




## Invest in Nepal: Investment Opportunities

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## Nepal's Recent History



The timeline shows key events in Nepal's history:

- 1989: Democracy Restored
- 1990: Liberalization Begins
- 1996: Conflict Begins
- 2006: Conflict Ends with signing of the Peace Accord
- 2015: Constitution Promulgated



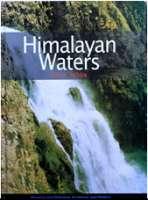
- Completed a long political transition to become a Federal Republic
- **Political consensus on attracting FDI to spur growth**
- **From Political Transition to Economic Transformation**

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## Nepal: Snapshot of the Economy

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2068

<b>Area</b>	147,181 sq. km.
<b>Population</b>	27 Million (Est.)
<b>GDP</b>	USD 21.2 Billion (2014-15)
<b>Geographical Location</b>	Landlocked Country situated between India and China
<b>Median Age of the Population</b>	21 Years
<b>Sectors Open to Foreign Investment</b>	Most of the sectors now open to foreign investment, with the <b>exception</b> of <u>national security/defense and small-scale/cottage industries</u>
<b>Key Attractions</b>	<ul style="list-style-type: none"> <li>i) <b>Hydro potential:</b> Only 1.7% of the financially feasible potential being realized</li> <li>ii) <b>Growing demand and rising living standards in northern India</b></li> <li>iii) <b>Opportunities in Tourism</b></li> <li>iv) <b>Opportunities in Infrastructure building</b></li> <li>v) <b>Opportunities in Reconstruction</b></li> </ul>
<b>Recent Developments</b>	<ul style="list-style-type: none"> <li>i) Constitution Endorsed, providing much needed stability</li> <li>ii) Major Political Parties' Focus on Attracting FDI to spur growth</li> <li>iii) Project Development Agreements for 2 HPP plants and Power Trade Agreement</li> <li>iv) FDI Approvals in the Cement Industry</li> <li>v) Recent Earthquake provides a lot of scope for investment in certain sectors</li> </ul>




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## Current Status: Economic Figures

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<b>Road Length*</b>	62,579	2.2 Km per 1,000 population
<b>Secondary Schools</b>	8,825	0.32 Secondary Schools per 1,000 population
<b>Mobile Penetration</b>	88.26%	2 big players in the market
<b>Internet Penetration</b>	44.1%	
<b>Health Institutions</b>	4505	0.16 Health Institutions per 1,000 population
<b>Energy Demand and Supply</b>	6,334 GWh and 5005GWh respectively	An excess demand of 1278 GWh (approx. 50 KWh per capita)
<b>Trade Channels</b>	Airways and Roadways	Landlocked
<b>Airports</b>	39	1 International
<b>Railways</b>	52 Km	0.002 Km per 1,000 population
<b>Total Export Volume</b>	USD 850 million	Major country: India
<b>Export to India</b>	USD 558 million	65.6% of the total exports to India
<b>Total Deposits in commercial banks</b>	USD 11.3 Billion	USD 403 per capita
<b>Total loans and advances of commercial banks</b>	USD 11.0 Billion	USD 392 per capita

**1** The figures are  
(i) Either for 2014-15 or till Mid-July 2015  
(ii) \* 2013

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## Why invest in Nepal ?

**1** **Ease of doing Business**

- Nepal is ranked second in South Asia in terms of World Bank Ease of Doing Business, 2015

**2** **Few Competitors/ Minimal Business Threat**

- Since large-scale foreign investment have only started entering Nepal, less competition and minimal threat from other players

**3** **Young, Energetic, Trained Labor Force**

- Abundance of young, energetic educated population
  - 61% Between ages 15 and 65
- Trained and Experienced Labor

**4** **Access to Markets**

- Duty-free access to India
- Duty-free access to China for over 7,787 products
- Everything But Arms (EBA) Arrangement provides duty-free, quota-free market access to EU
- Duty-free quota-free market access to 66 textile items in the US
- Member of WTO, SAARC, BIMSTEC

**5** **Special Economic Zones (SEZ)**

- 14 SEZ planned at strategic locations close to border areas
- Two SEZ are under construction
- SEZ Act to come into effect soon

**6** **Double Taxation Avoidance Agreement & Bilateral Investment Protection and Promotion Agreement**

- DTAAs with Austria, China, India, Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka, Thailand
- BIPPAAs with Finland, France, Germany, India, Mauritius, UK

**7** **FDI**

- Up to 100% foreign ownership in almost all sectors

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## FDI Commitments

Top 5 Investment Commitment Sources

Source	USD Millions
India	3,766.57
China	2,484.43
Nigeria	500.00
South Korea	91.86
British Virgin Islands	79.42

**1** Department of Industries and Investment Board Nepal

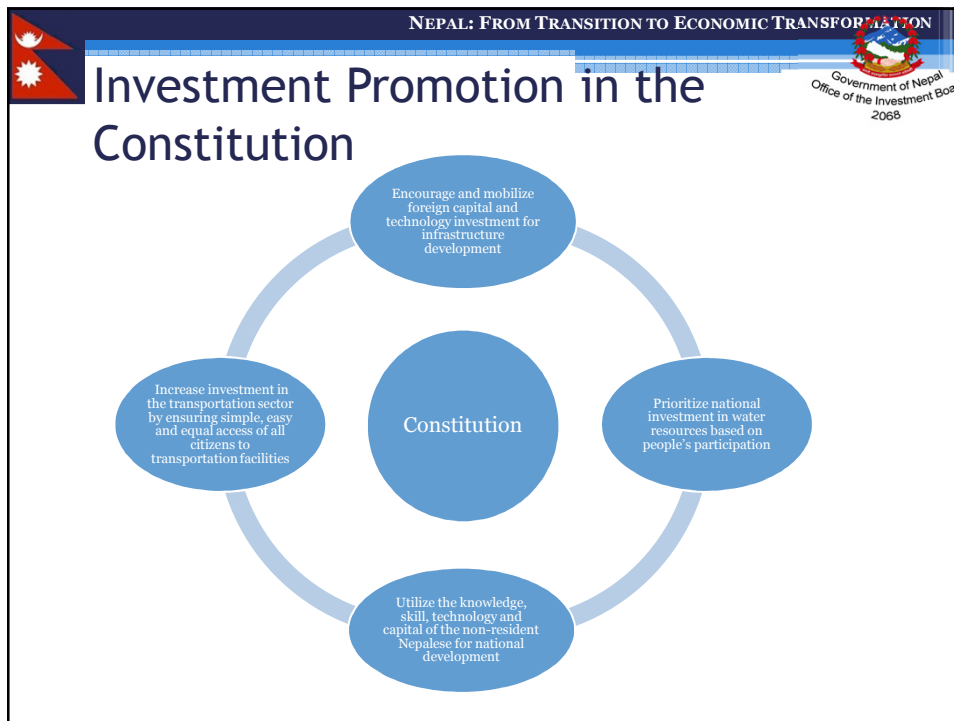
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WORLD BANK GROUP

## 2016 Doing Business Indicators

### DOING BUSINESS

South Asian Rankings		Nepal's Rankings	
Rank	Country	Category	Rank (out of 189 economies)
1	Bhutan	Ease of Doing Business Rank	99
2	Nepal	Starting a Business	105
3	Sri Lanka	Dealing with Construction Permits	78
4	Maldives	Getting Electricity	131
5	India	Registering Property	72
6	Pakistan	Getting Credit	133
7	Bangladesh	Protecting Minority Investors	57
8	Afghanistan	Paying Taxes	124
		Trading Across Borders	60
		Enforcing Contracts	152
		Resolving Insolvency	86



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## Reconstruction - Nepal needs Investments

Donor Summit Held : USD 4.4 Billion Pledged

High Level Reconstruction Authority formed and in operation

Need for private investments for sustainable reconstruction


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## Priority Sectors for Investment

HYDROPOWER		TOURISM
ROAD AND TRANSPORT INFRASTRUCTURE		ICT
AGRICULTURE		HEALTH AND EDUCATION

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## Hydropower: Key Opportunity



**Priority Rationale**

- The most untapped sector – **only 1.65% of Nepal's economically feasible potential has been realized**
- Holds the key to economic transformation

**Opportunities**

- Filling the peak shortage of over 500MW (not including the latent demand) domestically
- **Export Potential to India**–
  - India's power deficit is close to 75 million units per year.
  - **Dhalkebar-Muzaffarpur 400 kV cross-border transmission line being built (others in pipeline)**
  - **Power Trade Agreement moving forward**
- 66% of the installed capacity in India is thermal (mostly coal) and shortages in domestic coal is expected to exacerbate the build out of new coal plants

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## Tourism



**Priority Rationale**


- Naturally endowed resources, rich cultural heritage (12 World Heritage Sites and 8 out of the highest peaks) are comparative advantages
- Primary contributor of foreign exchange, one of the largest employer in service sector
- Development of the sector has the potential to uplift rural populations and create linkages with other industries like agriculture, indigenous crafts amongst others

**Opportunities**

- Huge Market - Total outbound tourists last year from India and China last year around 110 million – **Capturing even 2% of that figure would mean an annual inflow of 2.2 million into Nepal, which is 2.75 times higher than Nepal's total annual inbound tourists**
- Steady increase in tourist arrivals after the end of the civil conflict leading to shortage of facilities
- 10% of visitors to Nepal were for religious purposes – Developing related infrastructure around Lumbini, Janakpur and other religious sites could be advantageous
- Less than **25%** of identified peaks are open for climbing
- Planned **Lumbini International Airport** provides scope for religious tourism

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## Agriculture



**Priority Rationale**


- Contributes 1/3<sup>rd</sup> to GDP and almost 2/3<sup>rd</sup> of the labor force is involved
- Majority of people engaged in agriculture live below poverty
- Developing the sector a key tool for poverty alleviation and development

**Opportunities**

- Commercial Dairy Operations & Livestock – Nepal imports over half of its current meat and milk requirements
- Infrastructure -Slaughter houses, logistics, Fertilizer factory, irrigation projects
- Storage and cold storage facilities – Post harvest loss for offseason vegetable is 25-50%
- Numerous crops for domestic consumption and export – tea, coffee, cardamom, turmeric, fresh vegetables, exotic flowers, chili, mushroom
- Processing and R&D units to Value add businesses based on agricultural products
- Medicinal Herbs – Nepal’s unique topography and climate ideally suited

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## Road and Transport Infrastructure



**Priority Rationale**


- Poor infrastructure constrains growth in other sectors like Tourism, Agribusiness, ...
- Improving connectivity is key to development
- Large infrastructure projects generate employment
- Specialized zones required to boost exports

**Opportunities**

- Second International Airport (SIA – Nizgadh) (\$0.6 Billion first phase)
- Improving/upgrading airports to international airports – TIA, Pokhara, Lumbini
- Kathmandu Metro Transit System (\$5.5 Billion) – Will be country’s first railway transit system
- Kathmandu-Terai Fast Track (\$1.0 Billion) - Will provide considerable savings in time and cost, complements the proposed SIA at Nizgadh
- North South Birgunj-Rasuawagadi Corridor (\$1.7 Billion) - Road project capitalizes on the burgeoning trade between India and China, complements Kathmandu-Terai Fast Track

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## Mining & Minerals



Priority  
Rationale


- Extraction of Nepal's minerals holds the key to rural development
- Nepal's mineral reserves are largely unexplored and the industry is largely undeveloped and not mechanized

Opportunities

- Limestone – Known reserves of 1.25 billion MT of cement grade
- Dolomite – Over 5 billion tons of known reserves
- Decorative Stones – Marble, granite, quartzite & slate
- Gemstones – Tourmaline, aquamarine, ruby, sapphire are some known precious/semi-precious reserves
- Fuel Minerals – No known reserves of Natural gas and petroleum but international conglomerates continue to explore for them.

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## Information, Communication, and Technology



Priority  
Rationale

- Emerging, young, educated and employable labor available at comparatively lower costs
- Capitalize on spillover benefits from India's IT boom
- Generation of high volume and/or high paying employment opportunities to stem the brain drain


Opportunities

- Over 10M population b/w age 15-30 of which 70% is educated.**
- Cheap human resources available for Midsized companies, 500-1000 employees catering to specialized software sectors like banking services, data mining & software design
- Untapped e-governance market for investors to incorporate IT into government services such as MRP passports, computerized citizenship cards, digitized land records
- Scope of internet services - Internet penetration still very low
- Low labor cost compared to India and other SA countries - Comparative Advantage**



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## Health and Education



**Priority Rationale**

- Health & Education are the most fundamental building blocks for human development and poverty alleviation
- Investments by private sector can ease the burden on GoN, thus allowing it to allocate resources to the most needy

**Opportunities**

- Institutions of higher learning – **In the fiscal year 2012-13, more than 16 thousand students went abroad for higher education**
- State of the art medical schools and hospitals – such institutions attract students and patients from South Asia
- Vocational training schools
- Largely untapped market for institutions with foreign affiliations

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## Investment Approving Authorities

**Foreign Investment Approval by Size**

Investment size (Fixed Capital)	Application at	Approval by
≥ NPR 10 B (USD100 m)	IBN	IBN
< NPR 10 B ≥ NPR 2 B (USD20 m)	Department of Industry (DOI)	Industrial Promotion Board (IPB)
< NPR 2 B	Department of Industry (DOI)	Director General (DG) of DOI

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<b>FDI-Related Laws and Policies</b>	
Foreign Investment and One Window Policy, 1992	<ul style="list-style-type: none"> <li>Policy clearly explains the objectives of foreign investment, the forms of such investment, their procedural aspects, the facilities and concessions to be provided to them, as well as the speedy and efficient administrative and institutional services to be made available through a one window system.</li> </ul>
Foreign Investment and Technology Transfer Act (FITTA), 1992	<ul style="list-style-type: none"> <li>Foreign Investment and Technology Transfer Act (FITTA) 1992 allows foreigners to form either a private limited company or a public limited company in Nepal</li> </ul>
Industrial Enterprise Act (IEA), 1992	<ul style="list-style-type: none"> <li>Act passed to make arrangements for fostering industrial enterprises in a competitive manner through the increment in the productivity by making the environment of industrial investment more congenial, straightforward</li> </ul>
Company Act, 2006	<ul style="list-style-type: none"> <li>An Act made to amend and consolidate the law relating to companies</li> </ul>
BOOT Act, 2008	<ul style="list-style-type: none"> <li>The Act Enacted to make provisions on Private Financing in Build and Operation of Infrastructure</li> <li>Focuses on implementation of projects through private financing</li> </ul>
Industrial Policy, 2010	<ul style="list-style-type: none"> <li>Policy aims to increase activities of industrial development will and employment opportunities by assistance to export-oriented activities and promotion of local resources</li> </ul>
Investment Board Act, 2011	<ul style="list-style-type: none"> <li>Act related to formation of Investment Board to fast-track infrastructure and other investments</li> </ul>
Foreign Direct Investment Policy, 2015	<ul style="list-style-type: none"> <li>Update of the previous policy; negative list shortened</li> </ul>
Public Private Partnership Policy, 2015	<ul style="list-style-type: none"> <li>Provisions for Project preparatory fund</li> <li>Provisions for Viability Gap Funding</li> </ul>



**Nepal is open for business**

**Investment Climate Going Forward:**

- Constitution promulgated and Regulatory efforts to continue; new investment laws and policies to be tabled and ratified
- **Strong political commitment to attracting FDI leading to higher investor confidence**