

# The Need for Decentralisation of Company Administration Service in Nepal

A Study Report  
from Karnali  
2024

**HRITI FOUNDATION**  
TOWARDS PROSPEROUS KARNALI

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## **About the Author**

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Paudyal is currently pursuing his master's in business studies from Tribhuvan University. He also possesses experience in journalism. Furthermore, he has been actively involved in various youth groups and networks, including the US Embassy Youth Council. Paudyal has authored various research reports and articles on federalism, governance, youth participation in policymaking, market economy, budget, parliamentary affairs, and other related topics.

## **List of Abbreviations**

GDP	Gross Domestic Product
US	United States
MW	Mega Watt
KM	Kilometer
i.e.	that is
Rs	Rupees

## 1. Background

Among 3 lakh 18 thousand 8 hundred 72 companies registered all over Nepal, only 1.28 percent of them, i.e. 4 thousand 95 companies, in Karnali province have been registered. According to the company registrar's office statistics, Karnali province has the least number of companies registered among all the seven provinces of Nepal. One of the reasons for the low number of registered and operating industries or companies in the different districts of Karnali province is the centralized service of the company registrar's office. Apart from this, the lack of a suitable environment for entrepreneurship and industrial operation is also an important aspect. This study paper explains the basis and reasons for the decentralization of the company registrar's services. Further, it dives into the status of registration of companies and industries as well as the measures to be improved, especially in Karnali province.

According to the report approved by the Council of Ministers of the Government of Nepal regarding the list of rights and functions of the federal, provincial, and local levels mentioned in Schedules 5, 6, 7, 8, and 9 of the Constitution of Nepal, company administration is under the common authority of the federal and the provincial government. In this situation, if the service of the office of the Company Registrar, which falls only under the federal government, is decentralized, the administrative complexity for entrepreneurs and industrialists will be reduced. On the other hand, in addition to using the common rights of the constitution, it

also helps to increase the internal revenue of the provincial government.

Currently, from difficult geographically and remote districts of Karnali province have to travel to the office of the company registrar in the federal capital Kathmandu to get basic administrative services like company registration and renewal. If the company registrar's office is decentralized and provided in Karnali province itself, it can be expected that the business environment in Karnali will improve. Having to travel to Kathmandu increases the cost of operating and forces them to rely on third parties for services. It is the responsibility of the government to reduce such hassles and create an easy environment for the people to establish and operate industries.

Although the Karnali provincial government has arranged tax exemptions for those operating industries in Karnali, so far, not many industries have been registered and operated. Because of this, on the one hand, the objectives of the province government have not been fulfilled and on the other hand, Karnali has been deprived of the opportunity to become a prosperous province by uncovering the industrial potential here.

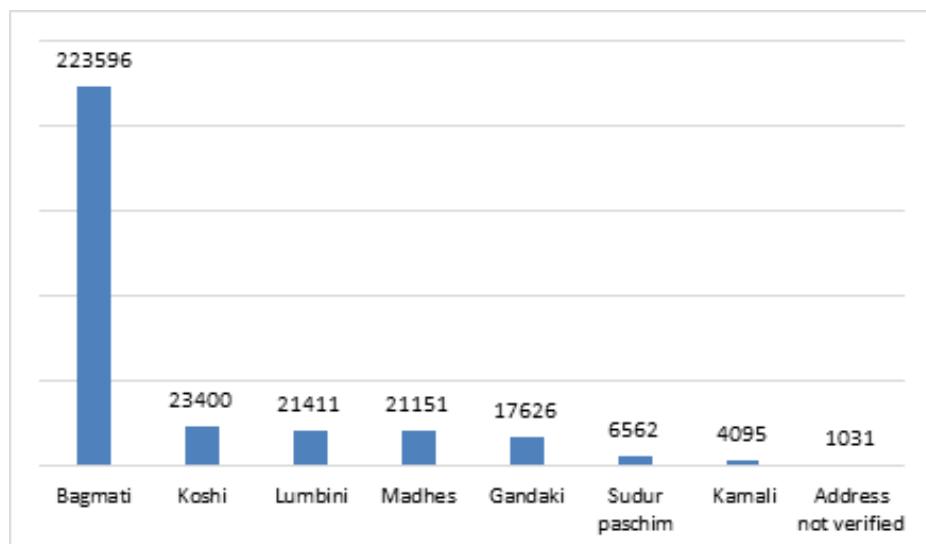
## 2. Karnali in Statistics

### 2.1 Status of Company Registration in Karnali Province (up to 16th Poush 2080)

Nepal	Karnali	Percentage of Karnali
318,872	4,095	1.28

*Source: Office of the company registrar*

Among 3 lakh 18 thousand 8 hundred 72 companies registered all over Nepal, only 1.28 percent of them, i.e. 4 thousand 95 companies, in Karnali province, are registered. It is necessary to study the reasons for the establishment of a small number of companies in the province despite its vast geographical area and sufficient industrial potential, and the solution must be emphasized.



*Source: Office of the company registrar*

A lack of suitable environment for investment in Karnali province and having to go to Kathmandu to get services related to company registration

and operation, seem to be the major reasons for a low number of company registrations. In research conducted by the Hriti Foundation in 2022<sup>1</sup>, 40 percent of industrialists/businessmen said that they took the services of a third-party during business registration. It seems that the unnecessary expenses have increased when the customer hires a third party to get the services of the company registrar's office without going to Kathmandu.

## **2.2 Economic and Social Index of the Province**

Karnali Province is the largest province of Nepal in terms of geography, occupying 21.6 percent of Nepal's total land area and 5.8 percent of its total population. The per capita GDP of the province is only 997 US dollars, while the national per capita income is 1399 US dollars. While Nepal's multidimensional poverty is 17.4 percent, that of Karnali province is 39.5 percent. The National Human Development Index is 0.602, and that of Karnali is only 0.538 making the province backward in many areas.

The number of registered industries in Karnali province is very low. Therefore, it seems necessary to create a friendly environment for industries in Karnali. There are 8 thousand 947 registered industries in Nepal, of which only 81 are registered in Karnali making it only 0.90 percent of the total industry registration.

The province's contribution to the GDP is only 4.1 percent of consumer prices, which is quite low. While the number of micros, cottage, and small-scale industries in the country is 6 lakh 73 thousand 2 hundred and 44, in Karnali province it is only 5.29 percent of that number i.e. 35 thousand 6 hundred and 41. Additionally, In Nepal, there is a total of 2783.1 Arba rupees of industrial investment, while in Karnali province, it is only 149.8 Arba rupees.

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<sup>1</sup> <https://hriti.org/doing-business-environment-in-karnali/>

<b>Index</b>	<b>Nepal</b>	<b>Karnali</b>	<b>Contribution of Karnali to National Average</b>
Local Levels	753	79	-
Population	100		5.8
Area	100		21.6
<b>Economic and social sector</b>			
Economic growth rate at the price of fundamentals	2.16	2.2	-
Province's contribution to GDP at consumer prices	-	-	4.1
GDP per capita (in US dollars)	1399	997	-
Multidimensional poverty	17.4	39.5	-
Human Development Index	0.602	0.538	-
Industry Registration Number	8947	81	0.90
Number of micro, cottage and small scale industries	673244	35641	5.29
Investment in Industry (Rs. Arba)	2783.1	149.8	5.38
Number of Companies Registered	318872	4095	1.28
Hydropower Generation (MW)	2584	16.05	0.62
Forest Area (Percentage)	100	-	13.6
Unpaved Road (KM)	47320	3133	
Graveled Road (KM)	14000	214	
Pitched Road (KM)	4737	91	
Total Road (KM)	66057	3438	
Province-wise Internal Revenue (Rs. Crores)	10353	848	8.19

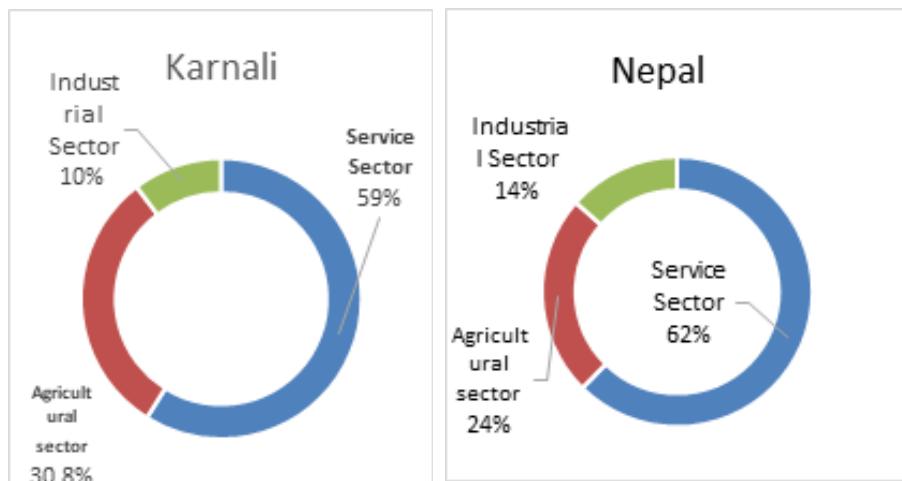
*Source: Economic Survey 2079/080*

Similarly, if we look at the internal revenue situation of the province, Karnali province is far backward. While the total internal revenue of Nepal is 10,353 crore rupees, the share of Karnali province is only 848

crore rupees, which is only 8.19 percent of the total provincial revenue.<sup>2</sup>

## 2.3 Sectoral Contribution to GDP

According to the data of Economic Survey 2079/080, the agricultural sector contributes 30.8 percent to the GDP of Karnali Province.



*Source: Economic Survey 2079/080*

If we look at the national average, the contribution of agriculture to the GDP is only 24.1 percent. The service sector contributes the most to the GDP of Karnali Province at 58.9 percent, although it is lower than the national average. At the national average, the service sector contributes the most to the GDP at 62.4 percent. Importantly, the industrial sector contributes 13.5 percent to the national average GDP, while in Karnali province, the industrial sector contributes only 10.3 percent to the GDP. The industrial sector of Karnali province is contributing less than the national average due to the relatively low number of industries that create more jobs. Therefore, it seems that entrepreneurship should be promoted in Karnali province.

### 3. Opportunities after federalism

The Company Act 2063<sup>3</sup> was issued to amend and unify the laws relating to companies and to bring dynamism to the economic development of the country by promoting investment in the fields of industry, trade, and business through economic liberalization and to make the incorporation, operation, and administration of companies more accessible, simple and transparent.<sup>4</sup> At present, the Office of the Company Registrar is providing all services from the registration to the closing time of Private Limited, Public Limited, and non-profit-distributing companies according to the Companies Act, 2063.

According to the current legal provisions, although business can be conducted in all provinces of the country, company registration must be done in Kathmandu. A question mark also remains whether a decentralized company registrar office will be possible in all seven provinces. Meanwhile, the company registrar's office established a branch office in Koshi Province and Lumbini in the year 2075. Offices were established at Itahari in the East and Butwal in the West with the aim of decentralizing services to provide fast, quick, easy, and efficient service to newly registered companies.

In terms of the implementation of the constitution, the federal government should open the way for the provinces to introduce their company laws by amending the Federal Company Act rather than opening a branch of the company registrar's office at the provincial level. The provincial-level government can also request the federal government to amend the Company Act.

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3 Company Act, 2063

4 <https://nagarikonline.com/content/8739>

The provincial government should also work with priority to work for such a policy system that relates to the economic activities of the citizens.

With the implementation of federalism, various services have been provided at the local level. Using the services provided by the constitution, the provincial level has also been providing services. Under the concurrent powers of the government of Nepal, the following matters are covered:

- Formulation, implementation, and regulation of company incorporation policies and laws in coordination with federal.
- Formulation, implementation, and regulation of policies, laws, and standards related to industry, commercial companies, and firm management.
- Industry, business, and company administration

The company administration falls under the authority of both federal and provincial governments. In this situation, decentralizing the services of the Company Registrar's office would follow the principles and spirit of federalism on the one hand, and it would help to increase the internal revenue of the province by providing administrative convenience on the other hand. Although the rate of company registration is increasing yearly, the need to go to the federal capital Kathmandu to receive company-related services remains the same. According to the research on the business environment in Karnali conducted by the Hriti Foundation in 2079<sup>5</sup>, the main suggestion from the stakeholders is that the office of the company registrar should expand its services in Karnali to promote the business environment here.

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5 Hriti Foundation. (2022). Doing business environment in Karnali. Retrieved April 18, 2024, from <https://hriti.org/doing-business-environment-in-karnali/>

#### **4. Employment and Industry**

According to World Bank statistics, the industry sector contributes the most to employment<sup>6</sup>. 23 percent of the total employed population in the world is in the industrial sector. Qatar is the country with the highest amount of manpower in the industrial sector. According to World Bank statistics, 54 percent of the total jobs in Qatar are in the industrial sector<sup>7</sup>. Qatar's per capita income is USD83,416.<sup>8</sup>

As industry creates the most employment in the world, it is necessary to facilitate the incorporation and operation of industries in Nepal. According to the statistics of 2022<sup>9</sup>, only 17.46 percent of the total employment workforce in Nepal is employed in the industrial sector. The number of industries will increase if the government implements a policy that encourages the number of industries and creates an entrepreneur-friendly environment. There is a situation where industry can be operated in abundance in Nepal, as it is unsatisfied in terms of development. Due to the establishment and operation of industries, employment opportunities increase on the one hand and the amount of government revenue also increases on the other hand.

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6 <https://data.worldbank.org/indicator/SL.IND.EMPL.ZS>

7 [https://compareeconomy.com/employment/in\\_industry](https://compareeconomy.com/employment/in_industry)

8 <https://www.focus-economics.com/country-indicator/qatar/gdp-per-capita-usd/>

9 <https://tradingeconomics.com/nepal/employment-in-industry-per-cent-of-total-employment-wb-data.html>

## 5. Service delivery and time taken from the Office of Company Registrar

S.N.	Name of the service	Time taken
1	Approval of the name of the company	2 Days
2	Incorporation of Company	2 Days
3	Record of start-up information/start-up costs	3 Days
4	Amendment of articles of association and memorandum of association, closure of address/branch/office, Capital structure changes	3 Days
5	Change in type of company	3 Days
6	Record of format changes	3 Days
7	Company liquidation records	3 Days
8	Record of decision to merge company	3 Days
9	Share purchase/sale record	3 Days
10	Annual statement update	3 Days
11	Record of allotment of additional shares	3 Days
12	Record of share names after death	3 Days
13	copy filing	7 Days
14	liquidation certificate and renewal	3 Days
15	Change of auditor	2 Days
16	Formation/Reorganization/Addition of Board of Directors	2 Days
17	Ask for a certified copy of the document	2 Days
18	Initiation process for the establishment of foreign investment company records	8 Days
19	Registration of branches of foreign companies	3 Days

*Source: Citizens Charter published by Company Register Office<sup>10</sup>*

During the economic analysis of the services taken by the companies mentioned in the charter of the office of the company registrar, the services that are completed in less than 2 days are not found. In this

10 Citizens Charter of office of the company registrar Nepal. . Retrieved April 18,2024, from <https://ocr.gov.np/>

context, the average expenditure incurred by the service users of Karnali province to get the said service is calculated and presented here.

Traveling from Karnali to Kathmandu by bus is very difficult and the airfare is expensive. The cost of staying in Kathmandu for at least 2 days also becomes quite expensive. If a company administration office is established in the province, it will be easy and accessible to take the services provided by the company registrar's office. The revenue of the province will also be increased from the costs of providing such services. This also provides an opportunity for the provincial government to connect with the service delivery.

## 6. Estimated details of time and expenses of travel from various districts of Karnali Province to and from Kathmandu

Dis-trict	Two-way bus fare from district headquar-ters (Aver-age).	Travel time- by bus	Average Airfare (NPR)	Travel time -to and from Kathmandu by air	Remarks
Sur-khet	6000	2-3 Days	14200	1 Day	Surkhet- Kath-mandu
Dai-lekh	7000	2-3 Days	16000	2 Days	Surkhet- Kath-mandu
Dolpa	10000	4-5 Days	26000	2 Days	Dolpa- Nepalgunj- Kathmandu
Humla	Not available	Not available	26000	2 Days	Humla-Nepalgunj- Kathmandu
Jumla	10000	4-5 Days	24000	2 Days	Jumla- Nepalgunj- Kathmandu
Kalikot	8000	4-5 Days	20000	3-4 Days	Surkhet- Kath-mandu
Jajar-kot	8000	2-3 Days	20000	2-3 Days	Surkhet- Kath-mandu
			26000	3-4 Days	Rukum west- Nepalgunj- Kath-mandu
Rukum west	8000	2-3 Days	24000	2-3 Days	Rukum west- Nepalgunj- Kath-mandu
Salyan	8000	2-3 Days	24000	3-4 Days	Rukumwest- Nepalgunj- Kath-mandu
Mugu	14000	5-6 Days	26000	3-4 Days	Mugu- Nepalgunj- Kathmandu

*Source: Inquiry and estimated*

## **7. Why decentralization of the services of the company administration?**

Here are some reasons and arguments why decentralization of the services provided by the office of the Company Registrar is necessary:

### **7.1 To prevent the expense of at least 20 thousand rupees to set up a company established at one hundred rupees.**

There is an existing provision that a company can be opened with a minimum authorized capital of 100 rupees only. In the budget of the fiscal year 2080/081, it was arranged that a company could be opened with a minimum authorized capital of 100 rupees only.<sup>11</sup> To open a company with a capital of 100 rupees, it seems that at least 20 thousand rupees will be spent while traveling from Karnali province to Kathmandu and coming back. If the government wants to encourage the establishment of companies, then the hassle of traveling from Karnali to Kathmandu for the work of a company registrar should be removed. Industrialists in Karnali province have also said that a company administration office should be established in the province.<sup>12</sup>

### **7.2 To enhance the income of the provincial government**

Karnali's contribution to the GDP is 4.1 percent<sup>13</sup>. Only if the number of industries and investors can increase in Karnali province, its contribution to the GDP can be increased. And if the administrative work of the company registrar's office is done smoothly, the citizens will go ahead to establish the company here. According to research conducted by the Hriti

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11 <https://myrepublica.nagariknetwork.com/news/govt-to-allow-companies-to-be-established-with-a-minimal-authorized-capital-of-just-rs-100/>

12 <https://baahrakhari.com/detail/389213>

13 <https://www.mof.gov.np/site/publication-detail/3344>

Foundation, tax and industrial administration are the main challenges faced by the entrepreneurs of Karnali.<sup>14</sup>

### **7.3 For the exercise of fundamental rights**

It is written under the fundamental rights of the Constitution of Nepal 2072<sup>15</sup> “Each citizen shall have the freedom of profession, employment and establishment of industry, trade, and business in any part of Nepal.”

In this sense, Nepali citizens have the right to work freely in any part of Nepal. It is the responsibility of the government to create an environment in which the rights guaranteed to citizens by the Constitution can be used. Therefore, it is the need of today to create an environment for establishing and operating industries in Karnali province, which has a lot of potential for industrialists.

### **7.4 To decentralize the powers through effective implementation of federalism**

The Constitution of Nepal has accepted the country as a federal democratic republican system of governance. The essence of federalism is decentralized development and decentralization of service delivery.

In the context of the implementation of federalism, the slogan ‘Singha Durbar in Village-Village’ became very popular. The main purpose was to bring the services available only in the center to the villages. For this reason, the service facility centered in Kathmandu should be decentralized as per the need. People of Karnali province can get maximum facilities

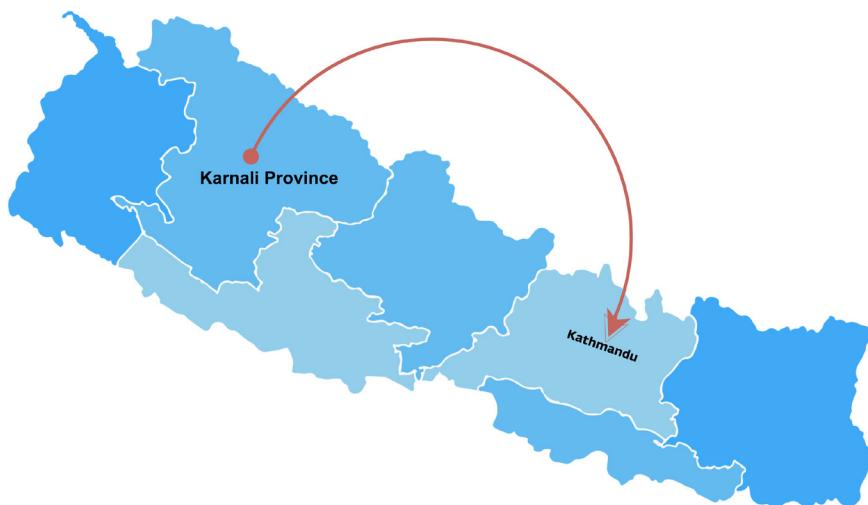
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14 Hriti Foundation. (2022). Doing business environment in Karnali.

15 Constitution of Nepal 2072 (2015)

through the decentralization of public services. On the one hand, this will help in the implementation of the constitution and on the other hand will increase the ownership of the people towards the government.

According to the Constitution of Nepal, the provincial government must formulate the necessary laws in coordination with the federal government for the implementation of the rights related to the establishment and operation of companies which are in the list of concurrent powers of the federal and provincial governments. Also, for this, the federal government must amend the existing Company Act and make the way out for introducing the Provincial Company Act.



## 8. Conclusion

- A total of 4 thousand 95 companies have been registered in Karnali Province. The industries that are registered and operating in Karnali Province are required to go to the office of the Company registrar in the federal capital, Kathmandu, for registration and renewal.
- It seems that the number of company registrations here is low due to the absence of a suitable environment for investment in Karnali Province and the need to go to Kathmandu to do administrative work for company registration and operation.
- Administrative complexity is the main reason for establishing a company in Karnali Province. The business environment has also been affected by the compulsion to go to Kathmandu to complete the administrative tasks after establishing and running the company.
- According to the report approved by the Government of Nepal regarding the expansion of the powers of the federal, provincial, and local levels mentioned in schedules 5, 6, 7, 8, and 9 of the Constitution of Nepal, company administration is under the concurrent power of the federal and the provincial government. Decentralizing the office of the company registrar will reduce the administrative complexity for entrepreneurs.
- If the provincial government starts company administration services, it seems that the concurrent rights of the constitution will also be used, and it will also help to increase the internal revenue of the province.

- Entrepreneurs of Karnali have admitted that they must take the help of a third party due to the compulsion to go to Kathmandu to take the services of the company registrar's office. Because of this, it has been found that expenses have increased in the operation of the company.
- The number of registrations of industries in Karnali province is very low. There are a total of 8,947 registered industries in Nepal, but there are only 81 industries in Karnali, which is only 0.90 percent of the total registered industries in Nepal. To achieve the prosperity of the province, it seems necessary to create an entrepreneur-friendly environment in Karnali.
- According to the statistics of Economic Survey 2079/080, the contribution of the industrial sector to the GDP is 13.5 percent on the national average, while it is only 10.3 percent in Karnali Province. As industries create relatively more jobs, it seems that the process of setting up industries should be made easy and accessible to promote entrepreneurship in Karnali province.
- In terms of the implementation of the constitution, the federal government should open the way for the provinces to introduce their own company laws by amending the federal company law rather than opening a branch of the company registrar's office at the provincial level, which helps in the decentralization of rights in accordance with the essence and spirit of federalism.
- The provincial government needs to request the federal government to amend the Companies Act to properly address the issue of company

administration in the list of concurrent rights of the federal and the provincial.

- According to the statistics of the World Bank, 23 percent of the total employment population in the world is in the industrial sector. Therefore, it is necessary to facilitate the establishment and operation of the industry to promote the sector that creates more jobs.
- According to the statistics of 2021, only 17.46 percent of the total employment workforce in Nepal is employed in the industrial sector. If the government encourages the number of industries and creates an entrepreneur-friendly environment, the number of industries will increase.
- Karnali's contribution to the GDP is 4.1 percent. If the number of industries and investments can be increased in Karnali, its contribution to the GDP can be increased. Decentralization of company administration services is an important aspect.

## 9. Recommendations:

- According to the preamble of the Companies Act 2063, by promoting investment in the fields of industry, trade, and business through economic liberalization, the service delivery related to the company should be digitalized and made simple and easy to bring dynamism to the economic development of the country.
- Since there is an obligation to go to the federal capital Kathmandu for all administrative works from company establishment to closure, the services delivery from the company registrar's office should be decentralized and an office should be established in Karnali province as well.
- Since the company administration is under the concurrent right of the federal and the provincial in the Constitution of Nepal, the provincial government should request the federal government to amend the Companies Act. Also, in coordination with the federal government, the provincial government should issue its company law and provide services related to company administration.
- To increase the number of company registrations by researching the reasons for the low establishment of companies in Karnali province, the process of company administration should be facilitated, and subsidies and mobile services should be conducted.
- It is necessary for the federal and provincial governments to conduct a special campaign to increase the number of industries in Karnali province and to create an entrepreneur-friendly environment.

## About Hriti Foundation

Hriti Foundation is a policy think tank based in Karnali Province. Along with policy research, policy action, and policy recommendation, it organizes a policy festival named Karnali Utsav, Kuda Karnalika to help promote the idea of a prosperous Karnali.

Hriti Foundation envisions a society where individual rights and economic freedom are cherished and protected. The mission statement of Hriti Foundation is to promote individual and economic rights and advance liberal principles as the foundation of public policies through research, training, advocacy, and dialogue.

The foundation has conducted research on diverse policy issues. Hriti always keeps eyeing the government policies and their deliverables. Hriti tracks the parliamentary actions of both the parliament and the parliamentarians to make the public representatives more accountable. Moreover, Hriti carried out research relating to the budget. It also supports the governments i.e. province and local to create a larger impact of their policies. For that Hriti Foundation has been organizing policy discussions, workshops, and conclaves. Hence, Hriti provides policy recommendations to the governments, particularly to the Karnali province government based on the policy research.



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