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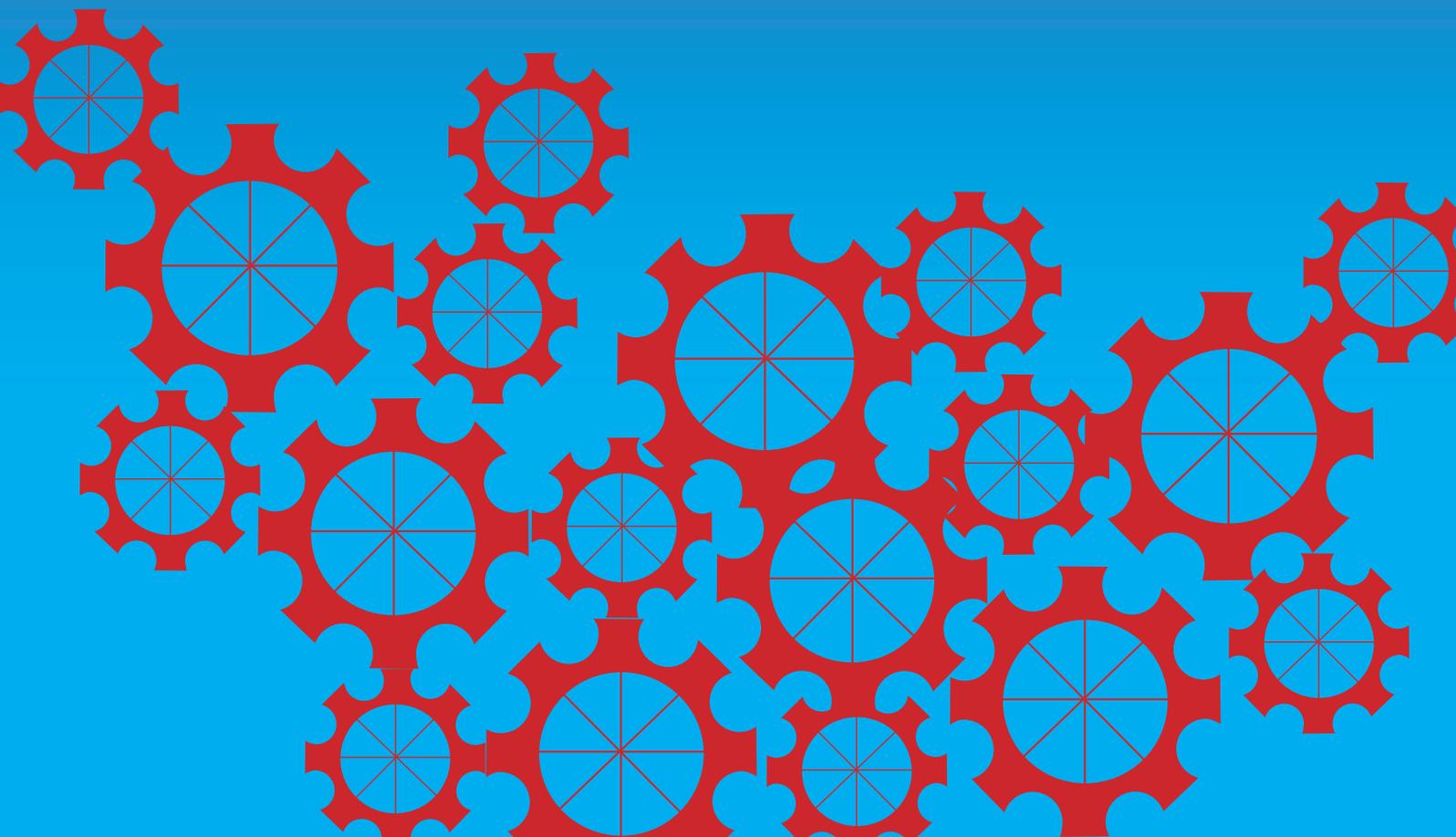


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# THE CHAMBER SYSTEM OF NEPAL

REFLECTIONS AND ENTRY POINTS FOR  
IMPROVEMENT



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## List of abbreviations

BCC	The British Chamber of Commerce
CCI France	Chambers of Commerce and Industry France
CCI	Chamber of Commerce and Industry
CCIR	Regional Chambers of Commerce and Industry
DIHK	Deutsche Industrie- und Handelskammer (German Chamber Apex Body)
EU	European Union
FDI	Foreign Direct Investment
FNCCI	Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Development Corporation)
GRAPE	GIZ program on “Green Resilient Agricultural Productive Ecosystems“
PPD	Public-private dialogue
SME	Small and medium-sized Enterprises

# 1. Introduction

The national chambers of commerce and industry play a key role in representing and promoting private sector interests worldwide. They provide the necessary guidance and support to their members – the businesses that they represent, especially in structural change processes and transition. As the Nepalese government is implementing a nationwide decentralisation process, the regional government structure necessitates the private sector organisations to reflect a similar level of decentralization in their organisational structure to ensure harmony and effectiveness of their national, provincial and local organisational units. The following draft paper intends to provide a short overview of the organisational and decentralised structure of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and its function in the changing political landscape in Nepal. Furthermore, we will compare the current chamber system with chamber structures considered best practices in some European countries. The goal is to improve the Nepalese chamber system by studying successful models from developed countries and suggesting recommendations to the FNCCI, so they can serve as a national example in modernising the Nepalese chamber system.

## 2. The chamber system of Nepal

### 2.1 The variety of business membership organisations (BMOs) in the system

The tendency of businessmen to come together to form an organisation to represent their interests goes back to the early 1950s. Nepal, at that time, was insulated from the outside world and had tight control of all aspects of life. Forming any membership association was seen as challenging the regime. The end of the Rana regime opened opportunities for many associations and clubs to organise themselves. The clubs of merchants and traders were formed in Kathmandu and some other towns of Nepal. They organized themselves as an association of Kathmandu merchants renamed “Nepal Chamber of Commerce” (NCC) in 1952/53.<sup>1</sup> Later, more local chambers were established in towns like Birgunj<sup>2</sup>, Biratnagar, Janakpur, Butwal, Nepalgunj, etc.

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<sup>1</sup> Gopal Man Shrestha, Background of FNCCI (in Nepali) in the FNCCI souvenir published 25 years of FNCCI p. 153

<sup>2</sup> The Birgunj Chamber of Commerce and Industries claims that its predecessor by the name of ‘Birgunj Cloth Merchan Association’ came into existence in 1944, before the end of Rana regime (([www.bicci.org.np/About-Profile](http://www.bicci.org.np/About-Profile)))

During the political change in 1961 and the introduction of the Panchayat system, interest groups were again under stronger scrutiny to ensure that they do not oppose the political system. The new government supported the "First Conference of Commerce and Industry" in December 1965, which was organised by the NCC. At this conference, it was decided that the FNCCI should be found as a national umbrella body of business membership organisations (BMOs). The FNCCI was temporarily recognised by the government in 1966 and officially recognised with the National Guidance Act 2018 on 10 April 1969.<sup>3</sup> Soon after the launch of the FNCCI, the establishment of chambers in other districts of Nepal was supported<sup>4</sup>, while setting up additional BMOs was still restricted.

It was only with the political change of 1990 and the introduction of the multi-party democratic system that additional and more independent BMOs as private institutions with voluntary membership emerged. The FNCCI always requested that they be the umbrella body for all relevant BMOs. They even requested the right to co-determine authorization of associations.<sup>5</sup> This request was not granted. Therefore, the FNCCI could not assert itself as the sole umbrella organisation for all BMOs in Nepal. It instead led to power struggles for influence with other leading associations. The first power struggle emerged with the NCC as a founding partner of the FNCCI.<sup>6</sup> For the first two decades after the formal establishment of FNCCI<sup>7</sup>, the NCC was more influential than the FNCCI. Although the FNCCI increased its influence in the following years, a conflictive relationship continued, and in 2018, the NCC decided to withdraw its membership from the FNCCI.

Other BMOs not associated with FNCCI must be mentioned as they were also influential BMOs in Nepal. Established in April 2002, the Confederation of Nepalese Industries (CNI), is also a prominent BMO in Nepal. The CNI is often mentioned as the main competitor of the FNCCI.

Another well-known and influential organisation representing micro, small and medium enterprises is the Federation of Nepalese Cottage and Small Industry, established in 1990.

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<sup>3</sup> The National Guidance Act 2018 was promulgated by the king soon after royal takeover of power to bring 'discipline' among professionals and orient their bodies to be in line with nationalism and national interest.

<sup>4</sup> 13 chambers came together to form the FNCCI as founder members in 1965 within a year by 1966 there were 23 district chambers as its member ( "5th Anniversary Souvenir p. 121)

<sup>5</sup> Gopal Man Shresha op, cit. p. 156

<sup>6</sup> As a BMO established in Kathmandu the chamber NCC had representation in various committees, many of the prominent members of the NCC did not want the FNCCI to see the emergence of FNCCI as a threat to their importance,

<sup>7</sup> Mahesh Lal Pradhan in 50 years of FNCCI in Golden Jubilee Souvenir p. 92 During this period the FNCCI leadership was mostly comprised of people associated with NCC at some point of time.

It also includes district-level associations as members. Other prominent sectoral business associations not affiliated with the FNCCI are the Hotel Association Nepal (HAN), the Nepal Bankers Association (NBA) and the Association of Transport Entrepreneurs. The HAN represents larger hotels and is active in Nepal's tourism sector. The NBA represents commercial banks and is not a member of the FNCCI due to a conflict of interests as a financial service provider to businesses.<sup>8</sup> The Association of Transport Entrepreneurs is not a member of the FNCCI due to its insistence on maintaining syndication. This is against the regulations of the FNCCI.<sup>9</sup>

Although the chamber system in this document focuses on the FNCCI system, it is relevant to remember that other influential BMOs play a crucial role in Nepal.

### 3. The organisational structure of FNCCI in Nepal

#### 3.1 The membership structure of the FNCCI

In the wake of Nepal's adoption of a federal governance system in 2015, the FNCCI also decided to decentralise its organisational structures to serve its members better. Since 2017, FNCCI established seven provincial chapters to represent its members' interests at the provincial and federal levels. The seven provincial FNCCIs are in the provinces Koshi, Madhesh, Bagmati, Gandaki, Lumbini, Karnali, and Sudurpaschim.

According to the sixth amendment of the FNCCI Charter, under Article 7, the FNCCI distinguishes between general members and associate members:

- General members include district and city chambers of commerce and industry (CCIs), and commodity associations organized with a sectorial focus. They have fixed voting weight in deciding the decision-making structure or election.
- Associate members industrial and commercial establishments (enterprises), foreign and honorary members. The binational chambers exercise voting rights within the associate group without a separate constituency.

The FNCCI comprises 121 district/municipality level chambers in 77 districts in Nepal, 123 national commodity associations, and 1.762 leading private sector businesses as associate

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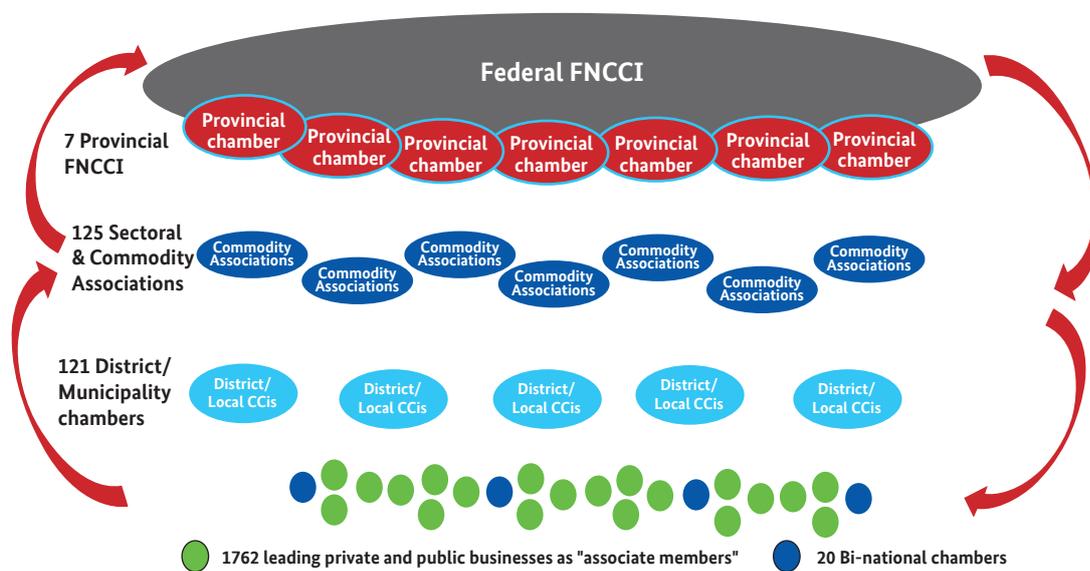
<sup>8</sup> Most of the Banks and large hotels as individual business units are members of FNCCI in the associate category.

<sup>9</sup> The transport sector of the country dominated by unorganised vehicle owners is notoriously known for syndication, The FNCCI had gone to the extent of dragging them to the Supreme court of the country and getting the supreme court pass the order of declaring the cartel formation illegal and unconstitutional.

members.<sup>10</sup> Also, there are 20 binational chambers defined as members of the FNCCI under the associate membership category. Together, they constitute the Nepalese chamber system (see Figure 1). The minimum requirement to become a municipal or district chamber member is to register at least 2,000 industrial businesses with an annual income of NPR 20,00,000 (20 lakh) or 2 million Nepali Rupees. A commodity association must have at least 75 fee-paying members from at least 11 districts covering two provinces.

Figure 1: The Chamber System in a Nutshell

Source: Own elaboration



### 3.2 Decision-making Structure

District and municipal chambers and commodity associations operate autonomously while serving as essential building blocks within the broader chamber system. At the same time, FNCCI, as an apex body, is transitioning from solely a national interest group representing independent chambers to evolving into a more professional private sector development entity. The chamber members significantly influence decision-making processes, although relationships often depend on personal relationships and networks.

The following structure shows the governance of the federal FNCCI.

- The **General Assembly** is the highest decision-making body of the FNCCI, consisting of all its members. It meets annually to discuss and decide on important matters, such as policies and programs, and to discuss contemporary issues concerning the business sector. The leadership is elected by the general assembly every third year. The General

<sup>10</sup> FNCCI website: <https://www.fncci.org>

assembly elects the executive committee's president, senior vice-president, and vice-presidents.

- The **Executive Committee** serves as the executive body of the FNCCI. It sets the organisation's agenda, implements policies, and oversees its operations. The executive committee includes the president and vice presidents, the national treasurer, and representatives from the different FNCCI member groups, including representatives from the provincial FNCCIs, the industry commerce group, the commodity group, and the associate and bi-national group. The executive committee comprises 79 members, with 18 representatives from the municipal and district chambers, 14 from commodity associations, seven from provincial chamber representatives, 19 from associate members and their respective vice presidents and treasurer.
- **Sectoral Committees or Councils:** The FNCCI has three councils representing specific member groups: industry and commerce representing the district and local CCIs, commodity representing national sectoral associations, and employers' council representing the enterprise members. The FNCCI has 17 sector/subject committees formed by the executive committee. They consist of experts and representatives from various members. They work on sector-specific issues, provide policy input, and organise activities to promote the interests of their respective business community.
- **Forums:** The FNCCI executive committee also organises forums to work on specific issues or subjects. Since the last EC election, five forums have been organized to promote private sector-related topics, such as the start-ups and innovation forum, the investment and international affairs forum, and the capital market forum. Their task is to promote developing and exchanging ideas requiring additional expertise, dialogue, and solutions.

### 3.3 Services provided currently by the FNCCI

The primary services offered by the FNCCI to its members include representing the private sector in national and international forums, crafting recommendations to boost national exports and investments, fostering joint ventures, providing expert services to exporters, importers, and investors, facilitating equitable participation, offering business information and legal advisory services, strengthening local chambers and associations, promoting entrepreneurship, and conducting capacity-building activities through training, seminars, and publications. Additionally, the FNCCI operates an Innovation Hub and a help desk for Foreign

Direct Investments (FDI). It also provides mediation and facilitation services during labour disputes, issues certificates of origin, and manages energy efficiency and an SME centre.<sup>11</sup> It also operates a special semi-autonomous unit called Agro-Enterprise Centre, which promotes agricultural businesses in the country.

One of the federal FNCCI's core interests is professionalising its operation to improve its services. In this regard, the FNCCI management intends to broaden its customer-focused approach to chamber system members and enhance its visibility and professionalism within regional and international chamber networks.

### **3.4 Areas of interest of FNCCI to professionalise its services and coordination function**

The future interests of the FNCCI go beyond the improvement and sustainability of their services. In the cooperation agreement with the GIZ/GRAPE project in Nepal, the FNCCI intends to improve its entire organisational structure. The Executive Committee is interested in learning from more progressive chambers in the EU and in adopting their standards regarding strategy development, capacity building, management efficiency, service improvement, and clarifying and promoting decentralized chamber functions. The FNCCI is interested in enhancing external relations, lobbying / advocacy efforts, communication strategies, HR systems, membership support and revenue models, digitalization, and how the collaboration with research and development organizations is organized.

## **4. Dominant challenges of chambers in transition**

### **4.1 Trends in the professionalisation of chambers**

Based on an analysis of a wide range of business organisations, we identified several types of business organisations in different countries (see Figure 2). The types of organisations also reflect their stage of professionalisation.

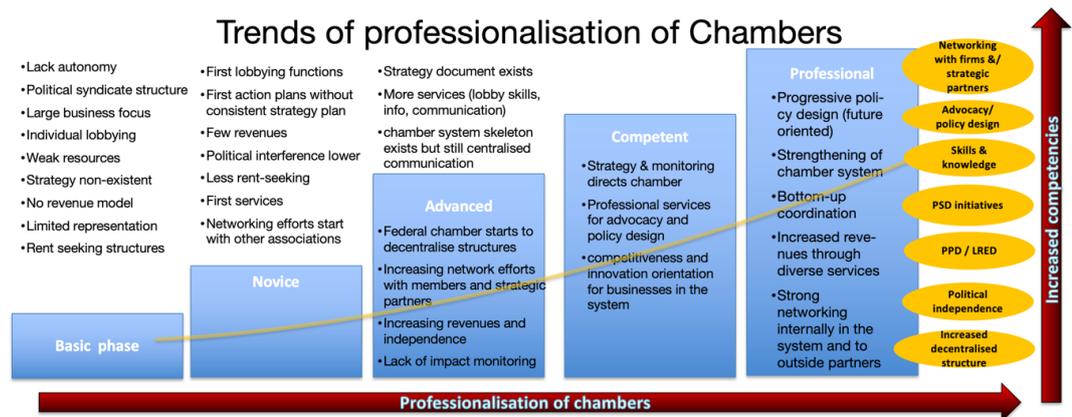
*Figure 2: Trends of different stages of chambers and their professionalisation*

*Source: Mesopartner (2014)*

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<sup>11</sup> FNCCI website: <https://www.fncci.org>

The various stages of development for business associations are characterized by an



increasing level of independence from political interference and rent-seeking structures, a heightened strategic focus, professionalisation of advocacy and policy design, a focus on skills development, enhanced services and initiatives driven by the private sector, improved decentralised and bottom-up communication structures, as well as a focus on knowledge exchange, networking and fostering of innovations. These stages are not static. Private sector associations may find themselves “in-between stages” where certain areas are highly professionalised, while others are still lagging.

Chambers and business associations in the basic phase are typically found in countries with authoritarian political structures, where politicisation and infiltration of the ruling elites’ interests are prevalent. Private sector organisations in the novice phase are often characterized by centralization, reflecting the centralized nature of national government structures. They mainly focus on lobbying and policy advocacy, with less emphasis on offering professional services to their members. The centralised approach also requires greater effort to establish bottom-up structures to support decentralised operations and members across different territories. Decision-making tends to rely less on dialogues and more on hierarchical structures, confrontational political discourse, and power struggles.

Organisations in the following, more advanced phases continually strive for greater professionalism. They invest in staff skills development, networking initiatives, enhanced dialogue, communication structures, and the development of better-decentralised services. They also focus on strengthening the organizational structures of their member organisations. The FNCCI appears to be either the “novice” or in an “advanced” phase. Initial reflections with the FNCCI and the organisational development work conducted by GIZ with two provincial chambers in Karnali and Lumbini over the past two years highlight several areas for the FNCCI to focus on enhancing its professionalism and systemic organizational structure. This

includes, for example, further decentralizing the structures to leverage their potential fully. Further recommendations will be provided in chapter 5.2 following the presentation of more professional structures.

## 4.2 Key challenges identified in the Nepalese Chamber system

A transition is underway within the Nepalese chamber system. Historically, FNCCI originated as a lobby group for business interests on the national stage and now aims to transform into a private-sector development organization, promoting the growth of the business sector. Since 2015, the chamber system has been influenced by the emergence of provincial chambers that must define, justify, and differentiate their roles from district and municipal chambers, while all chambers at all levels have the sole mandate to drive private sector development. The following section outlines some of the challenges prevalent in the Nepalese chamber system in greater detail and offers suggestions for improvements.

### **Political affiliations**

The federal FNCCI in Nepal emerged from various political, economic and social events and interests, and developed into a resilient institution. The new leadership in the FNCCI is interested in becoming more autonomous and assuming a pivotal role in improving the effectiveness of the chamber system.

### **The complex and ambiguous relationship between units**

FNCCI came into existence in 1965, when business chambers already existed in a few cities such as Biratnagar, Butwal, Birgunj, Kathmandu, etc. At the time, the district and municipal chambers that are members of the FNCCI were independent and autonomous entities. But at the same time, they were also fundamental units of the broader chamber system. To strengthen the system, communication structures needed to be established for all the relevant chambers, not just for a few selected.

The newly established provincial chambers representing the FNCCI should liaise between the district/municipality, associates, and commodity groups. However, they require assistance in managing expectations and learning to take on a coordination role. Furthermore, provincial chambers deal with operational challenges, such as... concurrently. More complex interactions and relationships among the different units will need to be promoted in the future.

## **Lack of capacity to deliver services**

A key purpose of business chambers is to offer services to their members to advance their business operations. Ideally, the service portfolio aligns with the needs of businesses, continuously adapting to the dynamic economic and political landscape in which they operate. Furthermore, services offered at various levels must complement each other, creating a cohesive business support system. The higher-level chambers should focus on providing jointly relevant services for both lower-level chambers and business units. These are services that cannot be offered at lower levels. One of the core challenges in professionalising the entire chamber system will be to enhance the coordination and communication among the stakeholders within the system.

The FNCCI plays a critical role in identifying services pertinent to its members and is essential for ensuring each member's sustainable competitiveness. These service offers require a critical demand and an innovative mindset among members and the system. The FNCCI must also play a key role in improving the services of its members, guiding them through their own organisational development process.

## **Limited revenue sources and absence of creative fundraising**

Like other business chambers, the FNCCI and its member chambers rely on membership fees as their primary source of income. While membership fees may vary among different chambers, they are always intended to cover the overall expenditure of the FNCCI and its member chambers.

FNCCI and its member chambers organise various fundraising events, with trade fairs particularly popular in Nepal. Traditionally, each Executive Board organizes these trade fairs, which require more creativity and innovative ideas to stand out.

Some chambers, such as the Butwal chamber, generate revenue by renting out their properties (land or buildings) which helps to cover their expenses. This illustrates that FNCCI and chambers within the system can benefit from exchanging experiences on innovative revenue models and income-generating activities with each other and with other international chambers.

## **Lack of strategic approach**

In the past two years, the GIZ/GRAPE project supported both provincial and district chambers in designing organizational development strategies. This experience indicates the chambers' interest in professionalising their own structures and the need for more strategic direction

and support for other chambers. Organizational development strategies and coordinating these strategies will be crucial tasks that FNCCI must guide. A robust strategic orientation within FNCCI is essential, as it takes a leadership role in promoting strategic development throughout the chamber system.

### 5. Examples of chamber structures in Europe

The FNCCI is keen to exchange with and learn from chambers and chamber systems in other countries. Drawing from the experiences of more decentralised chamber systems in other countries can help identify the first entry points for the FNCCI in its decentralisation and professionalisation efforts. Promoting this learning exchange should address specific FNCCI challenges, such as communication, revenue models, networking, and services. In the following paragraphs, we will present three examples from Germany, France, and Great Britain that can provide impulses for decentralising and professionalising the FNCCI and the Nepalese Chamber System.

The German and French systems differ in structure and revenue-generating efforts, but they both adhere to the public (continental) law model. In contrast, the British example follows the private law or common law Anglo-Saxon model.

- In the **private law (Anglo-Saxon) model**, chamber membership is voluntary (each business unit can decide whether to become a chamber member or not), and the chamber system operates with greater independence from public governance influence. Thus, a multiplicity of national, provincial, and local chambers is possible.

*Table 1: Examples of continental (public law) and anglo-saxon (Private law) models*

<i>Continental Model</i>	<i>Anglo-Saxon Model</i>	<i>Mixed Systems</i>
<i>Africa:</i> Algeria Côte d'Ivoire Djibouti Egypt Eritrea Morocco Senegal Tunisia	<i>Africa:</i> Ghana Mozambique Namibia* Sierra Leone South Africa Zimbabwe	
<i>Europe:</i> Austria France Germany Hungary Italy Netherlands Slovak Republic Slovenia Spain	<i>Europe:</i> Czech Republic Denmark Estonia Ireland Lithuania Norway Poland** Sweden Switzerland U.K.	
	<i>North America:</i> Canada U.S.A.	
	<i>Latin America:</i> Argentina Chile Jamaica Peru Venezuela	<i>Latin America:</i> Brazil*** Mexico***
	<i>Asia and Australia:</i> Australia India Nepal New Zealand Philippines Singapore Sri Lanka	<i>Asia:</i> Japan Thailand
<i>Source: Pilgrim/Meier 1995</i>		

- In the **public law (continental) model**, membership of businesses is often compulsory, and the government often delegates certain public functions to the chamber. This increases the support and enforcement power of the chambers, but it also makes them private entities with clearly defined public duties. These public duties, for example, include providing economic information, supporting the vocational training system with curricula design and capacity-building activities, providing advisory services and technical assistance and so on.

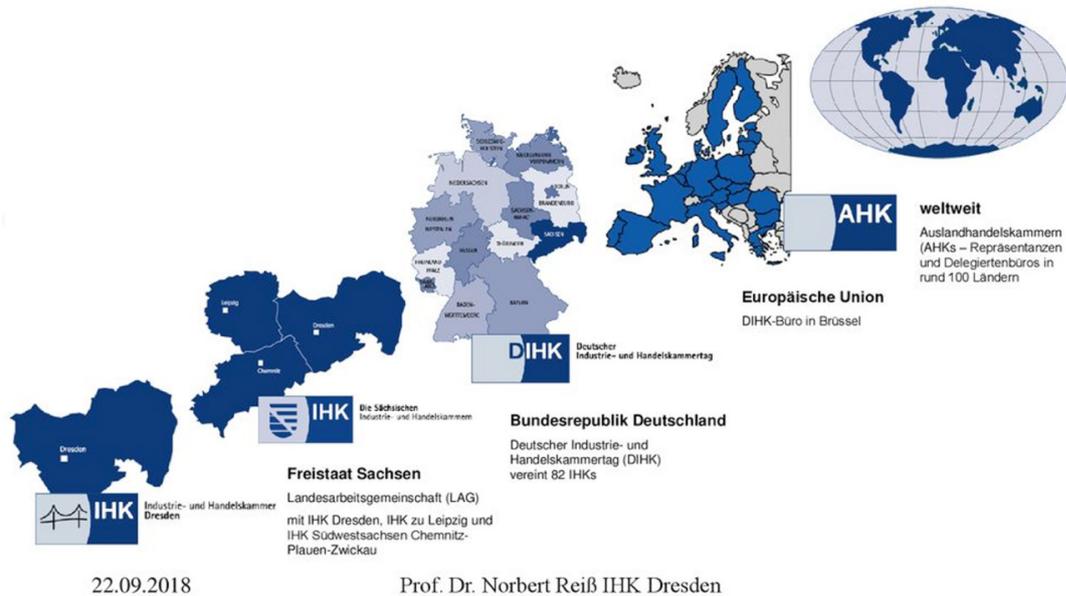
These two distinctions must be considered when designing chamber systems. According to surveys (Heseltine 2012), two-thirds of chambers worldwide are organised following a public law (continental) model (see Table 1). The private and public law models are closely tied to the prevailing legal system and the historical origins of chamber systems in their country.

The German, French, and British examples were selected because they are also decentralized systems, which could inspire us to address the specific challenges in the Nepalese chamber system in the years ahead.

## 5.1 The German chamber system

The German system of chambers is organised in a highly decentralised manner. With 82 chambers, primarily organised within city regions, each chamber functions as an autonomous entity under public law, operating independently within its regional jurisdiction. These chambers undertake various tasks, including facilitating networking and advocacy, offering economic support services, promoting innovation and skills development, organising events, facilitating export promotion, issuing certificates, promoting business strategies, and fostering dialogue structures. Larger federal states host additional regional chamber offices representing the city region chambers. Additionally, the system benefits from German foreign chamber offices established in approximately 100 countries worldwide.

Figure 3: The German Chamber System



Source: Reiß (2018).

Hence, the German chamber of commerce and industry system is primarily governed by the city region chambers. They define the roles and priorities of the federal umbrella organisation, the Deutsche Industrie- und Handelskammer (**DIHK**). Due to the decentralised structure of the chamber system, one of the core interests of the city region chambers is that the DIHK takes on a strong coordination role between the chambers and utilizes its policy and lobbying functions at the national level.

The presidency governs the DIHK. By establishing committees and working groups, the DIHK helps identifying the primary work areas for all city region chambers. These areas typically encompass foreign trade, education, digitalisation, energy, the environment, and taxation. In this regard, the DIHK offers tailored services for its members, which the members themselves define. The services include:

- Advisory services and information on various topics, including law, taxes, foreign trade, innovation, digitalisation, the environment and energy
- Training courses, seminars, workshops, and further training events across various specialist areas to strengthen the skills of both company employees and city regional chamber employees
- Export counselling and promotion
- Counselling and information services for start-ups

- Public relations and lobbying
- Project management and strategic management.

The specifics of training programs and opportunities may vary depending on the specific needs of companies and chamber employees.

One of the outstanding contributions of the German chamber system is its commitment and involvement in promoting the dual vocational training system. According to Heseltine (2012), the German chambers play a key role in designing curricula for approximately 1 million apprentices in the business sector every year. This is attributed to the well-known dual vocational system, in which the private sector assumes a significant role.

## 5.2 The French chamber system

The French chamber of commerce and industry system is recognized as the pioneering modern chamber system in the EU, dating back to its establishment in 1802. Similarly to the German system, it shares several characteristics:

1. Decentralized Approach: It adopts a highly decentralized organizational structure.
2. Public Law Model: The German system operates under a public law model, where public duties and compulsory membership are integral.

However, two notable differences distinguish the French system:

1. The French system incorporates a regional chamber structure akin to the newly formed provincial arrangement.
2. It employs a unique revenue-generating model.

The "Chambers of Commerce and Industry France" (CCI France) is the national umbrella body. It comprises 22 Regional Chambers of Commerce and Industry (CCIR), intermediaries to the 122 local chambers. 107 overseas chambers are also linked to the national chamber system, forming an international branch network. While the grassroots level drives the system, the regional chambers play a significant role in shaping regional economic strategies, particularly in fostering regional clusters and value chains. This aspect could be of particular interest to the provincial chambers in Nepal.

The French regional chambers adopt a broader geographical perspective on the business landscape and actively support strategies within specific regions and around topics relevant to the region. This approach facilitates the creation of synergies in promoting local economic and sectoral development through collaboration with the local chambers. CCI France provides

guidance, support, and advisory services, conducts audits of local CCIs, develops national strategies, and manages national and European projects (Heseltine 2012).

Another notable difference from the German system is the revenue model employed by the French CCIs. Unique to the French chambers is their ownership and management of ports and airports, which serve as a significant source of income, contributing 43% to their revenue. Additionally, company taxes and membership fees contribute 33 % to the overall revenue model. Two additional interesting aspects are the establishment of rating systems by CCI France for local chambers and their services. This rating system serves as a quality assurance mechanism, particularly regarding service provision. Furthermore, the literature highlights the strong emphasis on digitalization within the French chamber system, which is an additional advantage. It enables effective communication between chambers inside and outside the country (Heseltine 2012). However, a more in-depth analysis would be necessary to investigate the rating system's status and digitisation process.

### 5.3 The British Chamber System

The British chamber system differs from the other two examples in several ways. Reflecting the liberal tradition of British (Anglo-Saxon) economic policy, public authorities pursued a less interventionist approach, favouring self-administration of the business community. Chambers in the UK are established under private law, with voluntary membership and regional and local coverage not being regulated (Pilgrim/Meier 1995).

The British Chamber of Commerce (BCC) acts as the interface between 51 locally affiliated chambers. Membership in these affiliated chambers is predominately concentrated in the traditional high-employment sectors, such as manufacturing, retail, and construction, as well as in larger cities. The 63 overseas chambers are also bilateral and self-funded, with limited coverage. Of these 63 overseas chambers, 34 are in Europe (Heseltine 2012).

Due to the system's lack of geographic structure, many other chambers exist and operate independently. Roughly 500-600 chambers operating in Britain are not affiliated with the BCC network. These chambers are typically very localized, representing chamber members at the borough or local high street level and primarily catering to micro and small businesses.

## 6. Differences between the chambers systems and opportunities for the FNCCI system

The differences among the highly decentralized German, British, and French chamber systems underscore the importance of further promoting the Nepal chamber system.

Dependency on local chambers:

- Highly decentralized organization and heavy reliance on the support from local chambers in all three systems.

Role of apex bodies:

- Apex bodies primarily serve functional roles and facilitate communication and coordination among local chambers. France has introduced a rating system to encourage high-quality services and competition among chambers.

Membership model:

- Except for Britain, most EU members follow the continental model by integrating public policies and compulsory membership, making the chambers somehow a parastatal body.

Service provision:

- Business services are delivered at the most appropriate level, with additional services provided at regional or national levels where a critical demand is needed beyond local chamber competencies.

Membership composition:

- Sector associations are not typically included as members in the national chamber systems, with membership primarily consisting of city-oriented chambers.

Revenue sources:

- Chambers earn additional income in addition to membership fees by providing consultancies and other relevant services to their members.

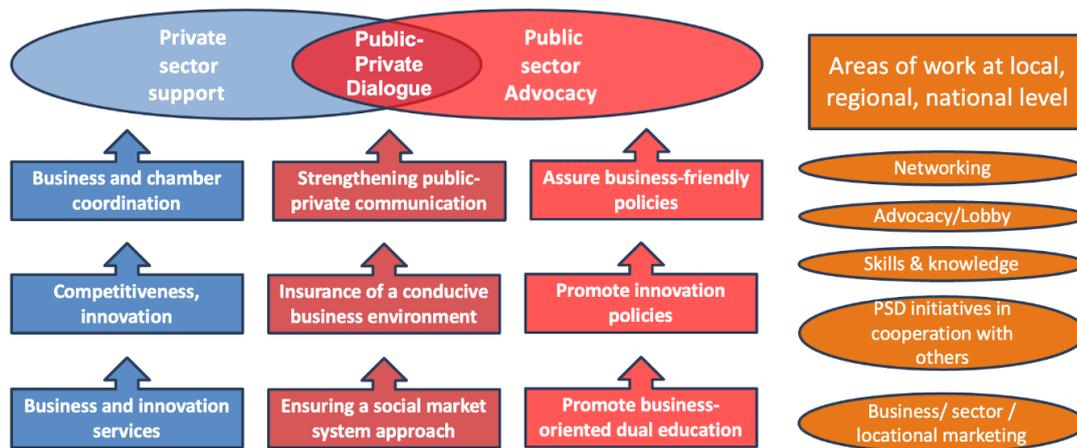
Understanding these differences provides valuable insights for developing and enhancing the Nepal Chamber System.

### 6.1 Core orientation and tasks of most EU -wide chamber systems

The apex body and local chambers are guided by three main objectives that shape their self-understanding and operational trajectory (see Figure 4):

- 1) Strengthening the private sector through **continuous coordination between businesses and chambers** across different levels in the system, **promoting competitiveness and innovation** as guiding entrepreneurial values, and providing supportive services that help to facilitate initiatives in this direction.
- 2) **Public sector advocacy** for adopting business-friendly policies, including those promoting innovation, industrial development, and vocational education and training, tailored to meet business needs.
- 3) **Public-private dialogue (PPD)** aims to improve relationship-building, coordination, and communication among stakeholders with diverse perspectives on strengthening regional or national competitiveness and addressing requirements for sustaining the country's social-market system.

Figure 4: Main focal areas of the chambers in the EU



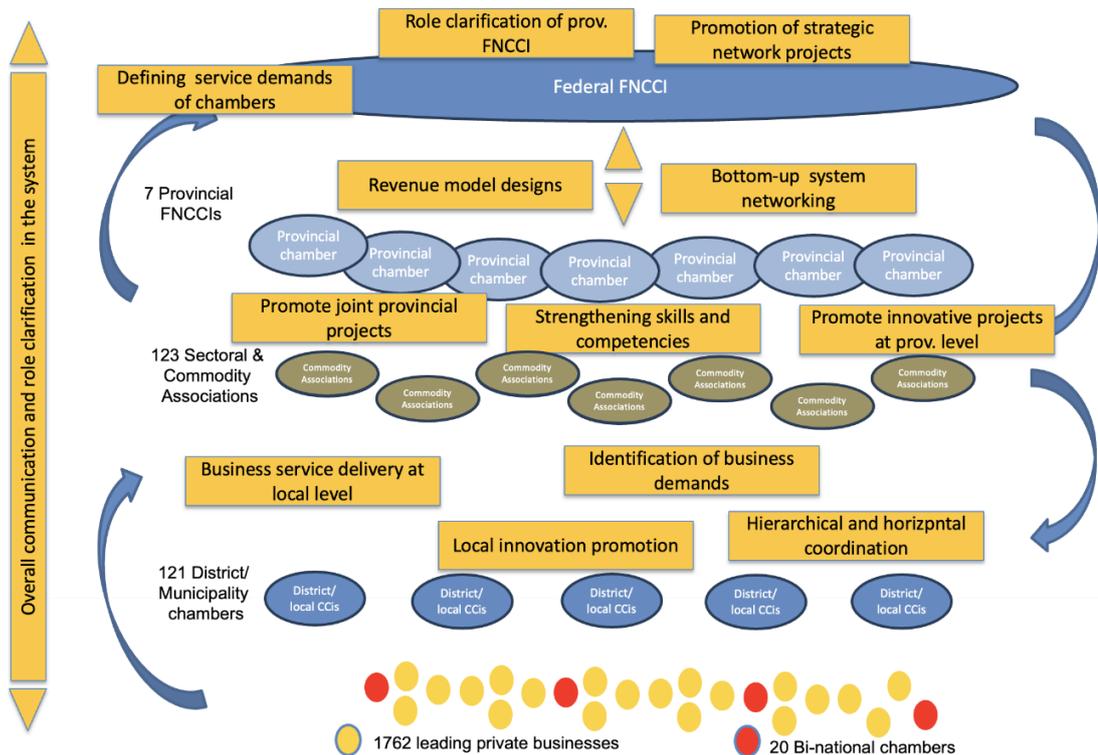
Source: Own elaboration

## 6.2 Opportunities to work with the FNCCI on the improvement of the chamber system in Nepal

The entry points outlined in Figure 5 below have been generated during initial discussions with the FNCCI. To delve deeper, it is necessary to analyse the FNCCI's current functions, procedures, self-perception, service orientation, and communication with the other local and district CCIs. The figure below presents opportunities to work jointly to enhance the effectiveness of the chamber system in Nepal.

Several entry points are outlined below, drawing from existing knowledge and comparing with more decentralised chamber systems.

Figure 5: Entry points to support the Federal FNCCI and the Nepalese Chamber System



Source: Own elaboration

## Strengthening the FNCCI itself

- Promoting professional services based on member demands:** FNCCI management is exploring the professionalization of services similar to those offered by umbrella chamber structures like in Germany. However, it is crucial to ascertain that these services align with members' priorities in a bottom-up approach. Additionally, the process involves professionalizing these services, including staffing, by devising a strategy and revenue model that enables FNCCI to develop and deliver more sophisticated services. The experiences of the GIZ/GRAPE project in supporting provincial and local chambers in designing organizational strategies with strong involvement from local chambers can provide valuable insights for FNCCI.
- Strengthening the FNCCI's network role:** The FNCCI presents itself as a rather centralised and hierarchical organisation, suggesting better communication and network orientation with its members and proactive engagement with strategic partners. Strengthening networking, coordination, and communication with lower-level structures becomes imperative for FNCCI's effectiveness.

## **Strengthening competencies of the provincial FNCCIs as semi-autonomous units of the federal FNCCI**

- **Clarification of the role of provincial FNCCIs:** The provincial FNCCIs are decentralised entities of the federal FNCCI rather than decentralised structures closely connected to local and district chambers. It seems necessary to clarify the roles of the provincial FNCCIs and support their transition into more decentralised organisations that can deliver context-specific services to the FNCCI members and the business community within their respective provinces.
- **Horizontal coordination and knowledge exchange among provincial chambers:** The provincial entities should be able to learn from the experiences of other provincial chambers.
- **Professionalisation of communication structures, digitalization and establishment of bottom-up governance mechanisms:** This involves establishing structures with district and local chambers and business associations.
- **Promoting provincial project initiatives to strengthen members' competitiveness** may include advocating for sector clusters, conducting value chain analyses, and organizing promotional activities.

### **Work on role clarification between the different chambers in the system**

Since the provincial chamber level is a recent addition to the chamber system, it still defines its role and purpose. This requires trust-building efforts, a clear role definition, strong communication and coordination and setting boundaries with the district and local chambers, which are integral members. These efforts are crucial for mitigating role duplication and ensuring synergies. Provincial chambers play an essential role in supporting their district and city chambers in professionalising their services, providing relevant feedback and information on key challenges, especially at the provincial level, helping the provincial government, and enhancing the competitiveness of provincial services for their members in the provinces.

### **Strengthening local and district chambers in their innovation power and local economic development efforts**

Local and district chambers of commerce are ideally positioned to be closely connected with businesses and their unique challenges. They are best suited to reach out and engage with businesses effectively.

These chambers can be further empowered by assuming a professional role in offering a range of business services, innovation support, initiatives promoting sustainable practices,

assistance in local economic development, and facilitating communication with local public and civil society stakeholders. Seeking support to enhance their capacity to fulfill these multifaceted roles would be beneficial.

### **6.3 The relevant future steps for strengthening the Nepal chamber system**

For the FNCCI and the chamber system to progress effectively, it is crucial to gain a deeper understanding of the chamber system structure and the current organizational framework of FNCCI. This entails identifying the practical challenges encountered by the system and management team. Moreover, it's essential to determine the necessary indicators for evaluating the current services, communication structures, and networking initiatives. To facilitate forward momentum, the following future steps are recommended:

- Map the chamber system with different players and identify perceived challenges from different perspectives.
- Analyse the current stage of self-perception on roles with the FNCCI and lower-level chambers
- Analyse the FNCCI's service range to understand better what is currently being offered to members and opportunities for improvement.
- Design a capacity-building strategy and action plan for identified priority areas for the core management team.
- Define an overall organisational change strategy for the Federal FNCCI that includes priority areas for professionalization of the Nepalese chamber system.

# Annex 1

## 1. Membership criteria

**1.1 General member:** there are two types of general members at FNCCI: District municipality chamber of commerce and industry and commodity associations

### 1.1.1. District and municipal-level chambers of commerce and Industry

- General membership can be granted to industrial and commercial organizations in any district. (8.2.1).
- Additional membership can be granted to associations of metropolises/sub-metropolises and municipality areas if there is more than one urban municipality in a district.

### 1.1.2. Criteria for membership include:

- At least 2000 registered industrial business units as district/municipal-level Commerce and Industry members.
- Regular fee payments for membership.
- Owning a building and secretariat with staff for the association.
- Annual income of at least NPR 20,00,000.

## 1.2. Commodity association

According to Article 8, for a commodity association to get general membership in the FNCCI, it must meet the following criteria:

- To qualify for general FNCCI membership, any specific industry, commerce, service, or commodity business, including domestic and small industries, as well as women entrepreneurs and businessmen, must comply with existing laws and regulations.
- If membership is granted to a commodity association established within a designated sectoral category, the standard practice prohibits extending membership to another association of the same sector/business area. However, the FNCCI executive committee may authorise the granting of membership to other commodity associations if deemed necessary (8.3.3).
- To qualify for membership, a commodity association must have at least 75 fee-paying members from at least 11 districts and spanning at least two provinces (8.3.5).

- An alternative to subsection 8.3.5 is if the association can certify that its members come from fewer than 50 but more than 15 locations nationwide (8.3.7).

**1.2.1 Criteria for commodity association membership to be recognised as a federation include:**

- As per section 8.3.3, to establish a commodity association as a federation, the federation should have associations affiliated to it (as members) in a minimum of three provinces or 15 districts, and each such association must have at least one thousand registered members. These members must have registered with the commodity association as per the prevailing law, joined the commodity association, and paid their regular fees. Binational chamber of commerce and industry
- According to Article 9.1, for the binational chamber of commerce and Industry to become a member of the FNCCI, it must meet the following criteria:
  - Be registered following applicable law.
    - It held its first general meeting and formed an elected working committee.
    - Be established to promote trade with the country/economic unit with whom Nepal had at least one per cent of Nepal's total import and export trade in the previous three years.
    - Have at least 100 fee-paying members registered in compliance with prevailing laws and regulations.

The bi-national chambers have representatives in the FNCCI executive committee, but they vote along with the associate members in the election of President or senior Vice president.

## **1.4 Associate Membership**

- According to Article 10.1 of the FNCCI charter, establishments, companies, corporations, banks/financial institutions, or industries with a minimum paid-up capital can acquire FNCCI membership in the associate category. The minimum paid-up capital required is Rs. 2,50,00,000 (Two Crore Fifty Lakhs). However, this requirement does not apply to existing members.
- As per Article 10.2, those seeking associate membership must have been registered under the prevailing law for more than one year and have received the recommendation of a general member from FNCCI.
- For trade or business service categories of Associate members, as per Article 10.3, membership of the chamber of commerce and industry or provincial chamber of commerce and industry is required where the central work area is situated. In the

case of industries, membership is required in the chamber of commerce and industry, where the industry's head office is located. Additionally, if a membership needs to be renewed, it should be done accordingly.

### 1.5 Distinguished Membership

- Article 11.1 allows the executive committee to award 1 (one) special membership of the FNCCI to domestic and foreign individuals or organizations that have made exceptional contributions to realizing the FNCCI's objectives during their tenure. These special members will be invited to attend executive committee meetings and are called ex-officio committee members.
- Article 11.2 specifies that these special members shall not be required to pay any fees for their membership.

### 1.6 Foreign Membership

- Foreign membership can be awarded to foreign companies and associations, as per Article 12.1. However, per Article 12.2, foreign members are not entitled to vote or participate in elections. Additionally, foreign members are required to pay an annual fee determined by the executive committee, as stated in Article 12.3

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