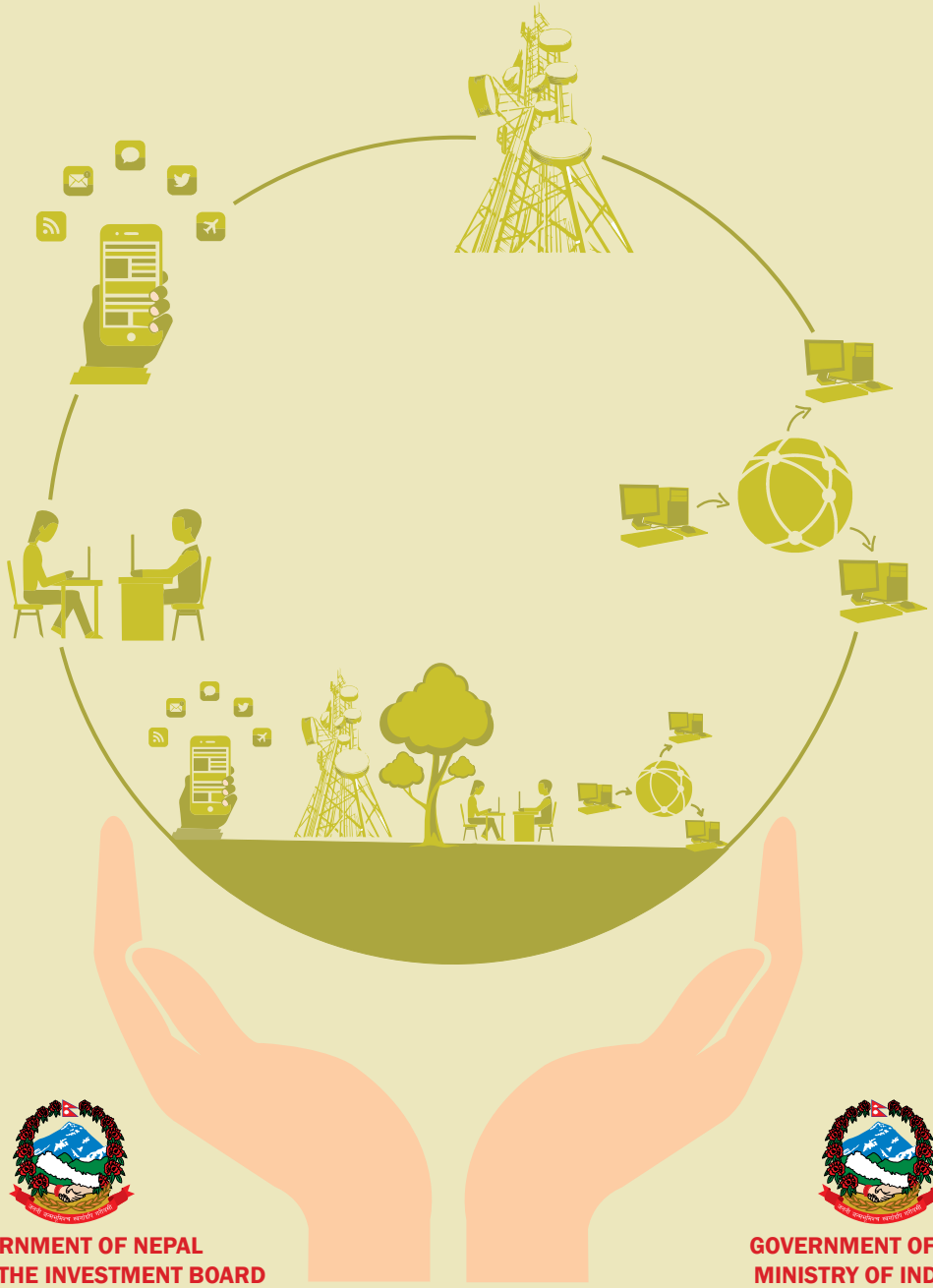
ICT
SECTOR PROFILE



GOVERNMENT OF NEPAL
OFFICE OF THE INVESTMENT BOARD

GOVERNMENT OF NEPAL
MINISTRY OF INDUSTRY

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FOREWORD

The promulgation of the constitution last year has punctuated Nepal's long political transition to a Federal Republic. The conclusion of this process marks the beginning of another process, that of economic transformation. The Government of Nepal has realized that its sources of funds, alone, will not meet the capital required to transform Nepal. Private investments, both domestic and foreign, will be key to Nepal's growth agenda.

In the recent years, Nepal has made great strides towards attracting private sector investments. The Investment Board, chaired by the Right Honourable Prime Minister, was established in order to fast-track large investments and act as a one-window facilitation agency. Similarly, Nepal is in the process of amending various laws and regulations to make them more investment friendly.

In an effort to attract investment, Investment Board Nepal, with the support from Ministry of Industry, has produced "Nepal Investment Guide". Building on to this initiative, the Investment Board has again taken lead to come up with this publication. This document highlights sector-specific opportunities for investment, policy environment, incentive structures, and licensing processes. This sector profile has been produced at a very opportune time as Nepal embarks on the path of economic transformation.

I am confident that this document contains sector-specific information you would want to know in your search for potential investment destinations. Similarly, I believe that this document will give you a basic understanding of the issues and concerns you, as a potential investor, may have.

I would like to thank the Department for International Development (DFID) and Japan International Cooperation Agency (JICA) for providing financial support for this publication. Similarly, I would like to thank the staff at the Office of the Investment Board, Mr. Rob Taylor, Chief of Party, NHDP (peer reviewer), and others who have, directly or indirectly, contributed to the production of the document.

MAHA PRASAD ADHIKARI
CEO, Investment Board Nepal

ACRONYMS

ADSL	Asymmetric Digital Subscriber Line
BIPPA	Bilateral Investment Protection and Promotion Agreement
BPO	Business Process Outsourcing
CIC	Community Information Centers
DRC	Disaster Recovery Center
DSI	Data System International
DTAA	Double Taxation Avoidance Agreement
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIDC	Government Integrated Data Centre
ICT	Information and Communications Technology
ISP	Internet Service Provider
ITES	Information Technology Enabled Services
LDC	Least Developed Country
MoIC	Ministry of Information and Communication
MIS	Management Information System
NCC	National Computer Center
NGO	Non-Government Organization
NTA	Nepal Telecommunications Authority
NTC	Nepal Telecom: Nepal Doorshanchar Company Limited
NTIS	Nepal Trade Integration Strategy
SEZ	Special Economic Zone
VSAT	Very Small Aperture Terminal

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COUNTRY OVERVIEW

Country profile

Table 1. Country Profile

Country name	Nepal (Federal Democratic Republic of Nepal)
Region	South Asia
Capital	Kathmandu, located in central Nepal
Population	28.5 million[1]
Area	147,181 square km
Altitude	59 - 8,848 m (Mt Everest)
Standard time	GMT + 5:45 hours
Governing system	Republic: multi-party parliamentary democracy with elected prime minister accountable to the parliament as executive head; constitution promulgated in 2015
Language	Nepali, written in Devanagari script; English is widely used in business
Religion	Secular state; Hinduism 81.3%, Buddhism 9.0%, Islam 4.4%, Kirat 3.1%, Christianity 1.4%
Geography (south to north)	Terai region: Altitude 59–700 m Hilly region: Altitude 700–3,000 m Mountain region: Altitude 3,000–8,848 m
Currency	Nepali rupee (NPR), 1 USD = 108 NPR (as of 1 January 2017), 1 INR = 1.6 NPR (fixed rate)
ISD code	+ 977
Climate	Terai region: tropical/sub-tropical, hilly region: moderate, mountain region: sub-alpine/alpine

Economic indicators

Table 2: Economic indicators of Nepal

PARTICULARS	2011	2012	2013	2014	2015
Population (million)	27.2	27.5	27.8	28.2	28.5
GDP (USD billion)	18.9	19.2	19.4	19.8	21.2
GDP growth rate (%)	3.4	4.8	4.1	5.9	2.7
GNI per capita (USD)	610	690	730	740	730
GNI PPP per capita (USD)	2,050	2,170	2,270	2,440	2,500
Agriculture value added (% GDP)	38.3	36.5	35.0	33.8	33.0
Industry value added (% GDP)	15.4	15.5	15.7	15.4	15.4
Service value added (% GDP)	46.3	48.0	49.2	50.7	51.6
Workers' remittances (USD billion)	4.2	4.8	5.6	5.9	6.7
Inflation consumer prices (%)	9.3	9.5	9.0	8.4	7.9

Source: World Development Indicators, 2016

[1] Estimated population in 2015

ECONOMIC OVERVIEW

Nepal is strategically located between India and China, two of the largest economies in the world. In 2015, the country adopted a new constitution that embraces multiparty democracy, federalism and private sector-led liberal economics. The government is committed to the promotion of foreign investment, providing a unique opportunity for foreign direct investment (FDI) in Nepal.

Although Nepal is classified as a least developed country (LDC) by the United Nations, its goal is to graduate from this status by 2022 and transition to a middle income country by 2030. To achieve these targets, an economic growth rate of 7–8% and investment in infrastructure of USD 13–18 billion by 2020 will be required. The Ease of Doing Business Index 2017 by the International Finance Corporation (IFC), World Bank Group places Nepal second only to Bhutan among all South Asian countries.[2] Nepal's investment potential, combined with these feature, have led to an increase in interest in FDI in recent years.

Nepal has also put in place fiscal incentives and other arrangements to facilitate global trade. As a member of the World Trade Organization (WTO), Nepal offers one of the lowest import duties in the region. Nepal has also signed Double Taxation Avoidance Agreements with 10 countries and concluded Bilateral Investment Protection and Promotion Agreements (BIPPAs) with 6 countries. Following the entry into force of the Nepal-India Trade and Transit Treaty, Nepal enjoys duty and quota-free access to India's massive and growing market. China's rapidly growing economy also provides duty free access to approximately 8,000 products.

As a result of its prolonged political transition and inadequate infrastructure, Nepal's economic growth rate has remained at 3.8%, on average, for the past 10 years, which is below the South Asian average. Remittances continue to play a critical role in GDP growth for consumption. In FY 2015/16, remittances comprised approximately 29.6% of GDP. Remittances help to increase aggregate demand in the local market, despite low economic growth.[3] Over the last decade, disposable income has increased by 14.4% per year on average, which has led to a comparable increase in consumption.

At present, with foreign currency reserves of USD 9.8 billion (as of July 2016), Nepal is in a good position to receive finance imports. However, the trade deficit, which reached 31.3% of GDP in FY 2015/16, continues to be of concern. It is expected that FDI will stimulate domestic production and gradually close this gap. Despite the catastrophic earthquake of 25 April 2015 and the transport blockade of the border that followed, Nepal has begun to rebuild and continues to be a highly attractive destination for FDI in various sectors.

[2] World Bank (2017) *Doing Business 2017: Equal Opportunity for All*. World Bank Publications
[3] Rastra Bank Nepal (2016) Current Macro economic and Financial Situation of Nepal 2015/16. Available at: https://nrb.org.np.ofg/current-macroeconomic

THE ICT SECTOR

OVERVIEW

The Information and Communications Technology (ICT) sector is one of the fastest growing sectors in Nepal and has great potential for continued growth in the near future as well. The ICT sector comprises of the following sub-sectors, and services:

Communications Services
- Internet, telephone, mobile communication

IT services
- IT Enabled Services (ITES)
- Business Process Outsourcing (BPO)

The first computers appeared in Nepal in 1971 for the purpose of conducting the census. In 1975, an Electronic Data Processing Centre named the National Computer Center (NCC) was established. However, it was only after 1985 that personal computers first appeared in the market place. These were followed soon after by the private computer institutes which sprang up to service the computer related needs of private business. In 1982, Data System International (DSI) was initiated and was the first ever US-Nepal joint venture in the IT sector. In Nepal, there are three types of companies that are operating in the sector: (i) local solutions providers (off shoring centers) comprised of domestic oriented companies, (ii) export oriented companies, and (iii) hybrids. Companies operating in this sector include call centers, medical transcription services, geographical information systems, data mining services, animation services, and back office data processing companies.

In Nepal, ICT related services are open to foreign direct investment with the exception of motion pictures produced in national languages and the language of the nation[3]. Up to 80% equity stakes are allowed in telecommunications related businesses, whereas for IT and IT enabled services, 100% FDI has been permitted. Specifically, the Government of Nepal (GoN) has given special priority to IT and BPO services due to their high export potential. The Nepal Trade Integration Strategy (NTIS), identifies ITES and BPO as one of the five priority export potential services[4]. The export revenue from ITES and BPO in 2013 was approximately to US$ 357,290[5].

Owing to its large, young, skilled, and low wage English speaking labor force, Nepal has a huge potential for BPO. Each year, approximately 5,500 Nepalese graduates enter into the IT sector. In addition, the continual improvement in telecommunications and internet infrastructures acts as a sector catalyst. Also, because labor costs are increasing in India, Nepal is becoming an even more attractive IT destination.

The GoN strongly supports the ICT industry and has sponsored programs to establish Community Information Centers (CICs) at 81 different locations in 52 districts and to construct five model-CICs in each of the development regions under SAARC Development Fund (SFD). As of September 2015, two CICs were established in Sipapokhare Village Development Committee (VDC) and Irkhu VDC of Sindhupalchowk district. Similar CICs are being established at two locations in the Dolakha, Kathmandu, Lalitpur and Bhaktapur districts. The GoN has also developed a Master Plan for ICT in Education (2013-17) to facilitate digitalization of the country's education system which makes ICT enabled education services in particular an attractive avenue for investment.

[3] The Foreign Investment and Transfer Act, 1992.
[4] Government of Nepal, 2010.
[5] ICT Service Export of Nepal 2013.

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For the development and promotion of information technology and services in the country, the Ministry of Industry has also established an IT park. Developed in an area of 257 ropani land in Banepa and Panauti, the park can accommodate 150 computer engineers to work within the periphery. The facility was established with the purpose of supporting the development of software, promoting IT based business, and providing investment promotion services in related fields. According to IT Park Operation and Management Directive 2015, the following activities are supported:

- Communications technology system design
- Training and research development
- Call center/BPO, services related to communi-

cations technology
- Software upgrading
- Seminars and technical support
- Data warehouse, data backup and recovery management services and
- Hardware development

The ICT Policy 2015 has a separate section focused on the delivery and use of ICT in good governance. The GoN has also prioritized e-governance and the digitization of their services and information. To support this initiative, in 2002 the National Information Technology Centre (NITC) was established and was followed in 2009 with the creation of the Government Integrated Data Centre (GIDS). It was established to strengthen and promote the IT sector of the GoN and to implement government e-Services. Finally, the GoN has established an authorized single window National Business Web Portal (www.nepal.gov.np) and a License Portal (www.licenseportal.gov.np). These portals provide information related to the services that the different Government bodies provide as well as information related to licensing businesses online.[7]

In summary, the relatively recent and rapid growth in Nepal's ICT sector can be attributed to the developments in the telecommunications industry and the improvement in the internet services which are crucial for the development of ICT sector as a whole.

Institutional Arrangement

Policy Level
- Ministry of Information and Communication
- Ministry of Science, Technology and Environment

Regulatory and Implementation Level
- Nepal Telecommunication Authority
- Department of Information Technology

The Ministry of Information and Communication (MoIC) has the legal mandate to develop and support ICT sector activities at the policy level. Under the MoIC, other administrative bodies support ICT sector at the regulatory level, specifically, the Nepal Telecommunications Authority (NTA) is the sector's economic and technical regulator.

Telecommunication

Nepal's telecommunication sector is dominated by two large market participants, Ncell and Nepal Telecom (NTC). NTC is a state-owned telecommunication service provider with 85% of its shares in government ownership. Whereas, Ncell is a privately owned mobile operator. As of October 2016, out of 30.89 million total mobile subscribers[8], NTC has a market share of 48.5%, making it the largest telecommunications service provider[8]. The second largest is Ncell with 46.8% of the market share[8]. As of October 2016, mobile phone market penetration is above 100% , provided by 6 service operators, NTC, UTL, Ncell, STM, NSTPL and STPL[8]. In 2011/12 the level of penetration was 63.76 %. One of the principal factors contributing to this extensive growth in four years is the dramatic rise in mobile subscriptions. The mobile telephone sector in particular has registered impressive increases, as evidenced by its sustained growth trajectory – registering approximately 8.3 million subscribers over and above 15 million in 2011/12. Similarly, the use of Limited Mobility services is on the rise and has reached approximately 2 million in 2014/15, up from 1 million in the year 2011/12[8].

ITES and Internet

Currently, Nepal's IT market is booming and the number of IT companies is also increasing rapidly. There are approximately 500 IT services companies in Nepal with few having more than 300 employees. Most of these companies focus on the development of web-enabled applications, software development, and deployment of management information systems (MIS), data processing, call centers, medical transcription, animation, and data processing. The rise in the ITES and BPO can be attributed to numerous factors, including an increase in qualified

manpower, better technologies in the market, and an improving internet infrastructure.

The use of internet services in Nepal is also rising. Internet penetration has grown from approximately 19 % in 2011/12 to 2014/15. In terms of network and technologies, various broadband technologies such as cable modem, ADSL, Wireless Modem Optical Fiber Ethernet, 3G, Wi-Fi, Ethernet, and VSAT are commonly used in Nepal. However, a majority of the people (98%) still connect via mobile sets. Two popular options for using internet include ADSL and cable net. According to the recent NTA MIS report, NTA it has provided 189 licenses under various services related to ICT.

4G services has already been introduced in the market which will contribute to providing of hi-speed internet services in 72 district headquarters, thereby expanding the optical fiber in the Mid-Hill Highway and the Postal Highway. Internet service will also be provided through microwave transmission services in remote area where optical fiber is difficult to install.[6]

INVESTMENT OPPORTUNITIES

AREAS FOR INVESTMENT

The Nepal Trade Integration Strategy, 2010 (NTIS) has included the ICT sector as one of nineteen sectors with the greatest export potential. The GoN intends to make additional efforts to develop the sector. With rising telephone penetration, an improving internet infrastructure and highly skilled low wage manpower, ICT sector exhibits a number of investment opportunities. However, the most obvious opportunities include:

- ITES and BPO services
- Internet Service Providers
- Online payment infrastructures and services
- Internet Data Centers

ITES and BPO Service

Globally, the ITES and BPO service industry accounts for nearly US$ 2.3 trillion annually. This reflects an increase of 4.6% over 2013/2014. This growth has fueled the demand for global outsourcing, which grew by 9-10% --nearly twice the global technology growth[10]. Forrester, a leading international research and advisiory firm, has projected a growth of 4.1% in 2015 and 6.3% in 2016 with business and government purchases of computer and communications equipment, software, and tech consulting and outsourcing services measured in US dollars[11].

In Nepal, local solutions providers focus on the local market, catering to local NGOs, government and academic institutions, local businesses including travel agencies, and pharmaceutical companies. Export-oriented businesses focus on international markets; the hybrid service providers focus both on local and international markets. The principal services sub-sectors in the ITES and BPO sectors include:

- Web enabled application development
- Management information systems (MIS)
- Data processing
- Call centers
- Medical transcription services and
- Animation

Some of the popular companies offering BPO services in Nepal include Verisk Information Technologies, Deerwalk, Javra Software, Leapfrog, F1Soft, Incessant Rain Animation, and Cloud Factory.

The import and export of ICT services have fluctuated during the period of 2006 - 2013. On average, the percentage of ICT services exported stayed around 37% per annum during the period 2006 to 2013. By 2013, exports of ICT services had reached approximately 51.7%. Similarly, in 2013, imports of such services remained at 14.1 % of the commercial service import. The average percentage of the import of ICT services from 2006 to 2013 stood at 14.5%.[12]

The BPO industry in Nepal has benefited from comparatively low wages and the availability of English speaking young population. The opportunities in ITES and BPO sectors include software development, mobile application and digital content development.

Software Development

Nepal can provide manpower with the required skills for software development. Every year about 5,000 students graduate with a college degree related to computers and technology. This manpower can be a huge resource for the IT companies who wish to operate their business in Nepal. IT is a booming sector in Nepal with many new IT companies entering the market place. The software developed in Nepal is not only consumed in the local market but is exported throughout the world. This is evidenced by recent trends that almost all companies in Nepal have their company-specific software for daily operations.

Mobile Application Development

Mobile applications began to emerge in 2008 and today it is supported by operating systems such as the App Store, Google Play, Windows Phone Store, and BlackBerry App World. Mobile applications support a wide variety of objects, including gaming, social media, mobile messaging and animation software. Currently, some of the most popular app categories include games, entertainment and education.

With ever cheaper handsets, smartphones are also gaining in popularity in Nepal. Out of the 12.8 million internet subscribers in the country, most use Internet on mobile handled devices such as smartphones and tablets. This increase can be attributed to the increased availability of inexpensive handsets.

Digital Content Development

Digital content development requires skills in graphics-related applications and basic programming language. Advertising companies and Web-hosting companies are the major clients for this domain. CD/DVD authoring, which is mostly used to create digital profiles, is also a field with immense opportunities.

Internet Service Provider (ISP)

The number of Internet users in Nepal has increased exponentially in the past two decades from less than 50 users in 1995 to 14.3 million users in October 2016. Nepal's huge digital divide presents opportunities for investors. Currently there are 23 active ISPs in the country as of October 2016[13] .These companies provide services including as cable modem, ADSL, Fiber, 3G and Wi-Fi, Ethernet, and VSAT. As of October 2016, there are 14.3 million internet subscribers in Nepal[13] including internet subscribed through both the ISPs and through mobile internet. Internet subscribers of ISPs only as of October 2016 are 164,112 among which the highest numbers of subscribers are cable internet subscribers. As such there are plenty of opportunities for new ISPs to enter and reap the benefits from untapped market.

Online payment infrastructure and services

Online payment systems are in their early stages in Nepal. Some of the popular online payment gateways in the country include eSewa, PayBill, iPAY, HelloPaisa. Most of these gateways are focused on online utilities bill payment such as recharge of mobile phone balance, internet bill, as well as for the purchase of bus, airline and movie tickets. Some have partnered with the merchants with whom they work. Apart from that, fund transfer to various banks is also possible through e-banking. As mobile penetration increases and more people get connected to banking e-services on their mobiles, other opportunities will doubtlessly present themselves.

Internet Data Centre

As the internet users around the globe increase, data spaces are correspondingly being reduced. As such, an opportunity presents itself to establish data centers. Nepal's temperate climate provides an added advantage to new market entries. Today, most of the Nepal's data centers are Internet Service Providers (ISPs). However, they do not maintain data centers in Nepal as being done in most other countries. Rather, they provide managed services, or collocations, or merely network support services

The GoN has its own data center in Kathmandu - the Government Integrated Data Center (GIDC). Its purpose is to store the public data servers from different public entities in a safe, secure location. NITC stores the main servers of Government Groupware, the National Portal, Electronic Driving License and Vehicle Registrations, the Passport system, the National Identification System and many others. A Disaster recovery center (DRC) is also being constructed in Hetauda to further protect the GoN data during disasters.

Although these are the major areas where the opportunities in ITC is evident, ICT cuts across virtually all sectors and can be useful in many cross cutting areas. There are a number of sectors in Nepal where ICT can add value and has a large scope for growth.

LAWS AND REGULATIONS

LAWS AND REGULATIONS

The issuance of the GoN's "National Communication Policy" in 1992 led to the modernization and liberalization of the telecommunication sector in Nepal. This was followed by the enactment of Telecommunication Act and Regulation in 1997 together with the Information Technology Policy issued in 2000. These policies have served to consolidate the sector and to position it as a driver of economic development and growth. Further, based on these initiatives, in 2004 a new telecommunications policy was announced. This policy laid down foundations for further liberalization of the ICT sector, by introducing technology neutrality and open licensing regime in the sector.

Since then, the GoN's IT Policy was revised in 2010 and a broadband policy was issued in 2014. The GoN also issued a new IT policy in 2015 which aimed at creating a favorable environment for sectoral growth.

Telecommunication Act 1997

This act regulates the establishment and constitution of the Telecommunications Authority. It also prescribes the functions, duties and powers of the authority, provisions for licensing of regulated services, facilities to be obtained by the licensee and sets out penalties to deter unwanted behavior by any telecommunications service provider.

Electronic Transactions Act 2008

The Electronic Transaction Act regulates online transactions including electronic commerce and financial transactions. It also prescribes criminal penalties, including fines and up to five years in prison, for the publication of illegal content on the internet or for the publication of hate speech or speech likely to trigger ethnic strife. Further, it also contains provisions related to electronic record and digital signature, dispatch, receipt and acknowledgement of electronic records, digital signature and certificates, network service, offence relating to computer and provisions relating to information technology tribunal are provided which is crucial for the decisions of investment in the ICT sector.

National Broadcasting Act 1993 and the National Broadcasting Regulation 1995

This legislation prescribes fines and/or imprisonment for broadcasting content that is likely to cause ethnic strife or social unrest, undermine national security or moral decency, or conflict with Nepali foreign policy.

Apart from these major legislative acts, other policies, legislation and sub-legislation related to the ICT sector include the following:

1.The National Broadband Policy, 2014
2.The ICT Policy, 2015
3.The Telecommunication Policy, 2004

ANNEX 1. INVESTMENT INCENTIVES

Incentive Category	Incentive Provisions
Income Tax	• ICT industries employing more than 300 Nepalese nationals throughout the year: 10% tax rebate
Concessions based on establishment in specific areas (SEZ & IT park)	• Software development, information processing, cyber café, and digital mapping industries established in technology park, bio-tech Park, and information processing park specified by the government of Nepal through Rajpatra will be provided with 50% exemption in the applicable tax rate. • 15% tax rate exemption for ICT industries listed in stock exchange
Others	• Telecom Companies are required to collect a Telecom Service Fee of 11% from its customers and this must be deposited together with the Value Added Tax. These fees are not applicable to Pager and Internet Service Providers (ISP) or on interconnection charges paid by one telecom company to another for the use of its network.

ANNEX 2: RELEVANT AGENCIES AND ORGANIZATIONS

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