

# Investment Climate and Opportunities in Nepal

Melbourne, Australia  
30<sup>th</sup> June 2018



GOVERNMENT OF NEPAL  
OFFICE OF THE INVESTMENT BOARD



## 1. About Nepal

Country Overview

Why Invest in Nepal

Legal and Policy Reforms

FDI Analysis

## 2. Nepal - Australia Relation

## 3. Investment Approving Agency

## 4. About Investment Board Nepal

Mandate

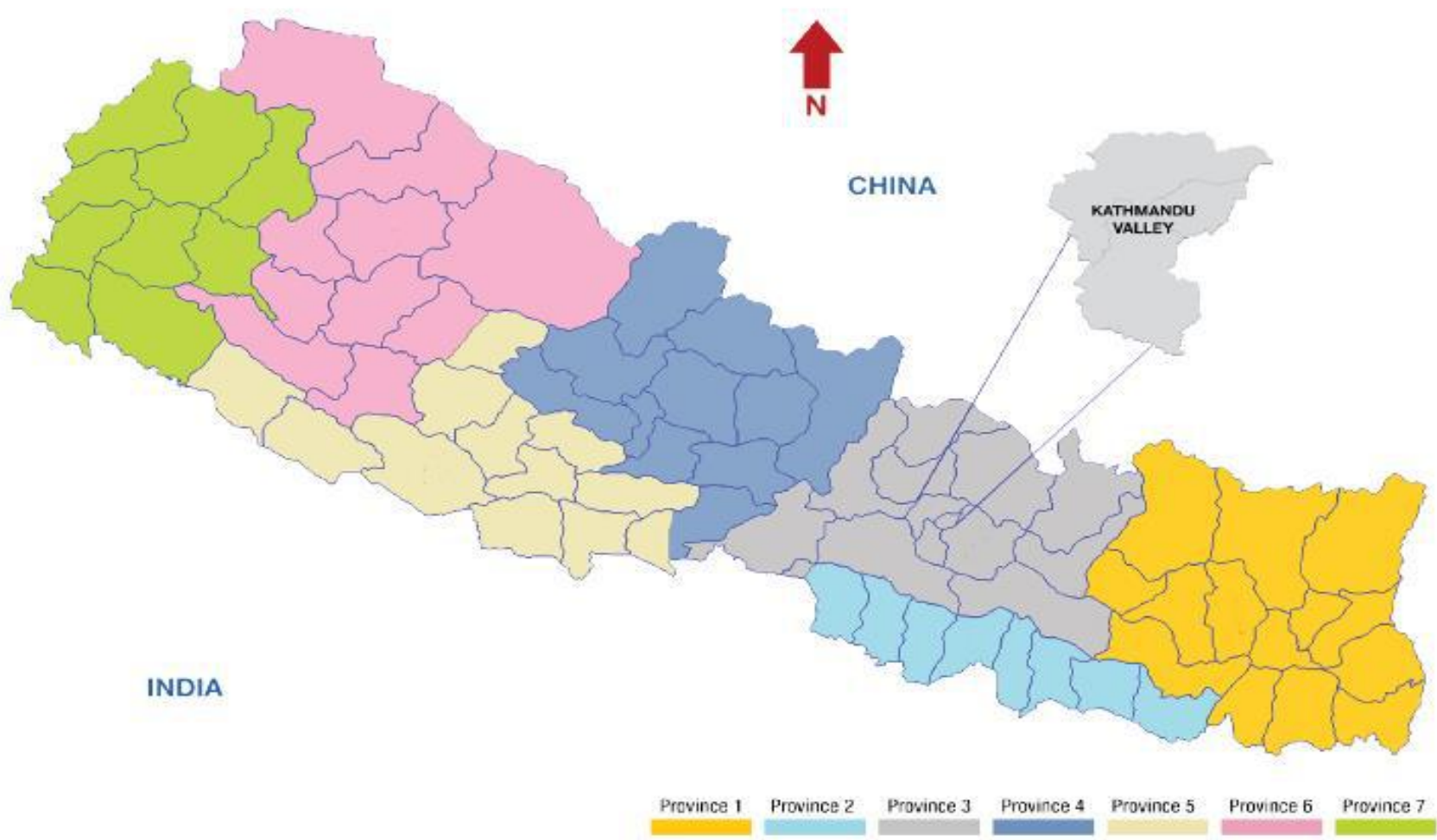
Projects Selected for Feasibility study

Approved Projects on Project Bank

## 5. Sectoral Opportunities

## 6. Special Economic Zones

Country Overview



Indicator	Amount
Population	28.9 Million
Area	147.181 sq.km
GDP	Approx. USD 30 Billion (Current Prices)
Remittances	USD 5.403 billion
Economic Growth Rate	5.9% at base price (Estimation)
Inflation	5.3%
Per Capita	USD 1004 (Nominal )
Inflation	5.3%
Indicators in the Social sector is much better than economic sector	

Source : NRB Macroeconomic update & CBS National Accounts 2017/2018



## Members of Regional Agreements



## Members of Multilateral Agreements



## Market Access

### BIPPA

- ✓ Germany
- ✓ France
- ✓ Mauritius
- ✓ United Kingdom
- ✓ Finland
- ✓ India (yet to ratify)

- ✓ Duty free and open border access to India (except some products)
- ✓ Duty free access to China for around 8,000 products
- ✓ Duty free, quota free market access to European Union under Everything But Arms (EBA) arrangements
- ✓ Duty free US market access to (77 products) 66 types of garment items for 10 years (starting from 2016) (GST facility market)

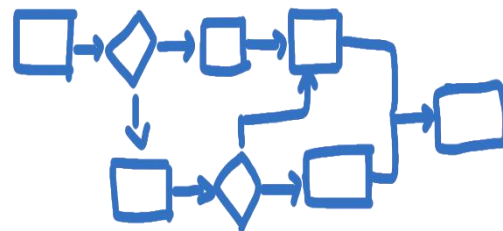
### DTAA

- |             |               |
|-------------|---------------|
| ✓ China     | ✓ Norway      |
| ✓ India     | ✓ Thailand    |
| ✓ Qatar     | ✓ Sri Lanka   |
| ✓ Mauritius | ✓ Pakistan    |
| ✓ Austria   | ✓ South Korea |



## Stable Government

Central, provincial and local level elections Completed  
Focus on **economic transformation**



## Decentralization of government with federalism

Formation of provincial governments might minimize the bureaucratic process



## Legal and Policy reforms

FITTA and IBN act amendment in process



Improved labor relations  
New Labor act in place



Target : **Double Digit growth** in 5 years  
**Middle income country** by 2030



On average, **49% of GDP** worth investment required each year to attain SDGs by 2030  
Approx. NPR1770 Billion/year



## Corporate Tax Rates in Nepal

Nature of Entity	Tax rate
Normal rate for entities	25%
<b>Manufacturing industries</b> (which excludes tobacco, alcoholic beverages, etc.) are entitled to 20% discount on the applicable tax rate (currently 20%) making the effective tax rate 16% under Industrial Enterprise Act 2016	20%
Enterprises operating <b>roads, bridges, railways</b> hydropower stations, transmission lines on BOOT basis etc	20%
Banks and financial institutions	30%
General insurance 30%, life insurance 25%	25-30%
Enterprises involved in petroleum businesses	30%
Saving and credit cooperatives located in urban areas	20%

Nepal has one of the lowest **Corporate Income Tax (CIT)** rate amongst its neighboring countries

<u>Country</u>	<u>CIT rate (%)</u>
Bangladesh	27.5
China	25
India	25
<b>Nepal</b>	<b>25</b>
Pakistan	34
Sri Lanka	28

## Company Act 2017

- Simplifies and makes the process of establishing ,managing and administering companies more convenient and transparent
- Protection of corporate name/brand
- Private company can have maximum 101 shareholders
- No mandatory conversion required for private companies to a public company (except for telecommunication service provider companies)

## Industrial Enterprise Act 2016

- Simplified and clarified procedures for entry, operation and exit of the business
- One stop service center ( Custom, Tax, land, Immigration and NRB)
- No nationalization

## Labor Act

- No work no pay
- Flexibility in hiring foreign employees
- Foreign employees can repatriate income (up to 75%)

## Integrated Intellectual Property Rights Policy

- Covers Patent, Trade Mark, Copyright and other IP as per the WIPO standard

## Foreign Investment And Technology Transfer Act

In the process of amendment

### FITTA 1992 : Major Highlights

- Non discrimination/national treatment
- 100% Foreign investment allowed in industries (except as mentioned in the negative list)
- Forms of investment allowed: Equity, Share Transfer, Loan Investment, Technology transfer
- Repatriation is guaranteed
- Clear provision of dispute settlement

## Investment Board Act

In the process of amendment

### IBN Act 2011: Major Highlights

- Oversees mobilization of hydropower projects of 500 megawatt (MW) or more capacity, tunnels, fast tracks, railway, ropeway, major bridges, international airports, solid waste projects, chemical fertilizer, petroleum refinery, infrastructure projects (Investment > or equal 10 Billion, Hospitals (>or equal 300 Beds, BFIs > or equal 51% FDI)
- One stop service for investors. Facilitation in Investment approval, licenses, environment, registration, immigration, forest clearance, land acquisition etc.



Investor protection through Project Development Agreement (PDA) for PPP projects and Project Investment Agreement (PIA) for private investment projects.

Land acquisition allowed in the company name. Government land can be leased.

Tourist, non-Tourist and business visa for foreign workers on recommendation of investment approving agencies such as DOI, IBN.

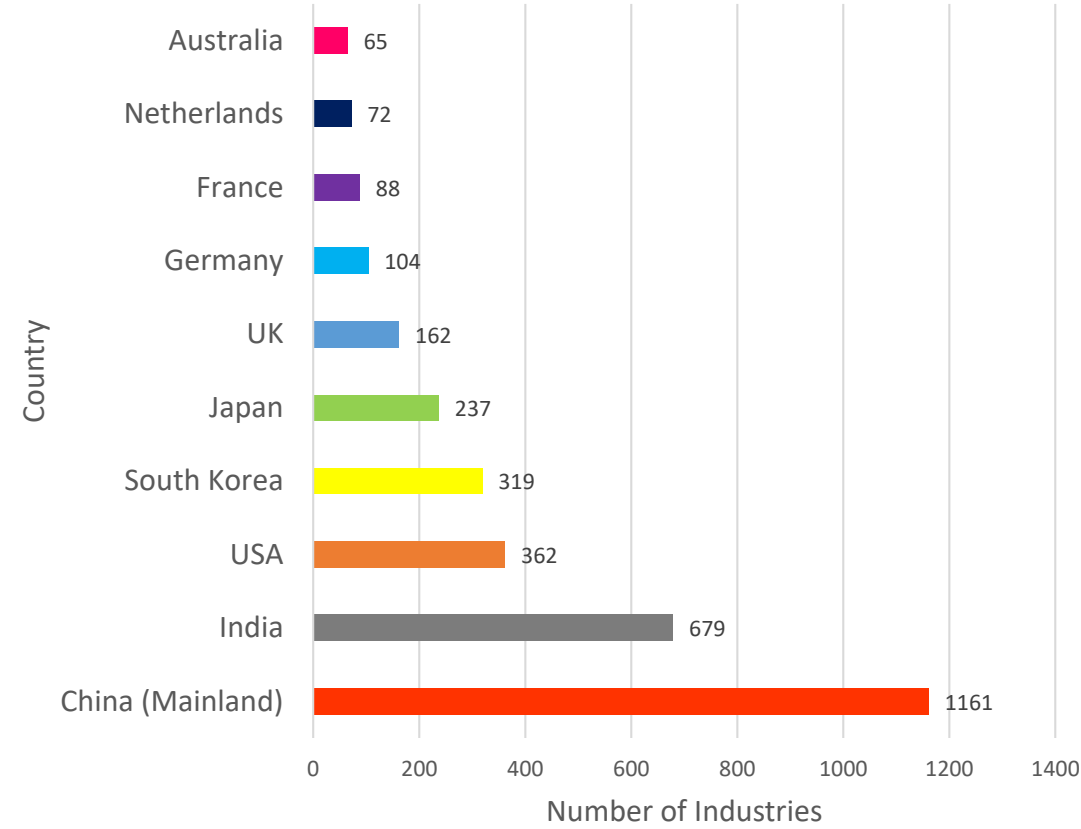
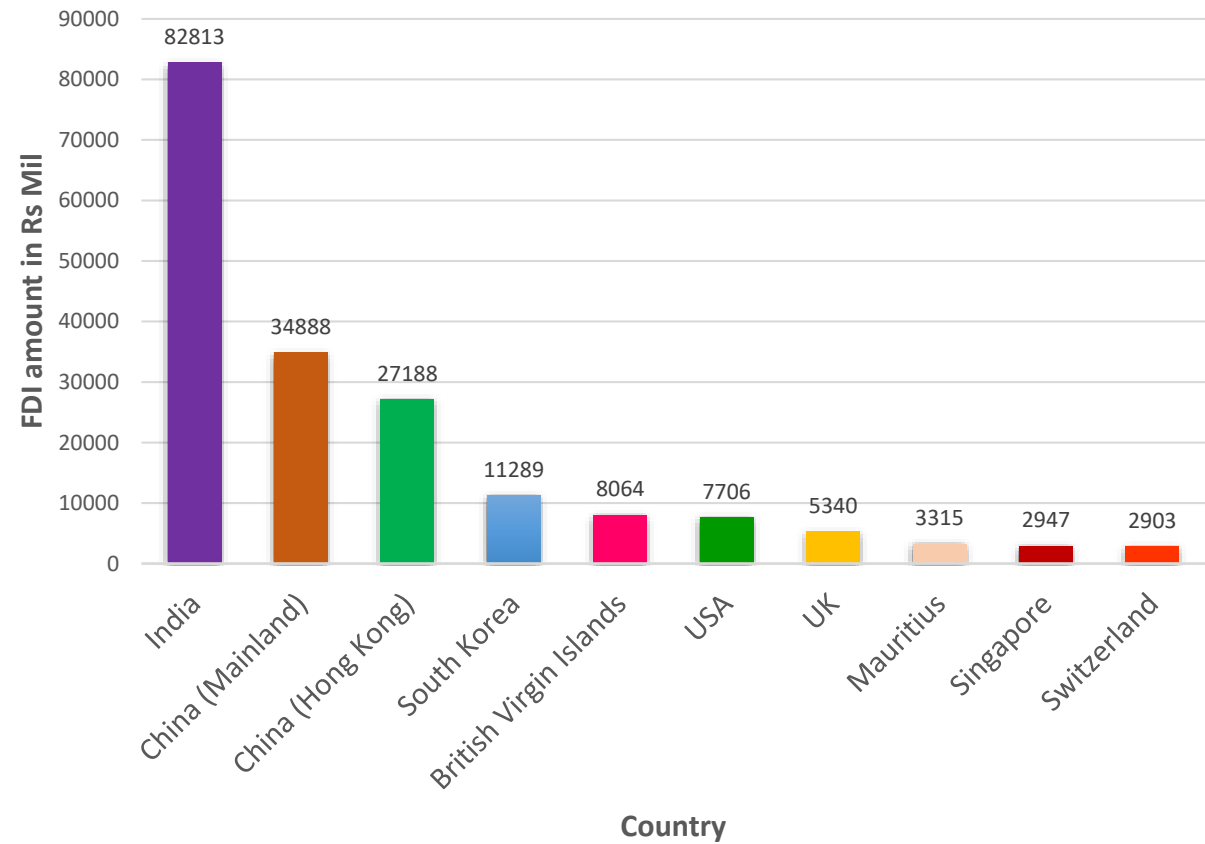
Residential visa granted directly to investors who invest more than USD 100,000 in convertible currency.

100% foreign ownership in most of the sectors (with few exceptions)

Repatriation of dividends fully allowed and 75% of employees salary also allowed.

TOP 10 INVESTORS IN TERMS OF AMOUNT OF INVESTMENT

TOP 10 INVESTORS IN TERMS OF NUMBER OF INDUSTRIES



FDI source countries Up to F.Y. 2016/2017 (commitment )

✓ FDI inflow from Australia has mostly been directed towards the service sector (information technology & hospitality)

# Nepal - Australia Relation



## Nepal Australia Relationship

Diplomatic relations began in 1960

Residential Embassies in both countries

Approximately **36,490 people of Nepalese ancestry** living in Australia\*

**Top education destination** of choice for Nepali students.  
**35,423** Nepali students enrolled in Australia in 2017\*

## Development Assistance

Estimated **USD 31.9 million in official development assistance** in 2017/2018

\$28 million aid to Nepal following the devastating earthquakes in April and May 2015

Development assistance in the areas of basic education, health, livelihoods, strengthening and improving governance, peace building and human resource development

## Economy and Trade relationship

Total **FDI from Australia** amounts to approx. **USD 38.316 Million** which comprises **2.78%** of the total FDI received

**Total trade volume: USD 60.29 Million in 2017**

Major **exports**: tea, coffee, essential oils, articles of leather, clothing, floor covering, carpet, cotton dress, paintings and pastels

Major **imports** :refined petroleum products, dairy products, beverages, spirits and vegetables

Approximately 50,000 Australians visited Nepal in 2016/2017

Exchange rate : **1 AUD = 82.35 NPR**

Source : \*Consulate General of Nepal ;\*International student enrollment data, Department of Education and Training



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# Investment Approving Agencies





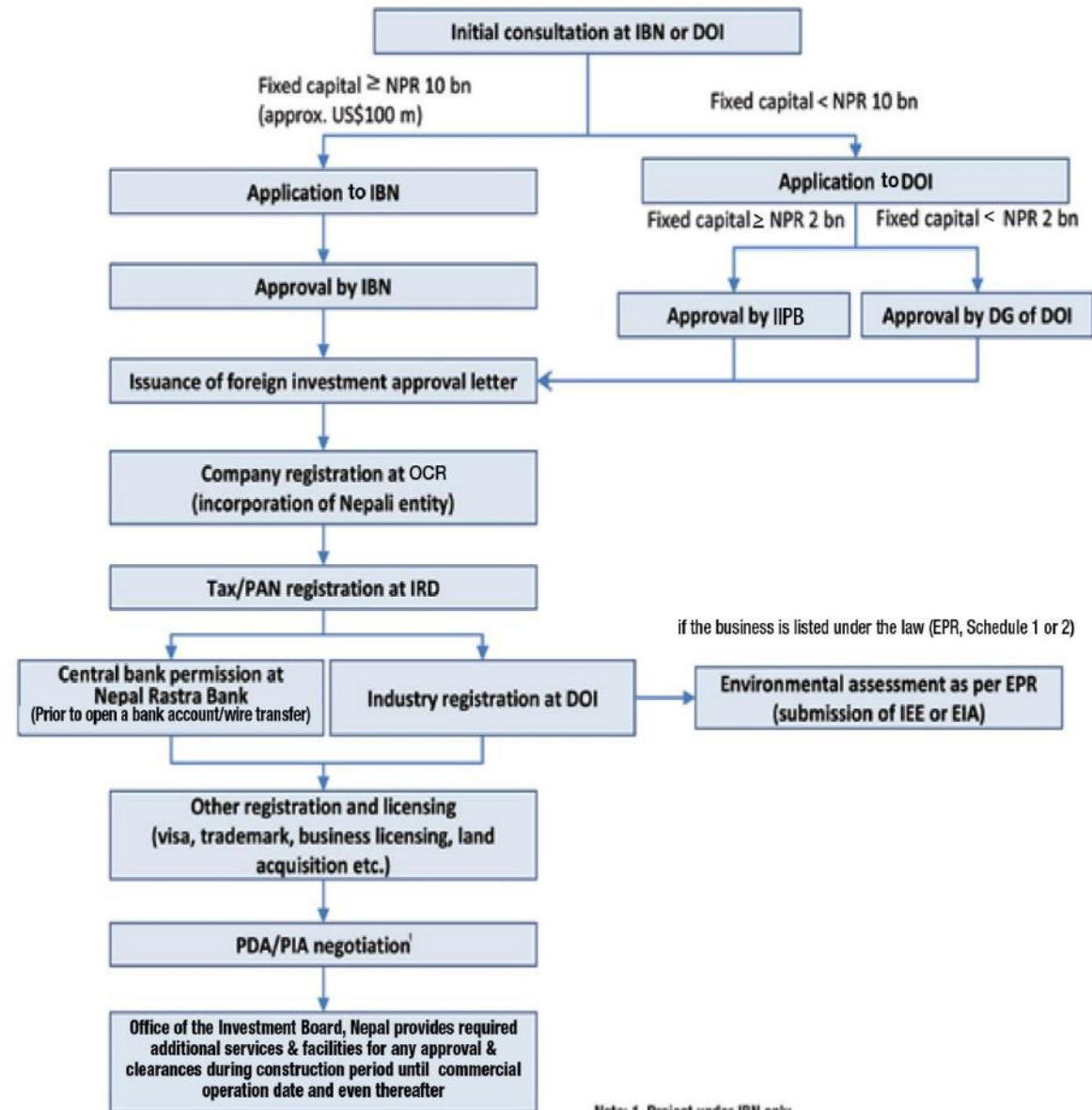


## Government of Nepal

INVESTMENT SIZE (FIXED CAPITAL)	APPLICATION AT	APPROVAL AGENCY
> & Equal to NPR 10 BN (APPROX USD 100 M)	INVESTMENT BOARD NEPAL (IBN)	INVESTMENT BOARD NEPAL (IBN)
< & NPR 10 BN > Equal to NPR 2BN (APPROX USD 20 M)	DEPARTMENT OF INDUSTRY (DOI)	INDUSTRIAL AND INVESTMENT PROMOTION BOARD (IIPB)
< 2 BN (APPROX 2 BN)	DEPARTMENT OF INDUSTRY(DOI)	DIRECTOR GENERAL OF DOI



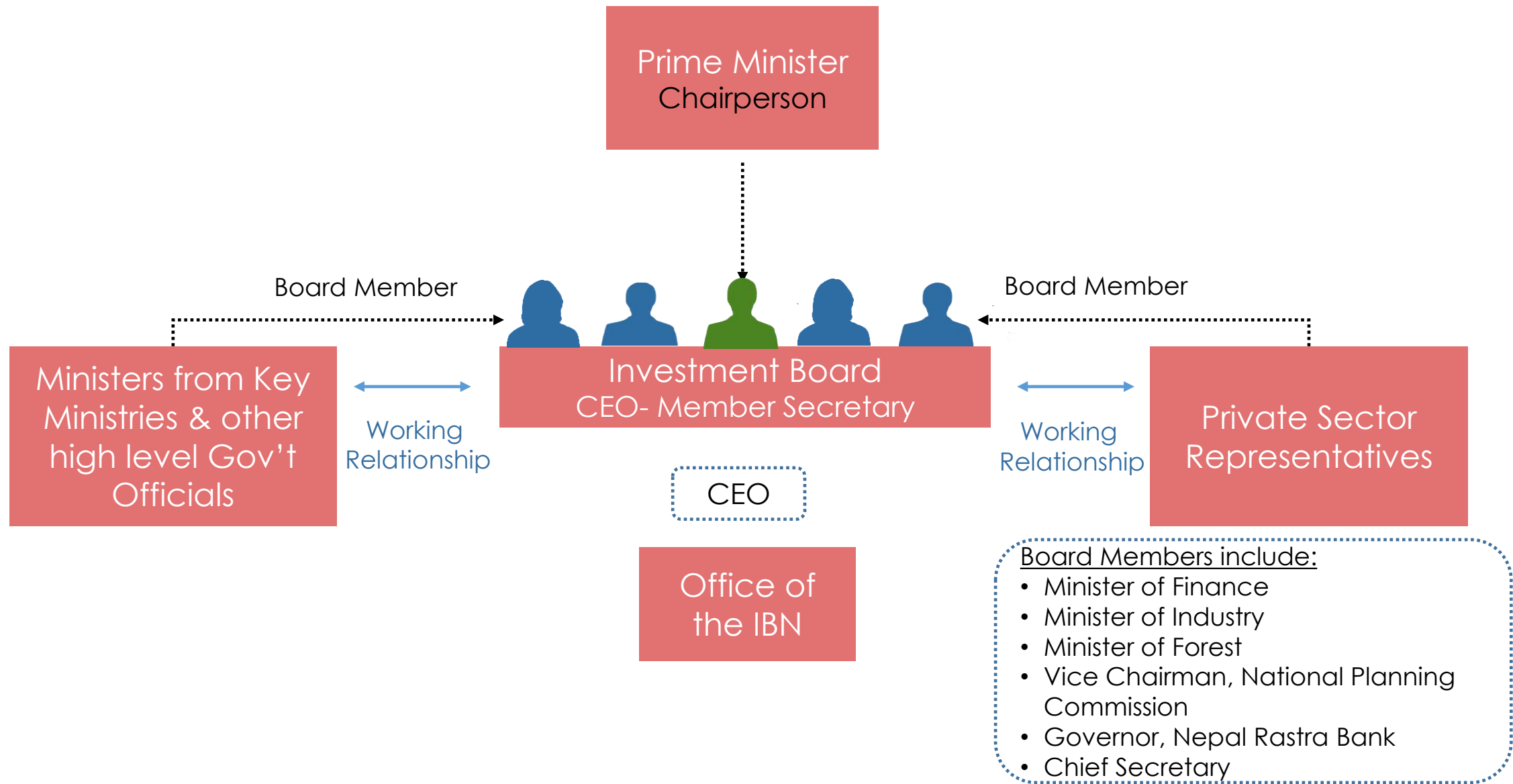
Government of Nepal



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# About Investment Board Nepal





## “Mandate of IBN ”



**Hydropower  
Projects (≥500MW)**



**Infra Projects  
(Capital ≥ NPR10Bn)**



**Development of  
SEZs/EPZs/\*  
Industrial Areas**



**Manufacturing  
Industries**



**IT Parks**



**Service  
Industries\*\***



**Fast Track Roads**



**Tunnel Highways**



**Railways**



**Ropeways**



**Trolley Buses**



**Airports**



**Solid Waste  
Management**



**Chemical Fertilizer  
Plant**



**Petroleum  
Refinery Plant**



**Mega Bridges**



**Bank/Insurance  
(FDI ≥ 51%)**



**Hospitals  
(300+ Beds)**



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# Projects Approved for Conducting Feasibility Study



## GLASS INDUSTRY



**Sector : Manufacturing**

Substitute heavy reliance on import of glass by manufacturing to meet rising local demand

**EOI PUBLISHED**

## SHEY-PHOKSUNDO NATIONAL PARK

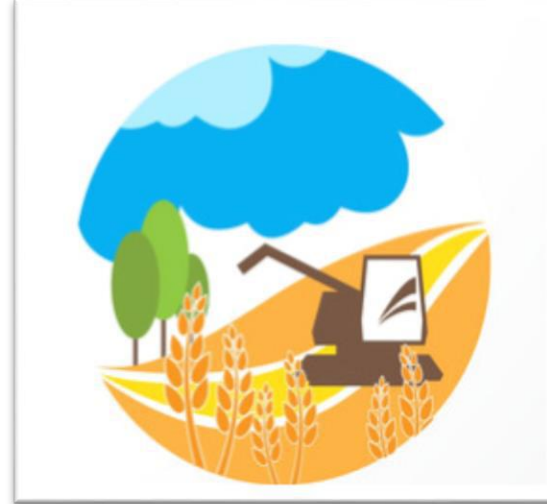


**Sector :Tourism**

Shey-Phoksundo National Park, spread over 3,555 sq. km. houses the Phoksundo Lake, one of the largest lakes in Nepal. Endowed with national beauty this is an ideal location for a luxury resort

**EOI Published**

## INTEGRATED AGRICULTURE PROGRAMME



**Sector : Agriculture**

Commercial farming, processing, livestock farming and processing

**EOI Published**

## SKI RESORT MANANG



**Sector: Tourism**

Situated in the Northern part of Nepal in the south of the Annapurna mountain. Manang is the ideal place in Nepal to set up a Ski Resort.

**EOI Published**

## EDUCATION, HEALTH & SPORTS CITY



### Sector : Education

To cater to the needs of the region's growing and diverse academic and athletic community.

**EOI Published**

## KATHMANDU VALLEY METRO ROUTE 2 (NAGDHUNGA- KALANKI- KOTESHWOR-DHULIKHEL)



### Sector : Transport

EOI for conducting feasibility study has been published

**EOI Published**

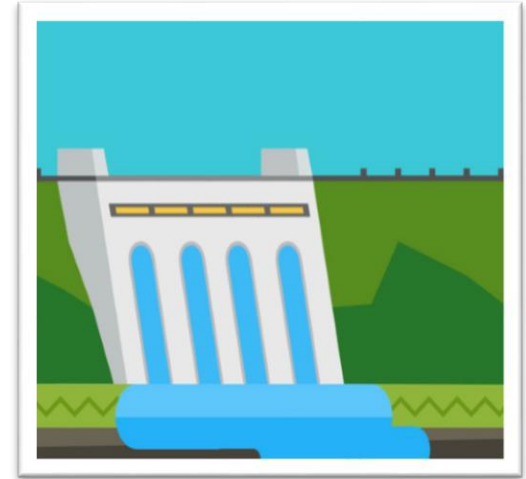
## SPECIAL ECONOMIC ZONES (SEZ)



### Sector : Manufacturing

For Industrial growth and employment creation and

## SCREENING STUDY OF 500+ MW HYDRO PROJECTS

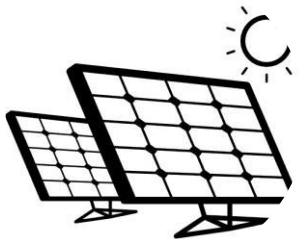


### Sector : Energy

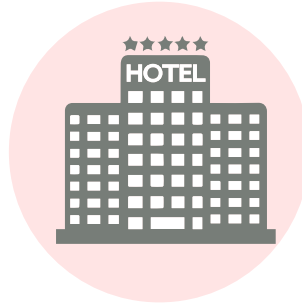
Conduct screening study of 500+ MW hydro projects to identify projects potential for investment



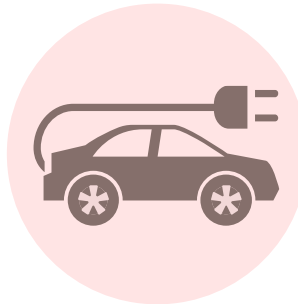
**MINES AND MINERALS**  
(CEMENT, IRON/STEEL, COPPER,  
PRECIOUS/SEMI PRECIOUS  
STONES)



**SOLAR PROJECTS**



**TOURISM**  
(HOTELS, RESORTS,  
AMUSEMENT PARKS)



**ELECTRIC VEHICLES  
MANUFACTURING**



**HEALTH AND EDUCATION**



**SPECIAL ECONOMIC ZONES**

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# Sectoral Opportunities

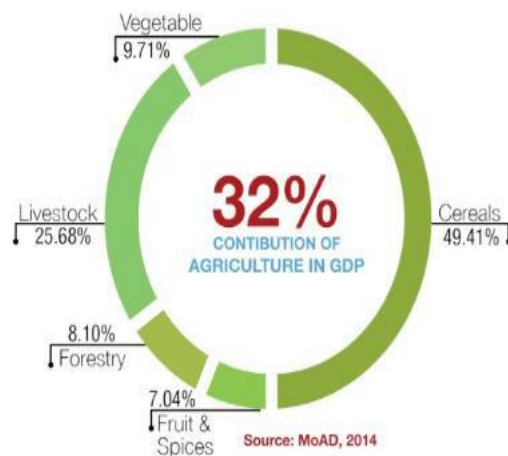




## MAJOR EXPORTABLE AGRO PRODUCTS



## COMPOSITION OF AGRICULTURE GDP



## POTENTIAL AREAS FOR INVESTMENT



## Outlook

Arable Land: **2.6 million hectares**

Agriculture GDP : **USD 7.68 Billion** comprising 28.21% of the GDP in 2017

**2/3<sup>rd</sup>** of the population engaged in agriculture

**FDI investment of USD 42.73 million** in agro sector that employs about **9146 people**

Agricultural land: 4,123,120 ha i.e. **29% of total land area** in Nepal

Major Export Products : Cardamom, Tea, Ginger, Coffee, Tea, Herb, Honey, Pulses & vegetables

**National Trade Integration Strategy (NTIS) 2016 identified 4 agro products having competitive**

Cardamom	Ginger
Tea	Medicinal and Aromatic Plants

## Opportunities

**Processing, packaging and branding** of non-timber forest products (medicinal and aromatic plants) cardamom, ginger, aquaculture, vegetables, floriculture, tea, coffee, honey and other agro products.

**Duty-free market** for agricultural products to adjoining Indian States with approx. **350 million people**

Investment Opportunities in:

**Fertilizers** : Annual demand approx. 700,000 metric tons vs current supply of 300,000 metric tons

**Agro infrastructure:** Agricultural farms, cold storage units, collection centers laboratories, agriculture training centers and plant quarantines

**Agricultural related machines & technology:** Agricultural-related equipment and tools

**Seeds** : Produce and supply hybrid seeds

## Investment Incentives in Agro Sector

**Income Tax** : If Direct employment to at least 100 Nepalese national during a whole year, the effective tax rate is 70 % of applicable tax rate.

Exemption of dividend tax

40 % tax exemption for fruit based brandy, wine, cider-producing industries

**VAT exemption** :

Primary and basic agricultural goods.

Agro based cold storage

**Customs Duty Concession**

Fertilizers

Raw jute imported

Import of Yarn and manmade staple fiber

Interest on loans for agro sector minimized and exempted in special cases and subsidy on loans provided for commercial farming.



## Opportunities

### MAJOR TRANSMISSION LINES AND GENERATING PLANTS EXISTING AND PROPOSED BY 2016



### SOME POTENTIAL GENERATION PROJECTS (200MW+)

S.N.	Project Name	Project Type	Capacity (MW)
1	Karnali Chisapani	Storage	10,800
2	Sun Koshi 2	Storage	1,110
3	Lower Arun	Peaking RoR	650
4	Tamakoshi III	Peaking RoR	650
5	SR-6	Storage	642
6	Sun Koshi 3	Storage	536
7	Peaking RoR	Peaking RoR	500
8	Lower Badigad	Storage	380
9	KR-7	RoR	330
10	Dudh Koshi	Storage	300
11	Madi	Storage	200

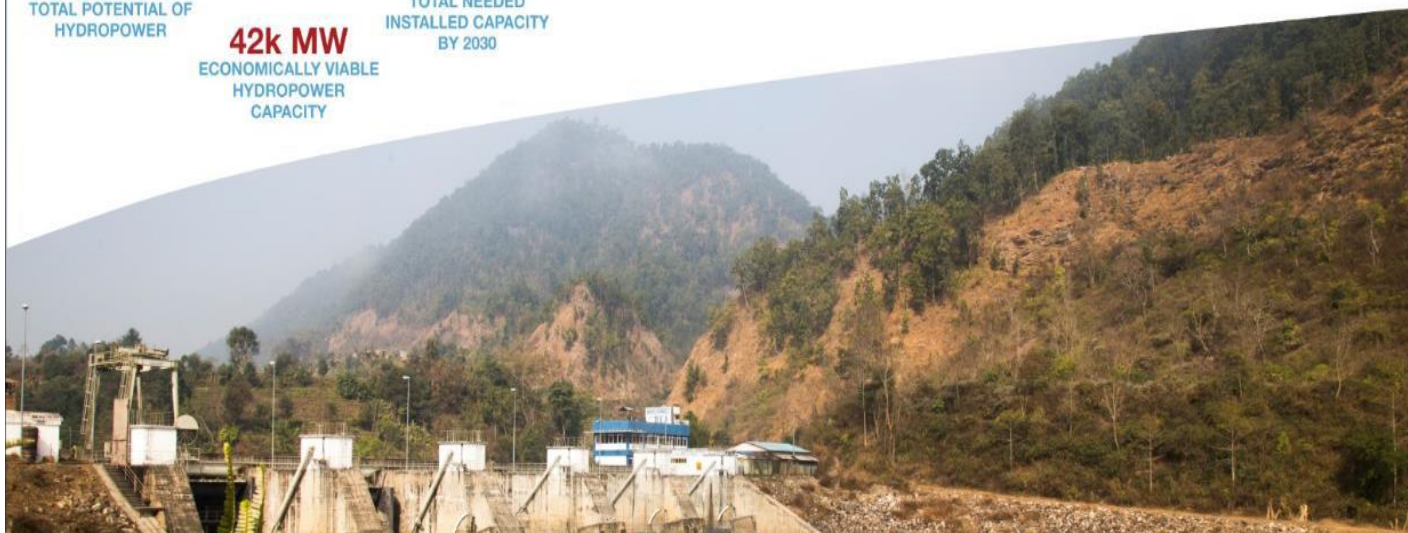
### AREAS FOR INVESTMENT



**83k MW**  
TOTAL POTENTIAL OF HYDROPOWER

**42k MW**  
ECONOMICALLY VIABLE HYDROPOWER CAPACITY

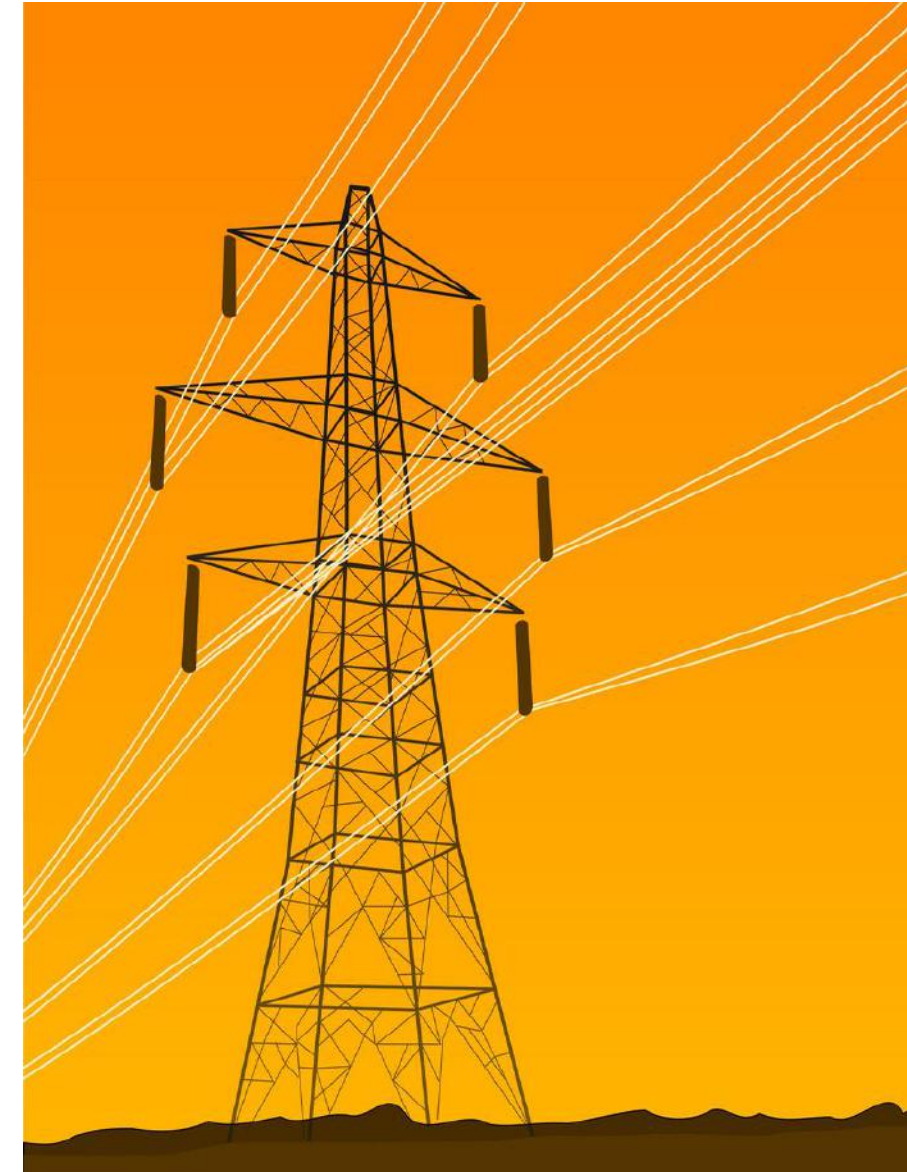
**10k MW**  
TOTAL NEEDED INSTALLED CAPACITY BY 2030



- Hydropower Potential  
Theoretically Possible : **83,290 MW**  
Technically and Economically Viable : **42,130 MW**  
Installed Capacity : **1001 MW**
- Nepal strives to graduate to a developing country by 2030. The target is **to increase the installed capacity to 15000 MW**
- In addition to energy development, investment opportunities lie in the **upgradation and expansion of distribution systems** (for which investment of approximately USD 2 billion is required) and transmission systems (for which investment of approximately USD 4.45 billion is required).
- Drinking Water** : Drinking water to meet the growing scarcity of safe (treated) drinking water not only in Nepal but can be exported. For e.g. average daily demand of Kathmandu valley itself is 400 million litres per day.

## OUTLOOK

- Per capita electricity consumption will reach **700 kilowatt hour per year (kWh/year) by 2030**, which can be met through total installed capacity of 8,000 MW.
- More than **80 hydropower projects** are under construction that would increase the hydro capacity of Nepal to **approx. 3000 MW**
- The Power Trade Agreement (**PTA**) signed with India has opened up a large market for exporting electricity to India.
- **SAARC Framework on Energy Cooperation** in place
- Multiple Cross Border Transmission Lines are being constructed with India and China
  - 400 KV Dhalkebar – Muzaffarpur** Transmission line complete
  - 400 KV Butwal-Gorakhpur** Transmission line (Under Construction
  - 500 KV Kerung – Rasuwa** Transmission line on plan (Survey Phase)
  - 756 KV East West** Transmission line planned



## Power Purchase Rates for ROR, PROR and Storage projects effective from April 27, 2017

ROR		PROR		Storage	
Season	Rate Rs/KWh (up to 100 MW project)	Season	Rate Rs/KWh (up to 100 MW project)	Season	Rate Rs/KWh (up to 100 MW project)
Dry	8.40	Dry	8.40 – 10.55 (Depending on Peak hours)	Dry	12.40
Wet	4.80	Wet	4.80	Wet	7.10
<ul style="list-style-type: none"> <li>Rate with 3% simple escalations for 8 years for the capacity up to 100 MW</li> <li>Expected Return On Equity up to 17 %</li> </ul>					

### TAX INCENTIVES

- Projects Completed by B.S 2080 (A.D 2023) to get  
Corporate Tax Exemption for **10 years : 100% off** , Next 5 years : **50% off**  
VAT Refund at USD 50,000 / MW
- Dollar PPA for foreign loan. Recovery period or 10 years whichever is earlier





## Opportunities

- **Metallic minerals**, including iron, copper, zinc, lead, gold, platinum, silver and tin are known to be found in various regions of Nepal.
  - Nepal is known to have **100.5 million tons of iron ore** and annual **demand for iron and steel approx. 1.3 to 1.4 million tones annually**.
  - Iron and Steel identified as export product that have comparative advantage in Nepal
- **Non-metallic minerals** such as magnesite, phosphorite, talc, limestone, dolomite, quartz, mica, clay, silica sand, gemstones, decorative and dimension stones, construction materials etc. are found throughout the country.
  - **Cement grade limestone** available in Nepal is **around 1.3 billion tons**
  - **Cement consumption** in Nepal increased at an annual average rate of 8.1 percent to **6.1 million tons** of cement in 2017
- A number of **fuel minerals** (naturally occurring carbon or hydrocarbon fuels such as petroleum, and natural gas) exist in different parts of Nepal.



Hongshi Shivam Cement Plant Site in Nepal



## Opportunities

- Nepal **ranked fourth** in terms of source countries for international students in Australia in 2017.\*
- **Training Center:** Vocational training, short term technical courses and long term programs(For e.g. nursing, engineering programs, accounting, forestry, food technology, Ayurveda general science etc.)
- **Education city:** Center with foreign universities, R&D institutes, modern housing and utilities
- **Research centers** :For conducting research across multiple disciplines with appropriate libraries, laboratories and other infrastructure

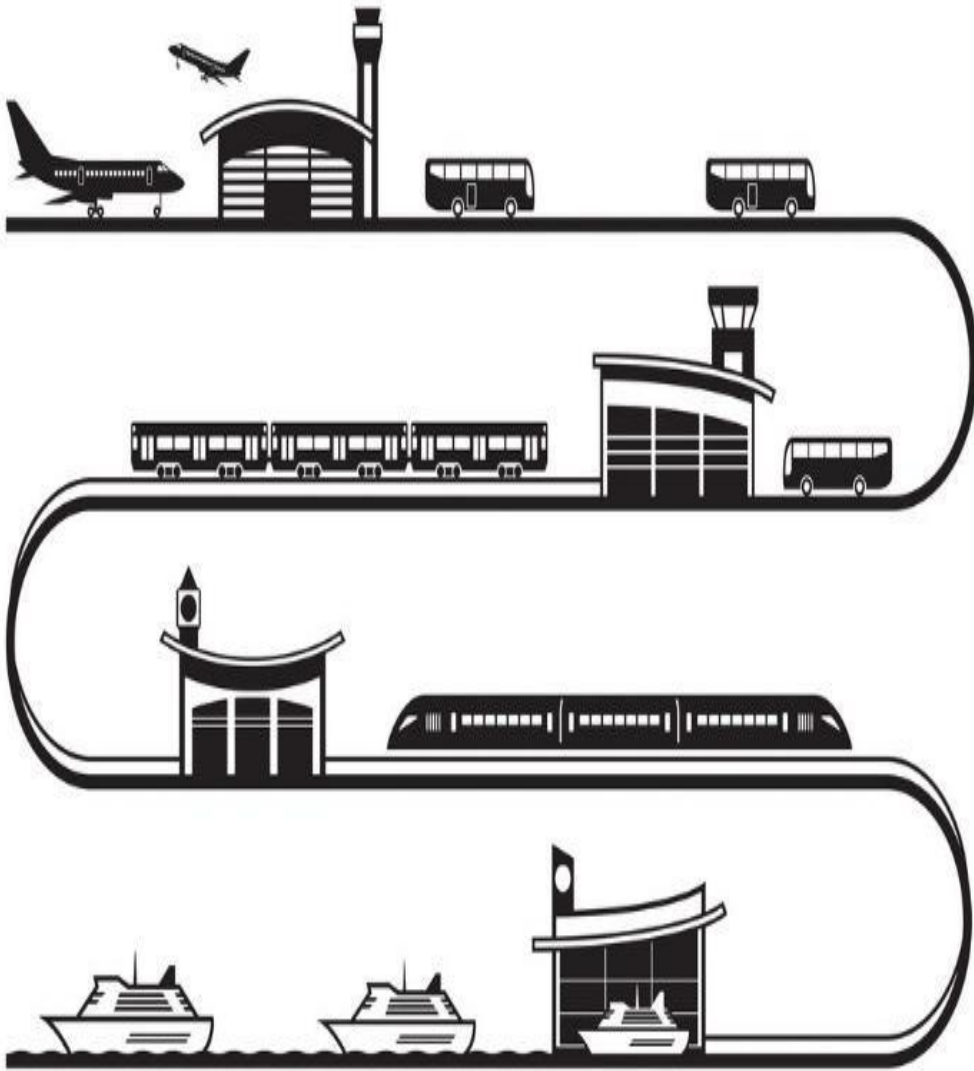


\*Source : End of Year Summary 2017,Department of Education and Training,Australian Government

## Opportunities

- Potential to tap the rising market of patients who travel abroad (India/Bangkok) for medical treatment due to lack of reliable health care services.
- The vast tourism potential in Nepal can be combined with better health care facilities to develop **medical tourism**.
- **Medicines and Medical instruments** are imported in huge quantity
- Opportunities lie in forming **Public private partnerships** in the development and management of public health infrastructure.
- Number of investment opportunities exist in the health care sector, **pharmaceutical industry, health care facilities, ayurvedic medicines and ayurveda holistic treatment centers and health care educational services.**





## Opportunities

- Only 17 % of roads in Nepal are black topped. Hence there are immense **opportunities to expand the road network**, for which the government is seeking to form public-private partnerships.
- Nepal's main **Highways** require expansion to accommodate the increase in traffic. **Railways, Cable cars** are other areas that need bigger focus.
- In order to cater to the needs of the growing urban population, the development of **mass public transportation system (bus-rapid transport (BRT), railways, monorails, airports)** has been prioritized.
- Eight **north-south corridors** (roads) linking China and India through Nepal will open opportunities for enhanced trade between India and China.



## OPPORTUNITIES

- There are opportunities in developing **tourism infrastructure** (hotels, recreation centers/activities, roads, airports, etc.).
- There is also great potential for expanding the market for Meetings, International Conferences and Events (**MICE**) tourism.
- Plans to **build new international airport** and
- **Upgrade current international airport and regional airports** (Pokhara, Bhairahawa), which will increase the tourist traffic significantly.





## SEZ

- **14** locations identified (10 South, 4 North border)
- **Bhairahawa** SEZ completed ( **38.6 ha. of land, 69 plots**)
- **Rental charge** is approx. **USD 2 cents per square meter**
- Fixed capital worth **USD 200 thousand** to set up an industry.
- **Simara**, land acquisition completed (564 ha)

## Special Provisions under **SEZ** Act for investors

- Provides one window service for industries
- Industries using up to 60% of the domestic raw materials get 50% income tax exemption for the next 5 years, 25% for another 5 years
- Industries established in SEZ get income tax exemption for the first 5 years plus 50% tax exemption for the next 3 years.
- Provides zero custom duty facility while importing raw materials.
- Strikes and protests prohibited inside SEZ
- Private Sector is allowed to establish, operate and manage
- Industries must export 75% of total production or service

## INDUSTRIAL DISTRICTS

- 10 IDs in operation
- 12 new proposed (4 land acquired )  
Jhapa (306.08 Ha),  
Hetauda (135.14 Ha),  
Rupandehi (549.32Ha),  
Banke (228.38 Ha))

## DRY PORTS

- 4+1 Under Construction
- 7 new proposed

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# Thank you

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### Hydropower potential in Nepal

Name of Basin	Theoretical Potential (MW)	Technically Feasible (MW)
Sapta Koshi	22,350	10,860
Sapta Gandaki	20,650	5,270
Karnali – Mahakali	36,180	25,100
Southern Rivers	4,110	880
<b>Total</b>	<b>83,290</b>	<b>42,130</b>

*Source : Investment opportunity in power sector, Ministry of Energy 2017*

Chemical  
Fertilizer Plant



### CHEMICAL FERTILIZER PLANT (CFP)

**Project Details:**

Project Name	Chemical Fertilizer Plant (CFP)
Project Location	Chitwan District, Nepal
Project Type	Manufacturing
Project Status	Approved
Project Budget	US\$ 100 million
Project Completion	2025

**Project Description:**

The project aims to establish a chemical fertilizer plant in Chitwan District, Nepal. The plant will produce urea and DAP (Diammonium Phosphate) fertilizers. The project is expected to create 100 jobs and contribute to the local economy.

**Salient Features of the Project:**

- 100 jobs creation
- 100% local raw materials
- 100% local market
- 100% local investment

Kathmandu -  
Kulekhani Tunnel Road



### KATHMANDU KULEKHANI HETAUDA TUNNEL HIGHWAY

**Project Details:**

Project Name	Kathmandu Kulekhani Hetauda Tunnel Highway
Project Location	Kathmandu, Nepal
Project Type	Infrastructure
Project Status	Approved
Project Budget	US\$ 100 million
Project Completion	2025


**Project Description:**

The project aims to establish a tunnel highway connecting Kathmandu, Kulekhani, and Hetauda. The project is expected to create 100 jobs and contribute to the local economy.

**Salient Features of the Project:**

- 100 jobs creation
- 100% local raw materials
- 100% local market
- 100% local investment

Kathmandu  
Pokhara Railway project



### KATHMANDU-POKHARA RAILWAY PROJECT

**Project Details:**

Project Name	Kathmandu-Pokhara Railway Project
Project Location	Kathmandu, Nepal
Project Type	Infrastructure
Project Status	Approved
Project Budget	US\$ 100 million
Project Completion	2025


**Project Description:**

The project aims to establish a railway line connecting Kathmandu and Pokhara. The project is expected to create 100 jobs and contribute to the local economy.

**Salient Features of the Project:**

- 100 jobs creation
- 100% local raw materials
- 100% local market
- 100% local investment

East West  
Electrified Railways Project



### EAST-WEST ELECTRIFIED RAILWAY PROJECT

**Project Details:**

Project Name	East-West Electrified Railway Project
Project Location	East-West, Nepal
Project Type	Infrastructure
Project Status	Approved
Project Budget	US\$ 100 million
Project Completion	2025


**Project Description:**

The project aims to establish an electrified railway line connecting East and West Nepal. The project is expected to create 100 jobs and contribute to the local economy.

**Salient Features of the Project:**

- 100 jobs creation
- 100% local raw materials
- 100% local market
- 100% local investment

East – West  
Railway Link to India



### EAST-WEST RAILWAY LINK TO INDIA PROJECT

**Project Details:**

Project Name	East-West Railway Link to India Project
Project Location	East-West, Nepal
Project Type	Infrastructure
Project Status	Approved
Project Budget	US\$ 100 million
Project Completion	2025

**Project Description:**

The project aims to establish a railway line connecting East and West Nepal to India. The project is expected to create 100 jobs and contribute to the local economy.

**Salient Features of the Project:**

- 100 jobs creation
- 100% local raw materials
- 100% local market
- 100% local investment