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Foreign Direct Investment in Nepal: Status and Way Forward

Yam Kumari Khatiwada[1]

Abstract

Foreign Direct Investment (FDI) has been used by developing countries as an important tool for economic development of the country specially to manage the resource gap between saving and investment, government revenue and expenditure gap, trade gap as well as to enhance knowledge, skill, trade, and entrepreneurship efficiency within the country. Inflow of FDI in Nepal started with the adaptation of economic liberalization since 1990 introducing investment friendly policies and institutions. This paper analyses the situation of FDI inflows in Nepal by various accepts such as country wise, sectors wise, scale wise investment based on available data from 2047 to 2078. It also highlights some of the challenges and the opportunities of FDI in Nepal and finally it has provided some of the recommendation for way forward to create investment friendly environment to increase FDI inflows. With its all prospects, the article argues that FDI is essential to manage the required resource gap for economic development of Nepal, and to graduate from LDC to developing country by 2030 which is one of the agendas of SDGs.

Keywords: *Foreign Direct Investment, liberalization, Investment friendly policies.*

JEL Classification: *F21, F41, E22.*

Introduction

Foreign Direct Investment (FDI) is a composite package that includes physical capital, production techniques, managerial skills, production of goods and services, marketing expertise, advertising, and business organizational processes etc. (Zhang, 2012). It is argued that FDI has important growth effects on host economies. According to the Exogenous Growth-theory, FDI can boost the host country's economy via capital accumulation, introduction of new goods, and foreign technology.

FDI is becoming a key to economic development of developing countries. Private FDI is seen as a way of filling in gaps between the domestically available supplies of saving, foreign exchange, government revenue, and human capital

[1]**Ms. Khatiwada** is a Former Secretary of Government of Nepal. Email: yamunaau70@gmail.com; ORCID: https://orcid.org/0009-0003-9118-4123

skills. The desired level of these resources necessary to achieve growth and development targets (Todaro & Smith, 2019). According to World Investment Report - 2021, global FDI flows in 2019 was $ 1.5 trillion. The COVID -19 crisis caused a dramatic fall in FDI in 2020. It dropped by 35 percent that is $1 trillion from $1.5 trillion in 2019.

As the first generation of economic reform, Nepal has been adopting economic liberalization in order to attract FDI since 1990s. Initiating the liberal FDI policies and creating the FDI friendly institutions, new avenues for FDI in Nepal opened-up. Government of Nepal promulgated investment related new laws and regulations, policies, institutional and procedures reforms. Nepal established 'Investment Board' under the chair of Prime Minister to show its high-level commitment of government to attract more FDI and created one stop service center to provide all required services and facilities to investors from one center. Nepal received Rs. 37,805.83 million of FDI in fiscal year 2019/20 which decreased to 32,172.82 million in fiscal year 2020/21 due to the COVID-19 pandemic (DoI, 2021). For Nepal, FDI is uninvent able to fulfill the domestic resource gap for investment, saving, foreign reserve, balance of payments and the government revenue. At the same time, FDI plays a vital role to create employment, decreases trade deficit through import substitution and export promotion so as it has contribute to increase GDP and poverty reduction of the country at large.

Objective of the Study

The major objective of the study is to analyze the FDI situation and way forward to increase FDI in Nepal. However, the specific objective of the study is analyze the status and present situation of FDI in Nepal. Besides, the study is also highlighted some major problems, challenges, and to overcome the given problems of FDI in Nepal.

Methodology and Sources of Data

The study used descriptive analysis of the present situation of FDI in Nepal by using the secondary data related to 25 years from 1995/96 to 2019/20. The required data and information were collected from various publications of Department of Industry, Ministry of Law, Justice and Parliamentary Affairs, Nepal Rastra Bank, National Planning Commission etc. The major tools of data analysis are the tables, figures, percent, etc.

Theoretical Background

FDI as a Tool for Economic Development

It is believed that FDI contributes largely to create national output and employment generation in the economic development of the country. Previously the role of the agriculture was the prime sector to start the wheel of economic growth. The division of classical theories evolved in the 1950s and 1960s agriculture was taken as a passive contributor to economic growth, and the agricultural-led industrialization school was formed in the decade of 1970s and 1980s.

Through the exogenous or neo-classical growth model, it has been shown that FDI is a tool which can impact economic growth directly through capital accumulation and the inclusion of new inputs and foreign technologies in the production function of the host country. This model shows that FDI promotes economic growth by increasing the amount and/or the efficiency of investment in the host country. Unlike neo-classical growth models, which assume technological progress to be exogenous, the new growth models postulate that economic growth is driven by two main factors i.e. the stock of human capital and technological changes (Romer, 1990; Lucas, 1988).

FDI as an Engine of Growth

Although both the exogenous and endogenous growth theories argue that capital accumulation or formation is an important determinant of economic growth, they differ in their treatment of technological progress. FDI by multinational corporations (MNCs) is assumed to bring research and development (R&D), in addition to human capital accumulation, which creates positive or negative externalities (growth spillovers) that would affect the host country's firms and the economy (Barro & Sala-I-Martin, 1995). These growth factors or FDI spillovers are assumed to arise from tangible capital, human capital, and research and development expenditures.

The given two growth theories and the FDI-economic growth illustration reveal that FDI can contribute to economic growth as an engine through both direct and indirect impact. OECD (2002) elucidates that FDI represents a potential source for sustainable growth and development, given its assumed ability to generate technology spillovers; assist in the formation of human capital and development; help the host to integrate into global economic trade integration; and assist in the creation of a more competitive business environment and enhance enterprise development. These studies show that FDI has a positive effect on the economic growth and welfare of the recipient country through the benefits it brings, such as increased investable financial resources, new innovation and technology, skills development, new managerial skills, creation of job opportunities, improvement in working conditions of employees, development of industrial sector in the host country, increase in global exposure, and restructuring for domestic firms.

Analysis and Discussion

Global and Regional Trend of FDI

UNCTAD's World Investment Report (2021) depicts that FDI flows remained U.S. $ 999 billion in 2020. Due to COVID -19 pandemic, FDI inflows to developed economies has decreased by 156 percent in 2020 to U.S. $ 312 billion from U.S. $ 800.24 billion in 2019, and inflows to developing economies decreased by 3.1 percent which has been indicated in the following table.

Table 1: FDI Inflows by Economy and Region (in U.S. $ in billion)

Years	2014	2015	2016	2017	2018	2019	2020	Perent Change
World	1,403.86	2,041.77	1,983.48	1,700.47	1,495.22	1,539.88	999	- 54
Developed Economies	669.56	1,274.41	1,265.25	950.15	761.39	800.24	312	-156
Developing Economies	677.34	729.89	651.98	700.64	699.31	684.72	663	- 3.1
Transition Economies	56.96	37.48	66.25	49.68	34.53	54.92	24	- 128
South Asia	41.45	51.22	54.28	51.64	52.22	57.43	N/A	N /A
Asia	460.18	514.31	468.4	502	498.56	473.9	535	11.5

Source: World Investment Report, UNCTAD, 2021.

According to UNCTAD's report, Asia remained the largest FDI recipient region as it accounts for 53.5 percent of global inflows in 2020. FDI in this region increased from U.S. $ 473.90 billion in 2019 to U.S. $ 535 billion in 2020. The three largest recipients are China (U.S. $ 141.23 billion), Singapore (U.S. $ 92.08 billion), Hong Kong, and China (U.S. $ 68.38 billion).

Situation of FDI in Nepal

Legal and Institutional Arrangement

Before 1990s, so called pre liberalization period, the investment was more preventive and restrictive. It was very tough to acquire a government license before undertaking any production and business activities. Nepal has started its determination to attract foreign investment since early 1980s (Hasan & Kim, 2014). With the adaptation of liberalization and open market policy, Government of Nepal introduced a number of economic policies like Industrial Policy - 1992, Foreign Exchange (Regulation) Act - 1962, Industrial Enterprises Act - 1992 (first amendment, 1997), Foreign Investment and One- window Policy - 1992 allowing foreign investment with the shares up to 100 percent in all most all sectors except on very few sectors of 'Negative List,' Foreign Investment and Technology Transfer Act (FITTA)- 1992 which was revised in 1996, 2000, 2002, and 2010. The Privatization Act-1994 has open up the avenues of privatization process specially the public owned enterprises.

The Government of Nepal enacted and revised more than a dozen of economic and investment related new laws and acts as a second-generation reform of economic policies to create business and investment friendly environment specially making them compatible to WTO and globalization context i.e. FITTA-2019, Copy Right Act, Industrial Enterprises Act-2020, Labor Act, Environmental Protection Act, Public Private Partnership and Investment Act, Land Reform Act, Hedge Fund Regulation, Special Economic Zone Act and its regulation, Company Act. At the same time there are many laws related to investment are under implementation and some of them including Patent, Trademark and Design Act 1965 are in amendment process. Ministry of Industry, Commerce and Supplies, Industry and Investment Promotion Board, Department of Industry, Investment Board of Nepal, Concerned Ministries, Nepal Rastra Bank, and other related organizations are the major institutional mechanism to facilitate, manage and regulate FDI in Nepal. FNCCI, CNI, FNCSI, Chamber of Commerce are the private sectors umbrella organizations to promote domestic investment and foreign as well as.

Foreign Direct Investment Defines by FITTA

FITTA - 2019 is a major act to regulate and facilitate FDI. FITTA defines foreign investment that includes share investment in the form of foreign currency /re-investment from the earnings from thereof, loan in the form of a foreign currency or capitalized assets, machineries, equipment on lease finance**,** foreign currency raised by the Nepali companies issuing bond and debenture in other countries with the prior approval of Nepal Rastra Bank, investment by the foreign institutions in the listed companies in the secondary market

Prohibited Sectors for Foreign Investment

According to FITTA, foreign investment is prohibited in real state, micro and cottage industries, mass communication media (TV, Radio, Newspaper), tourist, trekking, mountaineering, arms and ammunition, minting and security printing, poultry fisheries primary products, radioactive materials multi - brand retail business with fixed investment less than 500 million rupees.

Financial and Other Facilities for Investors

FITTA and tax act have provided many financial and other facilities to promote FDI. Investors are allowed 100 percent repatriation of profit from foreign investment and 100 percent tax rebate for a certain period for industries like hydro, manufacturing, mine based, infrastructure, tourism sectors. They are provided tax rebate on re-investment, minimized custom duties on import of machinery as an equity injection, rebate on custom duty on hydro equipment and machinery, Tax rebate on R&D, Cash incentive for export if the value addition at least 50 percent of the product special provision of tax exemption has been made for the industries inside the 'Special Economic Zone' such as100 percent tax exemption for first 10 years and 50 percent afterward. For the investor who invest inside the 'Special Economic Zone' of mountain or stipulated hilly areas. This exemption is provided 100 percent for first five years and 50 percent afterward for other industries inside the zone. Dividend tax is also exempted 100 percent for first year and 50 percent for next 3 years inside the zone.

Technology Transfer as a Foreign Investment

FITTA - 2019 is also a major act to regulate and facilitate technology transfer. FITTA has defined 'Technology Transfer' as a foreign investment, which includes foreign technical consultancy management and marketing Service, trademark of foreign ownership, goodwill, technological right, specialization, formula, process, patent or technical know - how of foreign origin. Similarly, use of intellectual property like patent, design, specification, formula, process, and technological knowledge, assignment, user's license, franchising are also considered as foreign investment as technology transfer.

FDI Inflows

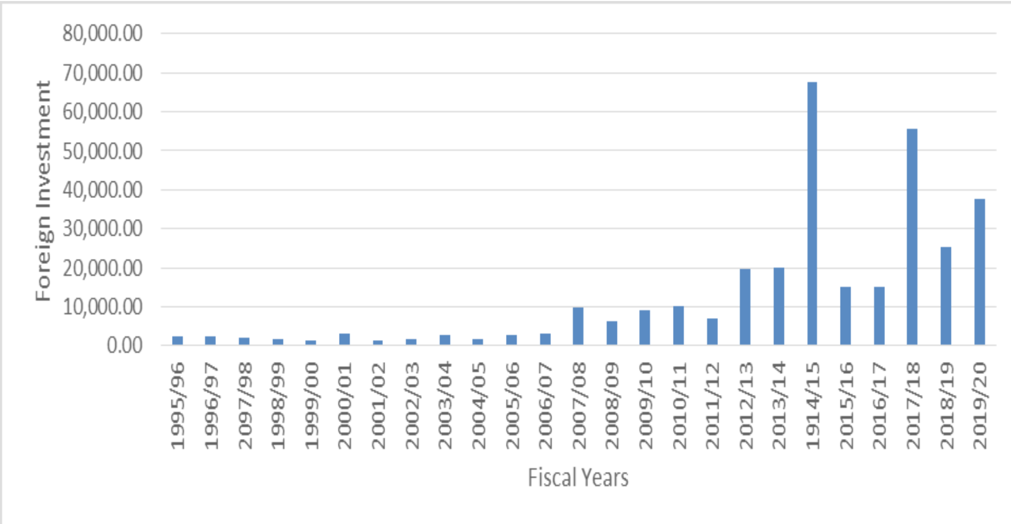
FDI is inevitable to serve as a major source of financing to complement domestic investment for the economic growth and development of country. The following table 2 shows the complete description of foreign investment status approval from the FY 1995/96. It shows the number of projects, total project cost, total amount of foreign investment and the number of employment generation. According to the data, total numbers of project are 4345, the total number of employments is 219213 and the total FDI gone to 340429.82 million NRs. (NRs.390.5 billion) as shown in the Table 2 and Figure 1.

Table 2: FDI Status in Nepal (NRs. in million)

Fiscal Years	No. of Projects (in units)	Total Project Cost	Total Fixed Cost	Total Working Capital	Total Foreign Direct Investment	No. of Employment (in Persons)
1995/96	47	10,047.47	9,398.54	464.26	2,219.86	8,032
1996/97	77	8,559.25	6,692.15	1,486.48	2,395.54	9,347
2097/98	77	5,572.60	5,145.54	343.42	2,000.28	4,336
1998/99	50	5,324.42	4,380.17	802.47	1,666.42	2,146
1999/00	71	2,669.09	1,910.24	707.1	1,417.61	4,703
2000/01	96	7,917.62	6,122.49	1,795.13	3,002.56	6,880
2001/02	77	3,318.53	1,559.59	1,701.15	1,209.65	3,731
2002/03	74	4,921.82	3,608.25	1,313.58	1,793.77	3,572
2003/04	78	4,323.74	3,775.86	548.61	2,764.80	2,154
2004/05	63	1,796.10	1,149.49	646.61	1,635.77	5,559
2005/06	116	4,121.08	3,296.95	824.13	2,606.31	7,358
2006/07	188	3,425.57	2,650.56	775.01	3,185.98	7,389
2007/08	213	20,406.38	16,897.97	3,508.41	9,812.60	10,709
2008/09	231	9,417.89	7,530.02	1,887.87	6,255.09	11,108
2009/10	171	13,953.78	14,987.98	865.79	9,100.00	7,848
2010/11	210	11,252.69	9,377.26	1,875.43	10,053.21	10,902
2011/12	226	11,909.82	10,736.33	1,173.48	7,138.31	9,035
2012/13	317	51,990.78	41,046.35	10,944.43	19,818.73	16,569
2013/14	307	40,737.27	35,048.93	5,688.35	20,132.42	11,790
1914/15	370	81,370.60	77,436.79	3,933.81	67,455.04	13,167
2015/16	348	20,543.89	14,165.34	6,378.55	15,254.33	11,663
2016/17	400	17,123.51	12,416.39	4,707.12	15,206.46	11,842
2017/18	400	61,349.11	57,142.51	4,206.60	55,760.48	13,940
2018/19	345	31,868.05	24,627.92	7,240.13	25,484.44	14,594
2019/20	223	50,749.34	40,487.13	10,262.21	37,805.83	10,839
Total	4345	4846705.51	411590.75	73898.13	340429.82	219213
Average	1738	19386.82	16463.63	2955.93	13617.19	8768.52

Source: DoI, 2021.

Figure 1: Foreign Investment Status in Nepal (NRs. in million)



Source: DoI, 2021.

Scale-wise Foreign Investment Projects in Nepal

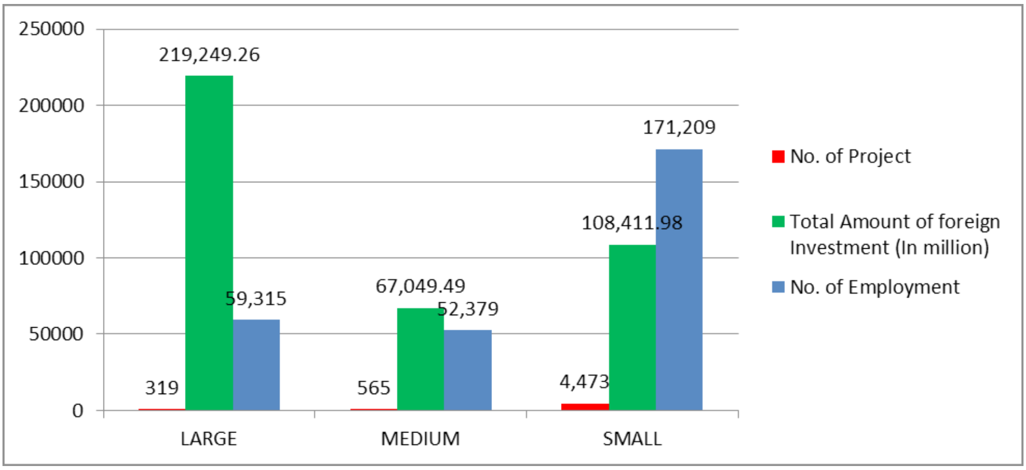
The scale-wise description of FDI is given below where the number of projects and employment generation is dominated by small industries and by investment size large industries are leading the major share of FDI. Medium size of industries seems to be low both in terms of investment and employment generation relatively. The numbers of projects of medium industries are more than large industries as indicated below in Table 3 and Figure 2.

Table 3: Scale-wise Foreign Investment Projects of Nepal in 2021 (NRs. in million)

Scale	No. of Projects (in Units)	Total Project Cost	Total Fixed Cost	Total Working Capital	Total Amount of Foreign Investment	No. of Employment (in Person)
Large	319	396,357.56	362,890.30	35,003.13	219,249.26	59,315
Medium	565	83,223.97	56,954.18	25,726.61	67,049.49	52,379
Small	4,473	120,475.55	77,942.18	42,158.83	108,411.98	171,209
Total	5,357	600,057.09	497,786.66	102,888.56	394,710.73	282,903

Source: DoI, 2021.

Figure 2: Scale-wise Foreign Investment Projects of Nepal in 2021 (NRs. in million)



Source: DoI, 2021.

Foreign Investment Project by Sector-wise

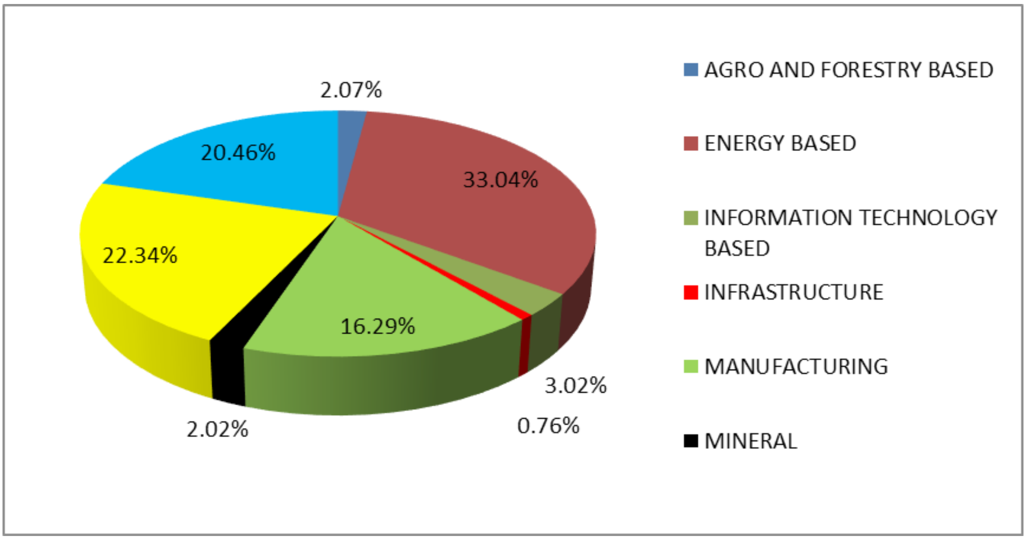
The following table exhibits the sector-wise description of FDI. The energy-based sector is highest investment amount followed by tourism, service, and manufacturing sector as follows in Table 4 and Figure 3.

Table 4: Total Foreign Investment in 2021 (NRs. in million)

Category	No. of Projects	Total Project Cost	Total Fixed Cost	Total Working Capital	Total Foreign Investment		No. of Employment
					Total	%	
Agro. and Forestry	295	10,009.82	7,933.84	2,075.98	8,188.23	2.07	10,846
Energy Based	91	222,938.50	218,770.71	6,067.79	130,404.08	33.04	11,890
Information Technology	119	15,145.48	12,662.15	2,483.32	11,917.38	3.02	6,301
Infrastructure	46	3,842.34	2,866.30	971.5	2,983.01	0.76	3,226
Manufacturing	1,231	125,798.10	97,230.48	27,705.66	64,303.16	16.29	104,572
Mineral	72	10,366.92	8,235.80	2,131.12	7,981.01	2.02	8,786
Service	1,758	112,665.98	64,249.84	48,270.46	88,174.03	22.34	75,119
Tourism	1,745	99,289.95	85,837.53	13,182.73	80,759.83	20.46	62,163
Total	5,357	600,057.09	497,786.66	102,888.56	394,710.73	100.00	282,903

Source: DoI, 2021.

Figure 3: Total Foreign Investment in 2021



Source: - DoI, 2021

Top Seven Country-wise Foreign Investment Inflow of Nepal in 2021

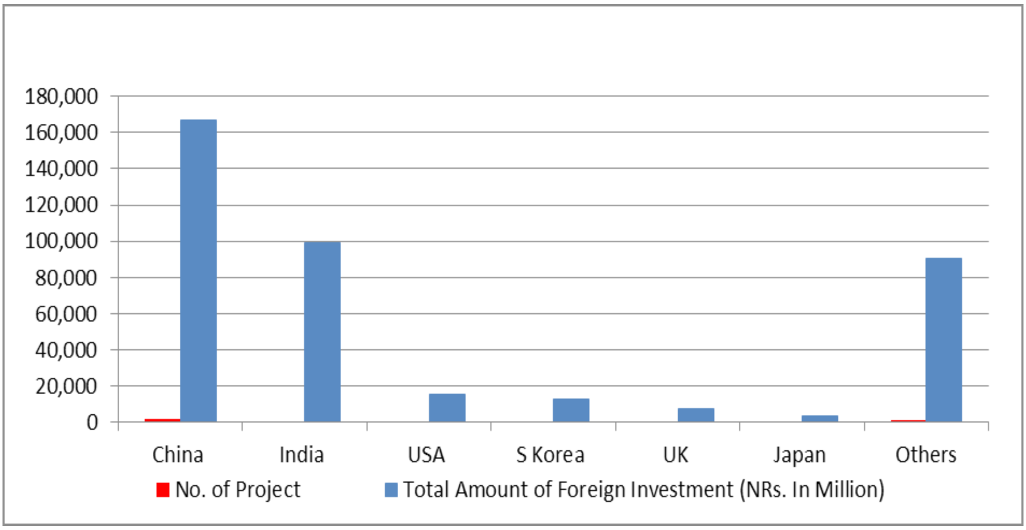
Altogether ninety-four countries are investing in Nepal. But the following six countries are main investors. China is a biggest investor including numbers of projects followed by India, USA, South Korea, UK and Japan respectively. The description along with the investment is as follows in Table 5 and Figure 4.

Table 5: Top Seven Foreign Investment Countries in 2021

S. N.	Countries	No. of Projects	Total Project Cost (NRs. in million)	Total Foreign Investment (NRs. in million)
1	China	1,911	196,795	166,582
2	India	811	1,161,235	98,846
3	USA	430	28,969	15,270
4	S Korea	361	18,001	12,763
5	UK	190	16,074	7,671
6	Japan	277	7,866	3,327
7	Others	1377	828,883	90251
	Total	5,357	2,257,823	394,710

Source: DoI, 2021.

Figure 4: Top Seven Foreign Investment Countries in 2021



Source: DoI, 2021.

Province-wise FDI in 2019

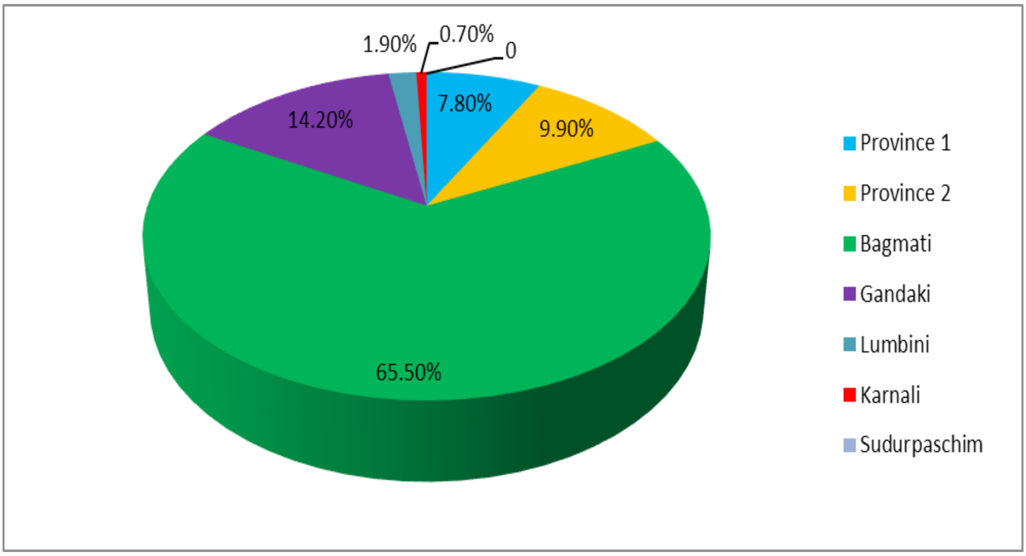
Province-wise FDI in the year of 2019, Bagmati province attracts the highest stock of FDI followed by Gandaki, Province - 2, and Province - 1 respectively. Karnali Province is accounted as lowest and the Sudur Pashim Province as zero FDI inflow which has shown below in table 6 and Figure 5

Table 6: Province-wise FDI Stock

Provinces	FDI Stock	Percent
Province - 1	14,248.20	7.8
Province - 2	18025.7	9.9
Bagmati	119,800.00	65.5
Gandaki	25,972.00	14.2
Lumbini	3507.1	1.9
Karnali	1349.5	0.7
Sudur Paschim	17.1	0
Total	182,919.60	100

Source: Nepal Rastra Bank, 2021.

Figure 5: Province-wise FDI Stock



Source: Nepal Rastra Bank, 2021.

FDI Commitment and Realization

Comparing with other neighboring countries, the trend of FDI realization shows that the gap between approved FDI and actual FDI inflows in Nepal is very high. The concerned authorities approved FDI with the intention of timely investment, but the approved investment may not actually happen. The time difference between approved investments and actual investments is getting longer. It is found that many investors are willing to increase the time frame for investment. In some cases, approved projects are suffered by not timely realization of investment, and they are just holding up. The data of following Table 7 and the Figure 6 show a huge gap between approval and actual realization of FDI.

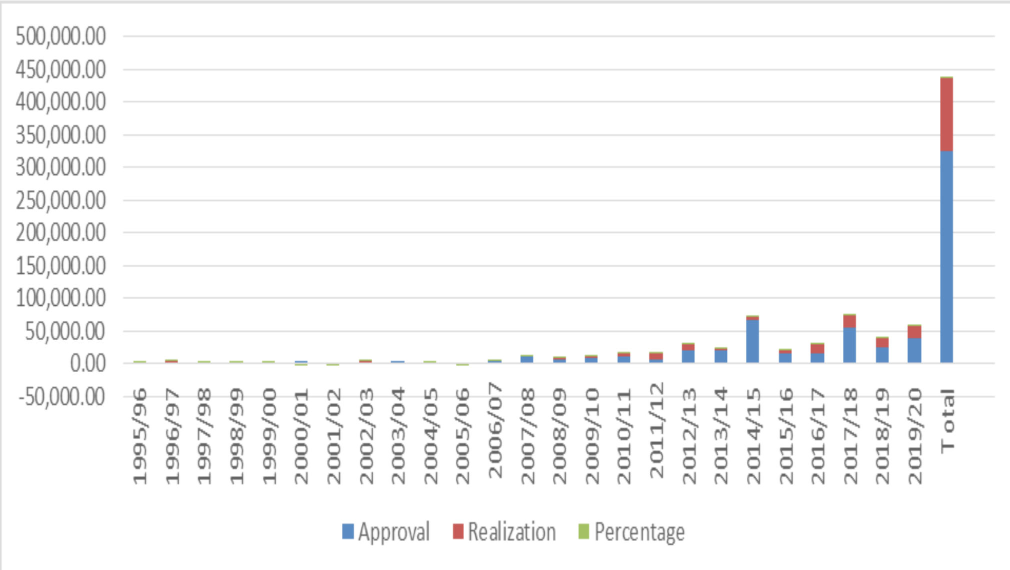
Table 7: Foreign Investment Approval and Realization in Nepal

Fiscal Years	Approval	Realization	Percent
1995/96	2,219.86	388.0	17.5
1996/97	2,395.54	1,621.0	67.7
1997/98	2,000.28	685.0	34.2
1998/99	1,666.42	578.0	34.7
1999/00	1,417.61	233.0	16.4
2000/01	3,002.56	-33.0	-1.1
2001/02	1,209.65	-282.3	-23.3
2002/03	1,793.77	961.4	53.6
2003/04	2,764.80	0.0	0.0
2004/05	1,635.77	136.0	8.3
2005/06	2,606.31	-469.7	-18.0
2006/07	3,185.98	362.3	11.4
2007/08	9,812.60	293.9	3.0
2008/09	6,255.09	1,829.2	29.2
2009/10	9,100.00	2,852.0	31.3
2010/11	10,053.21	6,437.1	64.0
2011/12	7,138.31	9,195.4	128.8
2012/13	19,818.73	9,081.9	45.8
2013/14	20,132.42	3,194.6	15.9
2014/15	67,455.04	4,382.6	6.5
2015/16	15,254.33	5,920.9	38.8
2016/17	15,206.46	13,503.9	88.8
2017/18	55,760.48	17,512.8	31.4
2018/19	25,484.44	13,068.8	51.3
2019/20	38,155.31	19,478.7	51.1
Total	325,524.97	110,931.50	34.1
Average	13020.99	4437.26	34.1

Source: Nepal Rastra Bank, 2021.

The Table 7 shows that in the FY 2011/12 the FDI realization is highest and in FY 2001/02 has the lowest FDI realization. On an average, from FY 1995/96 to FY 2019/20 the FDI realization with respect to FDI approval is just 34.1 percent.

Figure 6: Foreign Investment Approval and Realization in Nepal



Source: Nepal Rastra Bank, 2021.

Opportunities and Challenges of FDI in Nepal

Being a least developed and land locked country, Nepal has many challenges for its economic development and also it has a numerous untapped opportunity in other side. To attract FDI, it has both opportunities and challenges.

Opportunity of FDI in Nepal

There are some positive aspects that Nepal can be an attractive destination to invest. Some of them have been mentioned as following.

Identified Potential Sectors.

There are some potential sectors that have been identified based on comparative advantage and competitiveness. Argo processing enterprises, manufacturing, mines & mineral based, pharmaceutical, energy based, hotel and tourism based, I.T. based, and service-oriented industries have prospects in Nepal to invest. Nepal Trade Integrated Strategy (NTIS) has also identified 9 products and 3 services areas as potential exportable goods and services.

Policies, Institutional and procedure Reforms

Some of new and more than one dozen laws related to economic sector have been amended few years back as a second-generation reform of law after 1992 to make them more investment friendly. Foreign investment and technology transfer act (FITTA), Industrial enterprises act (IEA), Public, private partnership and investment act (PPPAIA), Special economic zone act, Labour act are some of them. There are dedicated institutions to facilitate, approve and regulate FDI like Investment Board of

Nepal, Department of Industry (DoI), Ministry of Industry Commerce and Supply, and Special Economic Zone Authority. One stop service centre has been established in DoI to provide services and facilities to investor from one place.

Access to Market and Few Competitions among the Investors

As Nepal is situated in a strategic location between two giant economy of India and China, both economies can be our biggest market for trade of production. We are in regional and international economic ties like World Trade Organization (WTO), South Asian Association for Regional Cooperation (SAARC), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMISTEC), Multilateral Investment Guarantee Agreement (MIGA). We have duty free access to India and China. In China, we have access for over 7787 products. Everything but Arms (EBA) Arrangement for market access to EU Duty & quota-free market access on textile items to U.S. through TIFA are some instruments to explore our investment and trade in international market. There is limited competition among the investor due to few prominent foreign players and consumer base market is growing rapidly that is the positive aspect to invest in Nepal.

Young and energetic Human Resources

We have young and energetic work force available at market where 61 percent of population is in between age of 15 to 65.

Infrastructure Development

Industrial infrastructure has been developing like road, power sufficiency, new power projects are under progress. Cross Border Economic Zones, Industrial Districts, Industrial Village, Industrial Corridors and Product Specific Industrial area being developed. Such areas can attract some multinational company to invest and for subcontracting and clustering among the industries and it also support to promote international trade as well.

DTAAs and BIPPAs

We have Double Taxation Avoidance Agreements (DTAA) with 11 Countries, Bilateral Investment Promotion and Protection Agreements (BIPPAs) with 6 Countries, and some additional agreements with potential countries are in pipeline. These agreements are to be considered as an important tool to attract FDI in the country.

Trade Connectivity

Existing Port facility with India and China exploring additional connectivity and port facility has open the avenue for trade facilitation. Railways and water ways, mode of transportation is under Progress, Transport transit agreement with China, MoU on BIMSTEC grid inter connection on power trade with Bangladesh, transhipment procedural using electronic cargo tracking system on third country consignment via India are some positive aspects to promote the international trade.

Incentives and facilities to FDI and export-oriented industry

The provision of investment up to 100 percent foreign ownership in almost all sectors and easy repatriation of investment and profit, easy entry, operation and exit of Investment are also the positive aspect of doing business in Nepal. Many financial and non-financial incentives including tax exemption provided by FITTA and Tax Act are some of the lucrative provisions for FDI. National treatment, provision of no nationalization, and due process for expropriation, extra incentives, and facilities inside the SEZ including financial and non-financial are some attractions of investment.

Easy Access to Visa

There is a provision of non-tourist visa of 6 months for study, research & survey for potential foreign investors, business visa to foreign investors, representatives, and their family members during investment period.

Creating Conducive Environment within the Country

Federal and local level government are also focusing on economic development by competing with each other for their own local and provincial level development offering attractive package of incentives to creates conducive environment to investor.

Problems and Challenges of FDI in Nepal

Insufficient Infrastructure

Basic infrastructure like road, electricity, water, telecommunications, internet facilities trade connectivity including land for manufacture and industries are prerequisite for investment in any country. Even though Industrial and trade related infrastructure are being developed and under progress, it is not sufficient. Trade and investment related logistics like warehouse, connectivity, one stop service is not in good condition to deliver service effectively. The concept of 'Cross Border Economic Zones', industrial districts, industrial village, industrial corridors, and product specific industrial have been started from early 90's in Nepal, but the development progress is very slow. Very few of them have been completed and only partially in operation.

Lack of adequate research, Development on Comparative Advantages and Competitiveness

In BSEZ, the infrastructure development process seems to be very slow due to the problem of procurement to the contractor. In this global competition if we could not identify our areas of comparative advantages, it is difficult to carry out and sustained. In our cases, there are only few research on the potential of our countries.

Unpredictable Tax policies

There are many liberal policies regarding investment, however, the tax policy changes frequently that caused the investor the hesitation for long term and large amount of investment. Tax policy always supersite the other sectoral policies so that there is problem in implementing sectoral policies properly.

Lengthy doing business Process and Governance Issues

Despite procedures reforms made to ease the doing business, the indicators are not that much of positive. There is still some administrative hurdle to approve register, renew, and exit from business. One stop service center is not operated with full authority and power. Very limited services are to be provided from at point. It has become just like a collection center of document.

Lack of Innovation, information, and Communication Technology

Development of modern information, communication technology, and innovation have created a competitive environment on trade and investment around the globe. To catch up the spirit of globalization is really an uphill task for underdevelopment country like Nepal. Weak information, communication technology, and innovation has become a bottleneck to attract adequate FDI.

Trade dependency with India connectivity with other economies

Bottleneck of trade connectivity with other economies due to the surrounded by India and China. All most 70 percent of our trade relies on India due to the geographical hardness to with China, lack of seaport, and the direct access to another neighbour has become a bottleneck to diversify the trade connectivity.

Contradiction, Overlapping of the Policies, and Institutions among the Government

As investment is a cross cutting issues. Many organizations should be involved on it. Similarly, there are many laws to be followed in every step of investment like registration, investment approval, taxation, IEE, EIA, visa, FDI approval, and repatriation. There is some duplication on policies and role of the institutions. Similarly, sometime there is contradictions among the policies for the same issues so that it is difficult to implement and make the process lengthy.

One Stop Service Centre and Full Automation System

The concept of one stop service is in operation in Department of Industry. However, it is not operated fully. Investors are not getting all the required services from centre because of the people designated to the centre are not fully delegated their authority and responsibility from respective organization. Online registration system is already in operation and full automation service is in progress but has not been completed yet.

Agreements with Limited Countries

We have Double Taxation Avoidance Agreements (DTTA) only with 11 countries and Bilateral Investment Promotion and Protection Agreement (BIPPA) only with 6 countries. This agreement has not been expired without implementation. They are not revised and the processes of such agreement with other potential countries are very slow.

Small Capital Market

In Nepal, there is impact of the fluctuation of exchange rate, inconvertibility of current account is also considered as some of the problems of FDI inflow in Nepal.

Major Areas of Reform for Attracting FDI in Nepal

Based on the analysis and findings of FDI from different aspects of the study, some recommendations have been prescribed as a way forward to accelerate FDI for economic development of Nepal.

Addressing the Infrastructure Related Issues

Investment and trade related infrastructure development process should be expedited. Good condition of roads, sufficient electricity, efficient telecommunication services, easy transportation facilities are to be improved. Ongoing construction of industrial estate, special economic zone, and industrial village need to be completed and operationalized as soon as possible. Required numbers of integrated check point and integrated custom development should be established.

Improvement on Doing Business Indicators

Doing Business Indicator improvement is essential to attract FDI especially multi-national companies. One stop service to the investors should be provided effectively. The existing one stop service centre should be strengthened with the full authority and adequate human resource. Lengthy process of including approval and registration should be improved. Decision making process should be simplified and reduced. Overlapping and the contradictory provisions on different law should be reviewed. There should be only one institution to deal with the investment related issues.

Research and Development

Investment on research and development should be increased and such study on new sectors should carry out to identify and explore our comparative advantage and competitiveness. High value with low volume types of products should be promoted as exportable goods. Networking and sub-contracting with industrial estate / park should be explored and enhanced.

Automation and Fully Digitization

Online registration and the automation system to ease doing business has become very common to elevate the investment globally. Development of modern information and communication technology has fuelled the trade and investment efficiency and competition among the nations. ICT and IT based industries, and business based human resources should be developed with priorities.

Enhancement of Economic Diplomacy

To increase FDI inflows, economic diplomacy should be activate with different activities in exploring the potentials projects and sectors by hosting investment summit and trade fare. To avoid the bottleneck of trade related barriers, there should be effective bilateral, regional, and multilateral dialogue and negotiation with neighbouring countries. Regional and global level investment summit and trade fair would also be beneficial to attract FDI inflow in the country.

Bilateral Investment Agreement (BIA) or BIPPA, DTAA with Potential Countries.

BIA / BIPPA and DTAA should be signed with others potential countries to increase more investment and trade promotion.

Conclusion

FDI has been becoming a key to economic development around the world especially in developing countries to fulfil the resources gap for national development. Nepal started its journey to welcome FDI since 1990 with the adaptation of economic liberalization. It has made policy, institutional and procedural reform to create conducive environment for investment. However, FDI inflows to Nepal compared to other neighbouring countries is not that much of encouraging. There is no doubt that FDI is inevitable for Nepal to fulfil the resource gap in achieving the development agendas. In addition, it is important for employment creation, technology transfer, knowledge and skill enhancement, and to increase internal trade efficiency. To realise the investment commitment into reality we need to improve doing business indicators inside the country. At the same time, reforms on existing mechanism and avoiding the bottleneck of domestic, regional, and international trade connectivity including infrastructure issues. Various identified potential sectors with other positive aspect indicate that Nepal has huge prospects of FDI, and it can be an attractive destination to invest.

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