

**NICCI**  
Nepal-India Chamber of Commerce & Industry

# BUSINESS CLIMATE SURVEY FOR INDIAN COMPANIES IN NEPAL 2024









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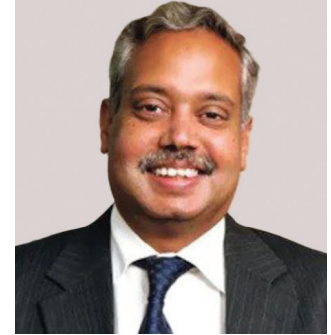


## PATRON'S MESSAGE

The Nepal India Chamber of Commerce (NICCI) since its inception in 1993 has been continuously promoting economic and commercial relations between India and Nepal thus contributing to strengthening the overall partnership between our two countries.

I am pleased that NICCI has done a study on the trends impacting business climate in Nepal. This report which has relevant statistics along with feedback from members of NICCI on the current business climate in Nepal would be of immense value to businesspersons in both India and Nepal as they pursue further strengthening of the economic ties. Its findings might also be of use to policymakers in Nepal in improving ease of doing business for Indian and other foreign investors.

I am confident that this study would be very helpful for Indian companies as they plan their future potential investments in Nepal.



A handwritten signature in black ink, consisting of stylized initials and a long horizontal stroke extending to the right.

H.E. Mr. Naveen Srivastava  
Ambassador  
Embassy of India  
Kathmandu (Nepal)

## PRESIDENT'S FORWARD

Nepal's economic transformation hinges on foreign direct investment (FDI), particularly from India, our closest neighbor and longstanding trade partner. Indian companies have played a pivotal role in Nepal's economic development since long, introducing diverse industries, creating jobs, and fostering innovation. Their success stories exemplify the immense opportunities Nepal offers and the mutual benefits of deeper economic collaboration.

To fully harness the potential of Indian FDI, Nepal must address critical challenges such as policy inconsistencies, administrative bottlenecks, and infrastructure gaps. A stable, investor-friendly environment, coupled with targeted incentives for emerging sectors like IT and agriculture, will be crucial. The government's role is vital in ensuring a streamlined and transparent process that builds investor confidence while fostering sustainable economic growth.

This publication "**Business Climate Survey for Indian Companies in Nepal-2024**" provides valuable insights into the perceptions of Indian investors, their contributions to Nepal, and actionable recommendations for improving the investment climate. Based on extensive consultations and research, it offers a roadmap for fostering deeper economic collaboration and creating a more investment-friendly Nepal.

I extend my heartfelt gratitude to our partners, including the Economic Diplomacy Division of the Ministry of External Affairs of India, Embassy of India in Kathmandu, and Asian Institute of Diplomacy and International Affairs (AIDIA), whose invaluable contributions have made this survey and publication possible. I also thank all the corporate houses for their support to bring this book out. Your support reflects a shared commitment to strengthening Nepal-India economic ties and unlocking the immense potential for mutual prosperity.



**Sunil KC**  
President, NICCI



## PREFACE

This publication titled **Business Climate Survey for Indian Companies in Nepal-2024** is a 3-month long study undertaken by the Nepal-India Chamber of Commerce and Industries (NICCI), where the Asian Institute of Diplomacy and International Affairs (AIDIA) was included as knowledge partner. The study envisioned as baseline research, includes the perspectives of major Indian establishments in Nepal. They gave their valuable time during individual consultations and contributed to the report.

The study also benefitted from the outlooks provided by trade and investment experts as well as economists in analyzing the business landscape for Indian companies. In the course of research, the stakeholders provided valuable insights that helped researchers during the data collection and analysis stage. The report, therefore, has been divided into three major stages: underlining the broad context, which looks into Nepal's economic standing as well as its market potential, followed by focused stakeholder consultations that led to a set of recommendations moving forward.

The study was conducted under the guidance of lead researcher Mr. Kuber Chalise, assisted by researchers Ms. Shweta Karki and Ms. Sajina Rai. Members of the NICCI secretariat also supported the team during this process with the data collection and final compilation of the draft.



## LIST OF ABBREVIATIONS

AI	Artificial Intelligence
AIn	Artificial Insemination
CSR	Corporate Social Responsibility
DCTS	Developing Countries Trading Scheme
EU	European Union
FDI	Foreign Direct Investment
FERA	Foreign Exchange (Regulation) Act
FITTA	Foreign Investment and Technology Transfer Act
FITTR	Foreign Investment and Technology Transfer Regulation
FMCG	Fast-Moving Consumer Goods
FNCCI	Federation of Nepalese Chambers of Commerce & Industry
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GRID	Green, Resilient, and Inclusive Development
ICT	Information and Communications Technology
IEA	Industrial Enterprises Act
IER	Industrial Enterprises Rule
LDC	Least Developed Country
MAHP	Medicinal and Herbal Plants
MCC	Millennium Challenge Corporation
MoICS	Ministry of Industry, Commerce and Supplies
NICCI	Nepal-India Chamber of Commerce & Industry
NRB	Nepal Rastra Bank
NSO	National Statistic Office
NTIS	Nepal Trade Integration Strategy
ODA	Official Development Assistance
PPP	Public-Private Partnership
TIFA	Trade and Investment Framework Agreement
TIP	Trade and Investment Programme
TSA	Technical Service Fee
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFPA	United Nations Population Fund
UNL	Unilever Nepal Limited
WB	World Bank

## EXECUTIVE SUMMARY

Indian companies were amongst the first to arrive in Nepal during the 70s and 80s, with many of the businesses having now established themselves as profitable ventures through decades of cultivating brand loyalty. These companies operate in diverse sectors and for most of these early investors, expansion coupled with the market opportunities in Nepal served as motivating factors. While India grows as an economy and newer avenues of investments have been witnessed in sectors of agriculture, energy as well as Information Technology, there have been concerns lining the lagging interests in manufacturing and financial sector, that have proven lucrative for companies that have set up their operations in these sectors. The perception survey was designed as baseline research that will serve to ascertain how major players in the manufacturing, banking and finance, insurance, energy and infrastructure sectors have observed the business climate in Nepal, as well as identifying the major risk perceptions that have guided investment decisions in the country.

The companies included in the research are major stakeholders in their respective industries. The study is qualitative in design and as such is descriptive in its approach. Done in three stages of literature review, online surveys, and focused individual stakeholder and expert consultations, this publication provides a general understanding of why the companies initially sought to establish their business in Nepal, if the factor(s) are still relevant, the pertinent market risks, and their major social contributions in the country. Post a thorough examination of the data, the report has compiled a list of major recommendations that were particularly drawn from the consultations.

It was found that while expansion was a primary reason for 50% companies to enter Nepal included in the survey, 17% also included geostrategic considerations, and this along with other factors like that of corporate taxation added to their decision-making. Most do still believe that these motives hold true today and could serve to attract more investments, if the state addresses certain pertinent challenges. 21% of the participants have indicated that difficulties have primarily been associated with both legal and administrative constraints and policy inconsistencies of governments, followed by 18 % that targeted procedural hassles and 14% looked towards the lack of infrastructural

access and development. Frequent changes in government policies, and an unstable political environment have further impacted the risk perceptions of these companies. There have been insights gathered on the matter of difficulties in outbound remittance for both foreign corporate officers and employees, whereby they are obligated as per policy to expend 30 % of their total income in Nepal. Respondents in the banking sector also expressed concerns against the employment of foreign staff, that impacts their expansion plans, which then affects domestic employment as well.

Despite attempts towards shaping and instituting reforms, there have been concerns attached with the lack of stakeholder consultations when introducing important policies that impact the business environment, with 41% of the companies believing that they are rarely brought on the discussion table by the state during significant policy deliberations. A major argument underlined was also that of laws needing further review and amendments on the basis of the evolving market environment. Sectors that have gained interests anew either because they have been opened for foreign investments very recently like agriculture, or IT that has been identified as a potential space for Indian investors to look into, require incentivization from government as well as a stable policy structure to govern activities and overall engagements.

Additionally, even though the state has reported a demographic dividend recently, there have been concerns attached to a “critical gap” in the labor market, owing to a decreasing residing population, with youth migrating abroad for opportunities. Thus, the more foreign investment pours into Nepal, the more employment opportunities are generated in Nepal for youth, the more revenue will also be added to the government coffer.

Institutional assessments of Nepal’s economy have been cautiously optimistic in the overall economic outlook of the state’s growth projections. As per the consultations, the companies do still believe that even though challenges persist, the corporate tax structure, a low trial cost for launching new products, along with a faster break-even than in India, do serve as pull factors for potential investors. Nevertheless, in order to tap into the investment probabilities, the government needs to take into account the interests and risk perceptions of the investors when drafting policies, acts and regulations. This could further lead to more intensive programs and plans when engaging important stakeholders on negotiating tables.



## I. INTRODUCING THE STUDY: Framing the Context

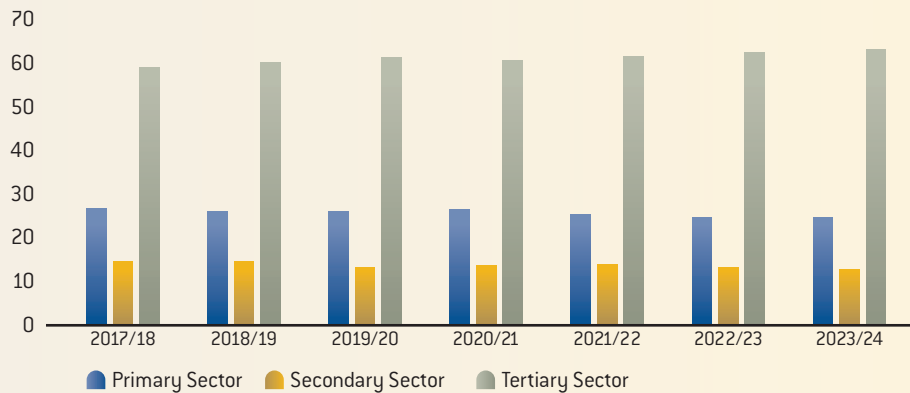
Post the civil war in 2006, Nepal saw the emergence of a new socio-political reality that defined the governance structures driving the nation's economic aspirations. There were cascading fluctuations in the period following the conflict, apparent in the protracted instabilities. While political instability has been a persistent issue, for various reasons, other variables such as climate induced insecurities, technological advancements, and the changing social and economic conditions penetrate the sensibilities of public opinion and government responses to the ongoing developments. These variables have in turn impacted the scope of challenges and prospects for actors involved within the business sector in the young federal state. Several factors, therefore, come into play when determining the overall business environment for concerned stakeholders, and before delving completely into the Nepal-India context this section explores the emerging trends that have and may further define the investment climate in Nepal.

The Nepali economy has been linked with the potential of agriculture, the tourism sector and remittance, with dependence on foreign aids, grants and loans to meet development goals. There have been steps taken towards attracting foreign investment, diversifying trade routes and developing the required infrastructural support from governments following the end of the civil war. In a 2020 *Ease of Doing Business* study by the World Bank that mapped the progress of countries from 2017-2019, Nepal had ranked 3<sup>rd</sup> in South Asia, and 94<sup>th</sup> overall.<sup>1</sup> As per the latest *Business Ready* report released by the institution, that delved deeper into the business environment of states, in ten categories, scoring countries out of a total of hundred, Nepal checked a total of 66.36 in Business Entry, 60.51 in Business Location and 57.99 in Taxation – with highest in Financial Services with 70.58.<sup>2</sup> The concern lies with Market Competition – its lowest score with 33.06, Business Insolvency with 52.04 following it. Overall, across the three pillars, Nepal showed positive outcomes in operational efficiency (Pillar III), particularly, amongst lower-middle income countries, with a solid score of 72.21, followed by 59.34 for regulatory frameworks and 49.29 in public services.<sup>3</sup> Fitch Ratings in November gave Nepal a BB Minus in its credit rating, where it stands second in South Asia only after

India, providing a “stable” outlook, on the macro-level, which will be dependent on improving regulations and governance to create a favorable environment for foreign investment.<sup>4</sup>

On an October 2024 update, the World Bank also noted that the state’s GDP growth went from 2 to 3.9% from Fiscal Year (FY) 2023 to FY 2024, driven primarily by the service sector, and is projected that it could “accelerate to 5.1% in FY25 and 5.5% in FY26.”<sup>5</sup> As of 2023, the institution noted that Nepal’s GDP stood at USD 40.91 billion,<sup>6</sup> while the National Statistics Office (NSO) that issues quarterly reports put Nepal’s GDP at approximately USD 44 billion. The contribution of the manufacturing sector, as per the very report has seen a notable decline through the years. As the figure below illustrates, the secondary sector has remained in a flux even as the tertiary sector is slightly expanding.<sup>7</sup>

**Primary, Secondary, and Tertiary Sectors' Contribution to Total GDP (at Current Prices)**



Source: Nepal Statistics Office, 2024, 12.

According to the estimations drawn for FY 23/24, the manufacturing sector amounted for 4.87% of the total GDP, while agro-based sectors took the lion’s share of 26% followed by other service sub-sectors.<sup>8</sup> As per the NSO, it has been projected that for this fiscal year the total value-added growth for the industrial sector as a whole will run in the negative owing both to internal factors stemming from stagnation in construction, and the global economic downturn. Similarly, the contributions of the private sector to institutional predictions has remained important, along with the requirement of regulatory ease and loosening of monetary policy. The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) has mentioned that the private sector accounts for 81.55% of the GDP share, with the sector recording peak contribution around FY 2012/2013 with 86.67%.<sup>9</sup> Additionally, while

observations have made of the gradual recovery of the state's economy, the World Bank has cautioned following the release of its report, that securing the momentum would be crucial for the state's sustained development, which would require constant reform in governance, infrastructure as well as human capital that can bolster the private sector.<sup>10</sup>

A comprehensive study published by the World Economic Forum (WEF) in 2020 tracking the progress of about 140 countries put Nepal at the 94<sup>th</sup> position in competitive economies.<sup>11</sup> There are expectations that inflation will be capped at 5.0%, and external risks should be adequately managed. But wariness has stemmed from the ongoing geopolitical conflict in West Asia, where “intensified geopolitical tensions in the Middle East could hurt Nepal's remittance income and push up oil and food prices.”<sup>12</sup> This could be concerning for the state's economy since most reports that point towards Nepal's economic climb have put into focus the moderate remittance flow which adds to the GNI, alongside the contributions made by the tourism sector.

The per capita income of the country has only seen a slight rise from USD 1,405 to USD 1,456, from the last fiscal year (by USD 51)<sup>13</sup> according to NSO, but in the same trend of assessments, the purchasing power has not decreased, going from USD 4634 in 2022 to 4671 in 2023.<sup>14</sup> So, while there are some positive projections, the risks trickling from external sources remain high. The state, moreover, remains vulnerable to natural hazards as well as climate induced disasters and risks that spills over into economic considerations of infrastructure and livelihoods for many.

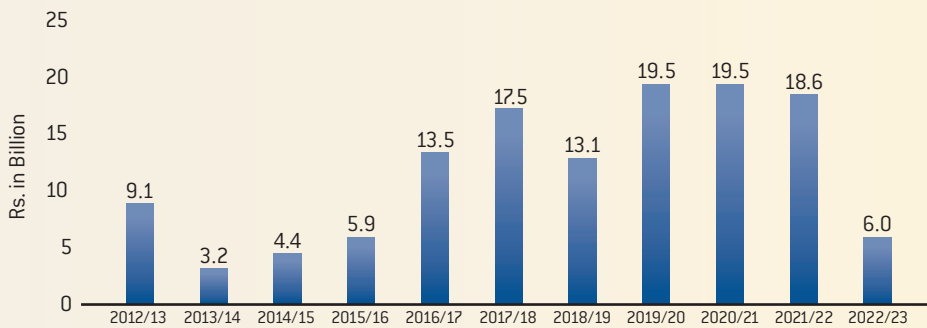
## The Focus on Foreign Investments

This, comes into the purview of the global economic developments, including the fractures seen along lines of prominent geopolitical tensions that have impacted the South Asian region as a whole. A recent report published by UNCTAD in 2024 that tracked global FDI, mentioned that owing to the geopolitical tensions and indicators that point towards economic slowdown, foreign direct investment showed rare declines even in countries like China as of FY 2022/23.<sup>15</sup> The South Asian region has been relatively less vulnerable to geoeconomic instabilities, but as a recent WB report cautions, it is still susceptible to changes in geopolitical and cross-border relations.<sup>16</sup> Further, there was a requirement of diversifying risks when it came to broadening



investment opportunities in the region.<sup>17</sup> As per the NRB, FDI in South Asia went down by 37% in FY22/2023. Nepal particularly saw a decrease of 67.9%, with the highest FDI stock being concentrated in the electricity, gas, steam, and air conditioning sector (30%), followed by the manufacturing sector (29.4%), while the highest dividend repatriation approval was in manufacturing (NPR 8,847.6 million).<sup>18</sup> There was also a notable difference in the FDI that was approved<sup>19</sup> and the net FDI, and noticeable dips have been recorded in the net FDI inflows, with a 67.9% decrease in FY 2022/23.<sup>20</sup>

**Net FDI Inflows**



Source: NRB, 2024, p. 6.

Since the liberalization movement of the 90’s, several policy documents, independent studies along with the 2015 Constitution have made a note of the significance of foreign investment. FDI brings in skill and technology, alongside capital and occupies an important cornerstone in the state’s development agendas. The country has been touted as an attractive location owing to its “strategic geographical location and convenient access to neighboring markets offer extensive investment opportunities.”<sup>21</sup> The government has in the same vein opted to introduce the concept of special economic zones to bring in investors whereby they “are allowed and given tax holidays and other concessions to establish, operate and manage the special economic zone.”<sup>22</sup> However, some issues underlining the matter of meeting commitments and fully operationalizing it for the benefits of the concerned stakeholders exist.<sup>23</sup>

The country allows such flows in terms of either joint ventures or 100 % owned franchises, and as per the *Handbook for Indian Investors*, are governed broadly by the following structures;

1. Foreign Investment and Technology Transfer Act, 2019 (“FITTA”)

2. Foreign Investment and Technology Transfer Regulation, 2021 (“FITTR”)
3. Foreign Exchange (Regulation) Act, 1962 (“FERA”)
4. Industrial Enterprises Act, 2020 (“IEA”)
5. Industrial Enterprises Rule, 2022 (“IER”)
6. Nepal Rastra Bank foreign Investment and loan management bylaws, 2021 (“NRB bylaws”)<sup>24</sup>

As of yet, the table below illustrates the “trend of industries establishment with FDI,” as produced in the annual report, *Foreign Investment in Nepal 2024*, by the Ministry of Industry Commerce and Supplies (MoICS),

FY	2023/24 (Till Jestha)	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
100% FDI	250	100	58	52	144	212	281	277	232	268	215	205
Domestic & Foreign JV	24	28	10	14	14	60	74	61	39	59	44	60
100 Local Investment	130	194	240	137	119	167	143	170	137	139	112	181
Total	404	322	308	203	277	439	498	508	408	466	371	446

Source: MoICS, 2024, p. 36.

The country, moreover, seeks to graduate from its Least Developed Country (LDC) status by November 24, 2026, providing the state with a narrow period of 5 years by the UN when transitioning into a middle-income nation.<sup>25</sup> The country can get the grace period of 3 years even after the graduation for smooth transition as the country no longer benefits from LDC-specific support measures. Thus, Nepal needs to explore its export potential more than ever. There have been trepidations arising from many corners, and studies note that increases in tariffs could mean the state could incur a loss of 4.3% of total projected exports.<sup>26</sup> The context of graduation, therefore, brings with it opportunities and some hiccups for businesses looking to establish its operations in a country that has as of yet been privy to the exemptions given to an LDC.<sup>27</sup> Though it is important to note that the country will still enjoy certain benefits owing to bilateral and multilateral arrangements designed to facilitate the transition. Examples of this are illustrated with the Comprehensive Performances accorded by the British government under the UK’s Developing Countries Trading

Scheme (DCTS) providing Enhanced Preferences for graduating LDCs after 2026, with a three-year window<sup>28</sup> and the Trade and Investment Framework Agreement (TIFA) with the United States of America, which will be pivotal for extending the trade privileges even post-graduation – the latter of which is still unclear post-graduation.<sup>29</sup> On October 2024, the European Union (EU) has pledged its assistance during transition,<sup>30</sup> even as its Trade and Investment Programme (TIP) that was geared towards preparing Nepal for LDC graduation concluded in October. And, while the aid structure and assistance frameworks that exists with the state's immediate neighbors may not necessarily depend on the LDC status,<sup>31</sup> further negotiations require a different bilateral understanding, when moving forward.

Also, as a post-graduation plan, Nepal has adopted a new Nepal Trade Integration Strategy (NTIS) 2023, replacing the NTIS 2016. The NTIS 2023 is expected to be implemented by 2028 with a goal to facilitate the implementation of policies and strategies aimed at improving trade infrastructure, enhancing investment conditions, and increasing productivity in the industrial and trade sectors. It also emphasizes the importance of fostering communication with various stakeholders at provincial and local levels. The NTIS 2023 has broadened the range of Nepal's potential export products and services to 32, up from 12 in the 2016 NTIS. The lentils, jute, vegetables, fruits, spices, and coffee are the new products featured in the agro category of NTIS 2023. Likewise, the forest sector category showcases handmade lokta paper, rosin, turpentine, fragrant oil, and textiles of long fibre. The NTIS 2023 also includes electricity as a service export item.

These arrangements provide companies looking towards the Nepali market some incentives to drive their wills when evaluating their own possibilities of investment and growth. Additionally, the country as a part of the international liberal trade regime has also signed into several global arrangements and is avails benefits accorded by organizations like the World Bank and the World Trade Organization. However, such developments move in tandem with the effective implementation of policy structures, regulatory reforms and the identification of manageable agreements. Graduation will entail losses to certain types of concessional loans, grants, official development assistance (ODA) and aid that will remain a matter of concern, and how the government's *Smooth Transition Strategy* will be actualized may be key in ascertaining the transition success when attracting investments, in order to maintain a sustainable growth.

## The Potential

Through the three investment summits, with the latest taken place in April 2024, the government and institutions governing FDI in Nepal have attempted to showcase the state's potential. The government through such summits has identified certain industries and sectors that have been targeted as being “most feasible” – including agriculture and agro-based industry, tourism, energy, manufacturing, infrastructure, the service industry, mines and mineral based industry, the transportation sector, and the information and communication technology sectors.<sup>32</sup>

The agriculture and agro-based industry, before 2021, was in the negative list for foreign investment. Post the FITTA amendment in January 2021 there have been attempts to draw investments to the sector.<sup>33</sup> Nepal received attention from 57 states in the last investment summit and its neighboring states – India and China – held the highest pledges, where the keen interest of the former was seen in energy trade and the hydro possibilities, while the latter showed continued interest in certain infrastructure projects.<sup>34</sup> Though there have been gaps between the pledges and the eventual outcomes. The rising possibilities in sectors like agriculture provides potential investors with more avenues to engage in the Nepali market.

The Investment Board Nepal and KPMG, earlier this year, urged the government to strengthen the highlighted sectors, while also paying heed to infrastructure, reforms on regulations and furthering the ease of doing business in the country.<sup>35</sup> The government has formed a High-Level Economic Sector Reform Recommendation Commission in October, 2024 under former Finance Secretary Rameshwor Khanal that aims to address the concerns already mentioned, and it will remain of interest to the stakeholders as to how that will pan out. The committee has already brought Its preliminary report and the final report will be released by April end.

Building connectivity and vying for sustainable infrastructural development has been at the focus of the government, but the state requires a level of risk and disaster preparedness that factors into the overall graph when measuring progress, evident in the resilience planning and response to recent disasters. For the most part, foreign aid has driven the infrastructure projects in Nepal.<sup>36</sup> On the issue of connectivity, there has been a push for enhancing regional associations and linkages through collective projects, with interests driving towards the energy sector. Signing into and ratifying the BRI and the

Millennium Challenge Cooperation (MCC) Nepal Pact, likewise, signals the state's desire to not only bring new actors into its development agendas but also move around the geopolitical silos in the region. Both projects have been touted by the actors to improve the state's infrastructural scores, but there is still time to measure such claims. While MCC is purely a grant, BRI loans might create unsustainable debt trap. The state has also signed into the Green, Resilient, Inclusive Development Approach (GRID) with the World Bank, through the Kathmandu Declaration in 2021, addressing the issue of sustainability in development.<sup>37</sup>

There is a need for technological readiness as well, with focus shifting to digital infrastructure, where Indian investments could filter in. Nepal has ranked 150 out of 193 countries in AI readiness,<sup>38</sup> and there have been repeated calls for improving cyber security in the country. There has been notable progress in terms of internet and electricity access, and there has been a drive for digitization in some parts of the country, while there is a need further to build inclusive digital policies and bring digital governance and cyber security to the forefront of considerations.<sup>39</sup> Similarly, the government has also been attempting to draw investments in the ICT sector (Information and Communications Technology), with talks of reviewing policies, as the seventh National Information and Communication Technology day was observed in May this year.<sup>40</sup>

There have also been trepidations attached with the surge in Nepali youth emigrating for opportunities, labelled by the former Director at NSO as a “a sign of economic depression.”<sup>41</sup> The UNFPA noted that the country really has a demographic dividend that provided it with a window of opportunity where 20.8% are aged 16-25, and 40.58% fall under the range of 16-40 years.<sup>42</sup> With 57% of the population that is economically active and a comparatively low labour cost, coupled with the borders that link the country to two growing Asian economies as well as the duty and quota free access to the European Union, the country does have some pieces of economic growth potential in its favor.<sup>43</sup> However, trends associated with out migration raise concerns. While some link the process with remittance inflow, it brings with it some labor market challenges linked to “critical gaps” and lacking expertise in sectors including technology, engineering and healthcare.<sup>44</sup> To engage the workforce in viable sectors like agriculture and IT, the government needs to build solid incentive structures.



This study explores the many contours of what these evolving trends both in internal situation and external environment may mean to Indian companies. Currently there are many that have been operational in the state for decades including the successful and widely recognized ventures like that of Unilever, which is a subsidiary of Unilever India, Surya Nepal Private Limited, a subsidiary of ITC India, and Dabur Nepal. So, a deeper contemplation is required as to why Nepal has been unable to attract newer investments, especially as it is surrounded by two growing Asian economies and has access to foreign markets through the LDC status, and will continue to have it in some degree during the transitional period.

## II. STUDY METHOD

### Rationale of the Study

For foreign companies operating in Nepal, much requires consideration. Indian companies have been running in this complex space with almost 150 ventures active in the state as of data from a 2022 publication by the Commerce Wing of the Embassy of India in Nepal. They have been “engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries.”<sup>45</sup> Their perspective would add to the ongoing deliberations on risks and opportunities. In FY 2022/23, 11 projects had drawn investments that were approved from India,<sup>46</sup> making up for the total of 830 projects on record that had been targeted by Indian investments till the marked date.<sup>47</sup> The numbers indicate approved investments. However, during the decades of engagements, even with notable cases of success, there have been long-standing concerns for companies that are currently still operational and also new investors. The comprehension of how these companies have defined and reoriented their own interests and objectives in Nepal is crucial and forms the core of the study. They have been a part of determining Nepal’s economic development. Nonetheless, in the past decade no new large Indian company has entered the Nepali market, besides in the hydro sector, despite the many investment summits and claims of the country being a strategic location.

### Methodology and Objectives of the Study

The study incorporated a qualitative methodology, to understand how various Indian institutions have defined and assessed Nepal’s business climate within the parameters set below. As such, it is descriptive in design, meaning that it “includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present” and “also include attempts by researchers to discover causes even when they cannot control the variables.”<sup>48</sup> Amongst the active industries, for the initial perception survey, a total of 30 major companies from the manufacturing, banking and finance, energy, infrastructure sectors who are also members in NICCI were approached, and 17 have been recorded as respondents – all are credible and known companies.

In the course of moving towards achieving the objectives, the research was completed in three phases. In the first stage the researchers conducted a thorough literature review of the available material on the matter, highlighting the identified gaps, major challenges and opportunities that framed the basis for the survey round with businesses. Post the sourcing of the relevant data based on the survey, the researchers developed a final and comprehensive draft for the review and approval process towards the end.

As it stands, the Indian brand was an enquiring point in the study, but the research was done under identified set parameters, studying the following:

1. The general business environment in Nepal, outlining the market, including the growing demography, prospects for growth and potential sectors of engagement.
2. The status and success of Indian companies, and the priority sectors within which they operate, within the context of Nepal's developing political, economic and administrative landscape, highlighting the crux of the Nepal-India relations that have driven, and in many cases greatly sustained, such endeavors.
3. The companies' perception of the local conditions and ease of business, documenting their outlooks on the future of their growth and investments in the country, including the risk projections for new companies entering the market.

## Study Design

**Research Questions:** The 3-month long study primarily aimed to grasp how Indian companies have perceived the changing political and economic landscape in Nepal. Under the major objective, the questions that direct the form of investigation are listed below:

1. What are the major industries in which the Indian businesses have been operating in Nepal, and how lucrative have they been, laying emphasis on why Nepal has been a target destination for them?
2. How have Indian companies discerned the major risks and opportunities of doing business in Nepal, in terms of administrative and legal ease, as well as, in the context of the (in)securities associated with the evolving political, economic, social and environmental setting?

3. Within that scope and the defined parameters, what are the parallel and diverging points of such interests when considering the value of doing business in Nepal, considering the different challenges that line each sector?

**Data Collection:** Structured questionnaires were prepared and conducted with the concerned Indian entities in Nepal, to be filled out and assessed. Any and all ethical considerations regarding sampling and researcher bias were considered and noted in the process of information gathering.

**Data Analysis:** After the general survey, major points of interconnected variables were mapped out, while also noting the diverging trends of information. As a situational analysis, the study was a simple comprehensive outlook on the factors that have influenced Indian businesses in Nepal, and what has been important in their considerations – or what they give weight to – when opening up operations in Nepal in terms of, but not limited to, ease of business (legal documentation and bureaucratic interests), brand awareness, sales competence, and such. The exact parameters were assessed through expert consultation, and further established, after the compilation of the literature review in the initial stage by the researchers.

While the study is heavily centered on the findings incorporated from the survey, the primary stage of literature review was significant, whereby the major findings and gaps were underlined as the baseline for the queries to be addressed in the later stages. The team primarily looked into official reports, statements and documents that have detailed the scope of engagements, paying heed to the fact that drawing from surveys done by institutions like NRB and the WB, the research does depend on the data provided by them especially in the primary state of analysis.

## Limitations

The survey while looking into aspects of investment decisions, did not particularly include variables that could underscore sustainability and human development factors. This is a preliminary study that was designed for a basic outlook on the Indian companies' perception of the Nepali market. The study was also done within a specified time limit and budget, that did not allow for a more focused group consultation post the data collection. Only members of the Nepal India Chamber of Commerce and Industry were approached and the sample pool was determined to include the major players in the aforementioned sectors.

### III. THE GENERAL OVERVIEW: SURVEY RESULTS

#### Studying the Nepal-India Dynamics: Facets of Economic Interdependence

A study published by the World Bank in 2021 had illustrated cases of the respective successes of Unilever and Dabur in Nepal, noting that though South Asia has been witness to very limited instances of success in economic integration, the liberalization movement in the 90's had essentially aided in the development of policies that essentially helped Indian companies in Nepal "to capture quality-driven buyers across the border."<sup>49</sup> Nepal has recorded good market returns for Fast-Moving Consumer Goods (FMCGs), evident in the success of Unilever Nepal Limited (UNL) in the country. The management of these companies also "grew domestic market share to hedge against policy instability in international trade."<sup>50</sup> In the matter of Nepal's development outlook, its immediate neighbors have in several ways been vital in defining the course of its economy.

As such, the Southern neighbor, India, while being one of Nepal's most important trade partners, also stands as its largest foreign direct investment source with 35.01 %, accounting for NPR 103.5 billion, concentrated, as seen below, on manufacturing, electricity, gas, steam, and air conditioning, followed by financial and insurance services<sup>51</sup> and is an incredibly significant regional actor.

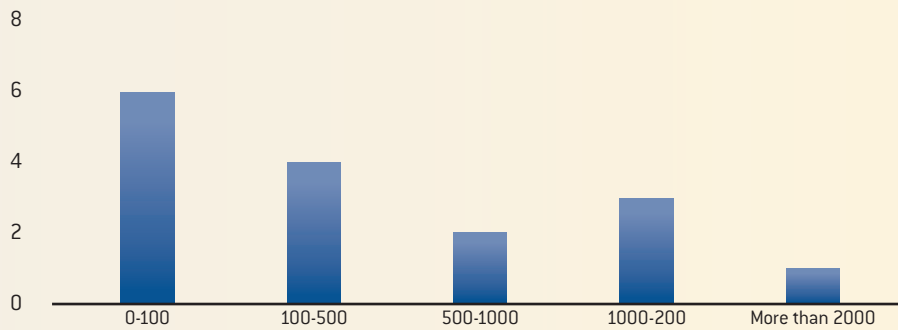
Component	Paid-up Capital (in NRS million)	Reserves	Loan	FDI Stock	Share in India's FDI Stock (%)
Manufacturing	5455.1	32264.1	2009.1	39728.3	38.4
Electricity, gas, steam and air conditioning	34511.2	797.2	420.5	35728.9	34.5
Financial and Insurance Services	9286.4	7840.2	4145.1	21271.6	20.6
Accommodation and food services	1175.3	2903.1	258.0	4336.4	4.2
Others	2180.1	-98	305.0	2387.1	2.3
Total	52608.1	43706.5	7137.6	103452.3	100.0

Source: Survey Report (in , NRB, 2024, p. 11.



India was one of the very few first investors in Nepal during the 70s and 80s, and in the current scenario, hydro, agro industry, Ayurveda and food processing are all viable sectors. As per the survey the following figure illustrates the number of people employed by the respondents. It has been noted that the majority of employment has been generated through the hydro and manufacturing sectors, and job creation has been witnessed across different skill groups – from unskilled labor to high-skilled professionals.

**Number of People Employed**



But concerns as noted by a 2024 research publication stem from challenges linked to land acquisition, disruptions caused by labour unions, corruption, issues linked with taxation, copyright and trademarks,<sup>52</sup> lacking infrastructure as well as gaps in coordination when looking at FDI governing institutions,<sup>53</sup> among others. There needs to be a geopolitical calculation that also looks into Beijing’s infrastructure push in Nepal targeting the hydropower sector.<sup>54</sup>

On the issue of energy trade, Nepal and India signed an agreement during the Indian External Minister’s visit to Kathmandu in January this year, detailing a 25 year-long framework for India to import up to 10,000 MW from Nepal within the next 10 years.<sup>55</sup> In October 2024, another trilateral agreement was inked between Bangladesh, India and Nepal that set terms for Nepal to export 40 MW to Bangladesh for five years, that entered into force in November.<sup>56</sup> The historic trilateral agreement signed on October 3, 2024 between Nepal Electricity Authority (NEA), Bangladesh Power Development Board (BPDB), and India’s NTPC Vidyut Vyapar Nigam (NVVN) facilitates the transmission of Nepal’s hydroelectricity to Bangladesh through India’s cross-border grid. A question that arises is why the interest in manufacturing is lagging.

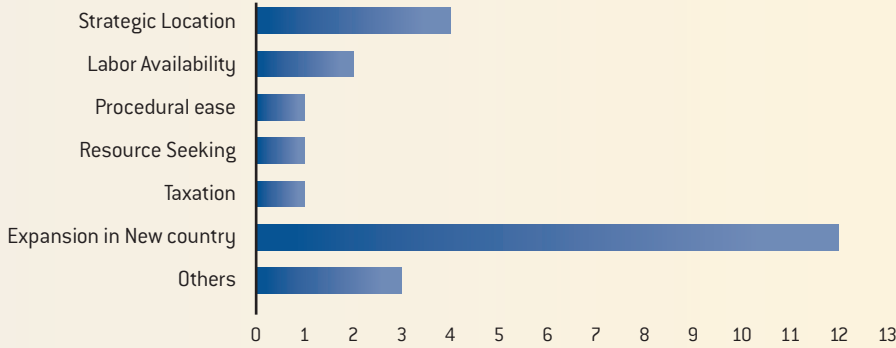
With an open border that has broadly defined how the curvatures of the bilateral relations have been projected – most prevalent in the Roti-Beti adage – Nepal and India do rest their interests on symbiotic associations regarding several matters ranging from the evolving ideas of security, territorial concerns, and economic issues. The open border is linked by 27 trade routes. Relations in modern post-colonial times are rooted into several bilateral frameworks that govern the open and interdependent state relations, which concerns the India-Nepal Peace and Friendship Treaty of 1950, along with the many vital arrangements that added to these agreements, working groups and technical committees that oversee the inter-state relations. It is also worth noting that the socio-economic linkages are also closely tied into the security concerns of the neighbors and has been since the defined times of the ideological divisions of modern nation-state, due to lines of diverging interests.

According to the India-Nepal Peace and Friendship Treaty of 1950, the countries have given “nationals of the other, in its territory, national treatment with regard to participation in industrial and economic development of such territory and to the grant of concessions and contracts relating to such development,” (Art. 6) and “the same privileges in the matter of residence, ownership of property, participation in trade and commerce, movement and other privileges of a similar nature (Art. 7).<sup>57</sup> Beyond these, as detailed by NICCI, are the vital Nepal-India Trade Treaty 1996 and its subsequent renewals in 2002 and 2009. With a provision of auto-renewal, the Trade and Transit treaty was revised and signed on 01 June 2023.<sup>58</sup> Apart from these, there are the Nepal-India Transit Treaty, Agreement to Control Unauthorized Trade between Nepal and India, Railway Service Agreement, Bilateral Agreement for Avoidance of Double Taxation & Prevention of Fiscal Evasion with respect to Taxes on Income,<sup>59</sup> and agreement for long-term power trade.

## Perception of the Companies: Findings and Discussion

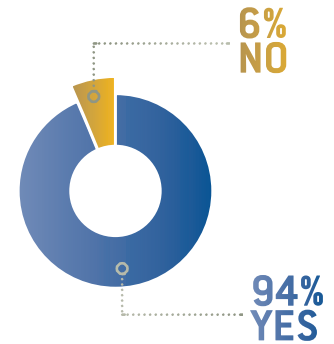
It was in June this year that during a meeting with the then Deputy Prime Minister, senior representatives of Indian companies had raised issues that understandably dealt with the impacts of COVID-19, but also of concerns regarding manufacturing costs, and retaining earnings, amongst other matters.<sup>60</sup> As per the results drawn from the survey, a primary reason for 50 % of the companies that entered the market early on was for them to expand their operations.

**Reasons to Invest in Nepali Market**



*Note: This was a multiple-choice question*

**Are these Factors still relevant?**



The data shows that while most businesses prioritized Nepal for market expansion (12) and, to a lesser extent, its strategic location (4), factors like labor availability (2), procedural ease (1), resource seeking (1), and taxation (1), highlighting opportunities for improvement in the regulatory and workforce landscape. 94% of the respondents still believe that these factors are relevant.

Manjeev Singh Puri, former Indian Ambassador to Nepal and Chair of India-Nepal Center, PHDCCI, has, however, commented that for Nepal to now attract new companies to the country many factors need to be brought into the general purview. He made a mention of how stronger Indian companies would now be looking to expand in more developed economies, whilst in earlier times, they would be focusing on their neighboring states.<sup>61</sup> The risk perceptions in the same trend point towards the companies' observation, with 21 % ascertaining policy inconsistencies, and administrative and legal constraints being listed as the major factors prompting hesitation for investors.

**Major Hurdles Investors Face**

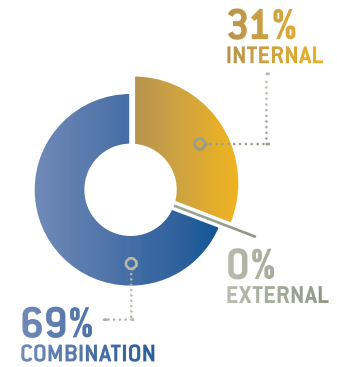


The data reveals that while policy inconsistency (11), legal constraints and administrative policies (11), and procedural hassles (9) are the major hurdles for investment in Nepal, largely stemming from internal issues (53%) and a mix of internal-external factors (47%), challenges like infrastructure deficits (7) and limited skilled manpower (4) further compound the investment climate, highlighting a predominant need for domestic reforms over external considerations.

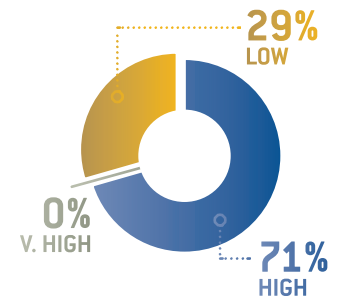
Beyond the aforementioned points, the companies in the manufacturing sector have also commented upon high import tax, nascency of local manufacturing, declining consumption potential and the lack of market competitiveness as significant concerns for companies seeking to further build or enter with their businesses in Nepal. Additionally, issues regarding the small cap line market and the decreasing residing population, even with a population dividend has been tagged as probable risks that add to the contemplations. Even while these concerns primarily stem from both external and internal sources, 31% of the respondents believed that internal factors contributed to the risk projections, with 71% believing that the risks were high for potential investors entering the market. 69% respondents believe investment risks in Nepal stem from both internal and external factors, while 31% see them as purely internal. This highlights the need for addressing domestic and cross-border challenges together.

Similarly, when looking at Nepal’s political environment being a matter of fundamental consideration when deciding to invest, 88% believed that it did. The data shows that the political environment is overwhelmingly considered a fundamental factor when deciding to invest in Nepal, with 15 affirming its importance and only 1 dismissing it, underscoring its critical influence on investment decisions. While 44% of the respondents have attributed internal factors and 56% have attributed a combination of both for the political concerns in Nepal with 1 not responding.

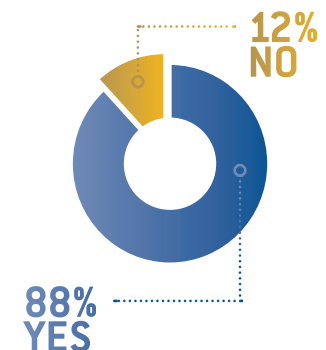
### Where does it stem from?



### Risk Factors for Potential Indian Investors?



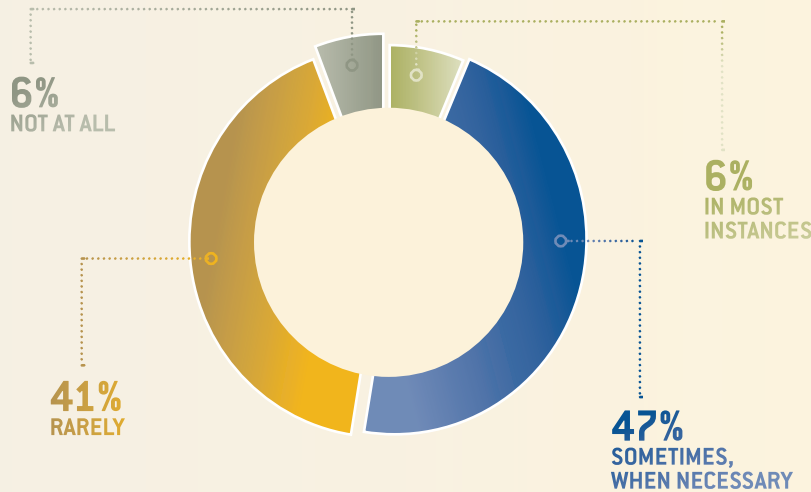
### Does the Political Environment Impact Investment Decisions?



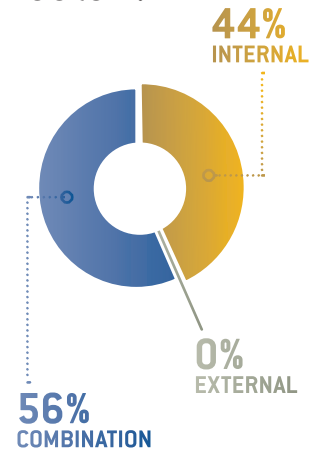
Note: No Response from 1.

In the same vein, stakeholders have also mentioned that they are seldom asked to be a part of the process of vital decision-making when drafting significant policies pertaining to foreign investment in Nepal. When asked about the same, the data indicates that stakeholders are occasionally involved in the foreign investment policy-making process, with most indicating involvement “sometimes, when necessary” (8), few experience “rare” involvement (7), and minimal engagement is noted for “in most instances” (1) or “not at all” (1), highlighting a lack of consistent and meaningful stakeholder inclusion in policy development.

**Stakeholders Involvement when Drafting Significant Policies**



**Where are the Concerns Rooted?**



The stakeholder consultations additionally indicated that, Nepal still stands as an attractive location, owing to several reasons in spite of these challenges. Amongst these considerations are: i) the corporate tax system that depending on the business nature ranges from 25-30%, with 20% for some special industries,<sup>62</sup> ii) a market that allows for newer products to flourish, more so than in India due to low trial cost, and iii) a higher profit margin, with companies reaching break-even in Nepal within the span of 3-5 years – something that would be harder to achieve in India. However, for these factors to hold the attention of potential investors and for the state to tap into its own development goals, the stakeholders have noted that the interdependent challenges and risks, require greater attention.



Points in the early stage of consultations, that stood out prominently, were the issues lining revenue generation and employment. Due to declining consumption potential – being noted by the respondents as a risk factor – Government of Nepal also stands to lose out on a substantial amount of revenue, alongside the probable decline in employment generation. While the IT sector has been identified as an industry carrying tremendous possibilities, especially when looking at the export potential, it mostly operates in a niche ecosystem, creating spaces for a limited, highly skilled workforce. The “bricks and mortar” industry carries the potential to create jobs for both white- and blue-collar workers, and still as per institutional assessments, remains the biggest pool of concentrated Indian investments. The companies working within the area, though carry concerns with the dependence on imported raw materials, have recorded a profitable venture in Nepal, and yet investments in the sector have been slowing.

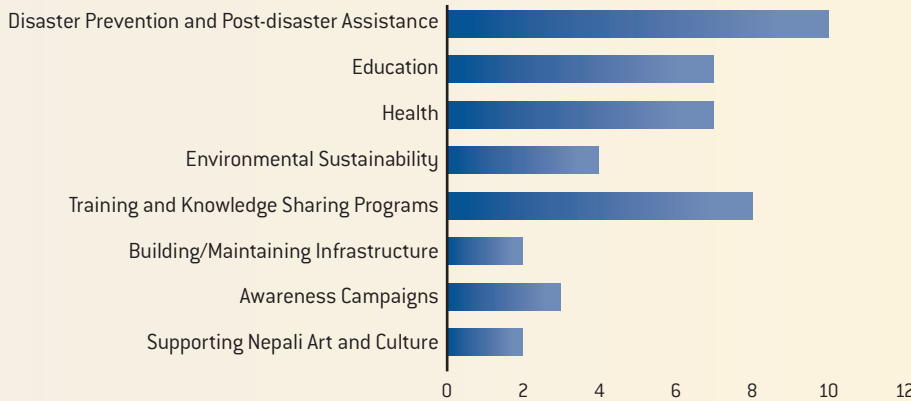
## Social Contributions of the Companies

From green financing to disaster risk management and prevention, companies that are established in Nepal have been engaging in diverse sectors, in their respective capacities to increase their own brand value, while also paying heed to needs of sustainability and development in certain cases. These engagements serve to be strategic for the companies as much as it also builds into the concept of corporate philanthropy aimed towards generating some form of social impact in the country that they operate in. The sector-wise contributions were distributed as follows:

- *Disaster Prevention and Post-disaster Assistance:* Includes contributing to post-disaster relief funds, and programs aimed towards disaster prevention and risk management.
- *Education:* Targeted towards the education sector, including infrastructure, providing school supplies and scholarships, alongside programs aimed towards equality and inclusivity.
- *Health:* Donations of medical equipment/supplies, financial assistance for medical procedures, post-pandemic aid, and awareness programmes.
- *Environmental Sustainability:* Contributing to waste management, cleanliness campaigns.

- *Training and Knowledge Sharing Programs:* Programs targeted to skill development, increasing financial literacy, knowledge sharing amongst stakeholders, and raising consumer awareness.
- *Building/Maintaining Infrastructure:* Providing assistance for infrastructural projects.
- *Awareness Campaigns:* Providing voice to pertinent social issues and concerns that includes aspects of human rights and human development.
- *Supporting Nepali Art and Culture:* Investing in and supporting communities of local artisans, and Nepali art in general.

**Major Social Contributions by Indian Companies**



Indian companies and the investments that they bring have been a part of realizing the state’s development objectives, which further requires a more in-depth study of the same. For the companies included in the survey, the interests were distinct and defined, also in terms of their company nature and size.

## IV. MAJOR OBSERVATIONS AND WAY FORWARD

While there have been efforts from both the governmental agencies and private actors engaging with the investors across the Southern border, there is a lack of clarity in reform agendas towards attracting lucrative investments in the country. Aside from the interests that have been developing in hydropower, new Indian ventures have not as such entered the Nepali market. Institutions have projected a positive or stable outlook when observing the trends impacting the nation's economy, however, such probabilities are hinged upon reforms and regulatory ease for investors. Particularly, they have stressed upon the following points:

1. The cost of capital in Nepal is high, falling in the range of 15-16%, and is fluctuating. It needs to be stabilised and brought down looking at the investment categories. For instance, the cost of capital could be considerably lowered for greenfield projects.
2. The government needs to prioritize policy consistency which could boost investors' morale. A common example was that of contract manufacturing that was allowed at one point of time, and then again barred, and again allowed. Such inconsistencies will hamper the investment climate.
3. A common apprehension also stemmed from the requirement to further implement different duties for finished goods and raw products. While the provision does exist for various products, many crucial products are still suffering due to equal or lower duty on finished products over raw materials.
4. Another major challenge that was identified during the course of the survey and stakeholder consultations was that the laws, acts and regulations existing need to be amended as per the new market and business environment. The Food Standards can be underlined as a prominent example.
5. Royalty, TSF and CSR have also, in many cases, not been considered to be expenses, and needs immediate clarification.
6. On the matter of retaining youth and filling in the gaps in the labour market, some have hinted towards incentivizing the IT sector, i.e.

through providing some facilities for Data Centre. There is huge potential for big IT companies in India to enter Nepal, bringing in the required infrastructure, for Data Centre.

7. The tax rebate currently remains in a flux, and needs to be stabilized. There are multiple instances where the Department of Customs has not honored the concessional tax rates offered in government contracts.
8. While the government also provides export incentives, there is a considerable delay when providing them to the investors. Moreover, the eligibility criteria as such also needs clarity.
9. The definition of retailing requires further review, as retailing is on the negative list of FITTA. Nepal government could cap the percentage of retailing on the basis of company's revenue. If the Indian companies see more prospective, they can install manufacturing unit in Nepal, after reaching the capped point.
10. The repeated lawsuits like ones observed with BIPPA in 2019<sup>63</sup> and the Power-Trade Agreement in 2024<sup>64</sup>, seriously discourage investors, which were quashed by the Supreme Court. Thus, all Public Litigation cases, which may hamper national interest should be tried through the fast-track court.
11. The issues surrounding the patent and intellectual property rights (IPR) need serious attention according to patent infringement complaints in Department of Industries.<sup>65</sup>
12. The agricultural productivity of Nepal is low. There needs to be an incentive structure in place to make the space more attractive for investors. Owing to similar landscape, it needs to be brought into government consideration that tried and tested seeds in India could be imported to Nepal. Additionally, there is a need of storage facilities and testing facilities for agricultural products. At the same time, contract farming needs to be encouraged. Though, it has been mentioned in the recent budget, it requires active implementation.
13. Similar consultation also revealed that Nepal carries the potential to become a dairy hub in South Asia. Since the cattle in Nepal was deemed less productive, Murrah buffalos were brought in from India recently for crossbreeding in 2023.<sup>66</sup> Through artificial insemination (AI), Nepal could increase dairy production.
14. The sector of medicinal and herbal plants (MAHPs) also requires more attention from the government, focusing on their commercial farming.

15. Though the Nepal government claims to have a one window policy in place, there are many windows. Therefore, the policy should be implemented strictly.
16. Since foreign employees, including Indian, can only remit about 70% of their salary, the rest has to be spent in Nepal, which is good. But it should not be a blanket policy, and can be fragmented into various brackets, for example, higher earning staff may be allowed to remit up to 80%, and going down to 15% for the low-earning staff, which is more practical.
17. The level-playing field, to attract more investment from India, in terms of investment benefit and other rebates linked with operation, employment generation etc, should be encouraged.
18. In the financial sector, banks in particular are allowed a total of 5 foreign employees only, which serves to also curtail domestic employment, since expansion of operations could lead to further job creation for Nepalis, by opening up new verticles.
19. Some of the respondents also stressed upon the matter that the internal freight cost in Nepal is higher than the cross-border costs, and stands as an issue that requires attention as well as immediate address.
20. Nepal should encourage public-private partnerships (PPP), especially for infrastructure projects.
21. The Electricity Act that is under consideration in the parliament now, should be brought immediately. It could attract more investors in hydropower projects, that can be the game changer for Nepal.
22. The BB Minus sovereign credit rating that Nepal secured points towards a positive direction in the state's economic growth. The government should seek to maintain and exceed this score by paying heed to the defined challenges.

The existing Indian companies in Nepal are currently doing good business, so they do not have a particular gripe with the government as such. However, if the Nepal government facilitates and encourages them, they can generate greater revenue and create more jobs moving forward. All business entities operate for profit and if regulatory ease, policy consistency and business environment are prioritized, there is scope for potential investors, apart from the companies already operating in Nepal, to look towards Nepal to now expand their businesses. Consultations have highlighted that strengthening channels of economic diplomacy would also aid in furthering these agendas.



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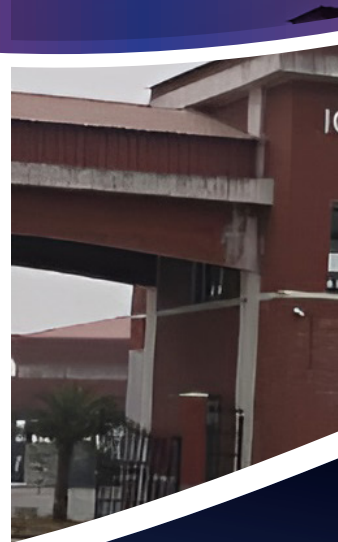
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