

सम्मानित निजी क्षेत्र, समुन्नत नेपाल



# INVESTMENT MEMORANDUM



# Introduction & Nepal's Economy

Nepal is now steadfast to becoming a lower-middle-income economy.

*Nepal has achieved strong economic and human development gains in the last two decades against overwhelming odds stemming from a prolonged civil war, two major earthquakes atop of pre-existing structural and geographic limitations.*

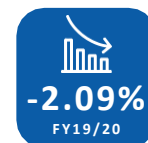
*When pitted against its regional peers, Nepal has made commendable strides in reducing poverty and increasing enrollment in education, among others.*



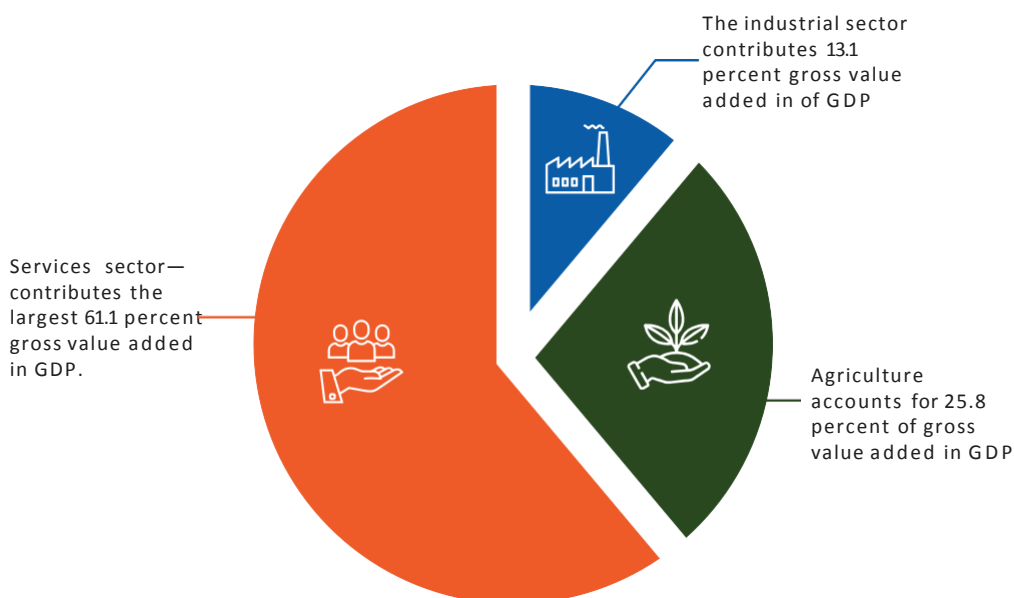
Nepal maintained an average growth rate of 4.9 percent over FY09-FY19<sup>1</sup>.



Nepal's average growth rate in the three years preceding the COVID-19 pandemic was 7.75 percent<sup>2</sup>.

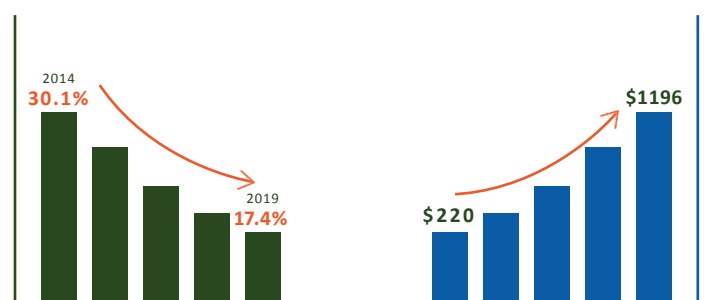


Economic growth stood at negative 2.09 percent in FY19/20, and is projected to rise to 4.01 percent in FY20/21<sup>3</sup>.



\*In 2020/21 CBS, 2021

Nepal is a low-income, developing nation with an estimated GDP of \$32.62 billion (current prices) and gross national domestic income of \$1486 in 2020/21<sup>5</sup>.



Nepal succeeded to reduce the Multidimensional Poverty Index from 30.1% in 2014 to 17.4% in 2019, a 42% reduction in just five years.

GNI Per capita (USD) increased nearly six folds from \$220 in 2000 to \$1196 in 2020/21.<sup>4</sup>

1. The World Bank, Oct. 2021 Accessed via: <https://www.worldbank.org/en/country/nepal/overview#1>

2. Nepal Economic Survey 2019-20 Ministry of Finance, 2020 Accessed via:

[https://www.mof.gov.np/uploads/document/file/Economic%20Survey%202019\\_20201125024153.pdf](https://www.mof.gov.np/uploads/document/file/Economic%20Survey%202019_20201125024153.pdf)

3. MoF, Nepal Economic Survey 2020/21

4. MoF, Nepal Economic Survey 2020/21

5. MoF, Nepal Economic Survey 2020/21

There is a noticeable shift in Nepal's economy from subsistence-based agriculture to modernized service and industrial sector.



Since 2008 4 million jobs were added to the economy and nearly half were wage jobs<sup>6</sup>.



The share of wage work in Nepal jumped from 17percent to 24 percent of total employment between 2008 and 2018<sup>7</sup>.

Nepal is in the mid to late stages of a demographic transition that holds the potential to induce catalytic economic growth and is slated to enjoy a demographic dividend of unprecedented scale. Foreign investors can seize this demographic dividend.



Nepal's population is nearly 30 million people in 2022 and will reach its peak population of 35.32 million by 2049<sup>8</sup>



By 2030, Nepal will have a 6 percentage point rise in the economically active population providing a window till 2047 to leverage the demographic dividend.<sup>9</sup>



Nepal has an active working population of about 14 million<sup>10</sup>.



60.5 percent of Nepal's population belongs to the productive age group (15-59 years) category<sup>11</sup>.



A labour force participation rate of 77 percent means Nepal is higher than its South Asian peers in this aspect<sup>12</sup>.

Nepal has 756 thousand working-age returnee migrants.<sup>15</sup> Their skills could be harnessed in the plant, machinery and assembly sector, service & craft/ trade sector and skilled agriculture, forestry and fishery.

Nepal has a large trade deficit. Demand for imports in Nepal hinges on a mix of high consumption base and low domestic production.



Import Nrs. 1539 billion in 2020/21<sup>13</sup>.



Export Nrs. 141.12 billion in 2020/21<sup>14</sup>.

6. Elizabeth Ruppert Bulmer, Ami Shrestha, and Michelle Marshall. 2020. "Nepal Jobs Diagnostic." World Bank, Washington, DC  
7. Elizabeth Ruppert Bulmer, Ami Shrestha, and Michelle Marshall. 2020. "Nepal Jobs Diagnostic." World Bank, Washington, DC.  
8. World Population Review. (2021). Nepal Population Live 2021. Accessed via: <https://worldpopulationreview.com/countries/nepal-population>  
9. Elizabeth Ruppert Bulmer, Ami Shrestha, and Michelle Marshall. 2020. "Nepal Jobs Diagnostic." World Bank, Washington, DC.  
10. CBS. (2018). Nepal Labor Force Survey.  
11. CBS. (2018). Nepal Labor Force Survey.  
12. CBS. (2018). Nepal Labor Force Survey.  
13. NRB, Current Macroeconomic and Financial Situation of Nepal, 2020/21  
14. NRB, Current Macroeconomic and Financial Situation of Nepal, 2020/21  
15. Nepal Migration Report 2020, Ministry of Labor, Employment and Social Security, GoN

# FDI Opportunities

## Nepal offers unmatched strategic advantage

*Situated between two emerging economies, India and China, Nepal offers more than 1400 KM of open border in the South with India and easy connectivity in the North with China.*

## Prospective investors can enjoy attractive financial advantages

*100% foreign investments are allowed in Nepal save for certain sectors in the negative list. Laws related to repatriation and tax holiday have been revisited. Nepal has also set the right foot forward by introducing a competitive corporate income tax approach: general 25% and priority sectors - Energy, Transport, Infrastructure and manufacturing at 20%.*

*Legislative landscape surrounding investment is being eased which is promoting private sector involvement*

## Nepal is committed to safeguarding the foreign investment it hosts

*Nepal has initiated the practice of Project Development Agreement - PDA (for PPP Projects) - Project Investment Agreement - PIA (for Private Projects) - Provision of Non-Nationalization and National Treatment*

## FDI to fuel Nepal's effort in Import Substitution

*Nepal's economy is highly dependent on remittances. The remittances have been spent to sustain consumption— which has increased Nepal's import dependence as it lacks its own strong manufacturing base at home. This could however be used as an opportunity by foreign investors who wish to produce in Nepal whilst generating handsome investment returns.*

## Nepal's immigration policies are investor friendly

*Tourist visa on arrival, Non-Tourist Visa and Business Visa for Foreign Workers and Investors - Residential Visa for Investors (Investment  $\geq$  USD 1 Million)*

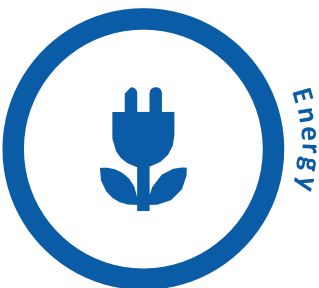
## Some success stories of foreign investments in Nepal



**HONGSHIVAM**



# Sectoral Opportunities





# Agriculture & Agro Processing

## Overview

The agricultural sector in Nepal is gradually transitioning from subsistence to commercial scale.

## Growth Driver

Various multilateral and bilateral as well as regional agreements provide Nepal an easy access to the international market with a low tariff bracket.

Agriculture sector business can avail concessional lending in the form of interest rate subsidy, refinancing and even direct credit facility.

40 % tax exemption on fruit-based brandy, wine, cider-producing industries established at under-developed areas

Effective tax rate of 70 % for agriculture industry that provides direct employment to at least 100 Nepalese national during a whole year

Agriculture sector business can avail upto 100% tax exemption based on their employment generation, geographic location and investment amount. 0 % VAT on primary and basic agricultural goods

## Opportunities



Processing



Packaging

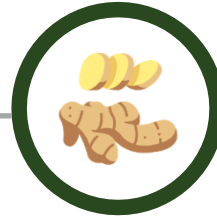


Branding

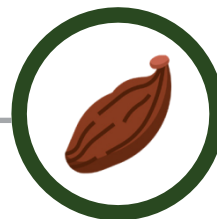
FDI in Agriculture in Nepal is permitted in secondary and tertiary agro activities i.e. processing, packaging, branding. This also allows foreign investments in agri-related infrastructure across logistics & supply chain, modern phytosanitary facilities, packaging and cold storages as well as marketing/branding infrastructure.



- Tea is one of the priority export sectors identified by NTIS 2016
- Favorable soil condition, high altitude, and excellent climate to grow tea
- Strong potential to penetrate the U.S. and European organic tea markets.



- Nepal is one of the top five producers and exporters of ginger in the world
- Ginger is a priority export sector identified by NTIS for value chain development.



- Nepal is the largest producer of large cardamom
- About 90 % of the cardamom produced in Nepal is exported to India with import value over USD 300 million
- Huge scope in centralizing the collection and establishing efficient production and value chain will help in the industry's growth



- Demand for MAPs especially as inputs for consumable and cosmetic goods has been on the rise globally.
- Investors can eye packaging and branding aspects to create high value addition and integrate processed MAP to the international market.

# Health & Education

## Overview

A high out-of-pocket expenditure to access quality health services indicates that the private sector needs to seize the potential.


Nepal showed a faster increase in the expected years of schooling compared to its neighbors in the South Asia region while the shadow price of human capital, which is measured in terms of return to education, is low.


## Growth Drivers

### Education


 Rising demand for quality education


Private sector involvement in technical and vocational education verticals have received support and investment from various development partners

 VAT exemption for schools and universities, different research programs, income earned from professional/ vocational trainings conducted with non-profit earning motive


 58,758 students applied for no objection certificates to study abroad in the fiscal year 2017-18 and this number rose to 63,259 in 2018/19 according to the Abroad Study Permission Section at the Ministry of Education and Science & Technology. 57.2 percent of the students had applied for Australia. After Australia, Japan comes up as the most favored destination among Nepali students vying for foreign education. India and China stand as 4th and 5th most favored countries respectively


### Health

 Demand for specialized healthcare services is on the rise. Private sector investment has been well received in the past as evidenced by supportive regulatory reforms by the government

 Proliferation of partnership between Nepali and foreign hospitals; Norvic Hospital and Medanta Hospital India, Grande Hospital and Samitivej Hospital Thailand, Vayodha Hospital and Fortis Escorts Heart Institute India

## Health

 VAT exemptions on medical/surgical services provided by government institutions, human blood and its products, x-ray film and oxygen gas used for treatment

 Full exemptions on various equipment used by visually impaired and people with different abilities

## Opportunities



Technical and Vocational Education



Digital literacy and ICT enabled education solutions



Research and Innovation Infrastructure



Tertiary and curative care for General and specialized health needs



Pharmaceutical manufacturing



Cold-Chain logistics



E-Learning Platforms



Telemedicine

# Energy

## Overview

With over 6000 rivers & rivulets and with altitude variation ranging between 100 to 8848 meters, Nepal offers tremendous hydro potential.

## Growth Drivers



### Governments Targets:

- 100% electrification by 2023
- Increasing per capita electricity consumption from 285 Kwh to 700 Kwh by 2022/23
- 10% of total energy production via wind, solar and bio-mass by prioritizing integration of energy produced from renewable sources to the national grid.
- The GoN has adopted a progressive outlook on enhancing ties with South-Asian countries to increase cooperation in power trade, transmission interconnection, and grid connectivity



### Major Breakthroughs:

- MoU on BIMSTEC grid Integration
- Power Trade Agreement with India
- MoU with Bangladesh
- Project Development Agreements for HEPs
- Competitive licensing process for Hydropower
- Nepal-India Joint Vision Statement on Power Sector



17% return on equity guaranteed by Electricity Regulatory Commission (ERC) for projects exceeding 100 MW



0% tax reduction for BOOT projects, and for construction of powerhouse, hydropower generation, and transmission



VAT exemption on import of necessary construction goods not manufactured in Nepal



Maximum permissible FDI in energy is 100%

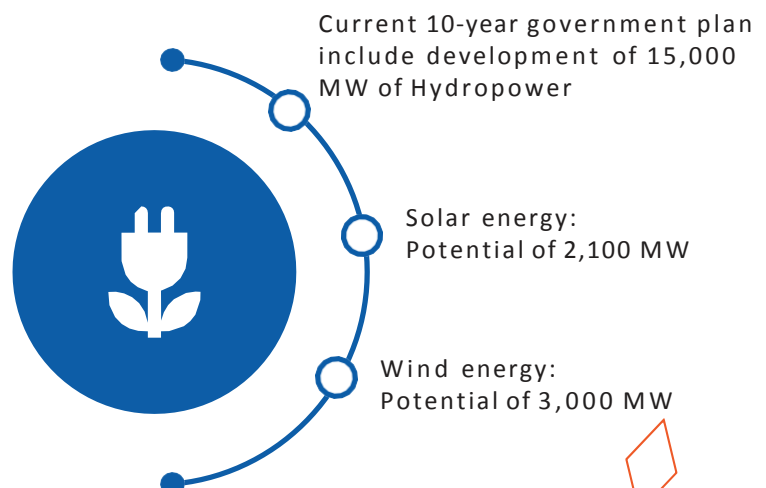


100% tax exemption on the first 10 years; 50% tax exemption on the next five years



Cross border energy trade to establish Nepal as the battery of South Asia

## Opportunities





# Financial Innovation & Banking

## Overview

Policies of financial sector liberalization and globalization have transformed Nepal's financial sector. Several joint venture banks along with the domestic private sector participation have resulted in the domination of the banking sector by private banks.

Financial institutions dominate the stock market as they account for 78.2% of market capitalization. There are 147 financial institutions of total 212 listed companies.

Financial market infrastructures including Credit Information Bureau (CIB), Central Securities Depository and Clearing Ltd (CDSC) and Nepal Clearing House Ltd (NCHL) support the Nepali financial sector.

Nepal Rastra Bank (NRB) has recently launched a real-time gross settlement system (RTGS) for real-time transfer of high-value transactions.

CIB operates a secured transaction registry aimed at promoting bank credit to SMEs against the collateral of movable and intangible property thereby reducing the cost of doing business.

## Growth Drivers



Foreign BFIs can invest 20% to maximum 85% of paid-up capital in JV with Nepal's BFIs

BFIs can borrow in foreign currencies up to 100% of their core capital



Multilateral institutions are allowed to local currency bonds while commercial banks can issue debenture of a minimum 25% of their paid up capital

Fintech companies providing a holistic solution-set across mobile and internet banking, coupled with QR-based payment solutions have been well received in Nepalese Market.



## Opportunities



### Alternative Assets Class

Private Equity and Venture Capital investing is picking up in Nepal



### BaaS

Amidst increased demand from Nepali banks for Banking-as-a-Service (BaaS) solutions white-label internet and mobile banking solutions have an immense market incentive for rendering interoperable solutions to Nepalese BFIs.



### Fintech

Demand for Fintech solution is extensive

# ICT & Digital Economy

## Overview

*Increased access to the internet and uptake of digital services has re-configured connectivity and information sharing among the masses. This ICT enablement has led public and private sectors to fundamentally alter their service delivery and quality control mechanisms.*



Internet penetration rose from 34% in FY17 to 45% in FY21. Broadband penetration has reached 84.09% till mid-Jan 2021<sup>17</sup>



Nepal's e-commerce industry is valued at US\$30 million and is expected to grow at more than 41%

**US\$ 709 million**

ICT service exports of Nepal between 2017 - 2019<sup>18</sup>

## Growth Drivers

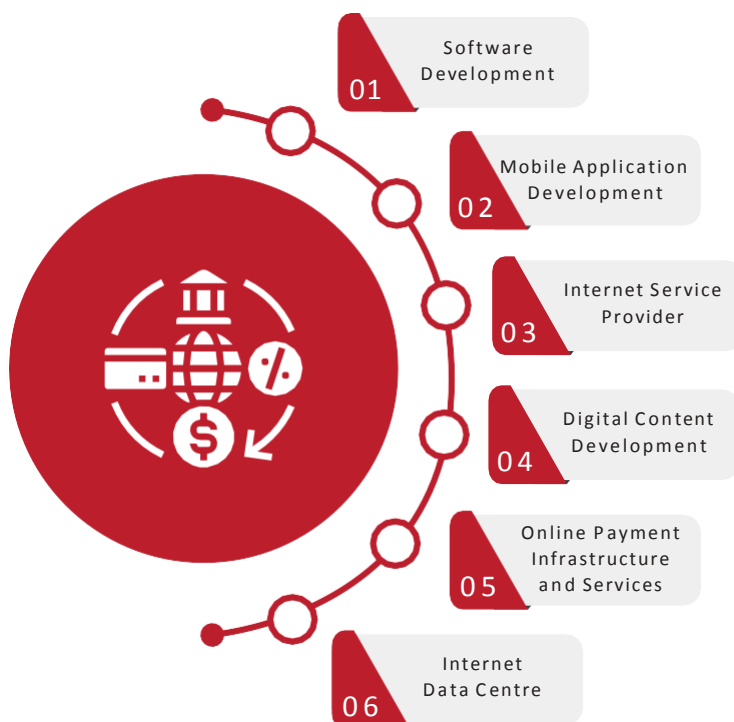
*Increased access to the internet and uptake of digital services has re-configured connectivity and information sharing among the masses. This ICT enablement has led public and private sectors to fundamentally alter their service delivery and quality control mechanisms.*

**10% tax rebate on ICT industries employing 300+ Nepalese**

**15% tax rate exemption for ICT industries established in SEZ and IT park and are listed in stock exchange**

**50% tax exemption on software development, information processing, cyber cafe, and digital mapping industries established in the technology park, bio-tech Park, and information processing park specified by the government of Nepal through Rajpatra.**

## Opportunities



*Nepal has a large young skilled and low-wage, english speaking workforce. Hence, it has a huge potential for BPOs. These companies are operating successfully, catering to both domestic and international clients.*

**fuse | machines**



**INCESSANT RAIN**



**deerwalk**

**40%**

Nepal's e-commerce sector is experiencing growth at over 40% per annum



**NTC**

Largest telecommunications service provider with 55.6% market share as of Oct. 2019

**Ncell**


Second largest telecommunications service provider with 39.5% market share as of Oct. 2019


# Tourism


## Overview


Nepal is bestowed with immense diversity in geography and climate, and has a rich cultural and historical heritage. The tourism industry contributed 7.9% to Nepal's GDP in 2018/19 and employed more than half a million people directly.

## Growth Drivers

 *The National Tourism Strategy 2016-2025 envisages a five-fold increase in arrivals to 2.52 million annually by 2025*

 *The Industrial Enterprise Act 2019 has included tourism sectors such as adventure tourism, rural tourism, religious & sports tourism as a priority*

 *Tourism Industry with a capital investment exceeding Nrs 2 billion can avail income tax waiver for the first five years of their operations and a 50% income tax waiver for additional three years thereafter.*

 *Prior to the Covid-19 pandemic, Nepal had witnessed a growth of at least 25% on year-year basis in 2017 & 2018*

## Opportunities



Tourism Infrastructure:  
Hotels, Recreation  
centres, Ropeways



Potential for expanding the  
market for Meetings,  
International Conferences  
and Events (MICE) tourism



Adventure Tourism:  
Zip-Line, Bungee, Rafting,  
rock-climbing,  
high-altitude cycling



Ecological & Cultural  
Tourism: Community run  
Homestays



Tourism related Auxiliary  
services surrounding  
leisure, adventure and  
medical tourism



# Urban Infrastructure

## Overview

Nepal is one of the world's least urbanized and fastest urbanizing countries.

*The economic, spatial and mobility trends in Nepal signals an inevitable urbanization and urban growth. This necessitates as well as creates profitable investment opportunities in urban infrastructure so that it matches the pace of urbanization.*

*Rapid urbanization and declaration of new municipalities by merging rural municipalities have increased the urban population of Nepal to 62.2 percent.*

*Nepal's infrastructure investment needs are quoted at 10-15 percent of GDP annually (World Bank Group, 2019)*

## Growth Drivers

*National Urban Development Strategy (NUDS): an inter-ministry and inter-agency endorsed 15-year strategic plan (2015-2031) to realize the need for a consolidated strategy for urban development features the following national objectives*



Strengthening urban-rural linkages



Upgrading inter and intra-provincial, regional road connectivity standards



Improving connectivity infrastructure in key Terai urban centers



Facilitating small towns in realizing their comparative advantage



Facilitating higher level functions in major provincial/regional urban centers



Creating infrastructure for "smart" cities in priority locations

## Opportunities



Smart Cities



Integrated Waste Management



E-Governance



Strengthening connectivity between urban and rural centres



ICT enabled Public Service Delivery

## FDI Helpdesk

FNCCI in collaboration with the Investment Board Nepal has established a help desk in order to ensure that foreign investors are well-informed about the regulatory requirements and well-equipped with market intelligence to venture into Nepal. The goal is to establish provide tailored services to those who want to bring in investment into Nepal. This will ensure that investors are well informed about the policy and processes required to enter the business ecosystem in Nepal and repatriate their investments.

Moreover, the helpdesk will ensure that the investors are better able to navigate Nepal's legislative landscape and are aware of the Returns on Investment in various sectors. This will ensure they make well-informed decisions about investing in Nepal after carefully considering its policies, visa-related issues, and local context of investments. They will also have the opportunity to directly work with Nepali businesses in the language of business.

### Major Functions of the FDI Helpdesk:

- Establish a private-sector led support system for foreign investors looking to invest in Nepal
- Provide services related to registration, operation of business, and exit of an industry from a single window operated by the private sector
- Help foreign investors in meeting compliance in regards to issues such as investment approval, securing labor permit, visa facility, foreign exchange, environmental compliance, among others



# FOREIGN DIRECT INVESTMENT

## HELP DESK

#investinnepal



## Resources & Links



Investment Board Nepal

<https://ibn.gov.np>



Federation of Nepalese  
Chamber of Commerce  
and Industries

<https://fncci.org>



Department of  
Industry, Commerce  
and Supplies

<https://doind.gov.np>



Nepal Rastra Bank

<https://www.nrb.org.np>



Ministry of Finance

<https://www.mof.gov.np>



Ministry of Industry,  
Commerce and  
Supplies

<https://moics.gov.np/>



Ministry of Foreign Affairs

<https://mofa.gov.np>



Office of the Prime Minister  
and Council of Ministers

<https://www.opmcm.gov.np/>



Federation of Women  
Entrepreneurs Association of  
Nepal

<https://www.fwean.org.np>

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