

POLICY BRIEF

The Nepali Diaspora and FDI

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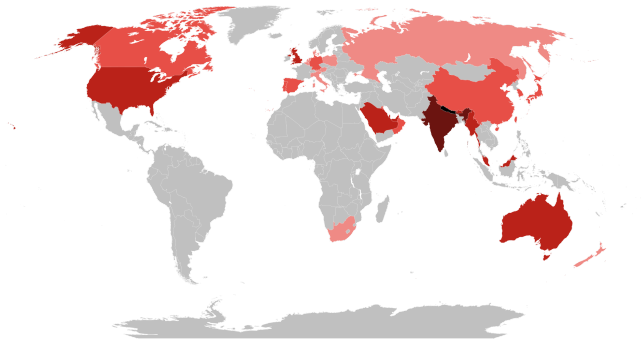
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In what ways does the Nepali diaspora contribute to Foreign Direct Investment (FDI) in Nepal, and what factors influence their investment decisions?

Introduction

The Nepali diaspora, with over 2-3 million people worldwide, is important to Nepal's economy. Besides remittances, diaspora members contribute to Nepal's development in a number of direct and indirect ways through investments, skills, and networks that could lead to improving FDI inflows or Foreign Direct Investment. In this context, it is essential for policymakers to understand how the diaspora contributes, and what factors drive their FDI decisions, in order to mobilize the diaspora as an important development partner. This brief analyses the current contributions, identifies the key drivers of diaspora investment behaviour, and outlines some policy recommendations to further engage the diaspora in Nepal's economy.



The Impact of the Nepali Diaspora on FDI

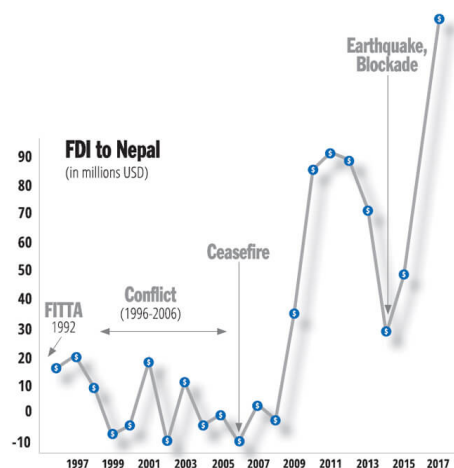
1. Financial Capital and Investments: The overseas Nepali diaspora contributes to significant capital flows through direct equity investments in areas such as manufacturing, agriculture and services. Laws and regulations, such as the Non-Resident Nepali Act (2064 B.S.) allowed for NRNs to participate in investment activities, acknowledging NRNs as contributors to economic development .

2. Knowledge and Skill Transfer: Diaspora members provide experience, expertise, technical skills and best practices from their long-term exposure to international markets, which can develop local industries and encourage entrepreneurship within Nepal. Although they cannot be considered FDI, these knowledge and skill transfers complement FDI focused on technology and innovation transfer flows.

3. Network Effects and Market Linkages: The diaspora is an important agent of economic development to facilitate market access and export growth through their global networks in the international economy. They establish partnerships that will contribute FDI to new sectors and areas in Nepal .

4. Advocacy and Policy Influence: Diaspora members have the ability to influence the right kind of policy change that improves the investment environment - advocating for foreign direct investment (FDI) procedures to be made transparent, better infrastructure, better environmental stewardship, and strong laws around protecting property rights to attract more FDI from abroad .

5. Funding for Community and Development Projects: The diaspora is a source of funding through diaspora organizations focused on various community infrastructure, funded social initiatives, and startup accelerator programs that indirectly support the creation of a better, more conducive environment for FDI and other economic activity.



Factors Influencing the Investment Decisions of the Nepali Diaspora

1. Political Stability and Governance: Political stability and effective governance are critical to investor confidence among the diaspora. The 2015 Constitution offered a way for increased political stability; however, unresolved social tensions and bureaucratic inefficiencies still deter potential investor interest.

2. Legal and Regulatory Environment: A transparent and consistent legal framework, including the ease of doing business, and laws governing investment

protection, is critical. Several reforms have been made, including the Foreign Investment and Technology Transfer Act; however, issues surrounding implementation have made confidence hard to build.

3. Infrastructure and Macroeconomic Conditions: Adequate infrastructure (transportation, energy and communication) and the macroeconomic picture is important when making investment decisions. High inflation, policy inconsistency and volatility are obstacles.

4. Availability of incentives and support measures: Tax incentives, clear policies on repatriation and platforms dedicated to diaspora investment can improve attractiveness. Poor accessibility and perceived risk have led to low engagement levels.

5. Social Tensions and Community Dynamics: Members of the diaspora experience social tensions internally, perceptions of exclusion in recipient countries, and difficulties around how a given community views diaspora investment. These elements impact the willingness of individuals or groups to invest in the home country, as building trust and creating inclusive mechanisms are important for diaspora members.

6. Perceived return on investment and ease of repatriation: If investors are not convinced their investments are safe or profitable, and that repatriation is simple, they are unlikely to invest. If there were clear policies and procedures around transferring the profits of investments, and resolving disputes, there would be more confidence.

7. Cultural and Personal Ties: Deep-rooted cultural ties, patriotism, and personal motivations motivate diaspora members to invest in sectors that benefit their communities back home, provided favorable conditions exist .

Policy Suggestions

- 1. Improve legal and policy frameworks:** Reduce red tape for investment processes, make laws relevant to diaspora investment more transparent in enforcement, and offer incentives like tax breaks and repatriation support.
- 2. Create specific diaspora engagement platforms:** Create easy to use online technology for engaging with those who are part of the diaspora, dealing with information dissemination, matchmaking, and investment queries - also reducing bureaucratic barriers and establishing trusts.

- 3. Enhance infrastructure and macroeconomic stability:** Focus on engaging diaspora in infrastructure and with macroeconomic policies that reduce inflation and instability- to make the country more attractive to diasporic investment
- 4. Create inclusive and participatory forms of governance:** a way to include diasporas as a part of the sectoral governance systems, allowing them to engage in policy making, even at the local level through forums for discussion or notice for future dialogue, engaging with forms of social capital to build trust within their community.
- 5. Provide incentives and support services:** Use incentives, support services and services to minimize an diaspora's effort for carrying out logistics for investment and create longer commitments to the diasporas to sector.
- 6. Build sectoral strategies:** For example in manufacturing, agriculture and technology, develop diaspora capabilities to use their resources and capabilities, and provide policymaking to support these industries.
- 7. Enhance economic diplomacy:** Nepal's economic diplomacy needs to strengthen the message of active diasporic investment potential, securing interests of investors and opening investment pathways between borders.

Conclusion

The Nepali diaspora has a huge potential to not only increase, but facilitate deeper Foreign Direct Investment (FDI) in Nepal, and can be important partners in growing economies by providing capital, skills, and networks. Their investment behaviour is affected by factors including political stability, legal certainty, the performance and quality of infrastructure, social cohesion, and perceived returns. Policymakers must take a holistic approach to develop governance, legal frameworks, infrastructure, and inclusive policies to create an environment conducive to diaspora-led investment. If used to its effect, this resource can significantly fast-track the future development of Nepal, as more FDI leads to the increased potential for sustainable, inclusive growth, and reinforces socio-economic resilience in the long-run.

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