INDUSTRY STATUS REPORT

BASED ON THE ONLY COMPREHENSIVE QUARTERLY INDUSTRIAL SURVEY OF NEPAL

MONETARY POLICY SPECIAL

Q3
FY2078/79

THE FOURTH EDITION

JULY 2022

CONFEDERATION OF NEPALESE INDUSTRIES

स्वदेशी
हाम्रो सामान, हाम्रै स्वाभिमान

ACKNOWLEDGMENTS

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About Industry Status Report

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

What does the report cover?

1	2	3	4	5	6
Business Performance: industry capacity utilization, revenue trends, demand in domestic market and market competition, trade	**Finance:** interest rates, share of loan, access to finance, working capital ratio to turnover	**Skills and Employment:** employment, skills gap & training, employee retention	**Industrial Ecosystem:** regulation and industry administration, utilities, transportation and infrastructure	**Business Outlook:** confidence in the industrial sector, new investment plans	**Monetary Policy** 2079/80 Recommen-dations

Industry Status Report (The Fourth Edition)

The Industry Status Report (Fourth Edition) has the benefit of comparing survey data from four consecutive quarters. It is based on a survey of 71 industries conducted between May 25, 2022, and July 09, 2022, to gather data on the third quarter of the Fiscal Year 2078/79 i.e. Magh-Chaitra.

Apart from presenting the findings of the survey, each ISR covers one theme in depth. The First Edition focused on the energy industry. The Second Edition focused on the manufacturing industry. The Third Edition explored the Federal Government's budget-making process and presented key policy suggestions made by CNI on behalf of Nepali industries. **The Fourth Edition covers the much-awaited Monetary Policy 2079/80 for four primary reasons:**

First, Monetary Policy is a policy-making exercise at the highest level in the country aimed at achieving macroeconomic and financial stability. **It goes without saying that macroeconomic stability is critical for private sector growth.**

Second, for the Fiscal Year 2079/80, the government aims to achieve an ambitious GDP growth of 8%, aided by a larger industrial base in Nepal. **Monetary Policy is influential in determining priority sectors of the economy for the allocation of capital via commercial banks.**

Every year CNI goes through a comprehensive two-month-long process of collecting suggestions and drafting Monetary Policy recommendations. The third aim of this Monetary Policy Special is to communicate the suggestions prepared by CNI to the general public as well as shed light on the formulation process.

Finally, through this report, CNI seeks to convey its key recommendations to Nepal Rastra Bank, the institution that collects suggestions, drafts and implements the Monetary Policy of Nepal. **The report also aims to make CNI's recommendations transparent to its Membership which comprises the largest industries in the country.**

Note: *the recommendations mentioned in this report are not exhaustive. Please contact CNI to learn more about the detailed elaborations on each recommendation*

KEY STATISTICS (Q3 2078/79)

No of surveyed industries:

Q3 **71** ↑ (Q2 66)

Total employees covered:

Q3 **31136** ↑ (Q2 23563)

Average employment per company:

Q3 **438** ↑ (Q2 357)

Average operational capacity utilization:

Q3 **68.81%** ↓ (Q2 71%)

Working capital as a percentage of turnover:

Q3 **27** ↓ (Q2 33.9%)

Average interest rate on loans:

Q3 **10.92%** ↑ (Q2 9.2%)

Average revenue growth rate:

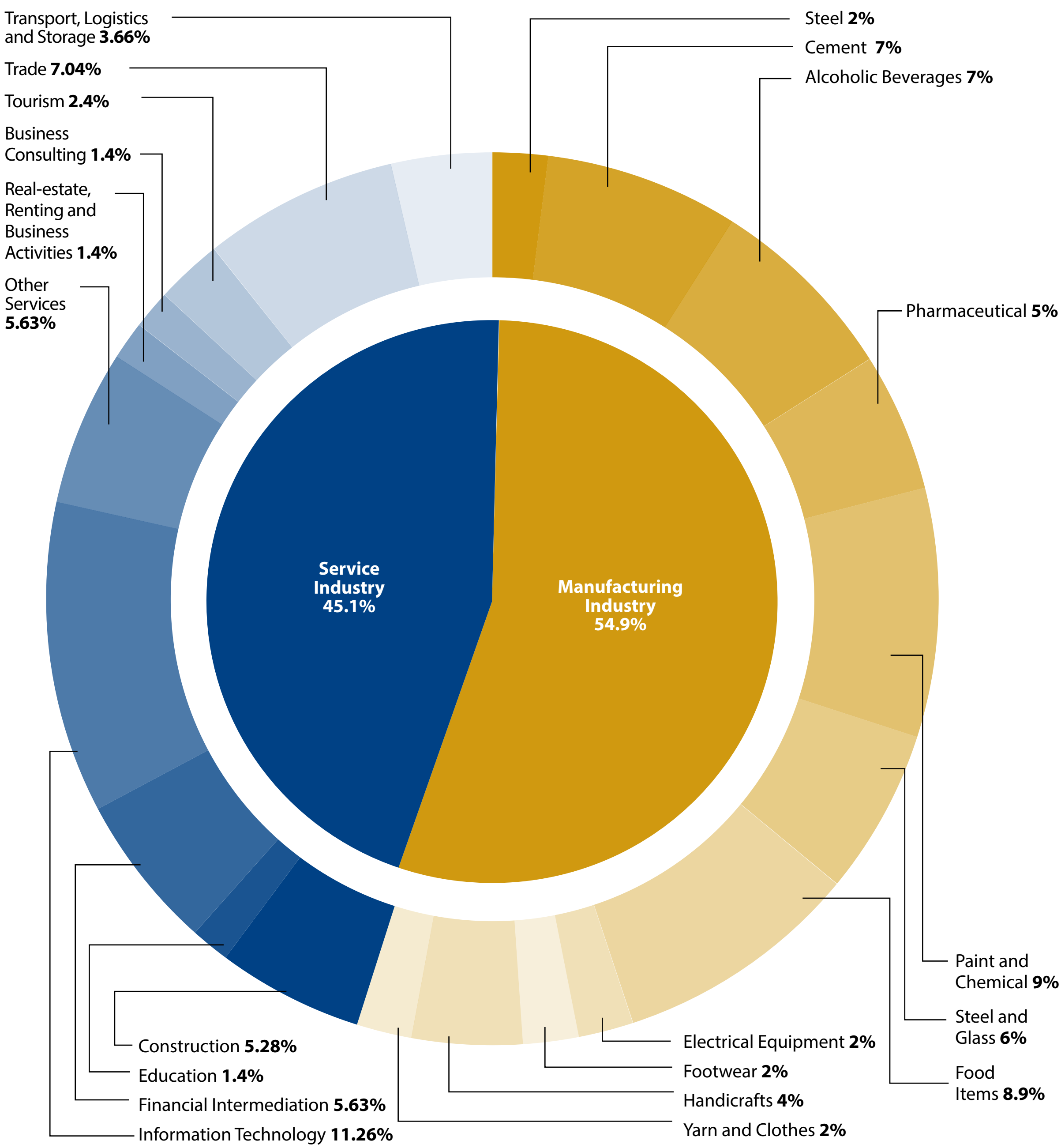
Q3 **12.92%** ↓ (Q2 27.1%)

Average share of imported raw materials by the manufacturing industry:

Q3 **47.47%** ↑ (Q2 37.9%)

Note: Q2 in the parenthesis denotes the second quarter of the FY 2078/79

COMPOSITION OF THE INDUSTRIES SURVEYED



METHODOLOGY

The Industrial Status Report (Fourth Edition) is based on a quarterly survey of 71 industries.

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

The sample was drawn from CNI membership located across Nepal.

Questions are tailored to specific industries. Respondents were asked questions, depending on their respective industries, using a survey platform called KoBoToolbox. Further analysis of the data was completed using Stata. The survey questions are available online.

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

THE UNIT OF ANALYSIS

The unit of analysis is one industrial establishment.

BUSINESS PERFORMANCE

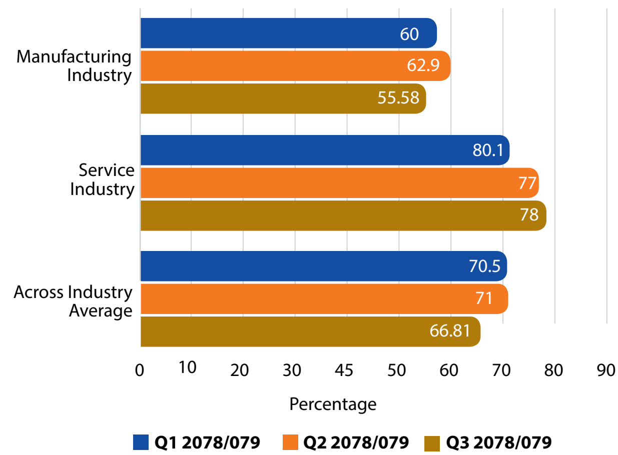
Periodic performance measurement is a vital part of monitoring the growth and progress of any business. This section summarizes the performance of industries within key variables in Q3 2078/79 and compares it with the survey responses from previous quarters.

INDUSTRY CAPACITY UTILIZATION: 66.81%

KEY INDUSTRY INSIGHT I

On average, the industries were operating at 66.81 in Q3 78/79 whereas they were operating at 71.0% in Q2 78/79. During Q3 78/79, the service industry was the most operational at 78%, which is a slight increase from 77% from the Q2 78/79. The capacity utilization of the manufacturing industry was highest in Q2 78/79 at 62.9%, when compared with Q3 78/79 and Q1 78/79, which were **55.58%** and 60% respectively.

INDUSTRY CAPACITY UTILIZATION



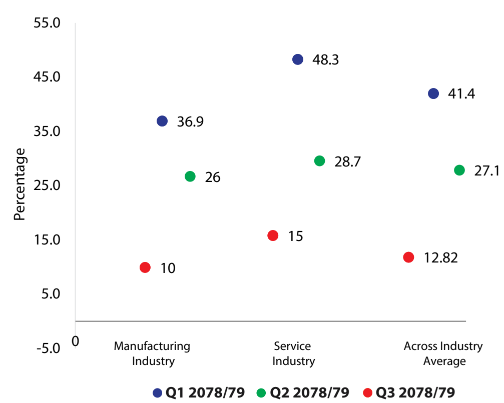
REVENUE GROWTH: 12.82 %

KEY INDICATOR II

In Q3 78/79, the across-industry-average revenue growth rate was **12.82%** whereas the across-industry-average revenue growth was 27.1% in Q2 77/78, which is a 14.4 percentage point reduction between the two quarters. The pattern was consistent in both the manufacturing and service industries. This quarter the revenue generation has shrunk sharply compared to Q2 78/79. This may be attributed to the current economical difficulties in the market, primarily liquidity shortage and increased commodity prices.

Industries were operating at lower capacity in Q3 2078/79 compared Q2 78/79. This has translated into reduced revenue generation. This shows that decline in capacity utilisation has a direct relation to revenue generation.

REVENUE GROWTH IN THE LAST 3 QUARTERS



DOMESTIC MARKET DEMAND 93.2% AND MARKET COMPETITION 82.9% (PERCEPTION-BASED QUESTION)

KEY INDICATOR III & IV

On average, **93.2%** of the respondents stated there is enough demand for their goods and services in the Nepali market, while 6.8% stated otherwise. As per the responses to this perception-based-question, the demand for goods and services produced by Nepali industries and businesses is encouraging.

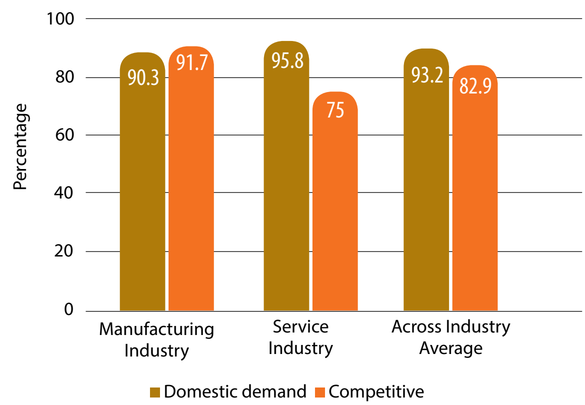
Furthermore, on average **82.9%** of the surveyed industries perceived their goods to be competitive in the market in relation to imported goods, which gives optimism to the domestic industries. The confidence among the domestic businesses regarding their competitiveness and sufficient market demand for domestic products is a critical factor for expanding a broader industrial base in Nepal.

SHARE OF RAW MATERIALS IMPORTED: 47.47%

KEY INDICATOR V

The survey results show that manufacturing industries significantly rely on raw materials sourced from global markets. Out of the total raw material required in Q3 78/79, on average **47.47%** of it was imported from the global market. There has been an increase in imports of raw materials as compared to Q1 78/79 and Q2 78/79, which were 44.7% and 37.9% respectively.

DOMESTIC MARKET DEMAND AND COMPETITIVENESS

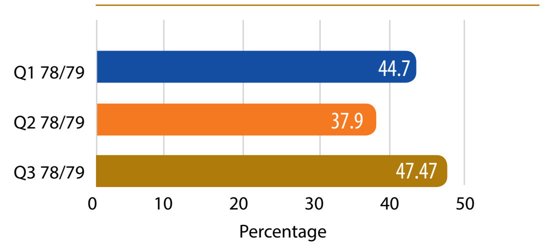


SHARE OF EXPORT: 28.2%

KEY INDICATOR VI

28.2% of the respondent manufacturing industries exported their goods in Q3. The median share of export out of their total production was 35%. As a good share of industries are exporting goods, it indicates that their goods are competitive beyond the domestic market as well. Interestingly, the share of imported raw materials for manufacturing industries is 47.47%, which is higher than in both Q1 and Q2 78/79. It may also be extrapolated that exporting industries on average import more shares of raw materials, and competitive industries can be established even if raw materials are not available in the country.

RAW MATERIALS IMPORTED



FINANCE

This section provides insights into the ability of industries to access credit, the working capital to turnover ratio, and prevailing interest rates.

WORKING CAPITAL TO TURNOVER RATIO: 27.88%

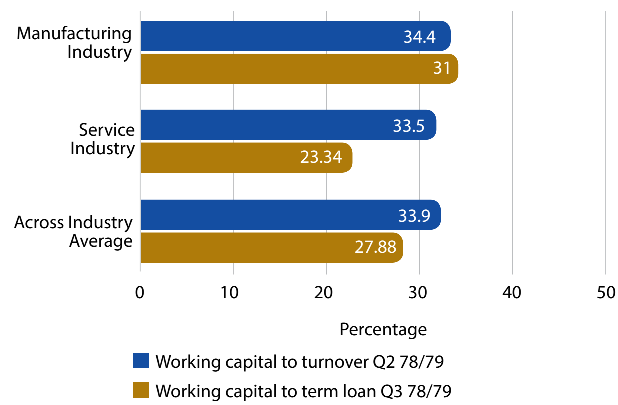
KEY INDICATOR VII

In order to meet the day to day capital requirements of the company, the working capital to turnover ratio of the surveyed industries in Q3 78/79 stood at **27.88%** (on average). This is a decrease from the Q2 in which it stood at 33.9%, whereas in Q1, it was 48.1%.

This is likely because commercial banks have dramatically disbursed less credit as compared to the first 6 months of FY 78/79. The proposed NRB Guideline on Working Capital states that the drawing power of a firm against Fluctuating Working Capital limit should be restricted to 20 percent of the annual turnover. This is likely to seriously disrupt business operations for certain kinds of industries, including for manufacturing companies.

Further, the Guideline should clearly define the distinction between permanent and temporary working capital. Finally, this may not be the ideal time to make drastic regulatory departures given that industries are going through challenging financial circumstances due to the pandemic and the ongoing Ukraine-Russia war.

WORKING CAPITAL RATIO



AVERAGE INTEREST RATE: 10.92%

KEY INDICATOR VIII

In Q3 78/79, the average interest rate on loans was 10.92% which is 1.72% points higher than Q2 78/79.

In Q3 2078/79, interest rates on loans were identical at around 10.92% for both manufacturing and service industries.

INTEREST RATES

Sectors	Q1 78/79	Q2 78/79	Q3 78/79
Manufacturing Industry	8.6	9.4	10.9
Service Industry	8.5	9.1	10.96
Across-industry-average	8.34	9.2	10.92

The Vulnerability Measure: A significant increase in interest rates can render borrowers vulnerable. The table shows both manufacturing and service industries exhibit a high measure of vulnerability in the face of increasing borrowing interest rates.

SKILLS AND EMPLOYMENT

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

TOTAL EMPLOYMENT: 31.1K

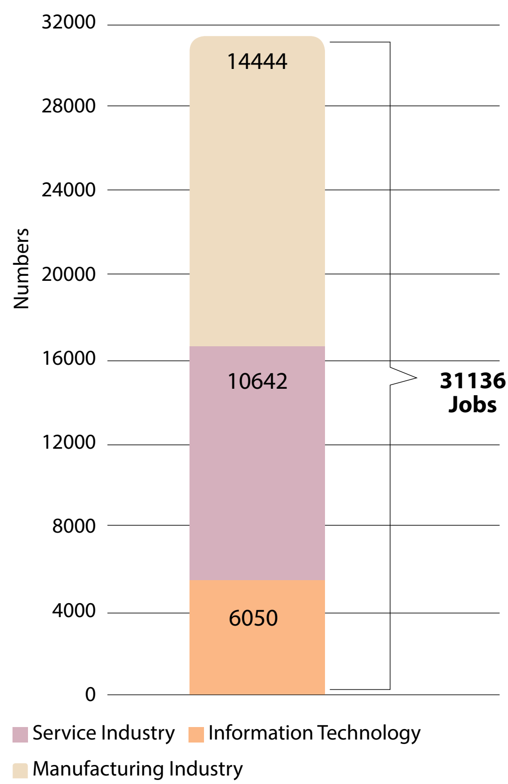
KEY INDICATOR IX

The surveyed industries employed 31136 staff in total. On average, an industry establishment employed 464 individuals, with the range being 9-5700. This indicates, on average, CNI members are large business enterprises.

With 14444 employees, the manufacturing sector is the largest employing sector, followed by the service industry with 10642 employees. It is encouraging to witness the surveyed IT industry employ 6050 people.

Average employment among sectors: The service sector was at the top with 538 jobs while manufacturing industries were right behind with 481 jobs.

EMPLOYMENT IN SURVEYED INDUSTRIES

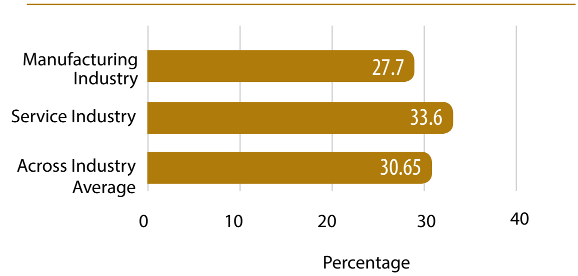


30.65% RECEIVED TRAINING

KEY INDICATOR X

The survey result shows that across sectors **30.65%** of the total employees received training during the Q1, Q2 and Q3 2078/79. The service industry sector trained one-third of the total workforce (33.6%), while the manufacturing industry sector provided training to a little over one-fourth (27.7%) of its employees.

SHARE OF EMPLOYEE THAT RECEIVED TRAINING



INDUSTRIAL ECOSYSTEM

This section focuses on the various aspects of the regulatory environment, transportation and infrastructure that have a direct bearing on the competitiveness of industries. The responses to the questions in this section are provided once a year, given that industrial ecosystems are not subject to change on a quarterly basis.

EXPERIENCE WITH GOVERNMENT ONLINE SERVICE BELOW AVERAGE

KEY INDICATOR XI

Although the government has been prioritizing digitization of the economy, the survey results reveal that respondents on average were not delighted with the quality of online services provided by various public entities. When asked to rank the quality of services on a scale of 1 to 10 (with 1 being the lowest and 10 being the highest), the average score of the respondents was 4.1.

Sector	Rating
Manufacturing Industry	4.0
Service Industry	4.2
Across Industry Average	4.1

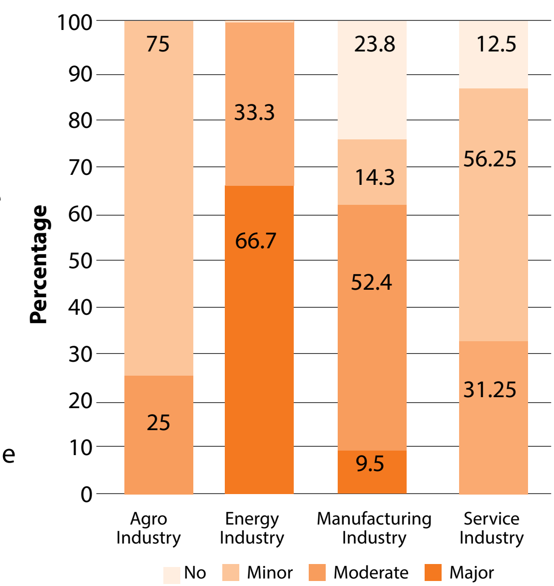
ENVIRONMENTAL COMPLIANCE

KEY INDICATOR XII

When asked if environmental compliance is an obstacle to their industry, the moderate obstacle was the most recorded answer across sectors.

Environment-related compliance for agro-industry stands as a minor obstacle in the operation of the business. 50% of the energy industry stated environmental compliance as a major obstacle. For the manufacturing industry, environmental compliance is a moderate obstacle (opted by 58.8%), whereas it is a minor obstacle for the service industry (opted by 61.5%).

IS ENVIRONMENTAL COMPLIANCE OBSTACLE TO YOUR BUSINESS ?



TRANSPORTATION

KEY INDICATOR XIII

Transport and storage of goods is still an obstacle for the producers. This highlights the need for better transportation and logistic infrastructures for realizing the industrial-led economic growth in Nepal.

Major Challenges

Among the specific challenges that the respondents want to be resolved are access to finance and improving credit disbursement to the private sector to sustain businesses. The problem was unanimously the biggest concern across all industrial sectors. For the manufacturing industry lack of much-needed incentives is another big concern given the decreasing trend of share of the manufacturing industry. In the case of the service industry as well, the problem of availability of loanable amounts created by the extended liquidity crisis was the biggest challenge.

Major Challenges Faced by Industry

Manufacturing Industry	Service Industry
Access to finance	Access to finance
Lack of incentives on tax, industry finance, and export	Availability of loan

BUSINESS OUTLOOK

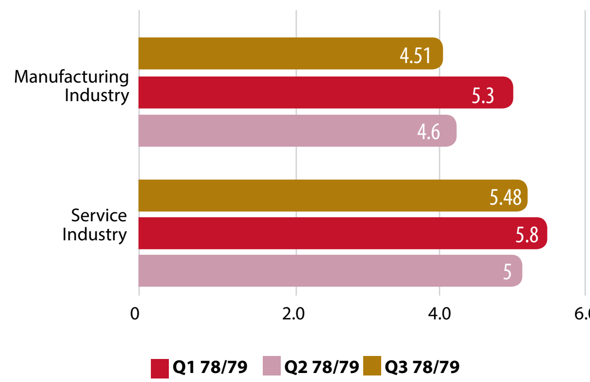
This section presents the confidence level of surveyed industries for their own business and aggregates responses regarding investment plans for the next 6 months.

BUSINESS CONFIDENCE: MODERATE

KEY INDICATOR XIV

On the whole, the outlook of industries towards their own business worsened for the next 6 months, in comparison to the first two quarters of FY 2078/79. When asked to rank the favorability (confidence measures) for their business on a scale of 1 to 10 (with 1 being the least favourable and 10 being the most favourable) in terms of revenue and investment opportunities, regulatory environment, access to finance, labor and better utility facilities, the result are shown in the graph. The manufacturing industry is more pessimistic, as per the survey respondents. This can be a result of the extended liquidity crunch, unpredictable and higher interest rates, sharp increase in price of imported raw materials, and larger macroeconomic situation of the country. Key Indicator IV does not paint a conducive environment for businesses currently.

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

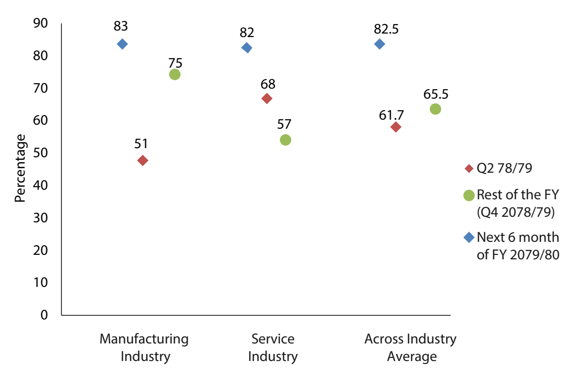


82.5% HAVE NEW INVESTMENT PLANS

KEY INDICATOR XV

New investment plans are an indicator of how optimistic businesses are for the future. **82.5%** of the respondents across sectors plan to expand their business during the next six months. It is notable that while the businesses are not quite optimistic about their enterprises, a good proportion of the respondents are planning to make some form of investment in the first two quarters of FY 2079/80. This demonstrates very high ambition of Nepali businesses even during difficult circumstances. If they are able to make new investments largely depends on the extent to which the macroeconomic indicators improve and new credit is available through commercial banks.

NEW INVESTMENT PLANS



MONETARY POLICY SPECIAL

A PRIMER ON MONETARY POLICY

The first Monetary Policy of Nepal was introduced in FY 2059/60 on the basis of the Rastra Bank Act 2058. The European Central Bank states, "Monetary policy concerns the decisions taken by central banks to influence the cost and availability of money in an economy."

Macroeconomic and financial stability, the key mandates of the central bank, are critical for the business community of any country. It is not possible to expand business, sustain revenue growth and consequently generate new jobs unless inflation rates are maintained low, interest rates on loans are kept stable, and there is enough growth in credit to the private sector.

Tools of Monetary Policy

1. Interest Rates (to determine the rates of borrowing and lending money)
2. Reserve Requirements (refers to the amount of money that a bank must have in reserve in order to pay its obligations in the event of unforeseen withdrawals)
3. Open Market Operations (the central bank purchases and sells securities the open market to implement the Monetary Policy)
4. Discount Rates (refers to the interest rate at which commercial banks borrow from the central bank)

Monetary Policy Orientation

1. **Expansionary Monetary Policy**
   - Increase the money supply in the market
2. **Contractionary Monetary Policy**
   - Draw the money back from the market

MANDATE OF THE NEPAL RASTRA BANK OUTLINED IN NRB ACT 2058

Section 4: Objectives

"(a) To formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for economic stability and sustainable development of economy, and manage it"

Power, Duties, and Function of the Bank

Section 5: (b) "To formulate necessary monetary policies in order to maintain price stability and to implement or cause to implement them."

Section 44:
Monetary Policy: "The Bank shall have full powers to formulate, implement and cause to implement the monetary policy of Nepal."

DRAFTING PROCEDURE

Monetary Policy Drafting Procedure 2073

1. **Prepare Draft of Monetary Policy**
   - Bring together statistics, information, programme from various departments within NRB
2. **Consult with stakeholders**
   - Interaction with stakeholders to collect suggestions
3. **Interdepartmental interaction**
   - Interaction between heads of all ten Departments
4. **Present Draft to Management Committee**
   - Share a draft based on the interaction and suggestions and present to the Management Committee
   - Section by section discussion
   - Present the final draft to Board of Directors (BoD) of NRB
5. **Section-by-section discussion with the Board of Directors**
   - Review the comments and present to BOD of NRB
6. **Approve the Monetary Policy**
   - Publish the Monetary Policy by BOD of NRB
   - Dissemination

AN OVERVIEW OF MONETARY POLICY FY 2078/79

Identical with peer South Asian central banks, the Nepal Rastra Bank continued to maintain an accommodative monetary policy stance during Fiscal Year 2078/79.

The umbrella private sector associations such as the Confederation of Nepalese Industries (CNI) and the Federation of Nepalese Chamber of Commerce and Industry (FNCCI) expressed satisfaction with the central bank's decision to retain a single-digit interest rate already determined in the preceding policy. This provided much-needed support regarding loan repayments to businesses- small and large.

At the onset of his speech, the Governor stated the central objective of the policy was to achieve the government-set GDP growth target while also attaining financial-sector stability. In a regulatory departure from past years, the credit to core capital plus deposit ratio (CCD) was discarded, but the credit-deposit ratio was increased from 85% to 90%. The repo rate was increased to 3.5% from 3%. Restructuring and rescheduling of loans were exclusively prioritized for the businesses harshly hit by COVID-19.

Further relief was extended through the refinancing facility of USD 2.15 billion introduced a year earlier. Although, businesses expressed frustration at the speed at which refinancing approvals were made- hindering liquidity to cash-strapped businesses.

APPRECIATING NRBS POST-COVID POLICIES

- **Refinancing facilities helped businesses stay alive**
- **Low interest rates helped keep economy running**
- **Restructure and rescheduling for impacted sectors**
- **NRB has prioritized productive sectors in its tools**
- **Kept inflation under control**
- **Active engagement with private sector for consultations**

CONFEDERATION OF NEPALESE INDUSTRIES

SUGGESTION FOR THE MONETARY POLICY OF FY 2079/80

Theme for CNI Recommendation:
Investment, Production and Exports

Addressing the symptoms of a looming stagflation

- **Increasing inflation (reflected in NRB data)**
- **Possibility for increasing unemployment (from consultations with employers)**
- **Mitigate dropping aggregate demand (as borrowings have dramatically reduced)**

THE BACKGROUND TO THE RECOMMENDATIONS:

All recommendations for Monetary Policy FY 2079/80 are motivated to enhance much-needed new investments, promote the production sector of the economy, and boost exports. Hence, the theme has been titled "Investment, Production and Exports".

For the fiscal year 2079/80, the Government has presented a budget size of NPR 1.8 trillion. It aims to attain an ambitious growth rate of 8%. Whereas, it sets a target of keeping inflation within 7% for the upcoming year.

Effective implementation of monetary policy will provide relief to the business and industries, proper management of liquidity, and control inflation.

Credit growth for the private sector in the past 4 months is concerning. Only NPR 55.5 billion private sector lending to support an economy with a GDP of NPR 4105 billion GDP (CBS). Neither do new businesses start in this context, existing ones also find it hard to sustain. There are signs the economy is heading towards stagflation for three reasons. First, inflation is rising beyond central bank targets (reflected in NRB data). Economic growth is slowing down (reflected in the dramatic reduction in borrowings). Finally, from consultations with employers, shrinking demand might lead to layoffs, consequently increasing unemployment.

OVERARCHING RECOMMENDATIONS

- CNI recommendations are motivated to support the primary objective of Make in Nepal - Swadeshi Abhiyan's aim of increasing domestic production and consumption among Nepali consumers.
- Make use of Monetary Policy tools to direct the investment in sectors which create FOREX earning, facilitate import substitution and increase production.
- The government has set a towering target for growth rate, which requires it to mobilise a large sum of internal debt. This can further narrow available

liquidity, making it even harder for the private sector to access finance. Ensuring flexible policy measures for CD, CRR, SLR, and other ratios are necessary in this light.

- Nepal Rastra Bank should focus on transforming traditional banking through structural reforms to make the banking system sensitive to the needs of the economy:
  - The current debt-financing mechanism is based on mortgage requirements. Project-based financing is the need of the hour, as startups and entrepreneurs need to be aggressively supported.
  - NRB needs to consider an eventual realisation of Capital Account Convertibility, which is also reflected in a study by the Nepal Rastra Bank. There are three main advantages with full convertible capital accounts in place. These include stock market returns, lower transaction costs brought on by the free convertibility of the local currency, and better savings and investments, all of which help to speed up growth. This potentially also opens up international financial markets for accessing loans.

Addressing the symptoms of a looming stagflation:

- **Increasing inflation (reflected in NRB data)**
- **Possibility for increasing unemployment (from consultations with employers)**
- **Mitigate dropping aggregate demand (as borrowings have dramatically reduced)**

LIQUIDITY MANAGEMENT FOR CONTINUATION OF AVAILABILITY OF CREDIT

Regarding CD ratio

To meet the growth target set by the government, huge loan disbursement to the private sector is essential. Henceforth, the CD ratio needs to be fixed at 92.5% till Ashwin and 90% until the end of Poush.

Allow to count local government deposits in CD until Asar 2080

Directives issued by the NRB on 2078/09/11 allows Class A commercial Banks to count upto 80 percent of the reserve funds of the local government deposited in commercial banks as deposit which ceases on Ashad 2079. This provision should be extended to Ashad 2080 to address the current liquidity problem.

Hold the implementation of the proposed Working Capital Guideline during these difficult times

The proposed NRB Working Capital Guideline states that the drawing power of a firm against Fluctuating Working Capital limit should be restricted to 20 percent of the annual turnover. During Q2 78/79, 43% of the surveyed industries' working capital ratio to turnover was above 33%, whereas in Q1 78/79, this figure was 48.1%. This is likely to seriously disrupt business operations for certain kinds of industries, including for manufacturing companies.

Further, the Guideline should clearly define the distinction between permanent and temporary working capital. Finally, this may not be the ideal time to make drastic regulatory departures given that industries are just recovering from the Covid pandemic and the ongoing Ukraine-Russia war has cast uncertainties in the global markets.

Refinance facility continuation for productive sectors generating employment

Continue the business refinance loan facility introduced in the Monetary Policy of FY 2078/79.

Nepal Rastra Bank set up the Business Continuity Loan Facility and Refinance Facility for businesses to mitigate the difficulties from the pandemic. Business continuity loan has been extended to the Covid-19 affected tourism, cottage, small and medium industries for payment of salaries to workers and employees in line with 'Business Continuity Loan Procedure, 2077'. Rs. 1.07 billion loan has been approved as of mid-November 2021. Survey results showed that 87.5% of the industries that applied for the Business Continuity Loan received it, which is encouraging for the survival of industries during the pandemic.

Nepal Development Bond

In order to meet the capital requirement for the infrastructure projects 'Nepal Development Bond' should be introduced.

INDUSTRY AND EXPORTS PROMOTION

Lower interest rates for manufacturing sector

NRB MP Revision Q2 (Point no. 71) and Federal Budget FY 79/80 (point no 317) have prioritised the manufacturing sector by lowering interest rates (as compared to other sectors). All manufacturing industries should receive credit on a maximum of 2% premium as compared to non-productive sectors.

Bonded Warehouse facility (reduce risk-weightage)

Bonded warehouses are customs-controlled warehouses for the retention of imported goods until the duty owed is paid. Reducing risk-weightage from 150% on the guarantee provided by banks for industries that manufacture products will play a supporting role for these industries.

Due to different shocks (such as geopolitical and supply-chain disruptions), need to reschedule and restructure loans for affected industries, additional provisioning should not be applicable. Although, NRB needs to have a clear picture of which businesses are affected by both the pandemic as well as ongoing economic uncertainties.

Nepali Foreign Investment Abroad (10% Profit)

Relevant Act	Act Restricting Investment Abroad 1964 Section 3 https://www.lawcommission.gov.np/en/wp-content/uploads/2018/10/act-restricting-investment-abroad-20211964.pdf
Why is it an Issue/hurdle/ inconvenience?	While GoN aspires to promote Nepali exports abroad, the country's laws do not permit even a small amount of investment that can help Nepali industries to at least set-up corporate offices there. This is restricting Nepali IT companies from becoming competitive in global markets. Also, companies such as Gold Star that have global ambitions are being affected by this law.
Proposed Change	Repeal Act Restricting Investment Abroad 1964 BS and allow foreign investment upto 10% of profits for the purpose of setting up an office. Ease limited capital account convertibility by NRB.
Outcome	• Effective promotion of exports • Potential to attract foreign investments exploration of market • Revenue generation: inflow of foreign currency through dividends • Promoting entrepreneurial activities of Nepali investors and businesses
Relevant Agency	Federal Legislature, NRB
International Benchmark	Bangladesh: Businesses are able to invest abroad 20 percent of their average exports in the previous five years to open their subsidiary.
What is the government's inhibition?	Capital Flight
Response to the inhibitions	In the long term this will benefit the Nepali economy as reflected by the Pakistan and Bangladesh experience.
Overall Response of government	Nepal Rastra Bank is studying the issue and will come up with a set of recommendations facilitating such provision.

Loan Reschedule/Restructure

Rescheduling a loan entails extending or adding extra time to the borrower's existing loan tenure. Whereas, debt restructuring means the commercial banks have made the terms of the loan flexible, with the objective of making payment by companies easier.

NRB introduced provisions that allowed commercial banks to reschedule/restructure debt so that the private sector serviced their debt after the pandemic and numerous lockdowns affected businesses. During this macroeconomic uncertainty and rising commodity costs, NRB should introduce similar measures.

FOREIGN CURRENCY MANAGEMENT

NRB should draft a Set-of-Rules on Commercial Blending

The idea of blended financing was first recognized at the Third International Conference on Financing for Development in 2015 as a way to bridge the wide funding gap. Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development. Blended financing provides an opportunity to unlock private financing to meet the significant financing gap that has hindered the attainment of the country's development goals, including the SDGs. Nepal is one of five (along with Bangladesh, Senegal, Tanzania, and Uganda) countries jointly selected by the United Nations Capital Development Fund and the United Nations Foundation for a pilot study on 'Blended Finance in Least Developed Countries'.

Blended finance can be used not only to finance the gap in SDG-related welfare projects, but significant infrastructure projects as well. The Upper Trishuli-1 Hydropower Project is a recent example of a large-scale blended financing project.

Reference Case: Upper Trishuli-1 Hydropower Project

The Upper Trishuli-1 Hydropower Project is a run-of-the-river hydropower project that will add 217 megawatts of electricity to the national grid once completed. While being one of the largest FDI in Nepal to date, the hydropower project is also an example of blended financing.

Various international agencies and governments have invested in the hydropower project. The International Finance Corporation led a USD 453 million debt financing package which included nine international lenders. The project brought together several World Bank Group financing mechanisms. It received more than USD 100 million in support from the IDA Private Sector Window – an instrument that allows IFC and the Multilateral Investment Guarantee Agency (MIGA) to extend its reach into more challenging markets – while MIGA will provide USD 135 million in guarantees to cover political risk for the sponsors. The project is also supported by the Finland-IFC Blended Finance for Climate Program and the Climate Investment Fund. The environmental and social advisory components of the project are implemented in partnership with the governments of Australia, Japan, and Norway. Financing from the Asian Development Bank is also being supported by the Government of Canada.

As per a study conducted by CNI and IIDS, it is estimated that a baseline infrastructure investment of USD 29.72 billion is required to maintain 5% annual GDP growth, USD 36.92 billion to maintain 7.5% growth, and USD 45.25 billion to maintain 10% growth between 2019 and 2030. Blended financing in infrastructure will help break the 'low-and-slow' capital expenditure mold while bringing in much-needed dynamism and efficiency to achieve the infrastructural needs of the country. Therefore, blended finance can be an important source of financing for such infrastructure projects if it is planned and prioritized.

In order to streamline and coordinate between investors, the government, and other infrastructure-related stakeholders, **a nodal institution needs to be established.** IBN, NIFRA, and other commercial banks could potentially be nodal institutions to streamline commercial blending activities in Nepal.

Hedging Mechanism

No international investor will invest in Nepal if there is currency risk and lesser reward for the same. Most of the emerging countries have these mechanisms in place, as it gives assurance to international investors that there will be a concrete mechanism for currency hedging. This will help the banking sector bring capital from the international capital market immediately. Over the long term, Nepal can be a lucrative investment destination. Hedging is even more critical when it comes to bringing investments into Nepal.

The Hedging Rule, 2075 didn't even attract a project because of five major issues:

- Structure and Institutional framework was not clear
- Hedging Fund was not guaranted
- There was no clarity on which currencies could be hedged
- The tenure of the hedged investments were not stipulated
- There were ambiguities on sharing of premium

Nepal Infrastructure Bank Limited (NIFRA) and CNI have been holding advocating for implementation of the hedging mechanism. There was a Committee formed in the MOF for drafting, with a representative from all major institutions including MOF, NRB, IBN, Ministry of Industry, SEBON and private sectors.The Committee consulted with different stakeholders and invited for discussion. After that, MOF also circulated to different stakeholders and collected comments and also got clearance from the Ministry of Law.

In short, momentum to roll out a revised Hedging Rule has taken hold. Although, NRB should take a leading role for quick implementation of the mechanism, because the central bank is under pressure to manage liquidity, and that hedging can bring much needed relief to the economy.

International Green Bonds for Infrastructure

Nepal's Nationally Determined Commitment aims to reach net-zero greenhouse gas emissions by 2050. Companies, nations, and international organizations all offer green bonds, which guarantee fixed income payments to investors while only funding initiatives that benefit the environment or the climate. The initiatives could involve, among other things, green buildings, sustainable transportation, and renewable energy. These bonds' earnings are designated for environmental projects. This is different from regular bonds, which allow the issuer to use the proceeds for a variety of things. According to the London-based Climate Bonds Initiative, by the end of 2020, 24 national governments would have issued sovereign green, social, and sustainability bonds worth a total of USD 111 billion. As per Green Bond Principles (GBP), voluntary criteria set by the Zurich-headquartered International Capital Market Association, the proceeds from the proceeds can be used for projects related to energy, buildings, transport, circular economy, sustainable water and waste-management and climate-change adaptation.

For 2022, India seeks to issue sovereign green bonds worth at least INR 240 billion rupees ($3.3 billion) as the nation seeks to raise funds as well as transition to a low-carbon economy.

Introduce Incentives to Encourage Remittance through Formal Channels

The World Bank estimated remittances to reach $589 billion in 2021 in low and middle-income countries. In May, according to NRB data remittance amounted to over Rs 724 billion in the nine months of the current fiscal year, 2021/22. It is estimated that a huge segment of remittance does not come through formal channels. The key reasons that discourage migrants using the formal channel are high cost of remitting the money, distrust in the formal channels and

South Asian neighbours such as Bangladesh and Pakistan have introduced measures to increase the flow of remittance through formal channels. This has led to a huge increase in remittance through formal channels. In turn, remittance in the formal channel can be used for productive purposes. Also, it leads to increase in foreign reserves.

Sovereign Guarantee for Commercial Banks

On behalf of BFI, the central bank should provide sovereign guarantee for 50% of the Statutory Liquidity Ratio amount to borrow from foreign banks. This will bring NPR 200 billion into Nepal, as per the CEO of one of the Class A commercial banks.

SLR is the percentage amount of deposit that all commercial banks need to maintain, either in liquid cash, gold or other securities. This ensures a minimum of liquidity with the banks in reserve requirement, apart from the credit offered to the market.

Aspire for Sovereign Credit Rating

It is no surprise that a country's sovereign rating could help Nepal leverage foreign loans more. Business entities as well as the government will be more eligible to borrow from abroad in the long term. This is because Nepal's credit-worthiness is not yet determined.

IMPROVING PRODUCTIVITY AMONG COMMERCIAL BANKS

Centralized KYC (CKYS) Forms

There is a need for centralising records for keeping track of customers' KYC records. In India, this has been carried out extensively. NRB will have to ensure that every commercial bank maintains record of customers on an uniform basis.

The purpose of CKYC is to eliminate the hassles (for commercial banks and their customers) of having to repeatedly provide KYC documents and have them verified each time a customer establishes a contact with a financial firm. **A central KYC, under the leadership of NRB, can be effecting against customer/client identification, money laundering, terrorist financing, financial fraud, and tax evasion.**

"MAKE IN NEPAL - SWADESHI" CAMPAIGN

"Make in Nepal" is a multi-year campaign initiated by the Confederation of Nepalese Industries in partnership with the Government of Nepal. Its core goal is to create a national climate that promotes domestic industrial production, enhances the competitiveness of local firms and stimulates demand for Nepali goods and services.

WHY JOIN SWADESHI ?

POLICY ADVOCACY

SWADESHI facilitates public-private sector dialogues and policy advocacy at the federal, provincial, and local levels. SWADESHI provides exclusive service to its members by presenting their recommendations and suggestions to the Government of Nepal periodically (especially for the Government Budget and Monetary Policy).

NETWORKING & MARKETING

SWADESHI facilitates members to network, and most importantly - provides a platform for members to market their products and services to other members within the network (worth over NPR 120 billion).

PROMOTION OF DOMESTIC PRODUCTS

SWADESHI promotes Nepali products and services in the domestic market by enhancing their appeal among Nepali consumers. The logo is a testament to the superior quality of goods and services.

PROVINCIAL OUTREACH

Through Provincial chapters of CNI, SWADESHI has an outreach across all the provinces within the country.

NURTURING GREENFIELD PROJECTS

SWADESHI provides opportunities for start-ups to network with industry leaders and receive mentorship.

SKILLS ENHANCEMENT

Nepal cannot broaden its industrial base unless industrial skills are enhanced. SWADESHI partnered with the UKaid-funded Skills for Employment and has been providing collaboration opportunities exclusively for Swadeshi members to improve training delivery and management capacities at the factories.

PREFERENCE FOR GOVERNMENT PROCUREMENT

With signing of MOU with MoICS, SWADESHI advocates preference of goods & services with SWADESHI logo during government procurement.

MSMEs PROMOTION

SWADESHI maps the opportunities for various programs/schemes for providing facilities for upgrading technology, modernization, quality improvement and other support services to MSMEs.

QUALITY UPSCALE

SWADESHI prioritizes upskilling and identify opportunities that provides members capacity to upscale, innovate, and expand to international markets

ETHICAL BUSINESS PRACTICE

SWADESHI ensures that all the members practice ethical business operations and policies to create a positive and encouraging business climate in Nepal.

A joint initiative of

CNI

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About CNI

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

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

About CRC

CNI Research Cell was established due to a dearth of evidence-based research on Nepali industries, especially based on primary data. CNI aspires to be a trusted development partner of the Government of Nepal. The data and research generated by CRC is transparent, unbiased and kept confidential. The team comprises Research Director Mr. Nirnaya Bhatta and Research Officers Mr. Pratap Adhikari and Ms. Astha Wagle.

CONFEDERATION OF NEPALESE INDUSTRIES