

**A Survey Report
on
Foreign Direct Investment in Nepal**

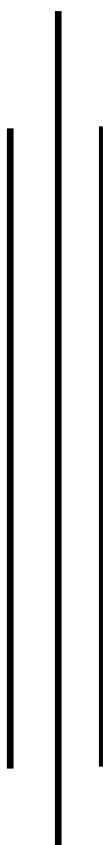


Nepal Rastra Bank

Research Department

June 2018

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Foreword

Foreign Direct Investment (FDI) serves as a catalyst for development in an open integrated economic system. Since 1980s, cross border linkages through FDI have been an important feature of financial globalization and liberalization process.

Nepal has also introduced many provisions to attract FDI including a set of legal, regulatory and institutional framework. Though FDI inflow in Nepal is low compared to its neighboring countries, it has been on an increasing trend over the recent past. Foreign investors from 39 countries have made investment in 252 firms in Nepal. The FDI stock reached Rs. 137.7 billion (6.1 percent of GDP) in 2015/16, which was mainly driven by the rise in reserves of FDI-based industries. Reserve constitutes two-third of FDI stock. The services sector accounts for the highest share (70.2 percent) of outstanding FDI in Nepal. In terms of paid up capital, the highest FDI in Nepal is from India. When total stock of FDI is taken into consideration by including reserves and loans, West Indies happens to be the major source region with FDI of Rs. 62.8 billion as of mid-July 2016.

Nepal Rastra Bank completed this survey with the valuable support from various institutions and individuals. I would like to extend my sincere gratitude to government institutions, FDI firms and stakeholders for their assistance with the information collection of this survey report.

At this moment, I would like to acknowledge the contribution of all colleagues of Balance of Payments and International Finance Division of Research Department for the successful completion of this survey. As such, thanks are due to Deputy Directors Mr. Suman Neupane and Mrs. Ranjana Pandit, and Assistant Directors Mr. Rabindra Maharjhan, Mrs. Jayanti Chapagain, Mr. Min Prasad Pokhrel, Mr. Khageswor Bhandari, Mr. Rajiv Sharma Regmi, Mr. Mitra Prasad Timsina, Mr. Arjun Subedi and Mr. Bharat Owd. I would also like to thank Executive Director Mr. Pitambhar Bhandari, Directors Mr. Pradeep Raj Poudyal, Dr. Gunakar Bhatta, Dr. Prakash Kumar Shrestha and Dr. Dilli Ram Pokhrel for their support in finalizing this survey report.

Nepal Rastra Bank has been conducting annual FDI survey regularly since long ago. However, it is the first time that a comprehensive survey of this kind has been made available to the public. I believe that the findings of this survey will be useful in bridging the information gap for the formulation of FDI programs and policies.

June 2018

Nara Bahadur Thapa
Executive Director
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Executive Summary

1. Nepal Rastra Bank (NRB) conducted this survey with an objective of identifying the position of foreign direct investment (FDI) in Nepal in 2015/16. This survey has identified the country-wise and sector-wise stock of FDI. The survey report incorporates the information on reserves, reinvested earnings and loans which are used to prepare International Investment Position (IIP) of Nepal. This information is also expected to fill the information gap on the status of FDI industries as well as strengthen the FDI programs, policies and regulatory framework.

Methodology

2. The FDI survey is one of the regular surveys conducted annually by the NRB to record foreign investment in Nepalese industries. The strategy of the survey is to make the FDI statistics highly comprehensive in terms of coverage of the enterprises. The FDI enterprises are categorized into three groups, large, medium and small based on capital. Out of 252 firms (population of survey), 29 firms are from large group whereas 40 firms from medium group and 183 firms are from small group. In terms of equity capital, these three groups constitute 85 percent, 7.6 percent and 7.4 percent respectively. The census method is applied to large 29 firms (100 percent) while the sample method is applied to select 24 firms out of 40 firms (60 percent) from medium group and 73 firms out of 183 firms (39.9 percent) from small group. The selected firms' capital (Rs. 102.85 billion) is 96.9 percent of total (Rs. 106.17 billion).

FDI inflows in Nepal

3. The FDI inflows in Nepal is substantially low compared to neighboring countries. It shares only 0.01 percent of total FDI in the world while the South Asia received 3.1 percent of total FDI inflows in 2016.
4. The statistics on approved and actual FDI shows small amount of FDI prior to 2007/08. Thereafter, it accelerated along with the initiation of the peace process in the country.

IIP of Nepal

5. The net IIP, which is the difference of foreign assets and liabilities, was Rs. 441.37 billion in mid-July 2017 compared to Rs. 443.53 billion in mid-July 2016, and Rs.

295.17 billion in mid-July 2015. IIP also shows the stock of FDI which recorded Rs. 52.1 billion FDI as in mid-July 2013, gradually increased to Rs. 151.2 billion as in mid-July 2017.

Dividends Repatriation

6. The dividend repatriation by FDI firms, based on approval from NRB, amounted to Rs. 17.24 billion in 2016/17 compared to Rs. 6.25 billion in 2015/16 and Rs. 7.21 billion in 2014/15.

Outstanding FDI in Nepal

7. The FDI stock includes the sum of paid-up capital, reserves and loans of FDI enterprises in Nepal. The stock of FDI in Nepal reached Rs. 137.7 billion (6.1 percent of the GDP) as in mid-July 2016, registering a growth of 29.7 percent over the previous fiscal year.
8. The share of reserve capital in FDI remained the highest (66.1 percent) followed by the paid-up capital with 30.2 percent share and outstanding loans with 3.7 percent share.
9. The service sector received the major share of FDI followed by the industry and the agricultural sector. About 70.2 percent (Rs. 96.7 billion) of total stock of FDI is in the service sector, 29.5 percent (Rs. 40.6 billion) in the industry and the remaining 0.3 percent (Rs. 395 million) in the agriculture sector.
10. Under the service sector, transport, storage and communication received the dominant share of 47.0 percent. Manufacturing industries, and electricity, gas and water are main sub-sectors receiving FDI in the industry sector i.e. 15.1 percent and 13.9 percent respectively.
11. Foreign investors from 39 countries have made investment in 252 firms in Nepal. India is the main investor in Nepal in terms of paid up capital. However, West Indies comes ahead of India if we consider total stock of FDI by including reserves and loans.

FDI in Manufacturing Sector

12. The information of 37 sample firms from the manufacturing sector is separately aggregated. Out of which, 35 percent firms are from Fast Moving Consumer Goods

(FMCG) and remaining from industrial goods. Among them, 3 firms are not in operation, 16 firms have annual turnover of more than Rs. 1 billion, 11 firms have turnover less than Rs. 100 million whereas 7 firms are between these two categories. The manufacturing FDI firms employed 7958 workers and 87 percent of them are domestic workers.

13. The 11 manufacturing FDI firms export goods. Of which, 8 firms export industrial goods and 3 firms export FMCG. As for import content, these firms fulfill on average 66.5 percent of their input needs from imports. Only one firm uses hundred percent domestic inputs, and 18 firms use more than 50 percent of imported inputs along with domestic inputs.

ABBREVIATIONS

AEPC	Alternative Energy Promotion Centre
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIPPA	Bilateral Investment Protection and Promotion Agreement
BOP	Balance of Payments
DOED	Department of Electricity Development
DOI	Department of Industry
DOL	Department of Labour
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Technology Transfer Act
FMCG	Fast Moving Consumer Goods
GoN	Government of Nepal
GDP	Gross Domestic Products
IB	Investment Board
IIP	International Investment Position
IG	Industrial Goods
IMF	International Monetary Fund
IRD	Inland Revenue Department
KW	Kilowatt
LDC	Least Developed Countries
LIBOR	London Interbank Offer Rate
MIGA	Multilateral Investment Guarantee Agency
MOE	Ministry of Energy
MW	Megawatt
NEA	Nepal Electricity Authority
NRB	Nepal Rastra Bank
NRN	Non-Resident Nepalese
OECD	Organization for Economic Cooperation and Development
SAFTA	South Asia Free Trade Agreement
UNCTAD	United Nations Conference on Trade and Development
USD	US Dollars
VAT	Value Added Tax
WECS	Water and Energy Commission Secretariat
WTO	World Trade Organization

1. INTRODUCTION

1.1 Background

1. Foreign Direct Investment (FDI) plays a catalytic role in economic growth. It is a source of capital formation. Likewise, it helps technology to spillover, supports human capital formation, enhances international trade integration, creates competitive environment and strengthens enterprise development. There are three common motives of foreign direct investment: resource-seeking, market seeking and efficiency-seeking (Dunning, 1993). Moreover, FDI also seeks strategic assets in a local economy – brands, new technology or distribution channel. Developing countries, emerging countries and countries in transition have come to consider FDI as a source of economic development and modernization, income growth and employment (OECD, 2002).
2. The impact of FDI on an economy can be considered in terms of a number of indicators such as its potential contribution to: technology and skills; establishment of new industries and export promotion; formation of new clusters as anchor investors; and creation of linkages with, and associated upgrading of local enterprises (UNCTAD, 2004).
3. With increasing globalization and liberalization especially after 1980s, the world FDI flows have grown rapidly and remained significant in the recent years. The World Investment Report 2017 shows

a strong rise in FDI inflows in 2015 and contraction in 2016. The FDI flows globally decreased by 2 percent to \$1.75 trillion in 2016. Developed economies accounted for 59 percent in total inflows, a growing share in 2016. Flows to developing economies were especially hard

hit, with a decline of 14 percent to \$646 billion in 2016. FDI flows to LDCs and structurally weak economies remain even volatile and low. The South Asia received only 3.1 percent of total FDI inflows in 2016. India is a leading host of FDI in South Asia followed by Bangladesh, Pakistan and Sri Lanka. The FDI position of Nepal is

Table 1.1
FDI Flows by Region

Year	2014	2015	2016
World (US\$ Billions)	1324	1774	1746
<i>Share (in Percentage)</i>			
<i>Developed economies</i>	42.6	55.5	59.1
<i>Developing economies</i>	53.2	42.4	37
<i>Asia</i>	34.8	29.5	25.3
<i>South Asia</i>	3.1	2.9	3.1

Source: UNCTAD (2017)

substantially low in comparison with other peers, which is just above Bhutan. Nepal's share in the world total FDI is only 0.01 percent.

4. Nepal has been developing institutional and legal infrastructure to ease doing business since the 1980s with an objective of attracting FDI. FDI inflow is however, very low despite its great importance to Nepalese economy.
5. Although small in size, Nepal could be an emerging destination for FDI in South Asia. Nepal has several advantages such as demographic structure, gradually improving business indicators, strategic geographic location and its improving legal infrastructure. Firstly, the economically active population in Nepal is about 56 percent which is rising every year. Availability of cheap labor force could be an attraction for investors. Secondly, the increasing disposable income with remittances, expansion of economic activities and changing consumption pattern have been creating new markets for products. Thirdly, Nepal ranks at 105, second in South Asia after Bhutan, on the World Bank's Doing Business Report 2018. The gradual reforms and realization for the requirement of foreign capital in mega projects would improve the business environment for foreign investors. Fourthly, Nepal lies in a strategic geographic location surrounded by two populous countries, China and India, which has more than 35 percent of total world population. Lastly, Investment Board of Nepal (IBN) has identified potential investment sectors for FDI - hydropower, transport, agriculture, tourism, information communication technology, mines and minerals, health and education, manufacturing and financial institutions.
6. This is the first report exploring the position of FDI in Nepal. It explores the current situation of FDI in Nepal and provides information on source countries. It is expected that this report will meet growing demand for information among policy-makers and other stakeholders about FDI in Nepal.

1.2 Objectives of the Study

7. The general objective of the study is to identify the current situation of FDI in Nepal and provide information on source countries and sectors of FDI. The specific objectives are:
 - To identify stock of FDI in Nepal, and
 - To identify the stock of FDI by source countries and sectors of investment.

1.3 Significance of the Study

8. FDI can stimulate economic growth by raising productivity and forcing efficient use of resources through the linkage with foreign trade flows and positive externalities to the industrial sector. FDI can fulfill the gap of financial resources, accumulate physical and human capital; contribute to employment and supply of goods, create spillover effects, enhance skills and technologies. Moreover, it is also a source of foreign exchange through the equity capital and exports of goods and services.
9. Given the role of FDI in national development, its detailed information along with its sources and uses sides will be useful for further refining the policies and regulatory framework. The flow figure of FDI is published in the Current Macroeconomic and Financial Situation of NRB every month. However, the aggregate information on growing reserves and reinvested earnings are not available to the public. To meet this gap, this survey report incorporates the information on reserves, reinvested earnings, among others. It is in this context that the survey was conducted to fill the information gap regarding the FDI on both new and existing industries in Nepal. The survey report could be important information to policy-makers, potential investors and the other stakeholders for policy making and investing in Nepal. This could also be helpful to understand the extent at which the committed FDI has been realized in Nepal.

1.4 Survey Methodology

10. The FDI survey is one of the regular annual surveys conducted by the NRB to record foreign investment in Nepalese industries. The information acquired from the survey is mainly used as a FDI component in the compilation of Balance of Payments (BOP) and IIP. The survey report also illustrates the foreign financial assets and liability position of Nepal. The information compiled from the FDI survey mainly contains the amount, composition, source countries and sector based distribution of foreign investment. The information on employment and commodities which are exported and imported by manufacturing industries having FDI is also incorporated in the survey.

1.4.1 Study Area

11. The survey is conducted in the regional and central level of the country to obtain the information of the geographically scattered industries which are established or operating with foreign capital. The information of enterprises which are operating outside the Kathmandu valley, having head offices at Kathmandu, are collected from their head offices. Samples are also taken from the regional locations – Bhairahawa, Pokhara, Hetauda and Birgunj, which are the key places where the industries with FDI are located.

1.4.2 Population and Sample

12. The strategy of the survey is to make the FDI statistics highly comprehensive in terms of coverage of the enterprises. Thus, both census and sample method is followed by categorizing the enterprises into three groups based on the size of capital.
13. The Department of Industry (DoI) is an agency for administration and implementation of Trademark, Patent and Design Act, and Foreign Investment and Technology Transfer Act. Foreign investors intending to invest in Nepal are required to apply to the DOI on a prescribed application form. Although DOI provides database on FDI approval, it lacks status of financial information of operating enterprises. The firm should receive final approval from NRB to transfer foreign capital in Nepal. So, the list of approved companies is also available in NRB. Thus, the population of this survey is the total number of firms which have taken approval from NRB by the end of 2015/16.
14. The roster of firms including, a) new approval received from NRB and b) the enterprises which were included in the previous survey, is taken as population size. So, the sample is taken from both newly registered and existing industries.
15. For sample purpose, the total population is divided into three categorical groups – small, medium and large – based on the size of total capital. The firms which have capital greater than Rs. 500 million are categorized as large group, firms having capital between Rs. 100 million and Rs. 500 million categorized as medium group and those with less than Rs. 100 million are placed in the small group. This survey covers all firms categorized as large group. But, samples are taken from medium and small groups. Based on the total capital of the firms, the large group shares 85 percent, medium size group shares 7.6 percent and small size firms 7.4 percent.

16. There are 29 firms in large group, all of which are included in the survey. However, 60 percent of firms in medium group (24 firms) and 40 percent of firms in small group (73 firms) are selected for survey. Hence, a total of 126 sample firms are included in the survey. In terms of capital, selected medium-sized firms cover 76.2 percent of medium group and selected small-sized firms cover 82 percent of small group (Table 3.1). This shows that the sample is highly representative.

Table 3.1
Sample Size*

Group	No. of Firms			Capital (Rs. Million)		
	Population	Sample ¹	Proportion (in %)	Population	Sample	Proportion (in %)
Large	29	29	100.0	90,230.6	90,230.6	100
Medium	40	24	60.0	8,031.1	6,121.9	76.2
Small	183	73	39.9	7,910.3	6,494.4	82.1
Total	252	126	-	106,172.0	102,846.9	-

* For sample purpose, the calculation is based on the capital of mid-July 2015

17. For the purpose of sample, the capital of the operating firms is calculated as a sum of paid-up capital and reserves as of mid-July 2015. However, for the new firms, the capital approved from NRB to invest as FDI is considered as the equity capital for sample. Based on the sample, the survey was conducted to acquire information on equity capital, reserves and loans, among others as of mid-July 2016.

1.4.3 Survey Method

18. The survey was conducted with structured questionnaire to obtain necessary information of FDI in Nepal. The questionnaire comprises two sections: (i) first section contains background information, including the major goods that are imported as inputs and exported as a final product by FDI enterprises, especially designed to know the products produced by FDI firms in the real sector; (ii) second section acquires main information on stock of foreign investment, especially designed to acquire information for balance of payments and international investment position.

¹ The margins of error for Medium and Small groups are 0.20 and 0.11 respectively using formula of $S = \frac{Z^2 P (1-P)}{e^2}$ where P is the proportion of sample to population, Z is 1.96 confidence interval. (Statistics Canada, 2010).

19. The definition of direct investment is based on the BoP manual of International Monetary Fund (IMF). IMF (2009) defines FDI as a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. A direct investment enterprise is an entity subject to control or a significant degree of influence by a direct investor. A direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprises. Moreover, based on the control of the firm, foreign investors are those who hold ten percent or more ordinary shares in the company. FDI is different than other types of external private capital flows as it is motivated largely by the investors' long-term prospects for making profits in production activities. In contrast, portfolio investment is made predominantly for financial reasons, not to gain control.
20. The component of FDI defined for the survey includes:
- i) Paid-up capital: amount of money a company has received from shareholders in exchange for shares;
 - ii) Reserves: amount that are retained in the business and distributed or undistributed to the owners;
 - iii) Re-invested earnings: amount of profit retained for reinvestment;
 - iv) Debt from direct investor: intra-company borrowing by the firm with direct investment from its direct investor;
 - v) Foreign Loan: amount borrowed by the firm with direct investment from foreign firms other than its direct investor.
21. The survey was conducted in the last two quarters of the fiscal year 2016/17. The objective for conducting survey in the third and fourth quarter of the fiscal year is to acquire information of audited balance sheet of the firms as far as possible. As per the requirement, both means of information channel – email and field survey – were used to fill the questionnaire from the respondent firms. The field survey was conducted by enumerator groups both inside and outside the Kathmandu Valley. The data reported were cross checked on the basis of audit report for large firms and in cases of unavailability of audit report, the data provided by respondent firms were used. Moreover, the data of banks and financial institutions (BFIs) were extracted from their published annual reports.

1.4.4 FDI Compilation Method

22. The information of FDI with its components obtained from the sampling method is aggregated. The estimation was made for the quantity of FDI of non-sampled firms, which were categorized under medium and small size firms in the strata of sampling. The estimation was made based on the ratio derived from the FDI stock value reported by firms with respect to their approved amount for investment. The average ratio was calculated separately for medium and small group category.

$$r = \frac{\sum r_i}{n}$$

23. The formula shows r is the average ratio, n is the number of sampled firms and r_i is the ratio of approved capital to actual (realized) capital of the individual firm. The average ratios of medium size and small size firms were used respectively to estimate FDI of non-sampled firms from each categorical group – medium and small size. Finally, the data were aggregated to find the amount of FDI in Nepalese industries.

1.5 Limitations of the Study

24. The target of survey was to cover all FDI enterprises operating in Nepal. Out of three categorical sizes of firms, all larger enterprises were covered in the survey. However, the information from small and medium sized enterprises was based on sample. The sampling method was followed to ensure comprehensive coverage of enterprises with FDI and borrowing. The estimation was made for the FDI of non-sampled firms based on the ratio of approved to actual capital of sampled firms. The margins of error for medium and small groups are 0.20 and 0.11 respectively. Based on the information available, all enterprises with known foreign assets and liabilities from previous surveys and newly licensed who got approval to bring FDI by NRB have been covered in the survey.

1.6 Structure of the Report

25. The report contains five sections. Following the introduction in the first section, the second section provides the regulatory framework for FDI in Nepal. The third section describes the time series information of FDI, IIP and dividend repatriation from Nepal. The fourth section provides results of the survey based on country of origin, characteristics and components of investment of the enterprises and the fifth section ends the survey report with some concluding remarks.

2. REGULATORY FRAMEWORK

26. Along with the process of liberalization in the mid-1980s, Nepal put efforts to attract FDI to fill the resources gap in private capital formation. Foreign Investment and Technology Transfer Act, 1982 was enacted to attract and utilize the foreign investment in Nepal. Subsequently, a new Foreign Investment and Technology Transfer Act, 1992 was enacted to facilitate the liberalization process of 1990s. Thereafter, Nepal became member of the World Trade Organization-WTO, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation-BIMSTEC, South Asia Free Trade Agreement-SAFTA and Multilateral Investment Guarantee Agency-MIGA. Nepal signed Bilateral Investment Protection and Promotion Agreement (BIPPA) with six countries and Double Taxation Avoidance Agreement with ten countries. Nepal has obtained access to neighbouring and global markets. Investment Board Act, 2010 was enacted based on which Investment Board has been established.

2.1 FDI Policy in Nepal

27. The GoN introduced new Foreign Investment Policy, 2015 by replacing the policy of 1992 with an objective of making economy more dynamic and competitive by maintaining trade balance through export promotion and import management, and by attracting foreign investment, technology, skills and knowledge in the priority sectors. The new policy incorporates the changing context of portfolio investment, non-resident Nepalese investment, special economic zones, labor relation issues, and mobilization of debt instruments in domestic and foreign currencies. The foreign investment policy aims to achieve the sustainable economic growth and generate employment, enhance investment in the regional and national development, fill the gap of increasing investment demand, increase the domestic production and productivity and establish Nepal as an attractive destination for FDI by creating investment friendly environment.

28. In contrast to old policy, the new policy has clearly defined the term “foreign investment” and “technology transfer” (Table 2.1). It recognizes assignment, user’s license, technical know-how sharing and franchising as the medium for technology transfer.

Table 2.1
Forms of Foreign Investment

Foreign Capital Investment	Technology Transfer
<ul style="list-style-type: none"> • Share investment in the form of foreign currencies or capital assets and reinvestment of its earning • Loan to the industry in the form of foreign currencies or foreign assets • Lease financing provided by foreign investor in the form of equipment tools, machines etc, • Fund raised by the company, established in Nepal, issuing equity, debt and debenture abroad, • Investment in the listed securities in the secondary market by foreign institutional investors. 	<ul style="list-style-type: none"> • Use of intellectual property rights such as patent, specification, formula, process and technical knowledge, • Foreign owned trade mark or goodwill, and • Foreign technical services, assistance, training, management services and market services.

Source: Government of Nepal, Foreign Investment Policy, 2015

29. The policy has envisioned the Investment Board, Ministry of Industry, Foreign Investment Promotion Board, Department of Industry, and One Stop Service Center as the institutions involved in implementing foreign investment policy and rules in Nepal.

30. The policy categorized the investors as
 a) foreign institutional investors
 b) foreign individual investors and
 c) Non-Resident Nepalese (NRN).

There are provisions to facilitate FDI through the access to foreign exchange, facilities and exemptions, access to credit, hiring foreign workers, acquisitions of land, and industrial security and business promotion. It assures equal treatment to foreign investors, no nationalization of the investment, and withdrawal of their principal investment and its earnings. The provision of mediator and dispute settlement has also been incorporated in this policy.

Chart 2.1
Types of Foreign Investors



2.2 Legal Framework

31. The legal arrangements that govern FDI in Nepal include Foreign Investment and Technology Transfer Act (FITTA), 1992, Foreign Exchange (Regulation) Act, 1962, Investment Board Act, 2010 and Industrial Enterprises Act, 2016, Company Act, 2017, Investment Board Act, 2011, Contract Act, 2000, Arbitration Act, 1999, Income Tax Act, 2002, Labor Act, 2017, and Privatization Act, 1992. Similarly, DOI, Investment Board of Nepal (IBN) and NRB are the agencies for administration and implementation of rules and regulations related to FDI.
32. The FITTA defines the forms of foreign investment as (a) investment in share (equity); (b) reinvestment of the earnings derived from the clause (a) above; (c) investment made in the form of loan or loan facilities. The minimum investment required for foreign investment approval is Rs. 5 million per investor. The act also defines the technology transfer which is allowed even in the area where foreign investment is not permitted. Use of technological rights, specialization, formula, process, patent or technical know-how of foreign origin; use of any trademark of foreign ownership and acquiring any foreign technical consultancy, management and marketing service are the forms of technology transfer. However, there are some industries like cottage industries, security printing, arms and ammunition industries, among others, where foreign investments are not allowed.
33. Furthermore, there are sector specific acts that should also be followed if the investment goes to the given specific sectors. These acts are the Electricity Act, 1992, Nepal Petroleum Act, 1983, Private Investment in Infrastructures Act, 2006, Mines and Mineral Resources Act, 1985, Bank and Financial Institutions Act, 2017, among others.

2.3 Institutional Structure

34. The DOI and IBN provide the facilitator and regulatory services to the investors depending upon the size of the capital investment. The Investment Board oversees the foreign investment of Rs. 10 billion or more fixed investment in general. NRB facilitates the foreign exchange transfer related arrangement.

2.4 FDI Process in Nepal

35. The procedure of FDI in Nepal varies depending on investment size and sectors. In general, the required documents differ according to mode of foreign equity participation in the industries. The categories are: (i) foreign equity investment in a new industry and (ii) foreign equity investment in an existing Nepalese Industry.

(i) Equity Investment in New Industry

36. The FDI process in a new industry comprises following four stages:

- a) FDI approval application,
- b) Company incorporation,
- c) Industry registration,
- d) Tax registration, and other processes (Chart 2.1).

Chart 2.1 Legal Steps of FDI in Nepal



(ii) Foreign Investment in Existing Industry

37. Foreign investors can invest in any existing firms or industry by share transfer, loan investment, and/or technology transfer. The investment must be brought inside Nepal only after obtaining the approval of investment from the DOI and NRB. The letter issued by the concerned commercial bank is considered as the documentary evidence for the foreign investment brought into the country. It must be clearly stated in the joint venture agreement if the foreign investor seeks to invest in terms of plant, machinery and equipment. Approval of the agreement between Nepalese and foreign parties must be obtained from DOI stating the terms and condition including the amortization schedule and interest in case foreign investor seeks to invest in the form of loan. The loan amount must be brought through the proper banking channel.

2.5 General Regulatory Arrangement For FDI

2.5.1 Taxation

38. The foreign investors need to register in Inland Revenue Department (IRD) and comply with tax system. The company, with turnover more than 5 million, needs to register for Value Added Tax (VAT). The foreign investors must comply with the income tax, corporate tax, interest tax, profit tax, payroll tax, capital gain tax etc. Some relaxations in tax for the industries in FDI have been offered in the Industrial Enterprises Act, 2016.

2.5.2 Foreign Exchange Arrangement

39. NRB oversees the foreign exchange management in Nepal, and the foreign Exchange (Regulation) Act, 1962 is the guiding regulation for it. Foreign investors, who fulfill the criteria given by rules, can bring in or take out (withdraw) investment. Nepal has also adopted Article VIII (Exchange Arrangement and Exchange Restrictions) of IMF.
40. Foreign investors after registering at the office of Company Registrar and Tax Office, should apply for the approval at NRB to bring in FDI to Nepal. In general, foreign investors must commit to keep their investment in Nepal at least for a year. Company can also borrow from abroad at LIBOR plus reasonable premium rate in case required amount and interest rate is unavailable domestically. Furthermore, Nepalese citizens can also borrow USD 0.5 million or INR. 50 million at zero interest rate from abroad at least for 5 years.
41. NRB provides the repatriation approval to the FDI on the basis of recommendation from the concerned regulatory authority (Detail in Box 2.1). Foreign investors can repatriate the amount received from the sale of the share of foreign investment as a whole or any part thereof, amounts received as profit or dividend from foreign investment, amount received from the fees or royalties or supply in case of technology transfer, maximum 75 percent of the earning of foreign nationals working in foreign investment company.

2.5.3 Labor Regulation

42. Foreign investors need to follow Nepal's labour laws. Currently, Labour Act, 2017 is in force. As per this law, there are five types of employment: regular, task-based, fixed duration, abrupt and partial. The normal working hour per day is 8 and per week is 48. However, the employer can decide the working time during a day. The minimum wage system is applied. Employers need to take permission from the Department of Labour (DOL) to employ foreigners.

2.5.4 Land Regulation

43. Any registered industry can acquire land as per the requirement or may request to government for the arrangement. The industry can hold the land exceeding the maximum threshold as per the requirement. Also, government can provide its land in lease to the national priority industries for the period of operation.

Box: 2.1

Repatriation Requirements

Withdrawal of Foreign Investment

For the repatriation of the principal investment, foreign investor must apply to central bank with:

- A copy of approval letter provided by regulatory agency for the business operation;
- A copy of approval letter provided by central bank to bring in the foreign exchange for investment;
- The bank statement showing the deposit in domestic banks from foreign banks as investment;
- The sale and purchase agreement, between equity sellers and buyers, attested by regulatory agency;
- The report prepared based on assets and liabilities of equity sellers;
- The Permanent Account Number, Business Registry Certificate, bylaws etc;
- Updated tax clearance certificate;
- The updated description of shareholders attested by Office of the Company Registrar;
- The document showing the buyer is not blacklisted if the buyer of equity is Nepalese;

Dividends

For the repatriation of dividend, foreign investor must apply to central bank with:

- A copy of approval letter provided for the business from regulatory agency;
- A copy of approval letter provided to bring in the foreign exchange for investment;
- The bank statement showing the deposit to domestic banks from foreign banks as investment;
- The Permanent Account Number, Business Registry Certificate, Bylaws etc.
- Audited Annual Report and Financial Report as approved by the general assembly.
- A copy of clearance certificate of tax on profit;
- Updated Tax Clearance Certificate.

Source: Nepal Rastra Bank

2.5.5 Intellectual Property Law

44. The Intellectual Property such as patent, specification, formula, process and technical knowledge are included into the technological transfer. The Foreign Investment Policy has guided the protection, promotion and development of intellectual property rights.

2.5.6 Administrative issues

45. The administration on FDI is guided by the national treatment. No discrimination between domestic investment and FDI is applied. The law has assured no nationalization of any kind of investment made in Nepal.

2.5.7 Priority Sectors

46. Based on the national priority, the major sectors for the FDI are a) Hydroelectricity (Production and Transmission), b) Infrastructure related to Transportation (Fast Track, Railway, Tunnel, Cable Car, Metro Rail, Flyover and International Airport), c) Agricultural, Food Processing and Herbs Processing Industries, d) Tourism Industries and e) Mineral and Productive Sector Industries².

2.5.8 Key Sectors

(a) Energy

47. Energy sector is most prominent sector to drive economic growth and the vehicle to transform the Nepalese economy. The country has potential of approximately 83,000 MW and economically viable of approximately 42,000 MW. But, the installed capacity is only approximately 961.2 MW as of mid-July 2017 (Economic Survey, 2016/17).
48. The Ministry of Energy (MoE) oversees energy sector activities whereas Water and Energy Commission Secretariat (WECS), the Department of Electricity Development (DoED), the Nepal Electricity Authority (NEA) and Alternative Energy Promotion Centre (AEPC) are other administrative bodies.
49. The IBN is administrative body to implement the investment for the hydropower projects above 500 MW. The Electricity Act, 1992 guides the survey, production,

² Foreign Investment Policy 2015

transmission and distribution of electricity. License is not required for the generation, transmission or distribution of electricity up to 1,000 KW. License should be obtained from the Department of Electricity Development, if the capacity of the project is more than 1,000 KW.

50. NEA issues survey license for 5 years, generation license for 35 years for domestic supply and 30 years for export oriented projects, additional maximum five years for hydrological risks is provided.

(b) *Tourism*

51. Tourism is a high potential sector in Nepal owing to the natural beauty and cultural heritage. The government has given high priority to the development of tourism sector. Government's Vision 2020 in tourism seeks to have 2 million tourist visitors per year along with creation of 1 million jobs by 2020. Ministry of Culture, Tourism and Aviation is the principal agency for development of tourism sector. Nepal Tourism Board and Department of Tourism have also been working as regulatory and implementing agencies. The IBN administers the implementation of the tourism projects with the cost of fixed capital equal or more than Rs. 10 billion.

(c) *Transportation*

52. Transportation is another largest potential sector in Nepal. Being a hilly country, there are potential of tunnel, cable car, airport, railways and roadways. The Government has taken some initiative to connect East-West such as Mid-Hill Highway (Puspahal Highway), Hulaki Marga (Postal Highway), East-West Railways and North-South such as Koshi Corridor, Kali-Gandaki Corridor, Karnali Corridor, Kathmandu-Tarai Fast Track etc. Also, the international airports such as Gautam Buddha Regional International Airport (Bhairahawa), Pokhara Regional International Airport are under construction, and International Airport at Nijgadh, Bara is in the process of beginning construction. The concept of Kerung-Kathmandu-Pokhara-Lumbini railway network has also been coined. Furthermore, rapidly growing cities in Nepal also require Railways (MRT and Monorail), Bus Rapid Transit (BRT), Flyovers, Tunnel-ways, Cable cars, and many others.
53. In the institutional arrangement, Ministry of Physical Infrastructure and Transport, Ministry of Federal Affairs and Local Development, National Planning Commission, Ministry of Culture, Tourism and Civil Aviation are agencies to oversee the transport sector in Nepal. Also, Department of Road, Department of Local Infrastructure

Development and Agriculture Roads, Department of Railway, Department of Transport Management and Civil Aviation Authority of Nepal are some other agencies involving in the development of transport sector. The Investment Board administers the implementation of the transport projects with the cost of fixed capital equal or more than 10 billion, Fast-track Tunnel way, Railways, Ropeway and Trolley Bus as specified by the GoN and regional and international airports.

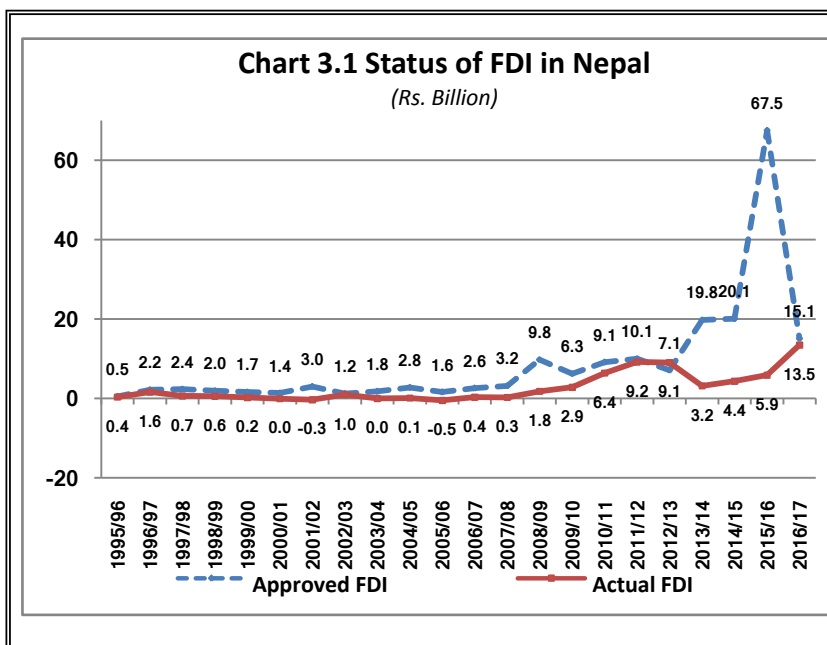
3. FOREIGN DIRECT INVESTMENT IN NEPAL

- 54. The first official record of FDI flow to Nepal was in 1951/52 when the Nepal Commercial Corporation was set up as a joint venture with 67 percent equity participation from Indian investors (Aryal, 2009).
- 55. There were a few cases of foreign investment and technology transfer prior to 1980. Solidarity Ministerial meeting was held in 1982 and an Investment Promotion meeting was held in 1984 for promoting foreign investment and creating awareness of the investment opportunities in the country. Subsequently, Nepal Investment Forum was organized in 1992 in Kathmandu, which was a very successful in attracting the foreign investors (Department of Industry, 2005).
- 56. Thereafter, political and economic scenarios have been changed significantly. The GoN organized Nepal Investment Summit on 2-3 March, 2017. This summit observed the USD 13.74 billion investment commitment to ten sectors from 26 companies of eight countries.

The following sections show the status of FDI and dividends payments in Nepal.

3.1 FDI in Nepal

- 57. DOI gives the permission to establish FDI industries. But, there is a time lag between approved and actual investment. The actual investment may not take place at all. NRB has statistics on actual or net FDI³. The FDI presented in BoP is net change in FDI liability in a year.



³ Actual FDI = FDI inflows - Withdrawal of Investment.

58. The statistics on approved FDI shows small amount of FDI prior to 2007/08 (Chart 3.1). Thereafter, significant improvement has been observed in FDI approval. For example Rs. 67 billion FDI was approved in 2015/16. Similarly, the pace of actual FDI inflow was slow till 2007/08. However, it accelerated after the end of decade long conflict and the onset of peace process in 2008. The net FDI inflow registered was of Rs. 9.2 billion in 2011/12. The FDI recorded during the 2000/01, 2001/02 and 2005/06 reflects the net outflows.

3.2 International Investment Position of Nepal

59. The IIP shows the economy's external financial assets and liabilities position at a particular point of time. The IIP shows the position of the country whether it is net

Table 3.1
International Investment Position of Nepal
(Mid-July)

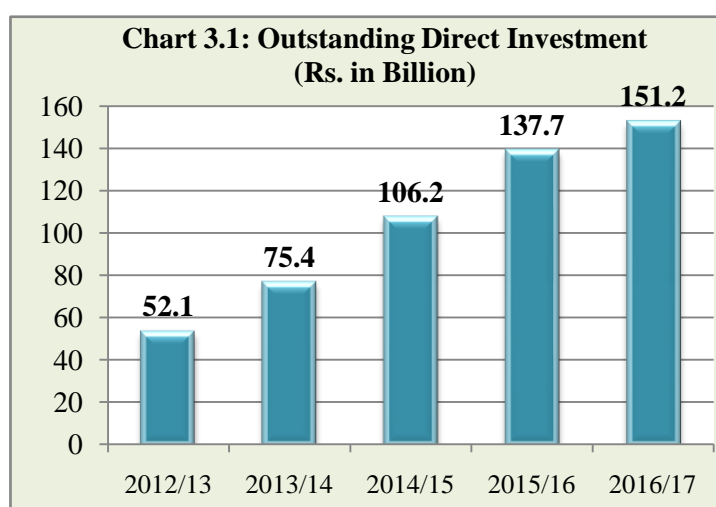
Rs. Million

Description	2012/13	2013/14	2014/15	2015/16	2016/17*
Assets	559141.90	681315.00	837788.9	1054012.06	1107787.55
Direct Investment	0.0	0.0	0.0	0.0	0.0
Portfolio Investment	0.0	0.0	0.0	0.0	0.0
Other Investments	85350.8	87562.1	111105.0	136381.2	152129.8
<i>Other Equity</i>	2495.8	2502.8	5476.1	6883.7	10765.8
<i>Currency and Deposits</i>	22025.6	29912.6	44169.5	41796.9	43556.8
<i>Loans</i>	52.6	1228.9	64.1	57.6	3304.6
<i>Trade credit and advances</i>	5147.4	1620.0	2234.3	338.9	9005.3
<i>Other Account Receivables</i>	55629.4	52297.8	59161.0	87304.1	85497.3
Official Reserve Assets	473791.1	593752.9	726683.9	917630.9	955657.7
Liabilities	480095.9	495392.1	542623.2	610485.3	666408.8
Direct Investment	52113.3	75373.0	106171.8	137678.2	151182.1
Portfolio Investment	0.0	0.0	0.0	0.0	0.0
Other Investments	427982.6	420019.1	436451.4	472807.0	515226.7
<i>Other Equity</i>	0.0	0.0	0.0	0.0	0.0
<i>Currency and Deposits</i>	56115.3	29370.5	39870.3	40664.7	41402.3
<i>Loans</i>	347624.7	356787.1	363962.5	405199.2	439607.0
<i>Trade credit and advances</i>	14434.6	23686.1	22912.3	16397.4	24381.3
<i>Other Account Receivables</i>	20.2	41.7	38.2	362.5	66.4
<i>Special Drawing Rights</i>	9787.8	10133.8	9668.1	10183.3	9769.6
Net IIP	79046.0	185922.9	295165.7	443526.8	441378.8
* Provisional					

debtor or lender. The positive net IIP reflects foreign assets (claims) are more than foreign liabilities (obligations) and negative reflects the foreign assets (claims) are less than foreign liabilities (obligations). NRB has been publishing IIP since 2014/15.

60. The IIP shows that foreign assets and liabilities of Nepal were Rs. 559.14 billion and Rs. 480.10 billion respectively in mid-July 2013. Accordingly, the net IIP remained in surplus by Rs. 79.05 billion as at mid-July 2013. Such surplus gradually increased to Rs. 441.37 billion in mid-July 2017.

61. The statistics of FDI presented in IIP is the outstanding amount at the end of the fiscal year. It is the sum of paid up capital, reserves, reinvested earning and foreign loans. The FDI stock was Rs. 52.1 billion at the end of 2012/13. Such stock gradually increased to Rs. 151.2 billion in 2016/17 (Table 3.1 and Chart 3.1).



3.3 Dividend Repatriation

62. The Foreign Investment and Technology Transfer Act, 1992 allows foreign investors to repatriate profit or dividend. The dividend repatriation by FDI enterprises, based on approval from NRB, amounted to Rs. 17.24 billion in 2016/17. Similarly, the dividend repatriation recorded Rs. 6.25 billion in 2015/16 compared to Rs. 7.21 billion in 2014/15.

Table 3.2
Dividend Repatriation

Rs. Million

Sector	2014/15	2015/16	2016/17
Financial Sector	1794.43	13.67	13.7
Communication Sector	4.00	1692.80	8692.6
Hydropower Sector	2874.48	3154.30	3264.9
Industrial Sector	2299.19	1387.85	5161.0
Service Sector	238.61	4.11	108.4
Total	7210.71	6252.72	17240.61

Source: Nepal Rastra Bank

4. FOREIGN DIRECT INVESTMENT IN NEPAL: SURVEY RESULTS

63. This section describes the total stock of FDI in different sectors of Nepal. The statistics on FDI are based on the information received from the survey and statistics estimated for non-sampled firms which are from small and medium size enterprises.

The Tables and Charts in this section present a comparative volume of total stock of FDI in mid-July 2016 and mid-July 2015. Moreover, the data on FDI are grouped and presented by sector, industry and country basis.

Table 4.1
Outstanding FDI in Nepal

Rs. Million

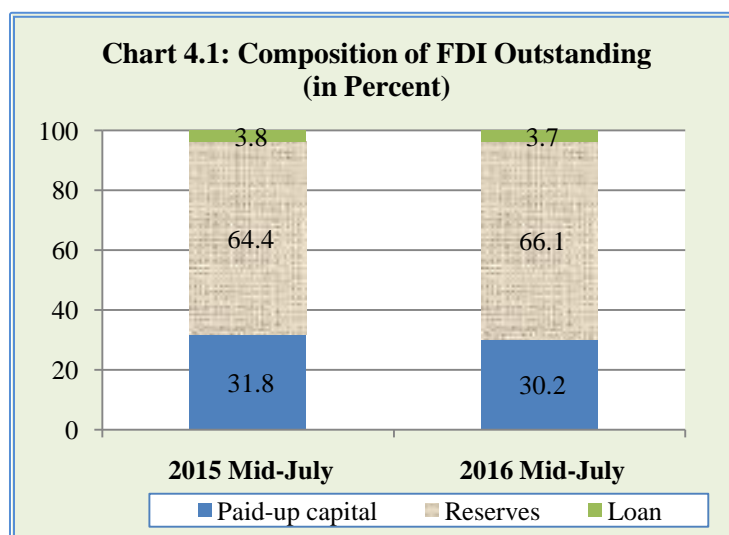
Items	2015 mid-July	2016 mid-July	Percentage Change
Paid-up Capital	33,767.4	41,575.2	23.1
Reserves	68,351.5	90,950.9	33.1
Loans	4,053.1	5,152.3	27.1
Total	106,172.0	137,678.4	29.7

Source : Field Survey

4.1 The Stock of FDI in Nepal

64. The FDI stock includes the combination of paid-up capital and reserves of FDI enterprises in Nepal along with foreign loans from their direct investors. While analyzing the stock of FDI by components, the reserve capital constitutes the most.

65. The stock of FDI in Nepal reached Rs. 137.7 billion as in mid-July 2016. The outstanding amount of FDI in mid-July 2016 was 29.7 percent more than the amount in the previous fiscal year. This amount is



about 6.1 percent of GDP, which was 5.0 percent of GDP in mid-July of 2015.

66. The increase in the stock of FDI was mainly driven by the uptick in reserves over the previous fiscal year. The reserve stood at Rs. 90.95 billion in mid-July 2016

compared to Rs. 68.35 billion in mid-July 2015. As of mid-July 2016, reserve capital contributed 66.1 percent to the total FDI.

67. The paid-up capital increased to Rs. 41.58 billion in mid-July 2016 from Rs. 33.77 billion in mid-July 2015. As of mid-July 2016, paid-up capital constituted 30.2 percent in total outstanding FDI compared to 31.8 percent in the previous year.
68. The outstanding loan remained Rs. 5.15 billion as of mid-July 2016 compared to Rs. 4.1 billion a year ago. As of mid-July 2016, outstanding loan constituted 3.7 percent in total outstanding FDI while it was 3.8 percent in the previous year. The share of loans is very small in the total stock of FDI.

4.2 FDI Outstanding by Sectors

69. The outstanding FDI in Nepal was highest in the service sector which was followed by the industry and agricultural sector. The FDI in service sector amounted to Rs. 96.67 billion in mid-July 2016 compared to Rs. 75.54 billion in mid-July 2015 (Table 4.2). As of mid-July 2016, the service sector received the dominant share of 70.2 percent in total stock of FDI. Communication, financial intermediation, education, hotels and restaurants are the dominant industries in the service sector attracting FDI. Transport, Storage and Communication received 47.0 percent whereas financial intermediation received 17.5 percent in total FDI. Hotels and Restaurants account for just 2.2 percent respectively (Appendix 1). Communication is seen to be a lucrative sector for FDI in Nepal.

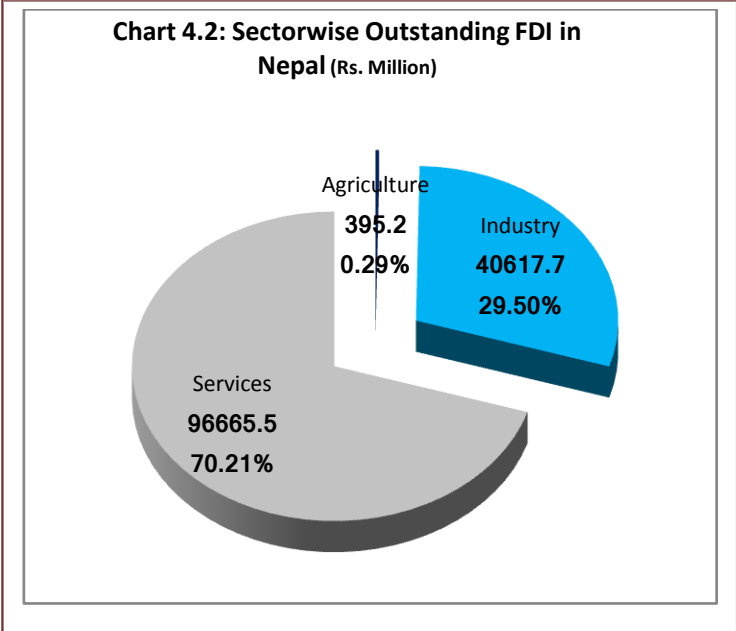
Table 4.2
Sectorwise Outstanding FDI in Nepal

Rs. Million

Sectors	Mid-July 2015				Mid-July 2016			
	Paid-up	Reserves	Loan	Total	Paid-up	Reserves	Loan	Total
Agriculture	395.2	-	-	395.2	395.2	-	-	395.2
Industry	15697.8	12979.9	1554.3	30232.1	18989.5	19902.8	1725	40617.7
Services	17674.3	55371.6	2498.7	75544.7	22190.5	71048.0	3427	96665.5
Total	33767.4	68351.5	4053.1	106172	41575.2	90950.9	5152	137678.4

Source: Field Survey

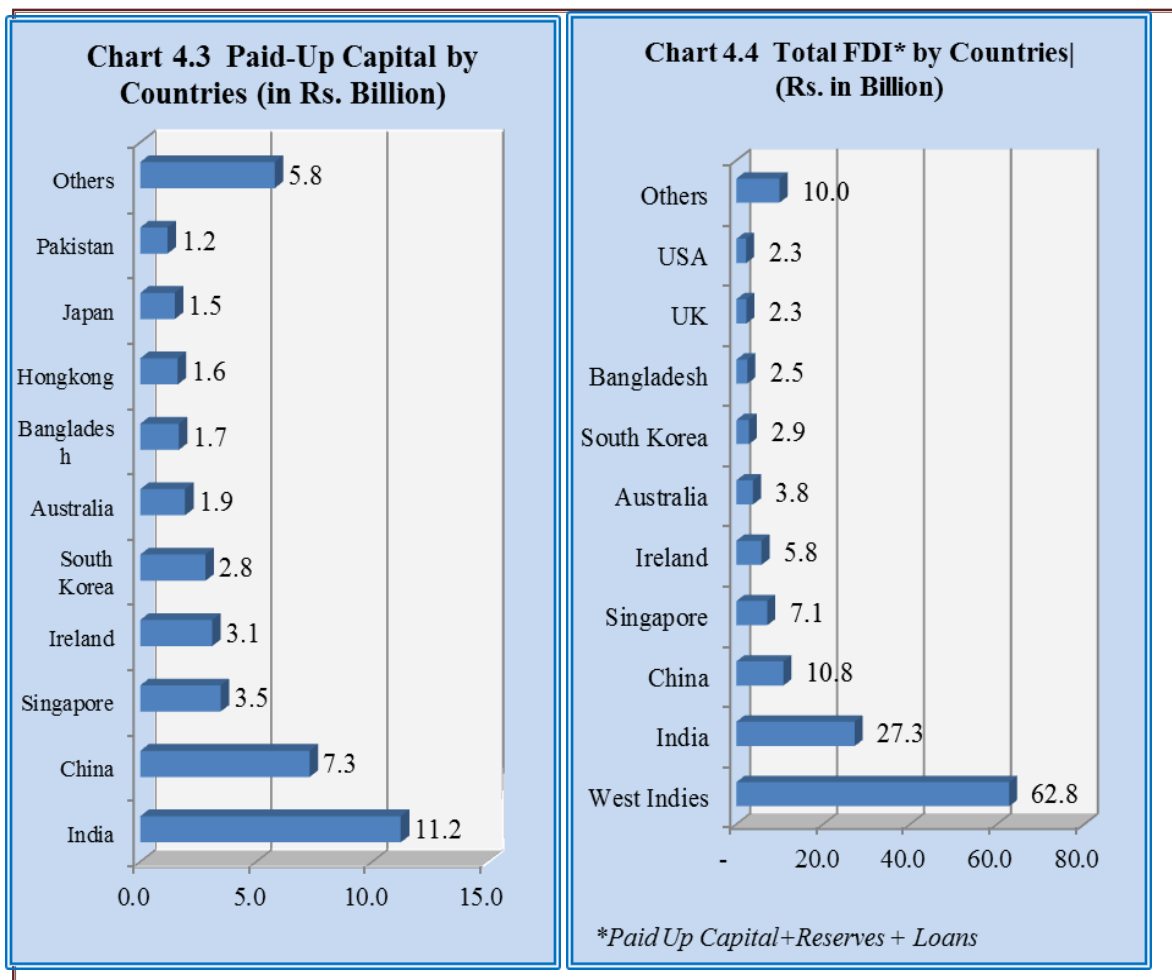
70. The industry recorded Rs. 40.62 billion of FDI stock in mid-July 2016 compared to Rs. 30.23 billion in mid-July 2015 (Table 4.2). As of mid-July 2016, the share of FDI in industry was 29.5 percent in mid-July 2016. In the industrial sector, hydropower and manufacturing industries are main sub-sectors receiving FDI. In manufacturing categories, cement, paints, beverages and steels industries are prominent in attracting FDI. Manufacturing, mining and quarrying subsector accounts for 15.1 percent followed by Electricity, Gas and Water 13.9 percent and construction sector 0.5 percent.



71. Agriculture sector attracted a meager amount of FDI. The FDI in agriculture includes coffee plantation and herbs processing firms. As of mid-July 2016, the share of FDI in agriculture sector was just 0.3 percent.

4.3 FDI Outstanding by Country

72. Nepal has FDI from 39 countries. In terms of paid-up capital owned by foreign partners, India has the highest FDI in Nepal. As of mid-July 2016, the paid-up capital of Indian invested firms recorded Rs. 11.2 billion (Chart 4.3). This was followed by China (Rs. 7.3 billion), Singapore (Rs. 3.5 billion), Ireland (Rs. 3.1 billion), South Korea (Rs. 2.8 billion), Australia (Rs. 1.9 billion), Bangladesh (Rs. 1.7 billion),



Hong Kong (Rs. 1.6 billion), Japan (Rs. 1.5 billion), Pakistan (1.2 billion) and Others (Rs. 5.8 billion). Indian investors have investment in cement, paint, steel industries along with banks and medical colleges. Some ongoing mega hydro projects also have investment from India. On the other hand, Chinese investors have FDI in hydro, airlines and manufacturing sectors like cement. Investors from Singapore also have investment in sectors like hydro power generation and manufacturing sector.

73. The FDI from West Indies recorded Rs 62.78 billion, largest among the countries, if all the components – paid up capital, reserves and foreign loan from the direct investors – are summed up (Chart 4.4). The amount was followed by India (Rs. 27.3 billion), China (Rs. 10.8 billion), Singapore (Rs. 7.1 billion), Ireland (Rs. 5.8 billion), Australia (Rs. 3.8 billion), South Korea (Rs. 2.9 billion), Bangladesh (Rs. 2.5 billion), UK (Rs. 2.3 billion), USA (Rs. 2.3 billion) and Others (Rs. 9.95 billion). Among the top ten countries for FDI inflows, India, China, Singapore and South Korea have the highest investment in the industrial sector than other sectors while remaining countries have investment in the service sector.

Table 4.3
Stock of FDI by Countries and Sectors
(Mid-July 2016)

Rs. Million

S.N.	Countries	Agriculture	Industry	Service	Total
1	West Indies	-	-	62,779.7	62,779.70
2	India	104.4	16,904.9	10,244.8	27,254.10
3	China	-	9,200.9	1,643.2	10,844.10
4	Singapore	113.2	6,286.1	735.6	7,134.90
5	Ireland	-	-	5,805.3	5,805.30
6	Australia	-	-	3,831.6	3,831.60
7	South Korea	15.9	2,769.5	119.2	2,904.60
8	Bangladesh	-	-	2,509.9	2,509.90
9	UK	-	222.9	2,107.9	2,330.80
10	USA	127.1	784.7	1,415.8	2,327.60
11	Others	34.50	4448.80	5472.70	9955.80
	Total	395.2	40,617.7	96,665.5	137,678.40

Source: Field Survey

4.4 Foreign Loan

74. As of mid-July 2016, the outstanding foreign loan of firms with FDI from their direct investors recorded 5.57 billion which was only Rs. 4.54 billion a year ago. Generally, the firms engaged in telecommunication, hydro power generation, airlines, hotels etc. have borrowed from their foreign investors.

75. Some FDI enterprises have borrowed from foreign firms other than direct investors. Such loans was Rs. 0.49 billion as of mid-July 2015 but declined marginally to Rs. 0.42 billion as of mid-July 2016.

Table 4.4
Outstanding Foreign Loan

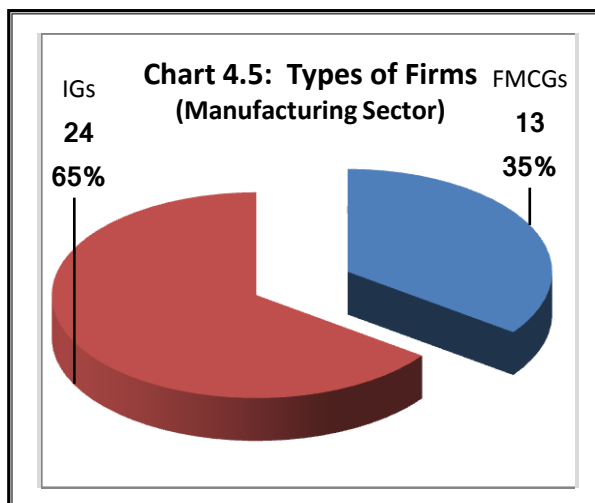
Rs Million

Loan From	2015 mid-July	2016 mid-July
Direct Investors	4,053.1	5,152.3
Others	489.2	421.4
Total	4,542.3	5,573.8

Source: Field Survey

4.5 FDI in Manufacturing Sector

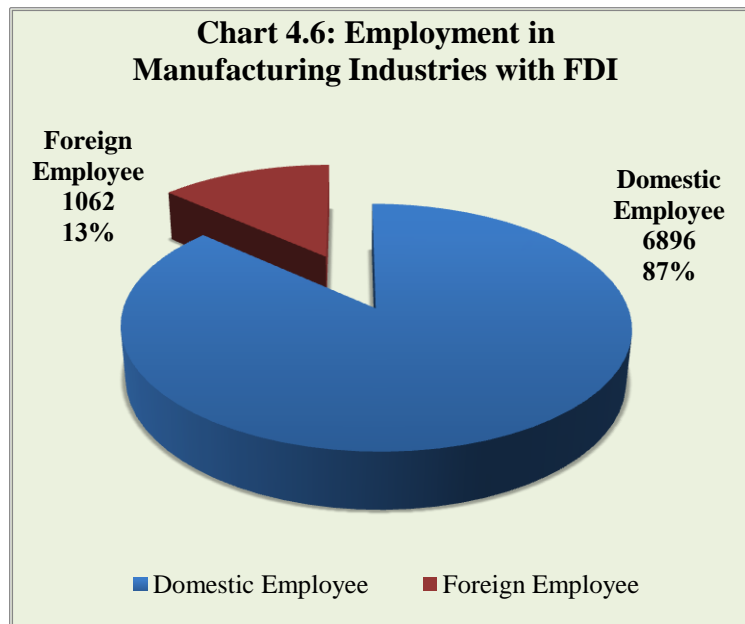
76. The survey obtained further information to identify position and the nature of enterprises, annual turnover, major exports and imports, the share of domestic input contents, and employment status of such enterprises which were operating in the manufacturing sector. Out of total sampled firms, 37 firms were from manufacturing sector. The sample information provided by respondent firms is aggregated to find the nature and characteristics of the manufacturing industry.



77. **Type of Firms:** The respondents firms under manufacturing sector have been broadly categorized under two sub-sectors namely fast moving consumer goods (FMCGs) and industrial goods (IGs). The firms which produce food and beverages, tobacco and soap are included under FMCGs whereas the firms which produce metal products, cement, plastic etc are categorized as industrial subsectors. Of 37 sampled firms, there are 35 percent FMCGs firms and remaining 65 percent firms are industrial goods producing firms (Chart 4.5).

78. **Turnover of the Firms:** Out of 37 firms, 3 firms are not in operation. Out of remaining 34 firms, 16 firms have annual turnover of more than Rs. 1 billion, 11 firms have turnover less than Rs. 100 million whereas 7 firms lie between these two categories.

79. **Employment:** The industries with FDI have some contribution to employment in Nepalese economy. In 2015/16, the firms which were operating with foreign capital employed 87 percent domestic workers and remaining 13 percent foreign workers (Chart 4.6). The sampled 37 manufacturing firms which have FDI



employed altogether 7958 workers, out of which 1062 are foreigners while 6896 are Nepalese workers.

80. **Exports and Imports:** Only 11 firms of manufacturing sector export goods. Of which, 8 firms are IGs category and 3 are FMCG category. The firms under FMCG category exports goods like juice, tooth powder and paste, feeds, crude mustard and soybean oil, among others, whereas the industrial goods producing firms with FDI export goods like galvanize sheets, GI pipe, black pipe, fittings, loop mats, gabion boxes, plastic closures, among others.

Table 4.5: Major Exports of Firms with FDI

SN	Categories	Number of Firms	Export Items
1	Domestic Supply	23	-
2	Exports	11	-
	FMCG	3	Juice, tooth powder and paste, feeds, crude mustard and soybean oil.
	IGs	8	Galvanize sheets, GI pipe, black pipe, fittings, loop mats, gabion boxes, and plastic closures.
3	Not in Operation	3	
Total		37	

Source: Field Survey

81. Depending upon the nature of firms, the FDI related firms import various goods. The major goods imported by such firms have been summarized in Table 4.6. The imported goods by manufacturing firms are under the category that ranges from the raw materials to machinery for production of goods. As an example, the firms which produce foods and beverages imports flavors, concentrate, sugar among others.

Types of Firm	Major Imports
Food and Beverages	Flavors, Concentrate, Sugar, Gas, Pretpeform
Tobacco	Leaf Tobacco, Packaging Materials
Soap	Chemicals
Metal	Hot Rolled Sheets, Cold Rolled Sheet, Zinc, Tin, Lead Metal, MS Billet, Zinc Ingot
Cement	Gypsum, Bauxite, Iron Ore, Coal
Plastic and Rubber	Granules, Resins

Source: Field Survey

82. Manufacturing firms fulfill on average 66.5 percent of their input needs from imports. Four firms use cent percent imported inputs. The firms producing plastics and related items use all imported inputs to manufacture their final product. 18 firms use more than 50 percent of imported inputs along with domestic inputs. In contrast, one firm, related to water, uses hundred percent domestic inputs.

5. CONCLUSIONS

83. The amount albeit small compared to that of neighboring countries, FDI inflow in Nepal has been increasing in recent years. FDI stock reached 6.1 percent of GDP in 2015/16, which was mainly driven by increase in reserves of FDI-based industries. Reserve constitutes two-third of FDI stock.
84. Foreign investors from more than 39 countries have made investment in 252 firms showing great interest in the service sector which has received 70.2 percent of outstanding FDI in Nepal. Industrial sector is the second preferred sector for FDI. However, the agriculture sector is the least preferred sector having only 0.3 percent of outstanding FDI as in mid-July 2016. Loans have a very small share (i.e. 3.7 percent) in total outstanding FDI. In terms of paid up capital, India brought the highest FDI in Nepal. However, if we consider total stock of FDI by including reserves and loans, West Indies surpasses India with FDI Stock of 62.8 billion as in mid-July 2016. All FDI from West Indies has been made in the services sector.
85. Regarding the manufacturing firms established with FDI, two-third of them are producing industrial goods, the rest are producing fast moving consumer goods. These manufacturing firms employ 87 percent domestic workers.
86. Given the volatile outlook for remittance inflows going forward, the focus on attracting FDI will be necessary, not only to increase investment in the economy, but also to maintain external stability.
87. Further research on identifying the problems and prospects of FDI in Nepal would be helpful in unleashing the investment potential in the days to come.

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Appendix I Foreign Investment

Rs. Million

	Approved FDI	Actual FDI
1995/96	477.6	388.0
1996/97	2,219.9	1,621.0
1997/98	2,395.5	685.0
1998/99	2,000.3	578.0
1999/00	1,666.4	233.0
2000/01	1,417.6	-33.0
2001/02	3,002.6	-282.0
2002/03	1,209.7	961.0
2003/04	1,793.8	0.0
2004/05	2,764.8	136.0
2005/06	1,635.8	-470.0
2006/07	2,606.3	362.0
2007/08	3,186.0	294.0
2008/09	9,812.6	1,829.0
2009/10	6,255.1	2,852.0
2010/11	9,100.0	6,437.0
2011/12	10,053.2	9,195.0
2012/13	7,138.3	9,082.0
2013/14	19,818.7	3,195.0
2014/15	20,107.4	4,383.0
2015/16	67,480.0	5,921.0
2016/17	15,139.6	13,503.9

Source : Approved FDI from Department of Industry and Actual FDI from NRB

Appendix II

The Stock of FDI by Sectors

Rs. Million

Sectors	Mid-July 2016					Mid-July 2015				
	Paid-up	Reserves	Debt from Direct Investor (Loan)	Total	Share (in %)	Paid-up	Reserves	Debt from direct investor (Loan)	Total	Share (in %)
Agriculture	395.2	0.0	0.0	395.2	0.3	395.2	0.0	0.0	395.2	0.4
<i>Construction</i>	288.82	337.9	-	626.7	0.5	282.8	347.6	-	630.4	0.6
<i>Electricity Gas and water</i>	10,930.96	6,854.9	1,391.6	19,177.5	13.9	9,311.5	2,234.8	1,226.6	12,772.9	12.0
<i>Manufacturing, Mining and Quarrying</i>	7,769.70	12,710.0	333.7	20,813.5	15.1	6,103.5	10,397.6	327.7	16,828.8	15.9
Industry	18989.5	19902.8	1725.3	40617.7	29.5	15697.8	12979.9	1554.3	30232.1	28.5
<i>Education</i>	137.94	-	-	137.9	0.1	143.9	-	-	143.9	0.1
<i>Financial Intermediation</i>	14,048.16	10,006.8	-	24,055.0	17.5	10,133.4	8,653.1	-	18,786.5	17.7
<i>Hotels and Restaurants</i>	3,300.25	(325.2)	-	2,975.1	2.2	3,002.4	(442.0)	126.9	2,687.3	2.5
<i>Real estate activities</i>	686.43	210.9	-	897.4	0.7	682.6	257.3	-	939.9	0.9
<i>Others</i>	2,011.25	622.4	1,292.4	3,926.0	2.9	1,705.5	2,506.4	346.2	4,558.2	4.3
<i>Transport Storage and Communication</i>	2,006.47	60,533.1	2,134.6	64,674.1	47.0	2,006.5	44,396.8	2,025.6	48,428.9	45.6
o/w communication	1,929.5	60,533.1	21,346.0	64,597.2	46.9	1,929.5	44,396.8	2,025.6	48,351.9	45.5
Services	22190.5	71048.0	3427.0	96665.5	70.2	17674.3	55371.6	2498.7	75544.7	71.2
Total	41575.2	90950.9	5152.3	137678.4	100.0	33767.4	68351.5	4053.1	106172.0	100.0

Source: Field Survey

Appendix III The Stock of FDI by Countries

Rs. Million

S.N	Countries	Mid-July 2016					Mid-July 2015				
		Paid-up	Reserves	Foreign Loan from DI	Total	Share in Total (%)	Paid-up	Reserves	Foreign Loan from DI	Total	Share in Total (%)
1	West Indies	80	62,699.70	-	62,779.70	45.6	80	46,223.90	-	46,303.90	43.6
2	India	11,228.80	14,432.00	1,593.30	27,254.10	19.8	9,210.00	12,276.30	1,428.30	22,914.60	21.6
3	China	7,301.30	2,565.10	977.7	10,844.10	7.9	4,749.60	1,958.30	50.5	6,758.40	6.4
4	Singapore	3,464.80	3,670.10	-	7,134.90	5.2	3,472.70	2,218.90	-	5,691.60	5.4
5	Ireland	3,100.50	2,704.80	-	5,805.30	4.2	2,386.20	2,365.30	-	4,751.50	4.5
6	Australia	1,934.20	1,897.30	-	3,831.60	2.8	1,465.50	1,651.40	-	3,116.90	2.9
7	South Korea	2,811.40	18	75.3	2,904.60	2.1	2,535.70	9.9	75.3	2,620.80	2.5
8	Bangladesh	1,662.60	847.3	-	2,509.90	1.8	1,261.20	767.9	-	2,029.10	1.9
9	UK	1,162.20	1,168.60	-	2,330.80	1.7	934.9	1,010.80	-	1,945.80	1.8
10	USA	1,151.50	1,129.40	46.7	2,327.60	1.7	1,088.90	779.5	-	1,868.40	1.8
11	Norway	556.9	1,484.50	-	2,041.30	1.5	626.5	794.6	-	1,421.00	1.3
12	Pakistan	1,177.70	595	-	1,772.70	1.3	907.8	492	-	1,399.70	1.3
13	Hong Kong	1,612.80	-167.8	-	1,445.00	1.0	1,299.90	-184.1	-	1,115.80	1.1
14	Japan	1,488.10	-262.7	-	1,225.40	0.9	1,212.10	-367.3	126.9	971.8	0.9
15	Netherland	743.3	155.7	-	898.9	0.7	555.9	82.6	-	638.5	0.6
16	Taiwan	405.1	-	324.4	729.5	0.5	405.1	-	346.2	751.3	0.7
17	Malaysia	411.1	105.4	-	516.6	0.4	352.5	78.8	-	431.3	0.4
18	Bermuda	112.1	206.6	-	318.7	0.2	112.1	84.1	-	196.3	0.2
19	Switzerland	241.3	-2	-	239.3	0.2	241.3	-0.3	-	241	0.2
20	Cayman Islands	97	64.6	-	161.6	0.1	97	52.6	-	149.6	0.1
21	Russia	160.5	-21.3	-	139.2	0.1	160.5	0.5	-	161	0.2
22	Sri Lanka	91.4	20.2	-	111.6	0.1	74.5	17.8	-	92.3	0.1
23	UAE	95	-	-	95	0.1	95	-	-	95	0.1
24	France	81.5	-	-	81.5	0.1	81.5	-	-	81.5	0.1
25	Mauritius	43.5	-	0.3	43.8	0.0	38.5	-	0.3	38.8	0.0
26	Thailand	35.3	-	-	35.3	0.0	35.3	-	-	35.3	0.0
27	Brunei	122.7	-91.8	-	30.9	0.0	122.7	-71	-	51.7	0.0
28	Germany	66.4	-45.5	-	20.9	0.0	28.4	-15.4	-	13	0.0
29	Turkey	16.1	4.6	-	20.7	0.0	16.1	1.3	-	17.4	0.0
30	New Zealand	12.7	3.3	-	15.9	0.0	12.7	16.4	-	29.1	0.0
31	Sweden	11.9	-	-	11.9	0.0	11.9	-	-	11.9	0.0
32	Canada	2.4	4.6	-	7	0.0	2.4	4	-	6.3	0.0
33	Belarus	4	-	-	4	0.0	4	-	-	4	0.0
34	Kazakhstan	4	-	-	4	0.0	4	-	-	4	0.0
35	Tajikistan	3.9	-	-	3.9	0.0	3.9	-	-	3.9	0.0
36	Cyprus	2.4	-	-	2.4	0.0	2.4	-	-	2.4	0.0
37	Bhutan	1.7	-	-	1.7	0.0	1.7	-	-	1.7	0.0
38	Seychelles	24.6	-2,166.60	2,134.60	-7.4	0.0	24.6	-1,827.10	2,025.60	223.1	0.2
39	Italy	52.6	-68.1	-	-15.4	0.0	52.6	-70.2	-	-17.6	0.0
		41,575.20	90,950.90	5,152.30	137,678.40	100.0	33,767.40	68,351.50	4,053.10	106,172.00	100.0

Source: Field Survey

Appendix IV
The Stock of FDI by Countries and Sectors
(Mid-July 2016)

Rs. Million

S.N	Countries	Agriculture	Industry	Service	Total
1	West Indies	-	-	62,779.7	62,779.70
2	India	104.4	16,904.9	10,244.8	27,254.10
3	China	-	9,200.9	1,643.2	10,844.10
4	Singapore	113.2	6,286.1	735.6	7,134.90
5	Ireland	-	-	5,805.3	5,805.30
6	Australia	-	-	3,831.6	3,831.60
7	Korea	15.9	2,769.5	119.2	2,904.60
8	Bangladesh	-	-	2,509.9	2,509.90
9	UK	-	222.9	2,107.9	2,330.80
10	USA	127.1	784.7	1,415.8	2,327.60
11	Norway	-	2,041.3	-	2,041.30
12	Pakistan	-	7.9	1,764.8	1,772.70
13	Hongkong	-	640.6	804.5	1,445.00
14	Japan	5.5	267.9	952.1	1,225.40
15	Netherland	28.6	535.7	334.6	898.9
16	Taiwan	-	-	729.5	729.5
17	Malaysia	-	-	516.6	516.6
18	Bermuda	-	318.7	-	318.7
19	Switzerland	0.4	199.7	39.3	239.3
20	Others	0.0	437.0	331.3	768.40
	Total	395.2	40,617.7	96,665.5	137,678.40

Source: Field Survey

- 5. What are the major inputs for production imported from abroad?**
1. 2.
 3. 4,
- 6. Mention the percentage/share of domestic and imported inputs.**
- Domestic inputs: Percent of total cost
 - Imported inputs: Percent of total cost
- 7. What is the number of employees/workers working in your company?**
- Nepalese employees/workers
 - Foreign employees/workers

B. Information based on Balance Sheet, FY 2072/73 (Mid-July 2016)

- 8. Total Equity Capital (foreign + domestic) of the company as of mid-July 2016**
 (Based on the company's balance sheet):(Full figure in NRs.)
- 9. Total Amount of FDI on total equity capital**
- 10. Foreign Investors Participation:**

S.N.	Investor's Name	Country	Percentage on Total Equity
1.			
2.			
3.			
4.			
5.			

11. Details on Foreign Investment:*Please mention the Foreign Investment part only (full figure in NRs.)*

S. N.	Types of Capital	Position as of mid-July 2015 (2072 Asar)	Position as of mid-July 2016 (2073 Asar)	Dividend / Profit Repatriated during FY 2015-16 (2072-73)
1.	Equity Capital			
	(i) Paid up capital			
	(ii) Reserves			
	(iii) Re-invested earnings			
2.	Debt from Direct Investor (Parent Company)			
	(i) Foreign loan			
	(ii) Bond/Other instruments			
3.	Foreign Loan (from other than direct investor)			Please mention the name of the creditor too.
4.	Other Capital			
5.	Total (1+2+3+4)			

Name:

Signature:

Please attached a copy of balance sheet based on FY 2072-73, if possible. Nepal Rastra Bank appreciates the time and effort you put into this survey.