

# Outward Foreign Investment from Nepal

A Regulatory Handbook



# Publisher's Note



For 44 years, Pioneer Law has been part of Nepal's commercial legal journey. As one of the oldest corporate law firms in Nepal, we have seen the country's business laws evolve slowly, sometimes unevenly, but steadily towards a system that allows Nepali businesses to move towards a bigger purpose.

Outward investment is something our lawyers have been loud about for a long time. Articles, conferences, panels - we've shown up and made the case, repeatedly, that a Nepali company shouldn't have to choose between staying home and going global. Growth isn't just about exporting what you make. It's about planting a flag somewhere, having a real presence in the markets that matter. An exporter ships. An investor belongs. That argument took years to land, but it landed.

When Nepal's outward foreign direct investment framework finally began to take shape, Pioneer Law was ready. We advised a client in obtaining what was Nepal's first outward foreign direct investment approval. The process was anything but straightforward. It exposed a structural deadlock for which there was no ready answer. Working closely with the client and regulators, we helped find a practical workaround. That episode is captured in this handbook and, for what it's worth, the solution ended up being reflected in the regulation which shaped the path for others.

This handbook is meant to make the journey easier for businesses, investors, advisers, and anyone trying to understand Nepal's outward investment regime.

We are grateful to our contributing authors, who brought their experience, and practical insight into this publication. For a deeper discussion or specific queries, please feel free to reach out to them directly.



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# 1. NEPAL’S TRANSITION TO A REGULATED OUTWARD INVESTMENT REGIME

For decades, Nepal operated a largely closed capital account, strictly prohibiting residents, both individuals and businesses from making investments outside the national territory. However, the legal landscape changed fundamentally in 2024. Nepal has moved from a regime of total prohibition to one of regulated participation, specifically targeting institutional growth and the technology sector.

## 1.1. The Era of Absolute Prohibition (1964–2023)

Two key legislation deal with outward investment:

- 1962’s Foreign Exchange (Regulation) Act (“FERA”)
- 1964’s Act Restricting Investment Abroad (“ARIA”)

Although FERA was enacted earlier, specific restrictions on outward investment was first introduced in ARIA in 1964. This Act established a blanket ban, stating that no person shall make any kind of investment in a foreign country but with certain exceptions. ARIA provided that the Government may permit specified categories of foreign investment through a Gazette notification subject to prescribed conditions including the nature, limit, period and other terms of such investment.

Between 1965 to 1997, the Government of Nepal (GoN) issued various notifications under ARIA in the Nepal Gazette permitting specific exemptions to the ban on outward investment which were limited to:

Year	Permitted Outward Investment Entities/Activities
1965	Commercial banks and other financial institutions established in Nepal; bank deposits for earnings made abroad; buying life insurance policies; holy pilgrimage (Kalpavas) expenses; and Right Shares of foreign companies.
1984	Institutional investment by National Insurance Corporation was permitted with prior government approval.
1997	Investment in countries that have signed Bilateral Investment Promotion and Protection Agreements (BIPPA) with Nepal. Requires dual approval of Nepal Rastra Bank (NRB/ Central Bank) & GoN.

**A**lmost 38 years after ARIA imposed a near-absolute prohibition on outward foreign investment, FERA was amended in 2002 to reflect a noticeably different regulatory philosophy. The amendment acknowledged that Nepalis may legitimately hold or create investments abroad but needs to comply with the Central Bank’s notices in doing so.

Likewise, the amendment to FERA also recognized global movement and foreign-earned income, and excluded any investment made by a Nepali while living and earning in a foreign country from the prohibition. This shift was instrumental in providing legal clarity to Non-Resident Nepalis who had invested in offshore companies during the period they resided outside Nepal, confirming that they could maintain their foreign investment by notifying the Central Bank accordingly.

## **1.2 The 2024 Legislative Reforms: Opening the Door**

Much had changed in Nepal’s economy in the 60 years after the ARIA’s outlined the restrictive approach. While the ban remained on paper, Nepal’s IT service export sector saw a meteoric rise, with studies estimating exports exceeding USD 515 million annually. This growth created a critical bottleneck: Nepali IT firms were unable to establish the legal presence required in jurisdictions like the US, Singapore, or the UK to sign high-value contracts or manage global intellectual property.

The push for reform was led by organized advocacy from the IT industry, which lobbied the government to recognize IT exports as a clean source of foreign currency that justified outward investment. Responding to this, the Government of Nepal’s Budget Speech for FY 2023/24 made a landmark policy commitment to allow IT companies to use a portion of their foreign currency earnings to establish subsidiaries and liaison offices abroad. This policy promise was finally codified into law through the Investment Facilitation Amendment Act, 2024 which updated FERA, 1962 and the Foreign Investment and Technology Transfer Act (FITTA), 2019, effectively ending the era of absolute prohibition and introducing a regulated framework for Nepali entities to go global.



On 31st March 2025, FERA was amended to provide a legal definition of Outward Investment for the first time to cover the following:

1. Investment in shares or partnerships of foreign firms, companies, or investment funds that are not listed on a foreign stock exchange and reinvestment of earnings derived from the investment;
2. Investment in shares up to 20% of the paid-up capital of a foreign entity that is listed on a foreign stock exchange and reinvestment of earnings derived from the investment. This cap does not apply to any Nepali citizen who had invested while residing abroad;
3. Investment made by a Nepali company in registering liaison office or branch office outside Nepal; and
4. Funds deposited in foreign bank accounts by a Nepali company or institution.



While the definition introduced by FERA is broad in scope, regulators have adopted a phased approach to liberalization. In the first phase, outward investment is authorized only for the following sectors and pathways:

1. Industries exempted to invest abroad via the notices published under ARIA;
2. Industries classified as Information Technology (IT) industries under the Industrial Enterprises Act 2020;
3. Foreign currency amounts received by a Nepali company through the provision of technology transfer services to a foreign company; and
4. Non-cash acquisition of shares by a Nepali employee of a foreign parent company (or its foreign subsidiary).

With these reforms in FERA, two other legal instruments were also amended. First, FITTA was amended to broaden the definition of technology transfer to acknowledge that Nepali companies can also provide technology transfer outside Nepal. Second, the NRB Bylaws were amended to lay down the procedures and conditions for IT companies to obtain approval for outward investment.

FERA also authorizes Nepal Rastra Bank to determine and publish notices related to conditions to be followed by the investing company or establishment abroad, the maximum sector-wise limits of such investment, and other related provisions. However, besides the amendments to the Bylaws for IT companies, the NRB has not prescribed any such notices.

**Insight:** *The most critical distinction for investors to note is that while the door has opened for companies (entities), outward investment remains prohibited for individuals (except for non-cash employees shares option). Capital must be sourced from the entity's own earnings or capital.*

### 1.3. Summary of the Legal Evolution

Period	Legal Status	Primary Authority
1964–2023	Prohibited. Only permitted via rare Gazette exemptions.	ARIA 1964; Ministry of Finance.
2002–2023	Restricted. Only earnings made while living abroad were exempt.	FERA Amendment 2002.
2024 onwards	Regulated. Authorized for Nepali entities and IT industries.	FERA/FITTA Amendments 2024 AD; NRB Bylaws.

## 2. IT INDUSTRY AND AVAILABLE INVESTMENT ROUTES

Before pursuing outward investment, an IT company must confirm that its business falls within the definition of an IT industry under the Industrial Enterprises Act, 2020. The qualifying categories are as follows:

1. *Technology Park,*
2. *I.T. Park,*
3. *Biotech Park,*
4. *Software Development,*
5. *Data Processing,*
6. *Cyber Cafe,*
7. *Digital Mapping,*
8. *Business Process Outsourcing (BPO) or Knowledge Process Outsourcing (KPO)*
9. *Data Center, Data Mining, Cloud Computing,*
10. *Digital Signature Certifying Agency,*
11. *Web Portal, Web Design Service, Web Hosting, Online Marketing & Advertising Service.*

Once the aforementioned is confirmed, such IT company must submit an application to receive approval for making OFDI if it meets the following criteria:

1. *The amount of proposed investment should not exceed the total paid-up capital of the applicant IT company.*
2. *The applicant IT company must have earned foreign currency for at least the last 3 consecutive years.*
3. *The proposed investment amount should be the lesser of:*
  - *50% of the average forex earnings of the last 3 years; or*
  - *US\$ 1,000,000.*
4. *In case the investment ticket size is up to US\$ 20,000, the qualifying criteria for paid-up capital, foreign currency income criteria stated in no. 2 and 3 are not applicable.*

Criteria 1, 2, and 3 above were first introduced by the NRB on 2 June 2025, establishing the foundational eligibility framework for outward investment by IT companies. Subsequently, on 11 December 2025, the NRB introduced the relaxation reflected in Criterion 4, enabling start-ups and smaller IT businesses that may not yet meet the foreign currency earnings threshold to participate in the outward investment regime within the US\$ 20,000 ceiling.

**Insight:** For early-stage IT companies and founders, the USD 20,000 De Minimis Route offers a practical entry point into the outward investment regime. A registered IT company that has not yet accumulated three consecutive years of foreign currency earnings - the threshold required under the General Route - may nonetheless use this pathway to establish a foreign subsidiary, register intellectual property in key markets such as the United States, Singapore, or the United Kingdom, or set up an offshore vehicle for managing international contracts.

### 3. NAVIGATING THE NRB APPROVAL AND DISCLOSURE PROCESS

Securing approval for outward investment requires navigating a rigorous administrative process overseen by the NRB. Success depends on meticulous documentation and the full disclosure of the ultimate ownership structure.

#### 3.1. How and Where to File the Application

A Nepali entity must file its application for outward investment with the Foreign Exchange Facilitation Unit at the NRB's One Stop Service Center. The application must detail the purpose of the investment, the target jurisdiction, and the financial structure of the proposed foreign entity.

### 3.2. Documentation Requirements

The documentation requirements are exhaustive. Under the NRB Bylaws, an investing company must provide:

Item	Required Document	Specific Requirement / Purpose
1	<b>Entity Registration</b>	Certified copy of the Registration Certificate of the Nepali company.
2	<b>PAN Certificate</b>	Certified copy of the Permanent Account Number (PAN) certificate.
3	<b>Audited Financials</b>	Audited financial statements of the most recent fiscal year.
4	<b>Tax Clearance</b>	Tax clearance certificate or proof of tax filing for the latest fiscal year.
5	<b>Constitutional Docs</b>	Certified copies of the Memorandum (MOA) and Articles of Association (AOA).
6	<b>OCR Updated Profile</b>	Latest certified list of shareholders and directors from the Office of the Company Registrar.
7	<b>No-Overdue Declaration</b>	Self-declaration that the company has no non-performing loans in the Nepali banking system.
8	<b>Board Resolution</b>	Formal decision of the Board (or authorized official) approving the outward investment and exchange facility.
9	<b>Compliance Undertaking</b>	Self-declaration confirming adherence to national/international AML/CFT laws and taking full responsibility for violations.
10	<b>Beneficiary Bank Info</b>	Name, address, and account number of the foreign beneficiary bank. <i>(Self-declaration required for new setups).</i>
11	<b>Foreign Entity Profile</b>	If investing in an existing firm: Registration, latest audit, and notarized UBO details. <i>(Legal proof required if foreign law doesn't mandate audit).</i>
12	<b>CIB Blacklist Report</b>	Report from the Credit Information Bureau (CIB) showing no "Blacklisted" status. <i>(Must be issued within the last 6 months).</i>
13	<b>Police Report</b>	Police clearance certificate/Criminal Record (Criminal Record) check for the Ultimate Beneficial Owners (UBO).
14	<b>UBO Integrity Declaration</b>	Comprehensive declaration from UBOs regarding age (18+), bankruptcy status, tax compliance, and no political/public office held.

### 3.3 Ultimate Beneficial Owner Disclosure and Bank Account Scrutiny

The NRB maintains strict oversight on the destination of funds and the people involved and so:

1. The names and addresses of the natural persons who ultimately control the entity must be disclosed via a self-declaration.
2. The applicant must disclose the name, address, and account number of the beneficiary bank account abroad that will receive the investment funds.

**I**nsight: When Pioneer Law filed one of the first applications under this route, a critical structural gap in the framework became apparent. NRB required applicants to provide bank account details where the approved investment would be remitted, however registration of foreign subsidiary is contingent on first receiving NRB approval. With no mechanism to address this circularity, the NRB approved remittance of the investment amount to the bank account of the lawyers assisting with the incorporation, with the requirement that the subsidiary's own account details would be provided upon completion of the foreign set up. This required a second application after the subsidiary's account was opened and activated. The experience directly informed the 5th Amendment to the NRB Bylaws, which introduced a self-declaration mechanism for new establishments: applicants may now declare that beneficiary bank details will be furnished at a later stage and accept full responsibility for that undertaking, eliminating the need for a two-stage filing process and the delays that accompanied it.

### 3.4. Mandatory Conditions of Approval

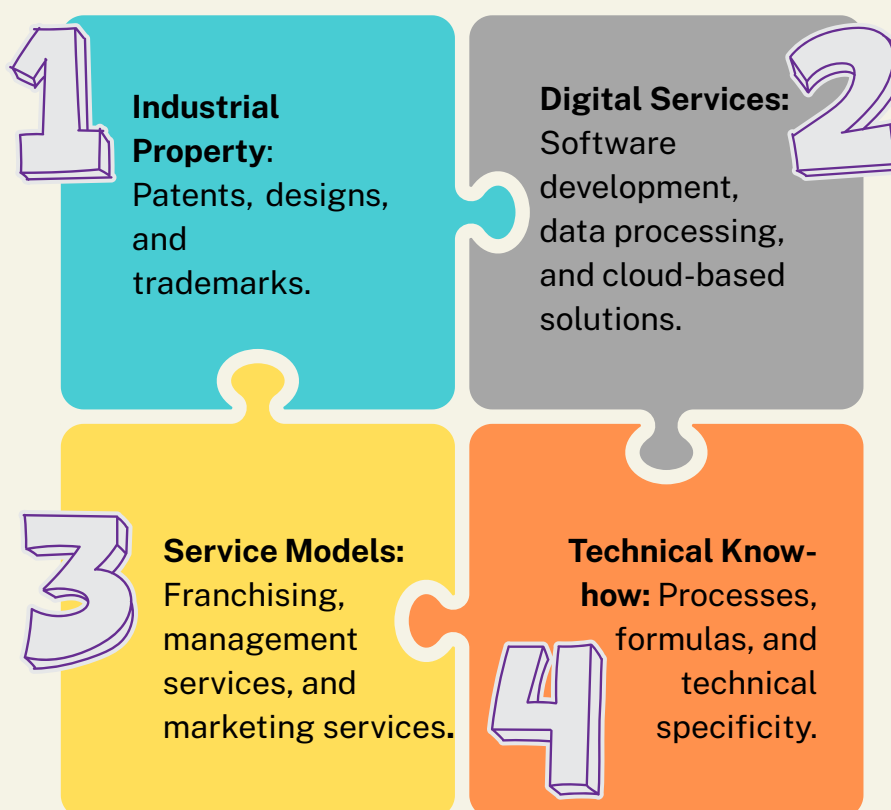
We have seen the following terms and conditions being prescribed as approval conditions which mirror the provisions of the NRB Bylaw:

- Audited financial statements of the foreign investment must be submitted within six months of the end of both the foreign and Nepalese fiscal years.
- All income earned from the investment, or any amounts returned upon withdrawal, must be repatriated to Nepal through the formal banking system.
- Statistical information regarding the foreign investments must be submitted as requested by the NRB.

## 4. TECHNOLOGY TRANSFER AND INTELLECTUAL PROPERTY INTEGRATION

### 4.1 Technology Transfer as a Vehicle for Offshore Equity Acquisition

Under the 2024 framework, Technology Transfer (“TT”) is no longer just an export category; it is a vehicle for global equity acquisition. Any Nepali company that transfers technology to an offshore company can invest the earnings derived from such services in offshore entities. Nepali companies may provide TT either from Nepal domiciled company or by establishing a branch or unit outside with the Department of Industry’s approval. The law defines TT broadly to include:



### 4.2. Navigating the Dual-Regulator Overlap

Investors must distinguish between the establishment of physical units and the investment of capital, as they fall under different administrative jurisdictions: Opening a branch office or a unit office abroad to provide technology services requires the prior approval of the Department of Industry (DOI). Investing earnings into a foreign company's shares or partnership requires the approval of the Nepal Rastra Bank (NRB).

### 4.3. Current Procedural Ambiguities

While the IT general route has a defined checklist in the NRB Bylaws, the Investment through TT route currently lacks a specific list of required documents within the primary Bylaws.

**Insight:** Because there is no standardized checklist for TT-based investment, the NRB exercises discretion. Successful applicants typically provide a "Substantial Equivalence" filing, mirroring the documentation required for the IT companies, including the TT agreement and proof of foreign service delivery.

### 4.4 Recording at NRB

Even when investing earnings directly into a foreign subsidiary (bypassing the physical outflow of cash from Nepal), the investment must be recorded at the NRB. Failure to record the initial equity gained via technology transfer will lead to the rejection of future attempts to repatriate dividends back to Nepal.

The NRB maintains strict oversight on the destination of funds and the people involved and so:

- The names and addresses of the natural persons who ultimately control the entity must be disclosed via a self-declaration.
- The applicant must disclose the name, address, and account number of the beneficiary bank account abroad that will receive the investment funds.



## 5. EMPLOYEE SHARE OPTIONS PLANS (ESOP)

The 2025 amendment to FERA has also provided essential legal clarity for global mobility and talent retention. FERA now expressly permits the foreign parent company of a Nepal-incorporated entity - or any sister company of that parent - to operate or implement an employee stock purchase plan applicable to Nepali citizens employed in Nepal. Under this provision, eligible employees may acquire shares in the foreign parent or its affiliate and earn income derived from those shares without being required to remit any convertible foreign currency outside of Nepal. This is commonly referred to as the "Cashless Exercise" rule: the employee receives the economic benefit of the shares entirely without an outward foreign exchange transaction originating from Nepal.



**Insight:** Prior to this reform, a structural gap in Nepal's foreign exchange law meant that Nepali employees working for subsidiaries of foreign groups could not be formal shareholders in the overseas parent. In practice, firms worked around this by offering restricted stock units, synthetic or phantom equity arrangements that entitled employees only to the economic gain equivalent of share appreciation - without conferring actual ownership rights or voting control. The 2024 amendment directly resolves this gap. By permitting cashless acquisition of shares in a foreign parent or its affiliate, Nepali employees now enjoy genuine legal ownership, full participation in wealth creation, and the ability to manage their equity as a long-term financial asset - rather than merely receiving a cash-settled proxy for it.

## 6. ONGOING COMPLIANCE OBLIGATIONS AND REPATRIATION OF PROFITS

Under the 2024 framework, Nepali investors must navigate a three-tier compliance structure involving the NRB, the OCR, and commercial banks.

### 6.1. Mandatory Reporting to the NRB

The NRB requires rigorous oversight of the foreign subsidiary's financial health. A Nepali investor must submit audited financial statements of its foreign investment to the NRB's Foreign Exchange Facilitation Unit within six months of the end of both:

- The foreign jurisdiction's fiscal year; and
- Nepal's fiscal year.

If the foreign jurisdiction does not mandate an audit, the investor must submit unaudited statements along with official proof (such as a legal certificate or a letter from local counsel) that no audit is required under that country's law.

### 6.2. Financial Consolidation (Companies Act)

A Nepali parent company must legally integrate the financial standing of its foreign subsidiary into its domestic accounts. Per Section 143 of the Companies Act, 2063, the annual balance sheet must include:

- A copy of the subsidiary's annual financial statements and the Board of Directors' report.
- The Auditor's report verifying the subsidiary's accounts.
- A detailed breakdown of the parent company's total investment in the subsidiary at the close of the financial year.
- If the parent and subsidiary have different fiscal years, any changes in the parent's rights over the subsidiary during that gap period must be disclosed.

### 6.3. Repatriation: Bringing Profits Home

All financial proceeds from the investment must be brought back to Nepal through formal banking channels. Authorized commercial banks now have the delegated power to process the repatriation of dividends and profits directly, provided the investor presents:

1. Resolutions from the foreign entity authorizing the dividend or profit distribution.
2. Proof of tax payment in the foreign jurisdiction and compliance with Nepali tax laws.
3. Financial statements proving the availability of distributable profits.

#### 6.4. Penalties for Non-Compliance

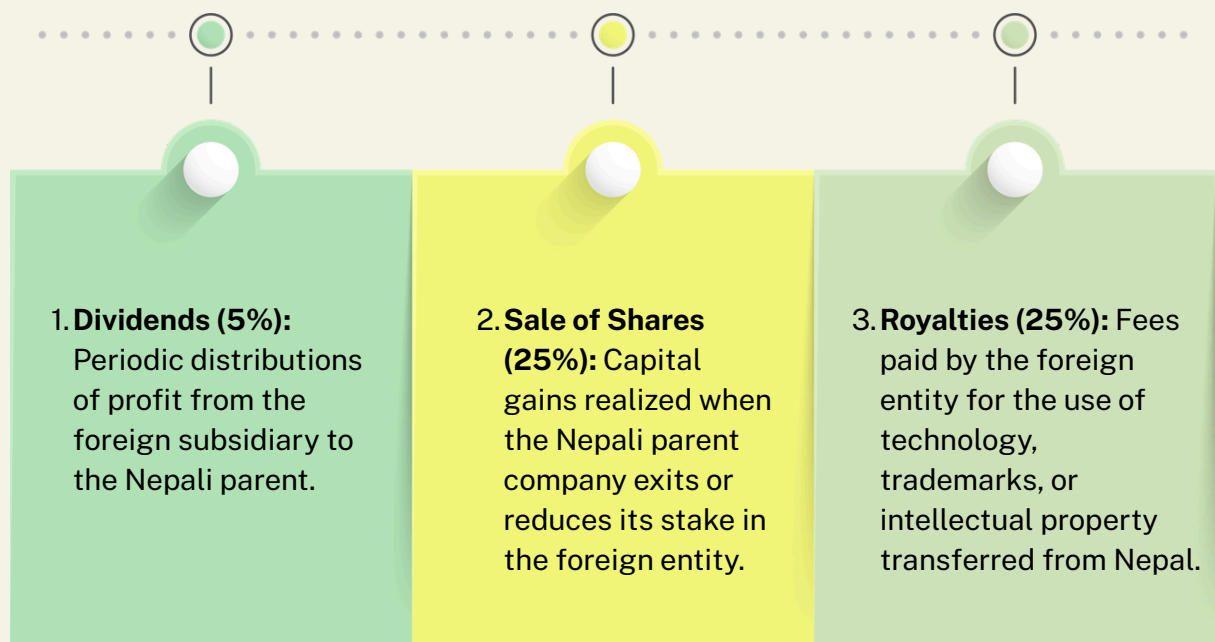
The NRB maintains strict enforcement over foreign exchange facilities. If an investor misuses exchange facilities, fails to repatriate income, or violates any prevailing laws, the NRB is empowered to take "appropriate action" under the Foreign Exchange (Regulation) Act. This may include the suspension of future exchange facilities or the cancellation of the investment approval.

**Insight:** The transition of repatriation authority to commercial banks is the most significant administrative relief in the new regime. However, banks remain strictly liable for the documents they verify. Investors should ensure that their foreign subsidiary's "Dividend Declaration" exactly matches the "Investment Recording" on file at the NRB to avoid processing delays.

## 7. TAXATION & GLOBAL MOBILITY

### 7.1. Income Streams and Applicable Tax Rates

A Nepali parent company establishes a foreign subsidiary to generate three primary types of income, each subject to specific tax treatments in Nepal:



## 7.2. The Foreign Tax Credit Mechanism

To prevent international double taxation, the Income Tax Act, 2002 allows Nepali residents to claim a Foreign Tax Credit. If the Nepali entity has paid income tax in a foreign jurisdiction on its foreign-sourced income, it can offset that amount against its tax liability in Nepal.

**Insight:** The Foreign Tax Credit is generally limited to the amount of tax that would have been payable in Nepal on that same income. Documentation from the foreign tax authority is mandatory to claim this credit during the annual tax filing.

## 7.3. Double Taxation Avoidance Agreements (DTAAs)

Nepal has entered into DTAAs with 10 countries to provide further relief and lower withholding tax rates for cross-border payments. These treaties provide a more predictable tax environment for outward investors.

Current DTAA Partner Countries:

- **South Asia:** India, Bangladesh, Pakistan, Sri Lanka.
- **East & Southeast Asia:** China, South Korea, Thailand.
- **Middle East:** Qatar.
- **Europe:** Austria, Norway.



**Insight:** Jurisdiction selection should not be driven only by ease of incorporation or commercial convenience. Nepali companies should also assess whether Nepal has a DTAA with the host country, as treaty protection may reduce withholding tax exposure and provide greater certainty on the treatment of cross-border income. In non-DTAA jurisdictions, investors should carefully evaluate the availability of foreign tax credit relief and the overall tax cost of the structure.

### 7.4. Exit Strategies and Repatriation

When an investor chooses to exit a foreign investment, the Nepal Rastra Bank (NRB) Bylaws mandate that the entire amount returned upon withdrawal, including the original capital and capital gains, must be repatriated to Nepal.

The 25% tax rate on the sale of shares applies to the net gain. Investors should ensure that the Initial Investment Recording at the NRB and the Share Purchase Agreement (SPA) are aligned, as the tax authorities will use the recorded investment value to calculate the taxable gain.



### 7.5 Summary of Tax Obligations

Income Category	Standard Tax Rate in Nepal	Treaty Benefit Potential
<b>Dividend</b>	5%	Possible lower withholding in host country.
<b>Capital Gains (Shares)</b>	25%	Protection against dual taxation.
<b>Royalty</b>	25%	Lowered withholding via DTAA.
<b>Branch Profits</b>	Standard Corporate Rate	Foreign Tax Credit



**THANK YOU**

To the readers for engaging with this handbook. Whether you are a business founder exploring your first foreign subsidiary, an investor assessing jurisdiction options, or a fellow adviser seeking regulatory clarity, we hope this handbook serves as a dependable companion on your journey. Nepal's outward investment story is still being written. We are glad to be part of it, and we look forward to the chapters ahead.

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