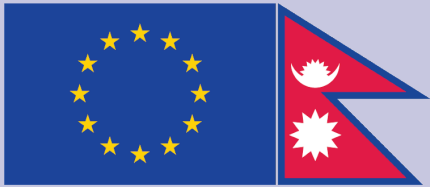


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TRADE AND INVESTMENT OPPORTUNITIES IN NEPAL

Sectors with investment and export potential

Background Paper
European Union-Nepal Business Forum - 2023

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ABBREVIATIONS

B2B	Business to Business
BPO	Business Process Outsourcing
CPI	Consumer Price Index
DOI	Department of Industry
EU	European Union
FY	Fiscal Year
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
G2G	Government to Government
G2B	Government to Business
GoN	Government of Nepal
IBN	Investment Board Nepal
IEA	Industrial Enterprise Act
IT	Information Technology
ICT	Information and Communications Technology
IMF	International Monetary Fund
ISF	Investment Support Facility
ITC	International Trade Centre
FITTA	Foreign Investment and Technology Transfer Act
FTA	Free Trade Agreement
LDC	Least Developed Country
MAP	Medicinal and Aromatic Plants
MoICS	Ministry of Industry, Commerce and Supplies
MoF	Ministry of Finance
MW	Megawatt
NDC	Nationally Determined Contribution
NPR	Nepali Rupees
NRB	Nepal Rastra Bank
OECD	Organization for Economic Co-operation and Development
PPP	Public Private Partnership
SDGs	Sustainable Development Goals
SEZA	Special Economic Zone Authority
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
USD	US Dollars
WTO	World Trade Organization

1. EU-NEPAL BUSINESS FORUM

Nepal has made significant progress towards attaining the UN Sustainable Development Goals (SDGs) in recent decades and will be graduating from its Least Developed Country (LDC) status on 24 November 2026 ([Nepal graduation status | LDC Portal - International Support Measures for Least Developed Countries](#)). The graduation will not only mark Nepal's progress in economic growth and human development but also its readiness for business.

However, despite the achievements in poverty reduction, education and health, Nepal continues to face many development challenges, which relate mainly to deriving sustainable benefits from the untapped potential in trade and investment. Nepal's export performance remains low, despite improvements in market access for its products (Global Enabling Trade Report)¹ and has also largely been unable to tap export markets and attract adequate FDI.

The EU is a global leader in investments abroad and its members, Netherlands, Germany, Luxembourg, France, and Ireland are among the top global investors. Three EU member states are among the top 10 countries that invest abroad². However, the share of EU investments in Nepal remains low. According to the Department of Industry (DOI), only 539 of over 5500 industries with FDI in Nepal have investments from EU member states (Table 4, 5) and investment from EU firms in Nepal is less than 10 per cent of the total.

Nepal needs to expedite efforts to improve the business environment, which is currently below the level needed for enhancing investor confidence. The country ranks 94th out of 190 economies in terms of the ease of doing business³. Across the 10 indicators in the Doing Business report, Nepal has done well in terms of paying taxes, enforcing contracts, starting a business, and getting electricity. While further improvement on these indicators will require concrete state-level actions, other measures that can assist investment flows are Business to Business (B2B), Government to Government (G2G) and Government to Business (G2B) contacts, which periodic business forums can facilitate.

The EU-Nepal Business Forum 2023 aims to become the platform to periodically bring EU and Nepali investors/businesses and the governments together to explore mutually beneficial opportunities.

1.1 Objectives and outcome

The overall objective of the EU-Nepal Business Forum is to strengthen trade and investment relations between investors in EU member states and Nepal for facilitating joint investments and projects to support Nepal's vision to be prosperous, supported by sustainable private-sector driven growth. The specific objectives of the Forum are to:

- i. Showcase business, trade, investment, and FDI opportunities in Nepal.
- ii. Provide information on key investment sectors where Nepal has comparative and competitive advantages, and to explore/discuss policy and legal measures required to facilitate investment.

1 [Global Enabling Trade Report 2016 | World Economic Forum \(weforum.org\)](#)

2 EEC Nepal (2022), *Unleashing Nepali Trade and Investment*, a publication of European Economic Chamber-Nepal. <https://eutip.moics.gov.np/publication>

3 The World Bank (2020), *Doing Business Report 2020*.

- iii. Provide a platform for G2G, G2B and B2B dialogues, and networking opportunities, and
- iv. Raise awareness on the various trading arrangements between the EU and Nepal.

The Forum is expected to result in partnership agreements between investors/businesses in Nepal and the EU countries, in addition to strengthening economic ties between the EU and Nepal. Another expected outcome is enhanced knowledge and information-sharing between EU and Nepali businesses on trading schemes, EU market entry requirements, and the overall Nepali business environment, and the sectors with potential for trade and investment.

This brief has been prepared for the EU-Nepal Business Forum 2023. The first section introduces the Business Forum and the second provides an overview of the Nepali economy. The third section discusses Nepal's investment and trade, mainly with EU countries and the final section provides profiles of sectors with high investment and export potential.

2. OVERVIEW OF THE ECONOMY

Nepal's GDP growth has remained stable in the past few years, averaging at around five per cent. Even though lower than the targeted growth, the economy has managed to navigate the rough headwinds of Covid-19 effects and the more recent external sector pressure on domestic prices due to the Russia-Ukraine war. The monetary tightening has helped to stabilise prices, which has taken place at the expense of growth (real GDP) that is expected to grow by 4.4 per cent in the 2022/23 (Table 1).

TABLE 1: Macroeconomic indicators

Macroeconomic indicators	2019/20	2020/21	2021/22	2022/23*
Nominal GDP (in billions US \$)	33.4	36.3	40.1	42.1
Real GDP (annual percentage change)	-2.4	4.2	5.8	4.4
Public debt (as percentage of GDP)	43.3	44.0	43.8	47.8
Private sector credit (as percentage of GDP)	84.3	96.8	96.6	92.3
Headline CPI (period average)	6.1	3.6	6.3	7.8
Gross Investment (% of nominal GDP)	30.4	35.8	37.3	36.0

Source: IMF 2023

*The figures for 2022/23 are estimates.

Public debt, an indicator of the government's borrowing capacity to finance development, is well below 50 per cent, lower than the average debt to GDP ratio South Asia (about 80%). This indicates that Nepal's economy is mostly driven by the private sector, which is the source of more than 95 per cent of new investment in the economy.

The contribution of the service sector to Nepal's GDP is the highest. Although, primary sector is still the largest employer, employing more than 60 per cent of the population, the sector only contributes around 25 percent of GDP, and its share is in the declining trend. The contribution of secondary or industry sector has witnessed moderate growth (Table 2).

TABLE 2: Sectoral contribution to GDP

Sectoral Contribution to GDP in %	2020/21	2021/22*
Primary sector contribution to GDP (total value added)	25.5	24.5
Secondary sector contribution to GDP (total value added)	13.1	13.7
Service sector contribution to GDP (total value added)	61.4	61.8
Agriculture sector	24.9	23.9
Manufacturing sector	5.45	5.65
Construction sector	5.19	6.17
Wholesale and retail, vehicle and motorcycle repair services	15.96	16.4
Housing and food services sector	1.6	1.65
Transport and storage sector	5.36	5.98
Financial intermediation sector	7.01	6.86
Real Estate sector	9.09	8.76
Information and communication sector	2.22	2.09
Human health and social work sector	1.78	1.79

Source: Economic Survey 2021/22, Ministry of Finance (MoF), Government of Nepal.

*Estimates

Agriculture, the largest single sector, contributes around 25 per cent to GDP. Its significance to the country's growth is also evident from various government programmes to support the sector. The wholesale and retail sector contributes around 16 per cent to GDP, making it another important sector. Other major sectors are the real estate, financial intermediation, transport and storage, and construction.

Nepal's economic structure is undergoing a significant transformation as people shift from the primary sector to the secondary and the tertiary sectors. While the contribution of the service sector to GDP is satisfactory, there is room and opportunity for the manufacturing sector to grow in the coming years. At the same time, emerging sectors like the information and communication, technology, health, housing and food services offer opportunities for growth and investment.

3. STOCKTAKING OF EU-NEPAL TRADE AND INVESTMENT

3.1 Nepal's trade performance

Nepal's trade (export) performance remains low and less diversified in terms of products and destination markets. Since joining the World Trade Organization (WTO) in 2004, the export-import ratio has significantly increased from 1:2.5 to 1:16.5 in 2018, after being disrupted by the 2015 earthquake which affected exports alongside sharp increase in import of reconstruction materials. According to a study by the World Bank, Nepal has untapped export potential worth around \$9.2 billion (World Bank, 2021b). Despite some improvements in market access for Nepali products, Nepal's underperformance is still evident in the insufficient volume and diversity in trade. In the last decade, Nepal's trade deficit has increased fourfold and has emerged as a major challenge to the country's overall development process. This is a matter of concern for everyone – policymakers, political leaders, and the general public.

The EU is an important trading partner. In 2021, the share of Nepal's export to EU countries accounted for 4.9% of total exports (Table 3). Nepal's export to EU was highest in 2011.

TABLE 3: Summary of Nepal's global trade

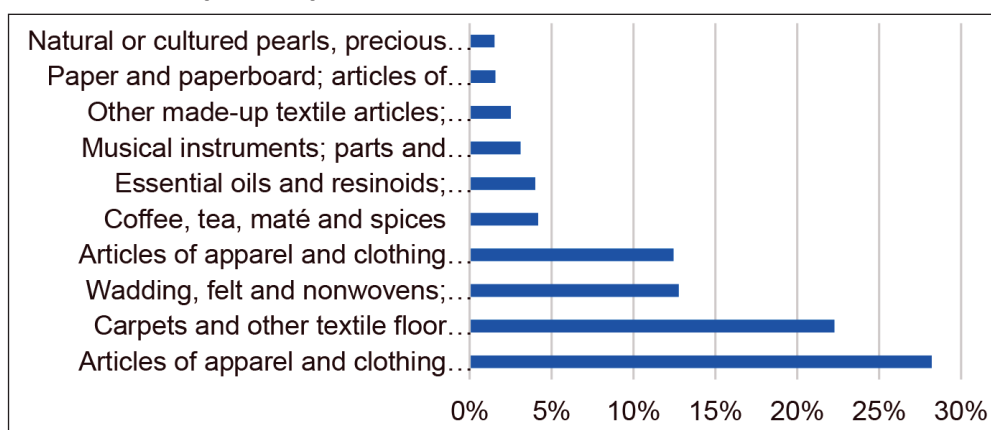
Description	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Nepal's Export to World	666	692	663	693	611	672	670	676	876	795	1465
Nepal's Export to EU	77	72	68	70	74	72	71	70	68	54	71
EU's Share in Nepal's Export (%)	11.6%	10.4%	10.3%	10.1%	12.1%	10.7%	10.6%	10.4%	7.8%	6.8%	4.9%
Nepal's Imports from World	4272	4703	4880	5736	5979	8046	8938	10951	11074	8992	13746
Nepal's Imports from EU	62	92	89	127	258	125	274	394	184	128	197
EU's Share in Nepal's Import (%)	1.5%	2.0%	1.9%	2.2%	4.3%	1.6%	3.1%	3.6%	1.7%	1.4%	1.4%
Nepal's Trade Balance with EU	15	-20	-21	-57	-184	-53	-203	-324	-116	-74	-126
Nepal's Overall trade balance	-3606	-4011	-4217	-5043	-5368	-7374	-8268	-10275	-10198	-8197	-12281

Source: Trade Map, ITC

The EU's share in Nepal's exports is significant (Figure 1), particularly for pashmina (62.3%), garments (61.1%), paper products (49.6%), leather (40.7%), wool products (36.2%), carpets (35%), coffee (30.8%), semi-precious stones/jewellery (23.1%), medicinal and aromatic plants (8.4%), and tea (5.6%).

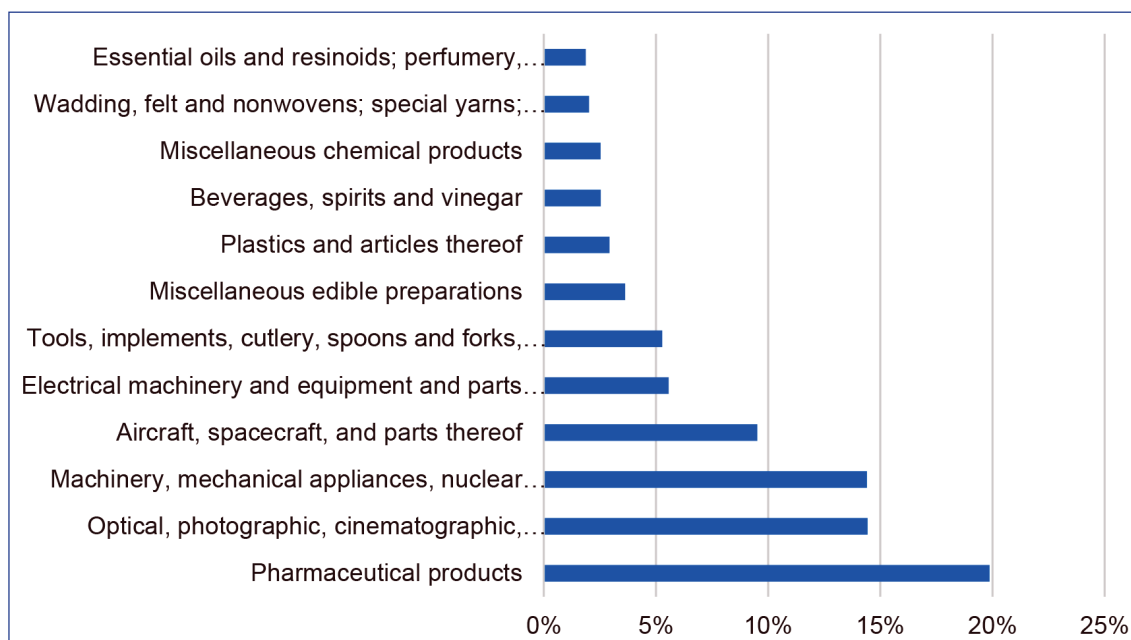
Nepal's imports from EU countries mainly comprise of pharmaceuticals, optical and photographic materials, machinery, aircraft, spacecraft and parts, beverages, electrical machinery and equipment, vehicles, etc. (Figure 2)

FIGURE 1: Nepal's export to the EU-27 (2021)



Source: Trade Map, ITC

FIGURE 2: Nepal's imports from the EU -27 (2021)



Source: Trade Map, ITC

3.2 Stocktaking of investment in Nepal

Nepal began improving the investment climate with the enactment of Foreign Investment and Technology Transfer Act (FITTA) in 1982. A new FITTA was enacted in 1992 when the government embraced economic liberalisation. This was replaced by FITTA 2019 that seeks to address the remaining regulatory and procedural bottlenecks for facilitating foreign investment.

FDI flows in Nepal began following liberal economic policies introduced in the mid-1980s as part of the structural adjustment recommended by the World Bank and International Monetary Fund (IMF). There was a setback in FDI flows during the decade-long conflict (1996-2006) but resumed after the signing of the Comprehensive Peace Accord in 2006. However in comparison with other countries in the region, share of FDI as percent of GDP is still very low.

Sector wise, Nepal has received the highest FDI in the energy sector, followed by services and the tourism sector (Table 4). Manufacturing is the fourth largest recipient of FDI, while investment in other sectors has remained low. In terms of employment, manufacturing setor provides highest employment opportunities.

TABLE 4: Foreign Direct Investment in Nepal

Category	No. of projects	Total project cost (NPR million)	Total FDI (NPR million)	Total employment
Agro-forestry	295	10,009.82	8,188.23	10,846
Energy	91	222,938.50	130,404.08	11,890
Information Technology	120	15,215.48	11,987.38	6,321
Infrastructure	54	5,566.34	4,707.01	3,824
Manufacturing	1,264	130,938.43	69,227.56	106,568
Mineral	72	10,366.92	7,981.01	8,786
Service	1,821	123,969.14	95,914.32	78,124
Tourism	1,816	109,229.95	90,607.38	65,544
Total	5,533	628,497.08	419,269.47	292,120

Source: Department of Industry, MOICS, Government of Nepal

3.3 EU investment in Nepal

The EU is a global leader in foreign investment but the FDI of its member states in Nepal remains low (Table 5).

TABLE 5: EU investment in Nepal as percentage of total

Approved industries for investment by EU countries (NPR million, 2022)				
	Number of projects	Total project cost	Total FDI	Total employment
Total FDI	5533	628497.08	419269.47	292120
EU countries	539	22080.54	15231.71	20459
EU % of total	9.74	3.51	3.63	7

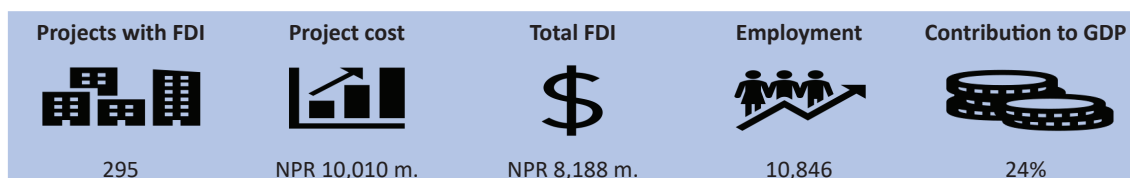
Source: Department of Industry, MOICS, Government of Nepal.

As evident in Table 5, so far Nepal has been able to attract only 3.6 per cent of European FDI, which underscores the need for making additional efforts to reach out to EU investors and to interest them to invest in the country. This will require continuous engagement alongside efforts to enhance the investment climate.

Nepal's federal system of governance presents both opportunities and challenges for trade and investment. If mobilised strategically, the seven provincial governments can play crucial roles in promoting the private-sector, trade and investment in provincial resource mobilisation. This can result in additional funds for provinces for local development and more opportunities for businesses – a win-win situation for all. Creating the environment conducive for this will require enhanced inter-governmental coordination and collaborations across different levels, and increased coordination between government agencies at different levels and the private sector.

4. MAJOR SECTORS FOR INVESTMENT AND TRADE

4.1 Agriculture and agroforestry



Source: Department of Industry, 2022

Agriculture contributes about a third of the GDP and provides employment for two-thirds of the population. Even though small in terms of land area, the country is rich in natural resources and biodiversity. The diverse topography and elevation – ranging from less than 100 meters above sea level in the southern plains to over 8,000 meters in the Himalayan region – has resulted in a diverse climate suited to various crops. Nepal also shares an open boarder with five adjoining Indian states with a population of about 350 million, which by treaty, translates into a large, duty-free market for agricultural exports.

Nepal has been trying to modernise traditional subsistence farming since the late 1950s but has yet to get there. That explains the government's ongoing efforts to modernise and increase productivity by using new technology, improved seeds, and fertilisers combined with initiatives to expand irrigation facilities and rural roads. It has also been removing various protections offered to national producers.

The economic liberalisation policies that have been in place since the 1990s have created investment opportunities in agricultural inputs and processing industries. The FITTA 2019 still has some restrictions for FDI in agriculture production in areas such as poultry farming, fisheries, beekeeping, fruits, vegetables, oil seeds, pulses, and dairy production. However, agricultural processing is open to foreign investment. Industries producing and processing exportable products like tea and textiles are entitled to 50 per cent income tax exemption.

Nepal's topography is suited for raising various types of forests, or opportunities for producing timber and non-timber products. The country still needs to find sustainable ways to use forest resources for economic growth, which when done can open up opportunities for using forest resources for trade.

The government allows collection of forest products, other than those considered endangered. Harvesting and export of Medicinal and Aromatic Plants (MAPs) are already a major source of income for people in rural areas. Handmade paper, which is made from the bark of the *lokta* plant, is already a growing export. Similarly, fabric from hemp and *Allo* (another plant) is also emerging as another export.

Nepal does not allow timber exports but does allow handicrafts made of wood, bamboo and cane, etc. to be traded. The government's 20-year Forest Sector Strategy (2016) aims to strengthen institutional capacity for forest ecosystem, biodiversity, and watershed management.

There are opportunities to harvest economic resources from forests sustainably for poverty reduction, employment generation and for enhancing foreign currency incomes without compromising the forest management goal. Further, the Industrial Enterprises Act (2016) allows ownership right of a forested area to forest product-based industries, with specific conditions (IEA 2016, Annex 4).

In recent years, Nepal has adopted a land use policy that aims to maximise use of available arable land through scientific land reforms. It also has specific programmes aimed at increasing agricultural production and productivity, enhancing food security, and creating jobs through modern, diversified and commercial farming.

4.2 Manufacturing



Source: Department of Industry, 2022

In FY 2021/22 Nepal had 8,764 registered industries, of which 37 per cent were in manufacturing, followed by services (26%) and tourism (22%). Manufacturing represents a major industrial sector and its development is vital for job creation and trade to enhance national income and alleviate poverty. The use of technology to enhance both output and productivity can have higher spill-over effects and efficiency in terms of resource use (compared to the agricultural sector). This when combined with green production using natural resources can result in products that can be exported globally.

Nepal introduced joint stock companies and the idea of limited liability in the 1930s. However, both industrialisation and trade were heavily regulated through licensing and the government's own efforts to produce through public enterprises from the 1950s to the 1980s, when it began liberalising the industrial sector.

Following the liberalisation drive of the 1990s, new laws such as the Industrial Enterprises Act (1992) and the FITTA (1992) scrapped licensing and allowed unrestricted private and foreign investment in all sectors except those considered to be sensitive. The laws also incentivised investments in rural and underdeveloped areas. These policies were in part responsible for the boom in manufacturing, including FDI projects, in the mid-1990s.

In 2011, the government established an autonomous entity headed by the Prime Minister – Investment Board of Nepal (IBN) – to facilitate large-scale FDI projects but achievements in terms of attracting large investments in manufacturing have remained below expectations.

The government has continued making additional efforts to change the situation. It has enacted a new Industrial Enterprises Act (2016) and a new FITTA (2019). The Industrial Enterprises Act (2016) defines firms with fixed capital of more than NPR 500 million as large industries and those exporting more than 40 per cent of the production as export industries. Similarly, FITTA (2019) allows 100% FDI in all manufacturing industries, except a few on the “sensitive” list⁴.

4 Schedule relating to sub-section (2) of section (3) of the Foreign Investment and Technology Transfer Act, 2019

These laws provide various (non)financial incentives to manufacturing and export industries, which are also available to foreign investors.

Fiscal incentives provided to industries are listed in Chapter 5 of Industrial Enterprises Act (2016). For example, manufacturing industries are entitled to 20 per cent exemption on income tax and an additional five per cent on the income earned through export. Further, large industries with investment of over NPR 1 billion and providing direct employment to more than 500 people year-round are entitled to 100 per cent income tax exemption for first five years from the date they begin transactions, and 50 per cent exemption for next three years.

4.3 Tourism



Source: Department of Industry 2022, and Economic Survey 2021/22

Nepal is unique for number of reasons, one of which is nature. Eight of the world's 10 highest mountains in Nepal attract mountaineers and adventure seekers from around the world. It is also a compact zone for climatic and biological diversity, which has resulted in various tourist attractions including national parks, such as the Chitwan National Park, and Sagarmatha National Park which are UNESCO World Heritage sites. In addition to the high mountains and biological diversity, Nepal is also famous for religious destination for both Hindus and Buddhists. Notable among the sites of pilgrimage are the Pashupatinath Temple in Kathmandu for Hindus and the birthplace of Buddha in Lumbini, and the Boudhanath Stupa for the Buddhists – all in Kathmandu Valley another World Heritage site.

Based on the 10-year data, tourists come to Nepal mainly for vacation, entertainment, trekking, mountain climbing and pilgrimage. In 2021 alone, 66.8 per cent visited Nepal for vacation, entertainment and travel; 10.3 per cent for mountain climbing/ adventure travel/ hiking; 7.4 per cent for pilgrimage and 15.5 per cent for various other purposes. In 2021 most tourists came from India (42.83%), followed by the United States of America (15.13%), United Kingdom (5.74%), China (4.10%), and Bangladesh (3.34%)⁵. (Note: The number of Chinese tourists is generally higher and the numbers reflect the impact Covid-19 in China).

Nepal had 162 star-hotels in mid-March 2022, with a total bed-capacity of 15,775. Additionally, the number of tourist-class hotels, lodges and resorts, excluding star-hotels, had reached 1,183, with a combined bed capacity of 32,637. In mid-March 2022, there were 22 airlines operating international flights in Nepal and the country had air service agreements with 41 countries⁶.

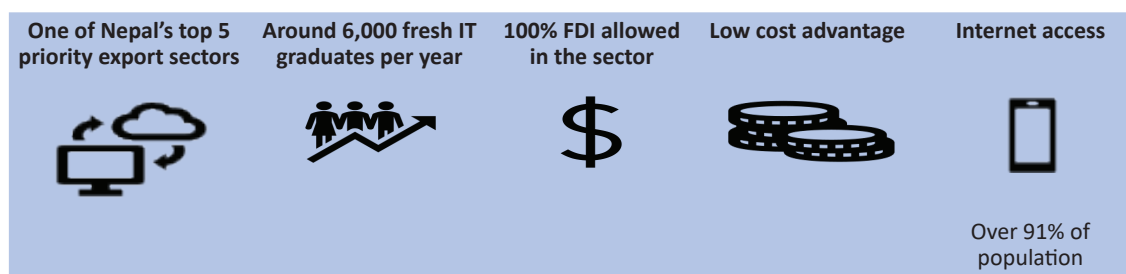
5 Nepal Tourism Statistics 2019, Ministry of Culture, Tourism & Civil Aviation

6 Economic Survey 2021/22, Ministry of Finance

Nepal has been unable to fully harness and capitalise on its tourism potential. According to the World Economic Forum's Travel and Tourism Competitiveness Report 2019, Nepal ranked 102 out of 140 countries on competitiveness of the industry, which is indication of the vast opportunities that remain to be tapped.

The highest number of tourist arrivals in Nepal ever was 1,197,191 in 2019, which is still low compared to travellers arriving in the neighbourhood. For example, Tibet had received over 40 million tourists and the Maldives, 1.7 million the same year. The number of tourists visiting Nepal dropped sharply in 2020 (230,085) owing to Covid-19 related travel restrictions, which has also exposed the vulnerability of the sector to global shocks. But in Nepal, it was also the beginning of a new tourist market – domestic tourism or Nepalis travelling in-country, which is also catching up fast. Public investment in Nepal's tourism has been very low, which therefore is open for private, including, foreign investors.

4.4 ICT and BPO services



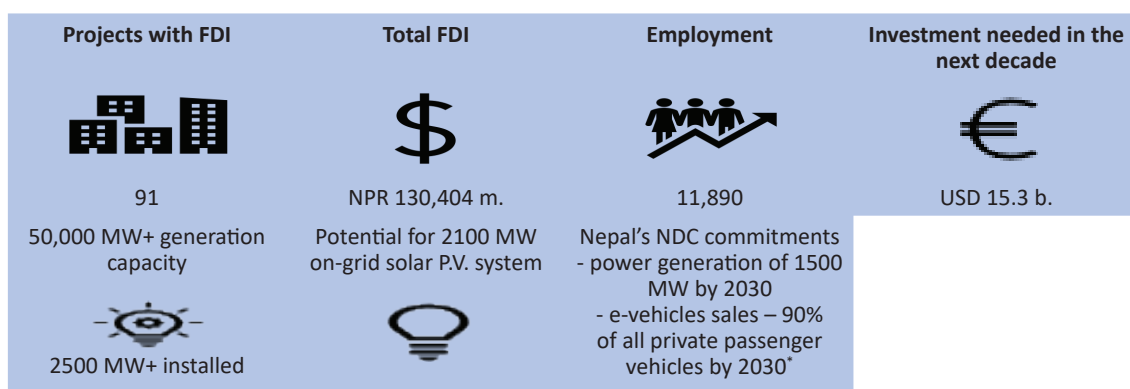
Source: Department of Industry 2022, and Economic Survey 2021/22

Information and Communications Technology (ICT) is one of the fastest growing sectors in Nepal with potential for continued growth. IT-enabled services can be undertaken at locations away from the core business and final customer and include offshoring of functions, including accounting, financial analysis, call centre services, engineering design, and health-record transcription, etc.

Business process outsourcing (BPO) involves transferring all or some processes or operations, and responsibilities of specific businesses to third-party service providers or subsidiaries. Such tasks are generally non-strategic and non-core in nature, but essential for smooth operations.

The Government of Nepal has identified IT and BPO as one of top five priorities for export (services). The industry is supported by about 6,000 skilled IT graduates who enter the job market every year. Further, the comparatively lower wages in Nepal make the country attractive sourcing services. This is also a sector where the government allows 100 per cent foreign investment, except for motion pictures produced in the national language and the telecommunication sector, where up to 80 per cent equity is permitted.

4.5 Energy



Source: Department of Industry 2022, and Economic Survey 2021/22

* Second Nationally Determined Contribution (NDC) 2020, [Ministry](#) of Health and Population

Nepal recognises the energy sector as vital for its economic growth. In addition to setting targets for electricity generation, transmission and distribution, prioritising rural electrification, and promoting efficient use, the government has also taken several initiatives to promote private participation in the sector.

The commissioning of the 456 MW Upper Tamakoshi Hydropower project has taken Nepal's electricity to 1,900 MW. Further, projects that will produce up to 2,500 MW of hydropower are expected to come online within the next few years, when the supply is likely to outpace local demand.

The 400 kV Dhalkebar-Muzaffapur cross-border transmission line came into operation in 2021. The Government of Nepal is now working towards building another, the Butwal-Gorakhpur 400 kV, cross-border transmission line. Similar, cross-border transmission arrangements are also being considered at two more locations along Nepal's southern borders with India (Nepal Electricity Authority, A Year in Review Fiscal Year 2020/2021). The Dhalkebar-Muzaffarpur line has capacity to transport 1,000 MW of electricity, and the New Butwal-Gorakhpur line will have the capacity to transmit 2,000 MW.

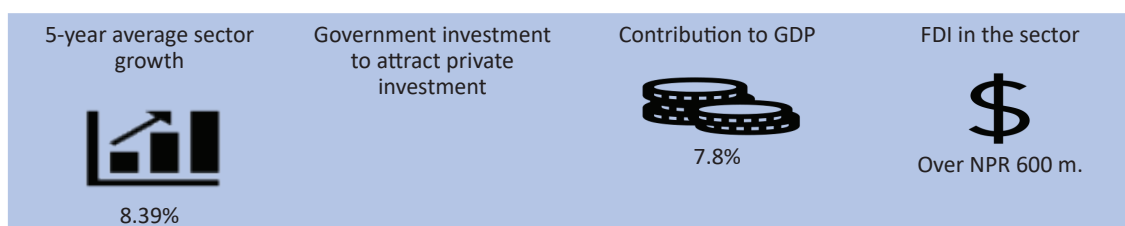
Nepal needs to enhance domestic transmission infrastructure and build more cross-border lines to maximise electricity trade. For long-term power evacuation, Nepal will have to fully synchronise its grid with the Indian grid.

Bangladesh can be another market for Nepal's electricity export. The provision for trilateral trade in the Indian *Guidelines for Import/Export (Cross Border) of Electricity, 2018* has opened up possibility of Nepal's electricity export to Bangladesh, which has expressed interest to purchase up to 700 MW. In April 2018 the two countries signed an agreement where Bangladesh has shown interest not only to purchase electricity but to also be involved in generation. Bangladesh an agreement to purchase 500 MW electricity from the 900 MW Upper Karnali Project being developed by an Indian company in Nepal. This power will be delivered from Nepal to Bangladesh via India.

In the next decade Nepal will have both public and private hydro projects of 6,497 MW capacity that will require financing of about US \$ 10.9 billion. The required investment in transmission and distribution will be around USD 4.4 billion (PEI, unpublished report). This level of financing

is not possible through domestic resources. Hence, Nepal needs to develop strategies to attract FDI and funding from international institutions.

4.6 Infrastructure/ Construction



Source: Department of Industry 2022, and Economic Survey 2021/22

Nepal's construction industry can be a significant driver of economic growth. Nepal has a rapidly growing population and a large gap in required infrastructure, which makes it attractive for private investment.

According to the Nepal Rastra Bank (central bank), the construction sector has had an average annual growth 8.39 per cent over the past five years. Additionally, the government has also been investing heavily in infrastructure, with a focus on highways, airports, and hydroelectricity projects. These investments have created more space for private investment in construction. According to the Nepal Economic Survey 2020/21, the construction industry contributed 7.8 per cent of the GDP in FY 2019/20.

4.7 Minerals

63 minerals identified	Tax holiday for first 7 years and 50% exemption for next 3 years for petroleum and natural gas related industries	Losses of petroleum extracting industries can be carried forward up to 12 years	-Uranium deposit identified in Upper Mustang -Nearly 10 petroleum and natural gas exploration sites identified
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Source: Investment Board Nepal

Nepal is rich in minerals and has significant potential for mining. The country has an abundance of minerals required for industry and construction – limestone, coal, talc, red clay, granite, marble, gold, and precious and semi-precious stones (tourmaline, aquamarine, ruby and sapphire)⁷. Similarly, Nepal also produces other construction inputs such as sand, gravel, dimension stone, decorative stones, paving stones and roofing slates.

Nepal opened the mining sector to FDI in 1999, following the enactment of the Mines and Minerals Act. It has allowed private investors, both domestic and foreign, to explore deposits of iron ore, copper, manganese, lead, chrome ore, zinc, sulphur, molybdenum, gold, tungsten, diamond and other precious stones, nickel, and metals in the platinum group.

The mineral industry in Nepal is largely undeveloped. The National Mineral Policy 2019 aims to increase exploration and production of minerals and establish a favourable environment for private investment.

According to the Department of Mines and Geology, Nepal has 63 minerals, including metallic,

⁷ Investment Board Nepal, Office of the Investment Board (2017), Mines and Minerals Sector Profile

non-metallic, and fuel minerals. Minerals found in Nepal include gold, copper, iron, zinc, limestone, and graphite but resources have remained under used due to a lack of investment and inadequate infrastructure.

5. CONCLUSION

Nepal will be graduating from its LDC status on 24 November 2026. The graduation marks the country's progress in economic growth and human development and also signal its readiness for business. But the country continues to face many challenges. These relate mainly to deriving sustainable benefits from the potential in trade and investment, which remain largely untapped. Nepal's export performance remains low and has also been largely unable to tap new export markets and FDI in the volumes required, including that from EU member states.

Nepal needs to expedite efforts to improve the business environment, which is currently below the level needed for fostering investor confidence. Improving the business environment needs to be a top priority for encouraging new investments.

The sectors with most potential for Investment are energy, tourism, IT/BPO, manufacturing, minerals, construction/infrastructure and agricultural processing. The required resources are available in country and there is sizeable domestic demand and also potential for exporting to neighbouring countries. The government has also been working towards continuously improving the policy and legislative environment, infrastructure and institutional mechanism to foster investment and trade opportunities. The EU-Nepal Business Forum can serve as an important platform for securing the required investments.

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