AN INVESTMENT GUIDE TO NEPAL

Opportunities and conditions
January 2003

UNITED NATIONS
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Three good reasons to invest in Nepal

• Access to markets

A smallish country of 24 million people, Nepal is situated between what are potentially the two largest markets in the world: China and India. A trade treaty with India guarantees duty-free access to most Nepali manufactures. While nothing similar exists with China, there are straws in the wind: an agreement to make the Chinese yuan convertible in Nepal and a memorandum of understanding making Nepal the first South Asian country to receive "approved destination" status from China. As a least developed country, Nepal is also eligible for the benefits of the Everything-But-Arms initiative of the European Union, offering its products preferential access to the European market.

• Natural assets

Tourism is the biggest business in the world and there is hardly a country that does not seek either tourists or investment in tourism. Uniquely, Nepal offers some of the most spectacular tourist attractions in the world: 8 of the world's 10 highest mountain peaks, including the top of the world, Mount Everest; an extraordinary range of climatic conditions ranging from the sub-arctic to the tropical and a corresponding range of flora and fauna, from the snow leopard to the rhino; a rich cultural heritage, from the birthplace of the Buddha through medieval Hindu temples to 60 spoken languages from several language families. Nepal also offers enormous potential for hydropower and a remarkable variety of agricultural products in the five climatic zones packed into a north–south breadth of 150–250 kilometres.

• Policies and people

Trends are what matter most to investors when it comes to the policy regime and here Nepal's record speaks for itself. Tariff slabs fell from over 100 in the 1980s to just 5 in the 1990s and rates went down; the foreign-exchange regime was liberalized, with the Nepali rupee becoming fully convertible on the current account; and area and percentage restrictions on FDI were reduced. Much remains to be done, but the movement is clearly in the right direction. Policies, of course, are implemented by people. Investors in Nepal value the *accessibility* of the bureaucracy, and the part of it that deals most specifically with investors, the Department of Industries, is widely regarded as helpful and responsive.

No investor with a long-term interest in the region would want to overlook Nepal.

The UNCTAD–ICC Series of Investment Guides

PUBLISHED

- *An Investment Guide to Ethiopia*
- *Guide d'investissement au Mali*
- *An Investment Guide to Bangladesh*
- *An Investment Guide to Uganda*
- *An Investment Guide to Mozambique*
- *An Investment Guide to Nepal*

(The guides to Ethiopia and Mali were published in cooperation with PricewaterhouseCoopers.)

FORTHCOMING

- *An Investment Guide to Cambodia*

UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body. Its main goals are to maximize the trade, investment and development opportunities of developing countries, to help them face challenges arising from globalization, and to help them integrate into the world economy on an equitable basis. UNCTAD's membership comprises 190 States. Its secretariat is located in Geneva, Switzerland, and forms part of the United Nations Secretariat.

ICC

The International Chamber of Commerce (ICC) is the world business organization. It is the only body that speaks with authority on behalf of enterprises from all sectors in every part of the world, grouping together thousands of members, companies and associations from 130 countries. ICC promotes an open international trade and investment system and the market economy in the context of sustainable growth and development. It makes rules that govern the conduct of business across borders. Within a year of the creation of the United Nations it was granted consultative status at the highest level (category A) with the United Nations Economic and Social Council. This is now known as General Category consultative status.

Note

The term "country" as used in this study also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

Reference to "dollars" ($) are to United States dollars, unless otherwise indicated.

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Preface

Foreign direct investment has come to be widely recognized over the past decade as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

The project of which this publication – *An Investment Guide to Nepal* – is the sixth concrete product is a collaborative venture by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC). Its objective is to bring together two parties with complementary interests: *companies* that seek new locations and *countries* that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities, and countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD–ICC investment guides are thus properly seen as parts of a process, a long-term process at the heart of which is an ongoing *dialogue* between investors and Governments. The guides *themselves* are the product of a dialogue, including that occurring among and between the representatives of business and government during the workshops that precede the completion of the guides. It is our hope that the guides will in turn *contribute* to the dialogue, helping to strengthen and sustain it, for we are convinced that in the long run it is this alone that will create conditions increasingly conducive to greater flows of investment.

Rubens Ricupero
Secretary-General
UNCTAD

Maria Livanos Cattaui
Secretary-General
ICC

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The cooperation of the Department of Industries (DOI) and in particular its Director General, Bharat Bahadur Thapa, as well as of the Nepal Chamber of Commerce (NCC) and in particular its President, Rajesh Kazi Shrestha, was essential to the success of this project and is much appreciated. We thank also the Permanent Mission of Nepal to the United Nations Office at Geneva. Our thanks are owed as well to Shashank and Manish Kansal, who facilitated work on the project in diverse ways.

This guide was prepared, with the assistance of consultants and advisers both internal and external, by an UNCTAD–ICC project team led by Vishwas P. Govitrikar. Useful feedback was supplied by Torbjörn Fredriksson and Joseph Mathews. Laura Giardini and Katia Vieu provided administrative support. The guide was designed and typeset by Nelson Vigneault. Overall guidance was provided by Karl P. Sauvant and Anh-Nga Tran-Nguyen.

Note to the reader

This booklet is published as part of the UNCTAD–ICC series of investment guides. The publications in this series are intended for the use of foreign investors who are largely unfamiliar with the countries covered. They are thus designed to offer overviews of potential locations for investment, rather than constitute exhaustive works of reference or provide detailed practical instruction. They do, however, offer pointers to sources of further information in the private sector as well as in the public sector.

There are two other features of these publications that the reader will find worth noting. One is that they are third-party documents, intended to offer a balanced and objective account of investment conditions. Their principal advantage in drawing the attention of investors to the countries they cover is *credibility*. The other feature is that both their general structure and some of their specific content are the result of consultations with the private sector.

The Executive summary is followed by a brief introductory chapter. Then come the three chapters that account for the bulk of the contents. “The Operating Environment” describes the general conditions in which investors must operate: macroeconomic conditions, infrastructure, human resources, etc. “Areas of Opportunity” offers a description of areas of potential interest to foreign investors. “The Regulatory Framework” focuses on regulations governing investment and *foreign direct investment* in particular. The fifth and final chapter provides a summary of the perceptions of the private sector in the country, both foreign and domestic.

The primary source of further information for an investor wishing to explore investing in Nepal is the Department of Industries (DOI) – see box on page 57. Contact details of selected sources of further information, including websites, are provided in appendix 3. Appendix 2 provides a list, including contact details, of some 60 major foreign investors in Nepal.

With its towering snow-caps, scenic trekking, and jungles teaming with tiger, elephant, leopard, rhino and over 350 species of birds, Nepal is among the foremost tourist destinations of the world.
When you add its rich heritage of cultural and ethnic variety to this, what you have is a perfect destination.
Foreign investment in tourism and other sectors has been encouraged in the past but has been slow in developing its potential.

I believe that the present Government, with the leadership of His Majesty the King, is strongly pro-investment, and as an investor who has helped develop a certain part of the tourist industry over the past 40 years, I will not hesitate to continue doing my part in developing Nepal's tourism in the future.

Jim Edwards
Executive Chairman
Tiger Mountain Group of Companies, Nepal

Executive summary

Investors are welcome

In 1990, multi-party democracy returned to Nepal after a hiatus of nearly 30 years. It was a peaceful revolution. In 1992, the Government introduced a new policy on foreign direct investment (FDI) and instituted a "one-window" system to facilitate and encourage it. Although, as is perhaps to be expected, investors are not wholly satisfied with the FDI regime and express reservations about whether the one-window system is actually living up to its name, there is also a consensus that the country welcomes investors and that its regime is liberal by South Asian standards. The Department of Industries, the government organ responsible for matters dealing with foreign investment, is widely seen as being helpful to investors. FDI currently in the country represents a wide range of companies and countries in a large number of areas – from agriculture, through banking, hydropower and manufacturing, to tourism. (A list of some 60 major investors is to be found in appendix 2.)

Advantages

Nepal is located between two of the world's largest markets: China to the north and India to the south. With India in particular, Nepal shares much of its cultural heritage and what is in effect an open border. A trade treaty signed in 1991, and renewed in 2002, guarantees Nepali manufactures duty-free access to the Indian market, subject to certain qualifications. While India too is a poor country, it has a fairly sizeable middle class (variously estimated at anything up to 300 million) with a not insignificant purchasing power. Another advantage in this context is offered by Nepal's significantly lower tariffs on imports, as compared with India's, which can make Nepal an attractive location even to Indian investors whose products require third-country imputs. Two other advantages, according to investors already in Nepal, are a low-cost and non-hostile workforce and a small and accessible bureaucracy.

It should be noted that, despite Nepal's proximity to China and India, these are not the only markets for Nepali exports. As a least developed country, Nepal is also entitled to preferential treatment in a number of developed-country markets. The European Union's Everything-But-Arms initiative is particularly relevant in this context.

Opportunities

The natural as well as cultural assets of Nepal offer very substantial opportunities to investors. The country has a range of climatic conditions – from tropical to sub-arctic – within a relatively narrow band which is no more than 250 kilometres at its widest, north–south. The terrain is generally mountainous in the north, hilly in the middle and near sea level in the south. Many niche agricultural products can thus be grown in Nepal, medicinal herbs and high-quality tea being but two examples.

There is also huge potential for hydropower. About 44,000 MW is thought to be economically feasible – which may be contrasted with the 528 MW currently being generated. An India–Nepal agreement on power trade is in place and the Indian states along the Nepali border, perpetually short of power, offer an obvious market. There is already significant FDI in hydropower in Nepal and more may be expected, especially once the House of Representatives has ratified the power-trade agreement. In addition to the development of electricity for export, the hydropower resources offer the prospect of developing energy-intensive manufacturing activities.

Tourism is another area with enormous potential. There are spectacular natural assets such as Mount Everest – the top of the world – and seven other peaks of 8,000 metres and higher. There is also a rich cultural heritage and a great diversity of ethnic groups with distinctive traditions: Lumbini in western Nepal is the birthplace of the Buddha, while Bhaktapur in the Kathmandu valley is a perfectly preserved mediaeval town full of Hindu temples. Thus far, the focus of investors has been mainly on the Kathmandu valley, with a few exceptions. Most of the potential for development lies outside the valley. Investors will also want to consider the potential for more specialized tourism, for example health tourism, adventure tourism, and convention and sports tourism. Nepal's neutral status in the region might offer a real advantage here.

Although agriculture, hydropower and tourism are the areas with the most potential for FDI, other opportunities exist as well. A variety of manufacturing activities already have some foreign investment in Nepal, with the ready-made-garments industry being the most prominent. There is also considerable interest on the part of both the Government and certain sections of the private sector in developing information-technology-based services for export and in attracting FDI to help the country do so. The fact that English is the medium of higher education and is widely used in business and the professions is a strong plus in this context. The European Union's Everything-But-Arms initiative is again relevant.

Difficulties facing investors

Nepal suffers from a variety of problems that commonly beset poor countries at an early stage of industrialization. Literacy rates are low, just under 53% among those aged 5 years and older in the year 2001, according to the latest census. Skills and productivity in the workforce are also at a low level. Infrastructure is insufficient and poorly maintained. The number of fixed telephone lines per 100 inhabitants was only 1.26 in 2001. (To put this in context, however, it should be noted that it had tripled in six years, being only 0.41 in 1995.) Only 18% of the population has access to electric power (though some government agencies put this figure as high as 35%). The road network has expanded significantly over the past decade but continues to be seriously inadequate. Investors in Nepal believe that there has been considerable improvement in telecommunications and the power supply over the past five years, but the road network has lagged behind. Connections among the major centres have improved, but the feeder roads in rural areas have not. This needs attention in an economy in which agriculture and tourism loom so large.

There are also other weaknesses that investors believe call for the Government's urgent attention. The most critical need is for improved implementation of what are often good policies. Administrative weakness, unevenness and delays increase transaction costs for business. UNCTAD's consultations suggest that the public sector, no less than the private, is aware of the need for better coordination and improved governance, which is very encouraging. There are also policy areas that need attention. One example is the labour law, which is widely seen in the business community as excessively restrictive. (The Government is reviewing the law and has set up a task force to do so.)

FDI trends

FDI flows to Nepal have historically been very low. In the 1990s, there was significant improvement. The trade treaty with India signed in 1991 (and renewed in 1996) undoubtedly helped, as did the policy liberalization of 1992. After peaking in 1997 at $23 million, FDI declined sharply but rose again in 2000. The decline probably reflects the uncertainty caused by frequent changes of Government and the insecurity created by the Maoist insurgency. It also did not help to be a landlocked country in a slow-growth region. Further details are given in chapter II, in the section on trade and investment.

Prospects and challenges

One might say that it was only some 50 years ago that Nepal, a country with a long history and great cultural depth, really entered the modern world. It was in 1955 that the telephone exchange in Kathmandu, the capital, first handled as many as 300 lines. There has been much development since then, especially over the past decade. GDP has grown at nearly 5% a year and showed the fastest growth in South Asia in the year 2000: 6.5%. Speeding up economic growth and bringing a wider range of the population within its ambit is clearly the top priority for the Government. FDI could play a crucial role here by supplying capital and know-how and enhancing employment prospects for Nepali workers. It is worth noting in this context that the main areas in which the country is trying to attract investment could all make a substantial and positive difference to the livelihoods of people in the remoter regions of Nepal, who have benefited the least from development focused on the Kathmandu valley, namely agriculture, hydropower and tourism.

This said, the Government faces a serious challenge in the form of the Maoist insurgency. Expansion of economic activity in the remoter regions depends very much on security – both fact and perception – for no industry is more vulnerable to a *perception* of insecurity than international tourism. It is encouraging in this context that, just as this guide was being finalized in December 2002, the Maoist leadership announced the formation of a "dialogue committee" and the cessation of activities that damaged public infrastructure.

Political stability, more broadly, was also an issue in Nepal during the 1990s. There have been many short-lived Governments, creating uncertainty in the business community and a certain cynicism in the public at large. On 4 October 2002, the King dismissed the then Prime Minister for failing to hold elections in November as scheduled and appointed an interim Government with the mandate to restore security in the country and hold elections to the House of Representatives as soon as possible. The King's address to the nation stressed his commitment to a constitutional monarchy and multi-party democracy. It is to be hoped that a more stable period of democratic government will follow. It is worth noting here that political stability of a certain kind has been a notable feature of Nepali history over a prolonged period: the Shah dynasty has reigned over the country continuously since 1768.

Note

Even people in other parts of the world who know little or nothing about Nepal have probably heard of the "palace shootings" in the Narayanhiti Palace in Kathmandu on the night of 1 June 2001. Ten persons died as a result of the shootings, eight of them members of the royal family, including King Birendra, Queen Aishwarya and Crown Prince Dipendra. A two-person committee, composed of the Chief Justice and the Speaker of the lower house of parliament, concluded in a report submitted two weeks later to King Gyanendra (King Birendra's younger brother) that the shootings were the work of Crown Prince Dipendra, who succeeded as king very briefly before dying on 4 June 2001. The panel attributed no motive to Prince Dipendra for his actions, but it is widely believed that it had to do with his family's opposition to his choice of a bride. For the purposes of the present guide, what is important is to note that this was above all a family tragedy. There has been no responsible suggestion that the motive was in any sense political or that the late Prince's actions were part of any sort of plot. The late King and Queen were deeply mourned, but the succession of the late King's brother occurred without incident.

Nepal at a glance

Official Name	Kingdom of Nepal
Political system	Constitutional monarchy and multi-party democracy
Head of State	His Majesty King Gyanendra Bir Bikram Shah Dev
Head of Government	Prime Minister Lokendra Bahadur Chand
Political parties in parliament	Parliament is currently dissolved. In the last parliament, the main parties in the lower house were: the Nepali Congress, the Nepali Congress (Democratic) and the Communist Party of Nepal: United Marxist-Leninist.
Next election date	Not yet set
Surface area	147,181 sq. km
Population	24 million
Population density	163 per sq. km
GDP per capita	$240 (at purchasing power parity $1,400)
Currency	Nepali Rupee (NR)
Exchange rates (December 2002)	$1 = NRs 78 €1 = NRs 79 ¥100 = NRs 63 INRs1 = NRs 1.60
Official language	Nepali. English is widely used in business, higher education and the professions.
Other principal languages	Maithili, Bhojpuri, Newari, Magar
Principal religions	Hindu (80.6%), Buddhist (10.7 %), Muslim (4.2 %), Kirati (3.6%), other (0.9 %).
Time zone	GMT + 5.45
Climatic conditions	Sub-tropical in the Terai plains along the southern border, temperate in the hills along the middle belt, and alpine in the mountainous region along the northern belt. The Kathmandu valley has a pleasant climate with average summer and winter temperatures of 19–27° C and 2–12° C respectively. Rainfall is heavy in the eastern part during June–August, while the western part gets more rain in winter. Annual precipitation varies from around 300 mm in the north and west to over 2,500 mm in the east. The Kathmandu valley receives 1,200 mm of annual rainfall.
Main cities/towns and numbers of inhabitants	Kathmandu: 671,846 Biratnagar: 166,674 Lalitpur: 162,991 Pokhara: 156,312 Birganj: 112,484

Source: UNCTAD, based on information provided by various sources.

Source: Nepal Tourism Board, Government of Nepal.

Source: Based on the map of South Asia by the United Nations Cartographic Section, 2001.

Country and people

Nepal is a landlocked country of about 24 million people, covering an area of 147,181 square kilometres which borders Tibet, the Autonomous Region of China, to the north and several Indian states to the east, south and west. Geographically, it is divided into three parallel ecological zones: the Mountain Region, the Hilly Region and the Terai Region. The Mountain Region lies more than 4,900 metres above sea level and covers an area of about 50,000 sq. km The Hilly Region, 600–4,900 metres above sea level, covers an area of about 60,000 sq. km. The Terai Region, with an average elevation of 300 metres above sea level, covers about 37,000 sq. km. The Terai is where most economic activities are concentrated. There are five climatic zones in Nepal: tropical, sub-tropical, temperate, alpine and sub-arctic. The nearest sea coast is 1,127 km from the southern border.

The population is ethnically and culturally diverse. The predominant religion is Hinduism, with Buddhism a distant second. There are also small minorities of Muslims and adherents to other religions. While there are said to be 36 castes in Nepal, the dominant social groups are the Bahuns, the Chhetris and, especially in the Kathmandu valley, the business-oriented Newars.

History and government

Although this part of South Asia has a long history – Lumbini in the western Terai is where the Buddha is said to have been born in the sixth century BC – the modern kingdom of Nepal was created by Prithvi Narayan Shah in 1768. His descendants have reigned over Nepal ever since. Although there was a brief period of multi-party democracy some 40 years ago, a new constitution guaranteeing democracy under a constitutional monarchy was only put in place in 1990.

The King is now primarily a symbol of Nepali unity (but see box I.4). Although executive power is vested in the King and the Council of Ministers, the responsibility for issuing general directives and controlling day-to-day administration lies with the Council, which is headed by the Prime Minister. Except as otherwise provided for, the powers of the King are to be exercised only upon the advice of the Council of Ministers.

The leader of the party that commands a majority in the House of Representatives (the lower house of a bicameral legislature elected by universal suffrage) is appointed Prime Minister and forms the Council of Ministers. All major political parties have declared their commitment to economic growth and are supportive of democratic principles and human rights.

Market size and access

Since Nepal has a small and mostly poor population, its domestic market is limited. For example, in the year 2000, there were only about 160,000 television sets in a country of 23 million people (figure I.1).

However, with its special relationship with India, embodied in a trade treaty recently renewed (see box I.2), Nepal offers significant access to the largest market in the region. Potentially, it also offers access to the Chinese market, but this is currently limited both by the difficulties of Nepal's northern terrain and by the absence of any special trade arrangement comparable to that with India. A South Asia "Free Trade Agreement (SAFTA) has been mooted by the members of the South Asia" Association for Regional Cooperation (SAARC), but progress has been very slow. If it were to become reality, Nepal would also have access to an *additional* market one-third the size of the Indian market.

Box I.1. Of risk and returns: Investing in least developed countries

"Why would anyone invest in a least developed country (LDC)?", a hard-headed entrepreneur might ask. "Aren't the risks sky-high and the profits precarious?"

This rather casual dismissal of a quarter of the world's nations as locations for investment might be widespread, but like much conventional wisdom, it might also be unwise. True, investing in an LDC can be a complicated business, with many bottlenecks and much frustration, but an LDC is not always riskier than other locations and is frequently more profitable.

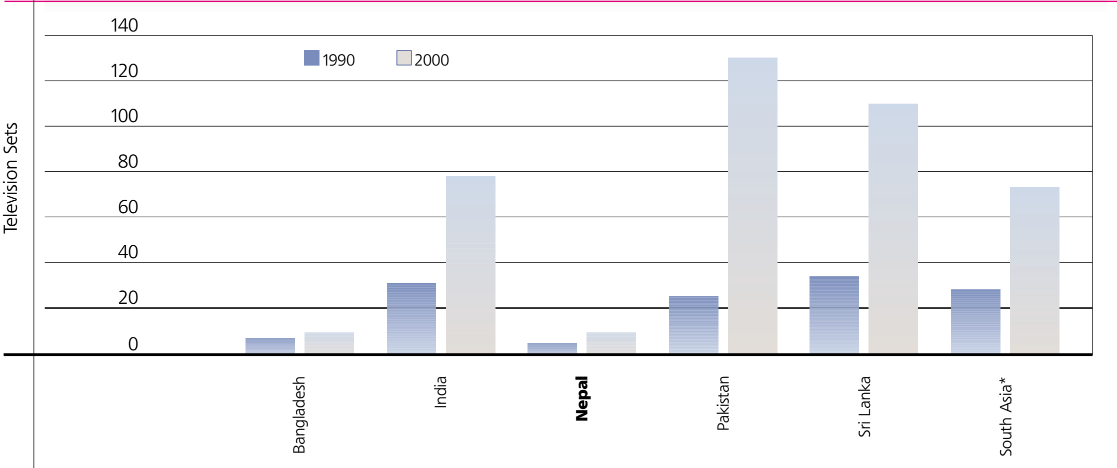
One problem with the association of high risk with LDCs is that it treats 49 countries in three continents as though they were all clones of a single national type. In truth, there is much variation. Some LDCs are riven by civil war and some destabilized by coups and counter-coups. There are others, however, that can claim a political continuity of several centuries (Nepal) or a record of great resilience in the face of natural calamities (Bangladesh). When it comes to conventional risk-ratings, LDCs tend to suffer from image problems and a simple lack of information, unlike the industrialized countries in which risk-rating can be founded on a much broader and more reliable information base. "...[T]he methodology of rating depends too much on subjective perception and outdated data", says a recent study. "Together with their limited country coverage, these factors automatically bias [ratings] against most African (and other low-income) countries."[1] A better way to assess risk and to get a feel for the *direction* of change in a country is to talk to investors already on the ground. The UNCTAD–ICC guides feature summaries of business perceptions and lists of current investors precisely to facilitate this.

When it comes to profits, the evidence is that rates of return on foreign direct investment in LDCs are much higher than on investment in developed, or even other developing, countries. Between 1995 and 1998, United States companies registered returns of almost 23 per cent on their investment in African LDCs, while for LDCs in Asia and Oceania the figure was 13 per cent.[2] Similar findings for Japanese affiliates abroad confirm that Africa, with its 33 LDCs, is a *very* profitable location indeed.

Is there a moral here? Yes, one that can be summed up in a single maxim: *Distinguish*. Investors need to distinguish among the 49 LDCs. Some will confirm their prejudices, while others will shake them. One key advantage of investing in an LDC can be the relative thinness of the competition, unlike locations that everybody wants to be in, but this advantage is unavailable to investors not prepared to do their homework.

Source: UNCTAD.

[1] Bhinda et al. (1999).
[2] UNCTAD (2000).



Source: UNCTAD, based on World Bank, World Development Indicators 2002, http://publications.worldbank.org/WDI/.
* South Asia also covers Afghanistan, Bhutan and Maldives.

Box I.2. India–Nepal Trade Treaty

A Treaty of Trade between India and Nepal was signed in 1991, amended in 1996, when a Protocol was added, and again amended in 2002, clarifying some of the treaty's features. The current treaty will remain in force until March 2007 and is renewed automatically for five-year periods, unless either country wishes to terminate it by notifying the other three months in advance.

The key point of the treaty is the undertaking by India to provide non-reciprocal favourable treatment to industrial products of Nepali origin. The 2002 protocol specifies access to the Indian market free of customs duties or quantitative restrictions subject to certain provisions. The main provisions are, first, that beginning in 2003 Nepali manufactures entitled to this preferential treatment must *not* have more than 70% of their value originating in third countries and, second, that certain articles are specifically restricted or excluded. The restricted articles, which have quantitative restrictions placed on them, are vegetable fats, acrylic yarn, copper products and zinc oxide; the excluded articles are alcoholic beverages other than beer, cosmetics with third-country brand names, and cigarettes and tobacco. Finally, either country may take remedial measures if imports under the treaty cause or threaten significant damage to domestic industry.

Despite the restrictions and exclusions, the treaty offers significant access to the Indian market. This is clearly relevant to the decisions of many potential foreign investors since the Nepali market is small: a little over 20 million people with very limited purchasing power. In comparison, the Indian population is around 1 billion and the purchasing power of the average consumer, though also very limited, is twice that of the Nepali consumer. It should be noted that the treaty offers advantages even to Indian investors (who account for nearly 40% of existing FDI in Nepal) under certain circumstances – for example, those in which the product requires inputs from countries other than India or Nepal, since Nepali tariffs are typically lower than Indian tariffs on imports. The relatively lower wages in Nepal might also be a factor, as of course would be raw materials unavailable or available at significantly higher cost in India.

***Source*:** UNCTAD, based on information provided by the Nepal Chamber of Commerce and other sources.

Nepal's accession to the World Trade Organization (WTO) is in process and may be completed in 2003. As an LDC, Nepal also has preferential access to the European Union under its Everything-But-Arms initiative. A memorandum of understanding between Nepal and China was signed on 26 November 2001 to facilitate the visits of Chinese citizens to Nepal, making Nepal the first nation in South Asia to receive Approved (tourist) Destination status from China.

Tourism is the main earner of foreign exchange in Nepal. Foreign-exchange earnings from tourism in fiscal 2001 were about NRs 11,717 million (just over $150 million). It contributes 10% of total foreign-exchange earnings and 3% of gross domestic product (GDP).

SOUTH AS ET

COUNTRY	POPULATION	GDP [a]	GDP PPP [b]	GDP PER CAPITA	GDP PER CAPITA PPP
	Millions 2000	$ billions 2000	$ billions 2000	$ 2000	$ 2000
Bangladesh	131	47	210	373	1 602
India	1 016	457	2 395	459	2 358
	23		31		1 327
Pakistan	138	62	266	516	1 928
Sri Lanka	19	16	68	860	3 530
South Asia average [c]	-	-	-	456	2 224
South Asia total [c]	1 355	597	3 014	-	-

Source: UNCTAD, based on the World Bank, World Development Indicators, 2002, http://publications.worldbank.org/WDI/.
[a] GDP at market prices (current US$).
[b] GDP at purchasing power parity (current international $).
[c] South Asia average and total also cover Afghanistan, Bhutan and Maldives.

Government Priorities

Nepal introduced economic liberalization a decade ago and is committed to achieving high economic growth through the active participation of the private sector. The Government is also committed to promoting Nepal as a location for foreign direct investment.

The liberal economic policies pursued in the early 1990s have shown some positive impacts, with the export/GDP ratio rising from 6.1 per cent in FY 1990–1991 to 14.0 per cent in FY 2000–2001. The economy has recorded rapid financial-sector growth and the cost of funds has come down as financial markets have become more competitive. The macroeconomic situation has remained stable.

The proposed 10th plan (2002–2006) takes account of the need to attract foreign investment to meet the five-year capital requirements. The foreign investment policy will be reviewed to make it more investor-friendly. The existing negative list of the Foreign Investment and Technology Transfer Act of 1992 will be reviewed and investment will be encouraged, in particular in areas such as hydropower, transport infrastructure, manufacturing, information technology, insurance, and savings and investment management. The One Window system will be simplified and made more effective. All other existing procedures related to FDI will also be simplified and the Industrial Promotion Board made more effective.

Other priorities include properly implementing the laws on bankruptcy, contracts and private property and encouraging (and creating the appropriate environment for) foreign direct investment in information-technology (IT) based services such as data entry, medical transcription, call centres and software maintenance.

Privatization

After the restoration of democracy in 1990, the first elected democratic Government introduced economic liberalization, emphasizing private-sector participation in the mainstream of development. In 1991, the Government issued a policy paper on privatization which laid down policies, modalities and administrative mechanisms for the phased privatization of public enterprises. A privatization bill was passed by both houses of parliament in September 1993 and came into force in 1994. The privatization process in Nepal is governed by this Act.

The Government may privatize any enterprise using any of the following methods:

- Selling shares in the enterprise to the general public, including employees, workers, and any other persons or companies interested in the management of such an enterprise;
- Setting up cooperatives;
- Selling the assets of the enterprise;
- Leasing out the assets of the enterprise;
- Involving the private sector in the management of the enterprise; and
- Adopting any other modalities considered appropriate by the Government on the basis of the recommendation of the Privatization Committee.

A Privatization Committee has been established under the chairmanship of the Finance Minister and is empowered to set up subcommittees as required. A Privatization Cell has also been set up within the Ministry of Finance to administer the process.

In the first phase of the programme, which ended in 1992, three State-owned enterprises (SOEs) were privatized. By 1994, five more SOEs had been privatized and two liquidated. Since then, seven more have been privatized. The total sale price for all of these was about NRs 1.2 billion (just under $16 million at the mid-2002 exchange rate of $1 = NRs 78). The more prominent among the privatized companies are Bhrikuti Paper Mills, Harisiddhi Bricks and Tiles, the Nepal Bank and the Nepal Tea Development Corporation. For further details, see appendix 5. Restrictions on FDI in privatization, if any, are specified on a case-by-case basis before an enterprise is offered for privatization. Several privatized enterprises have been sold to companies with foreign participation.

A dispute over any matter contained in the privatization agreement is ideally resolved through mutual consent among the concerned parties. If this proves impossible, it may be referred to arbitration, conducted in accordance with Nepali laws relating to arbitration or the rules of the United Nations Commission on International Trade Law (UNICITRAL). The venue of arbitration is Kathmandu.

Box I.3. The Maoist insurgency

The insurgency began in 1996, when some members of one of the many factions of the Communist Party of Nepal decided to abandon normal political methods in their pursuit of a communist State and went underground to stage a popular revolt. This faction had briefly been in the House of Representatives (the lower house of parliament) during 1991–1994, though not in Government.

The insurgency has been led since the beginning by Pushpa Kamal Dahal (alias Prachanda) and has had its base in the hilly western regions of Nepal, which have probably seen the fewest benefits from democracy since 1990. The number of persons killed as a result of the insurgency ranges between about 5,000 (according to the Government) and just under 6,000 (according to independent sources), some 30% of them having been killed by the insurgents and some 70% by the security forces.

The stated objective of the Maoists is a new constitution, drafted by a constitutional assembly, which would convert Nepal into a republic, abolishing the monarchy, and perhaps introduce a centrally planned economy, although the economic agenda is less than clear.

Periodically, there have been informal as well as formal negotiations between the Government and the insurgents, but one or the other party has broken them off. The last round of negotiations, open and formal, was terminated when the insurgents walked out in November 2001. The Government then denounced the insurgents as "terrorists" and declared a state of emergency (which continued until August 2002) and called in the army, which is still in charge of the security situation. The army estimates that the Maoist forces are composed of 3,000–4,000 hardcore rebels and 10,000–15,000 members of a looser militia. Other sources think the actual figures might be half that.

While the insurgency has created widespread unease in Nepal, life in many parts of the country, including in particular the capital area in the Kathmandu valley, has been relatively unaffected. There have been periodic *bandhs* (general strikes) called by the Maoists, which shut down business establishments and reduce traffic to a minimum, and there have been bomb scares and actual explosions in the plants of foreign as well as domestic companies. It is noteworthy, however, that the plant explosions have mostly resulted in relatively minor property damage. The only case of severe damage (though no deaths) was the bombing of a distillery in the west; it occurred during a campaign by a Maoist-affiliated women's organization against the unrestricted availability of liquor. While the plant bombings can be attributed to the general hostility of the Maoists to the market, a less ideological explanation might cover most cases: the reluctance or refusal of companies to make mandatory "donations" to the insurgents' cause.

It is not easy to foresee the end of the insurgency. The Government is aware of the damage it has done to the country's image and the threat it poses to the prospect of foreign investment and to tourism.

On the other hand, popular backing of the insurgency, never very strong or widespread, has weakened in recent years and it is almost certain that no sort of "revolution" is waiting in the wings. It is noteworthy in this context that only a few of some 35 business people (about half of them from foreign companies) answering a question about what they regarded as the top three priorities for the Government in mid-2002 mentioned security or the Maoists in so many words, although one in four expressed some concern over "law and order". (see chapter V for other concerns). The general impression UNCTAD received was that the business community dislikes the insurgency but is not unduly worried about it.

There is now, in late 2002, again the prospect of new negotiations. In early December, the Maoist leadership announced that it had formed a "dialogue committee" and was suspending attacks on public infrastructure.

Source: UNCTAD, based on information from the New Business Age, Nepal, and other sources.

Box I.4. Recent political developments

Multi-party democracy returned to Nepal in 1990, under the late King Birendra Bikram Shah Dev, the older brother of the now reigning King Gyanendra Bir Bikram Shah Dev. The 12 years that followed were marked by political instability of a kind not unknown in more developed democracies. Ten Governments have governed since 1990, often in coalitions. At the mid-point of this period, in 1996, began the Maoist insurgency (box I.3).

Parliamentary elections were scheduled to be held in June 2004, when the third parliament was to complete its five-year term. But on 22 May 2002, the House of Representatives was dissolved by King Gyanendra on the advice of Prime Minister Sher Bahadur Deuba and the elections were rescheduled for November 2002. Mr. Deuba was the leader of a faction of the Nepali Congress (the oldest political party in Nepal, with the longest experience of elective office), which expelled him from the party for not consulting it before recommending the dissolution of parliament. He then formed his own party – the Nepali Congress (Democratic) – and recommended postponement of the elections for a *further* period of 12 months on account of the insecurity created in many parts of the country by the Maoists.

It was against this background that on 4 October 2002 King Gyanendra dismissed Deuba as Prime Minister for "incompetence", as demonstrated by his inability to hold elections as promised, and assumed executive power until new arrangements could be put in place. Since then, the King has appointed an interim Council of Ministers, headed by Prime Minister Lokendra Bahadur Chand, who had held that office several times before, most recently in 1996–1997. The mandate of the Council of Ministers is to restore security in the country and arrange for elections to be held as soon as possible. Members of this interim Government will *not* themselves be eligible to stand in the forthcoming elections they are to organize.

The political parties have criticized the King's actions and the Nepali Congress (Democratic), headed by the dismissed Prime Minister Deuba, has denounced the royal assumption of executive power as "unconstitutional and undemocratic". The King for his part, in his address to the nation on 4 October 2002, invoked article 127 of the Constitution of the Kingdom of Nepal to justify his action, and emphasized his commitment to constitutional monarchy and multi-party democracy.

Expert comments quoted in the media reflect some uncertainty about the justification, while the public reaction appears to be one of hopeful patience. The business community has welcomed the King's move with hopes of better governance. In November 2002, the Council of Ministers was expanded to 13 members, including two prominent businessmen – a former president and the current president of the Federation of the Nepalese Chamber of Commerce and Industry (FNCCI).

In early December 2002, in a possibly unrelated move, the Maoist leadership announced that it had formed a "dialogue committee" and was suspending attacks on public infrastructure.

Source: UNCTAD, based on information contained in the Nepali Times, Kathmandu Post, http://www.nepalnews.com and other sources.

Himal Power Limited is proud to be the largest private power producer in Nepal and to have paved the way for other private power producers. The potential for hydropower, a clean and reliable source of energy, is huge in Nepal. As only minor projects have been established so far, Nepal remains a very interesting country for power companies both local and foreign.

Otto Engen
General Manager
Himal Power Limited

The Operating Environment

II

Economic environment

The GDP growth rate in Nepal has averaged 4.8% per year during the past decade (Table II.1). This is lower than the 6% targeted in the Ninth Five Year Plan (1997–2002) but higher than the 4.5% recorded during the 1980s. In 2001, the growth rate was 4.8% but declined to 0.8% in 2002 owing to the sharp decline in exports and tourist arrivals following the global economic slowdown. This was further exacerbated by the events of 11 September 2001 in the United States and the heightened Maoist insurgency in Nepal. The Asian Development Bank expects the rate to rebound to 5% in 2003 if a variety of not improbable conditions are satisfied: political unrest in Nepal ends, the global economic slowdown is modest, the Indian economy grows at about 5–6%, and the weather in Nepal and neighbouring areas remains favourable.

P GROWTH

COUNTRY	GDP GROWTH RATES (PERCENTAGES)					
	1995	1996	1997	1998	1999	2000	1990-2000
Bangladesh	4.9	4.6	5.4	5.2	4.9	5.9	4.8
India	7.7	7.2	4.4	6.0	7.1	3.9	6.0
	3.5		*5.0*		*4.4*		*4.8*
Pakistan	5.1	3.9	1.0	2.6	3.7	4.4	3.7
Sri Lanka	5.5	3.8	6.4	4.7	4.3	6.0	5.3
South Asia [a]	7	6.5	4.2	5.4	6.4	4.2	5.6

Source: UNCTAD, based on the World Bank, World Development Indicators, 2002, http://publications.worldbank.org/WDI/, and World Development Report 2002.
[a] South Asia also covers Afghanistan, Bhutan and Maldives.

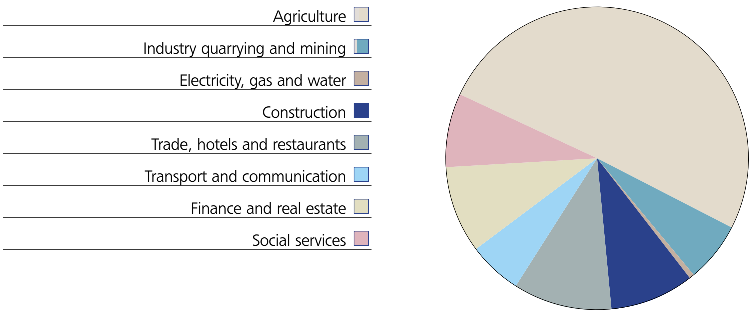
Nepal has been changing very slowly from being an agricultural economy to one that has an increasing share of other sectors such as energy, industry, construction, transport and communication in its GDP (figure II.1).

The GDP growth rate has been highest in electricity, gas and water (averaging 10.4% in the three years 1999, 2000 and 2001, followed by community and social services (9.2%) and manufacturing (5.3%), according to the Central Bureau of Statistics (2002) thanks mainly to the growing private-sector involvement in these sectors in line with the policies of the Ninth Five Year Plan.

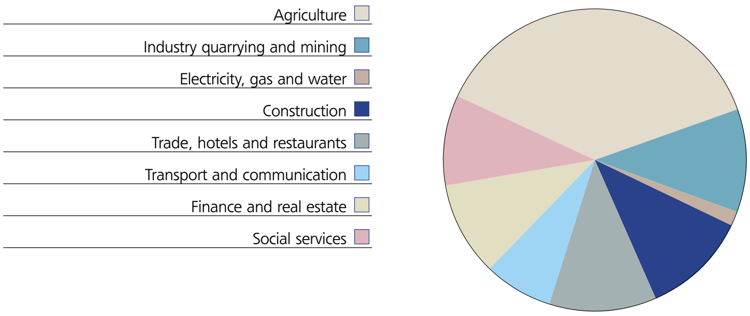
Despite the problems of the insurgency, dwindling tourist arrivals and a slowdown in other business activities, *macroeconomic fundamentals have remained healthy in Nepal. Inflation measured by the consumer price index was 3.6% as of mid-March 2002* according to the Central Bank's regular survey. Though this rate is much higher than the 1.4% recorded in the same period the previous year, it is well below the ceiling of 5% set for 2002.

FIGURE II.1: SECTORAL CONTRIBUTION IN GDP (IN PERCENTAGES), 1990 AND 2000

1990



2000



Source: UNCTAD, based on the Mid-term Evaluation of the Ninth Plan, National Planning Commission, July 2001, and Economic Survey, different years, Ministry of Finance, Government of Nepal.

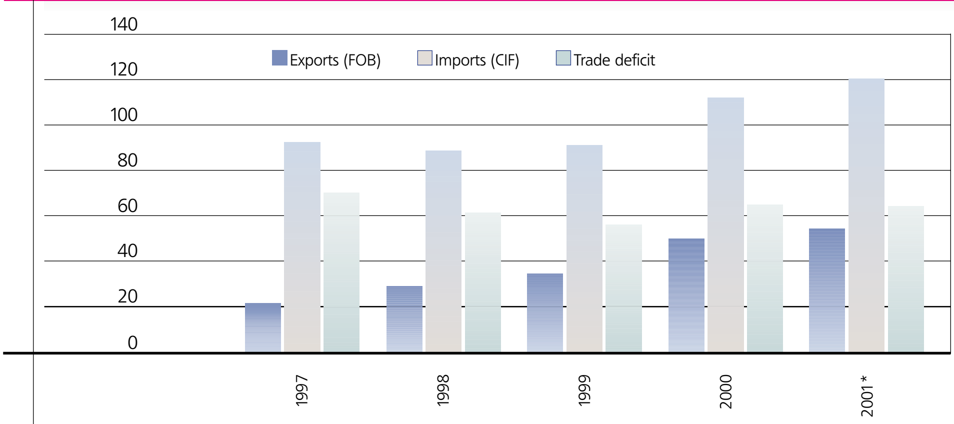
Trade and investment

Trade

The Government has taken a variety of initiatives to reduce its intervention in the economy and to encourage exports. Trade liberalization, foreign-exchange and banking-sector deregulation, and privatization have been the major planks of economic liberalization. Nepal's average import-tariff rates are the lowest in the South Asian region (the slabs are 5%, 10%, 15%, 25% and 40%; for vehicles the tariff is 130%.) The Nepali Rupee is fully convertible on the current account. Convertibility on the capital account is under consideration.

As a result of these policies, Nepal's foreign trade is growing significantly (figure II.2). The growth rate in exports has been higher than the growth rate in imports, thus containing the trade deficit at a level under $820 million, which is less than 20% of the nominal GDP at factor cost in 2001. This ratio was as high as 25% in 1997.

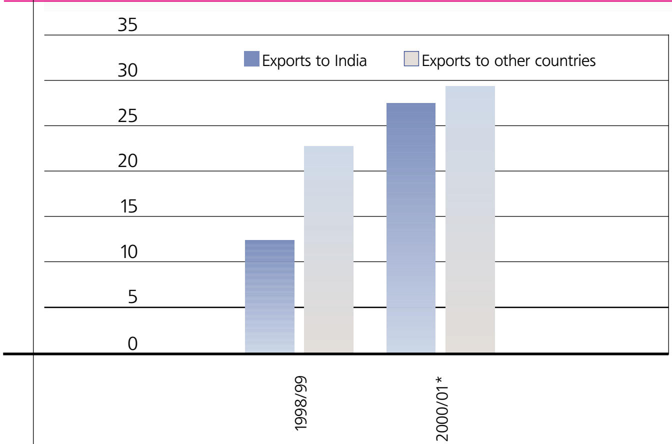
(NRs million, nominal values) [a]



Source: UNCTAD, based on information supplied by the Trade Promotion Centre, Government of Nepal.
[a] In mid-2002, $1= NRs 78. Using this rate, exports in 2001 were $725 million, while imports were $1,542 million.
* Provisional.

FIGURE II.3. STRUCTURE OF NEPAL'S EXPORTS: TO INDIA AND TO OTHER COUNTRIES

(NRs million)

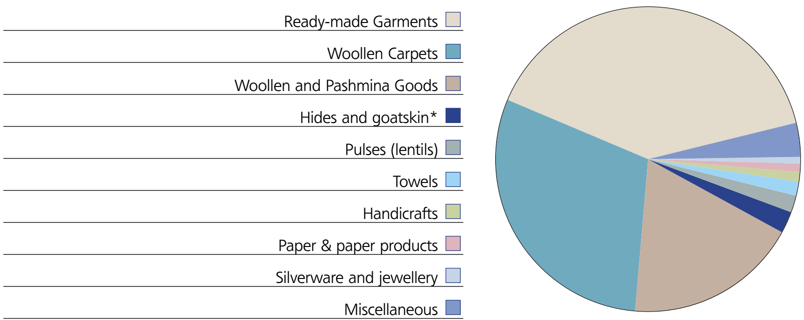


Source: UNCTAD, based on information supplied by the Trade Promotion Centre, Government of Nepal.
* Provisional.

Nepal's major export market is its southern neighbour, India, a market of over one billion people. As figure II.3 shows, these exports are growing very fast. In 1998–1999, exports to India accounted for about 31 % of total exports; in 2000–2001 the figure had jumped to 44 %. The export potential of the Indian market is thus obvious. Other major export destinations for Nepali goods are the United States and Europe. Efforts are also being made to increase exports to Tibet, the Autonomous Region of China that borders Nepal. An agreement was signed in June 2002 to make the Chinese yuan convertible in Nepal, which will allow payments to be made in yuan.

Nepal's main exports have been hand-knotted woollen carpets, ready-made garments and pashmina goods (figure II.4).

FIGURE II.4. STRUCTURE OF NEPAL'S EXPORTS: PERCENTAGE SHARE OF MAJOR ITEMS IN 2000–2001



Source: UNCTAD, based on information supplied by the Trade Promotion Centre, Government of Nepal.
* Refers to semi-processed (wet blue) and processed (crust and/or finished) leather. The export of raw hides or skins (whether salted or otherwise) is not permitted.

LANCE OF PAYMENTS ... ACCOUNT)

COUNTRY	GOODS AND SERVICES		NET INCOME [a]	NET CURRENT TRANSFERS [b]	CURRENT ACCOUNT BALANCE [c]	GROSS INTERNATIONAL RESERVES [d]	GROSS INTERNATIONAL RESERVES IN MONTHS OF IMPORTS
	Exports $ millions	Imports $ millions	$ millions	$ millions	$ millions	$ millions	
	2000	2000	2000	2000	2000	2000	2000
Bangladesh	6 585	9 057	-221	2 672	2	1 516	2
India	63 764	75 656	-3 821	12 798	-2 915	41 059	6
	1 305	1 759		175		989	
Pakistan	9 575	11 762	-2 018	1 997	-2 208	2 087	2
Sri Lanka	6 475	8 234	-299	984	-1 042	1 211	2
South Asia [e]	88 476	107 327	-6 344	...	-6 636	47 280	6

Source: UNCTAD, based on the World Bank, World Development Indicators, 2002, http://publications.worldbank.org/WDI/.
[a] Net income refers to receipts and payments of employee compensation made to non-resident workers and investment income.
[b] Net current transfers are recorded in the balance of payments whenever an economy provides or receives goods, services, income or financial items without a quid pro quo.
[c] Current account balance is the sum of net exports of goods and services, net income and net current transfers.
[d] Gross international reserves also include gold.
[e] South Asia also covers Afghanistan, Bhutan and Maldives.

Foreign direct investment

Nepal *has* been receiving some foreign direct investment (FDI), but the amount has been insignificant when compared with that received by other developing countries, including South Asian ones (see table II.3). But the list of foreign investors includes such renowned companies as British American Tobacco (BAT), Unilever, Coca-Cola, Standard Chartered and Hyatt. Nonetheless, most foreign investors in Nepal are individuals.

India is the major source of FDI in Nepal so far (about 40%), followed by the United States, China, the British Virgin Islands, Norway, Japan, the Republic of Korea, Canada and Hong Kong (China) in terms of the amount of *approved* FDI. As table II.3 shows, in November 2001, 272 of the approved projects were operational, 49 were under construction and 179 were approved but not operational.

The major area of FDI has been manufacturing, followed by services and, in particular, tourism (table II.4). More specifically, FDI is concentrated in manufacturing products for export to India (e.g. vegetable fat, soap, toothpaste, Ayurvedic preparations) and overseas (ready-made garments). This is followed by hotels. More recently there has been significant FDI in hydropower, taking advantage of the further policy liberalization in this sector.

PROJECTS ... STATUS AS ... ER 2001

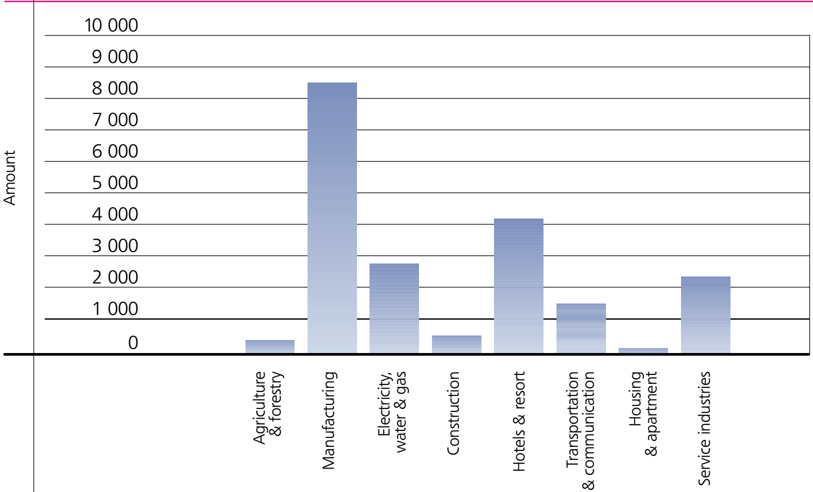
NRS MILLION (IN MID-2002, $1= NRS 78)

STATUS	NUMBER OF INDUSTRIES	TOTAL COST	TOTAL FIXED INVESTMENT	FOREIGN INVESTMENT	EMPLOYMENT
		NRs million	NRs million	NRs million	
1 Operational	272	36 014.87	32 195.87	6 749.97	41 412
2 Under construction	49	5 499.58	4 907.43	1 665.26	6 210
3 Licensed	134	14 349.55	11 559.01	4 557.38	15 399
4 Approved [a]	179	12 126.82	8 356.86	4 878.42	13 042
5 Cancelled	68	8 246.94	7 203.59	2 228.21	8 564
TOTAL	702	76 237.76	64 222.76	20 079.34	84 627

Source: UNCTAD, based on information supplied by the Department of Industries, Government of Nepal.
[a] "Approved" means "approved for licensing", where a licence is required, or "approved for implementation", where it is not.

AS OF NOVEMBER 2001

In million NRs; NRS 76 = $1 in mid-2001

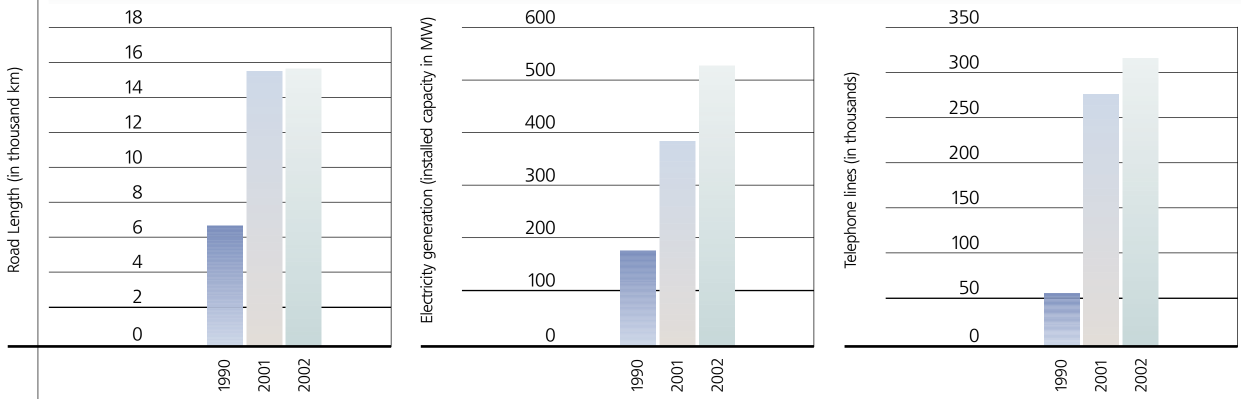


Source: UNCTAD, based on information provided by the Department of Industries, Government of Nepal.

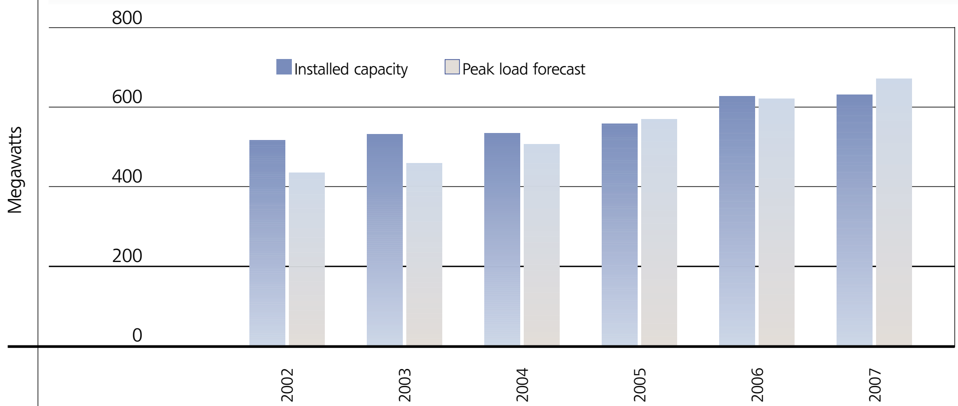
TABLE 11.4: FDI FLOWS TO SOUTH ASIA, 1986–2001

COUNTRY	1986-1990		1991-1995		1996-2000		1999		2000		2001	
	Annual average											
	$ per $1,000 of GDP	$ millions	$ per $1,000 of GDP	$ millions	$ per $1,000 of GDP	$ millions	$ per $1,000 of GDP	$ millions	$ per $1,000 of GDP	$ millions	$ per $1,000 of GDP	$ millions
Afghanistan	0.1	0.1	0.0	0.0	0.1	1.1	0.5	6.0	0.0	0.2	..	2.1
Bangladesh	0.1	2.2	0.2	6.4	3.6	160.2	3.9	178.0	5.9	279.8	..	78.1
Bhutan	5.6	0.3	1.3	0.1	0.7	0.2	0.7	0.3	- 0.2	- 0.1	..	0.2
India	0.6	182.0	2.5	796.8	6.3	2 652.8	4.9	2 168.0	5.1	2 319.0	..	3 403.0
Maldives	28.5	4.3	26.0	7.2	22.1	11.5	22.0	12.3	23.4	13.0	..	12.3
	0.6	1.9	1.4	5.4	2.4	11.6			- 0.1	- 0.5		
Pakistan	4.1	154.1	7.8	417.0	9.6	594.6	9.0	529.7	4.9	305.1	..	385.4
Sri Lanka	5.7	39.6	11.6	123.1	15.0	230.2	12.8	201.0	10.9	178.0	..	172.0
Memorandum												
South Asia[1]	1.1	384.6	3.1	1 356.1	6.6	3 662.2	5.3	3 099.7	5.2	3 094.5	..	4 072.3
South-East Asia[2]	24.1	6 895.9	34.6	17 737.4	35.5	21 798.3	35.6	19 690.9	18.9	11 055.5	..	13 240.1

Source: UNCTAD, FDI/TNC database.
[1] South Asia comprises: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
[2] South East Asia comprises: Brunei, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and VietNam



Source: UNCTAD, based on various sources.



Source: UNCTAD, based on information supplied by the Trade Promotion Centre, Government of Nepal.
[a] In mid-2002, $1= NRs 78. Using this rate, exports in 2001 were $725 million, while imports were $1,542 million.
* Provisional.

Infrastructure and utilities

The past decade was a period of rapid expansion in road and telecommunication facilities in Nepal. In hydropower generation, Nepal experienced rapid expansion towards the end of the last century which has continued since. However, the country's potential of nearly 44,000 MW is very far from being realized. In addition to the nearly 528 MW of hydropower generated from various public and private plants, the State-owned Nepal Electricity Authority generates and sells about 57 MW of power from thermal or multi-fuel plants, all of which amounts to less than 1.5% of what is economically feasible. According to one estimate, some manufacturing establishments have a captive generation capacity of about 11,645,000 kwh (approximately 1.3 MW) from diesel generators.

The country also exchanges power with India, importing it into towns bordering India and exporting in bulk to India from some large plants. Though the period of frequent power cuts is over, now that the 144 MW Kali Gandaki project has been completed and has started supplying electricity to the central power grid, Nepal still does not have sufficient capacity to meet its future domestic demand, as can be seen from figure II.6.

A number of additional projects have been commissioned since 2001 by offering incentives for private sector investment. The build-operate-transfer (BOT) principle has been followed and tax rates for companies that generate or distribute electricity are lower than those for most others: 20% as against 25%.

DER CONST

NAME	CAPACITY	TO BE COMPLETED IN
Chilime (Public–private joint venture)	20 MW	2002
Indrawati (Private sector)	7.5 MW	2002
Piluwa Khola (Private sector)	3 MW	2002
Upper Modi (Private sector)	14 MW	2005
Middle Marsyangdi (Nepal Electricity Authority)	70 MW	2006

Source: UNCTAD, based on various sources.

ECTRIC POWER

COUNTRY	CONSUMPTION PER CAPITA (IN KWH)		TRANSMISSION AND DISTRIBUTION LOSSES (as percentage of output)		PRODUCTION GROWTH (annual average in percentage)
	1990	1999	1990	1999	1990–99
Bangladesh	43	89	34	16	6.5
India	254	379	18	21	6.2
	33	*47*			*3.7*
Pakistan	267	321	21	30	5.7
Sri Lanka	153	255	17	21	7.1
South Asia [a]	229	337	19	22	5.8

Source: UNCTAD, based on the World Bank, World Development Indicators, 2002, http://publications.worldbank.org/WDI/.
[a] South Asia also covers Afghanistan, Bhutan and Maldives.

Telecommunications

Nepal's telephone density at present is 13.5 fixed lines per 1,000 persons. But the ratio is much higher (nearly 140 per 1,000) in the urban centres as compared with just over 1 line per 1,000 in rural areas. In the Kathmandu valley, the ratio is 210 per 1,000. The approach paper to the Tenth Five Year Plan targets an overall teledensity of 40 lines per 1,000.

Telecommunications are still a government monopoly but are being gradually liberalized. Cellular mobile phone services are available in the major cities from the Nepal Telecommunication Corporation (NTC), but almost all of the 20,000 lines have been taken up. A scheme funded by international donors for extending mobile phone services to eastern rural Nepal is in the planning stage. One private-sector operator is licensed to operate mobile services throughout the country. Its services are expected to be available by 2003.

A project is in the pipeline for an optical-fibre cable connecting 81 centres of the Terai region along the East-West Highway as well as Kathmandu. The Indian Government is helping meet the estimated cost of $17 million for this project. Teledensity is already the highest in these areas.

Nepal's telecommunication charges used to be higher than in other South Asian countries for international calls. The NTC is now rationalizing its price structure, reducing the charges for international calls and raising them for domestic calls. It completed one round of rationalization in June 2002.

Water, sewerage and health services

Drinking-water supply has been a focus of the Government's development strategy, but the Kathmandu valley is still suffering from drinking-water scarcity. Work is progressing on the ambitious Melamchi project, supported by the Asian development Bank among others, to divert a river into the valley and augment the water supply there. However, it is not expected to be completed before 2007.

In health services, the Government has put in place a system allowing the private sector to run general and teaching hospitals and specialized nursing homes. As a result, several Indian medical colleges have set up teaching hospitals in Nepal (see box III.5).

Road transport

Progress has been rapid since 1990 in the expansion of the road network in Nepal, though it is still inadequate (see figure II.8). The targets of the Ninth Plan for the construction of agricultural roads went mostly unrealized because of the failure to allocate adequate funds for this purpose in the annual budgets. The Government has just set up a Road Maintenance Fund.

The road density in Nepal is nearly 11 km per 100 sq. km. The ratio in the Terai is 27:100, while it is 8:100 in the hills and 2:100 in the mountains. Sixty-five of the country's 75 districts have been linked to the road network. The Tenth Plan (2002–2007) envisages connecting all districts with the national network.

Air transport

Nepal has only one international airport, located in Kathmandu. A feasibility study is under way on a second international airport outside Kathmandu, possibly at Bhairahawa, which adjoins Lumbini, the birthplace of the Buddha. The country has a fair number (44) of domestic airfields. This is important because, in a mountainous country, air-transport is the only available means of modern transport to reach remote areas, where many of the tourism destinations are located and which are the source of valuable herbs and minerals.

Four airports (Nepalgunj, Bhairahawa, Pokhara and Biratnagar) are categorized as hub-airports and have concrete runways. Of the six classified as tourist traffic airports, three (all situated in the mountainous region) have recently acquired concrete runways and the rest are in the process of doing so. Five additional airports are under construction, all in the hills and mountains. There are also 120 helipads certified by the Civil Aviation Authority of Nepal (CAAN).

The civil aviation sector in Nepal has been liberalized and nearly 30 companies, including the State-owned Royal Nepal Airlines Corporation (RNAC), are licensed to operate domestic air services. Only about 19 of these are actually providing services. Some of the private airlines are on the verge of closing down, but this is considered normal in the consolidation stage of such an industry.

TABLE II.7. TELECOMMUNICATIONS

COUNTRY	MAIN TELEPHONE LINES PER 100 INHABITANTS		AVERAGE COST OF TELEPHONE CALL TO USA	CELLULAR MOBILE SUBSCRIBERS		INTERNET	
	1995	2001	$ per three minutes 2000	Per 100 inhabitants 2001	As percentage of all telephone subscribers 2001	Users per 10,000 inhab. 2001	Estimated PCs per 100 inhab. 2001
Bangladesh	0.24	0.39	4	0.40	50.3	11.43	0.19
India	1.29	3.38	4 [a]	0.63	15.6	68.16	0.58
	0.41	1.26		0.07	5.5		
Pakistan	1.67	2.35	4	0.55	19.0	34.49	0.41
Sri Lanka	1.14	4.33	3	3.77	46.5	78.52	0.79

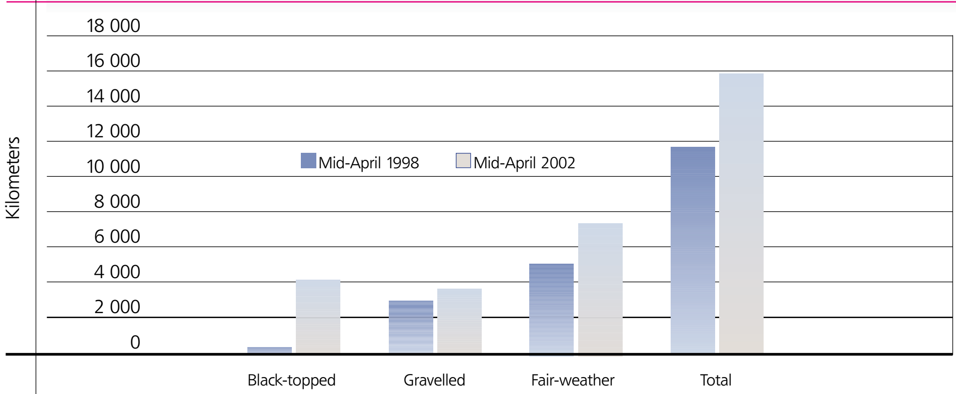
Source: UNCTAD, based on International Telecommunication Union, http://www.itu.int/ITU-D/ict/publications/wtdr_02/index.html.
[a] Figure for 1999.
[b] By mid-2002, this rate had been reduced to a little under $3.

ALTH

COUNTRY	LIFE EXPECTANCY AT BIRTH	INFANT MORTALITY RATE	PHYSICIANS [a]	PUBLIC EXPENDITURE ON HEALTH [b]
	Years 2000	Per 1,000 live births 2000	Per 100,000 people 1990-1999	% of GDP 1990-98
Bangladesh	61	60	20	1.6
India	63	69	48	0.6
	59		4	
Pakistan	63	83	57	0.9
Sri Lanka	73	15	37	1.4
South Asia [c]	62	73	-	0.8

Source: UNCTAD, based on UNDP, Human Development Report, 2002, http://www.undp.org/hdr2002; and World Bank,
World Development Indicators 2002, http://publications.worldbank.org/WDI/.
[a] Data are for the most recent year available during the period specified.
[b] Data are for the most recent year available during the period specified.
[c] South Asia also covers Afghanistan, Bhutan and Maldives.

(in kms)



Source: UNCTAD, based on information supplied by the Ministry of Finance and the Department of Roads, Government of Nepal.

The RNAC, the privately owned Necon Air and nearly a dozen foreign airlines operate regular flights into Nepal, connecting to a number of Indian cities and to Hong Kong (China), Dubai, Osaka, Shanghai, Lhasa, Dhaka, Karachi and London. Major airlines flying into Nepal include Thai Airways, Qatar Airways, Austrian Air, Indian Airlines, Gulf Air, Pakistan International Airlines and China South West Airlines.

Nepal currently has bilateral air service agreements with 31 countries.

Railways and waterways

The railway is virtually non-existent in Nepal, except for a 52-km stretch that links the Indian city of Jayanagar with the Nepali pilgrimage city of Janakpur. The plan is to extend it further to the East-West Highway and then to have a railway along this nearly 1,000-km highway. The railway connection between Raxaul in India and the dry port of Birganj in Nepal is still not operating for lack of a suitable agreement with India, although negotiations are in progress.

Since Nepal is a mountainous country, its rivers are mostly unsuitable for passenger and cargo transport, although certain stretches of the major rivers are feasible for operating jet barges for cargo as well as passenger transport. The development of these river stretches for transport is a possible alternative to the costly road transport to Kolkata port (1,150 km from Kathmandu), which is virtually the only seaport used by Nepal so far. But the waterways agreement needed for this purpose with India is yet to be finalized.

The incoming and outgoing cargo of Nepal is handled by agents stationed in Kolkata, with whom Nepali businesses have long-standing relations. Besides Kolkata, the Indian port of Haldia near Kolkata and Kandla near Mumbai can also be used under the transit treaty between India and Nepal. While Haldia is being used for certain types of cargo such as chemicals and petroleum, Kandla is not, because of its distance from the Nepal border.

Also accessible since 1997 is the Mongla port in Bangladesh, which is gradually being brought into use by Nepali business. However, infrastructure along the route needs upgrading. Nepal and Bangladesh are working together to upgrade it.

Three “dry ports” (as inland container depots are also called) in Nepal facilitate international trade. Two of them (one in Biratnagar and the other in Bhairahawa) are already in use, while the one in Birganj (which is the biggest) is awaiting a railway treaty with India for its operationalization. For exporters and importers, the dry ports serve as virtual seaports. The wait for the bill of lading, which can be as long as two weeks from the dispatch of goods from a factory in Nepal, is shortened as it can be received on delivering the cargo to the shipping company’s office in the dry port. It also facilitates speedy negotiation of export documents with a bank. When importing goods, the importer does not need to go to Kolkata to receive the consignment, since it is delivered at the dry port by the shipping company.

R TRANSPORT AND RO

COUNTRY	AIR TRANSPORT, FREIGHT		AIR TRANSPORT, PASSENGERS CARRIED		ROADS, TOTAL NETWORK		ROADS, PAVED	
	Million tons per km		Thousands		% of total roads		Thousands of km	
	1990	2000	1990	2000	1990	1999	1990	1999
Bangladesh	70	194	1 044	1 331	7 [a]	10	188	207
India	663	545	10 862	17 339	47 [a]	46	2 000	3 320
	11	17			38	31		
Pakistan	421	339	5 180	6 252	54	43	169	254
Sri Lanka	93	256	892	1 756	32 a	95	93	97
South Asia [b]	..	..	18 916	27 793	38	37	2 480	3 916

Source: UNCTAD, based on World Bank, World Development Indicators, 2002, http://publications.worldbank.org/WDI/.
[a] Figures for 1991.
[b] South Asia also covers Afghanistan, Bhutan and Maldives.

The financial sector and business support services

Significant improvements have been recorded in the financial-services sector since 1992. There are now 16 commercial banks (table II.10) most of which are set up in joint ventures with foreign banks such as Standard Chartered of the United Kingdom, the State Bank of India and the Habib Bank of Pakistan.

Also in operation are 54 finance companies and 16 development banks (table II.11). One export-import bank has also been recently licensed. Nepal's central bank (Nepal Rastra Bank) has been following a liberal monetary policy. The banks are allowed to negotiate interest rates with depositors and borrowers within certain parameters. Since the beginning of 2002, the central bank has directed banks to follow prudential banking norms that are comparable to the internationally accepted Basle norms. One recent directive from the central bank requires commercial banks to raise their paid-up capital to NRs 1 billion (about $13 million) by 2009. The present rule requires NRs 500 million as paid-up capital. The new requirement is intended to address the problem of the low capital base of Nepal's financial institutions.

The lending rate of the commercial banks in mid-2002 was 13–14% for term loans. Borrowers can negotiate lower rates. The rate for overdrafts for multinationals is nearly 11%. One complaint of the local business community is the wide spread between the lending and borrowing rates of the banks, while the banks for their part complain of a scarcity of credit-worthy borrowers. Credit is not a problem for foreign investors in Nepal, especially the large ones.

An issue vexing the banking sector is the high ratio of non-performing loans. The problem is particularly acute for the fully State-owned Rastriya Banijya Bank and the partially privatized Nepal Bank Ltd. An international consulting firm has been hired to turn around the Nepal Bank Ltd. A similar effort is planned for the Rastriya Banijya Bank.

RVICES IN

(As of December 2002)

TYPE OF INSTITUTION	NUMBER	BRANCHES
Commercial banks, of which	16	396
— 100% State-owned	1	157
— joint ventures with foreign companies	6	61
— 100% Nepali-owned	9	178

Source: Nepal Rastra Bank.

Capital market and insurance sector

Nepal's only stock exchange, the Nepal Stock Exchange Ltd. (NEPSE) is State-owned and had 119 companies listed with it as of January 2002. Market capitalization in April 2002 was NRs 32.66 billion (about $420 million). Privatization of the NEPSE is under active consideration by the authorities, assisted by the Asian Development Bank.

Of the 17 insurance companies, five are in life insurance. Two of these five are also in non-life insurance. eleven companies are only in non-life insurance. India's Life Insurance Corporation (LIC) has set up a joint venture (LIC Nepal Ltd.) in Nepal and American Life Insurance Corporation (ALICO), a wing of America's AIG Group, has recently been licensed to operate through a branch office. Among the 11 companies in non-life insurance, two are Indian companies that are operating branch offices in Nepal.

However, Nepal lacks players in the field of insurance brokerage and reinsurance. Though there are a relatively large number of engineers who work as surveyors, they lack expertise in specialized fields, for example aviation, which would be required by the reinsurance business. Now that the Government is planning to remove consultancy services from the list of restricted areas, there may be opportunities for foreign investors here.

Accounting and other business services

In accounting, consulting and courier services, Nepal has a good array of operators who represent internationally renowned brands such as Deloitte Touche Tohmatsu, KPMG and PricewaterhouseCoopers in accounting and TNT, DHL and UPS in courier services. Though FDI is so far not allowed in consultancy services, technical cooperation, including franchise operation, is.

There are some 180 chartered accountants in Nepal, according to the Institute of Chartered Accountants of Nepal (ICAN). Accounting standards are being formulated by ICAN, a body set up by parliament with a special charter in 1997 as the regulator of this profession. These standards are expected to be compatible with international standards.

Nepali company law basically follows the British pattern. In arbitration, UNICITRAL principles provide the basis of the law.

G FINANCI

SERVICES IN NEPAL

(As of June 2002)

TYPE OF INSTITUTION	NUMBER
Development banks, of which	17[a]
— foreign joint ventures	1
— 100% Nepali-owned	6
— national level	6
— regional level	10
Finance companies	54
Insurance companies, of which	17
— state-owned	1
— foreign joint ventures	2
— 100% Nepali-owned	11
— branch of foreign companies	3

Source: Nepal Rastra Bank and the Insurance Board.
[a] Including one export-import bank recently licensed. It is not likely to start operations until 2003.

Human resources

According to official estimates, the labour force was projected to reach 10.75 million by mid-July 2002 (Approach Paper for the Tenth Plan, National Planning Commission, 2002).

Nepal is a labour-surplus country and exports unskilled, semi-skilled and highly skilled (e.g. engineers) labour to various labour-importing countries. This is so despite the low literacy level – 42% among those over 15 years (table II.12). The Institute of Engineering under the State-funded Tribhuvan University is recognized as a centre of excellence by the Asian Institute of Technology (AIT) in Bangkok. In addition to university courses, various skill-development courses are run by a number of private and public institutions under the Council for Technical Education and Vocational Training (CTEVT) in different fields. Availability of trained manpower is thus not as great a problem as is sometimes thought. Nepali labour is also easily trainable.

There is, however, a serious problem of brain drain, as highly qualified people do not find enough opportunities in a small and sluggish economy. The role of remittance receipts is significant in the Nepali economy – NRs 74 billion (about $1 billion) or about 18% of the projected GDP of the country for the fiscal year 2001–2002, according to the Nepal Rastra Bank (the central bank). Independent observers think the bank's figures may understate reality, as the number of Nepali citizens going abroad for work is increasing every year. The latest population census of 2001 has reported 762,000 Nepalis working abroad, 77% of them living in India, 9% in Saudi Arabia, 3% in Qatar and the remaining 11% in other countries including the United Arab Emirates and the United States.

English is the medium of higher education and the products of the Nepali post-secondary system speak English as a second language. Pre-operating expenses incurred by employers in connection with skill development and training can be capitalized and written off against taxable income.

DUCATION

COUNTRY	GROSS ENROLMENT RATIO [a] PRIMARY		GROSS ENROLMENT RATIO [a] SECONDARY		ADULT LITERACY RATE
	Total % of relevant age group 1998	Female % of relevant age group 1998	Total % of relevant age group 1998	Female % of relevant age group 1998	% of people 15 and above 2000
Bangladesh	100	100	47.4	49.6	41.3
India	100	93.1	49.2	39.2	57.2
	100	*99.6*	*47.8*	*38.3*	
Pakistan	86.2	62.2	37.2	29.4	43.2
Sri Lanka	100	100	70.7	73.7	91.6

Source: UNCTAD, based on information supplied by the Human Development Report Office, UNDP.
[a] The gross enrolment ratio is the number of students enrolled in a level of education, regardless of age, as a percentage of the population of official school age for that level.

Work permits and visas

Expatriates are allowed to work in Nepal if they obtain a work permit. Such permits are granted for specialized technical expertise unavailable in Nepal and for key personnel of foreign investors. The Department of Labour issued 632 work permits to foreigners in 1998–1999, 663 in 1999–2000 and 806 in 2000–2001.

Foreigners other than Indians need a visa to enter Nepal. For India, a valid identification document issued by a government authority is sufficient. Visas are available from Nepali diplomatic missions in various countries and also upon arrival at the entry point. An ordinary visa can be converted into a business visa upon approval by the Department of Immigration on the basis of a recommendation from the Department concerned, which in turn makes the recommendation on the basis of the application of the firm or institution that needs the services of the foreigner. For example, if the foreigner is to work in an industrial unit, the unit has to approach the Department of Industries, which makes a recommendation to the Department of Labour; the latter makes a recommendation to the Department of Immigration, which finally grants the visa. Though this seems complicated, it can be completed in one to three if the person for whom the visa is to be issued is coming under an explicit provision of an approved joint-venture agreement or similar document. If not, it may take a week or two.

Working hours, leave and holidays

The details of holidays and working hours are given in appendix 4. The Labour Act has fixed working hours at 8 hours per day and 48 hours per week. The overtime allowance is to be one and a half times the normal rates. The number of hours permissible as overtime is 4 hours per day and 20 hours per week.

Permanent workers are entitled to one day's leave for every 20 days of work. They are also entitled to 15 days of medical leave per year with half pay and one month's special leave per year without pay. Female employees are entitled to 52 days of maternity leave twice during the entire period of their employment with a single firm.

Nepal has an extended family system similar to traditional Indian or Chinese systems. This means that employees have to fulfil a number of social obligations which may result in unexpected absence from work, for example to attend the funeral of a relative or friend. No special paid leave is granted to attend the funerals of friends and distant relatives, but the worker has to be allowed to attend such functions. The time can be adjusted against the total number of paid holidays that the worker is entitled to in a year.

Industrial relations

Though industrial relations cannot be said to have been always cordial in Nepal, given the number of labour disputes during 1990–2002, the number has fallen recently, with 2001–2002 being an exception. The increased number of disputes in the early 1990s are attributed to the new-found freedom to organize and protest after the political change of 1990. This initial outburst has now stabilized, as shown in table II.14, for 2001. Nepali labour is generally less hostile than its counterpart in neighbouring countries, according to the private sector. This view is supported by several studies, including one commissioned by the World Bank (*The Business Environment and Manufacturing Performance in Nepal*, December 2000, World Bank, Regional Programme and Enterprise Development, and the Federation of Nepalese Chambers of Commerce and Industry). According to its survey of 223 firms, labour ranked quite low in the list of business concerns.

Nonetheless, the present labour laws are regarded by investors as biased towards labour and a political consensus is developing to reform them. It may be another year or two before the laws are actually amended. In the meanwhile, export-processing zones (EPZs) are being developed near newly constructed dry ports, where some of the provisions of the labour laws are expected to be relaxed. The preliminary work of land acquisition has started for an EPZ by the side of the dry port (inland container depot) in Birganj.

Industrial disputes are resolved through a three-tier system which initially involves enterprise-level negotiation between the employer and the enterprise-level trade union. If unresolved, the problem goes to tripartite negotiation by involving the Government, as represented by the local administration or the local office of the Department of Labour. If still unresolved, the case may be referred to the Labour Court.

The tripartite mechanism is set up at the national level as well to address policy issues.

ABOUR DIS

(For the year ending in mid-July) YEAR	NO. OF CASES FILED	WORK DAYS LOST DUE TO LOCKOUTS STRIKES AND LAY-OFFS
1995–1996	625	26 696
1996–1997	475	68 746
1997–1998	854	24 573
1998–1999	1 813	98 691
1999–2000	2 028	174 526
2000–2001	725	7 206
2001–2002 (First 8 months)	765	28 289

Source: Department of Labour, Government of Nepal.
Note: The majority of cases in 2002 were related to dismissal. This upsurge reflects the effect of the on going slowdown in business activities in 2002 rather than the belligerency of either labour or management.

Industrial factor costs

Labour, rental and electricity costs in Nepal are as indicated in tables II.15, II.16 and II.17 respectively. The last revisions in electricity charges were made in late 2001. Rental costs can vary from one locality to another within the same town.

TABLE II.14. INDICATIVE SALARIES (PER MONTH)

POSITION	SALARY RANGE
Chief Executive	$641–3,000
Senior Manager	$380–1,300
Middle Manager	$200–650
Engineer	$130–650
Technical Operator	$65–260
Junior Operator	$45–130
Office Assistant	$38–100

Source: UNCTAD, based on information provided by New Business Age, Nepal.

Labour costs

Labour costs are very low in Nepal, as may be seen in table II.15. This is a significant advantage for investors even when the low productivity is taken into account, for Nepali workers are trainable. Wages, once negotiated, generally need not be changed for two years. The minimum wage is about $27 per month (including the cost-of-living allowance) for unskilled labour. Since this is quite low, given the cost of living in urban areas, companies usually pay more than this amount.

One aspect of the labour law that imposes additional costs on investors is the requirement that 5% of *gross* profits be set aside as a housing fund for employees and 10% of *net* profits be distributed in the form of bonuses.

TABLE II.15. LABOUR COST COMPARISONS IN THE TEXTILE INDUSTRY, 2000

	OPERATOR HOURS	AVERAGE COST PER OPERATOR HOUR	OVERTIME OVER NORMAL PAY		SHIFT PREMIUM	
			Weekdays (more than 3 hours)	National and religious holidays	Second shift	Night shift
	per year	$	%	%	%	%
China	2 205	0.69	50	200	20	20
India	2 305	0.58	50	33	17	20
Indonesia	2 080	0.32	100	100	0	10
	2 400		*50*	*50*		
Pakistan	2 416	0.37	35	70	20	20
Sri Lanka	2 322	0.46	25	50	0	25

Source: UNCTAD, based on Werner International Management Consultants, "Spinning and Weaving Labour Cost Comparisons, 2000", and information provided by the General Federation of Nepalese Trade Unions (GeFONT).

ENTS: OFFICE AND RE

Kathmandu	
(Residential)	NRs 15,000–40,000 per month
(Office)	NRs 6–5 per sq ft per month
Butwal (Office)	NRs 5–8 per sq ft per month
Hetauda (Office)	NRs 3–5 per sq ft per month
Pokhara (Office)	NRs 4–5 per sq ft per month
Biratnagar (Office)	NRs 4–6 per sq ft per month
Birgunj (Office)	NRs 6–10 per sq ft per month

Source: FNCCI (2001).
Note: Depending upon the specific location within these towns, the rent may exceed these figures.

LECTRICITY

(For manufacturing establishments)

VOLTAGE LEVEL	DEMAND CHARGE (US $/KVA)	ENERGY RATE ($/UNIT OF ELECTRICITY)		
		Peak time	Off peak time	Average
High voltage (66 KV & above)	2.24/KVA	0.07	0.04	0.06
Medium & low voltage (11KV & 33KV)	2.43/KVA	0.08	0.05	0.07

Source: FNCCI (2001).
Note: The cost figures are based on an exchange rate of $1= NRs 78. Though the rates quoted in Nepali Rupees for medium and low voltages are different, the difference becomes insignificant when converted into dollars. Peak period is from 06.00 a.m. to 10.00 p.m.

Taxation

The Nepali tax system largely follows the British model, with adaptations. A new income tax law was introduced in 2002 which incorporates international practice in calculating taxable income (see box II.1 for some of its special features).

Direct taxes

These include corporate and personal income taxes, property tax and capital gains tax.

Corporate tax

At present, limited liability companies have to pay 25% of their profit before tax as corporate income tax. Banking companies have to pay 30% while hydropower-generation companies have to pay only 20%. Companies pay taxes in three instalments, based on the amount they paid the previous year. The final amount is paid after the authorities have made an assessment on the basis of the financial reports. Companies are also allowed self-assessment, which has to be certified by a recognized tax auditor (see chapter V). Taxes paid in excess of what is assessed are to be returned within six months of the assessment. The Government is to pay interest at the rate of 15% per annum for failure to return the excess collection. The taxpayer can also adjust the previous year's excess payment to the advance tax payment to be made for the current year.

Income tax rates applicable at present are as given in box II.2.

Box II.1 Special features of the Income Tax Act, 2002

- A capital gains tax is introduced, charged on net gains at the time of disposal of the asset.
- All incomes are taxed, from domestic or foreign sources and whether as remuneration, profit or gains.
- For the depreciation allowance, assets are categorized into different classes or pools.
  The categories and rates of depreciation are as follows:
  A. Buildings and structures: 5%
  B. Computers, data handling equipment, fixtures, office furniture and office equipment: 25%.
  C. Automobiles, buses and minibuses: 20%
  D. Construction and earth-moving equipment and any other depreciable
  Asset not included in other categories (plant and equipment fall under this category): 15%
- Unrelieved losses are allowed to be carried forward for up to four years.
- Banks are allowed to carry back losses for five years.

Source: UNCTAD, based on the Income Tax Act, 2002.

Box II.2. Income tax rates

1. **For individual, couple or family:**

   Basic exemption:
   - Individual NRs 65,000.00
   - Couple and family NRs 85,000.00

   Tax rate on taxable income:
   - First NRs 75,000 p.a. 15%
   - All further amounts at 25% plus 3% special fee
     (a temporary measure to raise funds for fighting the Maoist insurgents)

2. **For private and public limited companies, income tax is levied at the following flat rates:**
   - For banks and financial institutions 30%
   - For manufacturing companies and companies that develop and operate hydropower projects, roads, bridges, tunnel roads etc. 20%
   - For all other companies 25%

Source: UNCTAD, based on the Income Tax Act, 2002, and Ministry of Finance, Finance Ordinance, 2002.

TABLE II.18. DIRECT TAX RATES IN SOUTH ASIA

	Maximum corporate tax rate		Capital gains tax rate	
Country	**Resident Corporation**	**Non-resident corporation/branch**	**Resident corporation**	**Non-resident corporation**
Bangladesh	35% on publicly traded companies. 40% on others [1].	40%	25% if asset held for more than 5 years before sale. Otherwise, 35% or 40% as the case may be. Gains from sale of shares of listed companies are exempt from tax.	See resident corporation.
India	35% – surcharge of 10% - effectively 38.5% [2].	48%. No surcharge [3,4].	Long-term = 20% plus surcharge of 10%, which effectively is 22% 5. Short-term = 35% plus surcharge of 10%, which effectively is 38.5%.	Long-term = 20% [5] (10% in certain cases), No surcharge. Short-term = 48%, No surcharge.
Nepal	Manufacturing (except for business related to tobacco or alcoholic beverages) 20% Banks and other financial institutions 30% Others (Commercial trading/ service entities) 25% [6]	25% [7]	Capital gains from the disposal of assets and liabilities are taxed at 10%. [6]	See resident corporation.
Pakistan	33% for public company other than banking company; 43% for private company; and 58% for banking company.	58% for banking company; and 43% for others.	Applicable corporate tax rate for capital assets disposed off within 12 months of acquisition, otherwise 25% [8]	See resident corporation.
Sri Lanka	35% [9] Listed corporation with a minimum of 300 shareholders entitled to 5% tax credit.	35% [9] (Remittance of profits by a branch to its overseas head office attracts remittance tax of 33 1/3% subject to a ceiling of 11.11% of taxable income in the fiscal year in which the remittance is effected).	Maximum tax rate of 25% except for capital gain on a change of ownership of property held for less than two years where the maximum tax rate is 35%.[10]	See resident corporation.

[1] 50% rebate on export sale. 10% rebate on tax payable if listed companies declare dividend at least at the rate of 25%.
[2] Minimum Alternate Tax (MAT) is levied at the rate of 7.5% (plus a surcharge of 10%) of the adjusted book profits of those companies where the tax (excluding the surcharge) computed as per the general provisions of the Act is less than 7.5% of their adjusted book profits. This results in an effective rate of 8.25% (i.e. 7.5% plus a surcharge of 10%) of the domestic companies' adjusted book profits.
[3] Foreign companies covered by MAT would be taxed at an effective rate of 7.5% of the companies' adjusted book profits.
[4] Non-resident/foreign companies engaged in shipping, air transport, and oil and gas and turnkey power projects are taxed on a deemed profit basis of 7.5%, 5% and 10% respectively, thus the effective tax rate would be 3.6%, 2.4% and 4.8% of the revenue respectively (7.5% of the adjusted book profits for companies under MAT).
[5].Assets which are held for more than three years, are classified as long-term assets. In the case of companies, units of specified mutual funds and other securities (which are listed on the stock exchange) the period of holding required for them to qualify as long-term assets is only one year. The tax rate on long-term capital gains arising on listed securities is restricted to 10% for non-resident corporations and 11% (i.e. 10% plus a surcharge of 10%) for resident corporations.
[6] A 3% temporary fee is levied as a special tax on taxable income from business and disposal of assets and liabilities of resident as well as non-resident taxpayers.
[7] Non-residents are taxed at 25% except that the income from transporting passengers, mail or cargo by sea or air that embarked in Nepal is taxed at 5%.
[8] Capital assets do not include assets for which tax depreciation is allowed or which are immovable in nature.
[9] Profits from export and indirect export (other than those deriving from traditional products and the farming sector), promotion of tourism, agriculture and construction (carried on by a resident person) enjoy a concessionary tax rate of 15%.
[10] Capital gains on property held for over 25 years, or on the sale of listed company shares, or shares in Board of Investment special-status companies, or sale of debt instruments listed on the Stock Exchange, are exempt from tax.

Source: KPMG 2002, for countries other than Nepal, and UNCTAD for Nepal.

Capital gains tax

The new Income Tax Act, enforced since April 2002, taxes capital gains derived from the sale of fixed assets and title documents at 10% of the net gains. The gains are defined as the difference between the value of the purchase and that of the sale.

Income tax applicable to foreign employees

Foreigners who live in Nepal for 183 days or more in any period of 365 consecutive days of any income year are considered residents and their income from Nepal is taxed in Nepal. Perquisites are added to the salaries, allowances and bonuses paid to the employee by the employer to arrive at the taxable income. The tax-exempt income of individuals residing in designated remote areas is higher than that of those living in accessible areas. The contributions of the employer and employee to the retirement fund of the employee are tax-exempt, but the income derived from the retirement fund is taxed as investment income. Employers are required to withhold the projected income tax of the employee while paying salaries and the like.

Indirect taxes

Nepal has recently introduced the value added tax (VAT), replacing various other forms of commodity and service taxes, but not the excise. The VAT rate is 10% on all goods and services other than those specifically exempted (see box II.3). Exports are zero-rated, thus allowing tax credit on the inputs.

Excise duty is applicable (in addition to VAT) on cigarettes, liquor, cement, etc. The Finance Ordinance, 2002 has brought soft drinks also under the excise net.

Customs duties in Nepal are the lowest among South Asian countries. The maximum rate is 40% except for a couple of luxury items, on which it is as high as 130%. Industrial machinery may be imported at a concessional rate as low as 2.5%.

A local development tax of 1.5% is levied on all imports and collected at the customs point. An agricultural development tax is also levied on the import of certain specified agricultural goods.

E RATES

(As per the Finance Ordinance, 2002)

ITEM	EXCISE RATES
Molasses	NRs 25 per quintal
Fruit juices and nectar	NRs 2 per litre
Fruit wines with up to 17% alcohol	NRs 75 per litre
Champagne, sherry	NRs 130 per litre
Fruit wines and liquor with alcohol content of more than 17%	NRs 130 per litre
Cider/cocktail drinks	NRs 70 per litre
Beer	NRs 38 per litre
Country beer	NRs 15 per litre
Denatured spirit	NRs 6 per litre
Thinner	NRs 25 per litre
Alcoholic beverages	
Less than 40 degree UP	NRs 275 per LP litre
Between 40 degree UP and 65 degree UP	NRs 160 per LP litre
Above 65 degree UP	NRs 50 per LP litre
All non-alcoholic soft drinks	NRs 2 per litre
Cigarettes	Between NRs 125 per 1,000 and NRs 710 per 1,000 depending on the length
Cement	NRs 105 per metric ton
Polyethene bags	NRs 15 per kg
Bricks	NRs 525 per thousand pieces
Pick-up vehicles (single cab, delivery van, petrol or diesel operated)	15% ad valorem

Export duty

Export duty is applied in Nepal in two ways: one is by way of export duty proper and the other is by way of what is legally referred to as "export service fee". It is applicable normally at the rate of 0.5% of the export value calculated at FOB Nepal customs basis. But the rate is 10% on vegetable oils, between NRs 50 and NRs 300 per cubic metre for crushed stones and boulders, NRs 200 per cubic metre for magnesite, 200% for wooden material, 2% for texturized yarn, 2% on corrugated and galvanized iron sheets and steel pipes, and 6% on copper wire. The export duty on ready-made garments (applicable at 0.5%) is waived if the garment is made of fabric produced in Nepal.

Box II.3. VAT: Exemptions and zero-ratings

Some exempt items

- Basic agricultural products such as paddy, rice, wheat, green and fresh vegetables, fresh fruits, fresh eggs, unprocessed cereals, oil seeds, unprocessed tea and tobacco leaf, but excluding food sold by hotels, restaurants, cafes and similar establishments
- Agricultural inputs such as seeds, manure, fertilizers, soil conditioners, agricultural hand implements and pesticides
- Live animals, animal products, animal feed and feed supplements
- Health services from Government-owned health-service providers, contraceptives and raw materials for pharmaceutical factories
- Basic-needs goods such as unprocessed mustard oil, piped water, fuel wood, charcoal, kerosene and salt
- Educational services from non-profit organizations
- Books, newspapers and other publications
- Artistic and cultural goods and services
- Passenger transport services except cable cars
- Specified personal or professional services such as those of sportspersons, writers, translators and interpreters
- Industrial machinery
- Other goods or services such as postal services, financial and insurance services, the printing of bank notes and cheque books, the buying and selling of real estate, betting, casinos and lotteries

Zero-rated items

- Good exported or services provided abroad
- Goods or stores (including fuel) taken on board an aircraft, provided that the goods are taken on board on a flight to a destination outside Nepal, either for use on board or for delivery to another country, and the fuel is used during the flight
- Goods and services imported by accredited diplomats
- Goods and services purchased or imported by members of the royal family
- Pharmaceutical manufacturers may opt for zero-rating.

(Zero-rated items are in effect VAT-exempt, but in the case of zero-rated goods, the producer can claim a tax credit.)

Source: UNCTAD, based on the Finance Ordinance, 2002.

The private sector in Nepal

The modern corporate sector in Nepal is still at a nascent stage, although considerable developments have taken place over the last decade. Though most businesses are still family-owned, there are a number of companies with a broad shareholder base, run by professional management, and the number of such companies is on the increase. Banks, other financial services, airlines, spinning mills, textile factories and hotels are some of the areas in which companies tend to be publicly held and listed on the stock exchange.

Major export-oriented industries such as woollen carpets, ready-made garments, pashmina goods and leather processing are privately operated, with most firms being family-owned. Similarly, the entire tourism industry is in private hands. Except for the State-owned airline RNAC, the civil aviation business is also in private hands.

The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) is the apex private-sector organization in Nepal. The Nepal Chamber of Commerce (NCC), one of the founders of FNCCI, is another organization with a nationwide network and international affiliations (for example, with the Paris-based International Chamber of Commerce). The small and cottage industry sector has its own national association – the Federation of Nepalese Cottage and Small Industries (FNCSI), which is affiliated with the FNCCI. Recently, another national chamber, the Confederation of Nepalese Industries (CNI), with a special focus on the industrial (as against the trading) sector, has also been set up. FNCCI, NCC and FNCSI have been receiving donor assistance to improve their capacity to articulate private sector opinion on policy issues. There are also a number of bilateral chambers (see appendix 3 for further details).

Box II. 4. Combating corruption

The Commission for Investigation of Abuse of Authority (CIAA) has existed for many years, being known as the Commission for the Prevention of Abuse of Authority before 1990. In that year, the new Constitution of the Kingdom of Nepal renamed this anti-corruption watchdog. It was, however, the CIAA Act enacted by parliament in 2002 that really gave a strong impetus to its activities.

The Act expanded the powers of the Commission so that it can now investigate wrongdoing by anyone who holds "public office", the definition of the latter term being broadened to include not just all public servants but also employees of enterprises in which the Government has no more than a minority shareholding. (The CIAA is not, however, empowered to investigate cases related to the armed forces and the judiciary, which have their own mechanisms to control corruption.)

With the permission of the appropriate court, for example the special court that is hearing the cases mentioned below, the Commission can take a suspect into custody for up to six months, while it investigates charges against him or her, and then file a case as required. In effect, the Commission is an investigating and prosecuting agency.

The CIAA has about 140 staff, of which nearly 45 are professionals trained in fields most relevant to investigations into corruption, such as law and accountancy. The Commission consists of a Chief Commissioner and four other commissioners. The incumbent Chief Commissioner is a former Secretary of the Government, while one of the others is a former Registrar of the Supreme Court. Significantly, once appointed, the commissioners cannot be removed from office before the end of their tenure, except through an impeachment motion passed by parliament with a two-thirds majority.

As of December 2002, the CIAA had investigated about 50 cases. In four of them, it has filed charges against four former ministers under the previous Government on corruption-related issues. There are also some other high-ranking Government officials currently in CIAA custody. The Commission aroused much public interest and admiration when, soon after the new Act received royal assent in August 2002, it arrested 22 officers and clerks of the revenue department and seized large quantities of unaccounted cash and jewellery from the homes of those arrested. The next step was the arrest of the former ministers.

The ongoing court hearings of the cases against the former ministers and civil servants are being keenly watched by the public and their outcome is likely to have a considerable impact on the credibility of the Commission as well as of other institutions.

Two other bodies with related mandates are the Judicial Commission to Investigate Property (JCIP) and the National Vigilance Centre.

The JCIP was set up by the last (Deuba) Government in 2002 and empowered to probe into the property details of all persons who have held public office since 1990. It is headed by a sitting judge of the Supreme Court. As of December 2002, it had not yet submitted its report to the Government. The tenure of the JCIP will end once the report is submitted.

The National Vigilance Centre was set up in late 2002 by the current (Chand) Government under the Prime Minister's Office. The task of the Centre is to keep track of likely corruption in the bureaucracy, to identify actual cases and to try to stop them. The Centre is not, however, itself empowered to initiate action against the putative wrongdoer. It is expected instead to notify the CIAA of its findings.

Source: UNCTAD.

Investment climate: Key factors for foreign investors

Strengths

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

Opportunities

- Tourism, including sports and adventure tourism, health tourism and cultural tourism
- A variety of niche agricultural and agro-business activities
- Hydropower generation and infrastructure development generally
- IT-based services

Weaknesses

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

Threats

- Ongoing Maoist insurgency

Source: UNCTAD.

Blessed with unique climatic conditions and sandwiched between two large markets, China and India, Nepal has tremendous scope for foreign direct investment. It has a very special bilateral trade treaty with India, under which India allows Nepali imports without customs duty. The bureaucracy is friendly and small, the north-eastern markets of South Asia are easily accessible, and there are other markets such as Europe where Nepal's LDC status opens many doors. Dabur certainly regards Nepal as a rare opportunity for investment.

T. K. Gupta
Director (CEO)
Dabur Nepal Pvt Limited

Areas of opportunity

III

Areas of opportunity

This chapter briefly describes those areas in which there are real prospects of development, thus far unrealized owing to a lack of capital, technology, management know-how and familiarity with (and access to) new markets.

Nepal is endowed with an exceptional variety of agricultural terrains by its range of altitudes, rainfall patterns and other natural diversity. The high Himalayan mountains, the hills and ridges through which flow some 6,000 rivers and rivulets, the varied wild life, and the numerous religious sites of the Hindus and the Buddhists are among the natural and cultural resources that can attract both tourists and investors.

Agriculture and agro-processing, tourism and hydropower generation are the major priority areas for development in Nepal. Additional opportunities may also be found in IT-related services, health services, pharmaceuticals and light manufacturing. Abundant reserves of limestone and a number of other minerals in various parts of the country offer prospects for the cement and other mineral-based industries as well.

Priority areas

Agriculture and related industries

Nepal produces paddy, wheat, maize, millet and barley as the main food crops and mustard and rapeseed as the major oilseeds. Niger seed, which is great demand in the international market for birdfeed, is emerging as an export-oriented crop. Potato, sugar cane, lentils, tobacco and jute are the major cash crops. In recent years, the market-oriented production of vegetables and fruits has grown, thus changing the subsistence pattern of agriculture, although gradually. Also increasing in importance are tea, coffee, meat, milk, eggs, fish, vegetable seeds, silk and soya production.

Sheep farming, which is one of the major sources of income for people in the mountainous region, is increasing in importance in view of the need to import large volumes of raw wool for the carpet industry. However, recent findings have shown a declining trend in the sheep population, reflecting a shift away from the consumption of mutton in favour of other meat such as chicken and buffalo (Nepal Agricultural Sector Performance Review, Final Report, March 2002, Ministry of Agriculture and Cooperatives, Nepal and Asian Development Bank).

Other major current agricultural products of Nepal are sunflower, sesame and groundnut in oilseeds; asparagus, French beans, green peas, snow peas, chick peas, pigeon peas, black gram and grass peas, okra, lettuce, onion, garlic, ginger, cauliflower, broccoli, cabbage, sweet peppers, mushrooms and tomatoes in vegetables; and roses, carnations, orchids, chrysanthemums and ornamental plants in floriculture. Apple, pear, walnut, peach, plum, apricot, persimmon, pomegranate and almond are the major winter fruits, while mango, banana, guava, papaya, jackfruit, pineapple, lychee and coconut are the major summer fruits, in addition to citrus, which includes orange, sweet orange, lime and lemon.

GRICULTURE

COUNTRY	VALUE ADDED PER WORKER		VALUE ADDED AS % OF GDP	
	Constant 1995 $		Percentages	
	1990	1999	1990	2000
Bangladesh	265	301	29	25
India	351	397	31	25
	195	188		
Pakistan	529	629	26	26
Sri Lanka	720	765	26	20
South Asia [a]	354	402	31	25

Source: UNCTAD, based on the World Bank, World Development Indicators 2002, http://publications.worldbank.org/WDI/.
[a] South Asia also covers Afghanistan, Bhutan and Maldives.

Research and technology

There is considerable potential in agricultural research and technology, including the extension of technology. Also lacking is an efficient agricultural marketing system. Private and particularly foreign investment is being strongly encouraged in these areas.

Any activity in this area needs to take into consideration the following facts. Agriculture in Nepal is a private household affair. According to the population census of 2001, 75.6% of the 4.17 million households in Nepal own agricultural land. In agriculture, the Government's involvement is limited to research and extension activities, which have been suffering from inefficiency and a lack of coordination. Of the 2.6 million hectares of agricultural land, 1.8 million hectares are said to be irrigable. For the rest, new technology needs to be developed, as this land is on hill tops and cannot be accessed from the rivers flowing in the valleys. The average farm size is 0.96 hectare, fragmented into four parcels, often scattered. The average landholding is less than 1 hectare for 70% of farmers and less than 0.5 hectare for 44% of farmers. Though the infrastructure created for irrigation is said to be able to cover some 1.1 million hectares, year-round irrigation is available for only some 452,000 hectares, much of it poorly maintained.

Tea and coffee

Nepal produces two types of tea: orthodox tea in the hills (4,583 ha) from Chinese clones and CTC tea in the plains (4478 ha) from Assamese-variety plants. "Orthodox" and "CTC" refer to two different types of tea-processing methods. Orthodox tea is leaf tea, has a good aroma and gives a mild liquor. It is the premium variety. CTC is 'curled leaf' tea and gives a strong liquor without much aroma. It is a mass consumption item. The distinction is, however, in the processing of the green leaves, not in the leaves themselves or in the locations in which they are grown.

Statistics show that the export of tea from Nepal is still insignificant in quantity. Tea export was nearly 81,000 kg in 1999–2000 and only 69,000 in 2000–2001 (provisional data), according to the Trade Promotion Centre of Nepal. Tea industry sources say that this is perhaps because most of the Nepali production goes to India in green form, not only from individual farmers but also from large plantations, and it is mostly unaccounted for in customs records. In India, it is mixed with Indian tea to improve its quality before being exported overseas.

The comparative advantage of Nepal in tea thus lies in the youth of the plants and in the long period of rainfall that Nepal (particularly the eastern part) receives. Increasing the cultivation of Darjeeling tea (India's most famous tea) is now said to be difficult for ecological reasons. This offers an opportunity for Nepal, since the same quality of Darjeeling tea can be produced in Nepal. The eastern hills and plains adjoining the Darjeeling district have long been the major growers of tea in Nepal, although tea plantation has now also expanded to the central and western hills, wherever the duration of rainfall is sufficiently long.

The National Tea Policy announced in the year 2000 has provided some policy guidelines to boost this sector with the extremely ambitious aims of reaching a total plantation area of 40,875 hectares by 2005 (currently just over 9,000 ha) and 46 million kg of annual tea exports by 2010. The policy also provides for long-term leases on State land for tea cultivation (for as long as 50 years).

The Agro Enterprise Centre within the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) lists 11 tea estates that grow orthodox tea and 18 that grow CTC tea. The Lawrie Group of Britain has invested in Gorkha Lawrie Pvt Ltd to produce CTC tea in Nepal in a joint venture with the Soaltee group.

Germany, Japan and Hong Kong (China) have been the main importers of Nepali orthodox tea.

Coffee is a newly identified export product of Nepal, as compared with tea. The major coffee-growing areas include the Gulmi District in the Western Development Region where a sapling brought from Burma was first planted about 40 years ago. Now coffee plantations have expanded also to the Palpa and Arghakhanchi districts that adjoin Gulmi and to the Kavrepalanchok district near Kathmandu. Altogether, coffee is now being grown in 25 districts. Japan and the Netherlands have been the main importers of coffee from Nepal.

One major problem of the tea and coffee industries has to do with finance. Though there is a national policy to provide long-term credit to this industry, banks have not yet been able to adjust their corporate policies to suit its needs. The second problem is the poor marketing of Nepali tea and coffee abroad. Thus FDI in tea and coffee will find opportunities in processing, marketing and also in cultivation if it comes with finance, quality-control technology or a marketing network. Himalayan Goodricke (P) Ltd. (HGPL) and Gorkha Lawrie (P) Ltd. (GLPL) are two foreign-invested enterprises in the tea business. The United Kingdom's Goodricke-Lawrie Group owns 44% of the authorized capital of NRs 76.33 million in HGPL and 49% of the authorized capital of NRs 139.50 million in GLPL.

Floriculture

Floriculture has been gradually developing as a business in Nepal in recent years, though exports in a regular and organized manner have not yet started. In addition to various other flowers, Nepal is known for some exotic species of orchids. The diverse agro-climatic conditions of Nepal offer good prospects for the production of a wide variety of flowers and flowering seeds for export. The workforce suitable to this industry is easily available. For a successful export operation, there needs to be a direct air link to northern Europe, the traditional market for flowers. The airport would also need a proper storage area for such goods. These activities (the provision of a direct airlink and storage facilities) present themselves as areas of investment in their own right. Thus far, there has been no significant FDI in this field.

TABLE III.2. NEPAL'S EXPORTS OF HIDES & SKINS

	QUANTITY IN SQ. FT.	VALUE IN NRS THOUSANDS
1998-99	4,775,025	271,064
1999-00	4,539,806	193,376
2000-01**	14,813,144	668,097
2001-02*	NA	322,600

Source: Trade Promotion Centre of Nepal for 1998-2001.
For 2001-2002, the source is the Nepal Rastra Bank.
* Provisional.
** For eight months ending mid-April 2002.
Note: Hides and skins are sometimes also referred to in the official statistics as leather, semi-finished leather or tanned hides.

Leather goods

Semi-processed and processed leather (sometimes referred to as "tanned skins" and sometimes as "hides and skins" in the official records) had been two of the major overseas export items from Nepal in the past. In the early 1990s, their share in the country's total exports was 4%, but it is now down to less than 1%. However, the value of their exports had reached over NRs 600 million (over $8 million) in 2001.

The raw materials for this industry available in Nepal are water buffalo hides and goat skins. As a Hindu country, Nepal has banned cow slaughter and bovine hides are available only from animals that die naturally or accidentally. However, there are prospects also of the use of yak hides.

There are over a dozen tanneries in Nepal producing wet blue, crust and finished leather. The plants are relatively modern but need upgrading to suit specialized needs. General labour for this industry is easily available in Nepal. Specialized labour, for example tanners, may have to be imported. (There are also some Nepali tanners working in foreign countries.)

The international leather market is highly volatile (as is reflected in the sudden upsurge in hide exports in 2000–2001 – table III.2) with the demand for leather growing very fast during economic booms and going down equally fast during slowdowns. Buyers come to Nepal for leather only when nearby supply sources (for example, Africa for European buyers) are exhausted, since freight costs from Nepal are high. Producing leather goods with Nepali leather for the export market may thus offer an opportunity.

Though Nepal does not have any specialized traditional skills in this industry that can constitute a comparative advantage, the availability of raw material does offer an opportunity. The production of high-fashion leather goods is perhaps not feasible in Nepal, but the production of items such as workers' gloves and soldiers' and workers' shoes is certainly feasible.

Livestock and dairy processing

Dairy farming is an integral part of Nepali agriculture. According to a recent study of the agricultural sector of Nepal carried out by ANZDEC, a research institute in New Zealand, livestock accounts for nearly 29 per cent of the agricultural GDP of Nepal and comes second only to foodgrains, which account for 34%. Water buffaloes and cows are the main animals reared for milk. Bullocks are used for traction only, while male buffaloes are used also for meat. Yaks are also used for meat. Other livestock reared in Nepal includes goats, sheep, pigs, chickens and ducks.

With some 6.8 million heads as their total population, cattle are the primary livestock in Nepal. Some 780,000 of them are milking cows. Perhaps even more important are the buffaloes in the Nepali village economy, as they are used for all three purposes: traction, milk and meat. Their population is estimated at around 3.3 million heads with some 830,000 heads of milking buffaloes. The number of sheep and goats is estimated at 880,000 and 5.8 million heads respectively. The number of pigs is estimated at around 700,000. Of the 16 million chickens, about 4.8 million are laying hens.

There has been no foreign direct investment in this sector, so far. Nepali farmers have been facing the problem of "milk holidays". These are days in the week when farmers cannot sell milk to dairies because they are declared "milk holidays" by the dairies. This is because the State-controlled Dairy Development Corporation and several private-sector dairy units are unable to absorb the quantity of milk that farmers want to sell, particularly during the flush season that begins in the middle of the rainy season (July–August) and continues till January. According to one estimate, nearly 350,000 litres of milk are produced daily in Nepal, of which around 40,000 litres are wasted because of milk holidays. During the lean season, on the other hand, the dairies have to use imported powdered milk.

Opportunities in this field include the production of powdered milk and condensed milk to address the problem of milk holidays and to maintain regularity of supply during the lean season. Milk and milk products can also be exported, particularly to the adjoining states of India, to Tibet, the Autonomous Region of China, and to Bangladesh. Although State-led efforts in this area have not been successful, private operators with a substantial capacity are likely to succeed.

Box III.1. FDI story: Investing in agro-processing

Dabur Nepal Private Limited is a joint venture with 80% of the equity held by the foreign investor, Dabur India Limited. Though the company was established in 1989, plant construction began in April 1992 and commercial production in November 1992. The company started with the production of hair oil, tooth powder and other powders – all herbal. It has now diversified its product range to include glucose-D, candies, fruit juice, perfumery compounds, honey-processing and medicinal products. The next project being contemplated is in pharmaceuticals. At present, pharmaceutical products from Dabur India are being imported and account for nearly 3% of the pharmaceutical market in Nepal, estimated to be worth as much as NRs 6 billion (something under $80 million) a year. Annual turnover in the year ending July 2002 reached NRs 2,770 million. Of this, NRs 2,580 million was in exports.

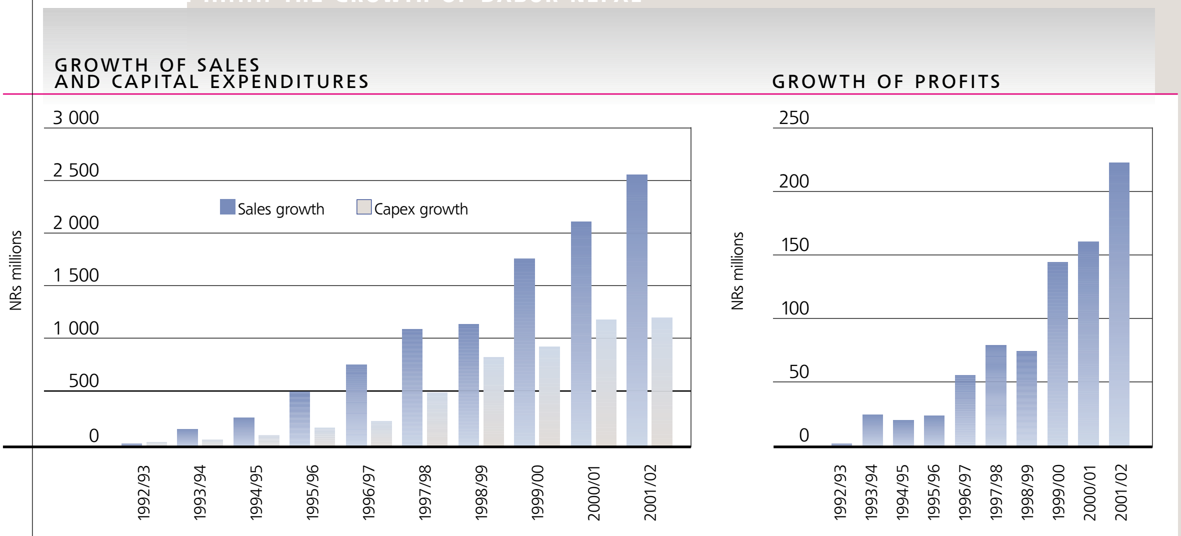
One thing that makes Dabur Nepal an interesting FDI venture is its promotion of backward linkages. One of its projects in this context concerns medicinal plants. Medicinal plants have historically contributed to the Nepali economy through the generation of income and employment for farmers, collectors, traders and processors. However, because of indiscriminate exploitation, premature harvesting, a lack of post-harvest technology and poor collection methods, the natural reserves are being rapidly depleted.

Dabur Nepal has set up a state-of-the-art greenhouse with a capacity to produce three to four million saplings of medicinal plants per annum. It supplies the saplings to farmers, directly or through development agencies and NGOs, at cost price. The farmers are given training and technical assistance for plantation, cultivation practices, plant-protection measures and harvesting as well as post-harvesting technology. The company guarantees purchase of the final produce at the prevailing market price and uses it for the production of various herbal products in Nepal.

Dabur came to Nepal because as a company manufacturing Ayurvedic products (Ayurveda being the traditional Hindu system of medicine), it *had* to come to the source of all the Himalayan herbs that are the primary ingredients in Ayurvedic formulations. So the motive was primarily raw-material sourcing. But that was not the only reason. Recollecting how Dabur started in Nepal, Mr T.K. Gupta, now Director (CEO) of the company, says that in February 1991, when he was in Nepal to assess business prospects, he found that while the official dealer for Dabur products was complaining of low sales, unofficially imported Dabur products were being peddled on the streets and selling well.

When asked to share his experiences in doing business in Nepal, Mr. Gupta points out that apart from the availability of raw material, the bureaucracy is small and accessible. Thus one can quickly present one's case to the authorities. However, he complains that the understandings reached at the higher levels are not always given effect by the lower levels. Mr. Gupta also praises Nepali labour for being hard-working, but complains that skill levels are low and need much improvement. His other complaints have to do with the inability of Nepali graduates to express themselves clearly and effectively in English and with the inexperienced handling of environmental issues by the Government.

III.1.1. THE GROWTH OF DABUR NEPAL



Source: UNCTAD, based on information supplied by Dabur Nepal.

Other agricultural products

Other agricultural products offering good business prospects include farming and processing of silk, fruit, mushrooms, honey, spices, asparagus and cherries, to name but a few in which commercial experimentation is going on with encouraging results. The Agro Enterprise Centre (AEC) can provide further information about business prospects in these areas. The National Agricultural Research Council (NARC) is another source of information, particularly about the technical aspects (see appendix 3 for contact details). The prospects are mainly in the processing and marketing of these products as FDI is not allowed in some of the related businesses (such as bee-keeping).

The export data in table III.3 give some idea of the possible export-oriented businesses in this field. The low export figures recorded should not be taken to indicate limited potential. The current figures are more a function of inadequacies in capital, management expertise, market connections and the like – all of which FDI may help with.

AGRICULTURAL PROD

(Fiscal year 2000–2001)

PRODUCTS	MARKETS	EXPORT VALUE (THOUSAND $)
Spices (pepper, cinnamon, large cardamom, ginger, curry spices, etc.)	Japan, Saudi Arabia, Pakistan, Bangladesh, Hong Kong (China), Singapore, India	6 423
Honey	Republic of Korea, Norway	21
Niger seeds	Brazil, United Kingdom	31
Radish seeds	Bangladesh	47
Essential oils, resinoids, perfumery, etc.	Europe, Taiwan, United States, Australia, New Zealand, Russian Federation, Japan	345
Incense sticks	China, Hong Kong (China), Japan, Republic of Korea, Singapore, United States, Germany, United Kingdom, Spain	214
Paper, paper pulp, paper board and paper products	United States, United Kingdom, Japan	3 232

Source: UNCTAD, based on information supplied by the Trade Promotion Centre, Government of Nepal.
* This list is not exhaustive. The figures are provisional and rounded off and should therefore be treated only as indicative. The markets mentioned in the table had imported some quantity from the respective product categories in the year 2000–2001.

Woollen and pashmina goods

Hand-knotted woollen carpets made in Nepal are well known in the European market and they are one of Nepal's two largest export items overseas. The recent decline in their exports (table III.4) indicates problems which foreign investors could help address through improved quality control, market promotion and new designs. Though financial investment is not allowed in hand-knotted woollen carpets, collaboration with Nepali enterprises for quality control, designing and marketing *is* allowed.

Other traditional Nepali products lately identified as export items with potential are handmade pashmina goods. They have been well accepted in international markets and their export figures have been significant (figure III.1). Pashmina is a woollen product similar to cashmere but finer. According to experts, cashmere cannot be finer than 16 microns, but pashmina is between 14 and 16. It is used as a fabric for shawls, stoles, sweaters, scarves and the like.

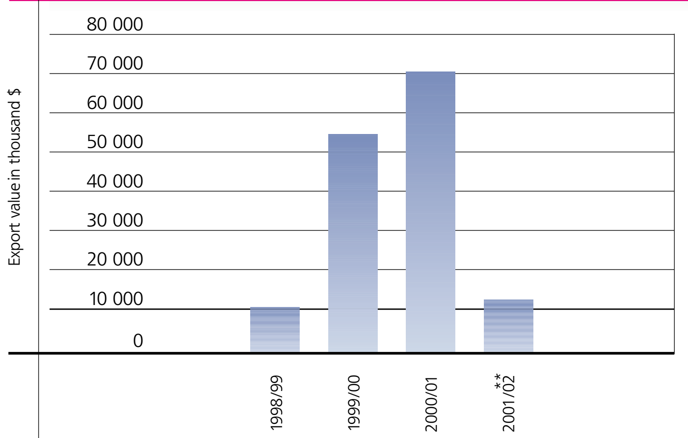
Nepal has a comparative advantage in pashmina products because of the availability of traditional skills. Emperor's Gold Mount, a Chinese company, has invested in a joint venture with Momento Apparels, one of the largest exporters overseas from Nepal. The Chinese firm's role is to supply the raw material. This is so far the only case of foreign investment in this industry. But as handmade pashmina weaving is classified as a traditional cottage industry (the Chinese investment project makes machine-made pashminas), no direct financial investment from abroad is allowed in the handmade pashmina industry. However, there is considerable scope for foreign collaboration that brings badly needed marketing, design and quality-control expertise in this field.

TABLE III.4. EXPORTS OF CARPETS FROM NEPAL

YEAR	QUANTITY (IN SQ. M)	VALUE (THOUSAND $)
1998-99	2 604 575	149 098
1999-00	2 509 452	142 365
2000-01	2 242 692	117 467
2001-02*	1 407 459	69 459

Source: Carpet and Wool Development Board and Central Carpet Industries Association.
*For 10 months ending mid-May 2002.

FIGURE III.1. NEPAL'S OVERSEAS* EXPORTS OF PASHMINA PRODUCTS



Source: UNCTAD, based on information received from the Trade Promotion Centre of Nepal and the Nepal Rastra Bank.
* To countries other than India.
** For eight months ending mid-April 2002.
Converted into $ on the basis of exchange rates of NRs 69, 71, 75 and 78 for $1 in 1998–1999, 1999–2000, 2000–2001 and 2001–2002 respectively.

Hydropower

The country has the capacity to generate nearly 83,000 MW of hydro-electricity, of which about 44,000 MW is thought to be economically feasible. At present, only 528 MW (less than 1.5% of the feasible capacity) is being generated (figure II.6 and table II.6 in chapter II), of which about 100 MW is from independent power developers.

As India, particularly in its northern parts bordering Nepal, is facing perpetual power shortages, there are good prospects for power exports from Nepal to these areas. One obstacle here has been the non-ratification of an India–Nepal agreement on power trade, signed in 1996, by the Nepali parliament. (Parliamentary ratification is not required in India.) The reason would appear to be concerns over the sharing of spin-off benefits of major hydropower projects in Nepal. The issue may be resolved over the next year or two, given the recent improvements in diplomatic relations between the two countries. The power trade agreement serves as the basis on which private-sector firms in the two countries can enter into power-purchase agreements.

The power sector in India is currently in the process of restructuring. An Australian company, Snowy Mountain Engineering Corporation (SMEC), the developer of the 750 MW West Seti Project (see box III.2 for highlights), is negotiating a power purchase agreement with India's recently established Power Trading Corporation (PTC). Once an agreement is reached, it will open up many opportunities for investing in export-oriented power projects in Nepal

There will be a significant market for domestic consumption as well if industrial expansion continues. Moreover, Government policy also allows captive generation by an energy-intensive industry which can then sell surplus power to the locality near it or to the national grid. Selling surplus power to a distant buyer within the country using the national grid is also possible against the payment of a fee to the Nepal Electricity Authority, which owns the national grid.

Taking advantage of the new policy of welcoming private foreign investment in this sector, two joint-venture companies have already been generating and selling hydropower on a build-operate-transfer (BOT) basis. The Panda Energy Corporation of the United States has invested in the 36 MW Upper Bhote Koshi project in a joint venture with the Soaltee Group of Nepal, while Norway's Statkraft has invested in the 60 MW Khimti project.

Of the 528 MW of hydropower being generated in Nepal at present, 113 MW is from private-sector independent power producers (IPP). IPPs are also developing six other projects for a combined capacity of 15 MW. Of the remaining 415 MW, 395 MW is produced by some large power plants owned by the Nepal Electricity Authority (NEA) and the rest by small power plants (some of which are owned by the NEA and some by private operators and local communities).

As the distribution of electricity is still the monopoly of the State-owned Nepal Electricity Authority (NEA), FDI can come only in generation. Investors need to finalize a power-purchase agreement with the NEA. Table III.5 lists projects for which feasibility studies have been completed. Reports are available from the Department of Electricity Development (see appendix 3 for contact details).

Box III.2. West Seti Hydropower Project (WSHP)

This project is being set up with the intention of exporting 100% of the power generated. Its key features are as follows:

Location:	Doti District, Seti Zone, Far-Western Nepal
Capacity:	750 MW
Type of project:	Storage type
Dam Height:	195 metres
Estimated cost:	$1.2 billion
Promoter:	Snowy Mountain Engineering Corporation (SMEC), Australia
Date license issued to SMEC:	1994
Prospective market:	Northern India (such states as Uttar Pradesh, Delhi and Haryana)
Prospective buyer:	Power Trading Corporation (PTC), an Indian State enterprise
Price being negotiated:	$0.0512 per kwh (as offered by WSHP)

Box III. 3. FDI story: Investing in hydropower

Bhote Koshi Power Company Pvt. Ltd. (BKPC) was set up in 1996 as a joint venture among the Soaltee Group of Nepal, Panda Energy International and MWH of the United States, and the International Finance Corporation (IFC), a division of the World Bank. The Nepal Electricity Authority (NEA) and BKPC signed a Power Purchase Agreement in 1996, under which the NEA is to purchase a maximum of 264 GWh of annual energy at a maximum generation of 36 MW by the Bhote Koshi Power Plant for 25 years. After this period, BKPC is to sell 50% of the facility to the NEA for the nominal price of one Nepali rupee. The generation license and the Project Agreement with the Government of Nepal are for a period of 40 years from the start of the commercial operation.

The financing package for the project totalled $100.6 million, out of which $21 million came from the IFC as a loan. In addition, IFC syndicated a B loan of $36 million, participants in which included Dresdner Bank AG, Netherlands Development Finance Company (FMO) and Bayerische Vereinsbank AG. The German Investment and Development Company (DEG) issued a loan of DM 21 million (at the then exchange rate, just under $12 million). The loan terms vary in length between 12 and 15 years. Equity participation of $30 million was provided by Panda of Nepal, Himal International Power Corporation, IFC and the Resource Development Corporation (RDC) of Nepal (a sister concern of Harza Corporation of the United States). The foreign equity participation in the company is 90%.

The project started the commercial generation of electricity in January 2001 and the annual turnover has averaged $17 million since then. The company employs five persons as permanent employees. The rest, currently 20 persons, are engaged on a contractual basis.

The companies from the United States came to Nepal as a part of their international strategy, as the returns on investment in the home country were going down. The selection of Nepal was based on its large and untapped potential in hydropower. In 1996, the proposed generation of 36 MW was about 10% of the then installed capacity in the country. The entire project was initiated from Nepal and Mr. Prabhakar Sumsher JB Rana, the then Chairman of the Soaltee Group, played the key role. The first to join was MWH; then came the IFC and Panda.

The local sponsor assesses the investor's environment in Nepal as "risky, with inconsistent regulations poorly implemented", to quote a senior officer of Soaltee. The Government's priority, according to Soaltee, should be not new legislation but the efficient and transparent implementation of laws already on the books. (The concern about poor implementation is widely shared in the investor community.) Soaltee sees Nepal as virgin territory: full of opportunities. The only question is how to revitalize the system so that investors can convert latent opportunities into functioning businesses.

Source: UNCTAD, based on information supplied by BKPC and others.

YDROPOWE S WITH FEASIBILITY STUDIES

NAME	CAPACITY (MW)	COST (MILLION $)	YEAR OF STUDY
Karnali (Chisapani)	10 800	7 666	Updated in 2001
Pancheswor	6 480	2 980	1995
West Seti	750	1 098	1997
Arun-3	402	859	1991
Upper Karnali	300	454	1998
Dudh Koshi	300	690	1998
Andhi Khola	176	463	1997
Tamur-Mewa	101	191	1998
Likhu-4	51	76	1998
Kabeli	30	65	1998
Chamelia	30	78	1998
Rahughat	27	56	1998

Source: Department of Electricity Development, Government of Nepal.

Tourism

Tourism plays a very important role in the economy of Nepal. Employing some 600,000 people, it is the second largest sector of employment after agriculture. It is also a prominent foreign-exchange earner, contributing NRs 11,717 million ($156 million, at $1 = 75) or the equivalent of 21% of the total value of merchandise exports in 2000-01 (Economic Survey, 2001-02, Ministry of Finance, Nepal) or 3 % of the country's GDP. Crowne Plaza, Hyatt, Radisson and Taj are some of the international hotels chains present in Nepal in joint ventures (financial and/or technical–managerial) with Nepali investors.

As a tourist destination, Nepal is well known, though not as well known as it ought to be. The major attractions are the Himalayan ranges: 8 of the world's 10 highest peaks exceeding 8,000 metres including Mount Everest, the top of the world. The number of peaks above 6,000 metres exceeds 200. The cultural and biological diversity is another tourist attraction.

The country's elevation ranges from 100 metres to 8,848 metres above sea level in an aerial distance of 50 kilometres. It has nearly 70 spoken languages within a geographical area of 147,181 sq. m. The number of bird species in Nepal is larger than in Europe and Africa combined. The Kali Gandaki gorge is the deepest gorge in the world. It is a country in which two great religions, Hinduism and Buddhism, are blended together and there has been no religious conflict in its long history.

These features suggest some of the potential in cultural tourism, nature tourism (or eco-tourism), health tourism, adventure tourism and convention tourism. Tourism products targeted at Buddhists and Hindus from around the world (including those in India, China, South-East Asia, the Republic of Korea and Japan) can be developed with a focus on Lumbini, the birthplace of the Buddha.

Box III. 4. FDI story: Investing in tourism

Dynasty Aviation Private Limited and Air Dynasty Heli Services Private Limited are two companies that offer an interesting illustration of the tortuous path FDI sometimes takes in Nepal.

Dynasty Aviation was formally registered with the Nepali authorities in February 1993 as a provider of an air-taxi service by helicopter. Under its approved joint-venture agreement, the foreign investor in Dynasty Aviation is API Limited, a company registered in Vanuatu and represented by its managing director, Mr. Malcolm Roy Smith, a British businessman with interests in Australia, Indonesia and a number of Pacific islands. The agreement provided for 78% of the equity to be held by the foreign investor and 22% by domestic investors. The long-term aim was to serve the entire South Asian region with Kathmandu as the operating base. According to Mr. Navin Pokharel, Executive Director of Dynasty Aviation, what attracted the foreign investor was Nepal's image as a peaceful country, the attractive tax holiday offered by the laws just promulgated (Foreign Investment and Technology Transfer Act, 1992 and Industrial Enterprises Act, 1992) and the lack of competition.

In 1993, while the legal documents were still in the formal approval process, Nepal experienced heavy floods and landslides, requiring rescue and evacuation service by helicopter. The foreign investor therefore dispatched two French-made Ecureuil AS350BA helicopters to Nepal without waiting for the formalities to be completed. (According to Mr. Pokharel, there had been a near-promise by the local partners that the formalities would be expedited.) Of the two helicopters, one was received as investment in kind and the other on lease.

In the ensuing period of share call, however, the local partners refused either to invest or to sign a lease agreement. The company responded by forfeiting shares allotted to them and returned the to-be-leased helicopter to the foreign investor. The business now entered a litigation phase that meant massive losses of business opportunities – naturally grabbed by other recent entrants.

Mr. Pokharel recalls that it took 18 months to clear things with the Company Registrar, the Department of Industries and the Department of Civil Aviation. In May 1995, the company was at last allowed to pay customs duties on the helicopter that it still held, so that a Nepali Registration Number could be obtained and normal commercial operations commenced. The delay also meant the loss of the five-year tax holiday that had been an important motivation for the initial investment.

All of this meant mounting cash-flow difficulties. The expenses of a mandatory inspection also had to be met. In the end, things became so difficult that the one helicopter remaining was returned to the foreign investor, leaving Dynasty Aviation a helicopter company without a helicopter. *But the story doesn't end here.*

The foreign investor, who had "an obstinate commitment to the idea of serving the South Asia region from Nepal" to quote Mr. Pokharel, refused to quit. Instead, Mr. Smith began negotiating to buy into Air Dynasty Heli Services, a company already registered with the Company Registrar. Under the agreement approved by the Department of Industries in August 2001, 50% of the shares in the company are now held by Mr Malcolm Roy Smith and 50% by a number of domestic investors who own trekking companies and hotels.

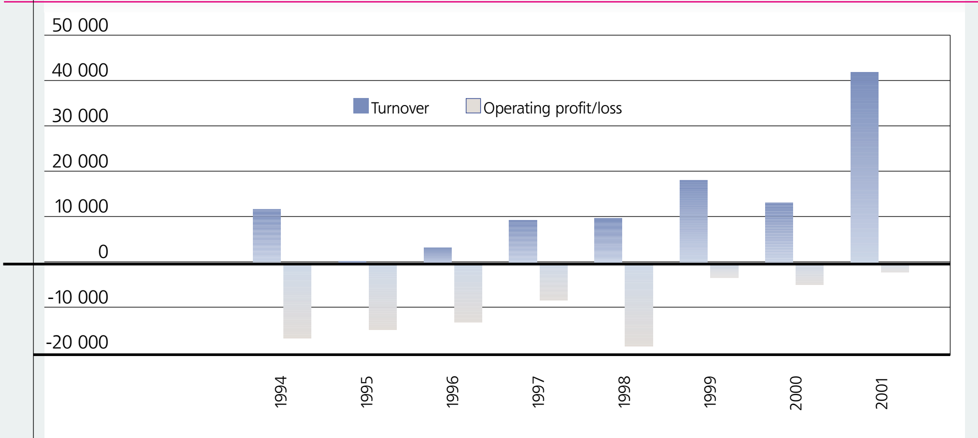
Air Dynasty Heli Services started operating in August 2001 with two helicopters. Mr. Pokharel (the Executive Director of Air Dynasty Heli Services as well as of Dynasty Aviation) claims that within 16 months, by December 2002, the company had captured more than half the market share in Nepal. Though the company had planned also to operate heavy-lift MI-17 helicopters and a couple of fixed-wing aircraft, these plans have had to be deferred, given the global decline in the tourism industry after 11 September 2001. The company is looking instead into such areas as long-term contract jobs to help keep it going until the trend reverses.

In describing other challenges, Mr. Pokharel complains in particular of the soaring rise in costs: of aviation insurance premiums and of the landing, parking, housing and other fees and charges levied on the business by the Civil Aviation Authority of Nepal (CAAN). The average pre-September 2001 rate of 3.25% in aviation insurance premiums has gone up by a factor of almost four – to 12.5%; the fee for the Air Operating Certificate has gone up by a factor of nearly 10, from NRs 20,000 in 1993 to NRs 195,000 in 2002; and the aircraft registration fee is up a more modest double, from NRs 12,000 to NRs 23,400.

The main moral of the story, according to Mr. Pokharel, is that *the selection of local partners is a critically important task.* What matters is not only their ability to invest but also their commitment and candour.

BOX FIGURE III.4.1. AIR DYNASTY HELI SERVICES: OPERATING RECORD IN FISCAL TERMS

(NRs thousands)



Source: UNCTAD, based on information provided by Dynasty Aviation and Air Dynasty Heli Services.

Tourism in Nepal has hitherto been concentrated in the Kathmandu valley, Pokhara and Chitwan. New areas can be developed in other parts of the country by setting up resorts that can be destinations on their own, such as the national parks and wild-life reserves.

Some entrepreneurs are also planning to develop educational tourism by setting up educational institutes targeted at international students. Yet others are thinking of health tourism, under which speciality hospitals will be set up in scenic locations with a wholesome climate and accompanying relatives or friends of patients coming to such hospitals will have holidaying opportunities.

Nearly 500,000 tourists visited Nepal in 1999 (figure III.2). This number has declined drastically in subsequent years for several reasons, including the global economic slowdown, the after effects of the events of 11 September 2001 and the publicity associated with the palace shootings of June 2001.

Most tourists visiting Nepal are young adventurers (between 25 and 44 years in age). Packages and facilities targeted at older tourists are lacking, and therefore offer an opportunity for specialized investment in this sector.

The major tourist-originating market for Nepal has traditionally been India, which accounted for some 18% of the total arrivals in 2001 and 20% in 2000. This is a foundation that can be built on, for Indian tourists are among the highest spenders in Nepal and they are especially likely to visit in the summer months when non-Indian arrivals decline.

The average spending of tourists in Nepal in 1997 was $35 per day and has now reached $38 per day according to recent studies.

The latest development in this area is the status granted to Nepal by China as one of the outbound destinations for Chinese tourists. The necessary arrangements to facilitate the flow of Chinese tourists into Nepal have been finalized by the two Governments. A total of 78 Nepali and 68 Chinese travel agencies are authorized to handle Chinese tourists and these numbers are to increase further. The Chinese yuan has been made convertible with the Nepali rupee and a representative office of China's tourism authority has been established in Nepal. A similar Nepali office will be opened in China in the near future. Various private and public institutions have started running language courses to meet the need for Chinese-language guides and interpreters.

TERNATIONAL TOURIS

COUNTRY	INTERNATIONAL TOURISM, NUMBER OF ARRIVALS		INTERNATIONAL TOURISM, RECEIPTS			
	Thousands		% of total exports		millions of current $	
	1990	2000	1990	2000	1990	2000
Bangladesh	115	200	1	1	11	59
India	1 707	2 641	7	5	1 513	3 296
	255	*451*				
Pakistan	424	543	3	1	156	86
Sri Lanka	298	400	6	4	132	253
South Asia [b]	3 004	4 714	6	5	1 968	4 230

Source: UNCTAD, based on the World Bank, World Development Indicators, 2002, http://publications.worldbank.org/WDI/.
[a] Figure for 1999.
[b] South Asia also covers Afghanistan, Bhutan and Maldives.

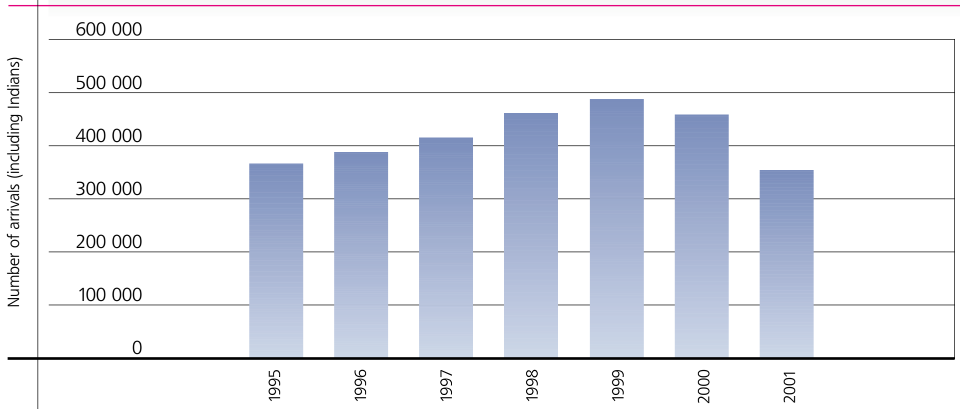
Training schools for the hospitality industry, amusement parks, golf courses, cable-car complexes and resorts in non-traditional destinations such as the mid-western, far-western and eastern development regions are among the opportunities for foreign investment. The emergence of China as a source of tourists has opened up opportunities for speciality restaurants as well.

Nepal's neutral diplomatic status in the world, particularly in relation to the countries within the region (China, India and Pakistan), may offer business opportunities in sporting complexes (sports training centres and stadiums for international events). This diplomatic neutrality also offers opportunities for convention tourism (meetings, incentive travel and exhibitions).

Similarly, an opportunity exists for setting up the international airport planned for outside the Kathmandu valley. The possible site is Bhairahawa, near Lumbini, the birthplace of the Buddha. An airport located anywhere in the Terai can serve also as a preferred alternative airport for people wishing to visit Bihar or Uttar Pradesh in India. The Government has included the airport in the list of infrastructure projects that can be licensed to the private sector under BOT and BOOT arrangements.

In this context, it needs to be noted that a number of tourism-related activities are barred to foreign investment (appendix 1). It is unclear how damaging these restrictions are to the potential of the tourism industry in Nepal. Restrictions intended to protect the livelihoods of individuals and families in the remoter regions are clearly reasonable, if they are indeed needed. Others are less so. International tour operators, for instance, could be a substantial force for growth. The Government is aware of the issues involved and may adopt a less restrictive policy in the near future.

The Nepal Tourism Board (NTB), a public–private partnership organization set up especially for the purpose of promoting Nepal as a tourism destination, is the relevant authority for further information in this field. The Hotel Association of Nepal (HAN), the Nepal Association of Travel Agents (NATA) and the Nepal Association of Tour Operators (NATO) are private-sector associations that can also be contacted for further information (see appendix 3 for details).



Source: Ministry of Culture, Tourism and Civil Aviation and Nepal Tourism Board, Government of Nepal.

Other areas

Health services

Another potential area for FDI in Nepal is health services. The Government has increasingly concluded that the private sector should be allowed to provide specialized health services, with the Government focusing its resources on primary health-care. As a result, a number of private health centres have been set up and are operating in Nepal, some of them with substantial foreign participation. Foreign participation is particularly significant in teaching hospitals. The Government has already announced a policy to provide land on long-term leases in the hills to private-sector investors to construct speciality hospitals, health centres and educational institutions. This can be combined with tourism, as mentioned earlier.

The pharmaceutical industry is another potential area for foreign investment. At present, there are 35 units in this industry, including the State-owned Royal Drugs Ltd, all of them producing non-patent drugs and occupying only about 27% of the domestic market. About 70% of the nearly $80-million pharmaceuticals market in Nepal belongs to Indian companies. One Nepali pharmaceutical unit (Hukam Pharmaceuticals) has been exporting bulk drugs (formulations in bulk, not packaged for dispensary use) to India, while another unit (Nepal Pharmaceutical Lab) has started exporting branded pharmaceutical products ready for dispensary use to India.

The National Drug Policy of Nepal (1995) targets 80% self-sufficiency in producing essential drugs by the year 2005, a target probably unreachable without foreign investment. The policy also aims at enforcing the Good Manufacturing Practices (GMP) of the World Health Organization (WHO) in all Nepali manufactures. This again requires foreign participation in upgrading existing facilities.

There are substantial prospects for the production of Ayurvedic formulations and other herbal medicines, as Nepal's biodiversity encompasses a wide range of medicinal and aromatic herbs. (Ayurvedic medicine is the traditional medical system of India.) India's major producer of Ayurvedic formulations, Dabur India Ltd, has set up a majority-owned subsidiary in Nepal to process the herbs available in Nepal. Figures for the export of some Ayurvedic formulations to India during 1998–2001 are given in table III.7.

XPORTS OF C FORMULATIONS TO INDIA
(in thousand $)

	1998-1999	1999-2000	2000-2001
Chyawan Prash Prakshep (health food)	2 163	1 713	1 983
Hazmola (digestive tablets)	2 306	4 842	4 265

Source: UNCTAD, based on information supplied by the Trade Promotion Centre, Government of Nepal.

Box III.5. FDI story: Investing in health services

The Manipal College of Medical Sciences (MCOMS), based in the tourist town of Pokhara, is a fully owned subsidiary of Manipal Education and Medical Group (MEMG), a conglomerate of educational institutions and hospitals in India with over 42,000 students and 7,500 hospital beds in 54 institutions.

The institution was registered on 5 November 1993 as Manipal Education & Medical Group (Nepal). Operations started in 1994, with a programme leading to the MBBS (Bachelor of Medicine and Bachelor of Surgery, a standard general practioner's medical qualification in South Asia and other parts of the former British Empire). The 700-bed Manipal Teaching Hospital in Pokhara was inaugurated in 1998. Over the past eight years, the turnover has grown by a factor of 22, from just over NRs 9 million in fiscal 1995 to about NRs 205 million in fiscal 2001. The company now employs 108 persons as faculty and teaching staff and 276 in other positions. Total Investment in mid-2002 stood at NRs 2,112 million (a little over $27 million).

There was only one medical college and teaching hospital in Nepal until 1993, the year Manipal arrived in response to the invitation of the Government, and the need for trained health workers was evident. Forty-four Nepali doctors graduated from MCOMS in September 2000, 56 in September 2001 and 60 in September 2002. MCOMS provides 20% of the seats per year to Nepali students at no fee and a further 13% at a 50% fee. (MCOMs now also has programmes in nursing and allied health.) The college has fee-paying students from six countries around the world.

Dr. J.S. Nagra, the Dean and Director, shares the concerns of most foreign investors over the operating environment: the insecurity generated by the Maoist insurgency; erratic power supply and poor transport infrastructure; and excessively rigid labour regulations. On the other hand, he also points to advantages: low tax rates by South Asian standards; a double-taxation treaty with India; and inexpensive labour. Red tape and corruption have not been a major hindrance to MCOMS.

As for priorities for government action, MCOMS would place reform of the labour legislation close to the top. Its own priorities are to strengthen the health delivery system in Nepal by augmenting specialized training. Postgraduate courses in all clinical specialities, including dentistry, are to begin in 2003. Other plans include a health centre at Janakpur in the near future and an engineering college at Jaleshwar soon afterwards. It is also a priority to ensure that MCOMS evolves as a centre of excellence and competes with the best in South-East Asia.

Among the apprehensions of Dr. Nagra for the future are the mushrooming of medical colleges, with a consequent dilution of standards, and changes in the tax structure that make Nepal less competitive as a location.

Source: UNCTAD, based on information provided by MCOMS.

Light manufacturing

Nepal's overseas exports also include light manufacturing items such as terry towels and micro-transformers, which have attracted some foreign investors. Thailand's Ekarat Engineering has invested in Nepal Ekarat Engineering, an ISO-certified company which manufactures electricity transformers. Nepal Bayern Electric, a joint venture between Nepali and German investors, has been exporting micro-transformers (electronic parts used in the telecommunication industry) to Germany.

Ready-made garments

This industry currently accounts for the leading share of Nepal's overseas (non-Indian) exports. Its beginnings go back to the mid-1980s, when Indian investors sought to escape the quota restrictions of the Multifibre Arrangement (MFA). The MFA will end in 2004 and this may lead to some divestment. Nepal's advantages in this area are the low wages of its workforce and the privileged access the country enjoys to the markets of developed countries because of its LDC status, in particular to the European Union with its Everything-But-Arms initiative. The low wages are, however, counterbalanced by low skills, most of the most skilled workers being foreigners, typically Indians. Some upgrading of skills is under way, motivated in part by the expected departure of foreign workers after 2004.

The value added in the ready-made garments industry is estimated at around 35% of the ex-factory price. A government-sponsored project to grow cotton in western Nepal has not been encouraging so far. On the other hand, there are a number of spinning mills, running at a loss because of the closure of uncompetitive textile factories after liberalization. An integrated project to turn around units in spinning, wearing and garment-manufacturing with modern management, technical know-how and an injection of capital may offer rewarding prospects.

Information technology

The basic telecom infrastructure in Nepal is very good by South Asian standards (which are not exigent), although technical and managerial capabilities in Nepal have not been able to keep it working efficiently. Digital exchanges have been set up even in remote areas, with the assistance of multilateral agencies. The infrastructure has all the capabilities required to run any form of technology application that needs telephony interface. Now in the planning stage is an optical-fibre network along the east-west highway with assistance from the Government of India.

The most common concern of potential foreign investors in the Nepali information technology (IT) and telecom sector has been the lack of skilled manpower. The surprising reality is that about 4,000 IT workers are trained every year in Kathmandu alone, according to industry sources. This number is attributed to the presence of training institutes which include such brands as Informatics, NIIT, STG, SSi, Pentasoft and APTECH, operating through branches or franchises. The Government's Employment Promotion Council has also started a programme in cooperation with the private sector to train 8,500 semi-skilled and skilled, and 500 highly-skilled, IT workers. In addition, four universities in Nepal offer bachelor's degree courses in IT. Their total annual intake of students is above 3,000 persons, according to data collected by the Computer Association of Nepal (table III.8).

TABLE III.8. UNIVERSITY INTAKE OF IT STUDENTS

UNIVERSITY	INTAKE
Tribhuvan University	860
Kathmandu University	110
Purbanchal University	940
Pokhara University	1 212
Total	3 122

Two universities are also running master's degree courses in IT. The Institute of Engineering under Tribhuvan University offers a two-year MSc in Information and Communication Engineering and has an annual intake of 20 students, while Kathmandu University has two such courses: MSc in Communication Engineering (20 students per year) and ME in Information Technology (20 students per year). In addition, the Faculty of Sciences of Tribhuvan University offers an MSc in Computer Science and IT and has an annual intake of 20 students.

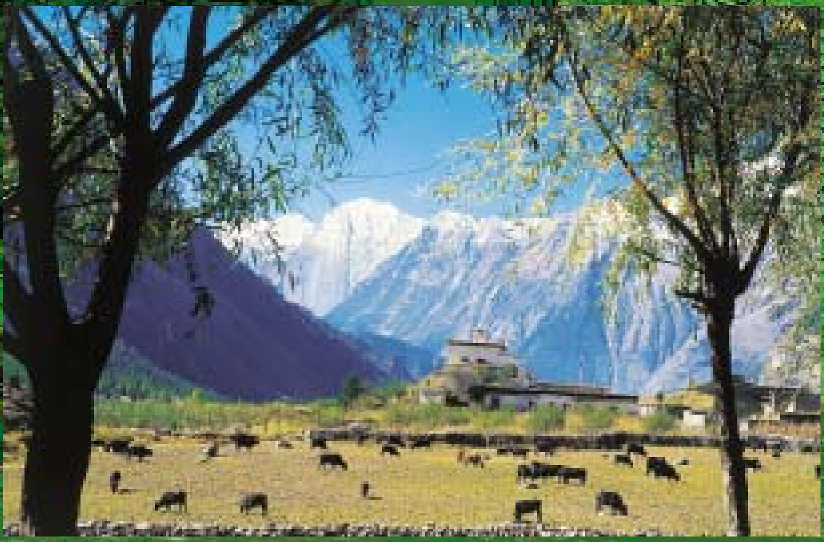
The IT worker is available at low cost. The average salary of an engineer with five years' experience in Kathmandu is about one-tenth to one-fifteenth of his/her United States counterpart. The same holds for software developers, designers, technical support staff and others. Given the higher level of education of workers in IT, the sector has had hardly any industrial disputes.

Venture capital is not yet available to invest in IT start-ups. However, banks and finance companies would be most interested in a proposal from a foreign investor with a track record.

Regulations governing the export and import of technology products are not well-defined and hence offer a certain latitude to entrepreneurs, as long as there is no infringement of established copyrights and trademarks. The law designed to regulate digital signatures and business transactions on electronic forms (also called the "cyber law") has been drafted and is awaiting parliamentary approval. In order to develop the IT industry as a major foreign-exchange earner, the Government has also begun developing an Information Technology Park in Banepa, 27 kilometres east of Kathmandu.

In the medium-term future, Nepal has the potential to attract significant FDI. To mention just one asset, the Kingdom has unique climatic conditions varying from the sub-tropical to the alpine, and thus presents abundant opportunities in floriculture and agriculture. If the natural and human assets of the Kingdom are supported by transparent governance and a stable political climate, the true potential for growth can be realized.

Rajeev Kulkarni
Chief Executive Officer
Standard Chartered Bank Nepal Limited



Legal and judicial system

History and basis

The present Constitution of the Kingdom of Nepal (promulgated in 1990) has brought about major changes in the judicial system, the more notable of these being the establishment of an independent judiciary; the expansion of the extraordinary jurisdiction of the Supreme Court, which includes the review of its own judgements under conditions stipulated by the law; and the provision of a separate council for the appointment and termination of judges in order to prevent government interference.

Nepali law is influenced above all by the common law system, although there are also a few traces of the civil law system prevalent on the European continent. The commercial and industrial laws are mainly influenced by the common law.

Judicial aspects

The Supreme Court of Nepal is the highest court of the country, with the Courts of Appeal and District Courts following in descending order. Under Article 84 of the Constitution of Nepal, only regular courts can decide legal cases. Nonetheless, the Constitution does allow the Government to refer particular categories of cases to special courts by passing an Act – for example, the Special Court, which is currently hearing corruption-related cases, is established under the Special Courts Act, 2031 (1974).

Box IV.1. Some features of the Nepali legal system

- The constitution is the fundamental law of the land and overrides all other legisla tion.
- The judicial principles established by the Supreme Court carry the same weight as laws.
- The judicial principles of foreign courts (especially those of India, the United Kingdom and the United States) have persuasive value in the absence of judicial precedents established by the Supreme Court of Nepal.
- In their exercise of judicial authority, courts are expected to be guided by universal ly accepted principles of justice as well as by the specific laws of the Kingdom of Nepal.
- The existing judicial system does not enforce judgements of foreign courts. However, the Arbitration Act, 1996, has some provisions to enforce the awards of foreign arbitrators on a reciprocal basis.

Source: UNCTAD.

Nepal has no customary court. There are military courts to hear cases related to persons in the armed forces. The regular courts are not specialized and hear both civil and criminal cases. There is a plan to form a Commercial Bench, but so far it has not materialized.

The official language of the courts is Nepali. The written submission of the case and the argument are to be in Nepali. Though the courts do accept documents in English in commercial cases, some district courts also ask for a translation of the English documents.

Only a Nepali citizen can get a licence to practise law in Nepal. However, foreign lawyers can appear before a court for a particular case with the permission of the court. There have been a few instances in which foreign lawyers have been allowed to argue a case alongside a Nepali counsel.

The legal system does not recognize foreign judgements. Nepal is a signatory to the International Convention on the Settlement of Investment Disputes, 1965. The Arbitration Act, 2056 (1999) recognizes foreign arbitral awards in Nepal with reciprocity as one of the essential grounds for their enforcement.

Legislative aspects

Laws are enacted by parliament. Bills can originate with either the lower or the upper house – except for the Finance Bill, which must originate with the lower house. A Bill becomes an Act when it is passed by both houses of parliament and the King assents to it.

Nepal still lacks the proper legal infrastructure in matters of commercial law. For example, it has no laws on insolvency or secured transactions, although an Insolvency Act is in preparation. The Company Act is inadequate. It is not fully based on the principle of good governance and does not fully reflect modern international practice. Both the Company Act and the Foreign Investment Act are in the process of being revised to make them compatible with international norms.

Administrative aspects

Government departments have been the subject of complaints about poor governance, inefficiency and a lack of transparency. Five different writs are available for the judicial review of administrative actions taken by the State machinery. Some of the Acts, for example the Income Tax Act, 2001, also provide for an administrative review. There have been hardly any instances where the Government has been made to pay compensation for inefficient action. The principles of the law of torts are not well developed.

Like other organs of the State in Nepal, the court system has not been free of charges of corruption. However, courts are believed to be the cleanest parts of the State apparatus and public respect for them is correspondingly greater than for other organs.

Protection of person and property

The Constitution of Nepal of 1990 goes a fair way towards providing protection for persons and property. Article 12 of the Constitution guarantees a number of personal rights, including freedom of expression and freedom of profession (occupation). Article 17 of the Constitution guarantees the right to every citizen to acquire property, enjoy it and deal with it as the owner pleases. The State can acquire such property forcibly only for public benefit, strictly in accordance with the law and by paying reasonable compensation. The Industrial Enterprises Act, 1992, has an explicit provision which guarantees that no industrial unit set up by a private party will be nationalized.

(This section is based in part on an article that appeared in *New Business Age*, Kathmandu, in December 2002.)

Institutional framework

The main legal framework for foreign direct investment in Nepal is provided by the Foreign Investment and Technology Transfer Act, 1992, and the Industrial Enterprises Act, 1992. Also relevant is the One Window Policy announced in the same year. These cover the forms and procedural aspects of FDI, and the facilities, concessions and incentives available to foreign investors. A new industrial and foreign investment policy which the Government plans to adopt envisages some improvements in the regulatory framework. The major features of the proposed revision are:

- A shortened negative list for FDI;
- A priority list for FDI with only about 10 as against the present 31 areas;
- Automatic approval for FDI in the priority areas;
- Introduction of the concept of industrial clustering/zoning (including EPZs);
- A powerful one-stop facility; and
- A powerful Board of Investment.

Internationally, Nepal is a member of the World Intellectual Property Organization (WIPO) and the Multilateral Investment Guarantee Agency (MIGA). It is also a signatory to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States and a member of the International Centre for the Settlement of Investment Disputes (ICSID), associated with the World Bank.

In addition, Nepal has entered into bilateral investment treaties (BITs) and double taxation treaties (DTTs) with a number of countries (table IV.1).

BITs	DTTs
France	India
Germany	Norway
Mauritius	China
United Kingdom	Pakistan
	Sri Lanka
	Austria
	Thailand
	Mauritius
	Republic of South Korea

Source: Ministry of Finance, Government of Nepal.

Box IV.2. The Department of industries

Nepal does not have an investment promotion agency (IPA) as such. The functions of an IPA are mostly the responsibility of the Department of Industries (DOI), which is one of the organs of the Ministry of Industry, Commerce and Supplies. The DOI also has other responsibilities, including export promotion, industrial promotion and intellectual property matters.

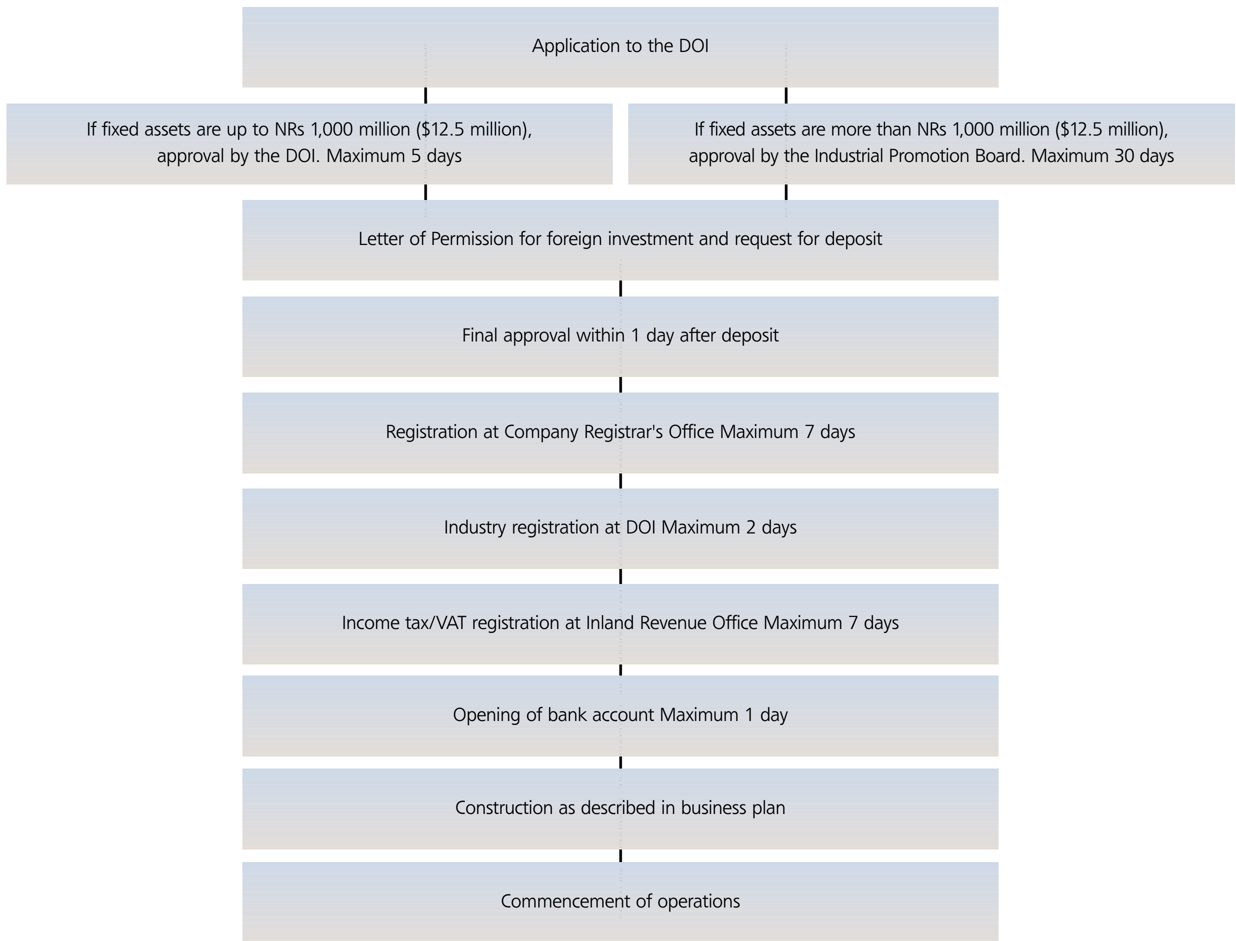
With regard to foreign direct investment (FDI), the DOI carries out the following tasks:

- Approval and registration of FDI, including technology licensing;
- Facilitation and promotion of FDI;
- Acting as the secretariat of the One Window Committee;
- Making recommendations to the central bank regarding the repatriation of profits, dividends, proceeds from the sales of shares, and royalties and fees; and
- Making recommendations to the Department of Immigration with regard to business and (associated) residential visas for foreign investors and employees.

The priorities of the DOI are:

- Exploring all ways and means of attracting FDI to Nepal;
- Minimizing turn-around time in dealing with investors by increasing the Department's efficiency;
- Building capacity in project analysis, including in particular the environmental aspects of projects; and
- Building capacity in dispute arbitration and strengthening the enforcement of intellectual property rights.

The DOI is headed by a Director General, currently Bharat Bahadur Thapa, who is assisted by six Directors. Investors regard the DOI as very helpful in matters within its authority. For contact details, see Appendix 3.



Entry and exit

Foreign investors who wish to invest in Nepal, whether in fully foreign-owned or joint ventures, are required to apply to the DOI on a prescribed form. While no approval can be granted for investment in industries on a negative list (see Appendix 1), technology licensing in these areas is possible.

Screening and registration

The application to the Foreign Investment Section of the DOI should be made on a prescribed form accompanied by copies of the following documents:

- Project report;
- Joint-venture agreement, if relevant;
- Citizenship certificate of local partner, if an individual, or certificate of incorporation and company profile, if a company;
- Copy of passport of foreign partner, if an individual, or certificate of incorporation, if a company;
- Bio-data or company profile of the foreign partner;
- Proof of financial credibility of the foreign investor as provided by a bank; and
- Authorization letters from the companies concerned.

Incorporation and related matters

If the value of the proposed fixed assets is less than NRs 1,000 million (around $12.5 million), the DOI can approve the project. If the value is higher, it is referred to the Industrial Promotion Board set up under the Industrial Enterprises Act, 1992. A decision in this matter is supposed to be made within 30 days.

All approved projects must submit an application to the Licensing Section of the DOI for registration. The DOI is to complete the process within 21 days from the date of application.

A company in Nepal is formed under the Company Act, 1997, and all companies are subject to this Act. Any individual may establish a private company. For a public limited company, the minimum number of founders is seven. A foreign national, who has obtained approval to establish a company by making an investment in Nepal, may also form a company. Full equity ownership is permitted to foreigners in most areas. Areas in which FDI must take the form of a joint-venture are commercial banks and financial institutions. Though the recently prepared new Commercial Bank Act has lifted these restrictions, the new law is yet to be passed. Shares of a company with either full or partial foreign ownership may be sold to Nepali nationals or companies with the prior approval of the DOI. If there are no issues such as conflict among the investors or unpaid tax dues, the DOI's approval should be forthcoming within five days.

Building and related permits

No industrial unit other than a service industry is permitted to construct a factory inside the Ring Road (inner circle) in the Kathmandu valley. Except inside the Ring Road, the necessary permission should be obtained from the local authorities, for example the Village Development Committee. In practice, most Village Development Committees do not ask for detailed plans before granting permission. Within the Kathmandu valley, authorization for any business construction is given by the Valley Town Development Committee, a statutory body.

Before deciding on a construction site, it is advisable to check the jurisdiction it comes within and any specific zoning restrictions involved.

Acquisition and access

The acquisition of immovable property by foreigners is restricted. However, the National Code has a provision under which a foreigner wishing to purchase immovable property may seek permission from the Government. In practice, only foreign embassies have been permitted to buy immovable properties. On the other hand, a company incorporated in Nepal, even if solely or partially owned by foreigners, may purchase immovable property to carry out the activities mentioned in its Articles of Association and Memorandum of Association.

The purchase of shares of a Nepali company by a foreign national or a foreign company is considered foreign investment, and thus requires permission from the DOI. Permission is also required from the central bank to buy Nepali securities.

Limitations and exclusions

Foreign investment and technology transfer are not limited or restricted on the basis of the amount of the investment or the price of the technology. However, the Foreign Investment and Technology Transfer Act does restrict foreign investment in certain industries (see appendix 1). But, technology transfer is permitted even in these restricted areas, as noted above. In the case of privatization, restrictions on FDI, if any, are specified on a case-by-case basis before an enterprise is offered for privatization.

Access to capital

Once a foreign company, whether fully or partially foreign-owned, is incorporated and has started operating, it enjoys equal facilities with a Nepali-owned company. It may raise capital through bank loans or the issuance of shares or debentures, subject to the provisions of the relevant legislation. These do not discriminate against foreign investors.

Land

The Land Related Act, 1964, limits the maximum size of land that an individual or a company may own, although exemptions may be granted if the need for additional land is demonstrated by an enterprise. Tea estates, agricultural farms, horticulture farms, animal farms, sugar factories, agro-forestry industries, hotels and resorts have received such exemptions from time to time. These exemptions have been fairly routine. Any company registered in Nepal, irrespective of ownership, can purchase, own and sell land within the prescribed limits. The real estate business is, however, restricted to domestic firms, and so foreign-owned companies may not purchase, own or sell land with the intention of making a profit. Land can also be obtained by means of long-term or short-term leases.

A company engaged in the production, transmission or distribution of electricity can ask the Government to acquire land or buildings on its behalf. Normally, the need for such a request arises only if the owner does not agree to sell his/her land through private negotiation. In the case of State-owned land, transfer of ownership is ruled out, but both short-term and long-term (for the life of the project) leases are possible.

The Land Acquisition Act, 1977, gives the Government the right to acquire any land for public welfare. The owner of the property is entitled to receive compensation for acquisition of the land and other belongings such as buildings and trees. Article 17 of the Constitution guarantees compensation based on the current market price.

Exit

The Government has promised to adopt a "flexible" exit policy from fiscal year 2002–2003 for industries that have recently received licenses or permits for investment, are export-oriented or are established in export-promotion zones and information technology parks. Though the Government has not clarified how flexible the policy will be, it is understood to mean that any industrial unit, which cannot operate because of market conditions or has other problems and needs to be closed will be given an easy exit, – that is, it could be shut down by following some simple procedures. However, the "simple procedures" are not specified.

Any public limited company that decides to discontinue its business may opt for voluntary liquidation and pass a resolution in the General Meeting of the company to do so. Once such a meeting decides to liquidate, a liquidator and an auditor must be immediately appointed by the general meeting of the shareholders, and the relevant procedures specified by the Company Act must be followed. The time taken by the liquidation process will vary depending upon the assets, debts and liabilities of the company. A private limited company could also be voluntarily liquidated by following the procedures mentioned in the Memorandum and Articles of the Association. There is no specific prerequisite for voluntary liquidation. A joint-venture company could also be voluntarily liquidated under the provisions of the Memorandum and Articles of Association framed in accordance with the joint-venture agreement.

If a company fails to comply with its legal responsibilities or fails to discharge its liabilities, any creditor or the company itself can request the Company Registrar to appoint a liquidator to liquidate the company.

The proposed Industrial and Foreign Investment Policy, 2002, promises to simplify the exit process further (as noted above).

Ownership, property and management control

Where FDI is permitted, there is in general no limit on its amount or on equity percentages that may be owned by foreign investors. Any foreign-invested company (other than a financial institution or some privatized enterprises) may be fully foreign-owned. Similarly, foreign nationals or companies may fully control the management of a Nepali-owned company.

Government intervention in board appointments and management decisions is unknown, though the board structure in a joint-venture firm is required to comply with the conditions specified in the joint-venture agreement.

If a Nepali citizen is not available for a skilled technical post, even after it has been advertised in national newspapers, the management may submit an application to the Department of Labour, along with the relevant evidence, for approval to appoint a non-Nepali citizen. In such a case, the Department of Labour may give approval to employ a non-Nepali citizen for a maximum of up to five years, granted in two-year periods. In a specialized technical post, approval may be given for up to seven years. This is normally straightforward.

The Labour Act, 1992, governs employment in Nepal and is applicable to all enterprises employing 10 or more workers. The Labour Rules, 1994, contain detailed provisions regarding the entitlements of employees.

(Rules elaborate upon the provisions of an ACT, within the limits set by the Act. Rules are made by the Government, while Acts must be passed by parliament. Rules are thus subject to revision and modification by the Government, but such amendments are not frequent.)

Intellectual property

Nepal became a member of the World Intellectual Property Organization (WIPO) in 1997. It is recognized by the Government that protection of intellectual property rights is essential in order for a country to benefit from globalization and, in consequence, a new Copyright Act has recently been passed by both houses of parliament and will come into force once royal assent is given. The Act is in keeping with the spirit of the Berne Convention for the Protection of Literary and Artistic Works, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the WIPO Copyright Treaty, 1996. Nepal has also assented (in June 2001) to the Paris Convention. The Act is expected to provide a basis for a stronger intellectual property regime in the future.

The DOI is legally responsible for protecting industrial property in the form of patents, designs and trademarks. No patent, design or trademark registered in a foreign country is valid in Nepal unless it is registered in Nepal. Registration requires that an application be made to the DOI, supported by certificates of registration in foreign countries. The subsequent registration process is straightforward and normally takes the amounts of time indicated in table IV.2.

TABLE IV.2. INTELLECTUAL PROPERTY REGISTRATION

RESISTRATION OF	TIME TAKEN
Patent	Not more than 3 months
Design	Not more than 5 days
Trademark	Not more than 5 days

Investment protection and standards of treatment

Expropriation

The Industrial Enterprises Act, 1992, offers protection against nationalization. It provides that no privately established industry can be nationalized. Moreover, the Constitution of the Kingdom of Nepal guarantees that, in the case of any acquisition of private property, compensation based upon market value at the time of the acquisition will be made.

There have been no cases of expropriation.

Dispute settlement

A new Arbitration Act, enacted in 1998, offers contracting parties the choice of arbitration as a way to resolve disputes. Even if the contract does not contain specific provisions for arbitration and the commercial dispute is already before a court, arbitration is possible if all parties to the dispute make a written application to the court. Detailed procedures to be followed in the arbitration, including those for the execution of the arbitrators' decisions, are also contained in the Act.

Similarly, the Foreign Investment and Technology Transfer Act, 1992, also provides for alternative dispute resolution. If a dispute arises between a foreign investor and a national investor, the parties concerned should try to settle it by mutual consultation in the presence of a representative of the DOI. If it cannot be so settled, it may be settled by arbitration in accordance with the prevailing rules of the United Nations Commission on International Trade Law (UNCITRAL). The venue of arbitration is to be Kathmandu and the laws of Nepal are applicable. If a specific provision for resolving the dispute is mentioned in the foreign investment agreement, it is also applicable.

Exchanging and remitting funds

The Foreign Exchange Regulation Act, 1962, governs the flow of foreign exchange and applies to Nepali as well as foreign nationals. The entry of foreign currency is not restricted, but the remittance of funds overseas is regulated to some extent. Any person with his/her own foreign currency account in a commercial bank can send such funds outside the country as specified by the central bank. Under certain conditions, again as specified by the central bank, commercial banks can carry out the remittance operation.

A foreign investor who has made an investment in foreign currency is entitled to repatriate the following:

- Proceeds of the sale of a part or the whole of the shares of the foreign investor;
- Amounts received in the form of profit or dividends on foreign investment; and
- Amounts received in the form of repayment of the principal and interest on foreign loans.

A foreign investor is also entitled to repatriate amounts received under an agreement for the transfer of technology in such currency as mentioned in the agreement.

In general, investors do not see the foreign-exchange regime as problematic (see chapter V).

Fiscal and financial incentives

The Industrial Enterprises Act, 1992, provides for an Industrial Promotion Board and a One Window Committee to provide concessions and facilities to industry, including tax incentives. The customs duties, sales taxes, excise duties and premiums levied on raw materials and auxiliary raw materials utilized by an enterprise during its production are reimbursed, on a pro-rata basis, according to the quantity of its exports.

Any industry providing direct employment to 600 or more Nepali citizens for a whole year is entitled to a 10% rebate in income tax for that specific year. Any special industry operating in undeveloped, underdeveloped or relatively developed areas is entitled to rebates of 30, 25 and 20% in income tax for a period of 10 years. A "special industry" is a manufacturing industry so classified in the Industrial Enterprises Act, 1992, excluding the alcohol and tobacco industries. The same Act also classifies the districts of Nepal into such categories as "undeveloped" and "underdeveloped". Districts in the "remote regions" are generally less developed than those where the major cities and towns are located.

The Industrial Enterprises Act provides certain concessions for industrial enterprises, but these are generally available to new enterprises. An existing enterprise can also receive them if new investment is undertaken. Some of these facilities have been withdrawn (relating to VAT, excise tax and income tax) by the Income Tax Act, 2002. The major facilities still existing are:

- Land leases for forest-based industries;
- Exemption from royalty charges for industrial units generating electricity for their own use; and
- Duty drawback facilities.

Exemption from double taxation

See table IV.1 for double taxation treaties.

For details regarding taxation, see the section on taxation in Chapter II.

Special regime related to the energy sector

The Water Resources Act, 1992, and the Electricity Act, 1992, were enacted to provide for the rational utilization, conservation, management, development and administration of the water resources available in the country. The Water Resources Act focuses on the overall management of water resources, whereas the Electricity Act deals with the generation, transmission and distribution of electricity. The Electricity Regulation, 1993, and the Water Regulation, 1993, address such concerns as private participation, water-use licensing, and monitoring and maintaining water quality.

A licence is required to use water resources for hydropower generation, transmission and distribution unless the project is smaller than 1,000 kilowatts. The Electricity Act also specifies the detailed procedures to be followed to obtain licences. If the licence holder is a foreign enterprise, it should register under the Foreign Investment and Technology Transfer Act and the Industrial Enterprises Act.

The Nepal Electricity Authority Act, 1992, established the Nepal Electricity Authority (NEA) as a statutory corporation. It is the State electricity utility and is chaired by the Minister of Water Resources.

Permission to import or export energy is granted by the Government, which can also enter into agreements to bulk-purchase electricity or to give guarantees for investments. To attract foreign investment, the Hydropower Development Policy, 1992, provides for the private development of hydropower for internal use as well as for export.

The Electricity Act, 1992, and the Hydropower Development Policy, 2001, contain among others, the following provisions for encouraging private investors:

- The period permitted for surveys is up to 5 years.
- Any project to meet domestic needs is permitted for 35 years from the date of the generation of electricity.
- Any project to export power outside Nepal is permitted for 30 years from the date of the generation of electricity.
- Licences for the transmission of electricity are granted for a period of 25 years from the date of issue, as are licences for distribution.
- These licences may be renewed every 10 years.
- The licensee of hydropower generation shall have the exclusive right to use the specified water resources for power generation.
- Power projects established by private investors shall not be nationalized. Foreign-exchange facilities will be available at the market rate for the repatriation of the investment or the repayment of the principal or the interest on loans made in foreign currency.
- A nominal royalty of NRs 100 (just over $1) per kilowatt for the first 15 years shall be levied.
- Only 1% in customs duty shall be levied on the import of equipment, machinery, tools and spare parts in this industry. In such cases, import licence fees, sale taxes and so forth shall be waived.
- The Government shall assist private developers in acquiring the necessary lands for the construction of power projects. If the State owns such land, it shall be made available on lease for the period of the licence.
- The electricity generated in the country can be exported to a foreign country, with an agreement made between the Government and the exporter. The export tax payable will be determined in the agreement.

Other relevant issues

Contract Act, 2000

The first Contract Act in Nepal was enacted in 1966 and subsequently replaced by a new Act in 2000, to address contemporary issues related to trade and commerce. This Act contains specific provisions covering the competence of contracting parties to enter into a contract, proposal and acceptance, cancellation of proposal and acceptance, contracts as per proposal submitted to the general public, void and invalid contracts, specific performance of the contract, liabilities of parties in respect of the contract, and so forth. British contract law influences most of the provisions. It also has specific provisions for guarantee contract, indemnity contract and subrogation contract. Since there is no separate Sales of Goods Act, the Contract Act also includes provisions related to sales-of-goods contracts. It contains as well provisions related to agency contracts and transport contracts. An injunction for specific relief in a case of breach of contractual liability can also be obtained under this Act.

Local Content

The India-Nepal treaty of trade provides that, in order to benefit from the treaty's concessions, goods exported to India from Nepal must have 30% value added in Nepal. Other than this, there is no local-content requirement. The proposed foreign investment policy (still at the draft stage) has proposed 50% local value addition as the requirement to be fulfilled by any foreign-invested unit in the second year of operation and 70% in subsequent years.

Environmental requirements

The Environment Protection Act, 1997, and the Environment Protection Rules, 1998, contain provisions for protecting the environment and enabling economic development and environmental conservation to coexist. Permission has to be obtained to establish or expand industries with a potentially adverse impact on the environment and public health. An environment impact assessment is required in order to receive such permission. An Environmental Protection Council, chaired by the Prime Minister, periodically reviews policy in this area and guides the development of programmes.

Competition and price policies

Since Nepal adopted the market economy in the early 1990s, the State does not regulate prices but allows market forces to do so. The Black Marketing and Other Social Offences and Punishments Act, 1975, contains provisions to restrict malpractice in trading, but no anti-trust or other legislation to govern monopolies or restrictive business practices has yet been enacted. The need for such legislation is, however, recognized and competition legislation is now in draft form.

Private-sector perceptions

V

This chapter summarizes the results of consultations with the private sector in Nepal. Both foreign and domestic firms were consulted, in individual interviews and informal discussions, as well as on the occasion of a workshop held in Kathmandu in June 2002. The workshop included a closed session with investors (with no government representatives in attendance) and was guided by a questionnaire that also served as agenda for the meeting. Some 35 executives from foreign and domestic firms participated, just over half of them from fully or partially foreign-owned firms. Some 30 of them handed in completed questionnaires at the end of the meeting. The results summarized here should be seen as no more than suggestive of private-sector opinion in Nepal.

General points

When participants were asked to name the three most attractive features of the country as a location for investment, Nepal's natural assets figured most frequently in the answers. The range of climatic conditions and terrain the country offered within a narrow band of 150–250 kilometres provided niche opportunities for agriculture and for a variety of activities in tourism. There was also substantial potential for hydropower development. The location of the country, between China to the north and India to the south, came second in the ranking, although it was recognized that the promise of the Chinese market was at this point not much more than a promise. The third feature in this list, somewhat surprisingly (see the section on human resources below), was the workforce, which was seen as low-cost and trainable. A fourth feature which ranked very close to the third was low tariffs. Some participants also mentioned the potential for developing IT-based services.

When it came to the three things that most needed Government attention, *implementation* ranked highest. The private sector was not necessarily satisfied with existing policies in a number of areas, but its overriding concern was not so much with changing policies as implementing the ones in place in an efficient and transparent fashion. Political stability came next. There had been too many changes of government in the past 12 years, which created unease in the investor community, and also frequent changes in policy. Interestingly enough, security concerns arising from the Maoist insurgency, which had lasted for six years when the workshop was held, were not *specifically* mentioned by more than a few, although one in four expressed some concern over the law-and-order situation. There was no clear candidate for third place. Among the things mentioned were the need to develop export-processing zones, the need for training and skill development and the need for better infrastructure.

When participants were asked for an assessment of the Government's performance in its dealings with investors, the majority thought the Government was doing an *acceptable* job, but a substantial minority thought that it was not. On the whole, however, the trend was seen as positive over the past five years, with a majority agreeing that there had been "some progress" and a small minority disagreeing.

Specific points

Infrastructure

Nepali infrastructure was seen as generally weak and this is a serious issue in a landlocked country. However, the trend was seen as very positive. Nearly a third of the participants thought that there had been *considerable progress* over the past five years and nearly all the rest thought there had been *some*. The areas that had seen the most progress were telecommunications, the power supply, and major roads and highways. The least progress had occurred in rural and feeder roads. In general, access, cost, quality and reliability were all matters of concern to investors when it came to infrastructure, but access was the predominant issue where roads were concerned.

Human resources

The Nepali workforce, as already noted, was considered a significant asset by investors. It was seen as much less hostile and more cooperative than the workforce in neighbouring countries. It was also open to training. Industrial relations had improved and there had been some improvement also in training. However, investors felt that much more needed to be done by the Government in improving the skills of the workforce. Productivity was poor. There was also the broader issue of creating an environment in which workers who seriously upgraded their skills could find rewarding opportunities. Without such an environment, people with skills were likely to leave the country, something that was already happening.

The labour law was seen by most investors as excessively pro-labour and in need of change. Some of its provisions imposed a serious burden on businesses. One investor, for example, thought that the low-cost advantage of Nepali labour was not as clear as it might be because, while wages were low, the law required the employer to set aside 5% of *gross* profits as an employee housing fund and pay 10% of net profits as bonuses.

Taxation

This was one area in which investors' assessment was more negative than positive. No one thought there had been considerable progress over the past five years. Something under half the participants thought there had been *some* progress, but a clear majority disagreed. A small minority thought that there had actually been *regress* in recent years. The administration of the tax system was complex and poorly implemented. Tax officials had too much discretion and made arbitrary decisions. There was supposed to be a system of self-assessment in place. In actuality, revenue officials seemed to find it difficult to accept that profits and losses varied from year to year and insisted on assessments of their own which bore no relation to business reality. Poor enforcement, a lack of transparency and arbitrary decisions were widespread.

Other issues

When participants were asked if any in a range of factors (monopolies, conflicts of interest, governance) was contributing to an unsatisfactory business environment in Nepal, *governance* – law and order, corruption, red tape – emerged as the overwhelming favourite. In response to a similar question about issues of special interest to foreign investors (investment protection, ownership restrictions, intellectual property rights), there was also an overwhelming favourite: intellectual property rights.

Some issues were notably missing from a list of investor concerns. Exchanging and remitting funds was one of these. One investor did mention some difficulties in repatriating capital, but this did not seem to be shared by others. Expropriation was similarly not a concern and *there have been no cases of it*. The trade treaty with India was seen positively, although there was some concern with the higher value-added requirement in the new protocol to it. Nepal was generally seen as more open to foreign investment than India and with lower tariffs, which was an advantage. The bureaucracy was also something of an advantage, since it was smaller than that of its neighbours and more accessible. The Department of Industries was seen as helpful.

Overall, much of what investors had to say focused on implementation, which was weak, slow and cumbersome. The senior executive of a joint venture said that the Government certainly listened to his concerns but then seemed to take no action. Parts which he had been waiting for would arrive and remain at the airport, while forms made the rounds among the Customs authorities, the Ministry of Commerce and the Ministry of Tourism and Civil Aviation. Another workshop participant, from a fully foreign-owned company, observed that while intellectual property rights were certainly an issue for him, he saw their poor protection as simply another aspect of poor implementation of policies and regulations generally. Non-compliance with regulations was commonplace and corruption in most cases amounted to a fee paid to ensure that non-compliance would be ignored.

Concluding remarks

Some general points about the business environment in Nepal are worth noting.

Most investments in Nepal are small and most foreign investors are individuals rather than companies. Most of those consulted by UNCTAD were, however, corporate investors.

Some 40% of the FDI in Nepal is Indian. This is, of course, to be expected, given the open border between India and Nepal and the historic links between the two countries. As the Indian head of a non-Indian multinational observed, there is also the further fact that the Nepali business environment and a number of its difficulties are quite familiar to Indian investors, being a variation on a South Asian theme.

That the insecurity created by the Maoist insurgency is not a greater concern to the private sector than it appears is a further fact worth noting. It suggests, first, that the reality on the ground is perhaps not as threatening as it appears at a distance. The insurgents have generally been careful not to target foreigners and tourists. What may also be relevant, however, is that much of the FDI is in the Kathmandu valley, which has been *relatively* unaffected by the insurgency. At the same time, the areas in which the Government most wishes to attract FDI and which have the most potential – tourism, agriculture and hydropower – are the ones most affected by the insurgency. Partly, this is a matter of perception: tourists stay away from unstable areas. Partly, it goes beyond perception, for investment in these areas requires safe access to all regions of Nepal. It is thus encouraging that just as this guide was being finalized, the insurgents had declared a moratorium on attacks on infrastructure and announced the formation of a "dialogue committee" to resume discussions with the Government.

Appendix 1

Priorities and Restrictions

Priorities

The Government particularly *encourages* foreign direct investment in the following areas:

- Agriculture and agro-based industries;
- Hydropower;
- Information-technology-based services;
- Tourism.

Restrictions

Foreign direct investment is *prohibited* in a number of specific industries, which may be grouped under the following headings:

Security-related

These include arms and ammunition, radioactive materials, atomic energy, and currency, coinage and security printing.

Micro enterprises and cottage industries

Micro enterprises include barber shops and beauty parlours, tailoring establishments and driving instruction. Cottage industries cover handicrafts, including the manufacture of two major export products, handmade carpets and pashmina goods.

Agriculture-related

These include poultry farming, fish farming and bee-keeping.

Tourism-related

These include water rafting, pony trekking and horse riding, trekking, tourist lodges and travel agencies.

Other miscellaneous

These include consultancy services (accounting, engineering, management, etc.), domestic courier services, retail businesses, and alcohol and tobacco products – unless 90% of the alcohol and tobacco product is exported.

It should be noted that there is some uncertainty as to the intended coverage of some of these rubrics (e.g. tourist lodges) and interested *investors are strongly advised not to be discouraged but to make further inquiries of the Department of Industries*. The list of exclusions is also subject to periodic revision and is more likely to be shortened than lengthened, given the Government's increasing openness to foreign investors. The new foreign investment policy currently in draft form proposes that consultancy and tourism-related businesses be opened to FDI.

(The list of restricted areas has two parts: A and B. Most areas of potential interest to foreign investors come under part B, which is also the part that the Government can amend at will. Changes to part A, on the other hand, require parliamentary approval.)

Furthermore, the restrictions are less restrictive than they may appear. For example, in tourism, a company incorporated in Nepal, even with 100% foreign ownership (say, a hotel) can have, as its fully owned subsidiary, a travel agency or a rafting agency. In agriculture, processing is open to FDI, and some foreign investors have been taking advantage of this. Thus, in bee-keeping and herb cultivation, Dabur Nepal provides all the inputs and procures the output for further processing.

In the carpet industry, firms such as Formation Carpets claim that they have a joint venture, although according to the Department of Industries, it is not a joint venture in the strict sense. The arrangement is a marketing collaboration, under which the German partner takes care of the marketing of the products of Formation Carpets.

Appendix 2

Major Foreign Investors

	Name of company	Ownership	Business	Address
1.	Alcoa Closure Systems International Nepal P. Ltd. Mr. Sunil Sharma Technical Project Manager	United States	Plastic closures	Plot No. 25, Hetauda Industrial District Hetauda, Makwanpur District, Nepal Tel: 057-51786 Fax: 977-57-21899
2.	Alpic Everest Finance Ltd. Mr. Ram Shanta Shrestha General Manager	India	Financial services	P.O. Box 12034, Bagbazar, Kathmandu Tel: 219896, 266936, Fax: 977-1-241605 E-mail: rs20496@hotmail.com
3.	American Life Insurance Co. Mr. S.H. Karim Chief Manager	United States	Insurance	130/23, Tindhara Road, 3rd Floor, Kamaladi P.O. Box 11590, Kathmandu Tel: 425038, Fax: 977-1-420948 E-mail: alico@mail.com.np
4.	Ansal Chaudhary Developers P. Ltd. Mr. R. Babbar CEO	India	Housing complex	Sanepa, Lalitpur Tel: 525041, 525039 Fax: 977-1-523818 E-mail: acdpl@ntc.com.np
5.	Arihant Multifibers Ltd. Mr. Raj Kumar Golchha Director	India	Jute products	Golchha House Ganbahal, P.O. Box 363, Kathmandu Tel: 250001 Fax: 977-1-249723 E-mail: golchha@mos.com.np
6.	Arun Valley Hydropower Dev. Co. Pvt. Ltd. Mr. Guru Prasad Neupane Managing Director	Japan	Hydropower	Gpo Box 11039 New Baneshwor, Kathmandu, Nepal Tel: 474209 Fax: 977-1-474895 E-mail:neupane@guru.wlink.com.np
7.	Arun Vanaspati Udhyog Ltd. Mr. Dinesh Golchha Director	Bermuda	Soyabean oil, vegetable ghee	Head Office: Duhabi Sunsari, Koshi Zone Tel: 025-402731, 40274 Branch Office: Golchha House,Ganabahal, P.O.B 123, Kathmandu Tel: 250001 Fax: 977-1-249723 E-mail: golchha@mos.com.np
8.	Bhote Koshi Power Company P. Ltd Mr. Sandip Shah General Manager	United States	Hydropower	P.O. Box 15153 Kalimati, Tahachal, Kathmandu, Nepal Tel: 281658, 281659, 270027 Fax: 977-1-273516 E-mail: sandip@shicp.com.np
9.	Bottlers Nepal Ltd. (Coca-Cola) Mr. N.N. Singh Managing Director	United States	Aerated water (soft drinks)	P.O. Box 2253, Balaju Industrial District, Kathmandu Tel: 350602, 351871 Fax: 977-1-350227
10.	Colgate Palmolive (Nepal) Pvt. Ltd. Mr. Anabil Dutta General Manager	India	Personal care	Hetauda, Makawanpur Ward no 8, Hetauda, Nepal Tel: 977-57-21633, 22005 Fax: 977-57-21222 E-mail: anabil_dutta@colpal.com

11.	Concept Pharmaceuticals (Nepal) Pvt. Ltd Mr. Gopal Sharon General Manager	India	Medicine	P.O. Box 12, Birgunj Bara District, Nepal Tel: 051-21857, 25398 Mobile: 985022412 Fax: 977-51-21114 E-mail: cpnpl@mail.com.np
12.	Cosmos Herbal Products Pvt.Ltd Mr. Akinobu Otsu Chairman	Japan	Herbal cosmetics	P.O.Box 12306, Baluwatar, Kathmandu Tel: 423016, 26556 Fax: 426649 E-mail: cosmherb@mos.com.np Factory: Nepalgunj, Airport Road
13.	Dabur Nepal Pvt.Ltd Mr. T.K. Gupta Director	India	Herb farming & processing, hair oil, toothpaste, etc.	P.O. Box 4993, Tinkune, Koteshwor, Kathmandu Tel: 478010 Fax: 977-1-478030 E-mail: nepal@dabur.wlink.com.np
14.	Essel Packaging Nepal Pvt. Ltd. Mr. U. Soman General Manager	India	Packing tubes	Hetauda Industrial District Makwanpur, Nepal Tel: 977-57-22033, 21105 Fax: 977-57-21702 E-mail: epn@mos.com.np
15.	Everest Bank Ltd. Mr. B.K. Shrestha Chairman	India	Banking	P.O. Box 13384, New Baneshwor Kathmandu Tel: 481018, Fax: 977-1-482263 E-mail: ebl@mos.com.np
16.	Friendship Hydropower Co. Pvt. Ltd. Mr. B.M. Pradhanang Managing Director	China	Hydropower	Thapathali, G.P.O. Box 969, Kathmandu Tel: 222202, 247237 Fax: 977-1-232171 E-mail: bmp@ntc.net.np
17.	Geospatial System P. Ltd. Mr. Suresh Shrestha Managing Director	Japan	Digital maps	P.O. Box 8975 EPC 886 Rotary, Jawalakhel, Lalitpur-13 Tel : 531131, 531231, 531331 Fax: 977-1-531431 E-mail: exch@geospatial-systems.com
18.	Gorkha Brewery Pvt Ltd. Mr. C.P. Khetan Managing Director	Denmark	Beer	P.O. Box 4140, Kathmandu, Bijuli Bazar, Naya Baneshwor, Kathmandu, Nepal Tel: 780080 Fax: 977-1-780464 E-mail: cp@khetan.com.np
19.	Gorkha Lawrie (Pvt) Ltd Mr. R. K. Dhakal General Manager	United Kingdom	Tea	P.O. Box 3800, Hotel Soaltee Oberoi 2 P.O. Box 10056 Lazimpat, Kathmandu Tel: 427120, 428610 Fax: 977-1-225096 E-mail: dhakalrk@hotmail.com
20.	Him Electronics Pvt. Ltd. Mr. Hulas Chand Golchha Chairman Mr. Shekhar Golchha Managing Director	Japan	TV and electronic goods	Golchha House, Ganabhal, P.O.B. 363 Ktm Tel: 250001 Fax: 977-1-249723 E-mail: golchha@mos.com.np Factory: Balkumari, Bhaktapur Tel: 610893

21.	Himal Hydro & General Construction Ltd. Mr. Shiva Kumar Sharma General Manager	Norway	Civil construction	Ekantakuna Bheni Mandal, Lalitpur P.O. Box 12268, Kathmandu Tel: 535032, 535317 Fax: 977-1-524250 E-mail: mail@himalhydro.com.np
22.	Himal Power Ltd. Mr. Torbendik Midtgarden General Manager	Norway	Hydropower	Bijay Niwash, Pulchowk, Lalitpur P.O. Box 126, Kathmandu Tel: 521864 Fax: 977-1-536411 E-mail: gm@hpl.com,np
23.	Himalayan Bank Ltd. Mr. Shahid M. Loan General Manager	Pakistan	Banking	Karmacharya Sanchaya Kosh Building Tridevi Marg, Thamel P.O.Box 20590, Kathmandu Tel: 227749, Fax: 977-1-222800 E-mail: shahid@hbl.com.np
24.	Himalayan Brewery Ltd. Mr. Kumar Mohan Bdr. Shahi Chairman Mr. Gopal Bahadr. Shahi Managing Director	India	Beer	P.O. Box 1448 Kathmandu Ga Dillibazar Tel: 419196, 411888, 419198 Fax: 412847 E-mail: himalayanbrew@ infoclub.com.np
25.	Hotel de L'Annapurna Pvt. Ltd Mr. Ravi Pillai General Manager	India	Hotel	Durbarmarg, Kathmandu P.O. Box 140 Tel: 221711, 221531, Fax: 977-1-225236 E-mail: ravi.pillai@tajhotels.com
26.	Hotel Himalaya P. Ltd Mr. Surendra Singh General Manager	Japan	Hotel	Sahid Sukra Marg Lalitpur, Nepal P.O. Box 2141, Kathmandu Tel: 523900, Fax: 977-1-523909 E-mail: himal@ecomail.com.np
27.	Hotel Vajra Guest House P.Ltd. Mr. Narendra Bajaracharya General Manager	United States	Hotel	P.O. Box 1084, Bijayashori, Kathmandu Tel: 271545, Fax: 977-1-271695 E-mail: vajra@mos.com.np
28.	Hotel Yak And Yeti Ltd. Mr Navneet Nagpal General Manager	India	Hotel	Durbar Marg, P.O. Box 1016, Kathamandu Tel: 248999, 240520, Fax: 977-1-227781, 222426 E-mail: gm@yakandyeti.com
29.	Hulas Steel Pvt.Ltd Mr. C.K. Golchha Director	Bermuda	CGI sheets, GI pipes	G.P.O. Box 4129 Kingsway, Kathmandu Tel: 228389, 243452 Fax: 977-1-220612 E-mail: hulasktm@mos.com.np
30.	International Leasing & Finance Co. Ltd. Mr. Dong Hyuk Kim MD & CEO	Republic of Korea	Financial services	P.O. Box 8975, New Baneswor Kathmandu, Nepal Tel: 481010, Fax: 977-1-482267

31.	L.M. Suvir Brothers Ms. Samira Warda General Manager	Singapore	Hotel (Resort)	Gokarna, Thali, Kathmandu, Nepal Tel: 451212, 451213, 451214 Fax: 977-1-450002 E-mail: gokarna@mos.com.np
32.	Luna Nepal Chemical and Fertilizer Pvt. Ltd. Mr. D. K. Puri General Manager	India	Fertilizer manufacturer	P.O. Box 10686, Kathmandu Block No. Ka 1/160 Baluwatar, Kathmandu,Nepal Tel: 419703, 427539 Fax: 977-1-427539 E-mail: lunanepal@wlink.com.np
33.	Maccaferri Gabions (Nepal) Pvt. Ltd Mr. Renato Fistolera General Manager	Italy	Wire mesh box	G.P.O. Box 12565, Bhatbhateni, Ktm Tel: 419948, 430851 Fax:977-1- 420049 E-mail: adm@ macnepal.wlink.com.np
34.	Manipal Education & Medical Group Dr. J.S. Nagra Dean, Director	India	Medical college	P.O. Box 155, Pokhara, Nepal Tel: 061-21387, 23600 Fax: 977-61-22160, 22587 E-mail: mcoms@mos.com.np
35.	Mt. Everest Brewary P.Ltd Mr. D.B. Amatya Executive Director	Philippines	Beer	Bina Chamber, Pradarshani Marg, Kathmandu, Nepal Tel: 225912, 223700 Fax: 977-1-225785 E-mail: aegroup@wlink.com.np
36.	Nabil Bank Ltd Mr. Suraj Lal Mehta CEO	Ireland	Banking	"NABIL BANK" Kamaladi P.O. Box 3729, Kathmandu Tel: 429546, Fax: 977-1-429548 E-mail: nabil@nabilbank.com.np
37.	National Drilling Company of Nepal Ltd. Mr. D.M. Rajbhandari Managing Director	Denmark	Water well drilling	Ganesh Bhawan Kamal Pokhari, Kathmandu P.O. Box 5354 Dhumbarahi, Kathmandu Tel: 373894 Fax: 977-1-412645 E-mail: pushkar@necoav.com.np
38.	NCC Tunnelling Nepal Pvt. Ltd Mr. S. Henning Fjeldstad Managing Director	Norway	Construction	Jawalakhel, Lalitpur Tel: 534133 Fax: 977-1-534138 E-mail: ncct@mos.com.np
39.	Nepal Bangladesh Bank Ltd. Mr. Shahed Zamil Acting Managing Director	Bangladesh	Banking	New Baneshwor P.O. Box 9062, Kathmandu Tel: 780698, 781195 Fax: 977-1-781824 E-mail: nbblho@nbbl.com.np
40.	Nepal Bangladesh Finance & Leasing Co. Ltd. Mr. Durga Man Shrestha General Manger	Bangladesh	Financial services	Main Road, Biratnagar-9, Morang Tel: 021-30972, 021-30973 Fax: 977-21-21851 E-mail: nbflcbrt@ecomail.com.np

41.	Nepal Bayern Electric Pvt.Ltd Mr. Lochan Gyawali Managing Director	Germany	Transformers	P.O. Box 1357, Pulchowk,Lalitpur Kathmandu, Nepal Tel: 522871 Fax: 977-1-524139 E-mail: info@nbc.com.np
42.	Nepal Boards Ltd. Mr. Diwakar Golchha Director	British Virgin Islands	Decorative laminated boards	POBox: 363, Kathmandu Tel: 268461, 250001 Fax: 977-1-249723 E-mail: ktm@golchha.com
43.	Nepal Ekarat Engineering Co. Pvt. Ltd. Mr. Kush Kumar Joshi Executive Director	Thailand	Power transformers	Tripureshwor, Kathmandu, Tel: 244857, 227564 Fax: 977-1-253612 E-mail: neek@wlink.com.np
44.	Nepal Lever Limited Mr. Rakesh Mohan Managing Director	India	Facial cream & toiletries, etc	P.O. Box 7765, Hertiage Plaza, Kathmandu Tel: 253351, 253462, 254203 Fax: 977-1-254097 E-mail: rakeshmohan@nll.com.np
45.	Nepal Life Insurance Co. Ltd. Mr. B. G. Sharma Chief Executive Officer	India	Insurance	Heritage Plaza, 2nd Floor, Kamaladi P.O. Box 11030, Kathmandu Tel: 223440, 241212, 223189 Fax: 977-1-240143 E-mail: nlic@mos.com.np
46.	Nepal Merchant Banking & Finance Ltd. Mr. Upendra Poudyal General Manager	Malaysia	Financial services	IJ Plaza, Durbar Marg P.O.Box 11543, Kathmandu Tel: 246160 Fax: 977-1-246156 E-mail: nmb@mos.com.np
47.	Nepal SBI Bank Ltd. Mr. B.B Das Manager Director	India	Banking	Hattisar G.P.O. Box 6049, Kathmandu, Nepal Tel: 435516, 435517 Fax: 977-1-435612 E-mail: nsblco@mos.com.np
48.	Nilam Medicine Industries Pvt. Ltd. Mr. Han Marketing Manager	China	Herbal processing & herbal medicine	Sundarijal, P.O. Box 8222, Kathmandu, Nepal Tel: 450880, Fax: 977-1-450799 E-mail: info@nilam.com.np
49.	Nova-Knit Nepal Ltd Mr. Hitesh Golchha Director	Panama	Garments	P.O. Box 363, Ganabahal Tel: 250001 Fax: 977-1- 249723 E-mail: golchha@mos.com.np
50.	Oriental Hotel Pvt.Ltd (Radisson) Mr. B. K. Shrestha Managing Director	United States	Hotel	Lazimpat, Kathmandu P.O. Box 2269 Tel: 411818, Fax: 977-1-411720 E-mail: radisson@radkat.com.np
51.	Sagarmatha Insurance Co. Ltd. Mr. K.B. Basnyat Executive Director	Sri Lanka	Insurance	Kathmandu Plaza, 3rd Floor Block 4, Kamaladi P.O. Box 12211, Kathmandu Tel: 247941, Fax: 977-1-247947 E-mail: sagarmatha@insurance.wlink.com.np

52.	Shree Ram Sugar Mills Ltd. Mr. Diwakar Golchha Director	Bermuda	Sugar	P.O. Box 363, Kathmandu, Nepal Tel: 250001 Fax: 977-1-249723 E-mail: golchha@mos.com.np
53.	Soaltee Hotel Ltd. Mr. Stefan W. Voogel General Manager	Hong Kong, China	Hotel	Tahachal, Kathmandu, Nepal P.O. Box 97, Kathmandu, Tel: 273000, 485043, Fax: 977-1-272205 E-mail: ssatyal@shicp.com.np
54.	Sri Bhrikuti Pulp And Paper Nepal Ltd. Mr. Keshab Prasad Lamichane Vice President	Bermuda	Paper, paper board	P.O. Box 3259, Kathmandu Tel: 471030, 250001 Fax: 977-1-249723 E-mail: rpl@mos.com.np bhrikuti@mos.com.np Factory Tel: 20230,20266
55.	Standard Chartered Bank Nepal Ltd. Mr. Rajeev Kulkarni Chief Executive Officer	Britain	Banking	New Baneshwor Kathmandu, Nepal Tel: 247304, Fax: 977-1-247314 E-mail: rajeevk@ np.standardchartered.com
56.	Surya Nepal Pvt.Ltd Mr. Sanjiv Puri President, Managing Director	India and United Kingdom	Cigarettes, vegetable seeds & garments	Shree Bal Sadan, Kantipath, POB 1864, Kathmandu, Nepal Tel:248260, 227328 Fax:977-1-227585 E-mail: stc@mos.com.np
57.	Tara Gaon Regency Hotel Limited Ms. Harinder Singh General Manager	India	Hotel	Taragaon, Bauddha, P.O.Box 9609, Kathmandu Tel: 491234, Fax: 977-1-490033 E-mail: info@hyatt.com.np
58.	Tiger Mountain Group Mr. Jim Edwards Chairman	United Kingdom	Jungle safari camp	Dhapasi, Kathmandu Tel: 361500 Fax: 361600 E-mail: info@tigermountain.com
59.	Vaicol Industries and Products Pvt. Ltd. Mr. Suraj Vaidya Managing Director	France	Bitumen emulsion	P.O. Box 5062, Kathmandu Tel: 425603 Fax: 977-1-433294 E-mail: voical@mos.com.np
60.	Varun Beverages (Nepal) P. Ltd (Pepsi Cola) Mr. Ravi Jaipuriya Chairman	India	Soft drinks	P.O. Box 2968, Sinamangal, Koteshwor, Kathmandu Tel: 630966, 630909 Fax: 977-1-630584 E-mail: pcnpl@mail.com.np

Appendix 3

Sources of Further Information

Department of Industries
Tripureshwor, Kathmandu
Tel: 261 101, 261 203, 261 168
Fax: 977-1-261 112
Email: *info@doi.com.np*

Public sector

Company Registrar's Office
Tripureshwor, Kathmandu
Tel: 259 948
Fax: 977-1-259 961

Department of Mines & Geology
Lainchour, Kathamndu
Tel: 410 141
Fax: 977-1-412 056
E-mail: nscdmg@mos.com.np

Ministry of Forestry & Soil Conservation
Singha Durbar, Kathmandu
Tel: 220 067, 224 891
Fax: 977-1-262 599
E-mail: mfsc@mail.com.np

Department of Plant Resources
Thapathali, Kathmandu, Nepal
Tel: 251 161, 251 171
Fax: 977-1-251 141
E-mail: banaspati@flora.wlink.com.np

Ministry of Industry, Commerce & Supplies
Singha Durbar, Kathmandu
Tel: 244 140, 224 631
Fax: 977-1-225 594
E-mail: moc@wlink.com.np

Ministry of Information & Communication
Singha Durbar, Kathmandu
Tel: 220 150
Fax: 977-1-227 765
E-mai:l moicpl@ccsl.com.np

Department of Customs
Tripureshwor, Kathmandu
Tel: 259793, 259861
Fax: 977-1-259808

Ministry of Agriculture & Cooperatives
Singha Durbar, Kathmandu
Tel: 225 108, 220 766
Fax: 977-1-225 825
E-mail: mao@fert.wlink.com.np

Department of Electricity Development
P.O. Box 2507, New Baneshwor,
Kathmandu, Nepal
Tel: 479 507, 480 218
Fax: 977-1-480 276
E-mail: edc@psndp.wlink.com.np

Ministry of Culture, Tourism & Civil Aviation
Singha Durbar, Kathmandu
Tel: 225 269, 225 870
Fax: 977-1-227 758
E-mail: motca@ntc.net.np

Department of Immigration
Brikuti Mandap, Kathmandu
Tel: 221996, 222453, 223681
Fax: 977-1-223127

Ministry of Finance
Bag Durbar, Kathmandu
Tel: 259 880, 259 867,266 705
Fax: 977-1-259 191, 259 891

Ministry of Water Resources
Singha Durbar, Kathmandu
Tel: 241 306, 228 046,
228 923, 227 653
Fax: 977-1-227 536
E-mail: mowr@wlink.com.np

Department of Labour
New Baneshwor, Kathmandu
Tel: 477 671-2
Fax: 977-1-477 673
E-mail: dol@mos.com.np

Nepal Telecommunication Authority
Singha Durbar, Kathmandu
Tel: 258 290
Fax: 977-1-221 944
E-mail: ntra@wlink.com.np/
ntra@mos.com.np

Other public institutions

Carpet & Wool Development Board
P.O. Box 15132
Dhumbarahi, Kathmandu
Tel: 416 732
Fax: 977-1-422 257
E-mail: cwdb@wlink.com.np

Nepal Agriculture Research Council
Singha Durbar, Plaza
PO Box 5459, Kathmandu
Tel: 256 837
Fax: 977-1-262 500
E-mail: nerced@mail.com.np

Central Bureau of Statistics
Thapathali, Kathmandu
Tel: 245 913, 245 947
Fax: 977-1-227 720
E-mail: env@stat.wlink.com.np

Nepal Electricity Authority
Durbar Marg, Kathmandu
Tel: 252 834
Fax: 977-1-227 035
E-mail: neam@mos.com.np

Nepal Stock Exchange
P.O.Box: 1550
Kamal Pokhari, Kathmandu
Tel: 250735
Fax: 977-1-262538
E-mail: nepse@stock.mos.com.np

Council for Technical Education and
Vocational Training (CTEVT)
Sano Thimi, Bhaktapur
Tel: 630 679, 630 408, 631 458
Fax: 977-1-630 294
E-mail: ggajurel@yahoo.com

National Tea & Coffee Development Board
Naya Baneshwor, Kathmandu
Tel: 499 786, 495 792
Fax: 977-1-495 941
E-mail: ntcdb@enet.com.np

Export Promotion Board
Babarmahal, Kathmandu
Tel: 224 044, 247 094, 220 709
Fax: 977-1-247 094
E-mail: epboard@wlink.com.np

Nepal Tourism Board
Bhrikuti Mandap, Kathmandu
Tel: 256 909, 256 229, 226 409
Fax: 977-1-256 910
E-mail: info@ntb.wlink.com.np

Trade Promotion Centre
Pulchowk, Lalitpur
P.O. Box 825, Kathmandu
Tel: 525 348, 525 362
Fax: 977-1-525 464
E-mail: tpc@mos.com.np

Nepal Rastra Bank (Central Bank)
Baluwatar, Kathmandu
Tel: 419 804-7
Fax: 977-1-414 553
E-mail: nrb@moa.com.np

Department of Cottage & Small Industries
Tripureshwor, Kathmandu
Tel: 259875
Fax: 977-1-259747
E-mail: dcsi@ccsl.com.np

Civil Aviation Authority Nepal
Babarmahal, Kathmandu
Tel: 262387
Fax: 977-1-262516
E-mail: cnsatm@mos.com.np

Private sector

Nepal Hydro Power Association
Krishna Galli, Latitpur, Nepal
Tel: 535 740
Fax: 977-1-543 195
E-mail: geon-secr@nepalhydro.orf.np

Central Carpet Industries Association
P.O. Box 2419
Bijuli Bazaar, Kathmandu
Tel: 781108
Fax: 977-1-781291
E-mail: ccia@enet.com.np

Nepal Association of Travel Agents
P.O. Box 362
Naxal, Kathmandu
Tel: 418 661, 473 724
Fax: 977-1-418 684, 413 991
E-mail: nata@mail.com.np

Nepal–India Chamber of Commerce & Industry
P.O. Box 13245
Teku, Kathmandu
Tel: 250 607, 250 642
Fax: 977-1-250 642, 272 201
E-mail: nicci@mos.com.np

Computer Association of Nepal
P.O. Box: 956
Bag Bazaar, Kathmandu
Tel: 434836
Fax: 977-1-432700
E-mail: info@can.org.np

Nepal–Australia Chamber of Commerce & Industry
P.O. Box 1307
Durbar Marg, Kathmandu
Tel: 220 245, 228 288
Fax: 977-1-221 180

Nepal–Japan Chamber of Commerce & Industry
C/ Hotel Aquamarine
New Baneshwor, Kathmandu
Tel: 478 753
Fax: 977-1-478 710
E-mail: aqumarin@ccsl.com.np

Federation of Nepalese Chambers of
Commerce & Industry
P.O. Box 269, Shahid Shukra
Milan Marg.
Teku, Kathmandu
Tel: 262 061, 262 218
Fax: 977-1-262 007, 261 022
E-mail: fncci@mos.com.np

Nepal–Britain Chamber of Commerce & Industry
P.O. Box 106
Lainchour, Kathmandu
Tel: 410 583, 414 588
Fax: 977-1-418 137
E-mail: info@nbcci.org

Nepal–Korea (ROK) Chamber of Commerce
& Industry
P.O. Box 1414, Kathmandu
Tel: 240 569, 244 873
Fax: 977-1-221 150
E-mail: kth@nowmedia.wlink.com.np

Garment Association of
Nepal
Shankhamul Road, Naya Baneshwor, Kathmandu,
Tel: 481 773
Fax: 977-1-481 732
E-mail: gan@asso.wlink.com.np

Nepal Chamber of Commerce
P.O. Box 198
Kantipath, Kathmandu
Tel: 230 947
Fax: 977-1-229 998, 220 890
E-mail: chamber@wlink.com.np

Hotel Association Nepal
P.O. Box 2151
Kamalpokhari, Kathmandu
Tel: 412 705, 410 522
Fax: 977-1-424 914
E-mail: *htlassnp@ccsl.com.np*

Nepal–France Chamber of Commerce & Industry
P.O. Box 630
Kamaladi, Kathmandu
Tel: 439 591, 439 594
Fax: 977-1-439 585
E-mail: sre@vishnu.ccsl.com.np

Nepal–German Chamber of Commerce & Industry
P.O. Box 201
Putali Sadak, Kathmandu
Tel: 226 101, 226 099
Fax: 977-1-244 417
E-mail: ngcci@wlink.com.np

Nepal–USA Chamber of Commerce & Industry
P.O. Box 2769
TNT Building, Koteshwor, Kathmandu
Tel: 478 020, 474 508
Fax: 977-1-478 020
E-mail: nusacci@mos.com.np

Confederation of Nepalese Industries
303 Bagmati Chambers
Teku, Kathmandu, Nepal
Tel: 243711
Fax: *977-1-243711*
E-mail: cni@wlink.com.np

Handicraft Association Nepal
P.O. Box No. 784
Thapathali, Kathmandu, Nepal,
Tel: 245 467, 244 231
Fax: 977-1- 222 940
E-mail: han@wlink.com.np Federation of

Nepalese Contractors Association
P.O. Box No. 8975, Kathmandu
Tel: 417434, 421955
Fax: 977-1-425839
E-mail: ecan@wlink.com.np

Others

Japan International Cooperation Agency (JICA)
P.O. Box 450, Kathmandu
Tel: 260 236, 260 199, 261 190
Fax: 977-1-260 229
E-mail: ngurung@jica.org.np

United States Agency for International Development (USAID)
Rabi Bhawan, Kalamiti, Kathmandu, Nepal
Tel: 270 144, 272 385
Fax: 977-1-272 357
E-mail: chmartin@usaid.gov

Asian Development Bank
P.O. Box 5017
Kamaladi, Kathmandu
Tel: 227 779, 227 784
Fax: 977-1-225 063
E-mail: adbnrm@adb.org

International Labour Organization
Pulchowk, Lalitpur
Tel: 531 752, 522 259
Fax: 977-1-550 714, 531 332
E-mail: tegmoreddy@ilo.org

Department for International Development (DFID)
P.O. Box: 106, Kathmandu, Nepal
Tel: 545 179, 545 180
Fax: 977-1-521 425
E-mail: c-jackson@dfid.gov.uk

International Monetary Fund
C/o Hotel Yak & Yeti
Durbar Marg, Kathmandu
Tel: 411 977
Fax: 977-1-411 673
E-mail: alokp@mos.com.np

World Bank
P.O. Box 798
Jyoti Bhawan, Kathmandu
Tel: 226 766, 226 792
Fax: 225 112
E-mail: nshrestha1@worldbank.org

United Nations Development Programme
UN House
P.O.Box: 107, Kathmandu
Pulchowk, Nepal
Tel: 524 366, 523 200
Fax: 977-1-523 991, 523 986
E-mail: henning.karcher@undp.org

Useful Internet sites

Government information
www.nepalhmg.gov.np

Federation of Nepalese Chambers of Commerce & Industries
www.fncci.com

National Planning Commission
www.npc.gov.np

Nepal Rastra Bank.
www.nrb.org.np

Nepal India Chamber of Commerce & Industry
www.nicci.com

Finance Ministry
www.facd.gov.np

Related to agriculture, ecology, biodiversity, forestry, health, sociology, etc.
www.nepalnet.org.np

Related to trade
www.tpcnepal.org.np

Ministry of Industry, Commerce & Supplies
www.info-nepal.com/epb

Nepal Electricity Authority
www.nea.org.np

Department of Agriculture
www.narc-nepal.org

Nepal Tourism Board
www.welcomenepal.com

Cental Bureau of Statistics
www.cbs.gov.np

News about Nepal
www.nepalnews.com

New Business Age, monthly business magazine
www.businessagenepal.com

Appendix 4

Public holidays and related information:
April 2002 – April 2003

Public Holidays	Date	Days	Remarks
Nepali New Year	April 14, Sunday	1	
Birthday of Lord Rama	April 21, Sunday		
May Day	May 1, Wednesday	1	For factory workers and other employees of manufacturing companies
Birthday of Lord Buddha	May 26, Sunday	1	
Birthday of HM the King	July 7, Sunday	1	
Birthday of Lord Krishna	August 30, Friday	1	
Teej	September 9, Monday	1	Only for women
Rishi Panchami	September 11, Wednesday	1	Only for women
Bishwakarma Puja	September 17, Tuesday	1	For factory workers
Indra Jatra	September 20, Friday	1	Only for the Kathmandu valley
Dashain festivals	October 12–17	6	
Tihar (Deepavali) festivals	November 4–6	3	
Constitution Day	November 9, Sunday	1	
Chhath festival	November 10, Monday	1	Only for the Terai districts
Kirat Purnima	December 19, Friday	1	Only for those who follow the Kirat religion
Christmas	December 25, Thursday	1	Only for Christians
National Unity Day	January 11, Saturday	1	
Public Holidays in 2003			
Martyr's Day	January 30, Thursday	1	
Lhochar	February 2, Sunday	1	Only for those districts in the hills and mountains where Lhochar is celebrated
National Democracy Day	February 19, Friday	1	
Maha Shivaratri	March 1, Saturday	1	
International Women's Day	March 8, Saturday	1	Only for women
Phagupurnima (Holi)	March 17, Tuesday	1	In the hills and mountain districts
Phagupurnima (Holi)	March 18, Wednesday	1	In the Terai districts
Nepali New Year	April 14, Monday	1	
Id-ul-Juha	February 14, Friday	1	Only for Muslims
Id-ul-Fitr	December 6, Saturday	1	Only for Muslims

NB

1. The information given above is for government offices. The banks follow this list to a large extent. But the exact list is as fixed by the Nepal Rastra Bank, which brings out the list by the end of March every year.
2. Business organizations are allowed to adjust their number of holidays within the legal requirement of a minimum number of holidays, which is 13.
3. As Nepal's official calendar of Bikram Sambat is based on a combination of lunar and solar calendars, the festivals may fall on different days in different years. However, the difference is usually of one or two days only. The Government publishes an official list by March 31 every year for the forthcoming year.

Normal Business Hours

Kathmandu Valley

Monday to Friday
Office hours: 9 a.m. to 5 p.m. (but 9 a.m. to 4 p.m. from mid-November to mid-February)

Most banks are open from 9 a.m. to 3.30 p.m. Some banks have started providing services during additional hours such as late evenings.

Shops are open up to 7 p.m. from Sunday to Friday. Some supermarkets are also open on Saturdays and public holidays.

Districts outside Kathmandu valley

Sunday to Friday
Office hours: 10 a.m. to 5 p.m (but 10 a.m. to 4 p.m. from mid-November to mid-February)

Most Banks are open from 10 a.m. to 3 p.m.

Shops are open up to 7 p.m. from Sunday to Friday. Some supermarkets are also open on Saturday and public holidays.

Appendix 5

Privatization

Public enterprises in the liquidation process

Name of company	Sector	Product of services
Nepal Transport Corporation	Service	Carrier of cargo
Sajha Transport	Service	Bus transport operator
Cottage Industries & Handicraft Emporium Ltd	Trading	Handicrafts
Nepal Orind Magnesite Pvt. Ltd.	Industrial	Magnesite mining and processing
Nepal Coal Limited	Trading	Coke and coal
Himal Cement Company Ltd.	Industrial	Cement factory
Hetauda Textile Ltd.	Industrial	An integrated cotton textile factory
Birganj Sugar Mills Ltd.	Industrial	Sugar mill based on sugar cane

Privatized[1] enterprises (in chronological order by date of privatization)

S.N.	NAME OF COMPANY	DATE OF PRIVATIZATION	METHOD OF PRIVATIZATION
1	BHRIKUTI PAPER MILLS (BPM)	1992	Asset and business sale
2	HARISIDHI BRICK AND TILE FACTORY(HBTF)	1992	Asset and business sale
3	BANSBARI LEATHER AND SHOE FACTORY	1992	Asset and business sale
4	NEPAL FILM DEVELOPMENT COMPANY(NFDC)	1993	Share sale
5	BALAJU TEXTILE INDUSTRY LTD. (BTI)	1993	Share sale
6	RAW HIDE COLLECTION AND DEVELOPMENT CORPORATION LTD. (RHCDC)	1993	Share sale
7	NEPAL BITUMEN AND BARREL UDHYOG LTD. (NBBU)	1994	Share sale
8	NEPAL LUBE OIL LTD. (NLO)	1994	Share sale
9	NEPAL JUTE TRADE AND DEVELOPMENT COMPANY	1993	Liquidation
10	TOBACCO DEVELOPMENT COMPANY	1994	Liquidation
11	NEPAL FOUNDRY INDUSTRY (NFI)	1996	Share sale
12	SHRI RAGHUPATI JUTE MILLS (SRJM)	1996	Share sale
13	BIRATNAGAR JUTE MILLS (BJM)[4]	1996	Management contract
14	NEPAL BANK LTD. (NBL)[5]	1997	Share sale
15	AGRICULTURE TOOLS FACTORY (ATF)[6]	1997	Share sale
16	BHAKTAPUR BRICKS FACTORY (BBF)[7]	1997	Lease
17	NEPAL TEA DEVELOPMENT CORPORATION[8]	2000	Share sale & lease

SALES PROCEEDS[2] (NRs thousand)	PROPORTIONATE SHARE Management	Employees	Public
229 800	70	5	25
226 900	72	5	23
22 400	75	5	25
64 662	51	5	44
17 716	70	5	25
3 990	-		100
	-		
11 640	65	5	30
30 424	40	5	33[3]
Liquidation			
Liquidation			
14 473	51	5	44
82 204	65	5	30
Business contract	-		
125 140	-	5	54[5]
95 100	65	5	30
20 300 (10-year lease)	-	-	100
267 105	65	5	30

[1] Or liquidated.
[2] Except in the case of items 6, 14 and 16, the amount shown is the price of shares sold to management.
[3] The remaining shares (22%) are in the names of other companies.
[4] BJM is a semi-government enterprise in which the private sector holds the majority of the shares. The decision to lease out it was taken by the company's board.
[5] In this case, the Government's share has dropped to 41%.
[6] Reverted to Government ownership because buyer could not fulfil contractual obligations.
[7] Reverted to Government management because lessee could not fulfil contractual obligations.
[8] Formally, the process is not yet over. The completion date is to be finalized.

Public enterprises not yet privatized (as of December 2002)

Name of company	Sector	Nature of business
Agro-Lime Industry Ltd.	Industrial	Limestone quarrying
Birgunj Sugar Factory Ltd.	Industrial	Sugar mill based on sugar cane
Dairy Development Corporation	Industrial	Dairy products
Herbs Production & Processing Company Ltd	Industrial	Herbal medicines
Hetauda Cement Industry Ltd.	Industrial	Cement factory
Janakpur Cigarette Factory Ltd.	Industrial	Cigarette factory
Lumbini Sugar Factory Ltd.	Industrial	Sugar mill based on sugar cane
Nepal Rosin & Turpentine Ltd.	Industrial	Turpentine oil
Royal Drugs Ltd.	Industrial	Pharmaceuticals manufacturing
Udayapur Cement Industry Ltd.	Industrial	Cement factory
Agricultural Input Corporation	Trading	Fertilizer/seeds
National Trading Corporation Ltd.	Trading	Cement/sugar/cloth
Nepal Food Corporation	Trading	Food grains, edible oil etc.
Nepal Oil Corporation Ltd.	Trading	Petroleum fuel and lubricant oil
Timber Corporation of Nepal Ltd.	Trading	Lumber and timber
Industrial District Management Ltd.	Service	Owns and operates industrial districts at various places of the country
National Construction Company Nepal Ltd.	Service	Construction
Nepal Transit & Warehouse Ltd.	Service	Clearing, forwarding warehousing
Nepal Engineering Consultancy Service Center Ltd.	Service	Engineering consultancy
Royal Nepal Airline Corporation	Service	Airline
National Productivity & Economic Development Center Ltd.	Service	Training and management consultancy
Cultural Corporation	Social	Owns and operates a theatre for drama and cultural shows
Gorkhapatra Sansthan	Social	Newspaper publication
Janak Education Material Center Ltd.	Social	Printing of school textbooks and other educational material
Nepal Television	Social	TV broadcasting
Rural Housing Company Ltd.	Social	Housing
Nepal Drinking Water Corporation	Public utility	Drinking water supplier
Nepal Electricity Authority	Public utility	Electricity generation, transmission and retailing
Nepal Telecommunication Corporation	Public utility	Telecommunication services
Agricultural Development Bank	Financial	Development bank
Rastriya Beema Sansthan	Financial	Composite insurance Company selling life insurance and non-life insurance policies
Nepal Industrial Development Corporation	Financial	Industrial development bank
Rastriya Banijya Bank	Financial	Commercial bank
Deposit Insurance & Credit Guarantee Corporation Pvt. Ltd.	Financial	Credit guaranteeing institution. Also provides limited insurance services, particularly for insuring livestock purchased by farmers with loan proceeds from the Agriculture Development Bank
Nepal Housing Development Financing Company	Financial	Housing finance company
Nepal Stock Exchange Ltd.	Financial	Operates the only stock exchange in the country
Citizen Investment Trust	Financial	A finance company that also operates unit trusts created through voluntary as well as compulsory savings of government employees as well as other citizens.

Appendix 6

List of major laws affecting foreign investors

(a) Labour & industries

Name	Area
Labour Act, 2048 (1992)	Umbrella law governing labour, including work permits for foreigners
Labour Rules, 2050 (1994)	General rules governing labour, promulgated under the Labour Act 1992
Essential Services Act, 2014 (1958)	Law empowering Government to declare some services as essential services so that strikes in those services become illegal
Industrial Enterprises Act, 2049 (1992)	Definition and classification of industrial enterprises and facilities for such enterprises
Foreign Investment & Technology Transfer Act, 2049 (1992)	Definition of foreign investment and provisions governing foreign investment
Tourism Act, 2035 (1978)	Governs tourism services such as travel agencies, trekking, and mountaineering
Travel and Trekking Agency Rules, 2037 (1981)	Governs travel and trekking services, promulgated under the Tourism Act, 1978
Mountaineering Rules, 2036 (1980)	Govern mountaineering expeditions, promulgated under the Tourism Act, 1978
Bonus Act, 2030 (1974)	Specifies bonus payments to employees

(b) Trade, commerce & taxation

Name	Area
Income Tax Act, 2058 (2002)	Specifies income tax rates, taxable income calculations, deductions, etc.
Income Tax Rules, 2059 (2002)	Promulgated under the Income Tax Act
Value Added Tax Act, 2052 (1996)	VAT
Value Added Tax Rules, 2053 (1997)	VAT
Excise Act, 2058 (2001)	Excise duties
Contract Act, 2056 (2000)	Contract enforcement
Export Import Control Act, 2034 (1978)	Export-import trade
Customs Act, 2019 (1962)	Export-import trade
Company Act, 2053 (1997)	Company formation, operation, dissolution, etc.
Finance Act, 2059 (2002)	Latest revision of revenue-related laws
Commercial Bank Act, 2031 (1974)	Commercial banking
Development Bank Act, 2052 (1995)	Development banking
Foreign Exchange Regulation Act, 2019 (1962)	Foreign exchange
Patent, Design & Trade Mark Act, 2022 (1965)	Intellectual property rights
Arbitration Act, 2038 (1981)	Arbitration procedures for commercial and other disputes. This law came into effect in 1982, though it was promulgated in 1981. It also provides for the enforcement of foreign arbitral awards in Nepal if certain procedures specified in this law are followed.

(c) The environment

Environment Protection Act, 2053 (1997)	Environmental requirements to be fulfilled by all businesses
Environment Protection Regulations, 2054 (1998)	Environmental requirements to be fulfilled by all businesses

N.B. The number immediately following the law is the year according to the Nepali calendar (Bikram Sambat), which is roughly 57 years ahead of the Gregorian calendar. The number in parentheses is the approximate equivalent according to the latter.

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