

ECONOMIC POLICY NETWORK

Policy Paper 2

TAX POLICY FOR EXPORT PROMOTION

(A study on Status, Constraints and Prospects in Tax Policy for Export Promotion)

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This report has been prepared by Mr. Vidya Nath Nepal, Macroeconomic Specialist, under the guidance of the Federation of Nepalese Chambers of Commerce and Industries (FNCCI).

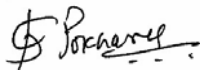
Inputs from various stakeholders during interactions at FNCCI, the Advisory Committee meeting, and the workshop organized by the EPN Focal Unit have been incorporated in the report. The names of people met during the interactions are included in appendix 11 in this report.

Foreword

Economic Policy Network (EPN) is an undertaking of His Majesty's Government of Nepal (HMG/N) since August 2004 with the support of an Asian Development Bank (ADB) technical assistance (TA) to develop and institutionalize an open, responsive and result oriented economic policy formulation process based on sound economic analysis and dialogues with the partnership of public and private sector, academia, and independent professionals, to support and consolidate the Government's economic policy reforms on poverty reduction strategy. The initial focus has been in the areas of macroeconomic management, trade, investment, employment, infrastructure, tourism, agriculture, and regional development through four thematic advisory committees chaired by the secretaries of the respective implementing ministries, and guided by a high-level steering committee. The present study is an outcome of the initiative under the Advisory Committee for Macroeconomic Management chaired by the Secretary of the Ministry of Finance.

Enhancement of Nepalese exports is not only vital for narrowing the trade gap, but also important for sustaining the balance of payments, and for creating employment in the country. The paper analyzes the economic, legal, administrative, institutional, and policy constraints for export and makes recommendations for tax policy reforms and procedural simplifications to promote exports from Nepal. The recommendations are the outcome of consensus reached among major stakeholders through various consultations and the EPN workshop. I hope the findings and recommendations will be helpful for policy makers for future reforms.

I would like to thank the Federation of Nepalese Chambers of Commerce and Industries (FNCCI) for leading the study, and Mr. Vidya Nath Nepal for carrying out the study on their behalf. I also thank all those who have provided inputs for the report during the interactions at FNCCI, the advisory committee meetings, and the EPN workshop. The work of the Advisory Committee for Macroeconomic Management is to be commended for selecting the issue and for following through with the study. I would also like to appreciate the entire EPN team for their hard work. I also thank the former Steering Committee chairperson (the then Chief Secretary of HMG/N) Dr. Bimal Prasad Koirala, for his guidance during his tenure. Last but not least, I would like to thank the ADB for supporting this initiative.



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Acknowledgement

This study is commissioned as requested by the Federation of Nepalese Chambers of Commerce and Industries (FNCCI) with the financial assistance of Asian Development Bank (ADB) under Establishing Economic Policy Network Project, Ministry of Finance. Rhetorically, export is said to be the engine of growth in economic development literature. It is also proven that countries which have outward looking policies have developed faster than those which have inward looking policies. However, this is a very competitive affair. Therefore, competitors have been providing different kinds of incentives, sometimes, including subsidies which is not allowed by WTO. Nepal's position is very weak in this connection whereas trade deficit have been alarming. Nepal has been facing problems both physically and policy wise. Therefore, His Majesty's Government of Nepal (HMG/N) has realized to reform their tax policy among other things, for promoting exports as suggested by exporters, so that Nepalese exports can compete in international market. This study is the result of such realization. All stakeholders, FNCCI, MOF and ADB should be congratulated on this realization.

First of all, I would like to thank them for entrusting me to undertake this important study. I would also like to thank the organizations, individuals and officials who have given their valuable suggestions and opinions in this regard. Dr. Champak Pokharel, Member, NPC and former Team Leader, Establishing Economic Network Project, MOF deserves special thanks for his positive and professional comments and monitoring of the study. Mr. Dipendra P. Dhakal, Team Leader, EPN deserves appreciation for his cooperation.

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Abbreviation

ACP	African Caribbean Pacific
ADB	Asian Development Bank
APZ	Agriculture Processing Zone
BIMSTEC	Bangladesh India Myanmar Sri Lanka Thailand Economic Cooperation
BOOT	Build Own Operate & Transfer
DDC	District Development Committee
DOC	Department of Customs
DOI	Department of Industry
DOIR	Department of Inland Revenue
DOLTM	Department of Labor and Transport Management
DOR	Department of Roads
EBA	Everything But Arms
EPC	Export Promotion Council
EPZ	Export Processing Zones
EU	European Union
FDI	Foreign Direct Investment
FIT	Foreign Investment and Technology
FNCCI	Federation of Nepalese Chamber of Commerce and Industries
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HMG/N	His Majesty's Government of Nepal
ICD	Inland Container Depot
IEA	Industrial Enterprises Act
LDC	Least Developed Countries
LDT	Local Development Tax
MFA	Multi-fiber Arrangement
MFN	Most Favored Nation
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOHA	Ministry of Home Affairs
MOICS	Ministry of Industry, Commerce and Supplies
MOLD	Ministry of Local Development
MOLJ	Ministry of Law and Justice
MOLT	Ministry of Labor and Transport Management
MOWR	Ministry of Water Resources
NCC	Nepal Chamber of Commerce
NRB	Nepal Rastra Bank
NTWC	Nepal Transit and Warehouse Company
PPP	Public Private Partnership
RAC	Revenue Advisory Committee
RMG	Ready Made Garments
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Arrangements
SEZ	Special Economic Zone
TIA	Tribhuvan International Airport
TPC	Trade Promotion Center
UNDP	United Nations Development Program
VAT	Value Added Tax
VDC	Village Development Committee
WTO	World Trade Organization

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EXECUTIVE SUMMARY

1. Nepalese exporters have been suggesting HMG/N for tax policy reforms and procedural simplifications since a long time. The government now has taken it seriously and initiated the study. The study is a part of Establishing Economic Policy Network Project, MOF with the assistance of ADB and channeled through FNCCI to reform in tax policy for export promotion by building consensus among stakeholders. The study has reviewed particularly the fiscal incentive packages implemented by the government and tried to identify economic, legal, administrative, institutional and policy constraints for exports. It has suggested particularly tax policy improvements with a policy-action matrix. This has also identified prospects for public private partnership in export sector. Export sector of Nepal has modest contribution in total revenue. However, it is obvious that its impact on employment generation, foreign currency earning and creation of backward linkages are significant. Share of the export tax to total revenue (customs duty and income tax) in 2002/2003 was 3.2 percent only. Likewise, contribution of income tax from exports to total income tax was 5.7 percent during the period. Similarly, revenue share of export from customs was 6 percent in this period.

2. Constraints

- Nepal's position is 119 out of 250 countries in attracting FDI and flow of FDI is decreasing. It is because of inconsistency in investment policies and lack of proper incentives. The present investment environment is a major hurdle to export oriented industries as well.
- Lending policies of commercial banks are also not industry friendly.
- As a general rule exports are free from customs duties. However, at present, export tax has been levied on 35 items ranging from 0.5 percent to 8 percent. Out of them about a dozen items are related to wood and stone which are related to natural environment protection. Some goods are related to vegetable ghee which is subject to import quota restriction in India. In the recent budget speech the VAT rate has been increased to 13 percent. Excise duty is limited to few products like alcohol and cigarettes.
- At present, industries which are not in negative list i.e. which also includes export oriented industries are allowed paying lower rate of only 75 percent of 20 percent reduced rate in income tax in spite of corporate income tax rate of 26.5 percent.
- In addition to this, exporters in some cases are also supposed to pay local taxes to VDCs, Municipalities and DDCs also in some cases levy area export tax on local products which adds extra burden to exporters.
- At present, prevailing procedures of duty draw back system and bonded ware house facilities including bank guarantee release provisions are cumbersome and time consuming whereas stipulated one window system in the act has never worked in Nepal.
- There are many committees, councils, boards with duplication of activities in export sector. There seems to be no coordination among them.
- Plans and programs are in documents but due to ineffective institutional setup they are not implemented properly in time.
- Private sector has to be outward looking, more professional and with corporate culture.

- ☑ Laws and rules still are not industry friendly (such as Labor Act, Customs Act, Industrial Enterprises Act, Income Tax Act, Export and Import Control Act and so on).
- ☑ There is no separate bankruptcy act to deal with insolvency matters in time.
- ☑ Some non tariff barriers exist in the country where as there are a number of NTB in our trading partner countries.

3. Recommendations: The study finds out that there are prospects to reform tax policy for export promotion particularly in income tax and tariff including the procedures which add costs to exporters. The draft report was presented in the seminar of stakeholders, advisory committee and a workshop comprising of academia, exporters and policy level government officials organized by EPN/ADB/MoF and suggestions received are included in the related paragraphs. The final summary recommendations are given below.

- ☑ The impact of this situation will result into low investment from inside and FDI. Neighboring states of India including Uttaranchal have special incentive packages for both internal investment and FDI. The consultant is reported that Uttaranchal has given better incentives to both internal investment and FDI than that of West Bengal, Bihar and UP which are our bordering states. Our policy makers will have to take this position into account in formulating policies for promoting FDI.
- ☑ Many countries including our neighbors have given several concessions through banking sector to make their exports competitive. Nepal needs to develop predictable, simple and concessional lending policy for exports. Initiative to establish a separate Exim Bank is recommended with the participations of private sector i.e. exporters and importers.
- ☑ Exporters report that rate of tax is not a serious problem but there are a number of hassles in our tax offices which have hindered smooth outflow of our exports and they are concerned with this situation. First and foremost they expect to make exports hassle free from the government side. Keeping this in view, most of exporters to overseas countries are ready to pay even 1.25 percent turnover tax on exports at the point of exportation at least for five years in lieu of prevailing income tax on export earnings or exempting 50 percent of income of export earning and levying in rest amount at present rate. These alternatives should be optional to the exporters. It is noteworthy that if 1.25 percent turnover tax on exports at customs is imposed in place of income tax on export earning, it has been found that this amount will be higher than the income tax raised by the government at 20 percent in the income on export earning. Majority of exporters including RMG, carpet, pashmina (Cashmere wool) and handicrafts sectors have strongly suggested replacing income tax on export earning by turn over tax to get rid of administrative hassles.
- ☑ As a rule of thumb the study has recommended revenue neutral or zero tariff rates on exports which is compatible with WTO rules. Keeping this in view customs duty structure may be revised. Tariff structure has important implications on exports. There is export duty ranging from 0.5 to 8 percent. At present export duty is attracted on some products which are of generally low value high bulk in nature and are generally exported to India and Tibet which has land border. The tariff rate should be redesigned after comprehensive exercise and cost benefit analysis in terms of exports and imports. If compulsions are there for the country to impose export tax on some goods for example to protect environmental degradation, they should be conceded. Export duty on vegetable ghee was imposed before 2002 while its quota was not fixed by India. As quota has been

fixed now by India it is hard to justify 8 percent export duty on ghee products today. Similarly, all those items attracting export duty should be reexamined and the list should be minimized. The revenue loss from such steps can be recovered by strengthening customs control measures in border areas.

- ☑ There is also possibility of avoiding local taxes levied by local bodies by designing a new mechanism to refund if not exempted. Removal of the provision of local level tax on exports from Local Self-Governance Act and provisions of refund of such taxes if levied on the movement of goods from the factory or collection center up to the export point is suggested. As this tax is collected by local bodies, refund mechanism should be different than other government taxes. The tax levied on exports by local bodies can be refunded by creating a fund from local development tax levied on imports at entry by the government and transferred to MOLD by MOF.
- ☑ Simplification of duty draw back procedures should be started by settling old duty draw back cases as soon as possible. It is better to introduce the duty suspension scheme i.e. make pass book system simple and predictable and provide it to all export oriented industries. For example, we should develop a mechanism to include all producers through export houses to get refund or suspension of taxes not necessarily only big exporters but small producers in the system who by virtue of being below threshold are not registered in VAT and are not able to get refund at the moment. These small producers are working in handicraft, pashmina, carpet and garment sectors. Therefore, they should be benefited from the refund or suspension schemes. Duty draw back on flat rate system should be considered and rate may differ product to product.
- ☑ Simplification of bank guarantee release procedures and automation of bank guarantees release in each customs point including provision of online release of bank guarantees should be encouraged. Procedures of paying the guaranteed amount to customs should be simplified and predictable. The bank guarantee release procedures relating time and documents should be cut down as short as possible.
- ☑ At present Nepal's export items are limited. In fact, Nepal has not yet developed any product with the aim of exports so far. Main items of exports presently being exported from Nepal have been induced by external factor instead of our own internal product development efforts. In developing new products emphasis should be given to local raw material based products. However, software and hydropower products have high potential to Nepal. If we do not develop these items in near future we might loose the market because of competitions with neighboring countries and new technologies on the offing.
- ☑ Both public and private sector have not yet made serious efforts to diversify the market for exports. The government should negotiate effectively with bilateral countries, regional organizations and WTO capitalizing the least developed country status. Performance of our embassies and missions should be evaluated on the basis of their efforts and results achieved through economic diplomacy in respective countries.
- ☑ In Nepal export house per se has not yet been materialized so far. During the study period a royal ordinance has been issued in this connection. It is obvious that exporters and producers particularly smaller ones will be benefited with this provision and they can concentrate only on productions. But they will get benefit of exports i.e. rebate, concession and exemptions through the export houses.
- ☑ Nepal is basically a country i.e. India locked, therefore, has to face transit problem of different nature which are unique if one compares with other land

locked countries. The second land route made available by Bangladesh again through India has not proved easy and simple so far. The government needs to effectively negotiate both with India and Bangladesh so that around 25 percent extra costs as transit cost for bulk items can be minimized.

- ☑ There is plethora of institutions in promoting exports in Nepal, for example, TPC, EPC and Trade Board etc. There is a need of avoiding such duplications of responsibilities and develop strong institutions to function effectively.
- ☑ Nepalese policy makers have been formulating good policies in the past. Unfortunately, they have hardly been backed by respective laws. Nepal has also been poor to update the laws, for example, in spite of liberal trade policy adopted by the government. The Export and Import Control Act 1956 has not yet been revised. Similarly one act contradicts with other act for example, Industrial Enterprises Act 1990 and Income Tax Act 2001. Labor Act has not been revised to make it industry friendly.
- ☑ Nepal can consider increasing ceiling of sample of export items. We should facilitate participations in international trade fairs. It is advised to provide subsidies at least to meet transport cost for fresh fruits, vegetables and cut flowers' export from the farms to Kathmandu and onward and develop facility of cold stores for the purpose of these agriculture items of export.
- ☑ All neighboring countries of this region have promoted their exports in different ways. Bangladesh has provided many export incentives to export oriented industries and exporters. Likewise, India and Pakistan have given many packages of export incentives. However, in comparison to Indian bordering states Nepal's export incentives are clearly lower which has higher cost of production for various reasons including extra transit cost. The study recommends minimizing the spread rate in lending export oriented industries.

4. **Conclusion:** Since long time Nepalese foreign trade is facing trade imbalances. There was huge trade gap in the year 2002/03 and thereafter. The alarming rate of trade deficit is demanding reform measures in foreign trade. The only way out to meet the trade deficit is to boost up our export. The remittance has become temporary remedy to meet the widening gap of balance of payment. There are many constraints mentioned above for export promotion. The international trade is developing in faster pace than before. The developing countries seem to be weaker partner in the global market. They should search better opportunities in the midst of challenges. All developed countries started reengineering their export policies in new situation. Nepal should address immediately all constraints including taxes and hassles, reform policies and create congenial environment for investment to be competitive in international market.

CHAPTER I – INTRODUCTION

A. Context of the study

In order to give big push to increase investment in export sector and to attain economic growth through export of goods and services Nepalese exporters have been suggesting HMG/N to make suitable tax policy reforms for export promotion since long time. The government now seems to be serious to facilitate exports by designing timely and suitable tax policy. In order to help HMG/N, FNCCI with the assistance of ADB through Establishing Economic Policy Network Project under MOF has commissioned to undertake this study. This study intends to analyze present status, constraints, prospects and suggest recommendations in tax policy reform for export promotion. TOR of the study is given in *annex – 1*.

B. Objectives of the study

This study has the following objectives:

- To review the existing fiscal incentive packages implemented by the government,
- To identify economic, legal, administrative, institutional and policy constraints for promoting exports,
- To study the tax related problems the Nepalese exporters have to face that tend to lower competitive strength,
- To suggest particularly tax policy improvement or reforms with a policy-action matrix including simplification procedures, and
- To identify prospects for public-private partnership and suggest how PPP could be made more fruitful towards attaining of the desired export performance.

C. Methodology

This study is based on following methodology:

- Literature review
- Consultation with stakeholders
- Analysis of primary and secondary data.
- Consultation with concerning government officials.
- Circulation of questionnaire to different business associations, individuals and persons involved in policy making in the government and analysis of responses.
- Group interactions with business community.
- Meetings with officials involved in policy making and implementation.

D. Limitations

This study has following limitations:

- Study is based basically on secondary data and the secondary data were used until middle of 2004,
- Due to time constraint and the security reason field study could not be conducted,
- The issues on FDI in export sector are not covered in detail.

CHAPTER II – REVIEW AND PRESENT STATUS OF EXPORTS

A. Background of export promotion measures and tax incentives

Trade sector has an important role to play in economic development. Realizing this fact HMG/N has been formulating various policies and programs directed to make the trade sector liberal and market oriented particularly after 1990s. However, low value of export over huge amount of imports has resulted to alarming rate of trade deficit continuously for long time. Trade deficit for the last 3 years is as given in Table 1.

Table 1
Trade Gap Percentage

Year	Trade gap (in million)	Percentage change
2001/02	42,235.5	0.0
2002/03	53,390.5	26.4
2003/04	60,882.5	14.0

(Source: NRB monthly economic indicators February – April 2004)

Since development measures were introduced in Nepal, emphasis was given to import substitution strategy. The reason was that until 1960's some products like rice, timber, leather, and residual items like bristle were used to be exported to India and also in other countries on premium price. Therefore, export incentives were not considered until new exportable products were developed. Before green revolution was successful in India even low quality rice were exported in good price. Attention was not given to developing new products and exporting them by introducing various tax and non tax incentives until 1960s.

During the 1960's and 1970's the government started to adopt some important fiscal and monetary measures to promote exports. An example of such measures was Exporter's Entitlement scheme under which exporters of Nepalese goods in countries other than India were given a fixed percentage of their export receipt as counterpart import entitlement. That was called bonus voucher scheme and the voucher was saleable to other parties by original exporter. In 1977 the exporter's entitlement scheme was replaced by the Dual Exchange Rate under which all receipts from exports to the third countries were converted at second rate which was higher than general rate with the purpose to encourage exports to third countries. In 1990 cash incentive scheme also was introduced under which exporters of leather to countries other than India were eligible for the cash incentive.

Beginning from the 1980s many important export items were exempted from export duties. Export duties on some items were reduced. Customs duty and sales tax (presently VAT) drawback scheme was instituted for imported raw materials used in the production of exported goods. Though the introduction of some export promotion measures were taken Nepal's general trade model was based on regulation and control. Import and export licensing, foreign exchange restriction, high tariff wall were the control measures adopted. Due to the conservative approach toward export trade, Nepal's export-import ratio could not be brought to balance and the trade deficit continued to grow in spite of some growth in the export sector.

During the 8th plan period new trade policy was formulated with the objective of making the commerce sector more liberal, competitive and market oriented. The private sector participation was encouraged. Convertible foreign currency earned from the export of goods and services were made fully convertible in current account. Measures were taken to make duty drawback system more effective.

The current 10th plan in the context of growing trade deficit gives special emphasis on the diversification of the exports both commodity wise and country wise and promotion of exportable items of comparative advantages. The plan also emphasizes to undertake various promotional programs with the participation of the private sector and to the enhancement of the capacity of the institution that can play role in export promotion. The plan also aims to enhance the competitiveness of the exportable items by promoting foreign investment and technology in the areas of competitive advantage. The plan also mentions a program like the establishment of export promotion zones and special economic zones to support export oriented industry and harmonization of trade in line with SAARC and WTO membership. But there have not been sufficient reforms in the area of law, regulations and procedures and institutional improvement to bring in coordination of activities of different agencies of HMG/N to improve the existing trade regime and comply with WTO and other regional organizations.

B. Present status of direction and composition of trade

Nepal's export trade until the beginning of 1980's was predominantly directed towards India. In the early 1980's nearly two third of the total export was directed to India. By the beginning of the 1990's, India's share in Nepal's export had declined to around 11 percent (1991/92). This directional change can be mainly attributed to the surge of the contribution of carpets destined to Europe and garments to the US respectively. However, exports markets to India started reviving from a meager 10 percent in 1992/93 to nearly 32 percent in 1997/98. The main reason for this increasing trend was Nepal's Trade Treaty with India in 1996 which was liberal than before in favor of Nepal. No quota was allocated for exports from Nepal to India and even 100 percent third country raw materials were allowed to be used in the production of Nepali goods to which were allowed to export into India. There were only three items in negative list for preferential entry into India i.e. cigarettes and tobacco, beverages and alcohol except for industrials purposes and non Nepali and non Indian brand cosmetic goods. However, these goods could be exported on MFN basis. Moreover rules of origin were made very simple without any value added condition. It so happened that this treaty is credited to have triggered major FDI's by some large companies like Dabur, Hindustan Lever and Colgate Palomolive. These companies also have been exporting their goods to India. In the year 2001-02 India's share in Nepal's export reached 59 percent. In the year 2002/03 and 2003/04 the percentage of Nepal's export to India stood at 52 and 57 percent respectively. Except India, USA and Germany remained two leading countries for Nepal's export trade. However, Germany's relative contribution has been on the decline while that of US has also been declining due to expiry of MFA at the end of 2004. Germany and the US took the lead over India which ranked third to Nepal's export market up to the year 1996/97. From 1997/98 India has taken the lead once again. Export products like vegetable ghee, copper scrap, zinc oxide, and acrylic yarn increased. Later on Indian authorities protested the surge in imports from Nepal and in order to address India's concern export duty are still being levied by Nepal on such items.

Regarding third country trade quality problems and concern in importing countries over child labor adversely affected major export item i.e. carpet. The fall in the garments export is probably due to inability of the Nepalese industry to compete with exporters from others South Asian Countries. It is understood that Nepal is facing competition with ACP countries which are exporting garments to US market on preferential arrangements. These facilities to Nepal are under consideration in US senate at present. If we take out carpets and garments from the total export, India is the single largest and stable market for Nepal's export. Major primary items of exports to India are Catechu, Oilcakes, cardamom, animal feed etc and manufactured items exported are noodles, wheat flour, tooth paste, soaps, MS pipe, plastic items, corrugated sheets, zinc sheet, GI pipe, textile, juice, hair oil, wires and some readymade garments. Though India has taken the lead on Nepal's export, the export volume

declined due to the quantitative restrictions in the 2002 Trade Treaty with India. Items that are put under such quantitative restrictions in the Treaty are vegetable ghee, copper related products, zinc oxide and acrylic yarn. In fact the trend in FDI which is essential for expanding export trade is set to have slowed down after that but this could be for other reasons like the on going insurgency situation.

Export of readymade garment is the topmost export item to the overseas countries followed by the woolen carpets. The third item among the major export items is pashmina. Combined contribution of these items in the exports of the third countries was 79 percent in the year 2002/2003. Other important export items to the third countries are metal and wooden handicrafts, processed leather, lentils, tea and herbs etc. These handicraft products have high degree of domestic labor and raw material contents. The export of major commodities to different countries with value and quality is given in **annex – 2**.

Components of present export oriented policy are:

- License is not required for the exports of product except for items that are banned or quantitatively restricted.
- Duty draw back scheme is being implemented.
- Bonded ware house facility has been started to be given to industries in addition to garment.
- In general no duties are levied on most export except the negligible service charge.
- Export valuation system is abolished. However, reference price of carpets is still fixed by the government.
- Simplification and reduction of export procedure and documentation.

Exchange rate policy which impacts on exports

- Full convertibility of Nepalese rupees in current account
- Facility to open convertible currency account as specified by NRB and to retain deposit accounts in convertible currency
- Facility for the procurement of industrial raw materials and machinery from India in hard currency which helps to reduce the cost of production for exports.

C. Potential exportable items from Nepal

Concentration of export trade in a few items and destinations is vulnerable and dependence on import of raw materials to manufacture exportable products like garment, carpet and pashmina shawl is the causes of low value addition. The list of potential export items are mentioned in the **annex – 3**.

D. Revenue contribution of export sector

Export sector of Nepal has modest contribution in total revenue. The following table reveals that the export performance declined in 2001/2002 and slightly increased in the year 2002/2003 which still is below the level on 2000/2001. It is obvious that its impact on employment generation, foreign currency earning and creation of backward linkage are significant. The share and revenue contribution of export to total revenue are shown in the following table:

Table 2
Revenue Contribution of Export

Descriptions	Rs. In million		
	2000/001	2001/2002	2002/2003
▪ Export volume	55654.1	46944.8	49930.6
▪ India	26030.2	27956.2	26430
▪ Other Countries	29623.9	18988.6	23500.6
▪ Import	115687.2	107389	124352.1
India	45211	56623.1	70924.2
Others	70476.2	50766.9	53427.9
▪ Total volume of trade	171341.3	154333.8	174282.7
▪ Total customs Revenue	12552.1	12658.8	14236.4
▪ Contribution of export	492.6	917.4	855.6
▪ Revenue share of export from customs	3.92%	7.24%	6.0%
▪ Total tax revenue	38865.1	39330.6	42587.0
▪ Revenue from export	1049.1	1386.8	1354.6
○ revenue from customs	492.6	917.4	855.6
○ revenue from income tax ⊕	556.5	469.4	499.0
▪ Share of export taxes on total revenue	2.7%	3.5%	3.2%
▪ Total revenue from income tax	9546.5	9465.7	8691.5
▪ Share of income tax from export earning on total income tax revenue	5.8%	4.9%	5.7%

(**Source:** Economic Survey 2004 except ⊕ Income tax on exports at 5 percent profit turnover is estimated by the consultant). LDT is not included.

The figures presented in the above table reveal that the share of the export tax to total revenue (customs duty and income tax) was only 2.7 percent in 2000/2001 and 3.2 percent in the year 2002/2003. The share is not significant. Likewise the share of the income tax from exports to total income tax revenue is 5.7 percent. The contribution of export tax and income tax and combined to total revenue are given in the following bar charts:-

Chart 1

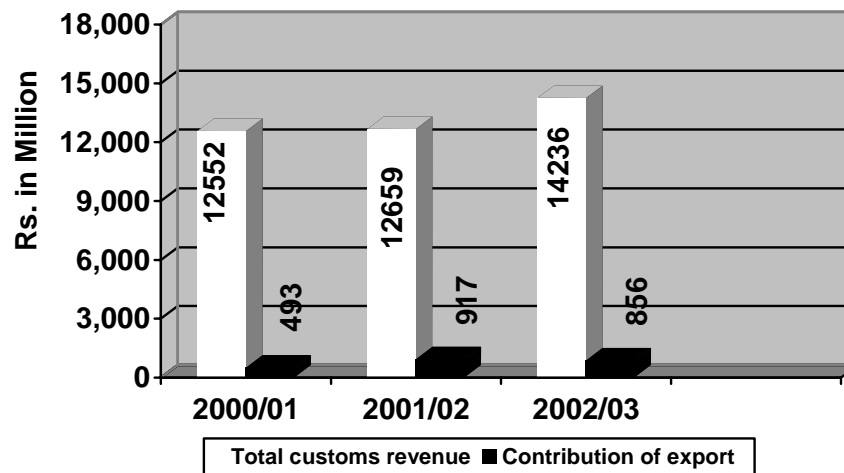


Chart 2

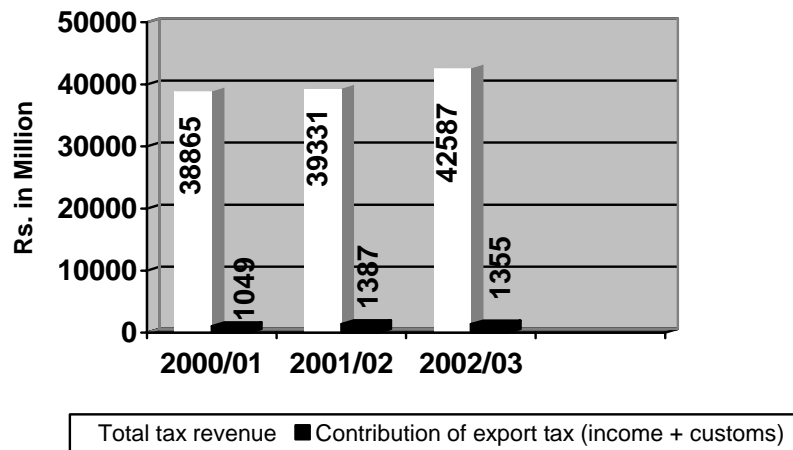
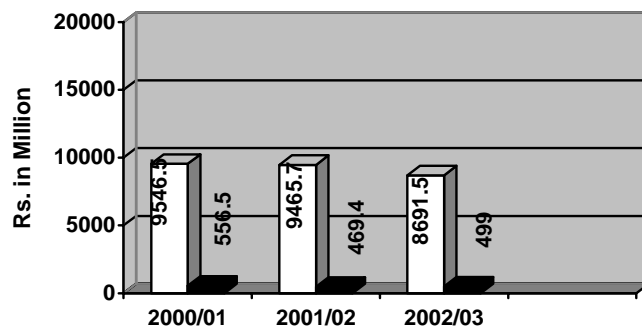


Chart 3



(Contribution of income tax on export earning on total income tax revenue)

The above chart 1 reveals that the contribution of customs from export to total customs revenue was 6 percent in the year 2002/03 while it was 3.9 percent in the year 2000/01.

The chart 2 shows that the share of export taxes to total tax revenue. The share of export taxes (income + customs) on total tax revenue was 3.2 percent in the year 2002/03 while it was 2.7 percent in the year 2000/01. Thus the contribution of export tax is not significant in the composition of total revenue.

The chart 3 exhibits the share of income tax from export on total revenue from income tax. The share of income tax from export was 5.7 percent in the year 2002/03 while it was 5.8 percent in the year 2000/01.

E. Present status of tax structure

Income tax: The Industrial Enterprises Act 1992 exempts income tax on the income earned from exports. This provision is also stated in the Trade Policy and the plan documents of HMG. In spite of this policy the exporters are subjected to pay income tax on income earned from the export. Income Tax Act 1974 had provisions to honor the arrangements of Industrial Enterprises Act. The old Income Tax Act was replaced by Income Tax Act 2001. The new Income Tax Act brought export earning into tax net. This is evident that there is lack of coordination between the MOF and MOICS. Income tax is not levied to the individual up to Rs. 100,000 and for the couple up to 125,000. Thereafter the rate is 15 percent up to Rs

125,000. Exceeding Rs. 125,000 to Rs. 175,000 the flat rate is Rs. 11250 and above Rs. 175,000 the rate is 25 percent. For the corporate sector there is no such exemption on slab. But the rates of industries which are not in negative list i.e. including export oriented industries is reduced to 20 percent and for export oriented industries only 75% of the rate (20%) is levied. Tax payers pay self assessed tax on their income. Tax audit is made by officials after several years. Most of the tax payer's organizations, tax payers and others complain that income tax is assessed arbitrarily by tax administration. Income tax, other taxes and duties are re-assessed and demanded accounts and errors with the tax payers after a long time. This situation is a situation of complete uncertainty. Reassessments are made for several reasons including audit objection. In their opinion this practice is too much risky for businessmen because they cannot wait for along time to give bonus to employee and dividend to the share holders and clear other liabilities based on profit.

Customs duties: As a general rule, exports are free from customs duties. However, exports tax has been levied on a number of items ranging from 0.5 to 8 percent. Majority of items attract only 0.5 to 1 percent customs duties. Duties in some cases are ad valorem while they are specific for others. Besides, carpet exporters pay service charge of Rs. 2 per square meter for obtaining GSP certificate. Export is supposed to be free from customs duties in general but the government has been imposing and changing duty rates on few items from time to time. This resulted inconsistencies in policy. Exporters complain that inconsistent duty policies will affect the long term export planning resulting to un-competitiveness of export products. Some export items are taxed for the purpose of conservation, to save environmental degradation and perhaps to honor the commitment of trade treaty with India.

Local taxes: VDCs, Municipalities and DDCs are allowed to levy area export tax on local product and on kabadi. The district export tax works as exactly as export tax in case the product is exported outside the country through their area. In the case of raw materials used to manufacture exportable products by bringing raw materials from one district to another, the LDT works as duty on raw materials. LDT rate is specific. The basis of local tax is given in *annex – 4*.

Other taxes: In addition to customs duties, the exporters have to pay service charges of Rs. 500 per declaration form. The system of fixing minimum floor price of carpet has been replaced by a system where in reference price is fixed for the purpose of customs valuation. Carpet up to 80 knots the reference price is fixed at US\$ 32 while the carpet beyond 80 knots the reference price is fixed at US\$ 75. Sales tax was replaced by single rated value added tax in the year 1997. The rate of VAT was 10 percent. Both domestically produced goods and imported goods are taxed at the same rate. By the Financial Ordinance 2061 the VAT rate has been increased to 13 percent. So far the excise duty is concerned it is limited to few products. If the products are exported they are also subject to duty draw back scheme if taxed at all.

Duty drawback scheme: The rationale behind the import duty exemption on raw materials is that the final goods and services are consumed in foreign countries. Goods and services which are consumed in foreign countries need to be made duty free to make exported goods competitive. Duties on goods and services are levied to protect domestic industries, to reduce consumption and to generate revenue. Among these three purposes only revenue raising objective is applicable to impose duty on raw materials. Therefore, the duties paid on imported raw materials are refunded. Many countries provide duty exemptions on export and duty draw back on raw materials to make exportable products competitive in international markets. Duty exemption scheme may include either duty drawback facilities or having no duty on imported raw materials to manufacture finished products for export. The Industrial Enterprise Act 1992 has given facilities of duty reimbursement for exported items. According to the Act the customs duty, VAT, excise duty levied on the raw materials and auxiliary raw

materials and intermediate goods utilized by any industry in connection with its products shall be refunded on the basis of the quantity of export.

The Act has given exemption of tax, duty or fee on the imported raw materials to be employed by an export oriented industry. The Industry selling its products to the Export Promotion House and goods produced in EPZ are also entitled to get reimbursement of the customs duties and VAT levied on the raw materials imported for producing the products so sold. Such export promotion zones and houses have not been operational till writing this paper. But a royal ordinance has been issued in this connection recently.

From the perspective of export incentives, the Act is sound but in the implementation there are complains. The duty drawback scheme has performed poorly, the procedures to obtain duty drawback is cumbersome and requires various types of documentation. The process involves various departments and ministries and there is lack of coordination. The exporters complain about delay in getting the refund, whereas some have not received the refund for a long time. At present the refund is not made in cash but in the form of government bond. Exporters feel that duty suspension scheme is better over duty draw back facility which avoids tying up exporter's working capital. The problem with duty suspension is that all goods produced by imported raw materials may not be exported. The spillover of raw materials and finished products in domestic market is high particularly in those products which are consumed in domestic market and exported too. Therefore, for revenue protection duty draw back system was preferred and incorporated in the Industrial Enterprises Act. One window system was also established under the DOI to provide facilities including duty draw back. However, the one window system has not been functioning properly.

Bonded warehouse facility: The Bonded Warehouse system was introduced in 1988 with a view to promote the export of readymade garments by reducing costs and the administrative burden related to imports of raw materials. Under this system exporters import raw materials, keep it in a warehouse under bond, by submitting bank guarantee for duties payable to the customs and get the bank guarantee released after completion of the export.

In the beginning the bonded warehouse facility was allowed to garment producers exporting garments to the third countries. At present the bonded warehouse facilities have been extended to the following categories of exports.

- Industries exporting garments to India and the third countries.
- Industries exporting their products to the third countries.
- Industries exporting minimum eighty percent of their production to India except (a) above.

Industries entitled to get bonded warehouse facilities required to provide the customs with six months bank guarantee for the amount equivalent to the customs duties chargeable for import of raw materials and auxiliary raw materials used in the exporting products.

In order to get the bank guarantee released the exporter is required to submit the documents proving that the export has taken place. The evidence of the foreign exchange earning as well as proportion of the raw materials used in the final product has to be submitted to the customs.

An exporter unable to submit the required documents to release the bank guarantee in the stipulated time is subject to pay the customs duties on the raw materials imported at the rate applicable on the day of importation. Plus additional 50 percent customs duty is also levied for delaying to release the bank guarantee. Likewise the raw materials / auxiliary raw materials imported but not used in the final export product is also subject to levying applicable customs duty plus additional 50 percent customs duty applicable for the product on the day of importation.

Export processing zones: The Government has proposed to establish EPZ which is important component in the government's export promotion strategy. The proposed sites for the EPZs are at Bhairawa, Nuwakot, Paachkhal and Birgunj. At Bhairawa, land has already been acquired and the other infrastructure development is undergoing. The feasibility study is being conducted in respect of other EPZ's of Birgunj, Panchkhal, Nuwakot. It is understood that the act is being drafted towards this direction in the government.

CHAPTER III – CONSTRAINTS AND PROSPECTS FOR EXPORT PROMOTION PARTICULARLY THROUGH TAX POLICY REFORMS

A. Economic constraints

Nepal's financial sector is too small to meet the increasing demand for investment in general. Similarly, economy has several other constraints like lack of proper technology, high transit cost, low level of productivity, low quality and other infrastructural problems etc.

Commercial banks and development banks have been asked to appropriate a certain portion of their investment to the export sector in the past. The practice has been stopped. There are increasing complains from entrepreneurs engaged in export business concerning the lack of adequate finance at reasonable interest rates.

FDI has been recognized as an important source of capital for the purpose of export growth as huge investment is needed to develop the export oriented industries. Even after the production takes place capital is required in other successive stages of export performance. Despite substantial liberalization of the trade and industrial regime, Nepal has been relatively unsuccessful in attracting the FDI in comparison to other least developed countries. Moreover the available FDI has not been sufficiently directed towards the export sector.

The Labor Act of Nepal has made difficult provision to dismiss the workers having permanent status. Similarly it is also difficult to close the business firm for which the firm requires permission from the DOLTM. Thus, there is a need of developing a system to freely hire and fire in the interest of the firm so that laborers are committed to their jobs and increase productivity. In doing so, minimum wage rate of laborers should be fixed reasonably to fit in there productivity and the national norms.

The recent construction of ICD in Birgunj, based on rail and in Bhairawa and Biratnagar, based on road was supposed to address the transit costs involved. However, there is lack of simplified procedure of customs processing for moving containers to and from the ICD. It seems that the handling cost of ICD is more than handling cost of NTWC. Ironically neither ICD facility is properly utilized so far nor Fulbari-Banglaband alternative land route for transit has been used fully. Road facilities are poor in Nepal; movement of transport is often obstructed during the monsoon. Further, being a landlocked Nepal has to depend on the infrastructure provided by transit giving countries which is not in our control. Except for telecommunication, Nepal is poor in other infrastructures. Electricity cost is incredibly high in Nepal.

Acquiring new technology is important to make export qualitative and competitive. Technology transfer mechanisms are weak among the Nepalese exporting firms. Insufficient access to the latest technology in the export promotion activities, costs involved in access to licensing agreements and lack of in-house training program are the broad reasons for weaker technology.

Quality control for exports covers many steps like standardization, certification, testing, inspection which demand such organization as certification bodies and testing laboratories to

be properly equipped. In Nepal Bureau of Standardization and Quality Control and Department of Food Technology and Research are the concerned organizations for these purposes which are located basically in the capital. Further improvements are needed to enhance their technical capacities and such facilities should also be made available in the major export points as well.

B. Constraints in policy

Trade liberalization is the commonly used term particularly after the formation of WTO and other regional trade blocks like SAFTA. Despite advocacy of free trade many countries have been creating barriers in international trade by the instruments of trade policy. Such barriers may be based on tariff, price, quantity and quality etc.

If the policy of reducing cost of production is not adopted the product in the international market can not compete. If the cost of imported raw materials becomes high naturally the cost of the final product goes up making the export uncompetitive in international market. Indian budget of 2005 has made provisions of textile development fund to facilitate export of textile after expiry of the MFA. This fund is likely to help Indian textile products to increase competitiveness. Nepal has no such quick response to develop garment industries so far.

The latest Trade Treaty between India and Nepal limits the scope of export trade flow of Nepal to India. There is import quota system in India to certain Nepali commodities. The Trade Treaty of 2002 with India has actually limited the export of vegetable ghee, copper wire and zinc oxide and acrylic yarn where as Trade Treaty of 1996 had provided duty free access of manufacturing goods produced by using imported raw materials even 100 percent to India without quotas. The duty free access was for all goods except the goods mentioned in the negative list. The restrictive provision of rule of origin and allocation of quota and other non tariff barriers in the treaty of 2002 has cut down the availability of large Indian market to Nepalese products.

Nepal has no direct access to the sea. Nearest sea port is located in India which is at the distance of 660 miles from mid Nepal. These factors make transport cost high and limits the competitiveness of Nepalese commodities in the international markets. If preferential entry is not given within stipulated time by the USA, the competitiveness of garment industries will be further eroded. Nepalese exporters have to pay extra cost at the land border and at the final shipment. Thus Nepalese export items become expensive to the end users and loose competitiveness in the global market. Existing arrangement allows the Nepalese traders to use Mongla port of Bangladesh through Phulbari-Banglabandh i.e. India-Bangladesh land border. The port has been used in a limited way by Nepalese traders so far. Main reasons for limited use of Mongla Port are businessmen's familiarity to Kolkata and insufficient infrastructure from Bangladesh border to Mongla Port. In addition to this businessmen report that cost for escorts of convoys of exports in Indian territory is cost prohibitive among other things.

The Industrial Enterprises Act, 1992 has made provisions of income tax exemption on export income where as Income Tax Act, 2001 made provisions to levy income tax on export earnings too. Trade policies are developed by various agencies with multiple objectives. It is obvious that there is no coordination between other agencies and revenue departments. Apparently such policy inconsistencies become barrier to long term production plan of exportable items.

1. Constraints in investment policy: Flow of FDI is very low in Nepal. Recent study shows that Nepal's position is 119 out of 250 countries in attracting FDI. It is much lower than

Cambodia. In areas of investment there are many authorities in Nepal responsible for providing concessions, facilitation and approval. The private sector is always concerned about the unpredictability of investment policy of the government. Present rules related to FDI seem to be liberal in principle, but in practice, they are vague and less friendly to investment. It is clear that without good investment climate the production cannot be increased and export cannot be geared up even with liberal fiscal incentives.

2. Constraints in lending policy of financial institutions: It is the general inclination of financial institutions to lend in trading sectors. They are not so enthusiastic to lend in product development areas. The banks while financing import trade do not keep sufficient mortgage. This leads them towards huge amount of bad debt in trading sectors. Their reluctance to invest in exportable product development activities i.e. industries is also great constraint. The banking sector does not seem treating industry as its partner. Financial sector should treat them as complimentary to their functions. Due to the lack of mutual confidence and proper monitoring in time many industries are blacklisted for being defaulter. Such activities always become hassles in development of exportable commodities. Efficient banking sector always should become investment and export friendly of course in selection of industry with proper screening and monitoring.

3. Constraints in customs policy: It is a well known fact that one of the commonly used export promotion policy instrument is exemption of tariff or customs duty. The purpose of the policy instrument sometimes may be revenue to the treasury or export promotions or protections to the domestic industries. This becomes a means of incentive to export making the product cheaper and competitive in international market which is not sufficient. On exports, HMG has tried to provide different type of incentives in the past. Export duty has been basically non existent in Nepal with some exceptions. Present tariff structure is shown on **annex 5**. Customs duty has been exempted in the import of industrial raw material and auxiliary raw materials of export oriented industries also. The duty structure for exports runs from the range of 0.5 to 10 percent only with some exception for export banned items which attract even 200 and 70 percent tariff rate. Today most of the nations are adopting zero tariff rates to enhance their export in international market which is allowed by WTO rules. Thus in the context of export competitiveness, Nepal also has to revisit her export tax policy. The principle of revenue neutrality has been accepted in Nepal in the context of attracting tax on exports.

At present, there are few commodities on which export duty is levied. Our tariff structure also has followed the tariff pattern of other developing countries. Nepal has knowingly adopted cascading tariff rates which give higher protection to the producers of consumer goods and lower protection to intermediate goods. Therefore, the marginal rate of export duty should be restructured. Import duty rebate to the export oriented industries can be good incentive to export trade. The present export tariff structure is not so high to make export trade to be non-competitive in the international markets. However, these rates may be reviewed.

4. Constraint in tax policies: Income tax generated from export earning is not significant in Nepal as described above. The share of export tax is only 3.2 percent in total tax revenue in the year 2002/2003. In principle, there should be no discrimination in levying income tax on equal income earned from any source. Therefore, to provide rebate on income tax earned from export is contradictory in principle. There should be equal treatment to all profit, and it is also the right of tax payer to get equal treatment through tax rate. If income tax is levied at different rates, the income may be shifted from higher rate to lower taxed business or from taxable sector to non taxable sector. Another major hurdle is the problem of separation of net income of export from the total income of the concerned entity. The prevailing income tax slab and rate are given in **annex – 6**. However, income tax naturally increases the cost of exports.

VAT is refunded on exports after verifying the export documents such as declaration form, letter of credit, bills of entry, and proofs of payment of duty and taxes and purchase invoices to authenticate tax paid on all inputs.

Revenue administration advocates that the process of Vat refund is simple. The exporters argue that the process is very lengthy. Thus there is continuous dispute on VAT refund to exporters. It is one of the hassles in export facilitations. Tax payers complain that they should reach into some sort of compromise even to get their refund applications registered in the record of tax office. There is the legal provision of providing VAT refund within 60 days after the registration of their refund application. To avoid the date line the officials do not register refund application on receipt. To address this issue the Inland Revenue Department has introduced new system in which the tax payers do not need to submit separate VAT refund application but need to fill up the single column in the tax return form. This also has not facilitated VAT refund due to lack of prompt processing. Recently made provision of VAT refund at the airport to tourists has also not been implemented so far which could also promote exports.

At the point of import taxpayers pay VAT on imported raw materials. After production if they export goods outside Nepal VAT paid on raw materials is proportionally refunded. If it is soled domestically, they charge to the domestic buyers of the goods. The export oriented industries demand that if their products are wholly exported they should not be bound to pay VAT at the customs. For revenue security bank guarantee should be allowed for VAT liability too. HMG/N has accepted the demand by incorporating the provision in finance ordinance of 2061. But the procedures of the provisions are not clear and simple. Traders complain that bank guarantee release procedure is very cumbersome. There is no well defined mechanism of VAT exemption and refund to the end users and small producers who are below threshold. In order to reduce the cost of production of items like handicrafts, handlooms and small units a mechanism of VAT refund by HMG/N or transfer the VAT refund benefits through exporters is essential.

The neighboring country India is also going to levy VAT at the rate of 0, 1, 4 and 12.5 percent from April 2005. Under the circumstances, Nepalese importers of raw materials will have to deposit more or supply bank guarantee for higher amount in comparison to Indian importer of the same raw material. This will raise the cost of production of Nepalese industries making Nepalese exports less competitive in international market.

5. Constraints on local tax policy: There is problem of local taxes levied by local level bodies such as VDCs, municipalities and DDCs. These local taxes are also impediments to Nepalese exporters. Local Self-Governance Rules allow to tax on movement of products only from originating districts where as producers and exporters have to pay local taxes in different districts and municipalities on the way. Local institutions are allowed to levy local taxes under Local Self-Governance Act on export as well. Consignments moving from villages' districts and municipalities are bound to pay local taxes. There is no provision of refund of such local taxes either in Industrial Enterprise Act or Local Self-Governance Act. These activities make Nepalese export less competitive in international market.

6. Constraints in diversification of products and market expansion: So far our export basket has been extremely limited. Exportable products to India were basically high bulk low value agriculture and residual items of primary nature until 1990. However, recently some manufacturing items have appeared in the basket. There are also very limited items exported to third countries i.e. RMGs, pashminas, carpets and some handicrafts. Similarly, exports to Tibet are basically food items.

Nepal's performance in diversifying market has not been encouraging. Both government and private sector have not shown progress for quite a long time to diversify market. Market of RMG, pashmina and carpet including some agriculture items could be diversified in many destinations than the present limited countries. In this connection our missions abroad have not helped seriously for marketing of our products in their respective countries in collaboration with the private sector. Similarly both private and public sector hardly have tried to get better access through the provisions of multilateral and regional organizations like WTO, SAFTA, BIMSTEC and EU, EBA preferential arrangements. It is also true that we have high cost of production and quality of products has not been competitive in international market.

C. Administrative and procedural constraints

Although this constraint is not new one, the story of export promotion would remain incomplete without addressing this issue. The exporters are complaining about red tape and administrative delays resulting to high transaction costs. There is no accountability and transparency in the functioning of the government and there are frequent changes of the government and senior officials. Our policies are liberal but there are hurdles in implementations i.e. lack of coordination among government agencies. Different interpretation of rules and regulations results ad-hoc decisions. Policy document commit to provide one window service to foreign investors. But either committee does not meet or its decisions are not implemented by concerned government agencies. Tax payers complain more about the hassles than tax rate.

1. Procedures of bank guarantee release: The import duty on industrial raw materials can be released by recording import of raw materials in pass book or submitting bank guarantee related to export. Under the pass book system revolving deposits needed. The bank guarantee for six months is needed to import under bonded warehouse facilities. The involvement of capital under pass book system and long process of bank guarantee release under bonded warehouse system add additional costs to exporters. Business communities are demanding to simplify the process of bank guarantee release in various forums. There is complain of custom officials that the guaranteed amount of duties are not paid in time by concerning banks.

2. Duty drawback scheme: The export oriented industries can import raw materials under bonded facilities and can export the products. This is one of the duty exemption scheme commonly used in developing countries. In cases where import duty is paid on imported raw materials duty is refunded in proportion to the raw materials used in exported goods. This system of duty draw back is working very poorly. The scheme has become costly by blocking the working capital of the exporters (or entrepreneurs) for a long time. The business communities complain that the process of duty refund is not clear and simple. In most of the cases the exporters have to wait for a number of years to get the duty refund. Thus the export promotion scheme has not been effectively implemented as stipulated in Industrial Enterprises Act. Due to internal causes working capital of exporters has been blocked and needs to be addressed by the government.

The manufacturing industries either replace import for domestic consumptions or provide articles for export. The industries are getting duty rebate on industrial machineries and plants of Chapter 84 of Customs Classification Code in which the tariff rate is 5 percent. They do not get duty rebate on parts of the plant and machineries.

3. Provisions of deemed export: If construction materials sold to foreign aided projects they are deemed to be export under Industrial Enterprises Act. The deemed export used to get duty draw back. Finance Ordinance do not have the provision of deemed export. If intermediary industry sells it's product to the export oriented industries the former industry

also should get the facilities of deemed export. In the Finance Ordinance 2061 there is a provision for cotton producers to get such facility. In the absence of defined procedures the provision has not yet been implemented so far.

D. Constraints on infrastructure and logistics

Communication plays the great role in international trade. The development of modern communication system is satisfactory in Nepal. If the cost of communication is high, it imposes extra cost to exporters. The internal transportation cost also is very high in Nepal. The road conditions are not good. So, the cost of transportations and roads conditions are also additional cost element to the export trade. Infrastructures of customs are very poor which are time consuming and ultimately cause increase in export cost. The air freight or transportation cost is very high which makes our export expensive in international market. Transit cost has been dealt with earlier.

E. Institutional constraints

There are no efficient organizations and institutions for promoting exports. Of course there is plethora of committees', councils and boards with the same objective for promoting exports and all of them are not functioning properly. There is no special cell in the ministry or TPC which can liaison with our missions abroad to feed them about our export policies, programs and products and to collect information about the demand of items and their customs duties in respective countries from the missions. Neither private sector has such arrangement so far. Present TPC is not functioning effectively for various reasons. There is no special financial institution such as exim bank to finance export and import activities in Nepal so far.

Our export policy, plan and programs seem to be in documents which are never monitored or implemented. Export business is the affair of private sector where government can only facilitate. Nepal's private sector needs to develop professionalism and corporate culture.

F. Legal constraint

Besides all policy and procedural constraints as mentioned above there are certain legal constraints too. At present, audit for valuation purpose is conducted in ad-hoc basis. There is no specific legal provision and procedure of post clearance audit. There is no legal procedure of bank guarantee release in customs law. Prevailing Customs Act is control driven. Like wise Export and Import Control Act, 1956 by name is control oriented. Control of export trade is reflected in **Annex – 7**. This allows restricting exports freely and is subject to MOICS decision from time to time the goods to be included under the category of quantitative restrictions. There are many executive notifications which impose control in export trade. There are no serious and sincere provisions of trade facilitation especially in export sector. There are many legal provisions which are making hassles in export trade as explained earlier. For example, we can quote provisions of archives in the said Act which are directly adding one step of certification to Nepalese handicraft. The legal provisions of wildlife protection, plant quarantine, and narcotic control impose extra cost, time and efforts to the exporters. These provisions should be simple, automatic and transparent. All these legal provisions may be important in the national context but due to the lack of one window facilities of examining the exports document and exportable goods extra cost and time are incurred for completion of each formality. Industrial Enterprise Act, 1992 has the provision of all tax rebate to small and handicraft industries but in practice there is no such rebate because the language of the latest Income Tax Act has not transparently exempted the tax

to them according to the interpretation of tax administrators. There is arbitration law but the time consuming legal procedures to settle disputes are being major constraints.

G. Miscellaneous constraints

Besides above tariff constraints non tariff barriers add additional costs to exporters. Plant and animal quarantine certificates are needed to get permits to enter goods into India while exporting agricultural products from Nepal. The process of getting such certificate is very lengthy and involves extra cost to the exporters of Nepal. Nepalese exports have to face many non tariff barriers at exit points thereby losing competitiveness. Most of her trading partners have been levying antidumping and countervailing duties. India has fixed certain import quotas as mentioned earlier.

There are problems of refund of excise and other taxes on export under barter system. Nepal has been conducting barter trade with Tibet historically. Even in barter trade excise refund should be simplified along with other refund schemes. Royalties on forest resources and mining are causing extra cost to some industries using such products as raw materials, for example, timber based handicraft products. Gold and silver jewellerys are exported outside but there is no formal records and incentives to the exporters.

Nepal's agriculture policy and policy on herbs and forest and minerals products mention incentives in exporting these products which do not cover by our taxation acts.

H. Prospects of tax policy reform

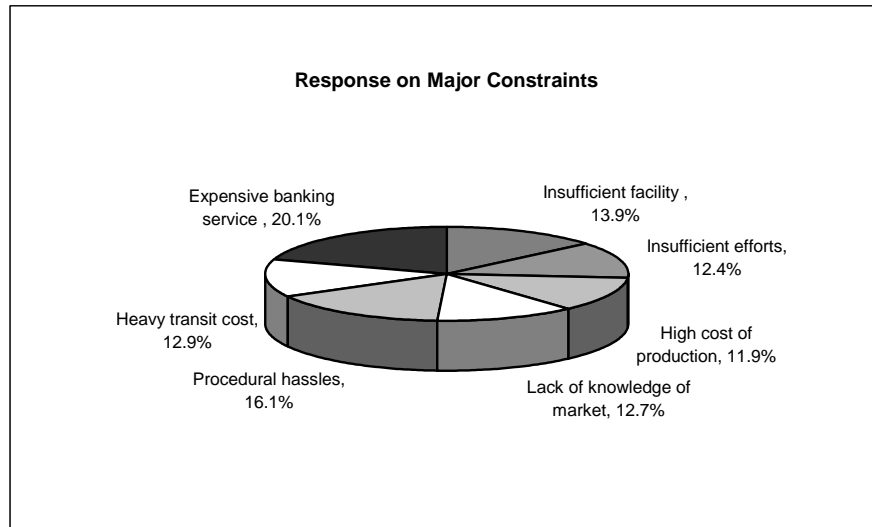
In Nepalese foreign trade regime there are many constraints and hurdles both policy and procedural wise on export promotion as mentioned earlier. Therefore, there are prospects of policy and procedure reforms too. In the context of Nepal's accession to WTO, many reforms are supposed to be introduced on taxation policy. Many developing and developed countries charge zero rate tariff on export or implement other tax exemption schemes to accelerate exports. Ironically after the expiry of MFA, the international market of garment has become more competitive to Nepal as mentioned earlier. Small economy like Nepal may suffer due to the high costs to compete with large economies. Keeping this in view, there is prospect of tax policy reform which includes reform in tax rates and in procedures as described in this paper. Specifically it is observed that there is scope to reform income tax, customs duty and local taxes. There is also prospect of increasing factor's productivity in Nepalese economy because at present the labor productivity is very low. Land, capital and entrepreneurship are also bearing low productive efficiency. Inadequate incentives to acquire new technology, poor export infrastructure and unfriendly business climate are responsible factors for low competitiveness of Nepalese product in international market. Therefore, there is a need of policy reform particularly in the above three areas.

CHAPTER IV – ANALYSIS OF PRIMARY DATA AND COMPARISON OF EXPORT INCENTIVES IN NEIGHBORING COUNTRIES

A. Analysis of the responses from stakeholders

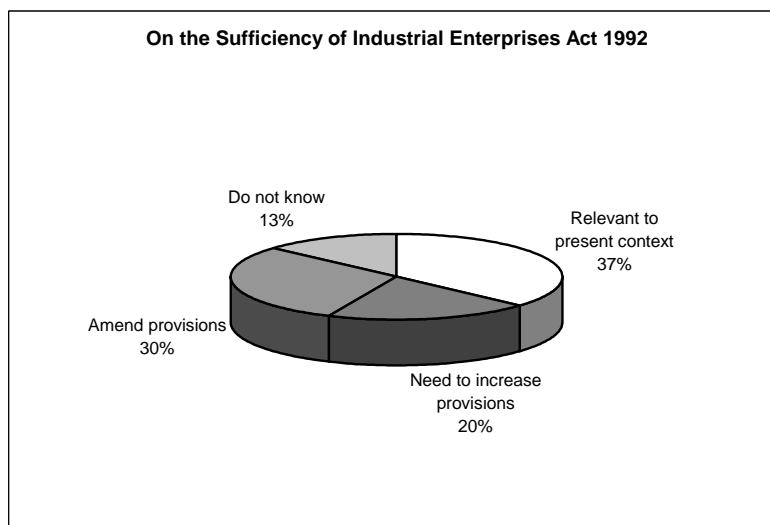
During the course of study twenty six questions were circulated to the representatives of different commodity associations, FNCCI, NCC and big exporters. Questionnaires were distributed to 57 private sector persons and organizations giving almost three weeks time. Only 31 agencies returned the questionnaire in due date. Questionnaires were also distributed to a dozen of government policy makers of MOF and MOICS. There were different types of questions and the responses also differ accordingly.

1. Responses on major constraints: On the question of identifying major constraints to enter into international market to Nepalese products the expensive banking service to exporters as major constraints got highest priority expressing 20.1 percent score (average score out of 700 marks). Second priority was given to procedural hassles as a constraint by providing 16.1 percent score to it. Third priority was placed to the insufficiency of government facilities. The actual picture is given in the following pie chart.



2. Major way out for export promotion: The suggestions were demanded from the stakeholders in question second. On this issue the highest priority was given to make international trade open and restriction free by providing 24.8 percent score (average score out of 600 marks). Second priority was given to increasing level of government services by giving 22.7 percent marks. Third priority was placed to tax rebates by providing 15.5 percent marks to that issue.

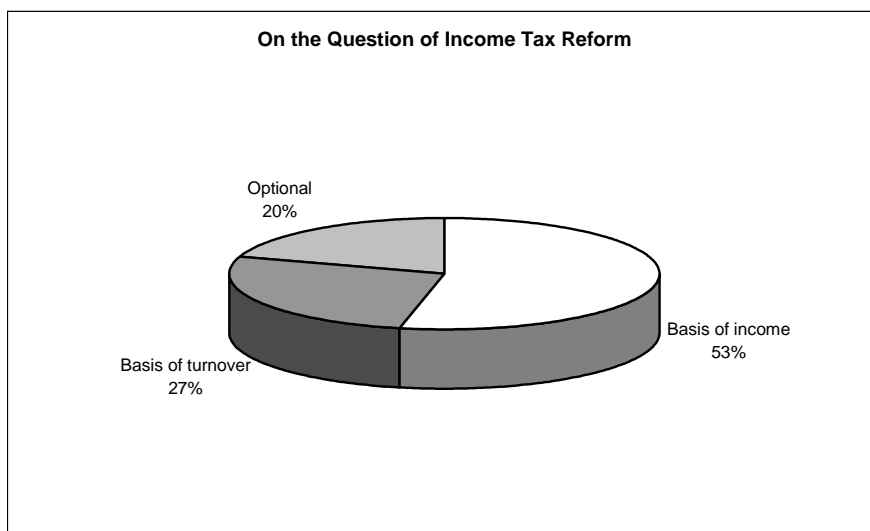
3. On the sufficiency of Industrial Enterprises Act, 1992: On this issue 36.67 percent said it was still relevant in the present context where as 30 percent said that there was need to amend the provisions of the Act and 20 percent of the respondent in favor of increasing facilities. The details of responses is shown in pie chart.



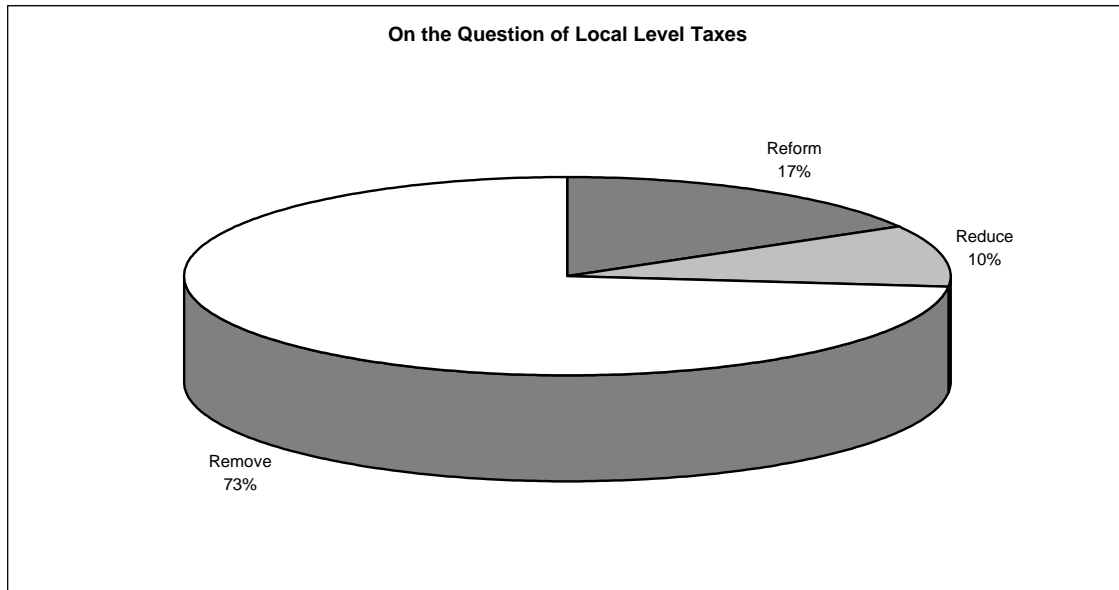
4. On the issue of tax reform: With regard to tax reform 46.67 percent of the respondents suggested income tax reform and 30 percent gave their opinion on customs duty reform where as 20 percent suggested reform on VAT.

5. On the issue of customs reform: On this issue there were five hundred marks to each reform totaling 5. The respondent placed high priority by giving 24.4 percent marks on providing bank guarantee facilities where as they put in second priority to administrative reform in customs by providing 22.4 percent scores to it. They gave third priority to bonded warehouse facilities. On bank guarantee 71 percent of respondents suggested that it should be provided to all export oriented industries not only to the selected industries and 19.35 percent were of the opinion of providing only to those exporting more than 60 percent of their products. On the issue of export customs tariff 55.17 percent expressed their views to reduce it to make Nepalese product competitive whereas 27.59 percent said present export tariff is sufficient.

6. On the question of income tax reform: On the issue of income tax whether it is making Nepalese export less competitive or not, 77.42 percent of the respondents accept that income tax provisions are making Nepalese export less competitive in International market and it should be reformed. On the basis of taxation on export earning 53.33 percent responded that the basis of taxation should be profit where as 26.67 percent were of the opinion that income tax should be on turnover basis. Respondents of the garment, carpet, pashmina and handicraft sectors have suggested the income tax on turnover basis. In providing the response on question of income tax rate 78.57 percent gave their opinion of levying income tax at the rate not exceeding 5 to 10 percent and 17.66 percent were in favor of zero rate of income tax. The detail of responses on basis of income tax is shown below.

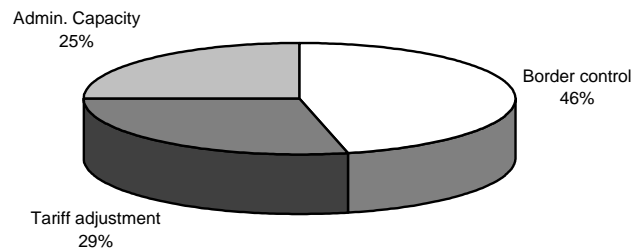


7. On the question of local level tax: On the issue of local tax on export 73.33 percent opposed the local tax and suggested to remove it because it was affecting the export badly whereas 16.67 percent of the respondent were in favor of slight reform on local taxes and 10 percent were in favor of reducing rate of local level tax.



8. On the question of controlling unauthorized trade: On this issue 46.43 percent of the respondent said there should be strong physical control in border area where as 28.57 percent were in favor of adjustment of tariff rate with neighboring countries and 25 percent were in favor of administrative reform.

On the Question of Controlling Unauthorized Trade



9. Miscellaneous responses: On VAT 38.71 percent demanded bank guarantee facilities to all export oriented industries on import of raw materials and 35.48 percent suggested to simplify VAT refund procedures. On the question of excise 69.23 percent were in favor of the existing policies but they suggested the reform in administrative process. On the question of royalty and registration fee 35.71 percent showed their ignorance about royalty and registration fee whereas 28.57 percent said that royalty and registration fee is not affecting industry negatively but it should be according to commodity and 25 percent were against it. On the concept of EPZ and APZ 53.33 percent of respondents supported it because in their opinion the concept, if implemented, properly will enhance exports.

On the question of duty draw back system 38.71 percent supported the policy and demanded reform on procedure. 32 percent were of the opinion of duty refund at custom point on flat rate. On the question of reform on facilities to deemed export and intermediate goods 48 percent suggested to provide bank guarantee to import of the raw materials of intermediate products. 24 percent suggested refund after sale to the export house.

On the question of barter system, 68.81 percent said the policy as such is good need administrative reform whereas 27.27 percent of the respondent opposed present foreign exchange payment system in place of barter system.

On the question of facilities to export carried out by others than industries, 76.67 percent expressed their view that the same facilities should be provided to other exporters too whereas 16.67 percent in favor of partial facilities.

Same questionnaires were also circulated to about a dozen concerning policy level officials of government agencies. Only few officials gave responses. On the question of identification of constraints, high priority was given to lack of sufficient facilities to exporters and they also recommended increasing level of government service.

On the question of sufficiency of Industrial Enterprises Act, they were in favor of reform in its provisions.

On bank guarantee reform, they suggested that the facilities should be provided to all export oriented industries. On the question of rate of income tax, they said that there should be zero rates. On the basis of levying income tax, most of them said it should be levied on the basis of income and profit. On the question of VAT, they suggested to simplify refund process.

Likewise on the question of registration fee and royalty they were in favor of removal at least for export oriented industries. To the concept of EPZ and APZ, they said that such concept will accelerate exports. On customs tariff reforms, they said it should be reduced to make competitive export. On the question of controlling unauthorized trade they gave priority to physical control in border and increase in administrative capacity.

On the question of local tax affecting the exports, they expressed that it should be removed. On barter system, they said that it was good but few were in favor of payment of foreign currencies in place of barter system.

On the question of facilities to the exporters other than industries, they said it should be provided to all without discrimination.

Thus in many cases there is consensus among private sectors and government sectors responses which is heartening to the consultant and probably other stakeholders. The response sheet on questionnaires is given in **annex – 8**.

B. Summary of incentives given in neighboring countries

All neighboring countries of this region have promoted their exports in different ways. Bangladesh has provided many attractive export incentives to their export oriented industries and traders too. Likewise, India and Pakistan have given many packages of export incentives. Pakistan has provided soft loan to their direct and indirect export at the interest rate of 8 percent. Pakistani central Bank reimburses the interest loss to commercial banks. Likewise, Bangladesh also provides pre-export and post export loan to exporters in cheaper interest rates. There are specified duty draw back facilities in India. Soft bank loan, income tax rebate and simplified procedures are known as major facilities in these countries. Indian budget 2005 has made provision of development budget to export oriented textile industries keeping in view with the expiry of multi fiber agreement.

Nepal also has been providing lower income tax rate of 20 percent for export oriented industries. Export tariff, VAT and Excise are exempted through duty draw back scheme and soft loan facilities are provided which does not seem to be implemented properly. However, Nepal's incentives scheme is not attractive comparing to neighboring countries schemes. There will be negative impact on attracting FDI with this situation. There is strong competition for FDI between Nepal and the neighboring states of India among others. These states provide various fiscal and financial incentives and India as a big market also is an incentive in itself. Therefore Nepal should keep this in mind that without investment exports cannot expand and FDI should be attracted for which exports incentives should be attractive than the present packages. The comparison of export incentives prevailing in these regions are given in **Annex – 9**.

CHAPTER V – PROSPECTS OF PUBLIC PRIVATE PARTNERSHIP FOR PROMOTING EXPORTS

A. Public private partnership

Public Private Partnership (PPP) is a development model recognized by many countries in recent times which has also been promoted by UNDP in some less developed countries. Nepal is also a country where such program is under implementation. UNDP has been working on developing urban infrastructure with PPP. Example of other initiatives of HMG/N from their side is BOOT Ordinance which is specially designed to facilitate investment of private sector in infrastructure sector. The concept of PPP in the Tenth Five Year Plan (2002 – 2007) has appeared in several sectors intends particularly to contribute in the reduction of the poverty through increased employment by enhanced investment of private sector.

PPP has been recently introduced in legal form. However, its coverage at present is limited. The potential sector for PPP is urban electricity distribution, urban drinking water, and solid waste management and road maintenance. The development of these sectors through PPP is likely to contribute to the export sector as well. There is no doubt regarding merits of PPP development in promotional activities relating to export sector. Since the initiation of the participation of the private sector, noticeable achievements have been made in the field of health, education and transportation. Nepal's market oriented economic reform programs aim to make private sector participation more active in economic decision making, development of exportable products, investment in infrastructure development projects could greatly assist in exports growth. Thus the PPP is to be instrumental to support export led strategies in future.

B. Present status and perspective

In export sector, government has formed various institutions with representatives from private sector to take decisions on policy issues. Carpets and garments are two important export items. Government has formed institutional mechanisms to take policy decisions for the development and promotion of these products. The institutions are Carpet and Wool Development Board and Readymade Garment Export Promotion Committee. Both are well represented by senior government officials and private sector organizations and imminent persons from private sector. In the same way, the high level export promotion committee under the chairmanship of the MOICS with functions to formulate national policies for the development of export is also represented by important private and public institutions. Likewise, the TPC is a government sponsored non profit making body, and focal point organization for the promotion of export trade of Nepal. The board of the centre which is a decision making body has been constituted with the representative from private sector institutions and the imminent persons. Suggestions are also received from RAC every year

before the budget speech with representative from the private sector to incorporate their concern in the budget of HMG/N. The list of suggestions of RAC is given in **annex – 10**.

TPC and EPC have not been able to make any substantial contribution to attain their goals other than arranging a few regular activities. Over the years, the role of the private sector has increased whereas the contribution from related government agencies has not been encouraging as expected.

The export promotion is a difficult task and achieving the export promotion goal need serious initiatives from government and the private sector. Expected activities of the government and the private sector under PPP model could be as follows:

From government perspective: The role of the government is to create an enabling environment under which the private sector feels comfortable to undertake export promotional activities. The government should encourage the Nepalese foreign missions abroad to be involved in economic diplomatic activities. The government should make simple and export friendly rules and regulations. The formalities to be fulfilled by the exporters to complete export procedures should be minimized and made transparent. Further, export promotional activities to be undertaken by the exporters could be supplemented by providing necessary assistance by the government. Likewise the government is responsible to play an active role for obtaining preferential entry of Nepalese products through bilateral, regional and multilateral trading arrangements capitalizing the least developed status of the country. Likewise the Govt's role for further streamlining of the transit procedures and availability of infrastructure facilities at the port at the concessional rates with the transit countries in the context of the landlocked position of the country is crucial.

Possible policy reform is made in the computation of income tax and other taxes and the modality of the payment of the income tax and other taxes be made simple and transparent. The actions like availability of the finance without fixed collateral base, cheaper interest rate and easy allocation of foreign exchange for export promotion activities abroad, encourages private financing from international market for export related activities and provides special incentives to encourage unutilized remittance towards export related activities.

From private sector perspective: Warehouse facilities at the major export points as well as in the port of Haldia are still inadequate where there is scope for private sector investment. Market promotion activities carried out by private sector at present are not sufficient and effective. Regular participation in international trade fairs for marketing of exports of existing and potential products and initiative to diversify the markets of these products are the regular activities of the private sector. Private sector should invest in developing new products based on local raw materials instead of assembling type industry. Last but not on least, development of export oriented industries wherein the country has comparative advantages by attracting foreign investment and technology is the topmost requirement for export promotion for which only private sector should play a proactive role. Private sector involvement in the establishment of export processing zones, construction of quality testing laboratories at the major export point will facilitate for export growth. After all export is private sector's business and the government can only facilitate through their policies.

CHAPTER VI – RECOMMENDATIONS FOR IMPROVEMENTS

A. Recommendations

Last one and half decade have witnessed liberalization policy in Nepal as well. Many efforts were made to promote export by providing different export incentives, relaxing export control and export duties. To lunch export drive government provided many types of refunds, rebates, exemptions and at times cash incentives. There is no account of the amount government has to lose in such schemes. In fact, export incentives should be commensurate with the results achieved through incentives. Nepal has been facing large trade deficit as mentioned earlier, therefore, the government has been emphasizing on export promotion. All

efforts have marginal impact on export promotions so far. The trading community suggests increasing rebates on export duties and taxes every year. After consulting exporters, manufacturers and secondary data's the report was prepared. The draft report was presented in the seminar of stakeholders and suggestions are included. The report was presented in the Advisory Committee meeting and suggestions received are incorporated in the related paragraphs. The study would like to make the following recommendations to promote the export of existing and potential items.

1. Policy recommendation: Policies are known the directions for development and reforms. The well designed policies can address all hassles and improve the present status of export taxation. Following policy measures are suggested:

a. **Recommendation on investment policy:** In Nepal FDI is much lower than other Asian least developed countries like Cambodia. There are many authorities to provide concession and approval to FDI in spite of declared one window system. Therefore, the policy to integrate formalities of foreign investment should be adopted. For this following policy improvements are recommended:

- Revisit the FDI policy in medium term
- Ensure investment security to the investors especially for export oriented industries
- Redirect FDI towards new product development for exports.

b. **Recommendation on lending policy:** It is observed than commercial banks are enthusiastic to finance in trading sector rather than product development. For example generally banking sector does not give priority to finance industry comparing to trading. The attitude of banking sector should be changed. They should develop mechanism for loan safety and promotional loan to export. Following measures are recommended:

- Revisit lending policy especially for product development
- Professional supervision and monitoring of loans
- Provision of soft loan to exporters.
- Minimize spread rate in lending to export oriented industries.

c. **Recommendation on duty structures:** Tariffs are levied on specifics or ad valorem basis in Nepal. Tariff structure has important implications on exports. Nepal's present import tariff structures leaving some exceptions reveals that there is high tariff on final product where as there is lower rate of duty on raw material and auxiliary raw materials of the industries. If the industries are export oriented exporters who pay tariff on raw materials get duty refund after export. There is export duty ranging from 0.5 to 8 percent. Revenue collection is not the main purpose of export duty. The main purpose of levying export duties is to discourage environment degradation, to ensure food security and check trade diversion to neighboring countries. At present direct export duty is attracted on some products which are generally exported to India and Tibet. The tariff rate should be restructured to ensure:

- To enhance investment in export oriented industries
- To make export incentives commensurate with export earning
- To levy import duty on industrial raw materials and auxiliary raw materials less than finished goods imported.
- To increase competitiveness of Nepalese product in international market
- To adjust the tariff in line with the changes in neighboring countries

In view of the above objectives the tariff rate should be redesigned. The duty rate should be finalized after comprehensive exercise and cost benefit analysis in terms of export and import. If some compulsions are there for the country to impose export tax on some goods for example to protect environmental degradation, they should be conceded. Export duty on vegetable ghee was imposed before 2002 while its quota was not fixed by India. As quota has been fixed now it is hard to justify it. Similarly all those items attracting export duty should be reexamined and the list should be minimized. The present revenue amount from export tariff is low with the total contribution of only 6 percent on total customs revenue. In

fact revenue neutral or zero tariff rates on export is recommended which is compatible with WTO rules. The revenue loss from such steps can be recovered by strengthening customs controls measures in border area.

d. **Recommendation on income tax rebate:** Income tax is levied on profit whether it is earned by export or import. Previously income tax used to be levied on the basis of turnover on export. It was removed by Income Tax Act, 2001. Now all incomes are kept in the same basket and tax is levied on the basis of profit on total income. Producers of any country take care of total factor productivity that is land, labor, capital and entrepreneurship. Many countries provide incentives to support the exporters to compete in international market. Although majority of the stakeholders suggested the basis of income tax should be profit and some of them said the basis should be optional or turnover. Under the circumstances keeping in view the responses the expert came in conclusion that the basis of income tax should be chosen by exporters optionally and it should not be altered within five years. Article 15 (Ka) of IEA has been repealed by the amendment of Income Tax Act in Finance Ordinance 2062. This amendment has resulted in the withdrawal of income tax exemption given under the earlier act. Industrialist and traders anticipate that their production and export will be discouraged by this amendment. Finance Ordinance 2062 made provisions to levy only 75 percent of reduced rate of 20 percent income tax to export earnings. It is still not enough to be competitive to them in the international market. The following suggestions are made:-

- Levy 1.25 percent turnover tax on export earning at the point of exportation for five years in place of the present rate. Exporters may be given option to comply the new recommendation or the existing rate.
- Exempt 50 percent of taxable income from export and levy tax at present rate in the long run. Or levy reduce tax rate to the income from export.
- Make provisions of allowing expenses to further development of new product for export.
- Tax administration should be transparent, non-corrupt and hassle free by improving the administrative system.
- Relate tax rebate with employment generation product development, RND, use of local raw materials and value addition.
- Recent amendment on income tax to repeal provision of IEA Article 15 (Ka) needs to be reconsidered in a way to facilitate small, cottage and handicraft industries.

The amount of income tax raised from exports today will be well compensated from 1.25 percent turn over tax on export at exit points. Alternatively income tax rebate can also be provided on selected items of export of importance to the country by developing some criteria for example high value addition, creating high employment opportunities and using local raw materials etc.

e. **Recommendation on local taxes:** Local taxes play role of impediments on export promotion. Among them local level municipal tax and district level export taxes are major cost escalating factors. In the course of discussion with stakeholders they said a consignment from Nepalgunj has to pay around Rs. 7,000/- to exit from Kakarbhitta. Therefore, the study keeping in view the discussion with stakeholders following suggestions are given:-

- Removal of the provision of VDC, municipality and district level local export taxes from Local Self-Governance Act on national exports.
- Provisions of refund of such taxes if levied on the movement of goods from the factory or collection center up to the export point. As this tax is collected by local bodies refund mechanism should be different than other government taxes. The tax levied on exports by local bodies can be refunded by the fund of local development tax which is collected by customs at import points.

f. **Recommendations on product diversification:** Tenth Plan (2002-2007) has emphasized to use the opportunity that has emerged in the area of hydropower, computer software, and labor markets. Similarly, in view of Nepal's rich bio-diversity situation, small scale industries based on local agro-forest resources are of prime importance. Some items of exports such as agro-forest resource which have high value like different forms of spices, floriculture, sericulture, honey, buck-wheat, Niger seeds, fresh vegetable and seeds, fruits (apple and orange), tea and coffee, semi-precious stones could be potential exportable products. They will not demand extra land, labor and new technology. At the same time some studies need to establish the forward and backward linkages. The following activities should be started as soon as possible.

- Already identified and feasible projects should be negotiated with foreign investors particularly in water resources and software.
- IT Park under construction should be operational immediately.
- Nepal should provide vocational or effective training for laborers who are looking for job in international market.
- Market study should be done for promoting exports of new agro-forest commodities
- Economic diplomacy should be strengthening.
- Investment should be promoted from national entrepreneurs particularly for agro-based product development.
- Agro forest and minerals products should be identified and prepared up-to-date reports of each products.
- Provide special privilege in tax particularly for new product exported to new market.

2. Recommendation on administration and procedural improvement: Most of the constraints are related with administrative procedures. The efficient, sincere, committed and non-corrupt administrative setup can address most of the constraints. The following measures are recommended.

a. **Recommendations on simplification of duty draw back procedures:** Import duty already paid on the raw materials and auxiliary raw materials under the duty refund scheme is refunded to exporters. However, step wise procedure should be redesigned and improved. Similarly, VAT and excise duty if paid is also included on duty draw back scheme. In Nepal the refund performance is very poor. The refund procedure is lengthy and cumbersome. Many government agencies are involved in duty refund decision and one window system is not performing well. Therefore, the following activities should be immediately started:

- Settlements of old duty draw back cases within 6 months.
- Introduce the duty suspension scheme i.e. pass book system make simple and predictable and provide it to all export oriented industries.
- Develop a mechanism to include all exporters through export houses not necessarily producers. Small producers in the system who by virtue of being below threshold are not registered in VAT have not been able to get VAT refund. They are working in handicraft, pashmina, carpet and garment industries. These small producers should be benefited from the refund scheme.
- Payment of duty draw back through commercial banks on the basis of the mechanism lay down by NRB.
- Design simple procedures and format to get duty draw back.
- Make effective provisions to implement deemed export as stipulated in Industrial Enterprises Act.
- Provide duty rebate to those enterprises and producers selling their products to export houses.
- Provide flat rate refund based on input and output ratio (coefficient) at F.O.B. price to ensure the benefit to small producers and flat rate should differ from product to product.
- Duty on packaging materials of export item should be treated as auxiliary raw materials of products for export.

- Provide duty draw back in flat rate based on product to product.

b. **Recommendations on bank guarantee release and bonded warehouse:** Present system of bonded warehouse is covered by bank guarantee. The exporters under this facility use their own warehouses to store in and out the stock of raw material according to their need. Bank guarantee is released after submission of export certificates and related documents. To simplify the bank guarantee release system following reforms are suggested:

- Develop private sector warehouse on the basis of BOOT
- Provide bonded facilities to all export oriented industries.
- Develop systems of supervision on warehouses
- Specify documents needed to release the bank guarantee.
- Design formats as per international practice
- Make bank guarantee release predictable and transparent
- Automation of bank guarantees in each customs points and exchange of information
- Make provision of online release of bank guarantees.
- Provide the bonded warehouse facilities to imported intermediary products if sold to export orient industries.
- Provide duty suspension facilities to domestically produced raw material & intermediary raw material.
- Encourage the use of revolving bank guarantee to avoid working capital blockade.
- The procedures of paying guaranteed duties by banks to customs should be simplified and predictable.
- There should be time frame for bank guarantee release.

c. **Recommendation on export infrastructure and logistics:** Nepalese exports have to bear heavy pre-shipment transportation and handling costs. Transit cost and freight are very high and critical to the Nepalese exporters to be internationally competitive. Therefore, for export logistics and infrastructure development following actions are suggested:

- Establish EPZ, SEZ and APZ for high value and low weight products near international airport and low value and heavy weight type of items near land border.
- Encourage private sector to establish export house.
- Provide soft loan to export related activities.
- Provide fast track clearance to exports.
- Provide transport subsidies to export of fresh fruits, cut flowers and vegetables and other non traditional products.
- The private sector has to be able to utilize fully ICD facilities particularly Birgunj and Fulbari-Banglaband alternative land route for transit. The government has to take up this matter including double checking of containers at Indian border and Kolkotta.
- Update Transit Treaty with India which has to be renewed in near future in Nepal's favor.
- Make provision of transit cargo house.
- Develop business accounting system with ICAN modal.
- Nepal may explore to accede in convention on the international transport of goods under cover of TIR Convention, 1975 amended as of May 12, 2002.

3. **Recommendation on institutional development:** Trade liberalization alone cannot enhance exports of national products. Therefore, trade liberalizations should be followed by well designed institutional setup to implement the reform program. Following are suggested:

- Develop a cell in TPC or in the proposed unified organization to collect information on import policy of countries which may have market for our potential new products and introduce marketing activities in such destinations or countries.
- Get maximum benefit of preferential entry through EBA in EU.
- Negotiate to revise Trade Treaty with India to promote Nepalese products in Indian market and ready made garments in US markets

- Specify procedures and agencies responsible for providing concessions, approvals and permissions to the investors and exporters and make effective one window system.
- Negotiate efficiently with WTO, SAARC and BIMSTEC to get more facilities as a least developed country.
- Make provision to establish export and import bank (Exim Bank).
- Make one effective trade promotion organization instead of several non-functioning organizations.

4. Legal recommendations: There are many legal constraints which should be addressed in Nepal. There are different provisions of restrictions and controls in different acts. Following recommendation are made to address the legal constraints.

- Revise Labor Act making it industry friendly and compatible with employment contract law.
- Regulate barter system of trade with Tibet (Autonomous region of PR China) and gradually encourage to channel through banking system.
- Revise Foreign Investment and Technology Act to make it FDI friendly.
- Negotiate to revise Trade Treaty with India
- Introduce bankruptcy law.
- Make provision of post clearance audit in Customs Act.
- Revise Export Import Control Act.
- Revise Industrial Enterprises Act.
- Revisit arbitration laws and regulations for fast track dispute settlement of industries.

5. Miscellaneous recommendations: There are different factors that contribute low productivity and high price in Nepalese industries. There are inadequacies of incentives, cumbersome procedure, unpredictable business climate, poor infrastructures and unproductive labor force and low entrepreneur capacity with rival attitude which are resulting to high costs. The study suggests following actions to reduce such anomalies:

- Provide technical training to Nepalese labor.
- Control informal trade seriously with neighboring countries, so that genuine exporters are not hurt.
- Develop efficiencies in factors of productions such as land, capital and labor because such factors force prices up.
- Permission of sale of goods rejected for exportation after the payment of revenue
- Reduce or even subsidize air freight for export of fruits, fresh vegetables and cut flowers significantly and concessional rate to other export items.
- Reduction of duties and taxes in machinery for research.
- Increase ceiling of annual sample export.
- Provision of local fare and incentive to participate in international fares to promote exports.
- Increase use of local raw materials.
- E-commerce should be incorporated in legal framework especially software export through internet should be effectively promoted in export activities.
- Separate package of integrated facilities to export oriented industries established in remote area is advised.
- PPP should be strengthened making private sector pro-active and responsible to invest more on export oriented sector.
- Revisit cross exchange rate with Indian currency to facilitate export.
- Provide other alternate mode of payment beside L/C because in some cases services charges of export L/C is very high.
- To reduce operational time and cost at customs.
- To abolish any type of syndicate in customs point.

- ☑ Plant quarantine and chemical testing certification arrangement should be initiated with India. Mutual recognition of standards of both the countries should be fixed and entertained at the field level.
- ☑ At least 20 percent ceiling of value addition should be specify to enjoy export incentives.
- ☑ Similar a separate study on exports of services is recommended as they are very important to our economy.

Thus the study makes above recommendations to address constraints on export promotion. To make the recommendations operational, present study provides policy-action matrix which consists of constraints, policy improvements, activities, indicators, time frame and responsible agencies as mentioned in TOR. The policy action matrix is reflected in **annex – 1 (a)**.

B. Conclusion

At macro level, there has been trade imbalance since a long time. Recently the remittance has become only remedy to meet the widening gap of balance of payments. Nepal has only one way out to boost up her export trade to correct her trade imbalances. There are many constraints relating to export promotion i.e. economic, tax policy, legal, institutional and procedural. At present, the international trade is developing in faster pace than before. The developing economies are weaker partners in the game of global market. They have to seek better opportunities in the midst of challenges. The present electronic development has made possible to the consumers of any country to order and supply the goods and services through the single click of his mouse. The fastest change in design, pattern and the taste of global consumers has also become challenge and opportunity for exporters. After all the constraints and challenges can be converted into opportunities if internal legal, policy and procedural constraints are addressed timely. All developed partners started e-commerce excluding least developed countries like Nepal. Therefore, Nepal should address immediately the constraints of export trade and reform policies to enter into diversified market with diversified product development plan. Being a land locked country Nepal has its own limitation regarding transit and transportation cost of particularly fresh fruits, vegetables and cut flowers etc. Nepal should develop packages for transport subsidies to reduce domestic and international transport cost. It may be noted that WTO agreement on agriculture does not restrict such type of transport cost reduction plan. All export incentives should be commensurate with export earning. Economic analysis should be conducted to find out the impact of incentives provided by ourselves and the impact of similar incentives given by neighboring countries should be taken into account in formulating our incentive packages.

Annex – 1

TERMS OF REFERENCE

The macroeconomic specialist will:

- (a) Conduct research on Status, Prospects and Constraints in Tax Policy for export promotion and prepare draft policy paper, Task details.
 - Review of present status,
 - Identify prospects,
 - Identify legal, economic and policy constraints,
 - Hold meeting with the Government, private sector and other stakeholder to obtain consensus on policy recommendations, and develop action plans,
 - Suggest policy improvement,
 - Identify prospects for public-private partnership,
 - Suggest policy-action matrix (a) policy improvements (b) activities (c) indicators and (d) responsible agencies,
 - Submit draft report within 30 days from the date of assignment,
 - Present the draft at the workshop organized by the Advisory Committee and EPN Focal Unit'
 - Submit final report incorporating feedback from the workshop within 2 weeks of presentation at the workshop.
- (b) Assist MOF in organizing meetings, workshops, and seminars to review and discuss the findings of the reports, obtain consensus on policy recommendations, and develop action plans,
- (c) Assist MOF in monitoring implementation of the action plans,
- (d) Undertake other tasks as required by the steering committee and ADB, and
- (e) Maintain strict accountability at all times as per contractual obligations and ensure timely delivery of policy papers.

Annex – 1 (a)

Policy-Action Matrix

S.N.	Constraints	Policy improvement	Activities	Indicators	Time frame	Responsible agency
A.	Policy					
1	Investment policy	<ul style="list-style-type: none"> ▪ Revisit the policy of investment particularly FDI ▪ Ensure the safety of investment 	<ul style="list-style-type: none"> ▪ Update FIT Act and Procedures ▪ Compare the facilities of FDI with neighboring countries ▪ Draft new policy 	<ul style="list-style-type: none"> ▪ Increased in FDI at least 10 percent from present level ▪ Updated FIT Act 	Medium term	MOICS, MOF
2	Lending Policy	<ul style="list-style-type: none"> ▪ Revision of lending policy by commercial banks ▪ Minimization of spread rate ▪ Effective debt monitoring system 	<ul style="list-style-type: none"> ▪ Revise present lending policy of commercial banks ▪ Make provision of pre-shipment and post shipment loan ▪ Make provision of soft loan ▪ Make less differences in lending and borrowing 	<ul style="list-style-type: none"> ▪ Increased in concession on pre-shipment and post shipment loan ▪ Loan at lowered rate 	Short term	MOF, NRB, Commercial banks
3	Export tariff	<ul style="list-style-type: none"> ▪ Restructuring export tariff 	<ul style="list-style-type: none"> ▪ Analyze the present rates and try to make minimal or zero rate to make it revenue neutral 	<ul style="list-style-type: none"> ▪ Export duty reduced at around 1% or zero level 	Short term	MOF
4	Income tax	<ul style="list-style-type: none"> ▪ Revisit income tax act particularly on export earning 	<ul style="list-style-type: none"> ▪ Redesign tax rate modality on export earnings ▪ Provide and relate rebate on export earning with employment, development and R&D, use of local materials and value addition 	<ul style="list-style-type: none"> ▪ Export income will be taxed on turn over at the rate not exceeding 1.25% or ▪ Permanent 50% rebate on export earnings or special reduced tax rate 	Short term Long term Long term	MOF

			<ul style="list-style-type: none"> Recent amendment on income tax which repeals IEA article 15 (ka) needs to be reconsidered. 	<ul style="list-style-type: none"> Differentiated tax rate for employment generation use of local raw materials and value addition. Small, cottage and handicraft industries encouraged 	Medium	
5	On local taxes	<ul style="list-style-type: none"> Ensure the exportable items are free of all type of local taxes. If levied make provision of refund 	<ul style="list-style-type: none"> Discuss with local leaders to create environment Create fund for refund from local tax levied on import by the government Prepare modality of refund 	<ul style="list-style-type: none"> Awareness created to make tax free export Fund created for refund Modality of refund finalized 	<p>Long term</p> <p>Short term</p> <p>Short term</p>	MOLD, MOF
6	On product & market diversification	<ul style="list-style-type: none"> Facilitate exporters and foreign investors to develop new products Evaluate the performance of embassies on the basis of economic diplomacy to promote export Revisit negotiation with 	<ul style="list-style-type: none"> Specify areas of exportable product development for foreign investment. Provide special tax rebate to those new products exported to new market. Fewer products with specialization. Stakeholders including the government might like to come out with a matrix of 10 countries and 10 products. Select embassies for economic diplomacy specifically for exports Develop liaison between exporters and missions 	<ul style="list-style-type: none"> Increased new agro forest products developed Potential hydro power projects developed New product encouraged. Implemented export oriented eco-diplomacy with India, China and developed countries Improved export activities in 10 potential areas through diplomatic mission Expanded export oriented eco-diplomacy in rest areas. Negotiated in Nepal's 	<p>Long term</p> <p>Medium term</p>	MOICS, MOF, MOFA

		international & regional organizations (WTO, SAFTA, BIMSTEC and EU)	<ul style="list-style-type: none"> ▪ Develop negotiation capability with bi-lateral and multi-lateral agencies ▪ Analyze benefit and cost of present treaties with bilateral countries ▪ Negotiate in Nepal's interest 	interest		
B. Administrative and procedural						
7	Duty draw back	<ul style="list-style-type: none"> ▪ Settlement of old cases ▪ Encourage the use of pass book ▪ Duty refund through commercial bank ▪ Develop and strengthen export houses directives ▪ Specify auxiliary raw materials 	<ul style="list-style-type: none"> ▪ Short out old cases within 6 months ▪ Make quick decision and pay ▪ Create awareness to use pass book ▪ Draft format & procedural manual ▪ Specify rules and procedures through separate study ▪ Create adequate fund for refund ▪ Refund on flat rate which may differ product to product ▪ Develop operating manual of export houses to get refunds ▪ Packaging materials of export item should be treated as auxiliary raw material 	<ul style="list-style-type: none"> ▪ 100 % old cases settled ▪ Increased use of pass book ▪ Introduced refund through commercial bank on submitting authentic paper of export payment ▪ Prepare separate report ▪ Adequate fund created to refund ▪ Flat rate refund system introduced ▪ Specified at least 5 export houses within six months ▪ Export cost reduced by exempting the duty of 	<p>Short term</p> <p>Medium term</p> <p>Short term</p> <p>Short term</p> <p>Medium</p> <p>Short term</p>	MOICS, MOF

			<ul style="list-style-type: none"> Provide duty draw back in flat rate 	<ul style="list-style-type: none"> packaging. Draw back simplified 		
8	Bonded ware house and bank guarantee release	<ul style="list-style-type: none"> Develop private and public partnership on ware house development (BOOT) Provide bonded facility to all export oriented industries Simplify bank guarantee release Bonded facility on VAT too. Recovery of guaranteed duties. online dissemination of bank guarantee and its release 	<ul style="list-style-type: none"> Draft operating manual Make legal arrangements Simplify formalities/formats Specify revolving bank guarantee. Specify needed document to release the bank guarantee at minimum. Provide bank guarantee for VAT Procedures should be simplified to pay guaranteed duty in time by bank Make legal provision for automation of bank guarantee records and its release at. Computer networking with DOC/Airport/ local customs with bank guarantee program. 	<ul style="list-style-type: none"> Established export ware houses at least in major customs points All export oriented industries facilitated with bonded ware houses including VAT Reduction in number of defaulters Reduced at least 25% paper work Targeted paper less bank guarantee release by automation scheme Reduced in number of documents and time length of bank guarantee release. 	<p>Long term</p> <p>Short term</p> <p>Short term</p> <p>Long term</p> <p>Short term</p> <p>Short</p>	MOF, MOICS, NRB
C.	Export Infrastructure and logistics					
9	Export infrastructure and logistics constraints	<ul style="list-style-type: none"> Make operational export house concept Simplify transit procedures with India and Bangladesh Improvement in 	<ul style="list-style-type: none"> Establish export houses Prepare operating manual for it Revise Transit Treaty to facilitate cargo in transit. Explore the benefit acceding in convention of international transport under cover of TIR 	<ul style="list-style-type: none"> Specified 5 export houses Get specific operating procedural manual Transit Treaty with India and Bangladesh revised. Benefit from the accession into the TIR convention 	<p>Short term</p> <p>Medium</p> <p>Medium</p>	MOICS, MOF, NRB, FNCCI, DOC, MLT, CAAN.

		<p>customs infrastructure</p> <ul style="list-style-type: none"> ▪ Harmonize business accounting with international standard 	<p>(CARNET).</p> <ul style="list-style-type: none"> ▪ Abolish any kind of syndicate at customs ▪ Reduce time and cost at customs. ▪ Develop business accounting system in line with ICAN modal 	<ul style="list-style-type: none"> ▪ Fast track services provided at Customs. ▪ Syndicate abolished ▪ Standardized business accounting system 	<p>Short term</p> <p>Medium</p>	
D.	Institutional					
10	Institutional Constraints	<ul style="list-style-type: none"> ▪ Establishment of trade facilitation committee focusing exports ▪ Develop special cell as focal point to provide export information including importing countries, import policy and tariff ▪ Specify responsible single agency to provide concessions to foreign investors ▪ Establishment of export /import bank 	<ul style="list-style-type: none"> ▪ Study the need of all trade related committees ▪ Amalgamate all committees in a single trade facilitation committee ▪ Create special cell to provide information or strengthen TPC with new role ▪ Established single agency with all power to provide concession to foreign investors. ▪ Established an exim bank on public private partnership 	<ul style="list-style-type: none"> ▪ Amalgamated unnecessary committees in a single one with high power. ▪ Equipped information cell to provide information to exporters ▪ Single authority provides one window service to foreign investors ▪ Exim bank established to meet financial deficiencies 	<p>Short term</p> <p>Short term</p>	MOICS, MOF, NRB
E.	Legal					
11	Legal Constraints	<ul style="list-style-type: none"> ○ Legislative reform 	<ul style="list-style-type: none"> ▪ Make provision of extra tax rebate to those who export new product to new market 	<ul style="list-style-type: none"> ▪ Increase at least 3 new products per year 	Medium term	MOF, MOICS, MOLT

		<ul style="list-style-type: none"> ○ Provision of fast track Arbitration Laws and Regulations 	<ul style="list-style-type: none"> ▪ Revisit treaties with neighboring countries to penetrate their large markets ▪ Revise Labor Act making it industry friendly ▪ Update Industrial Enterprises Act ▪ Draft bankruptcy law to deal with insolvency. ▪ Make provision of post clearance audit in Customs Law ▪ Revise Export and Import Control Act to make export friendly ▪ Draft predictable and transparent investment policy followed by legal base ▪ Prepare investment manual ▪ Revise the laws and regulations to provide fast track arbitration facilities. 	<ul style="list-style-type: none"> ▪ Penetrate Indian, Tibetan (Chinese) market with suitable negotiations ▪ Export friendly Labor Act and other acts ▪ Legal arrangement will be commensurate with export promotion ▪ Investment motivated by manual ▪ Fast track dispute settlement 	<p>Long term</p> <p>Medium</p> <p>Medium</p> <p>Medium</p> <p>Long Term</p>	
F.	Miscellaneous					
12	Miscellaneous Constraints	<ul style="list-style-type: none"> ▪ Informal trade control ▪ Price lowering scheme in factor of production ▪ Local and international fair promotion 	<ul style="list-style-type: none"> ▪ Activate border patrolling ▪ Specify duties and responsibilities of different agencies controlling border points ▪ Improve the cost of different factors of production ▪ Specify cost cut down schemes for export competitiveness ▪ Draft working manual for internal and international fairs 	<ul style="list-style-type: none"> ▪ Reduced informal trade by 20% in each year ▪ Strengthen border patrolling ▪ Reduced the cost of production ▪ Reduced FOB price by 20% 	<p>Medium term</p> <p>Short</p> <p>Long</p> <p>Medium</p> <p>Short</p>	<p>MOF,</p> <p>MOHA,</p> <p>MOICS,</p> <p>FNCCI,</p> <p>NRB</p>

	<ul style="list-style-type: none"> ▪ Mitigation of transport risk for fresh fruits, vegetables and cut flowers ▪ PPP should be promoted ▪ Provisions of alternate mode of payment ▪ Revisit rate of exchange ▪ Plant quarantine and chemical testing certification arrangement ▪ Equalization of standard ▪ Ceiling for value addition in exports ▪ Undertake separate similar study on export of services. 	<ul style="list-style-type: none"> ▪ Identify risk of transport of different fresh products ▪ Specify the process of mitigating risk. ▪ Exhibit commitment by both government and private sectors to promote exports. ▪ Make L/C cheaper and make provision of alternate mode of payment ▪ Change cross rate of exchange with Indian currency ▪ Initiate certification arrangement with India ▪ Quality control in equal footing with neighboring countries ▪ Value addition ceiling specify for export incentive ▪ Prepare ToR and assign study. 	<ul style="list-style-type: none"> ▪ At least participate in 5 regional and international trade fairs and 5 domestic fairs annually ▪ Reduced risk of transport of exportable fresh fruits, vegetables and cut flowers. ▪ Committed govt. and private sector for export promotion ▪ Export cost reduced by efficient and alternate mode of payment ▪ Nepalese currency will compete with hard currencies ▪ Reduced quarantine hassles at the eleventh hour. ▪ Standardization of products. ▪ At least 20 percent value addition arrangement made. ▪ Study initiated and report prepared. 	<p>Short</p> <p>Short</p> <p>Short</p> <p>Short</p> <p>Short</p> <p>Medium</p> <p>Medium</p> <p>Medium</p>	
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Annex - 2 (a)

Exports of some major commodities to overseas countries

Value in '000 Rs.

S.N	Commodities	Unit	F.Y. 2058/059 (2001/02)		F.Y. 2059/060 (2002/03)		F.Y. 2060/061 (2003/04)	
			Quantity	Value	Quantity	Value	Quantity	Value
1	Woolen Carpet	Sq.m	1,668,379	6,108,635	1,606,520	5,317,656	1,648,918	5,461,301
2	Readymade Garments	Pcs.	32,527,652	7,752,296	45,854,972	11,613,749	38,994,326	9,552,544
3	Hides and Goatskin	Sq. ft.	8,429,008	450,797	5,000,333	239,853	6,627,864	286,117
4	Tea	M.T.	83.1	27,988	193.1	53,908	1,002.2	106,897
5	Essential Oils	M.T.	4.0	4,283	3.3	8,004	6.2	22,935
6	Pulses (Lentils)	M.T.	6,022	216,402	2,429	210,465	7,590	294,554
7	Cardamom (Large)	M.T.	351	82,636	570	127,600	1,111	228,963
8	Sugar	M.T.	-	-	9,169	386,206	9,250	404,165
9	Oil-cake & other solid residues	M.T.	-	-	7,429	59,785	4,497	45,560
10	Handicrafts			282,770		377,944		427,189
11	Silverware & Jewellery			252,643		331,636		321,569
12	Woolen & Pashmina Goods			1,852,220		1,534,081		1,473,675
13	Towel			318,086		338,015		249,393
14	Nepalese Paper & Paper Products			249,134		269,169		348,482
15	Wooden Goods			38,005		33,690		46,810
16	Incense Sticks			21,599		25,136		26,985
17	Cotton sacks and bags			83,442		151,317		150,509
18	Micro Transformer			38,766		56,148		59,443
19	Others			629,534		847,113		1,434,570
	Total			18,409,236		21,981,475		20,941,661

[Source: A Glimpse of Nepal's Foreign Trade (Statistical Presentation), Trade Promotion Center, 2004]

Annex – 2 (b)

Exports of selected commodities to India

Value in '000 Rs.

S.N.	Commodities	F.Y. 2001/02 (2058/059)	F.Y. 2002/03 (2059/060)	F.Y. 2003/04 (2060/061)
1	Pulses	1,005,700	880,400	575,000
2	Ghee	60,000	54,600	36,600
3	Herbs	84,100	111,900	79,100
4	Ginger	207,900	315,400	263,500
5	Dried Ginger	80,500	108,400	73,000
6	Linseed	10,200	45,800	33,400
7	Cotton Seed	500	300	200
8	Fruits	6,100	2,400	700
9	Vegetables	25,700	43,000	17,000
10	Wheat Flour	44,400	7,100	32,200
11	Vegetable Ghee	7,081,400	3,812,300	2,959,000
12	Jute Goods	1,630,100	1,899,000	1,882,600
	A. Hessian	44,700	44,200	143,500
	B. Sackings	609,200	855,900	1,056,500
	C. Twines	976,200	998,900	682,600
13	Live Animals	56,200	62,500	40,400
14	Rice bran Oil	90,600	210,000	194,700
15	Turpentine	40,500	24,700	15,700
16	Cinnamon	8,900	4,700	6,300
17	Cardamom	359,900	469,600	449,500
18	Catechu	180,400	145,400	159,500
19	Stone and Sand	104,600	189,500	140,400
20	Rosin	233,700	221,600	138,200
21	Brooms	56,700	102,700	65,300
22	Noodles	227,000	309,700	259,700
23	Biscuits	26,000	25,100	15,500
24	Marble Slab	23,000	28,600	36,900
25	Cattle Feeds	215,000	405,900	544,100
26	Brans	41,200	62,800	37,500
27	Oil Cakes	302,600	311,100	303,700
28	Hides and Skins	157,800	248,500	332,300
29	Tooth Paste	1,606,700	1,002,800	1,478,800
30	Polyester Yarn	1,070,400	656,900	1,114,500
31	Readymade Garments	213,500	399,200	626,200
32	Handicraft Goods	31,800	44,800	25,600
33	Vaneer Sheets	1,700	3,800	5,100
34	Toilet Soap	528,900	469,200	539,100
35	Chyawan Prass	262,600	525,900	-
36	Hazmola	320,800	217,200	289,900
37	Kachha	8,800	11,200	8,200
38	Iron Scrapes	19,400	7,000	3,700
39	Bristle	3,100	2,100	500
40	Others	11,527,800	12,986,900	18,460,700
	Total	27,956,200	26,430,000	31,244,300

Note: Trade with India for the F.Y. 2003/04 is provisional.

[Source: Nepal Rastra Bank, A Glimpse of Nepal's Foreign Trade (Statistical Presentation), Trade Promotion Center, 2004]

Annex – 2 (c)

Exports of some major commodities to Tibet

S.N.	Commodities	F.Y. 2001/02	F.Y. 2002/03	F.Y. 2003/04
1	Handicraft Goods	15,381	38,584	223,188
2	Textiles	9,615	180,187	245,905
3	Aluminum Utensils	138,397	183,583	181,500
4	Vegetable Ghee	203,224	196,173	139,810
5	Incense Sticks	17,434	35,874	99,073
6	Biscuits	14,417	36,501	97,351
7	Brass Utensils	21,588	101,362	91,494
8	Noodles	21,354	122,852	62,253
9	Wheat flour Maida	84,656	73,370	57,878
10	Limitation Jewellery	3,508	27,994	48,047
11	Cosmetics	13,915	45,266	46,953
12	Decoration Goods	-	-	46,652
13	Rice	20,939	2,330	40,848
14	Readymade Garments	1,120	10,605	40,146
15	Chocolates	4,407	11,896	33,745
16	Coffee	-	11,206	31,690
17	Bitten rice	11,348	14,999	18,073
18	Sponge	5,412	33,337	16,146
19	Fruits	-	32,102	16,823
20	Paints	2,726	9,430	14,958
21	Tea	1,580	2,412	14,922
22	Fruit Juice	268,566	26,344	9,461
23	Others	161,765	429,584	654,737
	Total	1,021,352	1,599,647	2,230,653

Annex- 3

List of exportable and potential export products of Nepal.

1. Animals/Poultry & Dairy Products.
2. Plants and Cut Flower
3. Vegetable, Fruits & Fruit Products
4. Tea/Spices
5. Cereals & Cereal Preparation
6. Sugar, Sugar Preparation, Honey
7. Oil Seeds, Oil & Fat
8. Food Preparation
9. Beverages
10. Feeding Stuffs, Cake and Meals
11. Tobacco & Tobacco Manufactures
12. Crude Minerals
13. Animal and Vegetable Products
14. Essential Oils and Perfumery Products
15. Leather, Leather Manufactures
16. Rubber Manufactures
17. Wood Manufactures
18. Papers, Board and Manufactures
19. Footwear
20. Mineral Products
21. Metal Manufactures, Including Handicrafts
22. Power Generating Sets and Accessories
23. Furniture and Parts
24. Pulp & Waste Products
25. Fibres, Yarns & Textiles
26. Apparels & Clothing Accessories
27. Non Apparel Textile Articles
28. Miscellaneous Manufactured Article Including Books & Giftware.

Annex – 4

Basis of local level tax (example)

Related to Rule 207 of Local Self-Governance Act

The DDC can levy within the minimum and maximum limit at the following rate decided by DDC Council on export of the product of their own district.

	<u>Minimum</u>	<u>Maximum</u>
1. Natural wool & like items	Rs. 0.5/kg	Rs. 0.10/kg
2. Turpentine	Rs. 0.25/kg	Rs. 0.50/kg
3. Forest products	Rs. 1.00/cart	Rs. 100/cart
4. Bamboo	Rs. 0.20/piece	Rs. 0.50/piece
5. The rate will be half for herbs		
6. Others minerals according to the rate decided by district level RAC.		

Note: Government is collecting 1.5% LDT in import point and distributing it to local municipalities.

Annex – 5

Export Tariff Structure

SN	Hscode	Description of goods	Export tariff rates				
			2058/59	2059/60	2060/61	2061/62	2062/63
1	150710	Soya bean oil crude or refined	5%	10%	10%	10%	8%
2	151110	Palm crude or other of 90	5%	10%	10%	10%	8%
3	151311	coconut crude and other of 90	2%	1%	1.5%	1%	0.5%
4	151321	palm kernel crude and others of 29				10%	8%
5	151610	animal fats and veg. fats of 20				10%	8%
6	151710	margarine excluding liquid				10%	8%
7	170310	& .90 crude molasses and others	5%	Rs. 0.25/ kg	Rs. 0.25/ kg	Rs. 0.25/ kg	Rs. 0.25/ kg
8	230220	brand of rice an others		Rs. 0.25/ kg	Rs. 0.25/ kg	Rs. 0.25/ kg	Rs. 0.25/ kg
9	250510	& .90 silica sand and others	Rs. 100/cum	Rs. 100/cum	Rs. 100/cum	Rs. 100/cum	Rs. 100/cum
10	251621	.10 crushed stone up to 2 inches	Rs. 50/ cum	Rs. 50/ cum	Rs. 50/ cum	Rs. 50/ cum	Rs. 100/cum
11	251621	.20 crushed stone above 2 inches	Rs. 100/ cum	Rs. 100/ cum	Rs. 100/cum	Rs. 100/cum	Rs. 100/cum
12	251621	.30 boulders	Rs. 300/ cum	Rs. 300/ cum	Rs. 300/cum	Rs. 300/cum	Rs. 300/cum
13	251621	.90 mixture sand and pebbles	Rs. 100/ cum	Rs. 100/ cum	Rs. 100/cum	Rs. 100/cum	Rs. 100/cum
14	320300	.10 cutch	Rs. 2/kg	Rs. 2/kg	Rs.2/kg	Rs.2/kg	Rs.2/kg
15	320300	.90 catechu	Rs.5/kg	Rs.5/kg	Rs.5/kg	Rs.5/kg	Rs.5/kg
16	391510	.20.30.90 waste scrape of plastic	4%	2%	3%	2%	1%
17	391610	.20&.90 plastics profiles	4%	2%	3%	2%	1%
18	391710	To .40 plastics pipe fittings	4%	2%	3%	2%	1%
19	391810	&.90 floor covering of plastic	4%	2%	3%	2%	1%
20	392000	other plate sheet of plastics	4%	2%	3%	2%	1%
21	392100	3926and sub heads plastics ware etc	4%	2%	3%	2%	1%
22	440110	to .21.22.30 fuel wood	200%	200%	200%	200%	200%
23	440310	To .99 wood in rough or square	200%	200%	200%	200%	200%
24	440410	to20 hoop wood poles, trimmed worked suitable for manufacture	200%	200%	200%	200%	200%
25	440500	to4407.99 wood wool fantas sliced	200%	200%	200%	200%	200%

26	440800	to .90 sheets for veneering for plywood	70%	70%	70%	70%	70%
27	540231	to.69 synthetic filament yarn	2%	1%	1.5%	1%	0.5%
28	550931	10 to 69.90 yarn stable fiber synthetic	0.5%	0.5%	0.75%	0.5%	0.5%
29	721011	to90 flat rolled iron product above 600mm	2%	1%	1.5%	0.5%	0.5%
30	721113	to90 flat rolled iron less than 600 mm	2%	1%	1.5%	0.5%	0.5%
31	721210	to 60 flat rolled iron coated less 600mm	2%	1%	1.5%	0.5%	0.5%
32	730410	to90,730511to90 tubes pipe & profile	2%	1%	1.5%	1%	0.5%
33	730610	to90&730711to99 other pipe fittings	2%	1%	1.5%	1%	0.5%
34	940370	other furniture of plastics	4%	2%	3%	2%	1%

Annex – 6

Prevailing income tax rate and slabs

- | | |
|--|------|
| 1. T. D. S. in payment to Contractor | 1.5% |
| 2. T. D. S. in payment to Consultants | 15% |
| 3. T. D. S. in Salary and Wages | 15% |
| 4. T. D. S. on Interest earning | |
| <input checked="" type="checkbox"/> Individual | 6% |
| <input checked="" type="checkbox"/> Entity | 15% |
| 5. Dividends | 5% |
| 6. Tax in Income of | |
| <input checked="" type="checkbox"/> Financial sector at the rate of 30% (31.5%) | |
| <input checked="" type="checkbox"/> Other Corporate sector at the rate of 25% (26.5%) | |
| <input checked="" type="checkbox"/> Export Oriented Industries at the rate of 20% (Only 75% of the rate is levied) | |

Tax exemption in Slab:

- Individual income of Rs. 1, 00, 000 is exempted from tax.
- The income up to Rs. 1, 25, 000 tax is after exemption @ 15% to the individual.
- The income above Rs. 1, 25, 000 up to Rs. 1, 75, 000 tax is Rs. 11,250
- The income above Rs. 1, 75, 000 tax is @ 25% income tax
- Exemption to the couple up to Rs. 1, 25, 000
- The income up to Rs. 1, 75, 000 tax is @ 15% after exemption.
- The income above 1, 75, 000 up to 2, 00, 000 tax is Rs. 11, 250
- The income above Rs. 2, 00, 000 tax is @ 25%
- No exemption in corporate sectors.

Note: The above rates are based on Finance Ordinance 2062.

Annex – 7

List of prohibited, restricted and freely tradable exports as mentioned in Export Import Control Act, 1956

Products prohibited for export:

1. Articles of Archeological and Religious Importance:

- National and Foreign coins of archeological value,
- Idols of god and goddess, palm leave inscription (Tad Patra), plant leave inscription (Bhoj Patra),
- Scroll (Thanka Paintings) of historical importance.

2. Conserve Wildlife and related Articles:

- Wild animals,
- Bile and any part of wild animals,
- Musk
- Snake skin, lizard skin,
- Cow and ox.

3. Drugs:

Marijuana, opium, hashish (as defined in the Single Convention on Narcotics 1961)

4. Valuable Metals:

Valuable metals including Gold, Silver (except ornaments) and Jewelleries (except those allowed under Bag and Baggage Rules).

5. Articles of Industrial Importance:

- Explosive materials and related fuse or materials needed for fuse.
- Materials used in the production of arms and ammunition.

6. Industrial Raw Materials:

Raw hides and skin (including dry salted)

- Raw wool,
- All imported raw materials, parts and capital goods,
- Raw Silk (export import permitted only up to 100 kg without L/C).

However, import of similar materials is permitted as replaced if the purpose of the import is not met. And, if the materials are not consumed in Nepal and are required to be send back, against repatriation of foreign exchange paid for imports, customs duties and other taxes incurred for import and export may be refunded.

7. Other Products:

- Mamira
- Log and Timber

8. Exports to India:

All goods imported form countries other than India (except those allowed under Bag and Baggage Rules).

Products under Quantitative Restrictions:

Products as notified by His Majesty's Government in the Nepal Gazette from time to time:

- Rice.

Products allowed for Free Exports:

All products other than banned ones and which are under quantitative restrictions.

Notes:

- a. The Ministry of Commerce will decide from time to time the goods to be included under the category of quantitative restrictions and volume of their exports.
- b. The ministry of Commerce will interpret as to which of the products listed above will be permitted to export.

Annex – 8

Response sheet of stakeholders

1. What are the major constraints of international market for Nepalese product?		Out of 700 number average score	% score
1	Insufficient facilities to export	97	13.9
2	Insufficient efforts of the government for promotion	87	12.4
3	High cost of production	83	11.9
4	Lack of Knowledge of international market	89	12.7
5	Procedural hassles	113	16.1
6	Heavy transit cost	90	12.9
7	Expensive banking service to exporters	142	20.1

2. Major ways of export promotion.		Out of 600 number average score	% score
1	Tax rebate	93	15.5
2	Procedural reform	73	12.2
3	Helping in quality reform	74	12.3
4	Assist in new market identification	75	12.5
5	Increasing level of government service	136	22.7
6	Open export import	149	24.8

3 Are the provisions of tax system in Industrial Enterprises Act 2049, sufficient?		Responses	Percentage
1	Relevant to present context	11	36.67%
2	Need to increase provisions	6	20.00%
3	Amend provisions	9	30.00%
4	Do not know	4	13.33%
Total		30	

4 If export related tax rebates are not sufficient, In which tax you think to be reformed?		Responses	Percentage
1	Customs	9	30%
2	VAT	6	20%
3	Excise	1	3.33%
4	Income tax	14	46.67%
5	Other	0	
Total		30	

5. What type of customs reform you suggest to motivate exporter?		Out of 500 number average score	% score
1	Providing bank guarantee facilities	122	24.4
2	Providing bonded warehouse facilities	104	20.8
3	Infrastructure reform in customs	68	13.6
4	Effective duty draws back	94	18.8
5	Administrative reform in customs	112	22.4

6	What reform you suggest in bank guarantee?	Responses	Percentage
1	Present system is good	1	3.23%
2	Facilities should be provided to all export oriented industries	22	70.07%
3	Should be provided to those exporting more than 60%	6	19.35%
4	The system should be alleviated	2	6.45%
	Total	31	

7	Does present income tax make export less competitive?	Responses	Percentage
1	No it is ok	5	16.13%
2	Yes it does need reform on tax	24	77.42%
3	I don't know	2	6.45%
	Total	31	

8	Incase export is levied, how much it should be taxed?	Responses	Percentage
1	On the basis of income	16	53.33%
2	On the basis of turn over	8	26.67%
3	Income or turnover optional	6	20.00%
	Total	30	

9	If tax is levied on the basis of income what should be the rate?	Responses	Percentage
1	Zero rate	5	17.86%
2	5-10 %	22	78.57%
3	10-15 %	0	0.00%
4	don't know	1	3.57%
	Total	28	

10	What reform do you suggest in VAT?	Responses	Percentage
1	Present system is right	1	3.23%
2	Simplify the reform process	11	35.48%
3	Provide bank guarantee to all export oriented industries	12	38.71%
4	Compulsory registration to all industry	1	3.23%
5	Provide bonded warehouse facility to all	6	19.35%
	Total	31	

11	How do you evaluate present excise system?	Responses	Percentage
1	Present system is sufficient	2	7.69%
2	Policy is right, administrative needs reform	18	69.23%
3	It is not right, needs alternate system	6	23.06%
	Total	26	

12	If there is the need to reform in excise law?	Responses	Percentage
1	Refund after export	9	36.00%
2	Reform the cash deposit after export	4	16.00%
3	Refund through one window committee	12	48.00%
	Total	25	

14	Does local tax affect export?	Responses	Percentage
1	Need slight reform	5	16.67
2	Reduce tax rate	3	10.00
3	Remove, it is effecting badly	22	73.33
	Total	30	

15	Do you think registration, fee & royalty system has affected industry negatively?	Responses	Percentage
1	Yes, should be removed	7	25.00
2	The rate is alright and it is not effecting	3	10.71
3	No it is not, it should be according to commodity	8	28.57
4	Don't know	10	35.71
	Total	28	

16	Do you think through the new concept of EPZ & APZ, the export of Nepal will increase?	Responses	Percentage
1	It does not promote export	3	10.00
2	Such concept should be extended	16	53.33
3	Such system is the best one	6	20.00
4	New concept should be adopted	5	16.67
	Total	30	

18	What reform do you suggest in present customs tariff on export?	Responses	Percentage
1	Present tariff is right	8	27.59
2	Increase rate for environment polluter	4	13.79
3	Reduce rate to make competitive	16	55.17
4	Nothing	1	3.45
	Total	29	

20	What improvement you suggest on duty draw back system?	Responses	Percentage
1	Present system is alright	0	0.00
2	Policy is right, procedures should be reformed	12	38.71
3	Refund should be given at customs point on flat rate	10	32.26
4	Introduce pass book to all industry	1	3.23
5	Provide bank guarantee to all industries	8	25.81
	Total	29	

21	What reforms do you suggest to deemed export & intermediate product?	Responses	Percentage
1	Present system is alright	1	3.85
2	Present policy is right need effective implementation	4	15.38
3	Use bank guarantee or pass book	12	46.15
4	Refund after sale	9	34.62
	Total	26	

23	What reform do you suggest on barter?	Responses	Percentage
1	Present system is right	1	4.55
2	Policy is right, need administrative reform	15	69.16
3	Present payment system through forex is not good	6	27.27
	Total	22	

24	What kind of facilities do you suggest if export is carried out by other than industries?	Responses	Percentage
1	Same facilities should be given	23	76.67
2	No need of facilities	2	6.67
3	Partial facilities	5	15.67
4	Don't know	0	0.00
	Total	30	

25	What attempt do you suggest to control unauthorized trade through open border?	Responses	Percentage
1	Adjustment of tariff with neighbor	8	25.57
2	Reform in administrative capacity	7	25.00
3	Physical control in border	13	46.43
	Total	28	

Annex – 9

Comparative table of prevailing incentives in some neighboring countries.

Country	Incentives	Provisions of incentives and other descriptions
1. Bank loan		
Pakistan	Pre-export	For 180 days, 8% interest to direct and indirect export. Central bank reimburse to commercial bank.
	Post export	For 180 days, 8% interest for direct and indirect export. Central bank reimburse to commercial bank.
India	Pre-export	For 180 days, 8% - 9.5% interest to direct and for 270 days 11% -12.5% for indirect export. Central bank reimburse to commercial bank.
	Post export	For 180 days, 8% - 9.5% interest to direct and for 270 days 11% -12.5% for indirect export. Central bank reimburse to commercial bank.
Bangladesh	Pre-export	For 180 days to 270 days, Cheaper rate of interest. Central bank reimburse to commercial bank.
	Post export	For 180 days to 270 days, Cheaper rate of interest. Central bank reimburse to commercial bank.
Nepal	-	<ul style="list-style-type: none"> ▪ The finance rate for export credit in foreign currency is 2.0 percent, with a provision that the commercial banks charge not more than 4.0 percent to the borrowers of this facility. ▪ The refinance rate for export credit in domestic currency has been revised downwards to 3.0 percent from 4.5 percent. ▪ Export finance is covered under priority sector loan. ▪ Cash against documents provision has been improved considerably. Guarantee ratio is revised downwards to 5 percent from 10 percent.
2. Duty drawback		
Pakistan	For manufacturing export and gold and silver category	Reduced rates of customs duty on import of raw material component not manufactured locally.

India	For imported input and excise on local product or input	Drawback through advanced licensing and Duty replenishment certificate and in bond export and DRP
Bangladesh	For import input paid at the time of import, or suspended	Duty suspend to bonded facilities users and cash refund at the time of export through commercial bank
Nepal	<ul style="list-style-type: none"> ▪ For bonded facility user duty suspended in import of inputs, ▪ For others duty refund after export 	<ul style="list-style-type: none"> ▪ Through bank guarantee to bonded facilities users ▪ Through pass book to pass book users ▪ Cash duty refund to others after export.
3. Income tax		
Pakistan	Presumptive tax (20% of the production & scrap if sold locally is treated as export)	Tax rate 0.75% on finished product exported. 1% on mineral exported 1.25% on other products exported
India	Equal treatment in slab and rate	Tax rate is 35%. There is reduction & rebate on export earning
Bangladesh	Equal treatment in slab and rate	Tax rate is 25%. There is the provision of 50% exemption on taxable income of export earning and other incentive of export earning and other incentive of research & development, marketing, freight, etc.
Nepal	Equal treatment in slab and rate	20% tax in income. Income Tax Act 2001 removed all rebate provided by Industrial Enterprises Act 1992. Article 15 (ka) of the Industrial Enterprises Act 1992 has provided tax rebate to small & handicraft industries. Same provision is still not removed by income tax act, but the income tax administration is still asking for the tax payment.

(Source: Som Nath Aryal – A study report related to Nepal Handicraft 2060 in Nepali)

Annex – 10

Recommendation of different business community and RAC on Export 2061

Agency	Policy suggestions	RAC suggestions	Provisions in ordinance
CNI	<ul style="list-style-type: none"> ▪ Provision of partial release of bank guarantee ▪ Specific provisions of classification of machinery of 84 ▪ Lab facilities in custom points ▪ Export tax should be reduced ▪ Duty on raw material should be reduced ▪ In deposit clearance after decision all taxes should be refunded ▪ Export of used machine should be allowed ▪ Duty refund on intermediary raw material ▪ Duty on import of raw material less than finished good ▪ Provision of Advance ruling 	<ul style="list-style-type: none"> ▪ _____ ▪ _____ ▪ Lab facilities should be provided ▪ Export tax should be reduced ▪ should be reduced ▪ Suggested ▪ Suggested 	<ul style="list-style-type: none"> ▪ _____ ▪ _____ ▪ Provision in 3 years plan ▪ Reduction started
NOEIA	<ul style="list-style-type: none"> ▪ No double duty should be there on replacement export or import ▪ The import from multinational distributors of India should be allowed ▪ RAC should decide before amendment of tax law ▪ Provision of equal tariff rate to the article of similar nature ▪ Export house & bounded facilities to it should be provided 	<ul style="list-style-type: none"> ▪ suggested ▪ RAC should be strengthened ▪ suggested ▪ Suggested 	<ul style="list-style-type: none"> ▪ national heading ▪ mentioned
Morang chamber	<ul style="list-style-type: none"> ▪ Bounded facilities should be provided in Vat also ▪ Export payment should be through l/c and CAD 	<ul style="list-style-type: none"> ▪ Suggested 	<ul style="list-style-type: none"> ▪ provided
Sugar industry	<ul style="list-style-type: none"> ▪ Import of sugar should be restricted ▪ Quantitative restriction of molasses export should be removed 	<ul style="list-style-type: none"> ▪ Should be regulated 	

Gold and Silver Association	<ul style="list-style-type: none"> Reform in baggage rule and reduce tax to promote ornament export 	<ul style="list-style-type: none"> suggested (kha 4) 	
Birganj chamber of commerce and industry	<ul style="list-style-type: none"> Export duty on copper product should be reduced 	<ul style="list-style-type: none"> suggested (kha 4) 	
Association of Cement Industry	<ul style="list-style-type: none"> Duty on cement and clinker should be adjusted 	<ul style="list-style-type: none"> suggested 	
Association of Textile Industry	<ul style="list-style-type: none"> No duty exemption to all import of textile products Valuation should be based on both meter and kg Import from neighboring nations should be through banking channel Bounded facilities to intermediary raw materials product of cotton industry if sold to export oriented industry 	<ul style="list-style-type: none"> suggestion of not providing preferential treatment if payment is not made through bank provision of law could not be implemented procedure is needed (ga3) 	<ul style="list-style-type: none"> Suggestions incorporated in ordinance provision already made
Daber and Liver	<ul style="list-style-type: none"> Import tariff of raw material of detergent and shampoo should be reduced 	<ul style="list-style-type: none"> tariff should be reduced 	
Butwal Chamber of Commerce Industry	<ul style="list-style-type: none"> Tariff should designed in such a way that the value of local product and imported one should be same 		
Nepal Edible Oil & Ghee Ass.	<ul style="list-style-type: none"> Raw material and subsidiary should be provided bounded facilities Duty refund should be settled soon. 		
Nepal Overseas Association	<ul style="list-style-type: none"> Re export earning should be tax free 		
Dabur Nepal	<ul style="list-style-type: none"> Export earning should be taxed on the basis of export transactions. 		
Morang Chamber of Commerce & Industry	<ul style="list-style-type: none"> Only 0.5% tax on export earning 		

Butwal Chamber	<ul style="list-style-type: none"> ▪ Department of Industry provides exemption Inland levied tax , there should be policy adjustment 		
Readymade garment	<ul style="list-style-type: none"> ▪ Transaction of export oriented garment industry should be taxed 0.75% only 		
FNCCI	<ul style="list-style-type: none"> ▪ In the import of export oriented industry there should be bonded facility in VAT too 	<ul style="list-style-type: none"> ▪ Suggested 	<ul style="list-style-type: none"> ▪ Provided in ordinance
Nepal Chamber of commerce	<ul style="list-style-type: none"> ▪ Duty refund procedure should be simplified 	<ul style="list-style-type: none"> ▪ Suggested 	
CNI	<ul style="list-style-type: none"> ▪ Excisable Indian raw material if imported by export oriented industry the excise duty should be refunded 		
FNCCI	<ul style="list-style-type: none"> ▪ Local tax levied by local level should be removed ▪ To control illegal liquor production control molasses sale 	<ul style="list-style-type: none"> ▪ Suggested 	

Annex – 11

Authorities and stakeholders met during the study

Public Sector

1. Mr. Bhanu Prasad Acharya, Secretary, MOF
2. Mr. Dinesh Chandra Pyakurel, Secretary, MOICS.
3. Mr. Bharat Bahadur Thapa, Secretary, MOICS
4. Mr. Purushottam Ojha, Joint Secretary, MOICS
5. Mr. Ram Chandra Man Singh, Joint Secretary, MOF.
6. Mr. Bimal Wagle, Joint Secretary, MOICS.
7. Mr. Krishna Hari Baskota, Director General, DOC.
8. Mr. Avanendra Kumar Shrestha, Director General, DOIR.
9. Mr. T. N. Gautam, Director General, DOI.
10. Ms. Bindra Hada, Director General, DOC.
11. Mr. Tul Raj Basyal, Executive Director, Research Division, NRB.
12. Mr. Naresh Lamichhane, Executive Director, TPC.
13. Mr. Mani Lal Shrestha, TPC.

Private Sector

1. Dr. Roop Jyoti, President, Trans-Himalayan Trade Center.
2. Mr. Badri Prasad Ojha, Secretary General, FNCCI.
3. Dr. Hemant Duwadi, Executive Director, FNCCI.
4. Mr. Kiran Sakha, President, Garment Association of Nepal.
5. Mr. Tribhuvan Dhar Tuladhar, Trans-Himalayan Trade Center.
6. Mr. Prashant Pokhrel, Vice-President, Garment Association of Nepal.
7. Mr. Pashupati Murarka, FNCCI.
8. Mr. Om Prakash Bansal, FNCCI.
9. Mr. Chinpal Rauniyar, Transport Committee, FNCCI.

10. Mr. Kumud Duggar, President, SAARC Committee, FNCCI.
11. Mr. Madhu Acharya, NCFFA.
12. Mr. Bijaya Mulani, FNCSI
13. Mr. Kabindra B. Shrestha, FNCCI.
14. Mr. Kiran Raj Pandey, AEC
15. Mr. Shanker Pandey, President, NPIA.
16. Mr. Puspa Man Shrestha, Vice-President, NPIA.
17. Mr. Amber Bahadur Thapa, Nepal Lever.
18. Mr. Sudarshan Karki, Dolakha CCI.
19. Mr. D. B. Basnet, FNCCI.
20. Mr. Kedar Man Singh Shrestha, FNCCI.
21. Mr. Priya Darshan Sharma, FNCCI.
22. Dr. D. B. Shakya, AEC.
23. Mr. Kiran Prasad Pathak, HCPCC.
24. Mr. Jeevan Kansakar, FNCCI.
25. Mr. Kalyan Krishna Tamrakar, President, Handicraft Association of Nepal.
26. Mr. Swayabhu Tuladhar, Vice-President, Handicraft Association of Nepal.
27. Mr. Giri Raj Gyawali, Joint Secretary, Central Carpet Association of Nepal.
28. Mr. Kabindra Nath Thakur, President, Association of Carpet Exporters.
29. Mr. Satish Kumar More, NFTA.
30. Mr. Min Bhadur Karki, Secretary General, CNI.
31. Mr. Sushil Basnet, Secretary General, Nepal Chamber of Commerce.

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