

Strategies for Micro, Cottage and Small Enterprises

(A Post-Pandemic Scenario)



International
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Strategies for Micro, Cottage and Small Enterprises (A Post-Pandemic Scenario)

Prepared by:
Purushottam Ojha

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Foreword

Micro, cottage and small industries are considered to be the backbone of Nepalese economy as they make substantial contribution to employment and income to a large number of people. With the spread of corona virus and subsequent lockdown imposed therein, all sectors of economy including life and living of the people were affected. Micro and small industries were not spared from this catastrophe, rather become disproportionately affected in comparison to large and medium industries. This study tries to assess the extent of damages faced by MCSI sector due to pandemic and identifies measures for making a resilient recovery. The recommendations presented in this study also shows a pathway for long term sustainability of the sector, contributing to inclusive growth and poverty reduction and achieving the goal of sustainable development.

The author would like to express gratitude to National Business Initiatives (NBI) Nepal for shouldering this important task of delving into the issues of MCSI and developing advocacy strategy for the private sector organizations and entrepreneurs. Office bearers of NBI including its President Mr. Kush K Joshi provided valuable suggestions and inputs for the study. Similarly, representatives of various organizations including the government ministry and departments and private sector business organizations provided their suggestions during Key Informant Interview, formal discussions and individual meetings. I owe all of them. Finally, I also express my deep appreciation to the staffs of International Labor Organization Office in Kathmandu for their support and advice to carry out this study.

Purushottam Ojha,

Former Secretary, GON,

Consultant

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List of acronyms

ADB	Asian Development Bank
BFI	Banking and Financial Institutions.
CBS	Central Bureau of Statistics
CNI	Confederation of Nepalese Industry
CSIDB	Cottage and Small Industry Development Board
CSR	Corporate Social Responsibilities.
DCSI	Department of Cottage and Small Industries.
DFQF	Duty Free Quota Free
DOI	Department of Industry
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FNCSI	Federation of Nepalese Cottage and Small Industries
GESI	Gender Equality and Social Inclusion
GSP	Generalized System of Preferences
IPR	Intellectual Property Rights
IT	Information Technology
KW	Kilo-watt
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MCSE	Micro Cottage and Small Enterprises
MEDEP	Micro Enterprises Development Project
MEDPA	Micro Enterprises Development for Poverty Alleviation
MOALD	Ministry of Agriculture and Livestock Development

List of acronyms

MOFSC	Ministry of Forest and Soil Conservaiton
MOICS	Ministry of Industry, Commerce and Supplies
MOLESS	Ministry of Labor Employment and Social Security
NBF	Nepal Business Forum
NBI	National Business Initiatives
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NTA	Nepal Telecom Authority
NTIS	Nepal Trade Integration Strategy
NTWCL	Nepal Transit and Warehousing Company Limited
OPMCM	Office of the Prime Minister and Council of Ministers
PMAMP	Prime Minister's Agriculture Modernization Program
PMEP	Prime Minister's Employment Program
SAARC	South Asian Association for Regional Cooperation
SEZ	Special Economic Zones
TEPC	Trade and Export Promotion Center
VAT	Value Added Tax
WTO	World Trade Organization

Note: The word MCSI and MCSE are interchangeably used in this report.

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Industrialization in Nepal was started from home based informal enterprises, also famously called "cottage industries" that used traditional knowledge, skills and mostly local materials in productions. Kathmandu valley and other major cities in hills and Terai were the center of production of a wide range of goods from textile to garment, agro-processing, wood carving, manufacturing metal craft, woolen rugs, carpets, household utensils, among others. Peoples of specific occupational caste were mainly involved in production. However, the establishment of public sector industries in the country started in mid 1930s during the reign of Rana PM Juddha Shumshere. The first five year plan (1956-61), introduced after the abolishment of Rana regimes, ushered a new era for the planned development of industry in the country.

A strategic shift in the industrial sector was introduced in early nineties with the restoration of multi-party democracy in the country. Bustles of regulatory reform were carried out through enactment of various legislations, including the industrial enterprises act, foreign investment and technology transfer act, labor act and privatization act, among others. Amendment in the industrial enterprises act and foreign investment and technology transfer act and enactment of SEZ Act were made in recent years.

Micro, cottage and small industries represent a large share of Nepalese industries. The total number of registered MCSI with the district offices has reached 349,625 till 2018-19. Among these highest number; 88 percent is occupied by small industries. Among all industrial enterprises registered in Nepal MCSI occupies almost 99 percent in numbers with 90 percent share in overall employment in the industrial sector. Local municipalities are empowered to register micro and cottage industries while the micro enterprises can also operate without registration for a year. Hence, producing an exact statistics of MCSI is still a challenging task.

Micro, cottage and small industries forms backbone of Nepalese manufacturing sector in terms of employment, contribution to export

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and generating revenue for the government. But, this sector was heavily affected due to Covid-19 and consequential lockdowns imposed by the government since 24th March 2020. Movement of people, means of transport, operation of all kind of businesses including manufacturing industries were shut down till the end of April, causing a colossal damages to the national economy. Gradual opening of the economic activities since May and lifting of ockdown, observing health and safety standards, with effect from July 21, 2020 gave some respite to ailing economy. Downward revision of growth target for 2019-20 were made three times, finally landing to negative growth of 1.99 percent in basic prices.

A survey done by Nepal Rastra Bank in June 2020 and follow up survey done at the end of year (December) shows that in aggregate, only 4 percent of the industries were in operation in June while the number increased to 54 percent over a period of five month, which is mainly attributed to easing of Covid-19 restrictions and impact of relief measures. However, the survey shows that micro, cottage and small industries are disproportionately affected and the resiliency of the big industries were better in comparison to the small and micro industries.

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medium and 75 percent of large industries came to full operation by the period. There is improvement in employment situation in December in comparison to June 2020. The level of employment in the cottage, micro and small industries has increased over the period while it has decreased for medium enterprises.

Government of Nepal and Nepal Rastra Bank announced some immediate measures with a view to minimize the adverse impact of Covid-19 on industry and businesses. Government of Nepal primarily responded to the crisis by taking immediate protection measures on public health by creating testing facilities for Covid-19 infections and establishment of quarantine and treatment centers for the infected persons. Second; customs duties were waived for the medical items like mask, sanitizer, surgical gloves and personal protective equipment (PPE); third, it was the distribution of food to limited extent to those deprived from job; fourth, economic support were provided to firms with deferred payment of taxes and concessional loan facilities to the affected industries. Nepal Rastra Bank also announced program that included liquidity support to the banking and financial institutions for facilitation of credit to the private sector, relaxation on regulatory requirement and reduction in interest rate for financing and refinancing. Those announcements were latter reinforced and encapsulated in the regular budget of the government and monetary policy of the central bank.

The micro, cottage and small industries in particular are facing problems related with transactional loss due to drop in demand of goods and services on one side while their production and market access is affected at the other, mainly due to obstruction in transportation and movement of people causing lack of raw materials, intermediary goods and other inputs required for production. Thus, industries faced both demand and supply shocks. Importantly, industries faced problems in managing finance and liquidity for overall operation of their units on account of dried up revenue amid the delayed response in obtaining support from the banks and financial institutions.

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A broader feeling among entrepreneurs remains that concessional loans and financial support measures announced by the government is mostly enjoyed by the large and medium industries. Micro, cottage and small industries are left behind in taking benefits of support measures; first a large number of micro and small entrepreneurs are running informally, second, those which are registered are not fully aware of the facilities provided by the government and third, they are distressed due to heavy administrative burden and need of navigating windy road in availing the concessional loans and facilities. The provision of collateral free loan up to NRs. 1.5 million also remains largely unutilized due to complex process in obtaining the loan.

In the above context, major problems faced by the micro, cottage and small industries are; lack in realization of the concessions and benefits announced by the government and central bank due to administrative hassles and bureaucracy, problems in accessing export markets due to inappropriate rules of origin criteria, non-tariff barriers, and complex trade procedures. Besides the complex and time consuming duty refund procedures is taking a toll on all export oriented industries. Lack of financial skills, digital technology and unfair market practices and non-compliance of the procurement rules on preferential use of domestic products by the public sector agencies are other vexing issues for the industries.

Resiliency of micro, cottage and small enterprises in post pandemic period: Micro, cottage and small industries that has potential to transform the Nepalese economy to a new height through generation of employment, and self-employment opportunities to a large number of economically active population, increase their income, generate revenue to the government and help in balancing external trade by supporting export. However, the industries collectively suffered demand and supply shock, exacerbated by lack of finance caused by the loss of revenue. This put firms in difficulty, particularly in keeping the employee and wage workers intact and making payment for raw materials and other production inputs. In this context, the industry demands prudent policy and strategic measures which rest upon

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constituents like improvement of policy and regulatory reform, organizational reform, building a strong and sustainable financial base, followed by effective monitoring and follow up mechanisms. The followings are proposed measures to make the sector vibrant and resilient in the post pandemic period.

First, government of Nepal should come up with the plan of bringing substantial changes in the current policy and regulatory framework targeting the micro, cottage and small industries. This would require formulating a dedicated MCSI policy with special dispensation in favor of the industries. This will be a departure from the traditional approach of generic industrial policy. Similarly, the provincial governments should be encouraged to bring MCSI policy specific to the province. In view of achieving synergy in implementation, the Prime Minister's Agriculture Modernization Program (PMAMP) may be aligned with the need of agro based industries while Prime Minister's Employment Program (PMEP) and Youth Self-Employment Program (YSEP) in creating employment on small scale manufacturing activities by re-orientation of their program. The establishment of export trading house is a long cherished dream of the industries in reaching out to global markets. Hence, supporting legislation need to be enacted from the parliament for establishment and operation of export trading houses. The existing disharmony among pieces of legislations like income tax act, company act and industrial enterprises act need to be corrected and harmonized. Special relief packages including production, marketing technical, and financial support should be devised and implemented to revive the MCSI industries. These units should be enabled to link with the large and medium industries established in the special economic zones and industrial estates.

Second, there should be reorientation in the current organizational pattern and allocation of human resources in the sector. There should be a strong institutional set up in the federal government in order to provide policy direction, establish coordination and maintain database of the MCS industries. In view of addressing challenges associated with growing trade deficit, government of Nepal may consider creating a

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dedicated institutions for export promotion that can be done by creating an autonomous authority or by strengthening the current TEPC. Similarly, an assessment of the human resources requirement for the industries should be made with a long term vision; training and retraining program should be carried out at a wider scale and should be tied up with the retention plan. Returnee migrant should be included in such training program in order to enable them to find jobs in the domestic markets.

The current handicraft design center should be turned into design and training center in order to check and reverse the decreasing number of artisan in the country.

A business counselling unit need to be established in each municipal and district offices that are responsible for registration of micro, cottage and small industries. These units should be should be entrusted with the responsibilities of providing technical and advisory services to the potential entrepreneurs and new entrants of the industries.

Third, focus should be given in development of physical and IT infrastructure to the reach of micro, cottage and small industries. Development of industrial village at municipal level, product display centers, warehouses, collection centers and MCSI clusters within SEZ and industrial zone should be encouraged. Investment in infrastructures should take due consideration of creating linkages and connectivity between MCSI and medium/large industries. Government of Nepal should take measures in attracting investors in the existing SEZ by providing further concessions in rental charges and other incentives. Similarly, increasing coverage of broadband services and IT literacy program for the entrepreneurs are important element for utilization of IT infrastructures by the industries.

Financial support and facilitation of market access is another important area for development of MCS industries. Operationalization of integrated industry and investment promotion fund at federal and provincial level, provision of seed money and subsidy in interest rate, transportation and electricity charges and integrated support in

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business development are the potential measures in supporting the industries from the public sector. The duality of industry registration and business registration in different entities should be removed and replaced by a single point registration. Concessional loans for the industries should be provided for fairly a longer period (from 4-5 years) from the current provisions of 6-12 months period.

Government of Nepal should take initiatives for review and revision in the existing trade treaty with India and China in order to ease the market access for MCSI products.

Last but not the least, effective coordination among various stakeholders in the public and private sector is important for ensuring right delivery of services to the industries. For this, the institutional mechanisms of Nepal Business Forum (NBF) should be strengthened. A separate working group on MCSI could be formed under the Forum. A result framework based on forthcoming five years program could be developed by the NBF with defined goal that will increase transparency and efficacy of MCSI development program. The CSR fund of the cottage and small industry should be pooled together and utilization of such fund should be bought under the jurisdiction of private sector business organizations.

Micro, cottage and small industries are also the means for achieving inclusive and sustainable growth as enshrined in the United Nation's Sustainable Development Goals (SDG). The pandemic has disproportionately affected the production and export of MCSI related goods. Bringing industries to full-fledged operation and in a better shape than before requires number of measures mentioned which includes; increasing liquidity in the capital market, increasing government spending in development of infrastructures, provision of targeted subsidy and fiscal subsidy. In a new setting after pandemic, there should wider support and incentives to go digital in their daily transaction. The effort to transform the informal business to formal should be consistently pursued by means of incentives and easing regulatory constraints. Measures announced by the government for

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tackling the debacle of pandemic is seems to be inadequate in context of re-emergence of the second wave of corona virus in the country. Hence, government of Nepal should come up with a bold and actionable measures to contain the virus in new setting and protect industries from further damages.

Introduction

The history of development of micro and cottage industries in Nepal goes back to centuries when people in various geographical region used to engage in manufacturing of hand woven textiles and clothing, making of utensils, kitchenware, leather goods, shoes, wood carving, making sculptures, paintings, bamboo works and stone craft, among others. Kathmandu, Patan, Bhaktapur in Kathmandu valley and Illam, Dhankuta, Bhojpur, Banepa, Birgunj, Pokhara, Baglung, Palpa and Doti were the cities outside valley that took lead in producing crafted goods needed by the people and for limited export to India and Tibet, China.

However, the organized development of industries in the country was started during the reign of Rana Prime Minister Juddha Shumshere with the establishment of Industrial Council in 1935 followed by the issuance of Company Act and Banking Act in 1936, opening of Nepal Bank Limited and establishment of 29 other industries, like jute mills, paper mills, mining company, soap and oil, plywood and furniture and so on. Cottage industry office and training school in Tripureshwor, display center in New Road and cottage industry enterprises offices in Baglung, Palpa, Bandipur, Banepa and Bhojpur were opened in order to increase economic activities in the country¹.

A dedicated organization in the name of Department of Cottage and Village Industry² was established in 1974 (B.S 2030) in order to promote and administer the industries in the country. This structure was later reinforced with the establishment of two parallel organizations in the name of Department of Cottage and Small Industry (DCSI) and Cottage and Small Industry Development Board (CSIDB) in 1992. The district offices were also allotted between the Board and the Department with 27 offices with the former and 48 district offices with latter.

¹ Nepal During That Time (Tyas Bakhatko Nepal); part 2and 3 by Sardar Bhima Bahadur Pande: pp 180-181.

² Later it was renamed as Department of Cottage and Small Industries (DCSI).

The country ushered in the era of industrial development with the adoption of first periodic plan (1956-61) where the industry sector got an allocation of 6 percent of the total budget earmarked (NRs. 330 million) for the five year period. The plan envisaged; identification of priority industries for the country based on survey and research in consideration with availability of raw materials, labor force and financial resources; revival and expansion of cottage industries selected on the basis of their quality and capacity to survive; and encouragement of private sector in industrial investment. Establishment of Industrial Research Bureau and industrial Financing Corporation was also planned in order to provide support to the industries. Industrial policy, foreign investment policy and regulatory acts were also bought out during the ensuing plan periods.

A breakthrough in the industrial policy and foreign investment policy were introduced during early nineties with the adoption of multi-party democracy and open and liberal economic system. Government ushered in liberalizing all sectors of economy including trade, industry, tourism, transport, and labor market among others. Businesses were highly deregulated and role of government were redefined as the regulator and facilitator of trade, commerce and businesses. New industrial policy and foreign investment policy were formulated and the Industrial Enterprises Act-1992, Foreign Investment and Technology Transfer Act-1992 and Privatization Act-1994 were legislated by the parliament. Nepalese currency was made fully convertible in current account and the licensing system in export, import and industry were largely abolished except a short negative list maintained for licensing. This sort of open general licensing system was a policy departure from the traditional command and controlled economy. A new industrial policy was bought out in 2010 replacing the policy of 1992 while the Industrial Enterprises Act was revised and updated in 2017 (BS 2073) and subsequently in 2020 (BS 2076) in order to reflect the need of facilitation and regulation of industrial development process in the country.

The Industrial Enterprise Act-2076 (2020) has classified the industries in five categories according to their nature and size of operation. These are: micro-enterprises, cottage industries, small, medium and large industries. The Act has defined micro-enterprises as the one having; a fixed capital of up to NRs. 2 million (except the house and land); entrepreneur him/herself directly engaged in the enterprises, employing a maximum of 9 laborers, annual turnover of less than NRs. 10 million and in case of using energy, the capacity of the engine, equipment and machinery should be consuming less than 20 kw of power. Cottage industries are classified as the one based on traditional skill and technology, labor intensive, based on specific skills and using local raw materials, technology and culture. Besides, such industries consume less than 50 KW of electricity in case of applying engine, equipment or machinery in production. The IE Act has listed the categories of cottage industries such as handloom, pedal loom, weaving of carpet, pashmina, handmade paper, handicraft items, casting of statue, gold and silver jewelry, terracotta, stone works, paintings, wood carving, ceramics, brick making and jute goods, among others.

enterprises, employing a maximum of 9 laborers, annual turnover of less than NRs. 10 million and in case of using energy, the capacity of the engine, equipment and machinery should be consuming less than 20 kw of power. Cottage industries are classified as the one based on traditional skill and technology, labor intensive, based on specific skills and using local raw materials, technology and culture. Besides, such industries consume less than 50 KW of electricity in case of applying engine, equipment or machinery in production. The IE Act has listed the categories of cottage industries such as handloom, pedal loom, weaving of carpet, pashmina, handmade paper, handicraft items, casting of statue, gold and silver jewelry, terracotta, stone works, paintings, wood carving, ceramics, brick making and jute goods, among others.

Small industries are defined as enterprises having a fixed capital of up to NRs. 150 million but not falling under the micro and cottage

industries. Besides, the Act has also classified priority industries in 14 categories³. These includes; cottage industries, energy related industries, agro-forest related industries, infrastructures, export oriented, tourism, investigation and extraction of mines and minerals, hospitals, nursing homes in the rural areas, IT industries, SEZ/Industrial districts, high value low volume products, NTIS products and film making.

Status of micro, cottage and small industries

An integrated information on the numbers of the firms, employment numbers, total investment and production of MCSI is not available from a single source. However, annual report published by the Department of Industry mentions that in FY 2018-19, altogether 52,629 industries were registered with the district offices of cottage and small industries that collectively plan to invest NRs. 93.6 billion employing 201,966 person. Out of the total employed 70,885 are women and 131,081 men. The number of entrepreneurs were 55,071; of these 15,675 were women and the rest men⁴. The total number of registered MCSI with the district offices has reached 349,625 till 2018-19 of which the share of micro, cottage and small industries were 7, 5 and 88 percent respectively. (For details see Annex-1). Out of these, 44,000 MCSI are member of Federation of Nepalese Cottage and Small Industries (FNCSI), a national level organization of the micro, cottage and small industries in Nepal.

With the set-up of federal structures in the country, local municipalities are also empowered to register the micro-enterprises with the overlap of jurisdiction. Besides, micro-enterprises can also be run for a period of one year even without registration⁵. According to the Economic

³ See Annex-9 of Industrial Enterprises Act-2076.

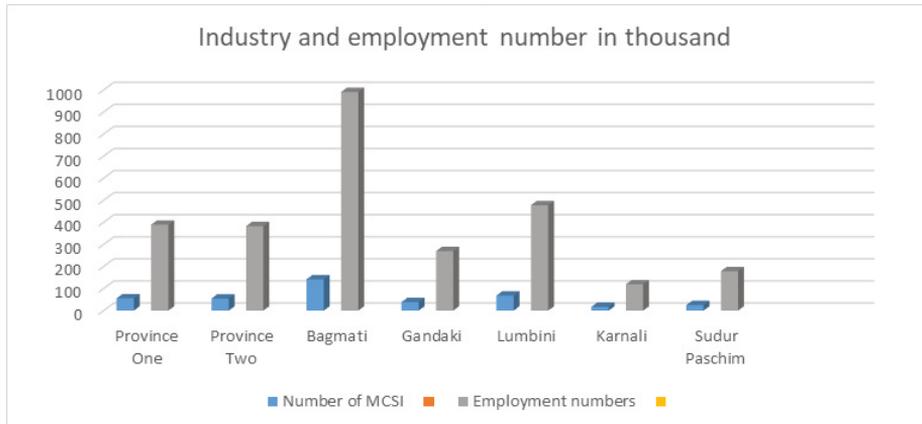
⁴ Source: Micro, Cottage and Small Industries: Statistics-2075/76, pp 77:

⁵ Department of Industry, Government of Nepal.

Such provision is made under Clause 5 (3) of the Industrial Enterprises Act-2076.

Survey-2020, the number of micro, cottage and small industries till mid-July 2020 has reached 401,236 that is estimated to providing employment to 2.8 million people. Of the total registered micro, cottage and small enterprises the highest number, 35 percent is registered in Bagmati, and the lowest in Karnali with 4 percent of total. Province One and Two each 14 percent, Lumbini Province and Sudur Paschim 17 and 6 percent respectively.

Figure 1: Province wise distribution of the MCS industries and employment numbers

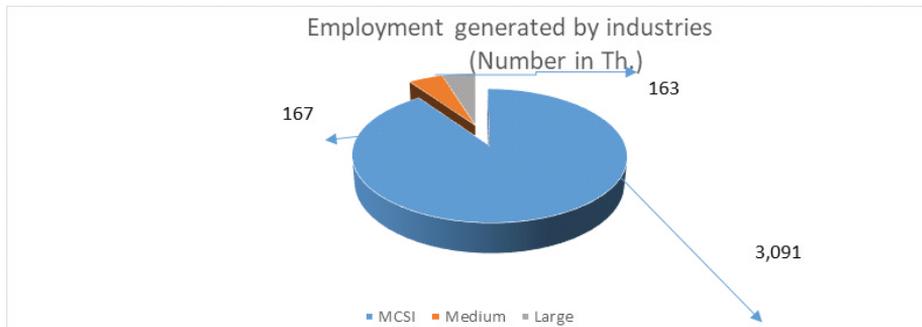


Source: Economic Survey-2020, GON, Ministry of Finance

Every year almost 500 thousand work force enters into labor market in Nepal. Of these, almost 41 percent work in informal sector. A large number also find their place as migrant workers abroad, particularly in Gulf countries and Malaysia. This has left chasm between the demand and supply in the number and skills of the workers for the domestic industries.

All categories of industries registered in Nepal has a capacity of generating employment to 3.4 million person. Of these, 91 percent of the employment or 3.1 million is generated by the MCSI sector; followed by medium industries (167,000) and large industries (162,600) (Shrestha-2021).

Figure 2: Employment generated by industries



Source: Economic Survey-2020, GON, Ministry of Finance

The Industrial Enterprise Act (IEA) has classified all industries in eight different clusters whereas these also falls under five vertical categories; from micro enterprises to cottage, small, medium and large industries. Some important businesses that falls under the micro, cottage and small industry categories, but not limited to, are as follows:

Classification of Industries

This covers a wide range of businesses that are run in a tiny scale and most of them directly managed by the owner. The number of such industries registered till the end of 2018-19 was 26,078 which comes around 8 percent of the total registered MCSEs in the district offices. This shows that many micro enterprises are run in the districts informally and their number still goes unrecorded. However, it can be said that most of these enterprises are home based, use agriculture and forest based raw materials in in the process of making value added products.

Micro Enterprises

Micro Enterprise Development Program (MEDEP) was developed and implemented with the support of UNDP and Ausaid in late 90s with the objectives of creating entrepreneurship and providing business development services to the enterprises in an integrated manner. The Micro-Enterprises Development for Poverty Alleviation (MEDPA) program, was later developed as the successor of MEDEP in order to roll out and sustain the process while creating enterprises through

Table 1: MCS classified under various sectors

Sectors	Categories under MCS Classification
1. Agriculture and forest related	Production of cereal, fruits, vegetables, livestock, dairying, fishery, spices, condiments and cash crops, cold warehouse, saw mill, furniture etc.
2. Energy related	Solar energy, small and micro-hydropower projects, bio-gas etc.
3. Manufacturing	Products manufactured by all categories of industries (Not specified in IE Act)
4. Mines and minerals	Extraction of sand, boulders, mining materials
5. Infrastructure related	Irrigation channels, drop irrigation, construction industries
6. Tourism	Hotel restaurant, trekking, home stay, rural tourism etc.
7. IT related	ISP, BPO, Cyber cafe, web portal, data center, data processing
8. Services	Workshop, printing press, construction services, photography, laboratory, garbage, collection etc.

social mobilization, entrepreneurial and skill development trainings, increasing access to finance and technology, and support marketing of

their products. This program is being expanded gradually with geographical coverage in all districts of Nepal.

The MEDEP and the MEDPA program together has created a total of 172,514 entrepreneurs comprising of 41,340 men and 131,160 women. Of these, the highest number of entrepreneurs (35,977) in Bagmati Province and the lowest (17844) in Province Two⁶.

Cottage Industries

Cottage industries are largely labor intensive, normally use domestic raw materials, local skills, art, culture and enterprises run on traditional

Table 2: List of cottage industries (as notified in the IE Act-2076)

Categories	Types of Industries
Textile and garment	Hand woven radi, pakhi, carpet, pashmina, wool and silk Industries based on natural fiber, jute, sawai grass, allo, bamboo fiber etc.
Stone and sculpture	Traditional sculptures, stone cutting, precious and semi-precious stones found in the country, stone-arts, and decorative items.
Iron and metallic products	Handmade utensils, and handicrafts made of copper, brass, bronze, iron made products like knife khukuri, sickle, spade etc.
Gems and jewelry	Gold and silver jewelry.
Paintings and traditioanl dolls	Thangka painting and traditional art, mask, traditional dolls and toys.
Products of wood, bones, soil, leather etc.	Wood carving, ceramics, pottery, tanning, and products made from animal bones.
Cultural and musical products.	Traditional musical instruments, and other handicraft items that reflect the traditional arts and artefacts.

⁶ Source: MEDPA. GESIMIS, Database-2020: www.medpa.moics.gov.np/home

knowledge. Annex-2 of Industrial Enterprises Act-2076 has provided extensive list of cottage industry that can be largely classified into the following seven categories:

Small Industries

Registration of small industries are done either in the district offices of the cottage and small industries or in the Department of Industries. The number of such industries registered with the district offices till the end of 2018-19 were 311,430 while DOI record shows the number of small industries till the same period was 5,124. Thus it is observed that almost 98 percent of the small industries are registered with the district offices. The jurisdiction of industry registration seems to be obscure in context of such authorities being exercised by the local municipalities as well. Some industries those registered at the municipalities also complained that they were not recognized by the Bank to provide the concessional lending, rather insisted that they should be registered with the district offices.

Impact of the pandemic (COVID-19)

Covid-19, reported at the first place in Wuhan, China in December 2019, took a heavy toll in the global economy due to surging cases in many parts of the world. The first case of the corona virus was detected in Nepal in January 2020 which gradually spread in many districts. Government of Nepal imposed lockdown in the country since 24th

March 2020, amid the fear of surging infection. Movement of people, means of transport, operation of factories, and businesses were completely shut down till the end of April. In view of restraining wider damage to the national economy, government of Nepal allowed partial relaxation in operation of 44 types of industries and services since the first week of May. The lockdown was ended in July 21, 2020 taking consideration of declining trend of virus infection. Businesses started limited operations by observing basic health and safety regulations announced by the government. The imposition of restriction in movement of the people and transport system helped to contain the spread of virus but it adversely affected the economic, political and social life of the people at large.

The macroeconomic indicators of Nepal were moving in positive directions particularly after the shock of 2015 and 2016 wreaked by earthquake and blockade. The GDP recorded a growth of more than 6 percent over the three year period before the onset of pandemic. But, the pandemic and the subsequent lockdown affected all sectors of economy, with spiraling downward growth of economy. Government of Nepal slashed down the projected growth target for the fiscal year 2019-20 from 8.5 percent to 7 percent in the interim period and ultimately to 2.27 percent in May 2020.

The impact of Covid-19 in Nepalese economy was more severe than expected in the subsequent revisions in growth target. The Central Bureau of Statistics (CBS) has recently published the figure of national account on 4th March 2021 which shows the GDP growth rate was negative by 1.99 percent (at basic prices) in 2019-20 from the previous estimates of 2.27 percent. The agriculture sector has shown a slight positive growth of 2.23 percent while the non-agriculture sector recorded a negative growth by 3.73 percent. Among the losers are the hotel and restaurant (-25.72 percent), followed by transportation and storage (-13.37 percent) and manufacturing (-9.05 percent). Among the gainers are electricity, gas and water with positive growth of 25.58 percent, followed by public administration and defense, 6.16 percent, financial and insurance services, 4.75 percent, health and social work,

5.2 percent, education 3 percent and real estate, 2.37 percent (CBS-2021).

Table 3: Industry operation between two consecutive periods of Covid-19

Industrial classification	June 2020			December 2020		
	Not in operation	Partial operation	Fully operational	Not in operation	Partial operation	Fully operational
Agriculture, forest and fishery	15.79	52.63	31.58	3.03	33.33	63.64
Mines and mining	16.67	66.67	16.67	33.33	33.33	33.33
Manufacturing	34.15	60.16	5.69	8.65	42.31	49.04
Electricity, gas and water	40.0	60.0	0.00	33.33	0.00	66.67
Construction	58.33	37.50	4.17	5.56	50.0	44.44
Wholesale and retail trade.	57.89	40.0	2.11	3.39	31.64	64.97
Hotel and restaurant	90.99	7.21	1.80	23.76	46.53	29.70
Transportation and storage.	76.47	23.53	0.00	12.50	37.50	50.00
Communication.	27.27	45.45	27.27	9.09	54.55	36.36
Real Estate, rental and business activities.	88.89	11.11	0.00	25.0	37.50	37.50
Education.	95.74	4.26	0.00	29.55	59.09	11.36
Health and social sector.	7.69	69.23	23.08	8.33	33.33	58.33
Other sectors	78.75	15.00	6.25	11.27	39.44	49.30
National average	61.03	34.92	4.05	9.07	36.98	53.95

Source: Nepal Rastra Bank, 2021

Nepal Rastra Bank carried out a survey in June-July 2020, in order to assess the impact of COVID-19 on industry and businesses. That survey indicated that after the lockdown, 61.03 percent of the industries were closed and only 4.1 of them were fully operational. However, with the decrease in the number of infection and relaxation on restrictions in movement of people, transport vehicles and opening of business observing basic safety standards resulted in improvement of situation in bringing back the industries to operation. According to follow up survey carried out by NRB in December 2020, 54 percent of the industries have come to full operation from a paltry figure of 4 percent in June 2020. The state of business/industry operation in two consecutive period of Covid-19 is presented in Table 3.

Micro, cottage and small industries are disproportionately affected due to pandemic. The resiliency of the big industries seems better in comparison to the small and micro industries; only 47 percent of

Table 4: Resiliency of industries (with classifications)

Types of industries	June 2020			December 2020		
	Not in operation	Partially operated	Fully operational	Not in operation	Partially operated	Fully operational
Cottage industries	63.7	33.56	2.74	16.79	36.64	46.56
Micro enterprises/retail trade	61.81	32.29	5.90	8.14	40.31	51.55
Small industries	63.69	28.66	7.64	14.08	47.18	38.73
Medium industries	44.44	50.0	5.56	12.24	38.78	48.98
Large industries	48.28	44.83	6.90	8.33	16.67	75.0
National average	61.03	34.92	4.05	9.07	36.98	53.95

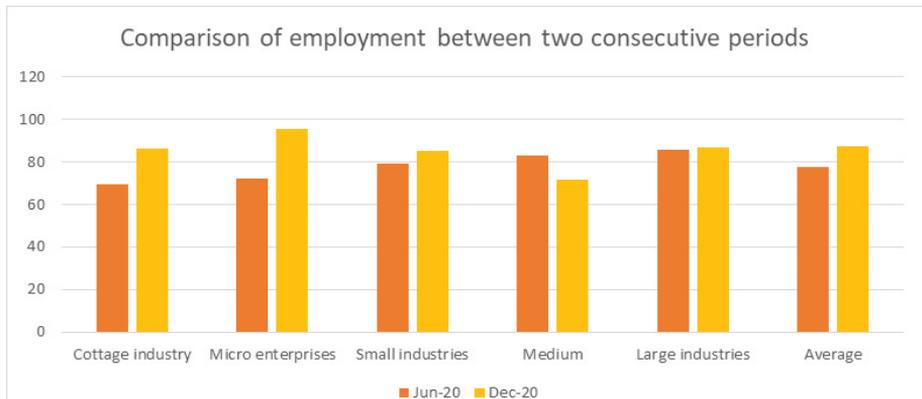
Source: Nepal Rastra Bank, 2021

cottage industries and 52 percent of the micro-enterprises were operational in December 2020 whereas 49 percent of medium and 75

percent of large industries came to full operation by the period respectively (NRB-2020).

There is considerable improvement in employment situation in December in comparison to June 2020. The rate of employment in the industries were 77.5 percent in June while this has gone up 88 percent in December 2020. The level of employment in the cottage, micro and small industries has increased over the period while it has decreased for medium enterprises.

Figure 3: Loss of employment due to COVID-19



Source: Nepal Rastra Bank, 2021

Measures announced by the government

Government of Nepal and Nepal Rastra Bank announced some immediate measures with a view to minimize the adverse impact of Covid-19 on industry and businesses. Government of Nepal primarily responded to the crisis by taking immediate protection measures on public health by creating testing facilities for Covid-19 infections and establishment of quarantine and treatment centers for the infected persons. Second; customs duties were waived for the medical items like mask, sanitizer, surgical gloves and personal protective equipment (PPE); third, it was the distribution of food to some extent to those deprived from job; fourth economic support to firms, deferred payment of taxes and concessional loan facilities to the affected industries. Nepal Rastra Bank also announced program that included liquidity support to the banking and financial institutions for facilitation of credit to the private sector, relaxation on regulatory requirement and reduction in interest rate for financing and refinancing. Those announcements were latter reinforced in the regular budget speech of the government and monetary policy of the central bank.

Measures announced in the Budget-2020

Budget speech delivered by the Finance Minister in the parliament contained elements of relief and support to the ailing industries from the impact of Covid-19. These included:

Payment for food relief to laborers in informal sector: Budget has been allocated for the Covid-19 affected informal sector laborers for payment of one-fourth of the minimum wages as food relief.

Fund to support for MSMEs and tourism industries: A dedicated fund of NRs. 50 billion is set up for lending the MSMEs and tourism industries for meeting the requirement of working capital and wage payment to the workers. The interest rate will be 5 percent in this loan.

Support on electricity charges: Exemption and rebate will be given in electricity charges for household usage. Manufacturing industries will get the exemption in demand charges of electricity during the period of lockdowns and 50 percent rebate during the period of weak demand.

Fund for refinancing and innovative business: A NRs. 100 billion fund is set up for refinancing the enterprises (agriculture, manufacturing, SMEs, hotel and tourism) at the interest rate of 5 percent. Similarly, a NRs. 500 million fund is set up for innovative business to be initiated during pandemic which will be provided at the interest rate of 2 percent.

Government lending money to the enterprises for contribution to social security fund: Government of Nepal to deposit the amount of contribution to be made by the employer and employee to the social security fund that would be reimbursed by the enterprises once the business gets normal.

Rebate in fee and charges and expansion of training programs: Rebate to be given in license fee and renewal charges. There will be extension of bank guarantee period for the contractors. Skill development programs will be carried on various vocations like handicraft manufacturing, plumbing, electrician, carpenter, mason, hair cutting etc. Use of domestic products like handicraft, textile, shoes, will be encouraged. Altogether NRs. 4.34 billion has been allotted to train 75,000 person.

Revival of sick industries and other measures: Revival program will be implemented in order to bring the sick industries into operation. A 50 percent subsidy will be given for loan security and commercial

insurance and an allocation of NRs. 13.96 billion has been made for this purpose. A SAARC level exhibition hall will be constructed in Kathmandu. (MOF-2020)

Measures announced in monetary policy

Commercial banks are required to finance the agriculture and energy sector as part of priority sector lending in proportion as assigned for three consecutive years. They also require providing concessional loans from branch offices and implement refinancing schemes as instructed by NRB.

In accordance with the Business Continuation Loan Procedures-2077, approved by the Cabinet of Ministers, credit flow has begun since December 2020 at the interest rate of 5 percent for the Corona affected tourism, cottage, small and medium enterprises for the purpose of making payment to the wages of the employees and workers.

The amount of concessional loans disbursed under refinancing scheme reached NRs. 69.96 billion by mid-Jan 2021. In addition to this, the total demand of NRs. 45.25 billion concessional loans is being processed for release to 37 BFIs in accordance with the Refinancing Procedures-2077.

By the end of Poush 2072 B.S (mid-Jan 2021), altogether 60,879 firms got concessional loans amounting to NRs. 100.37 billion. In agriculture and livestock sector, 33,817 firms received loan amount NRs. 76.59 billion and the rest NRs. 23.77 billion was disbursed to other 27,063 non-agriculture businesses. The following table presents disbursement of loan for various enterprises till mid-January 2021.

Table 5: Concessional loans provided from banking sector

S.No	Types of loans	Number of borrower			Outstanding loan amount		
		2019 Mid-Jul	2020 Mid-Jul	2021 Mid-Jan	2019 Mid-Jul	2020 Mid-Jul	2021 Mid-Jan
1	Commercial agriculture and live-stock	17,203	24,763	33,817	32,189.5	54,114.1	76,590.6*
2	Educated youth self-employment	24	65	103	11.5	35.2	51.3
3	Project loan for youth-returnee migrant workers	49	221	539	32.9	151.7	402.0
4	Women entrepreneur	796	6682	25,298	512.2	4,353.5	21,781.8
5	Dalit community business development	70	351	630	36.3	185.3	365.1
6	Higher, technical and professional education	60	84	87	14.5	20.0	34.3
7	Housing loan for earthquake victim	93	221	240	24.6	54.7	56.8
8	Loan to textile industries	-	61	164	-	648.5	1,082.9
9	Loan to training by CTEVT approved institutions.	-	-	1	-	-	0.2
10	Youth self-employment	-	-	-	-	-	-
Total		18,295	32,448	52,048	32,821.5	59,563	100,365.1
* Loan extended under "Unified Procedure (third amendment) for Interest Subsidy on Concessional Loan, 2075".							
** Without collateral = Rs. 1,211.1 million and with collateral Rs. 75,379.5 mil.							

Source: NRB, *Current Macroeconomic and Economic Situation based on first six months data 2077-78.*

Concurrent issues

The industries in general and the micro, cottage and small industries in particular are facing problems related with transactional loss due to drop in demand of goods and services on one side while their production and market access is affected due to obstruction in transportation and movement of people causing lack of raw materials, intermediary goods and other inputs required for production. Thus, the industries faced both demand and supply shocks. Importantly, industries faced problems in managing finance and liquidity for overall operation of their units on account of dried up revenue amid the difficulties in obtaining support from the banks and financial institutions.

Administrative burden and bureaucratic hassles are the bottlenecks in easy access to concessional finance for the entrepreneurs: The entrepreneur's has the broader feeling that concessional loans and financial support measures announced by the government is mostly enjoyed by the large and medium industries. Micro, cottage and small industries are left behind in utilizing the support measures; first many micro and small entrepreneurs are run informally without registration, second, those which are registered are not fully aware of the facilities provided by the government and third, they stay out of the process of getting the concessional loans and facilities due to heavy administrative burden and need of navigating windy road to complete the process. The provision of collateral free loan up to NRs. 1.5 million also remains largely unutilized due to complex process in obtaining the loan.

Incentive measures announced in the budget and policy document are not fully implemented: Current year's budget speech delivered by the Finance Minister mentioned waiver of demand charge of the electricity for the industries and wider range of training to prepare trained human resources that could be employed in all categories of industries. Among these, the former one is not yet implemented while the latter is

implemented at a very slow pace. Industries are willing to have more job oriented and on the job training than the academic course in the training institutions. Those trained in the formal training centers have a tendency to go for foreign employment and those trained as intern are likely to remain within the country either as employee or start their own enterprises.

The provision on promoting the use of domestic products in public procurement remains largely unimplemented: The procurement act of Nepal has made a provision of granting preferences to the domestic products in comparison to similar imported products. Accordingly a guideline issued by the government in 2013 stipulates that various categories of specified goods (of which mostly falls under micro, cottage and small industries categories), should get preferences in procurement over the similar imported goods up to a higher price level of 10 percent⁷. Similarly, government of Nepal in budget speech of 2020-21 fiscal year has stated that uniform and shoes to be used for the police and military staffs will come from domestic industries. These provisions, although explicitly expressed in the official documents, remain only in paper and not yet implemented.

Facilitation and support measures for the industrial sectors are largely sapped by big and medium industries while the micro, cottage and small industries are unable to reap benefits. MCSI has not been able to participate in refinancing scheme as most of them are out of the ambit of banking system for project financing. There are specific support provision in favor of MCSI in the industrial policy of the government and related regulations in terms of waiver in income tax, VAT, excise duties and customs duties but these are also not strictly followed during implementation. The need of MCSIs are not well considered while developing special economic zones and industrial estates.

Lack of knowledge in digital technology, lack of financial skills, and unfair market practices is hampering healthy growth of the sector: Being small in size, low annual turnover and lack of financial literacy, many micro, cottage and small industries are not well acquainted with

⁷ Guidelines on use of domestic products by public offices-2069; published on Nepal Gazette, 2070.01.23

and do not bear capacity to adopt digital technology in their business model. A large number of these enterprises are not registered and operate informally⁸. And these remain out of the reach of financial support, facilities and incentives announced by the government. Often those industries fall prey to the unhealthy trade practices and the market dominance of the large and medium industries as well as becomes uncompetitive in comparison to the cheap imports from outside.

Export of MCSI goods is discouraged due to inappropriate rules of origin criteria and hassles in refund of duties and taxes: Nepalese goods are entitled to get duty free access to various markets under the preferential trading arrangements. Nepal has bilateral preferential trade agreement with India and gets preferential market access in developed countries like US, UK EU, Canada, Japan and Australia under the GSP schemes. Government of China provides zero tariff preferences to almost 8000 products in six digit customs classification (HS) under DFQF provisions. However, the rules of origin criteria and the process prescribed therein are not conducive to the MCSI products. Similarly, the process of taking duty refund including refund of value added tax paid in import of raw materials and intermediary goods generally takes six month period. While the fee for obtaining export-import (EXIM) code is 0.5 million rupees which is excessively high for small industries and exporters.

MCSI registration has no clear juridical demarcation often resulting to duplication between local municipalities and provincial/central governments: The registration of industries are normally done at the Department of Industry in the center. However, the sector of industry, mines and physical infrastructures has been included in the list of concurrent jurisdiction between the federal and provincial government⁹. The district offices of cottage and small industries under the provincial governments carry out registration of the industries in the district. Micro and cottage industries are also registered at the local

⁸ The result of Economic Census-2018, conducted by the Central Bureau of Statistics shows that out of the total 923,356 establishment (classified under the Nepal Standard Industrial Classification-NSIC) in the country, only 50 percent or 462,605 are registered and rest are running informally. The establishment running without registration are high in; repair of vehicle and motorcycle ((278,747), followed by accommodation and food services (82,590), manufacturing (53,458) and human health and social work activities (5,047). Source: www.cbs.gov.np

⁹ See No. 15: Schedule-7 of Constitution of Nepal 2015.

municipalities but financial institutions including banks do not recognize the registration done at the local municipalities for the purpose of providing credit facilities to the firms. Even in case of industry registered in the districts, the district offices normally refer to the Department of Industry for completing the IEE and EIA procedures. Industry also complain that industry registration fee imposed by the provincial governments are exorbitantly high for the micro and small industries.

Way forward: Building Back Better

Follow up survey carried out by Nepal Rastra Bank on impact of Covid-19 in December last year shows that sectors like agriculture, forest and fisheries and wholesale and retail trade has shown better resiliency over the previous 5 month with almost 64 and 65 percent of the businesses coming to full operation at the end of period. While the sector of hotel and restaurant, education and real estate are in the low ebb of recovery with only 30, 11, and 38 percent of the establishments coming back to full operation. Manufacturing sector was reeling with 49 percent of the units operational in December 2020.

The industries collectively suffered demand and supply shock, exacerbated by lack of finance for supporting and sustaining them in the wake of heavy losses of revenue income. This put the firms in difficulty, particularly in keeping the employee and wage workers intact and making payment for raw materials and other production inputs. The demand shock was induced by loss of income, travel restrictions, slowdown of the major economic activities including transport services and frugal mindset of the consumers. Likewise, the supply side went sloppy due to lack of raw materials and intermediary goods for

production, interruption in transport services and shortage of labor. The micro, cottage and small industries suffered disproportionately due to lack of wherewithal for operation. Precipitous fall of sales revenue and income, added debt burden, made them unable to repay bank loan and interest as well as wages to the employees and staffs. Government has announced support measures for those ailing enterprises but not considered sufficient to bring back into pre-pandemic level.

In the above context, government of Nepal should give a fresh impetus to revive and rebound the micro, cottage and small industries that has potential to transform the Nepalese economy to a new height through generation of employment and self-employment opportunities to a large number of economically active population, increase their income, generate revenue to the government and help in balancing external trade by supporting export. However, this demands for prudent policy and strategic measures on part of the government which could be worked out in association with the industries at large. Measures for reconstructing the sector lies in improvement of policy and regulatory reform, organizational reform, financial and other support mechanism, and a strong monitoring and follow up measures.

Nepal's industry and trade policy are more generic and normally do not discriminate in provision of support and facilitation measures between various types of industries. Industry specific policies are needed for enhancing production, productivity, establishing linkages in regional or global value chain. MCSI products like handicraft, pashmina, woolen carpets and garments occupy major share in export basket of Nepal since 1970s and still continuing to be so. There are certain niche products like tea, coffee, large cardamom, ginger and medicinal herbs as the export potentials and some of these have also been included on the NTIS list of export potential products. Leather goods and footwear are likely to be the rising star in export basket in future. There are good prospects of expanding tourism, health, education, information technology and business process outsourcing in the services sector. Devising product and services specific policy, strategy and program will help in providing focused attention in production, product

development, marketing and export that connect Nepalese products in international value chain and help in improving export.

In view of the importance of micro, cottage and small industries in creating employment opportunities and income to the people, all provincial governments should come up with their own specific MCSI policy on development of products and services that are based on indigenous knowledge, skill and resources and meaningfully contribute to productions, income and job opportunities at the local level.

The disharmony persisting between various pieces of legislations need to be corrected and made conducive to addressing the cause of micro, cottage and small industries. For example, exemption of income tax for micro enterprises as allowed by the Industrial Enterprises Act but not permitted by the Income Tax Act. Similarly, the Office of Company Registrar (OCR) does not ask for audit report for the companies having an annual transaction of less than NRs. 2.5 million while Tax Office demands the audited report irrespective of the volume of transaction. This has added burden particularly on micro and cottage industries. Hence, government should take initiatives in ironing the contradictions contained in various regulations. List of legislations that need to be reviewed in context of MCSE development is given in Annex-3.

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Align and integrate the plan of production enhancement and employment generation with MCSI recovery plan: Government of Nepal has bought out various programs in order to support the production

enhancement and employment creation among a large spectrum of Nepalese economy. These mainly includes Prime Minister Agriculture Modernization Project (PMAMP), Prime Minister's Employment Program (PMEP), Youth Self-Employment Fund (YSEF) and President's Women Empowerment Fund (PWEF). PMAMP is the complementary project to achieve the broader agricultural development goal of Agricultural Development Strategy (2015-35). The program has set the physical target of making the country self-sufficient in major cereal crops (paddy, wheat and maize) in 3 years, vegetables and fish in 2 years and fruits within 7 years. Similarly, it has set the target of creating additional employment opportunities of 510,000 partial job and 25,500 permanent jobs over a period of five years of its implementation. Similarly, the PM Employment Program (PMEP) aims at providing employment to a large swath of unemployed youth in maintenance of local roads, infrastructures, irrigation channels, ponds, rural water supply, sanitation, agricultural market centres, and maintenance of public and touristic places. The PMEMP can play an important role in creating job opportunities for unemployed youth in the urban as well as rural areas. The Youth Self-Employment Fund aims at increasing employment within the country for the young people who are aspiring to go abroad as migrant workers while the PWEF aims at providing skill development and capacity enhancement training to the women in general and those in Dalit, indigenous, Muslims and marginalized groups in particular. These programs could be linked with MCSI recovery plan by supporting training and retraining of workers in various trade; strengthening the capacity of employment information centres at the municipal level, enhancing coordination between enterprises and the trained workers.

Support enterprises to become innovative through business development services thereby integrating training, skill development program, product design, product development and marketing program together. Micro-enterprises development for poverty alleviation (MEDPA) could be a good business model to be rolled out at a larger scale. The industrial enterprises act has also made provision of

providing seed money to the enterprises, cooperatives, micro-enterprises, cottage and small industries in the least developed areas. This provision should be leveraged in supporting innovation, business incubation and support to start ups, and entrepreneurship development at municipal levels, particularly in remote areas. This initiatives could also be tied up with one village/district one product program.

Nepalese MCSI sector in general and the handicraft sector in particular is facing problem of trained human resources. Hence training, retraining and skill development program should get priority in development agenda and such program should also be linked with retention measures: There are institutions and training centers established in the public and private sector that provide vocational training in various trade. First of all, such trainings are not necessarily linked with the requirement of industries, small or big. Secondly, graduates particularly from CTEVT affiliated institutions, are leaving the country for better job opportunities in Gulf countries and Malaysia. Hence, government of Nepal should prepare a comprehensive plan for organizing training on various vocations, based on the need assessment of industries including the micro, cottage and small industries. At the same time, a retention plan need to be developed and put into place in order to retain the trainees voluntarily in the country. Government may consider providing compensation to the intern worker for some period (preferably for a period of six month) that will help the trainees to become fully integrated in the industries as skilled worker.

The training and retraining program should take due consideration of upskilling the returnee migrant workers so that they could be linked with the production activities in the country.

Government should also consider in creating a dedicated training center for handicraft given the special skills of the art and craft required for industries. Alternatively, such training center could also be accommodated within the handicraft design center established in Kathmandu.

Each and every registration office for MCSI should establish a business counselling unit within their organizational structures that will provide practical advice and guidance to the potential investors or entrepreneurs. The role of this unit would be somewhat akin to Enterprises Development Facilitator under the MEDPA and could provide guidance and advisory services in the early stages of industries, particularly in respect of registration, setting up industries, and availability of credit, technical services, raw materials, marketing and sales of their products.

Assist in developing industrial infrastructures targeting the micro, cottage and small industries: The development of industrial estate, industrial clusters and special economic zones help in facilitating the process of industrialization in the country as industries do not require navigate the stressful process of land acquisition. But these physical facilities mostly serve the large and medium industries, overlooking the needs of micro, cottage and small industries. The concept of industrial village has been put forward in the annual budget plan of the government since last two years but the rate of implementation of creating such clusters is not gaining pace. It is apparent that the MCSIs to be established in industrial villages and large and medium industries in SEZ and industrial estate should remain complementary in order to create synergy in overall industrialization of the country. Two things are important in this respect. First, industries located in the industrial villages should link their production (intermediary goods or finished products) with the big industries in industrial estate/zones, and secondly, the plan of industrial and economic zones should include the establishment of the auxiliary industries within their premises. This will help in linking MCSI with the medium, large and export oriented industries. In view of difficulties in procuring land for industries, government should ease the process of providing government owned land to industrial villages/clusters on a leasehold basis.

A central level display centre should be established in the capital city-Kathmandu and at all Provincial headquarters that will help in promotion of domestic products. Similarly, an international level exhibition facility

should be created for organizing the regular fair of the Nepalese good and carry-on business to business meetings and consultations.

Bring legislation for establishment and operation of export trading houses that could be the potential means for connecting micro, cottage and small industry products to the international markets. It has been much touted topics due to its potential benefit for micro, cottage and small industries but little attended in action. A guidelines was developed and bought out by the Ministry of Industry, Commerce and Supplies in 2004 but could not be implemented due to its weak legal base. The objectives of export trading house was to help the cottage and small industries to reach out international markets as, by size and nature of operation and lack of experiences, they find difficulties in becoming a direct player in international trade. The trading houses serve the industry in two ways. First, they provide conduit for passage of MCSI goods to international markets; secondly, they pass on the benefits of export to the manufacturer/producer of the goods which are scattered and smaller in size of operation.

Operationalize the federal government and provincial government industry and investment promotion fund to support the MCS enterprises. The industrial enterprises act-2076 has created a single industry and investment fund, at the federal and provincial level replacing micro, cottage and small industry fund and women entrepreneur development fund, under a single framework. But, this fund is yet to be made operational, pending the formation of regulations and procedures for utilization and administration of the fund. Government of Nepal and the respective provincial governments should come up with the operational procedures, guidelines and pertinent regulation for the operation and use of fund at the earliest.

Implement programs for increasing backward integration of the exportable product that will give a boost for creating job and employment opportunities at home. A large number of Nepalese youth are outside the country as migrant workers; most of them in Gulf countries and Malaysia. Over the last decade since 2008-09, the

Department of Foreign Employment has issued over 4 million labour approvals to Nepali workers¹⁰. One of the reasons for this large number of exodus is the lack of employment and job opportunity at home. There are opportunities to create additional jobs in agriculture, forestry and mining sector supporting the backward integration of the manufacturing industries. For example, raising of mountain goat in high hills could become source of cashmere for Pashmina industries; cotton farming for spinning and textile industries, mining of iron, copper and precious stones for handicraft industries. High value agriculture in the form of fishery, bee keeping, mushroom farming, ginger and large cardamom could be the source for food processing industry. Promotion of these products would help in achieving value added services for MCS enterprises. Apparel and garment has the potential of becoming competitive product of the country if backed by production of yarn, textile and accessory materials within the country.

Nepal should be able to use the forest resources, stone, gravel and boulders wisely by allowing sustainable extraction of resources mitigating the adverse impact on environment. Handicraft industries particularly need these resources as raw materials in making wooden craft, wood carving and stone sculptures.

In view of stagnation of export in comparison to colossal increase in volume of import over the years, government should consider creating a dedicated organization for supporting export of Nepalese goods and services. This can be done by creating an independent and autonomous authority or by strengthening the current organization of trade and export promotion centre (TEPC). Such an organization should support the development of export oriented products and services, including quality assurance, proper marking, packaging and labelling, product promotion and facilitation of market access. Besides, the organization should be able to provide integrated services to the export oriented industries.

The task of registration and administration of MCS industries are devolved to provincial and municipal level in the new federal set up of

¹⁰ Nepal Labor Migration Report 2020: Ministry of Labor, Employment and Social Security: Pp 3: www.moless.gov.np

the country. However, the federal government in the centre should take a lead in providing policy and strategic directions, overall coordination, creating a central database, effective monitoring and evaluation of MCSI development program. There should be a thorough review of the current administrative arrangement of having a small unit in the Department of Industry for central level functions. This may be replaced by a stronger division in the current department or alternatively government should consider creating a separate Department to look into the affairs of micro, cottage and small industries.

Renegotiate the treaty of trade and the preferential trading arrangements in order to facilitate market access to MCSI products:

Nepal has signed preferential trade agreement with India while such unilateral trade preferences are available from other countries like China, EU countries, US, Japan and Australia either under WTO DFQF scheme or under GSP provisions. Two giant neighbours of Nepal form a big market of the globe in itself with a combined population of 2.7 billion. However, Nepal incurs heavy trade deficit with both countries and tremendous gap particularly with China. Problem in export of Nepalese goods is associated with the rules of origin criteria, plethora of non-tariff barriers and connectivity issues. Rules of origin criteria mentioned in agreements with India and China are not friendly to MCSI products. The micro, and cottage industry products normally use traditional method of manufacturing and covers a wide range of design, shape and size. The producer in such cases face difficulty to formally complete the process of export requirement and obtaining certificate of origin for export. Hence, the trade agreement in such cases should make provision of simplified ROO criteria for MCSI products and explore for assigning product specific criteria. Besides, there should be a critical review of the provisions in the treaty of trade with a view to explore the reasons behind poor performance of Nepalese export and the provisions in the treaty should be made to correct the pathetic scenario of trade.

Nepal-India treaty of trade has made a specific arrangement for export of MSME product from Nepal to India. The treaty stipulates that there

will be no application of excise duties in small-scale units (SSI) products exported from Nepal to India and will be treated at par with their domestic production (NTWCL-2010). But, there is no clear idea about the implementation of this provision to the benefit of SSI products from Nepal. This need to be revisited during the forthcoming review of the bilateral treaty of trade.

Reactivate Nepal Business Forum (NBF) and bring issues related to the micro and small enterprises to debate and discussions: A formal and organized process of public private dialogue was initiated in 2010-11 with the formation of Nepal Business Forum from the executive order of the Cabinet of Ministers. This body constituted five tiers of dialogues from high level forum (chaired by the Prime Minister) to steering committee, private sector development forum, working group and regional forums at sub-national level. This dialogue process although created a decade ago largely remained dormant over the past few years. The new industrial enterprises act has also made a provision related with formation of NBF with the objectives of identifying issues and problems in operation of industries, promoting industrial investment and providing suggestions to the government through a regular, transparent and result oriented dialogue process¹¹. Working Groups were considered to be the most effective level of dialogue among various tiers. It is high time to revive the forum and constitute a dedicated working group on MCSI that will discuss issues and facilitation measures on micro and cottage industries.

Proper and productive use of CSR fund by the small and cottage industries should be ensured. The amount of fund earmarked by those industries individually are small and may not be sufficient to carry out any social task substantially. Hence, provision has to be made in the existing acts and regulations to pool up the fund from many enterprises together and manage the fund by the representative organizations of MCS industries.

Special support and dispensation on tax should be given for the micro, cottage and small industries including those producing coronavirus related medicines and equipment. Government in the current situation

¹¹ Clause-48 of Industrial Enterprises Act-2076.

can support the sector by deferring tax collection, at least, for those who have in the past had set record of timely payment of taxes and duties. Seed capital may be provided to the start-up industries, innovation, youth and women entrepreneurs.

Government announcement on encouraging use of domestic textile and footwear products for the police and military staffs and preferential treatment of domestic products in public procurement remains largely unimplemented. This provision should be implemented vis-à-vis with measures of improving quality as well as making arrangement for producing adequate quantity as required by the procuring agencies.

Some other smart support measures could be announced by the government. For example, subsidy could be provided on; transportation of agricultural inputs and produces, electricity charges for industries; provision of cold chain and warehouses, and in purchase of refrigerated vans for transportation.

Improve governance, simplify administrative procedures and implement innovative facilitation measures. Dual registration points and extra business registration in the municipalities has remained as causes of distress to the micro and cottage industries. This need to be simplified with single point registration and with application of zero or nominal registration fees. Government should consider enabling the online registration in order to decrease the administrative burden on industries.

Government of Nepal has established single spot service center at the federal level in Kathmandu. In view of growing need of facilitating industries outside Kathmandu valley, government may consider establishing similar units at the provincial level. Such units should be given clear terms of references for operation.

Complex process for paying taxes should be replaced by simple mechanisms. The provisions of Secured Transaction Act-2006 should be implemented for enhancing access to finance by enabling the

movable and intangible property as collateral for providing loan to the industries.

Government subsidy program for export largely goes to the big exporters. The process of obtaining export cash subsidy is also complex and requires numerous documents and multiple visit to government offices which sometime takes from 6-8 months. Government of Nepal can devise simple process of transferring cash on exporter's bank account after ensuring that export is made through proper channel and payment in foreign exchange is received.

Hassles in refund of duty after export remains a problems which takes several month for refund of customs duties and VAT on import of raw materials and intermediary goods. Establishment of One Stop Service is also not lessening the burden and time for duty refund. This should be addressed earnestly. Government should also consider introducing duty drawback on flat rate basis for selected products.

Micro, cottage and small industries, especially needs financial support in order to regain their strength and resiliency. The concessional loans and rescheduling of bank loans announced in 2020 needs to be further extended by another two years. Government should also bring out program that covers provision of seed money to startups and provision of subsidy in bank interest and demand charge of electricity payable to Nepal Electricity Authority at least for another two years.

Increasing government support in terms of interest subsidy, product promotion, IPR protection, trade mark registration, marketing and facilitation of market access are the measures to promote industries in a new setting and make them competitive.

A special program should be developed and implemented to support the gender equality and social inclusion (GESI) in micro, cottage and small industries. The engagement of women, indigenous people and occupational caste is substantial in micro and cottage industries around the country. Department of Industry data shows that out of total registered MCS enterprises in 2018-19, ratio of women and men

entrepreneurs were 30:70, while the employment ratio remained 35:65 respectively. The program of MEDPA under the Ministry of Industry, Commerce and Supplies has set an example in achieving social inclusion as out of 172,514 entrepreneurs created under the program, 76 percent of them were women, 25 percent Dalits and 39 percent Janajatis (indigenous people)¹². Many enterprises run by women, indigenous people and occupational caste (Dalits) are in the informal sector and do not enjoy the benefit handed by the government. The special program should include component of; facilitating the supply of raw materials, support for technology improvement, financial subsidy and marketing of products and measures for bringing into formal channels.

Improve IT infrastructure and encourage firms to adopt use of internet enabled services: The use of information technology has increased at an unprecedented rate during the time of pandemic. In Nepal, financial sector is making a good progress in use and adoption of internet and mobile banking, making online payment and transfer of cash. Payment of utility bills has been eased through the use of digital wallets. The number of internet subscribers has increased to 1.37 million in January 2021 from 1.1 million in April 2020, showing an increase of 24 percent over a period of 9 month¹³. During pandemic period, IPS connect increased by 96 percent, debit card transaction by 138 percent, credit card transaction by 64 percent and mobile banking by 96 percent¹⁴. However, most of these services are confined in the urban centres which needs wider roll out to reach the rural farmers and small entrepreneurs.

Similarly it is important for the government to open the automatic route from registration to periodic submission of reports and dissolution of industries in accordance of the provision made in the industrial enterprises act. The use of IT enabled services in automatic route would help in making procedures relating to administration of industries, simple, easy and predictable. However, maintaining data integrity,

¹² MEDPA Home Page, Ministry of Industry, Commerce and Supplies: www.moics.gov.np accessed on 15th March 2021.

¹³ MIS report of Nepal Telecom Authority (NTA): www.nta.gov.np

¹⁴ OP-ED Article by Ms. Neelam Dhungana, Dy Governor NRB: Kantipur daily, 12 March 2021.

privacy and security, availability of digital equipment, and increasing accessibility of all people in digitization are the major challenges to be addressed.

With the proliferation of e-payment system, payment of petty trade has become easier in international trade. This sort of payment system is taking a momentum in Nepal, particularly with the onset of Covid-19 in payment for goods and services within the country. However, there is need of providing similar facilities in international trade transactions. There are prospects of increasing the volume of export by enabling payment for low volume high value tradeable commodities like gems and jewelry, handicraft and souvenir items. Nepal Rastra bank should take the initiatives to open e-payment gateway for facilitation of external trade of Nepal.

The course of doing business is changing due to pandemic. Hence, businesses should be encouraged to embrace e-commerce and become innovative: Online services are now becoming a part of business model in post pandemic scenario. Micro, cottage and small industries are behind in using the modern technologies in comparison to big businesses. They need to be supported to become innovative and enabled in using IT services. For this to happen, the MCSI entrepreneurs need to be supported by training and skill development including on IT related disciplines, finance, account and record keeping.

Enforce effective monitoring mechanism for implementation of support and facilitation programs announced by the government: Several implementation issues are raised at the firm level. In many cases, government announced support measures are also not reaching to the intended beneficiaries due to various hassles including administrative delays, bureaucracy and lack of timely dissemination of information. Implementation issues remain for a long period due to lack of proper monitoring and follow up. Some representative examples are; lack of proper mechanism to transfer the export cash subsidy to the small firms and exporters; hassles in payment of duty drawback after export; poor functioning of one stop services etc. Nepal Business Forum (NBF) could

be a proper assembly to discuss the issues of implementation and take follow up actions.

Implementation plan

The following policy, strategic and implementation measures are proposed for building a strong base of micro, cottage and small industries sector in the country in aftermath of Covid-19. Resiliency of the sector largely depends upon the concerted and harmonious actions of the government and businesses.

Time frame:

Short term (ST) = 1-3 month,

Medium term (MT) = 3-12 month and

Long term (LT) = > 12 month.

Proposed	Time Frame (ST/MT/LT)	Relevant Agency	Level of applicability (Low-1, High-4)
1. Policy and regulatory issues			
1.1 Formulate and bring out MCSI policy for enhancing production, productivity, and establishing linkages in regional or global value chain.	ST	MOICS, OPMCM	4
1.2 Formulate provincial level MCSI policies specific to each provinces.	MT	MOICS, Provincail governments	4
<p>1.3 Re-align and integrate the product development and employment generation programs (particularly, prime minister's agriculture modernization program, employment program, youth self-employment and president's women empowerment programs with MCSI recovery plan.</p> <p><i>1.3.1 Re-design the existing programs in a way of supporting MCSE recovery plan</i></p> <p><i>1.3.2 Implement the programs</i></p>	MT-LT	OPMCM, MOICS, MOALD, MOLESS	3
<p>1.4 Bring legislation for establishment and operation of export trading houses.</p> <p><i>1.4.1 Drafting of Act</i></p> <p><i>1.4.2 Review, Discussion and opinion collection</i></p> <p><i>1.4.3 Legislation approved from parliament</i></p>	LT	MOICS, MOF, OPMCM, Parliament	2

<p>1.5 Implement programs for increasing backward integration of the exportable product that will give a boost for creating job and employment opportunities at home.</p> <p><i>1.5.1 Identify major exportable products that could have backward linkages.</i></p> <p><i>1.5.2 Prepare and implement plan for production of raw materials and intermediary goods that could be linked to exportable products.</i></p> <p><i>1.5.3 Identify and implement measures for establishing linkages with export markets. (Considering tariff, and non-tariff measures and market entry barriers).</i></p>	<p>LT</p>	<p>MOICS, MOALD, MOFSC</p>	<p>3</p>
<p>1.6 Develop and bring out special package in support of micro and cottage industries run by women, Dalits and indigenous people.</p> <p><i>1.6.1 Develop support programs in consultation with industries representatives.</i></p> <p><i>1.6.2 Implement the programs.</i></p>	<p>MT</p>	<p>MOICS</p>	<p>3</p>
<p>1.7 Ease the existing regulatory constraints and support in facilitation of industries.</p> <p><i>1.7.1 Establish a single registration point for MCSE. Streamline the current practices of dual registrations.</i></p>	<p>MT</p>	<p>MOICS, MOF, OPMCM</p>	

<p>1.7.2 Open automatic route for industry registration.</p> <p>1.7.3 Devise simplified procedures in handover of cash subsidy in export.</p> <p>1.7.4 Ease the process of getting duty refund after export.</p> <p>1.7.5 Implement provisions of Secured Transaction Act for increasing access to finance.</p> <p>1.7.6 Improve current legislations related with taxation, company registration and incentivizing industries to create harmony among these.</p>			
<p>2. Organization and human resources management</p>			
<p>2.1 Create a strong coordination unit in the centre for dealing with affairs of MCSIs. (Establishment of a separate department or strengthening the current unit in DOI)</p>	MT	MOICS, OPMCM	4
<p>2.2 Establish a business counselling unit in each district MCSI offices and municipalities.</p>	ST	Provincial government, Municipalities	4
<p>2.3 Create one spot services centers at provincial level.</p>	MT	MOICS	3
<p>2.4 Create a dedicated institution to support export of Nepalese goods in international markets.</p> <p>2.4.1 Feasibility study for a separate authority/board for export promotion.</p>	MT	MOICS, MOF, MOFA	3

<p><i>2.4.2 Alternatively seek for strengthening TEPC with a focus on export promotion</i></p> <p><i>2.4.3 Plan for mobilization of Nepalese mission and NRN community for export promotion.</i></p>			
<p>2.5 Develop training, retraining and skill enhancement program.</p> <p><i>2.5.1 Assessment of HR requirement for industries by type of skill, numbers and existing gap between demand and supply.</i></p> <p><i>2.5.2 Establish coordination with provincial governments and municipalities.</i></p> <p><i>2.5.3 Prepare a five year plan for skill development and training for meeting the trained HR need for industries.</i></p> <p><i>2.5.4 Organize training programs at center, province and municipal levels.</i></p>	MT	MOICS, Provincial governments, Municipalities	3
<p>3.1 Develop industrial infrastructures plan targeting the micro, cottage and small industries</p> <p><i>3.1.1 Industrial village</i></p> <p><i>3.1.2 MCSI clusters within SEZ/ FTZ.</i></p> <p><i>3.1.3 Warehouses, collection centres, industrial roads.</i></p> <p><i>3.1.4 Display centres in Kathmandu and provincial capitals.</i></p>	MT-LT	MOICS	

<p>3.1.5 <i>International exhibition hall in Kathmandu valley.</i></p>			
<p>3.2 Improve IT infrastructure and encourage firms to adopt use of internet enabled services.</p> <p>3.2.1 <i>Expansion of broadband services and fibre network</i></p> <p>3.2.2 <i>IT literacy program for entrepreneurs.</i></p> <p>3.2.3 <i>Adaptation of fin-tech and use of online services, and trade portals by the entrepreneurs.</i></p> <p>3.2.4 <i>Establish a public portal to provide information on services suppliers to MSMEs. (The portal can provide access to logistics service providers, financial services, insurance and regulatory services).</i></p>	<p>MT</p>	<p>MOICS, DOIT, NTA</p>	<p>3</p>
<p>4. Financial support and export facilitation</p>			
<p>4.1 Operationalize the federal government and provincial government industry and investment promotion fund to support the MCS enterprises.</p> <p>4.1.1 <i>Drafting and approval of fund management procedures and guidelines.</i></p> <p>4.1.2 <i>Operation of the fund accordingly approved guidelines.</i></p>	<p>MT</p>	<p>MOICS in consultation with FNCSI/ FNCCI/NBI</p>	<p>3</p>

<p>4.2 Develop special package of MCSI targeted subsidy for transportation, electricity charges, cold warehouse and refrigerated vehicles and implement them.</p> <p>4.2.1 MCSI support package in general.</p> <p>4.2.3 Support program for women, Dalits and less developed areas.</p>	<p>MT</p>	<p>MOICS, MOFA in consultation with FNCCI/ FNCSI/NBI</p>	<p>2</p>
<p>4.3 Renegotiate the treaty of trade and the preferential trading arrangements in order to facilitate market access to MCSI products</p> <p>4.3.1 Trade treaty with India.</p> <p>4.3.2 Trade treaty with PR China.</p> <p>4.3.3 Work with other like-minded countries to facilitate production and market for MCSI products in RTAs and MTS. This may require developing national strategy on promotion of MCS industries, building up common ideas and development of negotiating strategies for making the ideas heard and accepted in international forums.</p>	<p>LT</p>	<p>MOICS, MOFA and Nepalesse Missions</p>	<p>3</p>
<p>4.4 Support enterprises for innovation and integrated services.</p> <p>4.4.1 Implement program support for start- ups and new ideas.</p>	<p>LT</p>	<p>MOICS, Provincial governments</p>	<p>2</p>

<p>4.4.2 Develop integrated business development programs.</p> <p>4.4.3 Establish coordination and dialogue mechanism with local municipalities.</p> <p>4.4.4 Roll out the program in all municipalities in a phased manner.</p>			
<p>4.5 Financial support along with dispensation on tax for small industries in production of coronavirus related medicines and equipment.</p> <p>4.5.1 Provision of seed money.</p> <p>4.5.2 Subsidy in bank interest.</p> <p>4.5.3 Deferral in tax payment.</p>	MT	MOICS, MOF	3
<p>4.6 Extend the period of concessional loans and rescheduling of loan by another one year. Exemption in the demand charge of electricity for another one year.</p>	MT	MOF, OPMCM	3
<p>5. Coordination and monitoring mechanism</p>			
<p>5.1 Reactivate Nepal Business Forum (NBF) and bring issues related to the micro and small enterprises to debate and discussions.</p> <p>5.1.1 Formulation of regulations under the framework of IEA-2076.</p> <p>5.1.2 Include formation of MCSI related Working Group.</p> <p>5.1.3 Carry on task of NBF.</p>	MT	MOICS	4

<p>5.2 Establish a mechanism for proper utilization of CSR fund collected by the cottage and small industries.</p> <p><i>5.2.1 Develop modality of operation of pooling up the fund together and its utilization.</i></p> <p><i>5.2.2 Revisit the provisions of existing acts and regulations.</i></p> <p><i>5.2.3 Implement programs.</i></p>	<p>MT</p>	<p>MOICS, FNCCI, FNCSI, NBI</p>	<p>4</p>
<p>5.3 Enforce effective monitoring mechanism for implementation of support and facilitation programs announced by the government.</p> <p><i>5.3.1 Develop result framework on revival of MCSI.</i></p> <p><i>5.3.2 Establish review mechanism to carry out on trimester and annual basis.</i></p> <p><i>5.3.3 Activate the industry and investment board.</i></p>	<p>ST</p>	<p>MOICS in association with FNCCI/ FNCSI</p>	<p>4</p>

Conclusion

Micro, cottage and small industries are the backbone of Nepalese economy as they contribute to income and employment generation to the people and achieve the goal of inclusive and sustainable growth. The development of this sector helps in achieving overall socio-economic goals including poverty alleviation. The United Nation's Sustainable Development Goals (SDG), Goal-Nine, aims at building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation which also rest on the pillar of increasing participation of small scale industrial and other enterprises. Nepal has set the target of increasing the share of industry to 25 percent and raise employment in manufacturing sector to 13 percent of total employment, by 2030 (NPC-2017).

The pandemic has caused steep decline in production and export of micro, cottage and small industry products in comparison to big industries. Hence, bringing them to full-fledged operation and in a better shape than before requires number of measures that, inter alia, includes; increasing liquidity in the capital market for borrowings, increasing government spending in development of industrial infrastructures, targeted subsidy to the selected industry that provides more value added services and employment. This also need to be supported through targeted investment in digitization and providing fiscal incentives for green investments. In view of large number of micro and cottage industries operating informally, there should be conscious effort to attract them into formal business by means of incentives and easing regulatory constraints. Attention should be given in development all three infrastructures; physical, digital and financial, develop e-commerce platforms and enhance access to finances. Micro, cottage and small industries merit support from the government as they have the capacity to generate more number of employment per unit of investment amount¹⁵.

Government of Nepal has announced measures for tackling the debacle bought about by the pandemic. Adoption of expansionary

¹⁵ The DOI data shows that there is need of investing 10-12 million Rupees for creating a job in the large and medium sized industries while it takes merely half a million to create a job in micro, cottage and small industries.

fiscal and monetary policy combined with relief package and phased lifting of restrictions in movement of people and transport vehicles has made the life for the industries easier. However, problem lies in full-fledged implementation of the government announced measures. This need to be addressed with a strong monitoring and effective follow up mechanism. Besides, some more extra efforts need to be persuaded for linking the MCSI in the global trading system which includes improvement in the provisions of trade treaty, raising issues of MCSI international forums, sharing of market information with like-minded countries, adopting best practices and working together in facilitation of trade, and improving access to finance and cross-border payment of trade.

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List of persons met

1. Hon'ble Ram B Gurung, Member of Provincial Council, Gandaki Province.
2. Mr. Kush K Joshi, President National Business Initiative (NBI).
3. Mr. Suresh Pradhan, IPP, Federation of Nepalese Cottage and Small Industries (FNCSI), and Secretary, National Business Initiative (NBI)
4. Mr. Padma Jyoti, Founder President, National Business Initiative (NBI).
5. Mr. Surendra Bir Malakar, Secretary General, National Business Initiative (NBI).
6. Mr. Umesh Singh, Acting President, Federation of Nepalese Cottage and Small Industries (FNCSI).
7. Mr. Bhakta Raj Joshi, Director, Department of Industry.
8. Mr. Chandi Aryal, President, Garment Association Nepal.
9. Mr. Shankar Pandey, Past President, Pashmina Association.
10. Mr. Durga B Thapa, President, Pashmina Association.
11. Ms. Anjana Tamrakar, Federation of Women Entrepreneurs Association Nepal (FWEAN).
12. Mr. Swoyambhu Ratna Tuladhar; MD, Yak and Yeti Enterprises, Kathmandu.
13. Mr. Surendra Bhai Shakya, President, Federation of Handicraft Associations of Nepal (FHAN).
14. Mr. Prachanda Shakya, Senior Vice President, FHAN.
15. Mr. Raj Man Bajracharya, Vice President, FHAN.
16. Mr. Mr. Dilli Tuladhar, Managing Director, One World Nepal, Trading Company.
17. Mr. Jiwan Ratna Shakya, Director, Namaste Nepal, Trade and Exposition.
18. Mr. Sanam Shakya, Vice President, FHAN.

Annex 1

The number of micro, cottage and small industries registered with the district offices of DCSI and CSIDB till 2018-19

Categories of enterprises	Numbers
Micro-enterprises	26,078
Cottage industries	17,895
Small industries	311,430
Total	355,403
Deregistration	5,778
Total in existence	349,625

Source: MCSI Statistics-2018/19: Department of Industry.

Annex 2

Problems faced by micro, cottage and small industries during pandemic

Sector/Types of MCSE	Demand shocks	Supply shocks	Financial shocks
Agriculture, fishery and forest related.	Loss of income. Travel restrictions. Frugal mindset.	Lack of agricultural inputs. Lack of labor supply. Disruption in supply chain. Lack of proper transport equipment.	Loss of sales and revenue. Debt burden piles up. Firms unable to pay the banks loan. Inadequate support from the government.
(Production of cereal, fruits, vegetables, livestock, dairying, fishery, spices, condiments and cash crops, cold warehouse, saw mill, furniture etc.)	Closure or less capacity utilization of power plants.	Less production of power from small power plants.	Pressure on repayment of loan.
Energy related (Solar energy, small and micro-hydel projects hydropower, bio-gas etc.)	Less demand of goods in the market.	Production affected due to lack of raw materials and intermediate goods. Interruption in supply chain.	Loss of revenue and income. Insufficient stimulus package.
Mines and minerals (Extraction of sand, boulders, mining materials)	Slowdown of construction activities.	Interruption in normal transport.	Loss of revenue, profit and inadequate stimulus package.
Infrastructure related (Irrigation channels, drop irrigation. Construction industries).	Slowdown of construction activities	Interruption of transport system. Truck transport not in operation.	No investment, default of loan repayment, inadequate stimulus package.
Tourism (Hotel restaurant, trekking, home stay, village tourism etc.)		Heavy decline in number tourist arrival	Tourism industries hard hit; loss of income; inadequate stimulus package.
IT related (ISP, BPO, Cyber café, web portal, data center, data processing)	Demand of IT services increased.	Inadequate supply of IT infrastructures and IT enabled services	Inadequate stimulus package
Services(Workshop, Printing press, construction services, photography, laboratory, garbage collection etc).	Demand of various services decreased.	Services interrupted due to restriction in transport services, supply chain disruption and restrictions in movement of people.	Decline in revenue and inadequate stimulus package.

Annex 3

List of acts and regulations relevant to MCSI operation

1. Export-import control act-2013
2. Private firm registration act, 2014.
3. Partnership act, 2020.
4. Patent, design and trademark act-2022.
5. Public procurement act-2063.
6. Industrial enterprises act-2076.
7. Customs act-2064.
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14. Environment protection regulations 2054.

Strategies for Micro, Cottage and Small Enterprises

(A Post-Pandemic Scenario)

Prepared by:
Purushottam Ojha

Submitted to:
National Business Initiative (NBI)



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