

ECONOMIC POLICY NETWORK

Policy Paper 1

IMPLEMENTATION EVALUATION OF FOREIGN DIRECT INVESTMENT POLICY IN NEPAL

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Inputs from various stakeholders during interactions at the CNI, Advisory Committee meeting, and the workshop organized by the EPN Focal Unit have been incorporated in the report. The names of people met during the interactions is included at the end of this report.

Foreword

Economic Policy Network (EPN) is an undertaking of His Majesty's Government of Nepal (HMG/N) since August 2004 with an Asian Development Bank (ADB) technical assistance (TA) to develop and institutionalize an open, responsive and result oriented economic policy formulation process based on sound economic analysis and dialogues with the partnership of public and private sector, academia, and independent professionals, to support and consolidate the Government's economic policy reforms on poverty reduction strategy. The initial focus has been in the areas of macroeconomic management, trade, investment, employment, infrastructure, tourism, agriculture, and regional development through four thematic advisory committees chaired by the secretaries of the respective implementing ministries, and guided by a high-level steering committee. The present study is an outcome of the initiative under the Advisory Committee for Economic Policy on International Trade, Investment, and Employment chaired by the Secretary of the Ministry of Industry, Commerce, and Supplies.

The study analyzes the problems facing foreign direct investment (FDI) in Nepal and prescribes policy interventions to attract more FDI in the country. The recommendations are the outcome of consensus reached among major stakeholders through various consultations and the EPN workshop. I hope the findings and recommendations will be helpful for policy makers for future reforms.

I would like to thank the Confederation of Nepalese Industries (CNI) for leading the study, and Mr. Madhukar SJB Rana, former Finance Minister, for initiating the study and Mr. Stalin Man Pradhan for completing the study on their behalf. I also thank all those who have provided inputs for the report during the interactions at CNI, the advisory committee meetings, and the EPN workshop. The work of the Advisory Committee for Economic Policy on International Trade, Investment, and Employment is to be commended for selecting the issue and for following through with the study. I would also like to appreciate the entire EPN team for their hard work. I also thank the former Steering Committee chairperson (the then Chief Secretary of HMG/N) Dr. Bimal Prasad Koirala, for his guidance during his tenure. Last but not least, I would like to thank the ADB for supporting this initiative.



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Foreign Direct Investment (FDI) is one of the important engines of economic development. However there is tough competition to attract FDI in their respective countries. Thus, Nepal should make policies in such a way that the mind set of foreign investors may change from **'Why Nepal'** to **'Why not Nepal'**.

In this connection, Nepal's position is weak in three aspects: Nepal is a landlocked mountainous country without a sea port; (ii) Nepal is weak in infrastructure development; and (iii) although labor is cheap in Nepal, labor productivity is very low.

To develop her infrastructure at a faster pace, besides peace and security, HMG should bring favorable investment policies so that private investment and FDI can be attracted in infrastructure development. Similarly labor productivity can be improved by making stringent labor laws. Labor wages should be based on his performance and productivity. Currently, once a laborer is employed for 180 days, he is permanent and cannot be dismissed even if he is unproductive.

Thus, the most important aspect is that Nepal should make the FDI Policy highly attractive compared to other countries. It is highly essential, otherwise the foreign investors have many other countries to choose whose conditions are more favorable compared to Nepal.

We would like to extend our sincere thanks to all those whom we met and who gave valuable suggestions. Specially, we would like to thank Mr. Rajendra Khetan (Vice President) and Mr. Min Bahadur Karki of CNI. Lastly we would like to appreciate Dr. Champak Pokharel, Mr. Dipendra P. Dhakal, Mr. Arun Rana and all the EPN staff who helped us to complete this study.

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Abbreviations

ADB	Asian Development Bank
APO	Asian Productivity Organization
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral, Technical & Economic Cooperation
BOI	Board of Investment
BSP	Business Service Providers
BSS	Business Support Service
CEO	Chief Executive Officer
CNI	Confederation of Nepalese Industries
CPN	Communist Party of Nepal
DG	Director General
DOCSI	Department of Cottage & Small Industries
DOI	Department of Industries, HMG
DPM	Deputy Prime Minister
EFI	Economic Freedom Index
EPN	Economic Policy Network
EPV	Export Promotion Village
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FI&TT	Foreign Investment & Technology Transfer
FITTA	Foreign Investment & Technology Transfer Act
FNCCI	Federation of Nepalese Chamber of Commerce & Industry
FNCSI	Federation of Nepalese Cottage & Small Industries
GCEC	Greater Colombo Economic Commission
GDP	Gross Domestic Product
HMG	His Majesty's Government of Nepal
HS Code	Harmonic System Code
ICT	Information, Communication & Technology
IEA	Industrial Enterprises Act
IPB	Industrial Promotion Board
MFN	Most Favoured Nation
MOCTCA	Ministry of Culture, Tourism & Civil Aviation
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOICS	Ministry of Industry, Commerce & Supplies
MOU	Memorandum of Understanding
NCC	Nepal Chamber of Commerce
NIDC	Nepal Industrial Development Corporation
NPPC	National Productivity Promotion Council
NPC	National Planning Commission
NPEDC	National Productivity & Economic Development Center
NRB	Nepal Rastra Bank
NRN	Non-Resident Nepalese

OWC	One Window Committee
OWS	One Window Service
PM	Prime Minister
POL	Petroleum Products
PSC	Public Service Commission
PSZ	Product Specific Zone
SAARC	South Asian Association for Regional Cooperation
SAGQ	South Asian Growth Quadrangle
SEZ	Special Economic Zone
SME	Small & Medium Enterprise
TOR	Terms of Reference
TRIPS	Trade Related Intellectual Property Right
UNCTAD	United Nations Conference on Trade & Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Terms of Reference

- (a) Conduct research on “Implementation Evaluation of FDI Policy in Nepal” and prepare a draft policy paper. Task details:
- review relevant documents;
 - review present status;
 - identify implementation problems, barriers, and constraints pertaining to legal, economic and policy aspects;
 - hold meetings with government, private sector, and other stakeholders to review and discuss the paper, obtain consensus on policy recommendations. And develop action plans
 - suggest improvements;
 - identify prospects for public-private partnership;
 - suggest policy-action matrix (a) policy improvements (b) activities (c) indicators and (d) responsible agencies;
 - submit draft report within 30 days from the date of assignment;
 - present the draft at the workshop organized by the advisory committee and EPN Focal Unit;
 - submit final report by incorporating feedback from the workshop within 2 weeks of presentation at the workshop.
- (b) Assist MOF in monitoring implementation of the action plans;
- (c) Undertake other tasks as required by the steering committee and ADB; and
- (d) Maintain strict accountability at all times as per contractual obligations and ensure timely delivery of policy papers.

Members of Advisory Committee on Economic Policy on International Trade, Investment, and Employment

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Executive Summary

With the restoration of multi party democracy in 1990, the democratically elected government adopted the liberal market led economic policy in Nepal. Removal of import licenses, full convertibility of Nepalese Rupees, liberalization to open joint venture financial institutions, announcement of Foreign Investment & One Window Policy, new Foreign Investment & Technology Transfer Act etc were some of the important measures taken by HMG.

A highly favorable treaty of trade was signed with India in 1996, which provided free access of Nepalese Manufactured products. All these measures have made positive impact in Nepalese economy. Due to sudden increase in export, India put several restrictions when the treaty was revised in 2002. This not only made set back in export to India but also caused the closure of certain industries whose market was targeted to India.

At the same time, the CPN (Maoist) declared a 'Peoples war'. Frequent change of government, administrative instability has resulted in the non-implementation of national policy of economic diplomacy. Violence, frequent strikes & blockades, lack of law & order etc has lost the patience of business community and had stopped further investments.

So it is the challenge for the government to bring peace & security, maintain law & order, and attract maximum number of FDIs. Beside the peace and security, even the present FDI Policy is not that attractive and encouraging. Thus HMG should bring favorable FDI policy and create an environment in order to attract maximum number of FDIs. HMG should also fulfill both the voluntary and mandatory commitments made during accession to WTO. FDI should be opened for Service sector (Tourism, Health, Education, Financial Services, Warehousing and Multi-Modal Transportation, Banking, Insurance, Consulting, Legal, Accounting, Infrastructure (Water, Power, Roads, Tunnel, Ropeway, Cable car, Airports etc), Manufacturing (including mining based industries), Agriculture, Construction and Other Service sector.

Dividend tax and taxes on export should be waved and custom duty and income tax should be reduced further. A high level BOI along with its own secretariat should be created which should act as One Stop Office for FDI. An effective bureaucratic system should be established so that one window system becomes highly effective. A mechanism like Economic Advisory Council to PM should be established for national consensus building with public-private partnership basis.

Out of all the references four most important documents like Foreign Investment & Technology Transfer Act & Industrial Enterprises Act of HMG, UNCTAD's An Investment Guide to Nepal, World Bank's NEPAL- Trade & Competitiveness Study, UNIDO's Industrial Development Perspective Plan – Vision 2020 were reviewed. The valuable suggestions and the short comings found in those documents were taken as guide while preparing this report.

SEZ/EPZ/PSZ/EPV should be established. An autonomous Export Authority and a Competition & Consumer Rights Commission should be constituted. FDI promotion desk, unit or section may be established in each and every line ministry where FDI is possible. Position classification system should be introduced and the educational and

experience requirement should be scientifically determined so as to suit the duties and responsibilities of the job.

Finally, it is necessary to institutionalize change management, with ADB's technical assistance, through leadership action at each level of the hierarchy within the proposed Board of Investment and MOICS. Necessary technical and financial support should be provided for this purpose from all the stakeholders like HMG, ADB, private sector organizations (national, bilateral or multi-lateral etc) and other donor agencies. For this a pilot project to integrate applied action research, training and consultancy services may be set up seeking to turn around the organization attitudinally, behaviorally and culturally at the sectional, divisional, departmental levels, as well as demonstrating innovative actions over process management through accelerated speed of decision taking, better accountability for performance, more transparency and effective conflict management with the participation of all the stakeholders.

Chapter I - Introduction

Purpose of the Study

As per the Consultant's terms of reference, the aim of the study is to make the investment climate in Nepal more friendly to the private sector so as to accelerate investment-outcomes by national and foreign entrepreneurs even with the on-going security and political constraints as follows: the on-going insurgency and violence since 1996; the lack of synchronization of political diplomacy with economic diplomacy; despite HMG adopting a national policy on economic diplomacy in 1997, and the lack of a national consensus amidst political parties on the precise role of the state in economic management. In short, it seeks ways and means to promote better accountability, transparency and participation in national public policy-making as well as greater competition for a more efficient and dynamic national economy.

Nature and Scope of the Study

A benchmark study undertaken jointly T. Biggs et al (World Bank and FNCCI: 2000) states "*A key finding of this report is that government policy and its implementation are currently the greatest obstacles for doing business in Nepal*" (Ibid: P 2).

Basically, therefore, this study is geared to answering the question as to how best the available investment policies, under the command of the present government can be more dynamically and specifically executed by HMG in order to substantially accelerate domestic and foreign investments in the next three years.

Limitations to the Study

1. Many invaluable references, although identified by the author, was not available to him. They have been so marked in the Reference section.
2. This study seeks change through practical actions at each level of executive responsibility. But the time allotted for the study is too short
3. Due to limited time for the study, only brief comparison with similar countries were made.

Methodology Pursued

Conceptual Foundation: Implementation is, in the short run, about identification of the required role of MOICS to suit the changed times; exercising leadership; management style; process management; transparency; accountability, corruption control and inter-and intra-ministerial communication and coordination.

Implementation is also, for the medium run, about having correct organization structure and well trained personnel to befit intended roles.

Parameters identified for in-depth examination of responsibility for change management are: (a) Role and Responsibility of the Bureaucracy, (b) Role and Responsibility of the Private Sector, (c) Public-Private Partnership, (d) Structural and Process Factors in

MOICS (e) New Fast Tracking, Effective and Efficient Bureaucratic System to attract FDI, (f) Impeding new and Effective Change Management.

The methodology, as such, comprises the following:

1. Review of Literature: Desk Study based on documents readily available.
2. Opinion Survey of Private Sector Organizations, HMG officials and FDI entrepreneurs.
3. Focus Group Discussions with Private Sector.
4. The Policy Paper on "Implementation Evaluation of FDI Policy in Nepal" was presented in the meeting of the Advisory Committee on Economic Policy on International Trade, Investment, and Employment. All the comments made by the members of the Advisory Committee was incorporated and the report was finalized.

Chapter II - Review of Relevant Documents

Relevant Documents

Out of all the documents mentioned on the references, the following are the most important relevant documents.

1. Foreign Investment and Technology Transfer Act – 1992 & Industrial Enterprises Act – 1992 published by Department of Industries, HMG in March 2003
2. An Investment Guide to Nepal – Opportunities and Conditions published in January 2003 by UNCTAD & International Chamber of Commerce.
3. NEPAL – Trade and Competitiveness Study published in March 29, 2004 – the report prepared for Ministry of Industry, Commerce & Supplies by World Bank.
4. Industrial Development Perspective Plan – Vision 2020, an Analytical Report prepared for Ministry of Industry, Commerce & Supplies by UNIDO.

Review

1. Foreign Investment and Technology Transfer Act – 1992 & Industrial Enterprises Act - 1992 are the two most important acts for the promotion of industries in Nepal. These two acts are highly encouraging acts for attracting FDI or Joint venture investments in Nepal.

Foreign investors are equally treated as local investors and the same act prevail regarding incentives and facilities to foreign investors. Any foreign national are granted 6 months non-tourist visa if he or she want to conduct some survey, study or research with the objective of making investment in Nepal. After that if he or she invest or establish an industry, then the investor along with his dependant family is granted with business visa until their investments are retained. Similarly if a foreign investor at a time makes an investment of US \$ one hundred thousand is granted a residential visa to him and his dependant family. All these are highly encouraging statements. However in actual practice, the investors have to face various problems from time to time. This is

mainly due to fact that DOI is only an recommending body whereas granting of visa is the authority of the Immigration Department.

According to FITTA and IEA, there are some fiscal incentives including income tax relief. But the amended Revenue Act and New Income Tax Act have withdrawn all such incentives, which is highly controversial. Similarly, there is duty draw back facility to those who export their products, but they have to face many difficulties in getting such facility in one hand and even if they get , they get after long gap of time. Some time they are given Government bond instead of cash which may be of no value to the foreign investors.

2. An Investment Guide to Nepal is highly informative document to foreign investors who want to invest in Nepal. The guide has mentioned that the FDI flow into Nepal is slow, but the Trade Treaty with India in 1996 have undoubtedly helped to attract many Indian investors. The major area of FDI is in manufacturing sector followed by tourism and other service sector.

The guide says that the telecommunication is government monopoly, but it is not true. Government has already opened telecommunication, air transport and hydro power sector for private sector investment. One FDI is already operating in telecommunication sector which is providing WLL telephone system in Nepal and one other FDI is granted a license to provide cellular mobile telephone facility in Nepal. Himal Power Ltd., Bhote Koshi and Khimti Power Projects are the major foreign invested joint venture power projects already operating since long time. Similarly there are joint venture private sector air lines already operating in Nepal. The guide has appropriately mentioned that the slow pace of FDI in Nepal are attributed mainly due to the following;

- (i) The labor law is excessively pro-labor.
- (ii) The tax administration is complex and the implementation is slow and negative.
- (iii) Exchanging system and fund remitting is not so encouraging.
- (iv) Government listens but no actions are taken.
- (v) Infrastructure facility is poor.

3. Nepal – Trade and Competitiveness Study document is quite useful document. It was prepared by a team of international and national consultants and by IMF and World Bank staff. The report has clearly mentioned that the infrastructure facility should be improved and labor laws should be favorable to the investors. It also mentioned that the existing Patent, Design & Trade Mark Act fall short in many areas which need to be changed as per the requirement of TRIPS.

The report correctly mentioned that in order to over come the natural barriers, Nepal must make an extra effort to improve the investment climate relative to its other competitors. At present, FDI is lowest in Nepal even among other landlocked countries. Although the rules governing foreign investment are liberal in principle but ambiguous and less friendly in practice which is absolutely correct statement.

The overriding Income Tax Act of 2002 have withdrawn all the investment incentives whereas such incentives still prevails as per FITTA. This has created uncertainties to investors with respect to investment incentives. This shows that coordination between

the line ministries are weak. Moreover, there are many duplication of institutions responsible for areas of investment approval, investment incentives, trade facilitation, export promotion, investment promotion etc. The number of such institutions should be reduced to one or two only.

The report clearly mentioned that highly favorable policy is required. Appropriate institution should be created, an effective one window committee should be formed in order to attract more FDI into Nepal. FDI or joint venture investment can be attracted in many areas like carpet, pashmina, garments, other manufacturing, agriculture, tourism, hydropower, road, transport or infrastructure developments etc. Minimum investment requirement by foreign investors was officially abolished few years ago. But this has made some adverse impact on investment. Due to this in recent years, a tendency has developed to get the business visa with the minimum investment as low as 1000 US\$ or 2000 US\$. Thus, HMG again introduced the minimum investment requirement level to at least 20,000 US\$.

4. Industrial Perspective Plan should have been the best long term vision for attracting FDI, but the document does not seem to be so useful. The document was prepared by a team of Nepali and foreign consultants. The approach taken to a large extent an academic one, as the report draws from a massive set of statistics compiled, analysing them in a rigorous and holistic manner.

The report has recommended to create two high level institutions like Economic Development Commission (EDC) and Economic Development Board (EDB). Too many high level boards may create another confusion. Thus, a high level BOI is sufficient for attracting FDI. A high level Economic Advisory Council may be created on the basis of public-private partnership whose main function should be advisory only.

Although the report has given short term, medium term and long term recommendations for attracting investment in industries, but it has not given concrete recommendations for attracting FDI into Nepal. Since there is no free trade zone, so it has suggested establishing EPZ for attracting export oriented FDI. It has recommendations to amend labor laws so that hiring and firing is easier by defining clear terms and conditions.

Thus, from the review of all the documents, it is seen that the first three documents seem to be more useful than the last one.

Chapter III Review of Present Status

Background

The 1990-96 period, with the restoration of multiparty, parliamentary democracy, in 1990, the investment climate changed dramatically as the democratically elected government ushered in market-orientated reforms to accelerate economic growth and opted to participate in the process of economic globalization sweeping the world's economy.

Thus (a) Except on gold and silver, full convertibility of the Nepali Rupee on current accounts was introduced, (b) all quantitative restrictions and import licenses were

removed, (c) tariff structure was rationalized, (d) investment incentives were extended, (e) a new Foreign Investment and Technology Act was promulgated, in 1991, that sought to provide national treatment to foreign investors, (f) the process of liberalization of the financial sector-- that had actually begun in 1985-- was further liberalized with new foreign joint venture banks, national and regional commercial and development banks entering the market coupled with a liberal policy towards entry of financial intermediaries, cooperative banks and insurance companies, (g) the central bank (NRB) removed provision for banks to have to invest in treasury bills thus freeing banks' deposits for investments by the private sector, (h) actions were being taken in earnest to simplify the tax administration by moving to a VAT regime, (i) a highly favorable treaty of trade was signed with India in 1996, and (j) the negotiations over sharing water resources with India was progressing satisfactorily.

Actually, the results of these actions speak for themselves: GDP grew from 4.8 percent per year on average during 1985-1991 to 5.2% during 1992-96. Private sector investment accelerated remarkably from 4.7% annual average growth during 1985-1991 to 13.2% during 1992-96. The growth rate in manufactured value added shot up to 13.0% on average between 1992-96 as compared to 5.3% during 1985-91. Employment in manufacturing rose by more than 36 % within a couple of years of the liberalization policies of the 1990s (World Bank-FNCCI: 2000).

The period 1996-2002 may be described as the economic turnaround period. At this very moment, the CPN (Maoists) declared a 'people's war'. They struck at a most strategic period when all the gains from the new policy of liberalization had been exhausted or was in the process of being exhausted.

It is unfortunate, that India withdrew the generous provision of Nepal-India Trade treaty of 1996 which had provided free access of Nepalese manufactured products to India without any duty or restrictions. Due to this provision, many joint venture or FDI (specially Indian Investment) were attracted into Nepal in manufacturing sector whose main market was targeted to India. But the revision of treaty in 2002 has put several restrictions as follows:

- (i) Articles to be exported to India from Nepal should be wholly manufactured from Nepalese materials or Indian materials or Nepalese & Indian materials.
- (ii) During the manufacturing process, there should change at least one digit in HS code at four digit level.
- (iii) If the article is produced from third country materials, then the total value of materials, parts or produce originating in third country should not exceed 70 % of the ex-factory price of the article to be exported to India.

India also has fixed the quota to some of the items which had restricted in the volume of export. Quota fixed to some of the items were very low compared to the capacity installed by the industries.

Such a change in the Nepal-India Trade treaty has made sudden set back in the volume of export to India causing closure of many industries whose market was targeted mainly to India.

With the liberalization measures taken by NRB, the role of NRB regarding capital transaction, exchange arrangement, remittance of profit, dividend, technical know how fee etc are as follows:

- (a) To grant the permission of opening foreign currency account
- (b) To maintain the record of foreign investment inflows
- (c) To provide the required foreign exchange facility for remitting profit/dividend
- (d) To provide the required foreign exchange facility for acquiring technical services & technical know how from abroad
- (e) To provide the required foreign exchange facility for remitting any disinvestments proceeds

In order to provide all the above facilities, FDI companies are expected to submit various regular information regarding their investment amount, their audited Balance Sheet and amount of tax they have deposited. But these information are not received regularly except from few investors. Thus the total number of FDIs in NRB's record are less than 60 (annex-6) which is low compared to the figure obtained from DOI.

Extreme political, and consequential administrative instability in Nepal resulted in the non-implementation of the proposed strategic national policy of economic diplomacy, enunciated in 1996 by the High Level Task Force on Economic Diplomacy and fully accepted by HMG. The only result of real significance has been the acceptance of manpower exports as a useful policy to pursue to sustained economic growth, reduce poverty, and contribute to rendering exchange rate and financial stability. Actually, this policy has kept the economy afloat even at the current level of heightened Maoist insurgency and terrorism.

The net result from the inability of Nepalese political leaders to harmonize and coordinate its economic policies with its foreign policy resulted in continuous political inability. The inability to develop a national consensus by, and between, political parties in parliament, and the inability of the party leadership to contain the fragmentation and splits within each political party, are the major constraining factor on business environment. It has resulted in chronic mal-governance and created a climate replete with uncertainties where risks are difficult to calculate rationally.

Statistically, the average growth rate during 1996/97 was 4.8 % at the factor cost of 1994/95 which fell back to 2.4 % in 2002/03 representing a loss of 50 % in GDP growth rate. It is necessary to keep in mind that the direct cost of insurgency was around 1.2% of GDP. Due to all this, private sector investment shrunk significantly resulting the decline in the growth of employment opportunities.

The period 2002-04 has been a most trying time on investment climate as violence, insurgency and political instability rose to new heights.

Findings

Investment climate has deteriorated on account of severe political instability and Maoist insurgency. Private sector investment has been stagnant. *"Our survey indicates that overall investment fell. Very few firms over the last five years actually made major new investments"* (World Bank-FNCCI: 2000).

There is a wide chasm of mistrust and lack of confidence between the public and private sectors that calls forth innovative institutional arrangements for garnering consensus based on the philosophy and concept of public-private partnership for greater transparency, better accountability and consensual participation.

The institutional setting for economic growth needs to be improved—and improved aggressively to disinvest government investments in profit-oriented business activities; guarantee property rights; undo government regulations; implementing a dynamic marketing and mobilization strategy for FDI through actively pursuing economic diplomacy in a coordinated, sustained inter-ministerial manner, and formalizing the informal sector's role in the market economy at the national and local levels to deepen and broaden the entrepreneurial spirit and enterprise growth.

In the wake of disinvestments by the government, HMG has taken the policy of privatization of public enterprises. HMG has adopted various modalities for privatization. One is by bidding the whole of the enterprise, the second is by selling the Govt shares, the third one is by leasing out the land & building for 10 years and selling the plants & machinery, the fourth is by leasing out the management, the fifth is by liquidating the chronically loss enterprise. The progress of privatization in the beginning were very fast, but later on it is taking at very slow pace.

Existing foreign investors find the investment climate extremely unfriendly. They feel they are unwanted and uncared for, especially in time of insurgency and violence. Some feel highly insulted by the utter neglect on the part of HMG. Although they pay taxes in Nepal, they are treated unequally and placed in the same category as tourists as, for example, when it comes to buying airline tickets. The Foreign Investor Visa Card is not being honoured in letter and spirit. The critical bottleneck faced by foreign investors is the attitudinal problem amongst bureaucrats who are not genuinely open to foreign investment. They believe wrongly that Nepal will lose its independence or the bureaucrats they lose status and power in society. It should be borne in mind that the USA with more than \$ 2 trillion in FDI is the world's strongest economy. So too China's \$ 17.7 billion in 2002 and \$ 10.3 billion in 2003 are going outward as FDI. Thus, China is also going to be Asia's largest economy by taking over Japan very soon.

Nepal, lying in the middle of the two biggest market of the world is highly attractive place for foreign investors to invest in various sectors. That is why, number of licenses issued for foreign investment are rising steadily during last one and half decade, which can be seen from the latest statistics obtained from DOI (annex-1). However, due to many of the above reasons, most of the approved FDI projects were either delayed, or some still did not implement the project or some licenses were even cancelled (annex-2). Product wise and country wise licenses are also shown in annex-3 and annex-4 respectively. Maximum number of investors are from India, which is obvious being the immediate neighbour with similar climate, culture and religion. Moreover, there is no need of passport or visa, only an identity card or citizenship certificate is sufficient for Indian investors. The next investors are from Japan (similar in culture & religion) and China (also next immediate neighbour). USA, which is the strongest economy stands as fourth one only.

Transaction costs can and should be reduced as a matter of priority to uplift the competitiveness of the Nepalese economy and to ameliorate the investment climate.

Absence of a systematic and comprehensive approach to accountability, lack of clear-cut identification of expected outcomes and continuous monitoring of the results are debilitating bureaucratic constraints for a dynamic investment climate. Furthermore, the absence of a reward or recognition system for good performance and punishment system for poor performance could be the main reason of shirking of duties and responsibilities by bureaucrats, at each level in the hierarchy. Various type of pressure by the political leaders has resulted in bureaucrats not taking responsibility for factors and forces within their control and being overwhelmed by a sense of negativism in their general attitude to change management.

There is lack of complete communication to foreign investors. That is why NRB are not getting the necessary information regarding amount of foreign investment brought into the country by FDIs and this has created the problem when they want to repatriate the profit/dividend. Thus it is quite important that all the foreign investors are adequately briefed on this aspect of FDI. Proposed BOI should provide all such information to foreign investors through proposed OWS.

The prevailing legal provisions fully guarantees the foreign investors that they will be provided the necessary foreign exchange for repatriating the profit as well as any disinvestments proceeds out of the country. In this connection one issue which has been found to be raised at various levels and various forums is : Can Nepal afford to provide such guarantee in case of large power sector projects. Some mega size such project could easily and significantly erode the total foreign exchange holding of the country.

Another issue which deserves attention is: Can foreign investors undertake external commercial borrowings or not. As all the FDIs come under the Nepal's rules and regulations, so they are not automatically permitted to undertake such borrowings. They have to seek the permission of NRB. Generally NRB expects these undertakings to borrow from local banks itself. But if the amount is too big, local banks does not have that capacity. On the other hand foreign lenders are willing to lend even without any collateral or guarantee. Moreover interest rates are also quite favorable for the borrowers.

Major weaknesses prevail in the private sector that helps to retard attempts at ameliorating business climate. Although the World Bank-FNCCI study believes that 'low productivity' is perceived by the private sector to be a significant factor for investment climate improvement. What is perplexing is that World Bank experts believe this to be a primary, rather than a secondary, responsibility of HMG.

Productivity, the most crucial variable for dynamic economic growth and employment creation, is low because the private sector is not oriented towards productivity enhancement —rather they rely on cheap labor. This necessitates better management; better industrial relations; much more investment in human resources; paying living wages; introduction of modern technology, and a strategic vision, based on consensus, amidst the business leadership for national economic growth and risk management in the unfolding era of uncertainty, crisis and conflict.

Improvement in the implementation of the Industrial Enterprises' Act 1992 (IEA) and Foreign Investment and Technology Act 1992 (FITTA) are vital. Similarly IEA, FITTA and relevant acts should be amended in a coordinated way. This requires avoiding

diffusion of responsibility to various centers of decision-taking as at present. For example, according to IEA and FITTA, custom duty, VAT, excise duty, premium etc levied on the raw materials, auxiliary raw materials utilized by any industry in connection with the production of its products shall be refunded on the basis of quantity of exports of their products. Such facilities are also available for industries, which sell their products within the country either to Export Promotion House or to the projects in foreign currency, if the same products imported are subject to exemption. But, getting the duty draw back is highly cumbersome process and it takes tedious time of 2-5 years to get such a refund. Some time HMG had even provided 5 Years Government Bond instead of money refund. Such a practice quite naturally negates the very purpose of a one-window policy and weakens the effective operations of the Board of Investment.

Challenges from international competitiveness can not be met without adequate infrastructure (roads, warehouses, electricity, water, sanitation, telecommunications). It is the duty of the State to provide a level playing field to its private sector and for which FDI and, if necessary, private-public partnership are a critical must.

Better implementation necessitates a change in management and leadership style in the public service; one can start with the MOICS with a pilot project for change management supported by ADB, as it is closely related to the private sector and is bound by WTO provisions more than any other ministry as MOICS being the focal point.

Currently there is no Board of Investment (BOI), but there exist Industrial Promotion Board (IPB under Industrial Enterprise Act) chaired by the Minister of Industry, Commerce and Supplies. Assistant Minister of Industry (if any), Governor NRB, Secretaries of MOF, MOICS, MOCTCA and DG of DOCSI are the members. Besides that, there is a representative from FNCCI and two experts of this field nominated by HMG as member whereas DG of DOI acts as the member-cum-secretary of IPB. The Board may invite any national or foreign expert or consultant if necessary as an observer. DOI acts as its secretariat as IPB does not have its secretariat. The problem that are being faced by the investors from time to time is the delay in decision making and real OWS is not obtained.

Industrial Enterprise Act has made the provision of One Window Committee (OWC) which is coordinated by DG (DOI). It has DG (Custom), DG (Internal Revenue), DG (VAT), DG (Commerce), the Chief Controller (NRB) as member along with one representative from FNCCI and one expert appointed by HMG as member. OWC may invite an expert (national or foreign) or a consultant if necessary as an observer. In this case also DOI acts as its secretariat. Since all the DGs are of the same rank as DG (DOI), so most of the time other DGs send their representatives to attend OWC meeting rather than they themselves attending the meeting. Thus, the decision made in OWC is not the final decision of their respective departments. This has made one window service as one window with several doors. Thus, the current One Window System (OWS) is totally ineffective and inadequate.

Harmonization of documents for license, banks, export and import trade, income tax, customs, company registration will make OWS more effective. Hence, with licensing system removed, OWS should address issues over the provision of infrastructure in an integrated manner.

Demarcate clearly the authority and responsibility of the Ministry and the departments with respect to parliamentary accountability. Ministers and the Ministry should be accountable for the results of policies for their concerned sectors whereas director generals should account for the conduct of the rule of law in tune with the provisions of the respective acts. This way, there will be proper checks and balance between what is policy implementation and implementation in compliance with the law of the land for that sector.

National Productivity and Economic Development Center (NPEDC) too is totally dysfunctional. NPEDC be closely linked to associations and governed by them with state subsidy for all manner of productivity enhancement measures subject to performance audited by HMG

While it is being recognized that the private sector, informal and formal, are the true engines of economic growth but at present their role in national policy-making as well as strategy determination is minimal despite the advent of full democracy. It is no wonder that they act more as lobbyists or pressure groups for narrow vested interests working at cross purposes at the cost of the national interest.

Commitment to WTO negotiated conditions are yet to be fulfilled, which will otherwise adversely affect the investment climate. It must be underscored here that the real benefit to Nepal from WTO accession is in the area of FDI mobilization from its climatic impact from the provision of MFN and national treatment based on the rule of law as per international standards and legal norms. WTO commitments are either mandatory or voluntary. The mandatory commitments are: Implementation of Agreements on (i) Custom Valuation (ii) Technical Barriers of Trade (iii) Sanitary & Phytosanitary Measures (iv) TRIPS. All these mandatory commitments has to be completed by 1st January 2007, but until now only some of them have been partially completed. Promulgation of Cyber Act, Copy Right Act, Law on Anti Dumping Measures, Amendment of Export-Import (Control) Act & Rules, Customs Act & Regulation, Nepal Standard (Certification Mark) Act & Rules, Amendment of Industrial Policy, Industrial Enterprises Act, Foreign Investment and One Window Policy, Foreign Investment and Technology Transfer Act, Amendment of Labor Act, Company Act, Security Exchange Act, Promulgation of Bankruptcy Act and Insolvency Act, Nepal Bar Council Act, Nepal Chartered Accountant Act, Bank & Financial Institution Act, Health Institute Operation Act etc are the voluntary type of commitments.

Chapter IV– Constraints and Challenge

The Problematique: Obstacles to Proper Investment Climate

(In the opinion of the private sector)

(A) In the benchmark report of the World Bank and FNCCI (2002) it was found by 44.3% in the sample survey that 'non-bureaucratic factors' such as 'inadequate demand' (18.6%), 'inadequate access to long-term finance' (14.8%) and 'inadequate infrastructure' (10.9%) were the main obstacles to a favorable investment climate. This 'non-bureaucratic parameter' is, however, beyond the scope of this study as it seeks to address issues related to better execution of existing policies lying within the control of bureaucrats themselves. In other words, these are independent variables which can be changed even with political

instability. And, in doing so, may contribute to policy stability if not, also, political stability to a certain degree.

(B) 42.6% in the survey sample determined 'bureaucratic burden' comprising variables like 'red tape, corruption and delays in decision-taking' (30.5%) to be the greatest obstacle to a conducive business climate followed by taxation bottlenecks (12.1%)—(i.e. refund of VAT and duty drawback privileges) and customs administration hassles (5.4%). All these variables are within the control of the bureaucrats themselves to improve upon, even in an environment of political and policy instability with autonomous actions being initiated by Secretaries and Director Generals jointly and/or severally.

(C) Opinion and main concern of the majority of private sector : Security in the industry, good governance, recently more than double increase in the transport cost because of sudden strikes & bundh (blockade), non-coordination between bank & investors, unpredictable in tax, interest & other revenue areas etc.

The Challenge

Improving the investment climate is a vital necessity for the Tenth Five Year (2002-07) Plan's annual growth target of 6.2%. Doing so in a scenario of insurgency and terrorism is a formidable challenge requiring leadership and foresight from all levels of executive and supervisory leadership.

Currently, the Savings as a percentage of GDP and Investment as a percentage of GDP are 15.2 and 24.3 respectively (UNDP: Economic and Social Survey 2004). To be precise, the Savings to GDP will have to rise substantially from its annual growth rate of 15.2% to 22.7% and investment to GDP will have to rise annually from 24.3% to 26.8%. If the savings to GDP may not rise as estimated, then, the importance of mobilizing FDI to fill the savings-investment gap is obvious.

This would require an even better business climate to prevail in the wake of the political instability, violence and insurgency in order to meet the GDP target so critical for reducing the level of absolute poverty from 38 % to 20 %. After all, one of the root causes of the insurgency is precisely the level and depth of poverty in Nepal. The other causes are (i) Development plans did not reach the root poor (ii) There was extreme injustice to that level who does not have any connection with leaders of the political parties or with the high level bureaucrats.

The limits to aid financing based on loans has been reached as debt repayments, at around 50% of GDP, may be leading to a situation of a debt trap for Nepal. Current debt stands at Rs 234 billion and annual repayments is around Rs 17 billion. This aid financing strategy can only be sustained with exports rising by as fast pace as debt repayments (i.e. 13% annually) that would entail not only improving the investment climate drastically but also taking special measures to invite foreign direct investments into the country as new markets, new and higher quality products were needed.

The indirect cost of aid finance needs also to be considered as to why a new strategy of enhanced private sector participation in the economy is highly desirable as a matter of national priority. Aid finance has lowered the competitiveness of the national economy

through over costing and over investing—not to mention the political costs of the conditions imposed.

Besides insurgency, political instability, frequent demonstration, strikes, bundhs, blockades etc have adversely affected economic activities during last one decade. The experience of last two years have shown that there was demonstration or violence or strike or blockade (Bundh or Chakka Jam) almost every day. The private sector had lost their patience not only due to Maoist insurgency but also due to such disturbances. Therefore, it is the challenge for the government to bring peace & security, maintain law & order, announce favorable FDI Policy and attract maximum number of FDIs not only for increasing the employment opportunities but also for the rapid economic upliftment of the country. Views and suggestion of private sector should also be taken while drafting the country's FDI policy.

The Opportunities

Nepal is lying between two fast growing economies of the world i.e. India and China. Both are heavily populated countries, so are the largest markets of the world as well. Nepal can take the advantage of this situation and can play the role of transit country for attracting them in both trade and investment.

Foreign invested projects will demand lot of skilled manpower. Nepalese labour are highly laborious and honest, but they are mostly unskilled. Thus HMG should actively involve in human resources development by providing them vocational, technical, scientific and entrepreneurial education through formal and informal modalities. Initially HMG is also required to be involved in the fields of security, infrastructure, education, health, drinking water, transportation, energy and irrigation sectors. In the later stage, private sector participation is sure to come even in the infrastructure and service sector. Private sector may be involved even in defense production once the good governance is in the place.

Nepalese labor are highly demanded abroad as they are honest and hardworking. Actually the remittance from manpower has kept the economy afloat even at this time of Maoist insurgency and terrorism. Thus, foreign employment remittances needs to be further promoted and supplemented by providing credit in rural areas to manpower at low interest rate. Currently they are charged with high interest rate by the rural landlords. Once they start earning, their savings can be attracted in various sectors as FDI from NRN.

Nepal can take advantage of its topography like plain land, mid-range hills, valleys and high Himalayas which are always snow-clad. Many foreigners love Nepal's topography and its scenic beauty. Some of the foreign nationals even consider Nepal as heavenly place to stay. So, Nepal can take advantage of these to attract their investment or one may be allowed to stay in Nepal if he spends \$ 36,000 per annum.

Comparative Advantage

Asia and Pacific region is the largest recipient of FDI in the world in 2002/2003 (UNCTAD: World Investment Report 2004). The top 3 countries were headed by China, Hong Kong (China), Singapore. China alone attracted more than \$50 billion. This is

mainly due to the investment from non-resident Chinese migrated during the cultural revolution in China. India & South Korea attracted more than \$4 billion each. Among the sub-region ASEAN attracted most which is around \$19 billion. This is mainly due to their improved economic conditions and better investment climate.

South Asia received around \$ 6.2 billion in FDI in 2003. India is the dominant host country which is mainly due to her strong economy and continued liberalization. IT sector was the dominating sector for FDI inflow in India. In India also, the investment from non-resident Indians is highly significant. Except Maldives and Bhutan, FDI flow to other SAARC countries include Sri Lanka, Pakistan, Bangladesh and lastly Nepal.

Cambodia is perhaps the most open economy among the world's 50 LDCs. After the revision of law on investment and taxation, Cambodia has been quite successful in attracting FDI specially in garment and tourism sector. Nepal should also create a more hospitable environment to attract foreign investment and investment from NRN. Opportunities can be found in infrastructure development, hydropower, agro-processing herbs processing and in tourism as the country has spectacular natural beauties and attractive cultural heritage. The range of climates from sub-tropical to sub-arctic offers remarkable opportunities for foreign investors. Various type of rear medicinal herbs can be exported after processing which at present is going raw.

Major Environmental Strengths

Macroeconomic stability; Foreign exchange stability and WTO Membership etc will counteract against the climate of uncertainty created by political, bureaucratic and policy uncertainties.

Chapter V - Recommendations

General

The role of MOICS must be changed to fit the times. It should play the role of facilitator for promoting the domestic private sector to assume the lead role in the economy by engaging the private sector through innovative public-private partnerships; advance Nepal's international competitiveness in the global and regional economy; be the knowledge and data bank and chief negotiator over WTO regulations and standards and for their application nationally.

It has been clearly mentioned in the Nepalese law that the Government will not nationalize any enterprise. However foreign investors may not be fully confident as the government is still running many business organizations. Thus, in order to get the confidence of foreign investors, HMG has taken very important step like privatization of public enterprise. But the process of privatization is taking place at very slow pace. Still there are 38 public enterprises out of which some may be kept in the public sector itself for some period. But majority must be privatized. Some sector may be opened for both public and private sector investment and they should compete with each other.

Currently, in Nepal, there is no separate office for patent, design and trade-mark registration. DOI is doing this job at present. In the long run, a separate patent, design and trade-mark registration office is recommended. But until then, DOI may be given full responsibility for TRIPS as it is the focal point of WIPO as well.

CNI and other private sector organizations should engage national economic think tanks to do the Annual Survey of Investment Climate and make the findings and its recommendation known to the general public by engaging the media and civil society to the fullest for dissemination and debate about the findings. The methodology to be pursued for the survey should follow the approach taken by the Heritage Foundation in determining its Economic Freedom Index (EFI) and be guided by the desire to improve Nepal's place in the EFI ranking. Broadly, the Annual Survey of Investment Climate may be structured around the following vital parameters in Nepal's context: (a) performance vis stability indicators --- political, policy, personnel (executives only), macro-economic indicators, (b) legal adequacy indicators, (c) assessment of the tax and customs regimes for enhancing national competitiveness and provision of effective protection, (d) appraisal of the performance of the regulatory authority for their compliance with WTO standards and assessment in their performance gaps in the context of these standards, (e) adequacy of long-term finance for large, medium, small and micro-enterprises, (f) adequacy of the managerial practices within the national and district bureaucracies towards creating a business friendly environment, (g) results of total productivity improvement drives by the private sector and (h) status and level of competitiveness in the various markets---labor, money, product (intermediate and final), (i) competitive cost of transport and utilities sector, and (i) estimates of the level of graft and corruption and avoidable transaction costs in doing business.

Annual Industrial Investment Plan (not to mention the dire need for Annual Export Plan to coordinate economic diplomacy effectively) should be formulated by the MOICS in partnership with the private sector, civil society, Ministry of Finance and Nepal Rastra Bank (NRB). It is necessary to visualize the GDP contribution by industrial sector in next

10 or 15 years. On the basis of this, the strategy has to be developed for developing the industrial infra-structure. The clear cut strategy must be brought out in what sector or field we should invite FDI and in what field we need not invite FDI. Such a plan should be handed over to the Board of Investment for implementation.

Nepal is most hydro power potential country and is second in the world. As Tony Hagen had rightly said that Hydro Power is the white coal of Nepal. It's use do not pollute the environment as well. Thus, hydro power production along with its export must be encouraged. Moreover, highly power consuming industries like fertilizer production, Arc furnace, steel plant, plying of electric rail and vehicles, rope way and cable cars etc must be encouraged. Some special incentives or special power rates has to be given to them. These will have a chain effect in the economy. For example, it will utilize local water resources to produce power; power consuming industry will develop; if fertilizer is produced in the country it will help to increase the agricultural productivity; it will save the import of fuel; if special rate are given to electric trains or vehicles or rope way they will reduce the freight charges which will ultimately reduce the transport cost; it will also keep the environment clean.

A separate National Productivity and Promotion council (NPPC) needs to be constituted by bifurcating the current NPEDC into NPPC and Economic Service Center. NPPC should be started all over with a fresh mandate in consideration of the role of productivity in development and the concept of private-public partnership. Asian Productivity Organization (APO) is also requesting HMG from time to time for the creation of the separate NPPC.

The HMG needs to formulate a definite FDI strategy as part of its proactive role in economic diplomacy. It is difficult to attract FDI in all sectors, thus HMG need to target FDI in country's competitive products and sectors. HMG also need to focus on those countries with which Nepal can have sustained export and effective buy-back arrangement. Also target FDI for Services (Tourism, Health, Education, Financial Services, Warehousing and Multi-Modal Transportation, Banking, Insurance, Consulting, Legal, Accounting, Infrastructure (Water, Power, Roads, Tunnel, Ropeway, Cable car, Airports etc), Manufacturing (including mining and herbal based industries), Agriculture, Construction and Other Service sector.

Fix the total FDI: at 3% of GDP by 2007; private fixed investment: GDP ratio: at 16 % for 2007 and 25% for 2010.

Reduce dividend tax to Zero as soon as possible which could be one of the important step to attract FDI into Nepal.

Remove all exemptions except for those goods and services that are consumed in significant budgetary proportions by the people below the poverty line.

Remove all export taxes as well as supplementary taxes.

Reduce customs duties to a minimum of 5% by 2010.

Reduce Income tax rates gradually by 15, 25 and 50 % between 2007-2012.

Policy Re-orientation Needed

Peace & Security and maintenance of Law & Order in the country should be the first and foremost agenda of the government. Then, all the mandatory WTO commitments like Implementations of Agreements on (i) Custom Valuation (ii) Technical Barriers to Trade (iii) Sanitary & Phyto-sanitary Measures (iv) TRIPS should be fulfilled by 1st January 2007. Similarly various other voluntary commitments should be completed within the stipulated time. This is very important for attracting FDI in the country.

Establish a new superstructure: The PM's Advisory Economic Council on Public-Private Partnership for Globalization.

Establish SEZ/EPZ/PSZ/EPVs: regionally and sectorally including Bonded Warehouses where the zoning infrastructure is not immediately feasible.

Experience of India and China have shown that the attraction of investment from non-resident citizens is highly important. Thus, as per the decision of NRN conference held few years ago, HMG should promulgate the legislation on NRN as soon as possible in order to attract the investment from non-resident Nepalese.

Amend labor laws to permit retrenchment of labor including wage controls, cutbacks etc as agreed to by company unions collectively. Labor and labor wage must be made productivity oriented.

Promulgate Competition Act and establish a Competition and Consumer Rights Commission as a constitutional commission to protect the consumers. Also promulgate the draft Governance Act to provide good governance not only to the public in general but also to the foreign investors which is very essential.

New personnel practices must be resorted to which should include, inter alia, a system of rewards, recognition for good performance, and penalties for poor performance as well as stern punishment for non-performance or dereliction of duties, as well as for immoral acts and unethical behavior. This may be best achieved with the creation of a high level autonomous body.

Improve business climate for the foreign investors already in Nepal with concrete measures. This will go along way towards improving the business environment for FDI as nothing is more convincing to FDI than a favorable, on-the-ground word from existing foreign investors about their personal experiences of doing business in Nepal. The BOI should conduct regular, systematic agenda-driven meetings to consult with each other.

Allow FDI in large real estate development for townships, tourism resorts, motels etc which will have climatic impact during insurgency in rural areas as urban centers are relatively free from it. FDI may also be welcomed in industry associated reforestation or in large scale farming or in irrigation. This will definitely have a salutary impact on the banking sector as they are flushed with excess funds and fear of capital outflows from Nepal.

Core economic management institutions is required to accept that in this age of globalization, regional and sub-regional co-operation sharing responsibility for industrial development, investment climate betterment and FDI mobilization by core ministries is a sine qua non for enhancing Nepal's competitiveness. One method to achieve this would be for all core ministries to have their own specialized organs within that ministry. Thus, it

is suggested that each core ministry should create an International Relation Desk, Unit or Section depending on the volume of transactions. Such a Desk, Unit or Section can act as FDI Promotion Cell which shall be linked with the proposed Board of Investment. This shall address issues of investment mobilization and international relations in the context of the WTO regime. All decisions referred to or emanating from the Board of Investment should be canalized through it.

Re-structure and re-engineer the MOICS toward establishing, as private-public partnership mechanism. There are several institutions for the promotion of export trade. They are (i) Trade Promotion Center (ii) Garment Visa Cell & Garment Export Committee (iii) Wool and Carpet Development Board (iv) Nepal Export Council etc. The main objectives of all these institutions is to promote export of various products from Nepal. All these institutions should be merged into a single export promotion authority. An autonomous Export Authority supplemented by an Export Marketing & Promotion Company should be established as a commercial joint venture unit between HMG-private sector, including foreign private investors.

The Board of Investment without a separate act has no meaning. Thus, a supreme BOI act should be promulgated and a High level Board of Investment (BOI) should be created along with its own secretariat. The most important incentives for the investors are fiscal incentives. There should not be any delay in providing fiscal incentives to foreign investors as per the policy of HMG. Thus, it is suggested to put BOI under Cabinet Secretariat. The decision of BOI should be final which should be binding and should be obeyed and followed by all other agencies. The BOI should not only liaise with other national agencies but also with foreign missions abroad to really succeed in economic diplomacy policy of HMG.

BOI Organization: Salient Features

BOI be headed by Pri-Minister or Deputy Pri-Minister as chairman. Industry Minister should be the vice-chairman. Finance Minister, vice- chairman Planning Commission, Governor NRB, Finance secretary and Industry secretary as members. BOI should also include two to three from national level private sector organizations. An Investment Expert who may even be foreign national should also be included as a member. Representatives from other ministries and experts may be invited as and when necessary. Secretary General of BOI will act as Member-cum-Secretary of BOI. BOI operates under a highly generalized, unsophisticated system for speedy decision taking. Since BOI is very high level body and cannot meet regularly, a working committee under the chairmanship of Industry Minister should be formed. The committee should include Finance secretary and Industry secretary along with two members from national level private sector organizations. Secretary General of BOI will act as Member-cum-Secretary of the committee.

Current Industrial Promotion Board should be limited to local Nepalese investors only and Foreign Investment Promotion Sections within MOICS and DOI are no more necessary.

Required Staffing within BOI

Secretary General, Director-General/Senior Executive Advisor, Policy & Strategy; Deputy DG/Executive Advisor, Policy & Strategy to constitute the Executive Committee;

Divisions to be of the rank of Under Secretaries/Functional Advisors in the areas of Agriculture, Energy, Power, Tourism, Infrastructure, Services, Information & Communications Technology; Construction and Real Estate; Textiles, Garments, Carpets and Leather; Minerals; Promotion & Marketing; Facilitation; Service Center (sub-contract CNI and/or other private sectors); Management Information Center, Documentation & Library Keep under ICT Division.

In order to make One Window Service most effective, it is necessary to keep OWC under Ministry of Finance or under the proposed Board of Investment with one special secretary as its chairman. Members could be same as previous OWC. Only thing is that, once the decision is made by the committee, that should be final which should be obeyed and followed by all the concerned departments. The foreign investors need not go anywhere once the decision is made by BOI or OWC.

Current One Window Committee and Fast Track Committee makes no sense as the purpose of both has already been taken care of.

Miscellaneous

FDIs exporting 100%, of any size, not be required to obtain licenses for project implementation except for those which may pollute the environment. However, they need to be registered in proposed BOI Office.

Foreign investors should be allowed to open the foreign currency account, if they bring such currency from their own country. Foreign investment they made should be informed to NRB as and when such investments are brought into the country. All such information should be provided to foreign investors through one stop by the proposed OWS. For the purpose of remitting the profit/dividend, it should not be made mandatory to go to NRB every year, only once in the beginning year should have been sufficient. For the subsequent year, they may repatriate the profit/dividend directly from their own bank who are operating their account as per the rule. After repatriation only, the bank may inform to NRB. The foreign investors should also be allowed to undertake external commercial borrowing after the approval of loan agreement. Loan agreement is necessary to be approved, otherwise they may drain out lot of foreign currency by charging higher interest rates etc.

Establish an Industrial Dispute Tribunal to adjudicate commercial disputes between HMG-private sector; this will not only reduce transaction costs significantly but also help remove obstacles set by antiquated, pre-globalization, pre-internet technology, pre-regionalization acts, rules and regulations. Also, the decisions by such a tribunal will serve as case law for the benefit of all such cases anywhere in future, if transparency is maintained. Without the rule of law and effective protection from acts of discretion, omission and commission by executive arm of HMG, the genuine private sector will never take business risks in the wake of mal-governance or uncertainty. The Investment Dispute Tribunal will redress investors' grievances, appeals and adjudicate inter-ministerial disputes, not involving policy matters, and to promote accountability and transparency (Note: The Industrial Policy of 1973 had proposed such a tribunal, which alas went unattended to).

Develop a new strategy for hydro-power development to capture the multiplier benefits in Nepal by a demand-led, low-power tariff approach for multi-sector development in-

country and for realizing the elusive regionally balanced national development. This call a sector by sector analysis of probable demand to cover each an every sector aligned to the choice of regional growth hubs and their corresponding corridors.

Aggressively pursue a strategy of economic diplomacy to coordinate foreign policy with economic policy especially in respect of the formation of the South Asian Growth Quadrangle (SAGQ) and BIMST-EC which will impact significantly in Nepal's investment climate.

Avoid unnecessary delay under FI & TT Act to obtain permission of Foreign Investment and Technology Transfer Agreements (FITTA). Remove any need of detail project appraisal by DOI or BOI; this the banks can do if they provide loans; let industries, that are not claiming tax holidays, be registered immediately after the approval of FITTA with Company Registrar and Dept of Internal Revenue.

Establish a high level institution for national consensus building by participation of private sectors. Establish an Economic Advisory Council to the Prime Minister on the philosophy and concept of public-private partnership with definite terms of reference as to its aims and processes (see Annex 7 for the constitution & TOR of such a Council). The council may act as business service providers (BSPs).

Establish sector-wise HMG and private sectors Consultative Committee on FDI to review bottlenecks to the functioning of the one window system, Investment Dispute Tribunal. The recommendations of such consultative committees and the high level council can play as the guide lines for drafting the annual plan and the annual budget.

Competition with national BSPs should be encouraged to upgrade the services in areas of technology transfer, marketing, management skills, design, production, etc. It is recommended that the best manner of helping the cottage and village industries is to orient them to the export market and for which foreign BSPs services may be allowed in Nepal for joint venturing with foreigners that would be most ideal as such entities know their markets best and how to access these markets.

HMG-NRB-Commercial Banks-Multilateral Financial Institutions set up a National Venture Capital Fund to promote entrepreneurs to develop new products and processes for exports as well as for R & D and in pioneering first-time in import substitution efforts.

Finally, it is necessary to institutionalize change management to attract more FDI. Necessary technical and financial support should be provided for this purpose from all the stakeholders like HMG, ADB, private sector organizations (national, bilateral or multi-lateral etc) and other donor agencies. Initially for some period, ADB's technical and financial assistance is required for functioning the proposed Board of Investment, One Window Committee. Economic Advisory Council and MOICS. For this pilot project Proposal should be submitted to ADB. ADB's technical assistance may be necessary even to the private sector organizations to activate them as they are not used to be involved in such activities.

A separate Complementary Policies for Better Investment Climate is included in this report as an annex-5, although it is not included in the terms of reference.

The implementation matrix showing the Action, Time Frame, Outcome, Responsible Person, Monitoring Authority and Remarks are shown in Chapter – VI.

Chapter VI – POLICY ACTION MATRIX

S. N.	Constraints	Recommended Policy Improvement	Action	Time Frame	Indicators of achievement	Responsible Person	Monitoring Authority
1.	Currently no coordination between investment plan & export plan	Annual investment plan to coordinate with annual export plan	Investment plan of MOICS and Export Plan of Export Authority should be coordinated by BOI	Every year	Coordinated effort of Investment plan and export plan attracted FDI and export of industrial products increased	Secretary General of BOI	Proposed Board of Investment (BOI)
2.	At present there is double tax on dividend	Make amendment in Income Tax Act	Eradicate dividend tax	As soon as possible	Due to Zero dividend tax, FDI is attracted	MOF	Minister for Finance
3.	Some of the suggestions given in Complimentary Policy will create better investment climate for FDI	Some of the suggestions given in Complimentary Policy (Annex-5) to be implemented immediately	Some of the suggestions given in Complimentary Policy should be implemented immediately	As early as possible	FDI is attracted at faster pace	Cabinet Secretariat	Whole Cabinet
4.	At present Private sector is not Oriented towards Productivity	Establish NPPC	Current NPEDC should be bifurcated into NPPC and Economic Service Center	Within 1 year	Productivity Enhanced	Secretary MOICS	National Planning Commission
5.	There is no concrete FDI strategy at the moment	HMG's strategy is highly essential to attract FDI in certain sectors	To formulate FDI strategy	Within 1 year	More FDI is attracted due to of HMG's FDI strategy	Chief Secretary	Cabinet Secretariat
6.	At present there is no	High level Public-	Establish PM's	Within 1	The concrete advice will	Chief	Cabinet

S. N.	Constraints	Recommended Policy Improvement	Action	Time Frame	Indicators of achievement	Responsible Person	Monitoring Authority
	high level public-private consultation system	private consultation system is highly essential to get practical advice from private sector	Economic Advisory Council to get concrete advice to encourage FDI	year	be guide-lines to formulate annual investment plan and budget of HMG and also to encourage FDI	Secretary	Secretariat
7.	WTO commitments have not been fulfilled as yet	To fulfill all the WTO negotiated conditions	Both voluntary & mandatory commitments to WTO be fulfilled	Within 1 year	All the WTO commitments are fulfilled	Secretary MOLJ	Minister for Law & Justice
8.	Current Investment Promotion Board is not that effective as its level is not so high	High level BOI is essential so that its decisions are effective	Create high level BOI under its own Act along with its own secretariat	Within 1 year	High level BOI is Established along with its own secretariat	Chief Secretary	Cabinet Secretariat
9.	BOI cannot meet regularly as its level is very high and have high ranking personalities as its member	Set up working committee of BOI	To implement and monitor BOI decisions regularly	Within 1.1 years	BOI decisions are implemented and monitored effectively	Secretary General BOI	Proposed Board of Investment
10.	Current OWC is ineffective. Due to this FDI is not attracted	An effective one OWC is highly essential so that its decisions are effective	Create an effective one OWC	Within 1.2 years	FDI attracted due to effective OWC	Secretary General BOI	Proposed Board of Investment

11.	Initially financial support	To obtain ADB	Develop workable	Within	ADB technical	Minister for	MOF
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S. N.	Constraints	Recommended Policy Improvement	Action	Time Frame	Indicators of achievement	Responsible Person	Monitoring Authority
	is necessary to create effective BOI, OWC, Advisory Council etc. in order to promote FDI	technical assistance	project proposal to get ADB's technical assistance	six months & continue for 3 years	assistance received and various outcomes mentioned in Policy Action matrix are achieved	MOICS	
12.	At present a mechanism of public private consultative system in various sectors of economy does not exist	Establish HMG-private sector consultative committee on various sectors	HMG-private sector consultative committees on various sectors are established	Within 2 years	From Sector –wise Private-Public consultation, guide-lines to formulate sectoral investment plan is available	Minister for Finance, Vice chairman NPC and Secretary General BOI	NPC, MOF and proposed BOI
13.	Most of the countries have no tax on export	Make amendment in Customs Act, VAT Act etc	Remove all the taxes on export	Within 2 years	No tax to promote export and export oriented industries enhanced	MOF	Minister for Finance
14.	Present Labor laws are not investment friendly	Labor laws and wages should be productivity oriented	Amend Labor laws	Within 2 years	FDI are attracted and productivity enhanced	Secretary MOLT	Minister for Labor & Transport
15.	At present, there is no legislation to attract investment from NRN	A separate NRN act is essential to attract investment from NRN	Promulgate NRN Act as per the decision of NRN conference	Within 1.25 years	Investment is attracted in various sectors from NRN	Secretary MOLJ	Proposed Board of Investment
16.	Currently there is no mechanism to protect consumers as per the requirement of WTO	Consumers must be protected in terms of quality, price and choice of products	Create Consumers Right Commission and promulgate Competition Act	Within 2 years	Consumer's right are secured	Secretary MOICS	Minister for Industry, Commerce & Supplies
17.	Present FDI Policy is not	Being a land locked	Introduce liberal and	Within 2	Liberal FDI Policy of	Chairman BOI	Proposed Board of

S. N.	Constraints	Recommended Policy Improvement	Action	Time Frame	Indicators of achievement	Responsible Person	Monitoring Authority
	attractive and liberal also compared to other countries	country FDI Policy of HMG should be more liberal and attractive than other countries	attractive FDI Policy	years	HMG is introduced and more FDI is attracted		Investment
18.	Investment for hydropower development is very large and the gestation period is long. Currently investment in hydropower development is not attracted.	A separate strategy for hydropower development is essential	New strategy for hydropower development is introduced	Within 2 years	FDI in hydropower projects are attracted	Chairman BOI	Proposed Board of Investment
19.	A mechanism for fast settlement of FDI disputes does not exist at present	FDI disputes must be settled immediately	Investment Dispute Tribunal is created	Within 2.5 years	FDI disputes resolved immediately	Chairman BOI	Proposed Board of Investment
20.	Industries of Nepal are not oriented towards R&D due to scarcity of capital	Venture capital fund is essential to encourage R&D by industries	Create national venture capital fund	Within 2.5 years	Venture capital is available to promote enterprises to develop new products & processes	Secretary MOICS	Minister for MOICS
21.	Currently FDI is 1% of GDP	FDI need to be increased	FDI promotion programs should be launched	Within 3 years	FDI to reach 3 % of GDP	Chairman BOI	Proposed Board of Investment

S. N.	Constraints	Recommended Policy Improvement	Action	Time Frame	Indicators of achievement	Responsible Person	Monitoring Authority
22.	Currently no cell or unit exist in the core ministries to promote FDI	International Relation Desk, Unit or a Cell is essential to promote FDI and economic diplomacy	An International Relation Desk, Unit or a Cell is Created in every core ministry	Within 3 years	FDI Cell established in each core ministry and more FDI attracted due to effective economic diplomacy	Chairman BOI	Proposed Board of Investment
23.	Effective cooperation does not exist at present between the South Asian sub-regional nations to coordinate FDI and imports/ exports	Sub regional cooperation among the SAARC nation will be very helpful not only to attract FDI but also to increase trade and transit facilities	Formation of SAGQ	Within 3 years	SAGQ is established and better coordination between India, Nepal, Bangladesh and Bhutan is facilitated for FDI mobilization and market access	Secretary MOFA	Minister MOFA
24.	Currently there is no export processing zone to promote export	Establishment of SEZ/EPZ/PPZ/EPV is essential to attract export based industries	Establish SEZ to promote export oriented industries	Within 4 years	To promote FDI also in export oriented industries	Secretary General BOI	Proposed Board of Investment
25.	Current income tax rate is too high	Amend Income tax Act regularly	Reduce Income tax rate by (i)15 % (ii) 25 % (iii) 50 %	2 years 4 years 7 years	FDI are encouraged and more and more FDI are attracted	MOF	Minister for Finance
26.	Duty on some of the WTO committed items has not reduced	Nepal is already a member of WTO and Nepal is soon entering into SAFTA	Reduce Custom Duty to 5 % on the items as per WTO requirements	Within 7 years	Custom Duty reduced as per WTO requirements	MOF	Minister for Finance

Annex-1

Summary Sheet of Foreign Investment in Nepal - Year-wise From the beginning to 15th Jan, 2005

(Rupees in million)

Fiscal Year	No	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
Upto 15 July 1989	60	5440.00	4595.51	466.84	10604
1989/90	30	2438.19	2139.60	398.51	9515
1990/91	23	863.56	690.74	406.28	2974
1991/92	38	3508.17	2902.10	597.84	5615
1992/93	64	17886.22	16210.81	3083.67	13873
1993/94	38	3733.23	3175.66	1378.76	4734
1994/95	19	1627.28	1247.85	477.59	2386
1995/96	47	10047.47	9398.54	2219.86	8032
1996/97	77	8559.25	6692.15	2395.54	9347
1997/98	77	5569.38	5142.32	2000.28	4336
1998/99	50	5324.42	4380.17	1666.42	2146
1999/2000	71	2669.09	1910.24	1417.61	4703
2000/01	96	7917.62	6122.49	3102.56	6880
2001/02	77	3318.53	1559.59	1209.65	3731
2002/03	74	4921.82	3608.25	1793.77	3572
2003/04	77	4309.65	3762.17	2755.40	2144
2004/05 up-to 15 Jan	17	770.39	476.52	311.08	3432
TOTAL	935	88904.27	74014.69	25681.66	98024

Source: Department of Industries

Annex-2

Summary Sheet of Foreign Investment in Nepal - Status-wise From the beginning to 15th Jan, 2005

(Rupees in million)

Status of Industries	No	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
Operational	401	47062.28	39836.57	10892.86	50176
Under Construction	33	5373.74	4866.24	1260.97	4303
Licensed	122	13040.53	10388.09	3838.58	15114
Approved	286	13348.05	10213.68	6966.50	17313
Closed	21	1570.46	1329.68	442.67	1924
Cancelled	72	8509.20	7380.43	2280.09	9194
TOTAL	935	88904.27	74014.69	25681.66	98024

Source: Department of Industries

Annex-3

Summary Sheet of Foreign Investment in Nepal - Sector-wise From the beginning to 15th Jan, 2005

(Rupees in million)

Type of Industries	No	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
Agriculture & Forestry	13	1670.05	1511.27	454.19	813
Manufacturing	440	35554.35	25997.37	10000.72	60619
Food, Beverage & Tobacco	73	9171.99	7962.49	2198.92	9084
Textile, Readymade Garment	148	8465.27	5341.88	2940.43	32873
Wood & Wood Products	8	116.36	89.85	41.52	1440
Paper & Paper Products	21	1796.98	1527.43	318.90	892
Chemical, Petroleum Products	79	6368.40	4722.27	1969.27	6563
Non-Metallic, Mineral Products	17	3567.26	2157.47	869.16	2928
Basic Metal Products	24	2169.98	1434.62	670.50	1907
Machinery & Metal Fabrication	51	3042.41	2146.75	795.64	3568
Other Manufacturing units	19	855.70	614.62	196.38	1364
Electricity, Water, Gas etc	19	19686.77	17969.09	3299.56	4950
Construction	29	1578.99	1253.85	998.83	1716
Hotel & Resort	227	15706.28	14907.60	4474.21	14585
Transport & Communication	25	4095.70	2818.55	1618.96	5039
Housing & Apartment	17	256.43	105.21	145.51	1509
Service Industry	165	10355.70	9451.75	4689.69	8793
TOTAL	935	88904.27	74014.69	25681.66	98024

Source: Department of Industries

Annex-4

Summary Sheet of Foreign Investment in Nepal - Country-wise From the beginning to 15th Jan, 2005

(Rupees in million)

Country	No	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
Australia	9	141.59	108.82	90.50	359
Austria	9	171.06	130.71	46.36	350
Bangladesh	12	446.14	206.89	211.70	3401
Belgium	1	7.00	5.98	5.95	30
Bermuda	6	1995.25	1694.03	118.27	1474
Bhutan	3	27.26	20.58	3.61	98
Brazil	2	21.07	7.50	4.43	221
Bri.Virg.Is	4	3439.78	3301.19	1282.94	1210
Canada	9	723.48	630.91	576.30	1289
China	95	9094.25	7610.45	2717.24	7751
Denmark	4	521.92	467.18	30.14	236
England	3	15.53	14.20	11.04	0
Finland	2	10.00	6.86	4.55	91
France	23	439.36	373.44	109.20	1069
Germany	40	1703.88	1557.77	568.14	2657
Ghana	1	6.50	6.18	1.95	0
Gwatemala	1	10.00	5.00	2.50	84
HongKong	15	1343.54	1099.44	525.24	2075
India	295	31721.73	24455.53	9752.46	40592
Iran	1	5.00	1.80	1.00	0
Ireland	1	5.00	1.00	1.50	40
Israel	3	605.60	504.38	73.50	82
Italy	14	1239.90	1124.40	190.81	329
Japan	99	2858.91	2463.20	943.94	5349
Malaysia	6	464.64	447.07	22.08	203
N. Korea	1	44.82	41.20	12.55	71
Netherland	9	1062.65	892.28	409.94	2052
Newzealand	7	283.63	228.66	17.07	1994
Norway	7	8035.59	6692.40	1061.33	538
Pakistan	11	310.34	223.97	132.47	2331
Panama	1	83.28	65.17	24.98	121
Philippines	4	934.18	859.53	50.35	1354
Poland	2	89.72	85.55	7.39	39
Russia	4	90.55	59.93	38.73	191
S. Africa	2	30.00	24.84	30.00	59
S. Korea	48	1754.35	1463.75	915.17	2975
Singapore	11	1614.94	1557.30	343.40	1187
Solvenia	1	4.19	3.94	4.19	0
Spain	3	23.72	20.26	18.97	25
Sri Lanka	3	79.15	55.90	37.41	83
Switzerland	21	522.48	470.75	143.95	347
Taiwan	8	412.75	358.83	172.62	571
Thailand	8	953.12	813.38	91.64	1106
Turkey	2	8.00	5.15	20.50	46
UAE	1	178.54	37.24	45.00	93

Country	No	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
UK	31	2491.80	2114.99	702.51	5254
USA	91	12788.11	11613.16	4091.45	8579
Ukraine	1	90.00	82.00	14.70	18
TOTAL	935	88904.27	74014.69	25681.66	98024

Source: Department of Industries

Annex-5

Complementary Policies for Better Investment Climate

1. Amend existing labor legislation to allow for better operation of the labor market and the freedom of the entrepreneur to enter or exit the market.
2. Decartelization of the transport sector to make the economy competitive as also ending the public sector monopoly over procurement and supply of POL products by allowing full participation by the private sector. It is argued here that this is the best method of ensuring price stability and due quality. It will not only reduce prices significantly but also improve the quality because of competition.
3. Speeding of privatization process, and performance contracting with remaining public enterprises' CEOs, liquidating chronic loss making public enterprises will definitely improve the investment climate with a most favorable impact on the stock market.
4. Implementation of the Task Force Report on Customs Administration will undoubtedly improve investment climate.
5. Setting up an independent Competition Commission, and a semi-independent Revenue Board (with public-private participation) which is also vitally necessary.
6. More than any other dimension, implementing WTO commitments on time will drastically improve investment climate and here it must be underscored that it is the best method of mobilizing FDI.
7. Eradicating graft and corruption will help significantly as accountability, transparency, participation and competition etc are the core features of good governance. This will definitely make the feeling of guarantee to the foreign investors.
8. Civil service reforms toward creating a technocracy at the central level (based on open autonomous bureaucracies with the transfer of excess civil servants at the center to district administration). New recruitment to all levels of civil service be done only from those under-represented ethnic and caste groups until their proportion in the district and national civil service is represented as per their population distribution. Such a policy of affirmation or positive discrimination or reservation will respect merit based on competition while providing for inclusion.
9. Lowering income tax rates and customs duties commensurate with VAT increment percentage and deepening of the VAT base; keep tariffs and other taxes lowest in all of South Asia so as to serve as a bridge economy between China, India and other South Asian countries. This will add luster to the investment climate as Nepal being the SAARC capital and serves as a transit bridge between two of the greatest civilizations in the world.
10. Remove tax holidays except for pioneer and high priority industries and businesses with high risk venture capital investments.

11. Forceful action against willful defaulters.
12. Allow FDI for large contract farming, especially for organic farming and open up FDI in cottage industry as well; this will have climatic impact during times of conflict
13. Promote FDI in SEZ, EPZ, PSZ, EPV and in developing a system of multi-modal transportation.
14. Establish a separate Authority (similar to Greater Colombo Economic Commission GCEC of Sri Lanka) to deal exclusively with SEZ/EPZ investments and to provide one- window service in these locations. Since 1992, GCEC of Sri Lanka has been converted into Board of Investment with its own secretariat.
15. Introduce the Position Classification System with scientific determination of job requirements (education, experience and other criteria) so as to suit the duties and requirements of the job itself; Enter into a MOU system for recruiting all ministerial, departmental and corporate executives on a fixed term basis and extend contract only if they perform as agreed to. Their emoluments, continuation or termination would be evaluated by an independent authority such as the Standing Committee of Independent Experts installed in the PSC so that ministers would be debarred from placing and transferring civil servants. All officials below the rank of Under Secretary be required to account for their role as facilitators of the private sector by maintaining a weekly log book as to whom they served and what kind of service was rendered and state how long it took to meet their individual need or was referred to higher authority.
16. Special Judicial Reform Commission be established to modernize the commercial rules and regulations as well as making regulatory bodies fully transparent, accountable and participative with stakeholders in the true spirit of the market economy and democracy.
17. Gross inadequacy of term-loan financing by commercial banks exists. They are unsuited to this kind of financing as, borrowing short-term and lending long-term would cause a mismatch between their assets and liabilities; the finance companies are mainly consumer and housing finance; the NIDC is to be liquidated; development banks should be encouraged in private sector for long term loan. ADBN is in the doldrums not being clear on its development and commercial banking roles; no venture capital funds exist; rural credit supply is inadequate for meeting the needs of the rural sector. More than equity finance, debt finance (loans and bonds) is more likely the optimum measure and so HMG has to mobilize investments funds from abroad by engaging foreign portfolio investments.
18. Renew Company Act and transfer this department as a department to MOF for better regulation, coordination with tax authorities and for introduction of e-governance more deeply and significantly.

19. Set up Consumer Rights Commission as a constitutional commission; promulgate the draft Governance Act.
20. Extreme political and consequential administrative instability in Nepal resulted in the non-implementation of the proposed strategic policy of economic diplomacy enunciated in 1996 by the High Level Task Force on Economic Diplomacy and accepted by HMG. The only result of real significance has been the acceptance of manpower exports as a useful policy to pursue to sustain growth, reduce poverty and for the provision of exchange and financial stability. Actually, this policy has kept the economy afloat even at the time of grave Maoist insurgency.
21. Aggressively pursue a strategy of economic diplomacy to coordinate foreign policy with economic policy especially in respect of the formation of the South Asian Growth Quadrangle (SAGQ) and BIMST-EC which will impact significantly Nepal's investment climate.
22. Promote Nepal as a heaven for resident tourists and issue 5 year multiple visa to those who can spend \$ 36,000 per annum. Promote an old age home for retired old foreign nationals who want to spend the rest of their life in Nepal. This will not only bring the foreign exchange in the country but will also create an employment opportunity.
23. Deregulation over location, entry, exit and expansion of industries by abolishing need for licenses of any kind to do business except the one which may pollute the environment. Facilities should be well spelled out in the relevant Act or Policy Statement.
24. Being member of WTO, Nepal should act on the basis of globalization. The government or the head of state should invite prospective foreign investor who love Nepal and who would like to invest in Nepal as the state guest. He may be welcomed and may be appointed in some advisory committees or even in BOI as member for some fixed period. A personal touch should be given so that he may feel, he is being honoured or recognized. He will then definitely make a huge investment in Nepal. Such system has been successfully practiced in South Africa.
25. An infrastructure to organize international trade fair should be developed. Regional or International Trade Fairs should be organized from time to time. The trade fair may be International Handicraft Trade Fair, International Carpet Trade Fair, International Agriculture Trade Fair etc. This will not only promote tourism, but will also attract the investment as they will see the opportunity.
26. The excellent e-governance initiative of the Ministry of Science & Technology must be appreciated (www.nepalhmg.gov.np) and it must be deepened by having all ministries to opt for e-governance in supplementary and complementary manner with each manner.

Annex – 6

Nepal Rastra Bank Foreign Exchange Department Foreign Direct Investment

Financial Services

Banking Companies

1. Nabil Bank
2. Standard Chartered Bank
3. Himalayan Bank
4. Nepal SBI Bank
5. Nepal Bangladesh Bank
6. Everest Bank

Finance Companies

1. United Finance Ltd.
2. International Leasing & Finance Ltd
3. Nepal Sri Lanka Merchant Bank
4. Alpic Everest Finance Ltd
5. Shree Investment & Finance

Insurance Companies

1. National Life & General Insurance
2. United Insurance
3. Sagarmatha Insurance

Manufacturing Industries

1. Nepal Lever Ltd
2. Dabur Nepal Ltd
3. Colgate Palmolive
4. Arti Strips
5. Bottlers Nepal Ltd (Coca Cola)
6. Pepsi Cola
7. Surya Tobacco Co
8. Gorkha Brewery P. Ltd
9. Gorkha Lawri (Tea Co)
10. Bottlers Nepal Terai Ltd (Coca Cola)
11. Vashuling Sugar & General Ind.
12. Vaicol Industries & Prod.
13. Jaiti Nepal P. Ltd.
14. Colas Nepal P. Ltd
15. Asian Paints Nepal

Infrastructure Units

1. Himel Power Co (Khimti)
2. Bhote Koshi Power Co.
3. Butwal Power Co Ltd.
4. Panda of Nepal
5. RDC of Nepal C/o W>S>Walker
6. Statcraft Anlegg Nepal P.Ltd

Export Oriented Units

1. Nepal Bayern Electric
2. Logo Industry
3. Momento Apperls
4. Male Fashions
5. Trikumar Garment Industry p. Ltd
6. Shakti Carpet Service
7. Nara International

Tourism Industry

Hotels

1. Soaltee Hotel Ltd
2. Hotel Himalaya
3. Hokke Hotel (Lumbini)
4. Hotel Kido
5. Taragaon Regency Hotel

Resorts

1. L. M. Suvir Brothers (Nepal)
2. Taini International Resort (Mandarin)
3. Monal Resort

Restaurants

1. Gourmet avienna Food Restaurant

Airlines

1. Lumbini Airways
2. Dynast Aviation
3. Himalayan Helicopters
4. Balloon Sunrise Nepal

Communication Sector

1. **United Telecom Ltd (UTL)**

Annex - 7

Constitution of Economic Advisory Council

The Economic Advisory Council be headed by the Pri-minister. The presidents of FNCCI, CNI and NCC will be the members of the council. A prominent foreign expert or a prospective foreign investor should also be included in the council. The council can invite any private sector personalities or experts as and when necessary. The secretary general of BOI will act as the member cum secretary of the council. The council may create various sub committees on the following sub sectors.

1. Manufacturing sector will be headed by FNCCI or CNI in rotation. Members Will be mostly from private sector industries.
2. Agriculture sector will be headed by One of the president of Peasants Association
3. Tourism sector will be headed by HAN or NATA in rotation. Members could be from various tourism related organizations
4. Water Resources sector will be headed by one of the private sector hydro power company. Members could be drawn from irrigation, other power sector etc.
5. Export sector will be headed by Foreign Trade or other commodity Export Associations in rotation. Members could be drawn from other bilateral chambers.
6. Productivity Committee is highly essential to improve productivity and make the products highly competitive as per the WTO requirement.
7. Committee on Whole sale trade will be headed by large scale whole sellers. This is essential to improve supply management.
8. A Committee on Foreign Employment should also be created which will be headed by the President of man power companies. Their remittance has not only kept the economy afloat during the current insurgency period but their remittance could also be utilized as investment from NRN in the productive sector.

TOR for sub committees and Economic Advisory Council

The sub committees will submit their suggestions to the council. After its study and review, the council will forward it to NPC. NPC will submit to the cabinet for its approval. These suggestions could be valuable guide-lines to MOF for drafting its annual budget. TOR for the council are as follows:

- a. Policy coordination and implementation,
- b. Remedy to sick industries,
- c. Acquisition, absorption, transfer and development of appropriate technology,
- d. Encouragement of foreign investment, elimination of hassles, problems and creating investors friendly environment,
- e. To suggest in modification of policy and legislative reforms on the basis of monitoring of industrial, agricultural, tourism, water resources or other sectors of economy,
- f. To suggest for research & development and for analysing the donors fund,
- g. On any matters for attracting the investment in Nepal.

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Persons met

Officials

1. Hon. Mr. Madhukar SJB Rana, Minister for Finance, HMG
2. Mr. Vijay Nath Bhattarai, Governor, NRB
3. Mr. Dinesh Chandra Pyakurel, Then Secretary, MOICS
4. Mr. Bharat Bahadur Thapa, Secretary, MOICS
5. Mr. Krishna Bahadur Manandhar, Deputy Governor, NRB
6. Mr. Prachanda Man Shrestha, Joint Secretary, MOICS
7. Mr. Bimal Wagle, Joint Secretary, MOICS
8. Mr. Krishna Gyawali, Joint Secretary, MOF
9. Mr. Tana Gautam, DG, DOI
10. Mr. Punya Prashad Neupane, Joint Secretary, Industrial Promotion Division MOICS
11. Mr. Naindra Prashad Upadhyaya, Joint Secretary, Planning Division MOICS
12. Mr. Rishi Koirala, Director, Foreign Investment Section, DOI

Private Sector

1. Dr. Bhola Nath Chalise, Former secretary MOICS and currently consultant in Privatization Cell, MOF
2. Mr. Binod K Chaudhari, President, CNI
3. Mr. Rajendra Khetan, Vice President, CNI
4. Mr. Narendra Basnet, Vice President, CNI
5. Mr. Pradeep Kumar Shrestha, Past President, FNCCI
6. Mr. Badri Ojha, DG, FNCCI
7. Mr. Rajesh Kaji Shrestha, President, Nepal Chamber of Commerce
8. Mr. Mahesh Agrawal, Past President, NCC
9. Mr. Narendra Bhattarai, Immediate Past President, Nepal Banker's Association
10. Mr. Kush Kumar Joshi, Managing Director, Nepal Ekarat Engineering Co. P. Ltd.
11. Mr. Hari Bhakta Sharma, Executive Member, CNI
12. Mr. Bal Krishna Shrestha, Chairman, Hama Iron & Steel P. Ltd.
13. Mr. Min Bahadur Karki, Executive Secretary, CNI
14. Mr. Ang Dendi Sherpa, President, FNCSI
15. Mr. Rajendra Bahadur Shrestha, Senior Consultant, FNCCI