



# DOING BUSINESS IN NEPAL

*A Guide for Indian Investors*

Prepared by Nepal-India Chamber of Commerce and Industry  
in association with Embassy of India



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**Compiled & Prepared**

T R Upadhyaya & Co. Chartered Accountants,  
Kathmandu, Nepal

**Layout & Design**

Thompson Nepal Pvt Ltd, Kathmandu, Nepal

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## PATRON'S MESSAGE



India is Nepal's largest trade partner and source of nearly 44 percent of all direct foreign investment into Nepal. India and Nepal signed the revised Trade Treaty in 2009 which envisages preferential access, free of basic custom duty, for goods manufactured in Nepal. This contributes to making Nepal a more attractive destination for Indian Investment.

I congratulate NICCI for bringing out a comprehensive Guide for Indian Investors – “Doing Business in Nepal”. The Guide provides up-to-date information to investors who are interested in doing business in Nepal. I have no doubt that this initiative of NICCI will further promote the close relations between India and Nepal.

A handwritten signature in black ink, which appears to read 'Rakesh Sood'.

Rakesh Sood

His Excellency, Ambassador of India to Nepal

# ADDRESS BY PRESIDENT

Nepal and India share a long standing, cordial and multi-faceted relationship based on mutual respect and understanding; characterised by open borders, deep-rooted people-to-people contacts and extensive cooperation. Both countries are bound by ancient history, geography, culture, religion and shared values. India has been committed to the economic development of Nepal and attaches highest priority to further strengthening relations with Nepal in every sphere.

The beginning of Indo-Nepal economic co-operation can be traced back to 1950 when the two countries signed the treaties of friendship, trade and commerce. According to the provisions in the friendship treaty, Indians and Nepalese have been given 'national treatment' in each other's territory thereby allowing them the right to buy property, employment, or get engaged in any economic activity. The treaty also allowed free movement of people between India and Nepal across the border. India officially granted transit to Nepal, through the Treaty of Trade and Transit.

India also contributes to the development efforts of Government of Nepal by undertaking various development projects in the areas of infrastructure, health, rural and community development, education, etc.

India is Nepal's most important trading partner, accounting for more than 60 per cent of Nepal's trade with the world. Nepal's external trade pattern has undergone significant changes in the last few years, with India's importance growing over time. Nepal's access to the Indian market has also improved in the last few years; although the large trade deficit between India and Nepal continues to be a matter of concern for Nepal. Indo-Nepal economic relations have been governed by the bilateral Treaty of Trade and Transit and the Agreement for Co-operation to Control Unauthorised Trade, which were signed in 1971 and subsequently renewed in 1978, 1996, 2002 and 2009. Since 1971, the trade treaties have offered tariff and other duty concessions much before the proliferation of free trade agreements in the 1990s.

The latest revision of the treaty was done in and 2009 and the treaty will be valid for 7 years, 2 more years than the earlier treaties.

For promoting greater investment flows, both sides also agreed to the early conclusion of a Bilateral Investment Promotion and Protection Agreement, and a new Agreement on Avoidance of Double Taxation. It was noted that India will continue to assist Nepal in its economic development and reconstruction in areas including infrastructure, human resource development, health and education.

To further build on the progress already achieved, India-Nepal economic co-operation should have an underlying objective of expanding the scope of the existing trade agreements and adopting measures that will contribute to sustainable economic development in Nepal. In this

context, it is important to examine how India and Nepal can co-operate to expand and diversify Nepal's trade with India, address market access issues related to non-tariff barriers and identify potential products for trade that are likely to contribute to reducing Nepal's trade deficit with India. Indian investment in Nepal can contribute to increasing Nepal's exports to India and to other countries. It therefore becomes important to examine factors that may inhibit Indian investments. The two countries should engage in a more meaningful economic relationship by exploring the trade possibilities in the services sector as well. Nepal, endowed with two major resources – water and natural beauty has a large potential in hydro power and tourism. The question now is how India can help Nepal in developing these two sectors. Similarly, there are trade possibilities in several other services which need to be identified.

In this context The Nepal India Chamber of Commerce and Industry plays an extremely important role in furthering economic cooperation, developing Trade Ties and increasing FDI.

As part of its charter NICCI has laid down the following objectives to improve economic cooperation between the two countries.

- To identify industries and services where Nepal offers viable and sustainable competitive advantage for Indian investments.
- To identify issues which impede trade and commerce and recommend ways and means for increasing exports to India.
- To identify specific sectors to enhance bilateral trade.
- To suggest policy and procedures with regard to improving infrastructure, communication and transportation facilities.
- To determine specific requirements for training and upgradation of skills in Nepal.
- To examine the efficacy of the regulatory framework in Nepal to encourage FDI.

This Investment Guide, available both in print and online, is a first step in meeting those objectives by offering information and services to aid both Indian and Nepali Investors in Nepal in establishing closer ties and bringing partners together to seek potential business opportunities and aid in the development of Nepal.

I welcome you to explore the vast potential and opportunities, and to make contact for further help and enquiries.

Sanjiv Keshava  
President

# FOREWORD

It is a pleasure to present the 'Doing Business in Nepal: A guide for Indian Investors', a first of its kind endeavour that gives the busy executives and business planners a quick review of the investment opportunities in Nepal. The decision making process for taking on foreign operations is not only strategic but also complex. It may well begin with a complete understanding of the commercial climate as well as an appreciation that such a climate is ever evolving.

India continues to be Nepal's largest trade partner and an important source of foreign investments. India accounts for nearly two-thirds of Nepal's merchandise trade, one-third of trade in services and 44% of total approved direct foreign investments. These investments have significantly contributed to the industrialization, GDP and external trade of Nepal, thus helping to address issues like unemployment, skills training, infrastructure development and social initiatives.

Nepal and India have a long history of Trade treaties and bilateral arrangements that have helped broaden the scope of investment and measures that contribute to sustainable economic development in Nepal. A furtherance of this to expand and diversify Nepal's trade with India, address market access issues and identify potential products for trade is possible through increased opportunities for Indian investment in Nepal. Nepal could benefit by keying into India's export network to other countries just as India could tap into Nepal's position as an LDC with respect to the markets in Europe and further west.

On this side, the Government of Nepal has already initiated a National Trade Integration Strategy and identified areas of production, trade and investments. The NTIS 2010 has identified capacity development Actions and selected short- to medium-term Priorities that are supportive of 'inclusive growth' and are closely aligned with Nepal's forthcoming three-year Development Plan. In addition, high priority has been accorded to setting up institutions and channels for attracting investors from India. The potential areas are hydropower, cement, aviation, fertilizer, infrastructure projects, agriculture and food processing, light engineering industries, mineral exploration and mining and service industries including tourism, healthcare, education, IT & software and banking.

International business and foreign investment is always a challenge. The Enterprising ones take it in their stride; infact measure their success on the scale of challenge. India and Nepal, as neighbours with an open border, bilateral arrangements, healthy economic diplomacy, linguistic and traditional linkages must have more reasons to tap the opportunities for business ventures and investments and make it a success.

I invite the Indian investors to make Nepal the destination for their next Success,

Happy Investing in Nepal,

Arun Chaudhary

Immediate Past President

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# Abbreviations of Terms Used

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AoA	Articles of Association
AEPZ	Agro Export Promotion Zone
AMPI	Annual Manufacturing Production Index
BoP	Balance of Payments
BOT	Build, Operate, Transfer
BOOT	Build, Own, Operate, Transfer
CBS	Central Bureau of Statistics
CDS	Central Depository System
CIF	Cost, Insurance, Freight
CRO	Company Registrar's Office
CRR	Cash Reserve Ratio
CTD	Customs Transit Declaration
CVD	Countervailing Duty
DOED	Department of Electricity Development
DoI	Department of Industries
DoSCI	Department of Cottage and Small Industries
EIA	Environmental Impact Assessment
EoI	Embassy of India
EoU	Export Oriented Unit
EPZ	Export Processing Zone
ESOP	Employees Stock Option Scheme
FCC	Financial Credibility Certificate
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Technology Transfer Act
FOB	Free on Board
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Production
GoI	Government of India

GoN	Government of Nepal
GWH	Giga Watt Hours
ICD	Inland Container Depot
IEA	Industrial Enterprise Act
IEE	Initial Environmental Examination
IGC	Inter-Governmental Committee
IGSC	Inter-Governmental Sub-Committee
IMF	International Monetary Fund
IPB	Investment Promotion Board
IRD	Inland Revenue Department
IRO	Inland Revenue Office
IRs	Indian Rupees
IT	Information Technology
JV	Joint Venture
kWh	Kilowatt hours
km	Kilometre(s)
L/C	Letter of Credit
LCS	Land Customs Stations
LDC	Least Developing Country
MoA	Memorandum of Association
MoCS	Ministry of Commerce and Supplies
Mol	Ministry of Industry
MT	Metric Tonne(s)
MW	Mega Watt(s)
NATS	NEPSE Automated Trading Center
NEPSE	Nepal Stock Exchange
NITDB	Nepal Intermodal Transport Development Board
NRB	Nepal Rastra Bank
NRN	Non-Resident Nepalese
NRs	Nepalese Rupees
NTA	Nepal Telecommunication Authority
NTP	New Tourism Policy
OT	Operate, Transfer

PAN	Permanent Account Number
PE	Permanent Establishment
RBI	Reserve Bank of India
RFC	Resident Foreign Currency
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SEBON	Securities Board of Nepal
SEC	Securities Exchange Centre
SEZ	Special Economic Zone
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprises
SRN	Strategic Road Network
Sq km	Square Kilometre(s)
UNCLOS	United Nations Convention on the Law of the Sea
UNCITRAL	United Nations Commission on International Trade Law
VAT	Value Added Tax
WOS	Wholly Owned Subsidiary
WTO	World Trade Organization

# 1. Overview of Nepal's Potential and Attractiveness as an Investment Destination

Foreign Direct Investment (FDI) is a major potential contributor to growth and development of a country as it brings in capital, technology, management know-how and access to new markets. It is considered to be a more stable form of investments compared to other forms of capital flows with the host country benefiting in the long term.

Government of Nepal (GoN) has developed liberal foreign investment policies to attract maximum foreign direct investment into the country and instituted a 'one-window' system to facilitate and encourage such investments. It has also been striving to create an investment friendly climate to attract foreign investments and provide

attractive incentives for prospective foreign investors. The Department of Industries (DoI), GoN is responsible for approval and monitoring of foreign direct investment into Nepal.

The largest contributor to Nepal's FDI is India. The Indian companies have made a significant contribution to the Nepalese economy both in terms of employment generation and by way of generation of revenue to the Nepalese exchequer. The proximity of the Indian market backed by the revised trade treaty signed in 2009 offering preferential access free of basic customs duty for Nepali manufactured goods makes Indian investments in Nepal very attractive.

## Opportunities

Tourism already plays an important role in Nepal's economy. It remains one of the country's most promising sectors for attracting FDI because of its incomparable natural assets, religious sites and therapeutic treatments. The GoN recognizes the contribution that tourism can make in national economic development.

Tourism has been a very important sector contributing significantly to the national economy by generating considerable amount of foreign exchange. With varied topographical features from the snow capped Himalayas to wild life reserves and green valleys and the rich cultural heritage, Nepal offers tourists with varied services from adventure tourism to eco-tourism and religious tourism. The government has implemented a liberal tourism development policy aimed at attracting a larger flow of tourists. Nepal is promoting its own brand of eco-tourism by combining the natural scenery and trekking with other activities such as rafting, yoga and meditation, and investors are encouraged to provide these and related services.

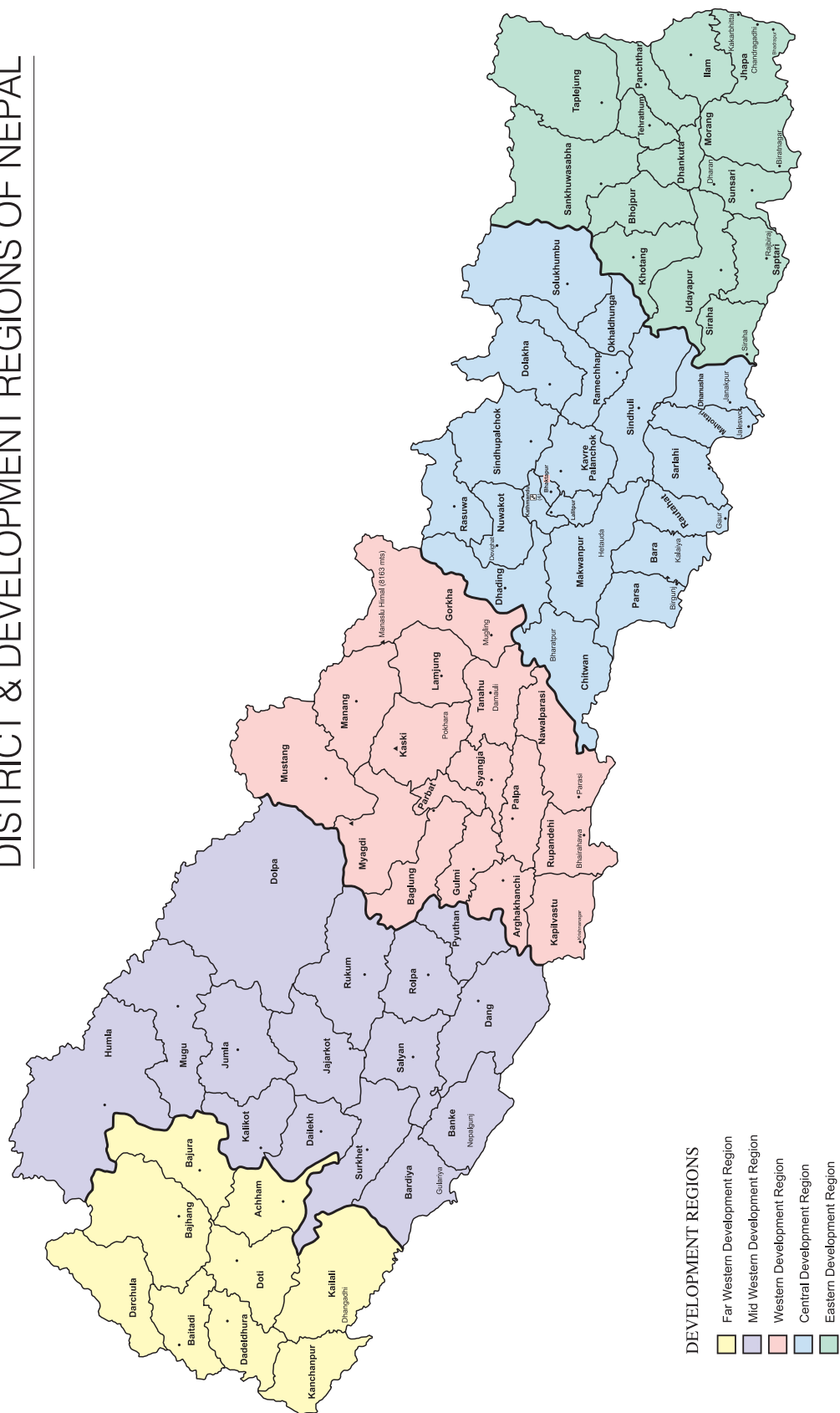
Nepal is very rich in natural and cultural assets, which offer substantial opportunities to foreign investors. The country conditions range from tropical to sub-arctic within a relatively narrow band of less than 250 km at its widest,

north-south. Herbs and herbal products are showing great promise largely because of the ideal growing conditions in the hills and mountain regions. Nepal has hundreds of plants with medicinal and aromatic properties. Demand for herbal products for cosmetic and health uses is increasing in key markets such as India and in other Asian, European and Western countries. Nepal trades most of its medicinal and aromatic plants in crude form because cultivation and processing are currently limited in Nepal.

Investment in hydropower is one of the lucrative areas for foreign investments as Nepal's potential for hydropower is estimated at 83,000 MW of which 44,000 MW is estimated to be economically feasible. There is already significant FDI in hydropower in Nepal and more may be expected as there is a huge market for power in India. In addition to the development of electricity for export, the hydropower resources offer the prospect of developing energy-intensive manufacturing activities. Preliminary studies have identified potential for over half a dozen medium and large hydroelectric projects. Some projects are of such a size that their greatest value for Nepal will be from the perspective of exporting hydroelectric power to neighbouring countries. In addition to power



## DISTRICT &amp; DEVELOPMENT REGIONS OF NEPAL



generation, some of the identified projects can bring enormous benefits in terms of irrigation, flood control and inland navigation beyond the Nepalese territory as well.

In September 2004, the World Trade Organization (WTO) unanimously approved the text of the Protocol for Nepal's entry into this global trade body. Nepal became the second least developed country (LDC), after Cambodia, to join the WTO through full working party process. Following its entry into the WTO, Nepal can now fully enjoy the rights that all members have under the WTO agreement. The benefits are embedded in the past global trade reforms, improving the domestic trade policymaking process, helping exporters contest in the global market and supplementing the preferential market access to foreign markets. These benefits will help Nepal better integrate itself into the world economy.

The signing of the revised trade treaty in 2009 between India and Nepal is expected to provide further boost to the growing Indo-Nepal Trade. The revised treaty is expected to provide further access to Nepalese products into India and to enhance and expand bilateral trade

between the two countries. The validity of the treaty of 7 years is expected to provide more stable framework for bilateral trade and promote investments in Nepal based on preferential access provided by the Treaty to Nepalese products. The treaty also provides MFN access to the Indian markets for Nepalese products which do not fulfill the preferential access criteria.

In addition to the above, zero-tariff on products from Least Developed Countries (LDC) is expected to expand bilateral trade free access to Nepalese products in developing and developed countries which make Nepal attractive as a destination for foreign investment. Additionally, a study conducted by UNCTAD states that When it comes to profits, the evidence is that the rate of return on FDI in less-developed countries (LDCs) is often much higher than investment in developed countries, or emerging economies. These investors can benefit from 'first mover' status. As opposed to locations where everyone wants to be investing, first movers can pick the most promising opportunities. If they are able to navigate the challenges that come with doing business in LDCs, investors will find their experience quite rewarding.

## 2. Country's Profile and Key Indicators

### 2.1 Country Profile of Nepal

Nepal, the mid-Himalayan country of Asia has its border with India on the South, East & West and China on the North. It is located between latitude 26 degree 22 minutes North to 30 degree 27 minutes North and longitude 80 degree 4 minutes East to 88 degree 12 minutes East. Being land locked country the sea access is about 1,150 Km from the border.

Ecologically the country is divided into three regions running east to west i.e. the mountains, the hills and the Terai. The mountain area lies at an altitude ranging from 4,877 metres to 8,848 metres above the sea level. It

constitutes 15 percent of total area of Nepal. Most of the high snow-capped mountains including world's highest peak Mt. Everest (Mt. Sagarmatha) are located in this region. The hills, the middle region that covers 64 percent of total area lies between the altitude ranging between 610 metres and 4,877 metres above the sea level. This region has numerous attractive valleys, basins, lakes and hills. The Terai region is a low flat land situated along the southern side of the country. Most of the fertile lands and dense forest area of the country are located in this region. This region covers 17.1 percent area of the country.

## 2.2 Key Indicators

### Geography

Area:	147,181 sq. km. (56,136 sq. mi.), situated between India in the South, East and West and China in the North. Land area 43,351 sq km and water 3,830 sq km.
Location:	Latitude: 26°22'N to 30°27' North,
Longitude:	80°04'E to 88°12' East
Length:	885 Km. [East to West]
Width:	Non-uniform, Mean width of 193 Km. [North to South]
Altitude:	70 metres to 8,848 metres
Cities:	Capital–Kathmandu (3 districts) (pop. 2.2 million est.). Other cities – Biratnagar, Patan, Pokhara, Birgunj, Dharan, Nepalgunj. Kathmandu, the capital, is in a valley at 1,310 metres (4,300 ft.) elevation.
Climate:	Sub-tropical in the Terai plains along the southern border, temperate in the hills along the middle belt, and alpine in the mountainous region along the northern belt. The Kathmandu valley has a pleasant climate with average summer and winter temperatures of 19-27° C and 2-12° C respectively. Rainfall is heavy in the eastern part during June-August, while the western part gets more rain in winter. Annual precipitation varies from around 300 mm in the north and west to over 2,500 mm in the east. The Kathmandu valley receives 1,200 mm of annual rainfall.
Time zone:	GMT +5.45 hours

### People

Nationality:	Nepali
Population:	28,951,852 (July 2010 estimates)
Annual population growth rate:	1.419% (July 2010 estimate)
Population:	(2001 census) Rural (86%); female (50%); in the southern Terai region (49%); in the hills (44%); in the mountains (7%). The next census will be done in 2011.
Ethnic groups:	Brahman, Chettri, Newar, Gurung, Magar, Tamang, Rai, Limbu, Sherpa, Tharu, and others.
Religions:	(2001 census) Hinduism (81%), Buddhism (11%), Islam (4%), and others (4%).
Official language:	Nepali. English is widely used in business, higher education and various professions.
Other principal languages:	Maithili, Bhojpuri, Newari, Magar and Hindi are widely understood.
Education:	Years compulsory – none, although education is free through Grade 8. Attendance – primary 84% (86% male, 82% female), secondary 43.5% (46% male, 41% female).
Literacy:	57% (among youth age 15-24: 85% male, 73% female).
Health:	Infant mortality rate (2008 estimate) –41 deaths/1,000 live births. Life expectancy – 67 years.
Work force:	Agriculture 73.9%; non-agriculture 26.1%.

## Government

Type:	Representative multi-party democracy.
Constitution:	Interim constitution promulgated on January 15, 2007. Constituent Assembly convened in May 2008 to draft a new constitution. In May 2010, the deadline for the drafting of the constitution was extended by 1 year.
Executive:	President (head of state), Prime Minister (head of government).
Legislative:	The Constituent Assembly is a unicameral Parliament, consisting of 601 members; 240 members were elected through a direct electoral process representing single-member constituencies across the country; 335 members were nominated from party lists through a proportional representation system; and 26 were nominated by the cabinet as representatives of ethnic and indigenous communities.
Judicial:	Supreme Court, 16 appellate courts, 75 district courts.
Sub-divisions:	5 development regions, 14 zones, and 75 districts. 75 district development committees, 58 municipalities, 3,913 village development committees, and 36,023 ward committees.
Political parties:	United Communist Party of Nepal-Maoist (UCPN-M), formerly known as the Communist Party of Nepal-Maoist (CPN-M); Nepali Congress (NC); Communist Party of Nepal-United Marxist Leninist (CPN-UML); Madhesi People's Rights Forum (MPRF); Madhesi People's Right Forum-Democratic (MPRF-D); Tarai Madhes Democratic Party (TMDP); Sadhbavana Party (SP); Rastriya Prajatantra Party (RPP); and 17 others.
Elections:	Constituent Assembly elections held on April 10, 2008.
National Days:	Republic Day, Jestha 15 (May 28); Democracy Day, Falgun 7 (mid-February). (Note: Jestha and Falgun are months of the Nepalese calendar.)

## Economy

GDP (2008-09):	US\$15.1 billion
Annual growth rate of real GDP (FY 2009-10):	3.5%
Per capita income (gross national product, FY 2008-09):	US \$427 (World Bank)
Avg. inflation rate (Consumer Price Index, 2008-09):	11.8%.
Natural resources:	Water, different agro climate zones, timber, minerals.
Agriculture:	(33% of GDP), Products--rice, wheat, maize, sugarcane, oilseed, jute, millet, potatoes. Cultivated land 25%.
Industry:	(15% of GDP), Types--carpets, Pashmina, garments, cement, cigarettes, bricks, steel, sugar, soap, matches, jute, manufactured goods, hydroelectric power.
Minimum Wage:	NRs 6,200 a month for unskilled labor (basic salary and allowances).

Trade (2009-2010):	Exports–US\$804 million: carpets, Pashmina, garments. Major markets–India, China, EU 27, and the U.S. Imports–US \$4.69 billion: petroleum products, manufactured goods. Major supplier–India. Trade deficit: US \$3.89 billion.
Official exchange rate:	IRs 1 = NRs 1.60. Nepalese Rupee is pegged to the Indian Rupee.
Fiscal year:	July 16-July 15 (Nepali calendar, Shrawan 1 - Ashadh 32)

## 2.3 People

Perched on the southern slopes of the Himalayan mountains, Nepal is as ethnically diverse as its terrain. The Nepalese are descendants of three major migrations from India, Tibet, and central Asia. Among the earliest inhabitants were the Newars of the Kathmandu valley and aboriginal Tharus in the southern Terai region.

## 2.4 Language

Nepali is the official language, although over 100 regional and indigenous languages are spoken throughout the country. Derived from Sanskrit, Nepali is similar to Hindi and is spoken by about 90 percent of the population (although often as a second or third language). Many Nepalese in government and business also speak Hindi and English.

# 3. Economy and Trade

## 3.1 Economy

Nepal initiated planned economic development with its First Five-Year Plan in 1956, with mixed economic policy as the guiding principle of the state. Nepal liberalized its economy with a wide range of economic reforms in early 1990s. Those reforms induced remarkable growth in the key areas of the economy such as industry, trade, foreign investment, finance and international transactions. Reform and restructuring process undertaken since the 1990s, has been instrumental in making the economy more investment-friendly, transparent, market-oriented and efficient. Implementation of structural reforms has created a sound base for economic development. It has encouraged establishment of joint venture banks and private financial institutions, privatization of state-owned

companies and increased role of the private sector in the economy. Market oriented economic policies have encouraged private sector participation in economic activities, limiting the government's role to that of a facilitator and developer of prerequisites, which would support the private sector to become more efficient and competitive. Similarly, doing away with the licensing requirements and quantitative restrictions in industry and trade, simplification of regulatory processes, provision of current account convertibility, broadening the areas of the FDI and a host of other reform measures have created an environment for enhancing efficiency and competition in various economic activities.

### 3.1.1 Gross Domestic Product

Nepal ranks among the world's poorest countries, with a per capita income of around US \$427 in 2008-09. Based on national calorie/GNP criteria, an estimated 55 percent of the population is below the poverty line of

US \$1.25 per day. An isolated, agrarian society until the mid-20th century, Nepal entered the modern era in 1951 without schools, hospitals, roads, telecommunications, electric power, industry, or a civil service. The country has,



however, made progress toward sustainable economic growth since the 1950s and is committed to a programme of economic liberalization. The real Gross Domestic Product (GDP) is estimated to grow only by 3.5 percent

in the FY 2009-10 against the targeted 5.5 percent. The GDP growth rate since 2001-02 to 2009-10 is tabulated below:

Description	Unit	Financial Years								
		2001/ 02	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10*
Real GDP in Basic prices including Financial Intermediation	Annual % Change	0.2	3.8	4.4	3.2	3.7	2.8	5.8	4.0	3.5
Real GDP at Producers' Prices	Annual % Change	0.1	3.9	4.7	3.5	3.4	3.4	6.1	4.9	4.6
Real Per capita GDP	Annual % Change	-2.0	1.6	2.5	1.5	1.5	1.4	3.8	1.5	2.3
Gross Domestic Products (at Current Prices)	Annual % Change	4.1	7.1	9.0	9.8	11.0	11.3	12.1	21.5	19.3
Gross National Income (at Current Prices)	Annual % Change	3.5	7.1	8.9	10.5	11.5	11.6	12.0	21.8	19.1
Gross National Disposable Income (at Current Prices)	Annual % Change	3.6	7.6	9.3	11.1	14.0	10.1	16.5	24.5	18.1
Real GDP in Basic prices including financial intermediation	billion NRs.	427.40	442.13	464.83	480.34	499.54	515.13	545.30	567.61	588.53
Real GDP at Producers' Prices	billion NRs.	442.05	459.49	481.00	497.74	514.49	532.04	564.52	591.93	619.03
Real Per-capita GDP	NRs.	18682	18990	19467	19754	20043	20332	21108	21416	21905
Per-capita Gross National Income(at constant prices)	NRs.	18658	18964	19406	19809	20194	20540	21313	21924	22417
Gross Domestic Products (at Current Prices)	billion NRs.	459.44	492.23	536.75	589.41	654.08	727.83	815.66	991.32	1,183
Gross National Income (at Current Prices)	billion NRs.	458.8	491.6	535.1	591.0	659.0	735.3	823.6	1003.1	1195.1
Gross National Disposable Income (at Current Prices)	billion NRs.	527.0	567.1	620.0	688.8	785.2	864.3	1006.4	1252.6	1479.1

Source: Economic Survey 2009-10

### 3.1.2 Industry

Nepal is still at an early stage of industrial development, the share of the industrial sector in the economy is approximately 15%. The contribution of the manufacturing

sector to GDP is around 9 percent. 4310 industries (large, medium and small scale) were registered with the Department of Industries (DoI) as of July 16, 2010.

### 3.1.3 Agriculture

Agriculture remains Nepal's principal economic activity, employing over 75 percent of the population and accounting for 33 percent of GDP. Only about 25 percent of the total area is cultivable; another 33 percent is forest; and the rest is mountainous. Rice and wheat are the main food crops. The lowland Terai region produces an agricultural surplus, part of which supplies the food-deficient hill areas. Because of Nepal's dependence on

agriculture, the magnitude of the annual monsoon rain strongly influences economic growth.

The government expects agriculture to grow by 1.1 percent in 2009-10, against the earlier projection of 3.3 percent. Non-agricultural growth is expected to nearly halve to 3.6 percent from the 6.6 percent projected earlier in the same period.

### 3.1.4 Tourism

Nepal is one of the most preferred mountaineering destinations as it is a country with eight of the world's ten highest mountain peaks including Mt. Everest at 8,848 m. Increase in tourist arrivals after November 2006

has given relief to the tourism-based hotel, trekking, mountaineering, and aviation industries. For the first 7 months of 2010, tourist arrivals by air increased by nearly 20 percent. 2011 is the 'Year of Tourism'.

#### Number of Tourist Arrivals and Length of Stay

Year	No of Tourist Arrival	By Air	By Land Note 1	Avg Length of Stay (Days)	Annual Growth Rate (%)
2004	385297	297335	87962	13.51	13.90
2005	375398	277346	98052	9.10	-2.60
2006	383926	283819	100107	10.20	2.30
2007	526705	360713	165992	11.96	37.20
2008	500277	374661	125616	11.78	-5.00
2009	509752	379622	130130	11.60	1.90

Source: Ministry of Tourism and Civil Aviation

Note 1: Except Indian nationals travelling by land

### 3.1.5 Energy

Nepal has massive hydroelectric potential to service domestic power needs and growing demand from India. Only about 1 to 2 percent of Nepal's hydroelectric potential is currently tapped. The first hydropower projects that were commissioned in Nepal in the 1960s and 1970s with Gol assistance were Trishuli, Surajpura and Devighat. Several hydroelectric projects, at Kulekhani and Marsyangdi, were completed in the early to late 1980s. In the early 1990s, one large public-sector project, the Kali Gandaki A (144 megawatts-MW), and a number of private projects were planned; some have been completed. Kali Gandaki

A started commercial operation in August 2002. The most significant privately financed hydroelectric projects currently in operation are the Khimti Khola (60 MW) and Bhote Koshi (36 MW) projects.

The Ministry of Water Resources awarded survey licenses for generation of electricity for around 25 projects to Indian investors of which the most significant are the 900 MW Upper Karnali, the 900 MW Arun III and 802 MW Tila 1 and 2 Project. Currently, domestic demand for electricity is increasing at 12 to 13 percent a year.

*In Million KWH*

Power	Electricity (as of 2009-2010)	Oil
Production	2.6 billion kWh	0 bbl/day
Consumption	2.243 billion kWh	18,000 bbl/day (2009)
Exports	0 kWh	0 bbl/day
Imports	213 million kWh	16,920 bbl/day (2007)

Source: Nepal Electricity Authority

### 3.1.6 Banking Structure and Finance

#### Banking

Nepal has extensive banking and financial systems comprising of commercial banks, development banks and non banking financial companies.

Commercial banks represent the biggest segment in the banking sector in the country and provide full commercial banking solutions to its customers. There are 31 commercial banks in the country at present which comprises of 2 public sector banks, 7 joint venture banks and 22 banks promoted by local promoters.

Banks are required to maintain a certain percentage of their deposits as liquid funds in the form of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

The entire banking industry in Nepal is a licensed industry i.e. no person can commence banking operations unless permitted by Nepal Rastra Bank (NRB) (the Central Bank for Nepal). The NRB's main function is to regulate and supervise the banking institutions in Nepal. It issues currency, determines the daily buying and selling rates of foreign currencies and implements monetary policy to secure financial stability and growth in the economy.

In addition, the Nepal Industrial Development Corporation and the Agricultural Development Bank extend assistance to investors in industrial and agricultural projects, respectively.

#### Finance

Foreign assistance in forms of grants and loans is the main source of funds for much of the country's capital budget, while the recurrent budget in recent years has been totally self-financed.

#### Insurance

The insurance industry was primarily dominated by a public sector insurance company and some branches of Indian insurance companies until 1990. At present there are 26 insurance companies operating in Nepal of which

9 are life insurance and 16 non-life insurance companies. Of the insurance companies operating in Nepal, there are 6 companies which are established as joint venture companies 3 each in life and non-life respectively.

### 3.1.7 Government Budget at a Glance

The budget for 2009-10 and 2010-11 is presented below:

*NRs in 000*

Expenditure	2009/2010	2010/2011
Current	151,244,706	190,319,495
Capital	89,469,035	129,538,178
Repayment of Principal	18,432,323	18,042,327
<b>Total Expenditure</b>	<b>259,146,064</b>	<b>337,900,000</b>
<b>Revenue</b>		
Tax revenue	156,290,629	188,730,903
Non tax revenue	21,695,912	25,628,517
Loan recovery	1,953,764	2,284,935
<b>Total Revenue</b>	<b>179,940,305</b>	<b>216,644,355</b>
Deficit before foreign assistance	(79,205,759)	(121,255,645)
Foreign grants	37,117,413	65,344,230
Deficit after foreign assistance	(42,088,346)	(55,911,415)
Foreign loan	11,492,699	22,231,415
Internal loan	29,914,000	33,680,000
Increase decrease in cash balance	681,647	

## 3.2 Physical Infrastructure

### 3.2.1 Road Facility

The National Road Network has altogether 24000 km (30 percent blacktop, 27 percent gravel and 43 percent earthen roads) in 2008. The strategic, urban and local roads share 32.5 percent, 13 percent and 54.5 percent respectively in the National Road Network. There are 15 national highways and 51 feeder roads totalling 8000 km

in the Strategic Road Network (SRN). The government plans to increase the length of SRN to 12000 km by the year 2017. Local Road Network (LRN), comprises of district roads, those urban roads not included in SRN, village roads, agriculture roads, mule trails and tracks, trail bridges, ropeway etc.

The comparative Chart of Strategic Road Network length (1998-2006/07)

Year	Description	Length in Km			Total
		Black Top	Gravel road	Earthen road	
1998	9th 5 year plan	2905	1656	179	4740
2000		2974	1649	171	4794
2002	10th 5 year plan	3029	1664	168	4861
2004		3495	883	614	4992
2006-07		4258	2062	3079	9399

The main trade and transit points along the Nepal India border along the Terai emerged as trade routes between Nepal and India with some trade points located in the hills along border in the east and the west. The development

of numerous transit points emerged during different period after 1951. The following are the mutually agreed main trade routes for trade between Nepal and India and transit points for access to sea from Kolkata port.

Distance from Kolkata and Zonal Headquarters of Nepal to Indo-Nepal Transit Points (Prescribed Route as per Nepal-India Transit Treaty)

*Approximate Distance in Km*

Indo-Nepal Transit Points	Distance from Kolkata to Indo-Nepal Transit Point	Distance from Indo-Nepal Transit Point to:				
		Kathmandu	Dhankuta	Pokhara	Surkhet	Dipayal
1. Sukhia Pokhari/ Pashupatinagar	691	649	225	629	945	1153
2. Naxalbari (Panitanki)/ Kakarbhatta	594	619	163	600	915	1093
3. Galgalia/ Bhadrapur	542	616	162	599	914	1124
4. Jogbani/Biratnagar	443	548	94	530	846	1064
5. Bhimnagar/ Setubandha	617	455	144	435	751	959
6. Jayanagar/ Siraha	500	-	-	-	-	-
7. Bhitmore(Sitamarhi,/ Jalesewar	567	396	273	378	693	903
8. Raxaul/ Birgunj	605	298	371	258	573	783
9. Nautanwa/ Bhairahawa	755	279	586	261	350	560
10. Barhni/ Krishnanagar	784	349	651	326	281	551
11. Jarwa/ Koilabas	819	447	749	424	183	393
12. Nepalgunj Road/ Nepalgunj	911	510	816	791	106	316
13. Tikonja/Prithvipur/Sati	1178	591	897	872	187	235
14. Gauri-phanta/ Dhangadi	1123	660	567	642	257	135
15. Banbasa/ Mahendranagar	1359	695	1001	676	291	202

In addition, there are 14 additional trade points along the Indo-Nepal border for bilateral trade.

### 3.2.2 Telecommunication

The telecommunication service has developed at a fair pace in the last couple of years with the entry of the private sector. The operators provide fixed line and mobile cellular services including 3G services over network spread throughout the country.

As per the telecom statistics published by NTA as on 15 December 2010, there are 841,698 users of the fixed

line telephone and the number of subscribers of the cellular mobile services is 9.195 million. In addition, there are 1.902 million data/internet users in the country. Penetration in telephony services subscribership (fixed-line and mobile-cellular telephone service) is 37.95 percent and data/Internet services is 6.78 percent providing ample opportunities to investors to reach out to the remaining population.

### 3.2.3 Air Services

There are altogether 54 airports in the country including, 1 international airport, 5 regional hub airports (Nepalgunj, Biratnagar, Bhairahawa, Pokhara and Dhangadi), 43 other domestic airports with 5 airports that are under construction (Kalikot, Kamal Bazar, Masinechaur, Shitleshola and Simichaur). Of these, air services are operated at 34 airports.

Nepal has signed Bilateral Air Service Agreements (ASA) with 35 countries including India. Kathmandu is connected with New Delhi, Mumbai, Kolkata, Varanasi and Lucknow by air. In addition, Kathmandu is also connected with Dhaka, Karachi, Bangkok, Singapore, Shanghai, Doha, Abu Dhabi and Muscat.

### 3.2.4 Railways

Nepal has only 59 kilo metres of narrow gauge railway at present but there are projects that would increase the railway services within Nepal and to India in the near future. India and Nepal signed a rail service agreement

in May 2004, to extend cargo train service to the inland container depot (ICD) at Birgunj in Nepal. The ICD became operational from July 16, 2004.

### 3.2.5 Social Infrastructure

Nepal has a population of 28,951,852 (July 2010 est.) with a growth rate 1.419 percent. The population between the age group of 15-64 years constitutes 59.2 percent of the population comprising of 8,094,494 male and 8,812,675 female. The population in the age group of 0-14 years constitutes 36.6 percent of the population and the balance over 64 years.

The annual growth rate of urbanization is 4.9 percent and as per the 2008 estimates, 17 percent of the population

lives in urban areas. The life expectancy of the total population is 65.81 years. The literacy rate for Nepal is 48 percent of which the literacy among the male population is 62.7 percent and female is 34.9 percent. The expenditure spent on education as per 2008 estimates is 3.8 percent of the GDP.

The unemployment rate in Nepal is 46 percent based on 2008 estimates and the population below the poverty line as per 2008 estimates is 24.7 percent.

## 3.3 Trade

Until the 1970s, more than 90 percent of the foreign trade was with India. The policy of trade diversification pursued by the GoN during the 1970s led to a significant shift in Nepal's trade direction. As a result, India's share in Nepal's foreign trade declined from 82.2 percent in

FY1974-75 to 28 percent in FY1994-95. It is currently 68 percent of the total foreign trade.

The GoN has taken a variety of initiatives to reduce its intervention in the economy and to encourage exports.



Trade liberalization, foreign exchange and banking-sector deregulation, and privatization have been the major planks of economic liberalization. Nepal's average import-tariff rates are the lowest in the South Asian region. Nepal's trade with overseas countries is also on the rise. Full convertibility of the Nepalese currency in the current

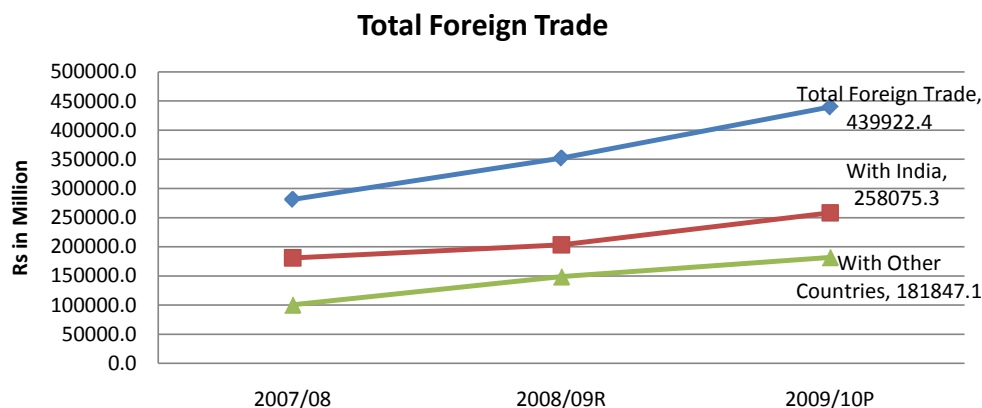
account, provision for maintaining the foreign exchange account for earnings from exports, time-bound duty refund scheme on exports and de-licensing of imports are the key factors contributing to the diversification of Nepal's foreign trade.

### 3.3.1 Direction of Foreign Trade

Imports have risen fast from US\$1.6 billion (26 percent of GDP) in FY 2000-01 to US \$5.2 billion (30 percent of GDP) in FY2009-10 – largely due to thriving consumption made possible by remittances. Exports have remained under US \$1 billion, and as a share of GDP, have continuously declined from 13 percent to 7 percent. Exports of readymade garments, carpets and Pashmina – the erstwhile main exports have declined. Official remittances

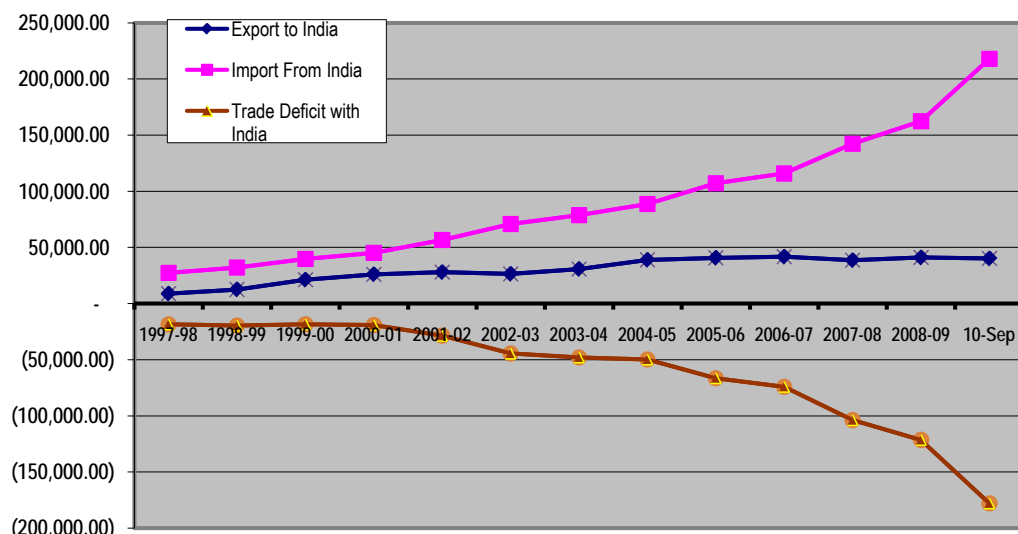
informal channels. Fueled by high remittances, monetary growth has been high in the last two years.

India has a major role in the Nepalese imports and exports. India-Nepal Trade Treaty signed in October 2009 is expected to boost the Nepalese trade to newer horizons. Providing Indian currency with US \$ equivalent status in bilateral transactions has freed the bilateral trade from DRP hassles.



rose from about 13.8 percent of GDP in FY 2006-07 to 22 percent of GDP in FY 2008-09. This is less than the total amount as it does not account for inflows from India and

India is Nepal's biggest trading partner accounting for 58 percent of Nepal's merchandise trade and one-third of trade in services.

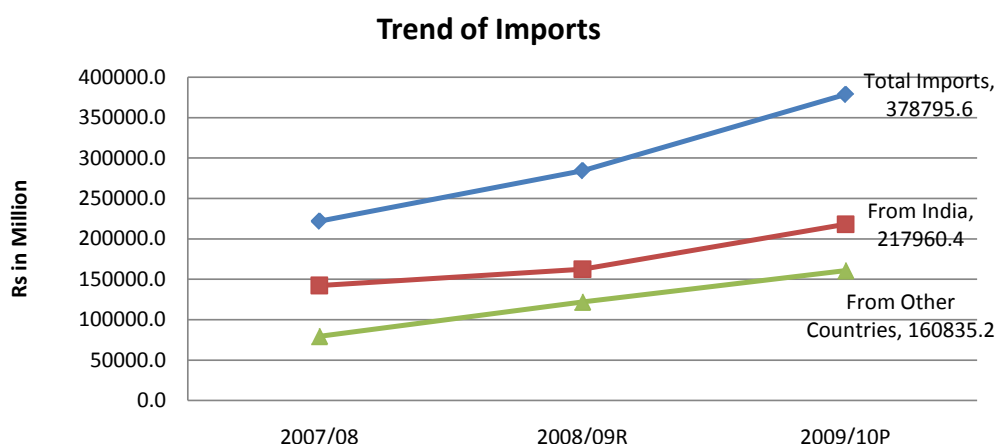


### 3.3.2 Imports

Over the years, Nepalese imports have increased substantially and undergone major structural changes. Capital goods, industrial raw materials and consumer goods are the major import items.

Total imports in the period mid-July 2009 to mid-March 2010 grew by 43.9 percent touching NRs 253.74 billion as compared to 26.3 percent growth in the corresponding period of the previous year. Of the total imports, the share of India shrunk slightly from the previous year's 56.3 percent to 54.2 percent while that of other countries grew from 43.7 percent to 45.8 percent during this period. In US Dollar term, growth of imports, which stood at 6.6 percent in the previous fiscal year, grew by 45.4 percent this year.

Imports from India recorded an increase of 38.5 percent in the period mid-July 2009 to mid-March 2010 reaching NRs 137.41 billion (NRs 116.33 billion from countries other than India). Imports had recorded a normal growth of 12.1 percent in the same period of the previous year. Total value of goods imported from India through payments of convertible foreign currency during the above period reached NRs 18.26 billion with a recorded growth of 40 percent. Analysis of group-wise structure of imports of primary and manufactured items from India remains at 36.9 percent and 63.1 percent respectively in the above period while they stood at 42.2 percent and 57.8 percent respectively in the same period of the previous year.

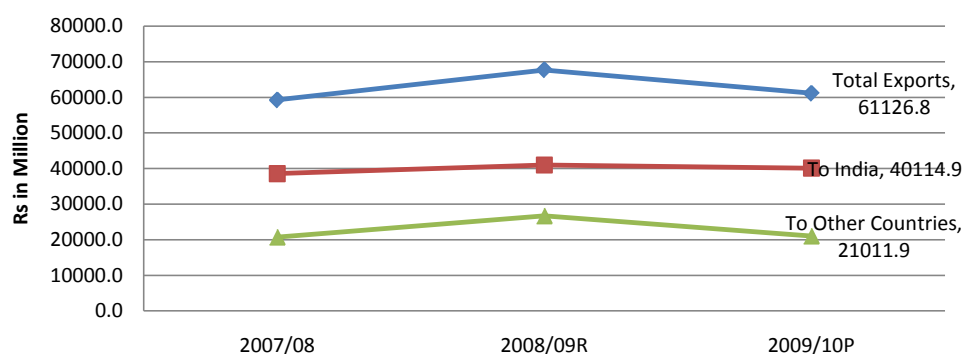


### 3.3.3 Exports

Total exports that rose by 16.2 percent during the first eight months of FY2008-09 fell by 8 percent totaling NRs 40.41 billion in the same period of FY2009-10. Overall export (India and other countries) did not grow notably in the review period with just a nominal increase seen in export to India (by 3.4 percent) from 60.9 percent to 64.3 percent. Ratio of export to import that stood at 24.9 percent in the review period of the previous fiscal year decreased to 15.9 percent in the corresponding period of this year due to significant rise in imports and steep fall in exports. In S Dollar terms, total export fell by 7.1 percent as compared to 1.9 percent decrease in the previous year. Such a shrink in export receipts (in terms of US Dollar) is also due to 7.8 percent appreciation of Nepalese currency vis-a-vis US Dollar between mid-July 2009 and mid-March 2010.

Exports to India, which had grown by 3.7 percent during first eight months of the previous fiscal year shrunk to NRs 25.96 billion during the same period of this year with a decrease of 2.9 percent. During this period, export of items like Polyester yarn, jute bags, jute cutting, textile, M.S. Pipe, herbs, oil cakes, Chyawanprash, Hajmola, Pashmina, and copper wire rods have increased while exports that of vegetable ghee, lentils, yarn, tooth paste, G. I. Pipe, noodles have decreased. Observation of the group-wise structure of commodity exports to India reveals that proportion of primary and manufactured goods in first eight months of the previous fiscal year stood at 30.0 and 70.0 respectively remains at 27.5 percent and 72.5 percent in the corresponding period of this fiscal year.

Trend of Exports

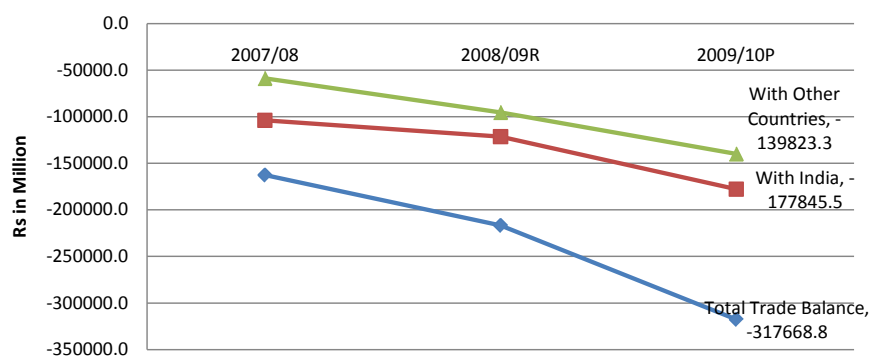


### 3.3.4 Trade Balance

Exports during the first eight months of the fiscal year 2009-10 dropped significantly while imports surged notably. Besides, total trade deficit expanded by almost double to 61.2 percent totalling NRs 213.33 billion due to broader base of imports. Trade deficit with India in the above period totalled NRs 111.44 billion with increase

of 53.8 percent while such deficit with other countries totalled NRs 101.89 billion with deficit growth of 70.1 percent. Such deficit with India had increased by 15.6 percent while that with other countries had increased by 53.4 percent in the same period of the previous year.

Total Trade Balance



### 3.3.5 Balance of Payments

In addition to a growing trade deficit, Nepal posted a balance of payments (BoP) deficit of US\$ 36 million for the first time in 2009-2010. In aggregate the balance of payments used to remain surplus in the past with

comfortable foreign exchange reserve, situation has reversed with negative balance of payments and decrease in the level of foreign exchange reserve also.

### 3.3.6 Foreign Exchange Reserves

The total foreign exchange reserves of the banking sector has declined by 15.6 percent between July 2009 and March 2010 and contained to NRs 236.34 billion against the rise of 27.4 percent in the corresponding period of the previous year. Foreign liabilities during the same period, however, decreased by 7.5 percent totalling NRs 55.01

billion, against the notable growth of 30.9 percent during the corresponding period of the previous year. In this way, the net foreign assets, which grew by 27.4 percent in the first eight months of the previous fiscal year has decreased by 15.1 percent to NRs 187.67 billion.

## 4. Industry

Industry is undeniably the foundation of sustainable economic development and self-dependent economy. Realizing this fact, the new revised Industrial Policy 2010 has been formulated and implemented. Aiming at creating industry-friendly and conducive investment

environment for native and foreigners; raising industrial production and productivity; creating more employment opportunity; and, facilitating import replacement and export promotion etc.

### 4.1 Production of Manufactured Commodities

S.N.	Code No.	Major Industry Group	Units	2003/04	2004/05	2005/06	2006/07	007/08	2008/09	2009/10*
<b>1</b>	<b>311-312</b>	<b>Food manufacturing</b>								
	42.30	I Noodles	M.T.	9460	29369	32334	35567	37034	40669	42000
	48.42	II Biscuits	M.T.	9590	6157					
	54.50	III Squash	Th. Litre	2612	28905	30350	31867	33580	36894	38794
	61.20	IV Sugar	M.T.	96174	94436	98461	103384	108682	180650	190650
	74.11	V Tea	M.T.	11397	11475	11589	12168	12703	15506	16000
	91.40	VII Vegetable Ghee	M.T.	72051	199587	179239	188200	194319		
<b>2</b>	<b>313</b>	<b>Beverage industries</b>								
	111.02	I Soft Drinks	Th. Litre	32472	46283	-	-	-	-	-
	112.30	II Beer	Th. Litre	24977	30663	-	-	-	-	-
	112.40	III Liquor	Th. Litre	4437	8947	9039	9490	10089	11907	12000
<b>3</b>	<b>314</b>	<b>Tobacco manufacturing</b>								
	122.20	I Cigarette	Mil. Sticks	7268	9418	949.3	996.7	1070.9	12007	13100
<b>4</b>	<b>321</b>	<b>Manufacture of textiles</b>								
	653.50	II Synthetic Clothes	Th. Metre	31239	11794	-	-	-	-	-
		III Jute Goods	M.T.	35699	32780	-	-	-	-	-
<b>5</b>	<b>323</b>	<b>Leather &amp; leather products</b>								
	611.20	I Processed Leather	Th. Sq Ft.	3076		-	-	-	-	-
<b>6</b>	<b>324</b>	<b>Footwear manufacturing</b>								
	851	I Shoes	Th. Pairs	865	1416	2037	2138	2295	2515	2590
<b>7</b>	<b>331</b>	<b>Wood &amp; wood products</b>								
	634.20	I Plywood	Th. Sq Ft.	545	603	679	712	753	809	909
		II Straw Board	M.T.	1186	813	829	870	907	803	905
<b>8</b>	<b>341</b>	<b>Paper &amp; paper products</b>								
	641.90	I Paper	M. T.	42835	28958	29904	31399	32905	0	0
<b>9</b>	<b>352</b>	<b>Manufacture of other chemical product</b>								
	554.10	I Soap	M. T.	53805	44267	44821	47062	49092	51092	52000
	554.30	II Detergent Powder	M. T.	6195	3301	3331	3497	3705	3800	4305
	99.32	III Matches	Th. Gross	2053	1598	-	-	-	-	-

<b>10</b>	<b>355</b>	<b>Manufacture of Rubber Products</b>								
	851.01	I Slipper	Th Pairs	4707						
<b>11</b>	<b>356</b>	<b>Manufacture of Plastic Products</b>								
	581	Plastic Goods	M.T.	1500	6179	6017	6317	6494	65004	66100
	611.20	I Processed Leather	Th. Sq Ft.	3076		-	-	-	-	-
<b>12</b>	<b>369</b>	<b>Other Non Metallic Mineral Products</b>								
	661.2	I Cement,	M.T.	279412	610044	613643	644325	71132	71000	72100
	662.41	II Bricks & Tiles (Govt Sector)	Th Piece	29967						
<b>13</b>	<b>371</b>	<b>Manufacture of Cutlery, Hand Tools Except</b>								
	673	I Iron Rod Angles etc.	M.T.	169310	166451					
<b>14</b>	<b>381</b>	<b>Manufacture of Cutlery, Hand Tools Except</b>								
	697.21	I Steel Utensils	M.T.	88	89					
<b>15</b>	<b>383</b>	<b>Manufacture of Electricals, Industrial</b>								
	723.1	I Wires / Cables		25578	24977	24924	26170	28004	28005	29001
		a.GI / HB Wires	MT	14138	14638	14659	15391	15907	16000	17205
	729.11	II Dry Cell Battery	Th Nos.	51803	54047					
	112.40	III Liquor	Th. Litre	4437	8947	9039	9490	10089	11907	12000
	729.11	II Dry Cell Battery	Th Nos.	51803	54047					
	122.20	I Cigarette	Mil. Sticks	7268	9418	949.3	996.7	1070.9	12007	13100
	581	Plastic Goods	M.T.	1500	6179	6017	6317	6494	65004	66100

## 4.2 Annual Manufacturing Production Index

The annual manufacturing production index (AMPI), a major indicator of the country's industrial output has increased by 0.13 percent over the last FY 2008-09. The manufacturing of apparel, the manufacture of casting of metal, and the manufacture of other textile has declined by 12.05 percent, 0.04 percent and 9.85 percent during the FY 2008-09. The manufacture of plastic product, the manufacture of grain mill product and the manufacture of beverage has increased by 10.69 percent, 8.09 percent and 7.75 percent during the fiscal year 2008-09.

At commodity level soft drink, noodles, beer, rice and animal feed are registered to have increased by about 17.56 percent, 10.27 percent, 9.85 percent 8.37 percent and 8.33 percent respectively. However, the production of the readymade garment, woolen carpet, vegetable ghee, and jute goods have been estimated to have downfall of about 12.05 percent, 11.73 percent and 10.26 percent and 7.10 percent respectively during the comparison period.



**CENTRAL BUREAU OF STATISTICS**  
**Annual Manufacturing Production Index**  
**(2003/04=100)**

ISIC	CPC	Description	Weight *	2060/61 (2003/2004)	2061/62 (2004/2005)	2062/63 (2005/2006)	2063/64 (2006/2007)	2064/65 (2007/2008)	2065/66 (2008/2009)	%change 2065/66 over 2064/65
<b>151-155</b>		<b>Overall Index of Manufacturing Production</b>	<b>100.00</b>	<b>100.00</b>	<b>102.65</b>	<b>104.74</b>	<b>107.43</b>	<b>106.42</b>	<b>106.55</b>	<b>0.13</b>
151		<b>Manufacture of Vegetable Oils &amp; Fats</b>	<b>15.78</b>	<b>100.00</b>	<b>107.01</b>	<b>108.73</b>	<b>108.42</b>	<b>93.11</b>	<b>88.91</b>	<b>-4.52</b>
	2160	Vegetable ghee	10.08	100.00	108.82	111.94	104.70	80.99	72.69	-10.26
	2163	Mustard oil	1.95	100.00	97.71	93.04	103.96	100.71	101.05	0.33
	2165	Soyabean oil	3.74	100.00	107.29	108.57	121.06	122.06	126.53	3.67
152		<b>Manufacture of dairy products</b>	<b>2.77</b>	<b>100.00</b>	<b>103.43</b>	<b>105.04</b>	<b>107.41</b>	<b>108.52</b>	<b>107.34</b>	<b>-1.08</b>
	2211	Processed Milk	2.77	100.00	103.43	105.04	107.41	108.52	107.34	-1.09
153		<b>Manufacture of grain mill products, Prepared animal feeds</b>	<b>8.16</b>	<b>100.00</b>	<b>105.22</b>	<b>106.46</b>	<b>114.99</b>	<b>119.00</b>	<b>128.62</b>	<b>8.09</b>
	2316	Rice	4.33	100.00	106.23	104.83	111.75	116.73	126.49	8.37
	2311	Wheat flour	2.19	100.00	106.01	108.44	111.49	114.89	123.29	7.31
	2331	Animal feed	1.63	100.00	102.10	108.77	129.00	131.29	142.23	8.33
154		<b>Manufacture of other food products</b>	<b>7.93</b>	<b>100.00</b>	<b>105.38</b>	<b>110.21</b>	<b>118.17</b>	<b>125.02</b>	<b>133.21</b>	<b>6.55</b>
	2342	Biscuit	1.04	100.00	108.11	112.25	116.47	123.86	129.50	4.56
	2353	Sugar	2.92	100.00	103.93	106.21	118.26	123.89	131.42	6.08
	2372	Noodles	2.72	100.00	105.36	112.43	117.75	122.79	135.40	10.27
	2391	Processed tea	1.25	100.00	106.54	113.04	120.27	133.46	135.67	1.65
155		<b>Manufacture of beverages</b>	<b>6.59</b>	<b>100.00</b>	<b>102.49</b>	<b>106.91</b>	<b>118.62</b>	<b>123.65</b>	<b>133.23</b>	<b>7.75</b>
	2412	Liquor rectified	2.39	100.00	99.62	105.18	117.21	120.61	120.34	-0.22
	2431	Beer	2.92	100.00	104.68	108.18	122.04	127.38	139.93	9.85
	2449	Soft drink	1.28	100.00	102.86	107.23	113.43	120.81	142.02	17.56
160		<b>Manufacture of tobacco products</b>	<b>6.53</b>	<b>100.00</b>	<b>100.46</b>	<b>99.68</b>	<b>102.73</b>	<b>105.46</b>	<b>110.35</b>	<b>4.63</b>
	2501	Cigarette	6.53	100.00	100.46	99.68	102.73	105.46	110.35	4.63
171		<b>Manufacture of textiles</b>	<b>5.2</b>	<b>100.00</b>	<b>105.89</b>	<b>111.82</b>	<b>121.05</b>	<b>121.45</b>	<b>118.47</b>	<b>-2.45</b>
	2621	Yarn	3.18	100.00	108.27	118.08	130.85	131.43	125.63	-4.41
	2669	Cotton clothes	1.27	100.00	103.70	103.40	107.60	106.13	106.53	0.38
	2671	Synthetic clothes	0.75	100.00	99.49	99.55	102.30	105.05	108.32	3.11
172		<b>Manufacture of other Textiles</b>	<b>6.59</b>	<b>100.00</b>	<b>106.34</b>	<b>108.74</b>	<b>101.90</b>	<b>99.74</b>	<b>89.91</b>	<b>-9.85</b>
	2721	Woolen carpet	4.32	100.00	105.67	106.89	96.64	90.22	79.64	-11.73
	2617	Jute goods	2.27	100.00	107.62	112.25	111.92	117.84	109.47	-7.10
173		<b>Manufacture of knitted and crocheted fabrics</b>	<b>1.18</b>	<b>100.00</b>	<b>100.72</b>	<b>97.13</b>	<b>88.21</b>	<b>90.44</b>	<b>95.74</b>	<b>5.86</b>
	2819	Pashmina	1.18	100.00	100.72	97.13	88.21	90.44	95.74	5.86
181		<b>Manufacture of wearing apparel</b>	<b>7.14</b>	<b>100.00</b>	<b>80.42</b>	<b>68.13</b>	<b>59.43</b>	<b>50.54</b>	<b>44.44</b>	<b>-12.05</b>
	2825	Garment	7.14	100.00	80.42	68.13	59.43	50.54	44.44	-12.05
191		<b>Manufacture of tanning and dressing of leather</b>	<b>0.92</b>	<b>100.00</b>	<b>106.04</b>	<b>110.99</b>	<b>121.02</b>	<b>122.06</b>	<b>124.16</b>	<b>1.72</b>
	2912	Processed leather	0.92	100.00	106.04	110.99	121.02	122.06	124.16	1.72
201		<b>Manufacture of saw milling and planing of wood</b>	<b>0.95</b>	<b>100.00</b>	<b>102.49</b>	<b>98.99</b>	<b>101.86</b>	<b>104.20</b>	<b>110.37</b>	<b>5.92</b>
	3110	Wood sawn	0.95	100.00	102.49	98.99	101.86	104.20	110.37	5.92
210		<b>Manufacture of paper &amp; paper products</b>	<b>1.42</b>	<b>100.00</b>	<b>105.44</b>	<b>105.88</b>	<b>110.60</b>	<b>112.21</b>	<b>114.04</b>	<b>1.63</b>
	3214	Paper excluding newsprint	1.42	100.00	105.44	105.88	110.60	112.21	114.04	1.63
221		<b>Publishing Printing and reproducing of recorded Media</b>	<b>1.58</b>	<b>100.00</b>	<b>103.29</b>	<b>105.74</b>	<b>106.10</b>	<b>109.43</b>	<b>116.49</b>	<b>6.45</b>
	3230	Newspaper	1.58	100.00	103.29	105.74	106.10	109.43	116.49	6.45
242		<b>Manufacture of other chemical products</b>	<b>10.34</b>	<b>100.00</b>	<b>105.02</b>	<b>111.68</b>	<b>122.52</b>	<b>126.50</b>	<b>121.58</b>	<b>-3.89</b>
	3529	Medicine	7.01	100.00	104.43	108.90	120.29	125.17	118.64	-5.22
	3532	Soap	3.33	100.00	106.26	117.53	127.22	129.29	127.77	-1.18
252		<b>Manufacture of plastic product</b>	<b>4.75</b>	<b>100.00</b>	<b>101.23</b>	<b>103.32</b>	<b>96.15</b>	<b>87.75</b>	<b>97.13</b>	<b>10.69</b>
	3641	plastic product	4.75	100.00	101.23	103.32	96.15	87.75	97.13	10.69
269		<b>Manufacture of non Metallic mineral products n.e.c</b>	<b>5.34</b>	<b>100.00</b>	<b>102.58</b>	<b>107.68</b>	<b>104.09</b>	<b>103.54</b>	<b>96.54</b>	<b>-6.76</b>
	3735	Bricks	2.42	100.00	104.18	107.46	95.58	101.67	104.29	2.57
	3744	Cement	2.92	100.00	101.26	107.87	111.14	105.09	90.12	-14.25
271		<b>Manufacture of other fabricated metal product</b>	<b>3.7</b>	<b>100.00</b>	<b>101.29</b>	<b>109.81</b>	<b>118.48</b>	<b>137.33</b>	<b>138.36</b>	<b>0.75</b>
	4124	Iron rod & billets	3.7	100.00	101.29	109.81	118.48	137.33	138.36	0.75
273		<b>Manufacture of casting of metal</b>	<b>1.45</b>	<b>100.00</b>	<b>102.30</b>	<b>101.61</b>	<b>99.54</b>	<b>95.01</b>	<b>85.47</b>	<b>-10.04</b>
	4291	Domestic metal product	1.45	100.00	102.30	101.61	99.54	95.01	85.47	-10.04
313		<b>Manufacture of electric machinery apparatus</b>								
313		<b>Manufacture of wire &amp; cable</b>	<b>1.68</b>	<b>100.00</b>	<b>103.62</b>	<b>108.56</b>	<b>108.51</b>	<b>108.48</b>	<b>105.20</b>	<b>-3.02</b>
	4651	Electrical wire & cable	1.68	100.00	103.62	108.56	108.51	108.48	105.20	-3.02

**\*Weights are based on Census of Manufacturing Establishments(CME) 2001/2002  
preliminary data**

**\*\***

## 4.3 Capacity Utilization of Selected Industries

Analyses of some selected industries in terms of their capacity utilization, sugar, matchstick and jute industries shows decline in their production in FY 2008-09 as compared to 2007-08. Meanwhile, there is an increase in the production capacity of shoes, cigarette, beer and

cement. Out of the total production capacity, cigarette and beer industry have utilized their capacity by 91 and 78 percent respectively whereas sugar and cement industries have utilized 31 and 45 percent respectively.

S.N.	Description	Financial Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
1	Sugar	42	32	34	33	31
2	Cigarettes	87	87	88	90	91
3	Beer	68	72	74	75	78
4	Matches	64	64	64	60	58
5	Shoes	45	64	65	65	70
6	Cement	49	39	42	43	45
7	Jute Products	68	72	72	68	66

Source: Department of Industries

## 4.4 Industrial Factor Costs

The detail of Industrial Factor Costs is given in Appendix 16.

## 4.5 Privatization in Nepal

Privatization began in the late 1980s in Nepal, but gained momentum since the early 1990s when the democratically elected government came to power after the restoration of multiparty democracy.

As each privatization offers a unique set of opportunities for investors, employees and government alike, so the method of privatization often varies. However most involve privatization by inviting bids, normally offering all or a large controlling share of the enterprises to the investors. Once a state-owned enterprise is approved for

privatization, the Privatization Cell undertakes a thorough investigation and analysis of its operations employing services of domestic and expatriate consultants with top level expertise in each relevant sector. That information lets the Privatization Cell, its advisors and ultimately the Council of Ministers decides what mode of privatization could be the best. Approximately 23 small and medium-sized enterprises have been privatized since the programme began in late 1980s which includes the dissolution and liquidation.

### 4.5.1 Partnership for privatization

Privatization policies are set by the government based on recommendations from the high ranking Privatization Committee comprised of the Finance Minister as Chairman, parliamentarians and senior civil servants. The Privatization

Cell in the Ministry of Finance functions as a secretariat to the Privatization Committee. The cell is presently manned by top level civil servants with considerable expertise in a broad range of sectors and issues.

## ASIAN PAINTS (NEPAL) PVT. LTD.

Asian Paints (Nepal) Pvt. Ltd. started its operation in 1985 in Nepal. The close cultural affinity between India & Nepal has made doing business a unique experience. It is a subsidiary company of Asian Paints Ltd in India having multinational operations in 21 countries across the globe. It is the largest paint company in Nepal with more than 37% of the total market share with an annual turnover of above NRs 100 crores.

Asian Paints has been able to establish clear leadership in Nepal. It leverages its worldwide experience to deliver products of International quality & range to the consumers. Asian Paints manufactures the complete range of decorative, wood finishes and industrial coatings. The company has also set up over 450 Colour Worlds to offer wide range of shades to the consumers across Market.

The manufacturing facility is located at Hetauda Industrial (HID) estate and has a capacity to manufacture over 8000 KL of paints annually.

It is the only paint company in Nepal with the ISO-9001 Certification for Quality systems & ISO-14001 Certification for environment protection. The major products of Asian Paints are certified by the Nepal Bureau of Standards.

Asian Paints as the most environment conscious paint company in Nepal has ensured that it does not use or add any raw materials having Lead, Mercury, Arsenic or Chromium in any of the decorative products.

Safety of employees, surroundings & protection of environment is an integral part of Asian Paints management policy. Safety week celebration, environment day celebrations etc are carried out in the factory at regular intervals with adequate training programmes on safety, health and hygiene. Trees are planted to mark special occasions and on World Environment day. As a part of our strategy to protect the flora & fauna we have installed a state of the art effluent treatment plant which treats the industrial effluent generated in the factory before sending the same to common effluent treatment plant of HID.

Employees are regularly trained on First aid and other casualty treatment techniques creating a task force for quick response to mishaps.

Asian Paints is known for its CSR initiatives including donating Paints to various INGOs and Orphanages



### 4.5.2 Statistics of privatization in Nepal

Method of Privatization	No of Units	Sales Proceeds (NRs. '000)
Asset and business sale	3	474,484
Share Sale	10	2,493,674
Lease	1	-
Liquidation	7	-
Dissolution	2	-
Total Units Privatized	23	2,968,158

Source: MoF, Privatization Cell

## 5. Foreign Investment

Foreign investment and technology transfer is essential to make the economy strong and consolidated, dynamic and competitive, oriented to self-dependency with maximum utilization of natural and human resources. Realizing this fact, Foreign Investment and Technology Transfer Policy is waiting for the final approval. The proposed policy has emphasized flow of foreign investment by bringing

procedural simplification in technology transfer in order to be competitive in World Market for utilizing the comparative advantage of the private sector. Accordingly, a Bilateral Investment Promotion and Protection Agreement has been initialled with India to promote Indian Investment in Nepal, while preparation is being made to conclude such agreements with other countries.

### 5.1 Foreign Investment Projects in Nepal

Foreign direct investment approvals in Nepal as of 16 July 2010 stands at NRs 57,998 million from 1898 joint venture projects. The largest contributor to Nepal's foreign direct investment is India with approved investments of NRs 25,381 million in 462 projects. China comes second with a total approved investment of NRs 5,849 million

in 332 projects and United States of America is third with a total approved investment of NRs 4,875 million in 166 projects. The employment generated from these investments stand at 144,513, with contributions from India, China and United States of America at 53,101, 20,259 and 12,034, respectively.

### 5.1.1 Country-wise

Summary of approved foreign direct investments in Nepal by country as of 16 July 2010 is tabulated below:

*NRs in Million*

S.N.	Country	No. of Projects	Authorized Capital	Fixed Capital	Foreign Investment	Employment
1	INDIA	462	56,746.00	44,561.08	25,381.45	53,101
2	CHINA	332	12,327.54	9,968.39	5,848.77	20,259
3	USA	166	13,798.16	12,481.46	4,874.50	12,034
4	JAPAN	146	3,153.87	2,681.43	1,140.49	6,450
5	SOUTH KOREA	131	8,267.01	7,779.21	4,245.34	5,863
6	UK	94	4,586.08	4,076.05	1,479.04	7,609
7	GERMANY	75	2,331.81	2,096.25	898.82	3,759
8	FRANCE	43	552.85	460.67	271.30	1,829
9	NETHERLAND	32	1,219.01	1,019.54	526.12	2,584
10	SWITZERLAND	30	724.48	657.35	324.85	605
11	AUSTRALIA	29	425.51	365.51	356.82	826
12	BANGLADESH	23	505.35	251.80	254.86	4,033
13	CANADA	21	5,048.37	4,866.28	2,133.04	1,795
14	SINGAPORE	21	2,372.32	2,283.34	961.39	1,687
15	DENMARK	18	640.69	559.66	144.36	846
16	ITALY	18	1,421.19	1,298.45	263.01	494
17	HONGKONG	18	1,813.54	1,414.34	692.84	2,554
18	RUSSIA	17	209.80	154.19	103.28	648
19	OTHERS	222	26,685.49	22,764.26	8,097.40	17,537
20	<b>Total</b>	<b>1898</b>	<b>142,829.07</b>	<b>119,739.26</b>	<b>57,997.68</b>	<b>144,513</b>

Source: Department of Industries

### 5.1.2 Sector-wise

Summary of foreign direct investments in different types of industries up to 16 July 2010, by project cost, approved foreign investment in value and employment generated is tabulated below:

*NRs in Million*

Types of Industries	No. of Projects	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
Manufacturing	673	48,342.17	35,220.04	19,459.95	75,097
Service	561	24,931.98	20,435.16	12,054.24	28,540
Tourism	514	19,208.25	18,054.33	7,216.02	23,292
Construction	41	3,455.34	2,563.1	2,612.81	2,926
Energy based	41	40,641.24	38,643.02	13,291.77	7,370
Agriculture	37	1,201.05	702.58	526.18	2,160
Mineral	31	5,049.02	4,121.00	2,836.7	5,128
<b>Total</b>	<b>1898</b>	<b>142,829.05</b>	<b>119,739.23</b>	<b>57,997.67</b>	<b>144,513</b>

Source: Department of Industries

The following table depicts the foreign direct investment approved in different types of industries in the financial year 2009-10:

NRs in Million

Types of Industry	No. of Projects	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
Service	72	976.05	760.37	906.11	3205
Tourism	50	1,035.17	929.39	717.53	1537
Manufacturing	37	3,751.50	3,420.93	2,605.35	1994
Energy Based	5	9,961.05	9,765.15	4,747.00	493
Mineral	4	100.00	87.85	94.00	514
Agriculture	2	10.00	8.60	10.00	69
Construction	1	20.00	15.70	20.00	36
<b>Total</b>	<b>171</b>	<b>15,853.77</b>	<b>14,987.99</b>	<b>9,099.99</b>	<b>7,848</b>

Source: Department of Industries

## 5.2 Contribution of Indian Investment

### 5.2.1 Indian Investments in Nepal

Indian companies have made a significant contribution to the Nepalese economy through export to India, import substitution, employment generation and contribution of revenue to the Nepalese exchequer. The total approved direct foreign investments from Indian companies as of 16

July are NRs 25,381 million. The employment generated by these companies has reached to 53,101 as of 16 July 2010. The total number of joint venture companies where Indian companies have invested stands at 462 as of 16 July 2010.

NRs in Million

Fiscal Year	No. of Projects	Authorized Capital	Fixed Capital	Foreign Investment	Employment
Prior to 2006-07	338	34,540.00	26,610.50	12,297.08	44,126
2006-07	26	2,202.62	1,725.80	2,037.93	1,880
2007-08	37	8,116.73	5,927.16	4,553.21	3,155
2008-09	34	4,096.47	2,925.57	2,499.69	2,105
2009-10	27	7,789.53	7,372.05	3,993.54	1,835
<b>Total</b>	<b>462</b>	<b>56,745.35</b>	<b>44,561.08</b>	<b>25,381.45</b>	<b>53,101</b>

Source: Department of Industries

Approved Foreign investments from India in different sectors as of 16 July 2010 are as follows:

Types of Industries	No of Projects	Total Project Cost	Total Fixed Cost	Foreign Investment	Employment
Agriculture	5	684.61	261.56	308.51	658
Construction	17	2,246.19	1,614.33	1,876.32	830
Energy based	10	6,836.00	8,535.31	4,388.55	869
Manufacturing	281	23,663.51	16,185.19	8,961.56	34,197
Mineral	4	4,417.02	3,577.50	2,215.70	1,358
Service	99	12,184.53	9,905.41	6,324.48	11,219
Tourism	49	4,814.15	4,481.78	1,306.33	3,970
<b>Total</b>	<b>462</b>	<b>54,846.00</b>	<b>44,561.08</b>	<b>25,381.45</b>	<b>53,101</b>

The status of the approved direct investments from India as of 16 July 2010 is as follows:

*NRs in Million*

Status of Projects	No of Projects	Total Project Cost	Total Fixed Capital	Foreign Investment	Employment
Operational	118	16,644.97	13,468.21	3,632.17	19,516
Under Construction	76	13,904.84	13,537.92	7,312.33	6,396
Licensed	39	4,210.86	2,787.77	1,384.71	4,648
Approved	189	17,479.31	12,759.77	12,358.18	18,164
Closed	6	239.12	178.74	52.94	582
Cancelled	34	2,366.90	1,828.68	641.12	37,495
<b>Total</b>	<b>462</b>	<b>54,846.00</b>	<b>44,561.08</b>	<b>25,381.45</b>	<b>53,101</b>

## 5.3 Projects Suitable for Foreign Investment

### 5.3.1 Agriculture & agro based

- |                                                                                                                                                             |                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| a. Cultivation of Vegetables-tomato, egg plant, broccoli, cabbage, lettuce, okra, sweet pepper, carrot, greenchillies, cauliflower, snow peas, french beans | j. Cultivation and processing of herbs              |
| b. Cultivation and processing of vegetables                                                                                                                 | k. Cultivation & processing of soya                 |
| c. Cultivation of Mushroom Exports-fresh, dried & canned.                                                                                                   | l. Development of tea industry                      |
| d. Cultivation of flowers- roses, carnation, orchid chrysanthemum                                                                                           | m. Cultivation of sugarcane and processing sugar    |
| e. Ornamental plants                                                                                                                                        | n. Cultivation and processing, fresh & dried ginger |
| f. Cultivation of fruits- grapes, apricots, peaches, mango, avocado, litchi, orange                                                                         | o. Cultivation and processing of garlic             |
| g. Cultivation and processing of fruits- dried mango, dried apple, jams, jelly, squash                                                                      | p. Integrated livestock industry                    |
| h. Production of flowering seeds                                                                                                                            | q. Integrated dairy development                     |
| i. Production of vegetable seeds                                                                                                                            | r. Production of skimmed milk powder                |
|                                                                                                                                                             | s. Baby food and nutritious food                    |
|                                                                                                                                                             | t. Animal feed                                      |
|                                                                                                                                                             | u. Aquaculture                                      |
|                                                                                                                                                             | v. Tomato processing                                |
|                                                                                                                                                             | w. Oil seed processing and oil extraction           |
|                                                                                                                                                             | x. Coffee Cultivation and Processing                |

### 5.3.2 Textile & Apparel Industry

- |                                          |                                    |
|------------------------------------------|------------------------------------|
| a. Integrated textile mill.              | h. Readymade garments              |
| b. Textile processing-dyeing & finishing | i. Spinning mill                   |
| c. Woollen Knitwear                      | j. Grey cloth                      |
| d. Acrylic & polyester fabrics           | k. Leather shoes                   |
| e. Dhoti and saree                       | l. Canvas shoes                    |
| f. Terry towels                          | m. Sericulture and silk production |
| g. Bed linen                             | n. Hand knitted sweaters           |



### 5.3.3 Manufacturing Industry

- |                                               |                                                          |
|-----------------------------------------------|----------------------------------------------------------|
| a. Light engineering industries               | v. Assembly of electronic components                     |
| b. Electric arc furnace                       | w. Manufacture of dry cell battery                       |
| c. Leather products                           | x. Manufacture of starch, glucose and fructose syrup     |
| d. Pharmaceutical products                    | y. Cane furniture industry                               |
| e. Ceramics                                   | z. Speciality paper                                      |
| f. Writing, printing and news print paper     | aa. Video cassette industry                              |
| g. Organic fertilizer                         | bb. Cold rolling mill                                    |
| h. Saline & dextrose                          | cc. Aluminium rolling mill                               |
| i. Surgical cotton & bandaging industry       | dd. Toilet and laundry soap                              |
| j. Chemical fertilizers                       | ee. Caustic soda                                         |
| k. Pesticides, insecticides                   | ff. Mineral water bottling plant                         |
| l. Industrial chemicals                       | gg. Sugar industry                                       |
| m. Glass bottles, containers                  | hh. Essential oils and resinoids                         |
| n. Domestic electrical appliances             | ii. Hand tools                                           |
| o. Electric power capacitors & condensers     | jj. Professional and occupational tools and instruments  |
| p. Irrigation pumps                           | kk. Medical instrument and tools                         |
| q. Manufacture of bicycles                    | ll. Industries manufacturing fuel conserving instruments |
| r. Bleaching powder                           | mm. Pollution preventing accessory industries            |
| s. Agriculture lime                           |                                                          |
| t. Manufacture of chalk, Manufacture of yeast |                                                          |
| u. Production of malt                         |                                                          |

### 5.3.4 Construction industry

- |                                       |                                        |
|---------------------------------------|----------------------------------------|
| a. Builders hardware                  | i. Parquet flooring                    |
| b. Stone industry-cutting & polishing | j. Housing and apartment               |
| c. Stone-aggregates                   | k. Varnishes, paints & allied products |
| d. Bricks (dry press)                 | l. PVC pipes & allied products         |
| e. Plywood                            | m. Aluminium extrusions                |
| f. Cement-large plants                | n. PVC doors/windows                   |
| g. Cement-mini plants                 | o. Slate, granite and cement           |
| h. Floor and wall tiles               |                                        |

### 5.3.5 Tourism Industry

- a. Resort hotels, motels
- b. Cable car complexes
- c. Rafting equipment
- d. Hot air ballooning and parasailing

### 5.3.6 Service industry

- |                                    |                                        |
|------------------------------------|----------------------------------------|
| a. Air freight forwarding services | f. Computer software development       |
| b. Sea freight forwarding services | g. Data entry services                 |
| c. Nursing homes                   | h. Photo scanning and off-set printing |
| d. Carpet washing                  |                                        |
| e. Air services                    |                                        |

### 5.3.7 Mineral Resources Industry

- |                                                                                                   |                                          |
|---------------------------------------------------------------------------------------------------|------------------------------------------|
| a. Cement exploration & production                                                                | e. Processing mica                       |
| b. Petroleum exploration & exploitation                                                           | f. Exploration and processing quartz     |
| c. Natural Gas exploration & exploitation                                                         | g. Production of iron, dolomite and talc |
| d. Construction materials (Clay, sand, gravel, boulder, marble, stone) exploration & exploitation | h. Glass production                      |

### 5.3.8 Energy Industry Including Renewable Energy

- a. Solar energy
- b. Wind energy
- c. Hydro electric plants

Note: This is not an exhaustive list. Potential investors may propose other projects, which they may be specifically interested in. Source: Ministry of Industry, Commerce and Supplies.

## 5.4 Investment Climate: SWOT Analysis

### Strengths

- Location between the two potentially largest markets in the world: India and China
- Macroeconomic stability and a relatively liberal economy
- Trainable and low-cost workforce
- Substantial natural and cultural assets
- Small and accessible bureaucracy and a generally business-friendly Government

## Weaknesses

- Landlocked country
- Poor infrastructure and mostly unskilled workforce
- Rigid and intrusive labour legislation
- Political instability, weak implementation and persistent corruption

## Opportunities

- Tourism, including sports and adventure tourism, health tourism and cultural tourism
- A variety of niche agricultural and agro-business activities
- Hydropower generation and infrastructure development generally
- Small and accessible bureaucracy and a generally business-friendly Government

## Threats

- Uncertain political climate

Source: UNCTAD

## 5.5 Industrial Estates

Industrial estates were established with objectives to support industrial development through provision of physical infrastructures and other services essential for the establishment, operations and promotion of the Industries. At present, there are 11 industrial estates including Balaju, Hetauda, Patan, Nepaljung, Dharan, Pokhara, Butwal, Bhaktapur, Birendranagar, Dhankuta and Gajendra Narayan Singh Industrial District. Among the 432 industries established in industrial estates till

mid March of FY 2009-10, 59 are closed, and 61 still under construction. Among industrial estates under the Industrial Estates Management Limited, it has fixed capital investment of NRs 204.2 million while the investment from the private sector stands at NRs. 17.34 billion. Industries in the industrial estates have employed a total of 11,365 people. Industrial estates providing higher number of employment are Balaju, Hetauda, Butwal, Pokhara and Patan respectively.

## 5.6 India-Nepal cross border infrastructure and facilities at different Land Customs Stations

Infrastructures of the four main customs points namely, Birgunj Dryport, Biratnagar, Mechi, Bhairahawa is operated by Nepal Intermodal Transport Development

Board (NITDB). The salient features of the three ICDs are tabulated below:

## BERGER JENSON & NICHOLSON (NEPAL) PVT. LTD.

In May, 2000 Berger Paints India Limited bought 100% share of the then Jenson & Nicholson Nepal Pvt. Ltd. and thus Berger Jenson & Nicholson (Nepal) Pvt. Ltd. was incorporated as a private limited company under foreign direct investment; as per the provisions of the Company Act of Nepal.

Berger Jenson & Nicholson (Nepal) Pvt. Ltd. is engaged in the manufacturing and marketing of premium quality decorative paints. Some of the popular products are Weather Coat All Guard, Rangoli Easy Clean, Wall Masta and Bison Super Emulsion.

Berger Jenson & Nicholson (Nepal) Pvt. Ltd. has its sales & administrative office at Tinkune, Kathmandu & has two manufacturing units at Bhaktapur and Hetauda having a combined capacity to produce 7,500 kilolitres of paint annually. Some latest technology like color tinting has given the consumers a choice of 5000 shades.

Berger Jenson & Nicholson (Nepal) Pvt. Ltd. had grown from a Rs 30 million annual sales turnover in 2000 to a Rs 570 million in 2009. While the industry is growing by around 30%; BJN is growing by around 70 %.

Creating a near 100 % employment opportunity, both direct & indirect, BJN indirectly benefits more than 700 families.

BJN engages in skills training by imparting skills & technical knowledge to painters on good painting practices by organizing different training programs. BJN organizes different training programs to improve managerial skills & abilities of employees.

CSR Activities are a high focus of the BJN in Nepal. Some of the highlights are:

- Spreading traffic awareness in collaboration with traffic police and at metropolitan cities particularly in Kathmandu & Pokhara.
- Sponsoring paints for heritage sites like Dharahara.
- Helping in the development of education by sponsoring /supplying paints at subsidized prices.
- Supporting religious activities by sponsoring /supplying paints at reduced price to different temples.



Parameters	Birgunj	Bhairahawa	Biratnagar
Rail/Road Based	Rail based ICD	Road based ICD	Road based ICD
Broad Gauge Railway yard with 6 full length lines;	Yes	Administrative block of 570 Sq m. floor area	-
Boundary Wall	3.15 Km. long & 3.6m. high	Bituminous Pavement area for parking of 250 trucks	Parking area for 80 trucks
Administrative block	1130 Sq m. floor area	Additional Inspection shed of 36x24m area with 1.2m high platform	570 Sq m. floor area
Container stacking yard	685x 64m with 656 grounds slots capable of holding 1586 TEUs	-	3700 Sq. m. for holding 150 TEUs
Covered Container Freight Station	203x 35m with 231 ground slots	Gate complex, security office and canteen area	55x25m with 1.2m high level platform
High-Level goods platform	38.5x 700m with full rail rake length;	-	Vacant area for adding up to 3900 Sq. m. warehousing/ parking area
Covered Goods Shed	1.2m high platform of 405x 26.5m with 160 ground slots		Ancillary facilities including electric substation, workshop, water-tank and car parking
Covered Customs Litigation Shed	25x21m	55x25m	-
High mast lighting with boundary lights;	Yes		
Electric Substation	630 KVA, 11/0.4 KVA with one 380 KVA D. G. SET;		
Fire Detection and Alarm System	Yes		
Cement Concrete Paved Area for Parking	250 freight vehicles and 30 big size trailers.		

The other major customs points are Birgunj Customs, Tribhuvan International Airport, Tatopani, Nepalgunj, Krishnanagar customs. The above 9 customs offices cover more than 90 percent of the transaction.

## 6. Regulatory Framework for Investing in Nepal

Foreign investment in Nepal is guided by policies framed by the Government of Nepal (GoN) in accordance with its Foreign Investment and One Window Policy and Industrial Policy. The related Acts for establishing and administration of industries in Nepal are: Foreign Investment and Technology Transfer Act, 1992 (FITTA) and Industrial Enterprises Act, 1992 (IEA).

The Department of Industries (DoI) carries out domestic administration and implementation of IEA for medium

and large-scale industries, whereas the Department of Cottage and Small Industries (DoCSI) administer small and cottage industries. The DoI is the sole agency for administration and implementation of Trademark, Patent Design Act, and FITTA.

FITTA allows foreigners to organize either a private limited company or a public limited company. The incorporation/ registration of the company is done by Company Registrar's Office (CRO) under the provisions of the Companies Act.

## 6.1 Foreign Direct Investment

According to Foreign Investment and Technology Transfer Act, 1992 (FITTA), “Foreign Investment” means following investment made by a foreign investor in any industry:

- a) Investment in share (Equity);
- b) Reinvestment of the earnings derived from the (a) above; and
- c) Investment made in the form of loan or loan facilities.

### 6.1.1 Investment in equity

Foreign investors may invest in equity capital either in the form of convertible foreign currency acceptable to the Nepal Rastra Bank (NRB) through proper banking channel or in the form of plant, machinery and equipment required for the approved industry. For investment in the form of plant and machinery, prior approval of DoI must be obtained. Indian nationals can invest in Indian currency

through proper banking channel. Foreign investor desiring to invest in Nepal whether as a wholly foreign owned enterprise or in a joint venture with Nepalese/foreign promoters are required to apply to the DoI on a prescribed application form along with the prescribed documents and following the prescribed procedure (See chapter 14 of this Guide).

### 6.1.2 Foreign investment in an existing industry by share transfer

Foreign investment in an existing industry can be done in two ways: either by transferring the shares of existing shareholder or by issuing new shares to a foreign partner, either from the reserved shares or by increasing the

issued capital of the company. The industry is required to apply to the DoI on a prescribed application form with the documents as specified in Chapter 14 of this Guide.

### 6.1.3 Investment as loan

If an existing Nepalese company is willing to avail the loan or loan facilities from a foreign lending agency or individual, the company is required to apply to the DoI on a prescribed application form along with the prescribed

documents and the prescribed procedure as detailed in Chapter 14 of this Guide. A foreign investor may also raise loan locally from the banks and financial institutions.

## 6.2 Technology Transfer

Foreign investors can participate in the form of “Technology Transfer” to be made under an agreement between an industry and a foreign investor on the following matters:

- a) Use of any technological right, specialization, formula, process, patent or technical know-how of foreign origin,
- b) Use of any trademark of foreign ownership, and

- c) Acquiring any foreign technical consultancy, management and marketing service.

If any industrial unit wants to avail foreign technology, the industry is required to apply to the DoI on a prescribed application form along with the prescribed documents and following the prescribed procedures detailed in Chapter 14 of this Guide.

## 6.3 Licensing

After obtaining approval for foreign investment, the industry is required to be registered with the DoI within 35 days. If the registration cannot be done within the stipulated time, the investor will have to apply for the extension of the validity period. Therefore, once the company is incorporated, the investor has to apply for registration of industry at DoI, filling a prescribed form

along with following documents:

- A copy of the foreign investment approval letter issued by the Foreign Investment Section, DoI.
- A copy each of the Certificate of Incorporation, Memorandum of Associations (MoA), and Article of Association (AoA) of the company.

## 6.4 Registration of Trademark

Industries using trademark on their products can register their Trademarks with the DoI under the Patent, Design & Trademark Act, 1965 by making an application in the prescribed form along with the following documents:

- a) Copies of the industry registration certificate,
- b) Certificate of incorporation,
- c) Four copies of the word, label or both to be used in the form of trademark (i.e., representation sheet),
- d) The name of the product/services in which the trademark is to be used,
- e) The statement of claim regarding the originality of the trademark,
- f) In case of foreign origin trademark, a copy of the home registration certification is also required, and
- g) Prescribed fees.

## 6.5 Areas Open for Foreign Investment

Nepal encourages foreign investment both as joint venture operations with Nepalese investors or as 100 percent foreign-owned enterprises. It also allows and encourages foreign investment in all but a few sectors of the economy. The few sectors that are not open to foreign investment are either reserved for national entrepreneurs in order to

promote small local enterprises and protect indigenous skills and expertise or are restricted for national security reasons. Approval of the GoN is required for foreign investment in all sectors. No foreign investment is allowed in cottage industries. However, no restriction is placed on transfer of technology in cottage industries.



## Sectors restricted to foreign investment

Part (A)	Part (B)
i. Cottage Industries.	i. Other Retail Business except the retail business instantly conducted more than two countries as International transaction.
ii. Personal Service Business such as Hair Cutting, Beauty Parlour, Tailoring, Driving Training etc.)	ii. Bidi (Tobacco), (excluding those exporting more that 90%)
iii. Arms and Ammunition Industries.	iii. Internal Courier Service
iv. Explosives, Gunpowder	iv. Atomic Energy
v. Industries related to Radio-Active Materials.	v. Poultry Farming
vi. Real Estate Business excluding Construction Industries)	vi. Fisheries
vii. Motion Pictures Business produced in the language of the nation	vii. Bee-Keeping
viii. Security Printing	viii. Other consultancy services such as management, accounting, engineering and legal services besides consultancy services having the foreign investment up to 51 percent.
ix. Currencies and Coinage Business	ix. Domestic food processing methods
	x. Local Catering Service
	xi. Travel and Trekking Agencies
	xii. Rural Tourism

Indian nationals are permitted to open retail outlets (only for retailing) after obtaining approval from the municipality and metropolitan offices on the recommendations of the Embassy of India under the Friendship Treaty between India and Nepal.

## 6.6 Repatriation

Repatriation of funds by a foreign investor can be made in any one of the following manners for which an application has to be submitted to the DoI for recommendation to the Nepal Rastra Bank (NRB):

Types of Repatriation	Repatriation permitted	Recommendation/ Approval Required	Documents required
1. Proceeds from sale of shares	100%	Dol/NRB	a) Proof of investment made b) Prior approval of Dol, if the share transfer is to foreign investor c) Tax clearance certificate d) Letter from the company and certified by the CRO stating the completion of the transfer of related shares
2. Dividend	100%	Dol/NRB	a) Proof of investment made (only required on first occasion and on each further investment) b) If the investment by foreign investor is in the form of capital equipment, custom declaration certificate of the import. c) Auditor's report including balance sheet and profit and loss account. d) Tax clearance certificate e) Proof of dividend declaration
3. Loan and interest (repayment of foreign loan)	100%	Dol/NRB	a) Certificate from a commercial bank regarding the transfer of loan into Nepal b) If the loan was in the form of machinery, custom declaration certificate and invoice of the plant and machinery. c) Auditor's report including balance sheet and profit and loss account. d) Letter of approval of the loan agreement e) Tax clearance certificate f) Income tax should be deducted at source on the interest portion at the prevailing rate.
4. Technology transfer fees	100%	Dol/NRB	a) Calculation of the amount due to the foreign technology supplier certified by the auditor. b) Certificate of payment of income tax on royalty as per the prevailing tax rate
5. Salaries and allowances of expatriates	75%	NRB	a) Document showing the amount of salary and allowances during the period for which repatriation is sought: - A letter from employer - Identity proof in respect of Indian nationals

## 6.7 Specific Industries for Kathmandu, Lalitpur and Bhaktapur

### 6.7.1 List of new industries which CAN and CANNOT be established in Kathmandu Metropolitan City, Lalitpur Sub-metropolitan city and Bhaktapur Municipality

CAN	CANNOT
<p>a. Traditional Cottage Industry (excluding Rural Tanning)</p> <p>b. Travel / Trekking Agency</p> <p>c. Hotel, Resort, Restaurant</p> <p>d. Food Processing (with machinery of up to 0.2 million NRs and excluding meat processing)</p> <p>e. Electronic Assembling</p> <p>f. Candle Stick (with machinery of up to 0.1 million NRs.)</p> <p>g. Stationery and Products made of Paper (with machinery of up to 0.1 million NRs.)</p> <p>h. Wooden Furniture (Band saw is not allowed and with machinery of up to 0.05 million NRs)</p> <p>i. Woollen Thread Spinning (Hand spool)</p> <p>j. Resin Bags (with machinery of up to 0.1 million NRs.)</p> <p>k. Leather Goods (with machinery of up to 0.1 million NRs.)</p> <p>l. Ayurvedic Medicine (with machinery of up to 0.05 million NRs.)</p> <p>m. Flyover Bridge</p> <p>n. Office, Commercial and Residential Complex</p> <p>o. Trolley Bus Service (Outside Municipality area if having workshop and garage)</p> <p>p. Service Industries however, the following service industries will not be allowed:</p> <ul style="list-style-type: none"> <li>– Medium and large chemical laboratories</li> <li>– Workshop (with machinery of more than 0.2 million NRs.)</li> <li>– Cut to length sheets, strips and tube</li> <li>– Repacking industry except tea, domestic spices, sugar, wheat flour, salt, pulses etc.</li> <li>– Film processing laboratory</li> <li>– Washing, dyeing plant, printing (textile)</li> <li>– Cold Storage</li> </ul>	<p>a. Tannery</p> <p>b. Chemical Fertilizer</p> <p>c. Cement</p> <p>d. Steel Melting and Foundry (Medium and Large Scale)</p> <p>e. Pulp and Paper (except traditional handmade paper and small scale recycling plant)</p> <p>f. Caustic Soda, Chemical Manufacturing Industries</p> <p>g. Oil Refineries, Petroleum Product (Petrol, Diesel, Kerosene, Lubricant, Furnace Oil etc.)</p> <p>h. Dyeing (Medium and Large Scale)</p> <p>i. Acid Manufacturing</p> <p>j. Fermentation, Distillation and Blending (Distillery and Beer)</p> <p>k. Electroplating and Galvanization (Medium and Large Scale)</p> <p>l. Smelting Ferrous and Non Ferrous (Medium and Large Scale)</p> <p>m. Sugar Productions and Khandsari</p> <p>n. Rubber Processing (Tube and Tyre Manufacturing)</p> <p>o. Paints Industries (Medium and Large Scale)</p> <p>p. Bleaching Powder</p>

Source: Department of Industries

Note: All above and Stone Crushing Industries cannot be established within other Municipality area as well. Taking pollution control and security measures, all kind of industries is allowed within Industrial Districts.



Nepal SBI Bank Limited is a major national level financial services provider engaged in various retail and commercial banking services.

Extending the reach to 23 districts through our 50 physical outlets including 43 branches, 6 extension counters and a Corporate Centre, we are among largest private banks in Nepal. In addition, we serve our valued customers through e-delivery points like Automated Teller Machines (ATMs) and Online Banking service for both corporate and retail clients.

In terms of the Technical Services Agreement concluded between SBI and the NSBL, SBI provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager (Credit) oversees the overall banking operations in the Bank.

## WE SERVE WITH

We deliver full array of banking and financial solutions to help our clients serve their customer effectively providing them with best value for money.

## DEPOSIT AND ACCOUNTS

We offer preferred institutional deposit accounts, Saving Deposit Account and Fixed Deposit Account services. In pursuit of catering retail need of our business clients we have devised various kinds of Fixed, Premium Saving and Recurring Deposit Accounts. Additionally, we also maintain payroll account of organization staff alongside a separate provident fund account which yields higher interest rate than normal saving account.

## LOANS AND ADVANCES

We provide all kinds of corporate and retail financing service catering to various credit needs of our clients and their clients. We specialize in CORPORATE FINANCING, TRADE & SERVICE FINANCING AND RETAIL CREDIT.

## IN THE WORDS OF NEPAL SBI

### INTERNATIONAL BANKING

Nepal SBI Bank Remittance services allow our consumers to transfer funds to and from Nepal through peerless inward and outward remittance solutions.

We have streamlined and efficient fund transfer mechanism called SBI Nepal Express Remit and Indo Nepal Remit for transferring money from India to Nepal. Besides conventional remittance methods, Real Time Gross Settlement Facility (RTGS) is our outward remittance service that the Bank provides for transferring money from Nepal to India with maximum time and cost efficiency using our Straight Through Processing (STP) platform. Using this service, consumer can directly credit their bank account within five minutes in any of 44000 branches of 40 banks in India.

### CARD SERVICES

A Nepal SBI Bank ATM Card gives consumer access to the convenience of 24-hour banking in any of our ATM nationwide, plus more than 100 ATMs of national financial institutions that are part of the VISA network plus any of the over 22,000 ATMs of State Bank of India in India.

### TECHNOLOGY

In line with our policy of providing most modern and convenient banking service, we have acquired world class award winning Finaclecore banking software from Infosys Technologies, India and equipped ourselves in providing holistic and integrated banking solutions to address the core banking, e-banking, mobile banking, treasury, and wealth management, Customer Relationship Requirements of retail, corporate and transnational banking to our clients.

### BRANCHES AND NETWORK

We have largest network of branches which now reach to 39 that include 43 full-fledged banking branch offices, 6 extension counters and a Corporate Credit Unit covering 23 districts. Out of 43 branches, 15 are located inside Kathmandu Valley and rest outside. No of ATM has reached to 59 across the Nepal.

## 7. Investment Vehicles for Foreign Investment

Foreign investors may establish office in Nepal through a company, liaison office, branch office or a permanent establishment.

### 7.1 Company

A company may be incorporated under the Companies Act using the following alternative modes:

- Incorporating a Nepali company with 100 percent foreign equity, operating it as a wholly owned subsidiary.
- Incorporating a joint venture company with a Nepali partner and/or with the general public and operating as a public company which may be listed or not listed in the stock exchange.
- Incorporating a joint venture company with a Nepali partner and operating private company or a non listed public company.

### 7.2 Liaison Office

Liaison office can be established by a foreign company in Nepal under the Companies Act. Prior to registering the liaison office with the CRO, the foreign company must obtain permission to operate in Nepal as a liaison office from the competent government authority, for instance, in the case of a power company permission must be obtained from Department of Electricity Development

(DOED) to operate in Nepal. Liaison office shall not be entitled to carry any income earning activity in Nepal and all its expenses are required to be met through inward foreign currency remittances. Liaison offices can oversee a company's existing business interest, spread awareness of a company's products, and explore opportunities for further growth and development.

### 7.3 Branch Office

Foreign companies are allowed to operate in Nepal by opening branch offices for which permission must be obtained from a competent government authority or the

DoI. Thereafter, an application should be made to the CRO for the registration of the branch office in the prescribed form along with prescribed fee.

#### 7.3.1 Documents required

For the purpose of registration of foreign company, its branch office or a liaison office the application shall be filed along with the following documents to the CRO:

- a) Permission obtained by the foreign company from the competent authority or the DoI in case of industries to operate its business or enterprise in Nepal.
- b) Photo-copies of the charter and certificates of the establishment of the company and its memorandum and articles of association, along with their Nepali translations.
- c) Statements containing the full names and addresses of the head office and the main place of business of the company, the date of establishment of the company, and the issued capital and the main objectives of the company.

- |                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>d) Name, address and nationality of the Director, Manager, Company Secretary or the Chief Executive Officer of the company</p> <p>e) Name and address of a person residing in the Nepal who has been authorized by the company to receive the summons, notices, etc. to be issued in the name of the company.</p> <p>f) The main place of business in Nepal, and the full address of the office of the company.</p> | <p>g) Particulars of the proposed investment and/or transactions to be undertaken from its Nepal Office.</p> <p>h) The tentative date of commencement of operations in Nepal.</p> <p>i) A declaration made by the Company Director or his representative on behalf of the company to the effect that the contents of the statements submitted by the company are true and correct.</p> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## 7.4 Permanent Establishment

Foreign companies can establish Permanent Establishments in Nepal (PE) specifically for the purpose of execution of specific projects. PE is registered for limited purpose of executing a particular contract and cannot perform any other function or undertake any other activity. PE is registered by companies engaged in turnkey projects, assembly or installation projects or supervisory

or consultancy activities connected with such projects only if the project or the activity undertaken exceeds a period of more than 6 months. The delivery of services by a foreign company through its employees where activities are carried out in Nepal for a period or periods exceeding more than 183 days in any period of twelve months will require registration as a PE in Nepal.

### 7.4.1 Registration of a Foreign Permanent Establishment

PEs are registered at the Inland Revenue Department (IRD) with the submission of the following documents:

- |                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>a) Application form</p> <p>b) Authorized person signing the application form - 3 passport size photographs</p> <p>c) Resolution authorizing the person to sign the application form</p> <p>d) Copy of passport or other identification of the authorized person signing the application form</p> <p>e) Company registration certificate</p> | <p>f) Copy of the agreement with the customer</p> <p>g) Address of the office in Nepal and main place of business</p> <p>h) Hand drawn sketch of the business location of the applicant</p> <p>i) Rent Agreement for the office premises along with tax withholdings deposit made in the Inland</p> <p>j) Power of attorney in case a representative is sent to the IRO for registration</p> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## 7.5 Types of Companies

Companies incorporated under the Companies Act 2006 fall into two broad categories namely, private companies and public companies.

### 7.5.1 Private company

A private company is a company which restricts the right to transfer of shares, limits the number of its shareholders to 50 and prohibits any sale of shares and debentures to

the general public. All private companies need to add the words "private limited" to its name. The private company enjoys certain facilities compared to the public companies.

## 7.5.2 Public company

A public company is a company which is not a private company. Public companies shall have a minimum of 7 shareholders as signatories to the MoA and have a minimum paid up capital of NRs 10 million. However, the paid up capital can be higher for companies which are regulated by other regulations e.g., a company carrying

on the business of banking, financial transactions, insurance, stock exchange, pension fund or mutual fund. Compliances under the Companies Act are more stringent for public companies as compared to private companies.

A public company may be a listed company i.e., its shares are listed in the stock exchange and traded.

## 7.5.3 Single shareholder company

The Companies Act permits the incorporation of a company with only one shareholder. All acts and decisions required to be done and made by the board of directors or general meeting of the company is decided in writing

by the shareholder, and no meetings of the board of directors or general meeting is required to be called in this type of company.

## 7.5.4 Foreign company

Foreign companies are companies which are incorporated outside Nepal and have established a place of business in Nepal. A foreign company's place of business in Nepal includes liaison offices and branch offices of such companies or its subsidiaries. Foreign companies have

to register themselves with the CRO within 30 days of the establishment of a place of business in Nepal or appointment of any person for regular contact or availing of any services from such person.

## 7.5.6 Holding and subsidiary company

A holding company means a company having control over a subsidiary company. A holding company may control its subsidiary in any of the following manners:

- By holding direct or indirect control over the formation of the board of directors;
- By holding majority shares of the company.

A subsidiary company means any company controlled by a holding company. A subsidiary of a subsidiary also becomes a subsidiary of the holding company controlling the later. However, no foreign investment is permitted in holding company.

# 8. Company Law

## 8.1 Incorporation of a Company

The Companies Act governs the operations of a corporate enterprise. Seeking approval for the proposed name is the first step in the incorporation of a company which is granted by the Company Registrar Office (CRO). The approval is subject to fulfillment of certain conditions

namely, the name should not be ambiguous or similar to an existing company. Further, the word 'Private Limited' and 'Limited' should form the last part of the name of a private limited company and public limited company.



## 8.2 Memorandum of Association

The MoA sets out the constitution of the company. There should be at least 7 subscribers to the MoA in case of a

public company and at least 2 subscribers to the MoA in case of a private limited company.

## 8.3 Articles of Association

The AoA contains the rules and regulations for managing the internal affairs of the company and achieving the objects set forth in the MoA. The CRO issues a Certificate of Incorporation after the application is submitted

along with the prescribed documents and the requisite registration fees. The registration fee is dependent on the quantum of the authorized share capital of a company.

## 8.4 Share Capital

A company can issue two kinds of share capital; viz- preference share capital (preferred shares) and equity share capital (ordinary shares). A company may,

issue various classes of shares with different rights attached thereto, by making provisions to that effect in its MoA and AoA.

### 8.4.1 Preference Share Capital

Preference share means that part of the share capital of a company which satisfies both the following conditions:

- Preferential right to a fixed amount of dividend
- Preferential right to repayment of capital in the event of winding up of the company or repayment of capital.

A company may issue preference shares if it is authorized by its MoA and AoA. Preference shares cannot be

converted into ordinary shares unless it is authorized by its AoA. A company may issue redeemable preference shares as provided in the AoA and shall not be redeemed unless they are fully paid. The redemption of preference shares must be made out of accumulated profits which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made by the company for the purposes of the redemption. A capital redemption reserve should be created for redemption of preference shares.

### 8.4.2 Equity Share Capital (Ordinary share capital)

Ordinary shares or equity share capital means that part of share capital other than preference share capital. The nominal value of share capital of a public company has been prescribed in the Companies Act which is fifty rupees per share or any amount exceeding fifty rupees as is divisible by ten, as provided in the MoA and AoA. The face value of shares of a private company shall be as prescribed in its AoA. Shares may be issued at par, premium or at a discount.

A public company shall have a minimum paid up capital of ten million rupees unless specifically required by other laws where the paid up capital has to be in excess of

the above threshold. There is no such requirement for a private company.

A company wishing to raise funds from the public is required to issue a prospectus which has been duly approved by the Securities Board of Nepal (SEBON) and a copy of the prospectus registered with the CRO. Prior to the publication, the prospectus must be signed by all directors of the company and submitted to SEBON for approval. Once approval is obtained from SEBON a copy of the prospectus has to be registered with the CRO prior to publishing.

## 8.5 Debentures

A company may raise funds by issue of debentures with or without pledging or mortgaging its immovable assets. No debentures may be issued unless and until an approval to commence its business is obtained from the CRO. A public company may issue debentures after entering into an agreement with the debenture trustee licensed

by the SEBON. The period of repayment of the principal and interest of debentures subscribed by the debenture-holder, interest rate, mode of repayment of the principal and interest, and matters of conversion of debentures into shares should be mentioned in the agreement.

## 8.6 Meetings of a Company

The Companies Act provides for the following types of meeting:

### 8.6.1 Annual General Meeting

Every public company must hold its first annual general meeting within one year after it is licensed to commence its business, and thereafter every year within six months after the expiry of its financial year.

### 8.6.2 Extraordinary General Meeting

The extraordinary general meeting is a meeting of the shareholders held at the behest of the board of directors.

The annual general meeting of a private company and procedures thereof shall be as provided in the AoA or the Consensus Agreement of the shareholders. For matters not covered by the AoA, the provisions of the Companies Act shall apply.

### 8.6.3 Meetings of Board of Directors

Meetings of the board of directors of a private company are in accordance with the provision of the AoA. Meetings of the board of directors of a public company must be held at least six times in a year.

## 8.7 Management

A company acts through human agencies consisting of the general body of shareholders and a board of directors. The board is a managerial body and its accountability to shareholders must be assured. Only individuals can be

appointed as directors. A company is managed by its board of directors through the authority provided by MoA, AoA and the annual general meeting of the company.

### 8.7.1 Board of Directors and Number of Directors

The appointment and number of directors of a private company would be stipulated in the AoA. The board of directors of a public company consists of a minimum of

three and a maximum of eleven directors. The Companies Act also provides for the appointment of independent directors in a public company.

## 8.7.2 Appointment of Managing Director

The directors may, appoint one managing director from amongst themselves for a period not exceeding four years at a time. The terms of appointment, remuneration and

facilities are agreed to in writing and the functions, duties and powers of the managing director is specified in the AoA or as prescribed by the board of directors.

## 8.8 Accounts of Company

### 8.8.1 Accounts of company

All companies are required to maintain its accounts either in Nepali or the English language. The accounts must be maintained according to the double entry system of accounting in accordance with the Nepal

Accounting Standards issued by the Institute of Chartered Accountants of Nepal (ICAN). The books of account of a company are required to be kept at its registered office.

### 8.8.2 Annual Financial Statements

The board of directors of each company prepares annual financial statements comprising of the following

- a) Balance sheet
- b) Statement of income
- c) Statement of cash flows
- d) Statement of changes in equity and
- e) Notes to the financial statement

statements for each financial year and gets it approved by the general meeting of the shareholders:

The annual financial statements and the report of board of directors prepared and approved by the board of directors are adopted by the annual meeting of the shareholders.

## 8.9 Audit

Every company must appoint an auditor from amongst the list of auditors who have obtained a certificate of practice from ICAN.

### 8.9.1 Appointment

The auditor of a public company is be appointed by the general meeting on the recommendation of the Audit Committee. For a private company, auditor is appointed

in accordance with the provision as contained in the AoA or consensus agreement.

### 8.9.2 Audit Report

The audit has to be conducted in accordance with the Nepal Standards on Auditing (NSA) issued by the ICAN. These standards have been prepared by the Auditing

Standards Board and correspond to the International Standards on Auditing (ISA).

# EVEREST BANK LIMITED

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professional and efficient banking services to various segments of the society. The bank provides customer-friendly services through its 39 Branches, 5 extension counters, 27 Business Correspondents and 36 ATMs. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

The Bank has set up its representative offices at New Delhi (India) to support and advise Nepalese citizens in banking related services and remittances.

EBL has the Punjab National Bank (PNB) as their joint venture partner holding 20% equity in the bank. PNB joined hands with EBL during the FY 1995-96.

Customers of EBL can easily remit their funds from India to Nepal within a day. Such facility can be availed through any of the 5000 Branches of PNB to any of the EBL Branches and vice versa. Further, EBL customers can withdraw money in India from more than 4000 ATMs of PNB. Similarly, PNB customers can have access to the 650 ATMs including the EBL ATMs in Nepal.

EBL benefits from the new banking technologies that PNB brings in.

## AWARDS

EBL was bestowed with the “NICCI Excellence award, 2003” by Nepal India Chamber of Commerce & Industry, Nepal, for its spectacular performance.

EBL is the proud winner of the “Bank of the Year 2006, Nepal” award given by The Banker, a publication of the Financial Times, London.

EBL was the second runner up for the “National Best Presented Accounts (BPA) Award, 2009” in the category of Banking Sector.

## INITIATIVES

Recognizing the value of offerings a complete range of services, EBL is a pioneer in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. The Bank has introduced Mobile Vehicle Banking system to serve the deprived sector of proper banking facilities through its Birtamod Branch, which is the first of its kind. The Bank is first to introduce branchless banking system in Nepal to cover un-banked sector of Nepalese society through FINO technology.

EBL was the first bank to launch e-ticketing system in Nepal.

EBL customers can buy Yeti Airlines ticket through internet.



## 8.10 Liquidation of a Company

Companies Act 2006 deals with voluntary liquidation of a company, the procedures for which are as follows:

- a) The Company can be liquidated by adopting a special resolution or subject to provisions contained in the memorandum and articles of association
- b) If the company is able to pay its debts or liabilities in full and that no situation exists where an application for review of insolvency of company is pending
- c) The directors have made declaration in writing

that the company is able to pay its debts and liabilities in full within one year of the adoption of the resolution to liquidate and that it has been discussed in the general meeting.

The liquidation procedure commences with the appointment of the liquidator and an auditor and the CRO shall strike the name of the company from the register after a report on the liquidation is received. The Companies Act does not specify procedures in case of insolvency or in case of the company denying or neglecting to repay its debts and liabilities. The condition is however covered under the Insolvency Act 2063.

## 9. Direct Taxes

### 9.1 General

The main objective of the tax system is to enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation. Income is taxed in accordance with the provisions of Income Tax Act 2002 (the Act). The salient features of the Act are:

- a) Various concessions and incentives allowed under different Acts have been repealed and provided under the single Act
- b) The tax liability of residents and non-residents are clearly defined
- c) Worldwide income of a resident, whether individual or company is made taxable in Nepal
- d) Specific provision for taxing capital gains is introduced
- e) Procedures for granting credit for international tax are prescribed
- f) General provision for anti-avoidance and income splitting rules introduced and

- g) Clearly defined the tax administration and payment procedures are provided

The tax is levied on income accrued or received from business, investment, employment and windfall gains. Both individual and companies are required to follow a uniform income year that runs from July 16 to the following July 15. All persons with assessable income are required to register with the Inland Revenue Office (IRO) and obtain a Permanent Account Number (PAN) and to file a tax return annually.

Returns are filed under a self-assessment system under which the IRO considers returns final unless they are subject to a detailed audit of the taxpayer's affairs. In practice, Assessing Officers make tax audit assessment and adjustments in the majority of the cases.

Income-tax payments are made in the year in which the income is earned in the form of withholding tax and advance tax. Companies are subject to a flat rate of tax, whereas individuals are taxed at progressive rates. The Director General (DG) of Inland Revenue Department (IRD) has responsibility for the general administration of the Act.

## 9.2 Taxation of Companies

### 9.2.1 Introduction

Tax is levied under the provision of the Income Tax Act 2002, which provides for the imposition and collection of tax on the income of companies. Resident companies are subject to tax on their worldwide income. Non-residents are required to pay tax on their net income acquired or earned in Nepal or income received from Nepal. Tax is levied on the net income after making deductions for certain expenses/allowances as specified in the Act.

“Company” means a body corporate or a company formed under the Companies Act of Nepal and includes foreign company and other institutions such as Unit

Trust, Co-operatives Society or group of persons other than a partnership having less than 20 partners and proprietorship firm.

A “partnership” is a group of persons carrying on a business jointly. A partnership has fewer than 20 partners. A partner is characterized through the fact that they have, like a beneficiary, an interest in the firm. There is no withholding of tax on distribution of profits by a firm to its partners. The partners are not taxed on the share they receive from the firm once the firm has been taxed.

### 9.2.2 Residence

A resident company is a company formed or established in Nepal or is effectively managed in Nepal during the income year. A resident company is taxed on worldwide

income. Dual residence is not recognized for the purposes of Nepalese tax.

### 9.2.3 Taxable Income

Income tax is levied on the net income earned or received from each of the following:

- a) Business income
- b) Employment income
- c) Investment income and
- d) Windfall gain.

The income in relation to a business consists of the profit or gain derived from conducting the business, including:

- a) Service fee
- b) Amounts derived from the disposal of trading stock
- c) Net gains from the disposal of business assets or liabilities
- d) Gain on the disposal of all depreciable assets in a pool of assets
- e) Gifts received in respect of the business

- f) Amounts derived as consideration for accepting a restriction on the capacity to conduct business and
- g) Amounts derived that are effectively connected with the business and that would otherwise be included in income from an investment

In computing the income from business or investment, all actual costs are deductible to the extent they are incurred during the year by the entity in the production of income from the business. The following methodology is available for the valuation of inventory:

- a) Prime cost or absorption cost method in case of cash accounting system
- b) Absorption cost method in case of accrual accounting system or
- c) Choice between first-in first-out method and average cost method

### 9.2.4 Capital Gains Tax

Net gains from the disposal of business assets or liabilities of a business are taxable as business income. Generally,

gains are calculated as proceeds from the capital transaction less the tax basis in the relevant property.

In the language of the Act, the gain from the disposal of an asset or liability is calculated as the amount by which the sum of the incomings of the asset or liability exceeds the outgoings of the asset or liability at the time of disposal and is reduced by the following losses:

- a) The total of all losses suffered from the disposal of business assets or liabilities
- b) Any unrelieved net loss out of any other business losses and

- c) Any unrelieved net loss for a previous income year out of losses of any business

Loss on the disposal of an asset or liability with a foreign source can be claimed against the above gain only to the extent that the amount includes gains on the disposal of assets or liabilities with a foreign source. A non-resident is taxed only on gains from the disposal of assets or liabilities sourced in Nepal.

### 9.2.5 Dividends

Dividend distributed by a resident company is subject to a final withholding tax at the rate of 5 percent to the resident and the non-resident person. These dividends are not taxed at the hand of the recipient. Dividends of other resident entities such as partnership are exempt

from tax. Dividends of a non-resident entity, which are distributed to a resident beneficiary, are taxed by inclusion in calculating the income of the beneficiary. Distributions of dividends, which are derived after final withholding tax, are exempted from tax.

### 9.2.6 Exempt Income

The following categories of income are exempt from tax:

- a) Agricultural income derived from sources in Nepal by a person other than the income from an agriculture business derived by a firm, company, or partnership and
- b) The income of a social, religious, educational,

or charitable organization of a public character registered without having a profit motive and similar other organizations approved by the Inland Revenue Department as exempt organization

All expenses incurred in earning exempt income are not tax deductible.

### 9.2.7 Deductions

All actual expenses incurred in acquiring or earning income are allowable deductions for tax purposes including the following:

- a) Interest, pollution control, R&D expenses
- b) Cost of trading stock
- c) Repair and improvement costs - amounts exceeding 7 percent of the value of depreciable assets in any income year are not deductible and are instead added to the depreciation basis of the relevant asset pool at the beginning of next income year. This limitation does not apply to the aviation industry
- d) Depreciation and
- e) Banking companies and financial institutions are allowed a deduction for non performing assets provision subject to 5 percent of the total loan outstanding

However, disclaimers, write-offs or the forgiveness of debt which is written off are not tax deductible. The Act specifically provides that certain expenses are not deductible, such as:

- a) Domestic and personal expenses
- b) Income tax paid in Nepal and fines and penalties paid to any government
- c) Expenses incurred in deriving exempt income or final withholding payments
- d) Distributions of profits
- e) A cash payment in excess of NRs 50,000 unless explicitly permitted
- f) Expenses of capital nature and
- g) Foreign income tax.



## 9.2.8 Losses

Tax losses can be carried forward for a period of seven years and in the case of public infrastructure projects to be built, operated and transferred to GoN and projects relating to construction of power houses and generation and transmission of electricity, any unrelieved loss of the past 12 years can be deducted. However, tax losses may not be carried back for set-off against taxable income of an earlier period. Losses of petroleum exploration and extradition companies can be carried forward for 12 years.

Entities which has availed full or partial tax exemption in any of the year on investment or business income are not entitled to carry forward losses incurred in these exempt years.

Capital losses from the disposal of business assets or liabilities of a business are an allowable deduction and can be claimed as a normal business expenses. However, a loss on the disposal of fixed assets can only be claimed if after being credited against the outstanding balance of the pool, the value of the pool becomes zero or negative.

## 9.2.9 Tax Depreciation / Capital Allowances

Depreciation is allowed on the acquisition cost of the following assets where such assets are used for income producing purposes:

Class	Assets Included	Depreciation Rate (%)
A	Buildings, structure and similar works of a permanent nature	5
B	Computers, fixtures, office furniture and office equipment	25
C	Automobiles, buses and minibuses	20
D	Construction and earth-moving equipment and any depreciable asset not included in another class	15
E	Intangible assets other than depreciable assets included in class D.	During the useful life of the asset

Each depreciable asset at the time it is first owned or so used, are placed in a pool referred to as pools of depreciable assets. Depreciation is calculated on the reducing balance method and is based on the pool of assets. The pool of assets concept suggests aggregation of all assets with the same depreciation rate into a common block for computation of depreciation. Depreciation is computed at varying rates as prescribed. In the year of purchase depreciation is available for the full year, if an

asset is added to the pool for more than six months. In other cases, depreciation is allowed at either two thirds or one third of the normal rate, if the addition is made for less than six or three months, respectively. Amounts derived from the disposal of an asset or assets are reduced from the written down value of the relevant pool.

Manufacturing industries can claim additional depreciation at one third of the normal rate.

## 9.2.10 Amortization of Expenditure

Costs incurred in respect of natural resource prospecting, exploration and developments are treated as if they were incurred in securing the acquisition of an asset that is used in that production and depreciated.

Expenditure incurred on R&D and pollution control related to the taxpayer's business is deductible up to 50

percent of the adjusted taxable income in the income year it is incurred. Any excess cost, for which deduction is not allowed as a result of the said limitation, is capitalized and depreciated.

Intangible assets are amortized over the useful life of the asset.

### 9.2.11 Interest

Interest means the following payments or gains:

- A payment made or incurred under a debt obligation that is not a repayment of capital
- Any gain realized by way of a discount, premium, swap payment, or similar payment and
- The portion that is treated as interest in the

payment made under an annuity or for acquiring an asset under an installment sale or the use of an asset under a finance lease

The interest incurred under a debt obligation is deductible to the extent, either that the obligation was required to be incurred in the production of income or the debt was used to purchase an asset that is used in the business.

### 9.2.12 Tax Rates

The current corporate tax rate varies depending on the nature of the taxable income as follows:

Industry	Nature of Business	Rate of Tax (%)	Applied as
Manufacturing	Special industries qualifying under the Industrial Enterprises Act 1997 (except related to tobacco and alcoholic beverages)	20	Flat rate
Financial	Banks and other financial institutions and insurance companies	30	Flat rate
Other	Commercial trading/service entities and other businesses	25	Flat rate

Non-residents are taxed at 25 percent except the income from transporting passengers, mail or cargo by sea or air that is embarked in Nepal is taxed at 5 percent.

### 9.2.13 Annual tax returns

All assesseees are required to adopt uniform income year ending July 15 each year and submit tax returns within three months thereof. i.e. by October 15 of each year although extension of 3 months may be requested and

generally granted. The accounts are to be audited by an auditor qualified under the laws of Nepal. Tax returns are also needs to be certified by the auditor and submitted along with the audited accounts within the stipulated time.

### 9.2.14 Advance Tax

Income tax is to be paid in advance in 3 installments by all entities during an income year by January 15, April 15 and July 15 computed at the applicable rates on the estimated profits of the entity for the entire year. Advance tax to be deposited is as follows:

- 1st i.e. January 15                      40 percent of the total estimated tax liability for the year
- 2nd i.e. April 15                         70 percent of the total estimated tax liability for the year
- final i.e. July 15                         100 percent of the total estimated tax liability for the year

## 9.2.15 Tax Payment / Refund

Income-tax payments are made in the year in which the income is earned in the form of withholding tax and advance tax. The taxpayer is required to estimate taxable income and make advance payments in three installments spread over the year. Income from services including

contract payment is subject to tax withholdings that may be adjusted for the purpose of calculating advance tax.

Arrangements have been made by IRO to refund within 60 days the excess money deposited by taxpayers (in practice may take longer and too much hassle).

## 9.2.16 Fines and Penalties

Failure to maintain records, non-submission of returns or late submission, non-payment or short payment of tax will attract late fee/ interest at prescribed rates. Submission of false or misleading returns shall attract

a penalty ranging from 50 to 100 percent of tax loss. Fines including imprisonment for a term ranging from six months to two years are prescribed for not paying or evading tax.

## 9.2.17 Review and Appeal

Application for Administrative Review may be submitted at IRD against revised assessment or an assessment of fees, interest and penalty within 30 days from

the date of receipt of notice about the decision. While filing an application it is mandatory to deposit one third of the tax.

# 9.3 Taxation of Individuals

## 9.3.1 Introduction

As with company tax, tax on individuals is levied under the Income Tax Act 2002. Resident individuals are subject to tax on their worldwide income derived from

employment, business or investment. Non-residents are subject to tax on their net income earned or sourced in Nepal.

## 9.3.2 Residence

A person who has resided in Nepal for a period of 183 days or more in any financial year or whose normal place of abode is Nepal are considered residents of Nepal. Dual residence is not recognized for the purpose of

Nepalese tax. There is no separate provision for taxing the income of short-term visitors. Depending on the length of stay, they will be classified as resident or non-resident and the Nepal sourced income shall be taxed accordingly.

## 9.3.3 Taxation of Income

Tax is levied on the total income earned or received by an individual less deductions, relief and incentives. Certain categories of income are not included in the total income

of an individual but are taxed separately under special regimes, including:

- a) Rent from a house is taxed at a flat rate of 10 percent
- b) Income from bank deposits is taxed separately at source at a flat rate of 5 percent and
- c) Dividend received from a resident company is taxed as final tax withholding at a rate of 5 percent to the resident and non-resident person both

### 9.3.4 Capital Gains Tax

Net gains derived from the disposal of non-business assets, investment and liabilities is subject to tax at the rate of 10 percent in the case of individual.

However, in the case of entity, it will be treated as business income and taxed at the normal applicable corporate rate.

### 9.3.5 Dividends

Dividends received from resident companies are taxed at source as a final withholding and therefore tax exempt for both resident and non-resident individual.

### 9.3.6 Employment Income / Employee Benefits

#### General

Remuneration earned or received from the exercise of employment is taxed as income from employment. Employment income is defined to include:

- a) Wages, salary, leave pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities
- b) Personal allowances including cost of living, subsistence, rent, entertainment and transport allowance
- c) Reimbursement of costs
- d) Payment for the agreement to any conditions of employment
- e) Retirement contributions and
- f) Other payments made in respect of the employment

#### Treatment of benefits

The actual contribution, one third of the employment income or NRs 300,000 whichever is lower, contributed to the approved retirement fund are deductible from taxable income. No deduction is allowed if contributed to an unapproved retirement fund.

Retirement payments exceeding, 50 percent of the total sum or NRs 500,000 whichever is higher, received from an approved retirement fund at the time of separation is taxed at 5 percent.

In case of retirement payments from an unapproved retirement fund, the gain is taxed at 5 percent.

The tax law provides for taxation of all non-cash benefits to be valued at market rate. Housing and company cars provided to employees are valued at 2 percent and 0.5 percent respectively of employment income.

### 9.3.7 Deductions

Self-employed individuals can claim all reasonable expenses incurred in acquiring or earning income.

Salaried employees are entitled to claim only specified deductions and relief.

### 9.3.8 Personal Allowances and Rebates of Tax

The tax-free threshold or basic exemption is NRs 200,000 for a couple and NRs 160,000 for an individual. The exemption limit for the blind and handicapped people is

150 percent of the above. A rebate of 10 percent of the tax liability is provided to women on their income from remuneration.

## 9.3.9 Tax Rates

### Residents

Tax Banding	Tax Rates (%)
a) Tax-free threshold First NRs 160,000 for an individual or NRs 200,000 for a couple	1
b) Next NRs 100,000	15
c) Amount exceeding NRs 260,000 for an individual or (NRs 300,000 for a couple) but not exceeding NRs 2,500,000	25
d) Amount exceeding NRs 2,500,000	25
e) Additional tax on tax derived as per (d) above	40

### Non-residents

Total Income	25
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Note: Capital gains from the disposal of assets and liabilities are taxed at 10 percent.

## 9.3.10 Tax Administration

The tax period is the financial year of the government, which is the 12 month period commencing on July 16 and ending on July 15 of the following year.

In general, every resident and non-resident individual must file a personal income tax return by October 15 of the following year. However, individuals who only have income from employment are not required to file tax returns. An employer must submit annual

tax returns for each employee showing total remuneration due or paid permissible deductions and the amount of tax due, deducted and deposited with the IRO.

An employer is obliged to deduct tax at the time of payment of salary and forward the amount withheld to the tax authorities within 25 days from the end of the month of withholding.

## 9.4 International Tax

### 9.4.1 Double tax relief

Nepal provides relief against international double taxation to residents by granting foreign tax credits. This is restricted to an amount calculated by multiplying the Nepal income tax rate to the income subject to foreign tax. Excess credits can be carried forward and adjusted only against the assessable foreign income.

In addition, double tax relief can be claimed under the provisions of existing DTAs, which Nepal has negotiated with other tax jurisdictions.

An unrelieved foreign source loss can be set off only against foreign source income and foreign tax losses cannot be claimed.

### 9.4.2 Avoidance of Double Taxation Agreements

Nepal has entered into avoidance of double taxation agreements with 9 countries including India in order to provide relief from the double taxation of income of foreign investors. Some of the basic features relating to tax treatment on various incomes are as follows:

- Income derived by a resident of a Contracting State from immovable property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other state. This shall apply to income derived from the direct

- use, letting, or use in any other form of immovable property
- b) The profits of an enterprise of a Contracting state shall be taxable only in that state unless the enterprise carries on business in the other contracting State through a permanent establishment situated therein
  - c) Profits derived by an enterprise of a Contracting State from the operation of aircraft in international traffic shall be taxable only in that State
  - d) Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State. The tax shall not exceed:
    - i. 10 percent of the gross amount of the dividends if the beneficial owner is a company which owns at least ten percent of the shares of the company paying the dividends
    - ii. 15 percent of the gross amount of the dividends in all other cases
  - e) Interest arising in Contracting State and paid to a resident of the other contracting state may be taxed in that other state. The tax on interest shall not exceed 15 percent of the gross amount of interest.
  - f) Royalties arising in a Contracting state and paid to a resident of the other Contracting state may be taxed in that other State. The tax on royalties shall not exceed 15 percent of the gross amount of royalty paid.
- The term “a Contracting state” and “the other Contracting state” mean India or Nepal, as the context requires.

## 9.5 Anti Tax Avoidance Rules

### 9.5.1 Introduction

Nepal has a general anti tax avoidance provision. If the tax authorities are of the view that any arrangement between persons who are associates that reduces or has the effect of reducing the amount of tax payable, it may disregard or vary the arrangement and distribute, appropriate or allocate the amount so as to counteract

any tax advantage obtained or obtainable by the person under the said arrangement.

If a person attempts or has split their income with another person that is likely to cause a reduction in tax, the IRD may adjust amounts in calculating the income of each person to prevent any reduction in tax payable.

### 9.5.2 Transfer Pricing

The tax authorities may re-characterize or disregard an arrangement that is entered into or carried out as part of a tax avoidance scheme.

### 9.5.3 Permanent Establishment

A repatriated income of a Nepal-based PE of a non-resident person will be taxed at the rate of 5 percent. The income repatriated abroad in any income year shall be

equal to the amount of dividend distributed by the foreign PE during the year.

### 9.5.4 Thin Capitalization

Interest is deductible if incurred in the course of conducting a business or investment. This is the case if the borrowed funds, for which interest is paid, are used in that production or used to acquire an asset used in that production.

The deductibility of interest paid by resident entities to controlling entities is limited. Controlling entities are organizations or persons, which are tax exempt, or non-resident persons, or associates of exempt organizations, or non-resident persons that own or control at least 25

percent of the resident entity. Where interest is paid to a controlling entity the deduction must not exceed the sum of all interests that is to be included in the entity's taxable income plus 50 percent of the entity's taxable income (taxable income is calculated without including any

interest derived by the entity and not deducting interest expenses).

Any interest, for which a deduction is denied, may be carried forward and treated as incurred during the next income year.

### 9.5.5 Controlled Foreign Company (CFC) provisions

Nepal has CFC provisions which tax the income earned by foreign entities controlled by Nepalese resident persons. A controlled foreign entity is an entity not residing in Nepal, in which a resident person holds an interest and controls or may benefit from 50 percent or more of the rights to income, capital or voting power alone or with not more than four other residents.

A controlled foreign entity is treated as distributing its attributable income, calculated as if the entity were a resident entity, as a dividend to its beneficiaries in

accordance with the beneficiaries' rights to that income, or, where those rights are not reasonably certain, in such manner as the Inland Revenue Department thinks appropriate tax will be imposed on dividend distributed to the beneficiaries by a controlled foreign entity.

A controlled foreign entity should distribute dividends to its beneficiaries in accordance with the beneficiaries' rights. This dividend is taxable as income of the beneficiary. Other dividends distributed by a controlled foreign entity are exempt from tax.

## 9.6 Withholding Taxes

Payments are subject to withholding tax as follows:

### 9.6.1 Business Income

A non-resident company carrying on business in Nepal is subject to tax in the same way as a resident company i.e. on income from a source within or deemed to be within Nepal.

### 9.6.2 Dividends

Dividends paid by resident companies are taxed at the rate of 5 percent to the resident and non- resident person both as final withholdings.

### 9.6.3 Payment to Employees/Workers

Any amount paid to an employee or worker in lieu of employment is subject to tax withholdings at an appropriate rate. The annual gross earning of an employee is estimated at the beginning of each fiscal

year and estimated tax liability ascertained. Tax is withheld each month proportionately on income exceeding tax free threshold. (Refer section 8 for tax on personal income).

### 9.6.4 Contract Payments

Withholding tax on contract payments is 1.5 percent on payment made under a contract to a resident person (in case of nonresident 5 percent). Withholding tax on service payments to VAT registered person is only 1.5 percent

whereas payment to nonresident will attract 15 percent. Withholding taxes made by third party shall be advance tax for the company and will be adjusted against the tax liability of the company at year end at the time of filing the





## SURYA NEPAL PRIVATE LIMITED

Surya Nepal Private Limited (SNPL) is one of the largest private sector enterprises in Nepal. The business includes manufacture and marketing of cigarettes and readymade garments in Nepal, exports of ready-made garments and marketing of matches in Nepal.

SNPL is a subsidiary of ITC Limited, India, one of India's foremost private sector companies. ITC has a diversified presence in cigarettes, hotels, paperboards & specialty papers, packaging, agri-business, packaged foods & confectionery, ICT, branded apparel, personal care, stationery, safety matches and other FMCG products. While ITC is an outstanding market leader in its traditional sectors it is rapidly gaining market share even in its nascent ventures.

The total turnover of SNPL is nearly US \$150 million and the Company is the market leader in the cigarette business and branded readymade garments in Nepal.

The vision to create enduring values for all stakeholders and an unflinching commitment to that vision has made Surya Nepal the country's foremost blue-chip company and the largest private sector contributor to Nepal Government's exchequer, contributing nearly 4% of the total revenue collected. SNPL is proud to be one of the largest employers in Nepal.

- The company has been awarded the prestigious FNCCI National Excellence Award for being the best-managed corporation in Nepal.
- The company is also the recipient of various national safety and environmental awards.
- The focus on systemic work processes has made, both our cigarette and garment factories, ISO-9001: 2000 certified.

returns. Payments to non-resident are final withholdings and it will not require filing of tax returns as the payment will construe to be final tax. The tax withholding rates for services provided under the service contract by a foreign subcontractor shall attract a withholding tax rate of

15 percent from invoices raised without VAT. There will be a reverse charge of VAT (currently 13 percent) on the services so availed by a resident company in Nepal.

Insurance premium paid to non-resident insurance companies attracts a tax withholding rate of 1.5 percent

### 9.6.5 Royalties/Technical fees/Interest/Rent/Commission/Director's fee

These are subject to a withholding tax of 15 percent but may be reduced by the provisions of existing DTAs negotiated by Nepal.

Payment of rent is subject to withholding tax of 10 percent. Withholding tax is not required for payment of interest to the resident bank or financial institutions. Where the interest is paid to a bank or financial institution carrying on a bona fide banking business, which is resident of the

other contracting state and is the beneficial owner of the interest, the tax shall not exceed 10 percent of the gross amount of interest. Withholding tax is not required for payment of interest to the Central Bank or Central and State Governments.

Tax withholding obligation arises at the time the underlying liability arises.

## 10. Tax Incentives

### 10.1 Special Economic Zones

The GoN aims at attracting native and foreign investment by establishing Special Economic Zone (SEZ) in potential places for exportable industries. This program is meant for relating to export processing zone, special commercial zone, tourism/entertainment sector, banking sector. The established industries that enjoy the complete service facility are needed to produce goods of international

standard of which at least 70 percent has to be exported. SEZ has reached its final phase for the construction of necessary physical infrastructure in Bhairahava. Likewise land acquisition, compound construction and construction of access road are underway in Simara while feasibility studies are being conducted in four sites - Dhangadi, Panchkhal, Jhapa and Nuwakot.

#### 10.1.1 Determination of Special Economic Zone

GoN can prescribe any export processing area, special business area, tourism or entertainment area or any other area of Nepal as a SEZ, after publishing the notice in the Gazette, following recommendation of the Special Economic Zone Authority (Authority).

- “Export Processing Area” means the area within the SEZ developed to establish export oriented industry.
- “Special Business Area” means the area within the SEZ developed to collect goods for export, through import or collection within the country, its storage, classification, packaging and assembling.

- “Tourism or Entertainment Area” means the area within the SEZ developed to establish industry related to tourism and entertainment.

List of industries that may be established in the SEZ will be made public by the Authority from time to time. The list will include, productive, tourism and entertainment, information technology, agriculture, mines and forest products industry appropriate from environmental perspective, economically feasible, and export oriented in business sense.

## 10.1.2 Privileges Received by Industries in SEZs

Certain privileges are provided in the SEZ laws, in terms of exemptions, facilities, tax benefits, etc., to industries in SEZ some of which are:

- |                                                                                                                                                 |                                                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Special treatment for goods or services produced in SEZ                                                                                      | facilities available for export                                                                                                                                                  |
| b) No nationalization shall be made                                                                                                             | f) The foreign investment may be repatriated                                                                                                                                     |
| c) Discount on the lease or rent of land or building                                                                                            | g) Relaxation in visa provisions                                                                                                                                                 |
| d) Exemption from income taxes, value added taxes, excise duty, customs duty and local taxes                                                    | h) Use of bonded warehouse                                                                                                                                                       |
| e) Selling of raw materials or products to any industries in SEZ by any other industries will be deemed as export and such industries can enjoy | i) Sub-contracting within industries and accelerated rate of depreciation shall be available, along with such other facilities as may be specified by the GoN from time to time. |

## 10.2 Tax Incentives

### 10.2.1 Income Tax Rates

The tax laws provide various incentives to stimulate industrial growth and development. Following are the key tax incentives, inter alia, designed to attract inward investment:

Industry	Tax rates and Incentive
a) Special industries (mainly manufacturing other than alcoholic & tobacco producing industry)	20% (Normal Rate)
b) Industries providing direct employment to Nepalese citizens: - for 300 or more by Special industries and information technology industries - for 1200 or more by Special industries - to 100 Nepalese including 33% women, dalit & disabled by Special industries	90% of normal rate 80% of normal rate 80% of normal rate
c) Industries established in very undeveloped area, as defined in Industrial Enterprise Act	10% of the normal rate (for 10 yrs from the year of establishment)
d) Industries establishment in undeveloped areas, as defined in Industrial Enterprise Act	20% of the normal rate (for 10 yrs from the year of establishment)
e) Established in underdeveloped areas, as defined in Industrial Enterprise Act	30% of the normal rate (for 10 yrs from the year of establishment)
f) Industry established in SEZ recognized in mountain areas or hill areas by the GON	Up to 10 yrs 100% exempt and 50% rebate in subsequent years
g) Industry established in SEZ other than above locations	100% exempt up to first 5 yrs and 50% rebate in subsequent years
h) Dividend distributed by the industry established in SEZ	100% exempt for first 5 years and 50% rebate on subsequent 3 years
i) Income derived by the foreign investors from investment in SEZ (Source of income-use of foreign technology, management service fee and royalty)	50% of applicable tax rate
j) Import income of information technology industries at IT park as declared by GoN	50% of normal tax rate
k) Institution having licensed to generate, transmit, and distribute electricity shall be allowed if the commercial activities started in terms of electricity generation, generation and transmission, generation and distribution or generation, transmission, distribution before BS 2075 Chaitra and these exemptions shall also be available for solar, wind and other alternative energy companies	100% exempt up to seven years and 50% rebate on subsequent 3 years
l) Income from export of goods produced by manufacturing industries	75% of normal tax rate
m) Income from construction and operation of road, bridge, airport and tunnel or income from investment in tram and trolley bus	60% of applicable tax rate (i.e.20%)
n) Income of manufacturing Industry, tourism service industry and hydropower generation, distribution and transmission industry listed in the security exchange (i.e. capital market)	90% of applicable tax rate
o) Industry established in least developed areas producing brandy, wine, cider from fruits.	60% of applicable tax rate up to ten years
p) Royalty from export of intellectual asset by a person	75% of applicable tax rate
q) Income from sale of intellectual asset by a person through transfer	50% of applicable tax rate

### 10.2.2 Other Tax Incentives

- a) Traditional cottage industries are not subject to income tax and VAT;
- b) Dividends received from resident companies are taxed at 5 percent to resident and non-resident persons, as final tax
- c) Expenditure incurred on R&D and the installation of pollution control equipment or processes is immediately deductible up to 50 percent of adjusted taxable income from taxable income. The balance is available for deduction through tax depreciation (if qualifying)
- d) Persons are allowed deduction for donation to approved institutions (i.e. educational, religious and social organizations) up to a limit of 5 percent of their adjusted taxable income not exceeding NRs 100,000
- e) No income tax shall be levied on the income of certain cooperatives incorporated under the Cooperative Act 2048 conducting agricultural, forestry and other agriculture based activities. Similarly, savings and credit cooperatives operating in rural areas will be exempt from income taxes and
- f) Dividend distributed by industry in SEZ will be exempt from tax for 5 years from the date of commercial transaction and will be taxed at 50 percent rebate for 3 years thereafter

### 10.2.3 Other Incentives

- a) Industries importing plant, machinery and equipment required for direct production process falling under the chapter 84 of the harmonized customs classification will attract custom duty at 2.5 percent only
- b) Industry in SEZ will get full exemption from VAT while importing machinery, equipment, spare parts, and raw materials and up to 3 vehicles. Besides, these industries can avail certain other benefits under VAT Act.
- c) No excise duty shall be levied on the goods to be produced by industries in SEZ.
- d) Any duties or taxes levied on the raw materials, auxiliary raw materials, etc used for producing goods for export/deemed export are entitled to get refund of such duties and taxes based on the quantity of export. The application for this must be submitted within a year of the date of export for duty refund.
- e) Export-oriented industries may obtain the bonded warehouse facility. The raw materials for the products of such nature can be imported without paying any customs duty or sales tax by just entering the details of such transactions in a passbook made available by the Department of Customs. The quantity of such raw materials used for manufacturing of exportable products is deducted from the quantity entered in the passbook upon export of finished product. However, the industry must also submit a bank guarantee sufficient to cover the duties. The finished product must be exported within 10 months from the date of import of raw materials. The industry intending to avail of such facility must apply to the Department of Customs.

# 11. Indirect Taxes

## 11.1 Value Added Tax

### 11.1.1 Introduction

Value Added Tax (VAT) is tax based on goods and services. This tax is levied on the sale, exchange, transfer, import etc. of all goods and services apart from those specified by the law as tax-exempt. This means that this tax encompasses all types of goods and services produced in or imported into the country apart from those listed as tax-exempt by the law. VAT is considered as an improvised form of sales tax. This tax is imposed on different levels of value addition in the production and distribution process of goods and services. In short, the difference between

the purchase price and the sales price of any firm is the value added.

In practice, the tax-payer does not have to calculate his value addition for the purpose of VAT. But he/she has to collect VAT on the sales price at the rate specified by the VAT Act and after deducting the tax incurred on purchases made from the amount thus collected he/she has to pay the balance amount as VAT. Under VAT each registered manufacturer and distributor must collect tax on the sales of their goods and services.

### 11.1.2 Rate

VAT is levied at a flat rate of 13 percent, which is applied to the invoice value. Certain specified goods are outside the scope or exempt from VAT, in which case, the applicable

rate is zero. Exports of both goods and services are taxed at zero percent.

### 11.1.3 Threshold

Threshold for compulsory registration under VAT Act is a turnover of NRs 2 million over the last 12 months or turnover of NRs 200,000 in any month. Exemptions apply

inter alia, to salaried employment, banking and financial services, education and health services, agriculture produce and certain non-profit making activities.

### 11.1.4 Tax Credit

To avoid double taxation, a credit is given for VAT paid on goods and services used for the purpose of making any taxable supply (Input VAT). A credit is also given for VAT paid in respect of certain exempt supplies, e.g., exports. The principal mechanism for collecting the tax

requires the taxable supplier to charge VAT on the goods or services supplied (Output VAT) to take credit for VAT paid on business expenditure (Input VAT), and to pay the net tax over to the authorities.

### 11.1.5 Requirements

VAT registrants are required to:

- a) Submit VAT return and pay tax within the 25th day of the following month.
- b) Provide their customers with a tax invoice.
- c) Maintain purchase book, sales book, VAT account.
- d) Keep their VAT records for a period of 6 years
- e) Inform the IRO of changes to the business including new address, telephone number or a reorganization of a partnership within 15 days.

### 11.1.6 Offences

Fines will be imposed if the taxpayer fails to file returns within the specified time. The VAT Act imposes fines for failing to register. Similarly, if a registrant fails to use the registration number or clearly display the registration certificate in the business premises, fine may be imposed. Other penalties may be imposed if, for example,

a registrant fails to file a return, issue invoices, keep an up-to-date account of transactions, obstructs visits by a tax officer in investigation, prepares false accounts and invoices or attempts to evade tax. Similarly, IRO/IRD may purchase or cause to purchase under invoiced goods.

### 11.1.7 Administrative Review

A taxpayer who is not satisfied with the tax assessment can submit an application to the DG of IRD for administrative review within 30 days from the time of receiving such decision.

## 11.2 Custom Duty

### 11.2.1 Introduction

Customs duty is calculated on transaction value which includes CIF Nepal border on the import of goods. The valuation is determined by a valuation committee who generally enhances the transaction value declared by the parties by 5-10 percent or as the case may be. In case there is under invoicing, the custom official can revalue

the goods based on current market value and collect customs duty on such amount.

Customs Service Fee (CSF) of NRs 500 per declaration form will be charged at the time of import of goods into Nepal.

### 11.2.2 Rate

Custom duty ranges from 0-80 percent on the transaction value.

### 11.2.3 Highlights

- Goods of Indian origin being imported from India can be imported on concession of 7 percent on custom duty up to 30 percent (Previous Year 25 percent). But 5 percent concession can be obtained on goods for which customs duty is above 30 percent (where custom duty is levied on value).
- Concession on custom duty on goods specified under SAFTA agreement being imported from SAARC countries through shipment and billing from the same country and imported through Letter of Credit shall be provided as prescribed.
- Only authorized dealers in Nepal can import vehicles from the manufacturer or its authorized dealers.
- The excise duty paid in India on import of materials from India shall be deducted from the applicable customs duty. However, the excise shall not be deducted on the customs duty on freight, insurance, difference in value and other expenses.
- Industries importing raw materials through bank guarantee or pass book record facility have been given the facility to make imports by providing deposits (such deposits shall be refunded if certain conditions have been fulfilled), if they raise the value by 10 percent during export.
- 50 percent rebate on import of tin containers to be used for the packing products of dairy industry.
- Concessions on customs tariff on the import of tanker for dairy industries have been maintained at 80 percent.
- Custom duty on import of gold and silver shall be NRs 1,000 and Rs 24 per 10 gms respectively. Gold jewellery to attract only 10 percent duty.

- 50percent concession on the custom duty on vehicles to be operated by battery and electricity.
- 50 percent exemptions in the import duties and 68 percent on agriculture reform fee have been provided to the import of soybean and sunflower seeds to be used by domestic oil industries as their raw materials.
- 5 percent custom duty shall be levied on the import of LP Gas.
- 1 percent custom duty levied on
  - Import of generator of 10kw or more capacity.
  - On import of aircrafts, helicopter, its engines and spares. However, customs duty collected shall be refunded for lease of aircrafts, helicopter and its spares and returned within 3 years.
  - Import of equipment, machinery, tools and spares by industries.
  - Import of raw material, auxiliary raw material, chemicals by tyre manufacturing industries.
- Equipment used for conversion of tempos run by diesel/petrol into battery operated by existing registered tempo operators.
- Import of catalytic converter and magnetizer used for reducing pollution on vehicles.
- Import of equipment by industries to reduce pollution.
- Import of equipment by pharmaceutical industries for research under HSN 90.27.
- Import of construction equipment, machinery and its spares and steel sheet needed to build such equipments which are not produced in Nepal for the generation, transmission, distribution, operation or maintenance of electricity. For the same recommendation of Department of Electricity Development is needed.
- Import of generating parts by VAT registered industries manufacturing generators.
- Import of equipments necessary for research by pharmaceutical industries.

## 11.3 Excise Duty

### 11.3.1 Introduction

Excise duty is payable on the manufacture of movable goods and also on import of certain goods. The excise duty is governed and regulated by the Excise Act 2058,

Excise Regulation 2059. As provisioned in the law, the excise commodities are closely controlled and supervised by the GoN from their production to selling stage.

### 11.3.2 License required

No one is allowed to manufacture, import, sell and store excisable goods without obtaining license. Likewise, the law prohibits import of excisable services without having

license. Person, firm or institutions who need such license may submit a prescribed application form before excise officer at the concerned IROs.

### 11.3.3 Rate

The rate of excise duty generally ranges from 0-40 percent. Exports are exempt from excise duty.

### 11.3.4 Administrative review

Provision is made for an administrative review at IRD if the decision made by excise officer is not acceptable to the taxpayer. In such case, taxpayer has to submit and appeal within 35 days from the date of receipt of the

decision made by excise officer. Taxpayer can approach to Revenue Tribunal if he is not satisfied with the IRD's decision.



## 12. Labour Laws

### 12.1 Applicability

The Labour Act, 1992 lays down the legal framework and the basis for the rules, regulations and guidance on the proper management of any establishment employing 10 persons or more. It deals with matters relating to

employment and security of employment, working hours and minimum wages, welfare of employees, employer employee relations and the settlement of labour disputes.

#### 12.1.1 Labor Force

Nepal has an easily trainable and keen work force. The government has established technical institutions to develop skills at the technical level in civil and electrical engineering, electronics, air conditioning/refrigeration,

general mechanics and auto mechanics. Training programmes are also geared to industrial and vocational training in wood working, metal working, leather working, general fitters, tailoring and so on.

#### 12.1.2 Dispute Settlement

The Labour Act lays down guidelines and procedures for the settlement of disputes between employers and employees. These guidelines and procedures provide a

favourable environment for the harmonious development of industrial relations.

#### 12.1.3 Minimum Wages

The minimum wages are set by a Minimum Wages Committee and is considered lower than those paid in other neighboring countries.

#### 12.1.4 Working Hours and Overtime

Normal working hours are fixed at 48 hours per week, 8 hours a day. Continuous working hours should not exceed 5 hours. There should be a break of half an hour.

Overtime work is remunerated at one and a half times the normal wage. Overtime work should not exceed 4 hours in the day and 20 hours in the week.

#### 12.1.5 Leave

In addition to 13 public holidays, permanent workers are entitled to 1 day's home leave for every 20 days, 15 days sick leave with half pay and 1 month special leave without pay every year. Female employees are entitled to 52 days maternity leave with full pay. Such maternity leave

is granted only twice during the entire period of service. Under the Labour Rules, no employee can claim a leave as a matter of right. It should only be treated as a facility, which could be permitted by an employer.

#### 12.1.6 Change by Collective Bargaining

Ten or more employees working in an organization can form a plant level union which has the right to submit a charter of demands and bargain collectively with the

management. The collective bargaining agreement between the union and the management is generally reviewed every 2 years.

### 12.1.7 Labour relations committee

A labor relations committee has to be formed in every establishment for the purpose of building a cordial atmosphere between workers or employees and

management enhancing healthy labour or industrial relations based on mutual participation and cooperation.

## 12.2 Bonus Act

The Bonus Act, 1974 provides a legal basis for the payment of bonus to the workers and employees of factories and commercial establishments.

### 12.2.1 Allocation of Bonus

Each profit-making enterprise is required to allocate 10 percent of its net profit for distributing bonus to its employees. Workers/employees of an enterprise working for half the period of annual working days are also eligible for bonus. Electricity generating companies have to distribute bonus to the workers and employees

every year setting aside the amount equal to two percent of the amount of net profit. The amount of bonus to be distributed shall not exceed the amount equal to the annual salary of the concerned employees. The surplus funds will be deposited to the welfare funds.

### 12.2.2 Threshold and Payment

The lump sum amount of bonus obtainable by a worker/employee is equivalent to 3 to 6 months of the salary depending on the remuneration they are paid. Bonus is required to be paid in cash every year, or in certain cases,

it could be paid the next year as accumulated bonus for both the years. Bonus is not paid for period of absence from work unless the period is an exempted one, or for the period of staging an illegal strike.

### 12.2.3 Staff Welfare Fund

From the balance remaining after distribution of the bonus to the staff, 70 percent has to be deposited into the welfare fund created under Labour Act 1992, and the

remaining 30 percent is to be deposited with the national level welfare fund.

## 12.3 Gratuity and Other Employee Related Expenses

### 12.3.1 Gratuity

Gratuity also known as a severance pay is a retirement benefit paid to the workers/employees of the enterprise at the time of separation from services. As per the provision in the Labour Rules, the employees serving for three years or more and retiring from the service are entitled

to gratuity at the prescribed rates. The enterprise can pay gratuity at higher rates than that prescribed by the Labour Rules but not lower. The gratuity set aside every year should be deposited in a separate fund earmarked for the purpose.

### 12.3.2 Provident Fund

Karmachari Sanchaya Kosh (KSK) or the Employees Provident Fund (EPF) manages the provident fund of

the government, public and private sector employees and extends support to them financially on retirement or

separation from services. The employees are required to contribute at least 10 percent of their basis salary to their provident fund account and the employers are required to

supplement it by additional sum equivalent to employee's contribution. The contribution to the provident funds needs to be deposited with the KSK every month.

## 12.4 Staff Housing Requirement

5 percent of the gross profit of an enterprise should be set aside as for staff housing facilities. The amount set aside should be deposited in a separate fund to be used

and operated by a joint committee called labour relations committee.

# 13. Policies & Acts

## 13.1 Industrial Policy, 2010

The main objectives of the Industrial Policy 2010 are to promote industrial activity, increase employment generation, and boost per capita income. The government hopes to increase contribution of the industrial sector to the economy and expects a reduction in poverty. The policy has listed IT sector, cement, hydropower, vehicle and motor parts, chemical fertilizer, bio-technology and adventure tourism as high priority industries, and agriculture, forest-based, ayurvedic, and homeopathic medicine manufacturing, minerals and handicrafts as priority industries. The major highlights of the policy are as follows:

- a) The state-support shall be extended to the development of infrastructure to industries on the priority basis and special tax holidays for industries shall be provided in rural and unindustrialized parts of the country.
- b) Sub-contracting of production has been recognized and permitted. The policy also provisions differential tariff rates for raw material imports and the import of finished goods.
- c) The policy entrusts the government to develop industrial infrastructure, such as roads, electricity and telecommunications in different parts of the country having the potential of manufacturing and processing.

- d) The policy pledges additional promotional incentive packages for export industries, particularly the small and medium enterprises (SMEs). It promises 25 percent income tax concessions to small, medium and large industries that employ 100, 300 and 600 persons respectively.
- e) The policy has broadly categorized the geographical regions of the country into three groups - extremely underdeveloped, underdeveloped and developing industrial regions -- and pledged holidays in income tax and excise duties for the industries in those regions for 12 years, 7 years and 5 years, respectively.
- f) Apart from the existing Special Economic Zones (SEZs), the policy also envisages the development of Agro-Export Promotion Zone (AEPZ). As per the provision, the industries, established in these zones, will be exempted from excise duty and value added tax on raw and packaging materials.
- g) Research and development and market promotion has been recognized as an integral part of the industrial activities, and allows five percent income tax deduction for each purpose.
- h) Similarly, the policy envisages special package programmes to develop Karnali industrial corridor and new industrial villages.

## 13.2 Foreign Investment and One Window Policy, 1992

This policy document explains the objectives of foreign investment, the forms of such investment, their procedural aspects, the facilities and concessions to be provided to them, the quick and efficient administrative and institutional services to be made available through an one-window system and such other aspects with the belief that implementation of this policy will lead to the

import of capital, modern technology, management, technical skills, access to international markets, development of competitive attitudes and awareness about increasing productivity, and thereby help in the development of an industrial culture in the private sector. The major highlights of these policies are:

### 13.2.1 Foreign Investment

- |                                                                                                                                                                     |                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| a) Permission will not be granted for foreign investment in the industries as specified for rest of the industries permission is required.                          | d) No income tax shall be imposed on interest income earned by a foreign investor from foreign loans and on export income. |
| b) Foreign investments will be permitted up to 100 percent except the negative list.                                                                                | e) 15 percent income tax will be levied on royalty, technical and management service fees.                                 |
| c) Repatriation of amount received by way of sale of equity, dividends/benefits received, loan interest payment and under agreement for the transfer of technology. | f) No intervention will be made in fixing prices of the products of any industry.                                          |
|                                                                                                                                                                     | g) Business visas/residential visas shall be granted to foreign investors or their dependent family members or authorized. |

### 13.2.2 Arrangements relating to the one window system

Under the one window system policy the following services are provided to foreign investors:

- |                                                                                                                                                                    |                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) DoI has been designated as the one window servicing agency with the Industrial Promotion Board as a focal point as spelt out in the Industrial Enterprises Act. | d) Application for the registration of an industry should be submitted to the DoI within 35 days from the date of receipt of approval for foreign investment. The industry will be registered within 21 days from the date of receipt of the application. |
| b) The One-Window Committee shall decide on infrastructure facilities such as registration, land, electricity, water and facilities on taxation, etc.              | e) The power and authority concerning facilities and services of the agencies such as Ministry of Finance and its Departments, Department of Commerce, NRB, Department of Immigration etc. has been delegated to the One-Window Committee.                |
| c) The DoI will inform the applicant of the decision of the Board on foreign investment project within 30 days from the receipt of the application.                |                                                                                                                                                                                                                                                           |

## 13.3 Industrial Enterprises Act, 1992

The Industrial Enterprises Act (IEA) was promulgated to provide for the industrial development of the country. The salient features of the IEA are as follows:

- a) Industries have been classified as manufacturing

industries, energy-based industries, agro and forest based industries, mineral industries, tourism industries, service industries and construction industries

- b) Licensing is not required to set up industries other than those specified.
- c) Industry registration with the DoI has been made compulsory.
- d) Registration of a cottage and small industry to be made in the Department of Cottage & Small Industries (DoCSI) and registration of a medium and large industry in the DoI.
- e) Industries classified as:
  - Cottage industries: Traditional industries utilizing specific skill or local raw materials and resources.
  - Small industries: Industries with fixed asset up to NRs 30 million.
  - Medium industries: Industries with fixed asset between NRs 30 million and NRs 100 million.
  - Large industries: Industries with fixed asset of more than NRs 100 million..
- f) The Act has guaranteed all facilities and concessions provided under the IEA.
- g) There shall be no nationalization of privately owned industrial enterprises.

## 13.4 The Foreign Investment and Technology Transfer Act, 1992

FITTA was promulgated to promote foreign investment in Nepal and to address matters relating to foreign investment and technology transfer. Some of the salient features of FITTA are as follows:

- a) Foreign investors are permitted to own up to 100 percent equity shares in a company in Nepal except in those industries where permission is required and where foreign investment is not permitted.
- b) Technology transfer is permissible even in areas where foreign investment is not allowed.
- c) Permission of the DoI is required to get approval for foreign investment, technology transfer, loan investment and other related agreements. For projects with fixed asset up to NRs 500 million, DoI can approve the FDI and for projects with higher investments, Investment Promotion Board (IPB) grants approval.
- d) 100 percent repatriation possible on the proceeds obtained from the sale of shares, profit or dividend earned on investment on shares, loan principal and interest, fees/royalties in lieu of technology transfer.

## 13.5 Tourism related Act and Policy

The tourism industry is growing very rapidly and Nepal has tremendous potential for tourism development because of its unique natural and cultural heritage. In this context, this tourism policy has been formulated with the aims of: increasing national productivity and

income; increasing foreign currency earnings; creating employment opportunities; improving regional imbalances and projecting the image of Nepal more assertively in the international arena; through the development and diversification of the travel and tourism industries.

### 13.5.1 Tourism Regulation

- a) Tourism services are regulated by the Industrial Enterprise Act, Tourism Act, 2035 (1978) amended in 2053 (1997), the Hotel, Lodges, Restaurants, Bar and Tourist Guide Rules, 2038 (1981), the Travel and Trekking Agency Rules, 2037 (1980), the Trekking and Rafting Rules, 2044 (1985), and the Mountaineering Rules, 2036 (1979).
- b) Foreign investment is not permitted in Travel Agencies, Trekking Agencies, Water Rafting, Pony Trekking, Horse Riding, and Tourist Lodging even though as per WTO commitment 51% investments in equity but would be limited to 51 percent equity.
- c) FDI permitted in hotel industry with government's permission. As per WTO commitments, up to 80 percent foreign equity allowed in hotel, lodging services and graded restaurants.

### 13.5.2 Tourism Policy

The tourism industry is growing very rapidly and Nepal has tremendous potential for tourism development because of its unique natural and cultural heritage. In this context, this tourism policy has been formulated with the aims of: increasing national productivity and income; increasing foreign currency earnings; creating employment opportunities; improving regional imbalances and projecting the image of Nepal more assertively in the international arena; through the development and diversification of the travel and tourism industries.

The main features of the policy are:

- a) To develop tourism as an important sector of the national economy by developing linkages between tourism and other sectors
- b) To diversify tourism down to rural areas so as to improve employment opportunities, foreign currency earnings, growth of national income and regional imbalances. To improve natural, cultural and human environments of the nation in order to develop and expand the tourism industry
- c) To maintain a good image of the nation in the international community by providing quality service and a sense of security. The New Tourism Policy (NTP) 2008-identified health tourism as one of the potential tourism products of Nepal
- d) To develop and promote Nepal as an attractive tourism destination
- e) Popular religious tourism sites will be improved and promoted in order to develop religious tourism
- f) Nepal will be developed as a centre for adventure tourism. Tourist service and facilities will be encouraged to upgrade in quality. Special efforts will be made to make Nepal a secure place for tourists.
- g) Wildlife tourism will be developed and promoted in various geographic areas, in recognition of the bio-diversity that exists in the nation.
- h) Rural tourism will be encouraged. Rural communities will be motivated to launch various programmes that contribute to the growth and promotion of rural tourism.

## 13.6 Hydropower Policy and Regulations

Nepal has a huge hydropower potential and the country's topography provide ideal conditions for the development of some of the world's largest hydroelectric projects in Nepal. Current estimates are that Nepal has

approximately 40,000 MW of economically feasible hydropower potential however; Nepal has developed only approximately 600 MW of hydropower. There is huge potential for development of hydropower in Nepal.

### 13.6.1 Hydropower Policy

The Hydropower Policy 2001 stipulates that hydropower shall be developed attracting the investment of domestic and foreign investors in the hydropower generation, transmission and distribution projects through 100 percent subsidiaries or joint venture companies with the following objectives:.

- a) To generate electricity at low cost by utilizing the water resources available in the country.
- b) To extend reliable and qualitative electric service throughout Nepal at a reasonable price.
- c) To tie-up electrification with the economic activities.
- d) To render support to the development of rural economy by extending the rural electrification.
- e) To develop hydropower as an exportable commodity.

The major policy highlights are as follows:

- a) Hydropower projects suitable to the electric system for domestic use as well as the storage projects shall be developed as per requirement on competitive basis.

- b) Implementation of hydropower projects based on the concept of Build, Operate, Own and Transfer shall be encouraged.
- c) Appropriate incentive provisions shall be provided and transparent process shall be pursued to attract national and foreign investment in hydropower development.
- d) Efforts shall be continued for implementation of large storage type hydropower projects and multi-purpose projects. Large storage type multi-purpose projects shall be developed in such a way that downstream benefits resulting from the projects would yield maximum benefits to the nation.
- e) In the case of multi-purpose projects, GoN may participate with the private sector in view of possibility of irrigation development.
- f) Emphasis shall be given on mobilization of internal capital market for investment in power sector.
- g) Electrification of remote rural areas shall be encouraged by operating small and mini hydropower projects at the local level.
- h) Unauthorized leakage of electricity shall be controlled. For this purpose, necessary technical measures and appropriate legal provisions shall be adopted and, mobilization of public support shall also be emphasized.
- i) Proper provision shall be made to cover risks likely to occur in hydropower projects.
- j) Export of electricity shall be encouraged.

### 13.6.2 Electricity Act 1992 and Electricity Rules 1993

The salient features of these regulations are:

- a) A company has to apply for license under the Electricity Act 1992 and Electricity Rules 1993 for the survey, production, transmission and distribution of electricity.
- b) The license for survey for generation, transmission and distribution can be submitted separately or together and the license is issued either separately or for all the activities applied for. License for generation, transmission or distribution is granted as per the application.
- c) While submitting an application for obtaining the license for survey, generation, transmission or distribution, an amount equal to the fees must be deposited in the name of DOED.
- d) No licence is required for generation, transmission or distribution of electricity up to 1000 kilowatt and for conducting necessary survey thereof.
- e) Survey licences are issued for a maximum of 5 years and licenses for generation, transmission and distribution is issued for a maximum of 50 years.
- f) Only 1 percent customs duties is levied for the import of materials which are not produced in Nepal and no charge for import licence and value added tax is levied for such imports.
- g) In case foreign currency has been invested in the generation, transmission or distribution of hydroelectricity as a loan or share capital, GoN shall make available necessary foreign currency at the prevailing market rate of foreign exchange for repatriation of investment or repayment of principal or interest of loan.
- h) There is no excise duty and VAT on electricity.
- i) Royalty is payable to the GoN after the generation of electricity as follows:
- (i) For internal consumption project:

S.N.	Electricity Capacity	Up to 15 years		After 15 years*	
		Annual capacity Royalty, per kW (NRs)	Energy Royalty, per kWh (%)	Annual capacity Royalty, per kWh (NRs)	Energy Royalty, per kWh (%)
1	Up to 1 MW	-	-	-	-
2	From 1 MW to 10 MW	100	1.75	1,000	10
3	From 10 MW to 100 MW	150	1.85	1,200	10
4	Above 100 MW	200	2.00	1,500	10
5	For captive use	1,500	-	3,000	-

Source: Electricity Act 1992



- (ii) For export oriented hydropower project:

S.N.	Type	Up to 15 years		After 15 years from the date of commercial operation	
		Annual capacity Royalty, per kW (NRs)	Energy Royalty, per kWh (%)	Annual capacity Royalty, per kWh (NRs)	Energy Royalty, per kWh (%)
1	Export-oriented run-of the- river project	400/	7.5	1,800	12
2	Export-oriented storage project	500	10	2,000	15

Source: Electricity Act 1992

- (iii) The royalty rates referred to in (ii) above will be applied on the projects built on commercial basis with installed capacity up to 1000 MW. In the case of the projects with capacities up to 1000 MW and built on noncommercial basis, 15 percent of electricity and energy will be charged as royalty per annum on the basis of monthly power and energy generation capacity from the date of commencement of production.
- (iv) For export oriented project with an installed capacity of more than 1,000 MW, the rate of royalty would be settled by negotiations.
- (v) In the case of the hydropower projects which sell energy for internal consumption and exports the remaining energy, the energy fee equivalent to that chargeable for the export oriented project would be charged on the quantum of energy exported abroad.
- (vi) The royalty will be paid in the same currency in which the exported electricity is sold.

## 13.7 Banking and Forex Regulation

Banking and foreign exchange is regulated by Banking and Financial Institutions Act 2063 (2006), Nepal Rastra Bank Act 2002, Foreign Exchange Regulation Act 2019 (1962) and the directives and circulars issued by Nepal Rastra Bank (NRB).

The foreign banks can establish branches of their banks in Nepal under the licensing policy for foreign banks branch issued by NRB. The opening of branches of foreign banks is expected to strengthen and consolidate the economy by mobilizing sufficient national and foreign capital for development of infrastructure of social and

financial sectors within the country in view of contributing to the banking development by enhancing efficiency of the banking and financial system of the country. The minimum capital for opening a branch office of a foreign bank in Nepal is US\$ 30 million. Branch offices cannot be opened without obtaining a letter of intent from NRB.

Foreign banks can set up joint venture companies or subsidiary companies in Nepal collaborating with a Nepali citizen or a body corporate to operate a bank or a financial institution. The maximum permissible equity investment is 85 percent and the minimum 20 percent.

## 13.8 Land Acquisition and Related Permissions

The applicable acts and policies regarding land acquisition and related permissions are House and Land Tax Act, 2019 (1962), Land Acquisition Act, 2034 (1977), The Lands Act, 2021(1964).

The provisions regarding land acquisition and related permissions are made to:

- a) Levy tax on the house and land in the urban areas in order to increase national income for the development of the country.
- b) Amend and consolidate current Nepal law pertaining to land acquisition.
- c) Divert inactive capital and burden of population

from the land to the other sectors of economy in order to accelerate the pace of economic development of the country.

- d) Bring about improvement in the standards of living of the actual peasants dependent on the land by making equitable distribution of the cultivable land and ,
- e) by making easily accessible the necessary know-how and resources on agriculture and to keep up the convenience and economic interests of the general public by providing encouragement to make maximum increase in agricultural production.

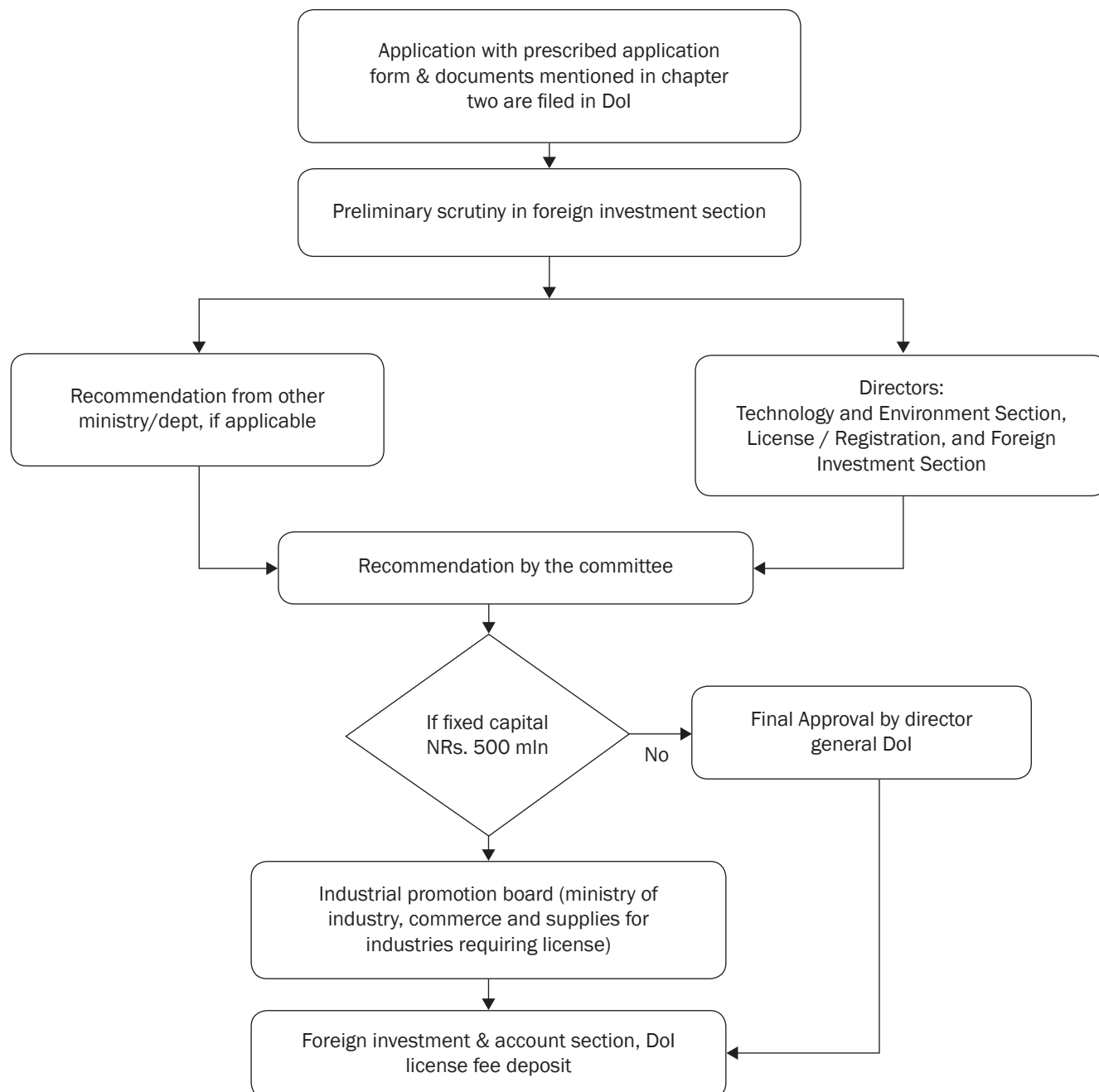
## 13.9 Trade Policy

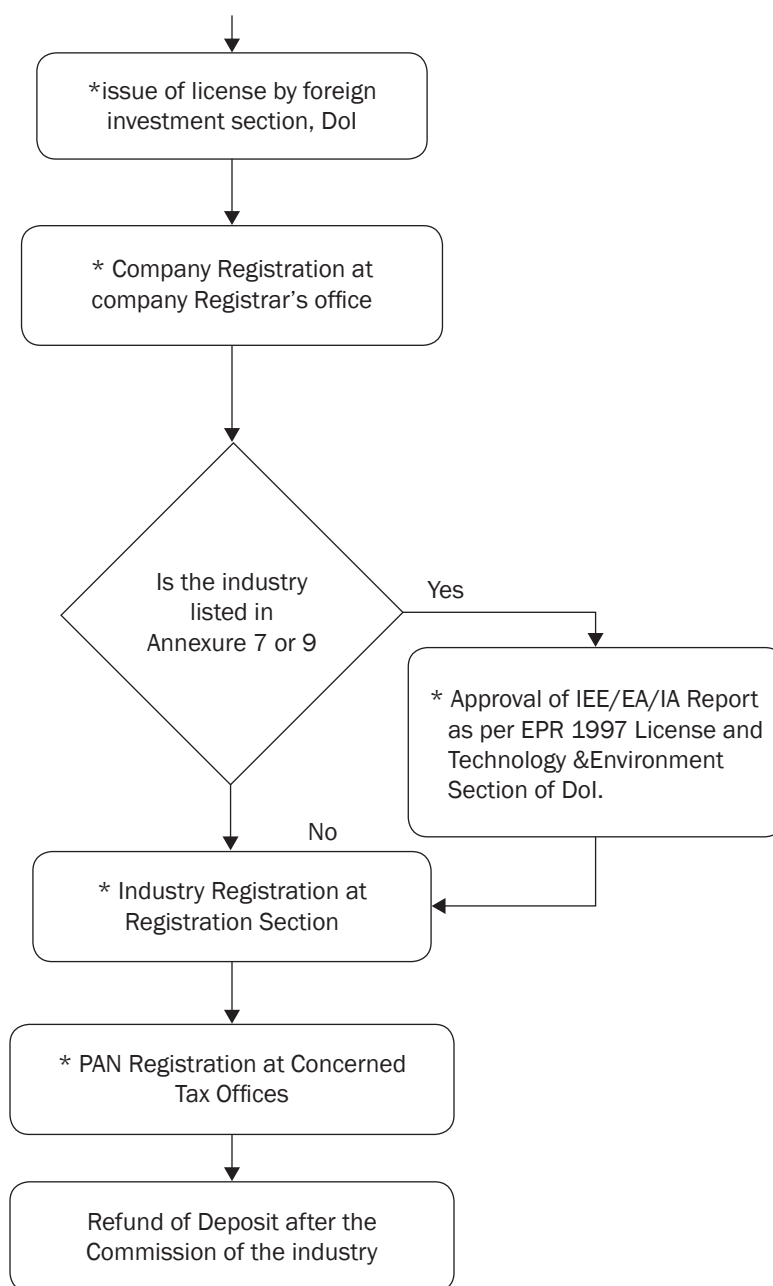
The major highlights of the trade policy are as follows:

- a) Public sector works as a catalyst and facilitator to expand the role of private sector.
- b) No licences required for exports and import of any products other than banned or quantitatively restricted items.
- c) The duty drawback scheme available for the refund of import duty paid on imported raw materials and intermediate goods required for the production of exportable products.
- d) No duty levied on raw materials and auxiliaries imported by industries in EPZ/SEZ
- e) Nepal has adopted General Agreement on Tariff and Trade (GATT) valuation system
- f) NRs 600 as customs service fee is charged per custom declaration form on export and
- g) NRs 500 on import at custom point
- h) Export is generally free of custom duty.
- i) Custom duty on export is levied on the basis of FOB price determined by calculating the cost incurred including in transporting the goods up to custom point when exporting the goods.

## 14. Licensing Procedure & Guidelines/Formalities for Indian Direct Investment in Nepal

### 14.1 Flow Chart for Pre-Investment Approval Procedure of a new foreign equity investment Proposal





Note: Licensing Procedures of some selected industries is discussed in detail in section 14.5

*\*Moments where the foreign investor shall be involved*

Source: Department of Industries

## 14.2 General Procedure for Approval from DoI for foreign investment

The foreign investor shall include the following documents with the application when seeking approval for foreign investment in Nepal.

Types of Foreign Investment	Foreign equity investment in a new industry (100% subsidiary or JVC)	Foreign investment in an existing industry by share transfer	Investment in Loan (in an existing Nepali Company)	Technology Transfer (existing industrial unit willing to avail foreign technology)
Documents Required	a) Prescribed application form b) Project Report - 2 copies c) Joint Venture Agreement (JVA), in case of more than one investor - 2 copies d) Citizenship certificate of local party or Certificate of Incorporation including Memorandum of Association and Articles of Association, if local party is a company - 1 copy e) Copy of passport of foreign party/ or Certificate of incorporation, including Memorandum of Association and Articles of Association, if participant is a company - 1 copy f) Bio-data / Company profile of the foreign party - 1 copy g) Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank - 1 copy h) Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable	a) Project Report b) Request letter from the share transferor (not required in case of issue of new shares) c) Request letter from the share transferee (not required in case of issue of new shares) d) Share transfer agreement (3 copies) e) Copy of minutes of the Board meeting of the Nepalese company regarding inclusion of foreign investor in to the company. (1 copy) f) Copy of minutes of the Board meeting, certificate of incorporation and company profile of the foreign party if the participant is a company. (1 copy) g) Copy of passport and bio-data of foreign party, if the participant is an individual. (1 copy) h) Financial credibility certificate of the foreign investor provided by the bank. (1 copy) i) Current shareholders' list as certified by the Company Registrar's Office. (1 copy) j) Recent Auditor's Report (1 copy) k) Tax clearance certificate (1 copy) l) Authority letters from the respective companies concerned to sign on behalf of the companies	a) Prescribed application form b) Loan Agreement - 2 copies c) Certificate of Incorporation, including Memorandum of Association and Articles of Association of the lending agency - 1 copy d) Company profile of the lending agency - 1 copy e) Industry Registration Certificate - 1 copy f) Copy of the minute of the Board of the recipient company regarding the loan to be acquired - 1 copy g) Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable	a) Prescribed application form b) Technology Transfer Agreement (TTA) 2 copies c) Citizenship certificate of local party or Certificate of Incorporation including Memorandum of Association and Articles of Association, if local party is a company 1 copy d) Copy of passport of foreign party/ or Certificate of Incorporation, including Memorandum of Association and Articles of Association, if participant is a company 1 copy e) Bio-data / Company profile of the foreign party 1 copy f) Industry Registration Certificate 1 copy g) Copy of the minute of the Board of the recipient company 1 copy h) Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable

Note: After the approval of foreign investment, up to a maximum amount (depending upon the envisaged fixed asset amount) NRs 20,000 shall have to be deposited in the Account Section of the DoI. The deposited amount shall be refunded to the promoters once the project comes into operation. Once the stated amount is deposited, the promoters shall receive the foreign investment approval letter and certified JVA, if applicable.

## 14.3 Procedures after Obtaining Approval of the Foreign Direct Investment

The foreign investor has to follow the following procedures after the approval is granted by the DoI for foreign investment in Nepal:

Registration At	Register a Company at the CRO	Register an Industry at DoI	Registration at the IRO to get PAN
Documents Required	a) Prescribed application form b) Copy of the permission for foreign investment issued by the DoI. c) Copy of citizenship certificate of Nepalese promoters d) Copy of passport of the foreign promoter(s). e) If the foreign party is a company, copy of the minute of the Board of Directors f) Two copies of company proposed MoA and AoA in Nepali language. g) Deposit of the applicable fees for registration	a) Prescribed application form b) A copy of the foreign investment approval letter issued by the Foreign Investment Section, DoI. c) A copy each of the Certificate of Incorporation, MoA and AoA of the company. d) Environmental Impact Assessment (EIA) Report or Initial Environment Examination (IEE) Report, if the industries are listed in Annexure 7 and Annexure 9 respectively. e) Deposit of Rs 20,000	a) Prescribed application form b) Copy of certificate of incorporation c) Copy of MoA and AoA d) Copy of the citizenship certificate (or passport in case of foreign national) who signs the application e) Two passport sized photo of the individual who signs the application f) Hand drawn sketch of the business location of the applicant g) Power of attorney, if applicable.
Notes		In case of IEE Reports, DoI gives final approval while EIA reports should be approved by the Ministry of Environment, Science and Technology prior to industry registration.	Temporary PAN will be issued and the original will be issued within a month.

## 14.4 Maximum permissible/not permissible foreign direct investments, competent authority and the regulating Acts of Specific Industries

### 14.4.1 Industries Permissible for Foreign Investment

Industry Category	Maximum FDI Permissible	Name of the competent authority (Regulator)	Relevant Acts & Policies	Remarks
1. Manufacturing	100%	Department of Industries	Industrial Enterprises Act, 1992	No additional procedures required except for certain industries which require special permission
2. Financial Services/ Banks and Finance Companies and Branch Office of a Foreign Bank	20-85%	Nepal Rastra Bank	Nepal Rastra Bank Act, Foreign Investment and Technology Transfer Act (FITTA), Foreign Exchange Regulation Act (FERA)	Approval of Nepal Ratra Bank required thereafter, registration of the company is to be done and application filed for licence to operate a bank, or financial institution.
3. Airline Industry	49% to 95%	Civil Aviation Authority of Nepal	The Aviation Policy, 2063 (2006) Civil Aviation Act, 2053 Civil Aviation Rules, 2052 (1996)	FDI is permissible in domestic airline, international airlines, flying schools and repair and maintenance work
4. Telecommunications	80%	Nepal Telecommunication Authority, Ministry of information and Communication	Telecommunication Act	Approval of the Nepal Telecommunication Authority is required to operate services and obtain license prior to operation
5. Roads, Ropeways, Cable car	100%	Transport mgt office		
6. Media & Advertising- TV, Radio and Newsprint	100%	Ministry of Information and Communication	The National Broadcasting Regulation, 2052 (1995) National Broadcasting Act 2049 (1993)	The MOCI and the NTA provides license for establishing media and broadcasting business in Nepal.
7. Pharmaceutical & Chemical Industry	100%	Department of Health Services	Industrial Enterprises Act Drugs Act	Approval from the Department of Drug Administration for setting up the industry, manufacturing and selling the drugs is required
8. Textile and Garment	100%	Department of Industry	Industrial Enterprise Act	No specific requirement
9. Agriculture and Dairy	100%	Ministry of Agriculture and Co-operatives		No specific requirements
10. Consultancy and Management Services	51%	No Specific	Foreign Investment and Technology Transfer Act (FITTA)	Accountancy, Engineering, Legal & Management Services not allowed.
11. Mining	100%	Department of Mines	Department of Mines and Geology (Department) Act Mines and Minerals Act, 2050 (1993) Mines and Minerals Regulations, 2056 (1999)	License from the Department of Mines has to be obtained for mining activities in Nepal
12. Hydro-Power Generation	100%	Department of Electricity Development	Electricity Act Electricity Rules	Approval from the DOED is required prior to operation of the industry
13. Power Trade		Department of Electricity Development	Electricity Act Electricity Rules	Export of Power to India is permitted for companies generating electricity.



14. Transmission Lines	100%	Department of Electricity Development	Electricity Act Electricity Rules	
15. Hotels, Resorts & Restaurant	100%	Ministry of Tourism	Tourism Act, Tourism Policy	Approval from the Department of Tourism Required for operating restaurant, hotels, resorts
16. IT & IT enabled (BPO, KPO)	100%	Department of Science and Technology	IT Act	No specific requirements
17. Vocational, Educational Training and Coaching	100%	No Specific	Foreign Investment and Technology Transfer Act	*Only Skill Training and Language allowed.
18. Hospitals & other Medical Services	100%	Ministry of Health	Nepal Health Professional Act, Nepal Medical Council Act	Approval of the Ministry of Health is required for establishing hospitals and providing medical services
19. Recreational Health Centres	100%	Ministry of Health		
20. Solid Waste Disposal & Management	100%	Ministry of Environment	Environment Protection Act	
21. Film Industry	100%	Cinema Board of Nepal	Motion picture (Production, Exhibition and Distribution) Act, 2026 (1969) and Rules	Film produced in the language of the nation not allowed (FITTA, 1992)
22. Cargo Services	100%	No Specific		Domestic Cargo not permitted under FDI.
23. Medical Education	100%	Ministry of Education	MoHP's Directive on Establishment, Operation, Standards and Infrastructure of Private and Non-governmental Health Institution, 2061	Affiliation to a University has to be entered into and approval from the Ministry of Education required.
24. Engineering Education	100%	Ministry of Education	Technical Education Policy of Ministry of Education	Approval is granted under the Technical Education Policy of Ministry of Education
25. Management Education	100%	Ministry of Education		
26. Insurance & Re-insurance	JV Company Branch offices	Insurance Board	Insurance Act and related directives	Approval of the Insurance Board has to be obtained prior to commencement of business in Nepal.
27. Construction	100%	No Specific	Local Self Governance Act	Approval of the Department of Road, Transport and Physical Planning required
28. Thermal & Alternative/ Renewable Energy	100%	Ministry of Energy	Electricity Act	Allowed only in Energy Generation

## 14.5 Additional Procedures for Specific Industries

### 14.5.1 Bank and Financial Institutions

#### Subsidiary of a foreign bank or financial institution or JV

The proposed bank or financial institution will submit an application to the NRB along with prescribed fee and following documents for approval to operate a commercial bank or financial institution in Nepal. Only foreign banks and financial institutions can apply and obtain a letter of intent:

- Memorandum of association of the proposed bank or financial institution.
- Articles of association.
- Feasibility study report.
- Personal details of the promoters in the form prescribed by the NRB.

- e) A certified copy of the agreement, if any, entered into between the promoters prior to the incorporation of the bank or financial institution in relation to the incorporation of the bank or financial institution.
- f) Evidence of tax clearance by the promoters up to the fiscal year immediately preceding the making of application.
- g) Such other particulars and documents as may be prescribed by the NRB.

Once the approval is obtained, the registration of a public limited company with the CRO is to be undertaken.

- a) A copy of the memorandum of association, articles of association of the bank or financial institution and the certificate of registration of the bank or financial institution;
- b) Particulars of the office building equipped with all infrastructures required by the bank or financial institution to carry on financial transactions, or, if such building is to be rented, a copy of the lease agreement and the particulars of the building to be rented;
- c) Personal details of the chief executive and other executive level officers of the bank or financial institution, and the organizational structure of the bank or financial institution;
- d) Bye-laws relating to conditions of service and facilities of the employees of the bank or financial institution;
- e) Credit policy of the bank or financial institution;
- f) Financial administration bye-laws of the bank or financial institution;
- g) By-laws relating to write-off of loans;
- h) Document proving that the amount of shares which the promoter of the bank or financial institution has undertaken to subscribe has been paid and deposited with NRB;
- i) Such other particulars and documents as may be prescribed by NRB from time to time.

Following matters should be included in the application:

- a) Matter that the minimum capital as prescribed by NRB from time to time shall be maintained until the financial transactions are carried on.

- b) Matter that there have been prepared - infrastructures required for the operation of the bank or financial institution and there exist adequate grounds for providing services and facilities in a manner satisfactory to the NRB.
- c) Matter that the rights and interests of depositors shall be protected on a regular basis pursuant to the bye-laws and provisions relating to the transactions proposed by the bank or financial institution for carrying on the financial transactions.
- d) Consent given to comply with the terms and conditions prescribed by the NRB for carrying on the financial transactions.

### Branch office of a Foreign Bank

Only foreign banks and financial institutions which have not obtained licence to operate a bank or financial institution can apply for opening a branch office in Nepal.

- a) The foreign bank or financial institution willing to operate branch office in Nepal must obtain approval from the NRB.
- b) The foreign bank willing to open branch office in Nepal must produce no objection letter and a letter indicating regulation and supervision to be made in an integrated manner from the central bank or licensing authority of its home country.
- c) The bank or financial institution must produce a letter indicating that its company has been rated at least BBB or Baa or equivalent to the same for three consecutive years. For the purpose of rating at the international level, it means that it has been rated BBB by the Standard & Poor and Baa by the MOODY'S or rated equivalent to the same.
- d) The foreign bank or financial institution willing to operate branch office in Nepal must submit an application to the Bank and Financial Institutions Regulation Department, NRB,
- e) The foreign bank or financial institution must submit an application for establishment of one branch office for the first time, in order to operate branch office in Nepal.
- f) In addition to the documents prescribed along with the application, an original voucher depositing in the US Dollar five percent of the assigned capital structure of a minimum of US\$ 30 million in the designated account of NRB must be produced.

- g) While granting the letter of intent, NRB may specify terms and conditions.
- h) The applicant must, within six months after obtaining the letter of intent, submit an application to NRB for approval for operation of banking transaction and fulfilling the terms and conditions.
- i) Upon obtaining approval from NRB, the applicant must obtain approval from / get registered with the concerned government authorities pursuant to the Nepal law in force.
- j) Attested copy of the decision of the board of directors must be produced indicating commitment that if the licence of the central office of the bank based in the home country is revoked and it is not allowed to carry on transaction in Nepal, the central office of the bank based in the home country shall be liable to pay and settle all the liabilities within and outside Nepal arisen while operating branch office of the foreign bank.

### 14.5.2 Airline Industry

- a) Foreign investments is permitted under Build-Operate-Transfer (BOT), Operate-Transfer (OT), Build-Own-Operate-Transfer (BOOT) basis or any other appropriate basis in developing air transport structures such as airports and infrastructures like roads, railways, terminal buildings, communication and guide inside the airport area.
- b) Permission may be given for foreign investment in aircraft operation, training, repair and maintenance and passenger service provider industries, as follows:
  - International airlines - Up to 80 percent
  - Domestic airlines - Up to 49 percent
  - Flying school - Up to 95 percent
  - Repair and maintenance institutions - Up to 95 percent
- c) Air-flight and operation services in the airspace of the Nepal will not be permitted without the approval of the Civil Aviation Authority of Nepal Authority
- d) Approval will be granted under a one window system and these procedures would be undertaken by the Civil Aviation Authority of Nepal.

### 14.5.3 Telecommunications Industry

After the incorporation of company and getting registered in DoI under Industrial Enterprises Act, 1992, the company having capital, technical expertise and occupational competency as prescribed in Schedule-3 of Telecommunication Rules, 2054 shall apply to Nepal Telecommunication Authority (NTA) for operating telecommunication services.

The applicant shall mandatorily set out, the following matters in the financial and technical study report and operation plan:

- a) Amount required to operate the telecommunication service.
  - b) Investment capacity.
  - c) Telecommunication system, its quality standards and capacity, to be used for the telecommunication service.
  - d) If the land is to be acquired while operating the telecommunication service, that matter, and if compensation is to be provided, the amount of compensation.
  - e) If any agreement it to be made with any person or organization, the matters of the agreement.
  - f) Mode of operation of the telecommunication service.
  - g) Amount of fees to be collected from the customers for the operation of the telecommunication service.
  - h) Other necessary matters prescribed by the NTA.
- If one or more persons are found eligible to operate telecommunication services NTA will give all of those persons a notice to make bids on licence fee, renewal fee and royalty, and issue licence to the person who makes the highest bid in such bidding. Documents to be submitted along with the application:

- |                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>a) Copy of the citizenship certificate, in case of an individual wishing to obtain the licence</li> <li>b) Name of corporate body and documents of legal status, in case of a corporate body wishing to obtain the licence.</li> <li>c) Documents relating to technical competency and professional efficiency.</li> </ul> | <ul style="list-style-type: none"> <li>d) Work operation plan and financial and technical study report.</li> <li>e) Matters stipulated in the public notification published by NTA or prescribed by GoN by a Notification published in the Nepal Gazette.</li> </ul> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

### 14.5.4 Media & Advertising-Television, Radio and Newsprint

#### Licence to Operate Press

A foreign investor desirous to operate printing press pursuant to Sub-section 3 of the Press and Publication Act must submit an application in a format as referred to in Schedule-1 (Application for a License to Operate Press)

of the Press and Publication Rules 2049. On receiving an application pursuant to Sub-rule (1), a certificate to operate the press will be granted and fees of NRs 1000 will be charged.

#### Newspapers and Magazines to be Registered

A person who desires to publish any of the newspapers and magazines pursuant to Section 7 of the Press and Publication Act must submit an application in a format as referred to in Schedule-4 along with the following fees:-

- a) For daily newspapers NRs 1000.
- b) For half-weekly newspapers NRs 700
- c) For weekly newspapers NRs 500
- d) For half monthly newspapers NRs 300
- e) For monthly and other newspapers NRs 200
- f) For other newspapers and magazines NRs 200

A temporary certificate to publish the newspapers and magazines to the applicant in a format as referred to in Schedule-5 of the Press and Publication Rules will be issued.

Once an approval to issue a permanent certificate for publication of newspapers and magazines is obtained from the by the Press Registrar, a permanent certificate to publish the newspapers and magazines to the applicant in a format as referred to in Schedule-6.

#### Licence for Radio

A person has to obtain the license to hold, use, manufacture, sell or distribute all other kinds of radio machines, or to become an amateur radio control operator or amateur radio director shall submit a application to the NTA in the format as referred to in Schedule-1 of the Radio Communication (License) Rules, 2049 (1992).

- a) The licensing authority may issue the licence of satellite receiving system in such a manner that it may be used collectively or individually.
- b) The licensing authority may issue the licence of radio control operator or amateur radio director to the following qualified person:
  - Nepalese citizen having completed the age of Sixteen years,
  - Who can well speak and write both the Nepalese

and English languages, and who has passed written and oral examinations appeared, as per the curriculum approved by the Ministry of Communication, GoN.

- c) The Ministry of Communication and Information, is the appropriate authority to issue licence to broadcast any programme in Nepal which is granted on submission of the application and the prescribed fees.
- d) Permission to broadcast programme by establishing earth station may be granted to any person or corporate body, or a native and foreign person or corporate body in joint investment by establishing the earth station relating to satellite and cable television, by the Ministry of Communication and Information.

### 14.5.5 Pharmaceutical Industries

A person should obtain a recommendation letter from the Department of Drugs Administration (DDA) to establish an industry to manufacture any drugs for which the following procedures should be followed:

- a) Make an application to the DDA in the prescribed format (Schedule 1 of Drugs Registration Rules, 2038)
- b) If satisfied the DDA issues the recommendation

letter to the applicant (Schedule-2) by collecting the fees (Schedule-14) of Drugs Registration Rules, 2038

After the approval from the Ministry of Health Department of Drugs Administration, the company should be incorporated under the Companies Act, 2006 and then registered with DoI under Industrial Enterprises Act, 1992.

### Obtaining Product Licence to Manufacture Drugs

The industry has to apply to the DDA for obtaining licenses to manufacture a particular drug and also apply to the DDA for registration of the drug for selling it in the market with the following documents:

- a) Product specification of the manufactured drug.
- b) Method of analysis of the manufactured drug and

test report conducted by a laboratory specified by the Department.

- c) A sample of the manufactured drug, along with the label indicating its price.
- d) Other matters specified by the DDA.

### 14.5.6 Mining Industry

Application by a foreign investor can be submitted to the Department of Mines in the prescribed format specifying the type of mine to undertake, to obtain following licences:

#### Mines (Other than Petroleum and Natural Gas)

- a) Prospecting licence for a mineral resource target where the grade and volume has not yet been determined:
  - This license allows the license holder to conduct exploration in an area not less than 0.25 sq km and not more than 250 sq km for an initial exploration period of 2 to 4 years with a provision for an extension (1 or 2 years).
  - Exploration activities have to be completed within 2 years for ordinary non-metallic minerals where as 4 years for metallic and valuable non-metallic minerals.
- b) Mining licence in the case of a mineral deposit of which quality and volume has already been established by the Department after certain stages of exploration.

- A mining licence allows the license holder to conduct mineral exploitation works in an area not less than 0.25 sq km and not more than 25 sq km for an initial period of 10 to 30 years depending on the level of mineral works with a provision for an extension (1 to 10 years).
- The direct expenses incurred by the Department in the exploration of the project may be valued and converted into the share or they can be recovered from the qualified applicant as the GoN desires to do so.
- c) Proposed project for exploitation work has to be submitted along with the application for mining licence.
- d) If a holder of Prospecting Licence finds another mine than for which licence has been granted has to inform the Department within 30 days. In such case the Department will give priority to such licence holder while issuing Mining Licence.

## Petroleum and Natural Gas

GoN may invite bids for petroleum exploration, development and production where the foreign contractors can apply within 60 days of the publication of the bids with the following details as prescribed with the following details and time limit as specified in the notice:

- a) Evidence showing that the bidder is a company.
- b) Name and address of the person authorized to act on behalf of the bidder.
- c) Evidence showing that the bidder commands capital, machinery, equipment, tools and specialists required for undertaking Petroleum Operations.
- d) Methods and time schedule of Exploration Operations.

- e) Minimum work program and budget for the Exploration Period (including two extensions).
- f) In the event of the bidder to be joint venture of two or more persons, particulars pertaining to their relationship, responsibilities and percentage interests.
- g) Annual Work Program and Budget for the first Contract Year.

After evaluation of bids, Department may undertake negotiations with any qualified bidders and if successful, the Petroleum Agreement is signed with the GoN.

## Rights and Benefits of Contractors

- a) The right to export entitlement of petroleum.
- b) Exemption from all taxes and fees except a royalty of not less than 12½ percent, and income tax at 30 percent of net income, annual surface rentals, and miscellaneous fees of general application.
- c) Exemption from customs duties on imported goods.
- d) Foreign currency facilities and right to repatriate funds.
- e) Right to employ foreign nationals.
- f) Right to use land.

### 14.5.7 Hydropower Projects

The Hydropower policy stipulates that hydropower shall be developed attracting the investment of domestic and foreign investors in the hydropower generation, transmission and distribution projects through sole or Joint Venture Company and shall also be developed through Joint Venture Company of the private sector and the public sector. In general, foreign investors shall be encouraged, with priority, to make joint investment with Nepalese investors.

After the approval for foreign investment is granted by DoI, investor should be incorporated under Companies Act, 2006 and get registered under the Industrial Enterprises Act, 1992. Thereafter investor should apply to the Secretary of the Ministry of Water Resources through the Department of Electricity Development (DOED) for licence under the Electricity Act 1992 and Electricity Rules 1993 for the survey, production, transmission and distribution of electricity.

The application for survey for generation, transmission and distribution can be submitted separately or together

and the licence will be issued either separately or for all the activities applied for. Similarly, licence for generation, transmission or distribution will be granted as per the application. There have been instances where foreign companies have applied for survey licences directly or through a Joint venture with a local company and thereafter applied for approval under foreign investment.

For the purpose of simplification, clarity and speedy processing of applications for licensing of hydropower projects, the Ministry of Energy has developed a Hydropower Projects Licensing Management Regulations, 2067 based on which the Hydropower Projects are classified into 3 categories:

- a) Small Hydro Power Projects – (1 MW to 25 MW)
- b) Medium Hydro Power Projects – (25 MW to 100 MW)
- c) Large Hydro Power Projects – (above 100 MW )



The following documents are required for obtaining survey, generation and distribution license:

Survey	Renewal of Survey Licence	Generation
a) Apply to DOED in form as per Schedule 2 of Electricity Rules 1993 along with following documents b) Original receipt of the deposit made based on the capacity of production for which application is made c) Desk Study Reports (with detailed cost breakdown of the feasibility work, work schedule and hydrological analysis of the project) d) If the applicant is a corporate body – its registration certificate, MoA and AoA e) Financial Capacity f) Technical Capacity g) Original Topographic Map in the scale 1:25,000 / 1:50,000 with sketch of the project layout h) JV agreement (if applicable) i) Name, address, description, contact no., email, etc of the person with whom correspondence shall be made. j) Person holding power of attorney. k) Work schedule (maximum two years) for survey(detailed feasibility study and environmental study) for electricity generation	a) Licence for survey for the first time it shall be granted for with 1 year validity only. Within that period the licence holder shall have to carry out Topographical Mapping, Surface Geological Mapping and Hydrological study and submit a progress report. b) While making application the license holder shall also provide a milestone of the major tasks to be accomplished during the period c) If the licence holder fails to comply with i) above, based on the assessment of the progress license shall be renewed for 1 year at a time. However, total validity of the survey licence shall not exceed 5 years. d) Application for renewal of the survey license for electricity generation should be made before the expiry of licence. e) Sale or transfer of survey license can be made only on completion of the feasibility study and approval of the TOR for IEE/EIA.	a) Period of the survey licence has reached 5 years, application made to Department for production licence after completing all formalities and Connection Agreement made. If the PPA is not completed but the Department is of the view that the applicant will be able to carry out the project construction, electricity generation licence shall be granted with the condition that PPA shall be submitted within 1 year. b) If the license holder in unable to submit the PPA within 1 year from the date of license, the licence shall automatically be cancelled.

The licence issued in accordance with the Electricity Act and Electricity Rules shall have to be renewed one year before the expiry of the period as mentioned in the licence. The survey licence is generally granted for up to 5 years and the generation, transmission and distribution licence granted up to 50 years.

### 14.5.8 Registration of the Hotel, Lodge, Restaurant and Bar

An investor, who desire to register own Hotel, Lodge, Restaurant and Bar having of tourist standard pursuant to sub-section (2) of Section 10 of the Tourism Act, 2035, has to submit an application to the Department

of Tourism (DOT) of the GoN in the format prescribed in Annex – 1 of the Hotel, Lodge, Restaurant, Bar and Tourist Guide Regulation, 2038 B.S. (1981 A.D) along with the application fees.

### 14.5.9 Hospitals and Medical Services

#### Documents Required for Registration of Health Institution

- Application form (As per Annexure 1 of the Directive).
- Attested copy of company Registration certificate.
- Copy of PAN Certificate.
- Documents related to human resource:



- Bio-data.
- Attested copies of educational qualifications and training.
- In case of doctors, certificate of Medical Council Registration.
- In case of paramedical staff, certificate of registration into Nepal Medical Practitioners Council.
- Copy of citizenship certificate.
- Office hours (Part time/ Full time to be specified).
- Letter of consent/ contract.
- e) Statement and sources of Tools and Equipments.
- f) Statement of entire service fee.
- g) Statement of physical instruments.
- h) Statement and financial sources of movable-immovable property.
- i) Rent Agreement, if any.
- j) Location and layout of institution's building.
- k) Work scheme of the institution.
- l) Postal stamp worth NRs 5.

### 14.5.10 Film Industry

A person who desires to obtain a licence to produce, distribute or exhibit motion picture or construct and operate a cinema hall shall be required to submit an application in the format prescribed in the Schedule to Motion Picture (Production, Exhibition and Distribution) Rules, 2057 (2000)

- a) To produce, distribute or exhibit motion picture Ministry of Information and Communications
- b) To construct and operate a cinema hall District Development Committee / Village Development Committee / Municipality depending upon the location

One Door/Window Committee comprising of representative of various Ministries will make a policy for providing a permission relating to shooting a motion

picture in Nepal from one institution to foreigners or institution on joint venture with the Nepalese Citizen or single investment.

If a licence is issued by the Ministry to shoot motion picture as per policy of the One Door Committee, the producer shall not require separate licence from any institution as per prevailing law to shoot such motion picture.

#### Duration of Licence:

To produce a feature motion picture film:  
within three years

To produce other motion picture:  
within one year from

To distribute or exhibit motion pictures:  
five years the date of obtaining the licence.

### 14.5.11 Establishment of Technical Colleges

Standards, procedures, base and conditions to be fulfilled for the establishment of technical colleges and campuses on private investment

- a) The organization should provide an application on the format prescribed by the Ministry of Education along with the initial proposal.
- b) The organization should be registered in Nepal.
- c) The ministry shall then send the application to the concerned committee for the study of the proposal.
- d) The committee can then recommend the ministry to provide the letter of intent if it considers that it is reasonable for the organization to operate.

- e) The Ministry shall issue the letter of intent incorporating some conditions and timeframe.

#### Documents/Details Required along with Application:

- a) Applicant organization's name, address, authorized personnel and their positions.
- b) Applicant organization's structure, objective and bye-rules.
- c) Proof and basis of the technical capacity of the organization to operate as a college or campus.
- d) Name and address of the proposed educational institute.

- e) A proposal related to the proposed educational institute.
- f) An approved basis for financial resources, amount to be invested for the proposed project and the decision made by the organization relating to the investment of the amount.
- g) Audited financial statements of three previous years, if registered earlier.
- h) A detailed address of the college/campus where it is to be established.
- i) Registration, ownership document, map and a consent letter from the owner of the proposed land where the college or campus is to be established.
- j) If the organization is already registered in a foreign country, it is then required to submit the proof of its registration in the country where it was first registered and also its renewal.
- k) For domestic organizations, the registration documents as per the rules and regulations of Nepal, certificate, by-laws and tax registration certificate (if required).

### 14.5.12 Insurance Industry (life and non life)

Only foreign corporate body can apply for establishing an insurance company under joint venture with a Nepali citizen or body corporate or opening a branch office with the submission of the application to the Insurance Board along prescribed fees:

- a) Feasibility Study Report - 2 Copies (Schedule 1).
  - b) If any agreement is there among promoters about the registration of insurer, copy of that agreement paper.
  - c) Income source and proof of ability of promoters to invest in proposed insurance company,
  - d) Personal Details of promoters (Schedule 2).
  - e) Authorized letter proving promoters not being in blacklist.
  - f) Tax clearance certificate of last fiscal year of promoters.
  - g) Citizenship certificate of promoters.
  - h) If promoters have any financial interest in any institution, description
  - i) showing document of that institution.
  - j) Following Documents of proposed insurer;
    - Employees' by-law and Financial administration by-law,
    - Documents showing the bases of determining the premium rate ,
    - Underwriting, customer service, claim payment and business promotion directives,
  - k) If proposed insurer has any agreement to take service from foreign insurer or person, that agreement paper.
- If the proposed insurer is a foreign joint venture the following documents should be submitted in addition to mentioned above:
- a) the approval from supervisor of respective country:
    - Proof of termination or cancellation of ban, if operation had been banned.
    - Proof of foreign promoter running the respective insurance business in home country.
  - b) Audited annual report of last three years proving positive growth in net worth.
  - c) Copy of joint venture agreement with Nepalese investors.
  - d) Detail of investment in any organized institution in Nepal (if any ).
  - e) Financial credibility documents proving credit worthiness.
  - f) Name list and proportion of ownership of directors and detail of organization(s) in which they have financial interest including detail of board of directors.
- If the proposed insurer is a foreign insurer, the following additional documents should be submitted relating to the foreign insurance company;
- g) Memorandum and article of association - 2 copies.
  - h) Name list and proportion of ownership of directors and detail of organization(s) in which they have financial interest including detail of board of directors.

- i) Copy of the decision of board of directors to establish insurance company in Nepal.
- j) Copy of tax clearance certificate of last fiscal year (if available) or proof of being updated in related tax office.
- k) Approval of home supervisor disclosing following details:
  - Proof of termination or cancellation of ban, if operation had been banned.
  - Proof of foreign promoter running the respective insurance business in home country.
  - l) Audited annual report of last three years proving positive growth in net worth.
  - m) Detail of investment in any organized institution or detail of representative in Nepal, if any.

## 15. Capital Market and Mutual Fund in Nepal

Capital markets are associated with raising capital or financial resources on a long term basis directly from the public at large. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth amongst smaller investors by providing an effective vehicle for making investment choices as per the Investor's preference of risk and returns based on available information. As such, capital markets help the economy to generate more savings and productive investments.

The Nepali capital market had its beginnings with the establishment of the Securities Marketing Center in 1976. In 1984, the Securities Exchange Act was promulgated and this institution was converted into the Securities Exchange Center (SEC) under the ownership of the Nepali

Government, Nepal Rastra Bank - the Central Bank - and the Nepal Industrial Development Corporation - a government owned industrial development bank.

The growth of the capital market gained momentum with the establishment of the Nepal Stock Exchange Limited (NEPSE). In 1993, the Securities Exchange Act was amended. The Securities Exchange Center was converted into the Nepal Stock Exchange Limited for securities trading by private brokers and the Securities Exchange Board was established for oversight functions as a regulatory body. This amendment also permitted private sector market intermediaries and set the operating guidelines for intermediary functions such as broking, market making, issue management, and portfolio management.

### 15.1 Nepal Stock Exchange Limited (NEPSE)

The Nepal Stock Exchange Limited (NEPSE) is the only Stock Exchange of Nepal. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through members, market intermediaries, such as broker, market makers etc.

NEPSE opened its trading floor on 13 January 1994 and as of November 2010 has 223 listed companies. This includes commercial banks, financial institutions, insurance, manufacturing companies and hydropower companies.

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed

corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the rules and bye-laws of the Securities Exchange Act, 2063. NEPSE is in the process of increasing the number of brokers.

NEPSE operates on the 'NEPSE Automated Trading System'(NATS), a fully screen based automated trading system, which adopts the principle of an order driven market. Purchase & sale of physical share certificates is done through NATS. The Automated Trading System was started from 24 August 2007.

A Central Depository of Securities Regulation-2010 was issued by SEBON for the establishment of the central

depository system (CDS) company. With the establishment of the CDS, NEPSE will commence trading on a safe and dependable computerized book entry system and do away with the current scrip-base system of trading. The new system will facilitate investors to have their accounts

that will show their holdings, automatically debit or credit after trading. Accordingly, NEPSE has established the first Central Depository System (CDS) and Clearing Company Ltd — as its subsidiary.

## 15.2 Formation of Securities Board of Nepal (SEBON)

Securities Board of Nepal (SEBON) was established by the GoN on 7 June 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Act, 2007. The functions, duties and powers of SEBON as per the Act are as follows.

- To offer advice to GoN on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the licence of any stock exchange which is not found to be doing so.
- To issue licences to conduct the business of dealing in securities, subject to this Act, or the rules and the by-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities' dealers.
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- To approve the by-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such by-rules of stock exchange and institutions engaged in the business of dealing in securities.
- To systematize the task of clearing accounts related to transactions in securities.
- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the by-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

## 15.3 The Securities Act 2007

The Securities Act 2007 was promulgated in order to regulate and manage the activities of the securities markets and persons involved in the business of dealing in securities by regulating the issuance, purchase, sale

and exchange of securities for the purpose of protecting the interests of investors in securities, by developing the capital market to mobilize necessary capital for the economic development of the country.

## 15.4 Mutual Funds in Nepal

The Mutual Fund industry in Nepal is still in its nascent stage. There is only one mutual fund operator in Nepal at present. The various options/ schemes that are available to investors worldwide are not available to the local investors. Likewise, the benefits that may accrue by way of development of capital market and infrastructure industry due to the operation of the mutual funds are also not seen.

NIDC Capital Markets is the only institution providing mutual fund schemes to the public in Nepal, in line with the objective of providing investment opportunities for sound economic development.

The Securities Board of Nepal (SEBON) has passed a Mutual Fund Regulations 2010 with the mandatory provision of NRs 500 million as paid-up capital for setting up a mutual fund. Companies that have net worth lower than the paid-up capital and have been making profit for the last three consecutive years without having been blacklisted are eligible to work as mutual fund.

The promoter institution has to appoint trustee and scheme manager with the permission of SEBON for setting up a mutual fund. Any company that has a net worth less than that compared to paid up capital of at least NRs 200 million cannot become trustee of the mutual fund, according to the regulations. The trustee's job is to collect funds and sign agreements on behalf of the mutual fund. The regulations also prohibit the funds from purchasing more than 20 percent of one single company. A mutual fund cannot deposit more than 10 percent of total assets of the scheme in banks. Similarly, the fund can invest 25 percent of its total funds in foreign security markets of those countries which have signed agreements with SEBON.

Nepal Rastra Bank has permitted the commercial banks in Nepal to operate Mutual Fund companies in Nepal under the Mutual Fund Regulations 2010.

## 16. Formalities to be performed in India for Direct/Indirect Investment in Nepal

Direct investment outside India means investments, either under the Automatic Route or the Approval Route, by way of contribution to the capital or subscription to the MoA of

a foreign entity, signifying a long-term interest (setting up a Joint Venture (JV) or a Wholly Owned Subsidiary (WOS)) in the overseas entity.

### 16.1 Permission for Foreign Investment

General permission is granted to persons resident in India for purchase / acquisition of securities as under

- a) Out of funds held in the Resident Foreign Currency (RFC) account.
- b) As bonus shares on existing holding of foreign currency shares.
- c) When not permanently resident in India, from the foreign currency resources outside India.

General permission is also available to sell the shares so purchased or acquired. A resident Indian can remit up to USD 200,000, per financial year under the Liberalized Remittance Scheme (LRS), for permitted current and capital account transactions including purchase of securities.

Resident individuals can acquire/sell foreign securities without prior approval in the following cases: -

- a) As a gift from a person outside India.
- b) By way of Employees Stock Option Scheme (ESOP) issued by a company incorporated outside India under Cashless ESOP which does not involve any remittance from India.
- c) By way of ESOPs issued to an employee or a director of Indian office or branch of a foreign company or of a subsidiary in India of a foreign company or of

an Indian company in which foreign equity holding is not less than 51 percent.

- d) As inheritance from a person whether resident in or outside India.
- e) By purchase of foreign securities out of funds held in the RFC Account maintained in accordance with the Foreign Exchange Management (Foreign Currency Account) Regulations, 2000.
- f) By way of bonus/rights shares on the foreign securities already held by them.
- Reserve Bank of India (RBI) has given general permission to a resident individual to acquire foreign securities to the extent of the minimum number of qualification shares required to be held for holding the post of Director provided such shares do not exceed 1 percent of the paid-up capital of the overseas company and the amount to be remitted for such shares does not exceed USD 20,000 in a calendar year.
- Real estate as defined in Regulation 2(p) of the Notification and banking business are the prohibited sectors for overseas direct investment. However, Indian banks operating in India can set up JVs/WOSs abroad provided they obtain clearance under the Banking Regulation Act, 1949, from DBOD, RBI, CO.

### 16.2 Automatic Route

Under the Automatic Route, an Indian Party does not require any prior approval from the RBI for setting up a JV/WOS abroad. The Indian party should approach an

Authorized Dealer Category – I bank with an application in Form ODI and the prescribed enclosures / documents for effecting the remittances towards such investments.



(However, in case of investment in the financial services sector, prior approval is required from the regulatory authority concerned both in India and abroad).

The criteria for direct investment under the Automatic Route are as under:

- a) The Indian party can invest up to 400 percent of its net worth (as per the last audited Balance Sheet) in JV / WOS for any lawful activity permitted by the host country. The ceiling of 400 percent of net worth will not be applicable where the investment is made out of balances held in the EEFC account of the Indian party or out of funds raised through ADRs/GDRs;
- b) The Indian party is not on the RBI's exporters' caution list / list of defaulters to the banking system published/ circulated by the Credit Information Bureau of India Ltd. (CIBIL)/RBI or any other credit information company as approved by the Reserve Bank or under investigation by the Directorate of Enforcement or any investigative agency or regulatory authority; and
- c) The Indian party routes all the transactions relating to the investment in a JV/WOS through only one branch of an authorized dealer to be designated by the Indian Party.

### 16.2.1 Procedure to be followed by an Indian party to make direct investment in a JV/WOS under the automatic route

The Indian party intending to make a direct investment under the automatic route is required to fill up an ODI form duly supported by the documents listed therein, i.e., certified copy of the board resolution, statutory auditors

certificate and valuation report (in case of acquisition of an existing company) as per the valuation norms and approach an authorized dealer (designated authorized dealer) for making the investment/remittance.

## 16.3 Restrictions regarding the Currency of Investment

Investments in Nepal can be only in Indian Rupees. All the dues receivable on investments made in freely convertible currencies as well as their sale / winding up

proceeds are required to be repatriated to India in freely convertible currencies.

## 16.4 Approval Route: Procedure to be followed for Proposed Investment

Proposals not covered by the conditions under the automatic route require the prior approval of the Reserve Bank for which a specific application in an ODI form with the documents prescribed therein is required to be made through the Authorized Dealer Category – I banks. Some of the proposals which require prior approval are:

- a) Overseas Investments in the energy and natural resources sector exceeding 400% of the net worth of the Indian companies as on the date of the last audited balance sheet.
- b) Investments in overseas unincorporated entities in the oil sector by resident corporates exceeding 400 percent of their net worth as on the date of the last audited balance sheet provided the proposal has been approved by the competent authority and
- c) Overseas investments by proprietorship concerns and unregistered partnership firms satisfying certain eligibility criteria; and
- d) Investments by Registered Trusts / Societies (satisfying certain eligibility criteria) engaged in the manufacturing / educational / hospital sector in the same sector in a JV / WOS outside India.



## 16.5 Permissible Sources for Funding Overseas Direct Investment

Funding for overseas direct investment can be made by one or more of the following sources:

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>a) Withdrawal of foreign exchange from an AD bank in India.</li> <li>b) Swap of shares (refers to the acquisition of the shares of an overseas entity by way of exchange of the shares of the Indian entity).</li> <li>c) Capitalization of exports.</li> <li>d) Through the proceeds of External Commercial Borrowings / Foreign Currency Convertible Bonds.</li> <li>e) In exchange of ADRs / GDRs issued in accordance</li> </ul> | <ul style="list-style-type: none"> <li>with the Scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 and the guidelines issued by Government of India in the matter.</li> <li>f) Balances held in Exchange Earners Foreign Currency account of the Indian Party maintained with an authorized dealer.</li> <li>g) Proceeds of foreign currency fund raised through ADR / GDR issues.</li> <li>h) In respect of (f) and (g) above, the ceiling of 400 percent of the net worth does not apply.</li> </ul> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## 16.6 Obligations of the Indian party, which has made direct investment outside India including Nepal

Indian party which has made direct investment outside India including Nepal will have to comply with the following:

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>a) Receive share certificates or any other documentary evidence of investment in the foreign entity as an evidence of investment.</li> <li>b) Repatriate to India, all dues receivable from the foreign entity, like dividend, royalty, technical fees etc.</li> <li>c) Submit to the RBI through the designated authorized dealer, every year, an Annual Performance Report in Part III of Form ODI in respect of each JV or WOS outside India set up or acquired by the Indian party.</li> <li>d) Report the details of the decisions taken by a JV/ WOS regarding diversification of its activities /</li> </ul> | <ul style="list-style-type: none"> <li>setting up of step down subsidiaries/alteration in its share holding pattern within 30 days of the approval of those decisions by the competent authority concerned of such JV/WOS in terms of the local laws of the host country. These are also to be included in the relevant Annual Performance Report.</li> <li>e) In case of disinvestment, sale proceeds of shares/securities shall be repatriated to India immediately on receipt thereof and in any case not later than 90 days from the date of sale of the shares /securities and documentary evidence to this effect shall be submitted to the RBI through the designated authorized dealer.</li> </ul> |
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## 17. Treaty of Trade between GoN and GoI 2009

With a need to shift the Indo-Nepal trade to higher level and attain better qualitative dimensions a revised treaty of trade between Government of Nepal (GoN) and Government of India (GoI) was signed in 2009. The opening of new lines of products and duty free access in India aims to provide further boost to the growing Indo-Nepal Trade. This treaty is expected to provide further access to Nepalese products into India and to enhance and expand bilateral trade between the two countries.

The main features of the Trade Treaty retained are:

- Duty free access to each other's primary products as per agreed list.
- Nepalese manufactured products are allowed non-reciprocal access to the Indian market, free of basic customs duty, on the basis of Certificate of Origin issued by a GoN designated authority – FNCCI, if the goods are manufactured in Nepal with Nepalese and/or Indian inputs; or, with at least 30% local value addition, if third country inputs are used; and, involves substantial manufacturing process leading to change in HS classification at four-digit level.
- Annual quotas for duty free access in respect of four items were increased– vegetable fats (100,000 tonnes) acrylic yarn (10,000 tonnes), copper products (10,000 tonnes) and zinc oxide (2,500 tonnes).
- Following categories of items are allowed access on MFN basis - cigarettes, alcohol (excluding beer) and cosmetics with non-Nepalese and non-Indian brands.
- Nepalese goods attract Countervailing Duty (CVD) equal to excise duty on similar products in India.
- Goods manufactured by small scale units in Nepal enjoy the same benefits as SSIs in India with regard to tax exemption.
- The exports and imports of goods not subject to prohibitions or duties are also allowed to move through the traditional routes on common border.
- The validity of the Treaty increased from five to seven years, along with the provision of automatic extension for further periods of seven years at a time.
- No discrimination to be made in respect of tax, including central excise, rebate and other benefits to exports merely on the basis of payment modality and currency of payment of trade.
- The time limit for temporary import of machinery and equipment for repair and maintenance has been raised from 3 to 10 years.
- Criterion for calculating value addition for gaining preferential access to India has been changed from ex-factory basis to FOB basis.
- India will consider waiver, on request from GoN, of any additional duty that may be levied over and above CVD.
- Both sides will exempt exports of goods, which are already covered under forward contract, from imposition of restrictions on exports.
- Both sides will grant recognition to the sanitary and phytosanitary certificates issued by the competent authority of the exporting country based on assessment of their capabilities.
- Articles manufactured in Nepal, which do not fulfill the criteria for preferential access will be provided MFN access to the Indian market. The certificate of origin in case of such exports has been prescribed.
- The provisions regarding safeguard measures in case of serious injury to the domestic industry have been streamlined.
- A joint mechanism, comprising local authorities will be established to resolve problems arising in clearance of perishable goods.
- An Inter-Governmental Sub-Committee (IGSC) at the joint secretary-level has been established. Existing Inter-Governmental Committee (IGC) at the Secretary level will meet once in six months and the IGSC will meet at the interval of the two IGC meetings.
- Four additional Land Customs Stations (LCSs) will be established to facilitate bilateral trade: Maheshpur/Thutibari (Nawalparasi); Sikta-Bhiswabazar; Laukha-Thadi; and Guleria/Murtia, bringing the total number of Stations to 26.
- Bilateral trade will be allowed by air through international airports connected by direct flights between Nepal and India (Kathmandu/Delhi, Mumbai, Kolkata and Chennai).
- India will review and simplify the existing administrative arrangements for operationalisation of fixed quota for acrylic yarn, copper products and zinc oxide.

## 18. Agreement of Cooperation between GoN and Gol to Control Unauthorized Trade 2009

The GoN and Gol, taking into account the free movement of people between the two countries due to the long and porous border and the possibility of unauthorized trade impacting the economy of both the countries, entered into an agreement to control unauthorized trade in 2009.

Major highlights of the Agreement

- Both governments would take all such measures as are necessary to ensure that the economic interests of the other party are not adversely affected through unauthorized trade between the two countries.
- Effectively co-operate with each other to prevent infringement and circumvention of the laws, rules and regulations of either country in regard to matters relating to customs, narcotics and psychotropic substances, foreign exchange and foreign trade and shall for this purpose assist each other in such matters as consultation, enquiries and exchange of information with regard to matters concerning such infringement or circumvention.
- Subject to such exception as may be mutually agreed upon, each government shall prohibit re-exports to the territory of the other country, of goods imported from third countries without manufacturing activity. However, the above shall not be applicable in case of the export of Nepalese goods into India under the procedure set out in protocol V to the Treaty of Trade between GoN and the Gol.
- There will be no restriction on re-export from the territory of one country to third countries of the goods imported from the other country without manufacturing activity in the first country.
- In order to avoid inducement towards diversion of imported goods to the other country, take appropriate steps through necessary provisions relating to Baggage Rules, gifts and foreign exchange authorization for the import of goods from third countries.
- Both countries shall compile and exchange with each other statistical and other information relating to unauthorized trade across the common border exchange the lists of goods the import and export of which are prohibited, or restricted or subject to control according to their respective laws and regulations.

## 19. Treaty of Transit between GoN and Gol 2006

India and Nepal have a Treaty of Transit, which confers transit rights through each other's territory through mutually agreed routes and modalities. The treaty of transit was last renewed for seven years in March 2006. The key features are:

- India offers 15 transit routes from Kolkata/Haldia to Nepal for its third country trade.
  - Goods can move by road or rail. The creation of ICD in Birgunj and extension of railway line from Raxaul to Birgunj has facilitated direct movement of goods in transit by rail to Nepal.
  - A simple customs procedure has been put in place for Nepal's third country traffic.
  - Since 1993, India also allows movement of goods from one part of Nepal to another through a simple process of customs undertaking.
  - India has extended Nepal direct transit routes to Bangladesh for bilateral and third country traffic. One road route and one rail route have been notified. The road route is through Kakarbitta-Panitanki-Phulbari-Banglabandha corridor. The rail route is through Radhikapur-Birol.
- In response to request from Nepal, India has agreed to allow an alternate rail route through Rohanpur-Sighabad as the Radhikapur-Birol route has been rendered unusable after the gauge conversion of the rail track on the Indian side. India has also agreed to allow Vishakhapatnam port as an additional port for Nepal's trade with other countries.

## 20. Rail Service Agreement

India and Nepal have signed a Rail Service Agreement seeking to introduce rail communication between the two countries.

- The agreement provides for operating and managing the freight train services between Kolkata/Haldia ports in India and Birganj in Nepal via Raxaul in India for transit traffic initially between stations on Indian Railways and Birganj via Raxaul for bilateral traffic at a later date mutually agreed upon by both the Governments.
- The agreement identifies the details of rail services to be provided between India and Nepal as also the undertakings agreed upon by both the

countries in operation, maintenance and financial adjustments.

- The fresh agreement on expansion of rail service is likely to be signed in the near future.
- While India has been exploring the possibilities of setting up new rail lines through five different routes, two of these routes - the 17.65-km long stretch between Jogbani (India) and Biratnagar (Nepal) and the 70 km long stretch from Jaynagar (India) to Bardibas (Nepal) via Baijalpura (Nepal) - are likely to be given top priority and will form the core of the agreement to be signed

## 21. Air Service Agreement

India and Nepal have signed a new air services agreement that virtually opens up their skies to all of their airlines. The new Air Services Agreement, based on International Civil Aviation Organization (ICAO) template, was negotiated and initialed in September 2009 with an aim of widening the field of aviation.

Major highlights of the agreement:

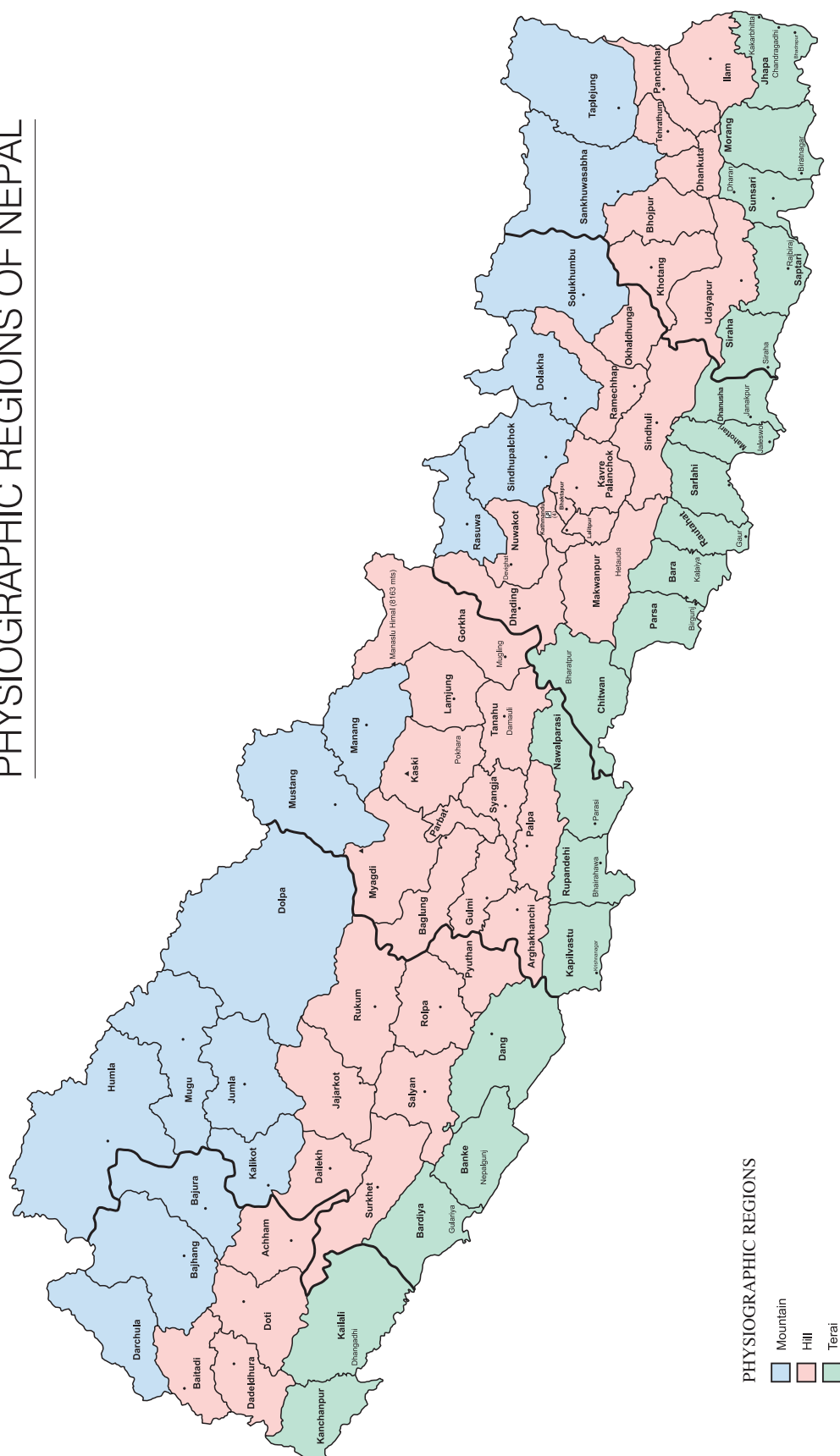
- Both the countries shall be entitled to designate any number of airlines for operation of mutually agreed services, for which the respective country shall grant appropriate authorization and permission.
- Airlines from both countries will have fifth freedom traffic rights to and from any point within the South Asian Association for Regional Cooperation, a regional body that also includes Afghanistan,

Bhutan, Bangladesh, Pakistan, Sri Lanka and the Maldives. They also have the nod to exercise beyond fifth freedom traffic rights to and from destinations other than the points in the SAARC Region on not more than seven flights per week.

- The designated airlines can also operate unlimited all-cargo services between each country, and this includes code sharing agreements.

The growth of the air services of the two countries has greatly facilitated the enhancement of historical relationship between the two countries and has the potential to spur greater trade investment, tourism and strengthening the cultural exchange between the two countries besides bringing it in tune with the developments in the international civil aviation scenario.

# PHYSIOGRAPHIC REGIONS OF NEPAL



PHYSIOGRAPHIC REGIONS

- Mountain
- Hill
- Terai

# Concerned Government and Other Agencies while Doing Business in Nepal

## Concerned Ministries of GON

### Ministry of Industry

Singha Durbar, Kathmandu, Nepal

Tel: 977-1-4211579

Fax: 977-1-4211619

Email: [info@moi.gov.np](mailto:info@moi.gov.np)

URL: <http://www.moi.gov.np>

### Ministry of Commerce & Supplies

Singha Durbar, Kathmandu, Nepal

Tel: 977-1-4211446

Fax: 977-1-4211167

Email: [info@mocs.gov.np](mailto:info@mocs.gov.np)

URL: <http://www.mocs.gov.np>

### Ministry of Home Affairs

Singha Durbar, Kathmandu, Nepal

Tel: 977-1-4211261, 4211212, 4211274, 4211249, 4211224

Fax: 977-1-4211264

Email: [homegon@wlink.com.np](mailto:homegon@wlink.com.np)

URL: <http://www.moha.gov.np>

### Ministry of Tourism and Civil Aviation

Singha Durbar, Kathmandu, Nepal

Tel: 977-1-4232411, 4222846, 4228847, 4216372

Fax: 977-1-4227758

Email: [motca@ntc.net.np](mailto:motca@ntc.net.np)

URL: <http://www.tourism.gov.np>

### Ministry of Finance

Address: Singha Durbar, Kathmandu, Nepal

Tel: 977-1-4211161, 4211400, 4211412, and 4211338

Fax: 977-1-4211164, 4211605

Email: [admindivision@mof.gov.np](mailto:admindivision@mof.gov.np)

URL: <http://www.mof.gov.np>

### Ministry of Foreign Affairs

Narayanhiti Palace, Durbarmarg, Kathmandu.

Tel: Exchange: 4416011, 4416012, 4416013,

Reception: 0, 270

Fax: 4416016 / 4419044

Email: [fso@mofa.gov.np](mailto:fso@mofa.gov.np)

URL: <http://www.mofa.gov.np>

### Ministry of Information & Communications

Singha Durbar, Kathmandu, Nepal

Tel: 977-1-4211556, 4211647, 4211615, and 4211728

Fax: 977-1-4211979, 4211729, And 4211610

Email: [moicppme@ntc.net.np](mailto:moicppme@ntc.net.np), [moicgon@ntc.net.np](mailto:moicgon@ntc.net.np)

URL: <http://www.moic.gov.np>

### Ministry of Labour and Transport Management

Singha Durbar, Kathmandu, Nepal.

Tel: 977-1- 4211889, 4211991

Fax: 977-1-4211877

Email: [info@moltm.gov.np](mailto:info@moltm.gov.np)

URL: <http://www.moltm.gov.np>

### Ministry of Energy

Singha Durbar, Kathmandu, Nepal

Tel.: 977-1-4211516

Fax: 977-1-4211510

E-mail: [info@moen.gov.np](mailto:info@moen.gov.np)

URL : <http://www.moen.gov.np>

## Concerned Departments of GoN

### Departments & Units under Ministry of Commerce & Supplies

#### Department of Commerce

Babarmahal, Kathmandu, Nepal.

Tel: 977-1-4243939, 4247913, 4247912, 4239123

Fax: 977-1-4249603

Email: [info@doc.gov.np](mailto:info@doc.gov.np)

url: <http://www.doc.gov.np>

## Trade and Export Promotion Centre

Pulchowk, Lalitpur,  
P.O. Box 825, Kathmandu.  
Tel: 977-1-5525898 / 5532642  
Fax: 977-1-5525464  
E-mail: [info@tepc.gov.np](mailto:info@tepc.gov.np)  
URL: <http://www.tepc.gov.np>

## Concerned Departments, Units, Cells under Ministry of Industry

### Department of Industries

Tripureshwor, Kathmandu, Nepal  
Tel : 977-1-4261101, 4261168, 4261169, 4261203  
Fax: 977-1-4261112  
Email: [info@doi.com.np](mailto:info@doi.com.np)  
URL: <http://www.ip.np.wipo.net>

### Office of the Company Registrar

Tripureshwor, Kathmandu, Nepal  
Tel: 4263090, 4259948, 4263089  
Fax: 977-1-259961  
E-mail: [croffice@wlink.com.np](mailto:croffice@wlink.com.np)  
URL: <http://www.cro.gov.np>

### Department of Mines and Geology

Lainchaur, Kathmandu, Nepal  
Tel: 977-1-4414740  
Fax: 977-1-4416806  
E-mail: [dmgdgo@hotmail.com](mailto:dmgdgo@hotmail.com)  
URL <http://www.dmgnepal.gov.np>

### Department of Cottage and Small Industries

Address: Tripureshwor, Kathmandu  
Tel: 977-1-4259875  
Fax: 977-1-4259747  
Email: [docs@wlink.com.np](mailto:docs@wlink.com.np)  
URL: <http://www.dcsi.gov.np>

### Nepal Bureau of Standards and Metrology

Address: Balaju, Kathmandu  
Tel: 977-1-4350818  
Fax: 977-1-4350689  
Email: [nbsm@nbsm.gov.np](mailto:nbsm@nbsm.gov.np)  
URL: <http://www.nbsm.gov.np>

## Industrial District Management Ltd.

Balaju Industrial District,  
Phone: 977-1-4350849, 4350523, 4350274  
Fax: 977-1-4351369  
Email: [idlho@ntc.net.np](mailto:idlho@ntc.net.np)  
URL: <http://www.idm.com.np>

## Concerned Departments Units, Cell under Ministry of Finance

### Department of Customs

Tripureshwor, Kathmandu, Nepal  
Tel.: 977-1-4259793  
Fax. 977-1-4259808  
E-Mail: [it@customs.gov.np](mailto:it@customs.gov.np)  
URL: <http://www.customs.gov.np>

### Inland Revenue Department

Lazimpat, Kathmandu  
Tel: 977-1-4415802 (hunting line)/4410340/4415967/4415969  
Fax: 977-1-4411788  
mail: [hq@ird.gov.np](mailto:hq@ird.gov.np)  
URL: <http://www.ird.gov.np>

### Department of Revenue Investigation

Hahihar Bahwan, Pulchowk, Lalitpur  
Tel: 977-1-5010085, 5010057  
Fax: 977-1-5551802  
Email: [info@dri.gov.np](mailto:info@dri.gov.np)  
URL: <http://www.dri.gov.np>

### Nepal Rastra Bank

#### Central Office

Baluwatar, Kathmandu, Nepal  
P. O. Box 73  
Phones: 977 1 4410158, 4410201, 4411250  
Fax: 977 1 4410159  
URL: <http://www.nrb.org.np>



### **Banking Office**

Thapathali, Kathmandu, Nepal  
Tel: 977-1-4226832, 4241557  
Fax: 977-1-4227378

### **Privatization Cell**

Singh Durbar, Kathmandu, Nepal  
Tel: 977-1-4259993, 4211320, and 42113743  
Fax No: 977-1-4259891  
Email: [pvtm@mof.gov.np](mailto:pvtm@mof.gov.np)  
URL: <http://www.privat.gov.np>

### **Departments & Units under Ministry of Tourism and Civil Aviation Authority of Nepal**

Babarmahal, Kathmandu Nepal  
Tel: 977-1-4262387  
Fax: 977-1-4262516  
URL: <http://www.caanepal.org.np>

### **Nepal Tourism Board**

Bhrikuti Mandap  
GPO Box No 11018  
Tel: 977-1- 4256909, 4256909 (hunting line)  
Fax: 977-1-4256910  
Email: [info@welcomenepal.com](mailto:info@welcomenepal.com), [info@ntb.org.np](mailto:info@ntb.org.np); [pmsrestha@ntb.org.np](mailto:pmsrestha@ntb.org.np)  
URL: <http://www.welcomenepal.com>

### **Concerned Departments under Transport and Labour Ministry**

#### **Department of Transport Management**

Koteswor Kathmandu  
Tel: 977-1-4602126, 4601743, 4601002  
Fax: 977-1-4602440  
Email: [info@dotm.gov.np](mailto:info@dotm.gov.np)  
URL: <http://www.dotm.gov.np>  
Department of Labour  
Anup Marg, Minbhawan, Kathmandu, Nepal  
Tel: 977-1-4107124, 4107120, 4107194, 4107288  
Fax: 977-1-4107288  
Email: [info@dol.gov.np](mailto:info@dol.gov.np)  
URL: <http://www.dol.gov.np>

### **Concerned Departments under Energy Ministry**

#### **Department of Electricity Development**

Post Box No. 2507  
576 BhaktiThapa Sadak (4), Anamnagar  
Kathmandu, Nepal  
Tel: 977-1-4480326, 4479507, 4480425  
Fax: (977-1-) 4480257  
Email: [info@doed.gov.np](mailto:info@doed.gov.np)  
URL: <http://www.doed.gov.np>

#### **Nepal Electricity Authority**

Post Box No: 10020  
Central Office, Durbar Marga,  
Kathmandu, Nepal,  
Ph: 977-1-4153052, 4153053, 4153054,  
Fax: 977-1-4153067, 4153013  
Email: [info@nea.org.np](mailto:info@nea.org.np)  
URL: <http://www.nea.org.np>

### **Chambers of Commerce & Industry in Nepal**

#### **Federation of Nepalese Chambers of Commerce and Industry (FNCCI)**

Pachali Shahid Shukra FNCCI Milan Marg, Teku  
P.O. Box 269, Kathmandu, Nepal  
Tel: 977-1-4262061 / 4262218 / 4266889  
Fax: 977-1-4261022 / 4262007  
E-mail : [fncci@mos.com.np](mailto:fncci@mos.com.np)  
URL : <http://www.fncci.org>

#### **Confederation of Nepalese Industries (CNI)**

303 Bagmati Chamber, Teku,  
Kathmandu, Nepal  
Tel: 977-1-4244686, 4243711  
Fax: 977-1-4244687  
Email: [cni@wlink.com.np](mailto:cni@wlink.com.np)  
URL: <http://www.cnind.org>

### **Nepal-India Chamber of Commerce & Industry (NICCI)**

Ace Apartments, Narayenchaur, Naxal,  
GPO Box No 13245  
Kathmandu, Nepal  
Tel: 977-1-4444607  
Fax: 977-1-4444608  
Email: [nicci@mo.com.np](mailto:nicci@mo.com.np), [secretariat@nicci.org](mailto:secretariat@nicci.org)  
URL: <http://www.nicci.org>

### **Nepal Chamber Of Commerce (NCC)**

Chamber Bhawan, Kantipath  
P. O. Box: 198, Kathmandu, Nepal  
Tel: 977-1-4230947  
Fax: 977-1-4229998  
Email: [chamber@wlink.com.np](mailto:chamber@wlink.com.np)  
URL: <http://www.nepalchamber.org>

### **Agro Enterprise Center (AEC)**

### **Federation of Nepalese Chambers of Commerce and Industry**

FNCCI Building, Teku  
PO Box 7651, Kathmandu, Nepal  
Tel: 977-1-4262245, 4262260, and 4267005  
Fax: 977-1-4261671  
E-mail: [aec-fncci@mos.com.np](mailto:aec-fncci@mos.com.np)  
URL: <http://www.aec-fncci.org>

### **South Asian Association of Regional Cooperation (SAARC)**

SAARC Secretariat,  
P.O. Box 4222,  
Tridevi Marg, Kathmandu, Nepal.  
Tel: 977-1-4221785, 422 6350  
Fax: 977-1-4227033, 422 3991  
Email: [saarc@saarc-sec.org](mailto:saarc@saarc-sec.org)  
URL: <http://www.saarc-sec.org>

### **Indian Diplomatic Mission in Nepal Embassy of India**

P.O. Box. 292  
336, Kapurdhara Marg, Lainchaur  
Kathmandu, Nepal  
General Tel: 977-1-4410900 / 4414990 / 4411699  
Fax: 977-1-4428279

### **Commerce Wing**

Tel: 977-1-4410232  
Fax: 977-1-4418205  
Email: [trade@eoiktm.org](mailto:trade@eoiktm.org) , [commerce@eoiktm.org](mailto:commerce@eoiktm.org)  
URL: <http://www.indianembassy.org.np>

### **Office of Consulate General of India**

Sripur, Birgunj,  
Tel: 977-51-532244, 532264  
Fax: 977-51-532269  
Email: [cg.birgunj@mea.gov.in](mailto:cg.birgunj@mea.gov.in)

### **Nepalese Diplomatic Mission in India**

### **Embassy of Nepal**

Barakhamba Road  
New Delhi 110001, India  
Tel: 0091-011-23327361, 011-23329218, 011-23328066  
Fax: 0091-011-2332.6857  
Email-id: [nepembassydelhi@airtelmail.in](mailto:nepembassydelhi@airtelmail.in)

### **Consulate General of Nepal in Kolkata India**

1, National Library Avenue,  
Alipore Kolkata 700027 India  
Tel: 0091-33-2456-1103, 1117, 1224, 1154, 1085, 3972, 3971  
Fax: 0091-33-2456-1410  
Email: [rncg@vsnl.net](mailto:rncg@vsnl.net), [rncg@cal.vsnl.net.in](mailto:rncg@cal.vsnl.net.in)

### **Major Chambers of Commerce & Industry in India**

### **Federation of Indian Chambers of Commerce & Industry**

Federation House  
Tansen Marg  
New Delhi 110001  
Tel: 91-011-23738760-70  
Fax: 91-011-23320714, 23721504  
Email: [ficci@ficci.com](mailto:ficci@ficci.com)  
URL: <http://www.ficci.com>

## **Confederation of Indian Industry**

The Mantosh Sondhi Centre  
23, Institutional Area, Lodi Road,  
New Delhi - 110003  
Tel: 91-11-24629994-7  
Fax: 91-11-24626149  
Email: [ciico@cii.in](mailto:ciico@cii.in)  
URL: <http://www.cii.in>

## **Indian Chamber of Commerce**

ICC Towers  
4, India Exchange Place,  
Kolkata-700001  
Tel: 91-33-22303242-44  
Fax: 91-33-22313377/22313380  
Email: Director General [ceo@indianchamber.net](mailto:ceo@indianchamber.net) or  
[ps2sg@indianchamber.net](mailto:ps2sg@indianchamber.net)  
URL: <http://www.indianchamber.org>

## **PHD Chamber of Commerce and Industry**

PHD House,  
4/2 Siri Institutional Area  
August Kranti Marg, New Delhi 110016  
Tel: 91-11-26863801-4, 26866814, 26857745-46  
Fax: 91-11-26855450, 26863135  
E-mail: [phdcci@phdcci.in](mailto:phdcci@phdcci.in)  
URL: <http://www.phdcci.in>

## **West Bengal-Nepal Chamber of Commerce and Industry (WBNCCI)**

Suite 6, Second Floor  
Hotel Hindusthan International  
235/1 A. J.C. Bose Road  
Kolkata 700 020 India  
Tel: 4001 8000, 40018080, 2283 0505, 2280 2323,  
Extn: 2930  
Fax: 91 33 22800111  
Email: [pro@wbnci.com](mailto:pro@wbnci.com), [secretary@wbnci.com](mailto:secretary@wbnci.com)  
URL: <http://wbnci.com>

## **Other Concerned Agencies of Government of India**

### **Department of Commerce Ministry of Commerce and Industry**

Udyog Bhawan,  
New Delhi 110 107, INDIA  
Phone: 91-11-23062261  
Fax: 91-11-23063418  
URL: <http://commerce.nic.in>

### **Directorate General of Foreign Trade Ministry of Commerce & Industry**

Udyog Bhawan, H-Wing, Gate No. 2,  
Maulana Azad Road ,New Delhi-110011  
Tel. (EPBAX No.): 011-23061562  
Fax No: 011-2306 2225  
Email: [dgft@nic.in](mailto:dgft@nic.in)  
URL : <http://dgft.gov.in>

### **Reserve Bank of India**

Mail Building  
P.O.Box. 901  
Shahid Bhagat Singh Road  
Mumbai – 400 001, India  
Tel: 0091-22-2660500  
Fax: 2660817  
URL: <http://www.rbi.org.in>

# List of Relevant Acts, Policies and Guidelines

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1. [Arbitration Act, 2055 \(1999\)](#)
2. [Electricity Rules, 2050 \(1993\)](#)
3. [Private Firm Registration Act, 2014 \(1958\)](#)
4. [Environment Protection Act, 2053 \(1997\)](#)
5. [Banks and Financial Institutions Act, 2063 \(2006\)](#)
6. [The Electronic Transactions Act, 2063 \(2008\)](#)
7. [Privatization Act, 2050 \(1994\)](#)
8. [Bill Formulated to Amend and Unify the Laws Related to the Excise Duty](#)
9. [Bonus Act, 2030 \(1974\)](#)
10. [Employee Provident Fund Act, 2019 \(1962\)](#)
11. [Private Financing in Build and Operation of Infrastructures, 2063 \(2006\)](#)
12. [An Act made to provide for establishment and operation of the Special Economic Zone](#)
13. [Civil Aviation Act, 2015 \(1959\)](#)
14. [Environment Protection Act, 2053 \(1997\)](#)
15. [Retirement Fund Act, 2042 \(1985\)](#)
16. [The Companies Act, 2063 \(2006\)](#)
17. [Foreign Exchange \(Regulation\) Act, 2019 \(1962\)](#)
18. [Securities Act, 2007](#)
19. [Contract Act 2056 \(2000\)](#)
20. [Money Laundering Prevention Act, 2063 \(2008\)](#)
21. [Secured Transaction Act, 2063 \(2006\)](#)
22. [The Copyright Act, 2059 \(2002\)](#)
23. [Motion Picture \(Production, Exhibition and Distribution\) Act, 2026 \(1969\)](#)
24. [Telecommunications Act, 2053 \(1997\)](#)
25. [Customs Act, 2064 \(2007\)](#)
26. [An Act Made to Provide for Multimodal Transportation of Goods 2063 \(2006\)](#)
27. [Tourism Act, 2035 \(1978\)](#)
28. [Customs Rules, 2065 \(2007\)](#)
29. [Negotiable Instruments Act, 2034 \(1977\)](#)
30. [Trade Union Act, 2049 \(1992\)](#)
31. [Drugs Act, 2035, \(1978\)](#)
32. [Partnership Act, 2020 \(1964\)](#)
33. [Water Resources Act, 2049 \(1992\)](#)
34. [Electricity Act, 2049 \(1992\)](#)
35. [The Patent, Design and Trade Mark Act, 2022 \(1965\)](#)
36. [Value Added Tax Act, 2052 \(1995\)](#)

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1. [Treaty of Trade between Government of Nepal and Government of India, 2009](#)
2. [Agreement of Cooperation between Government of Nepal and Government of India to Control Unauthorized Trade, 2009](#)
3. [Treaty of Transit between Government of Nepal and Government of India 2006](#)
4. [Rail Service Agreement](#)
5. Air Service Agreement
6. [Agreement for Avoidance of Double Taxation](#)
7. [Electric Power Trade Agreement](#)

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1. [The Hydropower Development Policy, 2001](#)
2. [Industrial Policy 2067](#)

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Civil Aviation Policy

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## Presence of Indian Multinational Companies

**Udayan Ganguli**

**CEO**

**Dabur Nepal P Ltd.**

TNT Building,

Tinkune, Kathmandu.

Phone: 4112302 / 4221140 / 2054599 / 2054535 (CDMA)

**Sanjiv Keshava**

**Managing Director**

**Surya Nepal Pvt. Ltd.**

Post Box No. 1864

Gha, 2/513, Shree Bal Sadan,

Kantipath, Kathmandu.

Phone: 4228794 / 4227328

Fax: 4227585

**Kamran Bakr**

**Managing Director**

**Unilever Nepal Ltd.**

Heritage Plaza, Kamaladi

Kathmandu, Nepal

Phone: 4254203

Fax: 4253462

Email: [kamran.bakr@nll.com.np](mailto:kamran.bakr@nll.com.np)

**Roshit Unnithan**

**General Manager**

**Aarti Strips Pvt. Ltd.**

Balaju-16, Kathmandu

Tel. 4351851

Fax No. 977-1-4382207

**B. K. Agrawal**

**Managing Director,**

**Ashok Steel Industries (P.) Ltd.**

Bagmati Chamber, Teku, Kathmandu, Nepal.

Tel. 243148, 242335, 227237

Fax. 248215

**Budhaditya Mukherjee**

**General Manager**

**Asian Paints (Nepal ) Pvt. Ltd.**

Bharatiya Gorkha Sainik Niwas, Paknajol, Kathmandu.

Tel. 414082 /423777/ 417921

Fax No. 417606/417185

**P K Mohapatra**

**Executive Director**

**Everest Bank Ltd.**

Lazimpat, Kathmandu.

Tel. 443863/64

Fax No. 4443160

**Murleedharan P.**

**CEO**

**Life Insurance Corporation (Nepal) Ltd**

Kathmandu Plaza, 2nd Floor, Kamaladi, Kathmandu

Tel. 229687 (Direct)

Fax No. 229689

**J. Ghosh**

**Manager for Nepal**

**National Insurance Co. Ltd.**

Tripureshwor, Kathmandu

Tel. 260672 / 250710/ 260366

Fax No. 261289

**N.K. Chari**

**Managing Director**

**Nepal SBI Bank Ltd.**

Hattisar, Kathmandu.

Tel. 435576/ 435613/ 435516

Fax No. 435612

Email: [nsblco@nsbl.com.np](mailto:nsblco@nsbl.com.np)

**Sudev B Nair**

**CEO**

**The Oriental Insurance Co. Ltd**

Jyoti Bhawan, Kantipath, Kathmandu

Tel. 221448 / 250137/ 241960 / 250322

Fax No. 223419

**Joydeb Chakravarty**

**Managing Director**

**Thompson Nepal Pvt Ltd**

5th Floor, Saket Complex

Tripureswor, Kathmandu.

Tel. 265777

Fax No. 264699



**Tejendra Khadka**  
**Managing Director**

**United Brewery (Nepal) Pvt. Ltd**  
Hetauda Industrial District, Hetauda  
Tel. 057-20452, 20451,  
Fax No. 057-521398

**Sunil Devkota**  
**General Manager,**  
**United Insurance Nepal Ltd**  
IJ Plaza, Durbarmarg, Kathmandu  
Tel. 220492, 230958, 240957, 246686  
Fax No. 246687

**Chintamani Upreti**  
**General Manager**  
**United Spirits Nepal Pvt. Ltd.**  
Tanki Sinuwari, Biratnagar, Nepal.  
Tel: 021-526865  
Fax No. 021-5 26911

**S. Kannan**  
**CEO**  
**United Telecom Limited**  
Triveni Complex, Putalisadak, Kathmandu.  
Tel. 2001880, 2000754  
Fax. 2499999

**Pradeep Chandra**  
**General Manager (Nepal Project)**  
**Patel Engineering Ltd.**  
Panipokhari, Kathmandu.  
Tel: 4428299  
Fax: 4428299

**Anurag Mishra**  
**CEO (Officiating)**  
**Standard Chartered Bank Nepal Ltd.**  
New Baneswar, Kathmandu.  
Phone: 782333, 783753,  
Fax: 781002

**Ms. Pooja Mehra**  
**Director**  
**NTP Tourism Affairs P Ltd.**  
Ward No 30, Kantipath, Kathmandu  
Phone 4254104 / 4254106  
Fax: 4266611  
Email: [Info@iataacademy.com](mailto:Info@iataacademy.com)

**Amit Goswami**  
**CEO**  
**Nepal Distillery P Ltd.**  
Balaju, Kathmandu  
Phone : 4350725 / 4350988  
Fax: 4350971  
Email: [nepaldis2006@yahoo.com](mailto:nepaldis2006@yahoo.com)

**Saibal Ghosh**  
**Country Manager**  
**Berger Jenson & Nicholson (Nepal) P. Ltd.**  
Berger House, Tinkune, Kathmandu.  
466038/ 466039/ 434434  
466039  
[info@bergernepal.com](mailto:info@bergernepal.com)

**C P Khetan**  
**Director**  
**Gorkha Brewery Pvt. Ltd**  
Khetan House, Hattisar, Kathmandu.  
Phone: 4444445  
Fax: 4444443  
Email: [info@gorkhabrewery.com](mailto:info@gorkhabrewery.com)

**Rajkumar Thard**  
**Chairman**  
**Gorkha Lahari P Ltd**  
Thapathali, Kathmandu  
Phone: 4246068 / 4231894  
Fax: 4231947  
Email: [ntobaco@wlink.com.np](mailto:ntobaco@wlink.com.np)



## Some Past & Present Successful presence of Indian JVs in Nepal

### Manufacturing

Aarti Strips P Ltd.  
Asian Paints Nepal Pvt Ltd.  
Ashok Steel Industries P Ltd.  
Bashulinga Sugar & General Industries Pvt. Ltd.  
Berger Jenson & Nicholson (Nepal) P. Ltd.  
Bhaktapur Indiana Dairy Products Pvt. Ltd.  
Duke Nepal Pvt. Ltd.  
Essel Packaging Ltd.  
Everest Containers Pvt. Ltd.  
Everest Ice Cream Pvt. Ltd.  
Everest Rolling Industry Pvt. Ltd.  
Gorkha Lahari P Ltd.  
Pro-biotech Industries P Ltd.  
Rescent Industries (Nepal) Pvt. Ltd.  
Surya Nepal Pvt Ltd.

### Distillery/Breweries

Gorkha Brewery Pvt Ltd.  
Highland Distillery P Ltd.  
Nepal Distillery P Ltd.  
Sungold Brewery Nepal P Ltd.  
United Breweries Nepal Pvt Ltd.  
United Spirits Nepal P Ltd.

### FMCG

Dabur Nepal Pvt Ltd.  
Unilever Nepal Ltd.  
Varun Beverage Nepal P Ltd.

### Hotel and Resorts

Hotel Everest International  
Hotel Hyatt Regency P Ltd.

### Infrastructure

IL & FS Infrastructure Development Co. Pvt. Ltd.  
Patel Engineering Ltd.  
United Telecom Limited

### Insurance

Life Insurance Corporation (Nepal) Ltd.  
National Insurance Co Ltd.  
The Oriental Insurance Co Ltd.  
United Insurance Nepal Ltd.

### Pharmaceuticals & Others

ACE Laboratories Nepal Ltd.  
Concept Pharmaceuticals Nepal Ltd.

### Education

Manipal Education & Medical Group Nepal Pvt Ltd.  
NTP Tourism Affairs P Ltd.  
Planet EDU Nepal Pvt Ltd.

### Advertisement

Asia Pacific Communication Associates Nepal Pvt. Ltd.  
Thompson Nepal Pvt Ltd.

### Banks

Everest Bank Ltd.  
Nepal SBI Bank Ltd.  
Standard Chartered Bank Nepal Ltd.

### Real Estate

Ansal Chaudhary Developers Pvt. Ltd.

### Textile

Annapurna Textile Ltd.  
Nepal Spinning Weaving & Knitting Pvt. Ltd.  
Reliance Spinning Mills Ltd.

### Tourism

Sita World Travel (Nepal) Pvt Ltd.

### Telecommunication

United Telecom Ltd.

### Others

Ace Packaging Pvt. Ltd.  
Equipment Maintenance Center Pvt. Ltd.  
Exterior Industries Nepal Pvt. Ltd.  
Recall Blue Gum Pvt. Ltd.  
Sama Printers Pvt Ltd.

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**NICCI**

NEPAL - INDIA CHAMBER OF COMMERCE & INDUSTRY

नेपाल - भारत उद्योग तथा वाणिज्य संघ

Nepal-India Chamber of Commerce & Industry ( NICCI ) , GPO Box No. 13245,

Ace Apartment, Narayan Chaur Naxal, Kathmandu

Tel : +977 1 4444607 Fax : +977 1 4444608

E-mail : [secretariat@nicci.org](mailto:secretariat@nicci.org) [nicci@mos.com.np](mailto:nicci@mos.com.np) URL : <http://www.nicci.org>



EMBASSY OF INDIA  
KATHMANDU, NEPAL