

MANAGEMENT TRENDS AND SCENARIO IN NEPAL



LEARNING OBJECTIVES

After comprehensive study of this chapter, you will be able to:

- get insights on the growth of business sector in Nepal,
- be familiar with the major industries in Nepal : manufacturing, export-oriented, import-substitution and service sector,
- know the existing practices and business culture in Nepal,
- get the insights on the major problems of businesses in Nepal.

GROWTH OF BUSINESS SECTOR IN NEPAL

The role of industry sector is crucial in the development of nation. Industrial development helps attain economic and social objectives of any country. The business and industrial sectors are important to facilitate the effective mobilization of resources like natural resources, capital and skill. It also helps foster the technological development. This sector plays vital role in generating employment opportunity to the national citizen. Living standard, personal and social happiness, national prestige and economic prosperity are the essence of growth of business sector in the nation. It is measuring rod of the development of a country.

Composition of GDP by Industrial Classification (at current prices, in rupees)											
Industrial classification	Fiscal Year										
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Agriculture and Forestry	32.54	35	36.68	34.82	33.4	32.16	31.27	31.08	28.25	27.58	26.50
Fishing	0.43	0.38	0.4	0.42	0.42	0.48	0.47	0.53	0.51	0.49	0.48
Mining and Quarrying	0.54	0.53	0.54	0.57	0.61	0.6	0.6	0.56	0.59	0.61	0.60
Industry	6.97	6.34	6.24	6.34	6.35	6.2	6.03	5.82	5.55	5.54	5.59
Electricity, Gas and Water	1.56	1.36	1.24	1.22	1.3	1.17	1.12	1.02	1.27	1.23	1.25
Construction	6.79	6.91	6.93	6.86	6.93	6.93	7.06	6.8	7.27	7.55	7.77
Wholesale and retail trade	13.22	14.4	13.9	13.79	14.54	14.9	14.69	14.11	13.43	13.95	14.37
Hotels and Restaurants	1.49	1.55	1.63	1.76	1.89	1.94	2.05	2	1.98	2.04	2.05
Transportation, communication and storage	9.86	8.52	8.2	8.51	8.9	8.55	8.37	8.06	7.4	7.23	7.23
Financial intermediation	4.16	4.12	3.88	4.07	3.93	4.36	4.64	5.19	5.61	6.31	6.32
Real estate, renting and business activities	8.69	8.38	8.23	8.57	8.81	8.4	8.47	9.21	11.09	11.32	11.57
Public administration and defense	1.98	1.94	1.92	2.13	2.04	2.43	2.61	2.54	2.96	2.66	2.71
Education	6.67	5.49	5.25	5.69	5.79	6.33	6.56	6.82	7.2	7.12	7.06
Health and social work	1.46	1.38	1.32	1.42	1.41	1.52	1.67	1.62	1.75	1.68	1.75
Other community, social and personal service	3.63	3.7	3.64	3.86	3.67	4.04	4.39	4.65	5.13	4.71	4.78

Source: Central Bureau of Statistics.

Nepal has a very short history of development of industrial and business sectors. After establishment of **Udyog Parisad** in 1935 AD and **Company Act** 1937 AD, formal industrial activities were started. Udyog Parisad and Company Act helped in opening new avenues for the advent of banking, industry and commerce in Nepal. Now, Company Act, 2063 BS is in an action.

Biratnagar Jute Mill was established in 1936 AD as the first known industry in Nepal. Nepal Industrial Development Corporation (NIDC) – 1959 AD, Industrial Enterprises Act – 1961 AD helped open many enterprises in industrial sector. Industrial Enterprise Act was further revised in 1974 A.D and it was replaced by Industrial Policy, 1981 AD. Many industries and factories were established by public and private sector before 1990 AD.

But after 1990 AD, world business and industrial scenario has changed. So as, in Nepal democracy was restored and newly elected government formed liberalized **Industrial Policy**, 1992 AD for the

development of industries sector. In that policy, government has laid more emphasis for private sector than the public sector. Before 1990 AD, there were more than 60 public enterprises in public sector to manufacture, sell and promote the goods and services but after liberalization, this number has been decreasing smoothly but industries of different sizes from the private sector has been increasing significantly. Many service sector industries like hotel, transportation, hospital, education sector and manufacturing industries like cement, brick, construction companies, dairy production, etc. have been promoting successfully from private sector.

In recent days, pharmaceutical industry is fulfilling about 50 percent of the national demands of medicine products. Likewise, cement industry is fulfilling about 55 percent of national demand. Soap industries are fulfilling almost 100 percent national demand. Nepal is gradually being self-dependent in poultry products and fishery. Iron industries are also fulfilling almost 100 percent national demand. But, due to various reasons like dominance of intermediaries, lack of skilled manpower, lack of scientific tools and appliances, dependence on weather, poor distribution and market management, unorganized sector, etc. the performance of agriculture sectors is gradually decreasing.

Above table shows that average GDP Annual Growth Rate in Nepal is 4.61 percent from 1993 to 2018. The highest rate was 8.60 percent in 1993 and lowest was recorded 0.10 percent in 2001. The Gross Domestic Product (GDP) in Nepal expanded 7.10 percent in 2018 from the previous year.

The main sector of the economy is agriculture, which employs over 70 percent of the population and accounts for 33 percent of GDP. In these days, economy is shifting to service sector i.e. tourism, hotel, banking and hydroelectricity. Although Nepalese economy has been steadily growing in recent years, lack of governmental institutions, growing population and social instability are sources of concern in economic development. Contribution of the financial intermediaries on GDP is constantly increasing from 4.16 percent on 2008/09 to 6.32 percent on 2018/19. Likewise, the role of real estate, renting and business activities to the GDP has increased from 8.69 percent to 11.57 percent from 2008/09 to 2018/19. Hotels and restaurant's contribution on the GDP is also increasing but slowly. While the contribution of industry is decreasing from 6.97 percent to 5.59 percent during the same period. Similarly, the contribution of agriculture sector to GDP is also decreasing constantly from 32.54 percent to 26.50 percent during the period 2008/09 to 2018/19. Contribution of the transportation, communication and storage is decreasing while the contribution of education sector is increasing.

MAJOR INDUSTRIES OF NEPAL

Major industries of Nepal are classified into manufacturing industries, export-oriented industries, import-substitution industries and service sector industries though in recent days, the economic indicators are being recorded in more detailed classification (see Economic Survey). Details of these industries are described as below:

1. **Manufacturing industries :** The manufacturing industries in Nepal have important role for the overall development of country. Manufacturing industries manufacture many goods either for domestic utilizations or for exporting. The first organized industry in the country was Biratnagar Jute Mill, established in 1936 AD. Further, the manufacturing industries have been divided into the following sub-sectors :
 - **Food, Beverage and Tobacco Industry:** Under the food industry, Noodles industry, Biscuit industry, Sarbat industry, Sugar mills, Tea industry, Vegetable Ghee industry, Cattle Feeders, etc. are important industries. Likewise, under beverage industry, soft drinks, hard drinks producers are included. Under the tobacco industry, cigarettes industries are included.
 - **Carpet and Textile Garment Industries:** Under this category, woolen carpets, cotton industry, synthetic, jute industry, etc. are included.

- **Leather and Footwear Industries:** Industries producing leather bags, shoes, sandals, etc. from leather and leather processing industries are included.
- **Non-metallic Mineral Industries:** Under this category, mining industries but producing non-metallic products like cement, bricks, tiles, rods, stones, etc. are included.
- **Chemical Industries:** Under this category, soap, medicine, washing powder, paints and colors industries are included.
- **Mechanical Engineering Industries:** Vehicles, machines, tools and spare parts producing industries are included under this category.
- **Electrical and Electronic Industries:** Wires and cables, bulbs, fuse, dry cells, mobile phone, computer, television, radio, telephone sets, etc. producers are included.

The overall growth rate of manufacturing industries over the three decade is only 3 per cent while the growth rate in the recent five years is observed to be 5.5 percent. In recent years, supply of electricity and fuels is being regular; raw materials and the obstacles related to labor are also limiting; which are expected to contribute in increasing growth of manufacturing industry. In the year 2016/17 the contribution of this sector in gross domestic production was 5.5 per cent while in the year 2017/18, it remained only 5.6 percent.

Growth of Manufacturing Industry

In 1936 AD, the first industry i.e. Biratnagar Jute Mills opened the industrialization in Nepal. But, the process of industrialization took long time and still it is in process. Only since 1966 AD, the Industrial Census is started and is conducted in each five years. Such census, generally, finds out the overall improvements of the manufacturing industries and their impact on the economy. It includes such establishments which directly employ more than five lakhs people. According to Central Bureau of Statistics following establishments and number of employees are working in manufacturing sector:

Census	No. of establishments	Employment
1965/66	1260	14397
1972/73	2434	47638
1981/82	4903	81050
1986/87	9359	152579
1991/92	4271	123463
1996/97	3557	196708
2001/02	3213	191853
2006/07	3446	177550
2011-12	4070	204,360
2016-17	6834	536,181

Source : Central Bureau of Statistics

In Nepal, industrial census was started from 1965/66 and the number of establishments was doubled in every census period till 1986/87. This may be because of the establishment of the carpet industries in 1980 and forest based industries. But after 1990's census, it is decreased because of significant decrement in carpet, garment, and bricks industries as compared to the previous census. But the scenario has been changed from the census 2011/12 and reached to 6834 till census year 2016/17.

The distribution of manufacturing units is centralized in central and eastern development region. However, such industries are spread over 65 districts while Mid-west and Far-western development region are very back in this race. Special Economic Zone (SEZ) in Bhairahawa is now in operation which provides special provisions to the manufacturing industries. This situation has created a good hope to increase manufacturing activities in Nepal.

The share of manufacturing sector in the GDP in 2010/11 is dropped to 6.1 percent from 7.8 percent of previous fiscal year. It was observed 6.35 per cent in the fiscal year 2012/13, 5.72 per cent in the fiscal year 2015/16 and 5.5 percent in the year 2016/17, and 5.6 percent in the year 2018/19. Majority of the industries are operating with below 50 percent capacity. This is the major reason for degrading performance of the Nepali industries. Poor industrial security, inadequate and high cost capital, low power supply, lack of skilled manpower, poor market management, etc. are other reasons for low capacity utilization of the industries.

Major Problems in Manufacturing Industries

There are countless problems in the development of manufacturing industries in Nepal. Some of them are listed below:

- Lack of business confidence in the investors.
- Lack of proper industrial security, conflicting government policies and provisions.
- Lack of technological advancement to compete with multinational companies.
- Situation of operating under capacity.
- Lack of proper planning for production and market development.
- Excessive political intervention in public sector manufacturing industries.
- Lack of proper government support for technology transfer, public warehouses, and supplies of factors of production.
- Lack of advertisement of Nepalese products in international markets.
- Problem of open boarder.
- Unmanaged open market policy with no special provision to the domestic manufacturers.
- Unclear and poor priority from government sector towards the manufacturing industries.

2. **Export-oriented industries:** Nepal has very short history of industrial development. There are not large and internationally recognized export industries in Nepal but Nepal is exporting some unique goods in many European and American countries. The trend of exporting goods and quantity has been changing over the years. For the last two decades carpet, garment, handicrafts, leather, agro-based and forest-based products are exporting in different countries.

- i. **Carpet industry:** Carpet industry is one of the major export industries of Nepal. It is one of the labor intensive industries in Nepal. Carpet industries produce woolen carpet woven from woolen yarn imported from a mixture of Tibet and New Zealand. Generally, 20 percent Tibetan wool is mixed with 80 percent New Zealand wool by machine to prepare the final yarn for carpets. Wools prepared in this way then is dyed in a machine and woven by cheap labor. Labor (Hand loom) is only one major Nepali component used to make Nepalese carpets. Carding, rolling spinning, dying, etc. are the major steps of carpet production. The share of this industry in the total foreign exchange earnings of Nepal was significant around 15% for initial days. Its contribution in total export was also remarkable. There are around 1200 factories registered in this category. The distribution of this industry is heavily concentrated (around 90%) in Kathmandu valley.

Nepali is exporting carpet to European countries. Germany is the main importer of Nepalese carpet. The other major importers of Nepalese carpet are the USA, Belgium, Switzerland, Australia, France, Netherlands, France, Spain, Japan, Korea, Russia, etc. But in recent years, export of Nepalese carpet is decreasing dramatically and the entire carpet industry is in trouble. Basic reasons of the problem are high labor cost and use of child labor in the production process.

Following table provides the summarized figure of export of the Nepalese carpet industry.

Fiscal year	Amount of Export (In 10 lakhs)
1996/97	8880.0
1997/98	8485.3
1998/99	9802.0
1999/00	9842.1
2000/01	8592.3
2001/02	6212.5
2002/03	5320.0
2003/04	5677.5
2004/05	5868.7
2005/06	5838.7
2006/07	5600.20
2007/08	5048.20
2008/09	5735.50
2009/10	4078.7
2010/11	4860.4
2011/12	6938.0
2012/13	6075.0
2013/14	7364.7
2014/15	7748.1
2015/16	8145.4
2016/17	7375.5
2017/18	7121.3
2018/19	4840.1 (Eight months)

The major problems of carpet industry

- Publicity of use child labor in importer countries.
- Lack of standardization for quality.
- Dependence of raw materials with Tibet and New Zealand.
- Increasing competition
- Transportation problems.
- No market diversification.
- Environmental pollution problem.
- Poor human resource development.
- Weak institutional support.
- High cost of raw material and low level of value adding.

Source : Economic Survey 2013

- ii. **Garment industry:** The history of garment industry in Nepal is of recent origin of about two decade. Over the years this industry got a boost and experienced significant growth. Garment industry is the first major export industry of Nepal from last few years. The total amount equivalent to Rs. 5139.3 million of readymade garments was exported in FY 1994/95 with its contribution share of 29 percent to total exports. In FY 1999/00 its contribution remained as high as 27.9 percent of total exports of the country. After abolishment of quota system in America, one of

the major exporting nations of Nepali garment products, the export of Nepali garment product was about to seize. But, in recent years, it is gradually increasing. In the FY 2014/15, the total worth of export was 4953.2 lakhs where as in the FY 2015/16, it amounted to 5358.0 lakhs.

The garments industry hardly uses the local materials. Almost all the factors of inputs have to be imported from India. The industry uses 98 percent of Indian textile, skilled and semi-skilled manpower. So, the huge amount of the export of Nepalese garment cannot make positive effects to the Nepalese textile industry.

Nepal exports readymade garments to different countries but majority of the productions are exported to USA. The remaining garments are exported in other European countries, Japan, Australia, etc. The Multi Fiber Arrangement (MFA) has been phased out by the end of December 31, 2004. Because of this reason, Nepalese garment products need to pay tax. So, Nepalese product cannot compete with Chinese products. This causes heavy decrease in the rate of export.

Following table is a summarize to indicate the export quantity of Nepalese garment products in different fiscal years :

Fiscal year	Amount of Export (In 10 lakhs)
1996/97	5955.0
1997/98	7015.4
1998/99	9701.9
1999/00	13942.4
2000/01	13124.7
2001/02	7833.0
2002/03	11890.1
2003/04	3550.0
2004/05	6124.6
2005/06	6204.1
2006/07	5212.90
2007/08	4755.80
2008/09	4904.7
2009/10	3890.7
2010/11	3062.7
2011/12	4006.3
2012/13	3177.7
2013/14	4533.3
2014/15	4953.2
2015/16	5358.0
2016/17	4064.47
2017/18	4475.6
2018/19	2712.9 (Eight months)

Source : Economic Survey

Problems of garment industry

- No market diversifications i.e. depending with the USA only.
- High cost of production (10-20% higher than other south Asian competitors specially Bangladesh).
- Lack of international quality materials.
- Depending on Indian raw materials and skilled manpower.
- Lack of effective human resource management.
- Unsupportive government policies.
- Poor R&D for satisfying changing needs of customers.
- Lack of technological adaptations.

- iii. **Leather industry:** Leather is one of the most recent export industries of Nepal. Leather processing, leather goods and footwear production are the main activities of this industry. There is availability of huge quantity of raw materials for leather industry in the different parts of country especially in Terai area and Kathmandu valley.

The export of leather has been declining over the years. In FY 1994/95, leather and leather goods worth Rs. 575 million. Export of leather is gradually increasing from the fiscal year 2013/14 but has decreased three years.

There are sixteen leather collection centers in Terai. There are more than one hundred leather processing and manufacturing industries in Nepal and all of them are handled by private sector. Some of them process the leather and others are producing footwears. Though there is high potentiality of leather industry with easy availability of raw materials, Nepalese exporters are not being able to add value adequately due to the lack of modern technology.

Amount of leather exported from Nepal in various fiscal years are summarized below:

Fiscal year	Amount of Export (In 10 lakhs)
1996/97	288.5
1997/98	417.3
1998/99	270.5
1999/00	181.9
2000/01	658.4
2001/02	464.7
2002/03	227.3
2003/04	309.0
2004/05	235.8
2005/06	310.4
2006/07	279.1
2007/08	248.7
2008/09	58.2
2009/10	307.0
2010/11	434.2
2011/12	723.5
2011/12	310.4
2013/14	477.1
2014/15	621.6
2015/16	732.0
2016/17	521.2
2017/18	541.4
2018/19	210.4 (Eight months)

Source : Economic Survey

Problems of leather industry

- Outdated technology
- Low quality of raw materials
- Open border
- Weak government support
- Lack of skilled and updated manpower
- Lack of diversification of export

- iv. **Handicraft industry:** Handicraft is another important export oriented industry of Nepal. Nepal is famous for handmade products of metal, wood, stone, bone, leather, paper, cotton, woolen, etc. Such industries can be operated by small capital, available skill and using local technology. It can be effective source of foreign exchange earnings. It provides self employment opportunity and helpful to reduce the unemployment problems. These goods are used as decorative items over 50 countries all over the world. The major handicraft markets of Nepal are USA, UK, Germany, France, Singapore, Japan, Italy, Canada, Hong Kong, etc.

A volume export of handicraft products was increasing since 2009/10. After that, export of the handicraft was decreasing but in recent days, the trend is in increasing though it is not stable. This industry can be improved further with advancement of traditional technology. It is immediate necessary to search the new market segment for the industry. Export trends of Nepalese handicraft in the different fiscal year is presented as below :

Fiscal year	Amount of Export (In 10 lakhs)
1996/97	142.1
1997/98	135.0
1998/99	173.5
1999/00	218.1
2000/01	233.9
2001/02	233.8
2002/03	352.1
2003/04	626.4
2004/05	644.2
2005/06	430.9
2006/07	250.20
2007/08	194.0
2008/09	1077.80
2009/10	1082.8
2010/11	218.0
2011/12	458.0
2012/13	219.7
2013/14	399.6
2014/15	615.2
2015/16	716.1
2016/17	991.6
2017/18	865.4
2018/19	548.8 (Eight months)

Source : Economic Survey

Problems of handicraft industry

- Very low level of organized handicrafts industry
 - Very limited market
 - Transportation problem
 - Lack of modern technology
 - Lack of trained manpower
 - Very less facilities for export
 - Poor promotional activities
- v. **Other exporting goods:** Nepal exports many other products such as agro-based item like pulse, cardamom, Niger seed, tea and coffee, honey, silk, cut flower, etc.; forestry-based item like herbs, paper, rosin, etc. Similarly, vegetable-ghee, polyester-yarn, soap, toothpaste, noodles, pashmina, jute products, etc. are other common exporting products in different countries. Because of various reasons, export of such products is decreasing every year. Business organizations, government and other organizations like trade and export promotion center etc. should actively work for searching and expanding export of Nepalese products.

3. **Import-substituting Industries**

Import substituting is defined as the substitution of a foreign product by a domestic production and supply. Import substitution is one of the main components of commercial policy of developing countries that helps minimize the problems of foreign exchange scarcity and trade deficit. Nepal imports many consumer goods, which can easily be manufactured in Nepal. The key import substituting goods are food and beverages like noodles, biscuits, chocolates, beer and alcohols, vegetables ghee, sugar, tobacco, chemical products like plastic, soap, matches, detergent powder, paints, rubber, paper, electronic electrical goods, pharmaceuticals, cements, meat, etc.

Production of these goods is essential for reducing country's trade deficit. They also help generate employment opportunity, saving foreign currencies by utilizing local resources which ultimately accelerates economic growth of the country. Among those goods, Nepal has approached self-sufficiency in many goods, if they can be produced in available capacity. Such goods are noodles, biscuits, chocolates, beer and alcohol, vegetable ghee, sugar, cigarette, soap, matches, plastics, iron and steel, wire and cables etc.

Nepal achieved high level of progress in the production of iron and steel, cement, noodles, beer and liquors, cigarette, wire and cables, soap and toothpaste, plastics, vegetable ghee, pharmaceuticals, etc. in last decade. Such goods substitute high level of import and save foreign exchange and accelerate economic growth. But unfortunately their capacity is not fully utilized because of various internal and external reasons.

Import substituting industries in Nepal are basically classified into following category:

- Food and beverage industry
- Pharmaceutical industry
- Cement industry
- Iron and Steel industry
- Chemical industry
- Sugar industry
- Tobacco industry
- Paper industry
- Brick and Tile industry
- Electrical industry
- Electronic industry
- Rubber industry

Problems of import substituting industry

- Lower capacity utilization
- Resource constrains
- Improper competition with smuggling goods
- Marketing problems
- Unstable political environment
- Lack of peace and security
- Labor problems
- Lack of identification of customers exact needs
- Lack of timely quality upgradation
- Lack of sufficient capital
- Lack of committed and competent manpower.

4. **Service Sector Industries**

Industries established to attain their goal by providing service to their customers are called service sector industries. Service sector industries have a significant role in the national economy in term of employment, capital investment and scope of activities. Major service sector industries of Nepal are tourism, transports, construction, consultancy, trade and services, financial services, etc.

- i. **Tourism industry:** Tourism is Nepal's major services sector industry. With the dawn of democracy in 1950 AD, Nepal opened its doors to outsiders. Nepalese government established a separate department for tourism industry in 1956 AD. At present, there is a separate ministry for the development of tourism in Nepal.

Tourism industry includes business units engaged in tourist, lodging, hotel, restaurant, resort, travel agency, rafting, trekking, polo, horse riding and the like. Nepal prepared a master plan for the growth of tourism in 1972 AD that addressed various dimensions of tourism development in the country. The department of tourism was transformed into the Tourism Board in 1995 and all official tourism activities are operated by Nepal Tourism Board. Tourism is considered as one of the major means for overall development of economy.

Nepal has great potential in tourism. The existing area of Nepalese tourism are Mountains, Himalayas, Rivers, Lakes, Valley, Feast and Festivals, National Parks, Wild Life, Ancient Temples and Historical Places, peace loving, hospitable people, pilgrimage centers, and the like. But there are high potentialities in village tourism, sport tourism, education and seminar tourism and trekking tourism as well.

Number of tourist arrivals in Nepal in different years is listed below:

Year	No. of Tourists	Percent change	Average Stay	Total Earning
1996	393613	8.3	13.5	
1997	421857	7.2	10.49	
1998	463684	9.9	10.76	
1999	491504	6.0	12.28	
2000	463646	-5.7	11.88	162,513
2001	361237	-22.1	11.93	101,628
2002	275468	-23.7	7.92	134,245
2003	338132	22.7	9.6	168,163
2004	385297	13.9	13.51	164,644
2005	375398	-2.6	9.09	162,086
2006	383926	2.3	10.20	180,165
2007	526705	37.2	11.96	314,275
2008	500277	-5.0	11.78	365,106
2009	509752	1.9	11.32	379,022
2010	607550	18.2	12.67	341,485
2011	736214	22.1	13.12	380,374
2012	766,925	9.1	12.16	390,264
2013	797,616	-0.7	12.60	471,769
2014	790,118	-0.9	12.44	544,100
2015	538,970	-32	13.16	392,700
2016	753,002	40	13.40	551,000
2017	940,218	25	12.60	327,800

Source : Economic Survey

The tourist arrival in Nepal is increasing after the settlement of ten years political unrest. The average stay of tourist is 12.87 days in the year 2012. Among the tourists, 20.60 percents are from India which are mostly religious tourists. Tourist sector contributes approximately 2 percent in GDP of Nepal currently. In the year 2017, the total number of tourist arrival was increased by 25 percent and reached to 940,218. Currently, average stay of the tourist is 12.6 days. Nepal has declared Tourism Year 2020 to increase the tourist.

Problems of tourism industry

- Declining economic growth
 - Lack of quality services
 - Lack of transportation and infrastructures facilities
 - Poor marketing efforts
 - Political disturbances, strike and bandh etc.
 - Lack of skilled and trained work force
 - Environmental and climatic problems
 - Poor safety and security
- ii. **Transport industry:** Transportation plays an important role in physical distribution of goods and carrying people from one place to another. Industry, trade and overall economic development of a country largely depend on the development of transportation systems. The various modes of transportations in Nepal are road, airways, railways, ropeways, cable cars, trolley bus and cattle. Roadways and airways are major means of transportation and its progress after few years is significant. The contribution of transportation sector to GDP is around 7.4 percent as per fiscal year 2017/18.

Achievement in transportation sector in last three years are shown as below :

Description	Units	2013/14	2014/15	2015/16	2016/17	2017/18	2017/18*
New road construction	Km	1180	648	639	809	971	260
Graveled road	Km	685	401	345	992	1313	650
Black topped road	Km	538	601	264	630	904	395
Regular maintenance	Km	8200	8908	9200	9500	9500	
Periodic maintenance	Km	400	350	443	214	332	112
Bridge construction	No.	72	73	63	72	82	87
* First eight months		Source : Economic survey					

The same information can be analyzed through the province wise. As on first eight months of FY 2017/18, province three holds 25 per cent of the total roads available in Nepal. Likewise, 20.4 per cent in province one, 18.8 per cent in province four, 14.7 per cent in province five, 4.5 per cent in province six and 6.4 per cent seven. From the data, province six had the least road connectivity followed by province seven and five.

In fiscal year 2018/19, majority (25.1 percent road) was constructed in province three, followed by 20.1 percent, 18.5 percent, 14.5 percent, 9.6 percent, 7.9 percent, and 4.6 percent respectively in province one, Gandaki, province five, province two, province Sudurpashchim, and province Karnali respectively.

Province No.	Category (Road Network)	Total road	Earthen	Gravel	Black Topped
1	District main road	5,887	4,689	819	379
	Urban road	32	5	20	7
	Rural road	6,182	4,413	1,625	144
	Total	12,101	9,107	2,464	530
2	District main road	2,519	752	1,605	162

Province No.	Category (Road Network)	Total road	Earthen	Gravel	Black Topped
	Urban road	50	0	25	25
	Rural road	3,191	1,990	1,183	18
	Total	5,760	2,742	2,813	205
3	District main road	5,363	4,122	840	401
	Urban road	413	72	110	231
	Rural road	9,299	7,278	1,727	294
	Total	15,075	11,472	2,677	926
Gandaki	District main road	4,184	3,329	585	270
	Urban road	40	8	3	29
	Rural road	6,876	6,016	728	132
	Total	11,100	9,353	1,316	431
5	District main road	4,178	2,401	1,241	536
	Urban road	22	3	4	15
	Rural road	4,500	2,857	1,521	104
	Total	8,700	5,279	2,766	655
Karnali	District main road	1,790	1,599	144	43
	Urban road	15	5	7.5	2.5
	Rural road	882	845	28	9
	Total	2,687	2,449	184	55
Sudurpashmi	District main road	3,505	1,727	648	1130
	Urban road	25	4	17	3
	Rural road	1,209	932	266	11
	Total	4739	2,664	931	1144
Total	District main road	27,426	18,619	5,886	1,772
	Urban road	597	98	187	202
	Rural road	32,139	24,349	7,078	692
	Total Road Network	60,162	43,066	13,151	3,946

*Till first eight months of Fiscal Year 2018/19

Source : Economic Survey, 2018/19

The feasibility study of the East West Railway (945 km) and Kathmandu-Pokhara-Lumbini railway route, national pride projects, has been completed. Of 519 km, Rasuwagadi-Kathmandu-Pokhara-Lumbini railways, the pre-feasibility study of Raswagadhi-Kathmandu Railway has been completed. The detailed project report of the Kakarvitta-Butwal section has been prepared. Detailed project report has been prepared for the Butwal-Gaddachauki section (421 km). Most of the construction works of Janakpur-Jayanagar-Bijalpur (52km) and Joghani-Biratnagar (18km) railway have been completed. The detailed project report of Kakarvitta-Bardibas section including Itahari-Biratnagar link of East-West railway together with 256 km railway has been prepared. Likewise, DPR of 28 km Simara-Birgung Link and 44 Km Butwal-Bhairahawa-Lumbini link altogether 372 km Bardibas-Lumbini, Section Railway has been prepared. In the first eight months of the current fiscal year, of 108 km long Simara-Bardibas section, the track bed, culvert and bridges have been completed in 25 km of Bardibas-Lalbandi (30 km) section. The feasibility study of Nijgadhi-Hetauda-Bharatpur through Nawalparasi section (135 km) has been completed. The construction of 93 percent of 225 meter long Kalinjor Bridge and 55 percent of 175 m long Fuljor Bridge have been completed. 13 culvert and animal sub-way has been completed. (Source : Economic Survey)

Nepalese Airlines with International Flights	2015/16	2016/17	2017/18	2018/19
International Nepali Airlines	2	3	3	3
Country with Bilateral Air Service Agreement	38	38	38	39
Two way Air seats	8000000	8000000	8000000	8000000
Number of Domestic Airlines (With fixed roter wings)	17	19	19	19
Number of International Airport	1	1	1	1
Number of adventure and recreational flights companies	77	75	74	74
Number of All-season Airports	22	26	35	35
Total Number of Airports in Operation	32	33	35	35
**200 seats per flight is calculated on the basis of flight that aircrafts make in a week with their total number of seats on both sides. The number of seats is subjected to change as per bearing capacity of the aircraft.				
Source : Economic Survey,2018/19				

This table depicts that, the aviation industry in Nepal is in the growing stage. There is only one international airport in operation, one international airport in Bhairahawa is in final stage of construction. There are six aviation centers, 35 domestic airports in operation and six are under construction. Only 14 airlines companies are in operation while 47 companies have got the operation license. Tribhuvan International Airport (TIA) is, now operating 22 hours a day.

Problems of transport industry

- High cost especially in road transport
- Low quality infrastructures
- Poor institutional capacity
- Resources constraints
- Weak private sector and inefficient government activities
- More number of vehicles than the road capacity
- Poor safety measurement and high accident rate
- Pollution by old motor vehicle
- Poorly equipped airports, old aircrafts and inefficient airlines.

iii. **Construction and Consultancy services:** Construction and consultancy services are important service sectors business in Nepal. Its contribution in GDP is estimated around 7.77 percent. It created around 150,000 employment opportunities. Construction business includes the construction of roads, bridges, buildings, commercial complexes, dams etc. The construction firms and contractor are classified into four categories A, B, C, D. More than 90 percent are of D grade contractors and only 2 percent are of class A and other are B and C class. Besides these construction companies there are well known engineering consultancies, auditing firms, advertising consultancies and agencies, management consultancies and other consultancy agencies are operating in Nepal. Consultancy business in Nepal is growing up in recent years.

Problem of construction and consultancy sector

- Lack of financial and technical capabilities
- Lack of skilled work force
- Unhealthy competition
- Poor capacity
- Taxation hassles
- Low institutional support

- iv. **Communication industry:** Information and communication industry is the most important industry that facilitates all other industries. Communication is necessary to enhance the business and overall economic development. Communication and information industry in Nepal includes the telecommunication systems, cellular mobile services, advertising agencies, newspapers, magazines, radios, postal services, internet email services, film industries, etc.
- Postal services:** The digitization of Postal Saving Bank has been made in 72 District Postal Offices and 8 area Postal Offices till now. The online tracking system has started in the 70 counter automation Postal offices/Postal Services. The software of ticket management has been prepared and the records posting of the FY 2015/16 has been completed whereas the records posting of the current FY is on processing.
 - Telephone services :** This is the most famous, cheap and effective means of communication. Government owned Nepal Telephone Corporation (Nepal Telecom) which is authorized to provide certificate to other companies for telecommunication service.

Total number of lines distributed by different service providers are listed below :

Service Providers	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Nepal Telecom Limited	10903344	12981942	150,14,434	176,01,610	199,76,187	212,78,178
United Telecom Limited	508841	524768	526689	526,869	526,8734	-
Ncell Pvt. Ltd.	11924552	12905513	141,45,758	157,55,829	165,13,859	164,27,047
STM Telecom Sanchar Pvt. Ltd.	3095	2987	2987	2987	2987	-
Nepal Satellite Telecom Pvt.	150000	366463	371,668	371,668	328,538	3,28,538
Smart Telecom	1064998	366463	1398100	1618138	18,51,021	19,94,730
Others	1742	1742	1742	1742	1742	1.742
Total	24556572	28105971	314,61,378	35878843	381,60,142	404,57,431

Source : Economic Survey, 2018/19

- c. **Newspapers and Magazines:** Newspapers and magazines business is also fast growing industry of country. After the restoration of democracy in 1990, this sector has been growing continually. There are different types of newspapers and magazines being published in Nepal as in following numbers:

Types	Number	Types	Number	Types	Number
Daily	731	Fortnightly	474	Trimester	637
Mid- weekly	39	Monthly	2315	Quarterly	38
weekly	2927	bimonthly	379	Half yearly	86
				yearly	93

Source : Economic Survey, 2018/19

- d. **Radio and Television service:** This industry is the most recent communication industry. However, it is effective and most famous means for transferring the information. There is gradual improvement in the field of information and communication. News, information and varieties of programs are being regularly broadcasted for 24 hours through four channels: National Channel from Nepal Television, NTV Plus, News Channel and Kohalpur Channel. The television has set up its transmission centers in 19 different places and has provided the services through geo-surface transmission. The access to national broadcast of Nepal Television has 83 percent of the population 52 percent of the geographical reach. The access to NTV Plus has 42 percent of the population and 30 percent of geographical reach. Similarly, the access to Nepal Television is nationwide and to 146 other countries through the satellite. Box office has been implemented in the film distributions and exhibitions since 13th February 2018 with the management of e-ticketing.

- v. **Financial Sector Industry:** Financial sector industry covers all those institutions which collect the deposit money from surplus sector and provide it to deficit sector. It consists of commercial banks, development banks, finance companies, insurance companies, co-operatives, provident funds, citizen investment trust, etc.

Nepal has not so long history of financial sector. Nepal Bank Limited is the first financial institution, which was established in BS 1994. After the establishment of Nepal Rastra Bank in BS 2013, other institutions are established thoroughly. This sector has been progressing continuously with liberal economic policy of the country. After the restoration of democracy in 1990, Nepal adopted liberal and market based economic policy, which gave effective result for this sector. This sector is able to provide enough dividends to investors, well paid benefits to employees and adopt recent banking technology.

Till last of Chaitra, 2075, there were 28 commercial banks, 32 development banks, 24 finance companies, and 91 micro finance in Nepal. Similarly, infrastructure development bank is also in operation now. There were 40 insurance companies, 34,737 cooperatives (13,917 saving and credit cooperatives), Provident Fund, and Hulak Bank.

Current status of bank and financial sectors is summarized below:

Province	Commercial Bank	Development Bank	Finance Company	Total	Share (%)	Population per branch
Prv 1	535	161	39	735	15.6	6605
Prv 2	391	86	22	499	10.6	12,150
Prv 3	1120	310	76	1506	32	4138
Gandaki	376	249	27	652	13.9	3826
Prv 5	486	309	29	824	17.5	6026
Karnali	156	18	4	178	3.8	9863
Sudurpashchim	241	63	3	307	6.5	9269
Total	3305	1196	200	4701	100	6214

Banking and financial services are available in all district head quarters, but rural areas have no such services. Most recent services and technology of banking sector are available in capital city and other main cities of the country. Credit cards, debit cards, ATM, internet banking, mobile banking, etc. are such recent services. Analyzing the provincial capacity in financial institutions, province seven is weak. Banking depth has been increased this year significantly. Above table shows the distribution of financial facility throughout seven province with the depth.

Problems of Financial sector

- Security problem
- Lack of banking habits and poor trust to the banks
- Poor supervision and regulation
- Weak legal environment
- Poor human resource capabilities and poor institutional provisions for training and development.
- Pervasive role of government
- Lack of capital investment from private sector
- Lack of rating agency
- Lack of specialization
- High level of non-performing assets

Ease of Doing Business

According to Doing Business Report, 2018, Nepal has been ranked in the 105th position in 190 countries. In 2017, Nepal was in the 107th position. Nepal has been ranked in the third position in the SAARC countries in 2018, achieving 59.95 points in total 100 full marks.

In the Ease of Doing Business Index, Nepal has been ranked 62th in the protecting minority investors, 76th in the trading across borders, 76th in the resolving insolvency, 84th in registration property, and 90th in getting credit. Similarly, Nepal has also been ranked the 109th position in starting a business, 133th in getting electricity, 146th in paying tax, 153th in enforcing contract and 157th in dealing with construction permits.

Advantage of Demographic Dividend

The median age of a population is the point at which half of the population is older than that age and half is younger. With lower population growth rate, with time the median age shifts up. Higher the median age, half of the people will be of high age who cannot work. Nation needs to fulfill their needs but cannot be productive for national economy. In current years, majority of the population in Nepal is of middle age. This means that the majority of people are of working age group. By 2018, middle age of Nepal is 24.1 years (22.8 years male and 25.3 years female). Here, median age is 24.1 years means that fifty percent people are of more than 24.1 and fifty percent are of less than 24.1 years. In this situation, majority people are working people. This means that the demography of Nepal can provide the population benefits by creating labor for major activities in construction, manufacturing, social services, and many other areas.

EXISTING MANAGEMENT PRACTICES IN NEPAL

Management is the pivotal for the successful history of any organization. Planning, decision making, organizing, controlling, supervision, motivation, communication, etc. of any organization can be effective only when management of the organization is effective. Management must be controlled by the experienced and dedicated people so that they can prepare and implement best plans and motivate people to attain organizational goals. To fulfill organizational objectives, management practices must be effective. In Nepali organization, following management practices are common:

1. **Planning practice:** In most of Nepalese organizations, plans are prepared in traditional fashion. Managers make plans without conduction of SWOT analysis. They neither conduct trend analysis nor PEST analysis. Instead of this, they make plans with their self intuitions. Because of which, plans in Nepali organizations becomes less effective.
2. **Decision making practice:** In most of Nepalese organizations, decisions are made only by central level managers. They do not participate employees. Decision making tools, scientific methods of decision making process, etc. are still negligible. Decisions made by central level by top level managers without participation of employees become less effective. Employees hardly participate in implementation process.
3. **Organizing practice:** In most of Nepalese organization, organizing practice is too poor. Structures are complex to understand. Decision making authority and roles become conflicting. Mainly, Nepalese organizations follow vertical structure. They are not practicing for matrix organization structure.
4. **Human resource management practice:** In Nepali government organizations, human resource management practice is dominated by political influence. Career development is poor. In private organizations, only family members are taken the first priority whatever may be the quality. Because of confidentiality matter, owners do not want to hire employees out of their family circle. There is no fair job evaluation and reward management system. Such practices discourage honest, dedicated and skilled employees.
5. **Leadership practice:** In most of the organizations, central leadership style is in practice. Managers hesitate participating employees in decision making. Leaders try to create conflict between employees and try to be leader forever. Because of autocratic leadership at the central level, skilled employees do not want to continue in organization. This results in high job turnover ratio. Management leadership does not wish to adapt two-way communication and joint effort for goal accomplishment.

6. **Controlling practice:** Organizations normally do not practice controlling system in the organization. Some of the banks and financial institutions set the targets and strictly follow the performance evaluation and controlling. In rest of the organizations, setting standard, performance appraisal and corrective actions are found rarely. If performances are appraised in case, corrective actions are not taken. Disciplinary actions are poor and affected politically in government organization.

MAJOR PROBLEMS OF BUSINESS IN NEPAL

There are countless problems in Nepalese business in current days especially after entering into global business. Major problems are discussed below:

1. **Policy related problems:** For effective growth of business, different policies like economic policy, fiscal policy, industrial policy, etc. are most important. They should be clear and business friendly. But in Nepalese practice, such policies are not clear and business friendly. They are vague and conflicting to each other. Tax provisions and criteria get changed frequently. In Nepal, the provision of establishment of business takes longest time in the world.
2. **Capital and technology related problems:** Most of Nepalese business organizations are suffering badly from inadequacy of capital and technology. For business purpose, debt is not available easily and it takes long procedure and hassles. Interest rate is too high which discourages the business to expand. Payback period of project becomes long but because of flexible political and economic situation, business does not make profit. Technology is traditional because of which cost of production remains high. Nepalese organizations are laying behind in quality management and uniformity.
3. **Infrastructure related problems:** Road, electricity, transportation, communication, etc. are most important infrastructures for success of business. Poor infrastructural facility increases the cost of transportation and procurement. In Nepal such infrastructures are in poor condition. So, infrastructure related problems are other important business problems in Nepal.
4. **Labor related problems:** In the current days especially after the restoration of democracy, business organizations are suffering from labor related problems. Labor unions are being stronger even in hiring employees and managing facilities. Labor unions guided by different political ideologies give first priority to the manifesto of corresponding parties which affects the business negatively. Employees are being less committed for the organizational benefits.
5. **Raw material related problems:** Raw material for the production related business is the vital input to satisfy the customer's needs. In Nepal, such business depends on either foreign suppliers who charge high rate for low quality products or for the domestic source with low quality technology. At the same time, because of various reasons, raw materials may not be available at the right time. These factors are being serious for upgradation of the business.
6. **Politics related problems:** Political ideology sets the economic, fiscal and industrial policy of the country. These policies need to be clear, stable and favorable for the business. For this, political stability is must. But in case of Nepal, politics is being most volatile since long. In such situation, business organization cannot formulate long term strategies and policies which hinders the business success.
7. **Demand related problems:** Nepalese market is small in comparison to neighborhoods. Demand is unstable so business organizations cannot prepare the sales plan. At the other hand, purchasing power of people is too low. In such situation, cost of production becomes high which leads to decreasing competitive power of any product. So, it is urgent to plan to export the product in foreign market with improved quality.
8. **Mutual trust related problems:** Business management, government and employees should have good relationship. But, business management does not trust to government as well as employee union. At the same time, government does not play supportive role to business and always suspects to business organizations for tax hiding. Labor union also makes plans and policies against the management. In this way, these three components have poor mutual trust among them. This also hinders the success of the business.

**SUMMARY OF LEARNING OBJECTIVES**

- **Major industries of Nepal:** Major industries of Nepal are classified into manufacturing industries, export-oriented industries, import-substitution industries and service sector.
1. **Manufacturing industries**
- Food, Beverage and Tobacco Industry
 - Carpet and Textile Garment Industries
 - Leather and Footwear Industries
 - Non-metallic Mineral Industries
 - Chemical Industries
 - Mechanical Engineering Industries
 - Electrical and Electronic Industries
- Problems in Manufacturing Industries**
- Lack of business confidence among the investors.
 - Lack of proper industrial security
 - Lack of technological advancement
 - Situation of running under capacity
 - Lack of proper planning
 - Excessive political intervention in public sector manufacturing industries
 - Lack of proper government support
 - Lack of advertisement of Nepalese products in international markets
 - Problem of open boarder.
2. **Export- oriented industries**
- i. **The major problems of carpet industry**
- Use of child labor and its publicity in western importer countries
 - Lack of standardizations for quality
 - Dependence of raw materials with Tibet and New Zealand
 - Increasing competition
 - Transportation problems
 - Concentration in single country supply i.e. no market diversification
 - Environmental pollution problem
 - Poor human resource development
 - Weak institutional support
 - High cost of raw material and low level of value adding
- ii. **Problems of garment industry**
- No market diversifications i.e. depending with USA only
 - High cost (10-20 % high than other south Asian competitors)
 - Lack of international quality materials
 - Depending on Indian raw materials and skilled manpower
 - Lack of effective Human Resource Management
 - Unsupportive government policies
 - Poor R&D for satisfying changing needs of customers.
 - Lack of technological adaptations
- iii. **Problems of leather industry**
- Outdated technology
 - Open border
 - Lack of skilled and updated manpower
 - Low quality of raw material
 - Weak government support
 - Lack of diversification of export

- iv. **Problems of garment industry**
 - Very low level of organized industry
 - Transportation problem
 - Lack of trained manpower
 - Poor promotional activities
 - Very limited market
 - Lack of modern technology
 - Very less facilities for export
- 3. **Problems of import substituting industry**
 - Lower capacity utilization
 - Resource constrains
 - Improper competition with smuggling goods
 - Marketing problems
 - Unstable political environment
 - Lack of peace and security
 - Labor problems
 - Lack of identification of customers exact needs
 - Lack of quality up gradation timely
 - Lack of sufficient capital
 - Lack of committed and competent manpower.
- 4. **Service Sector Industries**
 - i. **Problems of tourism industry**
 - Declining economic growth
 - Lack of quality services
 - Lack of transportation and infrastructures facilities
 - Ineffective marketing
 - Political disturbances, strike and bandh etc.
 - Lack of skilled and trained work force
 - Environmental and climatic problems
 - Poor safety and security
 - ii. **Problems of transport industry**
 - High cost especially in road transport
 - Low quality infrastructures
 - Poor institutional capacity
 - Resources constraints
 - Weak private sector and inefficient government activities
 - More number of vehicles than the road capacity
 - Poor safety measurement and high accident rate
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- ❑ **Problem of Financial scoter**
 - Peace and security problem
 - Lack of banking habits
 - Poor supervision and regulation
 - Weak legal environment
 - Poor human resource capabilities
 - Pervasive role of government
 - Lack of capital investment from private sector
 - Lack of rating agency
 - Lack of specialization
 - High level of non-performing assets
- ❑ **Existing management practices in Nepal**
 1. Traditional planning practice
 2. Poor decision making practice
 3. Vertical organizing practice
 4. Traditional HRM practice
 5. Central leadership practice
 6. Lack of controlling practice
- ❑ **Major problems of Business in Nepal**
 - Policy related problems
 - Capital and technology related problems
 - Infrastructure related problems
 - Labor related problems
 - Raw material related problems
 - Politics related problems
 - Demand related problems
 - Mutual trust related problems

EXERCISE

Brief Answer Questions

1. State different types of industries in Nepal.
2. What different manufacturing companies are available in Nepal?
3. State different types of export oriented industries in Nepal.
4. State different problems of manufacturing in Nepal.
5. What different problems are faced by export oriented industries in Nepal?
6. Enlist the problems being face by import displacement industries in Nepal.
7. Make a list of import replacement industries in Nepal.
8. What major challenges are facing by import displacement industries in Nepal?
9. Suggest measures to uplift the tourism industry in Nepal.
10. Enlist different types of construction industries in Nepal.

Descriptive Answer Questions

11. Explain in short, about the manufacturing industries of Nepal?
12. Explain main export oriented industries of Nepal.
13. What are main service sector industries of Nepal? Explain.
14. Explain with meaning, about the import substitute industries.
15. Give your assessment on the existing management practice in the Nepalese business organizations.
16. Give a brief account of the growth of business in Nepal
17. State and explain the major problems being faced by business in Nepal.

Analytical Answer Questions

18. Critically analyze the growth and problems of manufacturing industries in Nepal.
19. Sketch a development scenario of tourism industry in Nepal. Also suggest various techniques for improving the tourism industry in Nepal.
20. Critically analyze the current scenario of management practices in Nepalese industries.

