

NRN INVESTMENT IN NEPAL

(A survey of nine selected districts)

October 1, 2015
Society of Economic Journalists- Nepal
Kathmandu





NRN Investment in Nepal

(A survey of nine selected districts)



October 1, 2015
Society of Economic Journalists- Nepal
Kathmandu

Table of contents

List of tables and figures	5
Forward	7
Executive Summary	9
Chapter 1 The Study and its Scope	11
Chapter 2 NRN movement in Nepal	14
Chapter 3 Major socio-economic indicators of the selected nine districts	20
Chapter 4 NRN investment in Nepal	24
Chapter 5 Major Problems for NRN Investment	28
References	32

List of tables and figures

Table 3.1	District-wise GDP and population
Table 3.2	District-wise no. of households, population and household size
Table 3.4	Manufacturing activities of selected districts
Figure 3.3	Poverty level of nine selected districts
Figure 4.1	Sector-wise NRN Investment
Figure 4.2	District-wise NRN Investment
Figure 4.3	Sector-wise Employment
Figure 4.5	Support from local authorities
Figure 4.6	Cooperation from local people
Figure 5.1	Major problems of enterprises

Forward

As a nation lying in between India and China, the two major world economies, Nepal has been riding under desperation to achieve development goals through economic prosperity.

The Himalayan nation had embarked a journey towards economic prosperity following economic liberalization in 1990. This changed the development notion of the country with focus on privatization. Attracting foreign investment turned out to be one of the major focuses of every government since then.

The Non Resident Nepali Association (NRNA) was established in the year 2003 giving a much needed impetus to the Non Resident Nepali (NRN) movement. The widespread Nepali Diaspora got a common platform, wherein the Nepalese community living abroad could formalize their plans to help in the development journey of Nepal.

The NRNA has played crucial role in gathering Nepali Diaspora and foreseeing a common development dream. The association also helped Diaspora realize their responsibility towards the homeland. Secondly, the NRNA played a role of establishing relationship with several countries across the globe and promoted Nepal and unleashed the possibilities of the country in front of the global community. It won't be wrong to say, the NRN movement help establish several G2G (Government-to-Government) and B2B (Business-to-Business) relationships, which would not have been possible with solo effort of the government.

This way, the NRN movement played a significant role in shaping up Nepal's economy. It has helped the country in every possible manner and this should continue in the days to come. NRNs have made a significant investment in Nepal and have created job opportunity for thousands of people. The NRNA has constantly observed the positive and negative growth trajectory of the country. The formation of NRNA, amid Maoist insurgency still in place, shows the vigor of Nepali Diaspora waning to involve in the process of nation building.

However, despite having a huge investment in the country, quantifying it, in real terms, and finding out its magnitude and contribution to the economy of the country was an issue. In the absence of proper study on the matter, it was difficult for every stakeholder to shed light on NRN contribution on Nepal's economy.

The study made by Society of Economic Journalists -- Nepal (SEJON) has brought facts and figures on board. Through study, interviews and discussions, we have tried extracting the investment scenario of NRNs in the country.

On behalf of SEJON, I would like to take this opportunity to thank NRNA President Mr. Shesh Ghale for helping us in every possible manner for conducting this study. Mr. Ghale and his team were always determined for achieving quality output. I would also like to thank former NRNA presidents – Dr. Upendra Mahato, Mr. Dev Man Hirachan and Mr. Jiva Lamichhane – for their unconditional support.

Conducting this study wasn't possible without SEJON members. SEJON Immediate Past President Mr. Bigyan Adhikari and the executive committee are to be thanked for taking the lead. This study is the outcome of their hard work and hence, I would like to thank with utmost esteem. I would like to thank Mr. Prem Khanal, for leading the study team. His contribution has remained tremendous.

I would also like to extend thanks to all the SEJON members for reaching out to nine districts and conducting research activities to come up with facts and figures. Each and every stakeholder, associated with this project, has made significant effort for bringing in this outcome. Constant follow up and hard work done by SEJON secretariat in pressing all the members contributing in this study is not to be forgotten.

The SEJON believes that this study will be helpful for the NRNs worldwide, NRNA, government institutions and every other stakeholder wanting to know more about the NRN investment in Nepal. We take a pride of being a part of this initiative which has for the first time documented the NRNs contribution in Nepal. We believe this study will be helpful for the NRNA to find out the sectors it has been actively involved and analyze the areas which have been left out. This way, the association can also streamline its area of focus.

I believe this study will help heighten the NRN movement with concrete facts and figures on board.

Regards,
Gokarna Awasthi
President, SEJON
2015-10-1

Executive Summary

- The investment made by the Non-Resident Nepalis (NRNs) has played an important role in speeding up development pace of the country. The direct investment made by the NRNs in nine selected districts that have high concentration of NRN investment was Rs 29,855 million by the end of 2014.
- The field study conducted in nine selected districts identified altogether 67 businesses and industries invested by NRNs. Service sector remained the biggest attraction for the NRN investment followed energy based industries and manufacturing. Of the 67 enterprises, the study found that 49 businesses were related to service sector while 8 were energy-based enterprises, 7 manufacturing sectors and remaining 3 were engaged in not-for-profit activities.
- The 67 enterprises have generated a total of 8,276 employments in the nine districts. Service sector generated the highest number of 3,587 jobs followed by energy-based industry that produced 2,645 jobs and manufacturing with 1,834 jobs.
- Of the total 8,276 jobs that the NRN investments generated in the nine districts, 5,496 jobs have gone to men while remaining 2,780 to women.
- Of the total NRN investment, Kathmandu valley topped the list by attracting Rs 23,151 million followed by Baglung (Rs 2,978 million), Makwanpur (Rs 1,200 million), Kaski (Rs 1,100), Gorkha (Rs 841 million), Chitwan (Rs 352 million) and Siraha (Rs 233 million for non-for-profit activities). The NRN recorded in the Kathmandu valley also included investment worth Rs 167 million, which was made for not-for-profit activities.
- Service sector was the main attraction for the NRN investment as 59% of the total NRN investment has gone to the sector. The energy-based industry lured 25% while manufacturing sector attracted 16% and the non-for-profit activities received 1% of the total investment.
- Service sector was the top to provide employment, as the sector provided 43% of the total employment generated by NRN investment. The energy-

based industry provided 32% employment opportunities while manufacturing sector generated 22% of the total jobs.

- 42% of the surveyed businesses and industries termed poor law and order condition remained a major challenge followed by lack of adequate electricity (30%) and inconsistency government policy (22%).
- 67% business and industries said that they have received no support from the state while another 32% said that state support have been limited.
- Politicization of trade union remained another major challenge for the NRN investment in Nepal as 52% said that dealing with the politically colored remained a difficult task.
- 58% of the surveyed businesses termed rigid labor law as the biggest obstacle in expanding businesses.

Chapter 1

The Study and its Scope

1.1 Focus and content

This study aimed to figure out the total investment made by the NRNs in selected nine districts. In addition, this study also attempted to explore the nature and status of such investment, and inquired major challenges and problems that the NRN investment is exposed to in Nepal. So, the study was focused on the following three core areas:

- Amount and status of NRN investments in Nepal
- Social and economic impacts made by the NRN investments; and
- Problems and challenges faced by NRN investments in Nepal

1.2 Rational behind selecting nine districts for the study

With an aim to initiate a pilot project to determine the amount and status of NRN investment in Nepal, the study team along with the executive members of SAJON identified the following nine districts. 1. Kaski, 2. Siraha 3. Gorkha 4. Makwanpur 5. Baglung 6. Chitwan 7. Kathmandu 8. Lalitpur and 9 Bhaktapur. In the report, the three districts of the Kathmandu valley have been assembled into a single group called Kathmadu valley.

The section of the nine districts was made on the basis of following facts

1. Concentration of NRN investments in the nine districts based on a quick survey
2. Social and economic impacts made by the NRN investment in the local areas
3. Formal and informal conversations with the officials of NRN secretariat.

1.3 Objectives of the study

The objectives of this study may be outlined as:

- Figuring out the nature and the core areas of the NRN investment in the nine selected districts
- Listing of the sector-wise and area-wise concentration of the NRN investment
- Analyzing major socio-economic parameters of the nine districts
- Analyzing the contributions made by the NRN investments in the socio-economic development of nine districts
- Analyzing the perception of local people and employees of businesses being run by NRN investments; and
- Figuring out key constraints in promoting NRN investment in Nepal

1.4 Preparatory activities and duration of the study

The inception of the study began in earlier 2014 and in the following months, SEJON organized three consultative meetings with stakeholders and nine survey teams that were constituted for field studies. The nine survey teams conducted field visits from 26th August 2014 to 15th February 2015 and filled up questionnaire based on the conversation that had with the concerned officers of the businesses established with NRN investment. The activities to process a wide range of data collected during the field study started in March 2015. However, the huge earthquake that hit the country in April 25 disturbed the process for some months. But, the study team resumed its study activities in June 2015. So, the total duration of collecting data, analyzing the information and writing the report lasted for one year.

1.5 Study methodology

The study is based on both primary and secondary data. For the purpose of collecting primary data, nine teams along with a set of two questionnaires were sent to survey districts. Each survey team spent about two weeks to get the questionnaire filled and the team took two months to complete processing of the primary data. In addition, formal and informal interviews were also taken with various stakeholders to extract additional information that helped to substantiate some of the clues collected during the field visits.

Similarly, the study team also used a bunch of secondary statistics published by Ministry of Finance, Nepal Rastra Bank (NRB), United Nations Development Program (UNDP), Central Bureau of Statistics (CBS) and National Planning Commission (NPC). Since the district level statistic related to national accounts is not available on yearly basis, statistics compiled by Nepal Human Development Report 2014 that used the data of FY 2010/11 were used to analyzing economic activities of the nine districts.

1.6 Limitations

The following are the major limitations of the study:

First, being the first study of its kind in the field of NRN investment in Nepal, there was no availability of literatures that talk about the amount and nature of NRN investment in Nepal. As result, the study had to start from the scratch and that obviously brought cumbersome challenges in the initial phase of the study.

Second, despite repeated attempts efforts, some of the NRN investors were found unwilling to share information related to their investment status in Nepal. This compelled the study team to take lengthy indirect routes to get the statistics needed to complete this study. In this process, the team approached different government agencies, including Department of Industry, Office of Company Register and Ministry of Foreign Affairs and was able to extract raw data. The team put a lot of efforts to process and compile the data, and to come to a conclusion of the volume and nature of NRN investment in Nepal.

Third, the study team during the field visits realized that top officer of the businesses established with NRN investment were not aware of general questions related to nature of the investment made in the business. As a result, some of the important questions remained unanswered and that limited study team's efforts to bring a complete picture of the NRN investment in the nine districts.

Fourth, since the study was focused only in the nine districts that have lured highest amount of NRN investment, this study is unable to figure out the total NRN investment the whole country has received.

Chapter 2

NRN movement in Nepal

2.1 Introduction

Non-Resident Nepali Association (NRNA) was established in 2003 with an aim to unite the Nepalese residing abroad, promote and safeguard their interests inside and outside Nepal, mobilize their contributions in the interest of Nepal and function as a non-profit making social organization. In line with its motto 'For Nepali by Nepali', the NRNA also coordinates with the Nepali Associations and Organizations spread all over the world and represent them as a common organization of the Non-Resident Nepalis by establishing a global structure.

Some of the other major activities of NRNA is to establish and develop partnership with the Government and private sector of Nepal to use the capital and human resources of the Non-Resident Nepalis for the all-round development of Nepal, promote Nepali culture and tourism globally, work as the motivator to attract foreign direct investments in Nepal, and to remain active in safeguarding the overall interests and permanency of the NRNs ((Non-Resident Nepali) residing in their relative countries.

The statute of NRNA has defined NRN as foreign citizens of Nepali origin or the Nepali Citizens engaged in business and/or various professions abroad excluding the SAARC countries for the last two years or more; except those Nepali Citizens deputed in the Nepalese Missions by the Government of Nepal or students studying in the foreign Academic Institutions.

2.2 The Development of NRN movement

A meeting of Non-Resident Nepalese held in 2003 in London envisioned the need to establish an organization as an independent, non-profit making, non-political, non-governmental and permanent association to support in the development and promotion of Nepal and to address the interest of the NRNs residing in different countries of the world as well as to initiate its activities in an organized and coordinated manner through its own organizational structure.

The worldwide movement of NRN has established its own institution with wide network, engagement, success and a broad and powerful impact. The network of Nepali Diaspora represented by NRN has developed itself into an influential force that can represent Nepali interest globally.

Eminent personalities like Dr Upendra Mahato, Jiba Lamichhane and Bhim Udash from Russia, Ram Pratap Thapa from Germany, Mr and Mrs Raj Upadhyay from the United States of America, Deepak Khadka from Australia, Canada based Kinjan Sharma, Dr Raghav Dhital, Chiranjibi Dhakal, Hari Bibhor Karki, Nima Lama, Mahanta Shrestha, Dhruba KC, Madhav Lal Shrestha and Bal Mukunda Joshi from the United Kingdom, had met in the first meeting held in London and hence are considered as the pioneers of the institution.

210 Nepalese from 32 countries attended the first global conference which was held in 2003 in London. More than a thousand Nepalese from 65 countries have started attending the conference today. It is assumed that more than 500,000 Nepalese live across. The role of NRNA has remained instrumental in uniting them. The increased and active participation of Nepalese living abroad has proven the movement to be worthy enough. As of today, the formation of NRNA has completed 12 years. Its role has been increasing and scope of work has broadened.

Starting from founding President Dr Upendra Mahato (2003-2009), the NRNA have so far been led by Dev Man Hirachan (2009-2011) and Jiba Lamichhane (2011-13). Currently, the institution is being led by Shesh Ghale.

Amid deteriorating economic condition of Nepal which had taken a toll in the foreign investment in the country during conflict era, the first NRNA World Conference hadn't only brought new hope and confidence in economic growth, it had also spread the patriotic love for the Nation.

As of now, the NRN movement has spread worldwide, from East New-Zealand and Japan to the Middle East Africa, Europe, West Canada and the United States of America.

2.3 The socio-economic contribution of NRN movement in Nepal

NRN has established its own identity in Nepal and it stands as brand abroad. The name NRN has been established in the world Diaspora history. NRN movement, which was established with the determination to make the country peaceful and prosperous, has started gaining its significance. NRNs have been investing their capital and resources in various sectors of the country which includes sector like hydro-power, tourism, bank and financial institutions,

agriculture, education, and real estate among several others. This has contributed significantly in employment generation and economic development of Nepal. During initial days, conventional laws and policies prevailing in the country, made it difficult for NRNs to make capital investment. The NRNA played an instrumental role in amending the conventional law and policies, making investment environment friendly. The association of nearly 50 million worldwide (South Asian Countries) united under an umbrella and secured the safety and welfare of NRNs. Since the first conference, the NRNs have been prioritizing foreign employment and this continues even today.

The NRNA has not just been promoting foreign employment, but spreading awareness to the Nepalese people regarding the prospects and challenges while working abroad. The NRNA has been actively organizing public awareness program where issue like social security and other provisions regarding foreign employment are discussed with an aim to make people who leave Nepal seeking better opportunities towards Gulf countries and Malaysia alert. Such programs are conducted in every Village Development Committee (VDC) and Municipalities across the country.

The NRNA made a formal request to offer philanthropic and social services during NRNA Word Conference in October 2009. Since then, the association has donated more than Rs 1 billion for several philanthropic activities. Old age home, death funeral house (Kriyaputri Bhawan), hospitals, roadways and drinking water supply are the major philanthropic works of NRNA.

NRNA is one of those associations which stood by the side of Nepalese people at the time of need.

Nepal was hit by a devastating earthquake measuring 7.8 in the Richter scale on April 25th, 2015. It was followed by big and small subsequent aftershocks. The earthquakes caused extensive damage to the nation. According to the data of Ministry of Home Affairs close to about 9,000 people lost their lives in the devastating earthquake. The incident left over 22,310 people injured. More than 500,000 houses were completely destroyed. Historic buildings and monuments collapsed.

The Post Disaster Needs Assessment (PDNA) prepared by National Planning Commission stated that the total value of disaster effects (damages and losses) caused by the earthquakes stood at Rs 706 billion (US\$ 7 billion). Of that amount, Rs 517 billion or 76 percent of the total effect represents the value of destroyed

physical assets, and Rs 189 billion (24 percent of the total effects) reflects the losses and higher costs of production of goods and services arising from the disaster).

The NRNA initiated and donated Rs 350 million for providing immediate relief to the needy. Mobilizing the fund, the association is also building 1,000 shelters which will accommodate earthquake victims. These shelters are earthquake resistant and Eco-friendly and are being developed gradually in eight earthquake affected districts. The construction of new shelters has been done after surveying areas where such homes can be constructed. Economically deprived communities of the earthquake affected areas were the main beneficiaries. As a part of immediate relief package, the association had provided relief to more than 10,000 families of eight earthquake affected districts.

Immediate relief materials were successfully distributed to families in various earthquake affected districts like Sindhupalchok, Ramechhap, Nuwakot, Kavre, Dolkha and several other places through the NRN network. NRN rescued many life and made effort to lessen the pain of those of them who had lost their loved ones and those who were struggling for survival. NRNs all over the world played vital role in rescuing and rehabilitating many lives which has been highly appreciated by all the stakeholders including the Government of Nepal.

The other domain where NRNA is actively present is energy development. Realizing the need of power in the country, NRNs have made a significant investment in the development of hydro-power plants in the country.

2.4 Role of NRN movement in economic development

The NRNA has played an instrumental role in supporting programs and policies announced by the government. The government decided to celebrate Investment Year in the fiscal year 2012-13. In line with the government announcement, the NRNA decided to make an investment in medium scale hydro-power projects having capacity of up to 100 MW. Dordi Khola Hydropower Project in Lamjung district is among the projects which were announced subsequently. This 27MW Hydropower project is under construction at current.

Sanima Hydropower Project is another project initiated by NRNA. The project is already under construction. The NRNA has been investing in large projects by establishing joint investment fund. 22MW electricity generated by the NRN funded Maikhola Hydropower Project in Illam has been added to the national

grid on the first week of October. The addition of 22MW energy is expected to give much needed relief to the people of the eastern region of Nepal from load-shedding.

The Maikhola Hydropower Project is also developing 7MW Mai Cascade Hydropower Project which will take the projects capacity to 29 MW in total. This project is expected to come into operation within a couple of months.

NRNA is not just limited in the development of hydro-power projects. The association is also an active partner working on the development of mega infrastructure projects like Kathmandu - Hetauda tunnel road, which shows the associations' strong commitment towards nation building. This shows that vigor of NRNA to participate in the development of the nation in every possible ways. The NRNA has been working on projects of national importance than just attaching itself with profit oriented sectors.

The fourth declaration of NRNA emphasized the transfer of knowledge, skills and technology defining these components to be vital and essential for the development of Nepal. The association is of the view that imparting the Nepalese people with proper skills and technology would help boosting up the production capacity within the country and marketing it so as to strengthen the presence of businesses in the domestic market.

The NRN movement has gone through several ups and downs. In October 2005, an ordinance was issued in relation to the NRN. In the absence of parliament, the ordinance was automatically scrapped after six months from the date of its issuance. In 2007, the very ordinance was passed as an Act along with some amendments.

With this Act in place, the demand of NRNA to give it a legal recognition was addressed to some extent. The Act defined Nepalese living outside Nepal for two or more than two years (excluding students), apart from South Asian countries, to be eligible to be categorized as NRNs. This Act had enthused NRNs to make an investment in Nepal.

Six years after the Act was introduced, NRN Rules was introduced in the year 2009. Following the statute amendment in the year 2013, registration of NRNA became possible in Nepal.

This turned out to be a milestone for the NRN movement. In the absence of a proper registration, the association had remained unable to mobilize a fund worth USD 100 million developed for making an investment in Nepal. Of late, discourse in NRNA has begun for converting 'Brain Drain' into 'Brain Gain' through NRN movement.

Though new constitution adopted by the country, institutionalizing achievements of past one decade, has denied NRNs with right to vote, it has addressed issue elated with citizenship.

The new constitution has set a provision that NRN citizenship may be provided to people of Nepali origin who have acquired foreign citizenship and reside in countries other than SAARC (Association of South Asian Regional Cooperation) countries, with the provision of exercising economic, social and cultural rights as provided for by law.

Citizenship will be the biggest and strongest factor to the second generation of NRNs to turn into stakeholders of country's development.

Chapter 3

Major socio-economic indicators of the nine selected districts

3.1 GDP and population of the nine districts

Of the nine districts that include three districts of the Kathmandu valley, Kathmandu had the highest GDP of Rs 215.4 billion followed by Chitwan with Rs 39.7 billion and Lalitpur Rs 37.4 billion in FY 2010/11. Kathmandu along commanded 16% of the total national output whereas the shares 2.9% and 2.7% of national GDP. Of the nine districts that represented 30.2% of total GDP in 2010/11, Baglung had the lowest share of 0.8% in the national output.

Similarly, Kathmandu had the highest population of 17.4 million and it represented 6.6% of the total population, which was 26.5 million recorded in 2010/11 population census. Siraha, which contributed just 1.4% to the national economy, was the second most populated district whereas Baglung was the least populated district. The nine selected districts represented 20% of Nepal's total population. Kathmandu valley had the highest GDP per capita of Rs 123,487 whereas Siraha had the lowest of Rs 30,553. Of the nine districts, three districts namely, Gorkha, Baglung and Siraha had per capita income less than the national average of Rs 51,594 in FY 2010/11.

Table 3.1: District-wise GDP and population

Districts	GDP (Rs in million)		Population		Per capita
	Value	% of total		% of total	
Kathmanbdu	215391	15.8	1744240	6.6	123487
Lalitpur	37386	2.7	468132	1.8	79862
Bhaktapur	17714	1.3	304651	1.1	58145
Gorkha	12503	0.9	271061	1.0	46126
Makwanpur	26449	1.9	420477	1.6	62902
Baglung	10289	0.8	268613	1.0	38304
Siraha	19472	1.4	637328	2.4	30553
Chitwan	39713	2.9	579984	2.2	68473
Kaski	34210	2.5	492098	1.9	69519
Total	413127	30.2	5186584	19.6	79653

Source: Nepal Human Development Report 2014

3.2 Demography of the nine districts

Of the nine districts surveyed, Kathmandu had the highest population of 1.7 million and it also had the second smallest household size of 4 members after Kaski, which has the household size of 3.92. Siraha had the second largest population of 637 thousand and it had the largest household size of 5.40 members. Baglung had the lowest population of 268 thousand.

Table 3.2: District-wise no. of households, population and household size

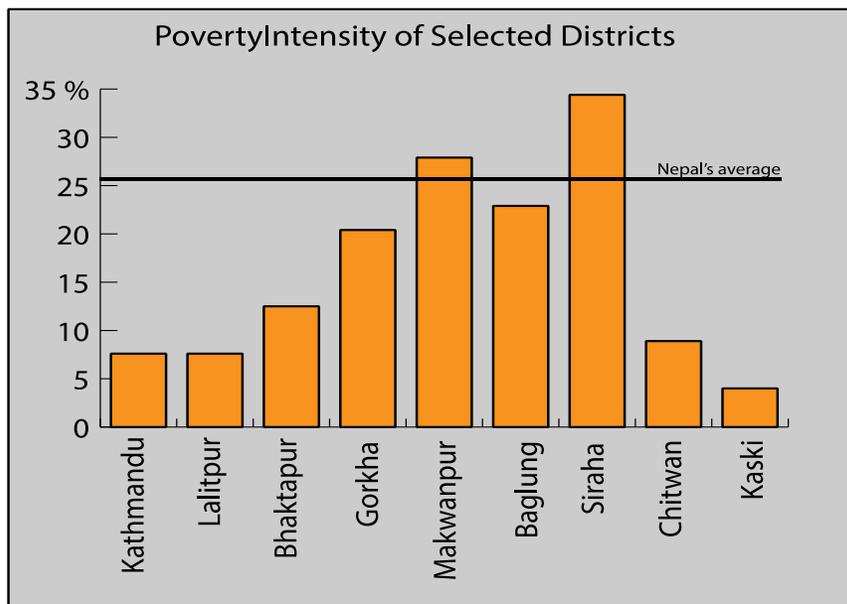
Districts	Number of Households	Population			Household size
		Total	Male	Female	
Kathmandu	436,344	1,744,240	913,001	831,239	4.00
Lalitpur	109,797	468,132	238,082	230,050	4.26
Bhaktapur	68,636	304,651	154,884	149,767	4.44
Gorkha	66,506	271,061	121,041	150,020	4.08
Makwanpur	86,127	420,477	206,684	213,793	4.88
Baglung	61,522	268,613	117,997	150,616	4.37
Siraha	117,962	637,328	310,101	327,227	5.40
Chitwan	132,462	579,984	279,087	300,897	4.38
Kaski	125,673	492,098	236,385	255,713	3.92

Source: National Population and Housing Census 2011, CBS

3.3 Poverty intensity

Of the nine districts that include three districts of the Kathmandu valley, Siraha has the highest intensity of poverty whereas Kaski has the lowest. According to Small Area Estimation of Poverty 2013, only two districts, namely Siraha and Makwanpur have poverty intensities higher than the national average of 25.2%. Among the three districts of Kathmandu valley, Bhaktapur has the highest poverty incidence of 12.5% whereas both the Kathmandu and Lalitpur have poverty level of 7.6%.

Figure 3.3: Poverty level of nine districts



Source: Small Area Estimation of Poverty 2013, CBS

3.4 Manufacturing activities

Kathmandu valley commands the highest weight in Nepal's total manufacturing activities. According to Nepal Human Development Report 2014, Kathmandu valley represented 15% of the total manufacturing activities in 2010/11. The biggest pie of almost 11% went to Kathmandu districts followed by Lalitpur and Bhaktapur. Of the selected nine districts, Baglung had the lowest base of manufacturing. In FY 2010/11, Baglung produced industrial goods worth Rs 65 million whereas the industrial production in Kathmandu was Rs 8,600 million. The industrial production of all the nine districts remained Rs 13,237 million, which was 16.4% of the total manufacturing value produced all over the country in FY 2010/11.

Table 3.4: Manufacturing activities of selected districts (Rs in million)

Districts	Value	% of total
Kathmanbdu	8600	10.7
Lalitpur	2578	3.2
Bhaktapur	1232	1.5
Gorkha	83	0.1
Makwanpur	127	0.2

Baglung	65	0.1
Siraha	287	0.4
Chitwan	132	0.2
Kaski	133	0.2
Total	13237	16.4
Nepal's total	80531	100.0

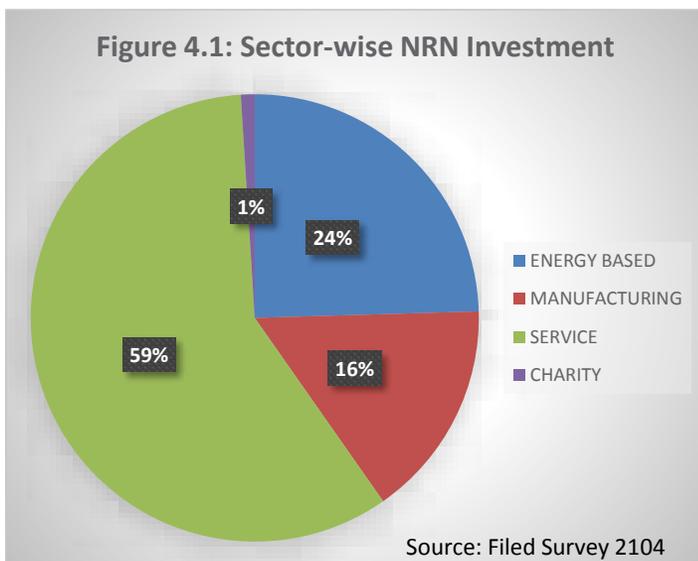
Source: Nepal Human Development Report 2014

Chapter 4

NRN investment in Nepal

4.1 Overall Investment Scenario

Based on the information and statistics gathered during the field survey, the NRN investments have gone to 67 different enterprises in nine districts and the total volume of investment stood at Rs 29,855 million by the end of 2014.

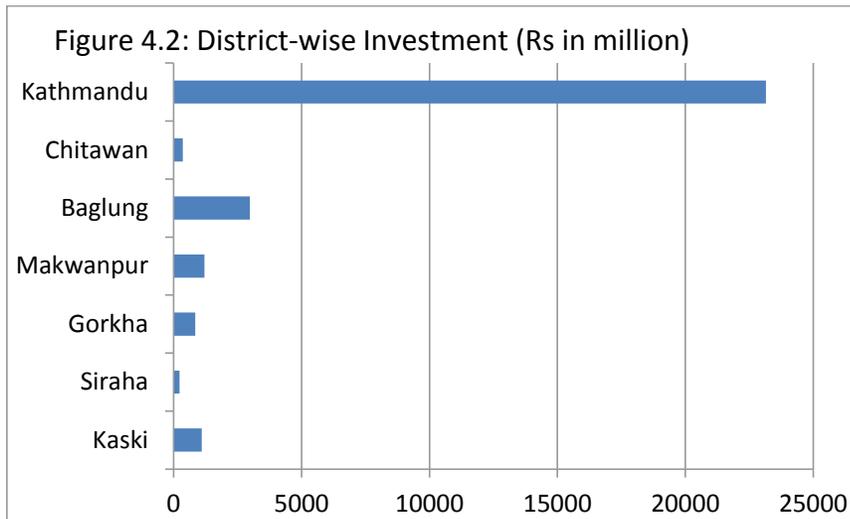


Of the major four sectors that lured NRN investment, service sector commanded the largest share of 59% of the total NRN investment. The sector attracted Rs 17,536 million worth of investment from the NRNs. The energy-based sector that mainly comprises hydropower projects attracted Rs 7,361 million, which was 25% of the total NRN investment. Similarly, manufacturing sector remained in the third position with the investment worth Rs 4,726 million, which was 16% of investment. The not-for-profit investment worth Rs 400 million made mainly for building and operating schools and hospitals represented 1% of the total NRN investment in the nine districts.

4.2 District-wise investment

Of the nine districts, Kathmandu valley, which includes three districts of Kathmandu valley, attracted the highest amount of investment from NRN. Based on the available statistics, Kathmandu valley lured NRN investment worth Rs 23,151 million by the end of 2014 and the amount was 78% of the total NRN

investment in the nine districts. The amount that the NRNs have invested in Kathmandu also includes various charity activities valued at Rs 167 million. Baglung remained the second most attractive destination for NRN investment, as the district lured Rs 2,978 million worth of investment that was equivalent to 10% of the total NRN investment. Similarly, Makwanpur attracted Rs 1,200 million and remained in the third position. Shiraha remained the least attractive district for the NRN investment as all the NRN investment went for not-for-profit activities in that district.

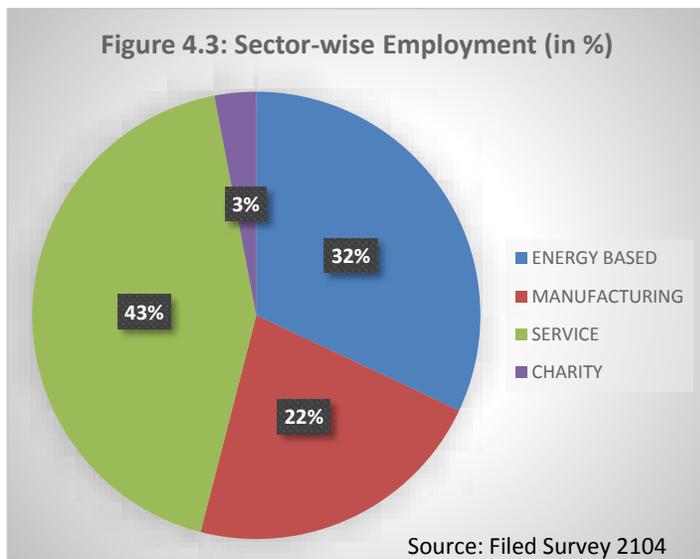


Source: Field survey 2014

Note: Kathmandu valley NRN investment also includes charity activities worth Rs 167 million

4.3 Sector-wise employment

The total 67 surveyed businesses and industries situated in nine selected districts have generated 8,276 jobs.



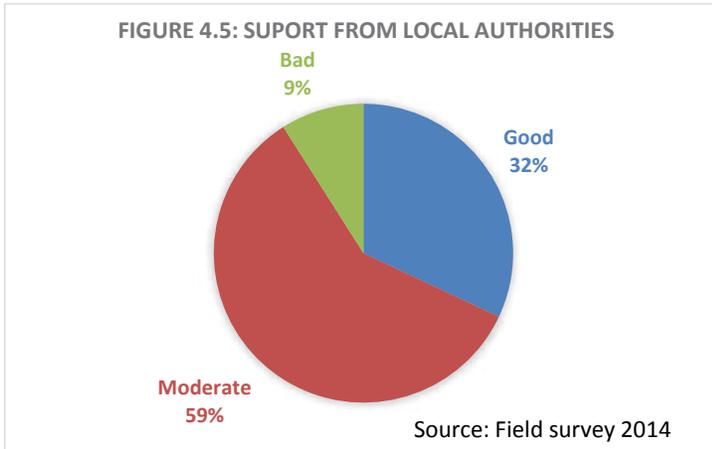
The NRN investment in the districts generated 2,780 jobs for women while the remaining jobs went for men. With employment opportunities for 3,559 people (43%), service sector remained the largest job provider. As many hydropower projects are in the construction phase, energy sector absorbed 2,648 (32%) people and emerged as the second largest job provider. Similarly, manufacturing sector provided jobs for 1,821 (22%) people whereas the NRN investments made for not-for-profit sector, such as health and education, among others, generated 248 (3%) jobs.

4.4 Pay structure of the businesses and industries

An extensive filed survey reckoned that average minimum pay scale at businesses and industries established with NRN investment was Rs 10,997 per month. Similarly, the maximum average salary was found to be Rs 70,165 per month. Industry-wise, employees of hotel industry and technical manpower of the hydropower sector were found being paid higher salary and perks than to the laborers engaged in agriculture and manufacturing sector.

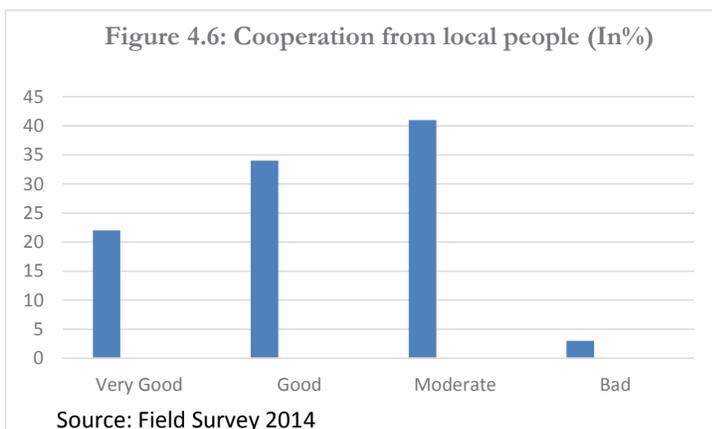
4.5 Support and cooperation of local authority

Of the surveyed 67 businesses and industries, 32% said that the cooperation and supports they received from local authorities were good whereas 59% said that cooperation of local authorities were neither bad nor good. However, 9% of the enterprises marked the cooperation of local authorities as bad.



4.6: Cooperation of local people

Of the 67 enterprises, 22% of the enterprises said that the supports and cooperation of local people was very good while another 41% said were that the supports of local people were not very exciting but moderate. Similarly, 34% of them said cooperation that the local people extended to businesses and industries was good. However, a small fraction comprising 3% said the response coming from the local people was bad.

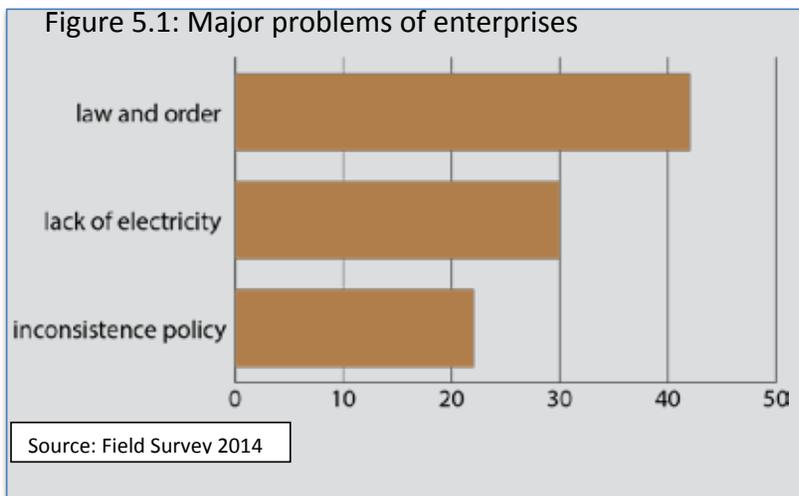


Chapter 5

Major Problems for NRN Investment

5.1 Law and order

Of the surveyed 67 enterprises, 42% said that the poor law and order condition remained a major challenge for the operation and expansion of their activities.



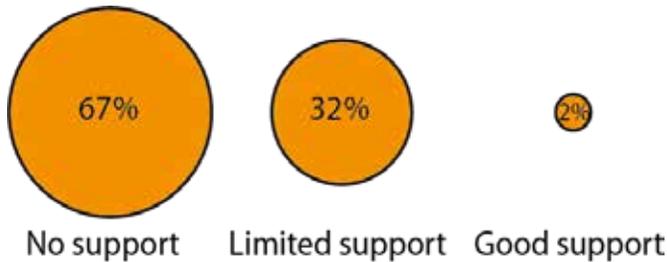
Majority of them said that trade union activities and political donations are the most complicated issue to deal with. Similarly, 30% of the surveyed enterprises said that lack of reliable electricity is their major challenge while 22% termed inconsistency government polices as their problem.

5.2 Lack of trained manpower and laborers

Most of the enterprises established with NRN investment stressed that lack of trained manpower is one of the biggest problems in all sorts of industry. Majority of the enterprises, particularly engaged in hydropower and infrastructure development said that lack of technically sound manpower in the domestic market is compelling them to depend on the foreign workers, something that is raising the cost of doing business. Similarly, those enterprises engaged in manufacturing and agricultural activities complained that inability to get enough laborers is forcing them to operate under the available productive capacity. Most of the enterprises think that a heavy exodus laborer to foreign employment is the main reason for the shortage of manpower in the domestic market.

5.3 Lack of state support:

Majority of the enterprises think that the government supports to the newly established businesses in Nepal is far less than what is generally seen in other countries.



Of the 67 enterprises, more than half (70%) said that there is virtually no support from the state to protect them from market unfriendly activities, like unhealthy competition and counterfeiting practices. 28% of surveyed enterprises said that they have received limited supports from the state. Only a small fraction of them (2%) said that state support that are getting is somehow satisfactory.

5.4 Heavy politicization of trade union:

Majority of the business and industries involving NRN investment said that politicization of trade unions is a major problem. They said that presence of a number of trade unions with different political affiliations has made the task of dealing with trade union difficult. 52% of the surveyed business and industries said that they haven't found trade union helpful in dealing with the problems that they face. However, though 28% of the surveyed businesses and industries said that their experiences in dealing with the trade unions were positive, they added that handling politically divided trade unions is often time-consuming and cumbersome. 20% of the surveyed businesses and industries declined to comment on the activities of trade unions.

5.5 Rigid labor law:

Those enterprises that are order and season based said that the lack of legal provision to adjust their labor force as per the maker demand is another major problem in doing businesses in Nepal. 58% of the surveyed businesses termed rigid labor law as the biggest obstacle in expanding businesses and said that they can lower the cost of production and make their products competitive if the rules allow them to practice flexible labor policy. Similarly, another 32% said that rigid labor law is a problem but it has not prevented them from doing normal business activities. Remaining 10% of the surveyed businesses and industries made no specific comments on the issue of labor law of the country.

Chapter 6

Major findings and recommendations

6.1 Major findings

NRNs investment has made significant contribution to the development of Nepal through both transfer of knowledge and investment.

1. A survey conducted in selected nine districts found that the total NRN investment in those districts was Rs 29,855 million in 67 enterprises.
2. The NRN investment is concentrated on the service sector that lured 59% followed by power sector (25%), manufacturing sector (16%) and charity activities (1%).
 - The overall investment has generated 8,276 jobs and women have received one-third of the total jobs. Service sector provided 43% of the total employment whereas the energy-based industry provided 32% and manufacturing sector generated 22%.
 - NRN investment is heavily concentrated in the Kathmandu valley that commands a lion's share of 78% of the total investment made in the nine districts, followed by Baglung (10%).
 - For 42% of the surveyed enterprises, poor law and order was the most serious challenge followed by lack of adequate electricity (30%) and inconsistency government policy (22%).
 - 67% enterprises said that they received no support from the state while another 32% said that state support was limited.
 - Politicization of trade union remained a major challenge as 52% said that NRN investors said that dealing with the politically colored remained a difficult task.
 - 58% of the surveyed businesses termed rigid labor law as the biggest obstacle in expanding businesses.

6.2 Recommendations

Nepal has a good prospect of luring a huge amount of NRN investment but for that to happen, it has to address major concerns that are obstructing potential NRN investment to Nepal. Most of the concerns related to NRN investment in Nepal that this study found were almost similar to those that majority of the domestic businesses and industries have been facing since long. So, here are some recommendations of this study

- Pay serious attention and take concrete steps to improve law and order situation, something that can be instrumental in strengthening both the investors' and consumers' confidence.
- Ensure basic industrial infrastructures such as regular electricity to the industries that generate employment to more than certain number and contribute to substitute imports.
- Ensure additional mechanism to ensure that the enterprises established with NRN investment received necessary supports from government agencies. Such mechanism will send positive signal to those NRNs, who are looking for investment opportunities in Nepal.
- Curtail political activities of trade unions and bring necessary policies to ensure healthy industrial relations between the employers and employees.
- Restart a fresh initiative to reform the Labor Law that allows enterprises to adjust size of their labor force as per the demand in the market and ensures social security for the laborers.

Bibliography

1. Annual budgets, Ministry of Finance
2. Nepal Human Development Index 2014, UNDP
3. Population Census 2011, CBS
4. National Accounts 2014/15, CBS
5. Sectoral papers on NRM movement in Nepal

