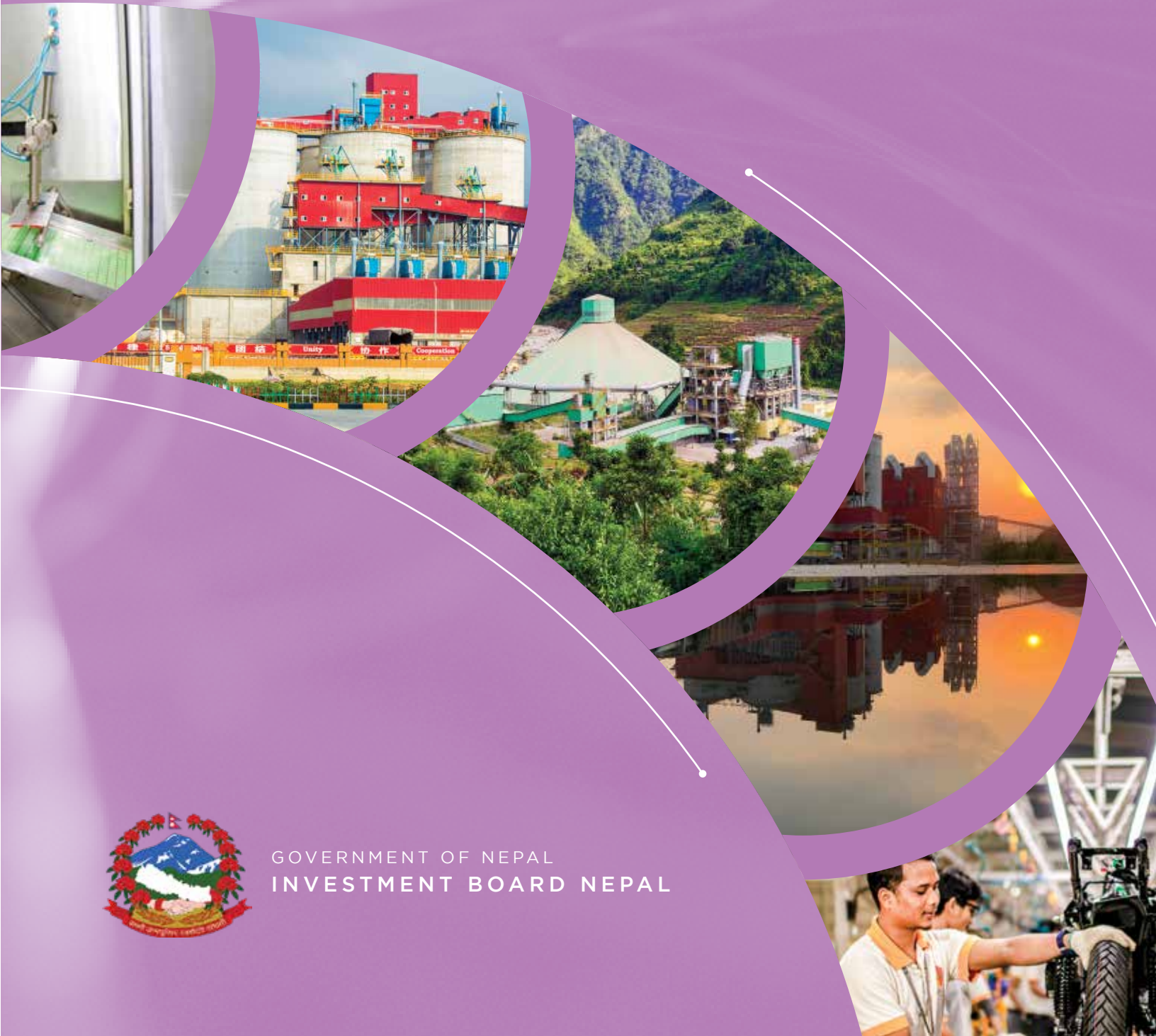


SECTORAL PROFILE

# MANUFACTURING



GOVERNMENT OF NEPAL  
INVESTMENT BOARD NEPAL

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SECTORAL PROFILE

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# ACRONYMS

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ASYCUDA	- Automated System for Customs Data
CSR	- Corporate Social Responsibility
DDA	- Department of Drug Administration
DFC	- Development Finance Corporation
DoI	- Department of Industry
DPR	- Detailed Project Reports
FDI	- Foreign Direct Investment
FITTA	- Foreign Investment and Technology Transfer Act, 2019
FMCG	- Fast Moving Consumer Goods
GDP	- Gross Domestic Product
GFCF	- Gross Fixed Capital Formation
IBN	- Investment Board Nepal
ID	- Industrial Districts
IEA	- Industrial Enterprises Act
IFC	- International Finance Corporation
ISIC	- International Standard Industrial Classification
MAP	- Medicinal and aromatic plants
MoICS	- Ministry of Industry, Commerce and Supply
MoU	- Memorandum of Understanding
NEC	- National Economic Census
NFFA	- Nepal Furniture and Furnishing Association
NIS	- National Industrial Survey
NPC	- National Planning Commission
NRB	- Nepal Rastra Bank
NSIC	- Nepal Standard Industrial Classification
NSO	- National Statistics Office
OEC	- Observatory of Economic Complexity
PPPIA	- Public Private Partnership and Investment Act, 2019
SEZ	- Special Economic Zone
SDG	- Sustainable Development Goal
SRN	- Strategic Roads Network
USD	- United States Dollar
WB	- World Bank
WHO- GMP	- World Health Organization-Good Manufacturing Practices
WTO	- World Trade Organization



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# 1. OVERVIEW

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As per United Nation's International Standard Industrial Classification (ISIC) manufacturing refers to the sector that involves "the physical or chemical transformation of materials, substances, or components into new products". The Industrial Enterprises Act 2020 uses a similar definition: "Industries manufacturing goods by using or processing raw materials, subsidiary raw materials or semi-processed raw materials".

Gross Domestic Product (GDP) contribution of manufacturing in Nepal decreased to NPR 128,580.44 million in 2022 from NPR 131,257.46 million in 2021. The average contribution to GDP by manufacturing has been NPR 108,462.35 million between 2010 and 2022. The industrial sector's contribution to GDP is around 13.5%. Among the industrial sectors, manufacturing (section C of NSIC) covers around 5.3% of the GDP (National Statistics Office, 2022).

Nepal is strategically located between two large economies, India, and China, which also have the world's largest populations. The Government of Nepal has taken initiatives to promote investment, with special emphasis on attracting foreign direct investment (FDI). Nepal is now aiming to graduate from LDC to middle income country by 2030, which is when it also aims to attain its Sustainable Development Goals (SDGs). Nepal needs an average annual investment of USD 17.45 billion (NPR 2,025 billion) in diverse sectors to attain the SDGs, which also expects substantial contribution from the man-

ufacturing sector to the GDP. (Source: Needs Assessment, Costing and Financing Strategy for Sustainable Development Goals, NPC 2017).

Nepal can uplift its economy through manufacturing and export. Trade policies have been vulnerable to the changes in government, even though the country has remained open to enhancing foreign trade. In 2021, total foreign trade was 44% of GDP (World Bank, 2023). The average tariff rate is 11.6% (Trading Economics, 2023) and companies that export more than 90% of their goods are exempt from customs duties, excise duties, and sales taxes as a member of WTO (<https://www.lloydsbanktrade.com>). However, there significant barriers that have prevented the growth of the sector, including lack of skilled labour, advanced technology, and inaccessibility.

The manufacturing industries had steady growth throughout the last decade, with a compound average annual growth rate of 13.17%. The number of manufacturing companies has increased significantly in recent years, leading to an increase in employment and overall economic growth. The secondary sector, under which the manufacturing has been categorized, has had an average of 13.8% growth over the past 10 years (Economic Survey 2021/22). According to Department of Industry (DoI), there are 9,085 registered industries in Nepal. Of this, manufacturing industries number 3,393, medium enterprises 2,087 and small enterprises make up 5,628.



Contribution of industrial sector to GDP (2022/23)

13.5%



Contribution of manufacturing to GDP (2022/23)

5.3%



Number of registered industries

9,085



Number of manufacturing industries

3,393

**Figure 1:** Top five exports from Nepal



Number of large industries

1,370

Nepal's exports are dominated by a few products. The Nepal Rastra Bank (2022-2023) shows that in total exports value, palm oil, woollen carpet, polyester yarn and thread, soybean oil and cardamom, share 13.1%, 7.3%, 7.7%, 5.4% and 5.3%, respectively. According to the latest Com Trade data, 80.1% of all exports were destined for India, followed by the USA (8%) in 2021. Most of the imports originate in India 61.5% and China (15%).

The trade balance in 2021 registered a deficit of USD 13.7 billion, the widest since 2014. In 2021, exports had

reached USD 2.45 billion while imports reached USD 17.43 billion, resulting in a deficit of USD 14.98 billion (WTO and World Bank, 2023). The trade deficit, which had increased to 31.3% of GDP in FY 2015/16 has remained a matter of grave concern. This deficit can be balanced by increased manufacturing both for domestic consumption and export.

### Roles of the private sector in manufacturing

The private sector has a vital role in the manufacturing sector, for both employment generation and capital formation.

**Table 1:** Top 10 manufactured products in terms of value

S. N.	Industrial category	No. of companies	Total value added (NPR '000')
1	Grain mill products	11,744	20,000,853
2	Prepared animal feeds	84	19,773,632
3	Jewellery and related articles	7,874	19,601,763
4	Cement, lime, and plaster	61	17,109,131
5	Clay building materials	1,008	13,896,934
6	Basic iron and steel	28	13,807,450
7	Structural metal products	4,774	12,929,379
8	Plastics products	375	10,630,387
9	Soft drinks; production of mineral waters and other bottled waters	264	9,636,529
10	Vegetable and animal oils and fat	292	8,538,196

Source: National Industrial Survey 2019/20



**Table 2 : Major imports and exports destinations of Nepal (2021)**

Imports from	Amount in USD	Percentage	Exports to	Amount in USD	Percentage
India	9.58b	61	India	1.33b	80
China	2.38b	15	USA	133 m	8
Argentina	452m	2.9	Germany	29.9 m	1.8
United Arab Emirates	416 m	2.6	United Kingdom	23.5 m	1.4
Indonesia	366 m	2.3	Turkey	21.7 m	1.3
United States	298 m	1.9	France	12.5 m	0.75
Australia	228 m	1.4	Japan	7.78 m	0.47
Ukraine	198 m	1.3	Bhutan	6.5 m	0.39
Malaysia	138 m	0.88	Bangladesh	5.94 m	0.36
South Korea	134 m	0.85	Netherlands	5.63 m	0.34
Bangladesh	129 m	0.82	Denmark	5.21 m	0.31
Canada	107 m	0.68	China	8.41 m	0.51
Vietnam	77.5 m	0.49	Italy	8.02 m	0.48
Saudi Arabia	75.2 m	0.48	Canada	8.01 m	0.48
South Africa	73 m	0.46	Austria	2.12 m	0.13
Other Countries		6.94	South Korea	2.01 m	0.12

Source: <https://tradingeconomics.com/nepal/imports-by-country>

In Fiscal Year 2020/21, government consumption increased by 4.4%, while private consumption grew by 5.5%. Public sector gross fixed capital formation (GFCF) increased by 0.6%, while the private sector's GFCF grew by 6.1%. Similarly, the private sector has the largest share of exports. It has also contributed around 87% of intermediate consumption in the economy between 2012/13 to 2021/22, and 83% of GDP at a constant price during the same period (International Finance Corporation, 2023).

The dominant presence of the private sector is in small enterprises, which account for 62.4% of the total, followed by medium-sized enterprises (22.9%), and large enterprises (14.7%). The total investment in both public and private sectors was estimated to increase by 18.1% in 2020-21 after a contraction of 30.4% in the previous year due to a

sharp decline in public and private sector investment and increased expenditures in controlling the pandemic.

### Provincial breakdown of manufacturing industries

Bagmati Province has the highest share of manufacturing industries and Karnali Province the lowest. According to National Economic Census (NEC) (2018), there were 104,058 manufacturing establishments in Nepal, which is 11.3% of total establishments. Bagmati Province had 32,755 manufacturing units or 31.5%. Koshi Province had the second largest number of industrial units (18.6 %) followed by Lumbini Province (15.5%), Madhesh Province (12.2%) and Gandaki Province (10.5%). Similarly, Sudurpashchim Province had 7.4% industrial establishments Karnali Province, (4.3%).



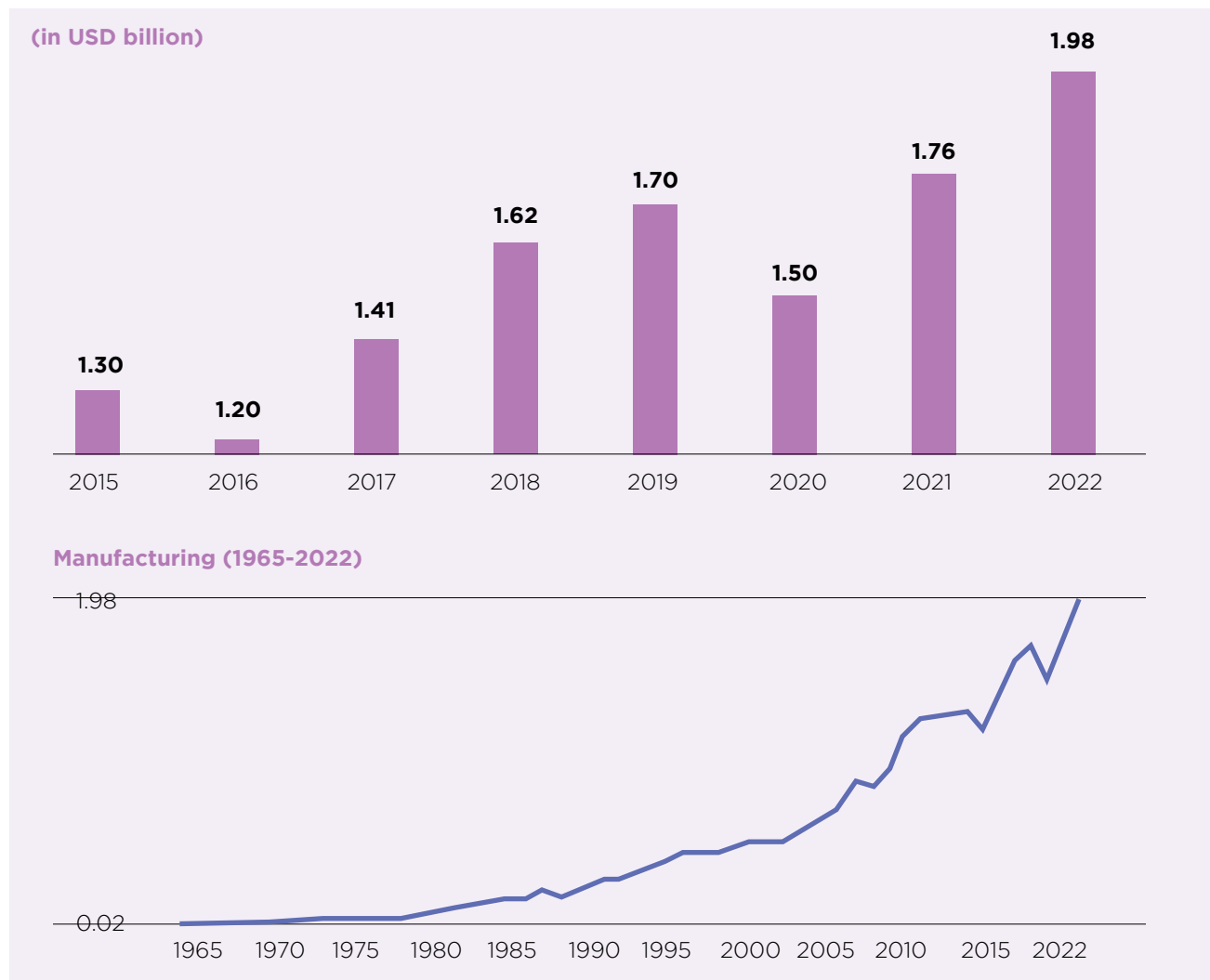
### Manufacturing sector's value addition

Value addition is the net output of a manufacturing unit after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), Revision 3. Some indicators are given below.

### Trends of manufacturing in Nepal

The manufacturing sector value addition trend has been analysed from 1965 to 2022. The average value for Nepal over the period was USD 0.52 billion, with a minimum of USD 0.02 billion in 1965 and a maximum of USD 1.98 billion in 2022. The latest value from 2022 was USD 1.98 billion. However, the world average in 2022 based on 125 countries was USD 93.19 billion.

**Figure 2:** Value addition of manufacturing in Nepal's GDP



Source: The Global Economy.com (2023).

## 2. INVESTMENT OPPORTUNITIES

There are many investment opportunities in the industrial and enterprise sectors in Nepal. The Industrial Enterprises Act of 2020 classifies enterprises by size, based on the value of fixed assets. According to the Act, industries with fixed capital not exceeding NPR 150 million are small, those with fixed capital between NPR 150 million to 500 million are medium and those exceeding NPR 500 million are large-scale enterprises. The Government of Nepal has specified the minimum threshold for foreign direct investment in Nepal. Revising the rules for foreign investment, the government has reduced the minimum requirement for investment to NPR 20 million and there is no upper limit for FDI.

Public-Private Partnership (PPP) and direct investment are the two investment modalities in Nepal. The IBN has developed a project bank for PPP projects in coordination with relevant government agencies and the private sector. The identification and approval of projects are based on the priority sectors envisaged by the PPPIA 2019.

A PPP is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. PPPIA 2019 integrates all aspects of investment to create an investment-friendly business environment and proper management of PPP with the provision of a “one-stop solution.” The PPP model is widely practiced in Nepal for hydropower projects like Khimti Khola, Chilime, Bhotekoshi, Upper Tamakoshi, and West Seti hydropower projects. Similarly, the roads like the Kathmandu Terai Fast Track and Kathmandu-Kulekhani-Hetauda Tunnel, and the Nijagdh International Airport and Gautam Buddha International Airport are PPP projects.

PPP Projects can be brownfield or greenfield. Brownfield investing is where an entity purchases existing facilities to begin new production in another country. Investments in hotels, hydropower, cement, etc. would be examples of brownfield investing. For



### Small-scale enterprise

Fixed capital lower than NPR 150 million, other than a micro enterprise and cottage industry



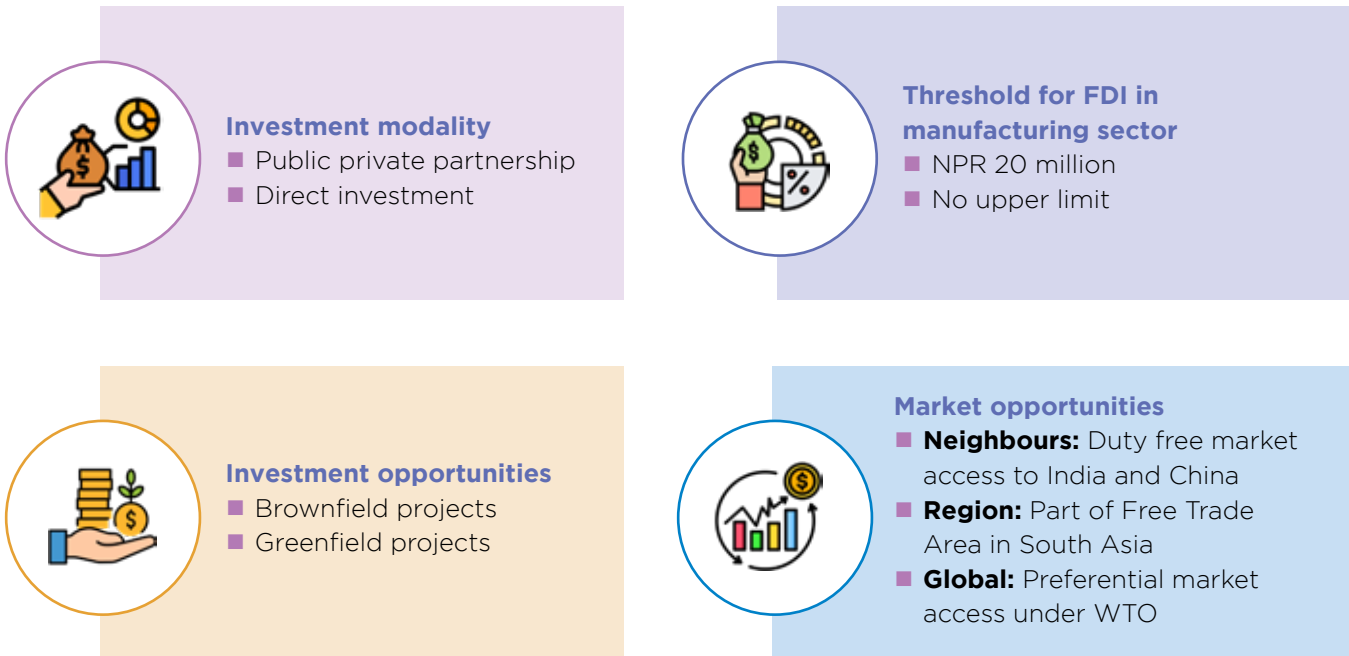
### Medium-scale enterprise

Fixed capital between NPR 150 million-500 million



### Large-scale enterprise

Fixed capital exceeding NPR 500 million



brownfield investments, there is one requirement, the need to obtain approval from the central bank. Nepal allows the following five categories of FDI.

1. Foreign currency investment in shares.
2. Investment through leasing of machines.
3. Investment through venture capital funds.
4. Reinvestment of dividends received from foreign investment.
5. Investment through technology transfer.

Foreign exchange and transfer of investment to Nepal services are provided at One Stop Service Centre (OSSC) at DoI by the Nepal Rastra Bank Unit. Bank approval is required for brownfield industries only.

A greenfield investment is one where a parent company creates a subsidiary from the ground in a different coun-

try. Joint venture investments in banks would be examples of greenfield investing. In a greenfield investment, the company constructs new (“green”) facilities (sales office, manufacturing facility, etc.) in a foreign country from the ground up. Investment in transportation, infrastructure, education, health, and service sectors, etc. are probable greenfield investment areas in Nepal. The top source country of greenfield FDI projects in Nepal is India, followed by China, the U.A.E, and the U.S.A. Most greenfield investments from India have been in pharmaceuticals, financial services, and food and tobacco sectors. Chinese greenfield investments have been split between projects in alternative/renewable energy, and building and construction materials (World Bank, 2018).

Nepal has enormous market opportunities due to the two economic giants India and China proximity to and other SAARC and East Asian countries. Ne-

**Table 3:** Nepal as an emerging destination for investment

<b>Location</b>	Strategic location between the two most populous countries, India, and China. Easy market access in neighbouring countries.
<b>Labour</b>	The economically active population is 65.5% (NSO, 2021) Availability of cheap labour force.
<b>Legal Infrastructure</b>	Nominal threshold for foreign investment. Most sectors are open for foreign investment. Guarantee against expropriation: no nationalisation of an industry with FDI. Amicable visa policy for foreign investors, representatives, and their dependents. Provision of National treatment
<b>Agreements</b>	Member of MIGA of the World Bank Group and WTO. Member of SAFTA and BIMSTEC Free Trade Agreement. BIPPA signed with France, Mauritius, U.K, Finland. DTTA signed with Austria, Bangladesh, China, India Republic of Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka, Thailand. Bilateral agreement under the Belt and Road Initiative Framework.
<b>Nepal in the Region</b>	3 <sup>rd</sup> Most Favourable Business Climate in South Asia, Ease of Doing Business 2020. 4 <sup>th</sup> Most Competitive Economy in South Asia, Global Competitiveness Index 2019. 5 <sup>th</sup> Most Competitive Trade Logistics Performer in South Asia, Logistics Performance Indicator 2018.
<b>Miscellaneous</b>	Richly endowed with renewable energy resources (Hydropower, wind, solar, bio-gas, etc.). The abundance of industrial minerals (limestone, coal, red clay, granite, etc.). Operation of One Stop Service Centre at the Department of Industry. Land ownership. Repatriation. No upper limit on investment.

Source: Foreign Investment in Nepal 2022, MoICS

pal has duty-free market access to India and China and is a member of the Free Trade Area in South Asia. Similarly, Nepal gets preferential market access under WTO like other developing countries.

## AREAS OF INVESTMENT

Nepal has various products and services that have potential for export in the global market. Nepal Trade Integration Strategy (NTIS) 2023 has listed 32 products and services with export potential. NTIS categorises lokta paper,

rosin and turpentine, fragrant oils, textiles of long fibre under forest sector category; iron and steel, cement, and readymade garments under large-scale industry category; and jewellery, pasta, Himalayan spring water, honey, dog chew (*chhurpi*), and felt under small and cottage industry category. These products have high export potential.

## New emerging sectors

The Central Bureau of Statistics has differentiated three categories of manufacturing products, which can serve

**Table 4: Key FMCGs**

<b>Food and beverages</b>	Sugar, grains, mill products, oils and fats, dairy products, soft drinks, spirits, and beer
<b>Tobacco</b>	Cigarettes
<b>Soap</b>	Laundry and toilet soap

as alternative classification and can be broadly classified into three sub-sectors: fast moving consumer goods (FMCGs), industrial goods, and consumer goods.

### **FMCGs: Fast moving consumer goods**

There is tremendous potential for FMCGs. The demand depends on the growing middle-class consumers and incomes of people, rural to urban market linkages, infrastructure for supply, and changing lifestyles. Nepal's FMCG market has been rapidly growing. Though urban areas make up large portions of this market, there is scope for growth in rural areas. The local FMCG industry, such as alcohol, dairy, tobacco, paper, and juice have flourished. Multinational companies like Unilever, Carlsberg, Coca-Cola, PepsiCo, ITC Ltd and Dabur have been able to excel in the FMCG market. FMCG industries have been growing at 20% annually, while Nepal's economic market gradually increases from 3% to 4% (Source:

<https://www.century-foods.com/fm-cg-industry-in-nepal>)

### **Industrial goods**

The Industrial Policy 2010 aims to develop the industrial sector and provide protection and facilities to investors. Industrialisation is an important indicator of the economic growth and prosperity. Therefore, the Government is committed to supporting industries based on agriculture and local resources in rural areas, and by setting up industrial zones in urban areas.

Steel-rolling mills, cement, cigarettes, jute, sugar, tea, beer, carpets, garments, textiles, oilseed mills, and food mills are some viable areas for investment in manufacturing and production industries.

### **Consumer goods**

Consumer goods are products purchased for consumption and not used later to produce another consumer good. Consumer goods are sometimes called final goods because they end up in the hands of the consumer or the end-user.

**Table 5: Key industrial products**

<b>Fabricated metal product</b>	Cast iron, steel, structural metal products, tanks, reservoirs, containers of metal and other fabricated metal products
<b>Non-metallic mineral products</b>	Clay building materials, porcelain and ceramic products, cement, lime and plaster, articles made of concrete and plaster, and cut, shaped and finished stone.
<b>Basic metal</b>	Basic iron, steel, precious and other non-ferrous metals.
<b>Plastics and rubber products</b>	Plastics and synthetic rubber in primary forms, rubber tyres and tubes, re-treading and materials for rebuilding rubber tyres, and other rubber and plastic products.
<b>Textiles</b>	Fabrics, pashmina, yarn, and other textiles (except for apparel)

**Table 6:** Key consumer products

<b>Electronics</b>	Wire and cable, dry cell batteries, electric motors, generators, and transformers, television, and radio receivers.
<b>Furniture</b>	Wooden furniture.
<b>Leather and allied products</b>	Tanned/processed leather (mainly wet blue) and leather goods such as saddlery, handbags, gloves, and belts.

### Products with export potential

According to the NTIS 2023 the number of promising export products and services from Nepal has increased to 32, from 12 in NTIS 2016. NTIS 2016 had listed fabrics, textiles, yarn and rope, leather, footwear, pashmina and carpets in the craft and manufacturing category. The new products in NTIS 2023 in manufacturing category are handmade *lokta* paper, rosin and turpentine, fragrant oil, and textiles of long

fibre in the forest sector category. Iron and steel, cement and readymade garments have been added to the large-scale industry category. Jewellery, pasta, Himalayan spring water, honey, dog chew and felt have been added in the small and cottage industries category. Following is the list of top 10 exported products. Though the volumes of exports, except woollen carpet, readymade garments and pashmina are insignificant, they have presence in the international market with potential to grow (NTIS, 2023).

**Table 6:** Top 10 exports products of Nepal

Rank	Product	Exported value in 2022 (Rs)	Exported value in 2021 (Rs)
1	Soyabean oil	23,450,310,954	70,514,512,720
2	Refined bleached deodorised palm olein	10,936,991,788	11,429,190,592
3	Carpet, knotted of wool or fine animal hair	10,622,689,916	7,976,953,449
4	Large cardamon ( <i>alaichi</i> ), neither crushed nor ground	5,851,829,577	5,566,936,199
5	Yarn of polyester staple fibres, mixed mainly or solely with artificial staple fibres	4,723,305,340	2,626,179,459
6	Felt	4,784,287,387	4,089,567,107
7	Mixture of juices	4,412,297,788	3,822,335,117
8	Single yarn, containing 85% or more by weight of polyester staple fibres	4,011,450,973	3,586,931,237
9	Woven fabric of jute or bast fibres	3,406,134,195	5,234,201,029
10	Black tea fermented	3,876,396,274	2,585,704,033

Source: NTIS 2023



**Table 8: Major manufactured products with export potential**

S.N	Product	Market Situation
1.	Woolen carpet	<ul style="list-style-type: none"> <li>Exported to over 40 countries.</li> </ul>
2.	Readymade garments	<ul style="list-style-type: none"> <li>U.S.A., E.U., Japan, Hong Kong, and Canada are top importers</li> </ul>
3.	Pashmina	<ul style="list-style-type: none"> <li>“Chyangra Pashmina” trademark has been registered in 47 countries</li> <li>95% of production is exported.</li> </ul>
4.	Noodles	<ul style="list-style-type: none"> <li>Nepal ranked 13<sup>th</sup> in 2017 in instant noodles consumption.</li> <li>Exported to more than 40 countries</li> </ul>
5.	Handmade paper and paper products	<ul style="list-style-type: none"> <li>Nepal accounts for 0.7% of total exports in the world.</li> <li>Exported to more than 60 countries</li> </ul>
6.	Handicrafts	<ul style="list-style-type: none"> <li>Exported to almost 85 countries</li> </ul>
7.	Silverware and jewellery	<ul style="list-style-type: none"> <li>Exported to over 70 countries</li> </ul>
8.	Textiles, fabric, yarns and rope	<ul style="list-style-type: none"> <li>Exported to India, other Asian, American and EU market</li> </ul>
9.	Leather products	<ul style="list-style-type: none"> <li>Around 80% of the leather produced is exported and the remaining 20% is used to make footwear for the domestic market</li> </ul>
10.	Footwear	<ul style="list-style-type: none"> <li>Fulfills around 42% of domestic requirements</li> <li>Good presence of Nepali brands in the world market</li> </ul>
11.	Honey	<ul style="list-style-type: none"> <li>Potential to produce about 10,000 tons annually</li> </ul>
12.	Woolen products	<ul style="list-style-type: none"> <li>Major export destinations include Germany, U.S.A, Belgium, Britain, Turkey, Switzerland, Japan, Spain, Canada, and Italy</li> </ul>
13.	Jute or bast fibre products	<ul style="list-style-type: none"> <li>Nepal ranks 5<sup>th</sup> among the top jute producing countries</li> </ul>
14.	Forest products (rosin and turpentine, fragrant oil, medicinal and aromatic non-timber products)	<ul style="list-style-type: none"> <li>700 species of medicinal and aromatic plants (MAPs) found in Nepal</li> <li>More than 85 species are traded internationally (MoICS, n.d.)</li> </ul>
15.	Food products and Himalayan Spring Water	<ul style="list-style-type: none"> <li>Grain mill products are the key goods</li> <li>Pure and natural fresh water</li> </ul>
16.	Agro-based manufacturing (Tea, coffee, large cardamom, ginger)	<ul style="list-style-type: none"> <li>Attractive market in neighboring countries and the EU</li> </ul>
17.	Industrial products (Cement, pharmaceuticals, metal and metal products, assembly plants, electronics, furniture)	<ul style="list-style-type: none"> <li>Large global and local market for cement electronic and furniture</li> </ul>

Key Source: MoICS, 2021, 2022

**Table 9:** Export and import of tea & coffee

Years	Export (kg)				Import (kg)			
	2021/22	2020/21	2019/20	2018/19	2021/22	20221	2019/20	2018/19
Tea	12496087	11920735.77	11185201	15043801.99	203812	346806.3	218633.45	343353
Coffee	69516	72388.16	46893	84151.48	279816.43	198665.46	266172	1262411

## Agro-based manufacturing

Nepal's diverse geography, climatic regions and fertile land have favoured the production of major food crops, cash crops, fruits, species and medicinal plants, dairy and livestock products, flowers, etc. Labelling, branding, and international marketing of world-class agricultural products is an area that has potential. Following are some products exported from Nepal that could excel in the international markets.

### Tea

Tea is one of the major agriculture items where Nepal has both competitive and comparative advantages (NTIS, 2016). It is exported to different parts of the world, including Europe. It is commercially cultivated in 13 districts of Koshi and Bagmati provinces.

### Coffee

The demand of processed and organic coffee has been increasing at major tourist destinations within Nepal. Due to the high consumption and demand,

manufacturing coffee is becoming a popular enterprise in Nepal.

The data in Table 10 illustrates the area and amount of tea and coffee produced in the FY 2021/2022. The volume of coffee produced (354.9 MT) is comparatively lower than the tea (26,379.49 MT) whereas the amount of coffee imported (279.82 MT) is higher than tea (203.82 MT) (Table 9). Coffee is grown in smaller area compared to tea. The table also shows that the production, processing, and manufacturing of coffee has high domestic demand.

### Large cardamom

NTIS identified large cardamom as a high value agricultural product with a global demand in 2016. It is cultivated in 42 hilly districts of Nepal. It can be processed, refined, and branded and exported.

### Ginger

Nepal is the fourth largest producer of ginger in the world. The production of

**Table 10 :** General information related to tea & coffee

Fiscal Year: 2021 /2022			
SN	Description	Tea	Coffee
1	Plantation Area (ha)	20,237	3346
2	Production (MT)	26,379.49	354.9
3	Export Quantity (MT)	12,496.09	69.52
4	Import Quantity (MT)	203.81	279.82
5	Export Value ('000')	3,437,186	117,084
6	Import Value ('000')	83,667	127,591
7	Small Farmers (No.)	15,198	31,389

ginger is around 284,000 MT, where it is grown on 23,826 hectares of land. Nepali ginger is regarded to be of high quality in the world market (NTIS, 2016), and has potential for expansion.

## Medicinal and aromatic products

Medicinal and aromatic plants (MAPs) are regarded as low weight and high value products with comparatively good global market. Nepal has the climatic conditions required for producing high-value medicinal herbs. These can be processed, refined, and branded internationally and exported. Among herbs already traded in primary forms are *Jatamanshi*, *Sugandhwal* (*Nardostachys grandiflora*), *Yarshagumba*, *Chirayito* (*Swertia chirayita*), *Kaulo* (*Persia odoratissima*), *Kutki* (*Neopicrorhiza scrophulariiflora*), *Majitho* (*Rubiama njith*), *Padamchal* (*Rheum australe*), *Pakhanved* (*Bergenia ciliata*), *Timur* (*zanthoxylum armatum*) and *Bodhi-chitta* and *Rudraksha*.

## Industrial products

Industrial production in Nepal is small but is growing. Iron plates, steel, and tiles; building materials, paper, food grain; cigarettes; cement and breweries are some of the industries in Nepal.

According to the Department of Customs (2023), iron and related products are among the top exportable goods of Nepal, valued at NPR 5.1 billion rupees, synthetic yarn is second, valued at NPR 4.88 billion rupees, and carpet is in third position, which is valued at NPR 4.53 billion rupees. Some other potential industrial products are:

### Cement

The demand for cement has increased in Nepal in recent years, mainly due to investment in many infrastructure projects. This high demand and the abundance of limestone deposits have made cement manufacturing attractive for investors. Cement companies have reported 10-15% increase in sales each year. A report by the Nepal Rastra Bank has estimated that Nepal will require 25.88 million tonnes per year of cement by each year 2024-25 to meet the demand of infrastructure projects.

According to the Nepal Cement Manufacturers' Association, there are 65 cement plants in the country that produce around 10 million tons annually. Around 12 of them have their own clinker production units. The overall production of cement has been growing by around 10% annually. There is currently a short-

**Table 11:** Growth of and demand for cement

Expected GDP growth (in %)	5	6	8	9	
Expected growth of production (Base year 2074 BS) (MT)	24.0159	28.8098	33.6037	38.3976	43.1914
2080 (2023/24)	116963.282	14685233.55	18285122.86	22592167.59	27713385.64
2081 (2024/25)	14505402.34	18916028.77	24429607.82	31267021.80	39683211.77
2082 (2025/26)	17989017.01	24365710.18	32638869.47	43272813.39	56822985.00
2083 (2026/27)	22309255.92	31385437.17	43606749.97	59888542.97	81365682.86
2084 (2027/28)	27667042.59	40427537.68	58260248.42	82884316.93	116508739.30
2085 (2028/29)	34311554.28	52074654.69	77837870.24	114709920.30	166830608.00

Source: MoICS, 2019

**Table 12 : Medicinal and Aromatic Products**

S.N	MAPs	Countries with high demand	Area of use (Medicine/Aroma)
1.	Jatamanshi	India, China, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	Used to cure gastric, anaemia, and urine related diseases.  Rhizome and roots of Jatamanshi are also used to extract a high-value essential oil used to manufacture cosmetics and perfumes.
2.	Sugandhwal (Nardos- tachys grandiflora)	India, China, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	
3.	Yarshagumba	China, Korea, Taiwan, Hong Kong, Myanmar, Thailand, Singapore, Japan, the U.K., and the U.S.	Used as medicine for gaining energy and strengthening memory power and blood circulation.  Used in various medicines to cure kidney, heart, and blood related diseases.  Used to treat asthma, spinal problems, joint aches and even for AIDS, and cancer.
4.	Chirayito (Swertia chi- rayita)	India, China, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	Fever, bronchial asthma, liver disorders, malaria
5.	Kaulo (Persea odorat- issima)	India, China, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A etc.	For incense.
6.	Kutki (Neopicrorhiza Scrophulariiflora),	China, India, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	Gastritis, worms, fever, and bile related ailments, tonic for the heart.
7.	Majitho (Rubiama	China, India, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	Heart attack, ulcer, and skin related diseases. Its stem and petioles are used as antidotes to cobra and scorpion bites.
8.	Padamchal (Rheum australe),	China, India, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	Used to treat Diarrhoea, gout, and epilepsy
9.	Pakhanved (Berge nia ciliata),	China, India, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	Cancer (stem), dysentery, fever, and kidney diseases. In Ayurveda,  Often used for treating cough, heart diseases, and stomach-ache.
10.	Timur (Zanthoxylum armatum)	India, China, Pakistan, Bangladesh, Singapore, U.A.E, Japan, South Korea, Germany, France, Italy, U.S.A, etc.	Medicine for headache and toothache, used as spice and pesticide,  Oil is used for cosmetic materials and medicinal purposes.
11.	Bodhichitta and Rudraksha	China, India, Korea, Japan, Singapore, Thailand, Sri Lanka	High value of the symbolic and religious representations in a seed form.

Source: MoICS, 2020

fall in domestic production against the increasing demand resulting in opportunities to establish more cement and allied industries. At present, 26 integrated industries (including cement, clinker) with a capacity of 17 million tons per year are in operation, while two cement factories and 38 grinding units are under construction. (Economic Survey 2022/23, NRB).

Recent studies have shown that Nepal has 1,270 million ton of cement grade limestone 700 million ton (proven), 200 million ton (partially-proven), and 370 million ton (possible). Currently 4.5-million-tons of cement is being produced yearly (Doing Business in Nepal, 2023). Nepal has also begun exporting cement. The growth and demand of cement up to 2085 is given in Table 11.

The demand of cement is directly related to the growth rate of the GDP and investment in infrastructure. Table 11 shows that the demand for cement will double in 2026/27 if a growth of 5% it attained and remains constant. Similarly, the doubling of demand could take place sooner at higher growth rates. There is the correlation between GDP and the cement demand multiplier (MoICS, 2019).

### **Pharmaceuticals**

Several investment opportunities exist in the manufacture of medicines and health care supplies. The market for pharmaceuticals in Nepal is around USD 433 million, according to industry estimates, and has been growing at 18-20% per year for the past 7-8 years. (Tripathi, 2016; New Business Age, 2016). According to Department of Drug Administration (DDA) there are 128 pharmaceutical companies registered in Nepal, of which three are Ayurvedic, 12 are veterinary pharma-

ceutical companies, and the remaining 113 are regular medicine producers. Among the 128 companies, 40 have World Health Organization-Good Manufacturing Practices (WHO-GMP) certification. There is scope for large-scale pharmaceutical manufacturing to take the industry to a higher level. According to trading economics (2023), Nepal's exports of pharmaceutical products was USD 13.17 million during 2022. This is a potential sector for investment as there are policies that favour investors, a large domestic market, and import restrictions on products without WHO-GMP certification, among others.

### **Metal and metal products**

The NTIS has identified iron and steel products as among the 13 exportable items with a comparative advantage. According to the Nepal Metal Products Industry Outlook (2022-2026), Nepali metal product exports are forecast to reach USD 3.5 million by 2026, at a 4.2% year-on-year growth rate. In 2021, Nepal ranked 81<sup>st</sup> in production and exports of metal products in the world. Since 1999, Nepali supply of metal and metal products has increased by 61.1% year-on-year (<https://www.reportlinker.com>).

### **Assembly plants**

Assembly plants for different manufactured products require human resources for operations like assembly, quality control, maintenance, and administration. Such industries create many jobs. The establishment of assembly plants can increase demand for local suppliers, resulting in the expansion of domestic companies that supply raw materials, components, and services to the assembly process. The Motrex Motor Company Pvt. Ltd, Korea, and 20 other electric vehicle manufacturing assembly plants have been registered





**Table 13:** Exports and imports of electronics

<b>Exports</b>	14427.90	12918.30	44609.70	-322.00	NPR million
<b>Imports</b>	148009.10	130510.90	299676.90	8000.30	NPR million

Source: <https://tradingeconomics.com/>

at the DOI (DoI, 2020). The Government has provisions for 50% tax waiver on such assembly plants. Other assembly plants that have been registered at DOI are Honda (two wheelers), CG Automotive Industry, MAW, SG Autocraft, Global Automobile, Dugar Auto Clinic, and STC Energy Industries (DoI, 2022).

### Electronics

The electronics sector is a major contributor to economic growth and innovation worldwide. The wire and cable, dry cell batteries, electric motors, generators, and transformers, television and radio receivers, etc. are some potential goods that can be exported. Nepal's import of electrical, electronic equipment was USD 858.2 million in 2022, according to the United Nations' COMTRADE database (2023). The exports and imports of electronics is given in Table 13.

### Furniture

Nepal has 9,578 establishments making and selling furniture. According to Trade Economics (2023), the cumulative exports of furniture from Nepal was USD 1.3 billion in 2022. According to the Nepal Furniture and Furnishing Association (NFFA), the country's furniture market has an investment of about NPR 25 billion (US\$ 2.31 billion) and has been employing over 150,000 individuals. The investment is estimated to be growing at an annual rate of 25%. Furniture industries come in diverse sizes with capital ranging from as low as NPR 30,000 (US\$ 278) to NPR

250 million (USD 2.31 million). Revenue in the furniture market amounted to USD 108 million in 2023. The market is expected to grow annually by 6.74% (CAGR 2023-2028). The largest segment is Living Room Furniture with a market volume of USD 38 million in 2023. The United States, China, India, Germany, etc. are potential markets for furniture.

### Leather and allied products

Most Nepali leather goods use raw material processed in the country. However, good quality finished hides for shoes and finished goat leather for leather garments are imported. Nepal has been manufacturing and exporting many types of leather goods like jackets, handbags, belts, purses, shoes and boots, gloves, wallets, vests, skirts, trousers, travel bags, camera bags, prone, folders, picture frames, key holders, etc., in both traditional and modern designs in various sizes and colours. Almost 65% raw material for leather shoes and 15% for other leather goods are available in the country.

Nepal exports leather goods to more than 20 countries; the top destinations are Canada, Japan, USA, Italy, U.K., Israel, and France. (<http://www.tepc.gov.np/>). According to OEC (2021), Nepal is the 82<sup>nd</sup> largest exporter of patent leather in the world and exports mainly to Belgium, India, and Bangladesh.

## 3. SUPPORT SYSTEM

### Preferential duties

Manufacturing industries are entitled to preferential duties under the Excise Act, 2002, Customs Act, 2007, and Value Added Tax Act, 1995 when importing plant, machinery, and equipment required for direct production processes falling under Chapter 84 of the Harmonized Customs Classification in Nepal. For example, goods of Indian origin imported from India are entitled to a rebate of 3-5% on the existing customs rates. Goods specified under the SAFTA agreement imported from SAARC countries through shipment and billing receive concessions on customs duty as prescribed in the Customs Act, 2007. Similarly, industries can import Chinese goods at concessional rates when imported from the Tibet Autonomous Region of China through a Letter of Credit. Further, industries im-

porting raw materials through a bank guarantee or passbook record facility have been given the facility to import by providing deposits if they raise the value by 10% at export.

### Industrial infrastructure

#### Industrial districts

The Government of Nepal has established 11 Industrial Districts (ID) in different parts of the country to create an enabling business environment for manufacturing. Ten of 11 IDs in the country are in operation and one, in Dhan-kuta, is under construction. The 10 IDs have an area of approximately 303.40 Ha. (2,900 square kilometres), house 700 industries, and employ 18,087 people. Out of the 700 industries, 671 are in operation. There are a total of 13 industries under foreign/ multinational investment at the industrial districts.

1. Industries can import Chinese goods at concessional rates when imported from the Tibet Autonomous Region of China through a Letter of Credit

2. Goods of Indian origin imported from India are entitled to a rebate of 3-5% on the existing customs rates

3. Goods specified under the SAFTA agreement imported from SAARC countries through shipment and billing receive concessions on customs duty as prescribed in the Customs Act, 2007

4. Industries importing raw materials through a bank guarantee or passbook record facility are allowed to import by providing deposits if they raise the value by 10% at export



Preferential  
duty



Table 14 provides detailed information on the major manufacturing hubs.

The Government of Nepal has decided to establish at least one large size industrial district in each of Nepal's seven provinces. Accordingly, detailed project reports (DPR) are being prepared and physical infrastructure. The proposed IDs are Damak in Jhapa District, Mayurdhap in Makwanpur District, Motipur in Rupandehi District, Naubasta in Banke

District, and Daiji in Kanchanpur. Additionally, pre-feasibility/feasibility studies (DPRs, EIAs, etc.) are being carried out in Murtiya (Sagarnath) of Sarlahi District, Chaurase of Surkhet District, Laxmipur of Dang District, Lamki of Kailali District, Chyangli Pliant.

### Nepal's manufacturing hubs

The manufacturing hubs in Nepal are in the historical towns and towns in the Terai plains. These hubs have strong business linkages with India and the

**Table 14:** Nepal's manufacturing hubs

S.N	Places	Key features
1	Kathmandu Valley	<ul style="list-style-type: none"> <li>three cities, including Kathmandu the capital.</li> <li>commercial hub with the largest market of approximately 3.1 million consumers.</li> <li>head-offices of numerous manufacturers are located, covers one-third of national GDP.</li> <li>the first among the top-10 districts for foreign investment (Economic Survey 2015/16).</li> <li>multinational companies are located here.</li> <li>exports key Nepali products like handicrafts, artworks, garments, carpets, pashmina and paper.</li> <li>three industrial districts are located here.</li> </ul>
2	Biratnagar	<ul style="list-style-type: none"> <li>the second largest city in Nepal.</li> <li>located in Koshi Province around 399 km east of Kathmandu and 6 km north of the Indian border.</li> <li>it is a historic industrial town.</li> <li>owing to its strategic location and favourable terrain it has tremendous manufacturing potential.</li> <li>it exports instant noodles, biscuits and garments to India and cities in Nepal and garments to the United States and some European countries.</li> <li>Biratnagar Sugar Mill and Biratnagar Jute Mill are the city's largest industries.</li> </ul>
3	Birgunj	<ul style="list-style-type: none"> <li>located in Madhesh Province.</li> <li>trade and industrial town and Nepal's largest import and export gateway.</li> <li>Raxaul one of the key trading posts with India lies near Birgunj.</li> <li>Tribhuvan Highway links Birgunj to Kathmandu historically and is still operational.</li> <li>has the dry port, which is the key terminal for surface cargo delivery to Nepal.</li> <li>this cargo point connects with Kathmandu via another key industrial city, Hetauda.</li> <li>Simara Special Economic Zone is located along with Tribhuvan Highway (Birgunj to Kathmandu) and near the custom check point /trade point / ICP of Birgunj</li> </ul>

S.N	Places	Key features
4	Bhairahawa	<ul style="list-style-type: none"> <li>located in Lumbini Province, 265 km west of Kathmandu.</li> <li>custom check point is located 5 km south of the city near the Indian border for goods transported between India and Nepal.</li> <li>Special Economic Zone there is the country's first SEZ.</li> <li>industries in Bhairahawa SEZ produce led lights, metal bricks, steel tanks, plastic goods, carpets, leather goods, furniture, etc.</li> </ul>
5	Chitwan	<ul style="list-style-type: none"> <li>located in the central Terai of Bagmati Province.</li> <li>Bharatpur, the fifth largest city of Nepal, is located here.</li> <li>Chitwan is famous for mustard oil, rice, wheat and vegetables, floriculture, mushroom cultivation and beekeeping, dairy and poultry products.</li> </ul>
7	Hetauda	<ul style="list-style-type: none"> <li>Hetauda, the provincial capital of Bagmati Province, is located 132 km southwest from Kathmandu.</li> <li>With construction of the envisaged fast track road from Kathmandu, travel time to Hetauda is expected to be reduced to less than 1 hour.</li> <li>Hetauda Industrial District (HID) is one of the biggest industrial districts.</li> <li>some multinational companies are in the HID.</li> </ul>
8	Nepalgunj	<ul style="list-style-type: none"> <li>located in the Terai plains of Lumbini Province.</li> <li>one of the largest commercial towns of mid-western Nepal.</li> <li>has links with remote districts in the Western and Far West regions of Nepal.</li> <li>lies near Bahraich district in Uttar Pradesh, India.</li> <li>Indian Railways connect with Rupaidiha a key trade post, across the border near Nepalgunj.</li> </ul>

major consumer markets across the country. They are accessible by the national highways and by air transport.

### Special economic zones

The Government of Nepal is committed to develop at least one SEZ in one province. The Ministry of Industry, Commerce and Supplies has completed feasibility studies for SEZs in Biratnagar, Simara, Panchkhal, Gorkha, Jumla, and Dhangadhi. The Simara and Panchkhal SEZs have been prioritized for construction in the first phase. The Simara SEZ is in Simara Sub-Metropolitan City, Bara, in Madhesh Province and the Panchkhal SEZ is located about 70 km north of Kathmandu.

An industry with the minimum export of 60% is eligible for establishment

within SEZ. The Government manages the basic infrastructures required for SEZ like road, land, electricity grid connectivity, drinking water and others, in collaboration with the private sector. The SEZ has a nominal rental charge (industries in Bhairahawa SEZ currently pay a monthly rental charge of NPR 20 per square meter).

### Transportation system

The transportation infrastructure for trade of manufactured products is discussed below.

**Road:** As of mid-March of 2023, the total road length had reached 34,100 kilometres including 17,480 kilometres blacktop, 7,956 kilometres paved roads, and 8,664 kilometres of unpaved roads. (Economic Survey 2022/23).

**Table 15:** Road Network

	Total	per 1 million inhabitants	per km
Roadways	80,078 km	2,621.42 km	54.41
Railroads	59 km	1.93 km	0.04
Vehicles	3,241,805	106,123	22.03
Airports	22	0.72	0.00015

The Strategic Roads Network (SRN) is the backbone of Nepal's surface transportation and consists of more than 12,000 km of roads and around 2,000 bridges. Most goods and passengers are transported by the SRN (WB, 2021).

The main road access points from India to Nepal are:

- Raxaul-Birgunj (Parsa district), Sunauli-Belahiya, Bhairahawa (Rupandehi district) in the Central Region; Jogbani-Biratnagar (Morang district), Pani Tanki-Kakarbhitta (Jhapa district) in the Eastern Region; and Jamunaha, Nepalgunj (Banke district), Mohana (Dhangadhi district) and Gaddachowki (Mahendranagar district).
- Nepal has been given the right of access to and from the sea for third-country trade and ports of Kolkata and Haldia on the east and Mumbai, Nhava Sheva and Kandla on the west coast of India.
- Access points from Nepal to China are mainly through Rasuwagadhi - Kerung, 190 kilometres from Kathmandu and Tatopani - Khasha, 115 Kilometres from Kathmandu.

**Railway:** Nepal has only 59 kilometres of narrow-gauge railway and projects to develop additional rail networks are underway.

- India and Nepal signed a rail service agreement in May 2004 to extend cargo train services to the Inland

Container Depot at Birgunj (Parsa district) in Nepal. In 2023, 54.5 kilometres of track bed and seven railway bridges of the Bardibas-Nijgadhi section of East-West Electric Railway has been completed.

- A detailed study report of Mechi-Mahakali electric railway of 945 kilometres (1,056 km with link road), a project of national pride, has been prepared. A Memorandum of Understanding (MOU) with the Government of India has been completed for the preparation of a detailed project report of the Birgunj - Kathmandu Railway (Economic survey 2022/2023).
- Kathmandu to Kyirong (China) railway, 150 km is in the detail study phase.

**Dry ports:** Dry ports are essential for landlocked countries like Nepal for facilitating trade through multi-modal transport and containerisation. A dry port has been completed and has begun operation in Chobhar of Kathmandu. Other dry ports are listed in Table 16.

**Water transportation:** Feasibility study and preparation of DPR is underway in Karnali (115 km), Kaligandaki (95 km), Koshi (75 km), Narayani (85 km), Trishuli (22 km), Sunkoshi (68 km), Rapti (102 km), Babai (52 km), Dudhkoshi (20 km) and Marshyandi (20 km).

**Table 16:** Dry Ports of Nepal

<b>Nepal-India dry ports</b>	<ol style="list-style-type: none"> <li>1. Birgunj is the only rail-linked dry port with links with other Indian rail-heads.</li> <li>2. Biratnagar (Morang district).</li> <li>3. Bhairahawa (Rupandehi district).</li> <li>4. Kakarbhitta (Jhapa district).</li> <li>5. Nepalgunj (Banke).</li> <li>6. Mahendranagar (Kanchanpur).</li> </ol>
<b>Nepal-China dry ports</b>	<ol style="list-style-type: none"> <li>7. Yari (Humla).</li> <li>8. Nechung (Mustang).</li> <li>9. Rasuwagadhi (Rasuwa).</li> <li>10. Kimathanka (Sankhuwasabha).</li> <li>11. Olangchung Gola (Taplejung).</li> <li>12. Tatopani (Sindhupalchok district).</li> <li>13. Corala Dry Port (Mustang)</li> </ol>

Source: Economic Survey 2021/22 & 2022/23

### Customs

The customs administration contributes 20% of the total tax revenue in Nepal. The Government has formulated a Customs Reform and Modernization Plan (2021-2026) as part of the efforts to continuously reform the system. Nepal has following customs points:

1. One Post Clearance Audit (PCA) office in Kathmandu and 40 main customs offices spread across the country.
2. There are 27 customs offices in the border with India and nine with China.
3. There is one customs office at the Chobhar Dry Port and another in Sirsiya, Parsa, which is railway based.
4. Three airport-based customs offices at Gautam Buddha Airport, Pokhara Airport, and Tribhuvan International Airport.
5. There are also 133 sub-customs offices (Koshi Province 34, Madhesh Province 48, Lumbini Province 34, and Sudurpaschim Province 15. These are under the supervision of the main customs offices (<http://www.customs.gov.np/en/>).

### Investment Opportunities in Nepal

FDI can generate foreign currency inflows and stimulate growth through capital and technology transfers. FDI in Nepal is the lowest in the region at around 0.5% of GDP. Nepal's exports remained comparatively low, at around 6.9% of GDP at the end of FY 2022 (Source: Nepal Development Update, October 2022, The World Bank).

### Major regulatory arrangements

The Constitution of Nepal (2015) directs encouragement and mobilisation of foreign capital and technology for import substitution, export promotion, and infrastructure development (Article 51). International treaties such as BIPPA, and multilateral and bilateral treaties with the various countries also guide the FDI in Nepal. Major sectoral policies such as Foreign Investment and One Window Policy 1992, Industrial Policy 2011, National Agriculture Policy 2004, Hydro-power Development Policy 2001, Telecommunication Policy 2004, Tourism Policy 2008, Aviation Policy 2006, Commerce Policy 2008

along with parliamentary statutes, rules, guidelines, directives, etc. and judicial precedents apply to FDI administration.

There are several laws that make up the regulatory system to administer and facilitate Nepal's manufacturing sector. These are the Public Private Partnership and Investment Act (PPPIA) 2019, Labour Act 2019, Industrial Enterprises Act 2020, Electricity Act 1992, Nepal Petroleum Act 1983, Private Investments in Infrastructures Act 2006, Mines and Mineral Resources Act 1985, Bank and Financial Institutions Act 2006, Companies Act 2006, Investment Board Act 2011, Foreign Exchange (Regulation) Act 1963, Contract Act 2000, Arbitration Act 1999, Income Tax Act 2002, Labour Act 1991, Privatization Act 1992, the Special Economic Zone (SEZ) Act of 2016 (and its 2019 amendment).

### **1. Special Economic Zone Act, 2016**

Special Economic Zone (SEZ) Act enacted in August 2016 provides one stop service for company registration, tax registration, banking, insurance, freight forwarding, issuance of a certificate of origin for export, and other administrative procedures to an industry being established within the SEZ. An industry with the minimum export of 60% is eligible for establishment within SEZ.

### **2. Customs Act (2007)**

Another significant legislation that could affect investment decisions in Nepal is the Customs Act (2007), which has established invoice-based customs valuations and provides investment tax incentives at a lower, uniform rate. Customs Act 2007 amended and consolidated the prevailing customs laws to facilitate international trade by mak-

ing customs administration systematic, transparent, and accountable. In 2017, the Department of Customs started to use the Automated System for Customs Data (ASYCUDA) world software platform based on the Customs Act. The law has provisions relating to:

- Provisions relating to Customs Area and Customs Office.
- Calculation and determination of custom duty.
- Provisions relating to customs duty facility, exemption, and other facilities.
- Power and rights of custom officer regarding examination, search, and arrest.
- Offences and punishment related to customs.

### **3. Foreign Investment and Technology Transfer Act, 2019**

The Foreign Investment and Technology Transfer Act (FITTA) 2019 is the main law relating to FDI. It has provisions for various forms of investment in shares of an industry, through the purchase of shares or assets; investment through the lease of airlines, ships, machinery, and equipment; Technology transfer i.e. licensing of foreign intellectual property, franchising, management, advisory and market services; investment in capital investment funds; investment in secondary stock market; investment by issue of securities in foreign stock markets; and reinvestment of profits. The FITTA Regulation 2021 requires foreign investors to bring 70% of their proposed investment before the commencement of operations, and another 30% within the next two years. The Regulation also clarifies the existing provisions of repatriation of dividend, profits, earnings, and proceeds, which are subject to the approval of regulators.

### Major Provisions

- Guarantee of national and non-discriminatory treatment to all FDI companies.
- 100% FDI allowed in almost all types of industries with no upper ceiling.
- Technology transfer is open for all sectors of industry.
- Repatriation guaranteed in foreign currency.
- Business/residential visa for investors.
- Foreign investment includes lease financing and investment made in listed securities in the secondary market.
- Foreign investment can be made by opening a branch office or establishing a venture capital fund provision for contract manufacturing.
- Provision of an all-powerful One Stop Service Centre.
- Opening of a bank account in convertible foreign currency.
- Dispute settlement as agreed between the parties in agreement.

### 4. Industrial Enterprises Act, 2020

The Industrial Enterprise Act (IEA) is intended to promote private sector-led industrial growth with provisions for “no work, no pay” and allowing companies to buy land and establish a line of credit – while environmental assessments and other regulatory requirements are being carried out. The salient features of the IEA 2020 are:

- Industries have been classified into eight categories: manufacturing, energy, agro and forest, mineral, infrastructure tourism, service, information and technology, and construction.
- A license is required only for specific industries and registration with the DOI is compulsory, and industries can commence operations only

after obtaining an EIA or IEE, as applicable.

- Industries are classified as either “cottage industries” (traditional industries using specific skills and local raw materials), “small industries” (fixed assets investment up to NPR 150 million), “medium industries” (fixed asset between NPR 150-500 million), and “large industries” (fixed assets of more than NPR 500 million).
- Medium or large industries and cottage and small industries whose annual turnover exceeds NPR 150 million are required to allocate one percent (1%) of net profit of annual income 0.5% of annual turnover for corporate social responsibility (CSR) activities.
- IEA 2020 provides an explicit provision for industries to allocate at least 1% of annual net profit (previously 1% annual profit) for CSR requirements. Also, IEA 2020 provides that the industries are required to submit their report on CSR within 6 months of completion of the fiscal year.
- Has provision against nationalisation of privately owned industrial enterprises.

### 5. Public Private Partnership and Investment Act, 2019

The Public Private Partnership and Investment Act 2019 (PPPIA), aims to create a more unified enabling environment for PPPs. It has following major provisions:

- Formation of Investment Board, a high-level body, to facilitate mega FDI infrastructure projects.
- Chaired by the Prime Minister, the Investment Board, which also includes relevant ministers and heads of major government agencies, is mandated to deal with Investment of over NPR 6 billion (USD 54.54

million) in sectors other than energy. Energy projects of over 200 MW of installed capacity.

- Establishment of a separate PPP Unit and Investment Unit.
- Provision of viability gap funding for construction, operation, and expansion.
- Provision of an effective One-Stop Service Centre with authority to issue survey licenses, signing MoU and agreements, and granting investment approval, among others.

## 6. Labour Act, 2017

The Labour Act 2017 is applicable to all entities regardless of number of workers/employees. It deals with matters relating to employment and the security of employees, working hours and minimum wages, the welfare of employees, employer-employee relations, and the settlement of disputes.

Foreign nationals need to obtain a work permit for being engaged in work in Nepal as per Section 22 and 23, except in the following conditions: Foreign nationals who are provided diplomatic immunity, and arrangement as per treaty or agreement with the Government of Nepal.

It has these additional provisions:

- Normal working hours are fixed at 48 hours per week, 8 hours a day as per Section 28.
- An 18+ year old person can be employed. 14-18 years old children can be employed (except in high-risk jobs) upon approval from the labour office. Child below the age of 14 years cannot be employed.
- As per Section 53 of Labour Act 2074 there is no restriction for the duration of service in the entity for the calculation of the amount of gratuity. The rate is 8.33% of basic

remuneration every month.

- The Employees Provident Fund manages the provident funds of government, public and private sector employees and extends support to them financially on retirement or separation from service. Employees are required to contribute at least 10% of their base salary to their provident fund account and employers are required to supplement this by an additional sum equivalent to the employee's contribution.
- The Labour Act lays down guidelines and procedures for the settlement of disputes between employers and employees. These guidelines and procedures help ensure the harmonious development of industrial relations.

## 7. Company Act, 2019

- Statutory recognition for online company registration.
- Robust legal mechanism to protect trademarks.
- Public company can hold 100% shares of private company and vice versa without conversion.
- Simplification in conversion of the liaison office of a foreign company into a branch office.
- Provision to buy back its own shares to protect itself from any hostile takeover.
- Flexible provision for issuing shares at premium price.

## 8. The Bonus Act, 1974

It provides a legal basis for the payment of bonus to workers and employees of factories and commercial establishments.

- Each profit-making enterprise is required to allocate 10% of its net profit towards employee bonuses.
- Workers and employees who work for half the annual working days are also eligible for a bonus.



- The lump sum amount of the bonus due to a worker or employee is equivalent to 3 to 6 months of their salary depending on the remuneration they are paid.
- The bonus is required to be paid in cash every year, or in certain cases, it can be paid the following year as an accumulated bonus for both the years.

### 9. Trade Union Act, 1992

It makes provision for the registration and operation of trade unions and other necessary provisions for the protection and promotion of the rights of workers in various industries, trades, professions, or services in enterprises or outside. Some of the salient features of Trade Union Act are as follows:

- The workers of a concerned enterprise may constitute an enterprise-level trade union to protect and promote their occupational rights. The union registration form must be signed by at least 10 members of the enterprise and be registered at the Registrar. Registered trade unions can collectively form a trade union association and ultimately a trade union federation.
- The authorised trade union shall be recognised for the purposes of collective bargaining with the management on behalf of the workers of the authorised enterprise-level trade union. Any collective bargaining agreement signed between the union and the management is generally reviewed every two years.

## Incentives in manufacturing

The government of Nepal provides some specific tax incentives and exemptions in the manufacturing

sectors. Some of the tax incentives for the industries in SEZ are:

### Tax exemption for industries in

**SEZ:** Industries in the SEZs in Hilly or Himalaya region get tax exemption of 100% for the first 10 years, and 50% for the remaining contract period. Similarly, for the industries in other areas of Nepal; 100% for the first 5 years and 50% for the next 10 years for the remaining contract period.

Additionally, such industries are eligible for exemption of VAT on export and sale of raw materials and finished goods within SEZ.

### Income tax exemption in

**manufacturing industries:** 20% exemption on the rate leviable and an additional 5% on the rate leviable for exporting products, producing and processing local tea products, dairy, and textiles eligible for 50% on the rate leviable. Similarly, 100% exemption on the leviable rate for the first five years and 50% for the next three years for the industries with more than 1 billion NPR investment and providing direct employment to more than 500 individuals throughout the year.

**Fruit-based** brandy, cider, or wine industries established in the least developed and underdeveloped regions have 40% and 25% exemptions for up to 10 years.

**Depreciation allowance** is another intensive for manufacturing industries in Nepal. Accelerated depreciation is granted on manufacturing industries and infrastructure and utility projects. In addition, production-oriented industry is entitled to claim 50% depreciation



in the same income year on the capital amount that has been capitalized as an asset to generate power required for its own use.

### **Investment protection**

Nepal has BIPPAAs with five countries: the Republic of France, the Federal Republic of Germany, the United Kingdom of Great Britain and Northern Ireland, the Republic of Mauritius and the

Republic of Finland. BIPPAAs provide preferential treatment and protection for investments made by foreign investors. The laws in Nepal also ensure the security of investments against nationalisation. Besides, Nepal as a member of the MIGA assures foreign investors against non-commercial risks, like currency transfer, breach of contract, war, and civil disturbance in the country (NTIS, 2023).



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# ANNEXES

## Annex 1. Incentives for companies operating in special economic zones (SEZs)

Type of exemption	Details
Income tax	<ul style="list-style-type: none"><li>- Industries are eligible for full exemption for the first 5 years and 50% for next 10 years for industries using 60% of domestic raw materials and 5 years for other industries.</li><li>- Industries that use at least 60% domestic raw materials will receive 50% tax exemption for an additional 5 years and 25% exemption for another 5 years.</li><li>- Industries that are established in Hilly or Himalaya region SEZs are eligible for full exemption for the first 10 year , and 50% for the remaining period of contact.</li><li>- Tax on dividends is exempt for 5 years and 50% exempt for the next 3 years.</li></ul>
VAT	<ul style="list-style-type: none"><li>- Zero VAT rates are available for goods or services traded among entrepreneurs operating within a SEZ and for goods or services exported from the industries established therein.</li></ul>
Customs duty	<ul style="list-style-type: none"><li>- Industries within a SEZ are exempt from customs duty for raw materials, auxiliary raw materials, packing materials, and products used in the production of exportable goods if made under a bank guarantee facility.</li><li>- Industries within a SEZ are exempt from customs duty on the import of plant, machinery, instruments, tools, and spare parts required for the industry.</li><li>- Customs duty is refundable to an importer that sells any goods to an industry within a SEZ.</li></ul>
Facilities equal to export to be provided	<ul style="list-style-type: none"><li>- The sale of raw materials or any products within the SEZ shall be regarded as an export and the industry shall be entitled to all such concessions.</li><li>- The facility of a bonded warehouse shall be available for use within 45 days from the date on which an application is submitted.</li></ul>
Other facilities	<ul style="list-style-type: none"><li>- Rent or lease payments made by industries established in an SEZ shall be exempted by 50%, 40%, and 25% for the first three years of establishment, respectively.</li><li>- No local tax will be charged on the import of up to 3 vehicles for transportation of machinery, instruments, and spare parts of machines, raw materials or goods required for the industry, having regard to the scale of the industry.</li></ul>

## Annex 2. Industries or businesses restricted for establishment in SEZ

1	Cigarettes, bidi, khaini (chewing tobacco), cigars and tobacco products producing industry.
2	Brandy, cider, wine, beer, and liquor producing industry
3	Explosive materials producing industry.
4	Weapons, bullets, gunpowder-producing industry.

### Annex 3. Tax concessions for industry

Special industry providing direct employment to Nepali citizens only for a year with a minimum number of employees.

For special industry normal income tax rate is 20%		
Minimum number of people employed	Without including 33% women & disabled	Including 33% women & disabled
	Applicable income tax (after deducting concession)	
100	18%	16.2%
300	16%	14.4%
500	15%	13.5%
1000	14%	12.6%

### Annex 4. Applicable income tax rate based on area where industry is established, as defined in Industrial Enterprise Act

Area of Industries Establishment	Applicable income tax (after deducting concession)
Very undeveloped area	2% of the normal rate (for 10 years from the year of establishment.
Undeveloped areas	4% of the normal rate (for 10 years from the year of establishment.
Underdeveloped areas	6% of the normal rate (for 10 years from the year of establishment

Source: Income tax directory 2066/ fourth revision 2078, Ministry of Finance

### Industrial Enterprise Act

Special industries*	20% (normal rate)
Special industry with paid up capital of NPR 1 billion and providing direct employment for more than 500.	Up to 5 years, 100% exempt and 50% rebate in subsequent 3 year
Special industry that by using reserve and surplus, capitalises on and increases the capacity of the industry.	No tax on capitalisation
Income from the export of goods produced by manufacturing industry.	(25% of normal tax rate)
Income from manufacturing industry, tourism service industry and hydropower generation, distribution and transmission industry listed in the security exchange (i.e., capital market).	90% of applicable tax rate
Industry established in least developed areas producing brandy, wine, cider from fruits.	40% of applicable tax rate up to 10 years.
Industry established in underdeveloped areas producing brandy, wine, cider from fruits.	25% of applicable tax rate up to 10 years
Royalties from export of intellectual asset by a person.	25% of applicable tax rate
Income from sale of intellectual asset by a person through transfer	50% of applicable tax rate

\* 'Special industry' means a production-oriented industry as classified in Section 3 of the Industrial Enterprises Act, 1992, except an industry producing cigarettes, bidi, cigar, tobacco, khaini or other products of the same nature involving tobacco as the principal raw materials or an industry producing liquor, beer, and similar products.

## Annex 5. Trade indicators of Nepal

Foreign Trade Indicators	2018	2019	2020	2021	2022
Imports of Goods (million USD)	12,712	12,340	9,856	15,893	13,735
Exports of Goods (million USD)	786	968	856	1,684	1,296
Imports of Services (million USD)	1,775	1,718	1,097	1,565	1,979
Exports of Services (million USD)	1,745	1,615	881	798	1,225
Imports of Goods and Services (Annual % Change)	19	6	-21	19	15
Exports of Goods and Services (Annual % Change)	8	6	-16	-21	34
Trade Balance (million USD)	-11,931	-11,007	-8,707	-13,707	-11,929
Foreign Trade (in % of GDP)	48	49	41	43	49
Imports of Goods and Services (in % of GDP)	41	41	34	38	43
Exports of Goods and Services (in % of GDP)	8	8	7	5	7

Source: WTO, 2023 & World Bank, 2023

## Annex 6. Export of major commodities

Exports of Major Commodities*(NPR million)						
S.N.	Heading	2021/22R	2022/23R	2023/24P	Percent Change	
		Annual	Annual	Three Months	2022/23	2023/24
1	Zinc sheet	2841.74	7705.75	3362.53	8.2	105.0
2	Polyester Yarn & Thread	9515.94	10550.17	2968.37	7.3	14.4
3	Woollen Carpet	9565.01	11503.49	2935.60	7.2	-4.5
4	Juice	6074.79	6629.80	2290.96	5.6	43.6
5	Readymade Garments	4881.98	5839.11	2042.07	5.0	16.4
6	Cardamom	4778.99	8255.98	1890.77	4.6	56.8
7	Particle Board	352.01	4704.13	1876.55	4.6	160.7
8	Jute Goods	7496.77	7241.10	1737.49	4.3	-12.0
9	Palm Oil	41064.73	20509.12	1325.40	3.2	-83.5
10	Tea	3427.20	3930.18	1287.22	3.1	-
11	Pashmina	2758.24	3194.10	804.73	2.0	-8.1
12	Oil Cakes	3492.21	2302.27	734.26	1.8	36.2
13	Medicine (Ayurvedic)	1279.08	1287.83	674.07	1.6	-10.7
14	Textiles	3277.86	2377.83	671.11	1.6	9.5
15	Herbs	1629.34	1844.05	522.28	1.3	18.2
16	Noodles	1834.13	2296.09	472.77	1.2	-10.5
17	Ginger	465.36	1072.36	392.03	1.0	158.7
18	Handicraft Goods and Other Handicrafts	1120.70	1335.87	340.85	0.8	-1.4
19	Nepalese Paper & Paper Products	561.71	683.79	253.53	0.6	26.2

Exports of Major Commodities*(NPR million)						
S.N.	Heading	2021/22R	2022/23R	2023/24P	Percent Change	
		Annual	Annual	Three Months	2022/23	2023/24
20	Copper Wire Rod	436.25	462.92	251.77	0.6	59.5
A.	Top 20 Commodities	106854.0	103725.9	26834.4	65.7	-6.0
B.	Others	93176.9	53414.7	14040.5	34.3	5.7
C.	Total Exports (A+B)	200031.0	157140.7	40874.9	100.0	-2.3
	Other Exports**					
D.	Electricity	3328.2	10429.5	8329.9		
	Aviation Fuel	8068.5	16019.5	2839.1		

\* Top 20 exports are selected from export of major commodities to India, China and Other Countries based on One Month data of FY 2023-24

\*\* Not included in customs data

R= Revised, P= Provisional

Source: NRB, 2023

## Annex 7. Export of major commodities to India (NPR million)

S. N.	Heading	2021/22R	2022/23R	2023/24P	Percent Change	
		Annual	Annual	Three Months	2022/23	2023/24
	A. Major Commodities	140697.9	93287.0	21188.0	-46.5	-19.3
1	Brans	610.4	1016.0	193.8	42.9	21.2
2	Cardamom	4779.0	8256.0	1890.8	-5.7	56.8
3	Cattle feed	251.4	81.9	0.0	-65.7	-
4	Cinnamon	152.1	198.2	49.2	-48.9	235.2
5	Copper Wire Rod	436.2	462.9	251.8	188.7	59.5
6	Fruits	12.8	6.1	3.7	-48.8	-
7	G.I. pipe	66.0	374.9	105.9	-	53.2
8	Ginger	465.4	1072.4	392.0	14.1	158.7
9	Handicraft Goods	32.3	38.7	10.2	-12.2	-1.6
10	Herbs	971.9	1101.2	187.9	1.2	28.8
11	Juice	6074.8	6629.8	2291.0	5.3	43.6
12	Jute Goods	7496.8	7241.1	1737.5	-11.4	-12.0
	Jute Goods - Hessian	382.6	3723.7	1049.9	-	24.2
	Jute Goods - Sackings	7114.2	3517.4	687.6	-45.8	-39.1
13	Marble Slab	10.3	23.9	0.0	22.4	-
14	Medicine (Ayurvedic)	1279.1	1287.8	674.1	56.6	-10.7
15	Mustard & Linseed	7.0	0.0	0.0	-	-
16	Noodles	1348.3	1055.2	248.4	-12.7	-33.3
17	Oil Cakes	3492.2	2302.3	734.3	-65.0	36.2
18	Palm Oil	41064.7	20509.1	1325.4	-40.4	-83.5
19	Paper	60.3	77.4	4.2	-	-82.2

S. N.	Heading	2021/22R	2022/23R	2023/24P	Percent Change		
		Annual	Annual	Three Months	2022/23	2023/24	
20	Particle Board	352.0	4704.1	1876.6	-	160.7	
21	Pashmina	37.8	102.7	19.0	298.6	4.5	
22	Plastic Utensils	42.8	8.5	2.6	-64.0	-30.2	
23	Polyester Yarn	7523.6	8925.2	2467.9	7.9	16.5	
24	Readymade Garments	171.5	227.4	40.0	34.6	-37.2	
25	Rosin	1853.7	1652.3	246.4	35.1	-35.3	
26	Shoes and Sandals	1055.4	1017.2	226.9	-11.3	1.6	
27	Skin	351.3	76.7	17.4	-4.7	-61.2	
28	Soyabean Oil	48120.4	8476.0	51.9	-85.6	-98.4	
29	Tea	3005.5	3436.9	1109.8	39.3	-6.0	
30	Textiles**	3277.9	2377.8	671.1	-26.3	9.5	
31	Thread	1992.4	1624.9	500.5	-22.6	5.0	
32	Toothpaste	844.6	544.2	177.0	-68.2	143.5	
33	Turpentine	255.3	264.2	38.4	7.9	-35.4	
34	Vegetables	151.5	186.5	158.1	38.3	23.2	
35	Wire	209.6	221.6	122.1	96.3	52.9	
36	Zinc sheet	2841.7	7705.7	3362.5	-	105.0	
	B. Others	14524.4	13399.4	5061.7	-25.7	86.7	
	Total (A+B)	155222.3	106686.4	26249.7	-45.0	-9.4	
	** includes P.P. fabric						
	R= Revised, P= Provisional						

Source: NRB, 2023

## Annex 8. Export of major commodities to China (NPR million)

S. N.	Heading	2021/22R	2022/23R	2023/24P	Percent Change		
		Annual	Annual	Three Months	2022/23	2023/24	
	A. Major Commodities	579.2	1083.8	220.7	-13.1	63.5	
1	Agarbatti	3.7	8.0	9.3	89.0	-	
2	Handicraft (Metal and Wooden )	89.9	102.5	74.5	-85.0	-	
3	Noodles	8.4	514.2	2.0	-	-	
4	Other handicraft goods	87.8	54.3	10.3	-26.8	-40.3	
5	Pashmina	23.5	13.1	9.1	-68.9	150.8	
6	Readymade Garments	91.6	167.7	33.4	-	-43.5	
7	Readymade Leather Goods	0.0	0.4	1.2	-	-	
8	Rudrakshya	12.4	22.3	7.9	-49.2	156.5	
9	Tanned Skin	26.7	0.0	0.0	-	-	
10	Tea	0.2	1.1	0.4	-	-	
11	Woollen Carpet	235.0	200.0	72.7	-31.7	58.5	
	B. Others	229.6	682.0	511.7	-69.9	-	
	Total (A+B)	808.8	1765.8	732.4	-35.0	345.9	
	R= Revised, P= Provisional						

Source: NRB, 2023



## Annex 9. Export of major commodities to other countries (NPR million)

S.N.	Heading	2021/22R	2022/23R	2023/24P	Percent Change	
		Annual	Annual	Three Months	2022/23	2023/24
	A. Major Commodities	22762.8	26374.5	7442.7	15.0	2.9
1	Handicraft (Metal and Wooden)	382.9	463.4	96.1	40.1	-37.2
2	Herbs	657.4	742.9	334.4	69.9	12.9
3	Musical instruments, parts, and accessories	938.9	919.1	219.1	-22.1	0.6
4	Nepalese Paper & Paper Products	561.7	683.8	253.5	12.8	26.2
5	Noodles	477.4	726.6	222.4	23.1	42.9
6	Other handicraft goods	527.8	676.9	149.8	58.2	-6.7
7	Pashmina	2697.0	3078.3	776.6	10.1	-9.0
8	Pulses	569.5	491.7	106.6	-72.7	199.6
9	Readymade Garments	4618.9	5444.0	1968.7	28.0	20.6
10	Readymade Leather Goods	287.5	330.9	106.1	-17.3	29.9
11	Silverware and Jewelleries	1157.2	643.6	104.6	-53.3	-51.5
12	Tanned Skin	135.1	377.7	64.7	158.1	-1.3
13	Tea	421.5	492.2	177.0	-16.7	30.3
14	Woollen Carpet	9330.0	11303.5	2862.9	26.8	-5.5
	B. Others	21237.1	22314.0	6450.1	-5.9	18.3
	Total (A+B)	43999.9	48688.5	13892.8	5.0	9.5

R= Revised, P= Provisional

Source: NRB, 2023

## Annex 10. Key statistics for industrial districts

Industrial Districts	Balaju	Patan	Hetauda	Dharan	Nepalgunj	Pokhara	Butwal	Bhaktapur	Birendranagar	G.N Singh	Total
Year established	1960	1963	1963	1973	1973	1974	1976	1979	1981	1986	
Area covered (ropanies)	670	293	3119	202	233	501	434	71.28	90	294	5907.28
No of industries	141	117	148	36	37	77	71	37	27	9	700
No. of Operating industry	129	112	129	31	34	73	67	36	22	4	637
No. of industrial jobs	4169	1600	2254	900	929	2416	1859	788	190	78	15183
Power supply (installed capacity in KVA)	10500	3600	10000	1600	1500	3500	4000	900	500	500	36600
Water supply (Kilolitre per day)	787	144	1153	100	200	777	250		170	2	3583

Source: As of December 12,2020: Industrial District Management Limited (idm.org.np)

## Annex 11. Special economic zones and their status

S.N	Name of Projects	Province	Area (approx.)	Status	Land Acquisition
1	Bardiya SEZ	Lumbini	155.24 ha	FS completed	Land not acquired
2	Biratnagar SEZ	Koshi	200 ha	DPR completed	Land not acquired
3	Bhairahawa SEZ	Lumbini	38.8 ha	Operation	Acquired
4	Chitwan SEZ	Bagmati		FS completed	Land not acquired
5	Chandrapur SEZ	Madhesh	169 ha	FS completed	Land not acquired
6	Dhanusha SEZ	Madhesh	55 ha	FS completed	Land not acquired
7	Gorkha SEZ	Gandaki	60 ha	FS completed	Land not acquired
8	Jhapa SEZ	Koshi	200 ha	FS completed	Land not acquired
9	Jumla SEZ	Karnali	47 ha	DPR completed	Land acquired
10	Haraiya SEZ, Kailali	Sudurpaschim	180 ha	DRP and EIA ongoing	Government Land
11	Nuwakot SEZ	Bagmati	70 ha	FS completed	Land not acquired
12	Panchkhal SEZ	Bagmati	50 ha	Construction ongoing	Acquired
13	Rautahat SEZ	Madhesh	55 ha	DPR completed	Land not acquired
14	Saptari SEZ	Madhesh	114 bigaha	FS completed	Land not acquired
15	Simara SEZ	Madhesh	564.16 ha	Construction ongoing	Acquired
16	Siraha SEZ	Madhesh	106 ha	DPR completed	Land not acquired

## Annex 12. Small and Medium Sized Enterprises (SMEs) in Nepal

The Industrial Enterprises Act of 2020 defines micro-enterprises using four criteria (capital investment, employment, annual turnover, and energy consumption) while it uses a single criterion of capital investment to define SMEs. The definitions of micro, cottage, small, medium, and large enterprises are as follows:

SMEs are the backbone of the economy of developing countries. They help to accelerate production and provide a wide range of jobs. In Nepal, SMEs account for around 98% of all businesses. Before the pandemic, SMEs contributed 22% of Nepal's GDP while employing over 1.7 million people, according to a report by Nepal Rastra Bank. Micro, Small and Medium-sized Enterprises (MSMEs) are the essence of Nepal's economy. They contribute significantly to economic growth by creating thousands of jobs. UNESCAP (2020) estimates that the country's MSMEs employ more than 2.7 million people. The number of industries registered by scale (up to FY.2079/080) is given in the following table:

Most of the micro-enterprises, 56.2%, are engaged in wholesale, retail, and repair services, followed by 14.5% in accommodation and food services, and 11.2% in manufacturing. Education is the main sec-

tor for both small enterprises (39.7%) and medium-sized enterprises (37.4%), followed by manufacturing (10% for small enterprises and 20.4% for medium-sized enterprises) (ESCAP,2020).

In Nepal, as part of the SME Ventures programme, IFC invested in BO<sub>2</sub>, the country's first private equity fund, between 2015 and 2017. BO<sub>2</sub> has invested in 17 SMEs across sectors, creating hundreds of jobs. Beyond private equity, IFC has also invested in financial institutions, including micro-finance to provide financing for SMEs. As Nepal focuses on a resilient recovery, private equity can play a critical role in strengthening SMEs, a key engine of growth, and in rejuvenating the economy by creating jobs and attracting greater private investment for an inclusive and sustainable future. U.S. International Development Finance Corporation (DFC) has planned to expand its Nepal portfolio worth USD 160 million. It is mandated to invest in climate change/ clean/renewable energy, health care, SMEs in the agriculture sector and food processing, gender equality, infrastructure (renewable energy, roads, warehousing, dry ports, and others) (IBN, 2022).

### Criteria of Enterprises

<b>Micro industries</b>	Have fixed capital not exceeding NPR 2 million (USD 18,000) apart from land and buildings, are run by the proprietor him/herself, work at the local level and utilise local raw materials, have annual turnover of up to NPR 10 million (USD 89,000), employ not more than nine workers, and consume less than 20 kilowatts of electrical power when run in full capacity.
<b>Cottage industries</b>	Use local workers and raw materials, are engaged in traditional labour-intensive industries that reflect the country's indigenous art and culture and consume less than 50 kilowatts of electrical power when run in full capacity.
<b>Small-scale industries (SSI)</b>	Other than micro and cottage industries with fixed capital not exceeding NPR 150 million (USD 1.3 million).
<b>Medium industries</b>	Have a fixed capital between NPR 150 million and NPR 500 million (USD 4.4 million).
<b>Large industries</b>	Have over NPR 500 million in fixed capital

Source: Industrial Enterprises Act of 2020





For this document



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