



GOVERNMENT OF NEPAL

MAJOR POLICY REFORMS



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A PROMISING INVESTMENT DESTINATION

BACKGROUND

After the historic political transformation followed by successful completion of three-tire elections that established a stable government, Nepal is now at an important juncture of undertaking much-needed socio-economic transformation. The government has adopted a long-term goal of “Prosperous Nepal, Happy Nepali” and identified key socio-economic development agendas, such as ensuring jobs for working-age population, modernize agriculture, utilization of energy, infrastructure development, particularly roads and tourism, among others.

Though, the government has been making efforts to mobilize domestic resources to finance the development initiatives, the country faces huge constraints of resources and relevant technologies. Domestic resource alone is insufficient to materialize the development aspirations the government has set. So, the country needs a huge amount of foreign investment to explore the immense investment opportunities available in the country.

In order to make a Nepal a promising land of investment opportunities in the region by ensuring the most conducive environment for foreign investment and healthy returns to the investors, the government, over the years, has made many bold policy reforms. Highlights of the reforms have been presented below.

1

PUBLIC PRIVATE PARTNERSHIP AND INVESTMENT ACT, 2019

- Formation of Investment Board, an autonomous body, to facilitate mega FDI infrastructure projects
- Chaired by the Prime Minister, the Investment Board, which also includes relevant ministers and the heads of major government agencies, is mandated to deal with
- Investment of over NRs 6 billion (US\$ 54.54 million @ exchange rate of NRs 110 per dollar as on March 23, 2019) in sectors other than hydropower
- Hydropower projects of over 200 MW of installed capacity
- Establishment of separate Public Private Partnership Unit and Investment Unit
- Provision of viability gap funding for construction, operation and expansion
- Provision of an effective and one stop service center with authority to issue survey license, signing MoU and agreements, and granting investment approval, among others

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FOREIGN INVESTMENT AND TRANSFER OF TECHNOLOGY ACT, 2019

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

3

SPECIAL ECONOMIC ZONE ACT (FIRST AMENDMENT), 2019

- Private sector allows to develop and operate SEZ
- Industry operating inside SEZs are allowed to export 60 percent of total production
- Provision of an effective one window unit to provide all relevant services and facilities, such as
 - › Industry registration
 - › Full-fledged customs services
 - › Company registration
 - › Provision of services and facilities as per the SEZ Act
 - › PAN registration as per IRD's coordination
 - › Provision of Certificate of Production
 - › Processes related to Passport
 - › Work permit approval for labor
- Strikes and protests are strictly prohibited within the SEZ.

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HEDGING REGULATIONS, 2019

- Hedging facility is available for
- Hydro-electric projects with capacity of 100 MW or more
- Construction of transmission lines with length more than 30 km & capacity of 220 kV or more
- Construction of rail, mono, metro, railways with length more than 10 km.
- Construction of fast track with length more than 50 km
- Any other projects prescribed by Nepal Government, Council of Ministers



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COMPANY ACT, 2017

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

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LABOR ACT, 2017

- Flexibility in hiring for different terms as per the employer's requirements.
- Adaptation of "No work, no pay" principal
- Interns and trainees have been recognized as employees.
- Simplified provision for work permit to foreign nationals in executive and other positions
- Mandatory provisions of employment contracts for all types of employment.
- Foreign nationals employed in Nepal are allowed to repatriate their income in convertible foreign currency.
- Maximum overtime has been increased to 24 hours a week from 20 hours a week
- Contributory social security provision for employees
- Mandatory provision of accident and health insurance policies for all employees.
- Provision for disciplinary in case of misconduct of sexual harassment
- Prior approval of Department of Labor is not required to retrench employees.
- Strikes that obstruct causes the organization's loss are prohibited.

7

INDUSTRIAL ENTERPRISES ACT, 2016

- Classification of industry on the basis of fixed asset investment and nature of business
- “No work, no pay’ provision to restrict illegal strikes
- One stop service
- Allows to import goods form foreign parent company for market development of new goods
- Allows to hire foreign nationals in a high-level managerial position
- Industries are required adopt environment standards
- Contract manufacturing for supply of goods and services is allowed
- Provides various fiscal incentives

8

ENVIRONMENT PROTECTION RULES (5TH AMENDMENT), 2017

Provisions of not requiring supplementary Environment Impact Assessment (EIA) if the changes in design

- Is within the affected area as defined in the approved EIA,
- Increase in forest area is less than 10 percent,
- Increase of number of people to be resettled is not more than 100; and
- There is no substantial impact on overall environment and biodiversity.

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LAND RELATED REGULATIONS

FOREST ACT, 1993

- While using the government (forest) land for project development, developers have been given an option either to provide replacement land or cash at replacement cost.

RELAXATION IN LAND OWNERSHIP CEILING SET AS PER LAND ACT ,1964

- Developer can procure land as mentioned in the Detail Project Report (DPR) which can now be approved by the relevant Ministry itself and do not have to go to the Council of Ministers

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HYDROPOWER PROJECTS RELATED LAWS

NEPAL ELECTRICITY REGULATORY COMMISSION:

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REVISED PPA RATES: The government floats PPA rates of ROR, PROR and Storage Projects effective from April 2017, including PPA in dollar currency for foreign investment projects.

CROSS-BORDER POWER TRADING ARRANGEMENT:

A guideline issued by Central Electricity Regulatory Commission of India opened huge prospects of power trade between Nepal and India by using Indian transmission lines.

MOU ON BIMSTEC GRID INTERCONNECTION:

In August 2018, a MoU on BIMSTEC Grid Interconnection was signed to initiate harmonization of technical, planning and operational standards for removing barriers to grid interconnections.

MOU WITH BANGLADESH: In August 2018, the Governments of Nepal and Bangladesh signed a MoU to facilitate investment and development of power generation projects and energy trade for mutual benefit.

TRANSMISSION SYSTEM MASTER PLAN:

The Transmission System Master Plan for the period from 2015 to 2035 envisions clustering of hydro-powers to evacuate power along the river corridor and presents a reliable high-tension network for the purpose of power export to India.

POWER TRADE AGREEMENT WITH INDIA:

The governments of Nepal and India concluded a Power Trade Agreement (PTA) that enables G2G cooperation, on a number of power sector activities including transmission interconnections, grid connectivity, power exchange and trading.



NEPAL INVESTMENT SUMMIT 2019 SECRETARIAT

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