Ministry of Foreign Affairs

Nepal: Market Study

Identifying Foreign Direct Investment Opportunities in Nepal

Commissioned by the Netherlands Enterprise Agency

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Acronyms

ADB	Asian Development Bank
ADR	Alternate Dispute Resolution
ADS	Agricultural Development Strategy
BBA	Bachelors of Business Administration
BFI	Bank and Financial Institutions
BPO	Business Process Outsourcing
BRI	Belt and Road Initiative
CAC	Capital Account Convertibility
CBS	Central Bureau of Statistics
CEO	Chief Executive Officer
CIA	Central Intelligence Agency
CPN	Communist Party of Nepal
CRO	Company Register Office
CSR	Corporate Social Responsibility
CTEVT	Council for Technical and Vocational Training
DANIDA	Danish International Development Agency
DFID	Department for International Development (UK)
DoI	Department of Industry
EBA	Everything But Arms
FDI	Foreign Direct Investment
FI	Foreign Investment
FITTA	Foreign Investment and Technology Transfer Act
FMCG	Fast Moving Consumer Goods
FY	Financial Year
GCC	Gulf Cooperation Countries
GDP	Gross Domestic Product
GIZ	German Development Agency
GoN	Government of Nepal
GSP	Generalised System of Preference
HEP	Hydro Electric Project
IBN	Investment Board Nepal
ICT	Information and Communication Technology
ILO	International Labour Organisation
IPR	Intellectual Property Rights
IT	Information Technology
JV	Joint Venture
LDC	Least Developed Country
LoI	Letter of Intent
MAP	Medicinal and Aromatic Plants
MBA	Master of Business Administration
MFN	Most Favoured Nation
MIGA	Multilateral Investment Guarantee Arrangement
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NITS	Nepal Trade Integation Strategy
NRB	Nepal Rastra Bank
NTFP	Non-Timber Forest Products
PDA	Project Development Agreement
PPP	Public Private Partnership
REE	Research, Education, Extension
RPP	Rastriya Prajatantra Party
RVO	Rijksdienst voor Ondernemend Nederland
SAFTA	South Asian Free Trade Agreement
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
TSLC	Technical School Leaving Certificate
UGC	University Grant Commission
UML	United Marxists Lenonist
USAID	United States Aid
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation

EXECUTIVE SUMMARY

The Netherlands Embassy in Delhi and RVO are interested to know more about the opportunities that could contribute to the development of the private sector in Nepal in relation to Dutch expertise. Due to the limited Dutch official presence in the country too little is known about the challenges and opportunities in Nepal. Especially after the earthquake in April 2015 the country faces a lot of challenges and it is expected that Dutch expertise can be of added value.

Due to political instability, aggravated by the earthquake of 2015, there is a weak enabling environment for businesses, although that environment is positively changing. The challenge of this report is to indicate sectors where:

- Nepali entrepreneurs are active and can be strengthened without relying on a weak government
- Where Dutch expertise can make a difference to skills and industry development
- Where opportunities exist for Dutch businesses to invest in Nepal.

The world's two largest populations with vibrant economies share opening trade borders with Nepal. Increasing ease of trade, open border policies and infrastructure development all indicate a very strong growth potential, both within and through Nepal. When viewed historically, acting as an arbitrage agent between India and China has always been Nepal's key economic strength, this is an environment in which Dutch companies are used to operating.

Potential investment opportunities and market interventions exist in a broad range of sectors. Throughout all of them there are three constant factors:

1. The impact of political instability
2. Potential bureaucratic delays
3. Developing an adequately skilled workforce

Negating and offsetting these factors requires an intimate understanding of the operating environment and appropriate commercial adeptness. Although Nepal is becoming an easier place in which to do business, it is by no means simple. This report represents an overview of potential opportunities and thorough examination of market entry and expansion strategies is recommended before taking further steps.

Sector Summary

		Overall Risk & Barriers to Entry*		
Market Opportunity Attractiveness**		**Low**	**Medium**	**High**
	Low	Agriculture ➢ Fertiliser & Seeds ➢ Cardamom	Agriculture ➢ Honey Education ➢ Research Centres Health ➢ Pharmaceutical Industry ➢ Ayurvedic Centres & Medications	Banking, Finance & Insurance ➢ Microfinance ➢ Insurance Energy ➢ Hydropower ➢ Transmission System Transportation ➢ Roads
	Medium	Agriculture ➢ Vegetables ➢ Floriculture Manufacturing ➢ FMCGs ➢ Garments & Textiles	Agriculture: ➢ Ginger ➢ Coffee Construction ➢ Construction and Engineering Centres ➢ Hospitality Health ➢ Health Care Facilities & Equipment	Construction ➢ Building Materials ICT ➢ Communication services Transportation ➢ Airports ➢ Rail
	High	Agriculture ➢ Infrastructure, Machinery, Tools & Technology Education ➢ Vocational Education ➢ Health Education Services Tourism ➢ Event Management and Infrastructure	Agriculture: ➢ NTFP & MAPs ➢ Tea Health ➢ Aged Care ICT ➢ IT services Tourism ➢ Tourism Infrastructure	

* Note: This document does not disclose all risks and barriers to entry that could affect sectors and investment strategies. It is highly recommended that potential investors complete a comprehensive feasibility and risk disclosure study before investing in Nepal.
** Note: This document does not disclose all market opportunities and it is recommended that potential investors should thoroughly research market depth, scope and profitability before investing in Nepal.

Agriculture

- There are extensive market opportunities in agriculture production: processing, packaging and branding in non-timber forest products, cardamom, ginger, aquaculture, vegetables, floriculture, tea, coffee, honey and high value products for the tourism and hospitality industry and export.
- There are good opportunities in input markets such as for seeds, nurseries, fertilisers, agricultural infrastructure and technology, and agriculture financing.
- Nepal also offers potential in export-enabling infrastructure including transportation, storage (dry and cold) and laboratory testing facilities, including phyto-sanitary testing.

Banking, Finance and Insurance

Opportunities in this sector are limited but show enormous potential:

- There are excellent growth opportunities in micro-finance – helping finance entrepreneurs across the country and building trust in financial systems (see also agriculture finance)
- Insurance also offers extraordinary growth potential – catastrophic risk insurance, home and contents and general business insurance

Construction

The scale of needs in the construction and housing sector mean that Public-Private partnerships are an ideal investment vehicle.

- Building materials – clay bricks and cement
- Building and engineering schools and education centres
- Hospitality – heritage building renovation to hotels and business centres

Education

- Vocational education - Hospitality and tourism, construction and engineering, agriculture, IT, banking and finance, management consulting (general business management, quality assurance and governance)
- Health education Services - nursing and aged health care, health management and administration staff
- Opportunities exist in developing education infrastructure, including upgrading and building educational institutions and even education cities (medical, IT, engineering, management, etc), for which the government is seeking to engage in private-public partnerships, research centres including laboratory testing facilities for agriculture (phyto-sanitory, export standards for processing and packaging), construction materials, energy systems and textiles.

Energy

- Hydropower – Nepal has an enormous potential hydro-power generation capacity from large to small scale locations.
- Transmission systems – Opportunities exist in developing national and local (micro-grid) transmission systems
- Solar wind, biomass and geothermal – small scale interventions aligned with light manufacturing in SEZ areas and micro-grids offer good opportunities for investment.

Health and Aged Care

- In terms of pharmaceuticals, there are persistent shortages of quality medicines in the market presenting opportunities for manufacturers and importers of pharmaceutical goods.
- Health Care Facilities – improving technology and services, especially through public-private partnerships and developing aged care facilities.

- Aged Care – providing facilities for Nepali and foreign retirees as well as training aged-care staff for domestic and international work placements offer excellent investment opportunities.

Internet and Communication Technologies

The ICT sector exhibits a number of investment opportunities, the most obvious include:

- Communication Services: opportunities exist in telecommunications, Internet Service Providers, Online Payment and Infrastructure Services.
- Internet Technology Enabled Services (ITES) and Business Process Outsourcing (BPO), including Data Centre management all offer good investment opportunities.

Manufacturing: FMCG, Industrial and Consumer Goods

Nepal's manufacturing sector is rich in potential, both for large-scale projects and innovative small-scale projects. Although Nepal is primarily an agricultural country, various initiatives are being taken to stimulate the manufacturing sector, which the GoN believes is crucial to the country's economic development. The combination of access to a growing domestic market, enormous neighbouring markets and various incentives and facilities make Nepal an attractive investment destination. Some of the most viable areas are:

- Fast moving consumer goods **-** Food and beverages including sugar, grains, mill products, oils and fats, dairy products, soft drinks, spirits and beer. Soap, laundry and toilet cleaners.
- Garments and Textiles – ready to wear production, yarn spinning and laboratory testing facilities.

Tourism and Events

A high GoN priority, tourism offers some excellent investment opportunities:

- Tourism Infrastructure – Hotels and resort development, themed restaurants and indoor or controlled-space outdoor recreational activities.
- Event management and Infrastructure – this is a green fields opportunity.

Transport

- The GoN seeks public-private partnerships to build sealed roads to 9 district headquarters that currently do not have all-weather-road access as well as upgrading more than 50% of Nepal's current unsealed arterial road network into all-weather-roads. And to expand current roads to accommodate increasing traffic.
- Eight north-south corridors (roads) linking China and India through Nepal, a cross-border railway line connecting Kathmandu with China, five cross-border railway lines, ultimately connecting Kathmandu with India, a railway line along the East-West Highway, and cable cars in the hilly regions are also planned.
- Expansion and development of domestic airports and air services has been identified by the GoN as an investment priority.
- In order to cater to the needs of the growing population, the development of mass public transportation systems – bus-rapid transport (BRT), railways, monorails have been prioritised. As the GoN expects to be producing 10,000MW of hydro electricity in the next ten years, electric-vehicle transport systems are preferred. To finance these projects, the government is seeking expressions of interest in public-private partnerships.

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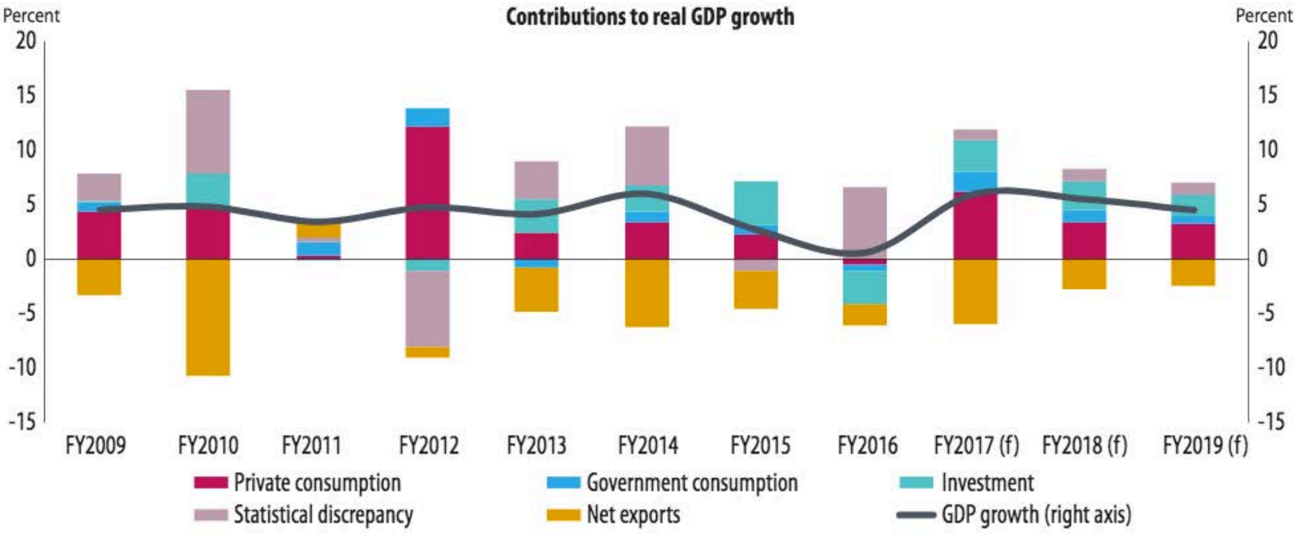
Current Economic Climate

With the second smallest population (27.5 million) and the smallest Gross Domestic Product (GDP) per capita in South Asia (US$770), Nepal's relatively low consumer expenditure and market potential have historically not warranted the high risk of investing in the country. However, when placed in an evolving regional context, Nepal offers a great deal of future market potential for investors for a range of reasons:

- India shares fully open trade borders
- China's border is opening for free trade
- An increasing ease of doing business
- Growing investment in infrastructure

Overall indicators show a strong growth potential for both the domestic economy and international trade. Historically, acting as an arbitrage agent between India and China has been one of Nepal's key commercial strengths and establishing a presence in a market that shows so much potential is now considered very attractive to investors.



Sources: Central Statistics Organization and World Bank staff projections
Note: f = forecast

Real GDP growth, which had fallen to 2.7 percent in FY2015 because of two devastating earthquakes, was dragged further down to a 14-year low of 0.6 percent in FY2016 due to a trade embargo with India. However, GDP growth exceeded the forecast for FY2017 reaching 7.5% (ended 15 July 2017) as the economy rebounded mostly due to a good monsoon and harvest, accelerating reconstruction, improving electricity supply, the normalisation of disrupted foreign trade and supply, moderating inflation, increasing government revenue and spending, and growing remittances. Extensive floods in August 2017 have damaged a considerable portion of the annual rice crop, with a resulting down grading of forecast GDP for the coming year, FY2018, to 4.5%[1].

Domestic investors are not heavily engaged, in large part due to the population's low levels of access to financial services as well as a poor understanding of and a relative lack of trust in these services. Given the extremely low levels of access to financial services in Nepal in the mid-2000s, the Government of Nepal (GoN) and the central bank undertook extensive efforts to increase access to banking services across the country. The banked population grew considerably to about 40% in 2013 from 26% in 2006; however, while savings/deposits have increased, lending and investment in general

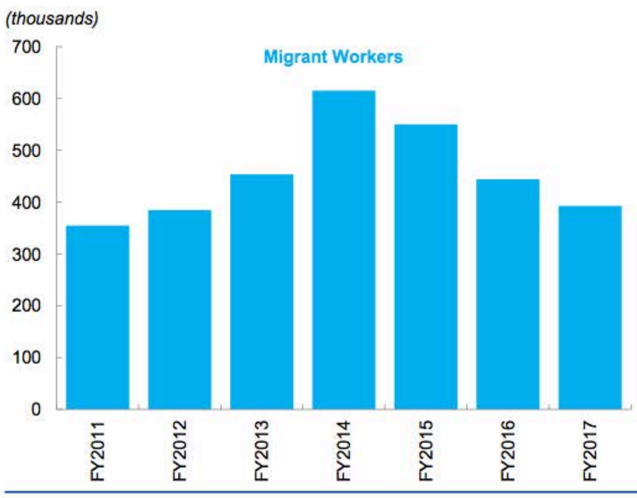
[1] World Bank: Nepal Development Update, September 2017

remain low, reflecting low levels of familiarity with, and trust in, other asset classes. For example, the domestic capital market remains small and fairly illiquid and dominated by banks or financial institutions, which must offer 30% of their equity to the public.

Growth trends and investor interest are observed in some economic sub-sectors, particularly tourism and hospitality, hydropower and textiles. Within the services sector, tourism and hospitality is the fast-growing sub-sector, creating employment for about 20% of the economically active population and accounting for 3% of the GDP. The industry sector maintains a share of 15% of GDP mostly due to strong growth in hydropower and textiles, which continue to be attractive to investors. In fact, Nepal has one of the largest untapped hydropower resources in the world—an estimated 83,000 megawatts, of which 42,000MW is commercially viable.

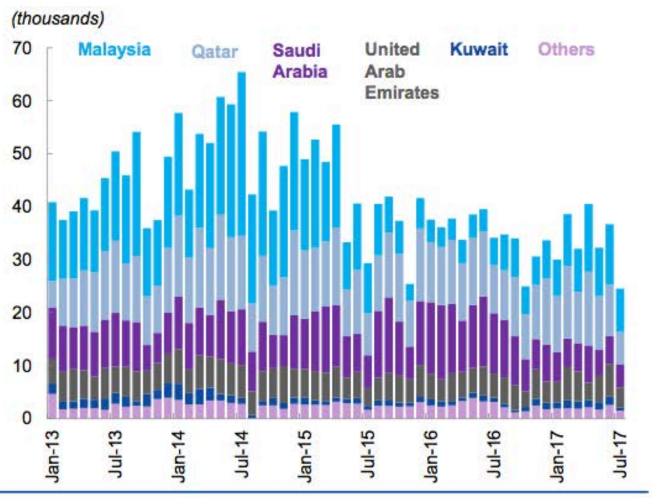
A key driver of growth for the last ten years, primarily through increased consumption, is remittance income from Nepal's large migrant working population. Personal remittances were USD 6.5 billion in FY2017 and although they account for about 25% of the GDP, this is now not enough to address the trade deficit. Remittances are driving increases in consumption, expenditure on private services such as education and healthcare and represent an important source of capital for asset purchase (land, houses, etc.), which in turn serve as collateral for loans to provide seed funding to entrepreneurs. However, the last three years has seen a gradual reduction in migrant workers and the outlook is for further decline, especially as construction projects in Qatar are finalised. A potential offset is the traditional major migrant worker destination, Malaysia, which has recently shown strong economic growth.

Migrant Worker Outflows



Source: Department of Foreign Employment (DoFE).

Outflows by Destination



Source: DoFE and World Bank staff calculations.

The 2017 Rebound

Three consecutive years of major disasters – earthquake, trade embargo and floods – have severely tested Nepal. Reviewing FY2017 reveals an economy pushing for growth despite the many hurdles it faces. This is a common tone throughout the private sector in Nepal, where conversations focus on resilience, potentiality and opportunities.

- Agriculture, which accounts for nearly a third of GDP, bounced back from a poor monsoon to grow by 5.3% on a surge in rice production which reached a record high at 5.5 million tons, up from 4.3 million tons in 2016. Forecasts for rice growth in FY2018 are lower due to flood damage.

- Industry, providing 15% of GDP, expanded by 10.9% on strong rebounds in all subsectors—manufacturing, construction, utilities, and mining—from depressed output in FY2016. Post-earthquake reconstruction activities are picked up after a slow start. As at July 2017, approximately 90% of eligible houses—about half a million—have received the first of three tranches of the housing grant, approximately 15% the second tranche, and the final tranche is now being enrolled. The outlook is positive, with further home-reconstruction payments in process for FY2018 and GoN spending on infrastructure, especially roads, is increasing.

- Services, at just over half of GDP, advanced by 6.9% after sluggish growth in FY2016, with strong performance across the sector and tourist arrivals returning to numbers recorded before the earthquake. Nearly 100MW of hydropower projects that were delayed by the earthquakes and trade disruptions have come on-stream. There has been a revival of transport and full normalisation of wholesale and retail trade.

- On the demand side, FY2017 saw a revival of consumption expenditure, which dominates spending, and fixed investment growth at 27.2%, to account for 25.1% of GDP, after falling by 12.3% a year earlier. Private fixed investment rose by over 30.7% after a deep fall a year earlier, and public fixed investment rose by 16.1% to 5.4% of GDP.

- Inflation fell sharply to 3.2 percent (y/y) in the first half of the FY2017 and then averaged 4.5% for the year, below the 9.9% outturn a year earlier and the 2017 projection of 6.0%. Average food inflation fell to only 1.9% and other inflation to 6.5%. Moderation reflected higher domestic agricultural production, the normalisation of trade and subdued inflation in neighbouring India. The mark-ups over Indian prices shrank to 1.1% from 4.7% a year earlier as scarcities abated. Inflation is expected to rise moderately in FY2018 in line with the 2017 forecasts. Flood damage may push food prices higher than expected but will be offset by lower projections for inflation in India and petroleum products.

- Merchandise imports surged by 29.0%, and exports grew by 9.7%. As imports are 10 times exports, the trade deficit soared to $8.4 billion, equal to 34.5% of GDP, despite unexpectedly strong offset by worker remittances at $6.5 billion and travel receipts at $0.6 billion. The current account balance reversed from a $1.3 billion surplus in FY2016 to a $95.7 million deficit, which, at 0.4% of GDP, was smaller than the 2017 projection. Continued capital and financial inflows boosted gross foreign exchange reserves by 7.8% to $10.4 billion.

- The current account deficit is expected to widen in FY2018, but by less than in 2017. Imports, which had rebounded fast following the end of trade disruptions, have reached a record high. Exports despite some recovery are yet to reach their pre-disruption levels whose recovery is also affected by continued appreciation of real effective exchange rate. Meanwhile, growth in remittances will drop following a decline in the number of workers going abroad in FY2017, especially to Middle East oil producers, the main destination countries. This is not of immediate concern, as remittances will continue to be high enough to offset the trade deficit.

- Credit has grown rapidly over the past year and has reached 30 percent (y/y) while deposits growth slowed marginally to 18 percent (y/y). However, banks are running up against prudential limits on lending. Additionally, the GoN's large cash balances have increased monetary tightening at a time when the banks are trying to increase their capital base to meet the increased regulatory requirements for paid up capital.

Current Challenges to Nepal's Economy

Political and Policy Environment

Since democracy was introduced in 1992, Nepal's political instability has almost institutionalised low investor confidence. Recent local elections, the first to be held in twenty years, and 2017 national elections have provided tempered optimism among investors. The constitutional development process is now completed, although there are proposed amendments, all parties agree that they can only be resolved through an elected parliamentary process. The substantial challenge of implementing and funding a federal government system throughout the country will occupy the political arena for the next two to three years. Political party re-alignments, although fragile, seem to be setting Nepal on course for a period of relative political stability for the next four to five years.

The GoN recognises both the complexity and opportunity of developing the country's economy. The Finance Ministry[2] recently conducted an analysis of national accounts and identified the following policy challenges:

- It is necessary to achieve higher and sustainable economic growth rate for the country to graduate from its current status of a least developed country to developing country by 2022. The average annual growth rate for the past 10 years has been 4.1 percent, which needs to double for Nepal to graduate to a developing country (ignoring Human Assets and Economic Vulnerability Indices contributions).

- The agriculture sector, which contributes one-third of GDP (with a growth rate of 2.9% in the last 10 years), is mainly affected by favourable / unfavourable weather conditions and cannot be relied upon as a primary driver of growth. However, attracting investment to boost productivity is considered essential to building a resilient domestic economy.

- Sectors including tourism, infrastructure, real estate, agriculture and finance have suffered declines due to earthquakes, the trade embargo and floods. It is both a priority and challenge to policy makers to make these economic activities more vibrant as they are regarded as the basic pillars of the economy.

- In the past general industry and material production have found it difficult reaching desired levels of growth due to political transitions, uneasy trade relations, persistent energy crisis, weak infrastructure, and policy failures to improve the investment environment as required. Mitigating these issues is now a clear priority throughout all Ministries.

- Expanding the GoN's capital expenditure is a must to meet the country's development and higher economic growth rate. The average ratio of capital expenditure to GDP in the last ten years has remained low at 3.4 percent. Hence, improving policy-wide, structural, administrative aspects in order to achieve a higher economic growth rate through expansion of capital expenditure is a priority. In addition, there has been a big gap between foreign aid commitments and utilisation, with less than 50 percent of the commitment being utilised in recent years.

- Despite a growing number and financial institutions a large proportion of the population remains far from access to institutional finance. The percentage of

[2] GoN Ministry of Finance report 2017

the population benefiting from financial services is approximately 40 percent, but this is mostly centred in urban locations.

- The trade deficit continues to be a source of concern for the GoN, especially with decreasing numbers of Nepali workers overseas. Remittances have played an important role in reducing the trade deficit and other strategies need to be more aggressively pursued, including Foreign Direct Investment.

The Nepal Trade Integration Strategy (NTIS) 2016 is Nepal's third generation trade integration strategy and seeks to address the outstanding trade and competitiveness challenges confronted by the country's export sector. The NTIS is developed with assistance from World Bank, Asian Development Bank, European Union, GIZ, DANIDA, DFID, and USAID and focuses on identifying actions to address protracted constraints in a number of cross-cutting areas. They include:

1. Institutional capacity building for trade, including capacity for trade negotiations
2. Business environment for investment and trade
3. Trade and transport facilitation
4. Standards and technical regulations
5. Sanitary and phyto-sanitary measures
6. Intellectual property rights
7. Issues related to trade in services

The NTIS 2016 recognises potentials for product and value chain development in the following priority export sectors:

- Agro and forest products (cardamom; ginger; tea; and medicinal and aromatic plants)
- Craft and manufacturing products (all fabrics, textile, yarn and rope; leather; footwear; chyangra pashmina; and, knotted carpets)
- Services industries of skilled and semi-skilled professionals in various categories including Information Technology and Business Process Outsourcing and tourism
- Value chain development in fruit and vegetable juices; lentils; honey; coffee; fabricated steel and metals; silver jewellery and semi-precious stones; instant noodles; paper products; wool products; readymade garments; and hydro-electricity.

NTIS 2016 is designed to operate in combination with the Trade Policy 2015, which identifies the following priority export goods and services:

- Engineering
- Hydropower
- Tourism
- Education
- Information Technology and Business Process Outsourcing (IT/BPO)
- Health Services
- Labour Services (Skilled/Semi-Skilled professionals)

Empowering women and expanding roles for women within entities is a core value of Nepal's Trade Policy.

New Policy Initiatives

The GoN is currently engaged in what it calls the 'second generation of policy reforms' that aims to update outdated laws and formulate new ones to address modern day ways of doing business. Since mid-2016, there have been amendments to the Companies Act, adoption of a new Industrial Enterprises Act and Banks and Financial Institutions Act, as well as the enactment of the Special Economic Zone Act. Currently, the following bills are either before parliament or in the process of enactment:

- A new FITTA Bill includes provisions designed to create a better investment climate by allowing investors to repatriate their investments in whatever currency they invest in, reduce entry related problems, facilitate online payments and ease market exit issues.
- An integrated IPR law will address issues in intellectual and industrial property.
- Amendments to the Labour Act will make hiring and firing of staff easier, and balance employer-employee entitlements.
- A new Agribusiness Promotion Bill includes contract-farming agreements.

Energy Supply

Recent changes in 2016 to the supply of electricity to institutions and businesses throughout Nepal have significantly reduced energy supply disruption. Currently, about 850MW of electricity is generated in Nepal with a further 200MW expected to come online by the end of 2017 and a further 500MW during 2018. The GoN's target of eradicating power interruptions by 2019 appears to be feasible on the condition that transmission lines are constructed on time. The ten-year goal is to generate 10,000MW in Nepal, which would provide sufficient excess output to sell to either India or China.

Corruption

Nepal's is ranked the 3rd most corrupt country in South Asia (behind Bhutan, India, Sri Lanka and the Maldives) and 131 out of 175 countries[3] on par with Albania and Vietnam. Transparency International notes that efforts made in the sectors of good governance, appointments at various constitutional positions, verdicts in corruption cases and action initiated by the Commission for the Investigation of Abuse of Authority against corruption are all positive improvements but that public institutions need to be more open about their work, officials must be transparent in their decision making, and that corruption remains notoriously difficult to investigate and prosecute.

Transportation Infrastructure

Nepal's geology is not road-friendly, and when combined with monsoon and poor building standards, construction and maintenance delays can be extensive. The GoN has prioritised road expansion projects across the country and especially along arterial corridors that will 'unlock' production and trading potential. Some of these projects are underway and so far, the work appears to be of a higher quality than previously done.

Evolving Labour Market

A new Labour Act and a Social Security Act that carry the support of all the major unions is expected to come in to effect in 2018. The Act will substantially address the in-balance between workers and employers. The adoption of the Acts by multiple parties is one of the major reasons for investment optimism and is the result of the diminishing influence of Maoist's Party. The recent 'merger' agreement between the Maoists and Nepal's

[3] Transparency International, 2016 Corruption Perceptions Index

largest political party, the UML, will create space for private sector activity and a more supportive agenda for policy reform as well as decreased labour volatility, should they be elected. On the other hand, should the opposing Congress-lead coalition be elected, pro-growth strategies will be prioritised. Either result provides a more positive outlook for labour stability and investment in Nepal.

Skill levels remain a significant capacity constraint across Nepal but labour demand shows good growth in all sectors, as per the following projections.

Labour Demand Projection till 2023

Demand Projection by Major Sectors

SN	Sectors	Employment Participation	Fiscal Years						
			2017	2018	2019	2020	2021	2022	2023
A	Total Population		28,825,709	29,218,867	29,609,623	29,996,478	30,378,055	30,752,146	31,116,913
B	Age group up to 4 years		2,980,653	3,005,283	3,023,043	3,032,941	3,034,615	3,027,032	3,009,844
c	Age group from 5 to 9 Years		2,711,219	2,756,039	2,808,095	2,866,434	2,929,396	2,960,567	2,985,819
d	Age group from 9 to 14 Years		2,952,014	2,857,565	2,778,797	2,715,023	2,666,176	2,703,282	2,748,244
e	Population below 15 Years		8,643,886	8,618,887	8,609,935	8,614,398	8,630,187	8,690,881	8,743,907
f	Population 15 years and above		20,181,823	20,599,980	20,999,688	21,382,080	21,747,868	22,061,265	22,373,006
g	Employment Rate		83.3	83.3	83.3	83.3	83.3	83.3	83.3
h	Employed Number		16,811,459	17,159,783	17,492,740	17,811,273	18,115,974	18,377,034	18,636,714
1	Agriculture, Forestry and Fishing	69.4	11,667,153	11,908,889	12,139,962	12,361,023	12,572,486	12,753,662	12,933,880
2	Construction	5.1	857,384	875,149	892,130	908,375	923,915	937,229	950,472
3	Accommodation and food service (Hotel & Restaurant)	1.5	252,172	257,397	262,391	267,169	271,740	275,656	279,551
4	Automotive	1.5	252,172	257,397	262,391	267,169	271,740	275,656	279,551
5	Garment Manufacturing	0.3	50,434	51,479	52,478	53,434	54,348	55,131	55,910
6	Steel/Metal/Fabrication Manufacturing	0.95	159,709	163,018	166,181	169,207	172,102	174,582	177,049
7	Solar	0.008	1,345	1,373	1,399	1,425	1,449	1,470	1,491
8	Information and communication	0.3	50,434	51,479	52,478	53,434	54,348	55,131	55,910
9	Human health and social work act	0.8	134,492	137,278	139,942	142,490	144,928	147,016	149,094
	Total	79	13,425,295	13,703,460	13,969,352	14,223,726	14,467,055	14,675,532	14,882,907

Source: The Household Survey 2014-2015, (CBS), with projections, derived from the National Population and Housing Survey, 2011 (Population Projection 2011-2031, Volume 8, Central . Bureau of Statistics)

Demand Projection by Major Economic Sectors

			Fiscal Years						
SN	Economic Sectors		2017	2018	2019	2020	2021	2022	2023
A	Total Population	Employment Participation	28,825,709	29,218,867	29,609,623	29,996,478	30,378,055	30,752,146	31,116,913
B	Age group up to 4 years		2,980,653	3,005,283	3,023,043	3,032,941	3,034,615	3,027,032	3,009,844
c	Age group from 5 to 9 Years		2,711,219	2,756,039	2,808,095	2,866,434	2,929,396	2,960,567	2,985,819
d	Age group from 9 to 14 Years		2,952,014	2,857,565	2,778,797	2,715,023	2,666,176	2,703,282	2,748,244
e	Population below 15 Years		8,643,886	8,618,887	8,609,935	8,614,398	8,630,187	8,690,881	8,743,907
f	Population 15 years and above		20,181,823	20,599,980	20,999,688	21,382,080	21,747,868	22,061,265	22,373,006
g	Employment Rate		83.3	83.3	83.3	83.3	83.3	83.3	83.3
h	Employed Number		16,811,459	17,159,783	17,492,740	17,811,273	18,115,974	18,377,034	18,636,714
1	Agriculture, Forestry and Fishing	69.4	11,667,153	11,908,889	12,139,962	12,361,023	12,572,486	12,753,662	12,933,880
2	Mining and Quarrying	0.5	84,057	85,799	87,464	89,056	90,580	91,885	93,184
3	Manufacturing	5.9	991,876	1,012,427	1,032,072	1,050,865	1,068,842	1,084,245	1,099,566
4	Electricity, gas, stem and air	0.1	16,811	17,160	17,493	17,811	18,116	18,377	18,637
5	Water supply, sewerage, waste materials	0.2	33,623	34,320	34,985	35,623	36,232	36,754	37,273
6	Construction	5.1	857,384	875,149	892,130	908,375	923,915	937,229	950,472
7	Wholesale and retail trade; repair of motor vehicle and motorcycles	6.5	1,092,745	1,115,386	1,137,028	1,157,733	1,177,538	1,194,507	1,211,386
8	Transportation and storage	1.4	235,360	240,237	244,898	249,358	253,624	257,278	260,914
9	Accommodation and food service	1.5	252,172	257,397	262,391	267,169	271,740	275,656	279,551
10	Information and communication	0.3	50,434	51,479	52,478	53,434	54,348	55,131	55,910
11	Financial and insurance activities	0.6	100,869	102,959	104,956	106,868	108,696	110,262	111,820
12	Real estate activities	0.1	16,811	17,160	17,493	17,811	18,116	18,377	18,637
13	Professional, scientific and technical activities	0.4	67,246	68,639	69,971	71,245	72,464	73,508	74,547
14	Administrative and support services	0.8	134,492	137,278	139,942	142,490	144,928	147,016	149,094
15	Public administration and defence	0.6	100,869	102,959	104,956	106,868	108,696	110,262	111,820
16	Education	2.9	487,532	497,634	507,289	516,527	525,363	532,934	540,465

SN	Economic Sectors		Fiscal Years						
			2017	2018	2019	2020	2021	2022	2023
17	Human health and social work act	0.8	134,492	137,278	139,942	142,490	144,928	147,016	149,094
18	Arts, entertainment and recreation	0.1	16,811	17,160	17,493	17,811	18,116	18,377	18,637
19	Other service Activities	0.6	100,869	102,959	104,956	106,868	108,696	110,262	111,820
20	Activities of households as employers undifferentiated goods and services-producing activities of households for own use	2.0	336,229	343,196	349,855	356,225	362,319	367,541	372,734
21	Activities of extraterritorial organisations and bodies	0.1	16,811	17,160	17,493	17,811	18,116	18,377	18,637
22	Industry not stated	0.1	16,811	17,160	17,493	17,811	18,116	18,377	18,637
	Total	100	16811459	17159783	17492740	17811273	18115974	18377034	18,636,714

Source: The Household Survey 2014-2015, (CBS), with projections, derived from the National Population and Housing Survey, 2011 (Population Projection 2011-2031, Volume 8, Central . Bureau of Statistics)

Note: For all of the above forecasts, employment rate is assumed to be constant over time as per the GoN baseline

Labour and Skills

The GoN labour supply and demand forecasts are used to determine education and skills priorities across Nepal. There are a number of assumptions within the forecast that need to be qualified:

1. There is an abundance of sufficient candidates for each sector
2. Those candidates will remain with Nepal and not migrate for work
3. Education and skills levels are sufficient to qualify for each sector role
4. There are sufficient institutions that teach to the required levels
5. There is free movement of labour throughout the country and across sectors

In each of these assumptions there are some major failings or misrepresentations:

- The current employment participation rate of 83.3% includes a 73.9% contribution from the agricultural sector in which 20 to 25% exist on less than US$3.10 per day, and 55 to 70% are highly vulnerable workers[4]. If poverty-affected workers are removed from the figures Nepal's employment rate is more like 50%[5].

- Although access to and participation in higher education has increased rapidly in recent years, particularly in urban areas of Nepal, it does not result in meaningful and productive employment throughout sectors. This has been a driver of high levels of migration to higher earning opportunities in the Gulf States and Malaysia.

- Graduates who remain in Nepal face a higher unemployment rate than their counterparts without degrees due to chronic shortages of salaried employment opportunities and a disconnect between higher education and demands of labour market.

- Career support and guidance for students remain minimal, and very little information on employability and career pathways are available – before and during the course of study.

- There continues to be an experience bias where most of the formal employment advertised demands years of on-the-job experience, yet the availability of entry level posts and internships required to build that level of experience remains low.

- The education system in Nepal focuses on examination success rather than developing hobbies, work experience, volunteering and part time jobs. The result is that when candidates enter the job market, they begin from a disadvantaged position of having little or no experience at all.

- Skills and technical knowledge are not highly transferable in Nepal as qualifications are not pegged to system-wide standards. An extreme is that some skills courses have curriculums over twenty years old and are not recognised by peer institutions.

- Vocational and skills training courses fail to provide sufficient practical application training - the TSLC is an 18 month program and includes up to 40%

[4] ILO Labour Market update 2017
[5] CIA World Factbook 2017

practical training but is often in locations that fall below industry standards. Diploma programs last for 3 years and include up to 20% practical training. Neither TSLC and Diploma courses are linked to further tertiary standards and entrants must repeat their entire course.

- The significant majority of Diploma programs are the Health Sciences, and are mostly offered by private Colleges and schools. The fewest number of courses and participation are in agriculture, manufacturing, construction and transportation.

- There is a pervading belief that the 'best' jobs are in government and non-government organisations. Practical and manual work, even if highly skilled, does not encourage high social mobility.

- However, working for international companies and organisations, even if skills-based, is considered attractive to the workforce, especially if opportunities include potential international location for short to medium term periods.

Skills transference through both educational institutions and workplaces is a limitation to employment rates in Nepal. Developing skills, on-the-job and management experience are critical to Nepal's economic growth. Working for foreign investors is considered desirable when compared to domestic employers for the following reasons:

- Pay and conditions are better
- Training and development is to a higher level
- Potential for short to medium term overseas opportunities
- Increased social mobility

Forecast FY2018 and Beyond

Growth is expected to remain steady to strong in coming years, but continues to be sensitive to the following risks:

- Slow recovery of exports
- Potential tightening of credit by Nepal Rastra Bank
- Continuing decline in departures of migrant workers going abroad
- Fluid political environment – especially with the introduction of a federal system.

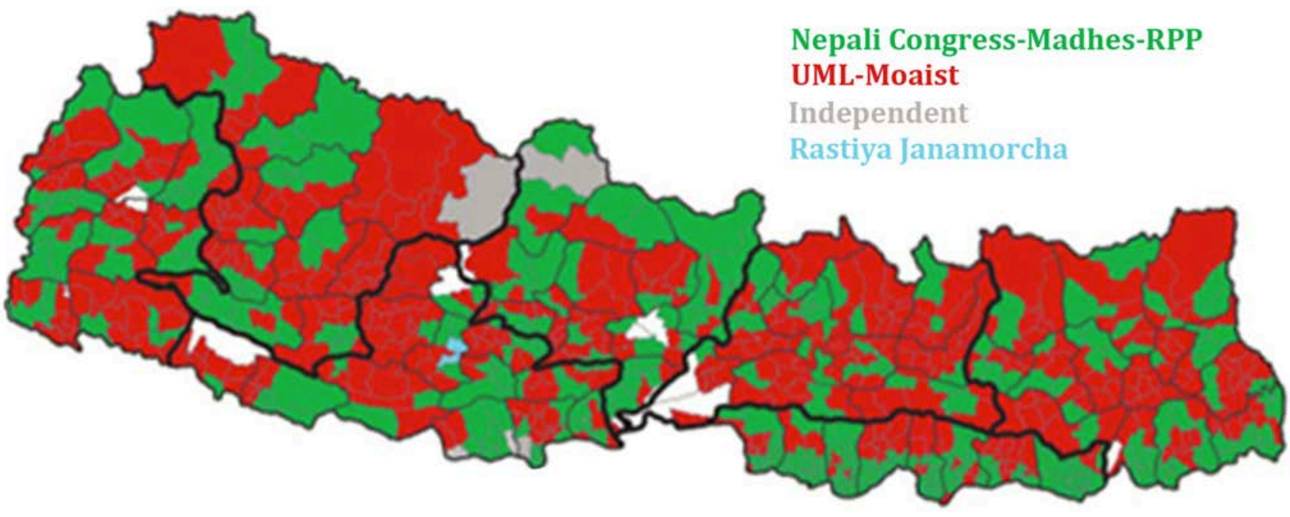
Domestic risks predominate and are on the downside, mostly due to an uncertain political environment. National elections held at the end of 2017, will determine policy priorities for restructuring the state into a federal system. As yet, the details of how this will happen have not been defined, most importantly how states will manage their finances, the level of autonomy they will have and necessary mechanisms for funding flows from central government tax collection to state authorities.

Political Environment

Review of the recent local elections based on the creation of coalition partners shows Nepal to be largely divided along a two-party electorate. This bodes well for political stability, on the condition the coalitions hold together. There is a general sense of optimism that the new government will be able to survive a full term of five years, for the first time in Nepal's democratic history.

The map below[6] shows how the 2017 local elections for mayors of Municipalities and heads of Village Councils would look like if the UML-Maoist coalition (red) and Nepali Congress-Madhes-RPP coalition (green) had been in effect. Although there will be voter realignment due to the formation of coalitions, for the most part it looks as though Nepal will operate along a two-party state electorate in the coming elections.

Local Election Results 2017

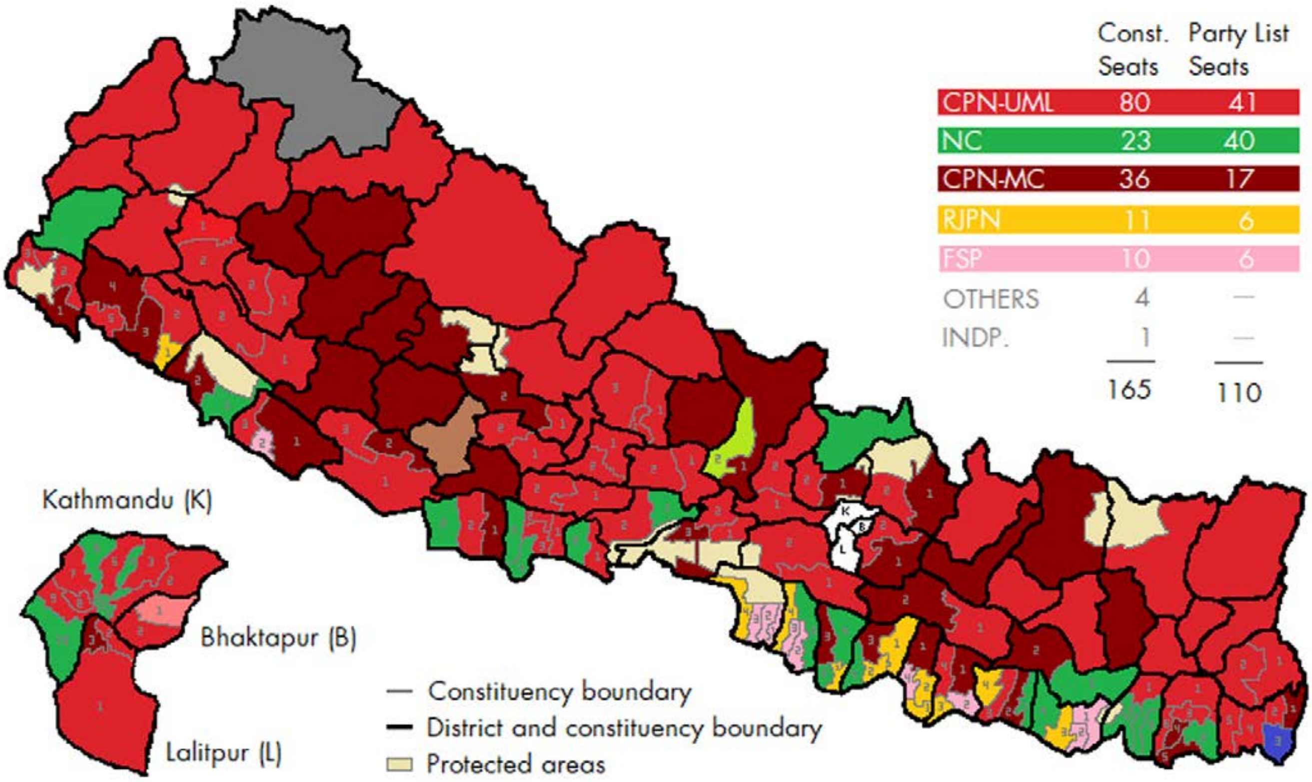


The results of the parliamentary assembly elections (held in November and December 1017) show a strong correlation of influence for the majority UML-Moaist coalition. This is a good indication that the implementation of policy will run more smoothly across the

[6] Source: The Nepali Times

country as national to local interests are more or less aligned. This will be especially important for the implementation of the new federal system.

National Election Results 2017



Source: National Election Commission

However, there is a high instability risk factor associated with the 'settling-in' of the UML-Maoist coalition. It will take some months for this uneasy relationship to divide ministerial and policy responsibilities and it is unlikely to last more than six to twelve months. The UML has a strong political mandate from the electorate as the largest party (44% of house representatives) but can only create a majority with its coalition partner the CPN-MC (approx 20% of house representatives) who have large cash reserves. The unbalance of political and financial influence will strain the relationship. The weak heath of the UML leader, KP Oli, could suffer in a climate of tension, thus creating an opportunity for the Maoist leader, Prachandra, to step in as prime minster.

Financial Environment

Additional domestic uncertainty surrounds the banking sector, which is beginning to run up against regulatory limits for lending, thus risking a stop in new credit. Banks are allowed to lend up to 80 percent of their local currency deposits and core capital and are now reaching this limit. As a result, the Nepal Rastra Bank has announced regulatory measures to ease the constraints but has warned six banks that they have breached the lending limit. Increased vulnerability in the financial sector could pose a challenge in the future. Furthermore, limits on home lending (the current enforced limit is 20% of total lending) are actually running at about 35% as banks have begun using 'overdraft facilities' as substitutes for bridging loans. The subsequent risk of a housing bubble is of concern to the central bank.

The external environment is likely to be less favourable as well. Continued underperformance of exports despite the end of disruptions remains a persisting challenge. Remittances account for 30 percent of GDP with the majority of migrants going to oil-exporting Gulf Cooperation Countries (GCC). Significant spending cuts, including on capital spending, announced in the GCC countries and persistent contraction in departures of migrants have contributed to lower growth of remittances and risk a possible sharper slowdown.

Nepal Macroeconomic Outlook

	FY2014	FY2015	FY2016	FY2017e	FY2018f	FY2019f
Real GDP Growth, at Constant Market Prices	**6**	**3.3**	**0.4**	**7.5**	**4.6**	**4.5**
Private Consumption	4.1	2.9	-0.8	2.4	2	3
Government Consumption	10	7.4	-0.4	21.5	20.9	12.8
Gross Fixed Capital Investment	11.4	19.6	-12.3	34	15.1	10.5
Exports, Goods & Services	18.8	6.8	-13.7	16.9	10.1	6.3
Imports, Goods & Services	20.9	9.6	2.8	22	8	8
Real GDP Growth, at Cosntant Basic Prices	**5.7**	**3**	**0**	**6.9**	**4.6**	**4.5**
Agriculture	4.5	1.1	0	5.3	2.7	3
Industry	7.1	1.4	-6.3	10.9	5	3.2
Services	6.1	4.8	2	6.9	5.8	5.8
Inflation (Consumer Price Index)	**9.1**	**7.2**	**9.9**	**4.5**	**5.5**	**6.5**
Current Account Balance (% of GDP)	**4.6**	**5.1**	**6.2**	**-0.4**	**-2**	**-2.8**
Fiscal Balance (% of GDP)*	**0.6**	**-1.1**	**-0.4**	**-3.3**	**-4.3**	**-4.6**
Debt (% of GDP)	**28.3**	**25.6**	**28**	**27.6**	**29.4**	**31**

Sources: CBS, NRB, MoF for history and estimates, World Bank for forecasts
Note: e = estimate, f = forecast, * = fiscal balance includes net lending

On a positive note, the recently signed memorandum of understanding between Nepal and China, concerning Beijing's Belt and Road Initiative (BRI) has been discussed as a possible alternative gateway for Nepali access to China, Central Asia, and Eastern Europe. Nepal, so far connected to world trade through India, has suffered from infrastructural bottlenecks and delays at the border points and is exacerbated by a lack of road, rail, and port facilities.

Through the BRI, China proposes connecting 65 countries, encompassing around 30 percent of the global economy, which would require nearly $5 trillion of investment. Although in describing the project China is putting a clear emphasis on inclusivity and "win-win" cooperation, India harbours deep concerns about the implications of the projects for its strategic interests. India's official response to the BRI has been cautious and relatively muted. With regards to Nepal, New Delhi might be apprehensive about any BRI-related project that challenges the influence it has traditionally enjoyed in Nepal.

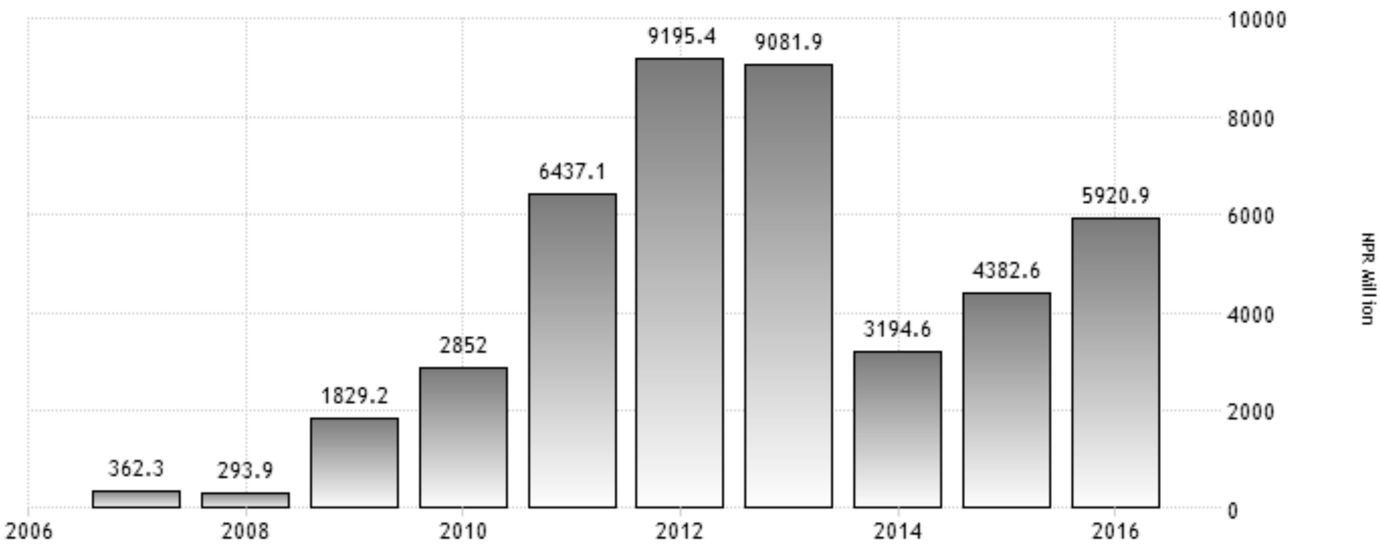
Given the geopolitical issues, it is important for Nepal that China clarifies its modus operandi, and to make the Belt and Road Initiative transparent and bring in credible financing mechanisms. This is especially important for Nepal, which has been struggling to balance relations between its two neighbours, and continues to debate the BRI despite having signed the MoU.

Nevertheless, it seems that for Nepal, the BRI comes at the right time to prioritise collaboration and upgrade access to China, India, and beyond to Southeast Asia and Europe. Once Nepal is plugged in to wider transportation links, the BRI could offer remarkable opportunities for Nepal to cement itself as a trade transit country between China and India most notably for freight, insurance, and banking businesses.

Investing in Nepal

Nepal has both geographical benefits and low labour costs that are attractive elements to attracting foreign direct investment. Although the inflow of investment is increasing, it is still low as compared to other South Asian countries. Nepal received the lowest Foreign Direct Investment (FDI) compared to other South Asian countries in 2015[7]. Nepal ranks 107th out of 190 countries in the 2017 Doing Business ranking issued by the World Bank, losing six positions on the previous year.

TOTAL FDI INFLOW TO NEPAL 2006- 2016



Source: Nepal Rastra Bank

Despite an upward trend over the last three years, FDI inflows to Nepal remain weak compared to the country's potential. The country received USD 59 million in FDI in 2016 and the total stock of FDI is USD653 million. China and India continue to dominate the investment arena despite efforts by the Nepal Investment Board to diversify the market.

In 2013, Nepal created a committee tasked with developing the country's Special Economic Zones (14 in the country). Then in 2016, Nepal published an updated Investment Guide and reassured Chinese investors regarding its intention to improve the country's business climate[8]. The then prime minister, KP Sharma Oli, stressed the importance of Chinese investment in hydropower, solar, wind and biomass as well as the potential for Chinese manufacturers to establish themselves in Nepal to sell to South Asian markets, especially India. The same investor-friendly sentiment has continued in 2017.

[7] World Bank, 2017 Doing Business ranking

[8] Investment Board of Nepal, Public Notice March 23, 2016

Total Stocks of FDI in Nepal 2016-17 and to date

Year	Country	No. of Projects	Total Project Cost	Total Fixed Cost	Total Working Capital	Total Investment	No. of Employees
			US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	
2016 /17	China (Mainland)	183	65.47	54.23	11.24	60.65	5,487
	China (Hong Kong)	1	19.42	19.03	0.39	19.42	133
	China (Taiwan)	2	1.07	0.95	0.12	1.07	35
	India	41	23.63	17.19	6.45	20.22	1,622
	South Korea	15	23.32	2.25	21.07	18.30	567
	USA	39	3.88	3.06	0.81	3.42	979
	Russia	3	2.62	1.75	0.87	2.57	92
	UAE	1	2.33	1.51	0.82	2.33	37
	UK	9	3.02	2.69	0.34	1.98	235
	Japan	13	1.82	1.56	0.26	1.65	359
	The Netherlands	9	1.68	1.43	0.25	1.28	229
	France	8	1.06	0.90	0.16	0.97	187
	Switzerland	7	1.26	1.13	0.14	0.65	122
	Singapore	4	1.12	1.04	0.07	0.50	95
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	TOTAL (all countries)	401	165.51	120.08	45.44	147.12	12,240

Year	Country	No. of Projects	Total Project Cost	Total Fixed Cost	Total Working Capital	Total Investment	No. of Employees
Up to 2017	Bermuda	6	19.37	16.45	2.08	1.15	1,474
	British Virgin Islands	16	158.28	133.20	25.09	78.29	2,180
	Canada	44	70.37	67.93	2.44	26.57	2,338
	China (Mainland)	1161	604.82	508.09	96.57	338.72	53,293
	China (Hong Kong)	33	355.20	311.63	43.51	263.96	4,651
	Cook Islands	1	8.09	8.04	0.05	6.47	35
	Cyprus	4	14.71	13.95	0.77	7.89	375
	Denmark	35	11.70	10.26	1.44	3.90	1,505
	France	88	9.52	7.89	1.50	6.16	3,058
	Germany	104	27.25	24.25	2.89	12.87	4,600
	India	679	1,285.67	1,115.89	182.87	804.01	66,877
	Italy	34	15.73	14.15	0.67	4.23	955
	Japan	237	64.34	56.60	7.09	23.95	9,121
	Mauritius	9	37.65	36.74	0.91	32.18	952
	Norway	16	79.09	65.93	13.12	11.31	845
	Pakistan	26	22.36	19.29	3.07	2.62	2,828
	Philippines	18	11.96	10.21	1.75	1.44	1,824
	Seychelles	1	73.79	71.57	2.21	6.64	100
	Singapore	42	79.53	71.09	8.29	28.62	3,130
	South Korea	319	155.72	109.25	46.11	109.61	10,931
	Spain	24	22.12	21.00	1.12	19.52	648
	Switzerland	58	51.27	49.48	1.68	28.18	1,533
	Thailand	12	10.07	8.63	1.35	1.18	1,174
	Turkey	23	16.73	6.79	10.43	17.43	778
	UK	162	86.47	68.93	17.37	51.85	10,576
	UAE	15	49.14	20.69	27.97	24.86	1,697
	USA	362	183.22	162.92	17.88	74.82	17,293
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	TOTAL (all countries)	4077	3,648.36	3,105.97	548.39	2,066.54	229,496

Dutch Investment Projects in Nepal during 2017[9]

Company Name	District	Foreign Investment US$	Product & Annual Capacity	# of Employees	% of Investment
OKHARBOT ORGANIC FARM PVT. LTD.	Kavre	315,000	Vegetable 150 MT, Fruits 50 MT	20	Local - 10%, Foreign - 90%
BUSINESS PROCESS OUTSOURCING AND COMPUTER RELATED	Kathmandu	200,000	Business process outsourcing 120 UNITS, Computer services 1000 UNITS	27	Foreign - 100%
CHARGE NEPAL PVT. LTD.	Kaski	55,000	SOTAR PV system for home appliances 1000 SEATS, SOTAR PV system for lighting systems 1000 SEATS	22	Foreign - 100%
SUMIT BRICK AND TILE PRODUCTION	Bhaktapur	318,840	Cement bricks 3,500,000 PCS, Hollow bricks 300,000 PCS, Interlocking blocks 420,000 PCS	44	Local - 20.29%, Foreign - 79.71%
STUDIO N.P.C.O. PVT.LTD.	Kathmandu	50,000	Ready-made garments 120,000 PCS	40	Foreign - 100%
BIOVAC NEPAL PVT. LTD.	Kavre	315,017	Poultry vaccine inactivated doses per year 100 million, Poultry vaccine live doses 170 million	41	Local - 66.7%, Foreign - 33.3%
SHANTVISION PVT. LTD.	Bhaktapur	50,000	Website design and development 140 packages	11	Foreign - 100%
SAMARTHA GROUP PVT. LTD.	Lalitpur	82,400	Teacher training 450 pax, Management training150 pax, Consulting service 50 pax	25	Local - 75%, Foreign - 25%
ECHO BEACH RESORT PVT. LTD.	Kaski	50,000	Hotel 40 beds, Restaurant 70 seats	29	Local - 50%, Foreign - 50%

The above example of Dutch investments in Nepal is typical of the scope and range of investment from all countries as FDI regulations gradually relax through sectors.

Since the 2015 earthquakes both the number of investors and diversity of projects decreased through 2016. There appears to be a significant rebound in the level of total FDI stock in 2017, primarily due to increasing Chinese investments in road infrastructure, airports and hydropower. The first Nepal Investment Summit (organised by the Investment Board of Nepal) in May 2017 was hailed as a great success with China pledging more than 61% of the total USD22 billion in FDI commitments. China's interest has precipitated investments from other Asian countries, notably South Korea, who recognise that the improving economic climate and political stability in the country make Nepal's advantages more attractive.

Nepal's strategic advantages:

- Located between two large and rapidly growing economies – China and India – with easy access to markets of more than 2.6billion people

[9] Industrial Statistics, department of Industry, 2017

- Duty free and open border access to India through The Treaty of Trade provides access to the Indian market for Nepalese products at a zero tariff rate, except for a small negative list, and as long as they meet specific rules of origin.
- Duty free access to China, currently for around 8,000 products but set to increase as the BIR comes into effect.
- The topography and abundant water resources give rise to untapped hydropower potential of approximately 83,000MW
- The Himalayas, which is the highest mountain range on Earth, and 8 of the world's 10 highest peaks, combined with unique cultural heritage, creating potential for tourism
- Incredibly rich biodiversity and has six seasons throughout the year that create enormous potential in agriculture and medicinal and aromatic plant markets
- Large pool of capable workers
- Of the population of 28million, 61% are working age (15–65 years)
- Large English speaking population, especial in the capital, Kathmandu
- High participation of women in the workforce, compared to other South Asian countries
- Low cost of labour: the official minimum monthly wage is NPR 9,700 (approx. USD 97). High unemployment and a large informal workforce mean that formal employment is ranked moderately expensive against other countries, Nepal ranks 80/197 with an average monthly wage of US$157[10]. However, if only general country indicators are considered then Nepal is rated the 11th cheapest country in the world[11].

Ease of doing business

- Foreign investors are allowed 100% ownership of a company in almost all sectors
- Repatriation of capital and profits to the investor's home country is permitted
- Importance of the private sector recognised by the Constitution of Nepal
- Various bilateral investment protection and double tax avoidance arrangements are in place:
    - Bilateral Investment Promotion and Protection Agreement (BIPPA) signed with France (1985), Germany (1988), the United Kingdom (1993), and Finland (2011). In addition, Nepal has Bilateral Investment Agreements signed but not in force with Mauritius (signed 1999) and India (signed 2011).
    - Double Taxation Avoidance Agreement signed with China, India, Mauritius, Sri Lanka, Pakistan, South Korea, Thailand, Austria, Norway, and Qatar but notably not with the United States.
- Member of Multilateral Investment Guarantee Arrangement (MIGA) of the World Bank Group
- Member of World Trade Organisation (WTO)
- Most of the Nepalese products enjoy favourable access to international markets. Nepal is ranked 3rd among 138 countries in 2013 in terms of market access and 2nd in terms of margin of preferences. Market access to other SAARC member countries is facilitated under the South Asian Free Trade Agreement (SAFTA). As a Least Developed Country (LDC), Nepal is eligible for preferential treatment under Generalised Systems of Preference (GSP) and, therefore, enjoys lower tariffs than the Most Favoured Nation (MFN) tariffs. Nepal enjoys duty-free quota-free access to European market under its 'Everything but Arms' (EBA) initiative.

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[10] US State Department Human Rights Report 2016.

[11] Numbeo.com cost of living report 2017.

- Duty free US market access to 66 types of garment items for 10 years (starting from 2016)
- Market competition is low and there are low levels of FDI inflows into Nepal
- Major multilateral companies incorporating in Nepal tend to record high profitability
- Disposable income of locals is increasing rapidly due to remittances from abroad, which contribute approximately 30% of GDP, creating new local markets for products

Common bottlenecks and difficulties

- Government instability
- Low percentage of skilled labour force
- Poor governance in public and private sectors
- Corrupt and inefficient government bureaucracy
- Restrictive labour laws
- Bureaucratic and political interference in larger projects
- Few fully qualified (to international accepted standards) engineers, project managers, accounting and auditing specialists
- No quality control or monitoring policies at national level
- Poor protection of Intellectual Property
- Reluctance of local investors to participate in minority ownership partnerships
- Poor liquidity and few financial tools in banking sector
- Poor understanding of international markets
- Poor infrastructure throughout the country
- Poor communication systems, especially in new technologies
- Low levels of innovation in public and private sectors

Nepal is rated 98th of 138 countries in the World Economic Forum's Global Competitiveness Report 2017, and improvement of 2 places from 2016, and 27 places from 2012. The report identifies the two most significant weaknesses in Nepal as:

- Low levels of innovation
- Low levels of business sophistication

Both can be viewed as both capacity constraints and potential opportunities.

Current Investor Experiences

Examples of investor experiences in Nepal have mostly been anecdotal in the past, but the Nepal Investment Summit in May 2017 provided a forum for current investors to openly discuss issues. The following examples are from both the Summit and interviews with business advisors within Nepal.

During and since the Summit, the Nepal Investment Board has received Letters of Intent (LoI) totalling over USD22 billion. During the Summit there were a number of questions raised by keynote speakers:

- Will Nepal be able to realise the LoIs into actual investments? Or will they end up like many donor and investment pledges, bogged down in bureaucracy or capacity constraints?
- Is Nepal actually on the path to become an attractive FDI destination? It is estimated that Nepal receives 20-25 percent of LoIs each year, what are the system impediments or is this an acceptable ratio?
- Is the GoN and the private sector doing all it can to improve Nepal's investment climate? The theme of investor reassurance was emphasised time and again.

Specific issues raised and addressed in a round table discussion at the end of the conference are summarised below[12].

Repatriation and Finance Issues

The first issue raised has been one of the most important impediments to FDI in Nepal over past years – delays and obstructions when repatriating interest, dividends, service fees etc. Authorities have frequently demanded additional proof of financial investments even though the submitted paperwork is complete. "One of the main objectives for anyone coming here with the FDI will be to maximise the profit and remit the money back home. Our experience in this regard has been mixed," shares Abhimanyu Poddar, CEO of Surya Nepal, a cigarette manufacturer and subsidiary of Indian conglomerate ITC Limited who have been operating in Nepal since 1986. "There are companies here that have struggled to remit back their dividends and there are companies that have done it very easily," he says. Poddar stresses that there should not be a requirement for foreign companies to present the same documents year after year. He suggests that asking investors who have been working here for many years to show their initial investments is pointless and should be avoided. "The concerned authorities can ask them about their current profit and loss accounts and balance sheets," he mentions. However, he also says that there are lapses also from the side of the companies. For example, the documentation they prepare may not be accurate in the eyes of the concerned authorities or subsequent clarifications may also cause confusion.

The DoI is clear on repatriation, noting the following policy. In practice, it is necessary to have a competent lawyer manage the process, as documentation can be ambiguous. Foreign investors making foreign currency investments are entitled to repatriate the following amounts:

- The amount received by the sale of the share of foreign investment as a whole or any part thereof;
- The amount received as profit or dividend from foreign investment;
- The amount received as the payment of principal or interest on any foreign loan;

[12] Original text edited from New Business Age, May 2017, Sanjeev Sharma and augmented by interviews

- The amount received under the agreement for the technology transfer in such currency as set forth in the concerned agreement as approved by the DOI; and/or relevant authority.

However, some FDI related laws have not been harmonised, which sometimes creates confusion and frustration. For example, the FITTA Act, 1992 permits repatriation of investment in a foreign currency but provisions in the Foreign Exchange (Regulation) Act, 1962 create difficulties.

Investors in Nepal are required to convert their investments in to Nepali currency, which is particularly risky due to fluctuations in foreign exchange rates. There are no risk-sharing mechanisms or swap-markets to address this specific problem. On top of this, cooperation among the government agencies is weak. Many foreign companies have reported that they have experienced difficulties obtaining permission related to investment and repatriation from DoI and then receiving clearances from the central bank. India was quoted as a good example for Nepal to follow regarding the adoption of a capital account convertibility (CAC) policy. In 2006, India implemented a five-year programme in three phases to establish a full CAC regime and so removed all forex barriers to encourage FDI.

The Civil Code also contributes to low FDI inflows, as it does not recognise debt agreements made abroad by investors in projects in Nepal. The absence of a legal framework means that disputes over the projects with overseas debt financing agreements can only be settled in the courts of other countries, recently including Singapore, Switzerland and United Kingdom.

Taxation

While Nepal is considered to have reasonable corporate tax rates in the South Asia region, there are some issues in the tax system that limit Nepal's potential in receiving high FDI inflow. There are no policies to provide tax incentives to reward companies for Corporate Social Responsibility (CSR), green energy and wastewater utilisation, etc. The new Industrial Enterprises Act and Finance Act both contain a rebate / tax-holiday on reinvestments and are expected to come into effect in 2018.

Related to CSR, it was suggested that the government change the provision for charitable donations, currently set at NPR100,000 (approximately USD1,000) or 5% of the taxable income, whichever is lower. There were complaints that this is in fact a tiny amount compared to actual donations.

The non-existence of a policy to allow diversified foreign companies, having multiple businesses within one corporate entity using the same tax code is currently unable to off-set losses from its various entities. This is accepted common practice in other South Asian countries and internationally, however, current government policy does not categorically allow off-sets. Established investors argue that this issue, if addressed, will act as an incentive to invest in new businesses leading to new employment opportunities to Nepali citizens.

An additional impediment for manufactures are excise duty related issues. Investors have been asking the government to grant an excise duty rebate on the import of primary packaging materials. Such rebates are a common practice in international taxation to make local manufacturing viable. It was suggested that the government should abolish the five percent excise duty levied on products that are classified as packaging under current arrangements. Internationally, excise duty is not levied or rebated on packing materials including containers, bottles, caps, laminates, labels and tubes.

Another major taxation related issue are the higher duty rates on the import of raw materials than finished goods. Interestingly, this has been raised every year with government authorities who seem to appreciate the issue, but whatever policy changes are made to address it prove to be only marginal. An example given was the customs duty levied upon putty and its main raw material white cement. Customs duty on the import of white cement is presently 30%, whereas it is 10% for the import of putty, which is a finished product. It would obviously be fairer to either increase the duty on the import of putty to 30%, or reduce white cement to 10%. A further example given concerned fruit concentrate, the raw material used to produce fruit juice, and the actual fruit juice which is the finished product both are charged 30 percent as import duty. This is particularly disadvantageous for local manufacturers of fruit juice as their cost of production increases due to the unreasonably high duty rates on the import of raw materials.

A note was made about depreciation. The government currently taxes assets rented to local distributors or agents but a company is not permitted to depreciate the asset value, even when there is an agreement with a provision to transfer the assets to the distributor or agent after the rental period.

Land acquisition

Availability and the acquisition of land has been one of the most difficult issues for foreign investors, especially in hydropower, infrastructure and manufacturing. Project approval is dependent on securing land rights, constant delays are costly and not in the interest of development in Nepal. "As per the PDA (Project Development Agreement), we were supposed to conclude the financial closure by November 2016, which was extended up to September 2017 due to the unavailability of forest land and the acquisition of private land also got delayed," says SC Agarwal, CEO of Arun III HEP developer SAPDC, who then outlined his three major issues; delays with private land acquisition are not expedited by government agencies (despite being a project of national interest), unavailability of forested land (70% government owned) for constructing access roads to the project's dam and powerhouse sites and approval of the right-of-way for access roads. The same issues were highlighted by the Upper Karnali Hydropower Project, another mega HEP being constructed by the multinational Indian contractor GMR, who finalised its PDA in September 2014 and has still not received the necessary approvals for acquisition of government and forest land and the acquisition of privately owned land is still pending.

Construction of the cement plant at Nawalparasi belonging to Hongshi-Shivam Cement, a Nepal-China Joint Venture, has been facing similar issues. The plant is estimated to cover an area totalling 40 hectares. As per current arrangements, cabinet level approval is needed for companies to purchase land over eight hectares. Likewise, a few months ago, Hongshi-Shivam also faced problems in acquiring a quarry at Jyamire in Palpa where the locals forcefully prevented the company from developing the limestone mine site. Due to confusing laws and rules, scuffles between the local residents and companies are not uncommon in Nepal regarding land acquisition.

Labour issues

During the collective bargaining process, labour unions are often disruptive and this can have profound effects on business viability. Examples quoted were Colgate-Palmolive, Surya Nepal's John Player and various garment plants with foreign investments who were all forced to permanently close manufacturing operations in Nepal due to labour unrest. Unilever Nepal and Devyani International (franchise owners of KFC and Pizza Hut) are often-cited examples that had to close operations for months during labour negotiations. This has happened frequently over the years to both Unilever and larger hotels.

Labour registration has also been slow and problematic. "Labour registration is among the many problematic areas the government of Nepal needs to seriously look at," says Anukool Bhatnagar, CEO of Nepal SBI Bank. According to him, Nepal needs to have a reciprocal approach if it wants people from international organisations such as SBI and Standard Chartered Bank to work here and in turn Nepali citizens to go to work in places such as Singapore, USA, Canada and Japan to gain relevant experience. In fact, the WTO requires a 15% intra-company transfer rate, which is not implemented in Nepal. Another issue are the educational qualifications set by regulators, especially in the insurance sector. The rules bar foreign insurance companies from bringing expatriate staff to Nepal who only have practical experience and expertise. As per the directive of the Insurance Board, CEOs of insurance companies in Nepal are required to hold a Masters Degree in some specific subjects, whereas the minimum required educational qualification for the highest level posts in Indian government-owned insurance companies is graduation. Investors say that the directive narrows the selection base considerably and thus, finding suitable candidates is a big challenge.

In Nepal, labour related issues are settled as per the provisions of the Labour Act (2017) and not the internationally accepted Alternate Dispute Resolution (ADR). Unfortunately, the Labour Act law has many shortcomings in today's global context of economic competitiveness and ultimately obstructs productivity in Nepal. Many investors see the existing law as ambiguous as its interpretation varies from person to person and fails to secure the interests of investors. To address these and other issues, the government is expecting to introduce a new Labour Act in early 2018, which will significantly overhaul systems.

Intellectual Property Rights

Infringements of copyright, trademark and patent of international brands are rampant in Nepal. Currently, there are various cases pending in concerned government offices and courts about industrial and intellectual property disputes. As per the DoI, the government body that handles the registration of copyright, patents and trademarks, there are about 600 registered complaints of trademark violations among which about 100 have been settled. Nevertheless, legal experts working on IPR issues cast doubt on the government data and say that the number can be as high as 1,200 with some cases continuing to go undecided for over 15 years. Some of the trademark disputes include cases of multinational firms Pepsico, Havells and Kansai Nerolac. After losing the case in both district and appellate courts, the Japanese paints JV Kansai Nerolac Nepal Pvt Ltd recently changed its name to KNP Japan Pvt Ltd. The Japanese paints giant which entered Nepal in 2012 partnering with the local firm Shalimar Paints is now said to be thinking of withdrawing its investment amounting to Rs350 million as a result to the IPR dispute with a Nepali company.

As per the current provisions, trademarks are awarded to the applicants under a 'first come, first served' basis. This makes it quite hard for foreign brands to claim themselves as the rightful owner of their trademark, in case somebody has already registered the trademark. "There are issues with the IPR that have been going on for a long time. The case of Kansai Nerolac is a clear example here," says Saurya SJB Rana, President, Nepal India Chamber of Commerce and Industry (NICCI). Recalling his recent meeting with the Japanese Ambassador to Nepal, Rana mentioned that the Japanese envoy was highly upset on this particular issue. “If the foreign companies don’t get their respective industrial and intellectual property rights, Nepal will have to face an extraordinary amount of difficulty in terms of receiving FDIs,” he warned. As per Rana, there are already a lot of Indian companies whose brands here are registered by some other parties. “They cannot bring the products due to the IPR problems,” he says.

The irony is that Nepal has not been able to formulate IPR laws despite being a signatory of the Paris Convention on the Protection of Industrial Property and a member of the World Intellectual Property Organisation (WIPO), a specialised UN body to monitor and promote the protection of intellectual property across the world, and the World Trade Organisation (WTO). Industrial and intellectual property in Nepal is still governed by the fifty year old Patent, Design and Trade Mark Act, 2022 BS which is completely outdated in terms of providing protection to globally recognised brands. The US Embassy, in collaboration with the Delhi office of the US Patent and Trademark Office, has been working with the GoN in relation to revamping of the IPR laws. The Ministry of Industry is working also reviewing IPR and there are proposals for the formation of a separate dedicated IPR office.

Infrastructure

Lack of roads, reliable electricity, industrial facilities limited export hubs and poor customs infrastructures for cross-border trading were all identified during the Summit. The poor condition of roads both inside and outside of industrial areas is a matter of concern particularly for manufacturers as it hinders supply of raw material and finished products. To solve the issue, investors called on the government to increase capital expenditure (currently less than 50% utilised) and accelerate completion of under-construction infrastructure projects and begin planning for new ones. “Investment is the key to developing next generation infrastructures in both core and social sectors, in rural and urban areas,” said Manjeev Singh Puri, Ambassador of India to Nepal. Puri points out that the next generation of infrastructure projects should include freight corridors, industrial corridors, high speed railways and metro train projects, logistics parks, smart cities, regional airports along with water, sanitation and energy initiatives.

Speed of decision-making

The slow pace of decision-making has always been a major concern for foreign investors. They complain that the authorities make them wait for inappropriate lengths of time, sometimes for no apparent reason. SBI Life Insurance Company, a major undertaking of SBI Bank, for instance, has been trying to enter Nepal but has not received any confirmation from the concerned authorities for months. The joint venture is a partnership between some of the world’s largest names in banking and investment including the France-based BNP Paribas Cardiff, Singaporean sovereign fund Temasek Holdings, American multinational private equity firm KKR and Company and SBI Bank. “In November 2016, the SBI Life Insurance Company notified the authorities that it was interested in starting a JV undertaking in Nepal with a capital of NPR 5,200 crore (USD500million),” informed Nepal SBI Bank CEO Bhatnagar. “They have said that if they do not get a reply from the authorities in Nepal in the next five months (there are two months left for their deadline to end), the project will shift to South Africa.”

Policy Initiatives

In spite of problems, a gradually improving investor climate indicates that GoN policy changes have started to take effect after years of delays. The government is currently engaged in what it calls the ‘second generation of policy reforms’ that aims to update outdated laws and formulate new ones to address modern day ways of doing business.

Since mid-2016, there have been amendments to the Companies Act, adoption of a new Industrial Enterprises Act and Banks and Financial Institutions Act, as well as the enactment of the Special Economic Zone Act. A draft of a new FITTA Bill has been finalised, which will replace the older Act and includes provisions designed to create a better investment climate. According to industry minister Nabindra Raj Joshi who was the chief guest of the Summit, the FITTA Bill includes a provision that will allow investors to repatriate their investments in whatever currency they invest in here. "Entry related hassles for investors will also be gradually eased with the start of the online registration within the next three months," he says. Joshi is hopeful that the problems related to digital signature and online payments will also be resolved. "The Governor of NRB has assured me that we can sort out the problem of online payments within the next two months. In the meantime, we are also working to ease exit related issues that foreign investors complain [of] here of most often," he shares.

The ministry has also been preparing a draft of the integrated IPR law in order to address issues in intellectual and industrial property, with the council of ministers already approving the National Intellectual Property Policy. A revised One-Window policy is expected to ease procedural hassles and reduce the time-consuming processes in decision-making.

Other major policy changes include amendments to the Labour Act, which will make hiring and firing of staff easier and redress employer-employee entitlements problems; and the Agribusiness Promotion Bill, which includes contract-farming agreements.

FDI Environment

South Asian countries share many cultural similarities, however Nepal does stand apart for two major reasons; it was never colonised and was a monarchy until 2008. Accordingly, social and individual levels of responsibility did not develop until the late 20th century and only permeated throughout Nepal during the Maoist War until 2006. Older generations suffer from very low levels of management responsibility, although younger Nepalese who have been educated outside of Nepal have a very different perspective from their parents and grandparents. There is no research into the perception-gap between generations in Nepal, but they are substantial and making substantial changes to the way businesses are evolving.

The new FITTA bill is currently before parliament and is expected to substantially simplify processing procedures and make repatriation of funds easier. Full details will be made public when the bill is enacted.

The following data is from the World Bank, Doing Business Report 2017, and compares the Nepal business environment.

Country Comparison For the Protection of Investors

	Nepal	South Asia	USA	Germany
Index of Transaction Transparency[1]	6.0	5.0	7.0	5.0
Index of Manager's Responsibility[2]	1.0	5.0	9.0	5.0
Index of Shareholders' Power[3]	8.0	6.0	4.0	8.0
Index of Investor Protection[4]	5.8	5.3	6.5	6.0

Source: Doing Business - Latest available data. Note:
1. The Greater the Index, the More Transparent the Conditions of Transactions.
2. The Greater the Index, the More the Manager is Personally Responsible.
3. The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.
4. The Greater the Index, the Higher the Level of Investor Protection.

Tax Rates

Value-Added Tax (VAT)	13%
Company Tax	25% (sector-variable)
Capital Gains Tax	5% for sale of listed companies' shares by individual 10% for sale of listed companies' shares by other entities 10% for sale of unlisted companies' shares by individual 15% for sale of unlisted companies' shares by other entities 5% for sale of lands acquired in the past 5 years 2.5% for sale of lands acquired more than 5 years before disposal
Withholding Taxes	Dividends: 5%, Interests: 15%, Royalties: 15%
Social Security Contributions Paid By Employers	10% Provident Fund + 8.33% Gratuity

Country Comparison For Corporate Taxation

	Nepal	South Asia	USA	Germany
Number of Payments of Taxes per Year	34.0	31.8	10.6	9.0
Time Taken For Administrative Formalities (Hours)	339.0	283.9	175.0	218.0
Total Share of Taxes (% of Profit)	29.5	40.9	44.0	48.9

Source: Doing Business - Latest available data.

Investment Procedures – Foreign Investment in Nepal

Foreign investment in Nepal is regulated and administered by the Foreign Investment and Technology Transfer Act and Industrial Enterprises Act and is enacted by:

- The Investment Board Nepal (IBN) for investments over US$100million and/or specific sectors (for example, waste management).
- Department of Industry (DOI) and/or the Industrial Promotion Board (IPB) for smaller investments.

Forms of Foreign Investment (FI)

FI can be made in any industry in the following forms:

- Investment in shares (equity);
- Reinvestment of the earnings derived from equity;
- Investment made in the form of loans or loan facilities; and
- Investment in kinds, e.g. machineries and equipment.

However, as per the decision of the Government made on September 5, 2012, the minimum amount of FDI has increased to NPR 5 million for each investor from USD 20,000 (approximately NPR 1.6 million).

Private Equity Funds and Venture Capital

Investment in down-stream opportunities (for example, impact investment funds) is currently on-hold, limiting the scope of those already established like Dolma, BO2, Rockstart / One-to-Watch (from The Netherlands). Already established funds are operational and specialise in SME start-ups across many sectors, thus providing new investors with a lower-risk environment than direct investment and an opportunity to learn about market conditions and potentialities.

Areas restricted for FDI

In general, foreign investors are permitted to own up to 100% equity share in any industries, although there are exceptions and even these are not entirely clear:

- Cottage industries (except industries using electricity more than 5 kW)
- Personal service businesses (e.g. hair cutting, beauty salon, tailoring, driving training, etc.)
- Arms and ammunition industries
- Gunpowder and explosives
- Industries related to radio-active materials
- Real estate business (excluding construction industries)
- Film industries (national languages and other recognised languages of Nepal)
- Security printing
- Bank notes and coins

- Retail business (excluding international chain retail businesses with business in at least two countries)
- Tobacco (excluding more than 90% exportable)
- Internal courier service
- Atomic energy
- Poultry
- Fisheries
- Bee keeping
- Consultancy services (e.g. management, accounting, engineering, legal services) where a maximum of 51% FI is allowed
- Processing of food grains on rent
- Local catering Services
- Rural tourism

Entry Conditions on Investment

FITTA 1992 allows foreigners to invest only in private limited companies and in public limited companies registered with the Company Register Office (CRO). They are not allowed to invest in proprietorship or partnership firms. NRB regulations prohibit repatriation of investment capital or dividends within the first year.

"Private Limited Company" means a company which by its articles:

- Limits the number of its shareholders from 1 to 101, excluding persons who are in the employment of the company, and prohibits any invitation to the public to subscribe in its shares.

"Public Limited Company" means a company that:

- Has a minimum number of 7 shareholders (there is no maximum limit), and
- Offers shares and debentures to the public through a prospectus which complies with the requirements of the Companies Act 2006 and Securities Act 2007.

Business Setup Procedures

After obtaining approval for foreign investment, the industry is required to apply for registration of industry at the DOI within 35 days. If the registration cannot be done within the stipulated time, the investor will have to apply for an extension of the validity period.

Setting Up a Company	Nepal	South Asia
Procedures (number)	7.00	8.10
Time (days)	17.00	15.40

Source: Doing Business.

Note 1: If the capital investment is more than NPR. 10 billion, the Investment Board can directly deal with the investor, and the procedure will be followed accordingly.
Note 2: Time (days) only considers DOI approval and not NRB approval under the Foreign Exchange Act, which is currently taking much longer.
Note 3: While this timeline is accurate for DOI approval, Foreign Exchange (Regulation) Act requires NRB approval, which is proving to be a bottleneck for FDI

See **Appendix X** for comprehensive setup and approval process

SECTOR ANALYSIS

Evaluation of market sectors in Nepal is problematic for a number of reasons:

- Lack of publically available information or analysis
- Lack of industry associations that record or analyse information
- Lack of disclosure from companies and organisations about activities and profitability
- Highly fragmented markets in most sectors

Within each sector care has been taken to both ensure substantial Corporate Social Responsibility features while reviewing realistic areas for potential investment. As education is such an important feature of each sector, it has naturally become a 'hub' subject that influences trans-sector growth and provides linkages across all sectors. A further consideration has been to include sectors and opportunities that offer the highest potential value addition for both investor and Nepal. Information in this report has been collated from a number of sources including:

- Department of Industry
- Investment Board of Nepal
- Ministry of Labour
- Major donor reports and interviews including ADB, DFID, British Council, EEAS
- Interviews with sector experts in agriculture, banking and finance, construction, education, energy, health and waste management, manufacturing and transportation

Each sector analysis attempts to answer the following questions, although it is impossible to answer each question in full within each sector:

- What is the scale of each sector in Nepal? Which subsectors can be distinguished? What is the market of each subsector: value chain, domestic, export, supply?
- What is the level of technology and profitability within each sector?
- What are the trends, developments and activities of the most important players of the sector? Who are the most important stakeholders within the sector, formal and informal? What is their role/position and where are they located including government, knowledge, financial, industry associations.
- Which sectors are more or less independent on government and donors?
- Which relevant international donor organisations/countries are active in Nepal and what is their scope and focus? Are there collaboration possibilities with these other donors?
- What is the current government policy of the sector? Policy goals and dilemma's: national, provincial. Detail of programs and progress to date. What type of support is desired by the local government in this sector? Does it make sense to support the government in this sector?
- How can foreign expertise contribute to the identified challenges/opportunities?
- How can companies enter the sector/market, what do they need to know? Information on tender procedures, funding opportunities, regulatory program (licensing, contracting, consenting) and business climate.
- What are potential concrete project leads for bilateral cooperation between Dutch and Nepali partners that will both support private sector development and an enabling business climate in Nepal and generate commercial perspective for Dutch parties.
- Which (public) infrastructural challenges can be identified within the sector? What is the status of these challenges? Are there already mitigation initiatives being set up? Is there a need for feasibility studies or environmental analysis within these infrastructural challenges?
- What are the opportunities and constraint factors that influence entry, growth and survival for Dutch and Nepali companies in the relevant sector in Nepal?

Sector Summary

	Overall Risk & Barriers to Entry*			
Market Opportunity Attractiveness**		**Low**	**Medium**	**High**
	Low	Agriculture ➢ Fertiliser & Seeds ➢ Cardamom	Agriculture ➢ Honey Education ➢ Research Centres Health ➢ Pharmaceutical Industry ➢ Ayurvedic Centres & Medications	Banking, Finance & Insurance ➢ Microfinance ➢ Insurance Energy ➢ Hydropower ➢ Transmission System Transportation ➢ Roads
	Medium	Agriculture ➢ Vegetables ➢ Floriculture Manufacturing ➢ FMCGs ➢ Garments & Textiles	Agriculture: ➢ Ginger ➢ Coffee Construction ➢ Construction and Engineering Centres ➢ Hospitality Health ➢ Health Care Facilities & Equipment	Construction ➢ Building Materials ICT ➢ Communication services Transportation ➢ Airports ➢ Rail
	High	Agriculture ➢ Infrastructure, Machinery, Tools & Technology Education ➢ Vocational Education ➢ Health Education Services Tourism ➢ Event Management and Infrastructure	Agriculture: ➢ NTFP & MAPs ➢ Tea Health ➢ Aged Care ICT ➢ IT services Tourism ➢ Tourism Infrastructure	

* Note: This document does not disclose all risks and barriers to entry that could affect sectors and investment strategies. It is highly recommended that potential investors complete a comprehensive feasibility and risk disclosure study before investing in Nepal.
** Note: This document does not disclose all market opportunities and it is recommended that potential investors should thoroughly research market depth, scope and profitability before investing in Nepal.

Agriculture

Nepal's geography, topography, water resources and ample supply of labour give Nepal a comparative advantage in agricultural production. The lowlands of the Terai region produce an agricultural surplus, which caters to the needs of the food-deficient hill areas. Only 25% of the total land area is cultivable land; another 33% is comprised of forested land and the rest is mountains.

The Terai Region
The Terai is a flat and fertile zone that comprises 23% of Nepal's land area, ranging from 59-700 meters in the Mahabharata foothills. Over 40% of the available agricultural land in the Terai is cultivated and can be irrigated throughout the year. Land parcel sizes are considerably larger in the Terai than the rest of the country, which increases the viability of large-scale irrigation and new technology investment in processing, packaging, storage and transportation. There are also large consumer and trade markets across the Terai, including potential export corridors to India and large hospitality centres at Lumbini, Chitwan and Bardia. The Terai produces a variety of crops including rice wheat, maize, sugarcane, jute and vegetables.

The Hill Region
Lying between 700 and 3,000 meters in elevation, the hills are comprised of sloping lands and small valleys. Although this zone comprises 42% of the nation's land area, only 20% is currently under cultivation, which could easily be doubled in a short period. Transportation networks are rapidly growing as part of the government's program to link all major communities by 2020. However, weak transportation and storage systems limit market access for excess production. Maize and wheat are the two most important crops in the hill country, while livestock, especially goat farming, also accounts for a large part of the region's agricultural activity.

The Mountain Region
Located more than 3,000 meters above sea level, this region is characterised by steep, rugged terrain. Only 5% of the land in this zone is suitable for cultivation and for that reason livestock farming is the main agricultural activity. Market access is restricted by a lack of road infrastructure, so the major exports are high value medicinal plants and speciality produce transported by air-cargo. Owing to weather conditions, cultivation activities are limited to one crop per year or in optimal conditions, three crops in two years.

The agriculture sector, which accounts for nearly a third of GDP and absorbs about two-thirds of the labour market, bounced back from a poor monsoon to grow by 5.3% in 2017 on a surge in rice production to reach a record high of 5.5 million tons, up from 4.3 million tons in 2016. Forecasts for rice growth in FY2018 are lower due to flood damage. Between 2011/012 and 2015/16 the agricultural sector's growth rate was static at 2.41%. Over the last five decades, population growth has increased and put the pressure on productivity. One result of this pressure has been a decrease of the average size of land holdings from 1.1 hectares to 0.7 hectares. While Nepal imported agricultural products worth $1.298 billion in fiscal year 2013/14, its exports amounted to only $268.91 million.

Most farmers are subsistence with limitations on market access due to poor transport infrastructure. Where agricultural technology has been improved, there are rapid and strong increases in output, and supply networks have then become bottlenecks. Demand for agricultural products is strong in Nepal, although seasonal oversupply erodes profitability.

Labour capacity and skill level is the most important bottleneck in the sector. Historically, men have been the only ones who ploughed land and planted seeds. As so many male migrant workers are now out of the country there is a major labour shortfall such that it is now common to see women ploughing fields throughout Nepal. The lack of male workers also means there is considerable fallow land, a feature exacerbated by urbanisation. The GoN wants to increase both production and value chain benefits through a new Agri-Business promotion bill, currently before parliament.

The Agriculture Development Strategy (ADS) 2014 emphasises production sectors (crops, livestock, fisheries, forestry) and agriculture processing, trade and other services (storage, transportation, logistics, finance, marketing, research and extension). The ADS, which will be implemented from FY2017, has recommended spending NPR 50 billion (US$ 500 million) annually over the course of 10 years. This includes an 11% contribution from the private sector and other international donors. The ADS focuses on the agricultural transformation of Nepal and ensures that the processes are accelerated to achieve desired targets. While historically, tea, coffee, grains, vegetables, and fruits have been priorities, more recently the focus has shifted towards floriculture, fishery and livestock, medicinal and aromatic plants. The ADS can be summarised as follows:

- Accelerate investment in Science and Technology – invest in Knowledge Triangle – research, education, and extension (REE).
- Ensure broad-based and inclusive agricultural growth – invest in programs to moderate social and geographic inequalities.
- Integrate smallholder farmers with competitive value chains that are able to meet the more demanding requirements of growing urban population in Nepal and abroad.
- Promote rural infrastructure and rural agro-enterprises that energise the economic texture of rural Nepal.

The ADS is quite optimistic and has set for a target that within 20 years agriculture the trade balance of Nepal will continue to be in US$690 million surplus while the cereal self-sufficiency will be 0-5 % surplus.

Aligned with the ADS is the Nepal Trade Integration Strategy (NTIS) that seeks to address the outstanding trade and competitiveness challenges faced by the country's agriculture sub-sectors. To increase exports, the NTIS has identified the following priority products.

- Cardamom
- Ginger
- Tea
- Medicinal and Aromatic Plants (MAP)

There are also direct interventions in agriculture through donor projects including DFID, The World Bank, The Asia Foundation, Japan International Cooperation Agency (JICA) and USAID who are active in a number of areas:

- Farming techniques – mixed cropping, crop choice, seed procurement
- Government policy – sector growth and development

Potential opportunities exist in both dairy and livestock industries but both are currently affected by strong negative factors. Should the following be addressed then these sub-sectors offer excellent investment potential:

- Milk production and processing – opportunities exist in extension services including production machinery, storage and transportation. Current drawbacks include poor transportation infrastructure, lack of quality testing facilities, weak governance of hygiene and sanitation and no system for evaluating carbon dioxide (CO2) emissions and impact.

- Livestock – opportunities exist in piggeries and poultry production and processing. Current drawbacks include poor transportation infrastructure, lack of quality testing facilities, weak governance of hygiene and sanitation, no system for evaluating carbon dioxide (CO_2) emissions and impact and a strong public distrust of meat products that are not visibly slaughtered and/or butchered.

Major Institutional Stakeholders

Policy Level
- Ministry of Agriculture Development

Regulatory and Implementation Level
- Department of Agriculture
- Nepal Agriculture Research Council
- Nepal Tea and Coffee Development Board
- Department of Food Technology and Quality Control

Under the new constitution, the state has power over laws in relation to "Agriculture and livestock development, factories, industrialisation, trade, business, transportation" and local level power in relation to "Agriculture and animal husbandry, agro-products management, animal health, cooperatives" so it is likely these stakeholders will likely change in coming months.

Opportunities Overview

- There are good opportunities in input markets such as for seeds, nurseries, fertilisers, agricultural infrastructure and technology, and agriculture financing.
- There are extensive market opportunities in agriculture production: processing, packaging and branding in non-timber forest products, cardamom, ginger, aquaculture, vegetables, floriculture, tea, coffee, honey and high value products for the tourism and hospitality industry and export.
- Nepal also offers potential in export-enabling infrastructure including transportation, storage (dry and cold) and laboratory testing facilities, including phyto-sanitary testing.

Infrastructure, Machinery, Tools and Technology

Physical infrastructures such as irrigation canals, roads and electrical power are prerequisites for the nation's agricultural development. According to the Department of Irrigation, out of the country's 14.7 billion-hectare area, only 2.6 million hectares are arable and only 1.8 million hectares are irrigable. Of the irrigable land, more than three-fourths of it lies in the Terai region.

Agricultural extension services in Nepal, focusing on food quality regulations, marketing and agribusiness development are extremely limited. This constrains agricultural commercialisation and growth. These services principally focus on new technologies that will lead to higher productivity. They do not, however, consider other related areas such as profitability, sustainability, post-harvest operations, grading, packaging and marketing. As a result, the country is greatly in need of infrastructure and facilities including **best practice farming**, **cold storage units**, **greenhouse technologies**, **collection centres and laboratories** (seed, soil and plant protection), **agriculture training centres and plant quarantines** that can support the extension of services.

Technological advancements in the agriculture sector open the door to private sector participation in manufacturing and the supply of agricultural-related equipment and tools. Local **innovations, including modifying agricultural equipment** to suit local conditions, also hold investment opportunities. Although the GoN provides a number of extension services, increasingly, commercial farmers are turning to the private sector to provide required services. Furthermore, Nepal needs to increase the volume and quality of products and to improve compliance **with sanitary and phyto-sanitary testing systems** and standards with **appropriate sorting, treatment and storage facilities**. Finally, it needs to improve agricultural **practices for organic certification** and to improve **designing, branding and merchandising, and packaging for processed goods.**

Additionally, modernising the agricultural sector will require a significant amount of investment. Institutions that specialise in **agricultural sector financing and related financial instruments** will have to be developed and adapted. With the goal of enhancing the productive capacity of the private sector the GoN and the central bank have put in place a number of concessional financing schemes for the agricultural sector. As of 2013, credits allocated to the agriculture sector through banking and financial institution (BFIs) amounted to $377.8 million. In order to facilitate credit flows to agricultural activities, the NRB has issued a directive to commercial banks to provide 20 % of loans to productive sectors, including agriculture. According to the Agriculture Census, 22 % of farmers reported taking credits and 42 % of farmers reported the need for even more.

Strengths	Weaknesses
• Extensive cultivable land in a broad range of climate zones • Large resident and low-cost labour force • Highest employment sector in Nepal, especially of women • High profitability potential • Large local market and potential export market for machinery assembled in Nepal	• Very low skill levels • Transport infrastructure under construction • Energy infrastructure under construction • Poor education infrastructure • Low desire for local investors to participate in the sector • Time to train staff to maintain machinery and parts
Opportunities	**Threats**
• High need for managing food quality,	• India may not support in-country testing

processing, packaging and agri-business development • Strong export markets • High quality export products that can also be sold to the domestic tourism industry • Investment friendly environment	• Under-cutting by Indian competitors • Natural disasters, include floods and earthquakes • Poor operation and maintenance culture in Nepal

Fertiliser and Seeds

The Ministry of Agriculture Development estimates that the annual demand for fertilisers in Nepal is approximately 700,000 metric tons. Of that, 500,000 metric tons comprise the current effective demand, that is, where consumers are buying at the current market price and almost all is imported from India. At that point, the existing supply stands at 300,000 metric tons so margins are high through the entire supply chain. In the FY15/16 the GoN has allocated $57.4 million in subsidies for chemical and organic fertilisers but despite longstanding discussions, Nepal has no chemical fertiliser manufacturing facility. However, it is hoped that the new ADS will encourage private sector investment in both **organic and chemical fertiliser industry**. Currently domestic producers are small and lack market sophistication as well as the technical and financial ability to take advantage of the opportunities.

Nepal is producing 4,700,000 MT of rice, whereas the nation's requirement is 5,400,000 MT. The GoN has prioritised filling the shortfall of 700,000 - 800,000 MT by increasing production by 0.50 MT per hectare potentially through the **introduction of hybrid seeds**. Despite the increasing demand for hybrids, research in hybrid development has been limited by a lack of training in both the public and private sectors. The growing trend of employing commercial live-stock farming in Nepal has increased need for forage and pasture seeds. Another area for private sector investment lies in the development of organised **seedling and plant nurseries** that can maintain international quality standards. Currently in Nepal, such nurseries are small in scale and geographically scattered.

Strengths	Weaknesses
• Extensive cultivable land in a broad range of climate zones • High demand for fertilisers and seeds • Large resident labour force • Highest employment sector in Nepal, especially of women • High profitability potential	• Very low knowledge levels among buyers • Transport infrastructure under construction • Poor education infrastructure • Low desire for local investors to participate in the sector • Relatively small market size in Nepal compared to other countries
Opportunities	**Threats**
• Replacement of imported products, which have massive market share • Potential for export to India • Growing demand • Chemical fertilisers	• Under-cutting by Indian competitors • Requires development of testing and quality control systems

Cardamom

According to NTIS 2016, Nepal is one of the largest producers and exporters of large cardamoms. Cardamom has a strong export potential, particularly to India. Cardamom oil is widely used as a food preparation ingredient, as well as in perfumes, health foods, medicines and beverages. Today a large volume of dried but un-graded cardamom is traded in the Indian and Pakistani markets. It has market potential in the international market owing to forecast growth in demand for plant-based cosmetics and flavours.

Currently in Nepal, approximately 12,000 hectares in over 40 hill country regions are under cardamom cultivation and the estimated annual production is 6,000 metric tons. In 2012/13 5,750 MT of large cardamom were produced. NTIS 2016 forecasts the production of 6,500 MT of large cardamom by 2017. The price (US$/MT) of Nepalese large cardamom is currently 50 % of that of Indian exports, but by 2017 NTIS forecasts an increase in price to 75 % of that of Indian exports.

Strengths • Nepal is one of the largest producers and exporters • High value agro product with increasing demand in global market • Significant source of income and employment for farming households, including women • Suitable geographical and climatic conditions, mainly in hilly districts • Cardamom production helps to prevent soil erosion • Strong Dutch connection and market access for spices	Weaknesses • Inadequate specialised manpower • Weak linkages of Research and Extension • Limited value addition due to lack of modern processing and storage facilities • Inadequate supply of improved seeds and seedlings • Inefficient internal quarantine facilities • Limited supply of tissue culture seedlings and high price • Export market beyond India is very limited
Opportunities • Possibility of production area expansion along hilly region • Possibility of productivity enhancement • Possibility of establishing processing facilities for value addition • Development of disease-free seedlings Higher demand in third country	Threats • Managing diseases/pests • Pricing mechanism • Higher dependency on a single market Climate change

Ginger

Throughout the hill region and particularly in the eastern part of Nepal (Ilam, Salyan, Nawalparasi, Palpa, Doti, Morong, Kailali, Surkhet, Tanahu, and Kaski) are a large number of small farmers are involved in ginger farming. Despite being one of the countries highest-value spice crops the share of ginger in total agricultural exports is currently only 3 to 4%. The increased use of contract ginger farming has had a significant positive impact on profits. Contract ginger farmers currently realise a profit of approximately $0.19 per kilogram. Sutho (dry ginger) is the major processed product, however, the process is labour intensive and only uses traditional techniques. In addition, the lack of automated ginger peelers and mechanical dryers continues to pose major post-harvest and export supply problems. Investing in and establishing modern processing facilities could result in the mass production of ginger for export.

Nepal is the third-largest producer of ginger in the world (with 11% of the global share in 2013). For their parts, India and China have 31.9% and 18.2% respectively. The share of ginger in the gross cropped area of Nepal has increased from 0.08% in 1991 to 0.39% in 2013. The value of production ginger has, as a result, risen from approximately 0.95% in 1991 to 3.23% in 2013. According to NTIS 2016, 235,000 MT of ginger was produced in 2013, of which 65% was exported. NTIS 2016 forecasts to produce at least 300,000 MT of ginger by 2017 and 70 % of which will be for export. Nepali ginger has a clear price advantage at the current cost of US$ 217/MT, which is 20% of China's price and 60% of India's. NTIS 2016 forecasts an increase in the price of Nepalese exports to 75% of the Chinese export price. Export trends of ginger have been largely positive and investment in this sector is considered highly attractive.

Strengths • Significant source of income and employment for small farming families • Fourth largest producer of ginger in the world • Possibility of inter-cropping • Favourable geo-climatic conditions • Nepalese ginger regarded as high quality in world market • Strong Dutch connection and market access for spices	Weaknesses • Inadequate quality seeds • High crop loss due to diseases • Limited storage and processing facilities • Lack of internationally accredited laboratories with sufficient test parameters • Limited skilled human resources
Opportunities • Increasing global demand • Potentiality of higher productivity and area expansion • Due to richness in oil and oleoresin, high potential for value addition	Threats • Incidence and control of disease- pest (Rhizome rot, rhizome fly) • High price fluctuations • Cheap ginger being produced in neighbouring countries may result in loss of market share

Non-Timber Forest Products (NTFP) including Medicinal and Aromatic Plants (MAPs)

Non-timber forest products are comprised of materials harvested from forests for a variety of purposes other than timber. Medicinal and aromatic plants, essential oils, bamboo and rattan, nuts, fruits, wild vegetables, spices, plant-derived pesticides, tannin, dyes, gums, resins, and incense are just some of the major NTFPs currently originating in Nepal. Nepal has 35 different types of forests and their 118 ecosystems are home to over 2% of the world's flowering plants, as well as an estimated 7,000 species of higher value plants. Yarsagumba (Cordyceps sinensis), found in the high mountains of Nepal, are very highly valued with revenues in Darchula, Jumla, and Dolpa of $9.828 million in 2015. Another high value product that has only recently been identified is called Bodhichit Briksha (Zizyphus budhhensis). A single medium sized tree of this species fetches approximately $35,000. In addition, taxol, which is extracted from Lauth Salla (Taxus wallichiana), has been proven to be beneficial in the treatment of cancer. Essential oils are the major commodity derived from processed herbs. They are extracted from more than 18 plants and various products. These products generated export revenue in the amount of $1.135 million in 2010/11. Similarly, agricultural- based handicraft products generated export revenues in the amount of $47.173 million in fiscal year 2014/15.

As a sector, NTFP holds immense potential for Nepal and can be an object for private investment. It is to be noted however, that NTFP investment requires close coordination with community forestry user groups where knowledge of sustainable harvesting is limited. There are also some significant knowledge gaps in the export market regarding the application of SOIVRE and other non-tariff barriers.

About 85% of Nepal's Medicinal and Aromatic Plants (MAP) are collected from the mid-western and far-western regions. Around 300,000 families are directly or indirectly involved in the collection of MAPs in 58 districts of Nepal. The United States is the largest importer of MAPs globally. Among the top 10 importers, demand for MAPs has been growing steadily in the United States, Japan, China, Chinese Taipei and Canada. Nepal has historically exported MAPs to these countries in varying quantities. There is significant untapped potential in these markets. India is, by far, the largest exporter of essential oils in the world. It also exports almost 20 % of the total world exports of essential oils. Essential oils other than those of citrus fruits is the major essential oil that Nepal exports which comprises more than 60 % of the total value of essential oils exported in 2012.

Strengths	Weaknesses
• Organic and unique, as most of them are collected from wild areas • Most of the species are endemic to the Himalayan region • There is a huge variety of MAPs found in Nepal • Source of employment and income to significant number of population in remote regions • Well-documented sector, with large number of studies done on potentials as well as benefits in all stages of the value chain •	• Incomplete legal and institutional frameworks to protect Nepal's genetic resources • Lack of policy and system to implement Good Agriculture and Collection Practices (GACP) • Very few products currently being cultivated • Lack of storage and processing facilities • High dependency on exports to neighbouring countries • Lack of accredited quarantine facilities at the customs points • Inadequate Pest Risk Analysis for major

	products, and insufficient fumigation facilities • Poor transportation, processing and packaging infrastructure
Opportunities • Access to expanding international essential oil and natural remedy markets • High potential for domestic consumption and international market expansion • Potentials to capture greater share of value in the overall global value chain through improved collection, storage and processing facilities	Threats • Lack of knowledge of sustainable collection practices • Unsustainable harvesting is threatening the very existence of some species unique to Nepal • Weak Intellectual Property protection is leading to loss of rights on indigenous knowledge

Honey

Owing to the country's unique climatic conditions, Nepalese honey, with its unique taste, is considered to be one of Nepal's prized products. Most of the honey produced in Nepal is sold in the domestic market (as a food and for Ayurvedic medicine), with only a very small quantity being exported as there are significant issues surrounding toxicity and quality testing. The major honey producing districts of Nepal are Chitwan, Nawalparasi, Rupandehi, Kapilbastu, Dang, Sarlahi, Sunsari, Mahotari, Makwanpur, Banke, Bardia, and Kanchanpur.

During honey's many stages of processing, approximately 3-8% of the product is lost. This is largely due to the continuing use of traditional processing practices, a lack of technical knowledge on processing and a scarcity of proper processing equipment. Elimination of these problems could save as much as 50% of lost product. For this reason, investment in modern production and processing facilities is considered to be an attractive option.

The potential for honey production potential is estimated to be in the range of 10,000 to 20,000 MT per year. This is to be compared with the current production of only 1,625 MT. Today the major export markets of Nepali honey are India, China, Japan, European countries and the US. More than 50,000 households are involved in beekeeping and farmers recognise beekeeping as a viable economic activity.

Strengths • Significant source of income and employment for small farming families • Many high quality varieties available • Favourable geo-climatic conditions • Nepalese honey regarded as high quality	Weaknesses • High crop loss due to poor transportation linkages • Limited storage, processing and packaging facilities • Lack of internationally accredited laboratories with sufficient test parameters • Limited skilled human resources • Lack of quality and toxic content testing facilities
Opportunities • Increasing global demand • Potentiality of higher productivity and area expansion • Growth in organic production •	Threats • High price fluctuations • Cheap and quality honey being produced in neighbouring countries may result in loss of market share

Tea

Nepal, with its favourable soil conditions, high altitude, and excellent climate is an ideal place to grow tea. Teas from Nepal are widely recognised for their superior aroma, taste and colour mostly because farming is concentrated in Nepal's central and eastern hill regions where conditions are similar to Darjeeling. Nepal grows three varieties of tea, (i) Cameliaasamica, (ii) C. asamica spp lasiocalyx for CTC (Crush, Tear, Curl), and (iii) Camellia sinesis for orthodox tea.

The availability of thousands of hectares of virgin soils unspoiled by any chemical fertilisers suitable for tea cultivation in Nepal means that there is an enormous scope for organic tea farming. The largest markets for Nepal tea are China where there is a major shortage of organic tea and India where it is blended with local varieties to increase Indian export volumes. Other significant markets are Germany and other EU countries, Japan and Pakistan and the Gulf States show strong potential. Organic certification is crucial to strong growth and profits so strong branding around Nepalese tea needs to be established.

It is estimated that approximately 10,000 hectares of land, almost all in the hilly districts, is available for tea cultivation. Total tea production 2020 is forecast to be approximately 54.7 million kg, of which CTC will ac- count for 22.5 million kg and Orthodox tea, 32.2 million kg. In total, the area for tea cultivation could expand to 62,800 hectares within the next 15 years. According to NTIS, in 2016, the export value of Orthodox tea was approximately $2.7 million in 2013 and targets to reach approximately $6 million in 2017. Clearly, tea is a product with a lot of potential for the international market therefore investment, both public and private could further improve the quality of the product and enhance its market growth.

Strengths	Weaknesses
• Special and unique geography and climate suitable for tea cultivation • Strong and functional farmer cooperatives • Most of large tea estates produce organic tea • Strong tea associations and related organisations with capacity to lobby and advocacy • 'Nepal Tea' mark is established • National Tea Policy already in place • Supportive policy of the Government	• No brand identity in global market • Ineffective marketing and publicity • Lack of internationally-accredited laboratories • Limited technical schools, training centres and R&D • Lack of transparent mechanism to determine price for green tea • Inconsistent quality of product to meet buyers' demand • Poor transportation, processing and packaging infrastructure
Opportunities	**Threats**
• Scope of production area expansion • Good opportunities for employment creation • Increasing global demand for Nepalese tea • Organically certified areas are expanding • Attractive price for organic tea in the global market • Scope for product diversification and brand value in niche markets	• Competition with major tea producers, eg. China, India, Bangladesh, and Sri Lanka • Price volatility • Unable to meet delivery requirements, including quality control such as meeting MRL regulations in destination markets • High dependency on a single market • Problems due to labour unions

Coffee

Coffee is one of the highest traded commodities in the international market. There are two important species of coffee in the world; Coffea Arabica (Arabica coffee) and Coffea Canephora (Robusta coffee). Among these, the self-pollinating Arabica coffee is perhaps the most highly acclaimed species. All Nepalese coffee is Arabica coffee. This high value cash crop is becoming extremely popular among Nepalese farmers. Coffee plantations have now spread to over 40 districts in the Nepal's hill country, and more than 30,000 households are now involved, either individually or through cooperatives. Coffee is among the few commodities in which Nepal has a consistent trade surplus. Lately, however, exports have decreased possibly indicating an increased consumption on the domestic market. In contrast to exports in 2011/12 of 109 tons, total exports for 2012/13 were only 85 tons, for all categories of coffee. Nevertheless, coffee remains a significant investment opportunity. The existing 1760 hectares of land under coffee cultivation barely makes 0.14 % of the area (within 800m-1600m) of the country's potential coffee growing area.

Coffee production area has expanded from approximately 424 hectares in 2000/01 to 1760 hectares in 2011/12. The production has increased from 89 tons of dry cherry to 418 tons of green beans (equivalent to 523 tons of dry parchment) during the same period. Global price of coffee has been on an increasing trend therefore investments in the processing, packaging and branding of coffee is recognised as an investment opportunity.

Strengths	Weaknesses
• Special and unique geography and climate suitable for coffee cultivation • Strong and functional farmer cooperatives • Growing organic production • Supportive policy of the Government • Strong Dutch connection and market access	• No brand identity in global market • Ineffective marketing and publicity • No internationally-accredited laboratories in Nepal • Inconsistent quality of product to meet buyers' demand • Lack of transparent mechanism to determine pricing for cooperative growers • Poor transportation, processing and packaging infrastructure
Opportunities	**Threats**
• Good opportunities for employment creation • Increasing global demand • Organically certified areas are expanding • Attractive price for organic coffee in the global market • Scope for product diversification and brand value in niche markets	• Competition with major coffee producers • Price volatility • Unable to meet delivery requirements, including quality control testing • Problems due to labour unions

Vegetables

The practice of growing off-season vegetables in Nepal has served to increase areas under cultivation and production. In particular, the vegetable sector has grown considerably over the last 10 years, primarily as farmers diversify away from staple crops. Overall, vegetable production increased by an average of 6.9% per annum keeping well ahead of overall average population growth of 1.47% over the period 2000 to 2010. Per capita consumption demand for fresh vegetables is forecast to grow at 1.9 % annually from 2001 to 2020. As a consequence, the total volume of vegetable demand in those markets is forecast to grow at 8.2% during the same period.

Despite the government and non-government support in Nepal's vegetable seed production, the sector remains unorganised and relies on traditional methods and inefficient technologies. From **production to processing, storage, transport and marketing** there are opportunities to improve the value chains and their constituent processes are evident. Under current processing at the farmers' level there is an estimated seed loss of around 10- 15%, largely resulting from hand processing with traditional equipment. Therefore, establishing and investing in **seed processing** (cleaning) other technologies should result in increased efficiency and growth opportunities. High value crop production also offers opportunities in **Macadamia Nuts, Wash Nuts, Passion Fruit and Meringa Tree.**

The volume of vegetable production is forecast to grow by 6.1% in 2014/15 to 3,629,000 MT from previous year's yield of 3,421,000 MT. The area under vegetable cultivation is estimated to be 245,000 hectares.

Strengths	Weaknesses
• Significant source of income and employment for small farming families • Many high quality varieties available • Favourable geo-climatic conditions • Large local market opportunities • Organic certification possible	• High crop loss due to poor transportation linkages • Limited storage, processing and packaging facilities • Lack of internationally accredited laboratories with sufficient test parameters • Limited skilled human resources
Opportunities	**Threats**
• Increasing local and export demand • Potential for higher productivity and area expansion • Intensive and large scale farming opportunities on the terrai	• High price fluctuations • Cheap and quality products being produced in neighbouring countries may result in loss of market share

Floriculture

Nepal has approximately 636 floriculture businesses that provide employment for more than 40,000 people. Domestic production of a number of floriculture products is sufficient to meet three-quarters of the national demand. The demand for flowers soars in the festival season. During that time the gap between the supply and demand is met by the imports from India. In addition, products such as live trees and other plant related products, including hybrid seeds, bulbs, roots, ornamental foliage, and cut flowers are imported from countries other than India. Similarly, cut flowers are mainly imported from Thailand, Italy, and India. The export of recently commercialised floriculture products to these markets is possible, upon the submission of phyto-sanitary certificate (PC) issued by the authorities in Nepal. Opportunities exist in high-value addition crops to augment local floriculture production, especially **flower-bulb production** (Amaryllis) and **organic plant and vegetable dyes**.

According to Floriculture Association, Nepal 2013, the floriculture transactions in Nepal amounted to approximately $10.7 million. The demand has risen from 100-150 sticks per day in 1992/93 on average to 7000-9000 (2013) sticks per day in Kathmandu. Due to increased urbanisation, rose markets have been explored and extended in other parts of the country including Pokhara, Narayanghat, Biratnagar, and Butwal. About 8.8 hectare land is covered under rose cultivation in Nepal.

Strengths • Significant source of income and employment for small farming families in all regions • Many high quality varieties available • Favourable geo-climatic conditions • Strong domestic market, especially in festivals	Weaknesses • High crop loss due to poor transportation linkages • Limited storage, processing and packaging facilities • Lack of internationally accredited laboratories with sufficient test parameters • Limited skilled human resources
Opportunities • Replacing imports highly desirable • Potentiality of higher productivity and area expansion • Potential market even in remote areas • Developing direct air links also support tourism development	Threats • High price fluctuations • Cheap and quality flowers being produced in neighbouring countries may result in loss of market share

Banking, Finance and Insurance

The central bank of Nepal, the Nepal Rastra Bank (NRB), regulates the banking sector, comprised of commercial banks, development banks, finance companies, and micro-credit development banks/institutions. Since financial liberalisation in the mid-1980s, Nepal has witnessed rapid growth in the number of banks and financial institutions (BFIs) due to reforms that have made the banking sector more stable and an increasing inflow of remittances and contributes around 3% to GDP. The GoN actively encourages foreign banks to enter the Nepalese market through joint ventures, for example Nepal Arab Bank (currently known as Nabil Bank), the Nepal Indoseuz Bank (currently known as Nepal Investment Bank), and the Nepal Grinlays Bank (currently known as Standard Chartered Bank), Everest Bank, Nepal Bangladesh Bank and Nepal SBI Bank.

Today Nepal has 29 commercial banks, 71 development banks, 46 finance companies, 41 micro-credit development banks,15 saving and credit cooperatives, and 27 financial intermediaries non-governmental organisation (FINGO) licensed by Nepal Rastra Bank. In the last two years, the growth of the BFI sector has slowed owing to a moratorium imposed by NRB on the issuance of licenses for new BFIs, except for micro-credit development banks. As of May 2016, the total number of licensed financial institutions stood at 229, including 187 BFIs of “A”, “B”, “C”, and “D” categories. After the issuance of the "Bank and Financial Institutions Merger By-law, 2011" by NRB, 88 BFIs have merged with each other resulting in the formation of 33 BFIs as of May 2016.

Currently, BFIs are rapidly seeking mergers and acquisitions with other sector participants in order to meet the newly established capital requirements established by the NRB. According to the central bank, increasing the paid-up capital of BFIs will make them stronger and ensure the system’s financial stability. As stated in the GoN’s Monetary Policy for 2015/16, commercial banks are required to increase paid-up capital to US$ 80 million, national level development banks to US$ 25 million, development banks operating in 4 to 10 districts to US$ 12 million, and the development banks in operation in 1 to 3 districts to US$ 4 million. All BFIs were required to meet these requirements by July 2017.

In addition, 26 insurance companies are operating under the Insurance Act 1992 (as at mid-April 2015), of which 3 have foreign investment and 3 are foreign joint ventures. Nine of these companies are life insurance companies, while the remainder are other types of insurance.

International Consulting Firm KPMG, Portugal and local partners CSC & Co. Chartered Accountants and TR Upadhaya & Co. were selected to carry out special monitoring tasks of a total of 54 banks and financial institutions of Nepal including 22 commercial banks, 20 development banks and 12 finance companies under Development Policy Credit Program of Government of Nepal with the financial and technical assistance of the UK Department for International Development (DfID). The overall financial position of both Nepal Bank Ltd. and the government-owned Rastriya Banijya Bank Ltd., which are executing reform plans, has been satisfactory due to notable growth in paid up capital and deposits, decreases in the volume of non-performing loans and resulting operating profits during the review period. The position of non-performing loans and capital fund of these two banks is presented below.

Mid-July	**Non-Performing Loans in Total Loan (percentage)**		**Capital Fund (NPR in billions)**	
	Nepal Bank Ltd	NRB	Nepal Bank Ltd	NRB
2003	60.47	60.15	-9.80	-22.39
2008	12.38	21.65	-5.72	-15.5
2013	4.53	5.31	-0.96	2.50
Mid-April 2015	4.6	3.9	3.34	2.39

Source: Nepal Rastra Bank (NRB)

Despite the growing number and types of banks and financial institutions, enhancing financial accessibility and inclusiveness is still a challenge. Currently about 40% of the Nepal's population benefit from formal financial services, mostly in urban populations. Addressing the lack of penetration in rural areas is considered a government priority.

Financial transmission mechanisms are going to become a major issue for the sector, especially as Federalisation of government activities begins in 2018. Building confidence and trust of the banking sector with in the rural population is a clear policy priority, as is improving corporate governance and reducing shadow banking.

INGOs and Donor involvement

DFID is the most influential actor with plans to energise SME and associated finance activities in a number of sectors. Governance and transparency issues are frequently raised by donors, although sector participation is very limited.

Major Institutional Stakeholders

Policy Level

- Ministry of Finance
- Ministry of Cooperative and Poverty Alleviation
- Nepal Rastra Bank

Regulatory and Implementation Level

- Nepal Rastra Bank
- Insurance Board of Nepal
- Nepal Stock Exchange
- Securities Board of Nepal
- Department of Cooperative

Opportunities Overview

Opportunities in this sector are limited but show enormous potential:

- There are excellent growth opportunities in micro-finance – helping finance entrepreneurs across the country and building trust in financial systems (see also agriculture finance)
- Insurance also offers extraordinary growth potential – catastrophic risk insurance, home and contents and general business insurance

Microfinance (MFI)

The industry has 1.1 million borrowers, although some borrowers have had multiple loans, and 1.6 million depositors with $325 million in outstanding loans and $153 million in deposits. The Centre for Microfinance in Nepal was started with funding from USAID, Canadian Centre for International Studies and Cooperation and the Ford Foundation. It is now a "privately owned national network organisation that works to strengthen the microfinance sector and its member associations, institutions and individuals with a vision of "sustainable access to microfinance services for the poor.""

While microfinance is more accessible than mortgage markets in Nepal, only a third of households below the poverty line have access to microfinance services. The industry is highly fragmented:

- 21 Microfinance Development Banks classified under category 'D' by the NRB
- 5 Regional Development Banks
- More than 20,000 Savings and Credit Cooperatives
- Forty-five Financial Intermediary NGOs licensed by the NRB

Growth in the micro-finance sector is driven by three major consumer needs:

1. Nepalese entrepreneurs must rely on their own resources and minor loans from commercial banks, where avenues for financing are very limited.
2. A large segment of the population still has little or no access to modern banking facilities, although remittances are a significant contribution to GDP.
3. Retuning workers want their remittances to reach their families but also have access to saving and loan facilities when they return to Nepal.

In Nepal, 38% of adults have bank accounts, and of them, only 6.7% use debit cards. There is a strong contrast between bank account usage between urban locations, 56% of the population, and rural areas, 36%. Obviously, a large number of adults still remain outside the coverage of modern financial intermediation.

The GoN has a clear agenda to strengthen the framework for micro-finance so that more products can be developed and accessed by the majority of Nepalese citizens. Nepal Rastra Bank (NRB) announced a concessional loan scheme for homeowners to rebuild their homes. Though this product may be attractive to middle- and upper- income homeowners, it is unlikely to fill the gap for rural, low-income homeowners. Private loans are also being made available, including for the reconstruction of schools. A gap exists in the financial products available for SMEs in Nepal, whose needs are not met by the commercial banks or the microfinance institutions. The Nepal-based International Centre for Integrated Mountain Development (ICIMOD) calls for "revitalise[ing] micro, small, and medium- sized enterprises by providing loans at low interest rates, simplifying processes and mechanisms, and providing support to start-up businesses, as well as by facilitating insurance mechanisms with public-private partnerships to mitigate risk". The following initiatives could help meet such needs:

- The government plans to provide low interest rates/ incentives for producing housing materials.
- Cooperatives, common in Nepal's rural agricultural sector, have a potential role to play in disseminating information and providing financial services at a rural, local level, beyond the reach of financial institutions.

Although guidance for improved building construction standards is not yet in place, loans are actively being encouraged. To ensure these initiatives support resilient housing, banks would need to make loans conditional on some level of guarantee that safer construction standards will be adopted. This could range from simple attendance at a seminar on building resilient housing to linking the release of funds to the certification of building standards.

Strengths • GoN friendly-investment sector • High demand in rural areas • Desirable market for impact investors • Substantial capital available in Nepal	Weaknesses • Weak governance • Low trust levels in rural areas • Poor knowledge of financing instruments • GoN has stopped issuing licenses • Poor performing MFIs casts bad reflection on sector
Opportunities • Large latent demand for effective SME and small entrepreneur finance • Growing semi and skilled workforce returning to Nepal from overseas jobs	Threats • Disruption from politically-associated finance institutions • GoN will prevent further investments

Insurance

Following the enactment of the Insurance Act 1992, the Nepalese insurance sector has grown dramatically. As of April 2016, the sector included 27 insurance companies, of these 9 companies are life insurance companies while the remaining firms provide non-life coverage.

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, in order to meet their financial obligations for promised insurance benefits. These companies invest in corporate securities, government bonds and in commercial and development banks according to the requirements of the Insurance Act. The overall growth rates of these investments have been positive. The correlation coefficient of investment between life and non-life insurance is 0.98 which is more than 6 times higher than its PE.

The Nepalese insurance market has a limited range of products and developing new products offers a potentially lucrative market for new entrants. As of 2011, the Nepalese insurance penetration rate is 1.31%. Suggested potential new markets are:

- Catastrophic Risk Financing Facilities – to cover earthquake, hurricane and other natural hazard risks, using data modelling mechanisms provided by the insurance sector. Rather than making a claim based on actual loss, countries enter into a catastrophe pool and are eligible for payouts, which are agreed in advance.

- Buildings and Contents Insurance – especially for school and community structures will also improve enforcement of building and usage code compliance.

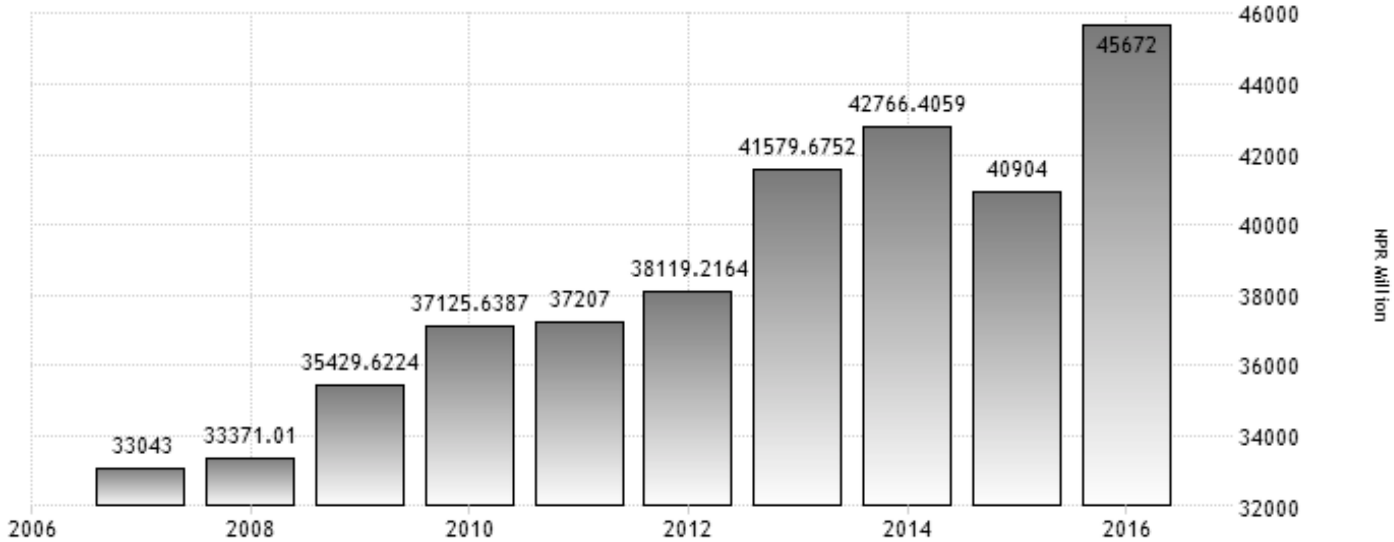
Strengths • GoN friendly-investment sector • High demand in urban and rural areas • Desirable market for impact investors • Large potential market	Weaknesses • Weak governance • Low trust levels of insurance products • Poor knowledge of insurance benefits • Poor performance of sector in Nepal
Opportunities • Large latent demand for effective insurance • Applies equally across government, non-government and commercial sectors • Re-insurance	Threats • Disruption from politically-associated finance institutions • Frequent catastrophes

Construction

Foreign investors are prevented from engaging directly in the real-estate market as the GoN is already conscious of Nepal's susceptibility to housing bubbles. However, both sustainable building material production and construction methods provide attractive opportunities for investment.

The general Industry sector, which contributes 15% of GDP, expanded by 10.9% on strong rebounds in all subsectors—manufacturing, construction, utilities, and mining—from depressed output in FY2016. Alone, construction contributes around 10 to 11% to GDP and it consumes about 35 percent of the government budget. It is estimated that construction creates employment for about one million people, making it he second largest employment sector (agriculture is first).

Construction contribution to Nepal's GDP



Source: Central Bureau of Statistics

Post-earthquake reconstruction activities have picked up after a slow start. As at July 2017, approximately 90% of eligible houses—about half a million—have received the first of three tranches of the housing grant, approximately 15% the second tranche, and the final tranche is now being enrolled. The outlook is positive, with further home-reconstruction payments in process for FY2018 and government spending on infrastructure, especially roads, is increasing.

Set against a background of an annual 3.6% growth for the last five years and strong forecasts, the construction sector in Nepal offers some very attractive investment opportunities. The housing construction market is dominated by private land-owners (97.74%) as opposed to developers (2.26%). Current reconstruction costs are estimated to be US$7 billion over the next five years, of which US$3 billion has been provided by the following major donors.

Earthquake Reconstruction Support received to September 2017-11-07

Development Partner	AGREEMENT VALUE / US$ millions		
	GRANT	LOAN	TOTAL
India	$250.00	$750.00	$1,000.00
Asian Development Bank	$25.00	$200.00	$225.00
World Bank		$300.00	$300.00
China	$766.93		$766.93
Japan	$32.94	$214.13	$247.07
USA	$159.82		$159.82
European Union	$118.37		$118.37
United Kingdom	$165.50		$165.50
International Monetary Fund		$50.00	$50.00
Germany	$34.00		$34.00
Finland	$1.12		$1.12
South Korea	$8.40		$8.40
TOTAL	**$1,562.08**	**$1,514.13**	**$3,076.21**

Source: National Reconstruction Authority

Contractor Culture in Nepal

Labour contracting in Nepal suffers from a number of systemic problems that can significantly hinder projects unless anticipated and dealt with before commencement. Numerous stakeholders, entrepreneurs and contractors in both building construction and material production sectors frequently exploit the trust placed in them. This happens for three reasons; a general lack of awareness of the responsibilities associated with contracting agreements, insufficient institutional control mechanisms for contract law, construction and material quality, and little or no effective punitive measures for offenders. Low or non-skilled labour is hired cheaply and often sourced from India to avoid union and government employment obligations. Building materials are often sub-standard and not sustainably produced even when clear directions about quality are stipulated in contract. Combating these problems is difficult when there is a stigma associated with engaging in physical work based on the belief that white-collar jobs, especially within the government and international organisations, are highly preferred. However, foreign investment within the construction sector would prove beneficial for both addressing social issues and increasing quality throughout the sector.

Increasing women's role in engineering and construction

In 2014, Nepal ranked 112th of 142 countries on the World Economic Forum's Gender Gap Index, indicating inequality in labour participation, skill levels and wages. Nepali engineers are required to register with the Nepal Engineering Council, and as of September 2014, 24,998 engineers were registered, of whom 3,145 were women. While housing reconstruction can provide an opportunity for women to increase their participation in the construction sector, build skills and increase wages, barriers exist to construction being seen as a profession for women, as it is instead viewed as a short-term response to income gaps. Promoting female role models from the construction sector could help change perceptions. Experience from Build Change and others has shown that, when women take a greater role in reconstruction – as engineers, architects, builders or homeowners – a greater degree of resilience building results, as women tend to prioritise a safer house over a larger one, compared to their male counterparts.

Regulating and investing in the construction materials industry

The Nepal construction materials industry suffered losses from the earthquake, and production was further interrupted as workers returned to their homes during the emergency relief phase. In the long term, however, local industries for construction materials are expected to benefit because of high demand. Industrial analysts anticipate the market will grow by about 35–40% over the next few years. Issues relating to construction materials such as cement, bricks and sand illustrate opportunities and challenges. Earthquake recovery and reconstruction provide chances for both investment and regulation, which could create a large shift in these industries away from utilising child labour and environmentally damaging processes. Public-private partnerships could be central to making this shift through a combination of government regulatory frameworks and incentives, and private-sector pressure to purchase higher-quality products.

INGOs and Donor involvement

Few donors have been directly or indirectly involved in this sector before the earthquake in 2015, except for major transportation projects administered and controlled by the GoN. After the earthquakes, building codes became an area for development agency concern and many INGOs have been involved with rebuilding of schools, community buildings and local infrastructure.

Major Institutional Stakeholders

Policy Level

- Ministry of Urban Development
- Ministry of Federal Affairs and Local Development
- Ministry of Health
- Department of Urban Development and Building Construction (DUDBC)

Regulatory and Implementation Level

- Ministry of Urban Development
- Ministry of Federal Affairs and Local Development
- Ministry of Health
- Department of Urban Development and Building Construction (DUDBC)
- Department of Archaeology
- Ministry of Culture, Tourism and Civil Aviation
- Ministry of Education

Opportunities Overview

The scale of needs in the construction and housing sector mean that Public-Private partnerships are an ideal investment vehicle.

- Building materials – clay bricks and cement
- Building schools and education centres
- Hospitality – heritage building renovation to hotels and business centres

Building Materials: Clay Bricks and Cement

Fired clay bricks are produced throughout the Kathmandu Valley and Nepal, mainly by highly polluting and archaic technologies utilising labour-intensive manual mixing, moulding and moving processes. According to the Federation of Nepali Brick Industries, the 2015 earthquake damaged 350 of 800 conventional brick kilns. Concerns about the environment, animal rights, and child and bonded labour issues are well documented in Nepal's conventional brick manufacturing industry. Non-profit and public-sector organisations, such as the Climate and Clean Air Coalition, Brick Clean Network and Better Brick Nepal, are working with the private sector to improve the country's brick-making industry.

If used properly, cement/concrete can result in a marked increase in the seismic resistance of buildings, particularly as horizontally and vertically reinforced structures integrated into the low-strength masonry of mud mortar homes, which collapsed in large numbers during the earthquake. Demand for cement continues to be high, and efforts to distribute it throughout and beyond the 14 earthquake priority districts will be required.

According to Nepal's Cement Manufacturers Association, the country has more than 40 (mainly mini) cement plants. Nepal's cement industry is moving towards self-sufficiency, with cement imports falling and domestic production increasing. Currently, domestic products account for 85% of Nepal's consumption. The industry has recently attracted foreign direct investment (FDI), with two cases reported in 2015 on globalcement.com:

- At the end of July 2015, the government endorsed a $360-million FDI proposal by China's Hongshi Holdings to establish a cement plant in Nepal, in partnership with Nepal's Shiva Cement, which is due to come into operation mid-2018
- Dangote Cement Nepal announced long-term plans in June 2015 (and has since stalled) are in process to construct a new plant that is expected to produce 6,000 tonnes of cement per day within three years.

Strengths • High and growing demand across the country • High availability of inexpensive labour • Open access to India • Strong CSR component for clean energy materials • Large potential for mitigating CO2, SOx, NOx, etc. in the building material production sector • Large potential for adopting 'green building'/'natural building' technologies in urban/semi-urban areas	Weaknesses • Weak quality control systems • Difficulties with maintaining sustainable production • Poor transportation networks • Currently mostly non-skilled and semi-skilled workforce available • Unstable power/energy supply to sustainably adapt modern/mechanized building material production technologies
Opportunities • Growing market for Clean Energy materials and products • Vertical Shaft Brick Kilns (VSBK) • RTB (Rat Trap Bond) Technology • Pre-fabricated infrastructure projects – bridges, tunnels, etc	Threats • Undercutting from competitors • Union interference • Public & private clients are price-only oprientied, little to no care for better quality at increased costs • Unstable/intermittent power/energy

• Skills and knowledge transfer in new technologies • Public & private construction quality awareness creation • SME development • Linking the Insurance sector with the construction sector with regards to uphold/ implement stipulated construction quality (e.g. in Europe, the building insurance sector deploys their own engineers to control and sign off on respective construction quality for buildings before providing respective coverage; if building standards are found not to be met, no insurance coverage will be provided) • Promoting advanced skill-development • Development of an apprenticeship-system	supply • Political patronage/protection for medium/large contractors • Contractors becoming politicians • Likely the highest corruption coefficient of any sector • Political nepotism, favouritism, opportunism

Construction and Engineering Centres

Despite the boom in construction across Nepal, skilled workers are both hard to find and frequently move overseas for migrant employment. Those who are left are overwhelmingly women who have had little education but are now responsible for maintaining and, after the earthquake, rebuilding the family home. Training semi and fully skilled labour is a major challenge for Nepal, and if done equitably, that is for both men and women, could produce long term employment and social benefits. If linked to micro-finance and career development within Nepal then this sector offers both good profits and substantial CSR.

<table>
<tr><td>Strengths
High need for skilled labour across Nepal
Abundant potential labour source
Many construction projects underway and for the foreseeable future
Empowerment and employment of women</td><td>Weaknesses
Social stigma associated with the industry
Low contractor interest to employ women</td></tr>
<tr><td>Opportunities
Sending practical professionals (with respective long-term visas) for imparting practical- as well as life- skills, including accountability
Curriculum augmentation/Quality assurance according to international standards
Providing functional tools/machinery/ material.
Public campaigns to elevate the reputation of vocational/technical education
Strong interest in PPP projects</td><td>Threats
Migrant demand
Imported labour from India
Very difficult to obtain work visas for training staff / experts</td></tr>
</table>

Hospitality

Earthquake damage to heritage buildings has created a dilemma for the National Reconstruction Authority, who must direct the balance of reconstruction and expensive conservation. Unfortunately, major heritage buildings have already been lost with the demolition of Thapathali Darbar and Lalita Niwas, which housed the head office of Nepal Rastra Bank, earlier this year. In a bid to save the buildings, the NRA is now planning to turn some of them into heritage hotels under a public-private-partnership (PPP) model through retrofitting or partial reconstruction. Although still awaiting cabinet approval, the plan is for the government to contribute 30% of costs, with public-private partnerships making up the balance. A similar system has proven effective around the world and is very likely to provide substantial and attractive investment opportunities in Nepal.

Strengths • Abundant existence of heritage sites • Growing tourism industry with expanding international flight services • Two new international airports under construction • Priority of the Government for the development of sustainable tourism • Favourable policies and institutional arrangements • Private sector investment mobilised for tourism services and facilities	Weaknesses • Lagging capacity expansion relative to targeted volume of tourists • Limited capacity of a single international airport in the country (TIA in Kathmandu) to accommodate growing national and international traffic • Poor surface transport infrastructure and limited road networks • Congestion at tourist sites due to absence of destination site management • Absence of hygiene codes for health safety • Limitation of supply of utilities such as electricity and water • Slow processing of PPPs • Very difficult to obtain work visas for training staff / experts
Opportunities • Many assets in adventure tourism, historical and cultural interest tourism (geo-tourism), eco-tourism, community-based tourism • Strengthening inter-sector linkages • Emergence of new segments such as Meeting Incentive Convention Event (MICE), education, health wellness, meditation and others • Stability in the country with enhanced safety and security	Threats • Over and unplanned development around sites of tourist interest degrading attractions • Competition from emerging regional destinations (Bhutan, Myanmar, Tibet, India) • Government processing delays • Insufficient building substance/strength to economically retrofit structures

Education

The Government of Nepal has a very ambitious and enabling education policy. It aims at "Education for All" in Nepal and actively seeks private sector participation. Every year, thousands of students go abroad for further studies spending large sums of money, so the government is taking steps and policy directives to increase the education coverage and improve the overall literacy level in country. To foster an enabling business environment for private players in education sector, the government has designed an amicable taxation policy for private firms.

Foreigners are not invited by the GoN to enter the primary and secondary education systems, however, tertiary college, technical and vocational skills training are a priority area for foreign investment. Growing a semi and skilled workforce is arguably the most vital part of Nepal's future development. To date, more workers have been trained outside of Nepal in foreign workplaces than in-country. This is mostly due to the relative abundance of paid-opportunities for low and semi-skilled workers overseas, but as employment trends change and returning expatriate workers seek to open new businesses, the need for vocational courses across all sectors is expanding dramatically.

Improving education standards is a feature across all potential investment sectors and receives a great deal of attention from international donors. For example, the TVET Dakchyata program operated by the British Council, DfID and EU focuses on effective policy development (currently under revue) with in the Technical and Vocational Education and Training (TVET) sector and focuses on agriculture, construction and tourism. Dakchyata is part of the overarching TVET PP programme, which has a total budget of 20.61M EUR, which will be implemented under two distinct contracts implemented over the course of four years from 2017-2021: a Delegation Agreement with the British Council for 14.1M EUR; and a direct grant to the Council for Technical Education and Vocational Training (CTEVT) in Nepal. All privately operated training must be certified by CTVET and examinations must be through the national examination system, which places a high emphasis in theoretical, as a pass is only given against exams and practical assessment.

A significant challenge for the GoN will be the ongoing management of education initiatives throughout regional areas as federalisation takes effect from 2018. Currently, all vocational courses are directed and funded from or via central government but that will change and exactly how is unclear. So, although a priority area for the GoN and despite long-term commitments from donors, there are a range of hurdles to overcome:

- Manpower capacity constraint in the Ministry of Education for vocational training and development
- Unclear roles and responsibilities for central and regional government under a federal system
- There is very little experience at central policy level and none at regional level
- Curricula are out dated and poorly integrated with industry needs
- Candidate qualification for course entry is often disrupted or compromised by political interference
- Courses are not structured to provide educational progression (repeated content from diploma to degree level is commonplace)
- Very little practical training is incorporated into courses (health sciences excepted)
- No career progression integration with potential employers both domestic and migrant (health sciences excepted)
- No system of teacher licensing or qualification

The employment market for course graduates isn't strong and many become long-term 'trainees' in internship programs, some lasting years. Furthermore, extended study is often hampered as courses are not aligned with current international standards.

Demand for high quality education is rising along with the ability to spend for education. US$ 805 million was spent on education in Nepal in 2012[13] and this has significantly improved from US$ 334 million in 2006. This rise is driven by a growing education seeking population and funded by increasing incomes as a result of economic progress and substantial remittances – see following enrolment figures. Nepal's population has been growing at a rate of 1.4% over the past decade, and a similar growth rate is expected in the future, which indicates a growing education seeking population. In 2012-13, around 20% of the education seeking population was enrolled in private schools as compared to less than 10% in 2000-01. The preference for private education is based on perceived higher quality and associated employment opportunities provided by private schools and colleges.

[13] Dolma Development Fund, Intellceap Analysis 2014

Enrolment Trend in Diploma Level Program (Disaggregated by Institution Type)

SN	Name of Program	Fiscal Year 2015/16								Fiscal Year 2016/17							
		Const.		Affiliated		TECS		Total		Const.		Affiliated		TECS		Total	
		Ins.	**Stu**	**Ins**	**Stu**	**Ins.**	**Stu**	**Ins.**	**Stu**	**Ins.**	**Stu**	**Ins.**	**Stu**	**Ins.**	**Stu**	**Ins.**	**Stu**
1. Agriculture Forestry and Fisheries		**6**	**229**	**17**	**596**	**11**	**386**	**34**	**1211**	**8**	**316**	**25**	**949**	**20**	**714**	**53**	**1979**
1	Diploma in Agriculture (Veterinary)	2	70	2	78	2	76	6	224	3	119	2	78	6	229	11	426
2	Diploma in Agriculture (Plant Science)	4	159	14	478	9	310	27	947	4	160	21	791	14	485	39	1436
3	Diploma in Forestry			1	40			1	40	1	37	2	80			3	117
2. Construction		**7**	**300**	**43**	**1931**	**6**	**251**	**56**	**2482**	**8**	**370**	**52**	**2359**	**11**	**424**	**71**	**3153**
1	Diploma in Architecture Engineering			2	60			2	60			2	73			2	73
2	Diploma in Civil Engineering	5	218	29	1364	4	177	38	1759	5	230	35	1631	9	356	49	2217
3	Diploma in Electrical Engineering	2	82	10	411	2	74	14	567	2	92	12	513	2	68	16	673
4	Diploma in Geomatics Engineering			2	96			2	96	1	48	3	142			4	190
3. Tourism and Hospitality		**2**	**53**	**2**	**51**	**0**	**0**	**4**	**104**	**2**	**67**	**3**	**76**	**0**	**0**	**5**	**143**
1	Diploma in Food & Dairy Technology			1	14			1	14			2	38			2	38
2	Diploma in Hotel and Lodge Management	2	53	1	37			3	90	2	67	1	38			3	105
4. Information Technology		**2**	**75**	**22**	**615**	**4**	**149**	**28**	**839**	**2**	**95**	**23**	**637**	**5**	**159**	**30**	**891**
1	Diploma in Computer Engineering			17	523	4	149	21	672			18	545	5	159	23	704
2	Diploma in Electrical & Electronics Engineering	1	30					1	30	1	48					1	48
3	Diploma in Electronics Engineering			5	92			5	92			5	92			5	92

4	Diploma in Information Technology	1	45					1	45	1	47					1	47
5. Manufacturing		**2**	**65**	**4**	**137**	**0**	**0**	**6**	**202**	**2**	**85**	**4**	**139**	**0**	**0**	**6**	**224**
1	Diploma in Mechanical Engineering	2	65	3	116			5	181	2	85	3	118			5	203
2	Diploma in Biomedical Equipment Engineering			1	21			1	21			1	21			1	21
6. Automotive		**1**	**28**	**0**	**0**	**0**	**0**	**1**	**28**	**1**	**45**	**0**	**0**	**0**	**0**	**1**	**45**
1	Diploma in Automobile Engineering	1	28					1	28	1	45					1	45
7. Health Services		**5**	**210**	**254**	**9051**	**0**	**0**	**259**	**9261**	**9**	**358**	**277**	**9957**	**0**	**0**	**286**	**10315**
1	Diploma in Pharmacy	1	39	26	1036			**27**	**1075**	1	37	31	1237			32	1274
2	Diploma in Physiotherapy							**0**	**0**	1	39					1	39
3	PCL in Acupuncture			1	19			**1**	**19**			1	16			1	16
4	PCL in Dental Science (Hygiene)			8	304			**8**	**304**			9	340			9	340
5	PCL in Diagnostic Radiography			17	494			**17**	**494**	1	30	17	476			18	506
6	PCL in General Ayurveda Medicine			2	76			**2**	**76**			2	58			2	58
7	PCL in General Medicine	1	62	46	1835			**47**	**1897**	1	62	52	2074			53	2136
8	PCL in Medical Lab Technology	1	29	45	1272			**46**	**1301**	1	30	54	1566			55	1596
9	PCL in Nursing			106	3895			**106**	**3895**			107	4030			107	4030
10	PCL in Ophthalmic Science	2	80	3	120			**5**	**200**	4	160	4	160			8	320
Total Enrolment		**25**	**960**	**342**	**12381**	**21**	**786**	**388**	**14127**	**32**	**1336**	**384**	**14117**	**36**	**1297**	**452**	**16750**

Note: The enrolment of special education program is not included in this figure.
Source: CTVET Enrolment Report, 2015-2016

TSLC Level Enrolment Trend:

SN	Program	Students' Enrolment in Fiscal Year 2015/16								Students' Enrolment in Fiscal Year 2016/17							
		Cons. School		Affiliated School		TECS School		Total		Cons. School		Affiliated School		TECS School		Total	
		N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum
Agriculture, Forestry and Fisheries		**4**	**143**	**79**	**2599**	**51**	**1702**	**134**	**4444**	**8**	**273**	**87**	**3370**	**77**	**3262**	**172**	**6905**
1	TSLC in Animal Health (JTA Animal Health	2	70	46	1515	10	340	58	1925	6	209	51	1960	26	1103	83	3272
2	JTA in Plant science	2	73	32	1082	41	1362	75	2517	2	64	36	1410	51	2159	89	3633
3	TSLC in Textile and Sericulture			1	2			1	2								
Construction		**0**	**0**	**133**	**3889**	**15**	**513**	**148**	**4402**	**8**	**295**	**148**	**4992**	**25**	**861**	**181**	**6148**
1	TSLC in Electrical Engineering			33	931	7	225	40	1156	2	70	35	991	13	448	50	1509
2	TSLC in Geometrics Engineering			28	1109			28	1109			28	1113			28	1113
3	TSLC in Civil Engineering			72	1849	8	288	80	2137	5	191	85	2888	12	413	102	3492
4	TSLC in Sanitation Engineering							0	0	1	34					1	34
Hospitality and Tourism		**2**	**37**	**0**	**0**	**0**	**0**	**2**	**37**	**3**	**61**	**0**	**0**	**0**	**0**	**3**	**61**
1	TSLC in Hotel and Lodge Management	1	19					1	19	1	18					1	18
2	TSLC in Culinary Art	1	18					1	18	2	43					2	43
Manufacturing		**0**	**0**	**2**	**48**	**0**	**0**	**2**	**48**	**4**	**105**	**2**	**47**	**1**	**38**	**7**	**190**
1	TSLC in Mechanical Engineering			2	48			2	48	3	85	2	47	1	38	6	170
2	TSLC in Ref/AC Engineering							0	0	1	20					1	20
Information and Communication Technology		**1**	**30**	**6**	**163**	**20**	**603**	**27**	**796**	**2**	**60**	**8**	**234**	**21**	**798**	**31**	**1092**

SN	Program	Students' Enrolment in Fiscal Year 2015/16								Students' Enrolment in Fiscal Year 2016/17							
		Cons. School		Affiliated School		TECS School		Total		Cons. School		Affiliated School		TECS School		Total	
		N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum
1	TSLC in Computer Engineering			6	163	20	603	26	766			8	234	21	798	29	1032
2	TSLC in Electronics Engineering							0	0	1	30					1	30
3	TSLC in Computer Application and Secretary Management	1	30					1	30	1	30					1	30
Automotive		**0**	**0**	**0**	**0**	**1**	**24**	**1**	**24**	**2**	**56**	**0**	**0**	**1**	**38**	**3**	**94**
1	TSLC in Automobile Engineering					1	24	1	24	2	56			1	38	3	94
Health and other Services		**0**	**0**	**238**	**8921**	**1**	**20**	**239**	**8941**	**5**	**200**	**240**	**9277**	**1**	**40**	**246**	**9517**
1	Community Medical Assistant			80	3175			80	3175	2	80	80	3185			82	3265
2	Auxiliary Nurse Midwifery			50	1951			50	1951	3	120	48	1868			51	1988
3	Laboratory Assistant			88	3156			88	3156			92	3596			92	3596
4	Auxiliary Ayurvedic Health Worker			12	432			12	432			12	447			12	447
5	Community Amchi Assistant			1	5			1	5			1	5			1	5
6	TSLC in Social Mobilisation			3	82	1	20	4	102			3	71	1	40	4	111
7	TSLC in Entrepreneurship Development			4	120			4	120			4	105			4	105
Total		**7**	**210**	**458**	**15620**	**88**	**2862**	**553**	**18692**	**32**	**1050**	**485**	**17920**	**126**	**5037**	**643**	**24007**
29 Months Programs (Presently Not in Existence)								0	0								
1	TSLC in Civil Engineering (Pre-SLC Intake)	4	120			3	62	7	182								

SN	Program	Students' Enrolment in Fiscal Year 2015/16								Students' Enrolment in Fiscal Year 2016/17							
		Cons. School		Affiliated School		TECS School		Total		Cons. School		Affiliated School		TECS School		Total	
		N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum	N	Sum
2	TSLC in Electrical Engineering (Pre-SLC Intake)	2	79			2	69	4	148								
3	TSLC in Mechanical Engineering(Pre-SLC Intake)	3	115			1	24	4	139								
4	TSLC in Electronics Engineering (Pre-SLC Intake)	1	22					1	22								
5	TSLC in Automobile Engineering (Pre-SLC Intake)	2	56					2	56								
6	TSLC in Plant Science (Pre-SLC Intake)	5	175			13	347	18	522								
7	TSLC in Veterinary Science (Pre-SLC Intake)					5	128	5	128								
8	Community Medicine Assistant (Pre-SLC Intake)	2	79					2	79								
9	Auxiliary Nurse Midwifery (Pre-SLC Intake)	3	120					3	120								
10	TSLC in Ref/AC Engineering (Pre-SLC Intake)	1	20					1	20								
Total		23	786	0	0	24	630	47	1416								

Source: CTVET Enrolment Report, 2015-2016

Vocational Training (Skill Test Graduates) (2072/73)

SN	Employment Sectors	Skill Test Applicants		Skill Test Graduates	
		Number	Percent	Number	Percent
1	Agriculture, Forestry and Fisheries	3903.0	9.2	2261.0	9.0
2	Construction	16349.0	38.6	10888.0	43.4
3	Hospitality & Tourism	3677.0	8.7	2458.0	9.8
4	Automotive	1033.0	2.4	712.0	2.8
5	Manufacturing	8278.0	19.5	4518.0	18.0
6	Information and Communication Technology	4196.0	9.9	2117.0	8.4
7	Health and Other Services	4935.0	11.6	2116.0	8.4
	Total	42371.0	100.0	25070.0	100.0

Source: CTVET Enrolment Report, 2015-2016

There is a direct link between increasing household discretionary spending power and investments in higher quality education. The middle class household spending on education was has increased from around US$323 (NPR 32,355) in 2003-04 to US$428 (NPR 42,817) in 2012-13. Education spending accounts for nearly 6% of the total household expenditure, with urban households spending 7% compared to rural household expenditure of around 2%. The overall awareness of importance of education is also increasing which has acts as a driver for the whole sector.

In 2014, market size for Higher Education institutes in Nepal was estimated include 1,369 colleges with market values of around US$55 million for medical colleges, US$25 million for Business Schools and US$15 million for hotel management institutes. The private sector activity in the higher education sector in Nepal is considerably higher in professional courses such as medicine, Business (MBA and BBA courses) and hotel management. To service this market were 21 Medical Colleges, around 20 Business Schools and 21 hotel management institutes in Nepal and all are experiencing strong demand growth.

There is also a large potential market for technology and content providers focussing on education, which was estimated at around US$6 million in 2014. The technology and content segment in Nepal is comparatively a new phenomenon with only 4 major private players active in the segment primarily serving the schools (primary and secondary) in Nepal. There is a potential high demand in the segment as more schools become technology advanced and utilise audio/visual material for teaching in the classrooms. In addition, the companies in this segment can also serve higher and vocational education institutes as well as the corporate market.

INGOs and Donor involvement

All programs stipulate enrolment to include 40% women and 30% excluded groups (Madhes, muslim, remote communities, dalits, etc as well as special needs), although in effect it is more like 30-35% women and over 50% of excluded groups. Sector goals include course participation and graduation ratios, and increases in remuneration (typically 20% above pre-course):

- The ADB are the largest non-government actor and support CTVET and the Skills Development Program (Quality Improvement Program) through the MoE – current programs have 45,000 students
- The World bank supports short-term training programs for 45,000 students

- DfID and the EU have increased their presence with Skills for Employment for 90,000 (half with a migration-worker focus) students
- Helvetas are active in the construction and agriculture sectors (light manufacturing, technology, agriculture processing, masons and construction) for 45,000 students
- Other actors in recent years include Korean Organisation for International Cooperation, Japan International Cooperation Agency, USAID, Swiss Agency for Development Cooperation (SDC) and GIZ.

Major Institutional Stakeholders

Policy Level

- Ministry of Education

Regulatory and Implementation Level

- Department of Education
- Curriculum Development Center
- National Center for Education and Development
- National Examination Board
- Non-Formal Education Center
- Council for Technical Education and Vocational Training (CTEVT)
- University Grant Commission (UGC)

Opportunities Overview

- Vocational education to create long-term career opportunities and employment - Hospitality and tourism, construction and engineering, agriculture, IT, banking and finance, management consulting (general business management, quality assurance and governance).
- Health education Services – training and continuous development of workers in nursing and aged health care, health management and administration
- Opportunities exist in developing education infrastructure, including upgrading and building educational institutions and even education cities (medical, IT, engineering, management, etc), for which the government is seeking to engage in private-public partnerships, research centres including laboratory testing facilities for agriculture (phyto-sanitory, export standards for processing and packaging), construction materials, energy systems and textiles.

Vocational Education

The goals of Vocational education in Nepal are short-term and not focused on developing long-term career and employment opportunities, however, the sector is developing rapidly, largely due to the GoN's increased desire to meet industry needs for skilled labourers. The Council for Technical Education and Vocational Training (CTEVT), established in 1989, is the administrative body responsible for technical and vocational education and training. Its role is to develop policy, control quality of services, prepare competency based curriculum, develop skill standards of various occupations, carry out testing, and to conduct studies and training needs assessments. The total enrolment capacity of CTEVT in long term programs (29 month TSLC program, 15 month Technical School Leaving Certificate (TSLC) program and Diploma and PCL program) is 40,735. The total number institutions providing long-term courses is 529 (among which 421 (79.58%) are private institutes). There are 442 institutions providing short-term courses (6 day skill upgrading training to 1380 hours short term trainings). Diploma courses provided by these institutes range from nursing courses to diplomas in engineering. Course examples include Civil Engineering, Laboratory Technician, Agricultural Science, Computer Engineering, Mechanical Engineering, Ayurveda General Science, Forestry, Food technology, Auto mechanics and Biomedical Equipment Engineering. The TSLC program provides short term courses for, among many others, Auxiliary Nurse Midwifery, JTA Plant science and Refrigeration and Air-conditioning.

There is an emerging market for institutes that provide vocational training focused on long-term career and employment development, so ideally partnered with potential employers both within and outside of Nepal. Currently, most players on the supply-side are organised as stand-alone entities and operate in a small and fragmented way. This can also be justified by the number of people migrating for domestic and labour related jobs in the Middle East and Asia. Many of these jobs require vocational training. A total of 2,723,587 labour permits were issued by the Department of Labour and Employment from 2008/09 through 2014/15. Most labour migrates (33%) went to Malaysia, followed by 19% to Qatar. Nearly three quarters of the absent population left their home in search of employment of which 62.4% left for countries other than India. The 2012 Technical and Vocational Education and Training Policy also recognised the need for skill-development training programs to adjust to the demands of the labour market and make Nepali workers more competitive in the international labour market.

Increasing employability gap in domestic job market
There is significant employability gap in the domestic market. With improving industrial production in Nepal, the demand for skilled and employable workforce increases; creating significant demand supply gap. This unrealised demand for skilled workforce opens up significant growth opportunity for quality education which prepares the workforce for immediate absorbance in job market. The employability gap is a key driver for growth of education sector in general and vocational education in particular.

Increasing demand for skilled Nepalese workforce outside Nepal
There is a rising demand for skilled Nepalese workforce outside Nepal mostly in the field of Hotel Management and Nursing. The prospects of getting employed outside Nepal and the corresponding remittance flow linked with it acts as a major driver. Apart from the remittances, the comparative cost advantage offered by Nepalese white-collared job market also acts as a major push for such demand.

The other drivers of education sector include increased access to internet and computers, increased inclination towards professional development services which opens up scope for variety of educational support services. The strong growth in Tourism & Hospitality is driving strong demand for skilled services: bakers, chefs, housekeeping food and beverage managers, etc.

<table>
<tr>
<td>Strengths

Nepalese human resources are cost competitive in the global market
High supply potential of Nepalese human resources
Crucial role of remittance in poverty reduction through income generation
At macro-economic level, remittances provide valuable foreign exchange and, therefore, mitigate the possible effects of trade in goods deficit
Low cost of remittance transfer
Returnees bring skills back to Nepal and are major potential of entrepreneurship
</td>
<td>Weaknesses

Limited or no skills
Poor support and protection system for migrant workers
High costs of migration
High social cost for families
Inadequate support and incentive for returning migrants
No labour market information system
</td>
</tr>
<tr>
<td>Opportunities

Well-established social networks help new migrants identify employment opportunities
Training future migrant workers can improve their skills and income potential
Role of Migrant Workers’ Welfare Fund can be expanded to make it a potential source of investment
Existing popularity of hard-working and disciplined nature of Nepalese professionals
Tourism and hospitality services
Specially challenged trainees
</td>
<td>Threats

Shortages of workforce in the domestic market due to out-migration
Conflict and crisis in major labour-importing countries
Low levels of investment of income generated from migration
</td>
</tr>
</table>

Health Educational Services

Nepal's health care educational services are provided through medical colleges and Council for Technical Education and Vocational Training (CTEVT) colleges. CTEVT is also the regulator for Technical and Vocational Education in Nepal. According to CTEVT, 47 colleges currently offer certificates of proficiency (PCL) in general medicine (HA) programs with an annual enrolment capacity of 1892. There are 19 medical colleges in the country, 8 colleges from Tribhuwan University (TU), 8 Kathmandu University (KU) affiliated colleges and 3 other colleges. These colleges produce 1,500 doctors annually. The Medical Council of Nepal regulates the medical education. Apart from giving recognition to the medical colleges in Nepal, it also conducts the licensing examination, which is the vehicle for registering new physicians. It is also responsible to make policies related to curriculum, admission, term and examination system of teaching institute of medical education and recommendation for cancelling and renewing registrations. Apart from the regular courses, Tribhuwan University offers new courses including the bachelor's degree in Ophthalmology, Audiology and Speech language pathology program, Medical laboratory technology program, pharmacy, public health, radiology, biotechnology, food technology and lab technicians. These courses are gaining popularity among the medical students of the country.

New investments could also support the development of new courses and new technologies in medical sciences. Although the nursing course market is saturated there is a significant lack of job opportunities for those seeking overseas employment. Focus should be on attracting young students who are able to travel abroad rather than mature students who often remain in small community environments. Younger workers have a much greater potential to maintain remittances and can be linked to returnee-employment programs that would enhance the experience and skill pool with in Nepal. Example courses are:

- Speciality and general nursing
- Aged health care (see Health and Aged Care section)
- Health facility management and administration

The Nepal Health Research Council (NHRC), established in 1991 by act of parliament, is as the apex body of Ministry of Health that seeks to facilitate the health research in Nepal. The council approves and monitors health research, conducts and promotes health research and improves the use of health research in Nepal.

Strengths • Nepalese human resources are cost competitive in the global market • High supply potential of students	Weaknesses • Poor support system for students • Inadequate incentive for enrolment • Low standard of entry level education
Opportunities • Increases all health indices across the country • High level of female enrolment	Threats • Shortages of workforce in the domestic market due to out-migration • Indian institutions expanding rapidly

Research Centres

Research and testing centres have crucial roles to play in the development of differentiated and effective academic systems, and in making it possible for their countries to join the global knowledge society and compete in sophisticated knowledge economies. While research universities in Nepal have not yet achieved the top levels, they are nevertheless extremely important and rapidly improving their reputations internationally. Tribhuwan University currently has 22 research centers working in such fields as bio-gas, wind energy, flora and fauna among others. Nepal lacks research centers that are committed to the creation and dissemination of knowledge, in a range of disciplines and fields, and featuring the appropriate laboratories, libraries, and other infrastructures that permit teaching and research at the highest possible level. Areas that offer good opportunities are:

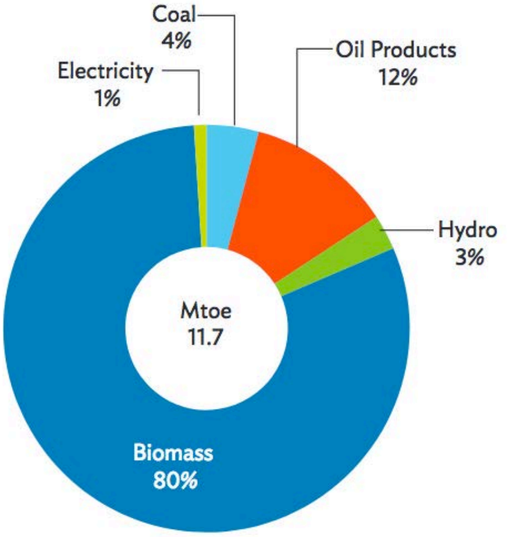
- Upgrading education infrastructure, from specific institutions to extensive 'education cities' (medical, IT, engineering, management, etc)
- Research centres including laboratory testing facilities for agriculture (phyto-sanitary, export standards for processing and packaging), construction materials, energy systems and textiles.

Strengths • Large young population eager to participate in further education • Many industry enabling needs – especially for exports • GoN eager to develop PPPs in this sector	Weaknesses • Inadequate training intake • Developing infrastructure is weak • Slow development time for PPPs
Opportunities • Special Economic Zones • Light industrial areas • Export dry-docks with India	Threats • Government duplication once projects are established • Shortages of workforce in the domestic market due to out-migration

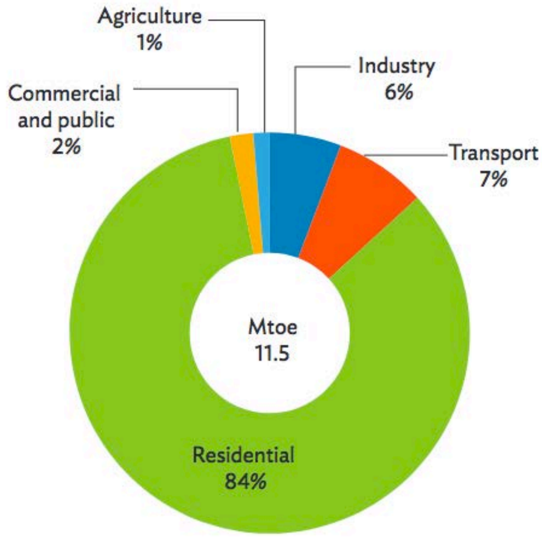
Energy

Investments in infrastructure, particularly in the energy sector, are crucial to improving the quality of life and invigorating Nepal's economy and social development. However, the country is now facing an unprecedented energy crisis due to the acute shortage of power and petroleum products. Biomass, comprising waste and sustainable resources such as firewood, animal dung, and agricultural residue, at 80% of supply is the country's most widely used energy resource. Coal and petroleum products (diesel, kerosene and gasoline make up 75% of all petroleum products) account for approximately 16% of total energy consumption and all are imported from India. Hydropower electricity, supplies only 3% of the country's energy demand.

Nepal's Primary Energy Supply Mix



Final Energy Consumption Mix



Mtoe = million tons of oil equivalent.
Source: International Energy Agency (IEA), 2014, http://www.iea.org/statistics

Nepal is currently a net importer of electricity and the amount of imports has doubled, from 694 GWh in FY2011 to 1,758 GWh in FY2016, for an average annual growth rate of 20.4%, compared with a 0.3% annual supply increase in Nepal Energy Authority (NEA).

Item	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Annual Growth Rate %
Installed capacity MW*	706	729	762	787	787	856	3.9
Peak demand MW	946	1,027	1,095	1,201	1,292	1,385	7.9
Supply capacity shortage MW	240	308	333	414	505	529	17.1
Supply NEA: Hydro GWh	2,122	2,357	2,273	2,288	2,366	2,168	0.4
Supply NEA: Thermal GWh	3	2	19	10	1	0.1	0
Supply NEA TOTAL GWh	2,125	2.359	2,292	2,298	2,367	2,169	0.3
Supply: IPPs GWh	1,039	1,074	1,176	1,070	1,269	1,173	2.5
Supply: Imports GWh	694	746	790	1,319	1,370	1,758	20.4
Supply TOTAL GWh	3,858	4,179	4,258	4,687	5,006	5,100	5.7
Supply Shortage GWh	975	1,018	1,188	1,223	1,329	1,820	13.3

FY = fiscal year, GWh = gigawatt-hour, IPP = independent power producer, MW = megawatt, NEA = Nepal Electricity Authority.
** Includes power generation capacity of both the NEA and IPPs.*

Sources: Nepal Electricity Authority. 2016. A Year in Review: Fiscal Year 2015/2016. Kathmandu; ADB. 2014. Technical Assistance for South Asia Economic Integration Partnership – Power Trading in Bangladesh and Nepal (Subproject 1). Manila (TA 8658-REG).

The current supply shortfall is due to inadequate planning, delays in project implementation, and significant underinvestment in base load generating capacity, that have resulted in a total installed hydropower generation capacity of only 802.4 MW. This is less than 2% of viable hydropower generation potential of 42,000MW, where run-of-the-river systems generate 87% of total capacity and storage-type hydropower plants represent only 13%. At a national level, poor connectivity has also hampered large-scale, export-focused hydropower development in Nepal. The electrification ratio is low due to distribution networks of substandard reliability, inadequate power generation and poor transmission facilities. In response to the ongoing power crisis, a cross-border transmission line (400 kV) to the national grid is being constructed, to allow additional power imports from India.

In the short to medium term, a power shortfall during the dry season is likely to continue, but the deficit is projected to decrease with the commissioning of new storage hydro-projects in the next 3 years, adding 1,047.1 MW of new power plants and easing supply. Furthermore, the power sector looks forward to self-sufficiency in power requirements once 2,091 MW of additional capacity is put into operation by FY2022. According to the NEA's load demand forecast, peak system demand will increase from 1,292 MW in FY2015 to 2,379 MW by FY2022. If all power plants are built as planned, there will be a supply margin of nearly 600 MW in FY2022.

Run-of-the-river (in-stream) generation systems account for the majority of hydropower generation for the following reasons:

1. They are cheap and simple to install and maintain
2. Poor transmission connectivity across hill and mountain regions means that localised power generation is the only viable option for remote communities
3. Many communities significantly down-size during the dried winter months, reducing demand.
4. Remote areas tend to be popular tourist trekking areas so there are opportunities to offset costs by selling device re-charging services
5. Transmission network development is not keeping pace with both supply and demand requirements and thus represents a significant bottle neck. Micro-hydro projects can supply small to medium sized communities cost effectively as a stand alone project and at some later date, any excess capacity can be sold back to the grid for community profit.

Currently, around 12% of the population have access to electricity through renewable energy sources where 23MW of electricity generation came from micro-hydro schemes, 12MW from solar photovoltaic (PV) systems, and less than 20 kilowatts (kW) from wind energy. Nepal should transform its energy supply system into a more sustainable system using clean and renewable energy resources, given the high costs of grid connection, the low consumption rate, and the scattered population, especially in remote areas. Decentralized renewable energy supply systems, such as micro-hydro, solar PV, biogas, and improved cooking stoves, can provide feasible and environment-friendly supply options. Renewable energy technologies that can be used in Nepal include (i) micro-hydro (up to 100 kW); (ii) biomass and biogas (coal briquettes, gasifiers, improved cooking stoves); (iii) solar PV (solar home systems, solar water pumps, solar battery chargers); and (iv) solar thermal energy (solar water heaters, solar dryers, solar cookers).

To leverage investments it can make, share the risks, and use the efficiencies and innovations of private enterprise, NEA is promoting public–private partnerships (PPPs) as a preferred model of hydropower generation. It is setting up a facility to implement large-scale PPP hydropower projects and to provide related transaction advice. PPPs already exist in power distribution through the community electrification initiatives of the NEA.

Recognising the need to improve energy efficiency, the government launched the Nepal Energy Efficiency Programme (NEEP) in 2010 with technical assistance from German International Cooperation (GIbbl). The first phase of the NEEP was completed in June 2014. The second phase, which started in July 2014, will (i) introduce market-based energy efficiency services for the private and public sectors; (ii) support the development and introduction of biomass-based improved cooking stoves for rural households; and (iii) provide direct advice and expertise to the government for the establishment of a policy and institutional framework to encourage energy efficiency in the country. However, although Nepal has been implementing energy efficiency measures for more than a decade on a different scale and at different levels, it lacks a nodal agency to lead and promote energy efficiency.

There are four main river systems in Nepal: (i) the Mahakali, (ii) the Karnali; (iii) the Gandaki; and (iv) the Koshi systems. All originate in the Himalayas and produce significant flows, even in the dry season. In comparison, the Babai, West Rapti, Bagmati, Kamala, Kankai and the Mechi are medium-sized rivers that originate either in the hill region or the Mahabharat range in the Terai and are fed by precipitation and ground water regeneration, so run continuously. Together they have tremendous potential for hydropower development. In addition to hydropower, Nepal also possesses other renewable resources with significant potential, including solar and wind. Nepal averages approximately 6.8 hours of sunshine per day over a potential area of 6,074 km2 it also has a wind power density in excess of 300 W/m2.

INGOs and Donor involvement

The main development partners in Nepal's energy sector are ADB, the governments of Denmark and Norway, the European Commission, the European Investment Bank, the Japan International Cooperation Agency (JICA), GIZ, KfW, the Netherlands Development Organisation, the United Nations Development Programme, and the World Bank, all of which are focusing on the power subsector. Among these, ADB, JICA, KfW, the Government of Norway, and the World Bank have been the most active in the on-grid subsector. Nepal's other development partners are more involved in off-grid development. The country's development partners regularly coordinate with one another on sector investments and support for establishing an enabling institutional and regulatory framework.

The ADB has been the leading partner in Nepal's power sector, focusing in particular on on-grid support for the NEA's expansion of generation, transmission, and distribution capacity, with six loan projects and one grant amounting to $521 million and 21 technical assistance projects amounting to $13.7 million since 1999.

Major Institutional Stakeholders

Policy Level

- Ministry of Energy
- Alternative Energy Promotion Centre

Regulatory level and Operation level

- Department of Electricity Development
- Tariff Fixation Commission
- Nepal Electricity Authority
- Investment Board Nepal

- Ministry of Energy: Power sector policy formulation, water resource development, oversight and regulation of the NEA and private power development
- National Planning Commission: Coordination and development of the government's 5-year multi-sector investment program
- Water and Energy Commission: Policy advice to the government on technical, legal, environmental, financial, and institutional matters related to water resource planning and development
- National Water Resources Development Council: Government guidance on strategic issues and policy regarding integrated water resource development
- Environment Protection Council: Policy development and preparation of environmental regulations and environmental protection guidelines for environmental assessments, permits, licensing, inspection, and monitoring of environmental licenses
- NEEP: National Energy Efficiency Programme
- ETFC: Review and approval of tariff applications submitted by the NEA
- NEA: electricity generation, transmission, and distribution throughout Nepal; energy exchange with India; and purchase of electricity from IPPs as single-buyer agency
- Butwal Power Company: Non-profit organisation under the United Mission of Nepal, undertaking rural electrification in Nepal
- IPPs: Development of private power plants and generation of electricity
- AEPC are involved at implementation level
- Central Renewable Energy Fund provides subsidy and financing for renewable energy

Opportunities Overview

- Hydropower – Nepal has an enormous potential hydro-power generation capacity from large to small scale locations.
- Transmission systems – Opportunities exist in developing national and local (micro-grid) transmission systems

Hydropower

Nepal's hydropower potential is ranked second in the world, behind only Brazil, which is geographically fifty times larger. Nepal's river systems comprise approximately 42,000 MW of viable hydropower potential, of which only approximately 800 MW, less than two per cent of its proven potential, has been harnessed. The national grid system transports nearly 98% cent of Nepal's generated capacity, and 99% cent of the energy supplied. Both public and private sectors as well as Independent Power Producers (IPPs) manage isolated supply systems.

Nepal has only one storage project; the rest of the country's generating stations operate on a run-of-river basis. More storage projects are needed. The GoN's current plans are to develop 6,000 MW of storage and run of river projects, which will collectively produce 10,000 MW by 2026. To date, the hydropower sector has attracted most of the country's foreign direct investment (FDI). According to the Department of Industry, 73 (only 2% of the total) projects have been registered as energy projects. But in terms of the foreign investment pledged, energy-based projects comprise 46% of the total. Pursuant to the Electricity Act, 1992, a developer must obtain a license in order to develop a project larger than 1 MW. There is a simplified process for projects less than 1 MW.

Challenging terrain across much of the country means that remote areas are unlikely to receive grid-sourced electricity in the foreseeable future although they are popular tourist destinations and have significant resident populations. Opportunities exist in providing solar and micro-hydro generating systems (stand alone or combined) that are distributed through micro-grids to groups of communities.

At the present time there are two kinds of licenses for hydropower project development:

1. Survey license, is issued by the Department of Electricity Development (DoED) within 30 days of the receipt of an application and payment of a nominal fee. The maximum term of a survey license is five years. After obtaining a survey license, the licensee must carry out (i) a detailed survey and design (as evidenced in a Detailed Project Report or DPR; (ii) a financial and economic analysis; and (iii) the Initial Environmental Examination (IEE) or, as applicable, an Environmental Impact Assessment (EIA). Only then can it apply for a second license, a generation license.

2. Generation license authorises plant construction and operation. DoED is required to issue this license within 120 days of receipt of an application.

The Ministry of Energy (MoE) has declared the years 2016-2026 as the National Energy Crisis Reduction and Electricity Development Decade ("Energy Emergency Decade"). A Concept Paper was issued in February 2016 and subsequently endorsed by the Cabinet of Ministers signaling the GoN's intention to substantially reduce power outages and ensure energy security during the period. The Concept Paper highlights specific assistance that will be provided to projects that were affected by the Force Majeure events during 2015/16. Other key reforms identified in the Concept Paper include (i) the use of Power Purchase Agreement (PPAs) denominated in convertible currencies, (ii) the use of Government Guarantees as security for NEA payments; and (iii) one-time recommendation for Foreign Currency (FCY) payments to contractors / consultants. The paper recognises procedural problems in acquiring land for project and has proposed streamlining of processes for acquiring land and obtaining environmental clearances for energy projects in Nepal.

Strengths	Weaknesses

<table>
<tr><td>Enormous potential production
Government system designed to incentivise energy generation
Knowledge and skills in place
Low generation costs</td><td>Bureaucratic delays
Poor transmission system</td></tr>
<tr><td>Opportunities
Neighbouring export markets
Large future demand growth</td><td>Threats
Underbidding by Chinese and Indian developers
Political disruption</td></tr>
</table>

Transmission System

Transmission infrastructure is essential to the electricity sector's development, for without the ability to evacuate energy, generation is useless. Nepal's transmission network is in need of substantial upgrading. However, cross-border interconnections took a step forward recently, with the commissioning of Dhalkebar-Muzaffarpur transmission line between Nepal and India. Several cross-border transmission links are proposed and are currently being studied. The ADB is very active in the development of national transmission systems leaving limited scope for other actors. However, localised and micro-grid systems are nascent and offer potential to smaller scale interventions.

The NEA's transmission system is comprised of a 132 kilovolt (kV) overhead line running from east to west through the Terai. This line combines single circuits, double circuits and double circuit towers, with one circuit strung. In addition, there is a 66 kV network that connects Pokhara, Kathmandu and Birgung, a city with significant industrial demand.

Strengths • Very active development sector • Government system designed to incentivise energy distribution • Knowledge and skills in place	Weaknesses • Bureaucratic delays • Poor generation system
Opportunities • Neighbouring export markets • Large future demand growth	Threats • Underbidding by Chinese and Indian developers • Political disruption

Health and Aged Care

The GoN is committed to providing essential health care services to the population towards universal health coverage and is in the process of introducing a national social health insurance scheme. It is also committed to modernising health infrastructure and building the capacity of doctors, nurses, midwives, and health management and administration staff. It plans to engage in private-public partnerships to enhance the capacity of government hospitals. New hospitals could also be established using private-public partnerships models; the franchising of international hospitals could also be an option. This will cater to the needs of thousands of patients who currently travel to India and other countries for health services. The budget allocated for this sector in 2013/14 is NPR 33.52 billion (USD 335 million), which is approximately 5% of the total budget. Annual average output of this sector for the preceding five years has increased by 6.1%.

Signs of progress can also be seen in the private sector's expanding activity in pharmaceuticals, ayurvedic holistic healing, diagnostic centers and hospitals. Nearly 3,000 small, medium and large-sized commercial firms operate in these markets, and foreign investments of US$18.34 million have been realised since 2009. In 2014, Nepal's healthcare sector employed approximately 50,000 people, including skilled and semi-skilled personnel and about 52,000 women volunteer health workers. Healthcare services are delivered by public and private sector entities and account for a total expenditure of over US$1 billion each year. This figure amounts to nearly 6% of the Nepal's Gross Domestic Product (GDP) and translates to a per capita expenditure of US$40 for the year 2014. This figure which is lower than the global average, is nevertheless higher than most South Asian Association of Regional Cooperation (SAARC) countries. It compares unfavorably however with other emerging economies including South Africa and Brazil.

The present market size of the Medical colleges in Nepal is estimated around US$55 million, excluding the hospital service and research income at these medical colleges. There is high demand the medical segment in Nepal with Nepalese colleges attracting Indian students as well. With increasing level of fees and improved number of seats, Medical colleges may see a moderate rise in demand and growth rate in the next 2-3 years.

The private healthcare sector in Nepal is primary driven by out-of-pocket private expenditure since health insurance coverage is low. As a result, 90.4% of private healthcare expenditure originates from out-of-pocket household spending, and this constituted a total of US$ 570 million in 2011. The government estimates that 48% of this expenditure in incurred in purchasing medicines and other pharmaceutical products as shown below.

Distribution of out-of-pocket expenditure on healthcare in Nepal:

Allopathic pharmacies	48%
Secondary hospitals	21%
Primary clinics and polyclinics	12%
Tertiary hospitals	10%
Others	9%

Source: Government of Nepal, Ministry of Finance, Nepal National Health Accounts 2003/04 to 2005/06

Tertiary healthcare and pharmaceutical manufacturing have a combined market opportunity of US$170 to 200 million in Nepal. Nepal imported US$95.4 million worth of healthcare-related commodities such as pharmaceuticals, devices, and medical supplies in 2013, nearly as much as the sector's total financial contribution to the nation's GDP. Companies operating in tertiary healthcare and pharmaceutical manufacturing have significant market sizes and are reported to be growing at rates to 10 to 15% and 15 to 20% respectively, largely driven by growing domestic demand as a result of shifting disease burden. Promoters and management teams in these segments have also demonstrated more market-savviness by investing in improving capacities and forging partnerships with foreign entities for technology and knowledge transfer. Since these firms make comparatively larger investments in technology, infrastructure, and skilled talent; they are more likely to meet basic criteria for private equity investment-readiness.

Demand for high quality private healthcare is rising along with ability to pay for care. US$631 million was spent on private healthcare in Nepal in 2011; of which 90.4% was out-of-pocket expenditure; and this spend has seen a year-on-year rise for the past decade. This rise is driven by a growing population as well as growing incidence of non-communicable diseases. Nepal's population has been growing at a rate of 1.4% over the past decade, and a similar growth rate is expected in the future. Demand for high quality private healthcare is also driven by the rising incidence of chronic non-communicable diseases like diabetes, asthma and migraine, which require periodic purchase of medication and consultations with physicians.

The trend of increasing expenditure on private healthcare is also driven by increasing incomes as a result of socio-economic progress and rising remittances. The overall awareness of importance of preventive care is also increasing, and an uptick in patients seeking regular health check-ups has been reported by the Dolma Development Fund.

Private sector companies are investing in capacity improvement, technology and expertise. Secondary and tertiary hospitals like Om Hospital, Norvic Hospital and Grande International Hospital have made significant investments in infrastructure including building, technology and emergency transport arrangements as well as in expertise in specialised care and hospital management. These investments are expected to allow these hospitals to provide a higher standard of care and decrease the need for patients to travel to neighbouring countries like India, Malaysia and Singapore for treatment. One of the major trends observed is the rising incidence of partnerships between private hospitals in Nepal and foreign hospitals as shown below. Similar trends have been observed in diagnostic clinics and pharmaceutical manufacturers as well.

Partnerships between Nepalese and foreign hospitals

Nepalese Hospital	Foreign Hospital	Type of Partnership
Norvic Hospital, Kathmandu	Medanta Medicity, India	Technology and expertise transfer
Grande Hospital, Kathmandu	Samitivej Hospital, Thailand	Expertise transfer in hospital management
Vayodha Hospital, Kathmandu	Fortis Escorts Heart Institute, India	Expertise transfer in cardiac care

Source: Primary studies conducted by Intellecap in March, 2014

Some health centres like Annapurna Neurological Institute and Allied Science are running scholarship programs to fund medical education of talent young people in foreign countries, with the caveat that they return to join the hospital as full-time staff members for at least 3 years.

Some early signs of the creation of a supportive regulatory environment are visible. These include creation of universal healthcare insurance scheme, which will increase ability of low-income patients to pay for healthcare, and formation of policy framework around Public-Private Partnerships (PPP) between the state and private sector for healthcare delivery.

Traditionally, the care of aging parents has rested on the ability of married sons to provide shelter, sustenance and general care. However, many working males are now living abroad or in urban centres far from their ancestral home. Although sons are, to varying extents, able and willing to pay for services, there are very few social or government programs designed to assist in managing Nepal's aging population. Respect and the desire to care for the elderly is a strong sentiment in Nepal, which provides a good foundation for building an aged-care industry.

The public health issue of waste management is now recognised as a major urban planning issue by policy makers, the media and general public. However, there are major policy inconsistencies at all levels of government concerning the ownership of waste and the potential beneficiaries of products or services generated from waste. Urban zoning inconsistencies add to the overall confusion that is currently a major deterrent to investment in the sub-sector.

INGOs and Donor involvement

Health has been one of the most significant sectors for donor and INGO support in Nepal for over 50 years. The sector is now saturated and highly complex and in general, offers few investment opportunities or partnerships. Although there are very few actors in aged-care except for Nepali charitable foundations in major cities.

Major Institutional Stakeholders

Policy Level

- Ministry of Health

Regulatory and Implementation Level

- Department of Health Services
- Department of Drug Administration
- Department of Ayurveda
- Nepal Medical Association
- Nepal Nursing Council

Nepal follows a free market approach to health care policy and regulation. The Ministry of Health is responsible for the development of policies and regulation of the sector. A new policy strategy, the "Nepal Health Sector Program (2010-015)" has specifically identified the importance of close collaboration between the public and private sector in the delivery of health care services, and all service providers are expected to deliver quality healthcare in way that facilitates increased private-sector participation. Nepal also adheres to a number of international best practices, including guidelines for earthquake proofing of hospital buildings, mandatory free treatment for 10% of bed capacity, and environmental impact assessment norms for tertiary hospitals. Other benefits, including tax holidays and access to subsidised land for hospitals and pharmaceutical companies operating in underserved regions would also encourage increased private sector participation and improve healthcare outcomes. As a result of this positive environment, significant foreign investments have been observed since 2013, especially in private tertiary hospitals.

Opportunities Overview

- In terms of pharmaceuticals, there are persistent shortages of quality medicines in the market presenting opportunities for manufacturers and importers of pharmaceutical goods.
- Health Care Facilities – improving technology and services, especially through public-private partnerships and developing aged care facilities.
- Aged Care – providing facilities for Nepali and foreign retirees as well as training aged-care staff for domestic and international work placements offer excellent investment opportunities.

Pharmaceutical Industry

A number of attractive investment opportunities can be found in medicine and health care supply manufacturing. Nepal's population of approximately 28 million is a sizeable market. To date, approx. 50% or more of this market has been met by way of imports. As such, there is scope not only for the production of the branded medicines but also for bulk drugs, which provide the raw materials for medicines. While the pharmaceutical industry has experienced significant growth in recent years, there is scope for large scale pharmaceutical manufacturers which can introduce new technologies and take the pharmaceutical industry to a higher level. As of July 2016, there are 37 pharmaceutical companies operating in Nepal who mostly import APIs and then formulate, package and retail the drugs locally. According to APPON, there are 45 pharmaceutical companies that are APPON registered, of which 37 WHO are-GMP certified.

Along with the normal medicines for common cold, diarrhoea, fevers and coughs, some antibiotics and tonics, as well as essential drugs for cardiac, diabetic and liver patients are also being produced in Nepal. The GoN's favorable policies, the existence of the domestic market and export potential, favourable WTO/TRIPS policy, restriction on imports without WHO/GMP Certification, and the rise in health care awareness among the population provide some added incentives for the investors to consider Nepal's pharmaceuticals industry.

Strengths • Rapid growing market that relies heavily on imports • High awareness of quality and shelf-life of medications • Investment friendly-sector	Weaknesses • Hard to educate the market place regarding new benefits • Highly dispersed market
Opportunities • New technology manufacture • Large scale production • Packaging and marketing of a range of medications	Threats • Undercutting from imported products

Health Care Facilities and Equipment

There are 2,064 registered private diagnostic centres in Nepal. Private diagnostic centres are predominantly multi-specialty in nature and offer a range of services including X-ray, ultrasound, pathological testing, cardiac testing and endoscopy. Other enterprises include primary clinics, secondary and tertiary hospitals and pharmaceutical companies. Most of the tertiary healthcare facilities in Nepal are multi-specialty with only a few focusing solely on one specialty. With only 0.36 doctors, 1.17 nurses and 0.9 hospitals bed per 1,000 people, the demand-supply gap can only be reduced with the addition of more health care facilities.

Nearly 55% of Nepal's healthcare expenditure are direct outlays by households, as compared to the global average of only 18%. This high rate of "out of the pocket" expenditures can be attributed to rising disposable incomes (due to remittances) and the consuming population's increased awareness about health and well-being. In addition, with increased disposable income, there has also been a rise of Nepalese going abroad for health care services. There are significant opportunities for international healthcare providers to meet Nepal's domestic demand. Other possibilities are in joint ventures between national and international hospitals sharing advanced technologies. The growth of medical and nursing colleges in Nepal indicates that the human resources in the lower and medium segment of the care business is increasing.

Aged Care is of growing concern in Nepal as migrant workers are unable to adequately look after aging parents. Community medical skills and resources are also weak. Retirement homes, service centres are slowly developing and society is becoming used to the idea of external (non-family-based) aged care. There is also a demand overseas resident aged care, similar to the industry developing in India.

Strengths • Rapid growth in market demand • High level of health consciousness • Preparedness to pay for quality health and aged care services	Weaknesses • Poor levels of industry training • Potential difficulties linking to educational institutions to review curricula for new diagnostic techniques • Low-cost mentality of patients • Poor operation and maintenance culture in Nepal
Opportunities • Extensive market for improved health care machinery • Expanding market across all age levels •	Threats • Imported second hand machinery could flood market

Ayurvedic Centres and Medications

Ayurveda is the practice of traditional medicine throughout the Indian sub-continent, and within Nepal it is heavily fragmented. Large-scale manufacturing from natural products like essential oils, roots and leaves in mixed in specific ratios has started in Nepal but using old machinery, so the majority of medical plant material is sent to India for processing and then re-imported.

At present ayurveda health services are being delivered through two ayurveda hospitals (Naradevi, Kathmandu and Bijauri, Dang), 14 zonal ayurveda aushadhalayas, 61 District ayurveda health centres and 305 ayurveda aushadhalayas in the country. The GoN has prioritised ayurvedic medicine by planning the county's first dedicated Ayurvedic University and extensive expansion of health care facilities. In-country production of medicines will be distributed for free by the GoN and can easily be exported.

Singhdurbar Vaidyakhana is the oldest company manufacturer of ayurvedic medicines in Nepal. It is a government owned company under the Ministry of Health. Similarly, Nardevi Central Ayurveda Hospital was the 1st ayurvedic hospital established in 1917. Services include internal medicine (Kayachikitsa) with related Panchakarma, surgery (shalye), ear, nose, throat and eye (shalakya) and Ksharasutra, gynecology (Stri Roga) and obstetrics (Prashuti Roga), Pediatrics (Baal Roga), acupuncture, and pathology lab, x-ray, USG and ECG. In an attempt to organise the sector, the Department of Ayurveda (DA) was established in 1981 by converting the Ayurveda Section of the Department of Health Services (DHS) under the Ministry of Health. In order to harness the full benefits of locally available medicinal herbs and to be self sufficient to meet local demands, the current five-year National Health Plan intends to train 650 persons among which 50 will be trained for 15 months. Mahendra Sanskrit University has been providing education to 50 persons per year through its Ayurveda Health Assistant course, of whom 13 are in-service Vaidya (practitioners of Ayurvedic medicine). The training of 50 Ayurveda VHW (Village Health Worker) has already been completed at Damouli.

The original practices, manuscripts, records of ayurvedic treatment, and medicinal use of abundant herbs continue hold an important role in Nepal. The country boasts approximately 7,000 species of plants, out of which approximately 700 species have medicinal properties. Many rare and endangered Himalayan herbs are found in Nepal's higher elevations. The physical diversity of Nepal (Terai, Hilly and Himalayan region) allows sub-tropical, temperate and alpine vegetation all to flourish and to provide a source for a wide production. Many of these herbs and aromatic plants are specific to the Himalayan Region and have high medicinal, culinary and cosmetic values. The very fact that Nepal enjoys milder climatic conditions than the vast swaths of Indo Gangetic plains makes Nepal, a viable place to locate super specialty hospitals and nursing homes dealing in illness needing prolonged care attention of specialised professionals outside of modern towns. Apart from producing the ayurvedic treatments themselves, investors can also invest in Ayurveda Holistic Treatment Centres that provide the service of treatments with the Ayurveda discipline. The low competition in sector with untapped market and suitable climate for medicinal herbs make ayurvedic drugs an investment opportunity for the investors.

Strengths	Weaknesses
• Organic and unique, as most of them are collected from wild • Most of the species are endemic to the Himalayan region • There is a huge variety of MAPs found in Nepal	• Incomplete legal and institutional frameworks to protect Nepal's genetic resources • Lack of policy and system to implement Good Agriculture and Collection Practices (GACP) l Very few products currently being

• Source of employment and income to significant number of population in remote regions • Well-documented sector, with large number of studies done on potentials as well as benefits in all stages of the value chain	cultivated • Lack of storage and processing facilities • High dependency on exports to neighbouring countries • Lack of accredited quarantine facilities at the customs points • Inadequate Pest Risk Analysis for major products, and insufficient fumigation facilities
Opportunities • Expanding world markets for organic herbs • High potential for expansion • Potentials to capture greater share of value in the overall global value chain through improved collection, storage and processing facilities	Threats • Lack of knowledge of sustainable collection practices • Unsustainable harvesting is threatening the very existence of some species unique to Nepal • Weak Intellectual Property protection is leading to loss of rights on indigenous knowledge

Aged Care

Traditionally, the care of aging parents has rested on the ability of married sons to provide shelter, sustenance and general care. However, many working males are now living abroad or in urban centres far from their ancestral home. Although sons are, to varying extents, able and willing to pay for services, there are very few social or government programs designed to assist in managing Nepal's aging population. Respect and the desire to care for the elderly is a strong sentiment in Nepal, which provides a good foundation for building an aged-care industry.

According to the 2011 census, the percentage of elderly population has increased to 9.1 percent (male 4.6 and female 4.5%) to 2.4 million people distributed across urban (24.2%) and rural (75.8%) areas.

The most famous aged-care facility in Nepal is Pashupati Nath (Pashupati Bridhaashram) for destitute elders and is operated by the Ministry of Women, Children and Social Welfare with a capacity for 230 elderly people. This is the only government run facility in Nepal. Across the country there are about 70 organisations registered with the GoN and operated as private, NGO, CBO, or personal charities that provide aged-care facilities and services with a total capacity of about 1,500 elders. However, the GoN does not have any official records on how many people are taking shelter in these centres.

Strengths • Increasing aging population without access to traditional family-based care • Strong culture of aged-care • Large source of potential aged-care workers	Weaknesses • Incomplete legal and institutional frameworks to developed aged-care facilities • Not a high priority sector for the GoN
Opportunities • Growing demand for aged Nepali population • Growing demand for foreign retiree population • Strong cultural emphasis on aged-care	Threats • Lack on support or clarity from Health Ministry • Rapidly growing industry in India could disrupt Nepal investments

Information and Communication Technology

The information and communication technology (ICT) sector in Nepal, though currently small, is showing steady growth. ICT businesses cater mostly to foreign clients, and though there are some large firms that employ more than a hundred workers, most firms are small, supported by a significant number of freelancers. In 2014, the Computer Association of Nepal (CAN), the umbrella body representing the private sector, estimated that in 2016 there were more than 6,000 firms in the sector industry, of which only 256 were officially registered. Sector activity includes call centers, medical transcription services, geographical information systems, data mining services, animation services, and back office data processing companies.

Despite a confused policy framework, Nepal has made some important strides in terms of improving its levels of connectivity, mainly centred on mobile internet connectivity.

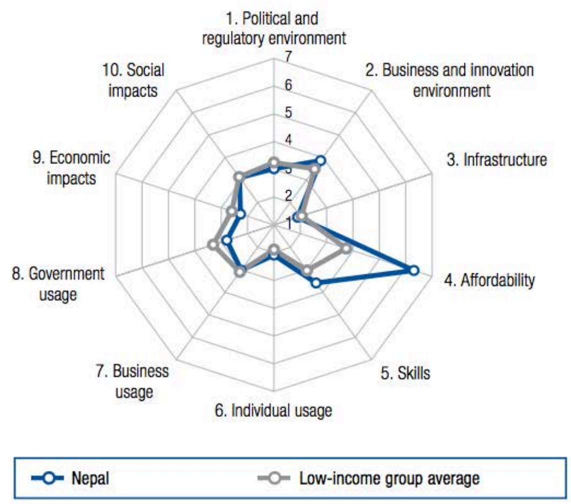
ICT Indicators in Nepal

	2010	2015
Fixed broadband subscription (per 100 people)	0.22	1.06
Fixed telephone subscriptions (per 100 people)	3	3
Internet users (per 100 people)	7.9	17.6
Mobile cellular subscriptions (per 100 people)	34	97
Secure internet servers (per 1 million people)	2	4

Source: World Bank Data Indicators, International Telecommunication Union, World Telecommunication/ICT Development Report and database.

The International Telecommunication Union (ITU) states that the country is a net exporter of communications services, with the value of communication exports rising from $58 million in 2010 to $355 million in 2013, averaging 77% per annum growth in the period (ITU, 2013). The 2013 World Bank Enterprise Survey reports a greater level of internet usage by Nepali firms vis-à-vis other South Asian countries and other low-income countries (LICs): 26% of firms in Nepal have their own website (21.9% in South Asia and 18.6% for LICs) and 48.3% of firms use the internet to communicate with clients and suppliers (41.7% in South Asia and 46.3% in LICs). The World Economic Forum Networked Readiness Index comparison for Nepal in 2010 and 2016 shows a small improvement in the ranking from 131st to 118th place (WEF, 2010, 2016).

	Rank (out of 143)	Value (1–7)
Networked Readiness Index 2015	**118**	**3.2**
Networked Readiness Index 2014 (out of 148)	123	3.1
Networked Readiness Index 2013 (out of 144)	126	2.9
A. Environment subindex	**116**	**3.4**
1st pillar: Political and regulatory environment	120	3.0
2nd pillar: Business and innovation environment	100	3.9
B. Readiness subindex	**104**	**3.9**
3rd pillar: Infrastructure	133	1.9
4th pillar: Affordability	23	6.3
5th pillar: Skills	117	3.6
C. Usage subindex	**131**	**2.6**
6th pillar: Individual usage	120	2.1
7th pillar: Business usage	127	3.0
8th pillar: Government usage	129	2.8
D. Impact subindex	**127**	**2.7**
9th pillar: Economic impacts	137	2.3
10th pillar: Social impacts	119	3.1



The GoN is currently updating its ICT Policy with a new iteration, the National Information and Communication Technology Policy 2015. This policy is currently in draft form and is open to public scrutiny. It aims to mainstream the use of ICT in all key sectors of Nepal's economy, including increased e-governance (i.e. greater use of ICT for government activities and procedures), and eventually help the sector represent 7.5% of GDP by 2020. The ICT sector is included as an earmarked export sector in the Nepal Trade Integration Strategy (NTIS), though the practical implications of what such support entails are yet to be fleshed out. To date, the limited role of ICT in GDP is evidence that the sector has been used as a service-offering rather than a tool to drive economic growth. The Overseas Development Institute[14] have identified the following limitations to sector growth:

- **Lack of experienced workers**: ICT firms need to deliver significant training (typically between two and six months) to new staff in order to impart practical knowledge and experience, a crucial component for employees perceived to be missing from the skill baskets of IT graduates in the country.
- **Migrating graduates**: IT graduates, hired and trained by IT firms, tend to work for only two or three years in a firm before leaving, mainly to study abroad, although in some cases also to work for international companies. Inter-firm movement within the domestic ICT market is not seen to be a contributing factor to high turnover rates.
- **National infrastructure**: Seen as a general constraint to growth, major infrastructure issues identified included limited connectivity, bandwidth and redundancy measures. Energy was, but is now no longer perceived to be, a binding constraint to operations although the sector is wary of energy supply concerns in the longer term.
- **Foreign exchange controls**: Ability to pay in foreign currency is seen to be extremely limited. This has a number of impacts – including limiting the ability of ICT firms to import required hardware, preventing the use of international online payment systems (i.e. PayPal) and also stopping potential FDI into firms.
- **Size of domestic market**: The small size of the Nepali domestic market for ICT services means firms have to rely on international contracts, which opens them up to international competitors (competition varied for firms, with main competitors cited as Indian, US, Chinese and Eastern European). This means ICT firms cannot build up a sustainable level of operations based on national demand.

Additional issues influencing the sector include:

- Current IP policy enforcement has been deemed weak (USDoS, 2015), and foreign patents are not automatically awarded or automatically recognised by Nepali law. Although the Copyright Act of 2002 does provide some protection to copyright, enforcement is not strict or pervasive
- The ICT sector does not benefit from tax incentives that are available to companies located in a special economic zone or those that fall under the 'Special Industries' definition.
- A lack of coordination and cooperation among various GoN Ministries and agencies (notably the Nepal Telecommunications Authority, the Ministry of Information and Communications, and the Ministry of Science and Technology) has been holding back effective implementation of ICT development policies

Despite these constraints the ICT sector in Nepal is seeing healthy growth, the main drivers of which are:

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[14] SET: Pathways to Prosperity and Inclusive Job Creation in Nepal, Background Paper: ICT sector, Alberto F. Lemma, Overseas Development Institute, May 2017

- Low development costs[15]: wages for skilled staff are lower in Nepal compared to other South Asian countries, with averages:
  - NPR 21,700 per month for Junior (less than 3 years work experience)
  - NPR 50,140 per month for Intermediate (3-5 years work experience)
  - NPR 135,000 per month for Senior (more than 5 years work experience)
- The Nepali time zone is favourable for companies looking to outsource from America and Europe.
- Business consolidation: companies are consolidating their business in Nepal and developing a niche markets for their products internationally (e.g., Verisk Health, Incessant Rain, Cloud Factory, D2Hawkeye, and Deerwalk)
- IT Park: A notable GoN initiative is an IT Park in Banepa in Kavre District, with a total investment of approximately NPR 270 million (USD 2.70 million). The government is preparing to offer a 50% tax subsidy to companies operating in the Park. The Park is expected to develop software, promote IT-based business and provide services, as well as promote investors in related fields.

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INGOs and Donor involvement

The GoN e-Government Master Plan (e-GMP) was developed by the Korean Information Technology Promotion Agency (KIPA) in co-ordination with the High Level Commission for Information Technology (HLCIT). e-GMP, prepared in 2006, aimed to transform all GoN services to digital formats and included e-Health, e-Education, e-Agriculture and etc. The master plan was due to be complete in 2011 but political wrangling has delayed many components.

One major success has been the e-GMP Government Integrated Data Center (GIDC), established in 2009, through a grant from the Korean Government and provides standardised data center infrastructure for all the government services. The second phase of building a Disaster Recovery Center (DRC) is currently underway in Hetauda. Other active donors focusing on SME and multi-sector development including DFID and the ADB.

Major Institutional Stakeholders

Policy Level

- Ministry of Information and Communication
- Ministry of Science, Technology and Environment

Regulatory and Implementation Level

- Nepal Telecommunication Authority
- Department of Information Technology

The Ministry of Information and Communication (MoIC) has the legal mandate to develop and support ICT sector activities at the policy level. Under the MoIC, other administrative bodies support ICT sector at the regulatory level, specifically, the Nepal Telecommunications Authority (NTA) is the sector's economic and technical regulator.

Opportunities Overview

With rising telephone penetration, an improving internet infrastructure and highly skilled low wage manpower, the ICT sector exhibits a number of obvious investment opportunities:

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[15] SET: Pathways to Prosperity and Inclusive Job Creation in Nepal, Background Paper: ICT sector, Alberto F. Lemma, Overseas Development Institute, May 2017

- Communication Services: opportunities exist in telecommunications, Internet Service Providers, Online Payment and Infrastructure Services.
- Internet Technology Enabled Services (ITES) and Business Process Outsourcing (BPO), including Data Centre management all offer good investment opportunities.

Communications Services

In Nepal, Communication related services are open to foreign direct investment with the exception of motion pictures produced in national languages. Up to 80% equity stakes are allowed in communications-related businesses.

Telecommunication
Nepal's telecommunication sector is dominated by two large market participants, Ncell and Nepal Telecom (NTC), with four minor players UTL, STM, NSTPL and STPL. NTC is a state-owned telecommunication service provider with 85% of its shares in government ownership whereas Ncell is privately owned. As of October 2016, Nepal has 30.89 million mobile subscribers, NTC has a market share of 48.5% and Ncell 46.8%, and a mobile phone market penetration above 100% (based on the number of SIM cards issued). This is a considerable increase from 2011/12 when market penetration was 63.76 %. The mobile telephone sector, in particular, has registered impressive increases, as evidenced by its sustained growth growing from 8.3 million (2011/12) subscribers to above 15 million. Similarly, the use of Limited Mobility services is rising, reaching approximately 2 million in 2014/15, up from 1 million in the year 2011/12. Opportunities exist in 4G and increasing market competition.

Internet Service Provider (ISP)
The number of Internet users in Nepal has increased exponentially in the past two decades from less than 50 users in 1995 to 14.3 million users in October 2016. Currently there are 23 active ISPs in the country providing services including cable modems, ADSL, Fiber Optic, 3G and Wi-Fi, Ethernet, and VSAT to 14.3 million internet subscribers (mostly mobile access). However, ISP subscribers are very modest at 164,112, the majority being cable internet. There are plenty of opportunities for new ISPs to enter a relatively untapped market. There are also opportunities for ISPs to offer data centre services as the current players only offer managed services, or collocations, or network support services.

Online Payment Infrastructure and Services
Online payment systems are in their early stages of development in Nepal. Some of the popular online payment gateways in the country include eSewa, PayBill, iPAY, HelloPaisa. Most of these gateways are focused on online utilities bill payment such as recharge of mobile phone balance, internet billing, as well as purchasing of bus, airline and movie tickets. Some have partnered with the merchants with whom they work. E-banking, or fund transfer systems between banks for both B2B and for consumer services, is also an opportunity.

Strengths • Abundant low cost labour supply • High handset penetration • High priority sector for the GoN	Weaknesses • Incomplete legal and institutional frameworks • Weak and hard to maintain infrastructure • Energy supply reliability
Opportunities • 4G services • ISP and related services • Payment systems • Cheaper operating costs than competitor countries	Threats • Lack on support or clarity at policy level • Competition from India and China • 'Brain drain' effect

IT Services

The Nepal Trade Integration Strategy (NTIS) identifies Internet Technology Enabled Services (ITES) and Business Process Outsourcing (BPO) as potential priority export services and accordingly, 100% FDI ownership is permitted. There are approximately 500 IT services companies in Nepal with few having more than 300 employees with growth driven by an abundant supply of young, skilled, low cost and English speaking labour. Each year, approximately 5,500 Nepalese graduates enter into the IT sector creating oversupply and keeping wage costs significantly below India. Internet use in Nepal is growing at about 20% per annum, although the vast majority (98%) is through mobile devices. The GoN strongly supports the ICT industry through a number of programs that can be accessed by industry:

- Community Information Centers (CICs) at 81 different locations in 52 districts and to construct five model-CICs in each of the development regions under SAARC Development Fund (SFD). As of September 2015, two CICs were established in Sipapokhare Village Development Committee (VDC) and Irkhu VDC of Sindhupalchowk district. Similar CICs are being established at two locations in the Dolakha, Kathmandu, Lalitpur and Bhaktapur districts.
- The GoN has also developed a Master Plan for ICT in Education (2013-17) to facilitate digitalisation of the country's education system, which makes ICT enabled education services in particular an attractive avenue for investment.
- The Ministry of Industry has also established an IT park near to Banepa and can accommodate 50 computer engineers. The facility was established with the purpose of supporting software development and promoting IT based business.

4G services have already been introduced to the market, which will contribute to providing of hi-speed internet services in 72 district headquarters. Optical fiber is also being rolled out in the Mid-Hill Highway and the Postal Highway. Internet services will also be provided through microwave transmission services in remote area where optical fiber is difficult to install.

Most IT Services companies focus on the development of web-enabled applications, software development, and deployment of Management Information Systems (MIS), data processing, call centers, medical transcription and animation.

BPO solution providers combine local market customers like NGOs, government and academic institutions, local businesses including travel agencies, and pharmaceutical companies with export opportunities.

Strengths • Abundant low cost labour supply • Convenient time zoning • High priority sector for the GoN • Attractive tax concessions	Weaknesses • Incomplete legal and institutional frameworks • Incomplete infrastructure • Energy supply reliability
Opportunities • Labour intensive services • BPO • Cheaper operating costs than competitor countries	Threats • Lack on support or clarity at policy level • Competition from India and China • 'Brain drain' effect

Manufacturing: FMCG, Industrial and Consumer Goods

There are 6,328 registered companies in Nepal and manufacturing is the largest sector with 2,585 companies (41%), followed by the service and tourism sectors. The manufacturing sector has been prioritised by the GoN to generate employment opportunities, promote trade, enhance national income growth, alleviate poverty and hopefully address the growing trade deficit through exports. Nepal's manufacturing sector can be broadly classified into three sub-sectors:

- Fast moving consumer goods (FMCGs) – including food and beverages, soap and cosmetics
- Industrial goods – base and fabricated metal products, non-metallic mineral products, plastic s can rubber and raw texiles
- Consumer goods – electronics, furniture, leather goods, garments and textiles

FMCG is the largest of these sub-sectors. Due to limited electricity (although this has become more reliable since 2016) and lack of an enabling environment for manufacturing enterprises, industrial goods constitute a relatively small portion at this moment; however, this sub-sector is expected to grow as the economy matures and the enabling environment improves. However, due to raw material availability and limitations in labour-skills this report will only focus on FMCGs, Garments and Textiles and Metal Products as 'rapid-entry' industries.

Manufacturing Regions and Logistics

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

Kathmandu

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

Biratnagar

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

Birgunj

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

Siddharthanagar

Siddharthanagar (formerly known as Bhairahawa) municipality is the headquarters of Rupandehi district in the outer Terai plains, located 265 km west of Kathmandu. It is a major trading city. There is a custom check point 5 km south of the city near the Indian border for goods transported between India and Nepal. The Bhairahawa Special Economic Zone (SEZ) has been set up by the Government of Nepal and will be operational by early 2018.

Chitwan district

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

Hetauda

Hetauda is a sub-metropolitan headquarters of Makwanpur district in southern Nepal. Located 132 km from, Kathmandu, via the Tribhuvan Highway. Construction has started of a to connect Kathmandu to Hetauda reducing travel time to less than 1 hour. Hetauda Industrial District (HID) is one of the biggest Industrial Districts in Nepal and houses manufacturing units including some multinational companies.

Nepalgunj

Nepalgunj is a sub-metropolitan city in Banke district in the Terai plains, bordering Bahraich district in Uttar Pradesh, India. Indian Railways reaches Rupaidiha in India, which is just across the border from Nepalgunj. Nepalgunj is a major hub, linking remote districts in the Western and Far West regions of Nepal by air and bus through an extensive road network.

Industrial Districts

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

- Low cost initial investment: Already developed land and industrial sheds/warehouses are available on lease.
- Basic physical infrastructure: Roads, drainage, culverts, electricity supply, water supply, and water filtration services are in place.
- Supporting facilities: Banks, post office, clinic, day care centre, workshop, canteen, sports hall, open playground, display/review centre, meeting/conference hall, primary school, guest house, safe and clean environment, and security arrangements are also provided.

Special Economic Zones (SEZs)

The Government of Nepal has developed Special Economic Zones (SEZs) to cater for export-oriented industries. Export industries that intend to export at least 75% of production can be established in a SEZ after investing the prescribed capital and obtaining permission from the Special Economic Zone Development Committee (SEZDC) under the Ministry of Industry.10 Industries that operate in SEZs are eligible for 50% tax exemption for the first five years. In addition, company registration, tax registration, banking, insurance, freight forwarding, issuance of a certificate of origin for export, and other administrative formalities are provided in these zones through a one window service. The Bhairahawa SEZ, which was inaugurated on 18 November 2014, lies in Rupandehi district in the Western Development Region of Nepal, which is about 280 kilometres from Kathmandu. This SEZ, which lies on 36.8 hectares of land near the border with India, is about to be operational. The Government of Nepal plans to establish 12 SEZs in different parts of the country.11 The Ministry of Industry has completed feasibility studies to establish SEZs in Biratnagar, Simara, Panchkhal, Gorkha, Jumla and Dhangadhi. Simara and Panchkhal have been prioritised for construction in the first phase. Simara SEZ, which is in Bara district, will be a garment processing zone (GPZ) to capitalise on the zero tariff preference, which has been extended by the United States to Nepal for 66 products in the garment/apparel industry.

Dry ports

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

- For exports to China: Yari (Humla), Nechung (Mustang), Rasuwagadhi (Rasuwa), Kimathanka (Sankhuwasabha), Olangchungola (Taplejung)
- For exports to India: Nepalgunj (Banke) ,Mahendranagar (Kanchanpur).

Customs access from India and China

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

Business Incentives

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

Preferential duty

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

Tax incentives

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

Industry	**Tax rates and Incentive**
Special industries*	20% (normal rate)
Industries providing direct employment to Nepalese citizens:	
- for 300 or more by special industries and information technology industries	90% of normal rate
- for 1,200 or more by special industries	80% of normal rate
- to 100 Nepalese including 33% women & disabled by special industries	80% of normal rate
Special industries providing direct employment to Nepalese	70% of normal rate

citizens only for a year with minimum of 100 people employed	
Industries established in a very undeveloped area, as defined in Industrial Enterprise Act	10% of the normal rate (for 10 years from the year of establishment)
Industries establishment in undeveloped areas, as defined in Industrial Enterprise Act	20% of the normal rate (for 10 years from the year of establishment)
Industries established in underdeveloped areas, as defined in Industrial Enterprise Act	30% of the normal rate (for 10 years from the year of establishment)
Special industry with paid up capital of NPR 1 billion and providing direct employment for more than 500	Up to 5 years, 100% exempt and 50% rebate in subsequent 3 years
Special industry that by using reserve and surplus, capitalises on and increases the capacity of the industry	No tax on capitalisation
Income from the export of goods produced by manufacturing industry	75% of normal tax rate
Income from manufacturing industry, tourism service industry and hydropower generation, distribution and transmission industry listed in the security exchange (i.e., capital market)	90% of applicable tax rate
Industry established in least developed areas producing brandy, wine, cider from fruits	60% of applicable tax rate up to 10 years
Royalties from export of intellectual asset by a person	75% of applicable tax rate
Income from sale of intellectual asset by a person through transfer	50% of applicable tax rate
*'Special industry' means a production-oriented industry as classified in Section 3 of the Industrial Enterprises Act, 2017, except an industry producing cigarettes, bidi, cigar, tobacco, khaini or other products of the same nature involving tobacco as the principal raw materials or an industry producing liquor, beer and similar products.	

Source: Investment Board of Nepal

Export incentives

Generally, there is no duty on the export of products from Nepal, but certain products, like those originating from forests (non-timber forest products), certain agricultural products that are in short supply in Nepal, and industrial raw materials and minerals may be levied with export duty. Where export duty does apply, the Income Tax Act provides for a waiver of 25% on the applicable rate if a manufacturing company exports goods produced in Nepal, but this is only applicable to the revenue generated from export sales. According to the VAT Act, the export of goods is charged at a zero rate. This means that the taxpayer does not pay tax on the value of the exports and is entitled to be fully compensated for the tax paid on inputs. Moreover, excise duty will not be charged on the export of excisable goods and custom duty will not be charged if the goods are not mentioned in the Schedule of the Finance Act13, which is updated every year.

Investment protection

Nepal has entered into Bilateral Investment Promotion and Protection Agreements (BIPPAs) with six countries: India, Finland, Mauritius, United Kingdom, Germany and France. BIPPAs provide preferential treatment and protection for investments made by foreign investors. The laws in Nepal also ensure the security of investments against nationalisation. Besides this, Nepal being a member of Multilateral Investment Guarantee Agency (MIGA) assures foreign investors against non-commercial risks, like currency transfer, breach of contract, war and civil disturbance in the country.

INGOs and Donor involvement

Very few sector actors, although DFID is now moving in to SME interventions. Plans should be made public in 2018.

Opportunities Overview

Nepal's manufacturing sector is rich in potential, both for large-scale projects and innovative small-scale projects. Although Nepal is primarily an agricultural country, various initiatives are being taken to stimulate the manufacturing sector, which the GoN believes is crucial to the country's economic development. The combination of access to a growing domestic market, enormous neighbouring markets and various incentives and facilities make Nepal an attractive investment destination. Some of the most viable areas are:

- Fast moving consumer goods **-** Food and beverages including sugar, grains, mill products, oils and fats, dairy products, soft drinks, spirits and beer. Soap, laundry and toilet cleaners.
- Garments and Textiles – ready to wear production, yarn spinning and laboratory testing facilities.

FMCGs

With a population of around 28 million the fast moving consumer goods market is growing at around 20% annually, and offers huge potential for FMCG specialists. Growing awareness, easier access, and changing lifestyles have all contributed to growth in the FMCG market. The Government of Nepal's policies and regulatory frameworks, such as relaxation of licensing rules and approval of FDI, have underpinned such growth. Multinational companies like Unilever, Carlsberg, Coca-Cola, PepsiCo, ITC Ltd and Dabur have been able to excel in the FMCG market in Nepal, generating stable income. In a country where urbanisation is rapidly taking place and rural demand is set to increase with rising incomes, FMCG is an attractive sector for investment, particularly for quality products and products specifically created for rural markets.

<table>
<tr><td>Strengths
Rapidly growing market and consumer mentality across the country
Increasing accessibility of products due to improved infrastructure
Younger generations have a strong consumer appetite
Open trade policies with India and China
Industrial areas located strategically for export
Low cost labour</td><td>Weaknesses
Relatively poor distribution systems
Road infrastructure often disrupted
No point of sale information or customer management systems
Low skills in labour force</td></tr>
<tr><td>Opportunities
Enormous neighbouring markets in India and China
Potential to develop differentiated products in Nepal compared to India
Food and beverages – Sugar, grains, mill products, oils and fats, dairy products, soft drinks, spirits and beer
Soap – Laundry and toilet soap</td><td>Threats
Price competition from imports from India and China
Poor brand development skills</td></tr>
</table>

Garments and Textiles

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

Investment in machinery and skills has also been increasing as the GoN linked tax concessions with new machinery investments. After many years of using very old machinery and systems it is now possible to see computer controlled production taking root. Expertise in production methods is also increasing, especially when using high-value materials like pashmina. However, all yarns must be imported into Nepal, missing an essential step in the supply chain. A lack of commercial spinning facilities, using both domestic and imported raw materials is vital for future industry growth.

Another restriction for the export industry is the lack of independent laboratory testing for composition and quality. Testing facilities in Hong Kong, most notably SGS, receive the bulk of material testing requests from Nepal. Streamlining testing with in-country facilities will reduce delivery times considerably.

Strengths	Weaknesses
• One of the last regions in the world to commercially use traditional manufacturing methods • Quality and designs are unique selling points for Nepalese products in niche market • Plentiful labour available • Technology is increasing across all manufacturing sectors • High quality products • Female worker-friendly • Good relationship with importing countries • Skill development opportunities for the youth in short period of time (three to six months)	• Higher costs and inefficient production process • Insufficient and irregular supply of electricity • Lengthy customs procedures • Lack of market diversification • Lack of modern yarn spinning and dyeing plants and facilities hampering product diversification • Lack of silk production in Nepal necessitates import of silk at higher prices from India • No in country laboratory testing facilities
Opportunities	**Threats**
• Growing international markets • New and emerging markets with low tariffs for Nepal • Growing preference for organic packaging • Value addition potential for growth and diversification • Potential to increase goat farming and	• Competition due to price, quality, and volume from China and India • High dependency on imported raw materials • Shortage of skilled labour due to very large outmigration • Counterfeit products on sale in Nepal

invest in domestic yarn production to increase import substitution • Opportunities for large employment generation	harming international image

Tourism and Events

Nepal faces an amazing opportunity based on an incredible tourism asset portfolio to dramatically and sustainably improve both the quality and size of its tourism industry. In a context of strong growth globally and in Asia, Nepal's tourism story is one of continuing growth in arrivals, but varying performance in earnings. Tourism remains a pillar of GoN development strategies, especially those aimed at addressing rural poverty. If the overall tourism metrics can be improved, Nepal's tourism products have excellent potential for improved benefits to poor and remote communities as well as offering investors impressive returns.

International tourist arrivals (ITAs) into South Asia have risen from just over four million in 1995 to nearly 15 million by the end of 2010. Since 2010, growth rates have dramatically increased such that ITAs reached 25 million in 2016. As a consequence of this growth, South Asia's share of global ITAs into Asia has also risen, from 4.6% in 1995 to 8.2% in 2016.

International Tourism Arrivals to Asia Pacific 1990-2016 in 5 year intervals (millions)

	1990	1995	2000	2005	2010	2015	2016	RMS % Asia Pacific
Global	435	526	675	809	953	1189	1235	
Asia Pacific	55.9	82.1	110.4	154.1	208.1	284	308.4	25.0%
North-East Asia	26.4	41.3	58.3	85.9	111.5	142.1	154.3	50.0%
South East Asia	21.2	28.5	36.3	49	70.5	104.2	113.2	36.7%
Oceania	5.2	8.1	9.6	10.9	11.4	14.3	15.6	5.1%
South Asia	3.2	4.2	6.1	8.3	14.7	23.4	25.3	8.2%
RMS % of South Asia	**5.7%**	**5.1%**	**5.5%**	**5.4%**	**7.1%**	**8.2%**	**8.2%**	

Source: UNWTO

However, despite global and regional growth, Nepal has been unable to capitalise. Prior to 2000, Nepal captured between 9-10% of South Asia IVAs. but a long period of political unrest contributed to a sustained reduction in relative market share to 5% in 2010. Despite relative political stability, Nepal's relative market share has fallen further to approximately 3.5% in 2014 with an added earthquake (2015) and subsequent bounce-back in 2016 to 3.2%.

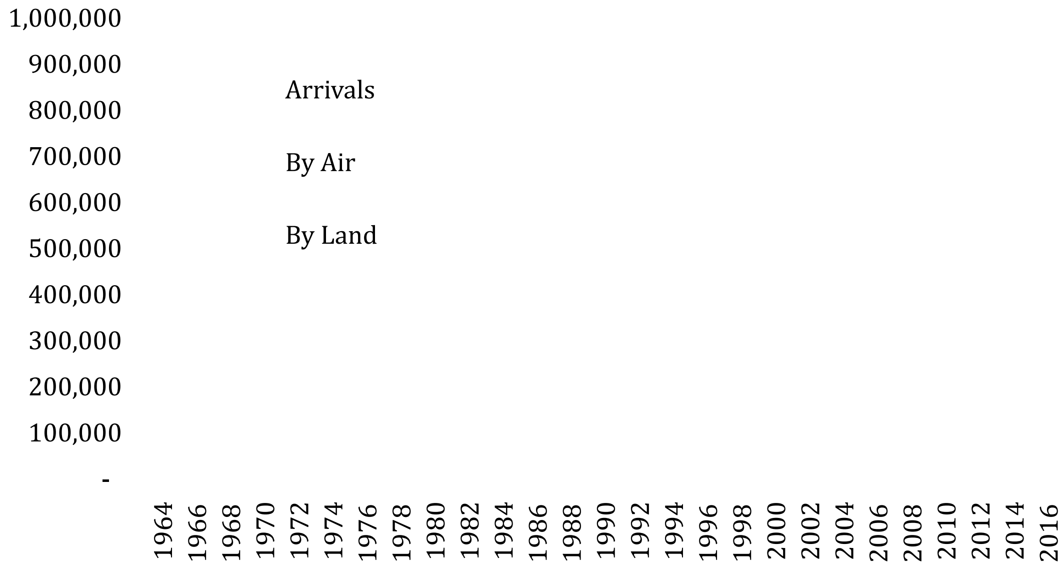
Relative percentage share of international visitor arrivals into South Asia, 2010-2016

	IVAs to South Asia (1000s)				Change %			Global Share %
COUNTRY	**2010**	**2014**	**2015**	**2016**	**14/13**	**15/14**	**16/15**	**2016**
Afghanistan	-	-	-	-	-	-	-	-
Bangladesh	303	125	-	-	-15.5%	-	-	-
Bhutan	41	133	155	210	14.9%	16.2%	35.1%	0.1%
India	5,776	13,107	13,284	14,569	88.1%	1.4%	9.7%	4.7%
Iran	2,938	4,967	5,237	4,942	4.2%	5.4%	-5.6%	1.6%
Maldives	792	1,205	1,234	1,286	7.1%	2.4%	4.2%	0.4%
Pakistan	907	965	-	-	70.8%	-	-	-
Sri Lanka	654	1,527	1,798	2,051	19.8%	17.8%	14.0%	0.7%
Nepal	603	790	539	753	-0.9%	-31.8%	39.7%	0.2%
Nepal RMS % of South Asia	**5.0%**	**3.5%**	**2.4%**	**3.2%**				

Source: UNWTO

Total international tourist arrivals into Nepal have grown from a base of fewer than 6,000 in 1961 to 940,218 in 2017, showing a relatively strong average annual growth rate of about 10% over that period. While arrivals by land and air have both been cyclical over that period, with each mode of transport alternating between growth and contraction, the last years in particular (2008-16) have seen arrivals by land hold relatively constant at around 26% of total foreign inbound.

Nepal Visitor Arrivals 1964-2017



Source: MoTCA

Until 2013, South Asian visitors contributed the largest regional source market to Nepal, but this changed with a sustained marketing push in China that saw North Asia become the largest IVA source. Traditional European and North American markets have remained relatively stable and shown growth consistent with global travel trends since 2000 of 2-3%.

The average income per visitor per day in 2012 was $35.6, the lowest level since 2000, but then rose after the 2015 earthquakes to $68.57 (2015) and $53 (2016). Tourism contributed 4.89% of foreign exchange earnings and 2% of GDP in fiscal year 2011/12. The direct contribution of Travel & Tourism to GDP in 2016 was NPR85.2bn (3.6% of GDP). This is forecast to rise by 6.8% to NPR91.0bn in 2017. This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). But it also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists.

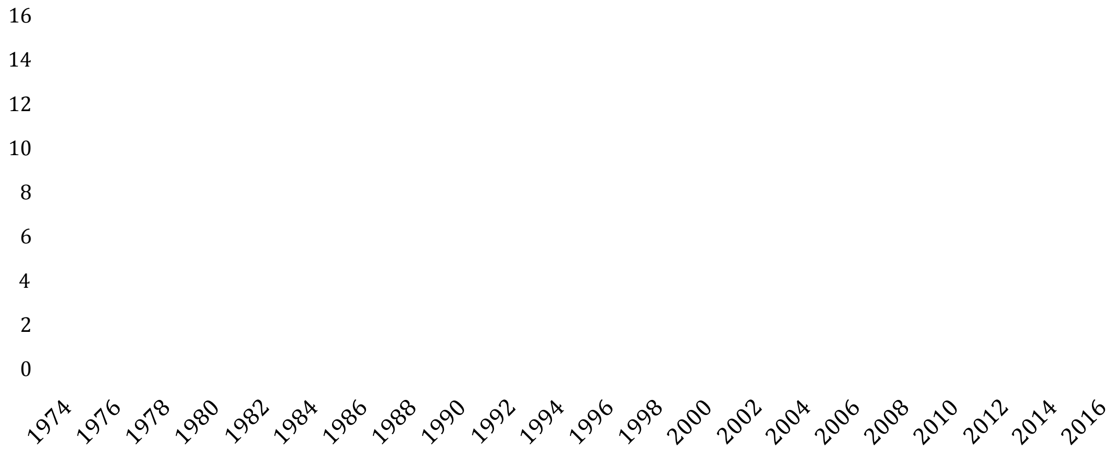
Nepal	2016	2016	2017	2027		
	USDbn*	% of Total	Growth**	USDbn*	% of Total	Growth***
Direct contribution to GDP	0.8	3.6	6.8	1.3	4.0	4.3
Total contribution to GDP	1.6	7.5	6.2	2.7	8.3	4.3
Direct contribution to employment / 000 jobs	427	2.9	6	604	3.2	2.9
Total contribution to employment / 000 jobs	945	6.4	5.4	1,325	7.1	2.9
Visitor exports	0.4	19	9	0.9	28	6.8
Domestic spending	0.9	3.9	6.1	1.2	3.9	3.1
Leisure spending	1.1	3.1	6.9	1.9	3.5	4.7
Business spending	0.2	0.5	8.2	0.3	0.5	3.5
Capital investment	0.2	3.0	0.3	0.3	3.6	5.5

*2016 constant prices & exchange rates. **2017 real growth adjusted for inflation (%). ***2017-2027 annualised real growth adjusted for inflation (%)

Source: WTTC Travel & Tourism Economic Impact 2017 Nepal

The average length of stay has been surprisingly stable over time when compared to a general market trend decrease. Since 2006, average length of stay in Nepal is 12.54 nights, which is significantly higher than the international average of 9-10nights for international trips.

Nepal Tourism Arrivals Average Length of Stay 1974-2016 (days)

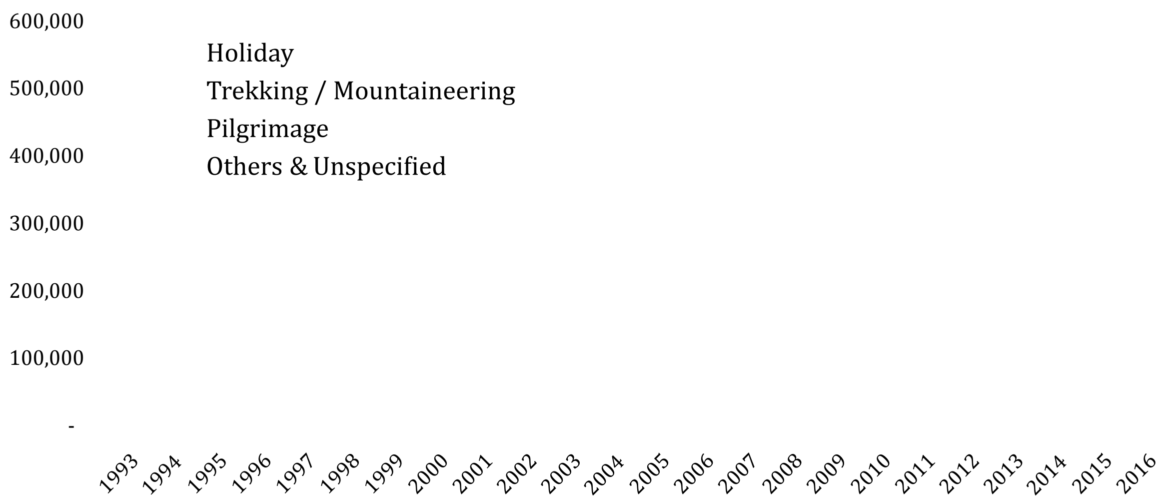


Source: MoTCA

Assessment of the average length of stay in Nepal highlights a number of important issues:

1. There is a statistically significant 'Other and Unspecified' amount of IVA entry cards, which make specific analysis very problematic.
2. 'Pilgrimages' and 'Trekking and Mountaineering' show similar visitor volumes, are significant and almost opposite in average length of stay. Most pilgrims (Sri Lanka, Thailand, Myanmar, among others) remain in Nepal for between 2 and 7 days. Traditional markets that dominate in the Trekking and Mountaineering segment from Europe and North America have an average length of stay of 16 to 26 days.
3. A sudden increase in 'Holidays' after a ten-year period of stagnation requires in depth analysis by NTB, principally to answer, 'where did the 'Holiday' market go for ten years?'

Purpose of Visit to Nepal 1993-2016



Source: MoCTCA

Almost half of Nepal's tourist traffic originates in India, China, Sri Lanka, USA and the UK. In 2014 India and China together accounted for one-third of the total number of tourists to Nepal. On average, India contributes about one-fifth of the country's total tourist traffic. Since 2010, the number of Chinese tourists coming into Nepal has increased significantly. China's outbound tourism is expected to be double by 2020 and to reach 200 million by 2020. In 2013 Chinese tourists reached approximately 113,000, which was an increase of 250% over 2009. By 2020, Chinese tourists are expected to reach 1 million, The average expenditure per Chinese visitor has increased from US$50 in 2011 to $100 in 2015. Similarly, visitors from India are expected to reach 50 million by 2020 and their expenditures are expected to be in the range of US$40 billion.

Essential tourism infrastructure, including hotels and resorts, is an obvious target for new investments. Business opportunities also exist to consolidate existing travel and tourism services, which are badly fragmented. It is expected that tourist arrivals will continue to grow in the coming years and India and China will remain Nepal's largest travel and tourism source markets. Accordingly, opportunities exist in refining services to cater to specific source market preferences. Nepal's domestic travel market is fed through an expanding middle class who will also drive the delivery of quality, affordable services. Domestic tourists have above average spending patterns during their short trips and there are good opportunities for service providers who can successfully identify and meet their needs.

A notable constraint to developing meetings, incentives, conferences and event tourism (MICE) is a lack of world-class conferencing facilities in the country. The only major convention centre in Nepal is used as a government assembly and in poor repair. The GoN currently does not have plan to construct new facilities, so this is a potential PPP opportunity.

INGOs and Donor involvement

DFID are currently the only major donor directly involved with the tourism sector, although there have been minor interventions from CBO, SNV and the ADB in the past few years.

Major Institutional Stakeholders

Policy Level

- Ministry of Culture, Tourism and Civil Aviation

Regulatory and Implementing Level

- Nepal Tourism Board
- Department of Tourism

Opportunity Overview

A high GoN priority, tourism offers some excellent investment opportunities:

- Tourism Infrastructure – Hotels and resort development, themed restaurants and indoor or controlled-space outdoor recreational activities.
- Event management and Infrastructure – this is a green fields opportunity.

Tourism Infrastructure

The GoN is stimulating investment in tourism infrastructure, which has resulted in a considerable increase in new hotel development across the country, including five 5-star and twelve 4-star hotels currently under construction or with planning permission. Most of the growth is being driven by major international hotel groups, including Marriott (MS Group), Starwood and Sheraton as well as large local investors (Chaudhary Group, Soaltee and Yeti Group). Expectations of increasing tourism arrivals are due to the redevelopment of Tribhuvan International Airport in Kathmandu and two new airports under construction in Lumbini and Pokhara (see Transportation sector). However, the majority of projects are centred in and around the Kathmandu Valley area and opportunities for further development exist throughout the rest of Nepal, especially when located near National Parks and Wildlife Reserves. There are also opportunities to combine cable car access with resort development as well as linking with vocational hospitality education.

The Nepali population has responded well to franchise restaurants like KFC, Pizza Hut, and Dominos, and opportunities for investment exist in developing themed restaurants serving specialty food. Indoor or controlled-space outdoor recreational activities are virtually non-existent across the country, creating opportunities for investment in theme parks, water parks, adventure activity parks (climbing, mountain biking and zip-lining), amusement parks, skating rinks, bowling alleys, golf driving ranges, laser tag centres and the like, which will have very strong appeal to both domestic and international tourism markets.

Strengths • Abundant low cost labour supply • Increasing international arrivals • Strengthening domestic market demand • High priority sector for the GoN • Attractive tax concessions	Weaknesses • Fragmented industry • Incomplete transportation infrastructure • Energy supply reliability • Expensive transportation systems • Poor safety and maintenance culture
Opportunities • Market and resource consolidation • Soft adventure and leisure activities almost non-existent • Enormous potential market growth • Large pool of hospitality training institutes	Threats • Competition from India and China investors • Natural disasters • Transportation accidents

Event Management & Infrastructure

Event management is a completely open sector within Nepal. Locations and facilities for concerts, conferences and major events, if they exist are in poor repair and/or require development. Organisational skills and expertise are lacking in all areas, however there is a large potential demand for a professional and well-managed event management organisation(s) and infrastructure developers. Potential linkages exist with an extensive 4 and 5-star hotel network as well as domestic media and corporate entities.

Strengths	Weaknesses
• Large potential demand • Many potential linkages to hotel, media and corporate networks • Attractive tax concessions	• Poor skill and management levels • Incomplete infrastructure • Energy supply reliability
Opportunities	**Threats**
• Green fields and first to market opportunity • Plenty of scope for infrastructure development • Cheaper operating costs than competitor countries • GoN priority when linked with tourism	• Complex land acquisition and operational agreements

Transport

The GoN, through the National Planning Commission, has identified 21 'National Pride Projects' that will make significant contributions to economic development, of which 10 are in the transportation infrastructure sector and include:

- Construct roads to all District Headquarters – 67 of 75 are currently linked with all-weather roads.
- Construct international airports in Bhairahawa in the Terai (the plains adjoining India), Pokhara (in the west) and Nijgadh (about 76 km from Kathmandu)
- Fast Track (Kathmandu to Terai) road
- Increase the capacity of Tribhuvan International Airport in Kathmandu
- Blacktop 22 domestic airport runways.

Expansion and upgrading of transport systems in Nepal, especially along north-south (India to China) linkages, is recognised as a very high priority by the GoN. The diversity and ruggedness of Nepal's terrain mean that road and air are the most popular transport options for both goods and people. There are plans to develop rail connections in the terai and cable cars are popular tourist attractions but have little contribution beyond that.

The transportation industry directly provides employment to almost 20,000 people, contributed 10.6% of GDP in 2016 and has been growing at 6.9% for the last 5 years. Over the next five years, the government hopes to mobilise US$8.2 billion for road infrastructure, rail connectivity and transport sector management. The country has total road network of 80,078 km, however most are open dirt roads and require regular maintenance. Nepal's railway line has total length of 57 km out of which only 5 km is currently operating. The country has 1 international airport and 56 domestic airports.

INGOs and Donor involvement

- Japanese International Cooperation Agency (JICA) is currently building the Naghdunga Tunnel (Sisne Khola to Naghdunga total 2.5 km) – the first tunnel project in Nepal and the Banepa-Sindhuli-Bardibas Road (160 km) which connects Kathmandu to Eastern Terai.
- A Chinese construction contractor is upgrading the 27km Kathmandu ring road.
- The Asian Development Bank has provided US$58.5 million (USD 42.75 in loans and USD 15.75 million in grants) and the OPEC Fund for International Development will provide loan of USD 15 million both for construction of the Gautam Buddha Regional International Airport (Bhairahawa).
- Nepal has signed a soft loan agreement with China for US$214.7 million to build the Pokhara Regional Airport.

Major Institutional Stakeholders

Policy Level

- Ministry of Physical Infrastructure and Transport
- Ministry of Federal Affairs and Local Development
- National Planning Commission
- Ministry of Culture, Tourism and Civil Aviation

Regulatory level and implementation level

- Department of Road
- Department of Local Infrastructure
- Development and Agriculture Roads

- Department of Railway
- Department of Transport Management Civil Aviation Authority of Nepal
- Road Board Nepal
- Investment Board of Nepal

Opportunities Overview

- The GoN seeks public-private partnerships to build sealed roads to 9 district headquarters that currently do not have all-weather-road access as well as upgrading more than 50% of Nepal's current unsealed arterial road network into all-weather-roads. And to expand current roads to accommodate increasing traffic.
- Eight north-south corridors (roads) linking China and India through Nepal, a cross-border railway line connecting Kathmandu with China, five cross-border railway lines, ultimately connecting Kathmandu with India, a railway line along the East-West Highway, and cable cars in the hilly regions are also planned.
- Expansion and development of domestic airports and air services has been identified by the GoN as an investment priority.
- In order to cater to the needs of the growing population, the development of mass public transportation systems – bus-rapid transport (BRT), railways, monorails have been prioritised. As the GoN expects to be producing 10,000MW of hydro electricity in the next ten years, electric-vehicle transport systems are preferred. To finance these projects, the government is seeking expressions of interest in public-private partnerships.

Roads

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

Nepal's road network is growing but there is an enormous need for more investment. Nepal is landlocked and relies on transport links with China and India for trade, however, there is only one reliable road link between the Kathmandu Valley and India at present and roads to China are often closed by weather and maintenance. In 2016, the GoN budget committed to developing strategic roads, bridges, and proactive maintenance and road safety. The GoN is specifically seeking PPPs in the upgrading and the development of new highways, developing international trade routes, associated infrastructure, and improving major district road networks.

Recently, the GoN initiated the following major road projects:

- The Naghdunga Tunnel (Sisne Khola to Naghdunga total 2.5 km) is the first tunnel project in Nepal. The Japanese International Cooperation Agency (JICA) has agreed to provide assistance. The estimated construction cost for the project is US$ 150 million.

- The Banepa-Sindhuli-Bardibas Road (160 km) connects Kathmandu to Eastern Terai. The road has been built with grant assistance from Japan. The road project has been divided into four sections Bardibas-Sindhuli (37 km), Sindhuli Bazaar-Khurkot (36 km), Khurkot-Nepalthok (37 km) and Nepalthok- hulikhel (50 km). The highway was constructed at the cost of over US$ 210 million.

- A Chinese construction contractor has received the award to widen and upgrade the 27km Kathmandu's ring road section. This will upgrade the existing two-lane road to eight-lanes along with bicycle lanes and footpaths on both sides Strategic Road Network (SRN).

Road infrastructure in Nepal includes the Strategic Road Network (SRN), which is planned and budget at central level, and the Local Roads Network, managed by the Department of Local Infrastructure Development and Agricultural Roads (DoLIDAR), together with Local District Development Committees. The SRN are the principal arteries of Nepal's road system and the Department of Roads is responsible for its development and maintenance. The network includes national highways and feeder roads. Out of total 26,935 Km SRN Nepal's road network 11,349 km is paved, 6,192 km is gravelled, and 9,394 km are earthen (fair) weather roads. Nearly half of Nepal's SRN, is limited to two- lanes that remain unpaved and upgrading them is a clear development priority. Major projects that the GoN is seeking proposals for PPP are:

- **North South Corridors** connect India and China, the first was via Birgunj-Naubise-Kathamndu-Tatopani-Nyalam (393km) and requires upgrading. The recently opened corridor from Birgunj-Galchi-Rasua-Syafrubesi (340 km) has substantial unpaved sections and also requires upgrading. There are six other corridors in various stages of construction, of which the Koshi corridor, Kali-Gandaki corridor and Karnali corridor are priorities:

- Koshi Corridor (Eastern) – expected top be operational by 2020 the Koshi Corridor Road connects Basantapur-Khandbari-Kimathanka over 195km in the far east of Nepal. Paving is expected to be finished by 2025 and the estimated project cost of US$58.5 million will be funded by the national budget.

- Kali Gandaki Corridor (Mid-Western) – this project is being constructed by the Nepalese Army and includes a 225km road from Gaindakot to Baglung, as well as a 190km road from Baglung to Korala. In addition, the Ramdi-Jomsom section (202 km) of Kali Gandaki Corridor Road will be paved and the Jomsom-Korala section (100 km) will be gravelled within three years. When completed, this will be the shortest route between India and China. The corridor will also pass through places with religious, historical and tourism values in the Dhaulagiri, Palpa, Mustang and Gulmi districts. The work is estimated to cost more than US$254 million.

- Karnali Corridor (Far-Western) – under this project, a total of 288km of road will be constructed in two parts. The first part will be from Khulalu to Simikot while the second will connect Hilsa and Simikot. Although the project began in mid-2008 no completion date has been set.

- **Mid-Hill Highway / Puspalal Highway** – this is a National Pride Project and crosses east to west across the country through mid-hills and mountains. It will connect Chiyabhanjyang of Panchathar District in the East to Jhulaghat in the Baitadi District in the Far-West, a distance of 1776 km. In total it will connect 24 districts, 225 VDCs and directly affect the lives of 7 million people. The road is expected to contribute to the nation's economic, cultural, societal and educational improvement and is projected to cost US$430 million in total. The GoN 2015/16 budget has allocated US$28 million to the project, which is expected to take 5 years to complete. There are also plans to develop ten model cities along the Mid-hill Highway.

- **Kathmandu-Terai/ Madhes Fast Track** – another National Pride Project, this plan is for a 155km, six-lane highway that will start in Kathmandu and end in Nijgadh (the dry port at Birgunj which supplies 40% of the total goods to Kathmandu). The Nepal Army has completed a single lane of this highway and the GoN intends to finance and complete the project unassisted. The World Bank has estimated that the project will cost US$1.5 billion.

- **Kathmandu - Kulekhani - Hetauda Tunnel Highway** – this project proposal includes a 58 km highway with three tunnels. According to the Detailed Plan Report (DPR), 90% of the project will lie in the Makwanpur district. The expressway will run from Balkhu of Kathmandu to Hetauda. The detailed design and EIA of the project has been completed. The existing Hetauda-Mugling-Kathmandu highway is one of the busiest road corridors in the country. Currently it runs 227 km and requires a travel time of approx. 6-8 hours. In contrast, the proposed highway will connect Kathmandu with Hetauda in an hour. The government has issued a license to develop the project on a BOOT (build, own, operate and transfer) basis. According to the agreement, the project will be handed over to the government after a period of 30 years. In 2012, the project cost was estimated to be US$348 million. Although this is a high priority project, to date, the licensee has failed to submit convincing financial closure report (which was due 1 year after signing the concession agreement) to show its ability to generate required funds to complete the project. The government may consider developing the project as a PPP.

- **Hulaki Marga / Postal Highway** – the Postal Highway is also a National Pride Project, 1,792 km long and will connect the eastern part of Nepal to the far western part. This highway will be located near the Indian border, parallel to the present Mahendra Highway running through terai districts (plain areas). This project will require upgrading of much of the existing road network in the Terai region and to construct some new ones. When completed, it will support development in the region's health, agriculture, industry, and tourism sectors. The total estimated cost of the project is US$205 million. Currently, only 67 km Lamki-Tikapur section (27.5 km) and Seti-Bhajani section (40 km) are paved. Similarly, 58 bridges are in various stages of construction while work on 46 bridges has not yet begun. The government is likely to consider the PPP model as an option for the rapid completion of the project.

Airports

Although comparatively expensive, air transport facilitates tourism and trade, as it is safe and reliable in terrain as varied and rugged as Nepal.

International
Tribhuwan International Airport (TIA) at Kathmandu is the only International Airport in the country. It serves a number of airlines connecting to international routes. In 2015, the airport handled 3.21 million passengers. TIA is currently being modernised in 4 phases. The total estimated cost for TIA's upgrade is US$605 million. For the phase 1, the contractual scope will include the enlargement of the existing runway, construction of new taxiways, extension of the apron, installing new lighting in the airfield, reformation of the international terminal, and installation of a new system for baggage carriage. This has been tendered and work is expected to commence in January 2018.

The Government of Nepal has signed Bilateral Air service Agreements and MOUs with 36 different countries. Bilateral air service agreements contain provisions on; the routes airlines can fly, including cities that can be served within, between and beyond the bilateral partners, also the number of flights that can be operated or passengers that can be carried between the bilateral partners and many other clauses addressing 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, with two further points, namely Osaka and Seoul.

- Gautam Buddha Regional International Airport (Bhairahawa) – will serve as a gateway to the birthplace of Buddha. This project will transform a local, domestic airport into a regional and international facility by the end of 2018. 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. Of the US$90.6 million project cost, the civil works component is valued at US$63 million. The Asian Development Bank has provided US$58.5 million (US$42.75 in loans and USD 15.75 million in grants), the OPEC Fund for International Development will provide loan of US$15 million and the Civil Aviation Authority of Nepal (CAAN) will bear the rest of the cost as counterpart funding.

- International Airport at Nijgadh, Bara – at present TIA is unable to cater for increasing passenger numbers, so a second international airport is proposed at Nijgadh, Bara district. The proposed Kathmandu-Terai Fast Track will connect the airport to Kathmandu city with travel time of approximately one hour. Once operational, it is expected to increase tourism and ease transportation. The process of land acquisition, estimated to cost US$1.2 billion has commenced. The total project cost is US$6.7 billion (including the development of airport city) and is designed to handle 15 million passengers annually and accommodate wide body aircraft. According to the feasibility study prepared in April 2011, the airport would cover 3,000 hectares of land: 2,000 hectares for the airport itself and the remaining 1,000 hectares for an airport city. The government has decided to manage this project without external funding. Private sector involvement for the construction, operation and maintenance of the airport will be encouraged.

Domestic
Of Nepal's 56 Domestic Airports, including 6 under construction, 32 receive regular scheduled services. Nepal has adopted an open sky policy, which allows private sector participants to

provide domestic air services. Private operators, who carry domestic passengers and tourists, manage most internal flights through two domestic hub airports, Kathmandu and Nepalgunj.

Pokhara Regional Airport – construction of the new regional Pokhara Regional Airport (PIA) airport began in April, 2016 and should be completed within four years. Upon completion, the airport will have a 3000m-long runway appropriate for Boeing 757 and Airbus A320, apron, international and domestic terminal buildings, air traffic control tower, cargo terminal building and airport hangar. The government has acquired the required land and the Environment Impact Assessment (EIA) Report for the project has been approved. Nepal has signed a soft loan agreement with China for the funding. Out of the project's total estimated cost of US$214.7 million.

Rail

India and Nepal signed a rail service agreement in May 2004 to extend cargo train services to the Inland Container Depot at Birgunj (Parsa district), which became operational in July 2004. Of the current 58km of railway lines, 53 km is owned by Nepal Railway Company (NRC) and is divided into two sections; 32 km from Janakpur in Nepal to Jainagar in India; and 21 km from Janakpur to Bijalapur, however neither section is currently operating. There is a 5km line operating at the Inland Clearance Depot in Birgunj, Nepal, which connects to the Indian Railway system. The GoN realising the importance of railways for both freight and passenger transport and has embarked on a plan to construct a railway line that runs the entire length of the country. Currently, Jainagar-Janakpur-Bardibas rail link is under construction and the overall project includes six locations connected by an EW Electric Railway (approx. 113 km) to the Indian railway system. The GoN is seeking operational agreements in the form of one or more PPPs.

Urban Transport

Present urban transport systems throughout Nepal are congested, inefficient and environmentally unfriendly. The Kathmandu valley has a population of about 4 million and desperately needs to develop a sustainable mass transit system, preferably with green energy vehicles to cut emissions, reduce imports of crude oil, improve energy security and save lives. The following projects are given the high priority:

- Railways (MRT, LRT, and Monorail)
- Bus Rapid Transit (BRT) (Electric BRT (eBRT)
- Road Flyovers
- Vehicle tunnels
- Cable cars

APPENDIX I: SET UP PROCEEDURES

Industries Permissible for Foreign Investment
Source: Nepal-India Chamber of Commerce and Industry

Industry Category	Maximum FDI Permissible	Name of the competent authority (Regulator)	Relevant Acts & Policies	Remarks
Manufacturing	100%	Department of Industry	Industrial Enterprises Act, 2017	No additional procedures required except for certain industries which required special permission
Financial Services/Banks and Finance Companies and Branch Office of a Foreign Bank	(20 to 85)%	Nepal Rastra Bank	Nepal Rastra Bank Act, Foreign Investment and Technology Transfer Act (FITTA) Foreign Exchange Regulation Act (FERA)	Approval of Nepal Rastra Bank required thereafter, registration of the company is to be done and application filed for license to operate a bank, or financial institution
Airline Industry	(49 to 95)%	Civil Aviation Authority of Nepal	The Aviation Policy 2006 Civil Aviation Act, 2053, Civil Aviation Rules, 1996	49% FDI is permissible in domestic airlines, and up to 100% in international airlines, flying schools and repair and maintenance work
Telecommunications	80%	Nepal Telecommunication Authority, Ministry of Information and Communication	Telecommunication Act	Approval of Nepal Telecommunication Authority is required to operate services and obtain license prior to operation
Roads, Ropeways, Cable car	100%	Transport Management Office	-	-
Media & Advertising – TV, Radio and Newsprint	100%	Ministry of Information and Communication	The Nepal Broadcasting Regulation, 1995 National Broadcasting Act 1993	The MOCI and NTA provides license for establishing media and broadcasting business in Nepal
Pharmaceutical & Chemical Industries	100%	Department of Health Services	Industrial Enterprises Act Drug Act	Approval from the Department of Drug Administration for setting up the industry, manufacture and selling the drug is required

Textile and Garment	100%	Department of Industry	Industrial Enterprises Act	No specific requirements
Agriculture and Dairy	100%	Ministry of Agriculture and Co-operatives	-	No specific requirements
Consultancy and Management Services	51%	No Specific	Foreign Investment and Technology Transfer Act (FITTA)	Accountancy, Engineering, Legal & Management Services not allowed
Mining	100%	Department of Mines	Department of mines and Geology (Department) Act Mines and Minerals Act, 1993 & Regulations, 1999	License from the Department of Mines has to be obtained for mining activities in Nepal
Hydro-Power Generation	100%	Department of Electricity Development	Electricity Act Electricity Rules	Approval from the DOED is required prior to operation of the industry
Power Trade	-	Department of Electricity Development	Electricity Act Electricity Rules	Export of power to India is permitted for companies generating electricity
Transmission Lines	100%	Department of Electricity Development	Electricity Act Electricity Rules	-
Hotels, Resorts & Restaurant	100%	Ministry of Tourism	Tourism Policy, Tourism Act	Approval from the Department of Tourism required for operating restaurant, hotels, resorts
IT & IT enabled (BPO, KPO)	100%	Department of Science and Technology	IT Act	No specific requirements
Vocational, Educational Training & Coaching	100%	No specific	Foreign Investment and Technology Transfer Act	Only Skill Training and Language allowed
Hospitals & other Medical Services	100%	Ministry of Health & Population	Nepal Health Professional Act, Nepal Medical Council	Approval from the Ministry of Health is required for establishing hospitals and providing medical services
Recreational Health Centers	100%	Ministry of Health & Population	-	-
Solid Waste Disposal & Management	100%	Ministry of Environment, Science and Technology	Environment Protection Act	-
Film Industry	100%	Cinema Board of	Motion picture	Film produced in the

		Nepal	(Production, Exhibition and Distribution) Act 1969 and Rules	language if the nation not allowed (FITTA, 1992)
Cargo Industry	100%	No specific	-	Domestic Cargo not permitted under FDI
Medical Education	100%	Ministry of Education	MoHP's Directive on Establishment, Operation, Standards and Infrastructure of Private and Non-governmental Health Institution, 2004	Affiliation to a University has to be entered into and approval from the Ministry of Education required
Engineering Education	100%	Ministry of Education	Technical Education Policy of Ministry of Education	Approval is granted under the Technical Education Policy of Ministry of Education
Management Education	100%			
Insurance & Re-insurance	JV Company Branch Office	Insurance Board	Insurance Act and related directives	Approval from the Insurance Board has to be obtained prior to commencement of business in Nepal
Construction	100%	No Specific	Local Self Governance Act	Approval from the Department of Road, Transport and Physical Planning required
Thermal & Alternative/ Renewable energy	100%	Ministry of Energy	Electricity Act	Allowed only in Energy Generation

Foreign Equity Investment in a New Industry[16]

Documents required:		
SN	**Document**	**No. of Copies**
1	Project Report	3
2	Joint Venture Agreement (JVA), in case of more than one investor	3
3	Citizenship certificate of local party or Certificate of Incorporation, including Memorandum of Association and Articles of Association if the local party is a company	1
4	Copy of passport of foreign party or Certificate of Incorporation, including Memorandum of Association and Articles of Association if the party is a company	1
5	Bio-data / Company profile of the foreign party	1
6	Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank	1
7	Authority letter from the concerned companies or individuals to carry out any necessary work on	

[16] World Bank, Doing Business in Nepal 2017

	their behalf, if applicable

Deposits and Fees

The fees need to be deposited at the time of Foreign Investment Approval, and are refundable after the operation of industry.
(Amount in Nepalese Rupees)

Range of Fixed Asset	Deposit
Fixed assets less than or equal to 2,500,000	4,000
2,500,000 less than (Fixed assets) less than or equal to 5,000,000	7,000
5,000,000 less than (Fixed assets) less than or equal to 10,000,000	10,000
10,000,000 less than Fixed assets	20,000

The amount shall be deposited at the Nepal Rastra Bank Account number SA.A. 131232
The non-refundable fees for the Company Registration:

Range of Authorised Capital	Fee
2,500,000 less than (Authorised Capital) less than or equal to 10,000,000	16,000
10,000,000 less than (Authorised Capital) less than or equal to 20,000,000	19,000

Similarly, an additional fee will be calculated at the rate of NPR 30 per NPR 100,000 of authorised capital.

Technology Transfer

Technology transfer is possible even in areas where foreign investment is not allowed.
Forms of Technology Transfer to be made under an agreement between an industry and a foreign investor include:

- Use of any technological right, specialisation, formula, process, patent or technical know-how of foreign origin;
- Use of any trademark of foreign ownership; and
- Acquisition of any foreign technical consultancy, management and marketing service.

Documents required:		
SN	**Document**	**No. of Copies**
1	Technology Transfer Agreement (TTA)	3
2	Citizenship certificate of local party or Certificate of Incorporation, including Memorandum of Association and Articles of Association, if local party is a company	1
3	Copy of passport of foreign party/or Certificate of Incorporation, including Memorandum of Association and Articles of Association, if the party is a company	1
4	Bio-data / Company profile of the foreign party	1
5	Industry Registration Certificate	1
6	Copy of the minutes of the Board of the recipient company	1
7	Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable	

Foreign Investment in an Existing Industry by Share Transfer

Documents required:		
SN	Document	No. of Copies
1	Request from the share transferor	
2	Request from the share transferee	
3	Share Transfer Agreement	3
4	Copy of minutes of the Board meeting of Nepalese company regarding inclusion of foreign investor into the company	1
5	Copy of minutes of Board meeting, Certificate of Incorporation and company profile of the foreign party if the party is a company	1
6	Copy of passport and Bio-data of foreign party, if party is an individual	1
7	Financial Credibility Certificate of the Foreign Investor provided by a bank	1
8	Current Share Holders' List as certified by the Company Registrar's Office	1
9	Auditor's Report	1
10	Tax clearance certificate	1
11	Authority letter(s) from the companies concerned to sign on behalf of the companies	

Loan Investment in an Existing Nepalese Industry

Documents required:		
SN	Document	No. of Copies
1	Loan Agreement	3
2	Certificate of Incorporation, including Memorandum of Association and Articles of Association of the lending agency	1
3	Certificate of Incorporation, including Memorandum of Association and Articles of Association of the lending agency	1
4	Industry Registration Certificate	1
5	Copy of the minute of the Board of the recipient company regarding the loan to be acquired	1
6	Authority letter from the concerned companies or individuals to carry out	

	any necessary work on their behalf, if applicable

Doing Business in Nepal
Summary of procedures for starting a business in Nepal—and the time and cost

SN	Procedure	Time to complete	Cost to complete
1	**Verify the uniqueness of the proposed company name** Verification of the uniqueness of a company name can now be done online. To reserve the available company name, the company must submit an application to the Office of the Company Registrar. The company name reservation can also be completed online for no charge.	1 day	No Charge
2	**A professional verifies and certifies the memorandum and articles of association** Although professional verification or certification prior to submission to the official agency is no longer required, entrepreneurs continue to use the services of professionals in practice for verifying and drafting the memorandum and articles of association. This is mainly done to avoid mistakes since there are no standard memorandum and articles of association's forms that entrepreneurs can use.	5 days	NPR 10,000 depending on the professional's charges
3	**Buy a stamp to be attached to registration form**	1 day	NPR 5
4	Register at the Office of the Company Registrar, Department of Industry To register a company, the promoter must submit an application as prescribed by the Ministry of Industry, Commerce, and Supplies. Online filing of the required documents has been introduced. The registration fee is based on the company's authorised capital: • Up to NPR 100,000 (authorised capital): NPR 1,000.00 • NPR 100,001 to NPR 500,000: NPR 4,500.00 • NPR 500,001 to NPR 2,500,000: NPR 9,500.00 • NPR 2,500,001 to NPR 10,000,000: NPR 16,000.00 • NPR 10,000,001 to NPR 20,000,000: NPR 19,000.00 • NPR 20,000,001 to NPR 30,000,000: NPR 22,000.00 • NPR 30,000,001 to NPR 40,000,000: NPR 25,000.00 • NPR 40,000,001 to NPR 50,000,000: NPR 28,000.00 • NPR 50,000,001 to NPR 60,000,000: NPR 31,000.00 • NPR 60,000,001 to NPR 70,000,000: NPR 34,000.00 • NPR 70,000,001 to NPR 80,000,000: NPR 37,000.00 • NPR 80,000,001 to NPR 90,000,000: NPR 40,000.00 • NPR 90,000,001 to NPR 100,000,000: NPR 43,000.00 • More than NPR 100,000,000: NPR 43,000 plus NPR 30 for each additional NPR 100,000.	7 days	NPR 9,500
5	**Make a company rubber stamp**	1 day	NPR 275
6	**Register for VAT and income Tax with the Inland Revenue Office, the Ministry of Finance** The company must disclose the office address and withhold 10% tax of the rent for at least 3 months and deposit it to the tax office. If the company's objectives include goods or services subject to VAT, both registrations (VAT	1 day	No Charge

	and income tax) should be obtained simultaneously.		
7	**Enroll the employees in the Provident Fund** From the basic salary of each employee, 10 % is deducted each month, and a matching contribution is made by employer. The contribution is made to the provident fund and released on employee retirement. The employer also has to pay gratuity on retirement of an employee at the rate prescribed by labor regulation. Both of these rules are applicable only if the company appoints 10 or more employees.	1 day	No Charge

Source: Doing Business – 2014, Economy Profile, Nepal

Summary of procedures for dealing with construction permits in Nepal —and the time and cost

SN	Procedure	Time to complete	Cost to complete
1	**Purchase building permit application from Kathmandu Metropolitan City (KMC)**	1 day	NPR 1,000
2	**Request and obtain temporary building permit** The 35 days are divided as follows: • Day 1: BuildCo submits the drawings to the municipality along with a copy of the title certificate. • Day 2: The municipality forwards the file to the municipality ward office where the land is located. • Day 4: The ward office checks the field and sends a notice to the site's neighbors. • Day 8: Start of the maturation of notice period. • Day 23: Start of the local inquiry done by the ward office. • Day 27: The ward office sends the file back to the municipality. • Day 29: The municipality starts the process of issuing a temporary approval of the drawings. At least one of the neighbors must give their consent in order for the project to be approved. Otherwise, the builder can submit a "commitment letter" certifying that he is responsible for any potential dispute in the future. This can delay the approval process to around 2 months. An applicant must submit the following documents along with the building permit application: • Identity document of the owner (or Company Registration Certificate) • Certification by a registered architect or engineer • Cadastral extract • Proof of land ownership/lease • Building Plans • Lot plan • Proof of tax payment • Structural plans (not required for buildings with ground coverage area of less than 1,000 sq.ft and less than 3 stories) The originals of all documents must be demonstrated when submitting the copies to the Urban Development Department of Kathmandu Metropolitan City.	35 days	NPR 282,000

	The building permit fee is calculated as follows: • Built-up area up to 3,000 sq.ft: 10.00 rupees per sq.ft • Built-up area between 3,001 and 5,000 sq.ft: 15.00 rupees per sq.ft • Built-up area 5,001 sq.ft and above: 20.00 rupees per sq.ft For apartment housing and group housing, the application fee is a flat 25.00 rupees per sq.ft. In addition to the building permit fee, the Urban Development Department also charges a Designer Fee of 2,000.00 rupees. The project designer must be licensed by the Department. The license is called Certificate of Designer and is renewed every year at the Municipality. The annual fee is 3,000.00 rupees. The Municipality charges an additional 2,000.00 rupees for each building design.		
3	***Receive inspection from respective ward** The ward office visits the site and distributes a notice to neighbors.	1 day	No Charge
4	**Request permanent building permit** The company applies for the permanent building permit once the construction has reached plinth level.	1 day	No Charge
5	*** Receive plinth inspection from the Municipality** Before issuance of the construction permit, an on-site inspection is conducted by an official from the municipality or the Town Development Committee to ensure that the construction (up to plinth level) conforms to the approved drawings. The company's engineer or architect has to be present during the inspection.	1 day	No Charge
6	**Obtain permanent building permit** After inspecting the construction site, the municipality engineer writes a "site report" and issues a permit for construction above the plinth level.	30 days	No Charge
7	**Request completion certificate**	1 day	No Charge
8	*** Receive final inspection from the Municipality** Before issuance of the completion certificate, the municipality conducts an on-site inspection to check if the construction conforms to the approved drawings. An inspector visits the site in 2-3 days after the request for completion certificate and writes a report to the more senior engineer.	1 day	No Charge
9	**Obtain completion certificate** There will be 4 signatures on the completion certificate: (1) junior engineer, (2) senior engineer, (3) chief engineer of Kathmandu Metropolitan City and (4) departmental engineer. It takes approximately 7 days to get the certificate after the inspection. These signatures are required for any kind of permit.	30 days	No Charge
10	**Request and obtain water and sewage connection** BuildCo submits an application for water and sewerage service to the drinking water and sewerage offices. The drinking and sewerage offices then send their recommendation to the road department to grant permission to dig the road for the connection. The Department of Roads then grants its permission to dig the road. The tap and sewer connection is then carried out.	15 days	NRP 8,000
11	*** Receive inspection from water and sewage offices**	1 day	No Charge
12	*** Obtain Telecommunications Connection** The client must fill out the application form and submit it to NTC together	7 days	NRP 2,200

	with company registration certificate, PAN, etc. NTC will check the junction box and give client the quote (deposit, connection fee, etc.).		
13	*** Receive Telecommunications Inspection**	1 day	No Charge

* Takes place simultaneously with another procedure.
Source: Doing Business – 2014, Economy Profile, Nepal

Summary of procedures for getting electricity in Nepal—and the time and cost

SN	Procedure	Time to complete	Cost to complete
1	**Submit application to Nepal Electricity Authority (NEA) and await site inspection** The photocopy of documents needed to be submitted along with application form mentioning the load in kW / MW and type of voltage (low voltage/medium voltage/high voltage) are: citizenship of owner, land deed, certificate issued from the commerce department to operate the warehouse, tax registration certificate, construction approval certificate from the municipality, contract agreement between land owner and warehouse runner, if the land is leased. No need of notarisation, NEA personnel will attest after verification with the original copies. Approval of load estimate - In this case an approval from Regional director or Manager may be required – decided on case by case basis and in about 50% of cases, this might be so.	7 calendar days	NPR 50.00
2	**Nepal Electricity Authority conducts site inspection, verifies load estimate and provides estimated cost** It is expected that someone from owner's side is present during external site inspection to answer any questions that NEA personnel might have. NEA personnel will make a visit to site to ascertain the appropriateness of the place where the energy meter is to be installed, and also they check the transformer installed at consumer's site (As per NEA rule, the consumer has to install his own transformer for the load above 50kVA.). Approval of load estimate is needed to decide how much of a supply is needed for the building. - In this case an approval from Regional director or Manager may be required – decided on case by case basis, and in about 50% of cases, this might be so.	7 calendar days	No Charge
3	**Get transformer tested at NEA lab and complete connection works** Cost includes purchase of Poles, Insulators, Transformer (150KVA), cutout, lightning arrestor, earthing materials, hardwares, drop cable, MCCB, meter box and other fitting materials. Cost also includes purchase of Distribution transformer. Distribution Transformer can only by purchased after approval of load estimate. Availability of DTs in ready stock is not always the case, and there is always some waiting time. The transformer has to be tested for quality as it has been purchased privately. The installation of the transformer is done by a private contractor.	35 calendar days	NPR 754,005.00
4	**Submit test report and request and receive site inspection** Customer has to make payment, submit NEA test report.	7 calendar days	NPR 35,500.00
5	**NEA performs external connection, and electricity starts flowing**	14 calendar	No Charge

		days	

Source: Doing Business – 2014, Economy Profile, Nepal

Summary of procedures for registering property in Nepal—and the time and cost

SN	Procedure	Time to complete	Cost to complete
1	**Obtain tax clearance certificate and certificate of access and building from the Municipality (relevant ward committee)** The seller must go to the local government to certify the type of road that adjoins the property. Kathmandu municipality is divided into 25 wards. The seller has to go to the ward committee to take the certificate in one day and it costs Rs 3000. At the same time, he can obtain a tax clearance letter. A tax clearance certificate must be obtained from the Municipality regarding the payment of the property tax. If the property is not yet registered in the Municipality for tax purposes then it might take a few days to collect the necessary papers of building permit, land deed, land revenue papers, field visit of municipal engineers to verify and assess the property, etc. In any case it should not take more than seven days.	2 days	The cost of obtaining certificate is different in different municipality. In Kathmandu Municipal corporation it cost NPR.105 to 1005 for obtaining certificate of access and building. • NPR 5,000 for main road. • NPR 3,000 for side road. • NPR 2,000 for gravel road. • NPR 1,000 for track road. Obtaining the Tax clearance certificate involves 1. Payment of land revenue and 2. Payment of land and building property tax. This tax is applicable only for plots containing buildings of any kind and if it is situated in municipal area.
2	**Hire lekhandas or a junior lawyer** Legally, the parties can prepare the transfer deed by themselves, but normally it is done by the lekhandas, or scribes.	1 day	NPR 7000
3	**Registration of the deed and issuance of a new title certificate** The transfer deed is submitted for registration to the Land Revenue Office. The authenticity of the seller is checked by the Land Revenue Office against the Citizenship Certificate. The existence of liens or encumbrances on the property is also checked on the same day by the Land Revenue Office. The registration fee (4.5% of property price in case of municipal areas, according to Finance Act of 2065 Nepalese calendar (2008), implemented in June 2008) is paid at the Land Revenue Office at the moment of applying for registration. Parties must sign and thumb print on the transfer deed. After the verifications of all documents by the officer, the transfer deed will be registered and the title certificate will usually be issued on the same day. The documentation shall include: Land Ownership Certificate (already in possession of the seller) Citizenship Certificate of seller and buyer or/	2 days	4.5% of property price (registration fee)

	Incorporation Certificate of Company Tax clearance certificate from the Municipality/ Village Development Committee (obtained in Procedure 1)		

Source: Doing Business – 2014, Economy Profile, Nepal

APPENDIX II: ASSESSMENT OF LEGAL SYSTEMS[17]

Transparency of the Regulatory System

The GoN has many policies and laws that look good on paper, but for which interpretation or enforcement are inconsistent and/or inadequate. Frequent government changes and staff rotations within the civil service result in officials who often are unclear on applicable laws and policies or interpret them differently than their predecessors. Due to the complex and opaque regulatory system, businesses frequently encounter demands for cash payments to officials to receive necessary approvals.

Rule-making and regulatory authority resides almost exclusively with the central government in Kathmandu, and foreign businesses can expect to interact with bureaucrats at the central government level. Nepal's 2015 constitution calls for the state to transition to a federalist model, with some roles and responsibilities to be transferred to newly-create provinces, the delineation of which has not yet been finalised. Details and a timeline for implementing the new federal system and devolving relevant authorities from the centre to the provinces remain unclear, as does the extent to which these changes will affect foreign investors.

Legal, regulatory, and accounting systems are neither fully transparent nor consistent with international norms. Though auditing is mandatory, professional accounting standards are low, and practitioners may be poorly trained. As a result, published financial reports can be unreliable, and investors often rely on general business reputations unless companies use international accounting standards.

Publically listed companies in Nepal follow the Nepal Financial Reporting Standards (NFRSs) 2013, which is prepared on the basis of International Financial Reporting Standards (IFRSs) 2012. Audited reports of publically listed companies are usually made available.

Draft bills or regulations are made available for public comment. The government agency that drafts the bill is responsible for undertaking a public consultation process with key stakeholders by issuing federal notices for comments and recommendations. Additionally, all parliamentarians are given copies of the draft bills to share with their constituencies. This applies to all draft laws, regulations, and policies.

Generally, the government agency that drafted the bill, legislation, policy, or regulation posts the actual draft (in Nepali language) online. However, once approved, the Department of Printing, an office that is part of the Ministry of Information and Communications, posts all acts online.

Several government offices, including the Parliamentary Accounts Committee, the Office of the Auditor General, and the Centre for Investigation of Abuse of Authority, oversee the government's administrative processes.

Regulatory actions and summaries of these actions are available at the Office of the Auditor General and the Ministry of Finance. Both of these government agencies release periodic reports on the regulatory actions taken against agencies violating laws, rules, and regulations. Such summaries and reports are available online in Nepali.

Since Nepal promulgated its new constitution in September 2015, the GoN has announced many regulatory reforms, including several that are relevant to foreign investors. The Cabinet recently approved a new Intellectual Property Rights (IPR) policy. In 2016, Parliament approved a new Industrial Enterprise Act that aims to promote industrial growth in the private sector by making

[17] Source: US Department of State, Doing Business in Nepal

it easier to hire and fire workers, streamlining registration processes, and expediting environmental review processes. Parliament also approved the Special Economic Zone (SEZ) Act, which provides preferential taxation provisions for investors in SEZs, guarantees electricity in designated SEZs and also prohibits strikes in these zones. The Ministry of Industry is finalising a new Foreign Investment Act (FIA) that will replace the Foreign Investment and Technology Transfer Act (FITTA) of 1992, which currently governs foreign investment in Nepal. According to sources at the Ministry of Industry, the new act would ease licensing and registration of foreign companies and repatriation of funds by foreign investors.

Reforms initiated during the early 1990s significantly contributed to the expansion of the banking and financial, civil aviation, hydropower, telecommunications, and IT sectors in Nepal. However, there has been little economic reform in the past two decades and foreign investment has stalled. The current push to pass new or revised legislation is intended to lead a 'second wave of liberalism' following the reforms of the 1990s.

Traditionally, once bills are drafted and passed by the Parliament through the legislative process, it is incumbent upon the relevant GoN ministries or departments to draft the implementing regulations to help enforce the act. Regulations, however, are generally passed by the Cabinet and do not need Parliamentary approval.

Concerned ministries are responsible for enforcement of regulations. The enforcement process is legally reviewable and made accountable to the public.

Public comments are received through consultative sessions with private sector representatives or sector experts and incorporated into the draft regulations. However, Nepal is still far behind international standards in developing a mechanism or system for the review of regulations based on scientific or data-driven assessments, or for conducting scientific studies or quantitative analysis for such purposes. Consultative sessions with private sector representatives or sector experts are the most common type of review. The World Bank notes that the GoN is not required by law to solicit comments on proposed regulations, nor do ministries or regulatory agencies report on the results of the consultation on proposed regulations.

International Regulatory Considerations

Nepal is member of the South Asian Free Trade Area (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

SAFTA, which came into force on January 1, 2006, created a duty-free trade regime among the member countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. According to SAFTA rules, member countries were supposed to reduce formal tariff rates to zero percent by 2016. However, tariff barriers remain high owing to lists of "sensitive" goods produced by different member countries. This list includes hundreds of sensitive products that do not qualify for duty-free status.

BIMSTEC, another forum for regional cooperation, came into effect on June 6, 1997, and includes Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan, and Nepal.

Bangladesh, Bhutan, India and Nepal, known collectively as BBIN, are working together to develop a platform for sub-regional cooperation in such areas as water resources management, power connectivity, transport, and infrastructure.

Nepal's regulatory system generally relies on international norms or standards developed by international organisations and regulatory agencies, such as the United Nations, World Bank, World Trade Organisation (WTO), and others.

Nepal joined the WTO in March 2004. According to its WTO accession commitments, the GoN is supposed to provide notice of all draft technical regulations to the WTO Committee on Technical Barriers to Trade (TBT). However, when asked, GON officials were unsure if this process is happening.

Legal System and Judicial Independence

Nepal's court system is based on Common Law and its legal system is generally categorised under civil and criminal offences and laws. Contract law is codified. In theory, contracts are automatically enforced, and a breach of contract can be challenged in a court of law. In practice, enforcement of contracts is weak. Nepal ranks 152nd in the World Bank's 2017 Doing Business Report in the category of contract enforcement.

Nepal's contracts are guided by the Contract Act of 2000. Nepal does not have a commercial code. All courts are civil, but they are mandated to hear commercial complaints.

The judicial system is independent of the executive branch. In general, the judicial process is procedurally competent, fair, and reliable; however in some isolated or high profile cases, court judgments have come under criticism for alleged political interference, favouring a particular group, or bribery.

Regulations or enforcement actions are appealable, and they are adjudicated in the national court system.

Laws and Regulations on Foreign Direct Investment

Nepal has established some investment-friendly laws and regulations, but practical problems remain. Laws limiting the operation of foreign banks, practical limitations on the repatriation of profits, limited currency exchange facilities, and the government's monopoly over certain sectors of the economy, such as electricity transmission and petroleum distribution, weaken the investment climate in Nepal. Foreign investment in Nepali firms is based on book value on a par basis, not on market value or other negotiated price, and all investment must receive government approval.

In disputes involving a foreign investor, the concerned parties are encouraged to settle through mediation in the presence of the Department of Industry. If the dispute cannot be resolved, cases may be settled either in a Nepali court or in another legal jurisdiction, depending on the amount of the initial investment and the procedures specified in the contract. Commercial disputes under the jurisdiction of Nepali courts and laws typically drag on for years.

The Industrial Enterprise Act, approved in October 2016, includes a "no work, no pay" provision that has been a top objective of the Nepali private sector for many years. The Special Economic Zone (SEZ) Act, approved in August 2016 prohibits workers from striking in any SEZ in Nepal. There is only one SEZ under development but the GoN hopes eventually to have as many as 15. An IPR Policy approved in March 2017 will serve as the foundation for new IPR legislation. In addition, the Ministry of Industry has drafted a new Foreign Investment Act that is expected to receive Parliamentary approval in 2017.

For foreign investment requests and proposals less than $100 million, the Department of Industry is the primary GoN agency. Proposals larger than $100 million are handled by the Investment Board of Nepal (IBN). However, other regulatory bodies may be responsible for approvals and licensing, depending upon the area of investment, and all foreign and national investors are required to obtain a Department of Industry-issued license before launching a business. Most of the relevant laws, rules, procedures, and reporting requirements for investors are available on the Department of Industry website: http://www.doind.gov.np/

Competition and Anti-Trust Laws

The Competition Promotion and Market Protection Board, comprised of GoN officials from various ministries and chaired by the Minister of Supplies, is responsible for reviewing competition-related concerns. There are no publically recorded competition cases that involved foreign investment.

Expropriation and Compensation

The Industrial Enterprise Act of 2016 states that "no industry shall be nationalised." To date, there have been no cases of nationalisation in Nepal, nor are there any official policies that suggest expropriation should be a concern for prospective investors. However, companies can be sealed or confiscated if they do not pay taxes in accordance with Nepali law, and bank accounts can be frozen if there are suspicions of money laundering or other financial crimes.

Nepal does not have a history of expropriations. There have been no government actions or shifts in government policy that indicate possible expropriations in the foreseeable future.

Dispute Settlement

ICSID Convention and New York Convention

Nepal is a signatory to and adheres to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Award. The Arbitration Act of 1999 allows the enforcement of foreign arbitral awards and limits the conditions under which those awards can be challenged.

The GoN has updated its legislation on dispute settlement to bring its laws into line with the requirements of New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Award.

Investor-State Dispute Settlement

The GoN is signatory to a treaty or investment agreement that recognises international arbitration of investment disputes as binding.

Nepal does not have a Bilateral Investment Treaty or Free Trade Agreement with the United States.

Investment disputes involving U.S. or other foreign investors have not been frequent. In the last ten years, there have been two cases in which a U.S. investor claimed that the GoN did not honour portions of a contract. In a third case, a U.S. investor complained about monetary compensation given to a landowner. This case was eventually resolved in favour of the investor.

In theory, local courts recognise and enforce foreign arbitral awards issued against the government, based on the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

There are no known cases of extrajudicial action against foreign investors.

International Commercial Arbitration and Foreign Courts

Other than arbitration, there are no alternative dispute resolution mechanisms available in Nepal.

In disputes involving a foreign investor, the concerned parties are encouraged to settle through mediation in the presence of the Department of Industry. If the dispute cannot be resolved, cases may be settled either in a Nepali court or in another legal jurisdiction, depending on the amount of the initial investment and the procedures specified in the contract. Commercial disputes under the jurisdiction of Nepali courts and laws typically drag on for years.

Local courts recognise and enforce foreign arbitral awards issued against the government, based on the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Domestic courts have a history of siding with SOEs (or any government entity) in cases involving investment disputes. There have been cases where local courts have refused to determine whether documents issued by an SOE were genuine.

Bankruptcy Regulations

There is no specific act in Nepal that exclusively covers bankruptcy. The 2006 Insolvency Act provides guidelines for insolvency proceedings in Nepal and specifies the conditions under which such proceedings can occur. Additionally, the General Code of 1963 covers bankruptcy-related issues. Creditors, shareholders, or debenture holders can initiate insolvency proceedings against a company by filing a petition at the court.

Nepal ranked 89th in the category of resolving insolvency in the World Bank's 2017 Doing Business Report. According to the report, "resolving insolvency [in Nepal] takes 2 years on average and costs 9 percent of the debtor's estate, with the most likely outcome being that the company will be sold as piecemeal sale. The average recovery rate is 42.3 cents on the dollar."

Liquidation is covered by both the Company Act and the Insolvency Act of 2006. If a company is solvent, its liquidation is covered by the Company Act. If the company is insolvent and unable to pay its liabilities, or if its liabilities are greater in value than its assets, then liquidation is covered by the Insolvency Act. Under the Company Act, the order of claimant priority is as follows: 1) government revenue; 2) creditors; and 3) shareholders. Under the Insolvency Act, the government is equal to all other unsecured creditors. Monetary judgments are made in local currency. Firms and entrepreneurs who have declared bankruptcy are blacklisted from receiving loans for 10 years.

Laws/Regulations on Foreign Direct Investment

The most significant foreign investment laws are the Foreign Investment and Technology Transfer Act of 1992 (since amended), the Foreign Investment and One Window Policy of 2015, the Foreign Exchange Regulation Act of 1962, the Immigration Rules of 1994, the Customs Act of 1997, the Industrial Enterprise Act of 2017, the Electricity Act of 1992, the Privatisation Act of 1994, and the annual budget, which outlines customs, duties, export service charges, sales, airfreight and income taxes, and other excise taxes that affect foreign investment.

In February 2015, the GoN issued the new Foreign Investment and One-Window Policy 2015, which replaced the Foreign Investment Policy of 1992. The new policy defines priority sectors for foreign investment, including hydropower, transportation infrastructure, agro-based and herbal processing industries, tourism, and mines and manufacturing industries. The Foreign

Investment and One Window Policy also established currency repatriation guidelines, outlines visa regulations and arbitration guidelines, permits full foreign ownership in most sectors, and creates a “one window committee” for foreign investors.

The Foreign Investment and One Window Policy opened the retail sector to foreign investment for the first time, but with some conditions. Foreign multi-brand retail stores (i.e., Wal-Mart or Tesco) are now permitted, provided the investor has operations in more than two countries and invests more than US$5 million in fixed capital. The policy also states that foreign investors will be treated the same as domestic investors, and industries run by foreign investors cannot be nationalised. The new policy also aimed at easing visa policies for investors, family members, and assisting foreign investors with land acquisition, industrial security, and repatriation of investment and profits.

The Foreign Investment and Technology Transfer Act (FITTA) of 1992, as amended, eliminated the minimum investment requirement and opened legal, management consulting, accounting, and engineering services to foreign investment with a 51-percent ownership limit. It also clarified rules relating to business and resident visas. In general, under the FITTA, all agreements related to foreign investment are governed by Nepali law and subject to arbitration in Kathmandu under the United Nations Commission for International Trade Law rules. However, foreign law can be applicable in cases where the foreign investment exceeds approximately US$5 million and where the parties make this choice clear in their agreement. The GoN is revising the FITTA, although it is unclear when the legislation will be approved by Parliament.

The Customs Act and the Industrial Enterprises Act, revised in 1997, established invoice-based customs valuations and eliminated many investment tax incentives, replacing them with a lower, uniform rate. The Electricity Act defines special terms and conditions for investment in hydropower development. The Privatisation Act of 1994 authorises and defines the procedures for privatisation of state-owned enterprises to broaden participation of the private sector in the operation of such enterprises.

The Nepal Stock Exchange does not allow foreign investors to own or trade any publicly traded companies on the exchange. Stock trading is available only for citizens of Nepal.

The terms and conditions of intellectual property protection are defined by the 1965 Patent, Design, and Trademark Act and the 2002 Copyright Act. The latter covers electronic audio and visual materials and subjects violators to fines and imprisonment, as well as the confiscation of unauthorised materials. Violators must also pay compensation claimed by the copyright holder. However, the law does not meet the standards for trade-related intellectual property rights required by the World Trade Organisation. The Competition Promotion and Market Protection Act (2007) controls anti-competitive practices, protects against monopolies, promotes fair competition, and regulates mergers and acquisitions. The Competition Promotion and Market Protection Act, also contains special provisions for controlling black markets and misleading advertisements.

There is no public evidence of direct executive interference in the court system that could affect foreign investors. However, in recent years there has been public and media criticism of the politicisation of the judiciary, including appointments of judges to Appellate Courts and the Supreme Court allegedly based on political affiliation.

APPENDIX III: LABOUR LAWS

Investors setting up enterprises in Nepal that will employ staff (whether fixed term, permanent or consultancy basis) will need to follow Nepal's labour laws. Following is a brief overview of the Labour Act 2017:

- Working day - The normal allowable working hours per day are 8 hours, 6 days a week, or 48 hours a week. The employer can decide the starting and finishing time as well as the day of the weekly holiday (which is traditionally Saturday).
- Working age - A person must be over the age of 16 to be hired for employment. A child under the age of 14 cannot be employed under any circumstance. A child between the age of 14 and 16 can be employed for up to 6 hours a day.
- Contracts - Nepali labour laws allow five types of employment contracts: regular employment contract (permanent), work-based or time-based employment contract (often termed as contract employment), and emergency and part-time contracts.
- Employing foreigners - Under the accession to the WTO agreement Nepal has made a commitment to allow 15% of technical and managerial posts to be filled by expatriate staff by entities with foreign investment. Refer to the section on visa requirements of foreign workers.
- Wages and benefits - The government revises the minimum wage periodically, usually every 2–3 years. No employee can be paid less than the minimum wage. Wages and benefits are generally based on the collective bargaining agreement reached between the union representing the workers and the management. The minimum wage includes a basic wage and dearness allowance, both decided by the government. Wages may be paid on a weekly, fortnightly or monthly basis, but the period between the payments should not exceed one month. Female and male workers are entitled to equal remuneration. Employers may pay allowances in addition to wages. Some examples of allowances paid in Nepal are transport allowance, medical allowance and house-rent allowance. However, the payment of such allowances is not mandatory. All employees must also be paid agratuity (will have to be deposited into the Social Security Fund when it is activated) at the rate of 8.33% each month and 10% matching Provident Fund from the date of start of employment.
- Public holidays and leave - All workers are entitled to one-day holiday a week (usually Saturday) and 13 public holidays a year.
    - Apart from 13 public holidays, an employee is entitled to 18 days of fully paid home leave a year, or 1 day of home leave for every 20 days of work.
    - The home leave may be accumulated up to 60 days and carried forward to subsequent years.
    - Workers are entitled to 15 days sick leave on half pay in a year.
    - Female workers are entitled to 52 calendar days (weekly and public holidays counted in this period) of leave with full pay in the case of delivery of a child. Such leave can be provided only 2 times in the entire service period.
    - Workers are also entitled to up to 13 days of mourning leave, provided their religion demands such mourning, on the demise of their spouse or parents/ parents-in-law.
    - Special leave of up to a maximum of 30 days in a year can be taken without pay if no home leave or sick leave is in reserve.
    - Holidays are not a right, but only a facility and, as such, the employees have to seek permission to take leave, except in case of illness of the employee, delivery of a child, or demise of a spouse or parents/parents-in-law.
- Misconduct and disciplinary action - In case of misconduct by a worker, the employer has the right to take disciplinary measures. There are four kinds of punishment prescribed in the Labour Act (Sections 50, 51, 52) that can be used by an employer, de- pending upon

the severity of the misconduct. These are: warning, withholding of annual salary increment (grade), suspension from work (up to 90 calendar days), and dismissal.

- Retrenchment - If an enterprise needs to curtail its operations or close down partially or wholly, the management, after obtaining approval from the government through the Department of Labour, may retrench some or all of its workers (Labour Act, Section 12). In such situations, workers hired last need to be re- trenched first. The retrenchment can be done by giving a month's notice or a month's pay in lieu of notice. As per the law, an employer has to pay a lump-sum equivalent to 30 day's salary multiplied by the total number of years in service as compensation for retrenchment. An enterprise may temporarily suspend production while keeping workers in reserve. However, the workers in reserve need to be paid half of their salary and benefits. A worker who has completed 55 years of age may be retired compulsorily. An employer has the right to extend the service period of such a worker for up to five years.
- Welfare benefits - According to the law, workers under permanent con- tract have to be provided with welfare and social security benefits. The employer has to deduct 10% of an employee's salary, match that amount and deposit the combined sum in the employee's provident fund. If a worker resigns or retires after working three or more years on a permanent contract, the employer has to pay gratuities at the rate of half a month's salary for seven years of continuous service, two-thirds of a month's salary for 7–15 years of service, and one month's salary for 15 or more years of service (Section 29, Labour Act).
- Bonuses and other benefits - Every enterprise has to pay an amount equivalent to one month's salary to permanent workers as festival bonus. This is generally paid during the Dashain festival in October and is commonly referred to as the 'Dashain bonus'. Enterprises have to set aside 10% of their net profit for bonus payment to employees (Section 37, Labour Act; Section 5, Bonus Act).
- Trade union rights - Nepal's constitution and laws provide employees with the right to form a trade union. Workers and other non- managerial employees can be part of the trade union. The union can submit claims or demands, enter into collective bargaining, or resort to strikes by following the prescribed procedure. The management can resort to lockout by following the procedures laid out in the Labour Act and Rules, which includes taking permission from the government. The Act and Rules also provide procedures for the resolution of workplace conflicts.
- Labour offices - There are labour offices at 10 different locations across the country. As there is no separate entity prescribed by law to manage the operation of factories, these offices also act as factory inspectors.

APPENDIX IV: RELEVANT AGENCIES AND ORGANISATIONS

OFFICE OF THE PRIME MINISTER AND COUNCIL OF MINISTERS
Singh Durbar, Kathmandu, Nepal
Tel: +977-1-4211000, 4211025, 4211040, 4211035, 4211080, 4211073, 4211021
Fax: 4211065, 4211086, 4211038, 4211021, PO Box 23312
Email: info@nepal.gov.np
Website www.opmcm.gov.np/

MINISTRY OF CULTURE, TOURISM AND CIVIL AVIATION
Tel: +977-1-4211992, 4211669, 4211846 , 4211847, 4211711, 4211685, 4211825
Fax: +977-1-4211758
Email: info@tourism.gov.np, tourismnp@gmail.com
Website: www.tourism.gov.np

MINISTRY OF HOME AFFAIRS
Tel: +977-1-4211261, 4211212, 4211274
Fax: +977-1-4211264
Email: gunaso@moha.gov.np
Website: www.moha.gov.np

MINISTRY OF EDUCATION
Tel: +977-1-4211964
Fax: +977-1-4200375
Email: infomoe@moe.gov.np
Website: www.moe.gov.np

MINISTRY OF FOREIGN AFFAIRS
Tel: +977-1-4200182, 4200183, 4200184
Fax: +977-1-4200160
Email: info@mofa.gov.np
Website: www.mofa.gov.np

MINISTRY OF FORESTS AND SOIL CONSERVATION
Tel: +977-1-4211567
Fax: +977-1-4211868
Email: info@mfsc.gov.np, webmaster@mfsc.gov.np
Website: www.mfsc.gov.np

MINISTRY OF HEALTH
Ramshah Path, Kathmandu, Nepal
Tel: +977-1-4262802, 4262543
Fax: +977-1-4262896, 4262468, 4262935 Email: info@mohp.gov.np
Website: www.mohp.gov.np

MINISTRY OF AGRICULTURAL DEVELOPMENT
Tel: +977-1-4211905, 4211950, 4211697
Fax: +977-1-4211935
Email: memoad@moad.gov.np
Website: www.moad.gov.np

MINISTRY OF COMMERCE AND SUPPLIES
Tel: +977-1-4211631
Fax: +977-1-4211167
Email: info@mocs.gov.np
Website: www.mocs.gov.np

MINISTRY OF INFORMATION AND COMMUNICATIONS
Tel: +977-1-4211556
Fax: +977-1-4211729
Email: info@moic.gov.np
Website: www.moic.gov.np

MINISTRY OF LABOUR AND EMPLOYMENT
Tel: +977-1-4211889, 4211991
Fax: +977-1-4211877
Email: info@mole.gov.np
Website: www.mole.gov.np

MINISTRY OF LAND REFORM AND MANAGEMENT
Tel: +977-1-4211666
Fax: +977-1-4211708
Email: info@molrm.gov.np
Website: www.molrm.gov.np

MINISTRY OF PHYSICAL INFRASTRUCTURE AND TRANSPORT
Tel: +977-1-4211782, 4211931
Fax: +977-1-4211720
Email: info@moppw.gov.np
Website: www.mopit.gov.np

MINISTRY OF FEDERAL AFFAIRS AND LOCAL DEVELOPMENT
Tel: +977-1-4200000, 4200309
Fax: +977-1-4200318
Email: info@mofald.gov.np, ipd@mofald.gov.np
Website: www.mofald.gov.np

MINISTRY OF FINANCE
Tel: +977-1-4211338
Email: moev@mof.gov.np
Website: www.mof.gov.np

MINISTRY OF SCIENCE, TECHNOLOGY AND ENVIRONMENT
Singha Durbar, Kathmandu
Tel: +977-1-4211661, 4211641, 4211586
Fax: +977-1-4211954
Email: info@moste.gov.np
Website: www.moste.gov.np

MINISTRY OF ENERGY

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

MINISTRY OF IRRIGATION
Singha Durbar, Kathmandu
Tel: +977-1-4211426
Fax: +977-1-4200026
Email: info@moir.gov.np
Website: www.moir.gov.np

MINISTRY OF URBAN DEVELOPMENT
Singha Durbar, Kathmandu
Tel: +977-1-4211673
Fax: +977-1-4211873
Email: info@moud.gov.np
Website: www.moud.gov.np

MINISTRY OF COMMERCE AND SUPPLIES
Singha Durbar, Kathmandu
Tel: +977-1-423-0967
Fax: +977-1-422-0319
Email: moc@wlink.com.np
Website: www.moics.gov.np

MINISTRY OF DEFENCE
Singha Durbar, Kathmandu
Tel: +977-1-421-1290
Fax: +977-1-421-1294
Email: mod@mos.com.np
Website: www.mod.gov.np

MINISTRY OF CONSTITUENT ASSEMBLY AND PARLIAMENTARY AFFAIRS
Singha Durbar, Kathmandu
Tel: +977-1-4211792, 4211673
Fax: +977-1-4211873,4455634
Email: nfo@mofacapac.gov.np
Website: www.mofacapac.gov.np

MINISTRY OF GENERAL ADMINISTRATION
Singha Durbar, Kathmandu
Tel: +977-1-424-5367
Fax: +977-1-424-2138
Email: info@moga.gov.np
Website: www.moga.gov.np

MINISTRY OF INDUSTRY
Singha Durbar, Kathmandu
Tel: +977-1-421-1579
Fax: +977-1-421-1619
Email: info@moi.gov.np
Website: www.moi.gov.np

MINISTRY OF PEACE AND RECONSTRUCTION
Singha Durbar, Kathmandu
Tel: +977-1-421-1189
Fax: +977-1-421-1186
Email: info@peace.gov.np
Website: www.peace.gov.np

MINISTRY OF LAW & JUSTICE
Singha Durbar, Kathmandu
Tel: +977-1-422-3727
Fax: +977-1-422-0684
Email: molaw@wlink.com.np
Website: www.moljpa.gov.np

MINISTRY OF WOMEN, CHILDREN AND SOCIAL WELFARE
Singha Durbar, Kathmandu
Tel: +977-1-424-1728
Fax: +977-1-424-1516
Email: mowcsw@ntc.net.np
Website: www.mowcsw.gov.np

MINISTRY OF YOUTH AND SPORTS
Singha Durbar, Kathmandu
Tel: +977-1-441-6507
Fax: +977-1-441-6489
Email: info@moys.gov.np
Website: www.moys.gov.np

MINISTRY OF URBAN DEVELOPMENT
Singha Durbar, Kathmandu
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