Chapter - 12

FOREIGN DIRECT INVESTMENT IN AGRICULTURE AND AGRO-INDUSTRIES

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Following a series of economic reforms implemented since the early 1990s in particular, the Nepalese economy is considered to be fairly liberal. This is also true of the liberalization of foreign direct investment (FDI). This obviously reflects the realization that FDIs are desirable and need to be encouraged. However, the response has not been enthusiastic. Statistics show that Nepal attracts one of the lowest levels of the FDI among similar countries. Besides, the statistics in the Industrial Perspective Plan (IPP) also show that the FDI is concentrated mainly on tourism and garments sectors.

Reflecting the current level of Nepal's economic development, the industrial sector is dominated by agro-industries. These industries are valuable in many respects, notably for poverty alleviation in view of their strong backward linkage with the agricultural sector. There is a synergy between policies and programmes that promote agro-industries and those that encourage agricultural production. Lately, the government has accorded high priority to the commercialization of agriculture, which is reflected in increasing number of projects on cash crops and crop diversification. The Agriculture Perspective Plan (APP) also encourages this process. Agro-industries must grow in order to sustain and encourage these production initiatives. Experiences elsewhere in the world show that one important channel to encourage the growth of agro-industries is FDI.

The government regulations in Nepal on FDI are considered to be fairly liberal, with most agro-industries open for FDI. There are only a few exceptions in the goods side where some industries fall under "negative" list, i.e. FDI is restricted. These include some agro-products, notably leather tanning and woollen products (as these belong to the "cottage industry" sector). Some analysts have called into question the rationale for the restriction on these industries, something that needs to be debated based on facts and figures.

This study on FDI with a focus on agriculture and agro-industries is undertaken in the context of these considerations, and taking into account the complementarities with other background studies in this volume. There are some questions often asked in this area, e.g.: What has been the experience so far on FDI in agriculture and agro-industries? Are constraints and opportunities in these sector/commodities different from those that apply to other, non-agricultural products? What is it that particularly attracts FDI to this sector in Nepal (or should attract, in theory)? What are desirable FDIs in this sector and where the FDIs would not be desirable? What could be done to encourage beneficial FDIs? What can the MoAC in particular do in its areas of competence?

The study is based on the analysis of statistics on agro-industries, industrial policies and literature review. The study benefited considerably from the author's long and close association with industrial policy making in Nepal. In addition, the following industries in particular were studied for this study: Dabur Nepal Private Limited, Gorkha Brewery Private Limited, Nepal Beverages Private Limited and Rijal Tashi Industries Private Limited.

The chapter is organized as follows. Section I provides an overview of trends in FDI in Nepal, both in general and in agro-industries in particular. Section II covers policy issues associated with the promotion of FDI. Section III summarizes the key issues and suggestions for improvement.

OVERVIEW OF THE TRENDS IN FDI IN NEPAL

Nepal's industrial sector

Nepal's manufacturing activities are mainly confined to light industries, with limited progress so far on the manufacture of intermediate and capital goods. The most concentration of the industries is on the following products and sub-sectors: carpet and rugs, clays and ceramic products, furniture, textile, wearing apparels, plastics, bakery, metal products, pulp, paper and paperboard, stone cutting and finishing, concrete cement and plaster articles and printing. The Nepalese manufacturing sector is dominated by primary industries, for example food and food processing, followed by textile and carpets. In the food and beverage sub-sectors, about 80% of the manufacturing value added is in the following products: products of grain mills, oils and fats, sugar, dairy products, spirits and beer. Table 1 shows selected features of the food and beverages industrial sub-sector.

Table 1: **Selected characteristics of the food and beverages sub-sector: 1986/87-2000/2001**

Characteristics	1986/87	1991/92	1996/97	2000/01
Share of total manufacturing value added (%)	22.9	19.8	22.5	29.6-43.4
Number of employees (in 000)	17	25	24	n.a.
Share of total manufacturing employment (%)	13.3	11.4	12.2	n.a.
Number of establishments	368	657	661	n.a.
Share in number of manufacturing establishments (%)	17.9	15.4	18.6	n.a.
Annual average value added growth rate since previous census/survey (%, in constant prices)	-	8.6	6.5	13.5-20.2
Value added/output ratio (%)	27.6	28.5	30.9	30.9-38.8

Source: Industrial Development Perspective Plan: Vision 2020, UNIDO, UNDP, Kathmandu, September 2002.

The Industrial Policy 1992 and the Industrial Enterprises Act 1992 have relaxed licensing requirements for a number of industries. Accordingly, licensing for the establishment, expansion and modernization of industries is required only for those industries concerning security, public health and environment. Industries involved in the production of conventional and modern weapons, ammunition, gunpowder and explosives, security printing and currency and minting of coins fall under the category of security industries. Industries that affect public health and environment include tobacco industries (cigarette, bidi and cigar), alcohol and beer. It is said that a decision on the application made to establish these industries would be given within 30 days. For all other industries, a license is not required. However, permission is required for industries to be established under Foreign Investment Act. Companies should be registered with the Company Registrar's Office.

Foreign investment in Nepal

In line with the globalization trend world wide, Nepal also initiated policies and measures to attract private foreign investment with the aim of increasing efficiency and productivity. According to policy pronouncements, the government is committed to play the role of a facilitator, providing infrastructure and conducive environment for industrial development. The Industrial Policy and the Foreign Investment and Technology Transfer Act 1981 paved the way for regular inflow of foreign investment. For promoting foreign investment and for creating awareness about investment opportunities in Nepal, a solidarity ministerial meeting was held in 1982 and an Investment Promotion Meeting in 1984. Similarly, a more conducive industrial policy, including better provisions for foreign investment and a one-window policy, was promulgated in 1992, leading to two new Acts, a new Industrial Enterprise Act 1992 (IEA) and a Foreign Investment and Technology Transfer Act (FITTA). The Act has been amended in 1996 and 1997, in order to make them more practical as experiences were gained. Considering the importance of and the need for national economic sectors, new policies have made investment climate more conducive by introducing procedural simplification and various incentive measures to investors. As mentioned in the policy paper, the objectives are to:

- build a strong and dynamic economy by generating additional opportunities for income and employment by expanding productive activities;
- increase participations of the private sector in the process of industrialization;
- increase productivity by mobilizing internal resources and materials in productive sectors and by importing foreign capital, modern technology, management and technical skill; and
- to increase competitiveness of the Nepalese industries in international markets.

By the end of August 2003, a total of 848 foreign investment projects were registered with the Department of Industries (DOI). The total project cost was Rs. 84 billion, of which the share of foreign investment was Rs 23 billion, or 27% of the total, a not an insignificant amount. However, it remains that compared with the FDI received by many other developing countries, including in South Asia, the amount received by Nepal is insignificant. On a positive note, the list of foreign investors includes some of the renowned companies like British American Tobacco (BAT), Uni Lever, Coca Cola, Standard Chartered Bank and Hyatt. Nonetheless, on the whole, most foreign investors in Nepal are still individuals.[74] Table 2 shows that the trend in foreign investment inflows increased markedly from 1992, when the government promulgated the new foreign investment and one window policy.

The Industrial Enterprises Act 1992 has classified industries in seven different categories based on their nature. In relation to the FDI, about 50% of the pro-

[74] United Nations, International Chamber of Commerce: *An Investment Guide to Nepal, Opportunities and Conditions,* January 2003.

jects are registered as manufacturing industries (Table 3). Tourism and service sub-sectors are the second and third major recipients of foreign investment.

Table 2: **Trends in Foreign Direct Investment: 1989-2004**

Fiscal Year	Projects (Number)	Cost and Foreign Investment (Rs. Million)			Persons employed
		Total	Fixed	Investment	
Up to 1988-89	59	5425.9	4581.8	466.8	10586
1989-90	30	2438.2	2139.6	398.5	9515
1990-91	23	863.6	690.7	406.3	2974
1991-92	38	3508.2	2902.1	597.8	5615
1992-93	64	17886.2	16210.8	3083.7	13873
1993-94	38	3733.3	3175.7	1378.8	4734
1994-95	19	1627.3	1247.9	477.6	2386
1995-96	47	10047.5	9398.5	2219.9	8032
1996-97	77	8559.3	6692.2	2395.5	9347
1997-98	77	5569.4	5142.3	2000.3	4336
1998-99	51	5334.9	4390.2	1671.2	2146
1999-00	71	2669.1	1910.2	1417.6	4703
2000-01	96	7917.6	6122.5	6122.5	6880
2001-02	76	3309.6	1550.9	1207.0	3711
2002-03	71	4863.4	3572.9	1770.8	3525
2003-04	11	118.2	63.5	147.3	112
Total	848	83871.5	69791.8	22741.6	92475

Note: Column totals may not tally with sum of individual year's figure due to rounding
Source: Department of Industries

Table 3: **Foreign investment projects by type**

Type of Industry	Number of Projects	Cost		Foreign Investment[1/]	Number of Persons Employed
		Total[1/]	Fixed[1/]		
Agriculture	14	428.2	375.2	94.38	986
Construction	17	976.0	761.8	561.7	1319
Energy Based	14	18717.9	17100.2	3204.7	4759
Manufacturing	416	34667.7	25358.1	9542.9	58799
Mineral	3	1153.1	1068.3	46.0	1129
Service	180	12206.3	10178.6	4841.4	11034
Tourism	204	15722.3	14949.6	4450.5	14449
Total	848	83871.5	69791.8	22741.6	92475

1/ Total cost, fixed cost and Foreign investment are, Rupees in Million

Source: Department of Industries. Based on the data as of 31 August 2003

Although energy based industries, notably hydropower generation and agriculture, are considered to be high FDI-potential sub-sectors, they have not received significant foreign investment as yet.

Overall status of the FDI

It is not unusual globally that in developing countries in particular a significant number of FDI projects never reaches the implementation stage. While this is also the case in Nepal, the "realization rate" for Nepal is particularly low. Thus, of the total number of 848 registered projects under foreign investment, only 340 projects, or 40%, are in operation (Table 4). Of the remaining number, 370 projects have obtained approval license but are not as yet in operation, 22 projects are closed while an additional 71 projects have been cancelled for various reasons.

Table 4: **Operational status of the foreign investment projects**

Status of Industry	Number of Projects	Cost		Foreign Investment[1/]	Number of Persons Employed
		Total[1/]	Fixed[1/]		
Operational	340	40649.3	35248.4	8524.9	45805
Under construction	45	7407.3	6699.5	1847.0	6088
Licensed	152	16345.6	12336.4	5088.7	17051
Approved	218	9331.3	6752.8	4542.8	12327
Closed	22	1653.7	1394.9	467.7	2045
Cancelled	7	8484.2	7359.9	2270.6	9159
Total	848	83871.5	69791.8	22741.6	92475

1/ Total cost, fixed cost and Foreign investment are, Rupees in Million

Source: Department of Industries. Based on the data as of 31 August 2003

According to the DoI database, Nepal has received investment from 44 countries. By region, 567 registered projects are from Asian countries with a total proposed investment of Rs 13.8 billion, 157 projects from Europe with a total proposed investment of Rs 2.8 billion, and 108 projects from North and South America with a proposed investment of Rs. 6.1 billion. In terms of both the number of projects and investment, India tops the list, with Japan, United States and China being other major investors.

FDI in agro-based industries

The Industrial Enterprises Act 1992 has classified agro- and forest-based industries as a separate category as those businesses mainly based on agriculture or forest products. These include, for example: integrated sericulture and silk production; horticulture and fruit processing; animal husbandry; dairy industry; poultry forming; fishery; tea gardening and processing; horticulture and herb processing; vegetable processing; tissue culture; greenhouse; bee keeping and honey production; rubber plantation; floriculture; and forestry-related businesses like lease-hold forestry and agro-forestry. So far, only 14 projects with foreign investment are registered in the DoI under this category, with a total project cost of Rs 1670 million, of which Rs 454 million, or 27%, is foreign investment. The product coverage of these projects includes dairy products, herbal medicine, vegetables, fruits, flowers, tea, and coffee farming and processing. In terms of size, of the total 14 projects, nine are classified as small scale and the remaining five as medium scale. Thus, there are no large-scale projects with foreign investment in agriculture and forestry. The status of these projects is not satisfactory because only 6 projects are under operation, while among the other registered projects two are under construction, two are closed and four are only approved.

However, this “official” categorization underestimates the actual level of the FDI and the number of industries in agriculture and forestry sub-sectors. A broader, and more appropriate, categorization would also include all agro-based industries registered under the manufacturing industry category. Taking all projects related to foods, beverages and tobacco into account, the data show that there are 73 agro-based industrial projects registered with the DoI with a total project cost of Rs 8.6 billion of which Rs 1.7 billion, or 20%, is foreign investment.

POLICY MEASURES IN SUPPORT OF FDI

An overview of policy reforms in Nepal

It would be fair to state that Nepal has made significant progress on economic liberalization and in adopting policies that are essential for attracting FDI. These policy measures, introduced during the 1990s, aimed at encouraging the inflow of capital, modern technology, management and technical skills, access to international markets, competitiveness and productivity. The followings highlight some of the major economic policies announced by the government in this regard.

Export-oriented policies

- A license is not required for the export of products except for items that are banned or quantitatively restricted.
- Duty draw back scheme is implemented for refunding import duties on raw materials and intermediate inputs used for the production of exported products.
- Bonded ware house facility has been started for the storage of raw materials imported for export production.
- No duties are levied on most exports except for nominal service charges.
- Export valuation system has been abolished.
- Full exemption of income tax is given to earnings from export.
- Increased use of Nepalese diplomatic missions in promoting exports.
- Simplification and reduction of export procedures and documentation.

Import-oriented policies

- Implementations of open general licensing (or OGL).
- Abolition of quantitative restriction on imports.
- Very low tariffs on the import of capital goods and industrial raw materials.

Exchange rate policy

- Full convertibility of the Nepalese Rupee in current account transactions.
- Facility to open convertible currency account and to retain deposits in convertible currency.
- Facility for the procurement of industrial raw materials and machinery from India in hard currency.

Tax reforms

- Corporate tax rate is reduced to 25%.
- Introduction of self-assessed taxation scheme.
- Coverage of excise tax is lowered and sales taxes are reduced.
- Introduction of Value Added Tax (VAT) from 1997.

Financial and banking sector reforms

- Provision for establishing private banks and financial institutions.

- Strengthening of capital market and establishment of stock exchange.
- Deregulation of interest rates.

Privatization policy

- A Privatization Act came into force in 1994.
- The options to privatise public enterprises have been widened, e.g. through selling shares, setting up cooperatives, selling or leasing out assets and contracting out the management to the private sector.
- A privatization committee has been set up under the chairmanship of the Minister for Finance.

Foreign investment policy

With a trade-to-GDP ratio of over 50% and average tariff rate of about 14% with virtually no quantitative restrictions on trade, the Nepalese economy is both open and liberal. As noted above, the foreign investment policy is also liberal. There is no limit placed on the amount of investment, and a foreign investor can own up to 100% equity. There is a clear legal provision for the repatriation of profits, dividends, and income from the sales of assets and equity. Thus, up to 75% of the salary income can be repatriated in foreign currency. Although it may sound like a negative factor, the fact that there is a provision of a “negative list” prohibiting foreign investment in some areas also implies that the discretionary power of the bureaucracy has been severely curtailed for most industries. Experts and industrialists hold that most probably the negative list will shrink further because this goes against the trend and the declared liberalization policy of the government. The following is a summary of the main policy measures that apply to FDI.

- Foreign investors are permitted to own up to 100% equity share in small, medium and large-scale industries.
- Foreign investment is allowed in all areas with the exception of those related to security and public health.
- The transfer of technology has been made possible even in cottage industries.
- There is a clear statement from the government that industries will not be nationalized.
- Industry can approach any commercial bank directly to open letter of credit for the import of machinery and raw materials needed for the industry. No recommendation or import license is required.
- Approval procedures have been minimized. Except for industries associated with security and public health, no license is required for establishing and operating other industries, other than registering.
- All facilities and incentives available to various categories of industries have been spelt out in the Act.
- The Act guarantees the repatriation of profits, dividend, technical and managerial fees, and a portion of salary of foreign experts. The income tax on royalties and fees has been fixed at 15%.
- Visa including non-tourist visa for carrying out studies for investment, non-tourist visa for experts and business and residential visas for foreign investors have been provisioned and procedures further simplified.

- The Industrial Enterprises Act 1992 provides for an Industrial Promotion Board and a One-Window Committee to grant concessions and facilities to industries, including tax incentives. The major facilities include:
    - Land leases for forest-based industries;
    - Exemption from royalty charges for industrial units generating electricity for their own use; and
    - Duty drawback facilities.

Institutional arrangements

In the absence of a specialized agency, for example, Investment Promotion Agency, the DoI itself has been discharging most administrative responsibilities as well as the promotion of FDI in Nepal, in addition to other responsibilities of the DOI such as industrial promotion; export promotion and industrial property administration. As regards the FDI, the DOI performs the following tasks:

- Approval and registration of foreign investment including technology licensing;
- Facilitation and promotion of foreign investment;
- Acts as the Secretariat for the One-Window Committee and Industrial Promotion Board;
- Making recommendations to Central Bank regarding the repatriation of profit, dividends, proceeds from sales of shares, and royalties and fees; and
- Making recommendations to concerned Departments as regards visas to investors and employees.

The DoI also evaluates project proposal on FDI and grants permission to industries with fixed assets up to Rs 500 million, within 30 days from the date of application. In the case of the industries with fixed assets in excess of this level, the DoI submits its recommendation to Industrial Promotion Board (IPB) for approval. The Board, chaired by the Minister for Industry, Commerce and Supplies, is the highest-level government body for the approval of projects. Following the project approval, the applicant is required to apply for registration of the company.

As stated earlier, the government has constituted a One-Window Committee with a view to provide all facilities and concessions entitled under the Industrial Enterprises Act. Accordingly, the DoI is made responsible for granting licenses, facilities and other administrative services to industries including those established with foreign investment and/or technology transfer arrangements. The Director-General of the DoI is the coordinator of the One-Window Committee.

Policy guidelines of the Tenth Plan

The core objective of the Tenth Plan in the industrial sector is to accelerate the pace of industrialization through increased participation of private sector and to create additional employment in both rural and urban areas to reduce poverty. The main strategies to achieve these objectives are: improving policies to attract domestic as well as foreign investment; strengthening the role of Small- and Medium-sized Enterprises (SMEs) in national production; and improving overall industrial environment. It is stated that measures will be taken to attract more foreign investment, along with appropriate technology, particularly in areas of comparative advantage, in order to enhance competitiveness. These include better policy and legal frameworks in line with the needs of a market economy; streamlined administrative procedures for increased efficiency; and the development of physical infrastructure and human resources. The Plan also notes that ensuring macroeconomic stability, which for example assures the repatriation of capital and dividends, and a stable financial system are also essential.

KEY ISSUES AND IMPROVEMENT MEASURES: A SUMMARY

One of the important conclusions of this study is that the government policies in Nepal do not discriminate foreign investment in agro-industries, positively or negatively, compared with local or joint investments. The usual problems and complaints in agro-industries - like difficulties in securing domestic raw materials in required volume and quality, transport bottlenecks, credit, electricity and so on - are not primarily due to industrial or FDI policies. Moreover, it was noted that the FDI policies do not discriminate between agro-industries and other industries.

Liberal macro policies but not yet a business-friendly environment: A recent study by the European Commission, *Asia Investment Facility*, has remarked, “Nepal’s foreign investment policies are market-friendly but not business-friendly”.[75] Put in another form, this is like saying that Nepal’s problem in this area is not on the lack of a liberal macro policy framework but on hurdles in implementation. The implementation problems take various forms, e.g. lack of coordination among various government units, different interpretations of existing rules and regulations, *ad hoc* decisions and so on. Similarly, although policy documents commit to provide One-Window Service to foreign investors, the committee on this Service either does not meet or its decisions are not implemented promptly by concerned government units. One other example of the nature of the problem is in determining the primacy of an agency when rules are not clear. For example, in the context of the industry and FDI, the Industrial Enterprises Act should prevail over other financial and sectoral acts, but recently there was a case where the Income Tax Act 2002 negated some provisions made in Industrial Enterprises Act, leading to confusion among investors over the primacy between the two Acts and respective ministries and agencies.

The issue of Nepal’s attractiveness vis-à-vis neighbouring states of India: This is an important matter in the context of attracting FDI, both from India and overseas. Knowledgeable sources hold that there is a strong competition for FDI between Nepal and the neighbouring states of India, notably West Bengal, Bihar, Uttar Pradesh and Uttaranchal. These States provide various financial incentives, which Nepal may or may not be able to match. Yet Nepal could have advantages that India in general and these States in particular may not offer. While interviewing for this study, for example, an Indian company that is investing in Nepal felt that it is more profitable to it to invest in Uttaranchal than in Nepal. The Uttaranchal state recently announced exemption of sales tax for new industrial investment there. The

[75] European Commission: Asia Investment Facility, *Guide Book for European Investors in Nepal,* October 2001.

inordinate delays and cumbersome procedures for refund of duty drawback in Nepal is pointed as hurdles for FDI whereas investors in the Uttaranchal state do not face this problem on raw materials procured in other Indian states. Moreover, a significant proportion of the foreign investment attracted to Nepal in the past is said to be due to opportunities to deflect imports to highly protected Indian markets. As the Indian economy itself is being liberal, this attraction would fade over time.

***The issue of an exit policy*:** Experiences from other countries show that foreign investors are reluctant to invest where an exit route is not clear. In business, things could go wrong for a variety of reasons and there should be a way to close the business and repatriate whatever is left. Labour policies are important for this. Some compare difficult labour policies to a situation where a person welcomes a cat by opening not only all doors but also windows, but starts to beat it by closing all the outlets. So is the case with the FDI when investments become unprofitable but it becomes very hard to close and quit because of stringent labour rules, among other things.

While interviewing for this study, a large number of cases where a small minority of the Nepalese investors created many problems to their counterpart foreign investors, to the extent of forcing them to leave their investment in Nepal were noted. For example, it was found that the foreign counterpart of a food-based industry that was doing well was ill treated to the extent that many obstacles on inheriting his investments to the dependents, even after his death in Nepal.

***Red tape, administrative delays and high transaction costs*:** Although these problems and issues are not new to anyone, the story on the FDI would remain incomplete without addressing these problems. Everyone in Nepal, including foreign investors, complain that despite announced policy reforms the ground reality is somewhat different, and indeed getting worse. Also very well known are the problems due to instability in politics, frequent change of governments and senior officials, worsening accountability and so on, all impacting negatively on the FDI. Aside from this general view, some stakeholders interviewed said that even the role of the MoICS in FDI and the coordinating role the Ministry used to perform has weakened following the creation of two bodies that do not have the same legal backing as the Ministry, the two bodies being Board of Investment and the Fast Track Committee. These sources allege that in creating these bodies the government succumbed to lobbying by the private sector for its own personal benefit, or rent-seeking activities, e.g. by lobbing for or against proposed foreign investments. Thus there are many questions and complaints on lack of transparency in the way these two bodies in particular make decisions. It was beyond the scope of this study to investigate these questions raised, but these are the issues that need to be taken seriously in order to substantially improve the investment climate.

***Importance of Nepal-India trade treaty*:** The periodic trade treaties and terms of access to the Indian market naturally affect the FDI in Nepal, both by the Indian and other foreign investors. There is an incidence where a well-established joint venture between Indian and Nepalese investors was abruptly closed when there was a deadlock in the treaty in 1989-90. The fear of reoccurrence of similar events reduces the confidence of foreign investors. There are also positive experiences when outlooks are better. For example the relatively liberal 1996-trade treaty is credited to have triggered almost immediately some major FDIs by some large companies like Dabur, Hindustan Liver Limited and Colgate Palmolive. Needless to say, the worsening of access terms to the Indian market for Nepalese manufactured goods following the revision of 2002 must have negatively affected the FDI to some extent. In fact, the trend in the FDI is said to have slowed down after that, but this could be for reasons like the ongoing insurgency also.

***WTO Membership and the FDI*:** As noted throughout this volume, Nepal's WTO membership is unlikely to have significant negative impact on the economy as well as on the policy space. This is largely so because Nepal's economic and trade policies are already fairly liberal, going beyond the basic requirements of the WTO. In the context of the FDI, the WTO membership is considered to be a big plus because this imparts a sense of confidence among foreign investors as regards transparency and certainty of Nepalese policies and practices. The chapter on backward linkages in this volume, where the WTO TRIMS Agreement was also discussed, had shown that the Industrial Enterprises Act and other policies do not discriminate between domestic and foreign investment in terms of incentives, and so are consistent with the TRIMS Agreement. On the services sector, however, more progress is required, especially on the issue of the negative list. There is, however, much to be done in the case of the WTO TRIPS Agreement in areas like institutional and legal frameworks, and the protection of intellectual property rights. Technical assistance would be particularly valuable in this area.

In this regard, two specific suggestions to the *Ministry of Finance* are: to clarify the confusion created by the Income Tax Act 2002 on the tax privileges of foreign direct investors, and to allocate sufficient budget for duty drawback purpose.

***Some suggestions for the Ministry of Agriculture and Cooperatives*:** In the course of this study, a suggestion was made by some stakeholders for the MoAC to play a more pro-active role by establishing an unit to deal with agro-industry and FDI, similar to the Industrial Promotion Division of the Ministry of Tourism and Civil Aviation that provides the one-window service to entrepreneurs in the tourism sector. Since the MoAC already has an agro-industry division, it could be made pro-active in the area of the FDI also. Some work is needed to define its scope of work, modalities etc. Its scope of work could include the following:

- Providing information to potential investors on the availability of different types and qualities of raw materials.
- Reorienting and coordinating agricultural research and extension programmes as per the needs of the agro-industries.
- Coordinating agricultural research and development that exploits Nepal's agro-ecological diversity to promote niche agricultural products for export.
- Facilitating foreign investments by preparing bankable projects suitable for FDI.
- Providing services to entrepreneurs on WTO matters, enacting required laws that protect intellectual property rights and coordinating with different ministries.