



Doing Business in Nepal: 2012 Country

Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Nepal

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Market Overview

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- Nepal is a low income developing nation: GDP (FY 2010/11): \$18.58 billion; GDP growth rate (FY 2010/11): 3.48 percent; Population: 26.62 million; Per capita annual income: \$642. More than 75 percent of the population is under the age of 40.
- Political instability, a landlocked location, challenging topography, poor infrastructure, a weak human capital base and a long history of public intervention in the economy are some of the impediments to economic growth.
- Agriculture accounts for 35 percent of GDP and 73.9 percent of employment. However, there has been significant migration from rural to urban areas and overseas. An estimated 10 percent of the population is working abroad, primarily in India, the Gulf countries, and Asia. Nepal received at least \$3.5 billion in remittances in 2010, equivalent to nearly a quarter of GDP.
- India accounts for 66.4 percent of Nepal's total trade.
- In FY 2010/11, Nepal exported \$895.8 million worth of goods, mainly woolen carpet, pulses, readymade garments, polyester yarn, textile, zinc sheets and agricultural products. Nepal's annual imports are about \$5.45 billion, mainly from India, China, and UAE. The main imports are petroleum products, construction materials, vehicles and spare parts.
- U.S.-Nepal bilateral trade is estimated at \$115.20 million in 2011, according to USITC figures. U.S. exports to Nepal were about \$37.6 million. Total U.S. investment in Nepal is \$84.31 million, according to the GON.
- In FY 2010/11, the U.S. was the second-largest Nepali export market, accounting for 6.7 percent of total exports. US exports, on the other hand, made up only 1 percent of Nepal's total imports.
- Nepal traditionally runs large trade and current account deficits, which are offset by equally large service, transfer and capital account surpluses. As of mid-November 2011, the gross convertible foreign exchange reserve of the banking sector stood at \$4.25 billion, enough to finance merchandise imports for 10.3 months.

Market Challenges

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- Nepal is a landlocked state, which makes market access a challenge. Surface transport into and out of Nepal is constrained, and there is only one reliable road route from India to the Kathmandu Valley. Unrest and general strikes have disrupted movement of goods in and out of Nepal, although the situation has improved over

the past two years. The only seaport for entry of goods bound for Nepal is Kolkata, India, about 650 miles from the Nepal-India border.

- Political instability, including 20 governments in the past 20 years, has created an uncertain environment for foreign and private investment.
- Government of Nepal (GON) is open to foreign direct investment, but implementation of its policies is often distorted by bureaucratic delays and inefficiency. Foreign investors frequently complain about complex and opaque government procedures and a working-level attitude that is more hostile than accommodating.
- Foreign investors must deal with a non-transparent legal system, where basic legal procedures are neither quick nor routine. The bureaucracy is generally reluctant to accept legal precedents, and businesses are often forced to re-litigate issues that had been previously settled. Legislation limiting foreign investment in financial, legal, and accounting services has made it difficult for investors to cut through regulatory red tape.
- U.S. firms and foreign investors have identified corruption as an obstacle to maintaining and expanding direct investment in Nepal. There are frequent allegations of corruption by Nepali government officials in the distribution of permits and approvals, procurement of goods and services, and award of contracts.
- High customs tariffs imposed on most manufactured products increase the price of U.S. products in the Nepali market.
- Qualified workers are in short supply. Nepal produces technical manpower but high unemployment and low wages compel many workers to seek jobs overseas. Rigid labor laws make it difficult to terminate employees and dominance of militant unions, which commonly abrogate negotiated agreements to press new demands, make it a challenge to assemble and retain qualified staff.

Market Opportunities

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- Nepal needs significant infrastructure development. Many infrastructure projects are financed by multi-lateral development banks. Interested companies should monitor the websites of these organizations for tender opportunities.
- The leading commercial sectors for U.S. exports are:
 - Aircraft and Aircraft Parts
 - Airport and Ground Support Equipment
 - Telecommunications Equipment and Services
 - Medical Equipment and Drugs/Pharmaceuticals
 - Water Resource Equipment/Services
 - Renewable Energy Equipment
 - Computers/Peripherals
 - Franchising

Market Entry Strategy

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- Relationship-building in Nepal is essential to conducting business. For large-scale business ventures, investors or suppliers are encouraged to visit.
- To access the local market, foreign companies generally should use local representatives or agents. Supplying government projects offers opportunities for large volume sales, but requires an authorized local representative or agent.

The U.S. Embassy's Political/Economic Section handles commercial matters and provides agent/distributor services for U.S. companies to assist in selecting a reliable partner. It works closely with the Minister Counselor for Commercial Affairs in New Delhi, who is responsible for India, Nepal and Bangladesh. Requests for these paid services are normally routed through U. S. Export Assistance Centers, available through the U.S. Department of Commerce (<http://www.buyusa.gov/home/us.html>).

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/5283.htm>

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Using an Agent or Distributor

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Local agents normally work as an exporter's sales representative on a commission basis, ranging from 5 to 15 percent of the sales price, depending on the nature of the product or service being offered. Specific responsibilities depend on the terms of the contract. The Embassy's Political/Economic Section can help in finding buyers, pre-screened potential agents, distributors, sales representatives, and other strategic business partners in Nepal.

The distributor also buys and keeps goods in stock for resale, does local marketing, and handles after-sales product servicing as required. The distributor usually works on a profit margin so the commission rate and responsibilities (pricing, advertising, market promotion, after-sales service, etc.) should be defined in the contract. The distributor's commission in Nepal normally ranges between 15 to 30 percent, again depending upon the nature of the product. Use of a local distributor is more effective when selling consumer goods.

Hiring a commission agent to assist in winning a contract can be effective when selling development-oriented goods, such as construction services or heavy equipment to government agencies, or when competing in an international tender offer.

Due diligence on potential distributor/agent is essential prior to entering the local market. Given the level of corruption in Nepal, exporters are cautioned to screen carefully any potential agents working on their behalf.

Establishing an Office

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The Company Act of 2006 requires that foreign firms wanting to do business in Nepal first register by submitting the following documents:

- a) A notarized copy or translation in Nepali or English of the law or license under which the company was incorporated and established;
- b) A notarized Nepali version of the memorandum and articles of the company;
- c) The complete address of the head office of the company;
- d) A list of the directors, managing agents, manager, secretary, etc. of the company along with their names, positions, contact details, and shareholdings, if any;
- e) The name and address of resident representative(s) of the company in Nepal empowered to accept on its behalf time limits, notices, etc. issued to it; and
- f) The proposed location where business will be, or is being, conducted in Nepal and the full address of the company's office.

100 percent foreign ownership is allowed in business areas not on the “negative list” while a 51-percent limit is imposed on investment in the legal sector, management consulting, accounting, and engineering services.

Franchising

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Franchising is not yet common in Nepal. There is untapped potential for ventures that cater to the tourist, resident expatriate, and the local middle-class markets. A few U.S. franchise companies have entered the Nepali market, focusing on Kathmandu and Pokhara because they are major tourist centers that have a large market base. In November 2009, the country's first KFC and Pizza Hut opened in Kathmandu. Under the Foreign Investment and Technology Transfer Act of 1992, the Department of Industry grants permission to establish franchises. Since trademark and brand names registered in a foreign country do not automatically qualify in Nepal for trademark protection, the trademark and brand name must first be registered in Nepal under the Patent, Design and Trademark Act of Nepal of 1965 to limit any possible infringement. Other major U.S. franchises include Coca-Cola, Pepsi, Western Union, Hyatt Hotel, Radisson Hotel, and DHL.

Direct Marketing

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Direct marketing is usually not cost-effective in view of the small local market for U.S. products, poor road infrastructure, and the country's generally unreliable postal service. Local firms are increasingly interested in the commercial potential of the Internet. Nepal has 53 Internet Service Providers (ISPs), and many local businesses, tourist agencies, and industries have home pages. Twelve satellite/cable TV networks in Kathmandu, ten private TV channels and two state-owned broadcast TV channels offer additional marketing opportunities to reach audiences.

Joint Ventures/Licensing

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Foreign investments through joint ventures or wholly foreign-owned enterprises are allowed in most industries. However, foreign investment is not permitted in defense-related industries, cigarettes, and alcohol (excluding 100-percent export-oriented industries). Potential investors are invited to contact the American Embassy for current information on prohibited industries.

Nepal officially encourages foreign investment and technology transfer under the Foreign Investment and Technology Transfer Act (FITTA) of 1992. Investment in the form of equity shares and reinvestment of earnings from share capital and loans is defined as foreign investment. Under FITTA, technology transfer is any transfer made by agreement between an industry and a foreign investor as follows: (a) use of any technological right, specialization, formula, process, patent or technical knowledge of foreign origin; (b) use of any trademark of foreign ownership; and (c) acquiring any foreign technical consulting, management and marketing service. While technology transfer arrangements are legally permissible, the GON has not yet determined whether they are to be registered.

Selling to the Government

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Under current government regulations, goods and services worth up to Rs. 150,000 (USD 1,900) can be purchased by government directly from the market. For goods worth between Rs. 150,000 (USD 1,900) and Rs. 1,000,000 (USD 12,500), the government must invite price quotes from at least five suppliers. For procurements over Rs. 1,000,000 (USD 12,500), tenders or bidding is used. The GON publishes its tenders by following the procedures outlined in the Financial Administration Regulations of 1999, Financial Procedure Rules 2007, and the Public Procurement Rules 2007. Goods and services are generally procured from the supplier or contractor who quotes the lowest price, but corruption is reportedly widespread in government tenders. Tender calls for major projects having a minimum lead time of 45 days are disseminated to U.S. businesses via the U.S. Department of Commerce Trade Opportunity Program (TOP). Many foreign firms find the use of a local distributor or commission agent effective in dealing with government sales, as many tenders have a lead time of less than two weeks for bid submission.

Distribution and Sales Channels

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The channel of distribution and sales used by most national and international manufacturers/sellers is the conventional three-fold distribution system -- manufacturer to distributor/wholesaler to retailer. Most U.S. exporters sell through a Nepal-based intermediary, such as a trading company or a local agent or distributor. Indirect local sales channels are best suited to selling U.S. goods and services in Nepal. Most high-value electronics, electric appliances and machinery products enter Nepal by air cargo via the Tribhuvan International Airport in Kathmandu. However, bulk goods such as foodstuff, large machinery items, vehicles, fertilizer, construction materials, and various raw materials are brought by ships to Kolkata or the deepwater port in Haldia, India, and then shipped either via truck or rail. In the latter case, more than 90 percent of goods

enter through the Raxaul-Birgunj crossing on the India-Nepal border. An Inland Container Depot (ICD) at Birgunj started commercial operation in September 2004. Although at the start of its operation the ICD handled only overseas consignments brought in via rail directly from Kolkata or Haldia, in February 2005 it began handling any cargo between Nepal and India. Major distribution centers in Nepal are Birgunj, Biratnagar, Bhairahawa, Nepalgunj, and Kathmandu.

Selling Factors/Techniques

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When selling in the local market, U.S. businesses should consider a local partner's financial soundness, sales capabilities, and contact with public and private organizations. Foreign companies selling high volume and/or high-value products and services normally deal directly with buyers to meet a known demand rather than invest in promotional marketing. There are no specific packaging requirements, and most products can use English for both sales and labeling purposes. Price is generally a crucial factor in selling, though product quality and after sales service are becoming important selling factors in the Nepali market.

For product introduction, U.S. companies can visit potential buyers and make presentations or send product catalogs, brochures or other materials directly to the target customers via email, fax, post or courier. Alternatively, companies planning to launch consumer products normally use exhibitions, trade shows, trade missions, catalog and video shows, and advertising in newspapers, radio and television for market introduction and brand recognition. For companies and products that already have a presence in the Nepali market, participating in trade shows, catalog and video shows through a local agent/distributor can be an effective way to introduce new products into the market and to promote brand recognition.

Electronic Commerce

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The Internet had a late start in Nepal compared to many other developing nations. As of December 2011, there were 49 Internet service providers, with around 61,621 accounts. The total number of Internet users was approximately 1,072,900 nationwide as of June 2011. Roughly 30% of these accounts are commercial, which primarily use the Internet to promote their products and services and communicate with foreign businesses. Activity is concentrated in Kathmandu and half a dozen other cities in Nepal. To date, relatively little business activity is conducted online, but it is growing. As of February 8, 2012, there were 19,744 registered commercial websites out of a total of 27,988 total registered websites in Nepal. Many businesses, such as airlines, hotels, and travel agents, rely heavily on the Internet when dealing with foreign partners.

Electronic commerce websites in operation are mostly based outside Nepal where credit card verification services are available. Credit card transfers, and transfers from e-banking websites are accepted, but Nepalis who do not have a dollar account cannot make payments in foreign currency. Foreign exchange is regulated and is not freely available. There are a few business-to-business websites. The most popular ones are www.muncha.com, www.thamelmall.com, and www.bitarak.com. These sites are mostly

used to send gifts during religious festivals. Overseas Nepalis are the most frequent users, and delivery of goods is done primarily within Nepal.

Trade Promotion and Advertising

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Newspapers, radio and television are the main advertising media used for trade promotion. Television reaches a limited portion of local Nepali consumers, primarily the more affluent urban population, but newspapers and radio reach most parts of the country. Selection of advertising media thus depends on the target group. TV advertising is the most appropriate means to reach the urban middle and upper classes. For basic consumer products, advertising in newspapers and via radio is more appropriate. Advertising costs are lower for newspapers and radio than for television. Since the size of the market is so small, there are no BSP (Business Service Provider), FUSE (Featured U.S. Exporters) or SCP (Single Company Promotion) services available in Nepal. Names and addresses of major newspapers, and radio and television stations are given below. Inclusion in this list does not constitute U.S. Government endorsement.

1. The Rising Nepal (English-language daily)--Government-owned

Dharma Path

P.O. Box 23

Kathmandu, Nepal

Phone: 977-1-4255730, 4227493

Fax: 977-1-4244428

E-mail: gopa@gorkhapatra.org.np

Internet: <http://www.gorkhapatra.org.np>

2. The Kathmandu Post (English daily)

Shantinagar, Naya Baneshwor

P.O. Box 8559

Kathmandu, Nepal

Phone: 977-1-4480100

Fax: 977-1-4470178

Email: kanti@kpost.mos.com.np

Internet: <http://www.kantipuronline.com>

3. Republica (English daily)

Nepal Republic Media (P) Ltd

JDA Complex, Bag Durbar

PO Box 19300

Kathmandu, Nepal.

Phone: 977-1-4265100, 977-1-4261808

Fax: 977-1-4255257

Email: corporate@myrepublica.com

Internet: <http://www.myrepublica.com/portal/index.php>

4. The Himalayan Times (English daily)

APCA House, Baidya Khana Road

P.O. Box: 11651

Anam Nagar, Kathmandu, Nepal

Tel: 977-1-4770504, 4771489

Fax: 977-1-4770701

E-mail: marketing@thehimalayantimes.com; advertisement@thehimalayantimes.com

Internet: <http://www.thehimalayantimes.com>

5. Radio Nepal

Singha Durbar

P.O. Box 634

Kathmandu, Nepal

Phone: 977-1- 4211896/ 4241921/ 4223910/ 4243569

FAX: 977-1- 4211952/ 4221951

Internet: <http://www.radionepal.org>

6. Nepal Television

Singha Durbar

P.O. Box 3826

Kathmandu, Nepal

Phone: 977-1-4228436

Fax: 977-1-4227452

Email: neptv@vishnu.ccs.com.np

Internet: <http://www.catmando.com/ntv/>

7. Space Time Network Pvt. Ltd.

Channel Nepal

Business Development Division

Satellite Television Service,

Shantinagar, Kathmandu, Nepal

Phone: 977-1-4487750/1/2

Fax: 977-1-4487749

Email: space@col.com.np

Internet: http://www.spacetimenetwork.com/chan_nep04.htm

8. Subisu Cable Net Pvt. Ltd

Baluwatar

G.P.O. BOX: 6626

Kathmandu, Nepal

Tel: 977-1-4429616 -Hunting line; 4429617

Fax: 977-1-4430572; 4240165

E-mail: info@subisu.net.np

URL: <http://www.subisu.net.np>

Pricing

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Pricing formulas are determined by the availability of similar products, the level of demand for the product in the local market, and total costs required to bring the product to market. Before selecting a pricing strategy, the exporter should obtain as much information as possible from local agents, market research, potential customers, and competitors. Exporters should factor in various tariffs and taxes, which are levied on all imported products. Examples include: customs tariffs ranging from 5 percent for certain agricultural products to 80 percent for four-wheel vehicles, the 13 percent value-added tax (VAT), and the 1.5 percent local development tax. In the case of vehicle import, an

additional excise duty of 32 percent is levied on the gross value, which includes the invoice price, customs tariff, VAT, local development tax, and special tax. Interested businesses can request hard copies of the complete tariff schedule directly from the Department of Customs: <http://www.customs.gov.np/tariff.html>

Pricing structures in Nepal are erratic. Imported goods are priced higher than locally produced goods. Prices of imported goods reflect transportation costs and other mark-ups. Indian manufactured goods, when available, are cheaper than imports from more distant countries. When determining a price for U.S. products, the exporter should keep in mind competition from India, which has an open border with Nepal. Chinese products, mainly consumer goods such as appliances, shoes, and textiles, are imported via Tibet. Products from the European Union, Japan, South Korea, and Taiwan are also popular and help determine the local price for goods and services.

Sales Service/Customer Support

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After-sales service and product guarantees are very important for customers, especially for durable products. Given long shipping times to Nepal, concerns about after-sales service and availability of spare parts affect product choice. It is therefore preferable to make arrangements with a local agent/distributor for reliable customer service and support. Foreign companies selling vehicles, high-value machinery items, electrical appliances and electronics in Nepal have arrangements in place for such services with their local agents or distributors. Often the parent company provides the technical assistance and machinery for such services while the local company provides the actual services.

Protecting Your Intellectual Property

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In order to prevent infringement of intellectual property rights (IPR), patents and trademarks should be registered with Nepal's Department of Industries in accordance with the Patent, Design and Trademark Act of 1965. Nepal is not a signatory to international conventions protecting patents, copyrights, or trademarks, so registration in the United States does not automatically result in protection in Nepal. When registering a trademark of foreign origin, a copy of the home registration with application form, deed of assignment and four copies of the representation sheet should be included in the application. Initial trademark registration is valid for seven years and can be renewed for an additional seven years. Similarly, the Copyright Act of 2002 offers only limited protection for copyrighted works, which must be registered in Nepal to qualify for protection. Nepal's accession to the World Trade Organization in April 2004 obligates Nepal to draft new legislation and to amend many laws to become compatible with WTO requirements. These binding provisions of the WTO also obligate Nepal to improve its trade practices and IPR protection regime regardless of the government in power. Please also refer to Chapter 6, the Investment Climate.

Protecting Your Intellectual Property in Nepal:

Several general principles are important for effective management of intellectual property ("IP") rights in Nepal. First, it is important to have an overall strategy to protect

your IP. Second, IP is protected differently in Nepal than in the U.S. Third, rights must be registered and enforced in Nepal, under local laws. Your U.S. trademark and patent registrations will not protect you in Nepal. There is no such thing as an “international copyright” that will automatically protect an author’s writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Nepal market. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. Government generally cannot enforce these rights for private individuals in Nepal. It is the responsibility of the rights' holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Nepal law. The U.S. Commercial Service can provide a list of local lawyers upon request <http://nepal.usembassy.gov/service/emergency-services/legal-assistance.html>.

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to secure and enforce their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights in a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue a case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list himself or herself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Nepal require constant attention. Work with legal counsel familiar with Nepal laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Nepal or U.S.-based. These include:

- The U.S. Chamber
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy

- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at www.StopFakes.gov.
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the US Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the US, contact the US Copyright Office at: **1-202-707-5959**.
- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at www.stopfakes.gov.
- For US small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and . For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: www.StopFakes.gov This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.
- The U.S. Commerce Department has positioned IP attachés in key markets around the world. You can get contact information for the IP attaché who covers South Asia at: U.S. Patent and Trademark Office, The American center, 24 Kasturba Gandhi Marg, New Delhi 110001, India; Kalpana.reddy@trade.gov.

Due Diligence

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U.S. businesses should check the *bona fides* of a Nepali company before appointing it as a local agent/distributor and/or entering into a trade deal. Most Nepali business *bona fides* cannot be checked via traditional U.S. business channels. The Political/Economic

Section of the U.S. Embassy in Kathmandu will prepare an International Company Profile (ICP) for U.S. businesses on request. It is a paid service and normally routed through the Department of Commerce, U.S. Export Assistance Center nearest you. Businesses may wish to contact the following organizations to obtain profiles of some Nepali businesses.

Nepal Chamber of Commerce
E-mail: chamber@wlink.com.np, fax: 977-1-4229998

The Federation of Nepalese Chambers of Commerce and Industry
E-mail: fncci@mos.com.np, fax: 977-1-4261022

The Nepal-USA Chamber of Commerce and Industry
E-mail: nusacci@csl.com.np, fax: 977-1-4478020

Local Professional Services

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Use of a local attorney for preparing required documents can limit unnecessary delays in the process of finalizing business contracts with trading partners and other local agents. A list of local attorneys is available on the U.S. Embassy Kathmandu website: <http://kathmandu.usembassy.gov/>. On request, the Political/Economic Section of the U.S. Embassy also provides lists of companies for other professional services, such as market research agencies, advertising agencies, customs clearance houses, freight forwarding agencies and transport companies.

Web Resources

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| | |
|---|--|
| Popular B2B websites: | www.muncha.com www.thamelmall.com www.bitarak.com |
| The Rising Nepal (Government owned English daily): | http://www.gorkhapatra.org.np |
| The Kathmandu Post (English daily): | http://www.kantipuronline.com/ktmpost.php |
| The Himalayan Times (English Daily): | http://www.thehimalayantimes.com |
| Republica: | http://www.myrepublica.com/portal/index.php |
| Nepal's Department of Industries: | http://www.doind.gov.np |
| Department of Customs, GON: | http://www.customs.gov.np/ |
| Trade and Export Promotion Center: | www.tepc.gov.np |
| Nepal Chamber of Commerce: | http://www.nepalchamber.org |

Federation of Nepalese Chambers of
Commerce and Industry:

<http://www.fncci.org>

U.S. Embassy Kathmandu website:

<http://nepal.usembassy.gov/>

U.S. Export Assistance Center:

<http://www.buyusa.gov/home/us.html>

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Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

- [Aircraft and Aircraft Parts \(AIR\)](#)
- [Airport and Ground Support Equipment \(APG\)](#)
- [Telecommunications Equipment and Services \(TEL\)](#)
- [Medical Equipment and Drugs/Pharmaceuticals \(MED and DRG\)](#)
- [Water Resource Equipment/Services \(WRE\)](#)
- [Renewable Energy Equipment \(REQ\)](#)
- [Computers/Peripherals \(CPT, CSF\)](#)
- [Franchising \(FRA\)](#)

Agricultural Sectors

- [Food & Milk Products](#)

Aircraft and Aircraft Parts (AIR)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|-----------|-----------|---------------------|---------------------|
| Total Market Size | 46,370.66 | 13,980.52 | 60,000.00 | |
| Total Local Production | 0 | 0 | 0 | 0 |
| Total Exports | 0 | 0 | 0 | 0 |
| Total Imports | 46,370.66 | 13,980.52 | | |
| Imports from the U.S. | 11,528.47 | 7,755.14 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports: Trade and Economic Promotion Center, Nepal

Imports from U.S.: USITC

The number of international and domestic air passengers has increased dramatically in recent years. In 2011, Nepal attracted 735,932 visitors, the highest number of tourist arrivals for the country in one year, and a 22.1 percent growth over the previous year. According to the Civil Aviation Authority of Nepal (CAAN), more than 30 international carriers provide service to Nepal, and the total number of air travelers for the first ten months of 2011 reached 2,658,062, compared to 2.7 million in 2010, and 2,362,885 in 2005. The number of domestic air travelers for the first ten months of 2011 rose to 1,857,000, exceeding 1.3 million in 2010. New domestic airline operators have entered the market to take advantage of this increase in air travel, and existing airline operators are adding new aircrafts and procuring spare parts to upgrade existing aircrafts. The industry is poised to expand over the next decade.

Sub-Sector Best Prospects

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The best sub-sector prospects for U.S. businesses include aircraft spares on a regular basis and sales of small aircrafts on occasional basis.

Opportunities

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Private airlines in Nepal mushroomed in the early 1990s, providing opportunities for the sale of new and used short-haul, turboprop passenger aircrafts. U.S. businesses are advised to target the aircraft spare market through establishing direct links with the domestic airlines operators in Nepal. These opportunities could expand with the government- and industry-led promotion of tourism.

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| | |
|--|--|
| United States International Trade Commission: | www.usitc.gov |
| Ministry of Tourism and Civil Aviation, Nepal: | www.tourism.gov.np |
| Civil Aviation Authority of Nepal: | www.caanepal.org.np |
| Trade and Economic Promotion Center, Nepal: | www.tepc.gov.np |
| Buddha Air: | www.buddhaair.com |
| Agni Air | www.agniair.com |
| Gorkha Airlines | www.gorkhaairlines.com |
| Guna Airlines | www.gunaairlines.com |
| Sita Air | www.sitaair.com.np |
| Tara Air | www.taraair.com |
| Yeti Airlines | www.yetiairlines.com |

Airport and Ground Support Equipment (APG)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|----------|----------|---------------------|---------------------|
| Total Market Size | 1,732.17 | 1,432.15 | 2,000 | |
| Total Local Production | 0 | 0 | 0 | 0 |
| Total Exports | 0 | 0 | 0 | 0 |
| Total Imports | 1,732.17 | 1,432.15 | | |
| Imports from the U.S. | 656.29 | 3.75 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports:

Imports from U.S.:

In 2011, Nepal attracted a record number of tourists at 735,932 visitors. Both domestic and international air passenger movements have increased significantly, overwhelming Nepal's civil aviation infrastructure. Tribhuvan International Airport (TIA), the country's only international airport, handled 16,466 international flights in nine months of 2011, compared to 13,978 in nine months of 2010, a 17.8 percent surge. With one runway, the airport is currently handling 43 flights per hour, more than its maximum capacity of 35 flights per hour, with outdated radar equipment. The Ministry of Tourism and Civil Aviation (MoTCA) and the Civil Aviation Authority of Nepal (CAAN) have stated an intention to undertake major civil aviation infrastructure projects in Kathmandu and throughout the country, valued at \$1.3 billion over the next 15 years, to expand air travel infrastructure in Nepal. Commercial opportunities exist for U.S. businesses for turn-key projects, major equipment sales and consultancy services through establishing direct links with the MoTCA and CAAN.

Sub-Sector Best Prospects

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The best sub-sector prospects for U.S. businesses include sales of radars, aeronautical communication equipments, navigation aids, runway lighting systems, and an array of ground support and safety equipment.

Opportunities

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The Government of Nepal is planning to initiate six civil aviation infrastructure projects in the next 15 years. These projects, when commenced, offer tremendous opportunities for U.S. companies to supply ground support equipment. While most of the projects are still in the feasibility study phase, these projects offer the highest potential:

1. Construction of the Nepal's Second International Airport (SIA) in Nijgadh - Estimated First Phase cost: \$600 million.
2. Master Plan for Civil Aviation Infrastructure Development of Tribhuvan International Airport in Kathmandu - Estimated First Phase cost: \$75 million
3. Upgrade of Gautam Buddha Airport as Regional International Airport in Bhairahwa, under South Asia Tourism Infrastructure Development Project by the Asian Development Bank - Estimated Cost: \$36 million
4. Construction of Regional International Airport in Pokhara - Estimated Cost: \$150 million
5. Construction of new terminal building and control tower in Janakpur – Estimated Cost: To be determined
6. Construction of new terminal building and control tower in Dhangadhi – Estimated Cost: To be determined

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| | |
|--|--|
| United States International Trade Commission: | www.usitc.gov |
| Ministry of Tourism and Civil Aviation, Nepal: | www.tourism.gov.np |
| Civil Aviation Authority of Nepal: | www.caanepal.org.np |
| Trade and Economic Promotion Center, Nepal: | www.tepc.gov.np |

Telecommunications Equipment and Services (TEL)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|------------|------------|---------------------|---------------------|
| Total Market Size | 195,561.98 | 105,870.63 | 275,000 | |
| Total Local Production | 0 | | | |
| Total Exports | 0 | | | |
| Total Imports | 195,561.98 | 105,870.63 | | |
| Imports from the U.S. | 7,297.54 | 846.64 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports: Trade and Economic Promotion Center, Nepal

Imports from U.S.: USITC

Telecommunications services have witnessed significant growth over the last ten years. Currently, six companies provide telephone services in Nepal, with the government-owned Nepal Telecom (NT) and Nordic-owned NCell as the biggest operators. Both NT and NCell, like its smaller competitors, are expanding their geographical reach and range of services, which offer excellent equipment sales potential. Business opportunities exist for equipment sales, network installation and laying fiber optic within the ongoing NT Telecommunication Development Project, which started in FY 2009-10. Additionally, NCell is investing up to \$100 million per year to upgrade its infrastructure; however, equipment sales with after-service is a prerequisite for the project. Local microwave and cable TV services depend on U.S. firms for much of their equipment, as do Kathmandu's 21 satellite/cable TV networks.

Sub-Sector Best Prospects

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- Satellite services for phone and Internet
- Optic fiber cables
- VHF radio, transmitter, and other equipment

Opportunities

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The number of cellular mobile subscribers has increased sharply from 243,579 in January 2005 to 1.57 million in July 2007 to 13.35 million by December 2011. Although Chinese companies have recently won several bids to supply technology and equipment to two Nepali cellular telephone operators due to their competitive advantage in price and ability to provide after-sale service, the expanding mobile phone market offers additional possibilities for U.S. companies. U.S. companies should also consider

entering the market as a cellular phone service operator under a joint venture partnership with one of the operators.

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| | |
|--|--|
| United States International Trade Commission: | www.usitc.gov |
| Trade and Economic Promotion Center, Nepal: | www.tepc.gov.np |
| Ministry of Information & Communications, Nepal: | www.moic.gov.np |
| Nepal Telecommunications Authority, Nepal: | www.nta.gov.np/en/index.php |
| Nepal Doorsanchar Company Limited (Nepal Telecom): | www.ntc.net.np |
| NCell Pvt. Ltd. | www.ncell.com.np |
| Smart Telecom Pvt Ltd.: | www.smarttel.com.np |
| STM Telecom Sanchar (P) Ltd.: | www.stmi.com |

Medical Equipment and Drugs/Pharmaceuticals (MED and DRG)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|-----------|-----------|---------------------|---------------------|
| Total Market Size | 36,291.51 | 25,545.38 | 40,000 | |
| Total Local Production | 0 | | | |
| Total Exports | 0 | | | |
| Total Imports | 36,291.51 | 25,545.38 | | |
| Imports from the U.S. | 4,774.86 | 2,886.13 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports: Trade and Economic Promotion Center, Nepal

Imports from U.S.: USITC

Although the import of medical equipment declined by 30 percent this year, it grew by 29 percent in 2010, with U.S. products accounting for just 13 percent of Nepal's total imports of medical equipment. In recent years, almost a dozen medical colleges and hospitals have opened up in various parts of Nepal. These colleges and hospitals have a constant need to upgrade their testing and treatment facilities to make their services competitive and therefore import modern medical equipment on a regular basis. Moreover, although most imported drug and pharmaceutical products come from India, U.S. pharmaceuticals would be competitive.

Sub-Sector Best Prospects

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X-ray machines, ultra-sonographic machines, electrocardiogram machines and other testing equipment. Instruments and appliances used in medical, surgical, dental or veterinary sciences, including electro-medical and sight testing.

Opportunities

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The expansion of private sector medical facilities in Nepal offers significant opportunities for U.S. exporters of medical equipment and supplies. Demand for pharmaceutical products is also expected to remain high.

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Nepal Medical Council:

www.nmc.org.np

Recognized medical / Dental Institutions in Nepal: www.nmc.org.np/institution.html

United States International Trade Commission: www.usitc.gov

Trade and Economic Promotion Center, Nepal: www.tepc.gov.np

Water Resource Equipment/Services (WRE)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|------------|-----------|---------------------|---------------------|
| Total Market Size | 169,310.10 | 81,660.22 | 100,000 | |
| Total Local Production | 0 | 0 | 0 | |
| Total Exports | 0 | 0 | 0 | |
| Total Imports | 169,310.10 | 81,660.22 | | |
| Imports from the U.S. | 554.52 | 661.04 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports:

Imports from U.S.:

Trade and Economic Promotion Center, Nepal
USITC

Nepal's large hydropower potential represents an enormous opportunity for U.S. companies, both in direct foreign investment and/or joint ventures with public and private Nepali enterprises, and in sales of equipment and consultancy services. Nepal's hydropower sector is open to foreign investment. Nepal has some 83,000 megawatts in hydroelectric potential, but less than 1% of this potential has been developed.

Nepal is currently facing acute power shortages of roughly 300 MW during the peak winter season, and electricity needs are increasing 13 percent annually. Additionally, the northern grid region of India, a potential electricity export market for Nepal once the cross border transmission line is completed, also experienced significant power shortages of roughly 3,100 MW from April to November 2011. A high voltage cross border transmission line connecting Nepal to India is being developed to expand cross border electricity trade.

Sub-Sector Best Prospects

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- Foreign Direct Investment for hydropower power projects
- Hydropower generation machines
- Turbines
- Generators
- Power control machineries
- Surveying instruments
- Transmission wires
- Heavy machinery and earth moving equipment

Opportunities

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Prospects in hydropower equipment sales and consultancies include: the 300-MW Upper Karnali Hydroelectric Project, which is being developed by a consortium of GMR Energy Ltd., India and the Italian-Thai Development Project Co. (ITD) of Thailand; the 456-MW Upper Tamakoshi Hydroelectric Project, which is being developed by a Nepali consortium; and the 402 MW Arun-III Hydro Electric Project, which is being developed by an Indian company Satluj Jal Vidyut Nigam Limited. Hydropower equipment is charged only 1 percent customs import duties.

Web Resources

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- United States International Trade Commission: www.usitc.gov
- Trade and Economic Promotion Center, Nepal: www.tepc.gov.np
- Department of Electricity Development: www.doed.gov.np
- Nepal Electricity Authority: www.nea.org.np
- Ministry of Energy: www.moen.gov.np
- Upper Karnali Hydroelectric Project: www.gmrgroup.in/Energy/Upper_Karnali_Project.html
- Upper Tamakoshi Hydropower Limited: www.tamakoshihydro.org.np
- Satluj Jal Vidyut Nigam Limited: www.sjvn.nic.in/projects/projects_arun_progress.asp

Renewable Energy Equipment (REQ)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|-----------|-----------|---------------------|---------------------|
| Total Market Size | 20,326.13 | 15,919.12 | 20,000 | |
| Total Local Production | 0 | 0 | 0 | |
| Total Exports | 0 | 0 | 0 | |
| Total Imports | 20,326.13 | 15,919.12 | | |
| Imports from the U.S. | 942.53 | 165.54 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports:

Imports from U.S.:

Trade and Economic Promotion Center, Nepal

USITC

Nepal's energy demand at 967 MW has far exceeded its supply of 705 MW. During the dry winter months, energy production in Nepal's run-of-river hydropower projects falls by more than two-thirds, leaving Nepal with a severe energy shortage and rolling energy cuts of up to 16 hours per day. Nepal's transmission infrastructure remains limited to urban areas, leaving many rural communities without any electricity. Furthermore, frequent petroleum shortages and the high cost of running diesel generators have prompted businesses, wealthy urban households and rural communities to turn to solar energy. Although solar energy has been adopted mainly by individual households, more businesses are looking at this as an alternative solution to the present energy crisis – which is estimated to last at least another decade.

Sub-Sector Best Prospects

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- Solar panels
- Inverters
- Batteries
- Solar water heaters

Opportunities

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Prospects in renewable energy equipment sales have so far been limited to individual households, through one of more than 80 solar equipment supply companies in Nepal. However, opportunities to introduce enterprise solar systems to businesses and factories hold tremendous potential.

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| | |
|---|--|
| United States International Trade Commission: | www.usitc.gov |
| Trade and Economic Promotion Center, Nepal: | www.tepc.gov.np |
| Alternative Energy Promotion Center | www.aepc.gov.np |
| Nepal Electricity Authority: | www.nea.org.np |
| Ministry of Energy: | www.moen.gov.np |

Computers/Peripherals (CPT, CSF)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|------------|-----------|---------------------|---------------------|
| Total Market Size | 113,631.07 | 37,927.10 | 70,000.00 | |
| Total Local Production | 0 | | | |
| Total Exports | 0 | | | |
| Total Imports | 13,631.07 | 37,927.10 | | |
| Imports from the U.S. | 5,104.36 | 487.28 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports: Trade and Economic Promotion Center, Nepal

Imports from U.S.: USITC

Note: Computer hardware and peripheral equipment manufactured in the U.S. are mostly transshipped through Hong Kong and Singapore, and therefore are not reflected in the import figures. While imports of U.S. products reported are low, the volume may be significantly higher.

U.S. computers and peripheral equipment remain highly competitive in the local market due to strong consumer preference and loyalty. Over the years, the visibility of U.S. products has increased significantly. Leading U.S. companies in this sector are represented through their authorized distributors and representatives in Nepal. In view of market size, volatility of sales, and legal restrictions in opening a sales outlet, U.S. companies are advised to hire a distributor/representative.

Sub-Sector Best Prospects

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Computer components, hardware, monitors, laptop computers, uninterrupted power sources, and servers.

Opportunities

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Total annual imports of computer hardware range from \$35 million to \$65 million, generally involving goods trans-shipped through Hong Kong or Singapore. Customs statistics understate the U.S. market share because American equipment is often imported via distributors in intermediate ports and therefore not captured in official statistics. In recent years, the demand for laptop computers has increased significantly. The CAN Info-Tech, a computer and IT trade event which concluded in Kathmandu on

February 6, 2011, attracted 419,180 visitors with Tablets, PCs and Netbooks as major features at the event.

Web Resources

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United States International Trade Commission: www.usitc.gov

Trade and Economic Promotion Center, Nepal: www.tepc.gov.np

Computer Association of Nepal: www.can.org.np

Franchising (FRA)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|------|------|---------------------|---------------------|
| Total Market Size | | | | |
| Total Local Production | | | | |
| Total Exports | | | | |
| Total Imports | | | | |
| Imports from the U.S. | | | | |
| Exchange Rate: 1 USD | | | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports:

Imports from U.S.:

(No data for franchising is available)

Although the present franchise market is very small – an estimated \$10 million in 2010 – it has strong potential to expand. In November 2009, KFC and Pizza Hut opened restaurants in Kathmandu, becoming the first foreign food franchisee in Nepal. The success of the KFC and Pizza Hut restaurants led to the opening of a second branch in Kathmandu in 2011. Demand is 70 percent from locals and 30 percent from foreigners. There are a number of U.S. and international franchises operating in Nepal including Coca-Cola, Pepsi, Western Union, Hyatt Hotel, Radisson Hotel, DHL, United Colours of Benetton, Cookie Man, Baskin Robbins, Wimpy, Hot Breads, Bata, Puma, Reebok, and Adidas. Indian franchises have also entered the Nepali market including Gini and Jony, Time Square, Planet Fashion, Raymonds, Angan (North Indian Food Franchise), Lilliput, Big Cinemas, John Players, Peter England, Provogue, Yana Sizzlers, Kendriya Vidyalaya, Patanjali Chikitsalaya, Aptech, NIIT, Eurokids and many more.

Sub-Sector Best Prospects

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- Fast food restaurant chains
- Coffee houses
- Clothing
- Sports Equipment
- Hotels
- Educational

Opportunities

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Franchises have the opportunity to expand in Kathmandu and Pokhara, two of Nepal's largest cities and tourism hubs. Market growth is projected at 25 percent through the first few years of establishment. Key benefits of a franchise lie in brand name equity and quality consistency. With an annual tourist arrival of approximately 600,000 (and growing), as well as a sizeable expatriate community, fast food franchises hold excellent potential. The climate is improving for expansion in other growing Nepali cities, such as Birgunj, Biratnagar, and Bhairahawa. Market entrants should take a long-term view.

Web Resources

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Since the franchise sector is a potential growth sector, research data or trade leads are not available. The Political/Economic Section of the U.S. Embassy keeps track of strong expressions of interest in U.S. franchises by the local business community. For information on potential local partners, U.S. businesses may contact the Economic/Commercial Specialist of U.S. Embassy Kathmandu, Mr. Tapas Gupta, at: GuptaTK@state.gov.

Only 17 percent of Nepal's land is arable, and productivity is low due to structural impediments including poor road infrastructure and small farm holding size impeding large scale agricultural production. As a result, Nepal imports a significant amount of food products from other countries. Due to Nepal's low per capita income and a large population that still depends on subsistence farming, U.S. products are less competitive in Nepal compared to cheaper Indian and Chinese products. However, the demand for farm products, food products and milk products has slowly increased in the last few years and imports from the U.S. constitute a sizeable 10 percent of imports in the market.

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Farm, Food & Milk Products (AGR)

Overview

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Unit: USD thousands

| | 2010 | 2011 | 2012 (estimated) | 2013 (estimated) |
|------------------------|------------|------------|---------------------|---------------------|
| Total Market Size | 597,960.08 | 375,824.21 | 375,000.00 | |
| Total Local Production | 0 | | | |
| Total Exports | 0 | | | |
| Total Imports | 597,960.08 | 375,824.21 | | |
| Imports from the U.S. | 17,651.72 | 4,155.28 | | |
| Exchange Rate: 1 USD | 73.56 | 73.39 | | |

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Data Sources:

Total Local Production:

Total Exports:

Total Imports: Trade and Economic Promotion Center, Nepal

Imports from U.S.: USITC

Sub-Sector Best Prospects

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Rice, leguminous vegetables, dried pastas, bread, pastry, cakes, biscuits and other bakers' wares; communion wafers, empty capsules for medicine, and vegetable oil.

Opportunities

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Demand for U. S. bread, pastry, cakes, biscuits and other bakery products like communion wafers, confectionary sugar, empty capsules for medicine, sealing wafers, and rice paper have gradually increased in the Nepali market. Aerated waters, containing added sweetening or flavored, and other nonalcoholic beverages, food preparations, ethyl alcohol, spirits, liquors and other spirituous beverages have also increased their presence in the Nepali market. With the large number of returned Nepali migrant workers from countries like Malaysia, South Korea, Japan, India and the Gulf countries, there is an emerging market of Nepali consumers that are knowledgeable about American products and brands and have strong preferences for such products.

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United States International Trade Commission: www.usitc.gov

Trade and Economic Promotion Center, Nepal: www.tepc.gov.np

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Chapter 5: Trade Regulations, Customs and Standards

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Import Tariffs

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Import tariffs are generally assessed on an *ad valorem* basis. Nepal uses the Harmonized Tariff System (HTS) for classification purposes. Import duty rates vary from zero to 80 percent. Live animals, fish, and most primary products are exempt from import duties. Machinery or goods related to basic needs are charged at a 5 percent rate. Products hazardous to health, such as cigarettes, are taxed at 80 percent and liquors are taxed at 40 percent. Custom duties are generally assessed on the cost, insurance, and freight (CIF) value. Imported goods are also liable for a value-added Tax (VAT) of 13 percent and a local development tax of 1.5 percent, both of which are levied on CIF plus customs duty value.

Special Duty Reductions of 5 or 10 percent have been given to imports from the Tibet Autonomous Region of the People's Republic of China, member countries of the South Asian Association for Regional Cooperation (SAARC), and designated most-favored nations.

Nepal has not established Export Processing Zones (EPZ), but is in the process of establishing its first near the Nepal-India border town of Birgunj. However, any industry exporting 90 percent or more of its products is entitled to privileges equivalent to those normally provided by an EPZ -- i.e., no tax, duty or fee is levied on the machinery, tools and raw materials utilized by the industry in manufacturing the exported products. Export-oriented industries may also enjoy the benefits of bonded warehouse facilities. Raw materials can be imported via entry in a passbook without paying any custom duty or VAT. The same value of raw materials is deducted from the passbook upon export of the finished product. The enterprise must also submit a bank guarantee sufficient to cover applicable duties.

Trade Barriers

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There are no major non-tariff trade barriers on imports. Technical standard barriers are applied to a very small number of manufactured products, such as vehicles and refrigerators. Vehicles imported into Nepal must qualify under the Euro I standard, and refrigerators must be chlorofluorocarbon (CFC) gas-free. Nepal also does not allow the import of used items, which is often interpreted as refurbished products (with the exception of refurbished aircrafts), even though they may be new.

Import Requirements and Documentation

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Documents required for shipment to Nepal include a commercial invoice, a customs declaration form (CDF), clearly marked and labeled packaging, and a certificate of origin. Similarly, exported items sent by air require a CDF, a copy of the export license (if applicable), a commercial invoice, a certificate of origin, a copy of the letter of credit or advance payment statement from a bank, a foreign exchange declaration form, a packing list, a photocopy of the income tax registration certificate, an airway bill, and an authorization letter.

Imports do not require a license except for banned or quantitatively restricted items, such as (a) products injurious to health, including illicit drugs (see section on prohibited imports further in this chapter); (b) arms and ammunition, explosive materials, or products required for production of explosive materials, and guns and bullets; (c) communications equipment, wireless walkie-talkies and other similar audio-communication equipment, except under government import license; (d) valuable metals and jewelry; and (e) beef and beef products (dietary restrictions of the majority Hindu religion prohibit the consumption of beef). The GON does not require open general licenses for imports.

Traders need to show their general export/import permits and taxpayer's certificate to import goods. If the end user, for example, a project office, a company or an institution is importing goods directly, it will have to produce a copy of its corporate registration certificate and taxpayer's certificate in order to obtain both foreign currency approval from Nepal Rastra Bank (Nepal's central bank) and customs clearance of the consignment.

U.S. Export Controls

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All products, other than those banned or those under quantitative restrictions, may be exported freely from Nepal. Banned items include articles of archeological and religious importance, controlled wildlife and by-products, narcotic substances, articles related to explosive materials or required for the production of arms and ammunition, industrial raw materials (such as raw leather, raw wool, imported raw materials, parts, capital goods), and other goods such as logs and timber. Items subject to quantitative restriction are subject to notification by the GON from time to time. Past examples have included food grains, oilseeds, and some types of lentils. As a rule, the re-export to India of goods not of Indian origin is prohibited. Other than banned items, there are no U.S. government export controls companies must abide by when exporting to Nepal.

Temporary Entry

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Some goods, including vehicles, machinery, and equipment, may be imported temporarily for special purposes, such as domestic exhibitions or trade fairs, by making a refundable deposit of the applicable duty. These goods must be taken out of the country within three months of the completion of work. Goods can stay in-country if the duty is paid and the item is sold or retained for personal use. An extension of the three-month period may be granted on appropriate and reasonable grounds upon payment of an additional ten percent of the applicable duty amount. If the duty is not paid or the goods are not re-exported within six months of entry, the GON may bring smuggling charges. The GON places no legal restrictions requiring warranty for products imported temporarily for a specific purpose.

Labeling and Marking Requirements

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Nepali law requires no special labeling or marking. For customs purposes, the packaging and labels of a shipment should clearly identify country of origin and destination and include a commercial invoice with a list of items in the package, a customs declaration form (CDF), and a certificate of origin. Department of Customs information can be found via website at <http://www.customs.gov.np>.

Prohibited and Restricted Imports

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The following products are prohibited for import:

1. Products injurious to health: a) narcotic drugs such as opium and morphine; and b) liquor containing more than 60 percent alcohol.
2. Arms, ammunition and explosives (except under government import license): a) materials used in the production of arms and ammunition; b) guns and cartridges; c) caps other than those of paper; and d) arms, ammunition and other explosives.
3. Communications equipment: wireless walkie-talkies and other similar audio communication equipment (except under import license of the GON).
4. Valuable metals and jewelry (except permitted under bag and baggage regulations).
5. Beef and beef products.
6. Any other product as per notification of the GON in the *Nepal Gazette*, published by the Department of Printing. Such notices can be obtained from the Department of Printing by making a request to the Director General at fax: 977-1-4228774.

Customs Regulations and Contact Information

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All customs-related information, tariff structures, special provisions, rules and regulations are available at the Department of Customs website, <http://www.customs.gov.np>.

Specific questions related to customs can be forwarded to the Department by e-mail: npdoc@ntc.net.np.

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Nepal generally follows internationally recognized standards; it does not follow the ISO 9000 series. Standards-establishing bodies include the Nepal Bureau of Standards and Metrology, and the Department of Drug Administration. Food product standards are generally set under the Food Act and Nepal Standard (Certification Mark) Act. The law regarding the import of products other than food products, cars and refrigerators does not mandate any standards. The then-Ministry of Population and Environment, now the Ministry of Environment, Science and Technology, introduced the Nepal Vehicle Mass Emission Standards Act in December 1999 to control pollution. These standards are similar to EURO 1, and comprise levels of nitrogen with provision for type approval and conformity of production of the vehicles.

Standards Organizations

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The Nepal Bureau of Standards and Metrology (NBSM) is the only agency authorized to develop technical standards for different products. NBSM is currently working on developing standards and labeling programs for electrical appliances. The Department of Drug Administration regulates the consumption and quantification of modern drugs for human use in Nepal.

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

Conformity Assessment

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Standards for testing the quality of food and the processes for testing food products are governed under the Food Act and Nepal Standard (Certification Mark) Act, which requires the importer to have a sample tested by the Department of Food Technology and Quality Control. The Department of Drug Administration approves the consumption and quantification of drugs for human use and issues licenses to import any drugs to Nepal. The Cosmetics, Devices and Drugs Act 1980 governs quantification of drugs for human use.

Product Certification

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Except for drugs/medicines, no product certification is required for branded products. For drugs/medicines, the importer must obtain prior approval from the Department of Drug Administration. Certification is not required for patent drugs manufactured by recognized manufacturers in those cases where the Department of Drug Administration has already approved the drugs' chemical composition.

Accreditation

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There are no accreditation bodies in Nepal. Accreditation of labs is not required.

Publication of Technical Regulations

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Finalized acts and regulations issued by the GON are published in the *Nepal Gazette* and are made available by the Department of Printing. U.S. entities can comment or challenge these regulations by email or notification to the appropriate department.

Labeling and Marking

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Nepali law does not mandate special labeling or marking. For customs purposes, the packaging and labels of a shipment should clearly identify country of origin and destination and include a commercial invoice with a list of items in the package, a customs declaration form, and a certificate of origin.

Contacts

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For further information on standards businesses may contact the Commercial Specialist at U.S. Embassy Kathmandu, Mr. Tapas Gupta, at: GuptaTK@state.gov

Trade Agreements

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Multilateral:

Nepal has ratified the South Asian Association for Regional Cooperation (SAARC) Agreement on a South Asian Free Trade Area (SAFTA). Signed at the 12th SAARC summit held in January 2004, the SAFTA agreement came into effect in January 2006 and subsumed the ongoing trade liberalization process under the South Asian Preferential Trade Agreement. Under SAFTA, the eight SAARC nations (Nepal, Bhutan, India, Bangladesh, Pakistan, Sri Lanka, Maldives, and the Afghanistan) have pledged to cut tariff rates on a product-by-product basis. Following the third round of trade negotiations, more than 5,000 items are now entitled to preferential duty treatment in one or another of the participating countries. However, the “negative list” of goods excluded from preferential duty treatment under SAFTA is very long, and thus SAFTA’s impact on regional trade has been minimal.

Nepal became the 147th member of the World Trade Organization (WTO) in April 2004. It was the first least-developed country to join the WTO since 1995. Nepal was given until December 2006 to comply with its WTO obligations, but it did not meet this deadline because of political instability.

In February 2004, Nepal became a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which was founded in 1997. Other members include Bangladesh, Bhutan, India, Burma, Sri Lanka and Thailand. BIMSTEC seeks to establish a more comprehensive free-trade area through deeper and substantial sector coverage of services and an open and competitive investment regime. The 18th meeting of the BIMSTEC Trade Negotiating Committee (BIMSTEC TNC) at Phuket, Thailand in June 2009 finalized the text of the agreement on Trade in Goods and other provisions relating to the Rules of Origin, Operational Certification Procedures and the Agreement on Customs Cooperation. The BIMSTEC Trade Negotiating Committee was directed to finalize the Annexes to the BIMSTEC FTA Agreement on Trade in Goods at the earliest

Bilateral:

Nepal has signed bilateral trade treaties with 17 countries including the United States, United Kingdom, Yugoslavia, India, Russia, South Korea, North Korea, Egypt, Bangladesh, Sri Lanka, Bulgaria, China, Czech Republic, Pakistan, Romania, Mongolia, and Poland. The treaty signed with India in 1996, and amended in 2009, is the most important in terms of trade volume and relationship. Except for some items under quantitative restrictions, the trade treaty puts Nepal in a unilateral duty-free trade regime with India, which accounted for more than 66 percent of total Nepal’s trade in FY 2010/11.

Web Resources

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WTO and Nepal: http://www.moics.gov.np/wto_&_nepal/index.html

NEPAL and the BIMSTEC: <http://www.mofa.gov.np/bimstec.htm>

BIMSTEC Official Site: <http://www.bimstec.org/>

Bilateral Trade Treaties: <http://www.tpcnepal.org.np/tagree/tradeagreement.htm>

Department of Customs: <http://www.customs.gov.np>

Ministry of Science & Technology: <http://www.moest.gov.np/>

Nepal Rastra Bank: <http://www.nrb.org.np/>

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Chapter 6: Investment Climate

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Openness to Foreign Investment

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Since the April 2008 Constituent Assembly election, Nepal has seen four governments. The current government, formed in August 2011, is led by the Unified Communist Party of Nepal-Maoist, supported by a coalition of regional parties. As with previous governments, the current Government of Nepal (GON) has continued its liberal trade and investment policies and states in its public proclamations to foreign investors that Nepal is open for business. However, political instability, labor unrest, continuing bureaucratic delays and inefficiencies, pervasive corruption, and perennial power shortages create an uncertain environment for foreign and private investment.

At the end of FY 10/11 (Nepal's fiscal year runs from mid-July to mid-July), there were 2,108 foreign investment projects in Nepal, worth a total of approximately USD 2.61 billion, according to official GON statistics. India was by far the most important foreign investor in Nepal with 501 ventures, accounting for nearly 47.6 percent of total foreign investment. Ten of the 20 largest foreign enterprises in Nepal had Indian investment. China with 401 ventures ranked second, accounting for 10.34 percent, and U.S. with 174 ventures ranked third, accounting for 7.28 percent of total foreign investment. Japan, South Korea, and the United Kingdom are also prominent sources of foreign investment.

Reform of laws and regulations has allowed the growth of private operations in sectors that were previously government monopolies, such as telecommunications and civil aviation. In 2005, the GON also opened some service sectors to foreign investment.

Licensing and regulations have been simplified, and 100-percent foreign ownership is now allowed in the travel and tourism sector, and the production of cigarette and alcohol. Government policy also permits 51 percent foreign investment in consultancy services, such as management, accounting, engineering and legal services, and retail chain stores and franchises having presence in more than two countries. New banking institutions and a small stock exchange provide alternative sources of investment capital. On January 1, 2010, per its accession commitments to the World Trade Organization (WTO), Nepal opened the domestic banking sector to foreign banks, which are now allowed to engage in wholesale, but not retail, banking. Foreign banks operating branches in Nepal can invest only in major infrastructure projects.

The Government has opened the hydropower generation sector to private development, including foreign ownership. In August 2011, the Ministry of Energy announced the new Hydropower License Management Procedure, which promised to award licenses for hydropower projects above 10 MW through a competitive process. However, the process for obtaining licenses for hydropower projects remains cumbersome, and the new policy has created uncertainty about pending license applications. Unreasonable delay in the evaluation of hydropower survey license applications, a poor security environment, corruption, and political instability also discourage long-term investment in this sector. Additionally, Parliament has yet to approve the Nepal Electricity Regulatory Commission Act, designed to unbundle the functions of the bankrupt Nepal Electricity Authority (NEA), and create an independent regulatory body. Experts consider these steps necessary to reform NEA and stimulate private investment in the energy sector. Although a small number of private-sector hydropower projects have either begun operations or are in the planning stages, development of the sector has been very slow, and projects designed for the export of electricity to India remain politically sensitive.

Despite these steps to open additional sectors, significant barriers to increased foreign investment remain. Basic infrastructure needed to support investment is inadequate. The supply of power and water is insufficient. Transport is difficult and expensive, a problem compounded by the fact that Nepal is landlocked. Most products imported and exported by ship enter through Kolkata, India, and are then shipped overland. Nepal also lacks trained personnel and basic raw materials. In addition to these challenges, foreign investors must also deal with inadequate and obscure commercial regulations, vague and changeable rules governing labor relations, a non-transparent and capricious tax administration system, and difficulties in obtaining long-term visas. Furthermore, there is often variance between the letter of the law and its implementation.

Foreign investors complain about complex and opaque government procedures and a working-level attitude that is often more hostile than accommodating. Efforts intended to establish a "one window policy" and streamline government procedures related to foreign investment have produced few results, although the recently created Investment Board is designed to play such a role and coordinate domestic and foreign investors. The Board will focus on large investment projects worth more than Rs. 10 billion (USD 130 million) and certain key sectors, and could help cut through bureaucratic delays and improve interagency coordination. The GON has long been aware of the deficiencies in the investment climate, but has moved slowly on creating a more investor-friendly climate. The Foreign Investment and Technology Transfer Act of 1992 abolished the minimum capital investment requirement and eliminated other significant barriers to investment. The Act also allowed investment in the legal sector, management

consulting, accounting and engineering services, with a 51-percent limit on foreign ownership.

Legislation

The most significant foreign investment laws are: the Foreign Exchange (Regulation) Act of 1962; the Foreign Investment and One Window Policy of 1992; the Foreign Investment and Technology Transfer Act of 1992 and its Amendments; the Immigration Rules of 1994; the Customs Act of 1997; the Industrial Enterprises Act of 1992; the Electricity Act of 1992; the Privatization Act of 1994 and the annual Finance Act, which outlines customs, duties, export service charges, sales, airfreight and income taxes, and other excise taxes that affect foreign investment.

The Foreign Investment and One Window Policy lists acceptable forms of investment, allows for foreign shares up to 100 percent in business areas not on its "negative list," establishes currency repatriation guidelines, and outlines visa arrangements, arbitration guidelines, and a special "one window committee" for foreign investors. The Foreign Investment and Technology Transfer Act (FITTA) 1992, which was revised in 1996, 2000, 2002, and 2010, eliminated the minimum investment requirement, while opening 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 United Nations Commission for International Trade Law rules. However, foreign law can be applicable in cases where the foreign investment exceeds NRS 500 million (approximately USD 6 million) and where the parties make this choice clear in their agreement.

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 Privatization Act of 1994 authorizes and defines the procedures for privatization of state-owned enterprises to broaden participation of the private sector in the operation of such enterprises.

Additionally, 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 all types of electronic audio and visual materials and subjects violators to fines and imprisonment, as well as the confiscation of unauthorized materials. Violators also have to pay compensation claimed by the copyright holder. However, it does not meet the standards for trade-related intellectual property rights required by the World Trade Organization. The Government of Nepal is working to revise its intellectual property rights legislation to meet international standards.

The Competition Law 2004 controls anti-competitive practices, protects consumers against monopoly rights of trading enterprises, promotes fair competition for the growth of trade and commerce, and includes provisions for the control of mergers and acquisition of two or more firms that have the potential of gaining dominance in the market and acquisition of monopoly rights. The Competition Law also contains special provision for controlling black marketing and misleading advertisements.

Most of the acts and policies, and their amendments, governing foreign and private investment in the potential sectors were brought out during the last decade. However, implementation and enforcement of these laws and policies remain a challenge. Additionally, the transient political atmosphere renders the investment climate in Nepal uncertain.

Institutional Arrangements

In August 2011, a high-level Investment Board was created to serve as a one window facility for domestic and foreign investors pursuing large projects greater than Rs. 10 billion or approximately USD 130 million or projects in "priority areas" such as fast-track roads, hydropower projects over 500 MW, railways, medical colleges, tunnel roads and bridges, cable cars, international and regional airports, urban solid waste management, chemical fertilizers, and petroleum refinery plants. The Board, chaired by the Prime Minister, has the authority to formulate investment policies, prioritize and approve projects, facilitate the signing of agreements among different ministries, provide financial and nonfinancial facilities, procure land, monitor project progress, order government agencies to issue necessary project approvals and override any regulations in the existing laws in the name of investment promotion. The creation of the Board is meant to help cut through bureaucratic red-tape and expedite investments coming into Nepal.

Prior to the establishment of the Investment Board, the Department of Industry, under the Ministry of Industry, was designated as the "one window servicing agency" for all foreign investment to facilitate corporate registration, land transfers, utility connections, administrative services agreements, and coordination among various agencies. The Department also registers and classifies foreign investments and manages the income tax and duty drawbacks granted to some foreign investments. The Department of Industry remains the focal point for foreign investments of less than NRs. 10 billion, or investments outside of the priority areas.

The Industrial Promotion Board (IPB), chaired by the Minister of Industry, is the primary government agency responsible for foreign investment. It is charged with coordinating policy-level institutions, establishing guidelines for economic policy, approving foreign investment proposals, and determining applicable investment incentives.

Under current administrative procedures, foreign investors are required to obtain licenses for manufacturing or service sector investments, and each license request is considered individually. Investments below 2 billion rupees (approximately USD 25 million) are referred to the Department of Industry for action and are typically approved at the departmental level without the involvement of the IPB. However, investors frequently complain about bureaucratic delays and lack of transparency in procuring investment licenses. For investments exceeding Rs. 2 billion, up to six ministries other than the Ministry of Industry review a business proposal prior to consideration by the IPB.

The Department of Electricity Development, under the Ministry of Energy, is responsible for licensing all investments in hydropower projects. However, decisions on project proposals that involve foreign investment are invariably made by the Ministry of Energy itself. Similarly, Nepal Rastra Bank (NRB), the country's central bank, is responsible for issuing licenses to operate commercial banks and financial institutions. The Insurance Board (IB) is responsible for issuing licenses to operate insurance companies, both life

and general. The Civil Aviation Authority of Nepal (CAAN) is responsible for granting operating licenses to both domestic and foreign airline operators, and the Nepal Telecommunications Authority (NTA) is responsible for issuing licenses for operating any type of telecommunications and information technology services.

Licensing of new investments is often time-consuming and requires legal counsel and patience. The IPB, for example, is mandated by law to make a licensing decision within 30 days of submission of an application, but this deadline is not generally met because of the legal provision that all necessary information must have been submitted before a decision can be made. In practice, multiple meetings are usually required before the information is deemed sufficient.

Eligible Sectors

Foreign investment proposals must fall within eligible industry categories. These include: agriculture and forestry; manufacturing; electricity, both water and diesel-generated; civil aviation, including airport construction and installation of navigational equipment and facilities; road construction; hotels and resorts; transport; communications; housing and apartments; and a restricted range of services. The GON opened service sectors, along with a few others, in December 2005 to comply with its WTO commitments. These sectors include business and management consulting, accounting, engineering and legal services, travel and trekking services, tourist lodging, international retail sales services, and production of alcohol or cigarettes. In 2010, the GON further opened the commercial banking sector to foreign investment. Foreign investment is forbidden in the defense sector, and the IPB will not license foreign investments that are judged to be either hazardous to general health or the environment.

Foreign investors are permitted to acquire real estate in the name of the business entity they own, but are not allowed to acquire real estate as personal property. Although local law permits foreign investors to buy shares on the local stock exchange, in practice investment in the stock exchange is not yet open to foreign investors. This is due mainly to the provisions of the Foreign Investment and Technology Transfer Act of 1992, which requires the Department of Industry to approve the purchase of local shares by foreigners. Also, in cases of investment in banks and insurance companies, prior approval of the regulator is required. Further, approval by the NRB is also required for such purchase of shares under the Foreign Exchange (Regulation) Act 1962. All of these hurdles make investment in the local stock market cumbersome for foreign investors.

Foreign investors are allowed to buy shares of government corporations by participating in the bidding for privatization of such corporations. In such cases, Nepal's Ministry of Finance sells the shares to the buyer after carrying out a lengthy screening during the bidding process. Through a July 2006 amendment in the licensing policy of financial institutions, the NRB increased the maximum foreign equity participation limit in domestic financial institutions to 85 percent from 67 percent. With the amendment, equity participation of foreign investors in joint venture financial institutions can range between 20 percent and 85 percent, with the remaining shares open for purchase by the general public. Joint venture financial institutions with less than 50 percent foreign equity participation are required to earmark at least 30 percent of their shares for sale to the general public.

The Privatization Act of 1994 generally does not differentiate between national and foreign investors. However, in cases where proposals from two or more investors are identical, the government gives priority to Nepali investors. The process of privatization, dissolution and liquidation of government-owned private enterprises started in 1993. To date, 15 state-owned corporations have been privatized, seven corporations have been liquidated and two other corporations have been closed. The last privatization completed by the government was in January 2006. Foreign investors have taken over two of the 15 corporations privatized. The privatization process of three other state-owned corporations, which began in early 2006, was put on hold in April 2006 when Nepal's monarchial rule ended. Since the Constituent Assembly elections held in April 2008, no government has demonstrated a willingness to restart the privatization process. In fact, leaders of various political parties often express their support for reviving moribund state-owned corporations.

On June 17, 2010, the Privatization Committee of the Constituent Assembly directed the GON to furnish detailed plans for divestment of two state-owned corporations, the Agricultural Development Bank Limited (ADBL) and Nepal Telecom (NT), to strategic partners. Plans are still pending. In August 2010, the Finance Ministry announced it would sell shares of eight other public enterprises and run them under the public private partnership (PPP) model; however no further action was taken.

Hydropower is a sector with enormous possibilities – the estimated generation potential is 83,000 megawatts, more than half of which has been identified as economically feasible to develop, but its installed hydro capacity is only about 652 MW. The demand for electricity continues to increase faster than generating capacity. All hydropower plants, except one, are run-of-river facilities, the generating capacities of which are greatly diminished during the winter dry season.

The peak demand of power in the dry season (January to June 2011) is estimated to reach over 1,000 MW, and the monopoly power supply corporation, the NEA estimated more than 67 percent deficit during this season. Additionally, Nepal's demand for power is estimated to grow at an annual rate of 12 percent. On the other hand, the neighboring states of India (Northern-Grid) have an average monthly power deficit of roughly 3,500 MW. The GON opened the sector to private development, including foreign investment, but has done little to realize a greater share of hydropower's vast potential.

In April 2004, the state-owned Nepal Telecommunications Corporation was converted into a public limited company, and its name was changed to Nepal Doorsanchar Company Limited (commonly known as Nepal Telecom). However, the GON retained full ownership of the company. At the time of conversion, the estimated amount of paid-up capital and authorized capital of the corporation stood at 15 billion Nepali rupees (USD 238 million) and 25 billion Nepali rupees (USD 397 million) respectively.

On January 23, 2008, Nepal Telecom launched an initial public offering (IPO) to sell 15 million shares, a 10-percent stake in the company. It also offered a 5-percent stake in the company – 7.5 million shares – to its employees as required by the government. The IPO fell well short of government expectations, with the public purchasing roughly five million shares. In September 2008, the Finance Minister announced that the unsold shares will be sold through secondary markets. However, further action in this regard was never initiated. On March 29, 2010, Nepal Telecom passed a resolution to sell minority shares to an international telecommunications operator – a change deemed

necessary for Nepal Telecom to remain competitive. In May 2010, the Government formed a high-level task force that recommended divesting 26 to 30 percent stake of the company to a foreign strategic partner. The Privatization Committee of the Constituent Assembly directed the Ministry of Information and Communications to present detailed modalities for divesting shares, but so far no decision has been taken by the government. Government of Nepal retains a 91.5 percent stake in Nepal Telecom.

Per its accession commitments to WTO, on January 1, 2010, the GON opened the domestic banking sector to foreign banks to engage in wholesale banking but not retail banking. Foreign banks operating branches in Nepal can invest only in major infrastructure projects. Investment in the retail banking sector is available through joint ventures only, and such operation will have to be incorporated in Nepal.

Since 2003, the World Bank has been working to restructure two of the largest state-owned commercial banks, the Rastriya Banijya Bank ("National Commercial Bank" or RBB) and the Nepal Bank Limited (NBL). Even after eight years of direct supervision and NRs. 8 billion in subsidized loans, the NRB failed to prepare the two banks for divestment. In early December 2010, the GON made it clear that it will not inject additional funds to recapitalize the two ailing banks and hinted at divestment of its shares to induct strategic partner to turnaround their financial outlook. However, the reform, revitalization, and professionalization of these institutions are long-term tasks, and the banks have not indicated that they are ready for privatization.

The civil aviation sector has emerged as another potential sector for foreign investment in Nepal. The sharp increase in the number of air travelers in and out of Nepal in the last few years has brought in 29 airlines companies operating roughly 47 international flights a day, and 18 airlines companies operating around 100 flights in the domestic sector. In order to address the need, the GON is upgrading a number of domestic airports and the international airport in Kathmandu, and planning construction of a second international airport.

Visas

The GON offers different types of visas to investors and businesses. Potential investors are generally given six-month visas to conduct research and feasibility studies. To obtain a six-month visa, applicants must provide biographic information and a description of relevant work and professional experience. If the Department of Industry can readily identify the applicant as a legitimate business representative, the process can be expedited. Endorsement by a recognized foreign industrial enterprise is one means of accomplishing this. The Foreign Investment and Technology Transfer Act allows foreign investors to have one residential representative in Nepal. In cases where the foreign investor wishes to have more than one representative, the visa process becomes difficult. In the past, investors have even had problems obtaining visas for a second foreigner to serve as general manager responsible for their Nepali operations.

Business visas are generally issued to approved investors for a period of one to five years. However, investors describe the business visa process as bureaucratic and time-consuming. Many say they spend more than 24 work hours per visa, over a period of 20 to 30 days.

Although the GON authorized five-year, multiple-entry visas for resident foreign investors and their families in 1998, very few have been issued. Investors have complained that despite no legal revisions to the five-year business visa provision, the government generally issues only one-year business visas. Nepal's business visa fee is USD 300 for a five-year visa and USD 100 for a one-year visa for investors who bring more than NRS 10 million, and USD 1,000 for a five-year visa and USD 300 for a one year visa for investors who bring NRS 10 million or less. A non-tourist visa, however, costs USD 60 per month for the initial six-month period. This visa period can be extended for another six months or more at an additional USD 60 per month.

Rankings

The following table lists Nepal's most recent ranking by organizations that monitor economies' economic corruption, freedom, and ease of doing business.

| Measure | Year | Index/Ranking |
|---------------------------|-------------|----------------------|
| TI Corruption Index | 2012 | 2.2/154 |
| Heritage Economic Freedom | 2011 | 50.1/146 |
| World Bank Doing Business | 2012 | 107 out of 183 |

Conversion and Transfer Policies

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The Foreign Investment and Technology Transfer Act of 1992 permits foreign investors to repatriate all profits and dividends, all money raised through the sale of shares, all payments of principal and interest on any foreign loans, and any amounts invested in transferring foreign technology. Foreign nationals working in local industries are also allowed to repatriate 75 percent of their salaries, allowances, and emoluments, etc. Repatriation facilities (such as opening accounts or obtaining permission for remittance of foreign exchange) are made available on the recommendation of the Department of Industry, which normally provides approval of the original investment.

However, convertibility is difficult and not guaranteed. The relevant GON department and the NRB, which regulates foreign exchange, must approve the repatriation of funds. In most cases, approval must also be obtained from the Department of Industry. In the case of telecommunications, the Nepal Telecommunications Authority must approve the repatriation. In joint venture cases, the NRB and the Ministry of Finance must grant approval. After administrative approvals, a lengthy clearance process in the banking system also slows the transfer of foreign exchange. The experience of U.S. and other foreign investors indicates there are discrepancies between the government's stated policy of repatriation and its implementation.

Foreign investors must apply to the NRB to repatriate funds from the sale of shares. For repatriation of funds connected with dividends, principal and interest on foreign loans, technology transfer fees, expatriate salaries, allowances, and emoluments, the foreign investor applies first to the Department of Industry and then to the NRB. At the first stage of obtaining remittance approval, foreign investors must submit remittance requests to a commercial bank. Generally, foreign investors rated services provided by private banks as satisfactory. However, final remittance approval must be made by the NRB foreign exchange department, at which stage the process slows down significantly.

For this reason, foreign investors rated the NRB's administration of exchange regulations as unsatisfactory.

In general, Nepalis are not permitted to invest outside of Nepal. Exceptions, however, can be granted on a case-by-case basis, and policing of the prohibition is weak. In 1995, a private airline was permitted to invest in a regional carrier based in Kolkata. However, the Nepali airline closed down in 2005. The next year, another private airline operator formed a joint venture with a regional carrier based in India to operate flights in northeastern Indian states. These are the rare instances of approved direct foreign investment by Nepali nationals. During the peak of the Maoist insurgency in 2004 and 2005, a few industrial houses made unauthorized investments in India and Gulf countries.

Expropriation and Compensation

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The Industrial Enterprise Act of 1992 states that "no industry shall be nationalized." The GON routinely reiterates this point in negotiations with private-sector firms interested in the hydropower sector. However, some hardline leaders of the Unified Communist Party of Nepal – Maoist, which leads the current government and is the largest political party in Parliament, have stated that their party seeks to nationalize major sources of production and property in the country. Although they have never initiated any action to nationalize industries while in control of the government – and the current Maoist Prime Minister has publicly welcomed private investment -- this rhetoric keeps the debate open and raises concerns among potential investors. To date, there have been no cases of nationalization in Nepal, nor are there any official policies either existing or planned that suggest official expropriation should be of concern to prospective investors. Nevertheless, companies can be seized or confiscated if they do not pay taxes in accordance with Nepali law. Such cases have not involved major Nepali business houses, however.

Dispute Settlement

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In the event of a dispute with a foreign investor, the concerned parties are encouraged to settle it through mediation in the presence of the Department of Industry. If the dispute cannot be settled, cases involving investments of less than NRS 500 million (approximately USD 6.5 million) are referred to arbitration in Nepal in accordance with the Arbitration Rules of the United Nations Commission for International Trade Law (UNCITRAL). For investments that exceed this amount, the GON will permit stipulation of legal jurisdiction other than Nepal in shareholder agreements and contracts.

Disputes have not been frequent, but investors should be aware that in recent years there have been two investment disputes in which the U.S. investor claimed the GON did not honor portions of contracts.

All real property transactions must be registered, and property holdings cannot be transferred without following established procedures. Even so, property disputes account for half of the current backlog in Nepal's overburdened court system, and such cases can take years to settle. Moreover, laws and regulations regarding property

registration, ownership and transfer are unclear, and interpretation can vary from case to case.

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 liabilities, or liabilities are more than assets, then its liquidation is covered by the Insolvency Act. Under the Company Act, the claimant priorities are: 1) government revenue; 2) creditors; and 3) shareholders. Under the Insolvency Act the government ranks with all other unsecured creditors. Monetary judgments are made in local currency.

Nepal is a signatory to and adheres to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, and it has updated its legislation on dispute settlement to bring its laws into line with the requirements of that convention. The Arbitration Act of 1999 allows the enforcement of foreign arbitral awards and limits the conditions under which those awards can be challenged.

Performance Requirements and Incentives

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The Nepal Laws Revision Act of 2000 eliminated most tax incentives, even those connected with performance requirements. Exports, however, are still favored, as is investment in certain "priority" industries such as tourism, civil aviation and hydropower. There is no discrimination against foreign investors with respect to export/import policies or non-tariff barriers. There is no local content or export performance requirement. There is no requirement that nationals own shares of foreign investors, that the share of foreign equity be reduced over time, or that technology be transferred. However, to promote joint ventures with Nepali nationals, foreign investment in the service sectors is limited, ranging from 51 to 80 percent. Foreign investment in cottage industries is still not allowed. The GON offers tax incentives to encourage industries to locate outside the Kathmandu Valley to reduce pollution and overpopulation in the Valley and to encourage investors with an interest in developing poorer parts of the country.

Profits from exports are taxed at 20 percent. Customs, value added tax (VAT), and excise duties on raw materials used in the production of export items are supposed to be reimbursed within 60 days. In practice, however, these duty paybacks are often extensively delayed. Although income in certain priority industries, such as garments, carpets and jewelry, used to be taxed at a concessional rate of 10 percent, the Income Tax Act 2002 removed most of these concessions.

The Electricity Act of 1992 governs foreign investments in hydropower generation. The Act exempts developers from income tax for the first 15 years of a project's operation and provides a flat 1-percent customs rate on all imported construction materials, equipment and spare parts, provided that such goods are not manufactured in Nepal.

Foreign investors are not required to disclose proprietary information to government agencies as part of the regulatory approval process. There are no restrictions on participation by foreign firms in government-sponsored research and development programs; however, depending upon the nature of the job and expertise required, government agencies sometimes limit such participation to Nepali nationals.

Right to Private Ownership and Establishment

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Foreigners are free to establish and own business enterprises and engage in all forms of business activity with the exception of defense industries and security printing. In addition, investment is restricted in some areas, such as certain service industries. The GON is moving slowly toward open competition in most sectors of the economy. Former public monopolies in banking, insurance, airline services, telecommunications and trade have already been eliminated, and the remaining restrictions on private and foreign operations in other areas are being scaled back.

The Competition Promotion and Market Protection Act, which came into force in January 2007, defines anti-competitive practices and bars them. The Act outlaws tied selling, bid rigging, cartel formation, collective price fixing, market restrictions, dial-system, market segregation, undue business influences, syndicates, and exclusive dealing. It also prevents companies from engaging in business takeovers which would help establish monopolies in the market. Sale of inferior quality goods is illegal. The law was drafted through a joint initiative of the private sector and the then Ministry of Industry, Commerce and Supplies, but to date has been largely ineffective because the government has yet to establish the necessary enforcement mechanisms.

Protection of Property Rights

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In accord with its commitments on accession to the World Trade Organization, Nepal must enact new legislation on trade-related intellectual property rights to bring the country into compliance with international norms. Trademarks must be registered in Nepal to receive protection. Once registered, trademarks are protected for a period of seven years. However, protection of intellectual property rights is inadequate. Patents registration, under the Patent, Design and Trademark Act of 1965, does not provide automatic protection to foreign trademarks and design. Similarly, Nepal does not automatically recognize patents awarded by other nations. The Copyright Act of 2002 is similar in that it does not recognize foreign registrations. The Act, however, covers most modern forms of authorship and provides adequate periods of protection. Enforcement is weak, with the result being that much of the software and most audio and visual recordings now circulating in Nepal are pirated. Nepal has not yet signed the World Intellectual Property Organization (WIPO) Copyright Treaty or the WIPO Performances and Phonograms Treaty.

Transparency of Regulatory System

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Foreign investors in Nepal must deal with a largely non-transparent legal system in which basic legal procedures are neither quick nor routine. The bureaucracy is generally reluctant to accept legal precedents. As a consequence, businesses are often forced to re-litigate issues that had been previously settled. Furthermore, legislation limiting foreign investment in financial, legal, and accounting services has made it difficult for investors to find help cutting through regulatory red tape.

Labor, health, and safety laws exist but are not properly enforced. Some companies report that the process of terminating unsatisfactory employees is cumbersome and that protective labor laws make it very difficult to bring skilled foreign-national specialists, such as pilots, engineers, and architects, into Nepal.

Credit is generally allocated on market terms, although special credit arrangements exist for farmers and rural producers through the Agricultural Development Bank of Nepal. Foreign-owned companies can obtain loans on the local market. The private sector has access to a variety of credit and investment instruments. These include public stock and direct loans from finance companies and joint venture commercial banks.

Legal, regulatory, and accounting systems are neither fully transparent nor consistent with international norms. Though auditing is mandatory, professional accounting standards are low, and many practitioners are either poorly trained or lack in business ethics. Under these circumstances, published financial reports are often unreliable, and investors are better advised to rely on general business reputations, except in the few cases in which companies have applied international accounting standards.

The Nepali banking system is relatively small, and, in some cases, plagued by bad loans. Banking system assets totaled approximately USD 13.94 billion as of mid-June 2011, while its capital (total deposits) totaled USD 9.06 billion. As of October 17, 2011, 3.8 percent, of the total asset base was estimated as non-performing. Foreign commercial lending is scarce and expensive. Currently, there are no resident or non-resident foreign commercial banks that have standing credit limits for loans of a maturity of more than one year.

There is no regulatory system to encourage and facilitate portfolio investment in the industrial sector. Lack of transparency or regular reporting of reliable corporate information also presents problems for potential foreign investors. There are no legal provisions to defend against hostile takeovers. The GON has made certain exceptions to promote foreign direct investment (FDI) in tourism and hydropower by allowing 100 percent foreign ownership. The Clean Energy Development Bank has established a development fund of approximately US\$ 3 million for funding feasibility studies of small- and medium-sized hydropower projects. The “Hydro Development Fund” will fill the early-stage financing gap for development of small- and medium-sized hydropower plants in Nepal.

There are 30 state owned enterprises in Nepal. Since 1993, Nepal has initiated numerous market policy and regulatory regime reforms in an effort to open eligible government-controlled sectors to domestic and foreign private investment. The result has been that the majority of private investment has been made into manufacturing and tourism, sectors where there was either very little government interest or the existing state-owned enterprises performed miserably. However, even though some sectors have opened for foreign investment, a large part remains under state monopoly of some form. For instance, regulatory changes allowed 100 percent foreign direct investment in hydropower generation, but distribution of electricity remained under state monopoly, effectively limiting the ability of the private sector to sell electricity. Investors face the added burden of passing through a maze of regulatory requirements and negotiating with multiple agencies in India, while the state-owned Nepal Electrical Authority enjoyed the advantage of using GON clout to negotiate a deal with various Indian agencies.

Corporate governance of state owned enterprises (SOEs) is poor, with heads often appointed by politically-appointed line Ministers. Board seats are generally allocated to senior government officials – typically the secretary of a ministry – and the SOEs are often required to consult with government officials before making any major business decisions. However, in late 2011, the GON adopted a new policy to encourage the selection of heads of SOEs through a competitive and merit-based selection process, a positive development.

The Telecommunications Act 1997 and other policies enacted subsequently opened the sector to private investment, but the state-owned Nepal Telecommunications Company often used its influence to deny certain privileges to private sector telecom service operators and indirectly blocked them from expanding their services. The Privatization Act of 1994 generally does not discriminate between national and foreign investors; however, in cases where proposals from two or more investors are identical, the government gives priority to Nepali investors.

Corporate Social Responsibility

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The level of Corporate Social Responsibility (CSR) in the business community is generally low, except among trade and industry association leaders who have benefitted from studying abroad and/or exposure to multinational company practices. Very few companies are listed on the stock exchange, so there is little shareholder pressure on companies to act in a socially responsible manner. Furthermore, there are no laws or government policies promoting CSR.

Those most visibly engaged in CSR activities are multinational companies, of which there are very few in Nepal. Nepali businesses are mostly small- and medium-sized enterprises owned by individuals or one of the small number of business houses. The CSR activities of these companies are driven by the owners' personal convictions and interests rather than by corporate norms or standards.

Political Violence

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The signing of the Comprehensive Peace Agreement (CPA) in November 2006 marked the official end of a bloody, 10-year Maoist insurgency. The Department of State lifted its Travel Warning for Nepal on December 6, 2011, to reflect improvements in country conditions. Nonetheless, criminal violence, sometimes conducted under the guise of political activism, continues to be a problem. Additionally, bandhs (general strikes) called by political parties and other agitating groups sometimes halt transport and shut down businesses, sometimes nationwide.

Business owners, especially those in the Tarai, the southern plains bordering India, are sometimes the target of extortion and kidnapping by political party activists and criminal groups aligned with them. In a bid to extort ransom, armed groups often target business entrepreneurs and local government employees, and generally not foreigners. Media and human rights agencies reported the killing of 459 people and 185 cases of abduction during 2010 across the country, the majority by unidentified groups. Some of

the killings were in connection with the kidnappings. Most of these criminal acts took place in the Central and Eastern Tarai regions.

U.S. citizens who travel to or reside in Nepal are urged to register with the Consular Section of the Embassy by accessing the Department of State's travel registration site at <https://travelregistration.state.gov> or by personal appearance at the Consular Section, located at the U.S. Embassy, Maharajgunj, Kathmandu. The Consular Section can provide updated information on travel and security, and can be reached through the Embassy switchboard at (977) (1) 400-7200 or directly by fax (977) (1) 400-7281. Email: consktm@state.gov, web site: <http://nepal.usembassy.gov>.

U.S. citizens also should consult the Department of State's Consular Information Sheet for Nepal and Worldwide Caution Public Announcement via the Internet on the Department of State's home page at <http://travel.state.gov> or by calling 1-888-407-4747 toll free in the United States and Canada, or, for callers outside the United States and Canada, a regular toll line at 1-202-501-4444. These numbers are available from 8:00 a.m. to 8:00 p.m. Eastern Time, Monday through Friday (except U.S. federal holidays).

(Note: During the insurgency, the U.S. Government designated the Communist Party of Nepal - Maoist as a "Specially Designated Global Terrorist" organization under Executive Order 13224 and included it on the "Terrorist Exclusion List" pursuant to the Immigration and Nationality Act. Both of these remain in effect. As a result, Maoists are excludable from entry into the United States and U.S. citizens are barred entering transactions that provide funds, goods, services or other benefits to the Maoists.)

Corruption

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Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law. According to the Corruption Perception Index 2011 released by Transparency International (TI) in December 2011, Nepal ranked 154th and fell in the range of "highly corrupt" countries. The TI reports in 2009, 2010 and 2011 indicate Nepal as second most corrupt country in the South Asia after Afghanistan.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anti-corruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/>

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. This country is party to [add instrument to which this country is party], but generally all countries prohibit the bribery and solicitation of their public officials.

OECD Antibribery Convention: The OECD Antibribery Convention entered into force in February 1999. As of March 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA. [Insert information as to whether your country is a party to the OECD Convention.]

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 158 parties to it as of November 2011 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. [Insert information as to whether your country is a party to the UN Convention.]

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive

measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 34 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>) [Insert information as to whether your country is a party to the OAS Convention.]

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 49 member States (48 European countries and the United States). As of December 2011, the Criminal Law Convention has 43 parties and the Civil Law Convention has 34 (see www.coe.int/greco.) [Insert information as to whether your country is a party to the Council of Europe Conventions.]

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: <http://www.ustr.gov/trade-agreements/free-trade-agreements>. [Insert information as to whether your country has an FTA with the United States: Country [X] has a free trade agreement (FTA) in place with the United States, the [name of FTA], which came into force. Consult USTR Website for date: <http://www.ustr.gov/trade-agreements/free-trade-agreements>.]

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department’s Advocacy Center and State’s Office of Commercial and Business Affairs.

Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Public sector corruption, including bribery of public officials, remains a challenge for U.S. and foreign firms operating in Nepal. U.S. firms and other foreign investors have identified pervasive corruption as a major obstacle to making, maintaining and expanding direct investment in Nepal. There are also frequent allegations of corruption perpetrated by government officials in the distribution of permits and approvals, in the procurement of goods and services, and in the award of contracts, even though giving or accepting a bribe is officially a crime punishable by a fine and/or imprisonment under Nepali laws.

Combating corruption is the responsibility of the Commission for Investigation of Abuse of Authority (CIAA) and of the National Vigilance Center (NVC) under the Ministry of Home Affairs. Parliament's Public Accounts Committee (PAC) also plays an active role in publicizing misconduct by GON officials, but it lacks statutory authority to pursue cases. Since restoration of the multi-party system, local media have been particularly active in unearthing and reporting cases of corruption within the government. Investigative commissions and committees are often formed to look into major cases of corruption that come to light. Additionally, the current interim constitution provides for the impeachment of the Chief Justice and other judges on several grounds, including bad conduct and not fulfilling his/her responsibility honestly.

The CIAA had been proactive in prosecuting cases involving prominent political figures and government officials. In some cases, the Special Court convicted the accused and, in at least one case, the convicted official is serving a jail sentence. CIAA's handling of corruption cases has often come under fire. In June 2007 the CIAA filed a case against the Governor and one of the executive directors of Nepal's central bank, the Nepal Rastra Bank (NRB), for alleged misuse of funds. Critics claimed that the charges were framed without merit and perhaps brought at the behest of others to deter initiatives

taken by NRB against bank defaulters. In March 2008, the Supreme Court convicted the Governor and the Executive Director of NRB of corruption and imposed a fine of USD 51,538 each. With the conviction, the two were stripped of their posts. In September 2008, the two appealed to the Supreme Court challenging the verdict convicting them on the corruption, and on July 15, 2009, the Supreme Court acquitted both the Governor and the Executive Director from all charges. Except for one former minister, most of the high-profile government ministers charged with corruption have, however, been acquitted by the Court in the past.

In a recent issue regarding procurement of two new aircrafts by the state-owned Nepal Airlines Corporation (NAC), the local media reported alleged corruption and irregularities in the deal by senior executives of the NAC, purportedly with support from key officials in the GON. In spite of concerns from the Public Accounts Committee (PAC) and the Ministry of Finance, senior government officials and airline executives continued to push for the purchase and signed an MOU with Airbus. The CIAA investigated the alleged irregularities and filed a corruption case against six NAC executives in the Special Court on December 24, 2010. The Special Court acquitted all charges on April 19, 2011, and the aircraft purchase deal has remained on hold.

In recent months, both the PAC and the CIAA have investigated several corruption cases involving senior government officials. For instance, CIAA filed corruption charges against 34 police officials and a private broker in relation to the procurement of armored personnel carriers (APCs) in 2008. The CIAA filed cases in the Special Court against a lawmaker and eight government officials for alleged misuse of diplomatic passports, and instructed the Nepal Electricity Authority (NEA) to stop supplying free electricity to its employees. In addition, CIAA has issued directives to the government to provide transfer details of civil servants, and expedite appointment of a new Managing Director of the NEA through a competitive process.

In the recent years, the PAC has held several hearings on allegations of corruption and misappropriation of government funds by ministers and senior government officials. For instance, the PAC has reprimanded the government for its failure to punish Nepali businesses for producing fraudulent tax invoices to evade taxes.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a “Lay-Person’s Guide to the FCPA” is available at the U.S. Department of Justice’s Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>.
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is

available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.
- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See <http://info.worldbank.org/governance/wgi/index.asp>. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://data.worldbank.org/data-catalog/BEEPS>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/s?s=global+enabling+trade+report>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 106 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

Bilateral Investment Agreements

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Nepal has bilateral investment treaties with Britain, Finland, France, Germany, India, Mauritius, and Norway. Nepal signed a Investment Promotion and Protection Agreement (BIPPA) with India in October 2011, but the agreement has not yet entered into force.

OPIC and Other Investment Insurance Programs

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The Overseas Private Investment Corporation (OPIC) is free to operate in Nepal without restriction. OPIC is empowered to offer its "extended risk guarantee" facility to

prospective U.S. investors in Nepal. Nepal is also a member of the Multilateral Investment Guarantee Agency, which it joined in 1993.

The Export-Import Bank of the United States (Ex-Im Bank) is the U.S. Government's official export credit agency, whose mission is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank provides export credit insurance, loan guarantees and project and structured finance for U.S. exporters and foreign buyers of U.S. goods and services.

Labor

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The most distinguishing features of labor in Nepal are the shortage of skilled, educated workers, the increasing dominance of militant political party-affiliated unions, which commonly abrogate negotiated agreements to press new demands, and laws and regulations that are generally not business friendly. These problems, coupled with others, make it difficult to assemble and retain qualified, reliable staff. Dismissing underperforming employees is also problematic. Nevertheless, Nepal's labor force has some advantages. For example, according to a U.S. company involved in software development in Nepal, Nepali workers are loyal to the company when compared to neighboring countries, and Nepal's top engineering schools are producing highly qualified employees.

The overall literacy rate is 55.6 percent, with literacy rate for males at 74.7 percent and 53.1 percent for females. Vocational and technical training are poorly developed, and the national system of higher education is overwhelmed by high enrollment and inadequate resources. Many secondary school and college graduates are unable to find jobs commensurate with their education. Hiring foreign workers is not, in most cases, a viable option as the employment of foreigners is restricted. The Department of Immigration must approve the employment of foreigners for all positions, except the most senior ones.

The Constitution provides for the freedom to establish and join unions and associations. It permits restrictions on unions only in cases of subversion, sedition, or similar conditions. Labor laws permit strikes, except by employees in essential services such as water supply, electricity, and telecommunications. Sixty percent of a union's membership must vote in favor of a strike for it to be legal. The laws also empower the government to halt a strike or suspend a union's activities if the union disturbs the peace or adversely affects the nation's economic interests, though, in practice, this is rarely done.

Total union participation is estimated to be around one million, or about 10 percent of the total workforce, much of which is employed in informal sectors. The three largest trade unions are affiliated with political parties. The Maoist-affiliated All Nepal Trade Union Federation (ANTUF) is the most active and has been aggressive in its efforts to establish control over industries and business sectors. The ANTUF's organizing tactics have led to violent clashes with other trade unions.

The ANTUF is aggressive in its defense of members and frequently engages in disputes with management in various sectors, often on issues that are traditionally viewed as being solely within the purview of management. For instance, on May 22, 2011, labor

activists affiliated with the Unified CPN-Maoist stormed and burned down the facilities of GMR, an Indian hydropower company that was developing a 300 MW Upper Karnali hydropower project. The unions alleged the project was against the interest of Nepal and demanded annulment of the project license. The Maoist national leadership claimed the violence was not endorsed and contrary to party policy. Surya Nepal Garments, an Indian-owned readymade garment factory, announced the permanent closure of its Nepal operation on August 16, 2011, citing labor problems after union members affiliated with the Maoist-affiliated All Nepal Trade Union Federation – Revolutionary (ANTUF-R) held 38 management staff hostage in the factory for over 36 hours. The detained staff members were later released by the district administration with assistance from the police.

Much of the union labor agitation is conducted in violation of valid contracts and existing laws, but rarely are the unions held accountable for their actions. Unions, particularly the Maoist-affiliated ANTUF, most frequently target joint ventures involving foreign investment and hotels. Coca-Cola, Colgate Palmolive, Unilever and Dabur Nepal are among the numerous multinationals companies that have been forced over the past few years to suspend operations or reduce production due to labor protests.

Foreign-Trade Zones/Free Ports

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Nepal currently has no Foreign Trade Zones or Free Trade Zones. However, in its annual budget for FY 2008/09, the GON announced its intention to set up Special Economic Zones in 10 different locations – Jhapa, Dhanusha, Birgunj, Dhangadhi, Bahiaraha, Nuwakot, Jumla, Banepa, Mahendranagar, and Panchkhal – the latter three strictly for the information technology sector. Special Economic Zone (SEZ) legislation is currently being drafted. Under the draft act, an industry exporting 75 percent or more of its products would be entitled to apply for a space in a SEZ and import of raw materials and capital goods without paying custom duties, excise taxes or sales taxes. An Industry located in the Special Economic Zone shall be exempted fully from the income tax for five years from the date of commencement of commercial transaction or production, and fifty percent subsequently. The Licensee shall be entitled to full exemption from Value Added Tax chargeable while importing machinery, equipment, spare parts of machine, and necessary raw materials.

Foreign Direct Investment Statistics

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Foreign Direct Investment Statistics (as of July 15, 2011, the end of Nepal's Fiscal Year 2010/11)

| | |
|------------------------|-------|
| Total No. of projects | 2,108 |
| Agriculture & Forestry | 91 |
| Manufacturing | 682 |
| Energy-Based | 50 |
| Construction | 104 |
| Tourism | 565 |
| Mineral | 33 |

| | |
|-----------------------------|----------------------|
| Service | 583 |
| Total Project Cost: | USD 2,611.62 million |
| Total Fixed Cost: | USD 2,224.43 million |
| Total Foreign Investment: | USD 1,042.07 million |
| Total Employment Generated: | 155,432 |

Source: Foreign Investment Division, Department of Industry, Nepal

U.S. Investment in Nepal (as of July 15, 2011, the end of Nepal's Fiscal Year 2010/11)

| | |
|-----------------------------|--------------------|
| Total No. of projects | 174 |
| Agriculture and Forestry | 6 |
| Manufacturing | 50 |
| Energy-Based | 1 |
| Tourism Industry | 41 |
| Service Industries | 76 |
| Total Project Cost: | USD 241.41 million |
| Total Fixed Cost: | USD 218.26 million |
| Total Foreign Investment: | USD 84.31 million |
| Total Employment Generated: | 12,287 |

Source: Foreign Investment Division, Department of Industry, Nepal

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Department of Industry, Nepal:
(Foreign Investment Division) www.doind.gov.np

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Chapter 7: Trade and Project Financing

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- [How Does the Banking System Operate](#)
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How Do I Get Paid (Methods of Payment)

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The only readily available method of financing trade transactions in Nepal is a letter of credit. As of February 2012, the GON has not yet fulfilled its announced intention to open an export-import bank. Nepal does not have credit rating or collection agencies.

How Does the Banking System Operate

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Nepal Rastra Bank (NRB) regulates the national banking system and also functions as the government central bank. As a regulator, NRB controls foreign exchange; supervises, monitors, and governs operations of banking and non-banking financial institutions; determines interest rates for commercial loans and deposits; and also determines exchange rates of foreign currencies. As the government's bank, NRB maintains all government income and expenditure accounts, issues Nepali bills and treasury notes, as well as loans to the government, and determines monetary policy.

Commercial lending in Nepal is governed under the Commercial Bank Act of 1974, the Finance Company Act of 1985, and the Bank and Financial Institutions Act of 2006, which authorizes the NRB to issue guidelines to all commercial banks and financial institutions on interest rates, interest ceilings, and areas of investment.

Two large banks dominate the commercial banking sector: Nepal Bank Ltd., which is 40.5 percent government-owned, and Rastriya Banijya Bank (National Commercial Bank), which is 100 percent government-owned. Together, Nepal Bank Ltd. and Rastriya Banijya Bank account for 16.5 percent of the entire banking system's deposits and 11.9 percent of loans, as of June 2011. Both banks also have a large number of non-performing loans and are technically insolvent. A NRB management team has been running the Nepal Bank Ltd. since April 2010 after the expiration of a five-year contract with foreign management teams. The term of the consultants hired by the NRB for Rastriya Banijya Bank conclude in April 2011 and Rastriya Banijya Bank appointed a new Chief Executive Officer in January 2012.

In the 1980s, Nepal opened up the commercial banking sector to foreign participation. Since then several joint venture banks have been established including: Nabil Bank; Nepal Investment Bank; Standard Chartered Bank; State Bank of India; Bank of Kathmandu ; Everest Bank; Nepal Sri Lanka Merchant Bank; Nepal Bangladesh Bank;

and Nepal Bank of Ceylon, now called Nepal Credit and Commerce Bank. As of January 2012, there were 31 commercial banks in operation, including foreign joint-venture banks. A large number of development banks and finance companies have also been established. As of January 2012 there were 85 development banks and 79 finance companies in operation. Existing banking laws do not allow branch operation by any foreign banks. All commercial banks have correspondent banking arrangements with foreign commercial banks, which they use for transfers and payments.

In 1994, the government expanded the role of the Nepal Stock Exchange by allowing private brokers to operate. The volume of trading subsequently increased dramatically, but has since stabilized. In 1996, the GON announced that it would permit foreign institutional investors to hold up to 25 percent of the shares of listed firms in certain sectors, such as tourism and power.

Foreign-Exchange Controls

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The Nepali rupee is convertible for all current account transactions; however investors have complained the process for converting Nepali rupees is cumbersome and requires approvals. Earners of foreign exchange are permitted to retain 100 percent of their earnings and to open a foreign exchange account in Nepal to hold them. However, approval from the NRB is required for payments to any person living outside of Nepal. NRB approval is also required to draw, accept or negotiate any bills of exchange, promissory notes or loans, if the payee is living outside Nepal.

Foreign investors who have received permission to invest in convertible currency are permitted to repatriate the proceeds from the sale of that investment, the profits or dividends from that investment, and the principal and interest paid on any foreign loans.

One dollar is currently equivalent to approximately 78.64 Nepali rupees. The currency value is pegged to the Indian rupee at a current rate of IR 1.0 = NR 1.60. The rate against the Indian rupee has not been adjusted since 1993. The Nepalese rupee was revalued against the Indian rupee by 3.0 percent to NRs 1.60 for 1 Indian rupee, and the Nepali rupee was also made fully convertible on current account on February 12, 1993.

U.S. Banks and Local Correspondent Banks

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There are no U.S. bank branches operating in Nepal. The following banks have correspondent banking arrangements with U.S. banks:

Nepal Bank Limited
Mr. Maheshwor Lal Shrestha
Chief Executive Officer
Nepal Bank Bldg.
Dharma Path
Kathmandu, Nepal
Phone: 977-1-4222397, 4221185
Fax: 977-1- 4220414
Email: info@nepalbank.com.np

Rastriya Banijya Bank
Mr. Krishna Prasad Sharma
Chief Executive Officer
GPO Box: 8368
Singhadurbar Plaza, Kathmandu, Nepal
Phone: 977-1-425-2595
Fax: 977-1-422-5302; 425-2931
Email: intlbkng@rbb.com.np
Website: <http://rbb.com.np/>

Himalayan Bank Ltd.
Mr. Ashoke SJB Rana
Chief Executive Officer
Tridevi Marg, Thamel
Kathmandu, Nepal
Phone: 977-1-4227749, 4250201
Fax: 977-1-4222800
Email: himal@hbl.com.np
Website: <http://www.himalayanbank.com>

NABIL Bank Limited
Mr. Anil Gyawali
Chief Executive Officer
P.O. Box: 3729
Nabil House, Kamaladi, Kathmandu, Nepal
Phone: 4430425, 4429546-47, 4435380-85
Telex: 2385 NABIL NP, 2431 NABILH NP
Fax: 4429548
SWIFT: NARBNPKA
E-mail: nabil@nabilbank.com.np
Website: <http://www.nabilbank.com/>

Standard Chartered Bank Nepal Limited
Mr. Joseph Silvanus
Chief Executive Officer
PO Box 3990
Naya Banashwor, Kathmandu, Nepal
Phone: 977-1-4782333, 4783304
Fax: 977-1-4780314
Website: <http://www.standardchartered.com/np/index.html>

Nepal Investment Bank Ltd.
Mr. Prithivi Bahadur Pandé
Chairman/Chief Executive Director
P.O. Box: 3412
Durbar Marg, Kathmandu, Nepal
Phone: 977-1- 4228229, 4228231
Fax: 977-1-4226349, 4228927
E-mail: info@nibl.com.np
Website: <http://www.nibl.com.np/>

Nepal SBI Bank Limited
Mr. Alok Kumar Sharma,
Managing Director
Durbar Marg, Kathmandu, Nepal
Phone: 977-1-4435516, 4435613
Fax: 977-1-4435612
Email: nsblco@mos.com.np
Website: www.nepalsbi.com.np; www.nsbl.com.np

Nepal-Bangladesh Bank Ltd.
Mr. Gyanendra Prasad Dhungana
Chief Executive Officer
Bijuli Bazar, New Baneswor
P O. Box: 9062
Kathmandu, Nepal
Phone: 977-1-4783972/4783975/4783976
Fax: 977-1-4780826/4780106/4780509
E-mail: nbbldho@nbbank.com.np
Website: www.nbbld.com.np

Bank of Kathmandu Ltd.
Mr. Ajay Shrestha
Acting Chief Executive Officer
P.O. Box 9044
Kamal Pokhari, Kathmandu, Nepal
Phone: 977-1-4418068, 4414541
Fax: 977-1-4418990
SWIFT: BOKLNPKA
Telex: 2820 BOK NP
Email: bok@bokltd.mos.com.np; info@bok.com.np
Website: <http://www.bok.com.np/home/index.php>

Everest Bank Limited
Mr. P.K. Mohapatra
Chief Executive Officer
EBL House, Lazimpat
P.O. Box 13384
Kathmandu, Nepal
Phone: 977-1-4443863, 4443864, 4443377
Fax: 977-1-4443160
Email: ebld@mos.com.np
Website: <http://www.everestbankltd.com/>

Project Financing

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Major projects are usually financed through foreign consortium financing. Infrastructure projects developed by the public sector are funded by forming a consortium of multilateral funding agencies, such as the World Bank and the Asian Development Bank, and bilateral funding agencies. Similarly, projects developed by the private sector are usually funded by forming a consortium of a number of foreign commercial lenders.

Both the World Bank and the Asian Development Bank are active in lending for development activities, including roads, telecommunications, hydroelectric power and other infrastructure. Both provide loan and grant financing for public sector projects and loan financing for local companies.

The U.S. Export-Import Bank (Ex-Im Bank) can lend to both the private and public sectors in Nepal, but only against a public sector guarantee. Availability of credit varies from year to year depending on Nepal's risk rating. The Overseas Private Investment Corporation (OPIC) can make limited financing available to projects with U.S. investment interest. Agreements with Ex-Im Bank, OPIC and the International Finance Corporation (IFC) are in place. There are also numerous bilateral financing and insurance arrangements. The U.S. Trade and Development Agency (TDA) funds feasibility studies for projects with significant commercial implications for exports of U.S. goods and services. In the case of the Upper Bhoite Koshi Hydroelectric Project, TDA provided a USD 500,000 grant for completion of a final feasibility study.

The Nepali banking system is small, fragmented, and, in some cases, plagued by bad loans. Banking system assets totaled approximately USD 13.94 billion as of mid-June 2011, while its capital (total deposits) totaled USD 9.06 billion. The total amount of outstanding loans of commercial banks to the private sector was USD 7.16 billion. As of mid-April 2011, 3.4 percent of the total asset base was estimated as non-performing. The gross convertible foreign exchange reserve of the banking sector in mid-December 2011 reached USD 4.31 billion, enough to finance merchandise imports of 10.6 months. Banks are only willing to consider loans with terms of up to five years. It is difficult to borrow in excess of USD 20 million from any combination of banks in Nepal. Similarly, liquidity constraints restrict to less than USD 5 million the capital that can practically be raised on the Nepal Stock Exchange through any one public issue. There is no regulatory system to encourage and facilitate portfolio investment in the industrial sector.

Foreign commercial lending is scarce and expensive. Currently, there are no resident or non-resident foreign commercial banks that have standing credit limits for loans of a maturity of more than one year. The government has recently decided to permit foreign institutional investors to own up to 25 percent of the shares of listed Nepali firms in certain sectors, such as hydropower and tourism. Promoters can sell their shares and repatriate capital. Through an amendment in the licensing policy of financial institutions made in July 2006, Nepal Rastra Bank, the central bank of Nepal, increased the maximum foreign equity participation limit in domestic financial institutions to 85 percent from 67 percent. With this amendment, equity participation of foreign investors in joint venture financial institutions could range from 20 to 85 percent.

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

Nepal Rastra Bank (Central Bank of Nepal): <http://www.nrb.org.np/>

World Bank - Nepal: <http://www.worldbank.org/np>

International Finance Corporation – South Asia: [http:// www.ifc.org/southasia](http://www.ifc.org/southasia)

Asian Development Bank - Nepal: <http://www.adb.org/Nepal>

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Business Customs

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Nepal is ethnically, linguistically, and culturally diverse. Traditional and conservative by nature, Nepalis are congenial people who take pride in their national and ethnic heritage. Business relations, as in much of Asia, are often tied to commonalities. Foreigners must be prepared to obtain the appropriate introductions and to spend the proper amount of time on confidence-building before entering into serious business negotiations. Visitors are normally greeted by saying "Hello" or "*namaste*," followed by a handshake. An exchange of business cards follows. Nepalis like conversing briefly before entering into business negotiations. Normal business attire is appropriate.

Travel Advisory

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For information, visit the State Department's Consular Information Sheet on Nepal at: <http://nepal.usembassy.gov/pr-12-07-2011.html>

Visa Requirements

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Nepal is a developing country with extensive facilities for tourists that vary in quality according to price and location. A passport and visa are required for entry. A multiple-entry tourist visa for a stay of up to 90 days is issued at ports of entry upon arrival as well as from Nepali diplomatic missions abroad for USD 100.

A traveler who has been to Nepal before on a tourist visa which has expired within the past 150 days can return on an entry visa by paying USD 60 for 30 days at entry points or at Nepali diplomatic missions abroad. In addition, a visitor wanting to stay for more than 90 days can extend the tourist visa for up to additional 60 days by paying in Nepali currency equivalent of USD 2 per day to the Department of Immigration, to renew the validity of tourist visa. Tourist visa is granted for a maximum period of 150 days in a visa year (Visa years means January to December).

Multiple-entry business visas for one and five years can be obtained from the Department of Immigration on the recommendation of the Ministry of Industry by paying the equivalent of USD 100 and USD 300 (in Nepali currency), respectively for investors investing more than ten million Nepalese rupees, roughly USD 127,000, and by paying the equivalent of USD 300 and USD 1,000 (in Nepali currency), for investors investing ten million Nepalese rupees or less.

Travelers can obtain additional information by contacting the Embassy of Nepal at 2131 Leroy Place, NW, Washington, DC 20008: Telephone 202/657-4550; or the Nepali Consulate General in New York: Telephone 212/370-4188.

Six-month visas are provided to prospective investors for the purpose of conducting feasibility studies. To obtain a six-month visa, applicants must provide biographic information and a description of relevant work and professional experience. The process can be expedited if the person can be readily identified as a legitimate business representative. Endorsement by a recognized foreign industrial enterprise is one means of accomplishing this. Investors describe the business visa process as bureaucratic and time-consuming. Many say they spent more than 24 work hours per visa, over a period of 20 to 30 days. Therefore, prospective investors are advised to start the visa process early.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security evaluations are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/>

Consular Section US Embassy, Kathmandu: (<http://nepal.usembassy.gov/service.html>)

Telecommunications

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Telecommunications facilities are fairly good in Kathmandu and other major towns, such as Pokhara, Biratnagar, Birgunj, Bhairahawa and Nepalgunj. The quality of telephone services outside major cities is poor, although improving. Large hotels in Kathmandu have business centers with 24-hour service available for telephone, fax, email, and Internet. Collect call service is not available in Nepal. Private call centers, which provide telephone, email, fax and Internet services, are widely available, but normally operate from 8 a.m. to 8 p.m. Internet accessibility is largely through broadband connections, which is generally slow. However, broadband services are improving in Kathmandu and elsewhere. Cellular phone services are based on GSM technology, although CDMA technology is also beginning to be installed. It is easy and affordable to obtain pay-as-you go cellular phone plans. Telecommunication services are generally more costly than in the United States.

Transportation

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Nepal is a landlocked country and transportation both within and across borders is a major hurdle to doing business. When traveling to Kathmandu, U.S. business visitors can take either the Pacific route or the Atlantic route. U.S. airlines do not fly directly to

Kathmandu but have alliances with other foreign airlines operating in Nepal. For visitors coming via the Pacific route, Bangkok is the major transit port. Thai Airways operates daily direct flights to and from Kathmandu. Nepal Airlines operates three direct flights a week to Hong Kong, three flights a week to Dubai, three flights a week to Bangkok, and six flights a week to Kuala Lumpur, although its flights have been subject to frequent cancellations due to a lack of operational aircraft. Silk Air operates four days a week to Singapore. Dragon Air operates six flights a week to Hong Kong. For visitors coming via the Atlantic route, connections are usually through Abu Dhabi, Bahrain, Doha, Dubai, or New Delhi. Gulf Air, Air Arabia, Etihad Airways, Qatar Airways, Jet Air, Spice Jet, Kingfisher and Indian Airlines have connecting flights to Kathmandu. Qatar Airways has three flights daily to and from Kathmandu, Gulf Air and Air Arabia operate one flight daily. New Delhi - Kathmandu is the best-connected route as at least seven airlines operate flights between these two cities, with at least seven flights every day.

Nepal has one international airport in Kathmandu, three regional/hub airports, nine all-weather airports and 21 seasonal domestic airports spread throughout the country. Except for the international airport in Kathmandu, none of the domestic airports has modern navigational facilities, such as radar. Domestic air services are available for traveling to major cities and business centers. Nepal has neither a seaport nor a railway system. Road transportation is constrained and limited. An east-west highway, which passes through the plains, connects the major cities of Nepal, but the road network with other parts of the country is very poor.

Language

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The official language of Nepal is Nepali and the script is Devanagari, the same script in which Hindi is written. The main language of business is Nepali. However, many business people also speak Hindi and English. All internal documentation and correspondence in government establishments are done in Nepali. Correspondence with foreign government agencies, international organizations and private businesses is done in English. In the private sector, English is used for most documentation and correspondence.

Health

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Medical care is extremely limited and generally not up to Western standards. Serious illness often requires evacuation to Singapore, Bangkok or New Delhi. Doctors and hospitals in Nepal expect immediate cash payment for health services. In general, U.S. medical insurance is not valid in Nepal. The Medicare/Medicaid Program does not provide for payment overseas. Supplemental health insurance that specifically covers overseas treatment and air evacuation to the nearest adequate medical facility is strongly recommended. Illnesses and injuries suffered while trekking in remote areas often require rescue by helicopter; the cost is typically USD 3,000 to 10,000. The U.S. Embassy strongly recommends visitors obtain travel insurance to cover such emergencies.

More common are illnesses caused by impure water or food. Some locally bottled water may be unsafe. Drinking only boiled water or bottled water that has been disinfected

(with iodine, chlorine, etc.) is advised. Locally bottled soft drinks, club soda, and beer are generally safe.

Additional information on health matters may be obtained from the International Traveler's Hotline of the Centers for Disease Control and Prevention (CDC) at 888/232-3228, the autofax service at 888/232-3299, or by visiting the CDC home page on the internet at <http://www.cdc.gov>.

Local Time, Business Hours, and Holidays

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Nepal's Standard Time is 5 hours 45 minutes ahead of GMT and 10 hours and 45 minutes ahead of Eastern Standard Time. Nepal does not observe daylight saving time. All government offices and banks operate a six-day workweek from Sunday to Friday. Typical business hours are 9 a.m. - 5 p.m. Government offices operate from 10 a.m. – 5 p.m. Most businesses (including stores) close on Saturday, but this is gradually changing. Sunday is a workday in Nepal for the business community.

National Holidays (2011)

| Date | Holidays | Day | Remarks |
|--------------|-------------------------------|-----------|----------------|
| January 15 | Maghe Shankrati | Sunday | |
| January 24 | Sonam Losar (Tamang New Year) | Tuesday | |
| January 30 | Martyrs' Day | Monday | |
| February 19 | National Democracy Day | Sunday | |
| February 20 | Maha Shivaratri | Monday | |
| March 7 | Holi/Phagu Purnima | Wednesday | Hills only |
| March 8 | Nepali Women's Day | Thursday | Women only |
| March 8 | Holi in Tarai | Thursday | Tarai only |
| March 22 | Ghode Jatra | Thursday | Kathmandu only |
| April 13 | Navabarsha (New Year's Day) | Friday | |
| April 23 | Loktantra Divas Democracy Day | Monday | |
| May 1 | May | Tuesday | |
| May 6 | Buddha Jayanti | Sunday | |
| May 28 | Republic Day | Monday | |
| August 2 | Janai Purnima/Rakshya Bandhan | Thursday | |
| August 3 | Gai Jatra | Friday | Kathmandu only |
| August 9 | Krishna Janmashtami | Thursday | |
| August 9 | Gaura Parva | Thursday | |
| August 20 | Id-ul-Fitre | Monday | |
| September 7 | Civil Servant's Day | Friday | |
| September 18 | Hari Talika (Teej) | Tuesday | Women only |
| September 20 | Rishi Panchami | Thursday | Women only |
| October 16 | Ghatasthapana | Tuesday | |
| October 22 | Maha Ashtami | Monday | |
| October 23 | Maha Navami | Tuesday | |
| October 24 | Vijaya Dashami | Wednesday | |
| October 25 | Ekadashi | Thursday | |

| | | | |
|-------------|-----------------------------|-----------|------------|
| October 26 | Dwadashi | Friday | |
| November 11 | Kaag Pooja – Tihar | Sunday | |
| November 12 | Kukur Pooja – Tihar | Monday | |
| November 13 | Laxmi Pooja – Tihar | Tuesday | |
| November 14 | Govardhan Puja/Nepal Sambat | Wednesday | |
| November 15 | Bhai Tika – Tihar | Thursday | |
| November 19 | Chhat | Monday | Tarai only |
| December 25 | Christmas Day | Tuesday | |

NOTE. Exact dates for holidays are announced by the GON at the beginning of each Nepali year (mid-April).

Temporary Entry of Materials and Personal Belongings

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Materials -- including vehicles, machinery, and equipment -- may be imported temporarily for special purposes such as domestic exhibitions or trade fairs by making a refundable deposit of the applicable duty. Such goods must be taken out of the country within three months of the completion of the work unless the duty has been paid and the item sold for the use of others or retained for personal use. An extension of the three-month period may be granted on appropriate and reasonable grounds upon payment of an additional ten percent of the applicable duty amount. If the duty is not paid or the goods are not re-exported within six months of entry, the government may bring smuggling charges.

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| | |
|---|---|
| FAA Internet home page: | http://www.faa.gov/avr/iasa.htm |
| U.S. Embassy's home page: | http://nepal.usembassy.gov/ |
| Department of Immigration, GON: | http://www.immi.gov.np/main.php |
| Centers for Disease Control and Prevention: | http://www.cdc.gov |
| State Department's Consular Info Sheet: | http://travel.state.gov/travel/cis_pa_tw/cis/cis_980.html |
| Indian Airlines: | http://indian-airlines.nic.in/scripts/index.asp |
| Gulf Air: | http://www.gulfairco.com/index/index.asp |
| Qatar Airways: | http://www.qatarairways.com/ |
| Nepal Airlines: | http://www.royalnepal-airlines.com/ |
| Thai Airways: | http://www.thaiair.com/ |

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Chapter 9: Contacts, Market Research and Trade Events

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Contacts

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U.S. EMBASSY TRADE-RELATED CONTACTS:

Political/Economic Section
U.S. Embassy
Maharajgunj
Kathmandu, Nepal
Tel: 977-1-4007200
Fax: 977-1-4007272

Timothy P. Trenkle, Political/Economic Chief
Email: TrenkleTP@state.gov

Phaovisaid, Darin A., Economic/Commercial Officer
Email: PhaovisaidDA@state.gov

Tapas K. Gupta, Economic/Commercial Specialist
Email: GuptaTK@state.gov

Website: <http://nepal.usembassy.gov/>

U.S. Mailing Address:
U.S. Embassy Kathmandu
6190 Kathmandu Place
Dulles, VA 20189-6190

BILATERAL CHAMBERS OF COMMERCE

Nepal-USA. Chamber of Commerce and Industry (NUSACCI)
Tel: 977-1-4478020, Fax: 977-1-478020
Email: nuscci@mos.com.np

NEPAL TRADE AND INDUSTRY ASSOCIATIONS

Federation of Nepali Chambers of Commerce & Industry (FNCCI)
Tel: 977-1-4262061, 4262007, Fax: 977-1-4261022
Website: <http://www.fncci.org>

Nepal Chamber of Commerce
Tel: 977-1-4222890, 4258269, Fax: 977 1 4229998
Email: chamber@wlink.com.np
Website: <http://www.nepalchamber.org>

Confederation of Nepali Industries
303 Bagmati Chambers
Teku, Kathmandu
Tel: 977-1-4243 711
Email: info@cnind.org
Website: <http://www.cnind.org>

Cargo Agents Association of Nepal
Tel: 977-1-4410403, Fax: 977-1-4419858

Handicraft Association of Nepal
Tel: 977-1-4245467, 4244231, 4243015, Fax: 977-1-4222940
Email: handi@crft.mos.com.np
Website: <http://www.yomari.com/han/>

Central Carpet Industries Association of Nepal
Tel: 977-1-4413135, 4422729, Fax: 977-1-4422891
Website: www.nepalcarpet.org

Freight Forwarders Association of Nepal
Tel: 977-1-4419769

Garment Association of Nepal
Tel: 977-1-4482691, 4481773, Fax: 977-1-4482173
Website: <http://www.ganasso.org/>

Management Association of Nepal
Tel: 977-1-4224475, Fax: 977-1-4240475
Website: <http://www.man.org.np/>

Nepal Association of Tour and Travel Agents (NATTA)
Tel: 977-1-4418661 or 4419409, Fax: 977 1 4418684
E-mail: nata@mail.com.np
Website: <http://www.nata.org.np>

Nepal Foreign Trade Association
Tel: 977-1-4223784, Fax: 977-1-4228562

Women Entrepreneurs Association of Nepal
Tel: 977-1-525031, Fax: 977-1-411277

Hotel Association Nepal (HAN)
Tel: 412705, 410522, Fax: 977-1-424914
E-mail: info@hotelassociation.org.np
Website: <http://www.hotelassociation.org.np>

GOVERNMENT OF NEPAL MINISTRIES AND OFFICES

Ministry of Finance, Singha Durbar, Kathmandu
Tel: 977-1- 4211161, Fax: 977-1-4211164
Website: <http://www.mof.gov.np>

Ministry of Industry, Commerce & Supplies, Singha Durbar, Kathmandu
Tel: 977-1-4211446, Fax: 977-1-4211619
Website: <http://www.moics.gov.np/index.php>

Ministry of Tourism & Civil Aviation, Singha Durbar, Kathmandu
Tel: 977-1- 4211870 Fax: 977-1-4211758
Website: <http://www.tourism.gov.np>

Ministry of Information & Communications, Singha Durbar, Kathmandu
Tel: 977-1-4211650, 4211556, 4211647 Fax: 977-1-4211979, 4211729, 4211610
Website: <http://www.moic.gov.np/>

Trade and Export Promotion Center, Pulchowk, Lalitpur
Tel: 977-1-5525716, 5525348, 5525898, 5525362, Fax: 977-1-5525464
Website: <http://www.tepc.gov.np/>

Nepal Tourism Board, Bhrikuti Mandap, Kathmandu
Tel: 977-1-4247037, Fax: 977-1-4227281
Website: <http://www.welcomenepal.com/>

Market Research

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The following research reports are available from the World Bank Nepal:

"Doing Business in Nepal" 2012
<http://www.doingbusiness.org/data/exploreeconomies/nepal>

"Access to Financial Services in Nepal," 2007
<http://www.worldbank.org.np/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/NEPAL/EXTN/0,,menuPK:286962~pagePK:64026187~piPK:141126~theSitePK:223555,00.html>

The following research reports are available from the Bharat Book Bureau, Navi Mumbai, India: "Nepal - Telecoms Market Overview, Statistics & Forecasts", February 2008

An "On-Line Commercial Library" is available on the U.S. Embassy Kathmandu web page at: <http://www.south-asia.com/USA/>

Country and Industry Market Reports are also available on the export.gov website at: <http://www.export.gov/OneStopConsumer/OneStop/mrllogin.jsp>

To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/mrktresearch/index.asp> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, and is free.

Trade Events

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents/index.asp>

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Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully, connect them with trade opportunities** and **support them once they do have exporting opportunities**.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: www.export.gov

For more information on the services the U.S. Commercial Service offers to U.S. exporters, please click on the following link: (Insert link to Products and Services section of local buyusa.gov website here.)

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E)**.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

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