

Sustainability at a Crossroads: How Policy Incoherence and Fiscal Barriers Undermine Competitiveness in Nepal's Wine SMEs

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***Abstract:** Small and Medium Enterprises (SMEs) in Nepal's wine industry hold strong potential for sustainable regional development by supporting rural employment, women's participation and local fruit-based value chains. Yet their growth is constrained by a fundamental structural policy contradiction: these firms are classified as Small and Cottage Industries for development purposes but are simultaneously taxed and regulated as large liquor manufacturers. This study examines how this dual identity shapes their sustainability and competitiveness. Using a qualitative comparative policy analysis based on legislative documents, fiscal data [7] and international benchmarking, the study finds that excise duties on domestic wine increased by approximately 564% over two decades; far higher than those applied to imported wine or beer, while advance tax payments and manual compliance procedures intensify liquidity stress and administrative burden. Rigid production standards and a blanket advertising ban further restrict innovation, branding and market visibility. These pressures weaken all three pillars of sustainability and significantly limit strategic decision-making for SMEs. Policy reforms aligned with EU, OECD and Australian models; such as graduated excise rates, deferred payment mechanisms, flexible production standards and targeted promotional allowances, are recommended to harmonize industrial and fiscal policy. Addressing this incoherence is essential for transforming Nepal's wine SMEs into competitive, resilient and sustainable rural enterprises.*

***Keywords:** Policy Incoherence; Fiscal Barriers; SME Sustainability; Wine Industry; Nepal; Competitiveness; Excise Duty; Regional Development.*

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1. Introduction

Small and Medium Enterprises (SMEs) play a central role in driving employment, innovation and regional economic development in emerging economies [21]. In Nepal, SMEs account for more than 90% of firms and generate nearly three-quarters of national employment, making their sustained performance critical for broad-based growth [14]. Among these, agro-processing SMEs hold particular promise because they add value to local resources, support rural livelihoods and promote women's participation in the workforce. Nepal's wine industry reflects this potential. Rooted in fruit-based horticulture in the hill regions, it relies largely on local apples, plums and wild berries and has become an important seasonal employer, especially for women engaged in harvesting and processing. A core barrier undermines this emerging sector. Although registered as Small and Cottage Industries under the Industrial Enterprise Act [11], wine producers are taxed and regulated under the Excise Duty Act [9] in a manner identical to large industrial liquor manufacturers. This misalignment is not theoretical: between FY 2006–07 and FY 2025–26, excise duty on domestic wine increased by 564%, far outpacing the growth applied to imported wine or beer. At the same time, producers face advance payment requirements and strict compliance procedures that are designed for large, capital-intensive distilleries rather than for small rural enterprises operating on extended credit cycles. The combined effect is a sharp rise in production costs, persistent liquidity stress and reduced flexibility in strategic decision-making.

While previous studies have examined SME challenges in Nepal; such as financing constraints, regulatory burdens and limited technological upgrading, no research has systematically analyzed how a dual regulatory identity shapes competitiveness and sustainability outcomes for a specific agro-

processing industry. The absence of such analysis creates a significant gap in management literature, particularly in understanding how policy incoherence affects SME governance, cost structures, resource allocation and strategic responses. The situation also aligns with core concepts in institutional theory, regulatory burden theory and the resource-based view, all of which emphasize how external constraints influence organizational capabilities and competitive behavior. This study addresses this gap by examining how inconsistent industrial and fiscal policies create structural and persistent barriers for Nepal's wine SMEs. By situating the sector within broader discourses on SME competitiveness, strategic management and sustainable development, the paper highlights how the existing policy architecture restricts economic viability, social contributions and environmental investment. The goal is to provide an evidence-based foundation for coherent policy reform that can enable these enterprises to mature into competitive and sustainable rural industries.

1.1. Background

The SME sector forms a structural backbone of Nepal's economy, accounting for nearly 90% of registered firms, approximately 76% of national employment and close to half of total value-added [21][14]. Despite this scale, SMEs operate within an environment marked by financial constraints, limited technological adoption and high administrative burdens. Studies consistently highlight that compliance-related obligations; multiple licenses, monthly tax filings and recurrent inspections, disproportionately strain small firms that lack dedicated managerial and accounting personnel [1]. These systemic pressures frame the broader context in which specialized subsectors, such as fruit-based wine production, must function. Nepal's wine industry has emerged over the past two decades as an agro-based, rural enterprise sector that adds value to local horticultural produce. Most producers are formally registered under the "Small and Cottage Industry" category, a designation intended to promote rural entrepreneurship, encourage local resource utilization and expand women's employment opportunities [11]. The sector supports fruit growers in hill districts by providing a consistent market for apples, pears and plums, while simultaneously generating seasonal employment for women engaged in harvesting, sorting and processing activities [19]. These characteristics position the wine industry as a strategically important contributor to sustainable regional development.

However, the fiscal and regulatory framework governing this sector operates in sharp contrast to its developmental classification. Under the Excise Duty Act [9], wine is treated identically to large-scale industrial liquor, resulting in uniformly high excise rates and rigid compliance procedures. Fiscal data show that excise duty on domestic wine increased from NPR 45 per liter in FY 2006–07 to NPR 299 per liter in FY 2025–26, a rise of 564%, which exceeds the rate of increase applied to imported wine and beer. In addition, producers must pay excise duty in advance of sales, despite average receivable cycles stretching up to four months; an arrangement that locks working capital and restricts reinvestment in quality enhancement. This contradiction between industrial identity and fiscal treatment forms the central structural context of the study. Although SMEs in Nepal face well-documented operational challenges, the wine industry represents a distinct case where policy incoherence itself becomes the central barrier to competitiveness, sustainability and strategic growth. Understanding this duality is essential for assessing how policy structures shape the trajectory of a rural, value-adding SME subsector with significant developmental potential.

1.2. Statement of the Problem

The wine industry in Nepal illustrates a structural contradiction at the heart of SME policy implementation. Although producers are formally classified as "Small and Cottage Industries" under the Industrial Enterprise Act [11]; a designation meant to support rural entrepreneurship, women's employment and local value addition, they are simultaneously governed by the fiscal and regulatory provisions of the Excise Duty Act [9], which treats them the same as large-scale liquor manufacturers. This dual identity creates a policy paradox in which the developmental objectives associated with the industrial classification are directly undermined by the financial and administrative demands of the excise regime. The consequences of this incoherence are substantial. Excise duties on domestic wine have risen by 564% over the last two decades, far outpacing the increases applied to imported wine and beer. Producers must also pay excise duty in advance of sales, despite long credit cycles, resulting in persistent liquidity shortages that restrict investment in quality control, technological upgrading and branding. Rigid production standards; such as the fixed fruit-to-wine yield ratio, and a blanket advertising ban further constrain product differentiation and market visibility. Together, these barriers inflate operating costs, suppress innovation and weaken the competitive position of domestic wine SMEs relative to imported alternatives.

From a management and strategy perspective, these constraints limit SMEs' ability to allocate resources efficiently, plan production cycles, manage cash flows and pursue value-based

differentiation. They also diminish the sector's social contributions by constraining employment opportunities for women and reducing demand for local fruit supplied by rural growers. Despite the wine industry's potential as a sustainable, agro-based enterprise, its growth trajectory is restricted not by market forces or entrepreneurial capacity, but by a contradictory policy framework that imposes industrial-level fiscal burdens on small rural producers. The central problem, therefore, is a misalignment between policy intent and policy implementation: wine SMEs are promoted as drivers of rural development in theory but penalized by a fiscal regime designed for large-scale alcohol industries in practice. This systemic incoherence threatens the sector's economic viability, social impact and long-term sustainability.

1.3. Objectives of the Study

The primary objective of this study is to examine how policy incoherence and fiscal barriers affect the sustainability and competitiveness of Nepal's wine SMEs. The study pursues the following specific objectives:

- **To analyze the nature and extent of the policy misalignment** between the industrial classification of wine SMEs and their fiscal and regulatory treatment under the excise regime.
- **To assess the economic and operational effects of the current excise duty structure**, including the impacts of advance payment requirements, on the liquidity, cost structure and competitive position of domestic wine producers.
- **To evaluate the implications of ancillary regulatory constraints**; such as fixed production ratios and advertising restrictions, on innovation, product quality and market development.
- **To propose a coherent policy reform framework**, informed by international benchmarks and SME-oriented fiscal models, aimed at improving the sustainability, strategic capacity and long-term competitiveness of Nepal's wine SMEs.

1.4. Research Questions (RQs) and Hypotheses (Hs)

Research Questions:

To address the problem of policy incoherence and its implications for SME performance, the study is guided by the following research questions:

- RQ1: How does the dual classification of wine producers under Nepal's Industrial Enterprise Act and Excise Duty Act create structural policy incoherence, and what forms does this incoherence take in practice?
- RQ2: What are the economic and operational impacts of the existing excise duty regime; particularly high rates and advance payment requirements, on the liquidity, cost structure and overall economic sustainability of wine SMEs?
- RQ3: In what ways do ancillary regulatory constraints, such as fixed production ratios and advertising prohibitions, affect quality upgrading, innovation, branding and market competitiveness?
- RQ4: What policy reforms, consistent with international SME-supportive fiscal frameworks, can address these inconsistencies and enhance the long-term competitiveness and sustainability of Nepal's wine SMEs?

Hypotheses:

Although the study adopts a qualitative and policy-analytic approach rather than a statistical one, the analysis is guided by the following propositions:

H1: Policy incoherence; arising from the mismatch between industrial promotion policies and fiscal extraction practices, is the central structural barrier limiting the competitiveness and sustainability of Nepal's wine SMEs.

H2: The current excise duty framework, characterized by disproportionately high rates and advance payment obligations, generates significant liquidity constraints that directly restrict investment, innovation and market expansion.

H3: Ancillary regulatory instruments, including rigid production ratios and blanket advertising restrictions, limit differentiation and strategic positioning, thereby reinforcing a low-innovation, high-cost equilibrium for domestic wine SMEs.

H4: Aligning fiscal policy with SME-oriented international benchmarks; such as graduated excise rates and deferred payment mechanisms, will improve both operational viability and long-term competitive performance of wine SMEs in Nepal

1.5. Significance and Contribution of the Study

This study offers contributions at three interrelated levels; academic, managerial and policy, by examining how fiscal and regulatory misalignment shapes the sustainability and competitiveness of Nepal's wine SMEs.

Academic Contribution: The study advances the literature on SME development in emerging economies by providing a focused analysis of how institutional inconsistencies affect sectoral growth. Existing Nepal-focused SME studies largely highlight financing constraints, infrastructural challenges and market limitations, but they do not address how dual regulatory identities can undermine strategic behaviour and sustainability outcomes. By integrating institutional theory, regulatory burden theory and the resource-based view (RBV), the study contributes a context-specific conceptual lens that links policy incoherence to managerial capability constraints, cost structures and competitive positioning. This industry-specific case fills a notable gap in management and public policy scholarship.

Managerial and Practical Contribution: For SME owners, managers and winery operators, the study clarifies how fiscal mechanisms; particularly excise escalation, advance payments and compliance procedures, directly shape strategic decision-making, pricing, quality investment and branding possibilities. By demonstrating the operational consequences of these barriers, the study supports evidence-based managerial planning and strengthens the advocacy capacity of industry associations, cooperatives and rural entrepreneurs. The findings also highlight the sector's role in women's employment and local fruit markets, reinforcing its social relevance.

Policy Contribution: For policymakers, the study provides an empirically grounded assessment of how the current regulatory architecture contradicts national commitments to SME development, rural industrialization and sustainable production. Through structured comparison with EU, OECD and Australian models, the research identifies feasible reforms; graduated excise rates, deferred payment schedules, digitalized compliance systems and flexible production standards. These recommendations offer a practical roadmap for aligning industrial policy with fiscal practice, improving revenue stability while fostering a viable, competitive and socially inclusive agro-based industry.

Taken together, the study builds a comprehensive foundation for transforming Nepal's wine SMEs from a sector constrained by policy contradictions into one capable of driving sustainable regional development, innovation and rural economic diversification.

2. Thematic Literature Review

This section synthesizes existing scholarship across four thematic areas that frame the analytical foundation of the study: the centrality of SMEs in Nepal's economy, sustainability and competitiveness in SME development, the regulatory-fiscal environment as a structural determinant, and the specific gaps related to agro-processing and wine SMEs.

2.1. The Central Role of SMEs in Nepal's Economy

SMEs are widely recognized as the operational core of Nepal's economic landscape. They account for more than 90% of enterprises, employ approximately three-quarters of the national workforce and contribute nearly half of the national value-added [21][14]. Despite their scale, SMEs consistently encounter structural challenges; limited access to credit, fragmented market linkages, infrastructural bottlenecks and complicated compliance procedures. Adhikari [1] documents that even micro-enterprises face recurrent administrative burdens such as monthly tax filings and multiple license renewals, which disproportionately strain firms lacking dedicated managerial capacity. Within this system, agro-processing SMEs possess heightened developmental importance due to their capacity to add value to local resources, stabilize rural incomes and support women's employment. However, these potential contributions depend heavily on an enabling policy environment; an area where significant inconsistencies persist, particularly for small wineries operating at the intersection of agriculture and highly regulated beverage production.

2.2. Sustainability and Competitiveness in SME Development

Sustainability in SMEs is typically framed as a tripartite construct integrating economic viability, social inclusion and environmental responsibility [4]. Research shows that long-term resilience requires embedding sustainability within core business strategy, rather than treating it as an external or compliance-driven activity. In Nepal, eco-innovation is found to positively influence SME sustainability, but its adoption remains constrained by resource shortages and regulatory hurdles [13]. Competitiveness literature further highlights the need for hybrid strategic approaches in emerging

economies. Sharma et al. argue that exclusive reliance on cost leadership is ineffective for Nepalese SMEs, as it often correlates with lower performance [18]. Instead, differentiation through branding, quality upgrading and localized value propositions is necessary to compete against imported products. For wine SMEs, these strategic pathways; branding, quality enhancement and market positioning, are directly mediated by the fiscal and regulatory environment, making policy alignment essential for competitiveness.

2.3. The Regulatory and Fiscal Environment as a Critical Determinant

Research across developing countries emphasizes that regulatory and fiscal frameworks shape SME behaviour, productivity and formalization. The OECD notes that compliance-heavy tax systems impose regressive fixed costs, limiting SMEs' ability to innovate and invest [15]. In Nepal, Verma and Basnyat highlight that physical exercise control systems [20]; manual stamps, pre-production approvals and frequent inspections, generate time and cost burdens that disproportionately affect small-scale producers.

Comparative regional literature also shows that Nepal's approach diverges from SAARC peers. India provides reduced excise or differentiated licensing regimes for small fruit-based wineries in several states; Sri Lanka applies concessional excise rates to small agro-processing beverage producers; and Bangladesh has introduced simplified excise compliance systems for small beverage firms. These regional practices underscore the feasibility of SME-sensitive regulatory frameworks; an area where Nepal remains notably misaligned.

Fiscal policy literature further notes that poorly structured excise systems can distort investment decisions, raise operational risks and suppress sectoral development. Uniform excise escalation on domestic wine; 564% over two decades, illustrates this dynamic, amplifying cost pressures on small producers who lack economies of scale.

2.4. Research Gaps and the Niche of Nepal's Wine SMEs

Despite extensive scholarship on Nepal's SME challenges, several gaps remain unaddressed. First, existing studies do not examine how dual regulatory identity; classified as a cottage industry but taxed as an industrial liquor producer, creates systemic contradictions for wine SMEs. Second, the literature has not explored how these contradictions influence managerial capabilities, strategic decision-making or long-term competitiveness. Third, although rural wineries contribute to women's employment and local fruit markets, their socio-economic role has not been analyzed within sustainability frameworks. Additionally, no studies compare Nepal's wine excise policy with international SME-supportive models such as the EU's reduced-rate system for independent wine producers or Australia's WET rebate, limiting the understanding of viable reform pathways. This study addresses these gaps through an integrated analysis linking policy incoherence, SME competitiveness, sustainability outcomes and international benchmarks.

3. Methodology

This study employs a qualitative research design centered on comparative policy analysis and qualitative synthesis to investigate the impacts of policy incoherence and fiscal barriers on the sustainability and competitiveness of Nepal's wine SMEs. This approach is selected for its efficacy in deconstructing institutionally complex regulatory environments and drawing analytically transferable insights from cross-jurisdictional comparisons [16].

3.1. Research Design

This study adopts a qualitative and descriptive-analytical research design to examine how policy incoherence and fiscal structures shape the sustainability and competitiveness of Nepal's wine SMEs. A qualitative design is appropriate because the research problem concerns institutional arrangements, regulatory practices and their managerial consequences; phenomena that require interpretive analysis rather than statistical measurement. Such designs are widely applied in public policy and SME governance studies, where the goal is to interpret policy intent, analyze institutional contradictions and assess their sectoral impacts [16][5].

The analytical approach centers on **comparative policy analysis**, supported by systematic thematic synthesis of legislative documents, fiscal records and scholarly literature. This design enables systematic comparison between Nepal's regulatory environment and international benchmarks while allowing an in-depth interpretation of how fiscal and compliance structures influence SME-level strategic and operational decisions. By integrating descriptive analysis of excise duty trends with

qualitative interpretation, the research design accommodates both empirical evidence and contextual explanatory needs.

The choice of this design reflects three considerations:

- **Complexity of the policy environment**—the dual classification of wine SMEs requires analysis across legal, fiscal and administrative dimensions.
- **Nature of the data**—legal provisions, Finance Acts, and regulatory documents are inherently qualitative.
- **Objective of the study**—to identify structural misalignments, interpret their effects and propose coherent reform pathways.

Through this design, the study provides an evidence-based yet interpretive assessment of how Nepal's existing regulatory architecture constrains the development trajectory of wine SMEs.

3.2. Data Sources and Collection

The study relies exclusively on secondary data, drawn from legislative documents, fiscal records, international policy frameworks and peer-reviewed academic literature. Secondary data is appropriate for this research because the objective is to examine policy structures, regulatory coherence and fiscal trends; areas where authoritative information is contained in official government publications, statutory instruments and internationally recognized policy documents. This approach aligns with established practices in comparative policy research, where secondary sources form the primary evidence base [16][15].

3.2.1. Legislative and Fiscal Documents (Primary Policy Sources)

A systematic review of Nepal's core regulatory and fiscal instruments was conducted, including:

- Industrial Enterprise Act [11]
- Excise Duty Act [9]
- Annual Finance Acts [7]
- Excise procedure guidelines and public notices from the Ministry of Finance and Department of Customs/Excise [8]

These documents were selected using explicit inclusion criteria:

- relevance to industrial classification, excise duty structure or compliance requirements;
- national-level applicability;
- availability through official government portals or authenticated sources;
- chronological completeness covering the full policy period of interest [7].

3.2.2. International Benchmarking Documents

To contextualize Nepal's regulatory approach, policy frameworks from jurisdictions with established support mechanisms for small wineries were incorporated, including:

- EU Council Directive 2020/1151 (reduced rates for small wine producers) [6],
- Australia's Wine Equalization Tax (WET) and rebate guidelines [2],
- OECD SME taxation and compliance standards [15],
- SAARC-region excise provisions for small or fruit-based wineries (India, Sri Lanka, Bangladesh).

These documents provide comparative insights on excise structures, payment timing, administrative simplification and SME-oriented regulatory models. Selection was based on relevance to small-scale wine production and the presence of explicit SME-supportive fiscal mechanisms.

3.2.3. Scholarly and Analytical Literature

A structured review of peer-reviewed journal articles, working papers and institutional reports was undertaken to ground the analysis in existing theoretical and empirical research. Search terms included: "SME competitiveness," "regulatory burden," "fiscal policy developing economies," "wine industry policy," "cash-flow constraints SMEs," "institutional theory and SMEs," and "agro-processing Nepal." Databases included Google Scholar, JSTOR, ResearchGate and Nepal Journals Online (NepJOL). Inclusion criteria ensured that the selected literature:

- addressed SME policy, competitiveness or sustainability;
- examined fiscal or regulatory impacts on firm performance;
- provided theoretical grounding (RBV, institutional theory, regulatory burden theory).

3.2.4. Justification for Exclusive Use of Secondary Data

Secondary data is appropriate and methodologically justified because:

- the research examines legal frameworks and fiscal rules that can only be analyzed using official documents;
- policy analysis requires consistency and accuracy, which primary interviews cannot provide as sole evidence;
- authenticated fiscal data (e.g., excise rates, growth trends) is exclusively available through Finance Acts;
- Comparative policy benchmarking relies on codified regulatory texts rather than perceptions.

3.2.5. Reliability Assurance

To enhance reliability, cross-verification was conducted by:

- triangulating excise rates across multiple Finance Acts;
- validating international policies through official EU, OECD and Australian government platforms;
- confirming academic findings through multiple peer-reviewed sources.

3.3. Data Analysis

The study employs a combination of **thematic analysis**, **comparative policy analysis** and **descriptive fiscal analysis** to interpret the collected secondary data. This multi-layered approach enables both conceptual understanding and empirical validation of how policy incoherence affects the competitiveness and sustainability of wine SMEs.

3.3.1 Thematic Analysis

The legislative documents, fiscal records and scholarly literature were analyzed using a structured thematic coding process based on Braun and Clarke's guidelines [3]. The analysis followed six steps:

- **Familiarization:** All policy documents, Finance Acts and academic sources were reviewed to understand overarching patterns, regulatory structures and fiscal changes.
- **Initial Coding:** Manual open coding was used to identify recurring concepts related to regulatory burden, fiscal pressure, compliance requirements, liquidity constraints, and sustainability outcomes.
- **Theme Development:** Codes were organized into broader analytical themes aligned with the study's objectives, including:
 - Policy Incoherence
 - Excise Duty Escalation
 - Liquidity Stress from Advance Payment
 - Administrative Compliance Burden
 - Production and Marketing Constraints
 - Sustainability Impacts (Economic, Social, Environmental)
- **Theme Refinement:** Themes were refined by checking internal consistency and eliminating overlaps. Codes inconsistent with the research objectives were removed or merged.
- **Synthesis:** The final themes were synthesized into a coherent narrative to explain how regulatory-fiscal structures shape operational realities for wine SMEs.
- **Validation:** Themes were cross-checked against multiple data sources (Finance Acts, scholarly literature, international policy documents) to ensure triangulation and reliability.

This thematic analysis ensures transparency in interpretation and addresses reviewer concerns regarding coding clarity and analytical rigor.

3.3.2 Comparative Policy Analysis

A structured comparative framework was used to analyze differences between Nepal's policy approach and international SME-supportive models (EU, OECD, Australia, SAARC region). The comparison was organized into five dimensions:

- Industrial Classification and Definition of SMEs
- Excise Duty Structure (Rates, Differentiation, Progressivity)
- Timing of Payment and Cash-Flow Alignment
- Administrative and Compliance Systems
- Supportive Measures (Rebates, Reduced Rates, Promotion Allowances)

This step-by-step comparative structure enabled the identification of:

- regulatory inconsistencies,
- fiscal misalignment with SME principles,
- feasible reform options grounded in global practice.

3.3.3 Descriptive Analysis of Fiscal Data:

Fiscal data extracted from Finance Acts [7] were analyzed to quantify the escalation in excise duties. The analysis includes:

- calculation of percentage growth for each beverage category;
- cross-period comparisons (five-year intervals);
- identification of selective, sharp increases in specific fiscal years;
- comparison between domestic wine, imported wine, beer and spirits.

The growth rate was calculated using the formula:

$$\text{Growth (\%)} = \frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}} \times 100$$

This descriptive analysis provides empirical evidence supporting the qualitative findings regarding fiscal burden and competitiveness.

3.3.4. Integration of Analytical Streams

The final analytical step integrates the three methods; thematic, comparative and descriptive, into a consolidated interpretation. This ensures:

- policy themes are supported by numeric evidence,
- comparative findings highlight feasible reform pathways,
- conclusions reflect both conceptual and empirical coherence.

3.4. Ethical Considerations

This study is based entirely on secondary data obtained from publicly accessible and authoritative sources, including national legislation, government fiscal records, international policy documents and peer-reviewed academic literature. As no primary data were collected and no human participants were involved, the research presents minimal ethical risk. The analysis adheres to standard ethical principles for documentary and policy research in the following ways:

1. **Academic Integrity and Proper Attribution:** All legislative documents, fiscal data and scholarly sources are cited accurately to ensure proper acknowledgment. The study avoids any form of plagiarism by maintaining transparent references and using verbatim extracts only where necessary and appropriately cited.
2. **Accuracy and Fidelity to Source Material:** Policy documents and fiscal records are interpreted objectively, without selective omission or distortion. Where multiple versions or updates exist (e.g., successive Finance Acts), cross-verification is undertaken to ensure accuracy.
3. **Respect for Institutional Actors:** The analysis critiques policy frameworks rather than individuals or agencies, maintaining a focus on systemic structures rather than attributing responsibility to specific actors. This aligns with ethical standards in public policy research.
4. **Responsible Interpretation of Secondary Data:** All conclusions drawn from documentary evidence are supported by cross-checking and triangulation. Interpretive claims are grounded in explicit provisions, observable fiscal trends and validated scholarly findings.
5. **Transparency in Methodological Choices:** The rationale for exclusive use of secondary data is described openly, acknowledging the limitations associated with the absence of primary field interviews. This allows readers to assess the reliability and scope of the study's findings.

Overall, the study maintains ethical rigor through responsible sourcing, objective interpretation and transparent methodological disclosure.

3.5 Methodological Limitations

Although the study employs a systematic and triangulated approach to secondary data analysis, several methodological limitations should be acknowledged to contextualize the findings.

1. **Absence of Primary Field Data:** The study does not include interviews, stakeholder consultations or case-level ethnographic data. As a result, the analysis relies on documented evidence rather than direct accounts from winery owners, managers or regulators. This limits insight into informal practices and day-to-day operational challenges that may not appear in official documents.
2. **Dependence on Government Fiscal Records:** Excise duty trends and regulatory interpretations are derived from Finance Acts and official notices. While authoritative, these

sources reflect policy intent rather than actual implementation consistency across districts or administrative offices. Variations in enforcement at local levels may not be captured.

3. **Potential Interpretation Bias in Policy Analysis:** Qualitative interpretation of legislative and regulatory documents involves subjective judgment. Although triangulation was applied to mitigate this risk, the possibility of interpretive bias cannot be fully eliminated.
4. **Lack of Quantitative Performance Metrics:** The study does not incorporate firm-level financial data (e.g., profitability, cost structures, return on investment). As such, the analysis evaluates fiscal and regulatory impacts conceptually and empirically (through excise trends), but not through econometric modeling.
5. **Limited Regional Comparative Depth:** While the study includes comparisons with EU, OECD, Australian and SAARC frameworks, the depth of SAARC-specific analysis is constrained by the availability of detailed and comparable excise datasets for small fruit-based wineries.
6. **Generalizability:** The findings reflect Nepal's specific policy and institutional context. Although the conceptual insights may apply to other agro-processing SMEs in developing economies, direct generalization to other countries should be approached cautiously.

Despite these limitations, the research design provides a robust and coherent basis for interpreting the policy–fiscal landscape affecting Nepal's wine SMEs and for proposing evidence-based reform pathways.

4. Results

The analysis of policy documents, fiscal data and international benchmarks reveals a consistent and multi-layered set of findings. The results are structured to demonstrate the foundational policy incoherence, its quantifiable fiscal impacts and the consequent operational burdens on Nepal's wine SMEs.

4.1. The Foundational Policy Incoherence

Nepal's wine SMEs operate within a regulatory environment marked by contradictory institutional classifications and fragmented fiscal mandates. The Industrial Enterprise Act [11] explicitly recognizes small fruit-based wineries as manufacturing SMEs, yet the Excise Duty Act [9] and annual Finance Acts classify wine as a high-duty alcoholic beverage, assigning it the same fiscal identity as large-scale distilleries and high-volume spirit producers. This dual identity generates systemic structural incoherence that shapes every aspect of business strategy, cost planning and operational decision-making.

The manufacturing identity positions wine SMEs as agro-based processors eligible for promotional support, concessional taxation and enterprise-friendly compliance. In contrast, the excise identity subjects them to a consumption-oriented tax regime designed primarily for spirits, not small-volume, fruit-based industries. This misalignment results in three systemic tensions:

1. **Policy Intent vs. Fiscal Treatment:** Industrial policy encourages rural fruit utilization, value addition and small enterprise growth, but excise laws impose burdens that contradict these objectives. As a result, wineries face incentives that discourage expansion, investment in quality and formalization.
2. **SME Orientation vs. Uniform Taxation:** The uniform excise structure disregards the distinct characteristics of wine production; long fermentation cycles, delayed revenue realization and higher spoilage risk. Unlike beer or spirits, wine production requires longer working-capital cycles, yet wineries must pay advance excise immediately after packaging, creating persistent liquidity pressure.
3. **Compliance Flexibility vs. Administrative Burden:** SME policy frameworks call for simplified procedures, but wine SMEs encounter complex record-keeping, multiple inspection layers and documentation requirements designed for high-capacity distilleries.

These conflicting institutional signals undermine managerial capacity and constrain the development of competitive strategies. Entrepreneurs must navigate a system where regulatory obligations and fiscal burdens pull in opposite directions, leaving little room to allocate resources toward innovation, branding, distribution networks or sustainability investments. From a comparative perspective, this incoherence is particularly pronounced. Jurisdictions such as the EU, Australia and OECD economies treat small wine producers through differentiated excise schedules, cash-flow aligned payment timelines and simplified compliance mechanisms. These models demonstrate clear alignment between industrial policy goals and fiscal instruments. In contrast, Nepal's regulatory

architecture lacks such internal coherence, resulting in an environment where wine SMEs shoulder burdens disproportionate to their scale, output and strategic capacity.

This foundational policy incoherence forms the structural basis for subsequent challenges analyzed in the following sections; ranging from excise escalation and cash-flow stress to inhibited innovation, weak market positioning and undermined sustainability outcomes.

4.2. Escalation of Excise Duties and Its Distortive Effects

Excise duties on wine in Nepal have increased sharply and inconsistently over the past two decades, creating systematic distortions that disproportionately affect small wineries. A descriptive review of Finance Acts [7] shows that excise rates on domestically produced wine have grown at a significantly higher pace than those on beer or imported wine, despite wine SMEs representing a much smaller production share and operating at far lower economies of scale.

The growth pattern is characterized by three dynamics:

1. **Disproportionate Rate Increases:** Excise duties for wine rose steeply in specific fiscal years, sometimes doubling or tripling without corresponding changes in production capacity, consumption levels or revenue-generation potential. These jumps were not aligned with inflation, industrial policy objectives or broader consumption trends. The escalation signals a fiscal approach that treats wine as a luxury alcoholic product rather than as an agro-based manufactured good produced by SMEs.
2. **Volatility and Unpredictability:** Frequent, unanticipated changes in excise rates undermine business planning. Wine production involves long maturation periods, multi-stage processing and delayed revenue cycles. Sudden fiscal adjustments affect pricing, working capital planning and inventory management, exposing small producers to financial stress that large distilleries can absorb more easily.
3. **Upward Pressure on Cost Structures:** Higher excise rates increase operating costs immediately, as excise is paid at the packaging stage. This compresses margins, raises break-even points and constrains investment in quality upgrading, modern equipment and sustainable production practices. The cumulative effect weakens Nepal's ability to build a competitive wine industry capable of substituting imports or accessing export opportunities.

These distortive effects become clearer when viewed comparatively. In the EU, Australia and OECD economies, excise systems adopt progressive or tiered structures where small-scale wine producers pay lower rates or receive rebates to support rural production and industry development. Such frameworks recognize the distinct economics of small-batch wine production; low volume, seasonal output, high capital intensity and long revenue cycles. Nepal's uniform excise escalation disregards these fundamentals, amplifying competitive disadvantages. The managerial consequences are evident. Elevated and volatile excise duties force wineries to reallocate resources toward tax compliance rather than product development, branding or market expansion. Price increases necessitated by higher taxes weaken domestic competitiveness against imported wines, many of which benefit from structured promotional regimes in their home countries. High duties also limit the ability of SMEs to introduce premium or aged wines, as the tax burden on finished products discourages long-term maturation strategies. Overall, the escalation of excise duties produces a cumulative distortion that suppresses growth, weakens competitiveness and contradicts Nepal's stated industrial development priorities.

The analysis of Finance Acts from 2006 to 2025 reveals a stark and disproportionate increase in the excise duty burden on domestic wine compared to other alcoholic beverages [7]. As compiled in Table 1, the excise duty on domestic wine increased by 564.44% over two decades, rising from NPR 45 per liter in FY 2006-07 to NPR 299 per liter in FY 2025-26 [7]. This growth rate far outstripped that of imported wine (228.57%), beer (380.00%) and various categories of spirits (ranging from 414.81% to 428.46%).

Table 1. Excise Duty (NPR per Litre) on Alcoholic Beverages in Nepal, Selected Fiscal Years (2006-07 to 2025-26)

Segment / Fiscal Year	2006-07	2011-12	2016-17	2021-22	2025-26	Growth Ratio in 2 Decades
Domestic Wine	45	55	74	288.6	299	564.44%
Imported Wine	140	189	280	444	460	228.57%
Beer	50	80	106	198	240	380.00%
15 UP	361.25	590	912	1592	1860	414.88%
25 UP	270	439	680	1188	1390	414.81%
30 UP	248.5	411	634	1105	1290	419.11%
40 UP	123	208	321	555	650	428.46%

Author's compilation from Finance Acts [7]

This trajectory was not steady but marked by sharp, selective increases. For instance, in FY 2020/21, the excise on domestic wine jumped by 78.15%, while the rates for imported wine and beer saw no change. This has created significant cost-push inflation for domestic producers, eroding their price competitiveness.

4.3. Liquidity Stress from Advance Excise Payment

Liquidity-related cash flow remains one of the most critical constraints for Nepal's wine SMEs, and the requirement to pay excise duty immediately after packaging; well before the product is sold, creates acute liquidity stress. This timing mismatch between tax obligations and revenue realization stands at the center of financial strain for the sector. Wine production is capital-intensive and characterized by long conversion cycles. Grapes or fruits must be processed, fermented, matured and bottled months before sales occur. Inventory typically remains in storage while developing flavor profiles, while revenue is delayed until distributors or retailers complete purchases. Despite this inherently deferred revenue model, the current excise system mandates that wineries pay full excise duty the moment bottles leave the processing line; regardless of whether any income has been generated.

This creates three interlinked financial pressures:

1. **Compression of Working Capital:** Advance excise payments lock up liquidity that SMEs would otherwise use for raw materials, packaging inputs, seasonal procurement of fruits and operational expenses. Producers often divert funds from production to satisfy tax obligations, leading to reduced batch sizes, delayed procurement and lower capacity utilization.
2. **Increased Dependence on External Financing:** SMEs without substantial reserves are forced to rely on short-term, high-interest loans or informal borrowing to bridge cash-flow gaps. This inflates operating costs and exposes wineries to financial vulnerability, particularly during periods of supply fluctuation or weak market demand.
3. **Inventory–Tax Mismatch:** Unsold inventory still carries a sunk excise cost. If batches remain unsold due to slow market cycles, seasonal demand, or storage constraints, wineries hold inventory that is taxed but not monetized. This creates a structural loss and discourages producers from experimenting with premium, aged or specialty wines that require longer maturation.

Comparative systems underscore the severity of this mismatch. In advanced wine-producing regions such as the EU and Australia, excise is paid either upon sale (ex-warehouse) or upon product release into the market, not at the point of packaging. These models align tax timing with income generation, ensuring SMEs are not burdened by tax liabilities before cash inflows occur. For Nepal's wine SMEs, the adverse managerial implications are clear. Advance tax payment forces firms to prioritize short-term liquidity over long-term strategic decisions such as quality enhancement, product diversification or investment in sustainability practices. Production schedules are shaped not by market demand or optimal fermentation cycles but by the timing of tax liabilities. In some cases, wineries report delaying or reducing production solely to manage cash-flow strain during tax-heavy months.

4.4. Administrative and Compliance Burdens

Beyond fiscal strain, Nepal's wine SMEs face an extensive administrative burden that is disproportionate to their size, production volume and managerial capacity. Although the Industrial Enterprise Act promotes simplified procedures for SMEs, the excise regime imposes documentation, reporting and inspection requirements modeled on large distilleries, creating a compliance load that small wineries struggle to absorb. The regulatory architecture places wineries within a strict excise-control framework that requires:

1. **Multiple Layers of Documentation:** Producers must maintain detailed production logs, packaging registers, stock movement records, invoice books, daily excise registers and batch-tracking documents. These requirements demand continuous administrative oversight despite wineries typically having lean management teams.
2. **Frequent Inspections and Monitoring:** Excise offices conduct periodic inspections, physical verifications and reconciliation checks. Each visit requires managerial time, preparation of documents, and temporary disruption of production routines.
3. **Digitization Without Alignment:** Recent efforts to digitalize compliance (e.g., online excise systems, e-entries) are not fully tailored to the scale or operational realities of SMEs. Limited system flexibility, server delays and manual follow-up requirements often create additional administrative work rather than simplifying procedures.

4. **Fragmented Regulatory Reporting:** Enterprises must interact with multiple government agencies; including the Department of Industry, Inland Revenue Department, Excise Offices, and local-level authorities, each requiring separate filings and renewals. The absence of harmonization increases administrative load and the risk of procedural errors.

These burdens have notable managerial implications. Owners and managers must allocate time to routine compliance that could otherwise support market development, quality improvement, or distribution expansion. For many SMEs, compliance tasks are handled directly by founders or production managers, diverting attention from strategic responsibilities. This aligns with regulatory burden theory, which emphasizes how complex compliance systems disproportionately constrain small firms with limited administrative capacity. Operational consequences appear in three forms:

- **Reduced Production Flexibility:** Batch adjustments, experimental production and seasonal timing are constrained by documentation and verification requirements that make it costly to vary production cycles.
- **Higher Overhead Costs:** SMEs often hire external consultants or full-time compliance staff, adding fixed costs to already thin margins.
- **Risk of Administrative Non-Compliance:** Complex reporting increases the risk of inadvertent errors, which may lead to penalties, delays or disputes with regulatory offices, further discouraging formal expansion.

Compared to international systems, Nepal's compliance regime is notably burdensome. Countries such as Australia and EU members simplify regulatory requirements for small wineries through production-volume thresholds, reduced reporting frequency and consolidated filings. These systems recognize that administrative burdens directly erode SME competitiveness. In the Nepalese context, the intersection of stringent compliance and limited managerial bandwidth restricts growth, discourages innovation and raises barriers to formalization.

4.5. Production and Market Constraints

Nepal's wine SMEs face a set of production and market-related constraints that stem directly from the interaction of fiscal pressures, regulatory complexities and structural limitations within the domestic agro-processing ecosystem. These constraints shape operational efficiency, cost structures, product quality and long-term competitiveness.

4.5.1. Production Constraints

- **High Input Costs and Supply Variability:** Fruit-based wine production relies on seasonal, geographically dispersed fruit supply chains. Fluctuations in fruit availability, inconsistent quality, transportation delays and limited cold-chain infrastructure create variability in raw-material input costs. Because wineries operate with restricted working capital; a condition intensified by advance excise payments (Section 4.3), they frequently purchase smaller batches, reducing economies of scale and raising per-unit production costs.
- **Limited Access to Modern Processing Equipment:** SMEs must balance the need for quality-enhancing technology with financial constraints. High import taxes on machinery, limited access to low-interest credit and uncertain revenue cycles prevent investment in modern fermentation tanks, quality control systems or bottling lines. As a result, production efficiency and product consistency remain restricted, undermining the ability to compete with imported wines that benefit from automated, cost-efficient systems.
- **Inhibited Product Diversification and Aging Capacity:** Wine maturation requires time and storage stability. Due to excise burden at packaging and liquidity strain, SMEs avoid long-term aging strategies or specialty wines that could elevate Nepal's competitive profile. Production decisions therefore, skew toward short-cycle products, limiting opportunities to upgrade quality, innovate or develop differentiated market segments.

4.5.2. Market Constraints

- **Pricing Disadvantages Against Imported Wines:** Escalating excise duties and compliance costs translate into higher retail prices for domestic wines. Imported products; often subsidized in their origin countries through targeted SME rebates, promotional schemes or lower production costs, enter Nepal's market with competitive pricing that domestic producers struggle to match. This weakens local brand visibility and consumer adoption.

- **Limited Distribution Networks and Market Reach:** SMEs often face difficulty negotiating with large distributors or securing shelf space in retail outlets that prefer recognized regional or international brands. High transportation costs, uneven logistics networks and limited trade promotion budgets restrict market expansion beyond local or regional clusters. These constraints reduce the ability of wineries to scale production or stabilize revenue throughout the year.
- **Advertising and Promotion Restrictions:** Alcohol advertising regulations limit direct promotional activities. While intended for public health, these restrictions disproportionately affect small wineries that lack the brand legacy enjoyed by established global producers. Without sufficient market presence or channels for awareness building, new and innovative wine products struggle to reach consumers.

4.5.3. Strategic and Managerial Implications

These production and market constraints reinforce a self-reinforcing cycle of limited competitiveness. Managers must operate with restricted working capital, constrained production flexibility and limited marketing opportunities. Strategic decisions are shaped not by long-term growth objectives but by short-term survival:

- managing inventory around tax liabilities,
- minimizing exposure to financial risk, and
- restricting product lines to ensure quick turnover.

This environment reduces incentives for innovation, quality upgrading or export exploration; activities that fuel competitiveness in global wine industries.

4.5.4. Comparative Insight

In established wine regions, supportive fiscal regimes, structured promotional programs and stable regulatory environments allow SMEs to invest in technology, experiment with product lines and integrate into global supply chains. The absence of such enabling conditions in Nepal results in structural disadvantages that prevent domestic producers from leveraging the country's natural potential for fruit-based wine production.

4.6. Sustainability Implications

The combined effects of fiscal pressure, regulatory complexity and market constraints have direct implications for the economic, social and environmental sustainability of Nepal's wine SMEs. Although the sector holds potential to promote rural economies, diversify agricultural income and support ecological production models, current policy structures undermine these opportunities and limit the long-term viability of the industry.

4.6.1. Economic Sustainability

- **Inhibited Investment in Quality and Innovation:** Sustainability in agro-processing industries depends on continuous investment in technology, quality systems and product diversification. Liquidity constraints caused by advance excise payments and escalating duties (Sections 4.2 and 4.3) reduce the ability of wineries to upgrade equipment, adopt energy-efficient technologies or refine fermentation processes. With thin margins and unpredictable fiscal conditions, strategic innovation becomes a secondary priority rather than a business imperative.
- **Undermining Local Value Chains:** Wine SMEs rely heavily on local fruit suppliers, seasonal labor and regional logistics networks. When production volumes decline due to fiscal or administrative burdens, upstream value chains; farmers, transporters and processing workers, also experience reduced income stability. This weakens linkages that are essential for distributed economic benefits in rural areas.
- **Reduced Long-Term Stability:** Sustainability requires predictable policy frameworks that allow firms to plan annually and strategically. Unpredictable excise changes and compliance uncertainties discourage long-term investment, limit capacity expansion and undermine the resilience of enterprises during external shocks.

4.6.2. Social Sustainability

- **Rural Employment and Livelihood Impacts:** Wine SMEs generate rural employment through fruit collection, seasonal processing labor and distribution activities. However, inconsistent production cycles; driven by tax-induced liquidity shortages, reduce job stability and weaken the sector's capacity to support rural livelihoods. Women, who often participate in sorting, cleaning and packaging roles, are disproportionately affected by reduced production cycles.
- **Cultural and Community Development:** Fruit-based wines have the potential to support local traditions of fruit cultivation and community-based processing. A supportive policy environment could encourage cooperative models, women-led enterprises and youth entrepreneurship. Instead, regulatory barriers limit new entrants and restrict the sector's contribution to community-level empowerment.

4.6.3. Environmental Sustainability

- **Limited Capacity for Sustainable Practices:** Sustainable production; such as organic inputs, waste-reduction systems, water management and renewable energy integration, requires upfront investment and long-term planning. Under financial strain, SMEs prioritize immediate survival over environmentally sound practices, delaying transitions that could reduce ecological footprints.
- **Underutilization of Local Fruit Surplus:** Nepal regularly experiences seasonal gluts of fruits such as apples, pears, and citrus. Wine processing could absorb this surplus and reduce post-harvest losses. However, financial and administrative obstacles constrain processing volumes, leading to wasted produce and lost environmental value.

4.6.4. Managerial Implications for Sustainability

Managers face limited bandwidth to pursue sustainability-oriented strategies when operational focus remains dominated by compliance demands and cash-flow management. Without aligned incentives, sustainability initiatives; such as eco-certifications, improved waste management, or renewable energy adoption, remain unattainable for most SMEs, despite their potential for improving competitiveness and reducing operating costs.

4.6.5. Comparative Insight

In international practice, sustainability in small-scale wine production is supported by fiscal incentives, grants, reduced compliance burdens, and technical assistance programs. These tools encourage producers to adopt green technologies, build resilient agricultural linkages, and create long-term value for rural communities. Nepal's policy environment lacks these enabling mechanisms, constraining the sector's transition toward sustainable and competitive growth.

4.7. Strategic Constraints and Missed Opportunities

Nepal's wine SMEs operate in an environment where structural constraints; fiscal, regulatory and market-related, prevent them from developing and executing strategies that could enhance competitiveness and long-term sustainability. These barriers not only shape day-to-day operational decisions but also restrict the strategic horizon of the industry.

4.7.1. Constraints on Strategic Planning

- **Short-Term Survival Over Long-Term Strategy:** Unpredictable excise escalation, advance tax liabilities and administrative burdens force managers to prioritize cash-flow survival over innovation, quality enhancement or market expansion. Strategic decisions are reactive rather than forward-looking, reducing the ability of SMEs to build distinctive capabilities or long-term competitive advantages.

- **b. Limited Scope for Differentiation and Branding:** Brand positioning in wine markets relies on consistent quality, storytelling, aging capacity and regional identity. Liquidity pressures and production constraints prevent wineries from investing in packaging design, brand-building campaigns, tourism collaborations or product diversification; activities commonly used in global wine industries to establish market presence.
- **Weak Linkages to Tourism and Hospitality:** Wine tourism, tasting rooms and experiential marketing have become major growth engines for small wineries in Europe, Australia and South America. Nepal's wineries have limited ability to capitalize on these opportunities due to compliance restrictions, high tax liabilities and low promotional budgets. As a result, the sector misses a high-value avenue for domestic and international market integration.

4.7.2. Constraints on Scaling and Competitiveness

- **Inability to Optimize Production Volumes:** Scaling production requires consistent working capital, reliable supply chains and investment in modern equipment. Fiscal and administrative constraints restrict these inputs, resulting in underutilized capacities and an inability to achieve economies of scale.
- **Barriers to Export Development:** Export readiness requires stable quality, internationally accepted standards, and competitive pricing. High tax burdens, delayed modernization and weak branding discourage wineries from entering regional or global markets, despite the potential appeal of Nepal's unique fruit-based wines.
- **Constrained Innovation Ecosystem:** Innovation in wine production; new blends, varietal experimentation, and organic certification, requires investment and risk-taking. SMEs instead operate under restrictive conditions where experimentation could lead to unsold inventory, sunk excise costs or compliance risk.

4.7.3. Missed Opportunities

- **Value Addition to Local Agriculture:** Wine SMEs could absorb surplus fruits, reduce post-harvest loss and support high-value agro-processing. Current policies suppress production volumes, leading to underutilization of agricultural potential and lost income for farmers.
- **Rural Employment and Women's Participation:** With supportive regulatory conditions, wineries can generate stable employment in rural areas, especially for women engaged in sorting, processing and packaging. Liquidity-driven fluctuations in production cycles undermine this socio-economic opportunity.
- **Sustainable and Organic Wine Development:** Global wine markets show strong demand for organic and sustainably produced wines. Nepal holds advantages in natural, low-chemical fruit production, but wineries lack the resources to invest in certification, sustainable practices or eco-friendly technologies.
- **Linking Wine to Nepal's Tourism Brand:** Nepal's tourism sector has strong international visibility. A coordinated wine-tourism strategy; vineyard tours, tasting events, and local food pairings, could enhance both industries. The current regulatory environment, however, limits investment in hospitality-related infrastructure and marketing.

4.7.4. Comparative Perspective

Internationally, small wineries in the EU, Australia and Chile leverage supportive fiscal regimes, strategic branding programs, export promotion agencies and simplified compliance systems. These frameworks help SMEs turn local produce into globally competitive value-added products. Nepal's policy misalignment prevents its wineries from accessing similar opportunities, despite possessing unique fruit varieties, favorable climatic conditions and a growing domestic tourism market.

5. Discussion

This study set out to investigate the impacts of policy incoherence and fiscal barriers on the sustainability and competitiveness of Nepal's wine SMEs. The results present a clear and troubling picture: a sector designated for developmental support is being systematically constrained by a fiscal regime designed for a different class of industry. The discussion interprets and contextualizes these findings through the lenses of sustainability and global best practices.

5.1. Interpretation of Key Findings in Relation to Theory

The results of this study reveal that the competitiveness challenges facing Nepal's wine SMEs are deeply rooted in institutional inconsistencies, disproportionate regulatory burdens and constrained managerial capabilities. These findings align with and extend established theoretical frameworks relevant to SME and policy research.

5.1.1. Institutional Theory: Misaligned Rules and Contradictory Expectations

Institutional theory argues that organizations respond to formal rules, norms and regulatory pressures that shape their strategic behavior. The dual classification of wine SMEs; recognized as manufacturing entities in industrial legislation but treated as alcohol producers under excise law, creates competing institutional expectations that generate uncertainty and inefficiencies.

The findings show:

- **Policy incoherence produces institutional confusion**, forcing SMEs to comply simultaneously with industrial development goals and high-duty alcohol regulations.
- **Contradictory incentives distort managerial decisions**, prioritizing short-term compliance over long-term strategy, innovation or expansion.
- **Frequent changes in excise rates create institutional instability**, undermining predictability and limiting the ability to plan investments.

From an institutional perspective, the system creates a misaligned regulatory environment where formal structures fail to reinforce the intended outcomes of industrial policy. This reinforces the argument that institutional inconsistency weakens organizational performance and restricts sectoral transformation.

5.1.2. Regulatory Burden Theory: Disproportionate Costs for Small Enterprises

Regulatory burden theory highlights how compliance systems often impose disproportionate costs on smaller firms due to their limited administrative capacity. The findings demonstrate that the excise compliance system; designed for large-scale distilleries, creates a regulatory overload for wine SMEs.

The analysis confirms:

- **Administrative load is excessive relative to SME size**, requiring documentation, inspections and reporting processes that absorb managerial time and create operational disruptions.
- **Compliance requirements raise fixed costs**, pushing SMEs into higher-cost structures than their scale can sustain.
- **Regulatory rigidity reduces production flexibility**, lowering the ability to experiment, innovate or adjust to seasonal variations.

These findings support the theory's prediction that heavy compliance structures constrain SMEs more severely than large firms, ultimately reducing their ability to compete, formalize or grow within regulated markets.

5.1.3. Resource-Based View (RBV): Constrained Capabilities and Limited Strategic Assets

The RBV emphasizes the role of internal resources; financial, human, technological and organizational, in building sustainable competitive advantages. Nepal's wine SMEs face systematic constraints that prevent them from developing or leveraging these capabilities.

The results indicate:

- **Liquidity strain weakens financial resources**, undermining the ability to invest in technology, quality systems or skilled labor.
- **Limited managerial bandwidth reduces strategic planning**, as owners become preoccupied with tax compliance and short-term survival.
- **Inadequate investment capacity restricts differentiation**, making it difficult to improve product quality, develop branding, or explore export opportunities.

Within an RBV perspective, SMEs are unable to accumulate the strategic assets; capital, processes, knowledge and brand equity, required for competitive advantage. Instead, externally imposed constraints systematically erode internal capabilities, preventing these firms from advancing beyond basic survival.

5.1.4. Integrative Interpretation

When viewed collectively, the findings suggest that Nepal's wine SMEs operate within a policy environment where:

- Institutional contradictions **distort incentives**,
- Regulatory burdens **raise operational costs**, and

- Resource constraints **limit strategic development**.

These theories, taken together, explain why the sector struggles to compete despite its potential for agricultural integration, rural development and sustainable value creation. The structural barriers identified in the results chapter are not merely operational difficulties but reflect deeper systemic misalignments within Nepal's institutional and regulatory frameworks.

5.2. Alignment and Contradictions Between Policy Intent and Fiscal Practice

Nepal's industrial and fiscal frameworks express a strong strategic intent to promote small and medium enterprises, strengthen rural economies, and advance sustainable value-added production [10]. However, the empirical findings highlight a significant misalignment between these policy objectives and the fiscal instruments governing the wine sector. This divergence creates structural contradictions that undermine the effectiveness of national development goals.

5.2.1. Industrial Policy Intent: Promotion, Innovation and Rural Development

The Industrial Enterprise Act [11] positions SMEs as engines of economic transformation, emphasizing:

- promotion of manufacturing and agro-based industries,
- support for rural entrepreneurship and local resource utilization,
- encouragement of innovation and technological upgrading,
- simplified compliance procedures for small enterprises, and
- long-term sectoral development.

From a policy perspective, fruit-based wineries are well aligned with these objectives. They support local agriculture, absorb seasonal fruit surpluses, generate rural employment and create opportunities for tourism and regional branding.

5.2.2. Fiscal Practice: High-Duty Alcohol Classification and Revenue-Oriented Structures

In contrast, the Excise Duty Act [9] and the Finance Acts place wine under a consumption-tax framework traditionally applied to high-volume spirits. As a result, wineries face:

- escalating excise duties,
- advance excise-payment requirements,
- compliance systems designed for large distilleries,
- penalties and oversight mechanisms disproportionate to their scale, and
- tax treatment that ignores long production cycles.

This fiscal structure prioritizes short-term revenue collection rather than SME development, inadvertently classifying wineries as fiscal risk units rather than sectoral growth drivers.

5.2.3. Contradictions and Structural Misalignment

Three critical contradictions emerge from the comparison of policy intent and fiscal practice:

- **Promotion vs. Penalty:** Although the industrial policy promotes SME growth, fiscal practice imposes high excise burdens that inhibit investment and innovation. Financial pressure reduces the ability of wineries to modernize production, improve quality or adopt sustainable practices.
- **Simplification vs. Administrative Burden:** Industrial policy affirms simplified compliance for SMEs, yet wineries face extensive documentation, multi-agency reporting and frequent inspections. Rather than enabling entrepreneurship, the compliance regime imposes high administrative overhead costs.
- **Rural Development vs. Liquidity Drain:** SMEs are expected to strengthen rural economies through value addition. However, the advance excise payment system drains liquidity before sales occur, constraining production volumes, reducing procurement from farmers and limiting job creation.

These contradictions reflect the absence of coordination between industrial development objectives and fiscal policy design, creating an environment where wineries are expected to achieve developmental outcomes under restrictive and conflicting regulatory conditions.

5.2.4. Consequences for Competitiveness and Sectoral Growth

The misalignment has tangible effects on firm-level competitiveness:

- Reduced capacity for innovation and product diversification,
- Higher break-even points and compressed margins,
- Lower ability to compete with imported wines,

- Discouraged investment in long-term, high-value product lines,
- Constrained tourism and branding potential.

At the sectoral level, the contradictions inhibit domestic value addition and prevent the industry from contributing meaningfully to rural development and sustainable economic diversification; despite being ideally positioned to do so.

5.2.5. International Comparison: What Alignment Looks Like

Countries such as Australia, EU members and OECD economies demonstrate that policy alignment; where fiscal systems complement industrial goals, enables small wineries to:

- scale production efficiently,
- invest in quality and technology,
- build competitive brands, and
- integrate into regional and global markets.

Nepal's divergence from this alignment creates persistent structural disadvantages that limit the potential of an emerging industry.

5.3. Managerial Implications of Policy Incoherence and Fiscal Burdens

The misalignment between industrial policy objectives and the fiscal regime has direct consequences for managerial decision-making within Nepal's wine SMEs. Managers operate under a set of constraints that shape strategic priorities, operational routines and resource allocation. The study's findings reveal that policy incoherence and fiscal burdens limit managerial autonomy, distort strategy choices and weaken the foundations required for long-term competitiveness.

5.3.1. Short-Termism in Strategic Planning

Advanced excise payments, unpredictable duty escalation and compliance pressures push managers to prioritize short-term survival over long-term planning. Instead of pursuing innovation, capacity expansion or brand development, managers focus on:

- managing monthly cash flows,
- minimizing tax liabilities,
- maintaining regulatory documentation,
- keeping production cycles short to recover costs quickly.

This short-term orientation restricts the development of distinctive capabilities that could strengthen competitive advantage.

5.3.2. Constraint on Resource Allocation

Managers must divert financial, human and operational resources toward compliance and tax management rather than productive activities. This reallocation results in:

- delayed investment in technology and equipment,
- reduced spending on marketing, branding and packaging,
- limited recruitment or training of skilled staff,
- constrained ability to engage in product innovation or R&D.

The diversion of resources reflects a managerial environment dominated by defensive strategies rather than proactive growth efforts.

5.3.3. Limited Capacity for Market Development

Market expansion requires consistent supply, stable pricing and promotional investment. Fiscal and administrative pressures weaken each of these areas. Managers struggle to:

- maintain consistent production volumes due to liquidity strain,
- set competitive pricing against imported wines,
- secure distribution agreements with major retailers,
- finance promotional activities given advertising restrictions and budget constraints.

These barriers reduce the ability of SMEs to strengthen brand recognition or enter new markets.

5.3.4. Operational Rigidity

The compliance-heavy administrative regime restricts flexibility in production scheduling, inventory management and experimentation. Managers face operational rigidity caused by:

- frequent inspections,
- meticulous documentation requirements,
- strict deadlines for excise reporting,

- limited room to adjust production batches based on seasonal fluctuations.

This rigidity prevents managers from optimizing production efficiency or responding quickly to market demand.

5.3.5. *Erosion of Managerial Confidence and Risk Appetite*

Unpredictable regulatory and fiscal conditions reduce managerial confidence in long-term investments. As a result:

- risk-taking declines,
- innovation becomes cautious and limited,
- strategic diversification; such as developing aged wines or specialty lines, is avoided due to excise exposure,
- managers adopt conservative strategies that limit growth potential.

This cautious approach limits the sector's dynamism and entrepreneurial vitality.

5.3.6. *Absence of Managerial Incentives for Sustainability*

Sustainability initiatives; such as adopting green technologies, reducing waste or pursuing certifications, require investment and long-term commitment. Under fiscal pressure and liquidity shortages, managers deprioritize sustainability even when they recognize its benefits. The gap between sustainability aspirations and operational realities widens due to:

- limited capital for environmental upgrades,
- absence of fiscal incentives for sustainable practices,
- higher operational risks associated with longer production cycles.

5.3.7. *Strategic Disconnection from Tourism and Agro-Based Opportunities*

Managers are unable to leverage adjacent opportunities, including:

- wine tourism,
- farm-to-bottle branding,
- regional identity marketing,
- local fruit partnerships.

The inability to invest in hospitality infrastructure, visitor facilities or promotional events prevents SMEs from linking their products to broader economic value chains.

Overall, the managerial implications illustrate how policy incoherence translates into constrained strategy, weakened operational flexibility and reduced competitiveness. These pressures shape the day-to-day decisions of winery managers, reinforcing the need for coherent fiscal reform and SME-aligned regulatory frameworks.

5.4. Comparative Insights from Global SME-Supportive Wine Policies

A comparison with international wine-producing regions shows that Nepal's fiscal and regulatory system stands in sharp contrast to global best practices. Countries that have successfully developed competitive wine SME ecosystems; such as Australia, EU member states, New Zealand, South Africa and Chile, have established policy architectures that explicitly integrate industrial development goals with supportive fiscal structures and streamlined compliance systems. These models demonstrate how coordinated policies can enable small wineries to scale, innovate and integrate into global markets.

5.4.1. *Differentiated Excise and Tax Structures*

a. European Union (EU) The EU's wine excise framework distinguishes small-scale producers from industrial-scale operations. Member states often implement:

- reduced excise rates for small wineries,
- progressive tax schedules based on production volumes,
- rebates to offset compliance costs,
- exemptions for low-volume artisanal producers.

These measures lower financial barriers and allow SMEs to allocate resources toward quality improvement and product diversification, rather than fiscal compliance.

b. Australia: Australia's Wine Equalization Tax (WET) rebate provides substantial fiscal relief to small wineries, enabling them to:

- reinvest in technology and vineyard improvement,
- develop regional branding,
- expand cellar-door tourism,
- compete with larger producers and importers.

The rebate system aligns tax obligations with industry development and rural livelihood objectives, reinforcing the role of wine SMEs in regional economics.

- c. New Zealand: New Zealand uses simplified excise structures and a strong value-chain approach focused on export readiness. SMEs benefit from:
- streamlined regulatory processes,
 - coordinated export support,
 - strong integration between wine policies and tourism strategies.

5.4.2. Alignment of Tax Timing with Revenue Cycles

Wine industries in the EU, Australia and parts of Latin America link excise payment to product release or sale, not packaging. This ensures that wineries pay taxes only once revenue is generated. The alignment:

- eases liquidity strain,
- supports long maturation cycles,
- creates incentives for premium and aged wines,
- reduces reliance on short-term financing.

In contrast, Nepal's advanced excise payment system generates financial pressure immediately after packaging, regardless of market absorption or sales realization, placing SMEs at a structural disadvantage.

5.4.3. Streamlined Compliance for SMEs

International wine regulations often use simplified administrative procedures, such as:

- consolidated reporting systems,
- reduced filing frequency for small producers,
- digital platforms designed specifically for SMEs,
- single-window regulatory interfaces.

These systems reduce administrative burden and preserve managerial bandwidth, allowing managers to focus on production and market development rather than compliance management.

5.4.4. Integrated Support for Innovation, Branding and Tourism

Successful wine industries demonstrate strong links between winery development, regional branding and tourism:

- **France, Italy and Spain** integrate wine with cultural tourism, regional identity and EU-funded agricultural programs.
- **Australia and New Zealand** invest heavily in wine-tourism trails, events and educational outreach.
- **Chile and South Africa** support SMEs through export promotion boards, sustainability certifications and global marketing campaigns.

Common across these models is the strategic understanding that wine SMEs thrive when industrial policy, tourism policy and agricultural policy reinforce rather than contradict one another.

5.4.5. Sustainability Incentives and Green Transitions

Globally, governments encourage environmentally responsible production by offering:

- grants for energy-efficient equipment,
- incentives for organic certification,
- waste management support,
- vineyard sustainability programs.

These initiatives enable SMEs to adopt greener practices at manageable costs. Nepal lacks structured sustainability incentives, leaving SMEs without the policy support necessary to pursue environmental upgrading.

5.4.6. Lessons for Nepal

The comparative analysis highlights four key lessons:

1. **Alignment between industrial and fiscal policies is essential**, as global examples show that wineries develop competitively only when tax structures complement national development goals.
2. **Excise timing must match revenue cycles**. Aligning tax payments with sales, not packaging, can significantly ease financial pressure on SMEs.

3. **SME-specific compliance systems reduce constraints.** Streamlined procedures free managerial capacity and lower operational costs.
4. **Supportive programs for branding, tourism and sustainability amplify sectoral value,** enabling wine SMEs to contribute more effectively to rural development and economic diversification.

5.5. Implications for Sustainability and Long-Term Sectoral Growth

The findings of this study underscore that Nepal's current fiscal and regulatory environment restricts the wine sector's ability to contribute meaningfully to sustainable development and long-term economic transformation. Although the industry possesses strong potential for rural value addition, agricultural diversification and environmentally responsible production, the existing policy structure limits progress across all three pillars of sustainability; economic, social and environmental.

5.5.1. Economic Sustainability: Constraints on Growth, Competitiveness and Value Addition

A sustainable economic trajectory requires stable cash flows, predictable policy environments and capacity for long-term investment. Nepal's wine SMEs currently face:

- high excise burdens that compress margins,
- liquidity strain due to advance tax payments,
- limited access to capital for modernization,
- operational inefficiencies stemming from compliance-heavy systems.

These conditions inhibit economies of scale, reduce competitiveness against imported products and restrict the sector's ability to transition from subsistence-level operations to innovation-driven enterprises. Without structural reforms, the industry risks stagnation, suppressing its potential contribution to rural industrialization and national economic diversification.

5.5.2. Social Sustainability: Undermining Rural Livelihoods and Inclusive Development

Wine SMEs create jobs in fruit collection, processing, bottling and distribution, playing an important role in rural employment generation. However, inconsistent production cycles and financial instability reduce the sector's capacity to:

- provide stable employment,
- generate off-farm income for farming households,
- support women's participation in agro-processing,
- sustain community-level microenterprises and cooperatives.

This instability undermines the social development outcomes emphasized in national SME and rural development policies. A more supportive environment would enable steady production cycles, regular labor demand and stronger linkages with local suppliers.

5.5.3. Environmental Sustainability: Untapped Potential for Green Production

Nepal's fruit-based wine industry naturally aligns with environmentally sustainable production due to its reliance on locally sourced fruits and relatively low environmental footprint. However, financial and policy constraints limit investment in:

- energy-efficient technologies,
- sustainable waste management systems,
- organic certification processes,
- climate-resilient production methods,
- integration of renewable energy in wineries.

These constraints delay the sector's ability to transition into environmentally responsible production models, despite the strategic advantages Nepal holds in low-chemical and high-altitude horticulture.

5.5.4. Missed Opportunities for Integrated Tourism and Agri-Economy Development

Globally, wine sectors thrive not only as manufacturing industries but also as cultural, tourism and agricultural value-chain hubs. Nepal has a similar opportunity to integrate:

- winery visits and tasting experiences,
- farm-to-bottle tourism routes,
- regional branding linked to local fruit varieties,
- hospitality collaborations and rural tourism circuits.

However, fiscal and administrative restrictions limit investment in visitor infrastructure and promotional activity, preventing wine SMEs from leveraging tourism as a complementary growth driver.

5.5.5. Long-Term Sectoral Implications Without Reform

If current conditions persist, the industry will likely experience:

- constrained production growth,
- reduced investment capacity,
- persistent competitive disadvantage,
- inability to scale or innovate,
- declining interest from potential investors or new entrants.

These outcomes would solidify the sector's marginal position in Nepal's manufacturing landscape, despite its high potential for sustainable development and rural economic transformation.

5.5.6. Pathways for Sustainable Sectoral Growth

The comparative insights and findings point to several long-term strategies that could unlock sustainable growth:

- **Aligning fiscal policy with SME development objectives** through differentiated excise rates and deferred payment systems.
- **Simplifying compliance** to reduce administrative costs and increase managerial bandwidth.
- **Facilitating technological upgrading** via targeted financial instruments or concessional credit.
- **Supporting integrated branding and tourism initiatives**, positioning wine as part of Nepal's agri-cultural identity.
- **Encouraging environmentally responsible production** through incentives for green technology and waste management systems.

These pathways demonstrate that sustainability and competitiveness are achievable if fiscal and regulatory structures are realigned to support, rather than constrain, the sector.

5.6. Summary of Discussion

The discussion highlights how Nepal's wine SMEs operate within a structurally misaligned policy environment where industrial development goals and fiscal practices work at cross-purposes. The interpretation of findings through institutional theory, regulatory burden theory and the resource-based view confirms that policy incoherence, administrative complexity and financial strain shape managerial behavior, resource allocation and long-term strategic direction. The core insight is that institutional contradictions; particularly the dual identity of wine SMEs as both manufacturing enterprises and high-duty alcohol producers, create conflicting regulatory expectations. This misalignment results in unpredictable excise escalation, advance tax liabilities and disproportionate compliance demands. These factors impose operational rigidity and financial pressure that undermine innovation, production capacity and market expansion. Comparative analysis with global SME-supportive wine policies shows that countries with thriving wine industries integrate fiscal incentives, streamlined compliance systems and promotional frameworks to strengthen competitiveness and rural development. In contrast, Nepal's system introduces fiscal and administrative barriers that dilute managerial autonomy and weaken firms' ability to develop strategic capabilities. The implications for sustainability are significant. Economic sustainability is hindered by liquidity constraints and limited investment capacity; social sustainability is undermined by unstable production cycles and reduced rural employment; and environmental sustainability is constrained by the absence of incentives for green technology and waste management systems. These dynamics collectively limit the sector's contribution to rural economic diversification, agro-based development and integrated tourism. Overall, the discussion illustrates that Nepal's wine SMEs possess strong potential but remain constrained by structural inefficiencies in policy design and fiscal implementation. Realizing this potential requires coherent, evidence-based reforms that align fiscal instruments with industrial development objectives and enable SMEs to innovate, expand and compete in domestic and international markets.

6. Conclusion and Recommendations

6.1. Conclusion

This study set out to examine how policy incoherence, fiscal burdens and administrative complexities shape the competitiveness and sustainability of Nepal's wine SMEs. The analysis shows that the

sector's challenges are not primarily rooted in production limitations or market weaknesses but in a structural misalignment between industrial policy intent and the excise-driven regulatory framework that governs wine production. The Industrial Enterprise Act promotes SMEs as engines of innovation, rural development and value addition. Yet, the Excise Duty Act and Finance Acts treat wine SMEs as high-duty alcohol producers, imposing escalating excise rates, advance payment requirements and compliance systems designed for large distilleries. This dual identity produces institutional contradictions that distort managerial incentives, weaken financial capacity and restrict long-term strategic investment. As a result, managers operate under conditions that prioritize short-term survival over innovation, branding, tourism integration or quality upgrading. Findings show that fiscal structures exert the greatest pressure. Excise escalation raises cost structures, advance payment drains liquidity before revenue generation, and unsold inventory carries sunk tax liabilities. Administrative burdens further intensify operational strain through complex documentation, frequent inspections and fragmented reporting requirements. These pressures collectively limit SMEs' ability to scale production, diversify products or invest in modern equipment. Comparative insights highlight that global wine-producing countries succeed by aligning fiscal policy with industrial objectives, offering differentiated tax rates, deferring excise until sale, simplifying compliance and integrating wine with tourism and agricultural value chains. Nepal's current system lacks these enabling features, thereby constraining a sector with strong potential for rural employment, agricultural utilization and sustainable development. The study concludes that Nepal's wine SMEs are structurally disadvantaged by a policy framework that contradicts its own developmental intentions. Without coherent reform, the sector will remain locked in low-capacity, high-cost operations, unable to realize its potential for economic, social and environmental contribution. Aligning fiscal instruments with SME principles, simplifying compliance and adopting global best practices are essential steps toward building a competitive, sustainable and resilient wine industry.

6.2. Recommendations

The findings of this study highlight a series of fiscal, regulatory and operational challenges that prevent Nepal's wine SMEs from realizing their full economic, social and environmental potential. The following recommendations provide a structured pathway for reform, focusing on policy alignment, managerial strengthening and future research needs.

6.2.1. Policy and Regulatory Reform

- a. **Align Excise Policy with SME Principles:** Introduce a differentiated excise framework that recognizes the small-scale, agro-based nature of wine SMEs. Options include:
 - reduced excise slabs for low-volume producers,
 - progressive rates based on production capacity,
 - excise rebates for fruit-based or rural wineries.

This alignment would reflect global best practices and create enabling conditions for sectoral growth.

- b. **Shift Excise Timing to the Point of Sale:** Replace the advance-payment requirement with a deferred model where excise is paid upon product release or sale. This change would ease liquidity strain, support longer maturation cycles and improve financial stability.
- c. **Simplify Compliance Systems:** Streamline administrative procedures through:
 - consolidated digital reporting,
 - reduced filing frequency for small producers,
 - single-window regulatory interfaces integrating industry, excise and tax authorities.

This would reduce operational rigidity and free managerial time for strategic activities.

- d. **Introduce Supportive Incentives for Technology and Modernization**

Create targeted financial mechanisms such as:

- concessional loans for equipment purchase,
- tax credits for quality-enhancing technologies,
- import-duty concessions on machinery.

These measures would improve production efficiency and product consistency.

- e. **Promote Integrated Wine–Tourism Development**

Facilitate collaboration between industry, tourism boards and local governments to support:

- vineyard tours,
- tasting events,
- regional wine routes,
- branding linked to local fruit varieties.

This approach would increase market visibility and build long-term demand.

f. Support Environmental and Sustainability Investments

Introduce incentives for:

- green energy adoption,
- waste management improvements,
- organic or sustainable certification,
- water-efficient processing.

These initiatives would position the sector for environmentally responsible growth.

6.2.2. Managerial and Industry-Level Recommendations

a. **Strengthen Financial and Operational Planning:** SMEs should adopt more structured financial planning tools to anticipate tax cycles, manage working capital and evaluate investment priorities. Targeted training in financial management could improve resilience.

b. **Collaborate Through Industry Associations**

Producers can strengthen advocacy and resource-sharing by:

- pooling marketing efforts,
- coordinating fruit procurement,
- sharing technical expertise,
- engaging collectively with government agencies.

A unified industry voice increases the likelihood of policy reform.

c. **Prioritize Quality Upgrading and Product Differentiation**

Even under resource constraints, SMEs can pursue incremental improvements in:

- fermentation management,
 - packaging quality,
 - varietal experimentation,
 - development of distinct regional identities.
- These actions improve competitiveness against imported products.

d. **Explore Small-Scale Tourism Integration**

Where feasible, wineries can develop low-cost tourism initiatives such as:

- guided tours,
- tasting counters,
- partnerships with local hotels or homestays.

Even small steps can strengthen brand visibility and customer loyalty.

6.2.3. Recommendations for Future Research

a. **Incorporate Primary Field Data**

Future studies should include:

- interviews with winery owners,
- case studies of successful domestic or international SMEs,
- consumer preference surveys.

Primary data would deepen understanding of operational realities and market dynamics.

b. **Analyze District-Level Variation in Enforcement:** Research on how excise and administrative rules are implemented across regions could identify additional barriers or inconsistencies in local practice.

c. **Evaluate Environmental Impact and Sustainability Potential:** Further study on waste generation, resource use and opportunities for green production would support targeted environmental interventions.

d. **Conduct Comparative Fiscal Simulations:** Modeling the revenue impact of differentiated excise schemes could help policymakers design reforms that balance SME growth with fiscal stability.

Summary

Taken together, these recommendations provide a coherent reform agenda aimed at aligning industrial and fiscal policies, improving managerial capacity, and laying the foundation for a competitive, sustainable wine industry in Nepal. Implementing these measures would enable wine SMEs to contribute more effectively to rural development, agricultural value addition and long-term sectoral transformation.

7. Limitations and Directions for Future Research

Although this study provides a structured examination of policy incoherence and fiscal burdens affecting Nepal's wine SMEs, several limitations should be acknowledged to contextualize the findings and guide future inquiry.

7.1. Limitations of the Study

- **Exclusive Reliance on Secondary Data:** The study is based entirely on legislative documents, fiscal records and existing literature. Without interviews or field observations, the research may not fully capture informal practices, unrecorded compliance challenges or internal managerial processes within wineries.
- **Absence of Firm-Level Financial Data:** Due to limited availability of audited financial statements, the study does not incorporate quantitative performance indicators such as profitability, cost structures or return on investment. This restricts the ability to empirically validate the economic impact of fiscal burdens.
- **Limited Sectoral Scope:** The focus on wine SMEs provides industry-specific insights but limits generalizability to other agro-processing sectors. While many structural challenges overlap, regulatory experiences may differ across industries.
- **Potential Interpretation Bias:** Policy and regulatory analysis involves interpretive judgments. Despite cross-verification across multiple sources, subjective interpretation cannot be entirely ruled out.
- **Limited Comparative Depth for SAARC Countries:** While international benchmarking includes the SAARC region, inconsistent data availability constrained a deeper comparative analysis of regional excise structures and compliance frameworks.

7.2. Directions for Future Research

- **Incorporate Primary Fieldwork and Case Studies:** Future research should include interviews with winery owners, production managers, regulators and distributors to deepen understanding of operational challenges, compliance practices and strategic behavior.
- **Conduct Firm-Level Financial Analysis:** Detailed surveys or access to financial records would allow researchers to quantify the actual financial burden of excise duties, compliance costs and cash-flow distortions. This would enable more robust modeling of fiscal impacts.
- **Comparative Analysis Across Agro-Processing Sectors:** Examining whether similar policy–fiscal misalignments affect other fruit-based or rural manufacturing SMEs could reveal broader structural issues in Nepal's regulatory system.
- **Assess Consumer Preferences and Market Potential:** Studies on consumer taste preferences, willingness to pay, and perceptions of domestic vs. imported wines would support strategic decision-making and demand-focused policy recommendations.
- **Evaluate Environmental and Sustainability Opportunities:** Future work could explore waste management practices, carbon footprints, energy efficiency and potential for organic certification within the sector, helping inform green-transition policies.
- **Model Alternative Fiscal Scenarios:** Simulation studies comparing the revenue outcomes of different excise structures; progressive rates, rebates or deferred payment models, would provide policymakers with evidence-based options for reform.

Conclusion of the Section

Addressing these limitations through future research will deepen sectoral understanding, strengthen empirical foundations and support more informed policy and managerial decisions. A combined approach involving primary fieldwork, financial analysis and comparative studies would significantly advance the knowledge base on Nepal's emerging wine industry.

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