

Investment Policy and Regulatory Framework in Nepal, 2017-18



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Nepal : Country at a Glance

Area: 1,47,181 sq km

Population: 30 million

- GDP (at basic prices, 2018): NRs. 3007.24 billion
- GDP Growth rate (at constant prices) : 6.29%
- Inflation: 4.2%
- Export Import Ratio: 1:9.3 (2017/18)
- Poverty Headcount : 21.6% (2017)
- Life expectancy (at birth): 70 years (2018)
- Human Development Index : 0.574 (2018)



FDI and Nepal

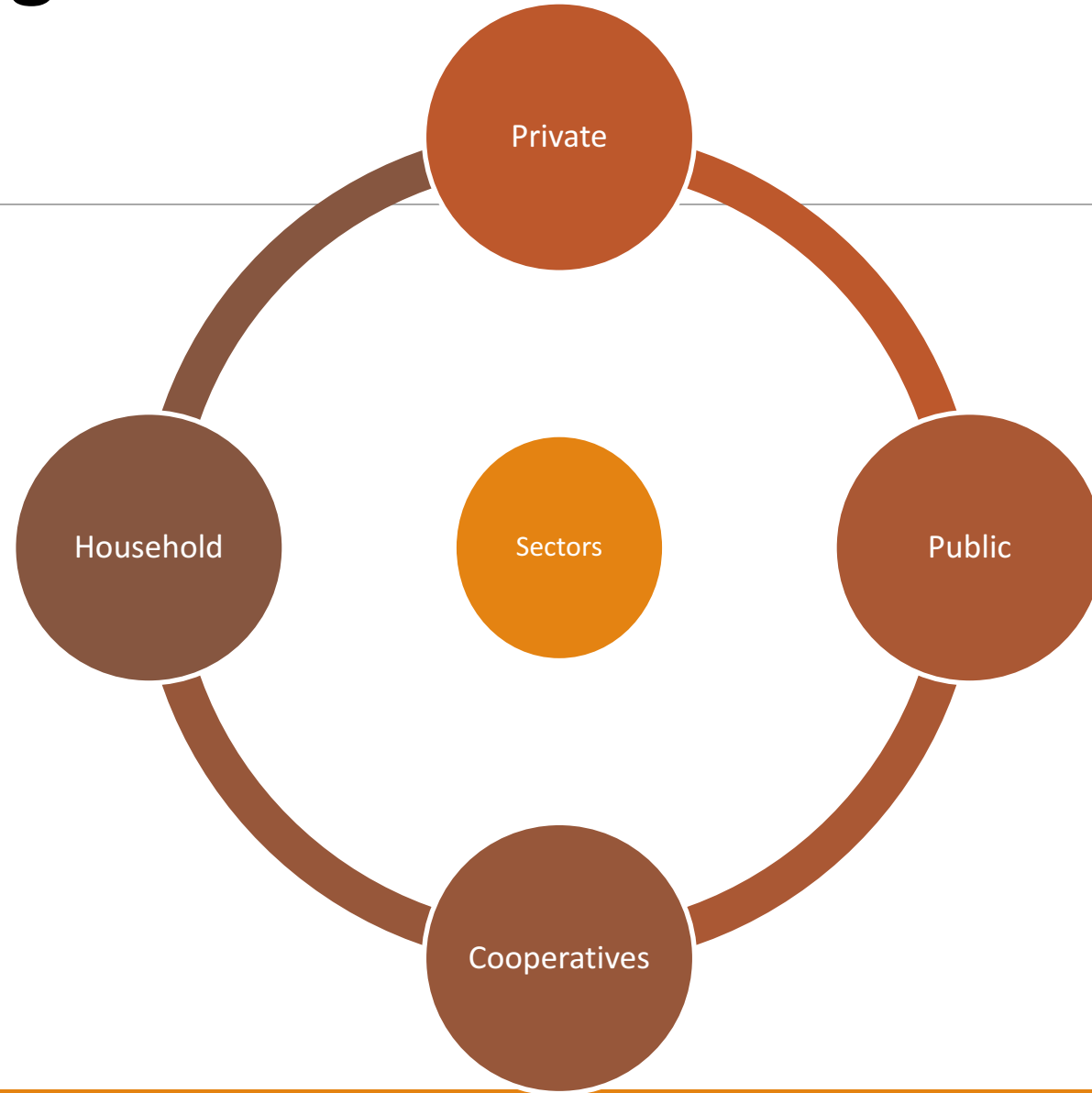
- Initiation from FITTA, 1981
- Liberal economic policies after political change in 1990
- Launched New Foreign Investment Policy, FY 2014/15
- NPR 15.14 billion was approved but receipt of NPR 13.5 billion only on FY 2016/17
- India is the largest host of FDI in Nepal followed by China and Singapore

Preliminary Estimates on SDGs Financing Requirement

The overall annual average SDGs Financing Requirement for achieving the targets set for 2030 is as follows:

- Rs 1055 billion during 2016-19
- Rs 1559 billion during 2020-22
- Rs 2046 billion during 2023-25
- Rs 3069 billion during 2026-30.
- The annual average investment requirement for the entire SDG period is Rs 2025 billion.
- The investment requirement for the entire period of 2016-30 is **47.79** per cent of the GDP on an average

Disaggregated into Four Broad Sectors



SDG Budget Coding (3 years' Projection)

		NPR billions)					
S.N.	SDGs	Projection FY 2018/19		Projection FY 2019/20		Projection FY 2020/21	
		Budget.	%	Budget.	%	Budget.	%
1	No poverty	127.6	9.7	136.4	8.6	151	8.1
2	Zero Hunger	41.4	3.1	44.5	2.8	49	2.6
3	Healthy life	28.1	2.1	24.0	1.5	27	1.4
4	Quality education	48.3	3.7	49.2	3.1	49	2.6
5	Gender equality	4.6	0.4	5.1	0.3	6	0.3
6	Water & sanitation	24.3	1.8	23.6	1.5	24	1.3
7	Clean energy	86.9	6.6	109.8	7	123	6.6
8	Decent work & Economic Growth	7.4	0.6	8.7	0.6	9	0.5
9	Industry & Infrastructure	162.1	12.3	200.1	12.7	233	12.5
10	Reduced inequality	2.4	0.2	2.6	0.2	3	0.2
11	Sustainable Cities	203.2	15.4	194.0	12.3	112	6
12	Responsible Consumption/Production	3.0	0.2	2.8	0.2	1	0.1
13	Climate Action	11.5	0.9	13.6	0.9	15	0.8
14	Lives Below Water						
15	Lives on Land	14.3	1.1	14.8	0.9	16	0.9
16	Peaceful, justice & strong institutions	130.3	9.9	137.4	8.7	151	8.1
17	Partnership for sustainable development	6.2	0.5	6.7	0.4	7	0.4
	Not Coded	413.6	31.4	604.4	38.3	889	47.7
	Total	1,315.2	100	1,577.7	100	1,865	100

LDC Graduation Status of Nepal

Indicators	2008/09**	2011/12	2014/15	2017/18
GNI per capita (US\$)	502	708	778	1012
GNDI per capita (US\$)	628	902	1033	1294
GNI per capita (US\$) using CDP Atlas Method	320	420	659	1012
Graduation threshold (US\$)	905	992	1025	1230
Human Assets Index (HAI)	58.3	59.8	68.7	71.2
Graduation threshold	64	66	66	66
Economic Vulnerability Index (EVI)	33.6	27.8	26.8	28.4
Graduation threshold	38	38	32	32

Source: CBS and CDP Triennial Review 2018

Regulatory Framework

- Constitution :
encourage and mobilize foreign capital and technology investment for import substitution, export promotion and infrastructure development to suit its national interests
- 14th Plan:
innovative, competitive and dynamic economy thorough the mobilization of foreign investment
- Foreign Investment Policy, 2014 :
making national economy competitive and dynamic through maintenance of trade balance by import substitution and export promotion attracting foreign capital, technology, skill and knowledge in national priority sectors

Regulatory Framework

- Foreign Investment and Technology Transfer Act ,1992
- Industrial Enterprise Act, 2016
- Company Act, 2006
- Investment Board Act, 2011
- Bank and Financial Institution Act, 2017
- Foreign Exchange (Regulation) Act, 1963
- Contract Act, 2000
- Private Investments in Infrastructure Act, 2006
- Income Tax Act, 2002
- Foreign Investment Policy, 2015

Regulatory Framework for FDI in Nepal

Nepal became member of the **World Trade Organization-WTO (in 2004)**, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation- **BIMSTEC (in 2008)**, South Asia Free Trade Agreement-**SAFTA (2006)**; and Multilateral Investment Guarantee Agency-**MIGA (1994)**.

Nepal has signed Bilateral Investment Protection and Promotion Agreement (**BIPPA**) with **6 countries** and Double Taxation Avoidance Agreement with **10 countries**.

Investment Board Act, 2010 was enacted based on which Investment Board (IB) has been established for large scale investment .

Institutional Framework

- Investment Board

Investment approval of;

- 100 Million \$ +
- 500 MW + Hydropower
- Hospital of 300 bed +
- Waste Mgmt
- Transport
- Aviation's etc

- Industrial Promotion Board

Approval of 20 + Million \$ to 100 Million

- Department of Industry

Approval of upto 20 Million \$


- Other Institutions

- Office of Company Registrar (OCR)
- Sector Agencies (e.g. Telecom, Airline, and Mining)
Department of Inland Revenue
- Central Bank

Priority Sectors



ENERGY



HYDROPOWER WIND ENERGY SOLAR ENERGY BIOMASS GEOTHERMAL



TRANSPORTATION



ROADS AIRPORTS TRAINS URBAN TRANSPORT



AGRICULTURE



FERTILIZER INFRASTRUCTURE TECHNOLOGY FINANCING SEEDS



TOURISM



HOTELS ADVENTURE TOURISM CULTURAL/RELIGIOUS TOURISM MICE (MEETINGS, INCUMBENT, CONFERENCES EVENTS)



MANUFACTURING



PMO&S GARMENTS PHARMACEUTICAL AUTOMOTIVE PARTS



MINES AND MINERALS



METALLIC MINERALS NON-METALLIC MINERALS FUEL MINERALS GEMSTONES DECORATIVE CONSTRUCTION MINERALS



ICT



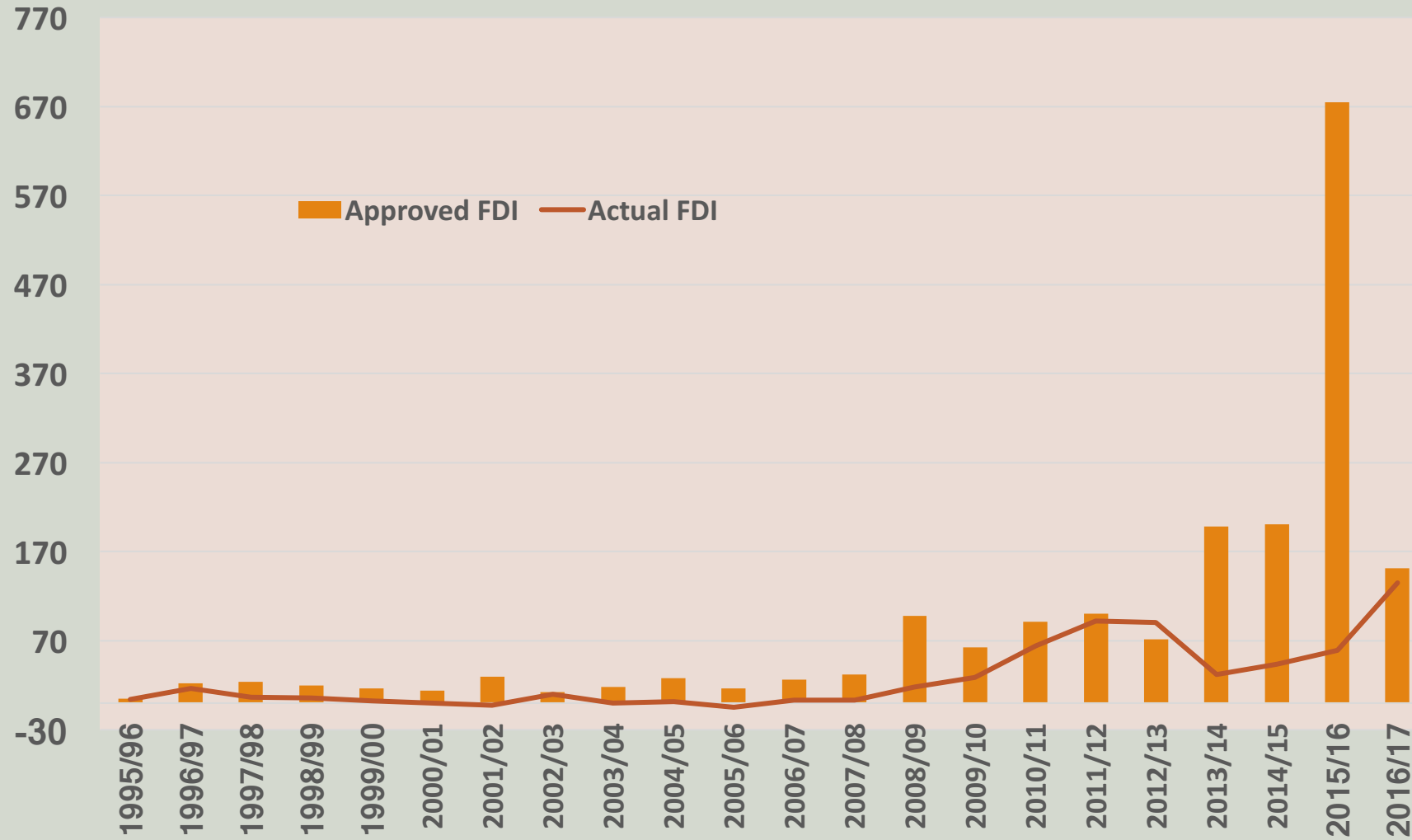
BUSINESS PROCESS OUTSOURCING SOFTWARE DEVELOPMENT INTERNET SERVICE PROVIDER ONLINE PAYMENT INFRASTRUCTURE DATA CENTER

Foreign Investment (Rs. Million)

Fiscal Year	Approved FDI	Actual FDI		Fiscal Year	Approved FDI	Actual FDI
1995/96	477.6	388.0		2006/07	2,606.3	362.0
1996/97	2,219.9	1,621.0		2007/08	3,186.0	294.0
1997/98	2,395.5	685.0		2008/09	9,812.6	1,829.0
1998/99	2,000.3	578.0		2009/10	6,255.1	2,852.0
1999/00	1,666.4	233.0		2010/11	9,100.0	6,437.0
2000/01	1,417.6	-33.0		2011/12	10,053.2	9,195.0
2001/02	3,002.6	-282.0		2012/13	7,138.3	9,082.0
2002/03	1,209.7	961.0		2013/14	19,818.7	3,195.0
2003/04	1,793.8	0.0		2014/15	20,107.4	4,383.0
2004/05	2,764.8	136.0		2015/16	67,480.0	5,921.0
2005/06	1,635.8	-470.0		2016/17	15,139.6	13,503.9

Source : Approved FDI from Department of Industry and Actual FDI from NRB

Flow of FDI in Nepal (in Billion Rs)



The Stock of FDI by Sectors (Rs. Million)

Sectors	Mid-July 2016					Mid-July 2015				
	Paid-up	Reserves	Debt from Direct Investor (Loan)	Total	Share (in %)	Paid-up	Reserves	Debt from direct investor (Loan)	Total	Share (in %)
Agriculture	395.2	0.0	0.0	395.2	0.3	395.2	0.0	0.0	395.2	0.4
Construction	288.8	337.9	-	626.7	0.5	282.8	347.6	-	630.4	0.6
Electricity Gas and water	10931.0	6854.9	1391.6	19177.5	13.9	9311.5	2234.8	1226.6	12772.9	12.0
Manufacturing, Mining and Quarrying	7769.7	12710.0	333.7	20813.5	15.1	6103.5	10397.6	327.7	16828.8	15.9
Industry	18989.5	19902.8	1725.3	40617.7	29.5	15697.8	12979.9	1554.3	30232.1	28.5
Education	137.9	-	-	137.9	0.1	143.9	-	-	143.9	0.1
Financial Intermediation	14048.2	10006.8	-	24055.0	17.5	10133.4	8653.1	-	18786.5	17.7
Hotels and Restaurants	3300.3	-325.2	-	2975.1	2.2	3002.4	-442.0	126.9	2687.3	2.5
Real estate activities	686.4	210.9	-	897.4	0.7	682.6	257.3	-	939.9	0.9
Others	2011.3	622.4	1292.4	3926.0	2.9	1705.5	2506.4	346.2	4558.2	4.3
Transport Storage and Communication	2006.5	60533.1	2134.6	64674.1	47.0	2006.5	44396.8	2025.6	48428.9	45.6
communication	1929.5	60533.1	21,34.6	64597.2	46.9	1929.5	44396.8	2025.6	48351.9	45.5
Services	22190.5	71048.0	3427.0	96665.5	70.2	17674.3	55371.6	2498.7	75544.7	71.2
Total	41575.2	90950.9	5152.3	137678.4	100.0	33767.4	68351.5	4053.1	106172.0	100.0

Opportunities

- Abundant natural resources- Water Resource
- Cultural and biological diversities
- Economically strategic location between two giant economies China and India
- Comparative low wages and no power shortage for industries
- Incentives to foreign investors
- BIPPA and DTAA with major economies
- Political commitment for private investment

Way Ahead

- Update policy on the basis of rigorous consultation with stakeholders
- Trade diversification
- Explore quality and structure of the labor force
- Infrastructure development and upgrade
- Improve Financial Services
- Board of Investment (BI) to be empowered further
- FDI Act

Thank you!

