



PUBLIC-PRIVATE DIALOGUE: IMPROVING THE BUSINESS ENVIRONMENT IN NEPAL

Nepal Business Forum Progress Report

March 2013

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NBFF

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Message

NBF

Government of Nepal

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Message

At the outset, I wish to congratulate the Nepal Business Forum (NBF) Secretariat for bringing out this progress report for 2013. In the true spirit of making business easier and faster, the Government of Nepal, Ministry of Industry is committed to resolving all problems and obstacles by taking advantage of opportunities through a two way conversation, i.e, public private dialogue.

I take this opportunity to thank those who have participated and given their valuable inputs as well as helped to organize the Nepal Business Forum. Particularly, I wish to acknowledge the contribution of our partner, the International Finance Corporation (IFC) of the World Bank Group, for its contributions since the inception of the Forum.

As we pass through a post-conflict transition and strive for lasting peace, economic development through creation of jobs will be a key variable to ensuring economic stability and sustainability in Nepal. For this, the private sector needs to take the lead with the Government playing the role of the enabler, promoter and facilitator. The Government also needs to manage expectations and focus on a few strategic results that are doable and have the greatest chance for implementation by improving governance, expediting private sector development and enhancing business environment. The Government of Nepal is committed to private sector development by removing any such obstacles that stand on the way of doing business faster and easier. We seek help of all in achieving this goal.

I wish the NBF to become a sustainable institution with the support of private sector stakeholders and actors.

Shaker Prasad Koirala

Minister for Finance, Industry and Commerce and Supplies



नेपाल सरकार
 काठमाडौं, नेपाल
 तारिख: २०७३/०७/२०
 पत्रांक: १५७७/०७

Message

Private sector development is a key priority for the Government of Nepal. The Government has been undertaking all possible reform measures to enable the private sector to grow and will continue to do so in the future as well. The contribution made by Nepal Business Forum (NBF) is to be appreciated as it has been making sincere efforts to address concerns raised by private sector through mutually agreed mechanisms. NBF has now been and will remain an excellent institutional platform to resolve issues faced by the private sector. In the NBF process, we have participation of all relevant government ministries and private sector agencies which has been successful in delivering number of important results too.

With the resolution of the issues, concerning to the private sector, we need to keep in mind the results that must be reflected in economic growth and the creation of jobs across Nepal. Monitoring and evaluating the outcomes on the overall economy is equally important so that we take even more positive steps in the future. Poverty eradication is an overarching goal of the economic development and our efforts should centre around that goal.

I wish to thank the officials from the Government of Nepal, the private sector, the International Finance Corporation and the World Bank Group and its partners who have brought the NBF process this far. We commit our engagement in the future.

Leela Mani Poudyal



Government of Nepal
Ministry of Industry

SINGHA DURGAH
 KATHMANDU, NEPAL

Message

The Ministry of Industry (MoI) has a prime responsibility to facilitating and promoting business and industrial development, and also creating an enabling environment for doing business smoothly in Nepal. The Ministry is happy to be engaged in leading the Nepal Business Forum (NBF) in Nepal which is a key platform to bring together the government and private sector partners for the common cause of industrial development. Over the past few years of its existence, the NBF has helped build trust between the government and the private sector by establishing a very clear and well-structured means of communication and co-ordination. The public-private dialogue is one such vehicle to resolve the most challenging issues confronting both the government and the private sector.

The Status Report for 2013 clearly captures what we have been able to achieve so far. It shows the segments of business life that are being affected and touched by the NBF. Issues of various nature and magnitude related to industrial investment promotion are being handled that are constraining large and small business, as well as businesses outside of Kathmandu.

We must focus our limited resources and creative energy on resolving any such issues being faced at the local and district level. The reforms and benefits must spread evenly across the country. There are challenges ahead in making business easier and faster in Nepal, but the NBF process has demonstrated that with commitment from both the government and the private sector, solutions are possible.

I wish to convey my congratulations and best wishes to all those involved in attaining the progress so far.

Krishna Gyawali
 Secretary,
 Ministry of Industry

Summary: Highlights

NBFF

Summary: Highlights

Since its establishment in May 2010, Nepal Business Forum has gradually evolved into an active and effective vehicle for addressing reform challenges in Nepal. In a business environment marred by conflict, civil unrest and political instability, NBF has been an important platform to facilitate economic development through dialogue and the resolution of issues related to infrastructure, trade and export, finance and credit, improving the regulatory and procedural framework and encouraging entrepreneurship in Nepal.

Drawing from Public-Private Dialogue practices in the region and abroad, NBF has steadily picked up pace and has been able to quickly localize itself by creating thematic working groups to ensure participation from all stakeholders in private sector development in Nepal. Nepal's PPD is unique in the region for its engagement of women, and the newly formed working group on tourism is a pioneering development in the PPD arena.

NBF's efforts, incorporating the first PPD mechanism in Nepal, have been vital to the transformation and development of the private sector. Its effectiveness score has been rated at 5.7 according to the PPD Evaluation Wheel¹ (as compared to 3.7 in 2010). NBF has been able to gain support, recognition and much-needed momentum for problem diagnosis, solution design and reform achievements. One of the key strengths of NBF is its broad-based membership and engagement of all stakeholders in a way that leverages their strengths for private sector development. Development partners like USAID, Danida and GIZ have expressed their commitment to partner and engage with the private sector development reforms undertaken through NBF. GIZ and Danida have committed to strengthening the Eastern Regional Business Forum and far and mid-western forum to be based in Nepalgunj.

One of the key strengths of NBF is its broad-based membership and engagement of all stakeholders in a way that leverages their strengths for private sector development.

¹The "Evaluation Wheel" is a World Bank Group evaluation method that enables comparison across different PPDs, or across different stakeholder perspectives, time periods etc. The evaluation wheel is intended to provide comparison and benchmarking, rather than an evaluation of aspects of performance of a PPD platform.

Table 1: Progress of Working Groups and Committees

Working Groups and Committees	No. of issues raised till March 2013	No. of recommendations implemented	No. of meetings
Working Groups			
Industrial Investment Promotion	16	8	8
Infrastructure Development	14	4	7
Women Entrepreneurship Development	13	3	6
Export Promotion and Trade Facilitation	11	5	8
Financial, Monetary and Insurance Affairs	16	5	6
Business Environment, Labor Relations and Industrial Security	13	8	12
Foreign Direct Investment	6	1	2
Eastern Regional Business Forum	28	8	9
Committees			
High Level Business Forum	4	3	2
Private Sector Development Committee	11	6	7
Steering Committee	5	1	3
TOTAL	137	52	71

NBF has evolved to a new level since its founding, with the working groups raising 137 issues and recommendations, 52 of which have been successfully implemented. Many early reform activities have been completed through internal meetings, prioritization and economic assessments. Now it is time to further develop NBF as a leading platform for economic reform and private sector development by building public awareness and industry support for the NBF initiative. The management and coordination functions of the NBF Secretariat will be progressively passed on from the International Finance Corporation to the private sector and government to ensure sustainable development and stakeholder involvement.

Milestones

SouthAsia Enterprise Development Facility² established NBF in May 2010 through an executive order, with the organization to be headed by the Prime Minister. IFC signed an agreement with the Government of Nepal on January 18, 2013 to establish the NBF Secretariat outside IFC as an important first step on the way to sustainability and becoming a fully locally operated forum. Under the agreement, the government pledged to provide office space, furniture and personnel to support the NBF Secretariat and to augment the existing IFC-supported staff. The private sector also allocated staff, office space and other resources to coordinate private sector participation in the forum. IFC provides staff and technical support to strengthen the forum and build on its already significant achievements.



Signing of the agreement on January 18, 2013 to establish the NBF Secretariat at an independent location

NBF has extended its reach to regions outside the capital by establishing the sub-national PPD platform, the Eastern Region Business Forum. Created in April 2010 through a Memorandum of Understanding with the regional government and the Eastern Regional Chamber of Commerce and Industry,³ the ERBF has the objective of supporting inclusive development and facilitating the growth of districts outside Kathmandu Valley. It covers 16 districts of eastern Nepal and raises issues faced by businesses in the eastern region. As per the decision taken by the NBF's Steering Committee, the ERBF has been recognized as a regional chapter of NBF. The forum is now joining hands with development partners like GIZ to establish another regional forum to cater to the needs of the private sector in the mid and far-western regions of the country.



²SouthAsia Enterprise Development Facility aims to create opportunities and improve lives. SEDF is managed by IFC, in partnership with the UK Government and the Norwegian Agency for Development Cooperation. SEDF facilitates the growth of small and medium enterprises by helping to improve their access to finance through a supportive financial infrastructure, financial products development and strengthening of financial institutions; and providing business services to strengthen value chains. SEDF also helps businesses adapt to the impact of climate change. SEDF operates in Bangladesh, Bhutan, northeast India and Nepal.

³The Eastern Regional Chamber of Commerce and Industry operates through regional business associations and forums.

NBF has evolved to a new level since its founding, with the working groups raising 137 issues and recommendations, 52 of which have been successfully implemented.

A separate unit at the Ministry of Industry has been set up for effective inclusion of both public and private sectors in the NBF mechanism.

The NBF Secretariat is hosted by IFC with funds to support PPD programs. Private sector coordination is operated from the NBF Secretariat and IFC provides technical advisory services to NBF working groups. A separate unit at the Ministry of Industry has been set up for effective inclusion of both public and private sectors in the NBF mechanism. Public sector coordination is conducted through this unit and receives support from the Ministry of Industry as well as high-level support from the Office of the Prime Minister and Council of Ministers.

The NBF Secretariat visited critical private sector umbrella organizations and federations as well as government agencies in the first few months of its operations in order to introduce its mandate and encourage private sector participation.

In July 2010, six of the planned working groups were established: Business Environment, Labor Relations and Industrial Security; Export Promotion and Trade Facilitation; Financial, Monetary and Insurance Affairs; Industrial Investment Promotion; Infrastructure Development; and Women Entrepreneurship Development. Tourism and Foreign Direct Investment-related Working Groups were established in February and June 2012 respectively.

Currently, each Working Group has eight members from the public and private sectors. Each Working Group met eight times between July and March 2013 to identify key issues to be raised with government. Table 2 illustrates PPD networks for each Working Group.

Table 2: Public and Private Sector Involvement in NBF Working Groups

Working Group	Public Sector	Private Sector
Business Environment, Labor Relations and Industrial Security	Ministry of Finance (Co-Chair), Ministry of Home Affairs, Ministry of Industry, Ministry of Labor and Transport Management	Federation of Nepalese Chambers of Commerce and Industry (Co-Chair), Garment Association Nepal
Export Promotion and Trade Facilitation	Ministry of Commerce and Supplies (Co-Chair), Ministry of Agriculture and Cooperatives, Ministry of Finance	Nepal Chamber of Commerce (Co-Chair), Federation of Handicraft Associations of Nepal, SAARC Chamber of Commerce and Industries
Infrastructure Development	Ministry of Energy (Co-Chair), Ministry of Information and Communication, Ministry of Irrigation, Ministry of Physical Planning and Works	Independent Power Producers' Association of Nepal (Co-Chair), Federation of Contractors' Association - Nepal, Computer Association of Nepal
Financial, Monetary and Insurance Affairs	Nepal Rastra Bank (Co-Chair), Ministry of Finance, Ministry of Industry, Ministry of Local Development	Nepal Bankers' Association (Co-Chair), Insurers' Association, Shikhar Insurance, Forum of Nepalese Banks, Nepal Bankers' Association
Industrial Investment Promotion	Ministry of Industry (Co-Chair), Ministry of Commerce and Supplies, Ministry of Finance, Ministry of Tourism and Civil Aviation	Confederation of Nepalese Industries (Co-Chair), CNI Governing Council, Association of Pharmaceuticals Producers of Nepal, Nepal Vegetable Ghee and Oil Manufacturers Association
Women Entrepreneurship Development	Ministry of Women, Children and Social Welfare (Co-Chair), Ministry of Commerce and Supplies, Ministry of Industry, Ministry of Local Development	Federation of Women Entrepreneurs' Association (Co-Chair), Federation of Nepalese Small and Cottage Industries, Rashtriya Laghu Udhayami Mahasangh, Federation of Handicraft Associations of Nepal
Tourism	Ministry of Tourism and Civil Aviation (Co-Chair), Ministry of Finance, Ministry of Industry, Ministry of Forest and Soil Conservation, Nepal Tourism Board	Federation of Nepal Chamber of Commerce and Industry (Co-Chair), Hotel Association Nepal, Trekking Agencies' Association of Nepal
Foreign Direct Investment	Ministry of Industry (Co-Chair), Investment Board, International Economic Cooperation Coordination Division, Department of Industry	Independent Power Producers' Association of Nepal, Federation of Nepalese Chambers of Commerce and Industry, Confederation of Nepalese Industries, Nepal Chamber of Commerce

The first formal High Level Business Forum meeting was held in January 2011, chaired by the then Prime Minister Madhav Kumar Nepal. Despite political uncertainty, the forum managed to successfully conduct the second HLBF on August 17, 2012, chaired by the then Prime Minister Dr. Baburam Bhattarai.

Several agenda-setting meetings prior to formal Working Group meetings have been critical and have resulted in putting forth key issues that affect the private sector. Out of the 137 issues and recommendations, 52 recommendations have been implemented. A few of the more important reform recommendations to facilitate private sector development are outlined below.

Private sector savings

Recommendations implemented through Nepal Business Forum have reduced the costs for the private sector of complying with government regulation through

- a reduction in tax payment days from 34 to 22 days per year, resulting in over \$4.83 million in Compliance Cost Savings for the private sector and
- the elimination of the requirement for provision of authorized capital for hydropower development resulting in CCS of \$0.84 million and 76 firms are expected to benefit

Improving export opportunities

Collective trademark registration for Nepalese tea and coffee has been valuable in promoting these products in export markets. Similarly, a Pashmina trademark was registered in 41 out of 46 Pashmina-producing countries, following which there has been a significant increase in the sale of Nepalese Pashmina. Exports increased by 50 percent in FY 2010/2011 compared to FY 2009/10. According to Nepal Rastra Bank, Pashmina worth Nepalese rupees 1.86 billion (\$25.83 million) was exported in FY 2009/10 (before the trademark was registered) and export earnings jumped to Nepalese rupees 2.73 billion (\$37.95 million) in FY 2010/2011. Enforcement of the established standards for importing raw wool used in Nepalese carpets and Pashmina was another key factor in facilitating quality control, boosting the value of Nepalese products in international markets.

A reduction in tax payment days from 34 to 22 days per year, resulted in over \$4.83 million in Compliance Cost Savings for the private sector.

Facilitating production

A major hindrance was resolved by setting up an adequately equipped testing facility for quality control of handicrafts in the premises of the Nepal Bureau of Standards and Metrology, with equal contributions of Nepalese rupees 12 million from the public and private sector. The quality testing procedure for exportable silver goods has also begun.

Improving industrial security

NBF helped reduce industrial strikes, with bandh (strike) days plummeting from 163 to 23 in FY 2010/11. The security situation improved in the eastern region of Nepal with an 81 percent reduction in kidnapping cases in FY 2010/11, and the seizure of 207 weapons in the same period. The recent government decision to establish an Industrial Security and Revenue Force for better security in the industrial corridors and customs has boosted the private sectors' confidence.

Curtailing illegal practices

Reduction of illegal electricity connections in the eastern region of Nepal generated about \$5.3 million extra revenue for the government in FY 2010/11. Illegal tax collection in the Biratnagar region has been reduced, resulting in easier movement of trucks and public buses.

Improving financial markets

A Secure Transaction Registry agreement was signed between the Ministry of Finance and the Credit Information Company Limited. Nepal Rastra Bank decided to work towards making the Repurchase Agreement more effective, rather than purchase it outright, to manage liquidity problems. A Money Laundering and Investigation Department has also been established under the Ministry of Finance.

Promotion of local goods

Elimination of local tax on internal exports of agricultural products was implemented through a Supreme Court order to local bodies to not raise taxes on agricultural products; this was done with the aim of promoting the agri-market. The Public Procurement Monitoring Office has made a provision for a price preference of 10 percent to domestic/local products over other products (WTO, Trade Policy Review, 2011). This is reflected in the Public Procurement Act and Regulations (Public Procurement Regulations 2007). Further, a recent cabinet decision on February 27, 2013 has endorsed the Directive to Increase Consumption of Domestic Goods 2013 which requires state entities to buy local in a bid to support domestic industry.

Illegal tax collection in the Biratnagar region has been reduced, resulting in easier movement of trucks and public buses.



Photo courtesy: Bhoite Koshi Power Company Pvt. Ltd.

Hydropower sector reforms

On NBF's recommendation, a provision of Nepalese rupees 1 million has been made for VAT exemptions on the purchase of construction materials per MW of hydropower generation in the FY 2011/2012 budget. Similarly, the provision of Nepalese rupees 100 million of authorized capital for the issuance of per MW hydropower survey licenses has been eliminated. A recent development has been the removal of the provision of land acquisition as compensation for hydropower developers through the Load Shedding Reduction Action Plan 2013. This has increased the potential to induce investment in the hydropower sector.

Allocation of funds

A total of Nepalese rupees 23.6 million has been allocated by the government for the establishment of the Research and Development Fund, Pashmina Promotion Fund and Women Entrepreneurship Development Fund. The Nepal Government allocated Nepalese rupees 10 million and established the Women Entrepreneurship Development Fund.

Promoting investments

NBF has been successful in advocating for the establishment of the Investment Board under the Ministry of Industry and the enactment of the Board of Investment Act. It created a new Working Group for Foreign Direct Investment related matters and is working in close coordination with the Investment Board.

Facilitating trade

Custom working hours were synchronized with India and China to facilitate trade-related procedures and transactions in May 2012. Custom points for India and China will now be open on holidays and weekends as well.

Advocacy for Special Economic Zones

The Government of Nepal allocated \$2.1 million for zone development in the FY 2011/2012 budget. A list of recommendations to improve the SEZ Bill was submitted in 2010. The Biratnagar Public-Private Dialogue Special Economic Zones Task Force of the Eastern Regional Business Forum, a sub-national PPD forum, conducted a feasibility study and recommended setting up a SEZ in Biratnagar. The feasibility study was reviewed in 2011.

Encouraging exports

Export credits were made available at 4.5 percent as per Nepal Rastra Bank's Monetary Policy (#89 of Monetary Policy of 2012/13). Provisions have been made to simplify the procedures to provide export credits and ensure that banks make refinance facilities available to exporters based on contract papers and working capital at a concessional rate of 4.5 percent interest under the Refinancing Scheme.

Operationalization of e-bidding

Spearheaded by the Public Procurement Monitoring Office, an e-bidding system has been put in place. As of October 2011, 120 public entities had registered in the e-bidding system. E-tendering processes have been operational in 12 organizations since June 3, 2012.

Supporting studies and baseline research

A study on barriers to women in business along with an institutional assessment of the Federation of Women Entrepreneurs' Association of Nepal was conducted in January 2012. The study made recommendations focusing on business registration, access to finance, taxation, access to land and representation of women entrepreneurs.

Establishment of a Social Security Fund

A Social Security Fund was envisaged and made official in 2011 to support public and private sector employees by providing social security and insurance, and thereby remove one of the key obstacles to the proposed changes in the labor act which would result in more flexible hiring and firing of employees. At present, the Fund has already accumulated Nepalese rupees 2.83 billion through 1 percent of payroll tax.

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Working Group Performance Assessment and Progress



Working Group Performance Assessment and Progress

NBF has made significant progress since its inception. It is important to review the measurable progress made by the Working Groups in the field of reforms and PPD.

The NBF Secretariat uses a standard PPD Monitoring and Evaluation tool which constantly monitors progress, measures results achieved and plans the next steps accordingly. Through this useful tool, the overall effectiveness of the NBF mechanism has been determined; it has also helped to quantify the impact of several reforms. This section highlights some of the recent achievements of the various NBF member groups.

The NBF Working Mechanism



High Level Business Forum

NBF's High Level Business Forum meeting is chaired by the Prime Minister of Nepal. The HLBF is an opportunity for Working Groups to inform top-level government officials about their achievements and identify and address issues that remain unresolved.

In January 2011, NBF held its first ever HLBF meeting under the chairmanship of the then Prime Minister Madhav Kumar Nepal. Political instability thereafter delayed the second HLBF but the forum successfully held its second meet on August 17, 2012 at the Dr. Harka Gurung Hall, National Planning Commission, Office of the Prime Minister and Council of Ministers. It was chaired by the then Prime Minister Dr. Baburam Bhattarai and participants included senior government officials, private sector representatives and the donor community.



Dr. Baburam Bhattarai addressing the second HLBF meeting on August 17, 2012

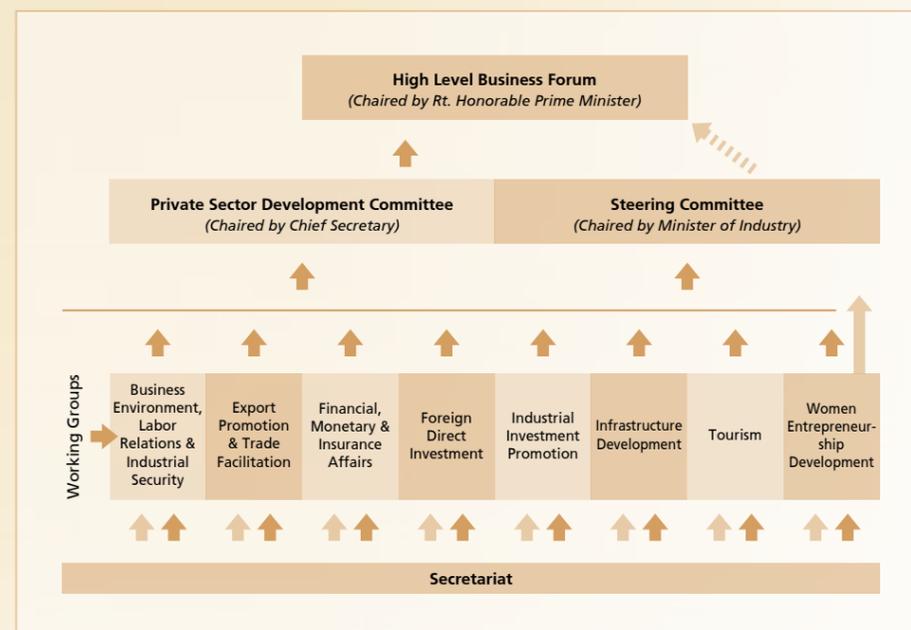
Through a dialogue process, each private sector Working Group ultimately selected six priority issues to be raised for discussion in the Private Sector Development Committee and HLBF meetings. These issues were put into a matrix of issues and recommendations and an action plan was developed to ensure its implementation.

The HLBF meeting reported on the progress of the various NBF Working Groups and took the following policy decisions:

- There should be a single trade union in any given firm, the elections for which should be held by mid-2013;
- Readymade garments should be included in the list of exportable goods identified by Nepal Trade Integration Strategy 2010 to receive financial and technical assistance under the World Trade Organization provision of aid for trade and the Enhanced Integrated Framework;
- The Ministry of Finance should allocate Nepalese rupees 10 million for the Technology Development Fund;
- An independent agency akin to Nepal Rastra Bank should be established for regulation, monitoring and supervision of Saving and Credit Cooperatives through the Ministry of Finance;
- Existing laws must be reviewed or new laws facilitating foreign investment in the stock market should be introduced immediately in coordination with Nepal Rastra Bank, the Securities Board of Nepal and other related institutions;
- The current provision of cash incentives for export should be improved in order to make it more effective.

The next HLBF meeting will be held in early 2013 to discuss a list of high priority issues. With the support of the NBF Secretariat, the Working Groups will coordinate efforts to resolve priority issues in the months to come.

Structure of NBF



NBF's High Level Business Forum meeting is chaired by the Prime Minister of Nepal. The HLBF is an opportunity for Working Groups to inform top-level government officials about their achievements and identify and address issues that remain unresolved.

Private Sector Development Committee

The PSDC has a policy focus and facilitates the implementation of recommendations made by the Working Groups.

The Private Sector Development Committee is an important body of the NBF system. It is chaired by the Chief Secretary of the Government of Nepal and includes the Secretaries of relevant line ministries as well as other invited participants such as development partners and relevant sector experts. The Joint Secretary (Ministry of Industry, Industrial Promotion Division) serves as the Member Secretary of this Committee, with the Ministry of Industry serving as the coordinating body.

The PSDC has a policy focus and facilitates the implementation of recommendations made by the Working Groups. It also works towards addressing inter-ministerial issues which have not been resolved by individual Working Groups. The PSDC, which meets every two months, reports to the HLBF on Working Group activities.

The PSDC has been very successful in directing the implementation of key issues and recommendations made by the forum. Recently, in a bid to be more inclusive, it decided to invite representation from the private sector in dialogue and decision making. As a result, the PSDC included private sector co-chairs in the PSDC meeting held in July 2012. Other achievements of the PSDC are outlined below.



PSDC meeting held in June 2012

Effective communication of reforms and activities

An NBF newsletter was proposed and published with the aim of increasing the visibility of NBF's activities and achievements and place it in the national economic context. Similarly, communications have been stepped up with the launch of the NBF website with support from IFC; the website was launched at the HLBF by the then Prime Minister Dr. Baburam Bhattarai.

Doing Business Reform Memo and action plan endorsed

The Doing Business Indicators are a key economic index, providing objective measures of business regulations and their enforcement across several countries. In order to support the progress of reforms that will ultimately have a positive impact on Nepal's Doing Business rankings, IFC and NBF are working in close coordination with the Office of the Prime Minister and Council of Ministers; together they have formed a Doing Business task force and an action plan. IFC prepared a Doing Business Reform Memo at the request of the government and submitted it to the government in December 2011. Based on that Reform Memo a Doing Business Action Plan was developed in consultation with IFC and the government focusing on four indicators (starting a business, dealing with construction permits, paying taxes, and trading across borders).

As part of its support to the efforts being made to improve Nepal's Doing Business ranking, the government amended directives to increase transparency in lending information. On November 26, 2012, Nepal Rastra Bank directed banks and financial institutions to furnish details of loans above Nepalese rupees 1 million to the Credit Information Bureau within 15 days of lending. At present, BFIs are required to provide such information only in the case of loans exceeding Nepalese rupees 2.5 million.

Cross-ministerial committee for the simplification of business licensing

A nine-member Licensing Reform Task Force was formed under the convenorship of the Joint Secretary at the Office of the Prime Minister and Council of Ministers involving representatives from various ministries, namely the Ministry of Industry, Ministry of Finance, Ministry of Law and Justice, Ministry of Commerce and Supplies, National Information and Technology Centre, Ministry of Energy, Federation of Nepalese Chambers of Commerce and Industry and the Under-Secretary of the Office of the Prime Minister and Council of Ministers (as member secretary). On the government's request, IFC conducted the program "Unleashing Private Sector Potential: License Reforms for Nepal" in November 2011, which looked into four sectors (Hydropower (1-25 MW); Construction of Group Housing and Apartments; Export of Medicinal and Aromatic Plants (Herbs); and Foreign Direct Investment). Based on this study licensing guidelines were prepared, an e-licensing portal was launched and reforms were implemented under the "one agency, one reform" program. In addition, the Department of Commerce has simplified the firm registration process by eliminating the obligation to produce a recommendation letter from the Federation of the Nepalese Chambers of Commerce and Industry, and the Department of Industry has improved the Foreign Direct Investment approval process by eliminating seven of the steps required. It is estimated that this reform will generate \$55,000 in time/cost savings for the private sector.

Simplification of the construction permit/license

A six-member task force was formed under the convenorship of the Director General of the Department of Housing to simplify construction-related licenses; this task force involves other representatives from the Local Development Ministry, Valley Municipal Development, Kathmandu Municipality, the Ministry of Industry and the Ministry of Environment. The first meeting of the Construction Permit Task Force has already taken place and the process mapping exercise has been undertaken to improve and simplify key procedural areas.

It is estimated that the simplification of business licensing will generate \$55,000 in time/cost savings for the private sector.

Steering Committee

The Steering Committee is responsible for monitoring the operation of the Working Groups, including making any changes to the number or scope of the Working Groups. It also sets the budget for NBF and has financial control over the NBF process.

The Steering Committee is the executive organ of NBF. It is chaired by the Minister of Industry and is responsible for ensuring effective functioning of the NBF initiative. It meets every two months and comprises the co-chairs of each Working Group as well as other relevant parties, as determined by the Minister. The Steering Committee is responsible for monitoring the operation of the Working Groups, including making any changes to the number or scope of the Working Groups. It also sets the budget for NBF and has financial control over the NBF process. The NBF Secretariat reports to the Steering Committee. Some key decisions taken by the Steering Committee are outlined below.

Inclusive and participatory working bodies for NBF

The Steering Committee has decided to include additional members in the Infrastructure and Financial, Monetary and Insurance Affairs Working Groups. It decided to include the Joint Secretary of the Ministry of Forest and Soil Conservation in the Infrastructure Working Group; a representative from the Insurance committee in the Financial, Monetary and Insurance Affairs Working Group; and taking into consideration the cross-cutting nature of foreign direct investment, it has also decided to include the Independent Power Producers' Association Nepal as a representative from the hydropower sector in the Foreign Direct Investment Working Group.

Inclusive economic growth in Nepal

After seeing the results it was able to create at the national level, NBF decided to expand its presence by creating a sub-national PPD forum in the western part of the country. This forum, based in Nepalgunj, will address problems and develop constructive solutions for the mid and far western regions of Nepal. NBF is working with GIZ to establish a regional business forum in the western region.



Training on Improving Stakeholder Relations organized in Dhangadhi on March 18-23, 2012

Financial, Monetary and Insurance Affairs
 Business Environment, Labor Relations and Industrial Security
 Women Entrepreneurship Development
 Industrial Investment Promotion
 Tourism
 Foreign Direct Investment
 Export Promotion and Trade Facilitation
 Infrastructure Development

Working Groups

NBF

Industrial Investment Promotion Working Group

Tapping into emerging opportunities that globalization offers for trade and investment, this Working Group aims to better Nepal's economic growth despite the business environment being hampered by a fragile, transitional political environment. Investment and industrial growth are high on the government agenda as it affects the quality of the investment climate. The Working Group is engaged in constructive dialogue to help create an improved business environment and growing awareness about the country's market potential and investment opportunities.

The Industrial Investment Promotion Working Group is grateful for the vast network of people and organizations that have supported its initiatives to facilitate reform and private sector development including partner associations, business groups and line ministries. They have made its achievements possible.

In the absence of any law or regulation that supports private sector development, the Industrial Investment Promotion Working Group has initiated the process of drafting a private sector development policy along with government counterparts. The Working Group has been advocating for improvement in key areas to effectively tackle constraints faced by the industrial sector, improve the investment climate so as to capitalize on the potential of the country, and produce goods and services competitively to enable exports.

The Working Group has been working to address constraints on domestic production with the aim of boosting investment in Nepal. It has held discussions and proposed measures to remove existing obstacles to higher productivity such as:

- The lack of a private sector development policy;
- Insufficient supply of electricity, leading to firms operating below their potential;
- Rising costs of production and the need for electric feeders;
- Funds for research and development;
- Insufficient incentives for the export of unique Nepali products such as herbs, essential oils and Pashmina;
- Procedural hassles and unnecessarily complex export cash incentive procedures.

The Working Group has been advocating for improvement in key areas to effectively tackle constraints faced by the industrial sector, improve the investment climate so as to capitalize on the potential of the country, and produce goods and services competitively to enable exports.

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Several issues have played a part in Nepal's poor investment climate. These include labor militancy, extortion, frequent strikes, disruption of supply chains and high costs imposed by syndicates, along with the rising cost of doing business in general.

One of the Working Group's significant achievements has been the establishment of a handicraft testing lab in the Nepal Bureau of Standards and Metrology. A quality testing machine for export-ready silver goods has been installed; its operation has contributed to an increase in exports of silver goods by 21.5 percent in FY 2011/2012. These are critical measures needed to boost Nepal's industries and equip them to supply the global market.

Several issues have played a part in Nepal's poor investment climate. These include labor militancy, extortion, frequent strikes, disruption of supply chains and high costs imposed by syndicates, along with the rising cost of doing business in general. The Working Group has identified the development and implementation of a private sector development policy as a key step towards economic development, employment generation, export promotion, and allocation of appropriate capital spending to meet the country's pressing infrastructure needs.

In the coming months, the group will work on other reform agendas that include the establishment of a separate industrial feeder for industries to address the issue of power shortage hampering production activities; implementation and mobilization of the Research and Development Fund for private sector-friendly research; and ensuring policy measures and relief packages to revive and promote the garment industry.

Current Members

Mr. Krishna Gyawali, Secretary, Ministry of Industry (Co-Chair)

Ministry of Commerce and Supplies

Ministry of Finance

Ministry of Tourism and Civil Aviation

Mr. Narendra Kumar Basnyat, President, CNI (Co-Chair)

CNI Governing Council

Association of Pharmaceuticals Producers of Nepal

Nepal Vegetable Ghee and Oil Manufacturers Association

We would like to thank the following former members for their contribution:

Mr. Uma Kanta Jha, Secretary, Ministry of Industry

Mr. Anil Kumar Thakur, Joint Secretary, Ministry of Industry





Photo courtesy: Himal Power Ltd.

Infrastructure Development Working Group

The economic growth of Nepal has been undermined by difficulties in infrastructure development. Though Nepal is uniquely positioned to capitalize on its hydropower potential, the country is faced with frequent and long power outages. Political instability, regulatory hassles and interference are also obstacles that discourage increased investment for expansion and growth in the infrastructure sector in Nepal. Despite the complex issues related to infrastructure development, the Infrastructure Development Working Group has managed to raise a number of issues to be addressed in this sector. So far a total of 14 issues have been raised in Working Group meetings, over 85 percent of which relate to the energy sector.

The hydropower sector faces many complex political, social and economic issues. Despite the constraints, the Working Group has been building momentum towards addressing important national agendas to drive progress and growth in this sector. In particular, two landmark meetings held on May 15 and 16, 2012 were important

in moving the debate along. Through these two meetings the Working Group raised issues related to licensing in the hydropower sector, Power Development Agreements and Power Purchase Agreements, VAT exemption and other procedural issues which impact growth and investment in the sector. Three important agendas have been implemented which are critical in boosting investor confidence. One of these agendas was the provision made through the government's budget speech for FY 2011/12 to provide VAT exemption of Nepalese rupees 1 million for the purchase of cement and rods (civil works materials) per MW of hydropower generation. Other landmark decisions the Working Group has facilitated are described below.

Sharing the draft PDA with power developers

An important milestone was achieved when a new PDA template was developed for projects above 500 MW in consultation with line ministries and power developers. It was also uploaded to the website of the Ministry of Energy for better transparency. This has been an important mechanism in strengthening the private sector's capacity to negotiate better deals and bankable projects. The Ministry of Energy shared this draft on October 12, 2012 at an interaction programme jointly organized by NBE, the Ministry and IPPAN; the power developers provided feedback to finalize the PDA.

Removal of the provision of land acquisition as compensation for hydropower developers

The Prime Ministers' Office has taken another step to revise the provision for mandatory land acquisition. The earlier provision required developers to acquire land and compensate for the loss of trees in the area by planting 25 times the number of felled trees. As per the new Load Shedding Reduction Plan and the "Immediate Action Plan for Governance and Economic Reforms – 2069" published on October 16, 2012, developers now have to compensate by planting trees in the ratio of 1:2 for every tree that is cut during production, the land for which will be provided by the government itself.

Elimination of investment capital provision for company registration in the hydropower sector

The provision for investment capital requirement (authorized capital of Nepalese rupees 100 million, about \$1.16 million) per MW of electricity generation was removed for the business registration/survey license period. This reform has generated an estimated CCS of \$0.84 million through reduction of fees during company registration. Seventy-six firms have already benefited from this reform.

Power Purchase Agreement and the tariff escalation issue

The private sector has agreed to the government's proposed price increase of Nepalese rupees 5.45 per unit of electricity (weighted average). The Independent Power Producers had initially proposed Nepalese rupees 5.99 per unit but have settled for the above.

Private sector to build transmission lines

The private sector's interest in construction was a result of the Nepal Electricity Authority's struggle with the power line projects. This issue was raised in the Infrastructure Working Group on May 15, 2012. The issue was submitted to the PSDC and the government and private sector came to a common agreement on January 4, 2013. As a result of this dialogue, NEA is no longer the sole authority permitted to build transmission lines in the country; the private sector will be allowed to put up 33 percent of the total cost of any transmission line project under the Build-Own-Operate-Transfer and Build-and-Transfer models. The engagement of the private sector will bring in expertise and capital and encourage the development of transmission lines.

Nepal is at a crossroads politically and hopefully there will be stability in the coming years. The Infrastructure Working Group is committed to working for progress, economic growth and private sector development. In particular, we are working with focus and dedication to increase investment in hydropower and boost the productivity of the energy sector as that alone will positively impact all other sectors in Nepal.

Current Members

Ministry of Energy (Co-Chair)

Ministry of Information and Communication

Ministry of Irrigation

Ministry of Physical Planning and Works

Independent Power Producers' Association of Nepal (Co-Chair)

Federation of Contractors' Association – Nepal

Computer Association of Nepal





Women Entrepreneurship Development Working Group

There has been growing interest in the role of women in economic development and in creating a business environment that enables women to be active participants in the economy.

Due to the absence of gender-disaggregated data, women's contribution to the Nepalese economy has not been statistically measured. But it is certain that women entrepreneurs face a unique set of challenges in the business environment in Nepal.

Socio-cultural barriers as well as limited financing options are two primary barriers to women entrepreneurship in Nepal. Within the NBF platform, the Women Entrepreneurship Development Working Group strives to improve the operational environment for women in business by addressing the constraints and obstacles they face.

This Working Group is focused on addressing gender inequalities in private sector development and has spearheaded interventions that have had tremendous impact. It has also been a catalyst in creating other conditions that enable more women to create new enterprises and expand or scale up existing enterprises.

The Working Group had six meetings so far that addressed several important issues. Recently, a proposal for the establishment of a collateral registry in Nepal was debated that would allow small and medium enterprises without land and fixed assets to obtain finance based on movable collaterals.

The same meeting also agreed on the implementation of the Women Entrepreneurship Development Fund when the budget is fully released in June. This fund represents a milestone for women entrepreneurs in Nepal as it allows them to receive collateral-free loan facilities. As per the budget speech 2011/2012 and as a provision in the Industrial Policy 2010 (Article 22.11), Nepalese rupees 10 million was allocated for the Women Entrepreneurship Development Fund.

The group has also engaged with banks, credit guarantee companies and international organizations to improve the provision of financial products and services to women entrepreneurs in Nepal. Efforts have also been made to bring to the forefront the important role of financial institutions in ensuring that women have access to, and are adequately informed about, business development services available to them.

Within the NBF platform, the Women Entrepreneurship Development Working Group strives to improve the operational environment for women in business by addressing the constraints and obstacles they face.



The Women Entrepreneurship Development Working Group has raised issues related to access to finance, capacity building, data and research about women entrepreneurs and the implementation of the Industrial Enterprise Act with provisions to promote women entrepreneurship in Nepal. These are all key issues that need to be addressed to boost the capacity of women to be active participants in the Nepalese economy. In the last two years, significant progress has been made on this front.

Institutional strategic planning

Several consultation workshops have been held to discuss possible ways to address gender-related issues. An important tool for this purpose is the scoping exercise undertaken by IFC on the constraints to women doing business in Nepal. Based on these findings, the Women Entrepreneurship Development Working Group is set to initiate measurable interventions to resolve the issues highlighted.

The Working Group will continue to focus on information sharing to strengthen interventions created to support women entrepreneurship in Nepal. Some agendas the Working Group is working on for the future include lobbying for the Industrial Enterprise Act, ensuring the establishment of a crafts village to promote women's products and create market linkages, and lobbying for the implementation of the Women Entrepreneurship Development Fund and the maintenance of gender-disaggregated data by relevant institutions. In addition, the Working Group is also committed to using insights gained from gender-disaggregated data to lobby for policies and action steps specifically designed to address the needs of women entrepreneurs.

Progress Updates

Establishment of a Handicrafts Village: On the recommendation of the Women Entrepreneurship Development Working Group the government has identified three acres of land (Kharipati) to be allotted for the establishment of a handicrafts village. The Working Group proposed the establishment of a crafts village for businesswomen to promote the skills and products of women entrepreneurs. The Prime Minister showed strong support for this initiative during the HLBF and urged the line ministries to implement this recommendation.

Gender Scoping Study on constraints faced by women in business in Nepal: The issue of lack of research on women entrepreneurs has been raised by the Working Group, and as a result the Federation of Woman Entrepreneurs Associations of Nepal requested IFC to undertake a gender scoping study in January 2012. The preliminary findings of this study were shared with relevant stakeholders for their feedback, following which the findings were shared with the larger donor community and other stakeholders. Several recommendations were made, one of which was for relevant institutions to maintain gender-disaggregated data; this recommendation is in the process of being implemented as a pilot phase at the Office of the Company Registrar.

Current Members

Ministry of Women, Children and Social Welfare (Co-Chair)

Ministry of Commerce and Supplies

Ministry of Industry

Ministry of Local Development

Federation of Woman Entrepreneurs Associations of Nepal (Co-Chair)

Federation of Nepalese Small and Cottage Industries

Rashtriya Laghu Udyami Mahasangh

Federation of Handicraft Associations of Nepal

We would like to thank the former member Mr. Balananda Poudel, Secretary, Ministry of Women, Children and Social Welfare, for his contribution.



Export Promotion and Trade Facilitation Working Group

Nepal is currently ranked 171 out of 185 countries in the Doing Business survey's Trading Across Borders indicator, which measures the number of documents required to import and export, the number of days taken to import and export and the cost involved. Nepal's trade development prospects are heavily constrained due to its reliance on transit routes, substandard transit logistics, delays in customs and trans-shipment, inadequate infrastructure and unfavorable policies. In order to help create an enabling environment and develop a possible strategy for the promotion and facilitation of export and trade in Nepal, a Working Group on Export Promotion and Trade Facilitation was formed within NBF.

This group has been working to develop favorable policies and procedures that enhance the competitiveness of this sector and encourage growth. It has met formally seven times and numerous other times to set priorities for reform. Some of the key steps undertaken on this front include reviewing and reducing non-tariff barriers such as document preparation and customs and technical control time, which will directly impact Nepal's trade efficiency.

Through the initiative of the Working Group, custom hours have been harmonized with India and China to prevent delays in transactions. This has been one of the major advances of the last year in improving trading conditions in Nepal. The harmonization of customs hours was done through a PSDC decision and formalized through a notice issued by the Ministry of Finance on May 25, 2012. As per this new regulation customs hours have been extended, and customs have been declared open on holidays to ease business transactions.

Through the initiative of the Working Group, custom hours have been harmonized with India and China to prevent delays in transactions.



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The Working Group is committed to further improving trade logistics so as to make a significant impact on trade competitiveness.



Biratnagar Customs Department has experienced improved work flow after the harmonization of customs hours

The group has also been active in lobbying for key measures such as trademark registration to improve the exportability of Nepalese goods such as tea, coffee and Pashmina. The Nepalese Pashmina trademark has been registered in 41 countries (Taiwan being the latest), leading to a near-50 percent increase in exports in FY 2010/2011 and a 42.1 percent increase in FY 2011/2012. In addition, efforts have been made to enforce quality standards on the import of wool used for the production of Pashmina goods. Regular testing of raw materials and certification by the Trade and Export Promotion Centre was also reintroduced by the laboratory in the Nepal Bureau of Standards and Metrology.

The Working Group is committed to further improving trade logistics so as to make a significant impact on trade competitiveness. It will also facilitate the increase of private investment in key tradable sectors, encourage exports and create employment. It will work towards creating simplified, transparent trade procedures as they are a key component of good trade policy and are vital for economic growth.

Current Members

Ministry of Commerce and Supplies (Co-Chair)

Ministry of Agriculture and Cooperatives

Ministry of Finance

Nepal Chamber of Commerce (Co-Chair)

Federation of Handicraft Association of Nepal

South Asian Association for Regional Cooperation Chamber of Commerce and Industries

We would like to thank the following former members for their contribution:

Mr. Anil Kumar Thakur, Joint Secretary, Ministry of Industry

Mr. Surendra Thapa, Under-Secretary, Ministry of Commerce and Supplies





Financial, Monetary and Insurance Affairs Working Group

An improved investment climate includes a favorable policy environment and institutions and governance that influence the actual and potential performance of business establishments. A good institutional governance framework includes a strong and well-functioning financial sector for sustainable fiscal and external balances, liquidity management, realistic exchange rates, access to financial markets and information, and improvement in the outlook of the insurance sector.

The Financial, Monetary and Insurance Affairs Working Group supports and maintains the confidence of the banking and financial sector by raising relevant reform agendas for the sector. Among other things, this group deals with acts, rules and regulations related to banking and insurance as well as other institutional issues. It proposes recommendations for the banking and insurance sector to protect and promote their growth and financial stability. Some of the major concerns members have raised have related to depository insurance, plans for mergers and acquisitions, bulk sales, foreign investment in stock, and regulation and monitoring of the activities of the Saving and Credit Cooperatives.

The issue of the Saving and Credit Cooperatives has been a serious cause of concern in the banking sector and was therefore discussed at the second HLBF for decision making and implementation. The group proposed the regulation of Saving and Credit Cooperatives by an independent agency akin to Nepal Rastra Bank or by a permanent unit within the latter. This would help to increase formal financial transactions and transparency while reducing financial insecurity and instability in the economy.

Issues pertaining to the insurance sector have also been raised by the Working Group and recommendations have been made to set up institutional arrangements for the insurance pool; deposit insurance based on scientific methods; formulate the Insurance Act for payment of insurance premiums to the reinsurers in foreign currency; and mergers and acquisitions between life and non-life insurance companies.

The Financial, Monetary and Insurance Affairs Working Group supports and maintains the confidence of the banking and financial sector by raising relevant reform agendas for the sector.



The Working Group plans to facilitate and advocate for reform agendas that contribute to the sustainability of the financial sector as a whole, including addressing issues related to credit unions, financial cooperatives and microfinance institutions.

The economic and financial stability of the economy are susceptible to the circumstances of this sector. Therefore, the group has been working to ensure this sector becomes robust and dynamic. The Working Group plans to facilitate and advocate for reform agendas that contribute to the sustainability of the financial sector as a whole, including addressing issues related to credit unions, financial cooperatives and microfinance institutions. In addition, our working group is working to identify and resolve issues face by life and non-life insurance companies as well as small and medium enterprises.

Progress Updates

Regulation of the Saving and Cooperatives Sector: Cooperatives have been subject to scrutiny and controversy in recent times due to some functioning in a less-than-optimal way. With this in mind, a task force was formed in the Department of Cooperatives with the participation of concerned stakeholders and two representatives from Nepal Rastra Bank, which has also provided technical and financial assistance in collection of statistics relating to cooperatives. The HLB meeting held on Aug 17, 2012 approved the recommendation that an independent agency akin to Nepal Rastra Bank be established for regulation, monitoring and supervision of Saving and Credit Cooperatives through the Ministry of Finance. At present a high-level cooperative strengthening committee has been formed to regulate cooperatives. Members include the National Cooperative Federation of Nepal, the Department of Cooperatives, the Nepal Federation of Savings and Credit Cooperative Union and the National Cooperative Bank.

Nepal's first ever reinsurance company expected to operate: There has been some progress on the conversion of the Insurance Pool into a reinsurance company in a bid to check the massive outflow of money in the form of premiums, amounting to more than Nepalese rupees 2.4 billion annually. The Insurance Board has initiated the process of transforming Insurance Pool Nepal into a reinsurance company by forming a committee headed by Bhoj Raj Sharma to study the process of registration. Registration is planned within the fiscal year and expected to start operations from the next fiscal year. The reinsurance company has decided to include life insurance companies as stakeholders (a 20 percent share will be offered) and the Memorandum of Association has been prepared. Currently, the shareholders of the pool include the government and 17 non-life insurance companies.

Current Members

Nepal Rastra Bank (Co-Chair)

Ministry of Finance, Ministry of Industry

Ministry of Local Development

Nepal Bankers' Association (Co-Chair)

Insurers' Association

Shikhar Insurance

Forum of Nepalese Banks

We would like to thank the following former members for their contribution:

Mr. Ashoke Rana, President, Nepal Bankers' Association

Mr. Narayan Prasad Poudel, Director, Nepal Rastra Bank





Photo courtesy: Newa Chen, Lalitpur

Business Environment, Labor Relations and Industrial Security Working Group

The creation of an enabling business environment through business environment reforms is an important prerequisite to boosting foreign and domestic investment. However, policy and regulatory barriers to enter particular markets may exist at any level of government – national, state or local. Therefore, targeted policy interventions for private sector development are required to facilitate the private sector's growth and contribute to a dynamic economy through active investment, employment and income generation.

NBF's Business Environment, Labor Relations and Industrial Security Working Group has served as a platform to promote effective dialogue, improve implementation of business-related legal reforms and streamline administrative processes for the benefit of all enterprises. The Working Group has been working to promote entrepreneurship

and economic development in close collaboration with the government, with the ultimate objective of reducing the legal, regulatory and administrative burdens of doing business in Nepal.

The group works directly with the Government of Nepal and private sector businesses and associations on key issues to:

- Improve laws and regulations related to labor and contract farming by facilitating proper drafting, implementation, administration and compliance;
- Reduce existing constraints to economic growth by simplifying the processes and procedures of taxation and cash incentives;
- Advocate for the enforcement of refinancing facilities as per Nepal Rastra Bank's Monetary Policy;
- Propose the implementation of an automated process for bidding and tendering to curb anti-competitive practices;
- Enforce the need for a Double Taxation Avoidance Agreement to generate investments;
- Lobby for the creation of a social security fund;
- Ensure implementation of an industrial security force to improve security in the industrial corridors.



The group has identified key areas with the potential to impact all others and is working towards the achievement of these agendas. These areas of focus include:

- Formulating a regulation for contract farming in order to boost and harness the agricultural productivity of the country;
- Finalizing the labor law with the government, private sector and trade and labor unions;
- Engagement in the reform processes to aid deregulation at the local, national and regional level;
- Advocacy for proper implementation of laws and regulations and stronger business associations.

The key achievements and recommendations of the group are outlined below.

Formation of an industrial security force

To improve security in the industrial corridors, the private sector proposed the establishment of an industrial security force. The government formed a committee with members from the Ministries of Finance, Industry, Law, Home and other agencies. An Organizational and Management Survey was also conducted. Based on this survey, the cabinet decision of September 25, 2012 announced the creation of a separate industrial and revenue security force of 2,250 armed personnel led by an inspector-general of the Armed Police Force. This security force was originally to be deployed in the industrial zones but will now also include custom offices.

Export credit made available at 4.5 percent as per Nepal Rastra Bank Monetary Policy

Nepal Rastra Bank's Monetary Policy (#89 of the Monetary Policy of 2012/2013), has provisions to simplify procedures for obtaining export credit and ensuring that banks provide refinance facilities to exporters. The policy allows exporters to receive refinancing facilities based on contract papers and working capital. With most of the refinance procedures simplified, exporters can get concessional loans at a 4.5 percent interest rate under the Refinancing Scheme. According to the Nepal Rastra Bank, exporters can receive this facility as soon as the commercial bank in question forwards the request to the central bank. Earlier, Nepalese exporters used to pay an interest rate as high as 12 percent for refinancing facilities from commercial banks. As an example of the current arrangements, a Nepalese handmade paper company (headed by Mr. Bishnu Shrestha, Board Member of Federation of Handicrafts Association of Nepal) has successfully received a refinancing facility from Nepal Rastra Bank. Other banks providing refinancing facilities are Global Bank, Siddhartha Bank, Bank of Kathmandu and Laxmi Bank.

e-tendering and bidding procedures commenced

Bidding and tendering for project contracts in the construction sector has been marred by high levels of anti-competitive practices and politics. The private sector proposed the introduction of an electronic tender system to counter syndicates undertaking anti-competitive practices. In response to this recommendation the Public Procurement Monitoring Office installed e-tendering systems at the Department of Roads in August 2011 as a single portal system for all public entities of the government. This is used for procuring civil works and goods. In addition to the Department of Roads, e-tendering processes have already become operational in 12 other organizations. As of October 2011, 120 public entities were registered in the e-bidding system.

Introduction of measures to encourage purchase of locally manufactured goods by the government

As local manufacturers struggle to compete effectively for public sector contracts, the private sector suggested that the government encourage the purchase of locally manufactured goods. In this regard, the procurement policy of Nepal emphasizes the procurement of locally manufactured goods at prices up to 10 percent higher than that of imported materials. The Public Procurement Act 2007 states clearly the preference for domestic products though it does not state the 10 percent price preference specifically. In general practice, the price preference is usually 10 percent, and this should be mentioned in the bidding data sheet. The government plans to amend the procurement policy to enforce mandatory purchase of local goods by the government even if the price is 15 percent higher than that of imported materials. Further, a recent cabinet decision on February 27, 2013 has endorsed the Directive to Increase Consumption of Domestic Goods 2013 which requires state entities to buy local in a bid to support domestic industry. The directive defines domestic products as products manufactured in the country or products made from local or foreign raw materials with at least 30 percent value addition. The directive has ordered public offices to use at least 50 percent local products and also plans to give incentives to both the users and the producers. The Finance Ministry can increase by up to 10 percent the capital budget of offices using more than 50 percent local products.

The Directive to Increase Consumption of Domestic Goods 2013 has ordered public offices to use at least 50 percent local products and also plans to give incentives to both the users and the producers.



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Exporters will now receive direct recommendation for cash from the central bank once the product has been verified by the Ministry of Industry and exporters will no longer have to repeat the value addition verification process once they have qualified for the facility.

Single trade union per firm

It has been determined that there should be a single trade union per firm, elections for which should be held by mid-2013. This decision was taken in a meeting held with the private sector and government agencies. The Ministry of Labor has directed the Director General of the Department of Labor to develop norms for the elections.

Current provision of cash incentives for export to be improved

NBF formed a high-level committee under the convenorship of the Vice Chairman of the National Planning Commission with representation from the Ministry of Industry, Ministry of Commerce and Supply and Ministry of Finance. Guidelines have been developed by the Ministry of Commerce and Supplies to bring about procedural simplification. The committee has introduced a new export cash incentive mechanism that is hassle free and based on a one window policy. The new guidelines have allowed a minimum of one percent cash incentive on a product basis. Two percent cash incentive has been set as maximum incentive based on the value addition of the product. Exporters will now receive direct recommendation for cash from the central bank once the product has been verified by the Ministry of Industry and exporters will no longer have to repeat the value addition verification process once they have qualified for the facility.

Current Members

Ministry of Finance (Co-Chair)

Ministry of Home Affairs

Ministry of Industry

Ministry of Labour and Transport Management

Federation of Nepalese Chambers of Commerce and Industry (Co-Chair)

Garment Association Nepal

We would like to thank the following former members for their contribution:

Mr. Krishna Hari Baskota, Secretary, Ministry of Finance

Mr. Anil Kumar Thakur, Joint Secretary, Ministry of Industry



Foreign Direct Investment Working Group

Nepal ranks among the lowest in South Asia when it comes to foreign direct investment (FDI). It ranked 175 out of 182 countries as per the inward FDI attraction index ranking⁴ in 2011. Furthermore, its inward FDI potential index ranking⁵ in 2011 was 150 out of 182 countries. Though FDI inflows to Nepal are starting to increase (10 percent growth between 2010 and 2011), in terms of total FDI inflows to South Asia (\$34.79 billion), Nepal's share was a meager 0.27 percent. There are a number of critical constraints that discourage investment into the country. These include political risks, obstacles in FDI approval processes, repatriation of income, and visas for workers which need to be tackled to build an attractive investment climate.

⁴The Inward FDI Attraction Index ranking is based on the average of a country's percentile rankings in FDI inflows and in FDI inflows as a share of gross domestic product.

⁵The Inward FDI Potential Index ranking is based on the simple average of a country's percentile rank in each of the economic determinant areas (e.g. market attractiveness, availability of low-cost labor and skills, enabling infrastructure, presence of natural resources).

Nevertheless, there are new opportunities to improve the situation. A separate Working Group was established in June 2012 to move towards greater engagement in this area.

Since its inception, the Working Group has been active in working to improve Nepal's investment climate. A task force has been formed to identify and resolve barriers to foreign investment. As per the Working Group meeting held on February 1, 2013, the task force took decisions to resolve key issues related to the repatriation of loan payments, easing visa procedures for expatriates and simplifying FDI-related procedures to attract investment into Nepal. A second meeting was held on February 15, 2012 to discuss these issues further.



The Working Group has already addressed the key bottlenecks that affect foreign investment in Nepal and will continue its partnership with the Office of the Investment Board, Department of Industry and foreign investors to further improve the investment climate.

The group has participation from a broad set of entities including the government, private sector, bi-national chambers and foreign investors themselves, all of whom work together and engage in dialogue to resolve national priority issues. The first round of meetings to discuss the various issues faced by foreign investors identified six priority points for discussion at the formal Working Group meeting:

- Procedural simplification in the repatriation of earnings;
- Foreign currency transfer (a key issue for multinationals);
- Visas for expatriate workers;
- Simplification of FDI-related approval processes;
- Elimination of restrictions on the import of parent company products and enforcement of rules designed to prevent import of fakes or poor quality products;
- Easier approvals for overseas servers through the setting up of integrated server systems.

The Working Group has already addressed the key bottlenecks that affect foreign investment in Nepal and will continue its partnership with the Office of the Investment Board, Department of Industry and foreign investors to further improve the investment climate. It will also align its goals with Nepal Investment Year and work in close coordination with the Office of the Investment Board.

Current Members

Secretary, Ministry of Industry

CEO, Board of Investment

Joint Secretary, International Economic Cooperation and Coordination Division, Ministry of Finance

Joint Secretary, Industrial Investment Promotion, Ministry of Industry

Director General, Department of Industry

Under-Secretary, Ministry of Industry as Focal Person

Representatives from the FNCCI, NCC, CNI

Development partners as invitees

Representatives from IFC, World Bank Group





Eastern Regional Business Forum meeting held in Biratnagar on January 3, 2012

NBF focuses on regional public-private dialogue forums as a critical part of enabling more inclusive economic growth in Nepal.

Eastern Regional Business Forum

Over time, it has become clear that the NBF initiative needs to be expanded to other regions within Nepal to foster a larger dialogue on region-specific issues. With the objective of supporting inclusive development and the growth of districts outside the Kathmandu Valley, NBF has been supporting regional forums. The regional forums are made up of officials and leaders who work at all levels of government, business and community groups to support the development of their regions.

Regional forums are an essential component of public-private dialogue as they address local issues that constrain the business environment. The forums foster partnerships to develop local solutions and strategies to address business environment constraints. Through the public-private dialogue process, the members work towards delivering sustainable and pragmatic solutions and services to their regions. NBF focuses on regional public-private dialogue forums as a critical part of enabling more inclusive economic growth in Nepal. To this end, as per the Steering Committee decision, the ERBF has been formalized as an integral chapter of NBF.

Created as a platform for public-private dialogue at the sub-national level, the ERBF operates through regional business associations and forums. This open forum is co-chaired by the Regional Administrator for the Eastern Development Region and the President of the Eastern Regional Chamber of Commerce and Industry. It covers 16 districts in eastern Nepal.

The ERBF has launched several successful initiatives, two of which are described below:

- Repair of the multi-fuel plant in Biratnagar was completed in December 2012; the plant has been fully operational since December 11, 2012. At present it generates 15 MW of out (out of its full capacity of 39 MW). In the coming years it will build up capacity in order to generate 25 MW. This plant now provides critical energy for the industrial corridor.



- The Ministry of Energy has asked the Ministry of Finance to release Nepalese rupees 330 million to build a 132 KV transmission line from Duhabi to Kataiya. Of the total length of the transmission line, 12 kilometers will lie in Nepal, with the rest in India. The Ministry of Energy is planning to develop a 15-kilometre power line to import an additional 100 MW of electricity from India to ease the shortage of power in Nepal. The Board of Directors of the NEA decided on the construction of this transmission line in the first week of September 2012. This initiative has been prioritized as per the government's Load Shedding Reduction Action Plan 2069.

- The Integrated Customs Point in Biratnagar is an important development that is being undertaken with the aim of providing a boost to overall trade activities and procedures. The ICP is being established over 129 Bigha of land and will be handed over to RITES, an Indian Company, after the process of land acquisition is complete. The ICP is estimated to save the private sector as much as \$ 416,000, or 40 percent of the costs to trade. It will also enhance the scope of trading with Bangladesh. In addition, through the establishment of the immigration desk for passenger clearance, this may increase the number of tourist arrivals through this region.

Encouraged by the success of the ERBF, a significant recent achievement regarding NBF's work outside Kathmandu Valley has been the initiative to launch a new regional chapter of NBF for the far and mid-western regions.

Current Members:

Mr. Janardhan Sharma,
Regional Administrator Eastern Development Region (Co Chair)

Mr. Kishore Pradhan,
President of Eastern Regional Chamber of commerce and Industry

We would like to thank the following former members for their contribution:

- Mr. Dharani Dhar Khatiwada
- Mr. Krishna Chandra Poudel

Communications and Donor Engagement

NBF

Communications and Donor Engagement

NBF has emerged as an important and visible platform for the private and public sectors to resolve common issues. The government has stressed the need to provide greater visibility to the activities, agendas and achievements of the forum and build awareness about its place in the national economic context. IFC has supported the government's mission and has developed several publications in collaboration with the NBF Secretariat.

NBF came out with its first "in brief" in April 2012, followed by a comprehensive report on the NBF initiative in May 2012. More information and updates on NBF activities and decisions have been broadcast through the NBF website, which was launched by the then Prime Minister Dr. Baburam Bhattarai. In addition, NBF has engaged intensively with national media to disseminate its agenda and achievements to a wider audience. Its achievements have been widely acknowledged.

There is a need and opportunity for NBF to work with relevant development partners to make an even greater impact in its priority areas. Some of these key areas include employment opportunities and growth, agriculture, infrastructure building and social development to create a business-enabling environment in Nepal. In addition to the existing support from the UK Government and the Norwegian Agency for International Development through SouthAsia Enterprise Development Facility, development partners such as GIZ and Danida have committed to involvement in strengthening the NBF Secretariat and its processes.

Development partners such as GIZ and Danida have committed to involvement in strengthening the NBF Secretariat and its processes.



Challenges Faced in Implementing Agreed Reforms

NBF

Challenges Faced in Implementing Agreed Reforms

NBF has had many achievements over the past few years. While it has been an effective mechanism for bringing about reforms through public-private dialogue, it has faced constant challenges in implementing a reform agenda. NBF works actively and in a variety of ways to enable better implementation of decisions made through the NBF process.

Building trust between the government and the private sector

Given Nepal's political fragility, NBF has recognized the crucial role the government plays in supporting the economy and providing platforms for private sector dynamism. Therefore, it has maintained a formal link between the private sector and the government to improve policy, regulations and laws to promote a business-enabling environment in Nepal.

Strengthening government capacity

Against a backdrop of political transition, the government is faced with challenges that weaken its capacity to implement reforms. Therefore NBF serves as an implementing mechanism for national and economic priorities. The forum has been working with key government and private sector individuals and organizations.

Donor coordination and participation

In order to avoid duplication, increase bargaining power, and facilitate joint stakeholder intervention, the forum has been engaging extensively with the donor community. NBF has successfully engaged with development partners at several levels; in addition, there are several ways in which NBF hopes to work with the donor community in the coming years:

- Partnering with IFC, the Government of Nepal and the private sector to provide technical and financial support for the creation of an independent Secretariat;
- Capacity building, learning opportunities and sharing of international best practices either through training events, or funding consultants to be a part of private sector or government coordination cells to facilitate the activities of the forum;
- Donor partners to provide support and lead a working group of their choice. The development partner would also provide technical assistance, including research and analysis for specific priorities, or support the private sector coordination units to improve their general capacity for technical analysis;
- Supporting the funds of the NBF Secretariat and working with IFC, the private sector and the Government of Nepal to set reform priorities;
- Supporting specific regional forums in areas where they operate;
- Supporting stakeholder outreach, awareness creation, communications and research to targeted groups to ensure that their voices are included in the priorities of NBF.

Stakeholder Perception Survey as feedback on the investment climate

This survey is used as an instrument to monitor the impact of various reforms over the years. It not only helps gauge the progress of the reforms, but also indicates what businesses want the government to do to improve business prospects in Nepal. The findings of the survey set the scene for further discussions.

Using the media effectively

Strategic utilization of the media to build awareness about business issues and accelerate the reform process is a necessary part of the NBF mechanism. Regular media coverage of NBF achievements and agendas is important for building public awareness and disseminating information to a wider range of stakeholders. Key members of the national and regional media in Nepal have been identified and are regularly engaged through meetings and briefings.

Cross-organizational links

The development of a strong direct link between NBF, donors, private sector development programs and the Working Groups is essential to address the issues raised in the subsequent dialogue between the donor community and government. It also gives donors input towards designing appropriate support programs for the private sector.

Inclusiveness

NBF was established with representation from a wide range of stakeholders to jointly work on improving the environment for business and investments in Nepal. There is, however, scope to make the NBF system even more inclusive and representative of all Nepalese business stakeholders.

Way Forward: Recommendations

NBF

Way Forward: Recommendations

Key stakeholders have agreed on the following priorities for NBF.

Establishing NBF in a neutral and independent location

NBF's key stakeholders emphasized the need for the Secretariat to be moved out of IFC's premises and managed from an independent location. IFC supported the decision and commissioned a study to review and detail other areas for improving the operations and sustainability of NBF. The findings of the study were shared with the government and the private sector during a workshop in February 2012.

The study also finalized the working modality and location of the NBF Secretariat. The model agreed upon included the following components that grant the private sector ownership of the agenda-setting process and keep the government in charge of reform implementation:

- A Central Secretariat responsible for coordination and logistics, maintaining issue submission guidelines, monitoring and evaluation, and communications and outreach;
- A Private Sector Research and Advisory Unit responsible for receiving and evaluating requests for and undertaking or commissioning analytical work. Two units will be established at FNCCI and CNI;
- A Public Sector Coordination Unit to assist with implementation of reform recommendations.

So far, Memorandum of Understanding and Cooperation Agreement have been signed and the government has allocated space for the establishment of an independent secretariat. IFC is working with all concerned stakeholders for the establishment of an independent Secretariat and institutionalization of the forum.

Focus on results

NBF will continue the process of raising relevant issues and making constructive and progressive recommendations by:

- Improving the prioritization process for the reform agenda;
- Setting specific and measurable targets;
- Producing well-researched and analyzed issue submission papers to facilitate decision making and reform implementation. The NBF Secretariat will provide the private sector with research support to develop their capacities;
- Working with the government and other stakeholders to agree on the objectives for NBF for the next 12 months;
- Developing reform-specific action plans to improve the implementation of the recommendations;
- Strengthening the monitoring and evaluation process.

Boost communications

Communications is an important aspect of the forum. Communicating the importance and progress of NBF initiatives to immediate as well as extended stakeholders is important to keep NBF issues on top of the national agenda. In addition to informing stakeholders about NBF priorities, communicating these widely also allows them to provide responses and suggestions about other issues of concern. This is an important step towards making NBF a truly inclusive platform.

Another initiative that will improve the inclusiveness of NBF and allow it to address the issues of an even larger stakeholder group is the formation of a mid and far western regional forum within the NBF umbrella. Together with the ERBF, this will make NBF a truly national platform for catalyzing economic growth and development.

Several other mechanisms will help strengthen the NBF mechanism. The forum will bring out well-researched advocacy notes to facilitate advocacy and decision making based on evidence and facts; the communication and outreach strategy will include a broad set of participants from lower levels of the private sector to ensure inclusive representation.

Straight Talk

NBBF

ACCORD WITH BUSINESS PARTNERS

Legal Business Team provides a platform for public-private dialogue which is aimed at accelerating and facilitating the reform process by providing the government and the private sector with a structured framework and multi-oriented mechanism through which they can deliberate on two-way, mutually beneficial and jointly agreed reforms. IEF was created by an Executive Order of the Government of Egypt in July 2010. The United Arab Emirates Development Authority supported the Government to create IEF based on recommendations and lessons learned from several IEF enabled public-private dialogue initiatives in a number of other countries. The principal knowledge of IEF consists of three committees: the eight sectoral Working Groups – supported by a Secretariat, 14 the open order IEF, and Distributional shared by the Prime Minister, the Working Committee – chaired by the Prime Minister, the Private Sector Development Committee – chaired by the Chief Executive, and the eight Working Groups are coordinated by Secretariat of External Relations and Two Sides of Same Coin – member organizations.

www.ief.gov.eg/inf/inf.html

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