

FDI in Nepal: Illusion and Reality

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Abstract

Nepal is a least developed country and seeks foreign direct investment (FDI) to bridge the saving investment gap which is considered a major hurdle for the economic development of the nation since very beginning. But the process gained momentum only after the introduction of Foreign Investment and Technology Act 1982 and accelerated along with the restoration of multiparty democracy in 1990. Government had adopted liberal economic policy and enacted investment friendly laws and regulations to attract more and more FDI in the country. FDI is allowed in all sizes of enterprises and sectors with few exceptions. Foreign investors were also treated as of national investors and are free to invest solely or jointly with any Nepali partner. In spite of all these efforts neither the FDI is attracted in reasonable size nor the country become benefited from the technology transfer. Employment growth caused by foreign investment is negligible. Thus the hue and cry about FDI in Nepal seems almost meaning less.

Country Background

Nepal is a small least developed country inhibited by about 25 million population. Out of the total population about 86 percent is still living in rural areas. Labour force size in Nepal is increasing rapidly every year mainly due to high population growth caused by high fertility rate. But the employment is not increasing as of the growth of the population. Similarly, excessive use of child labour in various sectors substitutes the adult workers, which further helps to raise unemployment of the productive labour force. Thus the unemployment and under employment problem is considered a serious problem of the country. (The fully unemployed population estimated to be 5 percent by the end of the Ninth plan. However, while adding the 12.4 percent unemployed calculated from the underemployed work hours, the total unemployment figure would be 17.4 percent (NPC, 2002: 116-117), which shows that the degree of unemployment in Nepal is really severe. The Planning Commission further estimated that by the 2007 the fully unemployed labour force will be 4.1 percent and total unemployment will be expected to decrease to 13.5 percent while adding 8.6 percent unemployed caused by underemployment (NPC, 2002: 120). This imbalance contributes to increase surplus labour. Agriculture sector alone is providing employment to the two-thirds

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labour force of Nepal though the country is experiencing gradual shift of employment from agriculture to non-agriculture sector.

Industrial Development in Nepal

Industrialisation is a key indicator of economic development of any country. Generally it is assumed that industrialisation helps to diversify the economy, which ultimately helps to minimise poverty in the country by achieving higher rate of growth and reducing unemployment and underemployment problem of the country. Beside this industrial development also helps to achieve the goal of balanced development of the country. But the pace of industrialisation in Nepal is very slow. The history of modern industries is started only since the establishment of Biratnagar Jute Mill in 1936 though the development of cottage industries was traced since around 639 AD (Dahal and Inoue 1994: 17-40). Prior to 1940 few other modern industries were set up as a joint venture establishment with Indian entrepreneurs. During the Second World War these industries earned super normal profit, which inspired many other Nepalese as well as Indian entrepreneurs to establish industries in Nepal. Consequently, prior to the establishment of democracy in the country different industries such as jute, textile, match, soap, plywood, sugar, etc. were set up on a joint venture with Indian entrepreneurs. But due to the political instability and sharp decline on the demand of their products, industrialisation was also constrained since the post-war period (Dahal and Inoue 1994: 17-40).

The Panchayati rulers (during 1960-90) have also given priority for the development of industries. As a result, large number of industries were set-up during that period. Similarly, the democratic governments after restoration of multiparty democracy had also considered industrialisation as an important tool for economic development and started to promote private sector in this sector.

The first industrial policy was announced in 1957 immediate launching of the First Five Year Plan in 1956. The policy has undergone a series of amendments in subsequent years. Until recently the broad objective of economic policies of Nepal is to accelerate industrial growth with a view to achieving economic growth in the country. The government had tried to promote industrial development offering a series of incentives and protections to attract private sector for industrial development. In the beginning the government had also established manufacturing industries in the public sector by using foreign aid where the private sector was shy (Regmi, 1994). But since the beginning of the 1990s government had started privatisation policy and handed over a number of public industrial units to the private sector, which caused employment loss in this sector. On the other the Census of Manufacturing Establishments shows gradual decline of industrial units since 1990s because of free import of cheap foreign products in the name of open market policy of the government that further led to employment loss in this sector.

Like manufacturing industries registration of the cottage and small-scale industries is gradually increasing but it is estimated that large number of such units are closed down every year because they fail to compete in the market and employment provided by them is not significant in Nepal and no hope of improve in this situation in near future.

Majority of the industries set up in the country are agro-processing. Only few are basic construction material production, import substitute and export oriented. The industries are also characterised by a small unit, highly disbursed geographically, low level of entrepreneurial skill and entrepreneurship, short life of the industries, etc. The contribution of overall industrial sector to the national economy is confined less than 10 percent (NPC, 2002: 48).

The above truth reveals that at present the level of industrialisation in Nepal is weak and the industrial base is narrow. Capital, appropriate technology, skilled human resources, market, infrastructure and favourable administrative and legal environment are the basic requirements for rapid industrial growth. But in Nepal many of these basic requirements are at low level or missing. As a result, industrial growth could not be accelerated in the country (NASOE, 1995:1). The government of Nepal has adopted an open and liberal policy to pave the way for the accelerated economic and social development of the country. Especially in the field of industry and trade, the government policy is aimed at giving the private sector a dominant role while the government role will be that of a facilitator providing infrastructure and conducive environment for investment (DOI, 2005a: 1).

Since 1980s FDI was allowed in different sectors in the country aiming mainly to fulfil the shortage of capital and acquire modern technology and managerial skill from abroad for economic development through industrialisation. Consequently, a range of activities was held during this decade. Among them amendment of Industrial Policy and enactment of Foreign Investment and Technology Act 1982 are considered major ones (DOI, 2005:1) to attract foreign investment. Similarly, to make the investment climate more conducive the government had formulated Foreign Investment and One Window Policy and Industrial Policy based on which Foreign Investment and Technology Transfer Act (FITTA) 1992 and Industrial Enterprise Act (IEA) 1992 were promulgated and amended in the year 1996 and 1997 respectively in order to make these acts more pragmatic based on the experiences gained in previous years (DOI, 2005a: 2).

History of FDI in Nepal

The history of foreign investment goes back with the establishment of first modern mill (Biratnagar Jute Mill) in 1936. In this mill Indian industrialist Radha Krishna Chamadiya had invested 60 percent share and the then Prime Minister Judda Shamsher, other high class Ranas and high level non-Rana officials have invested 40 percent (Ojha (ed.) 2000:9). After the establishment of jute mill the same investor had invested in cotton mill, sugar mill, chemical industries and rice mill in different years (Ojha (ed.) 2000:7). Few other joint venture industries were also established during Rana regime but all the industries were nationalised with the introduction of democracy in 1951. Immediately after the establishment of democracy Nepal Commercial Corporation was registered as a first joint venture company with 67 percent equity of Indian investors. During the interim period other two joint venture industries were also registered. The registration of joint venture industries up to mid 1970s was slow (NESOAE, 1995).

Only after mid 1970s the joint venture industries has started to increase satisfactorily.

This growth may be due to the industrial policies of 1974 and 1981 that allowed foreign investment in large and medium industries. In case of large-scale industries the policy treated Nepali and foreign investors equally where in medium scale industries it allowed joint venture only. In the planning process of Nepal for the first time The Sixth Plan (1980-85) expressed the need of foreign investment and technology for the industrial growth of the country. The FDI policy is continuing in subsequent plans of the country to attract capital, modern technology, managerial and technical skills, access to the international markets and development of commercial attributes into the country.

At present, all areas have been opened to FDI with the exception of traditional cottage industries and other few specific types of industries related to defence, public health and environment. Foreign equity participation is limited to 66 percent only for the banking and financial sector. On top of that, FDI industries are guaranteed against nationalisation. Repatriation of profits, dividends and principal as well as interest payment in convertible currencies has also been guaranteed. Moreover, foreign investors are entitled to receive national treatment in terms of enjoying all facilities and incentives provided by the Act through one window system. Technology transfer is permitted in all types of industries. Attempts are also made to attract foreign investment on infrastructure with the redefinition of this sector as construction industry. In 1996, the legal provision to prohibit the foreign investment in industries with less than Rs 20 Million investment was deregulated and right now, FDI are allowed in every level of investment.

Many legal and institutional changes were carried out to facilitate the entry and expansion of foreign investment in Nepal when the government introduced foreign investment policy in line with the open and liberal economic policies of the country. Legal structure supportive to foreign investment was established, FDI friendly policies were adopted and international meetings were arranged to inform and attract potential investors in Nepal. Foreign Investment and Technology Transfer Act was enacted in 1992, which aims to attract FDI in the form of equity participation, investment in domestic production process, reinvestment of investment earnings, extension of foreign loans, and transfer of technology, specialisation, formula, process, technical know-how and trade mark. Various sectors of Nepal with comparative advantages were highlighted focusing on tourism, hydropower and labour intensive manufacturing areas. As a result of these efforts, a positive environment was created in early 1990s. Unfortunately after 1992/93, the political instability in the country discouraged foreign investors.

The adoption of One Window Policy has created better environment for investment. Registration and licensing procedures are simplified. Legal attempts have been made to accelerate the process of registration within the stipulated time span of 30 days from the receipt of application. Many legal provisions are made with necessary organisational set up to make Nepal investment friendly country. Industrial Promotion Board (IPB) has been formed with the representation from the private sector to formulate and implement policies. One Window Committee has been formed to provide facilities and concession within a single institutional framework. Despite all these attempts Nepal has not yet been able to attract significant level of foreign investment. In comparison with other SAARC member countries,

FDI flow during 1991-2001 in Nepal is found higher than that of Bhutan only, which is relatively less open. During 1991/2001, Bangladesh received 9 times more FDI annually (82.8 million dollar), whereas Sri Lanka received about twenty times (176.2 Million dollar), the inflow in Nepal being 9.5 million dollar annually. Nepalese economy was identified as most open one in the SAARC region during the period of 1990-2000. But the foreign investment is not attracted as high as in other SAARC countries. In this way, Nepal has not only missed the foreign capital and technology but also missed opportunities of expanding employment through FDI (NESOAE, 2004).

This clearly shows that only policy reforms will not be able to increase FDI. Many other factors are equally important for successful entry of FDI. At the moment, human-capital is weak because of limited skill. Efforts should be made to train labour force to be more productive.

The existing bureaucracy and organisational set-up should be improved for smooth adoption of government policies. In addition to it, there should be some basic infrastructure like dry port, adequate power supply and transportation facilities.

Status of FDI in Nepal

Registration of FDI projects was started during interim period (1951-59). During this period only three establishments were registered in Nepal. The number reached 71 at the end of the Panchayat regime (1989). The registration of the FDI projects has increased significantly with the beginning of the restoration of multiparty democracy. It is proved from the registration figure of Department of Industry. Since 1990 to 1994 about 170 new establishments were registered (NESOAE, 1995, P. 9). The process of registration further accelerated and reached 955 in mid-April 2005 (DOI, 2005b: 20). It is also learnt that in 1991 about three fourth FDI projects were concentrated in the manufacturing sector and it has declined as the flow of FDI increased in other different sectors. It is natural that historically the FDI flow in Nepal was very low and increased gradually with the growth of the project and recorded significant improvement during 1990s. The bilateral trade treaty with India in 1991 and its renewal in 1996 contributed much to increase FDI in Nepal along with the liberalisation of trade and exchange rate regimes, implementation of bonded warehouse, duty drawback system and incentive structure favouring export-oriented industries. Because of these reasons there was significant improvement in FDI flow during 1990s. After peaking in 1997 at \$ 23 million in a year, FDI declined sharply but improved since 2000. Frequent changes of government and uncertainty caused by Maoist insurgency are considered major responsible factor to decline in FDI (UN, 2003, p. 3).

From the government statistics the number of FDI projects and FDI is increasing gradually every year. But the increment is found only in paper. Department of Industry never bothers about the industries closed every year that is one of the major drawbacks while analysing FDI in Nepal. Because all the approved projects are not in operation on the one hand and on the other hand many enterprises, which were in operation, are also closed down due to various reasons, which are not recorded by the DOI. To escape from this illusion Federation of

Nepalese Chamber of Commerce and Industry (FNCCI) had tried to differentiate the FDI projects on the basis of their status of operation. Thus this article is fully based on the information supplied by the FNCCI, which is more reliable than the figures supplied by the Department of Industry (DOI).

FDI by Type

The FNCCI has compiled information on FDI grouping the FDI projects into four categories (operating, under construction, licensed and approved) based on their status. There is some difference between the total numbers of industries registered presented by DOI and the information supplied by the FNCCI. The difference may be due to FNCCI has deducted the closed and cancelled enterprises from its list but not deleted in the record of DOI.

Out of the 833 FDI project (after deduction of closed and cancelled enterprises) approved by DOI, 47 percent are now operating in paper, but on the basis of observation among them only few are in operation in practice. Similarly, about one third project is just approved by the Nepalese government where 14 percent have got license to operate their project. Four percent projects are under construction (Table 1). Based on the past experience it is not conformed that whether the licensed and approved projects will run in the country in the present context where operating projects are also going to be closed.

Table: 1 Number of FDI Projects and FDI by Status of Project

Status	Number of Project	Authorised Capital in million Rs.	FDI in million Rs.	Average% of Authorised Capital	Average FDI per project (in million Rs.)
Operating	395	45575.85	31170.46	68.39	78.91
Under Construction	33	5107.36	3528.66	69.09	106.93
Licensed	119	11854	7828.38	66.04	65.78
Approved	286	14526	11694.01	80.50	40.89
Total	833	77063.21	54221.51	70.36	65.09

Source: Calculated from FNCCI data, 2005.

As of the FDI projects FDI flow in Nepal is increasing each year and now reached 54,221 million in total, which is 70 percent of the total authorised capital of the approved FDI enterprises. The 47 percent operating projects covers 57 percent of the total FDI while assuming 100 percent equity of the 12 percent projects, which have not mentioned the share percent of foreign investors. This figure is 10 percent of the calculated FDI in operating projects (Table 8). On an average 65 million FDI is came per enterprise where the average FDI per project for operating enterprises is more by 13 million than the average of all approved projects. It is low in approved category in comparison of the number of projects

reflecting attraction of FDI on small size enterprises instead of large size. It also reflects that per project FDI in this category is very low (average 41 million) in comparison to other category followed by licensed projects while it is more than three times high in under construction. On the other hand all the projects except operating are not contributing to the national economy at present. The country will be benefited only after their operation. Thus analysis of such projects at present creates illusion to the readers and policy makers. To overcome from this illusion this article try to analyse only the FDI projects operating in the country though many of them are also found closed in observation but empirical data are not available. The size of FDI in Nepal reflects that it is far behind to attract foreign investors despite various efforts since 1980s.

FDI by District

The FDI flow in various 30 districts ranges significantly and concentrated in certain few districts. The lowest level of FDI is flown in Taplejung (1.9 million) where only one project is in operation and highest in Kathmandu (4937 million) distributed in 176 projects. About 71 percent projects and 43 percent FDI is concentrated only in five major districts. In Contrast to this 57 percent FDI is flown in 29 percent projects in other districts.

Table: 2 Number of Projects and FDI in Major five Districts based on Project

District	Projects	FDI in million Rs.	% of Project	% of FDI
Kathmandu	176	4936.73	44.56	16.15
Lalitpur	44	1039.31	11.14	3.40
Kaski	22	4254.14	5.57	13.92
Makawanpur	20	1624.04	5.06	5.31
Chitwan	17	1690.19	4.3	5.53
Sub-Total	279	13544.41	70.63	43.45
Other Districts	116	17626.05	29.37	56.55
Total	395	31170.46	100.00	100.00

Source: Calculated from FNCCI data, 2005.

Out of 30 districts 71 percent projects are concentrated only in five districts where rest 25 districts have only 29 percent projects. All these districts located in the CDR except Kaski (5.57%). Kathmandu is the major district, which is capable to attract 44.56 percent projects and 15.84 percent FDI. Lalitpur and Kaski comes at the second and third position with respect to FDI projects where Sindhupalchowk and Dolakha comes at the second and fourth position respectively with respect to FDI though their share in project is minimum. The FDI in these two districts is high only because of large hydro electricity projects like Himal Power

Ltd. and Upper Bhothe Koshi Hydro Electric Projects are concentrated in these districts. These two projects alone cover 22 percent of the total FDI flown in Nepal. In this way the FDI is also concentrated in few districts. More than 88 percent FDI is concentrated only in 13 districts where slightly less proportion of projects is also concentrated. This reflects that the hope of regional balance on development through the mobilisation of FDI could not meet. The FDI further widened the gap of development by concentrating its flow in and around the power block.

Table: 3 Five Major Districts on the Basis of FDI

District	FDI in Million Rs.	Project No.	% FDI	% Project
Kathmandu	4936.73	176	15.84	44.56
Sindhupalchowk	4844.9	5	15.54	1.27
Kaski	4254.14	22	13.65	5.57
Dolakha	2483.73	2	7.97	0.51
Bara	2454.39	15	7.87	3.80
Sub-Total	18973.89	220	60.87	55.70
Other Districts	12196.57	175	39.13	44.30
Total	31170.46	395	100.00	100.00
Kathmandu Valley	6220.27	231	19.96	58.48

Source: Calculated from FNCCI data, 2005.

More than 58 percent enterprises and one fifth FDI is concentrated only in the three districts of Kathmandu valley (Kathmandu, Lalitpur and Bhaktapur) alone where only seven percent population is reside. Around 42 percent projects are distributed in other 27 districts of the country. Kathmandu district alone have about 45 percent projects against 20 percent FDI.

Regional Distribution of FDI Projects and FDI

Nearly three fourth projects are concentrated in hill district covering 41 percent FDI. In mountain zone concentration of projects is very low (3.54%) where proportion of FDI is more than one fourth. This concentration is mainly caused by power sector projects that are located in mountain districts and comprises high investment. In Terai also proportion of FDI is high compared to the proportion of projects. This information demonstrates that large size of projects is concentrated in mountain zone (especially hydropower projects) followed by Terai. The size of projects in the hills is small compared to other zones. The average FDI per project is reported Rs. 914.27 million, 58.80 million, 169.16 million and 39.98 million in mountains, hill, Terai and Kathmandu Valley respectively. The figure proves that large number

of projects are concentrated within the periphery of power block but their size is small with respect to FDI.

Table: 4 FDI Projects and FDI by Ecological Zones

Zone	Projects	%	FDI in million Rs.	%
Mountain	14	3.54	7965.85	25.56
Hill	287	72.66	12732.47	40.85
Terai	94	23.8	10472.14	33.60
Nepal	395	100.00	31170.46	100.00
Kathmandu Valley	231	58.48	6220.27	19.96

Source: Calculated from FNCCI data, 2005.

The above statement is further proves from the analysis of FDI by development regions. The FDI projects are heavily located in the central development region (CDR) that includes Kathmandu valley, which has well developed infrastructure facilities and access to administrative decision center for business facilities. Four fifth projects and two thirds of FDI are concentrated in the CDR alone where only 35 percent population are residing. The mid and far western development regions are backward from development perspective and also poverty is widened in these areas but FDI flow is insignificant. This information is sufficient to prove that FDI helped further disparity in development process rather than to achieve regional balance.

Table: 5 FDI Projects and FDI by Development Region

Region	Projects	%	FDI in million Rs.	%	% of Population (2001)
EDR	27	6.84	2456.07	7.88	23.09
CDR	313	79.24	20454.15	65.62	34.69
WDR	44	11.14	7515.78	24.11	19.74
MWDR	7	1.77	153.2	0.49	13.01
FWDR	4	1.01	591.26	1.90	9.47
Total	395	100.00	31170.46	100.00	23151423

Source: Calculated from FNCCI data, 2005.

Up to mid-April 2005, sixty three percent foreign enterprises have been operating as small-scale enterprise. Medium scale enterprises comprise 21 percent and rest 16 percent fall under the category of large enterprise of the total FDI projects showing most of the FDI industries operating in Nepal concentrate in small scale enterprises. Contrary to this the share of FDI in large-scale industries is more than four fifth of the total FDI in Nepal. Medium and small-scale industries comprises only 17 percent FDI in 84 percent industries

(Table 6). Foreign share is high in small-scale industries and declining gradually as the size of the enterprise increases.

Table: 6 Number of Project and FDI by Size of Enterprise

Size	% of Project	%FDI	FDI as % of Authorised Capital
Small	62.78	6.83	74.26
Medium	20.76	10.66	73.24
Large	16.20	82.51	67.38
Total (N)	395	31170.46	68.39

Source: Calculated from FNCCI data, 2005.

FDI by Country

Only few countries accounted large share of FDI in early period. India was the major country investing more than half share of FDI in Nepal up to the beginning of 1990s. New economic policy of Nepal has attracted foreign investor to Nepal. As a result the number of countries investing in Nepal has been increasing gradually and reached 38 including three countries investing jointly with other countries in mid April 2005. As the increase in the number of countries the share of India in total FDI is declining gradually but still it is largest among the countries. Seventy percent projects are operating only by seven countries India, USA, Japan, China, Korea (DPR), Germany and UK where 60 percent FDI has flowing. India alone is handling 29 percent projects and 37 percent of FDI.

Table: 7 FDI project and FDI (in millions)

Country	Number of Project	Authorised Capital	FDI	% of Project	%of Capital	% of FDI
India	114	14020	11545.76	28.86	30.76	37.04
USA	47	4786.7	4241.1	11.90	10.50	13.61
Japan	43	1570.7	1105.65	10.89	3.45	3.55
China	26	1775.4	1168.39	9.32	7.59	6.22
Korea DPR	22	655.43	416.03	7.89	2.80	2.21
Germany	14	237.15	135.59	5.02	1.01	0.72
UK	13	352.17	172.98	4.66	1.51	0.92
Sub- Total	279	23397.55	18785.5	70.63	51.34	60.27
Other Countries	116	22178.3	12384.96	29.37	48.66	39.73

Source: Calculated from FNCCI data, 2005.

On an average per project FDI is 78.91 million though it ranges vastly from one project to another. For example FDI of the Consolidated Management Services Nepal Pvt. Ltd., a consultancy service industry at Kathmandu has only Rs. 0.3 million, which is financed by New Zealand. On the other 4,248 million FDI is came in Upper Bhote Koshi Hydro Electric Project located in Sindhupalchowk district operating with 90 percent share of USA and Germany. Countries investing in power sector have high proportion of FDI compared to other countries investing other sectors except power even though they have less number of projects. About three percent projects are running with less than one million equity share.

Status of Foreign Collaboration

Foreign share in the FDI enterprises of Nepal ranges from two percent to 100 percent in different forms. The share differs on the basis of nature of project and foreign partner. The foreign share is not available in 12 percent projects. Twenty seven percent of the total operating FDI projects are fully handling by the foreigners with 100 percent equity worth Rs. 10654.58 million, which is 34.18 percent of the total FDI flow in Nepal. Similarly, 29 percent projects are running now with 25-50 percent foreign share covering 20 percent of total FDI. The projects with less than 25 percent foreign share are only five percent accounting 2.68 percent FDI (Table 8).

Table: 8 Percentage of FDI Projects by Foreign Share in total Investment

Percentage	Operating Enterprises	%	Amount of FDI in million Rs.	% of FDI
Less than 25	20	5.06	836.55	2.68
25-50	115	29.11	6218.58	19.95
51-74	43	10.89	2258.2	7.24
75-99	64	16.2	8186.76	26.26
100	107	27.09	10654.58	34.18
NA*	46	11.65	3015.79	9.68
Total	395	100.00	31170.46	100.00

* Enterprises, which have not mentioned the share percent of foreign partner.

Source: Calculated from FNCCI data, 2005.

Various forms of collaboration like financial, technical, managerial, trademark, marketing and lease is found in different projects. Such collaboration is in both type single and multiple. But financial collaboration alone covers 80 percent projects where technical collaboration only is found in five percent projects. Both of these collaborations are combined in few

projects and also found along with other type of collaboration (trade mark, management and marketing) in different projects. Thus it is estimated that other type of collaboration does not exceeds more than five percent of the total FDI in Nepal. This statistics indicates the aim to acquire technology transfer is far less than expected to be. Nepal has not been able to harness technological gain, which is one of the most potential benefits of open economy.

Sectoral Distribution of FDI

FDI in Nepal is allowed in all sectors, but its flow is not distributed evenly in each sector. Manufacturing sector is still important area to attract FDI in the country but power, tourism and service sector are growing areas for FDI attraction in recent years. Among the different sectors, hotels, restaurants, catering and trekking (HRCT) and manufacturing industries have equal number of projects but manufacturing sector attracted more than double FDI than that of HRCT. Service and fiber related enterprises ranked second and third place from the top. From the investment point of view manufacturing sector comes at the top followed by power, HRCT and service sector. Nepal being an agricultural country could not develop quickly without development of this sector but FDI flow in this sector is very negligible. Thus the policy makes should think to attract FDI in agriculture sector with priority (Table 9).

Table: 9 FDI by Sector

Sector	Number of Project	Authorised Capital in Million Rs.	FDI in Million Rs.	% of Project	% of Capital	% of FDI
Fibre Related	53	2666.65	1550.83	13.42	5.85	4.98
Manufacturing	97	12197.97	8628.82	24.56	26.76	27.68
HRCT	97	6276.7	4088.76	24.56	13.77	13.12
Transport and Communication	12	910.15	792.45	3.04	2.00	2.54
Agriculture	13	427.47	284.14	3.29	0.94	0.91
Construction	12	1543.86	1006.5	3.04	3.39	3.23
Food and Beverage	33	3916.31	2023.72	8.35	8.59	6.49
Power, Energy and Chemical	14	11476.11	7156.71	3.54	25.18	22.96
Mining	1	323.12	161.56	0.25	0.71	0.52
Service	63	5837.51	5476.97	15.95	12.81	17.57
Total	395	45575.85	31170.46	100.00	100.00	100.00

Source: Calculated from FNCCI data, 2005.

Besides these projects, under financial sector 16 establishments (6 banks, 6 insurance companies and 4 finance companies) are operating in the country with investment of Rs. 4,138.86 million (except three insurance companies). In this sector six banks alone covered 87 percent investment. Indian investment is comparatively high in this sector too. India has invested in all the three types of institutions under this sector. Other countries investing in one or two types of institutions are Bangladesh, Pakistan, Sri Lanka, Korea (DPR), Malaysia, Australia, UK and USA. Foreign share in finance sector ranges from 10 to 75 percent.

Table: 10 FDI by Sector and Major Districts

Sector	Kathmandu	Lalitpur	Kaski	Makawanpur	Chitwan	Bara	Total
Fibre Related	6.16	9.94	0.00	0.00	6.46	12.79	5.75
Manufacturing	9.10	7.77	0.00	90.60	22.36	85.40	29.01
HRCT	53.77	16.95	24.35	0.00	3.45	0.00	25.59
Transport and Communication	3.30	0.13	0.00	0.00	0.20	0.00	1.19
Agriculture	0.42	1.75	0.00	0.22	0.00	0.00	0.28
Construction	5.03	15.27	1.31	0.00	1.92	0.00	3.27
Food and Beverage	10.72	10.82	1.48	5.57	24.53	0.00	7.82
Power, Energy and Chemical	0.43	21.26	0.00	1.40	0.00	1.80	2.03
Service	11.07	16.12	72.87	2.22	41.08	0.00	25.07
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Calculated from FNCCI data, 2005.

There is slight difference on the FDI projects run by all countries and major seven countries but there is significant difference among the countries. Chinese investors preferred HRCT, manufacturing, construction and service sector. Germans preference goes to fiber related and HRCT industries; India's major preference area is manufacturing and fiber industries. Japan, UK and USA preferred much to HRCT industry while Korea on manufacturing sector (Table 11).

Table: 11 Operating FDI Projects by Sector and Major Countries on the basis of Project

Sector	China	Germany	India	Japan	Korea R	UK	USA	Total
Fibre Related	7.69	35.71	19.3	2.33	9.09	15.38	6.38	13.26
Manufacturing	19.23	7.14	43.86	13.95	36.36	7.69	10.64	27.24
HRCT	23.08	28.57	8.77	48.84	27.27	30.77	29.79	23.3
Transport and Communication	-	-	3.51	-	9.09	-	8.51	3.58
Agriculture		14.29	0.88	4.65		23.08	4.26	3.58
Construction	15.38		0.88	6.98	4.55			3.23
Food and Beverage	11.54		11.4	9.3	9.09		2.13	8.24
Power, Energy and Chemical	7.69	7.14	0.88	0			4.26	2.15
Service	15.38	7.14	10.53	13.95	4.55	23.08	34.04	15.41
Total %	100	100	100	100	100	100	100	100
Total Project	26	14	114	43	22	13	47	279

Source: Calculated from FNCCI data, 2005.

The major seven countries presented in table 11 covers 71 percent enterprises where these countries have invested only 51 percent of the total FDI flown in Nepal. This information reflects that the projects in these countries are small in terms of investment. Large amount of investment is directed to power sector but these countries did not engaged in this sector. From the point of view of investment India comes at the top followed by Norway and USA (Table 12) though Indian investment is low in terms of project.

Nearly half FDI of China is concentrated in manufacturing sector and half is distributed in other different sectors. Chinese investment is not touched yet transportation, communication and agriculture sector. German investors have invested in fiber related industries, HRCT and power industries. Large share of Indian FDI is invested in the in manufacturing and service industries. Similarly HRCT is the priority sector of Japanese investors where food and beverage and manufacturing for Korean, Service, HRCT and manufacturing for USA and agriculture and HRCT for UK.

Table: 12 FDI by Sector and Major Countries

Sector	China	Germany	India	Japan	Korea R	UK	USA	Other Countries	Total
Fibre Related	3.15	43.52	6.43	0.25	5.17	9.29	0.77	5.4	4.98
Manufacturing	48.25	0.00	36.07	18.42	37.57	2.21	20.09	17.6	27.68
HRCT	6.45	18.09	15.26	54.77	7.49	32.14	27.39	9.5	13.12
Transport and Communication	0.00	0.00	0.14	0.00	1.22	0.00	16.33	0.49	2.54
Agriculture	0.00	11.83	0.53	0.99	0.00	52.39	0.68	0.39	0.91
Construction	17.37	0.00	5.90	8.52	2.04	0.00	0.00	1.70	3.23
Food and Beverage	3.94	0.00	9.03	10.14	39.67	0.00	1.35	5.71	6.49
Power, Energy and Chemical	8.77	19.65	0.25	0.00	0.00	0.00	2.76	56.17	22.96
Mining								1.30	0.52
Service	12.08	6.91	26.38	6.90	6.84	3.98	30.63	1.72	17.57
Total FDI	1168.4	135.59	11545.76	1105.65	416.03	173.06	4241.1	12384.88	31170.46

Source: Calculated from FNCCI data, 2005.

Employment Generated by FDI

One of the major goals of the government to allow foreign capital was to reduce or solve the unemployment problem of the country. FDI inflows after the adoption of the open economic policies have played some role in employment generation. Out of about 293,000 persons involved in manufacturing sectors in 1999/2000 fifty three thousand labour force were estimated to be in FDI projects. This is about 18 percent of the total labour force working in manufacturing sector of Nepal. This employment level represents 65 percent of the total employment created by FDI projects (NESOAE, 2004). It indicates the focus of foreign investment in manufacturing sector.

The DOI information highlights that the FDI projects have created about 47 thousand employments up to 1992/93 and it reached about 99 thousand in mid April 2005 by growing more than four thousand each year during last 12 years. The employment record of DOI is related with 955 industrial units approved by it. According to this information on an average a FDI establishment is providing employment to 103 people. The total approved projects have not created employment now. While considering only operating projects as of the FNCCI, the employment figure will be estimated to be 40,881. Likewise, on the total authorised capital of the FDI establishment the share of FDI is estimated 68.39 percent. Thus the actual employment generation by the FDI in Nepal is not more than 28 thousand, which is very low

as of national expectation during allowing the FDI in the country.

Among the investors from different major countries, Indian investment is found more labour intensive, with 4.8 persons employment per one million of investment in comparison to 1.33 on an average. These data indicate that the employment opportunities are more associated with Indian FDI (NESOAE, 2004).

In terms of employment generation, it is not immediately obvious that the Nepalese labour force is enjoying significant employment opportunities created by FDI enterprises. However, it is certain that the number of employment opportunities generated by FDI is so low that it could not absorb even a tiny fraction of existing unemployed labour force in the country. On the other the FDI enterprises are providing employment to the non-Nepalese labour force against the Nepalese labour laws to escape from the provision of the laws related to workers' right. That reduces the employment opportunity of Nepalese people. Consequently, contribution of FDI on employment generation for the Nepalese labour force is insignificant.

The indirect job opportunities created by FDI, particularly in the related support service industries, across various regions of the country are still unaccounted for. For that reason, it is not possible to figure out exactly the actual employment impact of FDI in the economy.

There is no any scientific measurement from which employment can be projected on the basis of capital involved in the enterprises. A rough estimate made by Khatiwada et al. (1999) mentioned that a employment can be generate by investing Rs. 500,000 in MNCs (i.e. capital intensive) whereas other industries fully invested by the Nepali investors can create one employment per Rs. 90,000 and the cottage and small scale industries have created one employment with the investment of only Rs. 10,000. Contrary to this comparing the investment elasticities of employment in foreign invested as well as nationally invested firms the elasticity value is higher in foreign invested firms (0.324) than in nationally invested firms (0.280). It shows that one percentage increase in investment will lead to more employment in FDI firms than in non-FDI firms. Therefore, it shows that attraction to more investment from abroad will help to generate more employment. But the case is different with respect to value addition. The value added elasticity value (of employment) is higher in non-FDI (0.502) than in FDI (0.425) (IIDS and IPRAD). More employment can be generated by more value added in non-FDI than in FDI firms (IIDS and IPRAD). This result may be true in particular sector but can not generalize it to all sectors. Based on the authorized capital and employment generated by the selected establishment in a study conducted by General Federation of Nepalese Trade Unions (GEFONT) it is found that on an average Rs. 9, 26,017 is essential to generate one employment in the studied enterprises. This information depicts that huge investment is needed to solve the current unemployment situation of the country which can not fulfil by the country. Thus the country welcomed foreign investment opening almost all sectors. The contribution of foreign investment could not evaluate only on the basis of direct employment because it has also generated a lot of employment indirectly because no any empirical study is found concentrated on the generation of indirect employment by the enterprises operating as FDI in Nepal. But it is observed that the enterprises established in the country (with national or foreign capital) not only generate direct employment but it also generates indirect employment too by the establishment of subsidiary industries to supply necessary materials

and equipments, supplying raw materials, etc. At the same time market or business centre will develop which adds more employment through creating self employment or paid employment. All these factors generate chain effect on employment generation. On the basis of the observation it is estimated that on an average all the establishments can generate indirect employment not less than that of the direct employment.

Consequences of FDI

Looking overall impact, the FDI inflows have not significantly contributed to the Nepalese economy. Even though, FDI seems to have played a beneficial role in Nepal's development to a certain extent through employee training, backward linkages, infrastructure development and "demonstration effect" on local entrepreneurs. However, due to the unavailability of relevant data, it is not possible to assess the extent of FDI contribution to Nepal's international competitiveness, technological development, productivity enhancement, management improvement, and human resource development. The visible impact is experienced in the field of tourism and export trade especially with India, with the tiny investment in comparison to other countries of SAARC region.

Likewise, limited number of employment has generated by the FDI directly. But it is also estimated that it has created equal number of employment indirectly too, which is difficult to prove by empirical data. But the foreign investment could not show the significant contribution on employment generation which was expected by the policy makers and planners of Nepal even considering both the direct and indirect employment generated by the FDI enterprises.

Conclusion

Nepal felt a strong need of industrialisation for the economic development of the country, but despite various efforts the process of industrialisation is very low in the country. The industrial development further affected negatively with the introduction of open economic policy by the government. The government had invited foreign investors in all sectors except few exceptions with the aim to fulfil the shortage of capital on the one hand and to acquire modern technological know how, managerial skill and marketing access to abroad on the other hand. To attract FDI Nepal has enacted various laws and policies and tried to create employment friendly environment. Despite various efforts FDI inflow in Nepal is very low in comparison to other SAARC countries except Bhutan.

The official source shows a significant number of FDI enterprises approved by the government but only less than half of them are in operation only in paper. In practice among them not more than one out of four is in operation at present. As a result the contribution of FDI in Nepalese economy is insignificant. Similarly, most of the projects are concentrated in and around the power centre that further lead to create regional disparity rather than regional balance on development.

It is an open truth that without the development of agriculture sector, development of Nepalese economy is not possible in the present context but this sector is seen least priority

area for the foreign investors. Attraction of FDI is more on manufacturing sector but declining gradually. Investment priority is normally put on the small size enterprises where less investment is sufficient. This proves from the less than one million FDI inflows in a reasonable size of enterprises. The share of FDI in the country ranges from two percent to 100 percent equity where contribution in technology transfer is insignificant. FDI contribution on direct employment generation is negligible though it has created employment indirectly but which is difficult to count by empirical data. Analysing all the available evidences Nepal could not harness benefit from the FDI.

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