GRAPE
Green Resilient Agricultural Productive Ecosystems

BUSINESS CLIMATE SURVEY 2024 IN WESTERN NEPAL

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Acronyms

BCI	Business Climate Index
BCS	Business Climate Survey
BMO	Business Membership Organizations
BMZ	German Federal Ministry for Economic Cooperation and Development
CBS	Central Bureau of Statistics
CTVET	Council for Technical Education and Vocational Training
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GoN	Government of Nepal
IDPG	International Development Partners Groups
LAPA	Local Adaptation Plan of Action
LED	Local Economic Development
LEG	Local Economic Governance
LEP	Local Economic Performance
LISA	Local Government Institutional Capacity Self-Assessment
LPED/GRAPE	Local and Provincial Economic Development/Green Resilient Agricultural Productive Ecosystems project
LRED	Local and Regional Economic Development
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MPI	Multidimensional Poverty Index
NPC	National Planning Commission
NPR	Nepalese Rupees
NSO	National Statistics Office
SD	Standard Deviation
SME	Small and Medium Enterprise
SPSS	Statistical Package for the Social Sciences
VRA	Vulnerability and Risk Assessment
WHO	World Health Organization

Executive Summary

The Business Climate Survey (BCS) 2024 provides insights from its third edition, which was conducted across 19 municipalities in Karnali and Sudurpashchim provinces of Western Nepal. The survey assesses the overall business environment and generates a composite Business Climate Index (BCI) derived from survey responses and secondary data. Funded by the German Federal Ministry for Economic Cooperation and Development, the European Union, and Finland's Ministry for Foreign Affairs, the BCS 2024 is part of the LPED/GRAPE project, aligning with Nepal's green, resilient, and inclusive development goals.

Karnali and Sudurpashchim provinces are among the underperforming regions in Nepal's economic landscape. Understanding enterprises' challenges and opportunities in these regions is crucial for growth and development. The survey offers valuable data for temporal and territorial comparisons, fostering competitive spatial and temporal analysis. Covering 19 local-level units, including one Sub-metropolitan city, six Municipalities, and twelve Rural Municipalities, the findings are essential for evaluating economic development and economic governance, shaping policy formulation, and promoting inter-territorial competition to accelerate growth.

The survey utilized comparable indicators to assess business activities, economic and climate-resilient governance, infrastructure quality, and local business sentiments. It used the National Economic Census 2018 database, conducted by the National Statistic Office of the Government of Nepal, as its universal enterprise population framework. The enterprises were categorised based on primary firm characteristics, i.e., sector affiliation and size. A sample of 2,472 enterprises was selected across 19 local-level units in two provinces based on numbers, locations, sizes, and sectors of business enterprises. The analysis involved forty-nine indicators grouped into eight sub-indices. Data were analysed at the local level to compare different indicators. Both secondary and survey data were combined to generate scores for each Municipality across all indicators and sub-indices.

Key Findings

Respondent details:

- **Sectors:** 67 per cent in Trade/other Services, 22 per cent in Agriculture, 11 per cent in Manufacturing.

- **Scale:** 96 per cent are micro-scale businesses employing 1-9 individuals.

- **Ownership:** 96 per cent Sole Proprietorship; 63 per cent male-owned, 35 per cent female-owned.

- **Operation age:** 37 per cent have been operational for over ten years; 37 per cent are less than five years old.

- **Registration:** 76 per cent are formally registered; 24 per cent are unregistered or informal

Business Climate Index (BCI):

- **Overall score:** Median BCI is 39

- **Top performers:** Simkot Rural Municipality (60 points), Amargadhi Municipality (55 points) and Dhangadhi Sub-metropolitan City and, Godawari Municipality (each around 54 points)

- **Lowest Performer:** Barahatal Rural Municipality (27 points)

- **Provincial scores:** Sudurpashchim median BCI is 40, Karnali is 35

Sub-index Scores:

- **Local Economic Performance (LEP):** Median 29, top performer Dhangadhi (60), weakest performer Badi Kedar (7), Karnali province median 23, Sudurpashchim province median 31

- **Local Economic Governance (LEG):** Median 46, top performer Simkot (67), weakest performer Dullu (36), Karnali province median 56, Sudurpashchim province median 45

- **Infrastructure:** Median 43, top performer Dhangadhi (61), weakest performer Kharpunath (17), Karnali province median 33, Sudurpashchim province median 51

- **Business Sentiments:** Median 59, top performer Kharpunath (84), weakest performer Bheriganga (25), Karnali province median 53, Sudurpashchim province median 64

- **Business Dynamics:** Median 50, top performer Himali (72), weakest performer Simkot (28), Karnali province median 37, Sudurpashchim province median 51

- **Business Services:** Median 20, top performer Godawari (76), weakest performer Bhagawatimai (3), Karnali province median 24, Sudurpashchim province median 20

- **Sustainability and Climate Resilience:** Median 31, top performer Simkot (68), weakest performer Jorayal (7), Karnali province median 33, Sudurpashchim province median 24

- **Climate-Smart Governance:** Median 41, top performer Simkot (79), weakest performer Barahatal (10), Karnali Median province 56, Sudurpashchim province median 39

Challenges and Opportunities

- **COVID-19 Impact:** 27 per cent reported a revenue decrease of 50-75 per cent; 27 per cent downsized their workforce by 25-75 per cent; 40 per cent preferred teleworking

- **Business problems:** 68 per cent identified business competition, including monopoly and unfair business practices; 17 per cent cited access to finance, and 15 per cent cited local taxes as a severe business problem

- **Government interactions**: 60 per cent reported challenges in dealing with the government, particularly in planning and budgeting processes and regulation related to environment and climate change

- **Infrastructure:** 72 per cent highlighted ineffective solid waste management

- **Financial needs:** 72 per cent of the enterprises reported needing additional finance, and 79 per cent intended to seek funds from commercial and development banks.

- **Support services:** Over 70 per cent of the enterprises reported accessibility to business registration, mobile phone and banking services; less than 30 per cent accessed engineering consultancy, technical training, and insurance services; only 12 per cent of the enterprises had access to Quality Infrastructure services.

- **Gender and Informality:** 27 per cent of informal enterprises are female-owned; the highest female ownership is in Trade/Other services at 69 per cent, followed by 22 per cent in Agriculture and 9 per cent in Manufacturing; 48 per cent of unregistered enterprises in Karnali, 52 per cent in Sudurpashchim; Agriculture has 48 per cent informal enterprises, Manufacturing 41 per cent, and Trade/Other services 14 per cent; 89 per cent of informal enterprises have an annual turnover of less than 500,000 NPR

The business climates in the Karnali (35) and Sudurpashchim (40) provinces of Western Nepal are moderately favourable, as both hover around the median index of 39 on a 1-to-100-point scale. While businesses generally have a reasonable chance of success, there is significant variability across local-level units. High business sentiment is tempered by challenges such as low economic performance, inadequate infrastructure, and insufficient business services, which impact sustainability.

The novel Climate-smart governance sub-index assesses how well municipalities and businesses adapt to address climate change and its impacts. Overall, the current state of climate-smart governance still falls short. Being exposed to climate change, top

performers like Simkot (79 points) and Amargadhi (65 points) have introduced robust governance strategies to address climate change risks. They have incorporated effective climate adaptation measures and disaster response plans. One critical indicator measuring responsible water usage by enterprises was very low (median score 20). This highlights the need to strengthen water management practices and mitigate future water-related risks.

Female entrepreneurs face additional barriers, particularly in accessing finance and formal business support services. Informal, small-scale enterprises need more access to essential business support and operational challenges. Incremental infrastructure improvements and progress in local economic governance are positive trends, with notable examples of business dynamism and climate-smart governance. Sudurpashchim's business climate is slightly more favourable and stable than Karnali's.

Recommendations

- **Disseminate results:** Share BCS results widely with local partners and stakeholders to foster ownership.

- **Organize workshops:** Hold BCS diagnostic workshops to highlight strengths and weaknesses, develop action plans, and guide targeted interventions.

- **Coordinate with MoFAGA:** Integrate BCS findings into the MoFAGA's Local Economic Development initiatives, e.g. by using the results for the eligibility assessment of municipalities.

- **Handover processes:** Transfer research processes and technical assistance to national organizations for future BCS use.

- **Economic governance certification:** Introduce an economic governance certification scheme for municipalities, leveraging BCS and LISA results, to increase participation and drive the BCS's future applications in Nepal.

Chapter I: Introduction

The Business Climate Survey (BCS) 2024 presents the findings of the third iteration of the enterprise survey conducted across 19 Municipalities in two provinces, Karnali and Sudurpashchim, of Western Nepal. This survey aimed to assess the overall business environment and produce a composite Business Climate Index (BCI) by combining survey responses and secondary statistical data. The BCS is a critical tool for measuring a territory's economic development progress and governance. Its results and suitable indicators for tracking a location's economic development status can significantly influence policy formulation. Inter-territorial benchmarking, fuelled by the BCS, may foster healthy competition among locations and, thus, accelerate development progress. The survey results hold the potential to shape public discussions and policy decisions.

The BCS 2024 is a product of the Local and Provincial Economic Development/ Green Resilient Agricultural Productive Ecosystems (LPED/GRAPE) project, which was commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) and jointly funded by the European Union, the Ministry for Foreign Affairs of Finland, and BMZ. The project combines a participatory territorial economic development approach and 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 2024 were:

- Monitoring the attractiveness of Municipalities to retain and attract business operations and investment
- Measuring the quality of economic governance (economic regulations and services) and the performances of the private sector in investment, employment, trade, legal compliance, environmental sustainability, and climate resilience.
- Assessing climate-smart governance at the municipal level
- Understanding the aftermath of COVID-19 on enterprises and its economic impacts
- Ranking Municipalities and triggering healthy competition to improve municipal performance
- Providing input for policy dialogue and planning at the municipal and provincial levels

The inaugural application of the BCS in 2021 established a benchmark for evaluating a comprehensive range of factors influencing the business environment, including enterprise confidence, performance, governance, competitiveness, and future prospects

in 11 Municipalities within Lumbini, Karnali, and Sudurpashchim provinces. The 2022 survey expanded its scope to 42 Municipalities within the same provinces, incorporating additional indicators to assess municipal performance in addressing climate change and developing climate-resilient governance solutions, particularly within the agricultural sector. The 2024 iteration, while adhering to the conceptual framework of the preceding applications, focused on 19 LPED/GRAPE project Municipalities in the Karnali and Sudurpashchim provinces.

1.1 The Rationale for Business Climate Survey

The BCS aligns with the objectives of the LPED/GRAPE project, aiming to enhance the framework conditions for sustainable economic development at the local level. The survey's findings are instrumental in designing targeted and efficient project interventions.

By adopting federalism and restructuring into a three-tier government system (Local, Provincial, and Federal), local units have become the focal point of Nepal's political, sociocultural, and economic activities. Out of the 753 local-level units across seven provinces, there are six Metropolises, 11 Sub-metropolises, 276 Municipalities, and 460 Rural Municipalities. These local units are responsible for economic governance, local market management, environmental protection, development planning and projects, and collecting local statistics. These responsibilities require careful consideration of resource allocation, revenue rights, income estimation, and expenditure functions. By providing data and figures that reflect each location's situation, the BCS helps to engage and inform local stakeholders, thereby fostering local economic development.

Local Economic Development (LED) is a strategic and programmatic priority for the federal government, featured in the concept paper of the 16th periodic plan (2024-2028) by the National Planning Commission (NPC).[1] The Ministry of Federal Affairs and General Administration (MOFAGA) has also launched an LED program and issued the Innovative Local Economic Development Program Operational Procedures 2023. This procedure emphasizes local government-led Local Economic Assessment as a criterion for fiscal transfers, aiming to bolster LED efforts. The BCS supports this federal initiative by providing critical statistics to local governments.

The BCS is not just another survey. It addresses significant gaps in local-level business climate indicators, a need that existing studies often fail to meet due to their limited scope and sample size. The BCS, on the other hand, provides comprehensive data for

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[1] *NPC (2023) 16th Periodic Plan Concept Paper. Government of Nepal, National Planning Commission. Available at:* https://npc.gov.np/en/category/periodic_plans

temporal and territorial comparison, creating a competitive index for spatial and temporal analysis. Incorporating multiple indicators enhances the business environment, making it a valuable tool for policymakers and local units. Its outcomes are designed to support the performance of individual local units and equip policymakers with the insights necessary to foster a sustainable business climate, enabling enterprises to thrive locally.

1.2 A History of Economic Surveys in Nepal

Multiple examples of economic and business climate surveys with varying scopes are available for Nepal. Among these, the annual Economic Survey stands out as a pivotal document produced by the Ministry of Finance (MoF) at the federal level. This survey, which provides comprehensive macroeconomic indicators for the country, has roots in 1954 AD, coinciding with Nepal's shift towards modernity amid significant social and political transformations.

The Economic Survey's purpose, scope, and methodology have evolved to reflect the changing political and economic landscapes. In the early 1990s, when Nepal adopted an economic liberalization policy, the need for detailed and systematic records of economic activities became apparent. The Economic Survey adapted accordingly, becoming a critical tool for monitoring the country's economic progress.

The most significant adjustments to the survey's administrative and geographic parameters occurred in 2008/09, following the abolition of the monarchy and the establishment of a federal republic. This political shift required a comprehensive restructuring of the survey to include detailed economic and financial data at federal, provincial, and local levels. Since then, the Economic Survey has consistently provided consolidated insights into Nepal's economic and financial status, serving as an essential resource for policymakers and stakeholders at all levels of governance.

The National Statistics Office (NSO), formerly known as the Central Bureau of Statistics (CBS), of the GoN also carries out various surveys and censuses pertinent to the economy of Nepal. Some notable recent publications include the National Economic Census 2018, Nepal Labour Force Survey III 2018, Census of Real Estate 2019, Industrial Survey 2019, National Industrial Survey 2019/20, National Sample Census of Agriculture Survey 2021/22, and Nepal Distributive Trade Survey 2022.

Beyond government-led initiatives, numerous development partners and donor agencies have undertaken economic surveys in Nepal, focusing on enhancing competitiveness, improving local governance, and strengthening the investment climate. Early Business Climate Surveys were conducted by the Asia Foundation in 2010, covering four districts,

and by GIZ and the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) in 2013, covering five districts. FNCCI also published a Business Outlook Survey in 2014/15. Additionally, the World Bank periodically conducts the Enterprises Survey, with the latest for Nepal being 2023.

As mentioned above, the GIZ/LPED project launched the first edition of the BCS in 2020/21, covering 11 Municipalities across three provinces. This survey introduced a competitive index, distinguishing itself from previous BCS efforts by employing a unique approach to constructing a composite index of status and performance.

1.3 Brief Description of the Survey Area

The BCS 2024 conducted an enterprise survey across 19 local-level units in the Karnali and Sudurpashchim provinces of Western Nepal. These units comprised one Sub-metropolitan city, six Municipalities, and twelve Rural Municipalities. Six Rural Municipalities and three Municipalities each were selected from the two provinces. The sole Sub-metropolitan city in the survey, Dhangadhi, is located in the Sudurpashchim province whereas Karnali province does not have a Sub-metropolitan area.

Province	District	Sub-metropolitan	Municipality	Rural Municipality
Karnali	Surkhet		Bheriganga Birendranagar	Barahatal
	Dailekh		Dullu	Naumule Bhairabi Bhagawatimai
	Humla			Simkot Kharpunath
Sudurpashchim	Kailali	Dhangadhi	Godawari	Chure
	Doti			Badi Kedar Jorayal
	Dadeldhura		Budhinanda	Aalital
	Bajura		Amargadhi	Swamikartik Khapar

Table 1 List of surveyed local level-units 2024

Karnali and Sudurpashchim provinces are among the underperforming regions in Nepal's economic landscape. According to the Economic Survey 2022/23, Karnali's annual economic growth rate was 2.2 per cent, while Sudurpashchim's was 1.9 per cent, hovering close to the national average of 2.16 per cent. Despite this, their contributions to GDP at

consumer prices remain notably low, with Sudurpashchim contributing 7 per cent and Karnali only 4.1 per cent.[2]

Furthermore, these provinces need more financial infrastructure. Of the 11,656 bank branches and financial institutions nationwide, only 463 are in Karnali and 844 in Sudurpashchim. The insurance sector shows a similar disparity, with only 183 insurer branches in Karnali and 308 in Sudurpashchim out of 3,215 across the country.[3] This limited financial presence restricts access to essential banking and insurance services, potentially stifling economic growth and development in these regions. The data underscores the need for targeted interventions to enhance financial inclusion and economic performance in both provinces. Moreover, both provinces are in the lower tier of the Nepal Human Development Index 2020, which includes the Gender Inequality Index and the Multidimensional Poverty Index.[4] Against the national Multidimensional Poverty Index (MPI) of 0.074, Karnali's MPI was 0.169 placing it last among the seven provinces. Similarly, Sudurpashchim's MPI was 0.105, placing it fifth among the provinces.[5]

[2] *MoF (2023) Economic Survey of Nepal 2022/23.* Government of Nepal, Ministry of Finance. Available at: https://www.mof.gov.np/uploads/document/file/1710323031_Economic%20Survey%20Engslish%20 2022-23%20Eng%20Final%20for%20WEB.pdf

[3] *Ibid.* pg. 192

[4] *NPC (2020) Nepal Human Development Report 2020.* Government of Nepal, National Planning Commission. Available at: https://npc.gov.np/images/category/NHDR_2020.pdf

[5] *NPC (2021) Nepal Multidimensional Poverty Index, Analysis towards action.* Government of Nepal, National Planning Commission. Available at: https://npc.gov.np

Chapter II: Methodology

2.1 Approach for the Business Climate Survey 2024

The BCS 2024 adhered to the established framework from the previous survey iterations, focusing on enterprises across the primary (agriculture), secondary (manufacturing), and tertiary (trade and services) sectors. The survey utilized comparable indicators to assess business activities, economic and climate-resilient governance, infrastructure quality, and overall business sentiments within localities. These indicators allow for longitudinal comparisons, highlighting changes in the business climate, investment levels, development scale, and public policy impacts on governance for private enterprises.
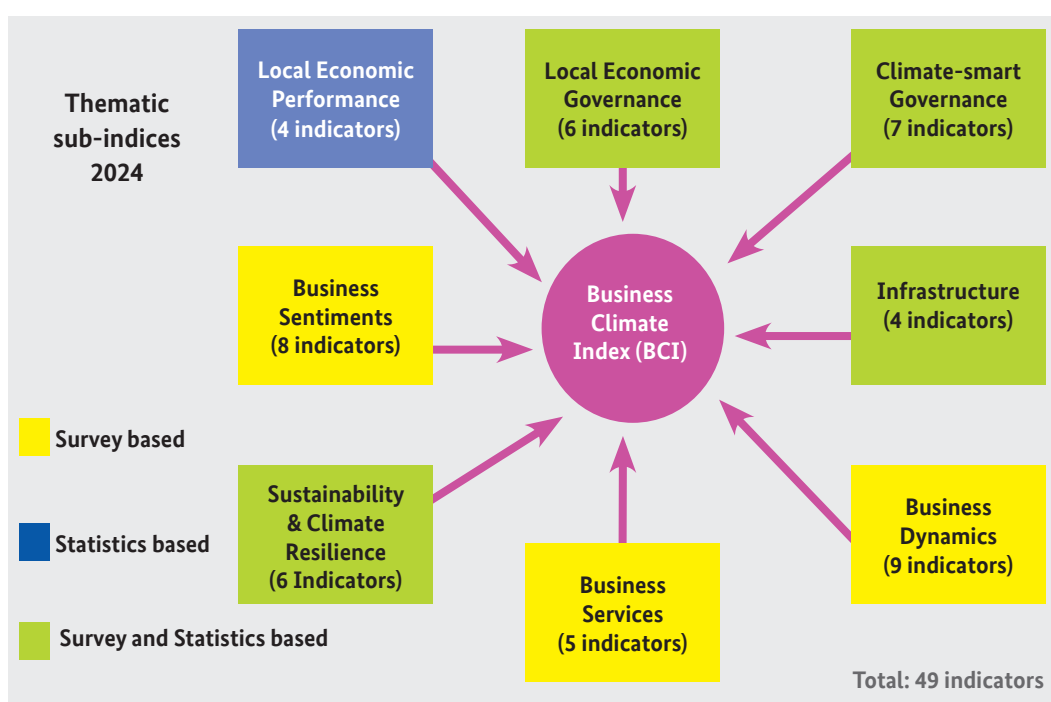
Figure 1 BCI Thematic Sub-indices 2024

The survey gathered data for qualitative and quantitative indicators from enterprise-level surveys and secondary statistics. It grouped 49 indicators into eight thematic sub-indices. Furthermore, BCS 2024 examined the impact of the post-COVID-19 era on enterprises, although this was not factored into the indicator definitions. This comprehensive approach ensured a robust analysis of the evolving business environment.

2.2 Enterprise Sampling

The survey used the National Economic Census 2018 database, conducted by the National Statistics Office (NSO) of the Government of Nepal, as its universal population. The enterprises were categorised based on primary firm characteristics, i.e., sector affiliation

and enterprise size. Sectoral affiliation categories were Agriculture, Manufacturing, Trade/Other Services. The second level of stratification was company size, using the definition employed by the NSO for the National Economic Census 2018. Enterprises were categorized into Micro (1-9 employees), Small (10-49 employees), Medium (50-99), and Large (>100) based on the number of employees. Additionally, the survey accounted for gender-wise ownership and the informal sector, including 35 per cent of female-owned enterprises and 24 per cent of the informal sector.

A sample of 2,472 enterprises was selected across 19 local-level units in two provinces based on numbers, locations, sizes, and sectors of business enterprises. A 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. A simple random sampling was then used to select individual enterprises within each stratum.

2.3 Definition of Sub-indices and Indicators

Thematic Sub-indices of business climate	Definition	Indicators
Local Economic Performance	It measures economic growth reflected through relative size of population or enterprise population respectively, credit behaviour of entrepreneurs and their tax payments. The sub-index is a combination of four indicators. All four indicators were based on statistical data collected from different sources for each local-level unit.	No. of established enterprises per 1,000 inhabitants
		Volume of outstanding credits (2024) per enterprise population
		Growth of outstanding credits (2023/24)
		Total taxpayers 2023 per 1,000 inhabitants
Local Economic Governance	It measures how public and private institutions jointly steer the local economy. It has six indicators of which three were collected from statistical data and the remaining three indicators from survey data.	(Proposed) Municipal Budget per capita (2023)
		(Proposed) Development Expenditure per capita (2023)
		(Proposed) Contribution of local revenue to total budget in per cent (2023)
		Percentage of registered companies (formality)
		Average no. of days to obtain a business license/registration
		Quality of performance of government service provision

Infrastructure	It is the conditions of the basic physical and economic infrastructure and facilities that enterprises rely on to run their operation. The sub-index measures availability, access and quality of the economic infrastructure. Of the four indicators, one was collected from the survey data and the remaining three indicators were from statistical data.	Assessment of infrastructure maintenance and development
		Number of finance institutions per 100 enterprises (2024)
		Number of CTEVT registered vocational training institutions per 100 enterprises (2024)
		Physical markets per 100 enterprises (2024)
Business Sentiments	It measures how business enterprises perceive the challenges or opportunities they faced; the perception of obstacles faced, and opportunities gained; the regulatory issues that hinder the enterprise growth. It has eight indicators, for which the data was collected from the survey	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 acting of government officials
		Number of regulatory problems perceived by minimum 25 per cent of enterprises
		Need of informal payments in percentage
Business Dynamics	It measures the activity changes or continuous progress made in the business activities over time; innovation made; and future investment planned by the enterprises. The sub-index has nine indicators, for which the data was collected from the survey	Percentage of businesses younger than 10 years
		Percentage of business with turnover more than 25 million NPR
		Need for finance (presently)
		Loan application rate (need and apply)
		Percentage of innovative firms (product innovation)
		Percentage of enterprises invested in 2023
		Percentage of firms that (partially) digitalized business operation
		Percentage of enterprises planning to invest in the next 12 months
		Average assessment of investment attractiveness of Municipality

Business services It measures the services accessed, received, used by the enterprises and the quality of services for the growth of their business. It has five indicators, for which the data was collected from the survey.		Percentage of membership in business membership organizations
		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	It means meeting our own needs without compromising the ability of future generations to meet their need and has three pillars – economy, environment and society. It has six indicators, of which one was collected from statistical sources and the remaining five were collected from survey data.	Size of landfill site (m2) per 1,000 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
Climate-Smart Governance	It considers the adaptation of Municipalities and enterprises to address climate change and its impacts, including implementing a Local Adaptation Plan of Action (LAPA) and climate budget coding at the municipal level. The climate-smart governance sub-index has seven indicators with two indicators from survey data and the remaining five indicators from statistics.	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 and implementation
		Disaster response plan and budget allocation
		Degree of water stewardship (enterprise view)

2.4 Survey Implementation

A subcontracted service provider organised and conducted the survey. After a pilot survey, the questionnaire was finalised, incorporating necessary improvements. The on-site, interview-based survey was conducted from January to April 2024, collecting 2,472 responses. Extra responses were gathered to avoid data limitations due to incomplete responses and missing or unreliable information. The survey was conducted by 38 experienced enumerators (two per Municipality), two field supervisors, and one team leader. Enumerators, selected from each of the 19 Municipalities, were familiar with local conditions. They received training before being deployed to the field.

The survey used Kobo ToolBox Survey software on electronic tablets. Enumerators conducted face-to-face interviews and recorded responses in real-time using the software. Data was stored on tablets and uploaded to a server at the end of each day. Field supervisors monitored the survey for quality and efficiency, back-checking completed surveys by calling respondents to verify the appropriateness of the survey, confirming responses to randomly selected questions, and following up on incomplete responses to ensure the questionnaire was fully completed. After a quality check, the data was transferred from the Kobo ToolBox to Statistical Package for the Social Sciences (SPSS) and Microsoft Excel for analysis.

2.5 Data Analysis

The analysis involved forty-nine indicators grouped into eight sub-indices. Data were analysed at the local level to compare different indicators. Both secondary and survey data were combined to generate scores for each Municipality across all indicators. Where secondary data were missing, information was retrieved from relevant municipal personnel. The necessary data from the survey database were then extracted to calculate the Business Climate Index.
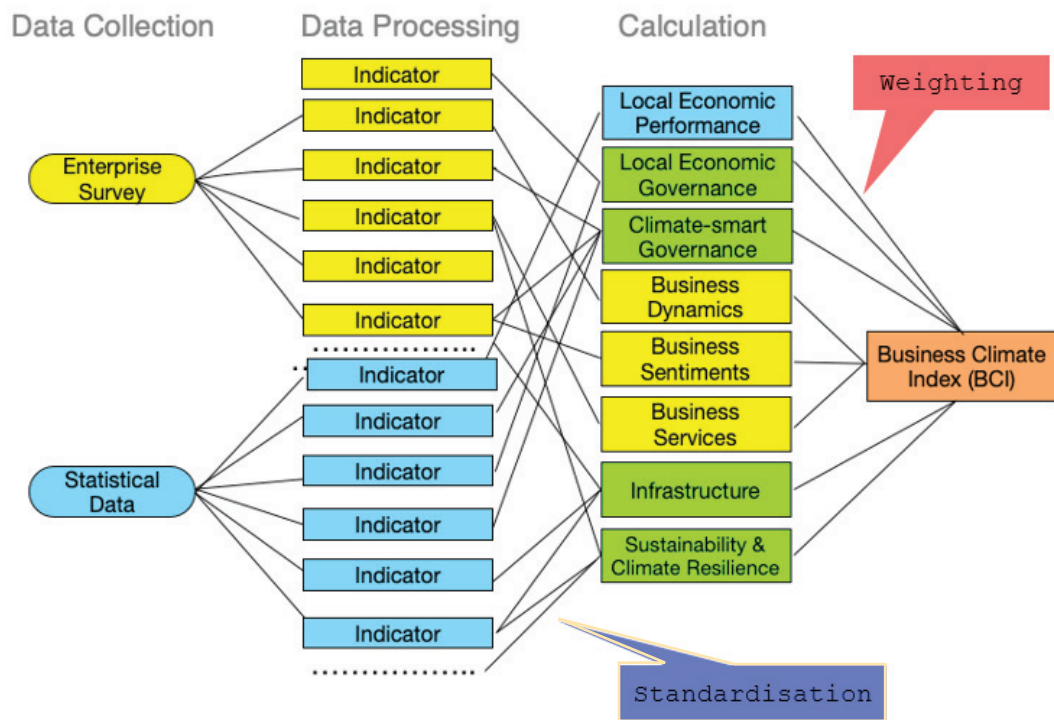
Figure 2 BCI Generic Index structure 2024

Equal weight was assigned to all sub-indices to minimize bias and address the challenges of assigning different weights based on subjectively perceived importance, relevance or impact.

Chapter III:
Business and Investment Climate in Western Nepal 2024

3.1 Details About the Respondents

Among the surveyed enterprises (n=2,472), the majority (67 per cent) were engaged in the Trade/Other Services sector, with a notable prevalence of micro-scale businesses (96 per cent), defined by enterprises employing between one and nine individuals. 54 per cent reported an annual turnover of less than 500,000 NPR, while 20 per cent had an annual turnover between 500,000 NPR to 1 million NPR and 17 per cent between 1 and 5 million NPR. Additionally, 9 per cent of the surveyed enterprises reported an annual turnover exceeding 5 million NPR.
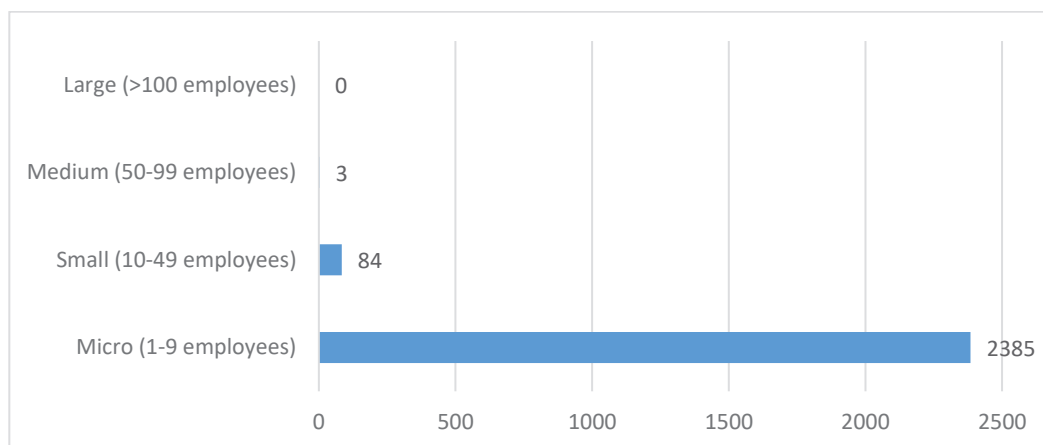
Figure 3 Enterprise profile, Size of the company (n=2472), 2024

Amargadhi Municipality notably hosts the highest proportion of enterprises falling within the one to five million NPR annual turnover bracket, accounting for 59 per cent of its total enterprises (out of 150). Furthermore, a subset of sixteen enterprises reported turnovers exceeding fifty million NPR, with five situated in Godawari Municipality and four in Bheriganga Municipality.

At the sectoral level, 51 per cent of Trade/Other Services enterprises were operational across the six Municipalities and one Sub-Metropolitan area. Conversely, 81 per cent of Agricultural enterprises were concentrated in the twelve Rural Municipalities. Despite only 11 per cent of the enterprises identifying as part of the Manufacturing sector, 56 per cent were situated in Rural Municipalities. Notably, the majority of Manufacturing enterprises were reported in Kharpunath Rural Municipality, accounting for 13 per cent of sampled Manufacturing enterprises and 32.40 per cent of enterprises surveyed in Kharpunath.
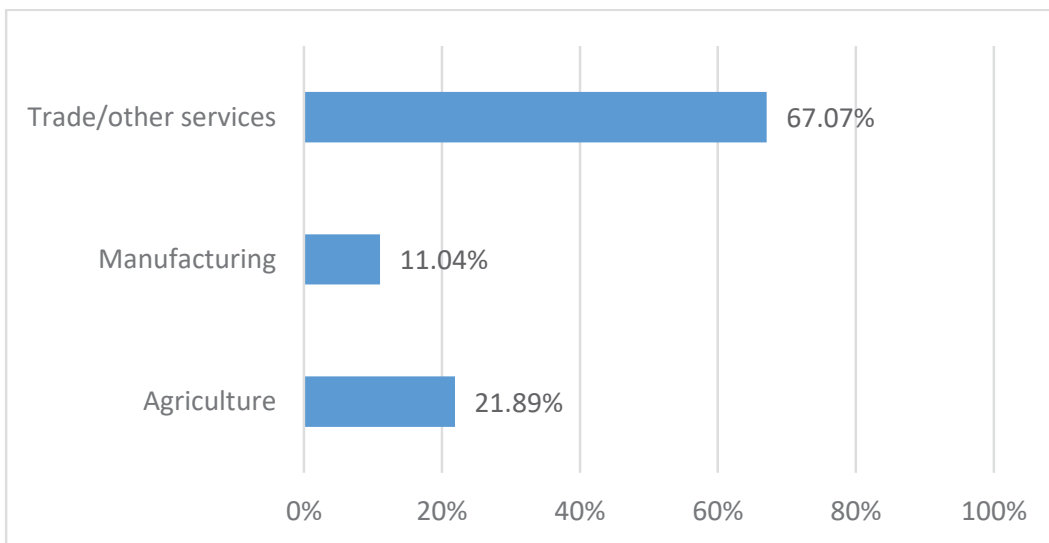
Figure 4 Enterprise profile, Types of company (n=2472), 2024

The survey indicated a high literacy rate among respondents, with 96 per cent reporting to be literate and a significant portion (79 per cent) achieving at least primary education. However, notable pockets of illiterate respondents were identified, particularly in Kharpunath Rural Municipality (18 per cent out of 108) and Simkot Rural Municipality (13 per cent out of 130).

Surveyed respondents exhibited considerable expertise, with 62 per cent having worked in the enterprise for over five years. Furthermore, 35 per cent of respondents had been operating their businesses for over a decade, with a notable concentration in Bheriganga Municipality (75 per cent of 152 respondents). Conversely, Dhangadhi had the highest number of respondents with less than two years of experience, accounting for 21 per cent of the 166 respondents in that area. The age distribution of respondents revealed that 68 per cent fell within the 25-45 age group, indicating a predominance of the young population operating these enterprises.
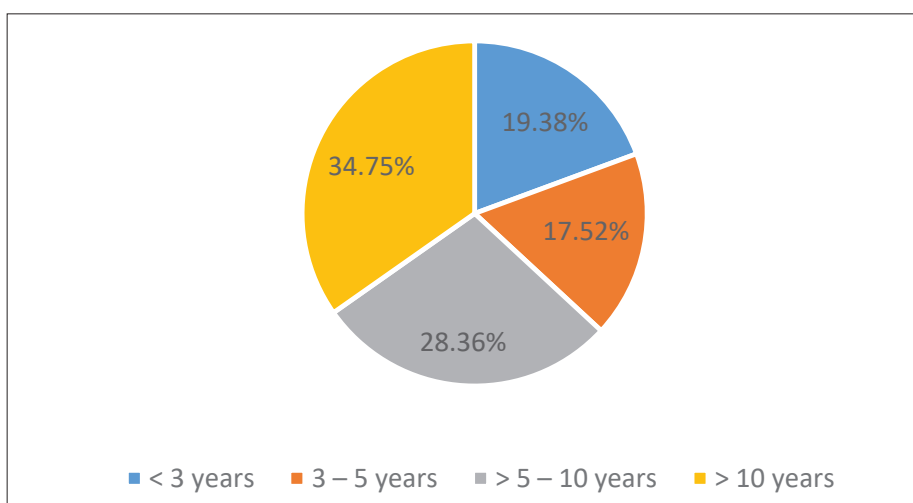
Figure 5 Share of new and old enterprise (n=2472), 2024

Analysing the longevity of enterprises, the data shows that 35 per cent of sampled enterprises had been in operation for more than ten years, while 37 per cent were less than five years old. This suggests a significant number of enterprises emerged during the COVID pandemic. According to the World Health Organization (WHO), the COVID-19 pandemic was declared a public health emergency of international concern, spanning three years, three months, and five days from 30 January 2020, to 5 May 2023.[6] The highest proportion of new enterprises, i.e. less than three years old, were reported for Birendranagar Municipality at 33 per cent (out of the sampled 166) and Simkot Rural Municipality at 32 per cent (out of the sampled 130). Interestingly, Bheriganga Municipality showed no new enterprise, with 75 per cent of sampled enterprises (n=152) operating for over a decade.
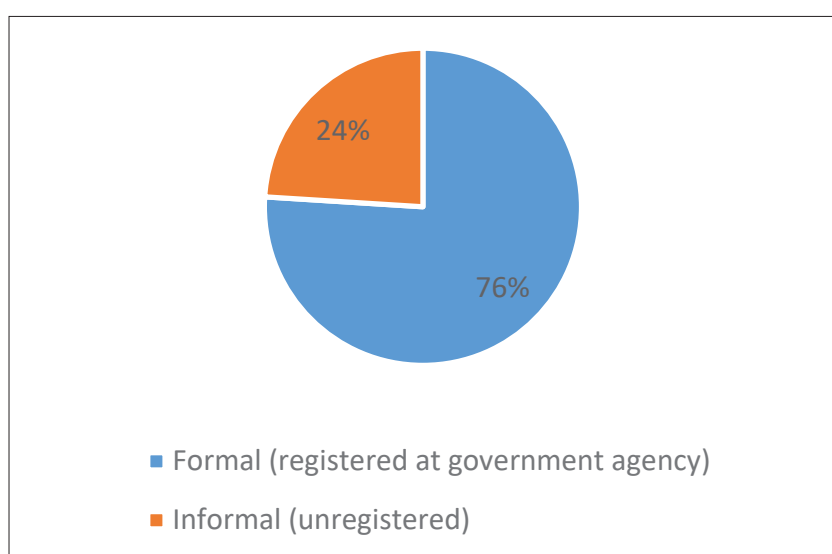
Figure 6 Business registration status (n=2472), 2024

The survey revealed that 76 per cent of the sampled enterprises were formally registered with the government. Notably, Bheriganga Municipality, alongside Birendranagar and Amargadhi Municipalities, demonstrated near-complete formal registration compliance. In contrast, Budhinanda Municipality lagged with only 56 per cent of its enterprises formally registered. Among Rural Municipalities, Aalital stood out with 98 per cent of its enterprises formally registered, while Kharpunath Rural Municipality had the lowest number of officially registered enterprises at only 17 per cent. Alarmingly, six out of the twelve Rural Municipalities had over 40 per cent of their enterprises unregistered, indicating potential regulatory challenges in those areas.

Sole Proprietorship was predominant (96per cent) in terms of enterprise types, followed by Partnership (2 per cent), Cooperative (1 per cent), and Private Limited (1 per cent). Public Limited companies were negligible, with only 8 out of the sampled 2,472, of which

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4 were situated in Badi Kedar Rural Municipality. Additionally, 6 of the 18 Private Limited companies in the sample are located in Godawari Municipality.
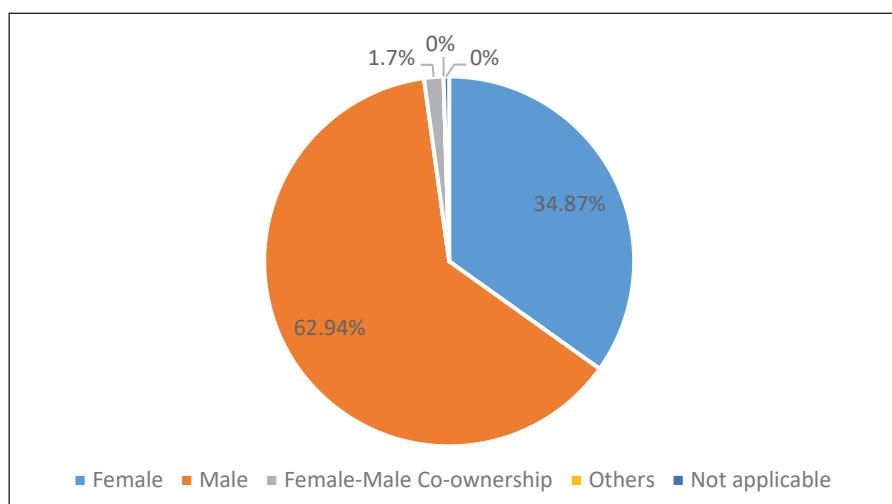
Figure 7 Enterprise ownership, gender-wise (n=2472), 2024

Gender-wise, 66 per cent of the respondents were male, and 63 per cent of the enterprises were owned by males. Co-ownership between males and females was minimal (2 per cent), with the majority (18) reported in Swamikartik Khapar Rural Municipality. Of all female-owned enterprises (862), 57 per cent were located in Karnali province. Birendranagar Municipality had the highest proportion of female-owned enterprises (54 per cent of the sampled 166), while Jorayal had the lowest (17 per cent of the sampled 122). Remarkably, there was a significant increase in female ownership in Karnali Province compared to the previous survey, which reported only 25 per cent ownership. The increase suggests notable shifts in gender dynamics within the province's business landscape.

3.2 Municipal Business Climate Index Ranking 2024

The Business Climate Index (BCI) operates on a scale of 1 to 100, where 1 signifies the lowest possible score, and 100 denotes the highest achievable score. The index comprises sub-indices computed separately for each local level unit across eight thematic areas. Subsequently, an average score is derived for each sub-index, culminating in calculating the overall BCI.

The BCI for 2024 in two provinces of Western Nepal shows a median score of 39 and a mean score of 41. The scores suggest that business conditions in 19 local-level units within the provinces are moderately favourable. While the businesses may encounter advantages and obstacles, they generally have a reasonable chance of operating and succeeding.

The dataset displays distinct clusters of BCI scores observed at 33, 35, 42 and 54 indicating varying business conditions across different regions and sectors. This multimodality suggests that several local units share similar business environment, but there are also notable differences. Furthermore, the standard deviation for the dataset is 9.41, indicating greater variability in BCI scores and reflecting diverse experiences among sampled enterprises. Additionally, a moderate positive skew with a skewness of 0.67 indicates that higher BCI scores slightly influence the overall distribution. These findings highlight the nuanced nature and diverse experiences within the business climate across the local-level units.
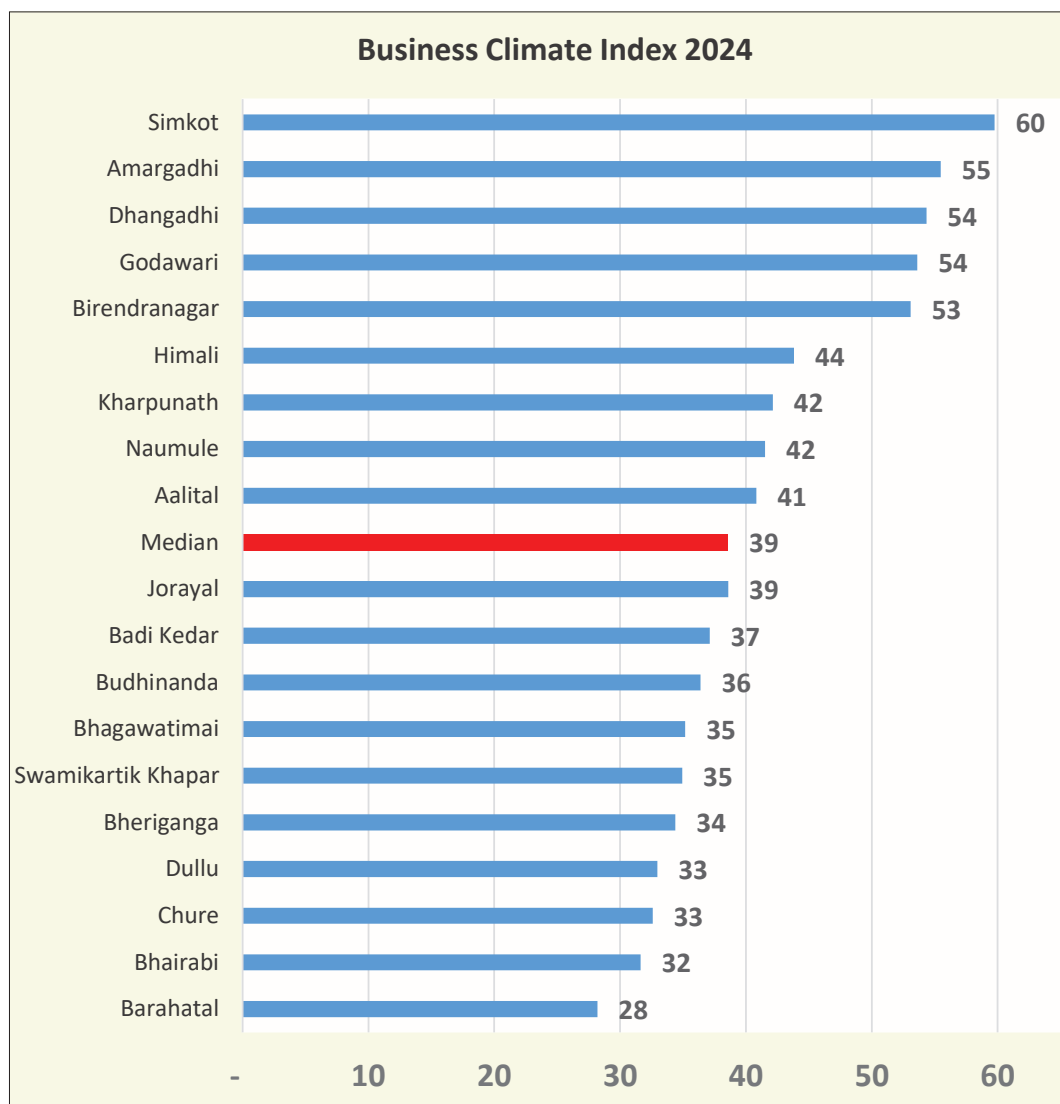
Figure 8 BCI scores of local-level units, 2024

Simkot Rural Municipality is the top performer among the nineteen local-level units, with a BCI score of 60. Amargadhi Municipality closely trails it with 55 points and Dhangadhi Sub-metropolitan City (54.35) and Godawari Municipality (53.61) with around 54 points. Simkot has witnessed a substantial 19-point increase in its BCI score compared to the

previous assessment. On the contrary, Barahatal Rural Municipality records the lowest BCI score of 27, maintaining its position at the bottom of the BCI table as observed in 2022. Among the six Municipalities, Dullu, Bheriganga, and Budhinanda fell below the dataset's median value, scoring 33, 34 and 36 points, respectively.

Karnali Province	BCI	Sudurpashchim Province	BCI
Simkot Rural Municipality	60	Amargadhi Municipality	55
Birendranagar Municipality	53	Dhangadhi Sub-metropolitan City	54
Kharpunath Rural Municipality	42	Godawari Municipality	54

Table 2 Top3 performers, province-wise, 2024

Rural Municipality	BCI	Municipality	BCI
Simkot	60	Amargadhi	55
Himali	44	Birendranagar	53
Kharpunath	42	Godawari	54

Table 3 Top 3 performers, type-of-municipality-wise, 2024

At the provincial level, the median BCI value is 40 for Sudurpashchim and 35 for Karnali province. This median score indicates that business conditions in Sudurpashchim are marginally more favourable than in Karnali. The mean BCI value for Karnali is 40, with a standard deviation of 10.5 and a skewness of 1.03. In comparison, Sudurpashchim's mean BCI value is 43, with a standard deviation of 8.65 and a skewness of 0.61. These mean values reinforce that businesses in Sudurpashchim generally experience better overall conditions than those in Karnali. Additionally, the standard deviation suggests that BCI scores across Karnali exhibit more significant variability. The highly positive skewed distribution of BCI scores in Karnali indicates the presence of relatively high scores, pulling the mean towards the higher end. In contrast, Sudurpashchim's BCI distribution appears more symmetrical. These findings imply that Sudurpashchim enjoys more favourable and stable business conditions than Karnali, which exhibits a broader range of business experiences.

3.3 Ranking per Sub-index 2024

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

3.3.1 Local Economic Performance

The Local Economic Performance (LEP) observed across the nineteen local-level units indicates a subpar state of economic affairs. On a scale of 1 to 100, the mean value of 30 and median of 29, alongside a standard deviation of 16.2, portray a generally low economic performance across the surveyed regions. Each specific indicator received notably

low scores – the volume of outstanding credits averaged 15 points, while the growth of outstanding credit averaged just 34 points. Furthermore, the number of enterprises per 1,000 inhabitants was sparse, averaging 38 points. Additionally, the taxpayer base demonstrated underperformance, with a median value of 24. These findings underscore a compelling need for concerted efforts to bolster economic activity and enhance local economic performance throughout the surveyed regions.

Figure 9 Top 10 economic performers, 2024
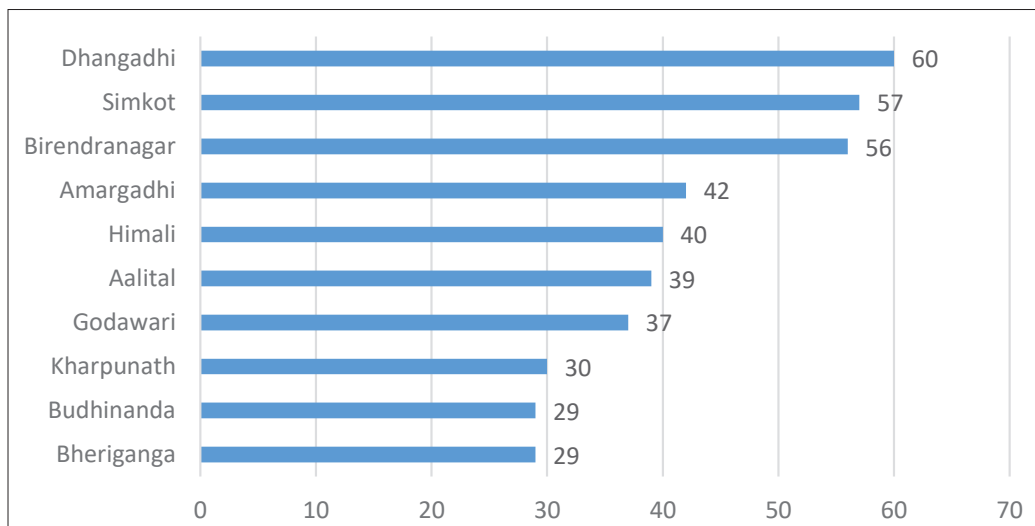
Dhangadhi Sub-metropolitan City emerges as the top performer in local economic performance, securing a commendable score of 60 points. It notably achieved the highest possible score of 100 points in the indicator 'volume of outstanding credits per enterprise population' and garnered 65 points for its taxpayer base. Conversely, although Simkot Rural Municipality exhibited a low volume of outstanding credits per enterprise population, scoring just 14 points, it excelled in other areas, achieving high scores of 83 points for the number of established enterprises per 1,000 inhabitants and 92 points for total taxpayers per 1,000 inhabitants. Aalital Rural Municipality showcased exceptional performance by attaining the highest possible score of 100 points for the taxpayer base indicator. On the other end of the spectrum, Badi Kedar Rural Municipality recorded the lowest sub-index point for economic performance, scoring just 7 points.

Karnali Province	LEP	Sudurpashchim Province	LEP
Simkot Rural Municipality	57	Dhangadhi Sub-metropolitan City	60
Birendranagar Municipality	56	Amargadhi Municipality	42
Kharpunath Rural Municipality	30	Himali Rural Municipality	40

Table 4 Top 3 economic performers, province-wise, 2024

Rural Municipality	LEP	Municipality	LEP
Simkot	57	Birendranagar	56
Himali	40	Amargadhi	42
Aalital	39	Godawari	37

Table 5 Top 3 economic performers, type-of-municipality-wise, 2024

Comparing the LEP between Karnali and Sudurpashchim provinces, both exhibit low economic performance, with Karnali scoring slightly lower than Sudurpashchim. Karnali's median LEP score of 23 and a mean score of 29 suggest consistently low economic performance across the province. Sudurpashchim, with a median score of 33 and a mean score of 31, fares marginally better, though still relatively low. Additionally, the skewness values of LEP scores indicate different distributions between the two provinces. Sudurpashchim has a skewness value of 0.20, suggesting a more balanced distribution of LEP scores, while Karnali has a skewness value of 0.99, indicating a more positively skewed distribution. This means economic performance is more evenly spread in Sudurpashchim than in Karnali. Nevertheless, the top three performers in each province highlight specific local-level units that are performing well economically.

3.3.2 Local Economic Governance

The Local Economic Governance (LEG) scores across the surveyed local-level units portray a relatively unsatisfactory governance landscape, with an average score of 50 and a median of 46. The consistency and symmetry of the distribution, with a standard deviation of 10.59 and a skewness of 0.21, implies that the challenges faced in governance effectiveness were pervasive throughout the surveyed local-level units.

Figure 10 Top 10 local economic governance performers, 2024
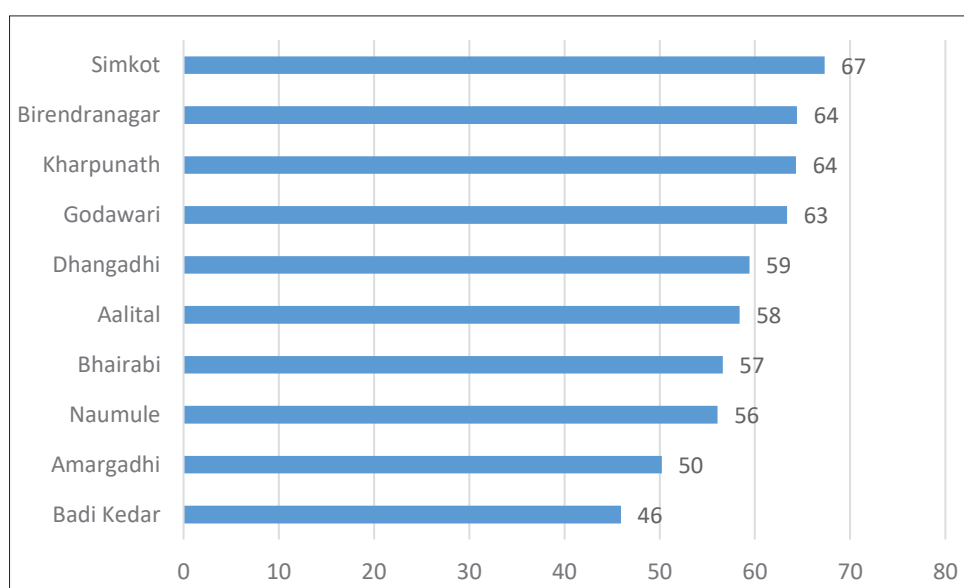
The low average municipal budget per capita (35 points) and development expenditure per capita (38 points) highlight the limited fiscal capacity and constraints on infrastructure development within the local-level units. A few exceptions to this trend were Kharpunath Rural Municipality, which scored 100 points for both indicators and Naumule Rural Municipality and Bhairabi Rural Municipality, which scored 96 and 93 points on proposed development expenditure per capita.

Moreover, the alarmingly low contribution of local revenue to the local budget, with a median of 5 and a mean of 21, signifies heightened fiscal dependence on higher government levels, posing risks to local autonomy and resilience against external shocks. However, outliers such as Godawari Municipality and Dhangadhi Sub-metropolitan City, with exceptionally high local revenue contributions, at 100 and 98 per cent, respectively, highlight potential models for enhancing local revenue generation.

Although the limited fiscal capacity of the local governments is evident, the quality of local government support to business sector services generally garnered satisfactory ratings from surveyed enterprises, with a median score of 77. However, pockets of dissatisfaction were evident in areas such as Bheriganga (1 point) and Dullu (4 points), suggesting a need for targeted improvements in service provision.

Karnali Province exhibits slightly higher governance performance, with a median of 56 and a mean of 52. However, the standard deviation (12.28) indicates greater variability, and a negative skew (-0.15) shows that while the majority of the scores are high, there are a few notably low scores. Conversely, Sudurpashchim Province shows a lower median of 45, though the mean is higher at 48, suggesting that the scores are more balanced but lean towards lower performance.

Karnali Province	LEG	Sudurpashchim Province	LEG
Simkot	67	Godawari	63
Birendranagar	64	Dhangadhi	59
Kharpunath	64	Aalital	58

Table 6 Top 3 LEG performers, province-wise, 2024

Rural Municipality	LEG	Municipality	LEG
Simkot	67	Birendranagar	64
Kharpunath	64	Godawari	59
Aalital	58	Dhangadhi	59

Table 7 Top 3 LEG performers, type-of-municipality-wise, 2024

3.3.3 Infrastructure

The Infrastructure Sub-Index scores across the surveyed local-level units reveal a mixed picture, with a median value of 43 and a mean of 42. The standard deviation of 13.8 suggests moderate variability in infrastructure performance, while the slightly negative skew (-0.22) indicates a slight tendency towards lower scores. The sub-index factored in various aspects, including the presence of financial institutions, skill and vocational training centres, physical markets, and respondents' perceptions of the maintenance and development of infrastructure in local-level units.

When analysing the individual indicators for the sub-index, the assessment of infrastructure maintenance and development displayed a wide range of scores, reflecting considerable variability in perceived infrastructure quality across local-level units. For instance, extremely high levels of satisfaction were reported in Himali Rural Municipality (100 points), Dhangadhi Sub-metropolitan City (98 points) and Simkot Rural Municipality (96 points), while notably low scores were recorded in Bhairabi Rural Municipality (1 point), Amargadhi Municipality (3 points), and Bheriganga Municipality (4 points).

Similar disparities were observed in the presence of financial institutions and CTEVT-registered vocational training institutions, indicating varying accessibility to financial and vocational training resources across the local-level units. While Amargadhi Municipality (100 points) and Godawari Municipality (96 points) boasted a high presence of financial institutions, Himali Rural Municipality (1 point), Budhinanda Municipality (3 points), and Kharpunath Rural Municipality (3 points) reported negligible presence.

The physical markets indicator revealed a median value of 37, a mean of 34, and a standard deviation of 26.19, suggesting a relatively lower availability and accessibility of physical markets than other infrastructure components. Notably, Swamikartik Khapar Rural Municipality stood out as an outlier with a perfect score of 100 points in this indicator.
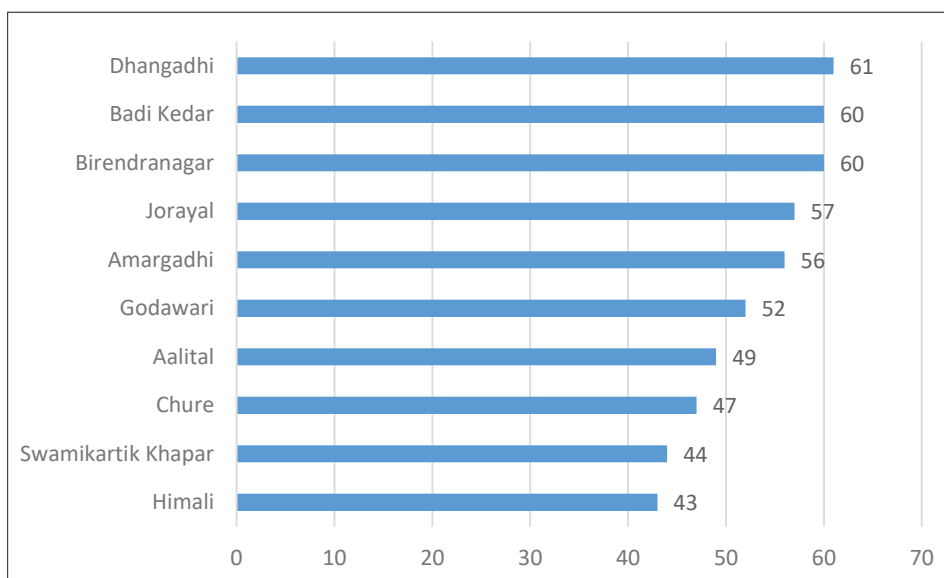
Figure 11 Top 10 infrastructure performance, 2024

At the provincial level, significant disparities are evident, with Karnali Province scoring notably lower, with a median and mean of 33, compared to Sudurpashchim Province, which demonstrated higher median and mean scores of 51 and 50, respectively.

Karnali Province	INF	Sudurpashchim Province	INF
Birendranagar Municipality	60	Dhangadhi Sub-metropolitan City	61
Simkot Rural Municipality	43	Badi Kedar Rural Municipality	60
Barahatal Rural Municipality	37	Jorayal Rural Municipality	57

Table 8 Top 3 infrastructure performers, province-wise, 2023/24

Rural Municipality	LEG	Municipality	LEG
Badi Kedar	60	Birendranagar	60
Jorayal	57	Amargadhi	56
Aalital	49	Godawari	52

Table 9 Top 3 infrastructure performers, type-of-municipality-wise, 2023/24

3.3.4 Business Sentiments

The Business Sentiments sub-index serves as a crucial barometer of economic perceptions across local-level units, offering insights into businesses' prevailing sentiments and challenges. The index reflects a somewhat optimistic outlook with a median value of 59 and a mean of 58. However, this optimism is tempered by notable variability (SD=17.53) and a slight negative skew (-0.47), indicating a tendency towards lower scores.

Notably, business sentiments were especially high in Rural Municipalities compared to other Municipalities. The sub-index was topped by Kharpunath Rural Municipality with 84 points and closely followed by Simkot (82 points) and Himali (79 points). Conversely, business sentiments were markedly low in Bhairabi (25 points), Bheriganga (25 points), and Bhagawatimai (36 points). Particularly noteworthy is the significant improvement in business sentiments in Simkot Rural Municipality, which saw a remarkable increase of 59 points compared to the previous assessment in 2022.
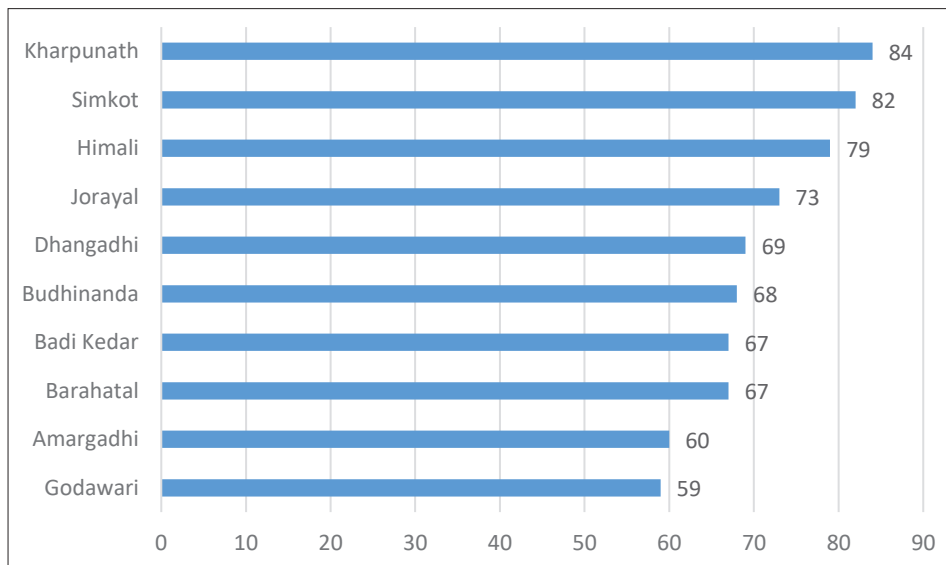
Figure 12 Top 10 scorers in business sentiments, 2024

A closer examination of specific indicators revealed nuanced perspectives. While surveyed enterprises generally reported positive sentiments regarding changes in the business environment over the past two years, there was significant variability in perceptions. Considerable improvement in the business environment was reported in Budhinanda Municipality (100 points) and Himali Rural Municipality (100 points), contrasting with poorer assessments in Bhairabi Rural Municipality (1 point) and Birendranagar Municipality (14 points). Similarly, perceptions of current business conditions compared to two years ago reflected moderate positivity, with a median of 58 and a mean of 55, indicating cautious optimism.

An interesting case was Bheriganga Municipality, where despite relatively better business environment (96 points) and conditions (94 points) scores, the Municipality scored extremely low in other indicators, with most scoring just 1 point. The negative outlook towards the future in Bheriganga may be attributed to the absence of new enterprises recorded in the survey, coupled with low scores in the Local Economic Governance (LEG) and Infrastructure sub-indices.

Most respondents felt a low severity of challenges to their business – security-related (Median 86) and climate-related (Median 73) – a higher value here indicates a lower level of challenges. However, climate-related threats were more pronounced in Bheriganga Municipality and Bhairabi Rural Municipality. Respondents also expressed relatively consistent and predictable interpretations of regulations by government officials (Mean score of 56 and median 64). Nonetheless, the number of regulatory problems perceived by a minimum of 25 per cent of the enterprises was extremely high (indicator median at 1 and mean at 27).

The survey measure for corruption— "informal payments to get things done"—was moderate; only 61 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 78 (a higher value indicating lower levels of corruption here). However, concerns were evident in Bheriganga (1 point) and Bhairabi (36 points), suggesting areas of heightened corruption risk.

Regionally, Sudurpashchim Province exhibited relatively more favourable business sentiments, with a higher median (64) and mean (62) compared to Karnali Province (Median = 53; Mean = 53).

Karnali Province	Biz. Senti Score	Sudurpashchim Province	Biz. Senti Score
Kharpunath Rural Municipality	84	Himali Rural Municipality	79
Simkot Rural Municipality	82	Jorayal Rural Municipality	73
Barahatal Rural Municipality	67	Dhangadhi Sub-metropolitan City	69

Table 10 Top 3 high business sentiments, province-wise, 2024

Rural Municipalities	Biz. Senti Score	Municipalities	Biz. Senti Score
Kharpunath	84	Budhinanda	68
Simkot	82	Amargadhi	60
Himali	79	Godawari	59

Table 11 Top 3 high business sentiments, type-of-municipality-wise, 2024

3.3.5 Business Dynamics

The Business Dynamics sub-index offers critical insights into the activity changes, innovation, and investment plans of enterprises within local-level units, serving as a barometer of the vibrancy and growth potential of the business environment. The median score of 50 suggests fairly dynamic enterprises in terms of overall business activity, investment, and innovation. However, the mean score of 48 and the standard deviation

of 11.73 highlight significant variability, reflecting diverse economic landscapes and conditions. The skew of 0.01 indicates a relatively symmetrical distribution of scores around the mean, suggesting a balanced representation of high and low performers.

The top performers in the Business Dynamism index were Himali Rural Municipality (72 points), Godawari Municipality (62 points), and Naumule Rural Municipality. However, Simkot, which topped the BCI ranking for 2023/24, was at the bottom of this index with just 28 points. Other low scorers were Kharpunath (30 points) and Barahatal (32 points). These scores indicate the wide disparity in business dynamics across the surveyed local-level units.
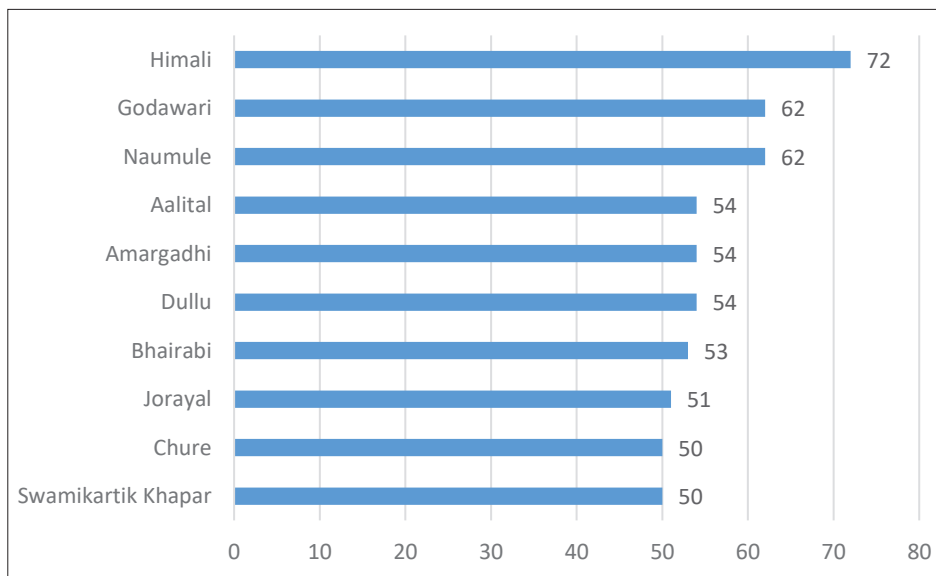
Figure 13 Top 10 scorers in business dynamics, 2024

Analysing the specific indicators used to calculate the sub-index provides further insights into the factors driving business dynamics. For instance, the percentage of businesses younger than ten years (median: 74; mean: 69) suggests recent entrepreneurial activity and innovation, while the substantial need for current finance (median: 84; mean of 68) indicates fresh investment plans. The survey revealed that 72 per cent of the respondents (n=2,472) felt the need for additional financing.

The indicator on the percentage of enterprises that invested in 2023 (median: 19; mean: 25) highlights a low level of investment activity, and the skew of 2.00 suggests a significant imbalance in investment levels, with enterprises in some local-level units investing more heavily than others. While 56 per cent of enterprises (out of 113) in Himali and 40 per cent (out of 120) in Aalital reported some level of investment, only 2 to 3 per cent of enterprises invested in places like Budhinanda, Swamikartik Khapar and Bhagawatimai. Moreover, a moderate intent to invest in the future (median: 48; mean: 54) underscores the importance of addressing barriers to investment and promoting business growth.

Innovation remained limited despite the intent to start or expand businesses, with only 6 per cent of the enterprises (n=2,472) reporting product or service innovation. Finance or capital plays a significant role in driving product and service innovation, and 54 per cent of enterprises mentioned that they required additional finance for business expansion or modernization. Digitization and automation of business processes are indicators of modernization. However, challenges remain, particularly concerning the digitalization of business operations, as indicated by the low median (4) and mean (17) scores, coupled with a high standard deviation (30.13) and skew (2.38). This suggests a significant digital divide among businesses, with some lagging behind in adopting digital technologies to enhance efficiency and competitiveness. While most enterprises had low scores on digitalization, a few exceptions were Godawari Municipality (100 points) and Bheriganga Municipality (100 points).

Local-level unit	Indicator score on investment attractiveness
Simkot Rural Municipality	100
Bhairabi Rural Municipality	99
Godawari Municipality	98
Himali Rural Municipality	94
Aalital Rural Municipality	94
Dhangadhi Sub-metropolitan City	83
Budhinanda Municipality	73
Swamikartik Khapar Rural Municipality	69
Naumule Rural Municipality	68
Chure Rural Municipality	67

Table 12 Top 10 perceived attractive places for investment

Nonetheless, more than half of the businesses assessed their Municipalities as an attractive place for investment, with a median value of 67 for the indicator. However, the mean value of 58 highlights variations in the perceived attractiveness of different local-level units for investment. While some Municipalities, such as Simkot, Bhairabi, and Godawari, were considered highly attractive for investment, others, such as Bheriganga, Bhagawatimai, and Jorayal were deemed less attractive.

Provincially, Karnali exhibited relatively lower business dynamics, with a median of 37 and a mean of 42, suggesting comparatively subdued business activity and innovation. Conversely, Sudurpashchim Province demonstrated higher business dynamics, with a

median score of 51 and a mean of 53, indicating a more dynamic and vibrant business environment.

Karnali Province	Biz. Dyn. Score	Sudurpashchim Province	Biz. Dyn. Score
Naumule Rural Municipality	62	Himali Rural Municipality	72
Dullu Municipality	54	Godawari Municipality	62
Bhairabi Rural Municipality	53	Amargadhi Municipality; Aalital Rural Municipality	54

Table 13 Top 3 performers in business dynamics, province-wise, 2024

Rural Municipality	Biz. Dyn. Score	Municipality	Biz. Dyn. Score
Himali	72	Godawari	62
Naumule	62	Amargadhi	54
Aalital	54	Dullu	54

Table 14 Top 3 performers in business dynamics, type-of-municipality-wise, 2024

3.3.6 Business Services

The business services sub-index provides insights into the accessibility and quality of services enterprises receive, which are crucial for their growth and development. The sub-index's median score of 20 reflects relatively low satisfaction levels and accessibility to essential services. The mean score of 27 and a standard deviation of 21.72 suggest significant variability, indicating diverse experiences across surveyed enterprises. The positive skew of 1.18 suggests that the better quality and accessibility of business services are concentrated in a few high-performing local-level units, leaving many enterprises experiencing challenges in accessing satisfactory services.

Among the top performers, Godawari (76 points), Amargadhi (67 points), Dhangadhi (62 points), and Simkot (53 points) significantly outscored others, indicating their relatively higher levels of service accessibility and quality. Conversely, Bhagawatimai (3 points), Swamikartik Khapar (7 points), and Badi Kedar (7 points) scored the lowest, exposing significant gaps in service provision in these areas.
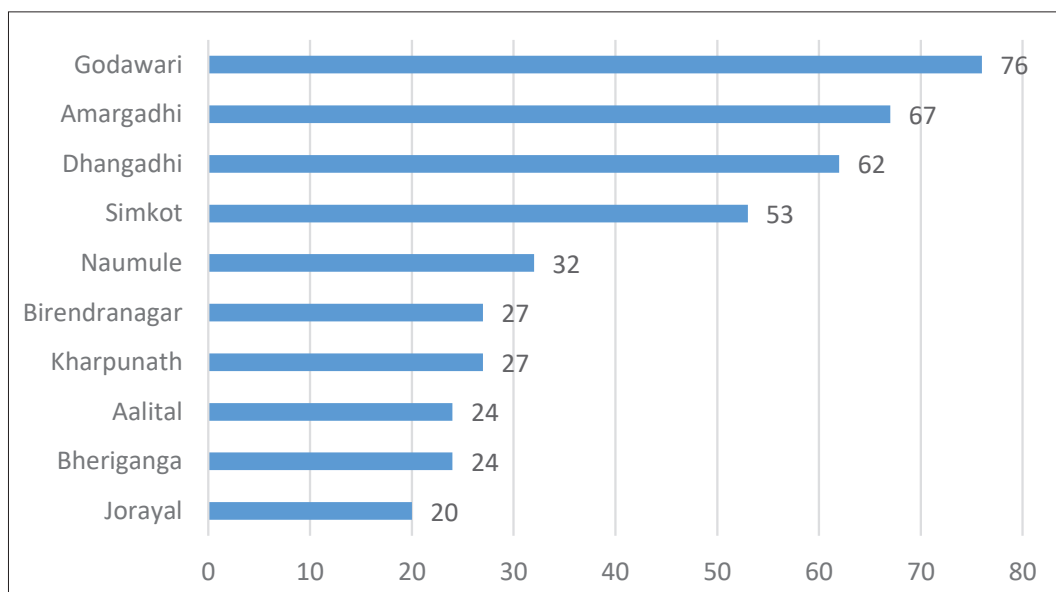
Figure 14 Top 10 in business services, 2024

The indicators used to calculate the sub-index provide further insights into the challenges and opportunities. For instance, there was low participation of surveyed enterprises in business membership organisations (median=5; mean=22). Besides a few Municipalities—Godawari (100 points), Bheriganga (85 points), and Amargadhi (67 points)—membership was low across the region, so much so that even Dhangadhi Sub-metropolitan City scored only three points. This suggests a potential area for improvement in fostering networking and collaboration among enterprises.

The low median score of 3 for the accessibility and quality of quality infrastructure services (testing, certification, inspection, calibration), coupled with high standard deviation (24.08) and skew (3.06), highlights a pressing need for quality infrastructure development across the region. A few exceptions were Godawari (100 points) and Dhangadhi (48 points). Addressing this gap could significantly enhance the business environment and stimulate economic activity.

Similarly, accessibility and quality of financial business development services had a median of 31 and a mean of 35, suggesting relatively higher satisfaction with financial services than non-financial business development services (median = 12; mean = 31). However, there was significant variability for both indicators, suggesting that while many enterprises may be satisfied, others may still face challenges accessing financial and non-financial business development services. Accessibility and quality of financial business development services were extremely low in Badi Kedar (1 point), Himali (1 point), and Bhagawatimai (3 points). This underscores the importance of improving financial inclusivity and expanding access to credit and investment opportunities, particularly for small and medium-sized enterprises (SMEs).

Besides financial business development service (31 points), the median score for accessibility and quality of climate-related services (21 points) was relatively higher than those for other indicators of the sub-index. While the scores recognise the importance of climate resilience and adaptation among businesses, the skew (1.20) suggests disparities in access, with some enterprises potentially being more vulnerable to climate-related risks. The accessibility and quality of climate-related services were high in Dhangadhi (100 points), Simkot (96) and Kharpunath (88) and poor in Bheriganga (1 point), Budhinanda (3 points) and Bhagawatimai (4 points). Strengthening advisory services and early warning systems could help businesses better prepare for and mitigate the impacts of climate change.

At the provincial level, Karnali exhibited a slightly higher median score (24) compared to Sudurpashchim (20), suggesting relatively better access to business services. However, the mean score for Sudurpashchim (31) was higher than Karnali (23), indicating more significant variability and potentially higher quality services in Sudurpashchim despite the lower median. Here the mean is positively affected by outliers that do not influence the median.

Karnali Province	Biz. Serv Score	Sudurpashchim Province	Biz. Serv Score
Simkot Rural Municipality	53	Godawari Municipality	76
Naumule Rural Municipality	32	Amargadhi Municipality	67
Kharpunath Rural Municipality	27	Dhangadhi Sub-metropolitan City	62

Table 15 Top 3 in business services, province-wise, 2024

Rural Municipality	Biz. Serv Score	Municipality	Biz. Serv Score
Simkot	53	Godawari	76
Naumule	32	Amargadhi	67
Kharpunath	27	Birendranagar	27

Table 16 Top 3 in business services, type-of-municipality-wise, 2024

3.3.7 Sustainability and climate resilience

The sustainability sub-index comprehensively assesses how well local-level units balance their economic activities, environmental conservation efforts, and societal well-being. The median score of 31 reflects a low level of sustainability across the surveyed local-level units. There is also considerable variability in performance (mean=33; SD=18.17; skew=0.57), suggesting that while some areas are making notable progress towards

sustainability, others are encountering challenges or lagging.

The top performers, Simkot (68 points), Bhagawatimai (64 points), and Birendranagar (62 points), are leading the way in implementing sustainable practices and demonstrating resilience to environmental challenges. Conversely, Jorayal (7 points), Barahatal (12 points), and Dullu (13 points) scored notably lower, signaling potential weaknesses in their
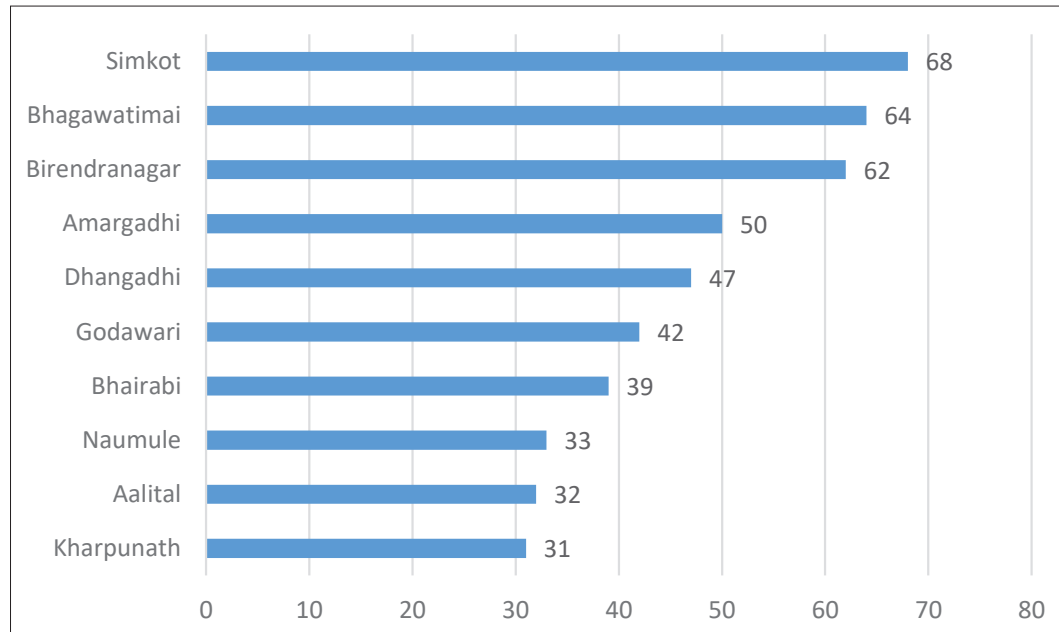
sustainability efforts and climate resilience strategies.

Figure 15 Top 10 in sustainability and climate resilience, 2024

Examining the indicators for the sub-index provided valuable insights into specific areas of strength and areas needing improvement. Solid waste management emerges as a significant challenge, with 60 per cent of the respondents (n=2,472) expressing dissatisfaction with their Municipality's effectiveness and organization in this regard. The quality of waste management systems (median=28; mean=28) and the wide variability in landfill sizes per 1,000 inhabitants (median=1; mean=12) underscores the need for standardized waste management practices. Notably, Simkot and Dhangadhi stand out for their adequate allocation of landfill sites proportional to the population. Solid waste management was reported to be the worst in Bhairabi, Bheriganga, Barahatal, Jorayal, Chure, and Amargadhi, all scoring less than 5 points.

Measures of resilience to climate change (Median=9; Mean=29) and responding to regulatory constraints and opportunities for sustainability (Median=14; Mean=28) appear deficient. However, enterprise investments in technical areas of sustainability and climate

resilience are promising, with relatively high scores (median=46; mean=51.7). Dhangadhi (100 points), Naumule (98 points), and Bheriganga (97 points) were notable with significant investments in this domain.

Karnali Province showed a slightly higher median score of 33, indicating relatively better sustainability practices than Sudurpashchim Province, which has a median score of 24. However, Sudurpashchim Province exhibited lower variability in performance, as indicated by its lower standard deviation (14.10) compared to Karnali Province (21.21).

Karnali Province	Sus. Score	Sudurpashchim Province	Sus. Score
Simkot Rural Municipality	68	Amargadhi Municipality	50
Bhagawatimai Rural Municipality	64	Dhangadhi Sub-metropolitan City	47
Birendranagar Municipality	62	Godawari Municipality	42

Table 17 Top 3 in sustainability and climate resilience, province-wise, 2024

Rural Municipality	Sus. Score	Municipality	Sus. Score
Simkot	68	Birendranagar	62
Bhagawatimai	64	Amargadhi	50
Bhairabi	39	Godawari	42

Table 18 Top 3 in sustainability and climate resilience, type-of-municipality-wise, 2024

3.3.8 Climate-Smart Governance

The Climate-Smart Governance sub-index evaluates how local-level units manage environmental and climate-change-related challenges. Overall, the current state of climate-smart governance falls short, with a median score of 41. Additionally, the mean score of 43 and a standard deviation of 16.74 reveal considerable variability, indicating a mix of strong and weak performers and diverse approaches to seeking climate resilience. Nonetheless, the positive skew of 0.08 suggests a slight predominance of higher scores, hinting at an overall trend towards better climate-smart governance practices.

The top-ranking Simkot (79 points) and Amargadhi (65 points) demonstrate robust governance strategies, incorporating effective climate adaptation measures and disaster response plans. Conversely, lower-scoring areas such as Barahatal (10 points), Chure (21 points), and Bhairabi (25 points) lag in aspects such as climate budget coding and the Local Adaptation Plan of Action (LAPA) preparation and implementation.
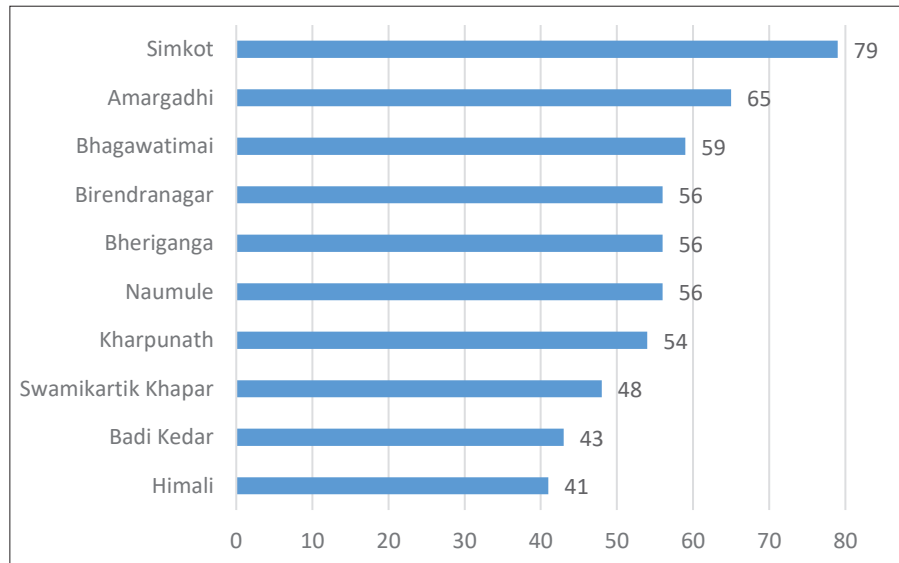
Figure 16 Top 10 in climate-smart governance, 2024

The volume of municipal investment in climate adaptation measures is deficient across the 19 local-level units (Median=10; Mean=15). Only four out of 19 local-level units, Kharpunath, Naumule, Bheriganga and Amargadhi, had fully implemented the climate budget coding, and the LAPA had been fully implemented in just a few local levels - Kharpunath, Simkot and Dullu. However, the disaster response plan and budget allocation were implemented at most local levels besides Kharpunath, Bhairabi, Barahatal, Budhinanda, and Chure.

The indicator measuring the responsible usage of water in each Municipality by the enterprises was also relatively low, with a median of 20, and revealed opportunities to strengthen water management practices and mitigate water-related risks.

Comparing provinces, Karnali Province boasts a higher median score (56) than Sudurpashchim Province (39), indicating better climate-smart governance practices. However, Sudurpashchim Province exhibits less variability (SD=11.86) than Karnali (SD=20.70), suggesting a more consistent approach to climate resilience across its Municipalities.

Karnali Province	Cli.Smrt.Gov	Sudurpashchim Province	Cli.Smrt.Gov.
Simkot Rural Municipality	79	Amargadhi Municipality	65
Bhagawatimai Rural Municipality	59	Swamikartik Khapar Rural Municipality	48
Naumule Rural Municipality	56	Badi Kedar Rural Municipality	43

Table 19 Top 3 in climate-smart governance, province-wise, 2024

Rural Municipality	Cli.Smrt.Gov	Municipality	Cli.Smrt.Gov.
Simkot Rural Municipality	79	Amargadhi Municipality	65
Bhagawatimai Rural Municipality	59	Birendranagar	56
Naumule Rural Municipality	56	Bheriganga	56

Table 20 Top 3 in climate-smart governance, type-of-municipality-wise, 2024

3.4 Comparison of BCI results 2021, 2022 and 2024

The 2024 edition of the business climate survey represented a scaled-down effort in terms of geographical coverage and sample size compared to the 2022 survey. In the recent survey, data collection was confined to two provinces, encompassing 19 local-level units and capturing responses from 2,472 enterprises. This contrasts with the broader scope of the 2022 survey, which spanned three provinces, included 42 local-level units, and garnered insights from 5,690 enterprises. In 2022, seven municipalities from the Lumbini province that were previously supported by GRAPE/LPED participated, along with additional municipalities cooperating with another GIZ project (CDSG) and a USAID project.

In the previous iteration, the survey captured data from five Sub-metropolises, 21 Municipalities, and 16 Rural Municipalities. However, the recent survey's scope was more limited, focusing solely on one Sub-metropolitan city, six Municipalities, and 12 Rural Municipalities.

BCI Results	2021	2022	2024
Survey area	11 local level units	42 local level units	19 local level units
Sample size	1,788 enterprises	5,690 enterprises	2,472 enterprises
Cumulative BCI (Median)	52	40	39
Local Economic Performance (Median value)	39	29	29
Local Economic Governance (Median value)	49	42	46
Infrastructure(Median value)	49	31	43
Business Sentiments (Median value)	44	58	59
Business Dynamics (Median value)	52	44	50
Business Services (Median value)	70	33	20
Sustainability and Climate Resilience (Median value)	51	30	31
Climate-Smart Governance (Median Value)	Not measured	47	41

Table 21 BCI Comparison 2021, 2022, and 2024

The cumulative BCI (median value) for 2024 was 1 point less than in 2022. The BCI index median in 2022 was 40, and the BCI median value for 2024 was 39. Perhaps this is more indicative of the sample size and geographic coverage than the actual decrease in performance. In the first edition of the BCS, 11 local-level units were covered from three provinces, of which 5 were Sub-metropolises, and 6 Municipalities, the median value was 52. Considering the varying scope of the BCS, a regular year comparison of median values would not yield an apt analysis. A normal distribution graph elucidates the dataset distribution for all three survey applications.
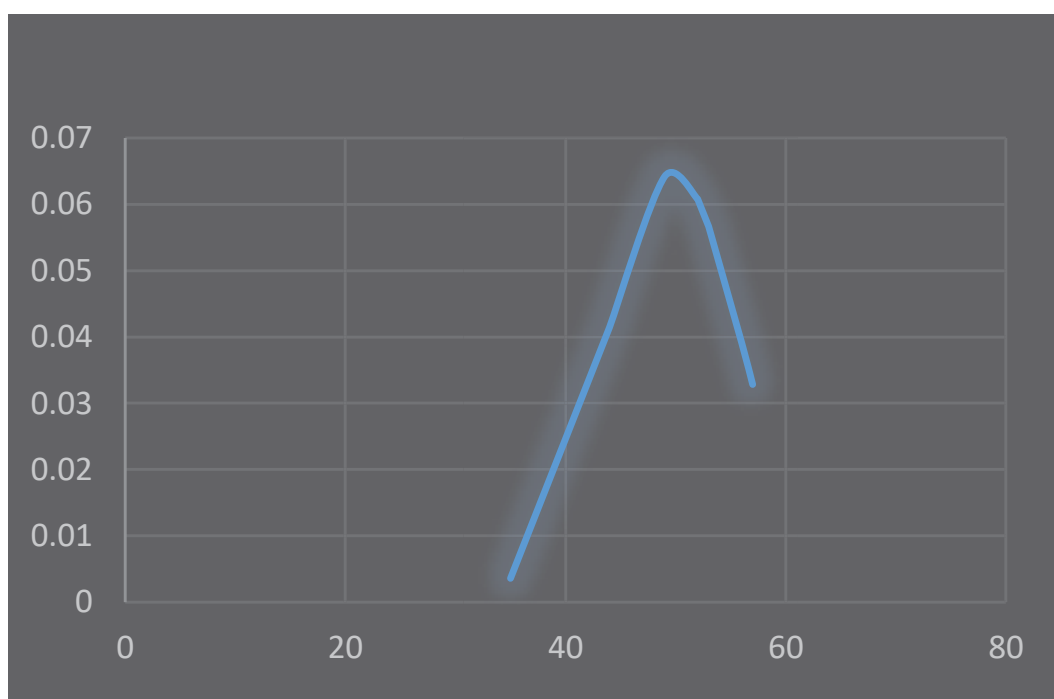

Figure 17 BCI Normal distribution chart 2021

The dataset of 11 local-level units for BCI 2021 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 2021, 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 2022 was positively skewed (0.21) (Fig.18), implying there were a few high-performing outliers in the dataset, for instance, the BCI for Birendranagar was 19 points higher than the median of 40 points. The standard deviation for both years was similar at 6.46 for 2021 and 6.41 for 2022, suggesting that the dataset for both years was fairly dispersed.
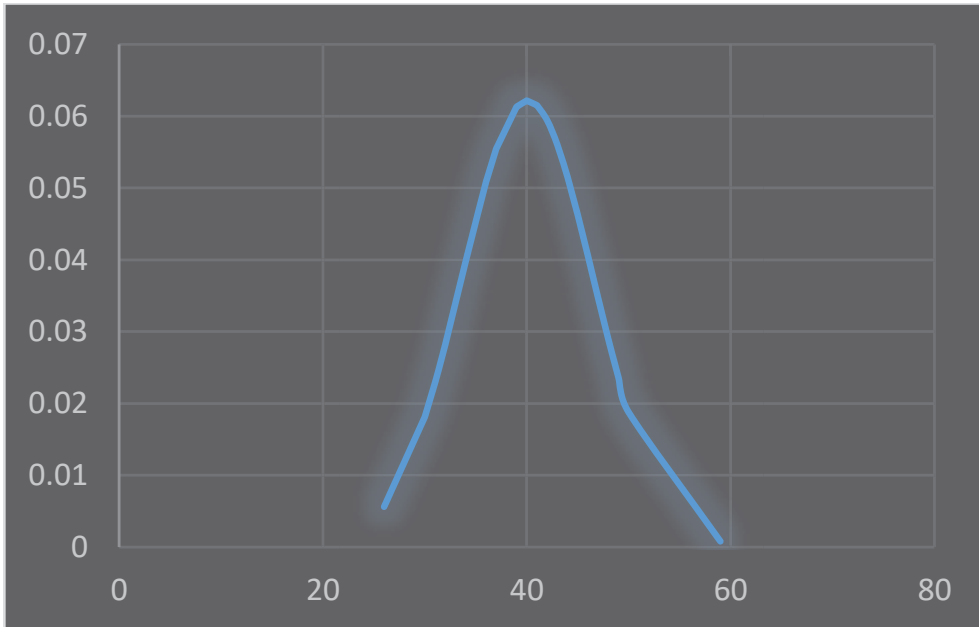
Figure 18 BCI Normal distribution chart 2022

The distribution for BCI 2024 (Fig.19) is positively skewed at 0.67, with a mean value of 41 and a standard deviation of 9.41. This suggests a distribution where most values are around the mean, with some higher scores pulling the average upward, reflecting a few high-performing outliers among the observations. For example, the score for Simkot (60) is 21 points higher than the median value for the dataset (39).
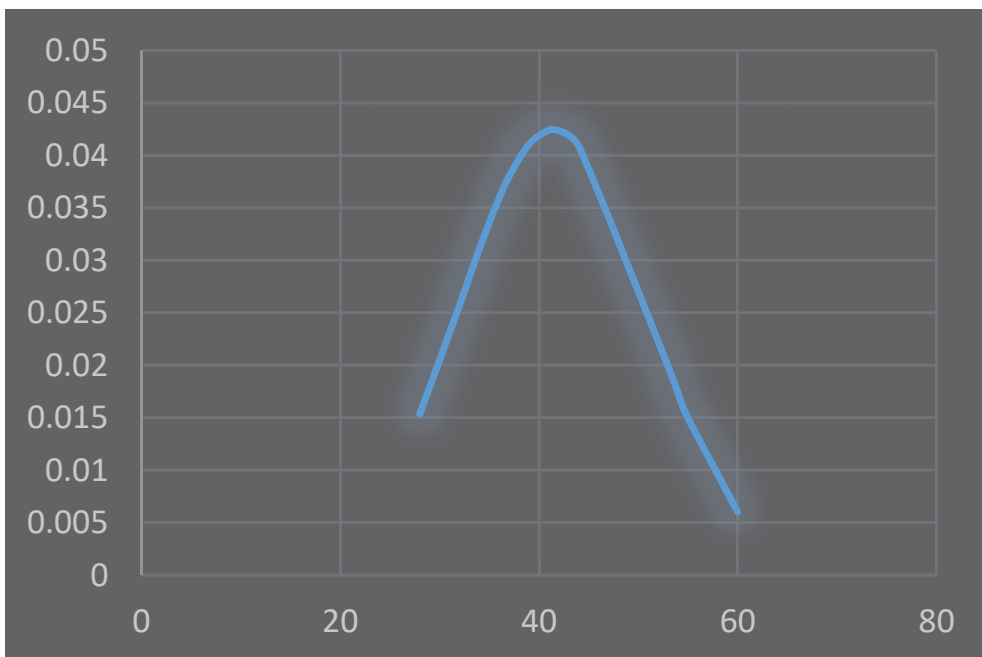

Figure 19 BCI Normal distribution chart 2024

Chapter IV:
Overview of Specific Survey Results

4.1 COVID-19 Impact

According to the World Health Organization (WHO), the COVID-19 pandemic was declared a public health emergency of international concern, spanning three years, three months, and five days from 30 January 2020, to 5 May 2023.[7] Among the 2,472 enterprises surveyed, 19 per cent had been operational for less than three years, indicating that a significant number of them were established during the COVID-19 emergency period.

Previous editions of the BCS revealed that 94 per cent of enterprises in 2021 (n=1,788) and 58 per cent in 2022 (n=5,690) ceased operations due to COVID-19-related reasons. For the current edition of the survey conducted from January to April 2024, the data collection did not include reasons for business closures attributed to COVID-19. Nonetheless, the pandemic has adversely impacted both global and local economies. The survey continued to document its effects on various aspects of the local economy.

4.1.2 The economic impact of COVID-19

A. Impact on revenue

The impact of COVID-19 on enterprises' revenue has remained relatively consistent since the last BCS conducted in 2022. While the percentage of enterprises reporting no impact of COVID-19 on their revenue, decreasing from 15 per cent in 2022 to 9 per cent in 2024, a notable proportion (5 per cent) indicated uncertainty about the impact on their revenue.

Enterprises experiencing higher levels of revenue impact (-75 per cent to -100 per cent) remained steady at 17 per cent, compared to 16 per cent in 2022. Similarly, those reporting mid-level impacts on revenue (-50 per cent to <-75 per cent) increased slightly to 27 per cent, up from 25 per cent in 2022.

For this edition of the BCS, Budhinanda (48 per cent), Aalital (42 per cent), Godawari (39 per cent), and Bhagawatimai (39 per cent) reported the highest levels of revenue impact due to COVID-19. Interestingly, in Birendranagar, while 33 per cent of enterprises reported high levels of revenue impact, 21 per cent indicated no impact at all. Simkot had the highest proportion of enterprises reporting no impact of COVID-19 on their revenue, at 26 per cent.

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[7]   https://www.who.int/emergencies/diseases/novel-coronavirus-2019/interactive-timeline
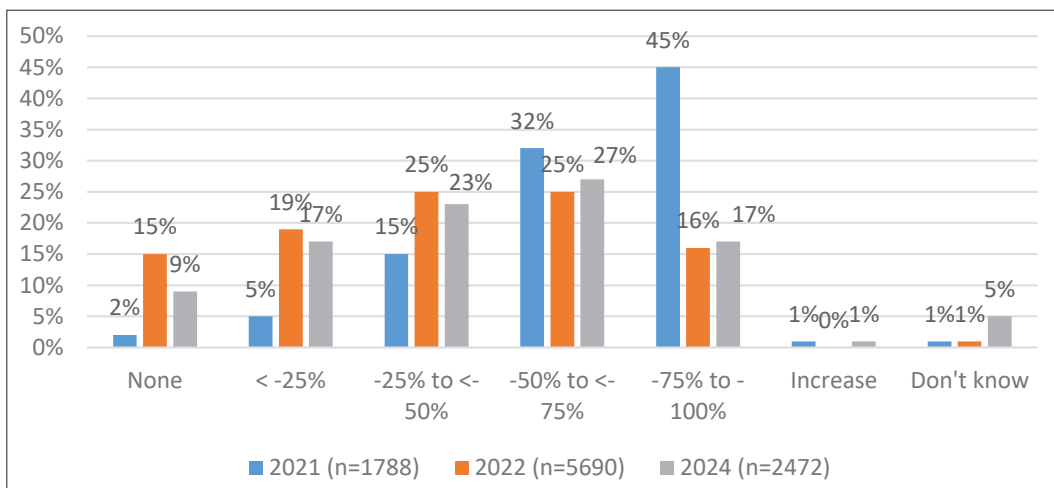
Figure 20 Yearly comparison of COVID 19 impact on revenue

B. Impact on sales and orders

The impact of COVID-19 on enterprises' sales or orders aligns with the revenue data, reflecting a similar trend. Since 2022, there has been a slight uptick in the varying levels of impact on sales or orders. While fewer enterprises (10 per cent) reported no impact on their sales or orders compared to 20 per cent in 2022, there was a slight increase in those experiencing significant declines. Enterprises facing more than a 75 per cent decline rose slightly from 14 per cent in 2022 to 16 per cent in 2024, and those experiencing a decline between 50 and 75 per cent increased by 6 per cent.
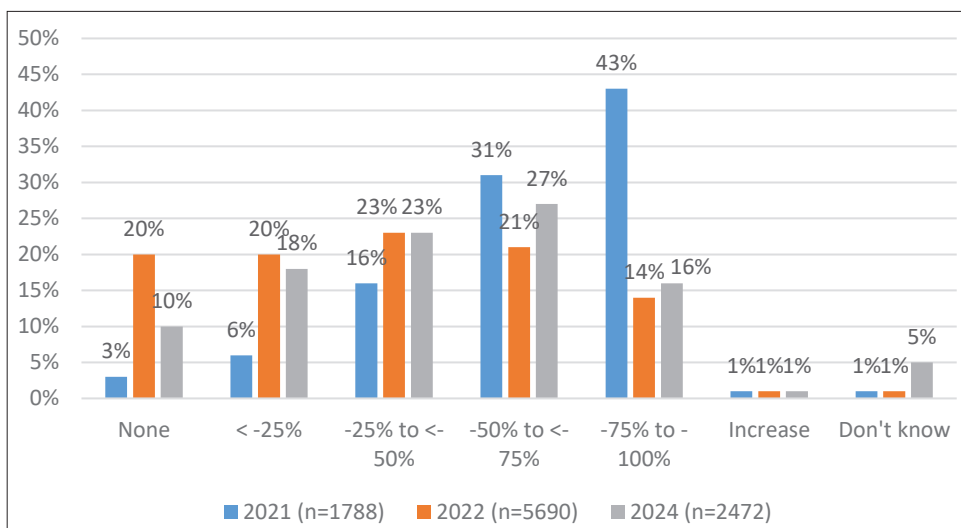

Figure 21 Yearly comparison of COVID 19 impact on sales and orders

C. Impact on the workforce

The data from the latest iteration of the BCS underscores a notable impact on enterprises' workforces due to COVID-19. Compared to 2022, when 58 per cent of enterprises

reported no impact, only 40 per cent indicated no change in their workforce. There's been a significant shift towards reductions: 10 per cent of enterprises reduced their workforce by over 75 per cent, a nine-percentage point increase from 2022. Additionally, 27 per cent of enterprises downsized their workforce by 25 to 75 per cent, marking a 22-percentage point surge from 2022. The data at the local level reveals that enterprises in Bhagawatimai (61 per cent), Bhairabi (60 per cent), and Naumule (59 per cent) experienced substantial reductions, with over 50 per cent reduction in their workforce.
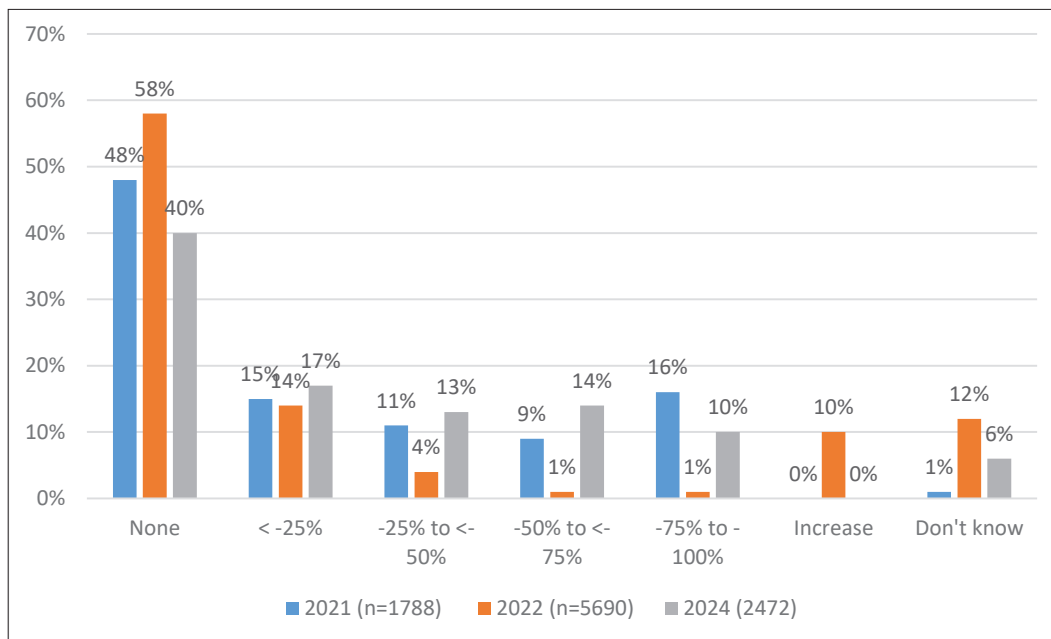

Figure 22 Yearly comparison of COVID 19 impact on enterprises' workforce

4.1.3 Enterprises' Business Outlook for 2024 in the post COVID-19 Era

A substantial portion of enterprises in Karnali and Sudurpashchim provinces remain cautious about the economic repercussions of COVID-19 for 2024. About 51 per cent of the enterprises anticipate a 50 per cent decline in both their revenues and sales or orders. Additionally, enterprises have widespread concerns regarding potential shortages in supplies, cash flow, workers, and depressed market demand for the same year. Notably, 18 per cent of the surveyed enterprises view a cash flow shortage as a significant concern, while 17 per cent anticipate depressed market demand (n=2,472).

At the local level, these challenges appear particularly pronounced in Bhagawatimai Rural Municipality, where over 70 per cent of enterprises (n=122) foresee major shortages across supplies, cash flow, workers, and market demand in 2024. Similarly, more than 70 per cent of enterprises (n=161) in Godawari Municipality anticipate substantial shortages in cash flow and depressed market demand.
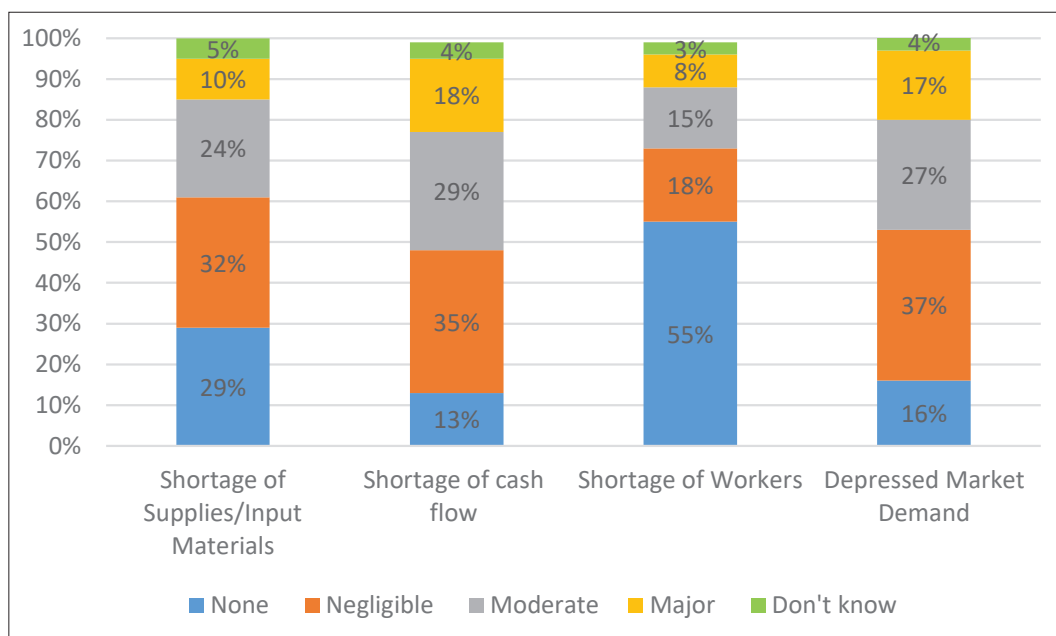
Figure 23 Anticipated business constraints in post-COVID era for 2024

4.1.4 Strategies for post COVID-19 situation

The data indicates a notable shift towards implementing strategies to address the challenges posed by COVID-19 since the previous BCS in 2022. While the 2022 survey revealed that 66 per cent of enterprises did not employ any strategies to tackle the situation, this proportion has significantly decreased to 26 per cent in the current iteration. This shift may be attributed to the heightened impact on revenue, sales, and various constraints enterprises face, as observed in this survey. These strategies may also overlap with responses to the prevailing economic climate over the past two years. Moreover, the enterprises may have had more time to develop strategies in response to the situation.

Teleworking or remote work has emerged as the most preferred strategy (40 per cent) in response to the economic challenges posed by the post-COVID-19 era. Product innovation, including customization or diversification, is also a strategy being adopted or considered by enterprises, with 38 per cent of respondents expressing interest in this approach. Despite the increased impact on the workforce observed in this survey, permanent downsizing (4 per cent) or temporary layoffs (9 per cent) are some of the least preferred strategies.
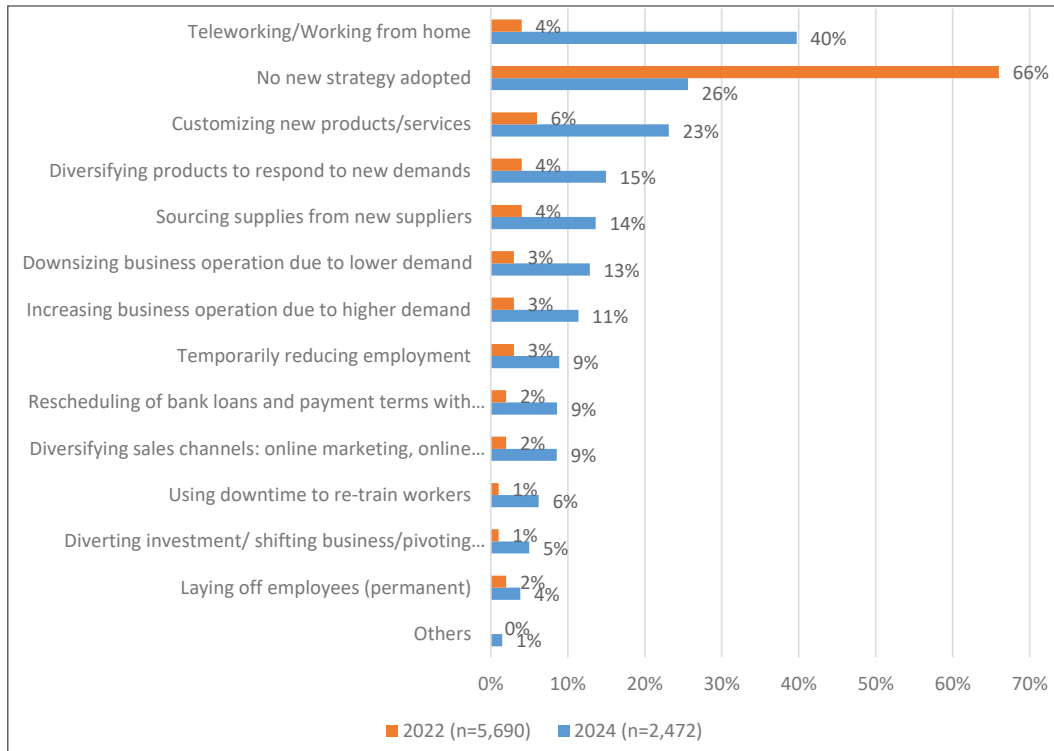
Figure 24 Preferred strategies by enterprises in post-COVID 19 situation

4.1.5 Support needs in post COVID-19 situation

The survey presented a range of options to the participants aimed at helping them navigate the challenges of the post-COVID-19 landscape. Additionally, they were asked to rank the importance of each option. Among these, enterprises identified advice and training for maintaining a safe and healthy operational environment as their top priority in post-COVID-19 business support needs. Similarly, advisory services were deemed crucial for cost reduction, exploring alternative supply channels, and diversifying products and sales channels.

Despite teleworking or remote work emerging as the preferred strategy for coping with the post-COVID-19 situation, a notable percentage of enterprises expressed no need for online worker training (43 per cent) or online business management training (30 per cent). This suggests a potential gap in perception regarding the relevance or effectiveness of such training in addressing their specific business needs in the current context.
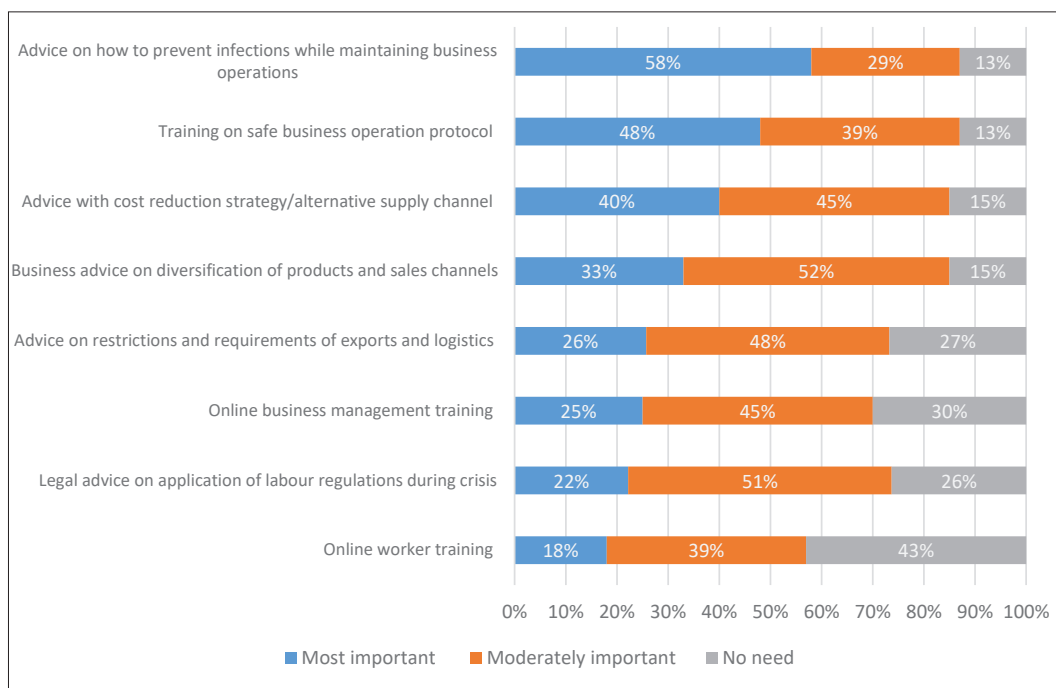
Figure 25 Business support needs in post-COVID-19 situation

4.2 Major Business Problems

The survey respondents were presented with a range of typical business problems and asked to confirm their relevance, ranking them based on severity levels. The most pressing issues identified by the enterprises were related to business practices, accessibility, and local-level taxes (see Figure 26).

Most enterprises (68 per cent) identified business competition, including monopoly and unfair business practices, as a prevalent issue in their locality. This concern was widespread across all local-level units, although the severity varied. Notably, all enterprises in Bheriganga (n=152) considered it to be a problem, while in Simkot and Kharpunath, only 18 per cent (n=108) and 15 per cent (n=130) of enterprises, respectively, shared this perspective.
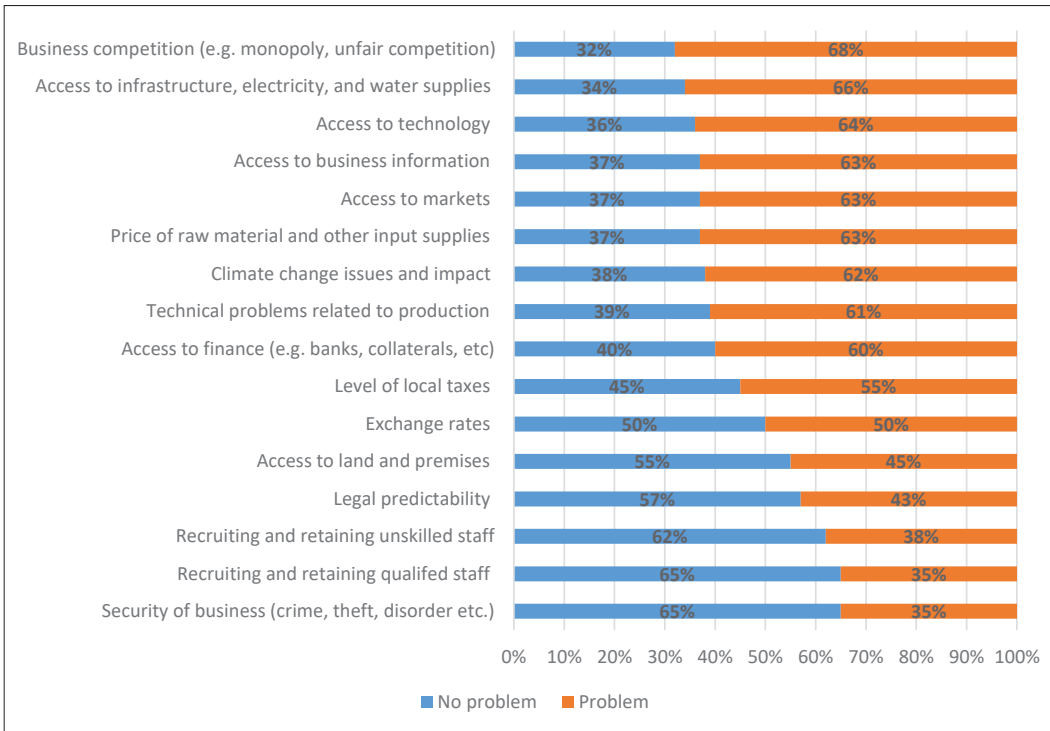
Figure 26 Business problems faced by enterprises 2024

Similarly, challenges related to accessibility to infrastructure, technology, business information, and markets were observed across local-level units. However, the severity of these issues varied among regions.

Business competition remained a significant concern, with 22 per cent of the enterprises considering it a severe or major problem (see Figure 27). Additionally, respondents cited access to finance (17 per cent) and local taxes (15 per cent) as major or severe problems. Access to finance was particularly problematic for most enterprises in Bheriganga (92 per cent), Bhairabi (56 per cent), and Aalital (54 per cent). Similarly, the level of local taxes posed major challenges in Bheriganga (89 per cent) and Bhairabi (47 per cent).
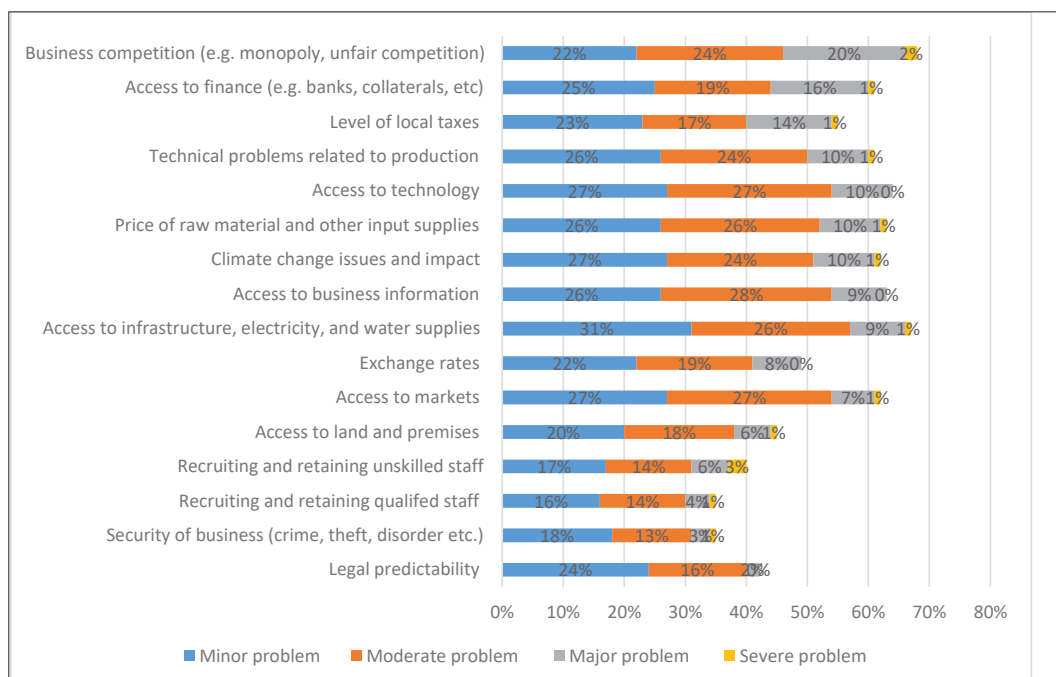
Figure 27 Severity of business problems faced by enterprises, 2024

4.3 Local Economic Governance

4.3.1 Severity of problems in dealing with the government

Nearly 60 per cent of enterprises reported challenges in dealing with the government, particularly concerning the planning and budgeting process and regulation related to the environment and climate change. Specifically, 11 per cent of enterprises identified planning and budgeting processes to address climate change issues and local crises as a 'severe' or 'major problem'. This issue was notably pronounced in Bhairabi, where 79 per cent of the enterprises (n=126) considered it a 'major problem'; in Naumule, it was a concern for 34 per cent of enterprises (n=119).

Access to justice for property rights and conflict resolution was problematic for 55 per cent of enterprises, with 8 per cent considering it a 'major problem'. Notably, 83 per cent of enterprises in Bhairabi (n=126) identified access to justice as a major problem, while 94 per cent in Bheriganga (n=152) considered it a 'moderate problem'.

Tax regulation posed challenges for 11 per cent of surveyed enterprises, with Bheriganga (82 per cent) and Bhairabi (45 per cent) being the most affected. Additionally, 5 per cent of surveyed enterprises (n = 2,472) viewed political instability as a severe problem, with Amargadhi (49 per cent; n=150) and Birendranagar (10 per cent; n=166) experiencing the highest impact.
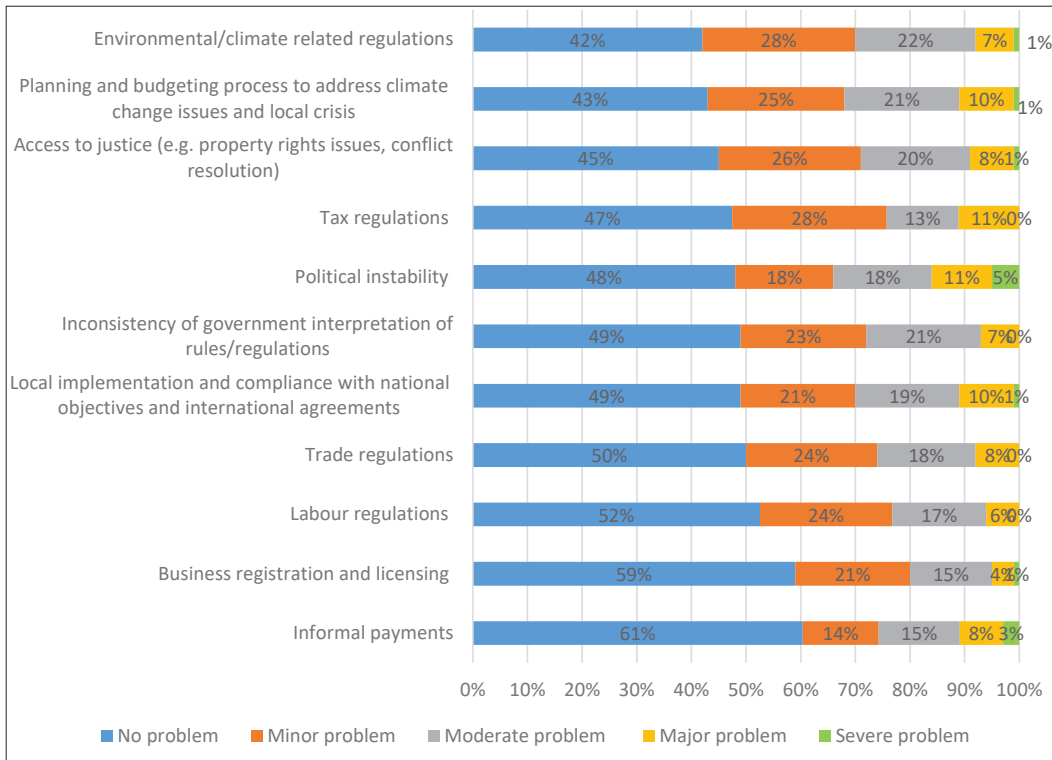
Figure 28 Severity of the problems in dealing with the government, 2024

4.3.2 Usage and quality of government support services

Only 8 per cent of the surveyed enterprises (n=2,472) regarded their local government as 'highly supportive' of the business sector. Notably, 52 per cent of enterprises in Dhangadhi (n=166) and 27 per cent in Kharpunath (n=108) acknowledged their local government's highly supportive stance. Conversely, 33 per cent of enterprises expressed feelings of unsupportive local government, with the highest dissatisfaction rates observed in Bheriganga (91 per cent), Dullu (87 per cent), Jorayal (76 per cent), Barahatal (76 per cent), and Amargadhi (75 per cent).
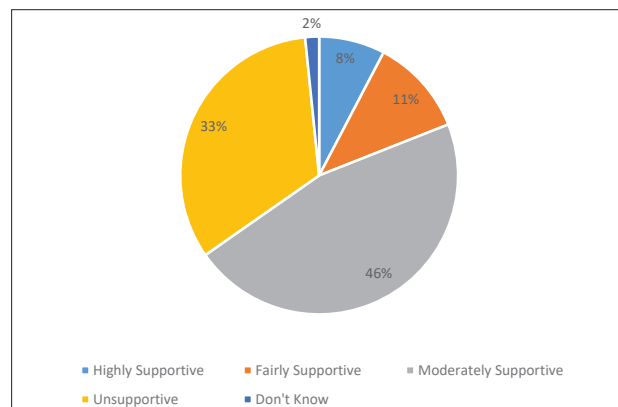

Figure 29 Perceived local government support for the business sector 2024, (n=2,472)

The survey delved into the utilization and perceived quality of government support services among respondents who acknowledged government support for the business sector. Among the services offered, business registration/licensing emerged as the most utilized, with 64 per cent of enterprises (n=1,654) availing themselves of it. Impressively, 95 per cent of these enterprises rated the service quality as good or very good. Notably, in Dhangadhi, 90 per cent of utilizing enterprises (n=89) deemed the service as very good.

However, beyond business registration/licensing, the uptake of other services could have been higher. Only 23 per cent of enterprises had utilized support services for female-owned enterprises, though Budhinanda stood out with 83 per cent utilization despite having only 19 per cent of female-owned enterprises. Nevertheless, 96 per cent of users (n=326) rated the quality of these services as good or very good.
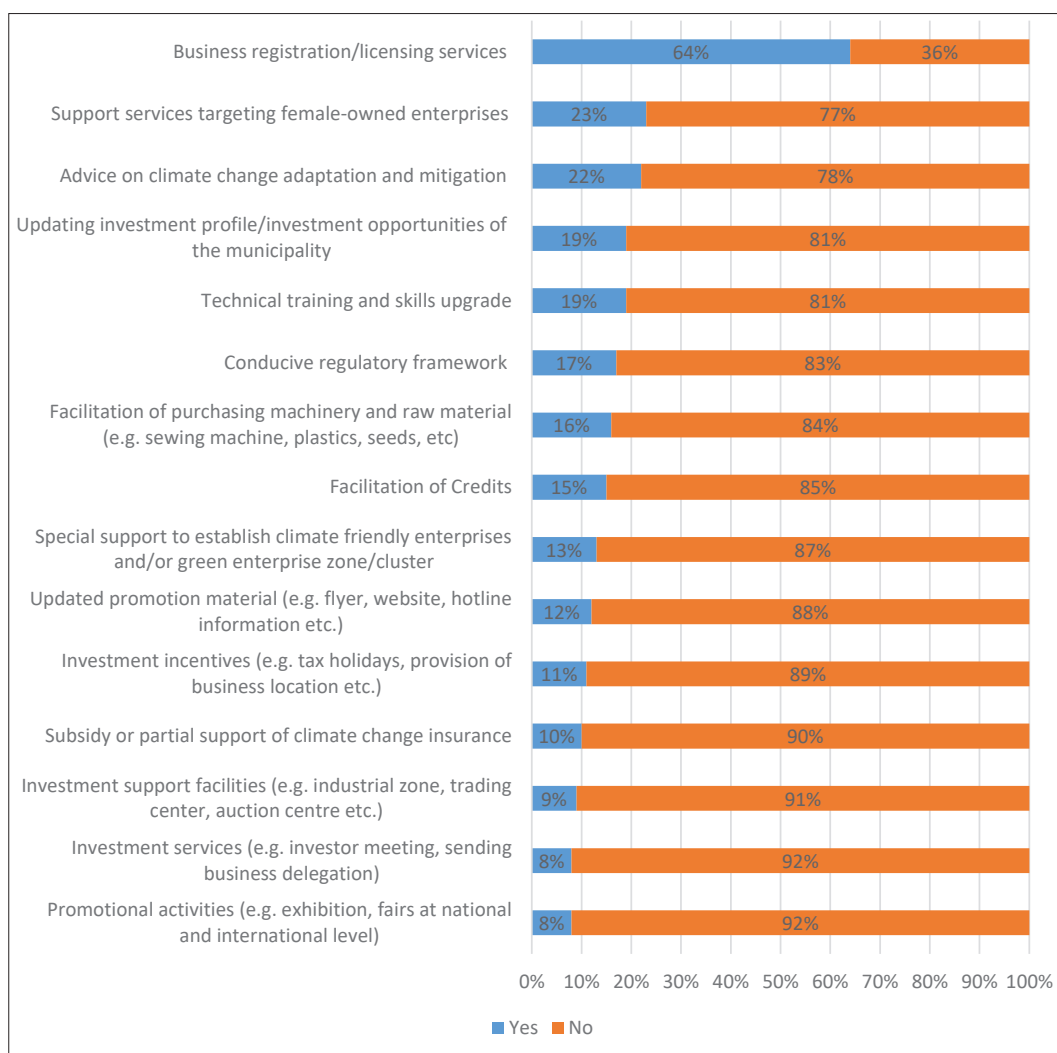

Figure 30 Usage of government support services, 2024

Moreover, uptake of climate change-related services, including advice, support, and subsidies for climate adaptation and mitigation, as well as investment support facilities, remained low, with respondents also reporting poor service quality in these areas. Interestingly, though the usage rate for credit facilitation, promotional activities, and subsidies was low, users of these services regarded their quality as very good.
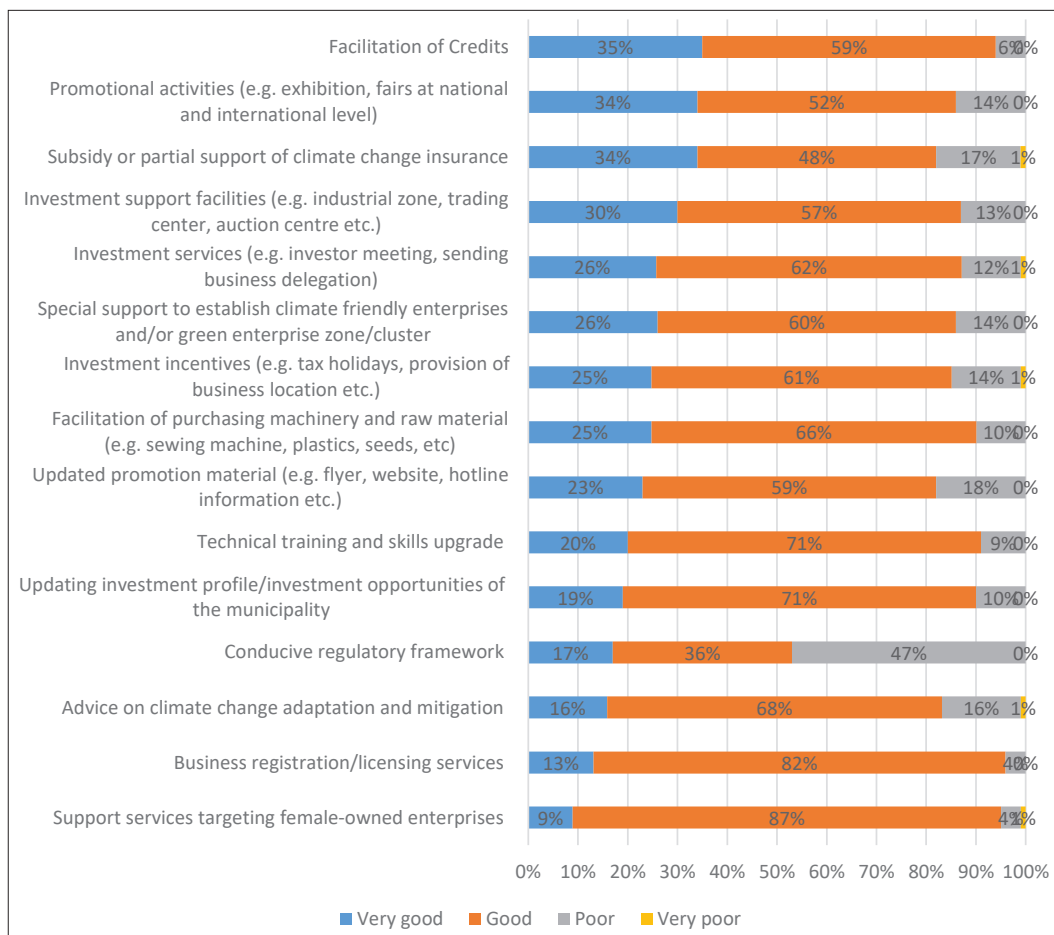

Figure 31 Quality of government support services, 2024

4.4 Infrastructure

Most enterprises (72 per cent; n=2,472) identified ineffective solid waste management as a pressing issue in their local-level units. Among these, 17 per cent considered it a 'major problem'. This problem was particularly acute in Naumule (11 per cent; n=119) and Amargadhi (10 per cent; n=150), where it was deemed a severe problem. Similarly, 83 per cent of enterprises in Bhairabi (n=126) considered it a 'major problem' in their locality. However, data suggests that Dhangadhi and Godawari excel in effective and qualitative solid waste management. In these areas, 85 per cent of enterprises in Dhangadhi (n=166) and 80 per cent in Godawari (n=161) did not perceive it as a problem in their local-level units.

Enterprises also emphasized the significance of basic infrastructure, including water supply, sewage systems, and electricity/power supply. A notable 53 per cent of enterprises expressed dissatisfaction with the planning and provision of basic municipal infrastructure in their local-level units, perceiving it as inadequate and inefficient. Additionally, the same percentage of enterprises felt that their basic municipal infrastructure lacked resilience to climatic impacts.

The state of irrigation facilities continued to pose a significant challenge for numerous enterprises, with 55 per cent highlighting it as a concern. Among these, 5 per cent considered it a severe problem. Interestingly, despite only 19 per cent of surveyed enterprises in the agricultural sector in Budhinanda, 54 per cent of businesses in this area cited the condition of irrigation facilities as severely affecting their operations. Similarly, 10 per cent of the enterprises in Bhagawatimai considered it a severe problem; 42 per cent of the enterprises in Bhagawatimai are in the agricultural sector.
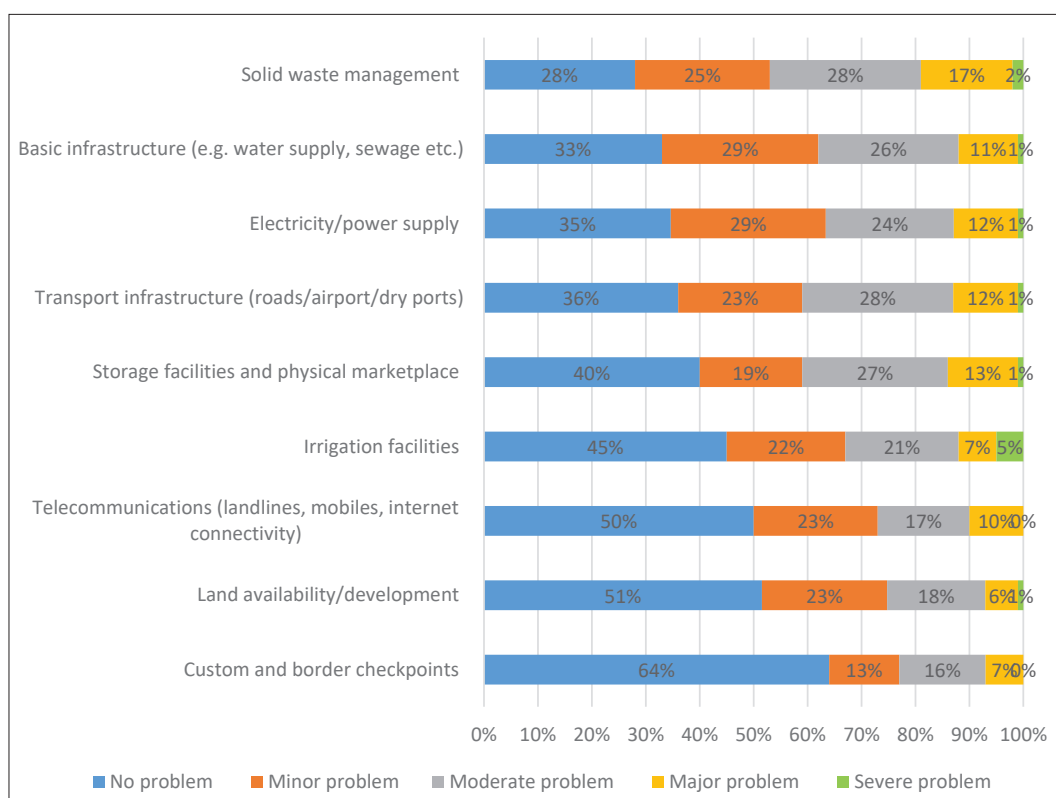

Figure 32 Perceived infrastructure problems 2024

4.5 Business Dynamism

4.5.1 Sources of finance

Over the years, own capital, comprising retained profits and inheritance, has consistently stood out as enterprises' primary source of finance. Over the past three years, a significant majority, 95 per cent of enterprises, have relied either partially or fully on their own capital

to fund their operations. Following closely behind is financial assistance from families, relatives, or friends, which has emerged as the second most accessible and preferred source of finance for enterprises, utilized by 20 per cent of them. Cooperative loans, commercial bank loans, and microfinance institution loans also feature prominently, with 19 per cent, 18 per cent, and 11 per cent of enterprises utilising these avenues for financial support. Additionally, a smaller but notable proportion of enterprises, 6 per cent, have accessed loans from development banks. Furthermore, subsidies from Municipalities and development projects were listed as a source of finance by 43 enterprises, reflecting the diverse array of financial resources tapped into by businesses.

Nevertheless, only 13 per cent of the enterprises (n=2,472) had invested in their company either for expansion, buying tools or machinery, adding employment etc.
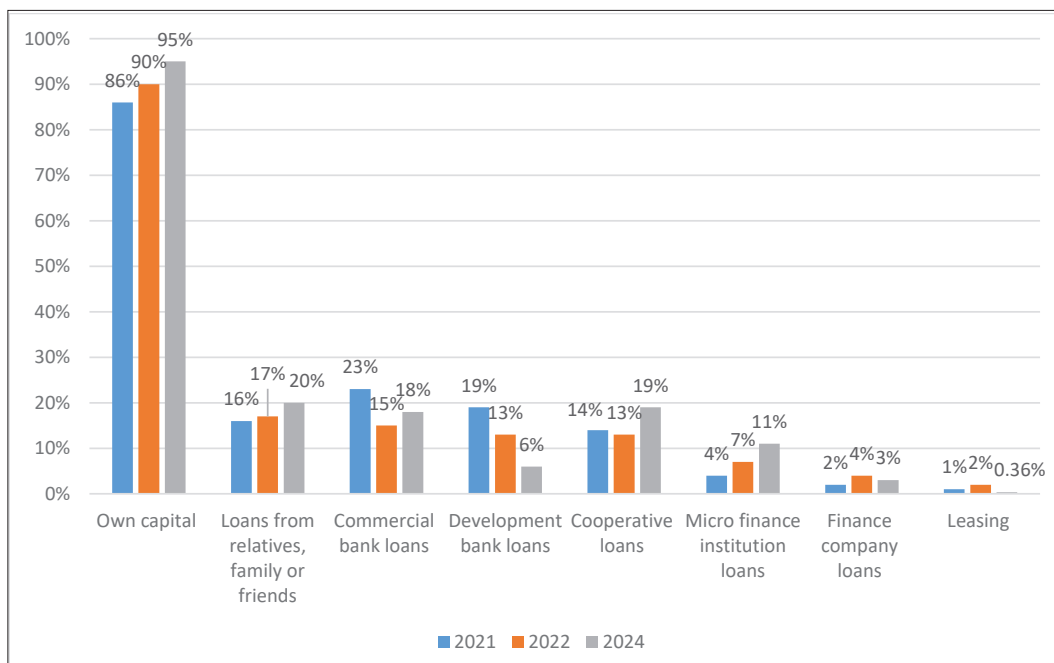

Figure 33 Yearly comparison of sources of finance for enterprises 2024

4.5.2 Need for finance and obtaining loans

At the time of the survey, 72 per cent of the enterprises (n=2,472) reported needing additional finance. Of these, 47 per cent estimated their additional investment needed to be less than one million, while 24 percent projected a requirement between one and ten million. Notably, 54 percent of enterprises seeking additional finance intend to use it for business expansion and modernization.
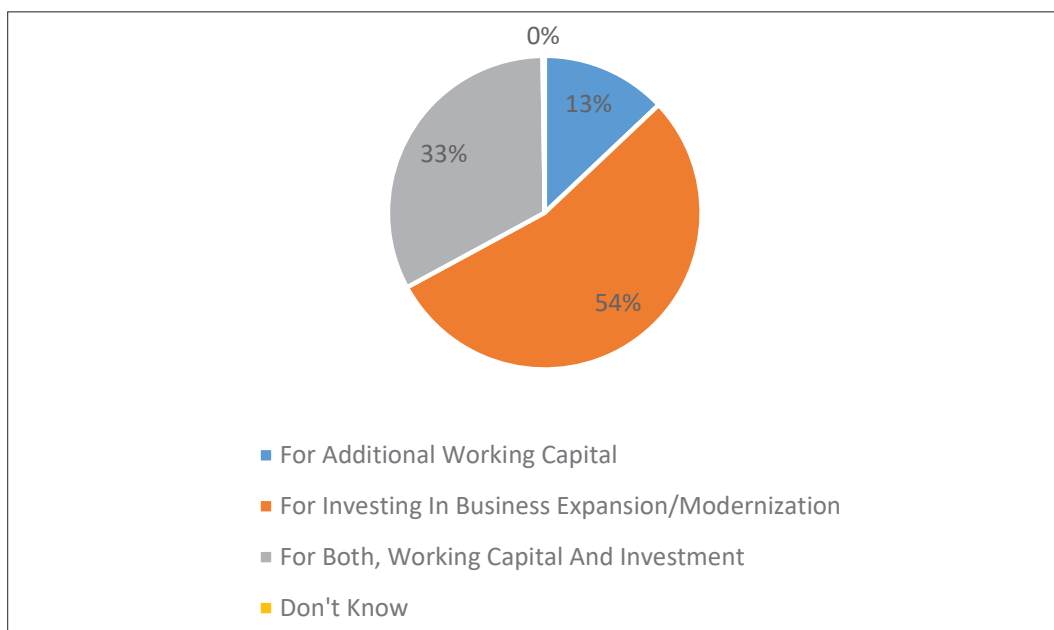
Figure 34 Intended use of additional finance 2024

Regarding their plans to apply for credit, most (79 per cent) intended to seek funds from commercial and development banks, while smaller proportions aimed to obtain financing from savings and credit cooperatives (9 per cent), microfinance institutions (4 per cent), and money lenders (2 per cent). This distribution highlights the enterprises' strong preference for formal financial institutions, reflecting trust and perceived resource reliability.

4.5.3 Investment attractiveness of local level units

The survey identified key locational factors influencing investment attractiveness and asked enterprises to evaluate them in their locality. Additionally, enterprises rated the quality of these locational factors.

Community support around their site was found to be the most attractive feature for investment by 49 per cent of enterprises. This perception was particularly high in Godawari (94 per cent), Aalital (93 per cent) and Bheriganga (91 per cent). Overall, the quality of community support was considered 'very good' by 12 per cent and 'good' by 85 per cent of enterprises across nineteen local-level units. However, only 3 per cent of enterprises in Bhairabi and Swamikartik Khapar, and 5 per cent in Budhinanda, found community support attractive for investment.
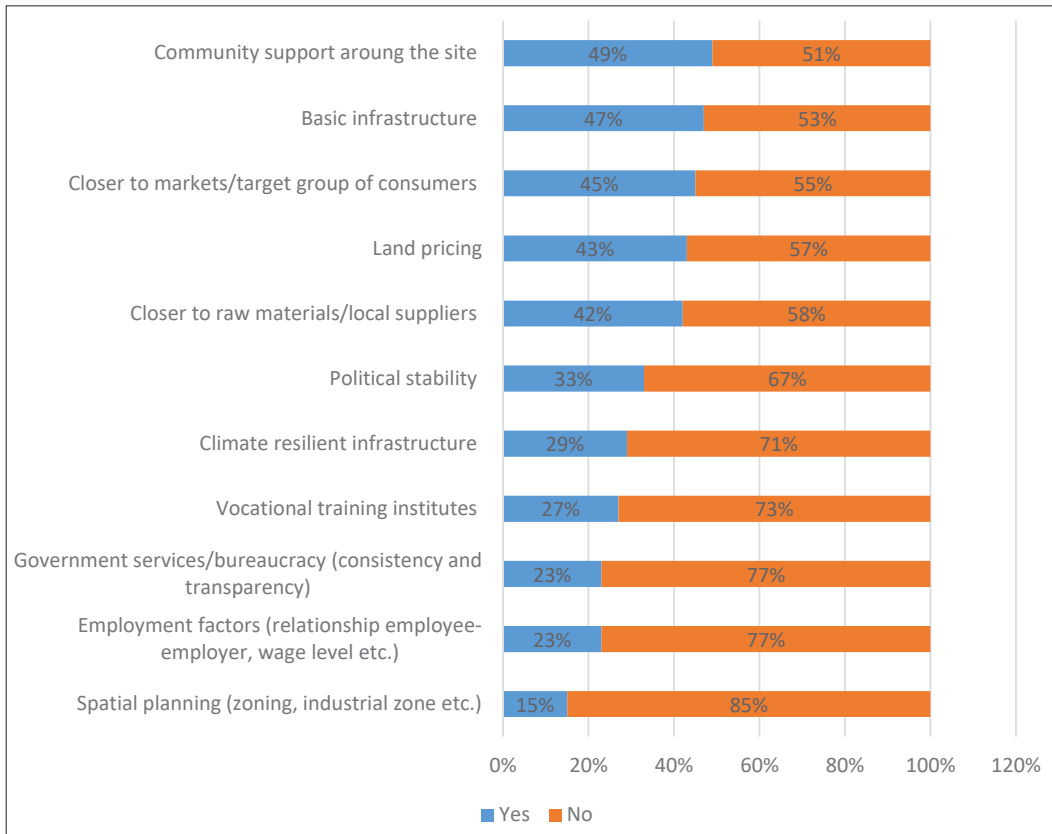
Figure 35 Availability of locational factors affecting investment attractiveness

47 per cent of enterprises saw basic infrastructure in their respective localities as a positive investment factor, while 53 percent did not find it attractive. This suggests that over half of the enterprises face challenges with infrastructure, such as water supply, sewage systems, and electricity. The perception of the availability of basic infrastructure was notably high in Amargadhi (95 per cent), Godawari (88 per cent), and Bheriganga (86 per cent). Where basic infrastructure was deemed attractive, 8 per cent rated its quality as very good and 76 per cent as good.

Overall, more than half of the surveyed enterprises denied the availability and quality of other locational factors for investment. The data indicates that high land costs, logistical challenges in sourcing inputs, political instability, a lack of climate-resilient infrastructure, insufficient vocational training institutions, and dissatisfaction with government efficiency and transparency are major issues that local-level units must address to enhance investment attractiveness in their localities.
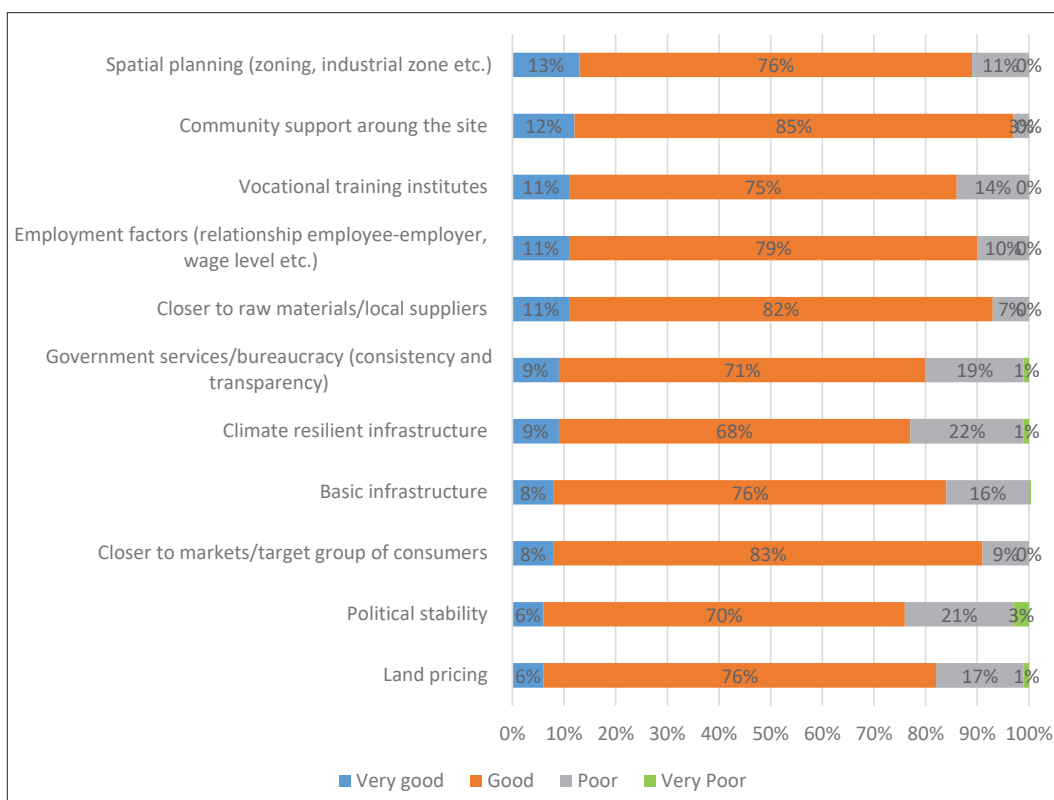
Figure 36 Quality of location factors influencing investment 2024

4.6 Business Services

4.6.1 Accessibility and quality of business support services

The data on the local availability of various business services reveals significant disparities in accessibility and quality across different service categories. Business registration, banking services, and mobile phone services stood out with over 70 per cent accessibility. The quality of these services was generally well regarded by enterprises, though some exceptions were noted. In Barahatal, 48 per cent of enterprises rated business registration services as poor, and in Bhagawatimai, 30 per cent expressed similar dissatisfaction. Banking services, while mostly rated positively, were considered poor in Badi Kedar (71 per cent), Bhagawatimai (50 per cent), and Chure (48 per cent). Banking services targeting women entrepreneurs had lower accessibility at 32 per cent.
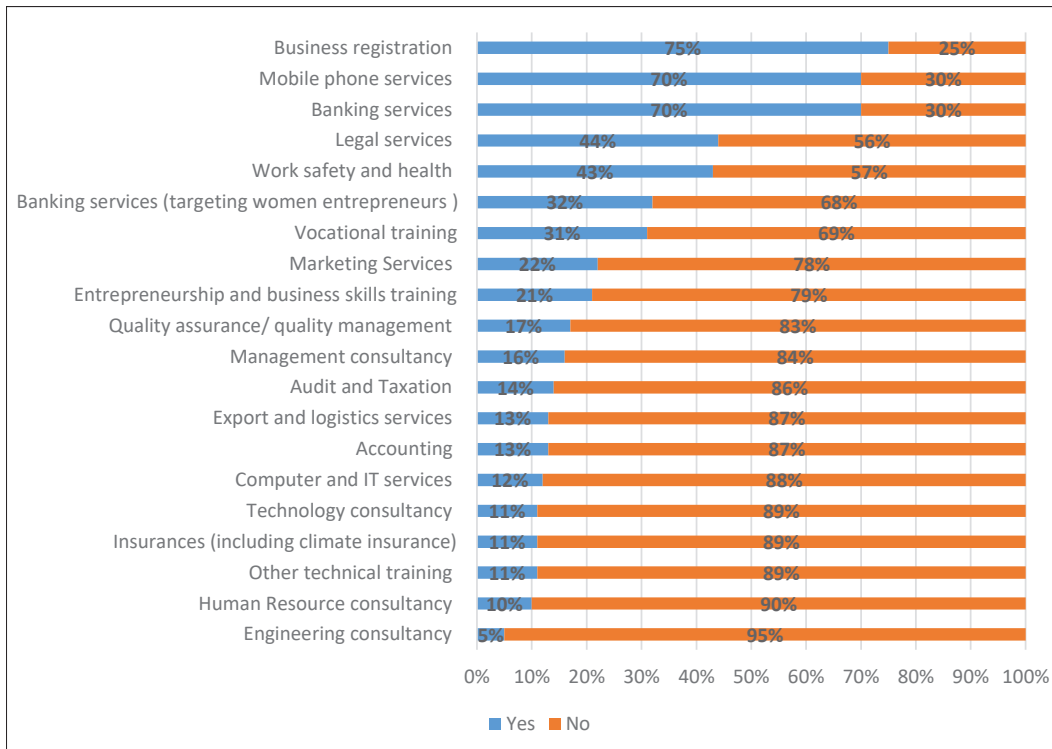
Figure 37 Availability of business services 2024

Legal services and work safety and health services were locally accessible to 44 per cent and 43 per cent of enterprises, respectively. Despite their moderate availability, there were significant gaps, such as in Swamikartik Khapar (6 per cent) and Kharpunath (10 per cent) for legal services. Where available, the quality of legal services was highly rated, particularly in Dhangadhi, where 82 per cent of the respondents considered it very good. Vocational training institutions were available locally to 31 per cent of enterprises, and in areas where they were present, 89 per cent of the respondents appreciated their quality.

Critical business support services, including engineering consultancy, human resources consultancy, technical training, and various financial and technology-related services, were notably lacking, with availability below 30 per cent. However, where these services were available, their quality was often highly regarded. For example, 45 per cent of respondents rated the available engineering consultancy services as very good. Conversely, insurance services, including climate insurance, were accessible to only 11 per cent of enterprises, and 22 per cent of those rated the quality as poor.

The overall landscape indicates a substantial need to improve the availability of essential business services to foster enterprise growth and stimulate business dynamism.
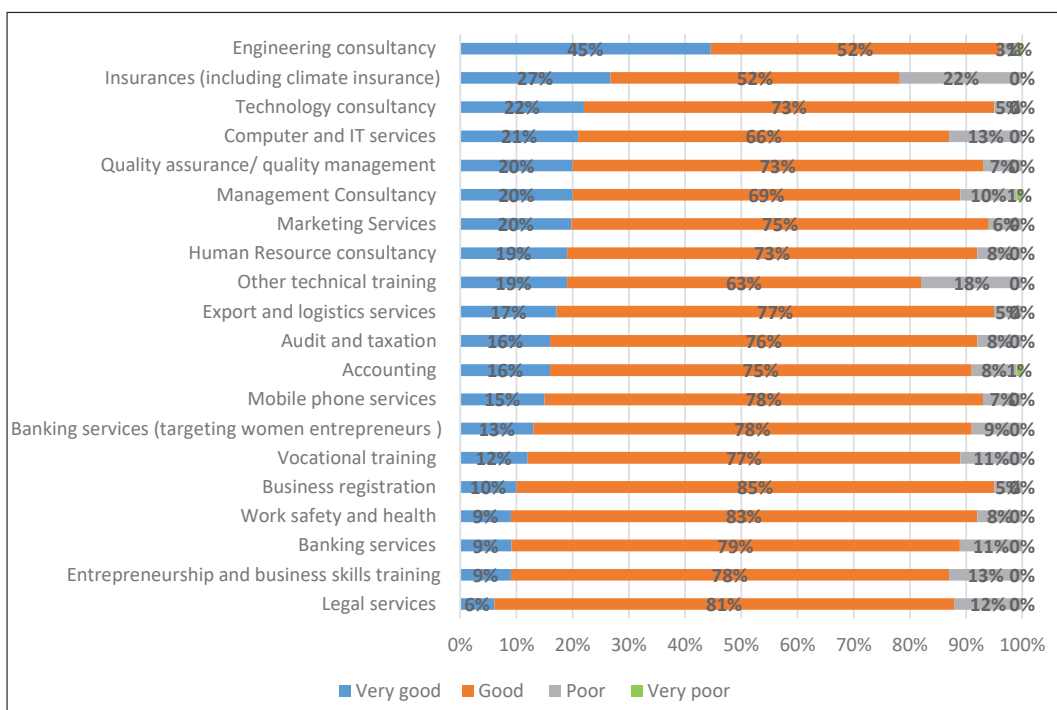
Figure 38 Quality of business development services 2024

4.6.2 Quality Infrastructure services

Quality infrastructure refers to the institutional framework and documented quality requirements necessary to ensure the quality of products and services. The quality infrastructure (QI) system encompasses metrology, standardization, accreditation, and conformity assessment, including inspection, testing, and system and product certification. In many countries, QI services are typically centralized and primarily available in major economic centres or capital cities. Nepal follows a similar pattern, with most quality infrastructure services being provided in Kathmandu or sourced from neighbouring India.

Among the surveyed local-level units, the accessibility of QI services to enterprises was notably low, with only 12 per cent having access. Exceptions were found in Godawari (81 per cent), Dhangadhi (39 per cent), and Amargadhi (25 per cent). In many other local-level units, the availability was as low as 10 per cent, and no services were available at all in Chure, Barahatal, Bhagawatimai, Bhairabi and Kharpunath. Despite the limited availability, where QI services were accessible, 94 per cent of enterprises rated the quality as good.

4.6.3 Services of Business Membership Organizations

Only 18 per cent of the surveyed enterprises (n=2,472) were members of Business Membership Organizations (BMOs) or associations. Membership was notably higher in certain areas, with Godawari at 76 per cent, Bheriganga at 65 per cent, and Amargadhi at 51 per cent. In contrast, no memberships were reported in Jorayal, Swamikartik Khapar, Budhinanda, Himali, and Barahatal.

A significant factor contributing to low participation in BMOs is the limited availability of services offered by these organizations. Among the 18 per cent of enterprises that were members of such organizations, very few reported receiving substantial services. The most commonly provided services were certificate of origin and occupation certification (33 per cent), followed by information and networking services (24 per cent). The data suggests that BMOs need to enhance the range and quality of services they offer to attract and retain more members.
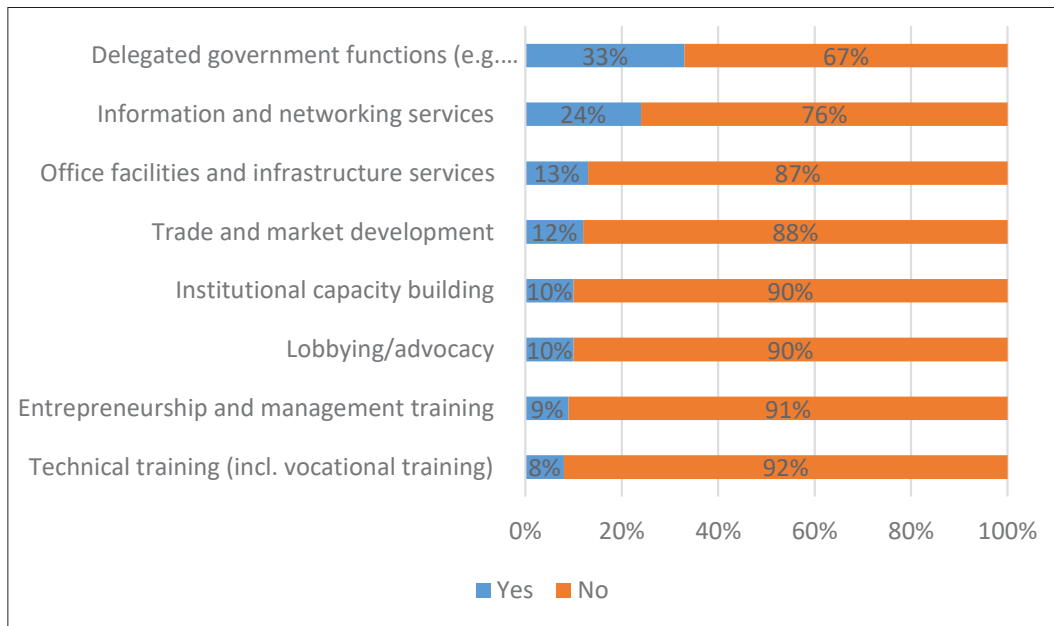

Figure 39 Services by business membership organizations 2024

4.7 Climate-smart governance, sustainability and climate resilience

The data on the availability of climate-relevant services reveals significant deficiencies at the local level. The highest accessibility reported was for risk assessment services, yet only 31 per cent of enterprises had access, leaving 61 per cent still without this crucial support. Moreover, the lack of services such as energy audits, renewable energy training, and climate-friendly technology transfer indicates a critical need for enhanced service provision in these areas.
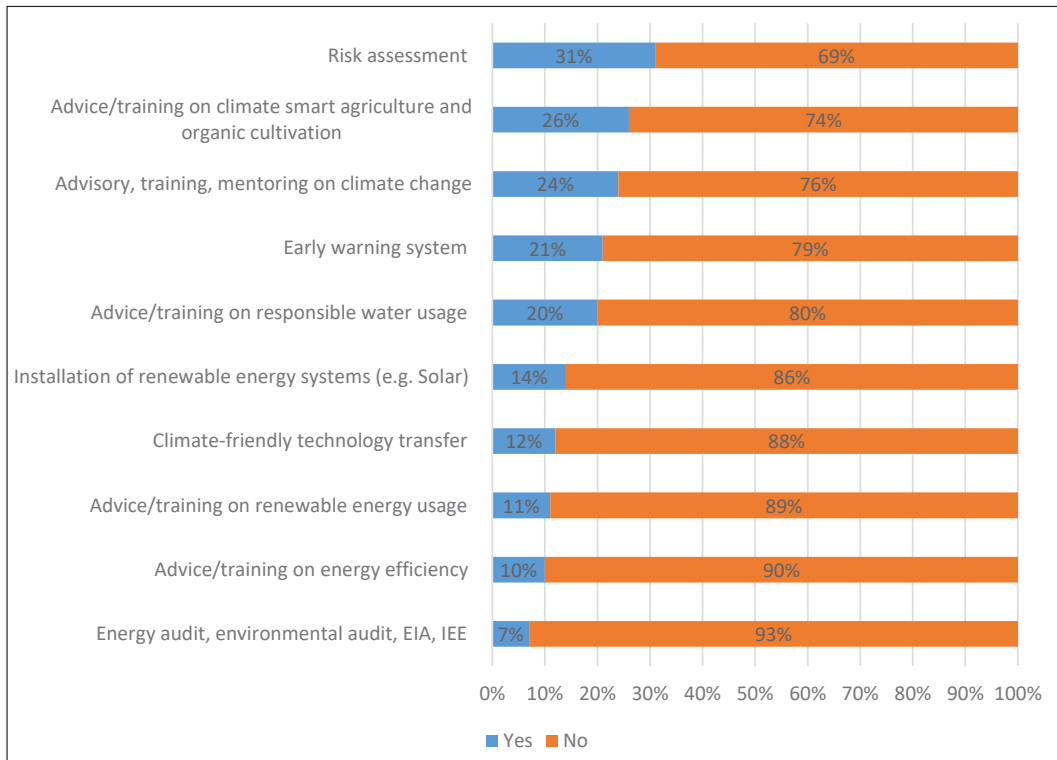
Figure 40 Accessibility of climate relevant services 2024

Moreover, most surveyed enterprises were unaware of local governments' strategies and initiatives for climate change adaptation and sustainability. Among the various methods, sustainable waste management was the most recognised, with 34 per cent of enterprises aware of these initiatives. The development of Local Adaptation Plans of Action (LAPA) and disaster risk reduction strategies were known to 25 per cent of enterprises only.

Awareness of other specific and potentially impactful strategies was even lower. For example, less than 15 per cent of enterprises were aware of weather forecasting systems, engagement with businesses and farms on climate adaptation, climate budget-coding, and sustainable procurement practices. The data highlights a significant gap in communication and education about the crucial initiatives, underscoring the need for local governments to enhance their outreach and awareness efforts to ensure broader recognition and participation in these climate change strategies.
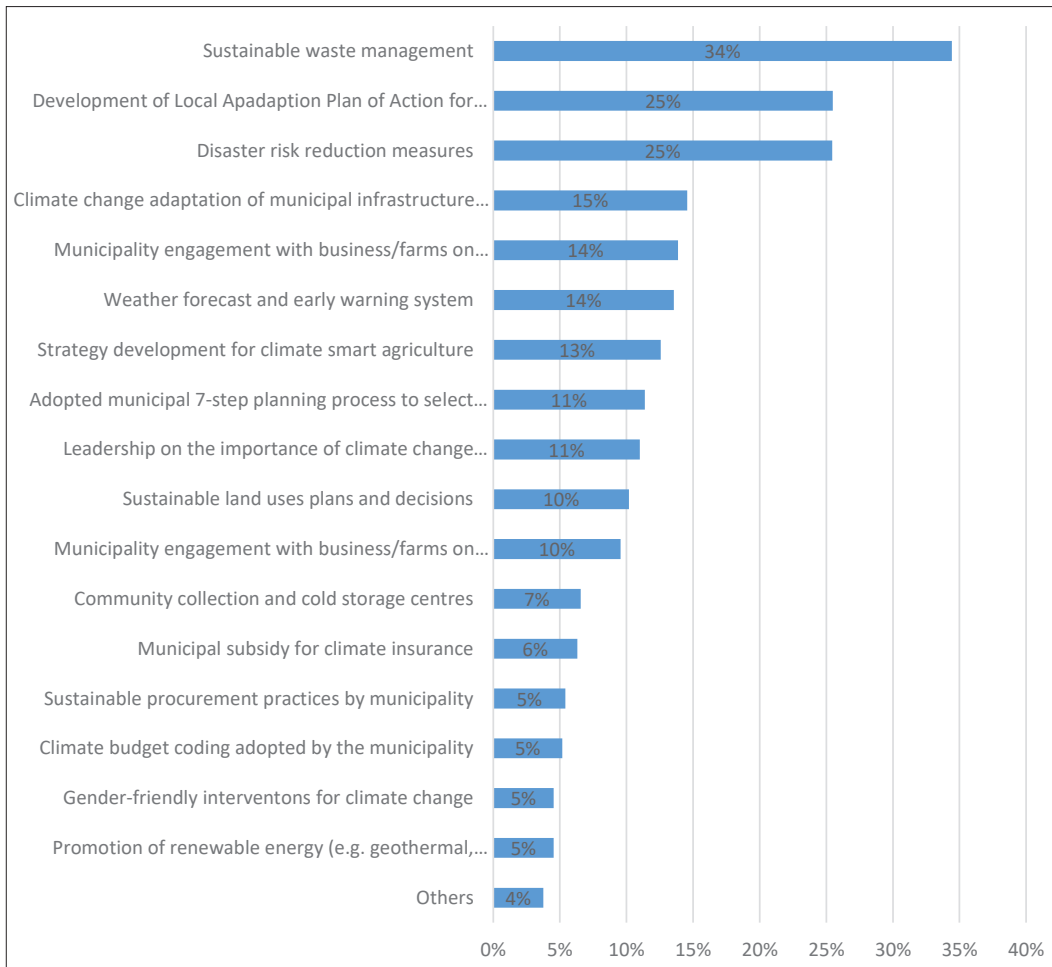
Figure 41 Awareness on local governments strategies and initiatives 2024

Most enterprises identified waste reduction (77 per cent) as the most relevant measure for their company's future. This was followed closely by waste-water management (70 per cent) and water-saving measures (68 per cent). Likewise, energy saving – electricity and fuel – were considered relevant for their business's future.
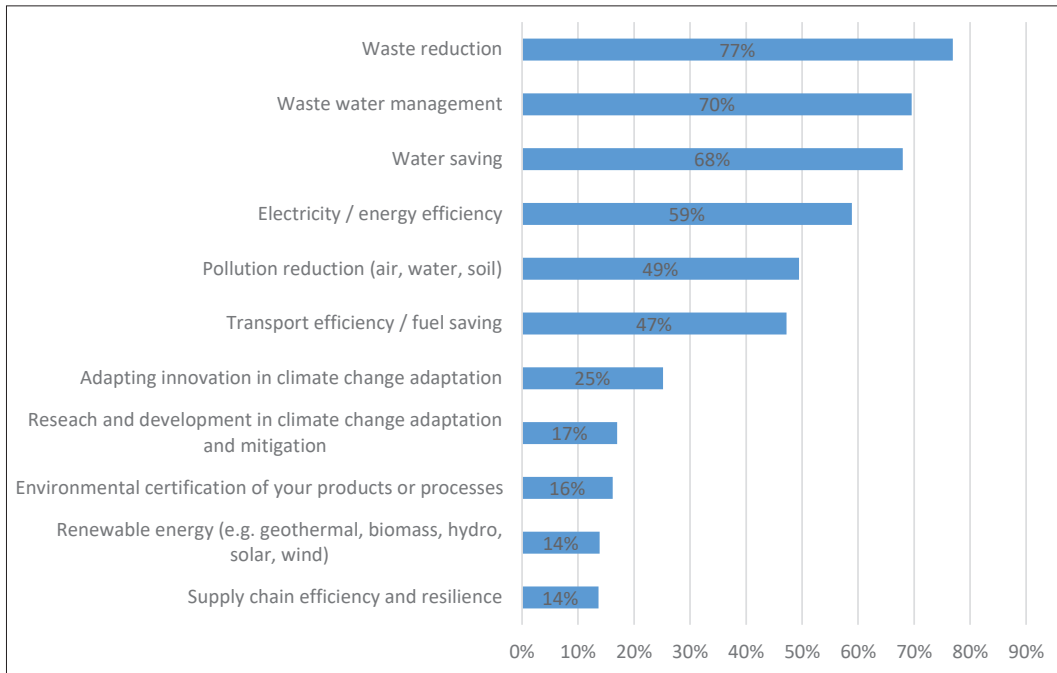
Figure 42 Relevant sustainability measures for enterprise's future 2024

4.8 Business Climate: A Gender Perspective

The National Economic Census 2018 revealed significant gender disparities in business ownership and management across Nepal. Nationwide, only 26.9 per cent of establishment owners were female, while 63.1 per cent were male (n=923,356).[8] Similarly, only 29.6 per cent of managers in all enterprises were female compared to 70.3 per cent of male managers. Moreover, the proportion of registered establishments with female managers was 35.8 per cent, much lower than the 56.1 per cent of male managers. At the provincial level, the National Economic Census highlighted that the proportion of establishments with female managers was 31.2 per cent in Karnali province, with registered establishments showing 35.3 per cent female managers compared to 54.9 per cent male managers. In Sudurpashchim, the proportion of establishments with female managers was 20.6 per cent, and the number of registered establishments with female managers was 42.1 per cent compared to 58.5 per cent of male managers.

The BCS survey results from 19 Municipalities across two provinces in Western Nepal reflect similar findings. Of the 2,472 enterprises surveyed for the BCS 2024, 63 per cent were owned by males, and 35 per cent were owned by females. 57 per cent of all female-owned

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[8]   *CBS (2021) National Economic Census 2018. Analytical Report: Women in Business. Government of Nepal: National Planning Commission. Available at:* https://nsonepal.gov.np

enterprises were located in Karnali province, whereas 43 per cent were in Sudurpashchim. Among these, the proportion of registered enterprises with female ownership was 73.2 per cent (n=862), compared to 77.4 per cent for male ownership (n=1,556). Informal enterprises with female ownership accounted for 26.8 per cent, compared to 22.6 per cent for male-owned enterprises. The higher percentage of informal female-owned enterprises indicate that women face more challenges in formalising their businesses.
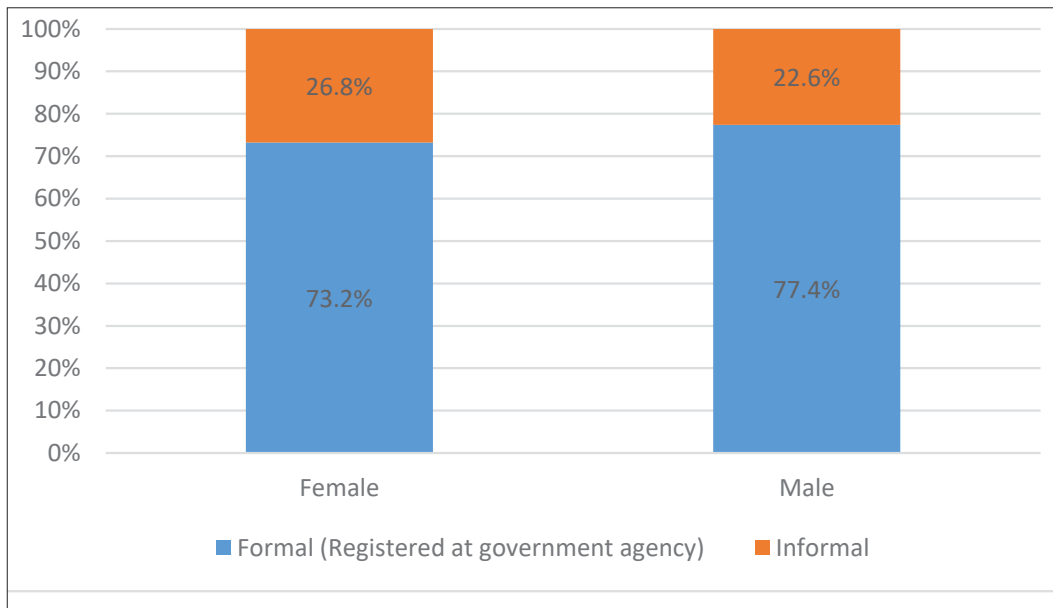

Figure 43 Enterprise status, gender-wise, 2024.

When examining sectoral distribution, the proportion of female ownership in agriculture was 21.8 per cent, compared to 21.2 per cent of male ownership. In manufacturing, female ownership was 9.4 per cent, compared to 12 per cent of male ownership. In trade and other services, female ownership was 68.8 per cent, compared to 66.8 per cent of male ownership. Sector-specific ownership patterns reveal that female ownership is highest in the trade and other services sector, indicating that this sector may offer more accessible opportunities for women. Conversely, the lower female ownership in manufacturing suggests barriers that must be addressed to achieve gender parity in this sector.
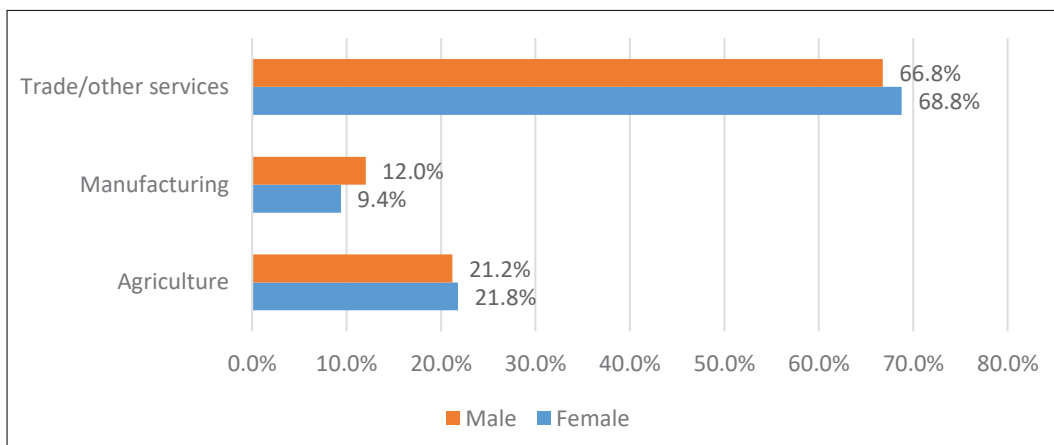
Figure 44 Enterprise ownership, gender-wise and sector-wise 2024

A significant majority of female-owned enterprises (58.9 per cent) fall into the lowest turnover bracket (< 0.5M NPR), compared to 52.5 per cent of male-owned enterprises. Moreover, over 70 per cent of all enterprises have an annual turnover of less than one million NPR, suggesting widespread challenges in scaling up businesses.
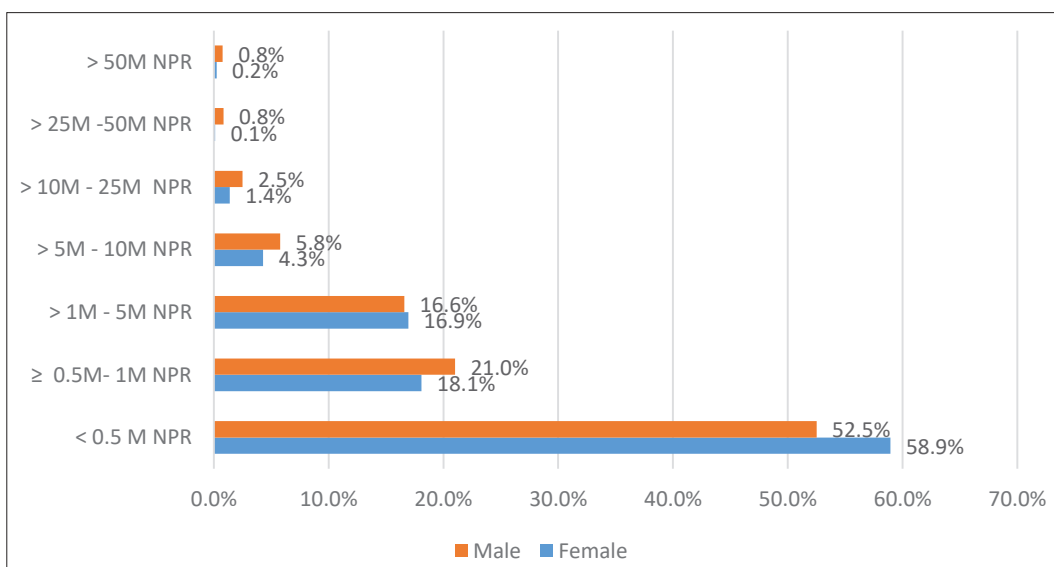

Figure 45 Annual turnover, gender-wise, 2024

The data on business problems faced by male- and female-owned enterprises indicate that both groups encounter broadly similar challenges within the business environment. However, some notable differences do emerge. For instance, 66 per cent of male-owned enterprises reported issues with the price of raw materials and other input supplies, compared to 59 per cent of female-owned enterprises. Additionally, 72 per cent of male-owned enterprises expressed concerns about the price of finance, whereas this was a concern for 66 per cent of female-owned enterprises.
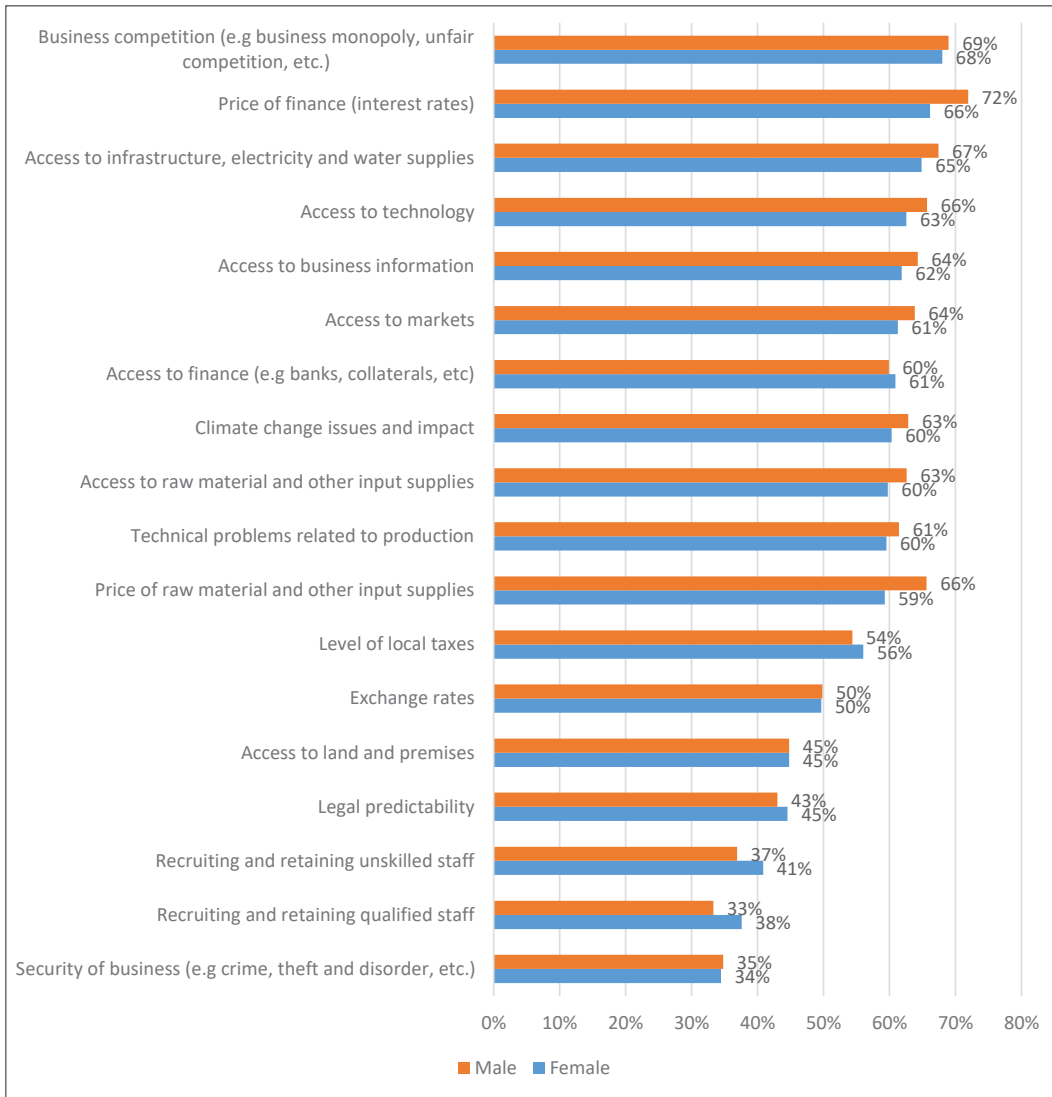
Figure 46 Business problems, gender-wise, 2024

Similarly, male—and female-owned enterprises faced similar challenges in dealing with the local government, with slight differences in specific areas. While a higher proportion of female-owned enterprises reported problems with tax regulations and political instability, more male-owned enterprises reported issues with environmental-related regulations. Moreover, a similar proportion of female-owned enterprises (32 per cent) and male-owned enterprises (34 per cent) perceived their local government as unsupportive for the business sector.

Figure 47 Problems in dealing with the government, gender-wise, 2024

There was a marginal difference in the proportion of female-owned and male-owned enterprises that currently need finance. Nearly 50 per cent of enterprises needed additional investment of up to one million NPR, with most (more than 50 per cent) intended to use it for business expansion and modernisation. However, a smaller proportion of female-owned enterprises (73 per cent) compared to male-owned enterprises (82 per cent) planned to apply for additional finances at a commercial or development bank. Instead, 18 per cent of female-owned enterprises preferred to seek credit at a savings and credit cooperative or a micro-finance compared to 11 per cent of male-owned enterprises. This indicates a tendency for female entrepreneurs to rely more on alternative financial institutions.
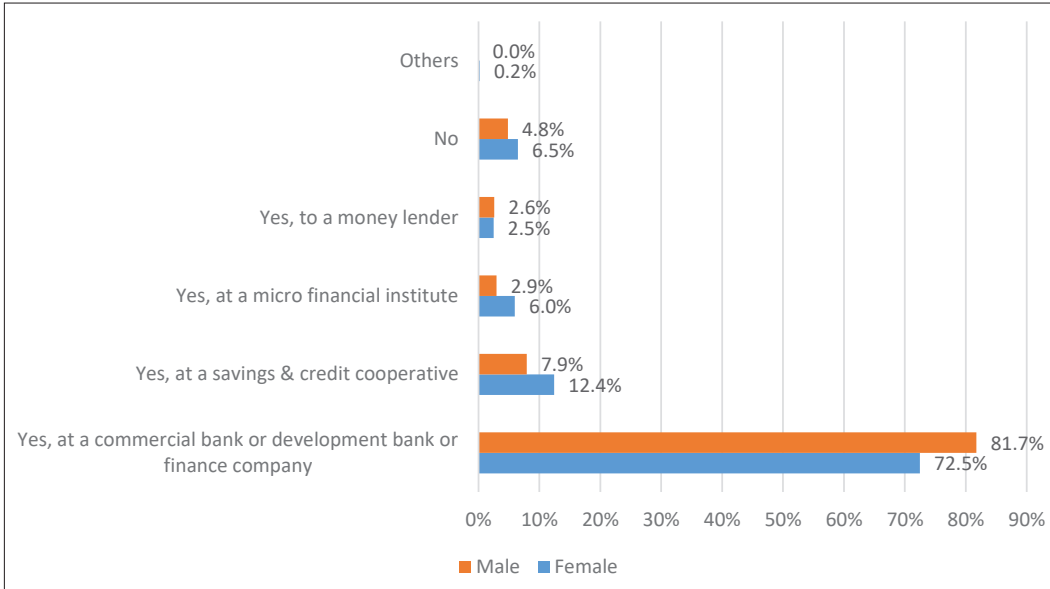
Figure 48 Preferred financial institutions, gender-wise, 2024

The data on the availability of business support services highlights specific service categories where female-owned enterprises have lower accessibility than male-owned enterprises. While the overall availability of these services was generally low across the surveyed region for both genders, female-owned enterprises had less access to essential services such as banking, registration, mobile phone services, workplace safety and health services, and legal services. The disparity highlights a need for a more inclusive business environment.
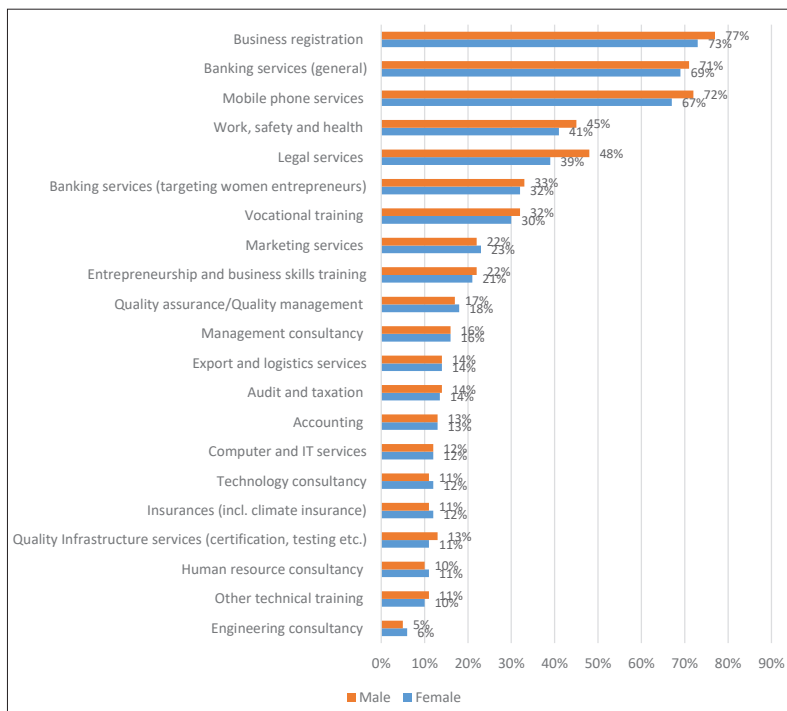

Figure 49 Availability and accessibility of business support services, gender-wise, 2024

Both female–and male-owned enterprises (more than 70 per cent) reported that water saving, waste reduction, and waste-water management were sustainability measures that were most relevant to their company's future. More than 60 per cent of enterprises have invested in some sustainability measures in this regard. In general, female-owned enterprises invested slightly more in sustainability measures than male-owned enterprises. While both proportion of groups invested similarly in many categories of sustainable investment, female-owned enterprise were more proactive in areas such as waste-water management and transport efficiency. For instance, 67 per cent of female-owned enterprises invested in waste-water management compared to 62 per cent of male-owned enterprise, and 43 per cent of female-owned enterprise invested in transport efficiency, surpassing male-owned enterprises (38 per cent).
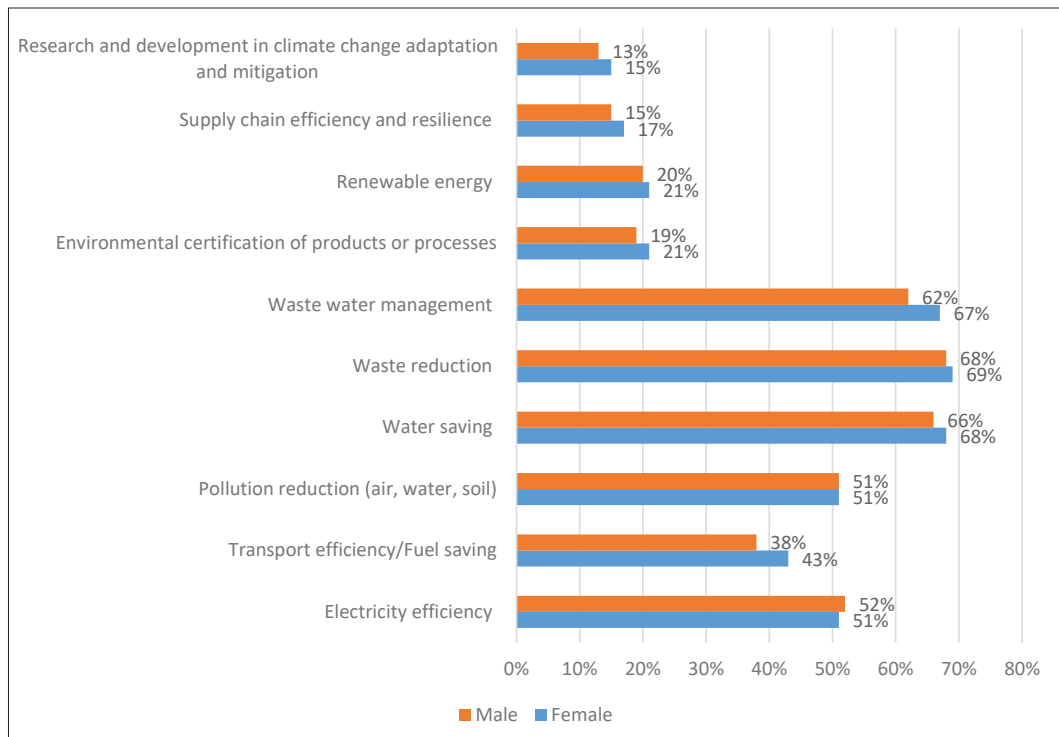

Figure 50 Enterprise investment into sustainability, gender-wise, 2024

4.9 Formal vs. Informal Enterprises

The informal economy is a defining feature of the Nepali business climate. The International Labour Organization estimates that over 70 per cent of Nepal's economically active population works in the informal economy.[9] Likewise, the National Economic Census 2018 revealed that 50 per cent of establishments in Nepal (n=923,027) are unregistered with any government agency, categorising them as part of the informal economy. Furthermore, the

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[9] *https://www.ilo.org/regions-and-countries/asia-and-pacific-deprecated/ilo-nepal/areas-work/informal-economy-nepal*

census found 32 per cent of the establishments in Karnali and 25 per cent in Sudurpashchim unregistered.

The BCS survey 2024 found 24 per cent of unregistered enterprises in a sample of 2,472 across 19 Municipalities. Of the unregistered enterprises, 48 per cent were located in Karnali and 52 per cent in Sudurpashchim province. Informality was most prevalent (48 per cent) in the agriculture sector, followed by manufacturing (41 per cent). The highest proportion of formal enterprises was in Trade and other services (86 per cent).

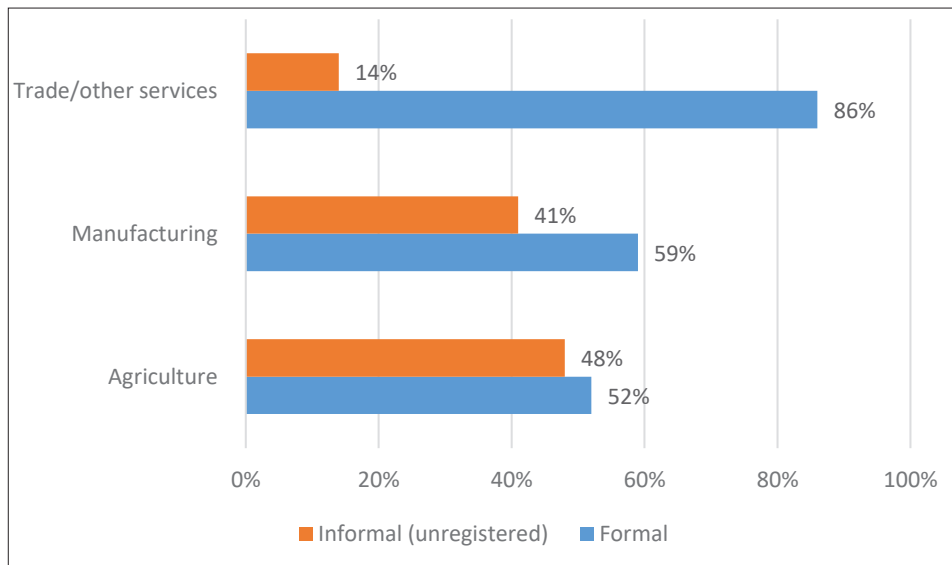*Figure 51 Enterprise status, sector-wise, 2024*

Most informal enterprises (89 per cent) were small in scale, with an annual turnover of less than 500,000 NPR. Nearly 60 per cent of formal enterprises reported an annual turnover of more than 500,000 NPR. The data suggests that enterprises' registration status influences their scale of operation.
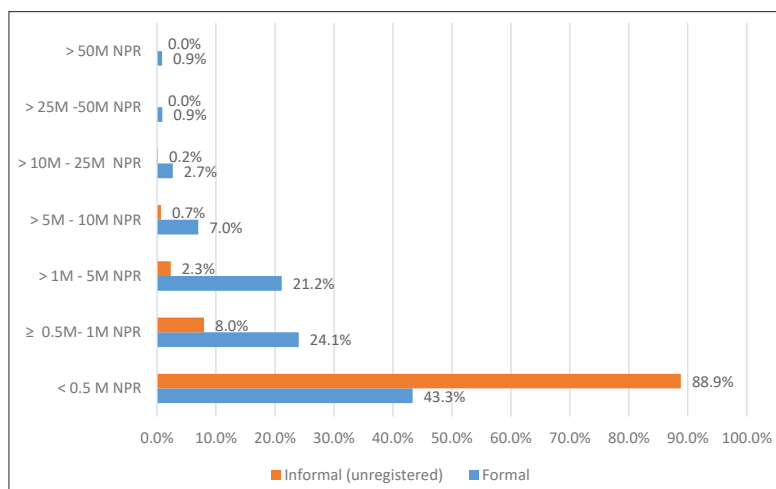

Figure 52 Annual turnover, enterprise-status-wise, 2024

The impact on business in the post-COVID era was felt more by formal enterprises than informal enterprises among the surveyed enterprises. While 91 per cent of formal enterprises reported a decline in their revenue, 85 per cent of informal enterprises experienced a similar downturn. Moreover, almost half of the informal enterprises (47 per cent) experienced a decrease in their revenue within 0-50 per cent, compared to 38 per cent of formal enterprises. On the other hand, 49 per cent of the formal enterprises reported a decrease in revenue within 50-100 per cent, compared to 30 per cent of informal enterprises. Similar statistics were also observed for the impact on sales and orders. The larger impact on formal enterprises might be due to larger scale and higher operational costs.
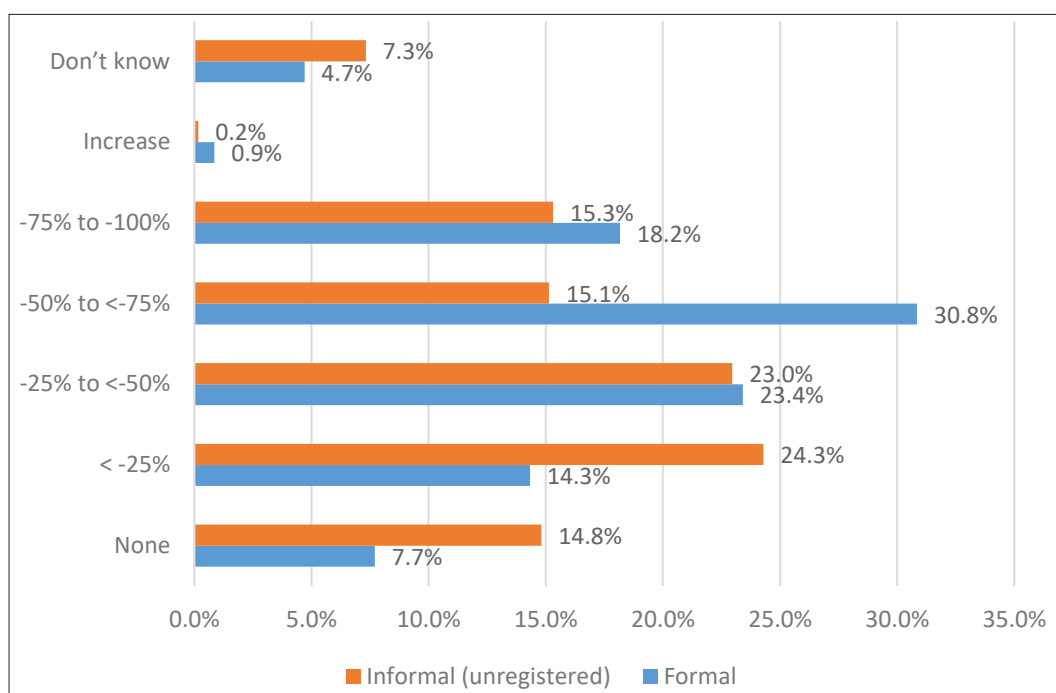

Figure 53 Impact of COVID on revenue, enterprise-status-wise, 2024

The data comparing business problems faced by informal (unregistered) and formal enterprises highlights distinct challenges for each group. Formal enterprises reported significantly higher issues with the price of finance (74 per cent), access to finance (63 per cent), business competition (73 per cent), and – not surprisingly – level of taxes (60 per cent) compared to informal enterprises, which reported more challenges with access to technology (66 per cent) and technical problems related to production (62 per cent) and access to business information (64 per cent). Also staff recruitment constitutes a more serious problem for formal enterprises with regard to both skilled (40 per cent) and unskilled personnel (42 per cent). The comparison suggests that while formal enterprises face more financial, competitive, and recruiting challenges, informal enterprises grapple with technological and information hurdles.

Interestingly, both types of enterprises suffer equally from climate change issues and impacts (62 per cent each).
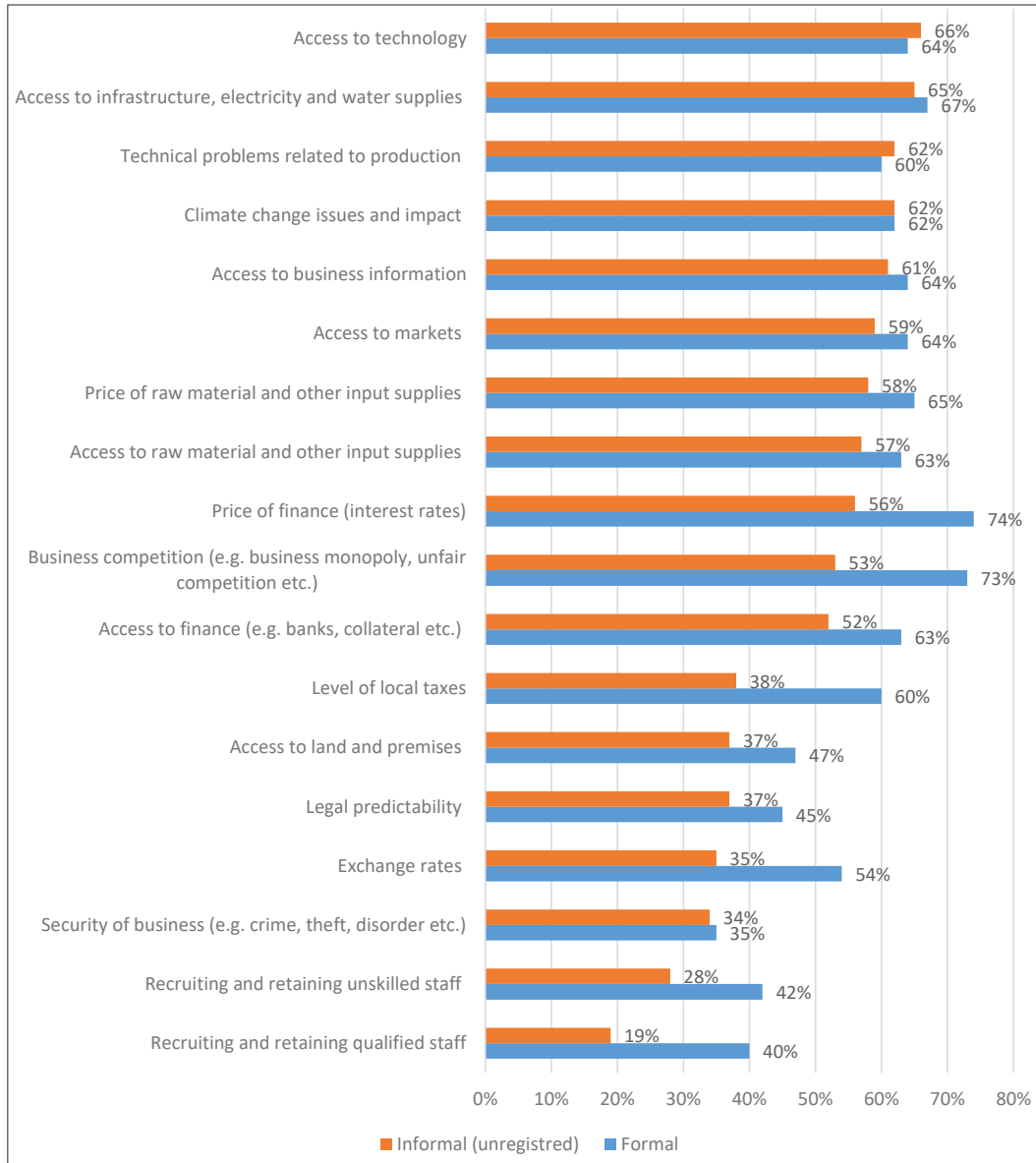

Figure 54 Business problems, enterprise-status-wise, 2024

Almost 70 per cent of formal and informal enterprises expressed a present need for finance. While more than 50 per cent of both groups of enterprises intended to invest additional finance in business expansion and modernization, 25 per cent of the informal enterprises reported their need for additional working capital. Only 9 per cent of formal enterprises intended to use additional finance for working capital. 83 per cent of formal enterprises intended to seek commercial or development banks for additional finances compared to 67 per cent for informal enterprises. A significant proportion of informal enterprises (20 per cent) intended to apply for credit at a savings and credit cooperative or a microfinance institute. Moreover, 5 per cent of informal enterprises intended to seek out money lenders compared to 2 per cent for formal enterprises.
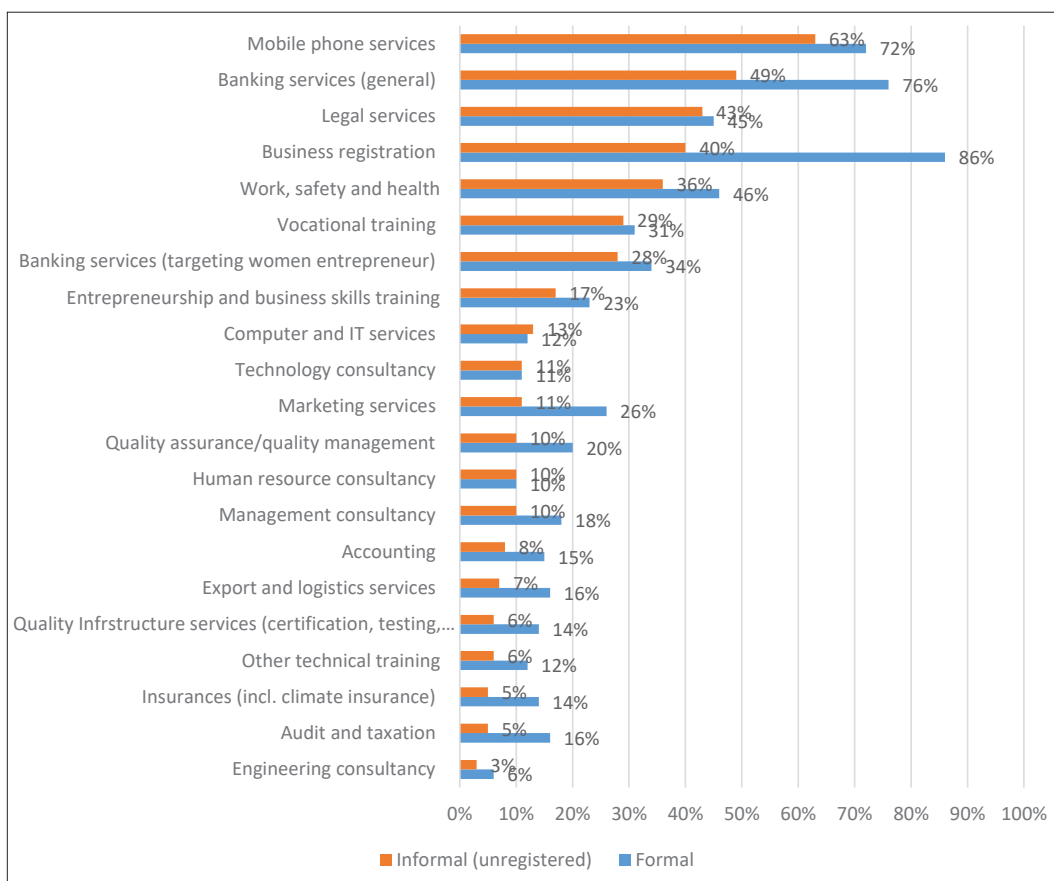
Figure 55 Availability and accessibility to business support services, enterprise-status-wise, 2024

Informal enterprises' low accessibility to business support services is apparent. The data reveals that formal enterprises have significantly higher access to business support services. For example, 86 per cent of formal enterprises had access to business registration services compared to only 40 per cent of informal enterprises. In other words, 14 per cent of formal and registered enterprises would need to find where and how to re-register if necessary. 60 per cent of informal enterprises would not know how to access registration services, even if they wanted to register.

Additionally, it is noteworthy that 40 per cent of informal enterprises remain unregistered despite having access to registration services, indicating potential barriers beyond mere service availability. There were substantial gaps in other support services, including a 27-percentage point difference in access to general banking services, a 15-percentage point gap in marketing services, an 11-percentage point gap in audit and taxation, and 10-percentage point gaps in occupational safety and health services and quality assurance and quality management. The absence of accessibility does not always indicate that these services are unavailable or difficult to find. It can also indicate that informal businesses do not actively seek out these services because they cannot afford to pay for them or do not consider them relevant to their operations.

Chapter V: Conclusions and Recommendations

5.1 Conclusion

The third application of the Business Climate Survey was successfully conducted in 2024, covering 19 Municipalities in Karnali and Sudurpashchim provinces of Western Nepal. Over the years, the BCS has varied geographic coverage at provincial and municipal levels. However, the survey has maintained a similar structure and processes, allowing for consistent comparisons of the business climate over time and across different regions. Despite the changes in coverage, several local-level units have been recurrently surveyed, ensuring continuity in data collection. The BCS's comprehensive data-driven approach addresses significant gaps in local-level business climate indicators, helping shape public discussions and policies and enhancing practitioners' ability to implement targeted and efficient interventions. Additionally, the survey supports the Government of Nepal's Local Economic Development initiatives.

A representative sample of 2,472 enterprises was selected, and the findings were analysed alongside secondary data to produce a composite Business Climate Index. This index, along with its sub-indices, drives progress and competitiveness. The detailed analysis of the various factors shaping the enabling environment can assist the business and cooperative communities and policymakers in making informed adjustments, managing expectations, and targeting areas for improvement. This approach enables iterative changes and helps identify and address easily attainable improvements.

Overall, the business climate in the two provinces of Western Nepal is moderately favourable, with a median index of 39 on a 1-to-100-point scale. This means that while businesses may encounter advantages and obstacles, they generally have a reasonable chance of operating and succeeding. Nevertheless, the data reveals significant variability in business climate across different local-level units, with a few high-performing outliers skewing the overall distribution. Despite high business sentiment among enterprises, this optimism is tempered by challenges such as low economic performance, inadequate infrastructure, and poor business services. The sustainability of enterprises remains a concern due to these constraints.

While both male- and female-owned enterprises face significant challenges, female entrepreneurs, particularly those with higher annual turnover, encounter additional barriers,

particularly in accessing finance and formal business support services. The pervasive informality in the local economy exacerbates these issues, as informal enterprises, which are predominantly small-scale, often lack access to essential business support services and struggle with operational and infrastructural challenges.

While infrastructure improvements have been incremental, they indicate a positive trend. Although primarily focused on providing essential services, local economic governance shows signs of gradual progress. Moreover, there are encouraging signs of business dynamism and notable examples of excellence in climate-smart governance.

At the provincial level, Sudurpashchim's business climate is marginally more favourable, with stable business conditions, than Karnali, which exhibits a broader range of business experiences. At the national level, both provinces lag behind other provinces regarding economic and social development.

5.2 Opportunities and Challenges

In the dynamic business landscape, understanding the challenges and opportunities that enterprises face is essential to enabling growth and development. The BCS report offers a wealth of detailed data, but the key takeaways presented here highlight the most significant opportunities and challenges. These insights can help pinpoint critical areas that require support and inform policy-making efforts to create a more favourable business climate.

5.2.1 Opportunities

The region has a solid commercial and service-oriented business environment, with the majority operating in trade and other services sector.

- Trade and other services are primarily concentrated in urban areas, while agricultural and manufacturing enterprises are significantly present in rural areas. This highlights distinct economic activities and the potential for sector-specific growth strategies.

- Many enterprises emerged during the COVID-19 pandemic, suggesting resilience and willingness to innovate in response to economic challenges.

- Small and micro-scale enterprises have significant dominance, which can be advantageous in adapting to market changes.

- Business sentiments are high, and there is generally a positive outlook for future prospects.

- There is an increasing trend among local-level units to improve their preparedness for climate-smart governance by developing and implementing LAPAs and disaster response plans.

5.2.2 Challenges

- Availability and access to financial institutions, vocational training institutions, and business development services are limited.

- 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.

- Enterprises perceive numerous regulatory issues.

- The post COVID-19 situation stifles business growth, and challenging business competition, including monopolies, is a significant business problem.

- The low availability of climate-relevant services impedes climate resilience.

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

- Lack of Quality Infrastructure services and physical markets to promote local products at the local level.

5.3 Recommendations on Institutionalizing the BCS in Nepal

- Disseminate the BCS results widely to relevant partners and stakeholders at the local level, ensuring their participation to foster ownership of the findings.

- Organise timely BCS diagnostic workshops and utilise the findings to highlight locality-specific strengths and weaknesses, devise action plans to improve weak indicators, and inform targeted interventions at both local and provincial levels.

- Coordinate with the MoFAGA to incorporate BCS and its results into its LED initiatives.

- Hand over the survey and data calculation process adopt and appropriate the BCS for future use.

- Produce a BCS manual that outlines all necessary steps and procedures to replicate the BCS and BCI calculations by third parties. Make the manual available in two languages on the BCS website.

- Consider introducing an economic governance certification scheme and platform for municipalities in Nepal that draws on future BCS results, possibly combined with MOFAGA's Local Government Institutional Capacity Self-Assessment (LISA) assessment results, which would introduce a more balanced perspective (government self-assessment versus enterprise view). This could significantly expand the number of municipalities interested in participating in future BCS editions and forge a group of organisations driving this scheme and, hence, the future applications of the BCS in Nepal. A municipal certification scheme that could serve as an example (even though it misses the enterprise survey component) is Business Friendly Certification Southeast Europe[10].

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[10] https://bfc-see.org