

NEPAL INVESTMENT GUIDE 2016



**GOVERNMENT OF NEPAL
OFFICE OF THE INVESTMENT BOARD**



**GOVERNMENT OF NEPAL
MINISTRY OF INDUSTRY**

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ACRONYMS

BPO	business process outsourcing
BS	Bikram Sambat (Nepali calendar)
CRO	Company Registrar Office
DG	Director General
DOI	Department of Industry
EIA	environmental impact assessment
EPR	Environment Protection Rules
FDI	foreign direct investment
FITTA	Foreign Investment and Technology Transfer Act
FY	fiscal year
GDP	gross domestic product
GNI	gross national income
GSP	Generalized System of Preferences
IBN	Investment Board of Nepal
ID	Industrial District
IEE	initial environmental examination
INR	Indian rupees
IPB	Investment Promotion Board
IRD	Inland Revenue Department
NPR	Nepali rupees
NTB	Nepal Tourism Board
PAN	Permanent Account Number
PDA	project development agreement
PIA	project investment agreement
PPP	purchasing power parity / public-private partnership
SEZ	Special Economic Zone
SEZDC	Special Economic Zone Development Committee
USD	United States dollar
VAT	Value Added Tax
WTO	World Trade Organization

COUNTRY OVERVIEW

NEPAL: COUNTRY PROFILE

Official Country Name

Federal Democratic Republic of Nepal

Region

South Asia

Capital

Kathmandu, located in central Nepal

Population

28.17 million

Area

147,181 square km

Altitude

59 to 8,848 metres (Mt Everest)

Standard Time

GMT + 5:45 hours

Governing System

Republic: Multi-party parliamentary democracy with elected prime minister responsible to the parliament as executive head and constitution endorsed in 2015

Language

Nepali, written in Devanagari script
English is widely used in business

Religion

Secular state; Hinduism 81.3%, Buddhism 9.0%, Islam 4.4%, Kirat 3.1%, Christianity 1.4%¹

Geography (South to North)

Terai region : Altitude 59–700 m

Hilly region : Altitude 700–3,000 m

Mountain region : Altitude 3,000–8,848 m

Currency

Nepali rupee (NPR)

1 USD = 106 NPR (as of 1 Jan 2016)

1 INR = 1.6 NPR (fixed rate)

ISD Code

+ 977

Climate

Terai region : Tropical/sub-tropical

Hilly region : Moderate

Mountain region : Sub-alpine/alpine

River systems

Mahakali (Sharda in India) basin, western border of Nepal
Karnali (Ghagra in India) basin, Mid-Western Nepal
Gandaki (Gandak in India) basin, Central and Western Nepal
Koshi, Central and Eastern Nepal

Data on climate for 3 largest cities by population

			JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
Kathmandu (1.00m ¹)	Temperature: °C	Avg. high	19.1	21.4	25.3	28.2	28.7	29.1	28.4	28.7	28.1	26.8	23.6	20.2	25.6
		Avg. low	2.4	4.5	8.2	11.7	15.7	19.1	20.2	20.0	18.5	13.4	7.8	3.7	12.1
	Precipitation: mm	Avg.	14.4	18.7	34.2	61.0	123.6	236.3	363.4	330.8	199.8	51.2	8.3	13.2	1455
Pokhara (0.32m ¹)	Temperature: °C	Avg. high	19.7	22.2	26.7	29.8	30.1	30.6	30.0	30.2	29.3	27.5	24.1	20.7	26.7
		Avg. low	7.1	9.2	12.8	15.7	18.4	20.9	22.0	22.0	20.8	16.7	11.9	8.0	3.7
	Precipitation: mm	Avg.	23.0	35.0	60.0	128.0	359.0	669.0	940.0	866.0	641.0	140.0	18.0	22.0	3901
Biratnagar (0.21m ¹)	Temperature: °C	Avg. high	22.7	26.1	30.9	33.9	33.3	32.9	32.1	32.5	32.1	31.6	29.3	25.4	30.2
		Avg. low	9.0	11.1	15.6	20.4	23.3	25.2	25.6	25.8	24.7	21.1	15.3	10.5	19.0
	Precipitation: mm	Avg.	11.7	13.2	13.2	53.1	186.0	302.4	530.8	378.3	298.8	91.8	5.9	6.6	1892

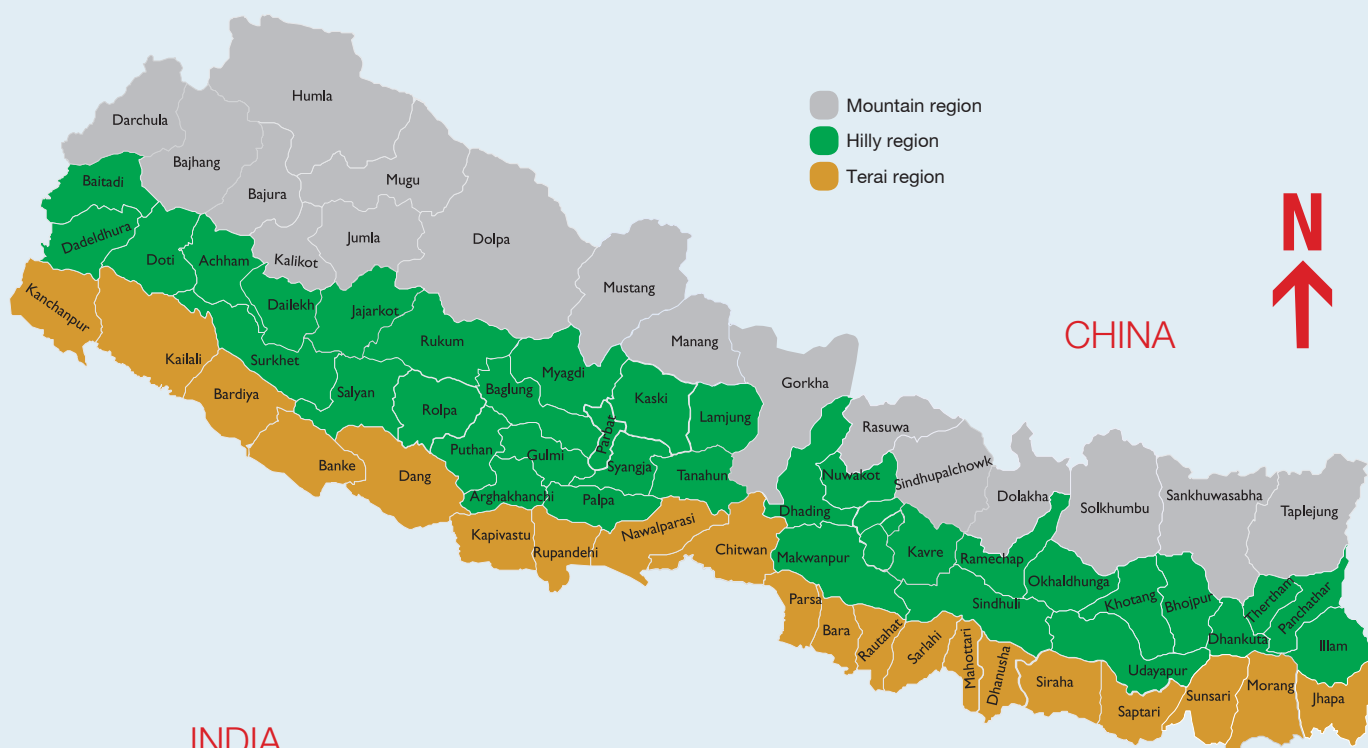
Source: World Meteorological Organization (1981-2010)

¹Ranking based on Census 2011. The number is the estimated population in 2015.

ECONOMIC INDICATORS

PARTICULARS	2011	2012	2013	2014
Population (million)	27.18	27.50	27.83	28.17
GDP (USD million)	18,913.5	18,851.5	19,271.1	19,769.6
GDP growth rate (%)	3.4	4.8	4.1	5.4
GNI per capita (USD)	610	690	730	730
GNI PPP per capita (USD)	2,050	2,170	2,270	2,410
Agriculture value added (% GDP)	38.3	36.5	35.0	33.7
Industry value added (% GDP)	15.4	15.5	15.7	15.6
Service value added (% GDP)	46.3	48.0	49.2	50.7
Workers' remittances (USD million)	4,216.9	4,793.4	5,588.9	5,769.7
Inflation consumer price (annual %)	9.3	9.5	9.0	8.4
Inflation GDP deflator (annual %)	10.8	6.6	6.6	8.7

Source: World Development Indicators, 2014



STRATEGIC ADVANTAGES

Strategic location and geographic advantages

- Strategically located between two large and rapidly growing economies – China and India – with easy access to markets of more than 2.6 billion people
- Duty free and open border access to India
- Duty free access to China for around 8,000 products
- Enjoys various duty and tax free arrangements in the region as a Member of South Asian Free Trade Area (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement
- The topography and abundant water resources give rise to vast untapped hydropower potential
- Contains the Himalayas, which is the highest mountain range on Earth, and 8 of the world's 10 highest peaks, combined with unique cultural heritage, creating potential for tourism
- Incredibly rich biodiversity, creating potential in agriculture and medicinal and aromatic plant research

Large pool of capable workers

- Of the population of 28 million, 61% are working age (15–65 years)
- Large English speaking population, especial in the capital, Kathmandu
- High participation of women in the workforce, compared to other South Asian countries
- Relatively low cost of labour; minimum monthly wage being NPR 8,000 (approx. USD 76) as at February 2016

Ease of doing business

- Ranked 2nd after Sri Lanka among South Asian countries in the 'Ease of Doing Business Report 2015' by the World Bank Group
- Foreign investors are allowed 100% ownership of a company in almost all sectors²
- Repatriation of capital and profits to the investor's home country is allowed³
- Importance of the private sector recognised by the Constitution of Nepal (2015)
- Various bilateral investment protection and double tax avoidance arrangements are in place:
 - Bilateral Investment Promotion and Protection Agreement (BIPPA) signed with Finland, India, Germany, Mauritius, United Kingdom, and France
 - Double Taxation Avoidance Agreement signed with Austria, China, India, Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka and Thailand
- Member of Multilateral Investment Guarantee Arrangement (MIGA) of the World Bank Group
- Member of World Trade Organization (WTO)
- Duty free, quota free market access to European Union under Everything But Arms (EBA) arrangements
- Duty free US market access to 66 types of garment items for 10 years (starting from 2016)

Low competitive environment with potential for high profitability

- Market competition is low and there are low levels of foreign direct investment (FDI) inflows into Nepal
- Major multilateral companies incorporating in Nepal tend to record high profitability
- Disposable income of locals is increasing rapidly due to remittances from abroad, which contribute more than 30% of GDP, creating new local markets for products as well as new pools of talent within the labour market

²Foreign Investment and Technology Transfer Act (FITTA) 1992

³Ibid.

HOW TO INVEST IN NEPAL

This section looks at how to invest in Nepal. It explains what forms of FDI are allowed, the process of applying for approval of foreign investment, the agencies responsible and the fees involved. It also takes a quick look at how to register a company and how to register for tax.

OPEN FOR BUSINESS

Nepal is open for business in many areas, with progressive policies by the Government of Nepal to attract foreign investment and agencies such as the Department of Industry under the Ministry of Industry and Investment Board Nepal, which is headed by the Prime Minister himself, mandated to provide investors with all the help they need. For national priority projects, foreign investment is especially encouraged in the recently enacted Foreign Investment Policy, 2015.

Forms of foreign investment

The Foreign Investment and Technology Transfer Act (FITTA) 1992 governs foreign investment and classifies the following activities as foreign investment:

- Establishing a new industry either with 100% foreign equity or as a joint venture with Nepalese or other foreign investor(s)
- Investing equity in an existing industry by share transfer
- Making a loan, foreign or local, to an existing industry
- Engaging in technology transfer in an existing industry

For areas restricted for foreign investment see Annex 1.

Applying for foreign investment approval

Foreign investors need to apply for approval before they incorporate a company and conduct business activities in Nepal. Application can be made to the Department of Industry or the Investment Board Nepal (IBN), depending on the size of the investment. FITTA 1992 is the law regulating the entry and operation of foreign investment in the country.

Approving agencies for FDI by Size

INVESTMENT SIZE (FIXED CAPITAL)	APPLICATION AT	APPROVAL BY
≥ NPR 10 BN (APPROX US\$ 100 M)	INVESTMENT BOARD NEPAL (IBN)	INVESTMENT BOARD NEPAL (IBN)
< NPR 10 BN ≥ NPR 2 BN (APPROX US\$ 20 M)	DEPARTMENT OF INDUSTRY (DOI)	INDUSTRIAL PROMOTION (IPB)
> NPR 2 BN	DEPARTMENT OF INDUSTRY (DOI)	DIRECTOR GENERAL OF DOI

Note: The Investment Promotion Board is under the Ministry of Industry.

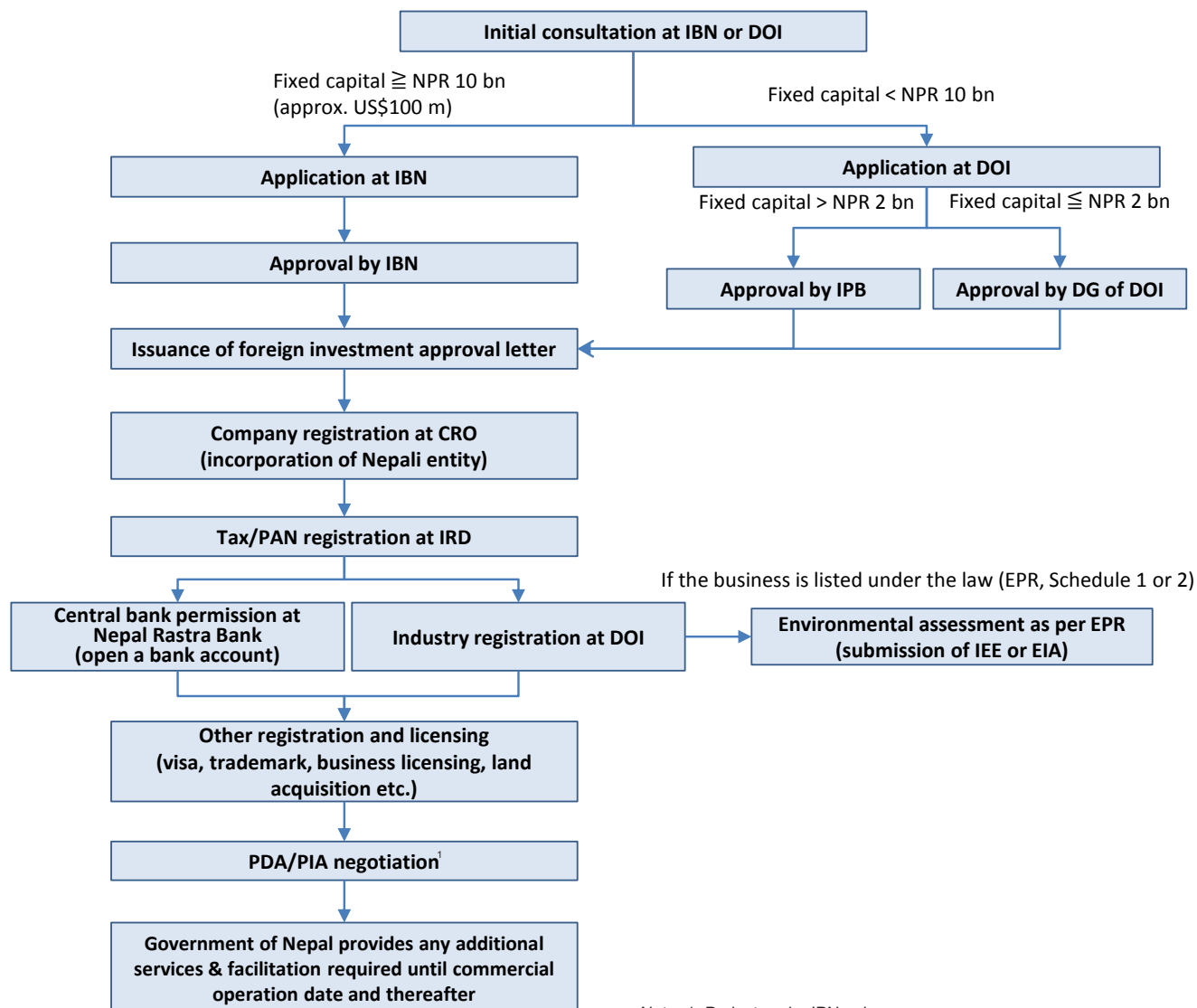
To the Department of Industry

If the foreign investment capital is less than NPR 2 billion (approx. USD 20 million), the Director General of Department of Industry (DOI) has the authority to approve the project. If the investment amount is NPR 2–10 billion (approx. USD 20–100 million), the Industrial Promotion Board, chaired by the Minister of Industry, has the authority to grant foreign investment approval.

To the Investment Board Nepal

For Investment of NPR 10 billion or above (approx. USD 100 million), the government has created a special vehicle called the Investment Board Nepal to facilitate large projects of national importance. The Investment Board is headed by the Prime Minister of Nepal and has the overriding power to approve projects and direct various line agencies of the government to implement its decisions.

PROCEDURE FOR STARTING A BUSINESS IN NEPAL



INVESTMENT APPROVING AGENCIES

Department of Industry (DOI)

The Department of Industry, under the Ministry of Industry, is the government agency responsible for the administration and implementation FITTA and promotion of industry in Nepal, particularly small and medium scale industries. It provides foreign investment approval to projects below NPR 2 billion (approx. USD 20 million) and the Industrial Promotion Board chaired by the Minister of Industry provides foreign investment approval to projects with investment of between NPR 2 billion to NPR 10 billion (approx. USD 20 to 100 million). The Department of Industry also encourages FDI and helps investors to establish operations in the country. It is responsible for registering trademarks, patents and designs to protect industrial property rights.

Fees: There are no fees for FDI approval by the Department of Industry. However, a maximum of NPR 20,000 should be deposited at the Nepal Rastra Bank at the time of issuing an approval letter. This amount is refunded when the project becomes operational.

Investment Board Nepal (IBN)

The Investment Board Nepal is a high-level fast track Government of Nepal agency established in 2011 to create an investment-friendly environment by providing a one-window service for foreign investors.

IBN has the following broad mandate:

- **To act as an investment promotion and development body:** IBN is responsible for promoting investment in Nepal by formulating appropriate policies, awarding appropriate perks and benefits to investors, coordinating with relevant line ministries to solve investor problems and signing deals to effectively channel private investment by means of a one-window service.
- **To act as a public-private partnership body:** Upon global solicitation of proposals, IBN negotiates, signs and implements deals on behalf of the Government of Nepal. IBN's objective is to deliver value for money with on time, on budget completion of projects by achieving the optimal combination of benefits and costs.

The projects IBN is mandated to manage are as follows:

- Construction of fast track roads, tunnels, railway lines, rope-ways, trolleybuses
- Construction of international and regional airports and the modernisation and management of existing airports
- Solid waste management and treatment in urban areas
- Chemical fertilizer production industries
- Petroleum refinery plants
- Major bridges as prescribed by the Government of Nepal
- Banks and financial institutions in which 51% or more of the investment is borne by foreign investors or where investment is required for establishing insurance and re-insurance companies

- Medical colleges, hospitals or nursing homes with 300 beds or more
- Hydropower projects of 500 MW or more
- Development of Special Economic Zones (SEZs), export promotion or export processing zones, special industrial areas or IT parks
- Any infrastructure or service industry (i.e., any industry that is a part of the construction, mining, tourism, or aviation industries) that has a paid-up capital of NPR 10 billion or a project cost exceeding that amount
- Investment required to support any foreign investment in a productive industry that has a paid-up capital of NPR 10 billion or a project cost exceeding that amount

In the case of projects that are not put up for competitive bidding, direct negotiation with IBN is possible. As per the Investment Board Act, the direct negotiation method is allowed for projects under IBN's mandate if:

- the proposal is absolutely necessary, and no suitable proposals are tabled after at least two invitations for proposals
- competition is not possible
- a new concept or technology is involved
- the cost estimate exceeds NPR 20 billion
- adoption of other procedures as per the Act is not found to be appropriate for any reason

In such cases, the potential investor can directly approach IBN. However, investors following the direct negotiation route need to furnish all details and carry out studies in the same manner as for obtaining approval under the open bidding scheme.

Fees: The fees for investors through IBN are set out in the following table.

Fees for investors through IBN

Type of fee	Time of payment	Hydropower generation projects	Other projects
Application fee	With submission of foreign investment application	NPR 10,000	NRP 10,000
Licence fee	On receiving a licence for investment	NPR 100,000	NPR 100,000
Negotiation fee	Prior to commencing the negotiations of the project development agreement (PDA) or project investment agreement (PIA)	USD 1,500/MW	30% of 0.2% of the total project cost
Facilitation fee	On successful completion of negotiation of PDA or PIA, but prior to signing	Difference between 0.2% of the project cost and USD 1,500/ MW	70% of 0.2% of the total project cost

COMPANY REGISTRATION

To start a business in Nepal, investors need to incorporate a company. The agency responsible for the incorporation of a company is the Company Registrar Office (CRO) under the Ministry of Industry.

The Company Act 2006 provides for two types of companies: private limited and public limited.

Private limited company

- Limits the number of shareholders from 1–50
- Cannot make an invitation to the general public for share subscription

Public limited company

- Has minimum of 7 shareholders and no maximum limit
- Has minimum paid-up capital of NPR 10 million
- May also offer shares to the public at the Nepal Stock Exchange (NEPSE) under the Company Act and Securities Act
- A company carrying on the business of banking, financial transactions, insurance related transactions, a stock exchange, pension or mutual fund, or any other related business or transactions must be incorporated as a public limited company.

Fees: The fees for registering a company are set out in the tables.

Registration fees for private limited company (NPR)

Capital investment	Registration fee (min)
0-100,000	1,000
100,001-500,000	4,500
500,001-250,0000	9,500
2,500,001-10,000,000	16,000

Registration fees for public limited company (NPR)

Capital investment	Registration fee (min)
0-10,000,000	18,000
10,000,001-100,000,000	40,000
100,000,001-200,000,000	70,000
200,000,001-300,000,000	100,000
300,000,001-400,000,000	130,000
400,000,001-500,000,000	160,000

Note: An additional NPR 3,000 is charge for every NPR 10 million increase in capital beyond these limits.

TAX REGISTRATION

Any enterprise doing business in Nepal, needs to register for tax with the Inland Revenue Department. The Inland Revenue Department will issue the company with a Permanent Account Number (PAN). Enterprises with a turnover of NPR 5 million or more, also need to register under the Value Added Tax (VAT) regime. For more on taxation and the taxation accounting system in Nepal see the section in this guide on taxation.

Repatriation of capital, profits and royalties

As per section 5 (2) and (3) of FITTA, 1992, foreign investors are entitled to repatriate the following amounts:

- a) Amounts received from the sale of the share of foreign investment as a whole or any part thereof
- b) Amounts received as profits or dividends from foreign investment
- c) Amounts received as payment of principal and interest on foreign loans
- d) Amounts received as royalties or management fees under the agreement for the technology transfer in such currency as set forth in the concerned agreement and approved by the Department of Industry
- e) Part of the earnings of foreign nationals working in projects with foreign investment: foreign nationals working in any industry with prior approval of the Department of Labour and who are from a country other than India (this does not apply to Indians as NPR and INR are freely convertible), may repatriate their salary, allowances, emoluments, etc. in convertible foreign currency in an amount not exceeding 75% of such salary, allowances and emoluments.
- f) A foreign investor or a foreign technology supplier is also entitled to repatriate the amount received under the agreement for the technology transfer in such currency as set forth in the concerned agreement for the technology transfer as approved by the investment approving agency.

Repatriation can be done when all taxes are fully paid and all necessary legal obligations have been met. The repatriation approval is given by the central bank on the basis of the recommendation of the concerned regulatory authority (Department of Industry/Investment Board Nepal for industry, Department of Electricity Development/Ministry of Energy for energy, Nepal Telecom Authority/Ministry of Communication for communications, etc.).

SECTORIAL/INDUSTRY REGISTRATION

Sector	Registration/ licensing body	Details
Hotels, lodges and restaurants	Tourism Industry Division of the Ministry of Tourism and Civil Aviation	<ul style="list-style-type: none"> • Registration is made under Tourism Act, 1978, Section 10; Hotel, Lodge, Restaurant, Bar and Tourist Guide Rules, 1981, Rule 3. • Registration is valid for 5 years (enterprises have to reregister every 5 years).
Banks and financial institutions	Nepal Rastra Bank, Company Registrar Office	<ul style="list-style-type: none"> • The Nepal Rastra Bank, the central bank of the country, along with the CRO regulates the incorporation of a bank or financial institution. • The Bank and Financial Institution Act (BAFIA), 2006 lays out rules related to the incorporation, operation and winding up of financial institutions. • Banks and financial institutions are classified into 4 classes commercial banks, development banks, finance companies, and micro finance institutions, based on the amount of paid-up capital. • As per the BAFIA, at least 30% of shares of banks and financial institutions need to be set aside for the general public. In the case of a foreign bank incorporating a subsidiary in Nepal, such provisions may be relaxed.
Food	Department of Food Technology and Quality Control	<ul style="list-style-type: none"> • For operation of a food industry-based business, the operator has to obtain a licence from the Department of Food Technology and Quality Control.
Pharmaceuticals	Department of Drug Management	<ul style="list-style-type: none"> • For operation of a medicine manufacturing and pharmaceutical-related business, the concerned person/institution has to obtain a licence from the Department of Drug Management.
Mines and minerals	Department of Mines and Geology	<ul style="list-style-type: none"> • The Department of Mines and Geology issues two types of licences: a prospecting licence for survey or exploration purposes and a mining licence for the extraction of mines and minerals. • The validity of a prospecting licence is 2 years for ordinary non-metallic minerals, and 4 years for metallic and valuable minerals. • The validity of a mining licence varies according to the size of the project, ranging from 5 years for small operations to 30 years for large projects.

Education	Ministry of Education, Civil Aviation Authority of Nepal (CAAN), Ministry of Health	<ul style="list-style-type: none"> • To incorporate a medical, management or engineering education institution, one has to apply to the Ministry of Education. • To establish a flying school, one has to apply for a Flying School Certificate to the Civil Aviation Authority of Nepal. • The major statute governing the incorporation of medical education institutions is the Ministry of Health’s Directive on Establishment, Operation, Standards and Infrastructure of Private and Non-Governmental Health Institution, 2004. • Along with this, a medical institution must have an affiliation to a university and approval from the Ministry of Education.
Hydropower	Department of Electricity Development	<ul style="list-style-type: none"> • As per the Electricity Act, 1992, if the capacity of the project is more than 1,000 kW, operators must obtain a survey licence and, after the survey, a licence to generate, transmit or distribute electricity from the Department of Electricity Development. • There is a simplified procedure for the development of micro hydro projects up to 1,000 kW capacity. • The project proponent has to obtain a survey licence before starting survey work including a detailed design and feasibility study. • After completion of the survey, a separate licence has to be obtained from the Department of Electricity Development to start construction and operate the project. • The maximum term of a survey licence is 5 years.
Health services	Department of Industry, Department of Commerces Ministry of Health	<ul style="list-style-type: none"> • A private institution/firm intending to provide health services, a hospital, a nursing home or pharmaceutical products or a manufacturer/importer must be registered with the relevant government department (Department of Industry in case of industry, and Department of Commerce in case of imports). • The major statute governing the licensing and registration of health service institutions is the Ministry of Health’s Health Institution Establishment, Operation and Up-gradation Standard Related Directive, 2013, Sections 3–17. • After being registered with the Department of Industry, the company has to obtain an industry-specific licence for operating health services.

VISAS FOR FOREIGN NATIONALS

There are many different types of visas issued to foreign nationals in Nepal. This section gives an overview of the main types of visa available for foreign nations: tourist, non-tourist, business, resident and non-resident Nepali visas.

Tourist visa

Under this category, visitors can come to Nepal and stay for 60 days with renewals allowed for up to 150 days in total in a calendar year. A tourist visa can be obtained from Nepali missions in the tourist's country of origin or upon arrival at the port of entry by paying the prescribed fee.

Non-tourist visa

Foreigners having obtained permission from the Government of Nepal to work on either remuneration or volunteer basis in any firm/company/association/industry or enterprise within Nepal require this visa. This type of visa is issued for a period not exceeding one year at a time and its term may be extended as needed. A non-tourist visa requires approval from the Ministry of Home Affairs if the duration of the visa applied for exceeds three months.

Foreigners who have obtained a recommendation from the Department of Industry to conduct a feasibility study for any industry or enterprise for a period not exceeding six months can also obtain a non-tourist visa.

Non-tourist visa for expatriate staff

If the required skilled workforce is not available locally, an industry can employ foreign nationals by obtaining a work permit. This visa is granted for a duration of one year at a time upon the recommendation of the investment approving agency (Investment Board Nepal/Department of Industry) and Department of Labour, and can be extended for a period of 5 years on an annual renewal basis.

Business visa

A business visa can be granted on the recommendation of the concerned agency to the following foreigners (and his/her family):

- A foreigner and/or his/her authorised representative who has obtained a licence to invest in any business or industrial enterprise within Nepal
- A foreigner who has obtained a licence to make an investment to export trade from Nepal
- A foreigner visiting Nepal from a country that exports goods manufactured in Nepal who purchases goods or who places a purchase order for export

Business visas are issued for periods not exceeding five years at a time; however, the validity of this type of visa may be extended as needed.

Residential visa

Any foreign investor who has made an investment equivalent to more than USD 100,000 at any one time and in convertible foreign currency can be granted a residential visa on the recommendation of the Department of Industry/Investment Board Nepal. The validity period of this visa is one year at a time.

If the investor, making a lump sum investment equivalent to more than USD 100,000 in convertible currency, happens to be a company, only one shareholder authorised by that company and his/her dependents may be granted residential visas.

Non-resident nepali visa

If any foreigner of Nepali origin, residing in a foreign country, intends to reside in or carry on trade or business in, or conduct study, teaching or research work in any subject in Nepal, a non-resident Nepali visa may be granted to such a foreigner and his or her family members for a period not exceeding ten years at a time.

LABOUR LAWS

Investors setting up enterprises in Nepal that will employ staff (either on a permanent, fixed term or consultancy basis) will need to follow Nepal's labour laws. This section gives a brief overview of the labour laws contained in the Labour Act 1992.

Working day

The normal allowable working hours per day are 8 hours, 6 days a week, or 48 hours a week. The employer can decide the starting and finishing time as well as the day of the weekly holiday (which is traditionally Saturday).

Working age

A person must be over the age of 16 to be hired for employment. A child under the age of 14 cannot be employed under any circumstance. A child between the age of 14 and 16 can be employed for up to 6 hours a day.

Contracts

Nepali labour laws allow three types of employment contracts: regular employment contract (permanent), fixed duration employment contract (often termed as contract employment), and task-based employment contract (piece rate contract).

Employing foreigners

Under the accession to the WTO agreement Nepal has made a commitment to allow 15% of technical and managerial posts to be filled by expatriate staff by entities with foreign investment. For visa requirements of foreign workers, refer to the section in this guide on visas.

Wages and benefits

The government revises the minimum wage periodically, usually every 2–3 years. No employee can be paid less than the minimum wage. Wages and benefits are generally based on the collective bargaining agreement reached between the union representing the workers and the management. The minimum wage includes a basic wage and dearness allowance, both decided by the government. Wages may be paid on a weekly, fortnightly or monthly basis, but the period between the payments should not exceed one month. Female and male workers are entitled to equal remuneration. Employers may pay allowances in addition to wages. Some examples of allowances paid in Nepal are transport allowance, medical allowance and house-rent allowance. However, the payment of such allowances is not mandatory.

Public holidays and leave

All workers are entitled to one-day holiday a week (usually Saturday) and 13 public holidays a year.

- Apart from 13 public holidays, an employee is entitled to 18 days of fully paid home leave a year, or 1 day of home leave for every 20 days of work.
- The home leave may be accumulated up to 60 days and carried forward to subsequent years.
- Workers are entitled to 15 days sick leave on half pay in a year.
- Female workers are entitled to 52 calendar days (weekly and public holidays counted in this period) of leave with full pay in the case of delivery of a child. Such leave can be provided only 2 times in the entire service period.
- Workers are also entitled to up to 13 days of mourning leave, provided their religion demands such mourning, on the demise of their spouse or parents/parents-in-law.
- Special leave of up to a maximum of 30 days in a year can be taken without pay if no home leave or sick leave is in reserve.

Holidays are not a right, but only a facility and, as such, the employees have to seek permission to take leave, except in case of illness of the employee, delivery of a child, or demise of a spouse or parents/parents-in-law.

Misconduct and disciplinary action

In case of misconduct by a worker, the employer has the right to take disciplinary measures. There are four kinds of punishment prescribed in the Labour Act (Sections 50, 51, 52) that can be used by an employer, depending upon the severity of the misconduct. These are: warning, withholding of annual salary increment (grade), suspension from work (up to 90 calendar days), and dismissal.

Retrenchment

As per the prevailing Labour Act, if an enterprise needs to curtail its operations or close down partially or wholly, the management, after obtaining approval from the government through the Department of Labour, may retrench some or all of its workers (Labour Act, Section 12). In such situations, workers hired last need to be retrenched first. The retrenchment can be done by giving a month's notice or a month's pay in lieu of notice. As per the law, an employer has to pay a lump-sum equivalent to 30 day's salary multiplied by the total number of years in service as compensation for retrenchment.

An enterprise may temporarily suspend production while keeping workers in reserve. However, the workers in reserve need to be paid half of their salary and benefits. A worker who has completed 55 years of age may be retired compulsorily. An employer has the right to extend the service period of such a worker for up to five years.

Welfare benefits

According to the law, workers under permanent contract have to be provided with welfare and social security benefits. The employer has to deduct 10% of an employee's salary, match that amount and deposit the combined sum in the employee's provident fund. If a worker resigns or retires after working three or more years on a permanent contract, the employer has to pay gratuities at the rate of half a month's salary for seven years of continuous service, two-thirds of a month's salary for 7–15 years of service, and one month's salary for 15 or more years of service (Section 29, Labour Act).

Bonuses and other benefits

Every enterprise has to pay an amount equivalent to one month's salary to permanent workers as festival bonus. This is generally paid during the Dashain festival in October and is commonly referred to as the 'Dashain bonus'. Enterprises have to set aside 10% of their net profit for bonus payment to employees (Section 37, Labour Act; Section 5, Bonus Act).

Trade union rights

Nepal's constitution and laws provide employees with the right to form a trade union. Workers and other non-managerial employees can be part of the trade union. The union can submit claims or demands, enter into collective bargaining, or resort to strikes by following the prescribed procedure. The management can resort to lockout by following the procedures laid out in the Labour Act and Rules, which includes taking permission from the government. The Act and Rules also provide procedures for the resolution of workplace conflicts.

Labour offices

There are labour offices at 10 different locations across the country. As there is no separate entity prescribed by law to manage the operation of factories, these offices also act as factory inspectors.

TAXATION

Investors setting up enterprises in Nepal must comply with Nepal's tax laws. This section explains the taxation system in Nepal, including the accounting system, corporate tax rates, rebates and concessions, VAT and excise duty.

Accounting system

Nepal imposes both direct and indirect taxes. Under the Income Tax Act 2002, income tax is levied on the income of both individuals and corporate bodies. Corporate tax, individual income tax, payroll tax, and capital gains tax all fall under this Act. Income tax is administered by the Inland Revenue Department.

Nepal follows internationally-accepted accounting norms and systems. The Nepal Financial Reporting Standards (NFRS) are issued by the Institute of Chartered Accountants of Nepal (ICAN), which is a self-regulating body. Company accounts need to be maintained on an accrual basis. The fiscal year for tax assessment and tax payment begins from the month of Shrawan and ends in the month of Asadh in the Nepali calendar (mid-July in the Gregorian calendar).

Nepal follows a 'pay as you earn' system of tax collection and payment, which includes the provision of advance tax, which is comprised of instalment tax and tax deducted at source (TDS). In the case of indirect taxes like excise duty and VAT, taxes have to be deposited within 25 days after the expiry of the calendar month of the transaction. In the case of income tax, estimated tax should be paid in three instalments as per Section 95 of the Income Tax Act 2002.

The taxpayer has to prepare the final book of accounts and tax returns, have this book audited by auditors of the concerned governing body, file the returns and make the final payments within three months of the expiry of the fiscal year. The taxpayer can obtain an extension on filing the returns up to a maximum of another three months. Presumptive tax payers are not required to file income tax returns as they pay a fixed amount of tax each year.

Corporate tax rates

Nature of entity	Tax rate
Normal rate for entities	25%
Special industries registered under Section 3 of industrial Enterprise Act 1992	20%
Banks and financial institutions	30%
General insurance 30%, life insurance 25%	25%-30%
Enterprises involved in petroleum businesses	30%
Saving and credit cooperatives located in urban areas	20%
Enterprises operating roads, bridges, railways hydropower stations, transmission lines, etc. on BOOT basis, etc.	20%

Rebates and concessions on corporate taxes

The law provides certain concessions or rebates to certain types of enterprises. The common rebates are:

1. Agricultural income (income from farming, animal husbandry, horticulture, cultivation of herbs, etc) is exempt from income tax, however, this provision is not applicable to firms, companies, partnerships or organisations involved in agro-business.
2. Special industries, such as industries based in the agriculture and tourism sectors providing employment to 100 or more persons (should be Nepali citizens) throughout the year receive a 30% exemption on tax rate.
3. Special industries employing 1,200 persons or more receive a 20% exemption on tax to be paid.
4. Enterprises employing 100 or more persons with women, Dalits, and physically handicapped persons comprising one third of the workforce receive a 20% exemption. If a special industry is operated in a remote, undeveloped and underdeveloped area, 50, 70 and 75%, respectively, of the tax leviable on income shall be paid for 10 income years including the income year in which such an industry started operating as per the Section 11 of the Income Tax Act 2058 BS.
5. Industries established in Special Economic Zones (SEZs) receive full exemption from income tax payment for an initial 5 years and 50% exemption thereafter in mountain and hilly regions specified by the government receive full exemption for first 10 years.
6. Industries in SEZs receive full exemption for the first 5 years and 50% exemption thereafter for next 3 years on tax on dividends distributed by them.
7. Petroleum and natural gas exploration and extraction industries receive 100% exemption for 7 years and 50% exemption for the next 3 years.
8. Electricity generation, transmission, and distribution industries receive full exemption for 7 years and 50% exemption for 3 years thereafter, provided they start construction before mid-April 2018 AD.
9. Any licensed person or entity producing electricity through hydro, solar and bio fuel that is able to start its commercial production, transmission or distribution within mid-April 2024 AD, will receive 100% exemption for the first 10 years and 50% ex-

emption for next 5 years.

10. The tax on export income is payable at 75% of the payable rate, in other words the rate of tax on export income is 20%.
11. Enterprises providing infrastructure services on BOOT basis receive 40% exemption.
12. Special industries with capital of NPR 1 billion and providing direct employment to more than 500 persons can enjoy 100% exemption for first 5 years from the date of operation of business and 50% concession for next 3 years.
13. Tourism and aviation industries in operation, increasing their capacity by at least 25% and employing 500 or more persons throughout the year receive 100% exemption for 5 years and 50% for 3 years thereafter.
14. There shall be an exemption on dividend tax in case special industries, industries based in agriculture and tourism sectors and industries that capitalise profits (issue bonus shares) for the purpose of expansion of the capacity of the industry.

If more than one benefit is applicable, only one option (the one that is the most beneficial) can be selected for a single income.

Value Added Tax (VAT)

Nepal instituted VAT about 20 years ago. VAT is levied on almost all goods and services⁴. The Inland Revenue Department is the government agency that manages and administers VAT in the country. Any person, firm or company having an annual turnover of NPR 5 million or more has to register for VAT. VAT is levied at a flat rate of 13% and the taxpayers (intermediaries) can claim input credit on VAT paid during procurement. VAT is not levied on exports, which means that they can claim for input tax credit. However, no input credit claim can be made for non-VAT-able goods and services, as VAT is levied at the point of sale (or import).

Excise duty

Nepal levies excise duty on the production/import of a limited number of commodities listed as negative externalities and luxury goods (such as alcohol, cigarettes, vehicles, plastic goods, etc.). Excise may be on an ad valorem or specific basis (based on volume, weight or quantity).

⁴There is a list of goods and services on which VAT is not applicable such as grains, lentils, vegetables, raw agricultural products, fruits; medicines and raw materials for medicines, pesticides, health equipment and appliances, agricultural appliances, handicrafts, health and educational services (there are alternate provisions for health services and educational services), electricity supply, artistic services, passenger and goods transport, etc. as per schedule 1 of the VAT Act.

IMPORT AND EXPORT

This section contains useful information on how to import and export goods to and from Nepal. Nepal follows quite a liberal regime in international trade. The Export Import (Control) Act, 1957 is the main law and empowers the Government of Nepal to prohibit or control the export or import of any product or commodity. In addition to this Act are the Export-Import Rules, 1978; Customs Act, 1962; Customs Regulation, 1969; and Annual Finance Act (which is based on the annual budget speech of the finance minister and the order made by the Ministry of Commerce).

Import

Only registered firms and companies can be involved in importing goods. The firms and companies have to be registered with the concerned department (Department of Industry or Department of Cottage and Small industries for industry and Department of Customs for trading firms). They should also be registered with the Inland Revenue Department for PAN and VAT.

Importers have to fill out a customs declaration form (Pragyapan Patra), and submit it with the relevant documents to the Customs Office. In addition to this document, the Customs Office will also ask for a copy of the registration document (e.g., industry registration, firm registration, PAN/VAT registration certificate, tax clearance certificate) when the company is carrying out import activities for the first time.

Custom tariff on imports

Nepal levies custom duty at the point of import and the duty levied is based on the nature of the product. Nepal uses the Harmonized Commodity Description and Coding System, also known as the Harmonized System of Tariff nomenclature, to classify products and duty is prescribed according to the Harmonized System code.

For the calculation of duty to be levied, Nepal uses the CIF (cost, insurance, and freight) value of imports. The valuation system is aligned with the WTO/ General Agreement on Tariffs and Trade (GATT) valuation. The generally observed principle is that the rate of tariff for raw materials is lower than the rate of tariff for fin-

ished goods. Similarly, essential goods not produced in Nepal fall into a lower duty band than luxury or non-essential items or for which use is discouraged due to their negative implications for the environment or human and animal health, etc.

On items that are commonly imported, duty is levied on an ad valorem basis. There are a few exceptions, where duty is based on quantity (volume or weight). The existing rates are 0–80% depending on the products. Most raw materials fall within the 0–10% duty-band, whereas finished goods and consumer items fall within the 5–30% duty-band. Duty at a rate of 80% is levied on only a few items (i.e., motor car, arms and ammunitions and pipe tobacco). The duty levied on imports is generally based on the trade agreements Nepal has entered into.

Export

Any firm or company exporting goods or materials must complete a customs declaration form and submit it to the customs officer at the point of exit from the country. The customs officer certifies the declaration form, after he/she is satisfied with all documents and other formalities. Goods can be transported across the border only after such a certificate is issued.

Exporters should declare the value of export goods in a prescribed form and submit it to the customs officer for certification. According to law, exporters are responsible to receive the total payment for exported goods in any convertible currency within six months from the date of shipment from Nepal. Foreign trade is also governed by the Export-Import Rules, 1978.

Certificate of origin

A Certificate of Origin is required by Nepalese Customs for all exports. Three private sector associations – the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), Confederation of Nepalese Industry (CNI), and Nepal Chambers of Commerce (NCC) – can issue a Certificate of Origin. In the case of the FNCCI, its member bodies and chambers of commerce and industry in the various districts can issue these certificates. For exports on preferential terms (to India and China on duty free basis and South Asian Free Trade Area exports), only the FNCCI is authorised to issue the Certificate of Origin. The issuance of a Certificate of Origin for Indian exports involves a site visit and approval by a technical committee from the Department of Industry.

GSP Form and Certificate

For exports under the Generalized System of Preferences (GSP) provided by various countries, exporters have to fill in a separate standard document called a GSP Form and have it stamped and certified by the Nepalese Customs at the time of export. A GSP Form is printed in a special format and colour approved by the United Nations Conference on Trade and Development (UNCTAD) for acceptance by preference giving countries.

Phyto-sanitary certificates

Phyto-sanitary certificates are issued from Plant Quarantine Posts under the Plant Protection Act and rules after a thorough examination and proper treatment of exportable seeds or plants, or plant products, if required.

Custom tariff on exports

Generally, there is no duty on the export of products, but certain products, like those originating from forests (non-timber forest products), certain agricultural products that are in short supply in Nepal, or industrial raw materials and minerals may be levied with export duty. The list of products and the export duty structure can be obtained from the Department of Customs.

Products banned for export	
1.	Articles of archaeological and religious importance <ul style="list-style-type: none"> - National and foreign coins of archaeological value - Idols of gods and goddesses, palm leaf inscription (<i>Tad Patra</i>), plant leaf inscription (<i>Bhoj Patra</i>) - Scroll (thanka paintings) of historical importance
2.	Conserved wildlife and related articles <ul style="list-style-type: none"> - Wild animals - Bile and any parts of wild animals - Musk - Snake skin, lizard skin
3.	Narcotic drugs: marijuana, opium, hashish (as defined in the Single Convention on Narcotics, 1961) <ul style="list-style-type: none"> - Articles of industrial importance - Explosives materials and fuse or materials needed there for - Materials used in the production of arms and ammunition
4.	Industries / raw materials <ul style="list-style-type: none"> - Raw materials and skin (including dry salted) - Raw wool - All imported raw materials, parts and capital goods
5.	Other products <ul style="list-style-type: none"> - Mamira - Logs and timber

PROPERTY LAWS

This section briefly explains Nepal's zoning laws, laws on land acquisition and intellectual property laws.

Zoning laws

There are no strict zoning laws in Nepal or areas designated for different kinds of activities or purposes (e.g., residential areas, commercial areas, industrial areas, agricultural areas, etc.) and where other kinds of activities cannot be undertaken. However, there are certain norms fixed by the Industrial Promotion Board regarding the location of industries, which forbid the location of certain businesses in certain areas.

Land acquisition

To obtain land or buildings owned by private individuals, the investor must negotiate with the owner to either purchase or lease the land. The purchase deeds are registered at the Land Management Office.

If forest land has to be obtained (e.g., in the case of mining, hydropower projects or infrastructure projects), the investor must follow a process prescribed by the Ministry of Forests and Soil Conservation. This Ministry may ask for an equal amount of private land to be procured for use as forest land and afforestation in the same area.

In the case of government (non-forest) land, the land can be leased by the investor according to the Land Leasing Policy 2014. The lease term ranges from 10–50 years. The lease can be renewed after the term expires.

Intellectual property

The registration of patents designs and trademarks is made under the Patent, Design and Trademark Act, 1965. The Department of Industry is the responsible body for such registration. The existing law is rather old and is in the process of being changed. A unified intellectual property law is being contemplated.

The duration or validity of registration of patents designs and trademarks is 7 years. Trademark registration can be renewed any number of times, with a validity of 7 years each time. Designs can be renewed for 2 terms of 5 years and patents can be renewed for 2 terms of 7 years.

INDUSTRIAL DISTRICTS AND SPECIAL ECONOMIC ZONES

To create a conducive environment for commerce and industry, Nepal has established Industrial Districts and Special Economic Zones (SEZs). This section explains the benefits (tax and otherwise) of these for investors.

Industrial Districts

The Government of Nepal has established 11 Industrial Districts (IDs) in different parts of the country with the assistance of various donor countries. IDs are equipped with basic infrastructure for doing business, such as developed land fenced with boundary walls, industrial sheds, warehouses, roads, drainage/culverts, electricity, water supply and other services. The government-owned Industrial Districts Management Ltd, which was established as a separate corporate entity in July 1988, is entrusted with the overall management and supervision of all IDs, as well as other tasks such as conducting feasibility studies of IDs in potential areas, materialising new IDs, and planning and promoting the industries therein. Currently there are 10 IDs in operation at Balaju, Patan, Hetauda, Dharan, Nepalgunj, Pokhara, Butwal, Bhaktapur, Birendranagar and Rajbiraj. Another is planned at Dhankuta.

Special Economic Zones

The Government of Nepal has adopted the concept of Special Economic Zone to attract foreign and national investors to invest in and establish export-oriented industries and businesses. The Special Economic Zone Development Committee (SEZDC) was established in February 2013 under Ministry of Industry to prepare the SEZ law and relevant rules and regulations, to conduct the pre-feasibility and feasibility studies for the establishment of SEZs in different parts of the country, and to construct the required infrastructure in SEZs.

Currently, 14 different locations have been declared SEZs. The Bhairahawa SEZ is ready for operation. The SEZDC is responsible for preliminary site identification, conducting a technical and environmental feasibility study, determining the financial viability of the site identified and undertaking the infrastructure development work.

The investors in SEZs are granted permission and administered in all respects (for exports and imports) under the simplified 'one-window policy' or one stop service. They are entitled to a liberal tax regime with exemptions to varying degrees on income tax, excise duty, VAT, and other taxes and duties.

ENVIRONMENTAL CLEARANCE

Nepal has established a system of environment clearance and pollution control certification under the Environment Protection Act, 1997 and its rules. The Environmental Protection Rules prescribe the process for carrying out the necessary investigation and obtaining the clearance from the Ministry of Science, Technology and Environment, which is the authority designated to provide the clearances.

There are two types of environmental clearance: initial environment examination (IEE) and environment impact assessment (EIA). Certain industries also require a Pollution Control Certificate.

Initial environment examination (IEE)

IEEs are applicable to small projects that fall under Schedule 1 of Environment Protection Rules 1997, which have little environmental impact. An IEE involves preparation of terms of reference and then an analytical study of the impacts and mitigation measures. The IEE is then submitted to the concerned ministries for approval.

Environmental impact assessment (EIA)

EIAs are for larger projects that fall under Schedule 2 of Environment Protection Rules 1997, which are likely to have greater environmental consequences. EIAs are more complicated. They involve preparation of a scoping document before finalising the terms of reference and conducting a detailed study on the impacts mitigation measures. Conducting a public hearing at the project affected area is mandatory during the EIA study process. The EIA is then submitted to the Ministry of Science, Technology and Environment for approval.

Pollution Control Certification

Certain industries mentioned under Schedule 7 of the Environment Protection Rules 1997 require a Pollution Control Certificate, which can be obtained from the Ministry of Science, Technology and Environment.

DISPUTE RESOLUTION

The Foreign Investment and Technology Transfer Act (FITTA) has a special provision for dispute settlement. The Act calls for dispute settlement by mutual consultation. For industries with fixed assets/investment of up to NPR 500 million, if the dispute cannot be settled by mutual consultation in the presence of the Department of Industry, it shall be settled by arbitration in accordance with the prevailing arbitration rules of the United

Nations Commission on International Trade Law (UNCITRAL). The arbitration shall be held in Kathmandu. The laws of Nepal shall be applicable in the arbitration process. For industries with fixed assets/investment of more than NPR 500 million, disputes may be settled as per the joint venture agreement or share purchase agreement.

SECTOR OPPORTUNITIES

HYDROPOWER

Nepal is rich in water resources with multiple sources of water, including glaciers, snowmelt from the Himalayas, rainfall and groundwater. Nepal's theoretical capacity for producing power from hydropower projects is around 80,000 MW, out of which 43,000 MW is estimated to be economically feasible. However, installed capacity is only 750 MW of electricity, despite the fact that peak domestic demand (suppressed) is well over 1,000 MW. Demand for electricity is increasing at 7–9% per year.

With about 68% of all hydropower generation capacity and the entire transmission and distribution network under its control, the Nepal Electricity Authority (NEA) is the most significant player in the energy sector. Independent power producers (private players) own approximately 32% of hydropower generation capacity.

The government endorsed the 'Work Plan on National Energy Crisis Alleviation and Energy Development Decade' in February 2016, which provides a roadmap for policy reforms and initiatives to spur private sector investment.

Opportunities

- Nepal faces acute power shortages and opportunities exist in the hydropower sector to meet this gap in demand.
- Nepal is targeting graduating from least developed country (LDC) status to developing country status by 2022 and aims to become a middle income country by 2030. To meet its growth aspirations, Nepal will need to add 6,000+ MW (which requires investment of approximately USD 10 billion). Consequently, a lot of industries and infrastructure projects are in the pipeline opening up huge opportunities.
- In addition to energy development, investment opportunities lie in the upgradation and expansion of distribution systems (for which investment of approximately USD 2 billion is required) and transmission systems (for which investment of approximately USD 4.45 billion is required).
- The Power Trade Agreement (PTA) signed with India has opened up a large market for exporting electricity to India.
- The SAARC Framework agreement on Energy Cooperation signed during the 18th SAARC Summit in 2014 will pave the way for the eventual formation of a regional energy market.



Photo Courtesy: Mr. Khadga Bahadur Bisht

TRANSPORT

The transportation sector in Nepal contributes 8.8% of GDP and grew at a rate of 6.8% in 2013/14. The average growth rate of the sector in the last five years was 6.9%.

During the three year plan period (FY 2013/14–2015/16), a total of 25,133 km of strategic roads were built. Nearly all districts (73 out of 75) now have road access and an additional 1,609 bridges are in operation. Nepal also has 56 domestic airports and 1 international airport in Kathmandu.

The National Planning Commission has identified 21 'National Pride Projects' that will contribute to the development of the economy, of which 10 are in the transportation infrastructure sector. The Government of Nepal is planning to construct international airports in Bhairahawa in the Terai (the plains adjoining India) and Pokhara (in the west). It is also increasing the capacity of Tribhuvan International Airport and blacktopping 22 domestic airport runways. An international airport is also planned for Nijgadh, which is about 76 km from Kathmandu.

Opportunities

- Only 19% of roads in Nepal are all weather roads and 2 out of the 75 districts are still not connected by roads. Hence, there are many opportunities to expand the road network, for which the government is seeking to form public-private partnerships.
- Nepal's main highways require expansion to accommodate the increase in traffic, which is another area for public-private partnerships.
- In order to cater to the needs of the growing population, the development of mass public transportation systems – bus-rapid transport (BRT), railways, monorails, airports – has been prioritised. To finance these projects, the government is looking at public-private partnerships.
- Eight north-south corridors (roads) linking China and India through Nepal, a cross-border railway line connecting Kathmandu with China, five cross-border railway lines, ultimately connecting Kathmandu with India, a railway line along the East-West Highway, and cable cars in the hilly regions are planned.

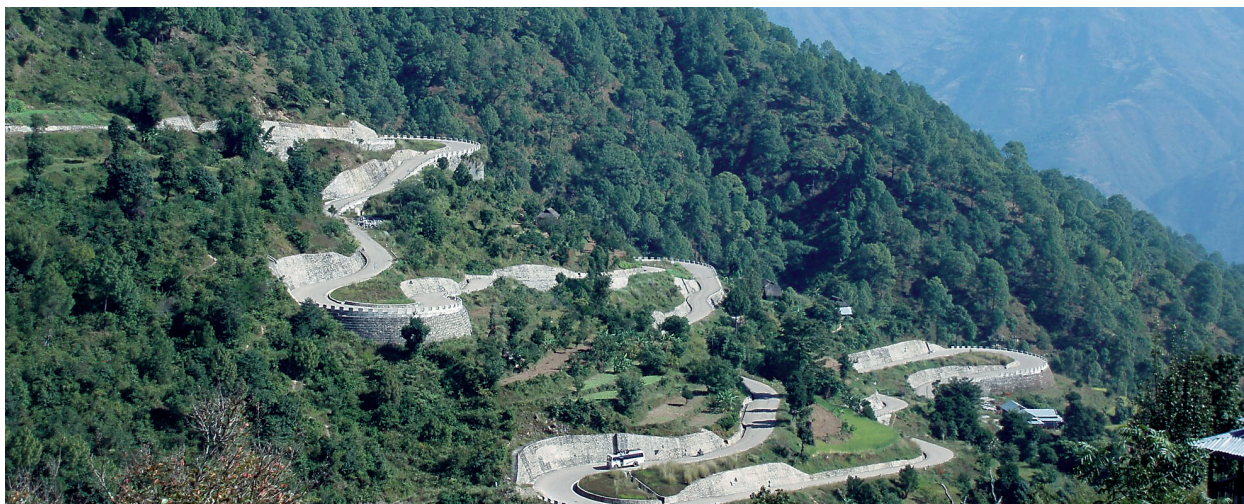


Photo Courtesy: JICA

AGRICULTURE

Nepal's geography, topography, water resources and ample supply of labour give Nepal a comparative advantage in agricultural production. Nepal's economy is largely dependent on agriculture, which accounted for 32% of GDP in 2014/15 and absorbs about two-thirds of the labour market. Only 25% of the total land area is cultivable land; another 33% is comprised of forest land and the rest is mountains. The lowlands of the Terai region produce an agricultural surplus, which caters to the needs of the food-deficient hill areas. The Agriculture Development Strategy 2014 recommends spending NPR 502 billion in 10 years.

As the agriculture sector is the biggest contributor to GDP, the Government of Nepal is committed to uplifting this sector. The government is currently focusing on the modernisation, diversification, commercialisation and marketing of the agriculture sector. Towards this, the government plans to make available agricultural inputs, such as irrigation, electricity, transportation and agro-credit.

Opportunities

- Opportunities exist in agriculture production; processing, packaging and branding (non-timber forest products, cardamom, ginger, aquaculture, vegetables, floriculture, tea, coffee and honey) also offer many opportunities.
- The Nepal Trade Integration Strategy 2010 focuses on the development of cardamom, ginger, honey, lentils, tea, noodles and medicinal herbs/essentials oil as priority export products. The Trade Policy 2015 reemphasizes the need to develop these products.
- There are good opportunities in input markets (such as for seeds, nurseries, fertilizers, agricultural infrastructure and technology, and agriculture financing) and, due to favorable climatic conditions, the focus on high value organic crops is increasing.



TOURISM

With the world's highest mountain range, the Himalayas, and 8 of the 10 highest peaks in world, Nepal has long been popular among mountaineers, trekkers and adventure seekers. It also offers beautiful lakes, steep rivers and gorges, unique wildlife, historic monuments, impressive fine arts, significant religious sites and exotic cultures attracting a wide array of travellers for a variety of reasons.

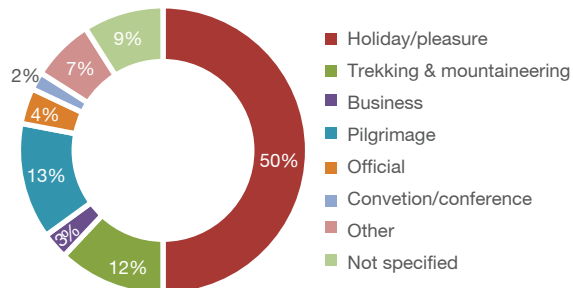
Nepal is also a destination for religious tourism and pilgrimages. Lumbini, the birthplace of Lord Buddha, and Pashupatinath and other Hindu pilgrimage sites are the main attractions for people following Buddhism and Hinduism.

Almost 800,000 tourists visited Nepal in 2014. The average length of stay for a tourist in Nepal is about 12.4 days, and March, October and November are the peak months for tourists to visit. This sector employs approximately 500,000 people in Nepal. The Vision 2020 has set a target to increase annual tourist flow to 2 million, opening avenues for a lot of opportunities.

Opportunities

- There are opportunities in developing tourism infrastructure (hotels, restaurants, roads, airports, etc).
- There is also great potential for expanding the market for meetings, international conferences and events (MICE).
- Plans to upgrade the current international airport are underway, which will increase the tourist traffic significantly.
- The expansion of existing tourism products and introduction of new and innovative products has the potential to attract different types of tourists and extend their average length of stay.

Tourist arrivals by purpose (2014)



INFORMATION COMMUNICATION TECHNOLOGY

Nepal's ICT sector is one of the fastest emerging sectors in the country, with huge potential for growth in the coming years. All the services related to the ICT sector are open to foreign direct investment, except for media. For telecommunications, 80% foreign ownership is allowed.

The Government of Nepal has identified IT and business process outsourcing (BPO) in the Nepal Trade Integration Strategy 2010 as one of the five priority potential export service sectors. The Trade Policy 2015 also reemphasizes the importance of developing this sector. IT has the potential to generate high growth and significant profits and is expected to be one of the most significant growth sectors in Nepal. The major telecommunications service providers in Nepal are Nepal Telecom Corporation (government owned) and Ncell (mainly foreign owned). This is a cross cutting sector which will enhance the performance of all other sectors

Opportunities

- Foreign BPO companies can tap into the young English-speaking population and benefit from the cost advantages offered by the low wages and low establishment and operating costs. The time zone in Nepal is also favourable for companies looking to outsource from America or Europe.
- As there are only two major telecommunications companies (NTC and Ncell) dominating the sector, there is room for new firms to enter the market.
- There are unmet needs for the use of ICTs in governmental agencies and the private sector.
- There are plans to develop an IT Park (an area set aside by the government for software developers, IT-based businesses, IT service providers and investors in related fields).



MINES AND MINERALS

Nepal lies in the centre of the 2,500 km Himalayan belt, which has favourable geography for various minerals (metallic, non-metallic) and fuel. As many as 63 minerals have been identified in Nepal. In 2010/11, 80 mines and quarries for 12 different minerals were in operation. Of these, 29 are limestone quarries and 6 are gem mines. In 2011, mines and mineral-based industries contributed 2.4% to Nepal's GDP.

Nepal has an abundance of minerals used in industry and construction, including limestone (most abundant), coal, talc, red clay, granite and marble, coal, gold, and precious and semi-precious stones (tourmaline, aquamarine, ruby and sapphire). The Department of Mines and Geology is engaged in the exploration, excavation and evaluation of mineral resources in Nepal.

Opportunities

- In recent times, the western part of Nepal has witnessed gas and oil seepage, confirming the presence of oil and natural gas in Nepal. About 10 petroleum and natural gas exploration sites have been identified.
- Nepal has more than 20 million metric tonnes of ore reserves in more than 80 locations.
- Copper occurs in Nepal in more than 107 locations.
- Recent studies have shown that Nepal may have 2.5 billion metric tonnes of cement grade limestone.
- Nepal has an estimated 5 billion metric tonnes of dolomite and 180 million metric tonnes of high-grade magnetite.



HEALTH AND EDUCATION

The development of any country depends on the health and education of its people. The government is committed to providing essential health care services to the population towards universal health coverage and is in the process of introducing a national social health insurance scheme. It is also committed to modernising health infrastructure and building the capacity of doctors, nurses, midwives, and health management and administration staff. It plans to engage in private-public partnerships to enhance the capacity of government hospitals. New hospitals could also be established using private-public partnerships models; the franchising of international hospitals could also be an option. This will cater to the needs of thousands of patients who currently travel to India and other countries for health services. The budget allocated for this sector in 2013/14 is NPR 33.52 billion (USD 335 million), which is approximately 5% of the total budget. This figure has not changed much in the last couple of years.

In terms of education, although there have been impressive gains in this sector's development in recent years, a lot still needs to be done as far as imparting consistent

quality education is concerned. Every year, thousands of students go abroad for further studies spending large sums of money. With more and better education institutions within country, this could be avoided.

Opportunities

- Opportunities exist in developing education infrastructure, including upgrading and building educational institutions and even education cities (medical, IT, engineering, management, etc), for which the government is seeking to engage in private-public partnerships.
- The government is also looking to develop health infrastructure, including by modernising and increasing the capacity of health facilities and mobilising privately-run hospitals by means of public-private partnerships.
- In terms of pharmaceuticals, there are persistent shortages of quality medicines in the market presenting opportunities for manufacturers and importers of pharmaceutical goods.

FINANCIAL INSTITUTIONS

Nepal has witnessed rapid growth in the number of banks and financial institutions (BFIs) since financial liberalisation in the mid-1980s. This policy has encouraged foreign banks to enter the Nepalese market through joint ventures. Standard Chartered Bank, Everest Bank, Nepal Bangladesh Bank and Nepal SBI Bank are some of the joint venture banks operating in Nepal. The banking sector contributes around 3% to GDP.

The central bank of the country, the Nepal Rastra Bank, regulates the banking sector, which is comprised of commercial banks, development banks, finance companies, and micro credit development banks/institutions.

In addition, 26 insurance companies are in operation under the Insurance Act 1992 (as at mid-April 2015), of which 3 have foreign investment and 3 are foreign joint ventures. Nine of these companies are life insurance companies, while the remainder are other types of insurance.

Number of BFIs

	2014
Commercial banks	30
Development banks	84
Finance companies	53
Micro finance institutions (MFIs)	37
Sub-total	204

Source: NRB Financial Stability Report-2014

ANNEX 1. AREAS RESTRICTED FOR FOREIGN INVESTMENT

The following areas are restricted for foreign investment by FITTA 1992 (referred to as the Negative List).

FITTA 1992, Negative List
1. Cottage industries (except industries using electricity of more than 5 kW)
2. Personal service businesses (businesses such as hair cutting, beauty parlours, tailoring, driver training etc.)
3. Arms and ammunition industries
4. Gunpowder and explosives
5. Industries related to radio-active materials
6. Real estate business (excluding construction industries)
7. Film industries (national languages and other recognised languages of the country)
8. Security printing
9. Bank notes and coins
10. Retail businesses (excluding international chain retail businesses, operating in at least two countries)
11. Bidi (tobacco, excluding more than 90% exportable)
12. Internal courier service
13. Atomic energy
14. Poultry
15. Fisheries
16. Beekeeping
17. Consultancy services such as management, accounting, engineering, legal services (maximum 51% foreign investment is allowed)
18. Beauty parlour
19. Processing of food grains on rent
20. Local catering services
21. Rural tourism

The negative list has been revised in the Foreign Investment Policy 2015, which has been approved by the Cabinet of the Government of Nepal. However, as at the time of writing, the changes have not been implemented.

ANNEX 2. RELEVANT AGENCIES AND ORGANISATIONS

LIST OF AGENCIES

OFFICE OF THE PRIME MINISTER AND COUNCIL OF MINISTERS

Singh Durbar, Kathmandu, Nepal
 Tel: +977-1-4211000, 4211025, 4211040, 4211035, 4211080, 4211073, 4211021, 4211038
 Fax: 4211065, 4211086, 4211038, 4211021, 4211047
 PO Box 23312
 Email: info@nepal.gov.np
 Website www.opmcm.gov.np/

MINISTRY OF CULTURE, TOURISM AND CIVIL AVIATION

Tel: +977-1-4211992, 4211669, 4211846 , 4211847, 4211711, 4211685, 4211825
 Fax: +977-1-4211758
 Email: info@tourism.gov.np, tourismnp@gmail.com
 Website: www.tourism.gov.np

MINISTRY OF HOME AFFAIRS

Tel: +977-1-4211261, 4211212, 4211274
 Fax: +977-1-4211264
 Email: gunaso@moha.gov.np
 Website: www.moha.gov.np

MINISTRY OF EDUCATION

Tel: +977-1-4211964
 Fax: +977-1-4200375
 Email: infomoe@moe.gov.np
 Website: www.moe.gov.np

MINISTRY OF FINANCE

Tel: +977-1-4211338
 Email: moev@mof.gov.np
 Website: www.mof.gov.np

MINISTRY OF FOREIGN AFFAIRS

Tel: +977-1-4200182, 4200183, 4200184
 Fax: +977-1-4200160
 Email: info@mofa.gov.np
 Website: www.mofa.gov.np

MINISTRY OF FORESTS AND SOIL CONSERVATION

Tel: +977-1-4211567
 Fax: +977-1-4211868
 Email: info@mfsc.gov.np, webmaster@mfsc.gov.np
 Website: www.mfsc.gov.np

MINISTRY OF HEALTH

Ramshah Path, Kathmandu, Nepal
 Tel: +977-1-4262802, 4262543
 Fax: +977-1-4262896, 4262468, 4262935
 Email: info@mohp.gov.np
 Website: www.mohp.gov.np

MINISTRY OF AGRICULTURAL DEVELOPMENT

Tel: +977-1-4211905, 4211950, 4211697
 Fax: +977-1-4211935
 Email: memoad@moad.gov.np
 Website: www.moad.gov.np

MINISTRY OF COMMERCE AND SUPPLIES

Tel: +977-1-4211631
 Fax: +977-1-4211167
 Email: info@mocs.gov.np
 Website: www.mocs.gov.np

MINISTRY OF INFORMATION AND COMMUNICATIONS

Tel: +977-1-4211556
 Fax: +977-1-4211729
 Email: info@moic.gov.np
 Website: www.moic.gov.np

MINISTRY OF LABOUR AND EMPLOYMENT

Tel: +977-1-4211889, 4211991
 Fax: +977-1-4211877
 Email: info@mole.gov.np
 Website: www.mole.gov.np

MINISTRY OF LAND REFORM AND MANAGEMENT

Tel: +977-1-4211666
 Fax: +977-1-4211708
 Email: info@molrm.gov.np
 Website: www.molrm.gov.np

MINISTRY OF PHYSICAL INFRASTRUCTURE AND TRANSPORT

Tel: +977-1-4211782, 4211931
 Fax: +977-1-4211720
 Email: info@moppw.gov.np
 Website: www.mopit.gov.np

MINISTRY OF FEDERAL AFFAIRS AND LOCAL DEVELOPMENT

Tel: +977-1-4200000, 4200309
Fax: +977-1-4200318
Email: info@mofald.gov.np, ipd@mofald.gov.np
Website: www.mofald.gov.np

MINISTRY OF SCIENCE, TECHNOLOGY AND ENVIRONMENT

Singha Durbar, Kathmandu
Tel: +977-1-4211661, 4211641, 4211586
Fax: +977-1-4211954
Email: info@moste.gov.np
Website: www.moste.gov.np

MINISTRY OF ENERGY

Singha Durbar, Kathmandu
Tel: +977-1-4211516
Fax: +977-1-4211510
Email: info@moen.gov.np
Website: www.moen.gov.np

MINISTRY OF IRRIGATION

Singha Durbar, Kathmandu
Tel: +977-1-4211426
Fax: +977-1-4200026
Email: info@moir.gov.np
Website: www.moir.gov.np

MINISTRY OF URBAN DEVELOPMENT

Singha Durbar, Kathmandu
Tel: +977-1-4211673
Fax: +977-1-4211873
Email: info@moud.gov.np
Website: www.moud.gov.np

MINISTRY OF COMMERCE AND SUPPLIES

Singha Durbar, Kathmandu
Tel: +977-1-423-0967
Fax: +977-1-422-0319
Email: moc@wlink.com.np
Website: www.moics.gov.np

MINISTRY OF DEFENCE

Singha Durbar, Kathmandu
Tel: +977-1-421-1290
Fax: +977-1-421-1294
Email: mod@mos.com.np
Website: www.mod.gov.np

MINISTRY OF CONSTITUENT ASSEMBLY AND PARLIAMENTARY AFFAIRS

Singha Durbar, Kathmandu
Tel: +977-1-4211792, 4211673
Fax: +977-1-4211873, 4455634
Email: nfo@mofacapac.gov.np
Website: www.mofacapac.gov.np

MINISTRY OF GENERAL ADMINISTRATION

Singha Durbar, Kathmandu
Tel: +977-1-424-5367
Fax: +977-1-424-2138
Email: info@moga.gov.np
Website: www.moga.gov.np

MINISTRY OF INDUSTRY

Singha Durbar, Kathmandu
Tel: +977-1-421-1579
Fax: +977-1-421-1619
Email: info@moi.gov.np
Website: www.moi.gov.np

MINISTRY OF PEACE AND RECONSTRUCTION

Singha Durbar, Kathmandu
Tel: +977-1-421-1189
Fax: +977-1-421-1186
Email: info@peace.gov.np
Website: www.peace.gov.np

MINISTRY OF LAW & JUSTICE

Singha Durbar, Kathmandu
Tel: +977-1-422-3727
Fax: +977-1-422-0684
Email: molaw@wlink.com.np
Website: www.moljpa.gov.np

MINISTRY OF WOMEN, CHILDREN AND SOCIAL WELFARE

Singha Durbar, Kathmandu
Tel: +977-1-424-1728
Fax: +977-1-424-1516
Email: mowcsw@ntc.net.np
Website: www.mowcsw.gov.np

MINISTRY OF YOUTH AND SPORTS

Singha Durbar, Kathmandu
Tel: +977-1-441-6507
Fax: +977-1-441-6489
Email: info@moys.gov.np
Website: www.moys.gov.np

MINISTRY OF URBAN DEVELOPMENT

Singha Durbar, Kathmandu
Tel: +977-1-4211673
Fax: +977-1-4211873
Email: info@moud.gov.np
Website: www.moud.gov.np

MINISTRY OF COOPERATIVES AND POVERTY ALLEVIATION

Singha Durbar, Kathmandu
Tel: +977-1-4211860
Fax: +977-1-4211754
Website: www.mocpa.gov.np

NEPAL RASTRA BANK

Central Office Baluwatar, Kathmandu, Nepal
PO Box 73
Tel: +977-1-4410158, 4410201, 4411250
Fax: +977-1-4410159
Website: www.nrb.org.np

DEPARTMENT OF INDUSTRY

Tripureshwor, Kathmandu
Tel: +977-1-4261203, 4261302
Fax: +977-1-4261112
Email: info@doind.gov.np
Website: www.doind.gov.np

DEPARTMENT OF COTTAGE AND SMALL INDUSTRIES

Tripureshwor, Kathmandu
Tel: +977-1-4259842, 4259846
Fax: +977-1-4259747
Email: dcsi@dcsi.gov.np
Website: www.dcsi.gov.np

OFFICE OF THE COMPANY REGISTRAR

Tripureshwor, Kathmandu
Tel: +977-1-4259948, 4263089
Fax: +977-1-4259961
Email: info@ocr.gov.np
Website: www.ocr.gov.np

DEPARTMENT OF IMMIGRATION

Kalikasthan, Dillibazar
Tel: +977-1-4429659
Fax: +977-01-4433935
Email: mail@nepalimmigration.gov.np
Website: www.nepalimmigration.gov.np

DEPARTMENT OF CUSTOMS

Tripureshwor, Kathmandu
Tel: +977-1-4259793
Fax: +977-1-4259808
Email: csd@customs.gov.np
Website: www.customs.gov.np

INLAND REVENUE DEPARTMENT

Lazimpat, Kathmandu
Tel: +977-1-4415802, 4410340
Fax: +977-1-4411788
Email: mail@ird.gov.np
Website: www.ird.gov.np

DEPARTMENT OF LABOUR

Minbhawan, Baneshwor
Tel: +977-1-4107194
Fax: +977-1-4107288
Email: info@dol.gov.np
Website: www.dol.gov.np

NEPAL TOURISM BOARD

Bhrikuti Mandap, Kathmandu
Tel: +977-1-4256909
Fax: +977-1-4256910
Email: info@ntb.org.np
Website: www.welcomenepal.com

NEPAL ELECTRICITY AUTHORITY

Central Office, Durbar Marga, Kathmandu, Nepal
Tel: +977-1-4153052, 4153053, 4153054
Fax: +977-1-4153067, 4153013
Email: info@nea.org.np
Website: www.nea.org.np

FEDERATION OF NEPALESE CHAMBERS OF COMMERCE AND INDUSTRY

Teku, Kathmandu
Tel: +977-1-4262061 / 4262218 / 4266889
Email: fncci@mos.com.np
Website: www.fncci.org

CONFEDERATION OF NEPALESE INDUSTRIES

Address: Maitighar, Kathmandu
Tel: +977-1-5111122, 5111123
Email: cni@wlink.com.np
Website: www.cnind.org

NEPAL CHAMBER OF COMMERCE

Chamber Bhawan, Kantipath
PO Box 198, Kathmandu, Nepal
Tel: +977-1-4230947 Fax: 977-1-4229998
Email: chamber@wlink.com.np
Website: www.nepalchamber.org

FEDERATION OF NEPAL COTTAGE AND SMALL INDUSTRIES

Maitighar Height, Kathmandu, Nepal
Tel: +977-1-4222751, 4269817
Fax: +977-1-4215602
Email: fncsi@ntc.net.np
Website: www.fncsi.org

INVESTMENT BOARD NEPAL

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