

Bachelor's thesis  
International Business  
Bachelor of Business Administration (BBA)

2013

Bibek Karki

## **OPPORTUNITIES FOR FINNISH FIRMS IN NEPAL'S ENERGY SECTOR**

– Research on Hydropower



**TURUN AMMATTIKORKEAKOULU**  
TURKU UNIVERSITY OF APPLIED SCIENCES

Author(s) Bibek Karki

## TURUN AMMATTIKORKEAKOULU THESIS

The globalization has utterly changed the image of the economic world. Financial incapability of a nation is no longer an excuse for not obtaining economic development. If a nation has potential and an environment that counterparts with the interest of global opportunity seekers then it's easy for nation to attract those opportunity seekers to make an investment in the country. Especially, when this scenario comes to developing nation like Nepal than the role of foreign direct investment (FDI) becomes more precious to speed up the development process of the nation. As a tool to invite FDI, Nepal has the capacity to generate 83,000 MW of hydroelectricity, of which about 43,000 MW is techno-economically feasible (NEA, Annual report 2012). Despite of having abundant of capacity Nepal generated only 700 MW at the end of 2011, and this amount is not even sufficient to fulfill domestic need which is about 1200 MW per year. As a consequence, currently Nepal is suffering through an aggressive power cuts problem which last long 10 to 14 hours per day. Due to financial incapability Nepal is not able to tap the available potential in hydropower and solve the problem of Energy crisis. In this condition FDI is inevitable to bring the solution.

This research took place to find out the possible ways of solution to the problem of Nepal. Finnish firm's are at the focal point of the research. Both qualitative and quantitative methods were applied to carry out the research. Primary data were collected through formal and informal interviews with professionals. Books, articles, news, journals etc. were reviewed to find out the appropriate secondary data to take the research into the logical conclusion.

With all these combine efforts, research got some useful result. Without FDI it's terribly hard for Nepal to develop infrastructure to extract energy from hydro resources. At the same time International business hubs and Finnish firms are able and somehow interested in hydropower sector of Nepal. Similarly, Nepal and Finland have quite good diplomatic and business relationship. In other hand, We can see lots of improvements in the FDI condition of Nepal in recent years. If the leadership of Nepal shows a higher level of commitment toward the FDI than it motivates foreign investor to invest in Nepals' hydropower potential and can exploit the available opportunity for bilateral benefits.

**KEYWORDS:**

Nepal, Energy sector, Hydropower, FDI, Developing nation, Internalization, Power cuts, load shedding, BIPPA

OPINNÄYTETYÖ (AMK) | TIIVISTELMÄ  
TURUN AMMATTIKORKEAKOULU

Kirjoita tekstiä napsauttamalla tätä.

[Click here to enter text.](#)

[Click here to enter text.](#)

[Click here to enter text.](#)

[CLICK HERE TO ENTER TEXT.](#)

ASIASANAT:

Kirjoita tekstiä napsauttamalla tätä.

# CONTENT

<b>LIST OF ABBREVIATIONS (OR) SYMBOLS</b>	<b>7</b>
<b>1. INTRODUCTION</b>	<b>8</b>
1.1 Research Background	8
1.2 A glance at wind energy	9
1.3 Research objective	10
1.4 Structure of Thesis	11
<b>2 LITERATURE REVIEW</b>	<b>12</b>
2.1 Concept of internationalization	12
2.2 Modes of Internationalization	13
2.2.1 Uppsala Model	13
2.2.2 Transaction cost analysis (TCA) model	15
2.2.3 The Network model	16
2.2.4 Born Globals	18
2.3 Entry Modes	19
2.3.1 Export	20
2.3.2 Licensing	21
2.3.3 Joint venture	22
2.3.4 Foreign Direct Investment (FDI)	23
<b>3 FDI SCENARIO IN NEPAL</b>	<b>24</b>
<b>4 HYDROPOWER SCENARIO AND FUTURE SCOPE</b>	<b>29</b>
<b>5 RELATIONSHIP BETWEEN NEPAL AND FINLAND</b>	<b>32</b>
5.1 BIPPA Treaty	32
5.2 An Example of commercial success (Telaisoenera)	32
<b>6 METHODOLOGY</b>	<b>34</b>
6.1 Research approach	34
6.2 Data collection for research	35
6.3 Application of primary and secondary data	35
6.4 Interview	37
6.5 Reliability, validity and limitations	37
<b>7 FINDINGS AND ANALYSIS</b>	<b>39</b>
7.1 Literature Analysis	39
7.2 Analysis of FDI scenario	40
7.3 Analysis of interview on hydropower	41

<b>8 CONCLUSION</b>	<b>43</b>
<b>LIST OF REFERENCES</b>	<b>45</b>

## **APENDICES**

Appendix 1. Interview question	50
--------------------------------	----

## **FIGURES**

Figure 1 The principle of transaction cost analysis	16
Figure 2 An example of an international network	17
Figure 3 Born Global versus Born International	18
Figure 4 Types of entry modes	20
Figure 5 Graph for FDI inflows in Nepal	28
Figure 6 Electricity load forecast for Nepal	30

## **TABLES**

Table 1 Home economy distribution FDI in Nepal 2010/2011	24
Table 2 SWOT analysis for foreign investors in Nepal	25
Table 3 Number of electricity customer by year in Nepal	30

## LIST OF ABBREVIATIONS (OR) SYMBOLS

MW	Megawatt
NGOs	Non-Governmental Organizations
INGOs	International Non Governmental Organizations
GWh	Gigawatt hour
TCA	Transaction cost analysis
FDI	Foreign Direct Investment
UNCTAD	United Nations Conference on Trade and Development
NIY	Nepal Investment Year
NEA	Nepal Electricity Authority
GON	Government of Nepal
NPR	Nepali Rupees

# 1. INTRODUCTION

## 1.1 Research Background

Nepal (Federal Democratic republic of Nepal) is a beautiful South Asian country located between two rapidly emerging economies India and China. It is very rich in natural resources and water resource is the one of them. Nepal has an enormous amount of fresh water sources. The main source of water is running rivers through the Himalayas which could be used to produce electrical energy. “Nepal has the capacity to generate 83,000 MW of hydroelectricity, of which about 43,000 MW is techno-economically feasible. At the end of 2011, only about 700 MW was generated from hydropower projects”. (Nepal Electricity Authority, Annual report 2012)

Despite having massive amounts of hydroelectricity potential, Nepal only produces a few quantity of potential capacity which is not even sufficient to fulfill domestic demand. The main reason for this incapability is Nepal is one of the economically poorest nations of the world and does not have enough financial resources to build large capacity hydropower plants to generate enough energy for domestic need. To boost the energy production Nepal government is now encouraging the private sector to invest in the hydropower electricity and looking for foreign investment to invest in this sector.

Nepal has a tremendous amount of hydro resources however due to lack of various mechanisms to grab the available opportunities, currently Nepal is suffering through the petrifying power shortage problem. There is daily 10 to 12 hours of power cuts during the dry season in all over the big cities of Nepal which also includes the capital city Kathmandu. (Myrepublica, 2013 [Referred 10.05.2013])

According to The world bank record of 2010 on access to electricity, only 43.6 percent of the total population of Nepal has access on to electricity since the



total population of Nepal is about 30.49 million (Worldbank, 2010 [referred 06.04.2013]).

Similarly Nepal is located in most Geo-strategic location for export trade. It is sandwiched between two rapidly emerging market India in south and China in North. Both of them are heavily industrialized countries and have huge pressure for clean energy supply. If there is any surplus energy left after fulfilling domestic need, there are huge markets waiting to import Nepals hydropower production.

As a result of desperate domestic need and likely opportunities for international export makes investment in Nepal's hydro energy a promising niche production for capital investors.

At the same time the Finnish government and Nepal government have maintained a good relationship with each other and Nepal is already getting aid from Finland in many different sectors through the Embassy of Finland in Nepal. Similarly Nepal and Finland have signed Bilateral Investment Promotion and Protection Agreement (BIPPA) in 2009 and already in effect since 28 January 2011, which is another beneficial factor for Finnish investors in Nepal. All these network and link between governments creates a good opportunity for Finnish companies to expand their boundaries of investment, if they are considering of internationalization and want to invest in Hydro energy sector.

## 1.2 A glance at wind energy

Nepal is a landlocked country with the Himalayas and high hills. Being a country with high altitude mountains and hills Nepal has advantages of fine wind source which is available almost all the time and seasons of the year. As Nepal is suffering through desperate need of alternative source of energy due to the energy shortage problem thus wind energy can be one of the instant and easy potential solutions to address the energy crisis of Nepal because it takes years to build a hydropower plant and extract energy out of it.

According to a study by the Alternative Energy Promotion Centre (AEPC), Nepal has the potential to generate 3,000MW from wind energy, with the Kathmandu Valley alone capable of producing 70MW. On average, Nepal gets 18 hours of wind every day and at least two good windy days a week, and in some places like Kagbeni, 200MW could be generated from a single plant. (Nepalitimes, 2010 [referred 17.04.2013])

As similar to hydropower, Nepal does not have enough financial capability and technical knowledge to tap the opportunity of wind energy. In addition there is a lack of skilled human resources to carry the task of windmill technology. Even though some small private sectors and NGOS/INGOS are trying to contribute their efforts on wind energy but still it's not sufficient to bring significant outcomes. Again it can be a greenfield opportunity for foreign investors to invest in wind energy sector of Nepal. Companies from India, Singapore, and Hong Kong have already submitted their proposals to the Nepal government to build the windmill that could generate energy approximately 200 MW. (Uppreti & Shakya, 2009)

Similarly Finland is quite sophisticated in windmill technology with more than 150 companies registered in Finnish Wind Power Associations. Finland Wind power production in 2012 was about 492GWh which is 0,6% of the Finnish electricity consumption (vtt.fi, n.d [referred 17.03.2013]. With all these circumstances Nepal can be a favorable destination for Finnish wind energy production companies to practice internationalization.

### 1.3 Research objective

The main aim of this research is to scan opportunities for foreign investors in energy sector of Nepal. This research essentially focuses on the hydropower sector. At the same time research tries to cover the future scope and possibilities for Finnish firms to expand in Nepal through the hydro-power sector. The findings from the research can be helpful in the future to examine the possibilities of internationalization in Nepal and to scan the FDI environment in Nepal's Hydropower sector.

### *Research questions*

**Q1.** How is the foreign direct investment scenario in Nepal?

**Q2.** How is the condition of the hydropower sector in Nepal and are there any opportunities for foreign investors in it?

**Q3.** Are there possibilities for Finnish firms to expand in Nepal through the hydropower sector?

### 1.4 Structure of Thesis

This research has the following structure. The first chapter of this paper includes an introductory part where the author has explained research background and objectives of the research. The second chapter of the research contains the theoretical background which presents the appropriate hypothesis of internationalization. The third chapter goes to FDI scenario of Nepal where the author has tried to explain the actual situation of the FDI condition of Nepal. The fourth section goes on the explanation of the hydropower scenario of Nepal. Similarly the fifth section describes the business and diplomatic relationship between Nepal and Finland. The sixth section covers the methodology of the research such as; research approach, applied method for data collection etc. At the end seventh section covers the conclusion of the research.

## 2 LITERATURE REVIEW

### 2.1 Concept of internationalization

Internationalization is exploring new horizons by a firm with a commercial purpose for better opportunities and secure future of the organization. In the latest era of business, consumers have excessive desires of product and services. To fulfill the need of consumers and to earn profit from the competitive consumer market firms decide to go international. By going international firm receives the benefits of competitive advantage, Greenfield market and can lower the production cost. A firm should have enough knowledge and clear vision of internationalization before taking any steps or involvement towards international markets.

Many different scholars have disclosed different opinion and definition of internationalization. Zucchella & Scabini (2007), defined Internationalization as the growth, development and maintain of the firm in foreign market. Maintained growth is vital for business in foreign markets to happen the proper Internationalization. Here maintained growth refers to the visible grow in business operations and number of consumers in foreign market. Similarly, it's essential to develop and maintain a business relationship with different stakeholders in foreign market. If firm does not have adequate growth in foreign markets than internationalization cannot sustain longer in international market. In addition (Beamish, 1990, pg.77) defined internationalization as “. ..the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries”. As it can be seen here, Beamish emphasized on the awareness level of firm about future transactions with foreign stakeholders and its impact on the firm's decision making process. If firm is more aware about direct and indirect influences of international connection, it is more likely that firm decides to go internationalize for better opportunities. Similarly (Bradley, 2005) has a bit broader perspective on internationalization. According to him internationalization means skills of

identifying needs and desires of consumers in the different market arena and cultures, providing products , services and technology and ideas to provide firm a competitive marketing advantage. On the other hand (Ellis & Williams, 1995) defines “the process of internationalization is inherently a rational decision-making activity triggered primarily by forces external to the organization.” Here Ellis & Williams precisely focused on decision making activity of the firm. When a firm has impact of external forces such as the economy, government legislation, political transformation, demographic change, competition etc then it is a natural scenario that firm decides to go internationalize for a better future.

To sum up among all definitions above, internationalization is a decision to expand the operation of the firm out of the boarder of a nation with the understanding of foreign markets for the motive of profit and competitive advantages in the future.

## 2.2 Modes of Internationalization

In the global business arena firms have been practicing different models of internationalization. Firms usually choose the model of internationalization that fits with the need and the available resources of the firm. In the following sections I have described four main models of internationalization.

### 2.2.1 Uppsala Model

Uppsala model is a widely practiced and criticized model of internationalization. It is knowledge based internationalization model which takes long time to happen. Usually in the beginning firm gains the business experience and knowledge by operating business in the domestic market. While it has sufficient knowledge of the domestic market and some idea of international markets than firm starts it's exporting activity to the geographically and culturally close foreign market. Exporting activity grows step by step and eventually ends up with own business subsidiaries in the foreign market. The physical and cultural distance

between origin market and target market is the greatest obstacle in the internationalization process, correspondingly physical and cultural distance comes up with other external environmental barriers for the firm. (Johanson & Wiedersheim-Paul, 1975, 305) defined this as, physical barrier or distance is the major obstacle for internationalization. Psychological barrier comes up with other external barriers to disturb the internationalization process of the organization. To cope with external barriers during approaching to internationalization the firm must choose physically and culturally closest destination because firm already has some level of experience and business knowledge by involving in business activity in the domestic market.

While an organization approaches to enter into new market usually it faces the differences in languages, cultures, political systems, etc. In order to minimize the risk and to acquire the knowledge of new foreign market, firms must gradually make movements towards the market, which usually begins with the traditional export mode of internationalization and ends up with the wholly owned subsidiaries. (Johanson & Vahlne, 1990) put it in this way "Enterprise gradually increases its international involvement".

In this model of internationalization, knowledge of the market and commitment towards the market by the firm has reciprocal relation. The more knowledge a firm has about the specific foreign market, the more investment firm likely to make in that market to benefit from the gained knowledge. This is a step by step learning and investing process. In the beginning firm have doubts about new market so it takes smaller and secure step and that is exporting goods and services via intermediaries. Similarly as second step it has own sales subsidiaries in foreign market, until this process firm already gains enough knowledge to identify SWOT of that specific market and lastly if that market is beneficial for the firm, it makes the final decision to establish own manufacture subsidiaries. It is well calculated gambling which usually pays a handsome amount of profit for the firm.

However Chetty et al. (2004) criticized on the Uppsala model as, it is too deterministic, firms frequently skip stages, it oversimplifies a complex process,

it ignores acquisitions and the impact of exogenous variables. Here chetty et al. are pointing that all the firms does not necessarily fallow the steps of Uppsala model. Similarly these days internet based business is growing rapidly and it is completely ignoring the theme of Uppsala model because literally there is no more physical boundaries exists for internet based business.

### 2.2.2 Transaction cost analysis (TCA) model

“A firm will tend to expand until the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market or the costs of organizing in another firm” (Coase, 1937,pg 486). With this thought of transaction cost of a firm, Coase defines a new approach of internationalization. The main idea of Coase is; during every international trade firm has to pay a price for search, inquiry, bargaining, policing etc to make transactions. While transaction cost is too high to use another firm’s network than the firm itself decides to internationalize for cost benefits. In the support for Coase TCA model of internationalization, (Royal Swedish Academy of Sciences, 1991) defined TCA model as “... a firm expands to the point where an additional allocative measure costs more internally than it would through a contract on markets.” Here, While exporting products in foreign countries, besides production cost, the Company has to separate the budget for all kinds of contracts to make a deal. There is the cost of preparing, entering into target markets to implement and monitor the foreign trade. If company realizes that these extra costs can be minimized by operating own subsidiaries in target market it's more likely that the company decides to carry out the needed operations by itself.

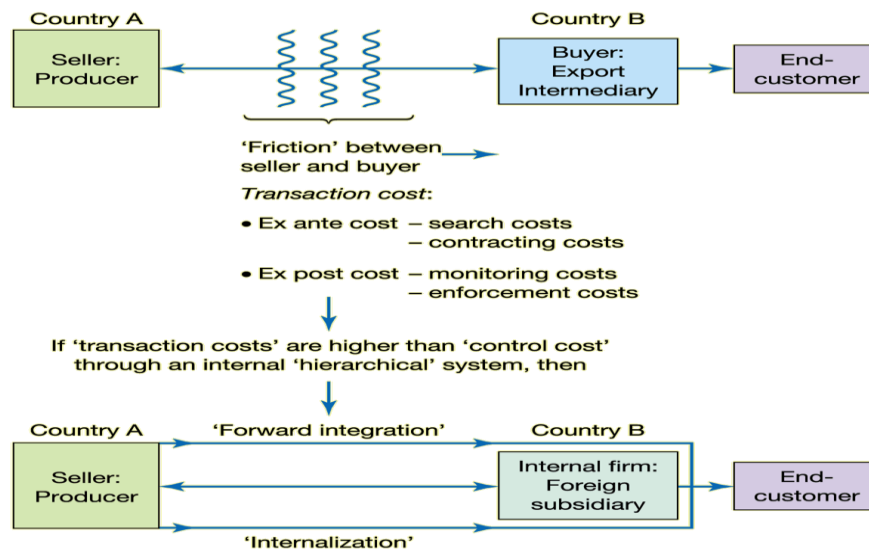


Figure 1 The principle of transaction cost analysis

Global marketing (Svend Hollensen 2007, 4th, p 68)

As shown in figure 1. Hollensen clearly developed the concept and principle about TCA and here he tried to illustrate the direct benefit of the TCA model of internationalization. In this figure we can see the 'friction' between seller and buyer while producer sells the production from 'country A' to the buyer of 'country B'. The friction between buyer and seller also known as 'opportunistic behavior' Hollensen defined these 'opportunistic behavior' of buyer and seller as 'self-interest seeking with guile'. The company decides to internationalize through own subsidiaries in foreign country to minimize or skip the friction between origin country to target market.

### 2.2.3 The Network model

This is another popular and recent model of internationalization. The network model is a more recent internationalization theory (Hollensen, 2007). In this model a firm uses its relationship with a domestic network to build networks in international market. Domestic network contains various stakeholders of a firm such as investors, producer, dealers, distributor, supplier etc.

According to Hollensen Their is direct or indirect connections existing between firms and country networks which can be used in internationalization (Hollensen



2007, p. 71). Additionally Ojala stated, In that case their existing networks among customers, importers, intermediates, suppliers, etc. lead them to foreign markets and open new opportunities. (Ojala 2009, p. 51). A firm practice many different kinds of interactions with different parties which are involved in the process of business and all these different parties can use as a ladder to penetrate in foreign market. A firm should have good information flow and strong commitment to all the stakeholders of the network in order to succeed in the internationalization process. In order to create opportunities the firm has to create strong commitment in the network so that it has better access into the knowledge. The information flow inside the network has to be confidential from competitor to benefit more in foreign market (Johanson and Volume 2009).

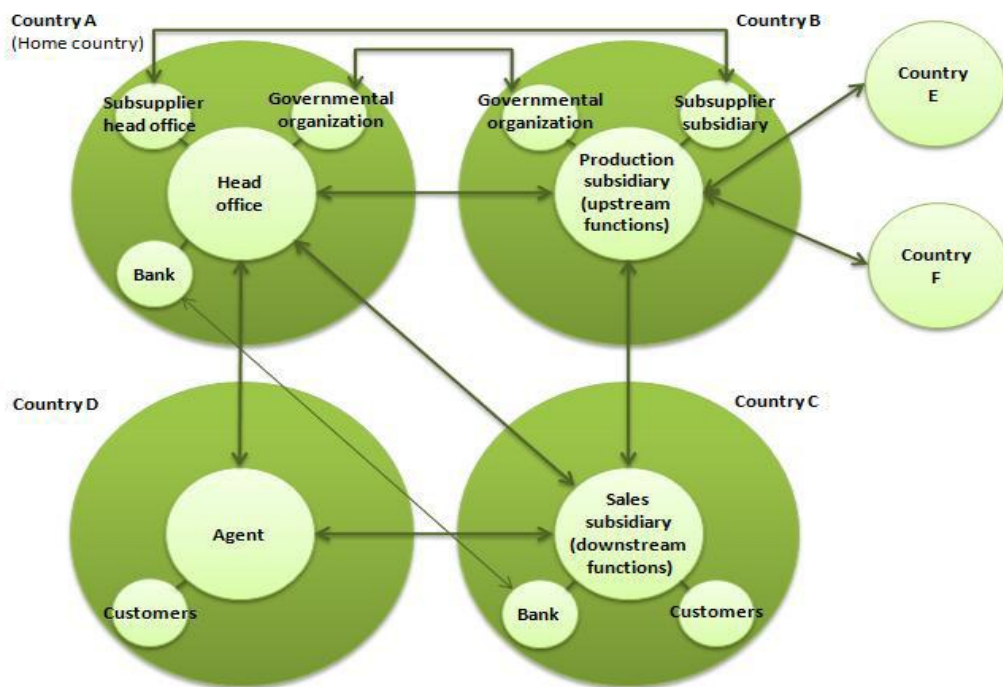


Figure 2 An example of an international network

(Hollensen 2007, p. 71)

In the figure 2. we can see the clear description of The Network model of internationalization and also it shows how internationalization can happen by utilizing the connection with different members of the network of a firm. Here an organization has the head office of the company in 'country A' and it is managing its operation in country A, B, C, D from the head office in 'country A'

in the collaboration with its different subsidiaries in different countries. Besides own subsidiaries it has network with other stakeholders such as agent, government, customer, bank, supplier, supplier's subsidiaries etc. All these connections help organization to expand into more countries and grow business operations.

#### 2.2.4 Born Globals

“Gradual internationalization is dead.” Cavusgil (1994). In the modern age of internationalization firms often skipped the steps of internationalization in order to penetrate in the global market as quickly as possible. Unlike Uppsala model in Born Globals firms begins to internationalize from the very first day of its operation. It has recently been practiced that in the modern era of globalization firms bypassing the traditional incremental methods of exporting and beginning to export from the first days of the firm in the global market (Shrader, Oviatt & McDougall 2000). The period of internationalization of a firm has been significantly shortened because of bypassing the traditional steps in order to invade foreign market rapidly. “A firm that from its inception pursue a vision of becoming global and globalize rapidly without any preceding long term domestic or internationalization period” (Oviatt and McDougall 1994; Gabrielsson and Kirpalani 2004).

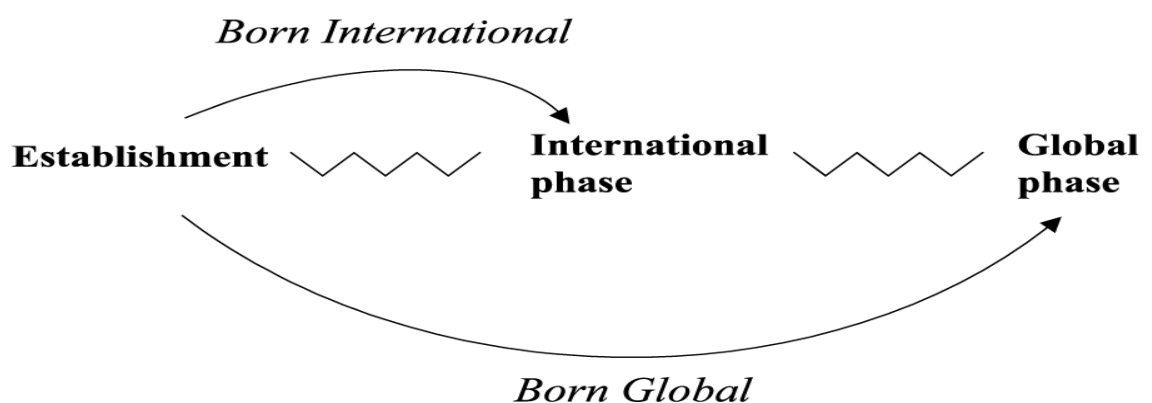


Figure 3 Born Global versus Born International

European Business review (Gabrielsson et al. 2004)

The figure 3. shows the difference in the process of internationalization of traditional approaches and Born Global approach. In traditional approaches firm follow step by step process in the aim to reach in global phase but in Born Global approach firm begins its operations in the global phase of its latest establishment. Many scholars believe that Born Global applies for new establishment however Madsen & Servais, 1997, question on the term 'New company' "...when studying a Born Global firm, the time perspective should be extended beyond its birth." According to their argument, the company might be legitimately new however the network of the company and the leadership of the company may not be fresh. While company goes Born Gloabal usually it is operated by experienced management with the help of well established network. This concept can be concluded as a company can be born but the capabilities of management and system of the network cannot born as quickly as company, it needs years of experience and relationship with various networks.

### 2.3 Entry Modes

An entry mode is the best possible approach to penetrate into the new foreign market. (Root, 1998) defined entry mode as an institutional arrangement that makes possible the entry of a company's product, technology, human skills, management or other resources into a foreign country for business. After the decision of internationalization a firm must have an appropriate plan to penetrate into a new market as a business in multiple geographical regions. There are different methods of entry into a new market and they are; licensing, franchising, counter trade, exporting, strategic alliances, joint ventures, wholly-owned subsidiaries, greenfield investments, and acquisitions. These different kinds of entry modes have different methods of use and different purpose of use. Unlike domestic market global market has distinguish characters and own specialty. The approach of same entry mode in different markets may not suit accordingly to the position of the firm and the need of the market. As a consequence of the markets with distinguished characters in different horizons, leadership must choose and approach with the best entry mode which matches

with the position and the need of the firm and similarly with market size and the market need.

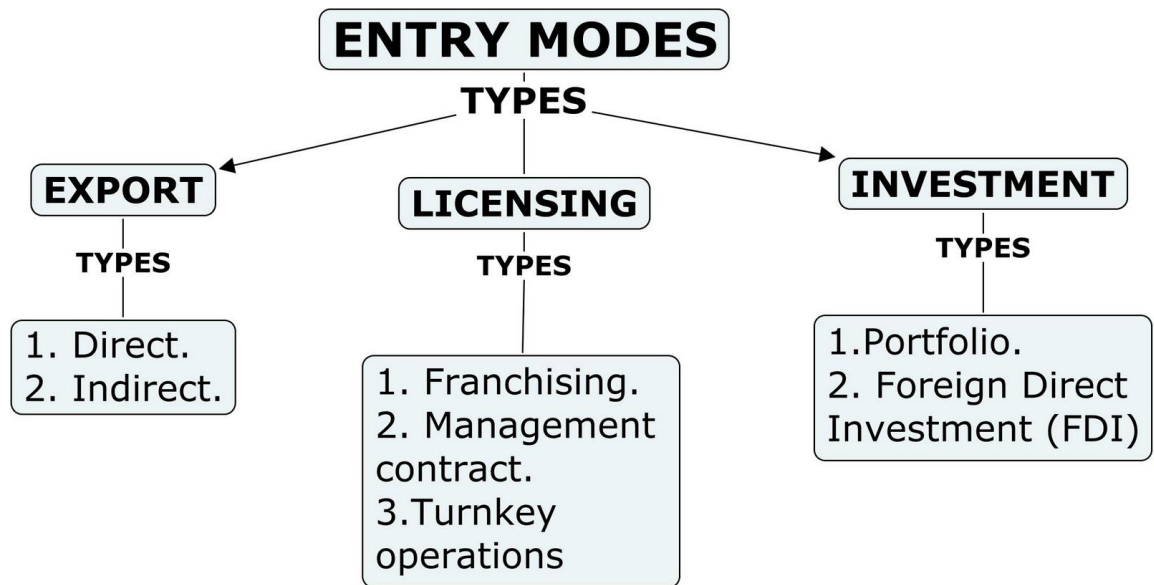


Figure 4 Types of entry modes (Daniels, J. 2004)

The given figure illustrates the different types of entry modes that a firm can adopt for internationalization according to the need and size of the firm. Here from the figure, direct and indirect export is relatively simple and commonly practiced entry mode compare to licensing and investment however FDI is a very complex mode of internationalization. FDI needs huge resources and high commitment to the new market.

### 2.3.1 Export

In general, in international business export refers to transport goods and services from one country to another country in the purpose of marketing and profit. In the current era of business, globalization has made possible to get everything a consumer wants from any corner of the business world, as long as consumer willing to pay the price. Export trade has dumped the traditional belief of trade of physical boundaries. Now as it can be seen there is no limitation of market to sell an excellent product for a firm. "In international trade theory, it is typically assumed that manufacturing firms which want to serve the foreign market ship their products directly to their final consumers, what we observe in

reality, however, is that very often trade intermediaries are involved in the exchange of goods and services across borders” (Jennifer Abel-Koch, 2012). Export trade cannot happen only between the manufacturer and the final consumer of the product. There are always some economic intermediaries such as; suppliers, dealers, resellers etc. These intermediaries have a vital role to make export trade happen and they make own profit out of the final price of product and services. According to the involvement level of these intermediaries in exporting activities export trade has divided into two different parts and they are direct export and indirect export.

### 2.3.2 Licensing

In international business Licensing is to provide permission from the first party to the second party from foreign country to use the intangible assets of the organization such as brand name, patent, production technology, etc. In the process of licensing licensor and licensee sign an agreement to give authority to licensee to manufacture and sell the product and services in the domestic market of the licensee, on the brand name of the licensor. In return back licensor receives a fixed amount of sum or royalty and in some cases both as compensation (slideshare,2012 [27.04.2013] ).

When the choice of the market entry mode is in question, licensing is viewed as a low investment, low risk/return alternative which provides least control to the licensing firm (Woznick, 1996). Licensing is one of the easiest entry modes because of low risk and low investment. With the support of the same idea (Arora and Fosfuri 2000), emphasized licensing as a low-commitment/low-return entry mode, which companies use primarily to acquire some experiential knowledge on the foreign markets before they continue further to commit to this new market. Licensing seems like hassle less entry mode with very low risk however there are some limitations and drawbacks on the licensing entry mode of internationalization. In licensing licensee rarely gets full right on the intangible assets of mother organization. There are always conditions and restrictions on the use of the brand name, technology, etc. similarly licensor

company does not have enough control on licensee company. On the other hand licensor has trust issues with licensee because of the risk on brand image and also about the future of the mother organization in foreign market. If any licensee made a blunder under the brand name of licensor it may affect to the entire brand image of the main organization globally. These kinds of incidents occur pretty often in international business.

### 2.3.3 Joint venture

The joint venture is another likely entry mode for internationalization. In international business joint venture is the collaboration of a strategic alliance between two or more than two companies from different countries and market with the purpose to form new businesses. Time duration of joint venture depends on the nature of businesses, sometime companies form joint venture with the purpose to accomplish specific short term goals and sometime joint venture formed for long term business relation.

The process of international joint venture involves two or more firms from different countries to collaborate in creating an independent business unit by contributing their resources (Culpan 2002). Usually in joint venture companies share their equity, relationship with each other's network, market knowledge, distribution channel, etc. These different companies from different horizons contribute common efforts in the target market for mutual benefits and these companies reciprocally share the market risks as well. Similarly (Wallace, 2004) mentioned that Joint ventures are usually formed on the basis of a common objective or mutual goals of all the parties. This objective should serve the needs of the companies in a proportionate manner otherwise the success of the joint venture will be short-lived. Similar as licensing there are some trust issues in the joint venture as well. Cultural clashes, competitive position inside alliance, clashes in investment and share issues are other pitfalls of the joint venture entry mode.

### 2.3.4 Foreign Direct Investment (FDI)

International monetary fund (1977) defined FDI as “investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor’s purpose being to have an effective voice in the management of the enterprise”(IMF,1977). The company which makes an investment can make a strong position in foreign market through FDI. Usually investment size is enormous in this entry mode, due to the temptation of huge investment host country and the host market is a bit more flexible for FDI. Investor company can take business advantages through these loyal stakeholders. In the case of acquisition the new owner has strong position because of huge investment and also new owner guide the organization according to the own will. In addition Dunning (1988) emphasized that FDI comprises activities that are controlled and organized by firms or groups of firms outside of the nation in which they are headquartered, operating business, and where their principal decision makers are located (Dunning, 1988) . In the context of the manufacturing sector, FDI is conventionally thought of in terms of branch plant or subsidiary company operations that are controlled by parent companies based in another country.

In conclusion FDI is a direct investment of capital and other resources in foreign countries to form a new business. FDI can be an acquisition or completely new venture. For FDI entry mode a firm needs high level of resources and commitments towards the new market. Similarly a firm need to have a high level of risk bearing and management capacity. The FDI entry mode provides huge market knowledge to the parent company and similarly company has a great sales opportunity in new markets. On the other side this mode has relatively higher risk than other entry modes because of huge investment and lack of enough management knowledge of local resources in new markets.

### 3 FDI SCENARIO IN NEPAL

Nepal is a country with full of natural resources and scenic landscape holding potential of lots of Greenfield business opportunities in various sectors. At the same time it is situated between two rapidly emerging economics India and China. These emerging neighborhoods make Nepal a trade hub for international business. Many countries from all over the world have some level of FDI in Nepal. The following table shows the contribution of different countries on FDI in Nepal.

S N	Top Countries	No. of Projects	Total Project Cost NPR. million	Total Fixed Cost NPR. million	FDI	Employment	Share in FDI
1	INDIA	501	62725.01	51118.64	32390.31	56407	47.60
2	CHINA	401	13547.54	10899.31	7036.17	23325	10.34
3	CANADA	25	5081.87	4892.78	2166.54	1926	3.18
4	JAPAN	154	3195.03	2713.48	1171.24	6683	1.72
5	NORWAY	12	8116.59	6766.8	1135.83	726	1.67
Gross Total		2108	152181.7 5	129116.4	68049.97	155432	100.00

Table 1 Home economy distribution FDI in Nepal 2010/2011

(source: Department of industry Government of Nepal, 2012)

As we can see in the table, India has the largest share of investment (47.60%) in Nepal due to the geographical and political intimacy and followed by China with (10.34%). After these two emerging neighbors Nepal hosts FDI from Canada, Japan, and Norway and all these countries have less than 5% share of total FDI in Nepal. The mentioned countries have the leading investment in Nepal in different sectors which has created a huge number of employment. After these countries USA, Singapore, Bermuda, U.K., South Korea, Italy, Netherlands, Thailand, Philippines, Germany, Switzerland, France, Taiwan, Bangladesh, Pakistan, Australia, British Virgin Island, Canada, Malaysia, Finland, etc. countries has significant investment in Nepal in various potential sectors (Department of industry, GON).



Besides hydropower there are an abundance of economically feasible sectors to flourish foreign investment in Nepal. According to the Nepal government, ministry of industry, after hydropower tourism, industrial manufacturing, agriculture, mine and minerals, service, information and communication and infrastructure development are most prioritize sectors for FDI (Ministry of industry, GON). Similarly, according to the US department state report on 2012 investment climate statement of Nepal, Nepal has following statistics of FDI. Total No. of projects 2,108, Manufacturing 682, Energy-Based 50, Construction 104, Tourism 565, Mineral 33, Service 583, Total Project Cost: USD 2,611.62 million, Total Fixed Cost: USD 2,224.43 million, Total Foreign Investment: USD 1,042.07 million, Total Employment Generated: 155,432 (U.S. Department of State, 2012 [referred 18.04.2013]).

The table 2. shows the SWOT analysis by UNCTAD for foreign investors in Nepal.

<p style="text-align: center;"><b>Strength</b></p> <ul style="list-style-type: none"> <li>➤ Location between the two potentially largest markets in the world: China and India</li> <li>➤ Macroeconomic stability and a relatively liberal economy</li> <li>➤ Trainable and low-cost workforce</li> <li>➤ Substantial natural and cultural assets</li> <li>➤ Small and accessible bureaucracy and a generally business-friendly Government</li> </ul>	<p style="text-align: center;"><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>➤ Tourism, including sports and adventure tourism, health tourism and cultural tourism</li> <li>➤ A variety of niche agricultural and agro-business activities</li> <li>➤ Hydropower generation and infrastructure development generally</li> <li>➤ IT-based services</li> </ul>
<p style="text-align: center;"><b>Weakness</b></p> <ul style="list-style-type: none"> <li>➤ Landlocked country</li> <li>➤ Poor infrastructure and mostly unskilled workforce</li> <li>➤ Rigid and intrusive labor legislation</li> <li>➤ Political instability, weak implementation and persistent corruption</li> </ul>	<p style="text-align: center;"><b>Threat</b></p> <ul style="list-style-type: none"> <li>➤ Political instability and other internal environment</li> <li>➤ Infrastructure</li> </ul>

Table 2 SWOT analysis for foreign investors in Nepal

Being a developing nation Nepal carries both positive and negative aspects for FDI. Besides magnificent geopolitical location, Nepal has a relatively liberal economy for investment. Business friendly government and cheap labor are other strong aspects of FDI in Nepal. One of the biggest weaknesses of Nepal is, Nepal does not have any geographical connection with the sea so it can create difficulties in goods export trade. Similarly poor infrastructure, political dispute and epidemic corruption are other considerable weaknesses in Nepal for FDI. At the same time hydropower , tourism, agriculture, infrastructure development etc creates enormous greenfield opportunities for FDI in Nepal.

Desperate desire to host FDI, Nepal launched 'One window policy' In 1992 to shorten the hassle of several governmental bureaucracies for attempting companies from abroad even though it did not help to boost the sufficient FDI inflow in Nepal (U.S. Department of State, 2012 [referred 18.04.2013]). Since the Maoists insurgency against the state was at a peak which begun in 1995, FDI inflow continuously fell down and after the royal massacre in 2001, New king Gynendra Shah's autocracy and interference on national government and national defense army made FDI scenario even worst however this was not the end of the story of Nepali politics and its impact on FDI inflow (The Economist [referred 01.06.2013]).

In spring 2006 massive people's movement triggered by eight big political parties of Nepal including Maoists defeat the monarchy of Gynendra Shah and also brought the Maoists to mainstream politics from the battlefield (Calder & Jason, 2008). In 2008 there was an election of Nepalese constitutional assembly for memberships of 601 even though the assembly becomes unsuccessful to bring up any constitution and as a consequence it dissolved after five years of establishment (The Economist, 2012 [referred 01.06.2013]) . Furthermore, almost a year after the unceremonious death of the constitutional assembly, again Nepal is heading toward second election for a constitutional assembly. While this research is conducted (May, 2013) an exceptionally formed government in the leadership of chief justice of Nepal (Khil Raj Regmi)

is trying to accomplish election and oversees it for the fair and peaceful environment (BBC Asia, 2012 [referred 01.06.2013]).

The doubtful political transformation of Nepal can be seen as a silver lining in the black clouds for FDI. The previous government of Nepal ruled by Maoists leader ex-prime Minister Dr. Babu Ram Bhattarai has declared fiscal year 2012/2013 as the Nepal investment year (NIY) and NIY is one of ambitious programs of the government that seeks to double foreign direct investment (FDI) in the country. The government expects NIY to attract FDI in at least 50 mega projects during 2012-13 (March, 2013 Republica [referred 04.25.2013]). According to Poudel the former secretary of the Investment board of Nepal (IBN) "IBN has built institutional capacity over the past one and half years. It's high time we gave impetus on bringing FDI in the country." He added "We are holding discussions with top level officials from concerned government agencies to devise programs for attracting foreign direct investment in the country." In the current situation Nepal Government, political and business leaders seem like a far more concerned and committed to host FDI in Nepal.

With all these efforts, Nepal still lacks several mechanisms to facilitate FDI. On this, researcher Sharma comment that "... results are to be achieved. The labor issues, lack of adequate infrastructures, effective implementation of rule of law, etc are just some of the challenges that would need to be addressed." (Sharma, 2011). It's true that Nepal is not an ideal country for FDI, despite of these obstacles there is positive signs on FDI scenario In Nepal. According to the economic freedom report of 2013 by The Heritage Foundation, Economic freedom in Nepal has increased by 0.2 percent in 2013 than the previous year and also there are some improvements in business freedom. Similarly according to the latest data of the UNCTAD on FDI inflow, Nepal has significant progress in recent years 2009, 2010 and 2011 while FDI inflow was in Negative figure in 2006.

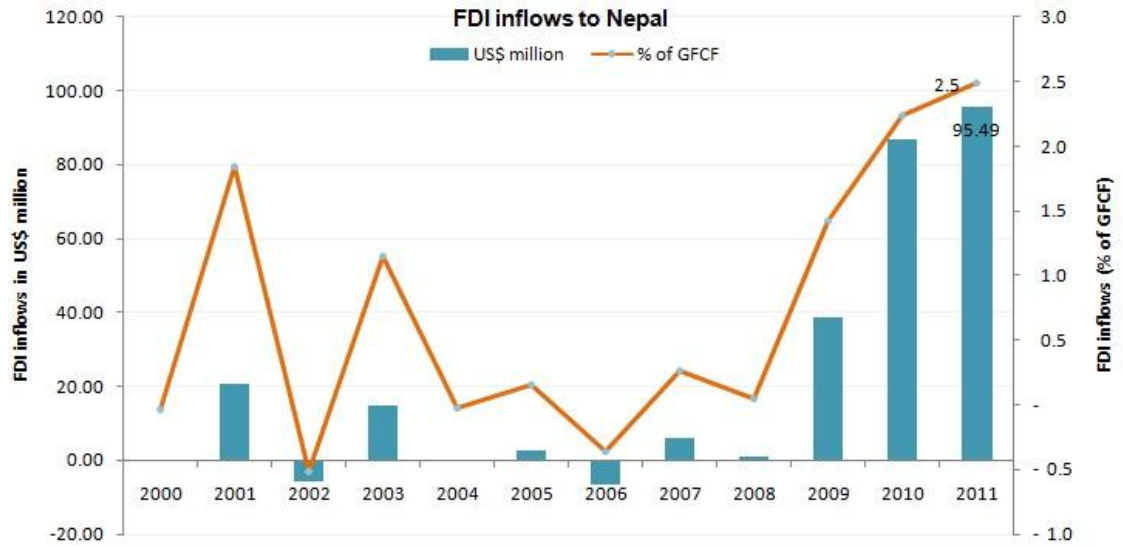


Figure 5 Graph for FDI inflows in Nepal

Main source: UNCTAD, Adopt source: Chandan sapkota's blog. Available at

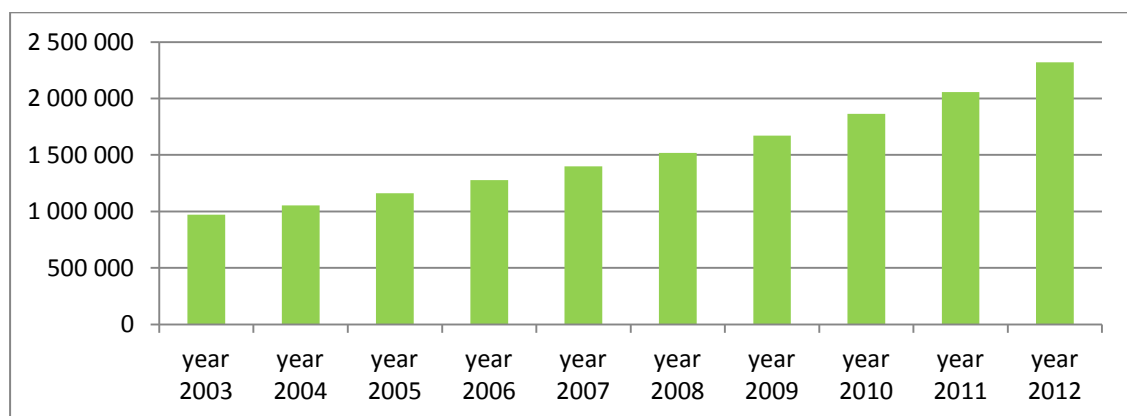
<http://sapkotac.blogspot.fi/2012/07/fdi-inflows-to-nepal-are-starting-to.html>

[referred 19.04.2013]

## 4 HYDROPOWER SCENARIO AND FUTURE SCOPE

As already mentioned in introduction section that, at the current time Nepal is suffering through desperate need of electrical energy. The power cuts problem is at the peak, daily hours of blackout is a casual thing in Nepal. The industrial and manufacture sector is badly affected because of the energy crisis. Daily life of civilians is terrible due to power cuts so called load shedding in Nepal. According to The world bank record of 2010 on access to electricity, only 43.6 percent of the total population of Nepal has access to electricity, while the total population of Nepal is about 30.5 million (UN, 2011). Nepal is also known as second richest country in fresh water resources and according to the Nepal electricity Authority Nepal has the capacity to generate 83,000 MW of hydroelectricity, of which about 43,000 MW is techno-economically feasible. At the end of 2011, only about 700 MW was generated from hydropower projects (Nepal Electricity Authority, Annual report 2012).

The government of Nepal already declared 'Energy emergency' in 2011 to address the energy shortage problem with high priority and similarly hydropower is one of the highly prioritize sectors for investment. In the other hand the demand for electricity is growing rapidly in domestic, industrial, and other purpose.



2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
970,6 11	1,053,9 35	1,159,8 55	1,277,4 47	1,397,8 13	1,516, 883	1,670, 610	1,864,0 67	2,056,2 92	2,320, 409

Table 3 Number of electricity customer by year in Nepal

Source : NEA annual report 2012

The table 3. shows the growing rate of electricity consumers of household and corporate customer in Nepal until fiscal year 2012. There is a drastic change in the number of consumers between 2003 and 2012. Limited production and excessive demand of energy has made situation worst In Nepal. According to the forecast of Nepal electricity authority if demand on electricity grows like this, by fiscal year 2027-2028, Nepal needs 3600 Mw. of electricity to fulfill the need of corporate and domestic consumers.

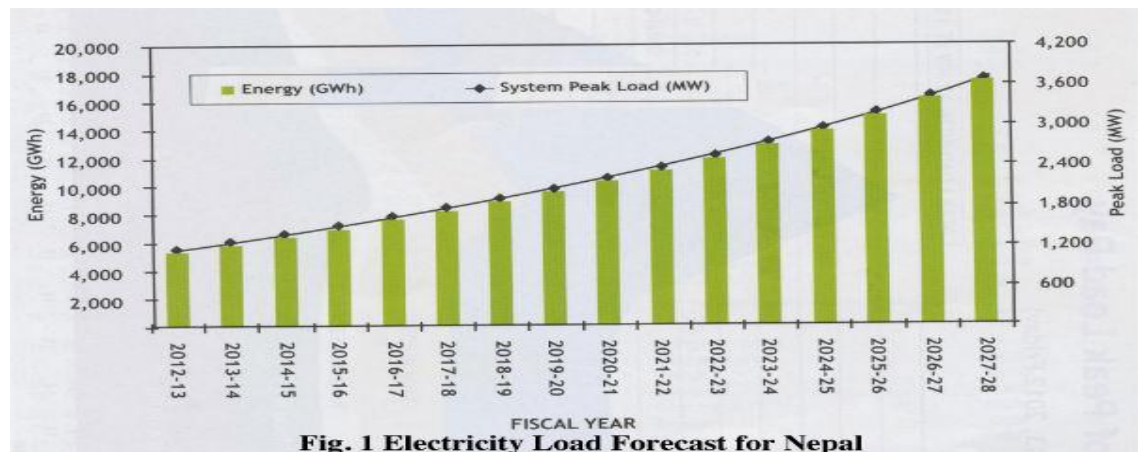


Figure 6 Electricity load forecast for Nepal

Source : NEA annual report 2012

To overcome the problem of energy crisis some major projects are under construction by NEA and the private sector which also includes FDI however progress is not sufficient to meet the need of the consumer in the near future. Financial aid and soft loan from the governments of China, India, Japan, Kuwait etc has played vital role in the hydropower plant development in Nepal. Similarly Indian and Chinese private companies are in the front line to get permission for survey and construction license for more than 100MW power plant (GON Ministry of Energy) . According to the researcher Neupane without FDI government of Nepal and Nepali private sector does not have enough

financial back up to sponsor on hydropower projects. He emphasized “USD 3.3 billion capital is required in the coming years construct the projects with generating license, and construct all projects with generating license, and construct all projects in survey stage USD 21.9 billion of capital is required over the coming years. The GDP of Nepal is estimated to be USD 18 billion and banks in Nepal only have an estimated USD 1.5 billion deposit, which means Nepal does not have capital even to finance one-third of projects with generation licenses.” (Neupane, 2012). Due to fact of financial and technical incapability Nepal government is more flexible to welcome FDI in the hydropower sector.

As similar as domestic need, Nepal carries potential to export surplus energy in India. India heavily depends on fossil fuel to provide energy for the nation and fossil fuel has a limit. By 2030 Indian energy imports is expected to exceed 53% of country's total energy consumption (India Realtime [referred 20.04.2013]). Indian current and future demand for clean energy makes Nepal's hydropower potential even more precious. Nepal and India are already practicing a small level of the energy trade and similarly both countries have signed on the various energy trade agreement all these practices and future need of Indian people makes it a likely scenario to export energy in India from Nepal.

## 5 RELATIONSHIP BETWEEN NEPAL AND FINLAND

The official diplomatic relationship between Nepal and Finland was established in 1974 after it Nepal and Finland has a good relationship in diplomacy, business, and social development. Nepal is a relatively poor country and it is getting aid from Finland for social development in various sectors. In 2011 more than 20 Finnish NGO's were operating 50 social development programs worth 5 million euro (Embassy of Finland, Kathmandu). The amount of aid is growing every year which means a lot for developing country like Nepal Besides an organization for social development called 'Team Finland' has an active network in Nepal (Embassy of Finland, Kathmandu). This organization basically works to set up commercial and business relationship between Nepal and Finland.

### 5.1 BIPPA Treaty

BIPPA (Bilateral Investment Promotion and Protection Agreement) is an agreement to promote, protect, and encourage investments by investors of one state in the territory of the other state (Ministry of Industry, Nepal). Investor under BIPPA agreement countries gets almost equal rights as domestic investors in the host country. Till the date, Nepal has signed BIPPA treaty with six different countries and one of them is Finland. Nepal and Finland signed BIPPA treaty in February 3, 2009 and came into effect since January 28, 2011 (UNCTAD) .

### 5.2 An Example of commercial success (Telaisoera)

Telaisoera is a Swedish-Finnish telecommunication company based in Europe. This company has operations in more than 20 markets globally by providing mobile and broadband services for 460 million inhabitants (Ncell Nepal). It has huge operations in European countries, besides it is growing rapidly in the emerging and developing markets of Eurasia. One of its latest internationalization successes is Nepal.



In the year of 2008 Telai-Sonera acquired 'Spiceneal' by purchasing 80% of influencing share of 'Spiceneal'. Before the acquisition 'Spiceneal' was operating telecommunication services in Nepal under the brand name 'Mero mobile' which was facing through competition from government telecom provider. After two years of acquisition Telai-Sonera begun its own operation under a new brand name called 'NCELL'. Rebranding policy of Telai-Sonera went well and now 'NCELL' is a huge success in Nepal. Currently Telai-Sonera has 60.4 %ownership in 'Ncell' (Telai-Sonera). Ncell, which is mainly owned by Telia-Sonera has rapidly become the biggest mobile operator in Nepal (Embassy of Finland, Nepal). Ncell is an excellent example of commercial and business success in Nepali market. "NCELL today is the leading mobile service provider of Nepal covering more than 60 percent of Nepal's population" (KC, 2011). By mid of 2012 Ncell was one of the fourth largest taxpayer in Nepal it proves the success rate of Telai-Sonera In Nepal (Telaisonera, nd.). Every year 'NCELL' launches several plans and strategies to attract more consumer similarly it is providing quality services to local people in reasonable price. . According to the 'NCELL' ex CEO Pasi Koistinen, "Development of telecommunication infrastructure and services is essential for the future prosperity of Nepal, People, who previously have never had access to telecommunications services, will inevitably gain from increased possibilities to connect to others and access information." (FDI in Nepal, 2011 [referred 25.04.2013])

There are some fundamental reasons in Nepal that brought Telai-Sonera in this stage of success. The first reason is, Nepal is developing country and most of the people of Nepal did not have access to telecommunication and 'Ncell' gave them reason and opportunity to have own mobile and broadband facility. Similarly Nepal's government liberal policy on FDI and taxation was another reason of 'Ncell' boosting in Nepali Markt. Very low competition, cheap operating cost and huge Greenfield market are other reasons of 'NCELL' boom in Nepal. As similar as telecommunication, Hydropower can be an another greenfield opportunity for Finnish firms to grab the success.

## 6 METHODOLOGY

### 6.1 Research approach

This research aimed to reveal the business potential for foreign investors (Finnish firms) in hydropower sector of Nepal. Similarly the objective of this research is to analysis the FDI condition of Nepal to determine the business environment and investment climate for foreign direct investment. While conducting this research all the possible steps were pursued to reach into the depth of the matter. After identifying the problem of energy crisis in Nepal, It was decided to carry out a research to find out the possible solution with a business perspective.

There is always a question mark on the applicability of the findings of the research. Research can be done on any topic or any issue nevertheless if it does not have any concrete goal or outcome it is just wasting of resources. "Research is something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge" (Saunders et al. 2009, 5). There is a certain system to carry out the research and for gathering the knowledge of the related field. Systematic effort and patience is necessary to achieve the goals of the research.

A systematic method was followed to do this research under the supervision of professional from the affiliated institute (Turku University of Applied sciences). To get the authentic outcome both qualitative and quantitative data were collected from several authorize sources such as; UNCTAD, World Bank, U.S Department of State, NEA, etc. This research has a strong theoretical background and based up on that a simple empirical research was performed to get authentic result. Due to the nature and the topic of this research there was no need of designing a survey for mass feedback.

## 6.2 Data collection for research

Qualitative and quantitative both kinds of data is vital to accomplish the research and to reach into worthwhile goal. In this research mainly qualitative data collection method was used to gather the information on the matter however several quantitative data took place in order to support qualitative data. Thus, one of the main theme of this research was to analysis FDI condition of Nepal so several numerical facts were collected to break down information and present the real business environment investment climate of Nepal.

According to (Pellissier, 2008) qualitative research is significant to reach in depth of research beyond historical facts and surface comments in order to get to the real underlying causes of behavior. In order to disclose the original scenario of the thesis topic mainly qualitative method was adopted to accomplish the research similarly historical facts and current trend was also taken into consideration to get the factual outcome.

To gather the enough literature background to support the main theme of the research author had to go through several secondary sources such as; books, articles, Journals, research paper, websites etc to develop and present own view and opinion on Internationalization theory and Entry Modes. In the section 'Literature review' various opinions from different author has enclosed to make strong understanding of the theoretical background. These opinions were collected from distinct main and second hand sources.

## 6.3 Application of primary and secondary data

Several types of data needed to perform a research. Similarly in this research needed primary and secondary data were collected to evolve and guide the research in a logical conclusion. In general primary data are those data which is collected from key sources and not available or published publicly. The main sources of primary data are experiments, survey, questionnaire, interview, observation etc. Secondary data are those data which is already been

researched and available publicly. The main sources of secondary data are books, journals, news, electronic sources etc. Secondary data have less validity than primary data however use of secondary data is significant in the research. "Both primary and secondary data are useful for businesses but both may differ with each other in various aspects. In secondary data, information relates to a past period. Hence, it lacks aptness and therefore, it has unsatisfactory value. Primary data is more accommodating as it shows latest information." (Ibrahim,2012, 13). Due to lack of enough resources, in this research mainly secondary data method is used to carry out the research however primary data were also collected to include the latest and factual information on the matter.

To collect the primary data Author interviewed formally and informally with the professionals of the hydropower sector of Nepal. Here E-mail interview method was chosen as a source for primary data because it is a reliable and cheap method. Author send e-mail to dozens of professionals on hydropower for an interview with the questionnaire and very few of them replied the answer. Out of those answers relevant information is included in this paper. Responses received from the interviewee has considerable use in this research because opinions and views of the professionals reflect the latest factual information on FDI in hydro power sector of Nepal. This information is very useful to scan the pros and cons, future scope, obstacles etc about FDI in hydropower sector of Nepal and it makes easy to draft the conclusion and suggestions for this research.

Secondary data have relatively large place in this research. Various sources are used to gather enough secondary data. Here several books, articles, journals etc. are used to develop a theoretical background of the research. Similarly statistical data collected from various sources are used to analyze and present the FDI and hydropower scenario of Nepal. Likewise data collected on the hydropower sector of Nepal is applied in this research to present the clear picture of the hydropower scenario of Nepal and its potential for the future. In

additional secondary data is used to explain the relationship between Nepal and Finland to provide enough evidence on the matter.

It's always not possible to get the information about all the aspects to describe them properly so both data are important to explain the issue, for that reason here author has tried to comprise both data.

#### 6.4 Interview

The interview is one of the widely practiced methods by the researchers. It is a good source of information because researchers can get specific needed information by interviewing specific individual or different people. "A qualitative research interview seeks to cover both a factual and a meaning level, though it is usually more difficult to interview on a meaning level." (Kvale,1996,pg 32). The qualitative research method was applied to carry out this research and some informal and formal interviews were taken with the professionals in the hydropower sector of Nepal in order to get both factual and meaning level information. The interviews were taken via E-mail and social media because the author of this thesis is in Finland and it's difficult in many ways to go to Nepal for the interview. Main respondent of the interview was Bhola Panta (CEO of the hydropower consultancy company 'Abroad Institute LLC' based in USA). Open ended question method was used to reach into the depth of the issues because it allow the respondent to express freely their opinion. While designing the question investment climate and financial viability of hydropower was at the focal point.

#### 6.5 Reliability, validity and limitations

Research and its outcome should be reliable for practical implementation similarly it should be authentic so that future researchers can use the paper as a resource for their own research. "The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the result of a study can be reproduced under any similar methodology, then the research instrument is considered to be reliable"

(Joppe 2000,1). The core Idea of this definition is that, if any other researcher carries out the research by following the same research method of already existing research the result of both studies should match with each other. Unlike scientific research in the case of the business research result depends on external situation and environment of the country and market. There are always many changes occurring in political and economic condition of a nation so in the case of this research it is difficult to say that other researchers will get the same result in the future however here the author has tried hard to present reliable information. At the current date and situation of Nepal presented information in this paper is very reliable. In the case of validity several valid sources were used to collect the qualitative and quantitative data. for analysis the FDI situation of Nepal statistical data was collected from highly trustable sources such as CIA fact book, UNCTAD, United Nation, World Bank, NEA etc. Similarly for qualitative data author reviewed several books, electronic journals, research papers and personal contacts. However with all the efforts there is always a question mark on the skill of researcher besides, this research lacks to address some issues regarding this topic. The main limitation of this paper is that the author could not success to get the opinion of Finnish firms on the topic. Similarly this paper has not presented the legal scenario of the investment procedure in the hydropower sector of Nepal. Similarly, author has reviewed only one interview for this research.

## 7 FINDINGS AND ANALYSIS

### 7.1 Literature Analysis

While approaching for internationalization in Nepal there are some appropriate hypothesis that should be in consideration. Being a developing nation Nepal has unique business environment compared to other developed nation. In the case of the internationalization model, all the models of internationalization are not applicable in the context that Finnish firms going international in Nepal. Due to the geographical and cultural distance between Nepal and Finland the Uppsala model is not applicable for Finnish firms. The Born global model of internationalization is applicable however hydropower needs huge investment and it's not easy for investors to go Born global with hydropower . In the case of production; the production must be done in Nepal because of the nature of the product (Energy). In this case there is less space for the transaction cost analysis model. At the end, the Network model seems like more reliable to Finnish firms while going international in Nepal. The main reasons for adopting this model are; Finland and Nepal have quite a good diplomatic and business relationship and Finnish firms can use this relationship to set up their business channel in Nepal. An organization called 'Team Finland' is actively working in Nepal. This organization basically works to set up commercial and business relationship between Nepal and Finland (embassy of Finland, Kathmandu). Finnish firms can use the network and knowledge of 'Team Finland' to internationalize in Nepal. At the same time BIPPA treaty between Nepal and Finland supports the theory of the Network model by having a national level legitimate relationship.

Talking about entry modes, Foreign direct investment and Joint venture are the most suitable approach to penetrate the Nepali market. In the case of hydropower, if any firm from abroad wants to invest in the hydropower sector in Nepal the production must be done in Nepal. In that case export mode is not possible to adopt. Licensing is another approach however Nepali firms do not have need and resources to franchise with Finnish firms because the electricity

produced by any firm is salable in Nepali market due to an energy shortage problem. On the other hand joint venture entry mode seems like the most suitable approach to penetrate the Nepali market. Finnish firms may not have enough market and doing business knowledge of Nepal. Especially for hydropower sector a firm need to have sufficient knowledge to established hydropower plant and to sell energy after production. If we take an example of Telai-Sonera, it was also entered into the Nepali market by joint venture approach in the partnership of 'SpiceNepal'. The FDI entry mode is another possible approach however Finnish firms lack enough market knowledge and commitment to adopt FDI entry mode to penetrate into the hydropower sector of Nepal.

## 7.2 Analysis of FDI scenario

Nepal is a developing nation with huge demography. The small portion of the population which lives in the urban area is heavily influenced by western culture and it has desire of luxuries product and services and this group of people are somehow capable to pay the price for international product and services. Another huge part of the population lives in the rural area and still they have primitive lifestyle. Many infrastructures are still needed to develop to bring the rural population in the mainstream lifestyle. Demand of fancy products and services is quite high in the urban area however the expectation of people living in the rural area is very fundamental such as electricity, telecommunications, transportation, modernization of agriculture etc. Demand on mentioned area is sufficiently high however due to lack of enough economical resources supply is quite lower than demean and it creates fine opportunities for FDI in Nepal to fulfil the gap between demand and supply. There are still many Greenfield opportunities in Nepal with very low rate of competition which decrease the chances of market failure. Success of Telaisonera in Nepal is a strong evidence of market fertility. Similarly, Nepal government liberal policy on FDI, huge market size, weaker currency etc. provide additional support to the rational decision making process of the firm while decisions based on opportunity cost.



Never ending political transformation and disputes between different poles of political belief is a major challenge for businesses in Nepal. At the same time corruption is wild and it may create ethical dilemmas and legitimate troubles for Finnish firms while operating a business in Nepal. In addition, lack of adequate infrastructure is another challenging issue to operate businesses in Nepal. As similar as the other sector hydropower sector is also affected by these problems. However recent commitments and action of political and business leader has created a welcoming environment for FDI in Nepal. Significant growth on FDI inflow in recent years 2009 to 2011 proves the higher commitment level of Nepal on FDI.

With all these logics Nepal is not an ideal market for the internationalization however it is not the worst one. Telai-Sonera has drawn the path of success coping with all mentioned obstacles and other Finnish firms can follow that path through the hydropower.

### 7.3 Analysis of interview on hydropower

To understand the latest situation on hydropower, Bhola Panta (CEO of the hydropower consultancy company 'Abroad Institute LLC' based in USA) was interviewed by the author during the research. According to him besides political disputes demand of the local people and environmental issues are other challenging factors in hydropower investment in Nepal. Despite of these challenges an abundance of resources and market scope are key motivators for FDI in the hydropower sector. Similarly, current and future demand of clean energy in Nepal makes hydropower investment more promising. In addition there is likely opportunity to export electricity in the emerging Indian market which is a most beneficial opportunity for Finnish firms in Nepal.

He added, Nepal government should have a balanced approach to facilitate foreign investment, which creates win win situation for Nepal and Foreign investor. Similarly leadership should isolate investment sector far away from the political disputes so that inner political agenda does not hamper the investment climate. Panta emphasized, In the case of hydropower sector Nepal

government should form a team of high level authorities to set up negotiations about energy trade with Indian and Chinese government because eventually these are the potential market to export energy from Nepal.

## 8 CONCLUSION

As we have seen, there are enormous opportunities waiting for investment in Nepal and International investors also have a high level of interest about Nepal because of its geopolitical location and other business advantages but still FDI inflow in Nepal is quite lower than needed because of some fundamental obstacles to operate businesses. To boost the FDI inflow Nepal government and leaders of different sectors should address about those obstacles soon enough to welcome more foreign investment.

The major barriers for FDI in Nepal are political instability, corruption and lack of adequate infrastructure etc. At the same time it has abundant of opportunities yet to exploit. The main opportunity for FDI in Nepal is energy sector especially hydropower. Similarly Nepal has desperate need of energy and production is very low, in that case energy is quick and easily saleable product. For these reasons investment in the energy sector of Nepal is quite convenient.

Finland and Nepal have quite a good relationship with long period of diplomatic relationship. In order to promote each other's business these two countries have signed Bilateral Investment Promotion and Protection Agreement (BIPPA) treaty and already in effect. Similarly, embassy of Finland in Nepal is actively working to build up good business relationship between Nepal and Finland. It has a separate branch called 'Team Finland' to work on this area. 'Team Finland' was also actively participated during the development phase of Telai-Sonera. With these supports it would be easier for Finnish firms to expand their business into Nepal. In addition, TelaiSonera has already proved the success that can be achieved by Finnish firms from the Nepali market.

The investment pattern followed by Tealia-Sonera seems like the best approach to penetrate into Nepali market. Joint venture and acquisition are effective options to enter into Nepal because it is easier for firms to scan the environment through the local partner. Similarly firm can skip the bureaucratic and pre setup hassles and can get enough knowledge about the market before

internationalization. Additionally interview respondent Pnata also emphasized that; joint venture is the most practiced trained to make an investment in Nepal however foreign firm should be very careful while choosing the partner for investment.

Current and future demand of clean energy in India and China makes secure future for the hydropower investor in Nepal. Other side fulfilling domestic need is first agenda, if Nepal government shows the high level of commitment, still there are plenty of investors who are willing to invest in hydropower sector of Nepal. The number of license which has approved for hydropower survey, infrastructure development etc. proves the interest level of foreign investor.

In final conclusion, the present circumstances and statical data in this paper about the matter shows that, there is an enormous opportunity for foreign investor in hydro power sector of Nepal. Good diplomatic and business relationship between Nepal and Finland provides extra reason and support for Finnish firms to invest in Nepali market. Nepal lacks some major requirements to facilitate foreign investor however progress is visible. Eventually Nepal is becoming an international trade hub located between emerging markets India and China, for this reason Nepal can be used as a strategic location to extract benefits from these rapidly growing economic zones, and investment in the energy sector in Nepal is a tool to extract fiscal benefits from these markets as well as from Nepali market.

## LIST OF REFERENCES

- Akkirman, A. 2012. Background to Ncell and telecommunications in Nepal, Telaisoneera.
- Amirkhani, K. 2012. The Challenges Of Iranian Small and Medium-Sized Enterprises: Through Process Of Internationalization, Turku University of Applied Sciences.
- Arora, A. & Fosfuri, A. 2000. Wholly owned subsidiary versus technology licensing in the worldwide chemical industry: *Journal of International Business Studies*, p. 555-572.
- Beamish, P. W. 1990. The Internationalization Process for Smaller Ontario Firms: A Research Agenda, in Rugman, A., (ed.) *Research in Global Business Management*, Volume 1, Greenwich, JAI Press, p. 77-92.
- Bradley, F. 2005. *International marketing strategy*, (Fifth Ed). Edinburg Gate, Harlow, England: Pearson Education Limited.
- Calder & Jason. 2008. The case of Nepal, Future generations. Available at, <http://www.future.org/publications/case-nepal> [referred 01.06.2013]
- Cavusgil, S. T. 1994. Born Globals: A Quiet Revolution Among Australian Exporters, *Journal of International Marketing*, vol. 2, no. 3, p. 4.
- Sapkota, C. 2012. FDI inflow in Nepal started to increase, Chandan Sapkota's blog
- Chetty et al. 2004. A Strategic Approach to Internazionalization: a Traditional Versus a 'Born Global' Approach . *Journal of International Marketing*, 2004:12, 57-81.
- Coase, R. H. 1937. The Nature of the Firm, *Economica*, New Series. Vol 4. No 16. 386- 405.
- Coviello, N. & Munro, H. 1992. Internationalizing the entrepreneurial technology- intensive firm: growth through linkage development. INSEAD, France: Babson Entrepreneurship Research Conference.
- Culpan, R. 2002. *Global Business Alliances: Theory and Practice*. Greenwood Publishing Group, Inc.
- Daniels, J.D. 2004. *International Business: Environments and operations*. p 451-517.
- Department of Geology, Tribhuvan University, Ghantaghar, Kathmandu Nepal [referred 17.03.2013]
- Dunning, J. H. 1988. Reevaluating the Benefits of Foreign Direct Investment University of Reading: Discussion Paper in International Investment and Business.

Ellis, J. & Williams, D .1995. *International Business Strategy*. London, England: Pitman Publishing.

Gabrielsson, M. Sasi, V. Darling, J. 2004. Finance strategies of rapidly-growing Finnish SMEs: Born Internationals and Born Globals, *European Business Review*, Vol. 16 Iss: 6, pp.590 – 604

Gallies, L.G. 2012. *Transnational corporations and international production: Concepts, Theories and Effects*, second edition Edward Elgar publishing limited, USA.

Hollensen, S. 2004. *Global Marketing: a decision-oriented approach*. Third edition. Harlow: Pearson Education Limited.

Hollensen, S. 2007. *Global marketing: A Decision-Oriented Approach*, Fourth edition, Prentice Hall.

Ibrahim, N. 2012. Primary and secondary data, slideshare. Available at <http://www.slideshare.net/hezel3210/primary-secondary-data> [Online, referred 10.05.2013]

Investment climate statement-Nepal. 2012. U.S. Department of State. Available at, <http://www.state.gov/e/eb/rls/othr/ics/2012/191206.htm>. [referred 18.04.2013]

Johanson, J. & Vahlne, J-E .1990. The mechanism of internationalization. *International Marketing Review*, Vol. 7, 11 -24.

Johanson, J. & Vahlne, J-E. 1977. *The Internationalization Process of the Firm- A Model of Knowledge Development and Increasing Foreign Market Commitments*. Stockholm: Almquist & Wiksell International  
 Johanson, J. & Vahlne, J-E. 2009. The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*. Vol. 49, Palgrave.

Johanson, J. & Wiedersheim-Paul, F. 1975. The internationalization of the firm: Four Swedish cases, *Journal of Management Studies*. 1975.10. 305-322.

Joppe, M. 2000. *The Research Process*. pg 1.

KC,K. 2011. FDI in Nepal: A case study of FDI in telecommunication sector “TELIASONERA”, Arcada University of Applied sciences.

Koch, A. J. 2012. *Firm size and choice of export mode*. Gutenberg School of Management and Economics. Germany

Llameli, J. 2011. *Foreign Direct Investment in Nepal Patterns and its future prospects*

Madsen, T. K. & Servais, P. 1997. The Internationalization of Born Globals: an Evolutionary Process? *International Business Review*, 6, (6), 561-583

- Mahato, R. 2010. Riding the wind, Nepalitimes. Available at, <http://nepalitimes.com/news.php?id=17750#.UYOmMrVHlt0> [referred 17.03.2013]
- Nepal Electricity Authority. 2012. Annual report, Kathmandu, Nepal
- Neupane, A. 2013. FDI and Hydropower projects in Nepal, Neupane Law Associates, Kathmandu, Nepal
- Neupane, A. 2012. Foreign investment laws and regulation in Nepal, Neupane law associates. Available at <http://www.neupanelegal.com/details.php?action=details&id=Mjk=> [referred 01.06.2013]
- Ojala, A. 2009. Internationalization of knowledge-intensive SMEs: The role of network relationships in the entry to a psychologically distant market. International Business Review. Elsevier SD Freedom Collection.
- Oviatt, B.M. and McDougall, P.P. 1994. Toward a theory of international new ventures, Journal of International Business Studies, 45-64.
- Rijal, P. 2011. Reimagining Nepal's FDI policy in hydropower [Online, referred 15.03.2013]. Available on the web at <http://www.thehimalayantimes.com/perspectives/fullnews.php?headline=Reimagining++Nepal's+FDI+policy+in+hydropower&newsid=MTE1OA==>
- Root, F.R. 1998. Entry Strategies for International Markets. Second edition, San Francisco: Jossey-Bass Publishers.
- Royal Swedish Academy of Sciences Press Release. 1991. The Sveriges Riksbank (Bank of Sweden) Prize in Economic Sciences in Memory of Alfred Nobel for 1991, Stockholm.
- Shrader, Rodney C., Oviatt, B.M. & McDougall, P.P. 2000. How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationalization of the 21st century. Academy of Management Journal.
- Sharma, S. 2011. NIY-2012/13 and the challenges, The Himalayan Times, Kathmandu [Referred 18.04.2013]
- Sharma, S. 2011. NIY-2012/13 and challenges, The Himalayan Times. Available at <http://www.thehimalayantimes.com/perspectives/fullnews.php?headline=NIY-2012%2F13+and+the+challenges+&newsid=NjQ3> [referred 01.06.2013]
- Uperati, B. N & Shakya, A. 2009. Wind Energy Potential Assessment In Nepal.

Wallace, R. 2004. Strategic Partnerships: An Entrepreneur's Guide to Joint Ventures and alliances. Dearborn Trade, A Kaplan Professional Company.

Woznick, A. 1996. A basic guide to exporting, World Trade Press, San Rafael.

Yep, E. 2011. Indias Widening Energy Deficit, India real time. Available at <http://blogs.wsj.com/indiarealtime/2011/03/09/indias-widening-energy-deficit/> [referred 20.04.2013]

Zucchella, A. & Scabini, P. 2007. International entrepreneurship: Theoretical foundations and practices ,first edition, Palgrave Macmillan.

<http://data.worldbank.org/indicator/EG.ELC.ACCS.ZS> [referred 15.03.2013].

<http://www.asiatraderhub.com/nepal/power.asp> [referred 15.03.2013]

<http://www.vtt.fi/proj/windenergystatistics/?lang=en> [referred 17.03.2013]

<http://www.tuulivoimayhdistys.fi/in%20english> [referred 17.03.2013]

<http://data.worldbank.org/country/nepal> [referred 03.04.2013]

[http://www.myrepublica.com/portal/index.php?action=pages&page\\_id=8](http://www.myrepublica.com/portal/index.php?action=pages&page_id=8) [referred 03.04.2013]

<http://www.quickmba.com/strategy/global/marketentry/> [referred 17.04.2013]

[http://www.myrepublica.com/portal/index.php?action=news\\_details&news\\_id=51964](http://www.myrepublica.com/portal/index.php?action=news_details&news_id=51964) [referred 18.04.2013]

<http://www.heritage.org/index/country/nepal> [Referred 18.04.2013]

<http://sapkotac.blogspot.fi/2012/07/fdi-inflows-to-nepal-are-starting-to.html>) [referred 19.04.2013]

<http://www.thehindubusinessline.com/government-and-policy/nepal-declares-energy-emergency/article1568653.ece> [Referred 22.04.2013]

<http://www.finland.org.np/public/default.aspx?culture=en-US&contentlan=2> [Referred 23.04.2013]

<http://www.slideshare.net/YinaJasbleidY/licensing-entry-mode> [27.04.2013]

<http://vhmb1987internationalbusiness.blogspot.fi/2010/09/entry-modes-in-international-business.html> [referred 14.04.2013]

[http://www.economist.com/node/11057207?story\\_id=11057207&fsrc=nwl](http://www.economist.com/node/11057207?story_id=11057207&fsrc=nwl) [referred 01.06.2013]



<http://www.bbc.co.uk/news/world-asia-21783311> [referred 01.06.2013]

<http://www.teliasonera.com/en/newsroom/news/2012/background-to-ncell-and-telecommunications-in-nepal/> [referred 06.06.2013]

#### Appendix 1. Interview question

1. What are the main motivational factors for foreign investors in the Nepals hydropower sector?
2. What is the current situation of foreign direct investment (FDI) in the Nepals hydropower sector?
3. How does (BIPPA) Bilateral Investment Promotion and Protection Agreement help the investors in Nepal to those investors from the country that has signed on BIPPA treaty with Nepal such as Finland?
4. What are the main challenges for Foreign investors in Nepal especially in hydropower investment?
5. What is the domestic market scope for hydropower production? How about export scopes and government policy on it?
6. What is the mechanism to sell the energy after production?
7. What do you think government should do to attract more FDI in hydropower?