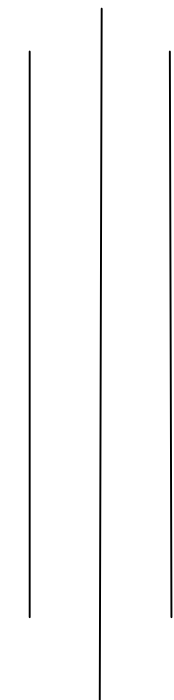


**A Survey Report on
Foreign Direct Investment in Nepal
(2019/20)**



Nepal Rastra Bank
Economic Research Department

September 2021

FOREWORD

The COVID-19 pandemic has a sizeable impact on global foreign direct investment (FDI) flows as it declined around 35 percent in 2020. The decline is more severe than those seen after Global Financial Crisis in 2009. It poses significant challenges for many developing countries where FDI has been seen as a potential source of external financing in recent years. The role of private investment remains crucial for stimulating growth and employment in post-COVID era. FDI has a major role to play in sustainable growth and recovery. In this context, Nepal has been gradually making reforms in policies and procedures to promote and facilitate foreign investment inflows, considering it as an important external source of development finance.

This fifth edition of FDI report is expected to be useful to the policy makers and stakeholders for monitoring the trend of FDI inflows and existing FDI stock in Nepal. The report also examines the current status of FDI across sectors and underscores that FDI has been a key source of financing for sectors such as the hydropower and the financial sector. Despite COVID-19 pandemic, FDI stock increased moderately in 2019/20 in Nepal. I hope this report will provide valuable information and insights to all the stakeholders about the status of FDI in Nepal.

I would like to extend my sincere gratitude to companies with FDI and stakeholders for their contribution to the report. Finally, I would like to thank the team led by Director, Dr. Dilli Ram Pokhrel including Deputy Director, Baburam Koirala and Assistant Director, Anil Lama and other colleagues at the Balance of Payments and International Finance Division of Economic Research Department for their valuable contribution in preparing this report.

September 2021

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Executive Summary

1. This report presents the latest data of Foreign Direct Investment (FDI) stock based on survey of companies that have received FDI in Nepal. It provides the estimates of inward direct investment position or the FDI stock at book value as well as country-wise and sector-wise distribution of FDI stock at end of 2019/20.
2. The survey provides comprehensive information on face value of foreign liabilities of Nepalese companies arising on account of FDI. These statistics are used as inputs in the compilation of Balance of Payments (BoP) and International investment position (IIP).
3. The survey shows stock of FDI in Nepal increased by 8.5 percent to Rs.198.52 billion at the end of 2019/20. Paid-up capital is the major component in FDI stock as it accounted for 54.4 percent of total FDI stock whereas the reserves and loans in total FDI stock accounted for 33.8 percent and 11.8 percent respectively.
4. Nepal received foreign investment from 52 different economies as of mid-July 2020. In terms of total FDI stock, India ranks top position with Rs.62.45 billion followed by China (Rs.30.97 billion), Saint Kitts and Nevis (Rs.15.27 billion) , Ireland (Rs.12.93 billion), and Singapore (Rs.12.43 billion).
5. Industrial sector accounts for about 56.0 percent of total FDI stock. Within industrial sector, manufacturing, mining and quarrying industry constitutes 28.3 percent and electricity sector 27.5 percent of total FDI stock.
6. About 43.9 percent of total FDI stock is in service sector. Within the service sector; financial intermediation constitutes 27.3 percent and hotel & restaurant sector 6.0 percent of the total FDI stock.
7. The electricity generation sector, particularly hydropower sector in Nepal has been emerging as a preferred sector for FDI in recent year. The latest survey shows that 27.5 percent of FDI stock and 36.4 percent of total paid-up capital is in this sector. Moreover,

hydropower sector has also attracted other sources of external financing such as foreign loans in addition to FDI.

8. The capacity utilization of FDI based manufacturing companies is constrained by COVID-19 pandemic while the profitability of FDI companies remained satisfactory in the review year.

Chapter 1: Introduction

Background

- 1.1. Foreign direct investment (FDI) is an important source of external financing for many countries around the world. Along with financial resources, FDI facilitates the transfer of technological know-how, managerial and organizational skills and access to foreign markets along with enhancing productive activities of the host economy.
- 1.2. Direct Investment is defined as a category of cross-border investment associated with a resident in one economy (direct investor) having control or a significant degree of influence on management of an enterprise (direct investment enterprises) that is resident in another economy other than that of direct investor (OECD, 2008).
- 1.3. Nepal has initiated institutional and legal reforms in recent decades with the aim of promoting FDI to complement the resource gap in capital formation. Gradual liberalization of FDI inflows in various sectors has been encouraged by creating investment friendly environment and prioritizing foreign investment related reforms. Some of them include
 - a) Foreign Investment Policy, 2015
 - b) Foreign Investment and Transfer of Technology Act, 2019 (FITTA)
 - c) Public-Private Partnership and Investment Act, 2019
 - d) Industrial Enterprises Act, 2020
 - e) Institutional reforms such as establishment of One Stop Service Center to facilitate foreign investment
 - f) Nepal Rastra Bank Foreign Investment and Foreign Loan Management by-law, 2021
- 1.4. Reliable FDI statistics is crucial for regular analysis of direct investment trends and is integral for cross-border financial analysis. The identification of sources of foreign investments (partner countries) and recipient industries is of primary interest for policy makers to address the important issue of attracting and making the most of international

investment and to formulate proper policy framework. In this context, this survey has been conducted to update FDI statistics in Nepal at the end of 2019/20.

Objectives

- 1.5. The specific objectives of the survey are:
- To compile liabilities component (particularly FDI stock) of International Investment Position (IIP) statement of Nepal.
 - To identify composition of FDI stock by counterpart economies and economic activities.

Methodology

- 1.6. The study is primarily based on data collected from survey of companies with FDI through standardized questionnaire. Other secondary information is collected from various governmental, non-governmental agencies and FDI related published reports. This study has adopted a descriptive approach to present the results and findings of the survey.

Survey Coverage

- 1.7. The population space for this study is a comprehensive list of companies that have taken FDI approvals from Nepal Rastra Bank (NRB), which constitutes of 587 companies¹ at the end of 2019/20.
- 1.8. The total population is classified into three distinctive groups based on the size of their capital. Firms with capital greater than Rs.500 million are categorized as large, firms with capital between Rs.150 million and Rs.500 million are categorized as medium, and finally firms with capital less than Rs. 150 million are categorized as small firms for the purpose of this survey.

¹The list also includes FDI companies that have recorded FDI at end of 2019/20. The list published by Department of Industry shows a large number of companies registered for foreign investment but a considerable number of such registered companies did not bring in FDI.

Table 1: Sample Size

Group	Number of Firms			Capital (Rs. Million) *		
	Population	Sample	Share (%)	Population	Sample	Share (%)
Large	47	47	100.0	171,003.8	171,003.8	100.0
Medium	29	25	86.2	8,784.5	7,203.8	82.0
Small	511	126	24.7	5,531.7	2,099.8	38.0
Total	587	198	-	185,320.0	180,307.4	-

*For sample purpose, capital as of mid-July 2019 is taken as reference that includes total FDI stock as of mid-July 2019, new FDI inflows as well as FDI accounting done during 2019/20.

1.9. The survey covers 198 firms across all groups. All large firms are included while 86.2 percent and 24.7 percent of medium and small size firms respectively are selected for the survey.

Survey Method

1.10. The survey was conducted through standardized questionnaire to obtain details on FDI stock. Both field survey and email correspondence were used to collect information from respondent firms.

1.11. The survey collected data and information based on financial statements of companies with FDI to ascertain information related to FDI stock. In addition, "Notes to financial statements", have been collected to verify information related to FDI stock.

1.12. The FDI stock is valued using the company's value appearing in the financial statements and can be seen in balance sheet as shareholder's equity.

1.13. FDI stock is the share of non-resident equity holding in the new worth of the companies which includes the following components:

- i. Paid-up capital
- ii. Reserves & Surplus: All types of reserves identified as equity in enterprise's balance sheet and amount of profit retained for reinvestment.
- iii. Debt from direct investor: intra-company borrowing by the firm with direct investment from its direct investor.

iv. Other capital.

- 1.14. Organization for Economic Cooperation and Development (OECD, 2008) disaggregates FDI stock or position into equity and debt. Equity positions of FDI stock cover all components of shareholders' funds (proportionate to the percentage of shares held by foreign direct investors). Therefore, it includes equity, contributed surplus, reinvestment of earnings, revaluations, as well as any reserve accounts. Debt positions of FDI stock include loans and borrowings and debt from foreign direct investors.
- 1.15. This survey distinguishes equity portion of FDI stock under paid-up capital and reserves headings, and debt portion of FDI stock under loans heading² and disaggregates FDI stock by major industry sectors based on International Standard Industrial Classification (ISIC³).

FDI Compilation Method

- 1.16. The final FDI stock reported in this survey consists of two parts: aggregation of FDI stock as reported by the sampled units and estimation of FDI stock for other non-sampled firms. 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 separately for medium and small categories.

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

where, n is the number of sampled firms and r_i is the ratio of realized capital to approved capital of individual firm which was included in the sample and x is the average ratio of realized capital to approved capital. The average ratios were calculated separately for all categories and FDI stock is estimated by multiplying this ratio with the approved FDI amount.

² Other capital (share application money, share premium) attributed to foreign direct investors are also accounted under this heading.

³ Revision 3

Limitations

- 1.17. This survey is solely based on the list of industries that have taken FDI approvals from NRB which differs in number than those registered in Department of Industry, Government of Nepal.

- 1.18. As the primary focus of the survey is to collect FDI stock, it includes only the descriptive statistics.

Chapter 2: Trend of Foreign Direct Investment

2.1. This chapter describes the trend of FDI flows in global and regional context and summarizes the trend of Nepal's net FDI inflows.

Global and Regional Trend in FDI Flows

2.2. The COVID-19 crisis has a sizeable impact across all types of foreign investment in 2020. UNCTAD's World Investment Report 2021 depicts that global FDI inflow in 2020 declined by 34.7 percent to USD 998.9 billion. The restrictive measures around the world in response to the COVID-19 pandemic led to slowdown in project activity across Greenfield investments, project finance deals and cross border mergers and acquisitions that resulted in significant decline of FDI inflows around the world.

2.3. FDI in developed economies decreased significantly by 58.3 percent in 2020 to USD 312.2 billion from USD 749.0 billion in 2019 whereas inflows to developing economies decreased moderately by 8.4 percent to USD 662.6 billion from USD 723.4 billion in 2019.

Table 2: FDI Inflows by economy and region ⁴
(in US\$ billion)

Year	2015	2016	2017	2018	2019	2020	Percent Change
							2020
World	2,032.3	2,065.2	1,647.3	1,436.7	1,530.2	998.9	-34.7
Developed economies	1,267.8	1,344.5	894.3	707.6	749.0	312.2	-58.3
Developing economies	730.4	653.9	702.5	692.5	723.4	662.6	-8.4
Transition economies	34.1	66.8	50.5	36.6	57.8	24.2	-58.2
Asia	514.3	470.8	505.2	496.5	515.5	535.3	3.8
China	135.6	133.7	136.3	138.3	141.2	149.3	5.7
Hong Kong-China	174.4	117.4	110.7	104.2	73.7	119.2	61.7
Singapore	59.7	70.2	84.7	76.0	114.2	90.6	-20.7
South Asia	51.2	54.3	51.6	52.3	59.1	71.0	20.1

Source: UNCTAD's World Investment Report 2021

2.4. Asia remained the largest FDI recipient region as it accounts for 53.6 percent of global inflows in 2020. FDI in this region increased by 3.8 percent from USD 515.5 billion in 2019 to USD 535.3 billion in 2020. The FDI inflows in Asia increased due to steady

⁴ FDI Data may differ from previous report as data are continuously updated by relevant national authorities.

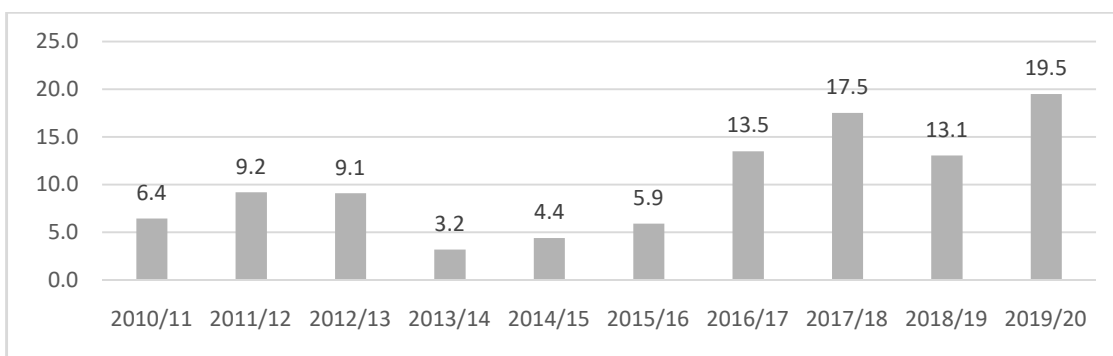
flow of investments in its largest recipients: China (USD 149.3 billion), Hong Kong - China (USD 119.2 billion).

- 2.5. FDI inflows to South Asia increased by 20.9 percent to USD 69.7 billion in 2020. FDI increased by 26.7 percent in India, the largest FDI recipient of sub-region, with inflows of USD 64.1 billion in 2020. The trend of FDI inflows to the sub-region are presented in *Appendix I*.

FDI inflows to Nepal

- 2.6. Gross FDI inflows increased by 18.2 percent to Rs.19.68 billion in 2019/20. The divestment of foreign investment (repatriation of investment) during 2019/20 remained at Rs.199.8 million which is around 1.0 percent of gross FDI inflows.
- 2.7. Net FDI inflows to Nepal increased by 49.1 percent to Rs.19.48 billion in 2019/20.

Figure 1: Net FDI Inflows (Rs. billion)

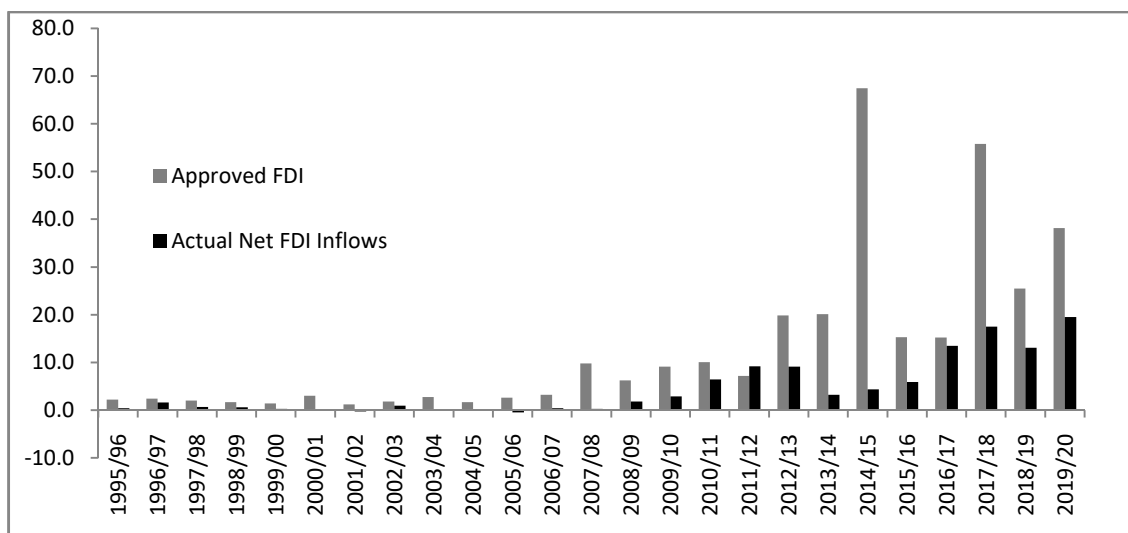


Source: Nepal Rastra Bank

- 2.8. The recent trend of FDI realization (*Appendix II, Figure 2*) shows that there is a huge gap between approved FDI and actual net FDI inflows in Nepal.
- 2.9. The FDI approval may indicate an intended investment (the approved investment may not actually take place) or there may be significant time lags between approvals and actual investments. In some instances, the realization of the approved investment may take place over several years as usually seen in projects with longer gestation period. Hence, there is a gap between FDI approval and actual FDI inflows. Between 1995/96

and 2019/20, total actual net FDI inflow stood around 34.1 percent of total FDI approval.

Figure 2: Approved FDI and actual Net FDI inflows (Rs. billion)



Source: Ministry of Industry, Commerce and Supplies & Nepal Rastra Bank

Dividend Repatriation

2.10. In 2019/20, for dividend repatriation by companies with foreign investment, approval equivalent to Rs.12.90 billion was provided. Dividend repatriation approval was the highest among the manufacturing sector followed by the financial sector.

Table 3: Dividend Repatriation

		Rs. Million		
	Sectors	2017/18	2018/19	2019/20
1	Agriculture, Forestry and Fishing	-	-	-
2	Manufacturing, Mining and Quarrying	11,914.7	9,779.7	7,527.1
3	Electricity, Gas and Water	2,926.4	2,762.2	32.3
4	Construction	-	161.7	50.0
5	Transport, Storage and Communication	23,649.9	12,540.0	4.1
6	Financial Intermediation	886.6	2,167.5	4,799.6
7	Health and Social Work	-	-	2.3
8	Hotels and Restaurants	-	11.4	42.9
9	Wholesale and Retail Trade	-	-	-
10	Education	-	347.7	347.7
11	Other	152.8	12.8	97.1
	Total	39,530.4	27,783.0	12,903.1

Source: Nepal Rastra Bank

Chapter 3: Foreign Direct Investment in Nepal: Survey Results

- 3.1. This chapter summarizes results of the survey related to FDI stock in Nepal as of mid-July 2020. The comparison across the previous survey report needs to take into account the change in coverage due to addition and removal of companies that have received FDI.

FDI stock

- 3.2. The stock of FDI in Nepal increased by 8.5 percent during 2019/20 and stood Rs.198.52 billion as of mid-July 2020 (Table 4). The paid-up capital and loans increased by 22.6 percent and 42.7 percent respectively whereas the reserves decreased by 14.4 percent. The foreign liability of Nepal in terms of direct investment stands around Rs.198.52 billion as of mid-July 2020.

Table 4: FDI Stock

S.N.	Components	As of Mid-July				Percent Change	
		2017	2018	2019	2020	2018/19	2019/20
1.	Paid-up Capital	58,123.5	76,850.3	88,158.3	108,072.3	14.7	22.6
2.	Reserves	98,657.6	107,392.0	78,381.9	67,071.9	-27.0	-14.4
3.	Loans ⁵	11,829.9	16,305.1	16,379.4	23,376.6	0.5	42.7
	Total FDI stock	168,611.0	200,547.4	182,919.6	198,520.8	-8.8	8.5

Rs. Million

Source: NRB's Survey Reports in FDI and Field Survey 2021

- 3.3. Paid-up capital is the major component in FDI stock as it accounted for 54.4 percent of total FDI stock (Table 5). The share of reserves and loans in total FDI stock stood at 33.8 percent and 11.8 percent respectively. In 2018/19, paid-up capital, reserves, and loans accounted for 48.2 percent, 42.8 percent and 9.0 percent of total FDI stock respectively.

Table 5: FDI Stock by components (Share in Total)

S.N.	Components	As of Mid-July			
		2017	2018	2019	2020
1.	Paid-up Capital	34.5	38.3	48.2	54.4
2.	Reserves	58.5	53.5	42.8	33.8
3.	Loans	7.0	8.2	9.0	11.8
	Total FDI stock	100.0	100.0	100.0	100.0

Source: NRB's Survey Reports in FDI and Field Survey 2021

⁵Only direct loan from foreign direct investment and other capital (share application money, share premium) attributed to foreign direct investors are accounted.

FDI stock by Sectors

- 3.4. In terms of FDI stock, manufacturing, mining, and quarrying sector has the highest FDI stock of Rs.56.07 billion (28.3 percent of total) followed by financial intermediation with Rs.54.29 billion and electricity, gas and water with Rs.54.66 billion (Table 6).
- 3.5. The increase in FDI stock of electricity, gas and water as compared to mid-July 2019 was driven by investment in major ongoing hydropower projects. FDI stock of Transport, Storage and Communication decreased due to significant decline in reserve of existing communication sector. The sector-wise composition of FDI stock is presented in *Appendix III*.

Table 6: FDI Stock by Major Sectors

S.N.	Sectors	As of Mid-July				Percent change (%)	
		2018	2019	2020		2018/19	2019/20
				Amount	Share in Total (%)		
1.	Manufacturing, Mining and Quarrying	42,290.8	52,243.9	56,065.6	28.3	23.5	7.3
2.	Electricity, Gas and Water	30,641.5	36,655.0	54,660.9	27.5	19.6	49.1
3.	Financial Intermediation	45,079.6	50,097.6	54,288.3	27.3	11.1	8.4
4.	Transport, Storage and Communication	64,771.3	26,570.1	9,846.3	5.0	-59.0	-62.9
5.	Other Sectors	17,764.20	17,353.0	23,659.7	11.9	-2.3	36.3
6.	Total	200,547.4	182,919.6	198,520.8	100.0	-8.8	8.5

Source: Field Survey 2021

FDI stock by Countries

- 3.6. In terms of stock, India remained in top position with Rs.62.45 billion followed by China (Rs.30.97 billion), Saint Kitts and Nevis (Rs.15.27 billion), Ireland (Rs.12.93 billion), and Singapore (Rs. 12.43 billion) (Table 7).
- 3.7. In terms of paid-up capital, India ranked top position with Rs.35.56 billion followed by China (Rs.23.13 billion), South Korea (Rs.8.04 billion), and Australia (Rs.5.77 billion) (Table 7). The details of country-wise FDI stock are presented in *Appendix IV*.

Table 7: FDI Stock by Major Countries as of Mid-July 2020

						Rs.Million
S. N.	Country	Paid-up Capital	Reserves	Loan	FDI Stock	Share in Total FDI Stock (%)
1.	India	35,555.7	25,566.7	1,324.8	62,447.2	31.5
2.	China	23,125.1	-5,030.7	12,877.1	30,971.5	15.6
3.	Saint Kitts and Nevis	80.0	15,186.7	-	15,266.7	7.7
4.	Ireland	5,048.7	7,879.1	-	12,927.8	6.5
5.	Singapore	5,480.8	6,646.9	307.1	12,434.8	6.3
6.	Australia	5,767.3	3,384.4	1,674.7	10,826.4	5.5
7.	United Arab Emirates	233.5	6,930.4	-	7,163.9	3.6
8.	South Korea	8,042.8	-1,122.6	179.1	7,099.3	3.6
9.	United States of America	2,099.2	2,972.9	1,026.8	6,098.9	3.1
10.	Bangladesh	3,502.1	1,896.4	-	5,398.5	2.7
11.	Others	19,137.10	2,761.70	5,987.00	27,885.80	13.9
	Total	108,072.3	67,071.9	23,376.6	198,520.8	100.0

Source: Field Survey 2021

- 3.8. More than 96 percent of India's FDI stock is concentrated in three major sectors (Table 8). The investment predominantly ranges from manufacturing, hydropower sector to banks and financial institutions. In terms of paid-up capital, the investment in Electricity, Gas and Water (primarily hydropower sector) remains the highest (Table 8).

Table 8: FDI Stock by Major Sectors (India)

					Rs. Million
Component	Paid-up Capital	Reserves	Loan	FDI Stock	Share in India's FDI Stock(%)
Manufacturing, Mining and Quarrying	3,860.2	20,480.5	100.6	24,441.3	39.1
Electricity, Gas and Water	19,998.5	219.1	1,109.8	21,327.4	34.2
Financial Intermediation	7,952.2	6,297.5	114.4	14,364.1	23.0
Others	3,744.8	-1,430.4	-	2,314.4	3.7
Total	35,555.7	25,566.7	1,324.8	62,447.2	100.0

Source: Field Survey 2021

- 3.9. More than 99 percent of China's FDI stock is concentrated in manufacturing sector (cement industries) and hydropower projects (Table 9).

Table 9: FDI Stock by Major Sectors (China)

Component	Paid-up Capital	Reserves	Loan	FDI Stock	Rs. Million
					Share in China's FDI stock (%)
Manufacturing, Mining and Quarrying	11,726.3	1,018.4	50.7	12,795.4	41.3
Electricity, Gas and Water	8,751.8	-1,253.8	10,587.5	18,085.5	58.4
Others	2,647.0	-4,795.3	2,238.9	90.6	0.3
Total	23,125.1	-5,030.7	12,877.1	30,971.5	100.0

Source: Field Survey 2021

Province-wise FDI stock⁶

3.10. In terms of FDI stock, Bagmati province constitutes the highest share of FDI stock (60.5 percent) whereas Karnali and Sudur Paschim provinces account for less than 1.0 percent of total FDI stock (Table 10).

Table 10: Province-wise FDI stock

Province	FDI Stock	Rs. Million
		Share in Total (%)
Province 1	25,641.2	12.9
Province 2	18,583.9	9.4
Bagmati ⁷	120,179.5	60.5
Gandaki	30,333.4	15.3
Lumbini	2,286.3	1.2
Karnali	1,030.0	0.5
Sudur Paschim	466.4	0.2
Total	198,520.8	100.0

Source: Field Survey 2021

Foreign Loans

3.11. As of mid-July 2020, the outstanding foreign loan (excluding direct loans from foreign direct investors) of FDI companies stood around Rs.29.55 billion which was Rs. 23.37 billion a year ago (Table 11). The companies in hydropower sector have utilized more foreign loans as the outstanding loan stood around Rs.20.92 billion in mid-July 2020.

⁶ Province-wise FDI are classified based on location of projects, production units and head offices.

⁷ Companies with foreign direct investment under service sector along with BFIs having corporate and head offices in Bagmati province are included in Bagmati Province.

Table 11: Outstanding Foreign Loan

Sectors	Rs. Million		
	2018	2019	2020
Electricity, Gas and Water	17,768.1	19,572.1	20,921.2
Manufacturing	52.4	52.4	4,891.2
Financial Intermediation	-	3,526.3	3,497.5
Other	186.9	220.0	242.1
Total	18,007.4	23,370.8	29,552.0

Source: Field Survey 2021

Capacity Utilization

3.12. The survey also captures capacity utilization of manufacturing companies with FDI. The capacity utilization stood around 44.11 percent on average during 2019/ 20 which was 54.04 percent a year ago.

Sales from operation and Profitability

3.13. The survey also captures data on sales from operation of FDI companies. The total sales of surveyed companies during 2019/20 stood around Rs.347.73 billion which was Rs. 381.58 billion a year ago. Similarly, the average⁸ return on equity (ROE) of surveyed FDI companies stood around 15.63 percent for 2019/20, which was around 16.08 percent a year ago.

⁸ Weighted average is taken as reference where weights are based on equity of individual companies compared to the total equity of surveyed companies.

Chapter 4: International Investment Position of Nepal

- 4.1. This chapter summarizes the International Investment Position (IIP) of Nepal as of mid-July 2020 based on the FDI survey.
- 4.2. IIP is the statement that shows at a point in time the value and composition of financial assets of residents that are claims on nonresidents and liabilities of residents of an economy to non-residents.
- 4.3. As of mid-July 2020, the foreign assets and liability of Nepal stood at Rs. 1467.76 billion and Rs.1219.12 billion respectively (Table 12). Consequently, net IIP remained positive at Rs 248.67 billion, which was Rs.188.86 billion a year ago. The details of IIP are presented in *Appendix VI*.

Table 12: Foreign Assets and Liabilities of Nepal

Rs. Million

Description	As of Mid-July			Percent Change	
	2018	2019	2020 ⁹	2018/19	2019/20
Assets	1138,241.3	1080,102.9	1467,785.6	-5.1	35.9
Liabilities	856,117.4	891,246.5	1219,115.1	4.1	36.8
o/w Direct Investment	200,547.4	182,919.6	198,520.8	-8.8	8.5
Net International Investment Position (IIP)	282,123.9	188,856.4	248,670.5	-33.1	31.7

Source: Nepal Rastra Bank

- 4.4. The foreign assets and liabilities of Nepal increased by 35.9 percent and 36.8 percent respectively during 2019/20 (Table 12). The increase in foreign assets was on account of the growth of official reserve assets of Nepal Rastra Bank by 36.0 percent (Appendix VI). Similarly, the increase in foreign liability was driven by mobilization of foreign loans by government during COVID-19 pandemic (Appendix VI). In the previous year, foreign asset had decreased by 5.1 percent whereas the liability increased by 4.1 percent.

⁹Revised

Chapter 5: Summary and Conclusions

- 4.1. The stock of FDI in Nepal increased by 8.5 percent to Rs.198.52 billion at the end of 2019/20. It accounts for 4.7 percent of the Gross Domestic Product (GDP) which indicates the extent of foreign ownership (or foreign presence) in Nepal's economy. Paid-up capital represents the major component of FDI stock contributing 54.4 percent.
- 4.2. In 2019/20, the paid-up capital and the loan component of the FDI stock increased while the reserve component declined. However, reserve component still constitutes one third of FDI stock.
- 4.3. Nepal has been destination for foreign investment from 52 different economies as of mid-July 2020. In terms of total FDI stock, India remained the largest source of FDI with Rs.62.45 billion (31.5 percent of total FDI stock) followed by China (Rs.30.97 billion), Saint Kitts and Nevis (Rs.15.27 billion), Ireland (Rs.12.93 billion) and Singapore (Rs.12.43 billion).
- 4.4. FDI stock remained the highest in the industrial sector with Rs.111.20 billion which constitutes 56.0 percent of total FDI stock in 2019/20. Within industrial sector; foreign investment is concentrated on manufacturing and hydropower sectors.
- 4.5. The capacity utilization of FDI based manufacturing companies declined in 2019/20 owing to the impact of COVID-19. However, the profitability of the FDI based companies has remained satisfactory in 2019/20 indicating that the investment potentiality exists in Nepal.
- 4.6. The gap between approved and actual inflow should be reduced by facilitating the inflows of approved FDI. Moreover, FDI should be more directed towards export oriented and import substitution industries to narrow the trade deficit.
- 4.7. Potentiality of provinces other than Bagmati should be explored and promoted to attract FDI in these provinces.

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Appendix I
FDI Inflows in South Asia (US\$ Billion)

Year	2015	2016	2017	2018	2019	2020	% Change (2020)
South Asia	49.17	50.91	46.62	49.89	57.61	69.65	20.9
Afghanistan	0.16	0.09	0.05	0.12	0.04	0.01	-66.3
Bangladesh	2.24	2.33	2.15	3.61	2.87	2.56	-10.8
Bhutan	0.01	-0.03	-0.01	0.01	0.00	0.00	-7.4
India	44.06	44.48	39.90	42.16	50.56	64.06	26.7
Maldives	0.30	0.46	0.46	0.58	0.96	0.35	-63.6
Nepal	0.05	0.11	0.20	0.07	0.18	0.13	-31.6
Pakistan	1.67	2.58	2.50	1.74	2.23	2.11	-5.8
Sri Lanka	0.68	0.90	1.37	1.61	0.76	0.43	-42.8

Source: World Investment Report (2021)

Appendix II
Foreign Investment Approval and Realization in Nepal

(Rs. Million)

Fiscal Year	Approved FDI*	Actual Net FDI**	Percent
1995/96	2,219.9	388.0	17.5
1996/97	2,395.5	1,621.0	67.7
1997/98	2,000.3	685.0	34.2
1998/99	1,666.4	578.0	34.7
1999/00	1,417.6	233.0	16.4
2000/01	3,002.6	-33.0	-1.1
2001/02	1,209.7	-282.3	-23.3
2002/03	1,793.8	961.4	53.6
2003/04	2,764.8	0.0	0.0
2004/05	1,635.8	136.0	8.3
2005/06	2,606.3	-469.7	-18.0
2006/07	3,186.0	362.3	11.4
2007/08	9,812.6	293.9	3.0
2008/09	6,255.1	1,829.2	29.2
2009/10	9,100.0	2,852.0	31.3
2010/11	10,053.2	6,437.1	64.0
2011/12	7,138.3	9,195.4	128.8
2012/13	19,818.7	9,081.9	45.8
2013/14	20,132.4	3,194.6	15.9
2014/15	67,455.0	4,382.6	6.5
2015/16	15,254.3	5,920.9	38.8
2016/17	15,206.5	13,503.9	88.8
2017/18	55,760.5	17,504.6	31.4
2018/19	25,484.4	13,065.2	51.3
2019/20	38,155.3	19,478.7	51.1
Total	325,525.0	110,919.7	34.1

Source: *Ministry of Industry, Commerce and Supplies (Industrial Statistics)

**Nepal Rastra Bank

Appendix III
Sector-wise Stock of FDI

(Rs. Million)

Sectors	Mid-July 2020					Mid-July 2019				
	Paid-up	Reserves	Loan	Total	Share in Total FDI (%)	Paid-up	Reserves	Loan	Total	Share in Total FDI (%)
1. Agriculture	228.7	-8.2	-	220.5	0.1	168.7	-6.0	-	162.7	0.1
2. Industry	61,290.7	36,193.3	13,712.6	111,196.6	56.0	46,604.4	33,098.7	9,647.7	89,350.8	48.8
<i>Construction</i>	569.0	-103.7	4.8	470.1	0.2	468.2	-16.3	-	451.9	0.2
<i>Electricity, Gas and Water</i>	39,592.7	2,021.0	13,047.2	54,660.9	27.5	25,494.5	2,047.1	9,113.4	36,655.0	20.0
<i>o/w Electricity</i>	39,368.2	2,119.5	13,047.2	54,534.9	27.5	25,355.0	2,099.3	9,113.4	36,567.7	20.0
<i>Manufacturing, Mining and Quarrying</i>	21,129.0	34,276.0	660.6	56,065.6	28.3	20,641.7	31,067.9	534.3	52,243.9	28.6
3. Services	46,552.9	30,886.8	9,664.0	87,103.7	43.9	41,385.2	45,289.2	6,731.7	93,406.1	51.1
<i>Education</i>	1,028.7	333.5	514.8	1,877.0	0.9	987.1	458.1	242.1	1,687.3	0.9
<i>Financial Intermediation</i>	27,104.4	27,036.1	147.9	54,288.4	27.3	25,635.8	24,461.8	-	50,097.6	27.4
<i>Hotels and Restaurants</i>	7,364.1	2,404.7	2,077.6	11,846.4	6.0	4,490.2	3,072.5	209.2	7,771.9	4.3
<i>Health and Social Service</i>	313.3	8.2	43.7	365.2	0.2	239.6	37.9	62.3	339.8	0.2
<i>Transport Storage and Communication</i>	3,775.8	-213.0	6,283.5	9,846.3	5.0	3,761.5	16,986.9	5,821.7	26,570.1	14.5
<i>Other service</i>	6,966.6	1,317.3	596.5	8,880.4	4.5	6,271.0	272.0	396.4	6,939.4	3.8
Total	108,072.3	67,071.9	23,376.6	198,520.8	100.0	88,158.3	78,381.9	16,379.4	182,919.6	100.0

Source: Field Survey 2021

Appendix IV
Country-wise FDI stock in Nepal
As of mid-July 2020

(Rs. Million)

S.N.	Countries	Paid Up	Reserves	Loans	Total	Share in Total (%)
1	India	35,555.7	25,566.7	1,324.8	62,447.2	31.5
2	China	23,125.1	-5,030.7	12,877.1	30,971.5	15.6
3	Saint Kitts and Nevis	80.0	15,186.7	-	15,266.7	7.7
4	Ireland	5,048.7	7,879.1	-	12,927.8	6.5
5	Singapore	5,480.8	6,646.9	307.1	12,434.8	6.3
6	Australia	5,767.3	3,384.4	1,674.7	10,826.4	5.5
7	United Arab Emirates	233.5	6,930.4	-	7,163.9	3.6
8	South Korea	8,042.8	-1,122.6	179.1	7,099.3	3.6
9	United States of America*	2,099.2	2,972.9	1,026.8	6,098.9	3.1
10	Bangladesh	3,502.1	1,896.4	-	5,398.5	2.7
11	Netherlands	2,353.9	2,303.7	62.9	4,720.5	2.4
12	United Kingdom	2,138.5	2,032.1	99.1	4,269.7	2.2
13	British Virgin Island	4,186.9	-933.5	468.7	3,722.1	1.9
14	Pakistan	1,877.6	1,643.6	-	3,521.2	1.8
15	Hong Kong-China	1,548.0	1,111.8	280.8	2,940.6	1.5
16	Mauritius	1,087.5	80.5	1,080.3	2,248.3	1.1
17	Norway	587.3	1,323.3	32.3	1,942.9	1.0
18	Japan	2,011.9	-723.8	556.6	1,844.7	0.9
19	Bermuda	300.3	949.1	-	1,249.4	0.6
20	Sri Lanka	893.0	205.1	11.2	1,109.3	0.6
21	Malaysia	661.7	300.6	5.3	967.6	0.5
22	Switzerland	256.9	-7.1	-	249.8	0.1
23	Cayman Islands	97	144.3	-	241.3	0.1
24	Thailand	19	150.4	-	169.4	0.1
25	Brunei	165.2	-	-	165.2	0.1
26	Canada	121.3	-0.4	-	120.9	0.1
27	Russia	147.8	-32.2	-	115.6	0.1
28	Denmark	16.5	95.2	-	111.7	0.1
29	Italy	94.8	12.2	-	107.0	0.1
30	Germany	80.2	-7.6	0.2	72.8	0.0
31	Sweden	66	1.8	0.1	67.9	0.0
32	Bhutan	7.1	50.9	-	58.0	0.0
33	Poland	48.3	-	-	48.3	0.0
34	Samoa	145	-97.3	-	47.7	0.0
35	Belgium	45	-	-	45.0	0.0
36	France	43.9	-0.3	-	43.6	0.0
37	New Zealand	31.3	-	3.8	35.1	0.0
38	Turkey	17.6	6.9	-	24.5	0.0
39	Bahrain	5.2	1.8	-	7.0	0.0
40	Tajikistan	6	-	-	6.0	0.0
41	Azerbaijan	5.2	-	-	5.2	0.0
42	Finland	5	-	-	5.0	0.0
43	Cook Islands	4.2	-0.4	-	3.8	0.0
44	Cyprus	4.6	-2	-	2.6	0.0
45	Austria	2.3	-	-	2.3	0.0
46	Belarus	2.3	-	-	2.3	0.0
47	Belize	20.7	-19	-	1.7	0.0
48	Spain	2.5	-0.9	-	1.6	0.0
49	Israel	1.5	-	-	1.5	0.0
50	Philippines	1.5	-	-	1.5	0.0
51	Taiwan	1	-	-	1.0	0.0
52	Seychelles	25.6	-5,827.1	3,385.7	-2,415.8	-1.2
	Total	108,072.3	67,071.9	23,376.6	198,520.8	100.0

Source: Field Survey 2021

* FDI from IFC has also been included into United States of America

Appendix V
Country-wise and Sector-wise composition of FDI stock
As of mid-July 2020

Rs. Million

S.N	Countries	Agriculture	Industry	Services	Total	Share in Total (%)
1	India	22.0	45,934.9	16,490.3	62,447.2	31.5
2	China	-	31,023.2	-51.7	30,971.5	15.6
3	Saint Kitts and Nevis	-	-	15,266.7	15,266.7	7.7
4	Ireland	-	-	12,927.8	12,927.8	6.5
5	Singapore	-	11,567.9	866.9	12,434.8	6.3
6	Australia	-	581.3	10,245.1	10,826.4	5.5
7	United Arab Emirates	-	7,156.7	7.2	7,163.9	3.6
8	South Korea	37.4	6,634.1	427.8	7,099.3	3.6
9	United States of America	43.9	912.8	5,142.2	6,098.9	3.1
10	Bangladesh	-	-	5,398.5	5,398.5	2.7
11	Netherlands	83.0	92.6	4,544.8	4,720.5	2.4
12	United Kingdom	3.1	327.5	3,939.1	4,269.7	2.2
13	British Virgin Island	-	-	3,722.1	3,722.1	1.9
14	Pakistan	-	3.0	3,518.2	3,521.2	1.8
15	Hong Kong-China	-	458.4	2,482.2	2,940.6	1.5
16	Mauritius	-	1,295.5	952.8	2,248.3	1.1
17	Norway	5.0	1,928.9	9.0	1,942.9	1.0
18	Japan	15.9	544.1	1,284.7	1,844.7	0.9
19	Bermuda	-	1,249.5	-	1,249.5	0.6
20	Sri Lanka	-	460.6	648.7	1,109.3	0.6
21	Others	10.1	1,025.6	-718.7	317.0	0.2
	Total	220.5	111,196.6	87,103.7	198,520.8	100.0

Source: Field Survey 2021

Appendix VI
International Investment Position (IIP)* of Nepal
As of mid-July

(Rs.Million)

Description	2016	2017	2018	2019	2020 ^R
Assets	1054012.1	1107787.5	1138241.3	1080102.9	1467785.6
Direct Investment	-	-	-	-	-
Portfolio Investment	-	-	-	-	-
Other Investments	136381.2	152129.8	118135.0	143051.3	193,571.9
<i>Other Equity</i>	6883.7	10765.8	8792.3	11685.3	11,529.9
<i>Currency and Deposits</i>	41796.9	43556.8	47474.6	48371.2	87,628.2
<i>Loans</i>	57.6	3304.6	3562.2	879.6	869.0
<i>Trade credit and advances</i>	338.9	9005.3	4193.6	10570.3	6,083.4
<i>Other Account Receivables</i>	87304.1	85497.3	54112.3	71544.9	87,461.5
Official Reserve Assets	917630.9	955657.7	1020106.3	937051.6	1274213.7
Liabilities	610485.3	677024.6	856117.4	891246.5	1219115.1
Direct Investment**	137678.2	168611.0	200547.5	182919.6	198520.8
Portfolio Investment	0.0	0.0	0.0	0.0	-
Other Investments	472807.1	508413.6	655569.9	708326.9	1020594.3
<i>Other Equity</i>	0.0	0.0	0.0	0.0	-
<i>Currency and Deposits</i>	40664.7	41402.3	43498.9	44586.6	69764.7
<i>Loans</i>	405199.2	432794.1	546906.2	616043.9	857347.6
<i>Trade credit and advances</i>	16397.4	24381.2	54534.8	37107.4	82238.3
<i>Other Account Receivables</i>	362.5	66.4	154.6	120.7	44.6
<i>Special Drawing Rights</i>	10183.3	9769.6	10475.5	10468.3	11199.0
Net IIP	443526.8	430762.9	282123.9	188856.4	248670.5

Source: Nepal Rastra Bank

* Based on residents and non-residents

**Direct Investment based on survey.

^R: Revised