



# BUSINESS OPPORTUNITY PROFILE

## NEPAL



**2013**

# Map of Nepal



## Abbreviations

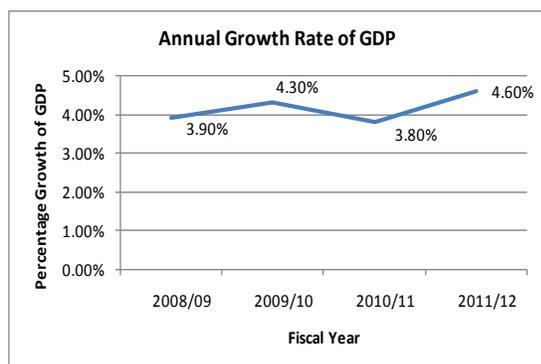
BPO	Business Processing Outsourcing
CPI	Consumer Price Index
DANIDA	Danida International Development Agency
DBP	Danida Business Partnerships
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoN	Government of Nepal
GTZ	German Technical Cooperation
IT	Information Technology
IR	Indian Rupee
MuAN	Municipal Association of Nepal
NEF	Nepal Economic Forum
NIY	Nepal Investment Year
NPR	Nepali Rupee
NTIS	Nepal Trade Integration Strategy
RUPP	Rural Urban Partnership Program
UDLE	Urban Development through Local Efforts
UNDP	United Nations Development Program
USD	United States Dollar

## COUNTRY ECONOMIC PROFILE

The Nepali economy is emerging from its brief stint of insurgency and growing at a rapid pace due to which Nepal can be termed as a High Risks High Returns destination for investments. Increasing private sector development, FDI, and remittance remain the drivers of the economy despite few uncertainties in the political environment.

The Nepalese economy is growing steadily in the past 2 years and has recorded a growth of 4.6 % in FY 2011/12.<sup>1</sup> Increased agricultural production accompanied by growth in service sector is the major reasons behind the increase in growth rates.

**Figure 1: Gross Domestic Product (GDP)**

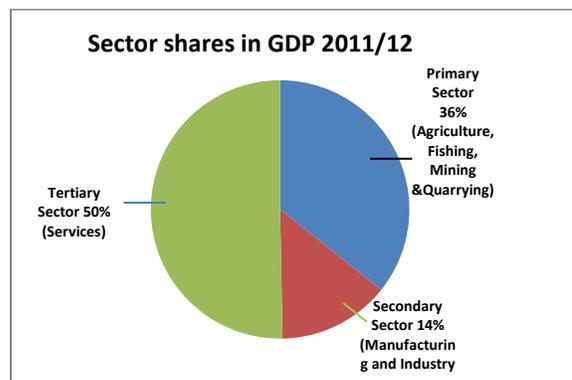


The Primary sector which consists of agriculture with the sub sectors fishing and forestry remains the principal economic activity and accounting for 36% of the GDP.

The Secondary sector which consists of manufacturing has comparatively less contributions to employment generation and GDP even though FDI flow to this sector is high.

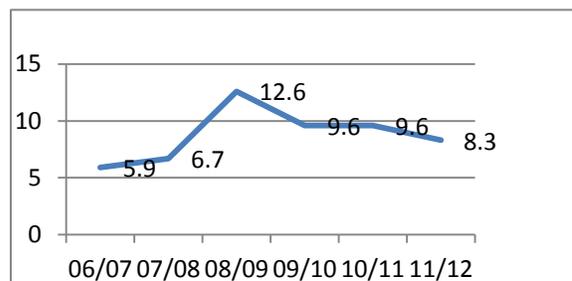
The Tertiary sector has been growing in the past year and currently is the highest contributor to the GDP. Growth in the service (tertiary sector) has been mainly driven by private sector investment.

**Figure 2: Sector wise percentage distribution of GDP**



The Nepalese Rupee is pegged to Indian Rupee due to which inflation in Nepal is driven by inflation in India. The Consumer Price Index, which has been on a rise since FY 2005/06, attained its highest point of 12.6% in the FY 2008/09, but has decreased in the last two fiscal years.

**Figure 3: Inflation trend in past few years**



According to the World Bank's Doing Business 2013 report, out of 185 countries Nepal ranks at 108 in terms of ease of doing business. In the FY 2010/11, a total of 209 industries were approved for foreign investment, bringing up the total number of industries approved for foreign investment to 2108 and total FDI to USD 781 million (NPR 68 billion).

<sup>1</sup> Economic Survey 2011/12, Ministry of Finance.

## Business Climate Profile

ENABLING FACTORS	CHALLENGES
<ul style="list-style-type: none"><li>• The return on investment is generally high, with comparatively fewer labor problems.</li><li>• Location advantage (close to Indian and Chinese market) could act as a strategic point for market expansion across south Asia</li><li>• Tourism development potential, including sports and adventure tourism, health tourism, agro tourism, and cultural tourism</li><li>• High potential for hydropower generation, mineral extraction, and infrastructure development</li><li>• Young youth forces who are educated and exposed outside of Nepal want to come back and work here if opportunities are provided.</li><li>• Diverse workforce that can be used for high-skilled as well as low-skilled work.</li><li>• The people of Nepal are well known worldwide for their warm and welcoming nature.</li><li>• Rich Cultural heritage and history.</li><li>• Younger generation have been exposed to foreign countries and has better capacity to consumption</li><li>• Fertile lands for development of Agriculture. Potential for a variety of niche agriculture and agro-business activities. Agro products like cardamom, ginger, herbal products, cinnamon, etc.</li><li>• Rich in natural resources and diverse in bio-diversity. E.g. water, agro, mining, and other resources.</li><li>• Policies in place for promotion and protection of foreign investment. Nepal has an adequate regulatory environment: not too restrictive but not too insufficient and can be constructively worked around.</li></ul>	<ul style="list-style-type: none"><li>• Political Instability, due to an interim government and labor unrest.</li><li>• Implementation of FDI policies are often distorted by bureaucratic delays, inefficiency and private sector protectionism policies</li><li>• Underdeveloped and poorly maintained infrastructures - e.g. transport, electricity, water systems, etc.</li><li>• Lack of ambition in the private sector to expand and take advantage of economies of scale.</li><li>• Corruption has been an obstacle for foreign investors in maintaining investment in Nepal</li><li>• Migration due to lack of employment</li><li>• Exit strategies for foreign business are tricky due to the attitudes and resistance of official authority, and bureaucratic delays despite laws and regulations being in place.</li><li>• Non transparent legal system, traditional bureaucracy, unpredictable legal framework (e.g. Securing property), and lack of access to reliable information for foreign investors</li></ul>

## Danida Business Partnership Priority Sectors

On the basis of how the economy has been performing over the past few years, and its strengths and opportunities, six priority sectors have been highlighted as having high potential, both in terms of business opportunities and development impact. These sectors are listed below in no particular order.

### SECTOR 1: Agro Business

Sector Brief	Opportunities
<ul style="list-style-type: none"> <li>- <b>Nepal is an agro based economy with agriculture being the largest contributor to GDP.</b></li> <li>- <b>Over 60% of the population is engaged in agriculture, due to which it is the only sector that has the necessary multiplier effect to reduce poverty significantly.</b></li> <li>- <b>As per the NTIS 2010, agricultural products with a lot of export potential include Cardamom, Honey, Ginger, Lentils and Tea.</b></li> </ul>	<ul style="list-style-type: none"> <li>- Diversified topography and agro climatic conditions for growing multiple crops in different seasons.</li> <li>- Government grants and subsidies on land lease, plant material, tools and machinery, and loans</li> <li>- Large scope for expanding production area, increasing productivity and quality in the Terai belt due to fertile soil and climatic conditions.</li> <li>- High demand in both domestic and export markets.</li> <li>- Higher yield possible through adoption of improved production technologies.</li> </ul>

### SECTOR 2: Handicraft

Sector Brief	Opportunities
<ul style="list-style-type: none"> <li>- <b>Nepali handicrafts have potential markets in all continents of the world like Europe, America, Oceania and even Asia itself.</b></li> <li>- <b>Nepal is a culturally rich country and handicraft making is a tradition of some Nepalese tribes inherited through the ages.</b></li> <li>- <b>These tribes are competent in their works and all raw materials are available locally which allows products to be made at the lowest possible prices.</b></li> <li>- <b>Furthermore some typical Nepali products such as LOKTA<sup>2</sup> and ALLO<sup>3</sup> materials are only available in Nepal.</b></li> </ul>	<ul style="list-style-type: none"> <li>- Export oriented products with variety and range, and large and diversified potential markets.</li> <li>- Cheap labor rates, low production costs and competitive pricing.</li> <li>- Niche market opportunities as most products are handmade with no use of machinery which is a unique selling point.</li> <li>- Demand for handmade handicrafts from Nepal is very high, therefore a high potential for exports.</li> <li>- Traditional knowledge and low labor costs.</li> <li>- Low capital investment required, but high barriers to entry due to niche nature of business.</li> </ul>

<sup>2</sup> Lokta is a Nepali paper having durability & resistance to tearing, humidity; insects and mildew. It is popularly used for producing handicraft goods.

<sup>3</sup> The natural fibre of allo comes from the bark of giant nettle *Girardinia diversifolia*. Allo thread is further knitted into vests, shawls, nets and a variety of new products ranging from bags, cushions covers, wallet, clothing etc.

### SECTOR 3: Health

Sector Brief	Opportunities
<ul style="list-style-type: none"> <li>- Nepal has at least two significant advantages: a tradition of Ayurvedic medicine and a moderate climate despite of numerous problems in the health care sector.</li> <li>- The moderate climate has made it suitable for Indian medical colleges to open branches in Nepal.<sup>4</sup></li> <li>- The natural resources and medicinal herbs, Nepal is endowed for creation of world class health care institutes; alternative medicine, and healing and wellness centers.</li> <li>- High outbound health tourism from Nepal is a ready market to be tapped.<sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>- Suitable climatic conditions for establishment of medical colleges, and availability of a nursing workforce for establishment of institutions such as old age homes.</li> <li>- Certain cases of accessible and affordable health care systems such as Tilganga Hospital specializing in eye treatments, with inbound health tourism from India.</li> <li>- Significant FDI in this sector from Indian healthcare sector.</li> <li>- Availability of unique traditional Ayurvedic and medicinal herbs for and health tourism.</li> </ul>

### SECTOR 4: Tourism

Sector Brief	Opportunities
<ul style="list-style-type: none"> <li>- Nepal is well known for its exotic, serene and adventurous image all around the world.</li> <li>- Tourism is widely known as a sector with comparative advantage and high potential growth.</li> <li>- Tourism is the second largest employment sector after agriculture; due to which a large number of people can further be given vocational training in hospitality and travel management for employment in different jobs across the tourism industry.</li> <li>- According to 'Vision 2020', the government has accorded top priority to the tourism sector and has promised to launch special programs to promote the sector consistently through these years<sup>6</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>- Nepal's natural beauty, rich biodiversity, uniqueness, rich cultural and religious heritage, and hospitable people continue to attract tourists to visit the country more than once.</li> <li>- Established as a tourism destination for adventure tourists with attractive trekking areas.</li> <li>- Innovative services, experienced tourism sector and service oriented and courteous population.</li> <li>- Opening up of new mountains, trails, and trekking routes into previously restricted areas of Nepal.</li> <li>- Immense possibility of developing eco-tourism and adventure tourism in the mountains and rivers of Nepal.</li> <li>- Gradual growth in tourist arrivals leading to increasing establishment of hotel industries.</li> </ul>

### SECTOR 5: IT/ BPO

Sector Brief	Opportunities
<ul style="list-style-type: none"> <li>- The GoN has identified IT and BPO as one of the potential export sectors in Nepal.</li> </ul>	<ul style="list-style-type: none"> <li>- Global IT/BPO market is growing fast.</li> <li>- Proximity with India and China (growing IT</li> </ul>

<sup>4</sup> NTIS Report 2010

<sup>5</sup> NEF Search - FDI

<sup>6</sup> 30 New hotels coming up in Pokhara, Hotel Association Nepal

<ul style="list-style-type: none"> <li>- <b>Technological advancements over the last few years have opened up opportunities for trade in IT and BPO services.</b></li> <li>- <b>Wide range of services, from low-skilled services, such as data entry or call centers to high-skilled services, such as software development, graphic designing or medical prescription transcribing, etc. Such services are already being exported from Nepal</b></li> </ul>	<ul style="list-style-type: none"> <li>portfolios).</li> <li>- English language proficiency among the workforce and improvement in skills and education levels.</li> <li>- Basic policies/laws/acts in place such as investment policies (both foreign and private).</li> <li>- Labor cost advantage in comparison to India.</li> <li>- Maximum flexibility in repatriation of foreign investment.</li> <li>- Less affected by political and other disturbances, such as strikes and <i>bandhs</i>, as compared to other sectors.</li> <li>- Increasing level of strategic focus on part of International agencies in this sector.</li> </ul>
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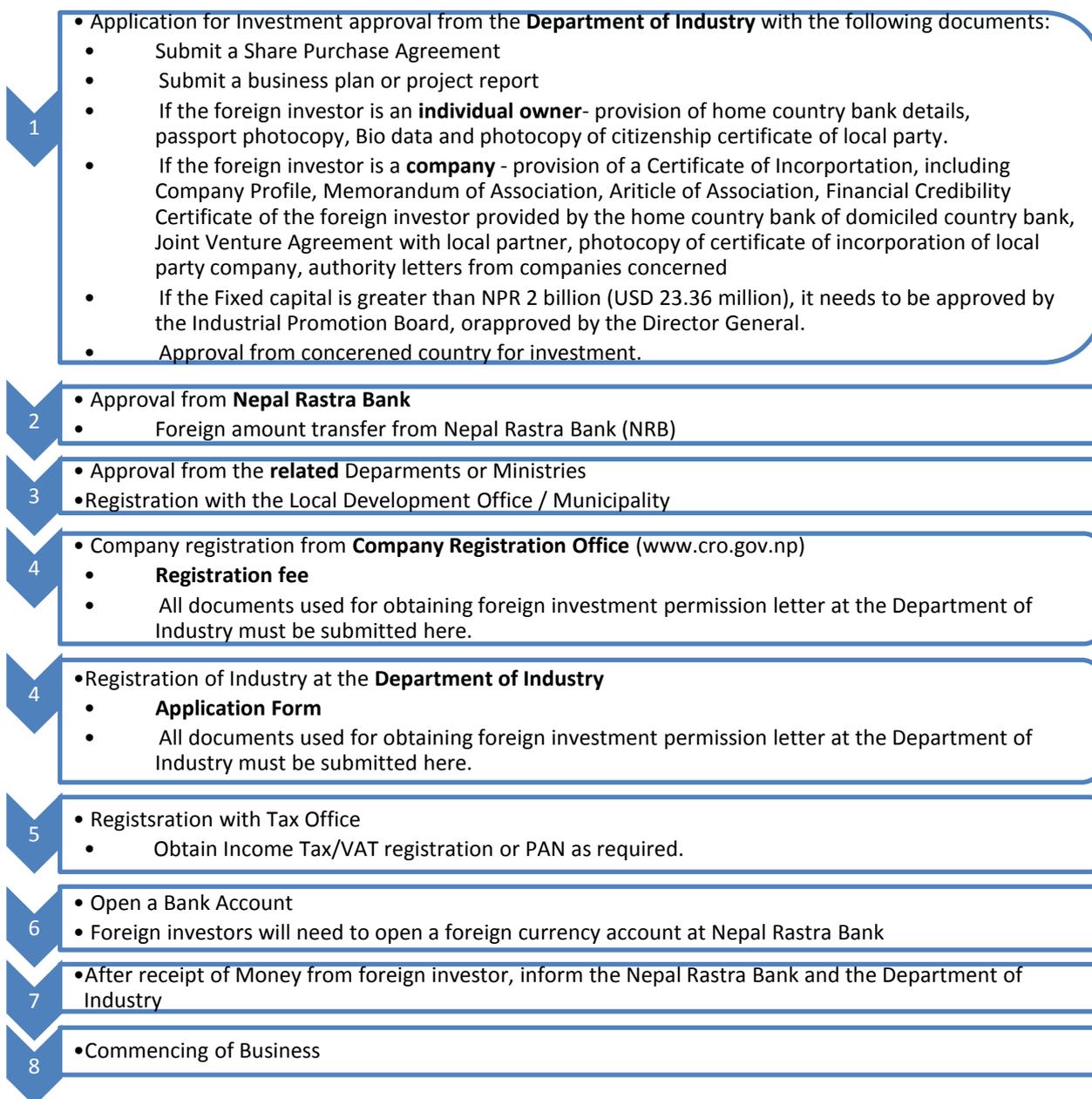
## SECTOR 6: Waste Management

Sector Brief	Opportunities
<ul style="list-style-type: none"> <li>- <b>Waste management is one of the inevitable issues and a big challenge to all established and emerging towns of Nepal.</b></li> <li>- <b>One of the major problems of urbanization and increasing consumerism is increased generation of waste.</b></li> <li>- <b>The capital city Kathmandu alone produces 250 tons of waste daily.</b></li> <li>- <b>Despite efforts made by the MuAN, to solve the issue of waste management the results have not been significant enough.</b></li> <li>- <b>Technical and financial assistance from organizations such as Practical Action, GTZ/UDLE, UNDP-RUPP and WASTE Netherlands have played a major role in the strengthening of solid waste management.</b></li> <li>- <b>Waste management has a huge prospect in terms of financial return and adding value to the community.</b></li> </ul>	<ul style="list-style-type: none"> <li>- Waste management policy is being revised by GoN to make management of waste simple and effective.</li> <li>- Involvement of donor agencies in landfill site management, waste collection, processing of the waste, etc.</li> <li>- Currently there are no major waste management companies operating in Nepal.</li> </ul>

## Investor's First Step for Investing in Nepal

Having identified the priority sectors for investment, below is a walk through on the procedures for foreign investment in Nepal. To start the investment process the foreign investor must first understand entry conditions for investment and be aware of the sectors where foreign investment is prohibited. For sectors where 100% FDI is not allowed, foreign investors need to identify a local partner.

Subsequent procedures are given below:



For more information, please visit:

1. Investment Procedure Manual:  
<http://www.investnepal.gov.np/portal/index.php?p1=content&p2=9#.URTJ3h0qaQk>,  
<http://doind.gov.np/uploads/pdf/pmanual.pdf>
2. Foreign Direct Investment in Nepal:  
<http://www.nepaleconomicforum.org/publications/detail.php?id=29&cn=nefsearch>
3. Doing Business in Nepal:  
<http://www.doingbusiness.org/data/exploreeconomies/nepal/>