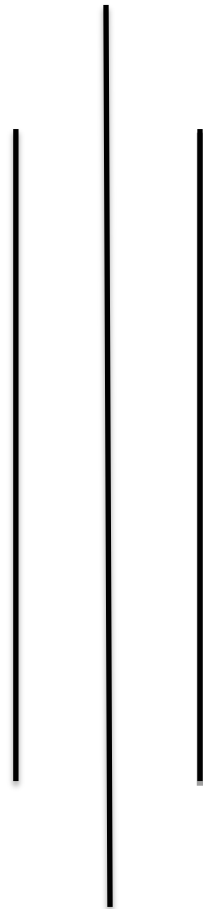


A Survey Report
on
Foreign Direct Investment in Nepal
(2016/17)



Nepal Rastra Bank
Research Department
September 2019

A Survey Report
on
Foreign Direct Investment in Nepal



Nepal Rastra Bank
Research Department
www.nrb.org.np

Foreword

Foreign Direct Investment (FDI) plays key role in widening the sources of financing and spur development activities in a country like Nepal. Given this, Government of Nepal has introduced many provisions and strengthened legal, regulatory and institutional framework to attract FDI. However, FDI inflow in Nepal is remarkably low compared to other countries in the region. Looking at the data of 2017, Nepal's share in FDI inflow is only 0.014 percent at the global level. Even in Asia, Nepal's share is only 0.042 percent and in South Asia 0.38 percent.

Companies established under FDI in Nepal have been contributing to strengthen domestic productive capacity, manage import and promote export, thereby configuring a better international trade position. In the past, banking sector played a major role in opening the door for FDI in Nepal, which resulted in the competition, expansion, technological advancement and modernization of the sector. As Nepal has moved towards a higher growth trajectory in recent years, role of FDI becomes paramount. It has become necessary to encourage a higher flow of FDI to support the growth target laid down in the 15th plan, graduate country from LDCs and attain Sustainable Development Goals.

Given the role of FDI in economic development, this survey was launched to analyze the position and latest developments in FDI in Nepal. The survey focuses on collecting and recording financial information of FDI companies. NRB started conducting this kind of survey in 2012/13. As in the previous years, responses from various firms remained extremely helpful.

NRB completed this survey with valuable suggestions, information and data from various institutions and individuals. I would like to extend my sincere thanks to government institutions, firms and stakeholders for sharing information. Contribution of colleagues at the Balance of Payments and International Finance Division of the Research Department is praiseworthy.

September 2019

Dr. Gunakar Bhatta
Executive Director
Research Department

Table of Contents

| | |
|--|-----------|
| EXECUTIVE SUMMARY | I |
| 1. INTRODUCTION | 1 |
| 1.1 BACKGROUND | 1 |
| 1.2 OBJECTIVES OF THE STUDY | 3 |
| 1.3 SIGNIFICANCE OF THE STUDY | 3 |
| 1.4 SURVEY METHODOLOGY..... | 3 |
| 1.5 LIMITATIONS OF THE STUDY | 6 |
| 1.6 STRUCTURE OF THE REPORT..... | 6 |
| 2. REGULATORY FRAMEWORK FOR FDI IN NEPAL | 7 |
| 2.1 FOREIGN INVESTMENT POLICY OF NEPAL | 7 |
| 2.2 LEGAL FRAMEWORK | 9 |
| 2.3 INSTITUTIONAL STRUCTURE..... | 10 |
| 2.4 FDI PROCESS IN NEPAL..... | 11 |
| 2.5 OTHER REGULATORY ARRANGEMENT FOR FDI | 13 |
| 3. FOREIGN DIRECT INVESTMENT IN NEPAL | 16 |
| 3.1 FDI APPROVAL AND REALIZATION IN NEPAL | 16 |
| 3.2 INTERNATIONAL INVESTMENT POSITION (IIP) OF NEPAL | 17 |
| 3.3 DIVIDEND REPATRIATION | 18 |
| 4. FOREIGN DIRECT INVESTMENT IN NEPAL: SURVEY RESULTS | 19 |
| 4.1 OUTSTANDING FDI IN NEPAL..... | 19 |
| 4.2 SECTOR-WISE BREAKDOWN OF OUTSTANDING FOREIGN DIRECT INVESTMENT | 20 |
| 4.3 COUNTRY-WISE OUTSTANDING FDI..... | 22 |
| 4.4 FOREIGN LOAN..... | 23 |
| 4.5 TURNOVER AND EMPLOYMENT OF FDI COMPANIES | 23 |
| 4.6 MAJOR EXPORTS OF FDI COMPANIES | 23 |
| 4.7 PURCHASE OF GOODS BY FDI COMPANIES | 24 |
| 5. CONCLUSIONS..... | 25 |

References

Appendix

Executive Summary

Background Information

1. Foreign Direct Investment (FDI) plays an important role in international economic integration. It has become an alternative source of capital formation to reduce the domestic resource gap. It also supports economic growth and development, human capital formation, competition promotion, technology transfer and knowledge sharing.
2. The World Investment Report 2018 shows that the world FDI inflows in 2017 remained USD 1.43 trillion, which is 23.5 percent less than the FDI inflow in 2016. In the total world FDI inflow, the share of developed, developing and the transition economies is 49.8 percent, 46.9 percent and 3.3 percent respectively. The share of Asia in world FDI inflows is 33.3 percent and the share of South Asia is 3.6 percent in 2017. The FDI inflow in Nepal is substantially low in comparison to other South Asian Countries. Nepal's share in the global FDI inflow was only 0.014 percent in 2017.

About the Survey

3. This survey was conducted in order to identify the position of FDI in Nepal in 2016/17. Along with the stock data, the report incorporates additional information and analysis on FDI in Nepal.
4. The FDI survey is one of the regular annual surveys conducted by Nepal Rastra Bank (NRB). The study is mainly based on primary data collected from the companies with FDI through questionnaire survey. A census survey is conducted for the companies with capital more than NPR 500 million and a sample survey is conducted for the companies with capital less than NPR 500 million.
5. The population is determined from the list of approved FDI maintained by the NRB as of mid-July 2017. As per the record of NRB, there are 327 companies with FDI. The survey population includes the companies which were included in the previous survey and the companies that received approval from NRB during fiscal year 2016/17.

Survey Findings

6. The stock FDI includes paid up capital, reserves and loan from direct investors. The outstanding stock of FDI in Nepal as of mid-July 2017 is NPR 168.6 billion which is 22.5

percent more than the previous fiscal year. In the survey period, paid up capital increased by 39.8 percent, reserve by 8.5 percent and the loan by 129.6 percent. The outstanding FDI in Nepal is 6.3 percent of Gross Domestic Product (GDP) of the same period. This was 6.1 percent of GDP in 2016 and 5 percent of GDP in 2015.

7. The share of paid up capital in the total stock of FDI as of mid-July 2017 has increased to 34.5 percent from 30.2 percent of previous year. The share of reserve has decreased to 58.5 percent from 66.1 percent and the share of loan from direct investors has increased to 7 percent from 3.7 percent of previous year.
8. Service sector has the highest amount of FDI stock followed by industry and agriculture. As of mid-July 2017, service sector has 68.3 percent (NPR 115.08 billion), industry sector has 31.6 percent (NPR 53.4 billion), and agriculture sector has 0.1 percent (NPR 0.2 billion) in total outstanding FDI in Nepal.
9. Within the service sector, transport, storage and communication sector has 39.9 percentage of outstanding amount of FDI, of which communication sector has 39.7 percent. Financial intermediation has 21.2 percent and hotels & restaurants have 1.8 percent of outstanding FDI.
10. 327 companies from 43 countries have received foreign investment as of mid-July 2017. In terms of the paid-up capital, FDI from India (NPR 14.2 billion) ranks the highest. This is followed by NPR 10.5 billion from China, NPR 4.1 billion from Australia and NPR 4.0 billion from Ireland. However, in terms of total outstanding foreign direct investment, FDI from West Indies is the highest which is 38.6 percent of total FDI followed by India, China, and Ireland with 19.5 percent, 10.2 percent and 4.2 percent of total FDI respectively.
11. Although FDI companies are imperative for strengthening domestic supply capacity, import substitution and the export promotion, this survey is only about the collection and recording of financial information of such companies. As the focus of this survey is the collection and recording of financial information of the FDI firms, further research and studies for identifying the problems and prospects of FDI in Nepal would be helpful for unleashing the investment potential.

Abbreviations

| | |
|---------|---|
| BIMSTEC | Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation |
| BIPPA | Bilateral Investment Promotion and Protection Agreement |
| DoI | Department of Industry |
| FDI | Foreign Direct Investment |
| FITTA | Foreign Investment and Technology Transfer Act |
| GoN | Government of Nepal |
| IBN | Investment Board of Nepal |
| IIP | International Investment Position |
| IIPB | Industrial and Investment Promotion Board |
| IMF | International Monetary Fund |
| IRD | Inland Revenue Department |
| MIGA | Multilateral Investment Guarantee Agency |
| NRB | Nepal Rastra Bank |
| NRN | Non-Resident Nepali |
| OECD | Organization for Economic Co-operation and Development |
| SAFTA | South Asia Free Trade Area |
| SEZ | Special Economic Zone |
| UNCTAD | United Nations Commission for Trade and Development |
| VAT | Value Added Tax |

1. Introduction

1.1 Background

1. Foreign direct investment (FDI) is an important source of capital for developing and emerging market economies as there is high investment needs compared to available financial resources. Larger inflows of foreign investments are needed for such countries to achieve a sustainable high rate of economic growth. Private investments in various growing sectors would facilitate the transfer of technology, increase employment and enhance a competitive environment in these countries' domestic market along with supporting its balance of payments.
2. Organization for Economic Cooperation and Development (OECD) has defined FDI as a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest (10 percent or more of voting stock) in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor.
3. Nepal's Foreign Investment and Technology Transfer Act (FITTA), 2019 has identified following as Foreign Investment:
 - Share investment in foreign currency
 - Re-investment of dividends from prior investment
 - Investment made by acquiring shares or assets of a company incorporated in Nepal
 - Lease investment in aircraft, ship, machinery and equipment, construction apparatus or similar equipment
 - Investment made in form of loans
 - Investment made through technology transfer
 - Investment made by establishing venture capital fund
 - Investment made by establishing and expanding its branch in Nepal.
 - Investment received after issuing securities in foreign capital market by a Nepalese entity
4. Investment policy, 2015 defines FDI as
 - Investment in shares (equity),
 - Reinvestment of the earnings, loan, instruments and machines provided by the foreign investors in the form of lease finance,

- Capital raised through issue of shares and debenture in foreign market by the industry established in Nepal, and
- Investment in listed companies through secondary market by institutional foreign investors.

5. With the liberalization of the global markets, along with technological innovations and cheaper communication, cross border, FDI flows had been in the increasing trend. But, such FDI flow decreased last year. The World Investment Report, 2018 shows that the world

Table 1.1: FDI Flows by Region

| Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|------|------|------|------|------|
| World (US\$ Billions) | 1425 | 1339 | 1921 | 1868 | 1430 |
| <i>Share in World's FDI Flows (in percent)</i> | | | | | |
| <i>Developed economies</i> | 48.6 | 44.6 | 59.4 | 60.7 | 49.8 |
| <i>Developing economies</i> | 45.5 | 51.2 | 38.7 | 35.9 | 46.9 |
| <i>Asia</i> | 29.1 | 34.4 | 26.9 | 25.5 | 33.3 |
| <i>South Asia</i> | 2.5 | 3.1 | 2.7 | 2.9 | 3.6 |
| <i>Transition economies</i> | 5.9 | 4.2 | 1.9 | 3.4 | 3.3 |

Source: UNCTAD (2018)

FDI inflows in 2017 remained USD 1.43 trillion, which is 23.5 percent less than the FDI inflow of 2016. In the total world FDI inflow, the shares of developed, developing and the transition economies are 49.8 percent, 46.9 percent and 3.3 percent respectively. The share of Asia in world FDI inflows is 33.3 percent and the share of South Asia is 3.6 percent in 2017.

6. World Investment Report, 2018 revealed that Developing Asia is the largest FDI recipient region. Against the backdrop of a decline in worldwide FDI, its share in global inflow rose from 25.5 percent in 2016 to 33.3 percent in 2017. The largest three recipients were China, Hong Kong (China) and Singapore. With reported inflows reaching an all-time high, China continued to be the largest FDI recipient among developing countries and the second largest in the world, after the United States.
7. According to the World Investment Report, 2018, the FDI inflows to South Asia decreased 4 percent to \$52 billion in 2017. FDI to India decreased from \$44 billion in 2016 to \$40 billion in 2017. Still, FDI inflow in India is the highest in South Asia followed by Iran, Pakistan, Bangladesh, and Sri Lanka. The FDI inflow in Nepal, which is just above Bhutan, is substantially low in comparison to other South Asian Countries. Nepal's share in the world's total FDI inflow is only 0.014 percent in 2017.
8. Nepal is continuously taking initiatives for legal and administrative reforms for attracting FDI to meet the domestic resource gap. The FDI inflow in FY 2016/17 was NPR 13.5 billion and the stock of FDI was NPR 168.6 billion in 327 different industries/companies. The size of the market, resource availability, administrative efficiency, policy stability, protection of foreign investment and simplified legal and administrative procedures play an

important role in attracting foreign investors. With political stability, better business environment, policy stability and Government's efforts towards attracting foreign investment, Nepal could inevitably be an emerging destination for FDI in the days to come.

9. This report highlights the current situation of FDI in Nepal and will serve as the source of information for various stakeholders.

1.2 Objectives of the Study

10. The general objective of the study is to identify the FDI position in Nepal. The specific objectives are:
 - To identify stock of FDI in Nepal, and
 - To identify the stock of FDI by source countries and its uses in various sectors of the economy.

1.3 Significance of the Study

11. FDI as the key driver of international economic integration has great importance for economy. It has now become a key policy variable; the information about which is essential for the policy makers, researchers and other stakeholders to outline better policies, make informed decisions and enhance the quality of research. In the context of Nepal, monthly inflow of FDI is published in the Balance of Payments statement by Nepal Rastra Bank (NRB). However, the information on accumulated reserves and reinvested earnings and loans are not available. This study has tried to dig out such information.
12. Total stock of FDI including accumulated reserves, reinvested earnings and loans of FDI industries are foreign financial liabilities of domestic economy. This study aims to identify the foreign liability of Nepal in the form of FDI at the end of mid-July 2017.
13. This study is also helpful to assess and understand the quantity of FDI in terms of commitment and realization in Nepal.

1.4 Survey Methodology

14. The FDI survey is one of the regular annual surveys conducted by NRB. This survey aims at recording the stock of FDI in Nepal. The stock of FDI is used in the compilation of International Investment Position and is reflected in the foreign financial assets and liabilities of Nepal. The study is mainly based on the primary data collected from the FDI industries through questionnaire survey. A census survey is done for the companies having capital more than NPR 500 million and the sample survey for companies with capital less than NPR 500 million. For this purpose, the survey methodology is designed as follows:

1.4.1 Study Area

15. The survey covers Kathmandu valley and other parts of the country where FDI receiving companies with FDI are located. The information on these companies is collected from their head offices. As most of the FDI industries have their head offices in Kathmandu valley, the survey mainly covers Kathmandu valley. Information has also been collected from other cities viz. Bhairahawa, Pokhara, Hetauda and Birgunj for the industries located outside Kathmandu valley.

1.4.2 Population and Sample

16. The population for this study includes all FDI industries registered in Nepal. The population is determined from the FDI approval list maintained by NRB as of mid-July 2017. There are 327 FDI companies as per the record of NRB¹. The survey population includes the companies which were included in the previous survey and the companies that received approval from NRB during the fiscal year 2016/17.
17. For the sample purpose, the total population is divided into three groups, i.e. small, medium, and large based on the size of total capital (sum of equity capital, reserve, re-invested earning and the loan from parent company). Firms with capital greater than NPR 500 million are categorized as large, firms with capital between NPR 100 million and NPR 500 million are categorized as medium and those with capital less than NPR 100 million are categorized as small. The sample includes all large firms. Samples are randomly selected from medium and small firms. The details about population and the sample is shown in table 1.2.

Table 1.2: Sample Size*

| Group | No. of Firms | | | Capital (Rs. in millions) | | |
|--------------|--------------|------------|----------------|---------------------------|------------------|----------------|
| | Population | Sample | Proportion (%) | Population | Sample | Proportion (%) |
| Large | 35 | 35 | 100 | 135,321.4 | 135,321.4 | 100 |
| Medium | 48 | 28 | 58.3 | 11,678.2 | 10,272.3 | 88.0 |
| Small | 244 | 80 | 32.8 | 8,871.9 | 6,826.5 | 76.9 |
| Total | 327 | 143 | - | 155871.5 | 152,420.3 | - |

* For sampling purpose, the calculation is based on the capital of mid-July 2016 including the FDI stock up to mid-July 2016 and the new approval during mid-July 2016 to mid-July 2017

¹ Department of Industry's record shows a greater number of FDI industries, however, some of the registered firms do not bring FDI even if they are registered in DoI.

18. Out of 327 FDI firms, 35 are large, 48 are medium and 244 are small sized firms. The sample includes all large firms, 28 medium firms and 80 small firms which constitute 100 percent, 58.3 percent and 32.8 percent of their population respectively. Based on the capital, 100 percent large, 88 percent medium and 76.9 percent small firms are included in the sample. The sample selection of medium and small firms is done on random sampling as well as on judgmental basis.

1.4.3 Survey Method

19. The survey is conducted with structured questionnaire. Responses were collected either through electronic media or through field survey. Enumerators visited head offices of the FDI companies to collect information. Besides this, some literatures on FDI were reviewed to finalize the report.

20. The components of FDI in the survey include:

- i) Paid-up capital: The amount received by the firm from its foreign shareholders in exchange of shares;
- ii) Reserves: Reserves component include both the accumulated amount kept as reserves in the firm as well as the amount of profit retained for reinvestment.
- iii) Debt from direct investor: Amount borrowed by the firm from its direct investor;

21. The survey was conducted in the last two quarters of the fiscal year 2017/18. The survey started only in third quarter in order to collect the information from audited balance sheet as the firms finalize their audit by the end of second quarter. The reported data was confirmed on the basis of audit report. 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 FDI data reported by the sampled unit is aggregated. Estimation is also made to estimate the FDI of non-sampled medium and small 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. The average ratio was calculated separately for medium and small group category.

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

where, r is the average ratio, n is the number of sampled firms and r_i is the ratio of approved capital to realized capital of the individual firm which is sampled. The average ratios for medium and small size firms were calculated separately to estimate their FDI stock. Their FDI stock is estimated by multiplying the ratio by the approved FDI amount.

1.5 Limitations of the Study

23. This study is conducted every year for the purpose of compilation of the International Investment Position (IIP). Its main focus is to collect and record the financial information of the FDI firms. Therefore, it is less analytical and only includes the descriptive statistics. Also, the study incorporates only those industries that are provided approval from NRB rather than those registered in DoI.

1.6 Structure of the Report

24. The report is categorized into five sections. The first section is introduction followed by regulatory framework, FDI in Nepal, survey results, and the conclusions.

2. Regulatory Framework for FDI in Nepal

25. With increasing global integration, especially after 1980, Nepal has made various efforts in attracting FDI to fill the resources gap in private capital formation. First step was the enactment of the first Foreign Investment and Technology Transfer Act, 1981. Later, it was replaced by the Foreign Investment and Technology Transfer Act (FITTA), 2019 to accommodate the changes related to economic liberalization. Foreign Investment and Technology Transfer Act, 2019, is the premier law related to FDI in Nepal.
26. Nepal obtained the membership of the World Trade Organization, South Asia Free Trade Agreement-SAFTA, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation-BIMSTEC, and Multilateral Investment Guarantee Agency-MIGA. Nepal also signed Bilateral Investment Protection and Promotion Agreement (BIPPA) with six countries² and Double Taxation Avoidance Agreement with ten countries³.
27. The Investment Board was established as per the Investment Board Act, 2010 to promote economic development by creating investment-friendly environment in the country. It does so by mobilizing and managing public-private partnerships (PPPs), cooperatives and domestic and foreign private investment. Main responsibilities assigned to the Board are; formulation of investment policies, setting priority sector for investment, coordinating among the ministries, governments agencies and local agencies for the promotion of investment, development of norms and conditions for investment, selection of projects and approval of FDI above NPR 10 billion.
28. Recently, Government of Nepal has established 'One Stop Service Centre' to provide all the facilities from a single place to facilitate the FDI receiving industries. The Centre provides approvals, facilities and administrative services to the industries established/to be established in FDI through coordination among various agencies including NRB.

2.1 Foreign Investment Policy of Nepal

29. The Government of Nepal (GON) has introduced new Foreign Investment Policy, 2015 by replacing Foreign Investment and One Window Policy, 1992. The policy was designed with the long-term vision of attracting foreign capital, technology, skill and knowledge in the national priority areas. The policy was aimed at maintaining trade balance through import substitution and export promotion.
30. The new Foreign Investment Policy has initiated the provisions of changing context of portfolio investment, non-resident Nepalese investment, special economic zones, labor

² France, Germany, Britain, Mauritius, Finland and India

³ India, China, Pakistan, South Korea, Qatar, Mauritius, Austria, Norway, Sri Lanka, and Thailand

issues and mobilization of debt instruments in domestic and foreign currencies. This policy has multiple objectives of; achieving the sustainable economic growth, generating employment, attracting investment in the regional and national level, filling the gap of increasing investment demand, and increasing the domestic production and productivity. This policy also envisages to establish Nepal as an attractive destination for FDI by creating investment friendly environment.

31. The new policy has defined the terms “foreign investment” and “technology transfer” separately (Table 2.1) which was not defined in the previous policy.

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 and, • 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

32. The Foreign Investment Policy has envisioned Investment Board of Nepal, Ministry of Industry, Foreign Investment Promotion Board, DOI, and One Stop Service Center as the institutions responsible for implementing foreign investment policy and rules in Nepal.
33. The policy has classified investors as (a) Foreign Institutional Investors (b) Foreign Individual Investors and (c) Non-Resident Nepali (NRN). Processes have been simplified in areas of; access to foreign exchange, various facilities and exemptions, access to credit, hiring foreign workers, and acquisition of land, industrial security and business promotion. The policy has also expressed commitments of equal treatment to all foreign investors, no nationalization of the investment and freedom of withdrawal of their principal investment and earnings. The policy also includes the provision of mediator and dispute settlement.

2.2 Legal Framework

34. The legal arrangements that govern FDI in Nepal include Foreign Investment and Technology Transfer Act (FITTA), 2019, Foreign Exchange (Regulation) Act, 1962, Investment Board Act, 2010, Industrial Enterprises Act, 2016, Company Act, 2006 (amendment 2017), Contract Act, 2000, Arbitration Act, 1999, Income Tax Act, 2002, Labor Act, 2017, and Privatization Act, 1992. Similarly, DOI, IBN and NRB are the agencies for administration and implementation of rules and regulations related to FDI.
35. The Foreign Investment and Technology Transfer Act (FITTA), 2019 is the principal law governing FDI in Nepal. It has expanded the definition of FDI to cover:
- i. Share investment in foreign currency
 - ii. Re-investment of dividends from prior investment
 - iii. Investment made by acquiring shares or assets of a company incorporated in Nepal
 - iv. Lease investment in aircraft, ship, machinery and equipment, construction apparatus or similar equipment
 - v. Investment made in form of loans
 - vi. Investment made through technology transfer
 - vii. Investment made by establishing venture capital fund
 - viii. Investment made by establishing and expanding its branch in Nepal.
 - ix. Investment received after issuing securities in foreign capital market by a Nepalese entity
36. Major provisions in **Foreign Investment and Technology Transfer Act (FITTA), 2019** are:
- Equal treatment to foreign investment companies
 - Provision of allowing hundred percent foreign investments in industries (except in few as mentioned by sector specific policies)
 - Technology transfer is possible in all sectors of industries
 - Repatriation is guaranteed in foreign currency
 - Business/Residential visa for investors
 - Clear provision of dispute settlement

37. The **Companies Act, 2006** amended in 2017 has simplified the processes of establishment, management and administration of companies in a convenient and transparent manner. Major provisions of the Act are:

- Protection of Brand Name
- A private company can have a maximum of 101 shareholders
- No compulsion of conversion from private companies to a public company (except for telecommunication service provider companies)
- Trading of Shares/Debentures
- Special provisions for foreign companies
- Special provision for de-registration of companies

38. **Industrial Enterprise Act, 2016** has defined the procedures for entry, operation and exit of industrial enterprises. Major provisions in the Act are:

- Tax incentives
- VAT, customs duty incentive, concession and benefits
- Facilities to acquire land
- No nationalization of industries
- No work, no pay policy and restriction on strikes
- One window service

39. Moreover, there are other legal provisions related with the investment of the 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

40. **The Investment Board of Nepal (IBN):** The Board was established as per the provisions of Investment Board Act, 2010 to promote investment friendly environment by mobilizing and managing public-private partnerships (PPPs), cooperatives, and domestic and foreign private investment. It has other objectives to accelerate industrialization and to develop infrastructure in sectors such as hydropower, chemical fertilizers and integrated solid waste management. The Board is chaired by the Prime Minister. Members of the board are ministers from various ministries, vice chairman of the planning commission, governor of

NRB and other representatives from the private sectors. Major functions of the Board are; formulation of investment policies, setting priority sector for investment, coordinating among the ministries and governments and local agencies for the promotion of investment, development of norms and conditions for investment, selection of projects and approval of FDI above NPR 10 billion.

41. **The Industrial and Investment Promotion Board (IIPB):** This Board is chaired by the Minister of Industry. It approves foreign investment of the projects with the investment between NPR 2 billion and NPR 10 billion (Nepal Investment Guide, 2018).
42. **Department of Industry (DOI):** DOI, under the Ministry of Industry, is the government agency responsible for the administration and implementation of FITTA and promotion of industry in Nepal, particularly for small and medium scale industries. It grants the foreign investment approval to projects below NPR 2 billion (approx. USD 20 million). The DOI is also responsible for registering trademarks, patents and designs to protect industrial property rights.
43. Recently, Government of Nepal has established a one window center to facilitate foreign investment by providing all services related to foreign investment under one center.
44. NRB facilitates the exchange of foreign currencies required for investment and repatriation of profit and dividend. NRB also facilitates for hedging the risks of Foreign Investment made in some specified sectors.

2.4 FDI Process in Nepal

45. The procedure for FDI approval differs depending upon the size of investment and sectors. This section describes the FDI process in Nepal.

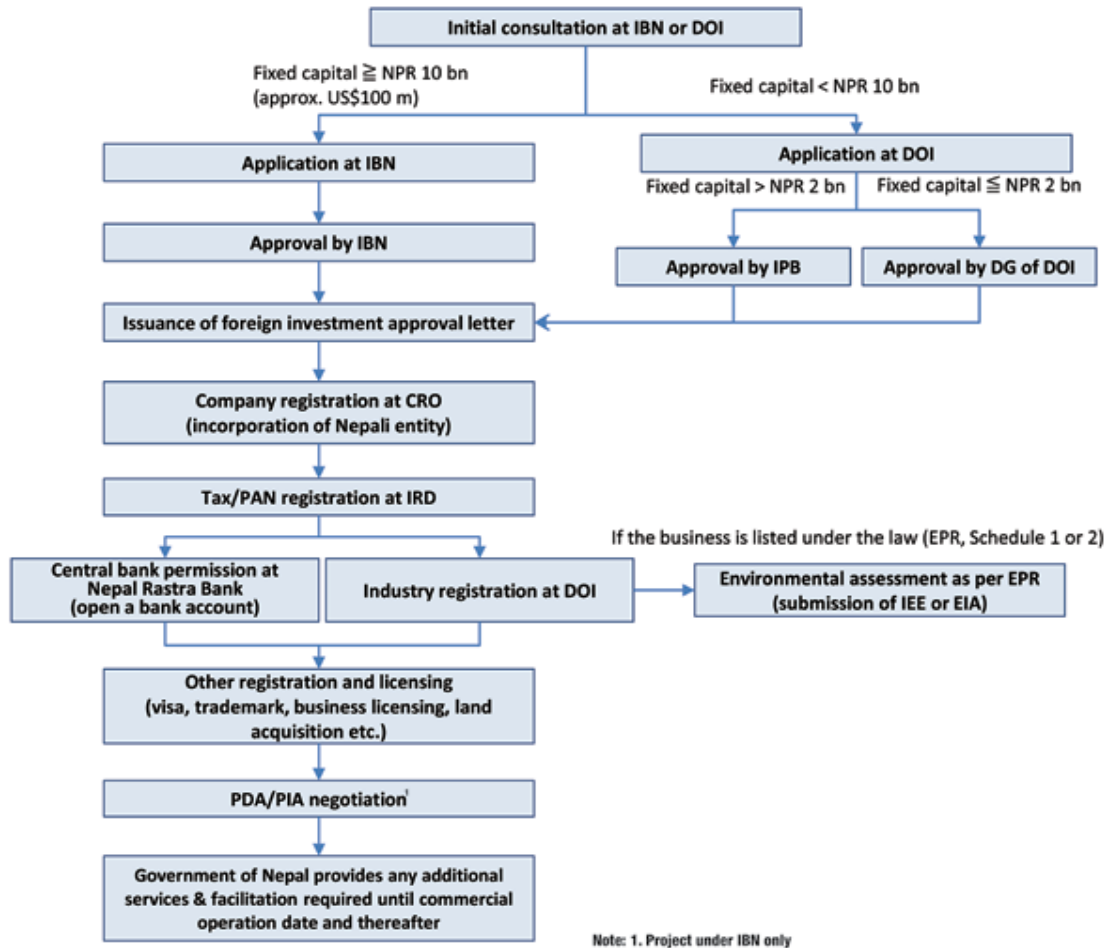
(i) Equity Investment in New Industry

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

The detail of this process is show in Chart 2.1.

Chart 2.1: FDI process in a new industry



Source: Nepal Investment Guide, 2018

46. The FDI amount of NPR 2 billion (or less) is approved by DOI. The IIPB grants approval of FDI between NPR 2 billion and NPR 10 billion. The IBN approves the FDI of more than NPR 10 billion.

47. Foreign investment in the following areas is approved by the IBN (Regardless of the amount).

- Fast track roads, tunnels, railway lines, ropeways, trolley buses, as prescribed by the Government of Nepal.
- Construction of international and regional airports and investment required for modernization and management of existing airports
- Solid waste management and treatment in urban areas

- Chemical fertilizer production industries
- Petroleum refinery plants
- Major bridges as prescribed by the Government of Nepal
- Banks and financial institutions with 51% or more investment by foreign investors
- Insurance and re-insurance companies
- Medical colleges and state-of-the-art hospitals or nursing homes with 300 or more beds
- Hydropower projects with capacity of 500 MW or more
- Development of special economic zones (SEZs), export promotion or export refinement zones, special industrial zones or IT parks

(ii) Foreign Investment in Existing Industry

48. Foreign investors can invest in any existing firms or industry by means of share transfer, loan investment, and technology transfer. The investment can be made only after obtaining the approval of investment from the DOI and NRB. The approval is granted after the assessment of the business plan and other documents as required by law.

2.5 Other Regulatory Arrangements for FDI

2.5.1 Taxation

49. The foreign investors are required to register with Inland Revenue Department (IRD) and need to comply with the tax system of Nepal. The company, with turnover of more than NPR 5 million also needs to register in the Value Added Tax (VAT). The foreign investors are required to comply with the income tax, corporate tax, interest tax, profit tax, payroll tax, capital gain tax etc. Various tax incentives are provided for industries under FDI as provisioned in the Industrial Enterprises Act, 2016.

2.5.2 Foreign Exchange Arrangement

50. NRB regulates the foreign exchange system in Nepal as per foreign Exchange (Regulation) Act, 1962. Foreign investors fulfilling criteria can invest or withdraw in/from Nepal. Nepal has also adopted Article VIII (Exchange Arrangement and Exchange Restrictions) of IMF.

51. NRB grants repatriation approval to the FDI companies. Foreign investors can repatriate the amount received from the sale of the share of foreign investment as a whole or any part thereof, amount 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 earnings of foreign nationals working in foreign investment company.

2.5.3 Labor Regulation

52. Foreign investors also need to comply with the labor laws. As per the Labor Act, 2017, 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 schedule of working hours. The minimum wage system is applied. Employers are required to take permission from the Department of Labor (DOL) to employ foreigners.

2.5.4 Land Regulation

53. Registered FDI industry can acquire land as per the requirement or may request the government for the arrangement in this regard. The FDI industry can hold the land exceeding the maximum threshold as prescribed by the prevailing law. In addition, government can lease lands to the national priority industries.

2.5.5 Intellectual Property Law

54. The Intellectual Properties, such as patent, specification, formula, process and technical knowledge come under technological transfer. The Foreign Investment Policy has made legal arrangements for protection, promotion and development of intellectual property rights.

2.5.6 Administrative issues

55. The administrative procedure applied for FDI is the same as for domestic industries. There is no discrimination between domestic investment and FDI in terms of administrative procedure. The law has explicitly assured that there shall not be nationalization of any kind of investment made in Nepal.

2.5.7 Priority Sectors

56. As per the Foreign Investment Policy 2015, the priority 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 Industries.

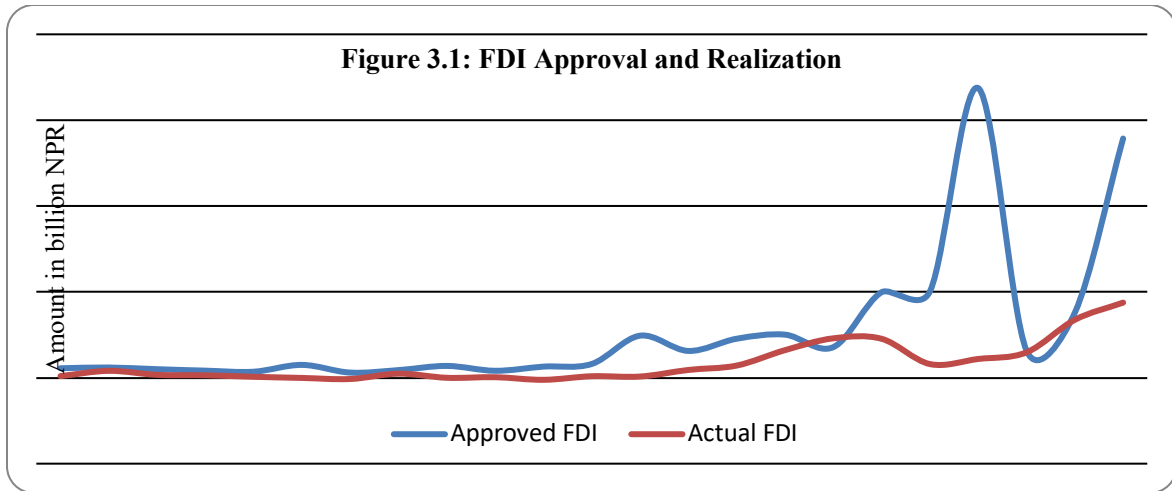
3. Foreign Direct Investment in Nepal

57. The first official FDI inflow in Nepal was in 1951/52 when the Nepal Commercial Corporation was set up as a joint venture with 67 percent equity participation of Indian investors (Aryal, 2009).
58. 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 the promotion of foreign investment and creating awareness of the investment opportunities in the country. Nepal Investment Forum was held in Kathmandu in 1992, which was a major initiative taken by the Government towards attracting the foreign investment in Nepal.
59. The GoN organized Nepal Investment Summit during 2-3 March, 2017. In this summit investment commitment of USD 13.74 billion was made for various sectors from 26 companies of eight countries.
60. Recently, Nepal Investment Summit, 2019 was held in Kathmandu seeking attention of global investors and demonstrating Nepal as a promising destination for investment.

3.1 FDI Approval and Realization in Nepal

61. As per the record of the Department of Industry, during the period from 1995/96 to 2017/18, FDI amounting NPR 261.8 billion has been approved. However, net inflow (FDI inflows-withdrawal) during the period is only NPR 78.4 billion which is nearly 29.9 percent of total approved amount. The net inflow of FDI in FY 2016/17 and 2017/18 remained NPR 13.5 billion and NPR 17.5 billion respectively (Appendix I).
62. The trend of FDI approval and realization in Nepal shows that the amount of FDI had been very small till 2012/13. After 2012/13, FDI approval amount has been increasing and 2014/15 witnessed the highest ever FDI approval of NPR 67.48 billion. However, the actual realization was not as expected. In 2016/17, total approved FDI was NPR 15.15 billion and the actual realized FDI was NPR 13.50 billion.

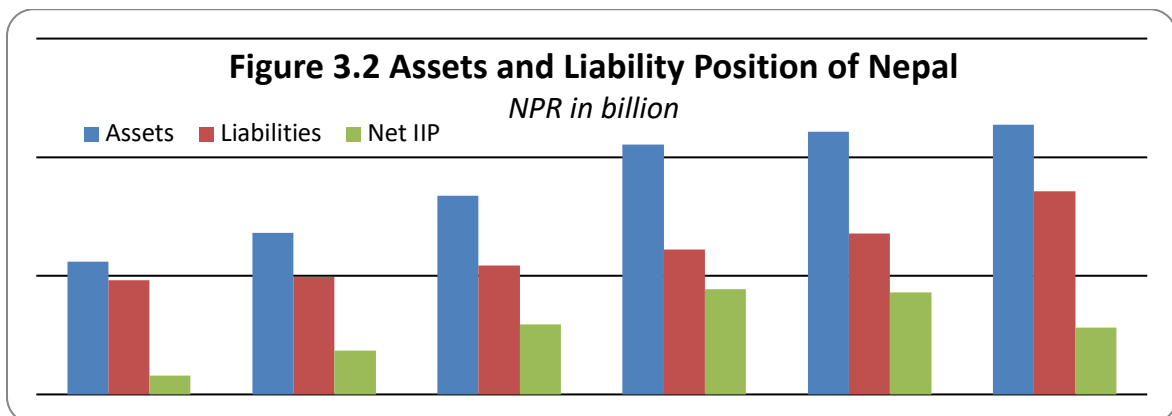
The trend of FDI approval and realization in Nepal as of mid-July 2017 is shown below:



Source: Nepal Rastra Bank

3.2 International Investment Position (IIP) of Nepal

63. International Investment Position (IIP) shows an economy's foreign financial assets and liabilities position at a particular point of time. Positive net IIP indicates that the country is net creditor and the negative indicates that the country is net debtor. Nepal's gross foreign financial assets was NPR 1107.8 billion at the end of FY 2016/17 and it increased to NPR 1138.2 billion in FY 2017/18. Major components in the assets side are official reserve, account receivable and currency and deposits. Similarly, Nepal's gross foreign financial liability was NPR 677.02 billion by the end of FY 2016/17 and it increased to NPR 856.1 billion in FY 2017/18. Major components in the liability side are foreign loans and foreign direct investment. At the end of FY 2017/18, Nepal's foreign financial claims are more than the liabilities. Therefore, Nepal is a net creditor, with net International Investment Position NPR 282.1 billion. (Appendix II)



Source: Nepal Rastra Bank

3.3 Dividend Repatriation

64. Foreign investors are permitted to repatriate profit or dividend in accordance with Foreign Investment and Technology Transfer Act (FITTA), 2019. As per the records of NRB, the amount repatriated as dividend or profit is increasing every year. In Fiscal Year 2017/18, NPR 39.5 billion was repatriated as a dividend. Investors of the Communication sector repatriated the highest amount, followed by the industrial sector in 2017/18 (Table 3.1).

Table 3.1: Dividend Repatriation

(NPR in millions)

| Sector | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|----------------------|----------------|----------------|-----------------|-----------------|
| Industrial Sector | 2,299.2 | 1,387.9 | 5,161.0 | 11,914.7 |
| Hydropower Sector | 2,874.5 | 3,154.3 | 3,264.9 | 2,926.4 |
| Financial Sector | 1,794.4 | 13.7 | 13.7 | 886.6 |
| Communication Sector | 4.0 | 1,692.8 | 8,692.6 | 23,649.9 |
| Other Service Sector | 238.6 | 4.1 | 108.4 | 152.9 |
| Total | 7,210.7 | 6,252.8 | 17,240.6 | 39,530.5 |

Source: Nepal Rastra Bank

4. Foreign Direct Investment in Nepal: Survey Results

65. This section describes the survey result related to the stock of FDI in Nepal as of mid-July 2017. The survey questionnaires reported by sampled firms and the estimated statistics for the non-sampled firms are the sources of information. The statistical presentation in the following sections provides a glimpse of stock of FDI in Nepal based on the annual survey for 2016/17.

4.1 Outstanding FDI in Nepal

66. The FDI stock is the combination of paid-up capital, reserves and loan from direct investors. The outstanding stock of FDI in Nepal as of mid-July 2017 is NPR 168.6 billion. This amount is an increase of 22.5 percent from the previous period. In the survey period, paid-up capital increased by 39.8 percent, reserve increased by 8.5 percent and the loan increased by 129.6 percent. (Table 4.1)

67. The stock of FDI (NPR 168.6 billion) as of mid-July 2017 is 6.3 percent of the Gross Domestic Product (GDP). This was 6.1 percent of GDP in 2016 and 5.0 percent of GDP in 2015.

**Table 4.1 : Outstanding FDI in Nepal
As of mid-July**

(NPR in million)

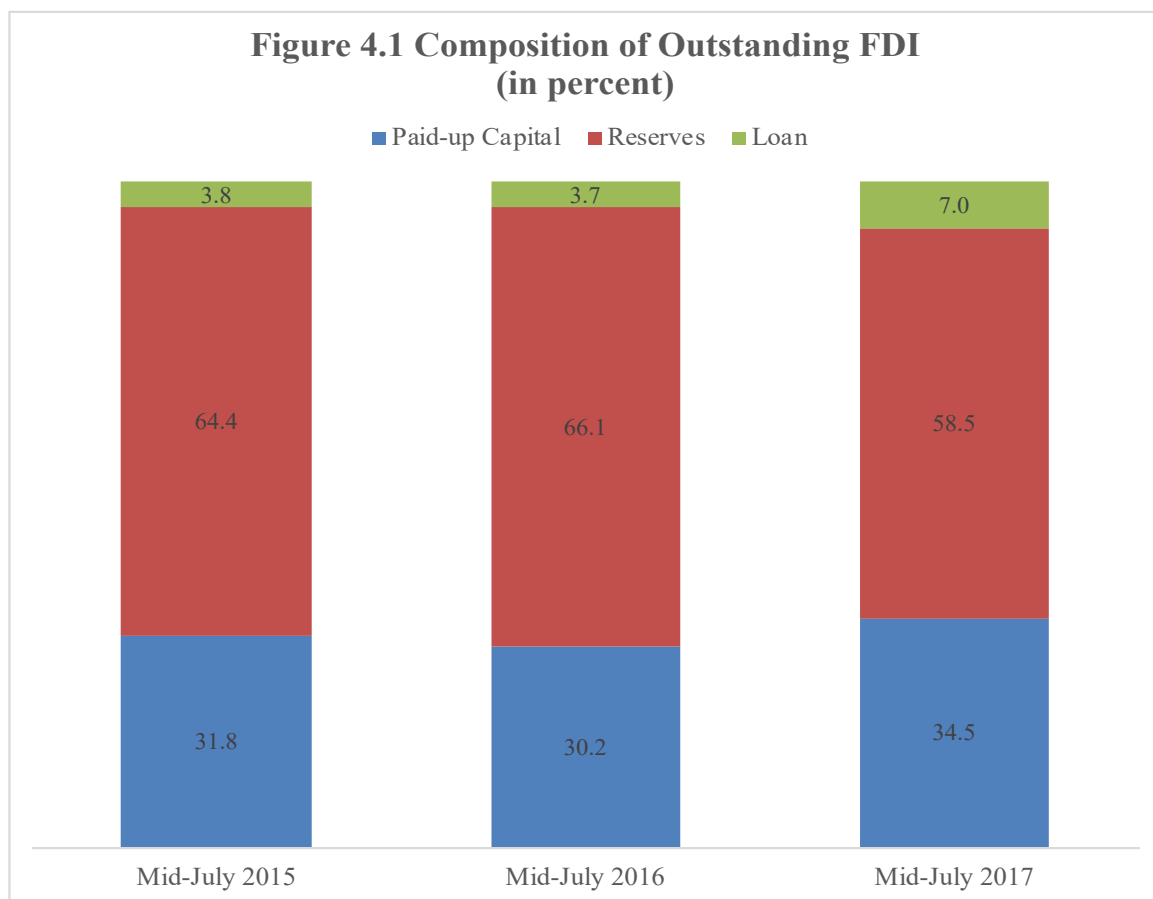
| S.N. | Items | 2015 | 2016 | 2017 | Percentage Change | |
|--------------|-----------------|------------------|------------------|------------------|-------------------|-------------|
| | | | | | 2016 | 2017 |
| 1 | Paid-up Capital | 33,767.4 | 41,575.2 | 58,123.5 | 23.1 | 39.8 |
| 2 | Reserves | 68,351.5 | 90,950.9 | 98,657.6 | 33.1 | 8.5 |
| 3 | Loan | 4,053.1 | 5,152.3 | 11,829.9 | 27.1 | 129.6 |
| Total | | 106,172.0 | 137,678.4 | 168,611.0 | 29.7 | 22.5 |

Source: NRB Survey Report on FDI 2018 and Field Survey 2018

68. Reserve is the major component in the FDI stock. Out of the total stock, paid-up capital is NPR 58.1 billion, reserve is NPR 98.6 billion and loan from direct investor is NPR 11.8 billion. The growth rate of reserve, which is a key component of FDI, is less than the previous fiscal year showing more dividend repatriation this fiscal year.

69. The share of paid-up capital in the total stock of FDI as of mid-July 2017 has increased to 34.5 percent from 30.2 percent of the previous fiscal year. The share of reserve has

decreased to 58.5 percent from 66.1 percent of previous fiscal year. Similarly, the share of loan from direct investors increased to 7 percent from 3.7 percent of previous fiscal year. (Figure 4.1)



4.2 Sector-wise Breakdown of Outstanding Foreign Direct Investment

70. The sector-wise breakdown of FDI shows that the highest amount of FDI stock is in the service sector amounted to NPR 115.08 billion as of mid-July 2017. The service sector has remained the highest FDI recipient in Nepal. Transport, storage and communication is the main sub-category of the service sector that has the highest FDI stock, amounted to NPR 67.2 billion. The industrial sector has the second highest FDI stock of NPR 53.4 billion as of mid-July 2017. The agriculture sector has the lowest amount of FDI stock, which is NPR 0.2 billion. Following Table 4.2 shows the details of sectoral breakdown of outstanding FDI in Nepal as of mid-July 2017(Appendix III).

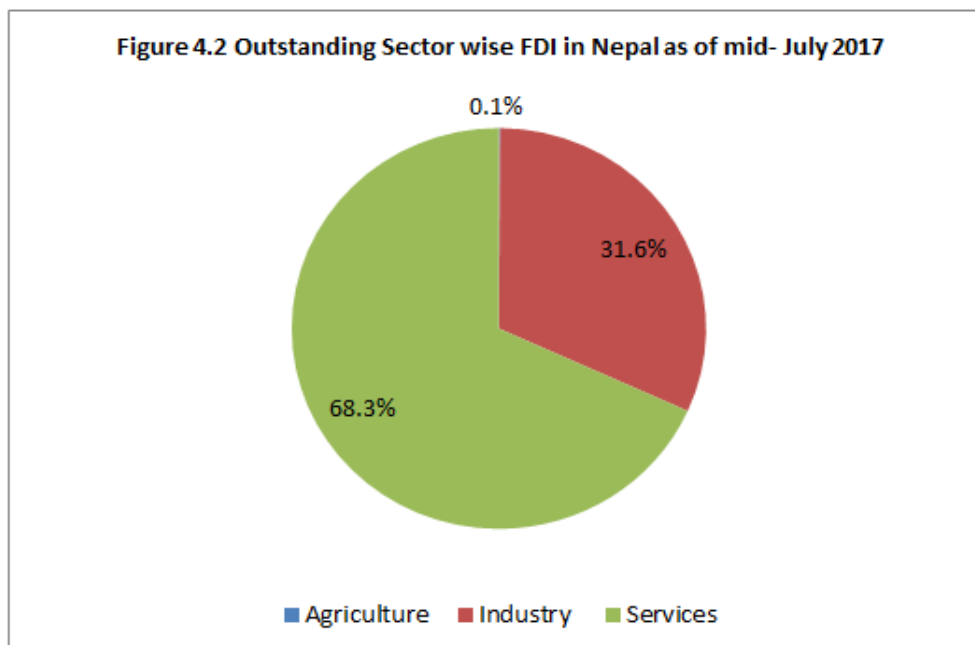
Table 4.2 : Sector-wise Outstanding FDI in Nepal

(NPR in million)

| Agriculture | | | | |
|-------------|-----------------|----------|---------|-----------|
| Year | Paid-up Capital | Reserves | Loan | Total |
| 2015 | 395.2 | - | - | 395.2 |
| 2016 | 395.2 | - | - | 395.2 |
| 2017 | 164.9 | - | - | 164.9 |
| Industry | | | | |
| Year | Paid-up Capital | Reserves | Loan | Total |
| 2015 | 15,697.8 | 12,979.9 | 1,554.3 | 30,232.1 |
| 2016 | 18,989.5 | 19,902.8 | 1,725.3 | 40,617.6 |
| 2017 | 24,094.7 | 23,363.9 | 5,902.4 | 53,361.0 |
| Service | | | | |
| Year | Paid-up Capital | Reserves | Loan | Total |
| 2015 | 17,674.3 | 55,371.6 | 2,498.7 | 75,544.6 |
| 2016 | 22,190.5 | 71,048.0 | 3,427.0 | 96,665.5 |
| 2017 | 33,863.9 | 75,293.7 | 5,927.5 | 115,085.1 |

Source: NRB Survey Report on FDI 2018 and Field Survey 2018

71. Composition of total outstanding FDI stock shows that service sector has the highest share of stock followed by industry and agriculture sector. Out of the total outstanding stock, share of service sector is 68.3 percent and industrial sector is 31.6 percent. The agriculture sector has the lowest FDI stock, which is only 0.1 percent. Thus, considering these observations, future policies on FDI must be designed. (Figure 4.2)



72. Breakdown of the industrial sector shows that manufacturing, mining and quarrying industry has the share of 18.1 percent and electricity, gas and water has 13.2 percent of the total outstanding stock of FDI. The construction industry has the lowest share of FDI stock, which is 0.3 percent (Appendix III).
73. Similarly, breakdown of the service sector shows that transport, storage and communication sector has 39.9 percent of the outstanding FDI out of which communication sector has 39.7 percent. Financial intermediation has 21.2 percent and hotels & restaurants has 1.8 percent of outstanding FDI stock. (Appendix III).

4.3 Country-wise Outstanding FDI

74. FDI in Nepal has been received from 43 countries as of mid-July 2017. In terms of paid-up capital, FDI from India is the highest (14.2 billion) followed by China, Australia, and Ireland with NPR 10.5 billion, NPR 4.1 billion and NPR 4.0 billion respectively. However, in terms of total stock, FDI from West Indies is the highest which is 38.6 percent of the total outstanding FDI followed by India, China and Ireland with 19.5 percent, 10.2 percent and 4.2 percent respectively (Table 4.3). The detail of country-wise outstanding FDI is presented in Appendix IV.

Table 4.3: Country-wise FDI Stock in Nepal
As of mid-July 2017

(NPR in millions)

| S.N. | Country | Paid-up capital | Reserves | Loan from Direct Investors | Total | Share in Total (%) |
|------|--------------|-----------------|-----------------|----------------------------|------------------|--------------------|
| 1 | West Indies | 80.0 | 65,074.5 | 0.0 | 65,154.5 | 38.6 |
| 2 | India | 14,215.5 | 17,405.4 | 1,247.6 | 32,868.4 | 19.5 |
| 3 | China | 10,568.1 | -509.5 | 7,069.3 | 17,128.0 | 10.2 |
| 4 | Ireland | 4,023.9 | 3,066.1 | 0.0 | 7,090.0 | 4.2 |
| 5 | Singapore | 3,734.1 | 3,191.7 | 0.0 | 6,925.9 | 4.1 |
| 6 | Australia | 4,094.7 | 1,948.4 | 11.2 | 6,054.4 | 3.6 |
| 7 | Hong Kong | 3,611.8 | 871.9 | 696.4 | 5,180.1 | 3.1 |
| 8 | Bangladesh | 3,343.5 | 979.7 | 0.0 | 4,323.2 | 2.6 |
| 9 | UAE | 233.5 | 3,612.3 | 58.5 | 3,904.3 | 2.3 |
| 10 | South Korea | 3,773.9 | -325.6 | 76.6 | 3,524.8 | 2.1 |
| 12 | Others | 10,444.6 | 3,342.7 | 2,670.3 | 16,457.6 | 9.8 |
| | Total | 5,8123.5 | 98,657.6 | 11,829.9 | 168,611.0 | 100 |

Source: Field Survey 2018

75. Sector wise breakdown of outstanding FDI from different countries shows that FDI in the industrial sector is highest from India followed by China, Singapore, South Korea and Norway. Similarly, FDI in the service sector is highest from West Indies followed by India,

Ireland, Australia, and Hong Kong. Details of country-wise outstanding FDI in different sectors is presented in Appendix V.

4.4 Foreign Loan

76. As of mid-July 2017, outstanding foreign loan in FDI companies is NPR 26.1 billion. Out of this loan, NPR 11.8 billion is received from direct investors and NPR 14.3 billion is received from other than direct investors. The outstanding loan was NPR 5.5 billion, out of which NPR 5.2 billion was received from direct investors and NPR 0.42 billion was received from other than direct investors in mid-July 2016. Basically, five companies engaged in communication, hydropower and manufacturing business have borrowed from other than the direct investors. (Table 4.4)

Table 4.4: Outstanding Foreign Loan

(NPR in million)

| Loan From | 2015 mid-July | 2016 mid-July | 2017 mid-July |
|------------------|------------------|------------------|------------------|
| Direct Investors | 4,053.1 | 5,152.3 | 11,829.9 |
| Others | 489.2 | 421.4 | 14,262.7 |
| Total | 4,542.3 | 5,573.7 | 26,092.6 |

Source: Field Survey 2018

4.5 Turnover and Employment of FDI companies

77. As per the survey result, the total turnover of sampled FDI companies during 2016/17 is NPR 101.3 billion of which NPR 4.3 billion is from exports and NPR 97 billion from domestic sales. This shows that the FDI companies have an important contribution in strengthening domestic production and supply capacity as well as substituting import. Sampled FDI companies have employed 13,870 employees. Out of which 12,431 are Nepali and 1439 are foreign nationals.

4.6 Major Exports of FDI Companies

78. Out of the total 143 sampled FDI companies, 12 companies exported their products amounting to NPR 4.3 billion during the fiscal year 2016/17. These companies' major exports were beer, poultry feed, edible oil, goat polyclonal antibodies, plastic closures, clinker, PVC loop mat, PVC compound, zinc sheets, transformers, mattresses, and sales of airline tickets.

4.7 Purchase of Goods by FDI companies

79. The survey result shows that the sampled firms purchased 78.9 percent of total capital goods from the domestic market and 21.1 percent from the foreign market. In case of raw materials, they used 27.6 percent domestic and 72.4 percent imported ones. Following Table 4.5 shows the details of purchase and sales of goods domestically as well as abroad.

Table 4.5: Purchase of Goods by FDI Companies in Nepal
During Fiscal Year 2016/17

NPR. in million)

| Nature of Goods | Domestic | Import | Total |
|-------------------------|-----------------|-----------------|-----------------|
| Capital Goods | 12,554.6 | 3,366.6 | 15,921.2 |
| Raw Material | 11,195.1 | 29,419.8 | 40,614.9 |
| Other Material | 2,117.8 | 1,421.1 | 3,538.9 |
| Total | 25,867.6 | 34,207.5 | 60,075.1 |
| Share in percent | | | |
| Nature of Goods | Domestic | Import | Total |
| Capital Goods | 78.9 | 21.1 | 100.0 |
| Raw Material | 27.6 | 72.4 | 100.0 |
| Other Material | 59.8 | 40.2 | 100.0 |

Source: Field Survey, 2018

5. Conclusions

80. Foreign Direct Investment has been gradually becoming an integral source of foreign exchange with an enormous potential support to finance the domestic resource gap. Government of Nepal has been introducing and modifying its policies and procedures to attract foreign investments in the country. As a result of such improvements in legal and operational procedures, the outstanding FDI in Nepal is increasing over the years. It increased by 22.5 percent in 2016/17 compared to the previous fiscal year and reached NPR 168.6 billion, which is 6.3 percent of the Gross Domestic Product (GDP). Key component of FDI stock is the reserve of FDI companies, which accounts for 58.5 percent.
81. A regular trend in FDI is that there exists a wide gap between the approved and realized amount of FDI. The net inflow of FDI is 29.9 percent of the total approved amount during 1995/96 and 2017/18. There exists a challenge of narrowing down the gap.
82. The survey revealed that the stock of FDI as of mid-July 2017 comprise investments from 43 different countries. In terms of paid-up capital, FDI from India is the highest (NPR 14.2 billion) followed by China, Australia and Ireland with NPR10.5 billion, NPR4.1 billion and NPR4.0 billion respectively. However, in terms of total stock, FDI from West Indies is the highest which is 38.6 percent of the total outstanding FDI followed by India, China and Ireland with 19.5 percent, 10.2 percent and 4.2 percent respectively. Generic and country-focused policies need to be formulated to attract foreign investors.
83. The service sector has been the most attractive sector for foreign investors. This sector alone accounts for 68.3 percent of the outstanding FDI. Within service sector, communication, financial intermediation, and hotels & restaurants sectors are major areas. Policies need to be developed and directed towards prioritizing service sectors for FDI.
84. Industrial sector was found to be the second most attractive sector for foreign investors. Within this sector, manufacturing, mining and quarrying industry accounts for 18.1 percent of the total outstanding stock of FDI, and electricity, gas and water accounts for 13.2 percent. In order to streamline foreign investments in priority areas like hydro-electricity and mining, legal and procedural simplification for FDI in these areas are required.
85. The survey also revealed that the FDI companies are contributing to strengthen domestic supply capacity, import substitution and export promotion to some extent. The sampled companies are providing employment to 13870 persons, out of which 12431 are Nepali and 1439 are foreign nationals.

86. This survey is primarily focused on the collection and recording of financial information of the FDI firms for the purpose of developing the country's International Investment Position (IIP).

References

Aryal, B. (2009). Capital Flows and Implication for Central Bank Policies in The SEACEN Countries by Min B. Shrestha and Choon-Seng Lim Vincent http://www.seacen.org/GUI/pdf/publications/research_proj/2009/rp76/8-chap7.pdf:The SEACEN Centre.

Department of Industry. (n.d.). *Industrial Statistics 2074/75*.

Foreign Investment and Technology Transfer Act 2019. (n.d.).

IMF. (2009). Balance of Payments and International Investment Position Manual (sixth edition).

Investment Board of Nepal. (n.d.). *Nepal Investment Guide 2018*.

Nepal Rastra Bank. (2018). *A survey Report on Foreign Direct Investment in Nepal*.

OECD. (2008). Benchmark Definition of Foreign Direct Investment.

UNCTAD. (2018). World Investment Report.

Appendix I
Foreign Investment Approval and Realization in Nepal

(NPR in million)

| Fiscal Year | Approved FDI* | Actual Net FDI** | Percent |
|--------------------|----------------------|-------------------------|----------------|
| 1995/96 | 2,219.90 | 388 | 17.5 |
| 1996/97 | 2,395.50 | 1621 | 67.7 |
| 1997/98 | 2,000.30 | 685 | 34.2 |
| 1998/99 | 1,666.40 | 578 | 34.7 |
| 1999/00 | 1,417.60 | 233 | 16.4 |
| 2000/01 | 3,002.60 | -33 | -1.1 |
| 2001/02 | 1,209.70 | -282 | -23.3 |
| 2002/03 | 1,793.80 | 961 | 53.6 |
| 2003/04 | 2,764.80 | 0 | 0.0 |
| 2004/05 | 1,635.80 | 136 | 8.3 |
| 2005/06 | 2,606.31 | -470 | -18.0 |
| 2006/07 | 3,226.79 | 362 | 11.2 |
| 2007/08 | 9,811.00 | 294 | 3.0 |
| 2008/09 | 6,255.09 | 1,829 | 29.2 |
| 2009/10 | 9,100.00 | 2,852 | 31.3 |
| 2010/11 | 10,050.71 | 6,437 | 64.0 |
| 2011/12 | 7,140.00 | 9,195 | 128.8 |
| 2012/13 | 19,936.00 | 9,082 | 45.6 |
| 2013/14 | 20,107.40 | 3,195 | 15.9 |
| 2014/15 | 67,455.00 | 4,383 | 6.5 |
| 2015/16 | 15,139.53 | 5,921 | 39.1 |
| 2016/17 | 15,153.00 | 13,503.9 | 89.1 |
| 2017/18 | 55,730.38 | 17,512.82 | 31.4 |
| Total | 261,817.61 | 78,383.72 | 29.9 |

Source: *Ministry of Industry, Commerce and Supplies

**NRB

Appendix II
International Investment Position of Nepal
As of mid-July

(NPR in million)

| Description | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17^R | 2017/18^P |
|---------------------------|------------------|------------------|------------------|--------------------|----------------------------|----------------------------|
| Assets | 559,141.9 | 681,315 | 837,788.9 | 1054,012.06 | 1107,787.5 | 1138,241.3 |
| Direct Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Portfolio Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investments | 85,350.8 | 87,562.1 | 111,105 | 136,381.2 | 152,129.8 | 118,135.0 |
| Other Equity | 2,495.8 | 2,502.8 | 5,476.1 | 6,883.7 | 10,765.8 | 8,792.3 |
| Currency and Deposits | 22,025.6 | 29,912.6 | 44,169.5 | 41,796.9 | 43,556.8 | 47,474.6 |
| Loans | 52.6 | 1,228.9 | 64.1 | 57.6 | 3,304.6 | 3,562.2 |
| Trade credit and advances | 5,147.4 | 1620 | 2,234.3 | 338.9 | 9,005.3 | 4,193.6 |
| Other Account Receivables | 55,629.4 | 52,297.8 | 5,9161 | 87,304.1 | 85,497.3 | 54,112.3 |
| Official Reserve Assets | 473791.1 | 593752.9 | 726683.9 | 917630.9 | 955657.7 | 1020106.3 |
| Liabilities | 480,095.9 | 495,392.1 | 542,623.2 | 610,485.3 | 677,024.6 | 85,6117.4 |
| Direct Investment | 52,113.3 | 7,5373 | 106,171.8 | 137,678.2 | 168,611.0 | 200,547.5 |
| Portfolio Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investments | 427,982.6 | 420,019.1 | 436,451.4 | 47,2807 | 508,413.6 | 65,5569.9 |
| Other Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency and Deposits | 56,115.3 | 29,370.5 | 39,870.3 | 40,664.7 | 41,402.3 | 43,498.9 |
| Loans | 347,624.7 | 356,787.1 | 363,962.5 | 405,199.2 | 432,794.1 | 546,906.2 |
| Trade credit and advances | 14,434.6 | 23,686.1 | 22,912.3 | 16,397.4 | 24,381.2 | 54534.8 |
| Other Account Receivables | 20.2 | 41.7 | 38.2 | 362.5 | 66.4 | 154.6 |
| Special Drawing Rights | 9,787.8 | 10,133.8 | 9,668.1 | 10,183.3 | 9,769.6 | 10,475.5 |
| Net IIP | 7,9046 | 185,922.9 | 295,165.7 | 443,526.8 | 430,762.9 | 282,123.9 |

Source: Nepal Rastra Bank

^R = Revised

^P = Provisional

Appendix III
Stock of FDI by Sectors

(NPR in million)

| Sectors | Mid-July 2017 | | | | | Mid-July 2016 | | | | |
|--|-----------------|-----------------|----------------------------------|------------------|--------------------|-----------------|-----------------|----------------------------------|------------------|--------------------|
| | Paid-up Capital | Reserves | Debt from Direct Investor (Loan) | Total | Share in Total FDI | Paid-up Capital | Reserves | Debt from Direct Investor (Loan) | Total | Share in Total FDI |
| Agriculture | 164.9 | 0.0 | 0.0 | 164.9 | 0.1 | 395.2 | 0.0 | 0.0 | 395.2 | 0.3 |
| Industry | | | | | | | | | | |
| <i>Construction</i> | 240.9 | 286.4 | 0.0 | 527.2 | 0.3 | 288.8 | 337.9 | - | 626.7 | 0.5 |
| <i>Electricity Gas and water</i> | 12,917.4 | 4,085.9 | 5,320.6 | 22,323.8 | 13.2 | 10,931.0 | 6,854.9 | 1391.6 | 19,177.5 | 13.9 |
| <i>Manufacturing, Mining and Quarrying</i> | 10,936.4 | 18,991.7 | 581.8 | 30,509.9 | 18.1 | 7,769.7 | 12,710.0 | 333.7 | 20,813.4 | 15.1 |
| Industry Total | 24,094.7 | 23,363.9 | 5,902.4 | 53,361.0 | 31.6 | 18,989.5 | 19,902.8 | 1,725.3 | 40,617.6 | 29.5 |
| Services | | | | | | | | | | |
| <i>Education</i> | 611.9 | 205.4 | 0.0 | 817.3 | 0.5 | 137.9 | - | - | 137.9 | 0.1 |
| <i>Financial Intermediation</i> | 23,633.6 | 12,133.6 | 0.0 | 35,767.2 | 21.2 | 14,048.2 | 10,006.8 | - | 24,055.0 | 17.5 |
| <i>Hotels and Restaurants</i> | 3,051.2 | -168.6 | 200.2 | 3,082.7 | 1.8 | 3,300.3 | -325.2 | - | 2,975.1 | 2.2 |
| <i>Health and Social Service</i> | 151.1 | 6.4 | 57.4 | 214.9 | 0.1 | 686.4 | 210.9 | - | 897.3 | 0.7 |
| <i>Transport Storage and Communication</i> | 2,151.5 | 62,949.4 | 2,136.4 | 67,237.3 | 39.9 | 2,006.5 | 60,533.1 | 2,134.6 | 64,674.2 | 47.0 |
| <i>o/w communication</i> | 1,873.5 | 62,974.0 | 2,134.6 | 66,982.1 | 39.7 | 1,929.5 | 60,533.1 | 2,134.6 | 64,597.2 | 46.9 |
| <i>Others service</i> | 4,264.7 | 167.5 | 3,533.5 | 7,965.7 | 4.7 | 2,011.3 | 622.4 | 1,292.4 | 3,926.1 | 2.9 |
| Services Total | 33,863.9 | 75,293.7 | 5,927.5 | 11,5085.1 | 68.3 | 22,190.5 | 71,048.0 | 3,427.0 | 96,665.6 | 70.2 |
| Total | 58,123.5 | 98,657.6 | 11,829.9 | 168,611.0 | 100.0 | 41,575.2 | 90,950.9 | 5,152.3 | 137,678.4 | 100.0 |

Source: Field Survey

Appendix IV
Country-wise FDI Stock in Nepal
As of mid-July 2017

(NPR in million)

| S.N. | Country | Paid-up capital | Reserves | Loan from Direct Investors | Total | Share in Total |
|------|-----------------------|-----------------|-----------------|----------------------------|------------------|----------------|
| 1 | Australia | 4,094.7 | 1,948.4 | 11.2 | 6,054.4 | 3.6 |
| 2 | Bangladesh | 3,343.5 | 979.7 | 0.0 | 4,323.2 | 2.6 |
| 3 | Belarus | 1.5 | 0.0 | 0.0 | 1.5 | 0.0 |
| 4 | Belgium | 3.0 | 0.0 | 0.0 | 3.0 | 0.0 |
| 5 | Bermuda | 112.1 | 417.9 | 188.2 | 718.3 | 0.4 |
| 6 | Bhutan | 0.6 | 0.0 | 0.0 | 0.6 | 0.0 |
| 7 | Brazil | 2.0 | 0.0 | 0.0 | 2.0 | 0.0 |
| 8 | British Virgin Island | 10.0 | 0.0 | 0.0 | 10.0 | 0.0 |
| 9 | Brunei | 122.7 | -91.8 | 0.0 | 30.9 | 0.0 |
| 10 | Canada | 1.7 | 2.0 | 0.0 | 3.7 | 0.0 |
| 11 | Cayman Island | 97.0 | 58.7 | 0.0 | 155.7 | 0.1 |
| 12 | China | 10,568.1 | -509.5 | 7,069.3 | 17,128.0 | 10.2 |
| 13 | Cyprus | 0.9 | 0.0 | 0.0 | 0.9 | 0.0 |
| 14 | France | 47.5 | 0.0 | 0.0 | 47.5 | 0.0 |
| 15 | Germany | 118.1 | -92.4 | 0.0 | 25.7 | 0.0 |
| 16 | Hong Kong | 3,611.8 | 871.9 | 696.4 | 5,180.1 | 3.1 |
| 17 | India | 14,215.5 | 17,405.4 | 1,247.6 | 32,868.4 | 19.5 |
| 18 | Ireland | 4,023.9 | 3,066.1 | 0.0 | 7090.0 | 4.2 |
| 19 | Italy | 52.6 | -63.1 | 0.0 | -10.5 | 0.0 |
| 20 | Japan | 1,347.7 | -243.6 | 200.2 | 1,304.3 | 0.8 |
| 21 | Kazakhstan | 1.5 | 0.0 | 0.0 | 1.5 | 0.0 |
| 22 | Malaysia | 358.0 | 150.7 | 0.0 | 508.8 | 0.3 |
| 23 | Mauritius | 644.7 | 199.0 | 0.0 | 843.7 | 0.5 |
| 24 | Netherlands | 1,720.7 | 530.3 | 0.0 | 2,251.0 | 1.3 |
| 25 | New Zealand | 8.3 | 3.7 | 0.0 | 12.0 | 0.0 |
| 26 | Norway | 560.0 | 1,381.1 | 0.0 | 1,941.0 | 1.2 |
| 27 | Pakistan | 1,625.9 | 718.1 | 0.0 | 2,344.0 | 1.4 |
| 28 | Philippines | 1.5 | 0.0 | 0.0 | 1.5 | 0.0 |
| 29 | Russia | 143.8 | -30.4 | 0.0 | 113.3 | 0.1 |
| 30 | Seychelles | 24.6 | -2,166.6 | 2,134.6 | -7.4 | 0.0 |
| 31 | Singapore | 3,734.1 | 3,191.7 | 0.0 | 6,925.9 | 4.1 |
| 32 | South Korea | 3,773.9 | -325.6 | 76.6 | 3,524.8 | 2.1 |
| 33 | Sri Lanka | 108.8 | 33.1 | 0.0 | 141.9 | 0.1 |
| 34 | Sweden | 31.7 | 0.0 | 0.0 | 31.7 | 0.0 |
| 35 | Switzerland | 158.0 | -0.5 | 0.0 | 157.5 | 0.1 |
| 36 | Taiwan | 1.5 | 0.0 | 0.0 | 1.5 | 0.0 |
| 37 | Tajikistan | 7.8 | -1.7 | 0.0 | 6.1 | 0.0 |
| 38 | Thailand | 23.0 | 0.0 | 0.0 | 23.0 | 0.0 |
| 39 | Turkey | 18.7 | 5.9 | 0.0 | 24.6 | 0.0 |
| 40 | UAE | 233.5 | 3,612.3 | 58.5 | 3,904.3 | 2.3 |
| 41 | UK | 2,180.4 | 1,221.0 | 0.0 | 3,401.4 | 2.0 |
| 42 | USA | 908.3 | 1311.1 | 147.3 | 2,366.8 | 1.4 |
| 43 | West Indies | 80.0 | 65,074.5 | 0.0 | 65,154.5 | 38.6 |
| | Total | 58,123.5 | 98,657.6 | 11,829.9 | 168,611.0 | 100.0 |

Source: Field Survey

Appendix V
Stock of FDI by Countries and Sectors

(NPR in Million)

| S.N. | Countries | Mid-July 2017 | | | | Mid-July 2016 | | | |
|------|--------------|---------------|-----------------|------------------|------------------|---------------|-----------------|-----------------|------------------|
| | | Agriculture | Industry | Service | Total | Agriculture | Industry | Service | Total |
| 1 | West Indies | 0.0 | 0.0 | 65,154.5 | 65,154.5 | - | - | 62,779.7 | 62,779.7 |
| 2 | India | 39.3 | 20,708.5 | 12,120.7 | 32,868.4 | 104.4 | 16,904.9 | 10,244.8 | 27,254.1 |
| 3 | China | 3.0 | 13,935.4 | 3,189.6 | 17,128 | - | 9,200.9 | 1,643.2 | 10,844.1 |
| 4 | Singapore | 0.0 | 6,284.9 | 641.0 | 6,925.9 | 113.2 | 6286.1 | 735.6 | 7,134.9 |
| 5 | Ireland | 0.0 | 0.0 | 7090.0 | 7,090.0 | - | - | 5,805.3 | 5,805.3 |
| 6 | Australia | 0.0 | 0.0 | 6,054.4 | 6,054.4 | - | - | 3,831.6 | 3,831.6 |
| 7 | South Korea | 4.5 | 3,367.1 | 153.2 | 3,524.8 | 15.9 | 2,769.5 | 119.2 | 2,904.6 |
| 8 | Bangladesh | 0.0 | 0.0 | 4,323.2 | 4,323.2 | - | - | 2,509.9 | 2,509.9 |
| 9 | UK | 1.5 | 260.0 | 3,139.8 | 3,401.4 | - | 222.9 | 2,107.9 | 2,330.8 |
| 10 | USA | 86.3 | 271.9 | 2,008.6 | 2,366.8 | 127.1 | 784.7 | 1,415.8 | 2,327.6 |
| 11 | Norway | 0.0 | 1,941.0 | 0.0 | 1,941.0 | - | 2,041.3 | - | 2,041.3 |
| 12 | Pakistan | 0.0 | 3.0 | 2,341.0 | 2,344.0 | - | 7.9 | 1,764.8 | 1,772.7 |
| 13 | Hong Kong | 0.0 | 847.3 | 4,332.8 | 5,180.1 | - | 640.6 | 804.5 | 1,445.0 |
| 14 | Japan | 5.5 | 185.6 | 1,113.2 | 1,304.3 | 5.5 | 267.9 | 952.1 | 1,225.4 |
| 15 | Netherland | 19.5 | 475.3 | 1756.1 | 2,251.0 | 28.6 | 535.7 | 334.6 | 898.9 |
| 16 | Taiwan | 0.0 | 0.0 | 1.5 | 1.5 | - | - | 729.5 | 729.5 |
| 17 | Malaysia | 0.0 | 0.0 | 508.8 | 508.8 | - | - | 516.6 | 516.6 |
| 18 | Bermuda | 0.0 | 718.3 | 0.0 | 718.3 | - | 318.7 | - | 318.7 |
| 19 | Switzerland | 0.1 | 124.7 | 32.7 | 157.5 | 0.4 | 199.7 | 39.3 | 239.3 |
| 20 | Others | 5.1 | 4,237.9 | 1,124.2 | 5,367.2 | 0.0 | 437.0 | 331.3 | 768.4 |
| | Total | 164.9 | 53,361.0 | 115,085.1 | 168,611.0 | 395.2 | 40,617.7 | 96,665.5 | 137,678.4 |

Source: Field Survey