



Doing Business in Nepal- 2018



Foreword

Federal Democratic Republic of Nepal is in the path to prosperity after concluding long transition towards democracy and inclusiveness of the state. Successful completion of election of all three levels of Government and formation of majority Government has raised hope of stable political environment which will provide impetus for speedy economic growth, which has been agreed to by all political stakeholders as need of the hour.

In this context, we have come up with this publication which, we believe, will serve as a guide to everyone intending to start a business in Nepal.

This publication is open for continuous improvement. We welcome your comments and contributions.

Sunir Kumar Dhungel
Chairman

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Chapter 1- Country Profile

1.1 Location and Climate

1.2 History and Political Background

1.3 People, Language and Social Patterns

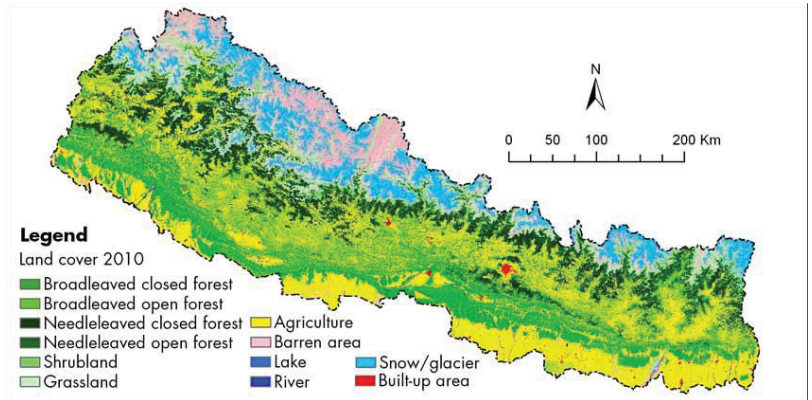
1.4 Legal System

1.5 Economic Structure

1.6 Principal Government Agencies

1.1 Location and Climate

Nepal, officially the Federal Democratic Republic of Nepal, is a landlocked central Himalayan country in South Asia. Nepal is located between China in the North and India in the South, East and West. The total land area is 147,181 sq. km including water area of the country that is 3,830 sq. km. The country can be divided into three main geographical regions: Himalayan Region, Mid Hill Region and Terai Region. For a small country, Nepal has tremendous geographic diversity. It rises from as low as 59 metres (194 ft) elevation in the tropical Terai—the northern rim of the Gangetic Plain, beyond the perpetual snow line to some 90 peaks over 7,000 metres (22,966 ft) including Earth's highest 8,848 metres (29,029 ft) Mount Everest.



Climatic conditions of Nepal vary from one place to another in accordance with their geographical features. In the North, summers are cool and winters severe, while in the South summers are tropical and winters are mild. In the Terai (south Nepal), summer temperatures exceed 37° C and higher in some areas, winter temperatures range from 7°C to 23°C in the Terai. In mountainous regions, hills and valleys, summers are temperate while winter temperatures can plummet under zero. Eighty percent of all the rain in Nepal is received during the monsoon (June-September).

1.2 History and Political Background

Nepal is a country of ancient civilization which can be traced thousands of years before the birth of Christ (B.C.). The history of Nepal began in, and centers on, the Kathmandu Valley. Over the centuries Nepal's boundaries have extended to include huge tracts of neighboring India and contracted to little more than the Kathmandu Valley and a handful of nearby city-states. Though it has ancient roots, the modern state of Nepal emerged only in the 18th century.

Nepal had experienced a struggle for democracy at times in the 20th century and early 21st century. During the 1990s and until 2008, the country was in a civil strife. A peace treaty was signed in 2006 and elections were held in the same year. In a historical vote for the election of the constituent assembly, Nepalese Parliament voted to oust the monarchy in June 2006. Nepal became a federal republic and was formally renamed the 'Federal Democratic Republic of Nepal' abolishing the 240-year-old monarchy. Nepal today has a President as Head of State and a Prime Minister heading the Government.

1.3 People, Language and Social Patterns



Squeezed between the Tibetan plateau and the plains of the subcontinent - the modern-day giants of China and India - Nepal has long prospered from its location as a resting place for traders, travelers and pilgrims. A cultural mixing pot, it has bridged cultures and absorbed elements of its neighbors yet retained a unique character.

Nepal is a multicultural and multiethnic country. Nepalese are multi-linguistic group that speak 123 languages as recorded in 2011 Nepal census.

Kathmandu Valley, in the middle hill region, constitutes a small fraction of the nation's area but is the most densely populated, with almost 5 percent of the nation's population.

1.4 Legal System

Judicial power of Nepal is exercised by the courts and other judicial authorities pursuant to the Constitution and other laws and recognized principles of justice. Nepal's constitution has incorporated the provision of Supreme Court, High Court and District Court along with the provision for judicial bodies in the local level or other bodies as may be formed to pursue alternative dispute settlement mechanism. Similarly, the Constitutional Bench in the Supreme Court has been established to hear the disputes related to jurisdiction of Federal, State and Local level as well as the disputes on qualification of elected member of federal or state Parliament.

Supreme Court is recognized as the highest court of Nepal. At present, there are 7 High Courts along with nine permanent Benches and two temporary Benches of the High Court. 75 District Courts and other judicial institutions like Debt Recovery Tribunal, Revenue Tribunal, Administrative Court, Foreign Employment Tribunal and Special Court are also discharging the duties of justice dispensation in Nepal.



1.5 Economic Structure

Nepal is among the least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity.

Additional challenges to Nepal's growth include its landlocked geographic location, civil strife and labor unrest, and its susceptibility to natural disaster.

After being hit by the devastating earthquake and the subsequent economic blockade, the economy is showing signs of revival. With greater powers to the local levels and provinces, the capital expenditure is expected to increase which will have positive impacts on the economy.

Foreign aid to Nepal accounts for more than half of the development budget. Government priorities over the years have been the development of transportation and communication facilities, agriculture, and industry.

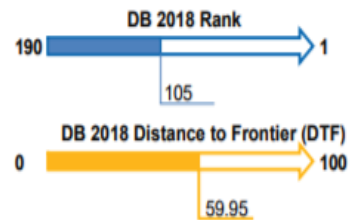
Leaders from the major political parties agreed to adopt three-pillar economic model in the new constitution. The mixed-model economic policy ensures independent development of the public, private and cooperative sectors and also accepts joint involvement of the three sectors in development activities. The Constitution of Nepal states policy of the government shall be to enhance national economy through partnership and independent development of the public, private and cooperative sectors.

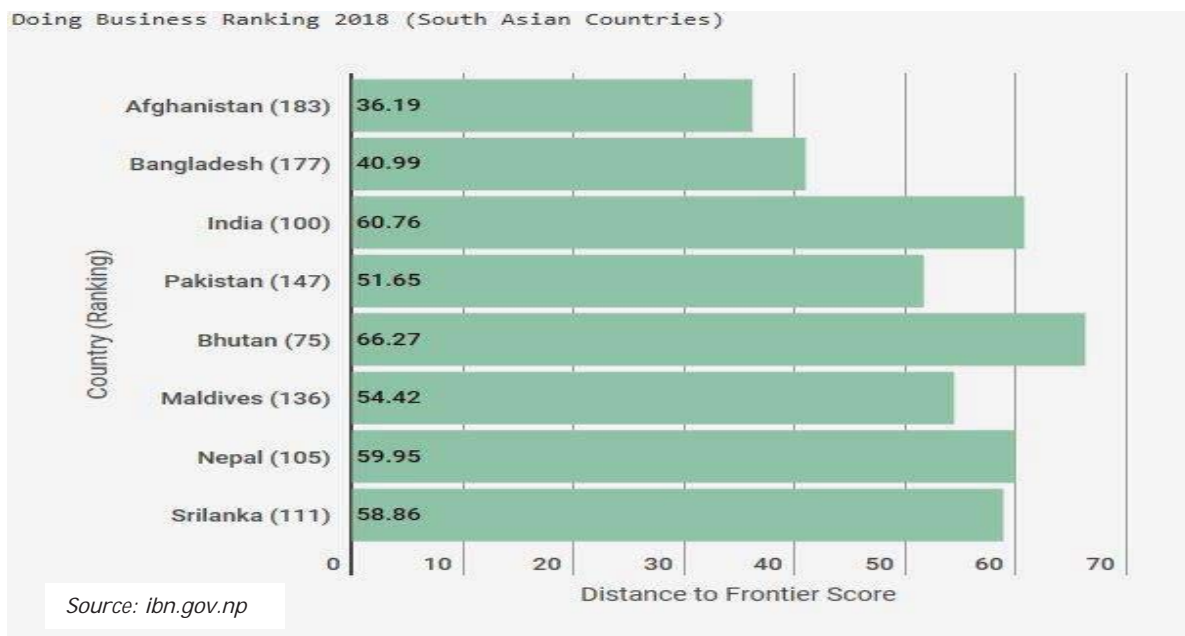
World Bank Ranking

Ease of Doing Business in
Nepal



Region	South Asia
Income Category	Low income
Population	28,982,771
GNI Per Capita (US\$)	730
City Covered	Kathmandu





Nepal has been using a series of periodic plan to make progress in economic development. Accordingly, three-year plans is being prepared since 2007/08.

14th THREE YEAR ECONOMIC PLAN OF NEPAL (FY 2016/17 -2018/19)

The three-year plans provide a basis for the government to frame the annual budget and guide development work in the country.

The latest three-year plan envisages achieving an economic growth rate of 6.5 percent in the 2016-17, 7.2 percent in 2017-18 and 7.9 percent in 2018-19.

To achieve these targets, an investment of NPR 2,425 billion at constant prices will be required over the three-year period.

The plan expects 39.4 percent of this capital to come from the government, 54.7 percent from the private sector and 5.9 percent from cooperatives.

A substantial chunk of this money will be used to increase domestic production by transforming the agricultural sector and expanding tourism, industry and small and medium enterprises.

The plan also aims to spend a considerable amount on developing infrastructure related to energy, road, air travel and information and communications besides strengthening the country's social security and social protection systems.

Other objectives include introducing reforms in the economic and social sectors, ensuring sound and accountable public finance, delivering quality public services in a transparent manner and promoting good governance by protecting and promoting human rights.

Moreover, focus has been laid on cross-cutting issues such as gender equality, inclusive society, environmental protection and capacity development of different institutions.

SUSTAINABLE DEVELOPMENT GOALS

Sustainable Development has been a global agenda for last 25 years. The Millennium Development Goals (MDGs) based on Millennium Declaration in the year 2000 by the United Nations (UN) has set foundation for Sustainable Development Goals (SDGs) to be achieved by 2030. Nepal, as a member of the UN, is a part of this global initiative.



Macro Economic Indicators

Description	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Gross Domestic Product (GDP) - NPR In Million	1,366,954	1,527,344	1,695,011	1,964,540	2,130,150	2,247,427	2,599,234
Gross Domestic Product Growth (percent)	3.42	4.78	4.13	5.99	3.32	0.41	7.50
Per capita GDP (NPR)	51,593.87	56,879.69	62,282.96	71,225.21	76,200.76	79,325.16	90,520.52
Nominal Per capita GDP (US\$)	714	702	708	725	766	746	853
Per capita GNI (NPR)	51,878.81	57,337.43	62,763.54	72,412.64	77,425.70	80,525.37	91,488.16
Workers' Remittances as percentage of GDP	18.55	23.54	25.64	27.66	28.98	29.59	26.94
Exchange rate (US\$: NPR)	72.27	81.02	87.96	98.21	99.49	106.35	106.94
Consumer Price Index (% Change)	9.6	8.3	9.9	9.1	7.2	9.9	5.9
Population (millions)	26.49	26.85	27.21	27.58	27.95	28.33	28.71

Source: Economic Survey 2016/17

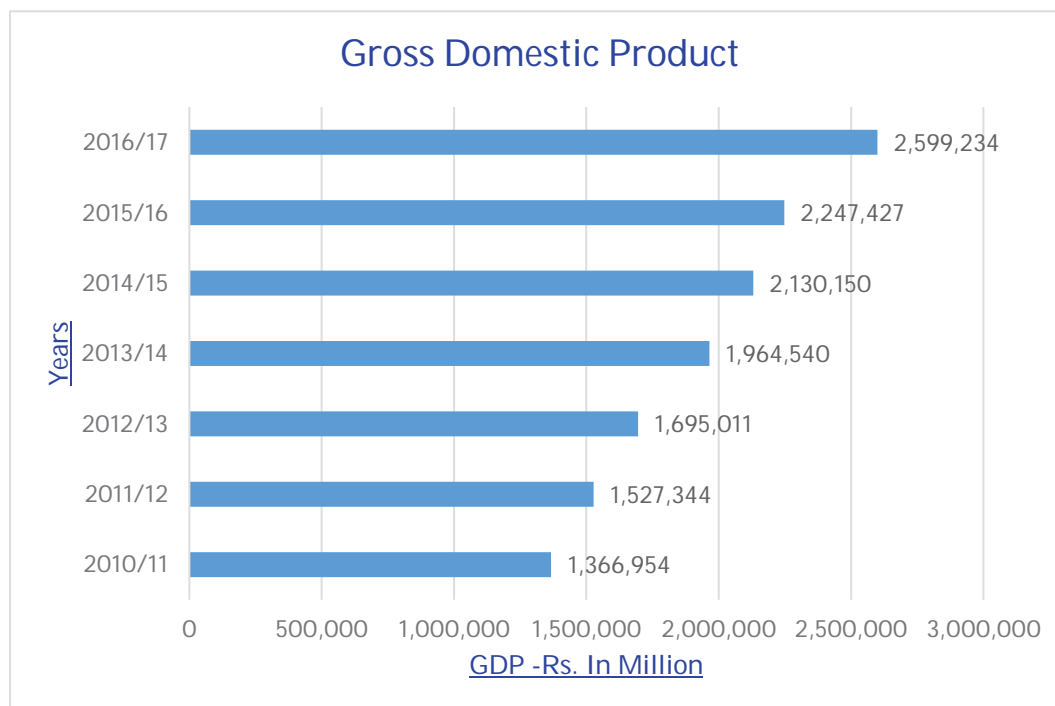


Table 1 : GDP Growth in Seven Years

*Source: Economic Survey 2016/17

1.6 Principal Government Agencies

Ministry of Finance

Singhdurbar, Kathmandu, Nepal

Phone : 977-1-4211338

Website : www.mof.gov.np

Ministry of Foreign Affairs

Singhdurbar, Kathmandu, Nepal

Phone : 977-1-4200182

Website : www.mofa.gov.np

Ministry of Labour and Employment, Women, Children and Social Security

Singhdurbar, Kathmandu, Nepal

Phone : 977-1-4211889

Website : www.mole.gov.np

Federation of Nepalese Chambers of Commerce & Industry(FNCCI)

Teku, Kathmandu, Nepal

Phone : 977-1-4262061,4262218

Website : <http://www.fncci.org>

Nepal Tourism Board

Bhrikuti Mandap, Kathmandu, Nepal

Phone : +977-1-4256909

Website : <http://www.welcomenepal.com>

Ministry of Industry, Commerce and Supplies

Singhdurbar, Kathmandu, Nepal

Phone : 977-1-4211579

Website : www.moi.gov.np

Office of the Investment Board

ICC Complex, New Baneshwor

Kathmandu, Nepal

Phone : 977-1-4475277

Website : ibn.gov.np

Inland Revenue Department

Lazimpat, Kathmandu, Nepal

Phone: +977-1-4415802

Website: <http://ird.gov.np/>

Office of Company Registrar

Tripureshwor, Kathmandu, Nepal

Phone : +977-1-4259948

Website : <http://www.ocr.gov.np/>

Chapter 2- Nepalese Economy and Trade

2.1 Exports/Imports

2.2 World Trade Organization

2.3 Trade Policies

2.4 Special Economic Zone

2.5 Nepal's Trade Agreements

Nepalese Economy and Trade

The Government of Nepal aims to speed up socio-economic transformation through high, sustained and broad-based inclusive growth. It has taken various initiatives for achieving high economic growth and reducing poverty and envisioned to graduate from Least Developed Country status by the year 2022. Nepal is fully committed to the initiatives taken by WTO with regards to enhancing export capacity of the LDCs. Government of Nepal has incorporated trade agenda as a main strategy in previous as well as current Development Plan. The Trade Policy 2015 and Nepal Trade Integration Strategy 2016 are instrumental in increasing the contribution of trade in the national economy, particularly in achieving export-led growth.



Over the years, Nepal has taken a series of initiatives to promote exports to achieve sustainable and inclusive economic growth, poverty reduction, and improvement in the living standard of the Nepalese people. Nepalese economy suffered adversely from devastating earthquake and disruption in supply situation due to obstruction in border points. To recover the economy by mitigating such adverse shocks, the Government of Nepal has implemented various policies and programs.

Nepal's overall economic activity has been encouraging in fiscal year 2016/17. Economic activities have expanded due to favorable monsoon, increase in capital expenditure, energy management, and improvement in investment environment including overall supply situation.

2.1 Exports/Imports

Nepal's external sector situation remained satisfactory in FY 2016/17. Despite expansion of exports with the economic recovery after devastating earthquake and disruption in supply situation, trade deficit remained high as a result of higher growth rate of imports. Nepal's trade deficit has surged with the increase in trade openness after the adoption of trade liberalization. The total trade to GDP ratio, which is considered as an indicator of trade openness, that had remained at 25.4 percent in FY 1991/92 has reached 37.5 percent in FY 2015/16.

During the fiscal year 2016/17, imports increased nearly by 27% and exports nearly by 4%. As a result the trade deficit didn't show any improvement in the following year. The exports share to total trade also significantly decreased nearly by 17%.

Major imports of Nepal include mineral fuels, mineral oils, iron and steel, vehicles, electrical machinery, cereals, plastic and articles thereof, precious metals, semi-precious stones while major exports include carpets and other textile floor coverings, coffee, tea and spices, man-made staple fibers, apparel and clothing accessories, preparations of vegetables, fruit, nuts or other parts of plants.

Main trading partner countries for imports are India, China, United Arab Emirates, France, Indonesia, and for import are India, United States, Turkey, Germany, United Kingdom, China.

Trade Indicators	F.Y. 2016/17	F.Y. 2015/16	% Change
Imports (NPR` 000)	984,302,947.7	774,712,277	27.05
Exports (NPR` 000)	73,036,243.81	70,254,165	3.96
Trade Deficit (NPR` 000)	911,266,703.9	704,458,112	29.36
Total Foreign Trade (NPR` 000)	1,057,339,191	844,966,442	25.13
Imports/Exports ratio	13.48	11.03	22.21
Exports share to total trade (%)	6.91	8.31	-16.92
Imports share to total trade (%)	93.09	91.69	1.53

**Source: Annual Foreign Trade Statistics, Department of Customs*

Top 10 Imports, Exports and Trade Balance by Partner Countries - F.Y. 2016/17

Figures in '000 NPR

S.No	Partner Countries	Imports	Exports	Trade Balance
1	India	641,423,631.74	41,640,225.95	(599,783,405.79)
2	China	129,878,416.59	1,701,478.68	(128,176,937.91)
3	United Arab Emirates	29,198,697.25	100,458.76	(29,098,238.49)
4	France	13,350,297.04	1,193,590.13	(12,156,706.91)
5	Indonesia	11,836,414.72	4,510.22	(11,831,904.50)
6	Argentina	11,682,487.22	12,718.10	(11,669,769.12)
7	Thailand	10,640,386.28	80,500.22	(10,559,886.06)
8	Republic of Korea	8,937,666.80	160,218.49	(8,777,448.31)
9	Canada	8,899,572.04	885,200.30	(8,014,371.74)
10	United States	8,464,809.39	8,961,771.68	496,962.29

**Source: Annual Foreign Trade Statistics 2073/74, Department of Customs*

***Countries are sorted based on value of imports*

2.2 World Trade Organization (WTO)

Nepal became the 147th WTO member on 23 April 2004. Nepal is the first LDC to join the WTO through the full working party negotiation process. The WTO agreements cover a wide range of activities such as agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food and sanitation regulations and intellectual property. As a member of WTO, Nepal undertook various obligations such as tariff reductions on industrial and agricultural goods, protection of intellectual property rights.



WORLD TRADE
ORGANIZATION

2.3 Trade Policies

Trade Policy 2015

Nepal's Trade Policy 2015 replaced the trade policy of 2009 to take benefit from bilateral, regional and multilateral trading agreements. The new Trade Policy includes provisions aimed at promoting service trade, protecting intellectual property rights and implementing decisions taken during the Ninth World Trade Organization Ministerial Conference held in Bali, Indonesia, in December 2013. It focuses on increasing the competitiveness of domestic product so that the huge trade deficit can be managed. One of the main objectives of the new policy is to promote domestic industries, manage growing imports and boost exports, so that trade becomes an engine for economic development of the country. The policy also focuses on narrowing the trade gap by addressing the supply-side constraints, enhancing the capacity of export-oriented service firms, such as those engaged in engineering, hydroelectric production, tourism, education, IT and business process outsourcing, health and human resources development.

A Board of Trade, including the private sector shall be constituted at the central level to provide assistance in the formulation of policies necessary for trade promotion, trade facilitation, policy monitoring and inter-agency coordination.

MAJOR HIGHLIGHTS OF TRADE POLICY 2015

- Government to act as a facilitator, motivator and regulator for enhancing active participation of private sector
- Enhancing competitive capacity of the products with comparative and competitive advantage for export promotion
- Reducing trade deficit by strengthening supply-side capacity
- Enhancing the competitive capacity of exportable service sectors
- Reducing transaction costs by means of trade facilitation and institutional strengthening
- Mainstreaming trade in order to establish it as a major component of economy
- Expanding market and enhance trade capacity by means of multilateral, regional and bilateral mechanisms and trade diplomacy

List of Export Potential Goods and Services

Services

1. Engineering
2. Hydropower
3. Tourism
4. Education
5. Information Technology and Business Process Outsourcing(IT/BPO)
6. Health Services
7. Labor Services (Skilled/Semi-Skilled professionals)

Goods

1. Gingers/dried gingers
2. Large cardamom
3. Wool and carpets
4. Drugs, medicinal herbs and essential oils
5. Coffee
6. Carpets
7. Silk products
8. Sugar
9. Tea
10. Foot-wears
11. Textiles
12. Vegetables, vegetable seeds
13. Instant noodles
14. Ready-made garments
15. Dairy products
16. Processed leather
17. Pashmina
18. Floriculture
19. Fruits
20. Iron and steel products
21. Honey
22. Pulses
23. Cement
24. Gold, silver ornaments and precious stones
25. Handicrafts
26. Handmade papers and paper products

- Linking trade in goods and services to regional and global production network by strengthening and making them competitive as well as supplementary to each other
- Enhancing access of Nepalese products to world market by protecting and promoting trade related intellectual property rights

Nepal Trade Integration Strategy, 2016

Nepal validated its first Diagnostic Trade Integration Studies (DTIS) as the Nepal Trade and Competitiveness Study (NTCS) in 2004. The study analyzed Nepal's trade regime and performance and identified products with comparative and competitive advantage.

The country developed and adopted Nepal Trade Integration Strategy (NTIS) 2010 as an updated version of NTCS 2004 that basically focused on development of 12 goods and 7 services areas for making the trade inclusive and equitable and contributing to the poverty reduction goal adopted by the government. NTIS 2010 also charted out actions and interventions in cross-cutting areas and priority export potential sectors aimed at increasing exports.

Nepal Trade Integration Strategy (NTIS) 2016 is Nepal's third generation trade integration strategy. NTIS 2016 seeks to address the outstanding trade and competitiveness challenges confronted by the country's export sector. NTIS 2016 has been formulated in close complementarity with the Trade Policy 2015.

NTIS 2016 has identified priority export potential goods and services based on two broad criteria viz; i) export performance and ii) inclusive and sustainable development.

2.4 Special Economic Zone



SEZ refers to a totally commercial area specially established for the promotion of foreign trade. A Special Economic Zone is a geographical region that has economic laws more liberal than a country's typical economic laws. Usually the goal is flourishing in foreign investment. Moreover, SEZs are specifically delineated enclaves treated as foreign territory for the purpose of industrial, service and trade operations, with relaxation in customs duties and a more liberal regime in respect of other levies, foreign investments and other transactions.

Government of Nepal first institutionalized the concept of Special Economic Zone (SEZ) through the establishment of Special Economic Zone Development Committee on February 11, 2013 through the Special Economic Zone Formation Order 2012. The SEZDC was established under Ministry of Industry to conduct pre-feasibility and feasibility studies for establishment of SEZ in different areas of the country and construct required infrastructure in the SEZ areas. The Special Economic Zone Act, 2016 was enacted by the Legislative Parliament and has come into effect from October 4, 2016.

Investor desirous to invest and establish any industry within the list of industry as specified by Government of Nepal in the Special Economic Zone, shall submit an application in the prescribed format before the SEZ Authority, with prescribed fees. The Authority provides approval within 7 days of application. License holder is required to register the industry within 7 days of approval.



FACT BOX	Fixed Capital Requirement	
	Listed industries	NPR. Crore
Industries not listed	NPR. Crore	3

In case of foreign investment in the industry, GoN has made provision for One Door Unit for approval of establishment of industry in SEZ.

License-holder having obtained the license is required to enter into an agreement with the Authority for the purpose of establishing and operating the industry, on the following matters:

- a) Lease or rental amount to be submitted in lieu of utilization of the building, land or services (electricity, water, sewerage, management of waste etc.) deemed necessary for the industry,
- b) Date of establishment and operation of the industry,

- c) Quantity of product to be exported by the industry,
- d) Matters relating to transfer of technology provided it is a foreign investor,
- e) Other matters as prescribed

All materials or services produced from the industry established in the Special Economic Zone shall be exported. Any license-holder may be allowed to sell materials or services up to 25% of its total production in the internal market of Nepal after informing the Authority by submitting matters as prescribed.

Commercial transaction, levied on products or services produced by industries established in the Special Economic Zone or for the purpose of taxation, the zone shall be deemed to be outside the jurisdiction of tax and shall be accorded special treatment.

Industry established and operational in the Special Economic Zone shall not be nationalized.

Concessions for industries inside the SEZ

A. CONCESSION IN THE RENT OF THE LAND AND BUILDING INSIDE SEZ	
Rebate in lieu of the amount to be deposited as rental or lease amount	Year I: 50% Year II: 40% Year III: 25%
B. INCOME TAX CONCESSIONS	
All Industries	<ul style="list-style-type: none"> ✓ 100% income tax exemption for first 5 years from commencement of commercial transaction ✓ 50% income tax exemption for the following years
Industries inside SEZ of Himalayan and Hilly regions specified by the Government	<ul style="list-style-type: none"> ✓ 100% income tax exemption for first 10 years from commencement of commercial transaction ✓ 50% percent exemption for the following years.
C. DIVIDEND	
Industries inside SEZ	<ul style="list-style-type: none"> ✓ 100% exemption in dividend distributed by such industries for the first 5 years from the date of commencement of commercial transaction ✓ 50% exemption in the following 3 years
D. VAT EXEMPTION	
<ul style="list-style-type: none"> ✓ 0% VAT on goods and services exported by industries in SEZ. ✓ 0% VAT on raw materials and finished goods sold to industries in SEZ. 	
E. CUSTOM DUTY EXEMPTION	
<ul style="list-style-type: none"> ✓ Industries inside SEZ are entitled to Custom Duty exemption under Bank Guarantee and other facilities in the following goods: <ul style="list-style-type: none"> a. Raw materials, auxiliary raw materials, packaging and other materials b. Plants, machineries, equipment, tools and spare parts and maximum 3 vehicles depending upon the nature and size of industry. ✓ Any exporter that sells any imported materials to industry located in SEZ and such exporter has submitted any custom fees in lieu of import of such goods, the custom office shall reimburse the custom fee ✓ Any industry located outside the SEZ that sells any of its products to the industry located inside the SEZ, shall be provided with custom fees and other facilities, deeming such sales to be import of such goods 	

Areas identified by GoN for establishing SEZs

1.	Bhairahawa SEZ (Coming into operation soon)	2.	Simara SEZ
3.	Nuwakot SEZ	4.	Nepalgunj SEZ
5.	Panchkhal SEZ	6.	Jhapa SEZ
7.	Biratnagar SEZ	8.	Dhanusha SEZ
9.	Kapilvastu SEZ	10.	Rautahat SEZ
11.	Jumla SEZ	12.	Siraha SEZ
13.	Dhangadi SEZ	14.	Gorkha SEZ

2.5 Nepal's Trade Agreements

SAFTA

Nepal has ratified the South Asian Association for Regional Cooperation (SAARC) Agreement on a South Asian Free Trade Area (SAFTA). Under SAFTA, the eight SAARC nations (Nepal, Bhutan, India, Bangladesh, Pakistan, Sri Lanka, Maldives, and Afghanistan) have pledged to cut tariff rates on a product -by-product basis, and more than 5,000 items are entitled to preferential duty treatment in one of the participating countries.

BIMSTEC

In February 2004, Nepal became a member of the Bay of Bengal Initiative for Multi - Sectoral Technical and Economic Cooperation (BIMSTEC). Other members include Bangladesh, Bhutan, India, Myanmar, Sri Lanka and Thailand. BIMSTEC seeks to establish a more comprehensive free-trade area through deeper and substantial sector coverage of services and an open and competitive investment regime.

Bilateral Trade Treaties

Nepal has signed bilateral trade treaties with seventeen countries, including the United States, United Kingdom, Yugoslavia, India, Russia, South Korea, North Korea, Egypt, Bangladesh, Sri Lanka, Bulgaria, China, Czech Republic, Pakistan, Romania, Mongolia, and Poland.

- ✓ Trade and Payments and Transit Agreements with the People's Republic of Bangladesh, April 2, 1976.
- ✓ Trade and Payments Agreement with the People's Republic of Bulgaria, July 4, 1980.
- ✓ Trade and Payments Agreement with the People's Republic of China, November 22, 1981
- ✓ Nepal China Preferential Tariff Treatment
- ✓ Trade and Payments Agreement with Czechoslovak Socialist Republic, December 12, 1982.
- ✓ Trade Agreement with the Arab Republic of Egypt, December 23, 1975.
- ✓ Trade Agreement with the Republic of India
 - Treaty of Trade
 - Agreement of Co-operation, 1991
 - Treaty of Transit, 1999
- ✓ Trade Agreement with the Democratic People's Republic of Korea, December 11, 1970.
- ✓ Trade Agreement with the Republic of Korea, May 6, 1971.
- ✓ Trade Agreement with Mongolia, January 29, 1992.
- ✓ Trade Agreement with the Islamic Republic of Pakistan, July 28, 1982.
- ✓ Trade Agreement with the Republic of Poland, May 12, 1992.
- ✓ Trade Agreement with the Republic of Romania,
- ✓ Trade Agreement with the Democratic Socialist Republic of Sri-Lanka, April 3, 1979.
- ✓ Trade Agreement with the United Kingdom of Great Britain and Northern Ireland, 1965.
- ✓ Trade Agreement with United States of America, April 25, 1947.
- ✓ Trade Agreement with the Union of Soviet Socialist Republic, August 6, 1970.
- ✓ Trade Agreement with the Socialist Federal Republic of Yugoslavia, September 5, 1965.

Bilateral Investment Promotion and Protection Agreement (BIPPA)

Nepal has also entered into Bilateral Investment Promotion and Protection Agreement (BIPPA) for promotion and protection of investment with six countries.

Country	Date of agreement
India	October 21, 2011
Finland	February 3, 2009
Mauritius	August 3, 1999
United Kingdom	March 2, 1993
Germany	October 20, 1986
France	May 2, 1983

**Source: Ministry of Industry, GoN*

Chapter 3- Regulatory Framework for Foreign Investments

3.1 Forms of Business

3.2 Foreign Investment and Technology Transfer

3.3 Intellectual Property Rights

3.4 Securities Market

3.5 Control on Foreign Exchange

3.6 Merger and Acquisition

3.7 Liquidation and Bankruptcy

3.1 Forms of business

<p>Company <i>Any person desirous of undertaking any enterprise with profit motive may, either singly or jointly with others, incorporate a company for the attainment of one or more objectives set forth in the memorandum of association. A company shall be an autonomous and corporate body with perpetual succession and limited liability</i></p> <p><i>To incorporate a company, the person shall request for approval of proposed name to the Company Registrar's Office through online by submitting the prescribed details.</i></p> <p><i>Where the promoter is a foreign person or a company, following additional documents need to be submitted:</i></p> <ul style="list-style-type: none"> - <i>permission obtained under the prevailing law to make investment or carry on business or transaction in Nepal,</i> - <i>a document proving the country of citizenship of shareholder, certified copy of the incorporation of such company or body and major documents relating to such incorporation</i> 	<p>Partnership firm <i>A partnership firm shall not be a distinct legal person separate from its partners and partners have unlimited liability.</i></p> <p><i>The partnership firm shall be registered with the concerned Department* within a period of six months from the date when the partners enter in to the agreement of partnership pursuant to Partnership Act, 1964.</i></p> <p><i>In order to register a firm an application as prescribed shall be submitted to the concerned Department*, stating the prescribed details. The Department shall provide certificate of registration upon completion of all procedures.</i></p> <p><i>The registration of Partnership Firms shall be renewed within 35 days of every fiscal year end, along with the submission of prescribed fees.</i></p> <p><i>* Department shall refer to Department of Commerce for firms related to commercial sectors, Department of Cottage and Rural Industry for the matter related to cottage and rural industry and Department of Industry for any other industry</i></p>
<p>Sole Proprietorship Firm <i>Private firms are registered under Private Firm Registration Act, 1958.</i></p> <p><i>To register a private firm, an application in the format as prescribed should be submitted to the concerned Department* along with the prescribed fee setting out the prescribed details.</i></p> <p><i>* Department shall refer to Department of Commerce for firms related to commercial sectors, Department of Cottage and Rural Industry for the matter related to cottage and rural industry and Department of Industry for any other industry.</i></p> <p><i>The registration shall be valid for 3 years, and thereafter, it shall be renewed within 35 days of expiry.</i></p>	<p>Industry <i>Any person desirous of operating an industry shall submit an application to the Department of Industries or other entity prescribed by the Government, along with details and documents as prescribed. A micro industry or a cottage industry shall get registered within 6 months of its operation. The Department shall grant registration within 15 days of application or may require to furnish additional documents within 7 days.</i></p> <p><i>The concerned industry shall start commercial production/operation only after conducting Environmental Impact Assessment or Initial Environmental Examination, if any required.</i></p> <p>Industries requiring prior approval of the Industry and Investment Promotion Board:</p> <p>a. <i>Industries as follows:</i></p> <ul style="list-style-type: none"> ✓ <i>Industries producing arms and ammunition, weapons</i>

- ✓ *Industries producing explosives*
- ✓ *Cigarette industries and other industries using tobacco as their main raw material*
- ✓ *Beer and Alcohol industries*
- ✓ *Industries manufacturing radio communication equipment*
- ✓ *Medium and large scale industries extracting and refining stones, sand*
- ✓ *Mineral extraction, petroleum extraction industries*
- ✓ *Other industries as per prevailing laws*

b. *Industries requiring approval of the Board for foreign investment and technology transfer*

The Board shall decide within 1 month of receiving application, whether to grant approval or not. The concerned department shall provide approval to the industry within 15 days of decision by Board. The industry shall get registered within the time mentioned in the approval. If the request has been declined by the Board, the same shall be informed within 7 days.

3.2 Foreign Investment and Technology Transfer

Following investments can be made by a foreign investor in any industry:

- ✓ Investment in Shares (Equity)
- ✓ Reinvestment of the earnings derived from the investment
- ✓ Investment made in the form of loan or loan facilities

However, investments in kind, for example in machineries and equipment are also accepted as the foreign investment as a part of investment in shares.

Technology Transfer may be made under an agreement between an industry and a foreign investor on the following matters:

- ✓ Use of any technological right, specialization, formula, process, patent or technical know-how of foreign origin.
- ✓ Use of any trademark of foreign ownership
- ✓ Acquiring any foreign technical, consultancy, management and marketing service.

Permission

Permission of the Department of Industries shall be obtained for foreign investment or technology transfer. A person desiring to avail the foreign investment or technology transfer shall be required to make an application to the Department in the prescribed form along with the prescribed particulars for obtaining permission.

SN	Investment	Approving Authority
1	Up to NPR 2 Billion	Department of Industry (DOI)
2	NPR 2 Billion to Less than NPR 10 Billion	Industrial Promotion Board (IPB)
3	NPR 10 Billion or More	Investment Board of Nepal (IBN)

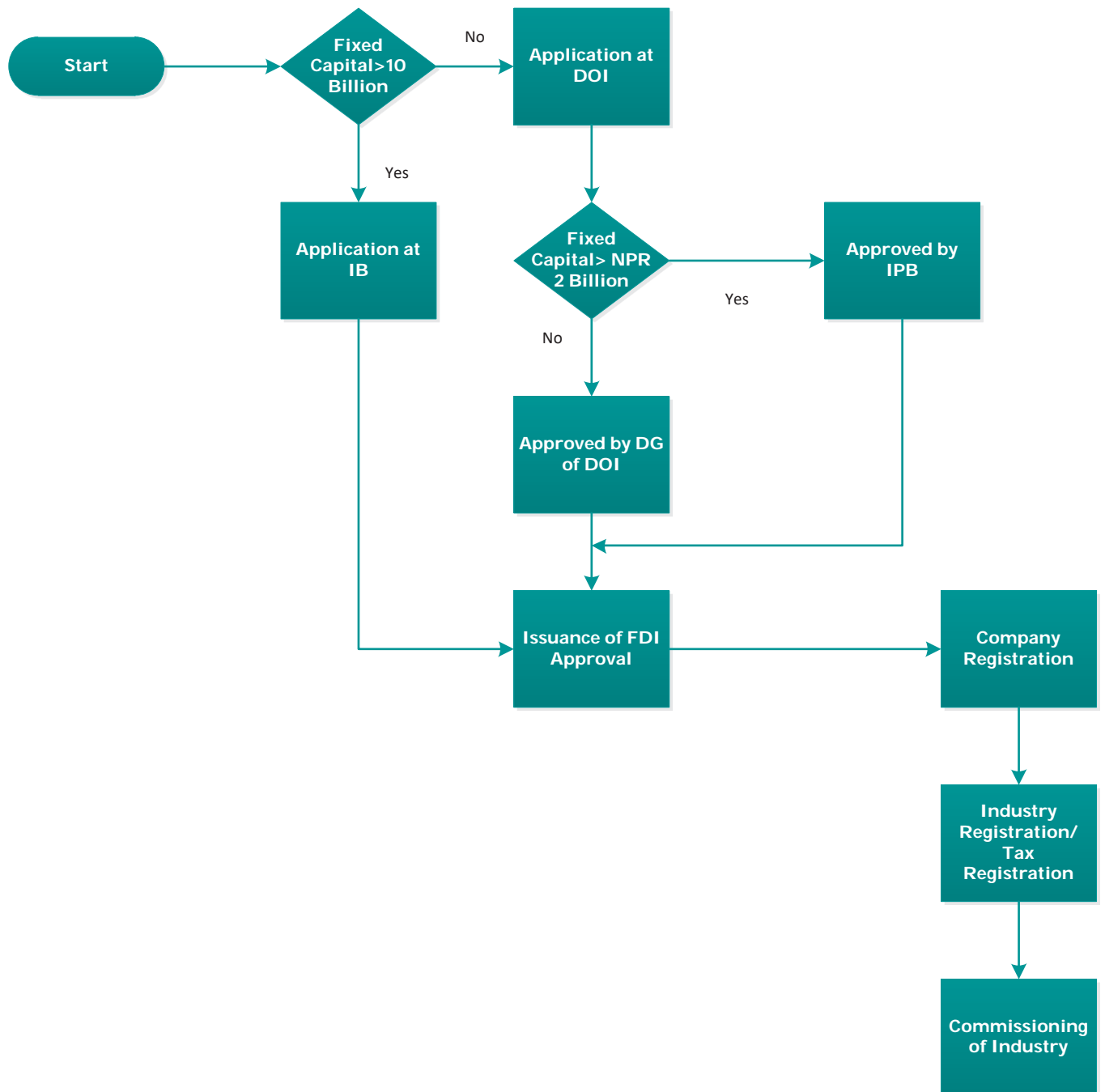
No Permission for Foreign Investment

- Cottage Industries
- Personal Service Business (Such as hair cutting, beauty parlor, tailor, driving training)
- Arms and Ammunition Industries
- Explosives, Gunpowder
- Industries related to radio-active materials
- Real Estate Business (excluding construction industries)
- Motion Pictures Business (Produced in the language of the nation)
- Security Printing
- Currencies and Coinage Business
- Retail Business carrying out transactions in more than 2 countries
- Bidi (Tobacco) except those exporting more than 90%
- Internal Courier Service
- Atomic Energy
- Poultry Farming
- Fisheries
- Bee-Keeping
- Consultancy Services such as Management, Accounting, Engineering and Legal services besides consultancy services having the foreign investment up to 51%
- Domestic food processing
- Local catering Service
- Rural tourism

Regardless of the amount, foreign investments in the following areas will be approved by IBN.

- ❖ Fast track roads, tunnels, railway lines, ropeways, trolley buses, as prescribed by the Government of Nepal
- ❖ Construction of international and regional airports and investment required for modernization 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 that have 51% or more investment borne by foreign investors and investment required for establishing insurance and re-insurance companies
- ❖ Medical colleges and state-of-the-art hospitals or nursing homes with 300 or more beds
- ❖ Hydropower projects with capacity of 500 MW or more
- ❖ Development of special economic zones (SEZs), export promotion or export refinement zones, special industrial zones or IT parks

Foreign Investment Approval Process



Documents Required for Foreign Investment Approval Process

❖ Documents Required at IBN/DOI (For FDI Approval)

- i. Project Report
- ii. Application Form in Prescribed Format
- iii. Joint Venture Agreement (JVA), in case of more than one investor
- iv. Citizenship certificate of local party or Certificate of Incorporation including Memorandum of Association and Articles of Association, if local party is a company
- v. Copy of passport of foreign party/or Certificate of incorporation, including Memorandum of Association and Articles of Association, if participant is a company
- vi. Bio-data / Company profile of the foreign party
- vii. Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank
- viii. Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable
- ix. Board Minutes of Foreign Investor (Company) to invest in Nepal
- x. Company Profile of Foreign Company

❖ Documents Required at DOI (For Industry Registration)

- i. A copy of the foreign investment approval letter issued by the Foreign Investment Section, DOI/IBN.
- ii. Application Form in Prescribed Format
- iii. A copy of the Certificate of Incorporation, Memorandum of Associations, and Article of Association of the company.
- iv. A copy of the Company Registration, Tax Registration of the company.
- v. Environmental Impact Assessment (EIA) Report or Initial Environmental Examination (IEE) Report if Required.

❖ Documents Required at Company Registrar (For Company Registration)

- i. Application Form in Prescribed Format
- ii. Copy of the permission for foreign investment issued by DOI
- iii. Copy of citizenship certificate of Nepalese promoters
- iv. Copy of passport of the foreign promoter(s)
- v. If the foreign party is a company, copy of minute of the Board of Directors
- vi. Two copies of company's proposed Articles and Memorandum of Association in Nepalese language

❖ Documents Required at Inland Revenue Department (For Tax Registration)

- i. Application Form in Prescribed Format
- ii. Copy of the certificate of incorporation
- iii. Copy of the memorandum and articles of incorporation

- iv. Copy of the citizenship certificate (or passport in case of foreign national) who signs the application
- v. Two passport size photo of the individual who signs the application
- vi. Hand drawn sketch of the business location of the applicant
- vii. Power of attorney, if applicable
- viii. Copy of Rent Agreement with Withholding Tax Deposit (WHT) Slip

❖ **Documents Required for Technology Transfer in an Existing Nepalese Industry**

If any industrial unit wants to avail foreign technology, the industry is required to apply to the DOI on a prescribed application form as shown in Appendix 2 along with the following documents.

- i. Technology Transfer Agreement (TTA)
- ii. Citizenship certificate of local party or Certificate of Incorporation including Memorandum of Association and Articles of Association, if local party is a company
- iii. Copy of passport of foreign party/or Certificate of Incorporation, including Memorandum of Association and Articles of Association, if participant is a company
- iv. Bio-data / Company profile of the foreign party
- v. Industry Registration Certificate
- vi. Copy of the minute of the Board of the recipient company
- vii. Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable

Repatriation

Foreign investor shall be entitled to repatriate the following amounts outside Nepal:

- ✓ Amount received by the sale of shares of foreign investment as a whole or any part thereof.
- ✓ Amount received as profit or dividend in lieu of the foreign investment
- ✓ Amount received as payment of the principal of and interest on any foreign loan.
- ✓ Amount received under an agreement for the transfer of technology in the currency as set forth in the concerned agreement.
- ✓ Compensation received on acquisition of asset
- ✓ 75% of amount received as salary/allowance by a foreign specialist working in a Nepalese industry.

Documents required for approval from Nepal Rastra Bank for foreign investment in Nepal

- ✓ Approval as per FITTA, 1992 from Department of Industries or Department of Cottage and Small Industries
- ✓ Letter from the concerned person or entity addressed to NRB regarding approval for foreign investment
- ✓ Decision of the investee company in Nepal
- ✓ Company registration certificate, Permanent Account Number, Tax clearance certificate, Memorandum of Association and Articles of Association
- ✓ CICL clearance report of the investee company
- ✓ Commitment of the foreign investor to invest for 1 year at least
- ✓ Audited financial statements of the foreign investor
- ✓ Time schedule of the investment and source of the investment
- ✓ Other documents as per prevailing laws

FACT BOX	FDI inflow (in millions of dollars)/Year						
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	86.6	95.5	92.0	71.3	30.2	51.6	105.9

Dispute Settlement

Any dispute between a foreign investor, national investor or the concerned industry shall be settled by mutual consultations in the presence of the Department of Industries. If the dispute could not be settled in the said manner, it shall be settled by arbitration in accordance with the prevailing arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL).

3.3 Intellectual Property Rights

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 title to any patent, design or trade-mark registered in a foreign country shall not be valid in Nepal unless it is registered in Nepal.

Registration of Patent

- ✓ Application with prescribed fees
- ✓ Name, address and occupation of the person inventing the patent
- ✓ If the applicant him/herself is not the inventors, how and in what manner he/she acquired title thereto from the inventor
- ✓ Process of manufacturing, operating or using the patent
- ✓ The theory or formula if any, on which the patent is based
- ✓ Map and drawings along with particulars, of the patent
- ✓ In case of a foreign applicant, evidence regarding the same
- ✓ In case of a foreign registered patent, certified copy of the patent registration

PATENT VALIDITY: 7 years

Registration of Trademark

- ✓ Application with prescribed fees
- ✓ Registration certificate of the concerned entity
- ✓ PAN/VAT registration
- ✓ Four specimen of the trademark
- ✓ If registered in a foreign country, valid registration certificate

TRADEMARK VALIDITY: 7 years

Registration of Design

- ✓ Application with prescribed fees
- ✓ Four copies of the design and maps, and drawings and particulars thereof
- ✓ Name, address, profession of the applicant
- ✓ If registered in a foreign country, valid registration certificate

DESIGN VALIDITY: 5 years

The Department may register patents, designs and trade-marks registered in foreign countries without conducting any enquiries, if an application is filed for their registration along with certificates of its registration in a foreign country and the Department shall provide the facility pursuant to the Paris Convention for the Protection of Industrial Property 1883 to the registration holder. The owner of the patent, design or trademark may transfer the ownership or provide approval in writing for its use.

A patent, design or trade-marks holder shall renew the patent, design or trade-mark within a period of 35 days from the date of expiry of the term for which he is entitled to use the patent, design or trade-mark.

Nepal is also a signatory to various intellectual property treaties such as:

- *The Paris Convention for the Protection of Industrial Property, 1883*
- *Agreement on Trade-Related Aspects of Intellectual Property Rights, 1995*
- *The Berne Convention for the Protection of Literary and Artistic Works, 1886*

Nepal is also a member country of World Intellectual Property Organization.

3.4 Securities Market

Nepal Stock Exchange (NEPSE) is established under the Company Act, operating under Securities Exchange Act, 1983. 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 member, market intermediaries, such as brokers, market makers etc. NEPSE opened its trading floor on 13th January 1994.

On September 15, 2017 the equity market capitalization of the companies listed on NEPSE was approximately US\$17.3 billion

A body corporate shall have to register securities to be issued by it with the Board prior to their issuance. A body corporate shall have to make an application in the prescribed format, accompanied by its memorandum of association, articles of association, documents related with such securities, and the prescribed fees, to the Board for registering its securities.

3.5 Controls on Foreign Exchange

A person, firm, company or body who intends to carry on the foreign exchange transaction shall obtain license from Nepal Rastra Bank. In so issuing the license, the Bank may also specify the type and limit of the foreign exchange to be transacted, the period for carrying on the transaction and other necessary terms. The licensee bank shall pay to the Bank such annual fees and deposits as may be prescribed by the Bank.

No licensee or any other person shall carry on the foreign exchange transaction at a rate that is different than the exchange rate specified by the Bank.

If any person obtains foreign exchange for any specific purpose or on any terms, that person shall not use such a foreign currency for any other purpose or violate such terms.

In taking payment by a person, firm, company or body residing in Nepal for the sale of any goods or provision of any services to any foreign person, firm, company or body, such payment shall be taken in convertible foreign currency.

Restrictions on making or receiving payments

(except in accordance with provisions specified by Nepal Rastra Bank)

- a. To make payment of any kind in any manner to any person residing outside Nepal,
- b. To draw, accept or negotiate any negotiable instrument or promissory notes or accept any loans in such a manner as to create or transfer the right to receive payment in favor of any person residing outside Nepal,
- c. To make payment to any person by the order or on behalf of any person residing outside Nepal

3.6 Mergers and Acquisitions

A public company may, by adopting a special resolution in its general meeting to that effect, be merged with another company. In the case of a private company, it shall be as provided in its memorandum of association, articles of association or consensus agreement.

If a resolution for merger is adopted, such company shall, within thirty days, make an application, setting out the following matters to the Office for approval:

- ✓ In case of a public company, a copy of the decision of the general meeting, and in the case of private company, copies of the related provisions contained in the memorandum of the associations, articles of the associations, or consensus agreement authorizing the merger
- ✓ Last balance sheet and auditors report of the merging company
- ✓ A copy of the letter of consent in writing, of the creditors of the merging company and of the merged company
- ✓ Valuation of the movable and immovable properties of, and actual details of the assets and liabilities of the merging company
- ✓ If the merging company and merged company have made a decision as to the creditors and employees and workers of the merging company, a copy of such decision
- ✓ The scheme of arrangement concluded between the companies for merger with each other.

The Office shall study the matter and give its decision within three months.

The Office shall not give approval for the merger of a company if such merger appears to create a monopoly or unfair trade restriction or to be contrary to public interest.

Any company not distributing profits shall not be merged with any company distributing profits.

3.7 Liquidation and Bankruptcy

Voluntary Liquidation

The shareholders of the company may liquidate the company either by adopting a special resolution in the general meeting or memorandum of association, articles of association or consensus agreement. While adopting a resolution to liquidate a company, the company shall appoint a liquidator.

The service of employees of a company shall, ipso facto, be terminated after the liquidator commences the operation and management of the company. Upon receipt by the Office of a report on the liquidation of a company, the Company Registrar's office shall cancel the registration of the company.

Insolvency Proceedings

Approval of the court is required to institute insolvency proceedings.

Any of the following persons may make an application to the Court:

- a) The company itself which has become insolvent,
- b) Out of the total creditors of a company which has become insolvent, at least ten percent creditor or creditors who has or have lent money;
- c) Shareholder or shareholders that has or have subscribed at least five percent of shares, out of the total shareholders of a company;
- d) Debenture-holder or debenture-holders that has or have subscribed at least five percent of debentures, out of the total debenture-holders of a company,
- e) A liquidator who has been appointed to liquidate a company, or
- f) A body authorized to administer and regulate any business.

The court shall issue an order to inquire into insolvency proceedings. The court may order to institute insolvency proceedings based on the report of the inquiry official.

Where the Court issues order to institute insolvency proceedings in relation of any company, any of the following acts or actions being done or taken but not completed shall ipso facto be suspended:

- a) Transferring/selling/disposing shares of the company or altering status of any shareholder,
- b) Transferring/selling/disposing any assets of the company or mortgaging or pledging the same as collateral in any manner,
- c) Foreclosing any assets of the company or realizing any security according to any judgment or order,
- d) Preempting any property leased to the company by the lessor or instituting any legal action in relation thereto,
- e) Paying any debt whose payment was outstanding or which had become payable at the time when the court made order to institute insolvency proceedings or pledging of a security in consideration thereof, and
- f) Transferring or withdrawing moneys in the fund of the company

To liquidate the company or implement the restructuring scheme, an insolvency practitioner shall be appointed as the liquidator of the company or to operate the restructuring scheme of the company and implement the liquidation or restructuring scheme of the Company, on order of the Court.

Chapter 4- Investment Vehicles for Foreign Investment

4.1 Different Modalities

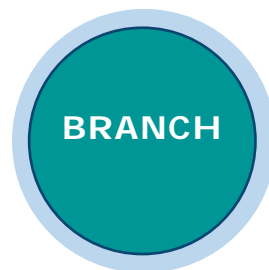
4.2 Relevant Authorities for Various Sectors

4.1 Different Modalities

Foreign companies shall carry on any business or transactions in Nepal only after getting registered under any of the following modalities.

Branch

Make an application to the Company Registrar, accompanied by the permission obtained from the concerned body pursuant to the prevailing law, and the prescribed fees and in such format as prescribed, for the registration of such company.



Liaison Office



Make an application to Company Registrar, accompanied by the permission, if any, required to be obtained from the concerned body pursuant to the prevailing law for the registration of such office, and the prescribed fees and in such format as prescribed, for the registration of such company.

A foreign company registered as a ***liaison office shall not be entitled to do any income earning activity in Nepal.***

The foreign company (Branch/Liaison Office) shall submit the following details, along with the application:

- a. Permission obtained by the foreign company from the competent authority to carry on its business or transaction in Nepal;
- b. Copies of the charter, certificate of incorporation, memorandum of association, articles of association of the company, and Nepalese translation thereof;
- c. Full name, address of the registered office and principal place of business of the company, date of incorporation of the company, description of the paid up capital and major objectives of such company;
- d. Names, address of directors, managers, company secretaries or main officers of the company and details of their citizenship;
- e. Name and address of the person residing or staying in the Nepal, who is authorized by the company to receive, on its behalf, any summons, notice etc. issued in the name of the company;
- f. Full address of the principal place where the company carries on its transaction or business in Nepal and of the office of the company situated in that place;
- g. Where the company is to carry on any transaction or business in the State of Nepal, details of the proposed investment and transaction;
- h. Where the company is to commence its transaction in Nepal, the proposed date thereof;

- i. A declaration made by a director of the company or his/her representative, on behalf of the company, that the matters contained in the returns submitted by the company are true and correct;
- j. Power of attorney executed in accordance with the legal requirements of the country where the company has been incorporated or its registered office is situated, thereby appointing a person residing in Nepal as its authorized representative for the purposes of the service of any summons or notice or authorizing such person to receive any other lawful notices on a lawsuit or legal action instituted on behalf or legal against the company; it shall state, inter alia that where any summons or notice on a lawsuit instituted on behalf of or against the company or other legal notice is delivered to the authorized representative, it shall be binding on the company for any purpose whatsoever.

While submitting any such documents issued outside Nepal or copies thereof, they have to be certified pursuant to the law of the country of registration of the foreign company.

The Office shall make necessary inquiry, register such company and give the registration certificate, within thirty days of application for carrying on a business or transaction or establishing a liaison office in the Nepal.

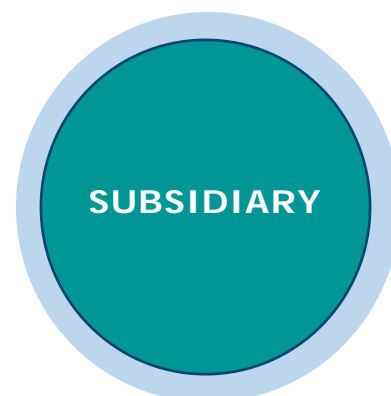
Where a foreign company cannot be registered, the Office shall give information thereof, setting out the reasons for the same, to the concerned applicant within thirty days.

Local Subsidiary

An overseas company can register either a joint venture company, or a fully owned subsidiary company in Nepal. A private company is the most common corporate vehicle used by foreign companies seeking to establish a business presence in Nepal.

A holding company may control its subsidiary company as follows:

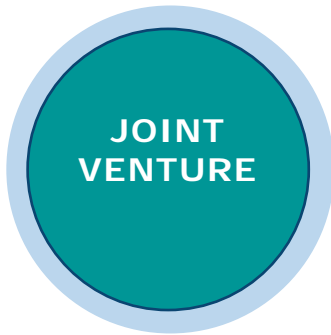
- a) By holding direct or indirect control over the formation of the board of directors;
- b) By holding majority shares of the company.



Any holding company shall enclose the following documents of its subsidiary company in its balance sheet:

- a) One copy of the annual accounts of the subsidiary company for the preceding financial year and the report of its board of directors during that period,
- b) Auditor's report,
- c) Details of the investment of the holding company in the subsidiary company at the end of the financial year;
- d) In cases where the financial year of the holding company and that of the subsidiary company are different, the matter of change, if any, in any manner, of the right of the holding company over the subsidiary company during such different periods.
- e) Any subsidiary company is not allowed to purchase the shares or debentures of the holding company or make investment in the holding company in any other manner.

Joint Ventures



A joint venture can take the form of a limited liability company (in case of corporate entities) or a partnership firm (in case of individuals). International joint ventures (JVs) between a foreign company and a local business are common in Nepal.

In order to set up a joint venture between a foreign company and a local company, the foreign investment in the relevant sector should not be prohibited. The foreign company must be satisfied that the following conditions are met:

- ✓ The proposed business activity does not fall within the list of negative activities under the Foreign Investment and Technology Transfer Act 1992
- ✓ The proposed business activity must be classified as an "industry" under the Industrial Enterprises Act.

4.2 Relevant Authorities for Various Sectors

Sector	Registration/ Licensing Body
Hotels, lodges and restaurants	✓ Tourism Industry Division, Ministry of Tourism and Civil Aviation
Banks and financial institutions	✓ Nepal Rastra Bank ✓ Company Registrar Office
Food	✓ Department of Food Technology and Quality Control
Pharmaceuticals	✓ Department of Drug Management
Mines and minerals	✓ Department of Mines and Geology
Education	✓ Ministry of Education ✓ Civil Aviation Authority of Nepal (CAAN) – for flying school ✓ Ministry of Health – for medical education institution
Hydropower	✓ Department of Electricity Development
Health services	✓ Department of Industry ✓ Department of Commerce ✓ Ministry of Health

Chapter 5- Labor Laws and Social Security Provisions

5.1 Employment Regulations

5.2 Holidays and Leave

5.3 Pay Scale and Statutory Contributions

5.4 Provision for Foreign Personnel

5.5 Immigration – Visa/Work Permits

Labor Laws and Social Security Provisions



5.1 Employment Regulations

Labor scenario in Nepal is regulated and governed by various acts such as Labor Act, 2017 (2074), Child Labor (Prohibition and Regulation) Act, 2000, Bonus Act, 1973, Trade Union Act, 1992, Foreign Employment Act, 2007. The Ministry of Labor and Employment, Government of Nepal works to eliminate unemployment by preparing skilled and competitive manpower in accordance with the national and international labor market and provide the labor force with safety and healthy working environment in the industrial occupation and informal region.

Child Labor (Prohibition and Regulation) Act, 2000 prohibits engaging any child under the age of 14 years as a laborer.

In case any Enterprise has to engage a child (under 16 years) in works, approval has to be obtained from the concerned labor office or any authority or official prescribed by that office and from the father, mother or guardian of the child.

The Labor Act, 2017 has replaced the previous labor law completely. The new labor act has been passed for provisions for the rights, interest, facilities and safety of workers and employees working in enterprises of various sectors. It has prescribed minimum criteria for laborer related matters.

Employers can hire laborers as follows:

1. Regular Employment
2. Work Based Employment: for completion of certain work or rendering certain service
3. Time Bound Employment: employment for certain time determined
4. Casual Employment: employment for seven or less days in a month
5. Part time Employment: employment for 35 or less hours in a week

Working hours shall be 8 hours a day and 48 hours a week. Overtime has been increased to 24 hours per week from 20 hours a week. Every employee shall compulsorily retire at the age of 58.

5.2 Holidays and Leave

Leave Type	Details
Weekly Holiday	1 day every week
Public Holiday	13 days 1 more day to female employees for International Women Labor Day
Home Leave	1 day for every 20 worked days
Sick Leave	12 Days Eligibility: on a proportional basis for those employees who has not completed 1 year of service
Maternity Leave	14 Weeks, fully paid for 60 days
Paternity Leave	15 Days
Mourning Leave	13 Days
Compensatory Leave	Yes. But to be set off within 21 Days
Accumulation	Home Leave- 90 days Sick Leave- 45 days

5.3 Pay Scale and Statutory Contributions

Minimum pay scale and facilities to be obtained by the laborers shall be as determined by the Regulations under the Labor Act.

Payment shall be made to the employees within time stipulated in the employment agreement. However, payment to the following laborers shall be as prescribed:

- Laborers hired for less than a month: within 3 days of completion of work
- Casual employees: upon completion of the said task

Every employee is entitled to an annual increment in salary equal to the half day's remuneration of the concerned worker or employee.

Benefits



Provident Fund	Eligibility : All Employees Rate : 10% of Basic Salary Time of Allocation : Every Month Deposit Fund : Social Security Fund
Gratuity	Eligibility : All Employees Rate : 8.33% of Basic Salary Time of Allocation : Every Month Deposit Fund : Social Security Fund
Severance Compensation	Rate: 1-month salary for every year of service Eligible on a proportionate basis Not entitled to severance compensation if he/she is entitled to unemployment allowance under Social Security Act
Festival Expenses	Amount equivalent to the monthly remuneration once a year. The employee not completing one year is entitled to the expenses on the proportional basis
Compensation against injury	Compensation is to be provided from the insurance amount
Disability Compensation	Employee or worker shall be paid from an insurance amount on the basis of degree of disability.
Death Compensation	The nearest successor is entitled to the amount of accident insurance
Medical Insurance	Coverage: At least 1 Lakh per year for every worker. Premium to be paid equally by the employer and worker
Accident Insurance	Coverage: At least 7 Lakh for every worker. Premium to be paid fully by the employer

5.4 Provision for Foreign Personnel

No foreign nationals can be engaged in work without having obtained the work permit from the Department. Prior to engaging a foreign national in work, the entity must publish an advertisement in national level daily newspaper to fill the vacant posts by Nepali citizens. If no application is submitted or if no local skill set is available for the work after vacancy publication, foreign national can be hired for the work with the approval of Labor Department.

Work permit to the foreign nationals hired as the chief executive or employees may be provided by the Department for entities with foreign investment or operating on foreign aid. Likewise, technicians engaged for less than three months to carry out repairing of any machinery or installing new technology or similar casual work may be provided work permit. Foreign nationals having diplomatic immunity or the foreign nationals who are exempted from work permit under any treaty or agreement entered into with Nepal government are exempted from work permit requirement.



No foreign national can be engaged in work without employment agreement entered in a language understandable by such foreign national or in English language. Unless otherwise provided in the agreement, the employment agreement continues for three years. The foreign nationals can repatriate their income in convertible foreign currency.

5.5 Immigration - Visas/ Work Permits

Working Visa

A foreign national visiting Nepal in connection with undertaking any study or carrying out any research with the objective of making investment in Nepal shall be provided a non-tourist visa for up to six months.

Only Foreign nationals holding working visa are allowed to accept job and work in Nepal. Working Visa is issued by the Department of Immigration (Non-Tourist Visa section) only upon the recommendation from line agency (concerned Ministry of Government of Nepal), Labor Permit from the Department of Labor and Work Agreement from the Ministry of Home Affairs.

Length of Working Visa is determined by the period for which work/labor permit has been obtained from the Department of Labor.

Documents Required

- ✓ Recommendation letter from the concerned Government line agency
- ✓ Work Permit from Department of Labor
- ✓ Work Agreement from Ministry of Home Affairs
- ✓ Appointment/contract letter
- ✓ Tax clearance of hiring organization/ institution/agency
- ✓ Tax clearance of applicant (for renewal) if taxes have been paid individually
- ✓ General Agreement with Social Welfare Council (NGOs/INGOs)
- ✓ Passport and Visa Photocopy
- ✓ Online form

Visa Fee: 60 USD/ month

Business Visa

A foreign investor or dependent family or authorized representative of such a foreign investor and department family of such authorized representative shall for the purpose of stay in Nepal be provided a business visa until the foreign investment is retained. Visa is issued by DOI upon receipt of following documents from applicant.



Documents Required

- ✓ Online Application
- ✓ Recommendation letter from Department of Industry or concerned line agency of Government
- ✓ Bio data (for first time applicants)
- ✓ Foreign Investment Acceptance letter from the Department of Industry
- ✓ Copy of Company Registration Certificate
- ✓ Copy of PAN/VAT certificate
- ✓ Copy of Share certificate
- ✓ Copy of Industry Registration Certificate
- ✓ Copy of Passport and latest visa
- ✓ Latest tax clearance (regular visa)
- ✓ Industry Monitoring and Supervision report
- ✓ Progress report of company or industry (for renewal)

Unlike other non-tourist visa, business visa is issued for at least a month up to 1 year/for whole five years at a time.

Residential Visa

A foreign investor who, at a time, makes investment in an amount no less than USD 100,000 or in convertible foreign currency equivalent thereto, and his/her dependent family shall be granted a residential visa until such investment is retained.

Documents Required

- ✓ Receipt of Online application
- ✓ Copy of company registration certificate
- ✓ Copy PAN/VAT certificate
- ✓ Copy of the share certificate
- ✓ Copy of industry registration certificate
- ✓ Recommendation from Department of Industry or Commerce
- ✓ Copy of passport and recent Nepalese visa
- ✓ Tax clearance certificate for renewal

Chapter 6- Audit Requirements and Accounting Practices

6.1 Statutory Requirements

6.2 Financial Reporting Framework

6.3 Audit Requirement

Audit Requirements and Accounting Practices

6.1 Statutory Requirements

Every company is required to duly maintain its accounts in Nepali or English language. The accounts shall be maintained according to the double entry system of accounting and in consonance with Nepal Accounting Standards and Nepal Financial Reporting Standards, in such a manner as to clearly reflect the actual affairs of the Company.

The books of account of a company shall be kept in its registered office only. Complete set of financial statements as required by Nepal Financial Reporting Standard shall be prepared by the management of

- a public company every year at least thirty days prior to the holding of its annual general meeting
- a private company, within six months of the expiry of its financial year.

The board of directors of every public company or every private company with the paid –up capital of ten million rupees or more or with an annual turnover of ten million rupees or more shall also prepare a separate report of board of directors during that period in addition to the annual financial statements.

The accounts and annual financial statements prepared by a company shall be kept safely for at least five years after the date of expiry of the concerned financial year.



6.2 Financial Reporting Framework

NFRS

Financial reporting in Nepal is done in accordance with Nepal Financial Reporting Standards formulated by the Accounting Standards Board (ASB). The ASB is primarily responsible for setting accounting and financial reporting standards for business enterprises in line with the International Financial Reporting Standards (IFRSs).

ASB had earlier issued Nepal Accounting Standard (NAS) in line with IAS and with the gradual replacement of IAS by updated IFRS, the board has now issued NFRS on basis of recent international standards. Nepal Financial Reporting Standards (NFRSs) mean Standards and Interpretations adopted by the Accounting Standards Board (ASB). They comprise:

- a) Nepal Financial Reporting Standards;
- b) Nepal Accounting Standards;
- c) IFRIC Interpretations issued by the International Accounting Standards Board (IASB); and
- d) Application Guidance and SIC Interpretations issued by the IASB.



The Council meeting of ICAN on 13 September 2013 decided to pronounce 27 NAS and 13 NFRS including IFRICs and SICs for implementation upon the recommendation from ASB.

Phase wise implementation of NFRS is underway in Nepal since FY 2014/15 and same will be complete from this financial year i.e. FY 2017/18 except for SMEs.

NFRSs are designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities. NFRSs sets out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. NFRSs are based on the Conceptual Framework which addresses the concepts underlying the information presented in general purpose financial statements.

6.3 Audit Requirement

Every company shall appoint an auditor to have its accounts audited. No auditor or his/her partner or ex-partner or employee or ex-employee shall be appointed as auditor for more than three consecutive terms to perform the audit of a public company.

The books of accounts and records of a company shall on his/her demand, at any time during office hours be furnished to the auditor for the purpose of audit; and the concerned director or employee shall also forthwith give oral explanations on such matter as may be asked by him/her, within a reasonable period of time. The auditor shall, addressing the shareholders or the appointing authority, submit to the company his/her report, certifying the balance sheet, profit and loss account and cash flow statement based on the books of account, records and accounts audited by him/her.

The auditor shall be appointed by the general meeting in case of a public company and by the provisions contained in the memorandum of association, articles of association or consensus agreement, any failing such provision, by the general meeting in case of a private company.

Audit shall be carried out in accordance with Nepal Standards on Auditing issued by the Auditing Standards Board (AuSB). The AuSB, till the date, has formulated Nepal Standards on Quality Control (NSQC 1), 46 Nepal Standards on Auditing as well as 3 guidance note, 1 practice statements and Nepal Framework for Assurance Engagements.



Chapter 7- Framework of Taxation

7.1 Corporate Taxes

7.2 Tax Rates Applicable to Entities

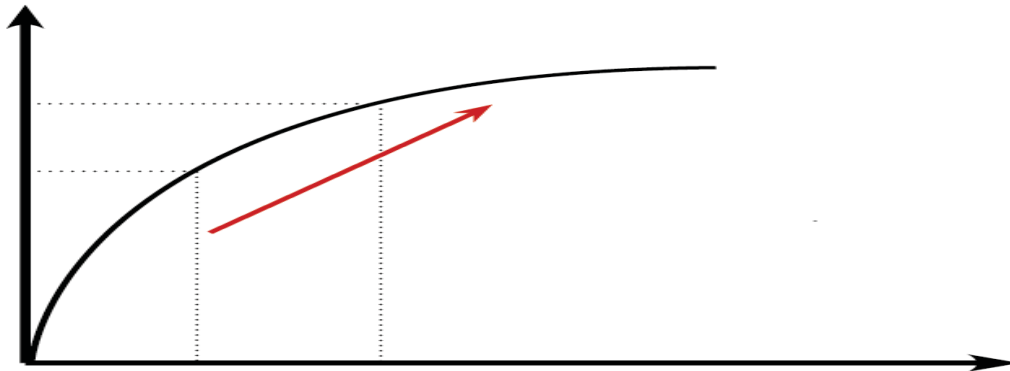
7.3 Personal Income Tax

7.4 Anti-Tax Avoidance

7.5 Import and Export Duty

Framework of Taxation

Inland Revenue Department (IRD) is currently responsible for enforcement of tax laws and administration of Income Tax, Value Added Tax, Excise Duty, Vehicle Tax and certain fees and duties like Entertainment fee, Special fee etc.



7.1 Corporate Taxes

Income is taxed in accordance with the provisions of Income Tax Act, 2002 (ITA). The tax is levied on income accrued or received from business, investment, employment and windfall gains. Individuals and companies are required to follow a uniform income year Shrawan-Ashad (July 16- July 15 approximately). Income Tax Act levies tax on global income of a resident person and in income having source in Nepal in case of a non-resident.

The following persons are responsible to pay tax:

- a) Person having taxable income in Nepal
- b) Foreign Permanent Establishment repatriating income from Nepal
- c) Person receiving final withholding incomes in Nepal

The following companies are considered to be resident in Nepal for tax purposes in any fiscal year:

- ✓ Companies incorporated in Nepal (irrespective of the place of management).
- ✓ Companies registered outside Nepal, if their place of effective management is deemed to be in Nepal in such fiscal year.

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
- d) Windfall Gain

Nepal follows a self-assessment tax system. A taxpayer himself assesses his tax liability and is required to file the final annual tax return and pay taxes within 3 months from the end of an income year.



Any person with total tax payable of Rs.5000 or more from business and investment are required to pay tax in 3 installments. The first installment – 40% of estimated tax is payable on or before the end of Poush (mid-January), second installment – 70% of the estimated tax on or before the end of Chaitra, and 100% of estimated tax on or before the end of Asadh end, to the extent that it is in excess of tax paid up to the period of estimation.

7.2 Tax Rates Applicable to Entities

Industry/Nature of Business	Tax Rate
Normal Rate for Entities	25%
Banks and Financial Institutions	30%
General Insurance Business	
Entities transacting in Cigarette, Cigar, Chewing Tobacco, Alcohol, Beer	
Entities engaged in petroleum business under Petroleum Act, 1983	
Entities involved in operation of Special Industry under Industrial Enterprise Act	20%
Entities involved in construction and operation of road, bridge, tunnel, rope way or sky bridge	
Entities involved in operation of trolley bus, tram	
Cooperatives registered under Cooperatives Act, 1992 that are not exempt	
Entities that generate income from export from Nepal in any income year	
Entities involved in construction or operation of public infrastructure and to be transferred to Nepal Government or involved in construction of hydropower house and its generation and transmission	5%
Foreign permanent establishment repatriating its income Nepal	
Non-residents carrying on air and water transport or telecommunication service in Nepal	5%
Other Non-Residents	25%

Business Concessions and Facilities

Industry	Tax Rate
A) Special Industry	
i) Providing direct employment to 300 or more Nepali citizens throughout the year	90% of applicable tax rate
ii) Providing direct employment to 100 or more Nepali citizens through the year of which at least 33% represented by women, oppressed or disabled.	80% of applicable tax rate
iii) Providing direct employment to 1200 or more Nepali citizens throughout the year	80% of applicable tax rate
iv) Special Industry, Agro-based industry and industry related with Tourism sector providing direct employment to only Nepalese citizens; number of employees shall be at least 100 throughout the year	70% of applicable tax rate
v) Special industries established in remote areas	10% of applicable rate (for 10 years from the year of establishment)
vi) Special industries established in undeveloped areas	20% of applicable rate (for 10 years from the year of establishment)
vii) Special industries established in under developed areas	30% of applicable (for 10 years from the year of establishment)
viii) Special industry with capital of NPR. 1 billion and providing direct employment to more than 500 persons throughout the year	100% exemption for first 5 years from the date of operation and 50% concession for next 3 years
ix) Industry related to tourism industry or international flight operation entity established with capital investment of more than NPR 2 billion	
x) For those Entities in operation, if capital is increased to NPR 1 billion, installed capacity is increased by 25% and provided employment is more than 500 persons throughout the year	100% concession for first 5 years and 50% concession for next 3 years on income generated due to increased capacity
xi) For those entities in operation, if capital is increased to NPR 2 billion and installed capacity is increased by 25%	
B) Industries in SEZ	
i) Income generated as service fee or royalty for technology transfer, or management service fee by the foreign investors for service provided to industries in SEZ	50% of applicable tax rate
ii) On capitalization of accumulated profit through bonus share by Special Industry, Agro-based industry or industry related with tourism for capacity enhancement	Exempt from dividend tax
C) Information Technology Industry	
i) Providing direct employment to 300 or more Nepali citizens throughout the year	90% of applicable tax rate
ii) Entity established in Technology park, Bio tech park and IT Park engaged in software development, statistical processing, cyber cafe or digital mapping	50% concession on applicable tax rate
D) Institution having license to generate, transmit or distribute electricity shall be provided concession if the commercial electricity generation, transmission or distribution commences before BS 2080 Chaitra End. (Provisions shall be applicable for electricity generated from solar, wind or organic material)	
	100% exempt up to 10 years and 50% rebate in subsequent 5 years

E) If person involved in exploration and extraction of petroleum and natural gas starts commercial operation by BS 2075 Chaitra end.	100% exempt up to 7 years and 50% rebate in subsequent 3 years
F) Income from export of manufactured goods by manufacturing industries	75% of applicable tax rate
G) Income from construction and operation of bridge, airport and tunnel and operation of tram and trolley bus	60% of applicable tax rate
H) Manufacturing industry, tourism service industry, hydropower generation, distribution and transmission industry and entity established in technology park, biotech park and IT park listed in capital market	90% of applicable tax rate
I) Industry established in least developed areas producing brandy, wine, cider from fruits	60% of applicable tax rate up to 10 years
J) Royalty from export of intellectual asset by a person	25% concession on normal rate
K) Income from sale of intellectual asset by a person	50% concession on normal rate

** If any entity is entitled to more than one privilege, only one will be applicable as opted by the entity.*

7.3 Personal Income Tax

A natural person includes an individual, persons who elect to file a return as couple and sole proprietorship concerns.

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. A person who resides in Nepal for a period of 183 days or more in any financial year or whose normal place of abode is Nepal or who is an employee of the government deputed in a foreign country are considered residents of Nepal.

Tax Rate Applicable

RESIDENTS	
Tax Slab	Tax Rates
a. To be deposited as social security tax First NPR 350,000 for an individual or NPR 400,000 for a couple	1%
b. Next NPR 100,000	15%
c. Amount exceeding NPR 350,000 for an individual or NPR 400,000 for a couple but not exceeding NPR 2,500,000	25%
d. Amount exceeding NPR 2,500,000	25%
e. Additional tax on tax derived as per (d) above	40%
NON-RESIDENTS	
Total Income	25%

7.4 Anti-Tax Avoidance

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, IRD may adjust amounts in calculating the income of each person to prevent any reduction in tax payable.

Transfer Pricing

In any arrangements between associated persons, tax authorities may distribute, apportion or allocate amounts to be included or deducted in the income between the persons so as to reflect their taxable income or tax liability as per general market practices.

IRD or IRO may:

- a. Re-characterize the source and type of any income, loss and amount of payment, or
- b. Allocate costs, including head office expenses, incurred by one person in conducting a business that benefits an associate in conducting their businesses, based on the comparative turnover of business.

Double Tax Avoidance

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.

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

In addition, double tax relief can be claimed under the provisions of existing DTAs, which Nepal has negotiated with other tax jurisdictions. Nepal has entered into double taxation avoidance agreements with 10 countries in order to provide relief from the double taxation of income of foreign investors.

DTAAs in Force

- ✓ India
- ✓ China
- ✓ Austria
- ✓ Mauritius
- ✓ Norway
- ✓ Pakistan
- ✓ Qatar
- ✓ Thailand
- ✓ Korea
- ✓ Sri Lanka

DTAAs under negotiation

- ✓ Bangladesh
- ✓ Malaysia

7.5 Import and Export Duty

Excise Duty

Excise duty is levied on such goods or services which are produced or manufactured in Nepal or are imported for the purposes of sales and distribution or for self-consumption. Generally, such goods which may have negative impact on human health and on environment and goods which are for luxury purposes fall within the ambit of Excise Duty.

The producer or manufacturer of goods or services subject to Excise Duty shall be liable to determine and recover the Excise Duty under this Act. The concerned Customs Office shall determine and recover the excise duty of the goods to be imported.

Excise duty paid on raw materials used in the making of a product subject to Excise duty may be allowed to take credit from Excise duty to be paid while exporting the finished product. However, excise duty paid on auxiliary raw material and packing materials are not allowed for set off.

In case of goods subject to physical control system, excise duty recovered shall be paid at the time of discharge of goods, and in case of goods and services under self-removal system, it shall be deposited within the 25th day of the month following the issue of invoice.

A person shall obtain license by applying to the excise duty officer in order to manufacture, import, sell or store excisable goods. The term of the license shall be for one fiscal year and it shall be renewed within Shrawan (Mid August) upon expiration. License may be renewed for a period of three years as well. Excise duty license is not required to sell or store a product under self-removal system and import of goods under diplomatic facility, on recommendation of Ministry of Foreign Affairs.

Excise may be on an ad valorem or specific basis (based on volume, weight or quantity).

Customs Duty

Customs Act, 2007 and Customs Regulation, 2007 govern the operation of the customs system in Nepal. Customs duty shall be chargeable on all goods to be exported or imported except those which enjoy customs duty exemption pursuant to the Act. The duty of any goods to be exported or imported shall be determined according to the tariff prevailing on the date on which the declaration form of such goods is registered in the Customs Office.

The government may accord facility to import under bank guarantee facility such raw materials or subsidiary raw materials as to be imported by any industry for the purpose of manufacturing goods and export them or such goods imported for the operation of a duty free shop.

The customs value of goods to be imported shall be determined on the basis of the transaction value (CIF up to customs point in Nepal) declared by the importer. Likewise, the invoice value declared by an exporter shall be the customs value (FOB value) of the goods to be exported. The valuation system is aligned with the WTO/ General Agreement on Tariffs and Trade (GATT) valuation. The customs officer shall make clearance of goods only upon collecting the duty as determined as per the classification of goods.

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 (like motor cars).

Products banned for Exports

- 1. Articles of Archaeological and Religious importance**
 - a. National and foreign coins of archeological value.*
 - b. Idols of gods and goddesses, palm leaf inscription (Tad Patra), Plant leaf inscription (Bhoj Patra).*
 - c. Scroll (Thanka paintings) of historical importance*
- 2. Conserved wildlife and related Articles**
 - a. Wild animals*
 - b. Bile and any part of wild animals*
 - c. Musk*
 - d. Snake skin, lizard skin*
- 3. Drugs**

Marijuana, Opium, Hashish (as defined in the Single Convention of Narcotics, 1961)
- 4. Articles of Industrial Importance**
 - a. Explosives materials and fuse or materials needed there for*
 - b. Materials used in the production of arms and ammunition*
- 5. Industries / Raw Materials**
 - a. Raw Materials and skin (including dry salted).*
 - b. Raw wool*
 - c. All imported raw materials, parts and capital goods*
- 6. Other products**
 - a. Mamira*
 - b. Log and timber*

Value Added Tax

Value Added Tax (VAT) is an indirect tax levied on the value creation or addition on goods or services. The tax levied on the value added by the registered taxpayers to their purchase and import is called value added tax (VAT).

Any individual or an entity whose supply of taxable goods is not more than NPR 5 million or whose taxable service is not more than NPR 2 million and whose taxable goods and services is not more than NPR 2 Million during the period of last twelve months, is not required to register compulsorily for the purpose of VAT. Individual/Entity may apply voluntarily for VAT registration.



VAT is levied at a single rate of 13%. There are certain items taxed at 0%, for which input tax credit can be claimed. Also, there are certain items that are exempted from VAT. VAT paid on purchase which is directly related to output that is tax attractive is allowed to be set off against the VAT collected on sales.

Every registered person shall, issue VAT invoice to the recipient in prescribed format for all transactions. Tax invoice has to be clearly and visibly written on the face of invoice. Such tax invoice has to be prepared in triplicate, the original copy thereof to be given to the recipient, the second copy separately recorded for its submission as and when required by the office, and third copy recorded for purposes of the registered person.

VAT collected shall be deposited within 25 days of the end of each Nepalese calendar month. Also, a detailed statement of VAT paid on purchases and VAT collected on sales shall be submitted to the concerned Tax Office for each tax period, within 25 days of end of tax period.

Every registered person shall maintain the following records:

1. Purchase and Sales Book
2. Debit notes and credit notes
3. VAT Account
4. Records related to business, accounts, cash receipt and payment
5. Tax invoice /abbreviated tax invoice issued or received
6. All the document relating to import and export
7. Records of free or sample goods

Chapter 8- Priority Areas for Foreign Investment

8.1 Priority Areas for Foreign Investment



8.1 Priority Areas for Foreign Investment

The foreign investment policy of Nepal has identified five foreign investment areas considered as priority sectors, based on national priority sector: hydropower (including generation and transmission), transport infrastructure (fast track, railway, tunnel, cable car, metro rail service, flyover, international airports), agriculture, food processing and herbal processing, tourism and mining.

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, 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.

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 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 a large market for exporting electricity to India.

Transport

During the three-year plan period (FY 2013/14–2015/16), a total of 25,133 km of strategic roads was 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.



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 prioritized. 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.

Agriculture

Nepal's geography, topography, water resources and ample supply of labor give Nepal a comparative advantage in agricultural production. Nepal's economy is largely dependent on agriculture. 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 modernization, diversification, commercialization 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 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 2016 focuses on the development of cardamom, ginger, honey, lentils, tea, noodles and medicinal herbs/essential oils 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

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 travelers.



Tourism sector employees 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.

There are opportunities in developing tourism infrastructure (hotels, restaurants, roads, airports).

There is also great potential for expanding the market for meetings, international conferences and events.

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.



Mining

Nepal lies in the center of the 2,500 km Himalayan belt, which has favorable geography for various minerals (metallic, non-metallic) and fuel. As many as 63 minerals have been identified in Nepal.

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.

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 tons 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 tons of cement grade limestone.

Nepal has an estimated 5 billion metric tons of dolomite and 180 million metric tons of high-grade magnetite.

Chapter 9- Banking and Capital Market

9.1 Banks and Financial Institutions Summary

9.2 Securities Law

9.1 Banks and Financial Institution Summary

The banking sector is regulated by Banking and Financial Institutions Act 2073 (2017), Nepal Rastra Bank Act 2002 and the directives and circulars issued by Nepal Rastra Bank (NRB).

Following is the summary of banks and financial institutions as on Mid-March 2018.

S.No.	Particulars	Number as on Date
1	Class "A" Commercial Banks	27
2	Class "B" Development Banks	35
3	Class "C" Finance Companies	28
4	Class "D" Micro Finance Financial Institutions	34

**Source: Nepal Rastra Bank*

Branch of a foreign bank



The foreign banks can establish branches of their banks in Nepal under the licensing policy for foreign banks branch issued by NRB.

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. Moreover, 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.

The minimum capital for opening a branch office of a foreign bank in Nepal is US\$ 30 million. The aforesaid capital shall be valid for one branch office and thereafter, additional USD 5 million shall be needed for each new branch office.

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.

If the branch office of the foreign bank or financial institution wishes to repatriate the amount out of the profit earned in Nepal to the country where its head office is based, upon paying tax and fee and settling other liabilities, if any, pursuant to the law in force, it may repatriate such an amount upon obtaining approval from Nepal Rastra Bank.

9.2 Securities Law

A body corporate shall have to register securities to be issued by it with the Securities Board of Nepal prior to their issuance. A body corporate shall have to make an application in the prescribed format, accompanied by the following documents:

- ✓ In case of a company, its memorandum of association and articles of association
- ✓ In case of a body corporate established under a specific act, its rule/ bylaws
- ✓ Copy of board resolution to register the shares
- ✓ Delegation of authority to register the securities
- ✓ Audited financial statements of the preceding year

Fees applicable for registration of securities	
Application fees	Rs. 20,000
Registration Charges	% of Securities Issue Price
✓ Shares	0.20%
✓ Debenture/ Bond	0.15%
✓ Mutual Fund Scheme unit	0.10%
✓ Other Securities	0.10%

TYPES OF SECURITIES BUSINESS

- ✓ Securities brokerage,
- ✓ Securities trade,
- ✓ Issue and sales management,
- ✓ Investment management,
- ✓ Investment consultancy service,
- ✓ Collective investment fund management,
- ✓ Securities registration or securities central deposit service or
- ✓ custodial service,
- ✓ Service relating to the settlement of the account of securities transactions,
- ✓ Market maker

Where a body corporate allots or sells securities after registering such securities, the body corporate shall have to give a notice along with the details of securities so allotted or sold to the Board within 7 days. Also, a body corporate shall have to get a prospectus approved by the Board for making public issue of securities and publish the prospectus for information to all the concerned.

Securities Business

A company or body desirous of carrying on securities business has to obtain a license to carry on securities business from SEBON by disclosing the prescribed details.

Stock Exchange

Nepal Stock Exchange (NEPSE) is established under the Company Act, operating under Securities Exchange Act, 1983. 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 member, market intermediaries, such as brokers, market makers etc. NEPSE opened its trading floor on 13th January 1994.

Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development corporation and members are the shareholders of NEPSE.

List of References

- Constitution of Nepal
- Various Acts and Rules
- Procedural Manual for Foreign Investment in Nepal
- Foreign Direct Investment Policy, 2015
- Nepal Trade Integration Strategy, 2016
- Trade Policy, 2072
- Licensing Policy for Foreign Banks Branch, Nepal Rastra Bank
- Nepal Investment Guide 2016, Investment Board Nepal
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Leaders at SARA



Sunir K Dhungel, fellow member of The Institute of Chartered Accountants of India and Nepal brings over 20 years of experience in consulting, assurance and tax advisory services in various governmental agencies, private sector companies and donor funded. He also holds Masters' Degree in Business Administration from Tribhuvan University.

He served as President of the Institute of Chartered Accountants of Nepal in 2010/11 and is immediate past chairman of the Auditing Standards Board. He is also member of Committee for Improvement in Transparency, Accountability and Governance (ITAG) of South Asian Federation of Accountants (SAFA) since 2009.

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Aman Uprety, fellow member of The Institute of Chartered Accountants of India and Nepal brings with him professional experience of more than 12 years in business advisory, strategic planning, due diligence and business valuation, risk management, transaction services, and assurance services, capacity building and startup consulting in different public, private sectors companies and international agencies. He also holds Masters' Degree in Business Studies from Tribhuvan University

He is current member of the committee for implementation of NFRS of the ICAN. He has also served as treasurer of Association of Chartered Accountants of Nepal (ACAN) in the year 2011/12.

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Ramesh K Dhital, fellow Member of the Institute of Chartered Accountants of India brings over 11 years of experience in consulting and assurance specially in Financial Service domain. Before joining the firm, he worked with Ernst and Young, Mumbai serving Financial Services clients. He is a Certified Information System Auditor (CISA) from ISACA, USA and a Management Graduate.

He served as General Secretary of Association of Chartered Accountants of Nepal from 2013 to 2015. He has managed various assignments in Nepal requiring reporting to international firms. He was a member of Committee on 'Implementation of NFRS in Banks' of the Institute of Chartered Accountants of Nepal from 2014 to 2017.

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