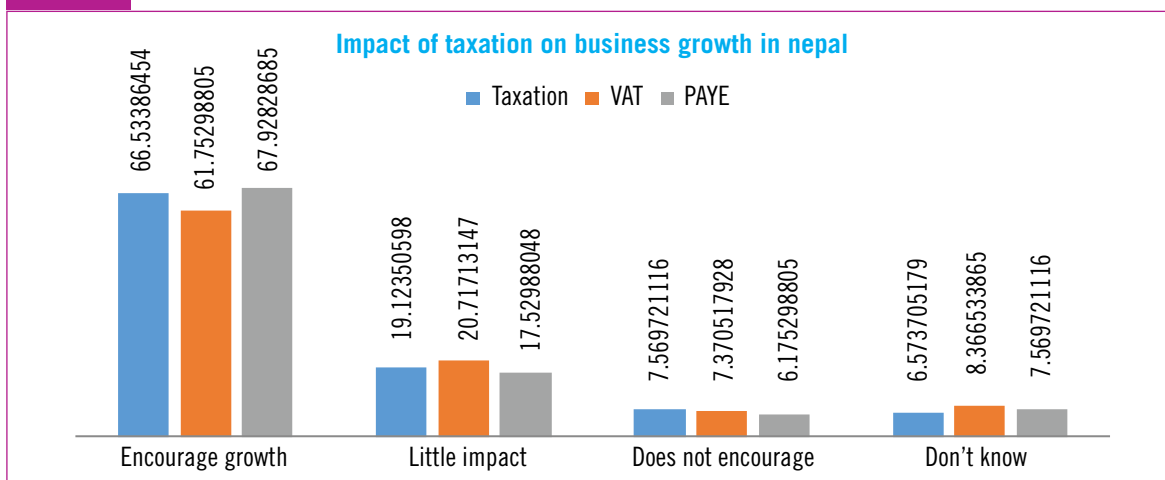
Figure 27: Perception of the Most Important Factors Affecting Businesses



Source: EESE Survey

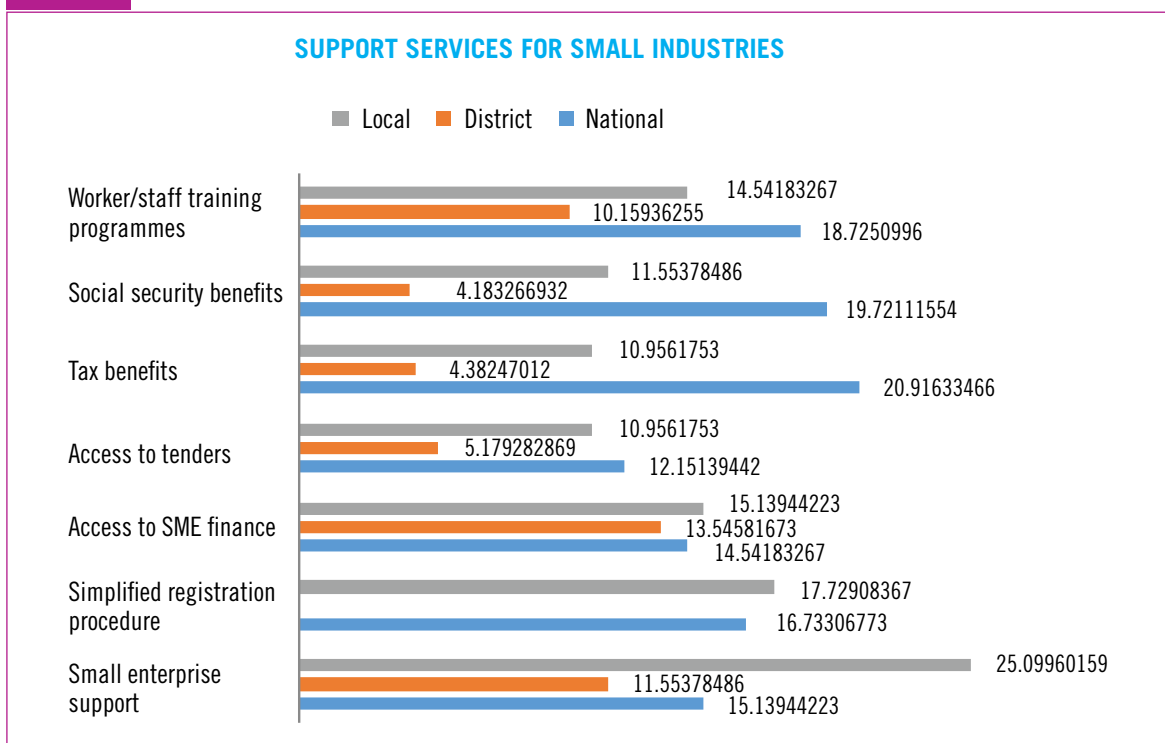
ESEE survey respondents were asked about different factors that affect their businesses. About half the respondents mentioned poor infrastructure as a main factor affecting their businesses. About 47% felt that the inefficiency of the legal and commercial dispute settlement structure of the government is major factor, while approximately 41% of survey respondents identified low market demand as a major problem. The high cost of inputs and services was pointed out by 35% of the respondents.

Figure 28: Perception of Impact of Taxation on Business Growth



Source: ESEE Survey

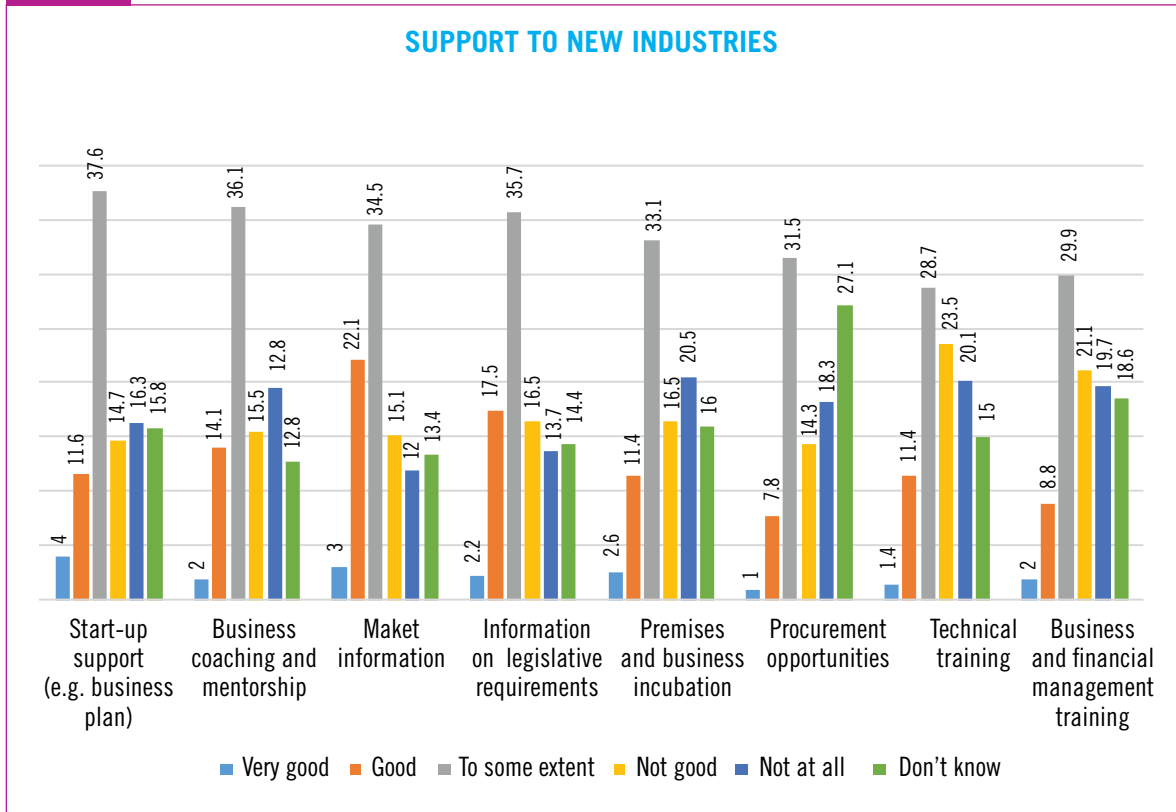
Figure 29: Perception of Knowledge about Support Services for Small Businesses



Source: ESEE Survey

Small industries have been getting support from government at different levels--local, district, and national. However, there is not a very huge proportion of these industries that have knowledge about the services provided by the government. The support services mentioned by the most number of entrepreneurs at the local level was the Small enterprise support scheme mentioned by 25.1% of respondents, access to small and medium enterprises finance at the district level was known by 13.5%, and tax benefits at the national level mentioned by 20.9%. This indicates that either the level of information dissemination about the support services is low, or in general there is limited access to the available government services.

Figure 30: Perception of Support to New Industries

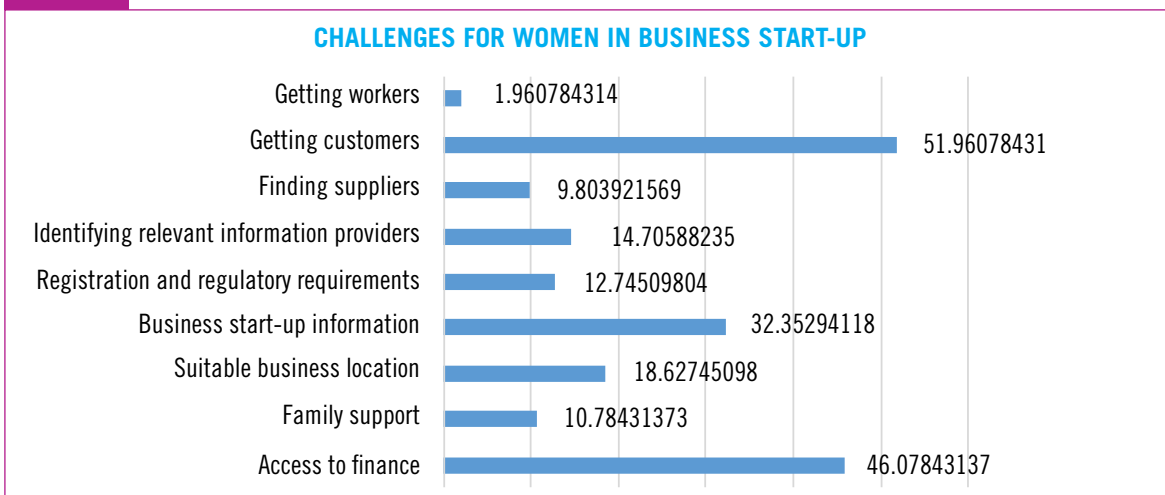


Source: EESE Survey

When asked specifically about different kinds of support services to new industries the largest proportion of respondents answered that this was available to some extent in relation to start-up support, business coaching and mentorship, market information, information on legislative requirements, premises and business incubation, procurement opportunities, technical training, and business and financial management training.

From the EESE survey it emerged that women face a wide array of challenges during the start-up phase of their businesses. More than half of the respondents (52%) expressed that the biggest challenge for them initially had been to reach out to their potential customers. Since the property and assets were mostly held by the male member of the family, women often had trouble with access to finance, this was expressed by 46.1% of respondents. 32.4% of female respondents pointed out that lack of access to the business start-up information was a challenge; 18.6% had trouble finding a suitable business location; 14.7% had difficulty identifying relevant information providers; 10.8% did not have family support; 9.8% had difficulty with finding suppliers; and 2% had difficulty finding workers.

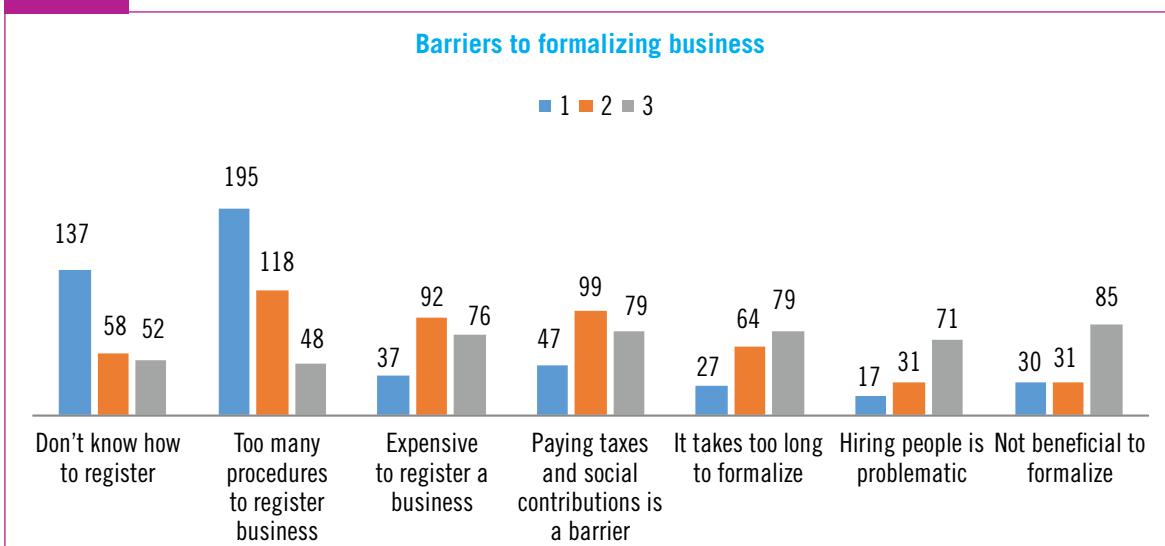
Figure 31: Perceptions of the Challenges for Women in Starting a Business



Source: EESE Survey

When asked about barriers to formalizing a business, the number of procedures required was pointed to as the main cause, with over 72% of respondents mentioning it and 54% identifying it as the most significant barrier. 49.2% of respondents identified a lack of understanding about the registration process as an important factor discouraging informal businesses from registering; 44.8% of respondents thought paying taxes and social contributions demotivated entrepreneurs from registering their businesses.

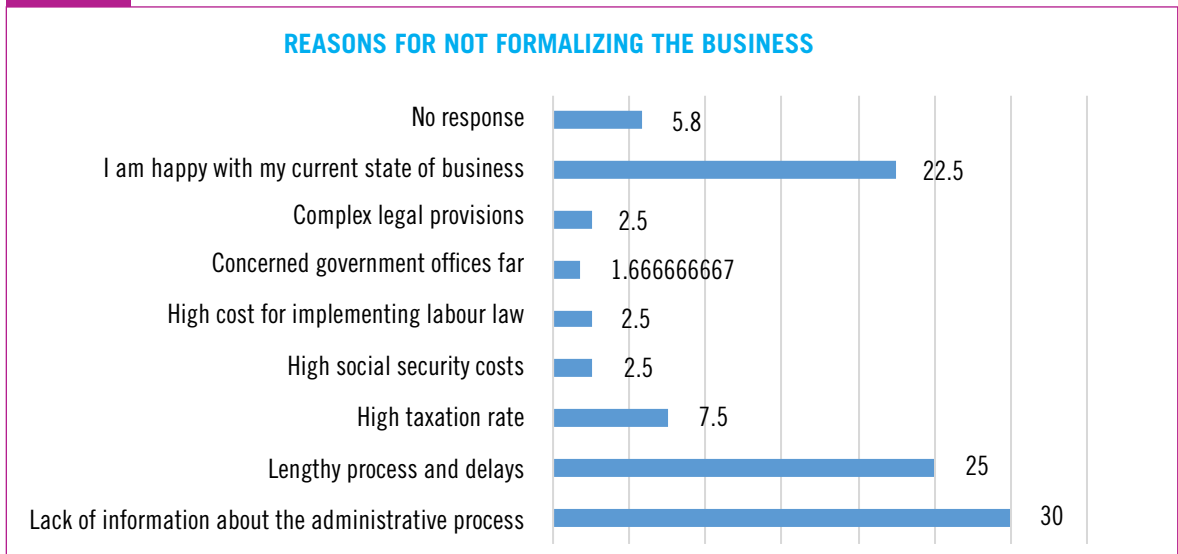
Figure 32: Factors that are Barriers to Formalizing a Business



Source: EESE Survey

When asked about reasons for not formalizing, 30% of survey respondents from informal enterprises said this was due to a lack of information about the administrative process; 25% said there were lengthy processes and delays which kept them from doing this; 22.5% said they were happy with the current state of things; 7.5% of respondents indicated the high tax rate was a deterrent; 5.8% did not respond; 2.5% each pointed at complex legal provisions, high costs of implementing labour laws, and high social security costs; 1.7% found the concerned government office to be located too far away.

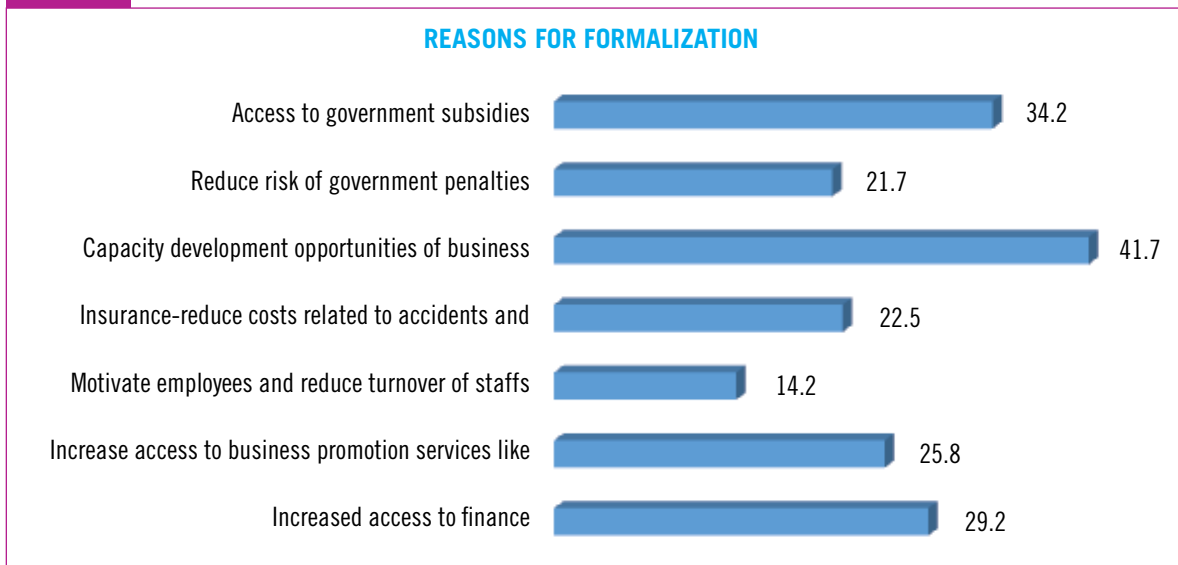
Figure 33: Reasons for Not Formalizing Their Business



Source: EESE Survey

When asked about their intention to formalise, 66% of survey respondents from informal enterprises said they wanted to, 19% said they didn't want to, and 15% said they did not know.

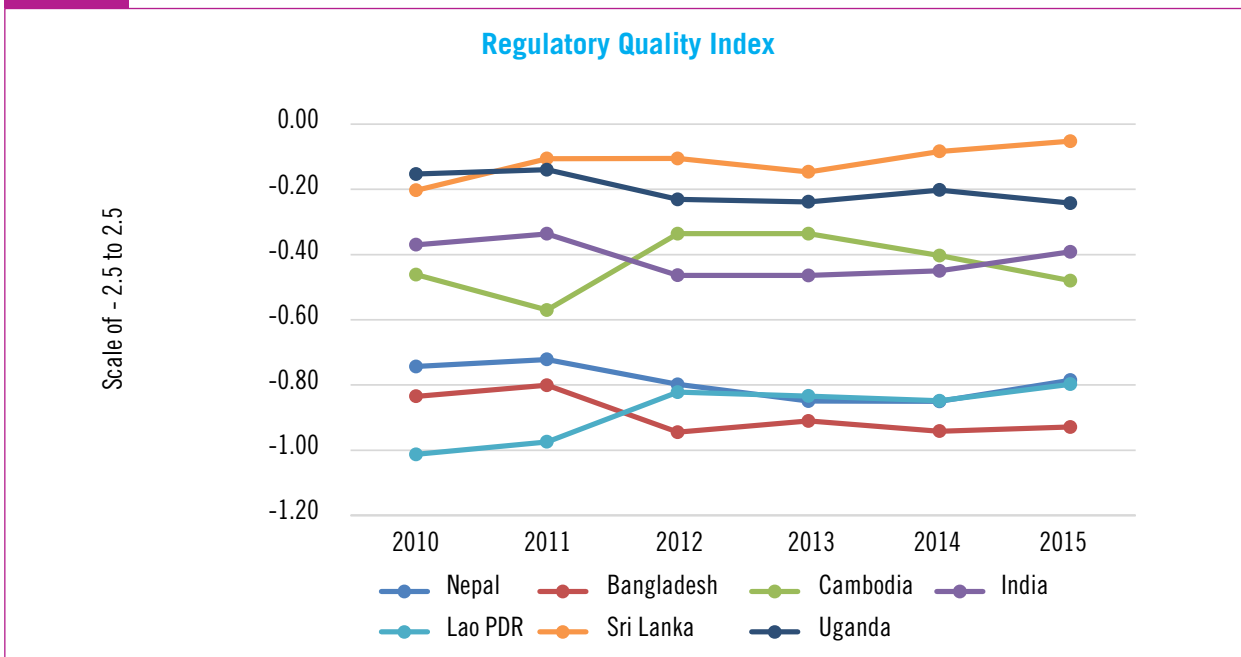
Figure 34: Incentives for Formalization



Source: EESE Survey

There were different factors which played an important role in motivating the businesses to formalize. 41.7% of survey respondents were attracted by the opportunities for capacity development by government and other concerned stakeholders that they perceived they would have access to if formalized. 34.2% of respondents were interested in access to government subsidies, 29.2% in increased access to finance, 25.8% in access to business promotion services, 22.5% in insurance to reduce costs related to accidents and injuries, and the last 14.2% thought this would motivate employees and reduce staff turnovers.

Figure 35: Regulatory Quality Index



Source: World Bank: Worldwide Governance Indicators

The Regulatory Quality Index measures the ability of the government to provide sound policies and regulations that enable and promote private sector development. The estimate of governance is measured on a scale from approximately -2.5 to 2.5 with higher values corresponding to better governance. Nepal performs poorly in this regard, next only to Bangladesh. Despite the guiding of the UN and the plethora of bilateral and multilateral donors, there remain serious lacunae in the regulatory regime of the country. The value fell from -0.74 in 2010 to -0.76 in 2016. In the same year Sri Lanka performed best at -0.10, followed by Uganda at -0.21, then India at -0.31. In 2016 Bangladesh was lowest at -0.80. The indicator represents the state of regulatory stability in the country with lower values representing lower trust in the Government. More comprehensive reforms and legislative changes will be needed for this indicator to improve, as well as improvement in the enforcement of regulations.

Nepal’s regulatory bodies should be provided a sufficient budget so that they can draft regulations and adjudicate cases without having to rely on external support. Currently, however, the implementation of regulations, which is based on the legal regime and on the technical capacity to monitor processes, is problematic and is described as weak and often unpredictable.

Key Indicators								
<p>Regulatory Quality</p> <p>The ability of the Government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p> <p>Source: World Bank, Worldwide Governance Indicators</p>		2010	2011	2012	2013	2014	2015	2016
	Bangladesh	-0.85	-0.81	-0.95	-0.91	-0.94	-0.90	-0.80
	Cambodia	-0.48	-0.58	-0.34	-0.34	-0.42	-0.53	-0.47
	India	-0.38	-0.34	-0.47	-0.47	-0.45	-0.39	-0.31
	Nepal	-0.74	-0.72	-0.80	-0.85	-0.83	-0.80	-0.76
	Lao PDR	-1.02	-0.98	-0.82	-0.84	-0.85	-0.81	-0.73
	Sri Lanka	-0.22	-0.11	-0.11	-0.15	-0.10	-0.05	-0.10
	Uganda	-0.17	-0.16	-0.24	-0.24	-0.22	-0.26	-0.21
	<p>Starting a Business</p> <p>Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications, or inscriptions for the company and employees with relevant authorities.</p> <p>The index ranks economies from 1 to 185, with first place being the best.</p> <p>Source: World Bank, Doing Business Project</p>			2015	2016			
					DB 2016 Report	DB 2017 Report	DB 2018 Report	
Nepal		Ranking		105	109	109		
		Days		17	17	16.5		
Bangladesh		Ranking		117	122	131		
		Days		19.5	19.5	19.5		
Cambodia		Ranking		180	180	183		
		Days		87	99	99		
India		Ranking		155	155	156		
		Days		29	26	29.8		
Lao PDR		Ranking		153	160	164		
		Days		73	67	67		
Sri Lanka		Ranking		98	74	77		
		Days		10	9	9		
Uganda		Ranking		168	165	165		
		Days		27	26	24		

3.4. Rule of law and secure property rights

A formal and effective legal system that guarantees that contracts are honoured and upheld, the rule of law is respected, and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society. In many countries where legal processes are still evolving, the dominant problem is underdeveloped institutions integral to the market economy, chief among these being the security of property rights.

There are challenges to the rule of law and enforcement of property rights in Nepal. The bureaucracy and the legal system are also poorly resourced, and the prevailing sense of political uncertainty makes the delivery of services and enforcement of regulations difficult.⁵⁴ Nepal's court system is under resourced and subject to both pervasive corruption and executive influence.⁵⁵ There are heavy case backlogs, slow appeals processes, and long pre-trial detention periods.

⁵⁴ Khanal, December 2009.

⁵⁵ GAN Business Anti-Corruption Portal, July 2016.

The judicial system is comprised of the Supreme Court, consisting of a chief justice and up to 20 judges, High Courts, a Court of Appeal, and district courts.⁵⁶ Nepal's court system is based on common law, and there is no commercial code, though a commercial court exists at the appellate level.⁵⁷ Disputes involving a foreign investor are often settled through mediation in the presence of the Department of Industry.⁵⁸ If unresolved through mediation cases may be taken to Nepali court, but proceedings can become very long and drawn out in the national court system.⁵⁹

In theory, the court system is independent of the executive branch, and so this should not affect foreign or domestic investors, but there has been a gradual politicization of the judiciary in Nepal,

with appointments of judges to appellate courts and the Supreme Court allegedly being based on political affiliation.⁶⁰ In 2017 the parliament filed an impeachment motion suspending the chief justice that provoked a political crisis in the country.⁶¹ Many in Nepal construed the move as an effort to intimidate the judiciary at the highest level. Incidents like that also brings into question the independence and agency of the judiciary at all levels and its ability to check the powers of the executive branches in Nepal.

Prior to the liberalization project undertaken in the 1990s, most properties belonged to the state, and intangible properties, such as intellectual property rights, were very seldom recognised.⁶² Rights to land were first delineated under the first Land Act of 1964, which granted property rights to land holders and tillers; it gave tenant farmers the right to own land and put a ceiling on land holdings, but despite this most agricultural land is highly concentrated in the hands of a few owners in Nepal.⁶³ Landlessness among Dalits is extreme⁶⁴, which keeps agricultural wages and earnings down; landlessness combined with an abusive tenancy farming system were seen as key factors fuelling the Maoist-led civil conflict.⁶⁵

An estimated five percent of the population owns more than 37 percent of the land in Nepal, with at least a third of the population landless and millions classified as semi-landless because of extremely small and fragmented holdings.⁶⁶ The 2015 constitution grants land ownership rights to Dalits, but they continue to face challenges in asserting claims.⁶⁷ There are no special protections for the traditional rights to land for indigenous people in Nepal.⁶⁸

Land tenure is of four general kinds in Nepal: government lands that are recorded as state property in the name of the GoN, public lands that are allowed for particular public uses of the GoN, private property in the name of individual land owners, and religious property that can be registered in the name of trusts.⁶⁹ Most arable lands have a title, though titles are not

56 CIA World Factbook, October 2017.

57 U.S. Department of State, 2016.

58 U.S. Department of State, 2016.

59 U.S. Department of State, 2016.

60 U.S. Department of State, 2016.

61 Human Rights Watch, 2 May 2017.

62 Khanal, December 2009.

63 Reuters, 11 August 2016.

64 International Dalit Solidarity Network, 2015.

65 Reuters, 11 August 2016.

66 Reuters, 11 August 2016.

67 Reuters, 11 August 2016.

68 U.S. Department of State, 2016.

69 GoN: Ministry of Land Reform and Management, 5 October 2017

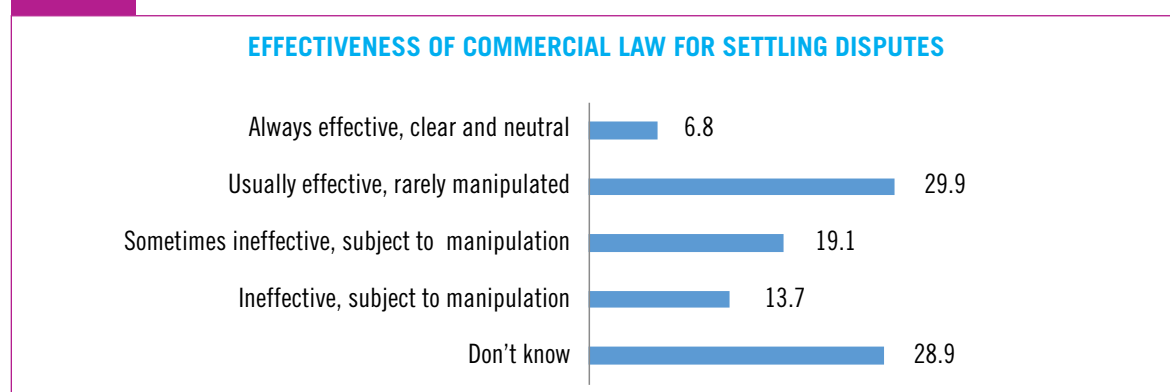
always acquired and administered in legal ways.⁷⁰ Lands and properties were seized during the Maoist insurgency, and many of these have been returned, though a significant number of conflict-era land disputes remain outstanding.⁷¹

The 2002 Copyright Act and the 1965 Patent, Design and Trademark Act outline the terms and conditions of intellectual property protection in Nepal.⁷² The Copyright Act covers electronic audio and visual materials and imposes fines and imprisonment on violators, but it does not meet the standards for trade-related intellectual property rights required by the WTO.⁷³ In 2017 the GoN released a national intellectual property policy that provides a roadmap to developing an intellectual protection system that would significantly improve the investment climate in Nepal.⁷⁴ Legal protections for geographical indications and traditional knowledge, in particular, are important, as these will allow rural producers to enter niche markets.⁷⁵

There are no regulations specifically addressing land lease or acquisition by foreign or non-resident investors; the Foreign Investment and Technology Transfer Act of 1992 that governs foreign investment in general and related laws clearly stipulates that investors can own property and that the title rests with the business, not the owner.⁷⁶ Problems with property management and securing property rights include weak data management, as record keeping systems are fragile and paper-based and often have outdated information.⁷⁷ There is a lack of proper knowledge in the management of land information and land administration systems, particularly with respect to the use of more modern geospatial tools and technology.⁷⁸

When asked about the effectiveness of commercial law in Nepal for settling disputes, 29.9% of respondents thought it was usually effective and rarely manipulated. 28.9% said they did not know, 19.1% of survey respondents found commercial law to be sometimes ineffective and subject to manipulation when settling disputes, 13.1% found it ineffective and subject to manipulation, and 6% found it always effective, clear, and neutral.

Figure 36: Perception of the Effectiveness of Commercial Law for Settling Disputes



Source: EESE Survey

70 U.S. Department of State, 2016.

71 U.S. Department of State, 2016.

72 U.S. Department of State, 2016.

73 U.S. Department of State, 2016.

74 Intellectual Property Watch, 9 June 2017.

75 Intellectual Property Watch, 9 June 2017.

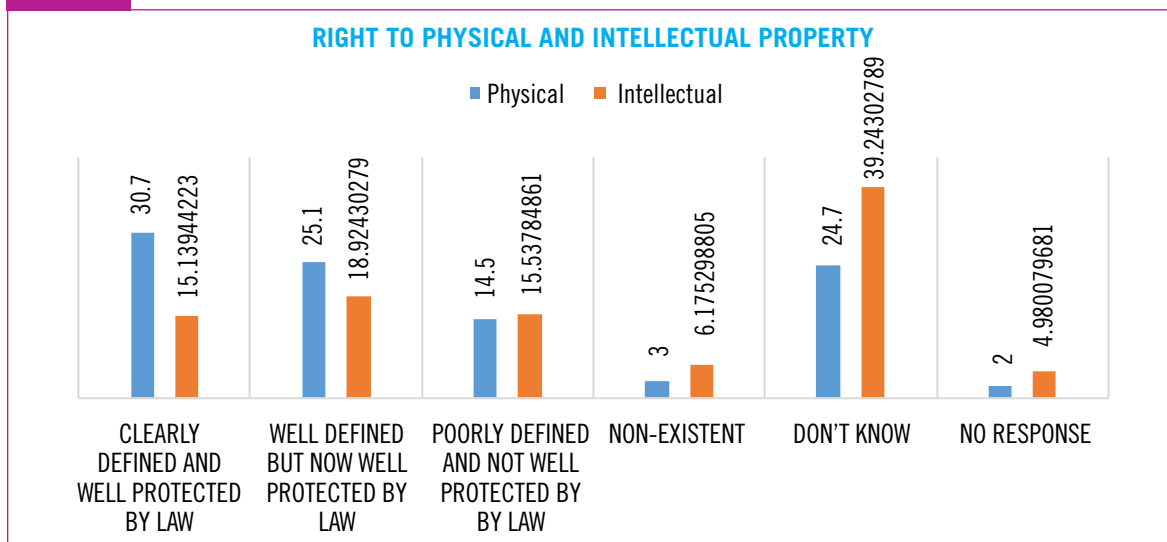
76 U.S. Department of State, 2016.

77 GoN: Ministry of Land Reform and Management, 5 October 2017.

78 GoN: Ministry of Land Reform and Management, 5 October 2017.

A majority of survey respondents were sceptical about the capacity of the police to protect businesses from criminal activities; 34% of respondents felt the police had low capacity for this, 30% thought the capacity was adequate, 15% thought the capacity was very low, 8% thought it was high, and 6% thought it was very high.

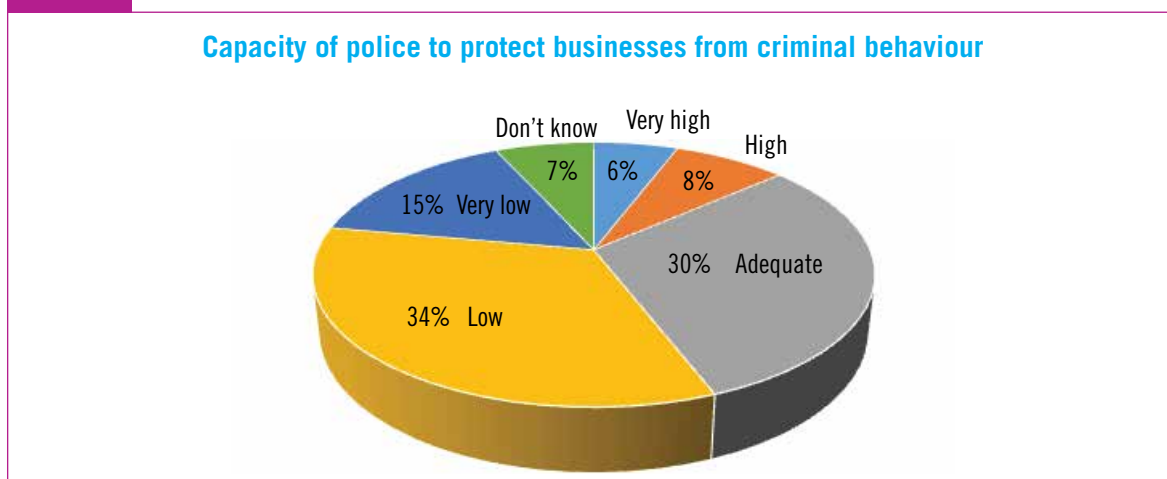
Figure 37: Perceptions of the Right to Physical and Intellectual Property



Source: EESE Survey

When asked about the perception of secure physical rights, almost one third, 30.7%, of respondents said they were clearly defined and well protected by law, while 25.1% felt that they were well defined but not well protected by law, 24.7% said they didn't know, 14.5% said they were poorly defined and not well protected by law, and 3% said they were non-existent. In comparison, when asked about intellectual property rights, 39.2% of respondents said they did not know, 18.9% said they were well defined but poorly protected, 15.5% of respondents felt they were poorly defined and not well protected, 15.1% thought they were clearly defined and well protected, and 6.2% thought they were non-existent. When female respondents were specifically asked, 63.7% said they could enjoy the same property rights as men and could register property in their name instead of that of a male relative.

Figure 38: Perception of the Capacity of Police to Protect Businesses from Criminal Behaviour



Source: EESE Survey

According to secondary data, the rule of law indicator has improved between 2010 and 2015, going from -1.01 in 2010 to -0.70 in 2015. The Rule of Law Index measures the extent to which agents have confidence in and abide by the rules of society. This includes quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. It is measured on a scale from -2.5 to 2.5, with higher values corresponding to better governance. Nepal, with the score of -0.84, performed last next to Cambodia in 2017. Sri Lanka performed the best in the group, followed by India.

Another important indicator in this area is the Property Rights Indicator by the World Economic Forum. The World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: “Property rights in your country, including over financial assets, are 1= poorly defined and not protected by law, 7=clearly defined and well protected by law.” In 2017, Nepal had a score of 4.2, better than every country in the comparison group except India. Cambodia, with a score of 3.8, performed the worst among the peers.

The related indicator on Intellectual Property Protection is based on the World Economic Forum (WEF) Survey where business leaders are asked to provide their expert opinions on the following: “Intellectual property protection and anti-counterfeiting measures in your country are 1= weak and not enforced, 7= strong and enforced.” Nepal scored 3.5 in 2017, and is ranked somewhere in the middle of the comparison group. India, with a score of 4.4, scored the highest, whereas Cambodia, with a score of 3.1, scored the lowest.

Key Indicators																																																																	
<p>Rule of Law Index</p> <p>The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence.</p> <p>Source: World Bank, Worldwide Governance Indicators</p> <p>Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p>	<table border="1"> <thead> <tr> <th></th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>-0.98</td> <td>-1.00</td> <td>-0.85</td> <td>-0.80</td> <td>-0.75</td> <td>-0.80</td> <td>-0.77</td> </tr> <tr> <td>Cambodia</td> <td>-1.12</td> <td>-1.05</td> <td>-0.98</td> <td>-1.00</td> <td>-0.96</td> <td>-0.98</td> <td>-1.10</td> </tr> <tr> <td>India</td> <td>-0.04</td> <td>-0.09</td> <td>-0.07</td> <td>-0.06</td> <td>-0.06</td> <td>-0.05</td> <td>-0.07</td> </tr> <tr> <td>Sri Lanka</td> <td>-0.12</td> <td>-0.12</td> <td>-0.12</td> <td>-0.28</td> <td>-0.17</td> <td>0.04</td> <td>-0.01</td> </tr> <tr> <td>Uganda</td> <td>-0.40</td> <td>-0.36</td> <td>-0.35</td> <td>-0.34</td> <td>-0.39</td> <td>-0.39</td> <td>-0.24</td> </tr> <tr> <td>Nepal</td> <td>-0.95</td> <td>-0.89</td> <td>-0.74</td> <td>-0.72</td> <td>-0.65</td> <td>-0.68</td> <td>-0.84</td> </tr> <tr> <td>Bangladesh</td> <td>-0.80</td> <td>-0.73</td> <td>-0.93</td> <td>-0.87</td> <td>-0.78</td> <td>-0.75</td> <td>-0.59</td> </tr> </tbody> </table>		2010	2011	2012	2013	2014	2015	2016	Lao PDR	-0.98	-1.00	-0.85	-0.80	-0.75	-0.80	-0.77	Cambodia	-1.12	-1.05	-0.98	-1.00	-0.96	-0.98	-1.10	India	-0.04	-0.09	-0.07	-0.06	-0.06	-0.05	-0.07	Sri Lanka	-0.12	-0.12	-0.12	-0.28	-0.17	0.04	-0.01	Uganda	-0.40	-0.36	-0.35	-0.34	-0.39	-0.39	-0.24	Nepal	-0.95	-0.89	-0.74	-0.72	-0.65	-0.68	-0.84	Bangladesh	-0.80	-0.73	-0.93	-0.87	-0.78	-0.75	-0.59
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Intellectual Property Protection		2013	2014	2015	2016	2017
The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “Intellectual property protection and anti-counterfeiting measures in your country are 1=weak and not enforced, 7=strong and enforced.”	Nepal	2.9	2.9	3.1	3.4	3.5
	Bangladesh	2.6	2.5	2.6	3	3.2
	Cambodia	3.2	2.8	2.8	3.0	3.1
	India	3.7	3.7	4.2	4.5	4.4
	Lao PDR	3.8	3.6	3.4	3.6	3.8
	Sri Lanka	3.8	3.9	4.4	4.5	4.2
	Uganda	2.8	2.7	3.3	3.5	3.4

Source: World Economic Forum, The Global Competitiveness Report.

3.5. Fair competition

As a precondition for private sector and sustainable enterprises development and growth, it is important to have competition rules, including those ensuring respect for labour and social standards. Additionally, anti-competitive practices at the national level must be eliminated.

The 2007 Competition Promotion and Market Protection Act controls anti-competitive practices and protects consumers against monopolies; fair competition needs to be promoted for the growth of trade and commerce, and this act includes provisions to oversee mergers and acquisition which might create potential monopolies.⁷⁹ The 2007 Act established the Competition Promotion and Market Protection Board, which is chaired by the Secretary of the Ministry of Commerce, to enhance fair market competition.⁸⁰ It also contains provisions to control black-market activities and misleading advertisements.⁸¹

Economic reforms, deregulation, privatization of industries under government control, and liberalized policies towards FDI were introduced in the early 1990s, during which sectors such as telecommunications, civil aviation, coal imports, print and electronic media, insurance and hydropower generation were opened up to private investment.⁸² The Privatization Act of 1994 defines the procedures for the privatization of state-owned enterprises (SOEs), to broaden the participation of the private sector and improve competition.⁸³ Between 1994 and 2003, 23 SOEs were privatised, liquidated, or dissolved, and as of 2016 Nepal still has 37 SOEs.⁸⁴ The history of industrial development in Nepal has been dominated by the public sector.

The Industrial Enterprises Act of 1992, which is currently under revision, provides guidelines for economic policies to make the industrial sector more competitive; the 1997 Consumer Protection Act restricts unfair trade practices to protect consumers.⁸⁵ The enforcement of these laws can be irregular in Nepal, creating the opportunity for anti-competitive practices. SOEs like the Nepal Oil Company, which handles all of the imports of petroleum products for the country, are prone to excessive politicisation

79 U.S. Department of State, July 2016.

80 U.S. Department of State, July 2016.

81 FDI Nepal, 6 December 2017.

82 U.S. Department of State, July 2016.

83 U.S. Department of State, July 2016.

84 U.S. Department of State, July 2016.

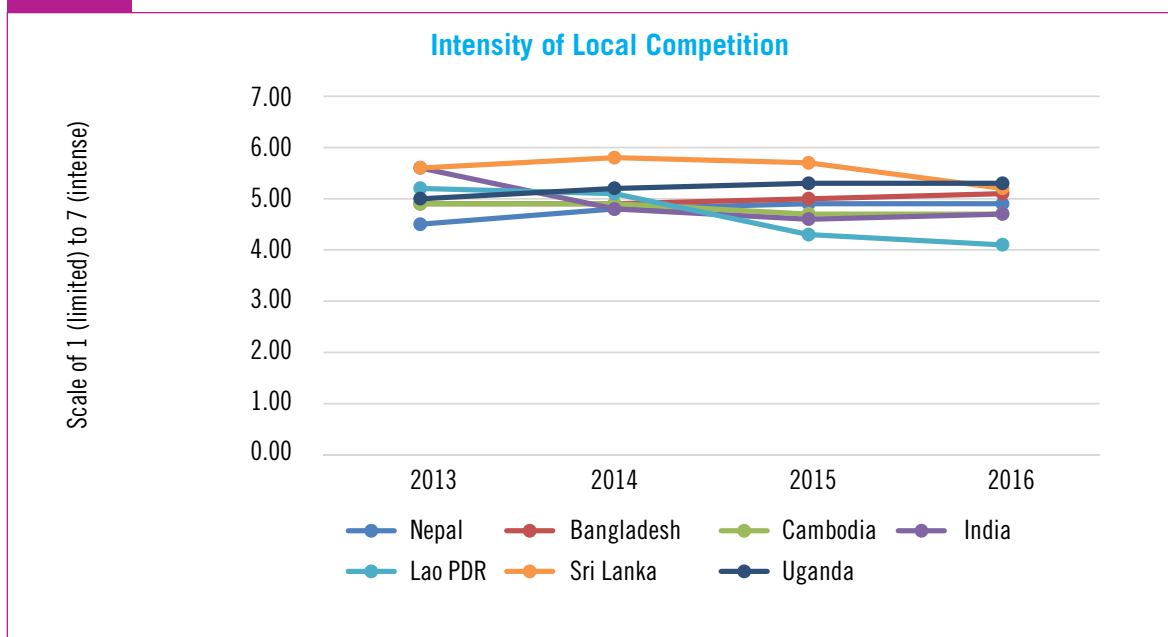
85 U.S. Department of State, July 2016.

and corruption; they also operate without accountability to tax payers and the lack of competition renders consumers vulnerable to poor economic choices and policies.⁸⁶ Key goods like petroleum and fertilizers are under the control of SOEs, which leaves consumers vulnerable to price manipulations and inefficiencies in service delivery.⁸⁷ The high degree of central planning in the economy has led to corrupt markets, which don't meet the demands for agricultural inputs in Nepal, or for fuel.⁸⁸

Certain sectors are not open to foreign investment, including small-scale and traditional industries such as handicrafts, real estate, some kinds of primary agriculture and agribusiness, and weapons production, but in many sectors foreign and domestic private entities have the right to establish and own business enterprises.⁸⁹

One of the indicators that measures competition is the Intensity of Local Competition Index. The Intensity of Local Competition Index is based on the survey data drawn from the following questions: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)." The available data shows that Nepal has improved, going from 4.5 in 2013 to 4.8 in 2017. In 2017, Uganda performed best on this indicator, with a score of 5.3, while Bangladesh at 5.0 performed second best. Lao PDR had the lowest score at 4.2.

Figure 39: Intensity of Local Competition Index



Source: WEF: Global Competitiveness Reports

The Effectiveness of Anti-Monopoly Policies Index is based on annual survey data. The respondents are asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1 = lax and not effective at promoting competition, 7= effective and promotes competition)." According to this indicator, Nepal, in 2017, lagged behind all the other countries, with a score of 3, having dropped from 3.6 in 2013. India had the highest value at 4.4 in 2017, while Lao PDR was next highest with the score of 3.8.

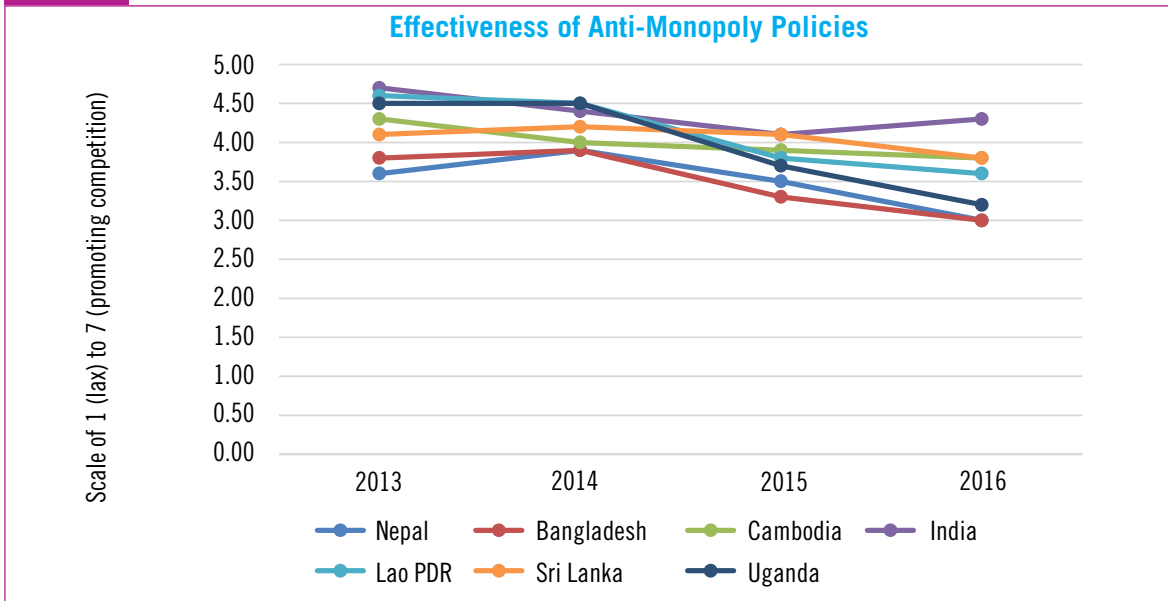
86 Atlas Network, 1 June 2015.

87 Samriddhi Foundation, 25 June 2017.

88 Atlas Network, 1 June 2015.

89 U.S. Department of State, July 2016.

Figure 40: Effectiveness of Anti-Monopoly Policies



Source: WEF: Global Competitiveness Reports

Key Indicators						
Intensity of local competition index		2013	2014	2015	2016	2017
Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)."	Nepal	4.5	4.8	4.9	4.9	4.8
	Bangladesh	4.9	4.9	5.0	5.1	5.0
	Cambodia	4.9	4.9	4.7	4.7	4.8
	India	5.6	4.8	4.6	4.7	4.7
	Lao PDR	5.2	5.1	4.3	4.1	4.2
	Sri Lanka	5.6	5.8	5.7	5.2	4.8
	Uganda	5	5.2	5.3	5.3	5.3
Source: World Economic Forum, The Global Competitiveness Report.						
Effectiveness of anti-monopoly policies		2013	2014	2015	2016	2017
Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Anti-monopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)."	Nepal	3.6	3.9	3.5	3.0	3.0
	Bangladesh	3.8	3.9	3.3	3.0	3.1
	Cambodia	4.3	4.0	3.9	3.8	3.7
	India	4.7	4.4	4.1	4.3	4.4
	Lao PDR	4.6	4.5	3.8	3.6	3.8
	Sri Lanka	4.1	4.2	4.1	3.8	3.5
	Uganda	4.5	4.5	3.7	3.2	3.2
Source: World Economic Forum, The Global Competitiveness Report.						

<p>Extent of market dominance index</p> <p>Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: “Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms).”</p> <p>Source: World Economic Forum, The Global Competitiveness Report.</p>	<table border="1"> <thead> <tr> <th></th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>Nepal</td> <td>2.7</td> <td>2.9</td> <td>2.9</td> <td>2.7</td> <td>2.8</td> </tr> <tr> <td>Bangladesh</td> <td>3.3</td> <td>3.3</td> <td>3.2</td> <td>3.0</td> <td>3.0</td> </tr> <tr> <td>Cambodia</td> <td>3.8</td> <td>3.5</td> <td>3.4</td> <td>3.8</td> <td>3.6</td> </tr> <tr> <td>India</td> <td>4.4</td> <td>4.2</td> <td>4.0</td> <td>4.2</td> <td>4.4</td> </tr> <tr> <td>Lao PDR</td> <td>4.4</td> <td>4.2</td> <td>4.2</td> <td>4.2</td> <td>4.1</td> </tr> <tr> <td>Sri Lanka</td> <td>4.2</td> <td>4.0</td> <td>4.1</td> <td>3.8</td> <td>3.6</td> </tr> <tr> <td>Uganda</td> <td>3.1</td> <td>3.1</td> <td>3.0</td> <td>3.1</td> <td>2.9</td> </tr> </tbody> </table>		2013	2014	2015	2016	2017	Nepal	2.7	2.9	2.9	2.7	2.8	Bangladesh	3.3	3.3	3.2	3.0	3.0	Cambodia	3.8	3.5	3.4	3.8	3.6	India	4.4	4.2	4.0	4.2	4.4	Lao PDR	4.4	4.2	4.2	4.2	4.1	Sri Lanka	4.2	4.0	4.1	3.8	3.6	Uganda	3.1	3.1	3.0	3.1	2.9																																
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3.6. Information and communication technologies

With the continuing shift towards knowledge-based economies, the use of information and communication technologies is fundamental to the development of sustainable enterprises. Affordable access to information and communication technologies (ICT) enhances competitiveness and innovation. Countries that want to increase their competitiveness on the market need to invest in ICT and foster an ICT culture both at company and household levels to increase the usage of ICT in all segments of the community. ICTs have great transformative potential when situated in the larger context of far reaching long term developmental aspirations.

ICT sector policies are decided by the Department of Information Technology under the Ministry of Science and Technology.⁹⁰ A draft National Information and Communication Technology Policy produced in 2015 remains under discussion, which aims to mainstream the use of ICTs in all key sectors of the economy, including increased e-governance.⁹¹ Regulation of the telecommunications sector is carried out by the Nepal Telecommunications Authority, which provides approval and registration for all telecommunications services, though not online.⁹²

There have been some significant improvements in levels of connectivity in the last decade, mostly around increased mobile internet connectivity.⁹³ A 2017 Nepal Telecommunications Authority Management Information System report showed that more than one in two Nepalis use the internet;

⁹⁰ ODI, October 2017.

⁹¹ ODI, October 2017.

⁹² US. Department of State, July 2016.

⁹³ ODI, October 2017.

there were 16.7 million data and internet service users, which is over 63% of the population.⁹⁴ Most of the growth has come from the increased use of mobile phones. Nepal Telecom is the state-run telecommunications provider and commands 53.36% of the market share in terms of data; Ncell, a private service provider, is next largest with 42.81% of the market.⁹⁵ There is a greater level of internet usage by Nepali firms than in other South Asian countries; 26% of firms in Nepal have their own website, while 21.9% do in South Asia and 18.6% do in low-income countries overall.⁹⁶

The GoN has identified information technology (IT) and business process outsourcing as a priority potential export service sector with the potential to generate high growth, investment, and significant profits in coming years.⁹⁷ An IT Park is being established in the Kavre District, where software development will be fostered and IT-based businesses promoted, as well as investment in related fields.⁹⁸ There is an emphasis on transitioning to e-governance, to facilitate lower corruption, and better processes. Additionally, the planned installation of fibre optic cables across the country should expand Internet access significantly.⁹⁹ The use of technology to improve health outcomes and living standards, towards the achievement of the SDGs, has also been envisioned.¹⁰⁰ However, connectivity between government offices and departments remains poor, which makes implementation difficult.

Some of the factors that currently limit the growth of ICT use and the ICT sector in Nepal include the lack of experienced and skilled workers, migration of qualified personnel, and the lack of national infrastructure, as limited connectivity and low bandwidth hinder growth, as does limited energy supply.¹⁰¹

Until 2016 Nepal was dependent on India, as the only fibre optic cables for global telecom and internet services went through India; however, as of 2016 internet services through China have become available with Nepal Telecom and China Telecom Global coming to an agreement on the provision of internet protocol services.¹⁰²

A majority of survey respondents perceive the legal framework for the use of ICTs to be satisfactory. 43.8% of respondents were satisfied with the legal framework, 23.7% thought it was under developed, 22.1% said they did not know, while 4.8% each thought it was non-existent, and well developed and enforced .

94 Nepal Telecommunications Authority, February 2017.

95 Nepal Telecommunications Authority, February 2017.

96 ODI, October 2017.

97 FNCCI, 2017.

98 FNCCI, 2017.

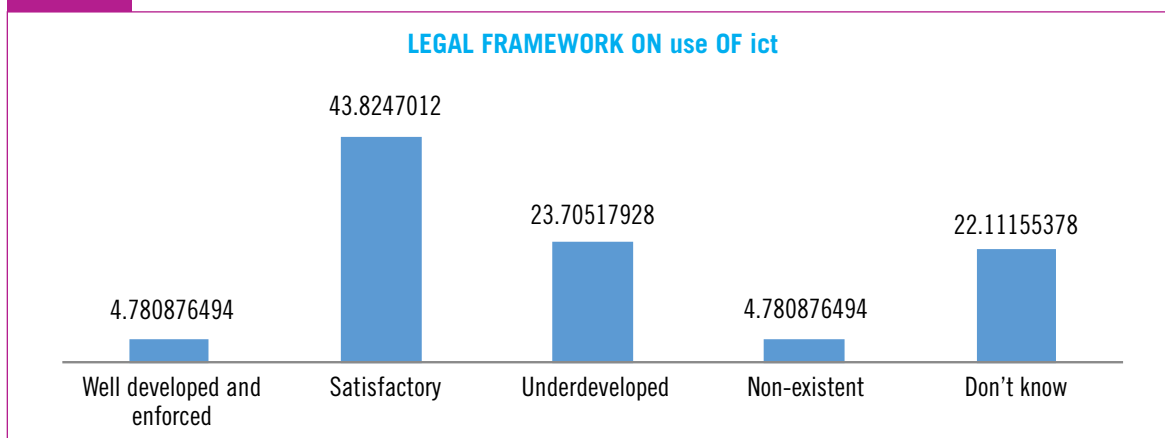
99 My Republica, 15 October 2017.

100 My Republica, 15 October 2017.

101 ODI, October 2017.

102 Daily News and Analysis India, 13 July 2017.

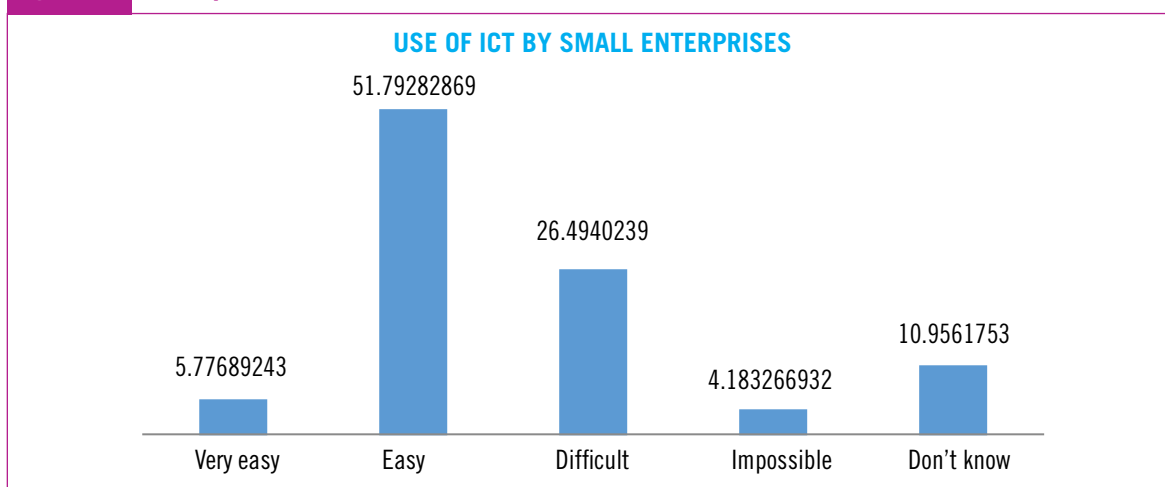
Figure 41: Perception of the Legal Framework for ICTs



Source: EESE Survey

Following the rapid progress of the ICT sector globally, 51.8% of the survey respondents from small enterprises perceived the access of small enterprises to ICT to be easy. 26.5% of respondents from small enterprises found access to ICTs difficult, 11% did not know, 5.8% found it very easy, and 4.2% found access to be impossible.

Figure 42: Perception of Ease of Access to ICTs

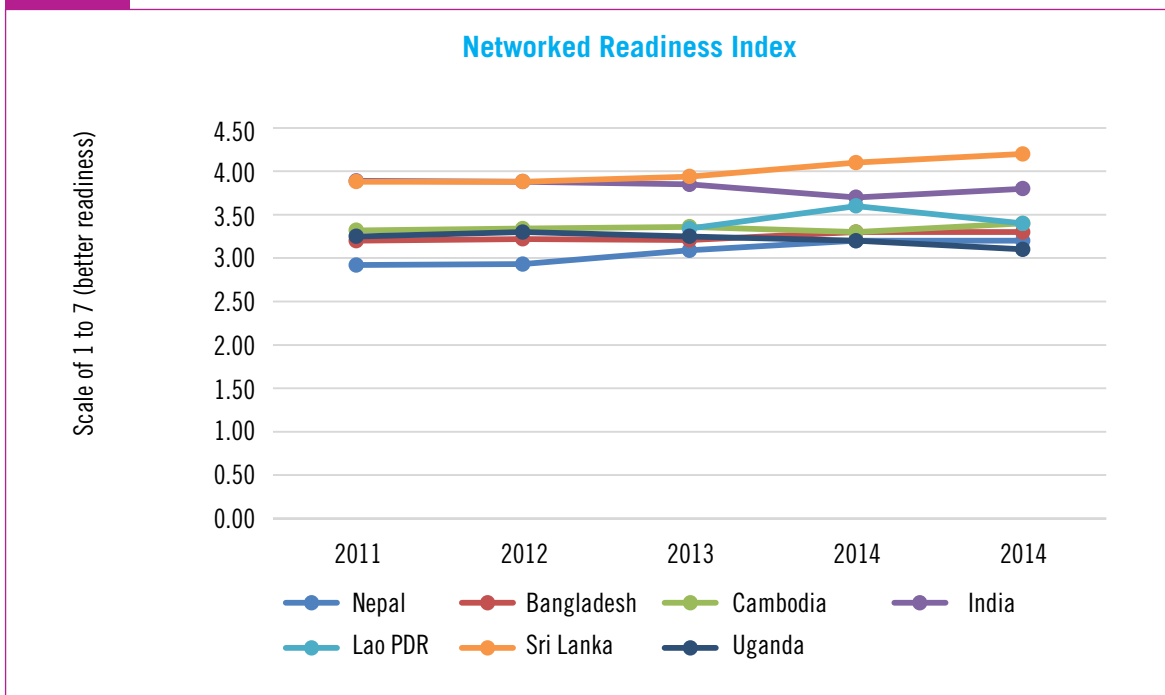


Source: EESE Survey

In terms of use of ICT specifically by women, 30.4% of the women surveyed believed that they had the same access to ICTs as men, while 69.6% thought this was not the case. 62.7% of women surveyed believed that the optimum use of ICTs in their businesses would enable women-led enterprises to raise their competitive value in the market.

The Networked Readiness Index measures the degree to which developed and developing countries across the world leverage ICTs for enhanced competitiveness. In relation to the NRI there are no substantial differences between the compared countries, with Nepal at 3.2 in 2015 (the lowest value in that year was Uganda with 3.1), while Sri Lanka was the highest at 4.2. Bangladesh was at 3.3 in 2015, Cambodia and Lao DR were at 3.4, and India was at 3.8, showing that the comparison countries were not too different.

Figure 43: Networked Readiness Index



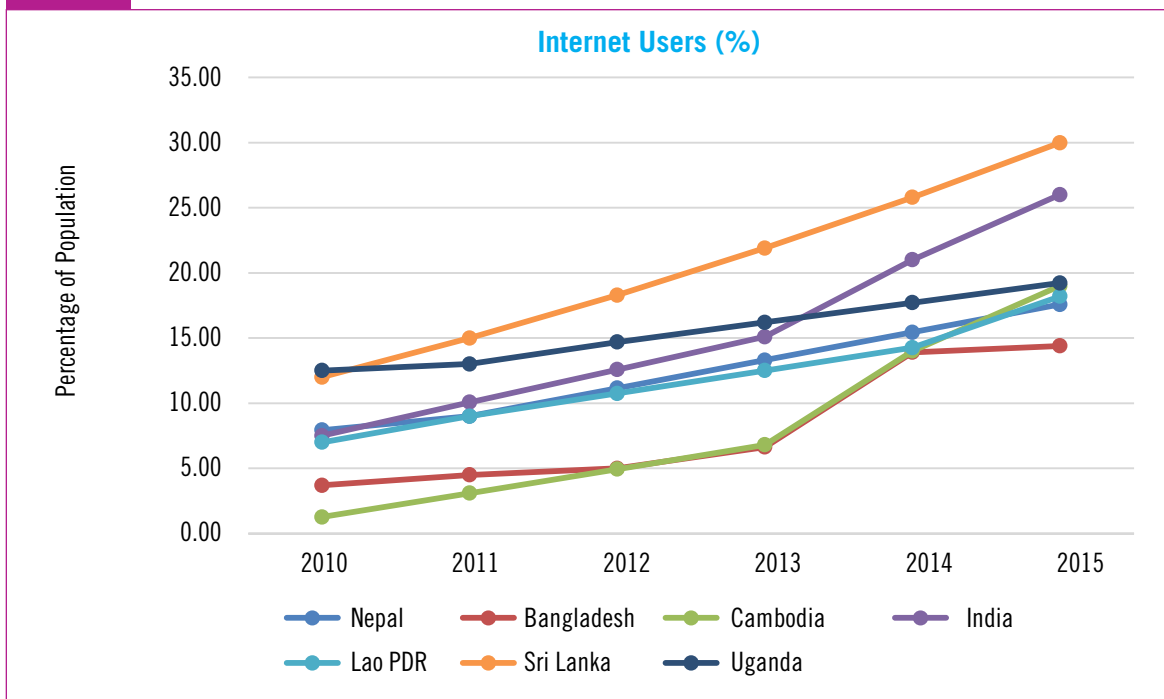
Source: WEF: Global Information Technology Reports

The most important indicators for development of ICT in a country are the number of Internet users and the number of mobile and fixed-telephone subscriptions. Here again Nepal is among the well-connected countries among those used for comparison. In 2017, Nepal’s internet users were 63.17 % of the total population.¹⁰³ In 2015, Sri Lanka had the highest proportion of internet users with 29.99% of the population, followed by India at 26%; Bangladesh was the lowest of the comparison countries at 14.40% in the same year. Nepal has a relatively high density of mobile-cellular telephone subscriptions, at 136.34 % of the population in 2017.¹⁰⁴

103 MIS Report (December 2017 to January 2018), Nepal Telecommunication Authority

104 MIS Report (December 2017 to January 2018), Nepal Telecommunication Authority

Figure 44: Internet Users (per 100 habitants)



Source: World Bank, World Development Indicators

Key Indicators																																																									
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IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally, and at the country level. These are related to ICT access, use and skills, such as households with a computer, the number of Internet users, and literacy levels.																																																									
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<p>Networked Readiness Index</p> <p>The NRI measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub-indexes that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.</p> <p>Scale of 1 to 7, with higher scores reflecting a better readiness to utilize the opportunities created by ICT.</p> <p>Source: World Economic Forum, Global Information Technology Reports</p>	<table border="1"> <thead> <tr> <th></th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Nepal</td> <td>2.9</td> <td>2.9</td> <td>3.1</td> <td>3.2</td> <td>3.2</td> </tr> <tr> <td>Bangladesh</td> <td>3.2</td> <td>3.2</td> <td>3.2</td> <td>3.3</td> <td>3.3</td> </tr> <tr> <td>Cambodia</td> <td>3.3</td> <td>3.3</td> <td>3.4</td> <td>3.3</td> <td>3.4</td> </tr> <tr> <td>India</td> <td>3.9</td> <td>3.9</td> <td>3.8</td> <td>3.7</td> <td>3.8</td> </tr> <tr> <td>Lao PDR</td> <td></td> <td></td> <td>3.3</td> <td>3.6</td> <td>3.4</td> </tr> <tr> <td>Sri Lanka</td> <td>3.9</td> <td>3.9</td> <td>3.9</td> <td>4.1</td> <td>4.2</td> </tr> <tr> <td>Uganda</td> <td>3.3</td> <td>3.3</td> <td>3.3</td> <td>3.2</td> <td>3.1</td> </tr> </tbody> </table>		2012	2013	2014	2015	2016	Nepal	2.9	2.9	3.1	3.2	3.2	Bangladesh	3.2	3.2	3.2	3.3	3.3	Cambodia	3.3	3.3	3.4	3.3	3.4	India	3.9	3.9	3.8	3.7	3.8	Lao PDR			3.3	3.6	3.4	Sri Lanka	3.9	3.9	3.9	4.1	4.2	Uganda	3.3	3.3	3.3	3.2	3.1																
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<p>Internet users (per 100 people)</p> <p>Internet users are individuals who have used the Internet (from any location) in the last 3 months. The Internet can be used via a computer, mobile phone, personal digital assistant, games machine, digital TV, or etc.</p> <p>Source: World Bank, World Development Indicators</p>	<table border="1"> <thead> <tr> <th></th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Nepal</td> <td>7.9</td> <td>9.0</td> <td>11.1</td> <td>13.3</td> <td>15.4</td> <td>17.6</td> <td>19.7</td> </tr> <tr> <td>Bangladesh</td> <td>3.7</td> <td>4.5</td> <td>5.0</td> <td>6.6</td> <td>13.9</td> <td>14.4</td> <td>18.2</td> </tr> <tr> <td>Cambodia</td> <td>1.3</td> <td>3.1</td> <td>4.9</td> <td>6.8</td> <td>14.0</td> <td>22.3</td> <td>32.4</td> </tr> <tr> <td>India</td> <td>7.5</td> <td>10.1</td> <td>12.6</td> <td>15.1</td> <td>21.0</td> <td>26.0</td> <td>29.5</td> </tr> <tr> <td>Lao PDR</td> <td>7.0</td> <td>9.0</td> <td>10.7</td> <td>12.5</td> <td>14.3</td> <td>18.2</td> <td>21.9</td> </tr> <tr> <td>Sri Lanka</td> <td>12.0</td> <td>15.0</td> <td>18.3</td> <td>21.9</td> <td>25.8</td> <td>30.0</td> <td>32.1</td> </tr> <tr> <td>Uganda</td> <td>12.5</td> <td>13.0</td> <td>14.1</td> <td>15.5</td> <td>16.9</td> <td>17.8</td> <td>21.9</td> </tr> </tbody> </table>		2010	2011	2012	2013	2014	2015	2016	Nepal	7.9	9.0	11.1	13.3	15.4	17.6	19.7	Bangladesh	3.7	4.5	5.0	6.6	13.9	14.4	18.2	Cambodia	1.3	3.1	4.9	6.8	14.0	22.3	32.4	India	7.5	10.1	12.6	15.1	21.0	26.0	29.5	Lao PDR	7.0	9.0	10.7	12.5	14.3	18.2	21.9	Sri Lanka	12.0	15.0	18.3	21.9	25.8	30.0	32.1	Uganda	12.5	13.0	14.1	15.5	16.9	17.8	21.9
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Bangladesh	3.7	4.5	5.0	6.6	13.9	14.4	18.2																																																										
Cambodia	1.3	3.1	4.9	6.8	14.0	22.3	32.4																																																										
India	7.5	10.1	12.6	15.1	21.0	26.0	29.5																																																										
Lao PDR	7.0	9.0	10.7	12.5	14.3	18.2	21.9																																																										
Sri Lanka	12.0	15.0	18.3	21.9	25.8	30.0	32.1																																																										
Uganda	12.5	13.0	14.1	15.5	16.9	17.8	21.9																																																										
<p>Fixed-telephone subscriptions (per 100 inhabitants)</p> <p>Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network.</p> <p>Source: World Bank, World Development Indicators</p>	<table border="1"> <thead> <tr> <th></th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Nepal</td> <td>3.1</td> <td>3.1</td> <td>3.0</td> <td>3.0</td> <td>3.02.98</td> <td>3.0</td> <td>3.0</td> </tr> <tr> <td>Bangladesh</td> <td>0.8</td> <td>0.6</td> <td>0.6</td> <td>0.7</td> <td>0.6</td> <td>0.5</td> <td>0.5</td> </tr> <tr> <td>Cambodia</td> <td>2.5</td> <td>3.6</td> <td>4.0</td> <td>2.8</td> <td>2.4</td> <td>1.7</td> <td>1.4</td> </tr> <tr> <td>India</td> <td>2.9</td> <td>2.6</td> <td>2.4</td> <td>2.3</td> <td>2.1</td> <td>1.9</td> <td>1.8</td> </tr> <tr> <td>Lao PDR</td> <td>1.7</td> <td>1.7</td> <td>7.0</td> <td>10.8</td> <td>14.0</td> <td>14.4</td> <td>18.7</td> </tr> <tr> <td>Sri Lanka</td> <td>17.7</td> <td>17.8</td> <td>16.9</td> <td>13.2</td> <td>13.1</td> <td>15.9</td> <td>11.9</td> </tr> <tr> <td>Uganda</td> <td>1.0</td> <td>1.3</td> <td>0.9</td> <td>0.7</td> <td>0.8</td> <td>0.8</td> <td>0.9</td> </tr> </tbody> </table>		2010	2011	2012	2013	2014	2015	2016	Nepal	3.1	3.1	3.0	3.0	3.02.98	3.0	3.0	Bangladesh	0.8	0.6	0.6	0.7	0.6	0.5	0.5	Cambodia	2.5	3.6	4.0	2.8	2.4	1.7	1.4	India	2.9	2.6	2.4	2.3	2.1	1.9	1.8	Lao PDR	1.7	1.7	7.0	10.8	14.0	14.4	18.7	Sri Lanka	17.7	17.8	16.9	13.2	13.1	15.9	11.9	Uganda	1.0	1.3	0.9	0.7	0.8	0.8	0.9
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Nepal	3.1	3.1	3.0	3.0	3.02.98	3.0	3.0																																																										
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<p>Mobile-cellular telephone subscriptions (per 100 inhabitants)</p> <p>Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network.</p> <p>Source: World Bank, World Development Indicators</p>	<table border="1"> <thead> <tr> <th></th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Nepal</td> <td>34.0</td> <td>48.9</td> <td>60.1</td> <td>76.3</td> <td>81.3</td> <td>96.0</td> <td>110.8</td> </tr> <tr> <td>Bangladesh</td> <td>44.6</td> <td>54.8</td> <td>62.4</td> <td>74.0</td> <td>79.6</td> <td>81.5</td> <td>83.4</td> </tr> <tr> <td>Cambodia</td> <td>57.0</td> <td>94.6</td> <td>129.3.53</td> <td>134.9</td> <td>133.9</td> <td>134.4</td> <td>126.3</td> </tr> <tr> <td>India</td> <td>61.1</td> <td>71.7</td> <td>68.5</td> <td>69.3</td> <td>73.0</td> <td>76.5</td> <td>85.2</td> </tr> <tr> <td>Lao PDR</td> <td>64.1</td> <td>86.5</td> <td>67.0</td> <td>71.0</td> <td>70.2</td> <td>55.9</td> <td>58.6</td> </tr> <tr> <td>Sri Lanka</td> <td>85.9</td> <td>90.2</td> <td>94.7</td> <td>99.0</td> <td>107.3</td> <td>115.4</td> <td>124.0</td> </tr> <tr> <td>Uganda</td> <td>37.8</td> <td>47.6</td> <td>45.1</td> <td>48.1</td> <td>52.4</td> <td>50.4</td> <td>55.0</td> </tr> </tbody> </table>		2010	2011	2012	2013	2014	2015	2016	Nepal	34.0	48.9	60.1	76.3	81.3	96.0	110.8	Bangladesh	44.6	54.8	62.4	74.0	79.6	81.5	83.4	Cambodia	57.0	94.6	129.3.53	134.9	133.9	134.4	126.3	India	61.1	71.7	68.5	69.3	73.0	76.5	85.2	Lao PDR	64.1	86.5	67.0	71.0	70.2	55.9	58.6	Sri Lanka	85.9	90.2	94.7	99.0	107.3	115.4	124.0	Uganda	37.8	47.6	45.1	48.1	52.4	50.4	55.0
	2010	2011	2012	2013	2014	2015	2016																																																										
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Uganda	37.8	47.6	45.1	48.1	52.4	50.4	55.0																																																										

Fixed (wired)-broadband subscriptions (per 100 inhabitants)	2010	2011	2012	2013	2014	2015	2016
	Nepal	0.2	0.3	0.8	1.1	0.9	1.1
Bangladesh	0.3	0.3	0.4	1.0	1.9	3.0	4.0
Cambodia	0.2	0.2	0.2	0.2	0.4	0.5	0.6
India	0.9	1.1	1.2	1.2	1.2	1.3	1.4
Lao PDR	0.1	0.1	0.1	0.1	0.2	0.6	0.4
Sri Lanka	1.1	1.8	1.7	2.1	2.8	3.0	4.3
Uganda	0.0	0.1	0.1	0.1	0.1	0.2	0.3

Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies.

Source: World Bank, World Development Indicators

3.7. Access to financial services

One of the key factors for the development of an economy and its companies is the existence of good and affordable financial services. This is of special importance for all kinds of companies, regardless of their size or the sector they operate in. The financial sector is important for the promotion and encouragement of new companies but also to support existing companies to increase production and exports of their products and services. Sources of financing are often one of the main barriers for existing and potential entrepreneurs in most countries. A good financial system includes not only affordable interest rates, but also flexible ways of gauging collateral among others. Promoting financial inclusion in Nepal would grow the financial sector and drive inclusive economic growth. Financial literacy is crucial for better access to financial services in Nepal.

Financial services in Nepal are provided by formal entities, like banks, microfinance institutions (MFIs), and cooperatives, as well as informal entities like money lenders and un-registered savings groups.¹⁰⁵ Since most people in Nepal work in agriculture, there are seasonal patterns of income, though expenditures must be made in all seasons. Nepal's geography, which consists of mountains, hills, and plains, makes providing financial services in every single part of the country a challenge. Access to financial services could be improved by using technology-driven alternative delivery methods to improve accessibility, developing need-based innovative financial products, improving the focus on financial literacy and awareness of financial services, and improving mechanisms to monitor client protection.¹⁰⁶

Nepal has a large number of banks and financial institutions relative to the size of the economy.¹⁰⁷ Nepal's central Bank is the Nepal Rastra Bank (NRB), which is responsible for the licensing and regulation of financial institutions under the Nepal Rastra Bank Act of 2002.¹⁰⁸ As of January 2016, there were 30 commercial banks, 73 development banks, and 48 finance companies registered with NRB, but this does not include MFIs, saving and credit cooperatives, NGOs, and other institutions which may provide financial services.¹⁰⁹

Microcredit development banks in Nepal are governed by the Development Bank Act of 1996 and the 2006 Banks and Financial Institutions Act, while savings and credit cooperatives are guided by

¹⁰⁵ UNCDF, November 2014.

¹⁰⁶ UNCDF, November 2014.

¹⁰⁷ U.S. Department of State, July 2016.

¹⁰⁸ U.S. Department of State, July 2016.

¹⁰⁹ U.S. Department of State, July 2016.

the Co-operative Act of 1992.¹¹⁰ In 1991 the Rural Self-Reliance Fund was established to provide credit to the rural poor for income generating activities.¹¹¹ Cooperatives, both savings and credit, are extremely active in Nepal; as of early 2013 there were 26,704 cooperatives of all types with

deposits of over USD 1.43 billion.¹¹² As the deposit mobilisation of these cooperatives increases, better reporting systems need to be introduced and appropriate regulation put in place to ensure that they comply with minimum financial standards.¹¹³

Limits on foreign ownership are imposed on the banking and financial institutions, where at the most 85% can be foreign owned.¹¹⁴ In case of new banks, since they have to issue 30% of the shares to the public in Nepal, foreign ownership is currently de facto limited to 70%. Branch operations of foreign banks are allowed in the wholesale banking sector though not in the retail banking sector, which has discouraged many international banks from entering Nepal.¹¹⁵ Foreign commercial lending tends to be scarce and expensive, and there is no centralised regulatory system to facilitate portfolio investment in the industrial sector.¹¹⁶ Greater transparency and better reporting of credit information would improve conditions for potential foreign and domestic investors alike.¹¹⁷

Several financial sector reforms were introduced since 2000 that have improved the health of the banking sector in Nepal.¹¹⁸ The NRB's Strategic Plan (2012-2016) highlights financial inclusion as a strategic priority, and the Monetary Policy of 2016/2017 also focuses on this through enhancing financial literacy and access to finance.¹¹⁹ In 2016 a Financial Sector Development Strategy running from 2016-2021 was approved by the GoN.¹²⁰ Financial access and inclusion are priority areas in the new strategy.

A Deprived Sector Lending Programme exists to promote lending in rural areas, with the NRB requiring that a fixed proportion of the lending of commercial banks must be to the deprived sector¹²¹. In the past the requirement of lending to the deprived sector had been carried out by commercial banks through MFIs. The central bank also briefly required the banks to lend a certain fraction (for example, 2% for the commercial banks) directly to the deprived sector. This requirement was reversed in 2017, with the NRB announcing that commercial banks do not have to mandatorily fulfil the two percent direct lending provision to the deprived sector in the 2017 fiscal year.¹²²

Despite the large number of branches of financial institutions, as of July 2017 there were 2,155 branches of commercial banks, 1,702 branches of MFI, 743 branches of development banks, and 130 branches of finance companies, these are still clustered around urban and

110 UNCDF, November 2014.

111 Nepal Rastra Bank, 2016.

112 UNCDF, November 2014.

113 UNCDF, November 2014.

114 U.S. Department of State, July 2016.

115 U.S. Department of State, July 2016.

116 U.S. Department of State, July 2016.

117 U.S. Department of State, July 2016.

118 UNCDF, November 2014.

119 Nepal Rastra Bank, 2016.

120 New Business Age, 2 August 2017.

121 The Himalayan Times, 18 July 2016.

122 The Himalayan Times, 23 February 2017

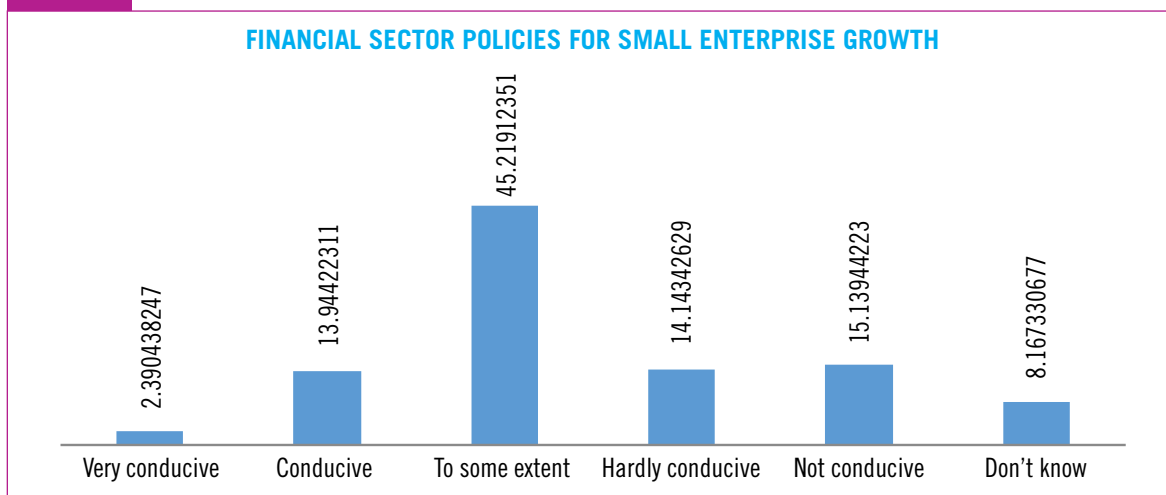
semi-urban areas.¹²³ Residents in rural areas are much more likely to remain unbanked; as of 2014 51% of urban adults had bank accounts, while about 22% of rural adults had bank accounts.¹²⁴ Based on 2014 data 61% of Nepali adults are formally banked, while 21% use only informal channels, and 18% remain completely financially excluded.¹²⁵

Branchless banking and mobile phone based payment systems have been encouraged to facilitate financial inclusion for residents in remote areas. Much of the rural population continues to remain

excluded from formal financial services. Some of the challenges to the delivery of financial services at affordable costs to rural and low-income sections of the population include poor infrastructure, inhospitable terrain, scattered household settlements, and under developed markets.¹²⁶

When asked about financial sector policies for small enterprise growth 45.2% of survey respondents said they were conducive to growth to some extent, 15.1% found them not conducive to small enterprise growth at all, 14.1% found them hardly conducive, 13.9% found them conducive, 8.2% of respondents said they did not know, and 2.4% found them to be very conducive.

Figure 45: Perception about whether Financial Sector Policies are Conducive to Small Enterprise Growth



Source: EESE Survey

The highest proportion of EESE survey respondents found access to different modes of finance difficult for formal small enterprises. 56.8% of respondents found getting a business loan difficult, 45% found getting a loan guarantee difficult, 38.6% found getting lease finance difficult, 37.6% found getting equity capital difficult, and 24.7% found getting business insurance difficult. A significant majority of people found getting business insurance to be relatively easy, at 43.8% of respondents, while a further 28.7% of respondents found getting a business loan easy.

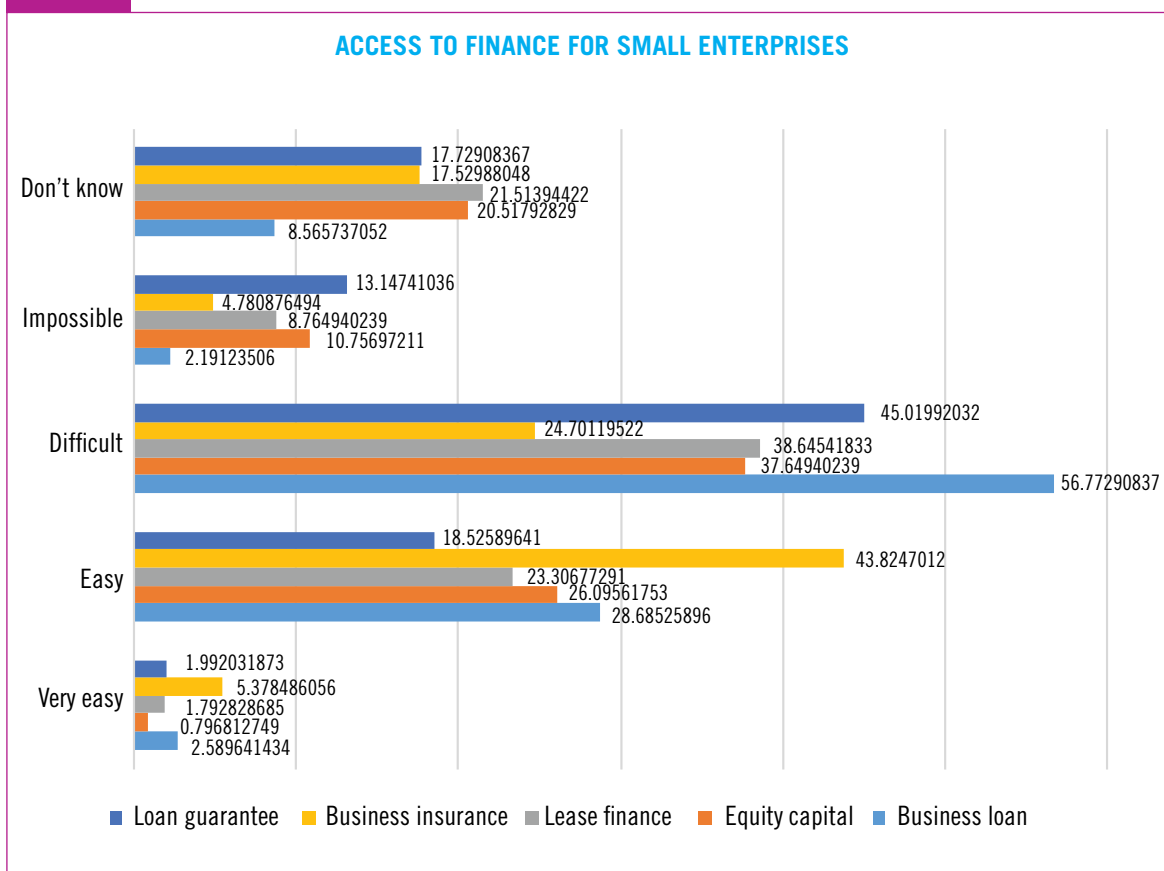
¹²³ Page 25 of [https://nrb.org.np/red/publications/study_reports/Study_Reports--Economic_Activities_Study_Report_2073-74_Table\(Annual\)-new.pdf](https://nrb.org.np/red/publications/study_reports/Study_Reports--Economic_Activities_Study_Report_2073-74_Table(Annual)-new.pdf)

¹²⁴ UNCDF, November 2014.

¹²⁵ Nepal Rastra Bank, 2016.

¹²⁶ UNCDF, November 2014.

Figure 46: Perceptions of Access to Different Modes of Finance for Formal Small Enterprises

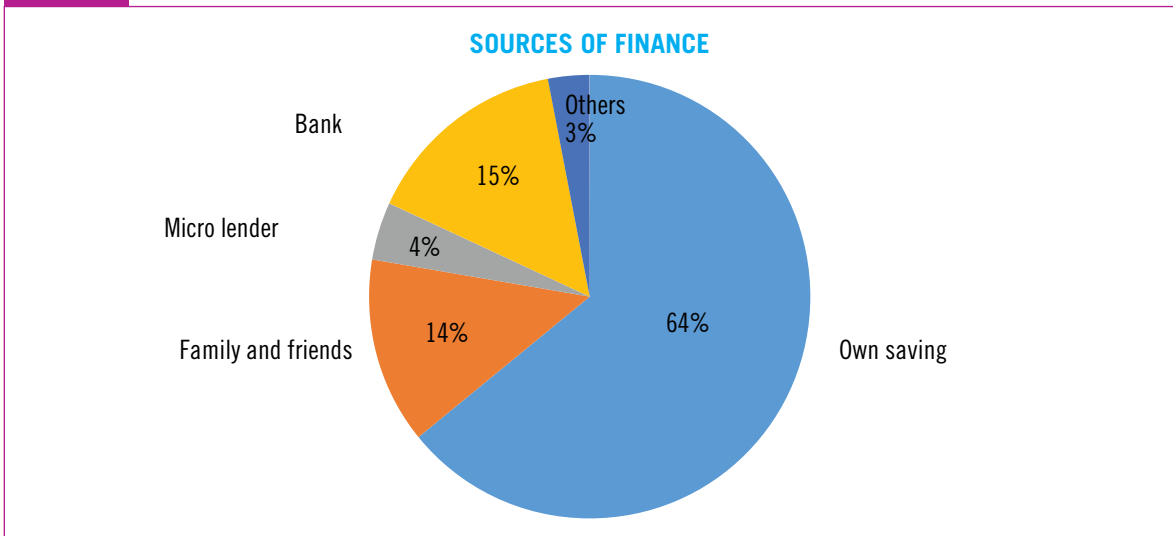


Source: EESE Survey

When asked about access to formal financial institutions, 65% of respondents from informal businesses said this was difficult; 18% found it easy, 13% did not know, and 4% found access impossible. When asked about who provided them with financial support, 51% of respondents from informal enterprises said cooperatives, with 23% getting support from a bank, 16% from family or friends, and a last 10% from NGOs.

The largest majority of survey respondents found no difference in terms of age or sex for access to finance. 26.3% of the respondents perceived that there is no difference in access to the financial services. 22.3% felt that youth face difficulties. Additionally, 10.6% of the respondents believe that young women and 3.8% of respondents feel young men face difficulties in terms of access to financial services. Based on sex, respondents perceived that more women than men face difficulties in accessing funds for their enterprise. When asked specifically, 34.3% of women entrepreneurs felt that women have easy access to loans and finance.

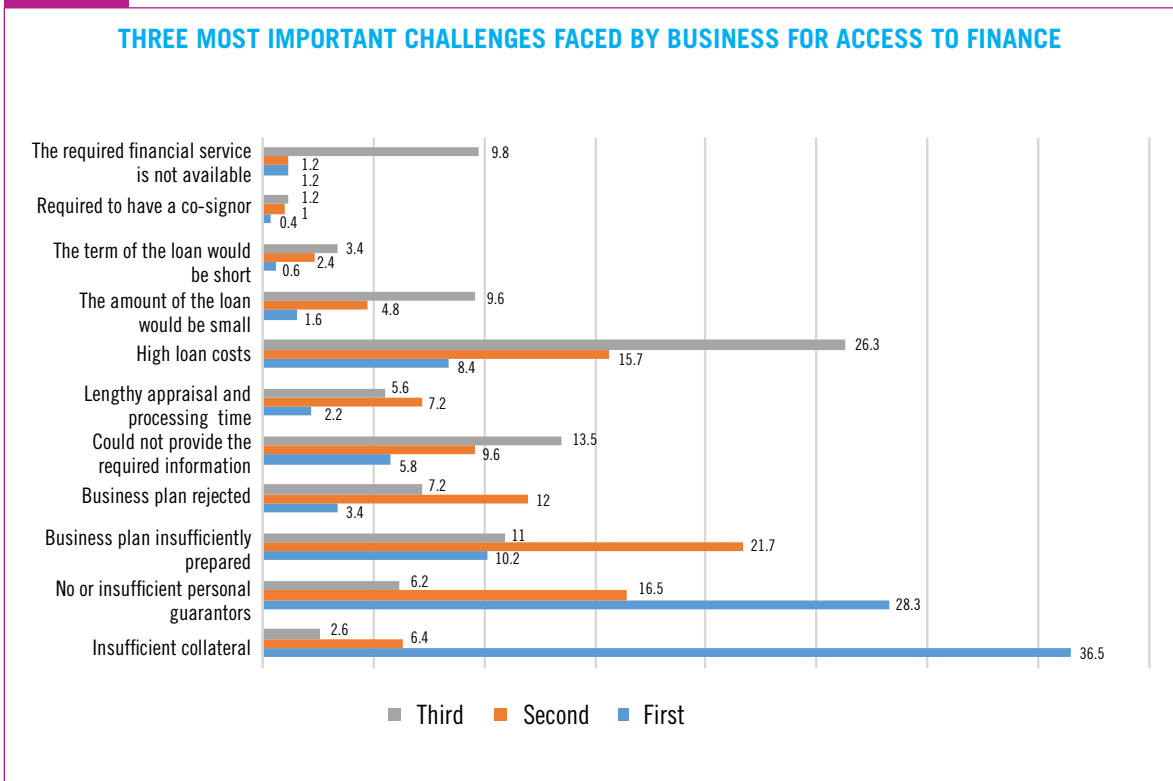
Figure 47: Sources of Finance



Source: EESE Survey

While starting an enterprise, the major source of funds used by the survey respondents was personal savings. 63.5% of respondents used personal savings. 14.9% of respondents had approached a bank for the funds while 13.5% asked for the financial support from family and friends. Other financial sources include micro-lenders, informal savings and credit groups, money lenders, venture capital and government funds. 89.2% of female respondents used their own savings, with 50% having received the required fund from the bank loans.

Figure 48: Perception of the Most Important Challenges in the Access to Finance



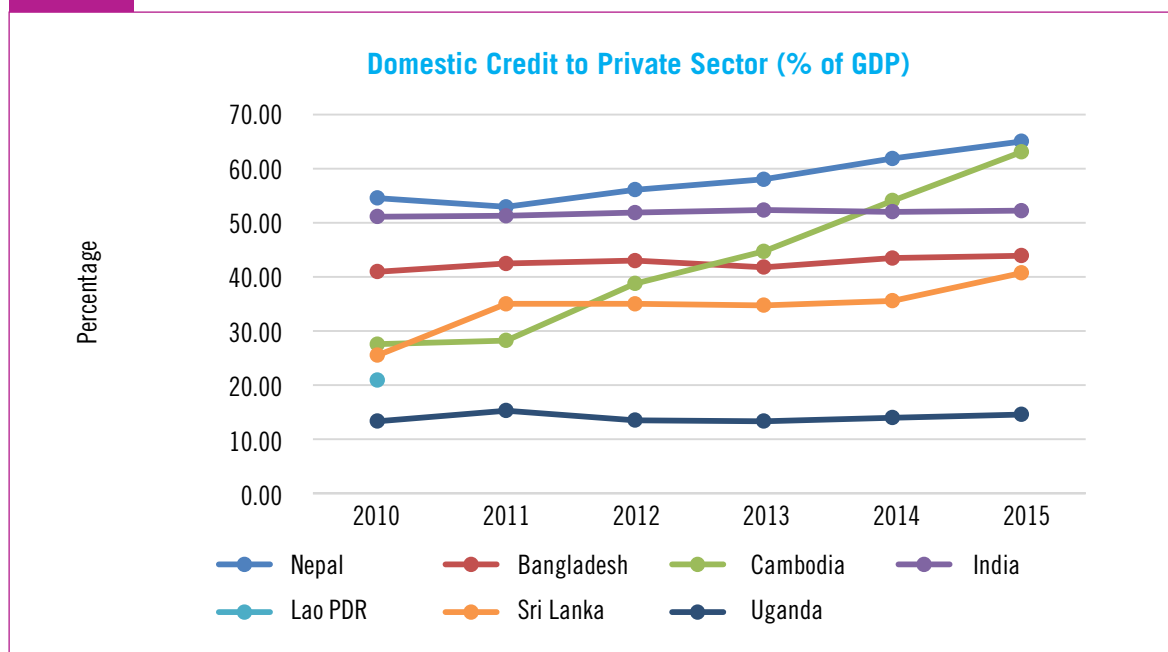
Source: EESE Survey

36.5% of respondents identified insufficient collateral as the primary challenge to accessing finance, after which insufficient personal guarantors, high loans costs, and poorly prepared business plans were also identified as significant factors.

When asked about if they had an account in a bank or financial institution, 60% of respondents said they did. Of these 60%, 73% had accounts in banks, 23% in cooperatives, and 4% were members of microfinance institutions.

The indicator of Domestic Credit to Private Sector (% of GDP) refers to financial resources provided to the private sector, such as loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment. According to the latest available data, the share of domestic credit to the private sector as a percentage of GDP is the highest in Nepal in 2016, at 81.1%; Cambodia is the next highest, while Uganda is the lowest at 15.6%.

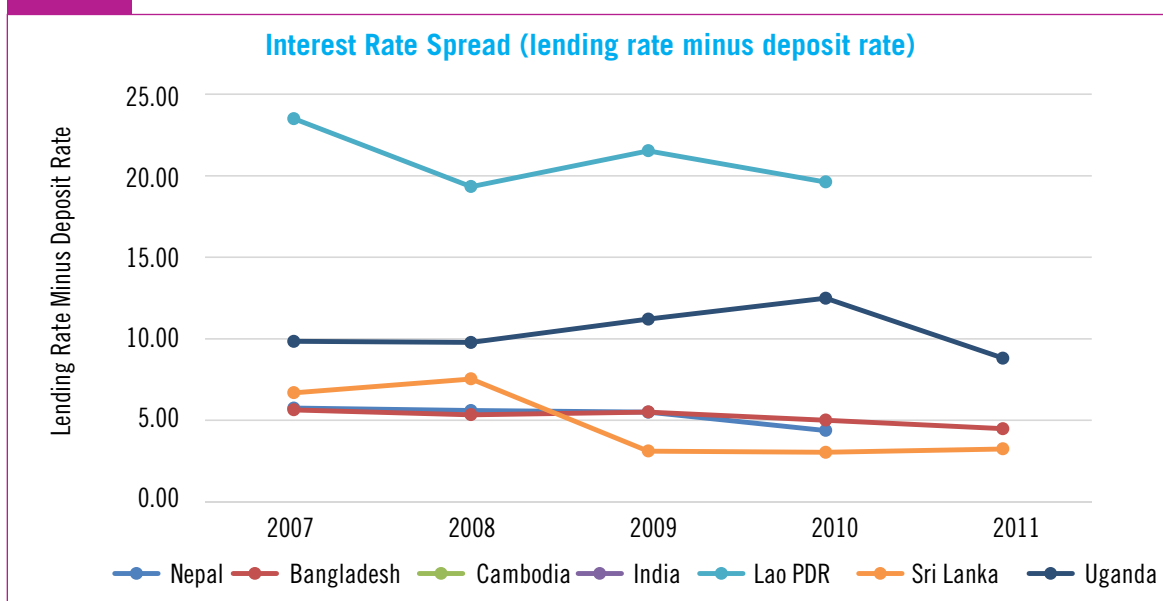
Figure 49: Domestic Credit to Private Sector



Source: World Bank: World Development Indicators

The Credit Information Index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. Nepal scored a 0 in 2017, as did Bangladesh, implying that information about financial products was not disseminated. India and Uganda had the highest scores at 7, followed by Cambodia and Sri Lanka at 6 in 2017.

Figure 50: Interest Rate Spread



Source: World Bank: World Development Indicators

The Interest Rate Spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. The value of this indicator for Nepal was 4.38% in 2010. Data is not available for subsequent years. In 2010 the value for Uganda was highest, at 12.49%, while it was lowest for Sri Lanka at 3.04%. Data is not available on India, Cambodia, or India.

Key Indicators

Domestic Credit to Private Sector (% of GDP)

Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015	2016
Nepal	54.6	53.0	56.1	58.0	61.9	64.7	81.1
Bangladesh	41.0	42.5	43.0	41.8	43.7	43.9	45.3
Cambodia	27.6	28.3	38.8	44.7	54.1	63.1	69.7
India	51.1	51.3	51.9	52.4	52.0	52.2	49.8
Lao PDR	20.9						
Sri Lanka	25.5	35.0	35.0	34.8	35.9	41.6	46.0
Uganda	13.3	15.8	14.0	13.9	14.9	15.6	15.6

Credit Depth of Information Index		2013	2014	2015	2016	2017
<p>Credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.</p> <p>0=less information to 8=more information.</p> <p>Source: World Bank, Doing Business Project</p>	Nepal	0	0	0	0	0
	Bangladesh	0	0	0	0	0
	Cambodia	5	5	5	6	6
	India	7	7	7	7	7
	Lao PDR	0	0	5	5	5
	Sri Lanka	6	6	6	6	6
	Uganda	0	0	7	7	7
Interest rate spread		2007	2008	2009	2010	
<p>Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits.</p> <p>Source: World Bank, World Development Indicators</p> <p>[COMMENT: WHERE DID YOU GET INTEREST RATE SPREAD FOR LAO PDR? I DIDN'T FIND IT IN THE WORLD BANK DATASET?]</p>	Nepal	5.75	5.60	5.50	4.38	
	Bangladesh	5.64	5.34	5.51	5.01	
	Cambodia					
	India					
	Lao PDR					
	Sri Lanka	8.0	8.0	5.06	3.32	
	Uganda	9.84	9.78	11.20	12.49	

3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available, such as physical facilities and transportation systems. Access to water and energy also play a pivotal role. All of these factors directly influence business in every country. In Nepal the high cost of transport and energy, combined with a challenging business environment, inhibit the growth of productive enterprises.¹²⁷ Poor connectivity inhibits economic growth by increasing transport costs, limiting access to jobs and social services, hindering trade with neighbours, and undermining the development of competitive industries, which in Nepal's case would be high-value agriculture, agro-processing, and manufacturing.¹²⁸

On 15 April 2015, Nepal suffered a massive earthquake of 7.8 magnitude and aftershocks that killed over 9,000 people and destroyed housing and infrastructure; reconstruction costs have been valued at over USD 7 billion.¹²⁹ In addition to natural disasters, Nepal's geography poses a significant barrier to the improvement of infrastructure, particularly in communications and transport. The Himalayas to the north of the country and the lowland plains with rivers that frequently change course pose a challenge to the construction of roads.¹³⁰ In the monsoon a lot of existing roads become unusable, including a large proportion

¹²⁷ ODI, June 2014.

¹²⁸ ADB, 1 December 2016.

¹²⁹ CRS, 4 December 2015.

¹³⁰ World Highways, 2014.

of rural road connections.¹³¹ Seventy-four percent of rural roads constructed by the local bodies and 35% of roads constructed by the Department of Roads (DOR) were unusable in 2016.¹³²

Land transportation is the most utilised mode of transport in Nepal and is key for rural Nepalis in order to access many basic services. In 2007, Nepal had 10,142 km of surfaced roads and a further 7,140 km of unsurfaced roads; of the 75 district headquarters, 15 had no direct road connection and at least 33% of the population lived at least a 2 hours walk from a road.¹³³ In 2016, 5% of district core network roads were black topped, while a further 23% were gravel surfaced; there were also 31,904 km of village roads connecting to the district road network, of which 2% were black topped and 22% had a gravelled surface.¹³⁴ Roads carry about 90% of the overall passengers and goods in the country, but Nepal also has the lowest road density among South Asian countries, with 14km of road per 100 square km, and .90km of road per 1,000 people in 2016.¹³⁵

The dependence on roads is high, and public transport is important but sparse. The ownership of vehicles has increased substantially--in 1992 there were just 48,188 registered vehicles in the Kathmandu Valley and in 2017 this had increased to 1,042,856, including those in other parts of the country, and entering from India and China there were an estimated 2,783,428 vehicles registered in the country in 2017.¹³⁶

Transport infrastructure plays a significant role in the growth of the agricultural sector, as well as in tourism. Better transportation systems, particularly with respect to India and China, are crucial for incomes in agriculture to rise. There is only one reliable road linking Kathmandu Valley to India, and the development of a new route would have significant economic benefits.¹³⁷ There is investment in improving strategic trade routes to improve connections with India and China, including improving bridges and facilities along the roads.

Air travel is relatively well developed in Nepal. There are over 40 airports, most of which have well surfaced runways, but air safety records are patchy due to the high altitude and poor weather condition at many of these.¹³⁸ The nearest seaport is Kolkata, in India, which is about 900 kilometres from Kathmandu.¹³⁹ In recent years several transport infrastructure improvement projects have been approved involving international donors.

Electricity supply is inadequate in Nepal and expensive. A large proportion of people living in rural areas, and remote districts do not have access to electricity, and this shortage affects manufacturing and the industrial potential as well. Nepal has an estimated 40,000 MW of commercially viable potential hydroelectric power that could be a significant source of income and part of the solution to South Asia's growing energy needs.¹⁴⁰

131 World Highways, 2014.

132 DOLIDAR 2016

133 World Highways, 2014.

134 DoLIDAR 2016.

135 ADB, 1 December 2016.

136 Department of Transport Management, Government of Nepal (2073/74).

137 Department of Transport Management, Government of Nepal (2073/74).

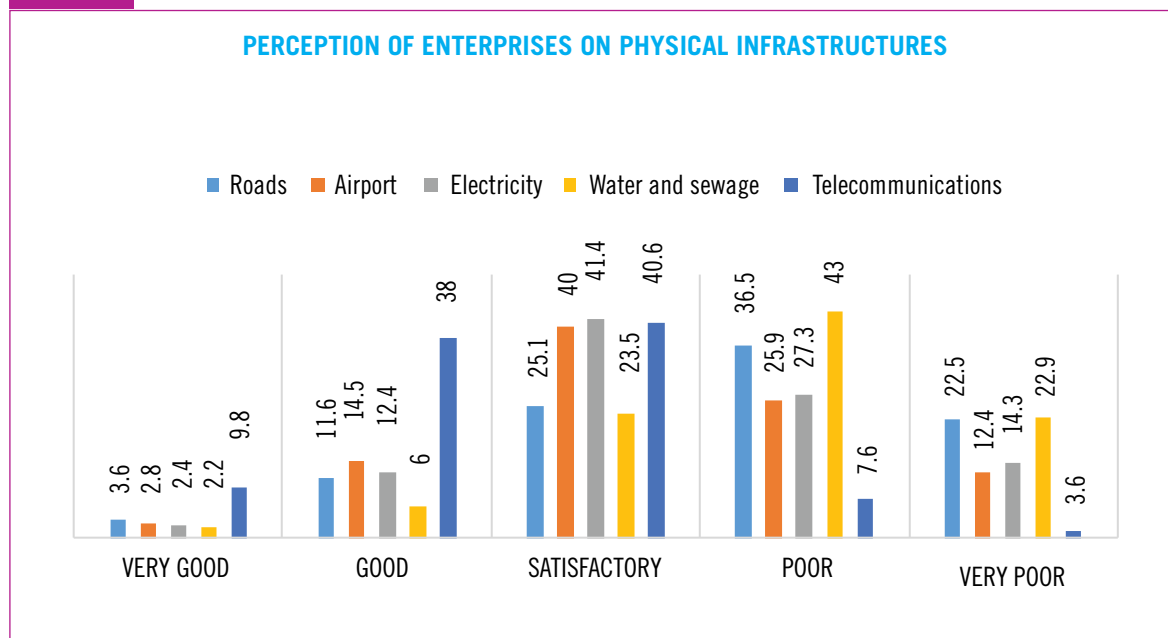
138 World Highways, 2014.

139 U.S. Department of State, July 2016.

140 U.S. Department of State, July 2016.

Urbanisation has been growing at a rate of about 6% since the 1960s and urban infrastructure has not developed at the same rate.¹⁴¹ Aside from Kathmandu and Pokhara, much of the urban population in Nepal is located in the Terai, through which most of the country's trade activities flow, as it borders India.¹⁴²

Figure 51: Perception of the Situation of Physical Infrastructure



Source: EESE Survey

Respondents from the EESE survey generally perceived the situation of physical infrastructure in Nepal to be satisfactory or poor. From the figure above, it can be observed that the highest proportion of respondents felt roads and water and sewage to be in poor condition, while airports, electricity, and telecommunications were perceived to be in a satisfactory condition. Relatively, telecommunications were perceived to be better than any other infrastructure. 38% of the respondents felt telecommunications to be good and 9.8% perceived them to be very good.

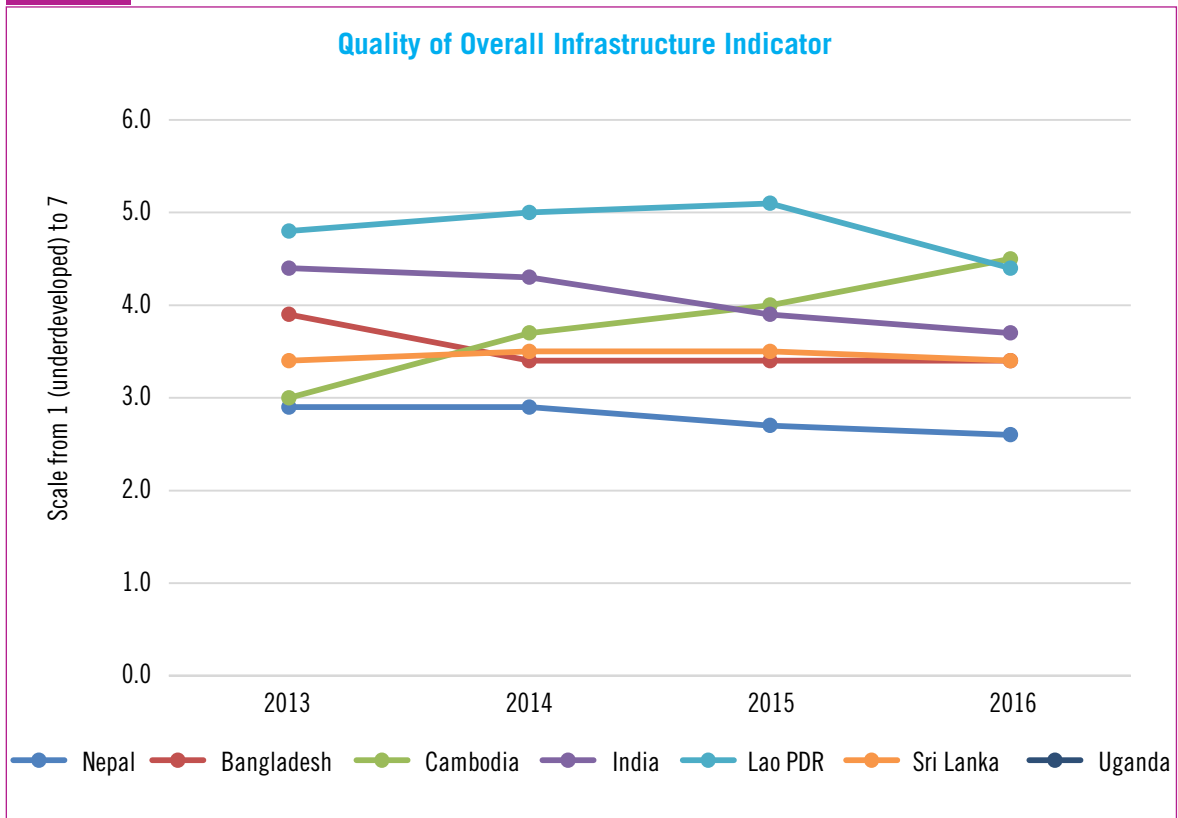
When asked about factors affecting informal enterprises the largest number indicated that poor infrastructure was the most pressing issue, with 86.7% of respondents citing this as the major factor. This was followed by the high cost of inputs, mentioned by 85% of respondents, and low market demand for products, as cited by 83.5% of respondents.

The Quality of Overall Infrastructure Index reveals whether a country's infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. Nepal and Bangladesh have the lowest value in comparison with the other countries, at 2.9 in 2017. India has the highest value of 4.6 in the same year.

141 ADB, 25 September 2017.

142 ADB, 25 September 2017.

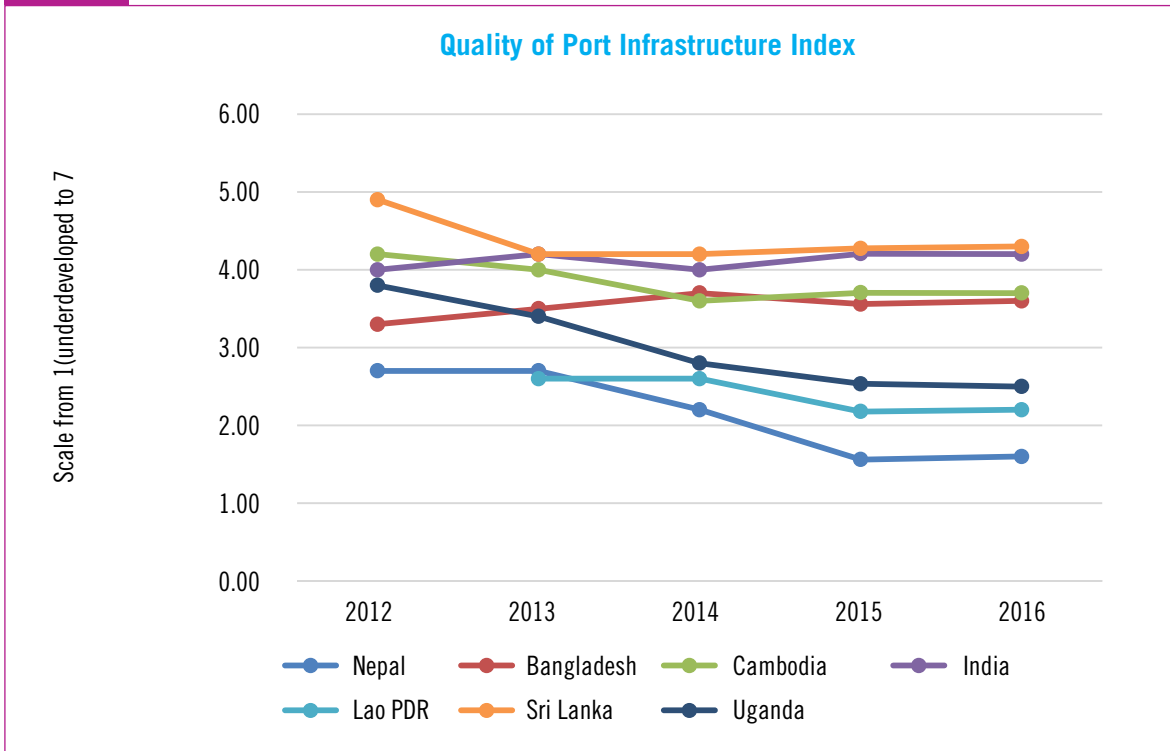
Figure 52: Quality of Overall Infrastructure Index



Source: WEF Global Competitiveness Reports (higher number corresponds to better infrastructure).

The Quality of Port Infrastructure Index reflects the level of development of port facilities and inland waterways on a range from 1 to 7, with higher values indicating better development. On this indicator, as well, Nepal performs worst among the comparison countries. In 2012, the value was 2.7, and in 2017 this has slid to 1.6. The next highest value was Lao PDR, with 2.3 in 2017, and India has the highest value with 4.6 in the same year.

Figure 53: Quality of Port Infrastructure Index



Source: WEF: Global Competitiveness Reports (higher number corresponds to better infrastructure)

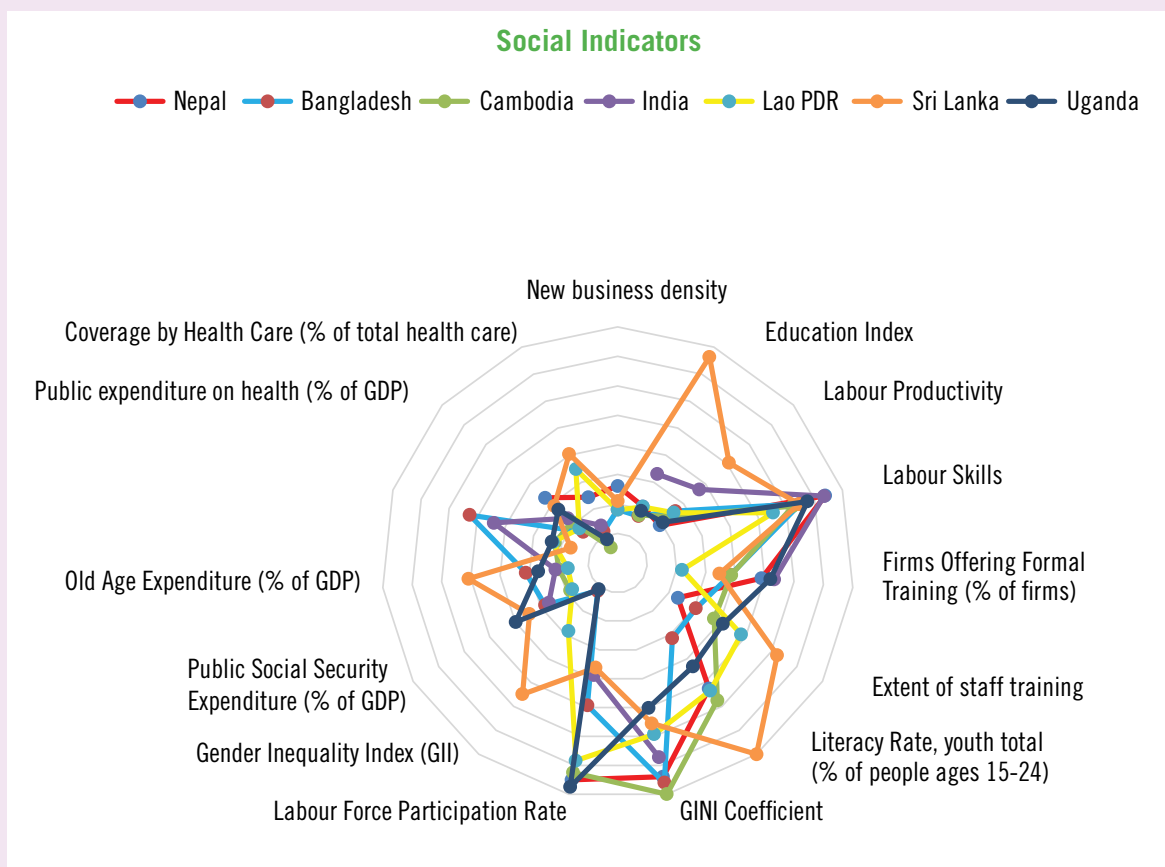
Key Indicators							
<p>Electric power consumption (kWh per capita)</p> <p>Electric power consumption measures the production of power plants and combined heat and power plants, less transmission, distribution, and transformation losses, and own use by heat and power plants.</p> <p>Source: World Bank, World Development Indicators</p>		2009	2010	2011	2012	2013	2014
	Nepal	97.5	102.5	114.6	118.0	131.4	139.1
	Bangladesh	219.2	239.8	257.6	274.9	292.8	310.04
	Cambodia	128.0	144.3	165.2	207.3	221.6	271.4
	India	600.2	642.1	698.5	724.8	765.6	805.6
	Lao PDR						
	Sri Lanka	426.2	461.1	504.2	524.3	525.7	531.3
	Uganda						
<p>Improved water source (% of population with access)</p> <p>Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well, or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres a person a day from a source within one kilometre of the dwelling.</p> <p>Source: World Bank, World Development Indicators</p>		2010	2011	2012	2013	2014	2015
	Nepal	87	88	88.9	89.8	90.7	91.6
	Bangladesh	83.5	84.2	84.8	85.5	86.2	86.9
	Cambodia	64.2	66.5	68.8	71.1	73.4	75.5
	India	90.3	91.3	92.2	93.1	94.1	94.1
	Lao PDR	67.5	69.5	71.5	73.5	75.5	75.7
	Sri Lanka	91.1	92.2	93.3	94.5	95.6	95.6
	Uganda	72.5	74.2	75.8	77.4	78.9	79
<p>Quality of Overall Infrastructure Index</p> <p>Survey data: "General infrastructure in your country is: 1 = underdeveloped, 7= as extensive and efficient as the world's best."</p> <p>Source: World Economic Forum, The Global Competitiveness Report.</p>		2013	2014	2015	2016	2017	
	Nepal	2.9	2.9	2.7	2.6	2.9	
	Bangladesh	2.8	2.8	2.8	2.8	2.9	
	Cambodia	3.9	3.4	3.4	3.4	3.4	
	India	3.0	3.7	4.0	4.5	4.6	
	Lao PDR	4.4	4.3	3.9	3.7	3.8	
	Sri Lanka	4.8	5.0	5.1	4.4	3.9	
	Uganda	3.4	3.5	3.5	3.4	3.3	
<p>Quality of Port Infrastructure Index</p> <p>Survey data: "Port facilities and inland waterways in your country are: 1=underdeveloped, 7= as developed as the world's best. For landlocked countries this measures the ease of access to port facilities and inland waterways."</p> <p>Source: World Economic Forum, The Global Competitiveness Report.</p>		2012	2013	2014	2015	2016	2017
	Nepal	2.7	2.7	2.2	1.6	1.6	1.6
	Bangladesh	3.3	3.5	3.7	3.6	3.6	3.6
	Cambodia	4.2	4.0	3.6	3.7	3.7	3.7
	India	4.0	4.2	4.0	4.2	4.2	4.6
	Lao PDR		2.6	2.6	2.2	2.2	2.3
	Sri Lanka	4.9	4.2	4.2	4.3	4.3	4.5
	Uganda	3.8	3.4	2.8	2.5	2.5	2.6

(Footnotes) 1 World Bank: World Development Indicators

2 World Bank: World Development Indicators.

3 Social Elements

Indicators assessing social elements of an enabling environment for sustainable enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- There are significant barriers to entering the formal economy and to entrepreneurship that can only be overcome by improving human resources.
- As the economy tries to shift away from a dependence on agriculture, entrepreneurship and the promotion of SMEs are addressed in a variety of government programmes.
- In Nepal poverty is both a cause and a result of limited access to education, historically and at present.

- More policies targeting youth have been implemented since the end of the civil war, with young people recognized as a priority group in national planning.
- In 2009, the GoN began implementation of a School Sector Reform Program, to restructure education in hopes of boosting school retention rates and overall enrolments; vocational streams were also introduced at the secondary level.
- Women face many challenges to participating equally in economic growth.
- The rural and informal economies are highly feminised.
- Women face traditional forms of discrimination in terms of property ownership.
- The 2015, the constitution recognized rights for sexual minorities but LGBT people face harassment from authorities and citizens, particularly in rural areas.
- Several forms of social protection exist in different sectors, but they do not have a systematic overarching policy framework to guide them.
- A draft National Framework for Social Security, prepared by the National Planning Commission is still being developed.
- Extending social protections to workers in the informal economy is one of the emerging issues in Nepal.

4.1. Entrepreneurial culture

One of the most important pillars for the development of society is entrepreneurial culture. Entrepreneurs make significant contributions to GDP and in many countries represent the main engine for global economic development. Micro, small, and medium sized enterprises have been accepted as an engine of economic growth, and of promoting inclusive growth, which makes them key to development. Particularly in countries like Nepal, which are heavily dependent on imports, it is important to first seek opportunities for local production and innovation in these sectors.

While barriers to economic and social development exist for many sections of the population, specific groups are particularly marginalised when it comes to participating in economic processes--women, youth, persons with disabilities and rural populations have significant hurdles to entrepreneurship, and entering the formal economy. Given the constraints on women in the workplace, women often enter the informal economy as micro entrepreneurs. These informal enterprises are nearly always household ventures, and even informal urban enterprises have ten workers or fewer, usually family members who do not receive formal salaries or have fixed working hours.

As the economy tries to shift away from a dependence on agriculture, entrepreneurship and the promotion of SMEs are addressed in a variety of government programmes. The Ministry of Industry (MoI) has recognised that promoting entrepreneurship is a key factor for industrial growth and holds events to raise awareness among youths and other potential investors about the role it plays in economic prosperity and the entire development process.¹ Summits have been planned to promote start-up culture, to help potential entrepreneurs execute business ideas and find the necessary capital.² Additionally, the MoI has formed a Start-up Committee that is meant to work towards entrepreneurship development in the country.³

1 The Himalayan Times, 24 April 2017.

2 The Himalayan Times, 24 April 2017.

3 The Himalayan Times, 24 April 2017.

FNCCI has made promoting entrepreneurship one of their key mandates. The Department of Cottage and Small Industries, under the MoI implements various entrepreneurship development programmes.⁴ A Federation of Woman Entrepreneurs' Associations of Nepal (FWEAN) was established in 2003, which is an apex body of women's entrepreneur's associations, and is a focal point for interaction with the government, as well as international organizations and stakeholders in the promotion of entrepreneurship for women.⁵ The Industrial Enterprise Development Institute, a national resource organization committed to entrepreneurship development, provides training,

consultancy, and research facilities to the SME sector.⁶ Some private sector organizations also provide business advisory and consultancy services for SMEs.⁷

In 2009 the Youth and Small Enterprise Self-Employment Fund was launched, targeting mainly unemployed youth and small business owners who would be provided with collateral-free low-interest loans as seed capital to start enterprises.⁸ This has been done in partnership with FNCCI, but implementation has been difficult due to limited participation of private banks and financial institutions.⁹

Entrepreneurs are engaged in activities in a variety of sectors across the country--construction, trading, services, handicrafts, for example, but they have poor access to finance, poor access to training to improve their business development, and poor access to markets. Market development and linkages need to be prioritised, alongside credit availability and skills building, to create an environment that encourages entrepreneurship. While there are several projects proposed and being implemented to further entrepreneurship at the district or sector level, there is relatively little literature on the state of entrepreneurship in Nepal overall.¹⁰

Many other different initiatives exist to promote private sector development--all of these, however, serve people who already have the skills that many persons in Nepal lack, basic numeracy, literacy, and business development skills; improving the standard of basic human resources is necessary before the following opportunities can be availed of. Poor infrastructure is a serious barrier to accessing markets and rural economic development. Just improving transportation facilities alone would promote the ability to scale-up business operations and allow rural entrepreneurs in particular to better physically access markets. Inadequate systems of communication and transportation affect flows of information that are vital for entrepreneurs to function and make business related decisions.

The EESE survey respondents in general perceive that the rights of the workers are addressed while designing and implementing entrepreneurship promotion activities. 66.8% of respondents felt that workers' rights are usually or sometimes included in entrepreneurship promotion activities. 15.8% of respondents felt that the activities rarely or more often do not explicitly address the concerns of workers.

4 Asian Productivity Organization, 2007.

5 FWEAN, 2017.

6 Asian Productivity Organization, 2007.

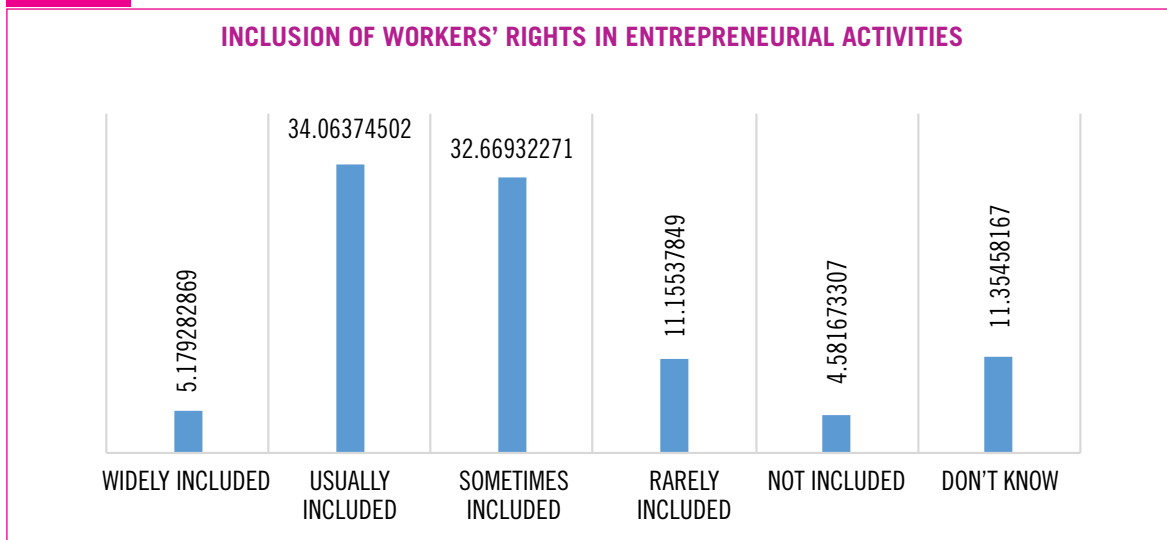
7 Asian Productivity Organization, 2007.

8 World Bank, 2013.

9 World Bank, 2013.

10 Dana, 2014.

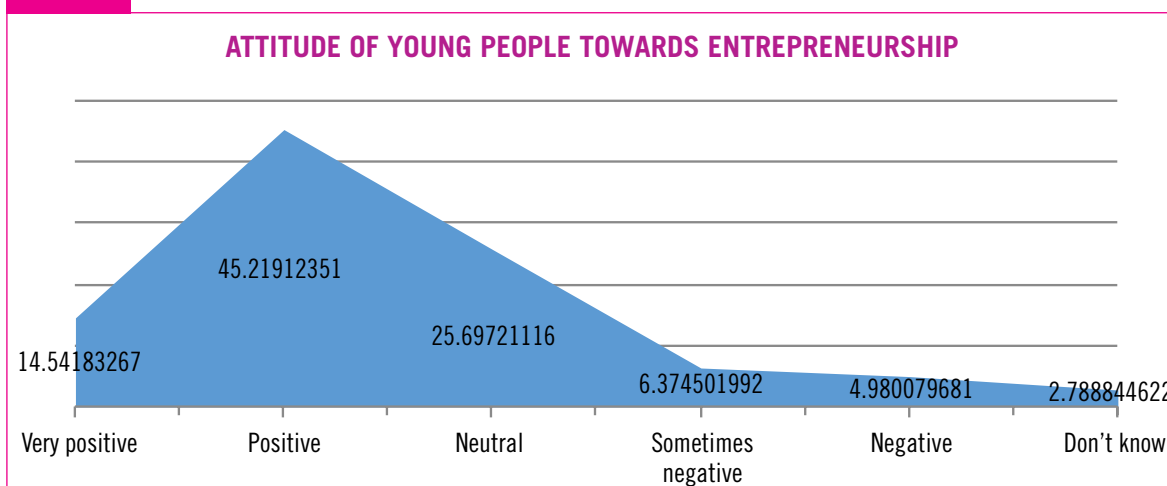
Figure 54: Inclusion of Worker's Rights in Entrepreneurship Promotion Activities



Source: EESE Survey

When asked about the attitude of youth towards entrepreneurship, 14.5% of respondents found young people to be extremely positive towards entrepreneurship, and 45.2% of respondents found them to be positive. 25.7% of respondents found young people to have a neutral attitude towards entrepreneurship, while 6.4% were sometimes negative, and 5% were negative.

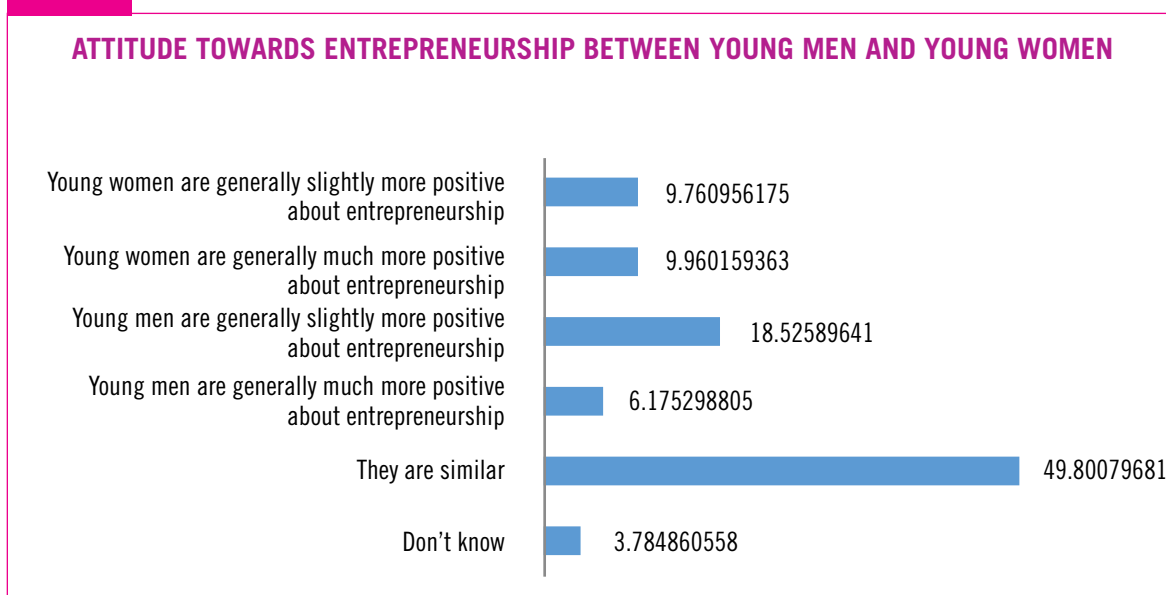
Figure 55: Attitude of Young People Towards Entrepreneurship



Source: EESE Survey

Almost half of the survey respondents perceived no difference between young men and women in terms of their attitude towards entrepreneurship. 49.8% of respondents found young men and women to have similar attitudes, 18.5% thought men had a slightly more positive attitude, 10.5% thought women were generally much more positive, 9.8% thought women were slightly more positive than men, and 6.2% thought men were generally much more positive than women.

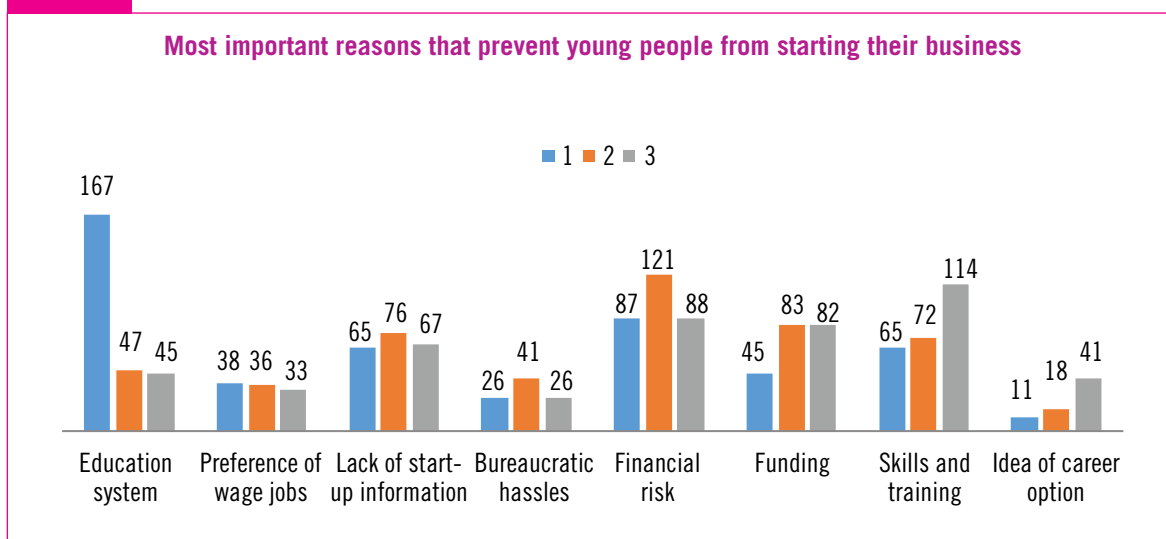
Figure 56: Attitudes to Entrepreneurship by Gender



Source: EESE Survey

When asked about important reasons that prevented young people from starting their own businesses, financial risk (59%), the poor educational system (52%), and lack of training and skills for starting an enterprise (50%) were the three most commonly selected factors among the survey respondents.

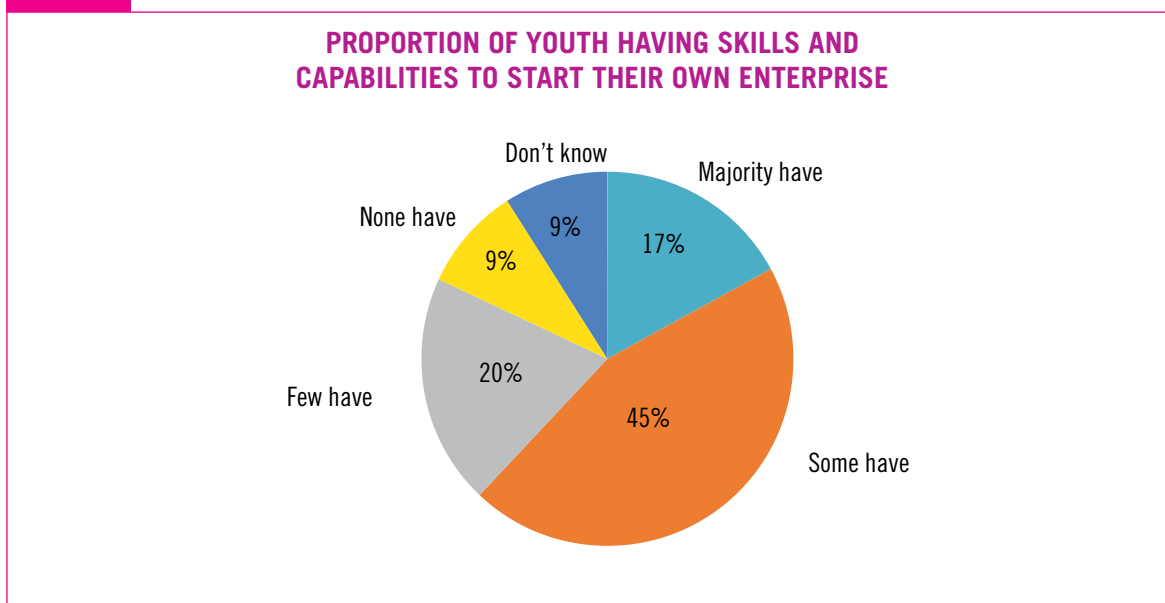
Figure 57: Factors Preventing Entrepreneurship



Source: EESE Survey

Apart from the willingness to establish their own enterprise, entrepreneurs require a set of relevant skills and capabilities to start their own enterprise. 17% of the survey respondents thought that the majority of youth possess the skills and capabilities required for starting a business; 45% thought some young people had the skills; 20% thought a few young people had the skills; 9% thought none had the skills; and 9% said they did not know.

Figure 58: Perceptions about the Skills of Youth to Start Their Own Enterprise



Source: EESE Survey

When asked about access to business start-up training most survey respondents found this to be moderate, at 41%, while 24.9% thought there was low access, and 21.3% thought there was very low access. 6.4% of survey respondents thought there was high access to training, and only 2.4% thought there was very high access.

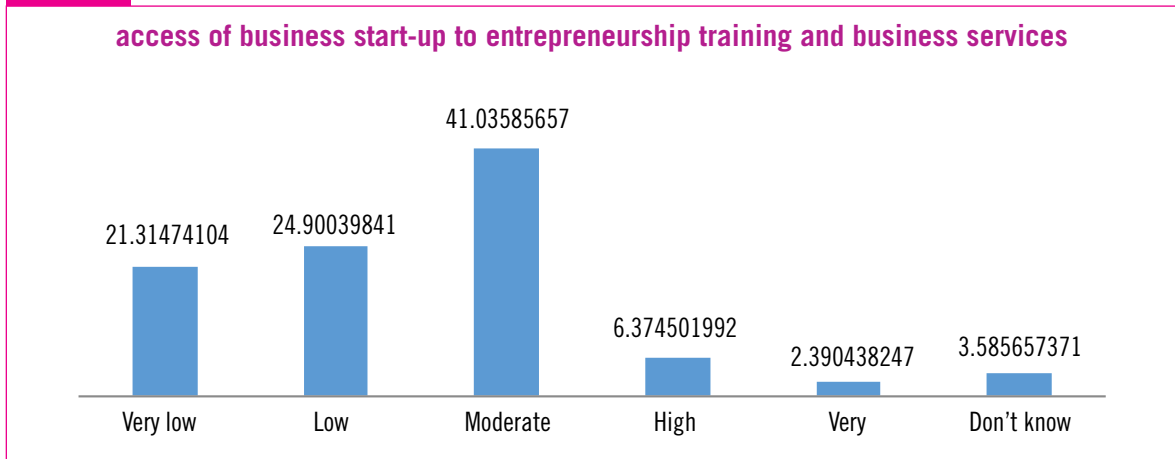
When asked about training and support services for new enterprises, 50% of survey respondents found these to be poor (35%) or very poor (15%). 25.8% of respondents found the support services for new enterprises to be medium, while 15.8% said they did not know. Merely 5.8% of respondents found the support and training services to be good, while 2.5% found them very good.

The GoN has been currently providing a range of services to informal enterprises. Of these the largest proportion found the provision of the simplified registration process to formalize the informal businesses the most useful, followed by training programmes for workers and staff to build capacity, tax benefits, social security benefits, access to finance, and access to tenders.

Survey respondents had higher expectations of support services for enterprises from the GoN than the non-government sector. The leading services expected from the government included new enterprise support for the elaboration of business plans, (26.7% of respondents), information regarding the legal requirements of documents and orientation of procedures (25.8%), and technical training (20%). From the private sector, 24.2% of respondents expected business counselling, and the same proportion expected important information related to the market. Similar to the expectation from the government, 15.8% of survey respondents also expected technical training from the non-government sector.

Additionally, 66.7% of survey respondents found there to be no difference between the skills and capabilities of young men and young women; 10% of respondents thought men had slightly more skills; 8.3% thought young women had slightly more skills; 4.2% each thought young men and young women had a lot more skills and capacities; and 5.8% said they did not know.

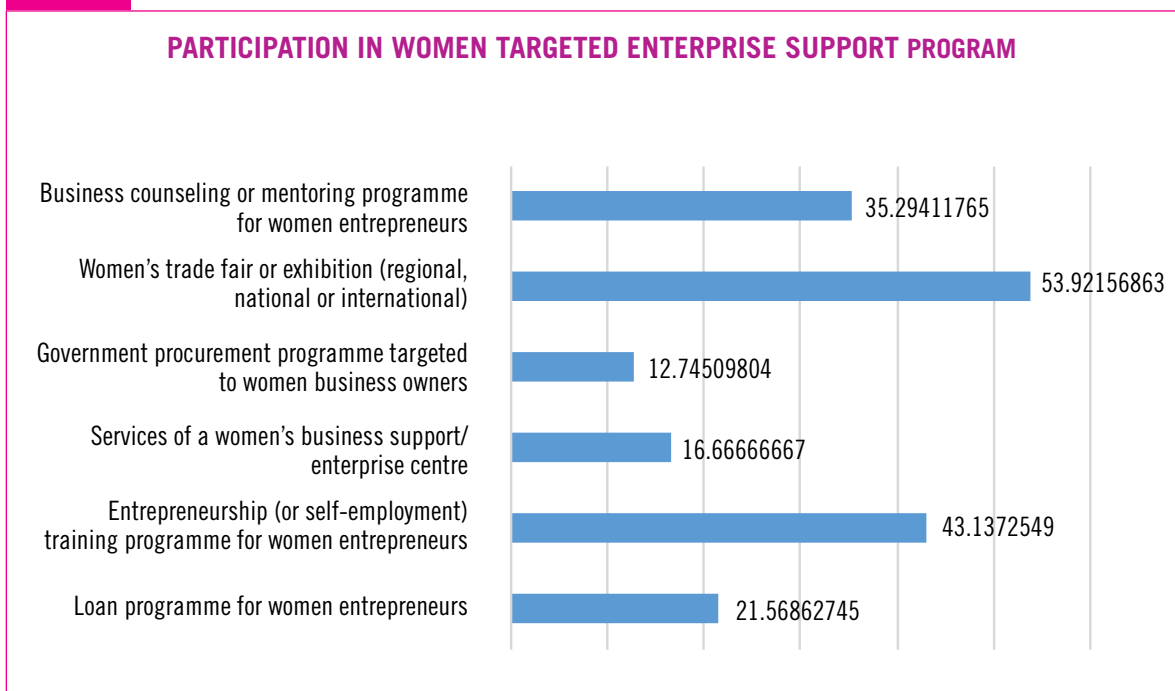
Figure 59: Perception of Access to Entrepreneurship Training



Source: EESE Survey

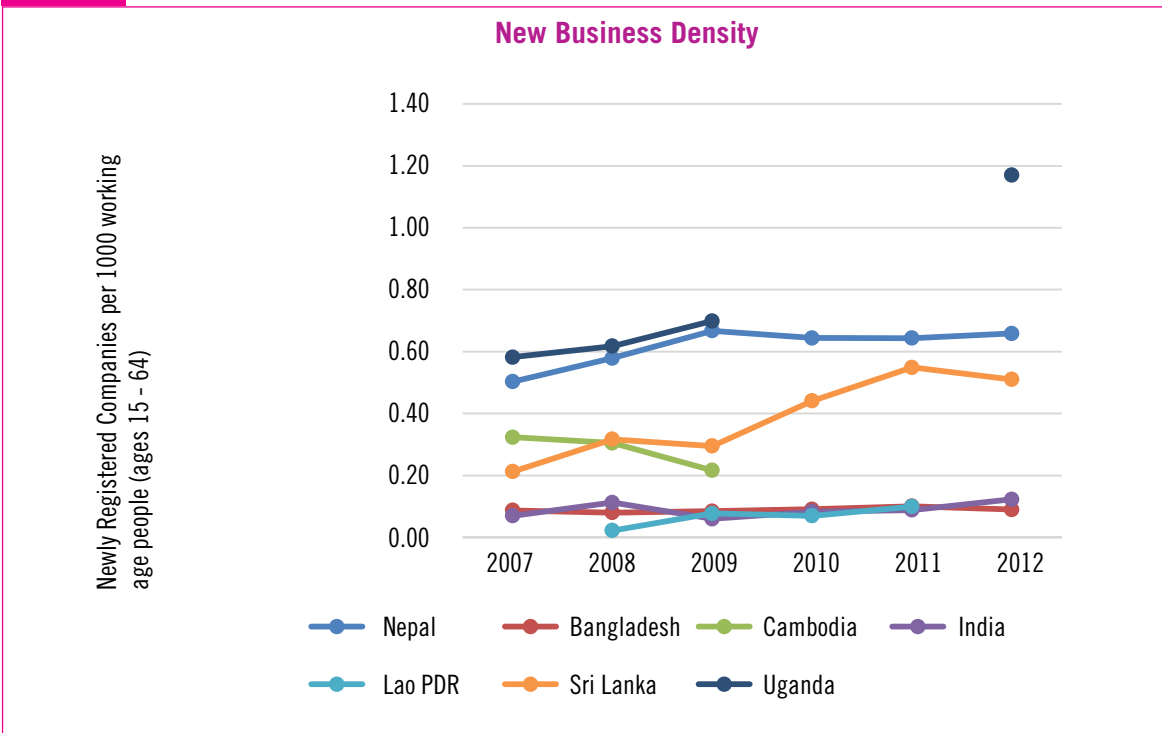
In terms of women-targeted enterprise support programs, more than half of the women respondents, 53.9%, got an opportunity to participate and display their products at women's trade fairs and exhibitions at the regional, national, or international level. A significant 43.1% of women entrepreneurs participated in the training programs to support their businesses. Additionally, 35.3% of the women surveyed received business counselling and mentoring. 21.6% of respondents had access to a loan programme for women entrepreneurs, while 16.7% availed of the services of a women's business support centre, and 12.7% participated in a government procurement programme targeted at women business owners.

Figure 60: Participation in Different Initiatives Targeted at Women



Source: EESE Survey

Figure 61: New Business Density



Source: World Bank: World Development Indicators

(Note: the vertical axis represents the number of new registrations per 1000 people aged 15-64)

The New Business Density indicator shows the number of newly registered limited liability companies per 1,000 working-age people (15-64) in a particular year. Over the past few years, Nepal has improved, going from 0.6 in 2008 to 1.0 in 2016. Bangladesh and India score 0.1 in years from 2008 up to now and rank among the lowest in the comparison countries. Nepal looks like a much more attractive economy in which to start a business.

Key Indicators		2008	2009	2010	2011	2012	2013	2014	2015
New Business Density									
The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.	Nepal	0.	0.7	0.6	0.6	0.7	0.6	0.7	0.7
	Bangladesh	0.08	0.1	0.09	0.10	0.1			
	Cambodia								
	India	0.11	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Lao PDR	0.1	0.2	0.07	0.10				
	Sri Lanka	0.3	0.3	0.4	0.5	0.5			
	Uganda	0.62	0.70						
Source: World Bank, World Development Indicators									

4.2. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training, and lifelong learning are important for helping workers to find good jobs and helping enterprises to find the skilled workers they require. A well-educated and skilled workforce is key to economic and social development, and the lack of a well-educated and skilled workforce is often a significant challenge for emerging countries. In Nepal poverty is both a cause and a result of limited access to education, historically and at present. Aligning education and training with economic policies and ensuring coordination in skills development is crucial to promoting inclusive and sustainable growth.¹¹

The Ministry of Education (MoE) oversees policies relating to education at all levels. A Ministry of Youth and Sports was established in 2008 that oversees youth training programmes to help young people seeking to enter the workforce.¹² Entrepreneurship training is provided by the Vocations and Skill Development Training Centre, under the Ministry of Labour and Employment, and the Office of Cottage and Small Industries (under the Ministry of Industries).¹³

More policies targeting youth have been implemented since the end of the civil war, with young people recognized as a priority group in national planning.¹⁴ The 2010 National Youth Policy targets historically marginalized and conflict-affected youth, alongside Dalits, women, indigenous people, displaced, and differently-abled people as needing increased access to things like vocational training and capacity building, but concrete steps toward implementation have not been specified.¹⁵ Each year about 450,000 youth enter the labour market, and they need marketable skills as a matter of urgency; many seek employment in neighbouring countries or the Middle East, largely in low-skilled jobs due to a lack of opportunities in Nepal.¹⁶

In 2009 the GoN began implementation of a School Sector Reform Program (SSRP) to restructure education in hopes of boosting school retention rates and overall enrolments; vocational streams were also introduced at the secondary level.¹⁷ Among other things, the SSRP gave policy directions on increasing access to technical and vocational education and training (TVET) for disadvantaged students and assuring the quality and relevance of TVET programmes to the world of work.¹⁸ There is a need for practical, result-oriented TVET programmes that respond to labour market needs, which the new School Sector Development Plan 2016-2023 acknowledges and is working towards.¹⁹

TVET in Nepal is offered by public and private institutions; it is overseen by the Council for Technical and Vocational Training that was established in 1989.²⁰ The 2015 constitution makes primary education compulsory across Nepal. Basic education, from grades one to eight, is free and compulsory, while secondary education, from grades nine to twelve is neither.²¹

11 ADB, 2015.

12 World Bank, 2013.

13 World Bank, 2013.

14 World Bank, 2013.

15 World Bank, 2013.

16 ADB, 2015.

17 World Education News + Reviews, March 2013.

18 UNESCO, January 2014.

19 GoN: Ministry of Education, October 2016.

20 World Education News + Reviews, March 2013.

21 U.S. Department of State, 2016.

The formal education structure of Nepal consists of eight years of basic education from grades one to eight, four years of secondary education till grade 12, and three to seven years of higher education towards undergraduate and types of postgraduate degrees.²² Technical education can take from some months to up to three years. The MoE has endorsed a guideline for the increased use of ICTs in school education, but human resources and skills for this are still lacking.²³ Public education is poorly resourced in Nepal, and rural schools in particular have poor performance rates.²⁴ Teacher absenteeism is reportedly high in public schools.²⁵ Resource gaps, human and financial, impact the delivery and planning of TVET as well, as there is a shortage of qualified and trained instructors.²⁶

The last census was in 2011; the population was 26.5 million, 34.9% of whom were under the age of fourteen, 59.8% between 15 and 64 years of age, and 5.3% aged 65 years and above.²⁷ Net enrolment in primary education and secondary education have increased substantially in the last decade. Statistics from 2016 indicated a net enrolment rate of 96.6% in primary education.²⁸ Based on estimates from 2015, literacy rates, defined as people over the age of 15 who could read and write, were 76.4% for males and 53.1% for females, bringing the total population literacy rate to 63.9%.²⁹ A 2016 Ministry of Finance report indicated that the literacy rate for the 15-24 age group had reached 88.6%.³⁰

According to the Ministry of Education, 34,500 classrooms in public and private schools were destroyed in the 2015 earthquake and nearly 10,000 more suffered minor damages, necessitating structural assessments before they could be used.³¹ Temporary learning centres were established, and according to the Post Disaster Recovery Framework released in May 2016, the majority of children in earthquake-affected areas were able to access education again.³² Facilities for girls need to be improved; 31% of public schools do not have separate toilets for girls.³³

22 GoN: Ministry of Education, March 2013.

23 GoN: Ministry of Education, March 2013.

24 The Kathmandu Post, 23 March 2015.

25 The Kathmandu Post, 23 March 2015.

26 ADB, 2015.

27 ADB, 2015.

28 GoN: Ministry of Finance, 2016.

29 CIA World Factbook, October 2017.

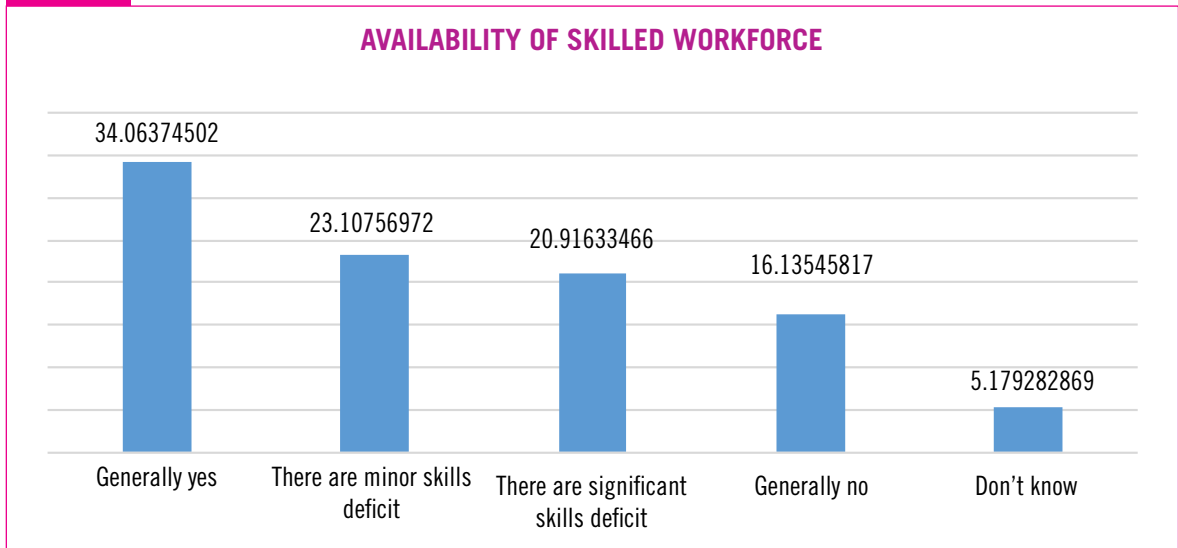
30 GoN: Ministry of Finance, 2016.

31 U.S. Department of State, 2016.

32 U.S. Department of State, 2016.

33 U.S. Department of State, 2016.

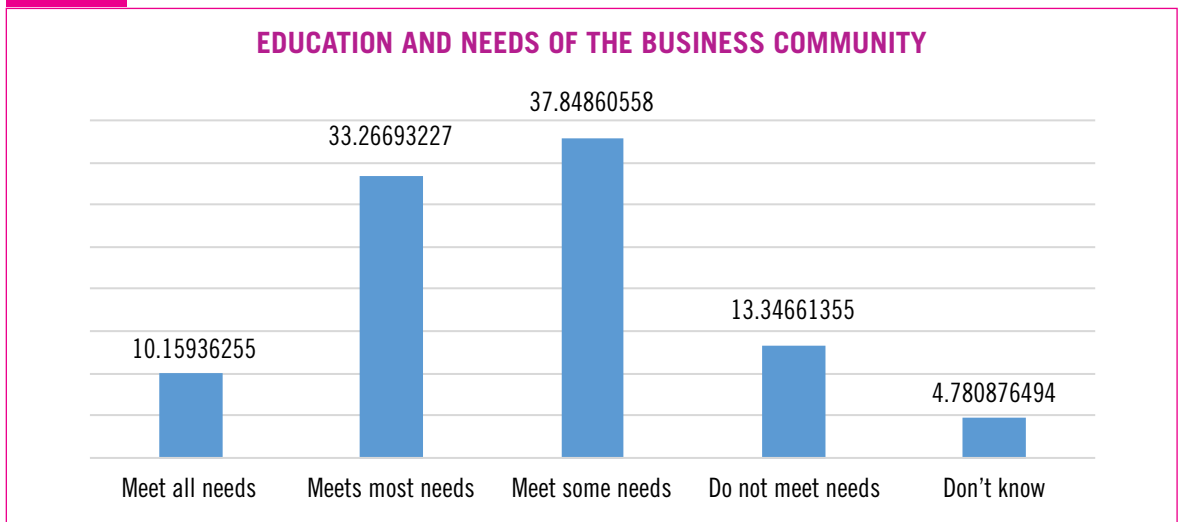
Figure 62: Perception of the Availability of Skilled Workforce



Source: EESE Survey

In terms of competent human resources, the significant majority of survey respondents, 34.1%, thought that Nepal generally has the skilled workforce required by the enterprises. 23.1% of survey respondents felt that there are minor skills deficits, 20.9% thought that there were significant skills deficits, and 16.1% thought that there was generally a lack of skilled workforce. 60.8% of the women surveyed were confident about having the necessary skills and experience required by their enterprise.

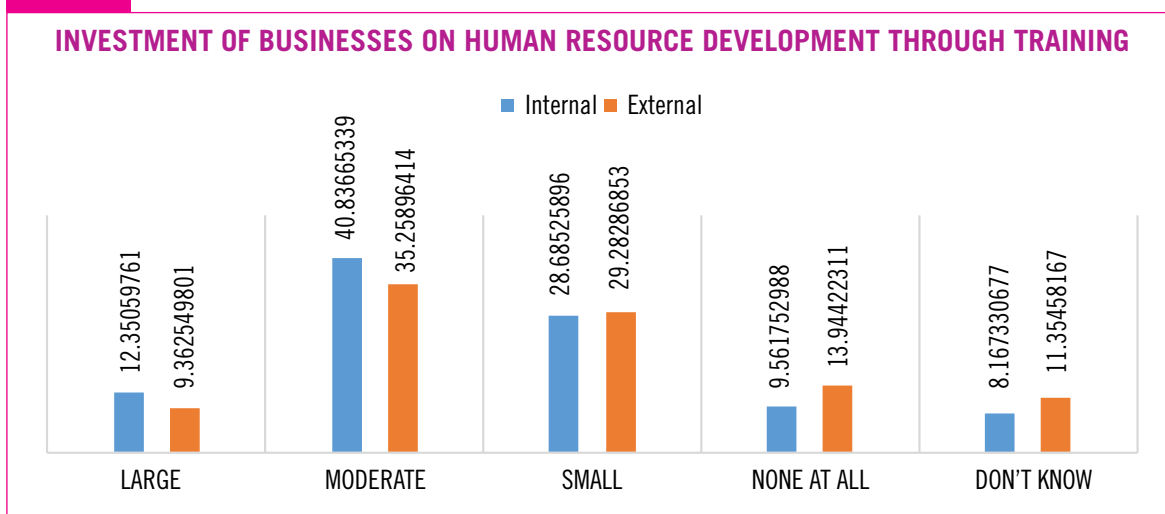
Figure 63: Perception of Whether the Education System Meets the Needs of the Business Community



Source: EESE Survey

In terms of the needs of the business community, 37.8% of respondents from the survey felt that the formal education system meets only some of the needs of the business community. 33.3% of survey respondents thought the education system met most needs of the business community, 13.3% thought it did not meet the needs, and 10.3% thought it met all the needs, while 4.8% said they did not know.

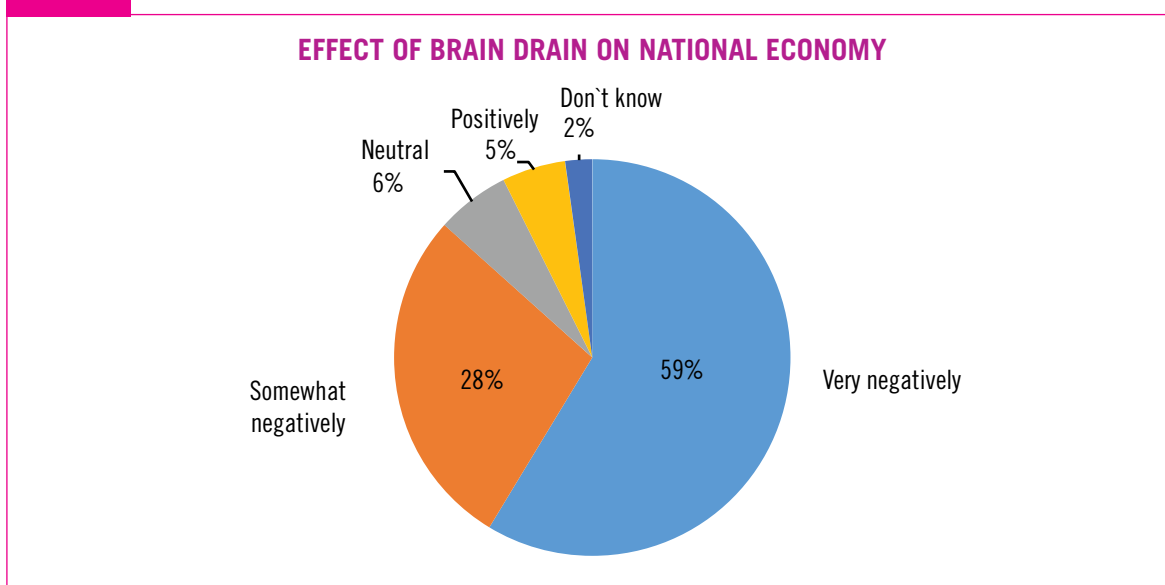
Figure 64: Perception of Investment of Businesses in Human Resource Development



Source: EESE Survey

In terms of investment for human resource development, a majority of the businesses were seen as making a moderate investment. While 40.8% of respondents thought enterprises made moderate investments for internal training, 35.3% of respondents thought enterprises also made moderate investments for external training. 28.7% of survey respondents thought businesses made a small investment in internal training, and 29.3% thought they made a small external investment in training. 12.4% of respondents thought that businesses made a large investment in internal training, while 9.4% thought businesses made a large investment in externally training their personnel. 9.6% of respondents thought no investment was made in internal training, and 13.9% thought no investment was made in external training for personnel.

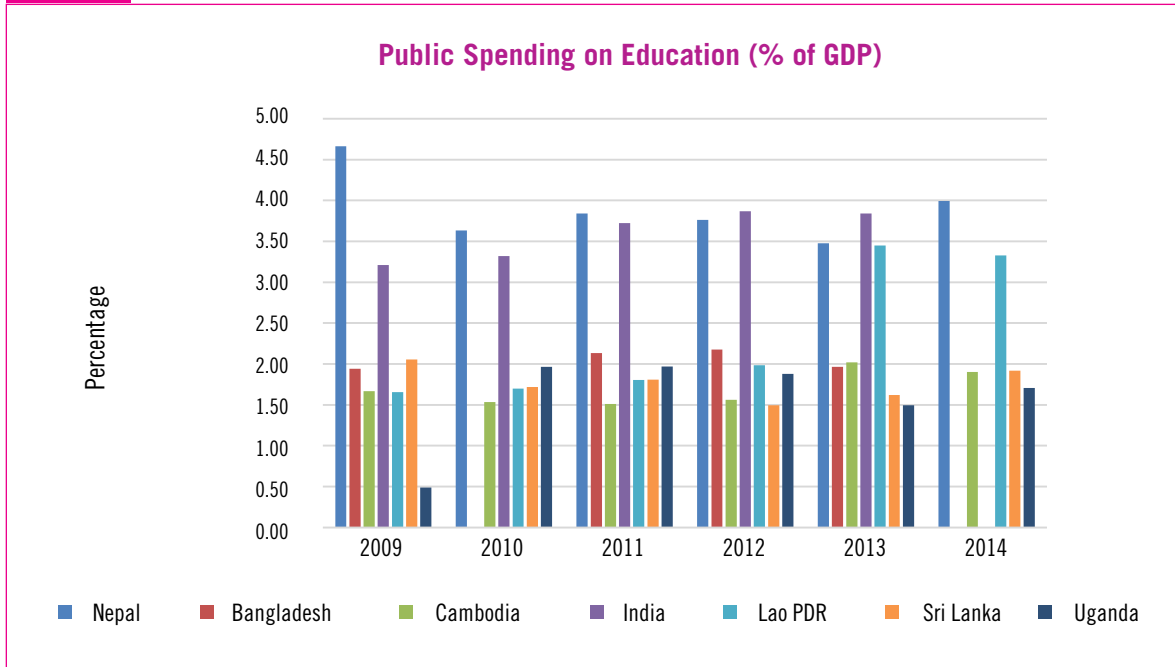
Figure 65: Perception of the Effect of Brain Drain on the National Economy



Source: EESE Survey

A significant majority of the survey respondents perceived that the national economy is negatively affected by the brain drain, at 59%. A full 28% of survey respondents thought the impact of brain drain was somewhat negative, 6% were neutral, 5% thought the impact was positive, and 2% did not know.

Figure 66: Public Spending on Education



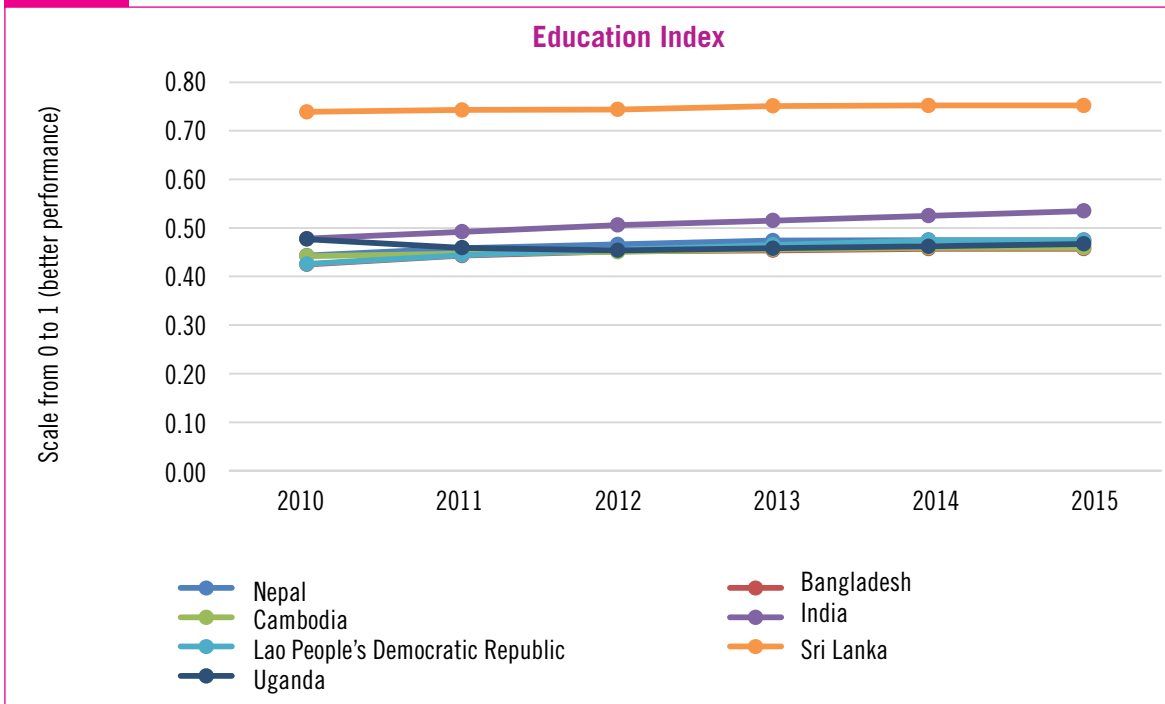
Source: World Bank, World Development Indicators

The public expenditure on education indicator consists of current and capital public expenditures on education, plus subsidies to private education at the primary, secondary, and tertiary levels as a percentage of the GDP. In general, Nepal spends more than the rest of the countries as a percentage of GDP, followed by India during the data provided. In 2015 Nepal spent 3.7% of its GDP on education, while in 2009 it spent 4.7%. In 2017-2018 NR 66.12 billion were allocated towards education related programmes, excluding those to be implemented at the local level, which is 11.38% of a projected NR 580.98 billion in expected total revenue collection over the year.³⁴

The second important indicator is the Education Index. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. Based on the data, Nepal, at 0.475, is in the same range as Bangladesh, Cambodia, Lao PDR, and Uganda. In 2015 India performed a little better at 0.535, while Sri Lanka had the best value at 0.752.

³⁴ GoN: Ministry of Finance, 29 May 2017.

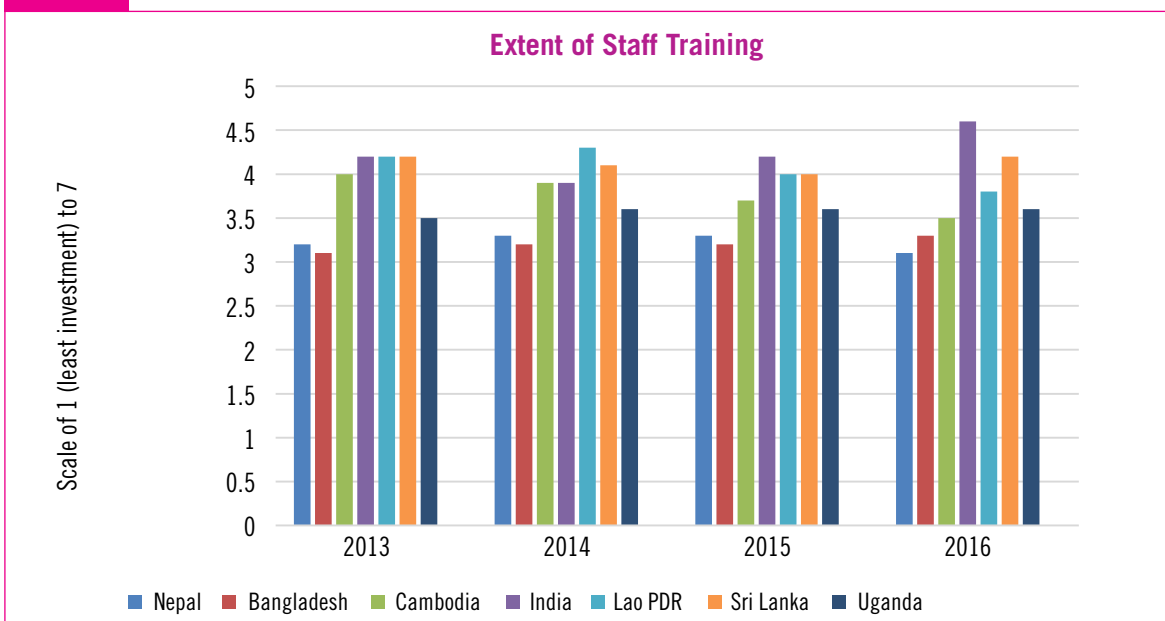
Figure 67: Education Index



Source: UNDP Human Development Reports

With the indicator Extent of Staff Training, the World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: “The general approach of companies in your country to human resources is: (1 = to invest little in training and employee development, 7 = to invest heavily to attract, train, and retain employees).”

Figure 68: Extent of Staff Training



Source: WEF, Global Competitiveness Reports

Note: Scale of 1 (least investment) to 7.

In regard to this indicator, Nepal recorded 3.3 in 2017, one of the lowest scores in the comparison group. India, at 4.5, recorded the highest value.

Key Indicators									
<p>Public expenditure on education (as a % of GDP)</p> <p>Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels.</p> <p>Source: World Bank, World Development Indicators</p>		2009	2010	2011	2012	2013	2014	2015	2016
	Nepal	4.7	3.6	3.8	3.8	3.5	4.0	3.7	
	Bangladesh	1.9		2.1	2.2	2.0			2.5
	Cambodia	1.7	1.5	1.5	1.6	2.0	1.9		
	India	3.3	3.4	3.8	3.9	3.8			
	Lao PDR	1.7	1.7	1.8	1.8	3.2	2.9		
	Sri Lanka	2.1	1.7	1.8	1.5	1.6	1.9	2.2	3.5
	Uganda		2.4	3.0	2.5	2.2	2.3		
<p>Education Index</p> <p>It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of the Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 100]) (with one-third weighting).</p> <p>Source: UNDP Human Development Reports</p>		2010	2011	2012	2013	2014	2015		
	Nepal	0.443	0.458	0.466	0.474	0.475	0.475		
	Bangladesh	0.425	0.443	0.452	0.454	0.457	0.457		
	Cambodia	0.442	0.447	0.451	0.456	0.459	0.459		
	India	0.478	0.492	0.506	0.515	0.525	0.535		
	Lao PDR	0.426	0.444	0.455	0.465	0.474	0.474		
	Sri Lanka	0.739	0.743	0.744	0.751	0.752	0.752		
	Uganda	0.477	0.459	0.454	0.458	0.462	0.467		
<p>Extent of staff training</p> <p>The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".</p> <p>Source: World Economic Forum, The Global Competitiveness Report.</p>		2013	2014	2015	2016	2017			
	Nepal	3.2	3.3	3.3	3.1	3.3			
	Bangladesh	3.10	3.20	3.2	3.3	3.3			
	Cambodia	4.00	3.90	3.7	3.5	3.7			
	India	4.20	3.90	4.2	4.6	4.5			
	Lao PDR	4.20	4.30	4	3.8	3.8			
	Sri Lanka	4.20	4.10	4	4.2	4.1			
	Uganda	3.50	3.6	3.6	3.6	3.6			
<p>Labour force participation rate, in percent</p> <p>The labour force participation rate is the proportion of the population ages 15-64 that are economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.</p> <p>Source: ILO</p>		2011	2012	2013	2014	2015	2016		
	Nepal	83.32	83.22	83.12	83.03	83.01	83.00		
	Bangladesh	62.20	62.12	62.07	62.07	62.15	62.21		
	Cambodia	85.37	82.12	80.96	80.82	80.88	80.95		
	India	54.64	53.97	53.83	53.67	53.73	53.77		
	Lao PDR	77.34	77.26	77.19	77.18	77.39	77.61		
	Sri Lanka	54.41	53.46	53.85	51.93	51.78	51.65		
	Uganda	83.69	84.39	85.03	84.95	84.97	84.99		

4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion, and equality of opportunities for employment are needed to promote the creation of an enabling environment. Income, gender, and spatial inequities between rural and urban areas are rife in Nepal, and though the Constitution goes a long way towards legislating against some of these there is a lot of work to be done to achieve greater social justice and social inclusion.

Caste and ethnicity are highly contested issues in Nepal, with politics highly influenced by different interest groups. The Panchayat system established in 1960 institutionalized further the existing privileges of Kathmandu-based elites, and the systematic marginalization of Dalits (untouchables in the caste system), Janajati (people living in the mountains speaking largely Tibeto-Burman dialects), Madhesis from the Terai, and religious minorities.³⁵ Landlessness, ethnic discrimination, caste-based discrimination, and other social inequalities were primary drivers for the dissatisfaction that fed into the Maoist-led armed insurgency.³⁶ One third of PLA fighters were women, many of them drawn to revolutionary politics because of the opportunity to challenge the prevailing patriarchal system.³⁷

The new constitution declares Nepal to be a multi-caste, multilingual, and multicultural country committed to eliminating discrimination, but members of the Hindu upper caste dominate government and business, while lower castes, ethnic minorities, and members of other religions face discrimination in the civil service, courts, and various aspects of daily life.³⁸ Despite the end of the war, regionally based socio-political cleavages persist in Nepali society between Madhesi and other residents of the Terai and hill or Pahadi people.³⁹ Agitations have been stirred around the provision in the new constitution that full Nepali citizenship only be allowed to those with two Nepali parents, as many residents of the Terai have a parent from India.⁴⁰ Dalits and Madhesis are often particularly discriminated against socially and in the labour market.⁴¹ Caste-based discrimination is illegal, and efforts have been made to protect the rights of Dalits, or so-called untouchables, and other disadvantaged castes, but these efforts have limited success, especially in rural areas.⁴²

Women rarely have access to the same educational and employment opportunities as men.⁴³ They face many challenges to participating in economic growth, including gender-based violence, lower incomes, and reduced participation in community planning. The informal economy and indeed poverty are highly feminised in Nepal. Discrimination is greater in rural areas, and despite the law providing many protections in terms of property inheritance, for example, enforcement is weak.⁴⁴ Property rights for women have long been disputed, and finally in 2002 legislation was passed allowing sons and daughters equal rights to inherit property (the Civil Code bill), as well as protecting abortion rights, harsher sentences for

35 Yadav, 2016.

36 Yadav, 2016.

37 Al Jazeera, 2016.

38 Freedom House, 2017.

39 CRS, 4 December 2015.

40 CRS, 4 December 2015.

41 Freedom House, 2017.

42 U.S. Department of State, 2016.

43 Freedom House, 2017.

44 U.S. Department of State, 2016.

child marriage, and harsher punishments for rape.⁴⁵ It also protects the rights of widows to claim a share of their husband's property.⁴⁶

Violence against women and girls remains a serious problem in Nepal, and sexual violence committed against women and men during the ten-year conflict remains largely unaddressed.⁴⁷ The practice of early and forced marriage of girls remains prevalent, limiting their access to education and increasing vulnerability to domestic violence and sexual abuse.⁴⁸ Child marriage was banned in 1963, but the practice is still common in many families.⁴⁹ According to a 2011 Nepal Demographic Health Survey, 55% of women were married by the age of 18, 74% by the age of 20, and 95% by the age of 25; in comparison 70.80% of men were married by the age of 25.⁵⁰ Women who do not marry young are subject to social stigmatisation.

The demand for dowry and other gendered customs continue, despite being made illegal.⁵¹ Traditional practices such as expelling women and girls from homes during menstruation continue in some areas of western Nepal, putting women and girls at risk of exposure to the elements and infection, as well as disrupting access to education.⁵² Allegations of witchcraft often negatively affect rural women, particularly widows, impoverished women, and Dalits.⁵³ Access to health is also gendered in Nepal, and reproductive health for women suffers; the maternal mortality rate in Nepal was 380 deaths per 100,000 live births, safe abortions are difficult to access even though abortions are legal, and the usage of modern contraception methods is low.⁵⁴

Labour migration abroad has increased; remittances as a share of GDP went from 14.9% in 2005-2006 to 32.1% in 2015-2016.⁵⁵ Malaysia, Saudi Arabia, Qatar, United Arab Emirates, and Kuwait are the top destinations for Nepali migrant workers; though flows to India are also very high, they are measured poorly.⁵⁶ In an attempt to protect women from being trafficked, there is a minimum age requirement of 24 years for women traveling overseas for employment, though this does not stop migration through informal channels across the Indian border.⁵⁷ Based on 2014 estimates, urbanisation is at 18.2% with a 3.2% annual rate of increase.⁵⁸

ILO figures on the labour force from 2014 indicate that it is comprised of 12 million people, with a participation rate of 87.5% for men and 80.1% for women.⁵⁹ This gap narrows in rural areas, though there are far fewer men in the labour force in rural areas than women, due to

45 Yadav, 2016.

46 Yadav, 2016.

47 U.S. Department of State, 2016.

48 U.S. Department of State, 2016.

49 Yadav, 2016.

50 Yadav, 2016.

51 U.S. Department of State, 2016.

52 Yadav, 2016.

53 U.S. Department of State, 2016.

54 Yadav, 2016.

55 ILO, January 2017.

56 ILO, January 2017.

57 U.S. Department of State, 2016.

58 CRS, 4 December 2015.

59 NLFS, 2008 (Page 55 of <http://cbs.gov.np/image/data/Surveys/2015/NLFS-2008%20Report.pdf>.)

high rates of migration for work.⁶⁰ The incidence of child labour is quite high, with 11% of boys and 15% of girls aged 5-9 in the labour force and 47.2% of boys and 58.7% of girls aged 10-14 in the labour force.⁶¹

The earthquake of April 2015 and aftershocks displaced millions of people, and as of August 2016 about 20,000 people were still in camps.⁶² Internally displaced persons (IDPs) continue to face challenges, particularly a lack of privacy and security for women and girls, access to toilets, and very limited health care.⁶³ In addition to IDPs from natural disasters there are also IDPs from the civil war, with an estimated 78,700 people having been displaced from 1996 to 2006, a large proportion of whom were unwilling or unable to return home and remained in urban areas.⁶⁴

The 2015 constitution recognizes rights for sexual minorities, but LGBT people face harassment from authorities and citizens, particularly in rural areas.⁶⁵ Same-sex marriages are legal, and passports which allow the holder to select a third gender were issued in 2015.⁶⁶ The constitution prohibits discrimination based on disability or physical condition, but persons with physical and mental disabilities continue to be stigmatised and face discrimination in employment in Nepal.⁶⁷

The GINI coefficient⁶⁸ measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality. In 2011 Nepal had a value of 32.84; for comparison in the same year India was at 35.15. Uganda had the poorest value with 41.01 in 2012.

Key Indicators						
GINI coefficient	2007	2008	2009	2010	2011	2012
<p>The GINI index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.</p> <p>Source: World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments.¹</p> <p>(I couldn't find Gini coefficient for Cambodia in the World Bank data)</p>				32.84		
				32.13		
					35.15	
		35.4				36.4
				36.39		39.16
				44.20		41.01

60 ILO, January 2017.

61 ILO, January 2017.

62 U.S. Department of State, 2016.

63 U.S. Department of State, 2016.

64 U.S. Department of State, 2016.

65 Freedom House, 2017.

66 Freedom House, 2017.

67 U.S. Department of State, 2016.

68 World Bank: World Development Indicators

4.4. Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension is key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. Social protection policies are important in developing and high-income countries, for the role they play in protecting the economically vulnerable from shocks like interruptions to income and by improving equality of opportunity so that families may escape poverty through educational and health attainments. Social protection is key to inclusive growth and social stability.⁶⁹

Ongoing social security schemes are of three major types in Nepal--social insurance, social assistance, and labour market interventions.⁷⁰ Social insurance schemes include pension and gratuity benefits run by the Employees' Provident Fund, insurance for disability, maternity leave, work-related injury, sickness, and survivors' benefits.⁷¹ These are extended to employees in the formal sector. Social assistance programmes include cash transfers, in-kind transfers, primary health care, and basic education, which are generally financed by public spending or directed donor funds.⁷² Labour market interventions include employment programmes, rural community infrastructure works, TVET, skill and entrepreneurship development programmes, and programmes directed at eliminating child labour, all of which are meant to facilitate employment growth.⁷³ In 2014, 27.3% of the total population were beneficiaries of at least one form of social security, which was about 7.6 million people.⁷⁴

Several forms of social protection exist in different sectors, but they do not have a systematic overarching policy framework to guide them. A draft National Framework for Social Security, prepared by the National Planning Commission, is still being developed.⁷⁵ A tax was instituted in 2009-2010 to financial social security initiatives, but the details of these benefit packages have not been designed; similarly, a Social Security Fund established in 2011 under the Ministry of Labour and Employment has not been able to take a leading role in managing social protection due to low institutional capacity and weak coordination between ministries.⁷⁶

The Labour Act of 2017 has provisions to help improve the enforcement of occupational safety and health standards and makes provisions towards better social protection for workers.⁷⁷ More than 90% of the economically active population is involved in the informal economy, which means salaries below the minimum wage, poor employment security, lack of access to public benefits, and poor working conditions.⁷⁸ Extending social protections to workers in the informal economy is one of the emerging issues in Nepal. The ILO has helped the GoN draft a national framework for a social protection floor and provided support with the development of social security programmes in the areas of maternity benefits, sickness benefits, workplace accident and unemployment insurance benefits.⁷⁹

69 Dale et al, 2014.

70 ILO, 2017.

71 ILO, 2017.

72 ILO, 2017.

73 ILO, 2017.

74 ILO, 2017.

75 ILO, 2017.

76 ILO, 2017.

77 The Kathmandu Post, 2 January 2018.

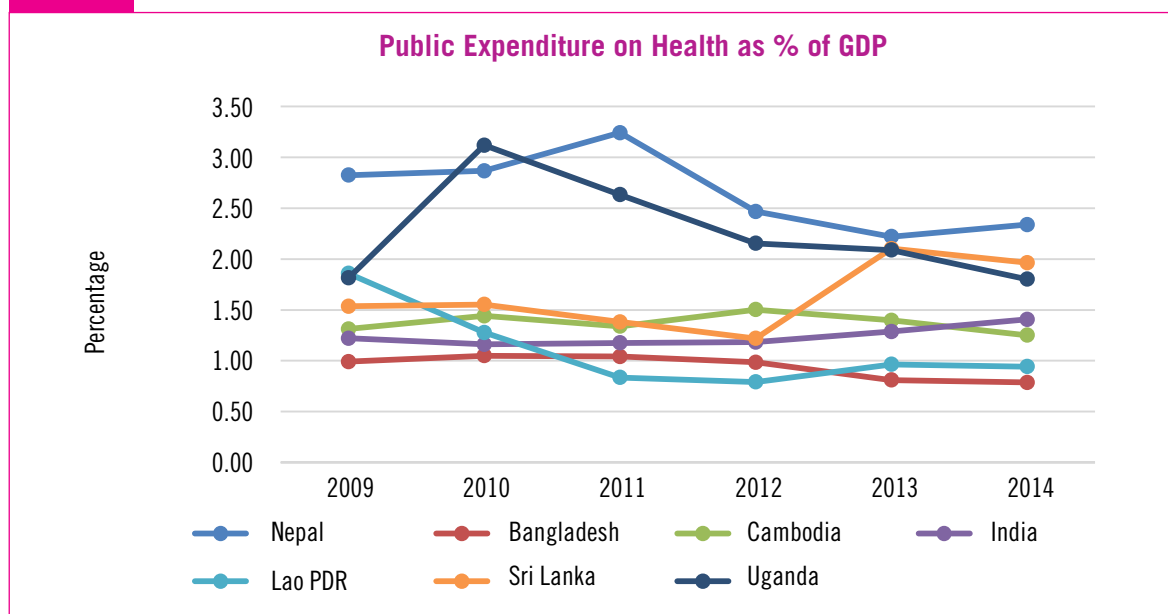
78 ILO, 9 December 2016.

79 ILO, January 2016.

The minimum wage for labourers has been set at NR 9,700 per month and is to be revised every two years.⁸⁰ Minimum-wage laws apply to the formal and informal economy, but enforcement is difficult in the informal economy. By law occupational health and safety standards have been established that enterprises are meant to comply with, as have other benefits, housing facilities, maternity benefits, and so on.⁸¹ Most factories in the formal economy complied with laws on minimum wages and hours of work, according to the Ministry of Labour and Employment, but implementation in the informal economy, particularly in agriculture and domestic servitude, is very difficult.⁸²

Nepal's decade-long conflict⁸³ and the earthquake in 2015 have had adverse effects on the health sector, with severe damage to infrastructure. Health indicators have improved since the end of the war, including child mortality rates, maternal mortality rates, and vaccination coverage, even though health services continue to suffer from being under-funded and short-staffed.⁸⁴

Figure 69: Public Expenditure on Health



Source: World Bank, World Development Indicators

Based on available data for 2014, public expenditure on health as a percentage of GDP in Nepal was 2.34%, which is higher than for any of the comparison countries, the next highest being Sri Lanka at 1.96% in the same year, followed by Uganda at 1.80%. Bangladesh made the lowest public expenditure on health, with just 0.79% of the GDP being spent in 2014.

When looking at coverage by health care, as a percentage of total health care, which measures the percentage of total public and private health care expenditure not financed by private

80 U.S. Department of State, 2016.

81 U.S. Department of State, 2016.

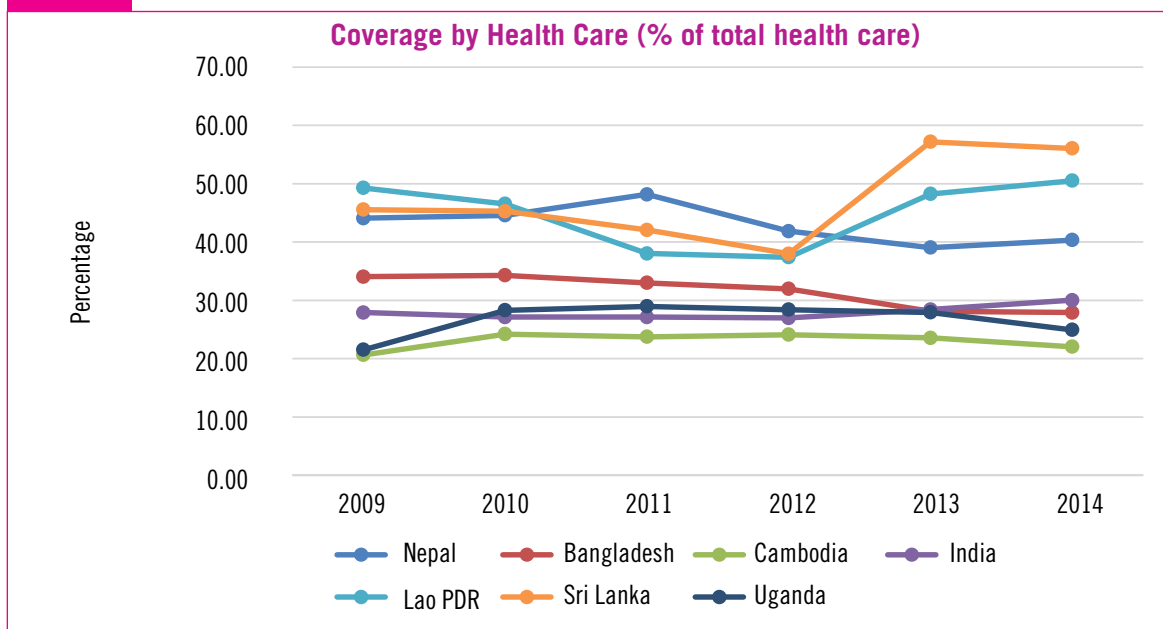
82 U.S. Department of State, 2016.

83 ODI, August 2012.

84 ODI, August 2012.

households' out of pocket payments, Nepal was at 40.33% in 2014. Sri Lanka had the highest at 56.06%, while Cambodia was lowest in the same year at 22.04%.

Figure 70: Coverage by Health Care



Source: World Bank, World Development Indicators

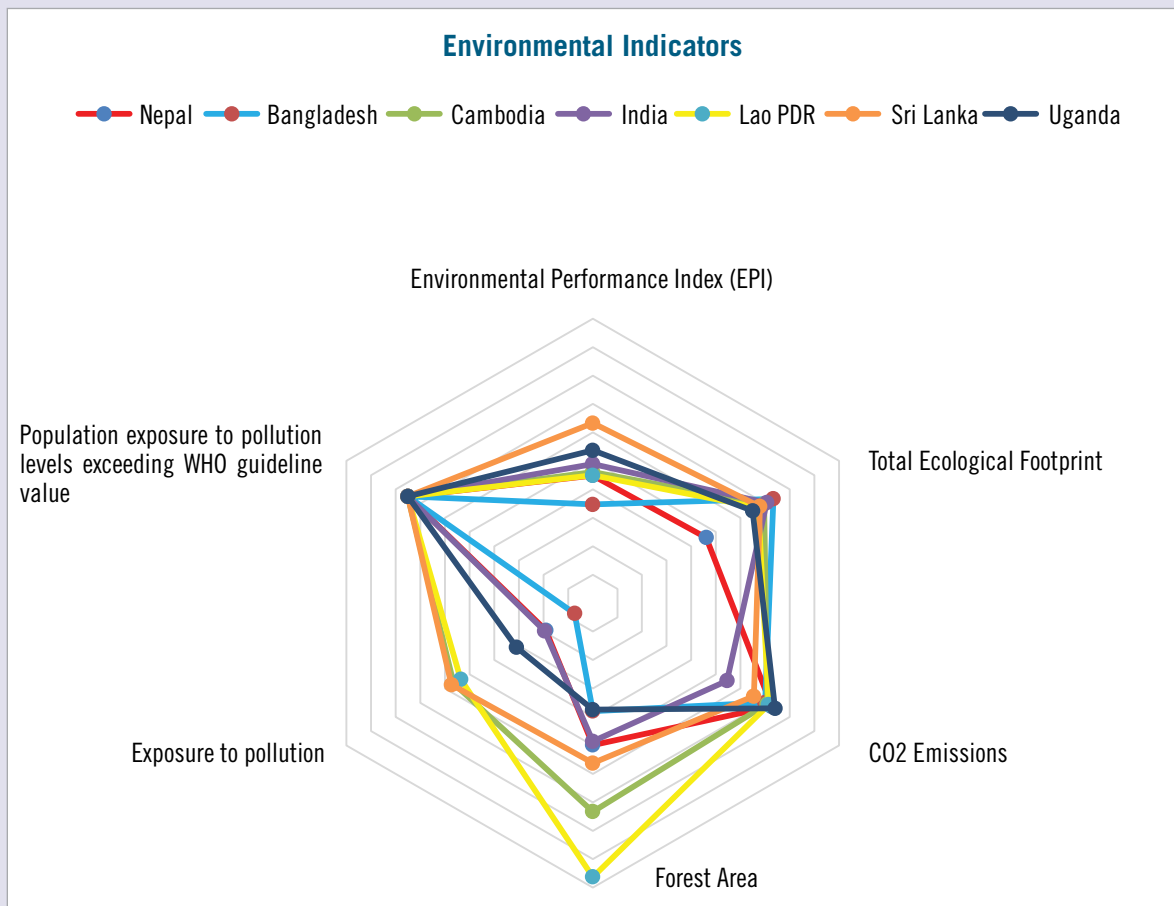
Key Indicators							
Public expenditure on health (% of GDP)							
Public expenditure on health as a percentage of GDP—Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds. Source: World Bank, World Development Indicators		2009	2010	2011	2012	2013	2014
	Nepal	2.82	2.87	3.24	2.47	2.22	2.34
	Bangladesh	0.99	1.05	1.04	0.98	0.81	0.79
	Cambodia	1.31	1.44	1.34	1.50	1.40	1.25
	India	1.22	1.16	1.18	1.18	1.29	1.41
	Lao PDR	1.86	1.28	0.84	0.79	0.96	0.94
	Sri Lanka	1.54	1.55	1.38	1.22	2.10	1.96
	Uganda	1.81	3.12	2.63	2.15	2.09	1.80
Coverage by health care (% of total health care)							
Percentage of total (public and private) health care expenditure not financed by private households' out of pocket payments (as a proxy indicator). Source: World Bank, World Development Indicators		2009	2010	2011	2012	2013	2014
	Nepal	44.08	44.58	48.18	41.86	39.04	40.33
	Bangladesh	34.06	34.28	32.99	31.95	28.11	27.90
	Cambodia	20.65	24.20	23.75	24.10	23.56	22.04
	India	27.90	27.13	27.14	26.97	28.41	30.04
	Lao PDR	49.28	46.55	38.05	37.39	48.25	50.53
	Sri Lanka	45.57	45.27	42.08	38.00	57.18	56.06
	Uganda	21.52	28.28	28.97	28.40	27.94	24.94

(Footnotes)

1 World Bank World Development Indicators.

4 Environmental Elements

Indicators Assessing Environmental Elements of an Enabling Environment for



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

The majority of the population of Nepal is dependent on agriculture for their livelihood, and this makes environmental stewardship very important.

The geographic conditions across the country vary, from the highest peaks in the Himalayas to fertile alluvial plains; the country is prone to both droughts and flooding.

As a result of climate change, Nepal is likely to experience higher temperatures, increased rainfall, famines, and other extreme weather events.

Pollution is low in Nepal as the environmental problems caused are those related to poverty rather than those due to the growth of industry or increased transportation.

Urban air pollution is high.

Water scarcity is an increasing concern in urban areas.

The high population growth rate also puts pressure on the environment.

Nepal's performance on the Environmental Performance Index is poor, but it has managed to arrest deforestation and to keep a steady forest area rate.

5.1. Responsible stewardship of the environment

Sustainable enterprise development is closely linked to responsible stewardship of the environment; sustainable enterprise development requires appropriate regulations, incentives, and public procurement policies that promote consumption and production patterns compatible with a country's environmental sustainability.

Nepal's geography is characterised by mountainous terrain in the north, a central hill region, and the Terai, or flat river plain, in the south. Nepal has 118 ecosystems, 75 categories of vegetation, and 35 types of forest, making biodiversity conservation a critical necessity.¹ The hydrology is largely fed by the South Asian monsoon system, and the relationship between the timing, volume of monsoon rainfall, and mountain landscape is complex but critical, as almost 65 percent of agriculture is rain-fed.² Nepal is landlocked, dependent on agriculture, and vulnerable to natural hazards, including severe thunderstorms, flooding, landslides, drought, and famines.³ The dependence on agriculture and high population growth rate point to a strong need for environmental stewardship. Natural resource management needs improvement, and sustainable farming and tourism practices must be implemented.

The rural poor, indigenous people, and women, in particular, are highly dependent on natural resources for survival, and a great deal of the economy comes from climate-sensitive industries, such as agriculture, forestry and eco-tourism.⁴ Almost 90 percent of the population is dependent on natural resources as their livelihoods' base, and this represents 40 percent of the GDP.⁵

There have been several extreme weather events in the last few years, including longer droughts, frequent flooding of rivers during summer due to glacial melts in the Himalayas, extended summers, and heavy rainfall over short periods of time.⁶ These events, influenced by climate change, have affected crop productivity and food insecurity in the country, as the reduction in agricultural productivity has led to high inflation in the food market.⁷

In 2005 the Ministry of Population and Environment was dissolved, and the Environment Division merged with the Ministry of Science and Technology to form the Ministry of Environment, Science, and Technology.⁸ The Department of Environment, which is housed within this, implements policy

1 USAID, 17 October 2017

2 World Resources Institute, 2017.

3 CIA World Factbook, October 2017.

4 USAID, 17 October 2017.

5 UNDP, 10 August 2016.

6 The Diplomat, 12 August 2017.

7 The Diplomat, 12 August 2017.

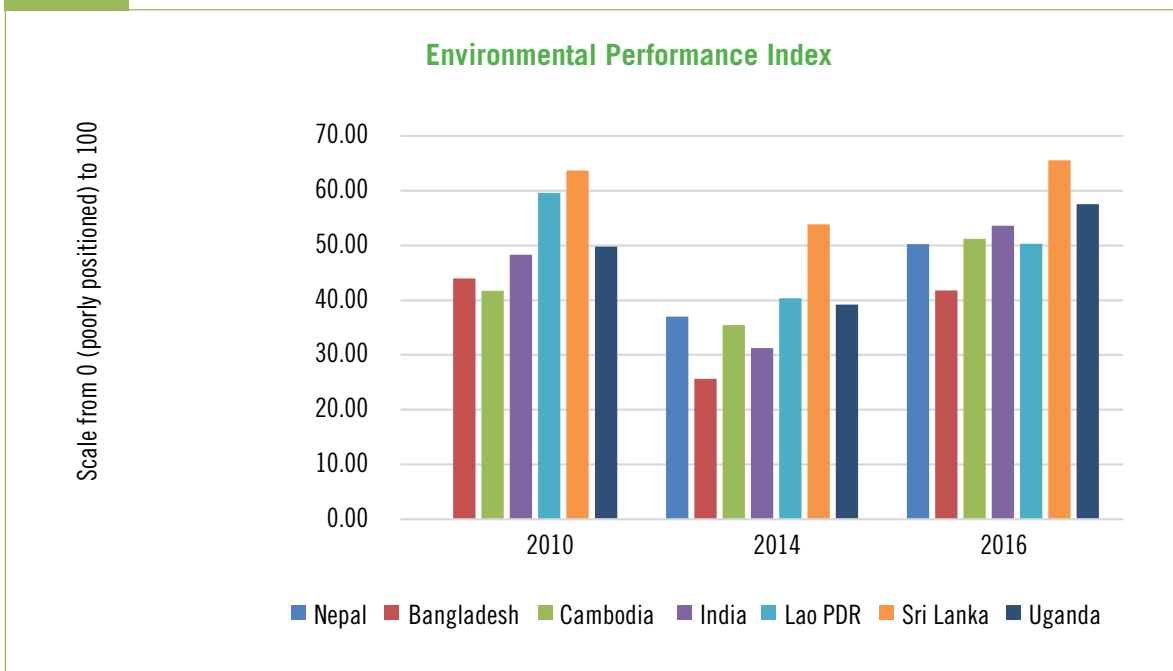
8 Jha, 2007.

and laws related to the environment. National policies to address environmental issues and climate change adaptation exist, as do sectoral level initiatives and legislation, but resources for implementation are scarce.⁹

Environmental problems in Nepal are related to poverty, rather than an unmonitored growth of industry and transportation, of which pollution is one of the side effects. Air pollution, particularly in urban centres, is relatively high, largely caused by the increase in traffic.¹⁰ The high rate of population growth puts great pressure on the environment. Poor water quality is an issue in urban areas.¹¹ Waste management and pollution are serious concerns in urban areas, often leading to the pollution of groundwater. Sustainability and governance issues are linked, and as Nepal establishes efficient governance mechanisms, so will its ability to responsibly manage environmental issues increase.

The Environmental Performance Index is constructed through the calculation and aggregation of several indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals. Performance scores range from 0 to 100, where the higher a country's EPI score, the better positioned it is to maintain favourable environmental conditions into the future. Nepal ranked slightly ahead of Bangladesh and India in 2018 in their EPI score, while Sri Lanka has consistently been the best performer among the comparison groups in the study years.

Figure 71: Environmental Performance Index (EPI)



Source: Yale Center for Environmental Law and Policy¹²

Note: the higher score corresponds to the better performance.

9 Jha, 2007.

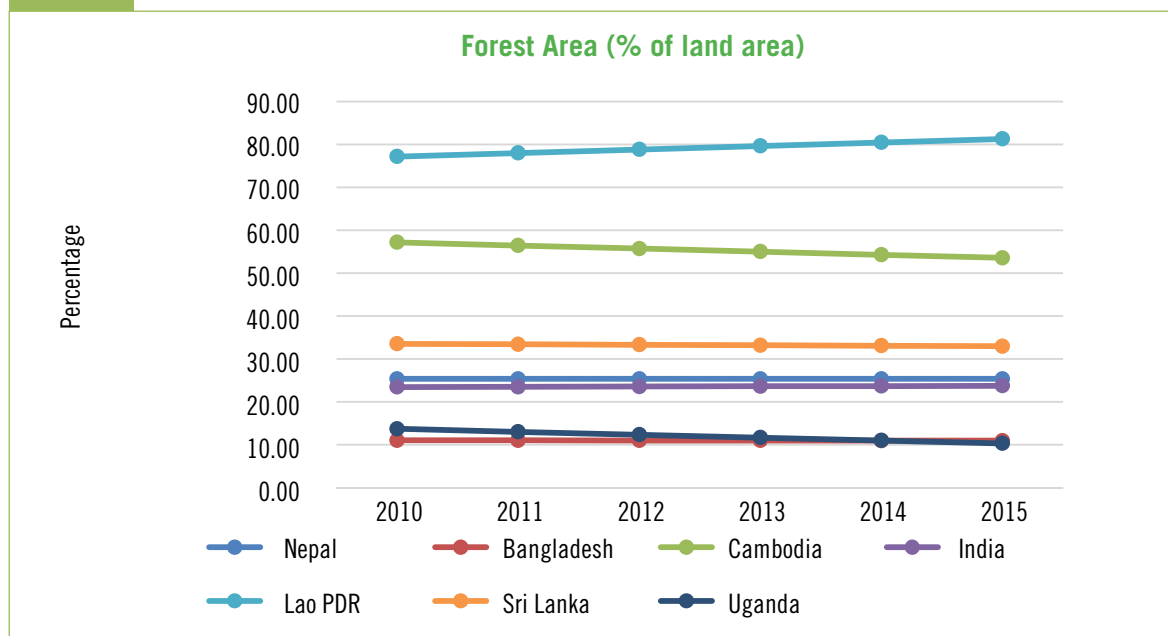
10 International Institute for Environment and Development, 7 June 2016.

11 The Kathmandu Post, 29 September 2016.

12 Yale University's Yale Center for Environmental Law and Policy (YCELP) and Columbia University's Center for International Earth Science Information Network (CIESIN).

The Forest Area indicator has remained stable in Nepal between 2010 and 2015, at 44.5 percent of the land area. Only Cambodia and Lao PDR had a higher percentage of forest cover, with Lao PDR highest at 81.29 percent in 2015. Bangladesh and Uganda have the lowest forest cover at 10.98 percent and 10.36 percent in 2015. India was at 23.77 percent in 2015, similar to Nepal, while Sri Lanka was at 33.01 percent.

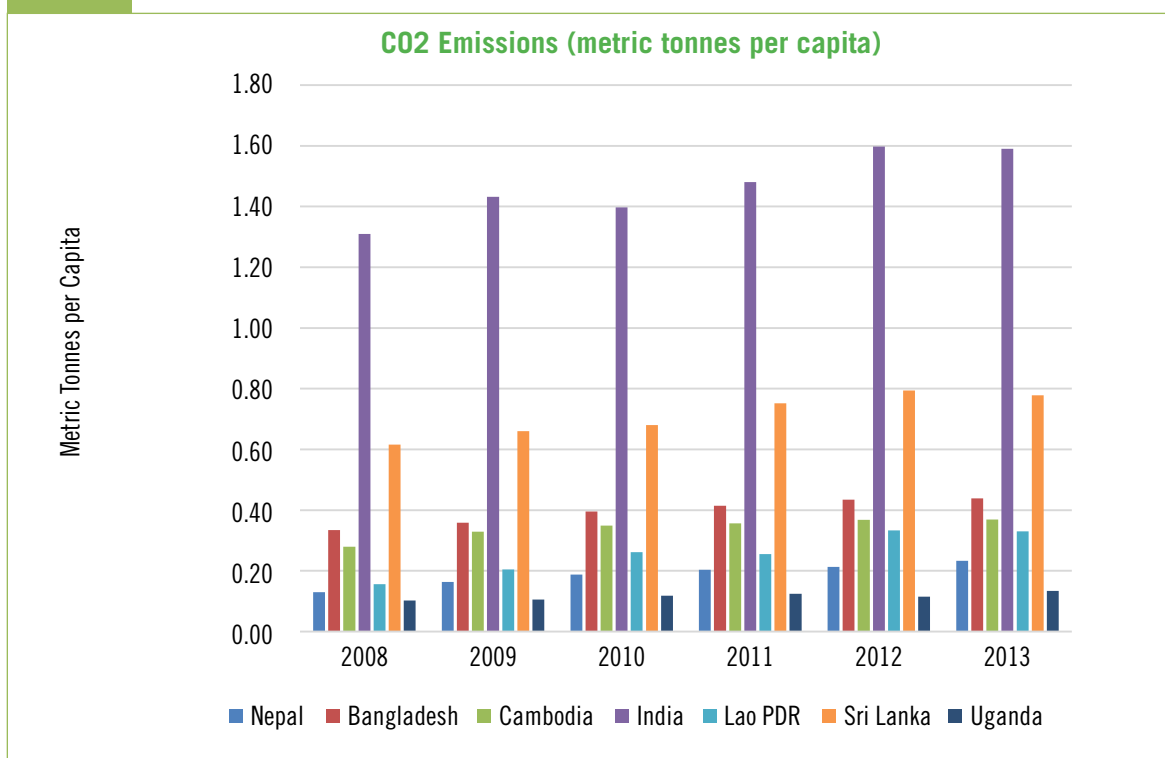
Figure 72: Forest Area



Source: World Bank, World Development Indicators

Nepal's low carbon dioxide emissions are primarily an indicator of low industrial production. At 0.3 metric tons per capita emitted in 2014 it is the lowest among the comparison countries except for Uganda, which emitted 0.1 metric ton in the same year. India was highest at 1.7 metric tons per capita in 2014, followed by Sri Lanka at 0.9.

Figure 73: Carbon Dioxide Emissions



Source: World Bank, World Development Indicators

Key Indicators

Environmental Performance Index (EPI)

The 2014 Environmental Performance Index (EPI) is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change.

The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals.

Source: Yale Center for Environmental Law and Policy

	2010	2014	2016	2018
Nepal		37.00	50.21	31.4
Bangladesh	44.00	25.61	41.77	29.5
Cambodia	41.70	35.44	51.24	43.2
India	48.30	31.23	53.58	30.6
Lao PDR	59.60	40.37	50.29	42.9
Sri Lanka	63.70	53.88	65.55	60.6
Uganda	49.8	39.18	57.56	44.2

Performance score from 0 to 100. The higher a country's EPI score, the better positioned it is to maintain favourable environmental conditions into the future. Note methods for calculating EPIs in different years are not same, and hence the scores across different years are not directly comparable.

CO2 emissions (metric tons per capita)

Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring.

Source: World Bank, World Development Indicators

	2008	2009	2010	2011	2012	2013	2014
Nepal	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Bangladesh	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Cambodia	0.3	0.3	0.4	0.4	0.4	0.4	0.4
India	1.3	1.4	1.4	1.5	1.6	1.6	1.7
Lao PDR	0.2	0.2	0.3	0.3	0.3	0.2	0.3
Sri Lanka	0.6	0.7	0.7	0.7	0.8	0.8	0.9
Uganda	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Forest area (% of land area)

Forest area is land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Nepal	25.36	25.36	25.36	25.36	25.36	25.36
Bangladesh	11.08	11.06	11.04	11.02	11.00	10.98
Cambodia	57.18	56.46	55.74	55.02	54.30	53.57
India	23.47	23.53	23.59	23.65	23.71	23.77
Lao PDR	77.19	78.01	78.83	79.65	80.47	81.29
Sri Lanka	33.54	33.43	33.32	33.22	33.11	33.01
Uganda	13.73	13.06	12.38	11.71	11.03	10.36

5. Assessment Results and Ways Forward

The final results of the assessment of the enabling environment for sustainable enterprises in Nepal indicate that there is scope for improvement across all the pillars.

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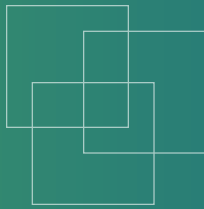
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