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IIDS Policy Brief

Review of Investment Policies in Nepal

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Review of Investment Policies in Nepal

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1. Background

Public policy(ies) pitches a framework of government services on the one hand and enables an operating regime on the other to address the issue of public concern on an objective mode. As situations are ever changing whether we call it turbulence or dynamics the policy becomes a matter of concern for its appropriate tuning to provide a pathway to realise the objectives. As such policy review and reformulation constitute a continuum process.

Organised establishments in Nepal started in the 1930's. Instrumental were enactment of Company Law in 1993 BS and subsequent promotions of Nepal Bank Limited and Biratnagar Jute Mills in 1994 BS. This heralded the flow of investment backed driven by company law on the one hand the investment climate generated first by quit India movement against British Raj and then worldwide scarcity created by World War II. Policy instrumentations in Nepal thereafter were initiated only after the swing to democracy in 2007 BS, but by then many of the establishments of the 1930's and 1940's had collapsed or were on the verge of it given the shift of investment climate. The second period saw the initiations such as presenting government budget in the parliament (2008 BS), launching of the First Plan for economic development (1956-1961 AD), reforms in government Administration (2012 BS under the leadership of the then Prime Minister Tanka P Acharya), and the announcement of Industrial Policy (1957 AD over the Radio Nepal).

Since then, industrial policies have become pseudo investment policy in Nepal while strategic thrusts were provided by mid-term plan policies and annual budgetary policies. Industrial policy was changed/replaced in 2030 BS, 2037 BS which were protectionist in nature: opening up the government participation and constraining the private sector given the macro-economic setting of control and command economy right from the launching of the First Plan in 1956 AD. Economic liberalization that started in 1965 AD in Asia Pacific Economies as a spill over of Japan's development had reached western hemisphere by 1975 AD and multinational agencies started

driving on the same in Nepal by 1985 AD. Asian Development Bank supported Industrial Sector Policy Study in 1985 AD and this contributed towards change of Industrial Policy in 1987 AD as a first policy reform towards liberalization, the policy was further improved in 1992 AD. Nepal replaced the framework of control and command economy by market friendly economy with series of policy reforms after the democratic change in 1990 AD.

Hosts of policies have further been replaced including the industrial policy. But whether the investment consideration has been toned or tuned holistically for leading to investments towards economic as well as equitable progressions. In this backdrop, this is a review of investment policy incorporating the following scope:

- Brief review of – Industrial Policy, Foreign Investment Policy, Trade Policy, Three Year Interim Plan, Annual Budgets, and other sectoral policies
- Analysis of binding constraints in existing policies for investment in multiple sectors, including agriculture, services, and infrastructure development
- Analysis of role of Nepal Investment Board (NIB) to implement the existing investment policies
- Recommendations to NIB to overcome the binding constraints in investment to promote Nepal as saleable investment point, increase the flow of FDI (foreigners/NRN)

2. Objective

The review of investment policy intends to contribute to overcome the existing policy gaps to improve the conditions for investment in Nepal.

3. Methodology

The key policy issue in driving investment is creating a regime which ensures investible climate, reduces risks of losing investment and contributes to sustenance in a comparative setting and business

competitiveness. The review framework adopted in this study rests on a tripod of liberalization (openness in entry and exit in investible sectors and projects within the sector), facilitation (ease in doing business, pooling resources at the process level, and market access), and responsiveness (in resolution of issues, disputes and disruptions). In terms of weightage the first is critical, second needs to be substantive and third has to be quick and equitable). Investment is appealing and attractive in togetherness of them as they constitute building blocks and besides, the base level for any investment is peace and security, but, this one is outside the scope of current review.

The elements of building blocks of investment as found in existing policies, plans and outlays of GoN has been analysed in the current review which has been discussed with policy actors around the spectrum of Investment Board. In the review, the completeness of the policy in drawing investment from within and outside the country to economic and commercially transactionable projects in different sectors is assessed and points raised to overcome the policy constraints to create enabling environment and direct the flow of investment for economic prosperity of the country.

4. Investment

Investment is directed for returns, recovery and renewal and it eyes onto growth and quality of life. In other words, investment is putting money on specific economic activity with the expectation of recovery of the principal with returns (gains) through prudent use of the resources. Investment constitutes funding of capital requirement of the economic activity which primarily comes out of savings on the income and additionally through contribution of the financiers. It differs from expenses which goes for consumption (and thereby down the drain) as such the economising consumption would lead to incremental savings out of the earnings. Investment is thus a function of income on the one hand and is a function of interest for the part of the borrowings to makeup for the total capital requirement. Higher interest would discourage borrowings as it becomes costly to borrow the money. Using own funds on investment

is also proxied by the interest rate as an opportunity cost of investing those funds.

Investments are made by individual, firm (local or foreign), and government (in-country or foreign) and investments are made within and outside the country. From the borrowing perspective there are local and international funding agencies.

By type of application, investment could be in the form of shares or stocks, bonds or debentures, mutual funds (a collection of stocks and bonds). An alternative investment is an investment product other than the traditional investments of stocks or bonds. It includes tangible assets such as art, wine, antiques, coins, or stamps and some financial assets such as commodities, private equity, hedge funds, venture capital, film production and financial derivatives. It also includes Options, Futures, FOREX, and Gold.

To an economy investment is a key to growth and prosperity, but the investment would only be forthcoming if there is investible climate in general and competitiveness on the other. In situation of investible environment the investment would pour provided the opportunities are there either in terms of resources (natural, forest and agriculture), cheap labour, infrastructure and market or for being a hub of specific products, services or facilitation. There are risks involved as such care needs to be taken otherwise an investment might fail not delivering any ROI value for the investor.

5. Past Reviews

United Nations Conference on Trade and Development (UNCTAD) made a review of Nepal's Investment Policy in 2003. It mainly focused on how Nepal can improve its FDI performance but did not cover policy framework holistically from investment point of view, FDI or not.

As per UNCTAD (2003) assessment 'the foreign investment law lays down no criteria under which applications for approval of FDI are considered. Nevertheless, the applicant is required to submit

extensive information on inputs and output, financing, sources and uses of foreign exchange and commercial agreements entered into. It further states that there is no explanation in the foreign policy statement as to why government approval is required for every proposed foreign investment. This approval requirement possesses an intrusive hurdle for foreign investors. On the other hand the law does not provide for giving any explanation of a rejection and there is no right of appeal.

It further states that most foreign investors will wish to conclude agreements for the transfer of technology as an integral part of their operations. These include agreements for the use of intellectual property for management, marketing and other services from abroad. All such agreements require approval under procedures similar to those for FDI applications through the Ministry of Industries. It is not clear what objectives the requirement for government approval is meant to serve. Certainly, the foreign investment law does not state any criteria under which such agreements will be assessed. On the whole, the foreign investment law is weak in relation to some of the conventional norms of foreign investor treatment and protection usually contained in such a law. Moreover, Nepal has concluded relatively few bilateral investment treaties, the review further states. Very few incentives are offered to foreign investors. However, there are no specific performance requirements imposed on them as an inducement or condition of investment.

Its conclusion is that is that Nepal has failed to offer investors generally satisfactory standards of policy and administration of taxes and regulations of vital interest to business. Indeed, apart from the important liberalization of power generation, there has been little focus on removing these barriers, even those in selected industries of high FDI potential. Given the serious weaknesses in the investment framework UNCTAD (2003) suggests that Nepal's FDI strategy must focus on near-term tax, regulatory and administrative reforms.

UNCTAD (2003) outlines operating conditions which must be improved: Business taxation; Labour regulation; and Government administration in most areas affecting business. Further the operating conditions which could be improved are:

- Foreign exchange regulation;
- Regulation of the employment and residence of non-citizens;
- Corporate and commercial laws;
- Intellectual property protection;
- Competition law;
- Environmental protection regulation;
- Individual industry regimes.

It suggests that a package of measures is needed which:

- Ceases to rely entirely on government, donor and parastatal provision of business facilities (infrastructure, utilities and premises) in favour of private development of these facilities;
- Shifts the focus of export manufacturing investment promotion to private sector providers of business facilities;
- Provides an internationally competitive tax and regulatory regime and efficient administration thereof.

It further suggests that a new investment agency is needed with a twofold mandate to lead reforms of the investment framework and to prepare investment promotion packages to stimulate an immediate increase in FDI.

6. Brief Review of Policies

A policy is a deliberate plan of action to guide decisions and achieve rational outcome(s). The exigency of policy is there with uniformity at macro-economic level, sectoral for the programmes at meso level, and activity centred or project specific at the micro level.

'Macro economic policies comprise three crucial elements, namely a) stabilisation, b) liberalisation, and c) intervention, which are definitively setters, enablers, and boosters respectively. In the context of macro-economic policies, the key policy requisites comprise fiscal, monetary, finance and investment, commerce, technology, and foreign aid. On the sectoral front, the policies could be categorised by specific fronts of the productive sector (agriculture, manufacturing and services), the development sector (local development, health, education, information and communications, transport, energy, and water), and the cross cutting sector (environment, labour, land, peace and reconstruction, and social dimension). Besides, policies for the governance fronts (foreign relations, general administration and security) are of critical importance.

There is no separate policy pronouncement for investment promotion barring Foreign Investment Policy, despite needed in view of the country's pressing needs for investment both from within and outside. At the sectoral level Industrial policy is a key policy instrumentation for investment, while Trade Policy, and others provide critical supplements which are only partial and not complete and are also inconsistent. Additionally, Three-Year Interim Plan, and Annual Budgets do provide a framework for promoting investments in the specific period of time.

Foreign Investment Policy, 2063 BS

Envisioning to promote Nepal as saleable investment point, the policy considers to increase the flow of foreign investment including that from non-resident Nepalis into the economy and thereof increase the access of industrial products and services to international markets. In this regard the key strategies comprise of simplifying the process of foreign investment and technology transfer including promotion of special economic zones, one stop services.

The policy also states about extending Nepali corporate investments beyond the borders as well. However such investments need to be

confined on areas where competitiveness has been proven on goods production and market promotion.

The domain of foreign investment is to include FDI, loans, investment made through secondary markets, investment relating to intellectual property rights and technology transfer, rights relating to economic contracts, tangible assets and collaterals. The policy has defined such process as assignment, users license, technical knowhow, franchising, for technology transfer and such transfer will include technical rights, formulas, process, patents and use of intellectual property rights, use of trademark and goodwill, technical consultation, training and market access. The policy assures that there would be no nationalization of industries with foreign investment; if nationalization is essential for public interest due compensation will be provided as per the valuation affixed by representatives of both the parties. The policy also states that relaxed labour management will be allowed on the question of recruitment, deployment and retirement in industries with foreign investment. The policy provides for capital repatriation after settlement of legal requirements if any.

The policy specifies that Nepal will enter into bilateral agreements for investment promotion and protection as well as doing away with double taxation with source countries for foreign investment. The policy has specified that foreign investment is welcome on all industrial activities excluding traditional cottage, micro (save for technology transfer), security, nuclear energy and radioactive materials, real estate, local language film production, mint, tobacco and liquor (that export less than 90%), internal postal services and other industries which are excluded by sectoral policies. However, the foreign investment priority list includes of IT and consultancy, pulp and paper, microbial and medicinal academics, cement (with mines), economic infrastructure, chemical fertilizer (save for blending), herbal farming and processing, integrated circuit chips, research laboratories on microbial technology, hotel and resorts of four star and above class outside Kathmandu and Pokhara valleys, Hospital and nursing homes in excess of NRs one billion investment, tourist recreation parks in excess of NRs 150 million investment,

eco-tourism, large hydro power generation and distribution, processing of herbs and agricultural produces for international markets, agricultural implements and industrial machineries with 50% value addition, and petroleum and natural gas investigation, production and distribution. The list could be reviewed by Industrial Investment Board. The policy also specifies that Nepal will provide equal treatment to both local and foreign investment except in situation of providing security to poor and deprived citizens, micro and small enterprises, and supplies of essential goods and services on public interest albeit on a positive differentiation mode. The policy also states about simplified exit procedures.

There has to be a minimum of USD 100,000.00 investment in manufacturing; the minimum ceiling could be relaxed on recommendation of Industrial Promotion Board for investments from multi-national companies. With respect to service industries, Industrial Investment Board would affix the proportion of foreign equity participation nonetheless than commitment made by Nepal in the process of getting membership to WTO.

Industrial Policy, 2067 BS

Industry is defined as any economic activity that produces goods or provides services for the purpose of generating income. The policy has included activities based on using agricultural and forestry produces (as specified), manufacturing, energy generation, mining, tourism (as specified), construction of physical infrastructures (as specified), Information Technology related activities (as specified) and services (as specified). It also states about encouraging Contract Manufacturing, Outsourcing, Contracting-out, Franchising, Ancillary and Buy-back activities. The policy has classified industries in terms of investment and intrinsic nature into micro industries, traditional and other cottage industries, small scale industries, medium scale industries, and large scale industries.

Permission will not be required for promoting industries but registration save for security, health and environment related establishments. Industries opting for foreign investment need to take permission as specified in prevailing laws. The policy has

prioritised some industries from investment point of view, that include agriculture and forestry based, construction, energy, export oriented, tourism, mineral based, public transport, health/education/research, and traditional cottage industries.

The policy states about attracting FDI, investment from NRNs apart from local private sector. The policy states of instituting Industrial Investment Protection Fund, Investment Promotion Fund, Technology Development Fund, Micro Cottage and Small Industries Development Fund, Sick Industries Rehabilitation Fund for encouraging investments with participation of private sector including cooperatives as well.

The policy also provides for creation of Board of Investment with a view to providing due priority, protection, support and commitment from the highest level of government. It states creating Single Point (one stop) Services Centre, Industrial Promotion Board, Industrial Estate Authority, Industrial Manpower Development Institute, and Nepal Business Forum with a view to facilitate industries. It also states about instituting mechanism for protecting Industrial Property Rights.

Trade Policy, 2066 BS

The policy states that the private sector will be facilitated to actively engage in the conduct of trade. This would include facilitating exports and imports through procedural simplification, facilitation and institutional strengthening as well as concluding of bilateral and regional agreements for the recognition of Nepalese quality standards.

The policy specifies that the foreign investors and non-resident Nepalese nationals will be encouraged to establish international production network. Special economic zones will be established and expanded for export promotion with a view to attracting domestic and foreign investments. Contract farming and cooperative farming system will be encouraged by attracting investments in exportable agricultural product to promote large scale production and market. All other goods except the goods of archaeological and religious

importance, explosives, goods relating to environment and wildlife conservation, and goods prohibited by treaties and conventions to which Nepal is a party, will be opened for export.

The policy also states that service sectors such as tourism, education and health and information technology will be developed and promoted as the special thrust area.

Other Sectoral Policies

Tourism Policy 2065 BS states categorically that investment will be open to national and international investors through public private partnership in large scale tourism industry while it will be open to national investors on priority basis in medium and small tourism industry. Specifically BOOT model will be applied on tourism infrastructure development. The policy reiterates that government will create conducive business environment for the private sector to promote and manage profit oriented tourism business. The government will play a role of facilitator, regulator, coordinator, and motivator.

Hydropower Development Policy 2058 BS opens up investment from private sector (local or foreign) and government, joint venture of private sector and government. It also states of PPP mode from the perspective of risk management and mobilization of capital market and financial products to make up for the investment needs; and borrowings from foreign sources on prior approval of the government. The policy considers watershed areas of major rivers as a basis of exploiting water resources and allocating water rights. The policy provisions local private sector participation in promoting upto 100 KW power projects with subsidies from the government, and priority sector financing from the financial intermediaries. Projects will be honoured and will not be nationalized within the purview of the Permission provisions. The Permission may contain a provision for benefits of local populace in connection with dam, reservoir and powerhouse being located in the area. Exports will be allowed as per the Agreement with the GoN.

Aviation Policy 2063 BS categorises domestic and international air flights, training and development plus handling of airport facilities. Foreign investment limits are set to 80%, 49%, 95% and 95% on international air services, domestic air services, training institute and repair and maintenance workshops with a minimum paid-up capital of NRs 500 million, 150 million, 100 million, 50 million respectively and Rs 10 million for aviation sports. Airport facilities are open to be developed under BOT, OT or BOOT.

Telecommunications Policy 2060 BS states of open door system for licensing new services provider with a provision of standard license and individual license. Separate permission will be required for radio spectrum, numbering load and right of way. Private sector is called upon to invest, the foreign investor should make a provision of local participation to a minimum of 20%.

Irrigation Policy 2060 BS states of involving private sector in construction, operation and management of irrigation systems. The private sector is eligible to charge for irrigation services on account of investment made as such upon receiving permission.

National Transport Policy 2058 states of involving private sector, particularly, in developing wire roads, cable cars, railways, waterways, and green roads. It also mentions about attracting local and foreign private sector to participate in BOT, OT and BOOT modalities.

Three Year Interim Plan

Nepal adopted three year interim plan (TYIP) for the period 2064/65 BS to 2066/67 BS and initiated another one for 2067/68 BS to 2069/70 BS. TYIP II states of increasing savings to upgrade investment capacity and thereby to direct investment in the most productive sectors. It also states of mobilizing public debts to provide for investment in infrastructure (hydropower, tourism, transport) development but within manageable limits. It states of mobilizing foreign investment for the development of the prioritized sectors and to realize opportunities in trade and services.

The considerations include capital inflows, technology transfer and promoting management efficiencies. It also states about foreign participation in secondary market of selective sectors. With respect to foreign loan TYIP II states of drawing them to national priority sectors including private sector development and trade but limiting within 2.1% of the GDP at the end of the Plan period. On private sector participation, the Plan states of encouraging private investment in areas of production and distribution of goods and services, and construction of large projects. It also states of creating conducive investment climate including betterment of financial and monetary policies. The Plan specifically mentions about encouraging cooperative drives and developing public-private and cooperative/community partnerships.

Annual Budget(s)

A new three year plan, which is the 13th plan of the country, has started from July 16, 2013. Every year the budget presented by the Government to the Parliament underscores key policy thrusts as a basis of budgetary allocation of the government expenditure in driving economic growth and social equity. Budget for the FY 2068/69 underlined the desirability of enhancing the level of private sector investment in industries and infrastructures. It outlined the strategic path of Public Private Partnership in building large infrastructures, mobilizing foreign investment with appropriate legal provisions. It proposed to carry on strategic initiatives of transforming agriculture with commercialization approach, common agricultural farms under partnership of cooperatives. It also made a proposition of formulating *national investment workplan* with a view to properly mobilize remittance incomes into the productive sectors. The Budget stipulated a specific programme for private sector development in respect of facilitating their needs, providing seed-money to skilled returnees, contributing to construction of gharelu-gram (micro-industrial estate) for the women entrepreneurs, handicrafts village and product development centres. The Budget also specified for establishing Investment Protection Fund, and Technology Improvement Fund. It mentioned about formulating a fresh foreign investment and technology transfer policy as well and

making an arrangement for NRNs to invest in shares through secondary market.

7. Requisite Policy Guidance for Investment

Anyone wanting to put money as investment on a commercially transactionable economic activity would scan the policy pitched by the government. Does it provide a playing field and whether the policy as such would be enforced and honoured by the government?

The policy guidelines for investment would be a part of macro-economic framework of the government which at present since 1990 confirms to economic liberalization. Incorporating the formula of openness and competition the investment policy needs to surface at two levels. At the unified and holistic level the imposing questions hover around:

- **Wherein and how can I invest?**
 - a) Government investment vs private investment, areas of collaboration and distinct slots
 - b) Nepali: Investing within and beyond the borders
 - c) NRN: Areas and modality of investment
 - d) Foreign (Individuals or Firms): Fully open or restricted level/areas; investment methods/safeguards

- **What are the binding conditions?**
 - a) Regulations and procedures (entry/exit)
 - b) Use of labour: local/foreign
 - c) Environmental measures
 - d) Technology transfer
 - e) Local concerns/compliances
 - f) Quality assurances
 - g) Export/import ratios

- **Which are the institutions to deal with?**
 - a) Permission/Registration
 - b) Facilitation
 - c) Financing
 - d) Reporting
 - e) One stop service

- **What are the mechanisms for dispute (labour/governance/transactional/quality) resolution?**
 - a) Applicable laws
 - b) Arbitration procedures
 - c) Case filing

At the sectoral levels too, the policy clarity is required be it primary, secondary or tertiary sectors and whether it is production, distribution or supports. The con-current questions specific to sectors apart from creating a new investment frontier are noted as follows:

- **Agriculture (farming-crop/livestock/forestry)**
 - a) Farmland (landuse allocations, land pooling/acquisition)
 - b) Food crop vs non-food crop
 - c) Corporate farming, status of agri-labour
 - d) Agri-infrastructure
 - e) Export/import restrictions ?
 - f) Tax obligations and facilities

- **Agriculture (primary processing)**
 - a) Contract farming and buy-back supports
 - b) Common processing centre
 - c) Value chain linkages
 - d) Export/import restrictions?

- e) Tax obligations and facilities
- **Mining**
 - a) Permission to excavate mines
 - b) General terms of mining
 - c) Mines safety and environmental safeguards
 - d) Disposal of overburden materials/landscaping aspects
 - e) Royalties and facilities
- **Manufacturing**
 - a) Local Resource linked/Export Market linked
 - b) Branded/patented products/crafts
 - c) Merger/alliances: Monopoly/oligopolistic issues
 - d) Sub-contracting
 - e) Reservation for micro-enterprises/specific products
- **Services (sales shops/ workshop/ education/health/ finance/ insurance/ hotels or resorts/ transport)**
 - a) Size or facilities specifics by service category
 - b) Investment limits by service category
 - c) Branching conditions/restrictions
 - d) Competition related issues
 - e) Regulatory aspects
- **Real estate**
 - a) Land allotment specifics: Residential blocks vs marketing/ office complexes
 - b) Individual homes vs apartments
 - c) Durability and disaster safety
 - d) Basic infrastructure/facilities: Public supplies vs captive
 - e) Services handling and renovations
 - f) Rights and responsibilities of tenants

- **Infrastructures (energy/water supplies/irrigation/road, rail or ropeways)**
 - a) Planned allotments for investment: General and PPP framework
 - b) General propositions and negotiation aspects
 - c) Operating regime of the infrastructure company
 - d) Rights of the local people
 - e) Facilitations

8. Investment Board (IB)

Investment Board has been established under Investment Board Act, 2068 BS under the chairmanship of Prime Minister with the tasks comprising a) formulation of investment policy, b) selection of investment fronts on competitive or priority basis, c) selection of investible projects and entering into agreement with the promoters, d) monitoring of implementation of the projects as per the agreement, e) providing of financial and non-financial incentives, f) formulation of standard for project appraisal and terms of investment, g) facilitating implementation including acquisition of land, timely decisions and resolution of the problems, and h) investment promotions including coordination among government offices, and mobilization of Nepali missions abroad.

Investment Board is authorized to constitute an expert committee or a taskforce to undertake studies on project investment matters.

The Board is empowered to force investment onto the project under Investment Board Act; such projects include fast-track transport, airport development, waste management in urban areas, chemical fertilizers, petroleum refinery, large scale bridges, foreign investment exceeding 51% onto bank and financial intermediaries and insurance companies, medical college and well equipped hospitals and nursing home with over 300 beds, hydro-power projects of 500 MW or more, economic zones (special, export promoting or processing, industrial estate or information technology park), infrastructure or service industry with fixed capital amounting

to NRs 10 billion or more, manufacturing under foreign investment with fixed capital amounting to NRs 10 billion or more, and likeable projects under other priority sectors. The Board is authorized to provide permission for investment through direct negotiations in situation of a) non-selection of projects despite making of twice calls, b) less likely of competition, c) new concept or technology accommodated, d) estimate exceeding investment of NRs 20 billion, and e) inappropriateness of applying of the process for specific reason.

Investment Board is also authorized to look into any complaints relating to difficulties, barriers or disincentive in the process of investment in any project and thereof can direct the concerned agencies of its decision on to the matter. In the event of the project not following the specified investment procedures, the Board can sanction such project (halt the construction, cancel the permission, or forfeit the assets). Irrespective of whatsoever specified in other Acts, this Act would prevail in matters of permission granted by the Board, further government will not take any measures contrary to the conditions imposed on the permission granted. The project permitted under this Act will be eligible for facilities specified under Industrial Enterprises Act, Foreign Investment and Technology Act and other prevailing laws. The Board may provide additional facilities by notification in Nepal Gazette and Board may cancel the facilities in situation of abuse of such facilities.

The Investment Board Act further makes a firm commitment that during the permission period such investment will not be nationalized.

It further states for any project permitted on competitive basis no second licensing will be made in the same area or of the same nature until the specified period.

9. Gaps and/or Binding constraints

The existing policies provide scattered feeler for investment. The absence of investment policy is recognized by the Investment Board Act as formulation of investment policy constitutes one of the tasks authorized to it.

The umbrella investment policy within the framework of economic liberalization needs to segregate areas and specifics of economic activity (product or service creation and disposition) in general and emergent as well as commercially doable infrastructure activities for private sector (local or foreign) participation, and also those doable under PPP mode. It should also spell out the areas wherein the government would like to invest exclusively and under PPP mode, albeit such investment would have to be made in non-competitive fronts under the economic liberalization. It should also provide a line for segregation of public institutes from public enterprises along with a privatization strategy for the latter.

Along the alignment pitched by the umbrella investment policy, the sectoral policies need to clearly set the framework of investment. Foreign investment policy and Industrial policy have specifically set out a guidance which needs to be further improved but other policies lack the completeness for the investor/promoter to take on the investment activity. Investment Board may specify the terms and specifics of investment modality for its prioritized projects on case basis. What is essentially required is the need to pitch a basic consideration for the investors enabling them to plan for investment with clear understanding and determination.

For the sake of FDI the competitiveness of Nepal vis a vis China and India does count. Both China and India have had the strong push through great deal of inflows of FDI. According to Dumon (), with respect to China it successfully attracted FDI for six factors namely capital availability, competitiveness, regulatory environment, stability, local market and business climate, and openness to regional and international trade despite lack of transparency, inconsistently enforced laws and regulations, weak IPR protection, corruption, industrial policies that protect and promote local firms, and an unreliable legal system. Diwan (2010) states that despite challenging hurdles like political uncertainty, bureaucratic hassles, shortages of power facilities, and infrastructural deficiencies India has been able to attract FDI but in contrast with China the policies are rigid.

A study by Velde (2001) shows that, government policies towards inward foreign direct investment will have implications for human capital formation and income inequality. Appropriate policies to attract FDI are not sufficient for generating economic development and countries have begun to design further policies to “make FDI work for development”. Dunning’s OLI paradigm (Dunning, 1993) states that locating in a foreign location must possess an ownership (O) advantage (e.g. superior technology), must have a locational (L) advantage (e.g. available skills) and investing company must have reasons to internalise (I) operations rather than outsource and license foreign firms. Diwan (2010) states that natural and created locational characteristics of a country can have a major influence on a firm’s decision to invest in the country. The attractiveness of a country may also vary from one firm to another depending on its organizational context.

10. Recommendations

It eventually falls onto NIB to propose an exclusive Investment Policy which under approval from the government it would be a party to implement it. This apart the sectors wherein the investment should be forthcoming would have to improve upon the investment strategy along the parameters of the Investment Policy.

In the competitive setting of the economies in to-days globally interlinked societies, investment policy can not be thought in isolation. It should be set in a way that enhances competitive edge for the investors to be attracted. Of course there are areas where natural support factors are strongly competitive by itself, but, for others enabling climate created by the government could matter the most.

The next move following this review of investment policy will be interactions with the investors in the specific sectors as well as development professionals to find out the areas to be improved in the policy front for enabling investment flows. Then this needs to be followed by drafting of the umbrella investment policy and reforms in sectoral policies along the lines specified in Section Seven above. This could be then discussed at the Investment Board for final drafting of the policy documents and thereby submit to the government for approval.

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Public policy(ies) pitches a framework of government services on the one hand and enables an operating regime on the other to address the issue of public concern on an objective mode. As situations are ever changing whether we call it turbulence or dynamics the policy becomes a matter of concern for its appropriate tuning to provide a pathway to realise the objectives. As such policy review and reformulation constitute a continuum process.

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The Institute for Integrated Development Studies (IIDS), established in November 1990 as a non-governmental non-profit research organization, is a successor to the Integrated Development Systems, or IDS (est. in 1979). The main objectives of IIDS are to contribute to more informed public policy and action by conducting empirically based policy-oriented research on Nepal's economic and social development, foster informed debate and discussion on key development issues facing the nation, provide training and technical assistance to governmental and non-governmental agencies in areas of Institute's expertise, and facilitate access to and exchange of experience with institutions within and outside the country.