Foreign Investment and Technology Transfer for the Industrial Development In Nepal

Krishna Gyawali
Secretary
Ministry of Industry
Government of Nepal
Governing Policy, Acts and Regulations

- Industrial Policy 2010
- Foreign Investment and One Window Policy 1992
- Industrial Enterprise Act (IEA) 1992
- Foreign Investment and Technology Transfer Act (FITTA) 1992
- Patent, Design and Trademark Act 1965
- Company Act 2006
- Investment Board Act 2011
Related Institutions

- Ministry of Industry
- Department of Industry
- Company Registrar’s Office (Office of the Company Registrar)
- Board of Investment (Investment Board Nepal)
- Nepal Rastra Bank (Central Bank of Nepal)
- Department of Labor
- Department of Immigration
- Inland Revenue Department
Ministry of Industry

• Divisions:
  – Industrial Promotion
  – Technology and Environment
  – Administration and State-owned Enterprises
  – Planning and Policy Analysis
Ministry of Industry contd...

- Departments
  - Office of the Company Registrar
  - Department of Mines and Geology
  - Nepal Bureau of Standard and Metrology
  - Department of Cottage and Small Scale Industry
  - Department of Industry
Facilities as per IEA 1992

• 25% to 35% rebate on income tax depending upon the type and location of industries

• Encourages the investment on pollution control equipment

• Encourages Technology, Product Development and Efficiency Improvement

• Exports are encouraged.
Facilities as per Industrial Policy 2010

• Income Tax rebates
  – From 5% point rebate on corporate rate of income tax to 90% tax rebate up to 10 years depending upon the type and location of industries

• Investment on Pollution Control Equipment is encouraged

• Expenses for the long-term benefit to the workers and employees are encouraged

• Investment on productivity enhancement training programs, research and development, etc. are encouraged
Facilities as per Industrial Policy 2010 (contd.)

- Reinvestment for the diversification or for capacity increment is encouraged
- IP registration in Nepal is encouraged
- Expenses/Donations on CSR is encouraged
- Exports are encouraged.
Highlights of FITTA 1992

- Equal Treatment to the Foreign Investment Industries
- 100% Foreign Investment allowed in industries (except in few as mentioned by sectoral policies)
- Technology Transfer is possible in all sectors of industries
- Repatriation is guaranteed in Foreign Currency
- Business/Residential Visa for Investors
- Clear Provision of Dispute Settlement
Policy and Legal Reforms Initiatives

- New Industrial Policy 2010
- Construction of Special Economic Zones (SEZs)
- New Industrial Enterprise Act
- New Foreign Investment Policy and FITTA
- Separate Intellectual Property (IP) office
- Nepal Accreditation Board Act
- Nepal Standard Act
Potential Sectors for Investment

- **Energy** — Hydropower, Other alternative sources of energy (Solar, Wind mills, Biogas)
- **Mineral based** — Cement, Natural Gas, Petroleum, Precious Stones
- **Tourism** — Health Tourism, Resorts in High altitudes, Bungee Jumping, Kayaking etc
- **Service** — IT/ICT, BPOs, Higher Education Institutes, Health Sector (Hospitals, Diagnostic Centers)
- **Agro/Forest Based Manufacturing** — Herbs Plantation and Processing, Dairy Processing
- **Infrastructure Development** — Construction of Railways, Roads etc. Public transportation system
Department of Industry
General Roles

- Administer and facilitate Medium and Large-scale Industries
- Administer and protect Industrial Property, viz. Patent, Design and Trademark
- Administer, promote and facilitate foreign Investment
- Work as Secretariat to the Industrial Promotion Board
Recent Investor-friendly Reforms
Streamlined FDI Approval Process

Start

Fixed Capital > NRs. 10 bln. No

Application at IB

Yes

Application at DOI

Fixed Capital > NRs. 2 bln. Yes

Approved by Industrial Promotion Board

No

Approved by Director General of DOI

Approved by Industrial Promotion Board

Issuance of FDI Approval Letter

Company Registration

Industry Registration/Tax Registration

Commissioning of Industry
Reform Results

- Established a 3-member committee that meets once a week
- Merged 8 internal procedures (from a total of 22 to 15)
- Reduced processing time to 5 to 10 days (from a total of ~30)
Business Visa Processes (1 to 5 years)

- Provided to Investors/Representatives and their dependents as follows:
  - FDI approved, other registration remains: 1-3 months
  - All formalities completed: 6 months
  - Formalities completed, but investment yet to come: 3 months
  - Investment made and industry in operation: 1 year
  - Up to industry operation date, if the industry is not in operation
  - Field visit is compulsory
  - Submit application at least 15 days prior to expiry of visa
Criteria developed for 5 year Business Visa

1. Basic: Industry in operation and any one of following criteria met:
   - Investment > US$ 200,000 in 3 years,
   - Income Tax Paid,
     • if average IT of Last 3 years = Rs. 200,000 - 1 investor
     • for every next Rs 100,000 - 1 additional investor
   - Employment
     • if Perm. Employment = 50 people - 1 person
     • for every next 20 employment - 1 additional
5 year business visa enforced for investors

- Export
  - average export of last 3 years Rs. 20,000,000: 1 investor
  - for every next Rs 20,000,000 worth export -1 additional

2. Basic: if it falls under national priority industry/mega projects category with FI Rs 500 million, even if Industry is not in operation but
  – Investment US$ 1 million for person, US$ 5 million for a company

• Check list developed to simplify the process and documentation
• 13 industries (31 individuals) recommended for 5 yrs business visa
Simplification in the Non Tourist Visa process

• Provided for the foreign experts/employees to work in the Nepali Industry
  – Basic Pre-requisites
    • Submit application within 60 days of tourist visa
    • Notice in National Daily Newspaper
    • List of Nepalese to be trained
    • Non availability of Nepalese for the said job
    • work permit from MoHA
    • Labour Permit from DoL
Simplification in the Non Tourist Visa process

- Visa Process Mapped - IFC initiated
  - 72 steps; 65 signatures; over 4-7 months; 5 agencies
- Checklist for Non-Tourist developed as agreed by MOI, MoHA, DoImm, DoL
- Introduced new simplified process, Simultaneous processing introduced
- Reduced processing time (2 weeks - 1 month); 4 agencies
Simplification in the process of obtaining Non Tourist Visa

- **Previous Steps**

  Application at DoI → MoI → MoHA → MOI

  DoL → Dol → Dolmm

  NT Visa issued

  - Used to take ~4 months

- **Current Steps**

  Application at DoI → MoHA → Dol

  DoL → Dol → Dolmm

  NT Visa issued

  - Takes ~2 Weeks to 1 month

- Possible due to initiatives of IBN, IFC and DoI
Maintaining Relations and Handling Investor Queries

• Engaged in dialogue with the investor community and government on the FDI related constraints
  • Nepal Business Forum FDI Working Group
  • Interaction Program for Investors
    • Jointly with FNCCI in June 2012.
    • Japanese Investors in early 2013, Chinese Investors in September 2013

• Prospective Investor Queries Status
  • Few queries are received via email and all have been replied personally by the Director, FDI section
Maintaining Relations and Handling Investor Queries

contd...

• Improved relations by reducing the role of intermediaries through exchange of knowledge and experiences
• Increased investor confidence and encourage investment flows
Foreign Investment Approval Status
## Status of Foreign Investment

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Country</th>
<th>Fiscal Year 10/11</th>
<th>Fiscal Year 11/12</th>
<th>Fiscal Year 12/13</th>
<th>Fiscal Year 13/14 9 months</th>
<th>Total Mid April 2014</th>
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<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>38</td>
<td>24</td>
<td>41</td>
<td>16</td>
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<td>2</td>
<td>China</td>
<td>69</td>
<td>77</td>
<td>97</td>
<td>77</td>
<td>652</td>
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<tr>
<td>3</td>
<td>USA</td>
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<td>24</td>
<td>24</td>
<td>17</td>
<td>239</td>
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<tr>
<td>4</td>
<td>S. Korea</td>
<td>18</td>
<td>22</td>
<td>23</td>
<td>14</td>
<td>208</td>
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<tr>
<td>5</td>
<td>Japan</td>
<td>8</td>
<td>13</td>
<td>12</td>
<td>11</td>
<td>190</td>
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<td>6</td>
<td>UK</td>
<td>9</td>
<td>7</td>
<td>10</td>
<td>5</td>
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<tr>
<td>7</td>
<td>Others</td>
<td>59</td>
<td>60</td>
<td>110</td>
<td>61</td>
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<td>Total</td>
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<td>209</td>
<td>227</td>
<td>317</td>
<td>201</td>
<td>2853</td>
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Status of Foreign Investment in Nepal (till last FY) contd...

Catagory vs. Total Number of Approved FDI Projects

<table>
<thead>
<tr>
<th>Catagory</th>
<th>Total Number of Approved FDI Projects</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>118</td>
</tr>
<tr>
<td>Construction</td>
<td>43</td>
</tr>
<tr>
<td>Energy based</td>
<td>57</td>
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<tr>
<td>Manufacturing</td>
<td>827</td>
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<tr>
<td>Mineral</td>
<td>48</td>
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<tr>
<td>Service</td>
<td>845</td>
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<tr>
<td>Tourism</td>
<td>714</td>
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<tr>
<td>Total</td>
<td>2652</td>
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Status of Foreign Investment in Nepal (till last FY) contd...

Catagory vs. Total Approved FDI Amount

<table>
<thead>
<tr>
<th>Catagory</th>
<th>Total Approved FDI in Million Rs.</th>
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<tr>
<td>Agriculture</td>
<td>1,969</td>
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<tr>
<td>Construction</td>
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<td>Energy based</td>
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<td>Manufacturing</td>
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<td>Mineral</td>
<td>3,658</td>
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<td>Service</td>
<td>22,517</td>
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<td>Tourism</td>
<td>13,211</td>
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<td><strong>Total</strong></td>
<td><strong>95,086</strong></td>
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Status of Foreign Investment in Nepal contd...

Fiscal Year vs. Approved Number of Projects

Fiscal Year

Number of FDI Projects

0 50 100 150 200 250 300 350

059/60 060/61 061/62 062/63 063/64 064/65 065/66 066/67 067/68 068/69 069/70

74 78 63 116 188 213 231 171 209 227 317
### Status of Foreign Investment in Nepal contd...

#### Fiscal Year Vs. Total Approved Foreign Investment

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Approved FDI in Millions Rs.</th>
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<tbody>
<tr>
<td>059/60</td>
<td>1794</td>
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<tr>
<td>060/61</td>
<td>2765</td>
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<tr>
<td>061/62</td>
<td>1636</td>
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<tr>
<td>062/63</td>
<td>2606</td>
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<tr>
<td>063/64</td>
<td>3227</td>
</tr>
<tr>
<td>064/65</td>
<td>9812</td>
</tr>
<tr>
<td>065/66</td>
<td>6255</td>
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<tr>
<td>066/67</td>
<td>9,100</td>
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<td>067/68</td>
<td>10,051</td>
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<td>068/69</td>
<td>7,141</td>
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<td>069/70</td>
<td>19,936</td>
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![Graph](image-url)
# Approved S Korean Investment
**(Till FY 012/13)**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Number</th>
<th>Total Project Cost</th>
<th>Total Fixed Investment</th>
<th>S Korean Investment</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>9</td>
<td>71</td>
<td>60</td>
<td>67</td>
</tr>
<tr>
<td>Construction</td>
<td>4</td>
<td>243</td>
<td>210</td>
<td>197</td>
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<tr>
<td>Energy Based</td>
<td>3</td>
<td>7,388</td>
<td>7,321</td>
<td>4279</td>
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<tr>
<td>Manufacturing</td>
<td>38</td>
<td>1,993</td>
<td>1,669</td>
<td>1165</td>
</tr>
<tr>
<td>Mineral</td>
<td>1</td>
<td>20</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Service</td>
<td>82</td>
<td>2,526</td>
<td>621</td>
<td>2425</td>
</tr>
<tr>
<td>Tourism</td>
<td>71</td>
<td>428</td>
<td>354</td>
<td>404</td>
</tr>
<tr>
<td>South Korea Total</td>
<td>179</td>
<td>12,670</td>
<td>10,246</td>
<td>8,607</td>
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</tbody>
</table>

Rs. In million
Future Priorities and Activities
Future Priorities and Activities

• Improving implementation of laws
• Clearer guidelines and process maps e.g. Revision of Procedural Manual for FDI, Checklists
• Increase access to information e.g. website up-gradation
• Further improvement to the processes (FDI approval, Visa)

• Investor information updates
  • Software Development & Database creation
  • Inter-agency linkages OCR, IRD, IBN, DoImm, DoL, NRB
  • Simple compliance for industries e.g. transactional website, online systems
Imminent Priorities

• Improve Relationships with Investors
  • Handle queries & Follow ups – Redirect to line Agencies
  • Increase direct contact with investors
  • Automation – Destination is online application/approval
  • Simplification of Procedure through internal reforms
    – Development and Expansion of Special Economic Zones (SEZs) for export promotion
    – Strengthening Nepal Business Forum for Public-Private Dialogue (PPD) facilitation
    – BIPPA with as many countries as necessary and feasible
Strengths of Nepal

- Availability of Cheap Labor with good English skills
- Diversified geography from plains to mountains (prospects for Green Growth)
- Cheap Communication Charges
- Trade Treaty with India, allowing Nepalese Products customs free entry into India.
- Business/Residential Visa to the Investors
- Easy Repatriation procedure
- Members of SAARC, SAFTA, WTO, BIM-STEC, MIGA, ICSID
Tips for the Investors
Some of the Tips

• File processing delayed mostly due to lack of required documents (eg. visa, other approvals)
• Role played by intermediaries, take time to visit Govt office and meet DG, Director if problem is prolonged
• Additional approval from DOI required for any change in previous approval (eg. investment, location, investor, expansion, diversification etc.)
• Get work permits for the foreign employees, if there is any
• Have certification of Investment from Bank
  – Visa purpose
  – Repatriation purpose in future
• If not complied with the approved conditions
  – IEA 2049, clause 25 may be enforced,
Conclusion

• GoN/MOI/DOI is Highly Committed to Attract More Investments
• Investment is in Encouraging Trend
• DOI has reformed the Foreign Investment Approval Process and trying to do more on it
• Visa processes have been reformed and simplified
• Investors are always welcome in Nepal
Thank You