MANUFACTURING SECTOR PROFILE
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Paper
Environment friendly, woodfree paper
The promulgation of the Constitution of Nepal in 2015 ended Nepal’s long political transition to a federal republic. The conclusion of this process marks the beginning of another process, that of economic transformation. The Government of Nepal has realised that its funds alone, will not meet the capital required to transform Nepal. Private investment, both domestic and foreign, will be key to Nepal’s growth agenda.

In recent years, Nepal has made great strides towards attracting private sector investment. The Investment Board Nepal, chaired by the Right Honourable Prime Minister, was established in order to fast-track large investments and act as a one-window facilitation agency. Similarly, Nepal is in the process of amending various laws and regulations to make them more investment friendly.

In an effort to attract investment, in 2016, the Investment Board Nepal, with support from Ministry of Industry, produced the ‘Nepal Investment Guide’. Building on this initiative, the Investment Board Nepal has again taken the lead to come up with this publication. This ‘Manufacturing Sector Profile’ outlines sector-specific opportunities for investment, the policy environment, incentive structures, and licensing processes, among other things. It has been produced at a very opportune time as Nepal embarks on the path of economic transformation.

I am confident that this document contains sector-specific information of interest to investors searching for potential investment destinations. Similarly, I believe that this document will provide potential investors with a basic understanding of the issues and address any concerns they might have.

I would like to thank Japan International Cooperation Agency (JICA) for providing financial support and technical input for this publication. Similarly, I would like to thank the staff at the Office of the Investment Board and Department of Industry and others who have directly or indirectly contributed to the production of the document. I would also like to acknowledge T R Upadhya & Co. for assisting in the research work.

MAHA PRASAD ADHIKARI
CEO, Investment Board Nepal
## ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIPPA</td>
<td>Bilateral Investment Protection and Promotion Agreement</td>
</tr>
<tr>
<td>DFTQC</td>
<td>Department of Food Technology and Quality Control</td>
</tr>
<tr>
<td>DOI</td>
<td>Department of Industry</td>
</tr>
<tr>
<td>EIA</td>
<td>environmental impact assessment</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>FMCG</td>
<td>fast moving consumer good</td>
</tr>
<tr>
<td>FY</td>
<td>fiscal year</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GMP</td>
<td>Good Manufacturing Practice</td>
</tr>
<tr>
<td>GNI</td>
<td>gross national income</td>
</tr>
<tr>
<td>IBN</td>
<td>Investment Board Nepal</td>
</tr>
<tr>
<td>ID</td>
<td>Industrial District</td>
</tr>
<tr>
<td>IEE</td>
<td>initial environment evaluation</td>
</tr>
<tr>
<td>IIPB</td>
<td>Industry &amp; Investment Promotion Board</td>
</tr>
<tr>
<td>INR</td>
<td>Indian rupee</td>
</tr>
<tr>
<td>NPR</td>
<td>Nepali rupee</td>
</tr>
<tr>
<td>OCR</td>
<td>Office of Company Registrar</td>
</tr>
<tr>
<td>PAN</td>
<td>Permanent Account Number</td>
</tr>
<tr>
<td>PDA</td>
<td>Project Development Agreement</td>
</tr>
<tr>
<td>PIA</td>
<td>Project Investment Agreement</td>
</tr>
<tr>
<td>SAFTA</td>
<td>South Asian Free Trade Area</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>VAT</td>
<td>value added tax</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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</table>
CONTENTS

FOREWORD i
ACRONYMS ii
COUNTRY PROFILE
COUNTRY OVERVIEW 1
ECONOMIC OVERVIEW 2
THE MANUFACTURING SECTOR OVERVIEW 3
SUB-SECTORS 5
REGIONS 7
FACILITIES AND INFRASTRUCTURE 10
INCENTIVES 13
INVESTMENT OPPORTUNITIES 15
AREAS FOR INVESTMENT 16

LAWS AND REGULATIONS 18
STARTING A BUSINESS IN NEPAL 19
REGULATORY FRAMEWORK 22
TAXATION 23
CUSTOMS AND EXCISE DUTY 26
LABOUR LAWS 27

ANNEX 1: INCENTIVES FOR COMPANIES OPERATING IN SPECIAL ECONOMIC ZONES (SEZs) 29
ANNEX 2: RESTRICTED MANUFACTURING BUSINESSES IN KATHMANDU METROPOLITAN CITY 30
GOVERNMENT AND OTHER AGENCIES FOR DOING BUSINESS IN NEPAL 31

LIST OF TABLES AND FIGURES

TABLE 1. COUNTRY PROFILE 1
TABLE 2. ECONOMIC INDICATORS OF NEPAL 1
TABLE 3. PROFILE OF MANUFACTURING SECTOR 4
TABLE 4. KEY INDICATORS OF MANUFACTURING SUB-SECTORS 6
TABLE 5. TYPES OF MANUFACTURING INDUSTRIES IN MAJOR MANUFACTURING REGIONS 9
TABLE 6. KEY STATISTICS FOR INDUSTRIAL DISTRICTS 11
TABLE 7. TAX CONCESSIONS FOR INDUSTRY 14
TABLE 8. APPROVING AGENCIES FOR FDI BY INVESTMENT SIZE 19
TABLE 9. DEPRECIATION RATES FOR FIXED ASSETS 24
TABLE 10. CORPORATE TAX RATES 24
TABLE 11. MINIMUM WAGE 27

FIGURE 1. COMPOSITION OF NEPALI INDUSTRY BY NUMBER OF ENTITIES ESTABLISHED 4
FIGURE 2. MANUFACTURING SUB-SECTORS BY GDP VALUE ADDED 5
FIGURE 3. DISTRIBUTION OF MANUFACTURING INDUSTRIES, INDUSTRIAL DISTRICTS AND SEZS 7
FIGURE 4. FACILITIES AND INFRASTRUCTURE FOR MANUFACTURING IN NEPAL 10
FIGURE 5. PROCEDURE FOR STARTING A BUSINESS IN NEPAL 20
Country name: Nepal (Federal Democratic Republic of Nepal)
Region: South Asia
Capital: Kathmandu, located in central Nepal
Population: 28.5 million
Area: 147,181 square km
Altitude: 59–8,848 m (Mt Everest)
Standard time: GMT + 5:45 hours
Governing system: Republic: multi-party parliamentary democracy with elected prime minister accountable to the parliament as executive head; constitution promulgated in 2015
Language: Nepali, written in Devanagari script; English is widely used in business
Religion: Secular state; Hinduism 81.3%, Buddhism 9.0%, Islam 4.4%, Kirat 3.1%, Christianity 1.4%
Geography (south to north):
- Terai region: Altitude 59–700 m
- Hilly region: Altitude 700–3,000 m
- Mountain region: Altitude 3,000–8,848 m
Currency: Nepali rupee (NPR), 1 USD = 108 NPR (as of 1 January 2017), 1 INR = 1.6 NPR (fixed rate)
ISD code: + 977
Climate:
- Terai region: tropical/sub-tropical
- Hilly region: moderate
- Mountain region: sub-alpine/alpine

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (million)</th>
<th>GDP (USD billion)</th>
<th>GDP growth rate (%)</th>
<th>GNI per capita (USD)</th>
<th>GNI PPP per capita (USD)</th>
<th>Agriculture value added (% GDP)</th>
<th>Industry value added (% GDP)</th>
<th>Service value added (% GDP)</th>
<th>Workers’ remittances (USD billion)</th>
<th>Inflation consumer prices (%)</th>
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<td>27.2</td>
<td>18.9</td>
<td>3.4</td>
<td>610</td>
<td>2,050</td>
<td>38.3</td>
<td>15.4</td>
<td>46.3</td>
<td>4.2</td>
<td>9.3</td>
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<td>4.8</td>
<td>690</td>
<td>2,170</td>
<td>36.5</td>
<td>15.5</td>
<td>48.0</td>
<td>4.8</td>
<td>9.5</td>
</tr>
<tr>
<td>2013</td>
<td>27.8</td>
<td>19.4</td>
<td>4.1</td>
<td>730</td>
<td>2,270</td>
<td>35.0</td>
<td>15.7</td>
<td>49.2</td>
<td>5.6</td>
<td>9.0</td>
</tr>
<tr>
<td>2014</td>
<td>28.2</td>
<td>19.8</td>
<td>5.9</td>
<td>740</td>
<td>2,440</td>
<td>33.8</td>
<td>15.4</td>
<td>50.7</td>
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<td>8.4</td>
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<tr>
<td>2015</td>
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<td>21.2</td>
<td>2.7</td>
<td>730</td>
<td>2,500</td>
<td>33.0</td>
<td>15.4</td>
<td>51.6</td>
<td>6.7</td>
<td>7.9</td>
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COUNTRY OVERVIEW

Country profile
Table 1. Country profile

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<th>2014</th>
<th>2015</th>
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<td>Population (million)</td>
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<td>27.5</td>
<td>27.8</td>
<td>28.2</td>
<td>28.5</td>
</tr>
<tr>
<td>GDP (USD billion)</td>
<td>18.9</td>
<td>19.2</td>
<td>19.4</td>
<td>19.8</td>
<td>21.2</td>
</tr>
<tr>
<td>GDP growth rate (%)</td>
<td>3.4</td>
<td>4.8</td>
<td>4.1</td>
<td>5.9</td>
<td>2.7</td>
</tr>
<tr>
<td>GNI per capita (USD)</td>
<td>610</td>
<td>690</td>
<td>730</td>
<td>740</td>
<td>730</td>
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<tr>
<td>GNI PPP per capita (USD)</td>
<td>2,050</td>
<td>2,170</td>
<td>2,270</td>
<td>2,440</td>
<td>2,500</td>
</tr>
<tr>
<td>Agriculture value added (% GDP)</td>
<td>38.3</td>
<td>36.5</td>
<td>35.0</td>
<td>33.8</td>
<td>33.0</td>
</tr>
<tr>
<td>Industry value added (% GDP)</td>
<td>15.4</td>
<td>15.5</td>
<td>15.7</td>
<td>15.4</td>
<td>15.4</td>
</tr>
<tr>
<td>Service value added (% GDP)</td>
<td>46.3</td>
<td>48.0</td>
<td>49.2</td>
<td>50.7</td>
<td>51.6</td>
</tr>
<tr>
<td>Workers’ remittances (USD billion)</td>
<td>4.2</td>
<td>4.8</td>
<td>5.6</td>
<td>5.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Inflation consumer prices (%)</td>
<td>9.3</td>
<td>9.5</td>
<td>9.0</td>
<td>8.4</td>
<td>7.9</td>
</tr>
</tbody>
</table>


1 Estimated population in 2015
ECONOMIC OVERVIEW

Nepal is strategically located between India and China, two of the largest economies in the world. In 2015, the country adopted a new constitution that embraces multiparty democracy, federalism and private sector-led liberal economics. The government is committed to the promotion of foreign investment, providing a unique opportunity for foreign direct investment (FDI) in Nepal.

Although Nepal is classified as a least developed country (LDC) by the United Nations, its goal is to graduate from this status by 2022 and transition to a middle income country by 2030. To achieve these targets, an economic growth rate of 7–8% and investment in infrastructure of USD 13–18 billion by 2020 will be required. The Ease of Doing Business Index 2017 by the International Finance Corporation (IFC), World Bank Group places Nepal second only to Bhutan among all South Asian countries. Nepal’s investment potential, combined with these feature, have led to an increase in interest in FDI in recent years.

Nepal has also put in place fiscal incentives and other arrangements to facilitate global trade. As a member of the World Trade Organization (WTO), Nepal offers one of the lowest import duties in the region. Nepal has also signed Double Taxation Avoidance Agreements with 10 countries and concluded Bilateral Investment Protection and Promotion Agreements (BIPPAs) with 6 countries. Following the entry into force of the Nepal-India Trade and Transit Treaty, Nepal enjoys duty and quota-free access to India’s massive and growing market. China’s rapidly growing economy also provides duty free access to approximately 8,000 products.

As a result of its prolonged political transition and inadequate infrastructure, Nepal’s economic growth rate has remained at 3.8%, on average, for the past 10 years, which is below the South Asian average. Remittances continue to play a critical role in GDP growth for consumption. In FY 2015/16, remittances comprised approximately 29.6% of GDP. Remittances help to increase aggregate demand in the local market, despite low economic growth. Over the last decade, disposable income has increased by 14.4% per year on average, which has led to a comparable increase in consumption.

At present, with foreign currency reserves of USD 9.8 billion (as of July 2016), Nepal is in a good position to receive finance imports. However, the trade deficit, which reached 31.3% of GDP in FY 2015/16, continues to be of concern. It is expected that FDI will stimulate domestic production and gradually close this gap. Despite the catastrophic earthquake of 25 April 2015 and the transport blockade of the border that followed, Nepal has begun to rebuild and continues to be a highly attractive destination for FDI in various sectors.

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THE MANUFACTURING SECTOR
SECTOR PROFILE : MANUFACTURING

OVERVIEW

Table 3. Profile of manufacturing sector

<table>
<thead>
<tr>
<th>Description</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to GDP (industry/manufacturing)</td>
<td>15.4%/ 6.3%</td>
</tr>
<tr>
<td>Average sector growth in last 10 years</td>
<td>1.18%</td>
</tr>
<tr>
<td>Minimum monthly salary</td>
<td>NPR 9,700 (Approx. USD 90)(^4)</td>
</tr>
</tbody>
</table>


There are currently 6,328 companies in Nepal registered under different categories (as of March 2016). The largest share of these (41%) are in the manufacturing sector, which has 2,585 companies, followed by the service and tourism sectors. As the manufacturing sector represents a major portion of the industry in Nepal, the development of this sector is important to the government in terms of generating employment opportunities, promoting trade, enhancing national income growth, and alleviating poverty. It also offers economies of scale, technological progress, output growth, productivity, positive spill-over effects and efficiency in terms of resource utilisation (compared to the agricultural sector, for example).

The structural transformation of Nepal’s economy over the last decade has brought with it significant growth in the service sector, compared to the manufacturing and agriculture sectors. However, a knowledge-based economy cannot be sustained unless it is adequately supported by a growing manufacturing economy. In a country where the contribution of agriculture to total GDP is fast decreasing (36.6% in FY 2000/01 to 31.6% in FY 2015/16),\(^5\) manufacturing jobs are considered ideal for workers transitioning out of agriculture, as service jobs require a higher level of education and professionalism.

The rise in the trade deficit can be attributed to the weak production base in Nepal and an increase in imports of goods from India. The revival of the manufacturing sector has the potential to reduce the trade deficit, increase exports and create new jobs. Additionally, the removal of trade barriers under the WTO regime can provide impetus for the expansion of the manufacturing sector in terms of size, capacity and productivity, which will help Nepal to move towards prosperity.

\(^4\) This figure includes dearness allowance (cost of living adjustment) of NPR 3,495. 1 USD = 108 NPR (as at 1 January 2017).

The manufacturing sector in Nepal can be broadly classified into three sub-sectors: fast moving consumer goods (FMCGs), industrial goods, and consumer goods. As you can see from Figure 2, FMCGs is the largest of these sub-sectors. Due to limited electricity (although this has become more reliable since 2016) and lack of an enabling environment for manufacturing enterprises, industrial goods constitute a relatively small portion at this moment; however, this sub-sector is expected to grow as the economy matures and the enabling environment improves. A detailed description of each sub-sector is provided below.

**Industrial goods**

**Fabricated metal product** – Cast iron, steel, structural metal products, tanks, reservoirs, containers of metal and other fabricated metal products

**Non-metallic mineral products** – Clay building materials, porcelain and ceramic products, cement, lime and plaster, articles made of concrete and plaster, and cut, shaped and finished stone

**Basic metal** – Basic iron, steel, precious and other non-ferrous metals

**Plastics and rubber products** – Plastics and synthetic rubber in primary forms, rubber tyres and tubes, re-treading and materials for rebuilding rubber tyres, and other rubber and plastic products

**Textiles** – Fabrics, pashmina, yarn and other textiles (except for apparel)

**Consumer goods**

**Electronics** – Wire and cable, dry cell batteries, electric motors, generators and transformers, television and radio receivers

**Furniture** – Wooden furniture

**Leather and allied products** – Tanned/processed leather (mainly wet blue) and leather goods such as saddlery, handbags, gloves and belts

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### Table 4. Key indicators of manufacturing sub-sectors\(^7\)

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>GDP value added (%)</th>
<th>No. of companies</th>
<th>No. of employees</th>
<th>Export (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FMCGs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food and beverages</td>
<td>29.30%</td>
<td>1,017</td>
<td>71,946</td>
<td>22.2%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>14.46%</td>
<td>30</td>
<td>3,312</td>
<td>-</td>
</tr>
<tr>
<td>Soap</td>
<td>3.34%</td>
<td>34</td>
<td>1,637</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>47.10%</td>
<td>1,081</td>
<td>76,895</td>
<td></td>
</tr>
<tr>
<td><strong>Industrial goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>9.76%</td>
<td>232</td>
<td>15,884</td>
<td>16.0%</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>6.82%</td>
<td>316</td>
<td>31,316</td>
<td>1.0%</td>
</tr>
<tr>
<td>Basic metal</td>
<td>5.14%</td>
<td>33</td>
<td>9,985</td>
<td>9.6%</td>
</tr>
<tr>
<td>Plastics and rubber products</td>
<td>5.02%</td>
<td>247</td>
<td>15,252</td>
<td>11.1%</td>
</tr>
<tr>
<td>Textiles</td>
<td>3.18%</td>
<td>153</td>
<td>45,667</td>
<td>26.2%</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>29.92%</td>
<td>981</td>
<td>118,104</td>
<td></td>
</tr>
<tr>
<td><strong>Consumer goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronics</td>
<td>1.28%</td>
<td>38</td>
<td>2,718</td>
<td>-</td>
</tr>
<tr>
<td>Furniture</td>
<td>1.21%</td>
<td>390</td>
<td>10,824</td>
<td>-</td>
</tr>
<tr>
<td>Leather and allied products</td>
<td>0.19%</td>
<td>8</td>
<td>390</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>2.68%</td>
<td>436</td>
<td>13,932</td>
<td></td>
</tr>
</tbody>
</table>

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Due to its unique topography and strong business linkages with India, manufacturing companies in Nepal are concentrated in the capital city of Kathmandu and the Terai plains, which border India. The major cities for manufacturing are described below.

**Kathmandu**

Kathmandu is the capital of Nepal and its most important industrial and commercial centre. A number of manufacturing companies have their headquarters in Kathmandu. Kathmandu and its surrounding areas are generally preferred for investing due to the size of the market and the enabling environment for manufacturing businesses. The economic output of the metropolitan area alone is worth more than one third of national GDP, and Kathmandu is considered the largest domestic market for consumption. The head offices of all commercial banks, the chamber of commerce, Nepal Stock Exchange, various telecommunication companies, the electricity authority, and various other national and international organisations are located in Kathmandu. According to the Economic Survey 2015/16, Kathmandu is first among the top-10 districts for foreign investment. The major foreign beverages such as Coca-Cola and Pepsi are manufactured in Kathmandu. Kathmandu also exports goods such as handicrafts, artworks, garments, carpets, pashminas and paper to countries in Asia, Europe and the Americas. Balaju Industrial District, Patan Industrial District and Bhaktapur Industrial District are located in the Kathmandu valley.

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Biratnagar

Biratnagar is a sub-metropolitan municipality and the second largest city in Nepal. Located in Morang district, 399 km east of Kathmandu and 6 km north of the border with India, it is the industrial capital of Nepal and has viable business, commerce and industry. It exports instant noodles, biscuits and garments to India and cities in Nepal. It also exports garments to the United States and some European countries. Biratnagar Sugar Mill and Biratnagar Jute Mill are the city’s biggest industries.

Chitwan district

Chitwan district is located in the Terai, with Bharatpur, the fifth largest city in Nepal, as its district headquarters. Chitwan is famous for the production of mustard oil, rice, wheat and vegetables. Chitwan is also famous for floriculture, mushroom cultivation and beekeeping. It is one of the fastest growing districts in Nepal and a number of manufacturing units are being set up there.

Birgunj

Birgunj is a metropolitan municipality and border town in Parsa district. It is of significant economic importance for Nepal as most of the country’s trade with India is via Birgunj and the Indian town of Raxaul. The Tribhuvan Highway (the main highway in Nepal) links Birgunj to Kathmandu. Goods are transported to and from India via Birgunj’s dry port, which is the key terminal for surface cargo delivery to Nepal. This cargo point in the south connects with Kathmandu via another key industrial city, Hetauda.

Hetauda

Hetauda is a sub-metropolitan city in Makwanpur district in southern Nepal. Located 132 km from, Kathmandu, via the Tribhuvan Highway, it is the administrative headquarters of Makwanpur district. With construction of the envisaged tunnel from Kathmandu, travelling time to Hetauda is expected to be reduced to less than 1 hour. Hetauda Industrial District (HID) is one of the biggest Industrial Districts in Nepal and houses manufacturing units including some multinational companies.

Bhairahawa

Bhairahawa municipality is the headquarters of Rupandehi district in the outer Terai plains, located 265 km west of Kathmandu. It is a major trading city. There is a custom check point 5 km south of the city near the Indian border for goods transported between India and Nepal. The Bhairahawa Special Economic Zone (SEZ) has been set up by the Government of Nepal and will be operational by mid-2017.

Nepalgunj

Nepalgunj is a sub-metropolitan city in Banke district in the Terai plains, bordering Bahraich district in Uttar Pradesh, India. Indian Railways reaches Rupaidiha in India, which is just across the border from Nepalgunj. Nepalgunj is a major hub, linking remote districts in the Western and Far West regions of Nepal by air and bus through an extensive road network. It is also a centre for business for vicinity zones and their districts.
### Table 5. Types of manufacturing industries in major manufacturing regions

<table>
<thead>
<tr>
<th>Types of manufacturing industries</th>
<th>Kathmandu</th>
<th>Biratnagar</th>
<th>Birgunj</th>
<th>Bhairahawa</th>
<th>Chitwan</th>
<th>Hetauda</th>
<th>Nepalgunj</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FMCGs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food &amp; beverages</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Soap</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Industrial goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Non metallic mineral products</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Basic metals</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Plastic and rubber products</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Textiles</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Apparel</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>Consumer goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronics</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Furniture</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Leather and allied products</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Date provided by Department of Industry on 8 July 2016
Industrial Districts

The Government of Nepal has established 11 Industrial Districts (ID) in different parts of the country to create an enabling business environment and infrastructure for manufacturing. Out of 11 IDs, 10 are in operation (Balaju, Patan, Hetauda, Dharan, Nepalgunj, Pokhara, Butwal, Bhaktapur, Birendranagar and Gajendranarayan Singh-Rajbiraj) and one is under construction (Dhankuta). The 10 IDs in operation span an area of approximately 2,900 square kilometres and house 628 industries, providing employment to 13,500 people.\(^9\) IDs provide the following advantages for industry:

- **Low cost initial investment**: Already developed land and industrial sheds/warehouses are available on lease.

- **Basic physical infrastructure**: Roads, drainage, culverts, electricity supply, water supply, and water filtration services are in place.

- **Supporting facilities**: Banks, post office, clinic, day care centre, workshop, canteen, sports hall, open playground, display/review centre, meeting/conference hall, primary school, guest house, safe and clean environment, and security arrangements are also provided.

\(^9\) Industrial District Management Limited website: [www.idm.org.np](http://www.idm.org.np)
Table 6. Key statistics for Industrial Districts

<table>
<thead>
<tr>
<th>Industrial districts</th>
<th>Balaju</th>
<th>Patan</th>
<th>Hetauda</th>
<th>Pokhara</th>
<th>Butwal</th>
<th>Bhakta pur</th>
<th>Nepal gunj</th>
<th>Dharan</th>
<th>Birendra Nagar</th>
<th>G.N. Singh</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of industries</td>
<td>131</td>
<td>112</td>
<td>100</td>
<td>76</td>
<td>71</td>
<td>37</td>
<td>35</td>
<td>34</td>
<td>28</td>
<td>4</td>
<td>628</td>
</tr>
<tr>
<td>Area (sq m 000)</td>
<td>340</td>
<td>149</td>
<td>1,439</td>
<td>254</td>
<td>225</td>
<td>36</td>
<td>118</td>
<td>102</td>
<td>45</td>
<td>149</td>
<td>2,889</td>
</tr>
<tr>
<td>No. employed</td>
<td>3,506</td>
<td>1,586</td>
<td>2,415</td>
<td>1,945</td>
<td>1,480</td>
<td>825</td>
<td>867</td>
<td>706</td>
<td>163</td>
<td>29</td>
<td>13,523</td>
</tr>
<tr>
<td>Power capacity (KVA)</td>
<td>6,000</td>
<td>2,500</td>
<td>5,000</td>
<td>2,000</td>
<td>2,300</td>
<td>900</td>
<td>1,000</td>
<td>1,000</td>
<td>500</td>
<td>25</td>
<td>21,125</td>
</tr>
<tr>
<td>Water production/ consumption capacity</td>
<td>630</td>
<td>21</td>
<td>288</td>
<td>744</td>
<td>104</td>
<td>-</td>
<td>75</td>
<td>45</td>
<td>48</td>
<td>8</td>
<td>1,963</td>
</tr>
</tbody>
</table>

Special Economic Zones (SEZs)

The Government of Nepal has developed Special Economic Zones (SEZs) to cater for export-oriented industries. Export industries that intend to export at least 75% of production can be established in a SEZ after investing the prescribed capital and obtaining permission from the Special Economic Zone Development Committee (SEZDC) under the Ministry of Industry. Industries that operate in SEZs are eligible for 50% tax exemption for the first five years. In addition, company registration, tax registration, banking, insurance, freight forwarding, issuance of a certificate of origin for export, and other administrative formalities are provided in these zones through a one window service (for a full list of facilities and concessions provided to companies operating in SEZs see Annex 1).

The Bhairahawa SEZ, which was inaugurated on 18 November 2014, lies in Rupandehi district in the Western Development Region of Nepal, which is about 280 kilometres from Kathmandu. This SEZ, which lies on 36.8 hectares of land near the border with India, is about to be operational. The Government of Nepal plans to establish 12 SEZs in different parts of the country. The Ministry of Industry has completed feasibility studies to establish SEZs in Biratnagar, Simara, Panchkhal, Gorkha, Jumla and Dhangadhi. Simara and Panchkhal have been prioritised for construction in the first phase. Simara SEZ, which is in Bara district, will be a garment processing zone (GPZ) to capitalise on the zero tariff preference, which has been extended by the United States to Nepal for 66 products in the garment/apparel industry.

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10 Special Economic Zone Act, 2016
Roads

The total upgraded road length in Nepal by the end of 2015 was 27,496 km, which includes 9,411 km of earthen (fair weather) road, 6,287 km of gravel road and 11,798 km of black-topped road. The strategic, urban and local roads constitute 32.5%, 13% and 54.5%, respectively, of the National Road Network. The main road access points from India to Nepal are Raxaul-Birgunj (Parsa district), Sunauli-Belhiya, Bhairahawa (Rupandehi district) in the Central Region; Jogbani-Biratnagar (Morang district), Pani Tanki-Kakarbhitta (Jhapa district) in the Eastern Region; and Jamunaha, Nepalgunj (Banke district), Mohana (Dhangadi district) and Gaddachowki (Mahendranagar district) in the Western and Far West regions. There are several other smaller access points along the open border with India. The nearest sea port from Nepal is located in Kolkata, India. Access points from China are mainly through Tatopani in Sindhupalchok district and Rasuwa district.

Rail

Nepal has only 59 kilometres of narrow gauge railway at present, but there are projects underway that would increase railway coverage in the near future. India and Nepal signed a rail service agreement in May 2004 to extend cargo train services to the Inland Container Depot at Birgunj (Parsa district) in Nepal. The Inland Container Depot became operational in July 2004.

Dry ports

Nepal is a landlocked country and relies on the Kolkata Port in India to handle almost all of its sea freight imports. Dry ports are essential for landlocked countries like Nepal, seeking to improve their transport services through the introduction of multi modal transport and containerisation. Four dry ports have been constructed at the Nepal-India border (three in 2000 with assistance from the World Bank and one in 2010 with assistance from Asian Development Bank). Birgunj is the only rail-linked dry port with a gateway port as well as other Indian railheads. Biratnagar (Morang district), Bhairahawa (Rupandehi district) and Kakarbhitta (Jhapa district) are road-based dry ports. A fifth dry port is under construction at Tatopani (Sindhupalchok district) on the Nepal-China border with technical and financial assistance from the Government of China. Dry ports are also proposed for future construction in Yari (Humla), Nechung (Mustang), Rasuwagadhi (Rasuwa), Kimathanka (Sankhuwasabha), Olangchungola (Taplejung), Nepalgunj (Banke) and Mahendranagar (Kanchanpur).

Customs access from India and China

There is one Post Clearance Audit (PCA) office and 30 main customs offices in Nepal spread across the country (including one at Tribhuvan International Airport). These are under the direct supervision of the Department of Customs. There are also 143 sub-customs offices, which are under the supervision of the main customs offices. The customs offices remain open longer than office hours if necessary to facilitate the movement of people and trade. A list of customs offices and other information is provided at the Department of Customs website (http://www.customs.gov.np/en/).

Department of Roads: www.dor.gov.np
INCENTIVES

Market access (WTO, SAFTA)

As a member of WTO since 2004, Nepal automatically receives the most favoured nation status and enjoys lower trade barriers among member countries. Hence, Nepal has immediate access to developed markets at low tariff rates, providing Nepali export businesses with beneficial treatment in exporting their produce to developed markets. As a member of SAFTA, Nepal enjoys tariff concessions (including national duty concessions and non-tariff concessions) on trade with member nations in products other than those listed in the sensitive list by each member country.

Preferential duty

Manufacturing industries are entitled to preferential duties (under the Excise Act, 2002, Customs Act, 2007 and Value Added Tax Act, 1995) when importing plant, machinery and equipment required for direct production processes falling under Chapter 84 of the Harmonized Customs Classification. In addition, industries can import Chinese goods at concessional rates when imported from the Tibet Autonomous Region of China through a Letter of Credit. Goods of Indian origin imported from India are entitled to a rebate of 3–5% on the existing customs rates. Goods specified under the SAFTA agreement imported from South Asian Association for Regional Cooperation (SAARC) countries through shipment and billing from the same country and imported through a letter of credit shall receive concessions on customs duty as prescribed in the Customs Act, 2007. Also, industries importing raw materials through a bank guarantee or passbook record facility have been given the facility to make imports by providing deposits, if they raise the value by 10% at export. The excise duty paid in India on the import of materials from India shall be deducted from the applicable customs duty due in Nepal. However, excise duty shall not be deducted from the customs duty on freight, insurance, difference in value and other expenses.

Export incentives

Generally, there is no duty on the export of products from Nepal, but certain products, like those originating from forests (non-timber forest products), certain agricultural products that are in short supply in Nepal, and industrial raw materials and minerals may be levied with export duty. Where export duty does apply, the Income Tax Act provides for a waiver of 25% on the applicable rate if a manufacturing company exports goods produced in Nepal, but this is only applicable to the revenue generated from export sales. According to the VAT Act, the export of goods is charged at a zero rate. This means that the taxpayer does not pay tax on the value of the exports and is entitled to be fully compensated for the tax paid on inputs. Moreover, excise duty will not be charged on the export of excisable goods and custom duty will not be charged if the goods are not mentioned in the Schedule of the Finance Act\(^\text{13}\), which is updated every year.

\(^\text{13}\) Available at www.ird.gov.np (in Nepali)
Tax incentives

The tax laws provide various incentives to stimulate industrial growth and development. The following are the key tax incentives designed to attract inward investment in the manufacturing sector.

Table 7. Tax concessions for industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Tax rates and Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special industries*</td>
<td>20% (normal rate)</td>
</tr>
<tr>
<td>Industries providing direct employment to Nepalese citizens:</td>
<td></td>
</tr>
<tr>
<td>- for 300 or more by special industries and information technology industries</td>
<td>90% of normal rate</td>
</tr>
<tr>
<td>- for 1,200 or more by special industries</td>
<td>80% of normal rate</td>
</tr>
<tr>
<td>- to 100 Nepalese including 33% women &amp; disabled by special industries</td>
<td>80% of normal rate</td>
</tr>
<tr>
<td>Special industries providing direct employment to Nepalese citizens only for a year with minimum of 100 people employed</td>
<td>70% of normal rate</td>
</tr>
<tr>
<td>Industries established in a very undeveloped area, as defined in Industrial Enterprise Act</td>
<td>10% of the normal rate (for 10 years from the year of establishment)</td>
</tr>
<tr>
<td>Industries establishment in undeveloped areas, as defined in Industrial Enterprise Act</td>
<td>20% of the normal rate (for 10 years from the year of establishment)</td>
</tr>
<tr>
<td>Industries established in underdeveloped areas, as defined in Industrial Enterprise Act</td>
<td>30% of the normal rate (for 10 years from the year of establishment)</td>
</tr>
<tr>
<td>Special industry with paid up capital of NPR 1 billion and providing direct employment for more than 500</td>
<td>Up to 5 years, 100% exempt and 50% rebate in subsequent 3 years</td>
</tr>
<tr>
<td>Special industry that by using reserve and surplus, capitalises on and increases the capacity of the industry</td>
<td>No tax on capitalisation</td>
</tr>
<tr>
<td>Income from the export of goods produced by manufacturing industry</td>
<td>75% of normal tax rate</td>
</tr>
<tr>
<td>Income from manufacturing industry, tourism service industry and hydro-power generation, distribution and transmission industry listed in the security exchange (i.e., capital market)</td>
<td>90% of applicable tax rate</td>
</tr>
<tr>
<td>Industry established in least developed areas producing brandy, wine, cider from fruits</td>
<td>60% of applicable tax rate up to 10 years</td>
</tr>
<tr>
<td>Royalties from export of intellectual asset by a person</td>
<td>75% of applicable tax rate</td>
</tr>
<tr>
<td>Income from sale of intellectual asset by a person through transfer</td>
<td>50% of applicable tax rate</td>
</tr>
</tbody>
</table>

*‘Special industry’ means a production-oriented industry as classified in Section 3 of the Industrial Enterprises Act, 1992, except an industry producing cigarettes, bidi, cigar, tobacco, khaini or other products of the same nature involving tobacco as the principal raw materials or an industry producing liquor, beer and similar products.

Investment protection

Nepal has entered into Bilateral Investment Promotion and Protection Agreements (BIPPAs) with six countries: India, Finland, Mauritius, United Kingdom, Germany and France. BIPPAs provide preferential treatment and protection for investments made by foreign investors. The laws in Nepal also ensure the security of investments against nationalisation. Besides this, Nepal being a member of Multilateral Investment Guarantee Agency (MIGA) assures foreign investors against non-commercial risks, like currency transfer, breach of contract, war and civil disturbance in the country.
INVESTMENT OPPORTUNITIES
Nepal’s manufacturing sector is rich in potential, both for large-scale projects and innovative small-scale projects. Even though Nepal is primarily an agricultural country, various initiatives have been taken to stimulate the manufacturing sector, which the government believes is crucial to the country’s economic development. The government is committed to supporting industrialisation by promoting investment in the manufacturing sector. Industrial Districts and SEZs have been created to ensure a competitive and investment-friendly environment and to simplify administrative procedures. The incentives and facilities available to foreign investors make Nepal an attractive investment destination. Some of the most viable areas for investment in manufacturing industries in Nepal, both in terms of national investment and foreign direct investment are outlined here.

**FMCGs**

With a population of around 28 million, Nepal’s possesses huge potential for fast moving consumer goods (FMCGs) – and the FMCG sector is growing at a remarkable pace (at around 20% annually). While urban markets account for the greatest share of total revenue in the consumer sector, there is a lot of scope for growth in rural markets, with consumption expected to grow in these areas as the penetration of brands increases. Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the consumer market. The Government of Nepal’s policies and regulatory frameworks, such as relaxation of licensing rules and approval of FDI, have underpinned such growth. Multinational companies like Unilever, Carlsberg, Coca-Cola, PepsiCo, ITC Ltd and Dabur have been able to excel in the FMCG market in Nepal, generating stable income. In a country where urbanisation is taking place rapidly and where rural demand is set to increase with rising incomes, FMCG is an attractive sector for investment, particularly for quality products and products specifically created for rural markets.

**Garments**

The meteoric rise of the garment industry in Nepal was brought about by the interplay of various factors, both domestic and foreign. The much-needed boost came when garment exporting industries in Asia were hit by the quota system imposed by importers in Europe and America. This coincided with rising labour costs in garment exporting countries, which undermined their low-cost advantage. Producers were forced to look for alternative, cheaper locations. Nepal emerged as an attractive relocation site. The garment industry in Nepal has grown significantly in the last decade, with relatively inexpensive labour, the government’s favourable policies, the existence of a domestic market as well as export potential, and incentives for the export of garments attracting investors.

**Cement**

Nepal’s cement requirements have soared in recent years, mainly due to infrastructure projects. With this growth in demand and the abundance of limestone deposits, the prospects for cement manufacturing firms are huge. Cement companies have reported a surge in sales of 10–15% each year. This sharp increase in demand has encouraged many companies
to diversify into cement manufacturing, while existing factories have enhanced their production capacity.

According to the Nepal Cement Manufacturers’ Association, as of mid-January 2014, there were around 44 cement plants in the country. Around 12 of them have their own clinker production units. The overall industry (production of cement) has been growing at around 10% annually. There is currently a shortfall in domestic production to meet the increasing demand for cement, creating ample opportunities to exploit existing cement grade limestone and establish more cement and allied industries in Nepal. The profitability of the cement sector can be gauged by the possible entry of four foreign cement manufacturers, which have obtained approval from the Investment Board Nepal (IBN) for foreign investment with cumulative expected investments of approximately USD 1.5 billion as at December 2016.

**Pharmaceuticals**

A number of attractive investment opportunities can be found in medicine and health care supply manufacturing. Pharmaceutical industrialists estimate the size of Nepal’s pharmaceutical market at USD 433 million and say that the industry has been growing at 18–20% per year for the past 7–8 years. To date, over 50% of the market has been met by way of imports. As such, there is scope not only for the production of branded medicines, but also for bulk drugs that provide the raw materials for medicines.

According to the Association of Pharmaceutical Producers of Nepal (APPON), there are 47 registered pharmaceutical companies, of which 37 are World Health Organization-Good Manufacturing Practices (WHO-GMP) certified. There is scope for large-scale pharmaceutical manufacturers that can introduce new technologies and take the pharmaceutical industry to a higher level. The Government of Nepal's favourable policies, the existence of a domestic market and export potential, a favourable WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) policy, restrictions on imports without WHO-GMP Certification, and a rise in health care awareness among people provide some added incentives for investors to consider Nepal's pharmaceutical industry.

**Metal and metal products**

The Nepal Trade Integration Strategy (NTIS) identified iron and steel products as one of 13 exportable items that have comparative advantage in Nepal. Iron and steel products have emerged as one of the largest export items with shipments amounting to NPR 6.3 billion in the first half of the year 2014/15. According to the Nepal Rastra Bank, the export share of this sub-sector has been remarkable, while there has been consistent growth in the domestic market with consumption of iron and steel reaching around NPR 20 billion in 2014/15.

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LAWS AND REGULATIONS
Nepal is open for business in many areas, with progressive policies by the Government of Nepal to attract foreign investment and agencies such as the Department of Industry under the Ministry of Industry and the Investment Board Nepal, which is headed by the Prime Minister himself, mandated to provide investors with all the support they need.

**Investment approval process**

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

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

Foreign investors seeking to invest in Nepal’s manufacturing industry can do so after submitting an application along with the required documents to the Department of Industry, Industry and Investment Promotion Board (IIPB) or Investment Board Nepal (IBN) (depending on the size of the proposed investment in terms of fixed capital). The approving agency for FDI by size is provided in Table 8 and the general procedure for approval and establishment is given in Figure 5. Application for foreign investment approval and other registration can be submitted online for projects below 10 billion rupees. Please refer to the Department of Industry’s website (http://www.doind.gov.np/) for application and required documentation.

### Table 8. Approving agencies for FDI by investment size

<table>
<thead>
<tr>
<th>Size (Fixed Capital)</th>
<th>Application At</th>
<th>Approval By</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ NPR 10 BN (APPROX US$ 100 M)</td>
<td>INVESTMENT BOARD NEPAL (IBN)</td>
<td>INVESTMENT BOARD NEPAL (IBN)</td>
</tr>
<tr>
<td>&lt; NPR 10 BN ≥ NPR 2 BN (APPROX US$ 20 M)</td>
<td>DEPARTMENT OF INDUSTRY (DOI)</td>
<td>INDUSTRY &amp; INVESTMENT PROMOTION BOARD (IIPB)</td>
</tr>
<tr>
<td>&gt; NPR 2 BN</td>
<td>DEPARTMENT OF INDUSTRY (DOI)</td>
<td>DIRECTOR GENERAL OF DOI</td>
</tr>
</tbody>
</table>

Note: The Industry & Investment Promotion Board is under the Ministry of Industry.
Procedure for starting a business

Figure 5. Procedure for starting a business in Nepal

Initial consultation at IBN or DOI

Fixed capital ≥ NPR 10 bn
(approx. US$100 m)

Application at IBN

Approval by IBN

Issuance of foreign investment approval letter

Company registration at CRO
(incorporation of Nepali entity)

Tax/PAN registration at IRD

Central bank permission at Nepal Rastra Bank
(open a bank account)

OCR

Industry registration at DOI

Other registration and licensing
(visa, trademark, business licensing, land acquisition etc.)

PDA/PIA negotiation

Government of Nepal provides any additional services & facilitation required until commercial operation date and thereafter

Application at DOI

Fixed capital > NPR 10 bn

Approval by DG of DOI

If the business is listed under the law (EPR, Schedule 1 or 2)

Environmental assessment as per EPR
(submission of IEE or EIA)

Note: 1. Project under IBN only
IRD = Inland Revenue Department
DG = Director General
EPR = Environmental Protection Rules, 1997
OCR = Office of Company Registrar
Registration of trademark

Industries using a trademark on their products can register their trademark with the Department of Industry under the Patent, Design & Trademark Act, 1965, by making an application in the prescribed form along with the required documents (see www.doind.gov.np).

Environmental clearance

Manufacturing entities may have to conduct an environmental impact assessment (EIA) or an initial environment examination (IEE). An EIA is required for manufacturing entities that are likely to have greater environmental consequences (those that fall under Schedule 2 of Environment Protection Rules, 1997) and involves preparation of a scoping document before finalising the terms of reference and conducting a detailed study on the impacts of mitigation measures. During the EIA study, it is mandatory to conduct a public hearing at the project-affected area. The EIA is then submitted to the concerned department/ministry, which will forward it to the Ministry of Population and Environment for approval.

An IEE is applicable to manufacturing entities that have lesser environmental impact (those that fall under Schedule 1 of Environment Protection Rules, 1997). An IEE involves preparation of terms of reference, followed by an analytical study of the impacts and mitigation measures. The IEE is then submitted to the concerned Department/Ministry for approval.

Food security

Any person who intends to produce, sell, distribute, store or process food for commercial purposes is required to obtain a licence before starting the process (Food Rules, 1970). The following procedure must be followed to obtain a licence:

- **Make an application** – Prepare a scheme setting out the information regarding type of industry, machinery required, raw materials required and other information and apply to the Department of Food Technology and Quality Control (DFTQC).

- **Obtain recommendation** – The DFTQC shall review and make any necessary changes to the scheme of the proposed food industry, obtain an agreement executed, and make a recommendation for the issuance of the licence to establish the industry. The recommendation of the DFTQC must be obtained prior to making an application to the Department of Industry to establish the industry.

- **Obtain licence** – A licence must be obtained from the Department of Industry (by payment of the prescribed fee ranging from NPR 200 to NPR 4,000 based on the authorised capital) prior to commencement of the production of the food items.

Land acquisition

Land may be acquired in the name of the entity for the purpose of setting up a manufacturing industry in the following ways:

- **Private land** – To obtain land or buildings owned by private individuals, the investor must negotiate with the owner to either purchase or lease the land. The purchase deeds are registered at the Land Management Office. Under the existing law, foreign individuals are not permitted to acquire property, but foreign companies can purchase and own land in Nepal.

- **Forest land** – If forest land has to be obtained, the investor must follow the process prescribed by the Ministry of Forests and Soil Conservation. The Ministry may ask for an equal amount of private land to be procured for use as forest land and afforestation in the same area.

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

Industrial Enterprises Act

The Industrial Enterprises Act, 2016 was recently promulgated for the industrial development of Nepal. The salient features of the Act are as follows:

- Industries have been classified into eight categories; manufacturing, energy, agro and forest, mineral, tourism, service, information and technology, and construction.

- A licence is required only for specified industries and registration with the Department of Industry is compulsory for all industries. Industries can commence operations only after obtaining an EIA or IEE, as applicable.

- Industries are classified as either ‘cottage industries’ (traditional industries using specific skills and local raw materials), ‘small industries’ (fixed assets investment up to NPR 100 million), ‘medium industries’ (fixed asset between NPR 100–250 million), and ‘large industries’ (fixed assets of more than NPR 250 million).

- Medium or large industries and cottage and small industries whose annual turnover exceeds NPR 150 million are required to allocate 0.5% of annual turnover to corporate social responsibility activities.

- There shall be no nationalisation of privately-owned industrial enterprises.

Foreign Investment & Technology Transfer Act

The Foreign Investment & Technology Transfer Act, 1992 was promulgated to promote foreign investment in Nepal and to address matters relating to foreign investment and technology transfer. Under this Act, foreign investors are permitted to own up to 100% equity shares in a company in Nepal, except in those industries listed in the negative list in the annex to the Act. Technology transfer is permissible even in areas where foreign investment is not allowed. In order to make foreign investment in Nepal more attractive, the Government of Nepal is in the process of amending the Foreign Investment and Technology Transfer Act to streamline the approval process and include additional sectors for foreign investment, as proposed in the Industrial Policy, 2010.

Investment Board Nepal Act

The Investment Board Nepal (IBN) was established in 2011 to mobilise investment through public-private partnerships, as well as by foreign and domestic private sector investors. It was set up to promote Nepal as an investment destination in order to achieve greater economic development by accelerating the process of industrialisation and by creating employment opportunities. In principle, industries having fixed capital of more NPR 10 billion come under the purview of IBN. Under the Investment Board Nepal Act, IBN shall negotiate concessions, formulate investment policies, select competitive or priority sectors from the sectors of investment, select projects for possible investment, monitor whether the construction, implementation or operation of the project is running as per the agreement related to the investment and form any expert committee or taskforce needed.
**TAXATION**

**Income tax**

The main objective of Nepal’s tax system is to enhance revenue mobilisation through effective revenue collection for the economic development of the nation. Income is taxed in accordance with the provisions of the Income Tax Act 2002. All persons with assessable income are required to register with the Inland Revenue Office (IRO), obtain a Permanent Account Number (PAN) and file a tax return annually. Companies are subject to a flat rate of tax, whereas individuals are taxed at progressive rates. The Director General of the Inland Revenue Department is responsible for the general administration of the Income Tax Act.

**Taxable income**

Income tax is levied on the net income earned or received from a business, employment, or investment, as well as any windfall gains for any income year. Where an entity generates income from all the sources listed above, tax is paid on the total income for the year.

**Capital gains tax**

A capital gain is the profit realised on the sale of a capital asset for a value that is higher than the original purchase price. Capital gains tax is only triggered when an asset is sold, not while it is held by an investor. Capital gains earned by entities are taxed at a flat rate of 25%. Direct expenditure incurred on the acquisition/sale of the capital asset is deductible when computing the taxable gain.

**Dividends**

Dividends distributed by a resident company or a partnership firm are subject to a final withholding tax of 5% for resident and non-resident recipients, including foreign investors. These dividends are not taxed in the hand of the recipient, but withheld by the distributing company or partnership.

**Deductions**

All actual expenses incurred in acquiring or earning income from business are allowable deductions for tax purposes including: interest, pollution control, research & development expenses, the cost of trading stock, and repair and improvement costs (amounts exceeding 7% of the value of depreciable assets and depreciation).

**Losses**

Tax losses can be carried forward for a period of 7 years and, in the case of public infrastructure projects to be built, for a period of 12 years. However, tax losses may not be carried back (e.g., set-off against taxable income for an earlier period). Entities that have received a full or partial tax exemption in any year on investment or business income are not entitled to carry forward losses incurred in these exempt years.
Depreciation/capital allowances

Depreciation is allowed on the acquisition costs of certain assets where such assets are used for income producing purposes (see Table 9).

<table>
<thead>
<tr>
<th>Class</th>
<th>Assets included</th>
<th>Depreciation rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Buildings, structures and similar works of a permanent nature</td>
<td>5</td>
</tr>
<tr>
<td>B</td>
<td>Computers, fixtures, office furniture and office equipment</td>
<td>25</td>
</tr>
<tr>
<td>C</td>
<td>Automobiles, buses and minibuses</td>
<td>20</td>
</tr>
<tr>
<td>D</td>
<td>Construction and earth-moving equipment and any depreciable asset not included in another class</td>
<td>15</td>
</tr>
<tr>
<td>E</td>
<td>Intangible assets other than depreciable assets included in class D</td>
<td>During the useful life of the asset</td>
</tr>
</tbody>
</table>

Depreciation is calculated using the reducing balance method and is based on the pool of assets. Manufacturing industries can claim additional depreciation at one third of the normal rate listed above.

Amortisation

Expenditure incurred on research and development and pollution control is deductible on up to 50% of the adjusted taxable income for the income year. Any excess cost for which deduction is not allowed is amortised. Intangible assets (software, research and development costs) are amortised over the useful life of the asset, as determined by the management.

Tax rates

Corporate tax rates are charged at a flat rate, depending on the nature of the taxable income (see Table 10).

<table>
<thead>
<tr>
<th>Industry</th>
<th>Nature of business</th>
<th>Rate of tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Special industries qualifying under the Industrial Enterprises Act 2016</td>
<td>20</td>
</tr>
<tr>
<td>Tobacco and alcoholic beverages</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Other</td>
<td>Commercial trading/service entities and other businesses</td>
<td>25</td>
</tr>
</tbody>
</table>

Annual tax returns

All businesses are required to adopt the income year ending 15 July and submit a tax return within three months thereof (i.e., by 15 October of each year), although an extension of three months may be requested (and is generally granted). Accounts are to be audited by a qualified auditor who holds a certificate of practice issued by the Institute of Chartered Accountants of Nepal. Taxable income is computed in accordance with the prevailing tax laws and their amendments. The financial statements of listed public companies and those with public accountability shall be prepared in accordance with the International Financial Reporting Standards (IFRS), effective from 2017–18, and for small and medium enterprises based on the Nepal Financial Reporting Standards for small and medium-sized enterprises.
Advance tax

Income tax payments are made in the year in which the income is earned and are required to be paid in advance in three instalments by all entities during an income year – by mid-January, mid-April and mid-July – computed at the applicable rates on the estimated profits of the entity for the entire year. Advance tax to be deposited is as follows:

- First Instalment (mid-January) – 40% of the total estimated tax liability for the year
- Second Instalment (mid-April) – 70% (cumulative total) of the total estimated tax liability for the year
- Third Instalment (mid-July) – 100% (cumulative total) of the total estimated tax liability for the year

The Inland Revenue Office shall refund any excess money deposited by taxpayers within 60 days from the date of lodging an application for refund (however, in practice it may take longer).

Value added tax

Value Added Tax (VAT) is levied at a flat rate of 13%, which is applied to the invoice value. The threshold for compulsory registration under the VAT Act is a turnover of NPR 5 million over the last 12 months in the case of goods and NPR 2 million for entities that provide services or both goods and services. Certain specified goods such as basic agricultural products, food items and educational and cultural goods and services are exempt from VAT. Exports of both goods and services are taxed at zero percent. VAT is imposed on different levels of value addition in the production and distribution process of goods and services. To avoid double taxation, a credit is given for VAT paid on goods and services used for the purpose of making any taxable supply (input VAT). A credit is also given for VAT paid in respect of certain exempt supplies, e.g., exports. The principal mechanism for collecting the tax requires the taxable supplier to charge VAT on the goods or services supplied (output VAT) to take credit for VAT paid on business expenditure (input VAT), and to pay the net tax over to the authorities. VAT registrants are required to submit a VAT return and pay tax within the 25th day of the following month; provide their customers with a tax invoice; maintain purchase book, sales book, and VAT account; keep their VAT records for a period of 6 years and inform the Inland Revenue Office of changes to the business including new address, telephone number or a reorganisation of a partnership within 15 days.

Double tax relief

Nepal provides relief against international double taxation to residents by granting foreign tax credits. Foreign tax is allowed as either as an expense for deduction or a tax credit. Excess credits can be carried forward and adjusted only against the assessable foreign income. In addition, double tax relief can be claimed under the provisions of existing Double Taxation Avoidance Agreements (DTAAs) that Nepal has negotiated with other tax jurisdictions. Nepal has entered into DTTAs with 10 countries: Austria, China, India, Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka and Thailand.
CUSTOMS AND EXCISE DUTY

Customs duty

Customs duty is levied on the import of goods to Nepal as per the Customs Act, 2007. It ranges from 0–80% on the transaction value (cost, insurance and freight [CIF] to the Nepal border) depending on the product. Most raw materials fall within the 0–10% duty band, whereas finished goods and consumer items fall within the 5–30% duty band. Duty at the rate of 80% is levied on only a few items (i.e. motor vehicles, arms and ammunitions, and pipe tobacco). In the case of exports, there is generally no duty except for certain products, like those originating from forests, certain agricultural products that are in short supply in Nepal or industrial raw materials and minerals. Provision is made for an administrative review of the customs duty by the Revenue Tribunal if the decision made by customs officer is not acceptable to the taxpayer. In such case, the taxpayer has to submit an appeal within 35 days from the date of determination of the custom duty.

Excise duty

Excise duty is payable on the manufacture of movable goods in Nepal and also on the import of certain goods (like vehicles). Excise duty is governed and regulated by the Excise Act, 2002 and the Excise Regulation, 2003. No one is allowed to manufacture, import, sell and store excisable goods and services without being registered at the Inland Revenue Department for excise. Persons, firms or institutions that need to register may submit a prescribed application form to the excise officer at the concerned Inland Revenue Office. The rate of excise duty generally ranges from 0–60%. Exports are exempt from excise duty. Most raw materials fall within the 0–5% duty band, whereas finished goods and consumer items are levied on ad valorem (quantity of the goods). Duty at the rate of 35–60% is levied mainly on the import of motor cars. Provision is made for an administrative review at the Inland Revenue Department if the decision made by excise officer is not acceptable to the taxpayer. In such case, the taxpayer has to submit an appeal within 35 days from the date of receipt of the decision made by the excise officer. The taxpayer can approach the Revenue Tribunal if he or she is not satisfied with the Department’s decision.
LABOR LAWS

The Labour Act, 1992 and the Labour Rules, 1993 apply to any establishment employing 10 persons or more. They deal with matters relating to employment and the security of employment, working hours and minimum wages, the welfare of employees, employer-employee relations and the settlement of labour disputes.

Minimum wages

The minimum wage is set by the Minimum Wages Committee and is considerably lower than that paid in Nepal’s neighbouring countries. The minimum monthly salary and allowances for employees are set out in Table 11.

Table 11. Minimum wage*

<table>
<thead>
<tr>
<th>Minimum monthly salary</th>
<th>NPR 6,205</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum dearness allowance (cost of living adjustment)</td>
<td>NPR 3,495</td>
</tr>
<tr>
<td>Total</td>
<td>NPR 9,700 (approx. US$ 9010)</td>
</tr>
</tbody>
</table>

*Effective 1 February 2016

Gratuity

Gratuity is a retirement benefit paid to the workers/employees of the enterprise at the time of separation from services. As per the Labour Rules, employees serving for three years or more and retiring from service are entitled to a gratuity at the prescribed rates. The enterprise can pay gratuity at a higher rate than that prescribed by the Labour Rules, but not lower.

Provident fund

The Employees Provident Fund manages the provident funds of government, public and private sector employees and extends support to them financially on retirement or separation from service. Employees are required to contribute at least 10% of their base salary to their provident fund account and employers are required to supplement this by an additional sum equivalent to the employee’s contribution. The contribution to the provident funds needs to be deposited with the Employees Provident Fund every month.

Staff housing requirement

The amount of 5% of the gross profit of an enterprise (with more than 10 employees) should be set aside for staff housing facilities. The amount set aside should be deposited in a separate fund to be used and operated by a joint committee called the labour relations committee.

10 USD 1=NPR 108 as on 1 January 2017
Dispute settlement

The Labour Act lays down guidelines and procedures for the settlement of disputes between employers and employees. These guidelines and procedures help ensure the harmonious development of industrial relations.

Bonuses

The Bonus Act, 1974 provides a legal basis for the payment of bonus to workers and employees of factories and commercial establishments. Each profit-making enterprise is required to allocate 10% of its net profit towards employee bonuses. Workers and employees who work for half the annual working days are also eligible for a bonus. The lump sum amount of the bonus due to a worker or employee is equivalent to 3 to 6 months of their salary depending on the remuneration they are paid. The bonus is required to be paid in cash every year, or in certain cases, it can be paid the following year as an accumulated bonus for both the years.

Staff welfare fund

From the balance of funds remaining after distribution of the bonus, 70% must be deposited into a Staff Welfare Fund, created under the Labour Act 1992, and the remaining 30% is to be deposited with the national level Welfare Fund.

Labour union provisions

The Trade Union Act, 1992 makes provision for the registration and operation of trade unions and other necessary provisions for the protection and promotion of the rights of workers in various industries, trades, professions or services in enterprises or outside. Some of the salient features of Trade Union Act are as follows:

- The workers of a concerned enterprise may constitute an enterprise-level trade union to protect and promote their occupational rights. The union registration form must be signed by at least 10 members of the enterprise and registered at the Registrar. Registered trade unions can collectively form a trade union association and ultimately a trade union federation.

- The authorised trade union shall be recognised for the purposes of collective bargaining with the management on behalf of the workers of the authorised enterprise-level trade union. Any collective bargaining agreement signed between the union and the management is generally reviewed every two years.
## ANNEX 1. INCENTIVES FOR COMPANIES OPERATING IN SPECIAL ECONOMIC ZONES (SEZS)

<table>
<thead>
<tr>
<th>Type of exemption</th>
<th>Details</th>
</tr>
</thead>
</table>
| Income tax                        | - Industries are eligible for 50% tax exemption for first 5 years.  
- Industries that use at least 60% domestic raw materials will receive 50% tax exemption for an additional 5 years and 25% exemption for another 5 years.  
- Tax on dividends is exempt for 5 years and 50% exempt for the next 3 years. |
| VAT                               | - Zero VAT rates are available for goods or services traded among entrepreneurs operating within a SEZ and for goods or services exported from the industries established therein. |
| Customs duty                      | - Industries within a SEZ are exempt from customs duty for raw materials, auxiliary raw materials, packing materials and products used in the production of exportable goods, if made under bank guarantee facility.  
- Industries within a SEZ are exempt from customs duty on the import of plant, machinery, instruments, tools and spare parts required for the industry.  
- Customs duty is refundable to an importer that sells any goods to an industry within a SEZ. |
| Facilities equal to export to be provided | - The sale of raw materials or any products within the SEZ shall be regarded as an export and the industry shall be entitled to all such concessions.  
- The facility of a bonded warehouse shall be available for utilisation within a period of 45 days from the date on which an application is submitted. |
| Other facilities                  | - Rent or lease payments made by industries established in a SEZ shall be exempted by 50, 40 and 25% for the first three years of establishment, respectively.  
- No local tax will be charged on the import of up to 3 vehicles for the purpose of transportation of machinery, instruments, and spare parts of machines, raw materials or goods required for the industry, having regard to the scale of the industry. |
### ANNEX 2: RESTRICTED MANUFACTURING BUSINESSES IN KATHMANDU METROPOLITAN CITY

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Tannery</td>
</tr>
<tr>
<td>b)</td>
<td>Chemical fertilizer</td>
</tr>
<tr>
<td>c)</td>
<td>Cement</td>
</tr>
<tr>
<td>d)</td>
<td>Steel melting and foundry (medium and large scale)</td>
</tr>
<tr>
<td>e)</td>
<td>Pulp and paper (except traditional handmade paper and small-scale recycling plant)</td>
</tr>
<tr>
<td>f)</td>
<td>Caustic soda, chemical manufacturing industries</td>
</tr>
<tr>
<td>g)</td>
<td>Oil refinery, petroleum product (petrol, diesel, kerosene, lubricant, furnace oil etc.)</td>
</tr>
<tr>
<td>h)</td>
<td>Dyeing (medium and large scale)</td>
</tr>
<tr>
<td>i)</td>
<td>Acid manufacturing</td>
</tr>
<tr>
<td>j)</td>
<td>Fermentation, distillation and blending (distillery and beer)</td>
</tr>
<tr>
<td>k)</td>
<td>Electroplating and galvanization (medium and large scale)</td>
</tr>
<tr>
<td>l)</td>
<td>Smelting ferrous and non-ferrous (medium and large scale)</td>
</tr>
<tr>
<td>m)</td>
<td>Sugar and molasses (<em>khandsari</em>) production</td>
</tr>
<tr>
<td>n)</td>
<td>Rubber processing (tube and tyre manufacturing)</td>
</tr>
<tr>
<td>o)</td>
<td>Paint industries (medium and large scale)</td>
</tr>
<tr>
<td>p)</td>
<td>Bleaching powder</td>
</tr>
</tbody>
</table>
GOVERNMENT AND OTHER AGENCIES FOR DOING BUSINESS IN NEPAL

MINISTRY OF INDUSTRY
Singha Durbar, Kathmandu, Nepal
Tel: 977-1-4211579
Fax: 977-1-4211619
Email: info@moi.gov.np
Website: www.moi.gov.np

MINISTRY OF COMMERCE & SUPPLIES
Singha Durbar, Kathmandu, Nepal
Tel: 977-1-4211446
Fax: 977-1-4211167
Email: info@mocs.gov.np
Website: www.mocs.gov.np

MINISTRY OF HOME AFFAIRS
Singha Durbar, Kathmandu, Nepal
Tel: 977-1-4211261, 4211212, 4211274, 4211249, 4211224
Fax: 977-1-4211264
Email: homegon@wlink.com.np
Website: www.moha.gov.np

MINISTRY OF FINANCE
Singha Durbar, Kathmandu, Nepal
Tel: 977-1-4211161, 4211400, 4211412, and 4211338
Fax: 977-1-4211164, 4211605
Email: admindivision@mof.gov.np
Website: www.mof.gov.np

MINISTRY OF FOREIGN AFFAIRS
Narayanthiti Palace, Durbarmarg, Kathmandu
Tel: 977-1-4416011, 4416012, 4416013,
Reception: 0, 270
Fax: 977-1-4416016 / 4419044
Email: fso@mofa.gov.np
Website: www.mofa.gov.np

MINISTRY OF INFORMATION & COMMUNICATIONS
Singh Durbar, Kathmandu, Nepal
Tel: 977-1-4211556, 4211647, 4211615, and 4211728
Fax: 977-1-4211979, 4211729, and 4211610
Email: moicppme@ntc.net.np, moicgon@ntc.net.np
Website: www.moi.gov.np

MINISTRY OF LABOUR AND TRANSPORT MANAGEMENT
Singha Durbar, Kathmandu, Nepal
Tel: 977-1- 4211889, 4211991
Fax: 977-1-4211877
Email: info@moltm.gov.np
Website: www.moltm.gov.np

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

DEPARTMENTS & UNITS UNDER MINISTRY OF COMMERCE & SUPPLIES

DEPARTMENT OF COMMERCE
Babarmahal, Kathmandu, Nepal
Tel: 977-1-4249393, 4247913, 4247912, 4239123
Fax: 977-1-4249609
Email: info@doc.gov.np
Website: www.doc.gov.np

TRADE AND EXPORT PROMOTION CENTRE
Pulchowk, Lalitpur,
P. O. Box 825, Kathmandu
Tel: 977-1-5525898 / 5532642
Fax: 977-1-5525464
Email: info@tepc.gov.np
Website: www.tepc.gov.np

DEPARTMENTS, UNITS, CELLS UNDER MINISTRY OF INDUSTRY

DEPARTMENT OF INDUSTRY
Tripureshwor, Kathmandu, Nepal
Tel: 977-1-4261101, 4261168, 4261169, 4261203
Fax: 977-1-4261112
Email: info@doi.com.np
Website: http://www.doind.gov.np

OFFICE OF THE COMPANY REGISTRAR
Tripureshwor, Kathmandu, Nepal
Tel: 977-1-4263090, 4259948, 4263089
Fax: 977-1-259961
Email: croffice@wlink.com.np
Website: www.cro.gov.np/

DEPARTMENT OF MINES AND GEOLOGY
Lainchaur, Kathmandu, Nepal
Tel: 977-1-4414740
Fax: 977-1-4416806
Email: dmgdo@hotmail.com
Website: www.dmgnepal.gov.np
DEPARTMENT OF COTTAGE AND SMALL INDUSTRIES
Tripureshwor, Kathmandu
Tel: 977-1-4259875
Fax: 977-1-4259747
Email: docsi@wlink.com.np
Website: http://www.dcsi.gov.np

NEPAL BUREAU OF STANDARDS AND METROLOGY
Balaju, Kathmandu
Tel: 977-1-4350818
Fax: 977-1-4350689
Email: nbsm@nbsm.gov.np
Website: http://www.nbsm.gov.np

INDUSTRIAL DISTRICT MANAGEMENT LTD
Balaju Industrial District,
Tel: 977-1-4350849, 4350274
Fax: 977-1-4351369
Email: idmlho@ntc.net.np
Website: http://www.idm.com.np

DEPARTMENTS UNITS, CELL UNDER MINISTRY OF FINANCE

DEPARTMENT OF CUSTOMS
Tripureshwor, Kathmandu, Nepal
Tel.: 977-1-4259793
Fax: 977-1-4259808
Email: it@customs.gov.np
Website: http://www.customs.gov.np

INLAND REVENUE DEPARTMENT
Lazimpat, Kathmandu
Tel: 977-1-4415802 (hunting line)/4410340/4415967/4415969
Fax: 977-1-4411788
Email: hq@ird.gov.np
Website: http://www.ird.gov.np

DEPARTMENT OF REVENUE INVESTIGATION
Haiihar Bahwan, Pulchowk, Lalitpur
Tel: 977-1-5010085, 5010057
Fax: 977-1-5551802
Email: info@dri.gov.np
Website: http://www.dri.gov.np

NEPAL PASTRA BANK
Central Office
Baluwatara, Kathmandu, Nepal
P. O. Box 73
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Fax: 977 1 4410159
Website: http://www.nrb.org.np
Banking Office
Thapathali, Kathmandu, Nepal
Tel: 977-1-4226832, 4241557
Fax: 977-1-4227378

PRIVATIZATION CELL
Singh Durbar, Kathmandu, Nepal
Tel: 977-1-4259993, 4211320, and 42113743
Fax No: 977-1-4259891
Email: pvtn@mof.gov.np
Website: http://www.privat.gov.np

DEPARTMENTS AND UNITS UNDER MINISTRY OF TOURISM AND CIVIL AVIATION AUTHORITY OF NEPAL
Babarmahal, Kathmandu, Nepal
Tel: 977-1-4262387
Fax: 977-1-4262516
Website: http://www.caanepal.org.np

DEPARTMENTS UNDER TRANSPORT AND LABOUR MINISTRY

DEPARTMENT OF TRANSPORT MANAGEMENT
Koteswor, Kathmandu
Tel: 977-1-4602126, 4601743, 4601002
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Email: info@dotm.gov.np
Website: www.dotm.gov.np

DEPARTMENT OF LABOUR
Anup Marg, Minbhawan, Kathmandu, Nepal
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Fax: 977-1-4107288
Email: info@dol.gov.np
Website: www.dol.gov.np

CHAMBERS OF COMMERCE & INDUSTRY IN NEPAL

FEDERATION OF NEPALESE CHAMBERS OF COMMERCE AND INDUSTRY (FNCCI)
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Fax: 977-1-4261022 / 4262007
Email: fncci@mos.com.np
Website : http://www.fncci.org

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Email: cni@wlink.com.np
Website: http://www.cnind.org

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Fax: 977-1-4229998
Email: chamber@wlink.com.np
Website: http://www.nepalchamber.org