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# Nepal's Foreign Investment Climate: Potential and Opportunities



## Introduction

Over the years, Nepal has worked tirelessly to improve foreign investment policies in order to foster an investment-friendly environment in the country. Located in the lap of the Himalayas, the country's impeccable landscape ranges from almost sea level in the Terai region to Mount Everest, the highest peak in the world. Nepal's strategic geo-location in between two giant economies-India and China plays a significant role in its development as a business hub. With a range of climatic conditions and ecology within 193 kilometers from south to north and incredibly fertile lands, the country offers ample opportunities for foreign investors to invest in an array of sectors, particularly agriculture and agro-processing, hospitality, and hydropower generation. In addition, manufacturing industries, IT and telecommunications-related services, biodiversity, human resource development, education and health sectors, and pharmaceuticals are among the other highly desirable investment areas.

Nepal is rich in natural resources. The abundance of natural resources in the country, such as limestone, talc, construction-related minerals, and other metallic and non-metallic objects pose a myriad of untapped potential. Additionally, Nepal has a commercially viable hydropower electricity generation potential of 40,000 megawatts (MW), which could become a major source of income through electricity exports. Some of the hydropower projects that have piqued the interest of foreign investors include Seti, Tamakoshi, Upper Karnali, Arun, and Budhi Gandaki. Likewise, other sectors have a similar scope of investment and growth for foreigners investing in Nepal.

There are two laws governing foreign investment in Nepal: Foreign Investment and Technology Transfer Act, 2019 (FITTA) and Public-Private Partnership and Investment Act, 2019 (PPIA). Department of Industry (DOI) and the Nepal Investment Board (NIB) are the respective authorities to approve the foreign investment business in Nepal. Around USD 48 million of foreign investment is being approved by DOI and above USD 48 million is approved by NIB.

FITTA has opened most of the businesses to foreign investors allowing the investor to have 100% equity ownership in the business. There are areas where partial ownership is allowed such as consulting services having a foreign investment of more than fifty-one percent. And there are sectors where foreign investment is not allowed at all, such as poultry farming, manufacturing arms and ammunition, travel agencies, rural tourism, mass communication media, fruits and vegetables, and so on.

Similarly, FITTA has widened the scope of foreign investment in comparison with the previous foreign investment law. The previous law had limited investors only through equity, share purchase, technology transfer, and loan investment. The current FITTA has expanded the scope of investment having included the following ways::

- Lease finance in aircraft, ship, machinery and equipment, construction apparatus, or similar apparatus
- Investment in venture capital fund
- Investment in listed securities through secondary securities market

- Investment made by acquiring shares or assets of a company incorporated in Nepal
- Investment received after issuing securities in the foreign capital market by a Nepalese entity
- Investment made through technology transfer
- Investment maintained by establishing and expanding industry in Nepal.

FITTA guarantees national treatment of foreign investors on an equal footing as Nepali investors with a series of exceptions, inter alia, matters relating to public procurement, government concessions, and the environment. The Act also provides the facility of business and residential visa for foreign investors, his/her dependent family, and also to the authorized representative of such investors. Similarly, a non-tourist visa is available for a foreign specialist, technician or managerial employee coming to work in the industry. Non-nationalization of foreign investment except for public purposes is ensured under FITTA. The Labor law is also flexible to allow employment of foreign laborers in cases where the skilled Nepalese labor force is unavailable.

An automatic route system has been introduced to keep the foreign direct investment-related processes simple and predictable. A one-stop service mechanism has been put in place to provide exemptions, facilities, concessions or other services such as registration, approvals, labor permits, quality check etc. to foreign investors.

## Repatriation

One of the key assuring factors for foreign investors is the provision of 100% repatriation on the earnings or equity. After paying all such taxes as may be leviable, repatriation is allowed in all forms of investment including the residual amount left after payment of all liabilities in case of dissolution or liquidation and the amount of compensation or damages from the final settlement of disputes. The foreign investor can repatriate the amount in the same currency of investment or in other convertible foreign currency with the approval of Nepal Rastra Bank (NRB), the central bank of Nepal.

Furthermore, Hedging Related Regulations 2019 has made the arrangement for the stabilization of the exchange rate of foreign currency for repatriation of investment and helps mitigate foreign exchange loss due to the devaluation of Nepalese currency. But the facility is extended only to critical infrastructure sectors like hydroelectricity, rail, metro or monorail, and construction of fast track roads.

## Tax

Nepal has signed Double Taxation Avoidance Agreement with Austria, Bangladesh, China, India, Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka, and Thailand. Tax concession has been set up for priority sectors like Energy, Transport Infrastructure, and Manufacturing (i.e. 20% for priority sectors while 25% is the general income tax rate) alongside the guarantee of tax rebate for special industries for example entities constructing or operating ropeways.

## Loan Management

To facilitate loan management for the purpose of foreign investment, Nepal Rastra Bank has introduced the Nepal Rastra Bank Foreign Investment and Foreign Loan Management bylaw, 2021 under which foreign investors willing to conduct a feasibility study to invest in Nepal and willing to bring in pre-operating expenses through formal banking channels and are not required to obtain approval from NRB and are permitted to invest up to 3 percent of the authorized capital of the proposed company/industry.

To facilitate investors in investing in the potential sectors in Nepal, the Government of Nepal has constituted a high-level Investment Board, chaired by the Prime Minister of Nepal. The new fiscal policy for the year 2022-23 envisions attracting more foreign direct investment in the country.

For that purpose, it provides for the decrease of the threshold for foreign investment to a minimum of 20 Million NPR (\$160,760) from the existing 50 Million NPR. Nepal also has tariff-free access to the European Union under its Everything-But-Arms initiatives. The Bilateral Investment Promotion and Protection Agreement (BIPPA) signed with 5 countries India, Finland, Germany, Mauritius, UK, and France has added more space for trade and investment.

## FDI Inflows

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.

Net FDI inflows to Nepal increased by 49.1 percent to Rs.1948 billion in 2019/20

## Dividend repatriation

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.

## FDI Stock by Sectors

Industrial sector accounts for about 56.0 percent of total FDI stock whereas 43.9 percent of the total FDI stock is in the service sector.

As of mid-July 2020, 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 544 percent.

**a. Manufacturing, Mining, and Quarrying** sector has the highest FDI stock of Rs.56.07 billion (28.3 percent of total)

**b. Electricity, Gas and Water** stands second in FDI stock with Rs.54.66 billion (27.5 percent) The electricity generation sector, particularly the hydropower sector in Nepal, has been emerging as a preferred sector for FDI in recent years.

**c. Financial intermediation** following in close proximity with Rs.54.29 billion (27.3 percent) hotel and restaurant sector 6.0 percent of the total FDI stock.

## Nepal's International Investment Position (IIP)

Nepal's foreign assets and liabilities stood at Rs1467.76 billion and Rs1,219.12 billion respectively. Consequently, the net international investment position (IIP) of Nepal remained positive at Rs248.67 billion, which was Rs188.86 billion a year ago.

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.6245 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.1243 billion).

The World Bank Doing Business Index of Nepal increased significantly in 2020 by 3.57 points. Thanks to the revision of FITTA and the introduction of Public-Private Partnership Investment Act 2019 and Special Economic Zone Act 2019. Nepal has set the Annual Investment goal of estimated NPR 2025 Billion per year to meet Sustainable Development Goals (SDGs) by 2030 AD. With the investment process simplified and a plethora of institutional and legal mechanisms to facilitate the flow of foreign investment in the country, the country's foreign investment climate has the potential to attune to the needs of investors and reach the said goal. Nepal is currently riding high on the development agendas which can fuel the flow of foreign investment in the country.





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