

SPECIAL ECONOMIC ZONE

Booklet



Government of Nepal
MINISTRY OF INDUSTRY, COMMERCE AND SUPPLIES
Kathmandu, Nepal



Government of Nepal
Ministry of Industry, Commerce & Supplies
Special Economic Zone Authority, Nepal
विशेष आर्थिक क्षेत्र प्राधिकरण, नेपाल



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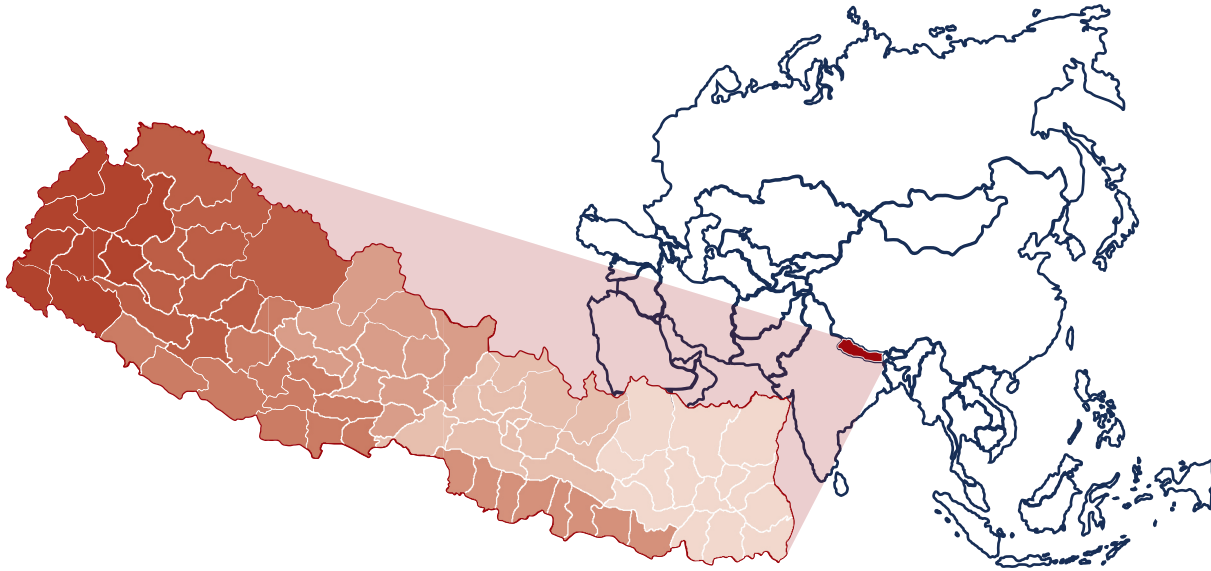
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ABOUT NEPAL



Region:
Southern Asia
(coordinates: 28°00'N 84°00'E)



Area:
147,516 km²



Altitude:
59 to 8,848.86 meters
(Mt. Everest)



Population:
29.1 million
(Census 2022)



Climate
Terai region:
Tropical/Sub-Tropical
Hilly region:
Moderate
Mountain region:
Sub-Alpine/Alpine



Time Zone:
GMT + 5:45
(Kathmandu, Nepal)



Capital:
Kathmandu
(coordinates: 27.7172° N,
85.3240° E)



Religions
Hinduism 81.3%
Buddhism 9.0%
Islam 4.4%
Kirat 3.1%
Christianity 1.4%
Others 0.76%



Languages
Official Language: Nepali,
written in Devanagari Script
English, widely used in
business



Federalism divided into 7
provinces
Political System
Federal Multiparty Republic



Currency:
Nepali Rupee (NPR),
100 INR=160 NPR,
Pegged



International Dialing Code:
+977



Nearest Ports
Kolkata to Birgunj: 739.4 km
Kolkata to Kathmandu: 938 km
Visakhapatnam to Birgunj: 1470.6 km
Visakhapatnam to Kathmandu: 1669.1 km

ABOUT SPECIAL ECONOMIC ZONE

Diversification of export market is a major factor which can contribute significantly to the development of economic activities and thus to the overall upliftment of the living standard of people. Government of Nepal (GoN) has adopted the concept of Special Economic Zone (SEZ) to attract foreign and domestic investors to invest and establish industrial and business units, which will make substantial contribution to the economic development of the country.

Special Economic Zone (SEZ) is envisioned by the government to create a specific commercial area for promotion of foreign trade. The regulation within this commercial area is more liberal which intends to avoid restrictions placed within the domestic legislation of Nepal. Industries established within the SEZ have special privileges which are placed to support their industrial productions. The focus of the government is to maintain trade balance through export promotion and import substitution.



VISION

Contribute to the improvement and growth of nation's economy and society by attracting export-oriented industries to attain continuous progression of balanced regional development in the country by creating job opportunity and ensuring sustainable resources utilization of the country.



MISSION

Attract foreign and domestic industries in SEZ by creating business friendly and lucrative environment ensuring smooth establishment, operation and exist of such industries that will make significant contribution to the GDP of the country.

ESTABLISHMENT OF SPECIAL ECONOMIC ZONE AUTHORITY

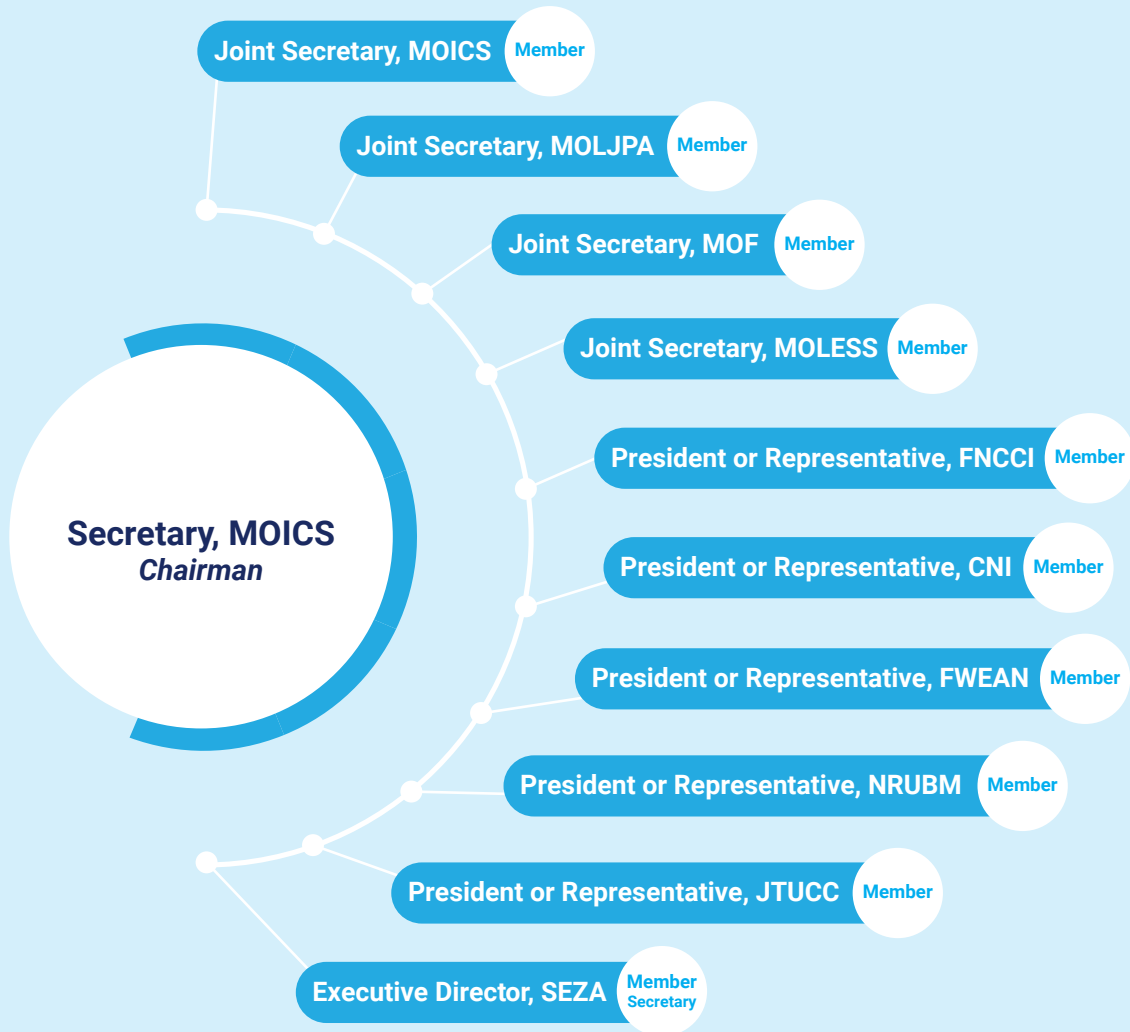
The Government of Nepal through Special Economic Zone Act 2073 introduced Special Economic Zone Authority (SEZA) for investment promotion, administrative management, and delivery of services for the industries in SEZ.

Function of SEZA

- To develop, operate and manage SEZ.
- To manage three aspects of SEZ: developer, operator and industry of SEZ.
- To construct infrastructure of SEZ and carry out maintenance.
- To monitor and regulate industry established in SEZ.
- To attract investment in SEZ.
- To provide service through one door unit of SEZ.
- To provide recommendation for incentives.

Composition of SEZA

The Executive Director is appointed as administrative head of SEZA.



- Development and promotion of SEZ and industry in SEZ.
- Provide approval letter and renewal of approval for the industries in SEZ.
- Develop criteria for infrastructure development and establishment, operation, and management of SEZ.
- Set criteria for lease/rent amount/ fee for the provided land, building, service or facilities in SEZ.
- Provide necessary land, building and others on rent to the industry in SEZ.
- Provide necessary approval for export/ import or provide certificate for production.
- Provide recommendation to related agency for service, facilities or tax holiday as per the provision of the Act for the industry in SEZ.
- Conduct periodic inspection and take necessary action if any industry in SEZ is found violating the provisions of the Act and Regulation.

Line Ministry

Ministry of Industry, Commerce and Supplies

Investment Modality in SEZ

- Unit Establish in SEZ
- Development of SEZ in PPP model
 - a) Infrastructure Development by Private Sector and Land by Government
 - b) Joint Venture between Private Sector and Government
 - c) Other ways as per decision made by the Cabinet on recommendation from Special Economic Zone Authority (SEZA)
- Management of SEZ by Private Sector

Criteria to set unit in SEZ

1. Investment Threshold
 - Domestic Investment: Minimum Fixed Capital > NPR 20 Million
 - Foreign Investment: As per the prevailing law
2. Export Provision
 - 0% export on 1st year of Commercial Operations Date (COD)
 - 60% (minimum) export of production from the subsequent year.
3. Qualifying Industry
 - Domestic Investment: Any industry except for negative list of the SEZ Act, 2016 (Annex 3)
 - Foreign Investment: Any industry except for negative list of the SEZ Act, 2016 (Annex 3) and negative list of the Foreign Investment and Technology Transfer Act (FITTA) 2019 schedule
4. Lease Rate
 - NPR 20 per square meter per month
(Rebate on land lease rate 50%, 40% & 25% in 1st, 2nd & 3rd years respectively).

INCENTIVE



• Infrastructure available inside SEZ



Suitable
industrial plots



Access roads



Power supply



Water supply



Drainage system



Wastewater
treatment plant



Fuel station



Weigh bridge etc.



Recreation zone



Child Care Centre



First Aid Services



Cafeteria

NON- FISCAL INCENTIVES

* Visa Facilitation:

- a) Non- Tourist Visa:
 - For 6 months to the investor to conduct feasibility study.
 - For 5 years (maximum) to foreign employee.
 - For 7 years to highly (special) skilled employee upon logical justification.
 - Additional number of years for Foreign employee critically important for the business and related to the use of State-of-the-Art technology.
- b) Business Visa:

Foreign investors and their family members till the period of foreign investment.

OR

Representative of the company and their family members till the period of foreign investment.
- c) Residential Visa:

Investors who invests USD 10 million or equivalent in convertible currency at once will get the visa for their family members as well till the period of foreign investment.

* Agreement:

Agreement will be signed with SEZA on behalf of the government for infrastructure development, operations and management as well as establishment of industries.

* Repatriation

- a) Employee: 75% of the income in convertible currency allowed (as per NRB).
- b) Investor:
 - o Amount received from the sale of some or all shares of foreign investment,
 - o Amount received in lieu of profit or dividends from such foreign investment,
 - o Amount in lieu of payment of foreign capital loan or interest,
 - o The investor shall take the amount in the currency prescribed in the agreement.

* One Stop Service (OSS)

* No Strike Provision

OTHER INCENTIVES

(AS PER SEZ ACT 2073)

- Clause 30: Deemed export provision: For goods and services produced and sold inside the SEZ
- Clause 32: Opening of bank account and transaction in convertible currency
- Clause 48: Ownership transfer via Sale of Shares: Need approval from SEZA for sale of shares above 50%
- Clause 51: Dispute settlement Mechanism
 - a. Intermediary role by Ministry of Industry
 - b. As per UNCITRAL Arbitration Rule: Location: Kathmandu and as per the law of Nepal



FISCAL INCENTIVES

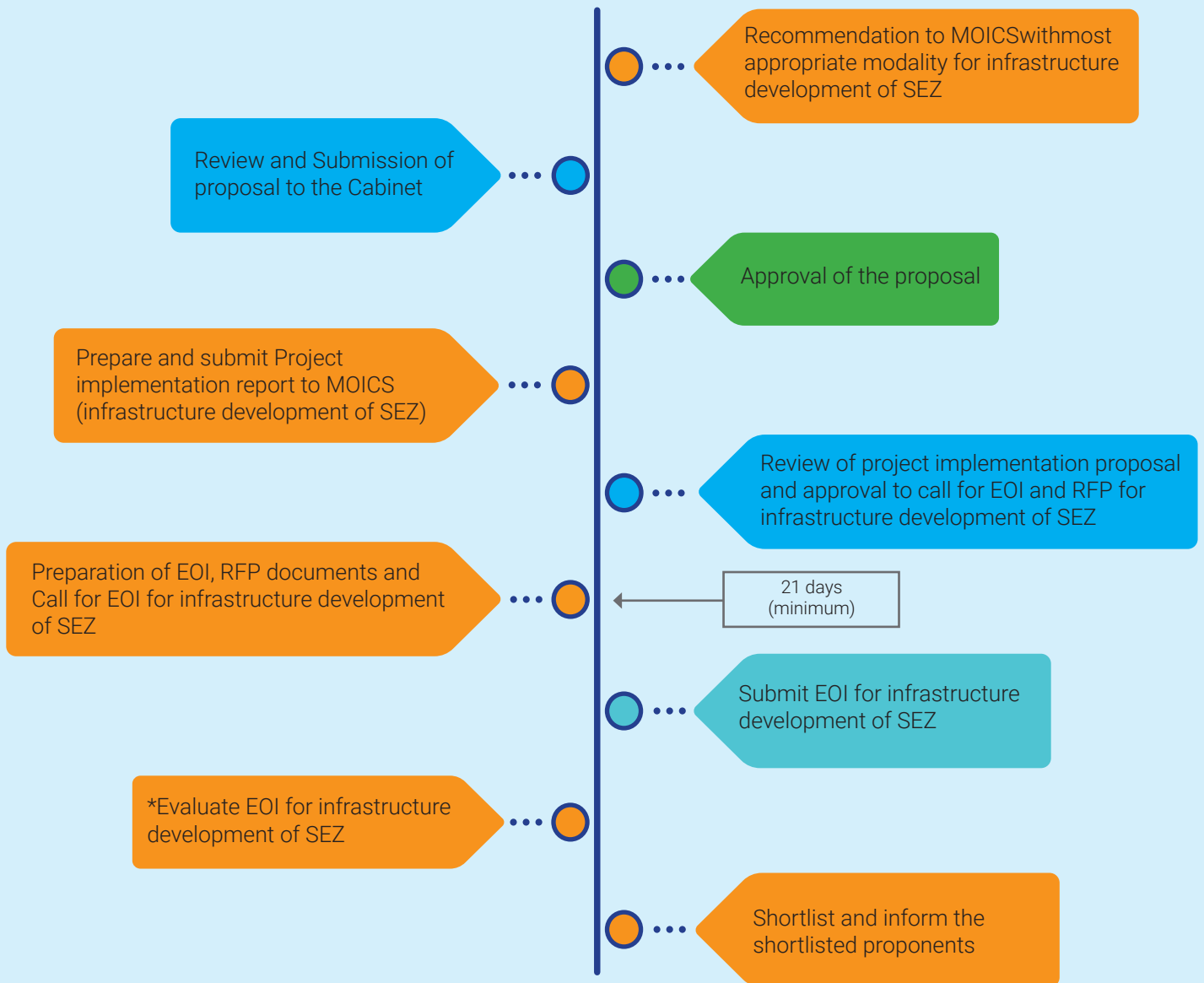
- * **Income Tax Exemption:**
 - General: 100% tax exemption for first 5 years after Commercial Operations Date (COD) and thereafter 50% tax exemption for the remaining period of contract.
 - Hilly or Mountain District: 100% tax exemption for first 10 years after Commercial Operations Date (COD) and thereafter 50% tax exemption for the remaining period of contract.
- * **Dividend:**
 - 100% exemption for first 5 years after Commercial Operations Date (COD) 50% exemption for the subsequent 3 years.
- * **Rebate on Lease Rate:**
 - Rebate on rent and or lease of house, land as 50%, 40% & 25% in 1st, 2nd & 3rd years respectively.
- * **Value Added Tax Exemption:**
 - 0% VAT on export of products and services that are produced by industry inside SEZ
 - 0% VAT on raw material and products sold to industry in SEZ.
- * **Customs Duty:**
 - 1% customs duty on import of 1 vehicle to be used for transport of employees and also for vehicles to transport good and services.
 - Import of plant and machinery, tools & spare parts, packaging, raw materials and auxiliary parts, on bank guarantee.
 - Duty refund on sells of goods/ raw materials to industry inside SEZ.

PROCEDURE

Infrastructure Development of SEZ: Public Private Partnership

Ways for Private Sector to enter for Infrastructure Development of SEZ

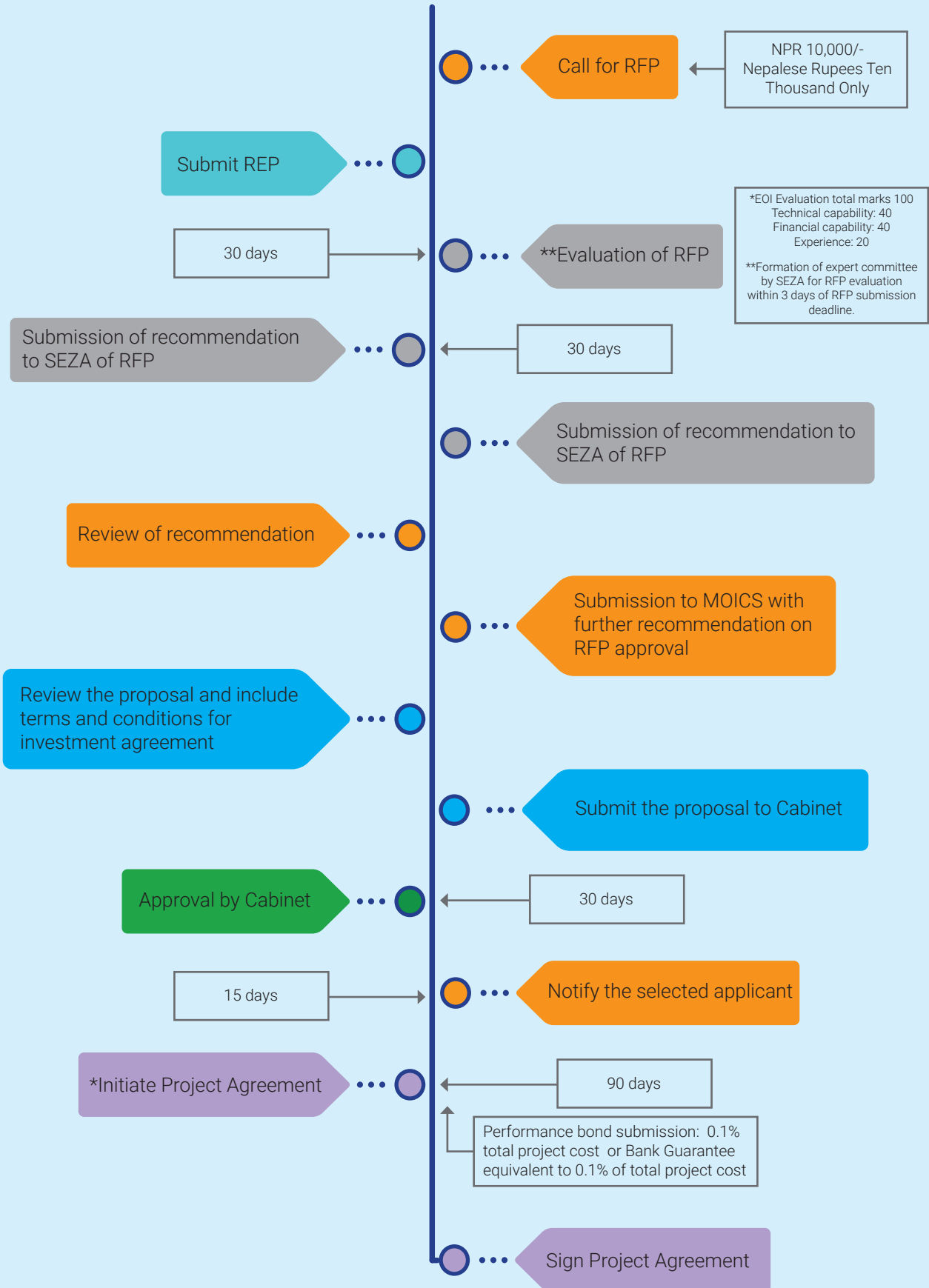
- I. Land Provided by Government of Nepal and Infrastructure Developed by Private Sector
- II. Joint Investment by both Government of Nepal and Private Sector
- III. Other ways determined by Government of Nepal on recommendation from SEZA



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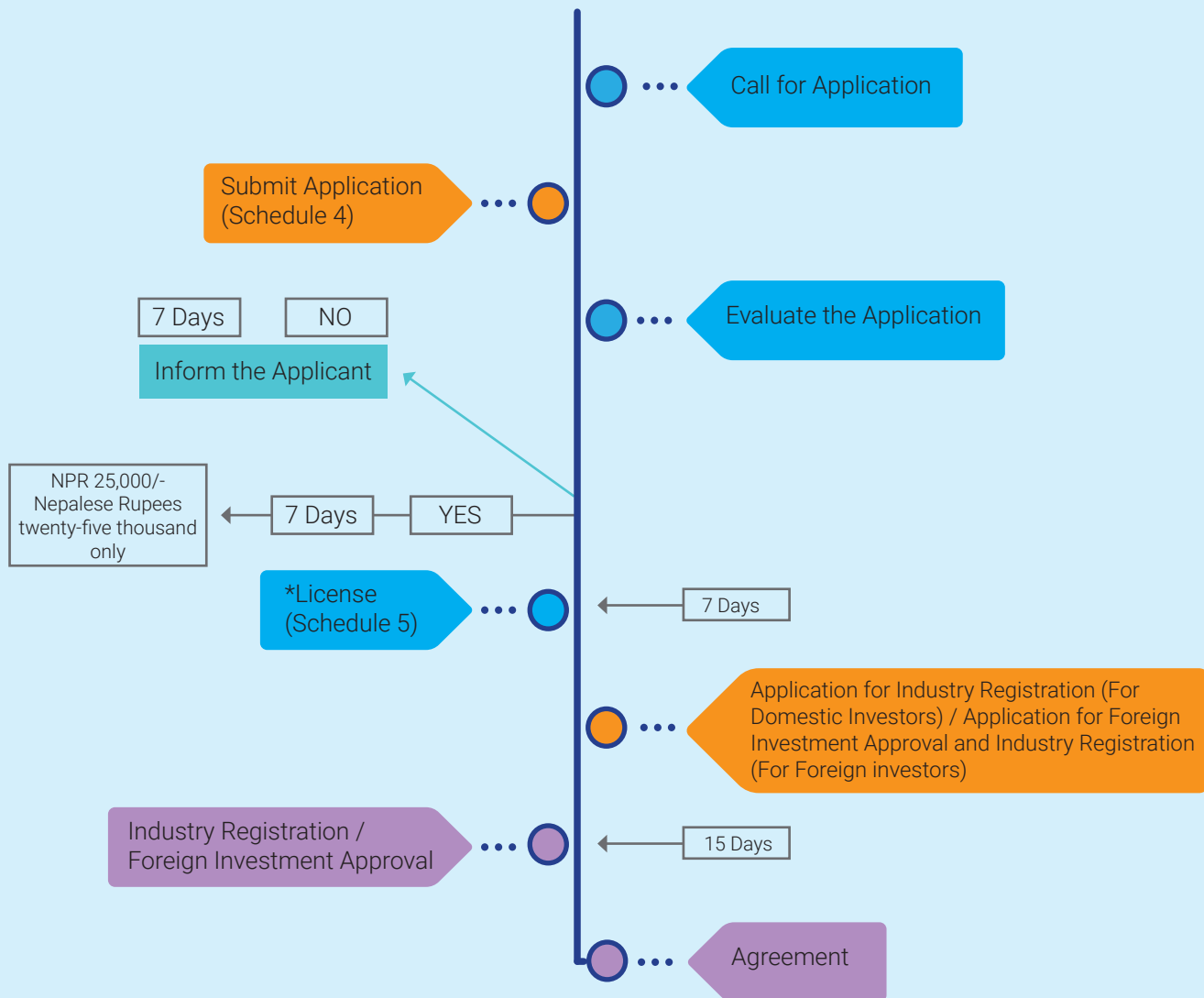


*Project Agreement Period maximum 30 years + 10 Years

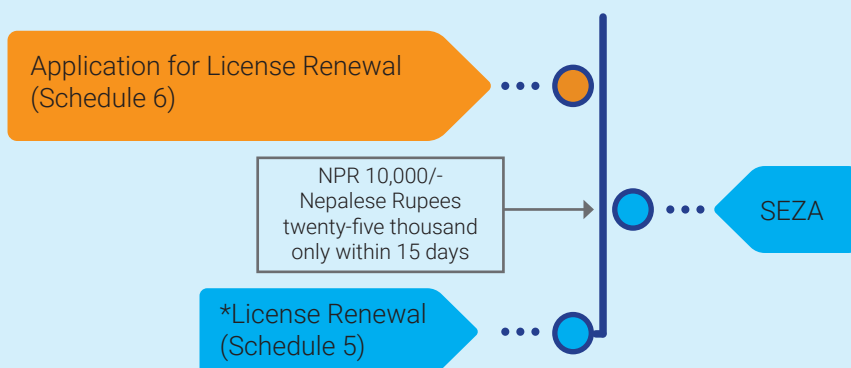


Establishment of Industry in SEZ

Domestic Company: Minimum Fixed Capital > NPR 2 Crore
 Foreign Company: As per the prevailing law



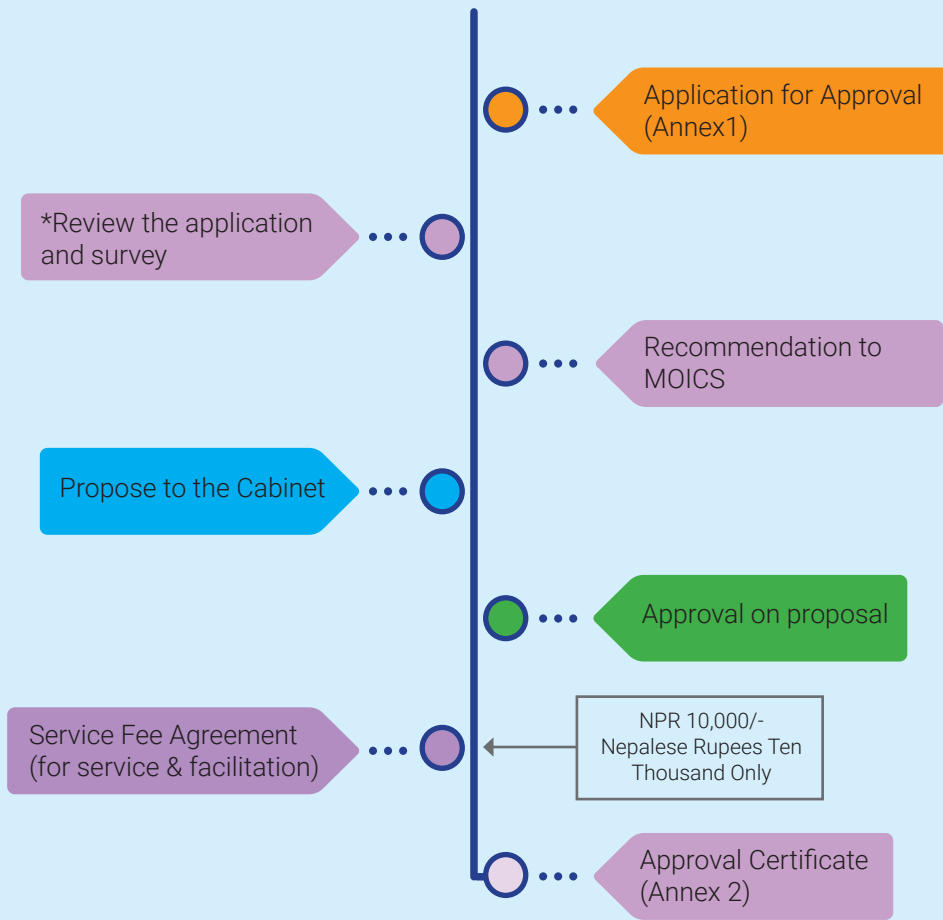
License Renewal



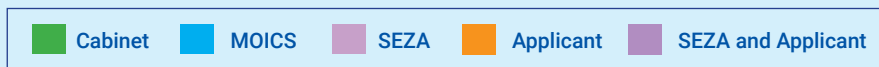
*Approval is given for 30 + 10 years (Renewal)



Establishment, Operation and Management of SEZ by Private Sector

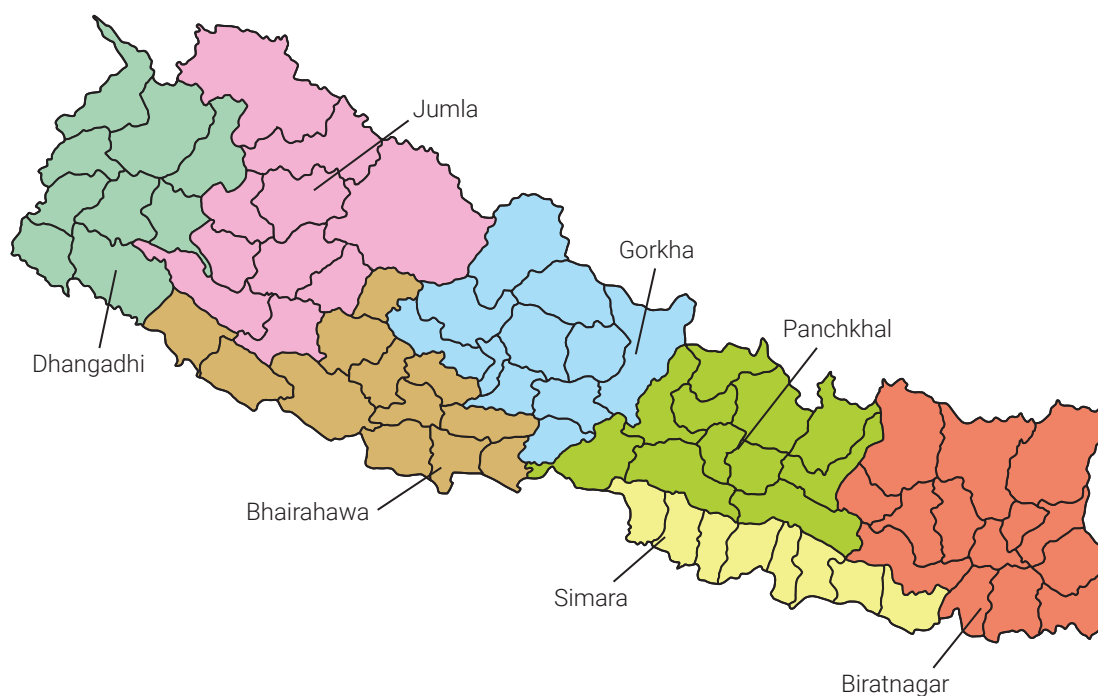


*Expenses of the survey will be bore by the applicant.



INFORMATION ON EXISTING SEZ

One Province One SEZ



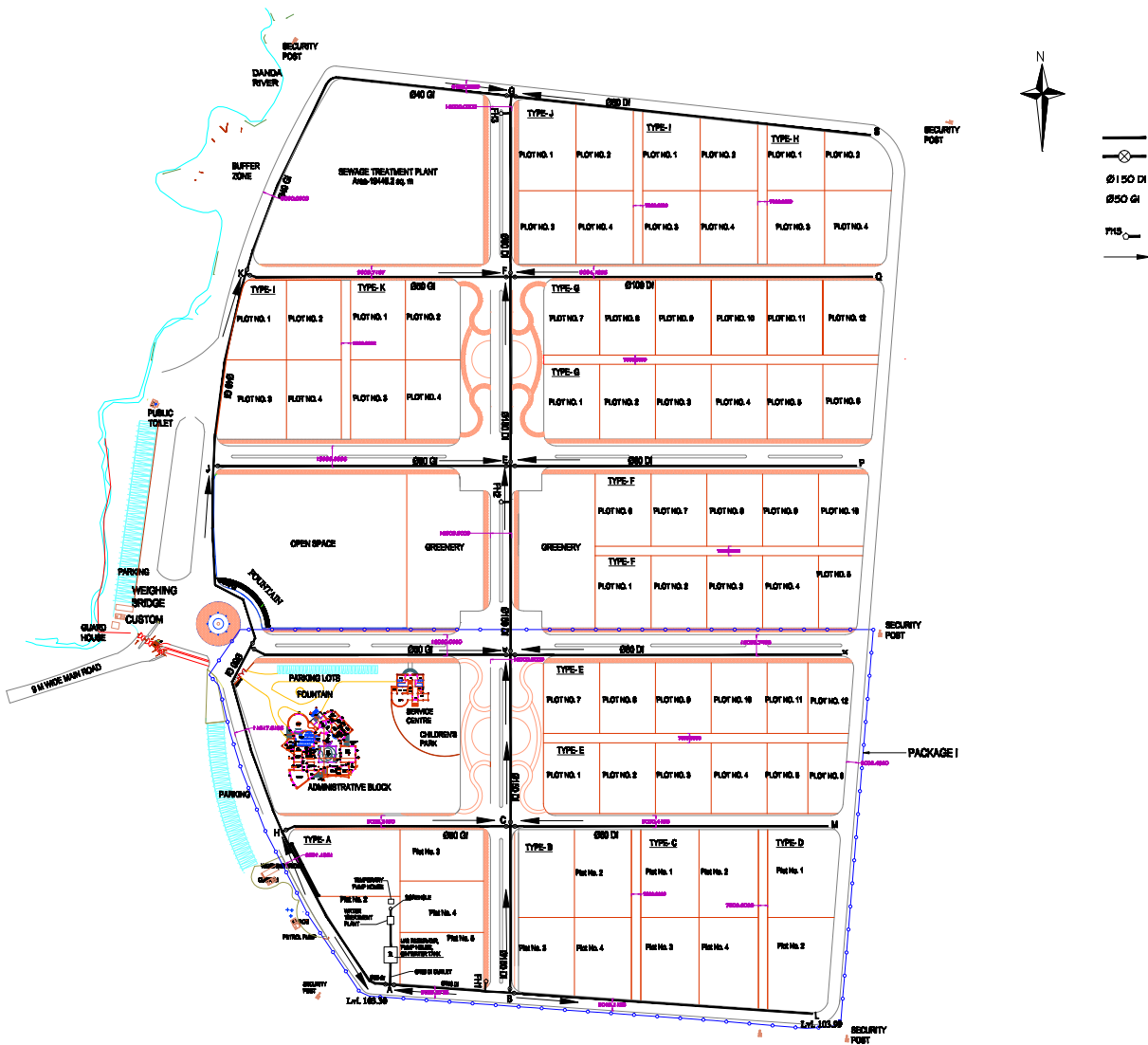
Status of SEZs

S.No	SEZ	Location	Area	Present Situation
1.	Biratnagar	Burju Gaupalika, Sunsari	200 Ha.	Detailed engineering study completed
2.	Simara	Jitpur Simra Sub-Municipality, Bara District	564 Ha.	<ul style="list-style-type: none"> Block 'A' in operation 27 industries have received approval
3.	Panchkhal	Panchkhal Municipality	50 Ha.	<ul style="list-style-type: none"> Part of the administrative building and compound wall completed
4.	Gorkha	Palungtar Municipality, Gorkha	60 Ha.	<ul style="list-style-type: none"> Feasibility study completed
5.	Bhairahawa	Rohini rural municipality, Rupandehi	36.8 Ha.	<ul style="list-style-type: none"> 7 factories are in operation and production has started. 25 new industries have received approval
6.	Jumla	Kanka Sundari Rural Municipality	47 Ha.	<ul style="list-style-type: none"> Detailed engineering study completed
7.	Dhangadhi, Kailali	Godavari Municipality	64 Ha.	<ul style="list-style-type: none"> Detailed engineering study completed

SEZ IN OPERATION

- Bhairahawa SEZ**

Government of Nepal is committed to develop at least one SEZ in one province. Bhairahawa SEZ is the first SEZ established by the Government which is in Lumbini Province. It is under operation with 32 industries out of which 7 industries have started operation and export. There are 69 plots in Bhairahawa SEZ with size plots of 1500 to 3500 sq.m. The land in SEZ is taken on lease through an agreement with SEZA for a period of 30 years with additional extension of 10 years. The industries total investment is NPR 8.09 billion (USD 80 million), and they will generate 3000 employment. The types of industries in Bhairahawa SEZ includes manufacturing industries which produces, led lights, metal bricks, steel tanks, plastic goods, carpets, leather goods, furniture and so on.



- **Simara SEZ**

The second SEZ developed by Government of Nepal is in Simara, Bara. Simara SEZ, with a total land area of around 564 ha. and located in Jeetpur Simara Sub-Metropolitan, Bara, Madhesh Province, Nepal is divided into five blocks. The Block A (232.55 ha) is developed by the SEZA itself and is in the final stage of operation.

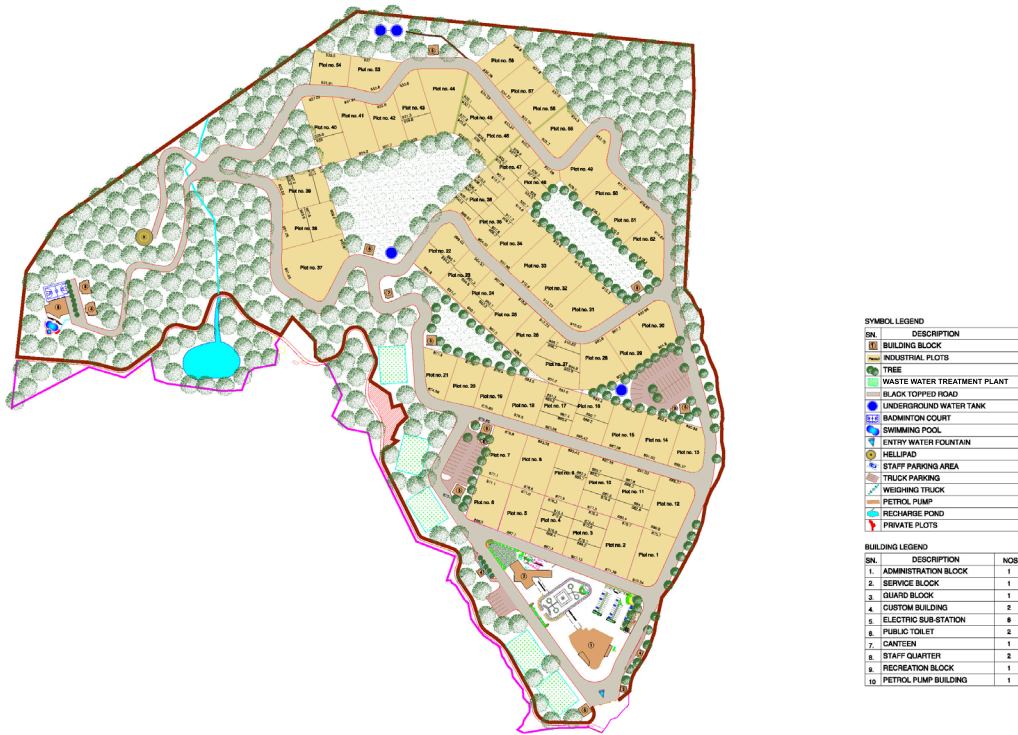
Special Economic Zone Authority (SEZA) has developed the project, pre-feasibility study, detailed engineering design (Master Plan) and received environmental impact assessment (EIA) approval. According to the master plan, there are altogether 69 plots, with an average area of 1500-3200 sq.m. per plot in Block A. SEZA has constructed service infrastructure like administration building, a customs office, a bank, an insurance building, a freight forwarding service building, and a postal service building, among other things. Simara SEZ Block A is now operational. Twenty-seven industries have received letter of approval from the SEZA to set up units in the Block A. The industries total investment is NPR 5.59 billion (USD 44 million), and they will generate 4374 employment. The types of industries in Simara SEZ Block A are manufacturing industries which are to produce home appliances, food processing, assembly, bio-fertilizer, readymade garments, medical equipment, and others.



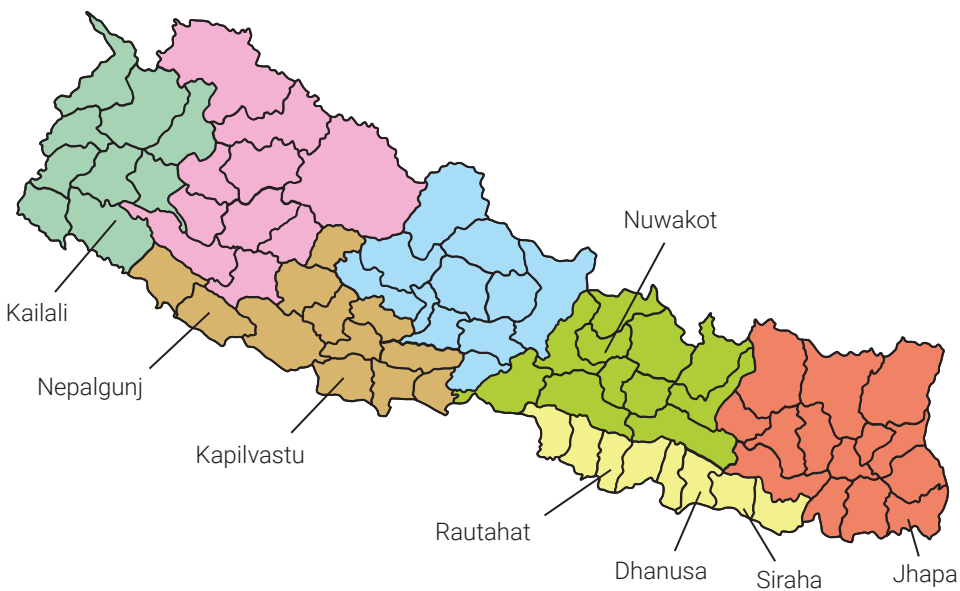
SEZ UNDER CONSTRUCTION

- Panchkhal SEZ**

The third SEZ of Nepal which is under construction is in Panchkhal which is about 70km in the north closer to to the Chinese boarder. The construction of infrastructure at the Panchkhal SEZ, touted as a major facility to promote trade with China. The government has acquired 1,000 ropanis of land, 600 from the Devasthan Padula Subarnashwori Community Forest and 400 from the Sikharpur Community Forest.



OTHER SEZ LOCATION



ANNEX A

As per Special Economic Zone Act 2075, Annex 3

INDUSTRIES OR BUSINESSES RESTRICTED TO ESTABLISH IN SEZ

- cigarettes, viddi, khaini, cigars and tobacco products producing industry
- brandy, sider, wine, beer and whiskey, producing industry
- explosive materials producing industry
- weapons, bullets, gunpowder producing industry

ANNEX B

As per Foreign Investment and Technology Transfer Act, (FITTA) 2019, Schedule

INDUSTRIES OR BUSINESSES RESTRICTED FOR FOREIGN INVESTMENT

- Livestock farming, fish farming, apiculture (beekeeping), horticulture, oil-bearing crop, lentil, dairy business and other areas of primary agricultural products
- Micro and cottage enterprise
- Personal service business (such as haircutting, tailoring, driving etc.)
- Industries producing arms and ammunition, gunpowder and explosives and nuclear, biological, and chemical (NBC) weapons; industries producing atomic energy, radioactive materials
- Real estate business (excluding construction industry), retail business, domestic courier service, local catering service, moneychanger, remittance service
- Travel agency, guide, trekking and mountaineering guide, rural tourism including homestay tourism
- Media (newspaper/magazine, radio, television and online portals) business, and business related to motion picture in national language
- Management, accounting, engineering, legal consultancy service and language training, music training, computer training
- Other consultancy services with foreign investment more than 51%



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