



U.S. Department of State FY 2001 Country Commercial Guide: Nepal

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CHAPTER 1 - EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Nepal's commercial environment, using economic, political, and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

Nepal is a landlocked economy with per capita income levels among the world's lowest and has a relatively limited market potential. Nonetheless, since the advent of a democratically elected government in 1991, the country has undertaken a number of economic reforms and negotiated trade treaties with India that improved its attractiveness both as a site for U.S. investment and as a market for U.S. goods and services. Nepal's hydropower, aviation, environmental, tourism, computer hardware, and telecommunications markets all offer sales and investment opportunities to U.S. firms. The large and growing Indian market, to which Nepali exports now enjoy duty-free access for all but a very few products, also makes Nepal a potentially attractive investment location.

Nepal's Country Commercial Guide can be accessed via the World Wide Web at: <http://www.south-asia.com/USA>.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>, <http://www.state.gov/>, and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by Phone at 1-800-USA-TRAD(E) or by Fax at (202) 482-4473.

CHAPTER 2 - ECONOMIC TRENDS AND OUTLOOK

— MAJOR TRENDS AND OUTLOOK

With a per capita GDP of only \$242, Nepal is one of the world's poorest countries. Limited natural resources, a landlocked location, difficult topography, poor infrastructure, a weak human capital base with poor levels of education and health, poor public management capacity and a long history of public intervention in the economy are only some of the handicaps with which this economy must struggle. Growth potential exists in export-oriented manufacturing, tourism, telecommunications and hydro-power generation. However, major investments by both the public and private sectors will be necessary to realize that potential.

Major changes in policy are also necessary. With the advent of democracy, Nepal has embarked on a basic economic reform program, privatizing public enterprises, freeing trade and prices, establishing a

convertible currency (at least for current account transactions), revitalizing the stock market and setting in place a program to attract private investment, particularly in the generation of hydroelectric power. The economy has responded to this program, but remains heavily dependent on rain-fed agriculture and, consequently, vulnerable to bad weather. Over the past four years, real GDP growth has averaged less than four percent per annum. While some recovery was made in 1999, growth in Nepal will still likely lag behind that of other states in South Asia.

The government faces the difficult task of establishing a basis for sustained growth (through hydro-power development, tourism and exports) while dealing with the potentially problematic financial imbalances that have emerged in recent years in the fiscal accounts. It must re-focus public expenditures on areas of economic value, restart the liberalization process and integrate Nepal with the other economies of South Asia.

Nepal's new majority government appears to have a well-thought-out program which includes tax reform, expenditure controls, the privatization of additional public enterprises, and measures to liberalize markets and strengthen the financial system. It is pushing forward with international negotiations aimed at better market access in neighboring countries, including India. In December 1995, Nepal joined India and the other states of the South Asian Association for Regional Cooperation (SAARC) in the South Asian Preferential Trade Area. It has endorsed SAARC's goal of initiating a regional free trade area by the year 2001. Nepal is proceeding well with its application for admission to the World Trade Organization, and is expecting admission to the WTO by the end of 2001.

— PRINCIPAL GROWTH SECTORS

There are four major growth sectors in Nepal: tourism, transport (particularly air transport), telecommunications and hydropower generation. Tourism is one of the traditional foreign exchange earners for Nepal. However, limited airline seats available on international routes reaching Kathmandu have hampered its growth over the past several years. In June 1997, this bottleneck was partially relieved by a new air transport agreement with India, which increased the number of seats on flights between India and Nepal by 50 percent. However, even this higher level (6,000 seats per week) is not enough to meet demand and problems will likely remain in this area until Nepal's request for an "open skies" agreement with India is met. The tourism industry of Nepal which relies on India for almost 35% of its tourist inflow, received a setback when Indian Airlines stopped flying to Nepal for over five months (December 1999 through May 2000) after the hijacking of an Indian Airlines flight from Kathmandu to Delhi on December 24, 1999.

The other three sectors are all in the process of being privatized by the Government of Nepal. Hydropower is the most significant. The Government of Nepal has now laid the legal basis for full-scale private development of its massive hydropower resources and for private exports of hydropower to India. The first fully private projects are now underway and multi-billion dollar projects have been proposed for the West Seti and Karnali-Chisapani sites.

Air transport was vitalized when domestic routes were privatized in the early 1990s, resulting in a quadrupling in domestic air traffic. In 1996, the first steps were taken to re-assign international air routes previously held by the state-owned Royal Nepal Airline Corporation to private carriers. There are now a total of 3,000 seats per week allotted for private airline operators. Necon Air is the only private airline flying international routes out of Nepal. Although Necon has permission to carry pas-

sengers to and from Calcutta, Delhi, Patna and Varanasi in India, it is presently operating only the routes to and from Patna and Varanasi.

Progress in telecommunications has been slower, but should expand over the next two years as Nepal commercializes and privatizes the Nepal Telecommunications Corporation, and opens the market for basic services to full competition. The Government of Nepal has already opened 13 high value-added telecommunications service areas to private participation and is committed to entirely privatizing the sector by the close of the year 2000.

— GOVERNMENT ROLE IN THE ECONOMY

Recent governments in Nepal have demonstrated a consistent commitment to the liberalization and privatization of the Nepali economy. While this commitment has varied depending upon the exact character of the government in power, all of the major political parties in Nepal are committed to the strengthening of democracy, the rule of law and a market-oriented economy. They differ over the role of the state in the economy – left-wing parties favoring relatively more state control, and parties from the right relatively less.

Nepal has also made progress on economic reform. Since 1990, Nepal has privatized a number of public enterprises, eliminated public monopolies in air transport and hydropower generation, eliminated price controls on most products, reduced consumer subsidies, established a convertible currency for all current account transactions, modernized its commercial and company laws, and set in place a program to attract foreign investment, especially in the generation of hydroelectric power. It has also begun a program of tax reform, which culminated in November 1997 in the introduction of a new value-added tax in place of older sales and excise taxes. It eliminated the “octroi,” a local tax on trade that had been a major disincentive to economic activity, and has simplified both corporate income taxation and customs duties.

In the Finance Minister’s budget speech of May 30, 2000, the Government of Nepal made a number of further commitments regarding financial reform measures. These include plans to develop new bankruptcy and debt-recovery laws and new intellectual property rights legislation, particularly in the area of patents and trademarks. They also include plans to open the Nepali market to international accounting and auditing firms, to license (for the first time) foreign branch banks in Nepal and to develop the legislative framework for an international financial center (i.e., offshore banking center) in Nepal and establish the Asset Reconstruction Company as a joint venture of Nepal’s central bank and private sector. The Finance Minister, in his speech, also claimed that a strategic plan for financial sector reform has been drafted.

However, additional steps are necessary before Nepal will have a truly business-friendly climate. Tax administration remains arbitrary with tax assessors effectively imposing levies which may or may not have any relation to the company’s or the individual’s true financial situation. Similarly, access to foreign exchange, even for trade purposes, is hedged with restrictions, which effectively limit one’s choice of instruments to one vehicle — the letter of credit.

In short, for all the progress Nepal has made in recent years in liberalizing its economy, it is far from a Shangri-La for private entrepreneurs. There are still multiple restrictions on trade, payments and investment that require constant interaction with government officials at all levels of the bureaucracy.

Facilities granted under certain acts or policies are often either contradicted or negated by another set of rules or policies.

— BALANCE OF PAYMENTS SITUATION

Nepal has traditionally run large trade and current account deficits, which have been offset by equally large service, transfer and capital account surpluses. It has never rescheduled its debt and, even today, maintains foreign reserves sufficient to cover only about eleven months of imports.

Based on statistics available through mid-April 2000 (including the first 9 months of Nepali FY 1999/00), Nepal ran an overall balance of payments surplus of approximately US \$146 million as a result of higher exports and increased aid receipts. Foreign trade data, available for first 11 months of FY 1999/00 (from mid-July 1999 to mid-June 2000), shows that exports continued to increase, reaching US \$660 million. After declining in previous years, imports registered an increase during this period, reaching US \$1.368 billion.

The vast majority of Nepal's officially recorded exports are carpets and garments, exported to Germany and the United States, respectively. Trade with India, however, has increased significantly in recent years. During the first six months of FY 1999/00, exports to India rose to 81 percent of Nepal's recorded exports as more and more consumer product firms established themselves in Nepal to serve the Indian market.

— INFRASTRUCTURE

Nepal remains isolated from the world's major land, air and sea transport routes. While airlinks with major transshipment centers (for U.S. products) such as Hong Kong and Singapore are relatively good, the cargo facilities at Tribhuvan International Airport (TIA) in Kathmandu are limited. A new cargo complex is being built at TIA, with financing by the Asian Development Bank (ADB), Organization of Petroleum Exporting Countries (OPEC), and the Government of Nepal (GON). This new facility will significantly enhance the cargo handling facility of TIA. The Civil Aviation Authority of Nepal is interested in building a second international airport in Nepal, possibly at Lumbini, a town in the flat Terai region of Nepal, about 300 kilometers southwest of Kathmandu. A feasibility study of Lumbini as a potential site is underway, and is looking into the technical and economic viability aspect of the project.

Surface transport in and out of Nepal is severely constrained. There is only one reliable road route from India to the Kathmandu valley. The only practical seaport of entry for goods bound for Kathmandu is Calcutta in India. The Government of India has agreed in principle to allow Nepal to import goods in bond, and to establish transit facilities at the port of Khandala, north of Bombay. In 1997, India allowed goods landed at the Bangladeshi port of Banglabandha to transit India in bond to the Nepali border. This 25-mile route, through the border towns of Kharkadvitta (in Nepal), Phulbari (in India) and Banglabandha (in Bangladesh), is open seven days per week. Though a few third country goods are now imported through this route, it has yet to become a major trade route.

Internally, the poor state of development of the road system (22 of 75 administrative districts lack road links and the entire country has only some 8586 miles of roads, of which 3665 are navigable in fair weather only) makes volume distribution unrealistic for many products. Within the hill and mountain

regions, goods are generally transported by air to remote airstrips, and then hand-carried by porters or animals to final customers. In contrast, Nepal's southern Terai region is relatively flat and is served by a good road network facilitating distribution within the Terai and neighboring India.

Telecommunications links are still poorly developed. While generally good in the capital city of Kathmandu, where the quality of international fax and telephone services is high, outside such major population centers, there are few facilities. Nepal's telephone density is among the lowest in the world, with less than one phone per hundred people.

Below are the major infrastructure projects being undertaken or considered within Nepal:

o - Multimodal Transit & Trade Facilitation Project

A World Bank-financed project worth \$27 million for developing a "dry port" near the Indo-Nepal border town of Birgunj features an inland container terminal connected directly to India's national railways system. Construction work began in December 1997; completion is expected by the end of 2000. Construction includes a 5.4 km railway spur connecting the Inland Container Depot (ICD) near Birgunj with Indian Railways in Raxaul. The ICD is expected to be operative by January 2001. Connecting the ICD with the Indian railway network would facilitate Nepal's foreign trade by not only reducing transportation times, but by lowering land transportation costs to and from Nepal.

o - Sixth Telecommunications Project

Under this \$222 million project, another 200,000 phone lines will be added to Nepal's network; wireless local loop and cellular telephone systems will be established in the Terai; four new V-sat terminals will be established; and the optical fiber and micro-wave transport systems will be expanded. The Nepal Telecommunications Authority is now mobilizing funding for this project.

o - Kali Gandaki A Hydropower Project

This is a 144-megawatt project that will generate 842 gigawatt-hours of renewable energy annually using the flow of the Kali Gandaki River in western Nepal. The total projected cost of the project is \$453 million, out of which \$320 million is financed by the Asian Development Bank (ADB) and the Government of Japan. The balance of \$133 million will be borne by the Government of Nepal and Nepal Electricity Authority. The ADB has already finalized loan assistance of \$160 million for the project; the Government of Japan is providing an equal amount. Construction work for the project has already begun.

o - Karnali-Chisapani Multipurpose Project

The Karnali-Chisapani Multipurpose Project, with a potential installed capacity of 10,800 MW, is not only the largest infrastructure project in Nepal, but also one of the largest hydropower projects in the world. It is only in preliminary planning stages at this time.

o - Arun III Project

Arun III is a 402 MW, run-of-river project situated in Arun valley of the Sankhuwasabha district in

eastern Nepal. In July 2000, the GON announced that it had accepted the proposal of US-based EurOrient Investment/Merchant Banking Group and is in the process of inviting the company to develop the project. Detailed design works and feasibility studies were completed in 1993. The GON projects the completion of the project within 10 years, if a Power Purchase Agreement can be successfully negotiated with India.

o - Pancheshwore Multipurpose Project

The Pancheshwore Multipurpose Project is situated on the Indo-Nepal border on the Mahakali River and has an installed capacity of 6,480 MW. The site is 40 miles from the East-West Highway. The estimated cost of the Pancheshwore project is \$3 billion. This project is being developed under the Mahakali Treaty signed between the Governments of Nepal and India in 1996. The Governments of India and Nepal are now jointly completing the Detailed Project Report.

o - Medium and Small Hydropower Projects

These are several additional small and medium-sized hydropower projects that have been screened and ranked for Nepal by consultants from the World Bank. Three of these projects are to be developed by the Government of Nepal; the others will be distributed to private developers for development on a build, own, operate and transfer basis. They represent the best of 118 potential projects in Nepal and will be eligible for support from the World Bank's \$100 million Power Development Fund. Included in the group are the following projects:

Upper Karnali Project - The 300 MW Upper Karnali project is one of Nepal's most economically attractive run-of-the-river schemes with daily peaking capacity and high firm energy. The site is located in the Far Western Development Region, 420 miles from Kathmandu. An all-weather road from Birendranagar to Jumla is under construction and will pass immediately by the headwork. In 1989, Himalayan Power Consultants (HPC), a consortium of Canadian and American consulting firms, completed a hydropower ranking of potential sites within the Karnali River Basin. The economic ranking of the six most promising sites in the 100 to 500 MW range prepared at that time showed Upper Karnali to be the most attractive site in the basin.

Dudh Koshi-1 Project - The 300 MW Dudh Koshi-1 project dam site is located in the Eastern Development Region in the Okhaldhunga/Khotang district. The project is about 3 miles and one hour's walking distance from the Lamidanda airport. Dudh Koshi-1 was identified in the Koshi Basin Master Plan as a peaking run-of-the-river plant (PROR). In July 2000, the Department of Electricity Development accepted a proposal from Canada-based ASTQ Holding Corporation to develop the 300 MW Dudh Koshi-1 project.

Budhi Ganga Project - The 20 MW Budhi Ganga project is located at Achham district in the Far Western Development Region of Nepal. The nearest approach to the site is from Sanfebagar, which has an air link with Nepalgunj. The nearest access road to the headwork site is Sanfe Bazaar-Martadi Road, which is currently under construction. This is a simple run-of-the-river project. In July 2000, the Department of Electricity Development accepted a proposal from India-based Birla Corporation to develop the 20 MW Budhi Ganga project.

Likhu-4 Project - The 51 MW Likhu-4 project is located on the boundary between Ramechhap

and Okhaldhunga districts in the Central Development Region. The intake is located downstream of the confluence of Bhujji and Likhu Khola rivers. The proposed powerhouse is located near the confluence of Sapre Khola and Likhu Khola. A 20-mile access road will be required from Jiri to the intake site and a further 5-mile road will be required to the powerhouse. Likhu-4 is a run-of-the-river project. The Department of Electricity Development accepted a proposal from Australia-based Pacific Hydro Limited in July 2000 to develop the 51 MW Likhu-4 project.

Rahughat Project - The 27 MW Rahughat project is located in the Myagdi district of the Western Development Region of Nepal. A blacktop road is presently under construction to Beni, the district headquarters and nearest town. When this road has been completed, construction of a 10-mile road from Beni to the intake site will be required. The Rahughat Project is a small 27 MW run-of-the-river scheme. The GON plans to develop Rahughat project with the assistance of the World Bank.

Tamur-Mewa Project - The 83 MW Tamur Project is located in the Taplejung district of eastern Nepal. Approximately 8 miles of access road would be required from Banade Village at the road head of the Phidim-Taplejung portion of the Mechi Highway to the site. The Tamur River is a tributary of the Sun Koshi, and the catchment area at the project intake site is 2560 square meters. The total installed capacity of the Tamur Project plant is 83 MW, and the average and firm energy outputs are 393 GWh and 303 GWh, respectively. In order to increase the capacity of the Tamur project, the feasibility of diverting water from the Mewa Khola to the forebay of the Tamur intake site is being investigated. This flow from the Mewa will be turbined at the Tamur intake site as well as at the Tamur powerhouse site, increasing the installed capacity of the combined Tamur-Mewa project to around 101 MW. In July 2000, the Department of Electricity Development accepted the proposal of US-based Combined Energy Companies to develop the Tamur-Mewa project.

CHAPTER 3 - POLITICAL ENVIRONMENT

— NATURE OF POLITICAL RELATIONSHIP WITH THE UNITED STATES

The United States and Nepal have traditionally enjoyed warm relations. Diplomatic relations were first established in 1947 and the U.S. Agency for International Development (USAID) has been active in Nepal since 1951. The Peace Corps has been in Nepal since 1962. The United States Government has been highly supportive of Nepal's new democracy and its economic reform efforts. American representatives enjoy excellent access to top-level officials and politicians across the political spectrum.

— MAJOR POLITICAL ISSUES AFFECTING THE BUSINESS CLIMATE

Political Stability: With the general election of 1999, Nepal may have finally brought to a close an extended period of political instability that began in 1994 with the fall of the previous majority government. In that five-year period, six separate governments under five separate Prime Ministers held power in Nepal. In May 1999, however, the Nepali Congress Party swept the polls, establishing a new majority government under Prime Minister Krishna Prasad Bhattarai. In an internal party struggle, Prime Minister K. P. Bhattarai was forced to step down in March 2000 and the Nepali Congress Party

President, Girija Prasad Koirala, became Prime Minister. Although the Nepali Congress Party enjoys a majority in Parliament, there are continued power struggles within the party.

Rule of Law: Nepal is still adapting to its new democratic system of government, which was introduced following a popular movement to restore democracy in 1990. A complete code of law has not yet been developed, nor have the courts been effective in enforcing existing laws. This is a particular problem for foreign businesses, which have not been able to ensure that their contracts are enforced. Nepal is making slow progress on codifying its business laws as part of its economic reform.

Relations with India: As Nepal's principal access to the sea is via India, relations with India are critical to business prospects in Nepal. Over the past four years, Nepal-India relations have fluctuated. In September 1996, Nepal's Parliament ratified the Mahakali Treaty between India and Nepal, which effectively defines the terms on which Nepal and India will cooperate in completing joint hydropower projects. In December 1996, the two nations also signed a new trade treaty, effectively allowing Nepal duty-free access to the Indian market for all but a very few products. In April 1997, Nepal hosted the first meeting of a new sub-regional group whose members — India, Bhutan, Bangladesh and Nepal — have pledged to cooperate in the development of the Ganges-Meghna-Brahmaputra Valley. In addition, in June 1997, the Prime Ministers of India and Nepal signed a new power trade agreement, which permits, for the first time, private exports of power across the India-Nepal border. The December 1999 hijacking of an Indian Airlines flight from Kathmandu caused a downturn in the bilateral relations that is just starting to recover.

— BRIEF SYNOPSIS OF POLITICAL SYSTEM, SCHEDULE OF ELECTIONS AND ORIENTATION OF MAJOR POLITICAL PARTIES

Nepal is a constitutional monarchy with a parliamentary form of government and an independent judiciary. In 1990, the King, formerly an absolute monarch, legalized political parties, after which an interim government promulgated a new democratic constitution. The King retains some residual powers, but is not involved in day-to-day government activities. The democratically elected Parliament consists of the House of Representatives (Lower House) and the National Assembly (Upper House). Since 1990, Nepal has held five national elections, three for the Parliament and two for local officials. International observers have considered these elections to be generally free and fair.

Citizens, through their elected representatives, have the right to amend the Constitution with the exception of certain basic principles. Parliamentary elections are scheduled at least every five years. Mid-term elections may be called if the ruling party loses its majority, loses a vote of no confidence, or calls for elections. The Constitution grants suffrage to all citizens aged 18 and over.

The King exercises certain powers with the advice and consent of the Council of Ministers. These include exclusive authority to enact, amend, and repeal laws relating to succession to the throne. The Constitution also permits the King to exercise emergency powers in the event of war, external aggression, armed revolt, or extreme economic depression. However, the King's declaration of a state of emergency must be approved by a two-thirds majority of the Lower House of the Parliament.

The Constitution bars the registration and participation in elections of any political party that is based on "religion, community, caste, tribe, or region," or that does not operate openly and democratically.

There are now three major political parties in Nepal. The Nepali Congress Party, which holds the majority of seats in Parliament, is one of the oldest political parties in Nepal. While traditionally committed to a socialist economic philosophy, the Nepali Congress Party, after first coming to power in 1991, has adopted more pragmatic economic policies. It is now an advocate of continued economic reform, including tax reform and the privatization of state enterprises.

The Communist Party of Nepal - United Marxist-Leninist (UML), which holds slightly over one third of the seats, is the main opposition party in Parliament. The UML is a relatively moderate social democratic party. During its tenure in power in 1994/95, the UML government did not reverse the economic reform policies instituted by the Nepali Congress Party government, but did not vigorously pursue new policies either, opting instead for a prolonged period of study and review.

The National Democratic Party, which holds about five percent of the seats in Parliament, largely represents the pre-democracy ruling elite. On economic issues, the party favors a liberal, market-oriented approach, though one occasionally tinged by populist measures.

CHAPTER 4 - MARKETING U.S. PRODUCTS AND SERVICES

— DISTRIBUTION AND SALES CHANNELS

The channels of distribution and sales applied by most of the national and international manufacturers/sellers is the conventional three-fold distribution system (Manufacturer - Distributor/Wholesaler - Retailer). 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 most suited to selling U.S. goods and services in Nepal.

— USE OF AGENTS/DISTRIBUTORS; FINDING A BUSINESS PARTNER

The local agents normally work as an exporter's sales representative on a commission basis. Specific responsibilities depend on the terms of the contract. The agent normally works on a commission ranging between 5 and 15 percent of the sales price, depending upon the nature of the product or service offered.

The distributor not only sells on a commission basis, but also buys and keeps goods in stock for resale, does local marketing, and handles after-sales product servicing as required. The distributor 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.

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 and for selling to government departments and competing in an international tender exercise. Use of a local distributor is more effective when selling durable and non-durable consumer goods.

— FRANCHISING

Franchising is not yet a common sales method in Nepal. However, a recent instance involving introduction of an Australian fast-food franchise, via the master franchise agent in India, has proved highly successful. There is scope for further such ventures if they cater to the tourist, resident expatriate, and Nepali middle-class markets. Some U.S. franchise companies have considered the Nepali market.

— DIRECT MARKETING

Direct marketing is usually not cost-effective in view of the small Nepalese market for U.S. products and generally unreliable service offered by the local post office. Direct marketing via fax has been used to a limited extent and local firms are increasingly interested in the commercial potential of the Internet. Nepal has several Internet Service Providers (ISPs), and many Nepali businesses, tourist agencies, and industries have home pages. Two satellite/cable TV networks in Kathmandu and a state-owned broadcast TV channel provide additional marketing opportunities to reach an elite audience.

— JOINT VENTURES/LICENSING

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 are defined as foreign investment made by a foreign investor. Technology transfer refers to any transfer of technology 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 Government of Nepal has not yet determined where they are to be registered so no instances of such arrangements exist at present.

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.

— STEPS TO ESTABLISHING AN OFFICE

Any foreign company that desires to undertake business in Nepal shall have the company registered after submitting the following documents required under the Company Act:

- a) An authentic copy or translation in Nepali or English of the law or license under which the company was incorporated and established.
- b) An authentic Nepali version of the memorandum and articles of the company.
- c) Full address of the head office of the company.
- d) A list of the directors, managing agents, manager, secretary, etc. of the company along with full particulars.

- e) 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.
- f) The main place where the business of the company will be or is being run in Nepal and the full address of the company's office located at such place.

— SELLING FACTORS/TECHNIQUES

Market promotion can be done by sending messages directly to the target customers via the post or messenger. Facsimile messages may be more reliable and are faster, and are increasingly relied on by local businesses for most communications. Telemarketing, exhibitions, trade shows and missions, catalog and video shows, advertising media such as newspapers, radio and television are used for market promotion. These can be done by the exporter directly or through a local agent/distributor. Direct marketing will likely not be cost-effective in view of the small size of the market. Participating in trade shows and 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.

— ADVERTISING AND TRADE PROMOTION

Newspapers, radio and television are the main advertising media used for trade promotion. Television serves only a limited section of Nepalese consumers, primarily the more affluent urban population, but newspapers and radio reach most parts of Nepal. Selection of advertising media thus depends on the target group. TV advertising would be most appropriate if the target group is the urban middle and upper classes. For a basic consumer product, advertising in newspapers and via radio is more appropriate. Advertising costs are lower for newspapers and radio than for television. Names and addresses of major newspapers, radio and television are given below. Inclusion in this list does not constitute U.S. Government endorsement.

1. The Rising Nepal (English daily)
Dharma Path
P.O. Box 23
Kathmandu, Nepal
Phone: 977-1-227493
Fax: 977-1-244428
Internet Access : <http://www.nepalnews.com.np/trn.html>
2. The Kathmandu Post (English daily)
Shantinagar, Naya Baneshwor
P.O. Box 8559
Kathmandu, Nepal
Phone: 977-1-480100
Fax: 977-1-470178
Email: kanti@kpost.mos.com.np
Internet Access : <http://www.kantipuronline.com>
3. Radio Nepal
Singha Durbar

P.O. Box 6034
 Kathmandu, Nepal
 Phone: 977-1-241921, 223910, 243569
 Fax: 977-1-221951

4. Nepal Television
 Singha Durbar
 P.O. Box 3826
 Kathmandu, Nepal
 Phone: 977-1-228436
 Fax: 977-1-227452

5. Space-Time Network
 Nepal Satellite Cable Television
 Space Time Building
 Post Box No: 8973 NPC-296
 Kamaladi
 Kathmandu, Nepal
 Phone: 977-1-437-322, 323, 324
 Fax: 977-1-437-325

6. Shangri-La Channel (P) Ltd.
 Sangharsh Chamber, Gyaneshwor
 P.O. Box 5852
 Kathmandu, Nepal
 Phone: 977-1-415299, 411137
 Fax: 977-1-416333

— PRICING PRODUCTS

When determining prices for U.S. products in Nepal, the exporter should keep in mind competition from India, which has an open border with Nepal. Chinese manufactures, mainly consumer goods such as appliances, shoes, and textiles, find a ready market in Nepal, and are imported via Tibet. Products from the European Union, Japan, South Korea, and Taiwan are also popular.

— SALES SERVICE/CUSTOMER SUPPORT

After-sales service and product guarantee are very important for customers, especially when they are buying durable products. Given long shipping times to Nepal, doubts about after-sales service and availability of spare parts affect product choice. It is, therefore, preferable to make an arrangement with the local agent/distributor for reliable after-sales service and support.

— SELLING TO THE GOVERNMENT

The Government of Nepal's fiscal regulations relating to procurement of goods and services state that goods worth up to Rs. 5,000 (\$70) can be purchased directly from the market. For goods worth between Rs. 5,000 and Rs. 150,000 (\$70 and \$2,100), procurement is to be made by inviting quotations

from at least five suppliers. For higher amounts, procurement should be made via tenders or bidding. Goods and services are generally procured from the supplier or contractor who quotes the lowest price. Notices of tender calls for major projects having sufficient lead time (a minimum of 45 days) are disseminated to U.S. businesses via the U.S. Department of Commerce Trade Opportunity Program (TOP). Many firms find the use of a local distributor or commission agent effective in dealing with sales to the Nepali government.

— PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT

In order to prevent infringement of intellectual property rights, patents and trademarks should be registered with Nepal's Department of Industries in accordance with the Patent, Design and Trademark Act, 1965. Nepal is not a signatory to any 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. Trademark registration is valid for a period of seven years and can be renewed for an additional period of seven years. Similarly, the Copyright Act of 1965 — even as amended in 1997 — offers only limited protection for copyrighted works, which must in any case be registered in Nepal to qualify for protection. New legislation covering copyrights is presently being discussed by various Ministries.

— NEED FOR A LOCAL ATTORNEY

Use of a local attorney for preparing required documents will ease unnecessary delays in the process. The U.S. Embassy can provide a list of local attorneys.

— PERFORMING DUE DILIGENCE/CHECKING BONA FIDES OF BANKS/AGENTS/CUSTOMERS

Most Nepali business bona fides cannot be checked via traditional U.S. business channels. Businesses may wish to contact the Federation of Nepalese Chambers of Commerce and Industry by fax at: 977-1-261022 or the Nepal-USA Chamber of Commerce and Industry at fax: 977-1-478020 / email nusacci@vishnu.ccs1.com.np to obtain profiles of some Nepali businesses.

CHAPTER 5 - LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

— BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES

1. Computers/Peripherals (CPT, CSF)

Nepal's overall potential as a market for U.S. exports is modest. Total U.S. exports to Nepal in Nepali FY 1998/99 amounted to only \$25 million. However, U.S. computers and peripheral equipment are highly competitive in the local market. Total annual imports of computer hardware are estimated at around \$20 million, generally involving goods transshipped through Hong Kong or Singapore. Customs statistics understate the U.S. market share, since, as in the case of computer hardware, American equipment is often imported via distributors in intermediate ports such as Hong Kong or Singapore and

is therefore not captured in official statistics.

2. Telecommunications Equipment (TEL)

Local microwave and cable TV services depend on U.S. firms for much of their equipment, as do Kathmandu's two satellite/cable TV networks. There is also demand for paging and cellular phone systems. Private paging systems are allowed, and a mobile telephone service has been established by the Nepal Telecommunications Corporation. The Nepal Telecommunications Corporation (NTC) is also expanding its land-line phone system and will continue to issue tenders for optical fiber lines, digital switching equipment, and telephone sets. Plans call for commercialization and privatization of NTC within two years. By the end of 2000, NTC's current monopoly on basic services, including long-distance services, should be ended.

3. Aircraft and Parts (AIR)

The mushrooming of private airlines in Nepal provides opportunities for the sale of short-hop passenger turboprop aircraft, including both used and new equipment. Domestic Nepalese private airlines prefer twin-engine aircraft such as the Beechcraft 1900D, Twin Otter, Avro and Dornier. The market for rotary-wing aircraft is also growing, particularly for tourism-related passenger and cargo services. The national flag carrier, the Royal Nepal Airlines Corporation (RNAC), has traditionally preferred Boeing aircraft for its international routes, but financial problems have made it difficult for the airline to purchase any new aircraft. However, RNAC has recently announced its decision to purchase five new aircraft, one wide-body and four twin-engine aircraft. RNAC is also regularly in the market for wet and dry leases. Several private international airlines have also been licensed in Nepal, but none has yet assembled the capital required for operations.

4. Water Resources Equipment/Services (WRE)

Nepal is moving ahead rapidly with a variety of public and private hydroelectric projects. The \$453 million, 144 MW Kali Gandaki A Project is already under construction, with financing from the Asian Development Bank and the Government of Japan. Also under construction is the first fully private power development project — the \$100 million, 36 MW Upper Bhote Koshi Project — by two U.S. firms, Harza Engineering and Panda Energy, and a Nepali company, Himal International Power Corporation. In prospect are the 750 MW West Seti Project, which is being developed by an Australian syndicate, and projects at the Pancheshwore and Karnali-Chisapani sites. In addition, the government has identified a set of 24 small and medium-scale projects for immediate development. If all are developed, Nepal will add approximately 5,000 MWs to its generating capacity over the next decade.

5. Autos/Light Trucks/Vans (AUT)

An electric vehicle project sponsored by USAID has led to a demand for small electric taxis and vans. The pollution caused by diesel vehicles is compelling Nepal to explore alternatives and a recent decision by the Government of Nepal to reduce the customs duty to five percent for electric vehicle parts and ten percent for electric buses, cars, and vans (compared to 110 percent plus sales tax for diesel and gasoline powered vehicles) should stimulate demand for such equipment in the Kathmandu valley.

6. Renewable Energy Equipment (REQ)

There is scope for increasing U.S. exports of solar power equipment components to Nepal. Such equipment is well suited to hilly regions, which are not connected to national or local electrical grids. Furthermore, the Danish aid agency, DANIDA, is reportedly considering a program that would subsidize the installation of 35,000 solar power units in Nepal over the next several years. Windpower units could also find applications in the agricultural sector for pumping water, and at least one local firm is contemplating a larger installation to provide power directly to the national grid.

7. Management Consulting Services (MCS)

Current investment rules make it impossible to set up and maintain business consultancy services in Nepal. When and if these rules are relaxed, there will be opportunities for entrepreneurs to set up small consultancy and market research services to service local businesses and foreign assistance projects.

8. Medical Equipment and Drugs/Pharmaceuticals (MED and DRG)

These categories grouped together traditionally have topped the list of U.S. exports to Nepal. Sales should continue to grow steadily.

— BEST PROSPECTS FOR AGRICULTURAL PRODUCTS

Given the small size of Nepal's market in terms of purchasing power and the fact that most of the population is engaged in subsistence agriculture, there is extremely limited scope for exports of U.S. food products. In FY 1998/99, total imports of agricultural products from the United States reached only about U.S. \$500,000. The statistics reveal that exports of dried fruits and nuts (almonds) and of fresh peas have been relatively strong recently. Rising incomes and the concentration of tourist facilities in the Kathmandu valley have resulted in the import of some prepared foods from the United States, mainly via brokers in Singapore and Hong Kong.

— SIGNIFICANT INVESTMENT OPPORTUNITIES

There are two main investment opportunities in Nepal: hydropower and tourism. While Nepal has some 83,000 megawatts in hydroelectric potential, less than one percent of this potential has been developed. However, agreements struck with India in 1996 and 1997, which define the terms for the joint development of hydropower projects (the Mahakali Treaty) and sanction a cross-border trade in private electric power, have opened up the Indian power market, where shortages are chronic, to producers in Nepal. There is currently one U.S.-Nepal joint venture — Bhote Koshi Power Company — working to develop a 36 MW site in Nepal. Another 60 MW project (the Khimti Khola Project, which is being completed by a Norwegian consortium) came to financial closure in early 1996. In February 1998, the Government of Nepal requested expressions of interest on 17 small and medium scale hydro-power projects. In July 2000, the government accepted proposals to develop 11 hydropower projects across the country. In addition, proposals from six more companies have been accepted to carry out feasibility studies of six other potential projects.

Nepal's rugged terrain and exotic culture have an enduring fascination for tourists. Most current U.S. direct investment in the country is concentrated in the tourism-related areas of hotels, restaurants, and casinos. Notable examples are the Radisson Hotel and the Hyatt Regency Hotel.

The Government of the United States acknowledges the contribution that outward foreign direct investment can make to the U.S. economy. U.S. foreign direct investment is increasingly viewed as a complement or even a necessary component of trade. Nearly 60 percent of total U.S. exports originate with American firms with investments abroad. Recognizing the benefits that U.S. outward investment brings to the U.S. economy, the Government of the United States undertakes initiatives, such as Overseas Private Investment Corporation (OPIC) programs, bilateral investment treaty negotiations and business facilitation programs, that support U.S. investors.

CHAPTER 6 - TRADE REGULATIONS, CUSTOMS, AND STANDARDS

— TARIFFS AND IMPORT TAXES/CUSTOMS VALUATION

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 0 to 140 percent. Live animals, fish, and most primary products are exempt from import duties. Machinery or goods related to basic needs are charged at a five percent rate. Products hazardous to health such as cigarettes and liquor are taxed at 110 percent. Goods imported into Nepal are also liable for a sales tax of 15 percent. Custom duties are generally assessed on the cost, insurance, and freight (c.i.f.) value. Sales tax is levied on c.i.f. plus customs duty.

— IMPORT LICENSES

All imports may be brought in without a license except for banned items. (See section on Prohibited Imports further in this Chapter.)

— IMPORT/EXPORT DOCUMENTATION

Documents required for shipment to Nepal include a commercial invoice, a customs declaration form, clearly marked and labeled packaging, and a certificate of origin. Similarly, exported items sent by air require a customs declaration form (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 income tax registration certificate, an airway bill, and an authorization letter.

In addition to the above, except for the airway bill, the following documents are required for surface export shipments: transport manifesto (one copy per truck), customs transit declaration, and transit declaration invoice for goods in transit via India or Bangladesh to a third-country destination. Special documentation such as visa stamps from the VISA Section of National Productivity and Economic Development Center is essential for export of ready-made garments to the United States.

— TEMPORARY ENTRY

Goods, including vehicles, machinery, and equipment, may be imported temporarily for special purposes such as domestic exhibitions or 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, action may be taken on a charge of smuggling.

— SPECIAL IMPORT PROVISIONS

Duty reductions of five or ten percent have been given to imports from the Tibet Autonomous Region of the People's Republic of China, member countries of the South Asia Association for Regional Cooperation (SAARC) and designated most favored nations.

— LABELING/MARKING REQUIREMENTS

No special labeling or marking is required by law. 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.

— PROHIBITED IMPORTS

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 and ammunition and explosives (except under import license of the Government of Nepal): a) materials used in the production of arms and ammunition; b) guns and cartridges; c) caps other than those of paper; and d) arms and ammunition and other explosives.
3. Communication equipment: wireless walkie-talkie and similar other audio communication equipment (except under import license of the Government of Nepal).
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 Government of Nepal in The Nepal Gazette.

— EXPORT CONTROLS

All products other than banned ones, or those under quantitative restriction, may be exported freely. 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 Government of Nepal from time to time. Past examples have included food grains, oilseeds, and some types of pulses (lentils). As a rule, the re-export to India of goods not

of Indian origin is prohibited.

— STANDARDS (E.G., ISO 9000 USAGE)

Nepal does not follow the ISO 9000 series. There are no standards for products other than food products imported into Nepal. Nepal has established its own standards for various food products. Importers of food products are required by law to have a sample tested by the Food Research Laboratory under the Food Act and Nepal Standard (Certification Mark) Act.

— FREE TRADE ZONES/WAREHOUSES

Nepal has not established Export Processing Zones (EPZ). 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 export products. Export-oriented industries may also enjoy bonded warehouse facilities. Raw materials can be imported via entry in a passbook without paying any custom duty or sales tax. The same value of raw materials is deducted from the passbook upon export of the finished product. The industry must also submit a bank guarantee that must be sufficient to cover applicable duties.

— MEMBERSHIP IN FREE TRADE ARRANGEMENTS

Nepal has ratified the South Asian Association for Regional Cooperation (SAARC) Agreement on Preferential Trading Arrangement (SAPTA). Under its terms, the seven SAARC nations (Nepal, Bhutan, India, Bangladesh, Pakistan, Sri Lanka, and the Maldives) have pledged to cut tariff rates on a product-by-product basis. Following the third round of trade negotiations in 1998, a total of 5000 items, from all member countries, are now entitled to preferential duty treatment in one or another of the participating countries.

In addition, Nepal will also participate in the negotiations for the establishment of a South Asian Free Trade Area (SAFTA). The draft treaty of association for this free-trade area is now being prepared under the auspices of SAARC and should be available for review and ratification by SAARC's seven-member states by October 2000.

Finally, Nepal has applied for membership in the World Trade Organization. In June 1998, it submitted its memorandum on foreign trade regime to the WTO, and held direct negotiations with the WTO working party in Geneva in May 2000, where Nepal initiated bilateral as well multilateral negotiations with other countries. It is expecting admission to the WTO by the end of 2001.

CHAPTER 7 - INVESTMENT CLIMATE

— OPENNESS TO FOREIGN INVESTMENT

The Government of Nepal welcomes foreign direct investment, but policy implementation is often distorted by bureaucratic delays and inefficiency. At present, there are 551 foreign investment projects

in Nepal, worth a total of approximately US \$950 million (according to official GON statistics). Indian ventures lead the list with about 35 percent of the total number. U.S. ventures number about 58. Japan, China, Germany and South Korea are also prominent.

Government policy changes have signaled to foreign investors that Nepal is open for business. Progress has been made in allowing private operations in some sectors that were previously government monopolies, such as telecommunications and civil aviation. Licensing and regulations have been simplified, and 100 percent foreign ownership is allowed. New banking institutions and a nascent stock exchange provide alternative sources of investment capital. Multinational investors based or looking to expand in the growing Indian market have also expressed an interest in Nepal.

Nevertheless, significant problems remain. They include: lack of direct access to seaports (currently all products for import enter through Calcutta), difficult land transport, lack of trained human resources, scanty raw materials, inadequate electricity (especially outside the Kathmandu valley), inadequate water supply, non-transparent and capricious tax administration, inadequate and obscure commercial legislation, and unclear rules regarding labor relations. Policies intended to establish a “one window policy” and simplify necessary interactions between investor and the host government have produced few results. Furthermore, a dichotomy exists between the letter of the law and the law’s implementation. Foreign investors constantly complain about complex and opaque government procedures and a working-level attitude that is more hostile than accommodating.

The government is aware of the deficiencies in Nepal’s investment climate and is slowly moving towards more investor-friendly arrangements. Policy shifts in regard to hydropower generation, for instance, has opened the sector to private development. As a result, a few sizable private sector hydropower projects have been undertaken. Additionally, the abolition of the required minimal capital investment by the Foreign Investment and Technology Transfer Act, 1996, has eliminated a significant barrier to foreign investment. However, there is occasional backsliding. The same act that eliminated the minimal capital investment requirement also closed the Nepali market to foreign investment in business and management consulting, accounting, engineering, and legal services. The recently announced hydropower policy may bring some positive changes by increasing private participation in the hydropower sector, but the results will only be seen when the proposed policy is implemented. By involving the private sector in generation, transmission, and distribution of power, the GON intends to diminish the role of Nepal Electricity Authority. The requirements of a feasibility study for projects above 5 MW to be conducted by the government, and granting licenses for production on a competitive basis, may create further obstacles to foreign investment in hydropower.

Legislation — The most significant foreign investment laws are the Foreign Investment and One Window Policy Act of 1992, the Foreign Investment and Technology Transfer Act of 1992 and 1996, the Finance Act of 2000, the Immigration Rules of 1994, the Customs Act of 1997, the Industrial Enterprises Act of 1997, the Electricity Act of 1992, the Copyright Act of 1965 and the Patent, Design and Trademark Act of 1965.

The Foreign Investment and One Window Policy Act, 1992, restates the hoped-for benefits from foreign investment, lists the acceptable forms of investment, allows for any foreign share (up to 100 percent) in any business area not on the “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, 1996, eliminates the minimal

investment requirement, clarifies rules relating to business and resident visas, exempts interest on foreign loans from tax, and makes contract terms take precedence over Nepali law for investments valued at more than Nepali rupees 500 million (approximately US \$7.1 million). The Finance Act, 2000, outlines custom duties, export service charges, excise duties, sales taxes, airfreight taxes, income taxes, and other taxes that affect foreign investment. The Immigration Rules of 1994 describe visa regulations. The Customs Act and Industrial Enterprises Act, as revised in 1997, establishes invoice-based customs valuations, eliminate many investment tax incentives, and install in their place a lower, uniform rate. The Electricity Act defines special terms and conditions for investments in hydropower development. The Copyright Act and the Patent, Design and Trademark Act define the terms and conditions surrounding intellectual property rights protection in Nepal.

Institutional Arrangements — The Investment Promotion Board (IPB), chaired by the Minister of Industry, Commerce and Supplies, is the primary government agency responsible for foreign investment. The IPB is intended to coordinate policy level institutions, to establish guidelines for economic policies, to approve or disapprove foreign investment proposals, and, if approved, to determine the investment incentives available to the proposed business.

The Department of Industry of the Ministry of Industry, Commerce and Supplies registers and classifies foreign investments. It also serves as the secretariat for the so-called “One Window Committee,” which basically manages the income tax and duty drawbacks to which some foreign investments are entitled.

Current administrative procedures do not allow for automatic approval of foreign investments. Foreign investors are required to obtain a license for any manufacturing or service sector investment, and each license request must be considered individually. On paper, investments under Nepali rupees (NRs.) 500 million (US \$7.1 million) are referred to the Department of Industry and acted upon without involving the IPB. In reality, any unusual investment proposal goes to the IPB. Foreign investors frequently complain about bureaucratic delays and lack of transparency in procuring licenses for investment. For most investments, one to six ministries other than the Ministry of Industry may review the business proposal and give their opinion prior to consideration by the IPB.

Licensing of new investments can be a time-consuming process. Some foreign investors have said that the licensing process requires a good lawyer and plenty of patience. The law mandates, however, that the investment promotion board is bound to make a licensing decision within 30 days, provided all necessary information has been submitted. At least early on in the investment process, Nepalis — exempt from the licensing process, except in the case of industries that are either related to defense, or affect the public — are at an advantage.

Eligible Sectors — Foreign investment proposals must fall under existing industry categories, which include agriculture and forestry, manufacturing, electricity (water and gas), construction, hotels and resorts, transport and communication, housing and apartments, and a restricted range of services. Service industries in which investments are not permitted include business and management consulting, accounting, engineering, and legal services. Foreign investment is also forbidden in the defense sector, in the production of alcohol or cigarettes, in “cottage industries,” in travel and trekking agencies, and in retail sales. Furthermore, the IPB will not license foreign investments that are judged to be either hazardous to general health or the environment.

The Privatization Act of 1992 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. Altogether, through the close of FY 1999/2000, fourteen state-owned corporations have been privatized and two corporations have been liquidated. Others — including the Nepal Tea Development Corporation, Himal Cement Company, and Butwal Power Company — are on the current privatization list. Nepal Telecommunications Corporation and Nepal's largest commercial bank, the Rastriya Banijya Bank, are being prepared for privatization.

Visas — Visas in Nepal define the period for which a visitor has permission to stay. 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. Some investors describe the business visa acquisition 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.

Although in 1998, the GON also began issuing five-year, multiple entry visas to resident foreign investors and their families, very few have actually been issued. In 1999, Nepal lowered its business visa fees from US \$1500 to US \$250 for a five-year visa and US \$350 to US \$100 for a one-year visa.

— CONVERSION AND TRANSFER POLICIES

The Foreign Investment and Technology Transfer Act, 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 industry are also allowed to repatriate 75 percent of their salaries, allowances, emoluments, etc. The above repatriation facilities are made available on the recommendation of the Department of Industry, which is normally provided with approval of the original investment.

However, convertibility is not so easy or well guaranteed as Nepali government announcements would indicate. An overworked and inefficient banking system is to blame. The actual experience of American and other foreign investors suggests that there are discrepancies between the government's stated policy and that policy's implementation.

For repatriation of funds from sale of shares, foreign investors apply to the Nepal Rastra (state) Bank. For repatriation of funds connected with dividends, principal and interest on foreign loans, technology transfer fees, and expatriate salaries, allowances, and emoluments, the foreign investor applies to the Department of Industry, and then to Nepal's central (state) bank, the Nepal Rastra Bank.

Foreign investors rate services provided by private banks as satisfactory but are unsatisfied by the Nepal Rastra Bank's administration of exchange regulations.

In general, Nepalis are not permitted to invest outside of Nepal. Exceptions, however, can be granted on a case-by-case basis. In 1995, a private airline was permitted to invest in a regional carrier based in Calcutta and represented the first instance of approved direct foreign investment by Nepalese nationals.

— EXPROPRIATION AND COMPENSATION

The Industrial Enterprise Act of 1992 states that “no industry shall be nationalized.” Nepal constantly reiterates this point in negotiations with private sector firms interested in the hydropower sector. There have been no cases of nationalization in Nepal nor are any anticipated.

Companies can be sealed or confiscated if they do not pay taxes in accordance with Nepali law. There are no official policies either extant or in the offing that would lead the embassy to conclude that official expropriation should be of concern to prospective investors. There have been instances in the past in which unscrupulous local partners have used the tax or regulatory system to seize control of a joint venture firm from the U.S. investor. Such cases have not involved major Nepali business houses, however.

— DISPUTE SETTLEMENT

In the event of a dispute with a foreign investor, the concerned parties are encouraged to settle the dispute through consultation in the presence of the Department of Industry. If the dispute cannot be settled in this manner, it will be referred to arbitration in Nepal according to the Arbitration Rules of the United Nations Commission for International Trade Law (UNCITRAL) for investments less than NRs. 500 million (US \$7.1 million) in value. For investments over this amount, the Government of Nepal will permit stipulation of legal jurisdiction other than Nepal in shareholder agreements and 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 be settled. Moreover, laws and regulations are unclear, and interpretation can vary from case to case.

There is also a provision for liquidation in the Company Act. Claimant priorities are: 1) government revenue, 2) creditors, and 3) shareholders. Monetary judgments are made in local currency.

Nepal has recently adhered to the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards and has updated its legislation on dispute settlement to bring its laws in line with the requirements of that convention. A new Arbitration Act, which allows the enforcement of foreign arbitral awards and limits the conditions under which those awards can be challenged, was passed by Parliament in 1998 and the Act was approved by the King on April 15, 1999. In addition, legislation permitting Nepal to enter into mutual legal assistance treaties, which will allow the enforcement of foreign judicial decisions, is being prepared by the government for submission to Parliament in 2000.

— PERFORMANCE REQUIREMENTS/INVESTMENT INCENTIVES

Recent legislation has eliminated most tax incentives, regardless of whether or not they were connected with performance requirements. Exports, however, are still favored, as is investment in certain “priority” industries. 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. Neither is there any requirement that nationals own shares, that the share of foreign equity be reduced over time

or that technology be transferred. On the other hand, Nepal does employ tax incentives to encourage industries to locate outside the Kathmandu valley, due to pollution and overpopulation concerns, as well as Nepal's interest in developing poorer parts of the country.

In general, there is no income tax on profits from exports. Customs, sales tax, and excise duties are also reimbursed within 60 days on raw materials used in the production of export items. In addition, income in certain priority industries is taxed at a concessional rate of 10 percent, as opposed to the usual 20 percent rate.

The Electricity Act of 1992 governs foreign investments in hydropower generation. The Act allows such developers an exemption from income tax for the first fifteen years of operation and a 10 percent reduction in income tax for the remaining years of a project's operation. It also provides for a flat one-percent customs rate on all construction materials, equipment and spare parts.

— RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Foreigners are free to establish and own business enterprises and engage in all forms of business activity, with the exception of a few select industries. These include the defense industry, business and engineering consultants, and legal and accounting services. In addition, the form of public participation is restricted in some areas. For instance, foreign banks have not yet been allowed to open wholly owned subsidiaries or branch operations in Nepal. Similarly, foreign insurance companies have not yet been allowed to sell life insurance or to open branch operations in Nepal, even though allowed under the Insurance Act of 1992. One foreign insurance company has had an application to open branch operations in Nepal pending for two and a half years. After an initial approval by Nepal's insurance board, the application is currently under review in Nepal's Supreme Court.

The Government of Nepal is slowly moving towards 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 these areas are being scaled back.

Nepal does not have a law to guarantee free competition or restrict unfair forms of competition. However, competitive equality is the official standard applied to private enterprises in competition with public enterprises with respect to access to markets, credit, and other business operations. That said, there are special subsidies and preferred credit arrangements for individual public and private companies in select sectors, such as rural electrification, fertilizer importation, and the provision of agricultural credit.

— PROTECTION OF PROPERTY RIGHTS

Nepal's Contract Act of 1966 is rudimentary and grossly handicapped. Private contracts are not regularly enforced, either by the courts or the government. The Nepalese government drafted and passed a new Contract Act in 1999; it is waiting for assent by the King.

Intellectual property rights protection is also inadequate. Patent registration, for instance, is valid for only seven years and can only be extended twice for an additional total period of fourteen years. In addition, Nepal does not automatically recognize patents awarded by other nations. The copyright law

is similar; it does cover most modern forms of authorship and does provide adequate periods of protection. However, the new law still requires that products be registered in Nepal to receive protection. Enforcement is also weak, with the result that almost all software, and most sound or video recordings now circulating in Nepal, have been pirated.

New legislation on intellectual property rights is being considered to bring Nepal into compliance with international norms as it pursues membership in the World Trade Organization.

Trademarks must be registered in Nepal to receive protection. Once registered, trademarks are protected for an initial period of seven years. Enforcement, however, is very poor.

— TRANSPARENCY OF THE REGULATORY SYSTEM

Foreign investors in Nepal face a non-transparent legal system. Firms complain that even the most basic legal procedures are not quick and routine. There is also a general reluctance of the bureaucracy to accept legal precedents. As a consequence, businesses are often forced to re-litigate issues that have been previously settled. Furthermore, recent legislation banning foreign investment in financial, legal, and accounting services has made it difficult for investors to find help to work 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 very cumbersome and that the protective labor laws make it very difficult to bring into Nepal skilled specialists such as pilots, engineers, or architects.

— EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Credit is generally allocated on market terms, though 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 lacking in business ethics. Under the circumstances, published financial reports are unreliable and investors are better advised to rely on general business reputation except in a very few cases in which companies have applied international accounting standards.

The Nepali banking system is small, fragmented, and, in some individual cases, plagued by bad loans. Banking system assets total approximately US \$2.34 billion. Banking system capital totals less than US \$96 million. Foreign commercial lending is also scarce and expensive. At the moment, 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. Only direct investment is permitted. Stocks for a few industrial firms are listed on the Nepal Stock Exchange. However, foreign institutions may not purchase more than 25 percent of the equity of firms,

and then only in specified sectors such as tourism and power. Lack of transparency and regular reporting of reliable corporate information also present problems for foreign investors in equity markets.

There are no legal provisions to defend against hostile takeovers.

— POLITICAL VIOLENCE

There have been no civil disturbances targeted at foreign investors in the past five years. Public demonstrations and strikes are popular forms of political expression in Nepal and may occur on short notice. These demonstrations are usually non-violent and not directed at foreigners. During general strikes, many businesses close for one-two days and transportation and city services may be disrupted. These strikes usually result in little or no damage to private property.

A violent Maoist insurgency, which was initially isolated in the midwestern districts of Nepal, has spread out in many other parts of the country, causing a serious security threat. It has claimed approximately 1400 lives since it began in February 1996. The violence has not affected the Kathmandu valley to a great degree, but foreigners, and particularly aid workers, in the midwestern districts of Rolpa, Rukum, Jajarkot, Salyan and Gorkha have been threatened and, occasionally, attacked. There are several incidents of Maoist insurgents attacking establishments of NGOs and INGOs working in different parts of Nepal. In the summer of 2000, Maoist insurgents exploded a bomb in a foreign owned joint venture factory in the Terai region, causing over \$1 million worth of damage and shutting down one production line for several months. Maoists have also recently increased their rhetoric against foreign-owned industries operating in Nepal.

In view of the potential for violence, the U.S. Embassy currently forbids travel of U.S. government employees to or through Rukum, Rolpa, Jajarkot, Salyan, Kalikot and Sindhuli districts. The Department of State cautions Americans to avoid travel to or through these districts. In addition, the Embassy restricts U.S. Government employee travel to or through Dolpa, Dang, Sindupalchok, Kavre Palanchok, Surkhet, Pyuthan, Dolaka, Gorkha, and Ramechaap districts. Only essential travel is permitted in these areas. American citizens traveling in these districts are advised to exercise extreme caution. Maoist groups have threatened to take actions against non-governmental organizations (NGOs) they perceive to have an American affiliation. American NGOs working in Nepal have been attacked by Maoists, in at least one case explicitly because of the organization's association with the United States. Because of frequently changing security conditions, U.S. government employees are periodically forbidden from road travel outside the Kathmandu valley, particularly when the likelihood of violence is high, such as during elections or on Maoist anniversary dates. The U.S. Embassy recommends that road travel outside the Kathmandu valley be undertaken only during daylight hours. American citizens are strongly urged to check with the U.S. Embassy upon arrival or before traveling domestically to receive the latest information about the security situation, since the potential for violence now extends to areas that have in the past been relatively free of such activity. The latest travel information can be found on the Internet at <http://travel.state.gov> under Nepal.

— CORRUPTION

U.S. firms and other foreign investors have identified pervasive corruption as an obstacle to maintaining and expanding their direct investments in Nepal. There are also frequent allegations of corruption by Nepalese government officials in the distribution of permits and approvals, in the procurement of goods and services and in the award of contracts.

Combating corruption is the responsibility of the Commission on the Investigation of Abuse of Authority and of the Special Police Department under the Ministry of Home Affairs. The Parliamentary Public Accounts Committee has also played an active role in terms of publicizing cases of misconduct on the part of GON officials.

Investigative commissions and committees are often formed to look into major cases of corruption that come to light. However, results to date have been disappointing. Officially, giving or accepting a bribe is a criminal act, punishable by imprisonment for one to six years, a fine, or both, depending on the degree of offense committed. However, few cases are investigated or prosecuted.

— BILATERAL INVESTMENT AGREEMENTS

Nepal has signed bilateral investment treaties with India, Britain, Germany and Norway.

— OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

OPIC is free to operate in Nepal without restriction. OPIC is empowered to offer its “extended risk guaranty” facility to prospective U.S. investors in Nepal. Nepal is also a member of the Multilateral Investment Guarantee Agency (MIGA), which it joined in 1993.

— LABOR

Nepal lacks a skilled and educated labor force. The overall literacy rate is only 33 percent and only 18 percent for females. Vocational and technical training is poorly developed and the national system of higher education is severely taxed by the large enrollments. Many secondary and college graduates are unable to find employment in positions commensurate with their education. The employment of foreigners is also severely restricted. Under current law, the Department of Immigration must approve the employment of foreigners for all positions except those at the very top of a company or project.

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. Despite the political transformation in 1990, trade unions are still developing their capacity to organize workers, bargain collectively, and conduct worker education programs. Union participation in the formal sector is significant, but it accounts for only a small portion of the total labor force. In 1992, Parliament passed the Labor Act and Trade Union Act, and formulated enabling regulations. However, the government has not yet fully implemented these laws. The laws permit strikes, except by employees in essential services such as water supply, electricity, and telecommunications. 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. The government does not restrict unions from joining international labor bodies. Several trade federations and union organizations maintain a variety of international affiliations. While officially there is no government interference in union registration, unions have complained of registration difficulties when hostile political parties are in power.

Industrial actions are infrequent. However, efforts at collective bargaining are often hampered by unrealistic laws such as the Bonus Act, which provides that workers must receive 10 percent of yearly profits in bonuses regardless of productivity improvements.

The Child Labor Prohibition and Regularization Act of 2000 prescribes conditions for 14- to 16-year-old laborers, and prohibits employees under 16 years old to work in dangerous industries.

— FOREIGN TRADE ZONES/FREE PORTS

Nepal has not established any Foreign Trade Zones, Free Ports or Export Processing Zones. However, any industry exporting 90 percent or more of its products is entitled to import raw materials and capital goods without payment of any custom duties, excise taxes or sales taxes. For qualifying industries, materials can be imported via an entry in a passbook. The same value of materials is deducted from the passbook upon export of the finished product without payment of taxes of any kind. Bonded warehouse arrangements are also available.

— FOREIGN DIRECT INVESTMENT STATISTICS (AS OF MARCH 2000)

Total No. of Projects	551
Agriculture and Forestry	12
Manufacturing	282
Electricity Water and Gas	8
Construction	13
Hotel and Resort	133
Transport and Communication	19
Housing and Apartment	12
Service Industries	72
Total Project Cost:	US \$953.62 million
Total Fixed Cost:	US \$825.78 million
Total Foreign Investment:	US \$225.38 million
Total Employment Generated:	75,481

Source: Foreign Investment Division, Department of Industry, HMG/Nepal.

Note: As of March 2000, India was far and away the most important foreign investor in Nepal, with over 35 percent of the projects. It was also involved in five of the ten largest foreign enterprises. In terms of number of investments, Japan is second; the United States, third; China, fourth; Germany, fifth; South Korea, sixth; and the United Kingdom is in seventh place. Major private U.S. investments now underway include the Upper Bhote Koshi hydroelectric project and the Hyatt Regency Kathmandu hotel.

— DESCRIPTION OF BANKING SYSTEM

Two large banks dominate the banking sector. Nepal Bank, Ltd. is 41 percent government-owned. Rastriya Banijya Bank is 100 percent government-owned, but is troubled by bad loans and is now lending very little to new customers. Together, Nepal Bank Ltd. and Rastriya Banijya Bank account for 60 percent of the entire banking system's deposits and loans.

In the 1980's, Nepal opened up the commercial banking sector for foreign participation. As a result, several joint venture banks such as Nepal-Arab Bank (NABIL Bank, now a Nepal-Bangladesh joint venture), Indosuez Bank, Grindlays Bank, State Bank of India, Bank of Kathmandu (Nepal-Thai joint venture), Everest Bank, Nepal Sri Lanka Merchant Bank and Nepal Bank of Ceylon were established. A large number of finance companies have also been established.

In 1994, the government expanded the role of the Stock Exchange by allowing private brokers to operate. The volume of trading subsequently increased dramatically but has since stabilized. In June 1996, the Government of Nepal 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 AFFECTING TRADE

The Nepali rupee is convertible for all current account transactions. Earners of foreign exchange are also permitted to retain 100 percent of those earnings and to open a foreign exchange account in Nepal to hold those earnings. However, an approval from the Nepal Rastra Bank is required for payments of any kind to any person living outside of Nepal. Approval is also required to draw, accept or negotiate any bills of exchange, promissory notes or loans, if the payee is a person living outside of 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 71 Nepali rupees. The currency value is pegged to the Indian rupee at a rate of approximately IR 1.0 = NR 1.60. The rate against the Indian rupee is adjusted periodically.

— GENERAL AVAILABILITY OF FINANCING

The government has recently decided to permit foreign institutional investors to own up to 25 percent of the shares of listed firms in certain sectors such as hydropower and tourism. Promoters can sell their shares and repatriate capital. Banks are only willing to lend short term but will consider loans with terms up to five years. As of June 1999, the total amount of outstanding loans of commercial banks to the private sector was US \$1.4 billion. However, it is difficult to borrow in excess of \$20 million from any combination of banks in Nepal. Similar liquidity constraints restrict the capital that can practically be raised on the Nepal Stock Exchange through any one public issue to less than \$5 million.

— HOW TO FINANCE EXPORTS/METHODS OF PAYMENT

For all intents and purposes, the only method of financing imports is a Letter of Credit (L/C). The

Government has announced plans to open an export-import bank, but nothing has yet been accomplished.

— AVAILABLE EXPORT FINANCING AND INSURANCE

Agreements with the United States Eximbank, OPIC and IFC are in place. There are also numerous bilateral financing and insurance arrangements. The World Bank and the Asian Development Bank are both active in Nepal. Both provide loan and grant financing for public projects, and loan financing for local companies.

— AVAILABILITY OF PROJECT FINANCING

The U.S. Eximbank 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 updated risk rating. The Overseas Private Investment Corporation (OPIC) can make limited financing available to projects with U.S. investment interest. The U.S. Trade and Development Agency (TDA) can fund feasibility studies for projects with significant commercial implications for exports of U.S. goods and services. In the case of the Upper Bhote Koshi Hydroelectric Project, TDA provided a US \$500,000 grant for completion of a final feasibility study. Both the World Bank and the Asian Development Bank are active in lending for development activities including infrastructure projects such as roads, telecommunications, and hydroelectric power.

— BANKS WITH CORRESPONDENT U.S. BANKING ARRANGEMENTS

Nepal Bank Limited
Ms. Bhawani Devi Sharma, General Manager
Nepal Bank Bldg., Dharma Path
Kathmandu, Nepal
Phone: 977-1-222397, 221185, Fax: 977-1-222383

Rastriya Banijya Bank
Mr. Punya Prasad Dahal, Executive Chairman
Tangal
Kathmandu, Nepal
Phone: 977-1-252595, 413800, Fax: 977-1-220129

Himalayan Bank Ltd.
Mr. Prithvi Bahadur Pandey, Executive Director
Tridevi Marg, Thamel
Kathmandu, Nepal
Phone: 977-1-227749, 250201, Fax: 977-1-222800

Nepal-Arab Bank Limited
Mr. D.C. Khanna, Executive Director
Kanti Path
Kathmandu, Nepal
Phone: 977-1-430427, 420404, Fax: 977-1-430427

Nepal Grindlays Bank Limited
Mr. Robert Arnold Coughlin, General Manager
Naya Baneshwor
Kathmandu, Nepal
Phone: 977-1-254002, 246715, Fax: 977-1-226762

Nepal Indo-Suez Bank Limited
Mr. Michel Courzaret, Chief Executive Director
Durbar Marg
Kathmandu, Nepal
Phone: 977-1-228229, 228231, Fax: 977-1-228927

Nepal SBI Bank Limited
Mr. Moti Chanda Singh Yadav, Managing Director
Durbar Marg
Kathmandu, Nepal
Phone: 977-1-435516, 435613, Fax: 977-1-435612

Nepal-Bangladesh Bank Ltd.
Mr. Kazi Khalilur Rehman, Managing Director
Ramrukmani Sadan, Ramshah Path
P.O. Box 9062
Kathmandu, Nepal
Phone: 977-1-419297, 419206, Fax: 977-1-410644

Bank of Kathmandu Ltd.
Mr. Manoj Goel, Executive Vice President
Kamal Pokhari
P.O. Box 9044
Kathmandu, Nepal
Phone: 977-1-418068, 421552, Fax: 977-1-418900

Everest Bank Limited
Mr. Surendra Singh Bhandari, Chief Executive
Naya Baneshwor
Kathmandu, Nepal
Phone: 977-1-482578, 481018, Fax: 977-1-482263

Nepal Sri Lanka Merchant Bank Ltd.
Mr. Ved Man Singh Malla, Managing Director
P.O. Box 12248
NB Building, Bagbazar
Kathmandu, Nepal
Phone: 977-1-227555, 246109, Fax: 977-1-240647

Nepal Bank of Ceylon Ltd.

Mr. U. O. Jayaratne, Managing Director
P.O. Box 12559
Bagbazar
Kathmandu, Nepal
Phone: 977-1-246105, 227415, Fax: 977-1-244610

CHAPTER 9 - BUSINESS TRAVEL

— BUSINESS CUSTOMS

The main language of business is Nepali. However, many businessmen can speak both Hindi and English. A majority of the population follows the Hindu religion. The society has broad ethnic, linguistic, and cultural diversity. Traditional and conservative in nature, the Nepalese are congenial people who take pride in their national heritage. Business ties, as in much of Asia, are often tied to commonalities. Foreigners must be prepared to get the proper introductions and spend the proper amount of time on confidence building before entering into business negotiations.

— TRAVEL ADVISORY AND VISAS

There have been no civil disturbances targeted at foreign investors in the past five years. Public demonstrations and strikes are popular forms of political expression in Nepal and may occur on short notice. These demonstrations are usually non-violent and not directed at foreigners. During general strikes, many businesses close for one-two days and transportation and city services may be disrupted. These strikes usually result in little or no damage to private property.

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In view of the potential for violence, the U.S. Embassy currently forbids travel of U.S. government employees to or through Rukum, Rolpa, Jajarkot, Salyan, Kalikot and Sindhuli districts. The Department of State cautions Americans to avoid travel to or through these districts. In addition, the Embassy restricts U.S. Government employee travel to or through Dolpa, Dang, Sindupalchok, Kavre Palanchok, Surkhet, Pyuthan, Dolaka, Gorkha, and Ramechaap districts. Only essential travel is permitted in these areas. American citizens traveling in these districts are advised to exercise extreme caution. Maoist groups have threatened to take actions against non-governmental organizations (NGOs) they perceive to have an American affiliation. American NGOs working in Nepal have been attacked by Maoists, in at least one case explicitly because of the organization's association with the United States. Because of

frequently changing security conditions, U.S. government employees are periodically forbidden from road travel outside the Kathmandu valley, particularly when the likelihood of violence is high, such as during elections or on Maoist anniversary dates. The U.S. Embassy recommends that road travel outside the Kathmandu valley be undertaken only during daylight hours. American citizens are strongly urged to check with the U.S. Embassy upon arrival or before traveling domestically to receive the latest information about the security situation, since the potential for violence now extends to areas that have in the past been relatively free of such activity. The latest travel information can be found on the Internet at <http://travel.state.gov> under Nepal.

Medical care is extremely limited and generally is not up to Western standards. Serious illness often requires evacuation to the nearest adequate medical facility (in Singapore, Bangkok or New Delhi). Doctors and hospitals 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 on trek in remote areas often require rescue by helicopter. The cost is typically US \$3,000 to \$10,000. For this reason, the U.S. Embassy strongly recommends visitors obtain travel insurance to cover such emergencies.

The most prevalent illnesses encountered by foreign visitors are respiratory infections, allergies, and gastrointestinal infections due to ingesting contaminated food and water. 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 can be obtained from the Centers for Disease Control (CDC) and Prevention's International Traveler's Hotline 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>.

Although the rate of violent crime is low in Kathmandu, relative to comparably sized American cities, street crime is prevalent in Kathmandu as well as in other areas in Nepal frequented by foreigners. To avoid falling victim to crime, visitors should take prudent safety precautions. Visitors should avoid walking alone after dark and carrying large sums of cash or wearing expensive jewelry. In addition, visitors should consider exchanging money only at banks and hotels and limiting shopping to daylight hours. Valuables should be stored in the hotel safety deposit box and should never be left unattended in hotel rooms. Travelers should be especially alert at or near major tourist sights where most pick pocketing occurs. Passports and cash should be carried in a protected neck pouch — not in a backpack. The loss or theft of a U.S. passport should be reported immediately to local police and to the U.S. Embassy.

Useful information on safeguarding valuables, protecting personal security and other matters while traveling abroad is provided in the Department of State pamphlets, "A Safe Trip Abroad" and "Tips for Travelers to South Asia." They are both available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

U.S. citizens are subject to the laws and legal practices of the countries in which they are traveling. While drugs are often readily available from street vendors in some parts of Kathmandu, penalties for possession, use or trafficking in illegal drugs are strictly enforced. Visitors arrested for drug offenses

can expect to wait in jail for weeks before their cases are concluded. Convicted offenders can expect jail sentences and fines.

American citizens should be extremely cautious traveling overland in Nepal, especially by bus. In general, roads are in very poor condition and lack basic safety features. Many mountain and hill roads are impassable during monsoon season (June-September) due to landslides, and are hazardous even in the best weather. Visitors are cautioned to avoid traveling on night buses — fatal accidents are frequent. In the Kathmandu valley, roads are congested. Not only is traffic badly regulated, the volume of vehicles on the roads is increasing by 15 percent a year. Many drivers are neither properly licensed nor trained. Vehicles are poorly maintained; sidewalks and pedestrian crossings are non-existent in many areas; and drivers do not yield the right of way to pedestrians. Of the 4,500 traffic-related deaths in 1997, two-thirds were pedestrians.

Travelers occasionally report immigration difficulties in crossing the Nepal-Tibet border overland in either direction. U.S. citizens planning to travel to Tibet from Nepal may contact the U.S. Embassy in Kathmandu for current information on the status of the border crossing points.

As there is no direct commercial air service between the U.S. and Nepal, the U.S. Federal Aviation Administration (FAA) has not assessed Nepal's Civil Aviation Authority for compliance with international aviation safety standards. For further information, travelers may contact the Department of Transportation within the U.S. at 800/322-7873, or visit the FAA Internet home page at <http://www.faa.gov/avr/iasa.htm>. The U.S. Department of Defense (DOD) separately assesses some foreign air carriers for suitability as official providers of air services. For information regarding the DOD policy on specific carriers, travelers may contact the Pentagon at 703/697-7288.

U.S. citizens are encouraged to register at the U.S. Embassy in Kathmandu and to obtain updated information on travel and security in Nepal. See Appendix E for U.S. Embassy contact information.

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 single-entry tourist visa for a stay of up to 60 days is issued at ports of entry upon arrival as well as from Nepalese diplomatic missions abroad for US \$30.

Re-entry visa fees for tourist visas vary with the number of re-entries and duration of stay requested. Visitors, who wish to obtain the facility of single, double or multiple re-entry, can get it by paying an additional US \$25, \$40 and \$60 respectively.

A visitor who has already visited Nepal with a tourist visa and who intends to come again within 150 days of the same visa year can obtain an entry visa by paying US \$50 for 30 days at the entry points or at Royal Nepalese diplomatic missions abroad. In addition, visitors who wish to stay for more than 60 days in Nepal can extend their tourist visa for 30 days by paying the equivalent of US \$50 in Nepalese currency to the Department of Immigration.

Multiple-entry business visas for one and five years can be obtained from the Department of Immigration, upon the recommendation of Ministry of Industry, by paying the equivalent of US \$100 and \$250, respectively, in Nepalese currency.

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

— HOLIDAYS

A. National Holidays (2000)

Prithvi Jayanti	January 11
Martyr's Day	January 30
Basanta Panchami	February 10
National Democracy Day	February 19
Women's Day	March 8
Fagu	March 19
Ghode Jatra	April 4
Chaitrastami & Ram Nawami	April 12
Nepali New Year's Day	April 13
Law Day (Courts only)	May 8
Buddha Jayanti	May 18
Janai Purnima	August 15
Gai Jatra	August 16 (Kathmandu valley only)
Krishnastami	August 22
Tij (For women only)	September 1
Rishipanchami	September 2
Indra Jatra	September 12 (Kathmandu valley only)
Ghatasthapana	September 28
Dashain *	October 4-12
Tihar	October 26-29
Chhath	November 2 (In districts where it is observed)
Constitution Day	November 8
HM The King's Birthday	December 29

B. National Holidays (2001) *

National Unity Day	January 11
Lhosar	January 25 (Concerned employees only)
Basanta Panchami and Martyr's Day	January 29
National Democracy Day	February 18
Mahashivaratri	February 21
Women's Day	March 8
Fagu (Hill Districts)	March 9
Fagu (Terai Districts)	March 10
Ghode Jatra	March 24 (Kathmandu valley only)
Chaitrastami	April 1
Ramnawami	April 2

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

— WORK WEEK

All government offices and banks operate a five-day work week from Monday to Friday. Typical intended business hours are 9 a.m. - 5 p.m. While the aspect is gradually changing, you will find most businesses (including stores) closed on Saturday.

— BUSINESS INFRASTRUCTURE

The country has only some 8,586 kilometers of motorable roads (of which 3,665 are navigable in fair weather only) and surface travel is difficult, especially so during the June-September “monsoon” rainy season. In addition to the national carrier, Royal Nepal Airlines Corporation, six private firms offer helicopter or fixed-wing air service within the country to a number of locations. International calls and fax facilities are readily available but can be expensive. AT&T now has a local access number, however other U.S. calling card services are not yet available. Nepal has a wide variety of hotels ranging from five-star to budget; it is also possible to rent apartments and homes.

U.S. business travelers are encouraged to obtain a copy of the “Key Officers of Foreign Service Posts: Guide for Business Representatives” available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402; Telephone: 202/512-1800; Fax: 202/512-2250, or available on the Internet at <http://www.state.gov>. Business travelers to Nepal seeking appointments with U.S. Embassy Kathmandu officials should contact the Commercial Section in advance. The Commercial Section can be reached by Telephone at 011-977-1-411613; Fax at 011-977-1-419963, or Email at amemb@col.com.np

— TEMPORARY ENTRY OF GOODS

Goods, including vehicles, machinery, and equipment, may be imported temporarily for special purposes such as domestic exhibitions or 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, action may be taken on a charge of smuggling.

Foreigners are allowed to bring a laptop computer into Nepal without paying any customs duties, irrespective of the purpose of their visit and duration of stay in Nepal. However, such computers cannot be sold in Nepal unless customs duty has been paid.

CHAPTER 10 - ECONOMIC AND TRADE STATISTICS

THE DOMESTIC ECONOMY

ECONOMIC INDICATORS - NEPAL

(In millions of U.S. dollars unless otherwise noted and for Nepali fiscal years ending July 15)

	97/98	98/99	99/00
GDP	4,267	4,822	5,267
GDP Growth Rate	2.3 percent	4 percent	6 percent
GDP Per Capita	217	225	242
Govt. Spending (Pct of GDP)	19.37	18.20	18.62
Inflation (Pct of CPI)	4.0	9.6	3.1
Foreign Exchange Reserves	712	1093	1291
(Months of Import Cover) 7.1		11.0	10.5
Foreign Debt (end of FY)	2,167	2,908	2,580
Debt Service Ratio (Pct of exp.)	13.69	14.64	15.20
Avg. Exchange Rate (NRs/US\$)	67.90	67.90	68.90
U.S. Assistance	25	24	24

TRADE

Exports (F.O.B.)	405	525	708*
Imports (c.i.f.)	1,310	1,289	1,509*
U.S. share of Imports (pct)	1.53	1.43	N/A
U.S. share of Exports (pct)	25.93	26.57	N/A

MAIN EXPORTS: Hand-knotted woolen carpets, ready-made garments, soap products and raw hides.

MAIN IMPORTS: Wool, machinery and transport equipment, chemicals and drugs.

Note: U.S. exports to Nepal are understated due to warehousing and distribution from Singapore and Hong Kong.

* Exports (F.O.B.) and Imports (c.i.f.) figures for FY 99/00 are estimated on the basis of currently available data, which is for 8 months only.

CHAPTER 11 - U.S. AND COUNTRY CONTACTS

— U.S. EMBASSY TRADE RELATED CONTACTS

John Dyson, Political/Economic Officer

Or

Tapas K. Gupta, Economic/Commercial Specialist

U.S. Embassy

P.O. Box 295, Panipokhari, Kathmandu
Nepal
Tel: 977-1-411179
Fax: 977-1-419963
Email: DysonJA@state.gov
GuptaTK@state.gov
Website: <http://www.south-asia.com/USA/>

U.S. Mailing Address:
U.S. Embassy Kathmandu
Department of State
6190 Kathmandu Place
Washington, D.C. 20521-6190

— BILATERAL CHAMBER OF COMMERCE

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

— NEPAL TRADE AND INDUSTRY ASSOCIATIONS

Federation of Nepalese Chambers of Commerce & Industry (FNCCI)
Tel: 977-1-262061, 262007, Fax: 977-1-261022

Cargo Agents Association of Nepal
Tel: 977-1-410403, Fax: 977-1-419858

Handicraft Association of Nepal
Tel: 977-1-245467, 244231, 243015, Fax: 977-1-222940,
Email: han@wlink.com.np

Central Carpet Industries Association of Nepal
Tel: 977-1-413135, 422729, Fax: 977-1-422891

Freight Forwarders Association of Nepal
Tel: 977-1-411764

Garment Association of Nepal
Tel: 977-1-482691, 481773, Fax: 977-1-482173

Management Association of Nepal
Tel: 977-1-224475, Fax: 977-1-240475

National Association of Travel Agents
Tel: 977-1-418661, Fax: 977-1-418646

Nepal Foreign Trade Association
Tel: 977-1-223784, Fax: 977-1-228562

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

Hotel Association of Nepal
Tel: 977-1-412705, Fax: 977-1-415984

— OFFICES OF GOVERNMENT OF NEPAL

Ministry of Finance, Hari Bhawan, Kathmandu
Tel: 977-1-259880, 259809, Fax: 977-1-259891

Ministry of Industry, Commerce & Supplies, Singha Durbar, Kathmandu
Tel: 977-1-226686, Fax: 977-1-220319

Ministry of Tourism & Civil Aviation, Singha Durbar, Kathmandu
Tel: 977-1-225870, 28840, Fax: 977-1-227758

Ministry of Information & Communications, Singha Durbar, Kathmandu
Tel: 977-1-220150, 227525, Fax: 977-1-221729

Trade Promotion Center, Pulchowk, Lalitpur
Tel: 977-1-525716, 525348, 525898, 525362, Fax: 977-1-525464

Nepal Tourism Board, Bhrikuti Mandap, Kathmandu
Tel: 977-1-247037, Fax: 977-1-227281

CHAPTER 12 - MARKET RESEARCH

The following research reports are available from the Nepal-USA Chamber of Commerce and Industry.

“Hydropower Opportunities in Nepal,” April 1996

“Marketing to Nepal,” October 1996

“Guide to Doing Business in Nepal,” July 2000

“On-Line Commercial Library,” available on U.S. Embassy Kathmandu’s web page at <http://www.south-asia.com/USA/>

CHAPTER 13 - TRADE EVENTS

HIMALAYAN EXPO 2001 — will be held in Kathmandu in April 2001. Himalayan Expo is the only business event of its kind in Nepal and is gaining stature as a regional trade show. The show is increasingly business-oriented and was visited by some 30,000 businesses and 55,000 general visitors in 2000. It is to be recommended for market promotion purposes, especially to introduce new products to Nepal. A local promoter has organized the annual event since 1990. The Embassy has sponsored “USA Pavilions” at the show since 1994.