

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal has a population of 27 million and an annual per capita income of US\$ 320 that places Nepal at one of the poorest countries of the world. The land locked geophysical location, limited resource endowments, economic isolation, rugged mountainous terrain have contributed to the social and political backwardness of this Himalayan Kingdom. Since 1950, supported by pouring external aid, Nepal started to divert its public resources to economic and social development. However developments so far have not been able to alleviate poverty especially from the rural areas constituting the national average of 32 percent people living below the poverty line. From the perspective of economic, social, and human development indicators, Nepal stands at the bottom list in South Asia.

Geographically, Nepal is divided into three ecological zones: the mountain region (4900 meters and above), the hilly region (600-4900 meters), and the Terai region, within an elevation of 300 meters above sea level. These three regions cover 15%, 68%, and 17% of the land respectively. The Nepalese economy is primarily based on agriculture, in which more than 70% of the population is employed. Although majority of people are involved in agriculture sector, its contribution to national GDP has decreased from 48% in 1990-91 to 38.3% in 2000-2001. As in other countries, micro, cottage, and small industries play an important role in the national economy. However, in Nepal contribution of manufacturing industries to the national GDP is less than 10% since for many years employment in this sector has been slightly more than 2% of the total workforce. Neither the agriculture nor the industrial sector is capable of absorbing the growing labor force- more than 300000 per annum. As a result, unemployment and poverty is prevalent, forcing Nepalese young people to look overseas for employment. Empirical evidence in many countries has shown that the development of industrial enterprises can directly contribute to job creation, the use of local resources, and import

substitution, thus increasing the gross national product. Therefore, to accelerate the pace of industrial development, the government of Nepal has given priority to the promotion of SMEs. For developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part.

Small and marginal farmers operate 90 percent of the 2.7 million agricultural holdings, the average size of which is less than one hectare. Almost 80 percent of the population depends heavily on the agricultural sector for income and employment. 76 percent of the labor force is involved in agriculture and women constitute 60 percent of the agricultural work force. Given the extent of population involved in the sector, it naturally arises that a vast majority of the small and medium enterprises (SMEs) are agro-based. In Nepal, the number of agro-industries is gradually on the rise. To a greater extent, these industries are absorbing local agricultural produces as their raw materials or for value addition activities, besides maintaining rural connections. However, as the process of opening up of new and closing of unsustainable units is more or less in a similar stage, accurate statistics of small and medium enterprises (SMEs) is not available. But the enterprising focus is mainly in the area of bakery, dairy, candy, pickles, chips, ketchup/squash/jam, noodles, confectionary, bamboo products, herbal/medicinal plants, honey processing, floriculture nurseries, Nepali paper, etc.

The Department of Cottage and Small Industry (DCSI), which is responsible for registration of cottage and small enterprises, had registered around 200,000 enterprises of which 69,822 are in operation as of April 15, 2007. It is estimated that these industries have generated employment for 16, 53,195 people. Of the total industries, it is estimated that SMEs together account for 97% of total establishment, a 90% share in the export trade, 85% of employment generation in the industrial sector, and a more than 90% contribution to the national GDP.

In Nepal, the main industrial information collected is on size of investment and numbers employed. A survey conducted by CBS in 2001-2002 found that the number of manufacturing industries employing more than 10 persons was only 3213. Of these, 86% are started up with an investment of less than NPR 10 million. In terms of job creation, cottage and small industries create one job per investment of NPR 10000, while in large industries one job is created per investment of NPR 30000. Considering the fragmented market, geographical situation and limited resources, Nepal has less choice other than to promote SMEs with comparative advantage especially small and cottage enterprises.

SMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment. However, their importance in the development process goes beyond their strength in number. Importance of SMEs can be:

-) In any developing economy, small and medium enterprises (SMEs) hold tremendous potential for sustained growth. They generate huge employment making use of the locally available resources and endowments.
-) The promotion of small and medium enterprises (SMEs) is considered as a prominent approach to sustainable development. This sector mobilizes scarce resources and caters the needs of fragmented domestic market in the least developed country (LDC) economies.
-) There is ample empirical evidence that countries with a high share of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring long-term social stability by reducing ex-post redistribution pressure and by reducing economic disparities between urban and rural areas.
-) SMEs are keys to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities which can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance.

-) SMEs are a seedbed for entrepreneurship development, innovation and risk taking behavior and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.
-) SMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked.
-) Such linkages are of increasing importance also for the attraction of foreign investment. Investing transnational corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors.
-) SMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner.

1.1.1 Industrial Policies and Facilities

Industrial enterprise development has existed in Nepal since ancient times. Planned development took place only after the advent of democracy in 1951; the first development plan was initiated in 1956. The Industrial Enterprises Act 1961 was the first document that specified the definition of and incentives to be provided to SMEs. However, after the dissolution of the parliamentary democracy by the Panchayat system in 1960, the focus shifted from private-sector investment to state-controlled investment in large-scale public sector enterprises and projects. Industrial Enterprises Acts were passed in 1974, 1981, 1987, and 1992, and subsequently revisions were made.

The main goals of government is to reduce poverty, overall GDP growth and non-agricultural sector growth, including manufacturing, trade, tourism, transport, construction, and financial services. The government has focused on creating and investment-friendly environment, simplifying entry and exit procedures for businesses and enhancing the competitive environment. A number of activities are being carried out- investment policy reforms, tariff rationalization, technological improvement, entrepreneurship development, etc.

The current Industrial Enterprises Act of 1992, amended in 1997, has classified industrial enterprises into large, medium, small and cottage scale.

-) Large industries: industries with fixed assets of more than 100 million rupees shall be termed as large industries.
-) Medium industries: industries with fixed assets between 30 million rupees to 100 million rupees shall be termed as medium industries.
-) Small industries: industries with fixed assets up to an amount of 30 million rupees shall be termed as small industries.
-) Cottage industries: traditional industries that utilize specific (indigenous) skills or local raw materials and resources, labor-intensive and are based on national tradition, art and culture and industries with fixed assets up to 200,000 rupees shall be termed as cottage industries.

1.1.2 Classification of Industries

Current Enterprises Act has classified industries based on their nature and the types of products they produce. They are:

Manufacturing

Industries which produce goods by utilizing or processing raw materials, semi-processed materials, byproducts or waste products, or any other goods.

Energy-based

Industries generating energy from water resources, wind, solar, coal, natural oil, gas, biogas, or any other resources.

Agro and forest-based

Industries based primarily on agriculture or forest products, such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee gardening and processing, horticulture and herb processing, vegetable seed farming, mushroom, vegetable farming or vegetable processing, tissue culture, greenhouse, bee-keeping, honey production, rubber farming, floriculture and production, and forestry-related businesses such as leased-hold forests, agro-forestry etc.

Mineral

Industries established to excavate minerals or the processing thereof.

Tourism

Tourist lodgings, motels, hotels, restaurants, resorts, travel agencies, skiing, gliding, water rafting, cable car complexes, pony-trekking, trekking, hot air ballooning, parasailing, golfing, polo, horse riding etc.

Services

Workshops, printing presses, consultancy services, ginning and baling, cinematography, construction businesses, public transportation business, photography, hospitals, nursing homes, educational and training institution, laboratories, air services, cold storages, etc.

1.1.3 Investment Facilities and Incentives

In order to address the constraints and pave the way for development of industrial enterprises, various incentives and support services have been provided under the Industrial Enterprises Act.

-) Cottage industries are exempt from sales tax, excise duty, and income tax.
-) Export-oriented, labor-intensive, and national priority industries are granted an additional rebate on income tax.
-) Industrial units utilizing locally available raw materials, chemicals, and packing materials etc, on which excise duty or sales tax or both are already imposed will be reimbursed.
-) No income tax shall be levied on profits earned through export.
-) No tax, duty or fee shall be levied on the machinery, tools, equipment or raw materials used by an export promotion industry.

The Industrial Enterprises Act of 1992 contains specific provisions related to registration, operation and exit. Various rules and regulations must be complied with by entrepreneurs during registration and operation of their enterprise. Similarly, the act states that if the industry closes, the entrepreneur must notify the appropriate department within seven days. Failure to abide by this rule will result in a penalty.

1.1.4 Trade Policy

Trade plays important role in economic development. Before 1960, Nepal's foreign trade was largely confined to India. Between 1956 and 1964, Nepal's trade with other countries was less than 3%. Beginning in 1960, efforts were made to diversify, and currently Nepal trades with more than 72 countries. Prior to the liberalization measures adopted in the mid-1980s, the objectives of trade policy were export promotion, import control, and trade diversification (Maskey 1999). Most important items required licensing and authorization of foreign exchange. A Structural Adjustment Program (SAP) was introduced in 1986 to achieve sustained economic growth by correcting weaknesses in the economy. The trade sector was one of the key areas for structural reform. Liberalizing export procedures, simplifying export taxation, increasing facilities and incentives, and encouraging investment were some of the measures undertaken under this program. In 1992, the government introduced a new trade policy with the goal of increasing the contribution of the trade sector in the national economy, diversifying trade, reducing trade imbalances, and expanding employment-oriented trade. Various reforms were undertaken: abolishing (with a few exceptions) the system of import licenses, introducing the foreign investment and technology act, providing duty drawback facilities, allowing tax exemptions on machinery, tools, equipment, and raw materials used in export, and simplifying foreign exchange. Similarly, the existing import license and control systems were simplified and quantitative restrictions were gradually replaced to encourage free competition. In spite of these efforts and reforms, Nepal's trade deficit is increasing.

1.1.5 Problems and Constraints

It is generally accepted throughout the world that cottage, small, and medium enterprises are an integral part of national economy. Recognizing their importance, many countries are committed to create an environment conducive to industrial development by formulating favorable policies and making provisions for financial and non-financial business support services, among other things. However, despite such support programs, SMEs in Nepal face different challenges related to policy\legal framework, finance, technology, management, business support services, socio-cultural factors etc.

1.1.6 Policy and Legal Issues

Registration of Industries

As set forth in Industrial Enterprises Act 2049, industries are to be registered with DCSI or DOI based on the size of the investment. But under the Local Governance Act, local governments are authorized to collect taxes and register industries established in their areas. This has created confusion regarding the legal status of businesses and the regulatory jurisdiction between the central and local governments.

Initial Investment Examination

The Environment Protection Act 1997 and its rules of 1998 make some provision for the protection of the environment. However, requiring an initial environment examination of all industries, whether or not their products and processes are related to the environment, has created an unnecessary burden.

Classification of industries

The Industrial Enterprises Act provides for the categories of cottage, small, medium, and large industries. Micro enterprises, which have been instrumental in alleviating poverty through income and job generation, have not yet been defined. This has hindered micro enterprises in rural areas by keeping them from having access to incentives and facilities they might qualify for.

1.2 Focus of the Study

In general, SMEs in Nepal have traditional management practice, undeveloped entrepreneurial culture, low capital base, outdated and less efficient production process and technology, and poor knowledge and information about business opportunities and marketing.

A review of literature has revealed studies regarding business environment and its effect on doing business. Environment that affect whole industry are analyzed in these above

mentioned studies and articles. But this study focuses on those environments that affect mainly SMEs in Nepal. This study tries to find out specific problems SME entrepreneurs are facing. This study emphasizes on such forces that are main constraints in development of SMEs in Nepal.

Obviously, the challenges for the Nepalese SMEs are mounting. The challenges have become more profound due to the recent trends of globalization and economic liberalization, which if not addressed properly will result in a situation where the Nepalese SMEs will lose out miserably to the global players. In light of this fact, this study mainly focuses on the following:

-) Focuses on the Small and Medium Enterprises in a specific area.
-) Concerned with the effectiveness of SMEs.
-) Problems faced by Nepalese SMEs.
-) Environments for SMEs in Nepal.
-) Rules and regulations regarding SMEs.

1.3 Statement of Problem

According to Biggs, Nasir, Pandey, and Zhao, (December 2000), the report is based on study of private manufacturing enterprises in Nepal. This study focuses on the private sector's assessment of the prevailing business environment and other matters related to efficient business operation. The report is meant to provide important information to enhance the policy dialogue between the public and private sectors on critical matters dealing with private sector development. The survey was conducted by the World Bank, in collaboration with the Federation of Nepalese Chambers of Commerce and Industry, from October to December 1999. The study was designed to examine a number of basic issues, including constraints in the policy environment, the structure of the manufacturing sector, sources of growth, major impediments to growth, factors determining enterprise productivity, composition of the labor force and accessibility to finance, among others. A team of World Bank staff and Nepalese consultants conducted interviews with 223 firms, covering all regions of the country.

A key finding of this report is that government policy and its implementation are currently the greatest obstacles to doing business in Nepal. Other obstacles include inadequate demand for products, poor access to finance, and inadequate infrastructure services. Government policies can be well designed; they are often changed and implemented so inconsistently that they contribute to an unpredictable and risky business environment. In addition, firms suffer considerably from excessive government red tape, long delays in provision of government services, and corruption of government officials.

These problems are often facilitated by lack of clarity in laws and regulations, and unpredictability and inconsistency in government policies. The implementation of the tax regime, imports regime and labor laws are specific areas that affect firms the most, and need to be urgently addressed by the government.

The broad problem categories of 'government', 'lack of demand' and 'finance' were disaggregated further into subcategories to provide a more detailed examination of each of these areas. Study has also given weight to each of these obstacles.

Major Business Problem Categories Identified in the Study is as follows:

Table 2.1: Weight of Obstacle

Category	Weight
Government	36%
Demand	22%
Finance	14%
Infrastructure	9%
Labor	7%
Business Support	7%
Shortage of Inputs	4%
Trade Policy of Foreign Governments	1%
Total	100%

Source: FNCCI/World Bank

1. Government

a) Bureaucratic Burden

-) Red Tape, Corruption and time delays
-) Administration of Income tax regulations
-) Administration of VAT regulations
-) Administration of Customs and import regime
-) Administration of Other Laws
-) Enforcement of laws

b) Government Regulation and Policy

-) Labor Regulations
-) Regulations to start a new business
-) Regulation of Prices
-) Ownership Regulations
-) Bias in regulations against Manufacturers
-) Lack of Clarity, unpredictability and inconsistency of government policy

2. Demand

a) Aggregate Demand

-) Insufficient demand
-) Fluctuations in demand

b) Competition

-) Competition from other firms
-) Inadequate protection from imports
-) Low quality competition

3. Finance

-) Access to finance / High Collateral Requirements
-) High Interest Rates

4. Infrastructure

-) Supply of Electricity
-) Supply of Water
-) Inadequate Roads
-) Inadequate Air Freight Services
-) Cost of Transportation in time and/or money
-) Cost of electricity

5. Labor

-) Shortage of Skilled Labor
-) Low Labor productivity / High wages and benefits
-) Attitude of workers, work ethics of workers
-) Labor strikes / Unions
-) Labor turnover

6. Business Support

-) Lack of Business Support Services
-) Market uncertainty / lack of long term vision
-) Insufficient information on foreign markets
-) Lack of technology / technical support
-) Inadequate training facility
-) Lack of marketing support

7. Shortage of Inputs

-) Unavailability of parts
-) Shortage of Raw Materials
-) Quality of available raw materials

8. Trade Policy of Foreign Governments

) Quota

The study concludes that the number one business problem in Nepal is the unfavorable business environment caused by poor implementation of government policy, bureaucratic burden and continuing political and policy instability. Study points out that those factors are of much greater concern than specific government policies or regulations in shaping the business environment. In addition to problems with "government", firms ranked, (in order) problems with: (a) low demand (problems for agriculture and foreign trade problems in key export markets) (b) inadequate access to finance and (c) poor infrastructure. An overarching difficulty in effectively addressing these issues is the poor relationship between the private sector and the government, which hampers the creation of an effective dialogue on these matters.

Firm size is often a proxy for the resources available to a firm, for the access and need a firm has for government and business support services, and for the type of markets a firm serves. Smaller firms primarily work in local markets, have little market power, interact with government in a very limited way, and often do not have the standing in the community to easily obtain financing. Moreover, small firms are generally unable to substitute for poor infrastructure and business support services through their own resources. In contrast, larger firms generally have better access to the financial community, and can often afford to provide some of their own infrastructure and business support services in the absence of effective public provision. Clearly, the cost structure of larger firms is more affected by bureaucratic burden and inappropriate government policy than the cost structure of small firms.

Doing Business (World Bank, 2012) has placed Nepal in 107th rank among 183 Least Developed Countries (LDC). Nepal being LDC is facing various problems in doing business right from the starting to the closing of the business. The business environment factors identified by Doing Business 2012 have hindered business in Nepal. Starting a business requires huge amount of capital. The cost to be paid is 37.40% of income per capita. In Nepal dealing with construction permits is the longest procedure of all. The

cost to be paid is 192.1% of income per capita. Similarly, registering a property is the fastest procedure in Nepal. But the cost is 5% of property value. Getting credit requires strength of legal rights of borrowers and lenders. The strength of legal rights index (0-10) is 7. Similarly Doing Business measures protection of minority shareholders. There are three dimensions of investors' protection extent. Among them investors protection extent disclosure index (0-10) is 6 which is high. While paying taxes high taxes are to be paid in doing business. The total tax rate is 31.5% of profit. Trading across borders has major problem in paying cost. This is because while exporting US \$1960 per container has to be paid and while importing US \$ 2095 per container has to be paid. Similarly, judicial system is not very strict in Nepal. The cost for enforcing contracts is 26.8 % of claim. Closing a business requires the cost to be 9% of estate. In this way, in every factors identified by Doing Business 2012 cost is the major hindrance for business in Nepal.

Lack of capital is also another element that affects the SMEs in Nepal. Access to finance or credit services remain limited for most of the people in Nepal and have declined in recent years. Family and friends are by far the largest informal providers of loan to household and contrary to common belief family and friends often charge interest. Only 23% of Nepalese are getting loans easily from financial institutions. Banks procedures are perceived as most cumbersome among financial institutions. (Source: World Bank: Access to Capital 2011).

Apart from the above mentioned problems faced while doing business there are some more difficulties like getting electricity and its distribution, cost of electricity, lack of material causes delays for utilities of LDC, enforcing safety standards, red tapism for SMEs, legal differentiation on the basis of gender are the challenges for LDC. Labour organization/labour unions/labour laws are also the challenges and limitations on LDCs. Similarly businesswomen have difficulties in access to finance which might drive their concentration in low capital incentive industries. One possible barrier is that women may have less physical and reputational collateral than men. Getting loan from the bank especially to women is a big challenge because of the lack of collateral or property.

Some major factors affecting business in Nepal

) Infrastructure

Firms are primarily concerned with access, availability and quality of service more than with the cost of service. Poor availability and quality of electricity service is the greatest infrastructure problem affecting firms in all industries nationwide. Inadequate roads and trucking services are a nationwide problem for the larger firms. Poor access to and availability of water supply and telecom services are major problems in selected regions.

) Business Support Services

Business support services are not readily available. Most of the available services are too general and not tailored to specific firm needs. The most desired support services are information on foreign markets, assistance in finding new technologies, advice on productivity improvements, quality control testing and employee training.

) Labor

Labor Laws encourage the use of casual labor in Nepal - most of the manufacturing labor force is made up of casual workers, who make similar monthly cash earnings as permanent workers but have much less job security and access to non-pecuniary benefits such as health, clothing and transportation. Women workers are increasing. Labor Unions are effective in promoting their members' non-pecuniary benefits. Nowadays Labor Unions are largely influenced by Politics. Nepalese business houses invest little in worker training. (Source: Biggs, Nasir, Pandey, and Zhao (2000)).

) Manufacturing Firm Performance

➤ Productivity

We find overall manufacturing productivity to be low in Nepal compared with international standards. Within the country, there is also a large variance in productivity between enterprises - a few very efficient firms flourish alongside many less efficient

firms in what appears to be segmented markets. Average efficiency is the highest in the pharmaceuticals industry (partly due to the effect of protection on output price), followed by the carpets and garments sectors. Metal and textiles (excluding garments) have the lowest overall efficiency. Productivity increases linearly with firm size. The largest firms (>500 employees) have almost 25 percent greater efficiency than micro and small firms (<50 employees). In addition to low capacity utilization, lack of scale economics, and inadequate infrastructure, the most important determinants of enterprise productivity are various "learning mechanisms," such as worker training, foreign ownership, foreign licensing and technical assistance agreements, as well as exporting, which are highly correlated with inflows of foreign know-how.

➤ ***Firm Growth***

Liberalization has had a positive impact on employment growth in tradable, export-oriented sectors such as garments, carpets and pharmaceuticals. Since these sectors also have the highest technical efficiency, it indicates that economic resources are being reallocated in the "right" direction. Firms located in Kathmandu were generally growing faster than firms from other regions of the country in the 1990s. Younger firms were also growing faster than older firm's - firms entering after 1990 have grown most rapidly. These newly entering firms are not merely "survival" enterprises, created by unemployed workers. They appear to be vibrant new start-ups that are contributing much to employment growth. Older firms, i.e., firms founded before 1990 and still in operation in 1999, appear to have successfully weathered the transition to a more liberal business environment - there appears to be no major downsizing in this group over the last few years. The data indicate only limited mobility of the smallest firms into the larger size categories - most micro firms remain micro or grow only one step up the ladder into the small size class. The main characteristics driving firm growth are exports, worker training and foreign ownership. Entrepreneur characteristics such as education, prior experience, ownership of other businesses and ethnicity are all unimportant.

) **Finance and Investment**

➤ ***Investment***

Major investment made in Nepal is for increasing output using existing technology. Few resources were devoted to improving production techniques or introducing new products. Investment was financed mainly by retained earnings. Most external funds in Nepal were provided in the form of short-term loans and overdrafts from commercial banks and were mainly used for working capital purposes. Long-term credit from the banking sector was in short supply, with smaller firms being rationed out due to high interest rates or collateral requirements. Lack of demand was another factor influencing investment. Most firms in Nepal were operating at well below full capacity and did not need to invest in new equipment to increase output. Investment was also low due to uncertainty in the business environment.

➤ ***Banking Sector***

Compared to some other developing countries, banking services are widely available in Nepal. Almost 75 percent of firms in our sample had either a bank loan or an overdraft, and all firms, even the smallest, said they had a main bank. Access to sufficient credit is still a major problem. Long term credit is particularly in short supply, due to information and enforcement problems faced by banks. Small firms are rationed by banks due to lack of information and by way of collateral requirements, while the largest firms receive less credit from banks than they would like due to lending limits of each bank.

Due to the problems stated above, SMEs are not competitive enough in the globalized world. Therefore this research focuses on following pertinent questions below:

-) What are the environmental forces conceived as critical by Nepalese SMEs?
-) Are the various programs to develop and support SMEs are effectively been executed by concerned authority?
-) What are the benefits that SMEs are able to grab?
-) How SMEs are doing to tackle the global competition? And what they can do?
-) Why government's supports are not being enough? Or what government lacks in terms of SMEs development?

Above are some of the aspects of the statement of problem of this study.

1.4 Objectives of the Study

This study focuses on the environments that affect the SMEs in Nepal. Overall objectives of the study are:

-) Assess and analyze the current state of SMEs in Nepal.
-) Study the difference between the environments of new and old (established) industries.
-) Identifying the degree of impact of environments (Ordering the environments according to their impacts).
-) Study the difference between the environments of manufacturing and non-manufacturing industries.
-) Identify opportunities available and challenges faced by the Nepalese SMEs and provide recommendations.

1.5 Rationale of the Study

SMEs are the largest contributors of GDP of any country. In any developing economy, small and medium enterprises (SMEs) hold tremendous potential for sustained growth. They generate huge employment making use of the locally available resources and endowments. SMEs in Nepal account for an overwhelming proportion of economic activities, making a notable contribution to trade, employment and national income. The SME sector's performance is very encouraging. However, a lot more could have been

achieved through some supportive programs and focused collective effort of the stakeholders.

This research is an independent paper focused on analyzing environments of SMEs and its real situation in Nepal. This study attempts to analyze present condition of SMEs and its importance and problems. This study prescribes recommendations and strategies for the problems SMEs are facing currently.

1.6 Hypothesis of the Study

In order to fulfill the objectives of the study, the following hypotheses have been developed for empirical testing:

Hypothesis 1: There is no significant difference between manufacturing and non-manufacturing companies in their environment as perceived by respondents.

Hypothesis 2: There is no significant difference between new and old companies in their environment as perceived by the respondents.

1.7 Limitations of the Study

This study deals with the environments that affect the SMEs in Nepal only. Therefore, this study has certain limitations, which are given below:

-) Study covers the particular areas or some SMEs only. Therefore the findings of the study might not be appropriate in the areas where other SMEs are operated.
-) This study basically focuses on external environment only.
-) The data taken for the study is of limited period only.
-) Research focuses on SMEs only therefore results of the study can not be generalized to all types of enterprises.

1.8 Organization of the Study

This study has been divided into five different chapters.

Introduction

This chapter includes background of the study, focus of the study, statement of problem, objectives of the study, Rationale of the Study and limitations of the study.

Review of Literature

The second chapter deals with review of literature and review of related study.

Research Methodology

The third chapter deals with introduction, research design, nature and source of data, data gathering procedure, presentation and analysis of technique and tools.

Presentation and Analysis of Data

The fourth chapter deals with presentation of related data collected from different source and analysis of them to reach closer to the actual result by using financial and statistical tools and techniques.

Summary, Conclusion and Recommendation

The last chapter provides the summary, conclusion and recommendations of overall study. At the end an extensive bibliography and annexes are also included.

CHAPTER -II

REVIEW OF LITERATURE

Review of Literature means taking knowledge from different sources. This chapter includes the review of various already published materials. This chapter is divided in two parts i.e. Conceptual Framework and Review of Related Studies and Articles.

Conceptual Framework

2.1 Business Environment

A business does not function in a vacuum. It has to act and react to what happens outside the factory and office walls. These will affect the main internal functions of the business and possibly the objectives of the business and its strategies. Factors that affect a business directly or indirectly are known as business environment. Generally a business has two environments- internal and external. Internal environment consists of infrastructure, physical assets, human resources, organizational structure, work system etc. External environment of a firm consists of social, economic, political, technological and competitive forces. Internal forces vary among the businesses. Internal environments are depended on the nature of the business. On the other hand external environments are generally similar in nature for an entire industry. Therefore it is better to emphasize on external environment. Following are the business environment in detail:

-) **Social Environment** – how consumers, households and communities behave and their beliefs. For instance, changes in attitude towards health, or a greater number of pensioners in a population.
-) **Legal Environment** – the way in which legislation in society affects the business. E.g. changes in employment laws on working hours.
-) **Economic Environment** – how the economy affects a business in terms of taxation, government spending, general demand, interest rates, exchange rates and global economic factors.

-) **Political Environment** – how changes in political environment might affect the business e.g. a decision to subsidize building new houses in an area could be good for a local brick works.
-) **Technological Environment** – how the rapid pace of change in production processes and product innovation affect a business.
-) **Ethical Environment** – what is regarded as morally right or wrong for a business to do? For instance should it trade with countries that have a poor record on human rights?

2.2 Changing External Environment

Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers.

Some of the main reasons why markets change rapidly:

-) Customers develop new needs and wants.
-) New competitors enter a market.
-) New technologies mean that new products can be made more cheaply
-) A world or countrywide event happens e.g, Gulf War or foot and mouth disease.
-) Government introduces new legislation e.g. increases minimum wage.

2.3 Business and Competition

Though a business does not want competition from other businesses, inevitably most will face a degree of competition.

The amount and type of competition depends on the market the business operates in:

-) **Many small rival businesses** – e.g., a shopping mall or city centre arcade – close rivalry.
-) **A few large rival firms** – e.g, Washing powder or Coke and Pepsi.
-) **A rapidly changing market** – E.g., where the technology is being developed very quickly – the mobile phone market.

A business could react to an increase in competition (e.g. a launch of rival product) in the following ways:

-) **Cut prices** (but can reduce profits)
-) **Improve quality** (but increases costs)
-) **Spend more on promotion** (e.g. do more advertising, increase brand loyalty; but costs money)
-) **Cut costs**, e.g. use cheaper materials, make some workers redundant

2.4 Nepalese Business Environment

A beginning in the early 1990s, Nepal's new democratic government initiated a series of market-oriented policy reforms intended to prepare Nepal for the globalization of the world economy and to spur economic growth. Reforms included full convertibility of the rupee, elimination of quantitative restrictions and import licenses, rationalization of the tariff structure, simplification of the tax structure and expansion of investment incentives. Changes were also made in industrial licensing procedures and the Foreign Investment and Technology Transfer Act 1992 was passed to encourage foreign participation in the economy by easing the restrictions on direct investment and by making foreign firms eligible for all of the facilities and incentives open to national investors. In addition, financial sector reforms were undertaken. The Nepal Rastra Bank lifted restrictions and permitted the establishment of private commercial banks. It also eliminated the requirements that banks invest a portion of deposits in government T-bills, thereby freeing up additional resources for lending.

On top of these reforms, a boost was given to the economy by the signing of a trade and transit agreement with India. Renewed in 1996, this treaty opened the large Indian market to Nepalese products by removing the domestic content requirements. Under the treaty terms, either country can export goods to the other, without respect to the origin of the raw material inputs in the product process, as long as there is some local value added in manufacturing.

The initial private sector response to these positive changes in the business environment was dramatic. The average annual growth rate of GDP increased from 4.8 percent in the pre-reform period 1985-1991 to 5.2 percent in the post-reform period 1992-1996. This was matched by an increase in real private investment. The 4.7 percent average annual growth rate of real fixed private investment in 1985-1991 jumped to 13.2 percent in the post-reform period 1992-1996. Employment and value-added in manufacturing grew rapidly too. Manufacturing employment rose 36 percent in the first few years after the reforms, and the growth rate of manufacturing value-added increased from 5.3 percent in the pre-reform period 1985-1991 to more than 13 percent in the 1992-1996 periods. Unhappily, these post-reform growth trends did not prove sustainable after the mid-1990s, however.

Since 1996, trend growth in real GDP has declined back to the pre-reform rate of just over 4 percent, real private fixed investment has stagnated, manufacturing employment has declined about 19 percent, and trend growth in manufacturing value-added (with the exception of a pick up in garments and carpets exports) fell back to 4.3 percent because of the Asian crisis, and problems with foreign trade policies in key export markets. However, firms point out that poor implementation of reforms, bureaucratic burden, and continued political and policy uncertainty is more important contributors.

2.5 Small and Medium Enterprises (SMEs)

For developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part. SMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment. However, their importance in the development process goes beyond their strength in number. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995).

SMEs (partly because of the industrial sub-sectors and product groups covered by them) tend to employ more labor-intensive production processes than large enterprises. Accordingly, they contribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. There is ample empirical evidence that countries with a high share of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring long-term social stability by reducing ex-post redistribution pressure and by reducing economic disparities between urban and rural areas.

SMEs are keys to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities which can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance. SMEs are a seed-bed for entrepreneurship development, innovation and risk taking behavior and provide the foundation for long-term growth dynamics and the transition towards larger enterprises. SMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked. Such linkages are of increasing importance also for the attraction of foreign investment. Investing transnational corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors. SMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner.

Common Features of SMEs

Nepal's SMEs share the characteristics that are usually common in SMEs of developing countries and LDCs. Kyermaten (1993) presented these characteristics in the African case. Many of these characteristics are relevant in the Nepalese context as well. The common characteristics as propounded by Kyermaten are:

-) Very often, SMEs are family-level enterprise set up with family savings and sometimes supported by kith and kin.
-) The ownership and management are combined to the same individual(s) with extensive powers and control over all issues of the enterprise.
-) Since personal and family savings are the major sources of equity capital; credit worthiness of SMEs is low, which impedes their development.
-) Managerial competence requirements are perceived as unimportant and whoever manages the enterprise relies on his/her self-entrepreneurial skills and initiatives.
-) Recruitment of staff often formalizes without job description. Even if staffs are competent, they are rarely delegated with authority and power to decide on their own.
-) The technology used is usually locally innovated, limited in capacity and efficiency, and breaks down frequently – a condition, which causes high wastage.
-) Most SMEs produce only for local markets and export-oriented SMEs are few. Those that are export -oriented are not able to expand due to various inherent constraints.
-) Access to institutional credit for SMEs, despite provisions for the same, is limited due to individual entrepreneur’s inability to contribute to equity capital and collateral security.

2.6 Small and Medium Enterprises (SMEs) in Nepal

SMEs are main source of GDP in Nepal. Micro, Small and Medium Enterprises (SMEs) constitutes the backbone of national economies regardless of the level of their development. The definition of SMEs varies from country to country, however in Nepalese context these are characterized as Micro, Cottage and Small Industries (MCCIs) and play significant role in national economy contributing about 90% of the total industrial GDP. MCSI sector contribute about 70-80% of the total industrial value addition providing 80% of the industrial employment and 70% of the total export. Importance of MCSI sector is also due to its self-employment generation capacity providing adequate space for establishing new industries in rural areas. In addition

MCSIs are labor intensive, consuming local raw materials and can therefore help contribute in balanced agro industrial growth and equity in income distribution. The Department of Cottage and Small Industry (DCSI) is responsible for registration of SMEs.

2.7 Current Situation of SMEs in Nepal

Since the Nepalese trade and production sector is dominated by Small and Medium Enterprises (SMEs), these SMEs must be developed in order to be able to compete in the international market place. But Nepalese SMEs are not being competitive enough to compete in international market. Reasons that most SMEs are not internationally competitive are:

) Family enterprises

Most of the SMEs are created through family savings and controlled by one family member. Most employees are relatives, unskilled, have no employment contract, and/or well defined job responsibilities. As the decision making process is not participatory, this slows development.

) Lack of Capital

Since personal and family savings are the major sources of equity capital; credit worthiness of SMEs is low, which impedes their development.

) Lack of technical innovation

Most of SMEs use the same production, distribution and communication practices used fifty (50) years ago, investing little in research, innovation and new technologies. This hurts productivity and increases cost; products no longer match with market demand.

Poor product quality and standards are major constraints in exporting. In addition, raw material price variation adversely affects the production planning process. The lack of infrastructure, on going political crisis's, communication and transportation difficulties, and inconsistent imported raw materials challenge SME exporters.

Producers work independently of each other and do not cooperate with large producers. Cooperating with them could ensure the purchase of large quantity of goods at a fixed price and would develop long term business relationships. Each year SMEs must rethink their market(s) and buyer(s). Similarly government policy affects the development of the SME sector. SMEs face administrative difficulties and the lack public investment to develop quality standards, quarantine rules, and public and private certification agencies.

Despite these difficulties SMEs are successfully exporting in the international market. Nepal has certain unique products and services to offer the international market: pashmina, jewelry and gems and a unique form of community based tourism. Nepal is a valued travel destination for mountaineers and trekkers.

2.8 Review of Related Studies and Articles

2.8.1 Review of Articles

According to Thapalia (2007), on his article “Nepal’s Business Environment: Stained by political uncertainties”, “political environment has a direct impact on any country’s business environment, especially in underdeveloped country like Nepal. From last 10 years, Nepal’s GDP has considerably decreased because of political conflict. Nepalese business persons are hugely affected by a decade long conflict. The conflict resulted in the loss of business opportunities due to personal security and grave human rights violation—is the main affects. Some issues such as lack of foreign investment, capital flight (abroad) are result due to lost faith of investors because of hyper insecurity, trade unionism and the political abnormalities.

Focus must be on peace, security and political stability as these are the prerequisite for the business development, to minimize capital flight. There are two challenges to boost the fragile business sector- first is attracting both foreign and domestic investment and second, in business, new products and services have to introduced. The business industry cannot sustain itself by indulging in traditional business only – new frontiers will have to

be explored. While focusing more on some core sectors such as hydropower, real estate, tourism, herbs and adventure sports.

If peace and political stability is established in Nepal, then its business sector too would blossom. There is light at the other end of the tunnel for both domestic and international business persons in Nepal – Business environment is slowly but surely regaining its lost glory and there are every chances of it gaining the momentum in the next few months.”

(Source: <http://www.globalpolitician.com>)

According to Ojha,(December 2008), on the article “Aid for Trade: Experiences from Nepal”, (New Business Age, P 22) the cost of doing business is high in the Least Developed Countries (LDCs), particularly in land-locked countries like Nepal due to costly transit and inadequate infrastructures within their own borders. Production base of LDCs are limited to agriculture, non-timber forest products and SMEs. And increasing the productive capacity, quality assurances and the commercialization of production are major constraints in bringing LDCs like Nepal in the mainstreams of trade.

Sustaining the export base has become a daunting challenge as the major export items like carpet, readymade garment, pashmina, agricultural and herbal products are losing their traditional markets. It is a evident that a new paradigm has emerged with the openness of trade and economy at global and regional level.

After citing some of the problems on doing business, Mr. Ojha has listed down some points to be changed to support these industries. These points are:

-) Customs reform and modernization
-) Simplification and harmonization of trade- and transport-related documents and procedures
-) Use of electronic transport documents
-) Creating necessary regulatory framework for streamlining the trade processes
-) Greater collaboration among trade related institutions, e.g. banks, financial institutions, insurance companies

-) Emphasis on institutional development to deal with complexities of multilateral trading system

According to Sherpa (Nov-Dec, 2006) SME is backbone of Nepalese economy. SMEs are major source of tax revenue and export for the country. But political instability and lack of clear government policy regarding SMEs are the main constraints to well development of SMEs in Nepal. Government has not made any clear policy and has not cooperated enough for development of SMEs. SMEs should be promoted by drafting new regulations and law regarding it. And that law should provide enough security to SMEs. Existing laws and regulations are being constraints to provide facilities and training for the development of SMEs. Nepal has enough resources for SMEs. Government should bring new laws to mobilize those resources. Government should reward entrepreneur by facilitating in export so that foreign currency can be earned without using foreign resources.

According to Dhakal (Nov-Dec, 2006), SMEs helps to increase purchasing power of Nepalese people, generate employment and utilize available resources. Government should create the suitable environment which encourages SMEs. There are some industries that have good prospects in Nepal and which should be encouraged by government. Small hydropower projects, export based industries, production based industries, tourism, and employment oriented enterprises etc should be encouraged by drafting appropriate policies by government. (Source: FNSCI Bulletin)

2.8.2 Review of studies

According to Dr Pandey (2004) in his paper “Standards Related WTO Agreements: Opportunities and Challenge for SMEs” examines the TRS related agreements of the WTO and sheds light on their impacts on the Nepalese SMEs. The TRS related agreements include the agreements on SPS and TBT. The WTO as such does not develop TRS on its own, but gives due recognition to measures adopted by member countries as long as they are based on scientific evidence and do not restrict international trade. He cautions that the cost of complying with standards of importing developed countries

could be very high and out of reach for the Nepalese SMEs. This could even nullify the market access opportunities provided by other WTO agreements. He adds that Nepal will have to enhance its infrastructural and institutional facilities in order to be able to comply with international TRS. He warns that due to the vague definition of TRS under the WTO regime, developed countries have been using the TRS related agreements to impose stringent norms and standards to curtail imports. He suggests that remedial actions need to be taken at the national, regional and international levels to overcome barriers imposed by TRS and help the Nepalese SMEs participate effectively in the world trading system.

This paper makes a case that, if used fairly, TRS promote a system whereby products are 'once tested, once certified, and accepted everywhere'. However, standards and technical regulations present barriers to trade in all levels of the TRS regime – from rule making to conformity assessment to accreditation. This is so because of poor access to compliance resources, including scientific and technical expertise, information and financial resources on the one hand and adoption of discretionary standards by developed countries on the other. In order to overcome the barriers posed by TRS and help SMEs participate effectively in the world trading system, action must be taken at three levels: national, regional and international.

According to Centre for Studies in International Relations and Development (CSIRD), Kolkata, (January 2007), SMEs overwhelmingly dominate the industrial sector in Nepal. It plays a major role in the manufacturing sector and significantly contributes to the value addition and export trade of the country. But its contribution on GDP is as low as 9.9%. It indicates that SMEs has not been effective in Nepal to appropriate level.

SMEs networking, clustering and sub-contracting exchanges are more often used by countries to smoothen and increase collective output, buy raw materials at better prices, efficient use of production facilities, sharing training, and professional costs and share the expenses connected with product development, marketing and distribution. In this case, Nepal stands at a very nascent stage. In Nepal, most of these industries are operating with backward and forward linkage rather than developing the industries in the country.

This study focuses on Future Prospect of SMEs in Nepal. This report emphasize that the development of SME sector in Nepal rests upon the successful adoption of new technology for time to come. An investor friendly regime is required in this regard. With the absence of capital goods industry the initiative has to be the top priority. This requires the Government initiative to develop linkages between the transnational corporations and the SMEs sector for technology transfer and access to finance for development. The competitiveness of the sector can be enhanced through undertaking proper resource management, and developing human skills. Development of proper schemes to fulfill quality standard norms of WTO for exports will help the SME sector to emerge as a key sector for employment generation and country's growth in future.

In conclusion, this study focuses on development of SMEs through creating investment friendly environment, adoptions of new technology, and taking assistance from WTO regarding exports of SMEs products. If Nepal can do these things, it will help SMEs to develop as emerging sector for employment and country's growth.

According to Shrestha (2004) in his paper "Multilateral Trading Regime: Implications on the Nepalese SMEs" dwells on why Nepal decided to join the WTO and focuses on how the Nepalese SMEs could benefit from WTO membership. He argues that Nepal cannot remain aloof from the rest of the world and adds that WTO membership will help Nepal integrate with the global trading system. He adds that special provisions of the WTO will guarantee a predictable and stable trading environment for the Nepalese SMEs. The two fundamental principles of the WTO, namely "most favored nation (MFN)" and "national treatment" will enhance the export potential of Nepalese products and services. Under the MFN clause, the Nepalese products and services will get access to global markets at equal or no less term than being enjoyed by other WTO members. Similarly, the national treatment provision guarantees that the Nepalese goods and services will receive the same treatment as the goods and services of the importing country. He, nonetheless, cautions that WTO membership will bring not only opportunities, but also challenges. He warns

the sanitary and phytosanitary (SPS) measures that allow a member country to impose trade barriers to protect plant, animal and human health can be used arbitrarily. This requires that the Nepalese SMEs meet the quality requirements prescribed by the developed countries. But this could be a daunting task given the poor technological base and resource constraints of the Nepalese SMEs. The provisions in the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement are likely to increase the cost of acquiring the much needed technology for SMEs. He suggests that given the challenges confronting SMEs, the government must devise measures for SMEs' development in industrial and economic policies. In particular, the government must help SMEs in the areas of technology transfer and up gradation of their production systems. He concludes by highlighting the importance of raising awareness amongst SMEs on different WTO issues.

He finally concludes that given the inherent difficulties of small enterprises, it is quite clear that a dynamic SME sector cannot be established without external assistance. In its pursuit of open investment and trade policies, Nepal needs to integrate measures aimed at SME development into its general industrial and economic policy. Technology is becoming an issue of strategic importance to the development of industries, whether small, medium or large. Large firms usually have the resources to manage the transfer of technology through various means but the same cannot be said of SMEs. While appropriate government policies are a must for facilitating technology transfer to SMEs, a proper networking and linkage with domestic and foreign investors, as well as multinational companies, is also necessary. As a starter, nexus between large domestic companies and SMEs can be set up to facilitate the transfer of knowledge. These can be done better at the initiation of the government, than that of the entrepreneurs managing SMEs. Standardization of products manufactured by the Nepalese SMEs comes as one of the most important issues in the context of the WTO. In the absence of domestic standards that are at par with international standards, the Nepalese SME products are at risk of being rejected in the international markets. A critical mass of domestic enterprises in the middle range that are internationally competitive and capable of penetrating global chains of production is lacking in Nepal. The East and South-East Asian experience with

export-orientation shows that the majority of small enterprises perform poorly in the world market. Those most likely to survive are the ones with export potential, and which, in addition, grow from small into efficient medium-sized firms. One of the important points raised frequently is the level of awareness amongst the Nepalese SME entrepreneurs on the possible implications of WTO membership. The SME entrepreneurs should be equipped with necessary knowledge and skills to counter the threats posed by the country's WTO membership and take advantage of the benefits offered. Awareness rising should be a continuous process. The government and the private sector have to work together to identify products that have comparative and competitive advantage, not just for the purpose of exports, but for the purpose of survival in the domestic market as well.

According to Adhikari (2004) in his paper "Trade Remedy Measures as Means to Promote SMEs" looks into the trade remedy measures available within the WTO framework. He indicates that there are three direct and two indirect trade remedy measures. Direct measures include anti-dumping, countervailing measures and safeguards. Balance of payment (BoP) cover and special safeguard in the case of agriculture are the indirect trade remedy measures. Anti-dumping measures are taken to protect domestic enterprises against unfair practices of foreign private companies, while countervailing measures are taken against the subsidy provided by the foreign governments. Similarly, safeguard measures are taken to remedy the problem of import surge. He, however, cautions that it will be difficult for a country like Nepal to actually utilize these measures as it is necessary to first enact laws, put in place institutional mechanisms and prove that dumping has caused serious injury to the domestic enterprises in order to be eligible to use these measures. He, thus, suggests that the government should immediately start to work to enact the required legislation, develop and put in place the necessary institutions and train human resources to handle trade remedy measures.

This paper concludes that the comfortable level of tariff binding at the WTO during Nepal's accession has provided a much needed policy space for the government to

protect the domestic enterprises in general and the SMEs in particular. However, this may not be sufficient to protect the majority of SMEs, which still need support to face global competition. Moreover, there is little doubt that they need to be protected against unfair competition from foreign enterprises. Trade remedy measures, used cautiously, could prove an appropriate tool for the protection and promotion of these enterprises. However, use of trade remedy measures requires a great deal of homework in terms of enacting legislation, equipping institutions, developing human resources and information system and capacity building of the civil servants as well as lawyers. Therefore, these processes should start without further delay. A final note of caution: all these should be done in the most cost effective manner so as to avoid putting excessive burden on the already over – stretched financial resources of the country.

According to Asian Productivity Organization, Tokyo (2007) the study talks about all the policies, such as trade policy, banking and monetary policy, problem and constraints, policy and legal issues, infrastructure, finance/credit, labor act, business support services, and comparatively advantageous products regarding entrepreneur development and strategy. Further it talks about different organizations that promote and support entrepreneurship development, business management, markets and marketing.

After analysis of three different cases of Nepalese small industries, study identifies some problems of SMEs and figure out the solutions these firms are implementing. These firms were Nepali Paper Product Pvt. Ltd., Om Catering Service and New Baneshwor Department Store. Study finds some problems regarding SMEs. These problems are as follows:

-) Problem faced to minimize waste
-) Problem regarding new product development
-) Problems regarding business expansion
-) Competition
-) Problem in sales strategy formulation

Similarly study finds some solutions to overcome these problems implemented by these firms. These solutions are as follows:

-) Focus on customer service to remain competitive
-) Recycling of wastages

-) Proper training of employees
-) Adopting new technologies such as e-business

The case studies presented in the report show that some sort of training or business exposure played a pivotal role in establishing these enterprises. Despite some differences in training their human resources, the common factor in all three industries is that when they face problems, they turn to business consultants to solve their problem.

According to Pandey (2004) in his paper “Problems and Prospects of SMEs in Nepal” looks closely at the impact of the country’s WTO membership on the domestic SMEs. He begins by stressing on the importance of SMEs in the Nepalese economy. He highlights that SMEs form more than 96 percent of the total industrial establishments and contribute 83 percent to the industrial employment generation, while share about 80 percent of the industrial sector’s contribution to the national gross domestic product (GDP). He makes his analysis by closely looking into the problems of the Nepalese SMEs. He argues that traditional management, undeveloped entrepreneurial culture, outdated production technology and poor marketing skills make it difficult for SMEs to face global challenges. He adds that inability to increase the quality and technical standards of products will diminish the competitiveness of SMEs. He asserts that the development of SMEs is important not only from the perspective of balanced economic development, but also from the perspective of maintaining peace and tranquility, and social harmony.

He recommends that the government and the private sector must work together to identify products and services having comparative advantage at the international level. He also adds that the government should provide support at the field level to assist SMEs in the identification of new trading opportunities. He also suggests that the government should support and initiate special mechanisms like strategic alliance and networking between SMEs and large firms, and promotion and establishment of export trading houses and free trade and export processing zones. He concludes by advocating on the need to use various trade remedy measures and subsidies to protect SMEs and provide them space to compete globally.

According to Shakya (2004) in his paper “Agreement on Agriculture: Challenges and Opportunities for the Nepalese Agricultural Sector” examines the effect of Nepal’s WTO membership on this sector. He states that the Nepalese agricultural trading regime is already very liberal as Nepal does not impose any kind of trade restrictive measures such as quantitative restrictions (QRs) and provide trade distorting domestic and export subsidies. He adds that customs duties on most agricultural products are less than 15 percent. He states that various WTO agreements such as SPS, TRIPS, and Technical Barriers to Trade (TBT) and Agriculture will have both positive as well as negative impact on the Nepalese agricultural sector. He suggests that a host of opportunities exist for the sector under the WTO regime. However, he says that to translate the opportunities into actual gains, Nepal will have to improve the transportation linkages between the farm and the market, reduce costs of production, and acquire and utilize enhanced technology. He also suggests that to gain from initiatives like the European Union’s (EU’s) “Everything but Arms” offer, Nepal should immediately work to identify and market products that have export potential.

He finally concludes that despite all apparent threats of Nepal’s WTO membership on SMEs, there is actually enough policy space with the government to safeguard their interests. However, it has to be understood that support and subsidies cannot be continued for long given the fiscal constraints the government faces. As such, the government should seek the support of international organizations and donor institutions to provide financial and technical assistance to SMEs to improve their production systems expand marketing and communication linkages and enhance competitiveness. However, at the same time, SMEs themselves also should strive to raise their internal capacities to be able to survive in the multilateral trading system

According to Ghimire (2004) in his paper “SMEs under the TRIPS Regime” looks into the TRIPS Agreement and analyses its impact on the Nepalese SMEs. The TRIPS Agreement sets out the minimum standards of IPR protection. While examining the impact of the TRIPS Agreement on the Nepalese SMEs, he cautions that the use of reverse engineering will be restricted. He also observes that the use of Geographical

Indication (GI) protection for promoting some of Nepal's unique products abroad could be more difficult than assumed. He adds that pharmaceutical companies and providers of health services will be adversely affected by the TRIPS Agreement. TRIPS will also affect the agro-based industries as it has the potential to weaken farmers' position in relation to plant breeders. He suggests that special measures will have to be put in place to protect "farmers' rights". The fact that more than 70 developing countries have not been able to fully implement the TRIPS provisions necessitates that Nepal seeks external technical and financial assistance. He also suggests that Nepal should collaborate with other least developed countries (LDCs) and work closely to protect the interests of SMEs within the framework of the multilateral IPR regime. In the domestic front, Nepal should utilize the flexibility in the TRIPS Agreement to protect the interests of SMEs.

He concludes the study saying that the TRIPS Agreement is undergoing review, which is mandated in the Agreement itself. In this context, a pro-SME agenda needs to be agreed upon. Developing countries themselves are required to work it out. For an LDC like Nepal, it is very difficult to fully implement the provisions of the TRIPS Agreement. In fact, more than 70 developing countries have failed to implement the Agreement wholly. If developing countries themselves did not have the capacity to implement TRIPS within the agreed deadline, how can one assume that LDCs will be able to implement it? Keeping these issues in mind, Nepal needs to build coalitions with other countries in order to move them closer to protecting SMEs within the framework of any IPR regime. This does not mean that domestic efforts are adequate. Whatever flexibility the Agreement provides must be used productively. Protection of SME products through 'utility models' will, for example, provide an alternative to patent protection, which is too rigorous an exercise for SMEs. On the other hand, capacity building of SMEs should receive appropriate priority from the policymakers.

2.8.3 International Issues in SMEs

According to SME Survey, (October, 2008): Micro-enterprises bear brunt of financial turbulence, South African SMEs are feeling the pinch of higher interest rates, as the cost of capital and bad debt begins to rise. While the majority of SMEs appear to be confident

in their ability to weather the storm, it is the start-up and micro-enterprise that finds itself at most risk in the face of adversity. This has emerged from the findings of SME Survey 2008, which explored the impact of infrastructural challenges on SMEs during a time of increasing inflation, interest and petrol prices.

According to principal researcher Goldstuck, SMEs tend to get off the ground without troubling banks for business-specific loans, looking instead to existing sources of capital such as mortgage bonds. This tactic, however, leaves especially start-up companies with particular sensitivity to interest rate fluctuations. The survey suggests that micro-enterprises at the one end of the scale and larger businesses at the other are least likely to borrow, but for different reasons. The micro-enterprise owner may not qualify for a loan or is funding the business from existing resources, such as a bond, while the larger company is likely able to fund itself. Less than 4% of micro-enterprises and 13% of those with 6-10 employees plan to take a loan in the coming year. That figure rises steadily, reaching 18% of companies with 51 to 75 employees that will borrow. However, for the larger enterprises in the survey, those with more than 100 employees, the figure falls to just 4%. This suggests that the larger a company is, the better it is able to fund expansion from its own operations.

According to SME Survey, 2008; Adapting to infrastructure challenges, Arthur Goldstuck, principal researcher for SME Survey, notes that the economic landscape in South Africa has changed dramatically in just six months. “From a buoyant economic climate and abundant availability of credit, from a relatively reliable and stable power supply and the assurance that the water from the tap is arguably the best in the world, companies today find themselves cash strapped,” he says.

In examining the infrastructure challenges which business must today cope, the survey is referring to the physical environment in which the SME operates. This includes roads, electricity, traffic lights and congestion, transport costs and more. These elements are changing in front of our very eyes and all have an impact on how the SME is likely to perform. SME Survey 2008 will strongly focus on infrastructure owing to the crisis

which is created by load shedding and which has highlighted the lack of planning in certain key infrastructural areas, Goldstuck continues, with research intending to measure the impact from the point of view of the SME.

Research looks at the ability of the SME to deal with these new rules of doing business. Questions that must be asked include the impact that load shedding has had on profitability and competitiveness. Methods of coping with these problems, such as the purchase of laptops or 3G connectivity will also be explored. Among the new rules of doing business is the issue of crime. “Government does not need to be told that crime is reaching crisis levels; however, there is a perception that crime against businesses is faceless. It is not. The business owners are people, and crime has a material impact on them and their ability to run a competitive and profitable operation,” Goldstuck says.

According to SME Survey, July 2007: Technology makes the South African SME competitive, SMEs that make effective use of the Internet and computer technology tend to be more competitive than those that do not. Technology is a real business enabler. Today, companies are far savvier about technology and constantly seek to optimize their business efficiency through harnessing the opportunities that technology brings them. The business world has reached a level of IT-maturity with IT playing a core role in enabling the company to deliver on its strategy.

Goldstuck, principal researcher of the Survey says, “The interim results already indicate that there are common IT-related factors that astute business owners take advantage of to improve the performance of their company.” While factors common to the competitive SME include company type, duration of operation and turnover among others, Goldstuck reserves special mention for ICT factors. He says high speed Internet connectivity, mobile solutions including Wi-Fi, multifunction devices and the services of specialist software and hardware companies contribute to improved competitiveness. “Companies that use these resources consistently fare better than those that do not,” he states. Particularly around Internet connectivity and mobility, the claims of vendors and solution providers appear to be valid at the interim stage of the Survey. These technologies

increase productivity and contribute to more competitive companies in the SME environment.

Goldstuck also points out that the highest correlation between competitiveness and any one of the factors is 90%. This indicates that 10% of competitive companies do not necessarily rely on advanced technology for their competitiveness; it is possible to run an effective company without these tools, but using them where appropriate definitely appears to support improved productivity and competitiveness.

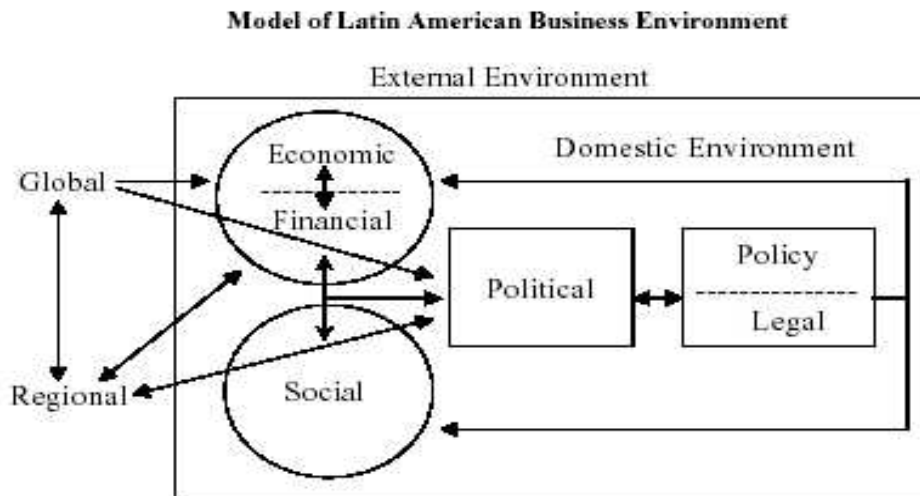
(Source: www.smesurvey.co.za)

According to Latin American Business Environment Report (LABER) (2007), the environment for business in Latin America continues to be attractive. The region has prospered from four years of export-led growth, accompanied by low inflation and healthy capital flows. In the policy arena most governments continue to pursue macroeconomic stability through policies that implement inflation targeting, fiscal discipline, and floating exchange rates.

However, the major clouds threatening the region's business environment are the growing volatility in global financial markets, faltering world trade negotiations and the erratic course pursued by populist governments in the region. There is also growing concern with the volatility gripping global financial markets and the prospects of an economic slowdown in the United States.

The study shows the model of Latin American Business Environment as follows:

Figure 2.1



Further the study explains about the various environment of Latin America. These environments are broadly categorized as external and domestic environment:

1. External Environment

The external environment has been quite favorable for Latin America in recent years. The booming world economy produced high commodity prices and favorable terms of trade for the region. While the United States continues to be Latin America's most important market, the region is increasingly linked to China, India and other emerging economies. Latin America also benefited from the expansion of global capital flows, both on the equity and debt side. The financial market volatility that broke out in the second half of 2007 makes the external environment more uncertain.

2. Domestic Environment

The domestic components of the business environment are generally positive: all Latin American economies are growing; inflation is under control in most, and local currencies are strong. Domestic capital markets are stronger, while the external debt burden is declining, along with unemployment and poverty. The

political and legal components of the business environment are mixed. Furthermore, the domestic environments are categorized as:

a) Economic and Financial Performance

The Latin American economies performed well over the past year, and the outlook is promising into 2008. The sustained expansion has helped the region regain the losses in per capita income suffered from 1998 to 2003.

b) Social Environment

The current economic expansion has reduced poverty and unemployment and improved income growth and distribution. Crime remains a persistent problem throughout the region. Criminal activity has become increasingly violent in recent decades, although some countries (most notably Colombia) are making strides in improving citizen security.

c) Political Environment

The large number of elections (11) over the past two years did not result in the dramatic swing to the left some had predicted. Voters in Bolivia, Ecuador and Nicaragua nonetheless elected leftist-populist governments patterned after and loosely allied with Hugo Chávez, who was also returned to office in Venezuela. In addition, leftist challengers narrowly lost in Mexico and put up a good fight in Peru. It is important to note two additional trends in assessing recent elections: first, transfers of power take place in Latin America through regularly scheduled elections and, second, other presidents with leftist roots (in Brazil, Chile, Uruguay, Peru and Costa Rica) have chosen not to align with Chavez but to pursue a more moderate, pragmatic path.

d) Policy Environment

In his January 2007 inauguration, President Hugo Chávez promised to build “21st century socialism” in Venezuela openly at odds with the philosophy and market-friendly policy agenda that emerged in the early 1990s as the

Washington Consensus or New Economic Model (NEM) for Latin America. The centerpieces of the NEM were, first, policies to achieve macroeconomic stability and, second, to promote structural reforms to open the region's economies. Regional integration evolved into a central component of the NEM. Although Chavez's alternative paradigm has made limited headway in a few countries – notably in Bolivia and to a lesser extent in Nicaragua and Ecuador – the current economic expansion has reinforced the commitment of other leaders to the NEM.

e) Legal Environment

The efficient conduct of business requires a legal environment in which rule of law is institutionalized. Production, commerce, and trade require a transparent and effective legal system that ensures the enforceability of contracts and reduces the cost of doing business. While no country is perfect in this regard – and Latin America as a region is comparable to other emerging markets – the troubling fact remains that the legal environment in most countries fails to fulfill the needs of domestic and international capital, which is why legal reform is a high priority. Those countries in which the rule of law is institutionalized– Chile, Costa Rica and Uruguay – have the most attractive business environments.

Finally this reports concludes that the business environment in Latin America is better and better each day. Countries are adopting new policies and making structural changes in different policies to trade with rest of the world. But recent financial crisis has created adversely to the business environment.

Dalitso and Peter (May, 2000), in the paper “The Policy Environment for Promoting Small and Medium-sized Enterprises in Ghana and Malawi” seeks to identify the achievements of the SME sector, to consider the constraints to the development of the sector, and to

highlight the role governments, internal and external support institutions have played in promoting the sector in Ghana and Malawi. Small-scale rural and urban enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries.

In reviewing the definitions of small scale enterprises of both countries, the study concluded that, there is no single, universal, uniformly acceptable definition of small scale enterprises. Several measures have been used to define the small scale enterprise sector. The most commonly used is the number of employees of the enterprise. However, in applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by various official sources.

Further the study focuses on the constraints. According to the study, factor availability and cost are the most common constraints. The specific problems differ by country, but many are related. Access to finance remains a dominant constraint to small scale enterprises in Ghana and Malawi. Other constraints faced by the sector include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training in both countries.

Finally, the study concludes saying that the importance of the small scale enterprise sector in the economic development and growth of low income countries has been widely recognized and need not be over-emphasized. This sector has the potential for the future growth of both employment and incomes as well as in alleviating urban and rural poverty. In order for the sector to flourish, the playing field has to be leveled in terms of policies and strategies that are required to assist the sector attain its full potential. To begin with, one of the constraints cited that the sector faces is the existence of laws, regulations and rules that impede the development of the sector. Therefore, in order to

address this problem, there is need to amend the laws and regulations and that governments should play the role of a facilitator rather than that of a regulator and provides a conducive framework within which the sector operates. (Source: <http://www.man.ac.uk/idpm/>)

All these studies focus on the problems, opportunities, threats and the recommendation to the SMEs. And the final part of this section deals with the environment of the South African SMEs and their problems and the use of technology and its impact. Similarly the key infrastructure problems and financial problems are also discussed in the scenario of South Africa.

Though the South African and Nepalese contexts are completely different, we can understand the methods or technology they have used and we can get knowledge out of it. On the other hand the various studies done are few years back, therefore there is little time gap and the whole political and other scenarios have been completely different in Nepal. Therefore the conclusion made in those studies might not be appropriate in this context in Nepal. Similarly the pace of technology changes has made the ways of doing business different than the past.

After reviewing above articles and studies, it is found that various studies regarding business environment and its effect on doing business have been done. Environments that affect whole industry are analyzed in these above mentioned studies and articles. But this study focuses on those environments that affect mainly SMEs in Nepal. This study tries to find out specific problems SME entrepreneurs are facing. This study emphasizes on such forces that are main constraints in development of SMEs in Nepal. On the other hand, the study also focuses on the environments of manufacturing and non-manufacturing separately. Similarly, study also look at the differences between the environments of new and old companies.

CHAPTER- III

RESEARCH METHODOLOGY

Research methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem, setting hypothesis and other theoretical problem. Statistical tools are used to analyze the numerical data.

3.1 Research design

The research design refers to the conceptual structure within which the research is conducted. This study is undertaken with the objective of examining the environment of the SMEs. It is a fact finding study involving collection of data directly from the sample chosen. So, survey research design was used in this study as it seeks responses directly from the respondents.

The method of collecting data from the respondents is questionnaire. The respondents were requested to fill up the questionnaire. The questionnaires were distributed to the selected industry both small and mediums. The researcher herself was present to make respondents understand the questionnaire. Moreover, researcher has used some secondary data about the small industries from DOSCI.

For the purpose of the study five dimensions of the environment; economic, political, cultural, technological and global are considered for the analysis. The basic research problem to be studied is to identify the most influencing environment of SMEs on the basis of length of time in the business and the nature of the business. The data for the study has been collected from the entrepreneur, using a scale of attitude measurement called Likert Scale that was administered through a questionnaire.

3.2 Sample of the study

The study used 52 small and medium enterprises in Biratnagar. Structured questionnaire was administered to conveniently sample of 52 respondents. Questionnaire was distributed with researcher's own presence; therefore, all the responses were duly collected. Out of 52 samples, 25 were manufacturing industries and 27 were non-manufacturing industries. Similarly, 13 enterprises were having operation of less than five years, 19 having operation of five to 10 years, 11 having operation of 10 to 20 years and 9 having more than 20 years experience in their current businesses.

3.3 Nature and Sources of Data

Information is the lifeblood of any research. Both primary and secondary information have been collected for this study. Primary information is based on questionnaire, informal interview as well as unstructured dialogues and discussions with the entrepreneurs. For the primary data, entrepreneurs were asked to indicate their degree of environmental factors affecting their businesses on various dimensions in a six point scale. On the other hand, Secondary data are collected from the published bulletin and unpublished records of the DOSCI.

3.4 Data Collection Procedures

Based on the review of literature, a comprehensive questionnaire was developed which include the environmental factors that affect the business. After developing the questionnaire, researcher contacted the respondents and collected the necessary information or data by filling the questionnaire. Similarly, for the secondary data researcher used internet to obtain necessary data up to 2064/65. Recent data are not published yet.

3.5 Statistical Analysis

Collected data were tabulated and the mean values and standard deviation values of rating for each components of environment were computed based on independent variables. Total of 30 components were given codes (1 to 6) for ease in analysis. Percentage and frequency distribution table have been used to describe the respondents' profile. Mean and standard deviation were used to find the level of environment impact and t-test and ANOVA were used for hypothesis technique. Similarly, for the graphical representation of secondary as well as primary data, charts (bars and pie) were used. All the data collected from the respondents were processed using Microsoft Excel.

3.6 Research Variables

For the study, two independent and five dependent variables were identified.

Independent Variables

1. Nature of the Company
 - a) Manufacturing
 - b) Non-manufacturing

2. Length of the time in current business
 - a) Less than 5 years
 - b) 5-10 years
 - c) 10-20 years
 - d) 20 and more years

Dependent Variables

For the study five dimensions of environment were identified. The degree of environmental impact in the perception of entrepreneurs has been found on the basis of six-point scale; 1-strongly disagree, 2-moderately disagree, 3-slightly disagree, 4-slightly agree, 5-moderately agree, and 6-strongly agree.

The five broad dimensions representing the dependent variables were identified as follows:

1. *Economic*

- a) The current energy crisis has very badly affected our business.
- b) There is no problem of procuring raw materials for our business on time.
- c) Bank interest rates are higher in Nepal.
- d) There is no problem to find credit (Loan) for our business.
- e) Consumer's purchasing power is growing in Nepal.
- f) Labor costs are higher in Nepal.
- g) Rising inflation has badly affected our business.
- h) Our businesses are affected due to high fluctuations in exchange rates.
- i) Infrastructure is the main constraint for the expansion of business in Nepal.

2. *Technological*

- a) I believe the productivity can be increased through automation.
- b) We cannot afford to invest on technological development.
- c) Rapid technological changes have made doing cottage and small business easy.
- d) E-business is necessary to be successful in today's competitive world.
- e) There is no strong institutional mechanism for technology transfer in the SME sector in Nepal.
- f) Technology change has created opportunity to our business.

3. *Socio-cultural*

- a) Customers have become more demanding and informed due to growing education.
- b) Existing population growth, migration, and urbanization have created opportunity to our business.
- c) Greater acceptances of fashion and changing lifestyle of people have created opportunities for our business.
- d) The changing Nepalese culture has posed threats to our business.

4. Political-Legal

- a) Current law is not appropriate and not able to protect the right of the businessmen.
- b) Tax incentives provided by the government is sufficient in the given economic status of the country.
- c) Nepalese tax administration is tedious for businessmen.
- d) Government instability is the most important factor that affects our business.
- e) Labor unions in our businesses are highly politicized.
- f) Performance related pay and incentive system cannot be implemented due to trade union resistance.
- g) A policy must be formulated to guarantee industrial and investment security.

5. Global

- a) Current global economic crisis has affected our business.
- b) Growth and profit making opportunities are increasing for our business as world has become a single market due to globalization.
- c) Our business is facing tough competition from foreign companies.
- d) The liberalization policy adopted by the government is right decision for Nepal.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

The main objective of this study is to analyze the existing business environment of SMEs in Nepal. To achieve the stated objectives, collected data have been analyzed in this chapter by applying appropriate statistical tools and techniques. On the basis of both recorded data and primary data collected from the respondents, this study has tried to assess the true picture of Nepalese Business Environment for SMEs. The contents of this chapter include on analysis of: (1) Secondary data covering the status of SMEs, employment generated by SMEs, permission granted etc. (2) Economic, political-legal, technological, socio-cultural and global environment of both new and old companies. (3) Economic, political-legal, technological, socio-cultural and global environment of both manufacturing and non-manufacturing companies.

4.1 Presentation and Analysis of Secondary Data

4.1.1 Statement of Permission Granted to Small Industries by DOCSI

Department of Cottage and Small Industry grants the permission to start small industry. The statement regarding permission is given below:

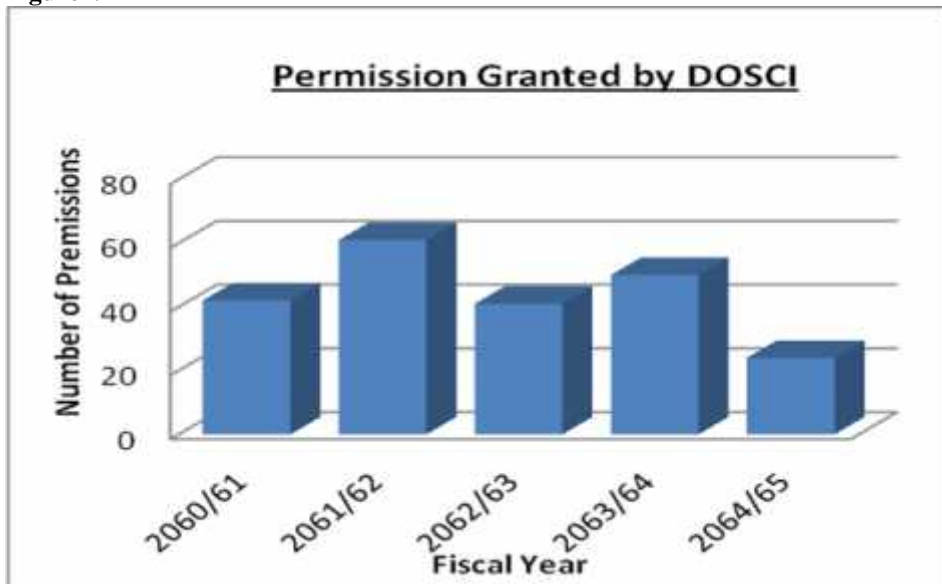
Table 4.1: Permission Granted by DOSCI

S.N.	Fiscal Year	Number of Permission Granted
1	2060/61	42
2	2061/62	61
3	2062/63	41
4	2063/64	50
5	2064/65	24

Source: Bulletin (2065), DOSCI

In table 4.1, we see that there is highest number of permission granted in FY 2061/62. In the year 2064/65, it has decreased by more than 50% than that of previous year. The total number of permission granted to small industries is 1380 in 2064/2065 (DOSCI, 2065).

Figure4.2



Source: Bulletin (2065), DOSCI

4.1.2 Statement of Registration of Small Industries

According to Industrial Act 2049, all the industries must be registered before the operations. But small industries can be operated till 6 months without registration. The number of small industries registered according to their nature is shown below:

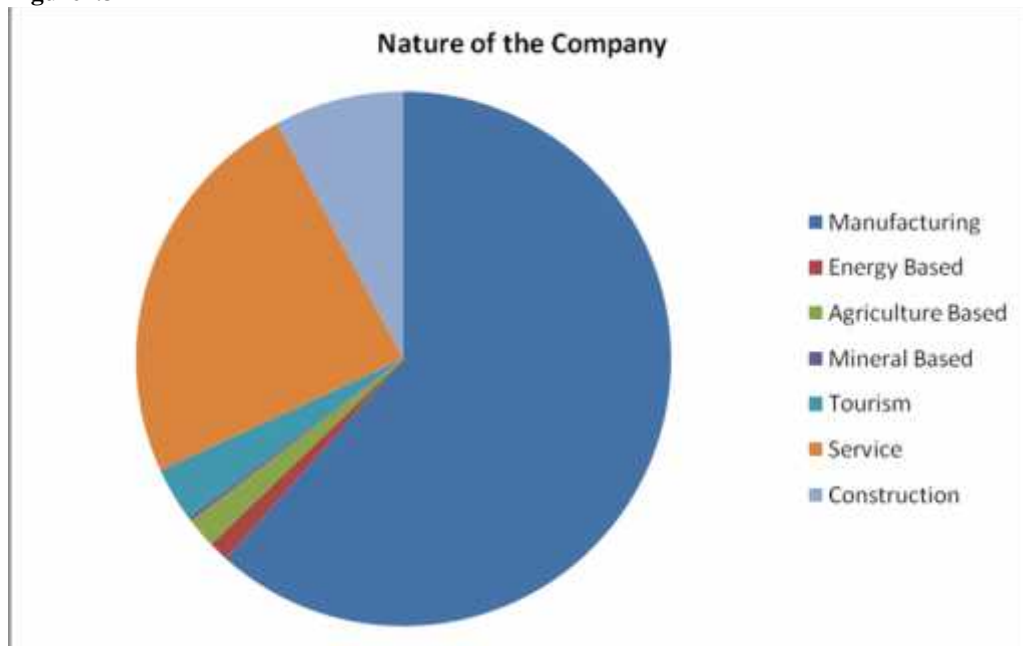
Table 4.2: Nature of the Industry

S.N.	Nature of the industry	Fiscal Year				
		2060/61	2061/62	2062/63	2063/64	2064/65
1	Manufacturing	4389	4291	3416	2967	3290
2	Energy Based	88	9	18	96	39
3	Agriculture Based	132	63	195	251	377
4	Mineral Based	17	0	17	4	24
5	Tourism	234	74	352	559	920
6	Service	1715	3575	4177	4653	4480
7	Construction	558	18	55	181	252
	Total	7133	8030	8230	8711	9382

Source: Bulletin (2065), DOCSI

In table 4.2, the information regarding the registration of small industries is shown. The manufacturing firms are higher than any other industries in all years followed by service industry. Similarly, the manufacturing industry has increased in numbers than previous year as opposed to service industry which has decreased in number than previous year. The percentage of manufacturing, energy based, agriculture, mineral based, tourism, service, and construction industry for the previous five year is 44.24%, 0.60%, 2.45%, 0.15%, 5.16%, 44.83% and 2.56% respectively.

Figure4.3



Source: Bulletin (2065), DOCSI

4.1.3 Statement of Registration of Small Industries On the Basis of Region

On the regional basis, number of small industries registered in five regions can be shown below table 4.3:

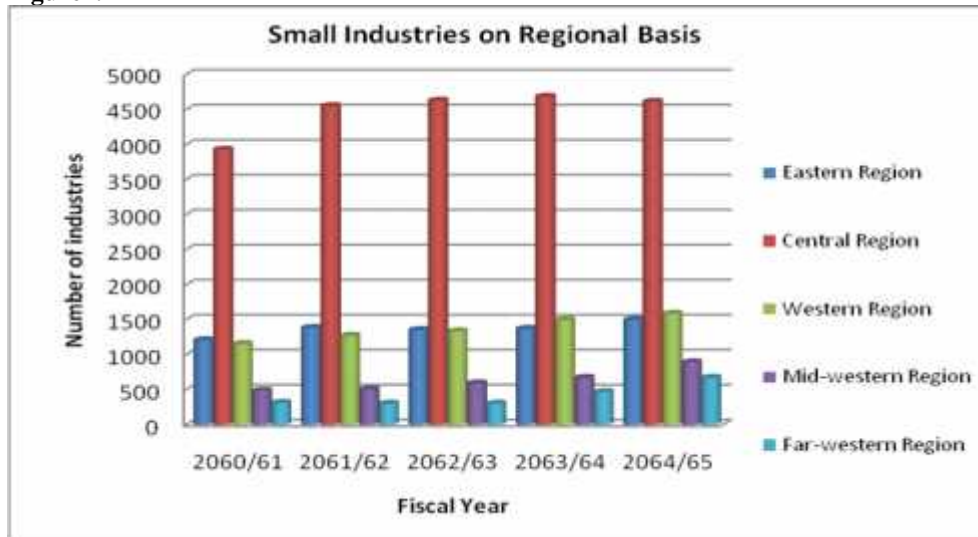
Table 4.3: Small Industries on Regional Basis

S.N.	Regions	Fiscal Year				
		2060/61	2061/62	2062/63	2063/64	2064/65
1	Eastern Region	1212	1386	1355	1373	1501
2	Central Region	3931	4556	4633	4690	4618
3	Western Region	1156	1274	1336	1499	1588
4	Mid-western Region	488	506	594	672	894
5	Far-western Region	314	304	304	469	673

Source: Bulletin (2065), DOCSI

In table 4.3, we see that there are more small industries in Central region (mostly in Kathmandu). There is very low number of small industries in Far-western region. Similarly Kathmandu has the highest numbers of Small industries followed by Lalitpur, Rupandehi, and Kaski in district level.

Figure4.4



Source: Bulletin (2065), DOCSI

4.1.4 Classification of Small Industries in terms of Type of Firm

DOCSI classifies the firm as private, partnership and private limited firm. According to types of firm, small industries are shown below:

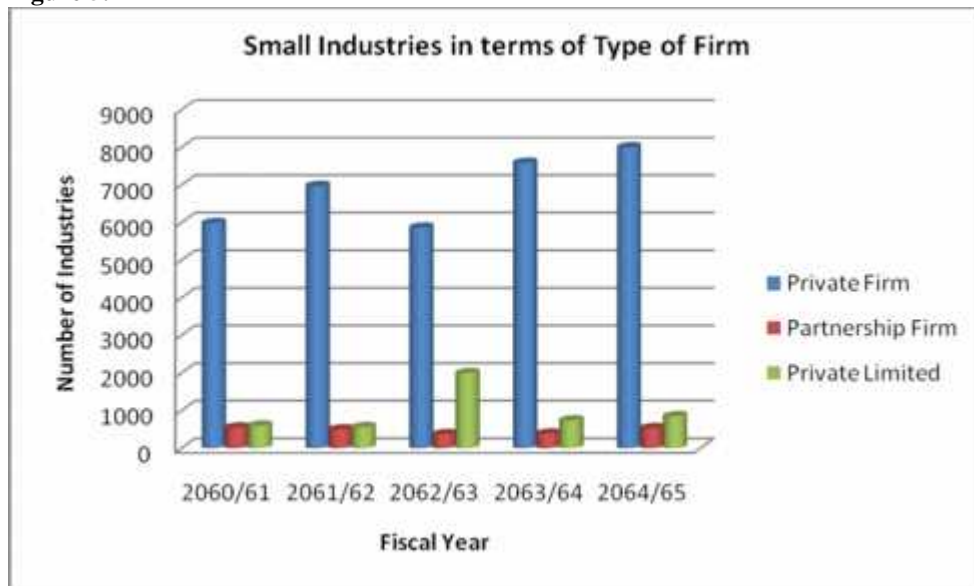
Table 4.4: Small Industries in terms of Type of Firm

S.N.	Types	Fiscal Year				
		2060/61	2061/62	2062/63	2063/64	2064/65
1	Private Firm	5985	6972	5864	7587	8001
2	Partnership Firm	548	499	372	386	533
3	Private Limited	600	559	1994	738	848

Source: Bulletin (2065), DOCSI

In table 4.4, there are highest numbers of private firms in Nepal. There are 175497 private firms, 11375 partnership firms and 19669 private limited firms in 2065 in Nepal. In total there are 198941 small industries with the total investment of Rs. 12992.494 Crore.

Figure 5.4



Source: Bulletin (2065), DOCSI

4.1.5 Statement of Employment Created by Small Industries

Small industries are the major contributor to the employment generations in Nepal. Total numbers of employment generated by the small industries are shown in the table 4.5:

Table 4.5: Employment Created by Small Industry

Fiscal Year	Number of industries	Total Number of Employments	Employment per industry
2060/61	7133	44725	6.27
2061/62	8030	74695	9.30
2062/63	8230	39738	4.82
2063/64	8711	54145	6.22
2064/65	9328	54523	5.85
Total			32.46

Source: Bulletin (2065), DOCSI

From the table, we can see that higher the number of small industries, higher the employment. The higher number of employment was created in the year 2061/62. In that year 9.37 people got job in an industry. There are 2252863 people involved in small

industries (DOSCI, 2065). Similarly, there are more than 6 (32.46/5) people that work in an industry.

4.2 Presentation and Analysis of Primary Data

In order to present and analyze the primary data, hypotheses were set. For the testing of hypothesis t-test and ANOVA were used. These hypotheses were based on environment of manufacturing and non-manufacturing company, and the environment of new and old companies. The environment contains five dimensions and each dimension has several components. Each component was tested and analyzed.

4.2.1 Respondents' Profile

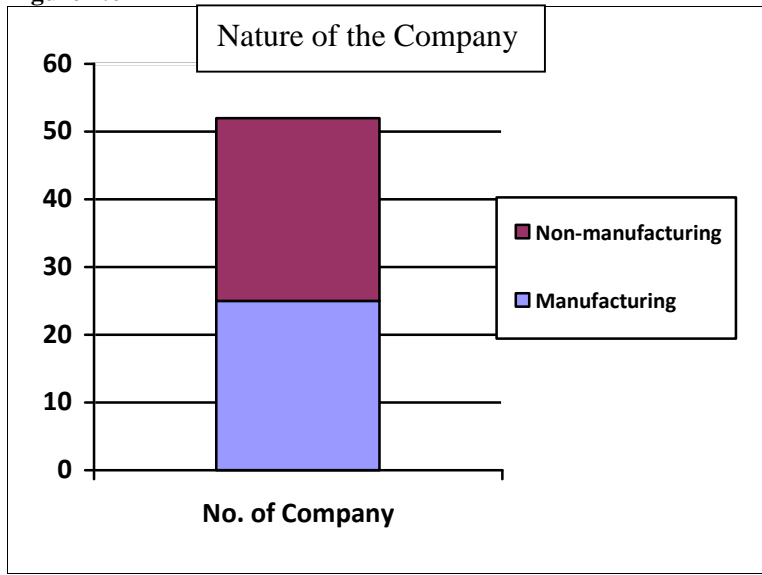
4.2.1.1 Nature of the Company

There were all together 52 companies from where the data were collected. Out of which 25 were manufacturing and 27 were non-manufacturing. It represents 48% manufacturing and 52% non-manufacturing. The following table 4.6 shows the details of the nature of the company.

Table 4.6: Sample Number of Nature of Company

Nature of the Company	Sample Number
Manufacturing	25
Non-manufacturing	27
Total	52

Figure 4.6



4.2.1.2 Length of Time of the Company

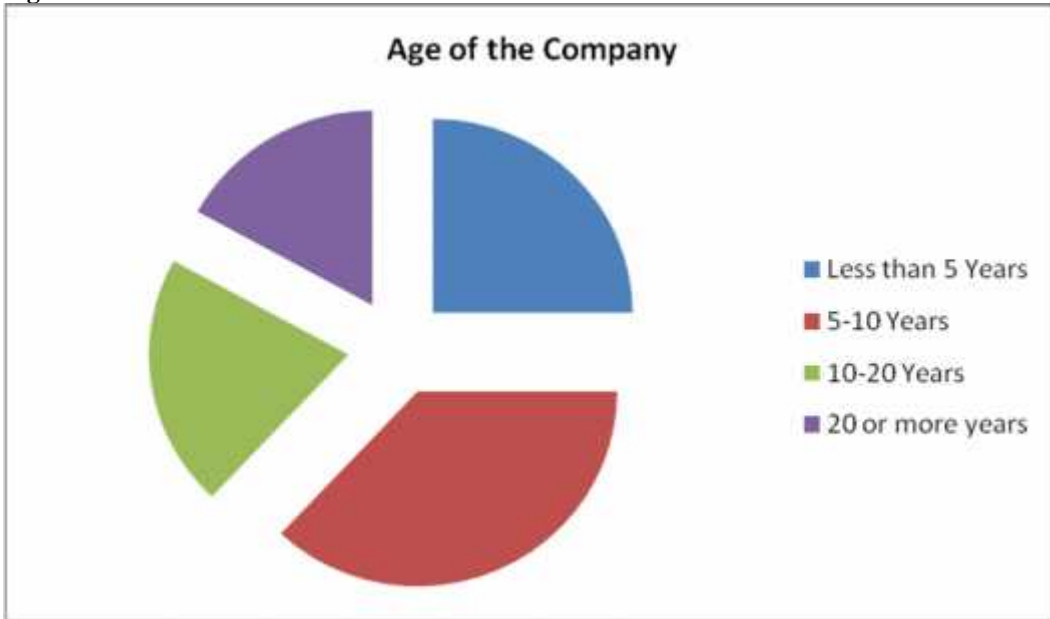
Out of 52 companies, 13 are in the category of less than 5 years, 19 are of 5-10 years, 11 are of 10-20 years, and 9 are of 20 or more years. It represents 25%, 37%, 21% and 17% respectively. Table 4.7 shows the details of the age of the company.

Table 4.7: Age of the Company

Time (Years)	Sample No.	Percentage
Less than 5 Years	13	25%
5-10 Years	19	37%
10-20 Years	11	21%
20 or more years	9	17%
Total	52	100

Source: Annex-1

Figure 4.7



Source: Annex-1

After categorizing the data collected, these data were analyzed using averages. To identify the degree of impact of these environments, average of each environment is calculated. The following table 4.8 shows the results:

Table 4.8: Environmental Dimensions

Environment Dimensions	Average Value
Economic	3.54
Technological	4.04
Socio-cultural	4.07
Political-legal	3.96
Global	3.47

Source: Annex-1

Table 4.8 shows that in the perception of the entrepreneur the most influencing environment to their business is socio-cultural having average value of 4.07 and it is followed by technological (average value 4.04) and political-legal (average value 3.96) environment respectively. Entrepreneurs think that global environment (average value

3.47) has less impact than other dimensions of the environment in their business and it is followed by economic (average value 3.54) environment.

4.2.2 Environment and the Nature of the Company

Under environment there are five dimensions. Each of five dimensions is taken to analyze in terms of their components using t-test. Similarly, Mean as variable(X1 and X2) of both nature of the companies are calculated and shown in the table.

4.2.2.1 Economic Environment

Table 4.9 shows the variable of nature of the company category and their economic environment.

Nature of the Company	Mean	E1	E2	E3	E4	E5	E6	E7	E8	E9
Manufacturing	X ₁	4.55	3.5	4.1	3.4	3.25	3.6	3.9	3.9	4.15
Non-manufacturing	X ₂	3.8	3.37	3.25	2.5	2.65	2.4	3.7	3.5	4.15

Source: Annex-1

Table 4.9: Variable: Economic environment and Nature of the company

- E1: The current energy crisis has very badly affected our business.
- E2: There is no problem of procuring raw materials for our business on time.
- E3: Bank interest rates are higher in Nepal.
- E4: There is no problem to find credit (Loan) for our business.
- E5: Consumer's purchasing power is growing in Nepal.
- E6: Labor costs are higher in Nepal.
- E7: Rising inflation has badly affected our business.
- E8: Our businesses are affected due to high fluctuations in exchange rates.
- E9: Infrastructure is the main constraint for the expansion of business in Nepal.

In order to test the hypothesis whether there is significance difference between manufacturing and non-manufacturing company in their economic environment, t-test was done.

H₀: There is no significant difference between manufacturing and non-manufacturing companies in their economic environment.

H1: There is significant difference between manufacturing and non-manufacturing companies in their economic environment.

Decision: Since the calculated value of t is less than tabulated value of t, the null hypothesis H0 is accepted and hence the alternative hypothesis H1 is rejected. That is, there is no significant difference in the economic environment of manufacturing and non-manufacturing companies.

4.2.2.2 Technological Environment

Table 4.10 shows the variable of nature of the company category and their technological environment.

Table 4.10: Variables: Technological environment and Nature of the company

Nature of the Company	Mean	T1	T2	T3	T4	T5	T6
Manufacturing	X ₁	3.95	3.6	3.65	5.1	3.95	4.15
Non-manufacturing	X ₂	4.20	3.30	4.05	4.40	4.60	3.55

Source: Annex-1

T1: I believe the productivity can be increased through automation.

T2: We cannot afford to invest on technological development.

T3: Rapid technological changes have made doing cottage and small business easy.

T4: E-business is necessary to be successful in today's competitive world.

T5: There is no strong institutional mechanism for technology transfer in the SME sector in Nepal.

T6: Technology change has created opportunity to our business.

In order to test the hypothesis whether there is significance difference between manufacturing and non-manufacturing company in their technological environment, t-test was done.

H0: There is no significant difference between manufacturing and non-manufacturing companies in their technological environment.

H1: There is significant difference between manufacturing and non-manufacturing companies in their technological environment.

Decision: Since, tabulated value > calculated t-value, the null hypothesis is accepted and hence the alternative hypothesis is rejected. Therefore we can conclude that there is no significance difference between the manufacturing and non-manufacturing companies in their technological environment.

4.2.2.3 Socio-cultural Environment

Table 4.11 shows the variables of nature of the company category and their socio-cultural environment.

Table 4.11: Variables: Socio-cultural environment and Nature of the company

Nature of the Company	Mean	S1	S2	S3	S4
Manufacturing	X ₁	4.5	4.00	3.95	3.75
Non-manufacturing	X ₂	3.95	4.2	4.05	4.1

Source: Annex-1

S1: Customers have become more demanding and informed due to growing education.

S2: Existing population growth, migration, and urbanization have created opportunity to our business

S3: Greater acceptances of fashion and changing lifestyle of people have created opportunities for our business.

S4: The changing Nepalese culture has posed threats to our business.

In order to test the hypothesis whether there is significance difference between manufacturing and non-manufacturing company in their socio-cultural environment, t-test was done.

H₀: There is no significant difference between manufacturing and non-manufacturing companies in their socio-cultural environment.

H₁: There is significant difference between manufacturing and non-manufacturing companies in their socio-cultural environment.

Since, tabulated value of t is more than the calculated value of t, the null hypothesis is accepted and hence the alternative hypothesis is rejected. Therefore we can conclude that there is no significance difference between the manufacturing and non-manufacturing companies in their socio-cultural environment.

4.2.2.4 Political-Legal Environment

Table 4.12 shows the variables of nature of the company category and their political-legal environment.

Table 4.12: Variables: Political-legal environment and Nature of the company

Nature of the Company	Mean	P1	P2	P3	P4	P5	P6	P7
Manufacturing	X ₁	4.3	2.55	3.2	4.85	4.1	4.2	5.35
Non-manufacturing	X ₂	4.5	3.9	3.5	4.25	3.65	3.45	3.55

Source: Annex-1

- P1: Current law is not appropriate and not able to protect the right of the businessmen.
- P2: Tax incentives provided by the government are sufficient in the given economic status of the country.
- P3: Nepalese tax administration is tedious for businessmen.
- P4: Government instability is the most important factor that affects our business.
- P5: Labor unions in our businesses are highly politicized.
- P6: Performance related pay and incentive system cannot be implemented due to trade union resistance.
- P7: A policy must be formulated to guarantee industrial and investment security.

In order to test the hypothesis whether there is significance difference between manufacturing and non-manufacturing company in their political-legal environment, t-test was done.

H₀: There is no significant difference between manufacturing and non-manufacturing companies in their political-legal environment.

H₁: There is significant difference between manufacturing and non-manufacturing companies in their political-legal environment.

Decision: Since the calculated value of t is greater than the tabulated value of t, the hypothesis is rejected and hence the alternative hypothesis is accepted. In conclusion, the null hypothesis is rejected showing there is no significance difference between the political-legal environment of manufacturing and non-manufacturing companies.

4.2.2.5 Global Environment

Table 4.13 shows the Variables of nature of the company category and their Global environment.

Table 4.13: Variables: Global environment and Nature of the company

Nature of the Company	Mean	G1	G2	G3	G4
Manufacturing	X ₁	4.35	3.75	4.1	3.45
Non-manufacturing	X ₂	3.60	3.60	3.25	3.45

Source: Annex-1

G1: Current global economic crisis has affected our business.

G2: Growth and profit making opportunities are increasing for our business as world has become a single market due to globalization.

G3: Our business is facing tough competition from foreign companies.

G4: The liberalization policy adopted by the government is right decision for Nepal.

In order to test the hypothesis whether there is significance difference between manufacturing and non-manufacturing company in their global environment, t-test was done.

H₀: There is no significant difference between manufacturing and non-manufacturing companies in their global environment.

H₁: There is significant difference between manufacturing and non-manufacturing companies in their global environment.

Decision: Since calculated value of t is greater than the tabulated value of t the null hypothesis is rejected and hence the alternative hypothesis is accepted. In conclusion, the

null hypothesis is rejected showing there is no significance difference between the global environment of manufacturing and non-manufacturing companies.

4.2.3 Environment and the Age of the Company

The length of time in current business is categorized in four different categories: less than 5 years, 5-10 years, 10-20 years, and 20 or more years. Under environment, there are same five dimensions. Each of five dimensions is taken to analyze in terms of their components using F-test. Each component of every dimension is taken analyze the hypothesis which are explained below. Similarly, Mean (M) and Standard Deviation (SD) are calculated and shown in the table.

4.2.3.1 Economic Environment

Table 4.14 shows the mean and standard deviation in life of the company category. In the first component of economic environment the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 5.6, 2.5, 4.38, and 5.13 respectively. There is inconsistency in the new companies and old companies with the standard deviation of less than 1 in first component. In second component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.2, 3.93, 3.88, and 3.57 respectively. There is inconsistency among the respondent businesses of less than five years category with the standard deviation of less than 1 in second components. In the third component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.7, 3.21, 3.88, and 3.75 respectively. There is inconsistency among the respondent businesses of less than five years category with the standard deviation of more than 1 in third components. In the fourth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.3, 3.7, 3.75, and 4.38 respectively. There is consistency among the respondent businesses category with the standard deviation of more than 1.5 in all components. In the fifth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.1, 2.86, 4.25, and 3.75 respectively. There is inconsistency in new companies with the

standard deviation of more than 2. In the sixth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.1, 2.21, 3.75, and 4.38 respectively. There is consistency among the all companies in sixth component with the standard deviation of around 2. In the seventh component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 4.1, 3.21, 2.5, and 3.38 respectively. There is consistency between the old and new companies in the sixth component with the standard deviation of more than 1. In the eighth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.5, 3.64, 3.38, and 4.00 respectively. There is an inconsistency in old companies with the standard deviation of more than 2. In the ninth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.1, 5.21, 4.50, and 4.00 respectively. There is an inconsistency in new companies with the standard deviation of less than 1.

Table 4.14: Mean and Standard Deviation: Economic environment and Age of the company

Years in Current Business		E1	E2	E3	E4	E5	E6	E7	E8	E9
Less than 5 Years	Mean	5.6	3.2	3.7	2.3	2.1	2.1	4.1	3.5	3.1
	S.D	0.88	0.92	2.16	2.06	1.20	1.73	1.73	1.18	2.18
5-10	Mean	2.5	3.93	3.21	3.07	2.86	2.21	3.21	3.64	5.21
	S.D	1.79	1.77	1.67	1.77	2.11	1.81	1.19	1.34	1.42
10-20	Mean	4.38	3.88	3.88	3.75	4.25	3.75	2.50	3.38	4.50
	S.D	2.20	1.31	1.06	1.55	1.30	2.10	1.25	1.67	2.25
20 or More	Mean	5.13	3.75	3.75	4.38	3.75	4.38	3.38	4.00	4.00
	S.D	1.36	1.58	1.91	2.13	1.67	1.77	1.60	2.07	2.14
Total	Mean	4.18	3.43	3.68	2.95	2.95	3.00	3.8	3.70	4.15
	S.D	2.04	1.52	1.75	1.99	1.72	2.05	1.52	1.49	2.06

In order to test the hypothesis whether there is significance difference between new and old companies on the basis of economic environment, ANOVA was done. The result is shown in the table 4.15.

H₀: There is no significant difference between new and old companies in their economic environment.

H₁: There is significant difference between new and old companies in their economic environment.

4.15 ANOVA: Economic Environment and Age of the company

Components	F	Decision
E1	8.51	Reject
E2	2.57	Accept
E3	0.74	Accept
E4	8.44	Reject
E5	3.40	Reject
E6	4.13	Reject
E7	0.67	Accept
E8	0.17	Accept
E9	3.07	Reject

Since, in four components (second, third, seventh, and eighth) of economic environment, tabulated value $F >$ calculated F-value hypothesis is accepted showing no significance difference between new and old companies in their economic environment. In other five components tabulated value $F <$ Calculated value, the hypothesis is rejected on the ground that there is significance difference between older and new companies on the basis of economic environment.

4.2.3.2 Technological Environment

Table 4.16 shows the mean and standard deviation in life of the company category. In the first component of technological environment the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.5, 4.5, 4.13, and 3.88 respectively. There is inconsistency between the new companies and old companies with the standard deviation of 1-2 in first component. In second

component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.4, 3.57, 4.13, and 4.13 respectively. There is inconsistency in the old companies with the standard deviation of more than 2 in 10-20 year category in second components. In the third component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.60, 4.43, 5.63, and 2.63 respectively. There is consistency among the new and old companies with the standard deviation of around 2 in all components. In fourth component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.5, 5.50, 4.25 and 4.75 respectively. There is inconsistency in the new companies with the standard deviation of more than 2 in less than 5 year category in fourth components. In the fifth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 4.00, 4.36, 4.13, and 3.75 respectively. There is inconsistency in old companies with standard deviation of more than 2 in 20 years or more categories. In the sixth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.8, 4.36, 4.13 and 3.75 respectively. There is inconsistency in old companies with standard deviation of more than 2 in 20 years or more categories.

Table 4.16: Mean and Standard Deviation: Technological environment and Age of the company

Years in Current Business		T1	T2	T3	T4	T5	T6
Less than 5 Years	Mean	3.5	2.4	3.6	3.5	4.0	2.8
	S.D	1.96	1.78	1.96	2.01	1.25	1.48
5-10	Mean	4.5	3.57	4.43	5.5	5.0	4.36
	S.D	1.70	1.74	1.87	0.76	1.47	1.39
10-20	Mean	4.13	4.13	5.63	4.25	3.88	4.13
	S.D	1.16	2.10	1.77	1.77	1.92	1.92
20 or More	Mean	3.88	4.13	2.63	4.75	4.0	3.75
	S.D	1.96	1.96	2.20	1.83	2.07	2.12
Total	Mean	4.08	3.45	3.85	4.75	4.28	3.85
	S.D	1.72	1.91	1.99	1.71	1.75	1.46

In order to test the hypothesis whether there is significance difference between new and old companies on the basis of technological environment, ANOVA was done. The result is shown in the table 4.17

H₀: There is no significant difference between new and old companies in their technological environment.

H₁: There is significant difference between new and old companies in their technological environment.

4.17 ANOVA: Technological Environment and Age of the company

Components	F	Decision
T1	0.71	Accept
T2	1.56	Accept
T3	1.73	Accept
T4	3.22	Reject
T5	0.74	Accept
T6	4.29	Reject

Since, in four components (first, second, third, and fifth) of technological environment, tabulated value $F >$ calculated F-value hypothesis is accepted showing no significance difference between new and old companies in their technological environment. In other two components tabulated value $F <$ Calculated value, the hypothesis is rejected on the ground that there is significance difference between older and new companies on the basis of technological environment.

4.2.3.3 Socio-Cultural Environment

Table 4.18 shows the mean and standard deviation in life of the company category. In the first component of socio-cultural environment the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.7, 4.36, 4.13 and 5.00 respectively. There is consistency between the new companies and old companies with the standard deviation of less than 2 in all categories. In second

component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.8, 4.29, 2.5, and 4.38 respectively. There is inconsistency between the old and new companies with the standard deviation of more than 2 second components. In the third component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.7, 4.57, 4.38, and 3.63 respectively. There is consistency among the new and old companies with the standard deviation of around 2 in all components. In fourth component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.7, 4.07, 2.13 and 3.63 respectively. There is consistency between the new and old companies with the standard deviation of just more than 1 in fourth components.

Table 4.18: Mean and Standard Deviation: Socio-cultural environment and Age of the company

Years in Current Business		S1	S2	S3	S4
Less than 5 Years	Mean	3.7	3.8	3.7	3.7
	S.D	1.34	1.32	1.89	1.25
5-10	Mean	4.36	4.29	4.57	4.07
	S.D	1.34	1.49	1.87	1.90
10-20	Mean	4.13	2.5	4.38	2.13
	S.D	1.81	2.03	1.39	1.39
20 or More	Mean	5.0	4.38	3.63	3.63
	S.D	1.31	2.07	2.13	1.41
Total	Mean	4.23	4.1	4.00	3.93
	S.D	1.65	1.83	1.53	1.75

In order to test the hypothesis whether there is significance difference between new and old companies on the basis of socio-cultural environment, ANOVA was done. The result is shown in the table 4.19.

H₀: There is no significant difference between new and old companies in their socio-cultural environment.

H1: There is significant difference between new and old companies in their socio-cultural environment.

Table 4.19: ANOVA: Socio-cultural Environment and Age of the company

Components	F	Decision
S1	8.16	Reject
S2	0.28	Accept
S3	0.69	Accept
S4	0.32	Accept

Since, in four components (second, and third) of socio-cultural environment, tabulated value $F >$ calculated F-value hypothesis is accepted showing no significance difference between new and old companies in their socio-cultural environment. In other two components tabulated value $F <$ Calculated value, the hypothesis is rejected on the ground that there is significance difference between older and new companies on the basis of socio-cultural environment.

4.2.3.4 Political-Legal Environment

Table 4.20 shows the mean and standard deviation in life of the company category. In the first component of political-legal environment the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.80, 4.79, 3.38, and 5.13 respectively. There is inconsistency in the old companies with the standard deviation of more than 2 in first component. In second component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.6, 3.64, 4.13, and 2.75 respectively. There is inconsistency in the old companies with the standard deviation of more than 2 in 10-20 year category in second components. In the third component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.90, 3.57, 4.88 and 3.5 respectively. There is inconsistency in old companies with the standard deviation of more than 2 in 20 years or more categories. In fourth component, the means of life of the

business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 4.0, 4.71, 3.75 and 5.00 respectively. There is consistency in both new companies and old companies with the standard deviation of same ranges. In the fifth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.80, 4.64, 3.75, and 3.63 respectively. There is consistency in both old and new companies with standard deviation of around 2 in all categories. In the sixth component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.80, 3.86, 4.25 and 4.75 respectively. There is inconsistency in old companies with standard deviation of more than 1.5 in 10-20 years categories. In the seventh component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.70, 4.43, 3.88 and 5.50 respectively. There is inconsistency in old companies with standard deviation of more than 1.5 in 10-20 years and 20 years and more categories.

Table 4.20: Mean and Standard Deviation: Political-legal environment and Age of the company

Years in Current Business		P1	P2	P3	P4	P5	P6	P7
Less than 5 Years	Mean	3.8	3.6	2.9	4.0	2.8	2.8	2.7
	S.D	1.75	1.51	1.91	1.94	2.10	1.99	2.08
5-10	Mean	4.79	3.64	3.57	4.71	4.64	3.86	4.43
	S.D	1.67	1.95	1.99	1.54	1.86	1.99	1.79
10-20	Mean	3.38	4.13	4.88	3.75	3.75	4.25	3.88
	S.D	2.05	1.77	1.85	1.93	2.03	1.46	0.74
20 or More	Mean	5.13	2.75	3.50	5.00	3.63	4.75	5.50
	S.D	1.36	2.19	2.07	1.60	2.20	1.91	1.07
Total	Mean	4.4	3.23	3.35	4.55	3.88	3.83	4.45
	S.D	1.86	1.90	1.71	2.08	1.93	1.91	1.90

In order to test the hypothesis whether there is significance difference between new and old companies on the basis of political-legal environment, ANOVA was done. The result is shown in the table 4.21.

H0: There is no significant difference between new and old companies in their political-legal environment.

H1: There is significant difference between new and old companies in their political-legal environment.

Table 4.21: ANOVA: Political-legal Environment and Age of the company

Components	F	Decision
P1	1.50	Accept
P2	0.94	Accept
P3	0.25	Accept
P4	0.56	Accept
P5	1.69	Accept
P6	1.70	Accept
P7	6.63	Reject

Since, in first six components of political-legal environment, tabulated value $F >$ calculated F-value hypothesis is accepted showing no significance difference between new and old companies in their socio-cultural environment. In the last component tabulated value $F <$ Calculated value, the hypothesis is rejected on the ground that there is significance difference between older and new companies on the basis of political-legal environment.

4.2.3.5 Global Environment

Table 4.22 shows the mean and standard deviation in life of the company category. In the first component of global environment the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.70, 3.36, 4.38, and 5.13 respectively. There is consistency on both the old companies and new companies in the impact of global environment with the standard deviation of around 2 in all categories. In second component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.10, 3.93, 5.00 and 3.75 respectively. There is inconsistency in the old companies with the standard deviation of more than 2 in 20 or more year's category in second components. In the third

component the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 3.70, 3.14, 3.63, and 4.13 respectively. There is consistency in both new and old companies with the standard deviation of just less than 2 in all categories. In fourth component, the means of life of the business in the category (less than 5 years), (5-10 years), (10-20 years), and (20 or more years) are 2.50, 4.29, 4.38, and 2.50 respectively. There is consistency in new companies with the standard deviation of less than 1 in less than 5 years category.

Table 4.22: Mean and Standard Deviation: Global environment and Age of the company

Years in Current Business		G1	G2	G3	G4
Less than 5 Years	Mean	3.7	3.1	3.7	2.5
	S.D	1.89	1.52	1.83	0.97
5-10	Mean	3.36	3.93	3.14	4.29
	S.D	1.95	1.73	1.92	1.86
10-20	Mean	4.38	5.0	3.63	4.38
	S.D	1.67	1.73	1.81	1.64
20 or More	Mean	5.13	3.75	4.13	2.50
	S.D	1.81	2.19	1.89	1.69
Total	Mean	3.98	3.68	3.68	3.45
	S.D	1.75	1.85	1.77	1.85

In order to test the hypothesis whether there is significance difference between new and old companies on the basis of global environment, ANOVA was done. The result is shown in the table 4.23.

H₀: There is no significant difference between new and old companies in their global environment.

H₁: There is significant difference between new and old companies in their global environment.

Table 4.23: ANOVA: Global Environment and Age of the company

Components	F	Decision
G1	1.67	Accept
G2	0.48	Accept
G3	0.69	Accept
G4	3.86	Reject

Since, in first three components of global environment, tabulated value $F >$ calculated F-value hypothesis is accepted showing no significance difference between new and old companies in their global environment. In the last component tabulated value $F <$ Calculated value, the hypothesis is rejected on the ground that there is significance difference between older and new companies on the basis of global environment.

This analysis of both primary and secondary data shows that the number of small industries registered is in increasing trend in last five years in all the district and regional level in Nepal. The majority of industry registered is of service industries which are followed by manufacturing industries for the last three years. Out of which, nearly 90% are private firm. Furthermore there are more small industries in Central region (mostly in Kathmandu) and very low number of small industries in Far-western region. Similarly Kathmandu has the highest numbers of Small industries followed by Lalitpur, Rupandehi, and Kaski in district level. Central region has almost half of the industries registered in Nepal.

Similarly employment opportunity increases with the increase in small industries. From the data, there are more than six people are involved with an industry. Most of the entrepreneurs think that out of five environmental dimensions, socio-cultural environment has greater impact on the business and global environment has the less impact. But the entrepreneurs of export based companies are highly affected by global environment than other environment. Both the new and old companies are equally affected by the environmental changes.

From the business environment analysis on the basis of five dimensions; economic environment, technological environment, socio-cultural environment, political-legal environment, and global environment, we came to some conclusions: manufacturing companies are highly affected by the environments as compare to non-manufacturing companies. Similarly, from the second variable (life of the company) we came to in conclusion that the level or the degree of the environmental impact on both the new and old companies are same i.e. environments affect both new and old companies in same way.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

A business firm is an open system. It gets resources from environment and supplies its goods and services to the environment. There are different levels of environmental forces. Some are close and internal forces whereas others are external forces. External forces may be related to national level, regional level or international level business environment. These environmental forces provide opportunities or threats to the business community.

A business firm gets human resources, capital, technology, information, energy, and raw materials from society. It follows government rules and regulations, social norms and cultural values, regional treaty and global alignment, economic rules and tax policies of the government. Thus, a business organization is a dynamic entity because it operates in a dynamic business environment. Business Environment refers to all internal and external forces that have a bearing on the development, performance, and outcomes of a business organization. Business environment is thus the sum of surrounding and influencing the life and development of the firm and ultimately to the overall business community.

SMEs are those organizations that:

- (I) Mobilize funds which otherwise would have been idle;
- (II) Have been recognized as a seed-bed for indigenous entrepreneurship;
- (III) Are labor intensive, employing more labor per unit of capital than large enterprises.
- (IV) Promote indigenous technological know-how;
- (V) Are able to compete (but behind protective barriers);
- (VI) Use mainly local resources, thus have less foreign exchange requirements;
- (VII) Cater to the needs of the poor and;
- (VIII) Adapt easily to customer requirements (flexible specialization).

Most of the Nepalese SMEs are involved in processing and manufacturing of food items, consumer and household goods, and textiles and related products, both for exports and for domestic market. Rice, pulses, oil and flour mills, dairy, aerated soft drinks, fruit juices and processed products, noodles, biscuits and light snack products, chocolates and candy, mineral water, dried vegetables, and some other household utilitarian and consumption goods have dominated SMEs activities in Nepal.

It has been observed across the world that, regional cooperation in support of the development and integration of SMEs yields in increasing social and economic returns within and across the nations. A competitive and innovative SME sector holds out enormous promise for the region, particularly in terms of:

-) higher income growth,
-) optimal employment of domestic resources,
-) more gainful integration through global and regional trade and investment, and
-) Greater equity access, distribution and development.

Small enterprises in the developing countries were purposefully meant to serve the local demand. However, the newly emerged situation has brought in changes favorable to demands and investment structures. As a result, SMEs are not only key ingredients to the global production networks across countries but also actively involved in country's innovation system. SME sector has been playing a vital role in employment generation in country's exports. This sector accounts for about 90 percent of all firms falling outside the agricultural sector of East and South-East Asia, and of Japan as well (Wattnapruttiasian, 2002). In Nepal SME sector accounts for about 80% of industrial employment generation by industrial sector and shares about 80% of industrial sectors' contribution to the national gross domestic product (GDP). In developed countries, SMEs have been playing a vital role in strengthening country's competitiveness.

In the light of these facts, this study has made an attempt to find out the specific environment of SMEs in Nepal, including various environment dimensions. These

environment dimensions are economic environment, socio-cultural environment, political-legal environment, technological environment, and global environment. Furthermore, this study differentiates the environment of the manufacturing and non-manufacturing companies, and new and old companies using various statistical techniques. From the study, it is found that socio-cultural environment has greater impact on the SMEs than others. Similarly, manufacturing companies are more affected than non-manufacturing companies; on the other hand we came to conclusion that both new and old companies are affected in a same manner. By analyzing secondary data of past five years, we knew that the trend of registering the new industries are increasing and the employment per industry is more than six people.

Challenges Faced by the Nepalese SMEs

Despite the importance and the contribution of the SME sector to the Nepalese economy, the sector itself is encountering serious adjustment problems under a changing and dynamic environment, especially in the context of liberalization and globalization. The twin processes of globalization and liberalization are creating new dynamics of production, enterprise development and international competition. Nepal's existing enterprise development strategies may no longer be effective in the light of these changes.

Statistical records indicate that the Nepalese SMEs are finding it hard to survive in the new environment ushered in by increased competition. But after restoration of peace process and ending up of the insurgent period, SMEs are in increasing trend. Government figures show that the registration of SMEs in Nepal is on a upward trend. While a total of 7133 SMEs were registered with the Department of Industry during the fiscal year 2060/61, the number of registration in the fiscal year 2061/62 increased to 8030, similarly, 8230 in 2062/63, 8711 in 2063/64, and 9382 in 2064/65. Current transitional period may have a role to play to worsen the condition of the SMEs because of frequent strikes and agitation. But certainly, with exports waning and the performance of the industrial sector on the downturn, possible adverse impact of the globalization and liberalizations cannot be ruled out.

In the Nepalese context, while the capital resource needs of SMEs are mostly met locally, they largely depend on raw materials from India, and in some cases, from China and other countries. The SMEs that source raw materials from the neighboring countries, especially India, are technically better off because they can be assured of regular supplies. However, liberalization has not resulted in better access to inputs for SMEs and Nepal's entry into the WTO does not guarantee that either. Domestic firms have found themselves doubly affected – by increased competition from foreign goods and by rising costs of production. Most Nepalese entrepreneurs thus find it difficult to compete with products from India where the costs of production are lower. Goods produced in Nepal utilizing Indian raw materials are seldom able to compete with similar goods imported from India.

In Nepal, the enterprise sector shows a distinct dual structure. At one extreme, there exist a few large modern capital-intensive, resource-based, import-dependent and assembly-oriented enterprises, while at the other, there are small and informal sector enterprises that use very simple and traditional technologies and serve a limited local market. The number of medium sized enterprises is relatively less. This structural imbalance has arisen despite many SME promotion programs of the government.

Some of the more apparent threats are from WTO membership. Threats come from some WTO agreements, particularly Sanitary and Phytosanitary (SPS) Measures and Trade Related Aspects of Intellectual Property Rights (TRIPS). Developed countries may impose various trade barriers in the name of protecting plant, animal and human health. Since a substantial proportion of SMEs' output emanates from agriculture, there is always a risk that importing nations would restrict imports citing different SPS measures. Agro-exports from Nepal to existing trade partners are subjected to quarantine checks, which have created difficulty and given rise to delays and losses in transits.

The TRIPS Agreement is one of the most contentious agreements ever framed under the WTO regime. The agreement allows the patenting of ideas, expressions, innovations,

creations, and technology. Nepal needs to abide fully by the provisions of the TRIPS Agreement from 1 January 2007. This agreement inflates the price of technologies that are critically important for upgrading the production facilities of the Nepalese SMEs. Apart from TRIPS and SPS, a major challenge faced by the Nepalese SMEs, at least those that are export-oriented would be in the form of standards. High technical standards set by the importing countries may act as barriers for the Nepalese SME products.

Above are the main problems and challenges faced by the Nepalese SMEs. The following section tries to provide some solutions to overcome these problems in Nepal.

5.2 Conclusions

After analyzing the primary data, we came to some conclusions that are pointed as follows:

-) Number of small industries registered is in increasing trend in last five years in all the district and regional level in Nepal. The majority of industry registered is of service industries which are followed by manufacturing industries for the last three years. Out of which, nearly 90% are private firm.
-) There are more small industries in Central region (mostly in Kathmandu) and very low number of small industries in Far-western region. Similarly Kathmandu has the highest numbers of Small industries followed by Lalitpur, Rupandehi, and Kaski in district level. Central region has almost half of the industries registered in Nepal.
-) Employment opportunity increases with the increase in small industries. From the data, there are more than six people are involved with an industry.
-) Most of the entrepreneurs think that out of five environmental dimensions, socio-cultural environment has greater impact on the business and global environment has the less impact. But the entrepreneurs of export based companies are highly affected by global environment than other environment.
-) Both the new and old companies are equally affected by the environmental changes.

-) Under economic environment, most entrepreneurs think that the current energy crisis has greater impact on their businesses. But the entrepreneurs of Patan Industrial Area are less affected by this factor because government has provided energy facilities. Similarly from the testing of hypothesis we can conclude that there is no significant difference between manufacturing and non manufacturing companies in their economic environment.
-) Under technological environment, entrepreneurs believe that e-business has the greater impact on their business and most of them think it is necessary to succeed. Similarly from the testing of hypothesis we can conclude that there is no significant difference between manufacturing and non manufacturing companies in their technological environment.
-) Under socio-cultural environment, most of the entrepreneurs think customers have become more demanding and informed due to growing education and this factor has greater impact on doing business. Similarly from the testing of hypothesis we can conclude that there is no significant difference between manufacturing and non manufacturing companies in their socio-cultural environment.
-) Under political-legal environment, most of the entrepreneurs think Government instability is the most important factor that affects their business. Similarly from the testing of hypothesis we can conclude that there is significant difference between manufacturing and non manufacturing companies in their political-legal environment.
-) Under global environment, most of entrepreneurs think growth and profit making opportunities are increasing as world have become a single market due to globalization. Similarly, export based industries are highly affected by the current global crisis. From the testing of hypothesis we can conclude that there is significant difference between manufacturing and non manufacturing companies in their global environment.

Furthermore, results from this study indicate the critical importance of government policy towards building up domestic and international "learning" channels to foster the inflow of superior foreign technology. It is also found assistance in this area to be the most desired

business support service by firms. Increasing information on foreign markets, increasing foreign participation through ownership, licensing and technical agreements all positively impact the performance of industry. These types of business support services are not readily available in Nepal and those which are available are often too general or of low quality and not tailored to the specific needs of firms.

Besides these, there are some facts this study found, which are pointed as follows:

-) Nepal largely has industries that are very small, many of them based on traditional skills and local raw materials.
-) Market is always a problem for small businesses.
-) Entrepreneurs believe that the new policies introduced during the liberalization period are good theoretically, but they are poorly implemented and enforced in an arbitrary manner. To encourage investment, the government needs to reduce business risk by providing stable economic policies and reducing corruption.
-) Reducing the information and enforcement costs in lending would greatly facilitate the provision of bank credit and help to expand supplier credit. Assistance is needed to encourage firms to raise accounting standards.
-) Key changes in government labor laws, particularly laws relating to retrenchment of workers, would increase incentives for firms to hire permanent workers, invest in their training, increasing worker productivity and wages. Easier hiring and firing laws would increase overall industrial employment.
-) To cope with a changing and shifting environment, the marketing strategist must find new ways to forecast the shape of things to come and to analyze strategic alternatives and, at the same time, develop greater sensitivity to long-term implications.

5.3 Recommendations

Given the inherent difficulties of small enterprises, it is quite clear that a dynamic SME sector cannot be established without external assistance. In its pursuit of open investment and trade policies, Nepal needs to integrate measures aimed at SME development into its general industrial and economic policy. Technology is becoming an issue of strategic

importance to the development of industries, whether small, medium or large. Large firms usually have the resources to manage the transfer of technology through various means but the same cannot be said of SMEs. Here are some suggestions which (if implemented effectively) can eliminate the existing problems and promote Nepalese SMEs:

-) SMEs must be promoted by government because it can substitute import.
-) Microfinance institutions have not reached remote areas; they must be more active in developing micro enterprises.
-) After being a member of WTO, Nepal will enter the free trade market. Therefore, SMEs should focus on purely unique Nepali products and not focus on competing on products which are the niche of foreign countries.
-) Nepal holds wide agro-ecological variations and is rich in natural resources. Therefore, SMEs producing natural resources related products such as precious stones, natural fibers like aloe and lokta, and organic farm products, can thrive well and expand their markets abroad.
-) Nepalese SMEs need to develop their efficiency and upgrade the quality of the products according to international standards.
-) SMEs are not up to date with technology and therefore can not go global. There for special incentives must be provided to SMEs for R&D and acquiring new technologies.
-) The labor and industrial policies have become outdated and require updating. The government needs to identify the national competitive strength.
-) Low labor cost is Nepal's comparative advantage that needs to be translated into competitive development design.
-) SMEs are not just meant for the domestic market, incentives and facilities should be provided for them to attempt the international market.
-) A contract system has to be introduced based on specialization. For example, tea farmers have expertise in producing tea but they may lack expertise in finding buyers; therefore, it would be better if they contract distribution part to someone with expertise in exports.

-) The Government also needs to provide incentives for firm-level training of workers. There are very few training centers, and those that exist are not very useful as the training is of low quality.
-) Greater investment in infrastructure, through private and foreign participation where necessary, is required to increase industrial growth.
-) Support services such as information on foreign markets, assistance in finding new technologies, advice on productivity improvements, quality control testing and employee training must be provided to entrepreneurs.
-) Nepal's WTO membership will bring opportunities as well as threats. A new vision would be required to counter the challenges confronted by the Nepalese SME sector. It is equally essential that the SME sector is made aware of the new trends and issues.
-) This clearly necessitates that the Nepalese SMEs are given high priority, and adequately provided with proper safety nets so that they survive within the multilateral trading order. At the same time, high priority should also be given to make timely reforms in policies and working strategies in order to improve the competitiveness of the SME sector.
-) The government and the private sector have to work together to identify products that have comparative and competitive advantage, not just for the purpose of exports , but for the purpose of survival in the domestic market as well.
-) The private sector, with the support of the government, must identify products of comparative and competitive advantage and cater to new markets offered by WTO membership.
-) Appropriate government programs must be initiated with participation of the private sector and civil society to diversify Nepal's export portfolio and expand markets.
-) Adequate private sector and civil society participation is necessary in the formulation of SME-targeted programs. Such participation would ensure greater ownership over the programs, subsequently leading to better results.

-) The government must address the problems confronted by SMEs, especially the large number of sick units, and provide necessary financial assistance, apart from imparting necessary technical and capacity building assistances.
-) Despite the facilities enjoyed by Nepal in bilateral trade with India, there is a need to promote multilateralism, which is essential to do away the complexities inherent in bilateral trading mechanism.
-) Necessary laws and new policies must be formulated and enacted in order to make business environment favorable for businessmen.