

Building Bridge to Economic Development in Nepal

Government of Nepal (GoN) has developed liberal foreign investment policies to attract maximum foreign direct investment into the country and instituted a 'one-window' system to facilitate and encourage such investments. It has also been striving to create an investment friendly climate to attract foreign investments and provide attractive incentives for prospective foreign investors.



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Background

The world has become small, synchronized and access of any good and services to the people in any country has become so easy. All this development has happened because of globalization of business environment with cross border trade and investment and rapid growth of digital technology. World trade organisation having 162 states members till date has played a very significant role with facilitation in trade negotiations, implementation and monitoring, dispute settlement, building trade capacity and outreach with the ambit of WTO agreement. The member states abide the agreement of international trade laws and regulations with making their states laws and regulations compatible with it.

The global business houses have explored and march their presence in various parts of the world through foreign direct investment and do continuous exploring the prospects of business around the globe with their comparative advantage without any trade and transit barrier.

Any changes in one place in open economy shall effect at global economy because of their interconnectivity and bilateral, regional, multilateral agreement among states. The recent initiative of a sub-regional coordinative architecture of countries in South Asia through formalization of BBIN (Bangladesh, Bhutan, India, Nepal) to formulate, implement and review quadrilateral agreements. Areas of cooperation include water resources

management, connectivity of power grids, multi-modal transport, freight and trade infrastructure shall give further boost the tie up in Indo Nepal trade and investment relations. These four countries signed a landmark Motor Vehicles Agreement (MVA) for the Regulation of Passenger, Personnel and Cargo Vehicular Traffic among the four South Asian neighbors in Thimpu, Bhutan. The MVA agreement between sub-groupings of four SAARC nations will pave the way for a seamless movement of people and goods across their borders for the benefit and integration of the region and its economic development.

Role of Private sector in Indo Nepal Economic Development

India Perspective

The importance of private sectors over the last 2.5 decade has been felt tremendous in Indian economy. The process of economic liberalization in India can be traced back to the late 1970s. However, the reform process began in earnest only in July 1991. It was only in 1991 that the Government signaled a systemic shift to a more open economy with greater reliance upon market forces, a larger role for the private sector including foreign investment, and a restructuring of the role of Government.

The reforms of the last decade and a half have gone a long way in freeing the domestic economy from the government control regime. An important feature of India's reform programme is that it has emphasized gradualism and evolutionary transition rather than rapid restructuring or "shock therapy". This approach was adopted since the reforms were introduced in June 1991 in the wake a balance of payments crisis that was certainly severe. However, it was not a prolonged crisis with a long period of non-performance.

The economic reforms initiated in 1991 introduced far-reaching measures, which changed the working and machinery of the economy. These changes were pertinent to the following:

- Dominance of the public sector in the industrial activity
- Discretionary controls on industrial investment and capacity expansion
- Trade and exchange controls
- Limited access to foreign investment
- Public ownership and regulation of the financial sectors etc

The reforms have unlocked India's enormous growth potential and unleashed powerful entrepreneurial forces. Since 1991, successive governments, across political parties, have successfully carried forward the country's economic reform agenda.

Due to above changes the importance of private sectors has been very much appreciable in creating employment and thus reducing poverty. This development has contributed in many walk of life of people like:

- Standard of living of the people
- Easy accessible of essential goods and services
- Improved social life of the middle class Indian
- Changed the age old perception of poor agriculture based country to a rising manufacturing based country
- More concentration in research and development activities
- Reform in education sectors and private sectors have contributed a lot
- Ensured fair competition amongst market players
- Dissolved the concept of monopoly and thus neutralized market manipulation practices etc

The further contribution of private sectors can be evidenced through development of Indian BPOs (Business Process outsourcing) and KPOs (Knowledge Process outsourcing) Indian software companies, Indian private banks and financial service companies. The manufacturing industry of India is flooded with private Indian companies and in fact they dominate the said industry. Manufacturing companies covering sectors like automobile, chemicals, textiles, agri-foods, computer hardware, telecommunication equipment, and petrochemical products were the main driver of growth. The importance of KPOs(Knowledge Process outsourcing) and BPOs can be understood from the data The worldwide KPO industry is expected to reach about US \$17 billion by 2015, of which US \$12 billion would be outsourced to India. Furthermore, the Indian KPO area is likewise anticipated that it will utilize more than 2, 50,000 KPO experts by 2015.

Nepal Perspective

Nepal, the Mid-Himalayan country of Asia has its border with India on the South, East & West and China on the North. It is located between latitude 26 degree 22 minutes North to 30 degree 27 minutes North and longitude 80

degree 4 minutes East to 88 degree 12 minutes East. Being land locked country the sea access is about 1,150 Km from the border.

Ecologically the country is divided into three regions running east to west i.e. the mountains, the hills and the Terai. The mountain area lies at an altitude ranging from 4,877 meters to 8,848 meters above the sea level. It constitutes 15 percent of total area of Nepal. Most of the high snow-capped mountains including world's highest peak Mt. Everest (Mt. Sagarmatha) are located in this region. The hills, the middle region that covers 64 percent of total area lies between the altitude ranging between 610 meters and 4,877 meters above the sea level. This region has numerous attractive valleys, basins, lakes and hills. The Terai region is a low flat land situated along the southern side of the country. Most of the fertile lands and dense forest area of the country are located in this region. This region covers 17.1 percent area of the country.

When India economy was transforming, Nepal was facing Maoist insurgency for decade time and then entire political transition phase which has still not catching up economic transformation.

It has been a decade now when the country has achieved a milestone in political history of modern Nepal in 2006 and opened its door towards open economy. Despite possibilities of high level economic development, Nepal remains one of the poorest country in the world richest countries ranking is 156 out of 188 countries by global finance raking which are based on the GDP (PPP) of a country in 2015 in top ranking whereas ranked just 31 among World's Poorest Countries report by United Nation's 2011 Human Development Report and reflect the countries with the lowest human development with around 25.2 percent of population lives below poverty line. Nepal ranked at 100 out of 140 countries in 2015 by global competitive report.

Despite of recognition of crucial role of private sectors entrepreneurship in economic development, the conducive environment has not given by government which is considered the first pillar of economic development as per global competitive report.

Private sector development has also been considered instrumental for the achievement of Millennium Development Goals (MDGs) It is true that the engine of growth and development is the private sector in any

country. In countries where the private sector is strong and vibrant, economic growth has been encouraging, and countries where the private sector's role has been curbed, the pace of economic growth has been slow and gloomy. Hence, the role of private sectors has become inevitable for economic development in the country.

The annual budget for the fiscal year 2015-16 has given due credit and recognizing the role of private sectors adopting the policy of encouraging and promoting the private sector's participation in the national economy. There are many sectors or avenues for foreign direct investment in Nepal other than lucrative sector which is hydro are services sectors like education, health, tourism, KPOs(Knowledge Process outsourcing) BPOs (Business Process Outsourcing) and others areas like Ayurvedic medicines, Banking and Finance, Insurance, telecommunication, Railways, Physical infrastructures which is prerequisites for all development after stable public institution.

Foreign Direct Investment (FDI) is a major potential contributor to growth and development of a country as it brings in capital, technology, management know-how and access to new markets. It is considered to be a more stable form of investments compared to other forms of capital flows with the host country benefiting in the long term.

Government of Nepal (GoN) has developed liberal foreign investment policies to attract maximum foreign direct investment into the country and instituted a 'one-window' system to facilitate and encourage such investments. It has also been striving to create an investment friendly climate to attract foreign investments and provide attractive incentives for prospective foreign investors. The Department of Industries (DoI), GoN is responsible for approval and monitoring of foreign direct investment into Nepal.

The largest contributor to Nepal's FDI is India. The Indian companies have made a significant contribution to the Nepalese economy both in terms of employment generation and by way of generation of revenue to the Nepalese exchequer.

The following table depicts the foreign direct investment approved in different types of industries in the financial year 2013-14(2070-71): NRs in Millions

Types of Industry	No. of Projects	Total Project Capital	Total Fixed Capital	Foreign Investment	Employment Projected
Service	106	4,900.61	1,637.02	4,471.75	3,494
Tourism	87	2,596.71	2,356.72	1,301.57	2,696
Manufacturing	44	1,953.85	1,385.74	1,852.23	2,337
Energy Based	10	29,901.29	28,458.45	11,186.66	939
Mineral	11	308.8	247.9	281.41	867
Agriculture	47	1,051.00	941.1	1,013.80	1,399
Total	308	40,712.27	35,026.93	20,107.42	11,732

Source: Department of Industries

Indian Investments in Nepal

Indian companies have made a significant contribution to the Nepalese economy through export to India, import substitution, employment generation and contribution of revenue to the Nepalese exchequer. The total approved

direct foreign investments from Indian companies NRs 43,919.11 million during 2013/14. The employment commitment by these companies has reached to 63708 during the fiscal year. The total number of joint venture companies where Indian companies have taken approval for FDI stands at 587.

NRs in Million

Fiscal year	No of projects	Foreign Investments Approval	Employment Projected
Prior to 2006-07	338	12,297.08	44,126
2006-07	26	2,037.93	1,880
2007-08	37	4,553.21	3,155
2008-09	34	2,499.69	2,105
2009-10	27	3,993.54	1,835
2010-11	38	7,007.26	3,274
2011-12	24	2,298.00	1,754
2012-13	41	2,691.57	3,471
2013-14	22	6,540.83	2,108
Total	587	43,919.11	63,708

Source: Department of Industries

Approved foreign investments from India in different sectors as on FY 2013-14 are as follows:*NRs In Millions*

Types of Industries	No of Projects	Total Project Cost	Foreign Investment	Employment Projected
Energy based	3	7651.01	5944.53	822
Manufacturing	4	385.24	385.24	606
Mineral	5	108.8	81.41	292
Service	9	217.65	113.65	369
Tourism	1	16	16	19
Total	22	8378.69	6540.83	2108

*Source: Department of Industries***Why to Invest in Nepal**

Despite the long political instability in the country for the years, the foreign JVs or companies who has learned and understood the environment of the country and how to run the business in such environment have gained profit and growth tremendously. This growth can be evidenced from the top companies tax payer lists for financial year 2013-14 in various sectors like Ncell Pvt. Ltd , Surya Nepal Pvt. Ltd, Gorkha Brewery, Everest Bank Ltd, Himalayan Bank and many more are doing excellent than their investment in other countries. Many more foreign

investment company and JVs are doing excellent since long time in the country surpassing the difficulties since the time Maoist insurgency to till date. No doubt the investment in hydro power shall bring even more growth and development of the country and respective investing companies. Hence, the political stability after recent constitutions promulgation and sustained economic plan and its implementation shall further boost up the trade and investment ties between these economy resultantly to private investors.

Congratulation



Mr. Baburam Gautam

The Institute would like to congratulate Mr. Babu Ram Gautam, Council member for being promoted as Deputy Auditor General by Government of Nepal. Prior to his promotion he was serving as Assistant Auditor General in the Office of the Auditor General of Nepal (OAGN). He is in Audit Service since last 20 years in OAGN. Mr. Gautam holds academic degrees of Masters in Business Administration and Bachelor of Law from Tribhuvan University. He is Registered Auditor members of Institute and serving in different Committees of ICAN. Mr. Gautam is Training Specialist certified by INTOSAI-IDI and course designer to ASOSAI. Mr. Gautam has also performed his responsibility as Project Manager of Strengthening of Office of the Auditor General Project supported by MDTF.