BUSINESS CLIMATE SURVEY 2021/22 IN WESTERN NEPAL

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Acronyms

BCI	Business Climate Index
BCS	Business Climate Survey
BMZ	German Federal Ministry of Economic Cooperation and Development
CBS	Central Bureau of Statistics
CD-SG	Capacity Development Support to Governance
CTEVT	Council For Technical Education and Vocational Training
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GDP	Gross Domestic Product
GoN	Government of Nepal
GRAPE	Green Resilient Agricultural Productive Ecosystems
IDPG	International Development Partners Groups
LAPA	Local Adaptation Plans of Action
LED	Local Economic Development
LPED	Local and Provincial Economic Development
LRED	Local and Regional Economic Development
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoICS	Ministry of Industry, Commerce and Supplies
MoLCPA	Ministry of Land Management, Cooperatives and Poverty Alleviation
NPC	National Planning commission
PPCP	Public Private Cooperative Partnership
SMC	Sub Metropolitan city
USAID	United States Agency for International Development
QI	Quality Infrastructure

Chapter I: Introduction

The Business Climate Survey (BCS) 2021/22 presents findings of the second application of the enterprise survey conducted across 42 municipalities in three provinces of Western Nepal. The survey aimed to assess the overall business environment and provide a composite Business Climate Index (BCI) combining survey and secondary statistical data. The BCI is a critical tool for understanding local opportunities and challenges that influence experiences and shape operational and investment decisions. Moreover, it allows comparative analysis over time and across territories that help make policies, enable public dialogue, design efficient interventions and fuel healthy competition between local markets.

The BCS 2021/22 in Nepal is a joint effort of three development project: GIZ LPED/GRAPE, GIZ CD-SG and USAID – Sajhedhari – Support to Federalism. All three projects support improving the framework conditions for economic development in the Western provinces of Nepal. The Local and Provincial Economic Development (LPED) Project, initiated in June 2019 for three years, aims to improve the framework conditions for economic development in eleven selected municipalities and three provinces in Nepal. The project is a joint Nepal–German cooperation project implemented under the guidance of the Ministry of Land Management, Cooperatives and Poverty Alleviation (MoLCPA) of the Nepal Government with technical support provided by GIZ on behalf of the German Federal Ministry of Economic Cooperation and Development (BMZ). The project implements GIZ's territorial economic development approach called Local and Regional Economic Development (LRED) in combination with selected value chain promotion initiatives. LRED is a participatory approach for planning and implementing local economic development initiatives with engagement from the public, private and cooperative sectors in the selected municipalities. The LPED project merged with the Green Resilient Agricultural Productive Ecosystems (GRAPE) in 2021. GRAPE is a development cooperation action in 19 municipalities that contributes to the green, resilient, and inclusive development approach adopted by the Government of Nepal (GoN) and the International Development Partners Groups (IDPG) to pursue long-term sustainable economic development.

The main objectives of the BCS 2021/22 were:

- Monitoring the attractiveness of municipalities to retain or attract business operation and investment

- Measuring the quality of economic governance (economic regulations and services), the performance of the private sector in the areas of investment, employment, trade and legal compliance and sustainability

- Assessing climate-smart governance at the municipal level

- Understanding the impact of COVID-19 on enterprise performance/needs and exploring the municipal responsiveness to deal with the COVID-19 crisis

- Ranking municipalities and triggering healthy competition to improve municipal performance

- Providing input for policy dialogue and planning at the municipal/provincial level

The first application of the BCS in 2020/21 created a benchmark assessing a multi-dimensional array of factors enabling the business environment, including confidence, performance, governance, competitiveness, and prospects of enterprises in selected 11 municipalities in Lumbini, Karnali and Sudurpashchim provinces. As part of the Business Climate Survey 2021/22, the enterprise survey was completed in early April 2022 in partnership with a national technical service provider. This survey edition extended to 42 municipalities in the same provinces and includes additional indicators assessing the municipal performance in dealing with climate change and developing climate-resilient governance solutions at the level of municipalities, particularly related to the agricultural sector.

1.1 The rationale for the Business Climate Survey

The Business Climate Survey stems from and serves the objectives of the LPED/GRAPE project to improve the framework conditions for long-term economic development at the local level. The survey findings are useful for designing targeted and efficient project interventions.

Since adopting federalism and restructuring into a three-tier government structure (Local, Provincial and Federal), the local units are the centre of Nepal's political, socio-cultural and economic activities. Of the 753 local-level units in seven provinces, there are six metropolises, 11 sub-metropolises, 276 municipalities and 460 rural municipalities. As such, the local units are responsible for economic governance, local market management, environmental protection, development plans and projects, and collection of local statistics of their area. The responsibilities demand attention regarding resource allocation, revenue rights, income estimation and expenditure functions. The BCS is hence needed to build a robust and consistent baseline to measure progress across a heterogeneous profile of the local units. The BCS would help portray a location's situation in data and figures and sensitize local stakeholders for local economic development.

The BCS fills the statistical gaps in business climate indicators at the local level. Very few and only small sample size studies are available for the local units, and there needs to be data for comparing business climate over time and territory. The BCS considers multiple indicators enabling the business environment and provides a basis for spatial and temporal comparison through a competitive composite index. The outcomes of the BCS are intended to strengthen the individual performances of the local units and inform policymakers to further the dialogue on creating a sustainable business climate for enterprises to thrive locally.

1.2 History of economic surveys in Nepal

Multiple sources of economic and business climate surveys with varying scopes are available for Nepal. The annual Economic Survey is a crucial economic document produced at the Federal level by the Ministry of Finance (MoF) and provides overall macro indicators for the country. The origins of the Economic Survey can be traced back to 1954 AD, concomitantly with the social and political transformation to modernity. The survey's purpose, scope and methods evolved with the time's different political systems and necessities. Nepal adopted economic liberalization policy in the early 1990s, and comprehensive records of economic activities were maintained through the annual Economic Survey to accommodate the progressive nature of monitoring the economy. The administrative and geographic parameters of the Economic Survey were readjusted with significant political changes to abolish the monarchy and establish a federal republic in 2008/09. Since then, the Economic Survey has published consolidated details on economic and financial positions and activities at federal, provincial and local levels.

The Central Bureau of Statistics (CBS) of the GoN also carries out various surveys and censuses pertinent to the economy of Nepal. The National Economic Census 2018, Industrial Survey 2019 and Nepal Labour Force Survey III 2018 are a few of the recent publications by the CBS.

In addition to government-led efforts, numerous development partners and donor agencies have conducted economic surveys in Nepal. At the sub-national level in Nepal, various surveys and studies focused on enhancing competitiveness, improving good local governance and strengthening the investment climate or the business environment. The earliest Business Climate Surveys are found published by The Asia Foundation in 2010, covering four districts, and by the GIZ and Federation of Nepalese Chambers of Commerce and Industry (FNCCI) in 2013, covering five districts. FNCCI also published a Business Confidence Index in 2014/15. Similarly, the World Bank published an enterprises survey in 2013 and an SME survey for six districts in 2018/19.

GIZ/LPED published the first edition of the BCS in 2020/21, covering 11 municipalities across 3 Provinces. It assessed critical aspects of local economic performance and governance and elements of investments, quality of infrastructure, connectivity, business sentiments and services and the impact of COVID-19 on enterprises at the local level. It created a competitive index and was different from antecedent BCS in taking a unique approach to constructing a composite index of status and performance.

1.3 Brief description of the survey area

The BCS 2021/22 conducted an enterprises survey in 42 local level units – five Sub-metropolises, 21 Municipalities and 16 Rural Municipalities – of the Lumbini, Karnali and Sudurpashchim provinces in Western Nepal.

Province	Local level units (Sub-metropolitan, municipality and rural municipality)
Lumbini (11)	Butwal, Ghorahi, Nepalgunj, Tulsipur [Sub-Metropolitan Cities]; Siddharthanagar, Lamahi, Kohalpur, Rajapur, Bansgadhi [Municipalities]; Rapti Sonari, Dangisharan [Rural Municipality]
Karnali (12)	Dullu, Bheriganga, Birendranagar, Tilagupha, Chhedagad [Municipalities]; Kharpunath, Naumule, Bhairabi, Bhagawatimai, Barahatal, Simkot, Kanaka Sundari [Rural Municipalities]
Sudurpashchim (19)	Dhangadhi [Sub-Metropolitan Cities]; Budhinanda, Godawari, Amargadhi, Badimalika, Sanphebagar, Ghodaghodi, Dipayal Silgadhi, Shikhar, Bhimdatta, Punarbas, Gauriganga [Municipalities]; Himali, Swamikartik Khapar, Aalital, Badikedar, Jorayal, Chure, Bitthadchir [Rural Municipalities]

Eleven local level units, including four Sub-metropolitan cities, two municipalities and five rural municipalities, were selected from the Lumbini Province for the survey. Likewise, seven municipalities and five rural municipalities from Karnali Province and one Sub-metropolitan city; eleven Municipalities and seven Rural Municipalities were selected from the Sudurpashchim province. The highest number of Sub-metropolises in the Lumbini province places it as a significant economic hub among the three provinces. Birendranagar Municipality and Godawari Municipality are the provincial capitals of Karnali and Sudurpashchim, respectively.

The status of local-level units – as Sub-metropolises, municipalities, and rural municipalities – in each province also reflects the territory's overall development status. The Economic Survey 2020/2021 found Lumbini province as the third highest contributor to the Gross Domestic Product (GDP), while Sudurpashchim and Karnali provinces placed sixth and seventh, respectively. All three provinces fall in the lower tier of the Nepal Human Development Index 2020 in the ranking of seven provinces. Lumbini Province fares well among the three selected survey areas in terms of the Human Development Index and Multidimensional Poverty Index and owes much of its economic development to cities in the province that are historical centres of regional and international trade, especially with India. As Sudurpashchim shares borders with India, the region is notable for its labour migration to India, but hosts only one Sub-metropolitan city. The Karnali province shares an international border with China to the north but lacks the social, economic and political infrastructure to capitalize on the opportunity.

Chapter II: Methodology

2.1 Approach of the Business Climate Survey 2021/2022

The BCS 2021/2022 builds upon the framework designed during the first application of the survey in 2020/21. The BCS focused on enterprises from the primary sector (agriculture), secondary sector (manufacturing industry), and tertiary sector (trade, other services). The survey operationalized comparable indicators that assessed the business activities, economic governance status, infrastructure quality, and the overall business sentiment of enterprises within a locality. These indicators can be compared over time to assess the changes in the business climate, including the level of investment, the scale of development, changes in the public policy landscape, and its effect on governance for private enterprises.
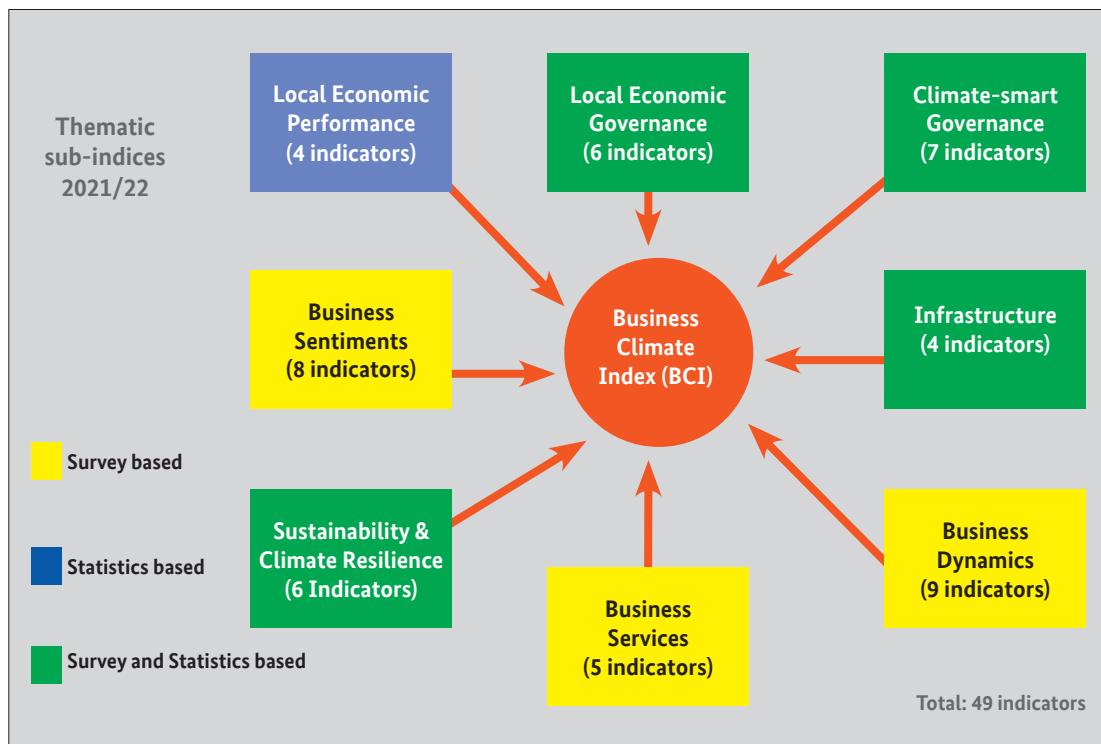
Figure 1: BCI-Thematic sub-indices 2021/22

The enterprise-level survey and secondary statistics provided data for the qualitative and quantitative indicators. A total of 49 indicators were grouped into eight thematic sub-indices (compared to 47 and seven thematic sub-indices in 2020/21). An additional thematic sub-index for Climate Smart Governance was included in the recent survey to assess the municipal performance in dealing with climate change and developing climate-resilient governance solutions at the level of municipalities.

The BCS 2021/22 captured the repercussions of the Covid-19 pandemic for enterprises and responses by the local government to the challenges thereof without considering them in the indicator definition.

Thematic Sub-indices	No. of indicators 2020/2021	No. of indicators 2021/2022
Local Economic Performance	5	4
Local Economic Governance	9	6
Infrastructure	4	4
Business Dynamics	12	9
Business Services	4	5
Sustainability and Climate Resilience	6	6
Business Sentiments	7	8
Climate Smart Governance	-	7
Total	47	49

Table 1: Thematic Sub-indices with number of indicators

2.2 Enterprise sampling

The universal population for the survey was the database produced by the National Economic Census 2018. The enterprises were categorized based on primary firm characteristics, i.e., sector affiliation and enterprise size. Sectoral affiliation categories were Agriculture, Manufacturing, and Services. The second level of stratification was the company size, using the definition employed by CBS for the National Economic Census 2018. Firms were categorized into Micro (1-9 employees), Small (10-49 employees), Medium (50-99) and Large (>100) based on the number of employees. Furthermore, the survey considered gender-wise ownership of enterprises and the informal sector. The consideration included 25.1 per cent of female-owned enterprises and 6.5 per cent of the informal sector in the survey.

A sample of 5,690 enterprises was selected based on numbers, locations, size and sectors of business enterprises across three provinces. A stratified random sampling technique was used in line with the World Bank's enterprise-level survey methodology to determine the final size of the representative sample. The methodology ensured the minimum 7.5 per cent precision levels with a 95 per cent confidence interval while generating a sample size representing all enterprises and sectors. The sample size for the second survey application increased more than two-fold to represent additional local-level units included in the 2021/22 survey.

2.3 Definition of sub-indices and indicators

Thematic Sub-indices of business climate	Definition	Indicators
Local Economic Performance	Local economic performance measures economic growth the local economic performance sub-index is the combination of four indicators. All four indicators are based on statistical data collected from different sources for each municipality.	No. of established enterprises per 1000 inhabitants
		Volume of outstanding credits 2021 per enterprise population
		Growth of outstanding credits 2020/2021
		Total taxpayers 2021 per 1000 inhabitants
Local Economic Governance	Local Economic Governance measures how public and private institutions jointly steer the local it has six indicators of which three indicators were collected from statistical data and the remaining three indicators from survey data.	(Proposed) Municipal Budget per capita 2021
		(Proposed) Development Expenditure per capita 2021
		(Proposed) Contribution of local revenue to total budget in per cent 2021
		Per centage of registered companies
		Average no. of days to obtain a business license/registration
		Quality of performance of government service provision

Business Sentiment	Business sentiment measures how business enterprises perceive the challenges or opportunities they face. It measures the perception of obstacles faced and opportunities gained by business enterprises. It also measures the regulatory issues that hinder the growth of the enterprises and shows the overall scenario of the economy. It has eight indicators which are collected from survey data.	**Assessment of change of business environment over the last 2 years**
		Business conditions compared to 2 years ago
		Expected business conditions in the next 2 years
		Average severity of four major obstacles to doing business
		Average severity of business problems related to climate change
		Consistent interpretations of regulations by government officials
		Number of regulatory problems perceived by minimum 25 per cent of enterprises
		Need of informal payments in per centage
Business Dynamics	Business Dynamics measures the activity changes or continuous progress made in the business activities over time. Business dynamics also measure innovation made and future investment planned by enterprises. It has nine indicators which are collected from survey data.	**Per centage of businesses younger than 10 years**
		Per centage of business with turnover more than 25 million
		Need for finance (presently)
		Loan application rate (need and apply)
		Per centage of innovative firms (product innovation)
		Per centage of enterprises invested in 2021
		Per centage of firms that (partially) digitalized business operation
		Per centage of enterprises planning to invest in the next 12 months
		Average assessment of investment attractiveness of municipality

Business Services	The business services sub-index measures the services received by the enterprises and quality of that services. It measures accessibility and use of those services for the growth of their business. It has five indicators collected from survey data.	Per centage of membership in business membership organization
		Accessibility and quality of non-financial business development services
		Accessibility and quality of financial business development services (banking, insurance)
		Accessibility and quality of quality infrastructure services
		Accessibility and quality of climate relevant services (e.g. early warning system, risk assessment, advisory on climate change, climate friendly technology)
Sustainability and climate resilience	Sustainability means meeting our own needs without compromising the ability of future generations to meet their needs. Sustainability has three pillars: economy, environment and society. The Sustainability sub-index develops indicators based on the above principle. It has six indicators where one indicator is collected from statistical sources and the remaining five indicators are collected from survey data.	Size of landfill site (m2) per 1000 inhabitants
		Quality and effectiveness of local waste management system
		Average investment activities into technical areas of sustainability/climate resilience
		Taking measures to become resilient vis-à-vis climate change
		Responding to regulatory constraints or opportunities regarding sustainability and climate change
		Responding to market and image opportunities regarding sustainability and climate change

Infrastructure	Infrastructure is the basic physical and organizational structures and facilities needed for the operation of a society or the economy. The infrastructure sub-index measures availability and quality of economic infrastructure and its access. It has four indicators where one indicator is from survey data and the remaining three indicators are from statistical data.	Assessment of infrastructure maintenance and development (municipality/SMC)
		Number of finance institutions per 100 enterprises 2021 (municipality/SMC)
		Number of CTEVT registered vocational training institutions per 100 enterprises 2021
		Physical markets per 100 enterprises 2021 (municipality/SMC)
Climate Smart Governance	Climate-smart governance considers the adaptation of the municipality and enterprises to address climate change, including the implementation of LAPA and climate budget coding at the municipal level. The Climate-smart governance sub-index measures the climate risk index, status and implementation of climate budget coding and the municipality's disaster response plan with respect to its budget allocation. It has eight indicators where two indicators are from survey data and the remaining six indicators from statistical data.	Climate Risk Index (VRA – Exposure – Hazard)
		Volume of municipal investment in climate adaptation measures per 1,000 inhabitants
		Adaptation of municipal infrastructure to climate change (enterprise assessment)
		Status of the implementation of climate budget coding
		Status of LAPA preparation
		Status of LAPA implementation
		Disaster response plan and budget allocation
		Degree of water stewardship (enterprise view)

2.4 Survey implementation

A sub-contracted service provider organized and conducted the survey. The survey questionnaire was finalized after a pilot survey incorporating necessary improvements. The survey was carried out from January to April 2022, collecting 5,738 samples, of which 5,690 were analyzed. The extra samples were extracted during the study to avoid data limitation due to incomplete responses, missing details and unreliable information. 42 experienced surveyors, 42 field coordinators, fourteen field supervisors and one team leader were conducting the survey. Via DROID Survey software, the data were entered into the SPSS format using a Computer Aided Telephonic Interviewing approach. The survey was mostly virtually conducted through telephone interviews.

The project considered the effects of the Covid-19 pandemic and lockdowns, when individuals and enterprises were expected to be reluctant to participate in face-to-face interviews. The enterprise contact details were collected from each municipality and relevant sources. Several phone calls were made to get a successful call to identify the sector and sizes to know the status of the enterprises on their functionalities and convince respondents to participate.

2.5 Data processing and analysis

The survey data were regularly checked for validation and verification by the research associates. Research associates monitored data daily, checking for inconsistencies and missing data. Random control calls were made to 10 per cent of the respondents by the research associate to cross-check the information received by the surveyors. If there was any mistake or confusion in data, surveyors called the respective enterprise to clear the confusion. The research associates would make necessary changes in the data set. The research associates suggested that the surveyors address common mistakes by regularly checking the data set.

Forty-nine indicators under eight sub-indices were considered in analyzing the data and producing tables and graphs as required. Municipality-wise, data were analyzed for comparison of different indicators. Both secondary and surveyed data were combined to generate the score of the municipality in each indicator. Different secondary data were missing but retrieved from concerned personnel of the municipalities. The necessary data from the survey database were extracted for the Business Climate Index calculation.
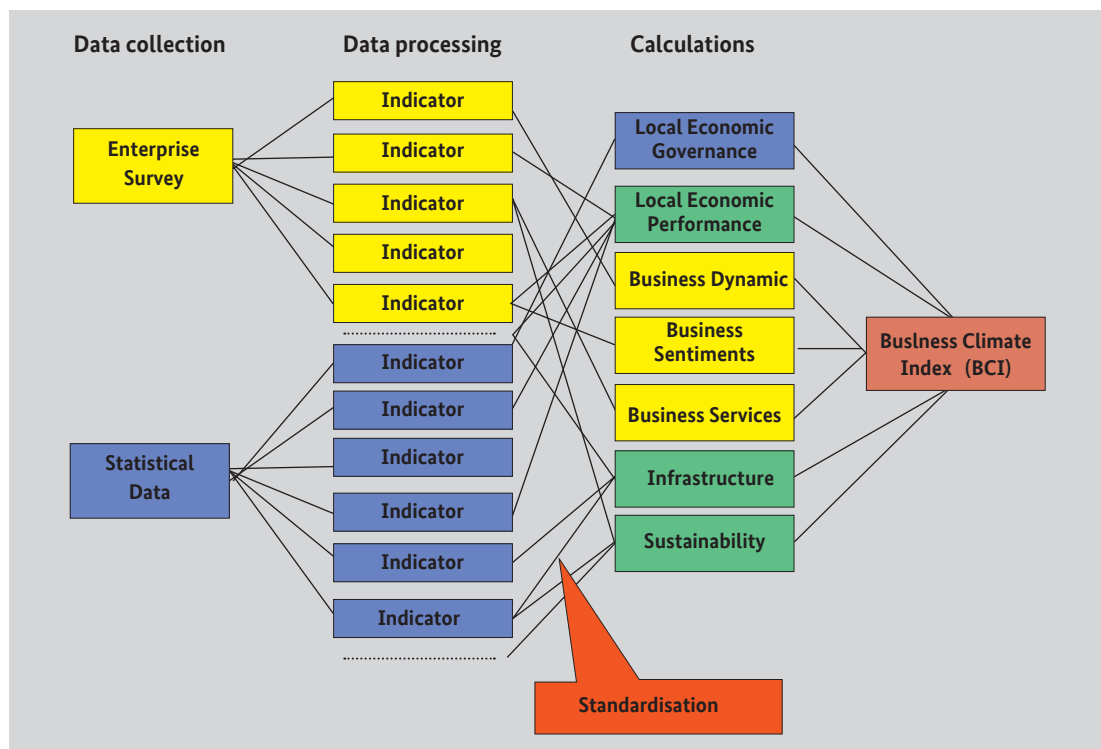
Figure 2 : BCI-generic index structure, 2021/22

Chapter III:
Business and Investment Climate in Western Nepal 2021/22

3.1. Details about the respondents

Most enterprises are engaged in the Trade/Other Services sector (68%) and are small in size (95 %). Only 18 per cent of the enterprises had an annual turnover of one million NPR or more. In comparison, 57 per cent of enterprises had less than 500,000 NPR sales.
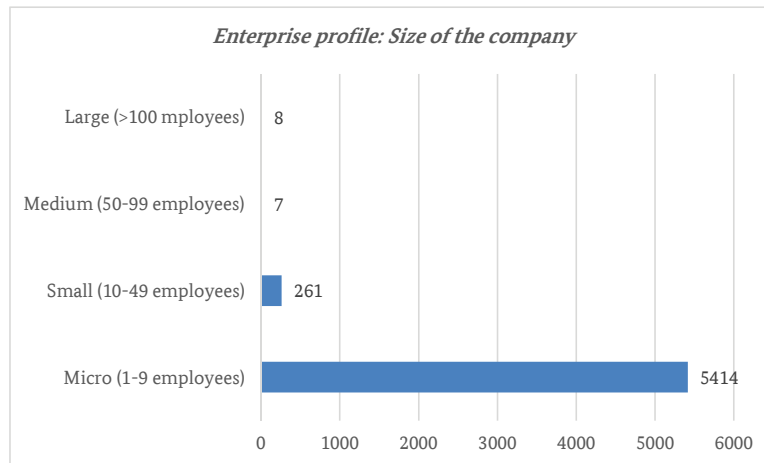
Figure 3: Enterprise profile: Size of the company (n=5,690), 2021/22

Sectoral data at the local level unit reveals that Trade/Other Services are mostly operational at the Municipal and Sub-metropolitan levels, whereas Agriculture is predominant in Rural Municipalities. On average, 47 per cent of the enterprises in Rural Municipalities were Agriculture related compared to 19 per cent in the bigger towns and cities. However, of the very few large enterprises in the sample (8 out of 5,690), four were located in Naumule Rural Municipality, two in Punarbas Municipality and one each in Godawari Municipality and Dhangadhi Sub-metropolitan. At the Provincial level, Lumbini province hosted the most manufacturing enterprises at 43 per cent, followed by 38 per cent in Sudurpashchim and 19 per cent in Karnali.
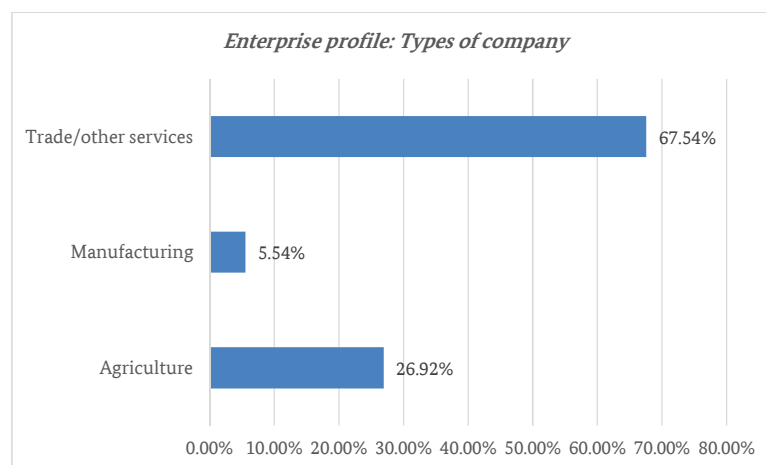
Figure 4: Enterprise profile: Types of company, (n=5,690), 2021/22

All the respondents knew how to read and write, of which 33 per cent had also completed secondary level. Half of the respondents were experienced, having managed or owned the company for five or more years. 29 per cent of the companies had been in operation for more than ten years, whereas the new companies that were in operation for less than three years comprised 25 per cent of the sampled population. 34 per cent of the start-up businesses were found in Sudurpashchim province.

Years in Operation
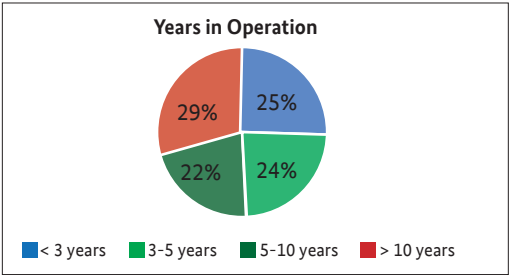
Figure 5: Share of new and old enterprises (n=5,690), 2021/22)
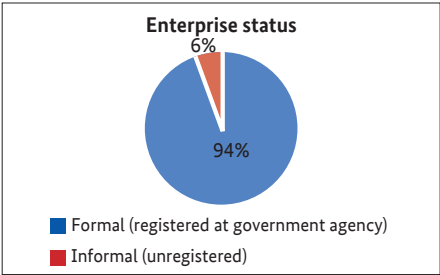
Enterprise status

Figure 6: Registration status (n=5,690), 2021/22

95 per cent of the sampled enterprises were registered accordingly with the government. A high share of informal companies was found in Kanaka Sundari Rural Municipality (26%), Dullu Municipality (23%) and Himali Rural Municipality (21%). Among the Sub-metropolitans, Nepalgunj and Dhangadhi had 12 and 13 per cent informality, whereas Butwal had the least at three per cent.

Sole Proprietorship was the most common (84%) type of company, followed by Partnership (5%) and Cooperative (2%). The Rural Municipalities of Sudurpashchim Province had the highest share of Public Limited companies at 66 per cent out of 109.

77 per cent of the respondents were male, and 68 per cent of the respondents fell under the age category of 25–45 years which also reflects the social and demographic characteristics of the provinces. Women held only 25 per cent of the legal ownership of the company. Female ownership was the least in Karnali province at 25 per cent and highest in Sudurpashchim at 40 per cent.

Enterprise ownership, genderwise

Female ownership, province-wise
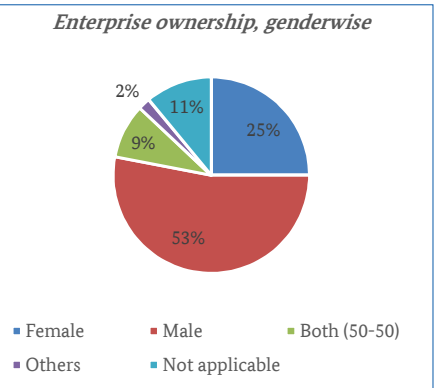
Figure 7: Female ownership (n=5,690), province-wise 2021/22   *Figure 8: Enterprise ownership (n=5,690), gender-wise 2021/22*
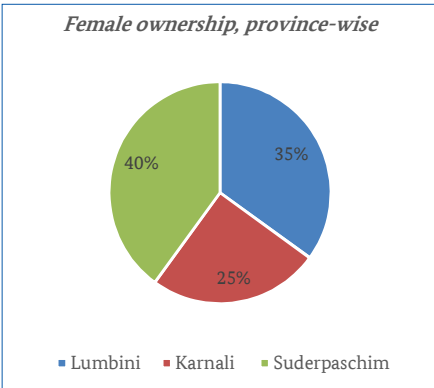
3.2 Municipal Business Climate Index Ranking 2021/22

The Business Climate Index (BCI) utilizes a 1-to-100-point scale, where 1 means the lowest possible score and the 100-points means the highest possible score. The index is a composite of sub-indices calculated individually for each municipality for each indicator across the eight thematic areas. Then an average score was calculated for each sub-index and the overall BCI.

The median score for BCI 2021/22 in three provinces of Western Nepal is 40. The mean score for BCI was also 40, and the modal value was 39 implying a symmetrical distribution. The standard deviation for the BCI Index was 6.41 and 0.22 skewness. Overall, the business climate across the 42 local level units seems similar, even though there are significant differences in sub-indices and dimensions that foster a competitive climate.

Birendranagar Municipality stands well ahead among the 42 local level units with a BCI score of 59, followed by Siddharthanagar Municipality (50 points) and Lamahi Municipality (49 points). Butwal Sub-metropolitan scored the highest BCI (48 points) among the five Sub-metropolitan units. Bhairabi (43 points) and Kharpunath (41 points) were the only local level units above the median value among the rural municipalities. Barahtal Rural Municipality scored the lowest BCI with 26 points. It is noticeable that most rural municipalities (14 out of 17) are at par or below the mid-value.

BCI 2021/22

Local Level Unit	Score
Birendranagar	59
Siddharthanagar	50
Lamahi	49
Butwal SMC	48
Badimalika	48
Dhangadhi SMC	47
Nepalgunj SMC	46
Tulsipur SMC	46
Ghorahi SMC	45
Bhimdatta	45
Godawari	44
Kohalpur	44
Bansgadhi	44
Bhairabi	43
Dipayal Silgadhi	42
Kharpunath	41
Gauriganga	41
Simkot	41
Rajapur	40
Aalital	40
Rapti Sonari	40
Amargadhi	40
Median	40
Bheriganga	39
Budhinanda	39
Sanphebagar	39
Swamikartik Khapar	39
Punarbas	39
Tilagupha	39
Bhagawatimai	39
Ghodaghodi	37
Chure	37
Kanaka Sundari	37
Jorayal	36
Bitthadchir	36
Chhedagad	34
Naumule	32
Shikhar	31
Himali	31
Badi Kedar	30
Dhangisharan	30
Dullu	30
Barahatal	26

Figure 9: BCI Scores at local level unit 2021/22

Karnali Province	BCI	Sudurpashchim	BCI	Lumbini	BCI
Birendranagar Municipality	59	Badimalika Municipality	48	Siddharthanagar Municipality	50
Bhairabi Rural Municipality	43	Dhangadhi Sub-Metropolitian City	47	Lamahi Municipality	49
Kharpunath Rural Municipality	41	Bhimdatta Municipality	45	Butwal Sub-Metropolitian City	48

Table 2: Top three performers, province-wise, 2021/22

Rural Municipalities	BCI	Municipalities	BCI	Sub-metropolitan Cities	BCI
Bhairabi	43	Birendranagar	59	Butwal	48
Kharpunath	41	Siddharthanagar	50	Dhangadhi	47
Simkot	41	Lamahi	49	Nepalgunj	46

Table 3: Top 3 performers, local-level unit-wise, 2021/22

The median value of BCI at the provincial level was in Lumbini at 45 points, in Karnali at 39 points, and in Sudurpashchim at 39 points. Although the BCI value distribution is roughly symmetrical in all three provinces, the business climate varies the most in Karnali province (Standard Deviation: 8.23). The top 3 performing rural municipalities, the top municipality, and the lowest-scoring municipality are all from the Karnali province. The Lumbini province hosts four of the five Sub-metropolises in the sample, which are high performing, and explains the higher BCI score.

3.3 Ranking per sub-index 2021/22

This section presents findings for each of the eight sub-indices operationalized to calculate the BCI.

3.3.1 Local Economic Performance

Overall, the Local Economic Performance in the three provinces of Western Nepal is less than satisfactory. On a scale of 1-to-100, the mean value is 31, the median 29 and the standard deviation at 12.58. Each indicator received a low score, with the volume of outstanding credits averaging at one point, and the growth of outstanding credit for 2021/22 was just 43 on an average, and its median 35. The enterprises are sparsely populated across most local units and averaged 28 points per 1,000 inhabitants. Moreover, the taxpayer base is less than satisfactory at a median value of 41 points.
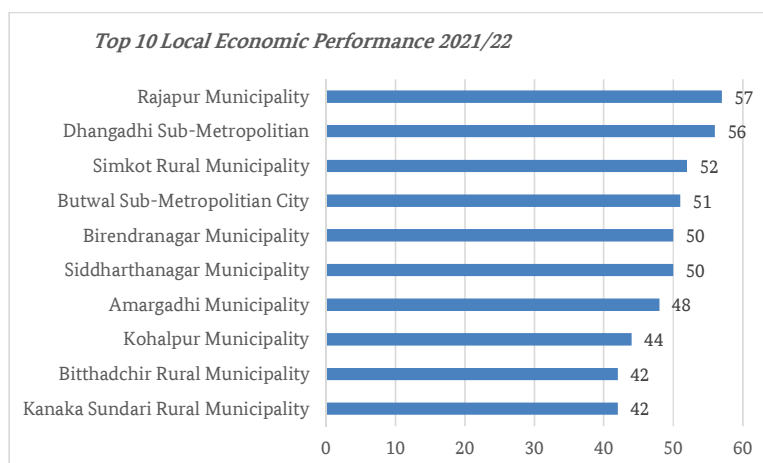
Figure 10: Top economic performers 2021/22

Rajapur Municipality scored the highest points under the Local Economic Performance category with 57 points. It scored the highest possible score, 100, for the number of established enterprises per 1,000 inhabitants and had a high taxpayer base at 82 points. Besides Kanaka Sundari Rural Municipality (44 points), all the top ten economic performers had a high taxpayer base. Dhangadhi Sub-metropolitan was an exceptional outlier in scoring 100 points under the volume of outstanding credits 2021/22 per enterprise population. Bhagawatimai Rural Municipality scored the lowest at just 9 sub-index points for economic performance.

Karnali Province	LEP Score	Sudurpashchim Province	LEP Score	Lumbini Province	LEP Score
Simkot Rural Municipality	52	Dhangadhi Sub-metropolitan	56	Rajapur Municipality	57
Birendranagar Municipality	50	Amargadhi Municipality	48	Butwal Sub-metropolitan	51
Kanaka Sundari Rural Municipality	42	Bitthadchir Rural Municipality	42	Siddharthanagar Muncipality	50

Table 4: Top 3 economic performers, province-wise 2021/22

Rural Municipality	LEP Score	Municipality	LEP Score	Sub-metropolitan	LEP Score
Bhairabi	43	Birendranagar	59	Butwal	48
Kharpunath	41	Siddharthanagar	50	Dhangadhi	47
Simkot	41	Lamahi	49	Nepalgunj	46

Table 5: Top 3 economic performers, local level unit-wise, 2021/22

3.3.2 Local Economic Governance

The scores for Local Economic Governance were relatively low at an average of 41 and a median value of 42 on a scale of 1-to100. The dataset was somewhat dispersed (standard deviation = 10) and moderately skewed (-0.6). The distribution implies that several local-level units have performed poorly in local economic governance.

A few local-level units had a high municipal budget per capita and a high development expenditure per capita for 2021. High municipal budgets per capita were found in Nepalgunj Sub-metropolitan (100 points), Bitthadchir Rural Municipality (88 points) and Badimalika Municipality (65 points). Butwal Sub-metropolitan, which topped in Local Economic Performance, received a score of 46 for municipal budget per capita and had a meagre score of seven for development expenditure per capita. Exceptionally low development expenditures were found in Bhairabi Rural Municipality, Dullu Municipality, Lamahi Municipality and Godawari Municipality, all of which received only one point.
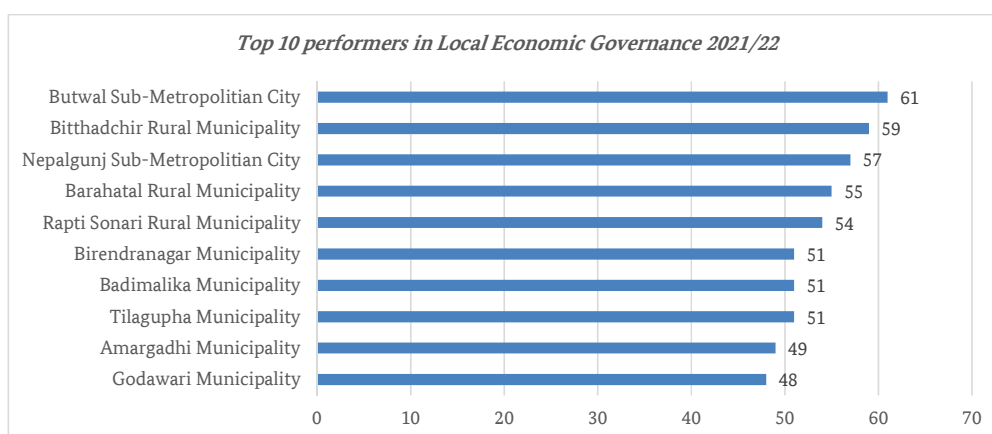
Figure 11: Top local economic governance performers

The economic governance is also hampered by a low contribution of the local economy to the budget. Few local-level units (Butwal, Nepalgunj, Tulsipur and Sanphebagar) reported significant contributions to the budget. Bitthadchir Rural Municipality stands out among the 42 local-level units in local economic governance, scoring consistently across all governance indicators. Bitthadchir's performance otherwise was relatively low in the cumulative BCI index securing the 34th position.

The ease of business registration is evident across all local level units and explains the high number of formal enterprises in the sample (94%). 70 per cent of the sampled enterprises registered their business within three days. High numbers of informal enterprises were found in Kanaka Sundari Rural Municipality (26%), Himali Rural Municipality (21%) and Dullu Municipality (23%). While the data does not suggest particular reasons for the low registration of businesses in Kanaka Sundari

and Himali, the low score in the quality of performance of government service provision in Dullu (two points) might provide one explanation for the reluctance to formalize the enterprises.

The experience and perception of the quality of government services regarding business registration and tax, trade, labour and environmental regulations were generally high. Besides Dullu, the outliers in the dataset are Butwal (31 points), Ghorahi (27 points), Kohalpur (14 points) and Nepalgunj (one point).

Karnali Province	LEG Score	Sudurpashchim	LEG Score	Lumbini	LEGScore
Barahtal Rural Municipality	55	Bitthadchir Rural Municipality	59	Butwal Sub-metropolitan	61
Tilagupha Municipality	51	Badimalika Municipality	51	Nepalgunj Sub-metropolitan	57
Birendranagar Municipality	51	Amargadhi Municipality	49	Rapti Sonari Rural Municipality	54

Table 6: Top 3 LEG performers, province-wise, 2021/22

Rural Municipality	LEG Score	Municipality	LEG Score	Sub-metropolitan	LEG Score
Bitthadchir	59	Tilagupha	51	Butwal	61
Barahatal	55	Badimalika	51	Nepalgunj	57
Rapti Sonari	54	Birendranagar	51	Ghorahi	42

Table 7: Top 3 LEG performers, local level unit-wise, 2021/22

3.3.3 Infrastructure

Besides the measures of presence of financial institutions, skill and vocational training centres and physical markets, the survey measured the perception of respondents towards maintenance and development of infrastructure in the local level units. 50 per cent of the respondents agreed that the development and maintenance of basic municipal infrastructures like transportation, water supply, sewerage etc. were adequately planned and provided in the municipalities. However, 39 per cent of the respondents also disagreed with the infrastructural situation in the municipalities. Dissatisfaction among the respondents was found the most in Dullu Municipality (38%), Barahtal Rural Municipality (36%) and Dangisharan Rural Municipality (29%). Butwal Sub-metropolitan had the highest level of satisfaction regarding the state of infrastructure at 99 per cent.

The dataset on infrastructure finds an average score of 32 and a median value of 31. The dataset was relatively dispersed (SD = 12.32) and moderately skewed (0.45). Most of the high scores under the category were found for municipality and Sub-metropolitan level units. The best-performing Rural Municipality was Swamikartik Khapar (36 points), securing 15th position among the 42 territories. Barahtal (7 points), Himali (14 points) and Naumule (16 points) Rural Municipalities have a poor infrastructure status.
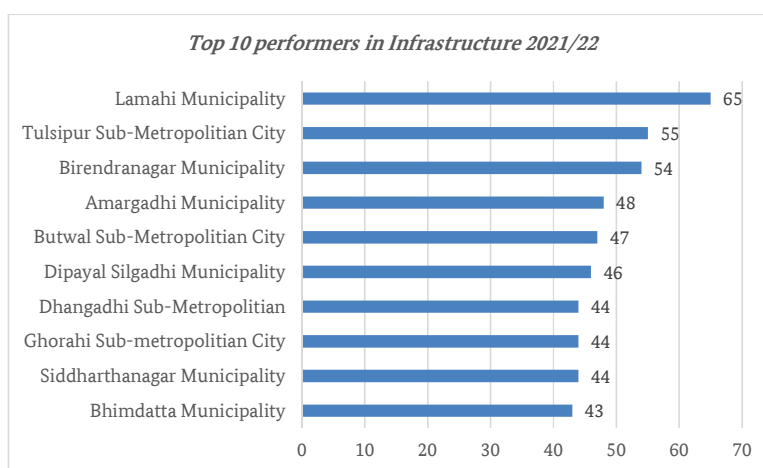
Figure 12: Top 10 Infrastructure performers 2021/22

Many financial institutions and vocational training centres are largely concentrated at municipality and Sub-metropolitan levels. However, few rural municipalities, including Aailital and Rapti Sonari, have high number of financial institutions per 100 enterprise. Amargadhi, Lamahi and Dipayal Municipalities had the highest proportion of financial institutions per 100 enterprises. Simkot and Rapti Sonari have the highest numbers of financial institutions among the Rural Municipalities. Dhangadhi, Tulsipur and Birendranagar had the highest numbers of CTEVT registered institutions per 100 enterprises. Aalital and Rapti Sonari Rural Municipalities also record significant numbers of CTEVT-registered training centres. Although in many rural municipalities the presence of financial institutions and vocational training centres are less in number, the presence of physical markets per 100 enterprises was high. High number of physical markets were reported for Bhairabi Rural Municipality, Swami Kartik Khapar Rural Municipality and Chure Rural Municipality.

Karnali Province	INF Score	Sudurpashchim	INF Score	Lumbini	INF Score
Birendranagar	**54**	**Amargadhi Municipality**	**48**	**Lamahi Municipality**	**65**
Tilagupha	**37**	**Dipayal Silgadhi Municipality**	**46**	**Tulsipur Sub-metropolitan**	**55**
Bhairabi Rural Municipality	**34**	**Dhangadhi Sub-metropolitan**	**44**	**Butwal Sub-metropolitan**	**47**

Table 8: Top 3 performers in infrastructure, province-wise, 2021/22

Rural Municipality	INF Score	Municipality	INF Score	Sub-metropolitan	INF Score
Swamikartik	36	Lamahi	65	Tulsipur	55
Bhairabi	34	Birendranagar	54	Butwal	47
Jorayal	34	Amargadhi	48	Ghorahi	44

Table 9: Top 3 performers in infrastructure, local level unit-wise, 2021/22

3.3.4 Business Sentiments

Most respondents deemed the business condition and environment worse than two years ago before the COVID pandemic. Enterprises in Bansgadhi, Kohalpur, Tulsipur and Bheriganga expressed the most dissatisfaction with the current business climate. However, optimism ran high among the respondents across the survey area, with 72 per cent of the respondents expecting a better situation two years from now.
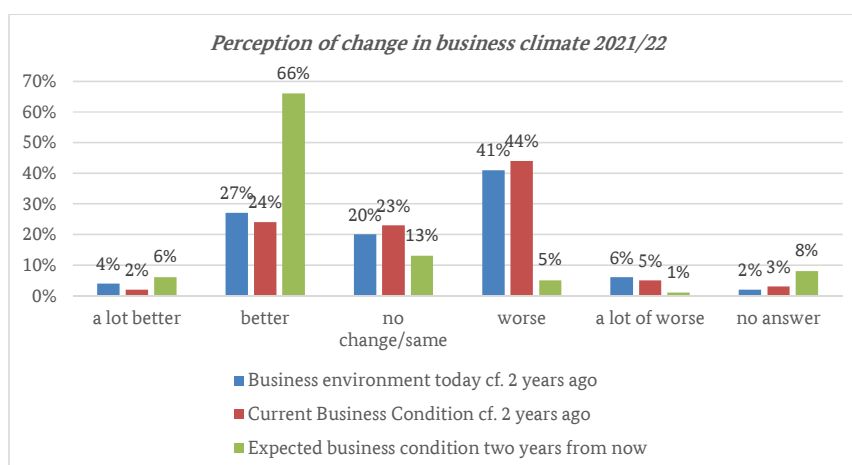
Figure 13: Perception of change in business climate, per centage wise, 2021/22

Business sentiments were especially high in rural municipalities. Six out of the top ten scores for business sentiments were for rural municipalities. On a scale of 1-to-100 for business sentiments, the average score was 56 and a median of 58. The dataset was moderately dispersed with standard deviation of 11 and highly skewed at -1.94. While the business sentiment is high in most of the local level units, there are several municipalities with exceptionally low scores. There is notable pessimism about the business conditions and expectation in Barahatal Rural Municipality (18 points), Simikot Rural Municipality (23 points) and Amargadhi Rural Municipality (32 points).
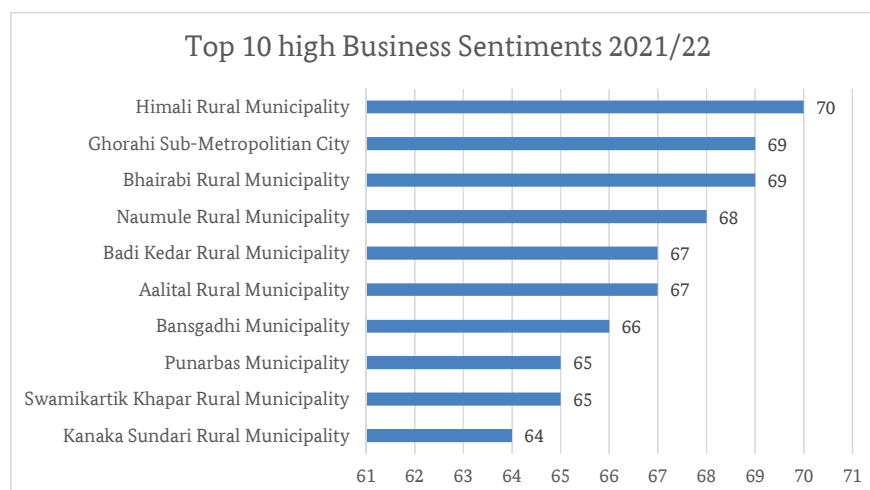
Figure 14: Top ten scores in business sentiments, 2021/22

Most of the respondents felt a low severity of challenges to their business – security related (87%) and climate related (65%). Respondents expressed that government officials' interpretation of regulations affecting the companies was generally consistent and predictable (Mean score of 54 and median 58). However, the number of regulatory problems perceived by a minimum of 25 per cent of the enterprises was high (indicator mean at 32 and median at 11 points). Moreover, 20 local level units scored just one point for the indicator. The survey measure for corruption – "informal payments to get things done" – was low; 79 per cent of the respondents shared that they had no experience of needing to do so. The median score for the need for informal payment was 83 (higher value here indicating lower level of corruption). Nevertheless, an alarming situation was found in Nepalgunj (one point), Simkot (30 points) and Butwal (36 points).

Karnali Province	Biz Senti Score	Sudurpashchim Province	Biz Senti Score	Lumbini Province	Biz Senti Score
Bhairabi Rural Municipality	69	**Himali Rural Municipality**	70	**Ghorahi Sub-metropolitan**	69
Naumule Rural Municipality	68	**Aalital Rural Municipality**	67	**Bansgadhi Municipality**	66
Kanaka Sundari Rural Municipality	64	**Badikedar Rural Municipality**	67	**Tulsipur Sub-metropolitan**	61

Table 10: Top 3 high business sentiments, province-wise, 2021/22

Rural Municipality	Biz Senti Score	Municipality	Biz Senti Score	Sub-metropolitan	Biz Senti Score
Himali	70	**Bansgadhi**	66	**Ghorahi**	69
Bhairabi	69	**Punarbas**	65	**Tulsipur**	61
Naumule	68	**Birendranagar**	63	**Nepalgunj**	59

Table 11: Top 3 high business sentiments, local level unit-wise, 2021/22

3.3.5 Business Dynamics

The surveyed enterprises were fairly dynamic regarding investment and product innovation, with a mean value of 46 and a median of 44. The dataset is relatively dispersed, with a standard deviation of 10.43 and moderately skewed at 0.43.
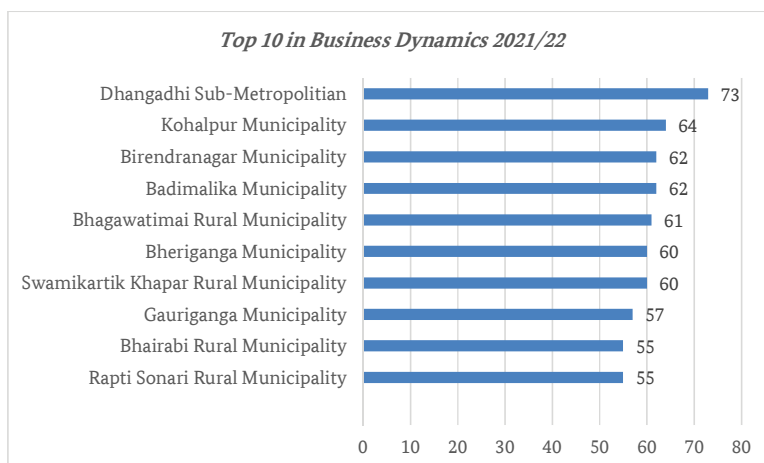
Figure 15: Top 10 scorers in business dynamics, 2021/22

More than half of the businesses assessed their municipalities as an attractive place for investment, with a median value of 54 for the indicator. While the dataset on investment attractiveness is proportionately distributed among different levels of local level units (Rural Municipality, Municipality and Sub-metropolitan), an exceptional outlier is Nepalgunj Sub-metropolitan, where the assessment of investment attractiveness score is just one point.

Local level unit	Indicators score on investment attractiveness
Barahatal Rural Municipality	100
Siddharthanagar Municipality	98
Butwal Sub-metropolitan	94
Dullu Municipality	93
Birendranagar Municipality	92
Lamahi Municipality	89
Bhagawatimai Rural Municipality	84
Kohalpur Municipality	83
Badimalika Municipality	82
Dhangadhi Sub-metropolitan	79

Table 12: Top 10 attractive places for investment

The level of investments in the past year was low with a mean score of 38 and corroborates with the low business sentiments presently. Only 14 per cent of the sample (n=5,690) had invested in the company in the year 2021, citing various reasons, including expansion, buying tools and machinery, and increasing human resources. Godawari, Bheriganga, Swamikartik Khapar and Kohalpur reported higher numbers of enterprises investing in 2021. Moreover, 53 per cent of the enterprises (n=5,690) had plans to invest in the next twelve months, suggesting a positive outlook towards their business. Overall, only five per cent of the enterprises (n=5,690) reported introducing new products or services. Nevertheless, higher proportion of innovative firms were found in Birendranagar Municipality, Kharpunath Rural Municipality, Dhangadhi Municipality, Kohalpur Municipality, and Bheriganga Municipality. No enterprises in Barahtal Rural Municipality reported innovating products or services.

52 per cent of the enterprises (n=5,690) needed additional financing, primarily for business expansion and modernization. 40 per cent of the respondents intended to apply for credit, and the most financial need (34%) was for less than one million NPR. Digitization and automation of business processes are indicators of modernization. However, only six per cent of all respondents (n=5,690) reported automation or digitization of business processes. Swamikartik, Dhangadhi and Kohalpur scored the most points for modernization of business processes.

Karnali Province	Biz Dyn Score	Sudurpashchim Province	Biz Dyn Score	Lumbini Province	Biz Dyn Score
Birendranagar Municipality	62	Dhangadhi Sub-metropolitan	73	Kohalpur Municipality	64
Bhagawatimai Rural Municipality	61	Badimalika Municipality	62	Rapti Sonari Rural Municipality	55
Bheriganga Municipality	60	Swamikartik Khapar Rural Municipality	60	Tulsipur Sub-metropolitan	53

Table 13: Top 3 performers in business dynamics, province-wise, 2021/22

Rural Municipality	Biz Dyn Score	Municipality	Biz Dyn Score	Sub-metropolitan	Biz Dyn Score
Bhagawatimai	61	Kohalpur	64	Dhangadhi	73
Swamikartik Khapar	60	Badimalika	62	Tulsipur	53
Rapti Sonari	55	Birendranagar	62	Ghorahi	39

Table 14: Top 3 performers in Business Dynamics, local level unit-wise, 2021/22

3.3.6 Business Services

The accessibility and quality of business services in the surveyed sample are low, with a mean score of 35 and a median of 33. The dataset is highly dispersed with a standard deviation of 17.9 and moderately skewed at 0.9. The distribution implies that the better quality and accessibility of business services is concentrated in a few high-performing local level units.
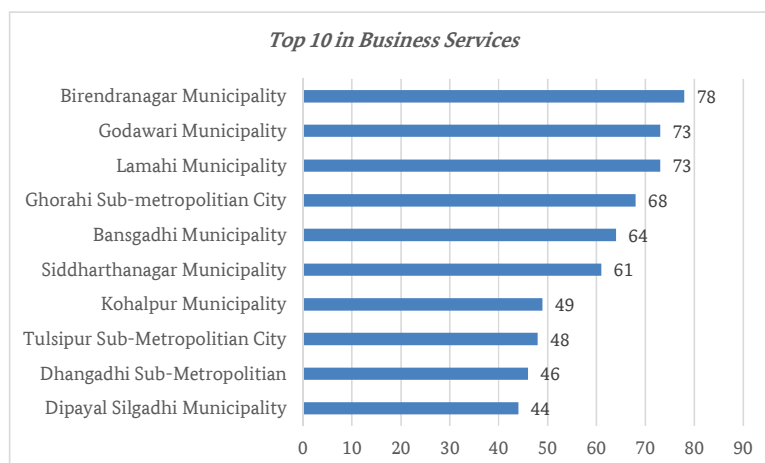
Figure 16: Top 10 in business services, 2021/22

Membership in various business associations among the surveyed enterprises is low. Sub-metropolitans in the sample had high membership, along with a few larger municipalities in the three provinces, including Lamahi, Kohalpur, Siddharthanagar and Godawari. Furthermore, high memberships in business associations were highest in Lumbini Province.

Accessibility and quality of services available were lowest for climate-relevant services compared to quality infrastructure, financial, and non-financial business development services categories. Accessibility to early warning systems, climate risk assessment and technology, training and mentoring, was acute considering the significant number of sample enterprises engaged in agriculture. Access and quality of financial services (mean score 43) were relatively better than non-financial services (mean score 34). Access and quality to quality infrastructure services (calibration, testing, certification, and inspection) received an average score of 38.

Rural municipalities, particularly in the Sudurpashchim province, lack business services the most. Badikedar (5 points), Swamikartik (15), Jorayal (17), and Himali (17) received much lower scores than the median value of 33 for the sub-index. Chhedagad (12 points) and Shikar (19 points) were significantly low scoring among the municipalities, whereas Butwal (33 points) and Nepalgunj (32 points) were at par.

Karnali Province	Biz serv Score	Sudurpashchim Province	Biz serv Score	Lumbini Province	Biz serv Score
Birendranagar Municipality	**78**	**Godawari Municipality**	**73**	**Lamahi Municipality**	**73**
Dullu Municipality	**43**	**Dhangadhi Sub-metropolitan**	**46**	**Ghorahi Sub-metropolitan**	**68**
Bheriganga Municipality	**42**	**Dipayal Silgadhi**	**44**	**Bansgadhi**	**64**

Table 15: Top 3 performers in business services, province-wise, 2021/22

Rural Municipality	Biz serv Score	Municipality	Biz serv Score	Sub-metropolitan	Biz serv Score
Kharpunath	35	Birendranagar	78	Ghorahi	68
Simkot	34	Lamahi	73	Tulsipur	48
Bhairabi	33	Godawari	73	Dhangadhi	46

Table 16: Top 3 performers in Business Services, local level unit-wise, 2021/22

3.3.7 Environmental sustainability and climate resilience

The surveyed population's environmental sustainability and climate resilience are low, with a mean value of 33 and a median of 30 on a scale of 1-to-100. The dataset is relatively dispersed with a standard deviation of 11.11 and moderately skewed at 0.97.
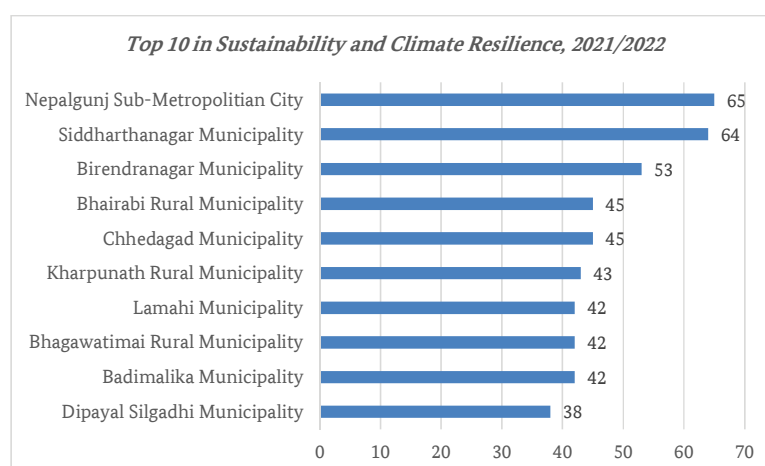

Figure 17: Top 10 in environmental sustainability and climate resilience, 2021/22

42 per cent of the respondents (n=5,690) felt that the solid waste management system in the local level units was not practical or well organized. Barahtal, Dullu, Dangisharan reported the most dissatisfaction with solid waste management in their area, whereas Ghorahi, Siddharthanagar, Butwal, Nepalgunj and Birendranagar received the highest scores. Godawari Municipality (100 points), Siddharthanagar (78 points), Birendranagar (77 points) and Dullu (71 points) were notable among the very few enterprises that had invested significantly in technical areas of sustainability and climate resilience. Measures of resilience vis-à-vis climate change (mean value at 33) and responding to regulatory constraints and opportunities for sustainability (mean value at 26) was also low. Most local-level units had no or tiny landfill sites compared to the population. Only Nepalgunj could boast an adequate allocation of landfills with 100 points.

The Lumbini province had a comparatively higher mean value (38) for environmental sustainability and climate resilience than Karnali (33) and Sudurpashchim (29). High scores by Nepalgunj and Siddharthanagar largely account for the better scores in Lumbini province. A comparison of mean values at local level units indicates that sustainability and resilience are better achieved in Municipalities than in Sub-metropolitan or Rural Municipalities.

Karnali Province	Sus. Score	Sudurpashchim Province	Sus. Score	Lumbini Province	Sus. Score
Birendranagar Municipality	53	Badimalika Municipality	42	Nepalgunj Sub-metropolitan	65
Chhedagad Municipality	45	Dipayal Silgadhi Municipality	38	Siddharthanagar Municipality	64
Bhairabi Rural Municipality	45	Bhimdatta Municipality	38	Bansgadhi	37

Table 17: Top 3 performers in sustainability and climate resilience, province-wise, 2021/22

Rural Municipality	Sus. Score	Municipality	Sus. Score	Sub-metropolitan	Sus. Score
Bhairabi	45	Siddharthanagar	64	Nepalgunj	65
Kharpunath	43	Birendranagar	53	Tulsipur	37
Bhagawatimai	42	Chhedagad	45	Ghorahi	32

Table 18: Top 3 performers in Sustainability and climate resilience, local level unit-wise, 2021/22

3.3.8 Climate Smart Governance

Overall, climate-smart governance is not yet satisfactory in the surveyed local-level units, with a mean value of 46 and a median of 47 on a scale of 1-to100. The dataset is fairly dispersed, with a standard deviation of 13.48 and moderately skewed at 0.6.
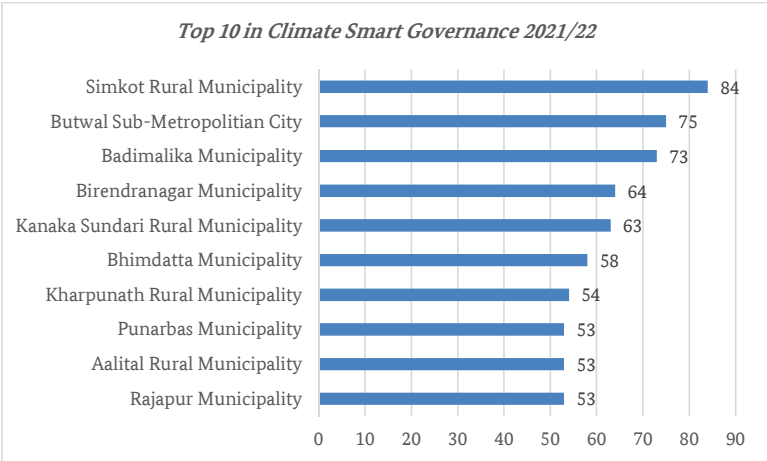

Figure 18: Top 10 performance in Climate Smart Governance, 2021/22

The volume of municipal investment in climate adaptation measures is deficient across the 42 local-level units, with an average score of 17. Notable mentions for the indicators are Simkot (100 points), Kanakasundari (52 points), Kharpunath (45 points), Aalital and Lamahi (43 points). Furthermore, only 13 local-level units had fully implemented climate budget coding, and just five had prepared and implemented Local Adaptation Plans of Action (LAPA). While 13 municipalities reported completing preparation of the LAPA, no work on this regard had started in the remaining 24 municipalities. However, all local level units reported having a disaster response plan and budget allocation in all local level units except Shikar Municipality and Badikedar Rural Municipality. 50 per cent of the respondents (n=5,690) did not think the municipal infrastructures were adapted to climate change.

Karnali Province	Climate Smart Score	Sudurpashchim Province	Climate Smart Score	Lumbini Province	Climate Smart Score
Simkot Rural Municipality	84	Badimalika Municipality	73	Butwal Sub-metropolitan	75
Birendranagar Municipality	64	Bhimdatta Municipality	58	Rajapur Municipality	53
Kanaka Sundari Rural Municipality	63	Aalital Rural Municipality	53	Siddharthanagar Municipality	52

Table 19: Top 3 performers in climate smart governance, 2021/22, province-wise and local level unit-wise

Rural Municipality	Climate Smart Score	Municipality	Climate Smart Score	Sub-metropolitan	Climate Smart Score
Simkot	84	Badimalika	73	Butwal	75
Kanaka Sundari	63	Birendranagar	64	Tulsipur	49
Kharpunath	54	Bhimdatta	58	Nepalgunj	46

Table 20: Top 3 performers in climate smart governacne, 2021/22, local level unit-wise

3.4 Comparison of BCI Results 2020/21 and 2021/22

The BCI 2021/22 was more extensive in scope than the BCI 2020/21 regarding geographical coverage. Additionally, the BCI 2021/22 included a sub-index measuring climate-smart governance. The survey covered 31 more local-level units and added 3,902 more enterprises to the survey. The cumulative BCI for 2021/22 was 12 points less than in 2020/21; however, it is mainly because of including more enterprise and local-level units consisting primarily of rural municipalities. Therefore, a regular year comparison of median values would not yield an apt analysis. Here, a normal cumulative distribution graph is used to elucidate the dataset distribution for both years.

BCI Results	2020/21	2021/22
Survey area	11 local level units	42 local level units
Sample size	1,788 enterprises	5,690 enterprises
Cumulative BCI (Median)	52	40
Local Economic Performance (Median value)	39	29
Local Economic Governance (Median value)	49	42
Infrastructure (Median Value)	49	31
Business Sentiments (Median Value)	44	58
Business Dynamics (Median Value)	52	44
Business Services (Median Value)	70	33
Environmental sustainability and climate resilience (Median value)	51	30
Climate smart governance (Median Value)	Not measured	47

Table 21: BCI Comparison 2020/21 and 2021/22

The dataset of 11 local level units for BCI 2020/21 was negatively skewed (-1.32) (Fig.17), implying that the high-performing local level units were closer to the average BCI, and the dataset had a couple of low-performing outliers – considering a small sample of territories. In 2020/21, BCI for Bheriganga (35 points) and, Birendranagar and Godawari (44 points) were the outliers against the median of 52 points for the dataset. The distribution for BCI 2021/22 was positively skewed (0.21), implying there are a few high-performing outliers in the dataset (Fig.18), for instance, BCI for Birendranagar is 19 points higher than the median of 40 points. The standard deviation for both years is similar at 6.46 for 2020/21 and 6.41 for 2021/22 suggesting that the dataset for both years is fairly dispersed.
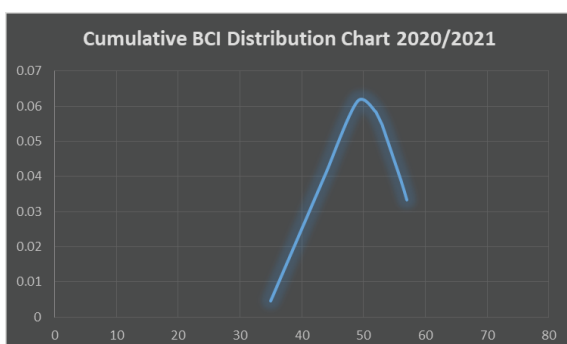

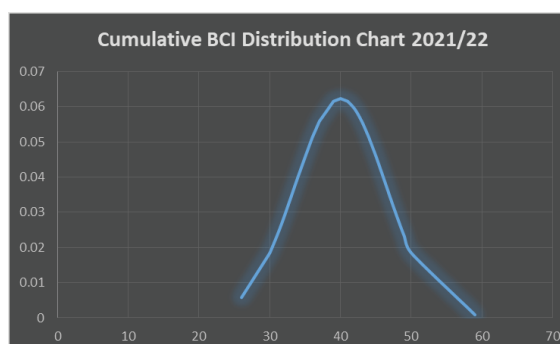*Figure 19: Cumulative BCI distribution chart 2020/21*

Figure 20: Cumulative BCI distribution chart 2021/22

Chapter IV: Overview of specific survey results

4.1 COVID-19 impact

Although the threat of the Coronavirus remained in the fiscal year 2021/22, the severity of cases and incidences declined in the latter half of 2021. As lockdown and other restrictions eased, many of the business sectors have restarted their engines. The Nepal government expected the economic growth rate at 5.84 per cent[1] for the fiscal year 2021/22. Nevertheless, disruptions in economic activities continued with intermittent surges throughout the year, and the growth rate remained at 4.25 per cent[2]. The effect of the pandemic has been heterogeneous, with some sectors facing more disproportionate consequences than others.

4.1.1 Reasons to stop business operation

The effect of COVID-19 on business operations has lessened in the past year. During the first edition of the survey, December 2020 – March 2021, 94 per cent of businesses had reported suspension of business, either temporarily or permanently. The data collected for the second edition of the BCS between January to April 2022 finds that 58 per cent of the business had stopped operations previously but were currently operational, 32 per cent had continued operation during the COVID crisis and nine per cent temporarily stopped. One per cent had to permanently stop their operations, of which 13 enterprises were closed in Dullu Municipality and 12 in Birendranagar Municipality. 30 per cent of the operations that closed permanently (n=70) had processes for permanent closedown.

Government instructions to lockdown activities remained the primary reason for the suspension of business operations for 58 per cent of the enterprises (n=5,690). While supply disruptions (13%) and reduced orders (11%) remained, the intensity of challenges to business operations has lessened. Fewer businesses faced challenges to operation compared to the last year when 31 per cent of the business had supply disruptions, and 47 per cent faced reduced orders.
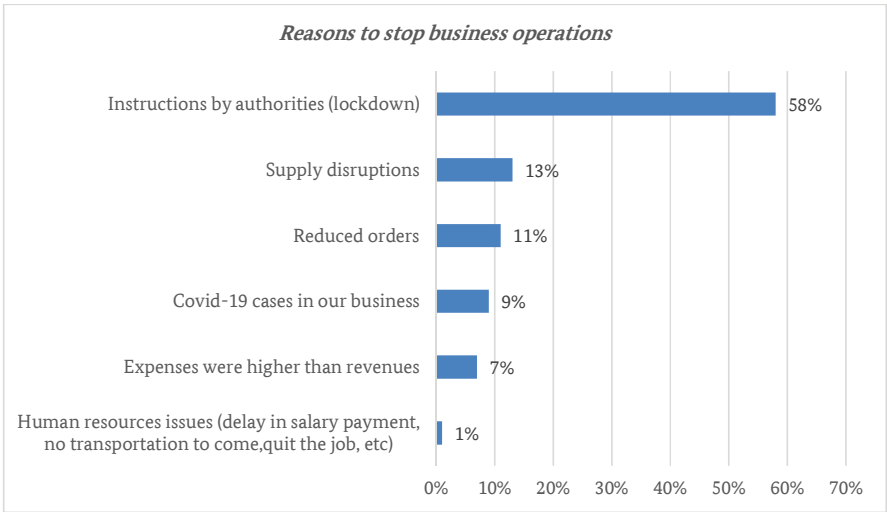

Figure 21: Reasons to stop business during Covid pandemic

1. *MOF (2021) Economic Survey of Nepal 2078/79, Ministry of Finance, Government of Nepal, Kathmandu.*
2. *Ibid.*

4.1.2 The economic impact of Covid 19

A. Impact on revenue

Although the surveyed enterprises reported a continued impact on their revenues, more businesses were recovering in 2022 compared to 2021. 15 per cent of the enterprises did not feel the impact of Covid-19 on their revenue compared to two per cent in 2021. Moreover, businesses reporting a higher impact on revenue have also decreased from 45 per cent to 16 per cent in 2022. One per cent of the business reported an increase in revenue in the same period. However, higher levels of impact on revenue (-75% to -100%) were reported for enterprises in Tulsipur Sub-metropolitan (44%), Nepalgunj (37%), Lamahi (36%), Siddharthanagar (32%) and Dipayal Silgadhi (32%).
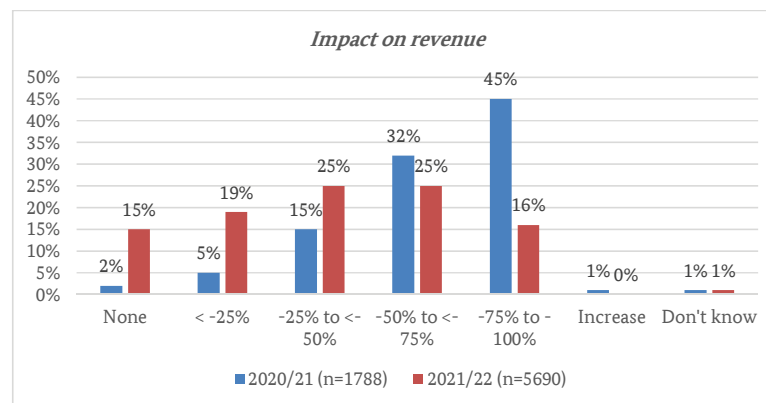

Figure 22: Yearly comparison of Covid 19 impact on revenue

More businesses – 22 per cent compared to 14 per cent in 2021 – were optimistic that their revenue would increase in the following year. 23 per cent of the respondents expected no more challenges on revenue due to the Covid situation.

B. Impact on sales or orders of business

The impact on sales or orders of business due to Covid-19 corroborates with the data on revenue. More enterprises (20%) compared to three per cent in 2021 did not feel the impact of Covid on their sales or orders of business during the survey. Businesses that suffered more than 75 per cent of the decline in their sales or orders of business in 2020/21 also declined in this survey iteration. However, a significant number of businesses (44%) reported 25 to 50 per cent fewer sales due to Covid.
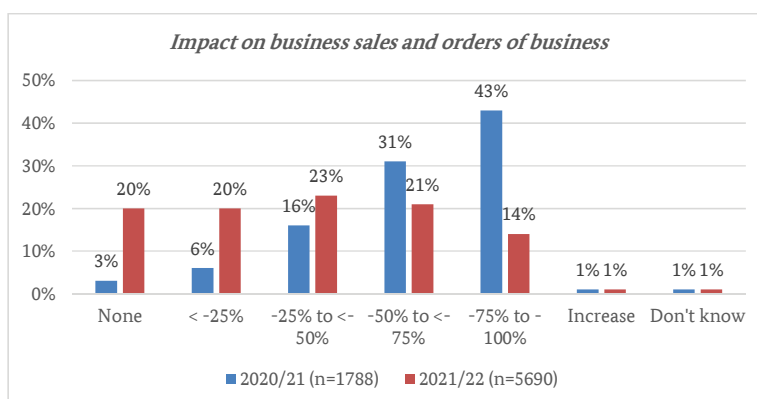
Figure 23: Yearly comparison of the impact of Covid 19 on business sales and orders of business

C. Effect on the workforce of business

58 per cent of the businesses reported no impact of Covid-19 on their business workforce compared to 48 per cent in 2020/21. 14 per cent reduced the workforce by 25 per cent, and four per cent of businesses reduced the workforce by 25 to 50 per cent. The number of enterprises laying off more than 75 per cent of the workforce reduced significantly to one per cent compared to 16 per cent for the past year.
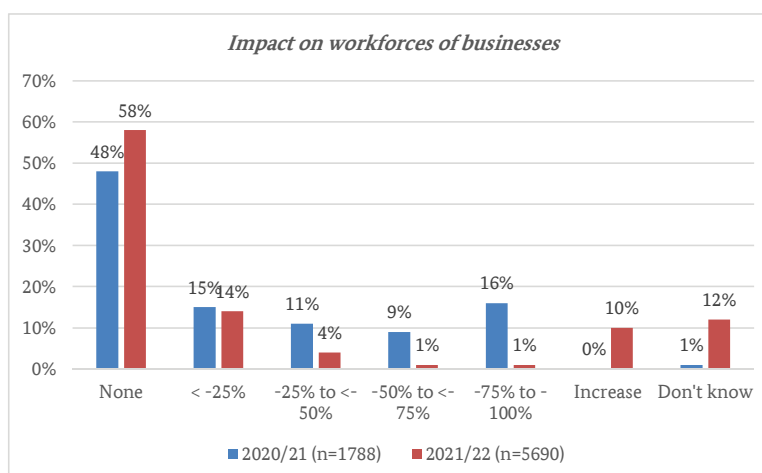

Figure 24: Yearly comparison of the impact of Covid 19 on workforces of businesses

4.1.3 Difficulties due to Covid-19 pandemic

A. Shortage of supplies/input materials

Supply shortages remain a significant consequence of the Covid-19 pandemic for the businesses in the three provinces of Western Nepal. While major shortages of supplies and input materials have decreased from the previous year by 17 per centage points, 31 per cent of the businesses are still facing major shortages, while 27 per cent are facing moderate levels of shortages.
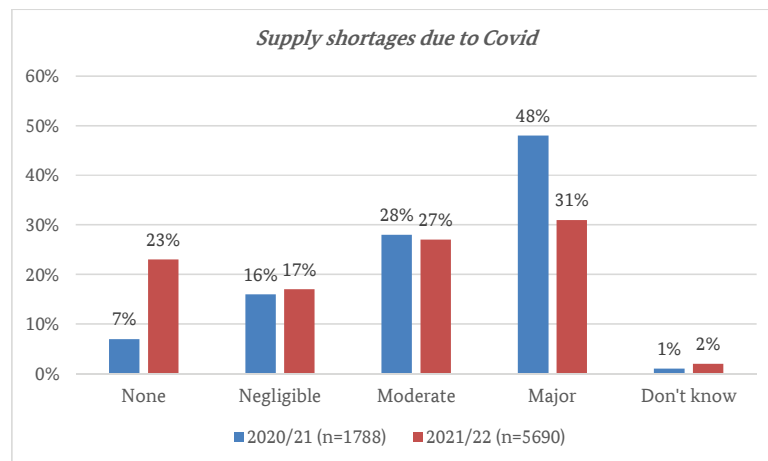
Figure 25: Yearly comparison of supply shortages due to Covid-19

Data at the local level unit shows that major supply shortages are more pronounced in some municipalities than others. Local level units with major supply shortages due to Covid-19 were reported in Dullu (83%), Simkot (65%), Dhangadhi (65%) Amargadhi (60%), Tulsipur (53%), Ghorahi (51%) and Bheriganga (51%).

While 12 per cent of the respondents "did not know" whether the shortage of supplies could remain a problem in 2022, a significant proportion of the respondents (34%) anticipate moderate or major shortages of supplies and input materials.

B. Shipping difficulties for finished goods

Difficulties for business to ship their finished goods to the market/clients has remained similar in both iterations of the BCS. More than 50 per cent of the businesses faced moderate or major challenges in dispatching their goods due to the Covid-19 situation. Enterprises in Dullu (80%) and Simkot (69%) reported facing major problems in the shipping of finished products. Although 55 per cent of the respondents do not anticipate many challenges in shipping finished products for 2022, 33 per cent of the respondents expected to continue facing the problem.
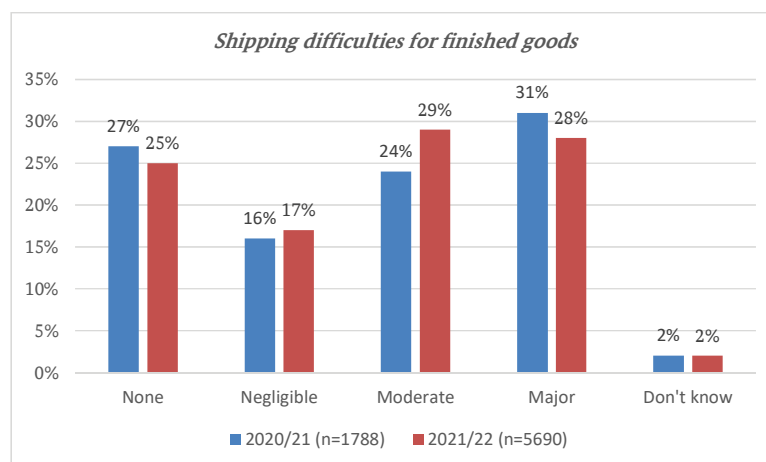

Figure 26: Yearly comparison of shipping difficulties for finished goods due to Covid pandemic

C. Cash flow shortages

The cash flow shortages due to the Covid-19 pandemic have remained largely unchanged. 71 per cent of the enterprises responded to facing moderate and major cash flow shortages as effects of the Covid-19 situation. 22 per cent of the business expect cash flow shortages to continue for 2022, whereas 22 per cent anticipate major shortages of cash flow for 2022. Major cash shortages were reported the most by businesses in Dullu (85%), Siddharthanagar (84%), Bheriganga (74%), Simkot (73%) and Nepalgunj (71%).
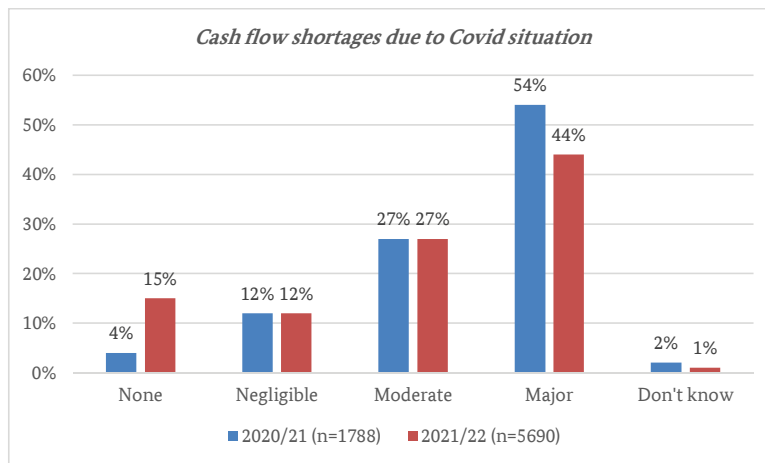

Figure 27: Yearly comparison of cash flow shortages due to Covid pandemic

D. Depressed market demand

Most enterprises (63%) are still facing moderate and major effects of depressed market demand due to the Covid pandemic. However, there was a 16 per cent point decline in enterprises facing the major effects compared to the previous year, indicating less severe effects. Major effects of depressed market demand were recorded among the enterprises in Barahtal (87%), Nepalgunj (72%) Simkot (64%) and Tulsipur (60%). Nearly half of the survey enterprises (48%) expect moderate or major effects of depressed market demand to continue in 2022.
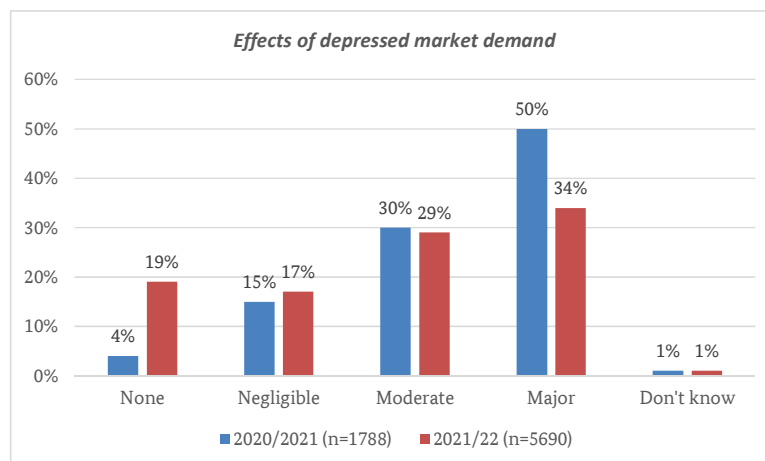

Figure 28: Yearly comparison of the effects of depressed market due to Covid pandemic

E. Effects of growing market demand

The proportion of businesses facing the effects of growing market demand has remained similar, with 20 per cent of the businesses reporting moderate effects of growing market demand, whereas 14 per cent responded facing major effects. The proportion of enterprises facing no effect due to growing market demand has increased by 20 per centage points. Most enterprises from Nepalgunj (69%), Simkot (54%) and Godawari (49%) felt the major effects of growing market demand due to the Covid-19 pandemic. Most respondents (62%) did not expect to face challenges due to growing market demand for 2022, whereas nine per cent of the business anticipated major effects of growing market demand to continue in 2022.
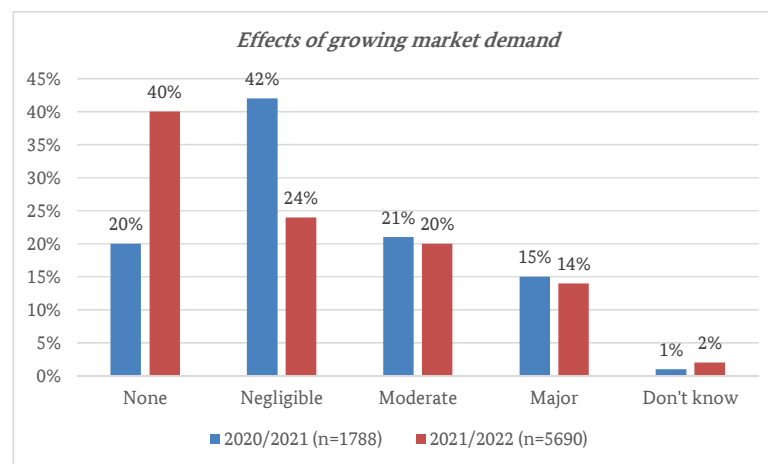

Figure 29: Yearly comparison of the effects of growing market demand due to Covid pandemic

4.1.4 Support needs

The enterprises included in the survey were asked to select among a list of options they thought would help them cope with the adversities brought on by the Covid-19 contagion. The options included support needs for business development services and support from the government. Furthermore, the businesses were requested to place a degree of importance on each option.

A. Business development needs

The importance placed upon various business development needs by the enterprises corroborates the findings on the economic impact of the Covid-19 pandemic situation. Businesses want to keep their operations running amid the difficulties of the pandemic situation. The need for training on safe business operation protocol, including prevention of Covid-19 during operations, is most felt. As many businesses are facing supply shortages and high production costs, more than 50 per cent of the enterprises placed the most importance on getting advice on cost reduction and alternative supply channels. While many of the options provided resonated with the most critical needs of

the respondents, the enthusiasm for the digitization of businesses is low. Only 36 per cent of the respondent felt the most important need for online business management training, and just 29 per cent expressed the most important need for online worker training.
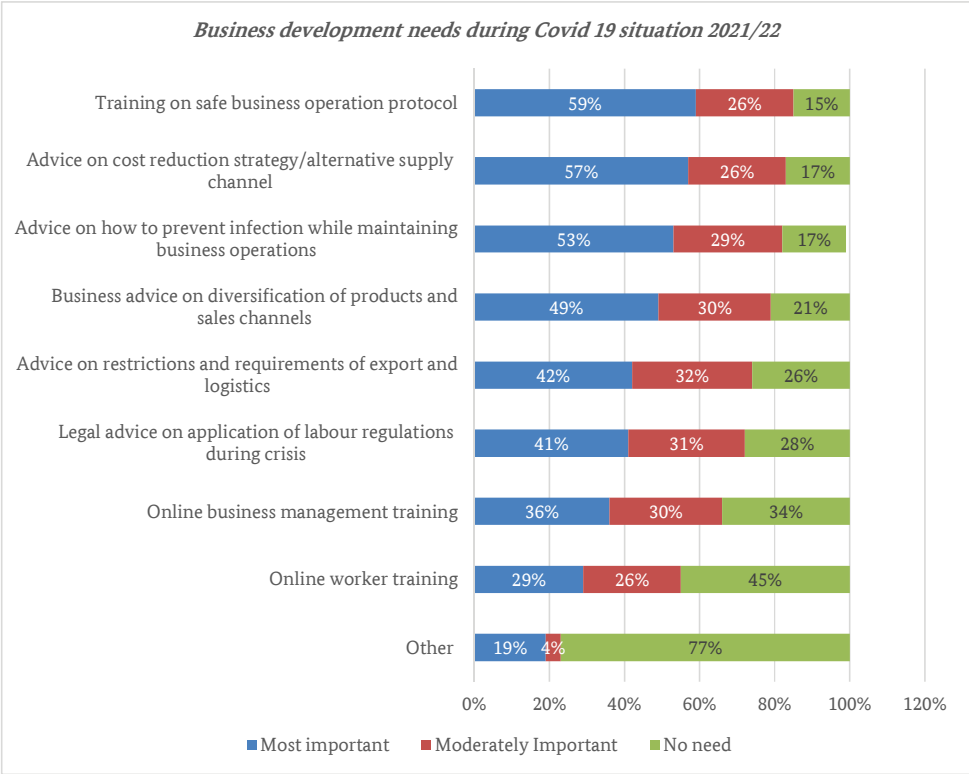

Figure 30: Business development needs during the Covid 19 situation 2021/22

B. Government support needs

Enterprises are in exigent need of support from the government. For each of the options asked the respondent, they felt the need for particular support most or moderately important. The most important support expected from the government was in price control of critical goods (64%), pandemic-related health insurance (63%) and supplies of personal protection equipment (61%). Similar importance was also felt for more lucid information on initiatives to support enterprises through BFIs (60%); official measures to contain the crisis (55%); legal advice on application of labour laws and regulations during crisis (53%); and information on transmission and spread of the virus (52%).
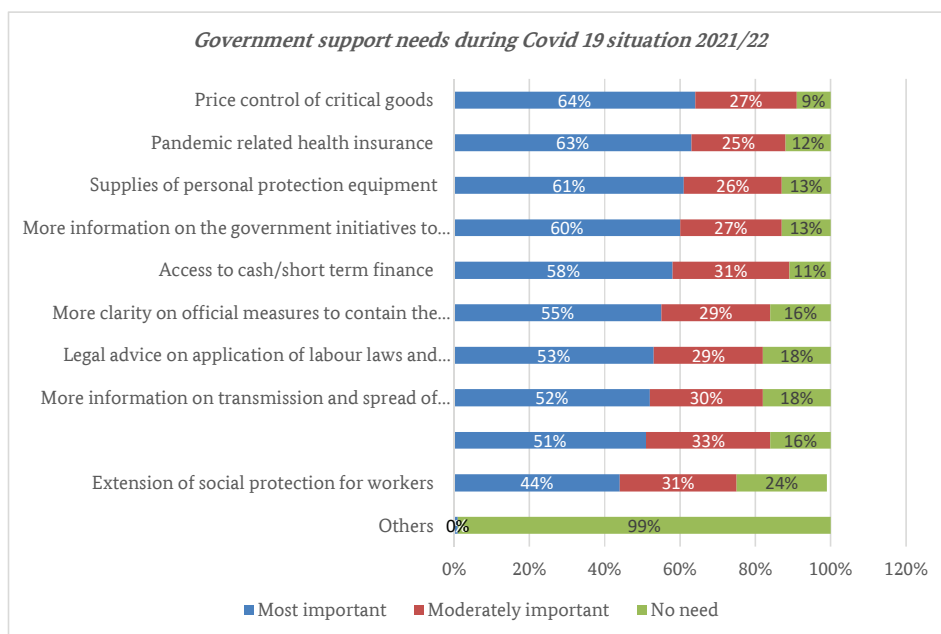
Figure 31: Government support needs during Covid 19 situation 2021/22

4.1.5 Strategies to cope with Covid 19

66 per cent of the enterprises (n=5,690) did not adopt new strategies to cope with the Covid-19 situation. Of the 34 per cent that adopted new to the situation, product customization and diversification, sourcing from new suppliers, and teleworking were the most preferred strategies.
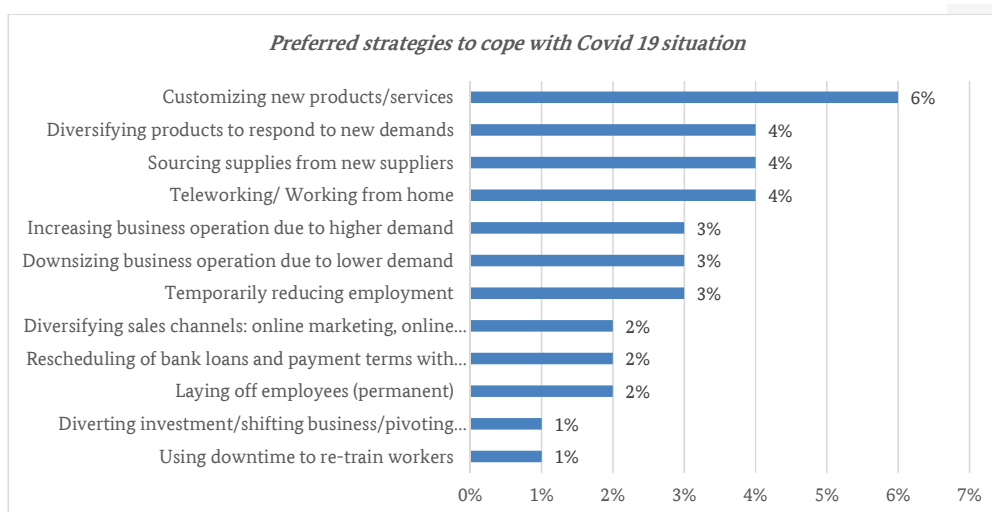

Figure 32: Preferred strategies by businesses to cope with Covid 19 situation

4.1.6 Worker shortage

Only three per cent of the survey enterprises (n=5,690) reported facing shortages of workers due to Covid-19. That is a four per cent decrease from the cases reported in 2020/2021. 78 per cent of the respondents (n=150) mentioned workers' fear of getting infected as a major reason for worker shortage. Also, 45 per cent of the cases (n=150) reported shortages due to infected workers.
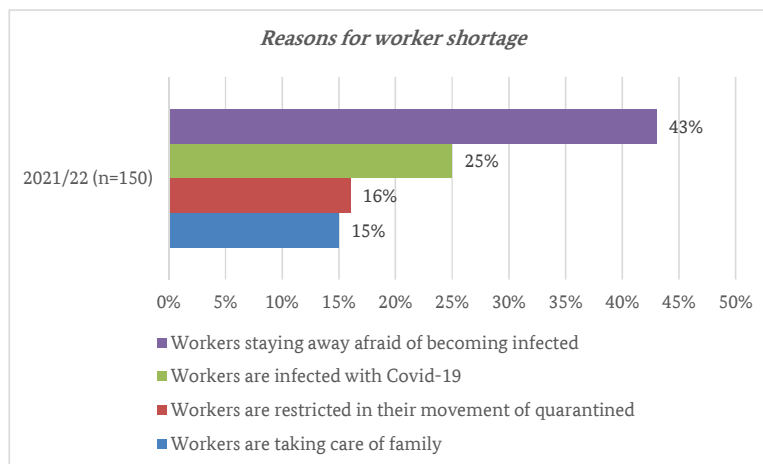
Figure 33: Reasons for worker shortage due to Covid-19 pandemic

4.1.7 Impact on employees

Only two per cent of the enterprises (n=5,690) had idle workers due to Covid-19. Most enterprises affected by the situation reduced the number of temporary workers (25%), laid off permanent workers (16%), reduced working hours (17%), asked workers to take paid leave (11%) or unpaid leave (20%) and requested workers to work for a reduced pay (11%).

4.2 Major business problems

The survey respondents were given options on typical business problems, asked to confirm their relevance and to rank them according to their severity level. The results, figure below, indicate some of the most pressing problems faced by the enterprises.
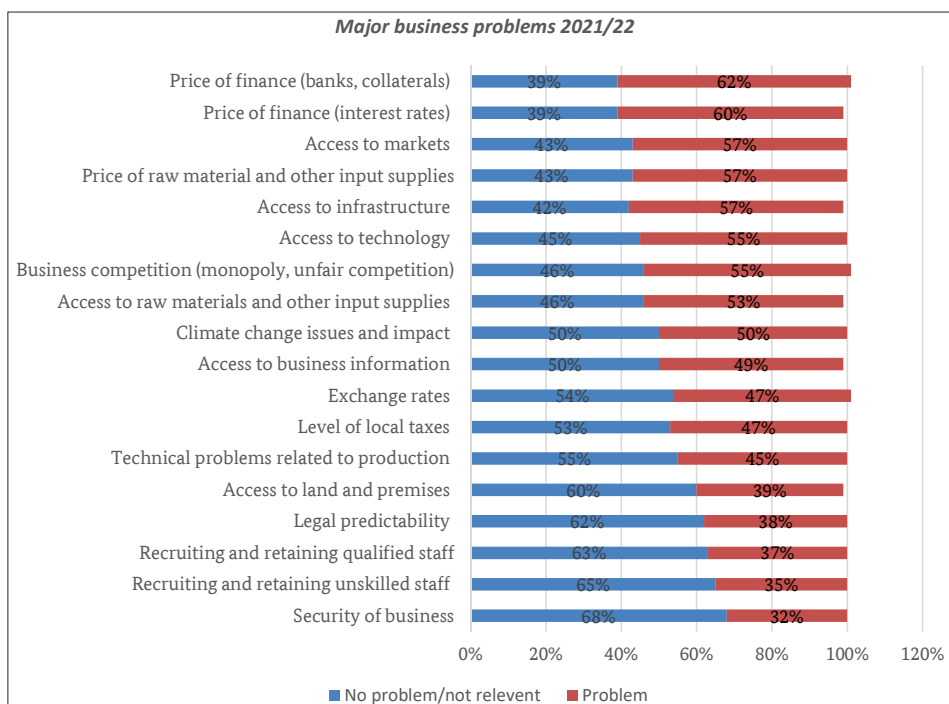

Figure 34: Major business problems faced by enterprises in 2021/22

The cost of finance, including banks, collaterals and interest rates, was the major business problem faced by the businesses. At a local level unit, the problem is particularly acute in Nepalgunj, Godawari and Barahtal, where 99 per cent of respondents considered the price of finance to be a problem. Similarly, high proportions of respondents—more than 80 per cent—considered the cost of finance as a problem in Butwal, Birendranagar, Dullu, Chhedagad and Kharpunath.

The cost of raw materials and supplies was also a significant problem for the enterprises. 57 per cent of the respondents considered it a problem. Likewise, 53 per cent of the respondents reported a lack of access to raw materials and supplies. At the local level, these problems were reported the most (> 90% of respective respondents) in Godawari, Barahtal, Dullu and Nepalgunj.

Lack of access to a variety of business needs, including markets, infrastructure, technology and business information, were problems for a significant proportion of the respondents. The problems were particularly acute in Godawari and Kharpunath, where more than 95 per cent reported are facing difficulties in accessing business needs.

In addition to identifying the business problems, the survey respondents were given a choice to state the severity level - very severe, major, moderate, and minor for each problem. Arranging the data according to the severe problems presents a slightly different scenario for most pressing business issues.
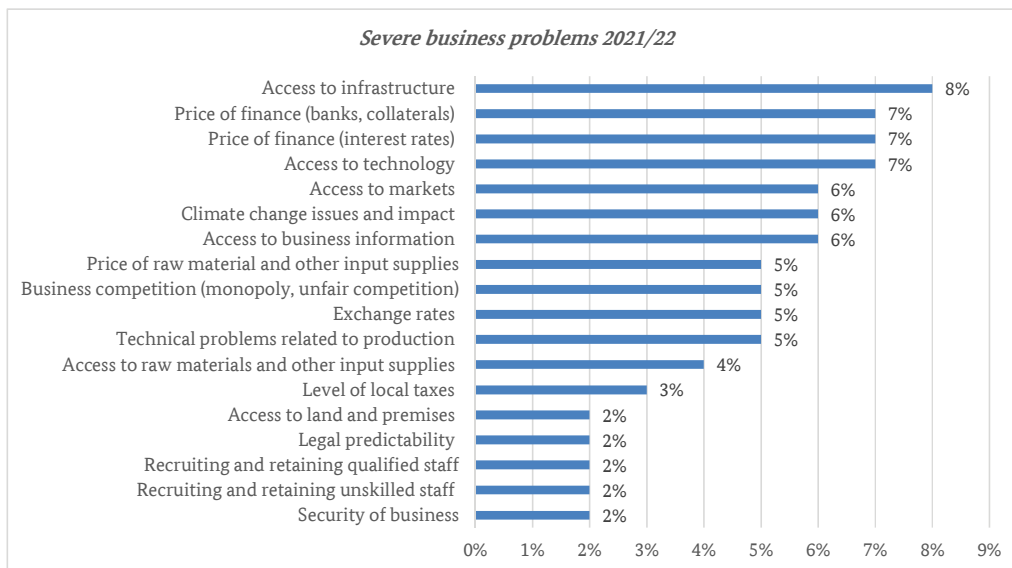

Figure 35: Severe business problems faced by enterprises 2021/22

Though the cost of finances remains one of the most pressing problems for businesses, the access to infrastructure tops the most severe business problem. Of the 57 per cent of respondents that considered access to infrastructure a problem, eight per cent considered it even as severe. Barahtal (89%) and Simkot (63%) reported the most severe problems of access to infrastructure, followed by a significant lack of access in Amargadhi (29%) and Dullu (24%).

Most enterprises in Barahtal (85%), Simkot (58%), and Amargadhi (27%) also reported the cost of finances as a severe business problem in their locality. Furthermore, many enterprises in these local level units reported a lack of access to technology.

4.3 Infrastructure

62 per cent of the respondents cited inadequate transport infrastructures, including roads, airports and dry ports, as a significant problem. The problem was cited as most severe in Simkot (62%), Barahtal (51%), Amargadhi and Kharpunath (both 27%) and Swamikartik (25%). On the other hand, respondents in Siddharthanagar (90%), Bansgadhi and Tulsipur (80%), and Dangisharan (74%) reported that infrastructure was not a problem.
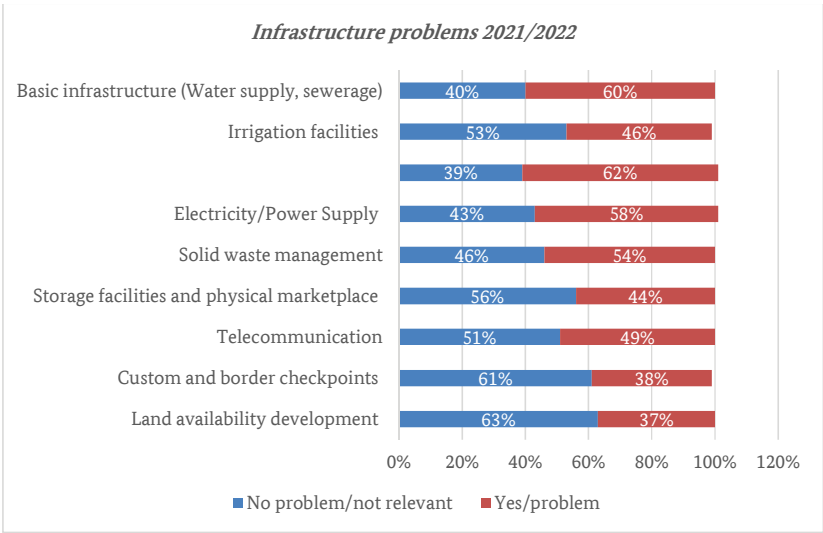

Figure 36: Infrastructure problems faced by enterprises 2021/22

60 per cent of the respondents felt that the basic infrastructure, including water supply and sewerage, was a problem in their municipality. Of the 60 per cent, nine per cent considered the problem as most severe in their area. The most severe problem with basic infrastructure was reported mainly in Barahtal (62%), Simkot (57%) and Dullu (57%). Basic infrastructure was not a problem for most enterprises in Siddharthanagar (87%), Bansgadhi (85%), Ghorahi (79%) and Tulsipur (76%).

Of the 58 per cent that considered electricity and power supply a problem in their locality, the problem was most severe in Simkot (63%) and Himali (33%). Though the problem was not cited as severe, 61 per cent of the respondents in Butwal considered electricity and power supply a major problem in their area.

On average, six per cent of the respondents considered solid waste management a severe problem in their locality, whereas nine per cent felt it was a major problem, 19 per cent considered it a moderate

problem, and 20 per cent found it a minor problem. The problem was considered the most severe by enterprises in Dullu (54%) and Simkot (49%).

49 per cent of the respondents cited telecommunication problems in their area. However, the severity of the problem was minor (22%), and only four per cent of the respondent faced severe telecommunication problems.
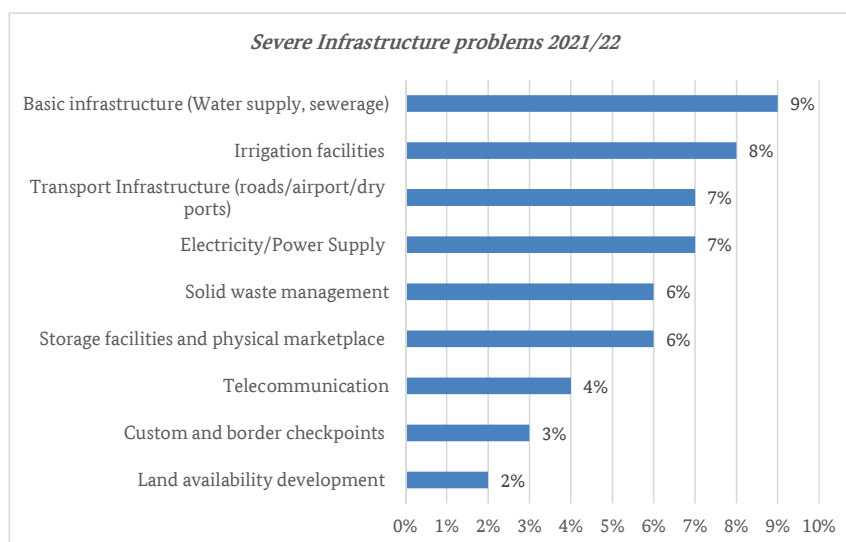

Figure 37: Severe infrastructure problems faced by the enterprises 2021/22

46 per cent of the respondents faced a problem with irrigation facilities, and the condition was severe for eight per cent of the businesses. Businesses in Dullu (57%), Barahtal (52%), and Simkot (51%) reported the most severe problems related to irrigation facilities. Irrigation facilities were not a problem for most enterprises in Siddharthanagar (90%), Bansgadhi (89%), Tulsipur (89%), Dangisharan (85%) and Punarbas (82%).

Storage facilities and physical marketplaces were a problem for 44 per cent of the respondent, of which six per cent considered the problem severe. Most of the respondents in Simkot (56%) and Barahatal (52%) experienced severe problems with storage facilities and physical marketplaces.

4.4 Business Dynamics

4.4.1 Source of finance

Most enterprises (90%) used their capital to either partially or entirely invest in their businesses. Loans from family, relatives or friends were the second most preferred source of finance (17%), followed by commercial bank loans (15%), development bank loans and cooperative loans (13%).
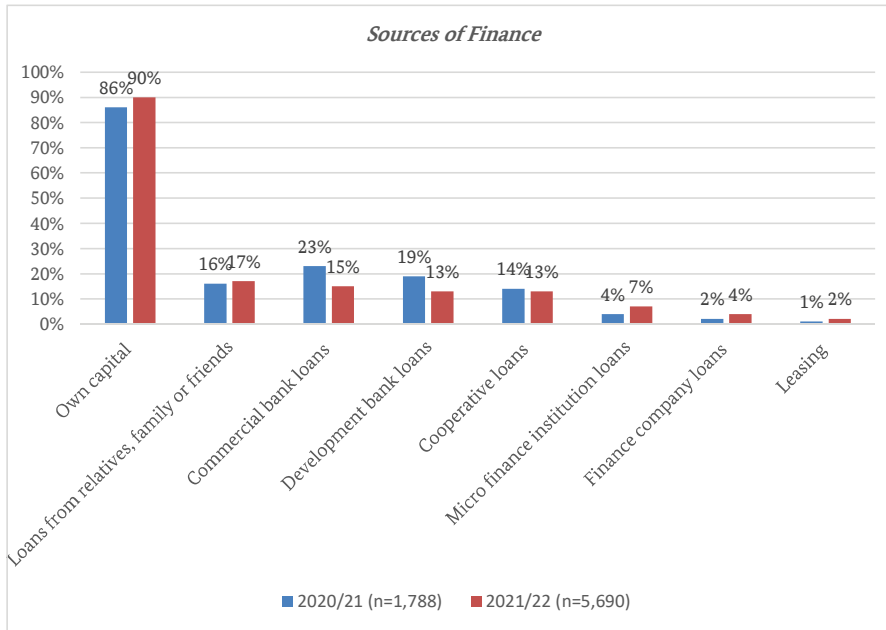
Figure 38: Yearly comparison of Sources of finance for enterprises, 2021/22

4.4.2 Need for finance vs. obtaining loans

At the time of the survey, 52 per cent of the enterprises were in need of additional finance with 34 per cent of the enterprises estimating additional investment of less than one million and 16 per cent of the enterprises estimating additional investment between one to ten million. Of the enterprises that needed additional finance, 58 per cent intended to use is for business expansion and modernization.
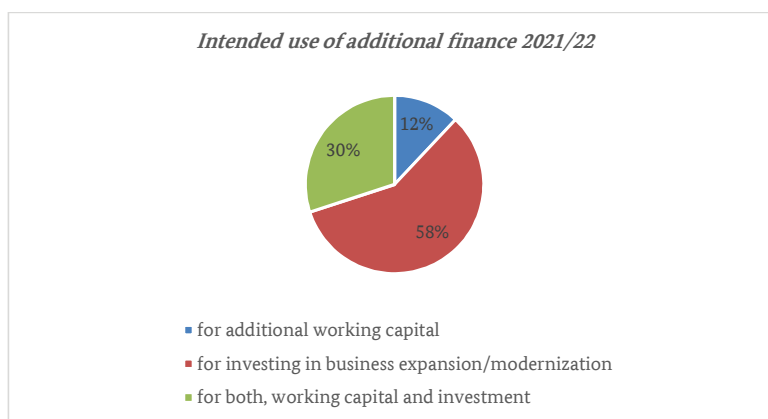

Figure 39: Intended use of additional finance 2021/22

82 per cent of the enterprises with capital needs intended to apply for loans, mostly out of commercial or development banks (66%), savings and credit cooperatives (8%) and micro finance institutions (4%).

4.4.3 Investment attractiveness of local level units

The survey identified typical locational factors that affected investment attractiveness and asked the enterprises to state if they found these factors attractive in their locality. Furthermore, the enterprises rated the quality of locational factors in their locality.
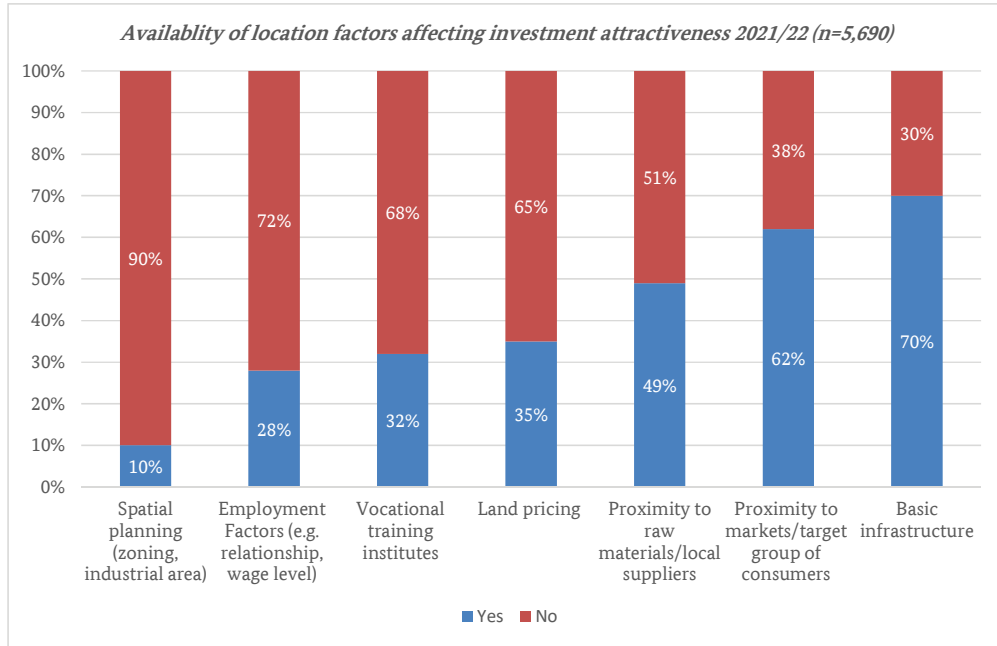
Figure 40: Availability of locational factors affecting investment attractiveness 2021/22

70 per cent of the businesses felt that the basic infrastructure in their locality was an attraction for investment. Of which 12 per cent found the quality of basic infrastructure very good, 58 per cent found it good, 25 per cent assessed it as poor, and four per cent considered the quality of infrastructure very poor. Although the positive rate of response was generally high across local units, the respondents in Dhangadhi (65%), Nepalgunj (61%) and Tulsipur (60%) did not find basic infrastructure in their area an attraction for investment.
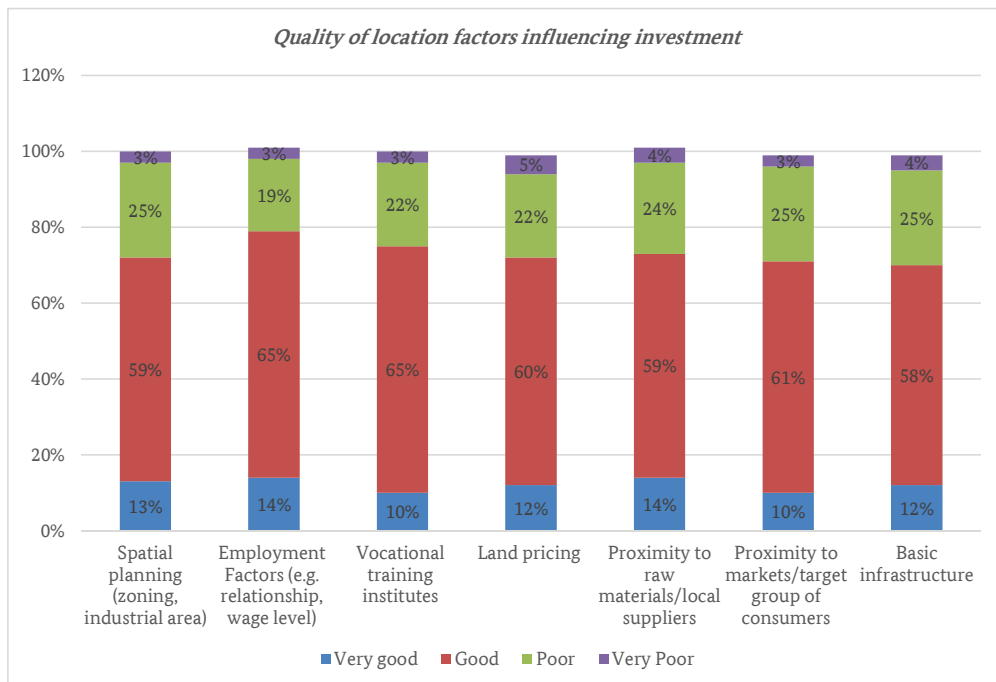

Figure 41: Quality of locational factors influencing investment

Proximity to markets/consumers (62%) and proximity to raw materials/local suppliers (49%) were also found attractive for investment by the enterprises in their locality. Most enterprises (figure below) considered the quality of these factors as very good or good. However, most enterprises in Siddharthanagar (85%), Dangisharan (71%), and Dullu (66%) did not regard proximity to raw materials and suppliers an attraction in their locality. Land pricing such as rents and tenants were considered very good in Birendranagar (45%) and Dipayal Silgadhi (24%) whereas it was reported very poor by most enterprises in Barahtal (24%).

Just 32 per cent of the enterprises felt that the vocational training institutes were an attraction for investment in their locality. Only Birendranagar (68%), Butwal (61%) and Bheriganga (50%) had high proportions of enterprises considering vocational training institutes as an attraction in their locality. Where available, the quality of the institutes was reasonably found good by most enterprises (65%) across the local level units.

4.5 Local Economic Governance

4.5.1 Severity of problems in dealing with the government

Half of the enterprises considered political instability in their locality as a significant problem in dealing with the government. The problem was considered severe by six per cent of the enterprises and was most pronounced by enterprises in Simkot (51%). Political instability was also considered a major problem by businesses in Barahatal (52%) and Siddharthanagar (45%)
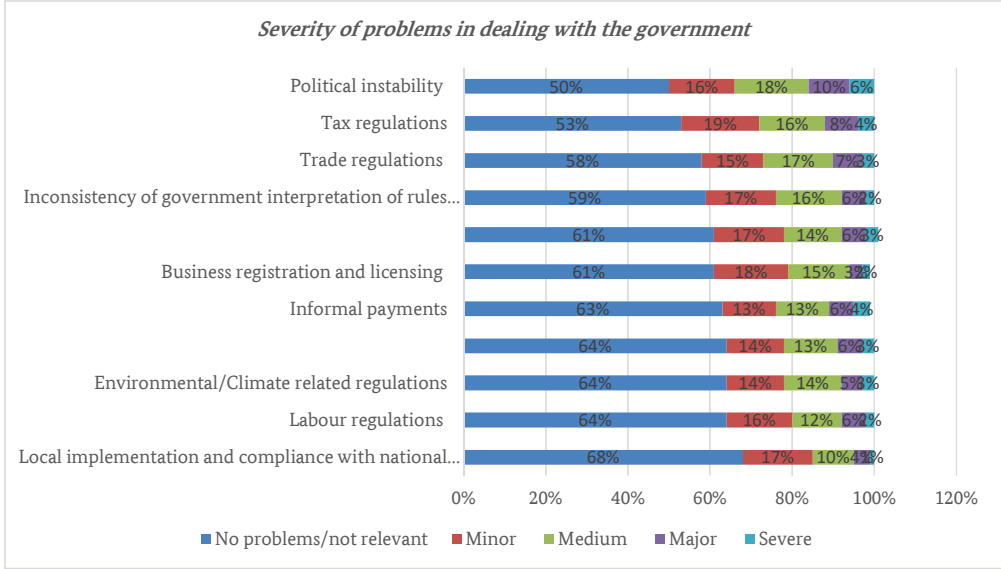

Figure 42: Severity of problems in dealing with the government 2021/22

Regulatory issues related to tax and trade were found to be the most pressing problem, after political instability, for enterprises dealing with the government. 47 per cent of the enterprises experienced tax regulation problems in dealing with the government, of which four per cent considered it a severe problem. Most enterprises in Simkot (52%), Amargadhi (29%), and Lamahi (23%) cited severe problems with tax regulations in dealing with the government. Similarly, three per cent of the respondents considered dealing with the government on trade regulations a severe problem of which most enterprises were in Simkot (55%) and Chure (27%).

Informal payments or corruption practices also affected business operations in 37% of the enterprises. Of which four per cent considered the problem severe, and six per cent considered it a major problem in dealing with the government. Most enterprises in Simkot (48%) and Amargadhi (25%) reported high incidences of severe corruption issues. Likewise, informal payments were a major issue for enterprises in Siddharthanagar (27%), Budhinanda (20%) and Badimalika (19%). Overall, 21 per cent of the enterprises (n=5,690) had experienced expectations for informal payment during their dealing with the government.

Although inconsistency in government interpretation of rules and regulations was not a severe problem, 45 per cent of the enterprises felt that government officials' interpretations were not consistent and predictable. Enterprises shared that regulations related to local taxes (13%) and access to finance (12%) were most hampering the operation and growth of their business.

4.5.2 Usage and quality of government support services

50 per cent of the enterprises found their local government unsupportive of the business sector. Nevertheless, 43 per cent felt the government was moderately supportive of the business sector.
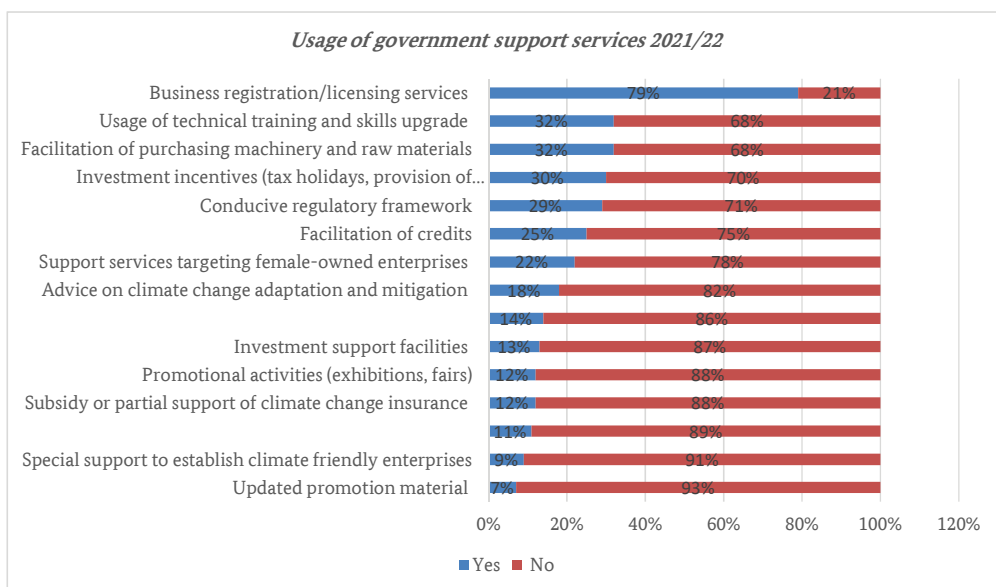

Figure 43: Usage of government support services 2021/22

Moreover, four per cent considered the support fair, and only three per cent found a highly supportive government in their locality.

The respondents who experienced government support towards the business sector were further asked about their use and quality of the various support provided by the government.

Besides business registration/licensing services, the usage of government support services is relatively low among the surveyed enterprises. Only a third of the respondents (n=2,861) utilize services related to technical training and skill upgrade, purchasing machinery and raw materials, conducive regulatory framework and facilitation of credits. Support services targeting female-owned enterprises were also utilized by a fraction (22%) of the respondents. The least utilized services are related to climate change and promotional activities.
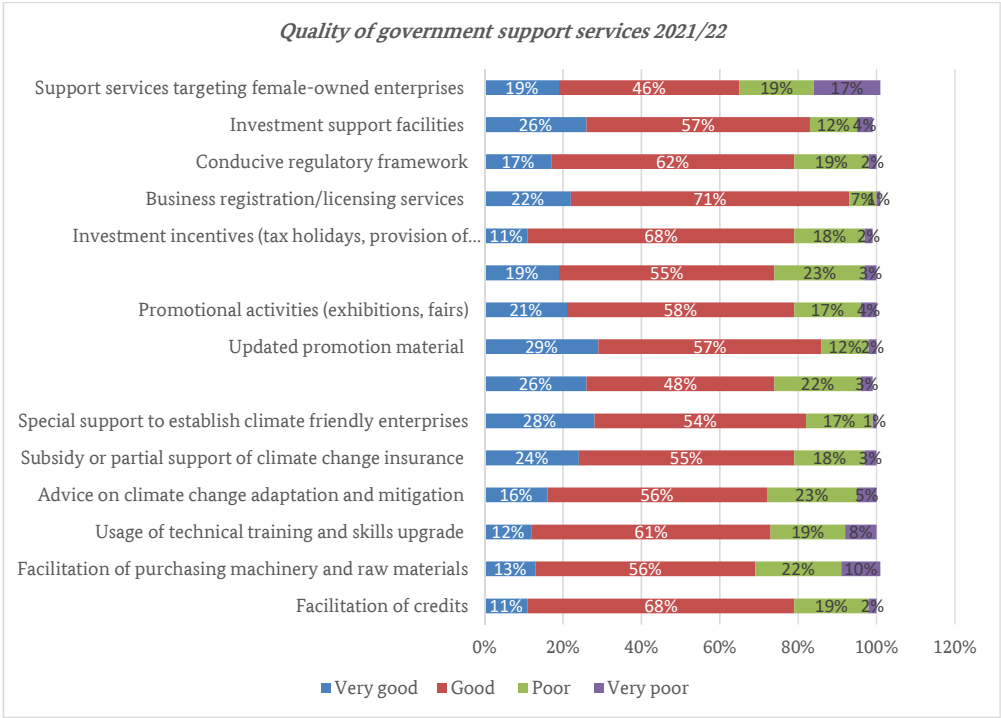

Figure 44: Quality of government support services 2021/22

On average, nearly a quarter of the respondents who utilized government support services (n=2,861) found the service quality either poor or very poor. Poorest services in this regard were cited by enterprises in Barahatal (91%), Tulsipur (75%), Rajapur (42%), and Swamikartik Khapar (42%). Significantly, support services targeting female-owned enterprises were considered very poor by 17 per cent of the respondents. Likewise, government support in facilitating the purchase of machinery and raw materials was also considered very poor by 10 per cent of the respondents.

4.6 Business services

4.6.1 Accessibility and quality of business services

Business registration, general banking and mobile phones are the most accessible business services to the surveyed enterprises (more than 80%). Moreover, the quality of these services was regarded as either good or very good by many respondents. However, outliers in the dataset were Bheriganga, where 55 per cent of the respondents felt a lack of access to business registration, and Barahtal, where 56 per cent of the respondent considered the quality of general banking services as very poor.
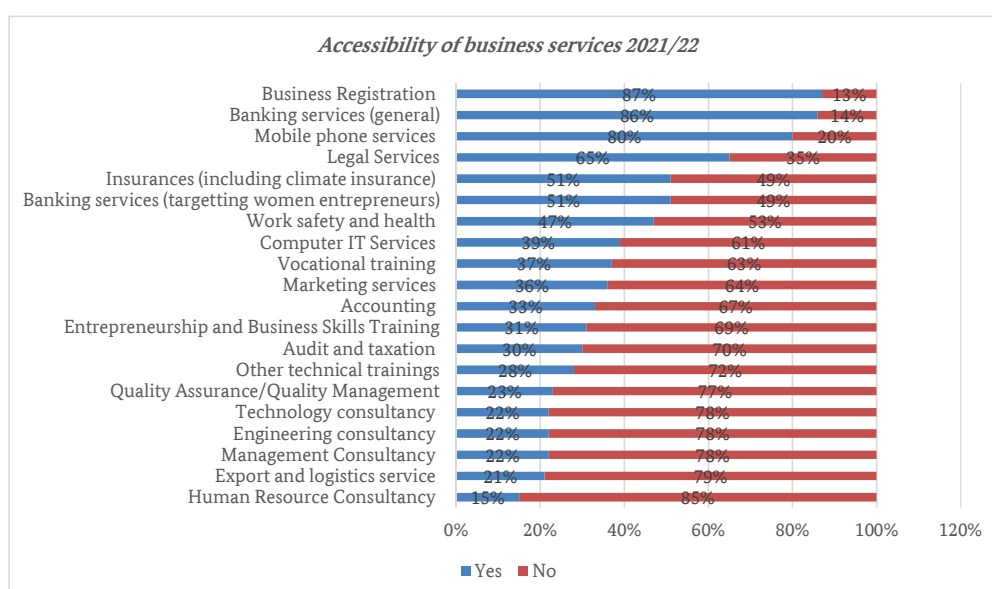

Figure 45: Accessibility of business services 2021/22

Enterprises have a moderate level of access (between 50 to 70%) to legal services, insurance and banking services targeting women entrepreneurs. Almost a third of the respondents considered the quality of these services, where available, as good or very good. However, banking services to women entrepreneurs were least accessible in Butwal (98%), Badikedar (81%) and Dhangadhi (73%). Legal services were least accessible in Simkot (78%). The quality of legal services in Barahatal was considered poor or very poor by 81 per cent of the respondents.

Overall, business development consultancy services, including human resources, management, engineering, technology, entrepreneurship and business skills, have a low level of access (between 15 to 40%). Despite very low access, the quality of human resources consultancy, where available, was rated very good by many respondents (33%). Respondents in Badikedar (100%) and Birendranagar (93%) review human resource services most positively. Audit and taxation services

were most accessible in Barahatal (96%) and Ghorahi (76%). Despite being Sub-metropolitans, Nepalgunj (93%), Dhangadhi (72%), Tulsipur (71%), and Butwal (64%) reported a high lack of access to tax and audit services.
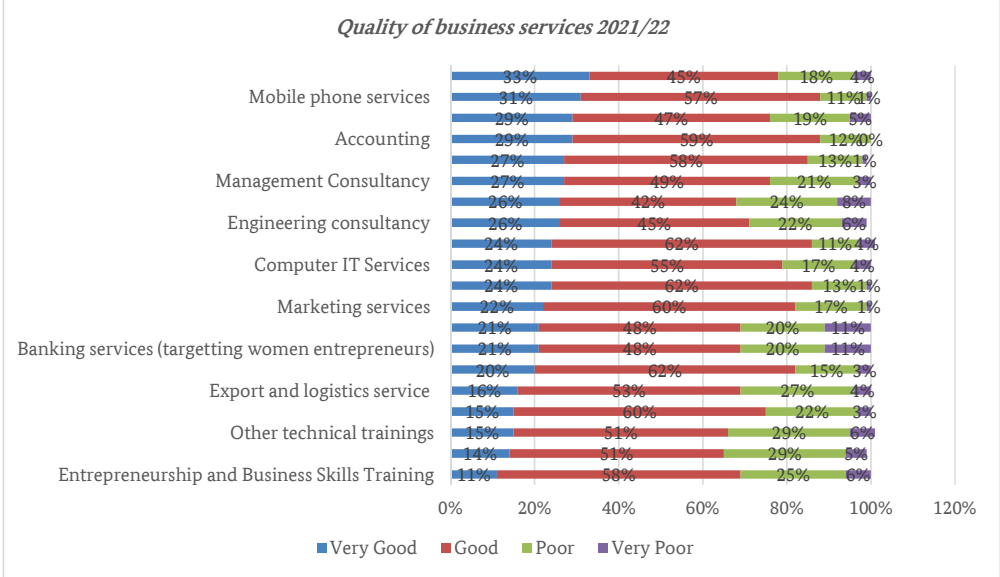

Figure 46: Quality of business services 2021/22

4.6.2 Quality infrastructure services

The quality infrastructure refers to the institutional framework and documented quality requirements required to assure the quality of products and services. The QI system consists of metrology, standardisation, accreditation and conformity assessment, including inspection, testing, system and product certification. In many countries, QI services are hardly decentralized but mainly offered in the major economic centres or even in the capital only. Also in Nepal, most quality infrastructure services are provided in Kathmandu or obtained from neighbouring India.
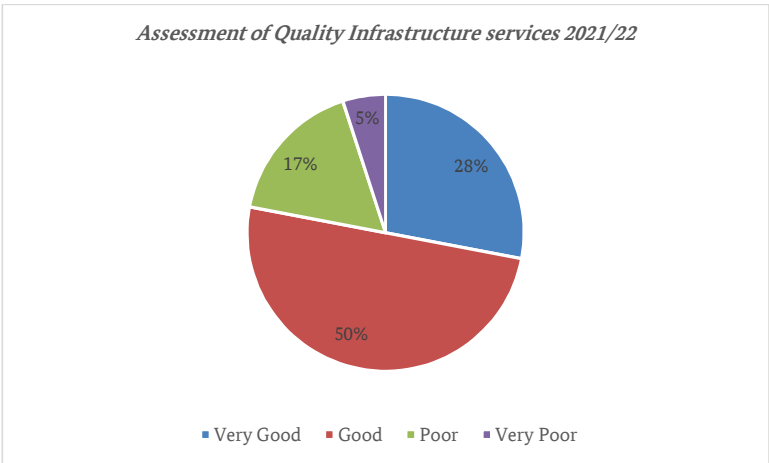

Figure 47: Assessment of Quality Infrastructure Services 2021/22

Among the surveyed enterprises, access to quality infrastructure services was moderate (47%). The services were most accessible to enterprises in Birendranagar (90%), Dullu (88%) Barahatal (80%), Kohalpur (82%) and Siddharthanagar (82%). Whereas the services were least accessible in Butwal (98%), Badikedar (91%) and Nepalgunj (87%).

Where available, more than a third of the respondents assessed the quality of quality infrastructure services as good or very good. However, many enterprises in Amargadhi (23%) and Siddharthanagar (18%) considered the quality of these services very poor.

4.6.3 Services of Business Membership Organizations

Only 30 per cent of the surveyed enterprises had memberships with business organizations or associations. High membership was reported, especially in the Sub-metropolitans. Although the enterprises placed much importance on the services that could be availed by the business associations, the availability of services offered is low. Technical training, lobbying and advocacy, and trade and market development were the most availed services, whereas availability of other services was low, under 20 per cent.
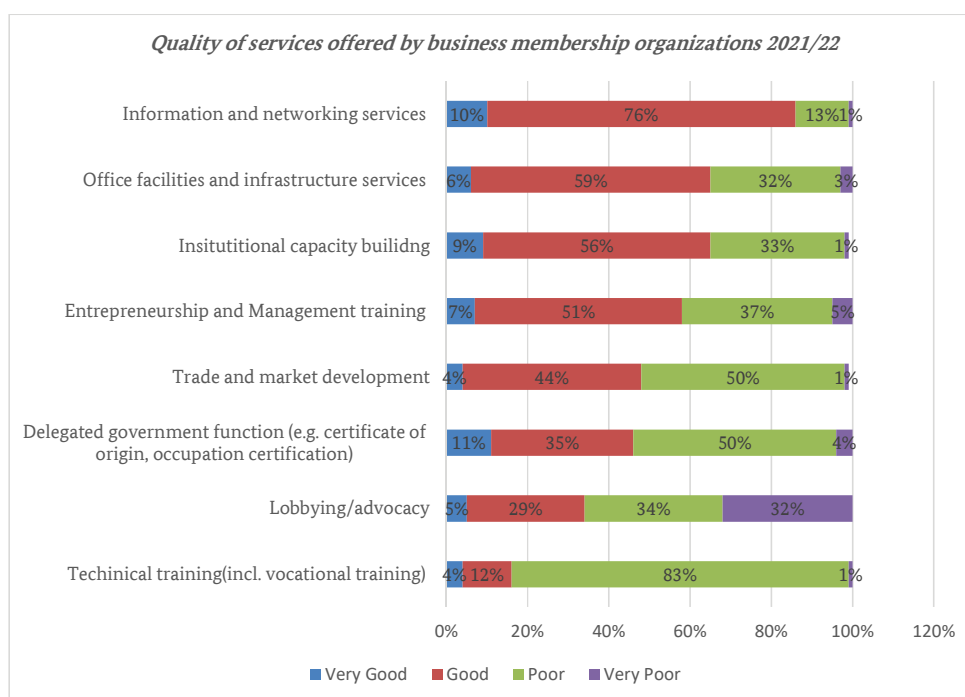
Figure 48: Quality of services offered by business membership organizations 2021/22

The quality of the services offered by business membership organizations is less than satisfactory. The quality of most availed services by the business was largely considered either poor or very poor. The quality of technical training offered was assessed as poor by 83 per cent of the enterprises, and 67 per cent considered the lobbying and advocacy services poor or very poor.

4.7 Climate-smart governance, sustainability and climate resilience

The surveyed enterprises had a low awareness of local governments' strategies and initiatives for addressing climate change adaptation and sustainability measures. Sustainable waste management (17%), Disaster risk reduction measures (12%) and weather forecast and early warning systems (10%) were the most known initiatives to the businesses. Moreover, the accessibility to various climate-related services at the local level was reported low by businesses.

Figure 49: Accessibility of climate relevant services 2021/22
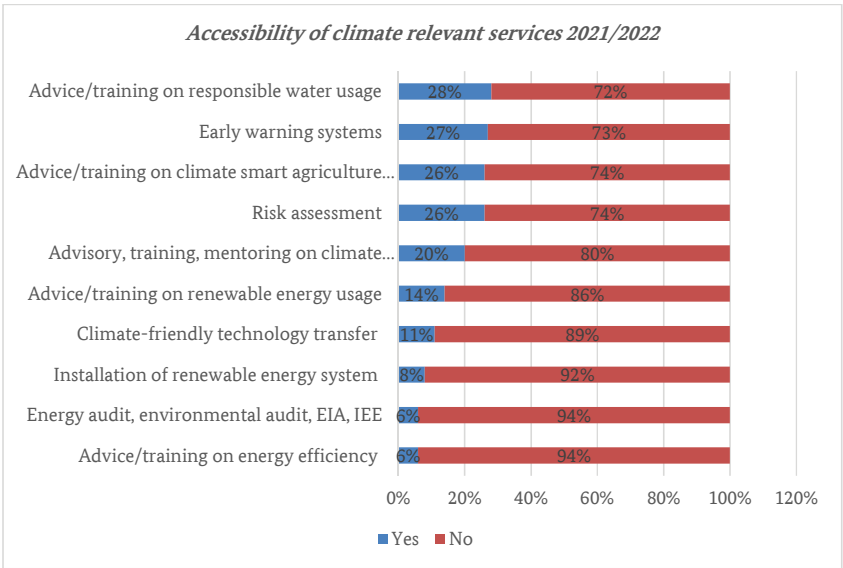
Enterprises identified waste reduction as the most relevant measure for their company's future in addressing climate change adaptation and environmental sustainability (16%). Likewise, energy savings – water, fuel, electricity – were considered essential for businesses' future.
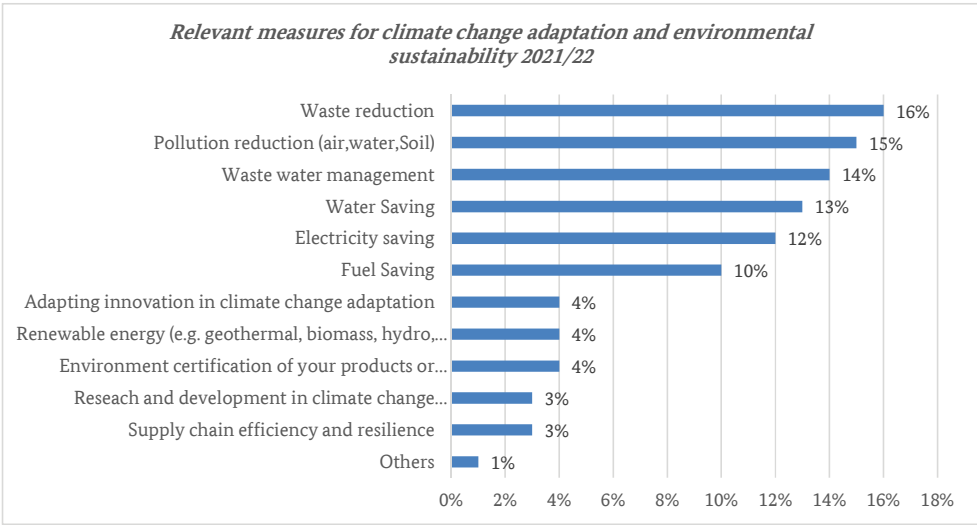

Figure 50: Relevant measures for climate change adaptation and sustainability 2021/22

Most investments made by enterprises to address sustainability and climate change correspond with the relevance given to different measures. 55 per cent of the enterprises had invested in waste reduction, and 40 to 50 per cent of the enterprises had invested in water saving, wastewater management and pollution reduction.
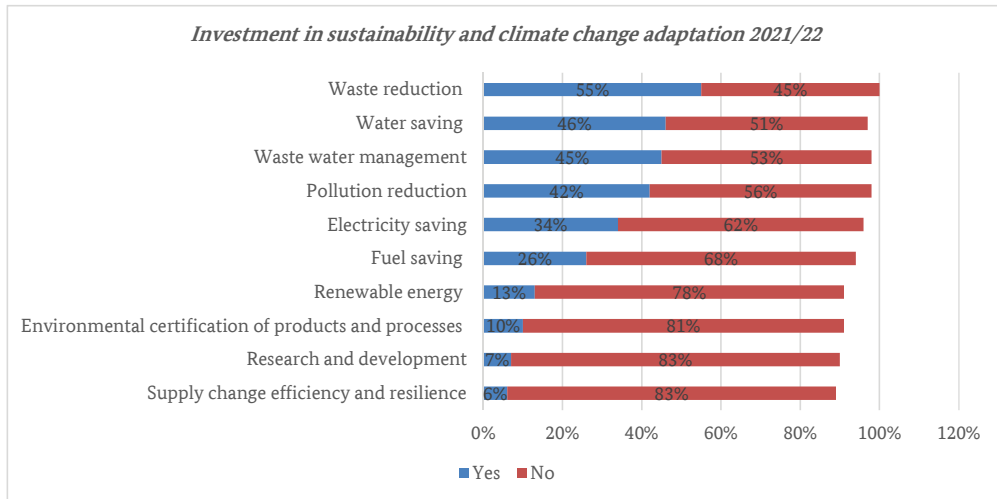
Figure 51: Investment in sustainability and climate adaptation 2021/22

Most enterprises felt better credit access (18%) and availability of internal finances (13%) were requisite for them to make an investment in sustainable business practices. Equally, better information on cost savings and better advisors were noted as important conditions for investment.).

Figure 52: Conditions for investment into sustainable business practices

Chapter V: Conclusions and recommendation

5.1 Conclusion

The second iteration of the Business Climate Survey was successfully conducted in 2022 with a broader thematic scope and more comprehensive geographical coverage. The Business Climate Survey 2021/22 filled the statistical gaps in business climate 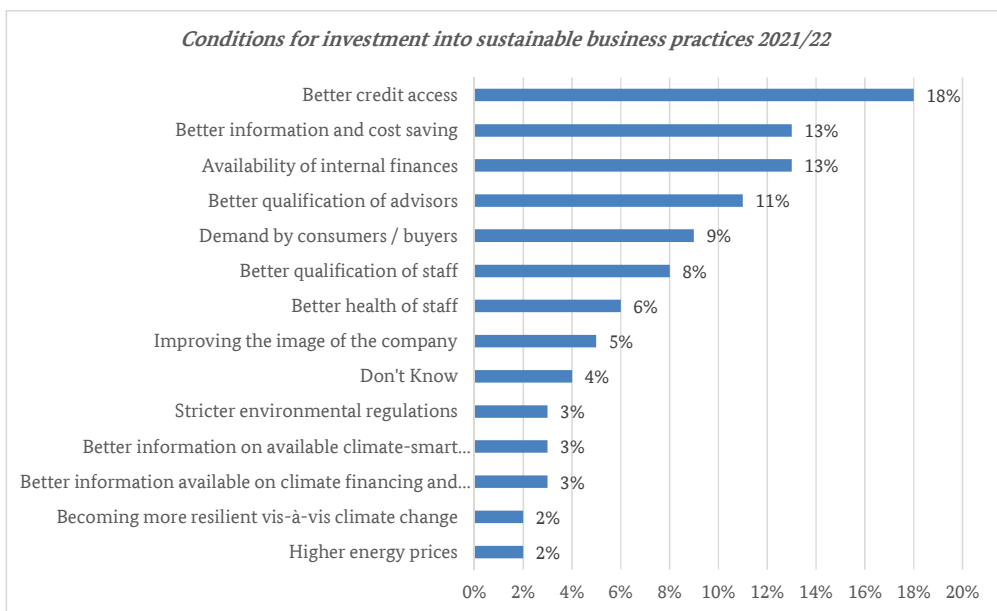indicators at the local level and provided data and information for comparing the business climate over time and territory. The assessment generated through this survey will shape the perception of specific business needs and necessary business framework conditions, thus, allowing targeted interventions to be more efficient.

A representative sample size of 5,690 enterprises was selected across 42 local-level units in three provinces in western Nepal. The findings were analysed along with the secondary data to provide a composite business climate index. The index and its sub-indices motivate progress and competitiveness, and the detailed breakdown of various factors shaping the enabling environment can help the business community and policymakers make iterative changes, manage expectations, and target low-hanging fruits in areas that require improvement.

Overall, the business climate in western Nepal is less than satisfactory, with a median index of 40 on a 1-to-100 points scale. While the business sentiments among the enterprises are high, it is not matched by the low economic performance, lack of infrastructure and unsatisfactory business services. The local economic governance is limited to providing essential services, and the sustainability of enterprises is uncertain. Nevertheless, there are positive indications toward business innovations and increasing awareness and investment in sustainability and climate-smart governance.

Although the business climate across 42 local level units is similar, there are slight variations according to provinces and local unit level, i.e. Sub-metropolitan, municipality or rural municipality. At the provincial level, Lumbini scored a higher median value (45 points) than Karnali (39 points) and Sudurpashchim (39 points). The presence of four out of five Sub-metropolitans in Lumbini explains their slightly better performance as all the Sub-metropolitans rank in the top seven of the BCI. The pattern is clear: business climate in Sub-metropolitans and municipalities is better than in rural municipalities. Better conditions are mainly due to better availability and quality of infrastructure and higher accessibility of business services. Nevertheless, business sentiments were generally higher in the rural municipalities. Overall, Birendranagar Municipality in Karnali province ranked first among the 42 local level units in the BCI 2021/22.

Economic activities in the three provinces of western Nepal are concentrated in trade and other services, with a significant presence of the agricultural sector and a low number of manufacturing establishments. The majority of the enterprises are micro-enterprises and predominantly owned by a male.

5.2 Opportunities and challenges for competitiveness

5.2.1 Opportunities

- A significant proportion of the enterprises are young, both in the owners' demography and establishment age. It presents an immense opportunity for business innovation and adoption towards digitalizing business operations.

- The severity of Covid-19 cases and incidences has lessened, easing government restrictions and enabling a better business environment.

- The enterprises are optimistic about a better business climate in the next two years.

- The local governments, in cooperation with Federal and Provincial governments, will have more resources and opportunities to design and implement the PPCP projects

5.2.2 Challenges

- Although the severity of problems due to the Covid-19 pandemic has lessened, many enterprises face supply shortages, cash-flow shortages and difficulty in shipping finished goods. Additionally, recent geo-political events, including Russia's invasion of Ukraine, have exacerbated the rising prices and supply disruptions.

- The cost of finances is high, and business services and infrastructure are mainly concentrated in bigger cities.

- Municipal budget and development expenditure per capita are generally low across local units.

- The taxpayer base and local revenue contribution to the budget are mainly low. Regulatory issues related to tax and trade are pressing problems faced by enterprises.

- The limited infrastructure facilities and markets are major constraints for enterprises to promote their local products.

- The validity of the survey might be questioned, particularly by poor-performing municipalities.

5.3 Opportunities and challenges for building sustainability and climate-smart governance

5.3.1 Opportunities

- Enterprises look for better information and access to advice and credit services to ensure sustainability and climate-smart governance.

- Municipalities look for inspiring practices from other locations to address climate change issues and build resilience

- Farmers and processors look for alternative products and services that become feasible and competitive under conditions of a changing climate

5.3.2 Challenges

- Low rate of municipalities that developed and started implementing their local action plan for adaptation (LAPA) and invest in climate-smart infrastructure

- Lack of municipal budget allocated to climate-related resilience and response measures

- Low awareness of local government's strategies and initiatives for addressing climate change adaptation among the enterprises

- Low level of knowledge and experience among enterprises and farmers to become climate-change resilient and invest in sustainability measures.

- Limited accessibility and quality of climate-relevant services at the municipal level

5.4 Recommendation on institutionalising the BCS in Nepal

- Dissemination of the BCS results at the local level with the participation of all stakeholders to ensure ownership of the results.

- Timely organization of BCS diagnostic workshops in each municipality to highlight the locality-specific strengths and weaknesses and brainstorm on how to improve weak indicators

- Afterwards, share the BCS diagnostic reports with the municipalities so that they can follow up on the realistic and feasible improvement measures discussed and incorporate some of them into the next year's municipal budget.

- Wider dissemination of BCS results to relevant partners and stakeholders.

- Handover of research processes and technical assistance to organisations at the national level to adopt and appropriate the BCS for future use.

- Utilization of data and findings in policy discussions for targeted interventions at local and provincial levels.

- The BCS advisory committee shall be instrumental in institutionalizing the BCS in Nepal. Such a committee could be led by MoFAGA and comprised of MoICS, NPC, FNCCI, MoLCPA and development partners.

- The BCS could be implemented by FNCCI with the support of an independent service provider, ideally every two or three years, to provide an opportunity and sufficient time for improvement to the municipalities.

- The BCS shall be adjusted to generate specific information to help track the economic survey indicators of MoFAGA's new flagship LED program, which will soon be endorsed to receive wider recognition.