CHAPTER I
INTRODUCTION

1.1 Background of the Study

Nepal formally adopted the policy of liberalization, privatization and globalization after the restoration of multiparty democracy in the early 1990s as the forerunner of globalization in the South Asian region. The accession of Nepal to the WTO in 2004 accelerated the process of globalization. However, in the past two decades or so, Nepal has experienced a few success stories as well as cases of failure and frustrated expectations, which clearly highlight the need to assess the whole process of globalization (WTO, 1995).

Nepal has gained some genuine benefits and opportunities from globalization, but in small areas and amounts. , the per capita GNI increased from $185 in 1990 to $1034 in 2018 and the size of the GDP has expanded manifold since then. Furthermore, the extent of absolute poverty has reduced from 49 percent to 18.6 percent during that period. Though many factors may be responsible behind the historical transformation of Nepali economy, it would be prudent to analyses this phenomenon vis-a-vis globalization. Globalization has greatly contributed to the modernization of the Nepali economy. Nepal has been transformed into an open and service-based economy by lowering the share of agriculture in the GDP to 27 percent Nepal has expanded its market to the global level. Consequently, the country’s total exports have been increasing, though gradually, and the trade with the outside world has been diversified to some extent (Economic Survey, 2018).

The consumers have benefited by way of increased quality at cheaper price due to global competition. A wide range of global brands such as iPhone, Samsung, KFC, John Players, Facebook, You tube have come within easy reach of Nepali customers. Similarly, globalization has provided access to global financial institutions such as the World Bank, IMF, and the Asian Development Bank, which has facilitated the country's development efforts by greater volume of foreign assistance. Globalization opened up the international labour market to Nepali workers. The share of remittance has reached nearly 27% of GDP which has helped to reduce unemployment and poverty to a great extent as well as rescue the economy in the hardest of times. Finally, globalization has promoted socio-cultural transformation of the country through cultural exchange, tourism activities and expansion of knowledge. Besides, it has raised concerns over environmental issues of the day, such as climate change, global warming, and pollutions of various forms.

Nepal has witnessed increased inflow of FDI. A number of multi-national companies such as Standard Chartered, Ncell, Asian paint and UniLever are operating in the country. The FDI in the field of ICT, tourism, education and financial sectors is noteworthy, which has facilitated the transfer of modern technology and helped improve the balance of payments of the country.

Foreign Direct Investment (FDI) is an important driver of economic growth and prosperity. It helps to create jobs, facilitates technology transfer, and is a major source of capital for developing countries. FDI can lead to transfer technology and know-how, improve the access to international markets and spur competition. However FDI inflows cannot be taken as grant, as countries continue to liberalize, transnational corporations (TNCs) are attracted to locate that offer the most appropriate conditions. The increased importance of FDI for economic development has coupled with greater competition between locations has made investment promotion is a growing activity of a government; not only in developed countries, but also in developing countries for their economic in transition.

Development priorities of Nepal include achieving sustained economic and human development to reduce poverty by strengthening technological capacities and skills, improving access to world markets, and creating more and better employment opportunities. To pursue these strategies, the country needs significantly increased flow of investment capital, especially FDI. However, globalization has led to an increase in competition for FDI among developing countries thereby making it even more difficult for Nepal to attract new investment flows. Hence, one of the development challenges facing Nepal is how to attract and retain FDI on a sustainable basis. FDI is highly preferred as it can play a key role in facilitating the building-up process.

1.2. Statement of the Problem

Nepalese economy is passing through the critical phase of low level equilibrium trap circumscribed by poverty and stagnation (Dahal et al. 2000). Macroeconomic indicators exhibit that Nepal's economic status is not satisfactory in terms of GNI per capita, commercial viability of natural resources, the extent of poverty and human development prospects. Nepal is bound with traditional society where people almost depend upon the old primary and traditional industries having inadequate modernized tools and technology.

As political stability and peace are the sine quanon for attracting greater volume of FDI in Nepal, Nepalese economy has suffered from serious structural constraints accompanied by internal conflict for a period of ten years. Economy is characterized by landlocked position, rugged topography with limited cropland, poor resource base, a high extent of poverty and rampant corruption. Similarly, Nepalese economy has suffered from limited resource endowment, underdeveloped infrastructure, technical knowhow, unskilled manpower, improper planning, ineffective implementation of policies, etc.

Foreign investors have vented dissatisfaction with the frequent changes of the officials of the concerned offices. Government has not been able to create favorable market access to neighboring countries for the products of foreign investment projects through trade agreements. Private sector has no confidence with the government and has low expectations regarding the value of promised incentives embodied in the policies. This sector has also reservation about government control. Because of the lengthy approval process and incentive system, Nepal has been regarded to the country with the poorest level of investment climate.

With the liberalization and privatization policies undertaken in the 1990s, Nepal should have been able to attract more FDI and private capital flows. But present scenario reveals that the ability of Nepal to attract private capital and FDI has been less than expected. The service sector received the major share of FDI followed by the industry and the agricultural sector. About 70.2 percent (Rs. 96.7 billion) of total stock of FDI is in the service sector, 29.5 percent (Rs. 40.6 billion) in the industry and the remaining0.3 percent (Rs. 395 million) in the agriculture sector (NRB, 2018).

Despite the ample facilities and liberal legal provisions, the disappointing flow of FDI to Nepal is disappointing. So, it is desirable to study the trend, structure and prospects of FDI in Nepal.

1.3. Research Questions

An assessment of the policies adopted, incentive given that address FDI and its trend, structure and prospects are recognized as the focus of the study or problem of present study. So that some question are raise issued of the study.

a. What is the trend, structure of FDI inflow in Nepal?

b. What are the policies related to FDI in Nepal?

c. What are the major prospects of FDI in Nepal?

1.4. Objectives of the study

This research paper aims to meet the following objectives:

a. To analyze the trend and structure of FDI in Nepal,

b. To review the policies related to FDI in Nepal and

c. To examine the major prospects of FDI in Nepal.

1.5. Significance of the Study

Nepal is a less developed country with low domestic saving, lack of capital and where development expenditure in large extend depends on foreign aid and FDI, it is very important to study its status and trends and possibilities of FDI. FDI helps to maintain stable macroeconomic condition and limited restriction on Foreign exchange and a relatively open economy. Further it helps in income and employment generation, technology transfer and increased foreign exchange. FDI adds to investible resources and capital formation; and it is also a mechanism of transferring production technology, skills, innovative capacity, and organizational and managerial practices between locations, as well as of accessing international marketing networks. It also allows new local entrants to learn about exports markets, provide training for workers and stimulates competition with local firms. The main advantage is that it helps in overall development of the host country which would be not permitted by domestic saving itself.

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.

1.6. Limitations of the Study

Some limitations are as follows:

a. The study based on the data of 29 years from FY 1989/1990 to 2017/2018 after the restoration of democracy period.

b. This study has been mainly based on secondary data to assess the policy framework of FDI in Nepal and analyze trend, structure and prospects of FDI.

1.7. Organization of the Study

This study comprises of seven chapters and each chapter is further divided into different sections and sub-sections.

The first chapter, which is the introductory portion, gives the general overview of the whole study.

Chapter two is related to the review of literature. It includes a discussion on the theoretical framework as well as the review of the major empirical works. The theoretical analysis and review of related literature conducted in this chapter provide a framework and with the help of which this study has been accomplished.

Chapter three is concerned to the research methodology used in this study. This chapter comprises of research design, nature and sources of data methods of analysis and definitions of key terms.

Chapter four is related to trends and structure of FDI in Nepal.

Chapter five is related to policy framework of FDI in Nepal.

Chapter six is related to prospects of FDI in Nepal.

Chapter seven includes summary and conclusions of the study and the recommendations that may be helpful in formulating policies.

CHAPTER II
REVIEW OF LITERATURE

2.1 International Perspective

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 Hymer'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.

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.

Kindleberger (1973) examined that major difference between portfolio and direct investment is that direct investment involves control, whereas portfolio investments do not. Control is a legal concept and rests on hundred, ninety eight, fifty one or forty eight percent ownership of the equity of a foreign corporation. Or control is thought of in decision-theory terms, which meant that the head office makes decisions respecting foreign operations, within a clearly laid-out scheme, on such questions as choice of top personnel, new products, capital budgeting, research and development, and dividend policy. But direct investment is a capital movement combined with control and perhaps other elements, such as technology.

It is observed however that direct investment often does not involve a capital movement. A firm will undertake investment abroad with funds borrowed in the local country. It may provide the equity in foreign exchange, but if it is going into a joint venture, this equity investment may take the form of patents, machinery, technology, or other real considerations. Once the investment become profitable, it grows from local borrowing and reinvested profits.

Dunning (1993) explained the literature on FDI identifies three most common investment motivations: resource-seeking, market-seeking, and efficiency-seeking.

i. Resource-seeking: the main motive of the firm is the acquisition of particular resources not available at home (natural resources or raw materials) or available at a higher cost (unskilled cheap labour). The availability of natural resources, cheap unskilled or semiskilled labour, creative assets and physical infrastructure promotes resource seeking activities. Historically, the most important host country determinant of FDI has been the availability of natural resources, e.g. minerals, raw materials and agricultural products.

Labour-seeking investment is usually undertaken by manufacturing and service MNEs from countries with high real labour costs which set up or acquire subsidiaries in countries with lower real labour cost to supply labour intensive intermediate or final products. Frequently, host countries have set up free trade or export processing zones.

ii. Market-seeking: firms invest abroad to profit from foreign markets. Various reasons can actually lead to follow supplies or customers that have built foreign production facilities; to adopt goods to local needs or tastes; to avoid the cost of serving a market from distance; to have a physical presence on the market in order to discourage potential competitors.

iii. Efficiency-seeking: FDI that occurs when:

   a) firms take advantage of differences in the availability and the costs of traditional factor endowments in different countries; or

   b) they take advantage of the economies of scale and scope and of differences in consumer's tastes and supply capabilities.

OECD (2002) explained that emerging economies in transition have come increasingly to see FDI as a source of economic development and modernization, income growth and employment. Countries have liberalized their FDI regimes and pursued other policies to attract investment. They have addressed the issue of how best to pursue domestic policies to maximize the benefits of foreign presence in the domestic economy. The study Foreign Direct Investment for Development attempts primarily to shed light on the second issue, by focusing on the overall effect of FDI on macroeconomic growth and other welfare-enhancing processes, and on the channels through which these benefits take effect.

The overall benefits of FDI for developing country economies are well documented. Given the appropriate host-country policies and a basic level of development, a preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries. Moreover, beyond the strictly economic benefits, FDI may help improve environmental and social conditions in the host country by, for example, transferring "cleaner" technologies and leading to more socially responsible corporate policies.

UNCTAD (1999) described Foreign direct investment (FDI) can play a key role in the economic growth and development process. The importance of FDI for development has dramatically increased in recent years. FDI is now considered to be an instrument through which economies are being integrated at the level of production into the world of globalization by bringing a package of assets, including, capital, technology, managerial capacities and skills, and access to foreign markets. It also stimulates technological capacity-building for production, innovation and entrepreneurship within the larger domestic economy through catalyzing backward and forward linkages. FDI is perceived to be superior to other types of capital inflows for several reasons:

i. In contrast to foreign lenders and portfolio investors, foreign direct investors, typically, have a longer term perspective when engaging in a host country. Hence, FDI inflows are less volatile and easier to sustain at times of crisis.

ii. While debt inflows may finance consumption rather than investment in the host country, FDI is more likely to be used productively.

iii. FDI is expected to have relatively strong effects on economic growth, as FDI provides for more than just capital. FDI offers access to internationally available technologies and management know–how, and may render it easier to penetrate world markets.

OECD (2008) analyzed the foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10 percent of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:

i. an individual;
ii. a group of related individuals;
iii. an incorporated or unincorporated enterprise;
iv. a public or private enterprise;
v. a group of related enterprises;
vi. a government body;
vii. an estate, trust or other societal organization;
viii. or any combination of the above

In the case where two enterprises each own 10 percent or more of each other's voting power, each is a direct investor in the other.

Economy watch defines FDI as foreign direct investment is a type of investment that involves the injection of foreign funds into an enterprise that operates in different country of origin from the investors. Investors are granted management and voting rights if the level of ownership is greater than or equal to 10 percent of ordinary share. Shares and ownership accounting to less than 10 percent is termed as portfolio investment and is not categorized as FDI.

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 another country.

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.

Feldstein (2000) suggested that countries often choose to forgo some of this revenue when they cut corporate tax rates in an attempt to attract FDI from other locations. For instance, the sharp decline in corporate tax revenues in some of the member countries of the Organization for Economic Cooperation and Development (OECD) may be the result of such competition. In principle, therefore, FDI should contribute to investment and growth in host countries through these various channels.

Stecher (2005) described to answer about three questions with regard to a favorable investment climate: what will developing countries gain, what they have to provide and how can we support them. According to research, FDI not only supplies additional capital, which is necessary to speed productivity growth, but also imports best practice management expertise and technology that has already proven its excellence in other countries and other markets. Attracting FDI thus facilitates the structural changes required for growth and helps integrate countries into the international value chain. Countries such as Ireland, Malaysia, Singapore, and Thailand and now in a most impressive way, China have successfully followed the path of openness. They have attracted FDI and substantially increased their income per capita within a short period of time.

Investigator concluded that foreign companies can transfer management skills and technological knowledge that can easily spread among local business communities. Beyond any facilitating support and development aid from industrial countries, which is clearly necessary, the best help industrial countries can provide is to open up their markets to agricultural and manufactured goods from the developing world. But at the same time, it is the primary task of the government of any developing country to provide the framework of good governance.

Hinds (2005) mentioned the some of the factors which are essential for attracting investment. Macroeconomic stability remains crucial in his opinion as the relative prices relevant for each investment must remain stable and predictable. Expatriate managers are expensive, so the availability of local managerial talent that can be trained to manage a proposed investment is a key element in the investment decision. Along with this telecommunication costs remain high in many developing countries largely because local monopolies are controlled by state owned companies, so it must be lowered down to attract investment.

World Investment Report (2012) analyzed the FDI suffered a setback in the recent past due to global financial crisis, followed by the ongoing debt crisis. The report reveals that although global FDI flows exceeded the pre-crisis average in 2011, reaching US$1.5 trillion, they still remained some 23 percent below their 2007 peak. Buoyed by the growth in FDI inflow into the largest economy of the region (India), South Asia witnessed a robust growth of 23 percent in 2011 compared to the previous year. However, Nepal remains one of the worst performers in the region despite robust growth of 125 percent attained in 2011 according to the UNCTAD data. In terms of the FDI potential index, Nepal ranks the lowest in the region, i.e., 175 out of 182 countries ranked globally.

Hassan and Kim (2014) described the volume of FDI inflows into Nepal has not been satisfactory, averaging only about $8 million per year. The inevitable consequence is that FDI is a significant mechanism for economic development of country like Nepal. However, a comparison with different Asian countries brings out the poor performance of Nepal in terms of attracting FDI inflows, and its influence on economic development also seems to be minimal. As Nepal has comparative advantages in sectors such as tourism and hydro power capability, country offers some potential sectors to attract FDI. A though Nepal has opened most sectors to FDI, there is requirement of consistent implementation of existing polices to meet up the global standard. There need to be overall improvement in a business climate to assure the investor-friendly environment.

2.2 National Perspective

Chitrakar (1986) explained that the flow of foreign investment in manufacturing sector was not so enough in mineral based sector was negligible. The main problem was due to the non- implementation of policies and the act made by HMG/N, Bureaucratic harassment, hard to get incentives according to the provision made by government etc. The impact of solitary Ministerial Meeting and Investment Promotion Meeting held for promoting foreign investment in Nepal has become less effective that fail to motivate foreign investors towards Nepal

The researcher found that national attention and attempt to the policy reforms to attract FDI is not sufficient to increase the inflow of FDI in the country like Nepal. The collective efforts at the regional and international level are required for the growth of FDI inflow.

The study has also mentioned some problems in attracting FDI like lack of predictable and transparent policy, absence of monitoring mechanism to accurately monitor the flow of FDI, political instability, and so on.

Bhatt (1993) analyzed that many obstacles for attracting foreign investment in Nepal. According to the study, the main shortcomings for the investors are size of the country, skill shortage, inadequacy of the domestic infrastructure, corrupted bureaucratic system, lack of human resources, etc.

Pant (1994) studied cost benefits and determinants of foreign direct investment. The study mentions the benefits of FDI. According to the study, “FDI supplies capital which might not otherwise be available due to a low level of domestic saving and because access to bond and other portfolio finance from developed countries has been limited on the one hand and FDI carries within it a complementary package of inputs that include managerial and marketing expertise, knowledge of technical processes, scare labor skills and, in some cases, facilities for training local workers in varieties of skills on the other”.

Chitrakar (1994) described an extensive study on FDI in Nepal with cross country references of SAARC regions. The study, based on primary as well as secondary data, analyses the trend and the form of foreign investment, its determinants, facilities and incentives offered to attract it and causes of sluggish and disappointing flow of it in Nepal. The study also finds that the flow of foreign investment in Nepal is less impressive than that of neighboring countries despite the adoption of more liberal policies and promised facilities and incentives. The study reveals that more liberal provisions and handsome facilities and incentives are not adequate measures to bring in heavy flow of foreign investment.

Timilsina and Mahato (1998) highlighted that the foreign direct investment is a means of industrialization which would lead to diversify the economy for a 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 furthermore 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”.

The study has focused basically on the historical development, importance and structure of FDI in Nepal together with the analysis of legal provision and incentives and facilities offered through it. The study also touches the problems of foreign investment in Nepal. However, the analysis on this topic is less detailed than the others they have observed.

Poudel (1999) discussed that foreign direct investment would enter Nepal only if the investors were ensured for maximum profit. Nepal, a low cost economy with abundant labour and low wage rate are strengths for attracting foreign direct investment. But the component of labour in the real cost is declining significantly with the increasingly larger use of high-tech components. Moreover, the unskilled nature of labour eliminates the advantage of low cost. Thus, it is imperative to concentrate on producing skills and technical manpower by orienting the educational system and operating for a coordinated approach by the universities in line with the emerging demand of international business.

Dahal and Aryal (2002) studied poverty-stricken economy like Nepal where internal resources are extremely limited, not enough to supplement current expenditures, and dependence of foreign aid (grants and loans) is increasing with poor performance shown by economic growth rate; and where political conflict is getting momentum, the role of FDI is crucial not only to sustain development activities but also for poverty alleviation.

The data for FDI reflects that investment from India is prominent, attributing to both economic and social proximity between Nepal and India. A pragmatic strategy for development based on two pillars would help achieve the target of attaining a high level of growth and poverty alleviation. These are (a) improving the investment climate though strengthening macroeconomic stability, trade openness and competitive markets, improving governance and institutions and infrastructure and (b) through social inclusion, good governance and poverty reduction.

Dangal (2002) 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. The study supported by both primary and secondary sources revealed foreign investment scenario in Nepal has been dismal. Despite its 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 when democratically elected first government of Nepali Congress adopted liberal policies in the matter of getting private domestic or foreign investors involved into the economic activities of a country.

Bista (2005) studied the impact aspects of FDI at micro and macro levels and its structure and policy environment. The study concludes that "Nepal still needs a big push for achievement of sustainable higher economic growth, macro-economic stability and welfare to the poorest of the poor when we observe back to the weak performance of the planned development and huge resource expenses over 56 years. In this context, FDI is not sufficient to increase the inflow of FDI in the country like Nepal". The study further focuses that "national attention and attempt to the policy reforms to attract FDI is not sufficient to increase the inflow of FDI in the country like Nepal. The collective efforts at national and international level are required for the growth of FDI inflow. The FDI policies of developed countries should be revised to address the real global issues: poverty, inequality, unemployment, hunger etc. Then, FDI may be a hope to developing countries for economic development".

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".

Subedi (2013) explained the economic indicators reveal that Nepal's performance is very vulnerable in terms of GNI per capita, commercial viability of natural resources, the extent of poverty and human development prospects. Nepal has not been able to harness its existing resources. In this regard, FDI is a crucial factor which helps to mitigate all these problems to some extent. Despite various policy and legal reforms that have been undertaken and incentive provided in the field of FDI and associated sectors for reaping the maximum benefits of FDI, the country has been able to attract only limited inflows of FDI with the concentration mostly in Central Development Region in SMEs, and mainly from India, USA China, Norway and Japan. According to present study, the constraining factors for foreign investment in Nepal are inadequate infrastructural base, poor state of law and order, lack of skilled and trained manpower, lack of facilitation and effectiveness of one window system, landlockedness position of the country, existing conflict in different parts of country, especially in the Terai region (at present), small market size, bureaucratic hassles, frequent stalemate between India and Nepal over trifle transit and other trade issues and inadequacies and inconsistencies in policies.

Bam, Manoj, Kumar (2017) studied growing salience of FDI, not only for traditional business related activities but also for financing development, LDCs in general have not been able to grab this opportunity. It is unfortunate to note that despite a recent growth in FDI achieved by Nepal, the country still receives the lowest amount of FDI in the region. Nepal's FDI potential is heavily under-exploited, despite the fact that the country offers a huge potential not only for market seeking investors but also resource seeking ones. Besides, because of the favorable market access opportunities it has got, in the European and Indian markets, investors should find it worthwhile to invest in Nepal. Similarly, resource seeking investors can invest in Nepal to exploit the immense hydropower potentials.

Besides this, investment in other infrastructure projects such as road, rail and airport construction. On the contrary, Nepal does not seem to offer a pleasant investment climate for foreign investors. Although there are several reasons that could lure investors from making long term investment in Nepal, there are three main problems to be noted. First, the political instability, legal uncertainty and lack of rules of law which make foreign investors think twice before making any investment. Second, poor infrastructure on transportation and energy increases the cost of investment. Third, power of trade unions, which have become emboldened particularly after the declaration of Nepal as a republic, has created a certain amount of threat for the overall business climate of the country

NRB (2018) published the report stating Foreign Direct Investment (FDI) serves as a catalyst for development in an open integrated economic system. Since 1980s, cross border linkages through FDI have been an important feature of financial globalization and liberalization process. Nepal has also introduced many provisions to attract FDI including a set of legal, regulatory and institutional framework. Though FDI inflow in Nepal is low compared to its neighboring countries, it has been on an increasing trend over the recent past. Foreign investors from 39 countries have made investment in 252 firms in Nepal. The FDI stock reached Rs. 137.7 billion (6.1 percent of GDP) in 2015/16, which was mainly driven by the rise in reserves of FDI-based industries. Reserve constitutes two-third of FDI stock. The services sector accounts for the highest share (70.2 percent) of outstanding FDI in Nepal. In terms of paid up capital, the highest FDI in Nepal is from India. When total stock of FDI is taken into consideration by including reserves and loans, West Indies happens to be the major source region with FDI of Rs. 62.8 billion as of mid-July 2016.

2.3 Research Gap

In Nepal, theoretical studies were conducted but there is no such detail study of trend, structure and prospect of FDI is studies after devastated earthquake. This thesis fulfill such gap similarly, out of this Literature of FDI in terms of foreign and Nepalese perspective, it can be concluded that national attention and attempt to the policy reforms to attract FDI is not sufficient to increase the flow of FDI in the country like Nepal. The collective efforts at regional and international level are required for the growth of FDI inflow.

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

Research design is planned structure and strategy of investigation conceived to obtain answer to research objective through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedure and technique, which guides the study and propounds ways of doing research.

This study is undertaken descriptive and analytical 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 Nepal as well the graphic representation of fact and figures are in quantitative information. So both qualitative and quantitative has been used.

3.2 Nature and Sources of Data

The secondary data including information collected from many sources such as Department of Industry, Foreign Investment Promotion Section of Ministry of Industry, Central Library of TU, NIDC, CBS, CEDA Library, NRB, DoI, MoF, NPC, Federation of Nepal Chamber and Commerce Industry (FNCCI), and FDI Department etc. Secondary data thus collected from different offices and departments have been further processed and analyzed to find out the past trend and structure of FDI in Nepal, future constraints of FDI flows into Nepal and prospects of FDI in Nepal.

3.3 Data Collection Tools and Techniques

To understand the basic concept about the Foreign Direct Investment, its trends, structure, prospect and policies, institutional arrangements and composition different kinds of Journals, Books, Articles, documents etc. are used as a secondary source of information. The researcher visited the Department of Industry, FDI Department, TU library, Ministry of Finance, Ministry of Industry, FNCCI and also visited different websites to collect the relevant data for the research purpose.

3.4 Data Analysis

The goal of presentation and analysis of data is to handle the evidence fairly, to produce convincing logical conclusions and to rule out alternative interpretations. Data analysis involves turning a series of recorded observations into descriptive statements. Therefore, after the data is collected from different sources, the next step is to process, analyze and interpret them to drive meaningful conclusion.

The various data collected from different sources has been compiled condensed, analyzed and presented in the form of tables and diagrams, graphs and chart with the help of Microsoft Excel. In order to exclude the irrelevant unnecessary data and process them as per thesis and project work requirements, data has been edited, coded, categorized and property tabulated. The data has arranged, grouped and accordingly entered into appropriate tabular form.

To fulfill the other objectives of FDI in different sectors, role of FDI in economic development, employment opportunity and technology transfer; the collected data has been analyzed by using tabular and graphical presentation and its description using Microsoft Excel. Moreover, the theories, policies, empirical evidences related to FDI have been used to discuss about the findings of the research.

3.5 Time Period of the Study

This study has been mainly based on secondary data for a period of 29 years from FY 1989/90 to FY 2017/18.

CHAPTER IV

TREND AND STRUCTURE OF FOREIGN DIRECT INVESTMENT IN NEPAL

4.1 Trend of FDI in Nepal

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

This chapter is mainly concerned with trend and structure of foreign direct investment (FDI) in Nepal that has been analyzed into sector, year and country wise categorization of FDI inflow from FY 1989/90 to 2017/18.

FDI trend may be positive or negative in general. Since Nepalese economy is passing through a critical phase of low level equilibrium trap circumscribed by poverty and stagnation, and conflict and recession, FDI trend seems to be more fluctuating during the last 28years. As political stability and peace are the sine quo non for attracting greater volume of FDI in Nepal, Nepalese economy has suffered from serious structural constraints accompanied by unprecedented political turmoil since many years. Present scenario reveals that Nepal has not been able to attract desirable size of FDI inflow within the country. Statistics show that FDI in Nepal is relatively on small proportion compared to other South Asian Countries. Available data for FDI reflects that 4477 foreign investment projects were approved in Nepal comprising all categories of industries, worth a total of Rs. 268,677.33 million. The total fixed capital is estimated to be Rs. 377,104.67 million in FY 2017/18. FDI has provided employment to 243,540 people. The Joint Ventures of India, China, USA, Japan, Germany and South Korea are prominent in the structure of FDI. China Joint Ventures accounts for 30 percent of total foreign investment (DoI, 2018).

New areas for foreign investment are opened up through the amendment of Foreign Investment and Technology Transfer Act, with an objective of providing necessary permission, services and facilities to the foreign investors through one door system. Foreign Investment Promotion Committee Working Manual, 2005 is under implementation.

Nepal is a rich country in sense of natural resources but Nepal's rich natural and human resources have not been optimally utilized, thereby referring to Nepalese people as "Poor in a rich country". Foreign Investment and Technology Transfer is essential for leading the nation's economic system towards the attainment of self- dependency and making it a robust, firm, dynamic and competitive through the optimum utilization of available natural and human resources. The foreign investment helps bring capital, modern technology and managerial and technical skills, opens access to international market and promotes competitive business culture. Such improved business culture contributes significantly to the national development leading towards self- reliance and self- dependence, through the expansion of industrial development and internal revenue base.

4.1.1 Year-wise Flow of Foreign Direct Investment in Nepal

The trend of year wise flow of foreign direct investment in Nepal is erratic and unpredictable. The table 4.1 manifests that the number of foreign investment projects in Nepal marked 2108 for the period 1989/90 to 2017/18 A.D. The table shows that the magnitude of FDI was Rs.

449.56 million in FY 1989/90 which has increased to Rs. 67470 million in FY 2015/16. Which was highest foreign investment flow after 1989 A.D. was found to be Rs. 9811 million in FY 2008/09 followed by Rs. 9100 million in FY 2010/11, Rs. 6255.09 million in FY 2009/10, and 4200 million in 2017/18. The main cause of this ups and down flow of FDI in Nepal may be the high risk due to the pro-long transitional politics, lack of investment security and internal conflict.

Table 4.1

Trend of Foreign Investment in Nepal

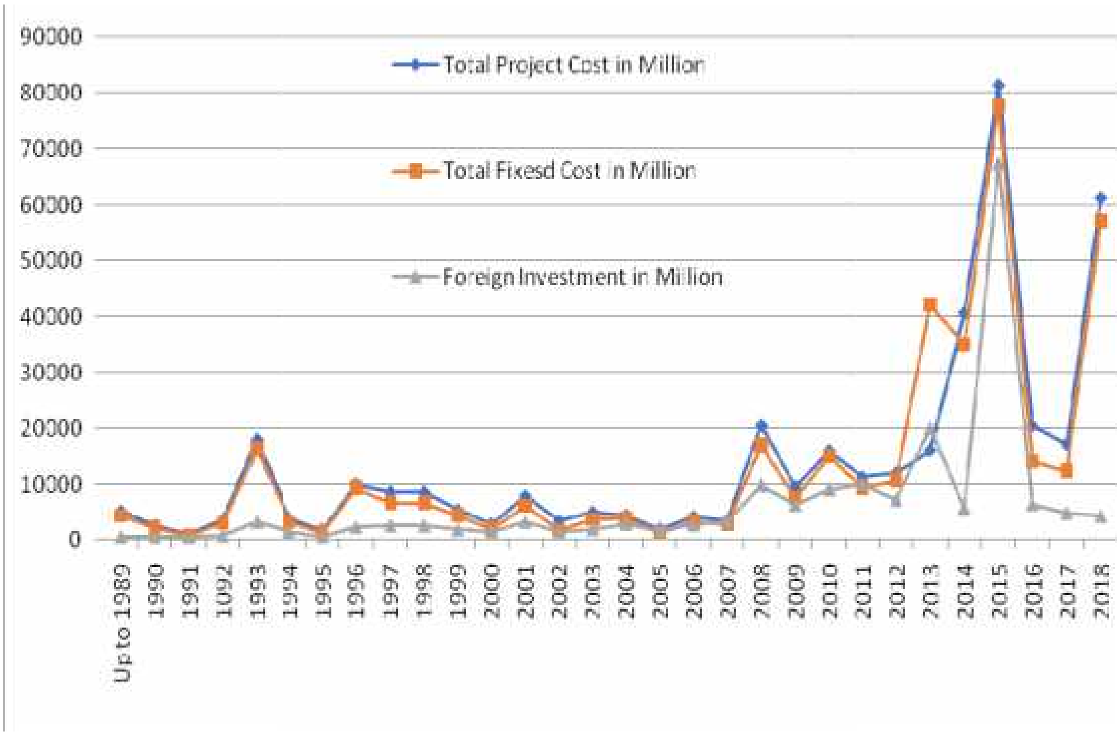
Years	No. of Industries	Total Project Cost (Rs. in million)	Total Fixed Cost (Rs. in million)	Foreign Investment (Rs. in million)	Total No. of employment
Up to 1989	58	5120.80	4271.60	449.56	10586
1990	30	2438.19	2139	398.51	9515
1991	23	863.56	690.74	406.28	2974
1092	38	3508	2902	597	5615
1993	64	17886	16210	3083	13873
1994	38	3733	3175	1378	4734
1995	19	1627	1247	477	2386
1996	47	10047	9398	2219	8032
1997	77	8559	6692	2395	9347
1998	77	8559	6692	2395	9347
1999	50	5325	4380	1666	2146
2000	71	2669	1910	1417	4703
2001	96	7917	6122	3102	3102
2002	77	3318	1559	1209	3731
2003	74	4921	3608	1793	3572
2004	78	4323	3775	2764	2144
2005	63	1796	1149	1635	5559
2006	116	4121	3296	2606	7358
2007	188	3425	2650	3226	7389
2008	212	20403	16896	9811	10677
2009	231	9417	7530	6255	11108
2010	171	15853	14987	9100	7848
2011	209	11250	9375	10050	10887
2012	227	11912	10738	7140	9050

2013	317	15990	42046	19936	16569
2014	305	40712	35026	5685	20107
2015	370	81395	77443	67470	13265
2016	341	20396	14045	6351	15139
2017	401	17049	12368	4680	15153
2018	397	61309	57109	4200	55730

Source: DoI/GoN FY 2017/18

Figure 4.1

Trends of Foreign Direct Investment in Nepal



Source: Based on Table 4.1

Figure 4.1 shows the trend of FDI in Nepal where total project cost, total fixed cost, and foreign investment are measured on vertical and no of Years on horizontal axis. In the figure there are many ups and down flow of FDI trend in Nepal may be the high risk due to the pro-long transitional politics, lack of investment security and internal conflict.

4.1.2 Change of Foreign Direct Investment in Nepal

Foreign Direct Investment is change according to the political scenario of the country. As the conflict increases FDI is going to decreases. As the peace process progressed in the country FDI attractive in the projects. Therefore after stable government FDI is in increasing trend.

Table 4.2

Percentage Change of Foreign Direct Investment

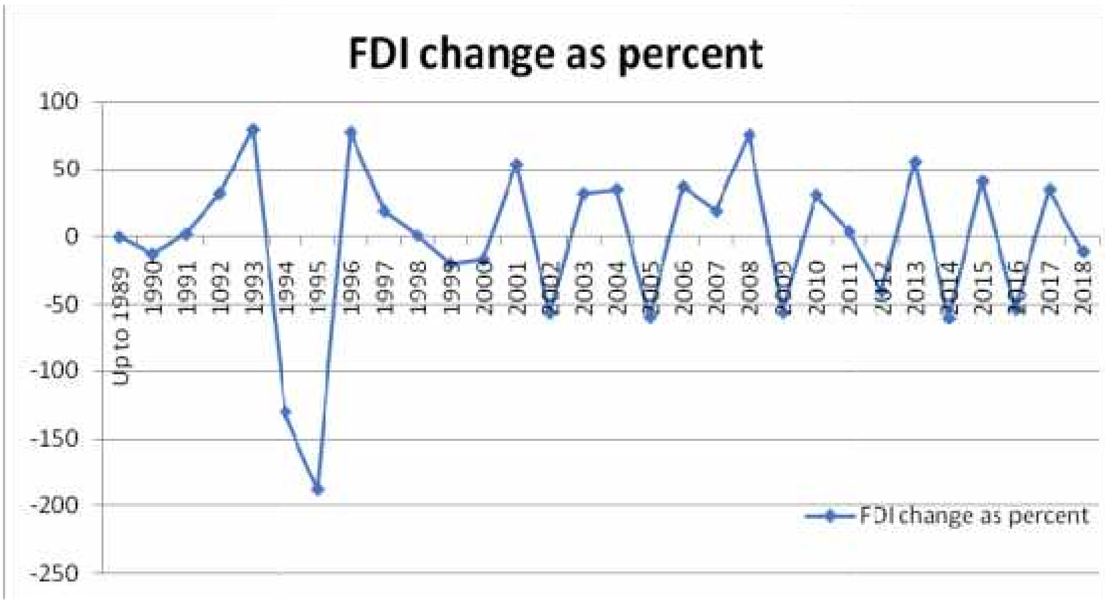
Years	Foreign Investment (Rs. Million)	FDI change as percent
Up to 1989	449.56	
1990	398.51	-12.81
1991	406.28	1.90
1092	597	32
1993	3083	80
1994	1378	-130
1995	477	-188
1996	2219	78
1997	2395	19
1998	2395	1
1999	1666	-20
2000	1417	-17
2001	3102	54
2002	1209	-56
2003	1793	32
2004	2764	35
2005	1635	-59
2006	2606	37
2007	3226	19
2008	9811	76
2009	6255	-56
2010	9100	31
2011	10050	4
2012	7140	-40
2013	19936	56
2014	5685	-60
2015	9747	41
2016	6351	-53
2017	4680	35
2018	4200	-11

Note: A dash (-) denotes negative value

Source: DoI/GoN FY 2017/18

Figure: 4.2

Percentage Change in Foreign Direct Investment



Source: Based on Table 4.2

Table and figure 4.2 show the percentage change in foreign direct investment. The foreign investment trend is not in smooth pattern. The then existing Maoist conflict and insurgency, affected the development activities of Nepal. After the initiation of the peace process in the country, the government has launched the new policies for the attraction of FDI. Thus, in current period, the size of the FDI has increased.

However, the change in FDI is almost positive The FDI stock reached Rs. 9747 billion in 2015/16, which was mainly driven by the rise in reserves of FDI-based industries. Reserve constitutes two-third of FDI stock. The services sector accounts for the highest share (70.2 percent) of outstanding FDI in Nepal. In terms of paid up capital, the highest FDI in Nepal is from India. But in FY 1994/95, 1995/96, 1999/2000, 2000/01, 2002/03, 2005/06 and 2016/17 are negative due to the worst political condition, maoist conflict reaching peak point, divested earthquake in Nepal.

4.1.3 Increase in Employment Creation due to Foreign Direct Investment

Employment creation is important aspect of foreign direct investment. Every investment leads in the project that creates employment opportunities. But in Nepal investment in the small scale creates large employment than large scale industries.

The table 4.3 shows the percentage change in employment creation due to foreign direct investment.

Table 4.3

Percentage Change of Total Number of Employment

Years	Total No. of Employment	Percentage Change in Employment
Up to 1989	10586	
1990	9515	10
1991	2974	-68
1092	5615	88
1993	13873	147
1994	4734	-65
1995	2386	-49
1996	8032	236
1997	9347	-16
1998	9347	53
1999	2146	-50
2000	4703	119
2001	3102	-46
2002	3731	45
2003	3572	-4
2004	2144	-39
2005	5559	159
2006	7358	32
2007	7389	00

2008	10677	45
2009	11108	4
2010	7848	-29
2011	10887	38
2012	9050	-20
2013	16569	45
2014	20107	17
2015	13265	-51
2016	15139	12
2017	15153	00
2018	55730	73

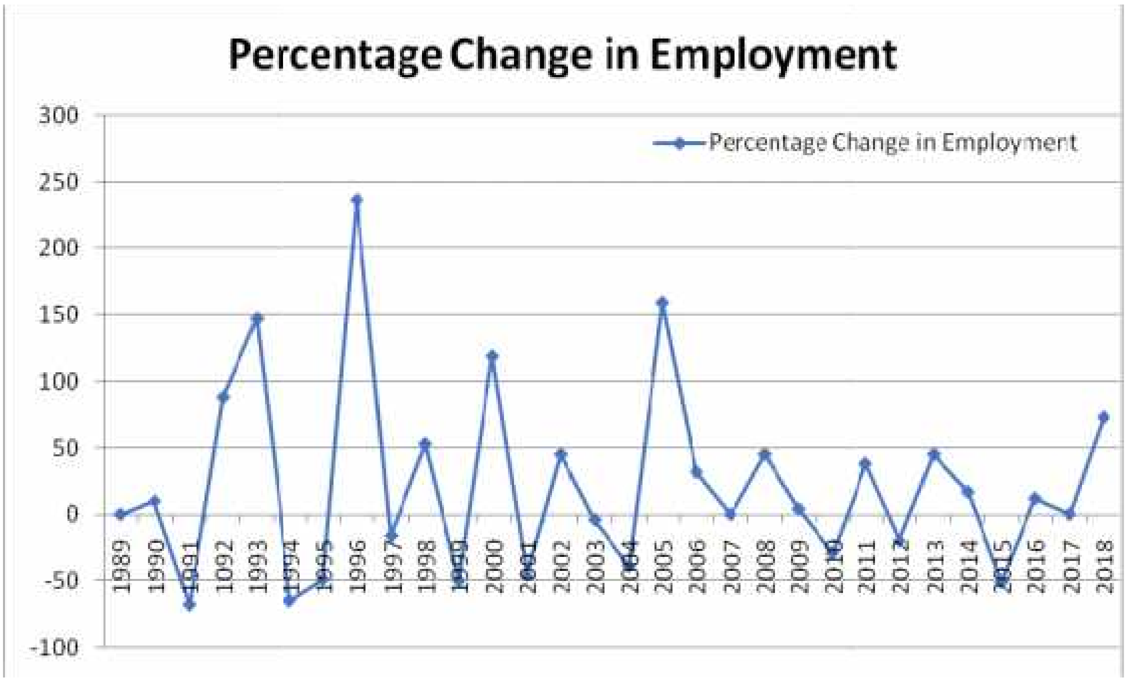
Note: A dash (-) denotes negative value

Source: DoI/GoN FY 2017/18

Table 5.3 demonstrates the increasing trend of employment creation due to FDI. In FY 2005/06, the employment creation highly increased due to adoption of labor intensive technology by a large number of industries in this year. The employment creation highly increased in FY 1993/94 due to the adoption of new economic liberalization policy in that year. In Maoist conflict period FY 1996/97 to 2006/07, the government of Nepal could not attract the large amount of FDI. Even after the people's movement FY 2006/07, government of Nepal could not attract the large amount of FDI due to the lack of political stability, appropriate policies, In FY 2016/17 there was drastically decrease in FDI.

Figure: 4.3

Percentage Change in Employment



Source: Based on Table No. 4.3

In the figure no.3 are many ups and down flow of employment opportunities created by FDI, Nepal may be the high risk due to the pro-long transitional politics, lack of investment security, lack of infrastructure development and internal conflict.

4.2. Structure of FDI

In terms of paid up capital India is the highest in Nepal. Structure is comprises four sector in the analysis which are explained in the following way.

4.2.1 District-wise FDI Inflow in Nepal

The distribution of FDI inflow district wise in Nepal is dominated by Kathmandu, Lalitpur, Bhaktpur and other districts explained in following table:

Table 4.4

Number of Industries Approved for Foreign Investment by District

(Up to F/Y 2017/18)

Districts	No of project	Total foreign investments (Rs. millions)
Kathmandu	2458	110081
Lalitpur	698	29473
Kaski	313	10300
Chitwan	87	9306
Kavre	89	6631
Parsa	59	6529
Makawanpur	76	5798
Morang	38	5750
Bhaktapur	85	5700
Bara	58	5411
Others	516	47958
Total	4477	268677

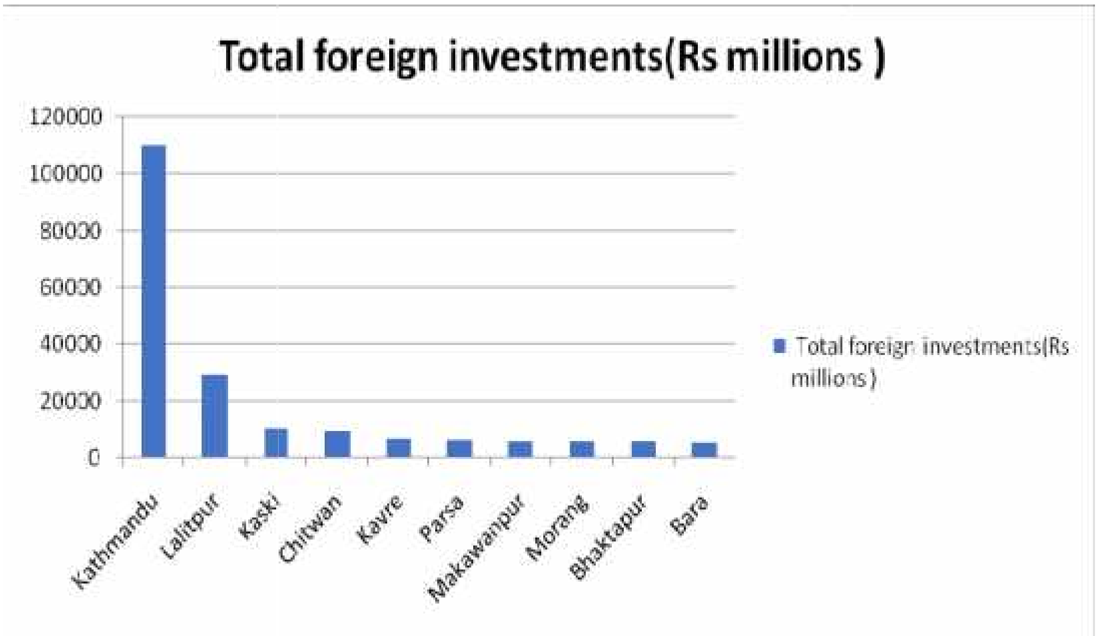
Source: DoI/GoN FY 2017/18

The table demonstrates top ten districts of the foreign investment. Out of the total investment more than one third of FDI based industries are established in Kathmandu valley 110081 million, lalitpur 29473 millions, Bhaktapur 5700 million. The possible reason for this is that Kathmandu valley has relatively safe environment than other district of Nepal. Foreign investors are interested to invest their property in relatively safe places. Similarly, other industrial cities like Pokhara, Lalitpur, Chitawan, Bara, Morang, Parsa and so on are second choice destination of foreign investors.

Figure 4.4

Number of Industries Approved for Foreign Investment by District

(Up to F/Y 2017/18)



Source: Based on Table 4.4

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4.2.2 Structure of Foreign Direct Investment Sector-wise in Nepal

Categorically, there are broadly eight sectors of the industries which include agriculture, manufacturing, construction, energy mineral, information technology, tourism. The amount of foreign investment in each of these industrial sectors is shown in the table 4.5.

Table No 4.5

Sector-wise Foreign Direct Investment in Nepal (Up to 2017/18)

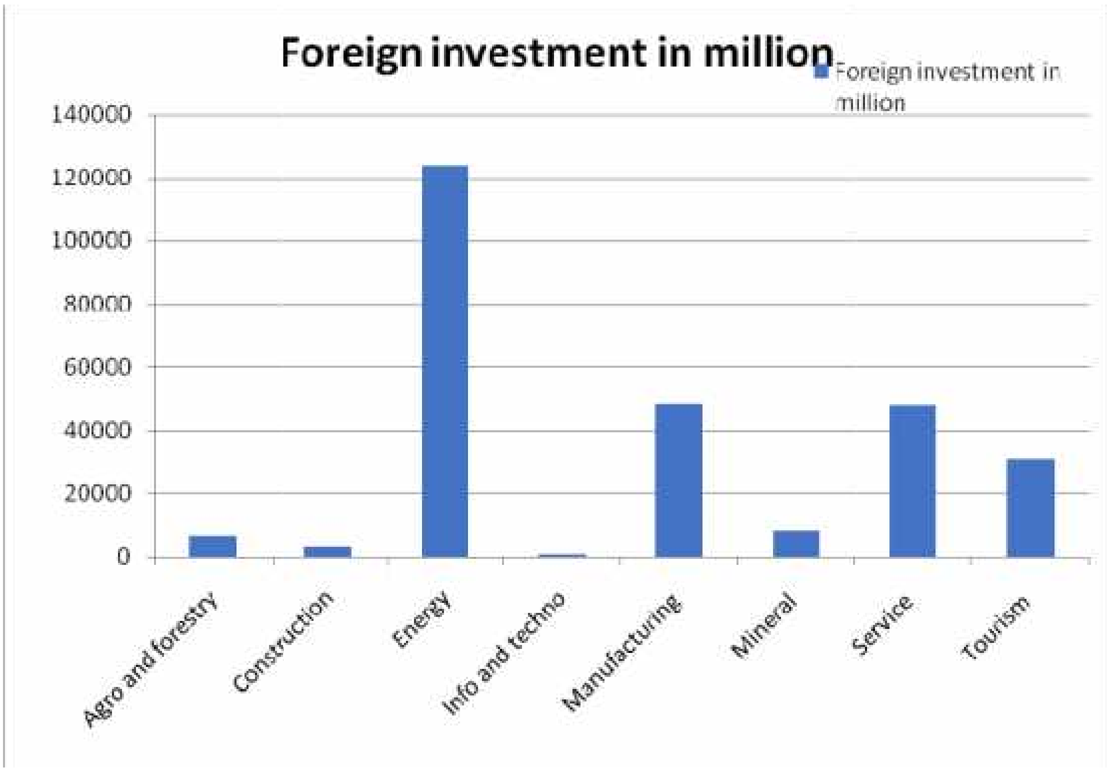
Category	No of projects	Foreign investment (Rs. in Million)	Proposed Employment
Agro and forestry	267	6208	9749
Construction	46	2983	3226
Energy	82	123832	11612
Info and techno	35	631	1156
Manufacturing	1106	48339	98576
Mineral	70	7967	8650
Service	1501	47874	62069
Tourism	1370	30840	48505
Total	4477	268677	243540

Source: DoI/GoN FY 2017/18

Table 4.5 indicates that there were 1106 manufacturing units receiving FDI. Energy received largest 123,832 million followed Manufacturing sector received FDI to the level of Rs.48339million, which was 33.92 percent of total FDI during the period 1989/90-2017/18. This was followed by service (47474 millions) and Tourism 30840 million, mineral 7967 millions Agro 6208, information and technology 631 millions. In terms of employment, manufacturing sector provided highest number of employment to 40.47 percent of people followed by Services (25 percent) and Tourism (19.91 percent).

Figure 4.5

Sector-wise Foreign Direct Investment in Nepal



Source: Based on Table 4.5

Figure 4.5 shows the highest investment in energy and followed by manufacturing, service, tourism, mineral sector lowest in information and technology.

4.2.3 Number of Industries Approved for Foreign Investment by Scale-wise in Nepal

Foreign Direct investment dominated large scale but employment opportunities created in small scale as well as no of industries are in small scale. Major patterns are explained in the following way:

Table 4.6

Number of Industries Approved for Foreign Investment by Scale-wise (Up to FY 2017/18)

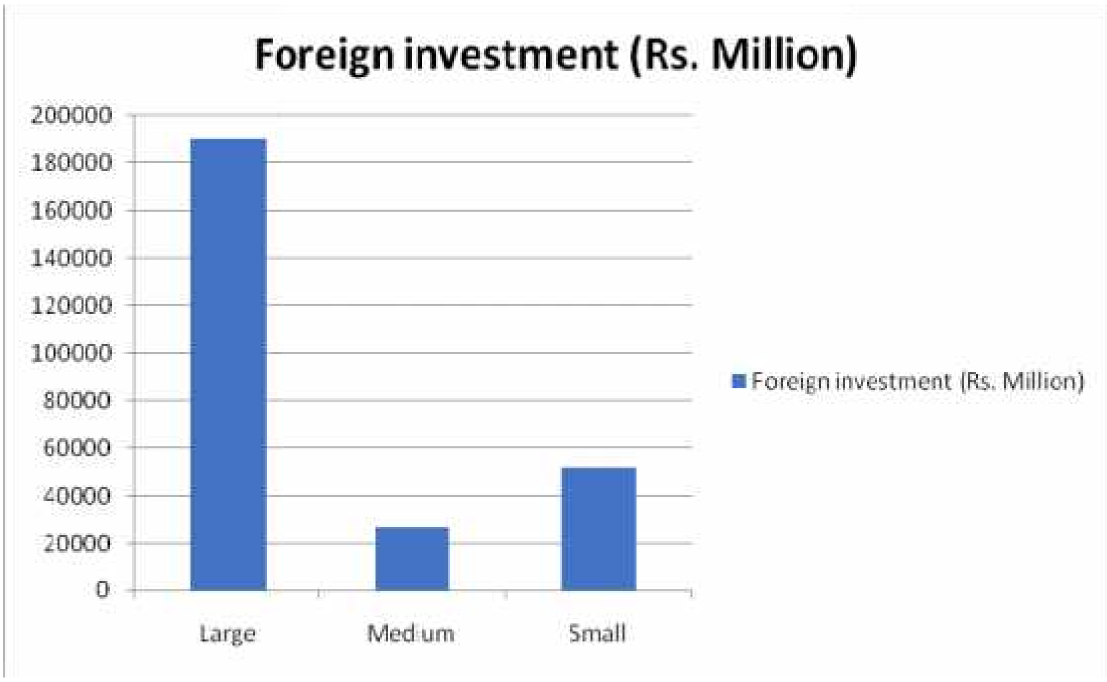
Scale	No of Projects	Foreign Investment (Rs. in millions)	Employment Number
Large	289	190425	56253
Medium	400	26730	40810
Small	3788	51521	146477
Total	4477	268677	243540

Source: DoI/GoN FY 2017/18

Table 4.6 shows that the inflow of foreign direct investment has mostly been concentrated in large scale industries in which there are 190,425 investments made which is equal to 71 percent. The medium and small-scale industries occupy second 10 percent and third 19 percent place respectively. Similarly, in terms of employment, again small industries came in front with 60 percent of total employment followed by Medium scale industries 17 percent and large scale industries 23 percent.

Figure 4.6

Foreign Investment by Scale (Up to FY 2017/18)



Source: Based on Table 4.6

Figure 4.6 shows that the inflow of foreign direct investment has mostly been concentrated in large scale industries and followed by small-scale industries occupy second and medium is least.

4.2.4 Number of Industries Approved for Foreign Investment by Country-wise in Nepal

India and China are growing economy in the world. They are also nearest neighbored country of Nepal with largest population and market size. They also dominated in Nepal's FDI sector.

Table 4.7

Number of Industries Approved for Foreign Investment by Country of Origin (Up to F/Y2017/18)

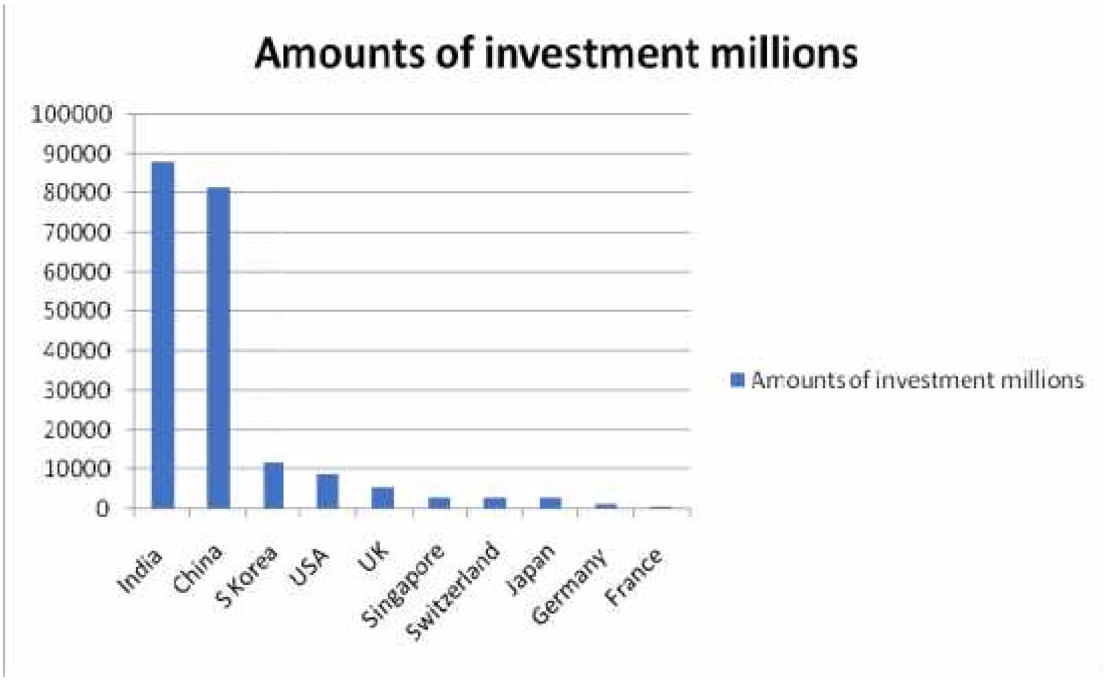
Name of Country	No of Projects	Amounts of investment (Rs. in millions)	Employees
India	732	87912	65596
China	1323	81480	59740
S Korea	334	11619	11277
USA	398	8808	18253
UK	174	5433	10823
Singapore	46	3012	3292
Switzerland	58	2902	1533
Japan	254	2900	9826
Germany	111	1376	4751
France	100	724	3299
Total	4477	268677	243540

Source: DoI/GoN FY 2017/18

Table 4.7 shows that the number of Chinese joint venture projects was highest (1323) in Nepal, followed by India (732), USA (398), South Korea (334), and Japan (254) UK (174), Germany (111), France (100) and other countries (1051) the magnitude of FDI from China was Rs. 81480 million, which was 30.32 percent of total FDI. The size of FDI from major countries such as India marked Rs. 87912 million (30.34 percent), followed by USA Rs. 88.08 million (3.28 percent), South Korea Rs. 11619 million (4.35 percent) of the total foreign investment. Indian joint ventures provided the highest employment through FDI in Nepal, which was 26.94 percent of the total employment. The major countries in terms of FDI that provided considerably higher number of employment were also the India, followed by China (24.52), South Korean (4.63 percent) and USA (7.49 percent),

Figures 4.7

Foreign Investment by Country of Origin (Up to F/Y2017/18)



Source: Based on Table No. 4.7

Figure 4.7 shows that the number of Indian joint venture projects investment was highest in Nepal, followed by China, South Korea, USA, UK, Singapore, Switzerland and Japan, Germany, France and other countries. Since India and China are closed neighborhood countries of Nepal and rising power of the world.

CHAPTER V

POLICIES RELATING TO FOREIGN DIRECT INVESTMENT IN NEPAL

5.1 Foreign Direct Investment in Nepal

The government of Nepal has made some legal framework to attract FDI formulating a number of acts and policies making them favorable and suitable through timely amendments. The present acts and policies are providing various incentives to attract FDI. Some of the acts and the policies of the government are as follows:

5.1.1 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 were enunciated. The salient features of the act were: (a) industrial units set up under the Act would not be nationalized; and b) industrial units 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 percent in large–scale industries, 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 percent 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 from excise duty for a minimum of 5 years. Moreover, convertible foreign currency facilities were to be provided to joint venture industries for importing machineries, equipments 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.

5.1.2 Foreign Investment and Technology Transfer Act, 1992

According to Foreign Investment and Technology Transfer Act (FITTA) of 1992, the foreign investment means:

i. Investment in share (equity)
ii. Reinvestment of the earnings derived from the investment in share (equity), and
iii. Investment made in the form of loan or loan facilities.

According to Act, "Technology Transfer" means any transfer of technology to be made under an agreement between an industry and a foreign investor on the following matters:

i. Use of any technological right, specialization, formula, process, patent or technical know- how of foreign origin.
ii. Use of any trademark of foreign ownership.
iii. Acquiring any foreign technical, consultancy, management and marketing service.

By the Act, "Foreign Investor" means any foreign individual, firm, company or corporate body involved in foreign investment or technology transfer including foreign government or international agency.

Foreign Investment and Technology Transfer Act lays down the basic law governing foreign investment in the country. The FITTA has undergone its first amendment in 1996 aiming at making the environment of industrial investment more congenial, straightforward, encouraging and transparent.

According to FITTA, 1992 permission is given to the foreign investor to repatriate the following income outside the country.

i. Amount received by the sale of the share of foreign investment as a whole or any part thereof.
ii. The amount received as profit or dividend in lieu of the foreign investment.
iii. The amount received as the payment of the principal of and interest on any foreign loan.

5 .1.2.1 Provision Relating to Visa

The provisions relating to Visa according to FITTA, 1992 are as follows:

i. A foreign national visiting the kingdom of Nepal in connection with undertaking any study or carrying out any research with the objective of making investment in the kingdom of Nepal shall be provided a non tourist visa for up to six months.
ii. A foreign investor or dependent family or authorized representative of such a foreign investor and dependent family of such authorized representative shall for the purpose of stay in the Kingdom of Nepal be provided a business visa until the foreign investment is retained (Amended by the First Amendment).
iii. Provided that a foreign investor who, at a time, makes investment in an amount no less than one hundred thousand United States

dollar or in convertible foreign currency equivalent thereto, and his dependent family shall be granted a residential visa until such investment is retained.

5.1.2.2 Settlement of Disputes

FITTA (1992) provides separate dispute settlement procedures which are as follows.

i. If any dispute arises between a foreign investor, national investor or the concerned industry, the concerned parties shall be required to settle the dispute by mutual consultations in the presence of the department.
ii. If the dispute could not be settled in the manner as referred to in subsection (1) above, it shall be settled by arbitration in accordance with the prevailing arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL).
iii. The arbitration shall be held in Kathmandu, the laws of Nepal shall be applicable in the arbitration.
iv. Notwithstanding anything contained in sub sections (1), (2) and (3) above, disputes arising in regard to foreign investment made in the industries with investment as prescribed may be settled as mentioned in the foreign investment agreement.

5.1.2.3 Procedures for Repatriating Facilities

For the repatriation of the sale of shares of the foreign investor, he/she or the concerned company must apply to the DOI for recommendation to the central bank.

5.1.2.3.1 Documents Required for the Repatriation of Sales of Shares

i. Proof of investment and number of shares owned.

ii. Letter from the company stating the completion of the transfer of the related shares duly certified by the Company Registar's Office or such competent body.

iii. Prior approval of DOI, if the share was transferred to any foreign national.

iv. Tax Clearance Certificate.

v. Custom declaration from and the approval letter if the investment was made in the form of plant, machinery and equipment.

vi. Copy of the Board of Director's Resolution.

5.1.2.3.2 Documents Required for Applying to the DOI to Get Recommendation for Repatriation of Dividend

i. Documentary proof of investment made which is issued by the commercial bank. This document is needed only for the first time and again only when further investment is made by the investor.

ii. Custom declaration certificate of the import of plant machinery and equipment if the investment by the foreign investor has been made in the form of capital equipment.

iii. Auditor's report including balance sheet and profit and loss account.

iv. Tax Clearance Certificate.

v. Proof of dividend declaration.

5.1.2.3.3 Documents Required for Repatriating Loan and Interest

i. Certificate from the commercial bank regarding the transfer of loan amount into Nepal.

ii. Custom declaration certificate and invoice of the plant machinery if the loan was obtained in the form of machinery.
iii. Letter of approval of the loan agreement.
iv. Tax Clearance Certificate.

5.1.2.3.4 Documents Required for Repatriating Technology Transfer Fees

The industrial unit with approved technology transfer agreement, trademark, license agreement, management agreement, and technical assistance agreement 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 transfer certified by the auditor along with the certificate of payment of income tax on royalty as per the prevailing tax rate.

5.1.2.3.5 Documents Required for Repatriation of the Salaries and Allowance of the Expatriates

i. Work permit issued by the Department of Labour.
ii. Document showing the amount of salary and allowance received during the period for which the repatriation is sought.

5.1.2.4 Visa Arrangement

5.1.2.4.1 Types of Visa

There is provision of seven categories of visa in the Immigration Act 2049 and Immigration Regulation 2051. There are.

i. Diplomatic Visa
ii. Official Visa
iii. Study visa

iv. Non-tourist visa
v. Business visa
vi. Tourist visa
vii. Residential visa

But only the last four categories of Visa (d-g) are relevant to foreign investors and expatriate personnel.

5.1.2.4.2 Charges for Obtaining the Visa

i. Tourist Visa

A tourist can be granted tourist visa for up to 150 days in one visa year (Jan. 1 to Dec. 31) the charges for this category of visa are as follows:

- Single entry (first time in one visa year), for 60 days duration, the fee is US$ 30 or equivalent. Any extension of such visa will be charged US$30 or equivalent for a period of 30 days.
- Multiple entries for one visa-year duration, one off payment, the fee is additional US$ 50 or equivalent
- Single entry (Re-entry in Nepal), for 30 days duration, the fee is US$ 30 or equivalent. However, if the tourist had not spent more than 15 days in earlier visit, no visa fee will be charged.

But citizens of China and SAARC countries will not be charged visa fees. Similarly, any visitor spending less than 3 days in Nepal will not be charged fee.

ii. Non-Tourist Visa

Foreign visitors, wishing to undertake research and study with a purpose of investing in Nepal may be granted a non-tourist visa by the Department of Immigration for a maximum period of 6 months on recommendation of the DOI. The charge for this category of visa is as follows:

- If issued at the port of entry US$ 25 for 30 days.
- In other situation, US$ 60 per month.

Non-Tourist Visa for Expatriates

If required skilled manpower is not available locally, industry can employ foreign nationals by obtaining work permit. Such expatriate personnel working in the industries will be granted a non-tourist visa for duration of one year at a time on recommendation of DOI and Department of Labor. The charges for this category of visa are:

- First year US$ 60 per month.
- Second year onwards US$ 100 per month. c) Business Visa

Foreign investors and/or his/her authorized representative and their dependents will be granted a business visa for up to a period of five years at a time on recommendation of DOI. The charges for this category of visa are;

- For a period of one year and multiple entry -US$ 100.
- For a period of five years and multiple entry- US$ 250. d) Residential Visa

If a foreign investor, who at a time, makes investment in an amount no less than one hundred thousand US dollar or in convertible foreign currency equivalent thereto and his dependent family shall be granted a Residential Visa until such investment is retained. The charge for this category of visa is US$ 200 per year for the first time and US$ 100 per year for each renewal. 4.1.2.5 Land Facilities

Pursuant to the Muluki Ain's (Country Code) provision in the section 3 of chapter on Adal, any foreigners are not allowed to possess any land in any form except otherwise permitted by the government. However, in case of foreign investments, such restrictions are related. Any business parties who incorporate a company in the kingdom of Nepal has rights to hold land without the Government's permission as the company by law is treated to be the juridical person of Nepalese nationality and hence the company will enjoy the similar rights as Nepali does. Moreover, Pursuant to the section 7.2 of the industrial policy industries are given priority for government land and sites in industrial districts for the establishment of the industries. Further, a one-window committee formed under the Foreign Investment policy is responsible for providing facilities, such as registration, land, electricity, water and facilities on taxation etc., for industries established or to be established through foreign investment. Therefore, notwithstanding to the Adal no. 3 of MulukiAin, there is no theoretical or practical problem for a company owned by a foreign investment to hold land in Nepal.

5.1.2.5 Convertible Foreign Exchange Facilities

The Act has provided with the convertible foreign exchange facility for importing necessary equipment and tools, spare parts and components, auxiliary raw material and chemical required for the operation of an industry or for the sake of technical consultancy, technical assistance, service fee, management fee, patent duty, market research, industrial promotion, sales promotion, etc.

5.1.2.6 Procedural Arrangements

Under FITTA, government approval or permission is required for foreign investment or technology transfer. Pursuant to 12 of Industrial Enterprise

Act, a high-level Industrial Promotion Board has been established under the chairmanship of the Minister or State Minister for industries to deal with matters concerning the approval of foreign investments under FITTA. For the establishment of either 100 percent foreign owned enterprises or joint venture industry on a prescribed form along with a detailed feasibility report. The application form calls for information on project objectives, location, total project cost, source of finance, plant capacity, equipment, machinery, raw material requirements and the other specific contribution to be made by the foreign investor and the local investor.

The project proposal is passed by the Department of Industry and operation permission is granted to the industries with the fixed asset investment up to five hundred million rupees within 30 days from the date of application. In case of the fixed asset investment exceeding 500 million rupees, the DOI submits its recommendation to the Industrial Promotion Board for approval. The DOI notifies the applicant about the decision of the Board within 30 days from the receipt of the application. In granting the permission for investment, the DOI specifies facilities and concessions the investor is entitled to.

After the issuance of license, the applicant is required to apply for the registration of company with the company register's office within 35 days from the date of receipt permission.

5.1.3 One Window Policy 1992

Service delivery system is a key determinant of FDI. Generally, it should be effective to maintain the investment climate. However, long, confused, discouraging, harassment and corrupt administration of the government in service delivery system in Nepal was barrier in the path of industrialization process before Foreign Investment and Technology Transfer Act and One Window Policy 1992. In order to improve efficiency and productivity of administration for attracting FDI, the government has systematized all service delivery system into one channel to deliver service required to the investor under one roof through one window policy.

The policy that is a part of investment environment for FDI attraction has formed One Window Committee for administrating the related services and delivering them to the investors. The policy delivers the following services.

i. Facilitating services of registration, land, electricity, water etc and other infrastructure facility and fiscal incentives through one window Committee for One Window Service Delivery System.
ii. Decision relating to permission taken by the board within 30 days.
iii. Describing all facilities and concessions to the industries in the letter of permission.
iv. Granting permission within 21 days after the submission of application in Department of Industry.

5.1.4 Industrial Policy 1992

Focusing industrial development led economic growth and economic development as required in the plan development Nepal has given significant attention on development of favorable policy environment for accelerating industrialization process within short history of industrial development. For the first time, Nepal formulated industrial policy in 1962 and revised it in 1965. Later, Nepal introduced three industrial policies between 1974 and 1987. They carried discrimination and distortion experience in structure, quantitative restriction, licensing, regulatory in their implementation. So, industrial sector suffered from substantial distortion and inefficiency in recourse allocation.

In 1992, Nepal formulated new industrial policy to depart from the past policy distortion, discrimination and inefficient resource allocation with the philosophy of liberalization and privatization. The policy opens the private sector in production, investment and distribution for the development of free and fair competitive environment so as to increase industrial production and productivity for increasing industrial contribution to the economy. The policy emphasizes the development of large and middle scale industries. Besides it, the policy encourages labour intensive, export intensive and local resource based industries.

The policy is of dualistic nature. On the one hand, it focuses on free and fair competition for comparative advantage of the country. On the other hand, it emphasizes on the protection of domestic industries. Besides it, the policy gives special attention on export intensive and import substitution large and middle scale industries and also small, cottage and agro-based industries. Apart from it, the policy gives priority to the development of FDI attracting environment along with transfer of advance technology and management.

The policy aims at increasing the contribution of industrial sector in national economy by increasing industrial production and productivity; put emphasis on the development of industries using local materials and export-oriented industries; reduce pressure of unemployment and under-employment on agriculture by developing employment – oriented industries; adopt appropriate policy of industrialization for balanced development of all sectors.

The policy to accelerate industrial development and growth and to achieve above objectives has set up the institutional mechanism for efficient, fast, transparent, reliable and simple service delivery system. They are:

- Industrial Promotion Board.
- Institutional Development for Cottage and Small Scale Industries
- Industrial Estate Management Ltd.
- Fiscal Management for Cottage and Small Scale Industries.
- Export Promotion Zone.
- Council for Industrial Human Resource and Productivity.
- Special Management for Environment and Industrial Pollution.
- Monitoring Cell.
- Establishment of Company Register's Office.
- One Window System.

Industrial policy has been just revised but is not updated in the post era of Nepal's WTO membership. The policy reforms, however, failed to accelerate the industrialization process as targeted in the past national plans.

5.1.5 Foreign Investment Policy 2015

Foreign Investment Policy 2015 revoking the previous Foreign Investment Policy 1991. The provisions of the policy not covered by the current Foreign Investment and Technology Transfer Act (FITTA) 1992 will be implemented by the new foreign investment act. Generally, policies are not legally binding until they have been specifically enacted in the law as an act or regulation but they do have a significant impact on how laws are drafted. The earlier draft policy that was circulated by the

Ministry of Industry was heavily criticized because it imposed sectoral capacity limits in foreign investment industries. These restrictions have been removed from the approved version. The policy does not change the foreign investment regulatory regime in Nepal and in most aspects is consistent with the previous policy and regulatory regime. However, there are some new things to take note of, most of which are positive. However, overall, the policy could have achieved much more.

There are a number of positive messages and reforms proposed by the policy. It acknowledges that attracting foreign investment into Nepal is not just a matter of a foreign investment policy, but the overall legal regime of doing business needs to be reformed to make the environment conducive to welcoming investments. The policy acknowledges that wider reforms including modifications in environmental and labor laws are required. Commitments are expressed to simplify procedures related to repatriation of profits. Currently, Nepalese industrial and tax laws generally do not discriminate between foreign investors and local investors, and the same provision has been continued. It is important to maintain this approach as providing more facilities to foreign investment projects may distort competition in the local market. Providing facilities or exemptions only to fully locally owned businesses will not send a good message to foreign investors.

After implementation, the policy will allow foreign investment in previously closed sectors: accountancy, law, engineering, all types of consulting, film industry, internal courier, and other professional services. The policy has clarified that investment will be allowed in multi-brand retail with fixed capital of over USD 5 million from multinationals who already own and operate multi-brand retail in at least three other countries. Previously, investment in the forms of equity and debt were recognized as foreign investment. Portfolio investments in secondary capital markets were not allowed. The policy provides that investment in listed securities will be opened for foreign institutional investors. This may open doors to foreign funding for listed local companies and will increase the depth of the capital markets in Nepal. The policy clarifies that debt and equity issued by Nepalese companies from international capital markets is foreign investment. This policy opens doors to Nepalese companies listing in the stock exchanges for mid-cap companies such as Alternative Investment Market (AIM) in London, which provides a flexible platform to raise more capital required by small but growing companies all around the world. This will provide more source of capital for Nepalese companies and help their growth.

The Policy provides for default dispute resolution in foreign investment and technology transfer matters, which involve mediation by Department of Industry, followed by UNCITRAL Arbitration in Kathmandu governed by Nepalese law. Threshold to provide full freedom to resolve disputes has been increased from matters related to projects having fixed asset capital at least USD 5 million to projects where actual foreign investment in cash exceeds USD 10 million. This will disappoint many investors and does not fit into legal risk management policies of most multinationals. Therefore, there is a risk that big businesses will not invest in a joint venture basis, and innovative and mid-size local companies with growth potential might not get access to foreign capital or the right mentors and partners.

Restriction is against the spirit of Arbitration Act and New York Convention and several Supreme Court precedents that have enshrined paramount importance on freedom for commercial parties to determine dispute resolution methods. Most multinationals, multilaterals, and venture capital funds prefer to resolve their disputes in a neutral location using a neutral applicable law. Furthermore, English law remains popular for their certainty, consistency and faster proceedings, and ease of enforcement in many jurisdictions. Investors do not want to be engaged in dispute resolution under Nepalese law, both because of legal ambiguities and for being unenforceable in other jurisdictions. Further, for significant transactions, it is also easier for Nepalese parties to resolve dispute abroad because they can be easily enforced in the counterparties' jurisdiction. Therefore, the government should immediately take steps to reverse this unnecessary and detrimental change.

The world has changed drastically in the last 25 years but the foreign investment policy has not incorporated any such changes in the new policy. The following could have been proposed by the new policy to attract more international capital into Nepal: Integrated approval system – The regulatory regimes in Foreign Investment Act and Foreign Exchange Act govern foreign investment related matters. Separate foreign investment approvals of Department of Industry and Nepal Rastra Bank (NRB) are currently required for each matter relating to foreign investment and investors. Therefore, a separate "Foreign Investment Promotion Office" which should be an integrated unit of Ministry of Industry and Foreign Exchange Department of NRB could be established under the Promotion Board to provide a single door service to investors. This new office should provide a "one stop approval service" for all issues including investment approval, profit repatriation approval, visa recommendations, approvals for fees and loans, approvals for repatriation franchises fees and royalty and approvals for expansion. Staff with strong background in accountancy, business law and banking should be appointed to such roles.

Foreign Investment Act is currently linked to Industrial Enterprises Act allowing foreign investment only in sectors that are listed as "industries" such as manufacturing, energy, tourism, mining and other listed services. However, foreign investors have also traditionally invested in non-industrial businesses such as banking and insurance by procuring specific permission from sectorial regulators such as NRB and Insurance Board. These inconsistencies should be harmonized. Foreign investment should be allowed in all companies not undertaking businesses listed in the prohibited list. Other sectors such as single brand retailers with larger investment, construction, operation and sale of commercial and residential buildings, and innovative information technology service providers should be opened.

The policy has focused too much on equity investment. However, it should also be recognized that loans by foreign banks and development financial institutions are major source of investment required in all large-scale projects. Foreign loan investment should be allowed in all companies and not just in businesses listed as industries, including in sectors provided in the negative list. Approvals to create security interests for foreign lenders over both movable and immovable assets should also be provided by the foreign investment regulator. Consortium lending involving both foreign and local banks has already started in hydro projects and since this trend is likely to continue, the policy should expressly recognize this. Investment in convertible debt and hybrid equity has currently been allowed but legal provisions specifically need to be included to remove ambiguities.

The Industrial Promotion Board (different from Investment Board) being renamed "Foreign Investment Promotion Board" is a good sign, however, because of high-level nature of the Board, its role should be limited to policy making, planning and simplifying procedures to attract investment. The new office established to provide “one stop approval service” to foreign investors should approve all foreign investment applications.

The Foreign Investment Policy 2015 has provided a consistent policy confirming that the government of Nepal has renewed its commitment to attract foreign investment, treat local and foreign investors at par and open up new sectors for foreign investment. Allowing capital raising by Nepalese companies in capital markets worldwide, foreign investment in accountancy and consulting businesses, and enabling foreign investors to invest in Nepalese capital markets are major highlights. Much more can be done to reform the legal regime applicable to foreign investments. Many legal ambiguities need to be clarified and procedures need to be simplified. Establishing an integrated foreign investment office, harmonizing foreign investment act to include all companies, clarifying technical issues regarding foreign loans, hybrid instruments and recognizing branch and liaison offices established pursuant to Companies Act as foreign investment will be key reforms that should be undertaken to position Nepal as an attractive investment destination.

CHAPTER VI

PROSPECTS OF FOREIGN DIRECT INVESTMENT IN NEPAL

Foreign Direct Investment is long capital, which can be invested in the projects therefore it has less risk sector. FDI is an important source of capital for economic growth in developing countries like Nepal. It provides a package which constitutes new technologies, management techniques, finance and market access for the production and movement of goods and services. However, attracting FDI is a major challenge for host countries as it faces the challenge of identifying the major factors that motivate and affect the FDI location decision. The main FDI location factors are cost factors, market factors, infrastructure, technological factors, political and legal factors and social and cultural factor. Despite several conflicting circumstances, Nepal is attempting to sort out overarching issues of FDI concerning with economic development. That's why Nepal is at a point wherefrom it can excel for economic goals via FDI.

Nepal is one of the attractive destinations for foreign investors due to various reasons. First of all, Nepal's attractiveness increases for FDI as a strategic location between India and China. The political change has created new environment for the foreign investors in the country because there is a good sign of political stability and peace in the country after the popular people movement of 2006. Nepal is supposed as attractive location for startup new business opportunities especially in the area of tourism, agriculture and information technology. Nepal has had a continuous attachment to neutrality in foreign relations, membership to WTO, enactment of favorable policies and laws, availability of wide range of human resources, latest infrastructure in communication, stable currency backed by strong balance of payments, exclusive protective right for foreigners property. These entire situations make Nepal a strategic place to invest for foreign investors.

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 accelerate.

6.1 Hydropower

Nepal is second richest in water resource as has been one of the most important natural resources for the Nepal's economic development. Availability of abundant water resources and geo-physical features provide myriad opportunities for hydropower production in Nepal. Hydropower is a sector full of enormous possibilities to attract FDI. The estimated volume of generation production is 83,000 megawatts, more than half of which has been identified as economically feasible to develop. Nonetheless, Nepal has been successful to generate only approximately 1082megawatts. The demand for electricity continues increasing. The Nepalese government opened the hydropower generation sector to private development and allowed foreign ownership. In August 2011, the Ministry of Energy proclaimed the new Hydropower License Management Procedure. Hydropower projects with capacity to generate more than 10 MW through competitive process are assured to obtain award licenses by the government.

The traditional sources of energy shares approximately three-fourth of total energy consumption. Likewise, Firewood alone shares two-third of total energy consumption. Despite immense potential for generating hydroelectricity, share of electricity to total energy consumption is still very low. The share of electricity to total energy consumption stood at 4 percent in FY 2018/19

Table 6.1

Demand, Consumption, Production and Import of Electricity in Nepal

Description	F/Y 2014/15	F/Y 2015/16	F/Y 2016/17	F/Y 2017/18	F/Y 2018/19 (Last Eight Months)
Production (MW)	829.2	855.9	972.5	1074.1	1082.99
Available Energy (GWh)	4966.7	5077.2	6257.7	7057.9	4993.4
Peak Demand (MW)	1291.1	1385	1444.1	1508.1	1307.1
Imported from India (GW)	1369.89	1782.86	2179.00	2581.80	1834.87

Source: *Economic Survey*, MoF, GoN, FY 2019

The share of petroleum products and traditional sources of energy could be reduced if hydroelectricity production is increased. It can help to decrease the trade deficit of the economy which was increased by the petroleum product and electricity imported from the India. Domestically produced energy helps for the foundation of industrialization and brings positive changes in the lives of the people.

The total electricity production that had stood at 1082 MW by the first eight month of FY 2018/19, with the inclusion of 4.5MW electricity generated through rural electrification projects which are not associated with National Integrated Power System.

The electricity demand has reached 1307 MW in the first eight month of the FY 2018/19. The gap between demand and supply has stood at 225 MW. The demand for electricity has continued to grow with the increased production of electricity. The gap between demand and supply between

FY 2014/15 and FY 2016/17 has widened further. Such gap remained at 225 MW. About 1834 GW of electricity has been imported from India in first eight month of FY 2018/19 to reduce load-shedding hour. Such import stood at 2581 GW last year. The daily power shortage still remains close to 2.4 million units.

Hydroelectricity produced in Nepal can cater to the growing India and China. Nepal's hydropower potential can also act as a strategic asset for India as most of its populated states are located in northern region which is close to some of the mega hydropower projects such as Weat-Seti (750 MW) and Karnali-Chisapani (10800 MW) that are situated in the south western part of Nepal. These sorts of storage type project also help reduce floods and landslides in both countries because water is stored during the rainy season in mega dams and released during the winter seasons. It also helps irrigate the land of Nepal and India which in return helps increase agricultural production.

Opportunities

i. Nepal faces acute power shortages and opportunities exist in the hydropower sector to meet this gap in demand.

ii. Nepal is targeting graduating from least developed country (LDC) status to developing country status by 2022 and aims to become a middle income country by 2030. To meet its growth aspirations, Nepal will need to add 6,000+ MW (which requires investment of approximately USD 10 billion). Consequently, a lot of industries and infrastructure projects are in the pipeline opening up huge opportunities.

iii. In addition to energy development, investment opportunities lie in the up-gradation and expansion of distribution systems (for which investment of approximately USD 2 billion is required) and transmission systems (for which investment of approximately USD 4.45 billion is required).

iv. The Power Trade Agreement (PTA) signed with India has opened up a large market for exporting electricity to India.

v. The SAARC Framework agreement on Energy Cooperation signed during the 18th SAARC Summit in 2014 will pave the way for the eventual formation of a regional energy market.

6.2 Tourism

Nepal is the major tourist destination in the world as it is known by its unrivaled natural beauty, abundant bio-diversity, multiethnic, multilingual, multi religious, and multi cultural identities. Tourism has been one of the important sectors in service industry for economic growth from the perspective of comparative and competitive advantages. Diversification and expansion of tourism sector have enhanced people's livelihoods and employment opportunities thereby raising their living standard.

With a view to invite higher number of tourists in Nepal, various programs were organized including 'Visit Nepal 1998', 'Destination Nepal Campaign' in 2002 and 2003, 'Visit Pokhara Year Campaign' in 2007, 'Nepal Tourism Year, 2011' and Lumbini Visit Year in 2012, and we are on the way visit Nepal 2020 with the objectives of 2 million tourists. The number of tourist arrival has increased due to the impact of such program.

National Tourism Strategic Plan has targeted to make 2,522,000 tourists visit and create 898 thousand employments by 2025. While observing the tourist arrival trend of last decade, the number of tourist arrival except that of Indian tourists arrived via land totaled 602867 in 2010 while this number rose to 11,73,072 in 2018. The number of tourist arrival in 2015 had dropped by 32 percent due to the negative impact that devastating earthquake and border obstruction rendered to tourism activities. Its subsequent years saw gradual progress in tourism sector. The number of tourist arrival that stood at 538,970 in 2015 grew by 40 percent in 2016, and about 25 percent in 2017, 24.8 percent in 2018.

Table 6.2

Number of Tourist Arrival and Length of Stay

Year	No. of Tourist	No. of Tourist Arrival using Air route	No. of Tourist Arrival via Land	Estimated Average Length of Stay/Tourist (In Days)	Annual Growth Rate of Tourist Arrival
2010	602867	448800	156067	12.7	18.3
2011	736215	545221	190994	13.1	22.1
2012	803092	598258	204834	12.9	9.1
2013	797616	594848	202768	12.5	-0.7
2014	790118	585981	204137	12.4	-0.9
2015	538970	407412	131558	12.8	-31.8
2016	753002	572563	180439	13.4	39.7
2017	940218	760577	179641	12.6	24.9
2018	1173072	969287	203785	12.4	24.8

Note: Above Figure do not include Indian Tourists arriving via Land

Source: Economic Survey, MoF, GoN, FY 2019

While analyzing the number of tourist arrival by country, top five countries with largest number of tourist arrival have been India (15.7 percent) followed by China (13.8 percent), Sri Lanka (7.6 percent), USA (7 percent), and UK (6.1 percent) in 2016. The share of tourists arrived from these countries is more than 50 percent in the total number of tourist arrival.

Of the total number of tourists visiting Nepal during 2018 by purpose, 65 percent of them came for vacation/entertainment/travel. Likewise, 11 percent of them arrived for religious tour, 8.83 percent for mountaineering and trekking, 3.23 percent for trade, 2.83 percent for office visit, 1.7 percent for meeting/conference and the rest 7.41 percent for other purposes. While analyzing tourist arrival statistics of last 10 years based on their travel purposes, more than two third of tourists have been for vacation recreation/travel, trekking/mountaineering and religious purposes.

Hence, there are greater prospects of FDI in the tourism industry. But Nepal is still receiving very low amount of FDI in tourism sector. In order to promote FDI into tourism sector, peace, political stability, good administration, good governance, investor's friendly policy are crucial.

Opportunities

i. Tourism contributes only 2.2 percent in the total GDP. There are opportunities in developing tourism infrastructure (hotels, restaurants, roads, airports, etc).
ii. There is also great potential for expanding the market for meetings, international conferences and events (MICE).
iii. Plans to upgrade the current international airport are underway, which will increase the tourist traffic significantly.
iv. The expansion of existing tourism products and introduction of new and innovative products has the potential to attract different types of tourists and extend their average length of stay.

6.3 Agro and Forest-based Industries

Traditionally, agriculture has been a major occupation for livelihood. Despite decreasing share of the agriculture in the world economy with development and expansion of other sectors, size of the production of this sector has been growing. The agriculture sector occupies 27percent of the Nepalese economy. Population engaged in agriculture profession, however, is around two third. Agriculture sector could not be linked to other sectors of the economy while modernizing this sector. Due to the failure to make feel agriculture a dignified occupation, this sector has not developed to the extent desired.

Agriculture sector is estimated to have contributed 27 percent to GDP in FY 2018. Such contribution of the Agriculture sector in the previous FY 2017 stood at 28.percent. Annual growth rate of the Agriculture sector in FY 2018/19 at basic prices is estimated at 5.3 percent whereas such growth remained 4 percent in the previous FY 2016/17 Growth of the Agriculture sector, which is dependent on favorability of weather condition, has not been satisfactory during previous 10 years.

Forest, vegetation, herbs, wildlife, biodiversity, watershed together with protected areas are among the Nepal’s natural resources to be protected, promoted and utilized in an appropriate manner. This would maintain balance between improved livelihood of deprived groups and contingency approach by increasing income opportunities through the creation of employment. Similarly, it is necessary to develop overall forest sector as a reliable source of agriculture, energy, tourism, clean water and industrial raw materials by increasing the forest product and productivity through sustainable forest management. Through this, opportunities of wider economic benefits could be created with sustainable conservation of environment.

Agricultural and forest-based industries are another area of Nepal's comparative advantage. Because of unique topography and climatic variations of the country, Nepal has a huge potential for commercial cultivation and processing of various types of agricultural and forest-based products on medium to large scale. With capital from abroad, technology, and better management and marketing techniques, the untapped potentials can be profitably exploited for the mutual benefit of both the parties. For these goods, Nepal can be utilized as the production base for satisfying not only Nepal's needs but also for meeting the MNCs' requirements, at a relatively cheaper price.

Opportunities

i. Herbs and their extracts in the form of oils, traditional medicines, and essences as ingredients for cosmetics, perfumes, herbal teas and natural health products.
ii. Sericulture and silk production. There is huge potential of silk production, for export to third countries, from Kathmandu valley and Dhading.
iii. Floriculture, Apart from different types of cut flower, Nepal is also popular for some exotic species of orchids. The diverse climatic conditions give good prospects for the production of a wide variety of flowers and flowering seeds for exports.
iv. Vegetable seed production. Opportunities do exist for producing seed of a wide range of varieties owing to a wide variation in agro-climatic regions from tropical to temperate and alpine climates.

v. Fruit processing. Good ecological conditions prevail for the cultivation of different types of fruits. There are ample scope for establishing industries to process fruits for sale in the export market as fruit juices and squash, jams and jellies and fruit-based special liquors.

vi. Tea plantation and processing. Although the domestic demand for tea is about 10,000 MT, only about one-third is fulfilled by local production. The comparative advantage of Nepal in tea lies in the young plants and in the long period of rainfall that Nepal (especially the eastern part) receives.

vii. Mushroom cultivation. Suitable climatic conditions prevail in Kathmandu valley for growing oyster mushroom and paddy-straw mushroom throughout the year.

viii. Cashmere shawls. A huge potential exists for producing cashmere shawls by importing wool and thread from Tibet for export to the Indian and overseas markets.

6.4 Information Communication and Technology

Nepal’s ICT sector is one of the fastest emerging sectors in the country, with huge potential for growth in the coming years. All the services related to the ICT sector are open to foreign direct investment, except for media. For telecommunications, 80 percent foreign ownership is allowed. The Government of Nepal has identified IT and business process outsourcing (BPO) in the Nepal Trade Integration Strategy 2010 as one of the five priority potential export service sectors. The Trade Policy 2015 also reemphasizes the importance of developing this sector. IT has the potential to generate high growth and significant profits and is expected to be one of the most significant growth sectors in Nepal. The major telecommunications service providers in Nepal are Nepal Telecom

Corporation (government owned) and Ncell (mainly foreign owned). This is a cross cutting sector which will enhance the performance of all other sectors.

Table 6.3

Total Number of Distributed Telephones

Service Provider	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19 (first eight month)
Nepal Telecom limited	10903344	12981942	15014434	17601610	19976187	21278187
United Telecom Limited	508841	524768	526689	526869	526874	-
Ncell PVT. Ltd.	11924552	12905513	14145758	15755829	16513859	16427047
STM Telecom Sanchar Pvt. Ltd.	3095	2987	2987	2987	2987	-
Nepal Satellite Telecom Pvt.	150000	366463	371668	371668	328538	328538
Smart Telecom Ltd.	1064998	1322556	1398100	1618138	1851021	1994730
Others	1742	1742	1742	1742	1742	1742
Total	24556572	28105971	31461378	35878843	39202554	40457431

Source: Economic Survey, MoF, GoN, FY 2019

The number of telecommunication service providers and its service users has increased. Telecommunications service has gained both quantitative and qualitative growths due to the availability of modern and sophisticated technological telecommunication facilities. By mid-March 2018 the total number of telephone subscribers reached 40,457,431.

Opportunities

i. Foreign BPO companies can tap into the young English-speaking population and benefit from the cost advantages offered by the low wages and low establishment and operating costs.
ii. As there are only two major telecommunications companies (NTC and Ncell) dominating the sector, there is room for new firms to enter the market.
iii. There are unmet needs for the use of ICTs in governmental agencies and the private sector.
iv. There are plans to develop an IT Park (an area set aside by the government for software developers, IT-based businesses, IT service providers and investors in related fields).

6.5 Transportation

Diverse geographical and economic sectors remain scattered in the country. Economic and social development needs to be promoted by binding geographical and economic sectors to each other through infrastructures like Roads, Railways, Waterways and Ropeways, and strategic transport network. Promoting various economic activities like agriculture, tourism, electricity, and industry, and projects has become necessary while linking remote rural areas to local markets. By now, Except for Dolpa districts, all districts headquarter are connected to the road network. Sixty seven districts headquarter have access to Black topped roads. A total of 1,952 motor vehicles worthy bridges have been constructed. A balanced social and economic integration through the development of road transport is necessary. The condition calls for strengthening of domestic and international air transport services by making such services safe and accessible to all. Development of, road, air transport and water transport is the utmost necessity for overall development and economic growth.

On roads transport, 260km of earthen (new roads) road, 650Km of graveled road and 395Km of black topped road have been upgraded in the first eight months of fiscal year 2018/19, while 971 Km of earthen road, 1313Km of graveled road and 904 Km of black topped was upgraded by the fiscal year 2017/18. Likewise, periodic maintenance of road not included.

Table 6.4

Status of Road Facility Expansion

Description	F/Y 2014/15	F/Y 2015/16	F/Y 2016/17	FY 2017/18	F/Y 2018/19 (first eight month)
New Road Construction (km)	648	639	809	971	260
Graveled Road (km)	401	345	992	1313	650
Upgraded to Black Topped (km)	601	264	630	904	395
Road Maintenance (km)	8908	9200	9500	-	-
Periodic Maintenance (km)	350	443	214	332	112
Bridge Construction (unit)	73	63	72	82	87

Source: Economic Survey, MoF, GoN, FY 2019

The number international airline to make the flights from Nepal has stood at 29 as of the first eight months of current fiscal year 2018/19 while this number was 30 last year. The number of Nepali airlines to make international flights stands at 3. Likewise, the number of countries signing bilateral aviation agreement has been 39 while the air seats on both sides of the aisle have been same (9 million) as that of last year. The number of airlines making domestic flights with fixed wing rooter wing that had stood at 19 in previous fiscal year 2017/18 has same 19 by the first eight months of the current fiscal year. The number of total airports operating in Nepal is 35.

Master plan has been prepared for the construction of second international airport at Nijgadh, Bara and About 60 percent of the runway and taxiway construction work has been competed at Gautam Buddha Airport of Lumbini which is regarded as the important destination from the tourism perspective. Likewise, pokhara regional international airport of the runway and taxiway construction work has been completed it's ready for emergencies flight and landing and commercially operate by 2020. Likewise Test flight has been conducted at Kalikot airport on 11th February, 2017. Approval has been granted to Nepal Airlines Corporation for it to procure two wide-body aircrafts to the selection of supplier.

Table 6.5

Civil Aviation Related Indicators

Major Indicators	F/Y 2015/16	F/Y 2016/17	F/Y 2017/18	F/Y 2018/19 (first eight month)
Nepalese Airlines with International flight	2	3	-	-
International Airlines in Nepal	26	26	30	29
Country with Bilateral Air Service Agreement	38	38	38	39
Number of Domestic Airlines	17	19	19	19
Number of International Airport	1	1	1	1
Number of All Season Airports	22	26	35	35
Total Number of Domestic Airports in Operation	32	33	-	-

Source: Economic Survey, MoF, GoN, FY 2019

Rail transport related works have been commenced on 945 KM East-West railway, 519 KM of Rasuwagadhi-Kathmandu-Pokhara-Lumbini railway. Besides, work has been initiated with the objective of linking east-west with the railway networks of Indo-Nepal border towns. Feasibility study of east-west railway has been completed, and based on this, detailed project report has been prepared on a total of 372 KM railway line including 16.5km Jogbani-Biratnagar 70KM Simara-Bardibas link, 30 KM Simara-Tamsaria link has completed similarly 65 Km Tamsaria-Butwal link, 28 KM Simara-Birgunj link and 44 KM Butwal-Bhairahawa-Lumbini link are under construction process. Of this total railway line, contract is signed for construction of 30 KM (Bardibas-Lalbandi) stretch of 108 KM long Simara-Bardibas section preparation of detailed project report on Bardibas-Kakarbhitta section and Itahari-Biratnagar link (262 Km) is underway. Selection of consultant for the preparation of detailed project report on Butwal-Gathachauki section (421 Km) Feasibility study has been carried out on (135 Km) Nawalparasi section that will pass through Nijgadh-Hetauda-Bharatpur. Task has been initiate for preparing detailed project report on Rasuwagadhi-Kathmandu-Pokhara-Lumbini railway within 2 years.

Opportunities

i. Only 30% of roads in Nepal are all weather roads and 2 out of the 77 districts are still not connected by roads. Hence, there are many opportunities to expand the road network, for which the government is seeking to form public-private partnerships.

ii. Nepal’s main highways require expansion to accommodate the increase in traffic, which is another area for public-private partnerships.

iii. In order to cater to the needs of the growing population, the development of mass public transportation systems – bus-rapid transport (BRT), railways, monorails, airports – has been prioritized. To finance these projects, the government is looking at public-private partnerships.

iv. Eight north-south corridors (roads) linking China and India through Nepal, a cross-border railway line connecting Kathmandu with China, five cross-border railway lines, ultimately connecting Kathmandu with India, a railway line along the East-West Highway, and cable cars in the hilly regions are planned.

6.6 Mineral Exploration and Exploitation

Nepal lies in the centre of the 2,500 km Himalayan belt, which has favorable geography for various minerals (metallic, non-metallic) and fuel. As many as 75 minerals have been identified in Nepal. In 2017/18 80 mines and quarries for 12 different minerals were in operation. Of these, 29 are limestone quarries and 6 are gem mines. For the economic development of the country exploitation and proper use of such valuable resources, especially mineral resources, is extremely important. The mountainous region and the geological environment therein are suitable for metallic, nonmetallic (industrial, gemstones and energy/fuel) mineral deposits as well as huge amount of construction materials, dimension and decorative stones. Continues efforts are required to find the more mineral deposits and exploit them for the benefit of the people.

Minerals are the nonrenewable natural resources. Sustainable development of such resources helps to strengthen the national economy. Mineral exploration activities were at peak during 1974 - 1980 when Department of Mines and Geology (DMG) and UN funded Mineral Exploration Development Project (MEDP) was in action. They were able to delineate quite a few prospective areas and identify some economic, sub-economic and non-economic mineral deposits in different parts of the country. Now the Government of Nepal (GON) should prioritize exploration, evaluation and sustainable development of industrial minerals, high price metals, base metals, fuel minerals, precious and semi precious stones. It should also invite potential national and international investors to invest in mineral and mining sector and establish mineral based industries by giving some incentive to attract the investors in the beginning.

The mineral resources that could be commercially exploited have been identified as limestone, dolomite, talc, silica, clay, building and construction stone, iron- ore, lead- zinc, petroleum and natural gas.

Iron ore deposits have been found in various parts of Nepal. About 10 million tons of iron ore deposit is estimated in Fulchoki. Similarly, Labdikhola (10 million tons of iron ore), Those (8.4 million tons) , Jiwang (1 million ton), Kulekhani, Godawari, Bhaise etc are important sites for iron deposits. More than 30 million metric tons of iron ore deposit is estimated in various parts of Nepal.

Similarly, copper is estimated to be found in about 30 places within Nepal including Budhakhola (Bandipur), Gyaji (Gorkha), Arkhaule (Makanwanpur), Nangre (Nuwakot), Wapsa (Okhaldhunga), Siddhakhani (Illam), Bhutkhola (Tanahun) and others.

Likewise, Mica is found in several places such as Bajhang (Chainpur), Doti, Bhojpur, Lamjung Nuwakot, Dhankuta and so on. Limestone is also found in different parts of the country. The places where limestone is found are-Chovar (ktm), Jogimara (Dhading) Bhaise, Udayapur and so on. The total deposits in these places are -8 million tons, one million tons, 25 million tons, and 60 million tons respectively. Moreover about 30 million tons of limestone in Surkhet and 10 million tons of limestone in Dhankuta is found to be deposited.

Lead is also found in the different parts like Ganesh Himal (0.5 million tons of lead is expected to be found), Arkhaule and Durlang (Makawanpur) Rasuwa, Baglung, Phulchoki, Tripling (Nuwakot), Salmor Valley (Bajhang) and so on. Slate is deposited in Bandipur, Bajhang, Pokhara and some other places of the country. Similarly, Dailekh, Muktinath (Mustang), Phyuthan, Kathmandu, Dhangadhi, Chisapani are some potential areas for natural gas and petroleum deposits. Other notable minerals like magnesite, zinc, coal, nickel, gold, graphite, marble, pyrite etc. are also deposited in various parts of Nepal.

For the exploration and exploitation of all these mineral resources, sufficient capital, efficient manpower, scientific technology, modern equipments are needed. But Nepal is lacking most of these requirements. In this context, foreign direct investment is crucial for the proper exploitation of the mineral resources which helps to finance the required capital, technology and modern equipments needed for the proper exploration and exploitation of mineral resources. Natural gas deposit in KTM Valley can be utilized for domestic and industrial uses. Mineral exploration and exploitation in some of the areas identified above offer promising prospects for foreign direct investment.

Mineral resources play vital role in industrial development and overall increase in the national GDP. Minerals and mine contribute about 0.5 percent to national GDP and industries sector based on these just around 2.4 percent which is not encouraging. It could go above 10 percent if we can exploit and utilize existing mineral resources appropriately. Mining activities can damage natural environment and it should be minimized by applying various methods and immediate rehabilitation of the mined land.

Opportunities

i. In recent times, the western part of Nepal has witnessed gas and oil seepage, confirming the presence of oil and natural gas in Nepal. About 10 petroleum and natural gas exploration sites have been identified.
ii. Nepal has more than 20 million metric tones of ore reserves in more than 80 locations.
iii. Copper occurs in Nepal in more than 107 locations.
iv. Recent studies have shown that Nepal may have 2.5 billion metric tones of cement grade limestone.
v. Nepal has an estimated 5 billion metric tones of dolomite and 180 million metric tones of high-grade magnetite.

CHAPTER VII

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents the summary, conclusion and recommendations. The whole chapter is divided into three sections. The first section deals with summary of the major finding while the second section deals with conclusion and the third section deals with recommendations.

7.1 Summary of Findings

The key goal of developing countries like Nepal is to attain high economic growth rate and reduce poverty with macroeconomic stability. This year is the last year of (14^{th} Interim Plan) Nepal has been attained average 6.9 GDP growth rate and reducing overall poverty ratio form 21.6% to 18percent. In the 15 periodic plan Nepal targeting 10.5% growth rate and reduced the poverty 0 percent targets by FY 2022/23. In order to achieve these targets, foreign direct investment (FDI) is viewed as an engine for economic development of Nepal as it provides required capital and technology and generate employment opportunities and thus, idle resources get utilized which, in turn, helps to expand production capacities of the country and also opens the access of products to world markets. Thus, foreign direct investment plays the vital role to pave the way for economic development for underdeveloped countries like Nepal.

Given the importance of foreign direct investment, this study has specific objective of analyzing the nature and trend of foreign direct investment and its prospects in Nepal.

In order to analyze the trends of foreign direct investment in Nepal, different tools like graph, table, figure etc. have been used. The trend and structure of foreign direct investment has been analyzed by sector, year and country for the period from FY 1990/91 to FY 2017/18.

i. The amount of FDI was Rs. 449.56 million in FY 1990/91 which has increased to Rs. 10050 million in FY 2010/11 and 4200 in 2017/18 According to DOI records, the highest foreign investment flow after 1990 was Rs. million in FY 2010/11. Till now, Nepal has been able to attract FDI of only Rs. 268677 million which is very low in comparison to other countries. Available data for FDI reflects that 2108 foreign investment projects were approved in Nepal comprising of all categories of industries, worth a total of 61309 million. The total fixed capital is Rs. 57109 million at the end of fiscal year 2017/18. FDI provided employment to 55730 people. The Joint Ventures of India, China, U.S., Japan, Germany and South Korea are prominent in the structure of FDI.

ii. Categorically, there are only seven industries based on FDI in Nepal which include Agriculture and forest, Manufacturing, Tourism, Construction, Energy-based, information and technology, minerals and service. The inflow of FDI was found highest in energy sector that marked Rs. 123832 million while FDI inflow was found lowest in information and technology based enterprises that marked Rs 631 million at the end of 2017/18.

iii. By type the flow of foreign direct investment consists of equity, equity plus technology transfer and technology transfer only. According to DOI, the inflow of FDI in Nepal has mostly been in the form of equity investment that runs 4477 industries.

iv. By scale flow of FDI reflects that most of FDI has mostly been concentrated in small scale industries in which there are 3788 total industries followed by medium scale industries 400 and large scale industries 289.

v. Nepal has formulated laws and policies governing FDI. Many facilities and incentives have been offered in order to maximize the location advantage of foreign investing firms. In this regard, the Foreign Investment and Technology Act 1981 was enacted. The salient futures of the Act were, a) Industrial units set up under the Act would not be nationalized; and b) Industrial units set up under the act would receive the same facility, concession and protection as provided by the Industrial Enterprise Act, 1982. Similarly, Foreign Investment and Technology Transfer Act, 1992 came into existence to attract technology transfer and foreign investment. According to the Act, foreign investment implies the investment made by a foreign investor in any industry as investment in share (equity), reinvestment of the earnings derived from the investment in share (equity) and investment made in the form of loan or loan facilities.

For underdeveloped countries like Nepal, FDI is indispensable in order to mobilize the idle resources. Nepal is facing the problems of revenue-expenditure gap, trade gap and investment - saving gap. In order to mitigate such problems, FDI is needed for this country. Similarly, FDI is needed to fulfill technological, managerial and entrepreneurial skills, and to expand economy through linkage effects.

Nepal is an ideal destination for FDI owing to its rich natural endowments abundant and cheap labour force, huge market in neighboring countries, growing internal market, a well-developed banking and non-banking financial institutions to cater investor's need for finance, fully convertible current account, preferential entry of products in India, and investor friendly government policy. Investment opportunities are open to almost every sector of economy from tea to mining industries. Tourism is the biggest business in the world and there is hardly a country that does not seek either tourists or investment in tourism. Uniquely, Nepal offers some of the most spectacular tourist attractions in the world. Similarly, Nepal is the second richest country in water resources.

7.2 Conclusion

Economic indicators reveal that Nepal's performance is very vulnerable in terms of macro economics indicators. Nepal has not been able to harness its existing resources. In this regard, FDI is a crucial factor which helps to mitigate all these problems to some extent.

Despite various policy and legal reforms that have been undertaken and incentive provided in the field of FDI and associated sectors for reaping the maximum benefits of FDI, the country has been able to attract only limited inflows of FDI with the concentration mostly in province no.3 in SMEs, and mainly from India, China, South Korea, USA, UK, Singapore, Japan, Germany and France.

According to present study, the constraining factors for foreign investment in Nepal are inadequate infrastructural base, poor state of law and order, lack of skilled and trained manpower, lack of facilitation and effectiveness of one window system, landlockedness position of the country, existing conflict in different parts of country, especially in the Terai region (at present), small market size, bureaucratic hassles, frequent stalemate between India and Nepal over trifle transit and other trade issues and inadequacies and inconsistencies in policies.

The prospective investment areas in Nepal include agriculture and agriculture related production, manufacturing industries, such as readymade garment and carpet, hydropower, information and technology, minerals, tourism and service industries.

Despite various constraints faced by foreign investors, Nepal possesses a lot of prospects to attract foreign investors because of small bureaucracy, friendly socio-cultural environment and high incentives and facilities available in the country. The availability of cheap labor force, growing markets and other raw materials also attract them to invest in the country.

Even if both saving and investment are growing; the growth rate of saving is lower than growth rate of investment, which causes the widening saving-investment gap in Nepal. Due to high investment-saving gap, the inflow of FDI has become essential in order to maintain the targeted growth rate. The FDI has contributed to bridge the saving-investment gap to some extent.

7.3 Recommendations

The following are the major recommendations suggested based on the findings of the study:

i. Nothing is possible without peace and security. There is no meaning of changing of laws favorable to the investor till there is unfavorable security environment. An investor always seeks more return from his investment. He will be ready to pay more tax with return than no tax with any return. No one will be ready to invest if there is zero even though there are high incentives and various facilities and the tax rate is zero. So, peace is necessary to attract foreign investment as well as to promote confidence within the businessman of the country.

ii. As Nepal is ideal destination for foreign investors owing to its rich natural endowments, abundant and cheap labor force and huge markets in neighboring countries, publicity of Nepal as an investment center through foreign diplomatic offices and commercial diplomatic offices is necessary.

iii. Nepal is still lacking the basic infrastructures due to which the flow of foreign investment and other development activities are less than impressive. The most serious problem in this regard is the skewed distribution of roads, the communication network highly concentrated in a few towns and cities and the meager supply of power for industrial use. So, it is necessary to expand infrastructural base in the economy with the concentrated effort in those regions where these facilities are not adequate.

iv. There is need for a) Speedy granting of Visa to the foreign investors or authorized representatives of foreign companies on the recommendations of FNCCI on preferential basis, b) Granting of multiple entry visa for the businessmen and their spouses and dependents, and c) an increase in the period of residence visa.

v. One window System has to be made effective through the introduction of one stop service center. The center should be made autonomous and operated by the private sector while empowering the scope of addressing investors' complaints, for which the development of competent private sector is necessary.

vi. Tax reforms have to be made by introducing transferable vouchers for tax and duty refunds, setting administrative units for large taxpayers, removing advance tax payment scheme, and stopping frequent change in tax structure for foreign investors. An efficiently administered, internationally competitive tax and regulation regime is equally essential.

vii. It is necessary to make strong networking among the Nepalese investors with foreign investors through FNCCI, NCI and other umbrella organizations.

viii. Nepal is lacking adequate research and development institutions. The establishment of R and D institutions is a must if Nepal's all round development is to be achieved in a faster pace. If we explore the potential areas of investment, natural resources hitherto unexplored and other natural resources, the domestic or foreign investors may get impetus for active involvements in the economic activities, particularly for the expansion of trade with other countries and thereby achieving targeted rate of growth, high living standard of people and alleviating poverty.

ix. Good governance envisages the concept of a balanced role of government with room for private sector and civil society and emphasizes transparency and accountability in the government bureaucracy, the rule of law and effective system of public management. Therefore, Nepal should extensively practice the principle of good governance in order to increase administrative capacities and avoid unfair dealing of power and corruption in order to encourage the foreign investors. The transparent behavior of high ranked officials, transparency in government decisions and their behavior help to create civic consciousness and sense of contribution for the sake of nation. That would help to promote domestic as well as foreign investment in the country.

x. One major challenge is the situation where foreign investment-friendly environment has not been created. The development of entrepreneurship, use of advanced technology, and promotion of technical capacity have to be encouraged in order to reap benefits and face challenges emerging after the WTO membership and the SAPTA, SAFTA and BIMSTEC agreements. Similarly, we have to create friendly environment for foreign and domestic investment for the exploration, development, and commercial operation of national mineral endowments.

xi. It is necessary to launch a workshop and seminar among foreign and domestic investors in order to familiarize the potentiality and profitability of Nepalese economy to foreign investors. Such programs should be launched domestically and internationally as per the requirement. It is also necessary to inform foreign investors about the laws and acts governing FDI and the facilities and incentives along with the procedures falling there under.

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Appendix-1

Industries Approved for Foreign Investment – By Country-wise

(Up to FY 2017/18)

S.N.	COUNTRY NAME	NO. OF PROJECTS	PROPOSED TOTAL PROJECT COST*	PROPOSED TOTAL FIXED COST*	PROPOSED TOTAL WORKING CAPITAL*	PROPOSED TOTAL AMOUNT OF FOREIGN INVESTMENT *	PROPOSED EMPLO-YMENT**
1	AFGHANISTAN	2	5	4	1	5	45
2	ARGENTINA	2	18.01	16.1	1.91	18.01	51
3	AUSTRALIA	70	849.16	711.08	136.99	669.91	1868
4	AUSTRIA	21	245.67	189.77	39.47	118.47	694
5	AZERBAIJAN	5	50.9	34.3	16.6	46	208
6	BAHRAIN	2	101.31	41.89	59.43	85.66	62
7	BANGLADESH	70	1054.60	684	352.45	807.93	5701
8	BELARUS	1	5	4.1	0.9	5	15
9	BELGIUM	25	305.87	257.3	48.57	243.74	745
10	BERMUDA	6	1995.25	1694.03	214.09	118.27	1474
11	BHUTAN	4	32.26	23.08	6.95	8.61	123
12	BRAZIL	9	592.07	554.98	37.09	561.03	644
13	BRITISH VIRGIN ISLANDS	16	16303.28	13719.33	2583.95	8064.28	2180
14	CAMBODIA	2	20	13.98	6.02	15	37
15	CANADA	45	7258.22	7006.73	251.2	2746.59	2348
16	CHAD	1	2.5	1.86	.64	2.5	18
17	CHILE	1	30	26.8	3.2	30	29
18	CHINA	1323	111408.36	99595.58	11796.21	81480.18	59740
19	CHINA (HONGKONG)	41	37682.11	33115.68	4560.77	27816.60	4983
20	CHINA (TAIWAN)	19	645.25	545.78	99.47	404.62	839
21	COLOMBIA	3	49.08	40.09	8.18	23.7	48
22	COOK ISLANDS	1	833.32	828	5.32	666.66	35
23	CROATIA	2	12.5	9.9	2.6	7.5	59
24	CYPRUS	4	1515.50	1436.50	79	813.5	375
25	CZECH REPUBLIC	3	19.5	16.4	3.1	13.89	51
26	DENMARK	37	1235.79	1081.66	154.13	432.13	1551
27	ECUADOR	1	2.5	1.3	1.2	2.5	45
28	EGYPT	4	27.1	20.2	6.9	19.1	131
29	ERITREA	1	2.5	1.8	0.7	2.5	15

30	FINLAND	10	432.91	416.5	16.41	335.88	260
31	FRANCE	100	1081.75	891.72	176.65	724.79	3299
32	GERMANY	111	2862.93	2541.03	311.33	1376.72	4751
33	GHANA	1	6.5	6.18	0.33	1.95	10
34	GREECE	1	5	4.3	0.7	5	15
35	GUATEMALA	1	10	5	5	2.5	84
36	HUNGARY	1	10	8.9	1.1	5	29
37	INDIA	732	137825.23	118928.36	20244.62	87912.01	69596
38	INDONESIA	1	35	31.8	3.2	35	29
39	IRAN	12	74.7	55.85	18.85	68.2	273
40	IRELAND	7	738.9	629.6	46.3	355.97	355
41	ISRAEL	22	811.7	672.22	139.48	237.75	642
42	ITALY	37	1838.73	1669.08	75.95	623.86	1014
43	JAPAN	254	7276.53	6320.93	889.07	2900.51	9826
44	JORDAN	1	30	26.8	3.2	12	29
45	KAZAKHSTAN	4	20.4	16.03	4.37	20.4	87
46	KYRGYZSTAN	4	36.5	32.5	4.45	22.5	175
47	LEBANON	4	37	31.4	5.6	37	97
48	LIBYA	1	5	2.8	2.2	5	80
49	LITHUANIA	1	5	4	1	5	38
50	MALAYSIA	37	1113.74	1001.02	112.72	657.53	1164
51	MAURITIUS	10	3918.00	3821.27	96.73	3354.70	974
52	MEXICO	6	53.73	45.15	8.54	51.13	138
53	NETHERLANDS ANTILLES	3	126.1	94	32.1	48	137
54	NEW ZEALAND	21	418.09	327.51	90.28	131.27	2300
55	NIGERIA	1	16.5	12.8	3.7	13.15	1
56	NORTHA KOREA	5	194.82	179.9	20.92	142.55	232
57	NORWAY	16	8146.09	6790.60	1350.95	1165.33	845
58	PAKISTAN	26	2303.04	1986.43	315.72	269.82	2828
59	PANAMA	1	83.28	65.17	18.11	24.98	121
60	PARAGUAY	1	5	4.3	0.7	5	16
61	PHILIPPINES	18	1232.12	1051.88	180.23	148.28	1824
62	POLAND	10	168.22	152.55	16.67	85.39	242
63	PORTUGAL	1	2.5	2	0.5	2.5	23
64	QATAR	2	580	275.5	304.5	156.7	60
65	REPUBLIC OF THE CONGO	1	2.5	2.1	.4	2.5	28
66	ROMANIA	2	35	26.9	8.1	35	39

67	RUSSIA	40	851.86	634.99	216.87	678.09	1420
68	SAMOA	8	50	40.1	9.9	50	113
69	SAUDIA ARABIA	1	10	7.4	2.6	5	18
70	SEYCHELLES	1	7600	7372	228	684	100
71	SINGAPORE	46	8256.82	7377.02	864.8	3012.39	3292
72	SLOVAKIA	1	5	4	1	5	21
73	SLOVENIA	2	34.19	29.94	4.25	34.19	45
74	SOUTH AFRICA	9	87.3	68.64	18.66	87.3	234
75	SOUTH KOREA	334	16388.71	11551.06	4801.30	11619.33	11277
76	SPAIN	25	2288.52	2172.34	116.18	2020.25	672
77	SRI LANKA	7	113.15	84.6	28.56	71.41	208
78	SWAZILAND	3	26	21.7	4.3	26	26
79	SWEDEN	18	133.4	105.36	28.04	125.7	894
80	SWITZERLAND	58	5280.37	5096.70	173.25	2902.67	1533
81	SYRIA	10	68	55.7	12.3	66	249
82	TAJKISTAN	2	35	21.8	13.2	35	65
83	THAILAND	12	1037.37	888.79	139.03	121.29	1174
84	THE NETHERLANDS	78	2496.63	1537.06	957.51	1585.40	4099
85	TURKEY	24	1797.70	718.9	1078.81	1820.34	803
86	UK	174	9027.19	7196.55	1812.66	5433.47	10823
87	UKRAINE	12	236.4	209.44	26.97	147.7	360
88	UNITED ARAB EMIRATES	17	5405.57	2419.64	2935.92	2904.41	1827
89	USA	398	21889.31	19412.12	2227.13	8808.07	18253
90	UZBEKISTAN	4	75	63.2	11.8	75	132
91	VIETNAM	3	41.1	36.3	4.8	39.6	74
92	YEMEN	2	105	94.2	10.8	105	33
	TOTAL	4477	437205.42	377104.67	60718.88	268677.33	243540

Source: DoI, FY 2017/18

*in million Rupees ** in Number

Appendix-2

Industries Approved for Foreign Investment – By District-wise

(Up to FY 2017/18)

S.N.	DISTRICT NAME	NO. OF PROJECTS	PROPOSED TOTAL PROJECT COST*	PROPOSED TOTAL FIXED COST*	PROPOSED TOTAL WORKING CAPITAL*	PROPOSED TOTAL AMOUNT OF FOREIGN INVESTMENT *
1	ACHHAM	4	571.18	550.68	418.18	411
2	ARGHAKHANCHI	2	1342.09	199.27	449.6	331
3	BAGLUNG	3	513.94	262.3	513.94	322
4	BAITADI	7	115.5	97.8	100.5	485
5	BAJHANG	1	15	12.3	12	70
6	BANKE	32	3680	3224.13	836.2	2163
7	BARA	58	9919.55	7654.58	4100.72	5411
8	BARDIYA	17	252.74	205.16	207	641
9	BHAKTAPUR	85	5989.30	4976.62	4386.64	5700
10	BHOJPUR	1	14.3	11.2	5.01	24
11	CHITWAN	87	5660.29	4515.06	2179.92	9306
12	DADELDHURA	3	33	26.5	19.5	75
13	DANG	20	5016.40	4674	528.9	2164
14	DARCHULA	2	40.4	36.2	7.42	117
15	DHADING	23	2820.89	2677.83	2522.30	1671
16	DHANKUTA	1	46.62	37.62	0	120
17	DHANUSHA	5	316.04	265.17	180.52	368
18	DOLKHA	9	6655.20	6121.93	1937.43	420
19	DOTI	1	10	7.2	10	33
20	GORKHA	10	775.09	709.62	137.02	894
21	HUMLA	7	61	52.3	36.74	134
22	ILAN	7	61	52.3	36.74	134
23	JAJARKOT	3	660	626	660	360
24	JHAPA	23	2748.18	2224.50	1348.16	3762
25	JUMLA	1	10	8	10	29
26	KAILALI	14	1103.24	1003.61	344.25	1372
27	KALIKOT	1	42106.60	41400	36685.28	80
28	KANCHANPUR	23	1009.77	855.21	352.4	1935
29	KAPILBASTU	10	441.71	221.42	317.81	340
30	KASKI	313	27593.48	25861.96	12061.39	10300
31	KATHMANDU	2458	114525.61	89194.47	67056.94	110081
32	KAVRE	89	5772.89	4839.75	4394.87	6631
33	KHOTANG	1	7	5.15	5.04	45
34	LALITPUR	698	28329.36	17279.78	23239.87	29473
35	LAMJUNG	10	2337.93	2281.10	537.35	636
36	MAHOTTARI	1	344	2.57	3.44	9

37	MAKWANPUR	76	10502.71	8478.87	5785.09	5798
38	MANANG	4	2890	2847.75	1770.01	1187
39	MORANG	38	4458.87	3353.81	2397.24	5750
40	MUGU	1	8.6	6	8.6	18
41	MUSTANG	5	852.65	829.74	316.85	188
42	MYAGDI	3	39015	38707.80	24335	904
43	MAKWANPUR	76	10502.71	8478.87	5785.09	5798
44	MANANG	4	2890	2847.75	1770.01	1187
45	MORANG	38	4458.87	3353.81	2397.24	5750
46	MUGU	1	8.6	6	8.6	18
47	MUSTANG	5	852.65	829.74	316.85	188
48	MYAGDI	3	39015	38707.80	24335	904
49	NAWALPARASI	43	13315.50	11547.75	5877.76	4699
50	NUWAKOT	26	2617.34	2419.56	464.94	1508
51	OKHALDHUNGA	2	300	286.15	66.5	127
52	PALPA	4	342.94	193.35	317.84	270
53	PANCHATHAR	1	10	7.05	10	78
54	PARBAT	1	1100	1089	1.5	2614
55	PARSA	59	4206.53	2921.12	2648.32	6529
56	PYUTHAN	2	90	78	90	200
57	RAMECHHAP	2	331.34	276.89	302.21	215
58	RASUWA	13	47861.62	46504.48	40020.28	700
59	RAUTAHAT	2	569.18	515.78	64.06	639
60	ROLPA	3	32.22	28.31	29	156
61	RUPANDEHI	55	1288.95	8691.54	5091.05	4746
62	SANKHUWASAHBA	2	510	495.5	510	275
63	SAPTARI	3	430	394.5	299.4	190
64	SARLAHI	1	30	26.66	15	34
65	SINDHULI	1	9	7.7	9	105
66	SINDHUPALCHOWK	17	7256.73	6899.47	1503.08	3208
67	SIRAHA	5	3464.02	3058.89	2113.20	928
68	SOLUKHUMBHU	18	5824.17	5067.59	3520.63	966
69	SUNSARI	30	2772.61	2066.17	1665.79	3563
70	SURKHET	6	3627.36	2850.58	2217.17	395
71	TANAU	8	1973.02	1670.50	1921.50	506
72	TAPLEJUNG	2	12.1	10.18	11.9	44

Source : DoI, FY 2018/18