

Investment Opportunities in Nepal

Presented to Webinar on

“Exploring Trade and Investment Opportunities between Nepal and Australia”

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Why Aussie's FDI is Significant for Nepal ?

- ▶ Australia is the 16th-largest international direct investor in the world (*As Aussie's Dept of Foreign Affairs & Trade*);
- ▶ Aussie has invested in all economies A\$ 2369, 2547 and 2953 billion in 2017, 2018 and 2019 respectively - having 15.9% growth between 2018-2019;
- ▶ Aussie has a long list of MNCs also in the areas of big comparative advantages lies with Nepal, e.g. energy, agriculture, mining, etc.;

What Comparative Advantages available in Nepal ?

- ▶ Market available of the 2 giant neighbors and SA, i.e. India and China, having 2.7 billion; South Asia having 1.89 billion;
- ▶ Zero Tariff Market access in most countries being an LDC;
- ▶ Affordable Labor Cost;
- ▶ Almost all MNCs that operate in Nepal have been enjoying a very high rate of profitability;
- ▶ Accessible bureaucracy;
- ▶ Relatively cheap land available;
- ▶ Increasing outsourcing from the US, Europe & Australia;

What Comparative Advantages available in Nepal ? - 2

- ▶ Low tariff rates on imports as compared to neighboring countries;
- ▶ All climatic advantages;
- ▶ Young population;
- ▶ Availability of power unlike the past power deficit;
- ▶ Engagement of international trading systems, e.g. WTO, SAFTA, BBIN, etc;
- ▶ Medical tourism;
- ▶ Transit rights via 3 sea ports of India and 4 sea ports of China;
- ▶ 3 dry ports already in operation and 4 are underway;

Nepal in rankings & ratings...

Ranking/ Rating	2010	2019
Global Competitiveness Index	125 th (47.76 %)	108 th (51.57 %)
Trade Openness Index (% of GDP)	45	54.93
Rule of Law Index (- 2.5 weak and 2.5 strong)	- 0.95	- 0.54
Cost of Starting New A Business (% of Income Per Capita)	46.6%	20.04%
Investment Forecast Index	38.27 %	62.27 %
Ease of Doing Business Index	110 th	94 th

Profit Margins Made by MNCs operating in Nepal during FY 2018/19

SN	MNCs' Name	Dividends Distributed (%)
1	Standard Chartered Bank Nepal	55
2	Unilever Nepal Ltd	700
3	Everest Bank	66
4	Ncell Telecom	1600
5	Surya Nepal Ltd	350
6	Bottlers (Coca Cola) Nepal	40

Source: Compiled by the presenter from balance sheets of respective MNCs

Nepal is no more a small country ?

- ▶ A populous country having 28.60 million population (WB);
- ▶ GDP size in US\$ 16.00 billion (2010); 30.64 billion (2019)
- ▶ Rising Per Capita Income US\$ 592 (2010) from US\$ 1071 (2019), as WB (2020);
- ▶ Mobile connections 42.85 million (growth by 7.6%/year);
- ▶ Internet users 10.21 million;
- ▶ Internet Penetration Rate 35%;
- ▶ Social media users 10 million;

Major FDI related Government Policies ?

- ▶ The Constitution, 2015
- ▶ FITTA, 2019
- ▶ Industrial Enterprises Act, 2020
- ▶ PPP Act, 2019
- ▶ Patent, Design and Trademark Act, 1965
- ▶ Company Act, 2006
- ▶ Private Firms Registration Act, 1958
- ▶ Foreign Exchange (Regulation) Act (FERA), 1963
- ▶ Foreign Investment Tax Act, 2019
- ▶ Contract Act, 2000

Auxiliary Government Policies...

- ▶ Electricity Act, 1992
- ▶ Environment Protection Act, 2019
- ▶ Forest Act, 2019
- ▶ Land Acquisition Act, 1977
- ▶ Labor Act, 2017
- ▶ Immigration Act, 1992
- ▶ Water Resources Act, 1992
- ▶ Telecommunications Act, 1997
- ▶ Mines and Minerals Act, 1985

Auxiliary Government Policies - 2

- ▶ VAT Act, 1995
- ▶ Excise Duty Act, 2002
- ▶ Bonus Act, 1973
- ▶ Competition Promotion and Market Protection Act, 2007
- ▶ Consumer Protection Act, 2018
- ▶ Copyright Act, 2002
- ▶ Bank and Financial Institutions Act, 2017
- ▶ Income Tax Act, 2002

Salient Features of FDI related Policies in Nepal

- ▶ Constitution provisions :
 - ▶ Implementation of international treaties, agreements to which Nepal is a party (*Article 50 b 3*);
 - ▶ Promotion of FDI (*Article 51 d 10*)
- ▶ Judiciary system is independent;
- ▶ Private law professionals are independent;
- ▶ Repatriation (of investment, dividends or royalty on TTA) is guaranteed within 15 days (*FITTA, Clause 15*);
- ▶ FDI may be (FITTA, 2019:
 - ▶ by purchasing assets or equity and lease;
 - ▶ By establishing venture capital fund;
 - ▶ By setting up a branch in Nepal

Salient Features of FDI related Policies in Nepal - 2

- ▶ FDI may be greenfield or brownfield and individually or jointly;
- ▶ FDI may be LEASE INVESTMENT in aircrafts, ships, construction & huge machinery,
- ▶ Escrow Agreement betw investor, commercial or infra development bank is allowed;
- ▶ Services to FDI from Single Stop Service Center (industry registration, investment approval, company registration, labor permits, visa, approval of environment report, energy & infra development, exemptions & facilities, PAN, foreign exchange approval, etc.);

Salient Features of FDI related Policies in Nepal - 3

- ▶ Exemptions, Facilitations, Concessions & Incentives to industries embedded with Laws;
- ▶ National treatment to be accorded to any foreigner or national investor;
- ▶ Nationalization or expropriation of industry is not to be made;
- ▶ Grievance handling mechanism at SSSC, DoI;
- ▶ Bilateral or multilateral investment agreement may be concluded;
- ▶ Mechanism for settlement of disputes between Nepali & foreigner investors by DoI;
- ▶ Use of electronic means in approval process;

Industries that potentially hosts FDI...

(As defined by Industrial Enterprise Act, 2020)

- ▶ Energy related industry;
- ▶ Infra development & operation related industry (PPP);
- ▶ Tourism industry;
- ▶ Agro-processing industry;
- ▶ Manufacturing industry;
- ▶ Service oriented industry;
- ▶ Mines based industry;
- ▶ Forest based industry;
- ▶ IT based industry;

All sectors are OPEN, except the followings :

- 1) Poultry farming, fisheries, bee-keeping, fruits, vegetables, oil seeds, pulse seeds, milk industry and other sectors of primary agro-production,
- 2) Micro and Cottage industries,
- 3) Personal service business (hair cutting, tailoring, driving etc.),
- 4) Industries manufacturing arms, ammunition, bullets and shell, gunpowder or explosives, and nuclear, biological and chemical (N.B.C.) weapons; industries producing atomic energy and radioactive materials,
- 5) Real estate business (excluding construction industries), retail business, internal courier service, local catering service, moneychanger, remittance service,

All sectors are OPEN, except the followings - 2 :

- 5) Travel agency, guide involved in tourism, trekking and mountaineering guide, rural tourism including homestay,
- 6) Business of mass communication media (newspaper, radio, television and online news) and motion picture of national language,
- 7) Management, account, engineering, legal consultancy service and language training, music training, computer training, and
- 8) Consultancy services having foreign investment of more than fifty-one percent.

Major agencies involved in facilitation...

- ▶ Department of Industry : In approval for FDI up to NRs 6 crores and in various facilitation;
- ▶ Investment Board of Nepal : Approval & Facilitation if FDI exceeds NRs 6 crore;
- ▶ Industrial Promotion Board : In policy guidance;
- ▶ Nepal Rastra Bank (Central Bank) : In inward & outward fund channeling
- ▶ Office of The Company Registrar : In company formation & facilitation;

Caping in FDI for equity investment...

- ▶ In consultancy services up to 51%;
- ▶ In telecom up to 80%;
- ▶ In external civil aviation up to 80%;
- ▶ In internal civil aviation up to 49%;
- ▶ Casino business up to 90%;
- ▶ The rest all sectors are open for FDI up to 100%;

Tax incentives from GoN (a few tips)

- ▶ 40% tax concessions in infra investment, e.g., road, bridge, tunnel, railway, ropeway, tram, trolley, airports, industrial infra, etc.;
- ▶ 20% tax concession in manufacturing industry and further 5% added on the income from exports;
- ▶ 90%, 80% and 70% concession in income tax provided that manufacturing industry is set up in most undeveloped, undeveloped and less developed areas;
- ▶ 50% concession in income tax for tea production & processing, dairy and textile industry;
- ▶ Full exempt in income tax for 1st 5 years if more than NRs 1 billion is invested and 500 labor are employed in manufacturing as well as service industry;
- ▶ Full exempt in income tax for power projects for 1st 10 years and 50% exempt for next 5 years. This is valid until mid Apr 2023;
- ▶ Full exempt in income tax for mines & minerals extraction based industry for 1st 7 years and 50% exempt for next 3 years. This is valid until mid Apr 2023;
- ▶ Full exempt in income tax in 1st 10 years and 50% exempt in next 5 years for tourism industry investing minimum NRs 2 billion. This is valid until mid Apr 2023;

Special provisions for NRN...

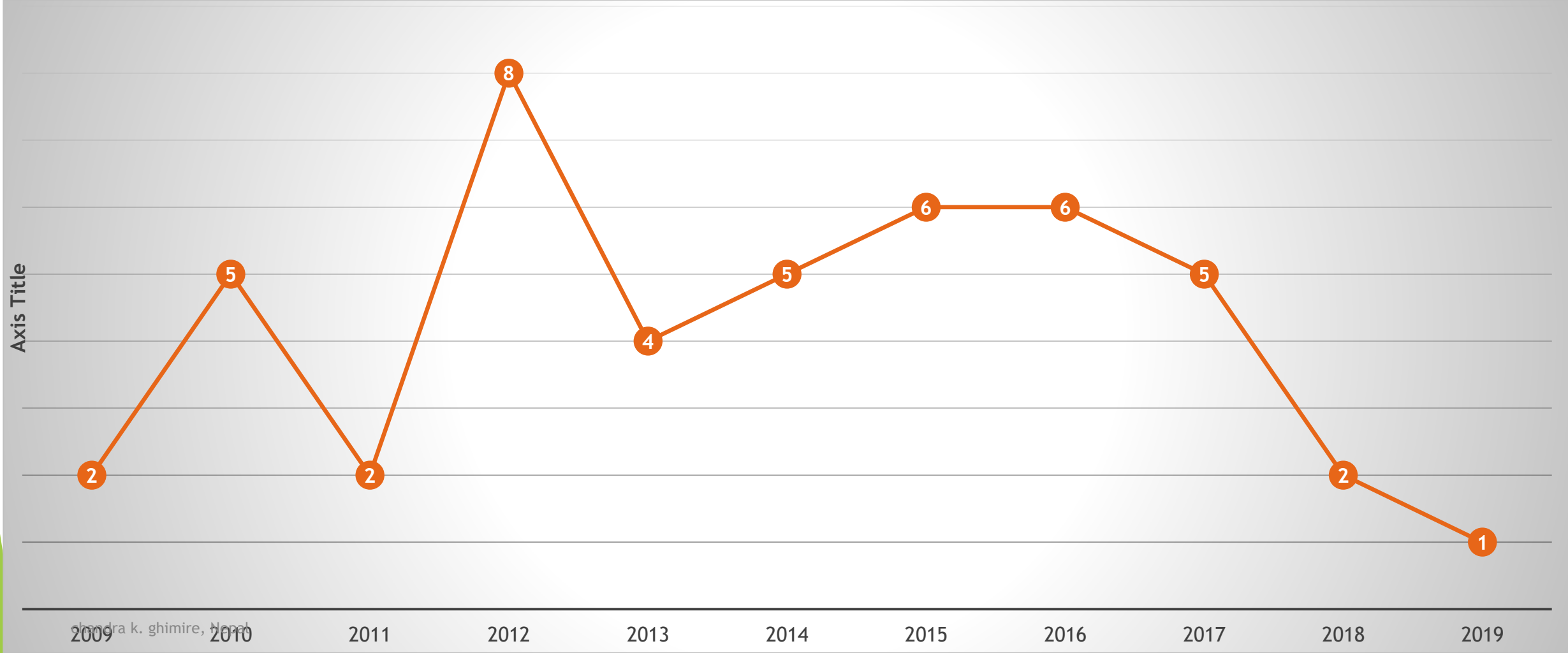
- ▶ NRN are privileged to enjoy the status of foreigner investors e.g., possessing land & other property (FITTA, Clause 2 P);
- ▶ NRN are empowered to transfer the property to anyone (NRN Act, 2008, Clause 10 (2));
- ▶ NRN are entitled to get ID (NRN Act, 2008);
- ▶ NRN are entitled to open bank account in full convertible foreign currency (NRN Act, Clause 6) and repatriate dividend or invested money (NRN Act, Clause 9);
- ▶ NRN, who have invested in Nepal, can get non residential visa for oneself or family up to the period of 10 years (NRN Act, Clause 11);
- ▶ NRN can possess business in Nepal to the extent that a Nepali national does;
- ▶ No tax shall be levied on the invested capital in the time investment (NRN Act, Clause 12 a);
- ▶ NRN can run any industry or business as good as a citizen of Nepal (NRN Act, Clause 13);

Investment from Australia in Nepal ?

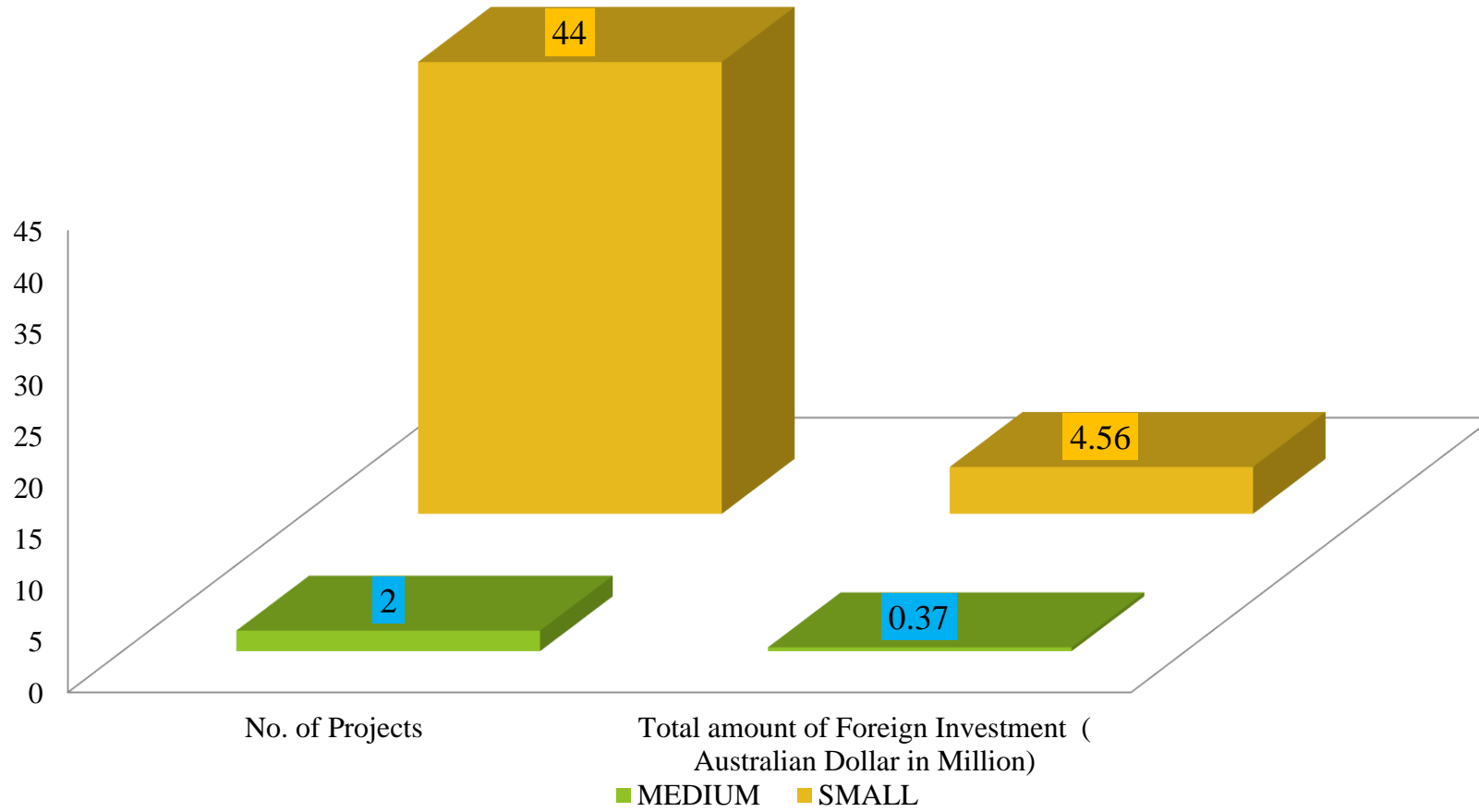
Aussie invested in Nepal over last 10 Years....

Invested Sector	Distribution
Tourism	47%
Service	31%
IT	12%
Manufacturing	6%
Agro & Forestry	4%

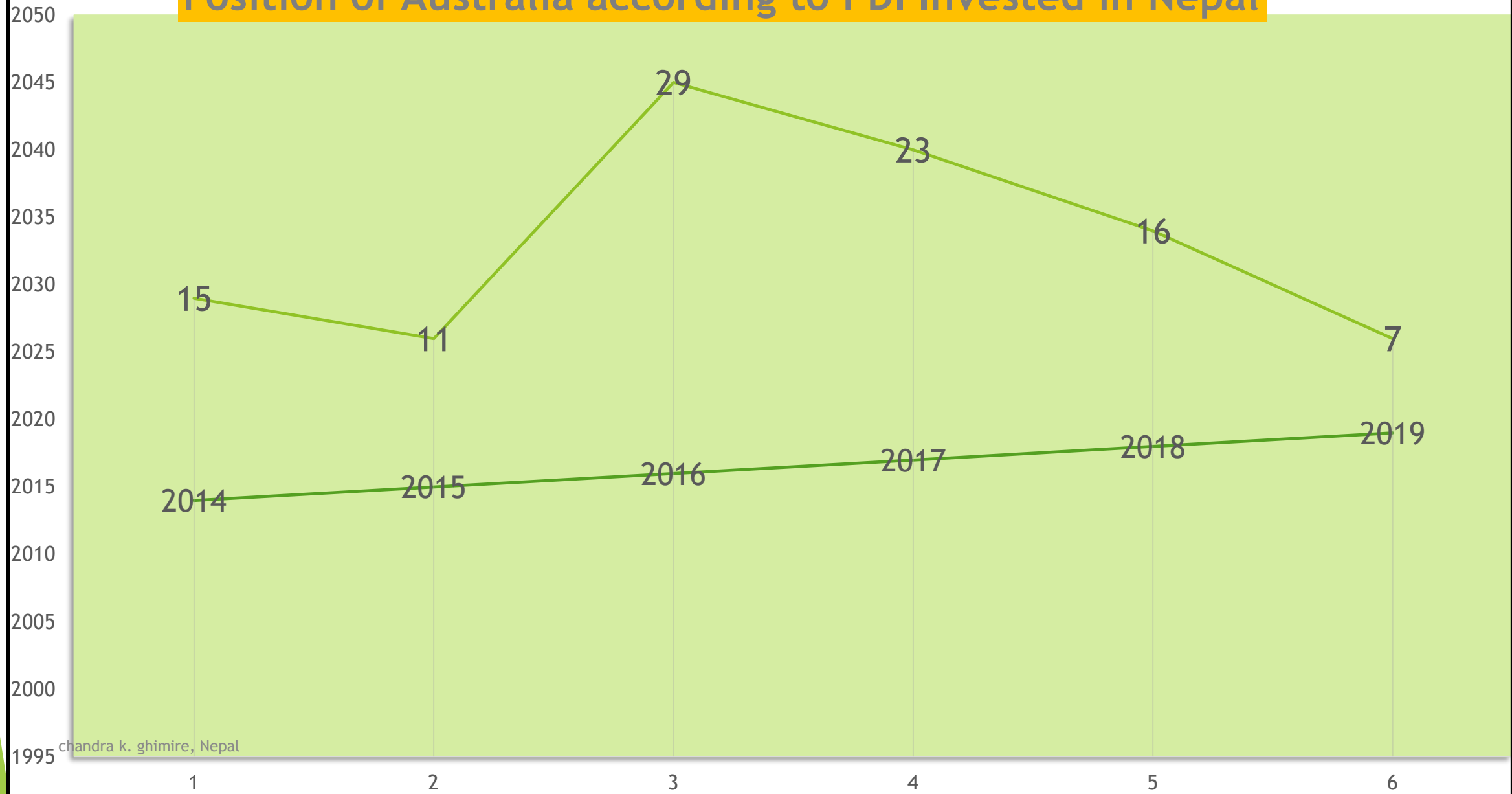
Trend Line Representing Number of FDI Projects from Aussie to Nepal (last 10 years)



Number of Projects and Total Investment from Australia to Nepal (last 10 years)



Position of Australia according to FDI Invested in Nepal



Tons of Thanks for Attention !!!

