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Trade Policy Review Body

TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

NEPAL

This report, prepared for the second Trade Policy Review of Nepal, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Nepal on its trade policies and practices.

Any technical questions arising from this report may be addressed to John Finn (tel. 022 739 5081), Ricardo Barba Viniegra (tel. 022 739 5088) and Thakur Parajuli (tel. 022 739 5473).

Document WT/TPR/G/381 contains the policy statement submitted by Nepal.

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SUMMARY

1. Since the last Trade Policy Review of Nepal in 2012, economic growth has averaged 4.4% per year, despite GDP growth of only 0.4% in fiscal year (FY) 2015-16 when the country was hit by two earthquakes which caused considerable damage to infrastructure and production. Growth recovered in the following years, driven by good monsoons, post-earthquake reconstruction, and higher government spending. However, if Nepal is to achieve its objective of being a middle-income country by 2030, annual GDP growth of over 7% will be needed.

2. Although GDP per capita increased from US$708 in FY 2012-13 to US$1,004 in FY 2017-18, poverty alleviation continues to be a major challenge, with nearly six million Nepalese living in poverty. A large portion of the 45% of total population that are considered vulnerable may have also fallen back into poverty in the aftermath of the 2015 earthquakes. Estimates suggest that eight million people were affected by the earthquakes, with some US$7 billion in damages and losses.

3. Nepal has achieved strong growth in government revenues in recent years through strengthening tax administration, including at customs. Government expenditure, however, has outpaced government revenues, due in part to housing grants to earthquake-affected households and to an increase in government wages and pensions. Following a review of the tax system, the Government is currently drafting a new single tax code to improve, consolidate and harmonize the main domestic taxes.

4. Nepal's current account surplus turned into a deficit in FY 2016-17 due primarily to increasing imports of goods and services, although the trade deficit was offset to some extent by strong remittances (about one quarter of GDP in FY 2017-18). The effects of the earthquakes, trade disruptions with India, and the appreciation of the real exchange rate affected the competitiveness of exports. Moreover, as a landlocked country, the transit of goods through India (mainly the port of Kolkata) to international markets imposes significant transport costs and delays on Nepalese exporters. Nepal has a narrow merchandise export basket concentrated in textiles, clothing, and agricultural products, while the structure of imports is considerably more diverse across commodity groups. Merchandise trade is mostly with India (65% of imports and 57% of exports in 2017).

5. The inward stock of foreign direct investment (FDI) represented 6.9% of GDP in 2017, still among the lowest in the region. Private investment, local and foreign, was inhibited by several factors, notably government instability, bureaucratic burden, inadequate infrastructure, and restrictive labour regulations. To tackle these problems, attract larger FDI inflows, and improve the business climate, several measures have been implemented, including improving customs procedures and the development of the Foreign Investment Policy 2014, as well as new legislation, such as the Industrial Enterprises Act, 2016, the Labour Act, 2017, and the Special Economic Zone (SEZ)) Authority Act, 2016. There are no restrictions on foreign investment, apart from a negative list of 21 industries which include poultry, fisheries consultancy services, and rural tourism.

6. The political instability up to early-2018 meant that, in some areas, new laws which were in development six years ago at the time of the last TPR have yet to be presented to Parliament (including a bill on safeguards, anti-dumping and countervailing measures), and, in other cases, the laws may have been passed but the implementing regulations are still being drafted. Moreover, in some cases, where the laws and institutions are in place, there is little data on enforcement, such as the laws relating to intellectual property rights, government procurement, and competition policy.

7. A new Constitution in 2015 (which replaced the Interim Constitution of 2007) and a new Government with a large majority in 2018 should create political stability, although the shift to a federal system of government would require significant institutional changes and, at the federal level, the Government has also implemented changes to the number and authority of some ministries.

8. Despite the major transformations in institutional and regulatory arrangements, the key development objectives remain largely the same as in 2012. In the 14th National Development Plan, trade is recognized as an important factor towards achieving the objective of long-term inclusive and sustainable growth, which is also emphasized in the National Trade Integration Strategy (NTIS) 2016, which is an update to NTIS 2010. The objectives of the Trade Policy 2015 are to enhance

access of goods, services and intellectual property to regional and world markets. It also aims to complement other policies, including the NTIS, and to implement WTO decisions.

9. Nepal continues to participate in two overlapping regional agreements: the South Asia Free Trade Area (SAFTA); and the Framework Agreement on the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) FTA. In addition, Nepal has bilateral trade agreements with 17 countries, including the Treaty of Transit, the Treaty of Trade, Railways Services Agreement, and an Agreement of Cooperation to Control Unauthorized Trade with India. The Transit Treaty allows Nepal to trade with other countries through the Kolkata/Haldia ports and, since 2016, Vishakapatnam. In the WTO, Nepal has ratified the Trade Facilitation Agreement and the Protocol Amending the TRIPS Agreement. However, it is not a participant in the Information Technology Agreement, nor a party to the Government Procurement Agreement or its revision. Despite efforts to meet WTO notification requirements, many are still outstanding, including some relating to subsidies, domestic support for agriculture, services, customs valuation, and import licensing procedures.

10. Since its last TPR, customs procedures have continued to improve. Nepal is currently implementing the fifth in a series of Customs Reform and Modernization Strategies and Action Plans (CRMSAPs), and an E-customs Master Plan which is intended to create a web-based paperless system of customs clearance using ASYCUDA World and a Single Administrative Document in the Nepal Customs Automation System (NECAS). At end-August 2018, the NECAS had been implemented in 12 customs offices, covering 95% of Nepal's trade.

11. Tariffs are one of the main trade policy instruments, and customs duties collected are an important source of government revenue. Nearly all tariffs are applied on an *ad valorem* basis, with 51 tariff lines subject to specific rates. The simple average applied MFN tariff in FY 2018-19 was 12%, a slight decrease from 12.2% in FY 2011-12. Average tariffs on agricultural products (12.6%) are higher than those on non-agricultural products (11.9%). The highest *ad valorem* rate of 80% applies to one tariff line related to tobacco, plus some motor vehicles, and arms and ammunition products. Specific duties are applied to some alcohol, tobacco, cement, and petroleum tariff lines. In general, tariff protection is particularly high for arms and ammunition and, to a much lesser extent, prepared foods and transport equipment. About 1.5% of agricultural products and 4% of non-agricultural tariff lines are duty free.

12. In acceding to the WTO, Nepal bound all but 54 tariff lines at the HS eight-digit level and, in general, applied tariffs are much lower than bound rates, with a 14.6 percentage point difference between the average MFN applied rate and the average bound rate. However, in FY 2018-19, out of a total of 5,572 tariff lines, the applied rates exceed the bound rates for 38 tariff lines. In addition, in a small number of cases, a bound tariff line was subsequently separated into a number of separate tariff lines, and some of these new tariff lines (eight in total) bear applied tariffs in excess of the binding. There are also 12 tariff lines subject to specific duties, where it is possible that they could exceed the bound *ad valorem* rates.

13. Import prohibitions or restrictions may be applied to some goods on the grounds of, *inter alia*, national security, protection of life or health, and protection of national treasures. Import licences or permits are required for some other goods, such as narcotics, arms and ammunition, and some communications equipment. Nepal also prohibits the export of certain goods for various policy objectives, and about 100 products are subject to export duties on grounds of environmental protection, food security, and to discourage trade diversion.

14. Import duties and other taxes collected at the border are important sources of revenue, with import duties, VAT on imports, and excise duties on imports providing 18%, 19%, and 7% of total tax revenue, respectively. Exports are zero-rated for VAT and are exempt from excise duties. The corporation tax system is quite complex, with different rates depending on the type of activity and a variety of rebates, reductions and exemptions for different industries, locations, and/or social goals, including under the SEZ Authority Act, 2016. The excise duty system is also complicated, with duties applied to about 600 products, including alcohol and tobacco products and motor vehicles. It appears that, in two cases (cider and wine), the excise duty on domestic products is lower than on imported products.

15. The Nepal Council for Standards and the Nepal Bureau of Standards and Metrology are the main agencies responsible for developing and approving standards and technical regulations. Out of about 900 national standards (51 of which were developed since 2012), 11 are mandatory, i.e technical regulations (4 of which were made mandatory since 2012 and were notified to the WTO). Nepal is also a member of the South Asian Regional Standards Organization (SARSO), which develops standards for the South Asian Association for Regional Cooperation (SAARC). According to the authorities, most standards are based on those developed by international organizations or well-known national standards bodies.

16. Several government agencies are responsible for SPS measures under a variety of laws, rules, and regulations, including the National Standards for Phytosanitary Measures Law, which was introduced in 2013 and sets out a framework for pest risk analysis. However, some legislation is quite dated, and, under the Agriculture Development Strategy (ADS), the authorities intend to prepare new legislation relating to food, establish an independent food authority, and enhance capacity in other agencies. A total of 13 SPS notifications have been made to the WTO, including the Framework for Pest Risk Analysis, and a quarantine list of pests for apples, citrus, potatoes, ginger, garlic, bananas, and coffee.

17. The Competition Promotion and Market Protection Act of 2007 and its Implementing Regulation of 2010 prohibit anti-competitive agreements, abuse of dominant position, mergers and amalgamations with the intent of restricting trade, bid-rigging, and other anti-competitive activities. Any person or business may provide information to designated market protection officers or the Competition Promotion and Market Protection Board relating to anti-competitive practices. However, although the legal and institutional framework is in place, the Act has never been used to prosecute a case, although other laws have been used in about 30 other competition-related cases.

18. There are about 40 state-owned enterprises. There has been no action under the privatization programme since 2008. During the review period, SOEs as a group have become profitable, primarily because of reforms affecting two of the largest, the Nepal Oil Company (NOC) and the Nepal Electricity Authority. In the case of the NOC, which has the sole rights to import, transport, store and distribute petroleum products, the introduction of the Automatic Petroleum Pricing Mechanism allows it to adjust prices.

19. Although Nepal is neither an observer nor a party to the Government Procurement Agreement, it has a procurement system regulated by the Public Procurement Act and overseen by the Public Procurement Monitoring Office. The procurement method depends on thresholds. The authorities stated that the system is now more transparent since e-bidding was introduced, starting in 2007, which applies to goods' contracts of more than NR 5 million and works' contracts of more than NR 10 million.

20. Although there were no changes to the legislation on intellectual property rights during the review period, the new Constitution now explicitly includes intellectual property in the definition of property. Enforcement at the border is the responsibility of Customs but they may act only following a complaint by the holder of the IPR. Although data on enforcement at the border were not available, there was a total of 679 cases relating to infringements of trademarks under consideration in the Department of Industry, of which 209 were under appeal in the courts.

21. Agriculture represents over one quarter of GDP and two thirds of employment. Nepal's diverse topography creates the potential to produce a wide variety of products but it faces many challenges as a landlocked LDC with poor infrastructure, small scale farming, low productivity, and a high risk of natural disasters (the 2015 earthquakes were estimated to have caused NR 28.3 billion in damages and losses to agriculture). Current policy for agriculture is set out in the ADS 2015-2035 and several product-specific policy documents. The ADS includes a number of programmes aimed at improving efficiency, sustainability, and resilience to climate change and disasters. The largest programme is for irrigation (NR 95 billion over 10 years), and the total 10-year cost of all programmes is about NR 502 billion, about 11% of which is to come from donors. The ADS also sets out targets, with an emphasis on developing a trade surplus for agricultural goods, improving sustainability and competitiveness, and reducing poverty. The most recent notification to the WTO on domestic support is for calendar years 2010 and 2011; it showed that all support was in the Green Box, and amounted to less than 1% of the value of production. Data on government spending during the review period shows that government programmes are focused on input and infrastructure support, research, and interest rate subsidies. Exports of some agricultural products

qualify for export support under the Cash Incentive for Exports (CISE) 2070, with a budget allocation of US$5.4 million for FY 2018-19.

22. The mining and quarrying sector (0.6% of GDP in 2017-18) is gradually being developed. Under the National Mineral Resources Policy 2017, Nepal's main policy objectives include making the sector more competitive, sustainable and environmentally friendly by using new and innovative technology; and attracting larger private sector investment by providing incentives and facilities.

23. The period 2016-26 has been declared National Energy Crisis Reduction and Electricity Development Decade (Energy Emergency Decade). Nepal recognizes that it must accelerate the development of its abundant hydropower potential as an important step to reduce poverty and stimulate economic growth. Hydropower development would provide clean energy to enhance economic and social development in rural and urban areas, and enable Nepal to generate revenue from the export of excess energy to neighbouring countries. Nepal aims to achieve zero power outages and ensure energy security by 2019.

24. The contribution of manufacturing to GDP has steadily declined during the last decades, to 5.4% in 2017-18. Reasons behind this overall downward trend include low labour productivity, high transport costs, production stoppages due to electricity cuts, and poor labour-employer relations leading to strikes. With the aim of promoting industrial activity and increasing its contribution to GDP, the SEZ Authority Act 2016 and the Industrial Enterprises Act 2016 were enacted (the implementing regulations are still being drafted). Various incentives for manufacturing and export-oriented industries are provided under both Acts.

25. The services sector is, increasingly, the largest contributor to GDP, with nearly a 60% share in 2017-18. Based on tourism-related receipts, Nepal became a net exporter of services during the review period. The tourism sector is central to Nepal's social and economic development, and the Government's objective is to double tourist visitors by 2020, make it the number one employment generator by adding one million jobs to the sector by 2020, and to almost quadruple the contribution of tourism to GDP by 2025.

26. Nepal is developing its largely untapped financial services market. Access to financial services and financial deepening have been growing over the last few years, and financial soundness indicators have improved. Despite recent changes made to the regulatory framework of financial institutions, accelerating financial sector reforms is needed. Nepal's telecom sector has been further liberalized during the review period through the adoption of various policy papers and regulations, including the National Broadband Policy 2015, the National Information and Communications Technology Policy 2015, the Spectrum Policy 2016, and the Telecom Infrastructure Service Regulation 2017.

27. Under its National Transport Policy, Nepal is to invest over US$8 billion in road infrastructure, rail connectivity and transport sector management in the next five years. The Government aims to connect all of Nepal's regions, develop a reliable, cost effective, safe, facility-oriented and sustainable transport system. Road transport is the predominant mode of transport in Nepal, accounting for 90% of the movement of passengers and goods.

28. During the review period, Nepal has taken several steps to improve the trading and business environment, including ongoing programmes on import procedures, and the electronic government procurement system. Political stability should also give the Government the opportunity to enact new and/or updated legislation. However, some aspects of doing business in Nepal are still complicated, expensive and time-consuming, such as paying taxes and starting a business, and simplifying them may help improve the investment, trading, and business environment.

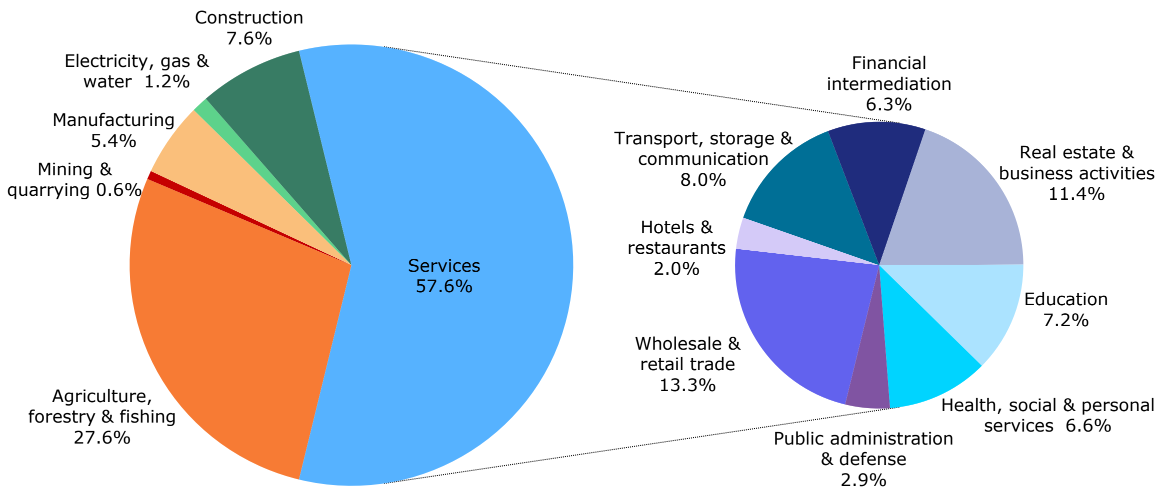
1 ECONOMIC ENVIRONMENT

1.1 Main Features of the Economy

1.1. The Nepalese economy is highly trade-oriented and dependent on remittances (around 26% of GDP)[1], exports of goods and services (about 9% of GDP), and travel and tourism (some 4% of GDP).[2] Nepal is also an important recipient of official development assistance (ODA).[3] Annual average ODA flows amounted to US$1,100 million during 2012-17.[4] Moreover, Nepal has a narrow merchandise export basket concentrated in a few countries (Section 1.3.1) and, as a landlocked country, the transit of goods through India (mainly the port of Kolkata) to international markets imposes significant shipping costs and delays on Nepalese exporters.[5]

1.2. As shown in Chart 1.1, the services sector constitutes the backbone of the economy in terms of GDP share (57.6% in 2017-18), followed by agriculture and related activities (27.6%), construction (7.6%), and manufacturing (5.4%). It is estimated that the agriculture sector employs over two thirds of workers.

Chart 1.1 GDP by economic activity (at current prices), 2017-18



Source: WTO Secretariat based on the data provided by the Central Bureau of Statistics.

1.3. Nepal has a population of around 30 million, predominantly rural. Nepal has made development progress over the last few years, as reflected in an increase in GDP per capita from US$708 in 2012-13 to US$1,004 in 2017-18. However, the alleviation of poverty continues to be one of its major challenges. According to Nepal's national poverty line, nearly six million Nepalese live in poverty.[6] Furthermore, a large portion of the 45% of total population that are considered vulnerable may have fallen back into poverty in the aftermath of the catastrophic earthquakes of 2015.[7]

[1] Nepal is one of the largest recipients of remittances in the world. Close to half of the population rely on financial help from relatives abroad. The top three destinations for Nepali migrant workers are Malaysia (41%), Saudi Arabia (23%), and Qatar (20%). Nepal Labour Market Update, ILO, January 2017.

[2] World Travel and Tourism Council online information. Viewed at: https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/nepal2018.pdf.

[3] The main bilateral donors are EU institutions/members.

[4] Ministry of Finance online information. Viewed at: http://mof.gov.np/uploads/document/file/20171231154547.pdf.

[5] To the north, trade with China is obstructed physically by the Himalayas. To the south, there are only two main roads connecting India and Kathmandu, and railway links are negligible. In addition, competing firms in India have greater economies of scale and competitiveness, putting Nepalese firms at a disadvantage.

[6] The national poverty line established in 2010-2011 represents the expenditure required to meet minimum food and non-food needs, and has historically been measured using the Nepal Living Standards Survey. IMF Country Report No. 17/74.

[7] Households with more than 10% probability of falling back into poverty are considered "vulnerable".

Estimates suggest that eight million people were affected by the earthquakes, with some US$7 billion in damages and losses.[8]

1.4. The national currency is the Nepali rupee (NR) which is pegged to the Indian rupee at a rate of 1.6. Consequently, prices in Nepal are greatly influenced by inflation in India. The Nepal Rastra Bank (NRB), i.e. the central bank, is responsible for formulating monetary and exchange rate policy, and for overseeing banks and financial institutions. On 30 May 1994, Nepal accepted Article VIII, Sections 2, 3 and 4, of the IMF Agreement.[9] Currently, all merchandise imports (except for a few goods restricted for security or related reasons) are freely available through an open general license system, with foreign exchange provided through the banking system at the market exchange rate.[10]

1.5. Nepal is a least developed country (LDC), and the Government's vision is to graduate from this status by 2022 and transition to middle income country status by 2030. To achieve these targets, an economic growth rate of 7–8% and investment in infrastructure of US$13-18 billion by 2020 is estimated to be required.[11] The 14th Development Plan (2016/17–2018/19) targets annual average growth of 7.2% and a reduction in the share of the population living in poverty from 21.6% currently to 17% by 2018-19.[12]

1.2 Recent Economic Developments

1.6. At the time of its previous TPR held in 2012, Nepal's macroeconomic performance had been broadly satisfactory. However, real GDP growth had averaged 4.2% per year during 2004-2011, among the lowest in the region.[13] Key factors impeding higher rates of economic growth include supply-side constraints (notably insufficient energy supplies and poor infrastructure), and other structural impediments, such as weak institutional capacity, difficult business climate, and political instability. In August 2016, a new coalition, the ninth government in nine years, assumed power. Frequent changes in government have held back progress in addressing structural constraints. According to the authorities, with the formation of a stable government at all levels, the focus has shifted from political stability to economic transformation.

1.7. Nepal's economy is rebounding following a slowdown caused by the 2015 earthquakes, trade disruptions that led to shortages of fuel and other essential goods, and lower-than-expected remittances due to weak growth in oil-producing host countries. Nepal's real GDP growth rate averaged 4.4% during 2012-2017. According to the IMF, the economy grew by 7.5% in 2017 (up from 0.4% in 2016) driven by a resurgence in investment activity, a good monsoon, an accommodative monetary policy, and rising government spending. For 2018, real GDP growth is estimated at only 5%, owing to floods that disrupted economic activity across all sectors, particularly agriculture (Section 4.1.1).[14]

[8] Nepal Labour Market Update, ILO, January 2017.

[9] Article VIII spells out the obligation of the members in carrying out their monetary policy. Section 2 prohibits members from imposing restrictions on making current payments, and provides that governments must make foreign exchange available for goods, services, and invisibles; Section 3 directs members to avoid discriminatory currency practices; and Section 4 enables the convertibility of foreign held balances.

[10] The restriction on quantitative limits on foreign exchange for leisure travel was removed in 2011. The Industrial Enterprises Act has a 75% limit on the conversion and transfer to foreign currency of salaries of non-residents from countries where convertible currency is in circulation. Since the limit applies to amounts that may be less than net salaries, it is an exchange restriction under Article VIII. IMF Country Report No. 17/74.

[11] Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np.

[12] IMF Country Report No. 17/74.

[13] WTO (2012), *Trade Policy Review of Nepal*, Geneva.

[14] IMF (2018), *World Economic Outlook*, April, Washington, D.C.

Table 1.1 Selected economic indicators, 2012/13-2017/18[a]

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18[b]
Real sector						
GDP per capita (US$)	708	725	766	748	866	1,004
Real GDP growth (% change)	4.1	6.0	3.3	0.4	7.5	5.0
Consumption expenditure (% GDP)	89.4	88.1	90.8	95.9	88.1	85.0
Gross national savings (% GDP)	40.7	45.7	44.1	40.1	45.4	43.9
Gross fixed capital formation (% GDP)	22.6	23.5	28.0	28.7	31.8	34.1
Exports of goods and services (% GDP)	10.7	11.5	11.6	9.5	9.1	8.8
Imports of goods and services (% GDP)	37.5	40.8	41.5	39.3	42.9	45.5
Inflation (CPI average, % change)	9.9	9.1	7.2	9.9	4.5	6.0
Money and banking (% change)						
Broad money (M2, % change)	16.4	19.1	19.9	19.5	15.5	18.0
Private sector credit (% change)	20.2	18.3	19.4	23.2	19.0	20.0
Private sector credit/GDP	57.4	58.6	64.5	75.1	75.6	79.7
Government finance						
Total revenue (NR billion)	296.8	363.6	405.9	482.1	609.2	730.0
Total expenditure (NR billion)	358.6	435.1	531.3	601.0	837.2	1,083
Public debt (% of GDP)	31.9	27.9	25.4	27.6	26.4	28.0
Foreign (% of GDP)	19.7	17.7	16.1	17.2	15.6	15.1
External sector						
NR/US$ (period average)	88.0	98.3	99.5	106.4	106.2	103.0
Real effective exchange rate[c]	..	-2.8	7.7	5.9	..	..
Remittances (% GDP)	25.6	27.7	29.0	29.5	26.3	24.3
Current account (%GDP)	3.4	4.6	5.1	6.2	-0.4	-6.6
Total external debt (% GDP)	..	18.0	15.9	16.9	..	..
Gross official reserves (US$ million)	..	6,172	7,162	8,574	..	..
In months of next year's imports	..	8.3	10.4	10.1	..	..

.. Not available.

a Fiscal year ends in mid-July.
b Preliminary.
c Average annual percentage change; appreciation (+), depreciation (-).

Source: Ministry of Finance (2017), *Economic Survey Fiscal Year 2017/18*, Vol. I, Table Macro Economic Indicators; IMF Country Report No. 17/74; Central Bureau of Statistics online information: http://cbs.gov.np/sectoral_statistics/national_accounts/naoNepal201718; and information provided by the authorities.

1.8. Monetary policy has largely remained accommodative during the review period, on the backdrop of significant inflows of remittances. Credit to the private sector has been expanding. As a percentage of GDP, it went up from 57.4% in 2012-13 to 79.7% in 2017-18 (Table 1.1). Credit sector growth was the key driver of the increase in broad money (M2) during 2012-2013 to 2015-2016. Thereafter, however, M2 growth slowed down because of reduced net foreign assets and lower sector credit growth.

1.9. The inflation rate, as measured by the consumer price index (CPI), averaged 8.1% during 2012-2017, above India's inflation over the same period (6.4%). Nonetheless, Nepal's inflation went down from 9.9% in 2016 to 4.5% in 2017 (the lowest in more than a decade) as prices normalized following shortages of fuel and other essential goods due to the trade disruptions in 2015-2016. For 2018, the IMF estimates an average inflation rate of 6%.[15] The 14th Development Plan targets average inflation of 7.5% per annum. According to the IMF, this is not ambitious enough to maintain the currency peg, considering that India has an inflation target of 4%.[16]

1.10. In July 2016, the NRB introduced an interest rate corridor, with specified lower and upper bounds. It was supported by the introduction of new instruments (two-week repos, two-week deposit auctions, and the issuance of NRB bonds) needed to stabilize money market rates within the corridor. According to the IMF, this corridor has been a positive step to strengthening the monetary policy framework, and regarding transmission which, in turn, supports the exchange rate

[15] IMF (2017), *World Economic Outlook*, April, Washington, D.C.
[16] With inflation continuing to run 2-3% higher than in India, the exchange rate would become overvalued. IMF Country Report No. 17/74.

peg by reducing the inflation wedge with India.[17] Nepal has recently adopted the floor and ceiling rate of the interest rate corridor to reduce the volatility of interbank interest rates.

1.11. Despite the fact that Nepal has achieved strong growth in domestic revenues in recent years through strengthening tax administration, including at customs, government expenditure has outpaced government revenues. Due in part to the disbursement of housing grants to earthquake-affected households and to a hike in government wages and pensions, government spending has been significantly higher than government revenue (Table 1.1), notably during 2016-2017, with annual growth rates of 55.7% and 19.7%, respectively.

1.12. As a result of the wider gap between revenue and expenditure, Nepal's overall fiscal balance, as percentage of GDP, went from 0.3% in FY2016 to 5.2% in FY2017. According to the IMF, to contain fiscal risks, and create additional space to address social and infrastructure gaps, financial support to state-owned enterprises (SOEs) should be phased out. In recent years, almost 2% of GDP was spent per annum on equity injections and loans to SOEs, including banks.[18]

1.13. Following a review of the tax system, the Government is currently drafting a new single tax code to implement tax policy improvements and to consolidate and harmonize main domestic taxes into one piece of legislation. VAT is the main contributor to government revenue with about 26% of the total, followed by income tax with 24% (Table 1.2). Taxes and levies on imports (VAT, customs, and excise duties) represented 59% of total government revenue, or about 13% of GDP, in 2016-2017.

Table 1.2 Structure of government revenue, 2011/12-2016/17

(NR billion)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Value added tax	72.2	83.4	101.1	112.4	122.4	160.3
Income tax	43.4	56.9	68.0	88.5	117.4	148.2
Customs	52.3	66.1	78.1	74.7	82,2	113.2
Excise duties	30.4	36.2	45.4	53.5	65.8	84.7
Other taxes	8.0	16.6	19.9	26.9	33.3	41.1
Non-tax revenue	37.8	36.8	44.2	49.9	60.9	61.7
Total revenue	**244.1**	**296.0**	**356.6**	**405.8**	**482.0**	**609.2**

Source: Information provided by the authorities.

1.14. Nepal's balance of payments has been in surplus in recent years, with strong remittances more than offsetting declining exports of goods and services and expanding imports (Table 1.3). With a more sound current account position and capital inflows, the NRB was able to build up gross reserves from NR 453.6 million in FY2012, equivalent to 8.8 months of imports, to NR 1,064.4 million in April 2018 (9.7 months of imports).[19]

1.15. Remittances have also contributed to an appreciation of the real exchange rate, which, in turn, has affected export competitiveness and increased the trade deficit. Indeed, Nepal's merchandise trade deficit widened from NR 387.4 million in FY2012 to NR 816.6 million in the first nine months of FY2017. Nepal's current account balance, as a percentage of GDP, moved from an average surplus of 4.8% over 2012-16 to a deficit of 0.4% in 2017, largely due to slowing remittances since 2016. For 2018, the IMF expects the current account deficit to increase to 3.6% of GDP.[20]

[17] IMF Country Report No. 17/74.
[18] IMF Country Report No. 17/74.
[19] Given the peg to the Indian rupee, the need to absorb external shocks, and the low opportunity cost of holding reserves, seven months of imports seem adequate to the IMF. IMF Country Report No. 17/74.
[20] IMF (2018), *World Economic Outlook*, April, Washington, D.C.

Table 1.3 Balance of payments, 2012/13-2017/18[a]

(US$ million)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18[b]
A. Current account	**635**	**909**	**1,067**	**1,339**	**-94**	**-1,850**
Trade balance	-5,247	-6,072	-6,670	-6,389	-8,446	-8,652
Exports f.o.b.	977	1,028	988	704	774	739
Imports f.o.b.	-6,224	-7,100	-7,658	-7,092	-9,219	-9,391
Services (net)	87	214	275	92	26	-4
Credit	1,083	1,275	1,499	1,302	1,492	1,373
Travel	390	473	537	393	552	550
Debit	-995	-1,062	-1,224	-1,210	-1,466	-1,376
Income (net)	146	334	342	320	294	119
Credit	263	403	428	405	490	519
Debit	-117	-69	-86	-85	-196	-400
Transfers (net)	5,648	6,434	7,120	7,316	8,032	6,687
Credit	5,732	6,468	7,145	7,351	8,069	6,733
Debit	-84	-34	-26	-36	-37	-47
B. Capital account	**117**	**173**	**148**	**159**	**125**	**137**
C. Financial account[c]	**140**	**108**	**182**	**273**	**250**	**354**
A. + B. + C.	**892**	**1,190**	**1,397**	**1,771**	**282**	**-1,360**
D. Miscellaneous items (net)	**37**	**120**	**184**	**151**	**315**	**1,002**
A. + B. + C. + D.	**929**	**1,311**	**1,582**	**1,922**	**597**	**-358**
E. Reserves and related items	**-929**	**-1,311**	**-1,582**	**-1,922**	**-597**	**358**
Reserve assets	-915	-1,297	-1,570	-1,923	-581	363
NRB	-725	-1,170	-1,290	-1,632	-587	-87
Deposit money banks	-190	-127	-281	-291	6	451
Fund credit + loans	-13	-14	-12	1	-16	-5
Changes in reserve (net) (- increase)	-768	-1,286	-1,437	-1,779	-777	184

a Based on the monthly average exchange rate. The fiscal year ends in mid-July.
b First ten months.
c Excluding E. (Reserves and related items).

Source: Data provided by the authorities.

1.3 Developments in Trade and Investment

1.3.1 Trends and patterns in merchandise and services trade

1.16. Trade (exports and imports of goods and services) accounted for 52% of GDP in FY2017. Nepal ranks 128th among world merchandise exporters, and 70th among importers (considering EU member States as one, and excluding intra-EU trade).[21]

1.17. During the review period, Nepal's export performance has been weak, lagging behind that of its peers. Merchandise exports decreased from US$907.6 million in 2011 to US$740.7 million in 2017, mainly due to the effects of the earthquakes and trade disruptions, while the appreciation of the real exchange rate also affected the competitiveness of Nepalese exports. The export structure remains heavily concentrated in textiles, clothing, and agricultural products which, together, accounted for 74.6% of total exports in 2017, against 64.6% in 2011 (Chart 1.2 and Table A1.1). Top export products are carpet, cardamom, yarn, juice, woven fabrics, black tea, jute bags, wire of iron, footwear and red lentils. Also important are iron and steel, although their share in total merchandise exports decreased from 14.9% to 6.6% during the period, and chemicals (6.1% share in 2017).

1.18. Merchandise exports are also highly concentrated geographically. However, the share of India, Nepal's single most important export market destination, decreased from 67.7% in 2011 to 56.7% in 2017, caused by lower growth in India. The European Union's participation in Nepal's total merchandise exports (led by Germany and the United Kingdom) averaged 11.7% during the period. Noteworthy is the increase in the share of Turkey in Nepal's total exports from 0.8% in 2011 to

[21] WTO statistics database, "Trade Profiles: Nepal". Viewed at: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=NP.

6.4% in 2017. China and the United States also increased their share in Nepal's total merchandise exports over the period (Chart 1.3 and Table A1.3).

1.19. Merchandise imports have grown considerably throughout the review period. They jumped from US$5,916 million in 2011 to US$10,038 million in 2017, driven by manufacturing products. There is considerably more balance across commodity groups in Nepal's import structure (Chart 1.2 and Table A1.2). The largest category is machinery and transport equipment with 24.7% share in 2017 (18.4 in 2011), followed by food (17.6%), and fuels (15.2%). Chemical products and iron and steel also represent a sizeable part of Nepal's total merchandise imports.[22]

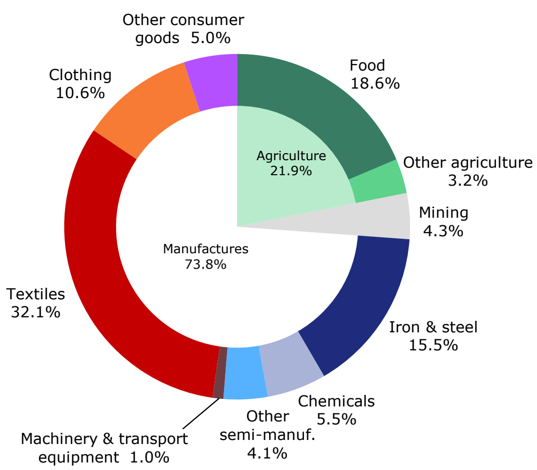
1.20. Merchandise imports are also highly concentrated geographically (Chart 1.3 and Table A1.4). India continues to be Nepal's largest source of merchandise imports with a 65.0% share in 2017, up from 63.4% in 2011, followed by China with 12.6% (11.7% in 2011). The participation of the European Union in Nepal's total imports averaged 2.7% during the period, while that of the United States was 1.0%.

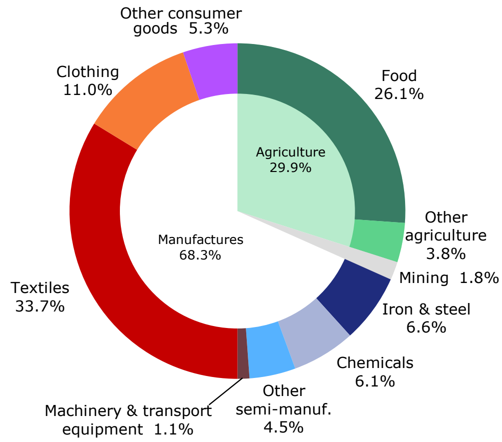
[22] Nepal's top import products include fuel, gold, cement clinker, telephone, rice, vehicles, soybean oil, coal and machineries. Trade and Export Promotion Centre online information. Viewed at: http://tepc.gov.np.

Chart 1.2 Product composition of merchandise trade, 2011 and 2017

2011 **2017**

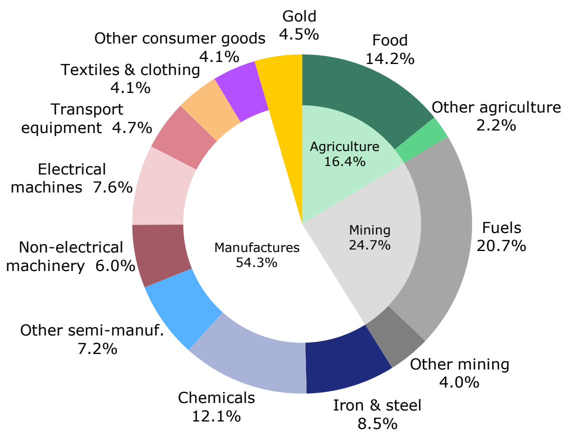
Exports (f.o.b.)

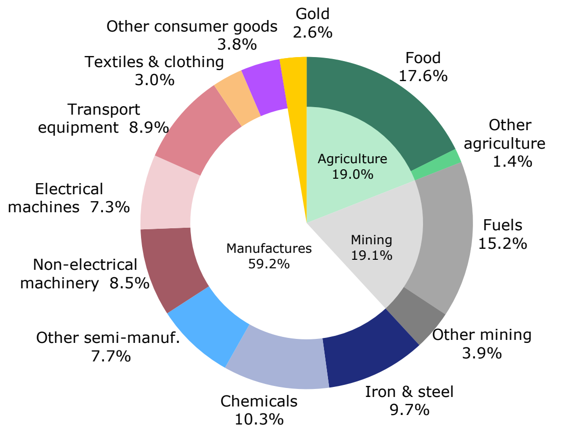




Total: US$907.6 million **Total: US$740.7 million**

Imports (c.i.f.)





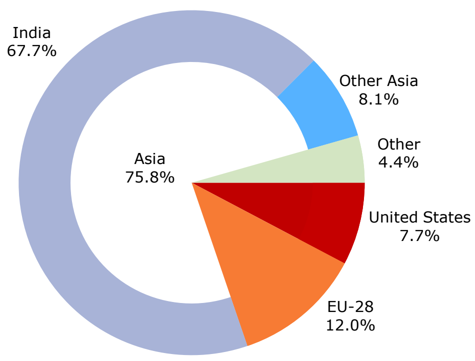
Total: US$5,915.9 million **Total: US$10,037.8 million**

Source: UNSD, Comtrade database (SITC Rev. 3).

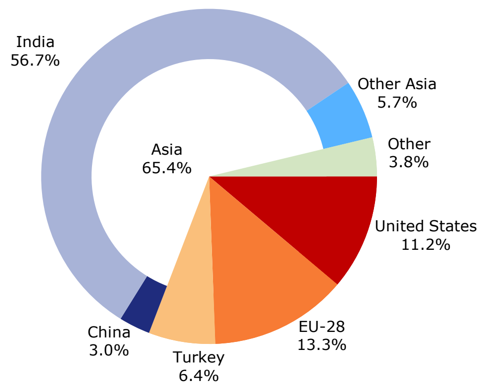
Chart 1.3 Direction of merchandise trade, 2011 and 2017

2011 **2017**

Exports (f.o.b.)

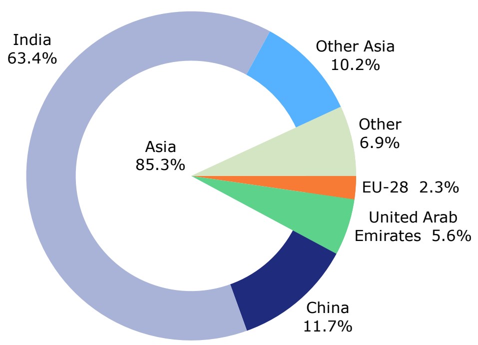


Total: US$907.6 million

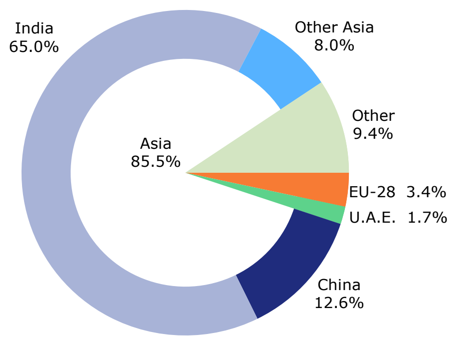


Total: US$740.7 million

Imports (c.i.f.)



Total: US$5,915.9 million



Total: US$10,037.8 million

Source: UNSD, Comtrade database.

1.21. In services trade, Nepal ranks 100th in the world (considering EU member States as one, and excluding intra-EU trade), both as an exporter and an importer.[23] On the back of important tourism earnings, Nepal has traditionally been a net exporter of services. However, in FY2017 a small deficit was registered (Table 1.3).

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[23] WTO Statistics database, "Trade Profiles: Nepal". Viewed at: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=NP.

1.3.2 Trends and patterns in FDI

1.22. During the review period, Nepal took measures to attract larger foreign direct investment (FDI) inflows and improve the business climate, including through the enactment of the Foreign Investment Policy 2014, the Industrial Enterprise Act 2016, and the Labour Act 2017. Nepal grants equal treatment to foreign and domestic investors, allowing 100% foreign investment except for a negative list of 21 industries (Section 2.4). Moreover, under the Nepal Trade Integration Strategy (NTIS) 2016, FDI is especially encouraged in 19 economic activities identified as strategic (Table 2.2).

1.23. Nepal ranks 105th among 190 economies, and is the third most competitive economy in South Asia after India and Bhutan, according to the World Bank's Ease of Doing Business 2018 report. It improved from 107th in 2011 but is well below the record best of 94th in 2014. According to the World Bank, some of the most problematic areas for doing business are dealing with construction permits, enforcing contracts, paying taxes, getting electricity and starting a business.[24]

1.24. Nepal's potential for attracting foreign investors and fostering domestic investment remains largely untapped. Its FDI inflows averaged US$92 million per year during 2012-2017, reaching US$198 million in 2017 (Table 1.4). FDI inward stock represented 6.9% of GDP in 2017, still among the lowest in the region. According to external sources, private investment, local and foreign, has been inhibited by several factors, notably government instability, inefficient government bureaucracy, inadequate infrastructure, and restrictive labour regulations.[25]

Table 1.4 FDI, 2012-17

(US$ million)

	2012	2013	2014	2015	2016	2017
FDI inflows	92	71	30	52	106	198
FDI inward stock	759	951	769	1,007	1,343	1,608
FDI inward stock (% of GDP)	4.0	4.9	4.7	4.7	6.3	6.9

Source: UNCTAD (2018), *World Investment Report 2018*, Geneva.

1.25. According to a survey report on FDI in Nepal[26], by mid-July 2016, the services sector (led by transport, storage and communication and financial intermediation) accounted for the highest share of total FDI stock, with 70.2% (Table 1.5), followed by manufacturing, mining and quarrying (15.1%), and electricity, gas and water (13.9%). The West Indies is the largest source of total FDI stock, with 45.6%, while India and China are the most important single countries investing in Nepal with 19.8% and 7.9% of the total, respectively (Table 1.6).

Table 1.5 FDI stock by sector, mid-July 2016

(NR million)

Sector	Paid-up	Reserves	Foreign loans	Total	Share (%)
Agriculture	395.2	0.0	0.0	395.2	0.3
Construction	288.8	337.9	0.0	626.7	0.5
Electricity, gas and water	10,930.9	6,854.9	1,391.6	19,177.5	13.9
Manufacturing, mining and quarrying	7,7769.7	12,710.0	333.7	20,813.5	15.1
Education	137.9	0.0	0.0	137.9	0.1
Services	22,190.5	71,048.0	3,427.0	96,665.5	70.2
Financial intermediation	14,048.1	10,006.8	0.0	24,055.0	17.5
Hotels and restaurants	3,300.3	-325.2	0.0	2,975.1	2.2
Real estate activities	686.4	210.9	0.0	897.4	0.7
Transport, storage and communication	2,006.5	60,533.1	2,134.6	64,597.2	46.9
Other services	2,011.3	622.4	1,292.4	3,926.0	2.9
Total	**41,575.2**	**90,950.9**	**5,152.3**	**137,678.4**	**100.0**

Source: NRB (2018), *A Survey on Foreign Direct Investment in Nepal*, Kathmandu.

[24] World Bank online information. Viewed at: http://www.doingbusiness.org/data/exploreeconomies/nepal.

[25] World Economic Forum online information. Viewed at: http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf.

[26] NRB (2018), *A Survey on Foreign Direct Investment in Nepal*, Kathmandu.

Table 1.6 FDI stock by source, mid-July 2016

(NRs million)

Region/country	Paid-up	Reserves	Foreign loans	Total	Share (%)
West Indies	80.0	62,699.7	0.0	62,779.7	45.6
India	11,228.8	14,432.0	1,593.3	27,254.1	19.8
China	7,301.3	2,565.1	977.7	10,844.1	7.9
Singapore	3,464.8	3,670.1	0.0	7,134.9	5.2
Ireland	3,100.5	2,704.8	0.0	5,805.3	4.2
Australia	1,934.2	1,897.3	0.0	3,831.6	2.8
Korea, Republic of	2,811.4	18.0	75.3	2,904.6	2.1
Bangladesh	1,662.6	847.3	0.0	2,509.9	1.8
United Kingdom	1,162.2	1,168.6	0.0	2,330.8	1.7
United States	1,151.5	1,129.4	46.7	2,327.6	1.7
Other countries	7,677.9	-181.4	2,459,3	9,955.7	7.2
Total	**41,575.2**	**90,950.9**	**5,152.3**	**137,678.4**	**100.0**

Source: NRB (2018), *A Survey on Foreign Direct Investment in Nepal*, Kathmandu.

2 TRADE AND INVESTMENT REGIMES

2.1. Since its first TPR in 2012, Nepal has gone through major transformations in institutional and regulatory reform initiatives, including the Constitution, promulgated in 2015, which replaced the Interim Constitution of 2007. Concerning trade policy, it updated its trade policy in 2015, and the Nepal Trade Integration Strategy (NTIS) in 2016. During the review period, it ratified the Trade Facilitation Agreement (TFA), and the protocol amending the TRIPS agreement. Strengthening regional economic integration also continued, through the implementation and/or negotiation of regional trade agreements (RTAs). In addition, it has taken several initiatives to encourage foreign direct investment (FDI).

2.1 General Framework

2.2. The new Constitution was promulgated on 20 September 2015 through the second Constituent Assembly, and replaced the Interim Constitution which had been adopted on 15 January 2007. It is based on the principles of republicanism, federalism, secularism, and inclusiveness, and provides for a federal form of government at three levels: federal; provincial; and local. There are seven provincial and 753 local governments. In implementing the Constitution, elections at these three levels were completed in December 2017, and a new Government was formed.

2.3. As provided for in the Constitution, the President is the head of State[1], and the Prime Minister is the head of Government. Executive power is exercised by the Prime Minister and the Council of Ministers[2]. At the federal level, legislative power rests with the Parliament, which consists of the House of Representatives, and the National Assembly. The House of Representatives is made up of 275 members, of which 165 are elected by a first-past-the-post system and 110 by each party based on its proportional representation in the total vote. The National Assembly has 59 members, of which 3 are nominated by the President, based on a recommendation from the Government, and the remaining 56 are elected from the seven provinces: eight from each province, which must include three females, one Dalit, and one from minorities or persons with disabilities.[3]

2.4. Legislative power at the federal, provincial, and local levels is set out in the Constitution. Most policies, including trade policy, are formulated and implemented at the federal level through acts of Parliament. In general, a draft act (bill or *bidayak*) is presented by the Government to the Parliament for debate and adoption. If approved by Parliament, the bill is sent to the President for assent.

2.5. In terms of legal hierarchy, the Constitution is followed by Parliamentary acts and implementing legislation (such as rules, regulations, and governmental or administrative notifications, circulars and directives). Under the Nepal Treaties Act, 1990, in case of divergence between the provisions of law and provisions of an international treaty ratified by Parliament, the provisions of the treaty shall apply to the extent of the divergence.

2.6. According to the Constitution, Nepal's judiciary is independent from the executive and legislative branches of the Government. Under the Constitution, the President appoints the Chief Justice and other Supreme Court judges on the recommendation of the Constitutional Council for Chief Justice, and of the Judicial Council for other Supreme Court judges. The Supreme Court has appellate jurisdiction over district and high court decisions, and is also the court of record.[4]

2.2 Trade Policy Formulation and Objectives

2.7. According to the Constitution, the number of federal government ministries may not exceed 25. Therefore, there have been several changes to the system of administration and institutional

[1] The term of the President is five years, and the President is elected by an electoral college composed of the members of the Federal Parliament and of the State Assemblies. The voting weightage of the members of the Federal Parliament and of the State Assemblies shall vary, as provided for in the federal law.

[2] The President appoints the leader of a parliamentary party that commands majority in the House of Representatives as the Prime Minister, and the Council of Ministers is constituted under his/her chairpersonship.

[3] The Constitution of Nepal – Part 8.

[4] There are three levels of courts – Supreme Court, High Court and District Court. In addition to these, the Constitution envisioned that judicial bodies may be formed at the local level to try cases under law, or other bodies may be formed, as required, to pursue alternative dispute settlement methods.

arrangements to comply with this requirement. As of end-August 2018, the ministries were as set out as in Box 2.1.

Box 2.1 List of ministries as of August 2018

Office of the Prime Minister and Council of Ministers	
Defense	Health and Population
Home Affairs	Foreign Affairs
Energy, Water Resources and Irrigation	Education, Science and Technology
Industry, Commerce and Supplies	Physical Infrastructure and Transportation
Labor, Employment and Social Protection	Forest and Environment
Federal Affairs and General Administration	Women, Children and Senior Citizens
Finance	Youth and Sports
Culture, Tourism and Civil Aviation	Law, Justice and Parliamentary Affairs
Agriculture and Livestock Development	Water Supply
Urban Development	Communication and Information Technology
Land Management, Cooperatives and Poverty Alleviation	

Source: Government online information. Viewed at: https://www.nepal.gov.np/NationalPortal/view-page?id=157 [August 2018].

(i) Trade policy

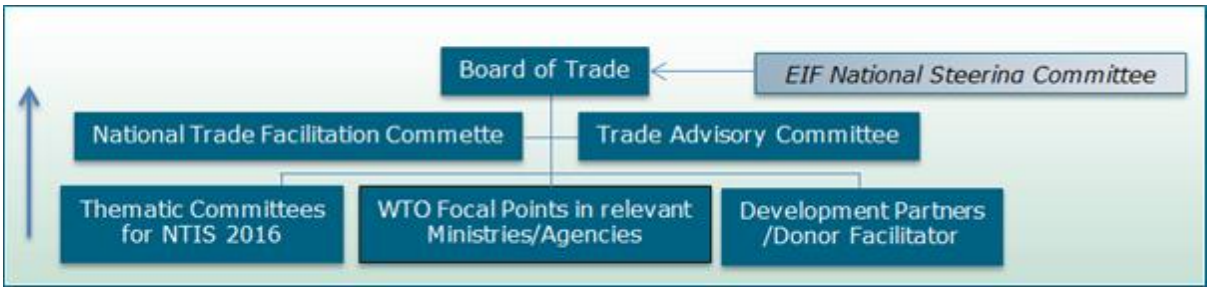
2.8. The Ministry of Industry, Commerce and Supplies[5] is the principal ministry responsible for formulating, implementing and monitoring policies, plans and programmes related to international trade, industrial development and investment.[6] It is also the focal point for negotiations and the administration of trade agreements, and serves as a National Enquiry Point (NEP) for Trade in Services. It also coordinates "aid for trade" initiatives, including the Enhanced Integrated Framework (EIF); and it takes the lead in developing trade-related legislation, in coordination with other relevant ministries and government agencies. In its role as having primary responsibility for international trade, an interagency coordination mechanism has been devised for dealing with issues related to international trade (Chart 2.1).

2.9. While the Ministry of Industry, Commerce and Supplies is responsible for most aspects of trade policy, the Ministry of Finance is responsible for setting tariffs, which are assessed and collected by the Customs Department of that Ministry. Tariffs are set for each fiscal year (FY) through the Budget and Finance Act (*Arthik Bidhiyek*).

[5] The Ministry has gone through several splitting and merging exercises; three separate ministries (Industry, Commerce and Supplies) were merged into one in 2002. In 2008, it was divided into two: one being the Ministry of Industry; and the other the Ministry of Commerce and Supplies. The latter was further divided into two in 2015: the Ministry of Commerce and the Ministry of Supplies. In April 2018, these three ministries were again merged into one, the Ministry of Industry, Commerce and Supplies.

[6] Ministry of Industry, Commerce and Supplies online information. Viewed at: http://moc.gov.np/content.php?id=398 [August 2018].

Chart 2.1 Interagency coordination mechanism for international trade



Source: Based on information provided by the authorities.

2.10. The Chair of the Board of Trade (BOT) is the Minister of Industry, Commerce and Supplies, while the other members[7] include representatives from the public and private sectors as well as academics. The Board aims to coordinate the implementation of the trade policy, and gives advice on current policy and recommendations on future policy to the Government. The BOT is supported by subsidiary committees chaired by the Secretary of the Ministry of Industry, Commerce and Supplies. Sectoral focal points are designated by the responsible ministries and agencies (including the Nepal Rastra Bank (NRB)) to deal with WTO-related issues. Private sector representatives participate in different committees. Under the Ministry of Industry, Commerce and Supplies, a Trade and Export Promotion Centre (TEPC) has been established as the national trade promotion agency, with the objective of promoting foreign trade in general, and exports in particular.

(ii) Main trade laws

2.11. The principal legislation relating to trade is set out in Table 2.1. In addition to these laws, the authorities noted that a bill on foreign investment has been prepared by the Ministry of Industry, Commerce and Supplies, and the first National Intellectual Property Policy was released.

Table 2.1 Main trade-related legislation

Issues	
Customs	Customs Act, 2007
	Customs Rules, 2007
Export and import licensing	Export and Import Control Act, 1957 (as amended in 2006)
	Export and Import Rules, 1978
Technical barriers to trade	Nepal Standards (Certification Mark) Act, 1980 (as amended)
	Nepal Standards (Certification Mark) Regulations, 1982 (as amended)
	Drugs Act, 1978 (as amended in 2000)
	Drug Registration Rules, 1981 (as amended in 2001)
Sanitary and phytosanitary measures	Nepal Seeds Act, 1988
	Seeds Regulation, 1997
	Plant Protection Act, 2007
	Plants Protection Rules, 2010
	Food Act, 1966
	Food Regulation, 1970
	Feed Act (Animal Concentrates), 1976 Animal Health and Livestock Services Act, 1998
Competition policies	Competition Promotion and Market Protection Act, 2007 Competition Promotion and Market Protection Regulation, 2007
	Consumer Protection Act, 1998 Consumer Protection Regulation, 2000
Privatization	Privatization Act, 1993
Investment regime	Foreign Investment and Technology Transfer Act, 1992 (as amended)
	Industrial Enterprises Act, 2016
Government procurement	Public Procurement Act, 2007
	Public Procurement Rules, 2007

[7] Members from the Department of Commerce, the TEPC, Nepal Transit and Warehousing Company Ltd., the Federation of Nepalese Chambers of Commerce and Industries, the Confederation of Nepalese Industries, the Nepal Chamber of Commerce, the Federation of Nepal Cottage and Small Industries, and the Federation of Nepal Gold and Silver Dealers Association.

Issues	
Trade-related intellectual property rights	Patent, Design and Trade Mark Act, 1965
	Copyright Act, 2002
	Copyright Regulations, 2004

Source: Information provided by the authorities.

(iii) Policy objectives

2.12. The key policy objectives for development are set out in periodic development plans. The objectives in the current Plan, the fourteenth, remain largely unchanged, with the basic aims of poverty reduction and improving overall living standards. It aims to achieve socio-economic transformation by reducing poverty through employment-orientated economic growth.[8]

2.13. Under the Plan, trade is recognized as an important factor towards achieving the objective of long-term inclusive and sustainable growth, which is also emphasized in the NTIS 2016.[9] In addition, the Trade Policy 2015 includes outward-looking strategies, which emphasize export promotion. The objective of the Trade Policy is to reduce the trade deficit by enhancing the supply side capacity, and to enhance access of goods, services and intellectual property to regional and world markets. It also aims to complement other policies, including the NTIS, and to implement WTO decisions.[10]

2.14. In 2002, at the request of the Government, the World Bank carried out Nepal's first Diagnostic Trade Integration Studies (DTIS) on behalf of the Integrated Framework Working Group, which was finalized as the Nepal Trade and Competitiveness Study (NTCS) examined the trade regime and its performance, and identified products with comparative and competitive advantages.[11] An updated version of the NTCS 2004, the NTIS was published in 2010 by the then Ministry of Commerce and Supplies, and focused on the development of 12 goods and 7 services areas for making trade inclusive and equitable, and contributing to the poverty reduction goal adopted by the Government.[12]

2.15. According to the authorities, despite plans, reforms and other measures, Nepal's trade performance over the past decade was not satisfactory, as the trade in goods deficit continued to increase, mainly due to supply-side constraints, low investment, inadequate trade infrastructure, and inadequate trade facilitation measures. Therefore, NTIS 2010 was updated in 2016 (NTIS 2016). This is now Nepal's third-generation trade integration strategy, and it aims to address trade and competitiveness challenges in the export sector.[13]

2.16. NTIS 2016 also provides the foundation for the implementation of Trade Policy 2015, through enhancing export competitiveness by addressing cross-cutting issues, and improving value chain development for priority products. It includes actions and measures in 19 strategic areas, covering 7 cross-cutting and 12 product-specific sub-sectors, as well as SWOT analyses for priority products, export targets and the identification of responsible agencies.

[8] National Planning Commission (2017), *14th Plan (FY 2073-74 to 2075/76)*, February. Viewed at: https://www.npc.gov.np/en/category/periodic_plans [August 2018].

[9] Ministry of Industry, Commerce and Supplies (2016), *National Trade Integration Strategy 2016 (NTIS 2016)*, Kathmandu. Viewed at: http://www.moc.gov.np/downloadfile/NTIS%202016_1492763963.pdf [August 2018].

[10] Ministry of Industry, Commerce and Supplies (2016), *Trade Policy 2072*, Kathmandu. Viewed at: http://www.moc.gov.np/downloadsdetail.php?id=23 (Nepalese) [August 2018].

[11] EIF (2003), *Nepal – Trade and Competitiveness Study*, 22 October. Viewed at: https://www.enhancedif.org/en/system/files/uploads/nepal_dtis_2003.pdf?file=1&type=node&id=2857 [August 2018].

[12] Ministry of Commerce and Supplies (2010), *National Trade Integration Strategy 2010*, Kathmandu. Viewed at: http://eifnepal.gov.np/publication/f51e0NTIS%202010%20exe%20sum%20160610.pdf [August 2018].

[13] Ministry of Commerce (2016), *National Trade Integration Strategy 2016*, Kathmandu. Viewed at: http://www.moc.gov.np/downloadfile/NTIS%202016_1492763963.pdf [August 2018].

Table 2.2 Strategic areas identified in NTIS 2016

Category	Strategic areas
Cross-cutting (7)	(i) Trade capacity, including trade negotiations
	(ii) Trade and investment environment
	(iii) Trade and transport facilitation
	(iv) Standards and technical regulations
	(v) Sanitary and phytosanitary standards
	(vi) Intellectual property rights
	(vii) Trade in services
Agro-based (4)	(viii) Large cardamom
	(ix) Ginger
	(x) Tea
	(xi) Medicinal and aromatic plants (MAPs)
Craft and manufacturing (5)	(xii) All fabrics, textile, yarn and ropes
	(xiii) Leather
	(xiv) Footwear
	(xv) Chyangra Pashmina
	(xvi) Knotted carpets
Services (3)	(xvii) Skilled and semi-skilled professionals in various categories
	(xviii) IT services and Business Process Outsourcing (BPO)
	(xix) Tourism

Source: NTIS 2016.

2.17. NTIS 2016 identified 190 actions to be implemented by 2020, with the focus on: improving supply capacity through increased production and productivity; product and value chain development; development of trade-related infrastructure to address supply-side constraints; and enhanced market access in terms of both technical and institutional capacity building. The four main objectives are:

(i) Strengthen the trade- and export-enabling environment;

(ii) Focus on product development and strengthen the supply-side capacity of priority products;

(iii) Strengthen institutional capacity, trade negotiation and inter-agency coordination; and

(iv) Build and enhance trade-related infrastructure.

2.18. With the review of NTIS 2010 and its implementation experiences, NTIS 2016 has pointed out several challenges to be addressed to achieve targeted goals for the development of the export sectors:

(i) The adoption of key legal and regulatory reforms to create a trade and investment enabling environment remains slow;

(ii) The transportation and energy infrastructure remain a constraint, particularly as Nepal is a landlocked country;

(iii) Non-tariff measures have been serious bottlenecks for the access of Nepalese products into foreign markets;

(iv) Inadequate legal framework to protect intellectual property rights;

(v) Nepal lacks clear, well-coordinated, and institutionalized value-chains to maximize value addition in potential export sectors;

(vi) Nepal lacks sufficient investment in modern technologies for products and services with export potential; attracting foreign investment to expand the manufacturing base and technology transfer to ensure quality products remains an additional challenge to trade sector development;

(vii) Exported commodities are mainly unprocessed goods;

(viii) Shortage of semi-skilled labour[14];

(ix) Service sectors lack a focus on international trade;

(x) Coordination amongst line agencies remains weak; and

(xi) Technical and financial support from donors has not focused exclusively on areas of trade-related infrastructure and capacity development.

2.19. The EIF has been providing institutional capacity building and catalytic investment to support the Ministry of Industry, Commerce and Supplies and line ministries in implementing the NTIS, in collaboration with other development partners, the private sector and local stakeholders. In FY 2017-18, the Government allocated about US$4 million to support the implementation of NTIS, double the amount of the previous year. According to OECD Credit Reporting System (CRS) data, Nepal received US$278.8 million in 2016 in aid for trade.[15]

2.3 Trade Agreements and Arrangements

2.3.1 WTO

2.20. Nepal has been a WTO Member since 23 April 2004 when it became the first least developed country (LDC) to join the WTO through the full working party negotiation process. As an LDC, it is a beneficiary of the special and differential treatment provisions applicable to the LDCs under WTO agreements. It actively participates in the WTO, including as an LDC and on behalf of LDCs - including through its role as Coordinator of the LDC group in the WTO in 2013 and during the Ministerial Conference in Bali.

2.21. According to the authorities, Nepal is a strong believer in, and supporter of, a rules-based, transparent, and non-discriminatory multilateral trading system. It is of the view that international support mechanisms like Aid for Trade should leverage their efforts with other donor partners to strengthen the technical, regulatory, institutional and infrastructural capacities of LDCs.[16]

2.22. During the review period, Nepal ratified the TFA on 24 January 2017, and the protocol amending the TRIPS agreement on 11 March 2016. It accords at least MFN treatment to all its trading partners, including for non-WTO Members. As of August 2018, it had not been involved in any cases under the WTO dispute settlement mechanism.

2.23. Since 2012, Nepal has made efforts to fulfil its notifications obligations to the WTO, including the notification of category 'A' commitments under the TFA. The most recent notifications (2012-18) on the different legal provisions are shown in Table 2.3. However, there are still outstanding notifications to be notified to the different committees, some of which are listed in Table A2.1. The authorities stated that several notifications are in the final stages of preparation before being submitted to the corresponding bodies of the WTO.

Table 2.3 Selected notifications to the WTO, January 2012 – August 2018

Legal provision	Description of requirement	Frequency	WTO document
Agreement on Agriculture			
Articles 10 and 18.2	Export subsidies (Table ES:1)	Annual	GFYAG/N/NPL/3, 2 October 2012 (for calendar years 2010 and 2011)

[14] Exports of remittance-generating services are valued for their significant contribution to poverty reduction. However, it has also been stated that the sector has created domestic labour shortages, especially shortages of semi-skilled human resources.

[15] OECD QWIDS online database for aid for the following sectors: transport and storage; communications, energy, banking and financial services; business and other services; agriculture; forestry; fishing; industry; mineral resources and mining; trade policies and regulations; and tourism. Viewed at: http://www.oecd.org/dac/stats/idsonline.htm [August 2018].

[16] Statement by the Minister for Commerce at the 11th WTO Ministerial Conference, 12 December 2017. Viewed at https://www.wto.org/english/thewto_e/minist_e/mc11_e/statements_e/npl_e.pdf [September 2018].

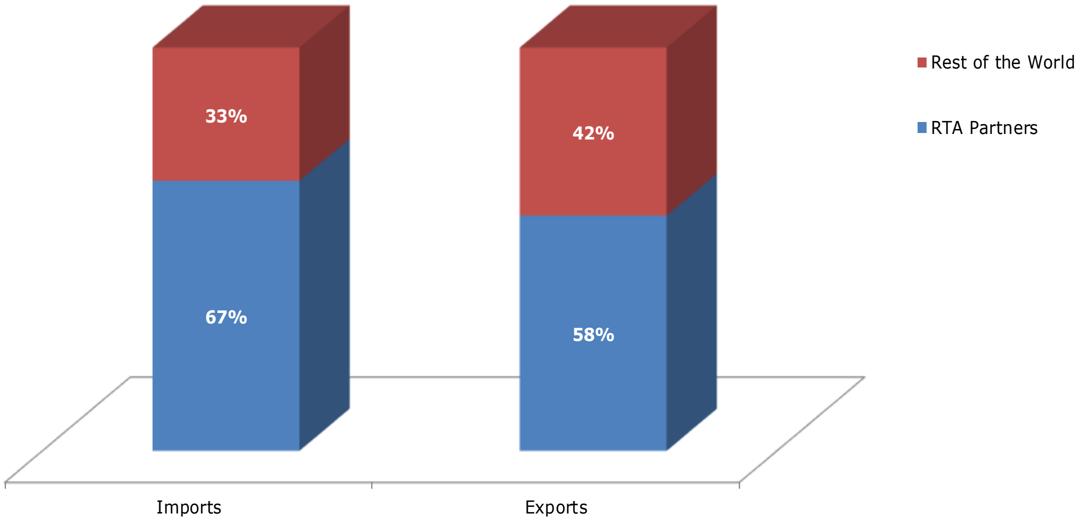
Legal provision	Description of requirement	Frequency	WTO document
Article 18.2	Domestic support commitments (Table DS:1)	Annual	G/AG/N/NPL/4, 3 October 2012 (for calendar years 2010 and 2011)
General Agreement on Trade in Services			
Article III:3	Measures that significantly affect trade in services	Ad hoc	S/C/N/647, 17 September 2012 S/C/N/648, 17 September 2012 S/C/N/649, 17 September 2012 S/C/N/650, 17 September 2012
Article III:4 and/or IV:2	Contact and enquiry points	Once, then changes	S/ENQ/78/Rev.16, 22 April 2016
Agreement on Implementation of Article VI of the GATT 1994 (Anti-Dumping Agreement)			
Article 18.5	New or changes to laws or regulations relevant to the Agreement and the administration of such laws and regulations	Ad hoc	G/ADP/N/1/NPL/1, 8 August 2012
Agreement on Implementation of Article VII of the GATT 1994 (Customs Valuation Agreement)			
Article 22	New or changes to laws or regulations relevant to the Agreement and the administration of such laws and regulations	Ad hoc	G/VAL/N/1/NPL/1, 30 June 2015
Agreement on Trade Facilitation			
Articles 15 and 16	Notification of category A commitments		G/TFA/N/NPL/1, 16 February 2018 WT/PCTF/N/NPL/1, 27 October 2015
Agreement on Rules of Origin			
Article 5 and paragraph 4 of Annex II	Non-preferential and preferential rules of origin		G/RO/N/165, 3 April 2018
Agreement on Import Licensing Procedures			
Article 1.4(a), 5, 7.3 and/or 8.2(b)	Questionnaire	Annual	G/LIC/N/3/NPL/1, 3 October 2012 G/LIC/N/3/NPL/2, 14 April 2015
Agreement on Subsidies and Countervailing Measures			
Articles 25.11 and 25.12	Countervailing duty actions	Ad hoc	G/SCM/N/202/NPL, 8 August 2012
Article 32.6	Laws and regulations	Ad hoc	G/SCM/N/1/NPL/1, 8 August 2012
Agreement on Trade-Related Aspects of Intellectual Property Rights			
Article 69	Laws and regulations	Contact points	IP/N/3/NPL/1 22 January 2015
Agreement on Safeguards			
Article 12.6	Legislation	Ad hoc	G/SG/N/1/NPL/1, 7 August 2012
Agreement on the Application of Sanitary and Phytosanitary Measures			
Article 7 and Annex B, paragraph 5	Proposed and adopted SPS regulations	Ad hoc	Several notifications (series G/SPS/N/NPL)
Agreement on Technical Barriers to Trade			
Articles 2.9 and 15.2	Proposed and adopted technical regulations and conformity assessment procedures	Prior to or, for urgent problems, immediately after the measure is taken	Several notifications (series G/TBT/N/NPL)

Source: WTO Secretariat.

2.3.2 Regional and preferential agreements

2.24. Nepal continues to participate in two overlapping regional agreements: the South Asian Free Tree Area (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC); and in 17 bilateral agreements. Nepal's international trade (in goods) is mainly concentrated with reciprocal RTA parties, which represented 67% of its imports and 58% of its exports (Chart 2.2); practically all this trade is with India, which represented 65% and 57% of Nepal's imports and exports, respectively, in 2017.

Chart 2.2 Nepal's imports and exports amongst RTA partners, 2017



Source: UNSD, Comtrade database.

2.3.2.1 South Asian Free Trade Area (SAFTA) and South Asian Association for Regional Cooperation (SAARC) Agreement on Trade in Services (SATIS)

2.25. The South Asian Association for Regional Cooperation (SAARC) was founded in 1985; Nepal has been an active member since its inception and hosts its Secretariat in Kathmandu. In order to deepen trade cooperation amongst the SAARC memberships,[17] the SAFTA was signed in January 2004 and has been implemented and started tariff liberalization effective from July 2006 (for Nepal).[18]

2.26. As a successor to the South Asian Preferential Trade Arrangement (SAPTA)[19], the SAFTA was revived to reach a higher level of integration of trade in the region, by recognizing the varying levels of development of its members. It provides the basis for trade liberalization programmes for LDCs and non-LDCs separately, in terms of tariff reductions and inclusion of products in the sensitive list. As an LDC, Nepal benefits from special and differential treatment accorded to LDCs under the Arrangement, while offering similar benefits to other LDCs (i.e. Afghanistan, Bangladesh, and Bhutan). Each SAFTA member maintains a list of exceptions (Sensitive List), and Nepal's original list contained 1,295 tariff lines at the HS eight-digit level for non-LDCs, and 1,257 tariff lines for LDCs. At the Sixth Meeting of the SAFTA Ministerial Council (SMC) in 2012, an initiative to reduce the number of products on the sensitive lists by 20% was undertaken; this was implemented by Nepal in 2014 through a Financial Ordinance. As a result, Nepal currently has 1,036 tariff lines for non-LDCs and 998 tariff lines for LDCs on its revised Sensitive List.[20]

2.27. Under the SAFTA, Nepal provides lower duties or a margin of preference on over 2,837 tariff lines for non-LDCs, and an additional 37 lines for LDCs, with a preference margin of 2.2 percentage

[17] The original seven members were Bangladesh, Bhutan, Maldives, Nepal, India, Pakistan, and Sri Lanka. Afghanistan joined the SAARC in 2005, and acceded to SAFTA on 7 August 2011. Viewed at http://saarc-sec.org/ [August 2018].

[18] WTO document WT/COMTD/N/26, 21 April 2008.

[19] The SAPTA was signed in 1993 (Nepal was the first party to ratify it) to promote and sustain mutual trade and economic cooperation among the member states through the exchange of trade concessions. It was agreed that the SAPTA would be a first step to higher levels of trade liberalization and economic cooperation among the members. In 1997, SAARC members reiterated their commitment to the creation of the SAFTA not later than 2005. Four rounds of trade liberalization were completed within the SAPTA, covering over 5,000 tariff subheadings. Each round contributed to increased product coverage and deeper tariff concessions.

[20] SAARC online information. Viewed at: http://saarc-sec.org/areas_of_cooperation/area_detail/economic-trade-and-finance/click-for-details_7 [August 2018].

points *vis-à-vis* the prevailing MFN tariffs in agriculture products (WTO definition) and 2.9 percentage points (3 percentage points for LDCs) in non-agriculture products (Section 3.1.3.4). Despite the fact that Nepal has been engaging actively in negotiations in the SAFTA in order to benefit from the preferential market access in the region, there is not much evidence of any increase in export volumes under the agreement. Neither Nepal nor Bhutan recorded exports under the SAFTA until 2013.[21] One reason for this may be because Nepal's exports are mainly to India, with which it has a separate bilateral agreement.

2.28. In addition, SAARC members have been undertaking initiatives to cooperate in other areas, such as harmonization of customs procedures, standards, double taxation, and trade in services. At the Sixteenth SAARC Summit in 2010, the SATIS was signed; it was subsequently ratified by all members states and entered into force on 29 November 2012. As noted by the Eleventh Meeting of the Expert Group, held in Islamabad on 5 July 2015, Nepal was in a position to provide the final offers list[22], and the authorities stated that Nepal has submitted its final offer to the SAARC Secretariat.

2.3.2.2 Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

2.29. In 2004, Nepal, along with Bhutan, joined the agreement now known as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).[23] Also in 2004, all BIMSTEC members agreed to establish the Framework Agreement on BIMSTEC Free Trade Area. The aim of the Framework Agreement is to stimulate trade and investment among the parties, and to attract trade and investment from outside. A Trade Negotiating Committee (TNC) was set up to negotiate on trade in goods and services, investment, trade facilitation and technical assistance for LDCs in BIMSTEC.[24] After 20 rounds of the TNC, four agreements were reported to be in the final stages of negotiation and three agreements are under negotiation.

2.30. Tariff reductions/elimination are to be implemented under a "fast track" or a "normal track", depending on whether the country granting the preference is a developing country or an LDC, and whether the country getting the preference is a developing country or an LDC (Table 2.4). Due to the impact of the 2015 earthquakes and the adoption of the new Constitution, Nepal was granted an additional year for both the commencement and the completion of the time-frame.

Table 2.4 BIMSTEC, fast and normal tracks for trade liberalization

Countries	India, Sri Lanka, and Thailand	Bangladesh, Bhutan, Myanmar, and Nepal
Fast track:		
India, Sri Lanka, and Thailand	1 July 2016 to 30 June 2019	1 July 2016 to 30 June 2017
Bangladesh, Bhutan, Myanmar, and Nepal	1 July 2016 to 30 June 2021	1 July 2016 to 30 June 2019
Normal track:		
India, Sri Lanka, and Thailand	1 July 2017 to 30 June 2022	1 July 2017 to 30 June 2020
Bangladesh, Bhutan, Myanmar, and Nepal	1 July 2017 to 30 June 2027	1 July 2017 to 30 June 2025

Source: Report of the 20th Meeting of the BIMSTEC TNC.

[21] SAARC Secretariat (2014), *Note by the SAARC Secretariat on Current Status of Economic and Financial Cooperation under the Framework of SAARC (as on September 2014)*. Viewed at http://www.unescap.org/sites/default/files/SAARC%20ROC-TF.pdf [August 2018].

[22] Afghanistan, Bangladesh, Bhutan, India and Nepal were ready with their Final Offer Lists in the Expert Group meeting held in Islamabad on 5 July 2015. Subsequently, Maldives and Sri Lanka also came up with their Final Offer Lists under the SATIS. SAARC online information. Viewed at: http://saarc-sec.org/areas_of_cooperation/area_detail/economic-trade-and-finance/click-for-details_7 [August 2018].

[23] On 6 June 1997, Bangladesh, India, Sri Lanka and Thailand founded a regional grouping named BIST-EC. Myanmar subsequently joined in 1997, and the organization was renamed BIMST-EC. Nepal and Bhutan joined the organization in February 2004, and the organization was renamed BIMSTEC. It is seen to bridge the gap between the South and South East Asian countries, as its members participate in different overlapping agreements (e.g. SAARC, ASEAN and SASEC). BIMSTEC online information. Viewed at: https://bimstec.org/?page_id=189 [August 2018].

[24] BIMSTEC online information. Viewed at: https://bimstec.org/?page_id=205 [August 2018].

2.3.2.3 Bilateral agreements

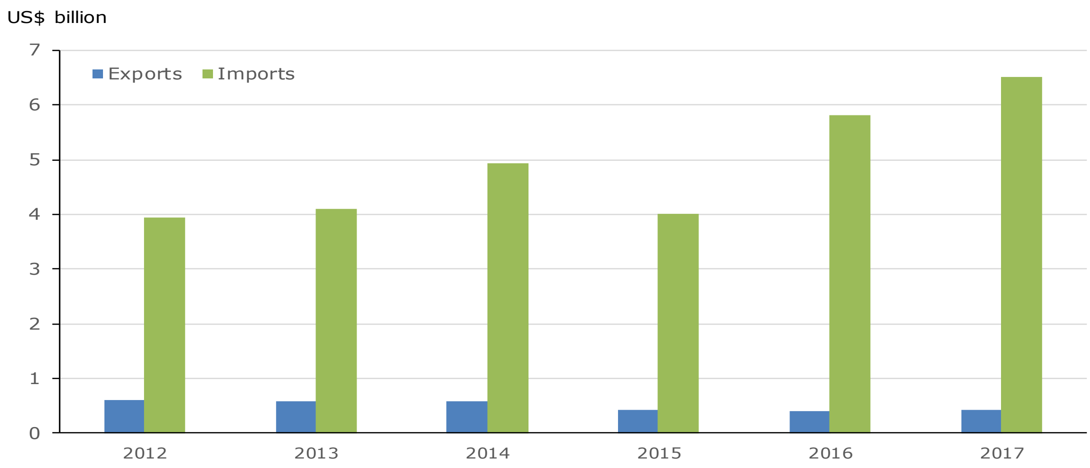
2.31. Since its last Review, Nepal's bilateral trade agreements remain unchanged, at 17: Bangladesh (signed in 1976); Bulgaria (1980); China (1981); Czechoslovakia (1992); Democratic People's Republic of Korea (1970); Egypt (1975); India (1991/2009); Mongolia (1992); Pakistan (1982); Poland (1992); Republic of Korea (1971); Romania (1984); Sri Lanka (1979); United Kingdom (1965); United States (1947); USSR (1970); and Yugoslavia (1965). These agreements cover essentially trade in goods, and provide for MFN treatment. Some of the agreements have been terminated or are no longer in effect.

2.3.2.3.1 Bilateral agreement between India and Nepal

2.32. Nepal and India concluded the bilateral Treaty of Transit, Treaty of Trade, Railways Services Agreement, and Agreement of Cooperation to Control Unauthorized Trade. The Transit Treaty allows Nepal to trade with other countries through the Kolkata/Haldia ports and, since 2016, Vishakapatnam.[25] The revised Treaty of Trade with India, signed in October 2009, replaced its 1991 predecessor. According to Article XII of the Treaty, it is automatically renewed every seven years, unless one of the parties informs the other to the contrary.

2.33. Under the Treaty, Nepal and India accord each other unconditional MFN treatment, and a mutually agreed list of primary products are exempt from customs duties and quantitative restrictions on a reciprocal basis.[26] Industrial products from Nepal are given (non-reciprocal) access to the Indian market, free of customs duties and quantitative restrictions. Exceptions to this duty-free access include vegetable fats, acrylic yarn, zinc oxide, and copper products under HS headings 74 and 8544. For these products originating in Nepal, India applies tariff quotas, with an in-quota rate of 0% (see Table A2.3)

Chart 2.3 Status of trade between Nepal and India



Source: UNSD, Comtrade database.

2.3.2.3.2 Other agreements

2.34. As of August 2018, Nepal is a beneficiary under the GSP schemes of Australia, Canada, the European Union[27], the Eurasian Economic Union, Iceland, Japan, Kazakhstan, New Zealand, Norway,

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[25] The latest extension of seven years until 2020 of the Transit Treaty was done in 2013.

[26] Agriculture, horticulture, floriculture and forest produce; minerals which have not undergone any processing; rice, pulses, flour, atta, bran and husk; timber; jaggery (gur and shakar); livestock, poultry and fish; bees, bees-wax and honey; raw wool, goat hair, bristles and bones as are used in the manufacture of bone-meal; milk, homemade products of milk and eggs; ghani-produced oil and oilcakes; herbs, ayurvedic and herbal medicines, including essential oils and their extracts; articles produced by village artisans which are mainly used in villages; akara; yak tail; stone aggregate, boulder, sand and gravel; and any other primary products which may be mutually agreed upon.

[27] The European Union provides duty-free and quota-free access to Nepalese exports under its Everything But Arms (EBA) initiative.

Switzerland, Turkey, and the United States.[28] All the unilateral preferential markets available for products originating in Nepal are presented in Table A2.2. Nepal does not participate in the Global System of Trade Preferences (GSTP) amongst developing countries.

2.35. The United States provides duty-free treatment for 77[29] products originating in Nepal, in order to promote the expansion of trade and economic development following the social and economic consequences of the April 2015 earthquakes and aftershocks, which affected extensive regions of Nepal. Out of the total number of tariff lines receiving preferences, 56 are "textiles"; 10 are "leather, footwear, etc."; 9 are "clothing"; and the remaining 2 are "other manufacturing products". This unilateral preferential agreement entered into force on 30 December 2016 and will end on 31 December 2025.[30]

2.36. In addition, in March 2016, China and Nepal signed a bilateral Agreement on Transit Transport, which recognizes the need to facilitate transit transport through their territories. The competent authorities of the two countries are to expedite negotiations on the protocol for the implementation of the Agreement.[31]

2.4 Investment Regime

2.37. As set out in the Constitution, the economic objective of the State is to achieve sustainable economic growth through the participation and development of the public sector, cooperatives and the private sector, while ensuring the equitable distribution of profits. To this end, FDI is recognized as one of the most important means. According to the authorities, a number of policy changes have been made, including structural and procedural changes, to attract FDI.

(i) Legal framework and FDI policy objective

2.38. The Foreign Investment and Technology Transfer Act (FITTA), 1992 and the Industrial Enterprises Act, 2016, provide the legal basis for regulating, administering, and facilitating FDI. In addition, several other laws also affect FDI, including: the Foreign Investment Policy, 2014; the Company Act, 2006 (amended in 2017); the Banks and Financial Institutions Act, 2017; the Labour Act, 2017; the Special Economic Zone (SEZ) Authority Act, 2016 (and the SEZ Authority Regulation, 2017); and the Environment Protection Act, 1997 (and the Environment Protection Rules, 1997).[32] To promote investment in national priority projects, FDI is encouraged in the recent enactments and amendments of laws in different sectors, and a draft law on foreign investment has been prepared.[33]

2.39. The FITTA ensures equal treatment for foreign and domestic investors, allowing 100% foreign investment except for a negative list of 21 industries[34]: (i) cottage industries (except industries using electricity of more than 5 KW); (ii) personal services businesses (businesses such as hair cutting, tailoring, driver training, etc.); (iii) arms and ammunition industries; (iv) gunpowder and explosives; (v) industries related to radioactive materials; (vi) real estate businesses (excluding construction industries); (vii) film industries (national languages and other recognized languages of the country); (viii) security printing; (ix) bank notes and coins; (x) retail businesses (excluding international chain retail businesses with a minimum investment of NR 500 million, operating in at least two countries); (xi) bidi (tobacco, excluding more than 90% exportable); (xii) internal courier services; (xiii) atomic energy; (xiv) poultry; (xv) fisheries; (xvi) beekeeping; (xvii) consultancy services such as management, accounting, engineering, legal services (maximum 51% foreign investment is

[28] WTO PTA Database. Viewed at http://ptadb.wto.org/Country.aspx?code=524 [September 2018].
[29] Originally, there were 66 eligible products in the notification of PTAs from the United States. Due to changes in the Harmonized Tariff Schedule of the United States (HS2012 to HS2017), the number of tariff lines increased to 77.
[30] WTO document WT/COMTD/PTA/3/1, 13 November 2017.
[31] Ministry of Foreign Affairs of China (2018), *Joint Statement between the People's Republic of China and Nepal*, Communique, 22 June. Viewed at: https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1570977.shtml [August 2018].
[32] Office of the Investment Board (2018), *Nepal Investment Guide 2018*, Kathmandu. Viewed at: http://ibn.gov.np/uploads/files/repository/Nepal%20Investment%20Guide%202018.pdf [August 2018].
[33] Ministry of Industry, Commerce and Supplies online information. Viewed at: http://www.moi.gov.np/downloadsdetail.php?id=25 [August 2018].
[34] Office of the Investment Board (2018), *Nepal Investment Guide 2018*, Kathmandu. Viewed at: http://ibn.gov.np/uploads/files/repository/Nepal%20Investment%20Guide%202018.pdf [August 2018].

allowed); (xviii) beauty parlours; (xix) processing of food grains on rent; (xx) local catering services; and (xxi) rural tourism.

2.40. The other features of the FITTA include the possibility of technology transfer in all the industrial sectors, a guarantee for the repatriation of foreign currencies, business and residential visas for foreign investors, and provisions for dispute settlement. If a dispute arises between a foreign investor, national investor, and/or the concerned industry, in the first instance, the concerned parties are required to settle the dispute through consultations in the presence of the Department of Industry. If it is not settled through consultations, international arbitration is available, with the prevailing arbitration rules of the United Nations Commission on International Trade Law (UNCITL). The arbitration should be held in Kathmandu, and the laws of Nepal are applicable. According to the Procedural Manual for Foreign Investment in Nepal, 2016: "For industries with fixed assets investment of above NR 500 million, disputes may be settled as mentioned in the foreign investment agreement"[35]; there is a similar provision in the Special Economic Zone Authority Act.

2.41. The Company Act, 2006 (as amended in 2017) aims to simplify and make the process of establishing, managing and administering companies more convenient and transparent. Some of the main provisions in the 2017 amendment include: (i) ensuring the protection of the corporate name/brand; (ii) allowing a maximum of 101 shareholders in a private company; (iii) not requiring the mandatory conversion of private companies into public ones (except for telecommunication services providers); and (iv) allowing the buying and selling of shares/debentures.

2.42. The Industrial Enterprises Act is intended to simplify and clarify the procedures for the entry, operation and exit of industrial enterprises. Some of the salient features of the Act are: tax incentives, concession and benefits of VAT and custom duties; facilities to acquire land; provisions ensuring no nationalization of industries; the basic concept of "no work – no pay" and restrictions on strikes; and the creation of a single window service centre for foreign investments.

2.43. The Banks and Financial Institutions Act allows for the protection and promotion of the rights and interests of depositors, which is believed to be the basis for providing quality and reliable banking and financial intermediary services through healthy competition. The main provisions designed to encourage FDI include: the conversion of promoter shares into public shares after a lock-in period of 10 years; and provisions for the registration of banks and other financial institutions (BFIs) as public companies under the Companies Act, with the approval of the NRB.

2.44. The Labour Act, 2017, aims to provide foreign and domestic investors with clear guidance on the conditions for labour. It also outlines the procedures for hiring and providing wages and other benefits to labour, including provisions for employing foreigners. In acceding to the WTO, Nepal made a commitment to allow 15% of technical and managerial posts to be filled by expatriate staff by an entity with foreign investment.

2.45. The Special Economic Zone (SEZ) Authority Act provides several incentives for investors establishing industries in an SEZ, for which a licence is required with the maximum validity period of 30 years with the possibility of extension for another 10 years. Some of the incentives granted to the industries established in SEZs include: full tax exemption for the first five years; income tax rebates; dividend tax exemption; VAT facility; custom duty exemptions (conditions apply). The Act also provides that a foreign investor investing in an SEZ using foreign currency is entitled to repatriate the amount received from the sale of partial or full shares, dividends, and the principal and interest on foreign loans in a foreign currency (Sections 3.3.1 and 4.3).

2.46. Nepal is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, and has ratified the International Convention on the Settlement of Investment Disputes.

2.47. Nepal has not signed any new bilateral and investment protection agreements (BIPAs) since 2011 with India. The other BIPAs are with Finland, Germany, Mauritius, the United Kingdom, and France. It has also signed double taxation avoidance agreements, most recently with India in 2011. The others are with Austria; China; Korea, Republic of; Mauritius; Norway; Pakistan; Qatar; Sri

[35] Department of Industry (2016), *Procedural Manual for Foreign Investment in Nepal*, June. Viewed at: http://doind.gov.np/images/fdi/PManual-016.pdf [August 2018].

Lanka; and Thailand. It has a Trade and Investment Framework Agreement with the United States since 2011.

(ii) Approving agencies and the procedure for foreign investment

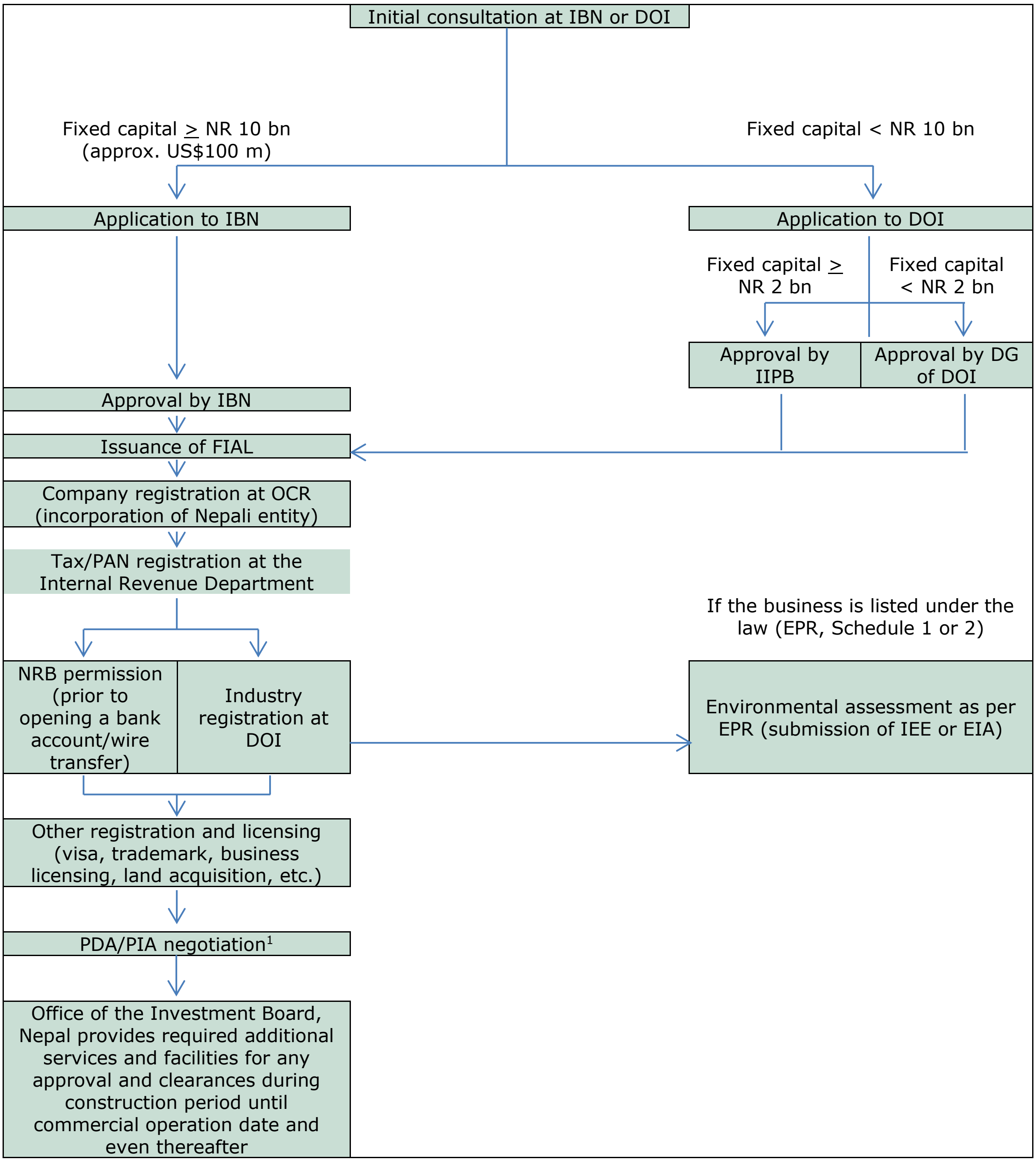
2.48. The Department of Industry (DOI) under the Ministry of Industry, Commerce and Supplies is the principle entity for the administration and implementation of foreign investment and the technology transfer regime in Nepal. In addition, the Investment Board Nepal (IBN) and the Industrial and Investment Promotion Board (IIPB) are also involved in the process of identification and approval of foreign investments. The IBN is chaired by the Prime Minister, while the IIPB is chaired by the Minister of Industry, Commerce and Supplies.

2.49. All applications for a Foreign Investment Approval Letter (FIAL) are processed either by the IBN or the DOI on the basis of fixed capital (Chart 2.4). For applications made through the DOI, a maximum of NR 20,000 (refundable) must be deposited. For applications through the IBN, a performance bond of 0.1% of the estimated total project cost is required prior to signing the project development agreement (PDA) or the project investment agreement (PIA). The decision on an application for a FIAL to the IBN must be made within 30 days from the date of filing, although the deadline may be extended if the Board has reasonable cause. According to the Procedural Manual for Foreign Investment in Nepal, decisions concerning industrial licences, registrations, and duty drawbacks are to be made within 30, 21 and 60 days from the date of application, respectively.

2.50. If the FIAL is granted, the investor must apply for the registration of the company with the Office of the Company Register (OCR). Non-refundable company registration fees are applicable, ranging from NR 9,500 to NR 16,500, and the company is registered within seven days from the filing of the application.[36]

[36] If the company is not registered within the prescribed time limit, the OCR shall inform the proposed company within three days, along with reasons for the rejection.

Chart 2.4 Approving agencies and procedure for starting a business



1 Project under IBN only.

Source: Nepal Investment Guide 2018.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Measures Directly Affecting Imports

3.1.1 Customs procedures, valuation, and requirements

Customs procedures

3.1. The main laws and regulations governing imports and exports have not changed since the previous Review. The Customs Act of 2007 and the Customs Regulation of 2007 are the legal foundation regulating imports/exports, and they are administered by the Department of Customs (DOC) which is under the Ministry of Finance. All companies registered with the Office of the Company Registrar, including foreign ones, may import and export goods to and from Nepal. Individuals may import, provided they register as sole proprietor undertakings. Importers above a threshold of NR 50,000 and exporters above NR 500,000 in the value of trade are now required to obtain an Exim code from the DOC. Importing companies registered in Nepal with personal tax numbers that provide a bank guarantee of NR 300,000 (no guarantee is required for exporters) may get an Exim code based on the procedures set out in the Exim Code Procedure of 2017 which was developed based on the Customs Act.[1]

3.2. As per the law, every physical or legal person importing goods must submit an import customs declaration form to the Customs Office, along with the documents in Table 3.1. A customs agent may be appointed by an importer/exporter who may then submit the custom declaration on behalf of the importer/exporter. The Customs Regulation specifies the qualification requirements to become a customs agent. Customs agents must be Nepali citizens who must obtain a licence from the DOC. A licence is valid for one year and is renewable.

Table 3.1 Documents required for imports

Imports	Documents required for imports
Imports from India	Invoice; packing list; documents required as per the prevailing law regarding a recommendation, licence, or certificate from any institution
Import in-bond[a]	Also required: Nepal invoice (in-bond form), foreign exchange control form (*bi.bi.ni. form 4*), and banking document regarding payment procedures
Import under "duty refundable procedure"[b]	Also required: Nepal invoice
Imports from other countries	Banking document regarding payment procedure; packing list; bill of lading or airway bill; country of origin; foreign exchange control form; documents required as per the prevailing law regarding a recommendation, licence, or certificate from any institution
Transit through India	Customs Transit Document (CTD)[2] form
Transit through Bangladesh	Transit Declaration Invoice (TDI)[3]

a In-bond means import from India with foreign exchange, as specified in the procedure issued by the Nepal Rastra Bank (NRB).
b "Duty refundable procedure" means the deduction of excise duty paid in India from the chargeable customs duty on the import of goods from India, as per the provision in the trade agreement between Nepal and India.

Source: Customs Regulation 2007.

[1] The Exim Code Procedure is available from the DOC at: https://www.customs.gov.np/en/eximcodeprocedure.html (Nepali) [August 2018].
[2] As per the Bilateral Transit Agreement between Nepal and India, a CTD form is to be filled in by the Nepalese importer or exporter for the goods to be imported from or exported to third countries via land through India so that the goods are not deflected in India. For exports from Nepal, this form is issued by the concerned customs office of Nepal, and for imports, it is issued at the Kolkata, Haldia, or Fulbari ports of India.
[3] The Nepalese exporters/importers have to complete all the documentation formalities set by the transit agreements of both India and Bangladesh. The CTD in India and the TDI in Bangladesh are processed separately. The cargo should cross through Panitanki (India) and Phulbari (India) Customs before entering Bangladesh.

3.3. Since 2016, Nepal has been using the single administrative document (SAD) for customs clearance through the Nepal Customs Automation System (NECAS) (para 3.11). The System includes risk-based modules for the selection of consignments for inspection. The customs broker/declarant inputs the information from the SAD directly into the NECAS, which then verifies the information and registers the SAD. The registered SAD needs to be signed and submitted to a customs officer along with all the necessary documents (Table 3.1). After verifying the SAD and the attached documents, the customs officer assesses it using the System and associated risk management criteria, which, in turn, assigns the consignment to a processing lane (green, yellow, and red) for the declaration (although a blue lane for post clearance audit is provided for in the Law, it is not used in practice):

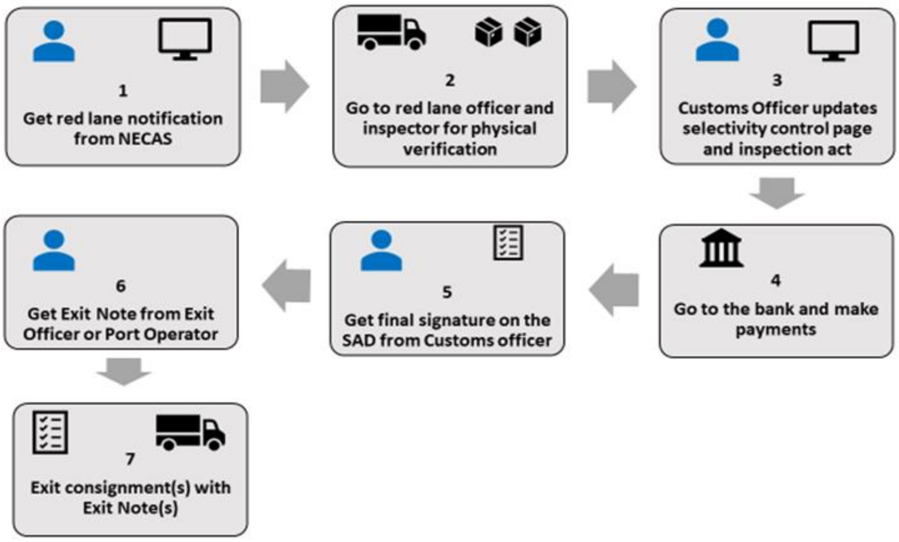
- the red lane indicates that the SAD must be checked against documents, and the shipment is subject to physical inspection before the SAD is signed by the Customs Officer;

- the yellow lane signifies that the SAD must be checked against documents before being sent to the green lane and assessed by Customs; and

- under the green lane, the SAD is automatically assessed and a clearance document is issued.

3.4. A customs officer may clear goods only upon collecting the applicable duties and taxes and, for red lane consignments, after the inspection of documents and physical verification (Chart 3.1). About 40% of consignments pass through the green lane, representing about 75% of revenue from goods cleared by the DOC.

Chart 3.1 Red lane import clearance process



Source: DOC.

3.5. As reported in 2012, most consignments are cleared within two hours but, depending on the nature of the goods (e.g. food, plants, plant products, animals, and animal products), a longer clearance time may be needed, as these goods require more declaration information and/or inspection.[4]

[4] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III(1)(i)(a).

3.6. According to the World Bank's Ease of Doing Business, Nepal is more efficient in terms of hours and money spent for import procedures compared to the regional averages for South Asia (Table 3.2).

Table 3.2 Time and cost for imports, 2018

		Nepal	South Asia
Time to import (hours)	Border compliance	61	113.8
	Documentary compliance	48	104.7
Cost to import (US$)	Border compliance	190	638.0
	Documentary compliance	80	341.6

Source: World Bank Group (2018), *Doing Business 2018: Reforming to Create Jobs – Economy Profile - Nepal*. Viewed at: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Profiles/Country/NPL.pdf [August 2018].

Trade facilitation

3.7. Nepal ratified the WTO Agreement on Trade Facilitation, and deposited its instrument of acceptance on 24 January 2017. It also acceded to the Revised Kyoto Convention (RKC) and ratified it on 3 February 2017, becoming the 107th Contracting Party to do so.[5]

3.8. With a view to enhancing trade facilitation, Nepal has made progress in improving and simplifying the custom procedures and harmonizing them with international standards. Efforts have been made through Customs Reform and Modernization Strategies and Action Plans (CRMSAPs), which were first launched in 2003. Nepal has finished the implementation of the fourth CRMSAP (2013-2017), and started implementing the fifth in July 2017. The objective of the Plan is to create a conducive environment for economic prosperity by building a responsive customs administration which is to be recognized as a modern administration that fulfils the needs of 21st century customers.[6] According to the Asian Development Bank, the implementation of successive phases of the CRMSAP "have provided strategic directions to the Government's effort to meet the requirements of the WTO TFA and the RKC, and other international standards on trade facilitation".[7]

3.9. The guiding principles of the CRMSAP 2017-2021 are: "(i) reducing compliance costs and time, (ii) helping fair operation of the market, (iii) helping export promotion, (iv) enhancing risk management based approach, (v) establishing a conducive environment for investment, (vi) right taxation for sound fiscal framework, and (vii) coordination."[8]

3.10. In addition, Nepal is a party to the South Asia Subregional Economic Cooperation (SASEC)[9] programme for customs reform and modernization for trade facilitation programmes (2017-21) which, according to the authorities, is based on the TFA.

3.11. Implementation has also started on the E-customs Master Plan, which is intended to initiate a paperless system of customs clearance. This initiative is to be implemented using ASYCUDA World as the core system and to include other subsystems. The web-based ASYCUDA World system (NECAS

[5] World Custom Organization online information. Viewed at http://www.wcoomd.org/en/media/newsroom/2017/february/nepal-accedes-to-the-revised-kyoto-convention-and-becomes-the-107th-contracting-party.aspx [August 2018].

[6] DOC (2017), *Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2017-2021*, Kathmandu, 26 January. Viewed at: https://www.customs.gov.np/en/customsreformsandmodernizationstrategiesandactionplan(crmsap)2017-2021.html [August 2018].

[7] ADB (2017), *Nepal's compliance with the World Trade Organization's Trade Facilitation Agreement*. Viewed at: https://www.adb.org/sites/default/files/linked-documents/50254-001-ld-sd-06.pdf [August 2018].

[8] DOC (2017), *Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2017-2021*, Kathmandu, 26 January, pg. vi. Viewed at: https://www.customs.gov.np/en/customsreformsandmodernizationstrategiesandactionplan(crmsap)2017-2021.html [August 2018].

[9] The SASEC programme "brings together Bangladesh, Bhutan, India, Maldives, Myanmar, Nepal, and Sri Lanka in a project-based partnership that aims to promote regional prosperity, improve economic opportunities, and build a better quality of life for the people of the sub-region". Viewed at: (https://www.sasec.asia/index.php?page=what-is-sasec) [August 2018].

in Nepal (paragraph 3.3)) has been implemented in 12 customs offices which cover 95% of the total trade of Nepal.

3.12. Other measures being taken by the authorities relating to improving customs procedures include: the development of the Nepal National Single Window (NNSW), which should be implemented by 2019; the establishment of client service centres in the DOC, with client service desks in six customs offices; and the establishment of a trade facilitation committee by the DOC and customs offices.

3.13. Nepal has notified its category A, B, and C commitments under the TFA to the WTO. According to these, two measures are under Category A as implemented, eight measures under Category B are to be implemented by December 2020 without capacity-building support, and 26 measures under Category C are to be implemented upon receipt of capacity-building support.[10]

Customs valuation

3.14. The legal basis for customs valuation is the Customs Act, the Customs Regulation, the Customs Valuation Directive, and the annual fiscal acts. The Customs Act, Article 13, states that: "the rules on customs valuation, annexes and interpretative notes set forth in the Agreement on the Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 shall be pursued in determining the customs value of imported goods".[11, 12]

3.15. Under Article 13 of the Customs Act, the customs value of imported goods is determined in accordance with the following rules, in order of priority:

a. transaction value including freight, insurance, and other related expenses;

b. transaction value of identical goods already imported into Nepal;

c. transaction value of similar goods already imported into Nepal;

d. deducted value method[13];

e. computed value method[14] (the importer may request that the deducted value and computed value methods be used in reverse sequence); and

f. reasonable basis method.

3.16. If the transaction value declared by an importer is less than the value determined by the customs officer, the customs officer may: (i) clear the goods by collecting 50% additional customs duty on the difference in value; or (ii) purchase the goods by paying an amount equalling the declared transaction value, plus 5% (since May 2018, this option no longer requires the prior approval of the Director of the Department of Customs).

3.17. If currency conversion is required, the conversion of foreign currency into Nepali rupees must be made according to the exchange rate determined by the NRB for the day in which the declaration form is registered or received in the Customs Office. This currency conversion is made through the computerized customs system.

3.18. In cases where an importer is not satisfied with the value determined by Customs, s/he has the right, under the Customs Act (Article 61), to file an application to the Valuation Review Committee no later than 30 days after the decision or order. The Committee is required to provide clear justifications for a decision to approve or void a valuation. The final decision of the Committee should be taken within 90 days from the date of registration of the application, and such decision

[10] WTO documents: G/TFA/N/NPL/1, 16 February 2018; and WT/PCTF/N/NPL/1, 27 October 2015. WTO online information from the TFA Database. Viewed at: https://www.tfadatabase.org/members/nepal/measure-breakdown [August 2018].

[11] The Customs Act, the Customs Regulation, and other legislation are available from the DOC. Viewed at: https://www.customs.gov.np/en/legislation.html [August 2018].

[12] WTO document G/VAL/N/1/NPL/1, 30 June 2015.

[13] Deducting tax, duty, and other costs incurred in Nepal on the selling price of each unit of the goods.

[14] Calculating the costs incurred in the production or manufacture of such goods and profits made or likely to be made by the seller while selling such goods to the importer.

should be communicated to the applicant within 7 days. Data were not available on the number of appeals, or the results of such appeals.

Pre-shipment inspection

3.19. As notified to the WTO, Nepal has no laws or regulations on pre-shipment inspection.[15]

3.1.2 Rules of origin

3.20. Nepal has notified to the WTO that it does not employ non-preferential rules of origin, and applies preferential rules of origin under the SAFTA and the Nepal-India bilateral trade treaty.[16]

3.21. SAFTA Rules of Origin are contained in Annex IV of the Agreement[17]. According to Rule 5 of the Annex, products wholly produced or obtained in the exporting country are considered to have originated in that country.[18] Besides the wholly-produced criteria, the Rules also contain Single Contracting State Content criteria, including: the final product is classified in a HS heading at the four-digit level different from those in which all the non-originating materials used in its manufacture are classified; the foreign content of the product does not exceed 60% (50% for a least-developed Contracting State and 55% for Sri Lanka) of the f.o.b. value of the final product; and the final process of manufacturing is performed within the territory of the exporting Contracting State.

3.22. Regional cumulation is allowed, based on the following requirements:

- the aggregate content (value of such inputs plus domestic value addition in further manufacture) is not less than 50% of the f.o.b. value;
- the domestic value content (value of inputs originating in the exporting Contracting State plus domestic value addition in further manufacture in the exporting Contracting State) is not less than 20% of the f.o.b. value; and
- the final product results in a change in the HS classification at four- or six-digit level, depending on the product-specific rules.

3.23. The rules of origin for preferential access for exports from Nepal to India under the Nepal-India Trade Treaty have changed over time: the value addition requirement was 90% in the 1960 Treaty; this was reduced to 50% and then to 40% of the ex-factory price in 1996; and it has been 30% since 2002, when the provision for changes in the four-digit HS heading was also introduced.[19] For imports from India, duty-free access is for primary products – which are, therefore, wholly obtained in India.

3.24. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Agreement has no provisions regarding preferential rules of origin. However, a draft proposal of the

[15] WTO documents: G/VAL/N/1/NPL/1, 30 June 2015; and WT/PCTF/N/NPL/1, 27 October 2015.
[16] WTO document G/RO/N/165, 3 April 2018.
[17] Government of Sri Lanka online information. Viewed at: http://www.doc.gov.lk/images/pdf/our_services/safta/safta_roo.pdf [August 2018].
[18] Products considered to be wholly produced in or obtained from the contracting states are: "(a) raw or mineral products extracted from its soil, its water extending up to its Exclusive Economic Zone (EEZ), or its sea bed extending up to its seabed or continental shelf; (b) agriculture, vegetable and forestry products harvested there; (c) animals born and raised; (d) products obtained from animals referred to in clause (c); (e) products obtained by hunting or fishing conducted; (f) products of sea fishing and other marine products from the high seas by its vessels; (g) products processed and/or made on board its factory ships exclusively from products referred to in (f); (h) raw materials recovered from used articles collected there; (i) waste and scrap resulting from manufacturing operations conducted there; (j) products taken from the seabed, ocean floor or subsoil thereof beyond the limits of national jurisdiction, provided it has the exclusive rights to exploit that sea bed, ocean floor or subsoil thereof; and (k) goods produced there exclusively from the products referred to in clauses (a) to (j) above."
[19] Raihan, S. (2008), *Rules of Origin and Sensitive List under SAFTA and Bilateral FTAs Amongst South Asian Countries: Quantitative Assessments of Potential Implications for Nepal*, paper prepared for the Nepal Residence Mission of the Asian Development Bank. Viewed at: https://mpra.ub.uni-muenchen.de/37893/1/MPRA_paper_37893.pdf [August 2018].

BIMSTEC Rules of Origin was submitted during the Burma Round of talks in April 2006.[20] Nepal and other parties are negotiating preferential rules of origin under this Agreement, and the 20th meeting of the Trade Negotiating Committee (TNC) of BIMSTEC, on 7 September 2015, continued discussions concurrently with a TNC working group.

3.1.3 Tariffs

3.1.3.1 Structure

3.25. In FY 2018-19, the applied MFN tariff is similar to the applied rate at the time of the last Review, apart from the introduction of a new tariff band of 1%. Therefore, there are now eight bands: duty-free; 1%; 5%; 10%; 15%; 20%; 30%; and 80%. In addition, specific duties are applied to 51 tariff lines (compared with 38 tariff lines in 2011-12). The 2018-19 tariff has 5,572 tariff lines at the eight-digit level based on the HS2017 nomenclature, an increase from 5,168 lines in 2011-12, which was based on the HS2007 nomenclature (Table 3.3). The change in the number of lines was mainly attributed to the change in HS nomenclature.

Table 3.3 Tariff structure, FY 2011-12 and FY 2018-19

(% unless otherwise indicated)

	MFN applied			Final bound[a]
	FY 2011-12 excl. AVEs	FY 2018-19 excl. AVEs	FY 2018-19 incl. AVEs	
Simple average rate (%)	12.2	12.0	12.4	26.6
HS 01-24	12.5	12.5	14.5	39.6
HS 25-97	12.1	11.9	11.9	23.8
WTO agricultural products	12.4	12.6	15.0	42.9
WTO non-agricultural products	12.1	11.9	11.9	23.9
Duty-free tariff lines (% of all tariff lines)	2.6	3.6	3.6	2.3
Simple average of dutiable lines only	12.5	12.4	12.8	27.2
Tariff quotas (% of all tariff lines)	0.0	0.0	0.0	0.0
Non-*ad valorem* tariffs (% of all tariff lines)	0.7	0.9	0.9	0.0
Domestic tariff "peaks" (% of all tariff lines)[b]	0.6	0.7	1.0	0.8
International tariff "peaks" (% of all tariff lines)[c]	14.6	14.5	15.0	87.3
Nuisance applied rates (% of all tariff lines)[d]	0.0	1.9	1.9	0.00
Standard deviation of rates	8.6	8.9	11.5	14.1
Total number of tariff lines	5,168	5,572		5,572
Ad valorem rates	5,130	5,520		5,518
Duty-free rates	135	201		127
Specific rates	38	51		n.a.
Other/unbound rates[e]	0	1		54

n.a. Not applicable, there are no specific rates in Nepal's Schedule CLVII.

a Based on the 2018-19 tariff schedule in the HS17 nomenclature.
b Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.
c International tariff peaks are defined as those exceeding 15%.
d Nuisance rates are those greater than zero, but less than or equal to 2%.
e In 2018-19, for one tariff line (worn clothing and other worn articles, HS code 6309.00.00), the applied tariff rate is equal to the rate of duty as for the corresponding new article. Final bound calculations exclude 54 unbound tariff lines.

Note: The 2011-12 tariff is based on HS2007, and the 2017-18 tariff is based on the HS2017 nomenclature.

Source: WTO Secretariat calculations, based on data provided by the authorities.

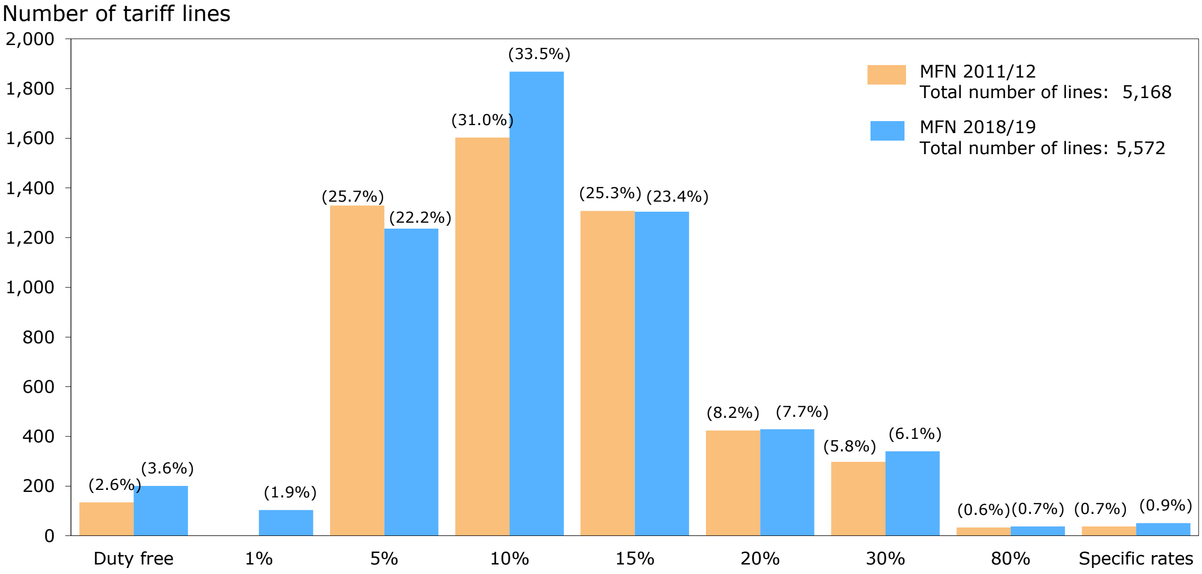
[20] Raihan, S. (2008), *Rules of Origin and Sensitive List under SAFTA and Bilateral FTAs Amongst South Asian Countries: Quantitative Assessments of Potential Implications for Nepal*, paper prepared for the Nepal Residence Mission of the Asian Development Bank. Viewed at: https://mpra.ub.uni-muenchen.de/37893/1/MPRA_paper_37893.pdf [August 2018].

3.1.3.2 Applied tariff

3.26. The simple average applied MFN tariff (excluding *ad valorem* equivalents (AVEs) for specific duties) decreased slightly from 12.2% in 2011-12 to 12% in 2018-19, mainly due to the changes in nomenclature (Table 3.3). If AVEs for specific duties are included, the simple average applied MFN tariff in 2018-19 is 12.4%.[21]

3.27. Nearly 85% of applied tariffs range from zero to 15%, while the modal (or most common) rate is 10%, and 3.6% of tariff lines are duty free, which is a slight increase since its last Review (Chart 3.2).

Chart 3.2 Frequency distribution of MFN tariff rates, FY 2018-19



Note: The 2011-12 tariff was based on the HS2007 nomenclature; the 2018-19 tariff is based on HS2017. Figures in brackets refer to the percentage of total lines. Not including AVEs.

Source: WTO Secretariat calculations, based on online data provided by the authorities.

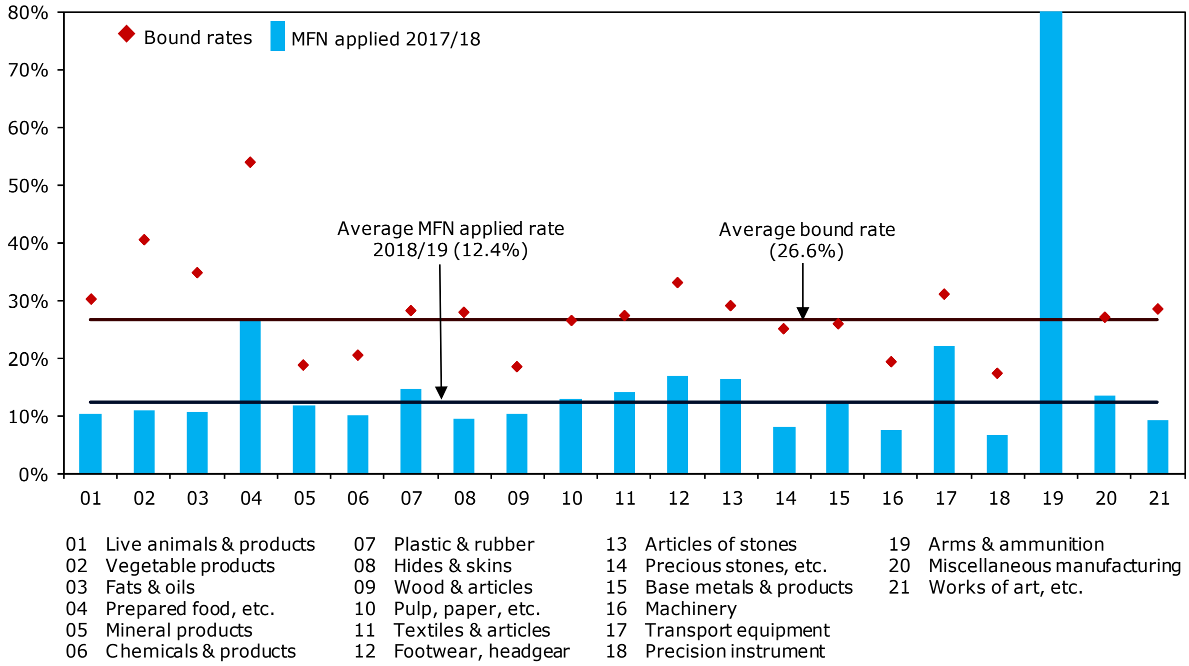
3.28. During the review period, the average applied MFN tariff on agricultural tariff lines (WTO definition) increased slightly, from 12.4% in FY 2011-12 to 12.6% in FY 2018-19. Including AVEs, the average applied tariff on agricultural tariff lines is 15%. The average for non-agricultural tariff lines fell from 12.1% to 11.9% (Table 3.3).

3.29. In FY 2018-19, 1.5% of agricultural products and 4% of non-agricultural tariff lines are duty free (Table A3.1). The highest *ad valorem* rate of 80% applies to, *inter alia*, two tariff lines related to tobacco, along with some motor vehicles, and arms and ammunition products. Specific duties are applied to some alcohol, tobacco, cement, and petroleum tariff lines, amongst others. In general, tariff protection is particularly high for arms and ammunition and, to a much lesser extent, prepared foods and transport equipment (Chart 3.3)

3.30. The dispersion of the rates in Nepal's applied MFN tariff in FY 2018-19 remains largely the same as at the last Review. The standard deviation is 8.9 percentage points for FY 2018-19, nearly the same as in FY 2011-12 (8.6 percentage points), since there is no significant change in the proportion of tariff lines having domestic and international peaks in rates (Table 3.3 and Chart 3.3).

[21] Of 51 tariff lines subject to specific duties, 37 were included in the AVE calculation, and 14 were excluded due to lack of data. AVEs were calculated based on the import unit value, on the basis of the 2016-17 import value and the quantity sourced from Nepal Foreign Trade Statistics, Ministry of Finance.

Chart 3.3 Average applied MFN and bound tariff rates, by HS section, FY 2018-19

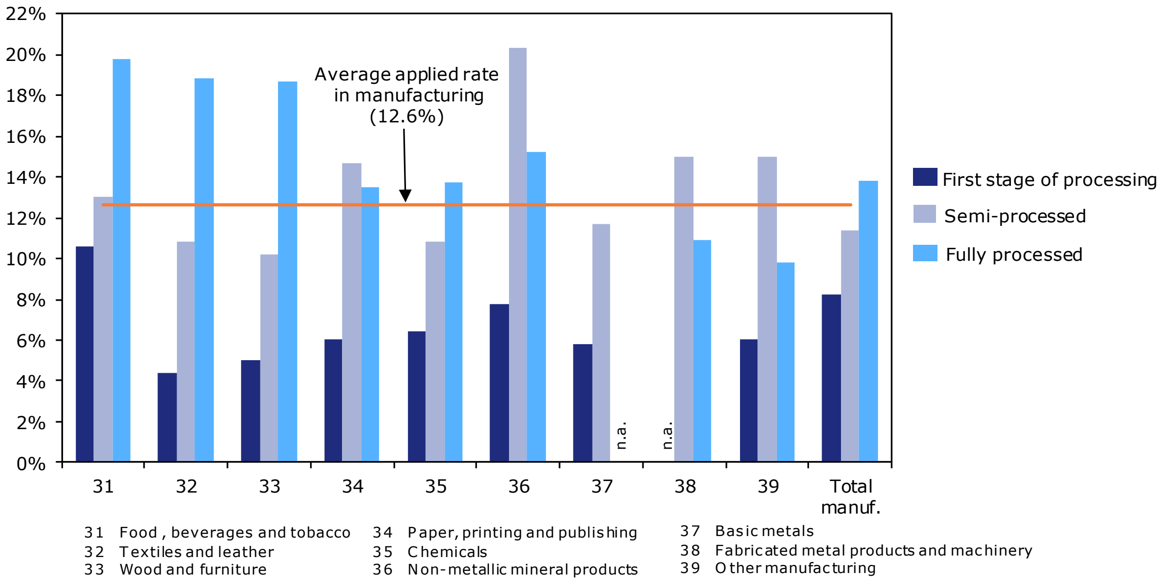


Note: Calculations include AVEs for specific rates. HS sections 05, 11, and 17 are not fully bound. HS section 19 is fully unbound.

Source: WTO Secretariat calculations, based on data provided by the authorities.

3.31. Overall, tariffs show positive escalation, with an average tariff of 9.3% on raw materials (first stage of processing), 11.4% on intermediate goods, and 13.8% on finished goods (Table A3.1). However, some sectors (paper, printing and publishing, non-metallic minerals, base metals and fabricated metals, and machinery products) show mixed escalation (Chart 3.4).

Chart 3.4 Tariff escalations by 2-digit ISIC industry, FY 2018-19



n.a. Not applicable.

Source: WTO Secretariat calculations, based on data provided by the authorities.

3.1.3.3 Tariff bindings

3.32. In acceding to the WTO, Nepal bound all but 54 tariff lines at the HS eight-digit level. The 54 unbound tariff lines[22] are mainly for petroleum products, worn clothing, arms and ammunition, cement, and some parts and components of automobiles including golf cars. All bound rates are *ad valorem,* ranging from zero to 200%. The overall average bound tariff is 26.6%. The average bound tariff for agricultural products (WTO definition) is 42.9%, while the average bound rate for non-agricultural products is 23.9%.

3.33. Overall, applied tariffs are significantly lower than bound tariffs, with a 14.6 percentage point difference between the average MFN applied rate and the average bound rate. Although applied tariffs are lower than bound tariffs for all sectors, the difference varies from one sector to another: for vegetable products, the average applied MFN tariff is 29.6 percentage points lower; while for mineral products, it is 7.1 percentage points lower (Chart 3.3).

3.34. While nearly all applied tariffs are lower than bound tariffs, in FY 2018-19, for 38 tariff lines, the applied rate exceeds the bound rates. In addition, for 8 tariff lines, the applied rates exceed the rates which were bound for a more general group of products which were subsequently divided into more lines. Plus, 12 tariff lines are subject to applied specific duties which could exceed the bound *ad valorem* rates (Table 3.4). The products affected are mainly chemical products, and some machinery including motor vehicles. According to the authorities, tariffs in excess of bindings were the unintended result of regular revisions of tariff rates which may not always have taken changes in nomenclature into account, while AVEs for specific duties depend on unit values of imports, which may change.

Table 3.4 Tariff lines where MFN applied exceeds bound rate, 2018-19

HS codes		MFN applied	Bound
Fully breaching (38 tariff lines)			
38247400	Mixtures containing halogenated derivatives of methane, ethane or propane	10%	5%
38247500		10%	5%
38247600		10%	5%
38247800		10%	5%
38248100	Chemical products	10%	5%
38248200	Chemical products	10%	5%
38248300	Chemical products	10%	5%
38260000	Biodiesel	30%	20% or 5%[a]
39169000	Monofilaments of plastic	30%	25%
39261000	Office or school supplies of plastic	30%	25%
39269030	Laboratory equipment of plastic	30%	25%
69049000	Ceramic tiles	30%	25%
73089000	Structures of iron and steel	20%	15%
84137019	Centrifugal pumps	15%	10%
84137090	Centrifugal pumps	15%	10%
84564000	Machines operated by plasma arc processes	5%	0%
84565000	Water-jet cutting machines	5%	0%
84569000	Other laser machines	5%	0%
85075000	Electric accumulators	20%	15%
85076000	Electric accumulators	20%	15%
85086000	Vacuum cleaners	15%	0%
87021040	Motor vehicles	80%	60%
87022040	Motor vehicles	80%	60%
87023040	Motor vehicles	80%	60%
87029040	Motor vehicles	80%	60%
87031010	Motor vehicles	30%	20%
87032190	Motor vehicles	80%	40%
87032200	Motor vehicles	80%	40%
87032300	Motor vehicles	80%	40%
87032400	Motor vehicles	80%	60%
87033100	Motor vehicles	80%	60%

[22] Five tariff lines: Cement (HS heading 2523); 20 tariff lines: Petroleum oils other than crude (HS heading 2710); 1 tariff line: Worn clothing and other worn articles (HS heading 6309); 1 tariff line: Golf cars and similar vehicles (HS code 87031090); 9 tariff lines: Chassis fitted with engines for motor vehicles (HS heading 8706); and 18 tariff lines: Arms and ammunition (HS Chapter 93).

HS codes		MFN applied	Bound
87033200	Motor vehicles	80%	40%
87033300	Motor vehicles	80%	40%
87034000	Motor vehicles	80%	40%, 60%
87035000	Motor vehicles	80%	40%, 60%
87036000	Motor vehicles	80%	40%, 60%
87037000	Motor vehicles	80%	40%, 60%
87039000	Motor vehicles	80%	60%
Breaching parts of the national tariff line level (8 tariff lines)			
38247190	Mixtures containing halogenated derivatives of methane, ethane or propane	10%	5%
38247290		10%	5%
38247390		10%	5%
38247790		10%	5%
38247990		10%	5%
85081990	Vacuum cleaners	15%	0%
85087010	Parts of vacuum cleaners	15%	10%
85489010	Electric parts of machines, n.e.s.	15%	0%
Comparing specific MFN with *ad valorem* bound (12 tariff lines)			
08028000	Areca nuts	NR 45/kg (AVE=34.9%)	30%
08029000	Other nuts	NR 45/kg (AVE=33.3%)	30%
22083090	Whiskies	NR 1,600/litre (AVE=100.4%)	100%
22084090	Rum	NR 1,600/litre (AVE=189.9%)	100%
22085010	Gin and Geneva	NR 900/litre (AVE=167.5%)	100%
22085090	Gin and Geneva	NR 1,600/litre (AVE=166.8%)	100%
22086090	Vodka	NR 1,600/litre (AVE=207%)	100%
22087090	Other alcoholic beverages	NR 1,600/litre (AVE=127.6%)	100%
22089090	Other alcoholic beverages	NR 1,600/litre (AVE=151%)	100%
24022000	Cigars, cigarettes, containing tobacco	NR 4,500/'000 sticks (AVE=356.5%)	200%
26211000	Ash from the incineration of municipal waste	NR 1,000/MT (AVE=28.6%)	15%
26219000	Other slag and ash	NR 1,000/MT (AVE=33.3%)	15%

a Due to a change in nomenclature, it is not clear whether the current bound rate is at 5% or 20%. However, the applied MFN tariff is higher than either.

Source: WTO, based on data received by the authorities.

3.1.3.4 Tariff preferences

3.35. Under SAFTA, Nepal applies preferential rates to other SAARC parties for 2,837 tariff lines, plus an additional 37 tariff lines for other LDC parties (Section 2.3.2.1). In FY 2018-19, the simple average applied tariff rate for SAARC members is 9.5%; for agricultural products (WTO definition), the average preference margin is 2.2 percentage points compared to the applied MFN tariffs, and, for non-agricultural products, the preference margin is 2.9 percentage points (3 percentage points for LDCs) (Table 3.5).

3.36. In addition, under the Nepal-India Trade Treaty, Nepal and India agreed, on a reciprocal basis, to exempt imports of primary products from customs tariffs and quantitative restrictions (Section 2.3.2). Furthermore, goods produced in and imported from India into Nepal using a letter of credit (L/C) are granted a tariff rebate of 5% for tariff rates of up to 30%, and 3% for tariff rates above 30%. These rebates do not apply to goods subject to specific duties.

Table 3.5 Summary analysis of the preferential tariff under SAFTA, 2018-19

	MFN applied		SAFTA[a]	
	Average (%)	Range (%)	Average (%)	Range (%)
Total	12.4	0-356.5	9.5	0-356.5
WTO agricultural products	15.0	0-356.5	12.8	0-356.5
Animals and products thereof	10.5	10-15	7.0	6-10
Dairy products	19.8	10-30	19.1	9-30
Fruit, vegetables, and plants	11.5	5-34.9	9.3	5-34.9
Coffee and tea	24.2	10-30	20.0	6-30
Cereals and preparations	14.1	5-30	11.6	5-30
Oil seeds, fats, oil and their products	10.1	5-15	7.4	5-15
Sugars and confectionary	21.4	10-30	18.8	6-30

	MFN applied		SAFTA[a]	
	Average (%)	Range (%)	Average (%)	Range (%)
Beverages, spirits and tobacco	58.0	8.5-356.5	58.0	8.5-356.5
Cotton	0.0	0-0	0.0	0-0
Other agricultural products, n.e.s.	8.2	0-20	6.0	0-20
WTO non-agricultural products	11.9	0-80	9.0 (8.9)	0-80
Fish and fishery products	10.6	5-15	7.5	5-11.3
Minerals and metals	12.0	0-46.5	8.8 (8.3)	0-46.5
Chemicals and photographic supplies	11.3	0-30	8.0	0-30
Wood, pulp, paper and furniture	13.4	0-30	8.6	0-30
Textiles	12.4	1-30	10.1	1-30
Clothing	19.9	15-20	19.8	7.3-20
Leather, rubber, footwear and travel goods	11.5	0-20	9.7	0-20
Non-electric machinery	6.5	0-30	5.3	0-30
Electric machinery	10.5	0-30	7.6	0-30
Transport equipment	22.7	0-80	20.2	0-80
Non-agricultural products, n.e.s.	11.4	0-80	5.9	0-30
Petroleum	18.5	3.9-30.8	16.3	3.9-30.8

a Figures in brackets refer to averages for SAARC LDCs (Afghanistan, Bangladesh, Bhutan, and the Maldives).

Note: Including AVEs, as available.

Source: WTO Secretariat calculations, based on data received by the authorities.

3.1.3.5 Tariff exemptions

3.37. Nepal provides tariff exemptions for certain products as in Table 3.6.

Table 3.6 Customs duty exemptions

Items	
1	PET chips of subheading 3907.61.00 and 3907.69.00 to be imported by industry producing partially oriented yarn (POY), on the basis of standards as fixed by the Department of Industry on the utilization ratio of raw materials, ratio of domestic consumption and export of finished products.
2	Raw jute of subheadings 5303.10.00 and 5303.90.00 to be imported by jute industries.
3	Postage stamps, aerograms, passports and excise stamps falling under subheading 4907.00.00 and post cards of subheading 4909.00.00 to be imported by the Government of Nepal.
4	The transfer of the ownership of vehicles in the name of the legal spouse (husband or wife) of an expired person, who imported the vehicles on partial customs duty privilege for personal use.
5	Crude petroleum oil of subheading 2709.00.00 and crude oil obtained from bituminous minerals produced in and imported from India.
6	Goods of the following subheadings produced in and imported from India: 25020000, 25041000, 25049000, 25101000, 25111000, 25112000, 25131000, 25132000, 25199000, 25210000, 25251000, 25280000, 26011100, 26011200, 26012000, 26020000, 26030000, 26040000, 26050000, 26060000, 26070000, 26080000, 26090000, 26100000, 26110000, 26121000, 26122000, 26131000, 26139000, 26140000, 26151000, 26159000, 26161000, 26169000, 26171000, 26179000, 44011100, 44011900, 44012100, 44012200, 44013100, 44013900, 44021000, 44029000, 44031100, 44031200, 44032100, 44032200, 44032300, 44032400, 44032500, 44032600, 44034100, 44034900
7	Partially oriented yarn (POY) of subheading 5402.46.00 and man-made staple fibres of subheadings 55031100, 55031900, 55032000, 55033000, 55034000, 55039000, 55041000, 55049000, 55061000, 55062000, 55063000, 55064000, 55069000 and 55070000 imported by the yarn manufacturing industry registered for VAT.
8	Chassis of subheadings 87060040 and 87060050, motors of subheadings 85011000, 85012000, 85013100, 85013200, 85013300, 85013400, 85014000, 85015100, 85015200, 85015300, 8506100, 8506200, 8506300, 8506400 and battery chargers of subheading 85044000, imported by the registered industry which produces only electric, solar or battery operated three-wheeled or four-wheeled vehicles or transport vehicles to be used for their products.
9	Blood preserving bags of plastics and transfusion sets of subheading 90179000, testing kits of subheading 30029010, and reagents of subheading 38220000 imported by the Nepal Red Cross Society needed for the blood circulation service.

Items	
10	Slate styluses of subheading 84719000, Braille note takers of subheadings 84713000 and 84719000, Braille printers of subheadings 84433200 and 84433900, water indicators, light indicators and colour indicative machineries of subheading 85318000, speaking thermometers of subheading 90251900, Braille typewriters of subheading 84729000, Braille watches of subheading 91029900, abacuses of subheading 90172000, magnifying glasses of subheading 90138000, Braille compasses of subheading 90141000, Braille books of subheadings 49019100 and 49019900, Braille embossers of subheading 84433900, Braille stencil machines of subheading 84721000 to be used by blind people.
11	Commode chairs of subheading 94018000, walkers of subheading 94037000, tri-cycles of subheading 87120000 and crutches of subheading 90219000 to be used by physically disabled persons.
12	Coins, gold, silver; paper, metal, and chemicals for the purpose of minting; cheque books and miscellaneous goods needed for the bank, imported in the name of the NRB.

Source: Custom Tariffs Schedule, Department of Customs.

3.1.4 Other duties and charges affecting imports

3.38. Nepal had committed to fully eliminate other duties and charges (ODCs) before acceding to the WTO, with a transition period of 10 years which ended in 2013. It also agreed not to introduce any new ODCs in the future. According to the authorities, no ODCs are applied, with the exception of:

- an agriculture reform fee of 5% (or 8% on a small number of products) which is currently levied on selected agriculture products imported from India and the Tibet Autonomous Region of China where no custom duty is applied; and
- a road maintenance and reform fee, charged as NR 4 per litre for imports of petrol and NR 2 per litre for diesel.

3.39. The authorities also stated that a customs service fee of NR 565 per declaration is charged on import consignments with a value above NR 5,000.

3.40. In addition to customs tariffs, the Department of Customs also collects VAT and excise duties at the customs border, which represent a large part of Nepal's revenue collection (Table 3.7 and Section 3.3.1).

Table 3.7 Revenue collected at the customs border, FY 2012-13 to 2017-18

(NR million and % of total revenue)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total revenue (NR million)	327,375	396,316	450,023	524,783	731,786	764,514
VAT on imports (%)	16.8	16.7	16.2	13.9	13.7	16.0
Excise duties on imports (%)	4.5	4.5	5.0	5.6	5.1	6.1
Import duties (%)	15.5	15.8	15.7	14.8	13.4	15.2
Exports duties (%)	0.1	0.3	0.1	0.0	0.0	0.0
Agriculture service charge on imports (%)	0.5	0.6	0.8	0.7	0.6	0.6

Note: 0.0% means less than 0.05% but greater than 0%.

Source: Budget Speeches for FY 2014-15 to 2018-19, viewed at: http://mof.gov.np/en/archive-documents/budget-speech-17.html [August 2018], and NRB (2017), *A Handbook of Government Finance Statistics*, Table 17.

3.1.5 Import prohibitions, restrictions, and licensing

3.41. According to the Export and Import Control Act 1957, Nepal may prohibit or restrict imports of certain goods on the grounds of: protection of national security; protection of public decency, order or morals; protection of life or health of humans, animals or plants; protection of national treasures of artistic, historic or archaeological value; conservation of natural resources; compliance with the provisions of any legislation of the Government; ensuring the availability of raw materials essential for domestic processing industries with potential for competitive capacity; and the fulfilment of obligations under the UN Charter and any multilateral conventions or bilateral agreement to which Nepal is a party. Accordingly, the products as outlined in Table 3.8 are subject to import prohibitions in Nepal. Importations of used automobiles are also prohibited except when imported by diplomats.

Table 3.8 Products subject to import prohibitions

	Product description
1	Health hazardable narcotic intoxicating goods such as hashish, heroin, opium, etc.
2	Beef
3	Hazardous ouzo dyes as specified by the Government, by publishing a notice in the *Nepal Gazette*
4	Plastics scrap and bags and sheets of plastics below 20 micron thickness
5	High carbon disposing incandescent light bulbs
6	Goods prohibited/banned by other existing laws
7	"Stacklector" or combine harvester with baler

Source: Ministry of Industry, Commerce and Supplies online information. Viewed at: http://www.nepaltradeportal.gov.np/index.php?r=site/display&id=5 [August 2018].

3.42. As per notifications made to the WTO, Nepal requires import licences or permits for certain items: arms and ammunition; tobacco; specific communications equipment; ozone depleting substances (ODS); poppy seeds; and furnace oil and petroleum products including LPG. The system is applied in the same manner to goods originating in all countries. For imports of arms and ammunition, and specified telecommunication equipment, the Department of Commerce, Supply and Consumer Protection in the Ministry of Industry, Commerce and Supplies issues licences automatically under the recommendation of the Ministry of Home Affairs and the Ministry of Communication and Information Technology, respectively. No recommendation is required to issue import licences for tobacco. An import licence is also compulsory for goods imported without a banking channel, or goods imported on donation or free of charge. Nepal's most recent notification under Article 7.3 of the Agreement on Import Licensing Procedures was in 2015.[23]

3.43. The import licensing regime is regulated by the Export and Import Control Act 1957 and the Import Regulation 1978, and is administered by the Department of Commerce, Supplies and Consumer Protection. As per the Act, the Government has the authority to suspend or impose licensing requirements, provided that such actions are published in the *Nepal Gazette*.

3.44. Non-automatic import licensing is required for the products in Table 3.9. Individuals importing for personal use, registered companies, and government owned enterprises are eligible to apply for import licences. An application for a licence is processed the same day or the following day, and the licence is generally issued for a period of six months, with the possibility of an extension for an additional six months. Depending on the value of the imports, an import licence fee ranging from NR 5,000 to NR 10,000 is charged.[24] There is no penalty for non-utilization or under-utilization of a licence.

Table 3.9 Imports requiring a licence or permit

	Items
1.	Narcotic and psychotropic medicines and raw chemicals for those medicines, on the recommendation of the Ministry of Home Affairs.
2.	Arms and ammunitions, explosive substances, materials required to produce explosive substances, guns and bullets for gun caps except paper and other explosive substances, arms and ammunition, on the recommendation of the Ministry of Home Affairs.
3.	Radio equipment, such as wirelesses, walkie-talkies, transmission receivers, link radio equipment, etc., and similar kinds of radio equipment such as for the transmission of words, dialogue, scenes and statistics, on the recommendation of the Ministry of Communication and Information Technology.

Source: Ministry of Industry, Commerce and Supplies online information. Viewed at: http://www.nepaltradeportal.gov.np/index.php?r=site/display&id=5 [August 2018].

3.45. The authorities stated that there are no tariff quotas, although there is a quantitative restriction for the import of poppy seeds for health reasons.

[23] WTO document G/LIC/N/3/NPL/2, 14 April 2015.
[24] There is no deposit or advance payment requirement associated with the issuance of licence.

3.46. For imports of iodized salt and petroleum products (petrol, diesel, kerosene, aviation fuel and LPG), only the Salt Trading Corporation Ltd. and the Nepal Oil Corporation Ltd., respectively, are authorized to import these products (Section 3.3.4.2).

3.47. According to the authorities, Nepal has a "de-licensing" system, i.e. there is no need for a licence to import, except for restricted goods (non-automatic import licensing). The only condition to import is that business firms and companies are registered either with the Department of Commerce, Supply and Consumer Protection, or with the Office of the Company Registrar. As licences are not required, a registered importer must open an L/C (Section 3.2.1) from commercial banks for imports. This L/C and supporting papers must be presented at the Customs Office.

3.48. Goods in transit through India to Nepal require a letter of undertaking from the Consulate General in Kolkata, to ensure that the transit of goods does not violate Articles 8 and 9 of the Transit Treaty.[25]

3.1.6 Anti-dumping, countervailing, and safeguard measures

3.49. According to the authorities, Nepal does not have any anti-dumping, countervailing or safeguard legislation, and it has notified this to the WTO.[26] In the last Review, it was stated that a bill on anti-dumping and safeguards was being drafted.[27] According to the authorities, the draft Safeguard, Anti-dumping and Countervailing Act is still being prepared, and is based on WTO rules, and legislation in other countries.

3.1.7 Other measures affecting imports

3.50. According to the Custom Regulation of 2007, demurrage is charged for goods not cleared from the customs office within seven days. Currently, demurrage has been charged as in Table 3.10.

Table 3.10 Demurrage for warehouses in customs

Duration	Charge per day/kg	
	Tribhuwan International Airport	Other customs offices
Up to 30 days	NR 0.60	NR 0.40
30 to 60 days	NR 1.00	NR 0.60
More than 60 days	NR 1.40	NR 0.80

Source: DOC.

3.2 Measures Directly Affecting Exports

3.2.1 Customs procedures and requirements

3.51. The main laws and regulations governing exports are the same as for imports. The Customs Act 2007 and its Regulation are the legal basis for regulating exports, and are administered by the DOC. The customs clearance process follows the same procedure as that for imports (see Section 3.1.1). Once the customs declaration has been processed and export duties (if applicable) have been paid, the goods are released for export. As for imports, the necessary documents for exports differ for exports to India and to other countries. The documents, therefore, are largely the same as in Table 3.1. For exports of handicrafts, a commercial invoice certified by the Federation of Handicrafts Associations of Nepal is required.

3.52. According to the Foreign Exchange Act (1962) and Rules (1963), exports are permitted only against advance payment or a letter of credit (L/C). This provision is to ensure that the payment for the goods is received by the exporter in Nepal. Thus, at the time of export, the exporter is required to declare that the export earnings will be repatriated to Nepal within six months in the case of transactions under L/C. There is no limit on advance payment but the buyer must remit the foreign exchange through a bank, or exchange the foreign currency with a bank in Nepal. The bank issues

[25] WTO document WT/ACC/NPL/16, 28 August 2003, p. 15.

[26] WTO documents: G/ADP/N/1/NPL/1, 8 August 2012; G/SG/N/1/NPL/1, 7 August 2012; and G/SCM/N/202/NPL, 8 August 2012

[27] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III(1)(v)(a).

a certificate of advance payment to the exporter, which needs to be produced at Customs at the time of export.[28]

3.53. Legislation provides that exporters may, if they have valid reasons, ask Customs to inspect and release the goods from the product site or warehouse for the purpose of export. In this case, the exporter must first submit an application with the customs declaration form, including a fee of NR 1,000, to the Customs Office.

3.54. The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and the Confederation of Nepalese Industry (CNI) have been designated by the Government to issue certificates of origin. For preferential exports to India, the FNCCI provides the certificate, while both the CNI and the FNCCI may provide certificates to other destinations. For exports that qualify for GSP treatment in the destination, the Form A, required for proof of origin, is provided by the Trade and Export Promotion Centre.[29]

3.55. According to the World Bank's Ease of Doing Business reports, exports from Nepal are more efficient in terms of hours and money spent than the regional average for South Asia (Table 3.11).

Table 3.11 Time and cost for exports, 2018

		Nepal	South Asia
Time to export (hours)	Border compliance	56	59.4
	Documentary compliance	43	77
Cost to export (US$)	Border compliance	288	369.8
	Documentary compliance	110	179.5

Source: World Bank Group (2018), *Doing Business 2018: Reforming to Create Jobs – Economy Profile - Nepal*. Viewed at: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Profiles/Country/NPL.pdf [August 2018].

3.2.2 Taxes, charges, and levies

3.56. According to the authorities, export duties are applied to some products to protect the environment, ensure food security, and discourage trade diversion to neighbouring countries. About 100 products are subject to export duties in FY 2017-18 (Table A3.2), mainly vegetables; maize; rice; wheat; oil cake; sand, stone and pebbles; and some woods. Specific rates are applied for 55 tariff lines, and *ad valorem* for 45 tariff lines.

3.57. Exports are zero-rated for VAT and exempt from excise duties (Section 3.3.1). A customs service fee of NP 113 per declaration is charged for export consignments with a value above NP 5,000.

3.2.3 Export prohibitions, restrictions, and licensing

3.58. In order to achieve various policy objectives, Nepal prohibits the export of certain goods (Table 3.12).

Table 3.12 List of products banned from exportation

Name of product	Rationale for export ban
Articles of archaeological, historical, and religious importance a. Foreign or Nepalese coins b. Idols of gods and goddesses, palm leaf inscriptions (Tad Patra), plant leaf inscriptions (Bhoj Patra) c. Pauva (Thanka or traditional cloth paintings) of historical importance	Cultural and religious reasons

[28] Nepal Trade Information Portal online information. Viewed at http://www.nepaltradeportal.gov.np/ [August 2018].

[29] Trade and Export Promotion Centre (TEPC) online information. Viewed at: http://www.tepc.gov.np/pages/exports-transit-procedure [August 2018].

Name of product	Rationale for export ban
Protected wildlife, protected body parts of wildlife, and endangered wildlife a. Untreated skin (including dry salted) b. Unprocessed wool and hair (fur) of wild animals c. Wild animals d. Bile and any part of wild animals	Protection of wildlife
Narcotic substances a. Intoxicating and narcotic drugs such as marijuana, opium, hashish (as defined in the Single Convention of Narcotics 1961, and the UN Convention Against Illicit Traffic in Narcotic Substances and Psychotropic Substance 1988)	Human health
Explosive materials and ammunitions a. Explosive materials and fuses or materials needed therefor b. Materials used in the production of arms and ammunition	Public security
Industrial machines, spare parts, and raw materials a. Industrial mills, machinery and spare parts thereof	To promote the development of small cottage industries
Forest resources related to biodiversity and environment conservation a. *Dactylorhiza hatagirea* and *Juglans regia* b. Non-processed *valeriana jatamansi*, *Rock Exudat*, *Parmelia sps* and other (*Lichen sps*), *Abies spectabil*is, *Cinnamomum glaucescens*	To conserve biodiversity and the environment
Petrol and petroleum products a. Petrol b. Diesel c. Kerosene oil d. LPG e. Air fuel (except for international flights)	All these are imported products. The export ban is to maintain the regular supply and distribution in Nepal
Other products a. *Mamira* (a medicinal herb) b. Logs and timber from naturally grown plants	Exhaustible natural resources: most are from naturally grown plants. Their exportation is banned, and their domestic consumption restricted

Source: Information received from the authorities.

3.59. According to the authorities, Nepal does not apply quantitative restrictions on exports.

3.2.4 Export support and promotion

3.60. The authorities stated that Nepal does not provide export subsidies. Furthermore, according to the most recent notification to the WTO, Nepal provided no export subsidies for agricultural products in 2011.[30] However, exports of some agricultural products to destinations other than India may qualify for support under the Cash Incentive Scheme for Exports (CISE) (Section 4.1 and Table 4.4), although the authorities noted that the budget allocation for the Scheme was very small.

3.61. During the review period, the trade promotion regime remained largely the same. The Ministry of Industry, Commerce and Supplies is the leading agency promoting exports. The Trade and Export Promotion Centre (TEPC), which is under this Ministry, conducts export promotion activities, such as participating in international trade fairs.[31]

3.62. Since the implementation of National Trade Integration Strategy (NTIS) 2010 and its update in 2016, Nepal has started focusing on the specific products identified with export potential (see Section 2.2). In addition to the main products identified in Table 2.2, other products such as fruit and vegetable juices; all fabricated steel and metals; lentils; silver jewellery; instant noodles; paper products; wool products; honey; ready-made garments; coffee; semi-precious stones; and hydro-electricity are also considered as priority products for export promotion.

[30] WTO document G/AG/N/NPL/3, 2 October 2012.
[31] Regmi, S., K. (2014), *Export Promotion in Nepal*, Nepalese Journal of Public Administration 124, pp. 166-176.

Duty Drawbacks

3.63. Nepal continues the Duty Drawbacks system in its new Industrial Enterprises Act 2016 (replacing the 1997 Act), which stipulates that any customs duty, VAT, or excise duty levied for items to be exported should be reimbursed. Exporters submit documents to the Single Window Committee in the Department of Industry in the Ministry of Industry, Commerce and Supplies, which examines and approves the duty refund.

3.64. According to the Customs Regulation 2007, industries in bonded warehouses are allowed to import raw materials and auxiliary raw materials, such as packing materials not manufactured in Nepal, under bank guarantee. If the raw materials are incorporated into exports, and exported within 11 months of import, and the value-added over the imported raw materials is at least 10%, the bank guarantee is released by Customs within one month of submission of the application. Industries outside bonded warehouses that import raw materials (and auxiliary materials), may pay a cash duty deposit at the Customs Office. If the raw materials are incorporated into exports and exported within 12 months, and if the value-added is over 10%, the cash deposit is released by Customs within one month of submission of the documents.

Special Economic Zones (SEZs)

3.65. Nepal provides specific facilities and incentives to exporting industries which are run in the SEZs (Section 3.3.1, Section 4.3 and Table 4.12 for details).

3.2.5 Export finance, insurance, and guarantees

3.66. According to the authorities, Nepal does not have any official supported schemes or programmes for export finance, insurance, or guarantees.

3.3 Measures Affecting Production and Trade

3.3.1 Taxes and incentives

3.67. Out of total government revenue of NR 802 billion in FY 2017-18, 83% was from taxes, the most important of which was VAT, followed by import duties, and excise duties. Although applied equally to imports and to domestic production, VAT collected at the border is about two thirds of total VAT, and excise duties collected at the border are about 45% of total excise duties (Table 3.13).

Table 3.13 Tax revenue FY 2012-13 to FY 2017-18

(NR million)

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total revenue	327,375	396,316	450,023	524,783	731,786	764,514
Tax revenue	259,144	312,441	355,955	421,097	553,867	657,752
Taxes on income, profits and capital gains	64,178	75,609	86,165	114,138	144,846	165,861
of which						
Individuals and sole traders	15,533	19,433	22,558	29,965	34,855	38,790
Enterprises and corporations	37,070	45,430	52,034	70,967	92,649	103,108
Investment and other income	11,576	10,746	11,574	13,204	17,343	23,963
Payroll and workforce	1,881	2,449	2,926	3,270	4,137	4,604
Taxes on property	5,323	6,671	9,399	13,149	18,294	15,911
Taxes on goods and services	177,206	215,376	180,025	205,669	278,569	343,122
of which						
VAT	83,391	101,111	112,522	122,412	161,068	197,509
of which VAT on imports	55,013	66,321	72,985	72,891	99,915	122,395
Excise	36,244	45,411	53,538	65,776	84,805	105,537
of which excise on imports	14,597	18,013	22,482	29,554	37,545	46,281
Taxes on international trade and transactions	39,709	66,312	74,841	82,159	103,059	121,338
of which						

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Import duties	50,841	62,453	70,525	77,817	98,409	115,878
Export duties	419	1,065	311	111	125	109
Agriculture service charge on imports	1,725	2,328	3,377	3,412	4,112	4,783

Source: Budget Speeches for FY 2014-15 to 2018-19, viewed at: http://mof.gov.np/en/archive-documents/budget-speech-17.html [August 2018], and NRB (2017), *A Handbook of Government Finance Statistics*, Table 17.

Income tax, corporation tax and SEZs

3.68. Nepal has a progressive system of income tax, with a top rate of 36% on income over NR 2 million, with reductions in some cases, such as for those working in rural areas, those with pension income, and those taking out life and/or health insurance. A different system applies to non-residents, with a flat tax rate of 25% on income (Table 3.14).

Table 3.14 Income tax rates in 2017-18

Residents			Non-residents	
Individual NR	Couple NR	Tax rate	Income type	Tax rate
Up to 350,000	Up to 400,000	1%	Income from normal transactions	25%
350,000-450,000	400,000-500,000	10%		
450,000–650,000	500,000-700,000	20%		
650,000-2,000,000	700,000-2,000,000	30%		
2,000,000 upwards	2,000,000 upwards	36%		

Source: Information provided by the authorities.

3.69. The standard rates of corporation tax are 20%, 25% or 30%, depending on the activity, with a range of exemptions or reductions as incentives. These exemptions or reductions apply to different activities, including: exports of goods; employment of Nepalese citizens; industries in undeveloped areas; and enterprises in SEZs (Table 3.15). Presumptive taxes apply to some activities carried out by natural persons, such as those engaged in providing public transport, and small businesses. In some cases, presumptive taxes are an annual charge and, in other cases, they are based on revenue.

Table 3.15 Corporation taxes, reductions and exemptions in 2018-19

Activity	Tax rate
Normal tax rate	25%
Telecoms; Internet; money transfer; capital markets; finance and insurance; petroleum; cigarettes; alcoholic beverages	30%
Special industries (most manufacturing, agriculture and mining); Construction and operation of road transport infrastructure; Projects to build, own, operate and transfer to the Government public infrastructure for power generation, transmission, or distribution; Exporting entities; Cooperative institutions registered under the Cooperative Act 1992.	20%
Income of mutual funds.	0
Reductions and exemptions for SEZs	
Industries in SEZs in mountainous and hilly districts: - first 10 years; - thereafter.	 Exempt 50% of applicable rate
Industries in SEZs in other areas: - first 5 years; - thereafter.	 Exempt 50% of applicable rate
Royalties of foreign investors in SEZs.	50% of applicable rate
Dividends from an industry established in an SEZ: - first 5 years - next 3 years.	 Exempt 50% rebate
Other exemptions and reductions	
Income from foreign technology and management service fees; Income of IT industry established in an IT park, biotech park, or technology park, as specified in the official gazette; Income earned from the disposal of intellectual assets; Tea, textile and dairy industries.	50% of applicable rate
Brandy based on fruit, cider, and wine manufacturers in undeveloped areas (10 years).	40% rebate

Activity	Tax rate
Entities listed in the securities market (manufacturing; tourism; hydroelectricity production, distribution and transmission); IT industry established in an IT park, biotech park and technology park as specified in the Gazette.	85% rebate
Persons involved in petroleum exploration and extraction, mining, natural gas by 13 April 2019 (BS end Chaitra 2075); Persons having licences to generate, transmit and distribute electricity if the commercial operations commence before 12 April 2024 (BS end-Chaitra 2080): - first 7 years; - next 3 years.	 Exempt 50% of applicable rate
Income from export sales for manufacturing industries; Royalty income from exports of intellectual assets by a person.	75% of applicable rate
Income from construction and operation of roads, bridges, airports and tunnels or income investment in trams and trolley buses.	60% of applicable rate
Special industry with direct employment of Nepalese citizens: - more than 100; - more than 300; - more than 500; - more than 1000; - more than 100, of which at least one third are women, Dalit, and/or disabled.	Of applicable rate 90% 80% 75% 70% Additional rebate of 10%
Special industry, first 10 years, in following areas as defined by the Industrial Enterprises Act: - very underdeveloped regions; - undeveloped regions; - partly developed regions.	 Of applicable rate 10% 20% 30%
Hydropower projects, solar energy projects, waste-to-energy, and wind turbine projects commercially starting generation of electricity by 12 April 2024 (BS end-Chaitra 2080): - first 10 years; - next 5 years.	 Exempt 50% of applicable rate
New special industry with capital investment of NR 1 billion, direct employment of 500 people; New tourism industry or international airline operators with capital investment of NR 2 billion and operators increasing present capacity by 25% with new investment to increase capital investment to NR 2 billion; Special industry increasing installed capacity by 25% with new investment to reach capital investment of NR 1 billion and employ 500 people: - first 5 years; - next 3 years.	 Exempt 50% of applicable rate
Special industry, and agriculture or tourism industries employing at least 100 Nepalese nationals.	30% rebate
Dividends on special industries, and agriculture or tourism industries.	Exempt
Transfer of a private limited company with capital of NR 500 million or more into a public limited company for the first 3 years after conversion.	10% rebate
Community hospitals.	20% rebate
Small scale industry with paid up capital of up to NR 50,000 (excluding land and buildings), annual turnover of less than NR 500,000, and up to 9 employees (including owner). - first 5 years (7 years if operated by a woman)	 Exempt

Source: BRSS & Associates Chartered Accountants (2018), *Nepal Fiscal Budget Synopsis FY 2075/2076 (FY 2018/19)*, NBSM & Associates (2018), *Nepal Budget 2075/76 (2018/19) – Highlights from Tax Perspective*, Kathmandu; Upadhya & Co. (2016), *Nepal Taxation – 2016 Edition*, Kathmandu, Budget Speech 2018-19.

3.70. Under the Special Economic Zone (SEZ) Authority Act, 2016 (Section 2.4), the Government may, based on a recommendation from the SEZ Authority, create an SEZ as:

- an Export Processing Area for export-oriented industries;
- a Special Business Area to collect goods for export, through import or collection within the country, for storage, classification, packaging and assembly; or
- a Tourism or Entertainment Area for industries related to tourism and entertainment.

3.71. In addition to the corporation tax incentives in Table 3.15, other incentives include: discounts on the lease or rent of land and buildings; exemptions from VAT, excise duties, customs duties, and local taxes; sales into an SEZ are treated as exports; the right to repatriate foreign investments; relaxed visa provisions; and the use of bonded warehouses (Section 4.3).

3.72. At end-May 2018, there was one SEZ in operation, the Bhairahawa SEZ, near the border with India, with 13 companies operating on 38 plots having been granted permission to operate within the zone. A further 13 zones are at various stages of development.[32]

Value added tax and excise duties

3.73. VAT is applied under the Value Added Tax Act of 1996 and Regulations of 1997. The standard rate for VAT is 13%, while some goods and services are exempt or zero-rated. Exempt goods and services include: basic necessities and/or agricultural products (e.g. rice, pulses flour, fresh fish, meat, eggs, fruit, flowers, edible oil, piped water, wood fuel); inputs for agricultural production; medical, veterinary and educational services, and associated goods; air transport; and financial and insurance services. Exports are zero-rated, while VAT is charged on imports at the point of entry based on the c.i.f. price plus any duty or other taxes payable. The threshold for compulsory registration is NR 2 million annual taxable turnover for services and NR 5 million for goods.

3.74. Under the Excise Act of 2002 and the Regulation of 2003, the Liquor Act of 1974 and Regulation of 1976, and the annual budget, excise duties are applied to 605 products at the national tariff line level, including alcohol and tobacco products (where they are specific duties), and motor vehicles (where they are applied up to the level of a percentage of the price) (Table A3.3). In some years, duties on some domestic products was lower than on imported goods. In FY 2018-19:

- the excise duty on wine of up to 12% alcohol made from local ingredients (HS 2204.29.40) is NR 120 per litre, and the duty on imported wine of up to 12% alcohol (HS 2204.29.10) is NR 335 per litre; and
- the excise duty for local cider (HS 2206.00.30) is NR 160 per litre compared to the duty on imported cider (HS 2206.00.20) of NR 390 per litre.

3.3.2 Standards and other technical requirements

3.75. The legal framework for standards and technical requirements has not changed since the last Review, and remains the Nepal Standards (Certification Mark) Act, 1980, and, for metrology, the Standards, Weights and Measures Act, 1969. According to the authorities, new legislation on standards and on accreditation is in the process of being prepared. However, this was also the situation in 2012.[33] Other legislation relating to standards and technical regulations includes: the Food Act, 1967; the Drug Act, 1978; the Consumer Protection Act, 1998; and the Environmental Act, 1997.

3.3.2.1 Standards and technical regulations

3.76. The Nepal Council for Standards (NCS) is responsible for approving standards, while the Nepal Bureau of Standards and Metrology (NBSM) is the main agency responsible for preparing them. The NBSM also provides product and system certification services and testing and calibration services, and it is the enquiry point and notification authority for TBT matters in the WTO. The NBSM is a member of the International Organization for Standardization (ISO), the South Asian Regional Standards Organization (SARSO), and the Asia Pacific Metrology Programme (APMP). It is also a corresponding member of the International Organization for Legal Metrology (OIML), and an affiliate country for the International Electrotechnical Committee (IEC). According to the authorities, the NBSM is in the process of adopting the Code of Good Practice for the Preparation, Adoption and Application of Standards in Annex 3 to the TBT Agreement.

3.77. In addition to international and regional affiliations, NBSM has a number of bilateral arrangements, including the:

- Agreement on Cooperation for Industrial Product Inspection with the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of China, 2005;

[32] Information provided by the authorities, and SEZ Authority online information. Viewed at: http://www.seznepal.gov.np/index.php [August 2018].
[33] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III(3)(v).

- Memorandum of Understanding (MoU) with the National Accreditation Board for Certification Bodies (NABCB) of India as a National Accreditation Focal Point (NAFP), 2014;
- MoU with the National Accreditation Board for Testing and Calibration Laboratories (NABL) of India as an NAFP, 2015;
- MoU with the Bangladesh Standards and Testing Institution (BSTI), 2016; and
- Bilateral Cooperation Agreement on Standardization and Conformity Assessment with the Bureau of Indian Standards (BIS), 2017.[34]

3.78. Draft standards and technical regulations relating to goods and services, except for food and pharmaceuticals, are prepared by the NBSM. A working draft is first prepared by a subcommittee of one of the NBSM's technical committees. Once approved by the technical committee, the draft is circulated, with two months for comments. At the end of the comment period, the draft is reviewed and, if necessary, amended by the relevant technical committee and/or subcommittee. When finalized, the draft is sent to the NCS, which is chaired by the Minister for Industry, Commerce and Supplies, for approval and, once approved, it is published as a Nepal Standard and is available from the Department of Printing. All committees, including the NCS, include representatives from stakeholders including the private sector, consumers, and academia. The NBSM intends to publish its work programme on its website. Once approved, the Government may make standards mandatory, in which case they are published in the *Nepal Gazette*.

3.79. At end-July 2018, the NBSM had developed 904 national standards (51 since 2012), covering products, processes, test methods and management systems. Eleven standards for products are mandatory and, therefore, technical regulations, of these four became technical regulations since 2012 (PVC Cable, LPG Regulators, LPG Valves, and composite materials cylinders). The other seven are for different types of cement, LPG cylinders, dry cell batteries, iron bars, and galvanized iron wire. In addition, there is one mandatory process for LPG bottling operations. A list of standards and technical regulations prepared by the NBSM is available from the official government website.[35]

3.80. In general, standards are based on international standards, such as those of the ISO, the IEC, and the Codex Alimentarius, or on well-known national standards such as the British Standard Institution, and the BIS. Where comparable international standards are not available, the NBSM generally drafts standards based on national requirements. According to the authorities, out of the 904 national standards, 106 were ISO standards.

3.81. The NBSM represents Nepal in SARSO, which is based in Dhaka in Bangladesh and sets harmonized standards for the members of the South Asian Association for Regional Cooperation (SAARC).[36] There are six sectoral technical committees in SARSO responsible for preparing draft standards for: food and agricultural products; jute, textile and leather; building materials; electrical, electronics, telecommunications, and information technology; chemicals and chemical products; and conformity assessment. SAARC standards, once adopted, replace national ones where they exist. At 6 August 2018, 11 SAARC standards had been published.[37]

3.82. Standards relating to the environment, food, and drugs are developed by the relevant ministries under legislation for each area. For example, the Department of Drug Administration in the Ministry of Health and Population is responsible for standards relating to pharmaceuticals, and the Department of Food Technology and Quality Control (DFTQC) in the Ministry of Agriculture and Livestock Development is responsible for standards relating to food and feed. At end-July 2018, there were 121 food commodity standards, some of which were based on Codex Alimentarius measures or, in the absence of Codex standards, Indian standards. All of these 121 standards relate to sanitary and phytosanitary measures and, therefore, they are compulsory.

[34] Nepal Bureau of Standards and Metrology online information. Viewed at: http://nbsm.gov.np/content.php?id=62 [May 2018].
[35] Official Portal of the Government of Nepal. Viewed at: https://nepal.gov.np/NationalPortal/view-page?id=177 [August 2018].
[36] Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
[37] SARSO online information. Viewed at: http://www.sarso.org.bd/# [August 2018].

Testing and certification

3.83. The NBSM is responsible for the Nepal Standards certification mark (NS) system which may be used for products where standards or technical regulations exist. Under the Nepal Standards (Certification Mark) Act, the certification mark is compulsory for a product to be placed on the market if the relevant standard is compulsory, while it is voluntary in other cases. Authorization to use the mark requires an audit from the NBSM, which includes testing and assessment of the requesting company, as required by the certification mark scheme and, after authorization, inspections and testing are carried out to ensure continued compliance with the standards and/or technical regulations.

3.84. For product certification, in June 2014, the NBSM was accredited (ISO 17065) by the NABCB of India for 13 products, including galvanized iron wire, galvanized iron pipe, iron bars, PVC and HDPE pipes, three types of Portland cement, and food and feed products. The NBSM has issued 320 licences to use the NS mark for 60 different products. For certification of management systems, the NBSM has been accredited (ISO 17021) by the NABCB for quality management systems based on ISO 9001.

WTO Technical Barriers to Trade

3.85. Nepal made four notifications to the WTO, all in March 2013, relating to four mandatory standards on PVC Cable, LPG Regulators, LPG Valves, and composite materials cylinders.[38] One specific trade concern was raised by other Members about Nepal's National Alcohol Regulation and Control Policy and graphic warnings and statements for alcoholic beverages.[39]

3.3.3 Sanitary and phytosanitary requirements

3.86. Sanitary and phytosanitary (SPS) issues are important for Nepal, both from import and export perspectives, as agricultural and food products are seen as having good export potential. However, according to the authorities, meeting SPS requirements in export markets has been difficult.

3.87. A number of government agencies are responsible for the policy, regulation and implementation of SPS measures, all in the Ministry of Agriculture and Livestock Development:

- The DFTQC is responsible for food products, feed stuffs, and food quality certification. The Central Food Laboratory is part of the DFTQC and it was accredited by the NABL of India (ISO 17025) in 2012, with the scope of accreditation extended in 2017;

- The National Plant Quarantine Program in the Department of Agriculture is responsible for issuing permits for imports of plant materials, quarantine inspections and phytosanitary certificates for exports of plant products;

- The National Animal Quarantine Office of the Department of Livestock Services is responsible for issuing permits for imports of animal products, animal quarantine inspections and sanitary certificates for exports of animal products;

- The Seed Quality Control Centre (SQCC) is responsible for seed variety registration, seed quality inspection and certification; and

- The Plant Protection Directorate is responsible for control of pesticides, herbicides, and other chemicals used on crops.

3.88. The legislation on SPS measures has changed little since the last Review, and remains: the Plant Protection Act, 2007 and the Plant Protection Rule, 2010; the Contagious or Infectious Disease Act, 1963; the Animal Health and Livestock Services Act, 1998; the Food Act 1967 and the Food Rules 1970; the Pesticides Act, 1991 and the Pesticides Rules, 1993; the Drug Act 1978 and the Drug Registration Regulation 1981; and the Directives on Export Import Inspection and Quality

[38] WTO documents G/TBT/N/NPL/1 to 4, 27 March 2013.
[39] TBT Information Management System, IMS ID 541.

Certification System, 2006.[40] However, in 2013, the National Standards for Phytosanitary Measures were introduced, setting out a framework and details for pest risk analysis.

3.89. Under the Agriculture Development Strategy (ADS), the authorities intend to prepare a new Food Act, as well as legislation on the accreditation of standards certification bodies and national laboratories for food safety and quality. In addition, under the ADS, an independent Food Authority is to be established, while the capacity of the DFTQC, the Department of Agriculture, and the Department of Livestock are to be improved, along with improvements in inter-departmental coordination.

3.90. Nepal is a member of the World Organisation for Animal Health (OIE) and the Codex Alimentarius, a contracting party to the International Plant Protection Convention, and has acceded to the Pesticides and Industrial Chemicals Convention (the Rotterdam Convention).

3.91. Under the Directives on Export Import Inspection and Quality Certification System, the DFTQC can, on a voluntary basis, provide export certificates. The DFTQC may also authorize other organizations to provide export certificates. However, as the Central Food Laboratory of the DFTQC is accredited by the NABL, only for some products and some tests, its main role in assisting exports is issuing export certificates where the importing country requires them from the national food authority.

3.92. Import certificates are required for imports of food products, plants, plant products, live animals, livestock products, and inputs for livestock. According to the Directives: "The import certification will not discriminate among the trading partners having the consignments with the same level of risk. In other words, it shall be ensured that there will be no arbitrary or unjustifiable discriminations among the consignments originating from different trading partners". Each application must be accompanied by supporting information, including: a description of the product; the name of the exporting country; the GMP/HACCP/ISO 9000 certification of the processing unit; a copy of the export certificate and quality certificate from the accredited national authority of the exporting country; and a sample of the product or an analysis report. Upon arrival of the consignment in Nepal, samples may be taken and checked for compliance with the import certificate.[41]

WTO Sanitary and Phytosanitary Measures

3.93. In the WTO, the enquiry point for SPS measures is the DFTQC, and the notification authority is listed as the Agribusinesses Promotion and Statistics Division in the Ministry of Agriculture, Land Management and Cooperatives (which is now the Food Security, Agribusiness Promotion and Environment Division in the Ministry of Agriculture and Livestock Development). Nepal has made a total of 32 notifications on SPS measures to the WTO, including 3 addenda. Since 1 January 2012, it has made 13 regular notifications, including the Framework for Pest Risk Analysis, and a quarantine list of pests for apples, citrus, potatoes, ginger, garlic, bananas, and coffee.[42] No specific trade concerns were raised by other Members on SPS measures taken by Nepal, and Nepal has not raised any specific trade concerns relating to measures taken by other Members.[43]

3.3.4 Competition policy and price controls

3.3.4.1 Competition policy

3.94. Competition policy development is the responsibility of the Ministry of Industry, Commerce and Supplies. The competition law is the Competition Promotion and Market Protection Act, 2007 and its Implementing Regulation, 2010. Under the Act, the competition authority is the Competition Promotion and Market Protection Board, made up of representatives from: the Ministry of Industry,

[40] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III(3)(v)(c).
[41] Directives on Export Import Inspection and Quality Certification System in Nepal, 2006. Viewed at: http://www.spsenquiry.gov.np/uploads/files/Text%20of%20Notification%20NNPL5%20Exp%20Imp%20Dir%20for%20Food.pdf [May 2018].
[42] WTO documents G/SPS/N/NPL/15 to NPL/27, 18 September 2012 to 28 June 2017.
[43] WTO Sanitary and Phytosanitary Information Management System online database. Viewed at: http://spsims.wto.org/ [May 2018].

Commerce and Supplies; the Ministry of Finance; the Ministry of Law, Justice and Parliamentary Affairs; and the Ministry of Agriculture and Livestock Development.[44]

3.95. The Act does not apply to export businesses, small businesses and farms, collective bargaining, research and development, management collaboration, or collaboration for organizational and procedural improvements meant to improve trade capacity. In addition, the Act exempts actions relating to the exercise of intellectual property rights and actions taken to improve the quality of goods and services that result in improvements in the interests of consumers.

3.96. Furthermore, some sectors are regulated under sector-specific laws, including: the financial and banking sector, which is regulated by the NRB; the securities market, which is regulated by the Securities Board; and the telecommunications sector, which is regulated by the Nepal Telecommunications Authority.

3.97. The Competition Promotion and Market Protection Act prohibits:

- anti-competitive agreements: According to the Law, agreements which are intended to limit or control competition for like or similar goods or services are prohibited, including price setting, production or distribution controls, limits to supply, restraints of sale or purchase, market allocation, and bid-rigging;

- abuse of dominant position: Although dominant position, *per se*, is not prohibited, abuse of that position is prohibited. Dominant position is defined as an enterprise or group of enterprises with at least a 40% market share, or which are in a position where they may affect the relevant market;

- mergers and amalgamations: Mergers or amalgamations, including taking a controlling interest in another enterprise, with the intent of maintaining a monopoly or restricting trade, are prohibited. This prohibition applies whenever the merger or amalgamation would result in a market share of more than 40%;

- bid-rigging: A bidder for a public procurement contract may not enter into agreements with other potential bidders to restrict or manage bids or share information with them; and

- other activities including exclusive dealing, market restrictions, tied selling, and misleading advertisements.

3.98. Any person or enterprise with information relating to restrictions on competition may make a complaint to the Competition Promotion and Market Protection Board or to a designated market protection officer. Market protection officers are responsible for investigations into restrictions on competition and, upon completion of an investigation, may file a complaint in the commercial bench of the Appellate Courts. Punishment for breaches of the Act include fines of up to NR 500,000 for anti-competitive agreements, abuse of dominant position, and merger or amalgamation with intent to restrict trade, or lesser fines for other offences. The Act also allows for leniency for collaboration with the market protection officer before or during an investigation. In 2013, it was reported that: "the board, including market officers, has failed to conduct a single case of anti-competitive conducts and file a case in the court".[45] However, the authorities noted that market officers operate using the Joint Market Monitoring Guidelines, which take into account the provisions of different laws and, at end-June 2018, although no cases had gone to court under the Competition Promotion and Market Protection Act, about 30 competition-related cases were ready to be filed under the Food Act and another 1 under the Black Market and Other Social Offences and Penalty Act.

3.3.4.2 Price controls

3.99. The Nepal Oil Corporation Ltd. (NOC) is a state-owned trading company, established in 1970 by the Government, with sole rights to import, transport, store, and distribute petroleum products.

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[44] Competition Promotion and Market Protection Act, 2007, as amended by the Act Amending Some Nepal Acts 2007. Viewed at: http://www.wipo.int/edocs/lexdocs/laws/en/np/np002en.pdf [May 2018].

[45] Khatiwada, A. (2013), *Nepal,* pg. 3, in *Case Law Analysis of TBT and SPS Agreements*, CUTS-CCIER. Viewed at: http://www.cuts-ccier.org/CIRCOMP-II/pdf/Book/Asia_Pacific/23-Nepal.pdf [May 2018].

All imports are from the Indian Oil Corporation. In September 2014, the NOC introduced the Automatic Petroleum Pricing Mechanism, under which the retail price is reviewed every fortnight and may be adjusted whenever the price changes by 2% or more. As a result, petroleum prices are revised every 15 to 30 days based on international prices.

3.100. With the agreement of the Government, the Salt Trading Corporation (STC), which has a monopoly on iodized salt and in which the State has a minority holding, sets retail prices for iodized salt. It was reported that, in 2017, STC sought to raise prices, as retail prices were below cost prices.[46]

3.101. As noted in the last Review, under the Essential Commodities Control (Authorization) Act, 1961, the Government may control or regulate the production, distribution or trade of essential products, which include: cereals, lentils and some other food products; fuel; salt; cement; and medicines.[47] However, during the review period, the Act was not applied to any product.

3.3.5 State trading, state-owned enterprises, and privatization

3.102. There are four statutory monopolies, of which two are fully state-owned: the Nepal Electric Authority; and the NOC. The other two are partially state-owned: the STC, which is 21.32% state-owned; and the Kathmandu Valley Drinking Water, which is 80% owned by the Government and municipalities.

3.103. Nepal has not made any notifications to the WTO relating to state-trading enterprises. According to the Yellow Book at the Ministry of Finance, there are 40 wholly, or majority state-owned enterprises (SOEs), employing about 30,000 people (Table 3.16).[48] Although this appears to be an increase in the number of SOEs since the last Report, this is the result of the separation of the National Insurance Corporation into life and non-life businesses, the unbundling of the electricity authority, and the inclusion of Nepal Bank Ltd. in the list. The Bank has always been majority state-owned but its performance had been reported separately from other SOEs. Not all the SOEs in the Yellow Book are operating, with several reporting no profits or losses and/or no employees (Table 3.16). In addition, the State has minority holdings in 26 companies.

3.104. During the period 1992 to 2008, 30 SOEs were liquidated, sold, or partially sold, with the State retaining majority ownership of Nepal Lube Oil (40% of shares sold in 1994), Nepal Bank Ltd. (10% sold in 1997), and, in the last action under the privatization programme, Nepal Telecom (8.53% sold in 2008).[49]

3.105. SOEs were created for various reasons: some to provide reasonably priced goods or services, such as Nepal Drugs Ltd., and the Nepal Housing Development Finance Co. Ltd; and others to ensure the regulation of services, such as the Civil Aviation Authority. In many cases, the companies are small, with less than 100 employees and an operating profit or loss of under NR 300 million (Table 3.16).[50]

3.106. Some of the SOEs are consistently loss-making, such as Nepal Drugs Ltd., Nepal Orind Magnesite Pvt Ltd., and Nepal Television. On the other hand, some consistently make profits, such as most of the financing institutions. The Asian Development Bank's 2013 country partnership strategy stated that loss-making public enterprises, such as the Nepal Electricity Authority and the NOC, should be restructured, and their management and financial systems improved.[51] However, the results for FY 2016-17 and 2017-18 show that SOEs as a group are now profitable, including,

[46] New Business Age (2017), *Salt Trade Ltd. Proposes Hike in Salt Price*, 6 February. Viewed at: http://newbusinessage.com/Articles/view/5294 [May 2018].
[47] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III(3)(iii).
[48] Ministry of Finance (2018), *Annual Performance Review of Public Enterprises 2018,* Kathmandu. Viewed at: http://mof.gov.np/en/archive-documents/soe-information--yellow-book-29.html [August 2018].
[49] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III(3)(iv).
[50] Ministry of Finance (2013), *Annual Performance Review of Pubic Enterprises 2013*, Kathmandu (English). Ministry of Finance (2018), *Annual Performance Review of Public Enterprises 2017,* Kathmandu (Nepali). Viewed at: http://mof.gov.np/en/archive-documents/soe-information--yellow-book-29.html [May 2018].
[51] Asian Development Bank (2013), *Country Partnership Strategy – Nepal 2013-2017*, October, pg. 2. Viewed at: https://www.adb.org/sites/default/files/institutional-document/34001/files/cps-nep-2013-2017.pdf [May 2018].

following a change in the fuel pricing policy (Section 4.2), the NOC. The Corporation Co-ordination Division in the Ministry of Finance is responsible for SOE policy and managing privatization[52], while the semi-autonomous Public Enterprises Management Board regulates and oversees the management of SOEs.

Table 3.16 SOEs, operating profits and numbers of employees

	SOE	Operating profit (loss) (NR million)			Number of employees		
		Actual 2011-12	Actual 2016-17	Estimate 2017-18	Actual 2011-12	Actual 2016-17	Estimate 2017-18
	Industrial sector						
1	Dairy Development Corporation	(1,997)	(2,139)	50	1,117	1,122	1,149
2	Herbs Production and Processing Co. Ltd.	(393)	71	71	204	166	166
3	Hetauda Cement Industries Ltd.	(1,325)	1,549	2,440	548	386	414
4	Janakpur Cigarette Factory Ltd.	(3,833)	(384)	-	812	33	33
5	Nepal Drugs Ltd.	(433)	(1,387)	(2,959)	269	110	110
6	Udayapur Cement Industries Ltd.	(824)	377	3,940	502	405	465
7	Nepal Orind Magnesite Pvt. Ltd.	(1,242)	(1,195)	(6,184)	23	23	22
	Total	**(10,047)**	**(3,107)**	**(2,642)**	**3,475**	**2,245**	**2,359**
	Trading sector						
8	Agriculture Inputs Company Ltd.	(323)	1,321	529	275	270	296
9	National Seeds Company Ltd.	(139)	455	43	73	79	79
10	National Trading Corporation Ltd.	(1,475)	14,303	-	369	42	-
11	Nepal Food Corporation	5	642	681	440	268	280
12	NOC	(97,159)	104,114	109,319	623	728	1,099
13	The Timber Corporation of Nepal Ltd.	(1,423)	(188)	923	181	181	102
	Total	**(100,514)**	**120,647**	**111,495**	**1,961**	**1,568**	**1,856**
	Service sector						
14	Industrial District Management Ltd.	(310)	404	214	194	207	220
15	National Construction Company Nepal Ltd.	(161)	0	0	34	0	0
16	Nepal Transit and Warehouse Ltd.	67	255	262	121	58	58
17	Nepal Eng. Consultancy Service Cen. Ltd.	0	0	0	0	0	0
18	Nepal Airlines Corporation	1,008	1,663	737	1,411	1,406	1,512
19	National Productivity & Eco. Dev. Centre Ltd.	(105)	(71)	(205)	25	15	13
20	Civil Aviation Authority of Nepal	22,249	15,072	7,874	973	890	890
	Total	**22,748**	**17,323**	**8,882**	**2,758**	**2,576**	**2,693**
	Social sector						
21	Sanskritik Sansthan	146	(276)	(164)	78	84	84
22	Gorkhapatra Sansthan	741	1,009	0	549	375	0
23	Janak Shiksha Samagri Kendra Ltd.	(315)	(3,162)	606	764	435	425
24	Nepal Television	(1,021)	(960)	(1,253)	401	403	439
25	Rural Housing Company Ltd.	22	(334)	701	77	76	0
	Total	**(427)**	**(3,723)**	**(111)**	**1,869**	**1,373**	**948**
	Public utility sector						
26	Nepal Drinking Water Corporation	(1,350)	(2,079)	2,747	729	569	550
27	Nepal Electricity Authority	(116,432)	15,122	4,382	9,013	8,351	8,709

[52] Ministry of Finance online information. Viewed at: http://mof.gov.np/en/divisions/corporation-co-ordination-division-39.html [May 2018].

	SOE	Operating profit (loss) (NR million)			Number of employees		
		Actual 2011-12	Actual 2016-17	Estimate 2017-18	Actual 2011-12	Actual 2016-17	Estimate 2017-18
28	Nepal Doorsanchar Company Ltd (Nepal Telecom)	116,329	153,728	162,993	5,536	4,286	4,310
29	Electricity Production Company	n.a.	(323)	305	n.a.	7	12
30	National Electricity Grid	n.a.	47	83	n.a.	19	19
	Total	**(1,453)**	**166,495**	**165,016**	**15,278**	**13,232**	**13,600**
	Financial sector						
31	Agricultural Development Bank Ltd.	(1,027)	25,652	28,388	3,303	2,632	2,558
32	Rastriya Beema Sansthan (Life)	10,182	2,370	2,307	75	74	80
33	Rastriya Beema Sansthan (Non-Life)	1,533	68	80	137	81	166
34	Nepal Industrial Development Corporation Ltd.	4,948	2,090	778	53	46	43
35	Rastriya Banijya Bank Ltd.	248	27,763	37,128	2,644	2,248	2,547
36	Deposit and Credit Guarantee Corporation Ltd.	2,295	9,206	9,439	26	44	44
37	Nepal Stock Exchange Ltd.	705	3,721	4,093	37	31	79
38	Citizen Investment Trust	5,539	9,684	4,801	111	127	153
39	Hydroelectricity Investment and Development Company Ltd.	5,074	4,910	6,632	10	16	16
40	Nepal Bank Ltd.	n.a.	31,179	20,257	n.a.	2,112	2,112
	Total	**29,725**	**116,643**	**113,904**	**6,414**	**7,411**	**7,898**
	Grand total	**(59,968)**	**414,278**	**396,545**	**31,755**	**28,405**	**29,354**

n.a. Not applicable (i.e. not listed).

Source: Ministry of Finance Yellow Books 2013/14 and 2018/19.

3.3.6 Government procurement

3.107. Nepal is neither a party nor an observer to the WTO Government Procurement Agreement. The Public Procurement Act, 2007 (as amended), and the Public Procurement Regulations, 2007, apply to all procurement by all public bodies, including central and local government bodies, and wholly and majority state-owned enterprises. Although each public entity is responsible for procurement, the Public Procurement Monitoring Office (PPMO), which was established under the Act, is responsible for, *inter alia*: ensuring good governance in public procurement; developing policy; monitoring implementation of the law; developing and issuing standard bidding documents; issuing manuals, directives, instructions and technical notes; soliciting the views of stakeholders on the procurement system; and coordinating public procurement.[53]

3.108. Under the Act, each public procurement entity is required to set up a procurement unit and set out a description of the goods, services and works to be procured, cost estimates, a procurement plan, the procurement methods based on cost estimates and thresholds, and the technical requirements required from bidders. In addition, each procurement entity must prepare a master procurement plan for contracts of more than one year or with a value of more than NR 100 million, and an annual procurement plan for all contracts of more than NR 1 million. It has been reported that: "most PEs do not have master or annual procurement plans in place, that there is poor correlation between procurement and budgeting and that PEs have weak skills in preparing cost estimates".[54] However, the authorities noted that all public bodies are required to have a procurement plan and a procurement officer, and all are monitored by the PPMO and subject to

[53] PPMO online information. Viewed at: http://ppmo.gov.np/home [August 2018].

[54] Japan International Cooperation Agency, The Crown Agents for Oversea Governments and Administrations Ltd. (2013), *Study on Public Procurement Systems and Capacity in South Asian Countries – Final Report*, February, Sutton. Viewed at: http://open_jicareport.jica.go.jp/pdf/12087599.pdf [August 2018].

audits. Furthermore, amendments to the Public Procurement Act are intended to simplify procedures, and e-bidding is now compulsory for contracts of NR 5 million and above.

3.109. Although discrimination is prohibited, goods manufactured in Nepal should be acquired if the difference in price compared to foreign goods is not more than 10%, and for consultancy services, international consultants must have a local agent.

3.110. Thresholds and the related procurement methods are in Table 3.17. A contract may not be divided into separate lots so that a lower method of procurement can be used.

Table 3.17 Procurement methods and thresholds

(NR)

Method	Goods and services	Works	Consultancy services
National level open tendering	More than 1,000,000	More than 2,000,000	
International tendering	Open international bidding is used when: the goods or services are not available in Nepal; no bids were received under national bidding; a donor requires international bidding, or the contract is complex and requires international bidding.		
Sealed quotes	300,000 to 1,000,000	500,000 to 2,000,000	
Direct purchase	Up to 300,000	Up to 500,000	
Users committee or beneficiary group	Up to 6,000,000	Up to 6,000,000	
Force account	Minor regular works, goods, services.		
Competitive proposal	n.a.	n.a.	Over 100,000
Direct negotiation	n.a.	n.a.	Up to 100,000

n.a. Not applicable.

Source: Public Procurement Regulations, 2007 (last amended in 2016).

3.111. Prequalification criteria are required for "large" and "complex" construction works or "high value" goods; these terms are to be defined by the PPMO. They may also be used based on the decision of the procuring entity. However, they may not be used for works contracts with an estimated value of less than NR 6 million. When prequalification is used, all qualified applicants must be invited to bid.

3.112. Under tendering, single-stage bidding is normally required, although two-stage bidding may be used where it is not feasible to define all technical aspects in the tender, or if the complex nature of the procurement means the procuring entity must discuss it with the bidders. Contracts should be awarded to the lowest evaluated bid, taking into account the preference for Nepalese goods and companies (see above), where the terms of evaluation are set out in the bidding documents.[55]

3.113. A complaint concerning public procurement should be made within seven days of the bidder becoming aware of an error in the process or of a breach of the rules. In the first instance, the complaint should be made to the head of the procuring entity (unless the contract is already in force), which has seven days in which to respond. For a contract over NR 30 million, if the head of the procuring entity has not responded within the deadline, or the complainant is not satisfied with the response, a complaint may be submitted to the Review Committee in the PPMO along with a security deposit of 0.5% of the value of the contract. Although there are provisions in the Public Procurement Act for complaints, it has been reported that: "in practice, the majority of procurement complaints are submitted to the courts or to anti-corruption organisations, such as the Commission on Investigation of Abuse of Authority and National Vigilance Centre".[56]

[55] Adhikari, R. P. (2015), *Public Procurement Issues and Challenges in Nepal*, Journal of Engineering Economics and Management, Vol. 2-3, January pp 3-27. Japan International Cooperation Agency, The Crown Agents for Oversea Governments and Administrations Ltd (2013), Study on Public Procurement Systems and Capacity in South Asian Countries – Final Report, February, Sutton. Viewed at: http://open_jicareport.jica.go.jp/pdf/12087599.pdf [April 2018].

[56] Japan International Cooperation Agency, The Crown Agents for Oversea Governments and Administrations Ltd (2013), Study on Public Procurement Systems and Capacity in South Asian Countries – Final Report, February, Sutton, pg. 112. Viewed at: http://open_jicareport.jica.go.jp/pdf/12087599.pdf [April 2018].

3.114. Starting in 2012, the PPMO began the development of an electronic government procurement (e-GP) system, which was developed with assistance from the Asian Development Bank, the United Kingdom, and the European Union. The comprehensive e-GP system began operating in July 2016, and covers all stages of public procurement from user registration to awards of contracts. The e-GP system will replace existing systems used by public procurement entities, with plans to use it to cover Asian Development Bank- and World Bank-funded projects as well.[57] At April 2018, there were 965 public entities using the e-GP system and 4,229 registered users.

3.115. Data were unavailable on public procurement spending, numbers of contracts, procurement methods, or the number and value of contracts awarded to Nepalese and foreign companies.

3.3.7 Intellectual property rights

3.116. The Department of Industry in the Ministry of Industry, Commerce and Supplies is responsible for policy formulation and the preparation of draft legislation on intellectual property (IP). In addition to the WTO, Nepal is a member of the World Intellectual Property Organization (WIPO), a party to the Paris Convention for the Protection of Industrial Property, and the Berne Convention for the Protection of Literary and Artistic Works. It is not a member of the Madrid Union relating to the Madrid Agreement and Protocol Concerning the International Registration of Marks[58] or the Lisbon Agreement for the Protection of Appellations of Origin and their International Recognition.[59]

3.117. The new Constitution includes IP within the definition of property, and states that: "Every citizen shall, subject to law, have the right to acquire, own, sell, dispose, acquire business profits from, and otherwise deal with, property" (Article 25). During the period under review, there were no changes to the legislation on IP (Table 3.18) and, as noted in the last Report, current legislation does not cover layout designs, geographical indications (GIs), plant varieties, or undisclosed test or other data.[60] Although the National Seeds Board may register and grant ownership rights on new plant varieties and establish ownership rights for traditionally used local plant varieties, there are no specific provisions for such rights in the Seeds Act, and no plant breeder has applied for ownership rights.[61] On the other hand, in 2017, there were 605 varieties of 65 crops registered and released in Nepal.[62]

[57] Asian Development Bank (2016), *Instituting e-Government Procurement in Nepal*, Knowledge Showcases, Issue 66, June. Viewed at: https://www.adb.org/sites/default/files/publication/184930/ks066-e-gov-procurement-nepal.pdf [April 2018].

[58] WIPO online information. Viewed at: http://www.wipo.int/madrid/en/members/ [July 2018].

[59] WIPO online information. Viewed at: http://www.wipo.int/treaties/en/registration/lisbon/ [July 2018].

[60] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III, paragraph 111.

[61] Shrestha, P. K. (2016), *Commentary on the Nepalese Seeds Act and Seeds Regulation*, in *Farmers' Crop Varieties and Farmers' Rights – Challenges in Taxonomy and Law*, edited by Halewood, M., London and New York, Routledge, pp 324-331. Viewed at: https://www.bioversityinternational.org/e-library/publications/detail/farmers-crop-varieties-and-farmers-rights-challenges-in-taxonomy-and-law/ [April 2018].

[62] Joshi, B.K. (2017), *Plant Breeding in Nepal: Past, Present and Future*, Journal of Agriculture and Forestry University, Vol. 1 (2017): I-33.

Table 3.18 IP legislation

Legislation	Protection	Agency
Patent, Design and Trademark Act, 1965	Patents: 7 years, with a possibility of two renewal periods of 7 years (maximum 21 years). Industrial designs: 5 years, with a possibility of two renewal periods of 5 years (maximum 15 years).	Department of Industry, Ministry of Industry, Commerce and Supplies
Copyright Act, 2002 Copyright Rules, 2004	Authors' rights: 50 years from the death of the author. Work published in volumes: 50 years from the date of the first publication of such work, or the date on which the work is made public, whichever is earlier. Cinematographic or audiovisual works: 50 years from the first publication. Performers: 50 years from the first publication. Producers of phonograms: 50 years from the first publication. Producers of film: 50 years from the first publication. Broadcasting organizations: 50 years from the first publication. Photographs: 25 years from the year of preparation of such work.	Copyright Registrar Office, Ministry of Culture, Tourism, and Civil Aviation
Seeds Act, 1988	Registration and grant of ownership.	National Seed Board, Ministry of Agriculture, Land Management and Cooperatives

Source: Data received from the authorities, and WTO document WT/TPR/S/257/Rev.1.

3.118. Fees for the registration and renewal of intellectual property rights (IPRs) are the same for foreign and domestic applications, and have not changed since the last Review, except for the fees for a copy of the registration certificate for industrial designs and trademarks, which were increased from NR 500 each to NR 1,000 and NR 2,000, respectively (Table 3.19).

Table 3.19 Registration and renewal fees, 2018

(NR)

Particulars of fees	Patent	Design	Trademark
Application	2,000	1,000	1,000
Application amendment	500	500	500
Registration	10,000	7,000	5,000
Transfer of ownership	5,000	3,000	2,000
Changes in record	2,000	1,000	1,000
Search of registration	750	750	500
Complaint and opposition	1,000	1,000	1,000
Copy of registration certificate	1,000	1,000	2,000
Renewal (annual rate)	n.a.	n.a.	500
a. For the first term	5,000	1,000	n.a.
b. For the second term	7,500	2,000	n.a.

n.a. Not applicable.

Source: Department of Industry online information. Viewed at: http://iponepal.gov.np/fee.php [August 2018].

3.119. The last Report noted that a new law on industrial property was being prepared, which would cover all categories of industrial property rights, including layout designs, parallel imports, compulsory licensing, and the Amendment to the TRIPS Agreement (the latter was accepted by

Nepal on 11 March 2016[63]).[64] At April 2018, the new legislation had not been passed but, in 2017, the Government released its first National Intellectual Property Policy[65] and, in 2015, the National Information and Communication Technology (ICT) Policy, which addressed the protection of IP on-line.

3.120. The National Intellectual Property Policy sets out five objectives:

(i) to encourage protection, promotion and development of IP;

(ii) to develop a balanced IP system;

(iii) to create awareness about the social, economic and cultural aspects of IP;

(iv) to encourage the commercialization of IP; and

(v) to strengthen the legal, administrative and human resources to ensure protection and enforcement of IP.

3.121. To achieve these objectives, the Policy aims to revise the existing legislation and legislate for GIs, petty patents, traditional/cultural knowledge, integrated circuits, trade secrets, biodiversity, and plant variety protection. In addition, enforcement of IP protection, and awareness and promotion of IPRs are to be addressed. A National Intellectual Property Council is to be established, consisting of representatives from civil society, the public sector, and experts, to assist policy development.[66]

3.3.7.1 Copyright

3.122. Copyrights may be registered with the Copyright Registrar's Office in the Ministry of Culture, Tourism and Civil Aviation. Although registration is not required for copyright protection, registration is useful for proof of copyright and for licensing and commercial exploitation.

3.123. In general, protection is 50 years from creation for films, performances, and recordings, or from the death of the author for authors' rights, or 25 years for photographs (Table 3.18). According to the Copyright Act, 2002, fines for infringement may range from NR 10,000 to 100,000 and imprisonment for up to six months for the first infringement and double that for second and subsequent infringements. In addition, the owner of the copyright should be compensated for any loss incurred through the infringement. Data on the number of cases taken to the courts were not available.

3.124. Copyright registrations vary from one year to the next, from as low as 59 in FY 2011-12 to 213 in FY 2013-14.[67]

3.3.7.2 Trademarks

3.125. Trademarks for goods and service marks for companies should be registered with the Industrial Property Section in the Department of Industry in the Ministry of Industry, Commerce and Supplies. Trademarks are registered for seven years (renewable). Ownership of a trademark is conferred upon registration with the Department of Industry, with no specific provisions in the Act relating to protection for unregistered trademarks, including well-known and famous marks. However, someone who has submitted an application to register a trademark in another party to the Paris Convention may claim priority when filing an application for the same trademark in Nepal.

3.126. A trademark will not be registered if: "such trade-mark may hurt the prestige of any individual or institution or adversely affect the public conduct or morality or undermine the national

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[63] WTO document WT/LET/1138, 17 March 2016.

[64] WTO document WT/TPR/S/257/Rev.1, 19 April 2012, Section III, paragraphs 112-113.

[65] Ministry of Industry, Commerce and Supplies (2017), *National Intellectual Property Policy, 2017*. March. Viewed at: http://www.moi.gov.np/downloadfile/rastriya_baudik_sampatiniti_2073_1490948967.pdf (Nepalese) [April 2018].

[66] Government of Nepal (2017), *National Intellectual Property Policy, 2017*, Kathmandu, and Upreti, P. N. (2017), *A Brief Analysis of Nepal's First National IP Policy*, in Intellectual Property Watch, June. Viewed at: http://www.moi.gov.np/downloadfile/rastriya_baudik_sampatiniti_2073_1490948967.pdf [August 2018] and http://www.ip-watch.org/2017/06/09/brief-analysis-nepals-first-national-ip-policy/ [August 2018].

[67] Copyright Registrar's Office online information. Viewed at: http://www.nepalcopyright.gov.np/en/content.php?id=230 [August 2018].

interest or the reputation of the trade-mark of any other person, or in case such trade-mark is found to have already been registered in the name of another person" (Article 18). In addition, if a trademark is not used within a year of registration, the registration may be cancelled. Illegal use of a trademark is punishable by the confiscation of the goods and a fine of up to NR 100,000.

3.127. Infringements suits may be brought to the courts by the owner of a registered trademark against an infringing party, seeking an injunction and the confiscation of the offending material, or the owner may seek administrative action from the Department of Industry.

3.128. Since 2011, there has been an uneven upward trend in filings, applications, and registrations, including from non-residents.

Table 3.20 Trademarks

	Filings	Number of classes in applications			Number of classes in registrations		
	Total	Resident	Non-resident	Abroad	Resident	Non-resident	Abroad
2011	2,256	2,204	1,379	52	762	619	20
2012	2,531	2,471	1,490	60	1,001	915	325
2013	2,857	2,845	1,706	12	1,519	1,091	46
2014	3,055	2,942	1,796	113	909	953	12
2015	2,495	2,464	1,812	31	1,107	1,146	102
2016	3,357	3,215	1,863	142	1,169	1,617	27

Note: Application class count: In the international trademark system, an applicant can file a trademark application that specifies one or more of the 45 goods and services classes of the Nice Classification.

Source: WIPO Statistical Country Profiles.

3.3.7.3 Industrial designs

3.129. An application to register an industrial design should be made to the Industrial Property Section in the Department of Industry, by submitting an application along with a description, drawings and four copies of the model. For trademarks, priority may be claimed under the Paris Convention. An application may be refused if it is deemed to have an adverse effect on the dignity of any individual or institution, if it affects the wellbeing or morale of the public in general or in the national interest, or if such a design has already been registered in the name of another person. The Department of Industry also checks whether the design to be registered is new and original.

3.130. There has not been any discernible trend in the number of filings or in the number of designs covered by these filings over the past few years (Table 3.21).

Table 3.21 Industrial designs

	Filings	Number of designs in applications			Number of designs in registrations		
	Total	Resident	Non-resident	Abroad	Resident	Non-resident	Abroad
2011	21	21	0	0	0	0	0
2012	4	3	13	1	5	15	1
2013	21	21	35	0	0	0	0
2014	0	0	0	0	5	4	0
2015	16	16	19	0	0	1	0
2016	15	11	23	4	10	11	0

Note: Application design count: Under the Hague System for the International Registration of Industrial Designs, an applicant may obtain protection for up to 100 industrial designs for products belonging to one and the same class by filing a single application.

Source: WIPO Statistical Country Profiles.

3.131. The registration of an industrial design lasts for five years, which may be renewed twice for an additional five years each time.

3.3.7.4 Patents

3.132. Patent applications should be made to the Industrial Property Section in the Department of Industry, by submitting an application form along with a description of the method of operation or utilization of the invention and, if necessary, the principle or formula on which it is based, drawings, and, if the invention is by someone else, the conditions for acquiring the right to the patent from the inventor. A patent application may be refused if: the invention has already been registered; the applicant is not the inventor and has not acquired the right to register from the inventor; the invention could have an adverse effect on the health, conduct, or morals of people in general; the invention is against the public interest; or it violates the prevailing laws in Nepal.

3.133. According to the Department of Industry, patent examination follows the usual principles of novelty, industrial applicability, and inventive step before deciding whether to grant a patent, and the Department may, if necessary, take advice from experts in the area related to the application. Once granted, the rights to the patent are for seven years, renewable twice for an additional seven years each time.

3.134. Penalties for infringements of patent rights include fines of up to NR 500,000 and the confiscation of the offending goods.

3.135. Seventy-two patents were in force in 2014 and, although the number of filings and applications has been quite low, very few patents were granted in the review period (Table 3.22).

Table 3.22 Patents

	Patent filings	Patent applications			Patents granted		Patents in force
		Resident	Non-resident	Abroad	Resident	Abroad	
2011	11	8	15	3	2	0	n.a.
2012	9	4	13	5	2	0	72
2013	21	18	12	3	1	0	72
2014	12	10	36	2	0	2	72
2015	24	11	71	13	2	1	n.a.
2016	11	11	16	0	0	0	n.a.

n.a. Not available.

Source: WIPO Statistical Country Profiles.

3.3.7.5 Enforcement

3.136. Enforcement of IPR protection at the border is the responsibility of Customs. Under Section 68 of the Customs Act 2007, Customs may only act following a complaint by the IPR holder. Data were not available for enforcement at the border, but on enforcement generally the authorities stated that there were more than 100 cases regarding the infringement of trademarks per year. For FY 2017-18, there was a total of 679 trademark cases under consideration in the Department of Industry, and 269 cases had been decided, with 209 under appeal in the courts. With few registered patents, there were no cases in the Department or the courts for infringement.

4 TRADE POLICIES BY SECTOR

4.1 Agriculture and Fisheries

4.1.1 Agriculture

4.1.1.1 Features

4.1. Agriculture is very important for the economy and employment in Nepal with the majority of the population living in rural areas and dependant on farming for food and income (Table 4.1). In FY 2017-18 agriculture contributed over 27% to GDP and represented about two-thirds of total employment.

Table 4.1 Agriculture in the economy 2010-11 to 2017-18

		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
GDP total	NR billion	1,367	1,527	1,695	1,965	2,130	2,253	2,643	3,007
GDP agriculture and forestry (ISIC)	% of GDP	36.7	34.8	33.4	32.2	31.3	31.1	28.2	27.1
Real annual growth	%	4.5	4.6	1.1	4.5	1.0	0.0	5.1	2.7
Employment									
Total	,000	n.a.	9,930	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Agriculture, forestry and fishing	,000	n.a.	6,356	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: n.a. – not available

Source: Central Bureau of Statistics. Viewed at: http://cbs.gov.np/sectoral_statistics/ [July 2018].

4.2. There are three distinct agricultural regions in Nepal:

- the Terai in the south along the border with India which is flat and fertile land at an altitude of 60 to 800 metres which has potential for increased production through more irrigation and better land use. A wide variety of crops are produced along with livestock and aquaculture. About 41% of the Terai is cultivated;

- the Hills in a central strip at an altitude of 800 to 1,800 metres which are characterised by sloped land and many small valleys. About 20% of this land is cultivated with maize as the main crop and livestock farming is important; and

- the high mountains over 1,800 metres where only 5% of the land is suitable for cultivation and access to markets and roads is difficult.

4.3. Due to the topography, out of a total of about 13 million ha in Nepal, approximately 3 million ha are cultivated and 6 million ha are under forest. The diverse topography also means Nepal has the potential to produce a wide variety of products but faces many challenges as a landlocked LDC with poor infrastructure, small scale farming, low productivity, and a high risk of natural disasters – the earthquakes of 25 April and 12 May 2015 were estimated to have caused NR 28.3 billion in damages and losses to agriculture.[1]

4.4. Practically all farming is carried out on small family holdings. In 2011-12 there were about 6.4 million people employed in agriculture, forestry and fishing, slightly less than two-thirds of the total employed, with nearly 4 million separate holdings of, on average, 1.5 ha each. In addition to being small, most holdings are fragmented with an average of 3.2 parcels per holding.[2] According to the Agriculture Development Strategy (ADS) 2015-2035, farm households could classified into three different groups:

[1] Ministry of Agricultural Development (2015), *Nepal Portfolio Performance Review (NPPR) 2015*, 11 September, presentation. Viewed at: www.mof.gov.np/uploads/document/file/report_2015_20150914084119.pdf [July 2018].

[2] Central Bureau of Statistics (2016), *2015 Statistical Year Book*, Kathmandu, Table 2.1 and 2.2.

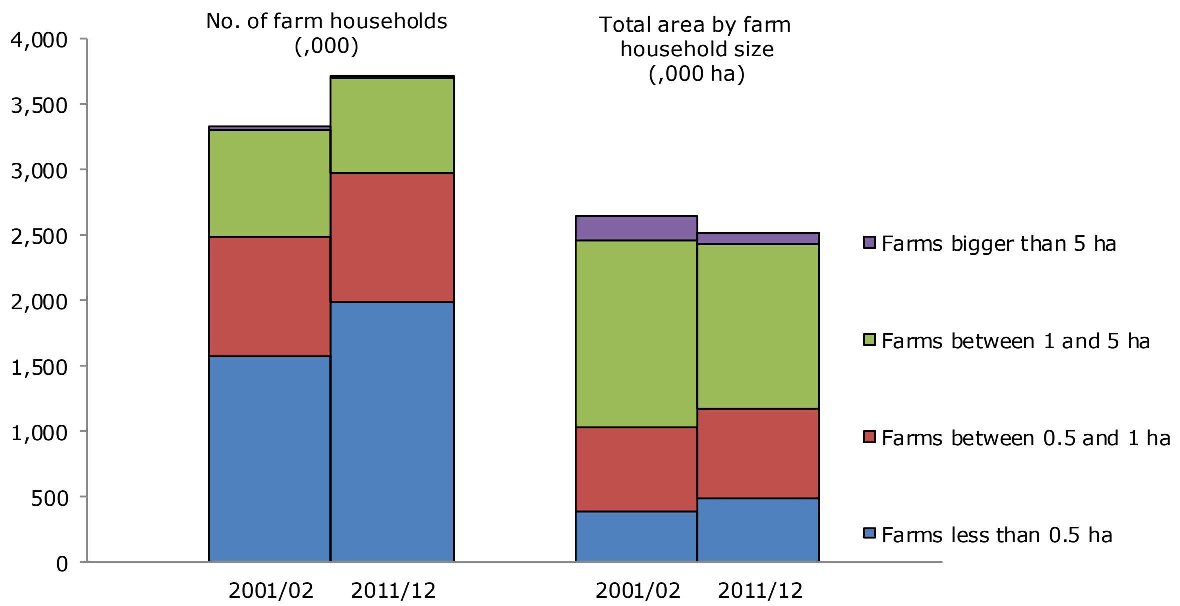
- the small commercial group represents about 61% of the total area of farm holdings, including the 20% of rural households who have farms of 1 ha or more. Within this group, those with 5 ha or more had 3.3% of the total area of holdings and amounted to 0.3% of all rural households. Small commercial farmers sell more than 30% of their output, the rest being consumed by the farm household;

- subsistence farmers represent 26.5% of rural households with holdings of 0.5 to 1.0 ha representing 27.6% of the total area of farm holdings. This group sells little, if any, of its output and must find off-farm employment to supplement production to survive; and

- those with less than 0.5 ha represent 53.5% of the rural population but only 19.2% of the total area of farm holdings. They are completely, or almost completely, dependent on off-farm work.[3]

4.5. From the data for 2001-02 and 2011-12, it appears that the total number of farms has increased while the total land area cultivated has decreased. Furthermore, the number of farms less than 1 ha has increased while the number of larger farms has decreased (Chart 4.1).[4] According to the authorities, the increase in the number of farm households and the decline in farm size are due to inheritance patterns where a farm is divided among the children of the deceased farmer.

Chart 4.1 Farm structure 2001-02 and 2011-12



Source: Government of Nepal, Ministry of Agricultural Development (2016), *Agriculture Development Strategy (ADS) 2015 to 2035, Part: 1*, Kathmandu, p. 83.

4.6. Despite many challenges facing agriculture in Nepal, the GDP of agriculture increased in real terms in every year since FY 2010-11, although growth slowed in 2014-15 and 2015-16 due to the 2015 earthquakes and disruptions to trade on the southern border (Table 4.1). According to the Food and Agriculture Organization (FAO), the total gross value of production for agriculture reached NR 909 billion in 2016; 73% of the value was from crops, with rice as the single most important crop followed by potatoes and maize (Table 4.2). In particular, the value and volume of production and the area devoted to roots and vegetables[5] (not including potatoes) have increased considerably

[3] Government of Nepal, Ministry of Agricultural Development (2016), *Agriculture Development Strategy (ADS) 2015 to 2035, Part: 1*, Kathmandu, pp. 83-84.
[4] Government of Nepal, Ministry of Agricultural Development (2016), *Agriculture Development Strategy (ADS) 2015 to 2035, Part: 1*, Kathmandu, p. 83.
[5] Where roots and vegetables include tubers (but not potatoes), rhizomes and leguminous crops. That is, FAO categories: artichokes; asparagus; avocados; bambara beans; beans, dry; beans, green; broad beans; horse beans; cabbages and other brassicas; carrots and turnips; cassava; cauliflowers and broccoli; chick peas; chicory roots; chillies and peppers; cow peas; cucumbers and gherkins; eggplants; garlic; ginger; leeks and

since 2010 and represented nearly one-third of the value of crop production in 2016. Similarly, the value of production of livestock products nearly doubled from 2010 to 2016 when it reached NR 246 billion.

4.7. In volume terms, production of the main commodities increased from 2010 to 2016, mainly due to increases in yield as the area under cultivation has not changed significantly, except for roots and vegetables (Table 4.2).

Table 4.2 Production of main agricultural commodities, 2010-16

		2010	2011	2012	2013	2014	2015	2016
Value of production	**NR million**	**536,836**	**632,082**	**727,254**	**749,438**	**817,438**	**853,530**	**908,831**
Crops	**NR million**	**409,812**	**481,340**	**531,489**	**538,038**	**603,351**	**636,986**	**662,753**
Rice	NR million	86,231	92,239	107,988	105,856	127,504	130,044	120,300
	000 ha	1,481	1,496	1,531	1,421	1,487	1,425	1,363
	000 tonnes	4,024	4,460	5,072	4,505	5,047	4,789	4,299
Potatoes	NR million	57,465	59,829	62,681	67,799	76,681	76,019	84,972
	000 ha	185	183	190	197	206	197	200
	000 tonnes	2,518	2,508	2,584	2,690	2,818	2,586	2,806
Maize	NR million	39,274	45,031	49,146	47,976	59,181	60,055	64,367
	000 ha	876	906	871	850	929	882	892
	000 tonnes	1,855	2,068	2,179	1,999	2,283	2,145	2,232
Wheat	NR million	30,804	37,762	40,080	41,284	48,608	55,074	49,890
	000 ha	731	767	765	754	754	762	746
	000 tonnes	1,557	1,746	1,846	1,727	1,883	1,976	1,737
Roots and vegetables[a]	NR million	117,431	153,274	163,490	169,518	179,247	193,629	205,258
	000 ha	590	607	622	606	617	662	654
	000 tonnes	3,686	3,941	4,075	4,096	4,265	4,416	4,569
Livestock	**NR million**	**127,023**	**150,742**	**195,765**	**211,400**	**214,087**	**216,544**	**246,078**
Milk, buffalo	NR million	38,407	46,481	49,615	57,608	56,946	57,258	64,828
	000 tonnes	1,067	1,109	1,154	1,188	1,168	1,167	1,210
Meat, buffalo	NR million	29,523	32,467	62,131	54,625	54,953	55,282	58,707
	000 tonnes	160	158	276	199	n.a.	n.a.	n.a.
Meat, goat	NR million	18,643	22,087	25,876	30,543	30,726	30,910	32,825
	000 tonnes	46	49	52	51	n.a.	n.a.	n.a.
Milk, cow	NR million	15,445	17,217	18,710	22,390	24,351	25,665	32,347
	000 tonnes	429	447	469	492	532	558	644

a Not including potatoes

n.a. not available

Source: FAOStat online database. Viewed at: http://www.fao.org/faostat/en/#data [August 2018].

4.1.2 Trade

4.8. Nepal is a net importer of agricultural products (WTO definition[6]). Exports of agricultural products declined in 2015 compared to 2013 and 2014 primarily because of a sharp fall in exports of nuts (HS 080290), tobacco (HS 240399), and dried vegetables (HS 071340). Exports recovered in 2017, even though exports of nuts and tobacco declined even more, but exports of cardamom (HS 090831), mixed juices (HS 200990), tea (HS 090240), and other products increased. Exports of agricultural goods are concentrated in a few areas with cardamom, mixed juices, and black tea representing over half of total exports of agricultural products. The main destination for exports of

other alliaceous vegetables; lentils; lupins; onions; peas; pigeon peas; pulses n.e.s.; pumpkins, squash and gourds; roots and tubers n.e.s.; spinach; string beans; sweet potatoes; taro; tomatoes; triticale; vegetables fresh n.e.s.; vegetables leguminous n.e.s.; yams; and cocoyam. See http://www.fao.org/faostat/en/#data [July 2018]

[6] For the purposes of this section of the TPR, the definition of agriculture products used is that set out in Annex 1 of the Agreement on Agriculture, where fish and fish products are taken to include tariff lines under HS2012 Headings 020840, 03, 050800, 050900, 051191, 1504, 1603, 1604, 1605, and 230120.

most products is India, with some exceptions such as dried vegetables (HS 071340), most of which go to Bangladesh, and dog and cat food (HS 230910) most of which goes to the United States.

4.9. Imports of agricultural goods increased from US$ 1.2 billion in 2013 to US$1.8 billion in 2017, although imports of some products, such as soya-bean oil (HS 150710) and palm oil (HS 151110) decreased. The main source for most imports is India, with some exceptions such as soya-bean oil (most of which comes from Argentina), sunflower and safflower oil (Ukraine), and palm oil (Indonesia).

Table 4.3 Trade in agricultural products, 2013-17

(US$ million)

Exports		2013	2014	2015	2016	2017
Total all exports		**863.3**	**900.9**	**660.2**	**728.8**	**740.7**
Total agriculture exports		**196.8**	**250.0**	**192.3**	**194.8**	**214.8**
of which						
090831	Spices; cardamoms, neither crushed nor ground	19.2	32.8	42.8	36.2	43.5
200990	Juices; mixtures of fruits or vegetables, unfermented, not containing added spirit, whether or not containing added sugar or other sweetening matter	25.0	24.9	23.0	29.7	31.4
090240	Tea, black; (fermented) and partly fermented tea, in immediate packings of a content exceeding 3kg	19.8	19.9	17.3	24.9	27.0
230641	Oil-cake and other solid residues; .. from low erucic acid rape or colza seed oils	6.0	6.3	5.8	11.5	15.0
140490	Vegetable products; n.e.c. in chapter 14	6.6	7.9	7.2	6.7	10.0
071340	Vegetables, leguminous; lentils, shelled, … dried	16.9	18.5	8.4	13.7	9.3
121190	Plants and parts n.e.c. in heading no. 1211, used primarily in perfumery, pharmacy or for insecticidal, fungicidal purposes; fresh or dried	10.1	12.9	5.3	6.1	7.3
190219	Food preparations; pasta, uncooked (excluding that containing eggs), not stuffed or otherwise prepared	6.8	8.8	6.0	7.6	7.1
230910	Dog or cat food; put up for retail sale, used in animal feeding	1.8	2.7	2.6	4.4	7.1
200911	Juice; orange, frozen, unfermented	9.9	8.2	5.0	5.6	6.2
080290	Nuts, edible; n.e.c. in heading no. 0801 and 0802, fresh or dried	18.3	36.9	17.1	0.0	0.1
240399	Tobacco; other than homogenised or reconstituted or smoking	10.1	20.5	12.0	2.3	1.8
Imports		**2013**	**2014**	**2015**	**2016**	**2017**
Total all imports		**6,451.7**	**7,590.1**	**6,612.1**	**8,878.5**	**10,037.8**
Total agricultural imports		**1,222.2**	**1,399.6**	**1,212.8**	**1,656.7**	**1,800.7**
of which						
100630	Cereals; rice, semi-milled or wholly milled, whether or not polished or glazed	80.9	144.7	141.2	191.7	192.5
150710	Vegetable oils; soya-bean oil and its fractions, crude, whether or not degummed, not chemically modified	302.4	139.6	99.9	130.9	149.3
100590	Cereals; maize (corn), other than seed	44.1	79.4	71.3	105.0	106.6
230400	Oil-cake and other solid residues; whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	43.3	62.8	63.7	71.2	89.0
151211	Vegetable oils; sunflower seed or safflower oil and their fractions, crude	23.5	35.4	12.7	38.1	57.6
151110	Vegetable oils; palm oil and its fractions, crude, not chemically modified	79.0	63.8	27.8	35.2	56.0
210690	Food preparations; n.e.c. in item no. 2106.10	37.1	43.5	38.8	52.7	55.9
120510	Oil seeds; low erucic acid rape or colza seeds, whether or not broken	22.1	21.5	28.4	41.4	54.0
100610	Cereals; rice in the husk (paddy or rough)	39.4	62.6	62.1	29.2	46.8
080810	Fruit, edible; apples, fresh	13.0	18.5	23.1	41.6	46.7

Source: UNSD Comtrade online database. Viewed at: https://comtrade.un.org/ [August 2018]

4.1.3 Agriculture policies

4.10. The simple average applied tariff on agricultural products (WTO definition) is 15% with a median of 10% (including estimates for *ad valorem* equivalents (AVEs) of non-*ad valorem* tariffs) and high variability indicated by a standard deviation of 20.8%. Beverages spirits and tobacco are particularly highly protected with an average of 58% while the applied tariff on agricultural cotton products is zero (Section 3.1.3). There are eight tariff lines with applied tariffs greater than 100%, which are applied to cigarettes and distilled spirits.

4.11. In acceding to the WTO, Nepal undertook not to use export subsidies for agricultural goods, has no commitments relating to tariff quotas, and did not reserve the right to use the special agricultural safeguard on any tariff line. The most recent notification for export subsidies to the WTO was for 2011.[7]

4.12. Exports of some agricultural products to destinations other than India qualified for subsidies under the Cash Incentive Scheme for Exports (CISE) which was introduced in 2012 with a subsidy rate that depended on the domestic value added: at 2% of the value of the export where the value of domestic content was 30%; and rising to 4% where the value of local content exceeded 80%. The Scheme was modified in 2013 and renamed the CISE 2070. Under the modified Scheme, the subsidy was 1% or 2% of the value of exports for eligible products, which included a number of agricultural products under both the "agricultural products" and "industrial products" headings (Table 4.4). The budget for the Scheme for FY 2013-14 was NR 300 million.[8] In the Budget Speech for FY 2018-19, the Minister for Finance stated that export grants of up to 5% would be provided for exports of industrial produce.[9] According to the authorities, at mid-August 2018, the modalities for the scheme had not been developed and, with a budget allocation of US$ 5.4 million, the impact of the subsidy would be insignificant.

Table 4.4 Eligible products and subsidy rates CISE 2070

Industrial products		Agricultural products
2% subsidy rate	**1% subsidy rate**	**1% subsidy rate**
Processed coffee	Ready-to-eat chow chow	Seeds
Semi-processed hides and skins	Bran	Cut flowers
Handcraft and wooden craft	Wheat flour	Fruits
Handmade paper and related products	Polyester or viscose yarn	Vegetables
Processed honey	Read-made garments	Ginger
Tea	Polyester textile yarn	Cardamon
Carpet and woollen garments	Vegetable fat/oil	Herbs
Pashmina and silk products	Transfers	
Processed herbs and essential oils	Ball pens	
	Lentils	
	Precious and semi-precious jewellery	
	Gold and silver ornaments	
	Turmeric	
	Dried ginger	

Source: Defever F, Reyes JD, Riaño A, Varela G (2017), *All These Worlds Are Yours, Except India – The Effectiveness of Export Subsidies in Nepal*, World Bank, Policy Research Working Paper 8009, March, Table 1.

4.13. The Ministry of Agriculture and Livestock Development is the principal Government entity responsible for developing agricultural policies although several other ministries are involved in different aspects of agricultural policy, including: the Ministry of Land Management, Co-operatives and Poverty Alleviation; the Ministry of Forests and Environment; and the Ministry of Energy, Water Resources and Irrigation. In addition, a number of government agencies are responsible for implementing policy such as: the Nepal Agricultural Research Council (NARC), established in 1991 as an autonomous organization under the Nepal Agricultural Research Council Act of 1992, which

[7] WTO document G/AGN/N/NPL/3, 12 October 2012.

[8] Defever F, Reyes JD, Riaño A, and Varela G (2017), *All These Worlds Are Yours, Except India – The Effectiveness of Export Subsidies in Nepal*, World Bank, Policy Research Working Paper 8009, March. Viewed at: http://documents.worldbank.org/curated/en/698681490020512516/All-these-worlds-are-yours-except-India-the-effectiveness-of-export-subsidies-in-Nepal [June 2018].

[9] Government of Nepal, Ministry of Finance (2018), *Budget Speech of Fiscal Year 2018/19, Delivered to Joint Assembly of Federal Parliament,* 29 May, para 106.

conducts agricultural research; the Agricultural Development Bank (ADB); and the Small Farmers Development Bank (SFDB). Both banks operate under the Ministry of Finance.

4.14. There is no integrated agricultural law in Nepal but there are specific laws relating to different aspects of agricultural policy such as: the Nepal Agricultural Research Council Act of 1992; the Seeds Act of 1988, which provides the legal basis for seed quality standards and the distribution of seeds to farmers; and the Cooperatives Act of 2017, which makes provision for the establishment, registration, operation, and management of cooperative associations or societies. Agricultural policies are implemented through funds provided from the Budget.

4.15. Current policy is set out in the ADS which followed on from the Agriculture Perspective Plan 1995-96 to 2014-15. According to the ADS, the vision of the policy may be summarized as: "a self-reliant, sustainable, competitive, and inclusive agriculture sector that drives economic growth and contributes to improved livelihoods and food and nutrition security leading to food sovereignty". To achieve this goal, several objectives are set out for the short, medium, and long term, which include: self-sufficiency in food grains and a trade surplus in agricultural goods; higher productivity; and better nutrition (Table 4.5).

Table 4.5 Indicators and targets for the ADS vision

Indicator	2015	Short-term target 5 years	Medium-term target 10 years	Long-term target 20 years
Self-sufficiency				
Food grains (trade surplus/deficit)	16% deficit	0% deficit	0-5% surplus	0-5% surplus
Sustainability				
Irrigation (% year-round coverage)	25.2	35	60	80
Soil organic matter (%)	2	3	4	4
Degraded land (million ha)	3.7	2.9	2.6	1.6
Forest cover (% land)	44.7	44.7	44.7	44.7
Land productivity (US$ GDP/ha)	3,278	4,184	5,339	8,697
Agribusiness (% of GDP)	8	9	11	16
Competitivity				
Trade balance in agricultural products (US$ million)	- 1,123	-1,073	-882	+ 508
Inclusivity				
Farm land owned by women or joint ownership (%)	15	20	30	50
Farmers reached by agricultural programmes (%)	18	22	26	32
Growth				
Annual growth in agricultural GDP (%)	2.2	4	5	6
Livelihood				
Agricultural (US$ GDP/labour unit)	835	1,029	1,268	1,926
Poverty in rural areas (%)	24.3	19	15	9
Nutrition				
Stunting (%)	37.4	29	20	8
Underweight (%)	30.1	20	13	5
Wasting (%)	11.3	5	2	1
Women with low body mass index (%)	18.1	15	13	5

Source: Government of Nepal, Ministry of Agricultural Development (2016), ADS, Part: 1, Kathmandu, pp. 3-4.

4.16. According to the ADS, higher productivity of land and labour is the basis for the Strategy and this requires: "the adoption of appropriate technologies and know-how to increase efficiency and sustainability of agricultural production consistently with market demand and food security needs of subsistent farmers. The measures to raise agricultural productivity include those related to (i) effective agricultural research and extension; (ii) efficient use of agricultural inputs; (iii) efficient and sustainable practices and use of natural resources (land, water, soils, and forests); and (iv) increased resilience to climate change and disasters". In addition, the ADS states that improved governance through better policies and their implementation by government entities is essential to deliver support to farmers this requires better coordination among these entities and with other stakeholders, such as farmer organizations, cooperatives, and the private sector.[10]

4.17. The total cost for the programmes under the ADS was estimated to be about NR 502 billion over ten years, of which about 87% was to be provided by the Government and donors and the rest from the private sector and communities. For FY 2018-19, public spending on the ADS was to be 89.44% from the Government and 10.56% from donors. The largest programme is for irrigation, followed by the Value Chain Development Program (VADEP) which is intended to develop each step of the value chain from inputs, to production and processing, including infrastructure, quality assurance, and technology (Table 4.6).

Table 4.6 Total 10-year cost, ADS

Programme costs	NR million	Note
Irrigation	94,830	Completion of existing schemes, maintenance and construction of new systems, and improvements in efficiency.
Infrastructure	27,310	Infrastructure investment to include rural roads, markets, irrigation banks, etc.
Innovation and Agroentrepreneurship Program (INAGEP)	19,485	Combination tax incentives, agribusiness incubators, matching grants.
Value Chain Development Program (VADEP)	72,727	Support for development of each step of the value chain, initially focussing on maize, dairy, vegetables, lentils, and tea.
Decentralized Science, Technology, and Education Program (DESTEP)	62,883	Decentralization of extension and research services.
Food and Nutrition Security Program (FANUSEP)	30,657	Develop with FAO, to be aligned with other initiatives to improve nutrition.
Forestry	40,538	
Fertilizer	38,000	
Other	115,405	
Total	**501,835**	

Source: Government of Nepal, Ministry of Agricultural Development (2016), ADS, Part: 1, Kathmandu, pp. 19-20

4.18. In addition to the ADS, policies have been set out for some specific sectors such as the Floriculture Promotion Policy of 2012, the Pasture Policy of 2012, and the National Sector Export Strategies for 2017-2021 for coffee, cardamom, and tea.

4.19. At end-August 2018, the most recent WTO notification for domestic support to agriculture was for the calendar years 2010 and 2011. For 2011, the notification showed that the total value of support was about NR 5.1 billion – which was about 0.8% of the value of agricultural production for that year. According to this and earlier notifications, agriculture support is provided over a range of programmes. However, some programmes notified as Green Box in 2010 were notified as being exempt from reductions under Article 6.2 of the Agreement on Agriculture for 2005, 2007, and 2009.[11]

4.20. For FY 2017-18, the total budget for the Ministry of Agriculture, Land Management and Cooperatives was NR 24.3 billion which included administrative expenses. However, the Ministry has been separated into two: the Ministry of Agriculture and Livestock Development; and the Ministry of Land Management, Co-operatives and Poverty Alleviation. Therefore, the budget will be divided accordingly.

4.21. In addition to the programmes under the Ministry, the budget for the Ministry of Finance included provisions for the ADB, the SFDB, the Micro Insurance Support Program and the Agriculture and Livestock Interest Subsidy.

4.22. Although there were about 40 different programmes for agriculture, four of them accounted for over half the total budget of the Ministry of Agriculture Development (Table 4.7).

[10] Government of Nepal, Ministry of Agricultural Development (2016), *ADS, Part: 1*, Kathmandu, pp.5-9.

[11] WTO documents: G/AG/N/NPL/2, 24 October 2011; and NPL/4, 3 October 2012.

Table 4.7 Spending on agricultural programmes 2012-13 to 2016-17 and Budget for 2017-18

(NR million)

	2012-13 Spending	2013-14 Spending	2014-15 Spending	2015-16 Spending	2016-17 Estimated Spending	2017-18 Budget
Ministry of Finance						
ADB SFDB Micro Insurance Support Program	130	157	231	238	570	397
Agriculture and Livestock Interest Subsidy	1,000	1,000	500	1,776	2,116	2,300
Ministry of Agricultural Development						
Prime Minister Agriculture Modernization Project	-	-	-	-	5,250	3,259
Special Program for Agricultural Production	4,927	5,957	5,453	5,799	4,638	5,129
Agricultural Extension Program	54	1,341	2,043	2,304	2,576	1,919
Project for Commercial Agriculture and Trade	259	652	476	1,112	2,183	-
Agriculture Research Program	948	1,750	1,672	1,884	1,911	2,456
Agriculture Food Security Project	3	214	1672	1,151	1,328	1,524
Improved Seed for Farmers Programme	19	132	255	569	1,333	1,123
Raising Income of Small & Medium Farmers Project	150	271	145	403	572	941
Cooperative Farming including Small Irrigation, Fertilizer and Seed Transportation	219	435	571	531	583	155
ADS Monitoring and Coordination Program	110	166	182	479	586	497
Total	11,547	17,634	15,867	22,095	24,407	24,261

Source: Ministry of Finance Red Books

Special Program for Agricultural Production

4.23. For most of the years under review, the Special Program for Agricultural Production (SPAP) was the largest single item in the Ministry's Budget and accounted for NR 5.1 billion in the Budget for 2017-18. According to the International Food Policy Research Institute (IFPRI), most of these funds are for fertilizer subsidies to producers although fertilizer subsidies are also provided through some other programmes[12]: according to the Budget Speech for 2016-17 a total of NR 5.47 billion was allocated for chemical and organic fertilizers and improved seed and seedlings.[13]

4.24. The government-owned Agriculture Inputs Company Ltd (AICL) is responsible for importing and distributing mineral and organic fertilizers with subsidized fertilizer available for up to 0.75 ha in the hills and 4 ha in the Terai. The AICL imports and distributes the fertilizer to its regional offices from which it is released to cooperatives for sale to farmers.[14] According to the discussion paper by IFPRI, the formal supply of fertilizer provides less than 25% of total use.[15]

[12] Kyle, J, Resnick D, and Karkee M (2017), *Improving the Equity and Effectiveness of Nepal's Fertilizer Subsidy Program*, IFPRI Discussion Paper 01685, December.

[13] Ministry of Finance (2016), *Budget Speech of Fiscal Year 2016/17*, p. 14. Viewed at: http://www.mof.gov.np/en/archive-documents/budget-speech-17.html?lang= [June 2018].

[14] Krishi Samgri Company Ltd online information. Viewed at: http://www.kscl.gov.np/home/index.php [June 2018].

[15] Kyle, J, Resnick D, and Karkee M (2017), Improving the Equity and Effectiveness of Nepal's Fertilizer Subsidy Program, IFPRI Discussion Paper 01685, December, pp. 8-9.

4.25. Under the ADS, consideration is to be given to expanding the private sector's role in importing and distributing fertilizer and seeds, and introducing a pilot programme to give vouchers to farmers for purchases of inputs and other measures to improve targeting and efficiency of input-related schemes.[16]

Prime Minister Agriculture Modernization Project

4.26. The Prime Minister Agriculture Modernization Project (PMAMP) is a ten-year project which started in FY 2016-17. Under the Project, agriculture production is classified into different categories depending on land area and production. For the first year, there were to be:

- 2,100 small business agricultural production centres (pockets) of 10 ha each;
- 150 commercial agricultural production centres (blocks) of 100 ha each;
- 30 zones for agricultural business production and processing centres (zones) of 500 ha each; and
- 7 large commercial agricultural production and academic centres (super zones) of 1,000 ha each. Each of the super zones is promoted for a specific product (paddy, fish, vegetables, potatoes, maize, apples, and wheat for the first seven).

4.27. The geographic coverage and numbers under each category should increase as the Project develops so that at the end of ten years there are to be 1,500 pockets, 1,500 blocks, 300 zones, and 21 super zones.

4.28. Subsidies under the Project include: a 50% subsidy for purchases of agricultural equipment and tools in block and pocket areas; and 85% of the cost of construction of agriculture production collection centres, agriculture Haat Bazaar (market) centres, primary processing centre, and a warehouse and business training centre. In addition, in the zones, an 85% subsidy is provided for seeds, plants, seedlings and resource centres for fish and a 50% subsidy for a production processing centre, warehouse and cold storage. The Budget also includes an 85% grant for the establishment of seed, seedling, and plant resource centres, and a fish production centre, organic fertiliser factory and pesticide production centre. [17, 18, 19]

Agriculture Extension Program

4.29. Although there are several separate programmes related to training and extension services (including the Agriculture Extension and Training Program, and the Livestock Training Program) the Agricultural Extension Service is the largest with NR 1.9 billion (about US$ 17 million) allocated in 2017-18.

4.30. According to the Directorate of Agricultural Extension in the Ministry of Agriculture, Land Management and Cooperatives, Nepal has practised several extension models and approaches, all of which had various strengths and weaknesses. As farming has become more closely linked to quality, competitiveness, and sustainability, the focus has shifted away from being exclusively on increasing production and the Government's role has moved from delivery of the service to facilitation and encouragement of participation by the private sector and other organizations to provide extension services on a contract and/or partnership basis.[20] The ADS also states that

[16] Government of Nepal, Ministry of Agricultural Development (2016), *ADS, Part: 1*, Kathmandu, pp. 7, 9, 17. 19, 21, 77, 84, 103, 104, etc.

[17] PMAMP online information. Viewed at: http://pmamp.gov.np/en/home/ [July 2018]

[18] Kafle L (2016), *Prime Minister Agriculture Modernisation Project to be implemented soon*, The Rising Nepal, 9 December. Viewed at: http://therisingnepal.org.np/news/16070 [July 2018].

[19] The Kathmandu Post (2017), *PM agri modernisation project to boost output*, 13 March. Viewed at: http://kathmandupost.ekantipur.com/news/2017-03-13/pm-agri-modernisation-project-to-boost-output.html [July 2018].

[20] Directorate of Agricultural Extension online information. Viewed at: http://agriextension.gov.np/home [July 2018].

consideration is to be given to a voucher scheme for extension services, particularly for commercial farmers.[21]

Project for Commercial Agriculture and Trade

4.31. The Project for Commercial Agriculture and Trade (PACT) was supported by grants and loans from the World Bank with the objective of improving the competitiveness, initially in 25 districts, of smallholder farmers and the agribusiness sector in selected commodity value chains. The PACT was scheduled to be completed in June 2018 and there was no provision in the Budget for funding in FY 2017-18; estimated spending the previous year was NR 2.2 billion. There were three components to the Project:

1) agriculture and rural business development: at end-March 2017, the Project had been supporting the implementation of over 1,300 sub-projects which were co-financed by cooperatives, farmer groups, private firms, and producer associations;

2) support for SPS facilities and food quality management which includes inspections of food processing projects by the responsible authorities for SPS standards and food quality management; and

3) project management, including the construction of district agriculture and livestock offices destroyed by the 2015 earthquakes.[22]

Agriculture Research Program

4.32. The budget for the Agriculture Research Program has increased steadily over the past few years to reach over NR 2.5 billion in FY 2017-18, up from less than NR 1 billion in FY 2012-13. The NARC was created under the Nepal Agricultural Research Council Act of 1992, and replaced the National Agriculture Research and Service Centre (NARSC). The NARC is an autonomous entity responsible for all agricultural research in the country, although the Ministry of Agriculture, Land Management and Cooperatives and the Institute for Agriculture and Animal Science are also responsible for some aspects of research. In addition, the National Agricultural Research and Development Fund under the Ministry provides research grants to government and non-government organizations.[23]

Nepal Agriculture Food Security Project

4.33. The Nepal Agriculture Food Security Project (NAFSP) was supported, in grant form, by the World Bank with co-financing from the Government, and was implemented by the Ministry of Agriculture, Land Management and Cooperatives. The Project closed in March 2018. Its aims had been improved crop and livestock technologies, increased productivity for crops and livestock and improved dietary intake for pregnant and nursing women. According to the World Bank, as a result of the Project, 4,521 producer groups were supported and 85,106 farmers increased productivity in 19 locations.[24]

Improved Seed for Farmers Program

4.34. The Improved Seed for Farmers Program (ISFP) is a joint programme between the Government and the International Fund for Agricultural Development (IFAD). Total funding for the Program for FY 2017-18 was NR 1.1 billion. The seven-year programme (2012-2019) is intended to

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[21] Government of Nepal, Ministry of Agricultural Development (2016), *ADS, Part: 1*, Kathmandu, p. 84.

[22] World Bank online information. Viewed at: http://projects.worldbank.org/P087140/project-agriculture-commercialization-trade-pact?lang=en&tab=overview [July 2018].

Ministry of Agriculture, Land Management and Cooperatives online information. Viewed at: http://www.pact.gov.np/?option=home [July 2018].

[23] Nepal Agricultural Research Council (2010), *NARC's Strategic Vision for Agricultural research (2011-2030) Meeting Nepal's Food and Nutrition Security Goals through Agricultural Science & Technology*, June.

[24] World Bank online information. Viewed at: http://projects.worldbank.org/P128905/nepal-agriculture-food-security-project?lang=en&tab=overview [July 2018].

promote competitive, sustainable, and inclusive agriculture in the selected hill and mountain areas. The Program includes three components:

- support for the expansion of the formal seed sector through the development of the formal sector and the correct labelling of seeds;
- small holder livestock commercialization with a focus on raising goats and buffalo through breed and productivity improvement, nutrition management, veterinary services, farmer training and market linkages; and
- institutional and entrepreneurial development.[25]

4.35. In the first phase the Program covers six districts in hill areas with a target group of 150,000 households. In the second phase, it is to expand its activities to other districts and reach 350,000 households.

Agriculture and Livestock Interest Subsidy

4.36. Under the Agriculture and Livestock Interest Subsidy the Government, through the NRB, provides a subsidy of 5% (up from 4% in 2017) on loans of up to NR 70 million. Loans greater than NR 50 million require the approval of the Central Coordination and Monitoring Committee under the NRB.

4.37. The maximum interest rate applicable to these loans is 10%, meaning the borrower pays a maximum of 5%. The scheme applies to loans: to produce, process, store and distribute vegetables, fruits, seeds, fish, herbs, mushrooms, dairy items, ostriches, turkeys, ducks, sugarcane, coffee, tea, cardamom, ginger, turmeric, jaitun, sunflower, allo, lokta, barley, buckwheat, and silam seeds. The Subsidy also covers loans granted for: floriculture and beekeeping businesses; the rearing of livestock and poultry; the establishment of slaughterhouses; and the storage, processing and distribution of meat items. Land and crops should be used as collateral for the loans, although loans of up to NR 1 million each may be granted based on guarantees from a farmer groups.[26]

4.2 Mining and Energy

Mining

4.38. Mining and quarrying contributed 0.6% to GDP in 2017-18 (Chart 1.1). Based on their market values, minerals are classified into three categories: very precious minerals (gold, uranium, thorium, diamonds, rubies, sapphires, emeralds, and corundum); precious and valuable minerals (zinc, silver, lead, cobalt, copper, natural (biogenic) gas, and other fossils); and general minerals (marble, granite, salt, and other minerals which are not classified as very precious or precious and valuable minerals).

4.39. The Ministry of Industry, Commerce and Supplies is responsible for mining and quarrying. Other institutions involved in the sector include the Ministry for Forest and Environment, the Ministry of Science and Technology, and the Department of Mines and Geology.

4.40. Under the National Mineral Resources Policy 2074 (2017), Nepal's main policy objectives include making the mining and quarrying sector more competitive, sustainable and environmentally friendly by using new and innovative technology; and attracting larger private sector investment by providing incentives and facilities.

4.41. Nepal opened up its mining sector to FDI in 1999, on the basis of the Mines and Minerals Act, 2042 (1985) and its Regulations 2056 (2000). Other legislation governing mineral exploration and mining includes: the Mines and Minerals Rules, 2055 (1999); the Nepal Petroleum Act, 2040 (1983);

[25] IFAD online information. Viewed at: https://www.ifad.org/web/operations/project/id/1602/country/nepal [July 2018].

[26] The Kathmandu Post (2017), *Interest subsidy on agri loans raised to 5 per cent*, 1 April. Viewed at: http://kathmandupost.ekantipur.com/news/2017-04-01/interest-subsidy-on-agri-loans-raised-to-5percent.html [July 2018].

the Petroleum Exploration Regulation, 2041 (1984); the Environment Protection Act, 2053 (1997); and the Forest Act, 2049 (1993). The royalty arrangement for natural resources is per the Fiscal Arrangement Act, 2074 (2017).

4.42. No mining activities can lawfully occur in the absence of a mining licence issued by the Department of Mines and Geology (DMG) and environmental clearance from the Ministry for Forest and Environment. There are two types of licences related to mining activities issued by the DMG: a prospecting licence and a mining licence. The prospecting licence is required for all exploration activities in Nepal. It allows the licence-holder to conduct exploration in an area of not less than 0.25 km^2 and not more than 250 km^2 for an initial exploration period of two to four years, and can be extended for up to two years. Exploration activities should be completed within two years for ordinary non-metallic minerals and four years for metallic and valuable non-metallic minerals. This type of licence is categorized by the value of the mineral being explored.

4.43. A mining licence is required to conduct all excavation activities. It allows the licence-holder to conduct mineral exploitation works in an area of not less than 0.25 km^2 and not more than 25 km^2 for an initial period of 10 to 30 years depending on the level of mineral work, and can be extended by up to ten years.[27] The fees and deposit amount for the acquisition of a licence depends upon the category under which the licence falls.[28]

4.44. Nepal offers investment incentives to the mining and quarrying sector in the form of reduced income tax provisions (Table 4.8).

Table 4.8 Investment incentives, 2018

Incentive category	Ordinary provision	Incentive provision
Income Tax	20% is the applicable tax rate	For special industries[a] providing direct employment to at least 100 Nepalese per year, the effective tax rate shall be 70% of the applicable tax rate
		Exemption of dividend tax in case of special industries, industry based in agriculture and tourism sector capitalizes its profit (issues bonus shares) for the purpose of the expansion of the capacity of the industry
		Special industries with capital of NR 1 billion and providing direct employment to more than 500 persons can enjoy a 100% exemption for first 5 years from the date of operation of business and a 50% concession for next 3 years
		For special industries established in least developed, underdeveloped and undeveloped regions, the applicable tax rate shall be 10%, 20% and 30%, respectively, of normal tax rate for first 10 years
		Industries related to the survey and extraction of petroleum and natural gases commencing commercial operation from March 2024 shall be provided with a tax holiday for the first 7 years and a 50% exemption for the next 3 years
		Losses can be carried forward up to 12 years instead of 7 years for petroleum extracting industries
		A 15% exemption for special industries listed in Nepal Stock Exchange (NEPSE)
		An export income tax rate of 20%

a A "special industry" means a production-oriented industry as classified in Section 3 of the Industrial Enterprises Act 1992, with the exception of industries producing cigarettes, bidi, cigar, tobacco, khaini or other products of the same nature involving tobacco as the principal raw materials, or industries producing liquor, beer and similar products.

Source: Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Mines%20Minerals.pdf.

4.45. In 2015-16, 85 mines and quarries for 15 different minerals were in operation. Of these, 31 are limestone quarries and seven are gem mines. Over 250 private investors, both domestic and foreign, have shown interest and acquired 400 prospecting licences to explore 24 mineral

[27] This type of licence is related to the scale of the mining operation: very small scale (ten years of operation); small-scale (15 years); medium-scale (20 years); and large-scale (30 years). In the case of cement grade limestone, the initial period for a very small scale and a small-scale licence is 15 and 20 years, respectively, and can be extended by the DMG. Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Mines%20Minerals.pdf.

[28] Regulations of the Mines and Minerals Act 2056 (2000).

commodities, and 222 mining licences to exploit 15 mineral commodities (except river gravel and sand mines). There are over 31 limestone quarries from which limestone is supplied to some cement industries. FDI in the sector comes from Australia, Canada, China, India, South Africa, the United Kingdom and the United States. Most interest has been shown in base metals, diamonds, mineral sands and gold.

4.46. Nepal has also granted approval to Dangote Cement from Nigeria, Hongshi and Huaxin from China and Reliance Cement from India to invest in Nepal. Combined, these FDIs amount to US$1.45 billion, and their proposed output stands at 22,000 tons per day. Hongshi has already started trial production, a Project Investment Agreement has been initialized for Huaxin Cement, and Dangote has been participating in tenders.

Energy

4.47. The Ministry of Energy, Water Resources and Irrigation is responsible, *inter alia*, for energy policy, and regulates other bodies related to the sector: the Department of Electricity Development (DoED) promotes the participation of private investors by providing a "One Window" service, manages the licensing process for independent power producers (IPPs), etc.; the Water and Energy Commission Secretariat (WECS) assists in the formulation of policies and the planning of projects regarding water resources and energy; the Nepal Electricity Authority (NEA) is the state-owned vertically-integrated utility company in charge of generating, transmitting and distributing electricity; the Alternative Energy Promotion Centre (AEPC), under the Ministry of Energy, Water Resources and Irrigation, promotes the use of alternative/renewable energy technologies; and the state-owned Nepal Oil Corporation (NOC) has the monopoly for importing and selling petroleum products. However, various private companies hold the total retail market in the distribution of petroleum products, including LPG. The Investment Board Nepal (IBN), headed by the Prime Minister, facilitates FDI projects, negotiates public private partnership (PPP) projects, and furnishes Project Development Agreements (PDAs) for hydropower projects having an installed capacity of above 500 MW.[29]

4.48. Under the Electricity Regulatory Commission Act, 2074 (2017), the Electricity Regulatory Commission (ERC) was established (replacing the Electricity Tariff Fixation Committee) and is in the process of formation. It will recommend and advise the Government on policies regarding the generation, transmission, distribution or trade of electricity, and tariff fixation. The ERC will have the authority to determine generation and consumer tariffs and wheeling charges, and will also regulate electricity service providers.

4.49. The energy sector is key to Nepal's future economic growth. Despite the fact that no major oil, gas, or coal reserves have been found thus far, Nepal would have all it needs to meet its own energy needs plus those of many of its neighbours if it tapped its significant hydroelectric, solar and wind resources. Nepal's river systems comprise approximately 83,000 MW of hydropower potential; its solar power potential is estimated at 1,829 MW-peak (MWp), taking into account an average generation of 33.5 MWp per km^2 of land area (utilizing 2% of the best solar irradiance area, out of an available total of 2,729 km^2); and its gross wind power potential is calculated to be 3,000 MW.[30] These resources could be complemented with measures to strengthen energy efficiency planning, with significant potential for transmission upgrades and retrofits and more efficient lighting practices.

4.50. Moreover, biomass and geothermal energy could also become important energy sources. Because Nepal's economy is heavily based on agriculture, biomass technology may be a useful energy source for its rural and remote mountainous regions. However, research on low-cost and cold climate biogas plants is still required in order to make this technology affordable and accessible. Geothermal energy is also in its earliest stages of development in Nepal.[31] The use of geothermal spring waters is largely confined to bathing and laundry. The absence of adequate knowledge of the utilization of low temperature thermal waters has been a major impediment to the promotion of this

[29] The IBN, established in 2011, is responsible for the implementation of large infrastructure projects.
[30] Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/Energy%20Sector.pdf.
[31] Most of the major geothermal springs in Nepal lie just to the north of the Main Central Thrust and south of the Main Boundary Fault.

resource. Nepal has huge potential to export Himalayan mineral water to various countries, including Gulf countries.

4.51. According to the authorities, Nepal does not practice load shedding any more. However, ensuring reliable and quality access to electricity remains a key challenge because of inadequate planning, delays in project implementation, and significant underinvestment in the baseload generating capacity over the years. According to the latest data by the NEA, 87% of the population has access to electricity.

4.52. The period 2016-26 has been declared National Energy Crisis Reduction and Electricity Development Decade (Energy Emergency Decade). In February 2016, a Concept Paper was issued and subsequently endorsed by the Cabinet of Ministers, signalling Nepal's intention to achieve zero power shortage within two years and ensure energy security during the period. Other key reforms identified in the Concept Paper include: the use of Power Purchase Agreements (PPAs) denominated in convertible currencies; the use of government guarantees as security for NEA payments; and a one-time recommendation for foreign currency payments to contractors/consultants.[32]

4.53. On 8 May 2018, the Ministry of Energy, Water Resources and Irrigation launched its White Paper "Energy, Water Resources and Irrigation Sector's Current Status: Challenges and Roadmap for the Development of the Energy Sector", with the aim of achieving self-sufficiency in electricity through the overall development of the electricity sector; reducing the trade deficit by replacing other sources of energy by electricity; expanding the internal and external markets for electricity; and delivering sustainable, reliable, easily available, quality and clean energy to the people by increasing their access to such energy.[33]

4.54. Nepal's per capita energy consumption of 0.41 tons of oil equivalent (toe) in 2014 was among the lowest in the world.[34] However, Nepal's energy intensity is about four times greater than the world average, and is the highest in the region largely because of inefficiencies in energy consumption. To improve energy efficiency, the Nepal Energy Efficiency Programme (NEEP) was launched in 2010. The first phase of the NEEP was completed in June 2014. The second phase, which started in July 2014 and is being implemented by the Ministry of Energy, Water Resources and Irrigation, introduces market-based energy-efficiency services for the private and public sectors; supports the development and introduction of biomass-based improved cooking stoves for rural households; and provides direct advice and expertise to the Government for the establishment of a policy and institutional framework to encourage energy efficiency.

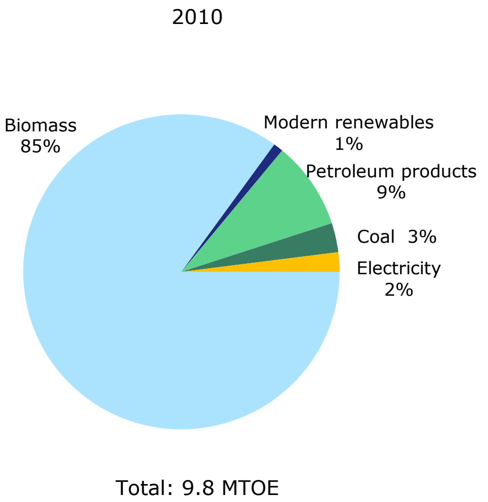
4.55. In 2015, biomass, comprising waste and sustainable resources such as firewood, animal dung, and agricultural residue, represented 78% of Nepal's total energy consumption (down from 85% in 2010). Petroleum products accounted for approximately 12% of Nepal's energy needs (up from 9% in 2010); all of the petroleum products consumed in Nepal are imported from India. Electricity supplies 3% of the energy demand (2% in 2010), with solar and other modern renewables sources of energy representing only 3% of the total (Chart 4.2). In 2014, some 83% of energy consumption went to the residential sector, followed by the transport sector (7%).

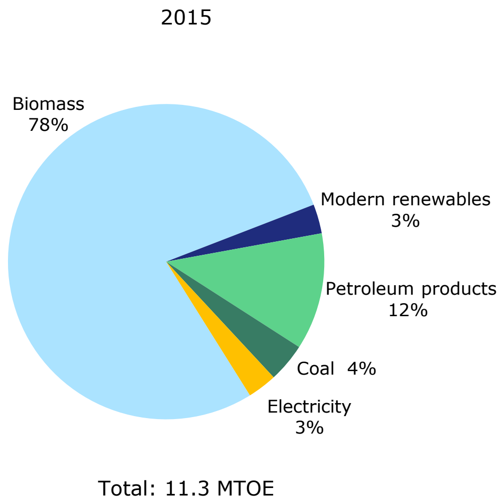
[32] The paper recognizes procedural problems in acquiring land for projects, and has proposed the streamlining of processes for acquiring land and obtaining environmental clearances for energy projects. Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/Energy%20Sector.pdf.

[33] The Ministry of Energy, Water Resources and Irrigation has formulated a comprehensive policy and working roadmap.

[34] In 2014, the world average was 1.89 toe, and the average for Asia (excluding China) was 0.72 toe. Total primary consumption per capita of neighboring countries in 2014 was: Bangladesh, 0.22 toe; India, 0.64 toe; Myanmar, 0.36 toe; Sri Lanka, 0.52 toe; and Viet Nam, 0.73 toe. Asian Development Bank (2017), *Nepal Energy Sector Assessment, Strategy, and Road Map*, Manila.

Chart 4.2 Energy consumption, 2010 and 2015





Source: Information provided by the authorities.

4.56. Nepal's largest available renewable energy resource is hydropower. While economically viable hydropower capacity stands at 42,000 MW, the current installed capacity is 1,075 MW (less than 3% of its proven potential). The slow progress of hydropower development is attributable to inadequate planning and investment in the generation, transmission, and distribution capacity; and delays in project development, caused partly by legal and regulatory inadequacies.[35]

4.57. Nepal recognizes that it must accelerate the development of its abundant hydropower potential as an important step forward in its efforts to reduce poverty and stimulate economic growth. Hydropower development would provide clean energy to enhance economic and social development in rural and urban areas, and enable Nepal to generate revenue from the export of excess energy to neighbouring countries. The Hydropower Development Policy 2001 addresses issues including private sector demand, the need for reasonable pricing, rural electrification, the need to raise the level of employment, hydropower exports, and investor friendly practices.

4.58. The existing capacity is comprised of five "large" hydropower stations (greater than 25 MW) and more than 80 small ones. Annual generation is 4,082 Gigawatt hours (GWh), or 65% of the total supply. The remaining 35%, or 2,175 GWh, is purchased from India. Nepal's domestic hydropower supply includes 1,777 GWh (44%) which is sourced from IPPs, while 2,305 GWh (56%) is supplied by NEA power stations.[36]

4.59. Nepal has only one hydropower storage project; the rest of its generating stations operate on a "run of river" and "peaking run of river" basis. Consequently, electricity generation fluctuates and is highly seasonal. Plans are to develop around 6,000 MW of storage and run of river projects for domestic use, which will collectively generate 10,000 MW by 2026. Regarding FDI, to date, 73 projects (only 2% of the total) have been registered as energy projects. But in terms of FDI pledged, energy-based projects comprise almost half of the total.

4.60. Under the Electricity Act 2049 (1992), no licence is required for hydropower projects of up to 1 MW. For hydropower projects with an installed capacity of more than 1 MW, the following licences are required[37]:

- survey licence, issued by the DoED within 30 days of the receipt of an application. Depending on the capacity of the hydropower project, the survey licence fee per annum ranges from NR 1 million to NR 6 million. The maximum term of the licence is five years. After obtaining the licence, the licensee must carry out a detailed survey and design (as

[35] NEA Annual Report 2017.
[36] NEA Annual Report 2017.
[37] Electricity Rules 2050 (1993).

evidenced in a Detailed Project Report (DPR)), a financial and economic analysis, and an Initial Environmental Examination (IEE) or, as applicable, an Environmental Impact Assessment (EIA);

- generation licence, required to construct and operate a production facility. The maximum term for a generation licence is 50 years, and it is issued within 120 days of receiving a complete application. Depending on the capacity of the hydropower project, the one-time fee for the generation licence ranges from NR 500,000 to NR 5 million. There are a number of pre-conditions to receiving a generation licence, including a feasibility study report, the names of the partners in the project and the type of their association, the method of financing (a detailed financing plan), and a connection agreement;

- transmission licence, required to construct and operate a transmission facility. The maximum term for a transmission licence is 50 years, and it is issued within 120 days of receiving a complete application. The one-time fee for the transmission licence ranges from NR 500,000 to NR 5 million. The documents required to obtain a transmission license are the same as those required for a generation license; and

- distribution licence, required to construct and operate a distribution facility. The maximum term of a distribution licence is 50 years, and it is issued within 120 days of receiving a complete application.

Electricity

4.61. Nepal is a net importer of electricity, and the amount of imports doubled from 694 GWh in FY2011 to 1,758 GWh in FY2016, an average annual growth rate of 20.4%, compared with a 0.3% annual increase in NEA generation. The dominance of run of river hydropower plants has led to acute capacity shortages especially during the dry season (winter), when demand rises sharply but water flow decreases, adversely affecting power generation. The existing plan envisages the installation of over 2,000 MW of new capacity by 2022. Domestic demand is expected to grow to more than 6,000 MWs by 2030, which will require approximately US$6.45 billion in downstream infrastructure investment.

4.62. Nepal's electrification rate of about 76% is comparable to that of other countries in the region. However, there is a significant disparity between the urban and rural areas. About 97% of the urban population but only about 72% of the population in the rural areas has access to electricity. Nepal ranks 137th out of 147 countries regarding quality of electricity supply. The NEA suffers approximately 22.9% technical and commercial losses. The State controls access to all markets and networks, and prices are set by the Government. Consumer tariffs do not cover costs, and consequently do not offer adequate incentives to use electricity efficiently.[38]

4.63. Nepal aims at ending basic load shedding by 2018, and achieving energy independence by 2019. By 2050, Nepal aims to achieve 80% electrification through renewable energy sources having an appropriate energy mix, and reduce its dependency on fossil fuels by 50%.

4.64. The Electricity Act 2049 (1992) and the Electricity Rules 2050 (1993) govern the survey, generation, transmission and distribution of electricity. Royalties are payable, after the generation of electricity, depending on the nature of the project as shown in Tables 4.9 and 4.10.

Table 4.9 Royalties for internal consumption projects, 2018

	Up to 15 years		After 15 years	
Electricity capacity	Annual capacity royalty, per kW (NR)	Energy royalty per kWh (%)	Annual capacity royalty, per kWh (NR)	Energy royalty per kWh (%)
Up to 1 MW	0	0	0	0
Greater than 1 MW	100	2	1,000	10

Source: Current Finance Act; and data provided by the authorities.

[38] NEA Annual Report 2017.

Table 4.10 Royalties for export oriented hydropower projects, 2018

	Up to 15 years		After 15 years	
Type	Annual capacity royalty, per kW (NR)	Energy royalty per kWh (%)	Annual capacity royalty, per kWh (NR)	Energy royalty per kWh (%)
Export-oriented run of river project	400	7.5	1,800	12
Export–oriented storage project	500	10	2,000	15

Source: Hydropower Development Policy 2001.

4.65. Nepal offers various investment incentives to the sector in the form of income tax and VAT concessions (Table 4.11).

Table 4.11 Investment incentives, 2018

Incentive category	Ordinary provision	Incentive provision
Income Tax	Normal tax rate: 25%	**Tax rates** - Build, Own, Operate and Transfer Model (BOOT) projects: powerhouse construction, hydropower generation and transmission: 20% - Income generated by the entity from export: 20% - For hydro generation and transmission entities listed on the stock exchange: 15% exemption from the normal tax rate **Tax holiday** - Licensed person or entity producing electricity through hydro, solar, wind or bio fuel, starting its commercial production, transmission or distribution before 12 April 2024: 100% exemption for the first 7 years and 50% exemption for next 3 years **Disclosure norms** - Income source disclosure is not required for investment made in hydro projects of national priority until 13 April 2019
Carrying forward of losses	Normal provision: 7 years	- Powerhouse construction, generation and transmission of electricity: 12 years
Depreciation provisions	Applicable Pool Pool A: 5% Pool B: 25% Pool C: 20% Pool D: 15%	- 33.3% accelerated depreciation for BOOT projects, powerhouse construction, hydropower generation and transmission - Investment made during a year on the replacement of old machinery after the deduction of the accumulated depreciation up to that year, is allowed to be booked as an expense - 50% depreciation shall be allowed in the year of the purchase of equipment to produce energy for the business
Value added tax		- 0% VAT facility based on a recommendation from the AEPC for batteries produced and supplied by Nepalese industries for use in solar energy-producing industries - VAT exemption on the import of machinery, equipment, tools and their spare parts, penstock pipes or iron sheets used in hydropower projects and not produced in Nepal (based on the recommendation of the AEPC or the DoED) - VAT exemption for equipment and machines, tubular batteries, and solar lead batteries, required by bio-gas, solar, and wind energy industries
Custom duty rate	Various	- Duty on generation plants having a capacity equal to or exceeding 10 kW: 1% - Duty on generating parts imported by VAT-registered industries producing generators: 1% - Duty on alternative energy-based industries: 1% - Windmills and related parts imported by wind energy-based industries - Solar panels, modules, tubular batteries and solar pumps imported by solar industries - Bio-stoves imported by bio industries

Incentive category	Ordinary provision	Incentive provision
		- Import of mills, machinery, equipment and spare parts thereof and chemicals for the purpose of producing organic fuel - Appliances and equipment such as main gas valves, valves used in biogas, fitting, elbow, gas pipes, gas gauges, biogas (dung gas) lamps, gas taps (brass), gas stoves, and parts thereof, reduction elbows and rubber hose pipe necessary for dung gas, including bio gas

Source: Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/Energy%20Sector.pdf.

4.66. To promote investment in and ownership of hydropower assets, Nepal is encouraging PPPs to construct transmission lines on a build/transfer model. It also plans to launch a programme called "Electricity for Every Household, Shares for Everyone" to initiate projects with attractive returns through joint investments by the Government and the public. Finally, there have been discussions related to the development of a regional grid for the purpose of regional power trade.

4.67. On 21 October 2014, Nepal signed with India the "Agreement on Electric Power Trade, Cross Border Transmission, Interconnection, and Grid Connectivity", also known as the Power Trade Agreement (PTA), paving the way for the free flow of electricity as a cross-border commodity. It will enable government-to-government cooperation on a number of power sector activities, including transmission interconnections, grid connectivity, and power exchange and trading. Under the PTA, Nepal can get access to the Indian power market.

4.68. Two PDAs, a type of concession, were concluded in 2014 with two Indian investors: GMR for the development of the 900 MW Upper Karnali Hydropower Project, and SJVNL for the development of the 900 MW Arun III.[39] The combined cost of these two projects exceeds US$2.5 billion. Nepal and India have also agreed to prepare a master plan for the development of cross-border transmission lines.

4.69. In November 2014, the South Asian Association for Regional Co-operation (SAARC)[40] Framework Agreement on Energy Cooperation – Electricity entered into force. It allows relevant institutions in the respective countries to develop transmission interconnectivity within the region to allow cross-border power supply within SAARC member countries.

4.3 Manufacturing

4.70. Nepal's manufacturing sector is rich in potential, both for large-scale and innovative small-scale projects. As of March 2016, 6,328 companies were registered in Nepal, 41% of which belonged to this sector.[41] However, the contribution of manufacturing to GDP has steadily declined during the last decades; it went from 9% in 2000-01 to 6.2% in 2013-14 and to 5.4% in 2017-18 (Section 1.1). Reasons behind this overall downward trend include low labour productivity, high transport costs, production stoppages due to electricity cuts, and poor labour-employer relations leading to strikes.[42] Given Nepal's unique topography and strong business linkages with India, manufacturing companies are concentrated in Kathmandu and the Terai plains, which border India.

4.71. The manufacturing sector has also undergone substantial changes in its composition by subsector. The major change has been the increase of the share in value added of the food and beverages industry, from 22.8% in 1996 to 34% in 2011 (latest available figures), at the expense of textiles from 25.9% to 3.8%, and clothing and fur from 6.3% to 0.5% in the same period.[43]

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[39] The IBN has granted an electricity generation licence to SJVNL. The construction of Arun III has commenced.

[40] SAARC members are: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

[41] Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/Manufacturing%20Sector.pdf.

[42] National Planning Commission Secretariat (2014), *Development of Manufacturing Industries in Nepal: Current State and Future Challenges*, Kathmandu.

[43] National Planning Commission Secretariat (2014), *Development of Manufacturing Industries in Nepal: Current State and Future Challenges*, Kathmandu.

4.72. Manufacturing can be broadly classified into three subsectors: fast moving consumer goods (FMCGs), the largest with 59% of the total in 2014, followed by industrial goods (38%), and consumer goods (3%).[44] Due to limited electricity and the lack of an enabling environment for manufacturing enterprises, industrial goods constitute a relatively small portion, but this subsector is expected to grow as the economy matures and the enabling environment improves.

4.73. Under Nepal's Trade Integration Strategy (NTIS) 2016, priority economic activities with export potential were identified, including certain craft and manufacturing industries: all fabrics, textiles, yarn and rope, leather, footwear, chyangra pashmina, and knotted carpets (Table 2.2).[45] Other potential manufacturing export activities are: cement, pharmaceuticals, metal and metal products, and handmade paper and paper products.

4.74. The Ministry of Industry, Commerce and Supplies is responsible for the manufacturing sector. The Industrial Policy 2010 replaced the Industrial Policy 1992[46], with the aim of promoting industrial activity and increasing its contribution to GDP, generating more job opportunities, boosting per capita income, and reducing poverty. The Industrial Policy 2010 also aims to promote value-added industries[47], facilitate the supply and adoption of new technology to increase production and productivity, and upgrade technical and skill-related aspects of the administrations related to the industrial sector.

4.75. As part of the Industrial Policy 2010, 11 industrial districts have been established, ten of which are in operation, have 628 industries and provide employment to 13,500 people. In addition, Nepal plans to establish 12 Special Economic Zones (SEZs) to cater for export-oriented industries, and increase the industrial processing of local products. Export industries that intend to export at least 75% of their production can be established in an SEZ after investing the prescribed capital and obtaining permission from the Special Economic Zone Development Committee (SEZDC) under the Ministry of Industry, Commerce and Supplies.

4.76. Under the Special Economic Zone Authority Act 2016, companies operating in SEZs are eligible for various incentives, including a 50% income tax exemption for the first five years (Table 4.12). To become eligible for such incentives, a licence is required with a maximum validity of 30 years, extendable for another ten years (Section 2.4).

Table 4.12 Incentives for companies in SEZs, 2018

Type of exemption	Details
Income tax	- Industries are eligible for a 50% tax exemption for the first 5 years - Industries that use at least 60% domestic raw materials will receive a 50% tax exemption for an additional 5 years and a 25% exemption for another 5 years - Tax on dividends is exempt for 5 years, and is 50%-exempt for the next 3 years
VAT	- Zero VAT rates are available for goods or services traded among entrepreneurs operating within an SEZ, and for goods or services exported from the industries established therein
Customs duty	- Industries within an SEZ are exempt from customs duty for raw materials, auxiliary raw materials, packing materials and products used in the production of exportable goods, if made under a bank guarantee facility - Industries within an SEZ are exempt from customs duty on the import of plant, machinery, instruments, tools and spare parts required for the industry - Customs duty is refundable to an importer that sells any goods to an industry within an SEZ

[44] FMCGs include food and beverages, tobacco, and soap; industrial goods are fabricated metal products, non-metallic mineral products, basic metal, plastics and rubber products, and textiles; and consumer goods are electronics, furniture and leather and allied products. Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/Manufacturing%20Sector.pdf.

[45] Ministry of Commerce (2016), *Nepal Trade Integration Strategy 2016*, Kathmandu.

[46] During its WTO accession negotiations, Nepal indicated that the Industrial Policy 1992, the Industrial Enterprises Act 1992, and the Industrial Enterprises Regulations would be amended to bring them into conformity with the WTO Agreements on Subsidies and Countervailing Measures and on Trade Related Investment Measures. Nepal also stated that it would identify subsidy measures incompatible with the WTO, and these would be eliminated (WTO document WT/ACC/NPL/16, 28 August 2003).

[47] The Government promises to purchase goods that are produced by domestic firms if there is 30% value-addition in the final product.

Type of exemption	Details
Facilities equal to export to be provided	- The sale of raw materials or any products within the SEZ shall be regarded as an export, and the industry shall be entitled to all such concessions - The facility of a bonded warehouse shall be available for utilization within a period of 45 days from the date on which an application is submitted
Other facilities	- Rent or lease payments made by industries established in an SEZ shall be exempted by 50%, 40% and 25% for the first 3 years of establishment, respectively - No local tax will be charged on the import of up to 3 vehicles for the purpose of transportation of machinery, instruments, and spare parts of machines, raw materials or goods required for the industry, having regard to the scale of the industry

Source: Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/Manufacturing%20Sector.pdf.

4.77. The Bhairahawa SEZ, inaugurated on 18 November 2014, near the border with India, is about to be operational. Feasibility studies have been completed to establish SEZs in Biratnagar, Panchkhal, Gorkha, Jumla and Dhangadhi. The Simara SEZ has recently been inaugurated as a garment processing zone (GPZ) to capitalize on the zero tariff preference, which has been extended by the United States to Nepal for 77 products in the garment/apparel industry.

4.78. The Nepal Industrial Development Corporation (NIDC), a national development bank for more than 50 years, no longer exists. In early May 2018, it merged with Rastriya Banijya Bank. As a result, all assets and liabilities of the NIDC have been taken over by Rastriya Banijya Bank.

4.79. The Industrial Enterprises Act 2016 was promulgated, replacing the Industrial Enterprises Act 1992 (as amended). Regulations corresponding to the Act are being drafted. Some of the salient features of the Act are:

- industries have been classified into eight categories (manufacturing, energy, agro and forest, mineral, tourism, service, information and technology, and construction);
- licences are required only for specified industries, and registration with the Department of Industry is compulsory for all industries. Industries can commence operations only after obtaining an EIA or an IEE, as applicable;
- industries are classified as either "cottage industries" (traditional industries using specific skills and local raw materials), "small industries" (fixed assets investment up to NR 100 million), "medium industries" (fixed assets of between NR 100 million and 250 million), and "large industries" (fixed assets of more than NR 250 million);
- medium or large industries, and cottage and small industries whose annual turnover exceeds NR 150 million, are required to allocate 0.5% of annual turnover to corporate social responsibility activities; and
- nationalization of privately-owned industrial enterprises is prohibited.

4.80. The Act provides statutory protection of changes in law in relation to benefits and exemptions provided under it and other applicable laws. The stabilization provision states that no provisions shall be made to limit the benefits and exemptions prescribed under the Act and other applicable laws. This provision was introduced against the background that a stabilization provision was set up mostly for infrastructure projects under the applicable laws, but now all industries registered under the Act are eligible to enjoy the benefits. Under the Act, fiscal concessions are granted for different industries. Manufacturing and export-oriented industries enjoy most of the fiscal incentives (Table A4.1).

4.81. Despite Nepal's privatization programme, the State continues to play an important role in manufacturing, mainly through public enterprises (PEs), some of which are loss-making

(Section 3.3.5). There are 36 active full or majority PEs, seven of which produce manufactures such as cement.[48]

4.82. MFN applied tariffs on manufactured goods (major division 3 of ISIC, Revision 2) average 12.6% (Table A3.1), with rates ranging from zero to 80% (without AVEs) and 356.5% (including AVEs).[49] For some manufacturing products, notably motor vehicles, MFN applied tariffs exceed the bound rates (Section 3.1.3.3).

4.4 Services

4.83. The services sector is, increasingly, the largest contributor to GDP, with a 57.6% share in 2017-18 (49.8% in 2010-11). In 2017-18, wholesale and retail trade led services, with a 13.3% share of GDP, followed by real estate, renting and business activities (11.4%); transport, storage, and communications (8.0%); education (7.2%); health, social and personal services (6.6%); and financial intermediation (6.3%) (Chart 1.1).

4.84. On the basis of tourism-related receipts, Nepal became a net exporter of services during the review period, with a surplus averaging over US$200 million per year during 2013-14 to 2016-17. In 2016, Nepal ranked 100th both among world exporters and importers in terms of commercial services trade (considering EU member States as one, and excluding intra-EU trade).[50]

4.85. Services are covered in some of Nepal's preferential trading arrangements, e.g. the SAARC Agreement on Trade in Services (SATIS) under the South Asian Free Trade Area (SAFTA) (Section 2.3.2.1).

4.86. Under the General Agreement on Trade in Services (GATS), Nepal scheduled extensive specific commitments, including on financial services, telecommunications, transport, tourism, and professional services.[51]

4.4.1 Financial Services

4.87. Nepal has a large untapped market for financial services. As per the FinScope Consumer Survey of Nepal 2014, 60% of Nepal's population has no bank account, only 6.7% use debit cards, and 18% of the adult population is excluded from the financial services sector; they do not use formal or informal banks and financial institutions (BFIs).[52] Nonetheless, access to financial services and financial deepening have been growing over the last few years: total deposit and total credit of BFIs to GDP ratios reached 97.1% and 86.3%, respectively, as of mid-February 2018.[53]

4.88. Under the Nepal Rastra Bank Act 2002 (as amended in 2016) and the Banks and Financial Institutions Act 2017[54], the NRB regulates and supervises BFIs. The Foreign Exchange Regulation Act 1962 confers on the NRB the power and jurisdiction to regulate foreign exchange transactions. Other major policies and regulations related to BFIs are: the Insolvency Act 2006; the Insurers' Licensing Policy; the Securities Board Regulation 2008; the Lender of Last Resort Policy 2010; the Foreign Currency Loan Policy 2002; the Licensing Policy for Payment Related Institutions 2016; the Licensing Policy for Foreign Bank Branch; the Insurance Regulation 1993; the Securities

[48] The cement factories in operation are the Hetauda Cement and Udaypur Cement companies. Ministry of Finance online information. Viewed at: mof.gov.np/en/archive- documents/soe-information—yellow-book-29.html.

[49] Prepared food, beverages, and tobacco (one tariff line).

[50] WTO online information. Viewed at: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=NP.

[51] WTO documents GATS/SC/139, 30 August 2004; and GATS/SC/139/Corr.1, 3 November 2005.

[52] FinScope Consumer Survey Nepal 2014, access to financial services by adults in Nepal (18 years and older). Viewed at: https://www.finmark.org.za/finscope-nepal, 2014-consumer-survey.

[53] NRB online information. Viewed at: https://nrb.org.np/bfr/monthly_statistics.php?tp=Monthly_Statistics&&vw=15.

[54] The Banks and Financial Institutions Act 2006 has been repealed by the Banks and Financial Institutions Act 2017.

Businessperson (Stock Broker, Dealer & Market Maker) Regulation 2008; and the Securities Businessperson (Merchant Banker) Regulation 2008.[55]

4.89. The financial services sector in Nepal is composed of institutions licensed and regulated by the NRB, and other, non-NRB licensed/regulated institutions. As of July 2018, the financial institutions under the responsibility of the NRB comprised: 28 commercial banks ('A' class financial institutions); 36 development banks ('B' class financial institutions); 25 finance companies ('C' class financial institutions); 63 micro-finance companies ('D' class financial institutions); 14 saving and credit cooperatives[56]; 24 financial intermediaries non-governmental organizations (FINGOs)[57]; 49 money transfer firms; and 393 money changers. Nepal Bank, Rastriya Banijya Bank, and the ADB are the three remaining state-owned banks[58]; the others are private (seven are registered as joint ventures, and the remainder are local).[59]

4.90. The remaining financial institutions include those licensed and regulated by the Ministry of Finance: 36 insurance companies; the Nepal Stock Exchange (NEPSE); the Employees Provident Fund[60]; the Citizen Investment Trust[61]; the Deposit and Credit Guarantee Corporation[62]; and the Credit Information Bureau[63]; as well as the Postal Savings Bank (licensed and regulated by the Ministry for Information and Communications)[64]; and 13,578 Savings and Credit Cooperatives (licensed and regulated by the by the Cooperative Act 2074 (2017)).[65]

4.91. The growth of new BFIs has recently slowed, owing to a moratorium imposed by the NRB on the issuance of licences for new BFIs, except for micro-finance institutions. Moreover, after the NRB issued the Merger and Acquisition By-Law 2016, some BFIs have been seeking mergers and acquisitions with other sector participants in order to meet the NRB's newly established capital requirements. Commercial banks were required to increase paid-up capital to NR 8 billion, national level development banks to NR 2.5 billion, development banks operating in three provinces and a maximum of ten districts to NR 1.2 billion, and development banks operating in three provinces and a maximum of five districts to NR 0.5 billion. Almost all BFIs have met these requirements. According to the NRB, this will make BFIs stronger and ensure the system's financial stability.[66]

4.92. During the period under review, other changes were made to the regulatory framework of financial institutions. The NRB Act Second Amendment (NRBAA) Bill has been in force since 14 November 2016. It aims to strengthen and clarify the bank resolution powers of the NRB, increase the NRB's capital, and align accounting standards with international practice. Despite these improvements, according to the IMF, the NRBAA curtails somewhat the autonomy of the NRB, and

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[55] Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/BFS_Sector%20Profile.pdf.

[56] Established under the Cooperatives Act 2074 (2017). Cooperatives undertake limited financial transactions under the directives issued by the NRB in 2002 (amended in 2003 and 2016).

[57] NGOs are licensed by the NRB to undertake limited financial transactions. They are registered under the Institutions Registration Act 1977, and undertake limited banking transactions in accordance with the provision of the Financial Intermediation Related Institutions Act 1999.

[58] The State has a minority shareholding in Nepal Bank, and a majority stake in the other two banks.

[59] Commercial banks provided employment to some 29,000 individuals as of mid-June 2018, of which private commercial banks employed 75% and the three state-owned banks employed the rest.

[60] The Employees Provident Fund, an autonomous entity established under the Employees Provident Fund Act 1962, mobilizes the savings collected through the provident fund of government employees, the army, the police, teachers, government corporations, and some private companies.

[61] The Citizen Investment Trust, established under the Citizen Investment Trust Act 1991, mobilizes private as well as institutional savings, extends loans and advances, and works as an issue manager.

[62] The Deposit and Credit Guarantee Corporation was established in 1974 to encourage commercial banks to extend loans to priority sectors and serve remote areas and poor families. It guarantees a number of loans including priority sector loans, livestock loans, vegetable farming loans, foreign employment loans, micro and deprived sector credit, and credit for small and medium industries.

[63] The Credit Information Bureau, established in 1989, started operations as a company in March 2005. It is the prime organization in Nepal acting as the repository for credit information of the consumers and commercial borrowers of all financial institutions.

[64] The Postal Savings Bank, established under the Postal Services Department, entered into operation in 1976. It has 117 offices engaged in collecting deposits.

[65] Department of Cooperatives online information. Viewed at: http://www.deoc.gov.np/ne/cooperativestat.php?id=1.

[66] NRB online information. Viewed at: https://nrb.org.np/bfr/circular/2074-75/2074_75_For_A_,_B_&_C_Class--Circular_17-CCD_Ratio,_Spread,_Branch_&_Provincewise_Capital_Related.pdf.

fails to grant explicit consolidated supervision powers and clarify emergency liquidity assistance provisions[67] In September 2016, the new Deposit and Credit Guarantee Fund Act (DCGF) was also approved; it enhances the legal framework for the deposit insurance scheme. In 2013, the Asset (Money) Laundering Prevention (Second Amendment) Ordinance was issued.[68]

4.93. BFIs are entitled to receive some investment incentives (Table 4.13).

Table 4.13 Investment incentives, 2018

Incentive category	Incentives and subsidy provision
Banking	- The provision made by a person running a banking business to cover the risk for outstanding loans will be deductible up to a limit of 5% of the total outstanding loan under the norms and standards prescribed by the NRB - A deduction from the profits as expenses for bad debt shall not be allowed, and, if any amount of the risk-bearing fund is capitalized or distributed as profit or dividend, the amount shall be included in calculating the income of the year when it is so capitalized or distributed
General insurance business	The provision of an unexpired risk reserve fund can be deducted from the income of the general insurance business sum of: - 50% of the net insurance premium as shown in the income statement of the particular year, and 115% of the outstanding claim at the end of the financial year. The closing balance of such unexpired risk fund claimed as a deduction in the current income year should be carried forward as income in the next income year
Life insurance business	The following amounts are not included in the computation of life insurance business income: - the amount received from the premium or reinsurance premium received during the year - the amount received from reinsurance, guarantee, or any indemnity contract during the year The following amount shall not be deducted when computing the expenses of the life insurance business: - any amount paid or reimbursed as an insurer during the year - the refund of the premium to the insured during the year
Retirement fund	For the purposes of calculating the income of a retirement fund: - retirement contributions received by the fund shall not be included in the calculation, and shall not be considered as income of the fund - retirement payments shall not be deductible in the calculation, and shall not be considered as an outgoing of the fund - the interest of a beneficiary in a retirement fund shall not be a liability of that fund - the income of an approved retirement fund shall be exempt from tax

Source: Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/Manufacturing%20Sector.pdf.

4.94. Under the GATS, Nepal made specific commitments (and put some conditions) on financial services, including: (i) branches will be allowed for insurance services and wholesale banking as of 1 January 2010; (ii) only a licensed commercial bank, a licensed specialized bank or a registered finance company may accept deposits; (iii) only a licensed commercial bank may accept deposits that are repayable upon demand; (iv) only financial institutions with a rating of at least 'B' by a credit rating agency may have commercial presence in Nepal; (v) the total foreign shareholding in any financial services institution is limited to 67% of the issued share capital (for banks this threshold has recently been increased to 80%); (vi) the shares held by foreign nationals and foreign financial institutions in their locally incorporated companies are not transferable without the prior written approval of the NRB or any other competent authority; (vii) representative offices may not be engaged in commercial business; and (viii) members of the Board of Directors of a financial service supplier will be in proportion to the equity representation of that financial service supplier.[69]

[67] Under the NRBAA, the Government may issue directives to the NRB on money, banking and finance, and the NRB shall abide by such directives. IMF Country Report No. 17/74.
[68] IMF Country Report No. 17/74.
[69] WTO document GATS/SC/139, 30 August 2004.

4.4.2 Banking

4.95. The Banking and Financial Institution Act (BAFIA) 2017 regulates BFIs. Among others, it establishes: the rules and procedures related to the incorporation and licensing of banks and other financial institutions, and the registration and carrying out of business by foreign banks; and minimum capital requirements for BFIs. Saving and credit cooperatives are governed by the Cooperatives Act 2017. The BAFIA also contains provisions designed to encourage FDI (Section 2.4).

4.96. Financial soundness indicators of banks in Nepal have improved over the last few years. All class A banks now meet the minimum 11% capital adequacy ratio (CAR). The three state-owned banks, which represent about one sixth of system assets, were undercapitalized until 2014 when they received capital injections. Further, there has been a fourfold increase in banks' paid-up capital as required by the NRB (Section 4.4.1), banks' profits were at record high in 2016-17, and non-performing loans (NPLs) and loan loss provisions were at a record low.[70]

4.97. Notwithstanding these positive developments, banks face vulnerabilities. According to the IMF, the rapid growth in banks' credit to the private sector over the last few years has increased their loan-to-deposit ratio close to the regulatory maximum of 80%. It has been concentrated in overdrafts, which can be diverted to risky activities, such as purchases of real estate and stocks. To mitigate macro-financial risks, the IMF has called for accelerating financial sector reforms, through stronger supervision by the NRB (building on recent amendments to the regulatory framework, Section 4.4.1), more stringent loan classification and provisioning, as well as upgrading the banks' risk management.[71]

4.98. Financial cooperatives account for around 13% of Nepal's financial system assets, and have linkages to the banks. According to the IMF, the absence of meaningful regulation and supervision of the cooperatives sector needs to be remedied, for example through the creation of a designated second-tier institution as well as resolution tools.[72]

4.99. Under the Policy Provision for Opening Branch Offices by Foreign Banks and Financial Institutions 2010, foreign banks/financial institutions are allowed to open branches for wholesale banking. They require approval by the NRB; an assigned capital of at least US$20 million; and deposits must be from corporations/associations registered in Nepal, of a minimum of NR 100 million and in the form of fixed deposits for more than one year. Moreover, the BAFIA encourages the establishment of infrastructure development banks (IDBs) with minimum paid-up capital of NR 20 billion and foreign ownership of up to 85%.

4.100. In principle, all commercial banks in Nepal are universal banks (i.e. allowed to carry out all types of banking activities). The ratio of total assets/liabilities of commercial banks to GDP was 99.4% in mid-July 2017 (66.6% in mid-July 2010).

4.101. Banks are not allowed to carry out activities related to insurance.[73] However, commercial banks, development banks, and finance companies may maintain equity stakes in insurance companies.[74]

4.4.3 Insurance

4.102. Nepal's insurance market remains very small, and has a limited range of products. More innovative products have yet to be designed, and this might prove to be a lucrative market for new market entrants. There are 39 insurance companies: 20 carry out non-life insurance business, 18 are life, and 1 is re-insurance. On 7 November 2014, Nepal Re-Insurance Company Limited (Nepal Re) was established for the purpose of covering damages caused by terrorism.[75] According to the ownership structure, three insurance companies are state-owned, 30 are owned by the private

[70] IMF Country Report No. 17/74.
[71] IMF Country Report No. 17/74.
[72] IMF Country Report No. 17/74.
[73] Article 47 of the BAFIA.
[74] For example, Laxmi Bank, a leading commercial bank, has a 15% stake in Prime Life Insurance Company.
[75] Nepal Re is 50% state-owned, and the remaining 50% is held by other Nepalese insurers.

sector, three are joint ventures, and three are foreign branches. In mid-July 2016, the ratio of total assets/liabilities to GDP was 7% for insurance companies and 0.3% for re-insurance companies.

4.103. The Insurance Act 1992 and the Insurance Rules 1993 govern the provision of insurance services. The Insurance Act establishes the Insurance Board as the administrative body responsible for organizing and regulating the insurance sector. It also sets out the functions of the Board, which include issuing licences, and inspecting/supervising/monitoring licensees. The Insurance Rules provide additional detail on matters, including the establishment of the insurance business, licensing procedures, and the regulation of insurance agents, insurance brokers, and insurance surveyors. They also establish rules related to payments against claims.

4.104. The Act requires insurance businesses to, *inter alia*, obtain a licence to set up an office in Nepal, and for all intermediaries wishing to operate in the insurance business (e.g. agents, surveyors, brokers).[76] It also requires life and non-life insurance companies to have a paid up capital of NR 500 million and NR 250 million, respectively. There is no minimum capital requirement for establishing a branch insurance office or a reinsurance business.[77] No new composite insurance companies are permitted.

4.105. Third-party liability insurance for motor vehicles is compulsory. Under Section 26 of the Foreign Employment Act, no Nepali citizen is allowed to work abroad without an insurance policy covering any kind of accident, disability or death. Section 38 of the Labour Act of 1992 (as amended) establishes mandatory insurance for certain occupations, which is provided via a personal accident policy.[78]

4.106. As institutional investors, Nepalese insurance companies act as principals for their own account, and invest the assets of their company in a wide range of financial instruments, including equities and debt, corporate securities, and government bonds, and in commercial and development banks according to the requirements of the Insurance Act.

4.4.4 Securities

4.107. The Securities Act 2007 established the Securities Board of Nepal (SEBON) as the premier institution for securities. It also established rules which regulate the issuance, purchase, sale and exchange of securities. Among others, the SEBON is obligated to: provide advice to the Government on matters related to the development of the capital market; issue necessary securities regulations and directives; register the securities of public companies; regulate and systematize the issue, transfer, sale and exchange of registered securities; issue licences to operate stock exchanges; and issue licences to stock brokers, dealers, merchant bankers and fund managers.[79]

4.108. The NEPSE is still in the infant stage.[80] The number of listed companies decreased from 214 in 2012 to 196 in mid-April 2018, due to some mergers and acquisitions of BFIs. The growth in the listed companies mostly includes BFIs that are required to publicly float at least 30% of their shares and get listed in the stock exchange within a specific period of time.[81] The ratio of market capitalization of the NEPSE to GDP went from 21.4% in mid-March 2012 to 49.8% in mid-April 2018.[82] The NEPSE index reached 1,390 points at the end of 2017 (up from 533.9 points

[76] The Insurance Board is a chartered member of the International Association of Insurance Supervisors (IAIS), and a member of the Insurance Congress of Developing Countries (ICDC), the South Asian Insurance Regulators Forum (SAIRF), the Asian Insurance Regulator Forum, and the IAIS-CGAP Joint Working Group on Micro Insurance.

[77] Insurance branches and reinsurance businesses are subject to the working capital requirement stipulated by the Insurance Board.

[78] A personal accident policy includes a minimum requirement regarding property damage/bodily injury of US$10,000.

[79] Office of the Investment Board online information. Viewed at: http://www.ibn.gov.np/uploads/files/Sector/BFS_Sector%20Profile.pdf.

[80] The organized and full-fledged stock market began with the conversion of the Securities Exchange Centre (SEC), established in 1976, into NEPSE in 1993. It opened its trading floor in the beginning of 1994. The NEPSE is the only stock exchange in Nepal.

[81] Since there is no such a mandatory requirement for companies in the real sector, fewer real sector companies have been listed in the NEPSE.

[82] NRB's "Current Macroeconomic Situation of Nepal" report.

at the end of 2012)[83], mainly due to the positive macroeconomic performance during the period, political stability after the new Constitution was adopted in 2015, and the fact that the Nepalese have been gradually using the stock market as a hedge against inflation.

4.5 Telecommunications and Postal Services

4.109. Overall, Nepal's telecommunications market has grown considerably during the last few years, notably the mobile market where the number of subscribers more than doubled from 16.6 million in 2012 to 36.1 million in 2017 (Table 4.14), reaching 37.8 million by May 2018. Moreover, the percentage of individuals using the Internet jumped from 11.15% to 63.81% during 2012-17. Total telecommunication revenues also rose from NR 75.7 billion in 2012 to NR 102.4 billion in 2016.

Table 4.14 Telecommunications indicators, 2012-17

	2012	2013	2014	2015	2016	2017
Subscribers						
Fixed telephony ('000)	831.7	829.1	837.3	846.9	858.2	861.3
Per 100 inhabitants	3.01	2.96	2.96	2.96	2.96	3.25
Fixed broadband ('000)	230.6	311.5	250.6	302.7	224.2	554.4
Per 100 inhabitants	0.83	1.11	0.88	1.06	0.77	1.90
Cellular mobile telephony ('000)	16,608	21, 362	23,021	27,516	32,120	36,096
Per 100 inhabitants	60.07	76.33	81.28	96.02	110.83	136.34
Internet (% of population)	11.15	13.30	15.44	17.58	19.69	63.81
Total revenue (NR billion)	**75.7**	**87.6**	**99.0**	**102.7**	**102.4**	**..**

.. Not available.

Source: World Telecommunications/ICT Indicators; and information provided by the authorities.

4.110. Nepal's telecom sector has been further liberalized during the review period through the adoption of various policy papers and regulations: the National Broadband Policy 2015, the National Information and Communications Technology (ICT) Policy 2015, the Spectrum Policy 2016, and the Telecom Infrastructure Service Regulation 2017. In addition, other legal instruments are being drafted, including the new Telecommunications Act that will replace the 1997 Telecommunications Act, the new IT Act, the National Broadband Master Plan, the Telecommunications Frequency Distribution Regulation, and the Regulatory Framework for Mobile Portability.

4.111. Under the National Broadband Policy 2015, the Government views broadband as a "general purpose technology" that will transform economic relations, enhance productivity and create new services. Some of the key objectives are to: provide secure, meaningful, affordable and reliable broadband services on demand in urban areas; provide universal access to broadband services in rural, unserved and underserved areas; promote broadband take-up by early and influential users including government and business users, and other important users (e.g. education and health sectors); and stimulate demand and content creation and build user capacity.

4.112. The Information and Communications Technology (ICT) Policy 2015 seeks to tackle the policy incongruence that has hindered the growth of IT and the IT-enabled services sector. It stresses the need for a well-defined and consistent policy and regulatory framework for addressing converged regimes of telecommunications, broadcasting, and ICT. Some of the main goals are: enhancing overall national ICT readiness with the objective of being at least in the second quartile of the international ICT development index and eGovernment rankings by 2020; at least 75% of Nepalese should have digital literacy skills by the end of 2020; and 90% of the population should be able to access broadband services by 2020.

4.113. Some of the key objectives of the Spectrum Policy 2016 are to: create level playing fields among telecommunication players; implement technology neutrality; bring in more spectrum-efficient technology; auction new frequency brands; and maximize the government revenue from the spectrum.

4.114. Nepal's main policy objectives in telecommunications include: universal access in rural areas; a universal service obligation in urban areas; liberalization of all telecom services; an open

[83] On 31 August 2008, the NEPSE index had reached its all-time high of 1,175 points before plunging to a record low of 292 on 15 June 2011, partly due to the effects of the global economic crisis and the 10-15% increase in the capital gains tax.

licensing regime except for systems requiring scarce resources; the encouragement of private-sector participation and economic efficiency; and a technology-neutral licensing regime.

4.115. Investment incentives are granted to the telecoms sector (Table 4.15).

Table 4.15 Investment incentives, 2018

Incentive category	Incentive provisions
Income tax	- ICT industries employing more than 300 Nepalese nationals throughout the year: 10% tax rebate
Concessions based on establishment in specific areas (SEZ & IT park)	- Software development, information processing, cyber cafés, and digital mapping industries established in technology parks, bio-tech parks, and information processing parks specified by the Government through Rajpatra will be provided with a 50% exemption on the applicable tax rate - A 15% tax rate exemption for ICT industries listed on the stock exchange
Others	- Telecom companies are required to collect a Telecom Service Fee of 13% from its customers, and this must be deposited together with the VAT.

Source: Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/ICT.pdf.

4.116. Under the 1997 Telecommunications Act and the 1997 Telecommunications Regulations, telecommunications and postal services are the responsibility of the Ministry of Communication and Information Technology. The Act also established the Nepal Telecommunications Authority (NTA) as an autonomous regulatory and licensing authority for all telecommunication services except broadcasting.[84] The objective of the NTA is to create a favourable and competitive environment for the development, expansion, and operation of telecom services.[85] Under the Telecommunications Act and its Regulations, all telecom operators require a licence from the NTA. Licences are issued for a maximum of ten years, are subject to fees ranging from NR 100 to NR 3 million, and are renewable every five years for up to 25 years. The NTA charges an annual Rural Telecom Development Fee (set at 2% of the licensees' total adjusted gross revenue) on all licensees. In addition, every basic mobile telecom operator must invest 15% of their total investment to expand their network to rural areas. Licensees who require the spectrum must pay a frequency fee set by the Radio Frequency Determination Committee.

4.117. Under the NTA's Interconnection Guidelines, each licensee is required to make available its telecommunications network and services to any other licensees wishing to interconnect, on an appropriate basis. The charges that a licensee offers for all interconnection services must be cost-based and reflect the carrier-to-carrier relationship between licensees.[86] Where feasible, the licensees must use an established cost methodology. The NTA fixes tariffs for interconnection services to international call termination, to reduce illegal Voice over Internet Protocol (VoIP) call bypass.[87] The NTA is currently reviewing the Guidelines provisions.

4.118. Nepal's telecommunication sector is dominated by two large market participants, Nepal Telecom (NTC) and Ncell. NTC is a public limited company (15% of shares are owned by the public), whereas Ncell is privately owned and is the largest mobile Internet service provider in Nepal. According to the latest Management Information System (MIS) report of the NTA, dated May 2018, the NTC dominated the fixed and mobile phone markets, with 93.8% and 50.0%, respectively, of total subscribers. Ncell had a 43% share of the mobile market.[88] In addition to NTC and Ncell, there are four other mobile service operators: Smart Telecom Private Limited (STPL); Nepal Satellite Telecom Private Limited (NSTPL); CG Telecom; and United Telecom Limited (UTL).

4.119. Based on proposals submitted by the service providers, telecom tariffs are approved by the NTA. Tariffs for basic and mobile telephone services are revised continuously for balancing.

4.120. Under the GATS, Nepal made several specific commitments on telecommunications, including: (i) no limitation on the number of service providers for both basic telecom and mobile

[84] The NTA is fully financially independent. However, its members (including the Chairperson) are appointed by the Government, and the NTA Board is accountable to the Government.
[85] Telecommunications Regulations 2054 (1997) (Annexes).
[86] This generally involves the provision of services that are not available to customers or to unlicensed third parties.
[87] International call termination is defined as carrying international voice traffic from around the world and delivering it to the desired local telephone number.
[88] NTA online information. Viewed at: http://nta.gov.np/en/mis-reports/.

telephony as from January 2009, although foreign participation is permitted through joint ventures with up to 80% equity participation[89]; and (ii) opening its value-added services.[90] Nepal accepted the Reference Paper on basic telecommunications services.[91] The internal courier service is not open to foreign investors.

4.6 Transport Services

4.121. Over the next five years, the Government will invest US$8.2 billion in road infrastructure, rail connectivity and transport sector management.[92] Road transport is the predominant mode of transport in Nepal, accounting for 90% of the movement of passengers and goods. The demand for air transport is increasing as services become more accessible and affordable. India's eastern port of Kolkata has been used as Nepal's gateway to the sea; it is about 750 km away. To diversify transit facility and connectivity through China and Bangladesh, Vishakapatnam in India is used as an additional port. For railway connectivity, Nepal has been working with India and China. However, the presence of railways is still limited.

4.122. The main institutions involved in the sector are the Ministry of Physical Infrastructure and Transport, the Ministry of Federal Affairs and General Administration, the Ministry for Culture, Tourism and Civil Aviation, the National Planning Commission, and the Nepal Civil Aviation Authority.

4.123. The principal objective of Nepal's National Transport Policy is "to develop a reliable, cost effective, safe facility-oriented and sustainable transport system that promotes and sustains the economic, social, cultural and tourism development of Nepal as a whole".[93] The Government recognizes the need to connect all of Nepal's regions, and to extend the road network so that all Nepalese are within a four-hour walk of an all-season "motorable" road in the hill areas and mountains, and within two hours' walk in the Terai region.

4.124. Investment incentives are granted to the transport sector in the areas of income tax and customs duties exemptions (Table 4.16).

Table 4.16 Investment incentives, 2018

Incentive category	Incentive provisions
Income tax	- A 40% tax exemption on the construction and operation of roads, bridges, tunnels, airports, and on the operation of tram trolley buses - The tax rate for the construction and operation of roads, bridges, tunnels, ropeways, and flyover bridges; the operation of trolley buses and trams; and BOOT: 20% - Industries related to the survey and extraction of petroleum and natural gases commencing commercial operations from March 2019 shall be provided with a tax holiday for the first seven years and a 50% exemption for the next three years - International airline operators with capital investments of NR 2 billion are entitled to a tax holiday for five years after the start of business. After that, they are entitled to a 50% tax exemption for the following three years. In addition, if existing operators increase their current capacity by 25% and contribute new investments so that their capital investment reaches NR 2 billion, they will be granted a tax holiday on all profits earned from that increased capacity for 5 years and a 50% exemption on such profit for an additional three years - Losses can be carried forward for up to 12 years (the normal provision is 7 years) for BOOT projects related to public infrastructures and petroleum industries

[89] In addition, the majority of the members of the Board of Directors of a joint venture should be Nepalese nationals.

[90] Including Internet, e-mail, voice mail, fax mail, Very Small Aperture Terminal (VSAT), audio conference, pay phone, pre-paid calling cards, local, long-distance and international data communication, radio paging, and trunk mobile.

[91] WTO document GATS/SC/139, 30 August 2004.

[92] Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Transportation_Sector%20Profile.pdf.

[93] Ministry of Physical Planning and Works, National Transport Policy (2001-2002), Kathmandu.

Incentive category	Incentive provisions
Customs duty exception/concession	- A 50% concession is granted on the chargeable customs duty on the import of passenger vehicles and container vehicles that are operated by electricity or battery - Hybrid vehicles (that is, those operated by both battery and fuel) receive a 25% exemption on chargeable duties

Source: Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Transportation_Sector%20Profile.pdf.

4.6.1 Road transport and railways

4.125. Nepal has total road network of 80,078 km, of which 26,935 km are part of the strategic road network (30% of which are paved, 24% gravelled, and 46% unpaved) and are constructed and maintained by the Department of Roads (DoR).[94] The remaining local roads are the responsibility of the Department of Local Infrastructure Development and Agricultural Roads, together with Local District Development Committees. Due to the mountainous terrain in the north, more than 60% of roads are concentrated in the lowland Terai area. The quality and quantity of roads are low as compared to countries with similar income. Nepal's road density is one of the lowest in South Asia. This shows the need to prioritize investment in the development of road infrastructure.

4.126. The main legislation in the subsector is composed of the Motor Vehicle and Transport Management Act 1993, the Public Road Act 1974, and the Railway Act 1963. The Government is seeking PPPs in the upgrading and the development of new highways, developing international trade routes, associated infrastructures, and improving major district road networks. Some important initiatives recently taken include: the first tunnel project in the road subsector, the 2.5 km Naghdunga tunnel, at an estimated cost of US$150 million; the Banepa-Sindhuli-Bardibas road (160 km) connecting Kathmandu to Eastern Terai, constructed at a cost of over US$210 million with grant assistance from Japan; and a Chinese construction contractor has received the award to widen and upgrade the 27 km Kathmandu ring road section.[95] Moreover, Nepal could become a transit route connecting India and China. This could attract as much as US$70 billion of business per year.[96]

4.127. The Ministry of Finance provides funds for the maintenance of the strategic road network through the DoR and the Roads Board Nepal (RBN). The DoR is the primary planning and implementation agency for road maintenance. The RBN approves the annual plan of the DoR prior to releasing funds from its budget for the maintenance of the sector. RBN funds come mainly from fuel levies, vehicle registration fees, and tolls. The DoR uses other source funds, such as direct allocation from the Government and funds provided through externally funded projects, for other maintenance works. A review of this financing strategy seems necessary to ensure that sufficient revenues can be raised to carry out road maintenance in a sustainable manner.

4.128. Foreign trucks, mostly from neighbouring countries, are allowed to transport people and goods within Nepal on the basis of reciprocity.

4.129. Nepal's total physical railway line is 57 km. The state-owned Nepal Railways Company (NRC) owns the 53 km narrow-gauge rail line, which comprises two sections currently not in operation: 32 km between Jaynagar in India to Janakpur in Nepal, and 21 km from Janakpur to Bijalpura. There is a 5 km line operating at the Inland Clearance Depot in Birgunj, which acts as a connector to Indian Railways. Indian Railways manages 6 km of railway line, 4 km of which are in Nepal connecting the Inland Clearance Depot in Birgunj (Nepal) to Raxaul (India). Given the importance of railways in carrying freight and passengers, Nepal has embarked on a plan to construct a railway line that runs the entire width of the country, from east to west. It is expected that the project will be realized in the form of one or more PPPs.[97]

[94] Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Transportation_Sector%20Profile.pdf.

[95] It will upgrade the two-lane road to eight lanes, along with bicycle lanes and footpaths on both sides.

[96] Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Transportation_Sector%20Profile.pdf.

[97] Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Transportation_Sector%20Profile.pdf.

4.6.2 Air transport

4.130. Nepal has 52 airports, including 1 international airport, eight regional hub domestic airports, and various short takeoff and landing strips (operational and non-operational). Some of the short take-off and landing strips in remote areas are unpaved, have no terminal facilities, and lack modern communication.[98] Because of these challenges, major investment projects are under way, with the Government mobilizing its own resources, while private sector involvement for the construction, operation and maintenance of airports is also being encouraged.

4.131. Tribhuvan International Airport (TIA) is being modernized in four phases because it is nearing passenger capacity and the domestic terminal is operating beyond its capacity. The total estimated cost for the upgrade is US$605 million.[99] The feasibility study and construction of an alternate airport in Kavrepalanchok will be expedited to manage the air traffic pressure at TIA. Another international airport at Nijgadh is to be constructed. The total project cost is US$6.7 billion (including the development of an airport city).[100] The Pokhara Regional Airport is being upgraded to a regional international airport. The construction of this new airport began in April 2016 and should be completed within four years, at an estimated cost of US$214.7 million.[101] The Gautam Buddha Airport is also being transformed into a regional international airport at a cost of US$90.6 million.[102] Construction of domestic airports will be expedited. Construction of an alternate airport in Dang will be accelerated. A master plan will be prepared for the expansion of domestic airports.

4.132. The Civil Aviation Authority of Nepal Act 2053 (1996) ensures the participation of the private sector in the development and operation of airports. The Act lays down the conditions relating to the establishment of airports in Nepal, the granting of permission therefor, and the prescribing of fees. The Civil Aviation Authority of Nepal (CAAN), responsible for the administration of air transport, has taken some initiatives to allow for PPPs. New legislation to promote private sector participation in the development, operation, and management of airports is being drafted. The CAAN board has also recommended that the Government impose an airport development fee.

4.133. A liberal, open sky approach has continued during the review period under Nepal's Aviation Policy 2006. Nepal has signed bilateral air service agreements and MOUs with 36 countries. Bilateral air service agreements contain provisions on competition policy, safety and security. The bilateral agreement with India calls for the provision of 30,000 seats per week and unlimited air cargo flights between six metropolitan cities of India and Nepal. Similarly, there are 10,000 seats per week to seven Chinese cities under that bilateral agreement.

4.6.3 Tourism

4.134. The direct contribution of travel and tourism to GDP was estimated at 4% for 2017, while direct employment in the sector accounted for 3.2% of the total.[103] In 2017, Nepal earned US$510 million in tourism receipts (up from US$379 million in 2012) from almost one million tourist arrivals (Table 4.17); about 75% arrived by air and the rest by land. The average length of stay has increased slightly from 12.16 to 12.60 days during the review period, while the number of licensed beds rose from 31,657 in 2012 to 39,833 in 2017. Almost half of the tourists come from India,

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[98] Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Transportation_Sector%20Profile.pdf.

[99] For phase one, the contractual scope will include the enlargement of the existing runway, the construction of new taxiways, the extension of the apron, the installation of new lighting in the airfield, the renovation of the international terminal, and the installation of a new system for baggage carriage.

[100] Once operational, the airport at Nijgadh is expected to increase tourism and ease transportation. The proposed Kathmandu-Terai fast track will connect the airport to Kathmandu, with travel time of about one hour. The process of land acquisition, estimated to cost US$1.2 billion has commenced. The international airport will be designed to handle 15 million passengers annually and accommodate the largest of jets.

[101] Nepal has signed a soft loan agreement with China for the funding. Upon completion, the planned airport will have a 3,000 metre-long runway, an apron, international and domestic terminal buildings, an air traffic control tower, a cargo terminal building, an airport hangar, and runways for big aircrafts.

[102] The Asian Development Bank has provided US$58.5 million (US$42.75 million in loans and US$15.75 million in grants), the OPEC Fund for International Development will provide a loan of US$15 million, and the Government will bear the rest of the cost as counterpart funding. After the completion of the first phase, the new facility will have a 3,000-metre runway and the capacity to serve 760,000 passengers annually.

[103] World Travel and Tourism Council online information. Viewed at: https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/nepal2018.pdf.

China, Sri Lanka, the United Kingdom and the United States.[104] Local tourists increasingly represent a larger share of the market.

Table 4.17 Selected tourism indicators, 2012-17

	2012	2013	2014	2015	2016	2017
Tourist arrivals	803,082	797,616	790,118	538,970	753,002	940,218
Duration of stay (days)	12.16	12.51	12.44	13.16	13.40	12.60
Per day expenditure (US$)	36	42	48	70	53	54
Tourist receipts (US$ million)	379	389	472	544	393	510
Number of hotels	853	1,026	1,075	1,073	1,062	1,101
Number of beds	31,657	34,523	36,179	36,950	38,242	39,833

Source: Information provided by the Ministry for Culture, Tourism and Civil Aviation.

4.135. Nepal is renowned worldwide as a tourist destination due to its natural beauty; ethnic, lingual, social and biodiversity; and cultural wealth. Home of the world's highest mountain range and containing eight of the world's ten tallest mountains, Nepal is a magnet for the most avid mountaineers, rock climbers, trekkers, and adventure seekers. Nepal has a pleasant year-round climate and people are renowned for their hospitality. It is also home to four UNESCO World Heritage Sites.[105] Moreover, the market opportunity for religious tourism is vast, with 1.5 billion Hindus and Buddhists in the world, most of whom live in India, China and South East Asia. However, tourism still faces key problems, such as poor infrastructure, insufficient investment, and limited air connectivity[106]. With the aim of tackling these problems and promoting the sustainable growth of tourism, several programmes are being implemented, such as Tourism Vision 2020, the Nepal Tourism Year 2020 campaign, and the National Tourism Strategy 2016-2025.

4.136. Tourism Vision 2020 identifies tourism as Nepal's best hope for, and principal contributor to, a sustainable economy. It seeks to welcome two million tourist visitors a year by 2020 and, by adding one million jobs to the sector, make the tourism industry Nepal's number one employment generator by 2020.

4.137. In November 2016, the National Tourism Strategy 2016-2025 was launched, with a total budget of NR 6.44 billion.[107] The Strategy has set 11 strategies for the overall development of the sector, including branding, marketing, developing infrastructure, and improving tourism quality overall. Some of its main targets are the increase of: arrivals from 0.8 million currently to 2.5 million by 2025; the average tourist length of stay from 13 days in 2016 to 15 days in 2025; the average spend per tourist per day from US$53 in 2016 to US$90 by 2025; jobs in the tourism industry from 633,000 in 2015 to 898,000 by 2025; foreign exchange earnings from the tourism sector from NR 49.78 billion in 2015 to NR 340 billion by 2025; and the contribution of tourism to GDP from 2.4% in 2015 to 9.3% by 2025.[108]

4.138. The Ministry for Culture, Tourism and Civil Aviation is responsible for policy formulation, including the development of air transportation and other tourism trade-related services. The Nepal Tourism Board was established in 1997 to promote and regulate tourism activities, and foster partnerships between the Government and the private sector.

4.139. Tourism is regulated by a set of general rules, laws, and industrial acts, such as: the Tourism Act, 2035 (1978) amended in 2053 (1997); the Hotel, Lodges, Restaurants, Bar and Tourist Guide Regulation, 2038 (1981); the Travel and Trekking Agency Regulation, 2062 (2005) amended in 2017; the Rafting Regulation, 2063 (2006); and the Mountaineering Rules, 2059 (2002) amended

[104] India and China together account for about one third of the total. Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Tourism.pdf.

[105] These are: (i) the seven monuments of the Kathmandu valley (Kathmandu Durbar Square, Patan Durbar Square, Bhaktapur Durbar Square, two Buddhist stupas Swayambhu and Boudanath, and two Hindu temples Pashupati and Changu Narayan); (ii) Lumbini, the birthplace of Buddha; (iii) Chitwan National Park; and (iv) Sagarmatha National Park.

[106] Due to its landlocked situation, visitors must either fly to Kathmandu or enter Nepal by land through Kodari, bordering China, or Bhairawaha on India's border.

[107] One quarter of the funding is expected to be spent in the first and second years, and one quarter during each of the remaining three years.

[108] Travel News Digest, 30 August 2016.

in 2017. During the review period, new legislation has also been enacted, such as the New Casino Rules, 2070 (2013).

4.140. Under the Industrial Enterprises Act 2016, tourism is considered a priority industry. Investment incentives are granted to the tourism industry in terms of income tax and customs duties exemptions (Table 4.18).

Table 4.18 Investment incentives, 2018

Incentive category	Incentives and subsidy provisions
Income tax	- A 10% tax rebate to tourism companies listed with the Security Exchange Board - In the case of special industry, industry based in the agriculture and tourism sectors that provides direct employment to at least 100 Nepalese nationals throughout a whole year, the effective tax rate shall be 70% of the applicable tax rate - A mandatory provision has been made for the employees of profitable public corporations and those employees working in "A" and "B" class banks and financial institutions to be sponsored by internal tourism trips in Nepal by their respective employers. This may serve to drive up the amount of domestic tourism
Customs duty	- 1% customs duty shall be applicable on the import of promotional materials printed outside Nepal for the promotion of the tourism business - A rebate of 50% customs duty on the import of luxury coaches, micro-buses and mini-buses is allowed for travel agents, trekking agencies, rafting agencies, hotels and resorts on the recommendation of the Ministry for Culture, Tourism and Civil Aviation

Source: Office of the Investment Board online information. Viewed at: http://ibn.gov.np/uploads/files/Sector/Tourism.pdf.

4.141. Foreign investment in tourism is regulated under the Foreign Investment and Technology Transfer Act of 1992 (as amended in 1996). During 2012-13 to 2016-17, FDI financed, on average, almost two thirds of the total cost of tourism-related projects (Table 4.19).

Table 4.19 FDI projects in tourism, 2012-13 to 2016-17

	2012-13	2013-14	2014-15	2015-16	2016-17
Number of projects	317	307	370	348	395
Project cost (NR million)	51,990	40,373	81,370	20,543	16,868
FDI (NR million)	19,818	20,132	67,455	15,254	15,017
Number of employments	16,569	11,790	13,167	11,663	11,663

Source: Information provided by the Department of Industry.

4.142. Under the Foreign Investment and Technology Transfer Act, no permission is required for the establishment of foreign companies or foreign investment in travel agencies, trekking agencies, water rafting, pony trekking, horse riding, or tourist lodging. FDI is permitted in the hotel industry, subject to authorization. In view of the economically underdeveloped status of the country and the dependence on tourism of a large number of people for their livelihood, during its WTO accession negotiations Nepal called for the understanding of WTO Members in the opening up of its tourism services.[109]

[109] WTO document WT/ACC/NPL/16, 28 August 2003.

5 APPENDIX TABLES

Table A1.1 Merchandise exports by group of products, 2011-17

	2011	2012	2013	2014	2015	2016	2017
Total exports (US$ million)	907.6	870.7	863.3	900.9	660.2	728.8	740.7
	(% of total exports)						
Total primary products	26.1	31.4	26.7	31.9	32.0	29.2	31.7
Agriculture	21.9	27.3	23.5	28.1	30.0	27.7	29.9
Food	18.6	24.0	20.5	25.2	26.9	24.4	26.1
0752 – Spices (except pepper and pimento)	4.0	6.8	2.6	4.3	7.5	6.0	6.7
0599 – Juice of any single fruit (other than citrus) or vegetable	2.8	3.4	4.0	3.8	4.5	5.1	5.2
0741 – Tea, whether or not flavoured	2.1	2.4	2.4	2.2	2.7	3.6	3.8
0813 – Oilcake and other solid residues (except dregs)	1.0	1.0	0.7	0.7	0.9	1.6	2.1
0542 – Leguminous vegetables, dried, shelled, whether or not skinned or split	2.7	4.6	2.0	2.1	1.3	1.9	1.3
Agricultural raw material	3.2	3.3	3.0	2.9	3.1	3.3	3.8
2929 – Materials of vegetable origin, n.e.s.	1.4	1.1	0.8	0.9	1.1	0.9	1.4
Mining	4.3	4.1	3.2	3.9	2.0	1.6	1.8
Ores and other minerals	1.8	1.4	1.1	1.9	0.1	0.0	0.1
Non-ferrous metals	2.5	2.7	2.1	1.9	1.9	1.5	1.7
Fuels	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufactures	73.8	68.6	68.7	67.5	67.9	70.7	68.3
Iron and steel	15.5	14.7	14.4	12.8	9.3	6.1	6.6
6741 – Flat-rolled products of iron or non-alloy steel, plated or coated with zinc	9.6	6.4	4.4	4.0	2.4	1.1	2.2
6781 – Wire of iron or non-alloy steel	3.1	3.8	2.9	2.4	2.5	2.2	2.2
Chemicals	5.5	5.1	5.3	5.3	5.2	6.6	6.1
5981 – Wood- and resin-based chemical products	1.3	1.5	1.8	2.3	2.5	2.8	2.5
Other semi-manufactures	4.1	4.9	3.9	4.4	3.9	4.3	4.5
Machinery and transport equipment	1.0	0.9	0.6	0.5	0.9	0.8	1.1
Power generating machines	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-electrical machinery	0.2	0.5	0.4	0.1	0.4	0.2	0.1
Agricultural machinery and tractors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office machines and telecommunication equipment	0.1	0.0	0.1	0.0	0.0	0.0	0.6
Other electrical machines	0.5	0.3	0.1	0.1	0.4	0.1	0.1
Automotive products	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other transport equipment	0.1	0.0	0.0	0.3	0.0	0.3	0.2

	2011	2012	2013	2014	2015	2016	2017
Textiles	32.1	30.6	30.0	29.7	32.1	31.5	33.7
6518 – Yarn (other than sewing thread) of staple fibres; synthetic monofilament, n.e.s.; strip and the like of synthetic textile materials of an apparent width not exceeding 5 mm	7.3	7.6	7.1	7.6	7.9	7.5	10.1
6592 – Carpets and other textile floor coverings, knotted, whether or not made up	8.4	7.3	8.3	8.2	9.6	10.1	9.1
6531 – Fabrics, woven, of synthetic filament yarn (including woven fabrics obtained from materials of heading 651.88), other than pile and chenille fabrics	5.9	7.3	6.9	6.3	5.4	4.5	4.2
6581 – Sacks and bags, of textile materials, of a kind used for the packing of goods	4.4	4.2	3.8	3.8	4.4	3.9	3.8
6545 – Fabrics, woven, of jute or of other textile bast fibres of group 264	1.4	1.6	1.4	1.5	2.2	2.7	3.2
6571 – Felt, whether or not impregnated, coated, covered or laminated, n.e.s.	0.7	0.6	0.9	1.1	1.6	1.8	1.9
Clothing	10.6	7.1	8.8	9.5	10.9	11.5	11.0
8461 – Clothing accessories (other than those for babies), not knitted or crocheted	2.8	1.7	2.6	2.6	3.2	3.5	3.2
8423 – Jackets and blazers	1.3	0.9	1.4	1.5	1.5	1.3	1.7
8453 – Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted	0.7	0.5	0.6	0.6	0.8	1.1	1.2
Other consumer goods	5.0	5.3	5.7	5.3	5.7	10.0	5.3
8515 – Other footwear, with uppers of textile materials	1.5	2.0	2.5	2.3	2.6	2.2	1.5
Other	0.0	0.0	4.5	0.6	0.0	0.0	0.0

Source: UNSD Comtrade database (SITC Rev.3).

Table A1.2 Merchandise total imports by group of products, 2011-17

	2011	2012	2013	2014	2015	2016	2017
Total imports (US$ million)	5,915.9	6,017.5	6,451.7	7,590.1	6,612.1	8,878.5	10,037.8
	(% of total imports)						
Total primary products	41.1	44.2	43.5	43.6	38.7	35.3	38.1
Agriculture	16.4	18.2	20.3	19.4	19.7	19.9	19.0
Food	14.2	16.8	18.4	17.9	17.9	18.2	17.6
0423 – Rice, semi-milled or wholly milled, whether or not polished, glazed, parboiled or converted (including broken rice)	0.6	1.4	1.3	2.0	2.3	2.3	2.0
4211 – Soya bean oil and its fractions	2.2	2.3	4.7	1.8	1.6	1.5	1.5
0542 – Leguminous vegetables, dried, shelled, whether or not skinned or split	0.5	0.6	0.9	0.8	1.1	0.9	1.1
0449 – ....other	0.8	0.9	0.7	1.0	1.1	1.2	1.1
Agricultural raw material	2.2	1.3	1.9	1.5	1.8	1.6	1.4
Mining	24.7	26.0	23.2	24.1	19.0	15.4	19.1
Ores and other minerals	1.3	1.4	1.4	1.3	1.2	1.3	1.3
Non-ferrous metals	2.7	2.1	3.0	3.1	4.5	2.2	2.6
6811 – Silver (including base metals clad with silver), unwrought, unworked or semi-manufactured	1.1	0.8	1.4	1.7	3.0	0.7	1.0
Fuels	20.7	22.5	18.8	19.7	13.3	11.9	15.2
3442 – Gaseous hydrocarbons, liquefied, n.e.s.	3.4	4.0	3.4	3.7	2.2	1.9	2.3
3212 – Other coal	0.5	0.9	0.9	0.9	1.4	1.4	1.4
Manufactures	54.3	50.9	51.0	53.0	59.1	62.9	59.2
Iron and steel	8.5	8.5	10.7	8.4	9.0	9.7	9.7
6726 – Semi-finished products of iron or non-alloy steel, containing by weight less than 0.25% of carbon	3.4	3.7	4.6	3.9	3.6	4.1	4.7
6761 – Bars and rods, hot-rolled, in irregularly wound coils, of iron or steel	1.1	1.0	1.1	0.8	0.9	1.1	1.0
Chemicals	12.1	10.1	11.7	10.9	12.9	11.3	10.3
5429 – Medicaments, n.e.s.	2.4	2.2	1.9	2.0	3.2	2.0	1.8
Other semi-manufactures	7.2	6.8	6.1	6.6	6.5	7.5	7.7
6612 – Portland cement, aluminous cement, slag cement, supersulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	2.5	2.1	1.8	1.4	1.4	1.9	2.6
Machinery and transport equipment	18.4	17.7	15.7	19.6	22.4	26.8	24.7
Power generating machines	0.8	0.7	0.6	0.9	1.2	0.9	0.6
Other non-electrical machinery	5.2	4.6	4.8	5.6	5.2	7.6	8.0
7232 – Mechanical shovels, excavators and shovel-loaders, self-propelled	0.4	0.3	0.3	0.5	0.7	1.8	2.2

	2011	2012	2013	2014	2015	2016	2017
7283 – Machinery (other than machine tools) for sorting, screening, separating, washing, crushing, grinding, mixing or kneading earth, stone, ores or other mineral substances, in solid (including powder or paste) form; machinery for agglomerating, shaping or moulding solid mineral fuels, ceramic paste, unhardened cements, plastering materials or other mineral products in powder or paste form; machines for forming foundry moulds of sand; parts thereof	0.7	0.2	0.4	0.5	0.3	0.5	0.9
Agricultural machinery and tractors	1.3	1.3	1.2	1.3	1.2	1.7	1.0
Office machines and telecommunication equipment	5.1	4.3	3.2	4.6	4.6	5.1	4.8
7643 – Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus or sound-recording or reproducing apparatus	1.2	1.1	1.2	1.8	2.3	2.2	2.2
Other electrical machines	2.5	2.8	2.3	2.7	3.0	3.3	2.5
Automotive products	2.4	2.6	2.6	3.3	3.7	6.2	4.3
7812 – Motor vehicles for the transport of persons, n.e.s.	0.9	0.8	0.9	1.1	1.1	2.2	1.3
7821 – Motor vehicles for the transport of goods	0.5	0.5	0.7	0.7	0.9	1.5	1.0
Other transport equipment	2.3	2.6	2.1	2.7	4.7	3.6	4.7
7851 – Motor cycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars; side-cars	1.6	1.6	1.4	1.5	1.4	2.2	2.0
7923 – Aeroplanes and other aircraft, mechanically-propelled (other than helicopters), of an unladen weight exceeding 2,000 kg but not exceeding 15,000 kg	0.0	0.0	0.0	0.3	0.3	0.5	1.6
Textiles	2.2	2.1	2.0	2.3	2.8	2.2	1.7
Clothing	1.9	1.6	1.5	1.5	1.6	1.5	1.3
Other consumer goods	4.1	4.0	3.3	3.9	3.9	4.0	3.8
Other	4.6	4.9	5.5	3.4	2.2	1.8	2.6
9710 – Gold, non-monetary (excluding gold ores and concentrates)	4.5	4.9	4.3	3.3	2.1	1.7	2.6

Source: UNSD Comtrade database (SITC Rev.3).

Table A1.3 Merchandise total exports by destination, 2011-17

	2011	2012	2013	2014	2015	2016	2017
Total exports (US$ million)	907.6	870.7	863.3	900.9	660.2	728.8	740.7
	(% of total exports)						
Americas	9.3	7.6	9.1	9.5	11.9	13.5	12.4
United States	7.7	6.5	7.9	8.4	10.7	12.1	11.2
Other America	1.6	1.1	1.2	1.2	1.3	1.3	1.2
Canada	1.3	0.8	1.0	1.0	1.1	1.1	1.1
Europe	13.3	10.2	12.9	13.4	15.3	18.2	20.4
EU-28	12.0	8.9	11.0	10.9	12.6	13.4	13.3
Germany	4.5	3.4	3.9	3.6	4.1	4.0	3.9
United Kingdom	2.2	1.6	2.3	2.3	3.1	3.4	3.4
Italy	1.2	0.9	1.1	1.3	1.4	1.5	1.6
France	1.7	1.2	1.5	1.4	1.5	1.6	1.5
Netherlands	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Denmark	0.3	0.2	0.3	0.3	0.3	0.4	0.4
Spain	0.5	0.3	0.3	0.4	0.5	0.4	0.4
Belgium	0.4	0.2	0.3	0.3	0.3	0.4	0.4
Austria	0.2	0.2	0.3	0.2	0.3	0.3	0.3
EFTA	0.4	0.3	0.5	0.6	0.7	1.0	0.7
Switzerland	0.3	0.2	0.4	0.4	0.5	0.8	0.4
Norway	0.1	0.1	0.1	0.2	0.3	0.2	0.2
Other Europe	0.8	1.1	1.4	1.9	2.0	3.8	6.4
Turkey	0.8	1.1	1.3	1.9	1.9	3.8	6.4
Commonwealth of Independent States	0.3	0.2	0.2	0.1	0.0	0.1	0.3
Africa	0.2	0.5	0.4	0.5	0.1	0.1	0.1
Middle East	1.1	0.7	0.6	0.7	0.7	0.3	1.4
United Arab Emirates	0.7	0.4	0.5	0.4	0.3	0.1	1.1
Asia	75.8	80.9	76.8	75.8	72.0	67.9	65.4
China	1.1	2.5	2.3	3.1	1.7	2.5	3.0
Japan	1.0	1.0	1.3	1.3	1.3	1.5	1.3
Other Asia	73.7	77.3	73.2	71.4	69.0	63.8	61.1
India	67.7	69.0	67.0	64.8	63.5	54.1	56.7
Bangladesh	2.9	4.4	2.0	2.1	1.0	1.8	1.3
Australia	0.5	0.4	0.6	0.6	0.8	0.8	0.9
Viet Nam	0.4	0.4	0.3	0.5	0.5	0.5	0.7
Malaysia	0.2	0.1	0.3	0.4	0.4	0.4	0.3
Singapore	0.4	0.1	0.1	0.2	0.2	5.0	0.3

Source: UNSD Comtrade database (SITC Rev.3).

Table A1.4 Merchandise total imports by origin, 2011-17

	2011	2012	2013	2014	2015	2016	2017
Total imports (US$ million)	5,915.9	6,017.5	6,451.7	7,590.1	6,612.1	8,878.5	10,037.8
	(% of total imports)						
Americas	3.6	3.5	6.2	3.6	4.2	3.6	3.6
United States	1.0	0.8	0.9	1.0	1.5	1.1	0.8
Other America	2.5	2.7	5.3	2.6	2.7	2.6	2.8
Argentina	1.7	1.4	2.8	1.4	1.1	1.0	1.3
Canada	0.3	0.2	0.5	0.5	0.9	0.6	0.9
Europe	3.2	2.6	2.8	3.0	6.3	3.4	4.2
EU-28	2.3	2.1	2.3	2.5	3.9	2.4	3.4
France	0.3	0.4	0.3	0.3	1.1	0.7	1.5
Germany	0.5	0.5	0.6	0.7	1.3	0.5	0.5
EFTA	0.7	0.3	0.3	0.4	1.7	0.6	0.4
Switzerland	0.6	0.3	0.3	0.3	1.7	0.5	0.4
Other Europe	0.2	0.1	0.2	0.1	0.6	0.4	0.4
Commonwealth of Independent States	0.3	1.6	1.0	0.8	1.2	0.7	0.7
Ukraine	0.1	1.1	0.5	0.6	0.4	0.6	0.6
Africa	0.5	0.2	0.7	0.5	0.7	0.8	1.0
South Africa	0.1	0.1	0.5	0.2	0.4	0.4	0.6
Middle East	7.2	7.2	7.1	6.4	4.9	3.4	3.0
United Arab Emirates	5.6	6.2	6.1	5.5	4.0	2.4	1.7
Saudi Arabia, Kingdom of	0.9	0.6	0.7	0.7	0.8	0.7	0.9
Asia	85.3	84.9	82.2	85.7	82.7	87.8	85.5
China	11.7	11.6	9.4	12.4	13.9	14.0	12.6
Japan	0.9	0.9	0.9	0.7	0.8	0.9	0.6
Other Asia	72.7	72.4	72.0	72.6	68.0	72.9	72.4
India	63.4	65.4	63.6	65.0	60.6	65.5	65.0
Indonesia	1.9	1.6	2.8	2.1	1.8	1.2	1.2
Thailand	1.7	1.5	1.4	1.1	1.3	1.2	1.1
Korea, Republic of	1.4	0.8	0.7	0.6	0.6	0.7	0.9
Viet Nam	0.5	0.3	0.5	0.7	0.6	0.8	0.9
Malaysia	1.2	0.9	0.8	1.0	0.9	0.8	0.9
Australia	0.3	0.4	0.4	0.3	0.5	0.5	0.5
Singapore	0.6	0.4	0.6	0.5	0.4	0.4	0.4
Bangladesh	0.3	0.4	0.2	0.3	0.4	0.5	0.4
Myanmar	0.0	0.0	0.1	0.2	0.1	0.2	0.3
Other	0.0	0.0	0.0	0.0	0.0	0.2	2.0

Source: UNSD Comtrade database (SITC Rev.3).

Table A2.1 Outstanding notifications to the WTO, January 2012 – November 2018

Legal provision	Description of requirement	Frequency	WTO document
Agreement on Agriculture			
Articles 10 and 18.2	Export subsidies (Table ES:1)	Annual	Outstanding for 2012, 2013, 2014, 2015 and 2016
Article 18.2	Domestic support commitments (Table DS:1)	Annual	Outstanding for 2013 and 2015
General Agreement on Trade in Services			
Article III:3	Measures that significantly affect trade in services	Ad hoc	As at end 2017 notification outstanding
Article VII:4	Each Member should have notified any existing Art. VII:1 recognition measures within 12 months of the entry into force of the GATS for it. In the absence of such measures, no notification is required.	Ad hoc	As at end 2017 notification outstanding
Agreement on Implementation of Article VII of the GATT 1994 (Customs Valuation Agreement)			
Article 22.2	New or changes to laws or regulations relevant to the Agreement and the administration of such laws and regulations	Ad hoc	As at end 2017 notifications outstanding
Agreement on Import Licensing Procedures			
Article 1.4(a), 5, 7.3 and/or 8.2(b)	Questionnaire	Annual	As at end 2017 notifications outstanding
Agreement on Subsidies and Countervailing Measures			
Articles 25.1. New and full Subsidy Notification was due on 30 June 2017	Countervailing duty actions	Ad hoc	As at end 2017 notifications outstanding
Agreement on TRIMs			
Article 6.2			As at end 2017 notifications outstanding
Decision on Notification Procedures for Quantitative Restrictions (G/L/59/Rev.1)			
First notification was due by 30 September 2012			As at end 2017 notifications outstanding
Agreement on Preshipment Inspection Art. 5 – first time			
			As at end 2017 notifications outstanding
Integrated Data Base for Personal Computers Decision by General Council of 16 July 1997 (WT/L/225)			
Tariffs for 2017 were due by 30 March 2017. Imports of 2016 were due by 30 September 2017,			As at end 2017 notifications outstanding
GATT 1994 Art. XVII:4(a) – Understanding on the Interpretation of Art. XVII (State trading enterprises)			
New & Full Notification was due on 30 June 2016			As at end 2017 notifications outstanding

Table A2.2 Unilateral Preferential Market access to Nepal as of April 2018

Provider	Type	Initial Entry Into Force	End Date
Australia	GSP	1/1/1974	
Canada	GSP	7/1/1974	
European Union	EBA	5/3/2001	
Iceland	GSP	1/29/2002	
Japan	GSP	8/1/1971	
Kazakhstan	GSP	1/1/2010	
New Zealand	GSP	1/1/1972	
Norway	GSP	10/1/1971	
Russian Federation	GSP	1/1/2010	
Switzerland	GSP	3/1/1972	
Turkey	GSP	1/1/2002	
United States of America	GSP	1/1/1976	
India	LDC-specific	8/13/2008	
Chile	LDC-specific	2/28/2014	
China	LDC-specific	7/1/2010	
Chinese Taipei	LDC-specific	12/17/2003	
Kyrgyz Republic	LDC-specific	3/29/2006	
Tajikistan	LDC-specific	10/25/2003	
Thailand	LDC-specific	4/9/2015	12/31/2020
Korea, Republic of	LDC-specific	1/1/2000	
United States of America	Other PTAs	12/30/2016	12/31/2025

Source: PTA database, WTO.

Table A2.3 Nepalese manufactured articles allowed entry into India

Products	Quantity in MT per year
Vegetable fats (Vanaspati)	100,000
Acrylic Yarn	10,000
Copper products under Chapters 74 & Heading 85.44 of the H.S. Code	10,000
Zinc Oxide	2,500

Table A3.1 Summary analysis of Nepal's MFN tariff, 2018-19

	Number of lines	Average (%)	Range (%)	Standard deviation	Duty free (%)
Total	**5, 572**	**12.4 (11.9)**	**0-356.5 (0-80)**	**11.5 (8.9)**	**3.6**
HS 01-24	992	14.5 (12.5)	0-356.5 (0-80)	18.6 (6.6)	0.1
HS 25-97	4,580	11.9	0-80	9.3	4.4
By WTO category					
WTO agricultural products	798	15.0 (12.6)	0-356.5 (0-80)	20.8 (7.6)	1.5
Animals and products thereof	111	10.5	10-15	1.5	0.0
Dairy products	21	19.8	10-30	8.2	0.0
Fruit, vegetables, and plants	224	11.5 (11.3)	5-34.9 (5-30)	3.5 (2.8)	0.0
Coffee and tea	24	24.2	10-30	8.6	0.0
Cereals and preparations	101	14.1	5-30	7.2	0.0
Oils seeds, fats, oil and their products	85	10.1	5-15	2.8	0.0
Sugars and confectionary	21	21.4	10-30	9.4	0.0
Beverages, spirits and tobacco	63	58.0 (31.9)	8.5-356.5 (20-80)	60.2 (12.0)	0.0
Cotton	5	0.0	0-0	0.0	100.0
Other agricultural products, n.e.s.	143	8.2	0-20	3.2	4.9
WTO non-agricultural products	4, 774	11.9	0-80	9.1	4.0
Fish and fishery products	261	10.6	5-15	1.7	0.0
Minerals and metals	918	12.0	0-46.5 (0-30)	7.7 (7.6)	2.9
Chemicals and photographic supplies	954	11.3	0-30	5.5 (5.4)	1.0
Wood, pulp, paper and furniture	296	13.4	0-30	7.1	3.0
Textiles	598	12.4	1-30	6.2	0.0
Clothing	218	19.9	15-20	0.7	0.0
Leather, rubber, footwear and travel goods	162	11.5	0-20	6.3	0.6
Non-electric machinery	539	6.5	0-30	5.7	9.6
Electric machinery	250	10.5	0-30	7.4	22.8
Transport equipment	170	22.7	0-80	21.6	0.6
Non-agricultural products, n.e.s.	387	11.4	0-80	16.0	8.3
Petroleum	21	18.5 (20.7)	3.9-30.8 (5-30)	9.9 (8.6)	0
By ISIC sector[a]					
ISIC 1 – Agriculture, hunting and fishing	411	9.9 (9.6)	0-34.9 (0-30)	3.8 (3.1)	1.0
ISIC 2 – Mining	97	10.0	0-30	5.5	1.0
ISIC 3 – Manufacturing	5,063	12.6 (12.3)	0-356.5 (0-80)	12.0 (9.2)	3.9
Manufacturing excluding food processing	4,436	12.0	0-80	9.4 (9.3)	4.4
Electrical energy	1	0.0	0-0	0.0	100.0
By stage of processing					
First stage of processing	785	9.3 (9.1)	0-34.9 (0-30)	4.4 (4.1)	1.8
Semi-processed products	1, 823	11.4 (11.3)	0-46.5 (0-30)	5.9 (5.8)	1.3
Fully processed products	2,964	13.8 (13.2)	0-356.5 (0-80)	14.8 (10.9)	5.5
By HS section					
01 Live animals and products	373	10.5	0-30	3.1	0.3
02 Vegetable products	326	10.9 (10.8)	5-34.9 (5-30)	4.1 (3.7)	0.0
03 Fats and oils	51	10.7	5-15	3.1	0.0
04 Prepared food, beverages and tobacco	242	26.6 (19.3)	5-365.5 (5-80)	34.9 (9.9)	0.0
05 Mineral products	164	11.7 (11.2)	0-46.5 (0-30)	7.7 (6.7)	1.2
06 Chemicals and products thereof	878	10.1	0-30	4.2	3.8
07 Plastics, rubber, and articles thereof	227	14.6	0-30	8.4	0.9
08 Raw hides and skins, leather, and its products	70	9.4	5-20	6.0	0.0
09 Wood and articles of wood	128	10.5	5-15	4.6	0.0
10 Pulp of wood, paper and paperboard	148	13.1	0-30	5.5	6.1
11 Textiles and textile articles	809	14.1	0-30	6.6	1.4
12 Footwear, headgear, etc.	50	16.9	0-20	5.0	2.0

	Number of lines	Average (%)	Range (%)	Standard deviation	Duty free (%)
13 Articles of stone, plaster, cement	145	16.4	0-30	8.0	1.4
14 Precious stones and metals, pearls	53	8.2	1-30	6.1 (6.2)	0.0
15 Base metals and articles thereof	572	12.0	1-30	7.3	0.0
16 Machinery, electrical equipment, etc.	794	7.6	0-30	6.5	14.7
17 Transport equipment	181	22.1	0-80	21.1	0.6
18 Precision equipment	211	6.8	0-30	4.3	10.4
19 Arms and ammunition	18	80.0	80-80	0.0	0.0
20 Miscellaneous manufactured articles	125	13.6	5-30	9.5	0.0
21 Works of art, etc.	7	9.3	5-10	1.7	0.0

Note: Including AVEs, as available. Figures in brackets refer to data excluding AVEs.

Source: WTO Secretariat calculations, based on data received by the authorities.

Table A3.2 Tariff lines subject to export duties, 2017-18

Hs code	Description	Export duty
0713.40.90	Split red lentils	NR 1 per kg
1001.11.00	Durum wheat: seed	NR 1 per kg
1001.19.00	Durum wheat: other than seed	NR 1 per kg
1001.91.00	Wheat (other than durum) and meslin: seed	NR 1 per kg
1001.99.00	Wheat (other than durum) and meslin: other than seed	NR 1 per kg
1005.10.00	Maize (corn): seed	NR 1 per kg
1005.90.00	Maize (corn): other than seed	NR 1 per kg
1006.10.00	Paddy rice	NR 1 per kg
1006.20.00	Husked (brown) rice	NR 1 per kg
1006.30.00	Semi-milled or wholly-milled rice	NR 1 per kg
1006.40.00	Broken rice	NR 1 per kg
1008.10.00	Buckwheat	NR 1 per kg
1008.21.00	Millet: seed	NR 1 per kg
1008.29.00	Millet: other than seed	NR 1 per kg
1211.90.10	Yarchagumba	NR 5,000 per kg
1211.90.90	Certain other plants	NR 1 per kg
1404.90.10	Semi-processed Catechu of acacia (liquid Kaththha)	NR 7 per kg
1404.90.20	Catechu of acacia (Kaththha)	NR 5 per kg
1404.90.50	Rudrakshya	NR 1 per kg
1404.90.60	Skin of Argeli	NR 1 per kg
1404.90.70	Soapnut	NR 1 per kg
1404.90.90	Other vegetable products, n.e.s.	NR 5 per kg
2106.90.20	Pan Masala without tobacco	NR 40 per kg
2106.90.70	Scented acreca nuts without tobacco	NR 25 per kg
2302.10.00	Bran, sharps, and other residues: of maize (corn)	NR 0.5 per kg
2302.30.00	Bran, sharps, and other residues: of wheat	NR 0.5 per kg
2302.40.00	Bran, sharps, and other residues: of other cereals	NR 0.5 per kg
2302.50.00	Bran, sharps, and other residues: of leguminous plants	NR 0.5 per kg
2304.00.00	Oil-cake (..), resulting from the extraction of soybean oil	NR 0.5 per kg
2305.00.00	Oil-cake (..), resulting from the extraction of ground-nut oil	NR 0.5 per kg
2306.20.00	Oil-cake (..), resulting from the extraction of linseed	NR 1 per kg
2306.41.00	Oil-cake (..), resulting from the extraction of low erucic acid rape or colza seeds	NR 0.5 per kg
2306.90.00	Oil-cake (..), resulting from the extraction of other rape or colza seeds	NR 1 per kg
2403.99.10	Jarda, Khaini (..) and similar preparations containing chewing tobacco	NR 50 per kg
2403.99.90	Certain other smoking tobacco	NR 50 per kg
2505.10.00	Silica sand and quartz sand	NR 1,200 per cubic meter
2505.90.00	Other natural sands	NR 1,200 per cubic meter
2514.00.00	Slate	NR 1,200 per cubic meter
2516.20.10	Stones and pebbles up to the size 2.5 inches	NR 600 per cubic meter
2516.20.20	Stones of a size more than 2.5 inches	NR 1,200 per cubic meter
2516.20.30	Mixture of crushed or uncrushed stones and sand	NR 1,200 per cubic meter
2517.10.10	Aggregates and pebbles up to the size 2.5 inches	NR 600 per cubic meter
2517.10.20	Stones of a size more than 2.5 inches	NR 1,200 per cubic meter
2517.10.30	Mixture of crushed or uncrushed stones and sand	NR 1,200 per cubic meter
2517.20.10	Aggregates and pebbles up to the size 2.5 inches	NR 600 per cubic meter
2517.20.20	Stones of a size more than 2.5 inches	NR 1,200 per cubic meter
2517.49.10	Dust of stones	NR 600 per cubic meter
2519.49.90	Other granules, chippings and powder of stones	NR 600 per cubic meter
2519.10.00	Natural magnesium carbonate (magnesite)	NR 600 per cubic meter
2519.90.00	Fused magnesia; dead-burned magnesia, other magnesia oxide	NR 600 per cubic meter
2526.10.00	Natural steatite not crushed, not powdered	NR 1.5 per kg
4401.11.00	Fuel wood, in logs, in billets, etc.: coniferous	200%
4401.12.00	Fuel wood, in logs, in billets, etc.: non-coniferous	200%
4401.21.00	Wood in chips or particles: coniferous	200%
4401.22.00	Wood in chips or particles: non-coniferous	200%
4401.31.00	Wood-pellets	200%
4401.39.00	Other sawdust and wood waste and scrap	200%
4403.11.00	Wood in the rough	200%
4403.12.00	Wood in the rough	200%

Hs code	Description	Export duty
4403.21.00	Wood in the rough	200%
4403.22.00	Wood in the rough	200%
4403.23.00	Wood in the rough	200%
4403.24.00	Wood in the rough	200%
4403.25.00	Wood in the rough	200%
4403.26.00	Wood in the rough	200%
4403.41.00	Wood in the rough	200%
4403.49.00	Wood in the rough	200%
4403.91.00	Wood in the rough	200%
4403.93.00	Wood in the rough	200%
4403.94.00	Wood in the rough	200%
4403.95.00	Wood in the rough	200%
4403.96.00	Wood in the rough	200%
4403.97.00	Wood in the rough	200%
4403.98.00	Wood in the rough	200%
4403.99.10	Wood in the rough	200%
4403.99.90	Wood in the rough	200%
4404.10.00	Certain wood: coniferous	200%
4404.20.00	Certain wood: non-coniferous	200%
4405.00.00	Wood wool; wood flour	200%
4406.11.00	Railway or tramway sleepers of wood	200%
4406.12.00	Railway or tramway sleepers of wood	200%
4406.91.00	Railway or tramway sleepers of wood	200%
4406.92.00	Railway or tramway sleepers of wood	200%
4407.11.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.12.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.19.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.21.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.22.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.25.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.26.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.29.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.91.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.92.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.96.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.97.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4407.99.00	Wood sawn or chipped lengthwise (..) of a thickness exceeding 6 mm	200%
4408.10.00	Sheets for veneering (..) of a thickness not exceeding 6 mm	NR 6 per kg
4408.31.00	Sheets for veneering (..) of a thickness not exceeding 6 mm	NR 6 per kg
4408.39.00	Sheets for veneering (..) of a thickness not exceeding 6 mm	NR 6 per kg
4408.90.00	Sheets for veneering (..) of a thickness not exceeding 6 mm	NR 6 per kg

Source: Government of Nepal, Ministry of Finance, Department of Customs, Customs Tariff 2017/18.

Table A3.3 Excise duties FY 2018-19

HS Chapter	Description	No of National Tariff lines	Range	Remarks
02	Meat and edible meat offal	66	5	
03	Fish and crustaceans, molluscs and other aquatic invertebrates	26	5	
08	Edible fruit and nuts; peel of citrus fruit or melons	10	5	
09	Coffee, tea, maté and spices	3	5	
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	2	5	
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	26	5	
17	Sugars and sugar confectionery	6	5	
18	Cocoa and cocoa preparations	6	5	
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	6		15/kg
20	Preparations of vegetables, fruit, nuts or other parts of plants	30	5	
21	Miscellaneous edible preparations	4	5	4 different rates: 5%; NR 15/Kg; NR 205/Kg; and NR 555/Kg
22	Beverages, spirits and vinegar	63		All specific duties ranging from NR 10/l to NR 898/l depending on product and alcohol content
24	Tobacco and manufactured tobacco substitutes	18		All specific duties applied NR 15/piece to NR 2,466 per 1000 for cigarettes
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	9	5-15	
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	6	7	
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	17	5	
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, 'dental waxes' and dental preparations with a basis of plaster	10	5	
38	Miscellaneous chemical products	1		22/L
39	Plastics and articles thereof	34	5	
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	3	5	
69	Ceramic products	5	5	
70	Glass and glassware	19	5	
72	Iron and steel	26		1500 per MT
73	Articles of iron or steel	25		1500 per MT except for one tariff line which is 5%
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	17	5-15	
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	57	5-15	

HS Chapter	Description	No of National Tariff lines	Range	Remarks
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	90	5-100	*Ad valorem* rates vary depending on product and engine size.
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	14	5-10	
95	Toys, games and sports requisites; parts and accessories thereof	6	5	
Total lines		605		

Source: Budget Speech for FY 2018-19, viewed at: http://mof.gov.np/en/archive-documents/budget-speech-17.html [August 2018]

Table A4.1 Fiscal concessions for different industries

Fiscal concessions for different industries	
A. Income tax concessions	
Industry	**Concessions**
Manufacturing industries	20% exemption on the rate of tax imposed on the income earned from such industries
Industries investing in construction of roads, bridge, tunnel, ropeway, railway, tram, trolleybus, airport, industrial structure and infrastructural complex and bringing such constructions into operation	40% exemption on the rate of tax imposed on the income earned from operation of such infrastructures
Manufacturing industries except those producing fruits based cider, brandy or wine established in underdeveloped, undeveloped and less developed region	90%, 80% and 70% exemption on rate of the income tax for up to 10 years from the date of commencement of commercial production or transaction
Manufacturing industries producing fruit based cider, brandy or wine established in any underdeveloped region	40% exemption on the income tax for up to 10 years from the date of commencement of business
Manufacturing industries set up with the investment of at least NR1 billion and providing direct employment to more than 500 individuals throughout the year	100% income tax exemption for first five years from the date of commencement of business 50% exemption on the income tax for next three years Industries already in operation are entitled to the above stated exemption in case such industries enhance their installed capacity by at least 25%, increase investment to 1 billion and provide direct employment to 500 individuals throughout the year
Individuals or entities obtaining approval to commercially generate transmit or distribute Hydroelectricity by mid-April 2024	100% income tax exemption for first 10 years 50% income tax exemption for next five years Such exemption is entitled to solar, wind and bio mass energy as well In case of industries that have already begun commercial production at the time of commencement of this Act, the exemptions applicable at the time of receiving approval would be applicable
Industries conducting research and excavation of natural gas and fuel commercially, if commence the commercial transaction by mid-April 2019	100% Income tax exemption for first seven years from the date of commencement of transaction 50% exemption on the income tax for next three years
Industries relating to tourism sector established with the investment of above NR 2 billion	100% Income tax exemption for the first five years from the date of commencement of commercial transaction 50% exemption on rate of income tax for next three years Such industries already in operation are entitled to the above stated exemption in case such industries enhance their installed capacity by 25%, increase investment to NR 2 billion
Tourism industry including hotel, resort etc. established outside the metropolitan or sub-metropolitan area with the investment of more than NR 50 million	100% income tax exemption for the first five years from the date of commencement of commercial transaction 50% exemption on rate of income tax for next three years
Industries related to software development, data processing, cyber café and digital mapping established inside technology park, bio-tech park and information technology park specified by the Government and published in Nepal Gazette	50% exemption on tax imposed on income of such industries
Manufacturing industries and Information and communication technology industries employing 300 or more Nepalese throughout the years	15% exemption on tax imposed on income of such industries on that year (additional 15% exemption on income tax on that year in case the industry has 50% of its employees from among women, scheduled caste and disabled persons)

Fiscal concessions for different industries	
Manufacturing industries and information and communication technology industries employing 1,200 or more Nepalese throughout the year	25% exemption on tax imposed on income of such industries on that year (additional 15% exemption on income tax on that year in case the industry has 50% of its employees from among women, scheduled caste and disabled persons)
Manufacturing Industries exporting goods or commodities produced	25% exemption on the rate of tax imposed on the income earned
All industries	Expenses made by industries for long-term welfare and benefit of employees or workers such as housing, life insurance, health facility, education and training, child care, sports etc. can be deducted for purpose of income tax Expenses made for equipment & technology used to reduce or control the pollution or re-processing or reuse of wastages can be deducted up to 50% of the adjusted taxable income of the same fiscal year In case the expenses cannot be deducted in full the remaining amount is allowed to capitalize the depreciation on which may be claimed in the subsequent fiscal year Expenses incurred for the machine or equipment used for reducing power consumption can be deducted for the purpose income tax The costs incurred for increasing entrepreneurship, research and development and creation of new technology for enhancing the productivity of the industry can be deducted while calculating taxable income for an income year from business provided that such deduction does not exceed 50% of the adjusted taxable income from all business of the industry In case the expenses cannot be deducted in full the remaining amount is allowed to capitalize the depreciation on which may be claimed in the subsequent fiscal year. Costs incurred in market promotion, survey and advertisement relating to the business can be deducted for the purpose of income tax Costs incurred for the security of the physical assets as prescribed and actual premium paid for insurance can be deducted for the purpose of income tax Costs incurred for the protection of industrial property in Nepal which is registered in Nepal can be deducted for the purpose of income tax 25% exemption on the rate of income tax on royalty received from export of Intellectual Property created and registered in Nepal 50% exemption on the rate of income tax on income earned from transfer or sale of intellectual property created by the industry Government of Nepal may reimburse the registration fee paid to register the intellectual property in foreign country for its protection in the manner as prescribed by Nepal Government Gifts or donations given to tax exempted organization can be deducted up to NR 100,000 or 5% of adjusted taxable income of the industry, whichever is less The Government of Nepal may also provide other exemptions by publishing a notice in Nepal Gazette
Industries established inside an Industrial Estate	Local taxes including unified property tax is not levied

Fiscal concessions for different industries	
B. VAT Exemptions	
Industry	**Benefits**
All industries	VAT imposed on production is reimbursed if such goods are exported, based on the quantity of export
C . Customs Duty Exemption	
Industry	**Benefits**
Industries not having bonded warehouse or passbook facility	The Government of Nepal may refund the amount of duty draw back in export of goods after determining the aggregate of costs incurred in import as prescribed in Nepal Gazette
Industries not having bonded warehouse approval exporting goods through existing banking channel or letter of credit or selling such goods in domestic market in convertible currency	Raw materials or auxiliary raw materials as well as packaging materials that are not produced in Nepal can be imported by furnishing the required guarantees under prescribed conditions and procedures However, in case of packaging materials not produced in Nepal, a recommendation is required from IRD to enjoy such benefit The customs duty levied in the import of such raw materials, auxiliary raw materials and packaging materials required for production shall be one level below the existing custom duty rate in import of finished goods using such materials
Laboratories for quality assurance	Customs duty is levied in the minimum rate for the import of machinery and scientific devices that re being imported to ensure quality as well as such machinery and equipment imported by industries for research and development.
All industries	Customs duty is levied in the minimum rate on import of machinery, transformers, generators having a capacity of 10 kilowatt and other industrial devices imported by an industry for commercial purpose
D . Customs Duty Exemption	
Notwithstanding anything mentioned in existing acts, no fees or charges is levied on registration of micro industry pursuant to this Act	
Micro -industries already under operation at the time of commencement of this Act are entitled to 100% income tax exemption for at least five years from the date of commencement of this Act	
Micro-industries registered and operating pursuant to this Act are entitled to 100% income tax exemption for at least five years from the date of commencement of commercial transaction	
E . Additional Benefits for Female Entrepreneurs. Industries registered under the ownership of female entrepreneurs only are entitled to following additional benefits and concessions:	
35% exemption in existing industry registration fees	
20% exemption in existing rate of registration of industrial property used inside the industries	
Female entrepreneur shall be prioritized while allocating the areas inside industrial estate	
In case such industries require loan for exporting produced goods, export loan will be provided to the industry depending upon the financial status of the transaction of the industry.	
F. Other Exemptions and Facilities	
Industries based on forest products can be given possessory right pursuant to existing laws over forest in any region through lease or other promissory guarantee under prescribed conditions	
No fees or royalty pursuant to the existing laws shall be applicable in electricity produced by industry for its own consumption Such industry willing to sell surplus electricity to any other industry, may sell so pursuant to existing laws in the rate agreed upon by both parties	
Government of Nepal may provide additional exemptions and facilities to export based industries and prescribed industries established inside SEZ or inside Government or private industrial estate by publishing notice in Nepal Gazette	
Government of Nepal may provide additional exemptions and facilities by publishing a notice in Nepal Gazette to national priority industries or industry making optimum use of domestic raw materials, labour or skill or industries established by inventing new technology or goods inside Nepal upon recommendation of Industries and Investment Promotion Board	
Government of Nepal may provide exemptions in demand charge added in electricity cost under prescribed conditions and procedures	

Fiscal concessions for different industries
Government of Nepal may provide aid assistance as seed capital to cooperatives, micro industry, small and cottage industries to establish industries inside under developed region under prescribed conditions.
Industries operating under Foreign Investment may be given approval to import goods produced by the head office located in foreign countries for production, market development and promotion of new goods for a prescribed period under prescribed terms and conditions.

Note: Industries based on tobacco, liquor and kachha or kattha are not entitled to any of the exemptions or facilities listed above. However, such industries may deduct actual expenses incurred in business promotion activities including long-term welfare and benefit of employees or workers, in reducing or controlling pollution, re-processing of waste materials, in technologies and devices used reducing environment effects, in machine or equipment used for reducing power consumption, research and development expenses. In case an industry qualifies for more than one exemption in respect to similar income from among those listed above, the industry is only entitled to one exemption. Such industry is entitled to select the applicable exemption.

Source: Industrial Enterprises Act 2016.