



IMPROVING BUSINESS ENVIRONMENT AT SUB-NATIONAL LEVEL

A Diagnostic Study of Birendranagar

Roopali Bista

June, 2019



SAMRIDDHI
FOUNDATION



CONTENTS

Acknowledgment	i
Abbreviation and Acronyms	ii
Introduction	1
Objective of the Research	2
Methodology	3
Phase 1: Secondary Research and Stakeholder Mapping	3
Phase 2: Key Informant Interviews (KIs) and Stakeholder Engagement	3
Phase 3: Sector Specific Data Procurement and Analysis	3
Phase 4: Organizational Mapping and Report Preparation	4
Limitations	5
Snapshot of Birendranagar Municipality's Plans and Policies	6
Budget	7
Income	7
Expenditure	8
Highest Growth Potential Industries in Birendranagar Metropolitan City	10
Manufacturing	10
Hotels and Restaurants	11
Construction	12
Agriculture and Forestry	12
Service	13
Trading	14
Challenges and Opportunities across Industries in Birendranagar	15
Land Related Problems	15
Lack of Skilled Labor	15
Access to Finance	16
Regulation, Taxes and Corruption	16
Infrastructure	17

Regulatory Problems in the Country and Lessons from the World	18
Economic Freedom	18
Procedural Hassles	19
Paying Taxes	21
Environmental Standards	22
 Legal Mandate for Birendranagar Municipality	 23
Observations of the Researchers	24
Policy Options for Creating a Conducive Environment for Growth in Birendranagar	26
Conclusion	28
Bibliography	29



ACKNOWLEDGEMENT

We would like to express our deepest gratitude to all individuals who helped us shape this study through their valuable contributions. Firstly, we would like to thank the Mayor of Birendranagar Metropolitan City, Mr. Dev Kumar Subedi, Deputy Mayor Mrs Mohan Maya Bhandari Dhakal and their team for giving us their valuable time, sharing their plans for the city and particularly for hosting a consultative dialogue in their premises by bringing together all relevant stakeholders. Additionally, we express our gratitude to representatives of the government agencies we visited—Birendranagar Municipality, Commerce Office (CO), Office of Cottage and Small Industries (OCSI) and also Agriculture Sector Development Program.

Furthermore, we would like to extend our appreciation to all executive members of the private business associations we consulted, including but not limited to: Surkhet Chamber of Commerce and Industries and Chamber of Commerce- Surkhet Chapter. These consultations and the data they provided have been instrumental in shaping this study.

Special thanks to Mr. Dinesh Gautam and the entire team of Hreeti Foundation for coordinating and assisting the researchers during the field visit to Birendranagar.

Lastly, I would like to extend my heartfelt gratitude to our in-house team at Samriddhi Foundation. Thanks to Mr. Akash Shrestha, Mr. Ashesh Shrestha and Mr. Roshan Basnet for their invaluable help in designing and executing the project. This study would not have been possible without their support.

Roopali Bista



ABBREVIATION AND ACRONYMS

APM	All-Party Mechanism
BFI	Banks and Financial Institutions
CSC	Common Service Centers
KII	Key Informant Interview
LGU	Local Government Unit
MICE	Meetings, Incentives, Conferences and Exhibitions
MoFALD	Ministry of Federal Affairs and Local Development
MoU	Memorandum of Understanding
MPC	Metropolitan City
NRB	Nepal Rastra Bank
OCSI	Office of Cottage and Small Industry
PAN	Permanent Address Number
PEA	Political Economic Analysis
PPP	Public Private Partnership
VAT	Value Added Tax

INTRODUCTION

Birendranagar is a city in Surkhet district in Karnali Pradesh of Nepal. In February 2018, the city became the capital of the province of Karnali. The city covers an area of 245 km². At the 2011 census the city's population was 52,137 in 12,045 households. At the time of the 1991 Nepal census it had a population of 22,937 people residing in 4773 individual households (Central Bureau of Statistics, 2011). This shows that the population has increased over the past decade. This city is located in the Surkhet Valley. Birendranagar is named in honour of the late King Birendra, who planned and established it as the first planned town in Nepal.

Birendranagar is the main food and other essential goods supplier of the rural Karnali zone, which can be reached by the Karnali Highway. It is also a major market of the Dailekh, Jajarkot and Acham district. There is also a domestic airport east of the city which connects it to the capital Kathmandu. The airport also connects Birendranagar to Jumla, Humla, Kalikot, Dolpa and Mugu which are other districts of Karnali province.

Birendranagar also has significant religious Hindu sites like Deuti Bajai, Kakre Bihar and Mangalgadh. Bulbule Tal and Ghantaghar Park and the city museum are some of the recreational spots in Birendranagar. The city also is a major educational hub to the mid-western region of Nepal. Mid-western University, an autonomous and public institution of higher learning is also located in Birendranagar. Supposed to be catering for the regional higher education need of the youth, this university is also expected to serve as a partner and a vehicle of the development of the whole Midwestern Development Region of the country.

At present Birendranagar municipality's major plan is to develop infrastructure in order to provide connectivity and proper access to the market for the people. It aims to make the city women friendly, socially inclusive and provide safe and clean environment. The major goals are to strengthen administration and make Birendranagar a touristic destination.

OBJECTIVE OF THE RESEARCH

Biendranagar municipality for the year 2018/19 has estimated its revenue source to be NRP 937,483,000 and its expenditure is 962,283,000. The deficit expenditure is planned to be covered by current fiscal year's saving and internal borrowing.

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 Birendranagar municipality 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 Birendranagar municipality, 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.

METHODOLOGY

Phase 1: Secondary Research and Stakeholder Mapping

The study commenced with the objective of identifying some of the fastest growing sectors in Birendranagar municipality. 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 Birendranagar municipality'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 Surkhet 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 Birendranagar municipality and carried out interviews and an interaction program called "Sawal Udhyami ko" with entrepreneurs and the Mayor of Birendranagar 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 and Deputy Mayor of Birendranagar municipality, 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 Construction, Agriculture and Forestry, Hotel business, Trading, Manufacturing and Service 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 Birendranagar municipality. 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. Info-graphics and box cases were also designed. This phase culminated with the preparation of this diagnostic study of Birendranagar Municipality.

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, staffs 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 Birendranagar municipality'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 Birendranagar due to the same reasons.



SNAPSHOT OF BIRENDRANAGAR MUNICIPALITY'S PLANS AND POLICIES

Birendranagar municipality has adopted the following major city development policies according Budget and Program, 2018/19:

Economic plans and policy 2018/19

- Continue existing tax and increase tax base by formalizing shadow economy
- Identify economic areas, define its pockets and develop the infrastructure for its facilitation and growth
- Identifying and implementing one major project that can be done in Public-Private-Partnership model (PPP model) for participation and benefit of all
- Encourage banks to invest on small farmers and open up more branches in the rural area.
- Spend 50% of business tax collected to provide better security to business firms by installation of surveillance camera and other types of security

Infrastructure development plans and policies

- Number all the roads and houses and include them in the metric system for proper tracking and management
- Complete the construction of main road of Birendranagar in the next two years
- Improve sanitation and drainage system of the city
- Electrification of wards which do not have access to electricity

Social plans and policies

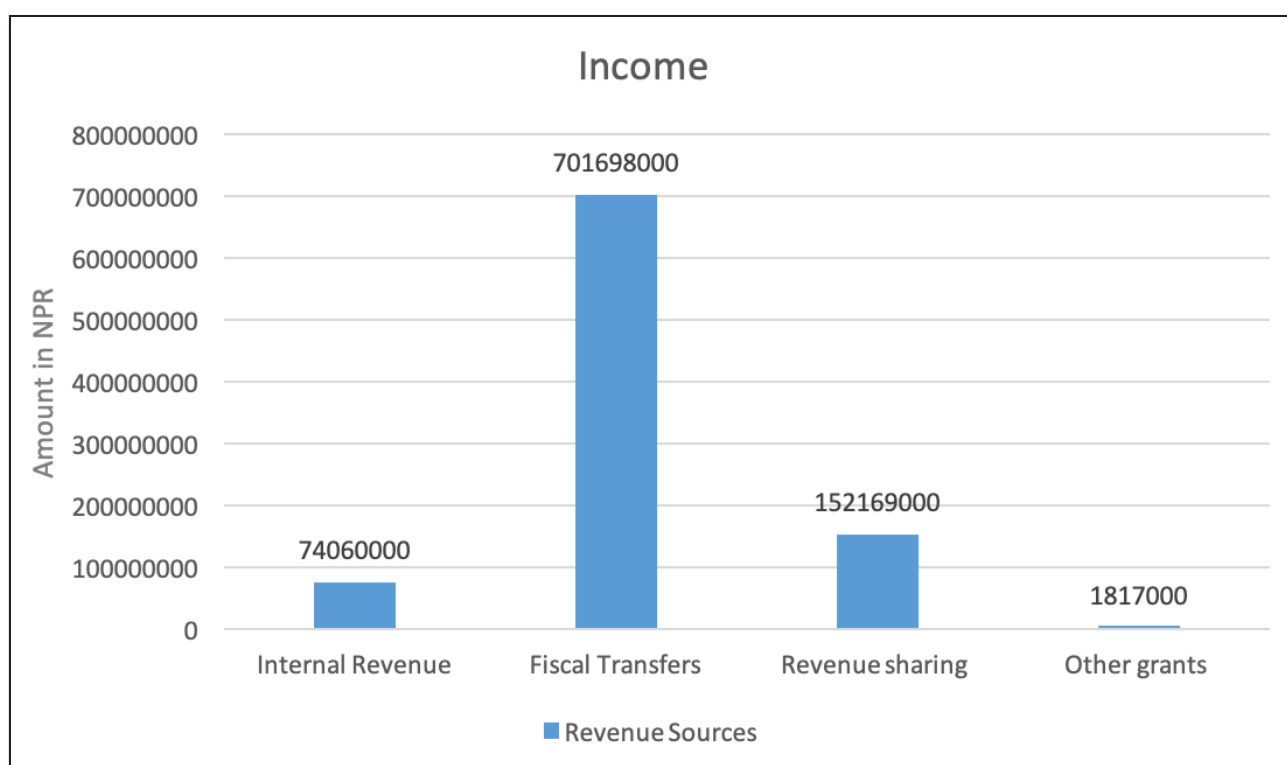
- Women entrepreneurship development program will be implemented
- Emergency service centers, safe houses and rescue centers for violated women, children and girls will be established
- Make wards of Birendranagar more child friendly
- Improve educational accessibility by constructing high schools in every ward of Birendranagar, proper management of schools and incorporate extracurricular activities for child development.

BUDGET

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

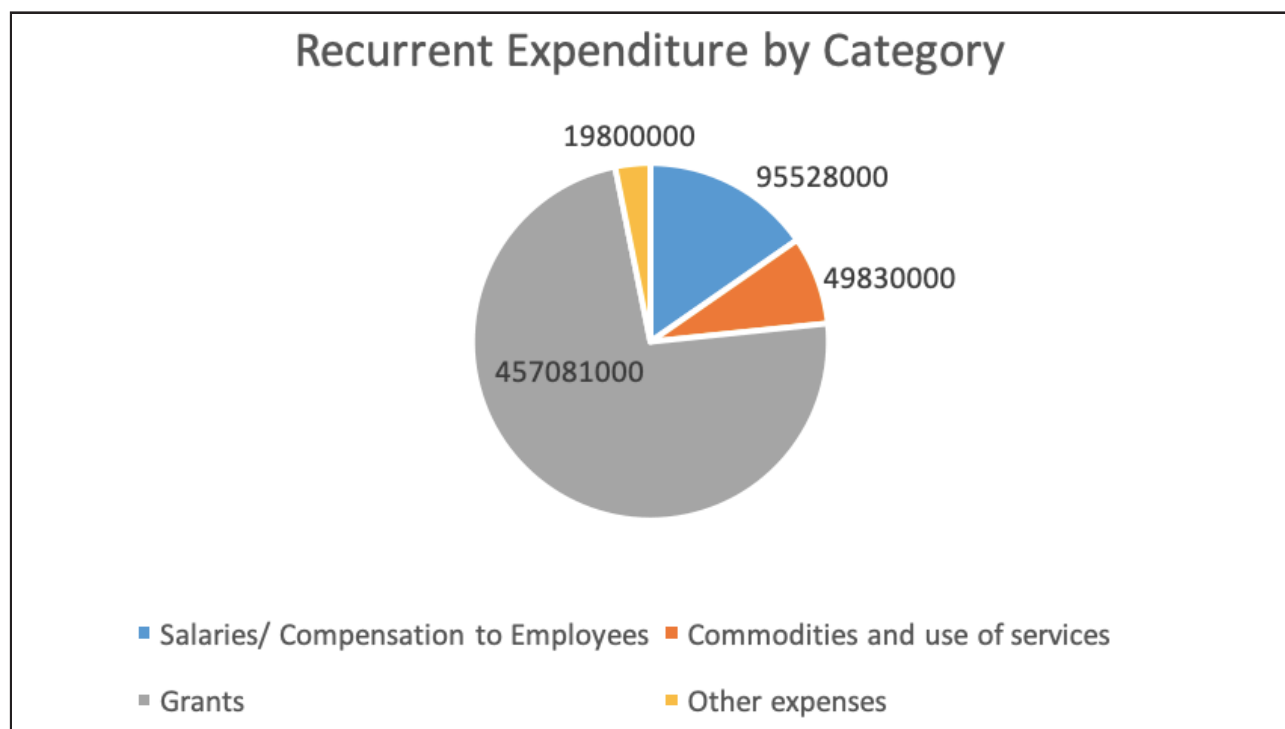
Income

The total estimated revenue for the fiscal year 2018/19 is NPR 937,483,000. The estimates show that the municipality is highly dependent upon fiscal transfers from the federal and state governments amounting to NPR 701,698,000 whereas revenue from own sources has been estimated at NPR 74,060,000 which is significantly lower in compared to the transfers. NPR 152,169,000 is to be received through sharing of revenue from the federal government (Excise duty and Value Added Tax) and state government (motor-vehicle tax). The rest of the amount is to be generated through other grants.



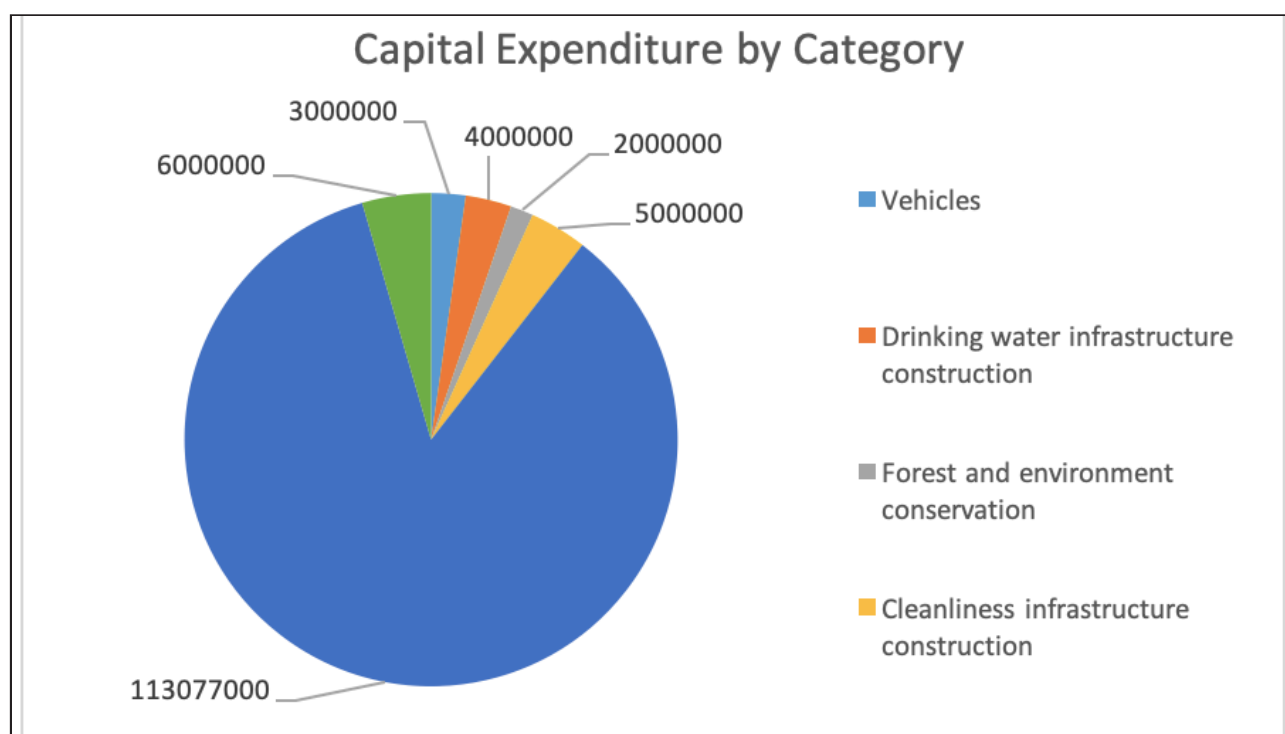
Source: Budget, Birendranagar Municipality, 2018/19

Expenditure



Source: Budget, Birendranagar Municipality, 2018/19

Birendranagar municipality has estimated its total expenditure amounting to NPR 622,239,000. The largest expenditure has been estimated on 'grant' which includes grants to other levels of governments and social security grants. After grants, salaries/compensation to the employees comprises of the largest expenditure followed by commodities and use of service and, other expenses.

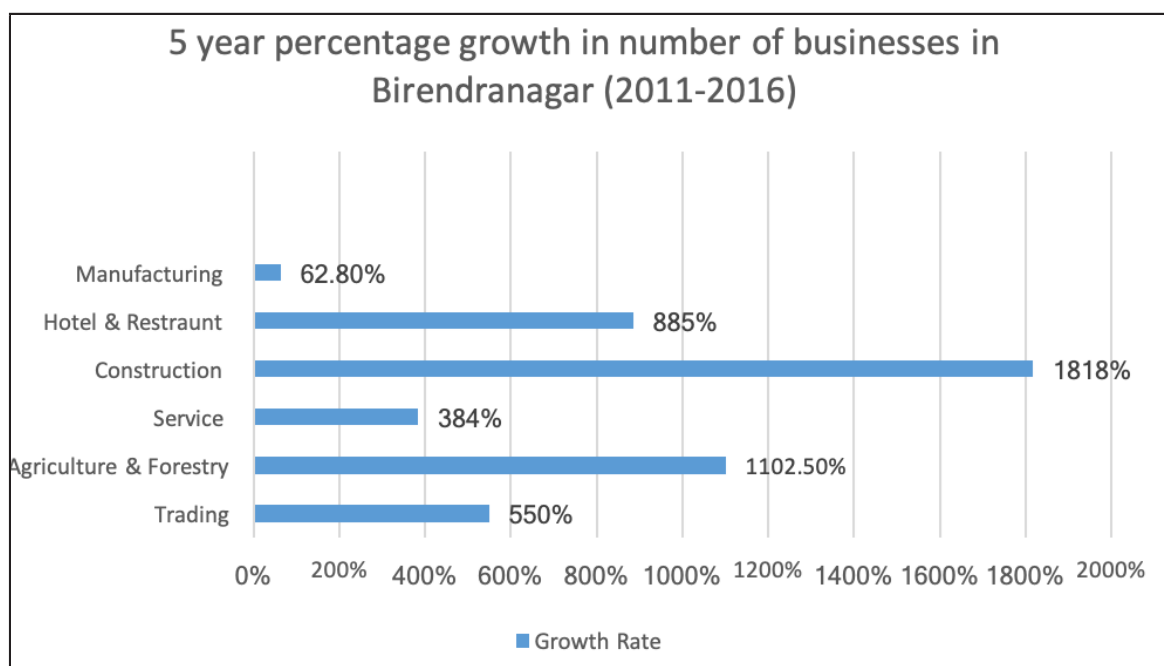


Source: Budget, Birendranagar Municipality, 2018/19

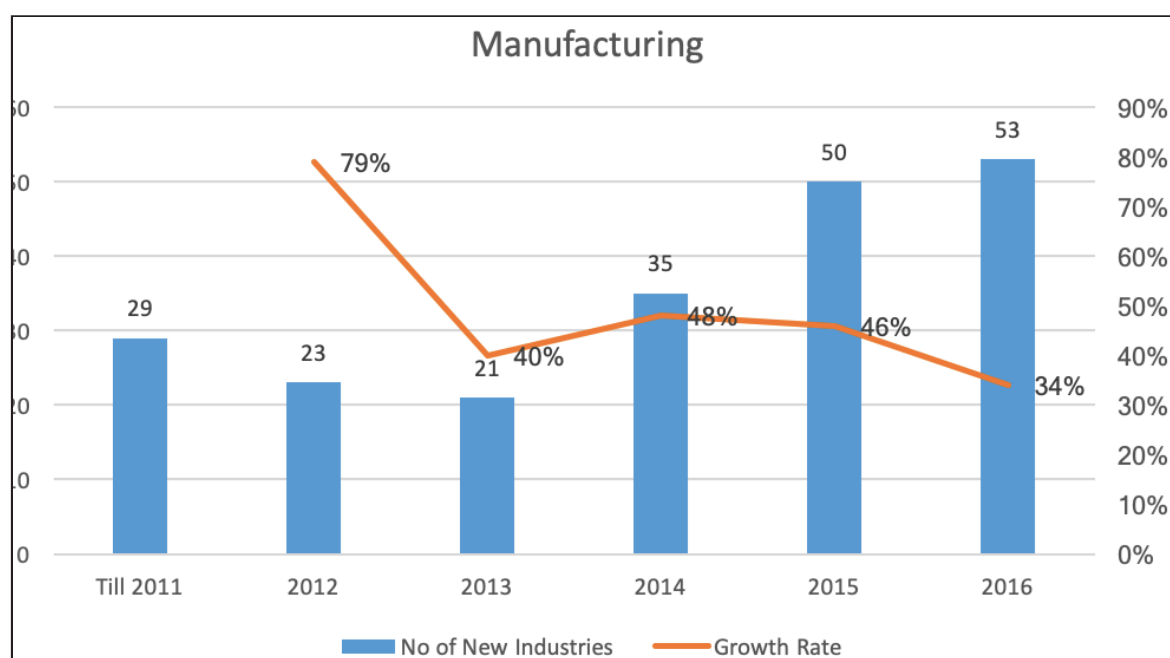
The estimates of capital expenditure for the fiscal year 2018/19 of Birendranagar municipality stood at NPR 133,077,000. Out of the total capital expenditure, the largest expenditure has been allocated to Capital improvement expenditure- public construction at NPR 113,077,000 followed by Capital research and consultancy amounting to NPR 6,000,000. The lowest amount has been allocated to Forest and environment conservation followed by Vehicles amounting to NPR 3,000,000. Similarly, NPR 5,000,000 has been allocated to Cleanliness infrastructure construction and NPR 4,000,000 has been allocated to Drinking water infrastructure construction.

HIGHEST GROWTH POTENTIAL INDUSTRIES IN BIRENDRANAGAR METROPOLITAN CITY

Our primary research in Birendranagar showed that trading and agriculture and forest industries are the fastest growing sectors in the area. Through conversations with local business owners and influencers in the region as well as through first-hand observations, our researchers gathered that businesses related to pharmaceuticals, food products, auto workshops, readymade garments, paper and stationary products are the growing sectors in Birendranagar. Through research we discovered that Construction related business and hotel and restaurants have the highest growth potential.

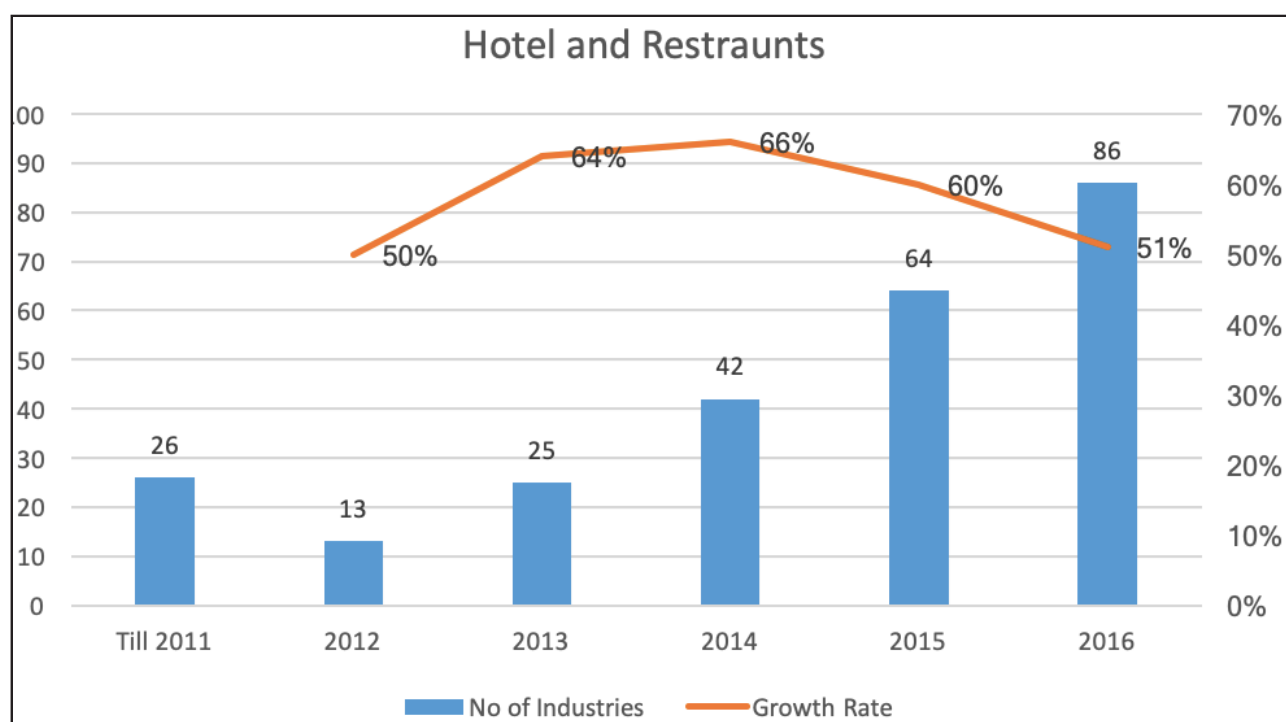


Source: Office of Cottage and Small Industries (OCSI), Surkhet, 2019



Source: Office of Cottage and Small Industries (OCSI), Surkhet, 2019

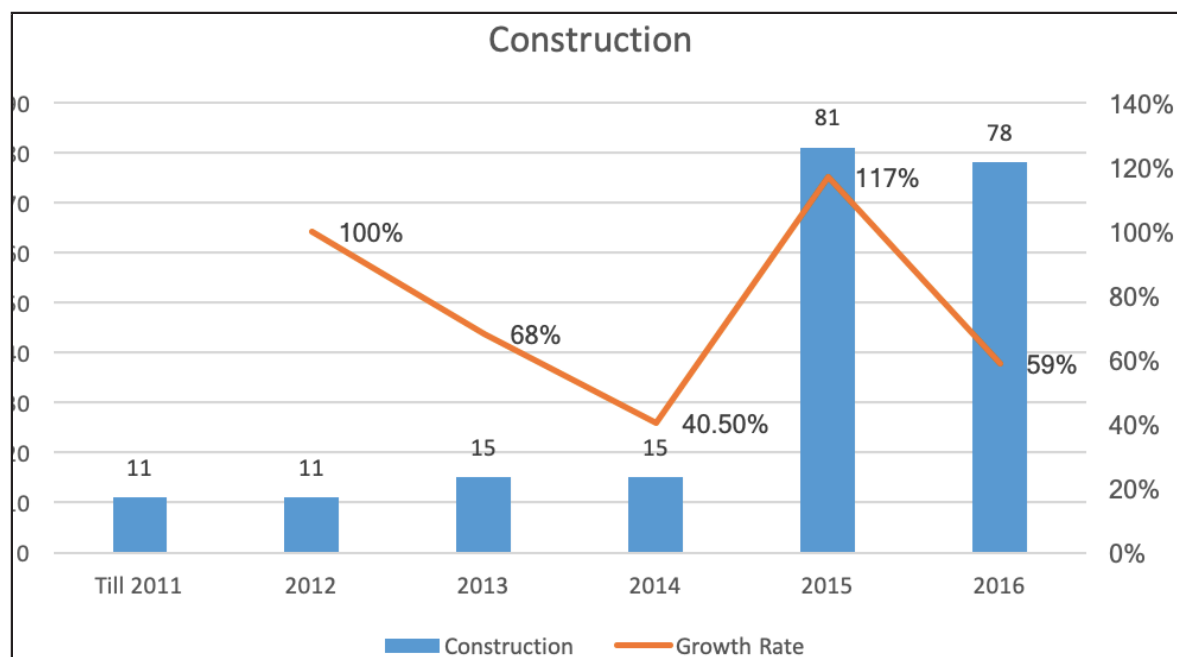
Manufacturing sector in Birendranagar has grown by approximately 63% in the last five year. The highest growth of the manufacturing sector can be observed in 2012 at 79%. There are no major or big manufacturing industries in Birendranagar but there is a huge potential for it. The major manufacturing industries in Birendranagar are wood furniture manufacturers and food manufacturers. Even though there is large availability of land, especially state owned land there is not any manufacturing units, this is because of lack of infrastructure in the entire western region of Nepal which makes the operating cost high. Birendranagar has huge potential for agro manufacturers but there are not many.



Source: Office of Cottage and Small Industries (OCSI), Surkhet, 2019

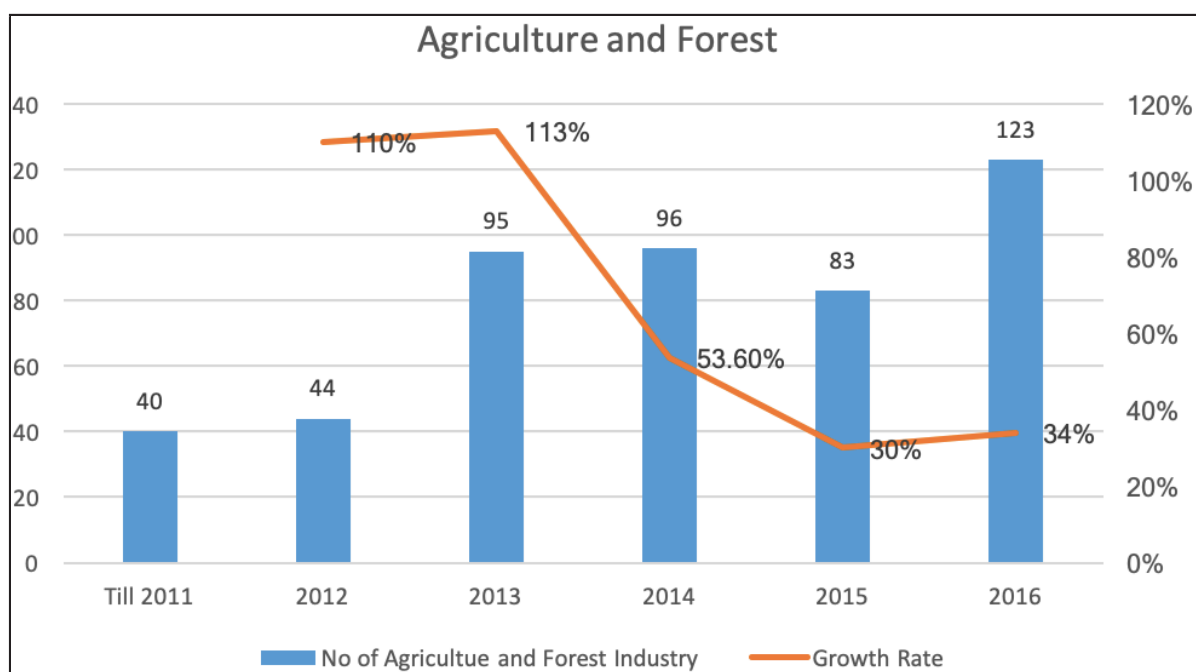
There is a boom in growth of hotel and restaurants in Birendranagar in the past five years. Although not intuitively evident, tourism presents ample opportunity in Birendranagar. This can be supported by the growing number of tourism-related businesses as we saw in the graph above. Currently, hotels in Birendranagar are wholly dependent on Meetings, Incentives, Conferences 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. Birendranagar also has potential for religious tourism due to presence of religious Hindu sites like Kakre Bihar temple, Deutibajai temple.

Unlike other cities in the country endowed with ample scenic resources, Birendranagar does not have significant touristic attractions to build itself as a final tourist destination. However, given its strategic geo-location in the mid- western region (being a major city in the region) and also being connected to Mugu district which has the Rara lake and Rara national park , Birendranagar can easily develop itself as a transit route, and hold tourists at least for short periods of time.



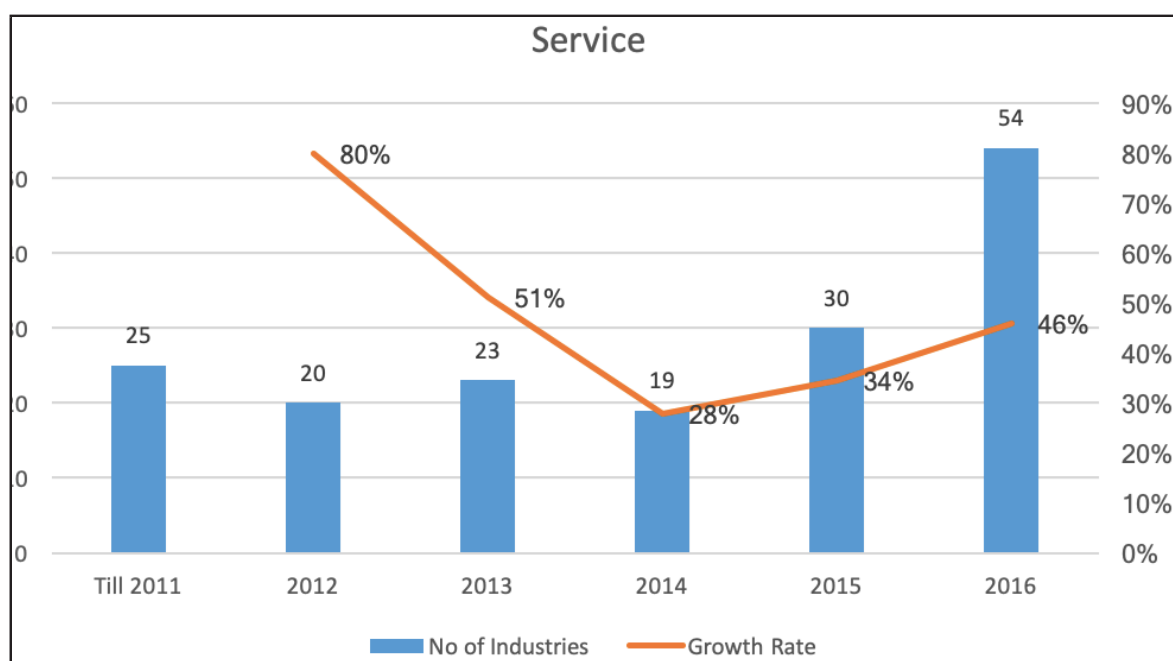
Source: Office of Cottage and Small Industries (OCSI), Surkhet, 2019

In the past five years the construction business in Birendranagar has seen a significant growth. The growth is mostly due to construction of houses, as more money is being sent in by remittance, people have started constructing houses. This being said, there is an immense potential for construction business in Birendranagar, as houses and population grow there will be demand for physical infrastructure like roads, bridges, schools and health centers. Another reason for the growth in construction business is due to construction of Karnali highway which is a vital transport link between Jumla and Surkhet. The completion of construction of this highway will improve access to markets, healthcare facilities, access to education and lower transportation cost for many rural inhabitants along the highway.



Source: Office of Cottage and Small Industries (OCSI), Surkhet, 2019

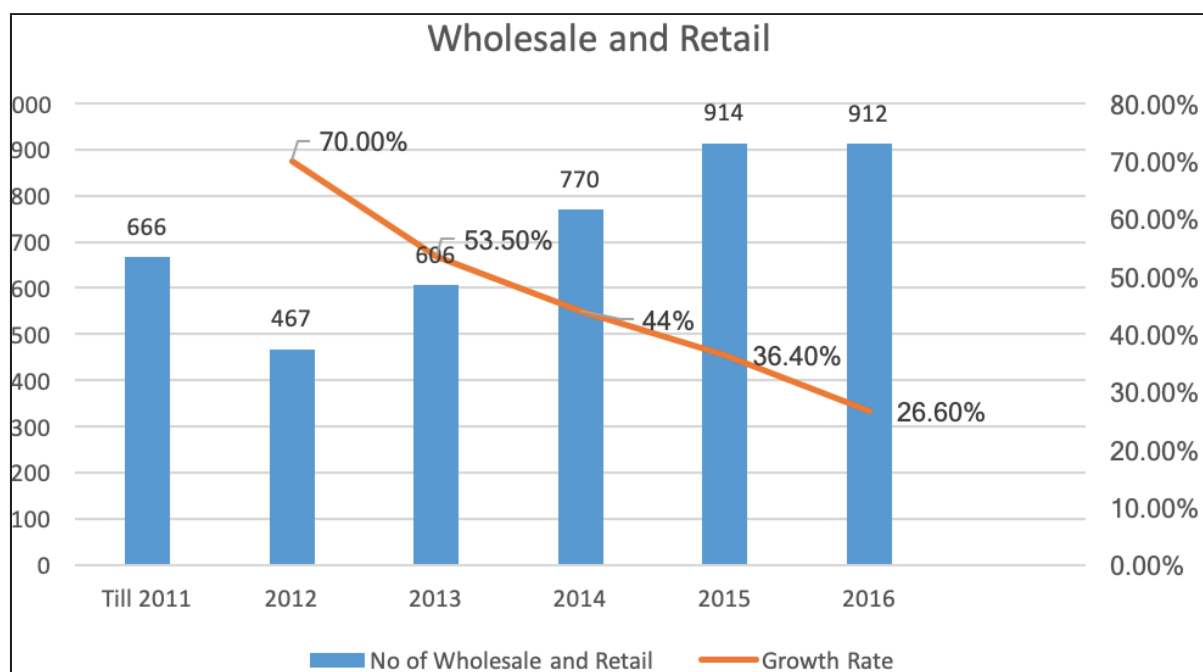
Agriculture, animal husbandry and forestry has always been the predominant sector of growth in Birendranagar. Agriculture is primary or secondary source of income to many people in Birendranagar. Lately, due to boom in other sectors and people migrating to other cities of Nepal and abroad has seen a decline in agriculture sector in Birendranagar, this has made Birendranagar dependent on Chitwan for agricultural produce like eggs, poultry and milk. The people involved in agriculture claim that Birendranagar has enough potential to be self-reliant on agricultural products and can meet the demands of the people if right incentives are in place. Though agriculture in Birendranagar is heavily subsidized, farmers and agro entrepreneurs state that it is not enough and would rather have made access to finance easier than receiving grants and subsidies. The other major problem stated in the agriculture sector was there is a lack of market to sell agricultural produce like vegetables, fruits, livestock and meat.



Source: Office of Cottage and Small Industries (OCSI), Surkhet, 2019

Service sector has been emerging as a vibrant sector in Birendranagar as there has been rise in number of financial institutions, private schools and hotel and restaurants. Despite being a growing sector the major problem it faces is lack of skilled human resources. Even though, many people are being employed by the service sector in Birendranagar, the business owners mentioned that there is still potential for more but the gap is not being met due to lack of skilled human resources. A lot of migrating population is being used in the service sector of Birendranagar. Another problem is that the service sector does not have forward and backward linkage to the existing manufacturing and agricultural sector of Birendranagar which makes it unsustainable in the long run.

Trading



Source: Office of Cottage and Small Industries (OCSI) Surkhet, 2019

Like in most cities of Nepal trading has become one of the major means of livelihood for many people in Birendranagar. The most common type of trading activity that the city sees is small grocery and convenience stores, many readymade clothing stores and shoe shops. Population that are involved in such trading business are mostly migrants from neighbouring districts of Jajarkot, Dailekh and Jumla. The major problem with the small trading businesses are they are largely informal in nature and find it very difficult to comply with the complex tax system without any guidance from the tax authorities.

CHALLENGES AND OPPORTUNITIES ACROSS INDUSTRIES IN BIRENDRANAGAR

Through extensive desk research, consultations with local entrepreneurs and regulators during field visits, researchers have been able to establish that businesses in Birendranagar face several similar problems that span across the promising industries in the city. Our research and discussions have recognized the following challenges and opportunities as detailed below, which if addressed properly can reap enormous benefits for local businesses. Since federalization has empowered local governments, Birendranagar municipality can work directly towards resolving some of these issues. We recognize that some issues will require interventions at the state and federal level, and 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.

Land Related Problems:

Scarce land resources like in other cities in Nepal, is a pressing problem in Birendranagar. This has led to high land and rental prices which continue in an increasing trajectory. This makes the cost of establishing, operating and expanding businesses significantly high. Currently, businesses have not been able to expand their production due to high land or rent prices. The thousand acres of land owned by the state spread throughout Birendranagar, which is not in use right now should be put to productive use. The land should be leased out for the purposes of establishing new factories, developing industries or expanding existing businesses. Moreover, the Birendranagar should map all public land under its jurisdiction and further identify those that are sizeable enough to be leased out to local businesses.

Land and property tax is another issue that businesses face. There should be a distinction in property tax rates for personal and business use. Since industries require large amounts of land, taxing them at the same rates will largely increase the costs of doing business for them.

Lack of skilled labor:

Lack of skilled manpower is a problem that was highlighted by a number of businessmen we consulted. This can be attributed to the lack of quality education in the city. Initiatives like “high schools in every ward” are steps in the right direction but more needs to be done. It is essential that the local government takes an active role in understanding the demand dynamics of required skillsets for the city’s industries and investing in quality education and skill building in those areas. Developing vocational training institutes which will enhance the skills of human resource in Birendranagar is necessary rather than providing short- term trainings. The local government could support such initiatives.

Several employers voiced their concern on labour-related problems. It is possible that the negative sentiments among employers also arise from the frustration about the criminalization of some trade

unions. It was reported that labors are often absent without any notice and when questions are raised about such behaviors, employers are harassed with the help of unions and goons. It is imperative that the police force is able to provide ample security to ensure that the rule of law is honored.

Access to Finance:

The problems of access to finance that entrepreneurs in Birendranagar face are very similar to those experienced throughout the country. Like everywhere else, borrowers complain of high, haphazard increases in interest rates. Additionally, banks only provide loans up to 30% of the total collateral amount/paid up capital. Most business people believe that it is much easier to borrow from an independent individual at a higher interest rate than to get a loan from banks. This can be attributed to cumbersome documentation requirements and a lengthy loan disbursement process. Furthermore, the queues in banks are extremely long and time consuming which is a clear indication of a need for more bank tellers and expansion.

The Birendranagar Municipality should start a dialogue with financial institutions in the area as well as Nepal Rastra Bank (NRB) to solve these problems. Additionally, the local government should work towards updating land valuation at market rates on a regular basis. This will not only allow business owners to get a fair valuation on their land collateral, but also reduce the risks for financial institutions and might subsequently improve the likelihood to be approved for higher amounts of business loans with the same amount of collateral. Furthermore, Birendranagar municipality should work with financial institutions and local entrepreneurs to search for alternate forms of collateral.

Regulation, Taxes and Corruption:

A large number of businesses in Birendranagar operate in the shadow economy. It is a big challenge to bring these businesses into the formal economy. Easing business registration and regulation procedures as well as reducing tax burdens might help mitigate the extra costs of formalization and encourage people to participate in the formal economy. The focus should not be on increasing the tax burden for existing businesses to increase revenue, but rather on increasing the tax base which will not only be more beneficial to the government coffers but also to business owners. This will also indirectly help reduce corruption, improve productivity and efficiency, create fair market competition, and benefit the community as a whole.

Most business owners have complained about the Birendranagar tax authority being a threat to business owners rather than providing them service. Most people are misinformed about the registration process and the requirement of registration in the VAT and PAN (Permanent Address Number) system. Business owners in Birendranagar have problem in understanding the complex tax process (especially VAT) and hence fail to comply with the tax system. Trainings and awareness programs regarding taxes need to be given by the local government and the concerned tax authorities. Another problem with tax is that business tax, which is an important revenue source to the municipality has declined by approximately 83% compared to previous year. This was mainly due to change in the tax collection method. Previously, Municipality had outsourced tax collection to Surkhet Chamber of Commerce and Industries but as of this year municipality itself has started collecting the business tax which has not yielded good results.

Currently, the 'Byevasaya Kar' or business tax makes it hard to establish a business, as they have to pay tax before registration. Moreover, cost of production is high as a result of high taxes on inputs.

On each import of raw materials; business owners have to pay 13% VAT + 5% customs charge. Inconsistencies and discrepancies in policies and procedures are also problematic. For example, those manufacturers paying their taxes through VAT have a cost of production that is higher than those who pay through PAN by NPR 6.5. Additionally, some discounts for industrialists are reflected in the Industrial Act but not in the Finance Act and are therefore not implemented in practice.

Furthermore, government public service offices are highly corrupt. Nepotism is rampant which significantly increases the cost of doing business. For example, there are instances where even when a business's transaction falls under a low-tax HS (say a 15% bracket), the customs officials try to put it under a higher-tax HS (say 20%) with the intention of extorting a bribe. Additionally, loopholes in the system also create ample opportunities for corruption during a full audit.

Infrastructure:

Road infrastructure in the Birendranagar stands to be a major challenge. While traffic management and parking 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 agenda. Converting the Main Road into a vehicle-free zone could be another option that the Birendranagar could explore. Lastly, since a major highway passes right through the city, the Birendranagar municipality should invest on a bypass for heavy vehicles that would both reduce vehicular congestion and the city's pollution levels.

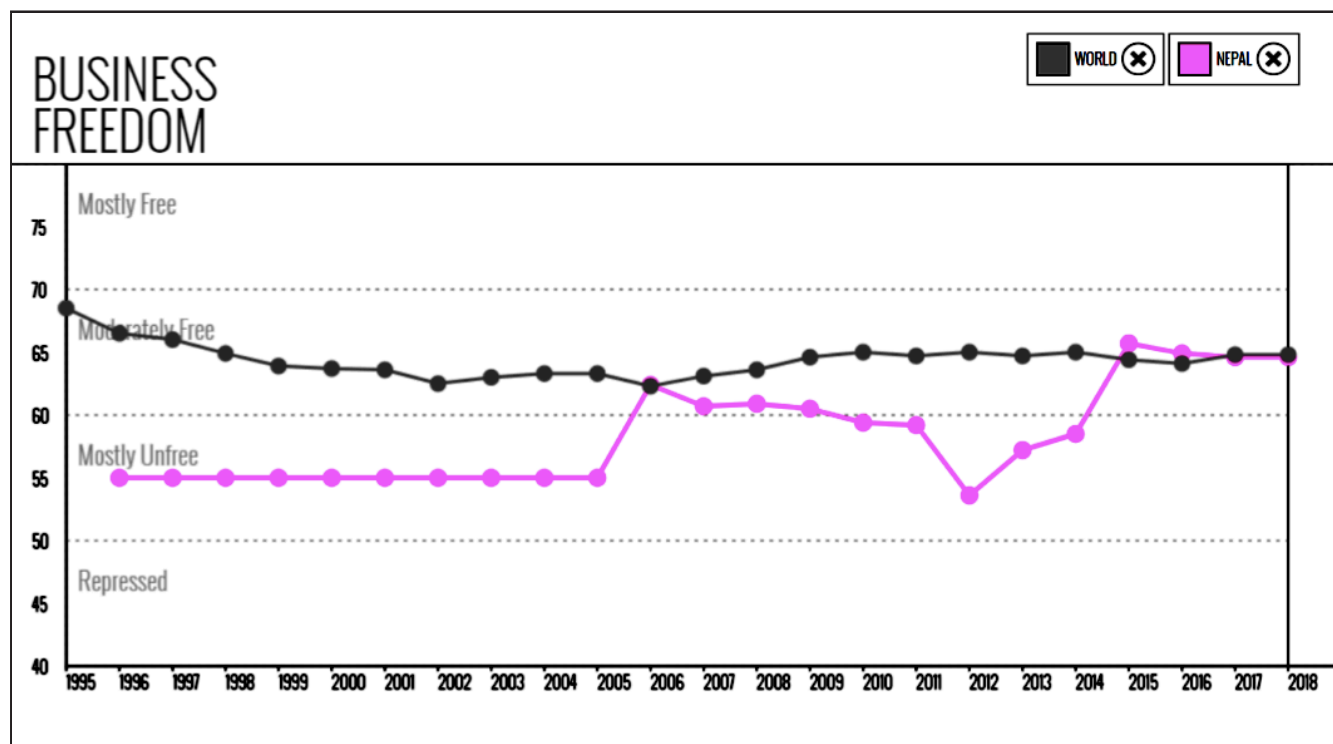
There is a lack of market for the farmers, traders and the vendor to showcase their products, especially livestock and other agricultural goods. The city should build an exhibition hall that would allow industries to showcase and efficiently market their products.

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.

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

REGULATORY PROBLEMS IN THE COUNTRY AND LESSONS FROM THE WORLD

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 Birendranagar municipality.

Aspiring entrepreneurs need to make rounds to a number of government agencies 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 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 rob aspiring entrepreneurs of the time they could have spent in actually building their businesses.

Box Case 1: Common Service Centers in Rural India

In India, Common Service Centers (CSC) was conceptualized as the front end service delivery outlets enabling smooth and transparent governance to citizens of the country. It was envisaged that CSCs will function as a one stop shop for availing multiple government services, especially in the rural parts of India. Citizens can simply walk to a nearby CSC and avail public services of multiple departments at a single center thus saving time, cost and effort. It is also important to note that the CSCs were not merely considered as an extension counter for government. Rather, CSCs positioned as a change agent in a major government transformation program aimed at public service delivery reforms and that this network of CSCs will promote the rural entrepreneurship, build rural capacities and livelihoods, enable community participation and effect collective action for social change.

Key Impact

- Separation of front office and back office operations (albeit integrated at the back-end through a common application) providing quick and easy service access to services
- Avail multiple services of different departments at a single place and avoid visits to multiple government offices
- Save direct and indirect costs incurred for availing a service
- Transparent process with status tracking facility
- Improved service delivery time
- Promoting village level entrepreneurship and capacity building at the grass root level

Source: Best Practice Report, United Nations Development Programme, 2015

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.

Box Case 2: Project 30

According to the World Bank's 2010 Doing Business report, which assesses business conditions across the global economy, it took, on average, 94 days and 12 administrative procedures to start a business in Vietnam – considerably longer and more cumbersome than other Asian economies. This systemic red tape fostered corruption, inhibited the delivery of essential goods and services, and slowed the disbursement of investment capital. The government, in collaboration with domestic and foreign partners developed a comprehensive streamlining and reform plan known as Project 30 to address these issues. The plan known as "Project 30" (because it aims to reduce compliance costs for businesses and citizens by 30 percent), aspires to create a simpler, more efficient, and more transparent administrative system. Project 30 has been welcomed across Vietnamese society and by Vietnam's development partners as a promising and ambitious solution to a longstanding set of structural impediments.

During the first phase (which took place between January 2008 and June 2009) hundreds of civil servants representing every level of the government created the first ever comprehensive inventory of administrative procedures, which was made into a searchable electronic database and posted to the government website. Almost 6,000 administrative procedures were added to the database, which allows users to locate every administrative procedure and download printable versions of every administrative form.

During the second phase (which took place between June 2009 and May 2010) a "Special Task Force" consisting of government officials, citizens, non-governmental organizations and business associations in a sweeping review of the entire administrative procedure database. To this end, the government created dossiers designed to enable business associations, citizens, and individual enterprises to (a) identify problematic administrative procedures; (b) explain why those procedures were unnecessary, unreasonable, overly expensive, or inconsistent with existing regulations, and; (c) recommend solutions – typically, abolishment or revision – which would make the process simpler and more efficient.

Implementation of the final phase of Project 30 began in early June 2010, a pilot package consisting of 258 administrative reforms were introduced. Ministries and State agencies were made to implement the reforms, which were expected to produce more than \$300 million a year in savings for businesses and citizens.

Source: Brookings, 2010

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 3: 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 were 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

Source: OECD, 2015

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. The recognition of industrial states that provide basic securities to businesses should be considered, to protect industries from such problems.



LEGAL MANDATE FOR BIRENDRANAGAR MUNICIPALITY

The enactment of the Constitution of 2015 paved the 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 753 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 to 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 goes to the concerned local governments.

OBSERVATIONS OF THE RESEARCHERS

This exercise of identifying the highest-potential carrying growth sectors in Birendranagar Municipality 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 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 still 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 sectorial 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.

POLICY OPTIONS FOR CREATING A CONDUCTIVE ENVIRONMENT FOR GROWTH IN BIRENDRANAGAR

1. Birendranagar Municipality should map all public land under its jurisdiction and further identify those that are sizeable enough to be leased out to local businesses instead of the land being unused.
2. Birendranagar Municipality 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.
3. To develop itself as a transit route and promote tourism in Birendranagar, the municipality should work with the private sector and adopt the following strategies:
 - i. Improving infrastructure, especially road infrastructure along the Kohalpur-Surkhet-Hilsa road section, Bheri Corridor, Surkhet-Jajarkot-Dolpa Road, Dang-Surkhet-Dipayal Road, Bhurigaon-Telpani and Surkhet-Dailekh-Nagma-Gamgadhi road for better network and connectivity.
 - ii. Restoration and preservation of tourist attractions like Kakrebihar temple, Bulbule Lake, Deutibajai temple, Mangalgadhi, Gothikanda, Ghantaghar should be done. Also, construction of leisure parks, museums and gardens would be beneficial to the tourism of Birendranagar.
4. The Birendranagar Municipality 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, the municipality should work with financial institutions and local entrepreneurs to search for alternate forms of collateral.
5. Birendranagar Municipality should aim to adopt a one table policy for small businesses so they do not have to go to multiple offices for registration.
6. Birendranagar Municipality should invest in infrastructure in the following ways:
 - i. Developing local roads that can withstand monsoon rains
 - ii. Investing in a bypass for heavy vehicles to reduce vehicular congestion and pollution levels resulting from the major highway that passes through the city
 - iii. 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

- iv. Building an exhibition hall to allow industries to showcase and efficiently market their products
 - v. Improving lighting infrastructure in major areas of the city to facilitate mobility in the late hours.
7. The Municipality must collaborate with the tax office to start awareness campaigns and trainings for the business community of Birendranagar in order to solve the problem of entrepreneurs – especially new, small and medium faced difficulties in maintaining the book of accounts and paying taxes. The failure to improve tax administration has resulted in the uneven imposition of taxes, widespread tax evasion and lower-than-expected tax revenue. To solve this problem the municipality should collaborate with the tax office to start awareness campaigns and trainings which would help both the entrepreneurs and the local government of Birendranagar.
8. Agro-business is a growing sector in Birendranagar but the entrepreneurs belonging to this sector mentioned that there are no designated market areas to showcase their produce. A proper market place is required to showcase livestock and other agro goods for buying and selling.

CONCLUSION

The new constitution and the country's recent move to federalism provides the Mayor and the Birendranagar Municipal team the perfect opportunity to rebuild Birendranagar as a commercial center in the Karnali state. Our research has shown considerable promise in the sectors of construction, agriculture and forestry, hotel business, trading, manufacturing and service. Through the study, we have identified numerous common areas of challenges including but not limited to corruption, inconsistent policies, burdensome taxes as well as lack of skilled labor, lack of market, access to finance, land resources, proper infrastructure, and public service delivery that hamper the business environment for local entrepreneurs. A wide-range of recommendations has 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 Birendranagar Municipal team take advantage of their recent victory, and collectively work with concerned stakeholders to take the city to greater heights of economic growth.

BIBLIOGRAPHY

Birendranagar Municipality . (2014/2015). Annual Governance Status Report Birendranagar.

Central Bureau of Statistics. (2011). National Census .

Nepal Census . (2011). Nepal Census. Retrieved from NepalMap.

Nepal Rastra Bank. (2015). Banking and Financial Statistics .

OECD. (2015). Examples of Successful DRM reforms and the Role of International Cooperation.

Office of Cottage of small Industries (OCSI) . (2019).

UNDP . (2015). Best Practice Report .