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Page: 1/7

Committee on Subsidies and Countervailing Measures

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**SUBSIDIES****NEW AND FULL NOTIFICATION PURSUANT TO ARTICLE XVI:1  
OF THE GATT 1994 AND ARTICLE 25 OF THE AGREEMENT  
ON SUBSIDIES AND COUNTERVAILING MEASURES****NEPAL**

The following communication, dated and received on 16 April 2024, is being circulated at the request of the delegation of Nepal.

The following notification constitutes Nepal's subsidies notification for the fiscal years 2020/21 and 2021/22. The Nepali fiscal year starts from mid-July.

This notification does not prejudice the nature or legal status of the programmes herein under GATT 1994 and Articles 1 and 2 of the Agreement on Subsidies and Countervailing Measures (ASCM). Data may reflect approximations, estimates or preliminary information. Technical or legal inaccuracies may have been inadvertently introduced in the text in the attempt to make the description of the programmes sufficiently illustrative, but also straightforward and concise. For transparency purposes, Nepal may have included certain programmes that arguably are not specific within the meaning of the ASCM and/or are not covered by that Agreement.

**Table of Contents**

<b>1 INDUSTRIAL INCENTIVES .....</b>	<b>2</b>
1.1 The Industrial Enterprises Act, 2020 .....	2
1.2 Public Private Partnership and Investment Act, 2019.....	3
<b>2 BUDGETARY INCENTIVES .....</b>	<b>4</b>
2.1 Cash Incentive Scheme for Exporting Industries .....	4
2.2 COVID-19 Active Response and Expenditure Support (CARES) Programme .....	5
2.3 Transportation Subsidy on Rice and Salt Programme.....	6

## **1 INDUSTRIAL INCENTIVES**

### **1.1 The Industrial Enterprises Act, 2020**

1. Title of the subsidy programme

Incentives, Exemptions, Facilities or Concessions for Industries.

2. Period covered by the notification

From 16 July 2020 to 15 July 2022.

3. Policy objective and/or purpose of the subsidy

To enhance the production of industrial goods or services and employment opportunities by making investment friendly and competitive environment in the country.

4. Background and authority for the subsidy

The Industrial Enterprises Act, 2020 was enacted on 11 February 2020. The Ministry of Industry, Commerce and Supplies is responsible for the implementation of this Act.

5. Form of the subsidy

(1) An industry registered under the Act is entitled to the exemptions, facilities or concessions under the prevailing laws.

(2) Without prejudice to the generality of subsection (1), the following exemptions, facilities or concessions are provided to the industries:

- a. a manufacturing industry is entitled to 20 percent exemption on the rate of tax leviable on the income earned by it, and to 29 percent exemption from income tax by additional five percent of the rate of tax leviable on the income earned by it by exporting its products;
- b. an infrastructure industry, such as road, bridge, tunnel, ropeway, railway, tram, trolley bus, airport, industrial structure and infrastructure complex, is entitled to forty percent exemption on the rate of tax leviable on the income earned from investment, if any, in, and operation of, the industry;
- c. a manufacturing industry, other than an industry producing fruit-based brandy, cider, or wine, established in the least developed, underdeveloped and less developed regions mentioned in Schedule-10 is entitled to respectively ninety, eighty and seventy percent exemption on the rate of income tax leviable under the prevailing law for up to ten years from the date of commencement of commercial production or transaction of such industry;
- d. an industry producing fruit-based brandy, cider, or wine established in the least developed and underdeveloped regions is entitled to respectively forty and twenty-five percent income tax exemption for up to ten years from the date of commencement of its transaction;
- e. a manufacturing industry producing and processing local tea products, dairy industries dealing in milk products and industries manufacturing textiles is entitled to fifty percent exemption on the rate of income tax leviable on the income earned by it from the sale of its products;
- f. twenty-five percent exemption on the rate of income tax leviable on royalty income earned by any person from exporting an intellectual property right;

- g. fifty percent exemption on the rate of income tax leviable on the income earned by any person from selling by way of transfer of an intellectual property right;
- h. a manufacturing industry established with the investment of more than one billion rupees and providing direct employment to more than five hundred individuals throughout the year is entitled to hundred percent income tax exemption for first five years from the date of commencement of transaction and fifty percent exemption on the income tax for next three years; Provided that a manufacturing industry currently in operation is entitled to hundred percent income tax exemption on the income earned from such capacity enhancement for first five years and fifty percent exemption on the income tax for next three years if such industry enhances its installed capacity by at least twenty-five percent, increases investment to two billion rupees and provides direct employment to more than three hundred individuals throughout the year.
- i. a licensee person or body commencing the commercial generation, transmission or distribution of hydropower not later than the month of Chaitra 2080 (mid-April 2024) or project generating electricity from solar, wind and bio substance is entitled to hundred percent income tax exemption for first ten years and fifty percent income tax exemption for next five years.

6. To whom and how the subsidy is provided

The federal government provides incentives, exemptions, facilities or concessions to the industries that meet the criteria mentioned in the above clause 5.

7. Total amount of the subsidy

The relevant information is not available.

8. Duration of the subsidy

The schemes commenced on 11 February 2020 and will continue on a regular basis without any fixed termination date.

9. Statistical data permitting an assessment of the trade effects of the subsidy

The relevant information is not available.

## **1.2 Public Private Partnership and Investment Act, 2019**

1. Title of the subsidy programme

Infrastructure Viability Gap Funding.

2. Period covered by the notification

From 16 July 2020 to 15 July 2022.

3. Policy objective and/or purpose of the subsidy

To support the projects that yield positive returns in the long run and are important basic infrastructure development but may not yield reasonable financial returns immediately.

4. Background and authority for the subsidy

The Public Private Partnership and Investment Act was enacted on 27 March, 2019. The responsible government entity for the project implementation is Investment Board Nepal.

5. Form of the subsidy

Capital and operational loan or grant for the prescribed projects by Investment Board Nepal.

6. To whom and how the subsidy is provided

Capital and operational loan or grant is provided to the projects prescribed by Investment Board Nepal as per the said act.

7. Total amount of the subsidy

The guideline is yet to be developed and no budget has been allocated for this scheme.

8. Duration of the subsidy

The programme commenced on 27 March, 2019 and there is no pre-established time limit for the programme's termination.

9. Statistical data permitting an assessment of the trade effects of the subsidy

The relevant information is not available.

## **2 BUDGETARY INCENTIVES**

### **2.1 Cash Incentive Scheme for Exporting Industries**

1. Title of the subsidy programme

Cash Incentive Scheme for Export Industries.

2. Period covered by the notification

From 16 July 2020 to 15 July 2022.

3. Policy objective and/or purpose of the subsidy

To increase the export of priority products for enhancing competitiveness and reducing ballooning trade deficit.

4. Background and authority for the subsidy

The incentive is provided based on the Export Cash Incentive Directives (ECID), 2018 and the budget allocated by the federal government for this scheme. The Ministry of Industry, Commerce and Supplies is mainly responsible for the implementation of this scheme.

5. Form of the subsidy

Cash incentives provided to exporting industries.

6. To whom and how the subsidy is provided

The Government of Nepal provides cash subsidies ranging from 3-5 percent of the value of export transactions for a select group of products. According to the scheme, exporters can avail a certain amount of their total export depending on the products exported and value addition.

The products that are eligible for 5 percent cashback are: processed tea; processed coffee; handicraft and woodcraft items; processed leather and its products; processed herbs and essential oils; processed semi-precious stones and jewelries with those stones; *allo* products; processed water/mineral water; processed turmeric; vegetables; processed honey; processed black

cardamom; and processed ginger and its products. All these products need to prove that domestic value addition is more than 30 percent to avail of the facility.

The products that are eligible for 3 percent cashback are; domestically produces textiles; readymade garment; carpet and wool products; items made from 'Chyangra' Pashmina; jute and jute products; gold and silver jewelry; semi-processed leather; medicines; felt products; yarns of polyester, viscose, acrylic and cotton; and items made from bronze. These items can avail up to 5 percent cash incentive if the value addition of their products is 50 percent. Similarly, if the value addition of these products is higher than 40 percent and they are exported under a collective trademark then such products can avail 4 percent cash back.

The exporters need to get a value addition certificate issued by the Department of Industry for the exportable products at the beginning of each fiscal year. The value addition rate for an item is determined based on export price (free on board) and the value of foreign-originated material used.

The exporters can contact their banks used for export procedures to receive the cash subsidy. The documents required are: EXIM code, copies of PAN and VAT Certificates, copies of the commercial invoice and Single Administrative Document submitted to customs, advance payment certificate or bank state to prove exporters had received the payments from foreign buyers, and tax clearance certificate.

#### 7. Total amount of the subsidy

Following amount was allocated to provide cash incentives to the industries:

FY	Amount (US\$, million) *
2020/21	10.93
2021/22	11.82

\* Calculated as per the exchange rate of US\$1= Rs. 117.87 for 2020/21 and Rs. 120.84 for 2021/22.

#### 8. Duration of the subsidy

The programme commenced on fiscal year 2010/11 and is an on-going programme.

The government periodically reviews the provisions for this scheme.

#### 9. Statistical data permitting an assessment of the trade effects of the subsidy

The relevant information is not available.

## 2.2 COVID-19 Active Response and Expenditure Support (CARES) Programme

#### 1. Title of the subsidy programme

COVID-19 Active Response and Expenditure Support (CARES).

#### 2. Period covered by the notification

From 16 July 2020 to 15 July 2022.

#### 3. Policy objective and/or purpose of the subsidy

To support the government's National Relief Programs in dealing with public health emergencies and mitigating the economic and social impacts from COVID-19.

#### 4. Background and authority for the subsidy

Following the government's announcement of the National Relief Programme (NRP) on 29 March 2020, the CARES programme was implemented by the Government of Nepal. The

executing agency for the programme was the Ministry of Finance (MOF). The implementing agencies included Ministry of Agriculture and Livestock Development (MOALD), Ministry of Health and Population (MOHP), Ministry of Industry, Commerce and Supplies (MOICS), Ministry of Labor, Employment and Social Security (MOLESS) and Nepal Rastra Bank (NRB), the central bank of Nepal.

5. Form of the subsidy

Concessional lending to the private sector enterprises.

6. To whom and how the subsidy is provided

The programme is aimed to provide concessional lending for at least 10,000 affected MSMEs, of which at least 30 percent are women-led MSMEs and at least 50 percent of women-led MSMEs are from disadvantaged groups.

7. Total amount of the subsidy

During the notification period, US\$ 97.53 million was provided to the private sector enterprises as concessional lending.

8. Duration of the subsidy

The programme started on 29 March 2020 and completed on 15 July 2021.

9. Statistical data permitting an assessment of the trade effects of the subsidy

The relevant information is not available.

### **2.3 Transportation Subsidy on Rice and Salt Programme**

1. Title of the subsidy programme

Transportation Subsidy on Rice and Salt Programme.

2. Period covered by the notification

From 16 July 2020 to 15 July 2022.

3. Policy objective and/or purpose of the subsidy

To facilitate the supply of essential goods viz. rice and salt at subsidized price to the economically weaker households living in the remote parts of the country.

4. Background and authority for the subsidy

The annual budget of the government makes the provisions regarding the subsidy program for the transportation of rice in remote districts of the country.

Likewise, as per decision of the Government of Nepal in 1999, the subsidy on the transportation of salt has been provided under the "Throat Disease (due to deficiency of Iodine) Elimination Programme".

The supply of rice on transportation subsidy is administered by Food Management and Trading Company, a fully government owned enterprise. The subsidized salt is supplied by Salt Trading Corporation, a semi-government enterprise.

5. Form of the subsidy

Transportation subsidy for the supply of rice and salt to the remote parts of the country.

6. To whom and how the subsidy is provided

Initially, the subsidized rice was provided to the people living in the 53 remote districts of the country which upon periodical review has now reduced to 24 remote districts of the country. As regards to the subsidized salt, the scheme initially covered 22 remote districts which is now confined to 17 remote districts of the country.

7. Total amount of the subsidy

Essential Goods	Quantity and Amount	Fiscal Year	
		2020/21	2021/22
Salt	Supplied Quantity (Quintals)	88,279	93,980
	Amount (US \$ million) *	0.79	1.27
Rice	Supplied Quantity (Metric Ton)	16,658	25,462
	Amount (US \$ million) *	4.03	3.31

\* Calculated as per the exchange rate of \$1=NRs. 117.87 for 2020/21 and NRs. 120.84 for 2021/22.

8. Duration of the subsidy

The Transportation Subsidy on Rice programme was started on fiscal year 1998/99 whereas Throat Disease (due to deficiency of Iodine) Elimination Programme commenced on 2 March 2000. There is no pre-established time limit for the programme's termination. However, the Government of Nepal reviews the area covered by these programmes periodically.

9. Statistical data permitting an assessment of the trade effects of the subsidy

The relevant information is not available.