

Business Registration in Nepal

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Abstract: *Industrial Enterprises Act, 1992 and Industrial Policy, 2010 require registration for all kinds of business in Nepal. Micro and traditional cottage industries, however, may be registered within one month of their operations. Despite the requirement, businessmen and entrepreneurs are reluctant to get their enterprises registered. This essay examines the causes of such reluctance. A questionnaire survey of 350 entrepreneurs and other data suggest majority of them are unaware of such requirement and those who are aware find the requirement difficult and complex.*

I. INTRODUCTION

Every business firm or industry is required to register before its operations. Such a registration enables businesspersons or entrepreneurs to organize and operate their firms without any legal hassle. All these business firms are primarily registered at two government offices – Department of Commerce (DoC) and Department of Industry (DoI). Trading firms are registered at the DoC, while industrial units at the DoI.

New trading firms can be registered at District Commerce Office (DCO) and at any other specified district level government office where there is DCO in all 75 districts as the government has allowed various public sector agencies to work for the same instead of registering them only at the DoC and various offices under it. Similarly, sole and partnership trading companies obtain their registration from the DoC or its offices. DoC will issue registrations for such trading companies on the basis of recommendation issued by the local Chamber of Commerce and Industry.

About the registration of industrial units - as per Industrial Enterprises Act 1992, the Department of Cottage and Small Industry (DCSI) or the district offices under it or the offices as specified by it are responsible for cottage and small industries registration and the Department of Industry (DoI) or any office specified by it is responsible for the registration of medium and large industries and the companies.

Previously, the registration used to take place at four different authorities – DCSI, DoI, Cottage and Small Industry Development Board (CSIDB) and the local authority (VDCs and municipalities). These four agencies lacked mutual coordination in their

database and services. The Act authorizes only DSCI and DoI and their local authorities for registration. The Local Self-Governance Act, 1999 mandates local authorities to collect the tax and on that basis, local authorities carry out registration and issue the certificate of registration to enterprises. Earlier, this authority was with the Department and five branches of DoC based in Biratnagar, Birgunj, Bhairahawa, Dhanagadhi and Surkhet.

The Committee has said that 375 industries have been renewed from out of the industries established so far from the beginning totaling to 1,844. The Committee organizes industrial exhibitions and industrial visits at times besides providing technical and consultancy services. It has provided 46 types of skill oriented training to 2,732 people since its establishment and has motivated them to set up the business and industries. A press statement of DoC said that the firms could now be registered in 20 district level Cottage and Small and Industry Development Offices and 47 Cottage and Small Industries Development Committees. But in the case of Katmandu, Lalitpur and Bhaktapur, the firms will have to register at the DoC itself. The DoC branches will now register only the firms in the concerned districts, according to the DoC. The DoC states that the new arrangement has been undertaken with a view to deliver the service at the nearest possible places to prospective entrepreneurs (Gorkhapatra, 2006).

The Department of Commerce (DOC) does the registration of business firms and licensing for the import of foreign goods. It is also responsible for the promotion of the national and international trade. It has also made clear that the industries with an investment above Rs. 5 million are required to register with it. When registering an enterprise, the applicant must submit an application to the respective registration office, depending on the nature/size, location and type of business. Since these types of operations are rarely found among micro and small enterprises, the requirement and processes of the micro and small enterprise registration is reported ineffective in terms of cost and time (Jha & Upadhaya, 2002).

II. METHODS AND DISCUSSION

Survey study was conducted through person-to-person interviews mainly at the residences and business sites of the respondent businessmen and entrepreneurs to know their opinions on registration of business. Accordingly, comparisons were made to determine the business registration practices between the trained and untrained entrepreneurs.

Of the total 350 respondents, only 80 respondents registered their business enterprises, which come to nearly 23 percent. This means 77 percent i.e. more than three-fourths of the respondents did not register their business. In this figure too, only 45 respondents, out of 188, did register their business firms, which constitute 23.94 percent. In the case of respondents, out of 148 respondents without training, only 35 have registered their business, which comes to 23.65 percent. This showed that many respondents did not register probably due to hesitation to disclose their state of affairs. Moreover, there is hardly any difference in the registration among the two categories.

Table 1 : Business Registrations

Business Registration	Attended Training		Total	Percentage
	Yes	No		
Have not felt need for it	32	25	57	71.25
Do not know	6	3	9	11.25
Costly	3	3	6	7.50
Lengthy & time consuming procedure	3	1	4	5.00
Difficult	1	3	4	5.00
Total	45	35	80	100.00

Source : Personal Survey, 2009

It has been found that most of the micro and small industries have been operating without government registration. Because of such practices, there is a loss of revenue to the government on the one hand, and it is difficult to know the actual condition of industries on the other. It has, therefore, become difficult to know which way the industrialization is heading to.

The above data indicates that 71.25 percent have not felt the need for registration. 11.25 percent were not aware about it. 7.5 percent of respondents felt it was costly, while five percent of the respondents said it was lengthy and time consuming, and another five percent said it was difficult.

A previous study has also shown that the majority of micro enterprises are not registered. Only 1.7 percent is registered under the Companies Act, while 22.4 percent are registered under other Acts. Comparatively, 60.3 percent of small enterprises are registered (Bajracharya, 2003). He further observes in the study – compared to males, females lag behind substantially in registering their enterprises. Compared to 47 per cent males, only 5.4 females registered their enterprises. This may be mainly due to two reasons. First of all, female dominated micro enterprises are generally not registered, and secondly, females are less aware about the need to register and they also find administration procedures troublesome. It also vindicates the fact that micro and small enterprises do not register.

The study of Khatri-Chhhetri and Karmacharya (2003) had reported that 24 percent of the micro-enterprises and 60 percent of small enterprises were found to be incorporated, either under the Company Act or other Acts. The study has also revealed that gender and education level of owners or managers influence the decisions to incorporate. Males and those with secondary level education or more are likely to be incorporated than females and those with below secondary level education. Among the 300 entrepreneurs surveyed, only half of them had registered their enterprises. Fifteen percent of the total registered enterprises reported that the registration process is problematic. About half of the enterprises experienced problems while registering. One quarter reported the unnecessary cost of registration and the rest either felt it was time consuming and expensive or found it difficult to fill up the registration form. The report further revealed that most of the enterprises who had not registered, reported lack of proper knowledge as the main reason for not registering their enterprises. Whatever may be the reasons,

the micro, cottage and small-scale entrepreneurs generally do not register their business firms at any office. They do not see the necessity to register their establishments or hesitate to do so due to tedious and lengthy procedures.

Data of registration of cottage and small industries based on firm classification are presented as follows:

Table 2 : Classification wise Registration of Cottage and Small Industry

Fiscal Year	Private Firm	Partnership Firm	Private Limited	Total
2005/06	5864	372	1994	8230
2006/07	7587	386	738	8711
2007/08	7993	533	856	9382
2008/09	16238	541	943	17722

Source : Department of Cottage and Small Industry, 2009

Four years data of classification wise registration of cottage and small industries from 2005/06 to 2008/09 are given in the above Table and the trend of registration is in the increase. In 2008/09, the number of cottage and small industries registered were 17,722 in which 3,245 female entrepreneurs and 15,403 male entrepreneurs were involved. The total proposed capital investment was NRs. 1531.7 million and employment target 82,045 people. The expected annual production capacity was Rs.937.59 billion.

Of the total 216,663 cottage and small industries established till 2008/09, private firms accounted for 191,727 and partnership and companies for 11,916 and 13,020 respectively.

According to Industrial Enterprise (first amendment) Act, 2049 there is a legal provision that all types of industries should be operated only after registering them. But in the case of cottage industries, they may be registered even 6 months after its operation. Registration of Cottage and Small Industries (classification-wise) are given in the above Table from 2005/06 to 2008/09.

Table 3 : Registration of Cottage and Small Industries (classification-wise)

S.N.	Industrial Classification	2005/06	2006/07	2007/08	2008/09	Total
1	Production Oriented	3416	2967	3290	3988	13,661
2	Energy Oriented	18	96	39	51	204
3	Agriculture & Forest based	195	251	377	611	1,434
4	Mine	17	4	24	654	699
5	Tourism	352	559	920	3983	5,814
6	Service	4177	4653	4480	8025	21,335
7	Construction	55	181	252	410	898
	Total	8230	8711	9382	17,722	44,045

Source : Department of Cottage and Small Industry, 2009

The above Table shows that production and service oriented industries top the chart with all industrial establishments in increasing trend. For the registration of cottage and small industry, authority has been delegated for registration of the firms to the office having III class gazetted officer and offices under committee up to Rs. 15 million and district offices under the Department with II class officer having fixed Rs. 20 million as

fixed capital. Industries exceeding more than Rs. 30 million fixed capital are registered at the Department of Cottage and Small Industry.

The firms should apply at the concerned offices with specified documents even for the industries not required to get license for establishment. After the receipt of the application with documents, the concerned office will register it if it is within its jurisdiction and if it is outside the jurisdiction of the concerned office then the department will register it. If the Initial Environment Examination (IEE) is required for the set up of industry, then the concerned office will send it to the Department for its approval. Arrangements have been made to register the business within the authority delegated to the office after IEE is approved.

III. CONCLUSION

The registration process for the business is complex and cumbersome. Therefore, micro and small entrepreneurs do not register their business and industries. Therefore, the registration process should be simplified. A simple registration for micro and small enterprises should be made available at the local VDC itself. Though the government has made an arrangement of registration of the business enterprises in all 75 districts, still people do not feel at ease. For example, micro enterprise and small-scale business are operated miles away from the registration centre. Even the entrepreneurs of Bhaktapur, wishing to set up trading firms, have to come to register at DoC, Kathmandu. This sort of provision still hurts the entrepreneurs, though power has been delegated to the offices under department and committee having third class gazetted officer for registration works with 15 million rupees and offices under department and committee having second class gazetted officer for registration works with 20 million rupees, but the industries having above Rs. 30 million fixed capital are required to register their industries at the Department of Cottage and Small Industry itself. So, decentralization in the registration works is further required.

Trading companies are required to submit the recommendations issued by the local Chambers of Commerce and Industries for registration. Such requirement should be made voluntary since the micro enterprises normally are not even aware that they should register their business at the local offices. Separate provisions should be made for micro enterprises. Concerned authorities including the Chamber should be able to communicate with the prospective entrepreneurs about the specific benefits of registration. They should raise their voice for the entrepreneurs' cause.

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