

TREND AND STRUCTURE OF FOREIGN DIRECT INVESTMENT IN NEPAL

A Thesis

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the requirements for the Degree of Master of Arts in
Economics

By

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RECOMMENDATION LETTER

This thesis entitled "**Trend and Structure of Foreign Direct Investment in Nepal**" has been prepared by Nareshwor Subedi under my supervision and guidance. I forward it with recommendation for approval.

Date: 2068/3/9

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Dr. Pitambar Bahadur Chettri
Thesis Supervisor

APPROVAL LETTER

This thesis entitled "**Trend and Structure of Foreign Direct Investment in Nepal** " submitted by Nareshwor Subedi to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University Kirtipur has been accepted as a partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

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ABBREVIATIONS

ADB	Asian Development Bank
BOI	Board of Investment
BIPPA	Bilateral Investment Promotion and Protection Agreement
BS	Bikram Sambat
CEDA	Central for Economic Development and Administration
CIF	Custom Insurance and Freight
Dec	December
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
FI	Foreign Investment
FIAS	Foreign Investment Advisory Services
FITTA	Foreign Investment and Technology Transfer Act
FNCCI	Federation of Nepal Chamber and Commerce Industry
FNM	First Nine Months (Of Nepalese Fiscal Year)
F/Y	Fiscal Year
Govt.	Government
Gov/N	Government of Nepal
GSP	General System of Preference
HMG/N	His Majesty's Government of Nepal
IEA	Industrial Enterprise Act
IP	Industrial Policy
LDCs	Least Developed Country
MBS	Master of Business Studies
Mln	Million
NIDC	Nepal Industrial Development Corporation
NICS	Newly Industrialized Countries
Newly	Industrialized Countries NIDC
OPEC	Organization of Petroleum Exporting Countries
OWP	One Window Policy
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian free Trade Agreement

SEZ	Special Economic Zone
T.U.	Tribhuvan University
TT	Technology Transfer
UAE	United Arab Emirates
UK	United Kingdom
UNCITL	United Nations Commission on Internal Trade Law
UNCTAD	United National Conference for Trade and Development
UNDO	United Nation Development Organization
UNIDO	United Nation Industrial Development Organization
USA	United States of America
WTO	World Trade Organization

CHAPTER – 1

INTRODUCTION

1.1 General Background

Developed and developing both types of economy accept private as well as external capital. It is necessary for accelerating economic growth and industrialization. Developing countries are trying to attract Foreign Direct Investment (FDI) to bridge the investment gap arising from the short of capital in domestic investment capacity, which is considered a major hurdle for economic development.

FDI is expected to fill the gap of technology and capital investment. Foreign exchange, managerial capability etc. are required to industrialization process and to enhance international competition. FDI is recognized as an effective instrument for technology transfer and integration of national economy in the world economy.

FDI provides benefits to host countries such as capital diversification, increased and diversified exports, technological development and advances up product ladder, access to global market employment generation and enhancement of managerial capacity and skill. However there is need to neutralize the negative effects of FDI such as balance of payment, monopoly environment effect, Political effect, crowding out effect and effect of commercialization.

Capital flowed to low- income countries in the 1920s were mainly in the form of direct investment in production and export sector. Later the foreign direct investment has been expanded in all major development sectors such as manufacturing, production, agriculture, energy, mineral and services.

Developing countries irrespective of their size and political system are now trying to attract foreign investment. Developing countries have also established exports processing zones (EPZ) to attract foreign investment. However, the majority of foreign investment (FI) is concentrated in a small number of the more advanced, middle – income developing countries and in the low - income countries have been able to attract proportionately less investment. Only five countries (i.e. Brazil, Indonesia, Malaysia, Mexico and Singapore) accounted for about half FDI flows during the period 1973-1984. The reasons for high concentration of FDI in these countries are their economic characteristics of large domestic market, rich natural resources and scope for export-oriented manufacturing. On the other hand, small countries with limited internal market and natural resources have found it difficult to attract foreign investment (Chitrakar R. C. 1986)

Small Medium – Size Enterprises (SMEs) are an integral part of all economics. In Asia, these enterprises have played an important role in the economic

development of some countries. Foreign Direct Investment (FDI) is now recognizing as an important engine of economic development. SMEs in Asian area are taking an increasing active approach to opportunities provided by FDI and international production by transnational corporation (TNCs). However, FDI by SMEs is still a small part of FDI flows in Asia; at most it makes up only about 10 percent or less of FDI inflows in many Asian countries and 10-20 percent of FDI outflow for major Asian investors (UN 1998).

Foreign investment plays an important role in the industrial development and in the promotion of manufacturing exports for the developing countries. It helps the developing countries for the mobilization of capital, manpower, and natural resources to the optimum degree, so as to contribute the economic development of these countries. Besides, because of worldwide economic and financial crisis of the present time, many donor countries have curtailed their official development assistance in response to budgetary constraints. In such a situation, private investment domestic as well as foreign investment would be the right solution to the problem. Realizing the importance on foreign investment, many developing countries are trying to attract such investment in their respective countries.

But a country like Nepal is prone to facing exchange constraint in the development process; it is being increasingly realized both in theory and in practice that the important to foreign factor resources, capital and technology in particular is important for increasing the tempo of industrial development.

Foreign direct investment is vital to the natural resources development and industrialization. They are very efficient engines of development and they will play the central role in the economic co-operation with the developed countries (Bhatta Shiv Raj1993).

The importance of foreign investment at present has been realized not only by the capitalist countries but also by the socialist countries. This is revealed by the fact that the socialist country like the people's Republic of China has introduce foreign investment according to her new economic policy, and other socialist countries like Hungary, Cuba and Vietnam have also shown their intention to accept foreign investment wholly or in joint venture.

1.2 Statement of the Problem

Nepal is suffering form "vicious circle of poverty" due to lack of capital, poor technology, under developed infrastructure, lack of investment capacity, saving gap, limited resources endowment, improper planning, ineffective implementation of excising policies, unskilled manpower, political instability etc. that is the main cause of poverty and unemployment.

Bureaucratic harassment, corruption delays in decision-making and excessive control has discouraged private financing. Capital market is not open for foreign investment, barrier to exit, labor unrest, ideological conflict among the political parties are main hurdle to inflow of FDI. Due to the insurgency situation with in the country investment climate has been further deteriorated. Although, the government opened the door of liberalization economy in the form of globalization, privatization and liberalization, the environment for investment in Nepal could not be suitable. The economical, financial and social costs of conflict over more than 10 years have been high for Nepal. By this, Nepal is pushing towards among the poorest countries of the world. Trade deficit have been growing over many years, resulting negative effects on balance of payment. A large mass of people is having almost impossible capacity to generate adequate domestic capital notion for further investment in the economy. This shortcoming is a great challenge for the government to accumulate capital resources domestically. All of the reasons above have made this country dependent on external resources.

These days, Nepal is trying to establish a Board of Investment (BOI) to attract FDI with a view of alleviate poverty and exploit abundant natural resources available in the country. FDI provides capital, managerial skill, technology, and market access that can play vital role in economic development of our country. Therefore, this present study aims to analyze the trend and structure of FDI as well as identify the constraints for promoting the FDI in Nepal.

1.3 Objectives of the Study

The main objective of the study is to analyze the trend and structure of FDI in Nepal. Whereas the general objectives of the study are as follows:

1. To examine the contribution of FDI to employment generation in Nepal.
2. To analyze the constraints for promoting FDI in Nepal.

1.4 Significance of the Study

FDI can play significant role in the development process of host country. It fulfills the investment gap of domestic capital. FDI can be a vehicle for obtaining foreign technology, knowledge and managerial skills. FDI can help to integrate national economy with global economy. It is useful injection to enhance competitiveness of firms and strengthening economy of host country.

FDI supplies a package of product diversification, increase in quality, managerial capability, market access, technology transfer and human resources development. This package will become penance for industrialization and modernization of country. This study provides a summary of foreign investment in Nepal. The emphasis of the study is to analyze the factors that affect the trends and structure of foreign investment in Nepal. This study will also attempt to assess trend, structure and analyze its findings. That will be helpful to those students, researcher, planners, policy makers, foreign investors and other interested individuals.

1.5 Limitation of the Study

Since the concept of Foreign Direct Investment covers wide range of subject of which detailed study is not possible due to time and financial constrains. So, the study is based on following limitations.

1. This study is mainly based on primary as well as secondary data provided by the relevant organizations so that the study covers on that extent only.

2. Limited resource/fund is another limitation to make the study more elaborate.

3. This study has been focused on the trend and structure of foreign direct investment in Nepal and includes existing policies and incentives relating to foreign investment in Nepal.

1.6 Organization of the Study

The present study has been organized in different seven chapters.

Chapter 1 includes the general introduction, statement of problem, limitation, objectives and organization of the study.

Chapter 2 presents the review of different literature related to this study. It includes the review of published books, journals, articles, thesis and dissertation. Besides this, the laws, act, policies, rules regulation relating to foreign investment would also be reviewed under the study.

Chapter 3 contains research methodology. This chapter includes research design, source of data, research tools and data collection procedure, analysis of data.

Chapter 4 is the main part of the study. It deals with the trend and structure of FDI in Nepal and contribution of FDI in Nepal. Where needed data are included to analysis the trend and structure (Category wise &Scale wise)

Chapter 5 deals with the reviews of policies and incentives relating to foreign investment projects in Nepal. It includes policies made by the government of Nepal to attract foreign investment in Nepal.

Chapter 6 deals with constraints for promoting FDI in Nepal.

Chapter 7 is devoted to summarize the whole study. Recommendations based on finding are made for future improvement. In recommendation, statement and problem solving suggestions are included based on finding, summary and conclusion are drawn.

Bibliography and other annex used and statistical results and tables has been attached at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Introduction

The Oxford Economic Dictionary cites that -Foreign Direct investment (FDI) is the acquisition by residents of a country of real assets abroad. This may be done by remitting money abroad to be spent on acquiring land, constructing building, mines or machinery or by existing foreign business in FDI similarly is acquisition by non-residents of real assets with in a country. Youvaraj Khatiwada has expressed in his writing in “Human Rights Year Book 2000”

The term FDI is generally defined under going legislation of foreign investment in national level and international level this term is defined under various bilateral investment treaties, regional instrument, as well as multilateral investment.

The FDI is such investment, which is from outside the national boundaries. In Foreign Direct Investment, mostly investors are foreign multinational companies. Inter governmental organization and individuals. Such investment comes in different forms like cash, equity share, debenture, managerial skills etc.

World investment report defines, Foreign Direct Investment as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investment or enterprises) in an enterprise resident in economy and other that of the foreign direct investors. FDI implies that the investors exert a significant degree of influence on the management of the enterprises resident in the other economy. Such investment involves both the initial transactions between them and foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individual as well as business entities. Flow comprises capital provides (either directly or through other related enterprises) by a foreign direct investment to a FDI enterprises, or capital received from a FDI enterprise. FDI has three components equity capital, reinvested earning, and inter company loan (UN 2005)

United Nations (1996) defines that foreign direct investment, as distinct from other financial and development flows consists of the investment undertaken by firms to acquire a lasting interest in enterprises operating outside their national economy. Those firms that thereby control production facilities abroad are called transnational corporations. Transnational corporations also usually exercise a significant influence over other host-country (either through non-equity linkages such as management, financial and sub-contraction arrangement).

United Nation, UN publication (2001) entitles “Foreign Direct Investment and Poverty Reduction state the role of FDI in developing countries. The Book explains

that economic growth remains a necessary ingredient for poverty reduction. FDI as a key vehicle to generate the growth is thus most important gradient for poverty reduction. Whether the potential for domestic diffusion of best practice be exploited depends on the absorption capacity of the host economy. Adequate levels of education and infrastructures are required to fully benefit from FDI as well as competition in domestic market (UN, 2001:3-10).

Prof.: Gerald Meier opines (1995). Foreign direct investment brings to the recipient country not only capital and foreign exchange but also managerial ability, technical personal, technology organization and innovation in product and product technique.

Meier and Bald Win (1957) stage finds the foreign direct investment as a complementary tool for encouraging local investment and enterprises according to them it encourages local investment in two ways firstly, by entering into partnership with local entrepreneurs and secondly by certainly demand for ancillary or subsidiary products to quote them. In many instances foreign direct investment may also help to induce more domestic investment, either in partnership industries which the foreign enterprises has directly established” (Meier and Baldwin, 1957: 89)

Foreign Direct Investment, of course, has been attracted not only by the presence of low-cost labors but also the quail ability of attractive markets, suitable infrastructure, human resource skill, and political condition and hospitable foreign investment environment. In fact, the entry of FDI in developing countries with labors markets has a same instances induced inward migration. Balance of payment accounts defines direct investment as any flows lending to or purchase of ownership in a foreign enterprise that is largely award by resident of investing contras country.

The lack or absence of technical knows and the deficiency or resources hinder the process of economic development. Foreign investment and their participation are vital to accelerate and strengthen economic growth. Nepal has to an extent been able to attract foreign investment through its policy of global liberalization and incentives. She has not been able to strengthen or developing supporting industries needed to attract them large industrial establishment do not always find it feasible and cost effective to produce all its items in Nepal, which has let to the country being deprived from the benefits of foreign investment and industrialization. Nepal needs the existence of strange supporting industries for foreign investment to be operationally successful.

Foreign Direct Investment brings to the recipient county not only capital on ability, technical personnel, technology knowledge, administrative organization and innovation in product and production techniques.

Foreign Direct Investment is the act of acquiring assets may be financial such as bond; bank deposits, equity shares, or they may be so called direct investment and

involve the ownership of means of production such as factory land. Direct investment is considered to take place also if the ownership of equity shares provides control over the operation of a firm.

Cho johong wan considered FDI as the most prominent face of globalization is the rapid integration of production and financial markets over the last decades that are trade and investment are the prime driving forces behind the globalization. Foreign Direct Investment has been one of the core features of globalization and the world economy over the past two decades. More industries from more countries are expanding abroad through direct investment than ever before and virtually all economies now compact to attract multinational enterprises. As a result, global flows reached a historic high of US \$ 340 billion with the global stock of FDI reaching US\$ 3266 billion 1996 (Joong-wancho 2001; 99)

According to UN report 1989, Balance of payment account defines FDI as any flow lending to or purchase of ownership in a foreign enterprise that is largely owned by residents of the investing country.

FDI is usually involves large amount of capital and may include the wide variety of possible variations and combinations of debt and equity. Once the projects in up and running, additional funds may be required for working capital. If imports of material and equipment are necessary, or if an expect program seems probable, standard export import trade financing forms of domestic expansion projects or business acquisition.

However, the sources of fund for FDI are significantly different from those expansions. They fall broadly into seven categories.

1. Joint ventures.
2. Host country commercial Bank.
3. Regional or local development banks.
4. Bilateral financial aid organization.
5. Multilateral financial and organization.
6. Local stock market.
7. Counter trade.

Foreign capital is also seen as the useful instrument to break the “vicious circle of poverty” and market imperfection. The contestability of the market is enhanced when the firms do not face any kind of regulation in the matter of entry and exit including their made of operation. This confirms of the optimal allocation of resources helps to breaking the “vicious circle of poverty”. In the opinion of Prof Nurkes, “The use of foreign resources is one way of breaking the vicious circle of poverty and low capital formation. The flow of foreign capital and other resources will provide an opportunity to increase the productivity fast enough to out run population growth and thus launch a process of cumulative portion of this capital in

foreign exchange to print implementation of raw materials and equipment needs for development in addition to essential food stuffs (Nurkes 1957 :25).

This is not surprising, FDI flows involve not only financial capital but also technological, managerial and intellectual capital jointly represents a stock of assets for the production of goods and services. The flows are motivated by the strategic interests of TNCs that invest in host countries in their search for markets, resource, related assets, and competitiveness enhancing efficiencies. They typically involve long-term relationship at the level of production between investors and their foreign affiliates. Reflecting the investors lasting interest in these affiliates and control over them FDI is mainly a real investment in firm, its mobility is limited by such factors as physical assets, networks as supplies, the local infrastructure, human capital and the institutional environment (Un 1997).

In a very generic way, foreign direct investment originates from the decision of a foreign enterprise to reallocate part of its activities in a selected host country. This decision based on the desire to garner (in the form of technology, strategic location, marketing know how, managerial expertise etc). In other words, FDI is a flow of long-term capital based on long-term profit consideration and potential possibilities and a significant degree of influence by the investors on proper management of the enterprise (MOICS and GIZ 2007).

The most prominent face of globalization is the rapid integration of production and financial markets over the last decade that is trade and investment are the prime driving forces behind globalization Foreign Direct Investment has been one of the core features of globalization and the world economy over the past two decades. More industries from more countries are expanding abroad through direct investment than ever before, and virtually all economies now compete to attract multinational enterprises.

Many companies learn quickly that a merger or business acquisition is the faster and in many cases, the only way proceeds with a direct investment. Local business licensing regulation, host-country and home-country tax laws and creative financing schemes point to one form or another of a business acquisition as the most feasible way to establish foreign beach head.

FDI describes the acquisition of managerial control by a citizen i.e. corporation of a home nation over corporation of some other host nation corporations that widely engage in FDI are called “Multinational companies” “multinational enterprises, transnational corporations. The term FDI is something of Misnomer. When foreign direct investment takes place, investment in the economic sense may or may not occur.

If for example a company acquires ownership of an ongoing British firm, FDI is seemed to have taken place, however, no net creation of productive capital and

hence no economic investment has occurred. By contrast if the same US company, created, de novo a subsidiary in Great Britain, building new plant and equipment, then both FDI and economic investment have been taken place (Encyclopedia of economic 1994)

For FDI has been an important feature of the world economy. Through out this century but it became particularly prominent during the late 1950s and 1965. When large number of European and Japanese firms did, likewise FDI now is greater impact on world economic activity than in international trade, the combined sales overseas subsidiaries all international firms significantly exceeds the volume of trade.

Chitrakar Ramesh C. writes in his research study entitled Foreign Investment in Nepal multinational enterprises and foreign investment is closely related. It is because a heavy proportion of foreign. An important characteristics of the foreign enterprises, but also maintain control over the operations of foreign firm (Chitrakar 1990)

Bhatta Shiva Raj writer, FDI may be defined as the direct portfolio investment. Portfolio investment refers to the participation in overseas investment without any control over the running of business. It involves the purchases of loan stock or Shares in an overseas organization. Direct investment refers to a lasting investment in enterprises in an economy, where the investor's purpose is to have an effective force in the management of the enterprise as well. Such investment usually arises from the acquisition of an overseas business or the setting up of an overseas branch and subsidiary control over the foreign subsidiary enterprises makes direct investment more complex in nature than portfolio investment. A controlled subsidiary often receive direct inputs of managerial skills, trade secrets, technology, rights to use brand names and institutions about which markets to pursue which to avoid (Bhatta Shiva Raj 1993).

FIAS (Mini-diagnostic of the investment climate- NEPAL) mention role and importance of FDI in Nepal accordingly, private investment is a major driving force for economic growth. It generates employment opportunities and helps to reduce poverty, which reducing fiscal drain of the government and increasing tax revenues, private investment, can also lead to economic diversification, increased and diversified exports, technology development and advance up product ladders, and access to global market, to name a few benefits. While FDI's role in developing countries is becoming increasingly important, the bulk of private investment remains domestic-globally, the contribution of domestic private investment of GDP four times as large as FDI and this trend is even more pronounced in Nepal. As such, it remains important for its domestic private sector while keeping its doors open to FDI (FIAS 2007)

The Foreign Investment and Technology Transfer Act, 1992 defines (FITTA, 1992). Foreign Investment and Technology Transfer as Foreign Investment means the following investment made by a foreign investor in any industry.

-) Investment in share (equity).
-) Re-investment of the earnings derived from the investment as referred to in sub-section (1) above.
-) Investment made in the form of loan or loan facilities.
-) Technology transfer means any transfer of technology to be made under an agreement between an industry and foreign investors on the following matter.
-) Use of any technology right, specialization formula, process, patent or technological know how of foreign origin.
-) Use of any trademark of foreign ownership.
-) Acquiring any foreign technical consultancy management and marketing service.
-) Foreign direct investment as a substitute for official development assistance or commercial bank leading.

Many developing countries like Nepal establishes Board of Investment intended to attract FDI. FDI Mobility of capital from home country to host country. It is depend on good investment climate as well as size of markets. FDI may also in the form of joint venture also in the form of portfolio investment some time is can not find easily (Aapka Prakashan in Nepal) some time part company establishes subsidiary company to fulfill the purpose and to make conducive environment to invest in host country.

2.2 FDI and Transnational Corporation Services: UN 1989 Report

FDI is at least as important as trade as a means of delivering services to foreign market. For some individual countries, FDI is in fact, dearly the more important of the two modes of delivering services to foreign markets. In the light of this it appears that any effort aimed at establishing a framework for international transactions in services ought to pay due attention to FDI in service.

Developing countries are trying to develop the industrial sector from FDI. They can develop the service sector by wing the unskilled labor in the developing countries. The most important impact of the FDI in services probably results from links with other industries. These links specially for foreign owned firms, but service industries to provide importance input into goods industries and influence the degree of efficiency at which these operate and the degree to which they can export their products. Business service industries, for example, export little of heir products directly but their indirect export, incorporated in the export of goods, could make then a leading export industry.

The papers were presented in a day seminar “Trends in Nepalese Economy foreign Trade and investment” organized by the Center for Policy studies in Kathmandu on March 1999. The research paper, seminar and printing of the report are funded by the Asian Foundation.

According to these reports:-

Gehendra Bajracharya (1999) observed that investment could not be increased without increase saving the main areas for domestic as well as foreign investment in Nepal are services, certain manufacturing in industries, agriculture and construction industries but their attractiveness is still at low ebb. In a situation when domestic investment is not growing, it is doubtful whether foreign investment would come into Nepal in a significant way.

Pushpa Shakya (1999) Market and saving and investment data are not reliable. To a large extent public sector data, private sector activities such as hydropower are not recorded on possible reason for low saving in Nepal could be the high rate of inflation. The present rate of inflation may go up when the CPI is revised with the new weights derived from the recent household budget survey. Foreign investment is increasing in the financial sector because it is easy to set up banks. But in the cases of industries, local base may not be necessary as goods can enter the Nepalese market easily owing to import liberalization more over, since China and India are also in the race to attract foreign investments with open policy. There is no genuine reason to expect large inflow FDI in a small market like Nepal.

Sushil Mathema (1999): observed that FDI was needed to bridge the saving investment gap, meet debt service obligation and maintain favorable position in the balance of payments. The lack of growth in saving and investment notwithstanding the development in the financial sector suggests that problem is many structured. Had there been productive environment in the country, investors would have been certainly attracted; instability; corruption and uncertainty in the continuity of present policies are some of the major structural factors impeding with of FDI in Nepal. So our concern should be on creating a stable and conducive environment for investment. It is only when investment is coming up. But saving are not. We have to focus on financial sector reform.

India has largest Share, about 43% in the total FDI in Nepal. India FDI is attracted here because of inter stage in India and easy availability of land and labor in Nepal. We have no objection to Indian FDI, but our concern is absorption of national labor. It is not known whether they are actually employing Nepalese labor and to what extent we have no monitoring system for this. Although the government has introduced one window policy, it does not operate in proactive and potential investors have formed the impression that it is one window policy. So, we need to remove existing bureaucratic hurdle. We also need to pay attention to how we can efficiently furnish up to date an information needed by the foreign investors. In view of small domestic market, we should focus on attracting export oriented FDI.

Lakshmi Karmacharya (1999): Observed the foreign investors in Nepal could be categorized into three groups. Third country, individual investors having sentimental relation with Nepal, corporate investors and profit seekers. The third type

of investors is those who want to take advantage of preferential treatment given to Nepalese products in Nepal. Nepal-India trade treaty, these are high growth type of investor in Nepal and the industrial activities undertaken by them are mainly based on third country inputs and involve very little processing in Nepal. In spite of our liberal foreign investment policy since 1991, the flow of FDI in Nepal has not been encouraging in the previous years. The data shows that the number of FDI that entered Nepal was 63 in 1991 when we introduced liberal policy, it was reduced to 38 when the mid-term policy was announced and was further reduced to 19 when the new government came after the poll this suggests the FDI in Nepal is just a barometer of political situation in the country. Unless there is political stability in the country and the politicians give clear indication of the types of FDI desired in Nepal, FDI may hesitate to come into Nepal. Secondly, although the DOI is involved in the administration of FDI, there are various other line ministries and departments such as Immigration Department, Income tax Department, Land Reform Department, etc. all are also involved in the matter. There have been many cases of Land Reform department rejecting to register land in the name of investors because of foreign nationality so the DOI had to intervene. Thirdly, the provisions of the environmental regulation require 6 to 9 months to evaluate the environmental effects of the proposed projects and take decision. This is also a discouraging factor to the prospective investor.

Bijendra Shakya (1999): Remarks that the paper emphasized the need for facilities procedure for attracting foreign investment. It has given only a lip service to policy issue, such as one window policy. It is true termed as a thousand-window policy and I would even term one window as closed door. There is a need for serious deliberation on how the one window policy could be more effective. Regarding promotional measures, it is not clear whether our motto is simply to introduce Nepal tells about the potentials or disseminates the procedural reforms and facilities provided to attract FDI. Although we have been talking about economic diplomacy, the Nepalese embassies abroad play the role of economic councilors, the outcome has not been encouraging. So there is a need to review this policy.

Sri Ram Poudyal (1999): Opined that FDI would enter Nepal only if maximum profit was possible. The extent of profit is determined by the cost of factor of production. Nepal is projected as low cost economy because of abundant labor and low wage rate for attracting FDI. But the component of labor in the total cost is declining significantly, owing to increase large use of high-tech components. Moreover the unskilled nature of labor eliminates the advantage of low cost. So it is important to concentrate on producing skilled and technical manpower by orienting the educational system and adopting a coordinated approach by the universities in line with the emerging demand of international business.

Nepal opened the doors to FDI since the 6th plan (1980-85). The industrial policy (IP) of 1981 has made a separate provision relating to foreign investment,

following the restoration of democracy in the country 1990. Nepal pursued an open and liberal economic policy and at the same time, undertook FDI promotion as an important strategy for accelerating industrial development. Moreover, the directive principles of the constitution of the kingdom of Nepal 1991 have directed to make policy for attracting foreign capital and technology in the country. In order to make legal provision for the promoter and for the regulation of the foreign investment and technology, a separate act entitled "Foreign Investment and Technology Transfer Act 1992 (FITTA) has been promulgated. This FITTA 92 and Industrial Enterprises Act 1992 have also created a favorable environment for FDI in Nepal. Liberalizing industrial, commercial, and financial policies, deregulation of foreign exchange and concessions to industries established with foreign collaboration and making liberal arrangements for the repatriation of all FDI earnings are some of the remarkable developments in the field of FDI. Registration and licensing procedures are simplified and licenses are granted within 30 days from the date of application.

2.3 A Brief History of FDI in Nepal

In the context of Nepal, the history of foreign investment is very short. At the time of Prithivi Narayan Shah, foreign entrepreneurs were prohibited to enter in the country.

The formation of Udyog Parisad in 1935 was an initial effort towards industrialization in Nepal. This was followed by the Nepal Company Act 1936. History of FDI in Nepal has been started with the establishment of the first modern jute mill (Biratnagar Jute Mill) in 1936. Out of its total share capital, Indian industrialists had owned 60% share and Nepalese investors owned 40% share (Gautam 2006). After the establishment of the jute mill, the same investors had invested in cotton mills, sugar mills, chemical industries, and rice mills in different years.

Around the Second World War, Indian industrialists had invested in various companies and mills like jute mill, rice mill, textiles and spinning mills, match factory, oil mill, furniture and dal mill. The trend of industrial development continued up to 1945 by incorporating 20 joint stock companies. However, most of the companies and mills were closed after World War II.

After the mid 1970s, there has been an increasing trend to establish some joint venture industries. Industrial policy, 1974 and 1981 allowed foreign investment in large and medium scale industries. The sixth five-year plan (1980-1985) emphasized on the need of foreign investment and technology for the industrial growth of the country. The industrial policy, 1981 has made separate provision for foreign investment entitled by a separate act for foreign investment in the same year in order to make legal provision for the promotion and for the regulation of foreign investment. The act is again reviewed and a new act entitled foreign investment and technology.

After restoration of democracy (2046) Nepal has entered into liberal economic regime accordingly all policies, act entitled foreign investment and technology transfer mended. For development of corporate culture, regulation and management of company, new office of the company register at department level has been established.

At present, all areas open to FDI with the exception of traditional cottage industrial and other few specific typed of industries related to defense, Public health, and environment. The act guaranteed to FDI industries against nationalization, repatriation of profit dividend and principle as well as interest payment in convertible currencies. More over, foreign investor entitled to receive national treatment in terms of enjoying all facilities and incentive provide by the act.

Foreign investment is welcome in Nepal in all types of industries except the defense related industries, cottage industries, small scale and medium scale industries having less than NRs 20 million in the fixed assets as well cigarette, bidi, alcohol excluding 100 percent export oriented industries. Foreign investors are permitted to have a joint venture unit with Nepalese partner of 100 percent foreign owned unit. However, permission may be granted for the transfer of technology in all cottages, small and medium scale industries.

Form the above facts, foreign investment is still a new concept for Nepal. The government of Nepal has not been able to promote foreign investment to the desired extent. Complains are often heard from the foreign investors about the problems they have to face before and after investing in Nepal

After the introduction of new policy and act in 1992, Nepal Government with the co-operation of UNDO/UNIDO organized a "Nepal Investment Forum" in Kathmandu from November 30 to December 4, 1992 to accelerate the pace of industrialization by attracting FDI and technology in the country. During those forum 306 businesspersons, industrialists and financiers from 26 different countries of Asia, Europe and North America participated and held business discussion with the Nepalese investors. At this forum, 128 letters of intent were signed involving an envisaged investment of US\$ 740 million.

Due to the converted effort of government and private investors after the implementation of new policy and act, the number of foreign investment projects significantly increased. According to the recent data total 1898 numbers of projects were approved since the beginning i.e. 1976 to FY 2010/2011. This indicates that the policy reforms have created some sort of favorable atmosphere for foreign investment and technology transfer.

Comparing with the two decades back foreign investment is growing but it does not mean all are running smoothly. Complains are often heard from the foreign investors about the problems they face before and after investing in Nepal. Foreign

investment in Nepal is a subject, which has received less attention in terms of data collection and analysis than they any other aspects of economic development.

2.4 Important Events of FDI in Nepal

In year 1961, provision of foreign investment in medium scale industries with the investment of Rs. 50,000 to Rs 5,00,000 and large scale industries with investment of more than Rs.5,00,000.

In 1974, foreign investment allowed from 5% to 100% in the basic industries like cement, fertilizer, steel or consumer basic goods like diary, pharmaceutical, paper, textiles etc but preference for Nepalese investor to foreign investors in medium scale industries with the investment of Rs 1 million to 5 million. But in large-scale industries both types of investors are equally treated.

In 1971, separate trade and transit treaty was signed between Nepal and India. At that time, it was taken as a great achievement for Nepal. In 1996, the trade treaty has renewed and it was more favorable in the development of our industry and trade. Nepalese products allowed entering into the Indian market on the basis of certificate or origin. Previous provision of product mix and labor mix was eliminated. This new provision was main an attraction for expanding foreign investment in Nepal.

In 1981, the first time in the history, the separate foreign investment policy was entitled even though Nepal was protectionist trade and investment regime. In 1985, structural adjustment policy had started with the help of World Bank. This policy reform emphasized the need to promote the role of private sector in economy. Sixth five-year plan (1980-1985) emphasized on the need of foreign investment and technology for the industrial growth of the country. The Industrial Policy and Industrial Enterprise Act promulgated in 1987 by the Government of Nepal marked the beginning of Nepal's attempt to attract FDI.

After 1990 the government, re-emphasized the importance of FDI and technology transfer in the development process. In 1991, the tax holiday period was extended to 10 years for investment in sector of national priority. The Foreign Investment and Technology Transfer Act (FITTA) entitled according to meet the global aspect in 1992. This newly amended act opened up foreign investment in all sectors excepting some industries such as defense, cigarettes and alcohol.

The FITTA, 1992 again amended in 1996. This amendment eliminated the fixed assets limit and expanded the scope of foreign investment in all industries except those few in the negative list.

One window policy has also entitled in 1992 aiming to facilitate investors. The policy is heavily focused on the approval and licensing procedures. The policy is to focus to provide all administrative services from different organizations for industries

under a roof. It will reduce time, expenses and other effort to get administrative service from different government agencies.

In 2021 (BS), first time company act was issued and come into enforce. It gave the legal base and framework for administration of company. This act was amended in 2053 (BS). The main objective of this amendment was to fulfill the need of liberal environment. This was again amended in 2063 (BS) to fill the gap between theory and practice of company.

In 2003, Nepal became a member of WTO. By joining the WTO, Nepal has accepted some obligations as well as enjoys some rights. From this membership, investment climate become good for internal as well as external investors.

2.5 WTO Roles in FDI

A Handbook of the World Bank named **Development, Trade and WTO** explains the FDI has been subject to various types of policies. On the part of both host and parent countries for extremely negative ones such as nationalization or expropriation to positive incentives such as tax holidays relatively common negative incentives include restrictions on foreign equity share domestic content requirements production or export requirements and restriction on remittances of profits. Many countries is screening negative lists (sectors in which FDI is not permitted or is restricted), foreign equity gaps and limitations on landownership.

2.5.1 Examples of FDI Policies

Positive incentives

-) Tax holiday.
-) Tax treaties to avoid double taxation.
-) Exemptions on import duties on capital goods and raw materials.
-) Other exemptions of relaxations of rules in priority sectors.

Negative incentives

-) Nationalization or appropriation.
-) Double taxation.
-) Domestic content requirements for international inputs.
-) Domestic employment restrictions.
-) Export requirements.
-) Screening.
-) General foreign restrictions.
-) Landownership restrictions.
-) Joint-venture requirements.
-) Restrictions on remittance of profit.
-) Limitations on transfer of share or liquidation of the company.

There is, in principle, a fundamental similarity between the case for free trade in goods and the case for free FDI. From a rule making perspective, what is needed is to apply two sensible principles that have been used in the trade policy setting. First, distortions should be handled by the appropriate policy instruments, that must directly deal with the specific distortion. Second, if there is no forceful theoretical support for the welfare enhancing effect of a policy intervention, the benefits of the doubt are given to the market, not to policy activism. That is the preferred choice of no intervention.

These principles should apply to FDI policy as well. Perhaps, the single most important reason for resistance to a more open FDI policy is presumed market power effect of multilateral corporations. A more open and transparent FDI policy, however, would include not just one multinational but many and would thereby foster competition among the multinationals themselves as well as between domestic and foreign firms. Hence, the scope for exercising market power will be self-constraining. If there is evidence of predation, the remedy is competition or antitrust policy. Lack of an effective institutions framework for competition policy should not be a justification for imposing restriction on FDI. A more open FDI policy may itself and as a catalyst for the development of these institutions. In any event, the first policy principle applies.

Crowding out or scaling down of domestic entrepreneurship is another concern. Although such effects do arise, it is equally true that downsizing of inefficient domestic firms is welfare improving because of the associated rationalization and the increase in the choice of quality that would be available to consumers. These domestic firms that are unable to undertake technological innovation would be regulated to serving the lower end of the market, whereas firms that are willing and able to innovate would serve the high end, along with the foreign firms. Moreover, through mergers and acquisition, and by infusing new technology, FDI can prevent some domestic industries from being wiped out.

FDI is the direct instrument of development and growth since growth strategy should vary from country to country depending on factor endowment, technology, and so on, FDI policy ought to be country specific to some (Bernard Hockman, A ditya Malto June 2002).

2.6 Trade Related Investment Measure (TRIMs)

The WTO agreement on TRIMs has become a central issue in the debate on the relevance to developing countries of multilateral trading agreement and the WTO. A combination of factors led to the inclusion of investment in the work program of the Uruguay Round negotiation. These included a changing perception of the role of FDI in development and the intense debate on the linkage between GATT rules and foreign investment policy stemming from the US-Canada dispute on Canada's

application of performance measures to foreign firms. Despite an ambitious start to the negotiations, the final text was limited in scope and coverage.

This is to assess how well the TRIMS agreement has been implemented and to identify lessons or issues that may be relevant to the future multilateral trade negotiations on investment that was called for in the Doha Ministerial Declaration in 2001.

The debate on the inclusion of investment issues in the multilateral trading system that started in the late 1940s continues till today. The TRIMS agreement was an attempt to address some of the issues related to investment policies. In the end, however, as confirmed by two panel decisions, the agreement simply addresses trade-distorting policies; regardless of whether they are targeted at foreign or domestic enterprises.

The TRIMS agreement has been an invaluable learning experience for the multilateral trading system on how to deal modestly with issues related to investment. One of the major steps forward has been greater clarity about interpreting GATT rules as they relate to policies aimed at favoring one industry over another. At the same time, a third of the WTO members that were required to implement their obligations failed to do so, suggesting that the agreement is far from perfect.

2.7 Previous Works on FDI

FDI is taken as an important element for industrialization. In Nepal, formal effort has begun inward FDI from the sixth five-year plan (1980-1985). This plan has been given emphasis on the private sector as well as to attract foreign direct investment. Later then, it has started to study on FDI formally as well as informally. In 1986 Mr. Chitrakar Ramesh studied under the supervision of CEDA on Foreign Investment. His topic was foreign investment in Nepal. It was his first findings concerning foreign investment. His research objectives were.

-) Extent of foreign investment on Nepal.
-) Policies and incentives introduced to attract foreign investment in Nepal.
-) Investment strategies of multinational meetings held in 1982.

The researcher found that the flow of foreign investment in the manufacturing sector was not enough. Investment in the mineral-based sector was negligible. The main problem was due to the non-implementation of policies and acts made by the government, hard to get incentives according to the provisions made by the government etc. The impact of the 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.

Later he completed his Ph.D, from United Nation University America on the topic “Foreign Investment Technology Transfer in Developing countries”.

In 1982 and 1992, attract foreign investment so many acts, Policies have been enacted such as Foreign Investment and Technology Transfer Act (FITTA) 1992. One window policy, industrial policy, industrial enterprises act etc. After launching such act and policies, we found tremendous flow of foreign investment in different forms. Two major acts FITTA 1992 has laid the foundation for industrial sector is made over liberal and investment friendly. These acts guarantee for the equitable treatment to both the national and foreign investors. In 1993 Mr. Bhatta Shiva Raj, Students of T.U. Eco Dep. Kirtipur was studied in his dissertation on foreign investment in Nepal with few news objectives.

Objectives of this study were as follows.

-) The impact of foreign investment in economic development of the country.
-) Problems of implementing foreign project.
-) Development of joint venture.

The researcher found many problems of foreign investment promotion in Nepal. Skill shortage inadequacy of the domestic infrastructure and small size of the country was main shortcomings for the foreign investment. Other problems were bureaucratic harassment, underdeveloped infrastructure and so on.

In 1998, FIAS studied on investment climate of Nepal. In 2007 FIAS studied comprehensively on same topic and carried out its report. The overage of study was to (FIAS 2007)

-) Identify key regulatory constraints to starting, operation, and closing a business in Nepal.
-) Demonstrate how these constraints limit growth opportunities at the sector level (looking at tourism, cement, herbal product).
-) Explore the role that economic zone could play in addressing these constraints in the medium term while offering a launching pad for long term nation wide reforms and map out whether and how investment promotion functions are being arrived out in Nepal with a view to making recommendation for upgrading and strengthening these.

The study identified the major constraints in foreign investment in Nepal.

-) Labor regulation.
-) Trade facilitation.
-) Tax policy and administration.
-) Licensing and inspection. And
-) Barriers to exit.

CHAPTER: III

RESEARCH METHODOLOGY

It is the entire process of planning and procedures that are employed for carrying out a research study such as collecting, analyzing and interpreting the data and evidence.

3.1 Research Design

Research design of this study is descriptive as well as analytical in nature. The main objective that is the analysis of trend and structure of FDI in Nepal is based on numerical data. Examination of the first general objective that is contribution of FDI to employment generation in Nepal is based on both analytical and descriptive research design. Data collected by field survey has used for analyzing the constraints for promoting FDI in Nepal.

3.2 Source of Data

The study is based on primary and secondary data. Primary data has been collected by field questionnaire and direct interview method and secondary data have been collected by published and unpublished in the form of books, booklets, annually report, papers, articles etc.

These secondary data has been collected mainly from Department of Industry Foreign Investment promotion section, Ministry of Industries, Industrial Development Corporation, Central Bureau of statistics, FNCCI etc.

3.3 Population and Sampling

Secondary data collected the Department of Industry has been used for the fulfillment of needs of the main objective and the first secondary objective. The secondary data covers all required information to analyze above objectives from all industries established in foreign collaboration.

In order to fulfill the needs of the second general objective, data has been collected by field survey based on sampling method. Samples are selected on judgmental method. Out of total industries, only 435 industries were selected for field survey.

3.4 Period of the study

The fiscal year up to Ashad 2046 is the starting year of the study and FY 2066/67 is the last year. Data have been taken for 22 years.

3.5 Data collection method

A. Methods:-

Secondary data are collected from various related institution and organization i.e the Ministry of Industry, the Department of Industry, the Ministry of Finance and Federation of Nepal Chamber of Commerce and others published and unpublished both types of secondary data are collected. Such collected data are published in many journals, manual, industrial statistics books etc. Researcher himself visited to that organization and requested them to provide such related and reliable data.

Primary data are collected by field survey method. Researcher himself hands over the questionnaire to the selected respondents. Respondent requested those people to fill up and ranked the problems.

B. Techniques and Tools:-

Secondary data are collected from different publication and journal published by reliable organization. Data were checked whether available data were reliable or not and fulfilled the need of objectives or did not.

Primary data were collected by filled survey. Questionnaire handed over the respondents, requesting them to fill it and returned with in given period. After stated time researcher collected himself all the filled questionnaires from the respondent.

C. Data Collection Process

With the prepared questionnaire, the researcher visited different branches, head office, joint venture industries and handover the questionnaire to the representatives of the industries to collect necessary information about the study. Respondent were requested to fulfill the questionnaire with in 1 month. After due date questionnaire were collected from the respondents.

To fulfill other objective i.e. FDI in different sector, it trend and structure, employment generation and problems. The data have been collected from the concerned department as well as from different volumes of economic survey and industrial statistics of Nepal.

3.6 Method of Data Analysis

In the study, some statistical models have been used for checking and analysis data. There are some variables in these models. To analyze these variables, we have used simple statistical tools like graphic presentation (pie-chart and bar- diagram) where required. Simple regression analysis has also been used to analyze the trend of FDI in Nepal.

The model is fitted in the form

$$F=a+bT$$

Where F= Foreign Investment

T=1, 2, 3, 4, 5.....22 (T= time periods)

This shows the trend of normal equation used to estimate the end line are.

$$F = Na + b T$$

$$TF = a T + b T^2$$

On the basis of entire study, some suggestion and recommendation have been developed finally relating to the improvement of climate for foreign direct investment promotion in Nepal.

CHAPTER- IV

TREND AND STRUCTURE OF FDI IN NEPAL

This chapter is focused on the analysis of trend, structure and contribution of FDI in Nepal resulting from the data available from fiscal year (FY) 2046/47 to 2066/67. This analysis helps us explore the direction, tendency, and forms of the inflow of FDI in Nepal. Focuses of this analysis will also be in the years of increasing and decreasing FDI and investment sectors contributing to FDI.

4.1 Trend of FDI in Nepal

This chapter analyzes the trend of FDI inflow in our country, which means general direction and tendency based on project approved data from FY 2046/47 to FY 2066/67. During this period, all the seven types of the industries have got some sort of foreign investment. Present study has analyzed trend of FDI inflow in two ways, which are year wise and plan wise as given below:

4.1.1 Year –Wise Trend of FDI

FDI flows to Nepal have historically been very low. In the 1990s, there was significant improvement. After the restoration of multiparty democracy in Nepal, government of Nepal has initiated economic reforms to create the conducive environment to increase the private sector participation. That economic reform included FDI in industries as a major initiation to private sector participation.

The year - wise inflow of FDI during the study period in industrial sectors is as tabulated below:

Table – 4.1

Year – wise trend of foreign investment in Nepal from the beginning to 2066/67 (Rs. in million)

S.N.	Fiscal Year	No of Industries	Total Projects cost	Total fixed cost	Foreign Investment
1	Up to Ashad 2046	58	5102.80	4271.60	449.56
2	2046/47	30	2438.19	2139.60	398.51
3	2047/48	23	863.56	690.74	406.28
4	2048/49	38	3508.17	2902.10	597.84
5	2049/50	64	17886.22	16210.81	3083.67
6	2050/51	38	3733.23	3175.66	1378.76
7	2051/52	19	1627.28	1247.85	477.59
8	2052/53	47	10047.47	9398.54	2219.86
9	2053/54	77	8559.25	6692.15	2395.54
10	2054/55	77	5569.38	5142.32	2000.28
11	2055/56	50	5324.42	4380.17	1666.42
12	2056/57	71	2669.09	1910.24	1417.61
13	2057/58	96	7917.62	6122.49	3102.56
14	2058/59	77	3318.53	1559.59	1209.56
15	2059/60	74	4921.42	3608.25	1793.77
16	2060/61	78	4323.74	3735.86	2764.80
17	2061/62	63	1796.10	1149.49	1635.77
18	2062/63	116	4121.08	3296.95	2606.31
19	2063/64	188	3425.57	2650.56	3226.79
20	2064/65	212	20403.88	16896.27	9811.00
21	2065/66	231	9417.89	7520.82	6245.09
22	2066/67	171	15853.78	14987.98	9100.00
23	Total	1898	142829.06	119739.22	57997.66

Source:-Department of Industry (Industrial Statistics, Published, 2010)

The above table shows that the trend of establishment of industries is rising upwards. 231 industries established in FY 2065/66 is the highest number and 19 industries established in FY 2051/52 is the least number during the study period. In the FY 2066/67, though the numbers of industries established is lower than previous year, the investment in this sector is in higher side. This may be because of investment in larger industries showing the rising trend of FDI.

The data of over 22 years except FY 2050/51, 2051/52 and 2066/67 indicate that number of industries approved for foreign investment is in increasing order whereas the increment of each year is varying significantly. However, this is satisfactory as well consistent.

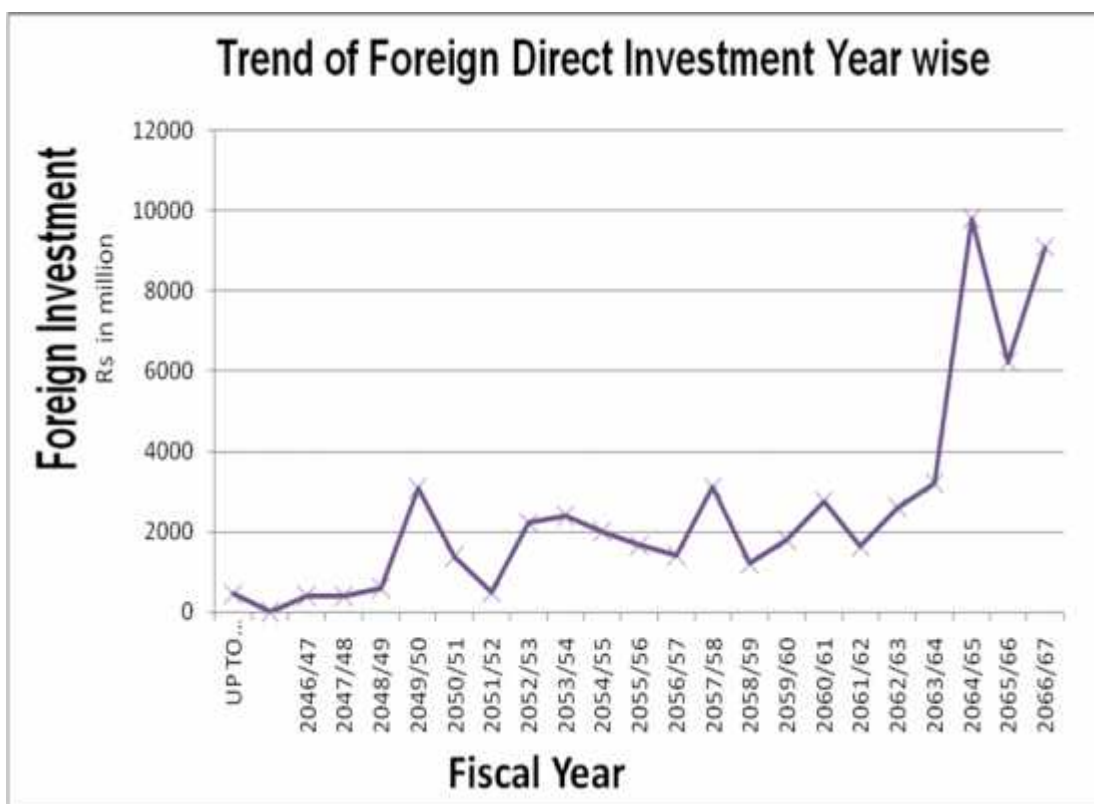
The trend of FDI on the basis of total project cost can also draw some significant results. In F/Y 2064/65 the approved project cost was RS 20403.88 millions, which was the highest amount over the study period. In FY 2047/48, there was only RS 863.56 million approved for investment in industrial sector as the least amount over that period. On the other hand, approved number of industries in FY 2051/52 was the least over that period. This means that there is no clear correlation among FDI, approved project cost and approve number of industries. One of the reasons behind the least approved number of industries in FY 2051/52 was due to political instability due to frequent government change and coalition government during that period. On contrary, in FY 2064/65 there was the first elected government after constitutional election. That situation had made a conducive environment to investors.

Most of the FDI projects were come in joint venture collaboration. The analysis of FDI is more realistic. Comparative analysis is done between portions of foreign investment of approved total project cost and approved foreign investment. In FY 2064/65 total project cost is Rs 20403.88 million and foreign investment Rs 9811.00 which is the highest amount of total cost and foreign investment in comparison with other years but the ratio of FI is higher in 2049/50. If we do not consider prior four years, the least portion of foreign investment amount was Rs 477.59 million in FY 2051/52. The ratio between foreign investment and total project cost is not satisfactory. The portion of FI is very small. The ratio is significantly varied in each year. Such fluctuation indicates that the need of reorientation in our investment policies and to create conducive and friendly investment climate. The ratio between foreign investment and total project cost is very small. Another problem is how to improve in this ratio. The direction and tendency are seemed similar in all three cases, i.e. number of industries established, total project cost and foreign investment.

Figurative presentation such as graph and diagram can help us understand the year - wise trend of FDI inflow more clearly. The given figure 4.1 is a simple graphical time series presentation of FDI inflow in Nepal.

Figure- 4.1

Year- wise trend of Foreign Direct Investment up to 2066/67

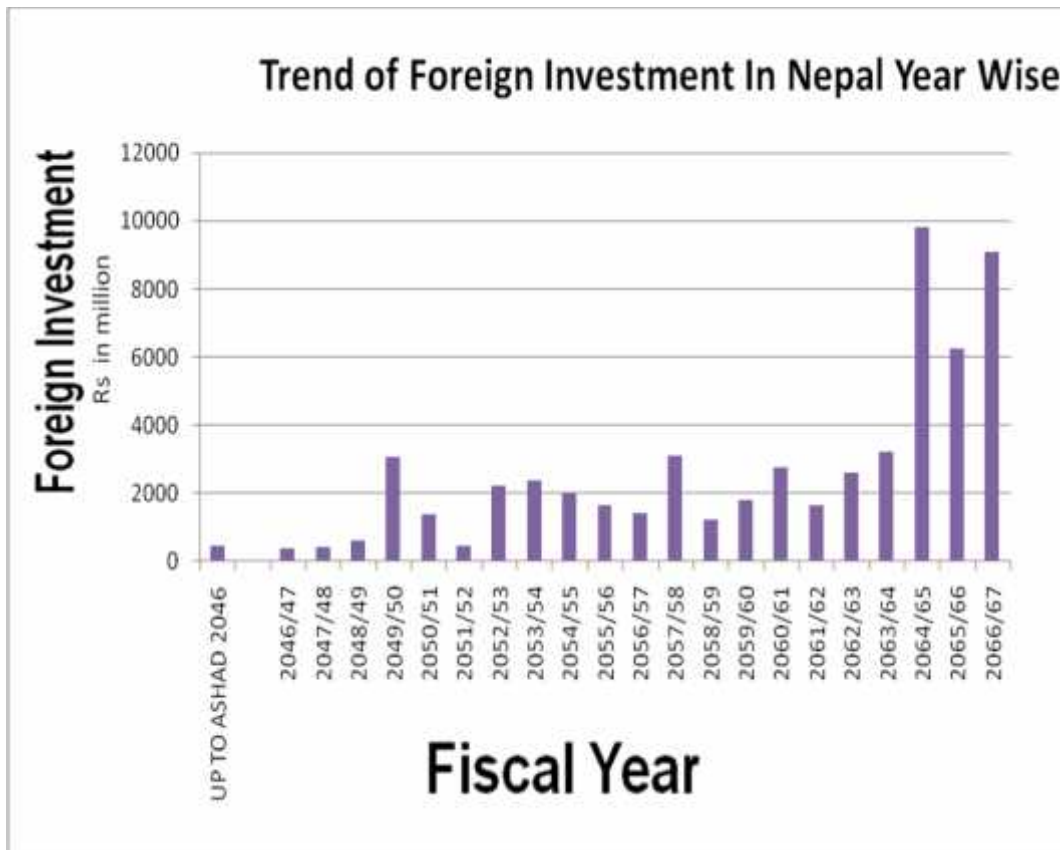


Source: - Table4.1

The above graph shows that FDI inflow in Nepal is in creasing trend. It can also be found that trend of increment of FDI before 2062/63 is lower than the trend after 2062/63. There are some depressions in graphs as in FYs 2046/47, 2047/48, 2048/49, 2051/52 and 2066/67 indicating the inflow of FDI comparatively lower than before and after that particular year. In the financial year 2049/50, 2063/64, 2064/65 and 2065/66 the inflow of FDI were significantly high making sharp peaks in graph. Rest of the year, it increases positively. This is also to be presented in figure given below.

Figure - 4.2

Foreign Investment in Nepal Year Wise



(UP TO 2066/67)

Source: - Table -4.1

This simple column diagram also shows the trend of FDI inflow in Nepal. After restoration of democracy, the inflow of FDI was gradually increased. Another important cause of this incremental was newly applied liberal economy policy. International environment has supported to globalization. Under liberal economic policy, the government opened many investment sectors to private as well as foreign investors. It provided wider area to invest and government was committed for not to nationalize private industries. All of these improvement initiations play important role to FDI inflow in Nepal.

4.1.2 Trend Line of Overall FDI

In bid to fit the future trend of the overall FDI, the following model has been applied

$$F = a + bT$$

Where F= FDI in million

T= time periods, 1, 2, 3, 4, 5.....22 (T= time periods)

A and b are parameters

With the help of the least square method, the normal equations are:

$$F = Na + b T$$

$$TF = a T + b T^2$$

From the calculation from the table 2 the following regression line has been arrived at

$$F = -679.96 + 281.2T$$

Result: This fitted line shows that the overall FDI has an upward trend and it has annually grown by 281.2 million rupees during the study period.

The regression line predicts that in the FY 2066/67(i.e. T= 22)

Overall FDI will be Rs 57997.66 million. However, the parameters of the equations are statistically significant at 5% level of significance shown by value of R (being 0.499). This prediction has very little significance in practical terms.

4.1.3 Plan- Wise Trend of FDI in Nepal

Prior to eight plans, 149 foreign collaboration projects were approved with the total project cost of Rs. 142829.06 million. In the eighth plan 245 projects were approved with the project cost of Rs. 41853.25 million and the foreign investment Rs. 9555.42 million. In the ninth plan period, 371 new projects with capital investment RS 24805.79 million and foreign investment Rs. 9403.22 million were approved.

Table – 4.2

Plan –wise trend of FDI (Rs. in million)

S.N	Plan	No of Industries	Total project cost	Total Fixed Cost	Foreign Investment
1	Before 8thplan	149	11912.72	10004.04	1852.19
2	8 th plan	245	41853.25	36725.01	9555.42
3	9 th plan	371	24799.53	19114.81	9396.52
4	10 th plan	519	18588.57	14481.11	12027.44
5	3 year (2064/65 - 66/67) plan	614	45675.55	39414.27	25166.09
6	Total	1898	142829.06	119739.22	57997.66

Source: - Department of Industry (Industrial statistics, published, 2010)

The above table shows that the foreign investment before eight plans was insignificant. The foreign investment in the ninth plan was lower than investment during the eight plans. In the period of 8th plan flow of foreign investment was Rs 9555.42 million but in the 9th plan period that figure was increased to Rs. 9356.52 million. Similarly, in the 10th plan flow of foreign investment was as high as Rs. 12027.44 million due to the better situation than before. The foreign investment in the period of three-year interim plan was Rs. 25166.09 million where the increment is very high.

Similarly, the table 4.2 also shows the numbers of foreign investment projects approved during different plan periods. It shows that there are 149 approved projects before eighth plan. After 8th plan trend of project approval is increasing positively.

Figure – 4.3

Plan wise Foreign Investment in Nepal



Source: - Table -4.2

The above graph shows that investment inflow in Nepal is increasing gradually after 8th plan.

4.2 Structure of Foreign Direct Investment in Nepal

Structure means the manner in which thing is constructed complex whole supporting framework or essential part. Technology transfer, financial collaboration, investment in every category or classification of industries, investment scale, single or joint venture investment and country wise investment study cover the structure of FDI inflow in Nepal.

4.2.1 Structure Analysis by Category

According to industrial enterprises Act 1992, industries will be classified into following category.

A. Agro and Forest Based Industries.

Business mainly based on agriculture of forest products such as integrated agriculture and silk production horticulture and fruit processing, animals husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, horticulture and herb processing, vegetable seed farming, mushroom, vegetable processing green house, bee keeping, honey production, floriculture and production and forestry related business such as lease- holder forest, agro forestry etc.

B. Construction Industries:

This category includes road bridge, ropeway, railway, trolley bus, tunnel, flying bridge and industrial, commercial and residential complex construction and operation.

C. Energy Based Industries:

This category includes industries generating energy from water resource, wind, solar, natural oil, gas, biogas and any other sources.

D. Manufacturing Industries:

Industries which produce goods by utilizing or processing raw materials semi-processing raw materials by products or waste products or many other goods.

E. Mineral Industries:

Mineral excavation or processing there of.

F. Service Industries:

Work shop, printing, consultancy service, photography, hospital, nursing home, education and training institution, laboratory, air services, cold storage etc.

G. Tourism Industries:

Tourism lodging, motel, hotel, restaurant, resort, travel agency, skiing, gliding, water rating, cable-car complex, pony-trekking, trekking, hot air-ballooning, parasailing, golf-course, polo, horse-riding etc.

Categorically, there are seven industries as mentioned above. Which are presented in table and graph is given below.

Table – 4.3

Category- wise Foreign Direct Investment (Rs in million)

Category	No. of Industries	Total project cost	Total fixed cost	Foreign investment	% of foreign investment
Agriculture	37	1201.05	702.58	526.18	0.97
Construction	41	3455.34	2563.10	2612.81	4.50
Energy based	41	40641.24	38643.02	13291.77	22.91
Manufacturing	673	48342.17	35220.04	19459.95	33.55
Minerals	31	5049.2	4121.00	2836.70	4.89
Services	561	24931.98	20435.16	12054.24	20.78
Tourism	514	19208.25	18054.33	7216.02	12.44
Total	1898	142829.06	119739.22	57997.66	100

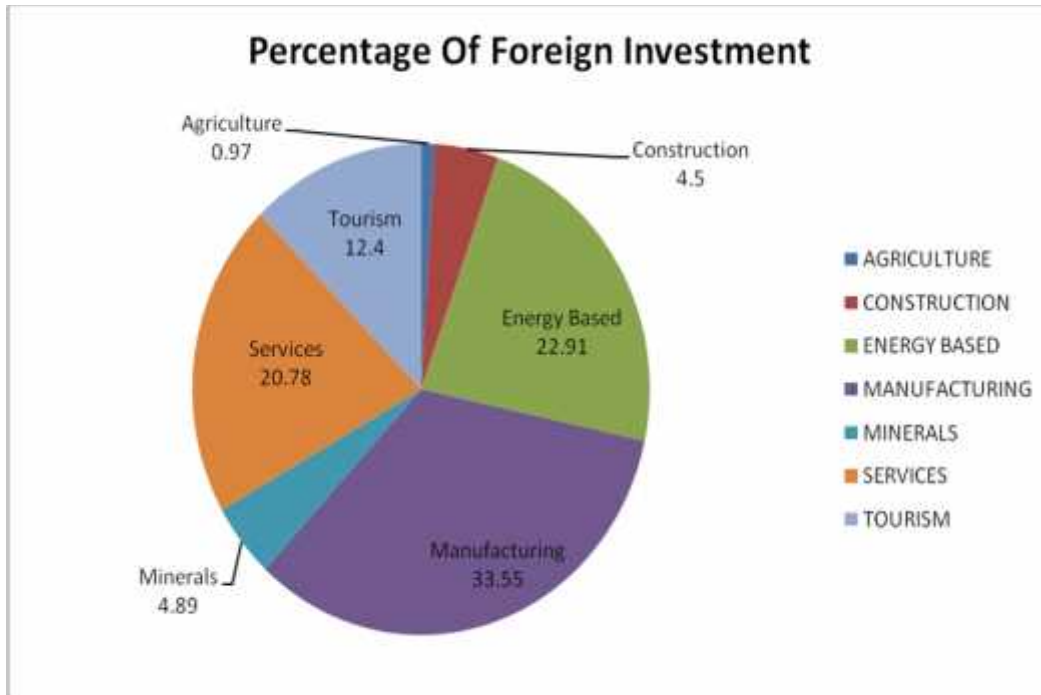
Source: - Department of Industry (Industrial Statistics, published, 2010)

Out of total investment of industries 33.55 % industries have invested under in manufacturing sector alone. Service and energy based sector have covered second and third place. The FDI in Agriculture sector is very low, 37 industries have established in this sector. The foreign investment in other three sectors, Tourism, Mineral and Construction have not showed good scenario. On the basis of amount of foreign investment, Rs. 19459.95 million invested under in manufacturing sectors out of total investment amount Rs. 57997.66 million. Agriculture sector has a lowest foreign investment Rs 526.18 million. Energy, service, tourism, minerals and construction have a second, third, fourth, fifth and sixth position.

Above table shows that manufacturing sector is attractive sector for foreign investment than other sectors.

Figure - 4.4

Category wise Foreign Direct Investment in Nepal



Source: - Table -4.3

The total surface of chart is 100 percent. Out of the surface, manufacturing sector has covered 33.35percent. This sector covers more parts of chart than other sectors. Agriculture sector covered only 0.97 percent of the total investment. In this way service sector covers 20.78 percent and Energy based sector covers 22.91 percent. Although Tourism sector is one of the most viable sector which cover the 12.4 percent of the foreign investment in Nepal. Mineral and construction sectors have covered the 4.89 and 4.5 percent of the total surface.

4.2.2 Structure Analysis by Scale Wise

With the help of table and chart, structure of FDI in Nepal is analyzed under different category. Industries are classified into three scales. Under this topic, FDI in scale of investment is categorized as large, medium and small scale.

Table - 4.4

Number of industries approved by scale wise from beginning to FY 2066/067 (Rs. in million)

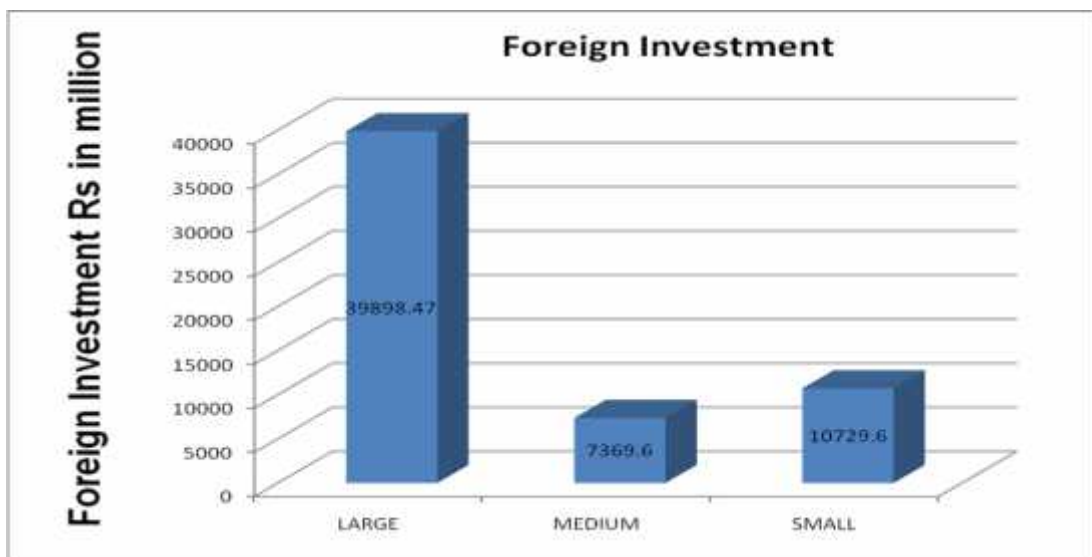
Scale	No. of Industries	Total project cost	Fixed capital	Foreign Investment
Large	170	108870.13	97028.44	39898.47
Medium	231	16875.88	11715.67	7369.60
Small	1497	17083.05	10955.11	10729.60
Total	1898	142829.06	119739.22	57997.66

Source:-Department of industry (Industrial Statistics, published, 2010)

In the above table, out of total 1898 industries numbers of small scale, medium scale and large scale industries are 1497, 231 and 170 respectively. Foreign investment in small scale, medium scale and large scale industries are Rs 10729.60 mil Rs 7369.60 mil and Rs 39898.47 million respectively. This can also be presented in the following figure no 4.5.

Figure – 4.5

Number of industries approved by scale wise from beginning to FY 2066/67



Source:-Table 4.4

Above 3D column diagram shows that amounts of foreign investment in large, medium and small-scale industries are Rs 39898.47 million, Rs 7369.6 million 10729.6 million respectively. This indicates that the priority of foreign investment is highest in large-scale industries and lowest in medium-scale industries among three categories.

Table – 4.5

**Number of industries approved by category and scale wise
(Up to FY 2066/67)**

Category	Scale	No. Of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment
Agriculture	Large	1	560.00	159.60	246.88
	Medium	5	270.42	240.93	40.86
	Small	31	370.64	302.05	238.45
	Total	37	1201.06	702.58	526.19
Construction	Large	5	1767.04	1711.33	1448.58
	Medium	13	934.02	517.61	524.94
	Small	23	754.29	334.16	639.29
	Total	41	3455.35	2563.10	2612.81
Energy Based	Large	30	40020.40	38145.23	13070.92
	Medium	7	549.39	453.14	182.60
	Small	4	71.44	44.65	38.25
	Total	41	40641.24	38643.02	13291.77
Manufacturing	Large	70	29911.87	24229.16	11585.04
	Medium	125	10236.66	6485.62	3568.22
	Small	478	8193.64	4505.26	4306.69
	Total	673	48342.17	35220.04	19459.95
Mineral	Large	4	4613.80	3750.90	2415.70
	Medium	3	139.00	123.00	139.00
	Small	24	296.22	247.10	282.00
	Total	31	5049.02	4121.00	2836.70
Services	Large	25	18047.72	15547.07	7610.41
	Medium	49	3068.56	2313.86	1849.97
	Small	487	3815.69	2574.22	2593.86
	Total	561	24931.98	20435.16	12054.24
Tourism	Large	35	13949.30	13485.15	3520.93
	Medium	29	1677.82	1581.51	1064.01
	Small	450	3581.13	2987.67	2631.07
	Total	514	19208.25	18054.33	7216.02
Total		1898	142829.06	119739	57997.66

Source:-Department of industry (Industrial Statistics, published, 2010)

In the agriculture sector, 37 industries have approved. Out of total industries 31 Industries are small 5 industries are medium and 1 industry is large scale industries. Under the construction industries, 5 are large, 13 are medium and 23 are small. In this category small scale are in leading position in both number of industries approved and amount of foreign investment. In energy-based category, out of total industries approved, large-scale industries are 30, medium scale industries are 7 and small scale industries are 4. Under manufacturing industries, number of large scale industries are 70, medium scale industries are 125 and small scale industries are 478. Although numbers of industries approved under small scale are higher but the amount of foreign, investment in large-scale industries is higher. In both cases number of industries and amount of foreign investment, manufacturing sector is in top position. Foreign investment have employed under mineral sector is very low i.e. the amount of investment is Rs 2836.70 million. In this way, under service sector 561 industries are approved in total amount of foreign investment is Rs 12054.24 million and under tourism sector 514 industries have approved and amount of foreign investment Rs 7216.02 million.

4.3 Structure Analysis by Approved Pojects for Foreign Investment and Technology Transfer

External investment has many forms like financial collaboration, intellectual property, managerial skills, technology transfer etc. In Nepalese context, foreign direct investment has come in forms like equity investment and technology transfer. This is to be presented in the following table.

Table - 4.6**Approved projects category, type & scale wise****Beginning to FY 2066/67**

Category	No. of Industries	Type			Scale		
		Equity Investment	Equity Investment & Tech. Tran	Tech. Tran.	Small	Medium	large
Manufacturing	673	592	41	478	41	125	70
Agro based	37	36	0	31	1	5	1
Energy based	41	40	0	4	1	7	30
Construction	41	39	2	23	0	13	5
Minerals	31	30	0	24	1	3	4
Services	561	550	4	487	7	49	25
Tourism	514	502	6	450	6	29	35
Total	1898	1789	53	1497	57	231	170

Source:-Department of industry (Industrial Statistics, published, 2010)

From beginning to FY 2066/67 total equity investment type industries with foreign collaboration are 1898 in number. Out of total number of industries approved, the numbers of equity investment are 1789, technology transfer industries are 1497 and the number of equity investment industries and technology transfer industries are 53. Equity investment was considerably large enough comparing to other technology and managerial investment.

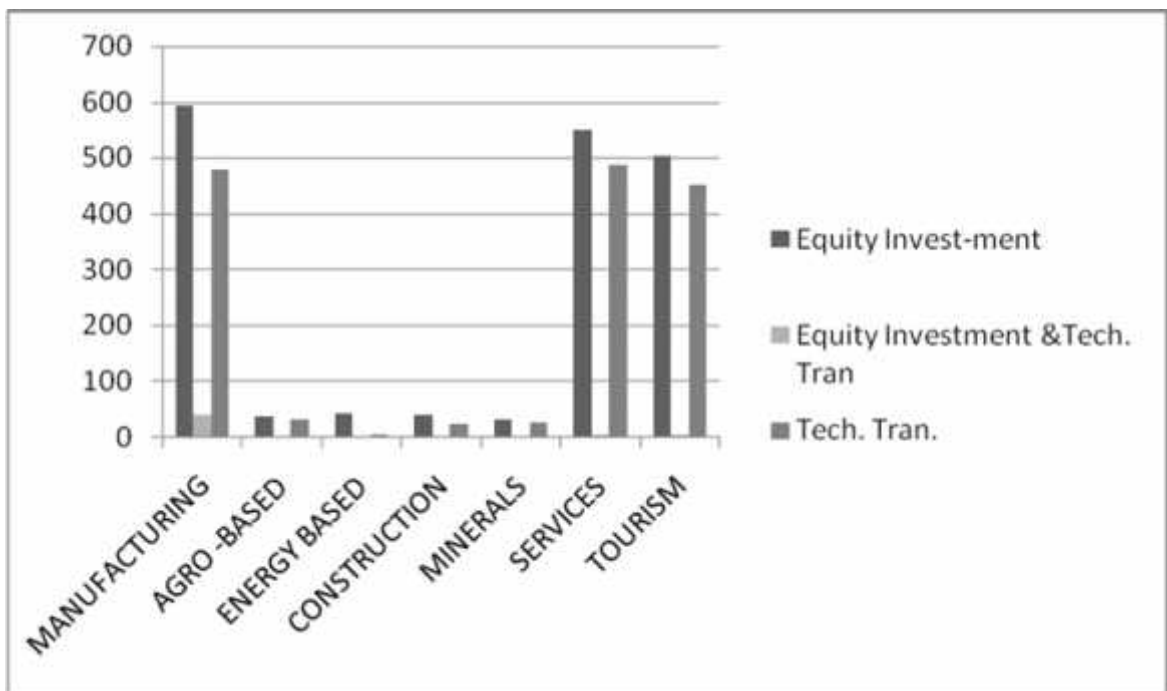
If we compare the financial collaboration among seven sectors, manufacturing sectors possess a highest in number 592 out of 1798. The second position stands for service sector with 550. Tourism-based industries have come in the third position with 502 in number. Mineral-based industries appear as the least preferred sector for foreign investors. It is observed that construction based, energy based, agro based industries preferences for foreign investors received more or less similar preference from equity investment point of view. Foreign direct investment for transfer of technology view 1497 Industries have been recorded where technology transfer again is found in the manufacturing with 478 industries.

From the given sources, total gross investment is a base to categorize industries as large, medium and small. The financial collaboration analysis implies that the foreign investment activities in Nepal are attractive to investors. On the basis

of scale of operation, from the above table shows that the higher involved in small industries with 1497 in number medium and large industries with 231 and 170 respectively moreover, sector wise concentration of foreign investment is also found in small scale manufacturing industries similarly the foreign investors are investing in small scale industries. This may be due to limited domestic and foreign market of product and services. This is presented in the following multiple column diagram.

Figure – 4.6

Approved project for Foreign Investment and technology transfer



Source: - Table 4.6

4.4 Foreign Investment by Country of Origin

Foreign investment has come from many countries. Among all home countries, Some countries are very big as well as very powerful and some countries are small but with strong economy. Country diversification in FDI inflow is also taken as favorable aspect for host country. FDI in Nepal has more than 66 countries some of which are as mentioned in table 4.7.

Table – 4.7**Higher number of industries approved by country of origin up to 2065/066(Rs. in million)**

S.N.	Country	No. of Industries	Total project cost	Total fixed cost	Foreign Investment
1	India	462	56746.00	44561.08	25381.45
2	China	332	12327.54	9968.39	5848.77
3	USA	166	13798.16	12481.46	4874.50
4	Japan	146	3153.87	2681.43	1140.49
5	S. Korea	131	8267.01	7779.21	4245.34
6	U.K	94	4586.08	4076.05	1479.04
7	Germany	75	2331.81	2096.25	898.82
8	France	43	552.85	460.67	271.30
9	Netherland	32	1219.01	1019.54	526.12
10	Switzerland	30	724.48	657.35	174.62

Source:-Department of industry (Industrial Statistics, published, 2010).

From the beginning to FY 2066/067, 68 countries have foreign investment collaboration in Nepal. Among the 68, total foreign investment and technology transfer projects, India has highest position. The total Indian investment is Rs 25381.45 million and 462 projects have approved for Indian investment. China reserves the second large for both total investment and approved number of projects for investment. The USA, Japan, S. Korea, UK, Germany, France and the Netherlands have significant involvement in FDI of Nepal.

4.5 District- Wise Foreign Investments in Nepal

Out of 1898 industries, 1053 joint venture industries are situated in Kathmandu, 226 in Lalitpur, 108 in Kaski, 48 in Kavre and 47 in Chitwan with foreign investment in 19852.02 million, 6615.82 million, 4054.58 million, 647.32 million and 1118.36 million respectively. This is given in table below.

Table – 4.8**District- wise Foreign Investment in Nepal (Rs. in million)**

S. N.	District	N0. of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment
1	Kathmandu	1053	49252.31	40666.06	19852.02
2	Lalitpur	226	9651.62	7599.60	6615.82
3	Kaski	108	12226.56	11593.96	4054.58
4	Rupandahi	29	5630.90	4603.14	2958.59
5	Surkhet	2	3587.00	2819.40	2187.00
6	Dhading	9	2405.89	2351.70	2171.00
7	Bara	42	7257.05	5747.20	2063.78
8	Makawanpur	45	4405.88	3357.30	2007.23
9	Kalikot	1	1900.00	1800.00	1520.00
10	Parsa	39	2831.77	2137.75	1491.35

Source:-Department of industry (Industrial Statistics, published, 2010)

4.6 Contribution of FDI to Employment Generation in Nepal

Foreign Direct Investment benefited nation from the different angle. Investment in any sector either financial or technical human labor is essential to run the project.

The total number of employment since from 2046 to FY 2065/066 has been recorded to be 144513. The number of employment can be shown according to the year-wise, Sector wise, scale wise and country-wise.

4.6.1 Year- Wise Employment Generation

The year wise employment generation through FDI industries in the economy has been put on following table

Table – 4.9**Year wise Summary sheet of employment in foreign collaborated project from beginning to 2066/67**

S.N.	Fiscal year	No. of industries	Total employment	Average employment
1	UP TO 2046	58	10586	182.5
2	2046/47	30	9515	317.16
3	2047/48	23	2974	129.30
4	2048/49	38	5615	147.76
5	2049/50	64	13873	216.76
6	2050/51	38	4734	124.57
7	2051/52	19	2386	125.57
8	2052/53	47	8032	170.89
9	2053/54	77	9347	121.38
10	2054/55	77	4336	56.31
11	2055/56	50	2146	42.92
12	2056/57	71	4703	66.23
13	2057/58	96	6880	71.66
14	2058/59	77	3731	48.45
15	2059/60	74	3572	48.27
16	2060/61	78	2144	27.48
17	2061/62	63	5559	88.23
18	2062/63	116	7358	63.43
19	2063/64	188	7389	39.30
20	2064/65	212	10677	50.36
21	2065/66	231	11068	47.91
23	2066/67	171	7848	45.89
22	TOTAL	1898	144513	76.13

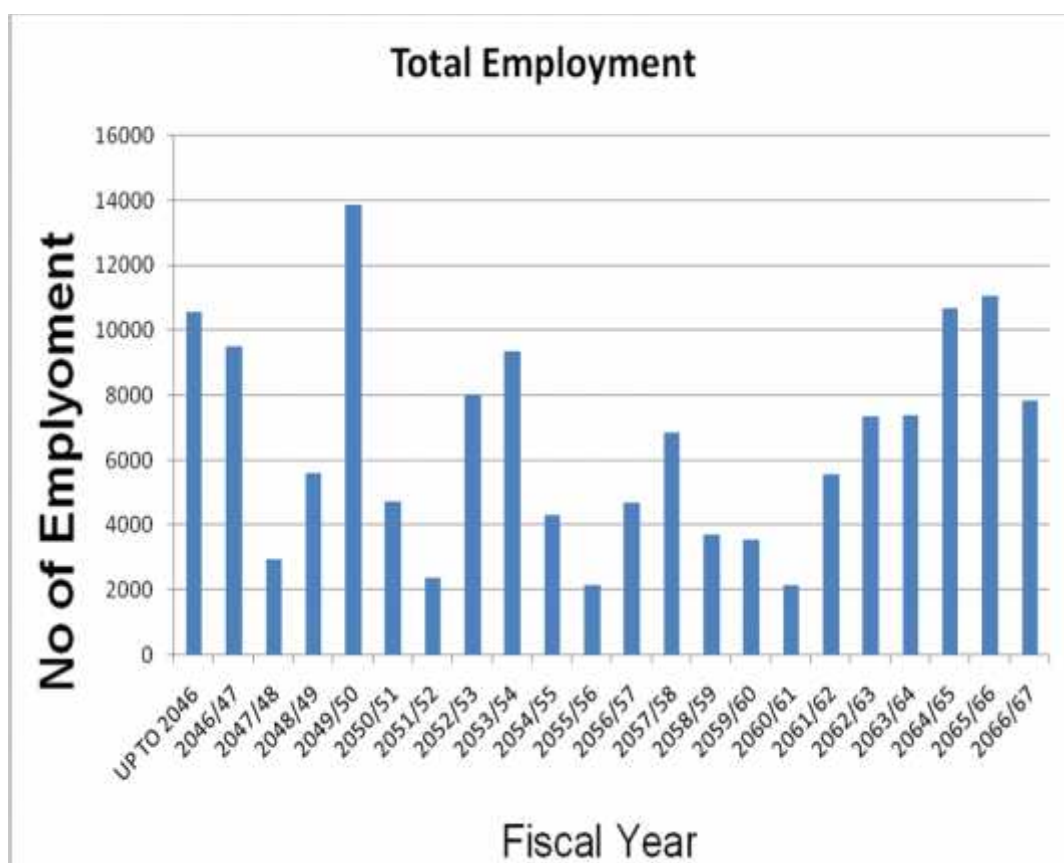
Source:-Department of industry (Industrial Statistics, published, 2010)

The year-wise employment is presented in table 4.10. The year 2049/50 contributed highest number 13873 of job, but it is observed that annual average employment was highest in 2046/047 with 317.16 in number.

If we look the above table series wise up to 2046 the number of employee were 10586 which seems to be the second highest but slowly and gradually the employment opportunity decreases and it comes down at 5615 in number in 2048/49 but in 2049/050 tremendous increased in the employment opportunity and till yet contributed the highest. It is mainly because of the good flow of foreign collaborated industries in the following period. In the year 2066/67 employment opportunity is decreasing because of decreasing no of projects. This is presented in simple bar diagram.

Figure- 4.7

Year wise Summary sheet of employment in foreign collaborated project from beginning to 2066/67



Source:-Table -4.9

This above single bar diagram also shows the contribution of FDI to employment generating in Nepal. There is not constant ratio to employment generating. Like wise up to the 2046 there are 10580 people were employed where as the 9515 person are employed in 2046/047. In FY 2049/50, 2064/065 and 2065/066 employee were increasing gradually. In the FY and 2051/052, employment generating was decrease.

4.6.2 Sector- Wise Employment Generation of FDI in Nepal

Agriculture, construction, energy based, manufacturing, mineral, services and tourism are the industrial categorical sectors for foreign investment. The employment situation in these sectors through FDI is shown below.

Table- 4.10

Sector wise summary sheet of employment in foreign collaborated project from beginning to 2066/067

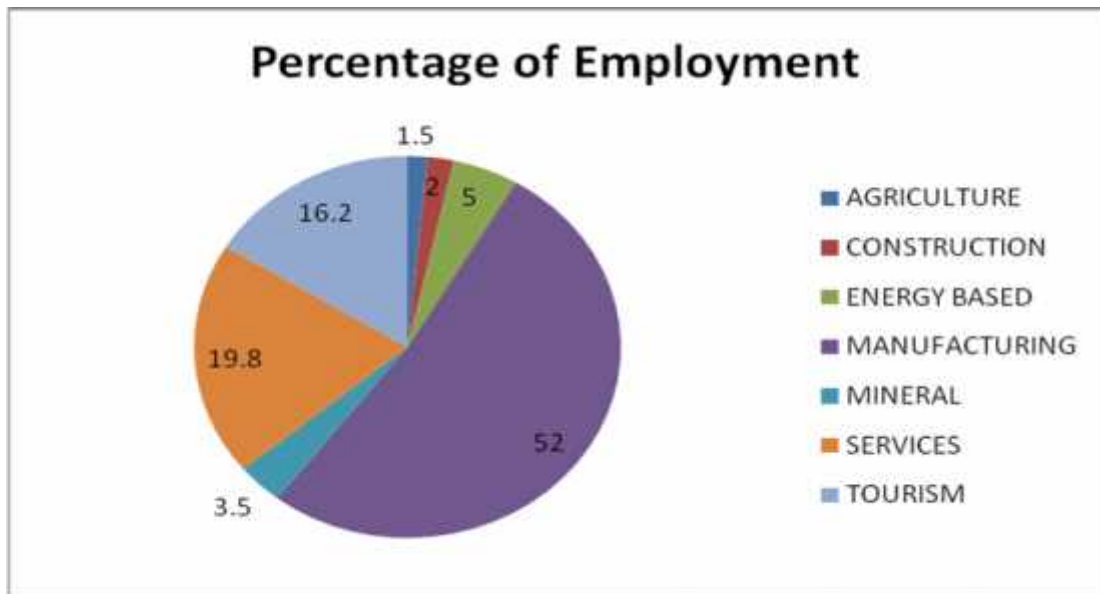
S.N	Type of Industries	No. Of Industries	Total No. of Employment	Percentage of Employment	Average Employment
1	Agriculture	37	2160	1.5	58.37
2	Construction	41	2926	2	71.36
3	Energy based	41	7370	5	179.75
4	Manufacturing	673	75097	52	111.58
5	Mineral	31	5128	3.5	165.19
6	Services	561	28540	19.8	50.87
7	Tourism	514	23292	16.2	45.31
8	Total	1898	144513	100	76.13

Source:-Department of industry (Industrial Statistics, published, 2010)

In the above table , the total number of employment is 144513. Out of this total employment, the highest number of employment 75097 has been made in manufacturing industry and followed by service sector 28540, tourism 23292, energy based 7370, mineral 5128, construction 2926, and agriculture sector is 2160. But in average per sector highest employment opportunity has been provided by the energy based sector (179.75) followed by mineral (165.19) and similarly manufacturing (111.58), construction (71.36), agriculture (58.37), services (50.87) and lowest is tourism sector (45.31) which is presented in figure below.

Figure- 4.8

Sector wise employment generation in Nepal



Source:-Table-4.10

The total surface of pie- chart is 100 percent out of total surface, manufacturing sector has covered 52 percent; this sector is bigger sector of employment generating sector. Agriculture sector covers 1.5 percent of the total surface of chart, which is the least contributing sector. Similarly, service sector covers the 19.8 percent, tourism sector covers the 16.2 percent, energy based sector covers the 5 percent and mineral sector covers the 3.5 percent of total surface.

4.6.3 Country Wise Employment Generating in Nepal

There are 68 foreign countries involved in collaborated project till 2066/67 so, the employment opportunity provided by country-wise collaboration- project is presented in below table.

Table – 4.11

Highly employment in foreign collaborated project with country-wise from beginning to 2066/67

S. N.	Country	No. Of industries	Total no of employment	Average employment
1	India	462	53101	114.93
2	China	332	20259	61.02
3	USA	166	12034	72.49
4	UK	94	7609	80.94
5	S. Korea	131	5863	44.75
6	Bangladesh	23	4033	175.23
7	Germany	75	3759	50.12
8	Netharland	32	2584	80.75
9	Hong Kong	18	2554	141.88
10	Pakistan	15	2403	160.20

Source:-Department of industry (Industrial Statistics, published, 2010)

Among the 68 countries, Indian collaborated industries have offered the highest number of employment 53101 and it followed by China 20259, USA 12034, UK 7609, and Japan 6450 and followed by others. Employment provided by Ghana, Holland, and Slovenia happens to be zero. But the average highest employment generating country observed is Bri.Virg.IS 339.34 it followed Bermuda with 245.66, other country followed.

4.6.4 District Wise Employment Generation of FDI in Nepal

The generating of employment by FDI industries can be analyzed district wise with the help of the following table is given below.

Table – 4.12**District - wise employment generation of FDI in Nepal**

S.N.	District	No. Of industries	Total no. Of employment	Average employment
1	Kathmandu	1053	61880	58.76
2	Lalitpur	226	12479	55.21
3	Chitawan	47	7545	160.53
4	Parsa	39	5532	141.84
5	Kaski	108	4876	45.14
6	Morang	23	4733	205.78
7	Bara	42	4401	10.47
8	Kavrepalanchowk	49	4230	86.32
9	Makawanpur	45	4087	90.83
10	Bhaktapur	40	3581	89.52

Source:-Department of industry (Industrial Statistics, published, 2010)

Among the 51 Districts and 3 other sector Kathmandu has a highest employment generating sector, where 61880 people are employed. Second employment generating district is Lalitpur, where 12479 people are employed. There is no any employment in Taplejung.

Table – 4.13**Structure wise employment generation**

Category	No. Of Industries	Total Employment	Average Employment
Agriculture	37	2160	58.37
Construction	41	2926	71.36
Energy Based	41	7370	179.75
Manufacturing	673	75097	111.58
Mineral	31	5128	165.41
Services	561	28540	50.87
Tourism	514	23292	45.31
Total	1898	144513	76.13

Source:-Department of industry (Industrial Statistics, published, 2010)

In the above table, manufacturing sector has a highest employment-generating sector where 75097 people are employed. Second highest employment generating sector is services sector where 28540 people are employed. Agriculture sector has a least employment-generating sector where 2160 people are employed. Tourism, energy based, mineral and construction sectors are in third, fourth, fifth and sixth employment generating sectors.

4.6.5 Scale wise employment generating

Looking FDI in Nepal scale-wise, out of 1898 industries small scale, medium scale and large scale industries are 1497, 231 and 170 respectively Employment generated by small, medium and large industries are 74337, 29835 and 40341 respectively whereas the average employment is high in small scale industries that is 273.3. This is followed by medium and large scale industries that are 129.15 and 49.65 respectively. This is shown in the table and figure below.

Table -4.14

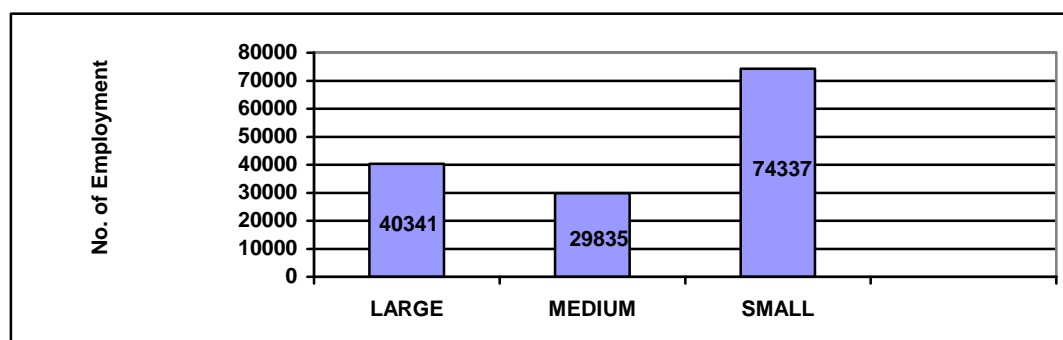
Sector wise employment generation

S.N.	Scale	No. of industries	Employment	Average employment
1	Large	170	40341	237.3
2	Medium	231	29835	129.15
3	Small	1497	74337	49.65
4	Total	1898	144513	76.13

Source:-Department of industry (Industrial Statistics, published, 2010)

Figure -4.9

Sector wise employment generation



Source:-Table -4.14

Table – 4.15**Category wise contribution of employment generation up to 2066/67**

Category	Scale	No. Of Industries	Total No. Of Employment	Average Employment
Agriculture	Large	1	414	414
	Medium	5	623	124.6
	Small	31	1123	36.22
	Total	37	2160	58.37
Construction	Large	5	357	71.4
	Medium	13	928	71.38
	Small	23	1641	71.34
	Total	41	2926	71.36
Energy Based	Large	30	6719	223.96
	Medium	7	489	69.85
	Small	4	162	40.5
	Total	41	7370	179.75
Manufacturing	Large	70	14623	208.9
	Medium	125	20225	161.8
	Small	478	40249	842.04
	Total	673	75097	111.58
Mineral	Large	4	1763	440.75
	Medium	3	771	257
	Small	24	2594	108.08
	Total	31	5128	165.41
Services	Large	25	8802	352.08
	Medium	49	4077	8.17
	Small	487	15661	32.15
	Total	561	28540	50.87
Tourism	Large	35	7663	2.18
	Medium	29	2722	93.86
	Small	450	12907	28.68
	Total	514	23292	45.31
Total		1898	144513	76.13

Source:-Department of industry (Industrial Statistics, published, 2010)

Agriculture sector generate the 2160 employment. Out of the total employment 1123 are employed are small, 623 are medium and 414 are employed in large-scale industries. Under the construction industries, 2926 are employed where

small-scale industries, medium scale industries and large-scale industries contribute the 1641,928 and 357 have employed. In this category small scale industries are in leading position. In energy, based category total no. of employment generation is 7370. Out of total employment small, medium and large-scale industries are generate 162, 489 and 6719 no of employment opportunity. In manufacturing sector total employment are 75097, which is the highest employment-generating sector where small, medium and large-scale industries contribute the 40294, 20225 and 14623 no. of employment. In mineral sector industries total employments are 5128 where small, medium and large-scale industries contribute the 2594, 771 and 1763 no. of employment. Service sector contribute the 28540 no. of employment out of total employment small, medium and large scale industries contribute the 15661, 4077 and 8802 no. of employment opportunity. Tourism sector contribute the 23292 no. of employment opportunity. Out of total employment small, medium and large-scale industries contribute the 12907, 2722 and 7663 no. of employment opportunity.

Conclusion

Trend of FDI in Nepal was increasing gradually from FY 2046 to 2066/67. Rising trend of FDI is the positive indicator of the impact of economic reform. This is the result of favorable policy and investment environment created by the government. Nepal was facing the conflict more than 10 years, which pushed back the foreign investment in some extent. However, after the second Jana Andolan 2062/63 trend of foreign investment has gained its normal position, which is the good message for investors. Over the period of 22 years, 1898 industries have got approved for foreign investment of Rs 57997.66 million. Most of the foreign projects were come with joint venture collaboration. Categorically foreign investment in manufacturing sector has got the highest position which covers more than 30 percent alone. Based on scale, large scale industries are in top position. Country wise, India, China, USA, Japan and S.Korea stand in top list for investment in Nepal.

CHAPTER V

POLICIES AND INCENTIVES RELATING TO FDI IN NEPAL

5.1 Environment for Foreign Investment

Nepal is offering a host of new investment opportunity to overseas firms. The favorable climate for foreign investment in Nepal was underwritten by liberal “Industrial policy 1992”. This was backed by “Foreign Investment and One Window policy, 1992” and the “ The Foreign Investment and Technology Transfer Act, 1992”. These are in fact the policy and act governing foreign investment and technology in Nepal.

The separate foreign investment and one window policy has created a healthy environment of foreign investment in Nepal. One Window Policy 1992 looks more open regarding the permission for industries to be established under foreign collaboration, restriction clause has been relaxed.

Government of Nepal has made some change in FITTA 1992 in 1996 for making the investment climate more conducive to accelerate the pace of industrialization by attracting the foreign investment and technology transfer in the country. Some of the important changes are as follows:

-) The minimum requirement limit in the fixed asset investment has been relaxed to participate in equity or loan investment. Previously, foreign investors were permitted to participate in the industrial project having more than 20 million Nepalese rupees investment in the fixed asset.
-) The tax on the interest earning, which previously 15 percent has been removed.
-) A foreign investor or his/ her dependants or his/ her authorized representative shall be granted a business visa. Previously they are granted a non-tourist visa also.
-) A foreign investor who at a time makes an investment in an amount more than 100 thousands US dollar (previously 1 million US dollar) and his/ her dependants shall be granted a residential visa until such investment is retained.
-) The arbitration make in FITTA has been relaxed to the industrial projects having more then 500 million Nepalese rupees investment in the fixed asset.
-) IEA (1992) has been amended by Ordinance 1997. This ordinance has made two major changed in the previous provisions. Firstly, the provision of income tax holiday has been removed. Secondly, the corporate tax has been reduced from 33 percent to 20 percent.

List of Industries with Nation Priority

1. Agro and forest based industries.
2. Engineering industry (producing agriculture and industrial machinery.
3. Industries producing fuel saving or pollution control devices.
4. Solid waste processing industry.
5. Industry that builds and operates road, bridge, tunnel, ropeway, flying ` bridge, trolley bus and tram.
6. Industry that produce Ayurvedic, homeopathic, and other traditional medicines as well as walking aids, waist best, wheel chair, stretches, stick etc. for the disable and orthopedic support.
7. Cold storage established to store fruits and vegetable.

5.2 FDI Project Approval Procedure

Foreign investors who want to invest in Nepal are to require making an application to the Department of Industry along with a detailed feasibility report. The application should be accompanied by following documents along with report (It include project highlight, total capital investment, source of finance, plant capacity, location of project, machinery, equipment and raw material).

-) Joined-venture agreement, if relived.
-) Citizenship certificate of local partner.
-) Copy of passport of foreign partners, if an individual of certificate of incorporation and company profile of a company.
-) Bio –data or company profile of the foreign partner.
-) Proof of financial credibility of the foreign investors as provides by the banks.
-) Authorization letters from the company.

The projects up to Nepali Rs 1 billion evaluate Department of Industry it self. If projects fixed assets exceed Nepali Rs.1 billion Department of Industry recommendation to the Industrial Board for approval, and then notifies the application about the decision of the Board within 30 days from the receipt of the application. In granting permission for investment, Department of Industry specifies the facilities and concessions the investors entitled to.

After the final approval of the letter of permission which is subject to a deposit, the applicant is required to apply for the registration of his/her company with the office of the Company Register and then apply for industry registration the DOI

within 30 days from the date of permission. Thereafter, the company will be registered within 15 days.

5.3 Industries not Granted Permission for Foreign Industries

The number of industries restricted for foreign investment in Nepal is decreased than previous provision in Industrial and Enterprises Act (1992). This has done by gazette notification (Neal Gazette 2063). The lists of restricted industries are given below.

Part A

1. Cottage industries.
2. Personal service business (business such as hair cutting, beauty parlor, tailoring, driving training etc.)
3. Arms and ammunition industries.
- 4 Explosive, gunpowder.
5. Industries relate to radioactive materials.
6. Real estate business (exuding construction industries)
7. Motion picture business (produced in national language and the language of the nation)
8. Security printing.
9. Currencies and coinage business

Part B

1. Other retail business, except for those operating in more than two countries as an international Chain.
2. Cigarette and alcohol (Excluding those exporting more than 90% of their produce)
3. Internal courier service.
4. Atomic energy.
5. Poultry farming.
6. Fisheries.
7. Bee-keeping
8. Other consultancy service such as management, accounting, engineering and legal service except for those having up to 51% of foreign participation.

5.4 Registration of Patent Design and Trademarks

The title of any patent, design and trademark registered in a foreign country Will not valid in Nepal unless is registered in Nepal by the concerned person. The Department of Industry may register patent, design and trademarks registered in foreign countries without conducting any enquiries if an application is filled together the certificates of their registration in foreign countries.

For the registration of any patent, design and trademarks already registered in foreign countries, a fee double the amount of the fee prescribed for application and registration in scheduled 3 of patent, design and trademark ACT 1965 shall be charge in equivalent convertible foreign currencies determined on the basis of the current rate of exchange (MOICS & GTZ 2007)

5.5 Facilities and Concession for Foreign Direct Investment according to Legal Provision

The Nepalese policy has tried to give different sorts of concessions and facilities to foreign investors. The Nepalese law and policies have made provisions for promotion and regularization of the foreign investment and technology transfer, and there by mobilizing the capital, manpower and natural resources to the optimum in order to maintain comfort and well being of the general and to contribute to the economic development of the country.

The incentives and facilities provided by “Industrial Enterprises Act 1992” include income tax concession, custom duty facilities, excise duty facilities, convertible foreign exchange facilities, depreciation facilities, concession on interest rates, and facility of repatriation. A brief description of such facilities and incentives, provided by the act to the industrial enterprises established under this act are given.

5.5.1 Income Tax Deduction

The industrial Enterprises Act (IEA) provides income tax rebate of 30, 25 and 20 percent for the industries other than cigarette, vide, alcohol and beer established and operated in remote, undeveloped, underdeveloped areas of the country respectively. In order to enjoy this facility, the concerned industry must submit a certificate showing that it was operational in the particular area during the period

Industries are allowed to calculate the depreciation on the fixed assets by adding one-third to the rate of depreciation allowed under the existing income tax laws. Industries other than manufacturing cigarettes, bidi, cigar, tobacco, alcohol, beer, utilizing more than 80 percent or more of the local raw materials for their production and employing all the manpower from among Nepali citizens are granted a rebate 10 percent of the income tax.

Industries are also entitled to a reduction of up to 50 percent from the taxable income for the investment on pollution control process and equipment. The amount spent on such process or the registered auditor of the company must certify equipment. After an industry comes into operation, 10 percent of the gross profit is to be allowed deducted against taxable income on account of expenditure related to technology, product development and efficiency improvement. The industry must submit the details to the above expenditure certified by the registered auditor of the company.

5.5.2 Customs Duty Facilities

The customs duty levied on raw materials and auxiliary raw materials etc. utilized by any industry in connection with its product during its production shall be reimbursed in the basis of the quantity of the export. If an industry sells its products within the country in any foreign currency, the custom duty levied on the raw materials, be reimbursed. Similarly, the custom levied on the production materials of intermediate goods to be utilized for the production of exportable goods shall be reimbursed on the basis of the quantity of export.

5.5.3 Financial provision

The act has provided some certain facilities and concession for an investment sector in Nepal.

1. No income tax shall be imposed to foreign investors on the interest income earned from foreign loan, foreign technical as well as management service, fees and royalty
2. NO income tax shall be imposed to foreign investors on the interest income.
3. A foreign investors making investment in foreign currency shall be entitled to repatriate the following amount outside the Nepal.
4. The amount received by the sale of the share of foreign investment as a whole or any part there of.
5. The amount received as profit or dividend in lieu of the foreign investment.
6. The amount received as the payment of the principle of and interest on any foreign loan.

Foreign investors shall be entitled to repatriate outside the Nepal. The amount received under an agreement for the transfer of technology in such currency as set of forth in the concerned agreement

5.5.4 Excise duty facilities

Fruit-based fruit processing and wine industries with a fixed asset of one to two million five hundred thousand rupees established in same specific districts shall be entitled to an excise duty exemption for a period of ten years, and fruit based alcohol industries shall be entitled to excise duty exemption for a period of five years. If any industry utilizes locally available raw materials, chemicals and packaging materials etc. On which excise duty already imposed the excise duty shall be reimbursed to the industry utilizing such raw materials, chemicals etc. The excise duty

levied on raw materials and auxiliary raw materials etc. utilized by any industry in connection with its product during its production shall be reimbursed in the basis of the quantity of the export. The excise duty levied on the production of the industry manufacturing the intermediate goods shall be reimbursed in the basis of the quantity of export.

In addition to all these facilities and concessions “Foreign Investment and Technology transfer Act, 1992” provided following facilities and concession to the foreign investor:

Investor shall be levied tax at a rate of only 15 percent on the income received from the interest on foreign loan, royalty, technical and management service fees.

Convertible foreign exchange facilities

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

Concession on interest rates

The enterprises established within underdeveloped areas are charged two percent less interest rate than to the enterprises established elsewhere.

Depreciation facility

The enterprises established under this act are allowed to depreciate their fixed assets on straight line or accelerated basis.

Capital Repatriation Facility

Any foreign investor whose agreement has been approved for foreign investment, foreign loan or transfer of technology can repatriate outside Nepal the amount received by him in lieu of the agreement in foreign currency at the prevailing rate of exchange in the following manner:

-) The amount received by sale of the whole or any part of the foreign investment.
-) The amount received as dividend on foreign investment.
-) The amount received as the payment of the principal and interest of technology.
-) The amount received under the agreement for the transfer of technology.

-) The amount received as compensation in lieu of nationalization or acquisition of any property.

Provision Relating Visa

A non-tourist visa for up to six months shall be provided to a foreign national visiting Nepal in connection with the undertaking any study or carrying out any research with the objective of making investment in Nepal.

A foreign investor, who at a time makes convertible currency investment in an amount more than one million US Dollar, shall be provided a residential visa until such investment is retained. This type of visa shall be also granted to the foreign investor's dependent or his authorized representatives.

In addition to the facilities and concessions provided by the industrial Enterprises Act, 1992, and Foreign Investment and Technology Transfer Act, 1992, following facilities and concessions are provided by "Foreign Investment and One Window policy", 1992 to industries established with foreign collaboration.

Industries established with foreign investment are entitled to enjoy all the facilities and incentives including income tax facilities provided to local investment under the industrial Enterprises Act, 1992.

Prohibition of Nationalization

The main responsible factor for the resistance of private capital in developing countries has been the fear of nationalization. Nepal have indicated her policy regarding nationalization in the Industrial Enterprises Act, and Foreign Investment and technology transfer Act, 1992 which ensure that the industries established with foreign collaboration shall not be nationalized.

5.6 Other provision made by policy

If industry diversifies itself through reinvestment in the same or any other industry of expand its installed capacity by 25 percent or more modernizes its technology have developed ancillary industries, it is entitled to a deduction of 40 % of the new additional fixed assets from its taxable income. The supporting authorized documentation / profit should be submitted.

1. The industries are also entitled to a reduction of up to 50 % from the taxable income from the investment on population control process and the registered auditor of the company must certify equipment.

2. Ten percent of gross profit been allowed to be deducted against taxable income on account of expenditure related to technology; Product development and efficiency improvement. The supporting authorized documents should be submitted.

3. A single industry providing direct employment to the six hundred or more Nepalese citizens round the years is liable to 10% rebate on income tax as an additional facility for seven years since the date of operation

4. Tobacco- related (excluding 90 percent export) industries are not allowed for foreign investment.

5.6.1 Visa Arrangements for Foreign Investment

The following visa arrangements available for foreign investors are laid down in the immigration rule, 1994.

Non – Tourist Visa

1. Foreign visitors wishing to undertake research and study with a purpose of investing in Nepal may be granted. Non – tourist visa provided by the Department of Immigration for a maximum period of 1 year on recommendation of Department of Industry (DOI). For obtaining this visa the prospective investors should apply to DOI in the prescribed format.
2. If required skilled manpower is not available locally, industry can employ foreign nationals by obtaining work permit such expatriate personal working in the industries will be granted a non – tourist visa for duration of one year at a time of recommendation of DOI and Department of Labor. The work permit for such person can be provided for up to a period of 5 years an annual renewal basis.

Business Visa

Business visa will be granted according to following

-) Foreigners having obtained permission to investment to carry on export trade from Nepal.
-) Foreigners visiting Nepal from third country who export goods manufactured in Nepal through purchase of who place a purchase order for export.

Resident Visa

Following foreigners and their family intending to spend life in Nepal shall be granted the residential visa.

-) Persons making US \$ 1,00,000 at one time in an industrial enterprise of Nepal.
-) Registration certificate of the individual enterprise.

-) Character certificate from given by respected consulate, embassy or the government of their country or Nepalese authority (For those who have stayed in Nepal in other visa).

5.7 Dispute Settlements

Every foreign direct investment (FDI) transaction entails a trilateral relationship involving a host state, a foreign investors and latter's home state. The regulation and protection of investment activities of transnational corporation, dispute might arise between states or between and investors.

Investors- state dispute, state to dispute in the field of investment which have gone to third party settlement are few and far between.

A dispute between an investor and state that arises under International Investment Agreement (IIA) contains an inter – state element, in that the investor is a national of another state party to the IIA, and that state might even have been involved in attempts to negotiate an amicable settlement of the dispute. Nonetheless, such a dispute remains state dispute albeit one arising out of an IIA agreed between (UNCATED 2003).

5.7.1 Dispute Settlements According to FITTA, 1992

1. If any dispute arises between foreign investors, national investor or the concerned industry, the concerned parties shall be required to settle disputes by mutual consultation in the present of the Department of Industry.
2. 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 in United International Trade Law (UNCITRAL).
3. The arbitration shall be held in Kathmandu. The laws of Nepali shall be applicable in the arbitration.
4. Notwithstanding anything contained in subsection (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 agreements.

5.8 Facilities and Incentives

According to the Industrial Enterprises Act 1992, and the Income Tax Act 2006, industries are presently entitled to the following incentives and facilities (Nepal.Govt/IEA 1992, IT 2006).

- 1 A period of seven years from the date of operation cottage industries are exemplified form excise duty, income tax and sales tax.

- 2 Industries other than cigarette, bidi, cigar, khaini, tobacco, alcohol or beer established in remote, undeveloped, underdeveloped areas will be granted rebate of 30,25 20% income tax respectively as well as 35,25 and 15% of excise duty for a period 10 years the date of operation.
- 3 National priority industries such as agro and forest based industries, industries producing fuel saving or pollution control devices, solid waste processing industry etc. are entitled to 50 percent rebate on their income tax for, bidi, khainy, tobacco, alcohol or beer established on least developed, undeveloped, underdeveloped areas will be granted rebate of 30, 25 and 20 percent of income tax respectively as well as rebate of 35, 25 and 15 percent of excise duty for a period of 10 years from the date of operation.
- 4 Fruit- based fruit processing, cider and wine industries with fixed assets up to Nepali RS.2.5 million, established in particular areas, and are entitled to an excise duty and sales tax exemption for a period of 10 years. Fruit based alcohol procedure is entitled to excise duty and sales tax exemption for a five years. Such exemption could be extended for additional period of three years.
- 5 Industries are entitled to a reduction up to 50 percent from the taxable income for the investment on process or equipment which has the objectives of controlling pollution or which may have a minimum effect on the environment. Five percent of the total deducted at source and thereafter no tax is to be paid.
- 6 Any industry donating an amount of up to 5 percent of its gross income to any school, college, university, hospital, religious place and to social activities is entitled to a deduction of such donated amount in course of assessing to taxable income.
- 7 If any industry provides direct employment to 600 or more Nepali-citizens in a year besides other facilities, it will be conferred additional 10 percent rebate on income tax for that year.
- 8 Any industries is allowed to deduct 10 percent of the gross profit against net income an account of expenses connected with technology or product development and efficiency improvement.
- 9 Exporting earning is taxed at the rate of 20 percent.
- 10 Industries entitled for the purpose of income tax to deduct the amount of expenses incurred for the long-term benefits provided to its workers and employees including housing, life insurance, health facilities, education and training.

- 11 Subsidies in seeds, plants, irrigation pipes and pumping are provided by the respective line agencies. These subsidies though small in quantity are provided directly to the procedures. Farmers who use these products as inputs. Only farmers are eligible for these subsidies.
- 12 If any other industries utilize locally available raw materials chemicals and packaging excise duty of sales tax or both are already imposed the excise duty, sales tax or both shall be ambushed to the industry utilizing such raw materials, chemicals and packing materials.
- 13 The customs duty, sales tax, exciseduty and premium levied will be reimbursed on raw materials and auxiliary raw materials etc. utilized are export-oriented industry on the basis of quantity of exports. Such reimbursement shall be made to the exporter with in 60 days after an application register in concern authority. If the industries do not claim with in a year, this provision will be enacted.
- 14 If industry, sells its products in the export promotion house the customs duty, sales taxes and excise duty levied on the raw material imported for producing the concerned industry on the basis of the quantity of sales and exports.
- 15 If any industry sells its products within Nepal in any foreign currency, the excise duty, sales tax and premium levied on the raw materials, auxiliary materials etc. utilized in such product shall be reimbursed. The reimbursed fund will be refunded with in sixty days after an application to that effect has been duly submitted.
- 16 The customs duties, sales tax, excise duty and premium levied on the production materials of intermediate goods to be utilized for the production of exportable industrial goods and the sales tax and excise duty levied on the product shall be reimbursed to the concerned industry producing the intermediate goods on the basis of sale. For this provision, concern industry claim with in a year from the date of export.
- 17 No, tax, fee or charge of any kind shall be levied on the machine, tools, equipments, machinery and raw material to be employed by an export promotion industry.
- 18 The rate customs to be levied on the basic raw materials which are not produced in Nepal and are required for the production of industrial machinery of any other goods may not be move then the rate of import duty that may be levied on the import of industrial machinery or readymade goods as is produced with the use of such raw materials.
- 19 Company or corporate tax:- This tax is exempted on dividends declared by the company. Companies listed in the stock exchange are subject to 33 percent

corporate tax deduction. Expenses wholly and exclusively incurred in the generation of income are deducted from taxable corporate and personal income. Five percent of total gross income of industrial units may be deducted for advertisement, entertainment and other contingencies. Depreciation on all plant machinery equipment range between 15 % -25% per annum and industrial and commercial building between 5 % - 7 % per annum. Transport vehicles may be depreciated between 15% - 25 % per annum and furniture between 10 % - 15 % per annum.

5.9 Other Facilities and Concession

1. Forest based industry may be made available any forest on a leasehold basis.
2. No royalty shall be imposed if any industry generates electricity for its use.
3. The government of Nepal may be published notification in Nepal Gazette, grant additional facilities to export promotion industries and prescribed industries established in the export- processing zone and in the government or non-government industrial estate.
4. On the recommendation of and with the decision of the council of ministers and by notification in the Nepal Gazette, additional facilities may be granted to any national priority industry established in Nepal by the way or invention therein.
5. Double sales tax shall not be levied on the raw materials and product of any industry.

5.10 Foreign investment and one window policy, 1992

The industrial policy has made the provision to the foreign investors who have received permission to invest in convertible foreign currency to repatriate the following amount outside Nepal at the prevailing rate of exchange (R.D. Singh 1998)

1. The amount received by sale of the whole or any part of the equity investment.
2. The amount received as benefits or dividend from foreign investment.
3. The amount received as payment of principal and interest on foreign loans. The amount received under an agreement for the transfer of technology.
4. The amount received under as compensation for the acquisition of any property.
5. Foreign experts, working in Nepalese industries with prior approval from countries where convertible currencies are in circulation shall be permitted to repatriate in convertible foreign currency up to 75 percent of the amount received by them as salaries, allowances etc.

One window system

In the past few years, a large number of developing countries have begun to change their policies toward foreign investment. The change in attitudes towards foreign investment have been accompanied by changes in the institutional arrangements by which government manage their relation which foreign investors. One of the most widely recommended and widely instituted changes has been the more of the some kind of “one- stop shop” approach to the management of the government’s relation with foreign investors. Nepal introduces this one- stop in the new Foreign Investment and One Window Policy, 1992. All services, such as registration of land, supply of electricity and water, foreign currency, import of machinery, raw materials and spare parts, and other requisites for the industries to be established under the foreign investment is to be facilitated by the one window committee, constituted under development of Department on Industry in coordination with different agencies of the government. Commitment of quick and efficient services to the foreign investors has been made in policy. Provision of speedy project approvals (within 30 days) has been made. Grant of facilities and co- operation among government agencies and co- ordination among government agencies are ensured.

The industrial Enterprises Act (IEA) provides for income tax rebate of 30, 25 and 20 percent for the industries other than cigarette, vide, alcohol and beer establishes and operation in remote, undeveloped, underdeveloped areas of the country respectively, in order to enjoy this facility, the concerned industry must submit a certificate showing that it was operational in the particular area during the period

Industries are allowed to calculate the depreciation on the fixed assets by adding one-third to the rate of depreciation allowed under the existing income tax laws. Industries other than manufacturing cigarettes, bidi, cigar, tobacco, alcohol, beer, utilizing more than 80 percent or more of the local raw materials for their production and employing all the manpower from among Nepali citizens are granted a rebate 10 percent of the income tax.

Industries are also entitled to a reduction of up to 50 percent from the taxable income for the investment on pollution control process and equipment. The amount spent on such process or the registered auditor of the company must certify equipment. After an industry comes into operation, 10 percent of the gross profit is to be allowed deducted against taxable income on account of expenditure related to technology, product development and efficiency improvement. The industry must submit the details to the above expenditure certified by the registered auditor of the

Other Facilities / Commitment

-) Government of Nepal will take necessary action to conclude agreement for the avoidance of double taxation with the countries of concerned foreign investor.

-) Priority will be given to make arrangement for infrastructural facilities required for the establishment of industries on a priority basis.
-) Government land and land within the industrial Estates will made available to industries for the establishment of industries on a priority basis.
-) No intervention will be made in fixing prices of the products of any industry.
-) No taxed of any kind will be levied on machinery and equipment, raw material and exportable products of industries established within the export processing zone and its policy is given priority in the supply of electricity for its own use.

Conclusion

After the restoration of the multi party democracy, foreign direct investment flow was increasing in Nepal. Nepal opened the market for foreign investors enacting new legislations in order to facilitate the foreign investors. Nepal became a member of WTO after adoption the new liberal policy as one of the reform initiations.

CHAPTER-VI

CONSTRAINTS FOR PROMOTING FDI IN NEPAL

To attract foreign Direct Investment, Nepal has endorsed the new liberal economic policy and legislations for attracting foreign investment and technology transfer, which provide various incentives and facilities, but still foreign investment promotion in Nepal faces different problems. For finding the problems of FDI promotion in Nepal, this researcher asked to rank the list of problems mentioned in the questionnaires from most to least or least to most. The summary of result of the field survey report is shown in table 6.1 the questionnaires was made only for foreign collaborators not for Nepalese partners. Thus, the questionnaires have to be filled by either the foreign investors or their representatives.

Table – 6.1

Critical problems of Foreign Investment in Nepal

S.N.	Problems/constraints	Total rank	Average rank
1	Small Size of Market	35	3.5
2	Power and Corruption	45	4.5
3	Underdeveloped Infrastructure	20	2.0
4	Instable Government	55	5.5
5	Landlocked Position	30	3.0
6	Lack of Efficient Human Resources	40	4.1
7	Policy Instability	65	6.5
8	Bureau Pathology	50	5.0
9	Underdeveloped Capital Market	25	2.5
10	Weak Peace and Security Situation	70	7.0

In response to the questionnaire, individual enterprises ranked the problem as they faced but researcher carried out the ranking in a simple way so to carry out result easy in presentation.

6.1. Small Size of Market

The size of domestic market is small and purchasing power of people of Nepal is weak. Country size and regional market also disadvantages for attracting foreign investors, smallness restricted the purchasing power associated with small size of the market in the country that offers least profitable opportunities. The absolute level of profits will be small, and in the context of a firm with limited managerial resources, the cost of gaining information may deter investment in the country. In this field survey, it comes under seventh position.

6.2 Power and Corruption

Only a few Industrialists who have well connection with the higher power or capacity to channelize with ministry and with portfolio holder are able to avail the facilities and under concession with in time. This is all due to the flexible and irresponsible administrative system, lacking competence, integrity and honesty in effectively execution the discretionary operation measures.

The governments own action has been quite contrary to its policy and pledges. This amounted to the loss of faith of the entrepreneurs in government pronouncements and policies. They have focused their investment activities in venture that assure quick profits, like speculation, trade etc. The corruption at both lower and higher level while handling the necessary files of entrepreneurs has followed a circular causation with cumulative effects. Respondent ranked it at fifth position.

6.3 Underdeveloped Infrastructure

As Nepal started its plan rather lately and entered in industrialization in a very slow face as compared to other countries asses that Nepal has institutionally underdeveloped infrastructure that lacks the good opportunity offer to foreign investors in Nepal. Underdeveloped infrastructure create poor environment to establish any good industry.

Any country with sound infrastructure move on to rapid industrialization that helps to nation growth and development rate much more speed.

6.4 Instable Government

Analyzing the above table inconsistency of policies and plan due to the frequently changing government plays vital role thus given total rank with 55. Due to such instability, operation of factories remains idle for long period. Therefore, under utilization of factory brings a lot of problem to the investors. The duration they have targeted to meet the implementing part to be result oriented has touch longer period.

Moreover, there was lack of inter sectoral coordination and supportive institution to help private industries, thus foreign investment does not seem to be attractive in Nepal. Moreover, the planning of the investors could not be fulfilled due to instability of the government at present.

The facilitating industrial policy of government of Nepal, the totalitarian tendency of ministers and top ranking officials and corruption had contributed to the industrial backwardness in Nepal. This problem ranked third position.

6.5 Landlocked Position

Countries land locked position is another important aspect that hinders foreign direct investment in Nepal. Foreign investors have to analyze and implement their investment plan and strategies to achieve their targeted goal. Two giant populated countries China and India trap Nepal. Therefore, investment in Nepal is a challenging role from the collected survey result. Country's land locked position ranked at eight positions. Thus, it seems that landlocked of the country affected on FDI in Nepal.

6.6 Lack of Efficient Human Resources

Lack of human resources is a major constraint for effective implementation of Foreign Direct Investment in Nepal. Foreign investors invest in any type of collaboration that may be technical, financial or any other, that demand a quality human resources i.e. technical, personnel, skilled any experienced staff of any categories required to establish their businesses. But in the context of Nepal, technical personnel as well as skilled and experienced manpower is rare to find and is still in infancy stage for producing human resources qualitatively in quantity basis. Due to the shortage of qualitative human resource many foreign investors faces lots of problems in the host country which resulted out underutilized or unutilized the invested fund and hence reduce the zeal and interest to foreign investors for further expansions of FDI. Lack of human resources by our report resulted out to be ranked at sixth position that determined the shortcomings or constraints on FDI in Nepal.

6.7 Policy Instability

Investment, business and industrial policy are more inter-related each other. This policy must be backing by act. Policy does not change while government will change. Stability of policy is assured the investors. Out of 10 it is ranked at second position

6.8 Bureau Pathology

One of the major impediments to foreign investment in the country is the bureaucratic harassment. Delay in decision making, come tomorrow, process oriented, behave of master towards common people, centralize, favoritism nepotism and the corruption are common feature of our bureaucracy. Such circumstances become hurdle to attract foreign investment. Bureau pathology ranked at 4th position

6.9 Underdeveloped Capital Market

Developed Capital Market becomes the means of Capital formation. If Capital market is developed, the investors can get needed capital easily for establishment. Capital market can play the role of bridge between investors and financial institutions. Respondent ranked it at ninth position.

6.10 Weak Peace and Security Situation

Security of wealth and life is most crucial element to attract investment. Absence of this element no one is willing to invest. This problem carried total rank of 70 and average rank of 7 in the study result. High number of respondent ranked peace and security is main problem of Nepal in the sector of investment.

Others barrier to exit policy, unfriendly industrial relation, transit problem, hostile nature of labor organization, lack of publicity, weak economic diplomacy etc are other problems which are significantly mentioned by respondent.

Conclusion

There are many constraints and problems to create a conducive investment environment for foreign investment in Nepal. If we are not serious to resolve the problems in time, foreign investment can go back. To make the favorable investment environment main responsibility goes to the government. The government can play the vital role to resolve the problems and attract the FDI. Political parties are also responsible to create favorable situation for attracting the FDI.

CHAPTER –VII

SUMMARY, CONCLUSION AND RECOMMENDATION

7.1 Summary and Conclusion

An increasing number of developing countries are now trying to attract more foreign investment and technology transfer. Foreign investment plays a key role for economic development of any nation. The importance of FDI to any nation is varied and crucial. The importance of foreign investment in the economic development is significant role for economic development in general and industrial development in particular has been realized not only by developing capitalist countries but also by socialist countries. Nepal emphasized on foreign investment very lately i.e. the sixth plan (1980-85) onwards. The industrial policy of Nepal (1981) made a separate provision relating to foreign investment. Besides, a separate act relating to foreign investment was in 1981 to give impetus to the creation of healthy climate for foreign investors in Nepal. For the rapid industrial development, different legislations and policies were endorsed in 1992 such as Industrial Enterprises Act, One Window Policy, Foreign Investment and Technology Transfer Act. It has been amended in 1996 for the first time to support foreign investment in industrial sectors. These policies and Acts overall create a healthy environment for industrial development and attract foreign investors in Nepal.

The Foreign Investment policy and incentives of a host country can be an important motivation factor. Therefore, policy must be made open and favorable as possible, As compared to other SAARC nations. Nepal seems to be more open, (*Prithevi Raj Legel, former vice president of National planning Commission*). Nepal prefers foreign sectors also for the regional development.

At initial stage, the Government of Nepal has given emphasis to encourage foreign investment to private sector. Later it has been open to both for private as well as public sectors to attract FDI. To attract the FDI GON provides many incentives, provision and facilities which help to inflow FDI in Nepal with tremendous speed and broader expansion.

The Government of Nepal has initiated suitable environment considerations to achieve sustainable industrial growth and development. Law has allowed permission for the establishment and operation of pollution prone industrial in the country. However, the Industrial Enterprises Act has been amended in 1996 and these provisions have been incorporated under the new legislation of Environmental Protection Act and Environmental Protection Regulation. Under these acts and regulation, are also required to obtain pollution permit. These provisions are expected to ensure coordinated location, efficient and effective utilization of available resources.

In the entire study in this topic FDI the researcher conveys the collected information about the FDI. Its role, different from of foreign investment, technology transfer areas open for foreign investment, criteria for approval of different level of

industries, repatriate of dividend of capital, allowed permission for foreign technical personnel, security of investment, investment protection agreements, arbitration, incentives and facilities visa arrangement on FDI are main areas of attraction. Improvement of these areas at international standard is a need for promote FDI inflow within country.

The survey of the present study has found many problems of foreign investment promotion in Nepal. Small size of market, power and corruption, underdeveloped infrastructure, instable government, landlocked position, lack of efficient human resources, policy instability, bureau pathology, underdeveloped capital market, weak peace and security, barrier to exist unfriendly industrial relation, weak economic diplomacy etc are some of them.

7.2 Recommendations

With the overall examination of trend, structure, present policies and problems faced by foreign investors in Nepal, the following recommendation are referred.

1. Government stability is crucial for smooth implementation of policies and acts which ultimately fruitful goal to attract volume of FDI in Nepal.
2. Corruption in between ministries of Industries and Departments must be reduced and checked with proper and regular implementation of auditing system.
3. Development of Human Resources and Training institute must be effective practically. Percentage of Human Resources Developing Training Institute must be increased.
4. Development of infrastructure like roads, power, transportation and communication are essential.
5. To attract foreign direct investment the policies and act should be transparent and stable.
6. Government should simplify the bureaucratic procedures and avoid bureaucratic hassles. Other facilities and incentives providing to FDI by the GON must be result oriented.
7. One window policy will have make more effective in providing services and facilities to the foreign investors along with arrangement of one stop services.
8. By providing better information about investment opportunities in Nepal can attract more foreign investment, if they get quality information, better infrastructure, less risk and uncertainty.
9. Nepal should train technical personnel and skilled and experienced manpower so that foreign investors will not have any problem from available manpower. It will help to establish their business more comfortably; therefore, training and vocational institutions must be established to provide training facilities for the technical personnel.

10. Entrepreneurship must be developed with in Nepal itself so that Nepalese entrepreneur could reap the knowledge and benefit from their foreign Co-partners.
11. Better communication in between intra-ministerial and departmental coordination must be initiated that motivates the foreign investors.
12. To boost up trade opportunity export and import trade practices must be flexible and establish different types of trade offices abroad to promoted trade.
13. Investment criteria must be fulfilled by the foreign collaborated industry in Nepal. Each and every producer must be follow by foreign investors that has been asked by the Ministry of Department and Industries before setting up business.
14. Nepal must provides incentives other facilities for technical collaboration besides financial because technical collaboration and many externalities which ultimately strengthen the domestic economy.
15. The nation must provide other alternative opportunity for the foreign investors of that profit they repatriate can be reinvested. Thus the profit they earned from parent investment projects could remain in the economy.
16. Each and every single personal in any private and public sectors must contribute their duty and responsibility with the felling of nationality from the core of their heart while providing services to others. That help to reduce the ill mind of corruption at least which now a moment the second highest constrains in our nation for any further growth and development.
17. Good labor relation and flexible labor law is essential to attract foreign investors.
18. Properly arrange and defined the economic diplomacy in the context of our country.
19. Assured peace and security and maintain law and order is very must important factor to make coordinate investment climate.
20. To make bilateral agreement of preferential entry of Nepalese goods and services in India and Chinese market. Bilateral investment promotion and protection agreement and avoidance of double taxation agreement are also helpful tool to attract foreign investment.

7.3 Need for Future Study

This present study is kind of preliminary study carried out with limited time and resources. This present study does not cover the all aspect of foreign collaboration established in Nepal. Therefore, a comprehensive follow-up study should be carried out in future to cover all aspects of foreign investment enterprises in Nepal.

new pollution prone industries as given in the annexure to the regulation are required to carry out IEA or EIA studies and are required to get clearance on those studies before their establishment and operation. Existing pollution prone industries

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Annex-1

Classification of Districts based on industrialization

Least Undeveloped Area	Undeveloped Area	Least developed Area
1. Bajura	1. Baitadi	1. Kailali
2. Jajarkot	2. Dadeldhura	2. Kanchanpur
3. Dolpa	3. Magdi	3. Palpa
4. Humla	4. Bhojpur	4. Lamjung
5. Jumla	5. Illam	5. Gorkha
6. Kalikot	6. Sindhuli	6. Arghakhachi
7. Darchula	7. Panchthar	7. Dhankuta
8. Achachham	8. Pyuthan	8. Surkhet
9. Bajhang	9. Baglung	9. Dang
10. Mugu	10. Rasuwa	10. Syangja
11. Rukum	11. Sindhupalchowk	11. Tanahu
12. Salyan	12. Gulmi	12. Udayapur
13. Dailekh	13. Prawat	13. Nuwakot
14. Rolpa	14. Dolakha	14. Dhading
15. Terhathum	15. Ramechhap	15. Kavrepalanchowk
16. Doti		16. Kapilbastu
17. Khotang		17. Banke
18. Sankhuwasabha		18. Dhanusa
19. Manang		19. Rautahat
20. Mustang		20. Saptari
21. Solukhumbu		21. Sarlahi
22. Taplejung		22. Mahottari
23. Okhaldhnga		23. Bardiya
		24. Siraha

Source: -Industrial policy 2010, Anex9, 10, 1

Annex -2

Foreign Inv	VARIABLES
281.2*** (76.05)	T
-679.9 (642.7)	Constant
22	Observations
0.499	R-squared

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Annex-3

Number of industries approved by country of origin up to 2065/066(Rs in million)

S.N.	Country	No.of Industries	Total project cost	Total fixed cost	Foreign Investment
1	Australia	29	425.51	365.51	356.82
2	Austria	15	205.56	158.46	81.36
3	Azerbaijan	2	9.90	8.60	9.90
4	Bangladesh	23	505.35	251.80	254.86
5	Belgium	9	35.27	26.20	29.74
6	Bermuda	6	1995.25	1694.03	118.27
7	Bhutan	3	27.26	20.58	3.61
8	Brazil	3	521.07	495.50	504.43
9	Bri.Virg.Is	3	2739.78	2636.19	961.43
10	Canada	21	5048.37	4866.28	2133.04
11	China	332	12327.54	9968.39	5848.77
12	Colombia	1	2.40	1.50	2.40
13	Congo	1	2.50	2.10	2.50
14	Croatia	1	2.50	2.10	2.50
15	Cyprus	1	1000.00	974.00	304.00
16	Czech Republic	1	3.50	2.50	3.50
17	Denmark	18	640.69	559.66	144.36
18	Dutch	1	18.90	13.90	18.90
19	Egypt	2	20.00	14.50	12.00
20	Finland	5	25.00	19.76	14.55
21	France	43	552.85	460.67	271.30
22	Germany	75	2331.81	2096.25	898.82
23	Ghana	1	6.50	6.18	1.95
24	Guatemala	1	10.00	5.00	2.50
25	Holand	1	7.00	0.00	1.79
26	Hong Kong	18	1813.54	1414.34	692.84
27	Hungary	1	10.00	8.90	5.00
28	India	462	56746.00	44561.08	25381.45
29	Iran	6	21.70	13.30	17.20
30	Ireland	5	714.90	673.60	331.97
31	Israel	10	664.40	551.09	122.95
32	Italy	18	1421.19	1298.45	263.01
33	Japan	146	3153.87	2681.43	1140.49

34	Kazakistan	2	13.40	11.43	13.40
35	Kyrgystan	4	36.50	32.05	22.50
36	Lebnon	2	7.00	5.50	7.00
37	Libiya	1	5.00	2.80	5.00
38	Malaysia	11	539.14	503.52	93.08
39	Mauritius	3	2580.00	2520.87	2445.00
40	Maxico	2	17.93	16.35	15.33
41	N.Korea	3	64.82	58.80	32.55
42	Netherland	32	1219.01	1019.54	526.12
43	New Zeland	9	296	239.71	30.07
44	Norway	11	8110.59	6761.70	1129.83
45	Pakistan	15	2169.45	1883.77	149.73
46	Panama	1	83.28	65.17	24.98
47	Philippines	10	1171.12	1000.68	87.28
48	Poland	5	99.72	93.55	17.39
59	Portugal	1	2.50	2.00	2.50
50	Russia	17	209.80	154.19	103.28
51	S.Africa	5	47.30	37.84	47.30
52	S.Korea	131	8267.01	7779.21	4245.34
53	Singapore	21	2372.82	2283.34	961.39
54	Slovenia	1	4.19	3.94	4.19
55	Spain	13	154.02	103.04	107.23
56	Sri Lanka	3	79.15	55.90	37.41
57	Sweden	7	28.00	21.56	25.20
58	Switzerland	30	724.48	657.35	324.85
59	Taiwan	9	414.75	360.43	174.62
60	Tchad	1	2.50	1.86	2.50
61	Thailand	9	956.37	815.29	93.29
62	Turkey	6	30.70	23.22	43.20
63	Uae	4	1601.74	701.74	883.37
64	Uk	94	4586.08	4076.05	1479.04
65	Ukraine	2	91.70	83.25	16.40
66	Usa	166	13798.16	12481.46	4874.50
67	Uzbekistan	1	10.00	7.50	10.00
68	Vietnam	2	24.60	22.80	24.60
69	Total	1898	142829.06	119739.22	57997.66

Source:-Department of industry (Industrial Statistics, published, 2010

Annex-4

District- wise Foreign Investment in Nepal (Rs. in million)

S. N.	District	N0. of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment
1	Achham	4	571.18	550.68	418.18
2	Arghakhachi	2	1342.09	199.27	449.60
3	Baitadi	2	20.00	16.80	20.00
4	Banka	16	513.83	404.44	152.43
5	Bara	42	7257.05	5747.20	2063.78
6	Bardiya	6	51.88	45.56	23.14
7	Bhakatapur	40	1824.48	1096.52	696.91
8	Chitawan	47	3430.17	2743.25	1118.36
9	Dang	7	257.50	216.45	197.50
10	Dhading	9	2405.89	2351.70	2171.00
11	Dhanusha	2	84.56	61.70	62.28
12	Dhanakuta	1	46.62	37.62	10.00
13	Dolakha	4	5600.20	5086.03	1305.
14	Doti	1	10.00	7.20	10.00
15	Gorkha	4	704.09	648.32	75.23
16	Humla	5	41.00	37.20	19.24
17	Jhapa	11	986.14	631.90	228.35
18	Kailali	3	919.04	868.81	192.80
19	Kalikot	1	1900.00	1800.00	1520.00
20	Kanchanpur	13	776.37	695.11	147.72
21	Kapilbastu	8	411.71	197.32	197.81
22	Kaski	108	12226.56	11593.96	4054.58
23	Kathmandu	1053	49252.31	40666.06	19852.02
24	Kavrepalanchok	49	1315.94	1110.29	647.32
25	Lalitpur	226	9651.62	7599.60	6615.82
26	Lamjung	5	343.93	311.25	124.15
27	Makawanpur	45	4405.88	3357.30	2007.23
28	Manang	1	75.00	69.75	47.01
29	Morang	23	2088.85	1507.48	346.48
30	Mustang	2	461.74	449.11	1.07
31	Nawalparasi	20	2762.68	2366.76	505.40
32	Nuwakot	7	210.58	184.75	105.70
33	Okhaldhunga	1	250.00	245.00	19.00
34	Out of valley	1	24.34	21.22	24.34
35	Palpa	1	30.00	23.38	4.90

36	Parbat	1	1100.00	1089.00	1.50
37	Parsa	39	2831.77	2137.75	1491.35
38	Ramechhap	1	291.34	237.89	262.21
39	Rasuwa	5	2622.40	2522.28	1236.43
40	Rautahat	1	559.18	509.18	44.06
41	Rolpa	3	32.22	28.31	29.00
42	Rupandehi	29	5630.09	4603.14	2958.59
43	Sankhuwasabha	1	500.00	488.00	500.00
44	Saptari	2	410.00	384.00	282.40
45	Sindhuli	1	9.00	7.70	9.00
46	Sindhupalchowk	8	6832.73	6603.59	1292.08
47	Siraha	3	694.00	660.07	113.20
48	Solukhumbu	9	2959.17	2856.59	926.13
49	Sunsari	15	2114.17	1559.77	1047.25
50	Surkhet	2	3587.00	2819.40	2187.00
51	Tanahu	3	89.02	73.20	37.50
52	Taplejung	1	2.10	1.04	1.90
53	Terai region	1	60.00	55.00	16.00
54	Undefined	3	251.67	154.37	37.00
55	Total	1898	142829.06	119739.22	57997.66

Source:-Department of industry (Industrial Statistics, published, 2010)

Annex-5

Country wise employment in foreign collaborated project from beginning to 2066/67

S.N	Country	No. Of industries	Total no of employment	Average employment
1	Australia	29	826	28.48
2	Austria	15	561	37.40
3	Azerbaijan	2	50	25.00
4	Bangladesh	23	4033	175.23
5	Belgium	9	287	31.88
6	Bermuda	6	1474	245.66
7	Bhutan	3	98	32.66
8	Brazil	3	471	157.00
9	Bri.virg.is	3	1018	339.34
10	Canada	21	1795	85.47
11	China	332	20259	61.02
12	Colombia	1	7	7.00
13	Congo	1	28	28.00
14	Croatia	1	15	15.00
15	Cyprus	1	235	235.00
16	Czech republic	1	12	12.00
17	Denmark	18	846	47.00
18	Dutch	1	80	80.00
19	Egypt	2	98	49.00
20	Finland	5	149	29.80
21	France	43	1829	42.53
22	Germany	75	3759	50.12
23	Ghana	1	0	0.00
24	Guatemala	1	84	84.00
25	Holand	1	0	0.00
26	Hong kong	18	2554	141.88
27	Hungary	1	29	29.00
28	India	462	53101	114.93
29	Iran	6	120	20.00
30	Ireland	5	303	60.60
31	Israel	10	340	34.00
32	Italy	18	494	27.45
33	Japan	146	6450	44.17
34	Kazakastan	2	42	21.00
35	Kyrgystan	4	175	43.75

36	Lebnon	2	49	24.50
37	Libiya	1	80	80.00
38	Malaysia	11	355	32.27
39	Mauritius	3	723	241.00
40	Maxico	2	35	17.50
41	N.korea	3	147	49.00
42	Netherland	32	2584	80.75
43	New zeland	9	2069	229.89
44	Norway	11	676	61.45
45	Pakistan	15	2403	160.20
46	Panama	1	121	121.00
47	Philippines	10	1598	159.80
48	Poland	5	124	24.80
59	Portugal	1	23	23.00
50	Russia	17	648	38.11
51	S.africa	5	137	27.40
52	S.korea	131	5863	44.75
53	Singapore	21	1687	80.34
54	Slovenia	1	0	0.00
55	Spain	13	365	28.07
56	Sri lanka	3	83	27.67
57	Sweden	7	188	26.85
58	Switzerland	30	605	20.17
59	Taiwan	9	596	66.23
60	Tchad	1	18	18.00
61	Thailand	9	1122	124.67
62	Turkey	6	129	21.50
63	Uae	4	661	165.25
64	Uk	94	7609	80.94
65	Ukraine	2	52	26.00
66	Usa	166	12034	72.49
67	Uzbekistan	1	52	52.00
68	Vietnam	2	55	27.5
69	Total	1898	144513	76.13

Source:-Department of industry (Industrial Statistics, published, 2010)

Annex-6

District - wise employment generation of FDI in Nepal

S.N.	District	No. Of industries	Total no. Of employment	Average employment
1	Achham	4	411	110.25
2	Arghakhachi	2	331	165.50
3	Baitadi	2	202	101.00
4	Banka	16	1393	87.06
5	Bara	42	4401	10.47
6	Bardiya	6	234	39.00
7	Bhakatapur	40	3581	89.52
8	Chitawan	47	7545	160.53
9	Dang	7	1057	151.00
10	Dhading	9	721	80.12
11	Dhanusha	2	167	83.50
12	Dhanakuta	1	120	120
13	Dolakha	4	225	56.25
14	Doti	1	33	33
15	Gorkha	4	758	189.50
16	Humla	5	96	19.20
17	Jhapa	11	3096	281.45
18	Kailali	3	929	309.67
19	Kalikot	1	125	125
20	Kanchanpur	13	1466	112.76
21	Kapilbastu	8	269	33.62
22	Kaski	108	4876	45.14
23	Kathmandu	1053	61880	58.76
24	Kavrepalanchowk	49	4230	86.32
25	Lalitpur	226	12479	55.21
26	Lamjung	5	513	100.60
27	Makawanpur	45	4087	90.83
28	Manang	1	635	635.00
29	Morang	23	4733	205.78
30	Mustang	2	115	57.50
31	Nawalparasi	20	2884	144.20
32	Nuwakot	7	631	90.14
33	Okhaldhunga	1	122	122.00
34	Out of valley	1	70	70.00
35	Palpa	1	24	24.00
36	Parbat	1	2641	2641.00

37	Parsa	39	5532	141.84
38	Ramechhap	1	200	200
39	Rasuwa	5	176	35.20
40	Rautahat	1	589	589
41	Rolpa	3	156	52.00
42	Rupandehi	29	3104	107.03
43	Sankhuwasabha	1	250	250
44	Saptari	2	144	72.00
45	Sindhuli	1	105	105.00
46	Sindhupalchowk	8	2892	361.00
47	Siraha	3	508	169.34
48	Solukhumbu	9	198	22.00
49	Sunsari	15	2897	193.14
50	Surkhet	2	229	114.50
51	Tanahu	3	237	79.00
52	Taplejung	1	0	0.00
53	Terai region	1	97	97.00
54	Undefined	3	146	48.67
55	Total	1898	144513	76.13

Source:-Department of industry (Industrial Statistics, published, 2010)

Annex- 7

Questionnaire

To be filled by the foreign investors or their representation not by local partner

1. Name of the joint venture industry/ name of the organization.

.....

2. Year of established.

.....

3. Name of foreign collaboration and country.

.....

4. Type of collaboration please tick mark

i) Financial ()

ii) Technical ()

5. How long to get approval or licensed?

.....

6. What are the problems you face while establishing industries.

(Rank in ascending or descending order i.e. 1 -10 is most.

a. Small size of market . ()

b. Power and corruption. ()

c. Undeveloped Infrastructure. ()

d. Instable Government. ()

e. Landlocked Position. ()

f. Lack of Efficient Human Resources. ()

g. Policy Instability. ()

h. Bureau Pathology. ()

i. Underdeveloped Capital Market. ()

j. Peace and security. ()

k. Other..... ()

7. Could you comment how easy to established financial collaborated industries?

.....

8. Why are you interested to invest in Nepal?

9. Are you satisfied with the facilities and incentives that providing by our nation?

Yes ()

No ()

10. Please give your comment and suggestion to promote FDI in Nepal?