CHAPTER-I

INTRODUCTION

1.1 Background of Study

Nepal is situated between the two most emerging global economy power of the world, India in the east, west and south with an open boarder and china in the north. Nepal is a landlocked country and home place of natural beauty. Extra ordinary diversities and similarities can be seen here. However, Nepal's gross domestic product (GDP) grew by an estimated 5.2% in Fiscal Year 2014 (ADB, 2014), up from 3.5% a year earlier and exceeding the forecast. Timely monsoon rains boosted agriculture by 4.7%, and robust growth in remittance inflows fueled growth in services at 6.1%. Inflation, which had been expected to stay about the same, moderated from 9.9% last year as food and other price pressures abated on improved domestic food supplies, some easing of inflation in India, and marginal strengthening of the Nepalese rupee. Despite the timely presentation of the complete FY2014 budget, realized public expenditure, especially capital spending, was lower than planned, indicating ministries' continued low absorption capacity. High revenue growth and low expenditure combined to shrink the budget deficit to the equivalent of only 0.1% of GDP. The external position strengthened significantly on the high remittance inflows and despite the widening trade deficit, boosting the current account surplus beyond the forecast to 4.7% of GDP, up from 3.4% in the previous year (ADB, 2014).

In FY2015, GDP growth is now expected to slow to 4.6% as the disappointing monsoons will likely agricultural production. The investment-friendly reforms in the FY2015 budget is likely to boost investor confidence and industrial output, and growth in remittance inflows is expected to stay robust, supporting strong expansion in services and keeping growth just a touch below the 4.7% projected in the Asian Development Outlook (ADO,2014) in April. Inflation is expected to remain elevated in FY2015 as price pressures mount because of the expected smaller harvest, high (though moderating) food prices in India, hikes for administered fuel and transportation prices, and higher public sector wages. Despite accelerated import growth, marginally faster growth in remittances is now expected to generate a current account surplus 0.8 percentage points wider than projected in April (ADB, 2014).

However, Nepalese economy is passing through the critical phase of low-level of equilibrium trap circumscribed by poverty and stagnation and conflict and recession as well. The present level of capital formation of Nepal is too low and any substantial increase in saving is not possible due to extremely low level of income and widespread of poverty. At this juncture, one of the alternatives to pull the economy out of the vicious circle of poverty is the foreign capital. In fact, it is supplementary to fulfill the deficiency of the domestic capital. Hence most of the developing countries irrespective of their size and political systems are now trying to attract foreign investment. A large number of developing countries have now established Export Processing Zones (EPZ) to attract foreign investment (Dahal, etl:2000).

At present private and public foreign capital mostly flowed in the form of direct and indirect investment from Europe to under developed, and developing counties. Such capital has inflows into the low-income countries in the 1920s took form of direct investment, mainly, into production and export. Later the foreign direct investment has been concentrated almost in the major development sector such as agricultural production, manufacturing, tourism service construction, energy based, mineral based etc. In fact foreign direct investment play the vital role for economic development towards developed and developing countries.FDI facilities funds with manpower and technology transforms which are supported to encourage local enterprise to invest with foreign investor. Especially, in case of least developed country, it paves the way for expansion, modernization and development of the vast rural economy helping to materialize the dream of industrialization. Besides, foreign direct investment makes available ample employment opportunities to the local people. It further brings in new and innovative know-how or skills of production and distribution marketing. It is regarded as a powerful means of transfer of technology which helps strengthen trade along with widespread market within and outside the country (Hamal, 2002:52).

1.2 Statement of Problem

Nepal is potentially attractive location for foreign investors. Sandwiched between two emerging countries of the world with India in the south and China in the North,Nepali manufacturers have free access to the India market, and tariffs on imported raw materials and components are lower here than South Asian countries. The varied climate, natural resources and terrain provide a wealth of niche opportunities, many of which are barely being exploited at all. Nepal has attracted modest FDI in niche sectors such as tourism, light manufacturing (apparel) and mineral deposits (lime stone). Investment is mainly in low technology; labor intensive production. The impact of FDI has also been modest primarily in job creation. While the FDI laws were liberalized in 1992, there are still obstacles that investors face. In the short term, Nepal can attract more FDI in its niche sector- such asterism and production of herbs with special investment packages. With all these possibilities, the FDI has been declining and Nepal is not being able to attract minimum requirement. There are some of the weaknesses such as weak financial sector and government's mandate and restriction for entry of new foreign bank up to 2010, geographical constraint, unstable policies and insecurity among the bureaucrats, unclear investment policies, the current political instability, corruption and lack of corporate governance etc. Beside the Maoist and other parties' frequent movement and bands is the threat to bilateral and multilateral development projects. The challenge for Nepal is to put in place an investor-friendly business climate that will compliment its small bureaucracy. This is a serious problem in attracting foreign investment. Against these backdrops it is a great challenge for Nepalese to accumulate capital resources domestically as no one can deny the role of foreign investment in economic growth and development of the country. An assessment of the probable reasons for the declining FDI is thus recognized as the problem of the present study. So that some question are raised issued of the study.

i. What is the trend of foreign direct investment in Nepal?
ii. What are the contributions of FDI on GDP in Nepal?
iii. What are the policies and incentives relating to foreign investment in Nepal?

1.3 Objective of the Study

The general objective of the study is to Analysis of foreign direct investment in Nepal and other specific objectives of the study are as follows:

i. To analyze the trend of foreign direct investment in Nepal.
ii. To examine the share of FDI on GDP in Nepal.
iii. To appraise existing policy and incentives relating to foreign investment in Nepal.

1.4 Importance of the Study

Nepal, a capital poor economy with low domestic saving rate where development expenditure, to a significant extend, are dependent on the foreign aid, foreign direct investment are very necessary lubricant to generate economic growth. FDI is frequently viewed as instrumental in promoting industrial growth and foreign trade particularly in developing countries. FDI maintains relatively open economies, stable macro-economic conditions and limited restrictions on foreign exchange transactions. It frequently stimulates competition, productivity and innovation by local suppliers because local suppliers compete for lucrative contracts with multinational enterprise. Further, it generates income and employment opportunities resulting in higher wages, competitive price, more revenue, skills and technology transfer and increased foreign exchange earnings. It contributes to the development of a host country by increasing the countries investment level beyond what would be permitted by domestic saving alone. Similarly, it enhances entrepreneurial capability when the foreign firms bring with it some firm specific knowledge in the form of technology, managerial expertise, and marketing know-how. It also allows new local entrants to learn about exports markets, provide training for workers and stimulates competition with local firms. Thus, Nepal is to achieve faster rate of economic growth at the present context, it is essential that it create the necessary and amicable condition to attract FDI.

Local suppliers because local suppliers compete for lucrative contracts with multinational enterprise. Further, it generates income and employment opportunities resulting in higher wages, competitive price, more revenue, skills and technology transfer and increased foreign exchange earnings. It contributes to the development of a host country by increasing the countries investment level beyond what would be permitted by domestic saving alone. Similarly, it enhances entrepreneurial capability when the foreign firms bring with it some firm specific knowledge in the form of technology, managerial expertise, and marketing know-how. It also allows new local entrants to learn about exports markets, provide training for workers and stimulates competition with local firms. Thus, Nepal is to achieve faster rate of economic growth at the present context, it is essential that it create the necessary and amicable condition to attract FDI.

1.5 Limitation of the Study

FDI is a vast topic and has various fields to study on. But in this study only ordinary statistics tools have been used based on secondary data and no test has been done for the check of reliability of those data. This study merely analyzes the trends of FDI inflow into Nepal and share of FDI in GDP. But detailed or comprehensive time series analysis has not been done in this due to the time and resource constraints.

1.6 Organization of the Study

The whole research is organized into five main chapters, which are as follows:
The first chapter includes background of the study, statement of the problem, objective of the study, importance of the study, limitation of the study, and organization of the study.similaely, the second chapter deals review of the literature which includes theoretical framework of foreign direct investment. Review of related journals, studies, books and unpublished thesis and other related document in both national and international level. Since the study is focus on FDI in Nepal: Patterns and Prospects, special attention has been given to the previous studies on FDI and other studies related to this topic. However, the third chapter represents the research methodology. It consists of introduction, research design, and source of data, population and sample, data gathering procedure and analysis of data. The fourth chapter comprises the pattern analysis and presentation of data collected from the various sources such as department of Industry. GON, DOI and MOF. It is based on analytical presentation. Different sector data are maintains for the research study such as tourism, manufacturing, service as well as Nepalese and Global context. This is presented into tabular and graphical forms. The fifth and last chapter is suggestive framework base on main summary of overall findings, conclusions and recommendations.

CHAPTER-II

REVIEW OF LITERATURE

The purpose of this chapter is review the available literature related to foreign direct investment globally and in the context of Nepal. This chapter gives an introduction of FDI, the OLI Paradigm for Foreign Investment Decision, Why is Transparency Important for FDI?, financial system and FDI, factor affecting foreign direct investment, global review of FDI with historical background of FDI in Nepal along with legal framework.

2.1 Foreign Direct Investment: An Overview

Multinational corporations (MNCs) commonly capitalize on foreign business opportunities by engaging in foreign direct investment (FDI), which is investment in real assets (such as land, buildings or even existing plants) in foreign firms, acquire foreign firms, and form new foreign subsidiaries. Any of these types of FDI can generate high returns when managed properly. However, FDI requires a substantial investment and can therefore put much capital at risk. Moreover, if the investment doesn’t perform as well as expected the MNCs may have difficulty selling the foreign project it created. Given these return and risk characteristic of DFI, MNCs tend to carefully analyze the potential benefit and costs before Implementing any type of DFI.FDI is conventionally defined as a form of international inter-firm cooperation that involves a significant equity stake in, or effective management control of foreign firm (Mello, 1997). FDI is the international movement of capital for specific investment purposes. Such investments are made for the purpose of actively controlling property, assets, or companies located in host countries. Business organizations undertake FDI to expand foreign markets or gain access to supplier of resources or finished products.FDI occurs when overseas companies set up or purchase operations in anothercountry.FDI can be categorized into three components: equity capital, reinvestment earnings, and intra company loans. Equity capital comprises of the shares of the companies in countries foreign to that of investor. Reinvested earning includes the earning not distributed to shareholders but reinvested into the company. Intra-company loan relate to financial transactions between a parent company and its affiliates. FDI thus may take many forms, including:

i. Purchase of existing assets in a foreign company.

ii. New investment in property like land and building.
iii. Participation in a joint venture with a local partner.
iv. Merger and acquisition of activities.

Balance of payment accounts define foreign direct investment as any flow lending to or purchase of ownership in a foreign enterprise that is largely owned by residents of the investing country. (Kindreberger,1987) FDI is the act of acquiring assets may be financial, such as bonds, bank deposits, and equity shares or direct investment and involves the ownership of means of production such as factories and land. Direct investment is considered to take place also if the ownership of equity shares provides control over the operation of firm.(Johnson,1970) has suggested the expansion of the concept of foreign investment so that it parallels the modern fisherian approach and distinguishes physical human knowledge capital. Focusing on foreign direct investments undertaken by firms, industrial organization theorist analyzed the location choices of multinational enterprises. This approach was pioneered by John Dunning who suggested that firms undertake FDI when three factors are present, and the resulting advantages are sufficient to offset the natural disadvantages of having to operate in foreign country. These are known as the "Ownership, Location and Internalization" (OLI) advantages. A firm must have some product or technology that enables it to enjoy some market power in foreign market (ownership advantage), the firm must see some advantage in producing in foreign location rather than at home (location advantage), and there must be some reason for it to want to exploit the ownership advantage internally, rather than use a market based mechanism to gain payments for it (Such as license or sell its product or technology in the market for a fee (Hymer,1960) found that American FDI was mainly concentrated in a few industries and monopolized by several companies. Multinational companies (MNC's) were the product of imperfect markets and monopoly advantages where the companies had the advantage with regards to choosing where to invest. A number of conclusions can be drawn from Homer's analysis that helps frame up this study:

i. First, FDI tends to flow into differentiated markets where a MNC believes they will have an advantage competitively.
ii. Second, companies that are able to make investments overseas all have certain advantages, such as economies of scale, differentiated products, special skills, and low-cost production. These companies will make investments in regions that do not have these advantages.

iii. Third, there are many ways in which MNCs can invest overseas in such as exporting, and licensing, in addition to direct investment. MNCs without local partners always prefer to choose foreign direct investment.

iv. Last but not the least Hymer found that about half of the overseas operating capital of American firms came from host countries; thus FDI tends to flow into the countries or regions that have developed financial systems and capital markets. (Source: http://en.wikipedia.org/wiki/Foreign_direct_investment).

2.1.1 The Basic Reasons for Attracting FDI by Developing Countries are:

The basic reason for attracting FDI means capital Transfer where developing countries optimal use of resources by using foreign capital so that, FDI is an Importance role of productivity Improvement for developing countries. FDI facilitates technology transfer as well as technological up gradation results in productivity improvement. The results of FDI for developing countries are management development where, local management people get trained in foreign firm. They acquire new concepts, tools and techniques of management. Similarly, Foreign Company generates employment due to cheap labor in developing countries outsourcing is on the increase by global companies. Worker acquires new skills. Similarly, foreign company produces qualitative and branded products. They have high image. They assure quality and supply of product.

2.1.2 Types of FDI

i. Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

ii. Platform FDI Foreign directs investment from a source country into a destination country for the purpose of exporting to a third country.

iii. Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

2.1.3 Voting Methods

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods. The foreign direct investor may acquire voting power by incorporating a wholly owned subsidiary or company anywhere as well as by acquiring shares in an associated enterprise. However, through a merger or an acquisition of an unrelated enterprise by Participating in an equity joint venture with another investor or enterprise

2.1.4 Forms of FDI Incentives

Foreign direct investment incentives may take the following forms. Foreign direct investments facilities for investors for investing in host countries where, investors acquire, low corporate tax and individual income tax rates, tax other types of tax concessions, preferential tariffs, special, Epz – export processing zones, investment financial subsidies, soft loan or loan guarantees, free land or land subsidies, relocation & expatriation, infrastructure subsidies, R&D support, derogation from regulations (usually for very large projects). Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, including Diaspora marketing and excluding the internal investment to get a profited downstream.

2.1.5 Importance and Barriers to FDI

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita. The data available to confirm this are freely available.

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. The local population may be able to benefit from the employment opportunities created by new businesses.

2.1.6 Potential Economic Benefits of FDI

FDI inflows can lead to a range of economic benefits for transitional and developing countries, including restructuring their economic activities in line with dynamic comparative advantage. Reducing their costs of structural adjustment. Similarly fostering more demanding purchasing standards by firms and consumers. Raising the productivity of national resources and capabilities and improving quality standards.

Stimulating economic growth in Nepal started planned programs of economic development as early as mid fifties with the launching of first five-year plan in 1956. The Tenth Plan is now being implemented since mid July 2002. The Plan seeks to achieve a higher rate of sustained economic growth of 8.1 percent per annum by enhancing the competitive capability of industry and commerce sector. To achieve this target, greater emphasis has been given to the participation of private sector and the involvement of people at community level. The Plan takes account of the need to attract foreign investment to meet the five-year capital requirement. The following policies have been spelt out, among others, for the industrial sector in the Tenth Plan:

i. Set up the mechanism to ensure easy availability of financial resources, through financial institutions, to establish industries.
ii. Investment will be channelized to undeveloped or underdeveloped regions of the country, on the basis of national importance, to ensure regional balance.
iii. Industrial security system will be made effective.
iv. Foreign investments will be encouraged in those areas where the country has comparative advantage.
v. Local and newly developed technologies will be encouraged for industrial development.

Government of Nepal has adopted an open and liberal policy to pave the way for the accelerated economic and social development of the country. Especially in the field of industry and trade, the government policy is aimed at giving the private sector a dominant role. The private initiatives and enterprises are expected to increase efficiency and productivity. The government's role will be that of a facilitator providing infrastructure and conducive environment for investment. Although there were a few cases of foreign investment and technology transfer prior to 1981, the industrial policy and the Foreign Investment and Technology Act, 1981 paved the way for regular inflow of foreign investment and technology transfer into the country. Solidarity Ministerial meeting was held in 1982 and an Investment Promotion meeting was held in 1984 for the promotion of foreign investment and for creating awareness of the investment opportunities in the country. Subsequently, Nepal Investment Forum was organized in 1992 at Kathmandu, which was a very successful event in attracting the foreign investors. In order to make the investment climate more conducive GON formulated Foreign Investment and One Window Policy and Industrial Policy based on which Foreign Investment and Technology Transfer Act, 1992 (FITTA) and Industrial Enterprises Act, 1992 (IEA) were promulgated. These Acts were subsequently amended in 1996and 1997, respectively, in order to make these acts more pragmatic based on the experiences gained. The Industrial Policy emphasizes on simplification of procedures, transparency in implementation and improvement of productivity through the up gradation of technical knowhow and efficiency of the industries in order to compete in the free and competitive world market by utilizing comparative advantages of the country with minimum adverse effects on environment. Whereas, the Foreign Investment and One Window Policy aim:

i. To build a strong and dynamic economy by generating additional opportunities for income and employment through expanding productive activities.
ii. To increase the participation of the private sector in the process of industrialization.
iii. To increase productivity by mobilizing internal resources and materials in productive sectors and by importing foreign capital, modern technology, management and technical skills.
iv. To increase the competitiveness of Nepalese industries in international markets.

2.1.7 The OLI Paradigm for Foreign Investment Decision

The Ownership, Location, and Internalization (OLI) paradigm is generally viewed as the preeminent theoretical framework for foreign investment decisions (Dunning,

1993) The OLI framework postulates that the decision to produce internationally is based on three conditions. First, a firm should possess ownership-specific advantages over firms in other countries. Possible examples include unique property rights or a broad variety of other intangible aspects, such as a product innovation advantage in marketing. Additionally, some location advantage must be gained by going abroad, such as a savings in transport costs, natural resources specific to the host country, proximity to a large market, or a need to get around trade barriers. Finally, a firm must desire to maintain possession of this advantage, rather than simply selling or licensing it to foreign companies. In other words, the firm must want to internalize its advantages across different markets.

The political environment of a host state can affect the ownership, location, and internalization aspects of the OLI paradigm. Through the proper regulatory environment, a state can enhance ownership advantages by helping a firm preserve its intangible aspects or monopolistic advantage over local producers. State credibility decreases political risk and cost of internalizing production as multinationals gain confidence that the state will not adopt policies after initial investment that negatively affect their operations (Jensen, 2003). Yet the role of the host state is strongest as a location factor. Obviously, some location criteria, such as natural resources and port access, are essentially fixed. There are various other ways, however, that states can make their location more desirable. They may offer preferential taxation policies and other financial incentives. Moreover, as discussed below, the political environment of a host country and the education and skill levels of the workforce may also factor as location criteria suggests that transnational corporations (TNCs) will invest in a foreign location only if the latter offers certain location-specific advantages in terms of resources and facilities that make it possible for the TNCs to explore their firm-specific ownership advantages. Some author suggested that the location decisions are influenced by a number of factors divides these factors into two groups:

i. Supply factors (such as labor costs, skills level of the labor force, and corporate taxation); and
ii. Demand factors (such as market size and growth, and geographical location).

2.1.8 Why is Transparency Important for FDI?

Transparent economic policies are vital for foreign investors, and the reasons are several. The first reason is that non-transparency imposes additional costs on businesses. These additional costs arise as firms have to tackle the lack of information that should have been provided by the appropriate government department in the implementation of its policies and in the activities of government institutions. For example, firms bidding for a state asset expect to receive full information from the government about the company to be privatized. Any set of information that falls short of the expectation of the bidders will have to be supplemented – at extra costs, and the latter are typically incurred by the bidders. Additional costs are also incurred because of corruption - another element of non-transparency identified above. In many countries, bribery is illegal. Bribery raises, therefore, the risks and the costs of non-compliance, and the companies will only take the risk if the rewards are sufficiently high. Corruption can indeed be very costly to firms. By way of example, bribes are estimated to have accounted for 7percent of revenue of firms in Albania and Latvia in mid-1990's and in Georgia the corresponding figures was even higher – 15 percent (Kaufmann, Pradhan & Ryterman, 1999). This process would lead to an investment selection that often has little to do with choices based on bona fide project appraisal but rather to projects selected on the basis of contacts, pressures, rent-seeking alliances etc. Moreover, the majority of law-abiding companies will typically avoid doing business in countries in which bribery is an inseparable part of business.

In brief, the existence of strong legal provisions against bribery and their effective enforcement will go a long way towards inducing FDI flows. The second reason why transparent economic policies are important for FDI is because they facilitate cross-border mergers and acquisitions. When firms decide to acquire companies abroad, they will often have to have their acquisitions approved by the Monopoly Commission or its equivalent in the host (i.e. foreign investment receiving) country. However, the practices of these competition commissions often vary from country to country and from region to region. The European competition policy that the Competition Commission of the European Union enjoys high level of discretion with very little transparency.

It is perhaps, therefore, not surprising that we have so far witnessed little of cross-border mergers and acquisitions within the European Union. The third reason is closely related to the previous discussion of competition policies. Foreign investors require transparent protection of property rights. As we have argued above, investors generally require that their property be protected and that the protection be transparent. What holds for investors in general holds, of course, it holds for foreign investors in particular. This conclusion is intuitive but it also has a strong backing from business attitude surveys and from empirical literature such as the study of (Rapp et al. 1990) who find that effective protection of intellectual property rights is strongly correlated with inflows of foreign investment. The fourth argument for transparent economic policies is that they positively influence business attitudes. Virtually all surveys of business attitudes convincingly show that companies base their decisions to invest abroad on their perceptions of what economists like to call "fundamentals". The latter include macroeconomic conditions such as low and predictable inflation, prospects of fast economic growth, healthy balance-of-payments position. They will typically also include factors such plentiful and relatively skilled labor force, access to natural resources, efficient infrastructure etc. Furthermore, and most importantly in the context of our paper, investors typically seek clear, open and predictable economic policies that minimize the risks of unpleasant and costly surprises. Open trade and investment regimes are particularly powerful instruments to attract investments in general and foreign investments in particular (Selowsky & Martin, 1997). Clearly, transparency of economic policies and government institutions figures prominently on the minds of businessmen and in the meetings of corporate boards of multinational companies. The absence of comprehensive and symmetrical legal provisions concerning business practices has a number of effects for companies. One of the most serious effects is arguably their impact on the competitive position of firms which may differ among countries as a result of these differences. For example, U.S. Federal law prohibits U.S. firms from using bribery to gain access to foreign markets. By contrast some European countries allow firms to treat bribes paid as deductions in calculating their tax liabilities.

This asymmetry of rules poses a disadvantage for U.S. firms. Therefore, the elimination of corruption is an important issue for U.S. firms as a means to level the playing field. Finally, there is another, and perhaps the most important reason why economic policies must be transparent if countries can establish favorable conditions for capital inflows. The reason is countries' policy performance and transparencies are monitored by outside agencies which have a crucial impact on decisions of foreign investors. These agencies include the IMF and various private credit rating agencies. Their influences are different – the IMF provides a “credit of approval" of sound economic policies while credit rating agencies evaluate the credit risk of the country concerned. Their similarity rests on the fact adverse judgment on government policies in a given country will typically lead adverse perceptions by foreign investors of that country. As frivolous as it might sound it is a well known fact from the business community that foreign investors would base their investment decisions on credit assessments and country rankings established by some credit rating agencies. The fact that we shall also heavily rely on country rankings in our empirical part further below is not, therefore, an entirely academic exercise but one that is strongly derived from the reality.

2.1.9 Factor Affecting Foreign Direct Investment in Nepal

Capital flow resulting from FDI change whenever conditions in a country change the desire of firms to conduct business operations there. Some of the more common factors that could affect for FDI country they are follows.

High Transportation Cost: High transport costs arising from its unique geography are obviously a significant constraint faced by Nepal and put it at a disadvantage compared to many other low-wage countries in attracting export-oriented FDI. Apart from the long distance to Indian ports (the port of Calcutta is about 1,000 kilometers away by the shortest route), inefficiencies of the Indian railways and ports add to the cost of transport for potential exporters from Nepal. It is also alleged that shipments from Nepal are given low priorities at the highly congested Indian ports.4 However, focusing on high transport costs per scan lead to misleading inferences for Nepal’s potential in labor-intensive export industries for two reasons. First, the relative cost advantage of Nepal arising from low wages (less than $20 per month for the average factory worker) may, in certain cases, outweigh the relative disadvantage arising from high costs of transport. Second, landlocked economies, such as Nepal, can choose to specialize in “low weight per unit value” products, provided, of course, the overall economic environment is conducive for the production for such products (Srinivasan, 1986). Moreover, it is important to note that adverse cost implications arising from landlessness can be minimized through suitable government policy in the areas of land and air transport, and customs administration.

Changes in Restrictions: During the 1990s, many countries lowered their restrictions on FDI, there by opening the way to more FDI in those countries. Many US based MNCs including Bausch and Lomb, Colgate-Palmolive, and General Electric, have been penetrating less developed countries such as Argentina, Chile, Mexico, India, China, and Hungary. New opportunities in these countries have risen from the removal of government barrier. Privatization: Several national governments have recently engaged in privatization or the selling of the same of their operations to corporations and other investors. Privatization is popular in Brazil and Mexico, in Eastern European countries such as Poland and Hungary, and in such Caribbean territories as the Virgin Island. It allows for greater international business as foreign firms can acquire operations sold by nationalgovernments.Privatization was used in Chile to prevent a few investors from controlling all the shares and in France to prevent a possible reversion to a more nationalized economy. In the United Kingdom, privatization was promoted to spread stock ownership across investors, which allowed more people to have a direct stake in the success of British industry. The primary reason that the market value of a firm may increase in response to privatization is the anticipated improvement in managerial efficiency. Manager in privatization is the anticipated improvement in managerial efficiency. Manager in a privately owned firm can focus on the goal of maximizing shareholder wealth, whereas in a state –owned firm business, the state must consider the economic and social ramifications of any business decision. Also, managers of a privately owned enterprise are more motivated to ensure profitability because their careers may depend on it. For these reasons, privatized firms will search for local and global opportunities that could enhance their value. The trend toward privatization will undoubtedly create a more competitive global market place.

2.1.10 Potential Economic Growth

Countries that have greater potential for economic growth are more likely to attract. When assessing the feasibility of FDI firms estimate the after tax cash flows that they expect to earn.

Tax Rates: Countries that impose relatively low tax rate on the corporate earnings are more likely to attract FDI. When assessing the feasibility of FDI, firms estimate the after-tax cash flows that they expect to earn.

Exchange Rates: Firms typically prefer to direct FDI to countries where the local currency is expected to strengthen against their own. Under this condition, they can invest funds to establish their operations in a country’s currency are relatively cheap (weak).Then earnings from the new operations can periodically be converted back to the firm's currency at a more favorable exchange rate.

2.2 Empirical Review of Nepalese Research in FDI

Nepal is situated in south Asia is bordered by Tibet Autonomous region of china in the north and India in the east west and south. the country is roughly rectangular inscape, with at total land area of 147181 square kilometers (sq km), stretching 885km from east to west and between 145 Km and 241 Km from north to south, with amen width of 193 km.Topographically, the country can be divided into three distinct regions from north to south: the mountainous region, hilly region and flat plains, known the Terai. Lyingat an altitude ranging from 4877 to 8848 meters above sea level, the mountainous region includes the Himalayas, world's highest mountain chain. Nepal Himalayas comprises nine of the world's highest peaks, including the highest, Mount Everest (in Nepali, Sagarmatha). The hilly region lies in the middle of the country, altitude varying between 610 and 4877 masl. Kathmandu Valley, where the country's capital, Kathmandu is situated, and many other scenic valleys, basins and pockets are located in the region. The Terai, which is an extension of the genetic.

Plains of India, forms a low flatland along the southern border. It comprises most of the fertile land and forest areas of the country, and rich and big river basins. Nepal had attracted modest FDI in niche sectors such as tourism, herbal products, mineral deposits (lime stone), and light manufacturing apparel; hydro power and that it had positive impacts on exports, particularly garments. FDI has also enabled the country to export non-traditional manufactured products such as micro-transformers and personal consumer products (UNCTAD, 2003b). Investment was mainly in low-technology, labor-intensive production. The impact of FDI had also been modest, primarily in job creation. According to the study, FDI inflow was constrained by political instability, outdated foreign investment law, rigid labor regulations and poor physical infrastructure. This situation remains current due to political instability and political transition.

FDI is considered beneficial in view of its contribution to technological transfers, enhancement of managerial capability and new opportunities for market access.FDI, particularly in the form of equity investment, adds to the capital stock of the country and thus enables the recipient country to achieve faster economic growth through momentum in capital formation. Increases in FDI are also seen as leading to increases in exports by creating international markets through new marketing and organizational skills. The inflow of FDI in Nepal began in the early 1980s through the gradual opening upon the economy. From 1980 to 1989, FDI inflows to Nepal were minimal with an annual average of US$ 500,000. FDI inflow showed a distinct acceleration during the 1990s averaging US$ 11 million per annum during 1990-2000, peaking at US$23 million in 1997 (UNCTAD, 2003b & 2006). This was primarily due to Nepal's more liberal trade policies, which comprised tariff rate reductions, the introduction of a duty drawback scheme, the adoption of a current account convertibility system and liberalization of the exchange rate regime. A reversal in the rising trend took place from the beginning of the 2000s. All in all, FDI inflow is the lowest in Nepal.

Even when compared with other landlocked countries (World Bank, 2003). A comparison of other Asian countries, Nepal indicates a poor performance of FDI (UNCTAD, 2003b). The fact that Nepal is landlocked, coupled with its infrastructure and low level of labor productivity has also constrained FDI inflow into the country. Many foreign investors in Nepal are individuals rather than corporate entities. Most of the FDI projects are of small size 72%, medium-sized 16.5% and large-sized industries 11.5%. Much of the FDI inflow is for joint ventures because of non-commercial risks by offering shares to local partners. Most of the FDI in Nepal is Greenfield-type investment rather than acquisition. FDI is highly concentrated in the manufacturing sector, which accounted for slightly more than 45 per cent of approved FDI projects. Within the manufacturing sector, the textile and garment industry accounts for 28 per cent of total foreign investment, followed by the chemical and plastic industries at 25.3 percent. Tourism is second, accounting for almost 25 percent of total FDI projects, followed by the service sector with 20 per cent of FDI projects.

Although the electricity, water and gas sector has just a few FDI projects, it ranks fourth highest in terms of the size of FDI inflow. In total, FDI comes from 50 countries. But the scale and number of projects by each country vary considerably. Of that total, in terms of investment, India alone accounted for more than 40 per cent, followed by the United States and China. Those three countries alone account for two-thirds of cumulative FDI in

Nepal. In terms of number of FDI projects, India ranks first, followed by China, Japan and the United States. Nepalese and Indian nationals do not need passports or visas when traveling between their countries. Similarly, the Indian currency is freely convertible in Nepal. A special relationship with India regarding preferential trade arrangements also provides an additional incentive to Indian investors.

2.2.1 Legal and Institutional Framework in Nepalese context

Nepal cannot be far from the benefits of Foreign Direct Investment (FDI). So Nepal has been given priority for the attraction of FDI and its development by different polices and rules in national and international level to promote foreign investment and technology transfer for making the economy viable, dynamic and competitive through the maximum mobilization of the capital, human and other natural resources.

Today, Nepal is one of the most liberalized countries in the South Asian region. However, growth performance has been very poor in recent years. In this context, a closer examination of the linkages between foreign direct investment and growth is critically important from a policy point of view. There are highly liberal FDI and GDP-related policies supplemented by important Acts. In the aftermath of liberalization that began in the early 1990s, FDI increased substantially. However, that could not be sustained for long. After becoming a World Trade Organization (WTO) member in 2004, Nepal has been pursuing further opening up and liberalization policies on the FDI. Nepal is also a member of the South Asian Preferential Trade Arrangement (SAPTA) and the Bay of Bengal Initiative for Multi-Scrotal Technical and Economic Cooperation-Free Trade Area (BIMST-ECFTA). New initiatives on FDI have been taken with the aim of enhancing sustained growth and reducing poverty.

Although the Government of Nepal is open to foreign direct investment, implementation of its policies is often distorted by bureaucratic delays and inefficiency. Besides this, Nepal is still facing some problems for FDI because of lack of direct access to seaports, difficult land transport and lack of trained personnel, scarce raw materials, inadequate power insufficient water supply, non-transparent capricious tax administration inadequate and obscure commercial legislation, and unclear rules regarding labor relations.

In the pre-liberalization period, the investment regime was more restrictive. Investors had to obtain a government license before undertaking any production and business activities.

The FDI was almost nil before 1980. Although some attempts to liberalize the investment policy were made from the beginning of the 1980s, it was speeded up only after 1990. To ensure investment, both domestic and foreign, the Government adopted various liberal policies, which are still in operation. These policies include the Industrial Policy, 1992, Industrial Enterprises Act, 1992 (first amendment, 1997), Foreign Investment and One-window Policy, 1992, the Foreign Investment and Technology Transfer Act, 1992, the Finance Act of 2002 and the recent Finance Ordinance 2004 (an annual budget act) the Immigration Rules of 1994; the Customs Act of 1997; the Industrial Enterprises Act of 1997 the Electricity Act of 1992; and the Patent, Design and Trademark Act of 1965. In a positive development, Nepal passed the Copyright Act in 2002 etc.

Nepal is trying to attract FDI with the different rules and policies. Besides this, FDI has been involved in every five year‘s Government plan and also some institutional arrangements for FDI promotion have been implanted for its development. In the recent decade, Nepal is well coming FDI and has been benefited .Some of the literature suggests that the FDI inflows have a positive impact on economic growth of host countries and other literature suggests not at all. However, FDI in itself is not a development but may act as a catalyst for the needed progress and therefore, warrant further study.

2.2.2 Key Policies of the Government of Nepal (GON) for Promoting Foreign Direct Investment

Foreign direct investment will be encouraged in sectors such as hydropower, tourism, agriculture and non-timber based high value products, development of education and health-related facilities, financial services, information technology and biotechnology related industries. However, FDI will be encouraged in export oriented industries, natural resources excavation, construction of tool roads and construction of goods management and terminal as well as individual are interested in investing in the development of infrastructure for dissemination of employment technology, compatible with the existing economic structure, will be encouraged. An appropriate policy will be adopted to attract capital, skills, efficiency, and technology of non-resident Nepalese. Nepalese diplomatic missions abroad will be mobilized to promote foreign investment and high level investment promotion board will be established to facilitate foreign investment. This board will function as a ‘one-window’ shop for meeting the requirements of projects opportunities will be provided to international oil companies for the exploration of petroleum at feasible locations. Although, effort to facilitate the entry of foreign investment and technology in the areas of comparative advantage and priority sectors will be made by creating an investment-friendly environment (DOI, 2009).

2.2.3 Double Diamond Model

The Conventional Theory of FDI or Porter's Diamond Model was a masterpiece in explaining the upward flow of FDI but the explanatory power of the Diamond Model came into question as the current trend of FDI from less developed countries to more developed countries could not be explained by this model. Therefore, Moon Hwy Chang and Jeffrey Alan Roehl extended the Diamond Model into Double Diamond Model explaining that the motivation factor for foreign investment by the MNCs is not only the potential advantages but also disadvantages. They explain if an MNC realizes some deficiencies in terms of competitiveness compared to its competitors, then it goes to invest abroad so that it could get access with high skills, technology and be able to fix its disadvantages. Therefore, Double Diamond Model explains more clearly about the current trends of FDI flows.

2.2.4 Key Determinants of FDI

Theoretically, FDI can benefit both the home country and host country in many ways. But, MNCs decision to go to invest in a country will be determined by a number of factors. They will be motivated when the business environment in the host country is conducive and their investment is secured. From the home country perspectives, the main objective of the MNCs to go abroad is to gain profit. FDI originates from the decision of a transnational corporation (TNC) to locate or relocate part of its activities in a selected host country. This decision is underpinned by the desire to exploit its specific advantages in the form of technology, managerial expertise, marketing know-how, etc. Although, countries do offer financial incentives and various concessions to attract such investment, they are thought to be relevant to TNCs' decision making only if the general business environment is conducive for making profit (Wells & Allen, 2001). Assuming that a favorable investment environment exists, it is important to figure out the motives of the TNCs to operate in the host countries. So, the decision of the MNCs to invest in a host country depends on these motives as well as their firm-level advantages and country-level advantages too. The following table presents the key determinants of FDI.

2.2.5 Key Policies of the Government of Nepal (GON) on the Industrial Sector

The Government of Nepal necessary amendments will be made in the policies related to industry, foreign investment and trade where, procedure will be simplified to attract foreign investment and to establish new business. The government will be extend support for the promotion, identification and development of products having comparative advantage in areas such as hydroelectricity, herbal production and processing, organic farming, information technology and medicines. An industrial security force will be constituted incorporating the private sector for better industrial security as well as Multinational companies will be invited for the exploration and extraction as well as production of petroleum products. The law relating to special economic zones (SEZs) will be enacted. The SEZS will also be developed in Jhapa ,Dhanusa, Birgung, panchkhal,Jumla and Dhangadi to accelerate the establishment of infrastructural industries to enhance Nepal’s export capacity as well as increasing industrial processing of local resources.

i. The government will reform Nepal Industrial Development Corporation (NIDC) as it is in a state of inaction due to inadequate capital and weak management.
ii. The government will take initiative to establish infrastructure banks with the involvement of the private sector.
iii. Load-shedding will be ended in industrial corridors.
iv. The government will make available public and barren land on long –term lease to the private sector to establish dairy industries, amusement parks, tourist rest houses and resorts, hotels, universities and technical institutes with their investments.
v. To reduce dependence on petroleum products, industries locally producing biodiesel and using widely available plant Sajivan (Zatropha) and mixing ethanol in petrol by up to 10 percent will be encouraged (DOI, 2009).

2.2.6 International Relations

Nepal foreign policy is guided by the principles enshrined in the Charter of the United Nations (UN) and the Non- Aligned Movement. As such, Nepal enjoys cordial relations with all countries of the world. This is manifested by her diplomatic relations with 128 countries, maintained though twenty-six residential embassies, three consulates and numerous honorary consul general's or consulates abroad. Similarly, twenty- two embassies, consulates, cooperation offices, country representatives of various international organizations, including the UN, World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB) ,based in Kathmandu, have made significant contributions to help Nepal achieve its foreign policy and economic development goals. Economic diplomacy has been adopted as another significant dimension of Nepal's foreign policy priorities in recent years. Its main objectives are to promote Nepal's export trade, attract greater number of tourist to Nepal and enhance the flow of foreign direct investment (FDI) in to the country. Nepal attaches considerable importance to the promotion of close economic cooperation in South Asia. Towards this end, it is actively working with other members of the South Asian Association for Regional Cooperation (SAARC) for the realization of South Asian Free Trade Area (SAFTA), and is also engaged in sub-regional cooperation in the form of the South Asian Growth Quadrangle (SAGQ), comprising, among others, Bangladesh, Bhutan and India. Nepal has also been a member of the Bay of Bangle Initiative for Multi-Sect oral Technical and Economic Cooperation (BIMSTEC). Nepal acceded to the World Trade Organization (WTO) in 2004. Nepal has been member of the UN and its specialized agencies since 1966 and World Bank and IMF.

2.2.7 Investment and Repatriation

Investment: Foreign investment may invest part of their equity capital in the form of either convertible foreign currency acceptable to Nepal Rastra Bank, the central bank of Nepal, through proper banking channel or plant, machinery and equipment required for the approved industry. For investment in the form of plant and machinery, prior approval of the DOI is a must. Indian national may invest in Indian currency through proper banking channel. Foreign investment must be brought inside Nepal only after obtaining the approval of the DOI. It is also necessary that the investment is brought inside the country only through proper banking channel and that the foreign investor or industry maintains the documentary proof of the investment brought-in. This proof must be produced at the time of repatriation.

The foreign investor wants to invest in the form of plant, machinery and equipment, it must be clearly stated in the joint venture agreement. While opening a alerter of credit to this effect, approval of the DOI must be obtained before the shipment. This is essential for custom clearance of the goods imported. For such approval, the company or the industry must submit to the DOI a copy of resolution of board of directors, along with the original manufacturer’s detailed invoice of machinery, indicating the quantity and the price of each unit of equipment. In any case, the supplier must guarantee that the price of the machinery is competitive, and it must be supported by the manufacturer’s invoice. If the foreign investment is in the form of a loan to an industrial firm or company, an agreement must be entered into by the investing foreign party and the Nepalese industry, stipulating the terms and conditions, including the amortization schedule and interest. Approval of the agreement must be obtained from the DOI before transferring the loan. Such loan amount must be brought through proper banking channel. If industry wishes to obtain a foreign loan in the form of machinery and equipment or in deferred credit, an agreement to that effect must be entered into, stipulated the price of the plant and machinery, interest rate, mode of payment, along with detailed list of the plant and machinery. Approval of the DOI must be duly obtained. The supplier must guarantee as to the competitiveness of the price of the machinery, and it must be supported by the manufacturer invoice. If no letter of credit is opened, approval of the DOI must be obtained before the shipment for the custom clearance. In case the machinery to be imported as part of investment is a second-hand one, evaluation and certificate of guarantee by an independent surveyor must be attached. The foreign investment and technology transfer act 1992 allows foreign investor investing in a foreign currency to repatriate the following amounts out of Nepal. Income from the sale of the share of foreign investment as a whole or part there of Profit or dividend from foreign investment. Payment of principal and interest on foreign loans. Income from the agreement for transfer of technology in such currency as set forth in the agreement concerned approved by the DOI. A foreign national who is working in an industry with prior approval of the Department of Labor and who is from a country where convertible foreign currency is in circulation may repatriate his/her salaries, allowances and emoluments inconvertible foreign currency in an amount not exceeding 75 percent of such salaries, allowances and emoluments. To obtain the repatriation facility, the foreign investor or technology supplier or expatriate or the company concerned must obtain recommendation from the DOI. Repatriation of sale of shares for the repatriation of the amount earned from the sale of shares, the foreign investor or company concern should apply to the DOI, along with the following documents, for recommendation to Nepal Rastra Bank, Proof of investment made and number of shares owned (the proof of investment could be certificate from the commercial bank through which the investment was brought into Nepal. Letter from the company certifying the completion of the transfer of the shares in question with the certification an authorized body. Prior approval of the DOI, if the share was transferred to a foreign national Tax clearance certificate, Custom declaration form and the approval letter if the investment was made in the form of plant, machinery and equipment and Copy of board of directors' resolution. A foreign investor wishing to repatriate his/her dividend from his/her investment as per the Foreign Investment and Technology Transfer Act 1992 has to obtain the recommendation of the DOI. For this, the foreign investor or company has to apply to the DOI, along with the following documents. Documentary proof of investment, issued by a commercial bank. This document is needed only for the first time and again only when further investment is made by the investor. Custom declaration certificate for the import of plant, machinery and equipment, if the investment is in the form of capital equipment, Auditor's report, including balance sheet and profit and loss account, Tax clearance certificate, and Proof of dividend declaration. The industrial unit with foreign loan has to apply to the DOI for sending out the principal and interest on foreign loan obtained with the approval of the DOI, along with the following documents, Certificate from the commercial bank regarding the transfer of loan amount into Nepal. Custom declaration certificate and invoice of the plant and machinery, if the loan was obtained in the form of machinery, letter of approval of the loan agreement, and Tax clearance certificate as well as Income tax on interest on foreign loan should be deducted at source as per the prevailing law and is to be deposited at the tax office. The industrial unit with approved technology transfer agreement, trademark license agreement, management agreement, technical assistance agreement, etc can apply to the DOI for the transfer of fees as per the agreement. The company has to submit the calculation of the amount due to the foreign technology supplier, certificate by the auditor, along with the certificate of payment of income tax on royalty as per the prevailing tax rate.

The repatriation of the salaries, allowances and emolument received by an expatriate, the industry has to apply to the DOI for the recommendation, along with the following documents, work permit issued by the Department of Labor as well as document showing the salaries and allowances received during the period for which repatriation is sought.

2.3 Review of Nepalese Research Studies

Bista (2010) has published the book entitled "foreign direct investment in Nepal" and he has mentioned some condition of FDI in Nepal and they are: Most investment in Nepal is small and most investor are individual than companies as such. Most of those consulted by UNCTAD were however corporate investors. Some 40% of the FDI in Nepal is Indian. This is of course, to be expected, given the open border between Indian and Nepal and the historic links between the two countries.

Dangal (2011) in his M.A. dissertation entitled as "The problems and prospect of foreign investment in Nepal" submitted at the CEDECON studied the need, nature and extent of FDI in Nepal, observed the laws and policies and other general determinants of FDI including motivating factors affecting decision to invest in Nepal, problems and prospects of FDI in Nepal. His study supported by both primary and secondary sources revealed foreign investment scenario in Nepal has been dismal. Despite it's free market reforms and incentives, Nepal has attracted only a small portion of FDI flowing to south Asia. The analysis of flow of FDI in the country reveals that it commenced to flow remarkably into Nepal from the time liberal policies in the matter of getting private domestic or foreign investors involved into the economic activities of a country.

Sharma (2012) has studied the "foreign investment in Nepal and its impact on National economy", the situation and trend of foreign investment in Nepal and problem of foreign investment Titration in Nepal policy improvement made by the government to attract foreign investment.

Basnet (2012) studied a dissertation submitted to the CEDECON entitled "foreign direct investment in Nepal by using quantity and quality data". In this dissertation has been written about overall structure of FDI in Nepal, foreign financial collaboration in Nepalese industries, problems, prospects and constraints of FDI in Nepal and suggest recommendation.

Pyakuryal (2012) studied the book entitled "Impact of Economic Liberalization in Nepal" has analyzed the effect of economic liberalization in attracting foreign investment in Nepal. The study is solely with the aim to assess the impact of economic liberalization on various sectors of the economy based on secondary data source published by different government agencies.

Timilsina and Mahato (2013) studied in "Economic Development and Foreign Investment in Nepal" issues and prospective published by Nepal society for applied economics explain that the foreign direct investment is a means of industrialization which would lead to diversify the economy for durable, social psychological and institutional framework. to Quote them, "foreign investment is considered important for the industrialization of Nepal. Some basic features associated with the direct foreign investment are that it will attract capital, technology, and expertise further more it will help to share risks, exploit resources presently and provide access to export market, all these factors are either in short supply or absent in Nepal".

Dahal and Aryal (2013) in the book entitled Nepalese Economy: Towards Building a Strong Economic Nation state under the topic "Foreign Direct n Investment in Nepal with special references to Indian joint ventures".

2.4 Research Gap

Research gap mean different between previous research studies and current research studies. In this chapter previous researcher not including part likewise, Year base; objective base, research topic base, and pattern base of Foreign Direct Investment in Nepal are including research for the research studies. This topic fulfill the gap between previous and current FDI including Analysis of Foreign direct investment in Nepal, this is no issued for the previous research studies.

CHAPTER -III

RESEARCH METHODOLOGY

This chapter aims to show the way and methods of research implanted by the researcher while preparing this thesis. The methodologies such as nature as sources of data, data collection techniques presentation, tabulation and graphics are use in this research.

3.1 Research Design

This study is undertaken quantities and qualitative research method and various secondary data. Based in the problem of the subject matter of this study above the researcher gives better understanding of the research area, so it will get detailed information of describe the understanding at the objective of research. It will use the frame of reference and aim to gain a deeper understanding of the phenomenon as well as analyze the data in the form of numbers statistically. This research is based on quantitative data. The description of the situation of FDI in Nepal, the historical background of FDI and account of different options of experts on FDI are all qualitative and quantitative. Information while the numerical data of inflows of FDI in South Asia, SARRC countries and Nepal as well the graphic representation of fact and figures are in quantitative information. So both qualitative and quantitative will be author inclination.

3.2 Tools and techniques of data collection

This is based on secondary data, where were collected through different source. Moreover, various methods of research, techniques were adopted while collecting the data from the study area. In this study secondary data had been collected by using different tools and techniques. Secondary data were collected from various official records, various economic, journal, published and unpublished seminar paper, various website, FDI related book and bulletins.

Source of Data

Mainly, this study is conducted on the basis of secondary data. The secondary data are gathered in the form of World Bank report, UNCTAD reports, data from Departments of Industry, Ministry of Finance, Economic Survey, Economic reports, FDI related articles and website. The researcher has mostly depended on the secondary source for the collection of data.

3.3 Data Gathering Procedure

The researcher has collected the annual trend of FDI Inflow from Department of Industry, Ministry of Finance and other related books. On some aspects, data has also been collected from the World Bank websites and reports.

3.4 Data Analysis

Data processing and analysis is the most important step in research. The effectiveness of the study could be measured through the presentation and analysis of data. In this study, collected data is processed using both manual and computer tools. Similarly, simple statistical and mathematics graphs have been used as per the necessity to analyze, interpret and present the findings.

CHAPTER -IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Trend and Pattern of FDI

In this chapter we analyze the data after converting the unprocessed data into an understandable form. The chapter covers particularly patterns and prospects of inflow of FDI in Nepal that has been analyzed into year wise and sector wise. This chapter also presents the available facts and reviews related to foreign direct investment in country wise analysis in context of Nepal. In country and scale wise FDI distribution, especially different continent countries are investing different scales project in Nepal. Where Nepalese people are getting more employment opportunities through FDI as well as economic growth and development. FDI plays vital role for economic development, in Nepal, where different segments likewise Agriculture, Manufacturing Tourism and Service sector are gradually buildup by harvesting Money, Manpower, Material, Machine and Techniques by foreign direct investment. This is presents in to the Table.

4.1.1 SAARC Countries FDI in Nepal

South Asian Association for Regional Corporation (SAARC) includes 8 developing countries. Those are Nepal, India, Bhutan, Pakistan, Bangladesh Sirlanka, Maldives and Afghanistan respectively. Out of 8 countries, six countries have been investing in Nepal in different scale projects. Home economy distribution of FDI in Nepal Summary Sheet of Foreign Direct Investment Projects in Nepal - Country and Scale Wise from the beginning To 2071-06-30. It presents in to the table.

Table: 4.1

SAARC Countries FDI in Nepal

(Rs in Millions)

Country	Scale	No of Projects	Total project cost	Total Fixed Cost	Total working capital	Total amount of FDI	No. of Employment
Afghanistan	Small	2	5	4	1	5	45
	Afghanistan total	***2***	***5***	***4***	***1***	***5***	***45***
Bhutan	Small	4	32.26	23.08	6.95	8.61	123
	Bhutan total	***4***	***32.26***	***23.08***	***6.95***	***8.61***	***123***
India	Large	98	67,010.36	59,809.91	9,007.72	34,817.45	22,050
	Medium	120	10,094.17	6,173.57	3,715.26	5,221.67	15,685
	Small	370	7,074.10	3,822.44	2,997.48	4,002.79	26,005
	India total	***588***	***84,178.63***	***69,805.92***	***15,720.46***	***44,041.90***	***63,740***
Pakistan	Large	2	1,982.76	1,744.28	238.47	68.8	750
	Medium	1	81.43	64.42	17.01	15.92	262
	Small	17	155.08	118.06	36.13	106.35	1,517
	Pakistan total	***20***	***2,219.28***	***1,926.77***	***291.62***	***191.06***	***2,529***
Sri lanka	Medium	1	44.25	32.94	11.31	20.06	0
	Small	4	48.9	35.16	13.74	31.35	129
	Sri lanka total	***5***	***93.15***	***68.1***	***25.06***	***51.41***	***129***
Bangladesh	Medium	3	226.37	120.87	87.35	29.2	691
	Small	36	463.49	281.04	182.45	435.88	4,131
	Bangladesh total	***39***	***689.85***	***401.9***	***269.8***	***465.09***	***4,822***

Source: *Department of Industry, GON. July 2014.*

The table no 4.1 depicts that India is the biggest foreign direct investment country in to the Nepal, where 588 different scale projects has been lunching by investing Rs. 44,041.90 million for Nepalese economic growth as well as return and 63740 Nepalese people have got employment opportunities. Among the SAARC countries, it is conclude that India is top investment country through FDI in Nepal. Bangladesh, is the second largest foreign direct investment country in Nepal that is ie.39 different scale in different sector projects have been operating by investing Rs.465.09 millions and 4822 Nepalese people are still working. Pakistan is the third largest investment country through FDI in Nepal, still 20 projects have been lunching by mobilize Rs.191.06 millions and 2529 Nepalese citizen have achieved job opportunities. Similarly, Sirlanka, Bhutan and Afghanistan are investing different sector in different scale through FDI in Nepal respectively.

4.1.2 Asian Countries FDI in Nepal

All over the world, 47 countries are located in Asia and among them 24 countries direct Investment in Nepal through FDI. They are China, India, Bhutan, Bangladesh, Sirlanka, Pakistan, Afghanistan, Bahrain, Taiwan, Israel, Kazakhstan, Kyrgyzstan, Lebanon, North Korea, Philippines, Qatar, Russia, Singapore, South Korea, Syria Kjikisthan, Thailand, UAE, Uzbekistan, Vietnam and Yemen respectively. Among 24 countries, top 5 countries have depicted in to the table and other investment countries have presented totality in to the paragraph. Home economy distribution of FDI in Nepal Summary Sheet of Foreign Direct Investment Projects in Nepal - Country and Scale Wise from the beginning To 2071-06-30.It presents into the table.

Table: 4.2

Asian Countries FDI in Nepal

(Rs in Millions)

Countries	Scale	No of Projects	Total project cost	Total Fixed Cost	Total working capital	Total amount of FDI	No. of Employment
China (mainland)	Large	22	30,887.16	28,978.68	1,908.47	6,646.74	3,927
	Medium	73	4,264.75	3,225.55	1,039.20	3,393.57	6,101
	Small	599	8,628.76	6,625.26	1,986.92	7,901.12	26,186
	China total	***694***	***43,780.66***	***38,829.49***	***4,934.60***	***17,941.43***	***36,214***
India	Large	98	67,010.36	59,809.91	9,007.72	34,817.45	22,050
	Medium	120	10,094.17	6,173.57	3,715.26	5,221.67	15,685

	Small	370	7,074.10	3,822.44	2,997.48	4,002.79	26,005
	India total	***588***	***84,178.63***	***69,805.92***	***15,720.46***	***44,041.90***	***63,740***
South Korea	Large	8	8,889.93	8,654.35	220.58	5,211.57	813
	Medium	11	2,441.39	551.93	1,864.97	2,256.21	706
	Small	197	1,453.70	1,141.17	315.65	1,148.06	6,758
	South Korea total	***216***	***12,785.01***	***10,347.45***	***2,401.20***	***8,615.84***	***8,277***
Bangladesh	Medium	3	226.37	120.87	87.35	29.2	691
	Small	36	463.49	281.04	182.45	435.88	4,131
	Bangladesh Total	***39***	***689.85***	***401.9***	***269.8***	***465.09***	***4,822***
Singapore	Large	11	7,022.17	6,317.61	689.56	2,070.58	1,978
	Medium	2	84	68.18	15.82	66.8	222
	Small	21	275.15	216.05	59.1	215.51	551
	Singapore Total	***34***	***7,381.32***	***6,601.84***	***764.49***	***2,352.89***	***2,751***

Source: Department of Industry, GON. July 2014.

The table no 4.2 depicts that China is the top Investment country through FDI in Nepal that is ie.694 different scale projects are still running by investing total FDI Rs.17941.43 millions .Total 36214 Nepalese people are getting employment opportunities and Rs.43780.66 millions amount are projected for finalize of projects. In total Rs.38829.49 and Rs.4934.60 million amounts are estimated for fixed cost and working capital. India is the second largest Investment country through FDI in Nepal, where 588 projects are running and Rs.44041 million amount investments in different scale projects as well as 63740 employments are working. Third Largest country is South Korea which invests Rs. *8,615.84* million for 216 projects and total 8277 Nepalese people are still working. Fourth largest investment country is Bangladesh, which invests Rs.465.09 millions amount for 39 projects and total 4822 employee are engaged. Singapore is the Fifth investments country that investsRs.2352.89 millions amount for 34 projects and 2751 people are getting employment opportunity. Other Asian countries are investing 143 projects, by investing Rs.3, 723.62 million and 8,884 people are still working.

4.1.3 Europeans Countries of FDI in Nepal

In Nepal, 17 Europeans countries are investing through FDI in different scale projects in different sector. they are United Kingdom ,Germany, France ,Netherland ,Switzerland, Austria, Belgium, Portugal ,Spain, Sweden, Turkey, Ukraine, Cyprus ,Finland ,Italy and Norway. Among them top 5 investment countries are presented in to the table and other investment countries are depicts in to the paragraph. Home economy distribution of FDI in Nepal Summary Sheet of Foreign Direct Investment Projects in Nepal - Country and Scale Wise from the beginning To 2071-06-30.

Table no: 4.3

Europeans Countries of FDI in Nepal

(Rs. In Millions)

Country	Scale	No of Projects	Total project cost	Total Fixed Cost	Total working capital	Total amount of FDI	No. of Employment
UK	Large	6	3,446.61	3,260.73	185.88	892.52	2,832
	Medium	5	475.13	378.42	96.71	179.16	1,830
	Small	119	1,092.92	781.96	292.27	735.83	4,735
	UK total	***130***	***5,014.66***	***4,421.11***	***574.86***	***1,807.51***	***9,397***
Germany	Large	2	1,091.00	1,062.30	28.7	342.3	0
	Medium	13	780.72	719.18	61.54	349.05	1,126
	Small	78	787.71	602.5	174.65	509.86	3,244
	TOTAL GERMANY	***93***	***2,659.43***	***2,383.98***	***264.89***	***1,201.22***	***4,370***
France	Medium	4	214.83	190.68	16.58	29.95	238
	Small	66	537.51	430.19	101.52	401.65	2,408
	France Total	***70***	***752.35***	***620.87***	***118.1***	***431.6***	***2,646***
Netherland	Large	2	969.29	811.26	158.03	370.78	385
	Medium	3	155.91	134.03	21.88	65.77	493
	Small	44	1,028.65	314.87	711.72	895.38	2,680
	Netherlands Total	***49***	***2,153.85***	***1,260.15***	***891.64***	***1,331.92***	***3,558***
Switzerland	Large	3	673.75	626.24	36.29	429.28	184
	Medium	2	123.73	119.13	4.6	123.73	68

	Small	39	435.87	363.47	73.21	261.53	980
	Switzerland Total	***44***	***1,233.35***	***1,108.84***	***114.1***	***814.53***	***1,232***

Source: Department of Industry, GON. July 2014.

According to the table no 4.3 depicts that the U.K is the top investment country through FDI in Nepal, where 130 projects are still running and Rs.1807.51 millions amounts investing for finalize projects.9397 people are engaged in different sector and Germany is the second largest country which is running 93 different scale projects are operating and Rs.509.86 millions e investing through FDI and 4370 employee are still working. France is the third largest investment county through FDI in Nepal, it invests Rs.431.6 million amounts invest for 70 projects and 2646 people are working. Netherland is the fifth investment country through FDI in Nepal such 49 projects are still running and total Rs.1331.93 millions amount invests in Nepal; where 3558 employee is working for finalize projects. Switzerland is the fifth investment country in Nepal, this country operate 44 different scale projects and Rs. 814.53 million invests for achieving goal and objectives of projects. Where total 1232 people are serve in daily life. Other 12 Europeans countries are operating 143 different scale projects, where Rs.4843.4 million is investment for finalalize projects and 4952 people are getting employment opportunities. It concludes that hues projects are still running by Europe through FDI in Nepal for Nepalese economic development as well as economic return.

4.1.4 North American Countries FDI in Nepal

All over the world, 41 countries in North America and among them 6 countries are investing through FDI in Nepal. Whereas USA, Denmark, Mexico, Canada, Bermuda and Panama. Which presents Home economy distribution of FDI in Nepal Summary Sheet of Foreign Direct Investment Projects in Nepal - Country and Scale Wise from the beginning To 2071-06-30.This is presents in to the table.

Table no 4.4

North American Countries FDI in Nepal

(Rs. In Millions)

Country	Scale	No of Projects	Total project cost	Total Fixed Cost	Total working capital	Total amount of FDI	No. of Employment
USA	Large	19	11,957.56	11,268.00	647.81	3,898.96	3,736
	Medium	19	1,542.15	1,116.78	246.42	739.48	3,558
	Small	212	1,865.81	1,464.52	371.94	1,416.32	7,285
	USA Total	***250***	***15,365.52***	***13,849.30***	***1,266.17***	***6,054.76***	***14,579***
DENMARK	Large	2	476.62	430.78	45.84	22.74	152
	Medium	3	201.8	179.2	22.6	97.9	184
	Small	24	244.77	192.68	52.09	143.89	987
	Denmark Total	***29***	***923.19***	***802.66***	***120.53***	***264.54***	***1,323***
MEXICO	Small	4	33.73	30.05	3.68	31.13	84
	Mexico Total	***4***	***33.73***	***30.05***	***3.68***	***31.13***	***84***
CANADA	Large	4	6,731.40	6,631.44	99.96	2,368.49	301
	Medium	2	153.71	111.44	42.27	88.71	365
	Small	25	219.76	146.7	72.77	143.54	1,441
	Canada Total	***31***	***7,104.87***	***6,889.58***	***215***	***2,600.74***	***2,107***
BERMUDA	Large	3	1,895.37	1,621.67	186.57	106.82	1,275
	Medium	1	92.58	66.01	26.57	6.8	140
	Small	2	7.29	6.35	0.95	4.65	59
	Bermuda Total	***6***	***1,995.25***	***1,694.03***	***214.09***	***118.27***	***1,474***
PANAMA	Medium	1	83.28	65.17	18.11	24.98	121
	Panama Total	***1***	***83.28***	***65.17***	***18.11***	***24.98***	***121***

Source: Department of Industry, GON. July 2014.

According to the table no 4.4 depicts that USA is the top investment countries invests in different scale projects in Nepal. Where 250 projects are currently running and 14569 people are serving in different types of job. In total Rs. 6054.76 million amounts are still invests in different scale projects. Canada is the second largest FDI investment countries in Nepal, where 31 different scale projects are lunching and Rs.2600.74 millions investments for settlement of the projects. In total 2107 people are engaged for this project. Denmark is the third largest European investment countries through FDI in Nepal, where 29 projects are still running and 264.54 millions amounts invests for clearance of the projects and 1323 employee are engaged .Maxico,Burmuda,and Panama are the European investments countries through FDI in Nepal where,4,6 and 1 projects are lunching by investing Rs. 31.13millions, 118.27millions and 24.98 million respectively, and 264 employees have been working.

According to the above table analysis, different continents countries are investing through FDI in Nepal until October 2014.Among them India is the most investment countries through FDI in different scale which is 30.02 percent, where total 63740 employees are getting job opportunities and 44,041.90 million amounts are investment in Nepal by India. Similarly, China is the second largest country investment in Nepal which is 23.47 percent investment in different scale and total 179.62 million amount is investing by China in Nepal Through FDI, where 617employee are getting employment opportunities.Similarly, USA is the third largest investment country in Nepal through FDI which is 8.45 percent invest in different scale and Rs.6054.76 million amount is investing in different projects and 14579 people are getting employment opportunities. Similarly ,Fourth largest investment country is South Korea which is 7.31 percent investment in Nepal in Different Scale and total 8615.84 million is investing through different types of projects and 8277 people are getting employment opportunities. Similarly, Japan is the Fifth largest investment company through FDI in Nepal which is 6.56 percent in different scale, as well as 1843.77 million amounts are investing in Nepal by Japan and 7801 people are getting employment opportunities and so on .In total 2958 different scale project are lunching through FDI and Rs.14, 976.12 millions amount are invest in Nepal for economic development and 192823 people are getting job opportunities through FDI.

4.2 Distribution by Sector, origin and geographical location

Government of Nepal has categorized on different types of industries for economic development through FDI such as Agriculture, construction, Tourism, service, mineral energy and Manufacturing**.** The sartorial is base on origin and geographical location.

Table No: 4.5

Sectorial distribution of Foreign Investment Projects in Nepal

from beginning to FY 2013/014								
Types of Industries	No.	Total Project Cost	Total Fixed Cost	Foreign Investment	Rs in million			
					Employ-ment	Share in FDI	Share in projects	Share in Employ.
Agriculture	60	1674.42	1095.61	893.29	3497	1.31	2.85	2.25
Construction	42	3605.34	2683.10	2762.81	3016	4.06	1.99	1.94
Energy Based	47	40759.24	40381.02	14518.77	7947	21.34	2.23	5.11
Manufacturing	712	54611.18	40355.50	25595.87	78409	37.61	33.78	50.45
Mineral	36	5162.62	4223.60	2904.24	5574	4.27	1.71	3.59
Service	650	25955.40	21220.18	12974.65	32127	19.07	30.83	20.67
Tourism	561	20413.55	19157.38	8400.34	24862	12.34	26.61	16.00
Total	**2108**	**152181.75**	**129116.39**	**68049.97**	**155432**	**100.00**	**100.00**	**100.00**

Source: Department of Industry, GON. July 2014.

The table no 4.5 depicts that the FDI is highly concentrated in the manufacturing sector, which accounted for 33.78 percent of approved FDI projects, 37.61 percent of foreign investment and 0ver 50 percent of total employment. It is followed by service sector with over 30 percent of approved projects, 19 percent of foreign investment and 20.67 percent of total employment. Tourism stands in third position with 26 percent of approved projects, 12.31 percent of foreign investment and 16 percent of total employment. The energy based sector, though comes at fourth position by share in approved projects, it is second highest to attract the FDI with 21.34 percent of total foreign investment.

4.3 Summary Sheet of Industry Registered - Scale and Category Wise

Government of Nepal has classified three types of industries in Nepal such as Large, Medium and Small by developing industrial policy act. The industries categories are based on capital investment. Basically government of Nepal segments different sector such as Agro and Forestry, manufacturing. Tourism, Construction, Energy, mineral and service. This is presents in to the table. Summary sheet of Industry Registered - Scale and Category wise from the beginning to 2071-05-31.

4.3.1 Large Scale Industries

Government of Nepal has classified on three types of industries in Nepal, such as large scale industries, medium scale industries and small scale industries. The industries are classified, based on their capital investments. The large scale investments industries are summaries in to the table from the beginning to 2071-05-31.

Table: 4.6

Large Scale Industries

(In millions)

Scale	Category	No of industry	Total capital	Fixed capital	Working capital	No. of employment
Large	Service and tourism based	201	91,830.92	75,745.83	16,085.09	28,337
	Agro and forestry based	22	5,154.21	4,844.81	309.4	3,090
	Construction and manufacturing based	269	167,107.69	143,517.45	23590.25	56,151
	Energy and mineral based	206	493,993.55	481,209.20	12,784.35	23,049

Source: Government of Nepal, Department of Industry2014

The above table no 4.6 depicts that, 269 large scale construction and manufacturing based industries are operating in Nepal, where Rs.23590.25 million working capital and Rs.167107.69 million total capitals invest for serve of industries as well as Nepalese economic development. On other hand, 56151 number of employee are working in different construction and manufacturing area in different region. Similarly energy and mineral, are the second largest investment sector in Nepal, where total 206 industries are still running and Rs.493993.55 million total capital investments and 23049 people are getting job opportunities .In Nepal.Simiraly,Service and Tourism are the third largest industries in Nepal where, two hundred one different types of service and tourism base large scale industries are still running by promoting Nepal tourism board and Rs.91892 millions total capital invests for tourism and service segments. Similarly, 28337 employees are working there. The above table shows that the, small number of Agriculture and Forestry based large scale industries are serving by invests Rs.5154.21 million total capital and total 3090 employee are working.

4.3.2 Medium Scale Industries

Medium scale industries are those industries which serve on middle level. It segments on capital investments and it is classified on Nepal government's department of industries. The medium scale investments industries are summaries in to the table from the beginning to 2071-05-31

Table: 4.7

Medium Scale Industries

(In Millions)

Scale	Category	No of Industry	Total Capital	Fixed Capital	Working Capital	No. of Employment
Medium	Construction and manufacturing based	646	51944.79	33004.83	19410.46	64347
	Agro and forestry based	103	6,102.59	5,168.53	944.05	18,065
	Service and tourism based	553	44,632.60	27,828.48	16,805.12	48,230
	Energy and mineral based	36	11,091.74	9,522.81	1,568.93	2,869

Source: Government of Nepal, Department of Industry2014

The above table no 4.7 shows that, construction and manufacturing based medium scale industries are operate in large numbers such as six hundred and forty six industries in Nepal.similarly,Rs.51944.79 million amount invests in medium scale construction and manufacturing industries and 64347 employee are working there. on other hand, Service and tourism are the second largest medium scale industries, where Rs.44632.60 million invests as well as 48230 number of employee are working there. However, Agro and Forestry are the third largest medium scale industries are running in Nepal by invests total capital Rs.6102.59 millions and total 18065 employee are working there. Similarly, Energy and Mineral based medium scale industries are operating in small number that is i.e. thirty six and total Rs.11091.74 million Nepalese currencies investment for energy and mineral based industries in Nepal and total 2869 people are still working.

4.3.3 Small Scale Industries

In Nepal small scale industries are serve in different geographical location. It is categories on capital investment. The small scale investments industries are summaries in to the table from the beginning to 2071-05-31.

Table: 4.8

Small Scale Industries

(In millions)

Scale	Category	No of Industry	Total Capital	Fixed Capital	Working Capital	No. of Employment
Small	Agro and forestry based	211	4,141.83	2,925.73	1,324.10	10,151
	Construction and manufacturing	1551	22813.86	11577.94	11235.92	157,551
	Energy and mineral based	45	1164.39	558.81	607.68	4398
	Service and tourism	1,877	22,569.91	16,729.19	5,877.53	67,288

Source: Government of Nepal, Department of Industry 2014.

The table no 4.8 depicts that the total 1515 small scale construction and manufacturing based industries are still running by invests total capital Rs.22813.86 million and 157551 people works there. Similarly, service and tourism based industries, Agro and forestry, mineral and energy based industries operates respectively in different capital amount. This is presents in to above table. According to the analysis of above table there are three types of industries run by foreign direct investment in Nepal such as Large, Medium and Small industries. Large numbers of industries are 698 and total capital is Rs.758086.36 millions where fixed capital is Rs.705, 317.28 millions and working capital is Rs.52769.08 Millions where 110627 people get employment opportunities. similarly, medium level of industries are 1338 where total capital is Rs.113771.71 millions and fixed capital is Rs.75524.66 and working capital is Rs.38,728.55 as well as 133511 employee is getting employment opportunities through foreign direct investment in Nepal.Similarly,3684 small Scale industries are running which is comparatively more employment opportunities then Large and Medium types of industries which is 239388.In fact total 5720 industries are running through FDI by investing Rs.922548.08 millions capital to generate 483526 employment opportunities.

4.3.4 Summary Sheet of Foreign Investment Projects in Nepal - Scale Wise

Summary sheet of foreign investment projects in Nepal - scale wise from the beginning to 2071-05-31. Foreign investment are classified in to 3 layer this is depends on capital investment. This is presents in to the table.

Table No: 4.9

Foreign investment projects in Nepal - scale wise

(Rs in Millions)

Scale	No. Of project	Total project cost	Total fixed cost	Total working capital	Total amount of foreign investment	No. Of employment
Large	243	197,831.06	179,545.30	19,821.62	73,971.42	50,114
Medium	330	30,359.35	16,758.86	13,057.32	19,559.61	36,857
Small	2,472	31,591.83	22,090.22	9,127.06	23,671.04	109,053
Total	3,045	259,782.24	218,394.38	42,006.00	117,202.07	196,024

Source: Government of Nepal, Department of Industry 2014.

The table no 4.9 depicts that the summery sheet of foreign direct investment in Nepal from beginning to 2071-05-30.According to the table basically GON are categories on 3 types of project such as Large, Medium and Small. It is also base on capital investment .In Nepal total 243 large scale of project are lunching through FDI where total project cost investment on Rs.197, 831.06 and Total fixed cost is Rs. 179545.62 million, total working capital is Rs.19821.62 million, total foreign investment is Rs.73971.42 million where 50114 employee is getting employment opportunities in Nepal. Similarly, medium scale projects is 330,which foreign investment is 19559.61 million and 36857 employee are still working. Similarly Small Scale projects are more the large and medium which is 2472 where Rs.117202.07 million amounts are investing through small scale projects and 109,053 employee are still working contributions of foreign direct investment.

4.3.5 Flow of Foreign Direct Investment in Nepal

In the context of Nepal, there are different periodic plan are lunching by the Nepal Government in different year which are presented in to the table.

Table: 4.10

Flow of Foreign Direct Investment in Nepal under Different Periodic Plan

(Rs.in Millions)

Duration	No. of Projects	%	Total Capital Investment	%	Total FDI	%	Total Employment	%
Before Eighth Plan	150	12.3	12235.84	12.65	186.47	0.58	2890	2.56
Eighth Plan	245	20.1	41853.45	43.26	9555.42	29.80	38372	33.99
Ninth Plan	373	30.7	24805.79	25.64	9432.2	29.40	21796	19.31
After Ninth Plan	450	36.9	17846.19	18.45	12901.1	40.22	49831	44.14
Total	1218	100	96741.27	100	32075.19	100	112889	100

Source: Computed from DOI Data,2014.

Above table no 4.10 reveals the structure of FDI in the different plans. This table shows that stock of FDI in the pre- liberalization period was found to be 186.47 million which is only 0.58% of total FDI. Before eight plans, there were only 150 industries based on FDI with the total capital investment of Rs. 12235.84 million which is only 12.65 % of total capital investment and total employment generation through foreign collaborated projects in the period was estimated to be 2890. During the eighth plan, there were 245 industries registered with the capital investment of Rs.41853.45 million. Which is 43.26 % of total capital investment approved up to March 2007. Similarly foreign investment participation in these projects were equal to Rs.9555.42 million (29.80% of total FDI). The total employment generation through foreign collaborated projects in the period were estimated to be 38372 (33.99 % of total FDI).During the ninth plans, there were 373 industries (30.7 % of total FDI) registered with the capital investment of Rs.24805.79 million (25.64% of the total FDI) and foreign investment of Rs.9432.2 million (29.4% of total FDI). In the period, 21796, job seats for local people were estimated to be created by operation of these registered projects.

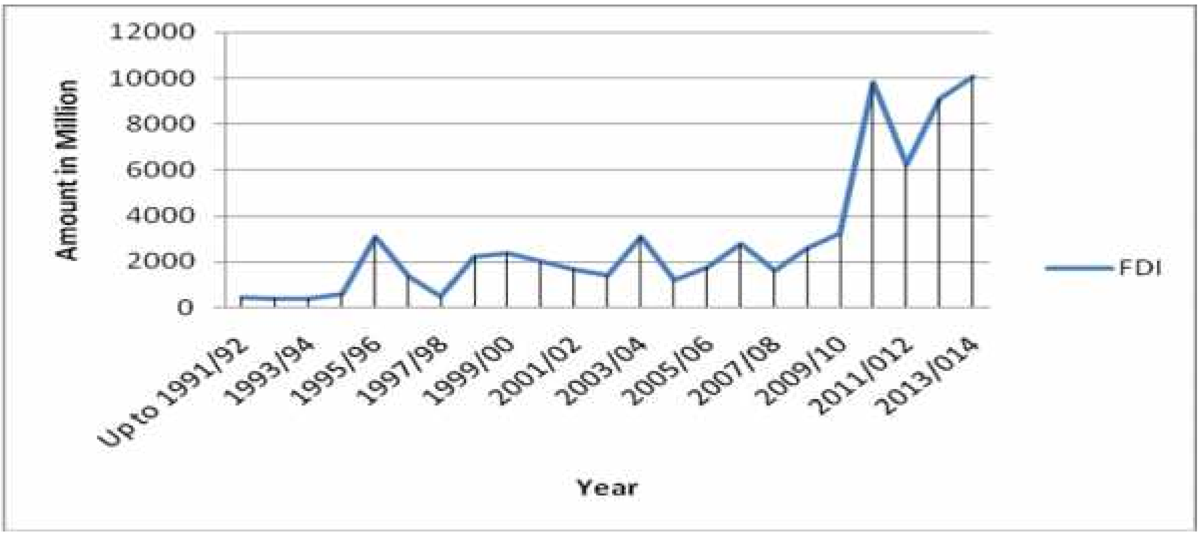
After the ninth plan, up to march- 2007, 450 projects of foreign collaboration have been registered. These projects are expected to mobilize the capital investment and foreign investment equivalent to Rs.17846.19 (18.45% of the total) and Rs.12901.1 (40.22% of total FDI) million respectively. Subsequently, these projects if brought into operation, it would create job opportunities to 49831 people (44.14 % of total employment).

4.4 Status of FDI in Nepal

The status of FDI inflows to Nepal has increasing tendency. Where different countries are mobilized own resources through FDI so that developing countries likewise Nepal, whom attract for foreign investors for investment. In current scenarios different projects are lunching by using FDI in different sectors in different time period. This is demonstrating in to the figure.

Fig: 4.1

Status of FDI in Nepal



The figure no 4.1 indicates that the information about foreign direct investment in Nepal from 1991/1992 to 2013/014.The figure indicates FDI flows to Nepal was minimal, with an annual average of Rs.6000 million approximately. In the year 1992-1995 the flow of FDI is stable trend and than the rate become increasing by less than Rs 3000 in the year 1995/1996.In the year 1996 to 1998 the trend become decline after the 4 year period the FDI flow become more heterogeneous In the year the flow of FDI again increases on less consistency until 2008.In the year 2009-2014 the Flow of FDI is increase tendency. It is conclude that the overall tendency of FDI is upward trend.

4.5 Prospects and Challenges of FDI in Nepal

Nepal has the potential to attract significantly more FDI. Compared with most other low income countries, it has a surprisingly long list of advantages. These include a large and friendly neighboring country that offers market potential, a flourishing local entrepreneurial culture in both small and large business and established international recognition and image. But this potential is severely constrained by the poor investment framework. In these circumstances the usual elements of an FDI strategy, including general programmes of investment promotion, linkages with national firms, and longer-term plans to improve competitiveness, will have a limited impact on Nepal's ability to attract FDI and benefit from it. Nepal's FDI strategy must consist first and foremost of a firm and orderly process of relieving the constraints in the investment framework (UNCTAD, 2013).In spite of the difficulties that Nepal experiences in attracting FDI in any appreciable amount, there are some sectors where FDI currently comes in. The following are the sectors where FDI can be accelerated if Industry Promotion Packages are created:

a) Short-term

i. Tourism, especially in niche markets.
ii. Manufacturing for regional and global markets with privileged access
iii. Production of herbal products for medicines and cosmetics.

b) Medium-term (3+ years)

i. Power generation for the Indian market.
ii. Other agro-based industries.
iii. Privatization-related opportunities in the utilities and in some manufacturing.

c) Long-term (10-20 years)

i. ICT-based services.
ii. Business, professional and financial services for the region.
iii. Light manufacturing for the domestic market, linked to exporters.

Analysis

Inflows of FDI into Nepal accelerated after the economic liberalization of the 1990s but remain low in relation to the size of population and economic activity, and also in comparison with other least developed landlocked states in the Asian region. The overall inflows are so low that, all in all, FDI has not been a significant development catalyst. It is not necessarily due to a lack of potential. Nor it is because FDI has been excluded from most sectors of the economy. The answer is that Nepal has failed to offer investors satisfactory standards of policy, administration of taxes and regulations and stable political environment which are of vital interest to business. Indeed, apart from the important liberalization of power generation, there has been little focus on removing these barriers, even those in selected industries of high FDI potential. Therefore, better performance in attracting FDI requires fundamental changes.

4.6 Share of FDI in GDP.

Impact of Foreign Direct Investment plays a crucial role around the world and its importance to the global economy such as developing countries Nepal. Researchers from different disciplines are pursuing their work in FDI to better understand, explain and report the most recent findings. Flow of Foreign Direct Investment has grown faster over recent past. Higher flows of Foreign Direct Investment over the world always reflect a better economic environment in the presence of economic reforms and investment-oriented policies. As the forces of globalization have continued to integrate the world economy, foreign direct investment (FDI) has proliferated. FDI in developing countries like Nepal seems to be a new terminology and issue. However, historical records and literature presents its long history stating that FDI is not a new phenomenon. This is presents in to the table.

Table No: 4.11

Share of FDI on GDP from 1994-2013 A.D

Year	FDI(Millions)	GDP(Millions)	% Of FDI Impact on GDP
1994	477.59	401024.7	0.119092405
1995	2,219.86	433992.9	0.511496839
1996	2,395.54	445873	0.537269531
1997	2,000.28	485032.2	0.412401478
1998	1,666.42	478875.3	0.347986201
1999	1,417.61	496367.5	0.285596875
2000	3,002.56	541788.2	0.554194415
2001	1,209.65	592356.3	0.204209862
2002	1,793.77	596676.9	0.300626706
2003	2,764.80	624248.3	0.442900699
2004	1,635.77	717282.6	0.22805097
2005	2,606.31	801724.8	0.325087845
2006	3,185.98	891800.8	0.357252438
2007	9,812.60	1018209	0.96371159
2008	6,255.09	1237106	0.505622923

2009	9,100.00	1272035	0.715389305
2010	10,053.21	1577178	0.637417724
2011	7,138.31	1858833	0.384021009
2012	19,818.73	1893983	1.046405062
2013	20,107.42	1902616	1.056830356

(Source: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD)

The table no 4.11 Depicts that the share of FDI on GDP in Nepal from 1994 to 2013.According to table FDI share on GDP in Nepal began in the early 1994s through the gradual opening up of the economy such as 0.119092405 percent and from 1994 to 2000, FDI share on GDP to Nepal were minimal grownup with an annual average of 0.554194415 percent. FDI impact on GDP showed a distinct acceleration during the averaging 0.325087845 percent per annum during 2000-2005 A.D, peaking at 0.505622923 percent in 2008.(world bank report:2008). And then the share of FDI on GDP is gradually grown up ie.1.056830356 percent in 2013A.D. This was prima

rily due to Nepal's more liberal trade policies, which comprised tariff rate reductions, the introduction of a duty drawback scheme, the adoption of a current account convertibility system and liberalization of the exchange rate regime. A reversal in the rising trend took place from beginning to 2013 A.D. All over the world, FDI share in GDP is the lowest in Nepal even when compared with other landlocked countries (World Bank, 2013).

4.7 Foreign Direct Investment Policy, Incentives and Facilities of Nepal.

4.7.1 An overview of FDI related Acts and Policies of Nepal.

Nepal has only recently opened the doors to foreign investment. The Foreign Direct Investment and Technology Act (1981) as amended in 1992 lays down the law governing foreign investment and the applicable rules and regulations. The New Industrial Policy of 1992 identifies foreign investment promotion as an important strategy in achieving the objectives of increasing industrial production to meet the basic needs of the people, create maximum employment opportunities and pave the way for the improvement in the balance of payments. Foreign investment is expected to supplement domestic private investment through foreign capital flows, transfer of technology, improvement in management skills and productivity and providing access to international markets. In this context GON is encouraging foreign investments in Nepal by providing attractive incentives and facilities within a liberal and open policy. The importance attached to foreign investment is clearly reflected in the New Constitution adopted by Nepal in 1991. In the directive principles of the Constitution it is stated that a policy of attracting foreign capital and technology shall be adopted.

4.7.2 Foreign Investment and Technology Act, 1981

The first official acknowledgement of the importance of foreign investment was recognized in sixth five year plan (1980/81-1984/85), where it was delineated that foreign investment and technology was required primarily in large scale industries and mineral based industries .As a result, the foreign investment and technology Act 1981 was enunciated. The salient feature of the act were (a) industrial units set up under the Act would not be nationalized, (b) industrial unites set up under the act would receive the same facility, concession and protection as provided by the industrial enterprise Act, 1982. Foreign investors were permitted to have majority of shares in medium scale industries but were permitted 100% in large scale industrials, with more than Rs 10 million investments in fixed assets. Various facilities and provisions were included in the act for instance, production oriented industries with 25-50% value added would be granted full income tax exemption for five years. Analogously, tourism based industries were granted full income tax exemption for a minimum of 7 years and the industries set up in underdeveloped areas were exempted form excise duty for a minimum of 5 years. Moreover, convertible foreign currency facilities were to be provided to join venture industries for importing machineries, equipment and tools, spare parts and components, raw materials as well for technical consultancy and management fee. Still, the act restricted any foreign investment and transfer of technology to small and cottage industries to keep the sector solely for Nepalese entrepreneurs.

4.7.3 Foreign Investment and Technology Transfer act, 1992

According to foreign investment and technology transfer act (FITTA) of 1992, the foreign investment means investment in share (equity), reinvestment of the earning derived from the investment in share and investment made in the form of loan of loan facilities. According to act, technology transfer means any transfer of technology to be made under an agreement between an industry and foreign investor on following matter

i. Use of any technological right, specialization, formula, process, patent or technical know-how of foreign origin.

ii. Use of any trade mark of foreign ownership.

iii. Acquiring any foreign technical, consultancy, management and marketing service.

This act 1992, has given the permission to the foreign investor to repatriate the following income outside the country.

i. Amount received from the sale of the share of foreign investment as a whole or any part of there.

ii. The amount received as profit of dividend in place of the foreign investment.

iii. The amount receives as the payment of the principal of and interest on any foreign loan.

Trend of foreign investment and Technology transfer Acts in Nepal

The Government of Nepal has initiated a number of efforts to strengthen the use and development of information technology in the country. The National Information Technology Centre was established in 2002 to develop and promote the Information Technology sector in Nepal, as identified in the GON's IT Policy in 2000. Similarly, the IT Park envisioned in the GON's IT Policy for 2000 is expected to come into operation in the current year. The IT Park has been established with the aim of developing software, promoting IT based businesses, and providing ITES (IT enable services); however the IT Park has not been able to attract a good number of IT companies and IT entrepreneurs. With the IT sector becoming a vital and integral part of doing business, the GoN is committed to develop its IT infrastructure. The E-Governance Plan was initiated in 2008 and covers e-health, e-agriculture, e-education, and other areas. While these policies are in place implementation has still been slow. Due to the availability of skilled computer engineers, Nepal has a number of outsourcing companies. There has been a tremendous increase in the number of IT solution providers in Nepal, where different types of IT trade which are engaging professionals in providing integrated IT solutions, risk assessment, and decision analytics. In recent years, there has been significant improvement in telecommunication services in Nepal with a growing number of users and adoption of new technology. As of May 2014, the total penetration rate for telephony services stood at 90.09%, whereas the penetration Due to the availability of skilled computer engineers, Nepal has a number of outsourcing companies. There has been a tremendous increase in the number of IT solution providers. In recent years, there has been significant improvement in telecommunication services in Nepal with a growing number of users and adoption of new technology. As of May 2014, the total penetration rate for telephony services stood at 90.09%, whereas the penetration.

The liberalization of telecommunication and IT services in Nepal began in 1995, when the government allowed the involvement of private actors in the development and expansion of the sector. After liberalization, there has been a major growth in the telecommunication and IT industry. While subscriber bases and tele-density were very low before 1995, when telecommunication and IT sectors were monopolized by the government, there is a now greater involvement of the private sector. In the last decade, there has been significant growth in mobile subscribers and significant decrease in landline usage. Total mobile subscribers increased from0.2 million in 2005 to 20 million in 2014 and the number of internet users has accelerated from0.04 million to 8 million. As of 2014, the penetration rate of voice telephony service is at 90% and internet penetration is at 32%. Nepal fairs better than India, where the voice telephony service penetration is at 87% and internet penetration is 17% .There are two main telecommunication providers: Nepal Telecom (NT) and Ncell, with market shares of about 40% and 50% respectively. NT is a state-owned telecommunication service provider with 85% of its shares owned by the government, whereas Ncell is a privately owned mobile operator and the first to offer GSM services in telecommunications sector. The Swedish/Finnish Telia Sonera Holdings, which owns 80% of Ncell, is currently ranked as the largest foreign investor in Nepal. Other telecom companies that have foreign investments are United Telecom, Smart Telecom, Nepal Satellite, and STM Telecom. Considering the telecom sector in Nepal is at a mature stage, investments in ITC can be geared toward mobile technologies in the form of software applications and mobile banking. Business Process Outsourcing (BPO) is an emerging area in Nepal. These IT entities are often referred to as ITES-BPO (Informational Technology Enable Services-BPO). The Government of Nepal has identified IT and BPO as one of the most promising sectors for exports. It has potential for high growth, investment, and significant profits in the coming years and is expected to be one of the most significant growth contributors for the Nepali economy. There are increasing scales of operation, expansion to new markets (previously only North America; now to EU, Asia and Oceania), and a wide array of services offered to clients. It is estimated that there are over 6,000 BPO companies in

Nepal working for international companies around the globe. Of these 6,000 BPO companies, however, only 250 companies are 15 legally registered. The IT and BPO companies offer highly skilled services such as software development, data processing, map digitization, animation, medical transcription services, cloud computing and mobile application development. Some of the renowned IT companies operating in Nepal are Verisk Information Technologies, Javra Software, F1Soft, Incessant Rain Animation, and Cloud Factory. The legal framework of the telecom industry towards foreign investors is highly favourable.Foreign investors are allowed to invest 80% of capital in a company. A minimum of 20% domestic\participation is required. According to the technology transfer agreement, investors and suppliers are allowed to repatriate profits. The return on investment for this sector stands at 40%. *(Source: http://www.moics.gov.np/act_regulations/FITTA/FITTA_%201992.pdf***)**

4.7.4 One Window Policy 1992 (OWP)

In Nepal, there was a provision to establish the one window service as to the industrial Enterprises Act, 1992. The aim of the OWP was to provide all services needed by foreign in Investors under one – roof. Specially, the policy spelled out two types services to be provided by the owns(a) permission facilities and other administrative services under the foreign and technology transfer act and (b) other infrastructural facilities like, registration, land, electricity, telecommunication, water and other services as required by the investor . It has been acknowledged in the Nepalese context that the one window policy has not fully addressed the genuine needs of the investors adequately.

According to the industrial Enterprises Act, 1992, an Industrial promotion Board was also formed under the chairmanship of the minister of Industries. The primary objectives of the board are:

i. To provide necessary co-operation in developing and implementing policies, laws and regulations relating to industrial development of the country.

ii. To provide guidelines in meeting the aims of liberal, open and competitive economic policies followed by the country in order to make the industrial sector competitive.

iii. To co-ordinate between the policy level and the implementation level of the industrial policy.

iv. To suggest to the government for including any other industry in the functions, duties and powers of the industrial promotion Board depicts that they are confined to large extent of policy.

Tendency of one window policy in economic factors

One window policy is based on an industrial enterprises and technology transfer so that, the Nepal's GDP growth has been hovering around the 4% mark for the last few years. Although Nepal's GDP saw a sluggish growth of 3.85% in FY 2012/13, the Nepali economy is projected to grow at 5.48%18 in FY 2013/14. The improvement in Nepal's GDP growth can be attributed to favorable monsoons, continued strong remittance flows, and the adoption of a full budget.19Some of the factors that have contributed towards cushioning the Nepali economy are listed below:

Service sector: This sector attracts one of the highest amounts of foreign investment in Nepal. A high growth rate in service sub-sectors such as transport, hotel and restaurants, health and social services, and communication have also positively influenced economic growth.

Remittances: Remittance is one of the largest sources of foreign exchange inflows, comprising of approximately 26% of GDP in 2012/13, making Nepal the third highest remittance recipient (in terms of percentage of GDP) in the world.20 While remittance inflows have been on an incline, their contribution towards GDP will be close to 23% interims of projected GDP for FY 2013/14.21 Increased remittance flows have led to higher disposable incomes among the Nepali population. Income from remittance is mostly channeled into consumption and only 2.4% of remittance inflows are used for capital formation.

Financial sector: While penetration of commercial banks and financial institutions has increased in the economy, the monetary growth stemming primarily from remittances has led to excess liquidity for financial institutions. The financial sector's underdeveloped capacities, and weak supervision and monitoring mechanisms, has resulted in less than optimum translation of remittance influx into sound credit opportunities, which can fuel further growth for Nepal.

Private sector: The private sector has been a major engine for economic growth in Nepal creating job opportunities and facilitating employment. The private sector is dominated primarily by small non exporting enterprises, with the two primary industries being manufacturing, and hotels and restaurants. However despite its significant contributions to the GDP, the private sector suffers from a significant lack of transparency *(Source: http://www.tepc.gov.np/)*

4.8 Board of Investment (BOI)

The Board of Investment was formed in Nepal on 27 December 2001 under the chairmanship of the prime Minister. The Board was set up in order to promote investment and make it more transparent and reliable. The other objectives of board include: formulation of new policies by reviewing the existing investment policy, maintaining coordination between various government and non-government organizations for the promotion of investment, pinpointing the areas of priority sector for investment promotion, monitoring the activities associated with investment promotion and providing directives to the concerned department to boost up investment.

4.8.1 Three Years Interim Plan in Nepal (2007-2010)

The three year interim plan to be implemented from the coming fiscal year aims to spend 587.7 billion Nepali rupees on development activities in Nepal. The investment is expected to achieve and average 5.5 % economic growth and lower incidence of poverty by 7 % points to 24%. The plan also aims to increase per capita income by 3.3% on annual average and set a target of limiting inflation to 5.6 % percent during the plan period. As per the copy of draft concept paper of the plan, the plan also targets to achieve average annual growth of 3.6 % for the agriculture sector and 6.5 % for non- agriculture sector. The total government's development expenditure, 87.68 % will be spent on non-agricultural sector. With an estimated expenditure of 26.07 % of the total transportation and communication sector is expected to be the largest absorber of government investment. The government's total expenditure including recurrent expenditure is estimated to remain 493.38 billion rupees during the plan period. The recurrent expenditure, which mainly finances salaries of government employees, security expenditure and interest of loans among others are expected to absorb 55.28 % of the total expenditure. The expected sources of financing revenue will be financing 63 % while foreign assistance 27 % and internal loan near 10 % (Kathmandu post, 2007). Some of the major policies adopted by this plan are as follows:

i. Encourage foreign investment in infrastructure development venture capital.
ii. To establish High-level Investment Promotion Board to facilitate foreign investment.
iii. To emphasize overall economic policy programmed related to poverty investment of financial institution in mega project for the reduction strategy, development of hydropower, post-conflict reconstruction and other infrastructure management.
iv. A mechanism will be put in place to mobilize remittances in public finance has been affected by conflict and political instability. Domestic and national savings will be mobilized for investment in the productive sectors.

Tendency of Interim Plan in Nepal

The government has come up with a draft approach paper of the upcoming Three Year Interim Plan (TYIP) FY2014-FY2016. It was endorsed by the Council on July 6. The NPC will publish a final version of the approach paper before the Finance Minister unveils the budget for FY2014. It will be the third interim plan (previously, TYIP FY2008-FY2010 and TYIP FY2010-FY2013) as the country is unable to have a full five year plan due to the protracted political transition. The NPC publishes a detailed TYIP after few months of the approach paper's, which needs to be endorsed by the cabinet, publication. The upcoming plan has a vision of graduating Nepal from LDC category to a developing country status by 2022. It is consistent with the Istanbul Plan of Action, an outcome of the UNLDC IV meeting held in Istanbul on 9-13 May 2011. More analysis on this specific issue in later blog posts, but for now the major highlights.

Growth rate: The government is targeting an average annual growth rate of 6.0% over the next three years, with agriculture sector growth and non-agriculture sector growth targeted at 4.5% and 6.7%, respectively. Surprisingly, while the NPC has listed targeted growth rate for all sub-sectors, it is missing in the case manufacturing activities, which have seen consistent over the last few years. Instead, it is combined with mining and quarrying and the combined growth target is 4.7%. Mining and quarrying itself was growing at over 5% in the last few years. Probably, the NPC is not expecting much growth in manufacturing sector as it is still plagued with persistent structural bottlenecks and supply-side constraints. *(http://sapkotac.blogspot.com/2013/07/highlights-from-nepals-three-year.html)*

4.8.2 Forms of Foreign Investment

Foreign investment is welcome in the form of foreign currency or capital assets. Reinvestment of earnings from foreign investments also constitutes foreign investment. In addition to this direct form of foreign investment, foreign loans, use of rights, specialization, formulae processes and patent relating to technology of foreign origin, use of foreign owned trademarks and good will and use of foreign technical, consultancy, management and marketing services will also constitute foreign investment.

4.8.3 Areas Open for Investment

Foreign investment is welcome in Nepal in practically every sector of economic activity with the exception of the following:-

i. Defense industries which produce items like military armament, ammunition or explosive materials.
ii. Cigarettes and Biddy.
iii. Alcohol.
iv. Materials.

4.8.4 Joint Ventures

Nepal encourages foreign investment as joint venture operations with Nepalese investors or as 100 percent foreign owned enterprises. Foreign investments are permitted up to 100 percent equity share holding in medium and large scale industries. A medium industry is defined as an industry with fixed capital investment between Rs. 10 million and Rs. 50 million. In large scale industries fixed capital investment will be in excess of Rs. 50 million. In cottage and small industries permission may be granted to use foreign technology in the form of investment.

4.8.5 Criteria for Approval

In the granting of approval for foreign investment involving new investment, modernization, diversification or expansion, the projects will be assessed taking into account the following criteria:- Priority will be granted to investments in industry prescribed by GON and financial and technical viability as well as contribution to employment generation. Foreign exchange earnings or savings;-Competitiveness of products in international markets-Appropriateness of technology-Terms and conditions of investment and technology transfer-Participation of Nepalese nationals in investment and management.

4.8.6 Repatriation and Dividends and Capital

Foreign investors who have received permission to invest in convertible foreign currency are permitted to repatriate the following outside Nepal at the prevailing rate of exchange:-

i. The amount received by sale of the whole or any part of the equity investment.

ii. The amount received as benefits or as dividends against foreign investment.

iii. Amounts received as payment of principle and interest on foreign loans.

iv. Amount received under an agreement for the transfer of technology.

v. Amount received as compensation for the acquisition of any property.

4.8.7 Royalties, Technical Service Fees and Management Fees

Royalties, technical service fees and management fees may be allowed, as appropriate, on an evaluation of royalty agreements, technical service/management agreements.

4.8.8 Foreign Technical Personnel

The employment of foreign technical personnel in projects is permitted with the approval of the Department of Labor. In such cases arrangements should be made to train counterpart staff in the technical/managerial operations within a time bound programme. Foreign experts working in Nepalese industries with prior approval, from countries where convertible currencies are in circulation, are permitted to remit up to 75 percent of their earnings in convertible currency.

4.8.9 Investment Protection Agreements

Nepal has signed Investment Protection Agreements with France and the Federal Republic of Germany. Under these Agreements investments enjoy full protection and security. The Agreements also guarantee free transfer of payments such as capital, profits & loans. In the event of a dispute concerning an investment, provision exists for its settlement through arbitration under the International Centre for the Settlement of Investment Disputes.

4.8.10 Arbitration

If the foreign investor, the concerned industry and the Department of Industry fail to settle among themselves any dispute concerning foreign investment, it will be settled by arbitration rules of the United Nation Commission for International Trade Law (UNICTRAL). The place of arbitration will be Kathmandu.

4.8.11 Double Taxation Agreements

In order to avoid the double taxation on incomes of foreign investors the Government will take necessary action to conclude agreements for the avoidance of double taxation with the countries of the concerned foreign investors. At present an agreement for the avoidance of double taxation has been concluded with India.

4.8.12 Incentives and Facilities

Foreign investments are eligible to receive the following incentives and facilities:-

i. Income received from exports is free from income tax.

ii. Income tax is exempt for a period of 5 years from the date of commercial production in the case of production oriented industry (other than cigarettes, bidi and alcohol) energy based industry, agro-industry, forestry industry, (other than saw mills and catechu) and mineral exploration industry.

iii. Income tax is exempt for a period of 7 years in the case of national priority industries.

iv. Specified industries, as for example tourist, service and construction industries, are eligible for exemption from income tax for a period of 5 years on the recommendation of the Industrial Promotion Board and upon publication in the Nepal Gazette.

v. Industries are entitled to a reduction in tax rate on each income tax slab by 5 percentage points.

vi. Industries established in remote, under developed and less developed areas, other than cigarette, bidi, and alcohol industries, are entitled to an additional tax exemption of 50 percent, 20 percent and 10 percent; and in respect of excise duty, 25 percent, 15 percent and 10 percent, respectively.

vii. Industries are entitled to deduct one-third of the value of the fixed assets investment as depreciation allowed under income tax law.

viii. Industries established as Public Limited and minimum of 15 percent of shares distributed to more than 100 persons are entitled to a 5 percent reduction in corporate income tax.

ix. Industries in operation which diversify production through re-investments or expand installed capacity by 25 percent or more or modernize technology or develop ancillary industries either in the same industries or in other industries are entitled to set off 40 percent of the value of the new fixed investment in computing taxable income. Such definitions may be made in one year or in installments within a maximum period of three years.

x. Industries which invest in modern plant, machinery and equipment which will control environmental pollution are entitled to deduct 50 percent of the investment so made as deductible expenses in computing taxable income.

xi. Pre-operating expenses incurred in connection with skill development and training will be allowed to be capitalized.

xii. 10 percent of the gross profit is allowed as a deduction against net income on account of expenses connected with technology or product development and skill enhancement.

xiii. Dividends declared from investments made in industry are exempt from income tax.

xiv. 5 percent of the gross income would be allowed as a deduction in computing net income on account of donation made for the improvement of schools, colleges, universities, private hospitals, religious places and other social welfare activities.

xv. 5 percent of the gross income will be allowed as a deduction in computing net income as expenses on account of expenditure incurred on advertisements for the promotion of products or services and for miscellaneous expenses.

xvi. Industries (other than cigarette, bidi, alcohol, saw mill and catechu) using 90 percent or more domestic raw materials in production, shall be entitled to 2 years tax exemption in addition to the tax exemption provided for production oriented, energy based, forest based and mineral exploration industries. This concession shall not apply to industries specified as national priority industries.

xvii. Industries which provide direct employment to 1000 persons or more shall be entitled to an additional 2 year exemption from income tax.

xviii. Interest income earned by a non-resident on a foreign loan will be taxed at a concessionary rate of 15 percent. Similarly royalties, technical and management fees earned by a non-resident person will be taxed at 15 percent.

xix. No Premium, customs duty, excise, sales tax and local tax will be imposed on raw materials to be used by industries established in the export processing zone or by any industry permitted to operate bonded warehouse facilities which export cent percent of their products.

xx. Export oriented industries receiving duty drawback facilities under the Industrial Enterprises Act and industries manufacturing intermediate goods to be used for the production of exportable commodities will be refunded the amount of premium, customs duty, excise and sales tax paid on the raw materials used to produce such intermediate goods, as well as the excise and sale tax paid on such intermediate goods on the basis of the actual volume of the expert of the commodities manufactured by using them. For this purpose transferable tax credit system will be used.

CHAPTER-V
SUMMARY CONCLUSION AND RECOMMENDATION

This chapter presents the summary, Conclusion and recommendations. Whole chapter divided in to three sections. First section deals with summery, second chapter deals with conclusions and third chapter deals with Recommendations.

5.1 Summary

i. India alone accounts for 47.6 percent, followed by China with 10.34 percent, Canada with 3.18 percent, and Japan with 1.72 percent and Norway with 1.67 percent. In total, investors from 70 different countries have invested in Nepal.

ii. In total, investors from 70 different countries have invested in Nepal.

iii. FDI is highly concentrated in the manufacturing sector, which accounted for 33.78 percent of approved FDI projects.

iv. Service sector with over 30 percent of approved projects, 19 percent of foreign investment and 20.67 percent of total employment.

v. Tourism stands in third position with 26 percent of approved projects, 12.31 percent of foreign investment and 16 percent of total employment.

vi. The total fixed cost is estimated to be Rs.129 billion while the total foreign direct investment (FDI) is estimated to be Rs.68 billion as of July 2014. The registered projects provided employment to 155,432 people.

vii. In spite of the difficulties that Nepal experiences in attracting FDI in any appreciable amount, there are some sectors where FDI currently comes in as well as different sectors where FDI can be accelerated if Industry Promotion Packages are created.

viii. The overall inflows are so low that, all in all, FDI has not been a significant development catalyst. It is not necessarily due to a lack of potential. Nor it is because FDI has been excluded from most sectors of the economy.

ix. Nepal has failed to offer investors satisfactory standards of policy, administration of taxes and regulations and stable political environment which are of vital interest to business. Indeed, apart from the important liberalization of power generation, there has been little focus on removing these barriers, even those in selected industries of high FDI potential. Therefore, better performance in attracting FDI requires fundamental changes.

x. Adversely affected by the unfavorable monsoon, the shortage of chemical fertilizers during the peak summer crops planting season, continued slowdown in industrial activities and the delay in introducing a full budget, gross domestic product (GDP) growth dipped to an estimated 3.6% in FY2013, down from 4.5% in FY2012. The major contribution to overall GDP growth came from the services sector which contributed about four-fifths of the GDP growth, up from about two-fifths in FY2012, largely due to the rise in remittances-induced consumption demand. While agriculture contributed about two-fifths of the GDP growth in FY2012, it declined to less than one-fifth in FY2013 .The industrial sector's contribution remained below one-fifth in the last three years, mainly reflecting the slowdown of manufacturing and construction activities.

xi. The agriculture sector, which comprises almost 35% of GDP and provides livelihood to about 76% of households, grew at a mere 1.3%, down from 5% in FY2012 and 4.5% in FY2011. Despite a good winter crop harvest—resulting from the timely and favorable winter precipitation and availability of agriculture inputs— total cereal production dropped by 7.6% owing to the late and inadequate monsoon, and shortage of chemical fertilizers. The production of paddy, maize and millet dropped by 11.3%, 8.3% and 3%, respectively. An increasing proportion of farmers are using chemical fertilizers for the production of mainly summer crops and to some extent for the winter crops. For instance, about 70% of paddy growers used chemical fertilizers in FY2011 compared to 66.4% in FY 2004.

xii. The real estate sub-sector growth declined to 1.6% from 3% in FY2012, mainly due to its slow recovery after the slump in FY2011 and the lending cap (a maximum of 25% of total loans to real estate and housing) imposed by the Nepal Rastra Bank (NRB) on BAFIA.

xiii. Though per capita GDP increased to $713 in FY2013 from $709 in FY2012, it is still lower than $720 in FY2011. The fluctuation in per capita GDP is partly attributed to the depreciation of Nepali rupee against the US dollar. The size of Nepal's economy expanded to an estimated $19.4 billion in FY2013, marginally up from $19 billion in FY2012.

xiv. Total domestic capital investment (fixed capital plus working capital) commitment increased remarkably by 41.6% in FY2013, up from a decline of 6.6% in FY2012. As a share of GDP, it reached 7% in FY2013 from 5.5% in FY2012, largely attributed to over 50% increase in investment commitment in energy, tourism and mineral sectors. Overall, of the total investment commitment in FY2013, 72.4% was in energy sector, followed by manufacturing (11.1%), services (8.6%), and tourism (6%) figure. As a share of GDP, investment commitment in energy sector went up from 3.6% in FY2012 to 5.1% in FY2013.

xv. Country-wise FDI commitment shows that although India still accounts for the highest share (22.3% in FY2013) it is in a declining trend (32.2% in FY2012 and 69.7% in FY2010). Meanwhile, China's share of total FDI commitment is steadily increasing, reaching 21.9% in FY2013 from 13.8% in FY2012 and 11.8% in FY2011. It may be noted that despite the increase in FDI commitment in FY2013, actual FDI inflows, as per the balance of payments, marginally decreased from NRs9.2 billion in FY2012 (0.6% of GDP) to NRs9.1 billion in FY2013 (0.5% of GDP).

xvi. About 25% of the total estimated demand of 586,000 MT of chemical fertilizers was supplied at a subsidized price through Agriculture Inputs Company Ltd (AICL), a government entity, in FY2013. Total budget for subsidy of prices on chemical fertilizers was NRs 6 billion. The procurement of required fertilizers was affected by the delayed full budget in FY2013.

xvii. Actual domestic consumption expenditure made up only 62.2% of GDP in FY2013, down from 65.1% in FY2012. This is due to the surge of net exports (or, export minus import) in FY2013, i.e. the consumption expenditure on imports of goods and nonfactor services.

xviii. FDI impact on GDP showed a distinct acceleration during the averaging 0.325087845 percent per annum during 2000-2005 A.D, peaking at 0.505622923 percent in 2008.(world bank report:2008). And then the impact of FDI on GDP is gradually grown up ie.1.056830356 percent in 2013A.D.

5.2 Conclusion

In sum, FDI in Nepal is the major concern. Despite the liberal FDI related policies Nepal has not able to attract a substantial level of foreign investment. Lack of political commitment, structural deficiency including corruption, unnecessary licensing procedures, multi-doors process etc. is responsible for the poor performance. Similarly, the restrictive national priority contributed to at lack of foreign investment. For promoting FDI the government is ready to provide to incentives, liberation of laws with deregulations of rules and regulations. The internal overall performance is a necessary condition to improve foreign investment. Foreign investment is influenced by much consideration besides investment law. Out of these, uninterrupted flow of raw materials and extension of market are considered major determining factors. So, with the changed political situation, the government should be aware of the problems and is widely expected to improve the investment climate.FDI is permitted in all industries in Nepal except for those reserved sectors. Foreign individuals are not permitted to own land but resident companies may do even if foreign owned. In this way, it also assists to maintaining and utilizes the available capital and natural resources to the maximum possible extent so that a country may get every ambience to prosper. Foreign Direct Investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset FDI is considered as a means of obtaining not only capital and technology but also scares management and skill, and improved marketing know-how and outlets for non-traditional exports of manufactures, processed commodities and traded services.

5.3 Recommendation

i. Economic development is essential for every country but it is especially crucial for post-conflict transition countries such as Nepal, requiring FDI in Nepal for peace-building, recovery and reconstruction.

ii. The country needs to remain attractive for FDI in the current context of global recession, especially for such investment that serves its long-term development goals and enhances competitiveness (for instance, investment in areas such as infrastructure and hydropower). Retaining existing investment is equally important; particularly in the present deteriorating security conditions may consider closing foreign affiliates or transferring them to other safe locations.

iii. Moreover, as the recent political trends are very disturbing, the country must make every possible effort to ensure that the trend of FDI inflows is not jeopardized by such negative images. Finally, though some measures have been spelled out in this paper for boosting FDI flows into Nepal.

iv. There are certain issues pertaining to FDI that demand further research. In the first place, should Nepal try to influence the mix of FDI by pursuing to draw in only export-oriented FDI and smaller firms and exclude multinationals in order to limit the risks of monopoly? Secondly, how can the country be successful in directing FDI into specific locations or socially preferred sectors? Thirdly, how can Nepal satisfy the particular challenges posed by its small domestic market size, by the shortage of skilled labor and by the weakness of physical infrastructure? And, lastly, how can the country move ahead with the appropriate sequencing in tackling the different policy requirements?

v. Harvesting of FDI in Nepal is highly concentrated is needed to increased the manufacturing, Agriculture, and Service sector for economy development.

vi. Nepal has failed to offer investors satisfactory standards of policy, administration of taxes and regulations and stable political environment which are of vital interest to business it is needed to change for economy development.

vii. Indeed, apart from the important liberalization of power generation, there has been little focus on removing these barriers, even those in selected industries of high FDI potential therefore, better performance in attracting FDI requires fundamental changes.

viii. Country-wise FDI commitment shows that although India still accounts for the highest share it has needed the broad in other countries.

ix. Actual domestic consumption expenditure made up only 62.2% of GDP in FY2013, down from 65.1% in FY2012 it is needed to decline position.

x. Total domestic capital investment (fixed capital plus working capital) commitment increased remarkably by 41.6% in FY2013, up from a decline of 6.6% in FY2012, it is needed to make more consistency.

xi. Adversely affected by the unfavorable monsoon, the shortage of chemical fertilizers during the peak summer crops planting season, continued slowdown in industrial activities and the delay in introducing a full budget, gross domestic product (GDP) growth dipped to an estimated 3.6% in FY2013, down from 4.5% in FY2012.Government are more responsible and accountable towards Agriculture policy, and Farmers.

xii. The real estate sub-sector growth declined to 1.6% from 3% in FY2012, mainly due to its slow recovery after the slump in FY2011 so government has made to required Require Effective Land policy in Nepal.

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