

A COUNTRY REPORT
ON
SMALL AND MEDIUM INDUSTRIES
IN
NEPAL

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1. Some Key Features of the Nepalese Economy

Nepal with its population of 25.3 million has an annual per capita of US \$ 240 that places Nepal at one of the poorest countries in the world. The land-locked geo-physical location, limited resource-endowments, centuries of political and economic isolation, rugged mountainous terrain and late start in development endeavor, all collectively have contributed to the social and economic backwardness of the Kingdom. Since 1950, supported by pouring of external aid, Nepal started to divert its public resources to economic and social development with marked improvement in some key areas i.e., expansion of physical infrastructure, access to school level education and safe drinking water etc. However, development efforts so far have not been able to alleviate poverty, especially, from rural areas, where most of the poverty stricken people live, constituting the national average of 32 percent people below poverty line. From the perspective of economic, social and human development indicators, Nepal stands at the bottom of list of South Asia. Out of about 57 percent of the population classified as economically active, 65.7 percent were engaged in agriculture in 2001 with the lowest value added per worker. The structure of economically active people in different economic sectors in 1991 and 2001 is presented in the Table No.1.

Table No. I

Involvement of Economically active people in different economic sectors

S. No	Description	Census of 1991	Census of 2001
1	Agriculture	81.2	65.7
2	Mining & quarrying	-	0.2
3	Manufacturing	2.0	8.8
4	Electricity & water	0.2	1.5
5	Construction	0.5	2.9
6	Hotel and Trade	3.5	9.9
7	Transport & com	0.7	1.6
8	Finance & real estate	0.3	0.8
9	Social services	10.2	7.8
10	Others & unidentified	1.4	0.8
	Total Employment	100.0	100.0

However, the contribution of non-agriculture activities to the GDP is slowly increasing in recent years. Percentage contribution of agriculture to GDP has gone down to 39 percent in the year 2004/05 from 48 percent in the year 1990/91. Hence, in terms of employment generation as well as GDP, Nepal still remains predominantly an agriculture country. The gross domestic product rupees in million (at 1994/95 prices) by source is depicted in the Table No. 2.

Table No. 2

Gross Domestic Product by their sources

(At 1994/95 prices)

S. No.	Description	1994/95	1999/00	2003/04
1.	Agriculture	85569	100856	119016
2.	Mining & quarrying	1117	1480	1621
3.	Manufacturing	19555	26646	26533
4.	Electricity & water	2862	4025	7087
5.	Construction	23093	31550	32020
6.	Hotel and Trade	24326	31036	30095
7.	Transport & com	13995	19644	24527
8.	Finance & real estate	20534	27026	30834
9.	Social services	18924	24833	31565
	Total GDP	209974	267096	303298

The national accounts summary at current prices in shown in the Table No.3

Table No. 3

National Accounts Summary

(At current prices)

S. No.	Description	1994/95	1999/00	2003/04
1	GDP	219175	379488	529003
2	Plus imports	75850	123055	159568
3	Total resources	295025	502543	688571
4	Total consumption	186710	321911	464133
5	Total investment	55231	92272	137885
6	G.F. capital formation	48370	73324	101915
7	Change in stock	6861	18948	35970
8	Export of goods	53084	88360	86552
9	G. Domestic saving	32465	57577	64869
10	Net factor income	4817	13125	10364
11	Net current transfer	819	1319	2471
12	G. National saving	38101	70702	75233
13	G. National Product	223992	392613	539367

After the restoration of the democratic system, Nepal initiated a wide ranging economic reforms in the early 1990's which, in turn, showed a remarkable growth in some key areas of the economy like, industry, trade, foreign investment, finance and foreign exchange regime in initial years. Nevertheless, despite the positive impacts of the reform process, the reform pace could not be made sustainable, mainly because of internal as well as world wide threats to security from terrorism and to a considerable extent due to inter and intra political quagmire. The economy has slowed down during the Eighth five-year plan (1991/92-1996/97) compared to the

early 1990s in many respects - GDP growth, per capita income, investment, government revenue and expenditures, merchandise exports and imports, among others. However, annual GDP growth of 4.9 percent witnessed during the 8th Plan slightly exceeded the targeted rate of 4.8 percent per annum while the macro economic stability was also maintained during that period. Since 1994, political instability, lack of good governance, weakening of economic & administrative institutions, rampant politicization, and weak law & order situation in the country, all in combined elements distracted the attention of short-lived successive governments from economic development agenda to aggravate the deteriorating performance of the economy. As a result, serious recession is widespread in all sectors of the economy, from tourism to trade and industry ever since.

In fiscal year 2004/05, the GDP grew at the rate of 2.0 percent. The economic performance of fiscal year of 2004/05 has remained low in comparison to previous year due to unfavourable weather, slack in international trade and unexpected negative impact on tourism and transport sector, even though the peace and security situation in the country, especially towards the end of FY 2004/05, has somewhat improved. Amidst arson, killings, terror and violence, government remained attemptful to continue development activities. As a result, the basic tenet of the state to protect life and property of its citizen on the part of the government overshadowed the priority to development works. The peace and security situation has yet to be fully restored for solving the problem of violence and terrorism, increasing since last few years. The growth rate of GDP for the last five years is depicted in the Table No. 4.

Table No. 4
The Growth Rate of Gross Domestic Product

S. No.	Description	2000/01	2001/02	2002/03	2003/04	2004/05
1	Overall GDP	4.9	-0.3	3.1	3.3	2.0
2	Agriculture	5.5	2.2	2.5	3.9	2.8
3	Non-agri GDP	4.5	-1.9	3.5	2.9	1.6

Geographical proximity, cultural, social and economic ties, the terrain market and business relation, transport network, open border, long transport routes to the sea for bulk imports and exports & special economic relations between Nepal and India are some of the major determinants to make Nepal dependent on India while framing out her macro-economic policies, including industrial, trade, fiscal & financial, foreign exchange, labour and so forth. International trade of Nepal has been dominated by India constituting 28 to 57 percent of entire trade despite Nepal's diversification efforts during last 10 years. It is seen from the Table No. 5 that almost 57.6 percent of total volume of trade has been carried out with India only in 2003/04.

Table No. 5
The direction of foreign trade in 2003/04
(Rest. In million)

S. No	Description	India	Other Countries	Total
1	Export F.O.B.	30777.1	23133.6	53910.3
2	Import C.I.F.	78739.5	53537.6	136277.1
3	Trade Balance	47962.4	34404.0	82366.4
4	Total volume of trade	109516.6	80671.2	190187.8
5	%Share in total trade	57.6	42.4	100.0

It is seen from the trend of exports and import trade of Nepal in the Table No. 6 that overall trade balance as well as trade balance with India were always negative and were increasing in every reported years.

Table No. 6
The trend of exports and imports trade of Nepal
(Rs. In million)

S. No	Description	1994/95	2000/01	2003/04
1	Export to India	3124.3	26030.2	30777.1
	Import from India	19615.9	45211.0	78739.5
	Balance with India	16491.6	19180.8	47962.4
2	Export to other countries	14514.9	29623.9	23133.6
	Import from other countries	44063.6	70476.2	57537.6
	Balance with other countries	29548.7	40852.3	34404.0
3	Total Export	17639.2	55654.1	53910.7
	Total Import	63679.5	115687.2	136277.1
	Overall Trade Balance	46040.3	60033.1	82366.4

This means that Nepal cannot embark on economic policy reform independently without its compatibility with that of India. These all pose great challenge for Nepal in her move to economic development.

The commodity trade of Nepal according to SITC group 2003/04 is given in the Table No. 7. The Table No. 7 indicates that t main export items of Nepal are food & live animal products, animals vegetable oil & fats- chemical & drugs and manufactured articles, whereas major importing items of Nepal are machinery & transport equipment, chemical & drugs and mineral fuels & lubricants in 2003/04.

Table No. 7**Commodity trade according to SITC group****(Rs. In million)**

S. No	Description	Export	Import
1	Food & live animals	6276.9	8554.0
2	Tobacco & beverage	55.2	1026.8
3	Crude materials & inedible	714.3	10550.6
4	Mineral fuels & lubricants	14.5	21904.1
5	Animals & vegetable oil & fats	3375.7	8634.4
6	Chemical & drugs	3865.9	16544.9
7	Classified by materials	23601.7	36510.5
8	Machinery & transport equipment	619.5	25694.2
9	Miscellaneous manufactured articles	15380.1	5103.8
10	Not classified	6.9	1753.8
	Total	53910.7	136277.1

The balance of payments situation of the country for the last 4 fiscal years (2000/01 to 2003/04) has been shown in the Table No. 8, which indicates that the BOP situation is favourable except in 2001/02 fiscal year. However, the current account balance of the country is positive in all reported years. The current account deficit has become positive due to the increment of the net transfer income.

Table No. 8
Summary of Balance of Payments
(Rs. In million)

S. No	Description	2000/01	2001/02	2002/03	2003/04
1	Trade balance	-60033.1	-60444.2	-74421.5	-82366.4
2	Services, Net	9302.3	3938.4	7049.7	9074.9
3	Transfers, Net	65595.0	68186.1	75533.0	84888.6
4	Current A/C bal.	14864.2	11680.3	8161.2	11597.1
5	Bal. of Payments	9548.9	-2877.7	3985.9	20097.3

2. Definition and category of industrial enterprises

The prevalent Industrial Enterprises Act, 1992 (TEA), which was amended in 1997, has classified industrial enterprises into four categories. The definitions of industrial enterprises in Nepal, like in other countries, have undergone change over the passage of time due to change in industrial policy and thrust in the assistance programs. No categorization of enterprises involved in trading, service, commercial activities and other business have yet been made. The prevalent definition of industrial enterprises in Nepal are as follows:

- a. **Large industries** : Investment of more than NRs 100 million in fixed assets.
- b. **Medium industries** : Industries with a fixed assets between NRs. 30 million and NRs 100 million.
- c. **Small industries** : Investment up to NRs 30 million in fixed assets.
- d. **Cottage industries** : Some specified traditional industries utilizing specific skill or local raw materials and resources, using less than 5 KW of electric motor and related with national tradition, art and culture.

3. Role of industrial enterprises in the national economy

Industrial development in Nepal is at an initial stage with all types of manufacturing industries contribution for not more than 10 percent of the Gross Domestic Product (GDP) and providing employment to not more than 2 percent of the labour force. However, small and medium enterprises (SMEs) overwhelmingly dominate the industrial sector of Nepal. It plays a major role as sources of employment in the manufacturing sector and significantly contributes to value addition and export trade of the country. Industrial products made in the country have reached more than 250 items and about a dozen of them have been included in the national list of export. The export of manufactured and processed goods accounted for more than 80% of total export and which is a significant improvement when we look at the figures of 15 years back. SMEs account for 96% of total industrial establishments and 83% of total employment generation by industrial sector. Only SMEs have contributed almost 9% in overall GDP.

The share of manufacturing value added to GDP increased from 5.7% in 1985 to 9.9% in 2001. Similarly, the share of manufacturing in exports augmented from 44 percent in 1985 to 80 percent in 2001. The manufacturing export growth has been greatly assisted by improved trade and exchange rate policies. However, they could not be sustained after the implementation of the major reforms.

The number of manufacturing establishments grew slightly in 1991/92 as compared to in 1986/87. However, the number of manufacturing establishments further declined from 4271 units to 3557 in 1996/97. The number of these establishments by their industry classification is exhibited in the Table No. 9.

Table No. 9
Number of establishments by their sizes

S. No.	Size of industries	1986/87	991/92	1996/97
1.	Cottage & small	3436	4083	3203
2.	Medium	111	136	282
3.	Large	67	52	72
4.	Others	19	-	-
5.	Total no. of establishments	3633	4271	3557

4. Brief review of the existing policy for the promotion of industrial enterprises

The change and development in industry sector can only be achieved if the policy environment for growth is conducive and all disadvantages and bottlenecks are removed. Considering this reality, the government has adopted the more liberal economic policies after the announcement of its commitment towards market-oriented and private sector-led open economy. Although these policy initiations have some positive impacts, the entrepreneurship development is still constrained in the present policy and business environment. Though the new policies allow competitiveness in the resourcing and marketing, the domestic goods have to compete with imported goods as the supplies of the local industries are not given preferential treatment under the liberalized regime.

The deregulatory regime adopted both in industrial policy and trade policy has given the opportunity to grow with minimum interference from the government. But policy biases in favor of larger business and against of smaller business have created a void that puts growing industrial enterprises in difficulties. The government's policy also biases in favor of cottage and small industries at one end and the large and 'modern' enterprises at the other, have created a "missing middle" where middle range SMEs are not visible.

Basic flaws in policy measures such as inconsistent and corrupt tax system, failure of industrial policy measures to create conducive industrial environment and frequent uncalled for changes in trade regulations have also impeded the growth of industrial sector.

Economic reforms in Nepal through liberalization and deregulation policies have certainly created a conducive environment for trading enterprises, but the strategic policy measures enabling the enterprises to be competitive and specialized seem to be under-emphasized.

The Structural Adjustment Program (SAP) was introduced in 1980 to remove distortions in the economy, but this policy did not yield the desirable result. Provision was hardly there to involve entrepreneurs in policy-making and implementation stages. Realizing this need, the "Business Consultative Group (BCG)" was set up under the chairmanship of Prime Minister comprising the representatives of the National Planning Commission, Ministry of Finance, Federation of Nepalese Chambers of Commerce and Industries, Association of Small and Cottage Industries and other related organizations. This strategy has somehow helped to reduce the gap between the policies and their implementation.

Implementation of government policies is always a subject of controversy and there is always a gap between policy commitment and policy implementation.

5. Contribution of different manufacturing sub-sectors in total manufacturing value added

The trend of and components included in main manufacturing sub-sectors of SMEs together with large establishments is given below. It is seen from the given below table that food and beverage sub-sector has the highest contribution in total manufacturing value added and which is followed by textile sub-sector in that reported year.

Food and beverage sub-sector which includes sugar, grain milk products, oils and fats, animal feeds, bakery and confectionery products, noodles, dairy products, tea, soft drinks, spirits, and beer. This sub-sector has contributed around 43.5% in total manufacturing value added in 2000/01.

- a. **Tobacco sub-sector** has covered mainly cigarettes and bidi. It has contributed 6.0% in total manufacturing value added in 2000/01.
- b. **Textile sub-sector** has contributed 12.4% in total manufacturing value added. The major products included in this sub-sector are fabrics, pashminas, yarns, made-up textiles and jute goods.
- c. **Carpet sub-sector's** contribution in total manufacturing value added in 2000/01 was 9.5%. More or less all of the carpets referred to in the carpet sub-sector are hand knotted woolen carpets, most of them featuring traditional patterns, but some also featuring new modern patterns.
- d. **Garment sub-sector.** The major product of this sub-sector is men's and boy's shirts and trousers as well as ladies dresses. This sub-sector has contributed 6.4% in total manufacturing value added in 2000/01.
- e. **Leather, leather products and footwear sub-sector** has covered tanned/processed leather (mainly wet blue) and leather footwear, and other leather goods such as saddlery, handbags, gloves and belts. This sub-sector's contribution in total manufacturing value added in 2000/01 was 0.4%.
- f. **Wood and wood products** sub-sector. The major product in this categories are sawn wood, plywood, particle board and veneer sheets, carpentry and joinery products, which has contributed 1.5% in total manufacturing value added in 2000/01.
- g. **Paper and paper products** sub-sector includes paper, mainly newsprint and writing paper, corrugated paper and paper- board (cartons, boxes, stationery etc.). This sub-sector has shared 4.1% in total manufacturing value added in 2000/01.
- h. **Publishing and printing sub-sector.** This sub-sector's contribution in total manufacturing value added in 2000/01 was 2.0%. The main product of this category is newspapers, magazines, books, brochures, advertising materials, labels, packaging materials, stationery, etc.
- i. **Chemical and chemical products sub-sector.** In this sub- sector, five categories of products are included. These are: (i) soaps, detergents, toothpaste etc. (ii) pharmaceuticals (iii) plastic products (iv) rubber products and (v) basic chemicals and paints. This sub-sector has contributed 4.8% in total manufacturing value added in 2000/01.
- j. **Non-metallic and minerals sub-sector.** The main product categories in the non-metallic minerals sub-sector are cement and bricks, which has contributed 4.9% in total manufacturing value added in 2000/01.

- k. Mechanical engineering sub-sector's** main product categories are (i) basic metals and (ii) various kinds of fabricated metal products, machinery and equipment. This sub-sector has contributed 2.1% in total manufacturing value added in 2000/01.
- l. Electrical and Electronics sub-sector.** The main products in this category are wire and cables, dry cell batteries, electric motors, generators and transformers, and television, radio receivers and cassette players. This sub-sector has shared 0.9% in total manufacturing value added in 2000/01.
- m. Other manufacturing sub-sector.** The production of wooden furniture and jewelry dominate in this category by accounting 1.1% in total manufacturing value added in 2000/01.

Table No. 10
Contribution of different manufacturing sub-sectors in Total
Manufacturing Value Added in 2000/01
(In percentage)

S. No	Description	2000/01
a.	Food & beverages	43.5
b.	Tobacco	6.6
c.	Textile	12.4
d.	Carpet	9.5
e.	Garment	6.4
f.	Leather, Leather products and footwear	0.4
g.	Wood and wood products	1.3
h.	Paper and paper products	4.1
i.	Publishing and printing	2.0
j.	Chemical & chemical products	4.8
k.	Non-metallic minerals	4.9
l.	Mechanical engineering	2.1
m.	Electrical & electronics	0.9
n.	Other manufacturing sub-sector	1.1
	Total	100

6. Incentives and facilities granted for the promotion of industries

The existing industrial enterprises act, 1992 (with amendment in 1997 and 2002) has granted the following facilities and incentives to the Industries:

- a. Industries, other than tobacco or alcohol related ones would not be imposed more than 20% income tax (corporate tax) on their industrial income.
- b. 10% tax will be levied on dividends earned from investment in any industry.
- c. Double sales tax will not be levied on raw material and products of any industry.
- d. A 10% income tax exemption will be granted to industries utilizing 80% or more of local raw material and 100% local manpower. Moreover, a 10% income tax exemption will be granted to manufacturing industry providing direct employment to 600 or more people in a year.

- e. Industries (other than cigarette, bidi, and alcohol industries) established in remote, undeveloped and underdeveloped areas are entitled to a tax exemption of 30, 25 and 20 percent respectively.
- f. No income tax will be levied on profits earned through export.
- g. Customs duties, excise duties, sales tax and premiums on raw materials of export-oriented industries will be reimbursed within 60 days from the date of application. Similar facilities will be given to an industry if it sells its products within the Kingdom of Nepal in any foreign currency and to an industry, which produces intermediate goods to be utilized for the production of exportable goods.
- h. No tax, duty or fee shall be levied on machinery, tools and raw materials utilized by the industry established in the export-processing zone and on exportable products. Similar facilities are granted to an industry exporting 90% or more of its products.
- i. An industry's 50% taxable income could be deducted for investment on the process or equipment that minimize or control pollution.
- j. 10% of the gross profit shall be allowed as a deduction against taxable income on account of expenses related with technology or product development and efficiency improvement.
- k. Up to 5% percent of gross income spent for the advertisement of the products or promotion services, hospitality and any other similar expenses shall be allowed to be deducted while assessing the taxable income.
- l. An industry donating an amount of up to 5% of its gross income to any school, college, university, hospital, and religious place and in social activities shall be entitled to a deduction of such donated amount in course of assessing the taxable income.
- m. Priority will be given to arrange infrastructures required for the establishments.
- n. Industries will be given priority for government land and land in industrial districts for the establishments.

7. Status and policy for the promotion of ancillary industries

SMEs networking, clustering and sub-contracting exchanges are more often used by the countries to smoothen and increase collective output, buy raw materials at better prices, efficient use of production facilities, share training and professional's costs and share the expenses connected with product development, marketing and distribution. In this case, Nepal stands at very primitive stage. In Nepal, only a few ancillary industries are operating. Most of these industries are operating with backward and forward linkage rather than developing the ancillary industries in the country. Some multinational companies such as Unilever Nepal Ltd is concentrating on manufacturing relatively higher-value added products, shifting the production of other items to ancillary local enterprises. A local company. National Soap Industries now meets its entire detergent powder requirements; and two other local enterprises manufacture detergent bars, and pack blended teas. Thus, Unilever Nepal is developing partnerships with local industries, though it does not source much of its inputs from within Nepal. Nepal Colgate Palm

olive Industries also relying on another Indian Joint Venture Industry named as Essel Packaging Industries for obtaining the packaging materials. Another joint venture company named Nepal Bayern Electric Company getting its raw material as well as technical backup from a German family owned business. The production of this company has been re-exported to German partner with &11 of whom it has subcontracting arrangement.

Nevertheless, the industrial policy (1992) tries to establish some vertical linkages between the industrial enterprises and the raw material producers by means of providing some additional incentives to the industries using local raw materials. After the enactment of the Foreign Investment and Technology Transfer Act (1992) with its subsequent amendment, joint ventures and alliance in the form of equity and funding, technical and management support, transfer and use of process, formula, patent, franchise and the technical know-how have become somewhat popular. These alliances are basically due to the establishment of multinational enterprise in Nepal, like Unilever Nepal Ltd, Coca-cola, Pepsi, Hotels and Food chain. Beverage and Beer Industry and banking services in Nepal.

Regarding the promotion of SMEs as well as ancillary industries, Industrial Policy (1992) has categorically spelled out the following policy, strategy and facility:

Policy: To emphasize development of small, cottage and agro-based industries in order to create the employment opportunities particularly in rural areas.

Strategy: To provide additional incentive to the entrepreneur reinvesting his profit to his own industry or to other ancillary industries.

Facility: In case of industry which diversifies itself through the reinvestment or expands its installed capacity by 25% or more, or modernizes its technology or develops the ancillary industries, it may deduct 40% of new additional fixed assets from its taxable income. Such remission may be deducted in lump sum or installment within a period of 3 years.

However, above stipulated facility has been removed in 2002.

8. Policy regarding export and import trade

The trade policy of 1992 was initiated for promoting export and streamlining import through reforms in monetary and fiscal spheres and simplifying administrative procedures. The key measures included in the present trade policy regime are:

- a. Reduction and restructuring of import duties
- b. Elimination of most quantitative restriction and import licensing requirements
- c. Introduction of full convertibility for current account transactions, and
- d. Removing duties in all exported products.

Nepal maintains trade system that is relatively low tariff and is relatively free of restrictions. A brief note on import and export trade regime is given below:

Import trade regime

The government has been rationalizing the tariff structure by

- a. improving tariff classification,
- b. eliminating tariff discrimination based on different importers and reduce basic tariff rates to equalize effective protection between the various sectors, and
- c. reducing additional tariff rates to reflect the true price of imports.

The reform measures also liberalized import control in terms of dismantling of non-tariff barriers, including elimination of quantitative restrictions on imports and phasing out import license auctions and replacing them with appropriate tariffs.

Export trade regime

The government has made the following provisions to encourage exports:

- a. An export license is no longer required,
- b. The export duty has been abolished except for selected commodities, and
- c. The tax registration certificate is required to be presented only once in each year.

The government has incorporated the following direct promotion measures in the Industrial Policy (1992):

- a. Reduction of export service fees,
- b. Allowing exporters to retain export earnings in convertible currency accounts,
- c. Income tax concessions on income from exports, and
- d. Improved duty drawback scheme and bonded warehousing system.

At present, above mentioned those two schemes are in operation to stimulate exports.

9. Policy regarding technology transfer

Obtaining improved technology is one of the most important reasons why developing countries wish to attract foreign direct investment (FDI). The "hardware" aspect of technology embodied in machinery and equipment has to be imported in Nepal, which has virtually no capital goods industry. However, other aspects of technology transfer through FDI are also relevant including:

- a. The transfer of skills to the employed labour force;
- b. Diffusion of technology outside the affiliates/subsidiaries, and
- c. The introduction of new products.

The government has opened to transfer the foreign technology in all types of industries (cottage, small, medium and large scale) where as foreign investment is not permitted in cottage as well as some selected industries of small, medium and large scale. In this sense government is very open and liberal for transferring the foreign technology' in the country.

10. Policy regarding exchange rate

Nepal's exchange rate policy closely reflects the economic relation with India. This is evident from the fact that Nepalese currency (NC) is pegged with Indian currency for the last 45 years despite several shifts in Nepal's for exchange regime towards hard currencies. Accordingly, any change in the IC-US dollar is passed on to NC-US dollar and subsequently to NC-other convertible currencies exchange rates.

Nepal maintains a formal foreign exchange control regime that requires the surrender of foreign currency export proceeds. Current account transactions are delegated to the commercial banks whilst capital account transactions requires approval of the Central Bank. One useful concession is the ability of exporters to maintain foreign currency accounts at commercial banks.

11. Conclusion and policy recommendations

As environment created by globalization trend has become reality, opportunities and safety measures envisaged under WTO regime have to be optimally utilized for the benefit of development and growth of SMEs in the least development country like Nepal as well as developing countries of this economic region. For the promotion of SMEs by developing trade relation and technical assistance with the regional block, following measures are recommended to be adopted:

- a. Focused should be made on the following areas to enhance the competitiveness among SMEs: (i) Resource endowments (ii) Human skills (iii) Technology, and (iv) Policy environment.
- b. Option should be given to the government in WTO regime to bind tariffs at higher level for products produced by SMEs give certain cushion of protection.
- c. Linkages should be created through policy options between transnational companies and SMEs for enhancing access to finance, transfer technology and effective marketing.
- d. Permission should be granted to adopt the WTO compatible subsidies in research, assistance to disadvantaged regions and environmental requirements, provision of low interest for machinery and equipment for strengthening SMEs.
- e. Technical assistance under WTO system should be transferred and utilized for capability enhancement of SMEs.
- f. Cheaper ways of meeting standard, improving quality, and getting certification for the products of SMEs should be explored and established to meet WTO challenges of technical barriers to trade and sanitary & phyto-sanitar agreements.
- g. Partnership alliances should be formed for having combined strength of government agencies, private sector and donor communities to serve the interest of SMEs in building competitive capability.
- h. The situation should be created for networking and bringing common SMEs under voluntary to help in having stronger voice at policy level to represent for their cause and interest in national, regional as well WTO negotiations.