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Country Study Presentation Nepal
(For Presentation to the U N C T A D, Ad Hoc Working
Group on Expansion of Trading Opportunities for
Developing Countries)

August, 1993

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Country Study Presentation - Nepal

(For presentation to the UNCTAD, Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries)

I. Brief Record of Industrial Growth and Trade Expantion :

Foreign trade and industrial sectors play vital role in the economic development of a least developed country like Nepal. The process of structural change and economic development in a predominantly agricultural economy of Nepal depends on the growth of the industrial sector. To this end, His Majesty's Government of Nepal (HMG/Nepal) has been adopting a series of measures designed to create an atmosphere conducive to private sector involvement in the industrialization of the country. The important reforms taken recently include implementation of the Industrial Enterprise Act, 1992; the Foreign Investment and Technology Transfer Act, 1992; Industrial Policy, 1992; and Foreign Investment and one Window Policy, 1992.

On the other, foreign trade sector is characterized by a large trade account deficit as imports of consumable goods, petroleum products, chemical fertilizers and industrial raw materials have been rising fast while exports of traditional especially agro-based products are on the decline. In order to improve the performance of the trade sector and enhance its earning capacity, HMG/Nepal recently adopted a new Trade Policy 1992 which is compatible with its overall economic objective of creating a open, liberal, and market oriented economy. The new Trade Policy has started to yield positive results through fast export growth and decline in the growth rate of trade deficit. As few items like woollen carpets, readymade garments, handicrafts, pulses, and leather & leather goods dominate the export performance, emphasis has been laid on the identification and market promotion new exportable products.

A. Industrial Growth :

During the past decades, the performance of industrial sector showed a mixed trend and failed to bring structural changes in the national economy. In the aftermath of the signing of the 1991 Trade and Transit Treaties with India after a stalement in the bi-lateral relation of about 15 months, industrial production went up rapidly due to the restoration of abundant supply of fuel and raw materials and the easy availability of foreign exchange reserves. Share of manufacturing sector in the Gross Domestic Product (GDP) has been rising gradually but limiting to a share of below eight percent. The highest share of industrial sector in the GDP is projected to reach 7.8 percent in the just completed fiscal year of 1992/93. Its share in GNP has reached 6.0 percent in 1990/91 and 7.2 percent in 1991/92 showing a recovery from an average share of 5 percent in the preceding years.

B. Trade Expansion :

Foreign trade sector of Nepal is responding positively to the liberalised economic policies adopted in recent years by HMG/Nepal. After a brief decline in 1986/87, the export trade is growing rapidly from a 23 percent in 1989/90 to 43 percent in 1990/91 and 88.8 percent in 1991/92. During the year 1992/93, the actual export of nine months Rs. 13098 million is projected to reach above Rs. 17464 million recording a growth of 25.3 percent by the end of the year. Share of exports in GDP remained below 6 percent till 1989/90 after when it took a quick upward turn reaching 7.1 percent in 1990/91, 11.0 percent in 1991/92 and a projected 12.0 percent in 1992/93.

Regarding Commodity Composition of Nepal's exports, exports to India need to be viewed separately from exports to overseas (i.e. all countries other than India). During the earlier years Nepal used to be a major exporter of rice and other agricultural products. But due to the fast growth of population enlarging the domestic demand and the adverse weather conditions occuring free quently export of agricultural products mainly rice is on the fast decline and often it is imported to meet domestic demand. Some primary and processed products like pulses, oilseeds, oilcake, ginger, raw jute and jute cutting, herbs etc. still account a major share in exports to India. Exports of some manufactured products to India like ghee (processed butter) catechu,rice bran oil, sal seed oil and jute goods have fluctuated widely, but they jointly account a less than 25 percent average share in the total exports.

On the other, Nepal's exports to overseas represent a different and encouraging performance that except a few primary products like lentil, large cardamom and medicinal herbs, manufactured products dominate the export performance. The value of overseas exports have risen very fast along with an increasing share of manufactured products. Only two items woollen carpets and readymade garments account for a more than 80 percent share of total exports to overseas. If we add to it the share of hides and skins (whose exports are allowed only on processed form), handicrafts and woollen products, the composite share of manufactured products comes to be around 90 percent of overseas exports. The other products as presented in the Annex - 2 also include some semi-processed and manufactured products whose exports are negligible like Nepali paper and paper products and catechu. If the export of lentil is exeluded, we can say that Nepal's overseas export is composed of almost 100 percent manufactured products.

C. Resource Endowment and Constraints :

Apart from the agricultural sector, hydro-power and human resources are considered prime resources of Nepal. Geographical observation has cited possibilities of different mineral deposits but they still need to be technically and financially explored for commercial uses. Among the available mineral deposits which have been limitedly used for commercial purposes are lime, magnesite, marble and semi-precious stones. Out of the total hydro-power potentiality of 83,000 megawatts in Nepal, only 238.3 megawatts or 0.287 percent has been hernessed by the end of 1991/92. The vast demand for hydro-power in neighbouring countries particularly India foresees commercial utilization of the potential hydro-power in future. Resource to be invested in exploring the commericial and technical viability is the main constraint in assessing the real status of natural resource endowment. Thus, the current potentiality is for the import substitution and export oriented industries which are based on agriculture, and imported raw materials.

II. Government's Approach to Economic Development :

A. General Strategy for Industrial Growth (Value-Added Production) :

In order to create an environment where private sector can play a leading role in the industrialization of the country, the most of the public sector industries will be privatized, and no private sector industries will be nationalized. This is the open and clear commitment made by HMG/Nepal in the Industrial Policy 1992. The main objective of the Governmental is to increase the contribution of industrial sector to the national economy through the enhancement of industrial production and productively with the active participation by private sector. Emphasis has also been laid on the development of the industries which utilize local resources and are export oriented.

Import substitution as well as export oriented industries have been given equal importance. The industries which produce domestically required supplies are given tariff and non-tariff protection as well as tax incentives. Similary export oriented industries also are offered with a number of facilities like refund of customs duty, excise duty and the sales tax imposed on the raw materials used in the production of exportable products, bonded warehouse facilities, facilities of export processing zone to industries exporting more than 90 percent of their production, refund of excise duty and sales tax to industries selling their products whthin the country in foreign currency, exemption of income tax for seven years to industries of national priority, no income tax on export earnings of industries etc.

Due to limited resource endowment, no particular distinction has been made between the manufacturing and resource based processing. It is worth mentioning that the production of the leading exportable product woollen carpet is primarily based on the imported raw wool and chemicals. Same case is with readymade garments which are produced by using imported raw materials. But subsidiary industries are also coming up to support the garment industry.

B. Microeconomic Policy :

As the Government has adopted open, liberal, and market oriented economic policies, there is no any control in the market price except the concern for price stability. After a inflationery trend, the price rise has improved considerabely during the first nine months of 1992-93 when it recorded an increase of only 8.1 % compared to 18.9 percent rise during the same period of 1991-92. It is expected that the average annual rate of inflation for the year end 1992-93 is likely to be around 9 percent. The principal reasons for bringing the inflation down are the improvement in the supply of food and beverages, relative stability in exchange rates, revaluation of the Nepalese currency with repect to the Indian Rupee, and reductions in customs duties. In addition, the Nepal Rastra Bank, the Central Bank of Nepal, continued its issues of bond papers so as to squeeze excess liquidity in the economy.

As per the economic survey 1992-93 of HMG/Nepal, the domestic savings increased by 14.1 percent annually between 1974/75 and 1984/85. The rate fell to 9.7 percent during 1984/85 and 1991/92. The gross domestic savings was only Rs 6,670 million in 1989/90 and Rs 7,654 million in 1990/91 which went up by 55.9 percent reaching Rs 11,929 million in 1991/92. The ratio of gross domestic savings to GDP which was 11 percent during the period 1974/75 to 1984/85 declined to 10.4 percent during 1984/85 and 1990/91. But following the economic and financial reforms in 1991/92, the ratio of gross domestic savings to GDP increased to 9.5 percent compared with 7.4 percent in the preceding year.

The total investment at current prices is estimated to have increased by 26.0 percent reaching Rs 27,668 million in F.Y. 1991/92. The rate of growth in investment is recorded to be higher than in any other year since 1985/86. The total capital formation in 1991/92 is estimated to have increased by 20.1 percent reaching Rs 23,620 million where as the capital formation in the Government sector declined by 3.3 percent reaching Rs 9,452 million. Private capital formation is estimated to have increased by 43.1 percent reaching Rs 14,168 million in 1991/92 compared to 37.4 percent increase in 1990/91.

Due to rise in consumption expenditure far in excess of national savings, the ratio of total investment to GDP grew steadily during the last three years from 19.4 percent in 1989/90 to 21.1 percent in 1990/91 and 21.9 percent in 1991/92.

III. Measures and Incentives for Developing Export Supply Capabilities :

A. Policy Incentives for Developing Export Industries :

Developing and sustaining export supply capabilities are the prime requisite for the promotion of export trade. HMG/Nepal has been emphasizing on the exports of low weight high value processed and semi processed products. In the process of developing sustainable export supply base, it has been strongly realised that production and supply of exportable surplus have to be consistent and uninterrupted. In this regard, Industrial Policy 1992 and Trade Policy 1992 envisaged transparent and liberal provisions to promote and facilitate export oriented industrial production. The Eighth Five year plan(1992-93 to 1996-97) has envisaged an annual average export growth of 19.1 percent for which various promotional measures have been framed.

The New Industrial Policy of 1992 has made the following main provisions for the facilitations of industries generating sustainable supply base;

1. No licence is required to establish, expand and modernize industries except those related with defence public health and environment;
2. No income tax, sales tax and excise duty on traditional cottage industries;
3. Five years income tax exemption to manufacturing industries (other than cigarette, bidi, alcohal, vegetable ghee, plastics and electronic assembly industries), energy based industries and mineral based industries;
4. Seven years income tax exemption to specified industries of national priority;
5. No income tax on export earnings;
6. A rebate of 50 percent, 20 percent and 10 percent of income tax, and a rebate of 25 percent, 15 percent and 10 percent of excise tax respectively

to industries established in the remote, undeveloped and underdeveloped districts as specified in the policy;

7. Industries are entitled to add 33 percent to the rate of depreciation allowed under the income tax law;

8. Provision of infrastructural services such as power, water, communication facilities, land etc. on priority basis;

9. Reimbursement of customs duties, excise duty, and sales tax imposed on raw material and auxiliary raw materials used by export oriented industries;

10. Provision of bonded warehouse facilities to the industries established in export processing zones and industries exporting 90 percent or more of their production.

Practically, export trade has been made free from all taxes except a service charge imposed for record purposes at the time of export by the customs. The service charge of 0.5 percent in 1992/93 has been raised to 2.00 percent in 1993/94. In addition to these benefits, export oriented industries get other advantages offered by the industrial policy.

The Nepali rupee which was made for the first time partially convertible for current account transactions on March 4, 1992 has been made full convertible from February 12, 1993. The foreign exchange required for imports can be obtained from commercial banks at market rates, and similarly export earnings can be sold at market rates. Accordingly, all foreign currencies except Indian rupee are floated and their market rate of exchange are fixed daily by commercial banks. Exporters are also allowed to open bank account in foreign exchange and to spend part of their earnings in overseas travel and other market promotion related activities.

Licensing requirements for exports and imports of all items other than the banned or quantitatively restricted have been dropped in line with the full convertibility of Nepali currency.

The Industrial policy 1992 has targeted to establish Export Processing Zone (EPZ) with a view to accelerate the pace of industrial development and to minimise balance of trade through export promotion of manufactured products. It has been clearly spelled out that there will be no tax on machinary and equipments, raw materials and the exportable products of the EPZ. Necessary preparations are underway for the establishment of EPZ which will he a new experience to Nepal.

B. Experiences with Policies and Incentives to Attract Export-Oriented Investments by Foreign Firms :

Except defence, Cigarettes and Bidi, and Alcohol (excluding 100 percent export or yeasted) industries which are reserved for domestic investments, permission is required for foreign investments which are allowed 100 percent in large (with the fixed capital of more than Rs. 50 million) and medium scale industries (with fixed capital of more than Rs 10 million). Permission may also be given for the transfer of technology in cottage and small industries. The basic facilities and concessions to foreign investments are as follow :

1. All facilities like tax holidays available under the Industrial Enterprises Act ;
2. A 15 percent tax on interest income on foreign loans;
3. A 15 percent tax on royalties, technical and management fees.
4. Tax exemption on export earnings.
5. Supply of electricity on priority basis.
6. Reimbursement within 60 days from the receipt of the application, of customs duty, excise duty and sales tax levied on raw materials and auxiliary raw materials of export oriented industries. Same facilities will be given in case the product is sold within the country in foreign currency.
7. Industries exporting 90 percent or more of its production are allowed the same facilities given to industries established in the EPZ. In addition, bonded warehouse facilities will be continued.
8. Priority to arrange infrastructure facilities required for the establishment of industries.
9. Land distribution within the industrial districts to be made on priority basis.
10. No intervention by the Government in the fixation of prices of industrial products.
11. No taxes on machinery and equipment, raw materials and finished products of industries established within the EPZ.

12. A non-rourist visa to be granted to a foreign investor to stay in Nepal for the period during which a foreign investor maintains hàs investment. Also a permanent resident visa to be granted to a investor investing more than U.S.$ 200,000/- in convertible foreign currency.

13. No nationalization of industries.

14. Arrangements have been made to provide services through a one window system to the industries operating under foreign investment.

As the foreign investment of capital and technology is very essential to accelerate the pace of industrialization in a small developing countries like Nepal, HMG/Nepal has created an atmosphere condusive to foreign investment. The recent policies and Acts clearly explain the investment patterns, procedures and the one window facilities.

With a view to inform foreign entrepreneurs about investment potential in Nepal, a 'Nepal Investment Forum' was organized by HMG/Nepal in Kathmandu on Nov. 30-Dec. 4, 1992 where the HMG/Nepal presented 115 feasible project proposals. During the forum period, investors signed memorandum of understanding to establish 119 industries with a total investment of U.S.$ 900 million. The industrial project included agriculture, animal husbandry, fishery, hydro-electricity, food and beverages, textiles, readymade garments, chemicals, plastic and rubber based industries, tourist hotels, recreational industries and non-metallic mineral production industries. The interested investors were from India, China, Germany, Singapore, Pakistan, Russia, United Kingdom, Japan, Hongkong and Sri Lanka. Among the projects committed at the forum, 7 industrial projects including pharmaceutical, hotel, textile and hydro-electricity have already acquired licences.

As per the economic survey report of 1992/93, a total of 123 joint venture industrial projects have been recorded in operation by the mid-June 1992. The joint venture projects are, interalia, textile, readymade garments, tourism, computer, agro-based service, construction material, electronics, pharmaceutical, soft drink, beer and banking business. Of these, readymade garments industry is noted to be the main export oriented unit, & other projects are yet to be seen on export front.

IV. Experience with Import Liberalization in Stimulating General Economic Development and Export Competitiveness :

Policy of import liberalization adopted by HMG/Nepal particularly after the convertibility of Nepalese currency has in general helped in stimulating economic development. After the Nepali Rupee was made partially convertible on March 4, 1992 and fully convertible on February 12, 1993 for current account transaction, import licensing requirements were eliminated for all but six items which were under licensing auctions which in some cases used to fetch premium up to 300 percent. Even these six items were eliminated from the licensing requirements during the budget speech for the year 1993/94. Now items not included in the negative list and quantitative restrictions can be imported without any restrictions, and the foreign exchange required for their importation can be obtained from commercial banks at market rates.

Such a liberal and open import policy has been influential in reducing import costs coupled with sufficient availability of various products ranging from daily necessities to development and construction materials. This has encouraged competition in reduction of prices of import products and its consequential effects on other sectors. Contrary to the conventional belief, the growth rate of import trade after its liberalization has surprisingly come down. The growth rate of total imports is expected to be around 6.3 percent in 1992/93 compared to the rate of 41.9 percent in 1991/92 and 26.8 percent in 1990/91.

On the other, cheaper and accessible import of raw materials, auxiliary raw materials and capital goods coupled with the system of duty draw back and bonded warehouse have helped in minimizing the cost of production of processed and semi-processed exports. This, in turn, has raised the competitiveness of Nepalese exports in international markets. To be more specific, the import liberalization has got a role in the fast export growth of Nepalese woollen carpets and readymade garments as the both items are based on the importation of sizable volume of raw materials.

V. Export Market Conditions and Trade Promotion :

A. Major Access Barriers Constraining the Country's Export Growth in Foreign Markets

Being a least developed country, Nepal has been enjoying special treatment in international market. Exports from Nepal enjoy tariff preferences in most of the developed countries under the scheme called the Generalized System of Preferences (GSP). Due to the limited range of exportable products Nepal is not much faced with the problems of market barriers in export promotion. The preferential treatment offered under the GSP scheme differ from market to market. For instance, Nepalese woollen carpet is eligible for duty free entry under the GSP scheme of EEC, but it is fully dutiable under the GSP scheme of U.S.A. This is one of the primary reasons for confining carpet exports to EEC market. Similarly, more than 90 percent of Nepalese readymade garments are exported to a single market the U.S.A. which has been imposing annual quota since 1986.

On the other, India is considered as a traditionally potential market for Nepal, and a bilateral trade treaty existed between the two countries for the promotion of bi-lateral trade. As per the trade treaty signed with India in 1991, Nepalese manufactured products containing Nepalese and/or Indian materials of 50 percent or more including labour is eligible for preferential treatment in India. This provision will have a big impact on the development of export oriented industries in Nepal.

During the Dhaka summit of SAARC in 1992, an understanding has been reached among the member states on the SAARC Preferential Trading Arrangements (SAPTA) which is regarded as a milestone in the expansion of regional trade. The SAPTA provides for special preferential treatments to the least developed countries. Therefore, the SAPTA after its final negotiation will be of great help in promoting Nepal's exports.

B. Experience with Market Penetration-Role of, and Techniques for Trade Promotion and Marketing :

After the declaration of the new Trade Policy 1992 by HMG/Nepal, the public sector is made to confine itself to the role of a catalyst to expand the role of private sector. Exports and imports except for quantitatively restricted items have been made free from licensing requirements. Various institutional arrangements have been made to support the private sector's export promotion drive ;

1. A Board of Trade has been constituted under the chairmanship of the state

Minister for Commerce with members from related public and private sector organizations. The primary functions of the board are to streamline foreign trade, to sort out problems that may arise in the implementation of policies, to coordinate activities of related agencies and to bring necessary reforms in Nepal's foreign trade sector.

2. A separate institute named as Foreign Trade Policy and Research Institute has also been created as a technical wing of the Ministry of Commerce to identify and develop exportable products, to provide training and to undertake research and studies necessary for the expansion of trade and to provide necessary secretarial services for the effective working of the Board of Trade.

3. As per the provisions of Trade Policy 1992, necessary preparations are underway to institute Nepal Trade Promotion Organization by reconstituting the existing Trade Promotion Centre in joint collaboration between the public and private sectors. The Trade Promotion Centre is the fully Government financed public sector agency providing various export promotion services for the last 20 years. The reconstitution of the TPO is designed to function on commercial lines to provide necessary services, information and to conduct promotional activities for export promotion and also to look after import management.

Thus the institutional arrangements have been made at different tiers from policy to operational levels. The operational level addresses to the execution of different kinds of trade promotion and marketing activities like product test marketing, organization and participation in trade fairs and exhibitions, exchange of trade delegations, market study tour, survey and development of exportable products, research and information services. Such various promotional measures have been effective in sustaining and expanding Nepal's export markets. Apart from these, conclusion of bi-lateral trade agreements with different countries have also contributed to the market promotion of Nepalese products on the basis of most favoured nations (MFN) treatment. In this respect, particular mention can be made of the availability of Indian market free of basic and auxiliary customs duty and quantitative restrictions for all manufactured products which contain not less than 50 percent of the Nepalese labour content, Nepalese material content and Indian material content. Such a provision may also attract foreign investments in export oriented industries to benefit from the preferential entry into potential market of India.

The Eighth Five year plan (1992/93 - 1996/97) has committed to gear up country's moneytary and exchange system, fixcal (tax and tariff) system, licensing and procedural system, transit and transportation system, physical facilities and institutional arrangements towards achieving an average export growth of 19.1 percent and limiting the import growth to only 11.7 per during the plan period. The Eighth plan has also fixed a target to increase woollen carpet export at an annual rate of 23 percent to Rs 18120 millions, readymade garments at the rate of 5.4 percent to Rs 3840 millions, pulses at the rate of 1.0 percent to Rs 900 millions, leather and leather goods at the rate of 13.7 percent to Rs 460 millions, and handicrafts at the rate of 19.5 percent to Rs 280 million by the end of 1996/97. For achieving export performance targets, various product development and market promotion programmes have been spelled out with an objective to raise the quality and quantity of production through inter alia, the imports of improved technology and investments, sufficient availability of raw materials for the production of manufactures, promotion of joint and foreign investment, product adaptation to the changing tests and demand of markets, diversification through penetration to non-traditional markets etc. In addition to the promotional measures for the marketing of traditional products, programmes have also been chalked out to promote exports of new products through expansion and improvement in production, quality, packing, storage, and other infrastructures. Potential markets have been identified to promote exports of non-traditional products like tea, vegetable seeds, flower seeds and plants, silk and silk products, mushroom, saffron, computer software and coffee. Emphasis is laid on the quality improvement of exportable product for which HMG/Nepal is prepared to avail the private sector of the required technology and specialist services for the establishment of quality development units in the production sector.

C. Export Financing :

Pre-shipment and post-shipment credits are available at competitive rates from commercial banks. With the objective of mobilizing savings and developing competitiveness in the financial sector, HMG/Nepal has been encouraging private and foreign involvement in the formation of new commercial banks. As a result, there are now six commercial banks of which only two are public sector units and rest are private sector units in collaboration with foreign banks. One more commercial bank is also expected to come into operation soon. This does not include finance companies which are expected to go up to ten in numbers from the existing two companies namely Nepal Finance ar Saving Limited, and Nepal Industrial Development Corporation Capital Market Limited. In addition two rural development banks are also expected to come into operation soon and this will facilitate farmers' access to institutional credit.

The statutory requirement to invest by commercial banks 22 percent of their deposits liability in securities of the Government or the Nepal Rastra Bank (the Central Bank of Nepal) has been dropped and the interest rates been reduced by two percent recently as per the provisions of the budget for the F.Y. 1993/94. This change will have an important impact on the liquidity of commercial banks enabling them to provide more competitive and cheaper financing. The decline in the interest rates will also ensure the availability of cheaper export financing. In line with the liberal financial policies of the HMG/Nepal particularly after the full convertibility of Nepalese currency, greater discretion has been given to commercial banks in their banking operation and credit financing except some statutory requirements to maintain certain cash reserves and specific investments in the priority sectors of the HMG/Nepal.

There is also a Credit Guarantee Corporation which provides guarantees on credit extented by commercial banks to priority sectors. During the first nine months of 1992/93, the corporation guaranted a total credit of Rs 1303.1 million recording an increase by 17.5 percent compared to the same period of 1991/92. Of the total guaranted credit amount of the corporation in 1992/93, 52.3 percent were for industrial loan, 31.3 percent for agricultural loan and 16.4 percent for various service oriented loans.

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Annex - 1

Selected Economic Indicators of Nepal

		F.Y. 1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93+
1.	Gross Domestic Product (GDP)							
	- At Constant Price (Rs. million)	25,617	27,515	28,749	31,034	32,448	33,115	34,076
	- At Current Price (Rs. million)	59,246	68,973	77,740	91,008	103,948	126,186	144,959
2.	GDP Growth Rate (%)							
	- Constant Price	3.9	7.4	4.5	7.9	4.6	2.1	2.9
	- Current Price	18.2	16.4	12.7	17.1	14.2	21.4	14.9
3.	Gross National Product (GNP)							
	- At Market Price (Rs. million)	60,450	70,548	79,454	93,049	106,095	128,902	n.a
	- Growth Rate (%)	18.2	16.7	12.6	17.1	14.0	21.5	-
4.	Total Exports (F.O.B.)							
	- Value (Rs. million)	2,991	4,115	4,195	5,156	7,383	13,939	17,464*
	- % Growth in Exports	-2.8	37.6	1.9	22.9	43.2	88.8	25.3
	- % of GDP (Current Price)	5.0	6.0	5.4	5.7	7.1	11.0	12.0
5.	Total Imports (C.I.F.)							
	- Value (Rs. million)	10,905	13,870	16,264	18,325	23,227	32,951	35,023*
	- % Growth in Imports	16.7	27.2	17.3	12.7	26.8	41.9	6.3
	- % of GDP (Current Price)	18.4	20.1	20.9	20.1	22.3	26.1	24.2
6.	Industrial Production							
	- Production Value (Rs. million)	3,064	3,761	3,799	4,775	6,333	9,330	11,300
	- % of GDP (Current Price)	5.2	5.4	4.9	5.2	6.1	7.4	7.8
	- % of GNP (Market Price)	5.1	5.3	4.8	5.1	6.0	7.2	-

7. Agricultural Production							
- Value (Rs. million)	30,759	35,825	41,079	47,441	52,247	61,696	66,740
- % Change	14.7	16.5	14.7	15.5	10.1	18.1	8.2
- % of GDP (Current Price)	51.9	51.9	52.8	52.1	50.3	48.9	46.0
8. Exchange Rate (Nepalese Rupees per U.S.$ unit)	21.20	21.90	23.60	27.50	29.20	42.60	42.70
(After the abolition of dual exchange rate system on February 12,1993, the market rate of exchange was around Rs 49.50)	(Mid July 86)	(Mid July 87)	(Mid July 88)	(Mid July 89)	(Mid July 90)	(Mid July 91)	(Mid July 92)

Notes : + Provisional Estimates.

* Projection for 12 months based on 9 months actual exports Rs 13098 millions and imports Rs. 26267 millions.

F.Y. denotes the Nepalese Fiscal Year from Mid July to Mid July unless otherwise mentioned.

Source : Economic Survey 1992/93

His Majesty's Government of Nepal, Ministry of Finance.

Annex - 2

Commodity Composition of Overseas Exports

(Value in Rs '000)

Principal Products	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93 (First Nine Months)
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
1. Woollen Carpets	627500 (37.7)	1223700 (48.0)	1634000 (49.3)	2318500 (50.7)	3733000 (64.0)	7035100 (56.9)	7349000 (62.0)
2. Readymade Garments	611200 (36.7)	916600 (36.0)	1117800 (33.7)	1399200 (30.6)	1350300 (23.1)	3205200 (25.9)	2771600 (23.4)
Sub Total :-	1238700 (74.4)	2140300 (84.0)	2751800 (83.00)	3717700 (81.3)	5083300 (87.1)	10240300 (82.8)	10120600 (85.4)
3. Hides & Skins	161000 (9.7)	165400 (6.5)	161200 (4.9)	283900 (6.2)	210600 (3.6)	218000 (1.8)	164900 (1.4)
4. Handicrafts	32400 (1.9)	53800 (2.1)	91600 (2.7)	71100 (1.6)	86900 (1.5)	158900 (1.3)	51500 (0.5)
5. Woollen Goods (Other than Carpet)	5300 (0.3)	9000 (0.4)	16800 (0.5)	23200 (0.5)	21900 (0.4)	46700 (0.4)	-
6. Other Products	226400 (13.7)	178200 (7.0)	294900 (8.9)	473000 (10.4)	432600 (7.4)	1706600 (13.7)	1501100 (12.7)
	1663800	2546700	3316300	4568900	5835300	12370500	11852300

Notes : Figures within the paranthesis indicate the percentage share.

Source: Economic Survey 1992-93.

Trade Policy

His Majesty's Government of Nepal
Ministry of Commerce
Kathmandu, 1992

Trade Policy

1. Objectives:

1.1 To enhance the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere.

1.2 To diversify trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable.

1.3 To expand trade on a sustained basis through gradual reduction in trade imbalances.

1.4 To co-ordinate trade with other sectors by expanding employment-oriented trade.

2. Basic Policy:

2.1 The role of public sector will be minimised and used as a catalyst to expand the role of private sector in trade.

2.2 A liberal and dynamic trade policy will be pursued with the objective to improve balance of payments position by promoting exports to increase foreign exchange earnings as well as by fulfilling internal demand of economic and quality products.

2.3 Production of quality goods and services will be increased for internal consumption as well as for exports through effective and appropriate utilisation of economic resources.

2.4 Special efforts will be made to promote and diversify trade both in the range of commodities and country destinations.

2.5 Liberal procedures will be adopted for encouraging interactions between trade and industry for sustained export promotion and for fulfilment of internal demand through increased domestic production. Emphasis will be given on modernizing management and technology, on promoting market and on attracting direct foreign investment in order to identify and develop new products as well as raise the production and quality of the traditional products.

2.6 The public sector trading corporations will gradually be privatised taking into considerations the development and efficiency of the private sector.

2.7 In support to above policy measures, necessary steps—as pre-conditions—relating to foreign exchange, monetary and fiscal policies, will be taken up towards (full) convertibility of the Nepalese currency in trade and service sectors. For this purpose, major changes will be made in the administrative procedures to make them simple, transparent and dynamic.

2.8 Taxation system will be simplified by introducing necessary changes in order to foster competition in trade.

2.9 Emphasis will be laid on institutional development and information network as well as on monitoring system and quality improvement for the promotion of foreign trade.

2.10 The existing trade treaties and agreements with various countries and international agencies will be effectively implemented, and new ones will be concluded, as and when necessary, for the promotion of international trade.

3. Export Policy:

3.1 The production and quality of exportable products will be raised to make them competitive in the international market.

3.2 Necessary efforts will be made to increase and diversify exports of goods and services with the objective of increasing foreign exchange earnings.

3.3 Exports will be promoted by raising the production and quality of traditional as well as new products. Similarly, more emphasis will be placed on the export of profitable but processed and finished products. For the export promotion of these products, new markets will be identified.

3.4 Foreign exchange earnings will be increased and opportunities for gainful employment will be created by identifying and increasing the production of new products.

3.5 Service-oriented activities will be promoted to increase foreign exchange earnings.

3.6 Encouragement will be given to the export of hydro-electricity on a profitable basis.

3.7 For the effective utilisation of manpower, stress will be given to the development of appropriate and potential skills to promote service sector as well as export of skilled manpower in an organised way.

3.8 Appropriate monetary, foreign exchange and fiscal policies will be formulated and necessary changes will be made in the administrative procedures to make them liberal, simple and dynamic in order to implement above policies on an efficient, smooth and transparent basis.

4. Export Strategy:

4.1 Licences will not be required for the export of products other than banned or quantitatively restricted items as listed in Annexure no. 1. In the case of quantitatively restricted products, arrangement for issuance of export licence will be made in consultations with the private sector. Quantitative restrictions in the export of such products will gradually be removed through appropriate taxation measures.

4.2 For export promotion, improvements will be made in the existing transit transport network and its infrastructure. Administrative procedures will also be made transparent, smooth and efficient.

4.3 For the promotion of exports, container service will be introduced and the existing bonded warehousing system will be further expanded and improved.

4.4 The duty drawback scheme for the refund of import duty paid on the importation of raw materials and intermediate goods required for the production of exportable products will be effectively implemented. In this context, duty on import of raw materials will be fully exempted taking into consideration the needs, or the bonded warehousing system will be introduced for the storage of such materials.

4.5 Exports will be free from all charges except the service charge. However, the provisions of para 4.1 above will be applicable in respect of the export of essential products.

4.6 For the promotion of exports, Export Promotion Zone (EPZ) will be established. No duty will be levied on the raw materials and auxiliary imports used by industries established in such EPZ. Industries exporting more than 90 per cent of their production will be granted similar facilities as given to the industries established in EPZ.

4.7 As a preparatory step towards full convertibility of the Nepalese currency in trade and services, exporters will have to sell in the stipulated percentage the amount of foreign exchange earned through exports of goods and services to commercial banks at a rate fixed by the market mechanism and the remaining balance to Nepal Rastra Bank at an exchange rate fixed by the Government. No licence will be required and no quantitative restriction will be imposed on the imports of raw materials (except stipulated) required for the export-oriented and import-substituting industries. But for the import of such materials, foreign exchange will be made available by the commercial banks at the rate fixed by market mechanism. Exporters will be allowed to open a foreign exchange account in the banks for the purpose of spending certain percentage of one's foreign exchange earnings in trade promotion activities.

4.8 Export Valuation System will gradually be abolished after the full convertibility of the Nepalese currency.

4.9 Quality will be tested from time to time in order to improve the standard of exportable products and necessary information will be made available for this purpose.

4.10 Simple and convenient procedures relating to pre- and post-shipment credits will be adopted on a priority basis.

4.11 Income tax on income from exports will be fully exempted, and income earned from exports to India on the basis of letter of credit or agreed banking document will also be free from income tax.

4.12 Emphasis will be given on the development of packaging technology to maintain the quality standard of export products.

4.13 Nepalese missions abroad will be geared up towards export promotion activities, and trade missions will be opened and institutionalised on the basis of feasibility.

4.14 No quantitative restrictions will be imposed on the exportable products carried by tourists while returning from Nepal.

4.15 Export procedures and documentation, thus be formulated, will be short and simple.

4.16 An annual indicative export plan and programme on the basis of feasibility will be formulated with the co-operation of private sector to promote exports.

4.17 Necessary information and training relating to technology, marketing and export procedures required for export promotion will be provided on an institutionalised basis and arrangements will also be made for the participation in national and international trade fairs for market promotion.

4.18 Regular monitoring will be made to avoid distortions in exports and imports. Strong actions will be taken in case of misuse of facilities.

4.19 Export promotion, research and development, and training schemes will be developed, on institutional basis, for developing new exportable products, and for raising the quality and production of the traditional exportable products.

5. Deemed Export:

If any producer earns foreign exchange by selling one's own products to projects run under bilateral or multi-lateral aid or if such finished or semi-finished products are sold to EPZ, such sales will be granted facilities at par with exports. Customs duty, sales tax and excise duty levied on such sales will be refunded and the income generated from such sales will be exempted from income tax. In addition, foreign exchange earned from such sales can be sold at the rate fixed by the market mechanism after submitting the stipulated percentage amount to Nepal Rastra Bank at the rate fixed by the Government.

6. Import Policy:

Imports will be planned as a medium of export development and promotion to create competitive industrial and trade environment, and also to ease the supply of materials required for the country through the optimum utilisation of available resources. In this context, quantitative restrictions will be replaced gradually by such a fiscal measure as to encourage competition in production. Similarly, imports will gradually be tied up with exports.

7. Import Strategy:

7.1 Imports will gradually be tied up with exports with a view to creating a well-organised and sustained foreign trade sector by narrowing the gap between exports and imports.

7.2 The existing import licensing and control system will be simplified. Quantitative restrictions on imports will gradually be replaced through the tariff media.

7.3 Imports of all products other than banned or quantitatively restricted items as listed in Annexure no. 2 will be made free.

7.4 An annual indicative plan will be formulated to manage imports through auction, to allocate required foreign exchange for it, and to monitor its utilization.

7.5 Import procedures and documentation will be made short and simple.

7.6 Special efforts will be made to reduce transit costs, and also to minimise pilferage and demurrage.

7.7 Import of all goods except some limited items will be allowed through purchases of foreign exchange at the rate fixed by the market mechanism in order to make Nepalese currency fully convertible, and to gradually tie up exports and imports.

7.8 Necessary vigilance will be made to prevent deflections in foreign trade.

8. Import Licensing Arrangement:

As distortions can be minimised by regulating imports through various policy measures than be made under full control of the government, some items are restricted while some others placed under the auction system requiring licences, and the imports of the remaining items are made free, in the process of making import trade free. Under the system, imports of raw materials, consumer goods, industrial machinery, services, etc. have been made free.

8.1 Import formalities will be as follows:

8.1.1 Import licence will be required for the import of quantitatively restricted products, products in excess of the number or quantity fixed under the personal effects and the products under the auction system for the commercial purposes.

8.1.2 Imports of all products other than those mentioned in 8.1.1 above are made free.

9. Foreign Exchange Arrangement:

9.1 The foreign exchange required for import purposes will be made available as follows:

9.1.1 Nepal Rastra Bank will make foreign exchange available at the rate fixed by the Government for import of goods as per notification issued by His Majesty's Government in the Nepal Gazette, and to meet the Government expenses. Import of such products will be allowed as spelt out under the para 9.1.3 in the process of increasing the convertibility percentage of the foreign exchange.

9.1.2 Foreign exchange required for the import of goods under auction will be made available by Nepal Rastra Bank. In the process of increasing convertibility percentage of foreign exchange, goods which are under the auction will be gradually allowed to be imported under the para 9.1.3, and the number of such goods will be gradually reduced and brought under the purview of market mechanism.

9.1.3 Commercial banks will make foreign exchange available at the rate fixed by the market mechanism for the payment of all imported goods including industrial raw materials, spare parts and services and for payments of foreign loans and interests of the non-government sector. Nepal Rastra Bank will not make a separate foreign exchange provision for this purpose.

10. Internal Trade Policy:

A conducive environment will be created for the timely supply and distribution of internally produced and imported products as well. In this context, no restrictions will be imposed on the movement of such products for internal trade.

This system will be applicable to the movement of exportable products also.

11. Miscellaneous:

11.1 Procedures relating to imports will be made short and simple through improvements in the transportation, customs and godown procedures.

11.2 Improvements will be made to make the import valuation system relevant. For this purpose, necessary framework will be prepared.

11.3 In line with these policies, necessary improvements or amendments will be made on all relevant laws, regulations and notifications relating to exports and imports.

11.4 Regular monitoring will be done for the smooth and uninterrupted conduct of export and import trade.

12. Institutional Arrangements:

12.1 Board Of Trade:

A Board of Trade will be constituted under the chairmanship of the Minister for Commerce with members from related Government organisations and representatives from the private sector to streamline foreign trade, to sort out problems that may arise in the course of implementation of declared policies, to ensure co-ordination among related agencies, and to bring necessary reforms. The Board may further constitute different sub-committees as per requirement of the assigned functions, and the Ministry of Commerce will function as the secretariat of the Board. The constitution of the Board will be as follows:

1. Honourable Minister for Commerce/State Minister For Commerce	Chairman
2. Honourable Assistant Minister for Commerce	Member
3. Honourable Member (Trade), National Planning Commission	Member
4. Governor, Nepal Rastra Bank	Member
5. Secretary, Ministry of Finance	Member
6. Secretary, Ministry of Commerce	Member
7. Secretary, Ministry of Supply	Member
8. Secretary, Ministry of Industry	Member
9. Secretary, Ministry of Agriculture	Member
10. President, Federation of Nepalese Chambers of Commerce and Industry	Member
11. President, Nepal Chamber of Commerce	Member
12. President, Nepal Foreign Trade Association	Member
13. Chairman, Trans-Himalayan Trade Association	Member
14. Specialist Nominated by His Majesty's Government	Member
15. Two Chairmen/Presidents of Commodity Associations nominated by His Majesty's Government	Member
16. President, Nepal Bankers' Association	Member
17. Additional Secretary, Ministry of Commerce	Member-Secretary

Other persons may also be invited to attend the meeting of the Board.

Details regarding the Board of Trade will be mentioned separately.

12.2 Foreign Trade Policy and Research Institute:

A separate institute will be created as a technical wing of the Ministry of Commerce to identify and develop products, to provide training and to undertake research and studies with the objective of expanding and strengthening the country's foreign trade as well as providing necessary services to the secretariat for making the works of the Board of Trade effective. In the process of constituting this organisation experts related with the captioned subject to the tune of resources available in the Ministry and its agencies will be mobilized. Details regarding composition and functions of this Institute will be stipulated separately.

12.3 Nepal Trade Promotion Organization:

An organisation, namely, Nepal Trade Promotion Organization, will be instituted by reconstituting the Trade Promotion Centre, in joint collaboration between government and private sectors, to provide necessary services, information, and to conduct other promotional activities for export promotion and import management. This organisation will function on commercial line. The composition and functions of this organisation will be stipulated separately.

Annexure-1

Products which are banned and that which are quantitatively restricted for exports

A. Products Banned for Exports:

1. Articles of Archaeological and Religious Importance

1.1 National and foreign coins of archaeological value

1.2 Idols of gods and goddesses, palm leaf inscription *(Tad Patra)*, plant leaf inscription *(Bhojpatra)*

1.3 Scroll *(Thanka* paintings) of historical importance

2. Conserved Wildlife and Related Articles

2.1 Wild animals

2.2 Bile and any part of wild animals

2.3 Musk

2.4 Snake skin, lizard skin

3. Drugs

Marijuana, opium, hashish (as defined in the Single Convention on Narcotics, 1961)

4. Articles of Industrial Importance

4.1 Explosive materials and the related fuse or materials needed for fuse

4.2 Materials used in the production of arms and ammunition

5. Industrial Raw Materials

5.1 Raw hides and skin (including dry salted)

5.2 Raw wool
5.3 All imported raw materials, parts and capital goods

6. Other Products

6.1 Mamira
6.2 Log and timber

B. Products under Quantitative Restrictions:

Products as notified by His Majesty's Government in the Nepal Gazette from time to time

C. Products Allowed for Free Exports

All products other than banned ones and which are under quantitative restrictions.

Notes:-

1. The Ministry of Commerce will decide from time to time the goods to be included under the category of quantitative restrictions and volume of their exports.
2. The Ministry of Commerce will interpret as to which of the products listed above will be permitted to export.

Annexure- 2

Products Banned for Imports

1. Products injurious to health
   (a) Narcotic drugs like opium and morphine
   (b) Liquor containing more than 60 per cent alcohol

2. Arms and ammunition, and explosives (except under import licence of His Majesty's Government)
   (a) Materials used in the production of arms and ammunition
   (b) Guns and cartridges
   (c) Capes without paper
   (d) Arms and ammunition, and other explosives
3. Communication equipment: wireless, walkie-talkie and similar other audio communication equipments (except under import licence of His Majesty's Government)
4. Valuable metals and jewelleries (except permitted under bag and baggage regulations)
5. Beef and beef products
6. Any other product notified by His Majesty's Government in the Nepal Gazette.

FOREIGN INVESTMENT AND ONE-WINDOW POLICY 1992

HIS MAJESTY'S GOVERNMENT
MINISTRY OF INDUSTRY
SINGHA DARBAR

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Foreign Investment and One-Window Policy 1992

1. Background :

The wave of changes in the world economic order has affected all national, big and small. In the process of adjusting the economy in line with these changes neighboring countries have also adopted an open and liberal policy for strengthening their economic system. Accordingly, it is necessary for Nepal to introduce timely changes and reforms in various sectors of its economy to introduce dynamism in the process of economic development. In this context, it is opportune for us to make foreign investment attractive by framing a timely, liberal and open policy. The elected government has expressed strong commitment to this goal from the very beginning. Accordingly, this policy ducument clearly explains the objectives of foreign investment, the forms of such investment, their procedural aspects, the facilities and concessions to be provided to them, the quick and efficient administrative and institutional services to be made available through an one-window system and such other aspects with the belief that implementation of this policy will lead to the import of capital, modern technology, management, technical skills, access to international markets, development of competitive attitudes and awareness about increasing productivity, and thereby help in the development of an industrial culture in the private sector.

2. Objective :

2.1. To build a strong and dynamic economy by generating additional opportunities for income and employment through expanding productive activities.

2.2 To increase the participation of the private sector in the process of industrialization .

2.3 To increase productivity by mobilizing internal resources and materials in productive sectors and by importing, foreign capital, modern technology management and technical skills.

2.4 To increase the competitiveness of Nepalese industries in international markets.

3. Forms of Foreing Investment :

3.1 Equity investment made by foreig investors in the form of foreig currencies or capital assets an reinvestment of the incom therefrom;

3.2 Loans obtained in the form o foreign currencies or capital assets.

3.3 Use of rights, specialization formulae processes and patent relating to any technology o foreign origin.

3.4 Use of foreign-owned trade-marks good will.

3.5 Use of foreign technical consultancy, management an marketing services.

4. Permission for Industries to b Established under Foreign Investment :

4.1 Foreign investment in th industries classified in annex shall not be permitted. In case c other industries, permission fo foreign investment should b obtained.

4.2 Foreign investment will b permitted up to 100% in large an medium scale industries.

4.3 Permission may be granted for the transfer of technology in cottage and small industries.

5. Provision for Repatriation :

Foreign investors who have received permission to invest in convertible currency can repatriate the following amounts outside Nepal at the prevailing rate of exchange.

5.1 The amount received by sale of the whole or any part of the equity investment.

5.2 The amount received as benefits or dividends from foreign investment.

5.3 The amount received as payment of principal and interest on foreign loans.

5.4 The amount received under an agreement for the transfer of technology.

5.5 The amount received as compensation for the acquisition of any property.

5.6 Foreign experts, working in Nepalese industries with prior approval from countries where convertible currencies are in circulation, shall be permitted to repatriate in convertible currency up to 75 percent of the amount received by them as salaries, allowances, etc.

6. Facilities and Concessions :

6.1 The following facilities will be granted to industries established with foreign investment. without prejudice, to avail the additional facilities, if any, available under the Industrial Enterprises Act.

6.1.1 Interest income on foreign loans will be taxed at a rate of fifteen percent only.

6.1.2 Royalties, technical and management fees will be taxed at a rate of fifteen percent only.

6.1.3 No income tax will be levied on the income earned from exports.

6.1.4 Industries established with foreign investment are entitled to enjoy all the facilities and incentives including income tax facilities provided to local investment under the Industrial Enterprises Act.

7. Other Facilities :

7.1 Facilities on Electricity- Industries will be given priority in the supply of electricity. No fee will be charged if an industry generates electricity for its own use.

7.2 Relief from Double Taxation- For the purpose of avoiding double taxation on incomes of foreign investors, HMG will take necessary action to conclude agreements for the avoidance of double taxation with the countries of the concerned foreign investors.

7.3 Custom duty, excise duty and sales taxes levied on raw materials and auxiliary raw materials of export oriented industry will be reimbursed to the exporters on the basis of the quantum of exports within 60 days from the receipt of the application for such reimbursement.

7.4 Industries exporting 90% or more of its total production are entitled to enjoy the same facilities provided to industries established in the Export Processing Zone. The bonded warehouse facilities will also be continued.

7.5 In case an industry sells its product within the country in foreign currency, the excise duty levied on the quantity so sold and the custom duty, excise and sales taxes levied on the raw materials used in such products shall be reimbursed to such industry within 60 days upon the receipt of application of such reimbursement.

7.6 Custom duty, excise duty and sales taxes levied on the production of intermediate goods used in the production of exportable goods shall be reimbursed to the exporter on the basis of the quantity of goods exported within 60 days from the receipt of the application for such reimbursement.

7.7 Priority will be given to arrange infrastructure facilities required for the establishment of industries.

7.8 Government land and land within the Industrial districts will be made available to industries for the establishment of industries on a priority basis.

7.9 No intervention will be made in fixing prices of the products of any industry.

7.10 No taxes will be be levied on machinery and equipment, raw-materials and finished products of industries established within the Export Processing Zone.

8. Visa arrangements :

8.1 A non-tourist visa will be granted to a foreign investor or his authorized representative as well as their dependents to stay in Nepal for the period during which a foreign investor maintains his/her investment.

8.2 A non-tourist visa for six months will be granted to any foreign investor who has come to Nepal to undertake research and study with the purpose of investing in Nepal.

8.3 If. any foreign investor makes a lump sum investment equivalent to more than US$ 200,000 in Convertible foreign currency, the investor and his/her dependants will be granted permanent resident visa for the period he/she maintains his/her investment in the industry.

9. Industries not to be nationalized - no industries will be nationalized.

10. Arbitration :

10.1 If the foreign investor, the concerned industry and the Department of industry fail to settle among themselves any dispute concerning foreign investment, it will be settled by arbitration.

10.2 Arbitration will be held according to the prevalent arbitration rules of the United Nations Commission for International Trade Law (UNCITRAL).

10.3 The arbitration will be held in Kathmandu.

11. Arrangements Relating to the One-Window System :

The following arrangements will be made to provide services through an one-window system to the industries operating under foreign investment.

11.1.1 Permission and Registration :

In odder to provide in quick and effective way the approval, facilities and other administrative service to be established under foreign investment or technology transfer agreements and in order to establish effective co-ordination among various agencies. the

Department of Industry will be designated as an one window servicing agency with the industrial Promotion. board as a focal point as spelt out in the industrial Enterprises Act.

11.1.2 The following one-window committee will be formed to provide infrastructure facilities such as registration, land, electricity, water and facilities on taxation, etc. under an one-window system for industries to be established with foreign investment.

One - Window Committee

1. Director General, Department of Industry	:	Convener
2. Joint Secretary, Ministry of Industry	:	Member
3. Joint Secretary, Ministry of Finance	:	Member
4. Joint Secretary, Ministry of Commerce	:	Member
5. Chief Controller, Nepal Rastra Bank	:	Member

11.1.3. The Department of Industry will inform the applicant of the decision of the Board on a foreign investment project within 30 days from the receipt of the application.

11.1.4. The facilities and concession to which the industry is entitled to will be specified in the letter granting approval.

11.1.5. Application for the registration of an industry should be submitted to the Department of Industry within 35 days from the date of receipt of approval for foreign investment. The industry will be registered within 21 days from the date of receipt of the application.

11.2. Institutional Arrangements :

11.2.1. The Department of Industry will be reorganized and expanded with the aim of promotion of foreign investment, granting approval and providing facilities and administrative services through the one-window system. The Department will be upgraded and the status of the Director General will be made equivalent to the position of an Additional Secretary of HMG.

11.2.2. The power and authority relating to the provision of facilities and services of the agencies such as Ministry of Finance and its

Departments, Department of Commerce, Nepal Rastra Bank, Department of Immigration etc, will be delegated to the one-window committee.

11.3. Other Arrangements :

11.3.1. Industries established under this policy will continue to enjoy all time-bound facilities to which they are entitled even in any subsequent change is made in this policy.

ANNEX-1

Industries prohibited for grant of approval under foreign investment.

1. Defence industries which produce items like military armaments,ammunition or explosive materials.
2. Cigarettes and Bide
3. Alcohol (excluding 100∞ export or yeasted).

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INDUSTRIAL POLICY, 1992

In order to create an environment necessary to enable the private sector to play a principal role in the industrialization endeavour of the country, the public sector industries will mostly be privatized and no private sector industries will be nationalized. At the same time, Government will make no interference in fixing the price of industrial products other than creating open and competitive atmosphere. If necessary, during the initial period of industrialization, Government may establish, in the form of joint ventures either with the national or foreign private sector of foreign governments, some of the industries which the private sector is reluctant to set up but essential for the national economy as a whole. However, the shares owned by government and public sector corporations of such industries will also be gradually transferred to private sector.

A policy of determining the wages on the basis of productivity will be adopted. Assistance will be provided to rehabilitate the sick industries which are found feasible to rehabilitate but those sick industries which cannot be rehabilitated and will only be burdensome for the national economy shall be allowed to close down after payments of wages and facilities to the labourers and employees.

Private sector participation will be encouraged also in community and private forest development, generation and distribution of hydro-electricity, and in construction and management of nursing home, hospital, power propelled railway, roads, bridges, tunnels ropeway etc.

1. Objective

1.1 To increase the contribution of industrial sector to the national economy through the enhancement of industrial production and productivity.

1.2 To emphasize the development of the industries utilizing local resources and industries which are export oriented.

1.3 To reduce the pressure of unemployment and under employment in agriculture sector through the development of labour intensive industries.

1.4 To adopt appropriate policy conducive to industrialization for the balanced regional development of the country.

2. Policy

2.1 To develop the industries through healthy competition in order to utilize the comparative advantage of the country.

2.2. To protect industries through custom duties.

2.3 To eliminate, as per time-bound schedule, the protection accorded to the industries.

2.4 To develop industries utilising national labour, skill and resources as well as industries having national importance.

2.5 To accelerate the economic development through export of industrial goods.

2.6 To emphasize development of small, cottage and agro-based industries in order to create the employment opportunities particularly in rural areas.

2.7 To attract the foreign investment and to emphasize the transfer of advance technology and efficient management.

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2.7 To attract the foreign investment and to emphasize the transfer of advance technology and efficient management.

Strategies

3.1 To liberalise and simplify the procedures for the establishment, expansion and modernization of industry.

3.2 To provide all the necessary services to be accorded to industries through one window system.

3.3 To emphasize development of competitive import substitution industries in the country itself in order to reduce the pressure on the economy resulting from imports of daily consumer goods and construction materials.

3.4 To make the industrial protection system simple and transparent.

3.5 To encourage industrial investment in underdeveloped areas in order to achieve balanced regional development.

3.6. To make necessary arrangements in order to meet as much as possible the requirement of skilled industrial manpower within the country and to conduct all the related training and research programmes in an integrated way.

3.7 To provide additional incentives to the entrepreneur reinvesting his profit to his own industry or to other ancillary industries.

3.8 To carry out the restructuing programme with a view to rehabilitate the sick industry after reviewing the conditions of such industry.

3.9 To make the necessary institutional arrangements for productivitiy improvement, through the upgradation of technical know-how and efficiency of the industries in order to compete in the free and competitive world market.

3.10 To take ahead the production and productivity improvement campaign.

3.11 To take measures to minimize the adverse effect to environment while establishing, expanding and modemizing the industrial units.

3.12. To conduct skill development programmes for the development of skilled manpower.

3.13 To reserve the cottage and small scale industries for Nepalese only. However, technology transfer will be permitted in these industries.

3.14 To transfer the state owned industries to private sector in a phased manner.

3.15 To prepare and implement in a phased manner the guidlines relating to environment and pollution in order to control and mitigate the impact of industrial pollution on environment, residential area, national heritage etc.

4. Classification and Scale of Industry

For the purpose of industrial administration and facilities, industries are classified and scaled as stated below.

4.1 Classification

4.1.1 Manufacturing Industries - Industries which produce goods by utilising of processing raw materials, semi processed materials, or by-products or waste products.

4.1.2 Energy Based Industry - Industries generating energy from water resources, wind, solar, coal, natural oil and gas, bio-gas or any other sources.

4.1.3 Agro and Forest Based Industry - Business mainly based on agriculture and forest such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herbiculture and herb processing, vegetable seed farming, floriculture, agro-forestry, community and private forestry etc.

4.1.4 Mineal Industry - Mineal excavation, porcessing.

4.1.5 Tourism Industry - Tourist lodging and motel, hotel, resturant, resort, travel agency, skiing, gliding, water rafting, cable car complex, pony-trekking, hot air ballooning, parasailing, golf course, polo, horse riding etc.

4.1.6 Service Industry- Workshops, printing press, consultancy services, ginning and baling businesses, cinematography, construction business, public transportation, photography, hospital and nursing home, educational institutions, laboratory, air service, cold storage, etc.

4.1.7 Construction Industries - Road, bridge, tunnel, ropeway, flying bridge, railway, trolley bus and office, commercial and residential complex etc.

4.2 Addition in the classification of Industries - Industrial Promotion Board may add in the classification of industries.

4.3 Division of Scale

4.3.1 Traditional Cottage Industry - The traditional industries mobilizing specific skill of local raw material or resources and labour intensive and related with national customs, arts and culture as mentioned in Annex - 1.

4.3.2 Small Industry - Industries other than traditional cottage industries with a fixed capital investment not exceeding Rs. 10 million.

4.3.3. Medium Industry - Industries with fixed capital investment of between Rs. 10 million and Rs. 50 million.

4.34. Large Industry - Industries with the fixed capital investment more than Rs. 50 million.

5. <u>Industrial Licensing and Registration</u>

5.1. A license is not required for establishment, expansion and modernization of industrial enterprises except those related with defence, public health and environment as mentioned in Annex 2. Decision to grant the license or not will be made within 30 days upon receipt of the application for the license. The cottage industries should be registered within 6 months after it comes into operation, but for other industries registration is compulsory before coming into operation. No feasibility study is required for the industries for registration. The applicants will be informed about the registration within 21 days of his application.

5.2. Permission should be taken for foreign investment in industries.

6. <u>Facilities</u>

6.1. No income tax, sales tax and excise duty shall be imposed on traditional cottage industries.

6.2. Income tax shall be exempted in the case of manufacturing industries (other than cigarette, bidi, alcohol, vegetable ghee, plastics and electronic assembly industries), energy based industries, agro and forest based industries (other than saw mill and catechu industries) and mineral based industries for a period of five years from the date of its operation.

6.3. Income tax shall be exempted for a period of seven years from the date of operation in case of industries of national priority as listed in Annex 3.

6.4. No income tax shall be imposed on the export-earnings.

6.5. Industries are entitled to a reduction in tax rate on each income tax slab by 5 percentage points.

6.6. Industries (other than cigrarette, bidi, and alcohol) established in the remote, undeveloped and underdeveloped districts listed in Annex 5 will be granted a rebate of 50 percent, 20 percent and 10 percent of income tax and 25 percent, 15 percent and 10 percent of excise tax respectively. If the classification of annexure is changed and in consequences of which the industry is deprived of granted exemption, in such case the industry shall still be enjoying the exemption for a period of 5 years from the date of commencement of its operation.

6.7. Industries are entitled to add 33 percent to the rate of depreciation allowed under the income tax law.

Industries established as Public Limited Co. with a minimum of 15 percent of shares distributed to more than 100 persons and listed in the stock exchange are entitled to a 5 percent reduction in corporate tax.

6.9. In case of industry which diversifies itself through the reinvestment of expandsd its installed capacity by 25 percent or more, or modernizes its technology or develop the ancillary industries, it may deduct 40 percent of new additional fixed assets from its taxable income. Such remission may be deducted in lump sum or in installments within a period of three years.

6.10. Permission will be granted for a reduction up to 50 percent from the taxable income for the investment of an industry on equipment of process to minimise pollution.

6.11. An exemption of the income tax up to a period of 5 years shall be granted to the prescribed industries related to tourism, services and construction as notified in the Gazette by HMG on the basis of recommendation of Industrial Promotion Board.

6.12. Pre-operation cost covering the expenses of skill development shall be allowed to be capitalized.

6.13. 10 percent of the gross profit is allowed as a deduction against net income on account of expenses related with technology or product development and efficiency-improvement.

6.14. No income tax will be imposed on dividends received from investment on industries.

6.15. While assessing the net income, an amount of up to 5 percent of gross income shall be allowed to be deducted as expenses for items as donation to school, colleges, university, religious places and social works.

6.16. Up to 5 percent of gross income spent for advertisement of the products or promotion services, for hospitality or any similar expenses shall allowed to be deducted while assessing the net income.

6.17. Manufacturing, energy based, agro based, forest based and mineral based industries (other than cigarette, bidi, alcohol, saw mill, catechu) which utilize 90 percent or more of the locally available raw materials for their production and not listed in Annex 3, shall be granted income tax exemption of additional 2 years.

6.18. A single industry providing one thousand or more direct employment shall be granted income tax exemption of additional two years.

6.19. In case an industry utilizes the locally available raw materials, chemicals and packing materials etc. on which excise duty, or sales tax or both are already imposed on, the excise duty, sales tax or both will be refunded to the industry.

7: Infrastructural Services

7.1. Priority will be given to the industries in providing electricity, water and communication facilities.

7.2. Industries will be given priority for Government land and in Industrial Districts for the establishment on industries.

8. Special Facility for Export Oriented Industries

8.1. The custom duty, excise duty and the sale taxes imposed on raw materials and auxiliary raw materials of export oriented industry shall be reimbursed to the exporters on the basis of the quantity of the export within 60 days upon the receipt of the application for such reimbursement.

8.2. The industries exporting 90 percent or more of their products are entitled to enjoy the same facilities as has been provided to the industries established in Export Processing Zone. The bonded warehouse facilities shall be continued.

8.3. In case an industry sells its product within the country in foreign currency, the excise duty and sales taxes imposed on the quantity so sold and the custom duty, excise duty and the sale taxes imposed on raw materials used in such products shall be reimbursed to such industries within 60 days upon the receipt of the application for such reimbursement.

8.4. The custom duty, excise duty and sale taxes imposed on the production of intermediate goods used in the production of exportable goods shall be reimbursed to the exporter on the basis of the quantity of export within 60 days upon the receipt of the application for such reimbursement.

9. Other Facilities

9.1. In the case of goods which may be brought into Nepal at artificially lowered prices, import duties will be imposed so as to ensure that the level of protection granted to local industries is maintained.

9.2. No industry shall be nationalized.

9.3. A rehabilitation programme for sick industries will be launched after conducting feasibility studies for the rehabilitation of such industries.

9.4. Arrangements will be made to avail the forests on lease or contract basis to forest products based industries.

10. Availability of facilities

10.1. The license or letter of registration will specify the facilities to be granted to the industries, the responsibilities of the industrialists and the terms and conditions to be observed by them. A separate committee will be constituted with a representative of the private sector to resolve any problem faced by industrialists due to non-availability of facilities so mentioned. If an entrepreneur fails to comply with the condition to be observed by them, HMG can at any time cancel the license or registration. The concerned industrialist will be given adequated opportunity to present his case before cancelling such license or registration.

10.2 Enterprises will continue to enjoy incentives and facilities entitled to them by the act legislated under this policy for the period specified by the same act, without let or hindrance, not withstanding the amendments in this policy regarding classifications or facilities or incentives.

11. Industrial Support Service

11.1. Industrial Promotion Board:- A high level Industrial Promotion Board as per Annex 4 shall be constituted to accelerate the pace of industrialization by coordinating the policies among the policy level institutions as well as at the level of implementation.

11.2. Institutional Arrangement for Cottage and Small industries - An institutional arrangement shall be made to provide facilities for the skill development training, management training, technical and consultancy services, machines and equipments, raw materials and marketing net-work for the products in an integrated way for the cottage and small scale industries which are based on local raw-materials, labour and the traditions.

11.3. Industrial District Management Company Limited- Industrial sheds and the lands owned by industrial estates shall be sold to the industrialists with the condition of using them to run industries. The management of the industrial estates shall be transferred to the industrialists within the estates. Industrial District Management Company Limited shall be made active in establishing new industrial estates with total of partial ownership of the private sector. HMG may provide additional facilities to the industries established within the industrial estates.

11.4. <u>Arragement for Finance for Small and Cottage Industries</u> - A separate arrangement shall be made for providing loan for fixed and working capital for the small and cottage industries.

11.5. <u>Institutional Arragements for Technology Development and Transfer</u>- A Technology Development and Transfer Agency shall be established in order to make the process of technology development and transfer more effective as well as to support the process of industrialization through proper import, development and management of the technology. It will disseminate the information and related statistics on technology and technology transfer to the industrialists free of charge.

11.6 <u>Export Processing Zone</u> – Export Processing Zone shall be established with a view to acceleratre the pace of industrial develpment as well as to minimise the adverse effects on the balance of payments. No taxes shall be imposed on machine equipments, raw-materials and the exportable products of the industries established in the Zone.

11.7 <u>Industrial Manpower and Productivity Council</u> - Industrial Manpower and Productivity councill shall be set up with the representation of HMG, employees and private sector to make the industrial sector more efficient and productive by counducting the productivity enhancement and skilled and efficient manpower supply programme as a national campaign. The Economic Service Center shall be entrusted to carry out this productivity programme as a separate project until the new arrangement is made.

11.8 <u>Special Arrangement for Environment and Industrial Pollution Control</u> - A separate unit will be established in the Ministry of Industry to formulate Policies, guidelines and standards to check and minimise the adverse effects of pollution due to industrial growth. Arrangements shall be made in the Department of Industry, manning it with qualified and skilled manpower, to conduct environmental impact assessment during the period of licensing itself. The Bureau of Nepal Standard and Metrology will be strengthened to develp standareds to assess and monitor industrial pollution.

11.9 Monitoring and Follow up Unit - A Monitoring and Follow up unit shall be set up in The minisry of Industry with the participation of private sector to investigate and monitor the implementation of industrial policy and related acts and regulations. This unit shall also monitor and manage the possible monoploy tendency that could arise in the industrial sector.

11.10 Establishment of Company Registrar Office - A company registrar office shall be set up for the administration and registration of company related with industrial and commercial sectors as well as for the management of issues fof shares, bonds, and debentures of the public limited companies.

11.11 Arrangements for One window Services - To provide the facilities mentioned in the policy without any difficulties a high level committee comprising the heads of related departments shall be set up under the industrial Promotion Board.

Annex -1

TRADITIONAL COTTAGE INDUSTRIES

Handloom, Paddle Loom, Semi Automatic Loom, Warping, Dyeing and Printing Works, Tailoring, Knitting, Hand Knitted Woollen Mat and Blanket (Radi Pakhi), Hand Knitted Woollen Carpet, Pashmina, Woolen Garments, Carpentry, Wooden Artistic Products, Cane And Bamboo Works, Natural Fibers Products, Hand Made paper, Gold, Silver, Brass, Copper Works and Ornaments, Sculptures, Precious and Semipresious Stones, Honey, Chyuri, Cardamon, Processing, Pottery, Leather Cutting and Tanning, Rural Tanning Cobblers, Jute, Sabai Grass, Choya, Cotton Thread, Leather Goods, Artistic Products made up of Bones and Horns, Stone Carving, Metal Based on Precious and Semiprecious Stones, Fine Arts, Pauw, Boutique, Goods Based on Hand Made Paper, Incense Stick (Dhup), Dolls and Toys, Stone Studded Philgiree Products.

Note :-

1. Unless otherwisre specified each individual machine of the above mentioned industries should not employ through electric motors or diesel or petrol of crude oil engine more than one horse power.

2. License is required for establishment of mechanised spinning and mechanised carpet manufacturing.

Annex -2

DEFENCE RELATED INDUSTRIES

Industries producing traditional and modern arms and ammunition, gunpowder and explosives, security printing, currency and coins.

Industires Affecting Public Health and Environment

Ciggaratte, Bidi, Modern Leather Tanning, Beer and Alcohol, Sugar production, Pulp and paper, Cement, Textile Washing and Dyeing, Bitumen, Chemicals[1], Fertilizer, Pesticides, Lubricating Oil Producing Industries, Foam, Carpet Washing and Dyeing, Soap, Electro-Plating, Photo Processing, Tyre Tubes, L.P.G., Petrol and Petroleum Products[2], Mineral Based Large Industries, Hydro Electricity Generating Plant, Stone Crushing, Forest Based Medium and Large Scale Industry, Paints, Brick Making.

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1 Industries producing chemicals as sulphuric acid, nitric Acid, methyl iso cyanate, sodium silicate, caustic soda etc are classified as chemical industries.

2 Processing industries utilising Petrol Diesel, Fuel Oil, Natural gas, Naphtha etc as raw-materials are clasified as petroleum and Petroleum Product Industries.

Annex -3

INDUSTRIES COMING UNDER NATIONAL PRIORITY

1. Modern Sugar and Khandsari Mills
2. Modern Mills Processing Local Oilseeds
3. Integrated Dairy (Including Animal Husbandry) Industry
4. Fruit and Vegetable Seed Production
5. Tea and Coffee Farming and Processing
6. Fruit Processing
7. Herbs Farming and Processing
8. Baby Food and Hygienic Food Industry
9. Leather Processing and Leather Goods Producing Industries
10. Commercial and Professional Tools and Implements Industries
11. Slate, Stone and Concrete Block Industry
12. Cotton, Woollen, Silk yarn and Industries Based on Them
13. Paper industries-Writing, Printing and News print Paper
14. Education Materials and Stationeries Industries
15. Pharmaceutical
16. Medical Equipments and Tools Producing Industry
17. Engineering Industry (Including Agricultural and Industrial Tools and Equipments)

18. Insecticides and Pesticides Industry
19. Chemical Fertilizer (Excluding Blending and Mixing) Industry
20. Industry Manufacturing Energy and Fuel Saving Devices
21. Industry Manufacturing Pollution Control Devices.
22. Industry Based on Waste Products
23. Hydropower Generation and Distribution
24. Hotel, Resort
25. Road, Bridge Tunnel, Rope Way, Flying Bridge Railway, Trolley Bus and Office and Rsidential Complex (Excluding Real Estate Business)
26. Mineral Based Industry
27. Industry Utilizing Hydroel Ectricity as Main Component as Caustic Soda, Chlorine and Aluminium Smelter etc.
28. Hospital, Nursing Home.
29. Computer Software
30. Export Oriented Agro-based Industry
31. Precision Goods.

COMPOSITION OF INDUSTRIAL PROMOTION BOARD

1.	Honourable Minister / State Minister for Industry	chairman
2.	Honourable Assistant Minister for Industry	Member
3.	Honourable Member (Industry), National Planing Commission	"
4.	Governor, Nepal Rastra Bank	"
5.	Secretary, Ministry of Industry	"
6.	Secretary, Ministry of Finance	"
7.	Secretary, Ministry of Commmerce	"
8.	Secretary, Ministry of Tourism	"
9.	Representative, Federation of Nepal Chambers of Commerce and Industries	"
10.	Two Reputed Personalities From Industry, Commerce and Tourism Sector	"
11.	Director-General, Department of Industry	Member Secretary

The Board May Invite Others if it Feels Necesary.

Annex-5

CLASSIFICATION OF DISTRICTS BASED ON LEVEL OF INDUSTRIALISATION.

A. Remote Area

1. Darchula	2. Bajhang
3. Bajura	4. Humla
5. Mugu	6. Jumla
7. Kalikot	8. Dolpa
9. Mustang	10. Manang
11. Solukhumbu	12. Sankhuwasabha
13. Taplejung	14. Khotang
15. Bhojpur	16. Aachham
17. Dailekh	18. Jajarkot
19. Rukum	20. Rolpa
21. Okhaldhunga	22. Baitadi
23. Rasuwa	24. Myagdi
25. Gulmi	26. Parbat
27. Tehrathum	28. Dadeldhura
29. Phyuthan	30. Sindhupalchowk

B. Undeveloped Area

1. kailali	2. Surkhet
3. Arghakhanchi	4. Palpa
5. Syangja	6. Dhading
7. Lamjung	8. Tanahu
9. Gorkha	10. Sindhuli
11. Udayapur	12. Dhankuta
13. Illam	14. Kanchanpur
15. Bardiya	16. Dang
17. Nuwakot	18. Kavrepalanchowk
19. Baglung	20. Dolakha

C. Underdeveloped Area

1. Jhapa	2. Siraha
3. Sarlahi	4. Mahottari
5. Rautahat	6. Saptari
7. Nawalparasi	8. Kapilbastu
9. Kaski	

Note: Industrial Promotion Board, from time to time, may review and amend the above list of remote, undevelped and under developed districts based on level of Industrialisation.