



Nepal's Third Investment Summit: Hope for Increased Investments

Puspa Sharma

Summary

Investment summits are important in expressing a country's desire for investments, including foreign direct investment (FDI) and showcasing potential projects. However, they alone do not ensure FDI inflows. It is crucial for the country to address the genuine challenges that have obstructed the inflow of FDIs.

Nepal sorely lacks foreign investment. As of mid-July 2022, the total stock of foreign direct investment (FDI) in Nepal stood at a paltry [Nepali Rupees \(NPR\)264 billion](#) (S\$2.6 billion). India and China are the two largest foreign investors in Nepal, with their FDI stocks in the country at NPR88.6 billion (S\$900 million) and NPR33.4 billion (S\$340 million), respectively. Singapore is the fourth largest investor in Nepal, with NPR16.1 billion (S\$163 million) in total investments. The highest proportion of total FDI in Nepal has been in the hydropower sector, followed by the manufacturing and services sectors.

With the aim of attracting substantial foreign investment across different sectors, Nepal has organised three investment summits. The most recent took place on 28 and 29 April 2024. In an effort to promote and ensure the participation of a large number of potential investors in the 2024 summit, the Nepal government, through its missions abroad, organised a number of summit pre-events in several cities abroad. More than 1,100 stakeholders from 55 countries, and an even larger number of domestic stakeholders, attended the summit. More than 150 potential investment projects were showcased at the summit, largely in hydropower projects.

In the 2017 and 2019 summits, Nepal received foreign investment pledges worth [US\\$13.7 billion \(S\\$18.5 million\)](#) and [US\\$17 billion \(S\\$22.8 billion\)](#) respectively. However, as the current stock of FDI shows, very few of these commitments have materialised. At the most recent summit, agreements were signed for three private sector-investment projects worth NPR6 billion (S\$60 million). The Nepal government has requested potential investors to submit their Letter of Intent for investment in other projects by 2 June 2024. The total amount of investment pledges that Nepal will be able to secure from this summit will be clear after it receives the Letters of Intent. However, the more important question, unlike in the past, is whether the pledges will translate into actual investments.

Investment-unfriendly provisions in [a number of legislations](#) were identified as one of the reasons for the lack of FDI inflows to Nepal. Therefore, right before the recent summit, the Nepal government amended such provisions in nine laws through [an ordinance](#). By making the amendments, the government wished to convey the message to potential investors that it is serious about attracting FDI and will do all that it takes to eliminate the hurdles that are in the way of FDI inflows to the country. Yet, several challenges persist, which, if not addressed, will continue to hinder the rise in FDI flows into Nepal.

The first is political instability. In the 15 months since its latest parliamentary elections in November 2022, Nepal has seen the federal government change thrice. It is interesting to note that in all the three instances, the prime minister (Pushpa Kamal Dahal) has remained the same. However, he has reshuffled the Cabinet 14 times. Political squabbles have become a permanent feature in Nepal. The [World Bank](#) has cautioned that frequent political changes could deter private investment in the country.

Since the formation of the current federal parliament in late 2022, it has passed only one law, besides the country's annual budget. The inefficiency of the parliament in finalising legislations during the parliamentary sessions, and [disruptions in the parliament](#) that led to its early adjournment, were the reasons for the government making amendments in the laws before the recent summit through an ordinance. However, ordinances are temporary measures. They need to be passed within six months in the next parliamentary session and converted into law for them to become permanent. Therefore, whether the amendments made through an ordinance have instilled confidence in investors remains to be seen.

Secondly, along with political instability, there is also policy instability in Nepal. For instance, in 2017, the Nepal government decided to award the development of the Budhigandaki hydropower project to China, but when the next government was formed about five months later, it [revoked the decision](#). Such policy instability instills a sense of insecurity in foreign investors and keeps them from investing in Nepal.

Thirdly, Nepal suffers from widespread corruption. According to Transparency International's [Corruption Perceptions Index](#), Nepal was the 108th least-corrupt country in the world in 2023 out of 180 countries. The linkage between corruption and foreign investment, in general, is [not firmly established](#). There is sizeable FDI flowing into some corrupt countries and not into others. However, in Nepal, corruption is perceived to have [deterred FDI](#).

Fourthly, while the location of China and India – two large markets – as Nepal's next-door neighbours is a factor that should make Nepal an attractive destination for FDI, the geopolitics of these two emerging powers is also a potential threat to FDI in Nepal. This has been visible in some of [Nepal's important sectors](#), such as hydropower and infrastructure. If the number of delegates in the summit is any guide, [China and India](#) are the two countries that are most interested in investing in Nepal. The challenge for Nepal is to balance a tightrope between the two and attract sizeable investments from both the countries.

Investment summits are important for Nepal to showcase potential projects and present itself as an attractive destination for FDI. However, they alone do not ensure FDI inflows. It is crucial for Kathmandu to address the aforementioned and [several other challenges](#) that have been obstacles to the inflows of FDI to Nepal.

.....

Dr Puspa Sharma is a Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute in the National University of Singapore (NUS). He can be contacted at puspa.sh@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.