

IMPROVING BUSINESS ENVIRONMENT AT SUB-NATIONAL LEVEL

A Diagnostic Study of Biratnagar

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SAMRIDDHI
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CONTENTS

Acknowledgement.....	i
Abbreviation and Acronyms.....	ii
Executive Summary.....	iii
1. INTRODUCTION.....	1
2. Methodology.....	2
Phase 1: Secondary Research and Stakeholder Mapping.....	2
Phase 2: Key Informant Interviews (KIIs) and Stakeholder Engagement.....	2
Phase 3: Sector Specific Data Procurement and Analysis.....	2
Phase 4: Organizational Mapping and Report Preparation.....	3
3. LIMITATIONS.....	4
4. SNAPSHOT OF BIRATNAGAR.....	5
4.1 Biratnagar’s major plans, projects and policies.....	5
5. FACTORS OF PRODUCTION.....	6
5.1 Land.....	6
5.2 Human Resource.....	6
5.3 Access to finance.....	9
5.4 Infrastructure.....	10
6. BUDGET.....	12
6.1 Income.....	12
6.2 Expenditure.....	12
7. HIGHEST GROWTH POTENTIAL INDUSTRIES IN BIRATNAGAR METROPOLITAN CITY	14
8. FURTHER OBSERVED SECTORS AND GROWTH POTENTIALS IN BIRATNAGAR.....	20
8.1 Hatiyas.....	20
8.2 City Rickshaw.....	20
9. CHALLENGES AND OPPORTUNITIES ACROSS INDUSTRIES IN BIRATNAGAR.....	22
9.1 Scarce Land Resources and Related Problems.....	22
9.2 Electricity.....	22
9.3 Lack of skilled labor.....	23
9.4 Tourism.....	23
9.5 Access to Finance.....	24
9.6 Regulations.....	24
9.7 Infrastructure.....	24
9.8 EXIM Codes.....	25
9.9 Reference Prices.....	26
10. GOVERNMENTAL ORGANIZATION TASK MAPPING TO RESOLVE THE EXISTING ISSUES	27

11.	Common Business Problems in the Country and lessons from the world.....	28
	11.1 Economic Freedom.....	28
	11.2 Procedural hassles.....	30
	11.3 Paying Taxes.....	30
	11.4 Environmental standards.....	32
12.	LEGAL MANDATE FOR BMPC.....	33
13.	Observations of the researchers.....	34
	13.1 Required Action.....	35
14.	Policy options for creating a conducive environment for growth in Biratnagar.....	36
15.	CONCLUSION.....	38
	REFERENCES.....	39



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ABBREVIATION AND ACRONYMS

APM	All-Party Mechanism
ADB	Asian Development Bank
BFI	Banks and Financial Institutions
BMPC	Biratnagar Metropolitan City
CO	Commerce Office
DCPA	District Coffee Producers' Association
DUDBC	Department of Urban Development and Building Construction
EPZ	Export Processing Zones
FNCSI	Federation of Nepalese Cottage and Small Industries
KII	Key Informant Interview
LGU	Local Government Unit
MCI	Morang Chamber of Industries
MMA	Morang Merchants' Association
MoFALD	Ministry of Federal Affairs and Local Development
MoPIT	Ministry of Physical Infrastructure and Transport
MoU	Memorandum of Understanding
MPC	Metropolitan City
NRB	Nepal Rastra Bank
NUDS	National Urban Development Strategy
NYEF	Nepal Young Entrepreneurs' Forum
OCSI	Office of Cottage and Small Industry
PEA	Political Economic Analysis
PPP	Public Private Partnership
SARE	System of Fast Opening of Firms
SEZ	Special Economic Zone
VAT	Value Added Tax



EXECUTIVE SUMMARY

With 6000 industries in operation at present, Biratnagar Metropolitan City (BMPC) is known to be the Industrial capital of the nation. BMPC has always been one of the major economic centers in the country as it shares a major customs route with India, and is the second largest land port of Nepal. Currently, it is also an interim capital of State 1 and has a long history of being politically active.

Despite being a major economic hub and having a high potential for growth many overarching macroeconomic problems and regulatory barriers still stifle the city's economic development. As of today, it is extremely important to map local sectors with highest potential to contribute to growth and promote such enterprises by creating a conducive business environment.

In the changed federal structure, local governments now have an immense influence over their own jurisdiction in terms of legislative and executive powers. A local government now has the power to design its own plans, programs and policies in order to guide their city to new heights of prosperity. Thus, this is the perfect moment for the BMPC to work actively in its role to further stimulate growth in the region.

Keeping in mind the new responsibilities that the local government has, this diagnostic study, through primary and secondary research and numerous key informant interviews (KIIs) and consultation meetings with the stakeholders studies, the macroeconomic indicators of Biratnagar, existing regulatory barriers to doing business in the city and the challenges faced by fastest-growing industries that can be resolved by local representative bodies.

A major development challenge that Biratnagar faces at present is the lack of skilled human resource. Though numerous skill training centers exist in the city, majority of them are focused on sending their students abroad for employment. Lack of proper roads has been major problem for the residents of Biratnagar and it has also affected their health. High cost of land has made it nearly impossible for industrialists to set up factories. Shortage of electricity has halted production in the factories and has also increased the operation cost of these factories. Regulatory barriers to business entry and exit have been a big challenge to the entrepreneurs of Biratnagar and this has left many people unemployed. Lack of proper management of the pre-existing Hatiyas (traditional markets) has caused traffic congestion. Despite being a major and a growing business, it is also largely informal in nature.

The researchers have identified hotel industry, food industry, chemical producing industries, plastic manufacturing, spices, and metal and furniture industries as major developing sectors of Biratnagar. In this paper we have discussed the problems faced by these sectors and have proposed reforms that the local, state and federal government can adopt to resolve the problems and improve the business environment of Biratnagar.

1

INTRODUCTION

The interim capital of State 1, Biratnagar Metropolitan City (BMPC) is the only metropolitan city in Morang District. It is the second largest city in Nepal after Kathmandu in terms of population density and the largest city in Terai. The city has always been a political and industrial hub of Nepal with more than 6000 industries at present. Biratnagar is also connected to major custom route with India, and is the second largest land port of Nepal. The city covers an area of 77.5 km². Erstwhile Biratnagar Sub-Metropolitan City, Tankisinuwari and Jahada-3 make up the current BMPC and its 19 wards. Its neighbors include Singhyahi River in the East Border, Keshaliya River in the West Border, Bhudiganga in the North Border and Jogbani, India in the South Border. The city's projected revenue generation for the Fiscal Year 2018/19 is NPR. 271.4 million

With the promulgation of the Constitution in 2015 and subsequent establishment of a federal governance system, local governments now, for the first time, have immense influence over their own jurisdiction in terms of legislative and executive powers. Successful elections thereafter have enabled locals to appoint representatives of their choice to guide their city to new heights of prosperity. Thus, this is the perfect moment for the BMPC to work actively in its role to further stimulate growth in the region. It becomes imperative then to firstly identify the fastest growing industries in the BMPC, and then recognize the problems that threaten to curb the growth of these sectors. Only then will it be possible to determine the necessary policy changes the local government will have to implement to allow for a more conducive business environment at the local level.

2 METHODOLOGY

Phase 1: Secondary Research and Stakeholder Mapping

The study commenced with the objective of identifying some of the fastest growing sectors in the Biratnagar Metropolitan City. The research team started out by conducting desk research and analyzing available secondary data. The research sources included the Department of Industry's Industrial Statistics; Central Bureau of Statistics' National Census of Manufacturing Establishment; Ministry of Commerce, Trade and Export Promotion Centre's Export Promotion Manual as well as Biratnagar MPC's official website. This process allowed the team to identify those businesses that showed highest growth potential under each sector and map out the key private stakeholders involved. The stakeholder mapping also extended to business associations, regulators, elected representatives, and Morang Chamber of Commerce.

Phase 2: Key Informant Interviews (KIIs) and Stakeholder Engagement

The next phase of the study involved primary research. Members of the research team visited Biratnagar MPC and carried out interviews and an interaction program called "Improving Business Environment in Biratnagar Metropolitan City" with entrepreneurs in the previously identified fields. A conscious effort was made to make sure that apart from being successful business owners, most of the entrepreneurs selected were also influential and active members of their respective associations. This way, the consulted individuals would be able to give us more informed views on the current situation, challenges and prospects of their businesses and the sector in general. Furthermore, interviews and consultation meetings with the newly elected Mayor of Biratnagar MPC, government officials and regulators were also carried out.

This helped the team deliberate over what role the local government could play to resolve those policy issues - from laying down new policy infrastructures where necessary and breaking barriers where policy hurdles exist to creating a more conducive business environment at the local level.

Phase 3: Sector Specific Data Procurement and Analysis

After returning with a new clarity on the selected industries and data from the field visits, the researchers worked once again to examine the collected information. The data was filtered and the researchers, after studying sector wise periodic growth trends from Office of Cottage and Small Industries (OCSI) identified Hotel business, Food Product industry, Chemicals, Garment and Spices to be the fastest growing industries in the last five years.

At this point researchers were equipped with anecdotes and qualitative evidence, but they needed more data-driven evidence to confirm the viability of the selected options. They also required more information on the overall economic health of the metropolitan city to better understand the local challenges as well as feasible policy interventions. Since most of the data required was not available at the local municipal offices, a checklist was designed asking for the same information

from the business associations. This alternative method helped the researchers get the data needed. Researchers also conducted further secondary research to collect general economic data on the BMPC. Moreover, they researched case studies on best practices in other cities and countries to learn from their experiences.

Phase 4: Organizational Mapping and Report Preparation

In this final phase, researchers worked on gathering the last leg of information required in terms of institutional capacity analysis and organizational mapping as well as occasional supporting data still needed during the writing process. Infographics and box cases were also designed. This phase culminated with the preparation of this diagnostic study of Biratnagar Metropolitan Clty.

3**LIMITATIONS**

Despite their best efforts, researchers faced some limitations in regards to getting the most relevant data:

- Firstly, the municipal offices lacked majority of the sectorial data that was required for analysis. Therefore, researchers relied upon sector specific associations to obtain the data used for industry study.
- Secondly, staff at municipal offices were extremely busy due to the recent structural changes in the government throughout the duration of the study. Therefore, researchers were not able to schedule a lot of engagements with the municipal team. Additionally, they were unable to meet some government stakeholders as they were not in their offices even during multiple visits.
- Lastly, the report could have benefitted from a more thorough study of BMPC's macroeconomic indicators. Due to limitations of readily available data at the municipal level, researchers have in some instances used wider district specific or country specific indicators in the analysis. Additionally, researchers were unable to include a robust institutional capacity analysis of the Biratnagar due to the same reasons.

4 SNAPSHOT OF BIRATNAGAR

Biratnagar, known as the industrial capital of Nepal, is the only metropolitan city in State no. 1 and has thus made it as one of the most important economic regions of Nepal. Bordering India has made Biratnagar an important import/export juncture; it is therefore one of the main focus areas of the Federal government.

With promulgation of federalism, there are various unleashed sectors that the local government of Biratnagar can focus on to further enhance its economy.

4.1 Biratnagar's major plans, projects and policies

A thorough analysis of plans, programs and budget of Biratnagar Municipality for the year 2018, depicts that Infrastructure Development has been highly prioritized by the local government. The two major projects that assists in enhancing its infrastructural capacity are:

- Secondary Towns Integrated Urban Environmental Improvement: The project, funded by the Asian Development bank and the Government of Nepal, is a major project that is being carried out in Biratnagar which focuses on Sewerage and Drainage Network, Wastewater Treatment Plant and Road and Lanes Improvement Sub Project.
- Regional Urban Development Project: The project, also funded by the ADB and the government of Nepal, was initiated with the aim to construct and complete Sewerage, Drainage, Road, Footpath and Road furniture works in eight towns in the Terai Region of Nepal. The project also aims to build institutional capacity of Department of Urban Development & Building Construction (DUDBC) for urban planning, project planning and project preparation in order to proactively shape urbanization in Nepal and implement the National Urban Development Strategy (NUDS).

There are various financial management, resource mobilization and economic development related plans and policies that the government has formulated which mostly focuses on taxation policies. Social development polices focuses on issues like Education and Sports promotion, health and population related polices, Gender equality and social inclusion, regulation and improvement of government and non-government organization.

The BMPC has also formulated plans and policies covering various other sectors like public service delivery, environmental and disaster management, consumer rights protection and market monitoring which are further discussed in the following sections of the paper.

5 FACTORS OF PRODUCTION

5.1 Land

According to the Survey Department, Nepal, Biratnagar has a total land area of 77.5 km² (29.9 sq. mi), most of which are occupied for residential and agricultural purpose.

According to the survey the real estate prices in Biratnagar have risen significantly over the years. Currently 1 kattha (3645 sq. ft.) land costs around NPR. 10,000,000. This increase has contributed to higher costs of setting up factories and other businesses in the city both in terms of acquiring and renting land. Moreover, the growth in residential settlements have also caused a serious dearth of land for industries. Throughout the research, business owners identified the shortage of land and high land prices as a major problem for doing business and suggested establishing Industrial Zones to tackle the issue. According to Mukesh Upadhyaya, President of Morang Chamber of Industries, the sky-high real estate prices mean that purchasing required land costs five times more than constructing and setting up a factory; i.e. if building and setting up plant and machinery cost NPR 20 million, buying the land costs NPR 100 million.

The Metropolitan City acknowledges the need for land for industries to operate and expand. It has thus been trying to obtain 312 bighas (22,744,800 sq. ft.) of land in the Sunsari-Morang corridor for establishing a Special Economic Zone (SEZ). However, this effort has faced its share of delays. Three years ago, the Special Economic Zone Development Committee had conducted a feasibility study to establish the SEZ on 312 bighas of land owned by Salt Trading Corporation. But the scheme has not progressed beyond the drawing board. The Ministry has asked for NPR 810 million to buy the land and forwarded the file to the Finance Ministry however the lack of funds has kept the acquisition from moving forward (Shah, 2018).

The BMPC has laid out the following major plans for the fiscal year 2018/19 in terms of Land Management:

- Development of integrated settlement for non-residential residents and refugees.
- "Planning Permit" to be made mandatory before plotting of land for other purposes
- Improvement of overall traffic management of the city with approval of Urban Land Use Policy and Urban Traffic Policy created in collaboration with Asian Development bank.
- Identification of appropriate land areas for parks and picnics.

5.2 Human Resource

Biratnagar is the second most densely populated city, the third most populated metropolitan city and the fourth most populous city in the country. It houses a total population of approximately 240,000 people, a figure which jumped from 214,000 with the addition of the wards Tankisinuwari and Jahada-3 when it was declared a metropolitan city on 22nd May 2017 (The Rising Nepal, 2018). 19.77% of the total population of Morang district live in Biratnagar. The

region is one of the most diverse regions in Nepal and is home to a number of castes, languages, religions and cultures. Majority of the population is Hindu, followed by Islam, Bouddha, Kirat, Christian, Jain and others. According to the 2011 census, 49% of the population was female and 51% male. Of the 47,798 then total households only 10,682 (22%) had female ownership in both houses and land while only 5,268 (11%) had female ownership in only land (CBS, 2017).

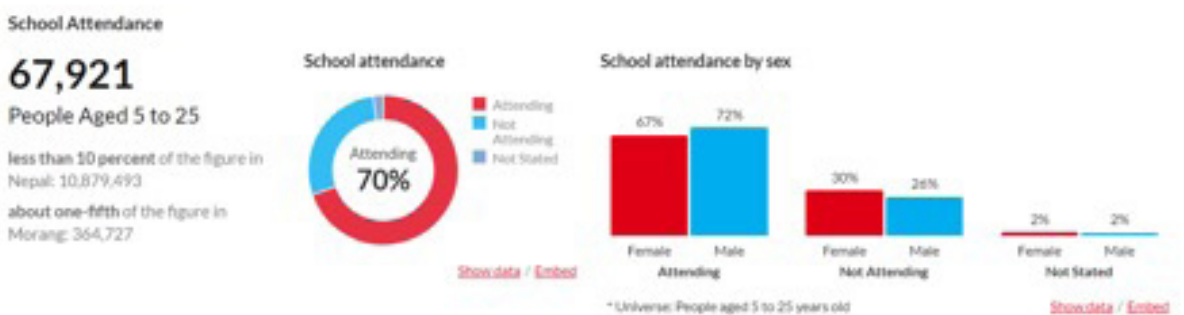
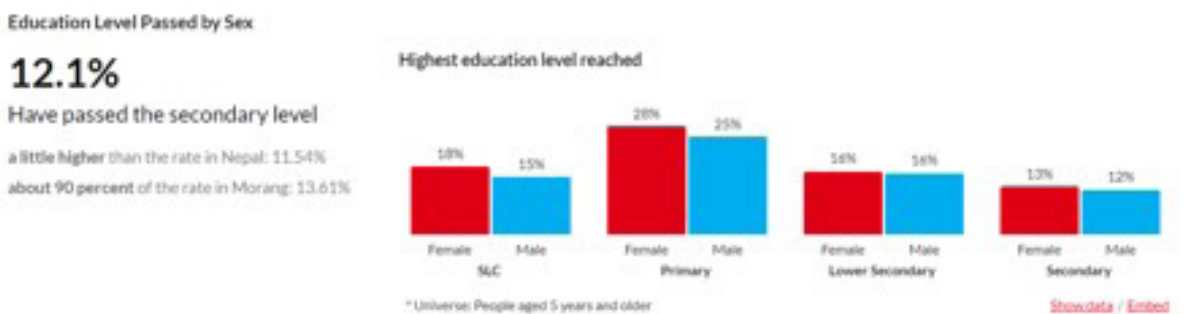
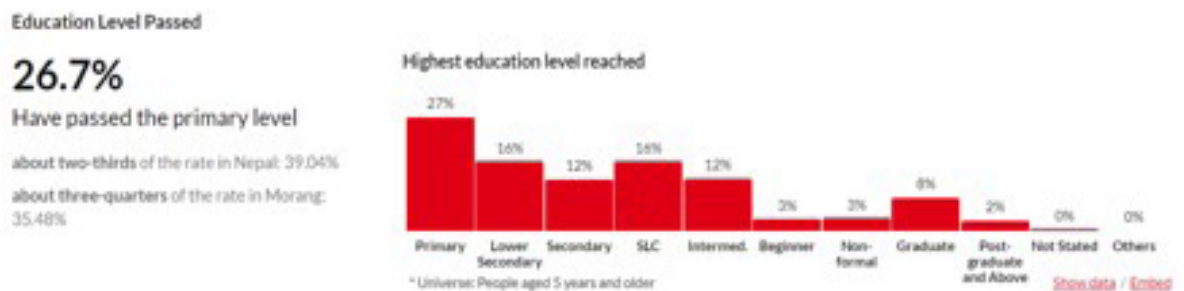
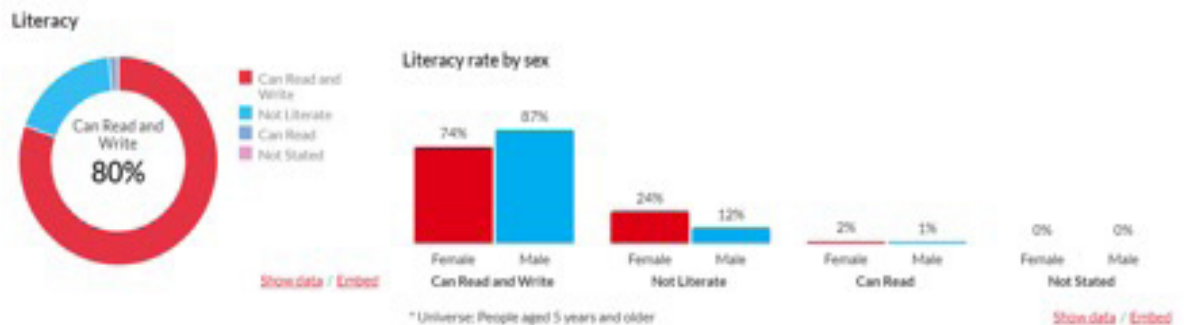


Figure 1 Literacy rate in Biratnagar (NepalMap, 2011)

Above is a snapshot of the education scenario in Biratnagar calculated on the basis of people aged 5 and over: 150,001 as per the census of 2011 from NepalMap.

The literacy rate in Morang district has seen an impressive improvement in the past years. As of 2016, the literacy rate stood at 87% which was a 16.87% jump since the national census in 2011. Only 23,549 of the total population were illiterate attributed to the government's literacy campaign in the district. The increase in the literacy rate in the district is attributed to the literacy campaign being run by the government. Only 23,549 people are illiterate in the district now, according to the District Education Office, Morang.

Lack of skilled labour has been identified as a genuine problem for existing industries in Biratnagar. Majority of the labour force prefers to migrate to foreign countries to seek better opportunities and higher paying jobs which has given rise to both a shortage of labour and low employee retention. Although various skill development trainings do exist, most of them are outdated and do not reflect the current needs of employers. Hence such trainings operate but do not yield much benefits to either the trainees or potential employees. According to the Mayor, the BMPC plans to study the demand for various types of workforce and introduce additional technical vocational education schools in order to meet the demand for skilled human resources in various industries in Biratnagar.

The BMPC has laid out the following plans for the fiscal year 2018/19 in terms of **Human Capacity Building**:

- capacity building of staffers of the metropolitan city office to enhance their technical skills and introduction of reward and punishment mechanism
- development of checklists on the basis of the information provided by the local level to administer employees' work
- preparation and implementation of Code of conduct for employees
- digitization (computerization) of employee information
- skill enhancement trainings to farmers free of cost in order to enhance their efficiency

Education

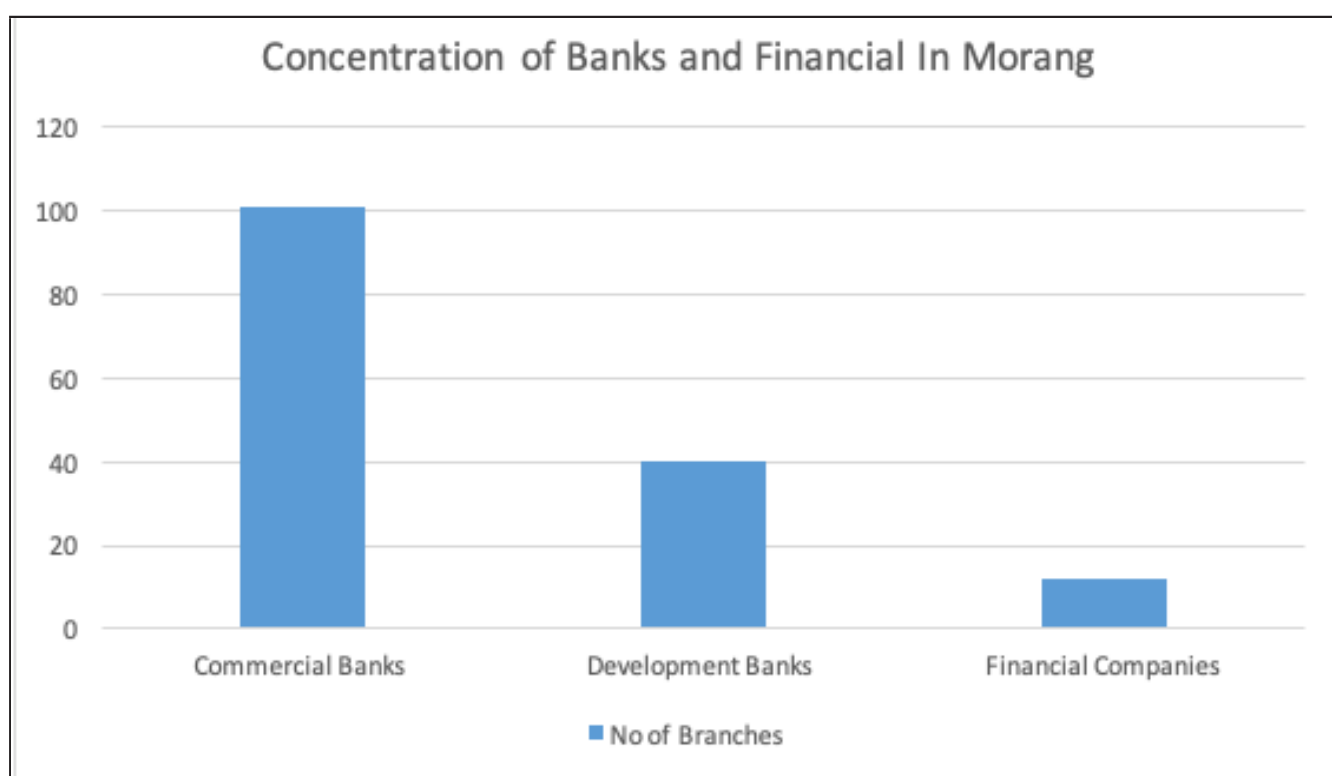
- Formation of committee to operate "One Ward, One Community Secondary School" policy.
- Operation of science lab in every school.
- Ensuring quality education through science labs, libraries, computer labs and other infrastructures.
- Monitoring of scholarships in schools.
- Formation of higher level of education commission for better education and curricular enhancement

Health

- Providing free services related to maternal and child health
- Providing quality medicines and other basic health related materials free of cost.
- Spreading health education and awareness
- Monitoring of the health facilities to the people.
- Establishing a sector that manages and limits the spread of different kinds of communicable

- and non-communicable diseases.
- Establishing a province level hospital in Koshi zone.
- Establishing a well-equipped hospital in the metropolitan city.
- Free of cost cure for cataract with an aim to minimize it.
- Ensuring health insurance in four wards yearly.
- Minimization of Rabies

5.3 Access to finance



Source: *Banking and Financial Statistics, Nepal Rastra Bank, 2015.*

As of June 2018, there were 101 Commercial Bank branches, 40 Development Banks and 12 Finance Companies making up a total of 209 Banking and Financial Institutions in Morang District. They collectively served a total population of 965,370 thus making the population per branch 6149 (Nepal Rastra Bank, 2015).

The research revealed two major problems when it comes to access to finance for local businesses. Firstly, fluctuating interest rates was identified as a major concern. This is a problem that was observed throughout the country and Biratnagar is no exception. Business owners have faced the brunt of haphazard increment in interest rates by banks which directly hampers the ability of existing businesses to expand and grow as well as the ability of new businesses to enter the market. Banks and the Nepal Rastra Bank (NRB) have both attributed the increase to a cash crunch. The NRB has refused to intercept directly in the matter between businesses and private banks which are governed by contracts that include a clause stating that interest rates may vary during the course of the loan period. Banks on the other hand suggest that they are tied to changing base rates directed by the NRB. This problem has not only dampened private sector

investment and expansion but also stands to sour the relationship between business owners and Banks and Financial Institutions (BFIs) (Samriddhi foundation, 2018).

Secondly, a lot of local businesses shared that it was difficult to get a loan for their business. One of the reasons for the difficulty stems from the fact that lending in Nepal is mostly collateral based. Additionally, the bank also factors government's valuation (in case of assets like land) besides the market valuation while valuating assets. Since the valuations usually differ by many folds with government pricing being much lower, getting a fair valuation and subsequently using land as collateral for their loan approval becomes difficult for businesses. Thus, it can be said that access to finance is a barrier for the development of local businesses in Biratnagar.

The BMPC has laid out following plans for the fiscal year 2018/19 in terms of access to finance:

- Adoption of "One ward, One financial planning" for the poverty reduction.
- Working for the reduction of poverty in collaboration with commercial banks and other Banking and Financial Institutions.
- Offering Low interest-rate charges to agro-farmers.

5.4 Infrastructure

For a bustling industrial hub like Biratnagar, a proper physical infrastructure is a crucial step towards improving the business environment in the city. Our research has identified concerns from relevant officials that they have not been able to provide efficient services due to the lack of building and office spaces in the ward offices.

Furthermore, numerous private businesses have complained about light-outs and surcharges in electricity. The city consistently suffers from low voltage electricity. It is additionally difficult for businesses to acquire three-phase lines¹ required to operate their appliances. Uninterrupted supply of electricity in BMPC would not only increase productivity but also reduce costs by many folds.

Road infrastructure is a significant challenge for the city where majority of the roads in the city are in a poor state in the lack of periodic maintenance. Locals claim that the major highway that passes through the city contributes to exceedingly high pollution levels and makes traffic management very difficult. Both travel and transport of goods are even more problematic during the monsoon, which sees heavy flooding in the streets of Biratnagar.

Biratnagar can benefit from focusing on tourism. By investing in construction of leisure parks, increasing air traffic by adding flights to Lukla and Pokhara and mountain flight facilities, differentiating itself from its neighbors by developing casinos and discos, Biratnagar can leverage its position as a gateway to four countries and build itself as a transit tourism destination instead of a final tourist destination.

¹ Three-phase electric power systems have at least three conductors carrying alternating current voltages that are offset in time by one-third of the period.

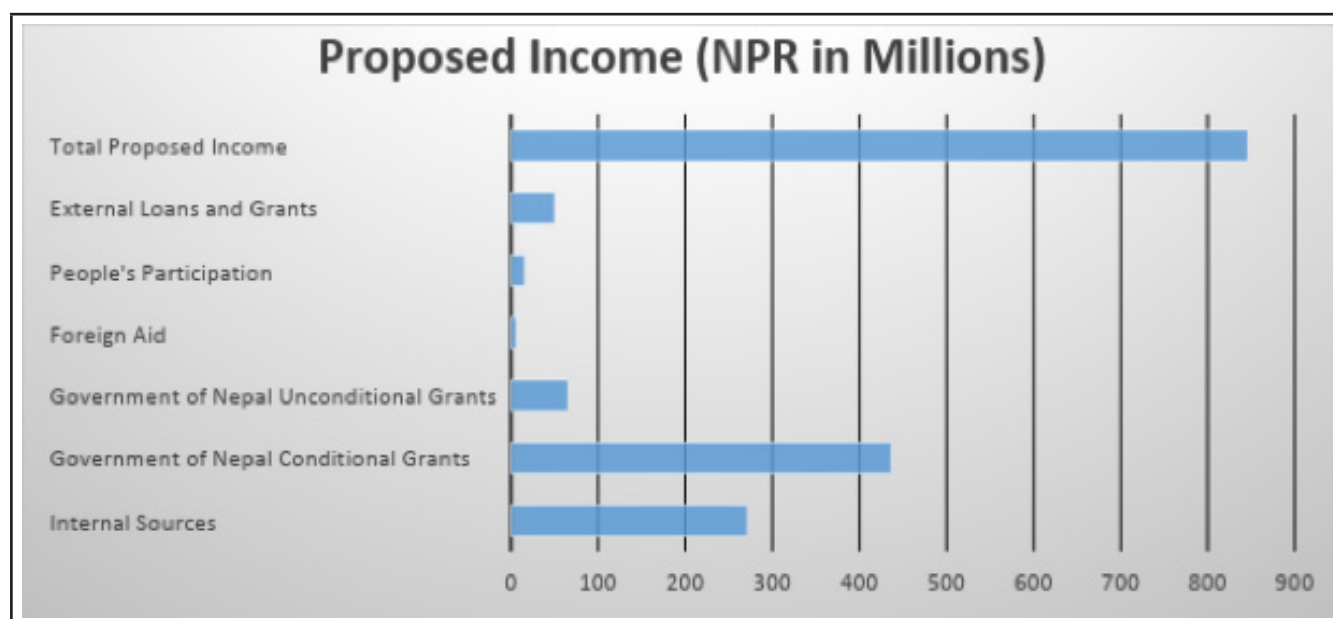
The tri-national road from Biratnagar (bordering India) to Kimathanka (bordering China) which is the shortest route connecting India and China has seen disappointing progress due to lax project management. It has been 24 years since the idea was first introduced however, work on only 69 kilometers of the 390-kilometre road has started. Only 32% of the work has been completed in the past 4 years since start of construction of the 49 kilometer Rani (Biratnagar) – Dharan (Sunsari) road which is underway expansion to six-lane from two-lane. The expansion is expected to be complete within two years in the absence of any additional obstacles. The budget for the Rani-Dharan expansion is over NPR 10 billion (The Himalayan Times, 2018).

According to the Mayor, BMPC is considering the use of a Public Private Partnership Model for infrastructure development within the city. The Asian Development Bank and the Federal Government have provided significant support to the city where a total of NPR 7.5 billion worth infrastructure projects are currently being carried out through the metropolis. ADB is financing NPR 2.4 billion for blacktopping the roads in the city. Furthermore, a detailed project report is being developed for additional 14 road projects (The Rising Nepal, 2018).

6 BUDGET

In order to ensure the successful implementation of the aforementioned policies and programs government has the following budget strategy for the fiscal year 2018/19.

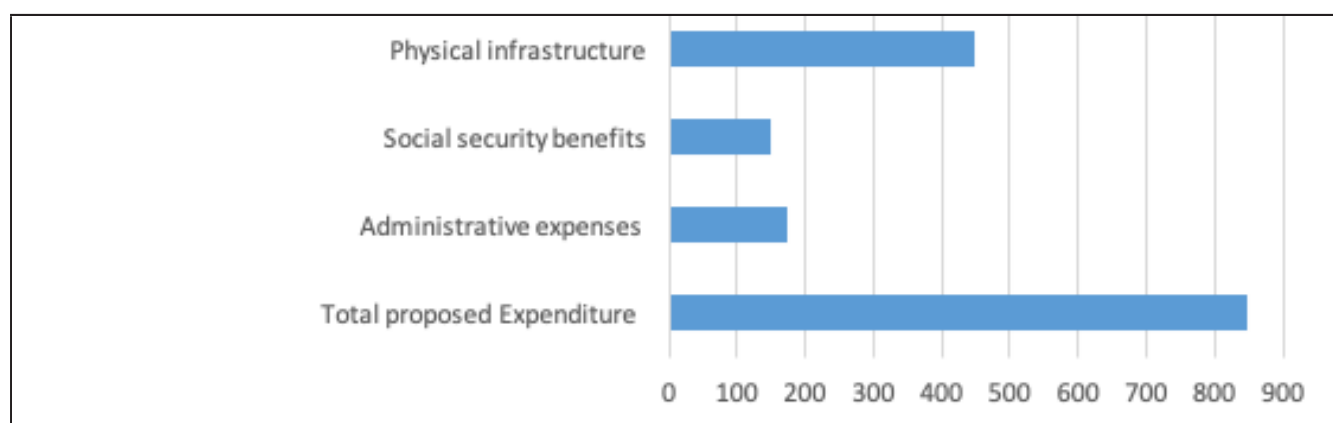
6.1 Income



Source: Budget 2018/19 Biratnagar Metropolitan City

The BMPC has proposed a total budget of NPR 169 million which it plans to collect from taxes, BMPC plans to raise NPR 552.4 million from external sources of intergovernmental fiscal transfers and loans, NPR 6.4 million from foreign aid and finally, NPR 16.1 million from people's participation. NPR 102.4 million from other internal sources including various service fees, charges, fines and sales. Thus, a total of NPR 846.4 million has been proposed.

6.2 Expenditure



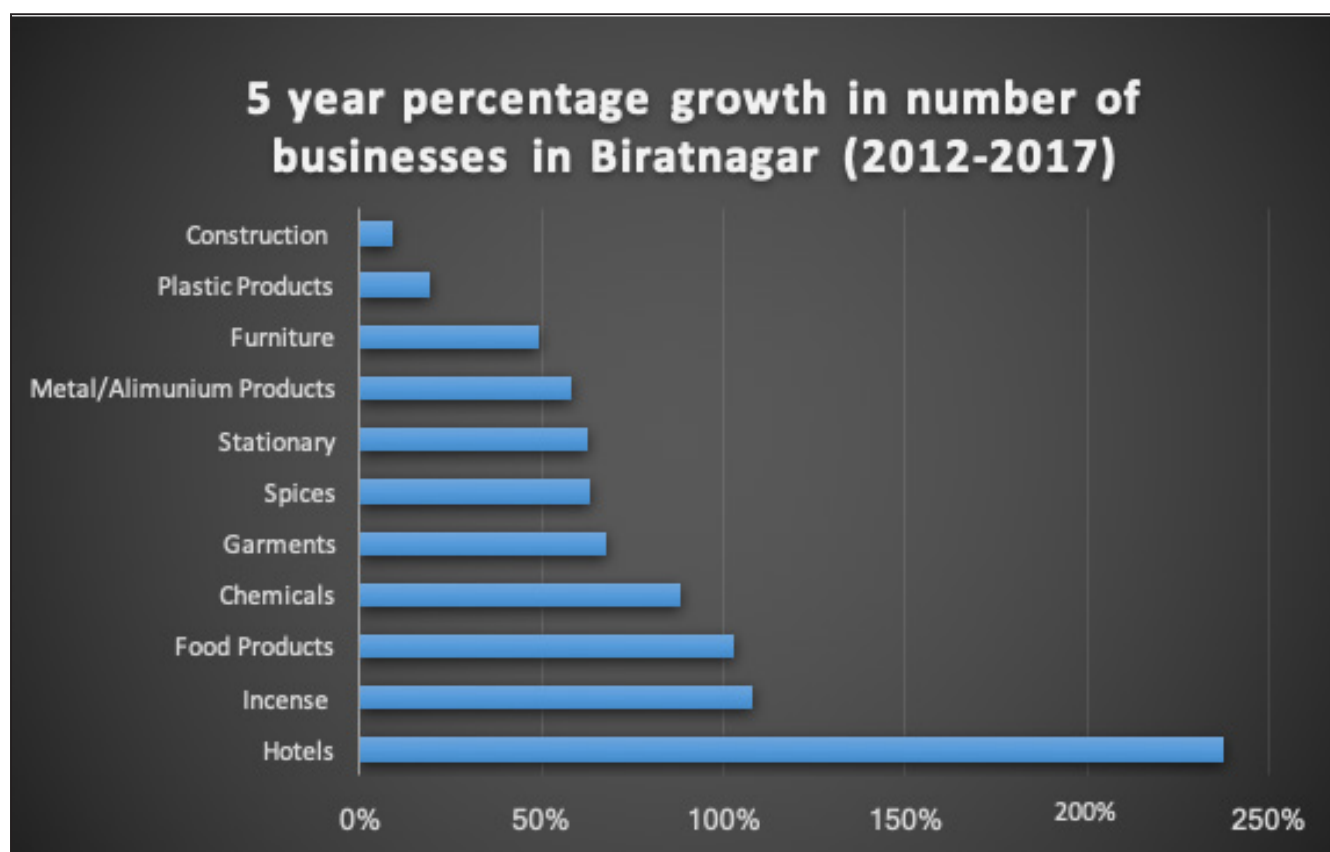
Source: Budget 2018/19 Biratnagar Metropolitan City

BMPC plans to use NPR 174.5 million (20.6%) for administrative expenses, NPR 150 million (17.7%) is stated to be used for social security benefits, NPR 449.2 million (53.1%) for physical infrastructure development and NPR 25.1 million (3%) for city sanitation and environmental management. Lastly, NPR 47.5 million (5.6%) is estimated for Social development and targeted community development programs. This accumulates to a total expenditure of NPR. 846.4 million.

7

HIGHEST GROWTH POTENTIAL INDUSTRIES IN BIRATNAGAR METROPOLITAN CITY

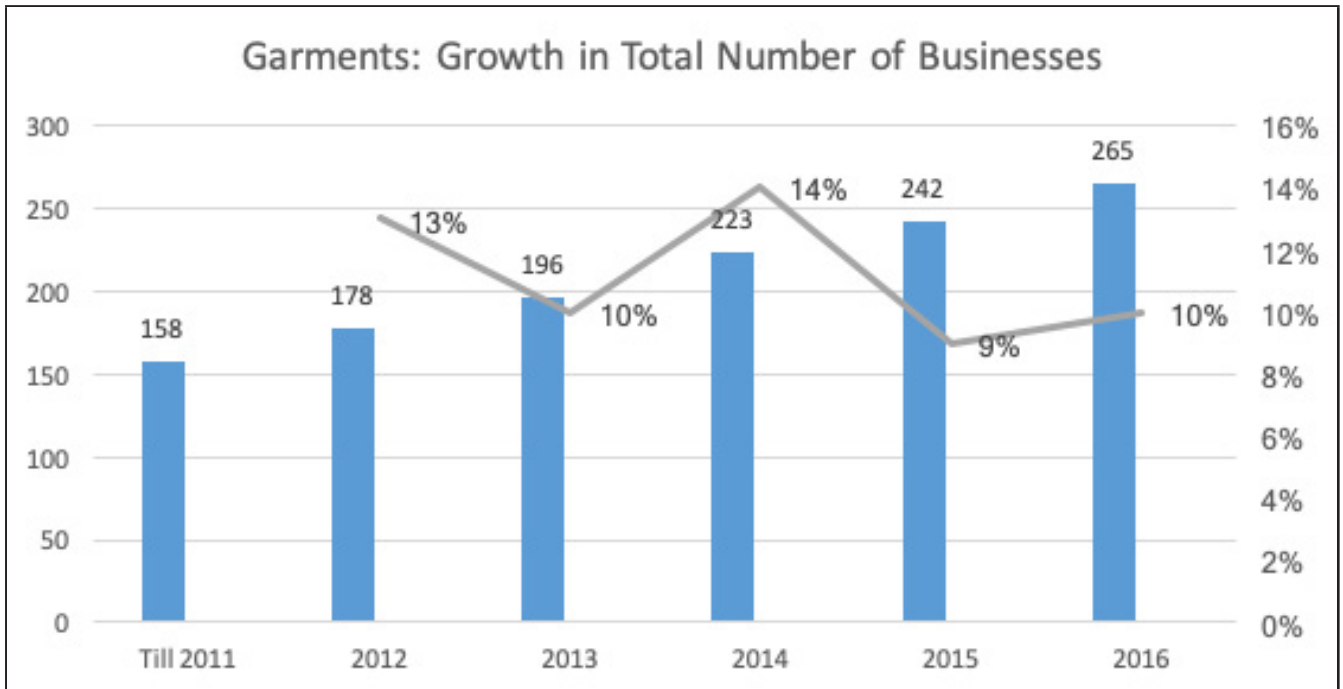
Primary research in Biratnagar showed that the retail industry is one of the fastest growing industries in the city. By conversations with local business owners and prominent influencers in the region as well as through first-hand observations of the massive size of markets, researchers gathered that within retail; food traders, readymade garments and electronics were the leading sectors in the city. Apart from the retail industry, following are the sectors that are growing in the region.



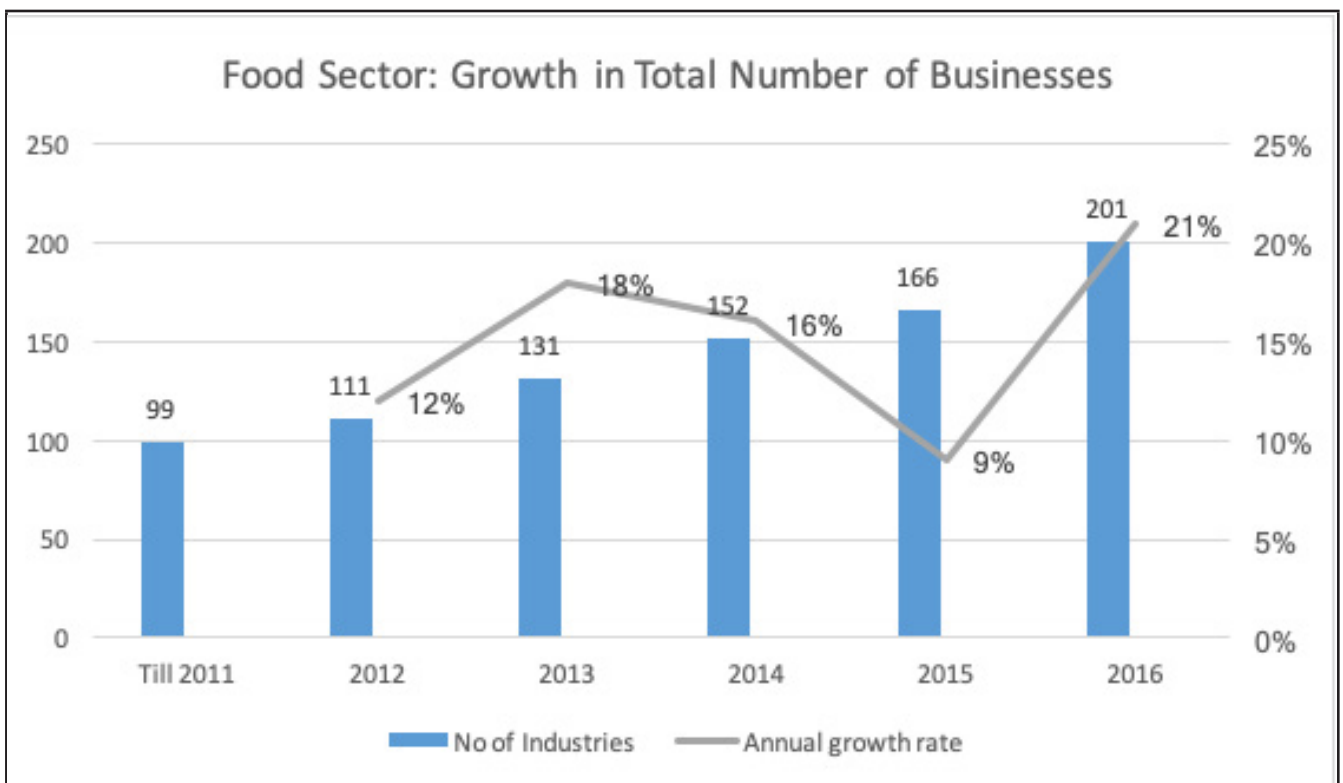
Data Source: Office of Cottage and Small Industries (OCSI), Morang

According to the Office of Cottage and Small Industries (OCSI), hotel industry showed the largest amount of growth (238%) in the past 5 years in Biratnagar. Incense (108%), Food Products (103%), Chemicals (88%), Garments (68%), Spices (64%) and Stationery (63%) were also areas that showed considerable growth over the same period.

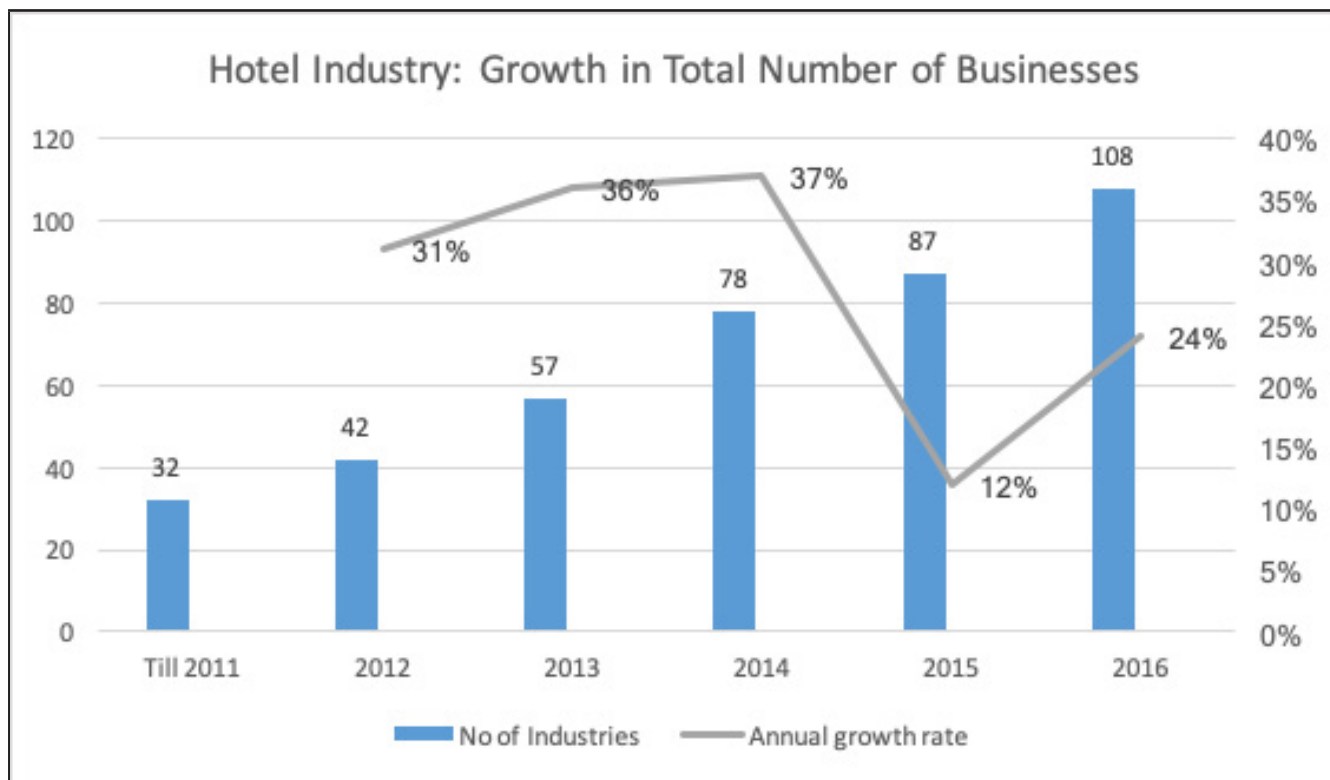
Moreover, other large industries in Biratnagar mostly fell under the manufacturing sector and included plastics, chemicals, steel/grill, mills, garments and furniture. Further, the tourism sector was another area that investors in the region seemed optimistic about and the hotel sector seemed to have grown considerably in the recent years. Below are data on some pertinent industries; the number of businesses registered and annual growth patterns over a 5 year period between 2012 and 2017.



Source: Office of Cottage and Small Industries (OCSI), Morang

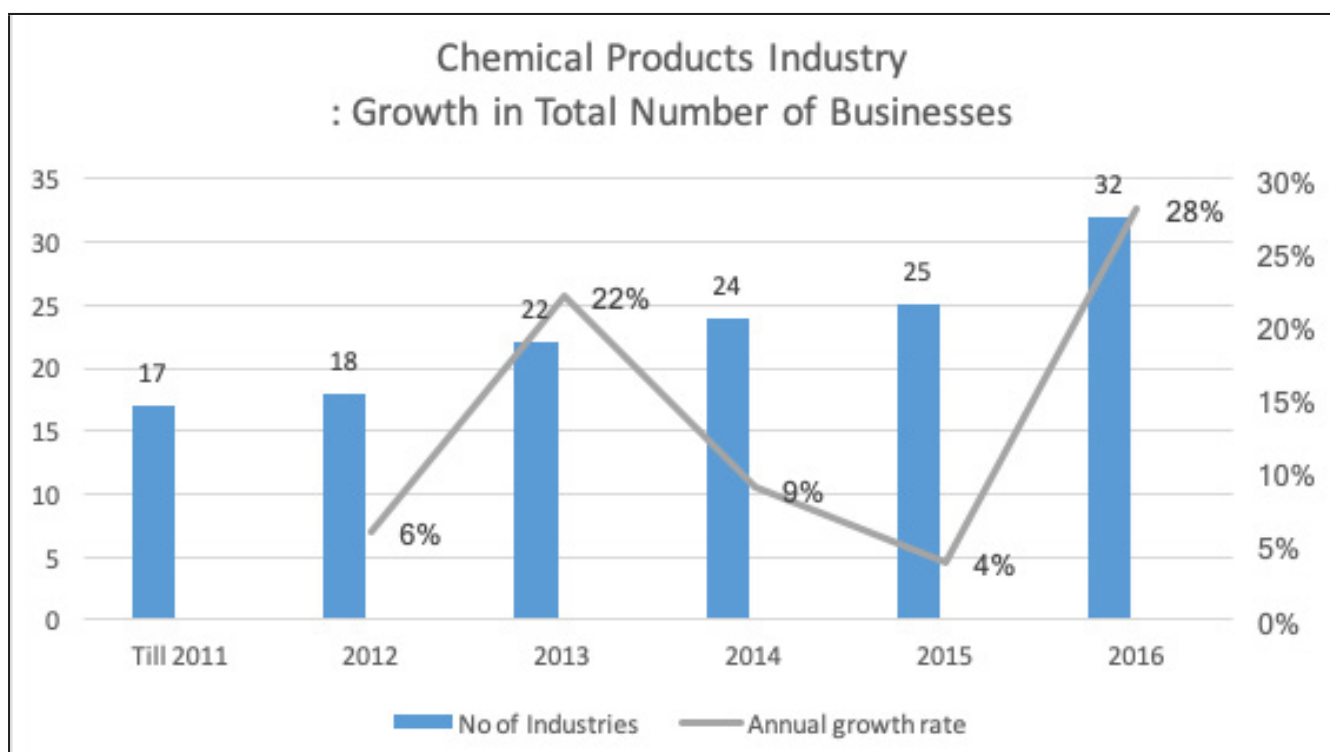


Source: Office of Cottage and Small Industries (OCSI), Morang

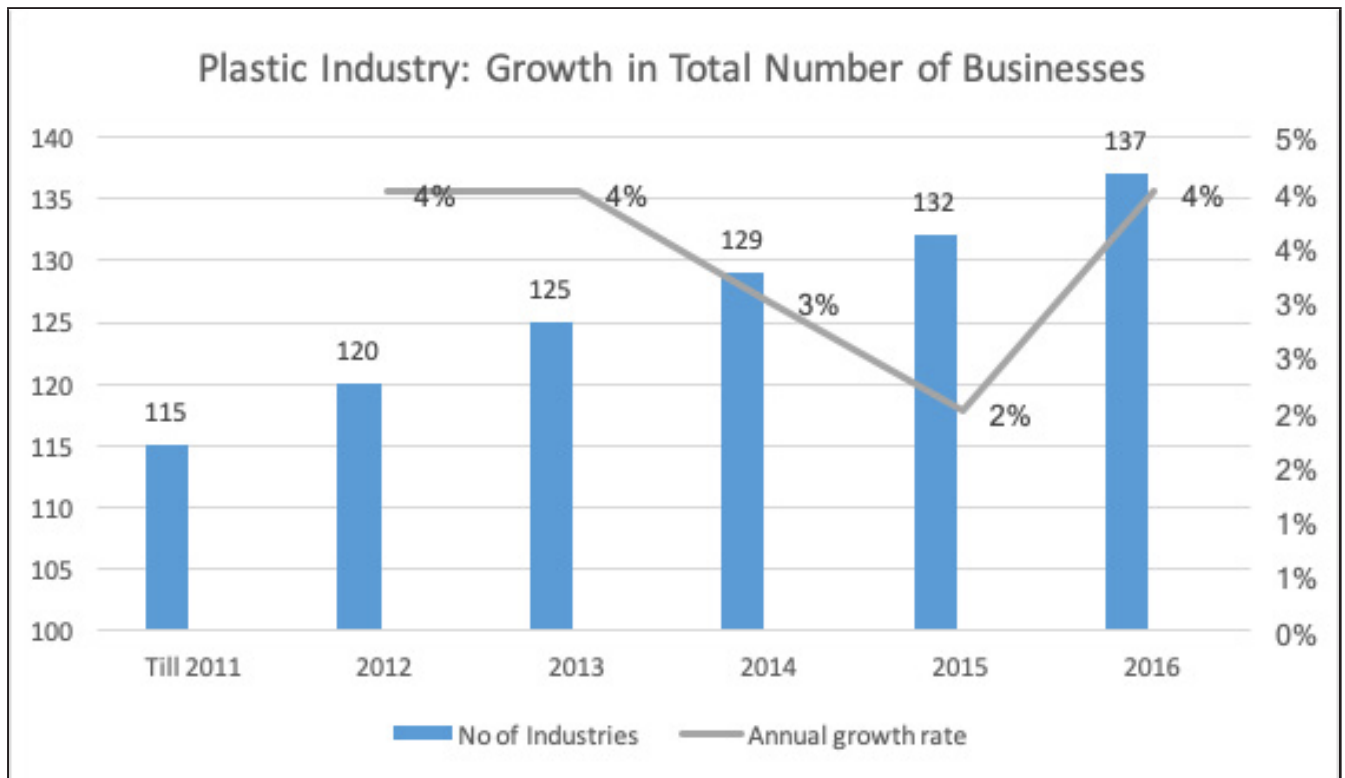


Source: Office of Cottage and Small Industries (OCSI), Morang

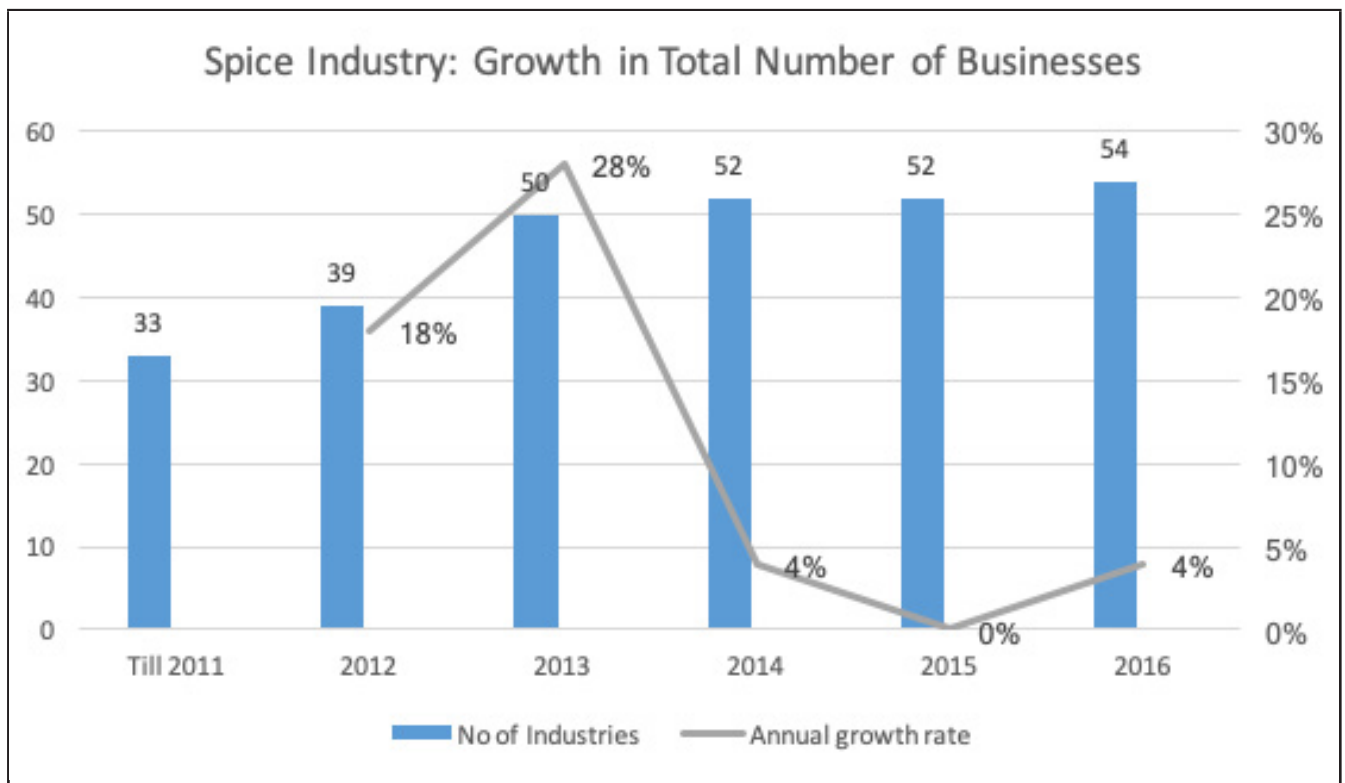
As mentioned above, the hotel industry saw the largest amount of growth in the number of businesses registered at an average annual growth rate of 28% over the studied 5 year period and a cumulative growth of 238% over the same period. We see a dip in the year 2016, but a recovered increase in 2017 again.



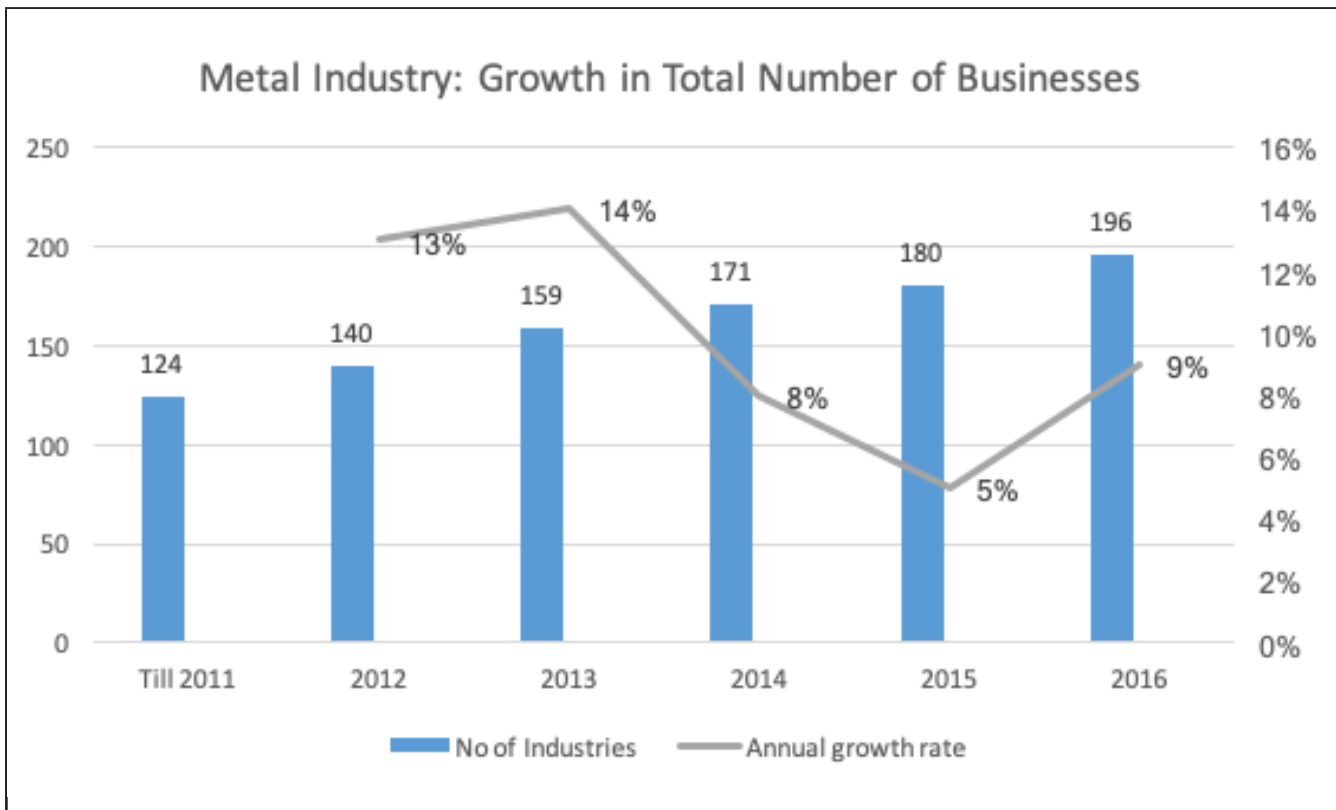
Source: Office of Cottage and Small Industries (OCSI), Morang



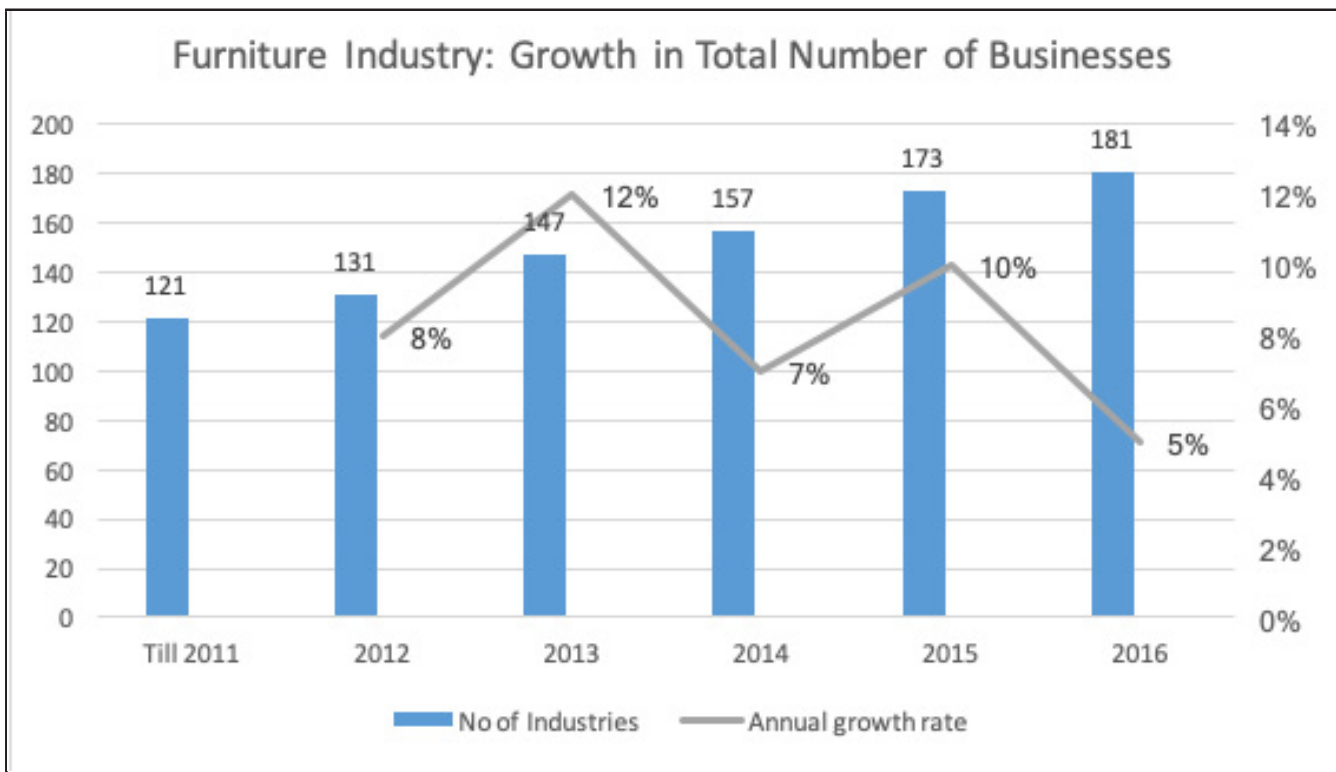
Source: Office of Cottage and Small Industries (OCSI), Morang



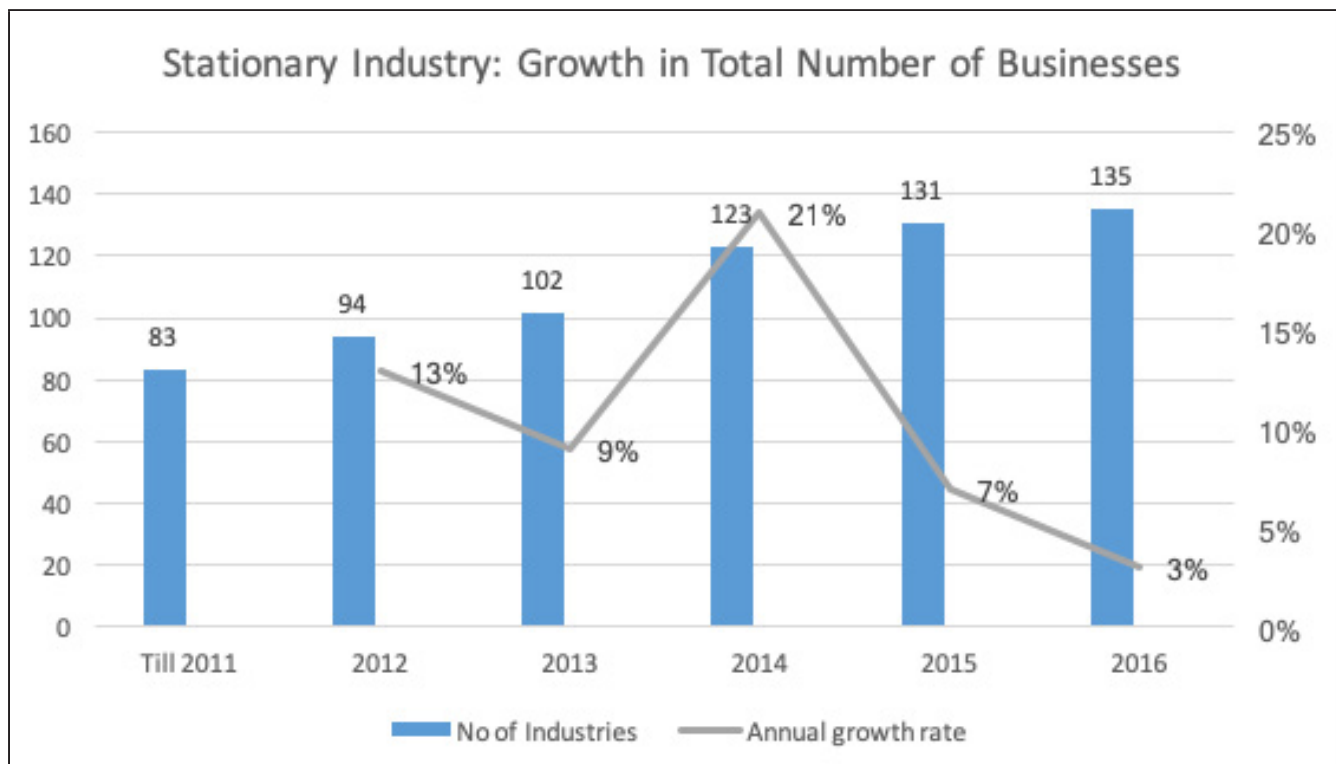
Source: Office of Cottage and Small Industries (OCSI), Morang



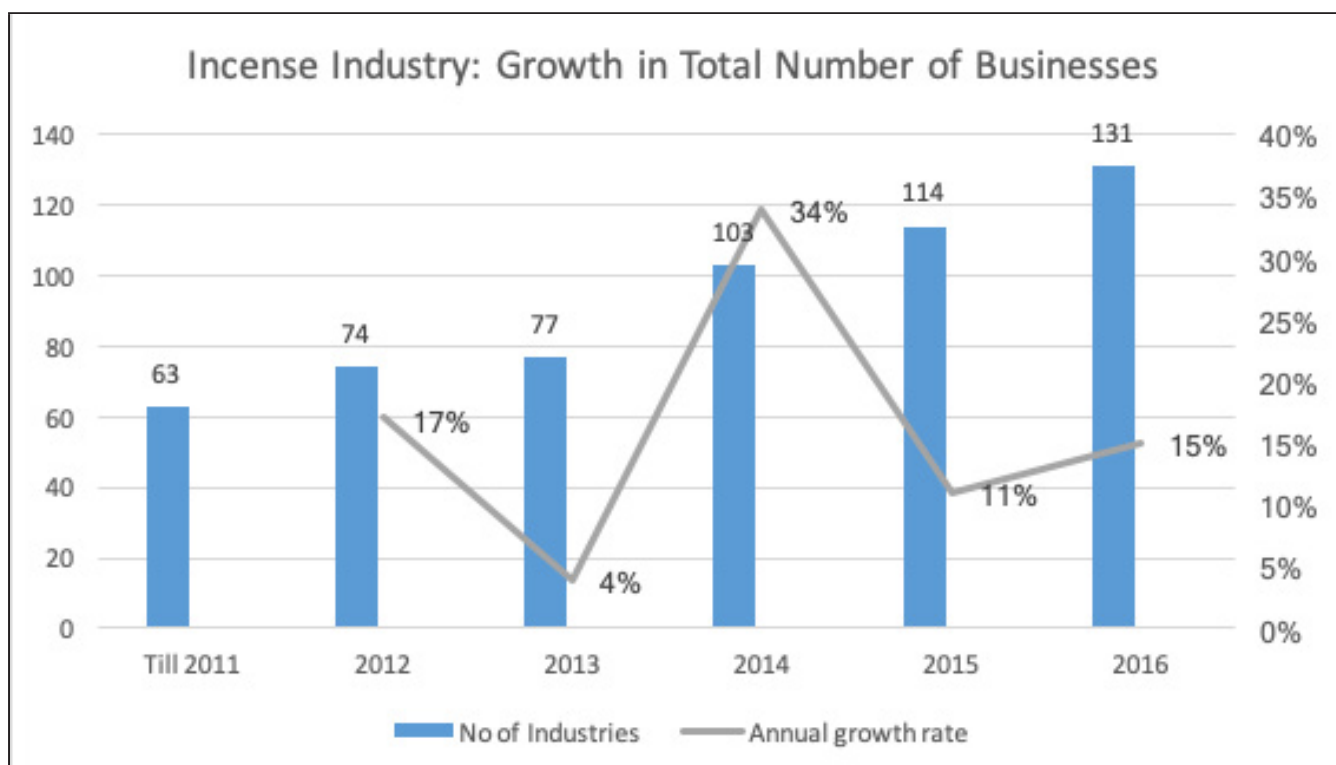
Source: Office of Cottage and Small Industries (OCSI), Morang



Source: Office of Cottage and Small Industries (OCSI), Morang



Source: Office of Cottage and Small Industries (OCSI), Morang



Source: Office of Cottage and Small Industries (OCSI), Morang

8

FURTHER OBSERVED SECTORS AND GROWTH POTENTIALS IN BIRATNAGAR

8.1 Hatiyas

Open-air weekly markets known as 'Hatiyas' have been prevalent in Biratnagar for ages. These are traditional markets which allow traders from across the cities and villages of a region to gather and trade at designated areas.

In Biratnagar, hatiyas have been a part of the local culture for ages, predating the cities themselves. They are the main source of livelihood to many people, as they are a popular means of self-employment and require minimal investment. These hatiyas provide the ease of free entry and exit from the market. They are also a source of cheap and fresh food for the locals. Towns and rural municipalities like Sombare, Mangalbare, Budhabare, Bihibare and Sanischare sprung up around these weekly markets and are named after the days when these places see hatiya, thus highlighting their social and cultural significance. These are organized in different manner across different regions in order to promote trade between rural people.

However, despite being a major and a growing business, these are also largely informal in nature. According to a research carried out by Biratnagar-based Bikalpa-an Alternative, the authorities are oblivious of the exact number of vendors in the city and have largely ignored them altogether; no clear policy framework exists regarding their regulation and management either. There are no designated zones or spots for vending despite the city having a strong street food and street market tradition. Most of the old areas of vending languish in disarray due to lack of maintenance. Due to their perception as an adverse and unwanted after-effect of insufficient economic development, they are paid very little attention by the authorities and are largely relegated to the shadow economy or informal economy.

8.2 City Rickshaw

City Rickshaws are three-wheeler eco-friendly vehicles that are used as major source of transport and para-transit in the Terai region of Nepal such as Biratnagar, Birgunj, Nepalgunj, Janakpur, Itahari, Birtamode, Dharan and Hetauda. It has become a means of livelihood for almost 2200 people and their family. Having said that, in Biratnagar they continue to be subjected to various regulatory barriers; in 2016 the local government of Biratnagar sub-metropolitan city imposed a restriction on the registration of new city rickshaws in the city in the garb of traffic congestion, effectively limiting the number of formal rickshaws to 300 when more than 1200 of them were already in operation. These figures of rickshaws in operation clearly suggest that this rule was imposed without any consultation with the stakeholders and overlooked the real scenario (Bikalpa- an alternative, 2017).

Until 2016, the local administration had not been able to devise a proper legal framework for the operation of these city rickshaws. Despite the Ministry of Physical Infrastructure and Transport (MoPIT) having categorized these vehicles under the light motor vehicle category,

they were not allowed to ply the streets like other vehicles (Bikalpa- an alternative, 2017). They were also forbidden to use the highway that bisects the city into two halves which rendered it problematic for them to operate on the roads (Personal Interview with the Inspector of Biratnagar Traffic Police, August 22, 2016).

Such arbitrary laws made it extremely difficult for drivers to operate their city-rickshaws. More importantly, due to the uncertainty brought about by the absence of a proper legal framework, various city rickshaw owners and entrepreneurs have formed city rickshaw unions affiliated to various political parties to protect their interests.

Even after all these years, there is still no change in the legal framework under which these city rickshaws can function and no changes have been seen in the management of these rickshaws. The status of city rickshaw's registration process keeps changing time and again. The rickshaw union that has been formed pressures the municipality to close the registration process so that they do not have to face any more competition from new entrants to the market.

9

CHALLENGES AND OPPORTUNITIES ACROSS INDUSTRIES IN BIRATNAGAR

Through extensive desk research, consultations with local entrepreneurs and regulators during field visits, researchers have been able to establish that businesses in Biratnagar face a number of similar problems that span across the identified growth industries. Our research and discussions have recognized the following challenges and opportunities as detailed below, which if addressed properly can deliver enormous benefits for local businesses. Since federalization has empowered local governments, the BMPC can work directly towards resolving some of these issues. Many issues will still require interventions at the state and federal level, and in cases as such, we recommend that the local government play the role of a liaison by presenting the problems faced by their local entrepreneurs to relevant state or federal agencies.

9.1 Scarce Land Resources and Related Problems

As aforementioned, scarce land resource is a pressing problem in Biratnagar which has led to extremely high land and rental prices. This makes the cost of establishing, operating and expanding businesses significantly high. The BMPC could create a task force to obtain rights to the 312 bighas of land in the Sunsari-Morang Corridor as soon as possible so it can be put to productive use by the creation of planned industrial estate. Instead of remaining in stand-still over the funding dearth, BMPC should actively come up with alternate solutions and present it to the Ministry of Industry, Commerce and Supplies. The task force should explore all possible options for rights which may include long-term renting or buying in installments.

Moreover, the BMPC could also map all public land under its jurisdiction and further identify those that are sizeable enough to be leased out to local businesses. Some identified land can also be used for the construction of leisure parks to promote local businesses that will be discussed further in the following points.

9.2 Electricity

Lack of consistent electricity supply was one of the challenges that was put forth by numerous entrepreneurs. The electricity problem faced by business owners in Biratnagar are of three folds:

- 1) Residents consistently face low voltage electricity. This is caused by overloaded grids. It is estimated that business owners on average have to pay thirty percent surplus charges for electricity consumption due to the voltage problems. BMPC should coordinate with the Nepal Electricity Authority (NEA) to develop sufficient and efficient distribution channels to tackle this problem.
- 2) Machines used by small local businesses like coffee shops require three phase electrical lines. However, these lines are very difficult to obtain which causes problems for business owners to operate required machines. Thus, BMPC should carry out a concerted effort with NEA to ensure easy availability of three phase lines.

- 3) Light outs are a common occurrence in Biratnagar during the windy season. This causes massive disruptions with significant financial implications to businesses. One of the leading reasons for the light outs is branches falling off and breaking distribution lines during wind. One inexpensive solution would be for the BMPC to work with NEA to identify areas that are prone to risk, and to trim trees in the identified areas before the windy season. Consultations revealed that such low-cost preparedness could reduce light outs in the city by 25%. This would in turn lower costs for business owners as it would not only minimize the use of diesel generators, but also reduce the loss of productive labor hours. Hiring a laborer in Biratnagar costs a minimum of NPR 50 per hour per laborer. This amounts to significant cost savings when we consider that the city employs thousands of such laborers at any point in time.

Therefore, BMPC should initiate collaborative efforts with the Nepal Electricity Authority as soon as possible to solve some of the pressing problems relating to electricity service in Biratnagar.

9.3 Lack of skilled labor

Lack of skilled labor was a problem that was voiced strongly throughout our consultations. Business owners conveyed that it was very difficult to hire and retain skilled workers. While some workers started their own ventures after gaining decent experience from the business, others migrated to foreign countries in search of better opportunities and higher incomes. The BMPC should thus implement its plan of studying the demand dynamics of required workforce as soon as possible. Subsequently, it should partner with the private sector to offer skill development trainings and introduce technical vocational schools that reflect the current need of employers.

Moreover, adopting some of the other suggested recommendations that save costs for employers might free up more funds that can be used towards hiring skilled laborers. Offering adequate wages within the city itself can reduce migration. This will be a win-win situation as business owners will not have to suffer from low productivity and additional transition costs brought by low employee retention rates.

9.4 Tourism

Although not intuitively evident, tourism presents ample opportunity in Biratnagar. This can be supported by the growing number of tourism-related businesses as we saw in the previous section. Currently, hotels in Biratnagar are wholly dependent on Meetings, Incentives, Conferencing and Exhibitions (MICE) tourism. Since these activities do not happen all year long, hotels frequently operate at zero occupancy when there is no activity at all. However, investors in the field see immense potential to be harnessed.

Unlike other cities in the country endowed with ample scenic resources, Biratnagar does not have significant touristic attractions to build itself as a final tourist destination. However, given its strategic geo-location, Biratnagar can easily develop itself as a transit route, and hold tourists at least for short periods of time. To do so BMPC could work with the private sector and adopt the following strategies:

- 1) Flights from Biratnagar to Lukla and Pokhara and vice versa could be introduced. Additionally, mountain flights could be introduced directly from Biratnagar. This can be an excellent way to attract tourists in the city, especially our eastern neighbors from India.
- 2) Biratnagar is the country's gateway to India, however the city still does not have an immigration office. An immigration office could be established in Jogbani which would create an additional flow of tourists in the city from neighboring cities in India.
- 3) Biratnagar could differentiate itself from its neighbors Uttar Pradesh (UP), Bihar and West Bengal. It could do so by creating a unique selling point (USP) via a vibrant night scene offered through disco theatres, casinos and big hotels. BMPC should ease permit requirements and regulations for establishing such services.

9.5 Access to Finance

Like entrepreneurs throughout the country, business owners in Biratnagar also have difficulty accessing finance. The problem stems from unpredictable changes in interest rates. This has soured the relationship between financial institutions and entrepreneurs. The BMPC should start a dialogue with financial institutions in the area as well as NRB to solve this problem. Additionally, BMPC should work towards updating land valuation at market rates on a regular basis. This will allow business owners to get a fair valuation on their land collateral and improve the likelihood to be approved for business loans. Furthermore, BMPC should work with financial institutions and local entrepreneurs to search for alternate forms of collateral.

9.6 Regulations

Burdensome regulation, like elsewhere in the nation, acts as a barrier to entry for businesses in Biratnagar. They also contribute to the bustling informal economy in the region like in the cases of Hatiyas and City rickshaws. One suggestion to tackle this problem brought up in our consultations, was to relinquish entrepreneurs from registering their small businesses for the first year of operation. While this might not be such a good idea as new businesses will then be excluded from any policy consideration, BMPC should work towards significantly reducing the burden of registration for such businesses. The government should ensure that there is competitiveness in the market and barriers to entry the market are reduced.

Moreover, BMPC should aim to adopt a one table policy for small businesses so they do not have to go to multiple offices for registration. This will reduce the need and instances for bureaucratic approvals which would save small entrepreneurs both time and costs.

9.7 Infrastructure

Road infrastructure in the BMPC stands to be a major challenge. While improving traffic management is already a difficult task, it is more so during rainy seasons when roads are flooded with waist-deep water levels which cause a lot of industries to lose their businesses due to the affected transportation of goods. Therefore, developing local roads should be a vital reform agenda. Maintenance of Singha Bridge – that handles a large amount of traffic - before

the monsoon season should also be a priority. Furthermore, converting the Main Road into a vehicle-free zone could be another option that the BMPC could explore. Lastly, since a major highway passes right through the city, the BMPC should invest on a bypass for heavy vehicles that would both reduce vehicular congestion and the city's pollution levels.

Moreover, constructing a leisure park with security arrangements including CCTVs and water facilities could help local businesses grow. Such areas would further promote the evening culture in the city and encourage economic activities in the process through various street food stalls and other services within the park periphery.

Additionally, the city should build an exhibition hall that would allow industries to showcase and efficiently market their products.

Better lighting infrastructure in major areas of the city would also improve mobility in the late evenings and nights.

Finally, creating a cricket turf in the middle of the existing football ground would help free up space for the cricket ground that is located far away from the heart of the city. This will increase seasonal profits from the same field yet not affect the football ground in any shape, way or form. BMPC should make efforts to bring the Hatiyas into the formal economy, this will make street vendors legitimate, give them stability to do their business, minimizing the uncertainty. This will increase the tax base for the BMPC and help in the management of the existing Hatiyas. Doing this would be a win-win situation to all the stakeholders involved.

9.8 EXIM Codes

Numerous entrepreneurs have complained that the Export Import (EXIM) codes only favor large businesses and are threatening to kill smaller ones by introducing burdensome capital requirements. EXIM codes were introduced on International Customs Day on January 26, 2017. Initially, traders with imports of each consignment over NPR 25,000 had to mandatorily get an EXIM code. This required a paid up-capital of NPR two million and bank guarantee of NPR 1 million (The Himalayan Times, 2017). The paid-up capital requirement has since been reduced first to one million and then to NPR 300,000 (The New Business Age, 2017).

However, small and medium traders still believe that this will hamper their businesses. Small importers can now no longer import as freely as before. They will either have to freeze the already limited capital they have, to keep their EXIM code valid or they will have to get the help of middle men or large importers to get their consignments through them. This increases transaction costs for these small traders.

Small traders believe that the burdensome paid up capital and bank guarantee requirements only serve large traders who have no difficulty fulfilling the requirements. This will disproportionately hit smaller traders and might also force them to go out of business. That being said, properly implemented EXIM codes can have benefits in regulation, monitoring and standardization of customs documentation (The Himalayan Times, 2018). Therefore, it is very important that The Department of Customs properly analyze what the optimal thresholds would be for minimum

consignment amount, paid-up capital and bank guarantees, to get maximum benefits of introducing EXIM codes without marginalizing importers of certain sizes. This can only be done through thoughtful consultations with relevant stakeholders that represent the interest of all sizes of traders. The BMPC can play a critical role of facilitation between local traders and relevant state and federal agencies.

9.9 Reference Prices

The reference price list maintained by the government does not reflect accurate prices. Local importers that were consulted during the research complained that the prices listed for goods at the customs office were higher than the actual prices they paid when they bought their goods. This means that traders are forced to unfairly pay higher taxes on the goods with actual values less than the reference prices.

Reference prices exist to guard against fraudulent invoices and subsequent tax evasions. It is however critical, that they do not unjustly put traders at a disadvantage. Therefore, it is imperative that the reference lists are updated regularly to reflect actual market prices instead of inflated prices which harm business owners.

10

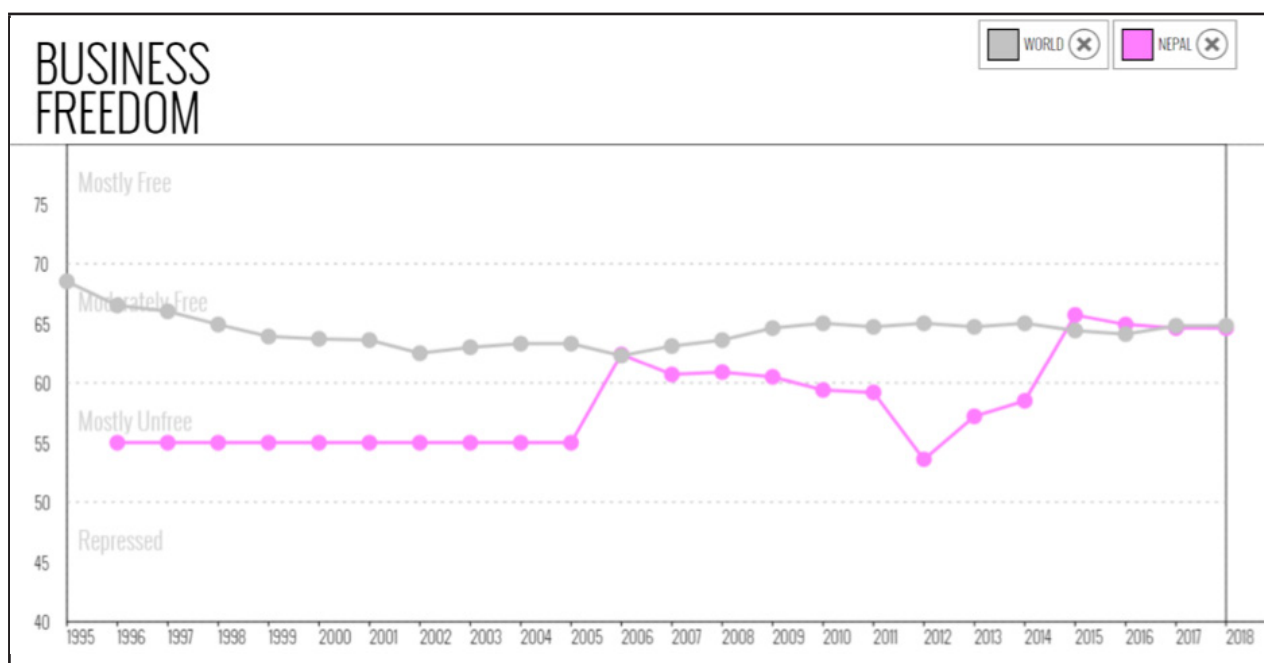
GOVERNMENTAL ORGANIZATION TASK
MAPPING TO RESOLVE THE EXISTING ISSUES

Problems	Tier of Government responsible
Land	State and Local government
Electricity	Federal, State and Local government
Lack of skilled labor	Federal, State and Local government
Tourism	Federal and State government
Regulations	Federal, State and Local government
Access to finance	Federal government
Land	Federal and State government
Regulations	Federal, State and Local government
Reference Prices	Federal government
Exim Codes	Federal government

11

COMMON BUSINESS PROBLEMS IN THE COUNTRY AND LESSONS FROM THE WORLD

11.1 Economic Freedom



Source: Index of Economic Freedom 2017, Heritage Foundation

Heritage Foundation's Index of Economic Freedom, 2017 ranks Nepal 127 out of 180 countries. Even though the graph might show that Nepal fares on par with the World average on Business Freedom, it cannot be complacent. In fact both the world average and Nepal are only moderately free, with Nepal more recently on a declining trend since 2015. More business freedom means less regulatory hurdles and lesser avenues for disruption. For example, the more signatures entrepreneurs require to get an approval, higher their odds are for processes to get delayed due to unavailability of certain officers or being victim of rent seeking behavior.

World Bank's Ease of Doing Business ranks Nepal at the 105th position out of 190 countries. It currently takes 17 days just to register a company. This is without accounting for the time taken to acquire various licenses and permits from different agencies before even being eligible to start a business in Nepal. Furthermore, Fraser Institute's Economic Freedom of the World, 2015 report ranked Nepal 107 out of a total 159 economies. The same report gave Nepal a score of 4.9 out of 10 in terms of Bureaucratic Costs. Our poor performance in the ranking is justified when considering ground realities in BMPC.

Aspiring entrepreneurs need to make numerous rounds to the government agencies as well as comply with the redundant processes just to register their business. Some of these agencies (like the Office of Company Registrar, Department of Industries) are still centralized and one has to

travel all the way to the capital city of Kathmandu to get works done through them. Additionally, entrepreneurs still need to register at both the Office of Cottage and Small Industries (OCSI) and the municipal office. Now that OCSI has come under the Municipality, the need to register at both places should not exist anymore. Unnecessary visits to multiple offices robs aspiring entrepreneurs of the time they could have spent in actually building their businesses.

Sakala – Citizen Centric Service Delivery

Sakala is a project for public service delivery reform undertaken by the provincial Government of Karnataka (GoK) in India. To solve the issue of public services being delivered on time, GoK came up with The Karnataka Guarantee of Services Act, 2011 to provide guarantee of services to citizens in the State of Karnataka within the stipulated time limit as mentioned in the schedule for service delivery which is known as the Karnataka Guarantee of Services to Citizens 28. Whenever the request for the service is made, the applicant receives a receipt and an acknowledgement slip with Sakala number which helps the applicant in monitoring the status of his or her application through the online portal or through SMS. If there is a delay or default in delivering any of the services or rejection of the service, the citizen may file an appeal to the competent officer within the specified time limit with the Sakala number received at the time of application submission. The competent officer will hear the appeal and redress their grievances within the specified time. Citizen can claim the compensatory cost from the designated officer who fails to deliver the service within the stipulated time. The designated officer will be liable to pay the compensatory cost to the citizen.

So far, over 30 million services have been delivered with a 98% adherence to the stipulated time as part of the Sakala initiative. Some very interesting facts were highlighted during an internal analysis on Sakala data in 2013. Out of the 265 services in the Sakala ambit, 193 services were delivered ahead of time, 5 services were delivered beyond stipulated time (delayed) and 5 services were delivered exactly on time. This saved a lot of time that now people could invest in other productive activities. People were saved from the hassle of making multiple rounds to the government office.

Key Learning

- Accountability of the government officials can be increased by introduction of fixed Service Level Agreement (SLA) or a citizen charter to provide the service and introduction of a robust grievance management system.
- Accountability of the government officials was also increased by bottom up planning of the performance agreements
- Another key success factor of the initiative is the periodic quality checks and the periodic data analytics report released by the Government of India. Continuous monitoring and quality checks over the implementation model eventually leads to increased adherence to the required SLAs²

11.2 Procedural hassles

Fraser Institute's Economic Freedom of the World, 2015 report scores Nepal a mere 3.5 out of 10 on administrative requirement and 2.8 out of 10 on extra payments. A World Bank study shows that Nepal is the most expensive place in South Asia to register a business where the cost of starting a business is 25% of the per capita income. This is just the direct seen cost. It is no secret that under the table payments are a common occurrence, and so a disgracefully low ranking of 131 out of 176 in Transparency International's 2017 Corruption Perception Index should come as no surprise. All of these procedural hassles not only drain resources that could be invested in the business itself, but also stand to create frustration amongst enterprising individuals who may be discouraged from taking the plunge into starting their businesses in the region or the country.

Deregulating businesses in Georgia

In order to spur economic activity and business start-ups in Georgia, it was imperative for the government to focus on reducing the corruption in the system which involved complex procedures and framework for conducting business in the country. As part of its reform agenda, the government deregulated the business framework in Georgia including steps to reduce regulations and elimination of agencies and stakeholders which were serving no purpose or were unable to implement their mission because of capacity constraints. The objectives of the reforms program included the creation of one-stop shops, reduction in processing time, reduction in the number of inspections and improving the overall business environment.

Key Benefits and Impact

- Need for obtaining licenses and permits has significantly reduced. Almost 95 percent of businesses do not require any kind of permit or license
- Ordinary citizens do not have to interact with officials for obtaining license or permit which reduces incidence of corruption. This need has been minimized or reduced to very select events such as building a house which are very infrequent events and in a number of cases can be considered as once-in-a-lifetime event
- Reduction in processing timelines with increased transparency as interaction with officials over licenses and permits is limited, and all interactions are recorded electronically and citizen can track the process online

11.3 Paying Taxes

The Ease of Doing Business Ranks Nepal 146th out of 190 nations in paying taxes and the Economic Freedom of the World, 2015 report gives Nepal a score of 6.2 out of 10 on tax compliance. The time spent on paying taxes is a whopping 339 hours annually. That is time a business could have spent on actually doing business and creating wealth.

Furthermore, businesses even suffer from double taxation. Since businesses are registered at both OCSI and the Municipality, they need to pay taxes - business tax at Municipality and renewal fee at the OCSI - at both places. Both these institutions represent the same local government; thus, many entrepreneurs look at this as a case of double taxation.

Box case 1: Tax Administration Reform in Georgia

Georgia, a small country situated in Eurasia, strengthened tax collection by simplifying redundant procedures and reforming the administration procedure. The government understood the importance of tax administration reforms for increasing the revenues and a modern simplified tax system was envisaged which was conducive to business development and economic growth. The credibility was established through strict action against the identified corrupt officials which sent a positive message across the various categories of stakeholders. Inputs from sought from global multi-donor agencies involved with government reforms which helped in the development of the modern tax framework along with adoption of technology solutions to improve efficiency, transparency and accountability within the system.

A five-pronged approach was adopted by the government which focused on altering the mindset, changing staff incentives, broadening the tax base, simplifying the tax legislation, and streamlining tax administration. The new tax code in 2005 simplified the tax system which brought about the following changes:

- Reduced tax rates
- Elimination of a number of taxes such property transfer, gambling, tourism, advertisement, and other minor local taxes, which had been bringing in almost no revenue
- Usage of electronic cash registers which recorded the VAT for every transaction was mandated for the commercial establishments

Along with simplifying the tax code, the government undertook measures to make it easy to file and pay taxes as the next step to improve the business environment and reduce corruption. In November 2009, the ministry unofficially stopped accepting hard copies of the tax declarations and introduced the electronic tax registration system. This was complemented by the following steps:

- Simplification of the documentation requirements for VAT payments
- Streamlining of the tax payments through the banks which helped in faster payments and accurate reconciliation with the revenue service database; allowed the taxpayers to access their respective account details online
- Introduction of risk-based management of tax audits

Key Benefits and Impact

The tax administration reforms undertaken by the Government of Georgia has resulted in a number of positive outcomes and benefits including:

- Increased tax compliance thereby higher tax revenue
- Reduction in corruption
- Growth of business start-ups

11.4 Environmental standards

When industries open in certain areas and create new employment opportunities, new settlements form around them. However, the same settlements are then affected by the noise, smell and waste produced by these industries. As a result, residents of these neighborhoods file a complaint at the local government and the investors are asked to shift their business elsewhere. This has been a nightmare for businesses. Therefore, recognition of industrial estates that provide basic securities to businesses should be considered, to protect industries from such problems.

12 LEGAL MANDATE FOR BMPC

The enactment of the Constitution of 2015 paved way for the federal organization of government design in Nepal from an erstwhile model of a unitary system. This not only affected the administrative divisions in the country but also introduced a separated jurisdictional control of territories with sub-regional entities. Sub regional entities existed in the previous unitary format in the form of development regions or administrative zones and village development committees or cities at two separate hierarchies. However, both these entities did not have a constitutional entrenchment and were subject to devolved power by the central government. In the current format, all previous government structures have been reorganized to give rise to seven states and seven hundred and fifty-three local bodies. While the states gain their legitimacy from the constitution itself via Schedule 4, the number and size of local bodies was set forth by the Local Body Restructuring Commission formed by the transition government.

Local Bodies derive their constitutional legitimacy in terms of structure, power and responsibilities through Parts 4, 17, 18, 19 and 20 of the Constitution of Nepal. These detail out the structure of the Nepali State, legislative procedure, executive control, fiscal structure and the terms of intergovernmental relations between the three orders of government, respectively. Part 4 clearly marks the local bodies as a constitutional government with a defined mandate and powers detailed in Schedules 8 and 9 while the process and functioning procedures are outlined in the chapters 17-19. Further dissemination is also outlined in the cabinet Unbundling report published by the Ministry of Federal Affairs and General Administration (MOFALD).

Apart from the Constitution itself, the Local Governance Act of 2017 passed by the transition government in power also sheds light on the structure, type and form of local governments. A first categorization is between generic rural and urban centers wherein rural local bodies are referred to as village municipalities (460) whereas the urban local bodies are referred to as municipalities (293). The urban municipalities are further categorized as metropolitan cities (6), sub-metropolitan cities (11) and municipalities (276). The distinct features of the same are found in the same act. Furthermore, based on the geographical terrain these bodies lie on; given Nepal is divided in separate geographical zones, local bodies are also categorized on the basis of the region they lie in: Himal (mountains), Pahad (hills), Bhitari Madesh (Inner plains) and Madesh (plains). Thus, considerations and criteria of population and area differ while categorizing municipalities accommodating these terrain differences.

Lastly, the Intergovernmental Fiscal Arrangements Act of 2017 also allocates a 15% share of revenues from the common government tax coffer to local governments and another 25% share from the royalty procured through natural resources. However, this could change given the pending report of the Fiscal Commission that is yet to finalize these details.

13 OBSERVATIONS OF THE RESEARCHERS

This exercise of identifying the highest-potential carrying growth sectors in BMPC and conducting targeted engagements with stakeholders – the regulators, the business operators and local government representatives has definitely helped identify some of the local challenges, resolving which can unlock the city's vast economic potentials. The targeted engagements have also helped researchers identify some of the potential way-forwards that can be worked upon. In this exercise, researchers have identified links between these potential way-forwards and the newly-elected local government's mandate to work upon those solutions. Under ideal circumstances, an elected leader could pick these issues up, one (or a few) at a time, design dedicated and well-thought-out intervention plans, and implement these solutions towards unlocking the city's potentials and harnessing the rich dividends the city stands to offer. Yet, there are multiple other factors that could likely affect whether or not these fall under the priority economic agendas of the local government(s), and whether or not they will be implemented.

- a) To begin with, there is lack of a clear legal framework for the enforcement of some of the powers of the local government over these areas. While Schedule 8 of the Constitution of Nepal, 2015 guarantees that the growth sectors identified by the study fall under the prerogative of the local governments and Local Government Operation Act, 2017 further elaborates on the local government's specific powers over these industries, clear directives and guidelines that enable the local governments to employ their powers towards improving business-environment at the sub-national level are missing.
- b) Secondly, there is lack of clarity over specific roles of the three governments—Federal, State and Local—over in relation to these industries. For example, Schedule 5 (List of Federal Power), Schedule 6 (List of State Power), Schedule 8 (List of Local Level Power) and Schedule 9 (List of Concurrent Powers of Federation, State and Local Level) all mention 'tourism fee' (except Schedule 6) as a prerogative of the respective governments. Schedule 6, furthermore, mentions only 'tourism.' Many problems could arise from these texts:
 - Is there any difference between the nature of tourism fees that these governments are allowed to charge, or are they the same?
 - What is the definition of tourism fee?
 - Who defines this?
 - Who collects these tourism fees, and how is the revenue distributed?
 - What guarantee is there that while one of the governments goes about enforcing this power, the other governments do not charge it of stepping on others' toe?

Overall, the way certain provisions have been laid out in the Constitution could potentially lead to a lot of interpretational challenges, which will surely have a bearing on the employment of these powers by the different governments.

- c) The fact that the local government machinery had been non-existent for almost two decades and that All-Party Mechanisms (APMs) had assumed the functions of the local governments means

that now, on one hand, the new local governments need to build their capacities and strengths again for efficiently delivering their functions, and on the other hand (and presumably more importantly) strike a balance with the political beneficiaries of the APMs. A successful transition towards elected local governments also implies for these beneficiaries that some of the economic rents that the APM members had exclusive access to will be cut off.

- d) As evidenced by many of the engagements with local stakeholders, there are immense expectations from the local governments. But citizens also understand that the newly elected officials are not necessarily experts in many of the areas where the municipality is struggling. Furthermore, as new structures are being built at local level (for example bringing in the Office of Cottage and Small Industry (OCSI) under the Municipality as Industrial Development Section), there is room for potential mismatch between the interests and capacities of these formerly central government's functional units at district levels. This means that the local governments will have to leverage on as much of the local knowledge and expertise as it can borrow from the local sectoral experts and other relevant stakeholders.
- e) There are conflicting interests between some of the important actors within the growth sectors as well, mitigating which will be one of the top priorities for the current local government (and governments to come) before the municipality can harness more from its potentials.

13.1 Required Action

These observations point to the situation that many of the recommendations for reform (including those identified by this very study, and beyond) will face varying degrees of resistance from various stakeholders. As such, a practical way forward would be to form a team of local experts and relevant stakeholders who will engage in deliberations over what should be the priority reform agendas for BMPC going forward. Many of the issues identified by this very study and others will lend important insight to these deliberations. Researchers have, in this study, identified a bank of reform agendas that can be picked up.

Deliberations over these issues will ensure that there is ownership of all local stakeholders towards these ideas. It can be expected that these deliberations will add some local contexts to some of the potential solutions identified here and create local solutions to local problems.

One of the most important activities during this process would be identifying stakeholders related to the picked reform issues and mapping their interests—Political Economic Analysis of the reform agenda. What does Biratnagar stand to gain as a result of the reform and where all does it have to make adjustments to enable those gains? Who are the key actors involved? What do they stand to gain/loss? How does Biratnagar create win-wins for all stakeholders that will be affected by the reform? These are some of the questions that the PEAs should look to find answers to.

14

POLICY OPTIONS FOR CREATING A CONDUCTIVE ENVIRONMENT FOR GROWTH IN BIRATNAGAR

- 1) The BMPC could create a task force to obtain rights to the 312 bighas of land in the Sunsari-Morang Corridor as soon as possible so it can be put to productive use by the creation of industrial estates. Instead of remaining in stand-still over the funding dearth, BMPC could actively come up with alternate solutions and present it to the Ministry of Industry, Commerce and Supplies. The task force should explore all possible options for rights which may include long-term renting or buying in installments.
- 2) BMPC should also map all public land under its jurisdiction and further identify those that are sizeable enough to be leased out to local businesses.
- 3) BMPC should initiate collaborative efforts with the Nepal Electricity Authority as soon as possible to solve some of the pressing problems relating to electricity service in Biratnagar. BMPC should coordinate with the Nepal Electricity Authority (NEA) to:
 - develop efficient distribution lines to reduce low voltage problem
 - ensure easy availability of three phase lines for small businesses to operate required appliances
 - Identify areas that are risk-prone and trim trees in those areas before the windy season to reduce power cuts and subsequently reduce costs from operating generators and loss of productive labor hours.
- 4) BMPC should implement its plan of studying the demand dynamics of required workforce as soon as possible. It should also partner with the private sector to offer skill development trainings and introduce technical vocational schools that reflect the current need of employers.
- 5) To develop itself as a transit route and promote tourism in Biratnagar, BMPC should work with the private sector and adopt the following strategies:
 - Introduce flights from Biratnagar to Lukla and Pokhara and vice versa. Additionally, introduce mountain flights directly from Biratnagar.
 - Establish an immigration office in Jogbani to create an additional flow of tourists in the city.
 - Differentiate itself from its neighbors Uttar Pradesh (UP), Bihar and West Bengal via a vibrant night scene offered through disco theatres, casinos and big hotels. BMPC should thus ease permit requirements and regulations for establishing such services.
- 6) The BMPC should start a dialogue with financial institutions in the area as well as NRB to solve problems of fluctuating high interest rates. It should also work towards updating land valuation at market rates on a regular basis to allow fair collateral valuation for entrepreneurs seeking loans. Furthermore, BMPC should work with financial institutions and local entrepreneurs to search for alternate forms of collateral.

- 7) BMPC should aim to adopt a one table policy for small businesses so they do not have to go to multiple offices for registration.
- 8) BMPC should invest in infrastructure in the following ways:
- Developing local roads that can withstand monsoon rains
 - Maintaining the Singha Bridge which currently handles large amounts of traffic
 - Investing in a bypass for heavy vehicles to reduce vehicular congestion and pollution levels resulting from the major highway that passes through the city
 - Constructing new leisure parks with security arrangements including CCTVs to encourage an evening culture in the city which could then promote the rise of local businesses in the park periphery
 - Building an exhibition hall to allow industries to showcase and efficiently market their products
 - Improving lighting infrastructure in major areas of the city to facilitate mobility in the late hours
 - Installing a cricket turf in the middle of the existing football ground to help extend the seasonal businesses around the ground
- 9) BMPC can play a critical role of facilitation between local traders and relevant state and federal agencies. The Department of Customs needs to properly analyze optimal thresholds for minimum consignment amount, paid-up capital and bank guarantees, to get maximum benefits of introducing EXIM codes without marginalizing importers of certain sizes. This can only be done through thoughtful consultations with relevant stakeholders that represent the interest of all sizes of traders.
- 10) Reference lists should be updated regularly to reflect actual market prices instead of inflated prices which harm business owners.
- 11) The need for sweeping reforms to accommodate the *hatiya-wallahs* in the mainstream is needed so that they can be brought into the formal tax bracket, which will legalize them and also safeguard their economic right. This would also save them from harassment of authorities claiming them to be illegal. To manage the traffic and also for waste management, a proper area should be designated to the vendors as it is the only means of livelihood to many people.
- 12) The BMPC should not create regulatory barriers for entry of city rickshaws but should rather focus on its proper management and promotion. This will help the BMPC to enhance its Green City initiative and can help them achieve the Sustainable Development Goal (SDGs). City rickshaws are currently a means of livelihood for over 2000 individuals in Biratnagar and of around 50,000 people across Nepal (Bikalpa- an alternative, 2017). Allowing only a fixed number of rickshaws will encourage the existing players to collude and form a cartel which will distort the dynamics of the market. Therefore, the quantity control should be relaxed if well-being of the citizens of Biratnagar is to be secured

15 CONCLUSION

With the advent of federalism, the Mayor and the Municipal team have the perfect opportunity to reclaim Biratnagar's former title as the industrial capital of the nation. Our research has shown considerable promise in the sectors of tourism, transportation, markets, retail and manufacturing especially in plastics, garments, steel, mills, chemical and furniture. Through the study, we have identified numerous common areas of challenges including but not limited to lack of skilled labor, access to finance, land resources, proper infrastructure and public service delivery such as electricity that hamper the business environment for local entrepreneurs. Moreover, issues such as EXIM code thresholds that disproportionately pose disadvantages to small and medium businesses and faulty reference lists are also hindrances to conducive economic activity. A wide-range of recommendations have been proposed in the section above to help the municipal team deal with the challenges and leverage areas of opportunity. Formation of task forces to address the recognized problems and recommendations by seeking the advice and help of sectoral experts has been recognized as an effective way to spearhead the reform process. It is crucial that the Mayor and the Biratnagar Municipal team take advantage of their recent victory, and collectively work with concerned stakeholders to return the city to great heights of economic growth.

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Annex I: Stakeholders consulted during Biratnagar field visit

S.N.	Name	Position/Organisation
1.	Mr Raju Chandra Dahal	
2.	Mr Kumar Dahal	Executive chief, Biratnagar Metropolitan City
3.	Mr Mani Nath	Acting Labour Officer, Labour Office
4.	Mr Bhim Parajuli	Mayor, Biratnagar Metropolitan City
5.	Mr Pradip Kumar Niraula	Chief Administrative Officer, Biratnagar Metropolitan City
6.	Mr Rajendra Pradhan	General Administrative Officer, Biratnagar Metropolitan City
7.	Mr Nandikishore Bhandari	Information Officer, Biratnagar Metropolitan City
8.	Mr Arjun Thapalia	Revenue Officer, Biratnagar Metropolitan City
9.	Mr Narendra Humagain	President, Chamber of Industries, Morang
10.	Mr Jay Kamal Agrawal	
11.	Mr Mukesh Bhattarai	
12.	Mr Shaligram Koirala	Nayab Subba, Labour Officer
13.	Mr Raju Chandra Dahal	Executive Secretary, Morang Merchants' Association
14.	Mr Nabin Rijal	General Secretary, Morang Merchants' Association
15.	Mr Anil Kumar Shah	Secretary, Morang Merchants' Association
16.	Mr Anil Sarda	Executive Committee Member, Morang Merchants' Association
17.	Mr Yunesh Raj Shrestha	Hotel Namaskar
18.	Mr Abhinayak Malla	Malla Enterprises
19.	Mr Anmol Pradhan	Himalaya Pole Industries Pvt. Ltd.
20.	Mr Aagesh Bhattarai	Purwanchal Concrete Udhyog
21.	Mr Rakesh Surana	Morang Chamber of Industries
22.	Mr Manoj Bikram Shah	President, NYEF
23.	Mr Santosh Chaudhary	Saugat Hardware
24.	Mr Nibesh S. Basnet	Nepal Bazaar
25.	Mr Saurabh Agrawal	Anand Itta Uddyog
26.	Mr Sharad Kabra	Kabra Group
27.	Mr Paras Lunia	Mahalaxmi Cables
28.	Mr Bipin Kabra	Kabra Group
29.	Mr Pramod Kumar Jha	PG Campus