From Evidence to Policy: Supporting Nepal's Trade Integration Strategy

Policy Note 5

Designing Institutions to Promote Trade and Investment in Nepal

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Executive Summary

This report offers recommendations on how to improve the design and activities of trade and investment promotion institutions in Nepal, with the goal of enhancing the country's export competitiveness and ability to attract export-oriented FDI.

There is room for improvement in the design of and coordination mechanisms among Nepal's trade and investment promotion institutions. Often, activities carried out by trade promotion institutions in Nepal are not aligned with good practices and fall short of their mandate of addressing informational asymmetries and other market failures. There are several agencies whose mandate is to promote trade (in goods or in tourism – no active promotion of other services exports), or investment (agencies within the Department of Industry, and the Investment Board of Nepal (IBN)), but with little coordination. In a context in which trade and investment globally are strongly linked, coordination among these agencies should be paramount.

This note examines four case studies of "best practices" in the promotion of exports and export-oriented investment –Costa Rica, Jamaica, Colombia, and Latvia. It also discusses an example of successful promotion and development of the links between the tourism sector and exports, Mauritius, which offers some lessons for the case of Nepal.

Based on these international best practices, we draw a number of policy recommendations for Nepal:

1. The strong interplay between FDI and trade means their promotion is best implemented under a common umbrella and through a coordinated approach. The mandates of both TEPC and IBN must be realigned to emphasize the attraction of export-oriented FDI and greater participation in global value chains.

2. Separate the regulatory and investment promotion functions of the IBN. Move the approval of FDI projects to DOI and let IBN focus on investment promotion and facilitation.

3. Facilitate closer collaboration of TEPC and IBN with the Nepal Tourism Board, in promoting Nepal's country brand and image through joint missions and participation in international trade fairs and exhibitions. TEPC must also increase collaboration with NTB to take advantage of the linkages between tourism and exports by organizing handicraft, textile, and food fairs and sale points in tourist sites, thus increasing expenditure per tourist.

4. In addition, attracting FDI and enhancing export competitiveness requires removing binding constraints and improving the business environment, in particular:

    - Improving backbone services and infrastructure, an essential step to promote investment, tourism, and export competitiveness.

- Streamlining business requirements, increasing accountability, and increasing the transparency and predictability of administrative procedures.

- Eliminating barriers to foreign investment entry and other restrictions to the operation of investors.

Introduction

As a small, landlocked economy, Nepal's development prospects are closely tied to its ability to increase integration in the regional and global marketplace. Despite significant changes in Nepal's trade sector over the past decade, the country's export performance has remained poor, with exports growing at a much slower pace than imports. Nepal's external vulnerability is deepened by its dependence on remittances to finance growing trade deficits. In addition, foreign direct investment (FDI) flows into Nepal have been modest and erratic.

Achieving greater integration in the global economy and building a competitive export sector will require overcoming various economic and institutional challenges. To aid this process, the Government of Nepal (GoN) has devoted substantial resources to promoting trade, foreign direct investment (FDI), and tourism. As part of the Nepal Trade Integration Strategy 2010 (NTIS 2010), the GoN moved to establish and strengthen domestic support institutions with the aim of creating a friendlier business environment for potential investors and assisting Nepalese exporters and potential foreign investors.

This paper assesses the performance of these organizations in their role of promoting exports and investment. It has two main objectives. First, we describe the main export and investment promotion institutions in Nepal and examine their mandates, missions, and the services they offer. We address a number of questions: are these institutions and initiatives addressing market failures that exist in international trade and investment markets? Are there effective coordination mechanisms among them? Do they fulfill the needs of Nepal's private sector? Second, we look at international best practices in export and investment promotion, to identify cost effective approaches appropriate for small developing countries.

Based on this, we provide a number of recommendations for strengthening and improving the role of export and investment support organizations and initiatives in Nepal, as well as the level of coordination and cooperation among them. A key insight emerging from our analysis is that attracting export-oriented FDI and expanding Nepal's participation in global value chains requires an integrated approach in which trade and investment promotion policies are implemented under a common framework, of joint objectives and initiatives. The possibility of merging investment and export promotion activities under the same institution must be further explored, with careful consideration of pros and cons at the institutional and operational levels.

The report is organized as follows. In the next section, we briefly review the economic rationale for public intervention in the promotion of exports and investment and summarize the main findings of the literature regarding the most effective institutional designs and practices. We also discuss the arguments for and against a merger of the two activities within a single institution. Section 3 describes and assesses the institutional framework for export and investment promotion in Nepal. In Section 4, we examine four case studies of "best practices" in the promotion of exports and export-oriented investment –Costa Rica, Jamaica, Colombia, and Latvia. We also discuss examples of successful promotion and development of the links between the tourism sector and exports, Mauritius, which offers some lessons for the case of Nepal. The final section contains the policy recommendations.

Economic rationale for trade and investment promotion organizations

The establishment of publicly-funded trade and investment promotion is motivated by information asymmetries and other market failures. Important externalities surround the provision of market information on consumer preferences and business opportunities, creating a rationale for public intervention. Yet, different types of informational and coordination problems justify the existence and activities of trade promotion organizations and investment promotion agencies.

Trade promotion organizations (TPOs) help exporters identify markets for their products, while providing them with information on trade barriers, product regulations and environmental standards in these potential markets. In addition, TPOs provide potential foreign customers with information on domestic firms and their products. To achieve these goals, TPOs typically perform four main functions: (i) marketing of domestic products, through trade fairs, missions, and shows; (ii) country image-building, advertising, and advocacy; (iii) support services and capacity building to local exporters; (iv) market research and analysis on potential markets and partners.

Investment promotion agencies (IPAs) help potential investors obtain information about business opportunities and partners in the domestic market. Informational asymmetries act as important obstacles for potential investors, particularly in developing countries and other locations with complex business environments. IPAs contribute to alleviating these informational failures through four major roles: (i) advocacy within the government (concerning investment climate); (ii) image building or sector branding; (iii) investor facilitation and servicing (during decision and setup phases); (iv) aftercare services, and in some cases (v) connecting foreign firms with domestic to maximize spillovers.[1]

Effectiveness of TPOs and IPAs

Evaluating the actual effects of TPOs and IPAs in increasing exports and investment is important but challenging. Earlier studies claimed that TPOs were not effective in developing countries because of inadequate funding, weak leadership and inefficient bureaucracies (Keesing and Singer, 1991). Indeed, a number of confounding factors may also influence whether or not trade and investment promotion activities result in increased exports and FDI inflows, including the level of development, the kinds of promotion activities and instruments used, and the institutional features of the organizations (Volpe Martincus and Carballo, 2010).

[1] This implies working with foreign firms through the complete investment cycle, that starts with attracting the investment, follows with retaining it, and ends with connecting it to the rest of the economy.

Recent empirical evidence suggests that TPOs generally contribute to expanding national exports, particularly in developing countries. Research by Lederman et al. (2010), for example, shows that having an export promotion organization has a positive and significant effect on exports but this effect varies across regions and levels of development. The effectiveness of TPOs increases with income per capita In addition, using data on TPOs from 88 countries, they find evidence of decreasing returns to scale in export promotion, with the marginal impact of export promotion decreasing with the level of expenditure. Volpe Martincus and Carballo (2010), in turn, show that the impact of TPOs on exports is larger for relatively smaller firms with limited experience in international trade, and when targeting more differentiated products. Evidence from Latin American TPOs furthermore suggests that TPOs are larger on the extensive margin of firms' exports, that is, in increasing the number of destinations and/or the number of goods exported, rather than increasing the amount of exports to established destinations.

The types of activities and the institutional design of TPOs also affect their effectiveness in expanding exports. Volpe Martincus and Carballo (2010), for example, show that TPOs are more effective when they offer bundled services, thus providing support for firms throughout the entire export process. Lederman et al. (2010), in turn, find that the most effective export promotion agencies have a large number of private sector representatives in their executive boards but predominantly rely on public funding. In addition, TPOs are more effective when they focus on non-traditional exports or have a broad sectoral focus and when they target large firms that are not yet exporters.

Recent research also demonstrates that investment promotion agencies tend to be associated with higher FDI inflows. Harding and Javorcik (2011) find that IPAs have a greater impact on investment flows particularly in the developing world, where information asymmetries, transaction costs, and corruption levels are higher. Others find similar positive effects of the activities of IPAs, such as sector targeting, in developed countries (Bobonis and Shatz, 2007; Charlton and Davis, 2006).

Effective IPAs tend to be characterized by a customer-oriented approach and preparedness. According to the World Bank's Global Investment Promotion Best Practices 2012, best practice investment promotion institutions anticipate the informational needs of potential investors and prepare data on the resources and the business environment in the most important sectors of an economy. Other characteristics of successful IPAs include: well-defined mandate and clear objectives; strong support within the government; sufficient and sustainable budget; qualified management and staff; strong links with the private sector; and close partnerships with other public bodies.

IPAs with regulatory functions appear to be less successful at investment facilitation than those that only focus on promotion activities. This reflects not only the needs for different skills and knowledge involved in regulatory and promotional activities, but also the fact that investors may be less responsive to regulators approaching them with promotional goals.[2]

[2] This, in fact, introduces a conflict of interest.

Merging trade and investment promotion

Mergers of investment and export promotion institutions have accelerated over the last decade, particularly among high-income countries. In today's global economy, trade and investment are deeply intertwined. Attracting foreign investment is crucial to improve export competitiveness and increase participation in global value chains. To take advantage of these complementarities, many governments have combined trade and investment promotion activities under the same room. Research by the International Trade Center, for example, shows that 66 percent of TPOs from developed countries a 40 percent of those in the developing world are now merged (ITC, 2014b).

The benefits of merging TPOs and IPAs include cost efficiency, creation of synergies, and efficient leadership. Combining investment and export promotion activities under the same roof provides increased opportunities for knowledge sharing and enhancing policy coherence and coordination. For example, for those countries seeking to attract export-oriented FDI, trade analysis can be useful in approaching and targeting export-oriented potential investors. In addition, integration allows for a more effective country-branding strategy, which may be particularly useful for small countries.

Yet, there are important challenges associated with combining the different functions of investment and trade in a single organization. As some have cautioned, joint investment and trade promotion does not automatically result in synergies or increased efficiency (UNCTAD, 2013). The arguments for maintaining separate TPOs and IPAs emphasize the significant differences between the mandates and operations of the two types of institutions (Table 1). While approaching the same company, investment promotion and trade promotion target different units and individuals, relying in distinct approaches and skills. Overcoming these challenges requires establishing an umbrella structure, pooling together administrative structure, overseas presence, and market intelligence, while maintaining separate operational teams for each promotion activity.

Table 1: Advantages and Disadvantages of Merging Export and Investment Promotion

Advantages	*Disadvantages*
Better policy coherence in investment and trade issues	Different objectives and core activities. Risk of fragmented responsibilities and loss of focus
Shared support services (IT, human resources, accounting, legal services, research and analysis) and office space	Possible problems in coordinating investment and trade promotion activities and managing staff with different mindsets. Risk of increased bureaucratization
Knowledge sharing to benefit strategy development	Different time frames, with generally a longer time perspective in investment promotion
Potentially one stop center for export oriented investors	Often different clients and contact points in same companies

Potential synergies in overseas promotion, especially country branding	Largely different skills requirements for staff
Common ground for policy advocacy in the area of national competitiveness	Risk of less attention being paid to investment promotion and FDI-related policy issues

Source: UNCTAD (2013); ITC (2014b)

TPOs and IPAs in Nepal

In Nepal, trade support services are offered by a wide range of public, private, and public-private institutions. Yet, as the NTIS 2010 recognized, the competitiveness of Nepalese exporters has been severely undermined by the weakness of Nepalese trade and investment support institutions. While various steps have been taken in this regard, there is still much room for improvement. Nepal's trade and investment promotion efforts are still far from international best practices.

The Trade and Export Promotion Centre (TEPC), which is under the Ministry of Commerce, is Nepal's leading trade promotion entity. It was established in 2006 and resulted from the merger of 3 organizations, namely, the Trade Promotion Centre, the Export Promotion Board, and the Carpet & Wool Development Board. The TEPC Board us chaired by the Secretary of Commerce and consists of representatives from the Ministry of Finance, the Ministry of Commerce, and the Federation of Nepalese Chambers of Commerce and Industries.

TEPC advises the government in formulating trade and export promotion policies, while also carrying out the four major activities of TPOs, namely: (1) organization of trade fairs and exhibitions to promote Nepalese products abroad; (2) market research and analysis to identify markets for exportable products, thus facilitating trade diversification, as well as for knowledge-sharing; (3) country image building and advertising to expand international markets for domestic products; (4) capacity building and technical assistance for local exporters through seminars, workshops, and other trainings. TEPC also maintains an export-import directory and an export-import data bank.

TEPC is a medium-sized organization, with 72 staff members, in 3 in-country offices. It has no foreign representative offices. It targets micro, small, and medium sized enterprises and has a client base of 300 companies (ITC, 2015). TEPC focuses on six major sectors or products: hand knotted woolen carpets, readymade garments, pashmina products, handicraft, leather goods, and agriculture (ginger, cardamom, tea, and coffee).

TEPC seems to fall short of meeting its clients' needs. A survey of public and private sector actors in Nepal conducted in 2010 by the Ministry of Commerce suggests that clients did not feel high levels of satisfaction with TEPC's responsiveness to their needs. The main criticisms included: inadequate human resources and unskilled staff; need for more targeted business development services to avoid replicating the efforts of other domestic institutions; and lack of capacity to represent and promote service exports. In addition, the private sector complained about the agency's weakness in disseminating information on business and trade opportunities (Ministry of Commerce and Supplies, 2010).

The Nepal Tourism Board promotes travel service exports, which constitute the second largest source of export earnings for the country. Established as a joint government-private sector organization in 1998, it is responsible for marketing Nepal as a premier tourism destination. It promotes travel in Nepal both domestically and internationally and has recently sought to reposition the country's international image by launching a Nepal brand – "Naturally Nepal." This has included a broadening of the types of activities offered to potential tourists, to rafting/canoeing/kayaking, hunting, bird watching, bungee jumping, jungle safari, in addition to the more traditional mountaineering, trekking, and cultural tourism typically associated with Nepal. There have also been attempts to encourage active participation of local communities by introducing rural tourism, home stay, and local tourism festivals.

Endowed with rich natural and cultural resources, including the Himalayas and a wide range of cultural heritage sites, Nepal has been a popular tourist destination since the 1950s. Yet, in recent years, the country's share of tourism receipts and arrivals in Asia has trailed behind other destinations. Moreover, there has been a shift toward a "high-volume, low value" model, with decreasing revenues per tourist (ODI, 2014). In response, the GoN launched a 10-year **National Tourist Strategy Plan** to guide its future growth. The strategy is centered around a new vision of tourism in Nepal as "major contributor to a sustainable Nepalese economy" and Nepal as a "safe exciting and unique destination" (UNWTO, 2014). While the first phase of the strategy will emphasize *diversification* of activities and i*mprovement* of traditional ones, the second phase will focus on *consolidation* and *expansion*. The plan also aims to achieve an increase in annual international tourist arrivals to Nepal to 2 million by 2020, as well as expand employment in the tourism sector.[3]

As a private-public partnership, NTB works closely with other stakeholders in the tourism industry, like the Hotel Association of Nepal (HAN), the Trekking Agents Association of Nepal (TAAN), and the Nepal Association of Tour Operators (NATO). Its activities are financed through a tourist service fee, collected from departing foreign passengers at the Tribhuvan International Airport, Kathmandu, thus keeping it financially independent. Its governing board is chaired by the Secretary at the Ministry of Tourism and Civil Aviation and consists of 11 members from other government agencies and the private sector.

A number of agencies share responsibility over investment regulation and facilitation, including the Department of Industry (DOI) and the Investment Board of Nepal (IBN). Until 2011, the DOI was the main agency responsible for the implementation of the country's investment regulations, such as the Foreign Investment and Technology Transfer Act (FITTA) of

[3] See Note 3 "Diversifying Nepal's Economy though a Dynamic Services Sector" for a discussion of the bottlenecks on the quality and development of the tourism sector in Nepal. On the ways in which tourism can promote better export performance and diversification, see Box 3.

1992 (MoCS, 2010). In 2011, IBN was established with the goal of "facilitating economic development, by creating an investor friendly environment and managing domestic as well as foreign investment." This agency is now in charge of the approval and facilitation of larger investment projects (above $200 million) in six "key" sectors: tourism, road and transport, mining and minerals, information technology, hydropower, health, airport, and agriculture. The DOI and other specific boards focus on smaller-scale projects in other sectors.

Its mandate includes both facilitation and regulatory functions. IBN offers various facilitation services, including help with company and industry registration, tax registration, complying with environmental standards, and visas for foreign employees. In its website, the agency also provides information on investment opportunities as well as on investment regulations and the business climate.

In addition, IBN's core regulatory activities include: (i) formulation of policies to create an investment-friendly climate; (ii) approval, negotiation, implementation, and monitoring project investments; (iii) administration of appropriate incentives to investors to encourage investments. IBN is also in charge of negotiating and implementing public-private partnerships and other cooperative projects to develop infrastructure in sectors such as hydropower, chemical fertilizers and integrated solid waste management. IBN negotiated the agreement for the 900 MW Upper Karnali Hydropower Project, which is estimated to provide NPR 431 billion (USD 4.32 billion) through taxes, VAT and royalties, and to generate employment opportunities for hundreds of people in Achham, Dailekh and Surkhet districts.

The Board was created as a separate agency, independent of any single ministry, and reports directly to the Prime Minister of Nepal, who is also the IBN Chairperson. The governing board of IBN is composed primarily of government representatives, including the Ministers for Industry, Forest, Finance, Energy and Culture, with no representation of the private sector. The governing board is in theory not involved in day-to-day operations but approves budgets and working plans and provides strategic and operational advice.

Despite its name, IBN does not engage in promotional activities. Indeed, Nepal continues to lack a dedicated institution for investment promotion.

A number of private organizations also participate in trade and investment promotion activities, complementing the work of TEPC, NTB, and IBN**.** These include peak associations such as the Federation of Nepalese Chambers of Commerce (FNCCI) and the Confederation of National Industry (CNI), as well as sectoral associations, including the Nepal Pashmina Industries Association (NPIA), the Federation of Handicraft Association of Nepal (FHAN), the Himalayan Orthodox Tea Producers Association (HOTPA), the Nepal Ginger Producers and Traders Associations (NGPTA), and the Nepal Handmade Paper Association (HANDPASS), among other industries.

The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) was established in 1965 to promote and protect the interests of the business and industrial communities. Like TEPC, FNCCI performs information, advisory, consultative and promotional activities. More specifically, as listed in its website, it offers the following services to its clients: represents and facilitates participation of business community in national and international fora, including trade fairs and exhibitions; presents government with recommendations on trade and investment promotion; provides advisory services to exporters, importers, and investors; provides business information and research services, as well as training and capacity building workshops and seminars.

FNCCI's membership includes 100 municipality level chambers in 75 districts of Nepal, 95 sectoral associations, 20 binational chambers, and over 600 public and private sector undertakings. In 2016, a Business Code of Conduct was developed, to which members of all associations and organizations affiliated with FNCCI must abide to.

The Confederation of Nepalese Industries (CNI) is a non-governmental body representing large and medium-sized businesses in the manufacturing and services sectors. Its aim is to serve as a "platform to address many issues plaguing the Nepalese industries today," while providing the government with policy input to the government. CNI's services include information dissemination on foreign trade and certificates of origins. It also has bilateral agreements with other peak association from developed and developing countries. Moreover, CNI collaborates actively with TEPC in the maintenance of the trade bank, containing economic data on exports and imports as well as information on the exporting potential of Nepalese industries.

CNI has also teamed up with the Ministry of Industry in the maintenance of Invest Nepal, an online information source for businesses facilitation and investment promotion. Invest Nepal is meant to serve "as a single reference point for sector-specific information for foreign and local investors, including expertise and business services."[4]

Despite these examples of informal collaboration, institutional channels for cooperation and coordination among these public and private bodies have been largely absent. In 2010, the **Nepal Business Forum** was established to establish regular dialogue and deliberations between the government and the private sector, with the ultimate goals of (1) improving the business environment; (2) stimulating sustainable economic growth; and (3) attracting private sector investment. The Nepal Business Forum has been viewed as a successful example of public-private dialogue, significantly contributing to the post-conflict growth in Nepal (Watson, 2013).[5]

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[4] See http://www.investnepal.gov.np/portal/index.php?mid=1.

[5] In 2014, the NBF was awarded a global outstanding award at the seventh International Symposium on Public-Private Dialogue, held in Frankfurt, Germany. See http://kathmandupost.ekantipur.com/news/2014-03-07/nepal-business-forum-gets-howard-award.html

Binding constraints: What role should Trade and Investment Promotion Institutions Play to Overcome them?

Nepal's ability to expand and diversify exports and attract foreign investment is affected by an inadequate business environment. In particular, businesses in Nepal face complex administrative processes and lack of transparency in laws and regulations, which weaken the competitiveness of national exporters and discourages potential foreign investors. In addition, foreign investors face restrictions and cumbersome procedures on the repatriation of funds and insufficient investor protection guarantees, which are inconsistent with the country's international commitments.

Nepal also maintains a range of entry barriers to foreign investment, including investment thresholds, sector caps, foreign ownership caps, and negative lists. While allowing 100% ownership in most sectors outside services, Nepal maintains a foreign ownership limit of 51% in a number of services, such as legal, accounting, and engineering. Under the new Foreign Investment Policy, the negative list has been expanded to include poultry, fisheries, print and electronic media. These quantitative restrictions impose an upper limit on the amount of FDI entering Nepal. Nepal also imposes restrictions in non-equity modes of investment, such as franchising. Non-equity investors face a slow and arbitrary approval process, government interference with private contracts, delays in trademark registration and difficulties in remitting royalties and technical fees. These obstacles deter non-equity investments, which while not bringing foreign capital into the country, imply significant technology, training and skills transfer and diffusion.

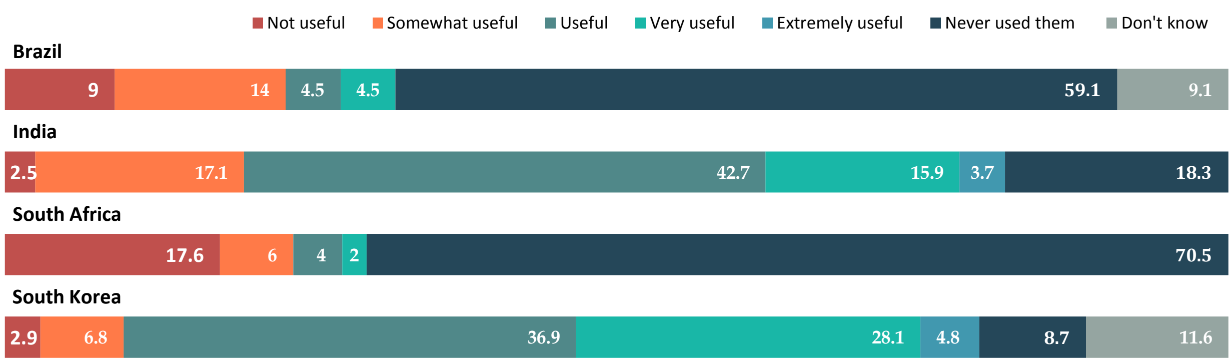
Box 1. What IPA services do investors value more? Evidence from India and other emerging economies

Investment promotion agencies (IPAs) are established to help foreign firms overcome informational asymmetries and other market failures that act as obstacles to investment. But to what extent do potential investors actually rely on national IPAs when making investment decisions? Which services do they demand more? And what kinds of firms are more likely to value IPA support? These are important questions to consider as Nepal rethinks the design and goals of its investment and export promotion institutions.

New Voices in Investment (Gomez-Mera et al, 2014*)* addresses these questions using data from a sample of over 700 firms in four countries, India, Brazil, South Africa, and Korea. When investors were asked how they became aware of investment opportunities in those countries where they held their largest investments, of the 223 investors answering this question, less than 2% said that had happened through contact with IPAs. The majority of respondents (66%) reported learning about these opportunities from existing customers, suppliers, or investors. This suggests national IPAs in countries trying to attract FDI need to do a better job in promotion and outreach among potential investors.

Despite their limited role in promoting awareness of investment opportunities, IPAs appear to be a widely used and useful resource for investors. Almost 70% of firms with investments in developing countries reported having relied on the services provided by IPAs upon deciding to invest in a particular country. Interestingly, there are differences across countries, both in usage and in reported level of satisfaction**.** Firms from India and Korea, two of the main sources of FDI into Nepal, rely on IPA services more heavily than firms from Brazil and South Africa. A higher proportion of firms from India and Korea also rated the services provided by these agencies as useful or very useful.

Figure B1.1. Evaluation of IPA usefulness, by country of origin



IPAs seem to be particularly useful for companies at an early stage in the decision to invest. When asked to rate the specific services provided by IPAs, investors reported higher satisfaction with IPAs' provision of information on procedures and regulations of doing business as well as on corporate taxation and incentives. On average, IPAs appear to be more useful for investors during the decision phase (which obtained the highest average rating) and the entry stage (the second highest score). By contrast, IPA "aftercare" services such as providing information on finance sources and assistance in technological upgrading received the lower average score (Table B1.1). This suggests that national IPAs need to pay greater attention to these types of services, so as to meet investors' expectations.

Export oriented firms are more likely to rely on IPA services when making investment decisions, an important finding if Nepal wants to attract export oriented FDI. Data from the Potential Investor Survey suggests that the greater a firm's dependence on exports, the more positive its evaluation of the quality of IPA services. Moreover, firms whose main motivation for investing is to gain access to new domestic and regional markets also tend to rate IPAs' support more favorably. More than 4 percent of these market-seeking investors reported extreme satisfaction with IPA services, compared with 2 percent of firms seeking to lower production costs and 3 percent of firms with other motives for investing. Data from the survey also shows that the smaller a firm, the more positive its evaluation of the quality of IPA services.

Table B1.1. Investors' evaluation of specific IPA Services

Description of Service	Score*
Decision phase	
Information on markets	4.43
Information on availability of supporting infrastructure	4.42
Information on corporate taxation and incentives	4.63
Information on strategic partners and on relevant industry or sector	4.27
Entry stage	
Information on business procedures and regulations for doing business in destination country	4.71
Facilitating company registration, licensing (work permits, import/export permits, etc.)	4.47
Introduction to legal, accounting and other professional services	3.92
Soft landing services (e.g., housing, schools, safety)	4.36
Implementation stage	
Finding suitable sites (land, office, factory)	3.9
Facilitating building construction	4.25
Access to utilities and infrastructure	4.18
Finding key staff	3.98
Operation stage/aftercare	
Complaint resolution (issues concerning tax, labor, customs, immigration, utilities)	3.84
Information on finance	3.58
Matchmaking (access to suppliers, buyers, finance)	4.23
Assistance in upgrading (information on technology sources, terms of technology transaction)	3.8
Access to utilities and infrastructure	4.26

** Mean score of 5-point Likert scale (1=Not Important, 5=Extremely Important)*

Source: Authors' calculations based on Potential Investors Survey data.

International Best Practices

In this section, we discuss a number of best practices in export and investment promotion that offer lessons and insights for the case of Nepal. The cases of Costa Rica and Chile are best practices in the promotion of export oriented FDI through separate but cooperative TPOs and IPAs. Jamaica and Latvia, in turn, are examples of successful mergers in investment and export promotion institutions. Finally, the cases of Mauritius and Lao PDR offer lessons on the successful diversification of travel services and on how to maximize the multiplier effects of tourism in the domestic economy.

Costa Rica

Costa Rica is considered a success story in terms of export diversification led by strong FDI inflows. This is due to its impressive evolution from being heavily reliant on coffee and banana exports to becoming an exporter of software products (World Bank, 2006). Non-traditional exports, including aeronautics, microprocessors, automotive products, and medical devices, account for 85% of total exports (ITC, 2014a). Moreover, the country is currently one of the main high-tech FDI recipients in Latin America. Costa Rica has also successfully brought small and medium-sized enterprises into value chains, linking them with multinational corporations. In this case, Costa Rica investment promotion strategy followed the full investment cycle: attracting, retaining and connecting the foreign firms with the domestic economy.

The synergy between export and investment promotion agencies has been key to Costa Rica's success. Three independent agencies with clearly defined roles but aligned missions and mandates work together to improve Costa Rica's trade and investment opportunities: **COMEX** (Ministry of Foreign Trade), PROCOMER (Foreign Trade Corporation of Costa Rica), and CINDE (Costa Rica Investment Promotion Agency). The Ministry of Foreign Trade (COMEX) is in charge of defining and leading the country's trade and investment policies, in line with its mission of enhancing and expanding Costa Rica's integration into the global marketplace.

Costa Rica's main TPO, PROCOMER has been considered a model of good practice and a global benchmark for TPOs (ITC, 2014a). Established in 1996, it is a non-governmental public agency in charge of promoting Costa Rican exports of goods and services, as well as facilitating exportation procedures, promoting participation in global value chains, collecting statistics and conducting market research. Its mandate also includes supporting COMEX in the implementation of special export regimes. According to ITC, PROCOMER's outstanding performance reflects their active approach to innovation as well as the its supportive and efficient governance setup. PROCOMER is managed by a Board of Directors, led by the Minister of Foreign Trade, and is financed through free trade zone taxation.

The CINDE, responsible for attracting FDI into Costa Rica, is a private, non-profit organization that helps foreign firms go through the investment process smoothly. The agency was established in 1982 and declared of public interest in 1984. In addition to promoting investment opportunities abroad, CINDE offers extensive support to investors along the various stages in the investment decision process: assisting in the site selection, arranging meetings with service providers, real estate brokers, accountants, and government agencies, and facilitating direct contact and networking with potential business partners. Once the company has established itself in the country, CINDE offers a number of specialized services, such as support for operational expansion projects or promoting product diversification. CINDE also offers various aftercare services to businesses once they are settled. CINDE adopts a targeted sectoral approach, focusing on infrastructure, IT, and services.

The three agencies share a focus on improving Costa Rica's competiveness and increasing its integration into the global economy. Together with Costa Rica's tourism promotion agency, ICT, they launched and promote the country brand – *Essential Costa Rica*, emphasizing the availability of human talent, diversity and quality of exports, and commitment to the environment and to nature. Branding has proven a very useful tool to attract investors, tourists, and global buyers to Costa Rica. According to ITC (2014a), the partnership among Costa Rican agencies "is an excellent example of how institutions may work together for beneficiaries through combining trade and investment promotion without being under the same roof."

Chile

Chile has been very successful in attracting large inflows of FDI while diversifying and expanding its export base. While still heavily reliant on exports of commodities, especially copper, recent years have seen an increase in the share of IT and electronic products in the export basket. Chile's sound economic policies, stable political system, and transparent business environment have contributed to its strong record in FDI attraction (USAID, 2009). Indeed, until 2015, Chile lacked a dedicated investment promotion agency.

ProChile (Chilean Trade Commission) is the country's export promotion agency. Created in 1974, it is under the jurisdiction of DIRECON (Directorate General of International Economic Relations) of the Ministry of Foreign Relations. DIRECON coordinates all government agencies involved in foreign trade. ProChile is responsible for helping firms identify opportunities in foreign markets (with representation in 38 countries), assisting them as they take the steps required to export, as well as providing market research and analysis. It also offers direct financial assistance to exporters through a matching grants scheme. ProChile's strategy in the last two decades has emphasized increasing the value-added components of Chilean exports, diversifying the export basket and export markets, and linking national exporters with international value chains.

Until recently, CORFO (Corporacion de Fomento de la Produccion), Chile's national economic development agency, was in charge of investment promotion activities. In 2000 CORFO created its High Technology Investment Promotion Program, which has relied on a transnational network of companies, individuals, and universities to develop an effective investment promotion strategy and identify potential investors (Nelson, 2007). As a result, Chile has been able to attract investment in non-traditional activities, such as call centers, back offices, technical support, as well as software development. While collaborating with CORFO in the organization of promotional events, the Foreign Investment Committee (FIC), created under the Foreign Investment Statute of 1974, was limited to approving foreign investment projects.

The Foreign Investment Promotion Agency (APIE) was created in 2015 to promote Chile in the global market as a destination for foreign direct investment. This new dedicated IPA signals a shift toward a more active policy of investment attraction by the Chilean government. Its mandate is to serve as "a bridge between the interests of overseas investors and the business opportunities the country offers, providing world-class services that are in line with Chile's economic development policies."

Inter-agency coordination and cooperation with the private sector have been key in Chile's export and investment success. APIE has started working together with CORFO and with Fundacion Imagen Chile, another independent institution in charge of promoting Chile's international brand. Their joint goal is to project the idea that "Chile is a good country to invest, and good country to live in."[6]

Jamaica

Despite its small size, Jamaica has managed to outperform other small countries in attracting foreign investment. Jamaica's economy relies commodity exports (aluminum), tourism, and remittances. It has a narrow production base and weak underdeveloped infrastructure. However, in 2014, Jamaica attracted almost US$700 million in FDI, 7% more than in 2013 and the largest amount since 2008. As a percentage of GDP this represents a 4.28%, in stark contrast with Nepal's inflows of FDI at 0.03% of GDP in 2014. While investment into the tourism and infrastructure sectors has been increasing, the share of FDI in mining has fallen – from 28% of total FDI inflows in 2006 to 4% in 2014. ICT has been an increasingly important sector, with foreign investors setting up call centers and, more recently, software development facilities. Jamaica has also diversified its export base, with 73% of exports now being in services.

JAMPRO (Jamaica Promotions Corporation, formerly known as Jamaica Trade & Invest) is in charge of both export and investment promotion. In terms of export promotion activities, JAMPRO provides local businesses, particularly SMEs, with a range of technical and advisory support for export readiness and competitiveness. In 2011, it launched the "Export Max: Enterprise Development for Export Growth" program, aimed at providing focused capacity building and market penetration support to a group of Jamaican exporters and export-ready firms. Under the program, a number of services are offered, including company diagnostics/needs assessment, business matchmaking, quality standards development, mentoring activities, etc. JAMPRO relies on a targeted strategy to increase Jamaican exports, focusing on agro-processing and agriculture, creative industries, manufacturing, energy, and mining, ICT, and trade in services. In 2012, JAMPRO received the award for best TPO from a Small Island Developing State, the third time the agency has achieved international recognition since 2004.

JAMPRO is also in charge of investment promotion, offering investors a range of services from information about opportunities in Jamaica, to support in the early stages of establishing a presence within Jamaica, to aftercare services on their investments are operational. Working in partnership with other government agencies, JAMPRO guides investors through the necessary processes and regulatory requirements.

Taking advantage of its position as both and TPO and IPA, JAMPRO has a "Business Linkages Program" seeking to promote links between foreign investors and local suppliers. The program has resulted in over 500 linkages contracts. It also helps in the identification of joint ventures

[6] See http://www.ciechile.gob.cl/en/espanol-firman-acuerdo-para-promover-la-inversion-en-el-pais/

of financing partners for exporting companies seeking to expand or retool. Finally JAMPRO also assists SMEs in understanding how they may fit into global value chains.

Indeed, the export development and investment promotion divisions of the organization work closely together to identify inter-departmental opportunities. A Global Business Connect Strategy seeking to increase the value of the country ‘s global trade and investment relations was launched in 2014. The program seeks to identify Jamaicans and members of diaspora that can act as potential investors and distributors. In 2014, JAMPRO was selected as the winner of UNCTAD’s award for excellence in promoting export-oriented FDI.

Tourism is among the priority sectors in JAMPRO’s investment promotion efforts. The sector has indeed attracted a significant share of incoming FDI to Jamaica, partly driven by in large-scale hotels and all-inclusive resorts. Indeed, the Jamaican government has sought to promote this type of investment, through the Hotel Incentives Act, which offers income tax and duty concessions of up to 15 years for hotels with at least 350 bedrooms and 10 years for smaller hotels. An Attractions Package offering customs duties and consumption tax exemptions for certain products was launched in 2003 to promote tourist spending within the country.

Latvia

Latvia has achieved significant economic transformation since becoming a member of the EU in 2004. Industrial output rose rapidly as did diversification of export markets, as well as products and services. Indeed, services exports now account for up to 60% of GDP. Latvia has also been successful in attracting inflows of FDI, which have been crucial for sustaining economic growth. Export-oriented FDI have flown into several sectors in manufacturing and services in response to an effective strategy of targeted FDI promotion.

The Investment and Development Agency of Latvia (LIAA) has played an important role in this regard. Like JAMPRO, LIAA is in charge of both investment and trade promotion. Created in 1993, the agency is under the authority of the Ministry of Economy. LAIA’s objective is to “promote business development by facilitating more foreign investment, in parallel increasing the competitiveness of Latvian entrepreneurs in both domestic and foreign markets.”[7] Apart from providing services to both national exporters and foreign investors, the agency works to improve the business climate and administers national state and EU-funded programs for entrepreneurs and exporters.

For trade promotion, LIAA prioritizes a number of sectors, including food, forestry, woodworking, textile and clothing, as well as biotech/life sciences, ICT and electronics. It offers entrepreneurs a wide range of services, such as information provision and consultations on foreign trade (on foreign markets, financing opportunities, international legislation, etc.), support in finding business partners, educational seminars and other training in export readiness, as well as marketing and analysis. It also relies on foreign representative offices for the identification of buyers and distribution channels and for the organization of visits and meetings with Latvian businesses. LIAA also runs the Enterprise Europe Network Latvia (EEN),

[7] See http://www.liaa.gov.lv/about/about-liaa.

providing businesses with information about European Union policies, legislation, regulations, and trade systems.

In terms of investment promotion and facilitation, LIAA provides a one-stop-shop for foreign investors, offering a broad range of services and tailored solutions to meet each company's specific needs. In the initial stages, LIAA provides information on investment opportunities and relevant incentives available in Latvia, as well as assistance in selecting a location, establishing and developing contacts with Latvian business partners, and gaining access to legal, real estate, accounting and other support services. LIAA is also involved in follow-up or aftercare services, working with investors to identify lessons learned and further opportunities for business development. It also acts as a focal point, facilitating relations between the private sector and government representatives.

Key to LIAA's success is a coherent and coordinated approach to trade and investment promotion, with the explicit aim of attracting export-oriented FDI. The trade and investment promotion department has two separate divisions focusing on each of these functions and relies on support from 10 foreign representative offices. In addition, LIAA participates of regular weekly trilateral meetings with the Ministry of Economy and the Ministry of Foreign Affairs. In addition, LIAA works closely with a network of 46 diplomatic and consular representative offices in foreign countries, as well as with other foreign embassies in host countries. LIAA foreign representatives are important to disseminate information about investment opportunities, regulations, and conditions in Latvia. They also facilitate cooperation between Latvian and local businesses.

LIAA has recently launched a new investment strategy, the POLARIS Process, an integrated approach seeking to promote communication, cooperation, and effectiveness in execution of tasks among a broad range of private and public stakeholders involved in the investment process, including national and national governments, foreign investors and national firms, as well as academic institution ns.

Mauritius

Mauritius is a best practice in using tourism as a vehicle for export growth and diversification. Despite its small size and remoteness from world markets, Mauritius successfully overcame a strong reliance on sugar exports, diversifying into textiles and clothing, tourism, and other services (Cattaneo, 2009). The tourism sector, through its direct and indirect domestic economic effects (See Box 1), contributed significantly to the transformation of Mauritius' economy.[8]

Mauritius benefited from the positive and proactive role of the government in promoting the tourism sector and deepening its links to the domestic economy. The government targeted tourism, releasing sugar lands and other publicly regulated resources into the sector. While working closely with private developers, the government retained control of the coastline to

[8] Another relevant example on improvements of tourism offerings with economy-wide gains is that of Cape Verde (see box 3 in Note 3 "Diversifying Nepal's Economy though a Dynamic Services Sector").

ensure new properties observed environmental standards and to avoid overexpansion (Christie et al., 2013). The growth in the hotel industry has been accompanied by the emergence of local businesses in taxi, small bus, handicraft and food services, demanded by incoming tourists.

Foreign investment has also been key to the development of the tourism sector. The government has relied on several programs of incentives to attract FDI into the sector. In 2000, the country's main IPA, the Board of Investment (BOI) was created to promote Mauritius as an investment destination, improve the business climate, and serve as a one-stop agency assisting local and foreign investors. The BOI targets the hospitality and property development sector, seeking to broaden the scope of the sector by allowing foreigners to purchase property and by promoting the country as a center for meetings, incentives, conferences, and exhibitions (MICE) and for medical tourism (UNCTAD, 2008). In addition, BOI promotes foreign investment in other sectors, such as financial services, logistics, and ICT, which are closely linked to the tourist sector.

Mauritius has greatly benefited from effective cooperation and coordination among government institutions and between them and the private sector. Indeed, the development of tourism has relied heavily on partnerships between the public and private sectors. The Mauritius Tourism Authority, under the aegis of the Ministry of Tourism and External Communications, coordinates the activities of the various organizations in the tourism sector, working closely with private and public sector partners. The country's TPO, Enterprise Mauritius (EM), also aggressively promotes the country as a sourcing destination. Moreover, representatives from the three agencies, EM, BOI, and the Tourism Authority, regularly integrate the national delegation at international fairs and exhibitions, allowing them to promote more effectively the country brand.

Policy recommendations

The examination of international best practices in export and investment promotion offers a number of important lessons for Nepal on the organization and setup of trade and investment promotion institutions.

Institutional setup and organization

The strong interplay between FDI and trade – both of goods and services, means their promotion is best implemented under a common umbrella and through a coordinated approach. Thus,

1. Nepal may need to consider the option of merging investment and trade promotion activities within a single institution. In doing so, both the advantages and disadvantages of this strategy should be carefully evaluated. Notice that the cases of Costa Rica and Chile demonstrate that a merged institutional setup is not a necessary condition for effective promotion of export-oriented FDI.

2. If separate organizations are maintained, it is important that their mandates are aligned and their activities coordinated. Nepal must thus redefine and realign the mandates of both TEPC and the different agencies in charge of investment promotion to emphasize the attraction of export-oriented FDI and greater participation in global value chains.

3. Establish institutional mechanisms to enhance policy coordination and coherence between the relevant agencies, and between these and other government agencies and private sector organizations, including the Nepal Tourism Board.

4. Promote closer collaboration of all organizations, TEPC, DOI agencies, IBN, and NTB in promoting of Nepal's country brand and image through joint missions and participation in international trade fairs and exhibitions. Collaboration with personnel in foreign embassies and consulates can be crucial. The experience of Costa Rican trade, investment, and tourism agencies working in partnership to promote the country brand – Essential Costa Rica – offers important lessons to Nepal.

5. Share and exchange market intelligence and information on potential export destinations and business partners.

Export promotion

Nepal's main trade support institution, TEPC, needs to be strengthened and empowered so as to better meet the informational and support needs of its private sector clients. A number of concrete steps can be taken:

5. Improve the quality and range of services offered, including technological and design support for export products to meet the demands and needs of consumers in developed markets. Offer support in the development of exporters' managerial skills, particularly for small and new exporters. JAMPRO's Export Max program, which focuses on a small number of firms, providing mentoring and targeted assistance, offers a good replicable model.

6. Improve dissemination of information and quality of available market intelligence and research. In particular, exporters need better information on technical and phytosanitary standards requirements under WTO, regional, and bilateral arrangements.

7. Promote networking and interaction among government, business, non-governmental organizations, and academic institutions at the national and local levels so as to ensure better exchange of information and economies of scale in capacity-building programs.

8. Increase collaboration with NTB and take advantage of the linkages between tourism and exports by organizing handicraft, textile, and food fairs and sale points in tourist sites, and promoting the use of local products in hotels. The experience of Mauritius Food Exhibitions is particularly relevant. Nepalese authorities could facilitate cooperation between

international hotel chains and producers and traders of food products such as spices, tea, coffee, and honey (Reis and Varela, 2015).[9]

9. Create a stronger and more organized framework for policy advocacy and dialogue between the government and the private sector through the Nepal Business Forum.

10. Increase the number of private sector representatives in the Board of Directors and create advisory board with representation of key sectors.

11. Hire personnel with business and private sector experience.

12. Ensure that export promotion interventions are subject to impact evaluation and that these interventions are reformed or discontinued if evidence suggests they are ineffective.

Investment promotion

Nepal has made significant progress with the establishment of the Investment Board and the drafting of a foreign investment strategy in 2015. While IBN engages in investment facilitation, it fails to undertake the promotional activities that other dedicated investment promotion agencies engage in. Its activities are primarily administrative and regulatory and do not include image-building, investor targeting or any other investment promotion efforts. Thus, a number of steps can be taken to improve the country's prospects in attracting investment.

13. The mandate of IBN may then be re-considered and expanded to address this pressing need for active investment promotion, complementing the product and destination promotion efforts undertaken respectively by the Nepal Tourism Board and the TEPC. In fact, IBN could be revamped and relaunched as Nepal's designated investment promotion agency.

14. In addition, efforts should be made to clarify and coordinate the roles of IBN and the DOI in the management and regulation of foreign investment. A clearer division of labor between the two institutions, for example, by concentrating promotion activities in IBN and letting DOI be in charge of approvals, would increase transparency and simplify the process for investors, thus facilitating FDI entries.

15. Expand IBN's activities to include aftercare services to investors once they have started operations within this country. Collaboration with TEPC is very important in establishing links between foreign investors and exporters, not only to promote further reinvestment by existing firms but also to help domestic firms integrate into global and regional value chains. The example of JAMPRO's Business Linkages program could be used as a good model.

[9] More specific policy recommendations to develop the tourism sector and enhance its linkages with other economic activities can be found in Part III of Note 3 "Diversifying Nepal's Economy though a Dynamic Services Sector."

16. Improve efforts and collaboration with TEPC and the private sector in policy advocacy aimed at improving the business and investment climate. For example, by creating a formal mechanism through which the views and input of the private sector on investment promotion may be incorporated into policymaking. This could be done through the establishment of a free standing board (see CORFO's case in Chile) or an advisory council with significant private sector representation. Increasing private sector representation in the IBN's board would also contribute in this regard.

17. Drawing upon the Chilean case, promote the development of transnational strategic networks of different stakeholders within and beyond Nepal. Like the Chilean case shows, this is a more cost-effective strategy to attract FDI than relying in an elaborate network of foreign offices and representations.

18. Continue to follow a focused sectoral approach, giving priority to FDI in infrastructure, energy, tourism, and other services. The further development of these sectors will contribute to export competiveness, which will attract more investment to both manufacturing and services sectors.

Addressing binding constraints to export competitiveness and investment expansion

While strengthening the role and services of the national trade and investment support institutions is fundamental, it is not sufficient to attract foreign investment. As the review of the literature and the case studies included in this report show, the effectiveness of export and investment promotion policies and institutions ultimately depends on the business environment. Attracting FDI requires addressing a number of binding constraints:

19. Improve backbone services and infrastructure, an essential step to promote investment, tourism, and export competitiveness.

20. Remove outright restrictions and cumbersome processes on the repatriation of funds related to foreign investment

21. Eliminate foreign investment entry barriers that include investment thresholds, sector caps, and foreign ownership limitations. Shorten the negative list, which identifies all sectors where FDI is prohibited or restricted.

22. Efficient, transparent and predictable administrative procedures are important for foreign investors. Proposed reform actions therefore include process streamlining/simplification; increasing accountability and reducing discretion; increasing predictability through process maps and guidelines; silent consent, one-stop shop and automation. Rationalizing and reducing the number of unnecessary procedures will expedite processes and alleviate this constraint to FDI.

23. Include investor protection guarantees of fair and equitable treatment and most-favored nation treatment in Nepal's investment laws.

24. Eliminate restrictions in in non-equity modes of investment, such as franchising, in services.

25. Considering accession to the Hague Apostille convention to simplify documentation requirements for foreign businesses.

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