A

GLOBAL / COUNTRY STUDY AND REPORT

On

<u>"Agriculture sector for Nepal"</u>

Submitted to

Gujarat Technological University

In partial fulfillment of the
Requirement of the award for the degree of
Master of Business Administration
In

Under The Guidance Of

Faculty Guide
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MBA SEMESTER IV

(Batch 2011-2013)

THE SARDAR PATEL COLLEGE OF ADMINISTRATION & MANAGEMENT,
V.V. NAGAR –BAKROL,
ANAND 2011-13

Students' Declaration

We hereby declare that the report for Global/ Country Study Report entitled **—Agriculture sector|| in (Nepal)** is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

I also declare for this report all information is collect for internet, Newspapers, BSE-NSE stock markets exchange and Nepal Annual Report and some Nepal web side to use for collection of works. The information mansion that for related for particular data is hone barely good effect Nepal Agriculture sector as well as Nepal economy and GDP. Also to better relationship to India and Nepal for Agriculture related all transactions and works.

Place: SPCAM-MBA (Signature)

Bakrol-anand

We sign by:

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Acknowledgement

I am glad to express my profound sentiments of gratitude to all valuable help for the successful completion of this report I ―Bharat Parmar‖ student of MBA (Semi-IV) here take an opportunity to prepare a report of ―Agriculture Sector in Nepal

I hereby thankful to my Faculty guide ―Sulabh Narayan (Assistant Professor)‖ for SPCAM-MBA Bakrol Anand. I also thankful at last, but not the least, I am also thankful to my parents and my friends who helped me and guided me.

I hereby thanks' to my Director-General Mr. T.D.Diwari for SPCAM-MBA Bakrol Anand.

I express my views for all necessary information provided to me for the visit at the cost of their valuable time.

Part-1

Table Content

Economic Overview of Nepal

Nepal initiated planned economic development with its First Five-Year Plan in 1956, with mixed economic policy as the guiding principle of the state. Nepal liberalized its economy with a wide range of economic reforms in early 1990s. Those reforms induced remarkable growth in the key areas of the economy such as industry, trade, foreign investment, finance and international transactions.

Nepal was reform and restructuring process undertaken since the 1990s, has been instrumental in making the economy more investment-friendly, transparent, market-oriented and efficient. Implementation of structural reforms has created a sound base for economic development. It has encouraged establishment of joint venture banks and private financial institutions, privatization of state-owned companies and increased role of the private sector in the economy.

There was a market oriented economic policies have encouraged private sector participation in economic activities, limiting the government’s role to that of a facilitator and developer of prerequisites, which would support the private sector to become more efficient and competitive. Similarly, doing away with the licensing requirements and quantitative restrictions in industry and trade, simplification of regulatory processes, provision of current account convertibility, broadening the areas of the FDI and a host of other reform measures have created an environment for enhancing efficiency and competition in various economic activities.

FDI in Figures

Imports have risen fast from US$1.6 billion (26 percent of GDP) in FY 2000-01 to US $5.2 billion (30 percent of GDP) in FY2009-10 – largely due to thriving consumption made possible by remittances. Exports have remained under US $1 billion, and as a share of GDP, have continuously declined from 13 percent to 7 percent. Exports of readymade garments, carpets and Pashmina – the erstwhile main exports have declined. Official remittances rose from about 13.8 percent of GDP in FY 2006-07 to 22 percent of GDP in FY 2008-09. This is less than the total amount as it does not account for inflows from India and informal channels. Fueled by high remittances, monetary growth has been high in the last two years.

The effects of being landlocked and of having to transit goods through India continued to be reflected in the early 1990s. As a result of the lapse of the trade and transit treaties with India in March 1989, Nepal faced shortages of certain consumer goods, raw materials, and other industrial inputs, a situation that led to a decline in industrial production.

- ✓ ECONOMIC SETTING
- ✓ ROLE OF GOVERNMENT
- ✓ MONEY AND BANKING
- ✓ AGRICULTURE
- ✓ INDUSTRY
- ✓ TOURISM

Overview of Industries Trade and Commerce of Nepal

Introduction

India is Nepal's largest trade partner and source of foreign investment; India is also the only transit providing country for Nepal. Nepal has the largest volume of trade with India. Nepal also has the largest trade deficit with India, and this figure is increasing from year to year. Of late, it is widely felt that Nepal must concentrate heavily on import substitution and in setting up and furtherance of export-oriented industries. To achieve this, Nepal must attract direct foreign investment with more and more value additions in Nepal so that it may industrialize faster and also increase trade with India so as to reduce the trade deficits with the trading partners.

Trends in trade and investment:

Bilateral trade was US$ 4.21 billion during Nepalese fiscal year 2010-11 (July 16 – July 15). Nepal's import from India amounted to US$ 3.62 billion and exports to India aggregated US$ 599.7 million. In the first six months of fiscal year 2011-12, Nepal's total trade with India was about US$ 1.93 billion; Nepal's exports to India were about US$ 284.8 million; and imports from India were about US$ 1.64 billion.

Since 1996, Nepal's exports to India have grown more than eleven times and bilateral trade more than ten times; the bilateral trade that was 29.8% of total external trade of Nepal in year 1995-96 has increased to 66.4% in 2010-11. Since 1995-96, the total external trade of Nepal has increased from NRs. 9433 crores (IRs.5895 crores) to NRs. 45946.1 crores (IRs. 28716.3 crores). 83% of this increase is on account of increase in the bilateral trade between India and Nepal, which grew from NRs. 2808 crores (IRs. 1755 crores) in 1995-96 to NRs. 16319.9 crores (IRs. 10199.9 crores) in first six months of 2011-12. Nepal’s exports also increased from NRs.1988 crores (IRs. 1242 crores) in 1995-96 to NRs. 3591.6 crores

(IRs. 2244.7 crores) in first six months of 2011-12. 45% of this increase was on account of increase in Nepal’s exports to India.

Overview about International Trade in Nepal

Economic Overview

In spite of a difficult political-economic context, the macro-economic situation of Nepal remains relatively stable. The growth of GDP in 2010 is estimated to be 3%, due to the bad agricultural performance, lower remittances and more difficult monetary conditions.

The economy depends highly on the trade with India. Moreover, strong barriers to its economic development still remain, in particular the poor condition of its roads, the inadequate supply of energy and water and the lack of transparency in tax administration. In response to the crisis and as part of a macroeconomic stabilisation programme, structural reforms are planned, as well as investment in infrastructures and an improvement in fiscal policy. Priority is given to restoring fiscal balance and strengthening the financial system.

In spite of a strong potential, mainly in the hydroelectric power field, Nepal remains a poor country with a high rate of unemployment. Most of its population lives on auto-subsistence and the money transfers sent by the Nepalese diaspora in the world.

➢ Business Tips about Nepal

We currently have no business tips posted for Nepal.

Be the first to feature your expertise related to Nepal. Post any content you may have that features your expertise by clicking on the button below.

➢ Import and Export Services in Nepal

Unicrafts (P) Ltd

Custom Manufacturing, Nepal

Manufacturers and exporters of 70% pashmina/30% silk and 100% pashmina, 100% cotton, 100% bamboo and other nature fiber shawls, stoles...

Krishna Raut, Consultant

International Trade Consulting, Nepal

I am innovatively efficient to facilitate foreign investors to invest money in different types of profitable business in Nepal.

2. A REVIEW OF TRADE AND INDUSTRIAL POLICY IN NEPAL

INVESTMENT POLICY

The Industrial Policy of 1992 identifies foreign investment promotion as an important strategy to achieve increasing industrial production, meeting the basic needs of the people, creating employment opportunities, and paving the way for improvement in the balance of payments situation.

ENVIRONMENT IN NEPAL

The purpose of industrial policy is to attain economic growth by providing investors with incentives to en-gage in productive growth. An in depth review of

Nepal's industrial policy and environment suggests that the government has been able to attain macroeconomic stability in terms of inflation, interest rates and exchange rate. However, Nepal's industrial policy seems unable to provide incentives for both domestic and foreign investment.

SECTOR SPECIFIC POLICIES

SAWTEE and Action Aid Nepal recently conducted a research study to identify goods and services with comparative advantage. The study selected three items (tea, herbs and leather) from the goods sector and two sub-sectors from the services sector (tourism and information and communication technology-ICT). The next section of the research brief will explore government policies and initiatives to promote the sectors and products. Tea realizing the potential of tea, the government has for-emulated policies to promote private investment in the sector.

HERBS

Nepal's forest related policies and regulations seek to create economic incentives for the local people to conserve the forest while safeguarding their traditional livelihood options. Various laws and regulations govern the production, processing and exports of herbs. One of the important policies is the Master Plan for the Forestry Sector (MPFS) of 1989. The 25 year policy and planning framework seeks to manage forest for income and employment opportunities through people's participation in the development, management and conservation of forest resources.

LEATHER

Despite Nepal's trade potential in leather and leather products, the government has neither formulated a policy framework nor implemented any specific programmes to promote the sector. The leather sector is hindered by a range of constraints that include sluggish growth of livestock population and inability to export higher value added finished leather and leather products. Targeted programmes in partnership with the private sector are necessary to promote the sector. In addition, livestock development should be given priority and directly linked to the development of the leather sector.

TOURISM

The potential of tour-ism in Nepal was realized as early as the First Plan (1955-60). Since then the government has formulated and implemented various plans and policies for the promotion of the sector. The ten year master plan that was prepared during the Fourth Plan is one of the most important steps taken for the development of the sector. Under the plan a number of airports and airstrips were con-strutted, and credit was extended to the private sector for the construction of hotels. In addition, the government became aware of the need to conserve wild life and national parks to promote tourism.

Present Trade in Nepal

Today the present trade in Nepal same geographically economically with India. That prospect for developing export markets with India and south is easy as there are minimal transportation constraints as compared to the mountainous north. Nepal's agricultural and industrial centers are concentrated in the region. In the 1950s, over 90% of the foreign trade was carried on with India but over the years the total amount of trade between India and Nepal has reduced substantially. Nevertheless, today despite several attempts to diversify foreign trade and make it less dependent on India, but India remains the main trading partner of Nepal.

Therefore, the smooth transit of goods over India depends on the friendly relations between the two countries. In 1950, under the Treaty of Trade and Commerce between India and Nepal, India agreed to provide transit facilities to Nepal. The 1989 stalemate in trade negotiations between the two countries, adversely affected the Nepalese economy. Nepal's exports were subjected to high tariffs and import from India also carried increased costs. There was an overall shortage of essential commodities like fire, baby food, medicines, etc. Eventually, with political changes taking place in both the countries, the trade and transit dispute was finally resolved in June 1990. In order to avoid any economy difficulties, it is therefore, important for Nepal to maintain a friendly relation with India.

Relations between India and Nepal are close yet fraught with difficulties stemming from geographical location, economics, the problems inherent in big power-small power relations, and common ethnic, linguistic and cultural identities that overlap the two countries' borders. New Delhi and Katmandu initiated their intertwined relationship with the 1950 Indo-Nepal Treaty of Peace and Friendship and accompanying letters that defined security relations between the two countries, and an agreement governing both bilateral trade and trade transiting Indian soil. The 1950 treaty and letters stated that "neither government shall tolerate any threat to the security of the other by a foreign aggressor" and obligated both sides "to inform each other of any serious friction or misunderstanding with any neighboring state likely to cause any breach in the friendly relations subsisting between the two governments." These accords cemented a "special relationship" between India and Nepal that granted Nepal preferential economic treatment and provided Nepalese in India the same economic and educational opportunities as Indian citizens. Jayant Prasad is India's ambassador to Nepal. The Treaty of Peace and Friendship, signed between the two countries in the year 1950, needs to be contemporized to suit current needs. As stated earlier, Nepal looks up to emerging India as an opportunity for growth in the form of easy access to technology, investment and market. Nepal hopes for greater tangible cooperation from India.

New Vistas in India-Nepal Trade Relations

India still possess the tag of ―Solitaire‖ in Nepal's international trade domain as it's maintain the strategic proportion of sixty one percent of Nepal's total trade and accounts nearly sixty seven percent of total exports as per the various data suggested in 2008.

Nepal - India Relations: Current Issues

Nepal-India relations are 'unique' for reasons ranging from geographical contiguity to close cultural ties, and extensive institutional and social relationships. Cultural, economic and geographical factors along with the common bond of a shared religion have had a great influence on bilateral relations. As two sovereign nations, both India and Nepal are naturally guided by their national interests. These interests are related to cultural, economic and security areas. Despite some turbulence in the past, India-Nepal relations have remained close, stable and mutually beneficial.

3. PESTEL Analysis of NEPAL

Nepal and India have a long history of Trade treaties and bilateral arrangements that have helped broaden the scope of investment and measures that contribute to sustainable economic development in Nepal.

About the country:

Nepal, the mid-Himalayan country of Asia has its border with India on the South, East & West and China on the North. It is located between latitude 26 degree 22 minutes North to 30 degree 27 minutes North and longitude 80 degree 4 minutes East to 88 degree 12 minutes East. Being land locked country the sea access is about 1,150 Km from the border.

The largest contributor to Nepal's FDI is India. The Indian companies have made a significant contribution to the Nepalese economy both in terms of employment generation and by way of generation of revenue to the Nepalese exchequer.

Political Analysis of Nepal

Type	Representative Multi-party Democracy
Constitution	Interim Constitution Promulgated on January 15, 2007. Constituent Assembly convened in May 2008

	to draft a new constitution. In May 2010, a deadline for drafting of the constitution was extended by 1yr.
Executive	President (Head of State), Prime Minister (Head of Government)
Legislative	The constituent assembly is a unicameral parliament, consisting of 601 members, 240 members were elected through a direct electoral process representing single member constituencies across a country, 355 members were nominated from party lists through a proportional representative system & 26 were nominated by the cabinet representative of ethnic & indigenous communities
Elections	Constituent assembly election held on April 10, 2008
National Days	Republic day, Jestha 15(May 28), Democracy day, Falgun 7 (Mid-February), (Note: Jestha & Falgun are month of Nepalese calendar)
Political party	United communist party of Nepal –Maoist (UCPN-M), Formerly known as Communist party of Nepal-Maoist(CPN-M),NepaliCongress(NC), Communist party of Nepal- United Marxist Leninist (CPN-UML), Madhesi People's Right Forum (MPRF), Tarai Madhes Democracy Party (TMDP), Sadhbhavana Party (SP), Rastriya Prajatantra Party(RPP)

Economic Analysis of Nepal

Nepal's GDP Growth rate in last Five Years

2006-07	2.75 %
2007-08	5.80%
2008-09	3.77%
2009-10	3.97%
2010-11	3.47%

<u>Nepal's GDP Per capita in last Five Years:</u>

2006-07	$350
2007-08	$390
2008-09	$465
2009-10	$556
2010-11	$642

Climate: Sub – Tropical in the Terai plains long the southern border, temperate in the hills along the middle belt, and alpine in the mountainous region along the northern belt.

Avg. Inflation Rate (Consumer Price Index, 2008-09)	11.8%
Natural Resources	Water, Different Agro Climate Zones, Timber, Minerals
Agriculture	(33% of GDP), Products – Rice, Wheat, Maize, Sugarcane, Oilseed, Jute, Millet, Potatoes, Cultivated Land 25%
Industry	(15% of GDP), Type – Carpet, Pashmina, Garments, Cement, Cigarettes, Bricks, Steel, Sugar, Soap, Matches, Jute, manufactured Goods, Hydroelectric Power
Minimum Wage	NRs 6200 a month for Unskilled Labor (basic salary & allowances)

Trade (2009-10)	Exports-US$804 Million: Carpet, Pashmina, Garments. Major Market – India, China, EU 27 & US. Import-US $4.69Billion: Petroleum Products, Manufactured goods, Major Supplies – India. Trade Deficit-US$3.89 Billion
Official Exchange rate	IRs 1 = NRs1.60
Fiscal Year	July 16-July15 (Nepali calendar, Shrawan 1- Ashadha - 32)
Export & Import of Nepal	Export: Clothing, Leather Goods, Jute Goods Import: Gold, Machinery, Equipment, Fertilizer

Social Analysis of Nepal

Population	29,391,883 (July 2011 Est.)
Population Growth rate	1.596 (July 2011 Est.)
Age Structure 0-14 years:	 34.6% (male 5,177,264/female 4,983,864)

15-64 years: 65 years and over:	61.1% (male 8,607,338/female 9,344,537) 4.4% (male 597,628/female 681,252) (2011 est.)
Language used	Nepali, English is widely used in business, higher education & various professionals
Ethical Groups	Brahman-12.5%, Chetri – 15.5%, Newar-5.4%, Kami-3.9%, Yadav-3.9%, Magar-7%, Tamang-5.5%,Tharu-6.6%, Muslim-4.2% & others-32.7%
Religions	Hindu-80.6%, Buddist-10.7%, Muslim-4.2%, Kirant-3.6%, Others-0.9%
Death rate	6.81 Deaths/1000 population (July 2011 Est.)
Birth Rate	22.17 Birth/1000 Population (July 2011 Est.)
Urbanization	Urban Population: 19% of the Total Population (2010) Rate of Urbanization: 4.7% Annual Rate of Change

Technological Analysis of Nepal

Telephones – Main line in Used	371800
Telephones – Mobile Cellular	50400
Radio Broadcast Station	AM 6, FM 5, Shortwave 1 (January 2011)
Television	970000 (2011)
Internet Hosts	1100 (2011)

Internet Service Provider (ISPs)	10 (2011)
Internet Users	200000 (2011)

Legal Analysis of Nepal

Constitutional law	Constitution of Kingdom of Nepal 2047 (1990)
Administrative & Public Law	Citizenship act, 1964 Civil service act, 2049 (1993)
Criminal law	Arms & Ammunition act, 2019-2062
Civil law	Birth, Death & Other Personal Events (Registration) act, 2033 (1976) Contract act, 2056 -2000 Land acquisition act, 2021-1964 Marriage Registration act, 2028-1971
Commercial law	Buffer Zone Management Rules, 2052-1996 Contract act, 2056 -2000 Land acquisition act, 2021-1964 Marriage Registration act, 2028-1971

4. Conclusion:

Having PESTEL analysis of NEPAL we can identify that that there are immense business opportunity lies in Telecommunication services, Textile Industry, Internet Service Provider & Most important from Indian market point of view an Agriculture Sector. India needs to take advantage of such great opportunity & can enter in Nepal for doing business out there.

Part-2

Table Contents

PRECAPE

That report to try best analysis for Agriculture sector to Nepal. Nepal Six years after the end of a Maoist insurgency and the abolition of the monarchy, political instability continues to plague Nepal. In May 2012, the Constituent Assembly was dissolved after the political parties failed to meet a deadline to form a new constitution. Interim Prime Minister Baburam Bhattarai was aiming for a resolution of the crisis by November. The reintegration of former Maoist fighters into the national army continues to be a controversial issue. Nepal is among the world's poorest and least developed countries and benefits from very little foreign direct investment. The main industry is agriculture, which accounts for one-third of GDP.

The major activities to done in Nepal is tourism. All most Nepal is naturally environment very beautiful and real god gift to Nepal. Nepal is main Aspect to agriculture sector dependent country. 18 % part of GDP (Gross Domestic Products) is Agricultures sector. To analysis this report to agriculture major activities, products, structure and related all information to try giving best work to this our topic. Nepal overall performance of the agriculture sector and relationship to trade between India and Nepal of import-export activities. Import- export duties, taxes, permissions and term and condition between two countries.

Analysis for current situation in Agriculture sector for Nepal and also find out better relationship to India for Import-Export relating to agriculture products, tools and others important area requirement fulfilled. Agriculture sector some opportunities in Nepal to try better position and improve performance increases more benefiting to GDP higher particular area.

1. <u>Introduction about agriculture sector in Nepal</u>

Introduction

USAID Nepal is presently undertaking a process of economic growth assessment as a basis for designing its support to contribute to an inclusive economic growth in Nepal as the country prepares for embarking on prosperity, modernity and just society through consolidation of ongoing peace process. Fostering high economic growth and enhancing access of the poor and excluded to the benefit of growth is the basis for sustainable peace and poverty reduction. Agriculture sector is the important sector of the economy that holds the potential of such broad based and pro-poor growth. The present assessment is to complement to the overall economic growth assessment process from the perspective of agriculture sector.

The purpose of this assessment is to identify key constraints and opportunities for growth in agriculture sector, review policy environment and ongoing activities of development partners in the sector to outline the scope for USAID support to help spur inclusive growth in agriculture. The present assessment was carried out involving reviews, interactions and field visits in a period of July 10 to August 2.

2. An overview of agriculture and poverty in Nepal

2.1 Sector structure Agriculture continues to provide a broad base to the Nepalese economy. Nearly four

Fifths of all Nepalese households are essentially farm households,

1 who derive nearly half of income from agricultural sources consisting of farm income and agricultural wage income (Annex 1, Figure 1). Engaging two-thirds of labor force, this sector alone contributes some one-third to the GDP. As such, the growth originating in agriculture holds high potential to have relatively wider impact on poverty reduction and inclusiveness.

Smallholders and marginal farms predominate Nepalese agriculture with the average holding size of 0.8 ha. Nearly a half of all farms have less than 0.5 ha of land, while those with less than 1 ha of land constitute nearly three-fourths of all holdings (Annex 1, Table

1). Farms are getting smaller – average size of holding declined by 28 percent between 1961 and 2001.

Landless farmers are gradually leaving agriculture as it is hard to eke out livelihood there without holding land asset. The number of holdings without land has decreased by 16.8 % from 32.1 thousand in 1991/92. The number of permanent agricultural workers declined to 179 thousand persons – down by some 41 %.

1Of the total 4.25 million households, 3.36 million constitute agricultural holdings. 1Nepal's agriculture is overwhelmed by subsistence family farms. Seventy-eight percent farm holdings have been reported to be producing mainly for home consumption. The proportion of holdings that produce mainly for sale is not even 1 percent, while little over 21% farm families use their farm produce almost equally for both sale and home consumption (CBS, WB, DFID, and ADB, 2006). Ironically, these subsistence farms are not capable of supporting the adequate subsistence of the farm families. For 60 percent holdings the annual farm production was not sufficient to feed their household until the next harvest; 40% holdings were deficient for up to 6 months while 20 percent holdings were deficient for more than half a year.

Agricultural production is mostly dominated by crop sub-sector which accounts for nearly two-third of AGDP. Cereal crops account for over 80 % of annual cropped area wherein paddy alone occupies 40 percent followed by maize (about 20%) and wheat (about 17 %). Cropping intensity is low at 1.8 on the average. Farms operate in a mixed farming system of crop and livestock interfacing forest. Large livestock population provides sources of meat, milk, draft power and farm yard manure. Production of staple food grains is the choice of common priority for the farms, especially production of paddy wherever it is possible to grow.

2.2 Sector performance

Overall economy and agriculture is not doing well in recent years. Overall economic growth rate declined from 4.8 percent in the 1990s to 3.2 percent during 2001-2006. Agriculture virtually stagnated -- agriculture sector growth rate was 2.7 percent per annum in the 90s and 2.8 percent during 2001 to 2006. Marred by low labor productivity, agriculture is not able to contribute to the economy its due (33 percent share of GDP with 66 percent of country's labor force employed in the sector). Growth of cereals production remained weak, cash crops had mixed performance, while high value horticulture crops performed relatively better. Yields of cereals are persistently low. Yield estimates per hectare for 2007 have been reported to be at 2.77 mt for paddy, 2.16 mt for maize and 2.23 mt. for wheat. It is to be noted that this year is considered to be a good crop year due to better monsoon records (MOF, 2008).

Nepal's agriculture is heavily inclined to food grains production guided by food sufficiency objectives and yet the food self-sufficiency has often been in the doldrums

2Average annual production of food grains is estimated to the tune of 7.7 million tons, of which paddy alone constitutes nearly a half. During deficit years, the food grains shortfall ranged from 22 thousand tons to 485 thousand tons while surplus during better harvest years ranged from 68 thousand tons to 213 thousand tons. Agriculture registered an impressive 5.7% growth last year 2007. Whether this rate will sustain depends largely on the monsoon pattern this year and thereafter.

The economy has been apparently undergoing some structural changes with the shrinkage of agriculture relative to the secondary and tertiary sectors of the economy.

Within agriculture, some commercialization and diversification have been taking place in recent years taking advantage of rapidly unfolding market opportunities created by improvement in accessibility and fuelled by growth in size of urban population. Some indicators of farm level performance in this connection have been presented in Box 2. Despite greater intensification of crop production, return from crop production declined, while return from livestock rearing improved. Cost -- price squeeze intensified in crop agriculture. Likewise, importance of agriculture as a source of household income declined, although it still continues to be the single largest source of household income.

Some framers in the better endowed and well-connected areas are getting involved in producing high value commodities for commercial purposes. Fruits, vegetables, spices, tea and livestock products are increasing and products like coffee and honey are emerging (Annex 1, Table 3). However, the pace is not very impressive. During the period 1995 to 2005, average annual growth rates for fruits, milk and meat hovered around 3 percent; only the growth rate of vegetable production was an exception at 5.1.

Economy of Nepal

Nepal's economic freedom score is 50.4, making its economy the 141st freest in the 2013 *Index*. Its score has increased by 0.2 point since last year, with improvements in business freedom and the control of government spending offsetting deteriorations in labor freedom and trade freedom. Nepal is ranked 31st out of 41 countries in the Asia–Pacific region, and its score remains far below world and regional averages. The Nepalese economy continues to lack the entrepreneurial dynamism needed for broad-based economic growth and sustainable long-term development.

With the statist approach to the economy holding development progress far below the country's potential, state interference continues to hurt regulatory efficiency, and there has been little effort to open the economy or engage in world markets. Nepal's scores for investment and financial freedom are among the lowest in the world.

Lingering political instability undercuts the government's ability and willingness to implement necessary institutional reforms, further undermining the already fragile foundations of economic freedom. Property rights are poorly protected by the inefficient judicial system, which is subject to substantial political influence. Systemic corruption in the non-transparent legal framework also continues to obstruct much-needed expansion of private investment and production.

Nepal opened up its economy in the early 1990s with the adoption of economic reformpackage. The reform measures have since covered almost all sectors of the economy including trade and investment, fiscal and monetary policies, financial and capital markets and other economic and social sectors. The import licensing system and quantitative restrictions were eliminated and tariff rates and structure were reduced and rationalized to make the trade sector competitive. The trade weighted nominal rate of protection declined from about 80 per cent in the early 1980s to about 31 per cent in 1994. Similarly, the average rate of protection has declined from about 111 per cent in 1989 to 16 per cent in 1992. In a similar manner, the number of slabs subject to protection fell from more than 100 in the 1980s to 5 in 1996. Additional measures initiated to promote international trade include the introduction of a bonded warehouse, duty-drawback scheme, initiation of the multi-modal facility (dry port) and an export-processing zone.

A new bilateral trade treaty signed with India in 1996 supported the trade reform program of Nepal. The treaty allows Nepal to export manufactured products to India free of customs duty and quantitative restrictions. Similarly, in order to improve the environment for investment, the Industrial Enterprise Act, 1992 and the Foreign Investment and Technology Transfer Act (1992) were enacted in line with the open, liberal and market-oriented policy. These Acts have further improved investment incentives. No license is required for the establishment, expansion and modernization of industries except for a few related with defense, public health and environment. In short, the environment was made more conducive to larger inflows of foreign direct investment (FDI).

Financial sector reforms have also been carried out to support the trade and industrial reforms. Interest rates were deregulated and joint-venture banks were allowed to open up. Nepal also included full convertibility of the Nepalese rupees on the current account. The overvalued Nepalese currency was also corrected to improve export competitiveness of the 4 trade and industrial sectors. HMG/N has been committed towards trade liberalization through simplification of trade and tax procedures, and also through revising custom tariffs to encourage exports and ultimately attract more foreign investments.7 Furthermore; various sectoral strategies have been introduced to attract investment. The Hydropower Policy 1992 has opened up new avenues to develop the hydropower of the country by motivating national and foreign private investors in this sector. The liberalized aviation policy has contributed tourism industry significantly. Road, airport construction and telecommunication services have also been opened to the private sector in order to attract more domestic as well as foreign investments and to improve service delivery.

Structure, Function & Business Activities of Agriculture Sector

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Six years after the end of a Maoist insurgency and the abolition of the monarchy, political instability continues to plague Nepal. In May 2012, the Constituent Assembly was dissolved after the political parties failed to meet a deadline to form a new constitution. Interim Prime Minister Baburam Bhattarai was aiming for a resolution of the crisis by November. The reintegration of former Maoist fighters into the national army continues to be a controversial issue. Nepal is among the world's poorest and least developed countries and benefits from very little foreign direct investment. The main industry is agriculture, which accounts for one-third of GDP.

Rule of Law View Methodology

Property Rights 30.0 Create a Graph using this measurement

Freedom from Corruption 22.0 Create a Graph using this measurement

The rule of law is weak and is being further damaged by deepening polarization and factionalism. Protections for property rights are not enforced effectively. The judicial system is inefficient, with lower-level courts particularly vulnerable to political pressure. Public-sector corruption continues to be a serious concern. Effective anti-corruption measures are not in place, and government officials exploit their positions for personal gain.

Limited Government View Methodology

Government Spending 89.2 Create a Graph using this measurement

Fiscal Freedom 85.8 Create a Graph using this measurement

The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 13.2 percent of total domestic income. Government spending is 18.9 percent of GDP. The budget balance has been in deficit, with public debt hovering around 34 percent of GDP. Subsidies, particularly to state-owned enterprises like the Nepal Oil Company, continue to stretch public coffers.

Regulatory Efficiency View Methodology

Business Freedom 57.2 Create a Graph using this measurement

Labor Freedom 44.3 Create a Graph using this measurement

Monetary Freedom 75.1 Create a Graph using this measurement

Despite some progress in modernizing the regulatory framework, time-consuming and costly requirements continue to reduce overall regulatory efficiency. Completing licensing requirements takes more than 100 days and costs over six times the level of annual average income. The labor market remains inefficient, and chronic unemployment and underemployment continue. Inflation has moderated but remains high.

Open Markets View Methodology

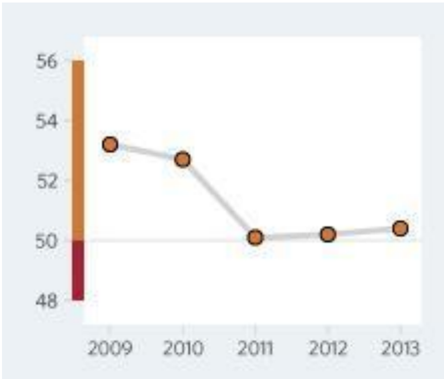
Trade Freedom 60.8 Create a Graph using this measurement

Investment Freedom 10.0 Create a Graph using this measurement

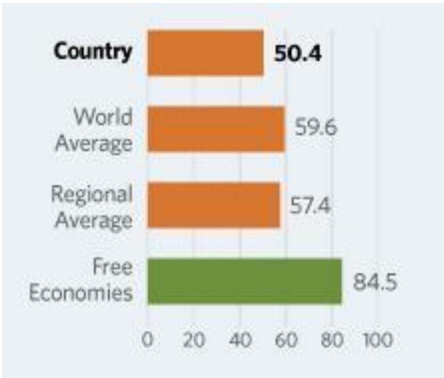
Financial Freedom 30.0 Create a Graph using this measurement

Although some tariffs have been reduced, the trade-weighted average tariff rate remains high at 12.1 percent, and pervasive non-tariff barriers further restrict trade freedom. Private investment is hamstrung by political instability, and the inefficient investment regime further impedes foreign investment. The financial sector remains fragmented, and government ownership and influence in the allocation of credit remain substantial.

Country's Score Over Time



Country Comparisons



2. Present Positions & Trade of Agriculture Business (Import-Export) with India and Nepal

(2008-2013).

Comparative Position of Agriculture sector to Nepal

- **Agricultural marketing support**

In the United States the Agricultural Marketing Service (AMS) is a division of USDA and has programs for cotton, dairy, fruit and vegetable, livestock and seed, poultry, and tobacco. These programs provide testing, standardization, grading and market news services and oversee marketing agreements and orders, administer research and promotion programs, and purchase commodities for federal food programs. The AMS also enforces certain federal laws. USDA also provides support to the Agricultural Marketing Resource Center at Iowa State University and to Penn State University.

In the United Kingdom support for marketing of some commodities was provided before and after the Second World War by boards such as the Milk Marketing Board and the Egg Marketing Board, but these were closed down in the 1970s. As a colonial power Britain

established marketing boards in many countries, particularly in Africa. Some continue to exist although many were closed down at the time of the introduction of structural adjustment measures in the 1990s.

In recent years several developing countries have established government-sponsored marketing or agribusiness units. South Africa, for example, started the National Agricultural Marketing Council (NAMC) as a response to the deregulation of the agriculture industry and closure of marketing boards in the country. India has the long-established National Institute of Agricultural Marketing (NIAM). These are primarily research and policy organizations, but other agencies provide facilitating services for marketing channels, such as the provision of infrastructure, market information and documentation support. Examples include the National Agricultural Marketing Development Corporation (NAMDEVCO) in Trinidad and Tobago and the New Guyana Marketing Corporation.

Several organizations provide support to developing countries to develop their agricultural marketing systems, including FAO's agricultural marketing unit and various donor organizations. There has also recently been considerable interest by NGOs to carry out activities to link farmers to markets.

- **Agricultural marketing development**

Well-functioning marketing systems necessitate a strong private sector backed up by appropriate policy and legislative frameworks and effective government support services. Such services can include provision of market infrastructure, supply of market information (as done by USDA, for example), and agricultural extension services able to advise farmers on marketing. Training in marketing at all levels is also needed. One of many problems faced in agricultural marketing in developing countries is the latent hostility to the private sector and the lack of understanding of the role of the intermediary. For this reason ―middleman‖ has become very much a pejorative word.

- **Agricultural advisory services and the market**

Promoting market orientation in agricultural advisory services aims to provide for the sustainable enhancement of the capabilities of the rural poor to enable them to benefit from agricultural markets and help them to adapt to factors which impact upon these. As a study by the Overseas Development Institute demonstrates, a value chain approach to advisory services indicates that the range of clients serviced should go beyond farmers to include input providers, producers, producer organizations and processors and traders.

- **Market infrastructure**

Efficient marketing infrastructure such as wholesale, retail and assembly markets and storage facilities is essential for cost-effective marketing, to minimise post-harvest losses and to reduce health risks. Markets play an important role in rural development, income generation, food security, developing rural-market linkages and gender issues. Planners need to be aware of how to design markets that meet a community's social and economic needs and how to choose a suitable site for a new market. In many cases sites are chosen that are inappropriate and result in under-use or even no use of the infrastructure constructed. It is also not sufficient just to build a market: attention needs to be paid to how that market will be managed, operated and maintained. In most cases, where market improvements were only aimed at infrastructure upgrading and did not guarantee maintenance and management, most failed within a few years.

Rural assembly markets are located in production areas and primarily serve as places where farmers can meet with traders to sell their products. These may be occasional (perhaps weekly) markets, such as heat bazaars in India and Nepal, or permanent. Terminal wholesale markets are located in major metropolitan areas, where produce is finally channelled to consumers through trade between wholesalers and retailers, caterers, etc. The characteristics of wholesale markets have changed considerably as retailing changes in response to urban growth, the increasing role of supermarkets and increased consumer spending capacity. These changes require responses in the way in which traditional wholesale markets are organized and managed.

Retail marketing systems in western countries have broadly evolved from traditional street markets through to the modern hypermarket or out-of-town shopping Centre. In developing countries, there remains considerable scope to improve agricultural marketing by constructing new retail markets, despite the growth of supermarkets, although municipalities often view markets as sources of revenue rather than infrastructure requiring development. Effective regulation of markets is essential. Inside the market, both hygiene rules and revenue collection activities have to be enforced. Of equal importance, however, is the maintenance of order outside the market. Licensed traders in a market will not be willing to cooperate in raising standards if they face competition from unlicensed operators outside who do not pay any of the costs involved in providing a proper service.

- **Market information**

Efficient market information can be shown to have positive benefits for farmers and traders. Up-to-date information on prices and other market factors enables farmers to negotiate with traders and also facilitates spatial distribution of products from rural areas to towns and between markets. Most governments in developing countries have tried to provide market information services to farmers, but these have tended to experience problems of sustainability. Moreover, even when they function, the service provided is often insufficient to allow commercial decisions to be made because of time lags between data collection and dissemination. Modern communications technologies open up the possibility for market information services to improve information delivery through SMS on cell phones and the rapid growth of FM radio stations in many developing countries offers the possibility of more localized information services. In the longer run, the internet may become an effective way of delivering information to farmers. However, problems associated with the cost and accuracy of data collection still remain to be addressed. Even when they have access to market information, farmers often require assistance in interpreting that information. For example, the market price quoted on the radio may refer to a wholesale selling price and farmers may have difficulty in translating this into a realistic price at their local assembly market. Various attempts have been made in developing countries to introduce commercial market information services but these have largely been targeted at traders, commercial farmers or exporters. It is not easy to see how small, poor farmers can generate sufficient income for a commercial service to be profitable although in India a new service introduced by Thompson Reuters was reportedly used by over 100,000 farmers in its first year of operation. Esoko in West Africa attempts to subsidize the cost of such services to farmers by charging access to a more advanced feature set of mobile-based tools to businesses.

- **Marketing training**

Farmers frequently consider marketing as being their major problem. However, while they are able to identify such problems as poor prices, lack of transport and high post-harvest losses, they are often poorly equipped to identify potential solutions. Successful marketing requires learning new skills, new techniques and new ways of obtaining information. Extension officers working with ministries of agriculture or NGOs are often well-trained in horticultural production techniques but usually lack knowledge of marketing or post-harvest handling. Ways of helping them develop their knowledge of these areas, in order to be better able to advise farmers about market-oriented horticulture, need to be explored. While there is a range of generic guides and other training materials available from FAO and others, these should ideally be tailored to national circumstances to have maximum effect.

- **Enabling environments**

Agricultural marketing needs to be conducted within a supportive policy, legal, institutional, macro-economic, infrastructural and bureaucratic environment. Traders and others cannot make investments in a climate of arbitrary government policy changes, such as those that restrict imports and exports or internal produce movement. Those in business cannot function if their trading activities are hampered by excessive bureaucracy. Inappropriate law can distort and reduce the efficiency of the market, increase the costs of doing business and retard the development of a competitive private sector. Poor support institutions, such as agricultural extension services, municipalities that operate markets inefficiently and export promotion bodies, can be particularly damaging. Poor roads increase the cost of doing business, reduce payments to farmers and increase prices to consumers. Finally, the ever-present problem of corruption can seriously impact on agricultural marketing efficiency in many countries by increasing the transaction costs faced by those in the marketing chain.

- **Recent developments**

New marketing linkages between agribusiness, large retailers and farmers are gradually being developed, e.g. through contract farming, group marketing and other forms of collective action. Donors and NGOs are paying increasing attention to ways of promoting direct linkages between farmers and buyers. The growth of supermarkets, particularly in Latin America and East and South East Asia, is having a significant impact on marketing channels for horticultural, dairy and livestock products. Nevertheless, ―spot‖ markets will continue to be important for many years, necessitating attention to infrastructure improvement such as for retail and wholesale markets.

3. Policies and Norms of Nepal for Agriculture sector for import / export including licensing / permission, taxation

- **Success Agriculture equipment's in Nepal**
- **Combine harvester:**

  It is a technology which is introduced without Government interventions. It is adopted in western and central Terai region. There are 9 combine harvesters in operation for harvesting rice and wheat. The cost of harvesting and threshing is reduced to about 50 percent after adoption of this technology. Small plot size and maintenance problems are the major hurdle for the further diffusion of this technology.

- **Adoption of Minimum Tillage by Power Tiller Drill:**

  Traditional wheat sowing is done through broadcasting seed on the prepared surface (mainly by animal power) and manipulating them with soil through tillage operations (ploughing 4 times and planked 5 times). Poor tilt and manual seed broadcasting cause poor plant stand. The minimum tillage by Power Tiller Drills (PTD) has been popular among small to medium scale farmers, as the drills perform three operations e.g. soil tilling, seed sowing, and planking, simultaneously. Minimum Tillage by PTD produced the highest mean grain yield of 3.5 ton/ha compared to 2.9 ton/ha by farmers' Practice. It was found to be the most economical and showed the mean Net Return of 25755 Rs./ha

  & Farmer's Practice showed the mean Net Return of 18060 Rs/ha. Zero-till Drill for Kidney bean, Peas, Lentil and Wheat produced the mean grain yield of 2925, 9750 (green pods), 1500, and 3725 kg/ha compared to 2350, 8375 (green pods), 900, and 3100 kg/ha by farmer's practice respectively.

- **Biogas:**

  Biogas support program(BSP) is one of the successful program in Nepal Till date 189,122 biogas plants are installed and more than 95% of constructed plants are in operation. . Favorable policy with subsidy, private sector partnership, comprehensive quality standards and strong monitoring mechanism are the major pillar of this program. 72 private Biogas Companies have been strengthened,16 Biogas appliances manufacturing workshops are developed by this program. BSP is an ISO 9001:2000 certification holder for its strong quality management system and subsidy administration. Biogas support program has also received fund from carbon trading.

- **Treadle Pump:**

  Treadle pump is easy to operate, fabricated locally, recovers the investment in short duration and costs less.. It can lift water up to 22 ft, can irrigate upto 5-10 kattha and it had been tested in Terai region of Nepal during 1993/94. IDE/Nepal is supporting technically for pump fabrication, marketing and installation. To date, 100000 farmers have been benefited by the use of treadle pump in irrigating various crops and have become successful in income generation. Six private companies are fabricating through distributing local dealers.

- **Drip Irrigation technology:**

  IDE/Nepal, through R & D, has developed easy & low cost drip irrigation technology for Nepal. 5000 farmers have been successful to cultivate vegetable and to generate income. As field can be irrigated with less water, it is more affective in areas having water scarcity. It has been very successful in hilly region and north belt of Terai region.

- **Improved Water Mill (IWM)**

  Improved Water Mill Support Programme has been honored by the prestigious London based ―Ashden Award 2007‖ in recognition to upgrading over 2,400 traditional water mills in the Himalayas of Nepal and improving livelihood of millers and mill users and stemming the rise in diesel mills. It is being implemented through 16 service centers and eight Ghatta Owner's Associations (GDA) in 16 hill districts of Nepal. By end of June 2007, it had helped to install 2,767 improved water mills; 2,473 are of short shaft used for efficient grinding and 294 units are of long shaft used for other end uses such as rice mill, saw-mill, oil expeller, lokta beater, chiura making. It has replaced diesel mills directly helping to contribute in reduction of carbon dioxide emissions and hence global warming to some extent.

- **Gravity Ropeway**

  Gravity ropeway technology was transferred from Northern India to Nepal in collaboration with ICIMOD and private manufacturer/supplier. Couple of demonstration ropeways had been installed in Marpha and Tukche VDCs of Mustang district to facilitate apple transportation from orchards to the road heads. Afterwards, it installed Janagaon/Bishaltar ropeway in Benighat VDC, Hadikhola- Chiraudi ropeway in Kalleri VDC of Dhading, and Torisawara-Bishaltar ropeway in Jori Sawara VDC of Gorkha with financial support from the donors. Initial study showed that transportation cost of agro-based products decreased by at least 50% after being served by gravity ropeway system. It provided confidence to the villagers to supply their products (e.g. Vegetables, milk and other agri and forest products) in larger amounts, to enter the competitive market in cities. It also improved their socio-economic status and health, education and community awareness. In addition, it created employment opportunities & supporting business of local manufacturers and service providers. There could be many other places where this technology would be applicable.

- **Other Agricultural Machineries:**

  Some agricultural machinery developed by AED, NARC viz. Hand Maize Sheller, Coffee pulper, Millet thresher cum pearler; low cost solar dryers are commercialized and adopted by the farmers in different parts of Nepal. Hand maize Sheller is used for shelling maize which reduces the drudgery of women farmers in shelling maize. Coffee pulper is adopted in commercial scale pulping of coffee at community level which significantly (more than 50%) increased the capacity and efficiency than the wooden pulper. These coffee pullers helped the farmers to produce quality coffee parchment efficiently. Similarly for the millet farmers who are at present threshing and pearling millet manually has got an option for efficient threshing and pearling as well as reduction of drudgery. For the remote areas where other types of commercial solar dryers are costly and difficult to maintain, the low-cost solar dryer is developed and promoted by AED.

<u>ISSUES & CONSTRAINTS OF AGRICULTURAL MECHANIZATION</u>:

Socioeconomic Issues:

Lack of Alternative Employment Opportunities

Poor situation in industrialization and development of service sector has resulted very little employment opportunities in the sectors other than agriculture. The present increasing trend of young people going abroad as a labour is still a debatable issue on its contribution in the national development in long run. In this context creation of local employment opportunities in other sector viz. industries & service sector will create a favorable situation for agricultural mechanization in the country.

Small and fragmented land holding

Small and fragmented land holding has been one of the major constraints in slow pace on adoption of agricultural mechanization in Nepal. As about 50 % of the holdings is having land area below 0.5 ha, the mechanization program and policy should address the farmers of all categories; specially small and medium land holding size.

Declining Sharing of family labor

The customs of sharing family labour in the labour intensive agricultural operations like transplanting and harvesting is found to be declining in the rural areas. The farmers reported that there is lack of labour in the peak agricultural labour demanding season. Due to lack of employment opportunities in the country, huge numbers of young people are going abroad to Malaysia and Gulf to work as a labor. Hence, the agricultural operation is found to be completely dependent upon the old and female members of the family.

Poor Conditions of Blacksmiths

The blacksmiths which can play important role in agricultural mechanization through fabrication of agricultural tools and implements are the deprived group in the community and their indigenous skill and technology is at the verge of extinction from the community, due to lack of commercialization and modernization of their skills as well as lack of recognition of their contribution by the community and the state.

Gender Concerns

Except tillage and marketing activities in the crop production activities, in all farm activities, women farmer (labor's) contribution is found to be ranging from 40 percent to 64 percent. This share is even found to be increased due to our flux of male members of household to urban area and even abroad in search of job. The contribution of women in farming operation is rarely recognized and their drudgery on farm operation is not addressed. Major agricultural operations related to women's drudgery in Nepal are rice transplanting, weeding, harvesting, transportation , milling etc. Even though the constitution of Nepal has declared illegal to discriminate the women, the wage rate of agricultural women labor in villages is found to be only about 50 percent to that of male labor.

Capital Constraints

Agriculture in Nepal is dominated by subsistence level of farming communities. It is mainly due to lack of capital, technology and market. Even though, there is extension of credit institutions in Nepal, the interest rates are found to be more in rural sector than in urban sector (viz. housing loan, car loans etc.). Many co-operatives and micro credit institutions have been evolved in the villages of Terai; they need awareness and model projects on co-operative farming for intensification and commercialization of agriculture with appropriate mechanization.

Technological Issues & Constraints

Need of agricultural mechanization for small-holders:

As the farm holding size and socio-economic background of Nepal is diverse and is mainly dominated by small farmers and poor farmers, the mechanization need to be focused on appropriate mechanization technologies addressing the needs of different category of farmers in Terai , hill and mountain. Hence the agricultural mechanization program should not be limited to promote increased use of tractor but also include improved manual tools; animal drawn implements and appropriate mechanical machinery in Terai. As the majority of the farm operation is performed by women, the tools and machinery are to be promoted by catering the needs of women farmers. The research and development on farmer friendly appropriate tools and machinery is also needed to be reoriented addressing gender concerns.

Availability of spare parts:

From the perspective of the farmers, the major technological constraints are difficulty in availability of spare parts, lack of training on operation and maintenance of farm machinery, inadequate facility for servicing and repair of farm machinery. At present, Nepal has to dependent on the imported tractor, power tiller and other farm machinery and the dealers and traders are not financially strong enough to stock all necessary spare parts. Hence the farmers have to wait for months to get the necessary spare parts. Moreover the cost of spare parts is also reported to be high.

Poor condition of local agricultural machinery fabricators:

Blacksmiths used to play an important role in producing and repairing hand tools and bullock drawn implements. It was estimated that more than 85 percent of hand tools and implements are made by local blacksmiths (Manandhar 1999). Due to poor economic background, lack of modernization in their technology, social system, poor education level these blacksmiths could not commercialize their skills of manufacturing agri tools and implements in the community. Enhancing the capacity of those blacksmiths through capital support, manufacturing facility upgrading, training (fabricating and repair and maintenance skill on improved agricultural machinery and entrepreneurship) etc. not only uplift the deprived section of the society but also contribute the community by supplying improved agricultural tools & implements and providing repair and maintenance facilities locally.

Lack of technical and safety standards

There have been no standards adopted in production and import of agricultural machinery in Nepal. There have been several accidents during use of agricultural machinery. Hence there is need of enforcing safety standards on agricultural machinery production and import.

Policy Issues

Lack of agricultural mechanization policy:

Due to lack of clear-cut policy on agricultural mechanization, the agricultural mechanization is not found to be streamlined as per the need of the farming communities and national development goals on commercialization of agriculture in Nepal. Hence there is need of clear-cut policy on agricultural mechanization and other related policy is also needed to be amended accordingly. The policy should guide for the amendment of existing unfavorable legislation and enforce favorable legislation measures; strengthen institutional setup for promotion of agricultural mechanization; focus on implementation of appropriate agril mechanization programs and projects with priority.

Lack of Recognition of Farm Machinery Custom Hiring Enterprise

It is evident from the land size distribution and economy of the village that each household cannot purchase full set of farm machinery for its own use. The most of the farm machinery owners in Terai, first they use in their own field after that they rent out those machineries to others. More holdings are found to be served by the tractors, threshers, sprayer & pump set. Custom hiring of farm machinery is taking place in an informal way in each village without any support from government. To improve the profitability from each agricultural machine, the operation hours is to be increased. These custom-hiring enterprises could play an important role on introduction of improved farm machinery and spread the benefit to the farmers in the community. Hence, government should recognize this custom hiring enterprise and support through training and credit.

4. Policies and Norms of India for Import or export to the Nepal Agriculture sector including licensing / permission, taxation etc.

General Provisions Regarding Imports and Exports Exports and Imports free unless regulated

Exports and Imports shall be free, except in cases where they are regulated by the provisions of this Policy or any other law for the time being in force. The item wise export and import policy shall be, as specified in ITC (HS) published and notified by Director General of Foreign Trade, as amended from time to time.

Interpretation of Policy

If any question or doubt arises in respect of the interpretation of any provision contained in this Policy, or regarding the classification of any item in the ITC(HS) or Handbook or Handbook or Schedule Of DEPB Rate the said question or doubt shall be referred to the Director General of Foreign Trade whose decision thereon shall be final and binding.

If any question or doubt arises whether a Licence/ certificate/permission has been issued in accordance with this Policy or if any question or doubt arises touching upon the scope and content of such documents, the same shall be referred to the Director General of Foreign Trade whose decision thereon shall be final and binding.

Procedure

The Director General of Foreign Trade may, in any case or class of cases, specify the procedure to be followed by an exporter or importer or by any licensing or any other competent authority for the purpose of implementing the provisions of the Act, the Rules and the Orders made thereunder and this Policy. Such procedures shall be included in the Handbook, Handbook, and Schedule of DEPB Rate and in ITC (HS) and published by means of a Public Notice. Such procedures may, in like manner, be amended from time to time.

The Handbook is a supplement to the Foreign Trade Policy and contains relevant procedures and other details. The procedure of availing benefits under various schemes of the Policy is given in the Handbook.

Exemption from Policy/ Procedure

Any request for relaxation of the provisions of this Policy or of any procedure, on the ground that there is genuine hardship to the applicant or that a strict application of the Policy or the procedure is likely to have an adverse impact on trade, may be made to the Director General of Foreign Trade for such relief as may be necessary. The Director General of Foreign Trade may pass such orders or grant such relaxation or relief, as he may deem fit and proper.

The Director General of Foreign Trade may, in public interest, exempt any person or class or category of persons from any provision of this Policy or any procedure and may, while granting such exemption, impose such conditions as he may deem fit. Such request may be considered only after consulting Advance Licensing Committee (ALC) if the request is in respect of a provision of Chapter-4 (excluding any provision relating to Gem & Jewellery sector) of the Policy/ Procedure. However, any such request in respect of a provision other than Chapter-4 and Gem & Jewellery sector as given above may be considered only after consulting Policy Relaxation Committee.

Restricted Goods

Any goods, the export or import of which is restricted under ITC(HS) may be exported or imported only in accordance with a Licence/ certificate/ permission or a public notice issued in this behalf.

Terms and Conditions of a Licence/Certificate/ Permission

Every Licence/certificate/permission shall be valid for the period of validity specified in the Licence/ certificate/ permission and shall contain such terms and conditions as may be specified by the licensing authority which may include:

- The quantity, description and value of the goods
- Actual User condition
- Export obligation
- The value addition to be achieved
- The minimum export price

Licence/Certificate/ Permission not a Right

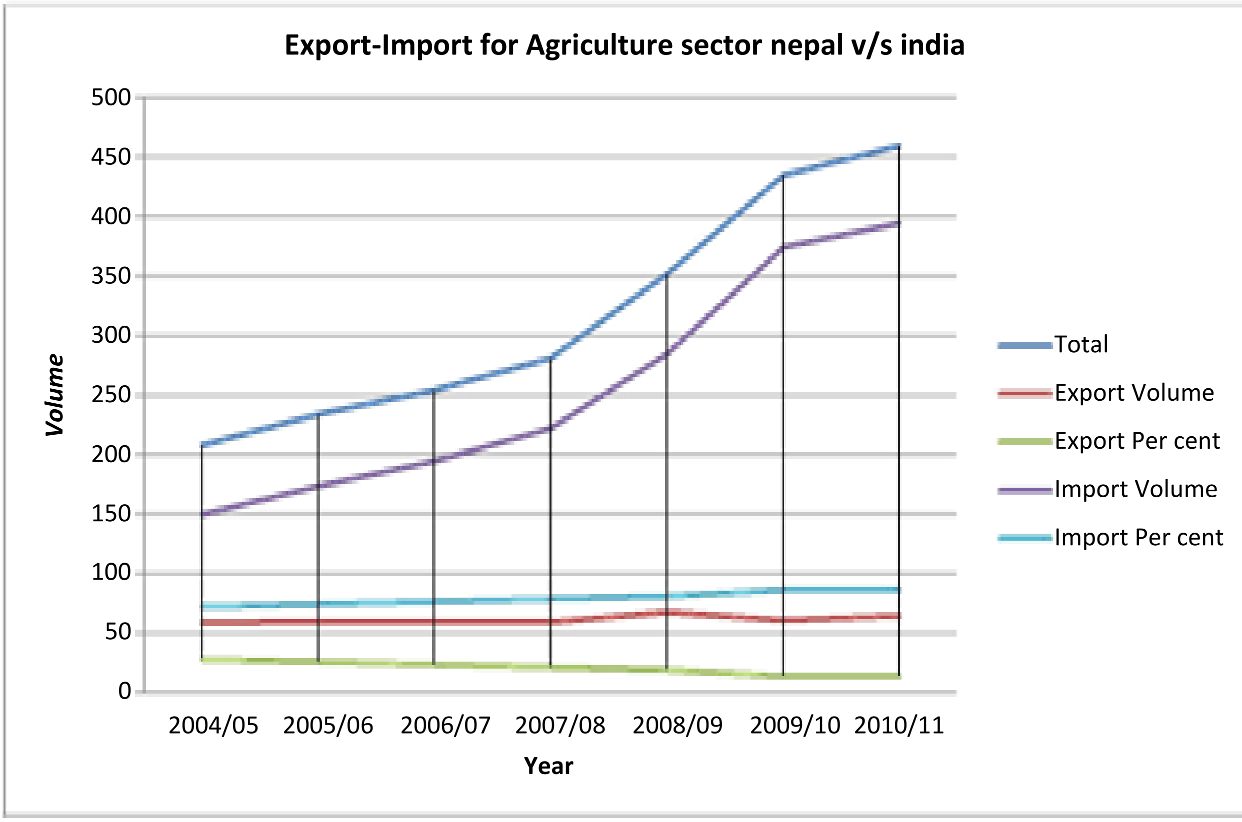
No person may claim a Licence/certificate/ permission as a right and the Director General of Foreign Trade or the licensing authority shall have the power to refuse to grant or renew a Licence/certificate/permission in accordance with the provisions of the Act and the Rules made there under.

penalty

If a Licence/certificate/permission holder violates any condition of the Licence/certificate/ permission or fails to fulfill the export obligation, he shall be liable for action in accordance with the Act, the Rules and Orders made there under, the Policy and any other law for the time being in force.

Nepal's trade scenario 2004/05-2010/11 (in NRs billion) to Agriculture and others Sectors

Year	Total	Export		Import	
		Volume	Per cent	Volume	Per cent
2004/05	208.2	58.7	28.2	149.5	71.8
2005/06	234.0	60.2	25.7	173.8	74.3
2006/07	254.1	59.4	23.4	194.7	76.6
2007/08	281.2	59.3	21.1	221.9	78.9
2008/09	352.2	67.7	19.2	284.5	80.8
2009/10	435.2	60.8	14.0	374.3	86.0
2010/11	459.46	64.56	14.1	394.9	85.9



Major Export Trade Partners of Nepal

NRs. in million

	Country	1995/96	1996/97	1997/98	1998/99	1999/2000
1.	India	3682.6	5226.2	8794.4	12530.7	21220.7
2.	USA	5672.8	5930.2	7106.4	9520.3	13677.7
3.	Germany	6751.3	7651.7	6813.5	7820.7	7510.6
4.	United Kingdom	289.4	297.7	318.2	521.8	1192.4
5.	Belgium	309.9	231.2	152.7	283.3	812.1
6.	France	175.6	241.9	486.6	479.2	735.5
7.	Japan	79.0	100.3	178.5	230.8	705.0
8.	Bangladesh	385.5	497.9	595.0	1296.3	561.1
9.	China P.R. *	549.3	625.1	621.1	558.7	514.3
10.	Hong Kong	28.6	21.1	17.8	31.0	504.3
11.	Switzerland	445.2	346.5	234.9	281.5	418.5
12.	Spain	182.9	156.6	194.8	180.5	301.3
13.	Italy	356.6	348.3	461.8	385.0	300.0
14.	Canada	112.0	164.7	97.0	156.1	285.0
15.	Netherlands	127.6	174.2	129.8	159.1	193.3
16.	Austria	196.4	309.2	329.4	330.9	187.5
17.	Singapore	40.9	22.8	28.7	17.6	174.8
18.	Australia	40.4	58.5	81.7	101.6	109.9
19.	Sweden	71.8	170.9	151.5	78.8	95.7
20.	Korea R.	28.1	33.8	17.3	6.4	61.5

Note: Ranking is applicable for the year 1999/2000 only.

Policy on agricultural mechanization

Agricultural mechanization can contribute to the growth of agricultural production and rural develop-ment while reducing rural poverty. Correct and timely government interventions are crucial to achieve these kinds of objectives. For example, the development of minor irrigation—particularly private, investment-based expansion of shallow tube wells—contributed to the impressive performance and expansion of boro rice in Bangladesh. This was an outcome of the government's market liberalization policy for irrigation equipment in the late 1980s. This policy promoted rapid expansion of irrigated boro-rice farming in the dry season (Hossain 2009). Similar interventions are needed in agricultural mechanization in Nepal. In the same vein, linking rural and agricultural mechanization with occupa-27

Tional castes of Nepal, particularly liberated Haliyas11, Kami12 and Luhar for manufacturing, importing, and marketing agricultural tools and equipment can contribute to poverty reduction in rural areas. This can be done by setting up cooperatives to increase employment opportunities, improve livelihoods, and reduce poverty.

Strategies of Government of Nepal for agricultural growth and poverty reduction

Nepal's development plans have had agriculture as a central component, and there has been a continuing evolution in agricultural plans that have all been committed to growth, development, and poverty reduction (Table 3.1). That said, there has been a lack of clarity in the formulation of policy. As a result, the agricultural plans overlap in their time frame and have the same overarching goals, while differing somewhat in their emphasis.

[redacted]

provision of irrigation, roads, fertilizer, and technology development, as well as the development of agribusinesses

[redacted]

agriculture with the encouragement of the private sector and cooperatives, and added the concept of sustainability through the conservation of natural resources and biodiversity .

5. What is a Trade Barrier between India and Nepal to Agriculture Sector?

Trade barriers are measures that governments or public authorities introduce to make imported goods or services less competitive than locally produced goods and services. Not everything that prevents or restricts trade can be characterized as a trade barrier.

A trade barrier may be linked to the very product or service that is traded, for example technical requirements. A barrier can also be of an administrative nature, for example rules and procedures in connection with the transaction. In a number of areas, special international ground rules have been agreed, which limit the ways in which countries can regulate trade. It means that some barriers are legal while others are illegal.

Trade barriers within the EU are subject to special rules that apply to the internal market of the EU.

Sometimes it may also be possible to assist companies that face obstacles to trade that do not fall under the definition of actual trade barriers.

Non-tariff barriers to trade

Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports but are not in the usual form of a tariff. Some common examples of NTB's are anti-dumping measures and countervailing duties, which, although called non-tariff barriers, have the effect of tariffs once they are enacted.

Their use has risen sharply after the WTO rules led to a very significant reduction in tariff use. Some non-tariff trade barriers are expressly permitted in very limited circumstances, when they are deemed necessary to protect health, safety, sanitation, or depletable natural resources. In other forms, they are criticized as a means to evade free trade rules such as those of the World Trade Organization (WTO), the European Union (EU), or North American Free Trade Agreement (NAFTA) that restrict the use of tariffs.

Some of non-tariff barriers are not directly related to foreign economic regulations but nevertheless have a significant impact on foreign-economic activity and foreign trade between countries.

Trade between countries is referred to trade in goods, services and factors of production. Non-tariff barriers to trade include import quotas, special licenses, unreasonable standards for the quality of goods, bureaucratic delays at customs, export restrictions, limiting the activities of state trading, export subsidies, countervailing duties, technical barriers to trade, sanitary and phyto-sanitary measures, rules of origin, etc. Sometimes in this list they include macroeconomic measures affecting trade.

1. Specific Limitations on Trade:

    1. Import Licensing requirements
    2. Proportion restrictions of foreign to domestic goods (local content requirements)
    3. Minimum import price limits
    4. Embargoes

Customs and Administrative Entry Procedures:

5. Valuation systems
6. Anti-dumping practices
7. Tariff classifications
8. Documentation requirements
9. Fees Standard disparities
10. Packaging, labeling, and marking
11. Government procurement policies
12. Export subsidies
13. Countervailing duties
14. Domestic assistance programs

Examples of Non-Tariff Barriers to Trade

Non-tariff barriers to trade can be the following:

- Import bans
- General or product-specific quotas
- Rules of Origin
- Quality conditions imposed by the importing country on the exporting countries
- Sanitary and phytosanitary conditions
- Packaging conditions
- Labeling conditions
- Product standards
- Complex regulatory environment
- Determination of eligibility of an exporting country by the importing country
- Determination of eligibility of an exporting establishment (firm, company) by the importing country.

World Trade Organization and Nepalese Agriculture

Introduction

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business. The WTO began life on 1 January 1995, but its trading system is half a century older.

Objectives of WTO

The main objectives of WTO can be specified as;

1. To make transparent international trade related rules

2. To help producers and traders of goods and services

3. To strengthen world's economic situation and increase investment, employment and income

Functions of WTO:

The Article III of agreement establishing the multilateral Trade Organization/WTO has specified five specific functions of WTO (Bhandari, 2001). They are:

Administrative Functions: Under this function of WTO facilitates the implementation, administration, operation, and advances the cause of objectives of WTO agreement, multilateral trade agreements and provides framework for the implementation, administration and operation of pluri-lateral trade agreements.

Platform for negotiation: WTO works as a platform where its members joining their helping hands can advance negotiations among themselves concerning their multilateral trade relations in matters dealt under the WTO agreements and enlisted in its annexes.

Execution: WTO administers the understanding on rules and procedures governing the settlement of disputes.

Trade Principles of WTO

The major principles of the WTO agreements are

- Non- discrimination
- Free Movement of Foreign Products, Services or Nationals
- Transparency
- Special and Differential Treatment

Nepal's Accession to the WTO

Nepal's accession to the WTO was the result of a long and complicated process of negotiations at multilateral, bilateral and domestic level that lasted over fourteen years. On April 23, 2004 the protocol entered into force and Nepal became the 147th member of the WTO. Nepal undertook 25 systematic commitments under the terms of its accession to WTO.

Nepal is the first officially classified least developed countries (LDCs) to join since the WTO was established in 1995. According to the Nepalese government, the accession will present challenges and opportunities, particularly considering its large trade deficit

Agreement related to Agriculture Sector in WTO

Agreement on Agriculture (AOA)

The AOA was the outcome of the Uruguay Round (UR) negotiations that started in 1986 and concluded in 1994. The long-term objectives set by the AOA are to establish a fair and market oriented agricultural trading system through substantial reductions in 1agricultural support and protection.

AOA deals all the matters of tariff, domestic support and export subsidies. It is rightly identified that the root cause of distortion of international trade in agriculture is the massive domestic subsidies given by industrialized countries over the decades (WTO, 1995). In order to minimize such dumped exports and to keep their markets open for efficient agricultural producers of the world, the starting point has to be the reduction of the domestic production subsidies given by the industrialized countries, followed by reduction of export subsidies and the volume of subsidized exports, and minimum market access opportunity for foreign agricultural producers‖.

Domestic Support

Domestic support provides commitments to reduce agricultural subsidies and other programmes including those raise or guarantee farm gate prices and farmers' incomes. These supports are divided by the AOA into different boxes in tricky way.

Market Access:

Market access is one of the three main pillars of the AOA – the other two being domestic support measures and export competition. It deals with rules and commitments related to import of goods. Its purpose is to expand trade by preventing various non-tariff barriers and by binding and reducing tariffs. In the WTO context, market access is about both obligations and rights. Nepal's obligation is to provide market access to other Members in return for her right of access to others' markets for Nepalese goods on multilaterally agreed terms. Thus, a balanced analysis of market access provisions would cover both obligations and rights.

Export subsidies and export restrictions

In common with all least developed countries (LDCs) and a majority of the developing countries, Nepal does not subsidize exports. At the time of the WTO accession, it committed not to subsidize exports in future also. One of the conclusions of the study is that this commitment is unlikely to have any negative implications for the Nepalese agriculture for two reasons. First, export subsidization is not a sound economic policy. Second, Nepal could not afford export subsidies at its low level of economic development. On the other hand, there were several instances in the past when export subsidization by other countries had some negative effects on the Nepalese agriculture. Therefore, it is in Nepal's interest to tighten WTO rules on export subsidy (Tiwari et al, 2004).

Implication on Nepalese Agriculture:

- Nepal can promote exports through various incentive measures of the WTO Subsidies Agreement.
- Limited implications of the WTO rules on export restriction and taxation policies.
- Nepal is occasionally affected negatively by export subsidization by others
- Domestic policy issues and analytical needs

General Agreement on Trade in services (GAT)

This Agreement opens the door for foreign investment in different sectors while accessing the membership of WTO by Nepal, had agreed on 74 different sectors and sub-sectors for trade out of which only 2 sectors are related to agriculture. They include

1. Animal medical services
2. Technical Experiment and investigation services

WTO and Emerging Issues in Nepalese Agriculture

Keeping eyes on the benefits that can arise from the agreements of WTO; we need to address major issues in agricultural sector. The issues at hand include scale sensitivity, trade restriction at disguise, resource mobility and technology transfer (Pant, 2004 & 2007).

a) Scale Sensitivity of WTO Provisions

It is usually believed that the WTO Agreement on Agriculture (AOA) does not focus on addressing the development needs and concerns of the small-scale subsistence farmers in developing countries. It rather tends to emphasize on commercial agriculture and trade. For example, rules under WTO say that the fees and charges on the services from the public sector should match the amount of the service provided and not be based on the volume of transactions.

b) Disguised Protection in the Name of Quality Standard

The AOA commits reductions in protection measures and trade distorting subsidies. The experience shows that the agricultural trade has become more protected in the developed countries after the establishment of WTO. In Nepal the agriculture is exposed to market forces in the name of economic liberalization.

c) Competitiveness

The major problem in international competition is our small scale and high cost of production. Low technology production makes our product less competitive in terms of quality. In addition, our trading partners may prevent entry of our products in the name of protecting animal, plant and human health and life in their country. We have competitiveness in the products with low capital and high labour inputs. Some of such products are, for example, hybrid vegetable seeds, flower seeds, medicinal herbs, silk, honey, dry fruits and cottage cheese.

d) Labour Mobility

Nepal’s agriculture sector is labour surplus. As the surplus labour comes out of it, farms will experience labour shortage. This will have two effects. First, wage rate in the farm will increase. That will not only make agriculture workers better of but also make technological interventions like mechanization financially viable to adopt. Second, some farms will not be able to afford for higher wage or mechanization. Such financially non-viable farms need to go for enterprise transformation for increasing productivity. This will increase the efficiency of the farm sector.

e) Land Mobility

There are two issues in land mobility. First, moving land from low productive enterprises to high productive enterprises is experienced for centuries. The speed is gaining in recent years. Some examples of such movements of land (generally referred as change in cropping pattern) are as follows.

- maize/millet farming upland is getting shifted to summer vegetables, ginger and cardamom
- fallow lands during winter is moved to winter vegetables
- pasture lands in hills are shifter to tea, coffee and fruits

f) Technology Transfer in Agribusiness

The TRIPS measure is expected to accelerate the pace of generation of agricultural technology. However, the royalty rights of the inventors will make the technology costlier to the users. On the other hand, the agribusiness can make better choice of technology for adoption and it will increase the productive efficiency and net gain of the agribusiness. Increase in the price of agricultural products due to reduction in the farm subsidies in developed countries will increase the demand of agricultural products from developing countries and is expected to facilitate investment in agriculture in LDCs. It ultimately will help in the modernization of agriculture sector.

g) Service Sector Openings

Nepal has opened some services to foreign investment with some conditions like compulsory incorporation of certain portion of equity to domestic investors, and employment of local staff except a certain fraction of high level experts and managers. Among the services opened, those directly concerned with the agribusiness are (a) veterinary services, (b) research and development services and (c) technical testing and analysis services. Opening of these services is expected to attract foreign direct investment in such agribusiness. In addition, availability of the better services will help domestic agribusinesses to expand. It will also help promote the product quality for export.

Market Access Barriers to Select Nepalese Agricultural Exports- imports

1.1 Nepalese agriculture and export-import trade

Agriculture plays a significant role in the Nepalese economy. Despite the decline of its contribution to GDP from 47.4 per cent in 1990–91 to 39.2 per cent in 2003–04, it is still the largest sector of the economy and the main livelihood for about 80 per cent of the population (Ghimire and Dahal 2004).

Nepal’s export trade is highly concentrated, both in product and destination. While carpet, textiles and agricultural produce represent 70 per cent of total exports, three markets—the U.S., Germany and India—are its major destinations, covering more than 80 per cent of total exports. Therefore, the

Challenges are to increase Nepal’s exports in the international market by diversifying its export profile. One of the possibilities is through agricultural exports.

1.2 Objectives of the research

- ■ study the existing tariff and non-tariff barriers on select agricultural produce of Nepal;
- ■ identify problems the Nepalese agricultural exports face in the international market; and
- ■ propose some measures at the international and regional levels to minimize, if not eliminate, export barriers.

1.3 Limitations

■ The study looks at multilateral trade issues, but not at the preferential market access facilities nor

The bilateral and regional trade issues despite their importance for Nepal, particularly in the context of its heavy trade reliance on India;2

■ the study looks mainly at the demand side, i.e., market access barriers (tariff and non-tariff) on select agricultural products, and does not focus on supply side;

Conclusions

The major provisions of WTO relating to the agribusiness are in the Agreement on Agriculture, SPS/TBT agreements and TRIPS agreements. Other agreements of WTO affect the agribusiness indirectly. Several provisions of these agreements can be used to support agricultural production, marketing and trade. For this purpose, we need to revise our domestic policies in standards setting and certification, increasing the production scale and making our resources mobile.

Nepal is concerned with the food security and safeguarding rural employment, for which we need some flexibility under the provisions for domestic support. We are also questioning the extremely high subsidies and tariff walls even now being maintained by the developed countries, although they are committed to reduction of both under the Uruguay round. We are seeking better market access for our agricultural products for integration to multilateral trading system.

Because of the large dependency on agriculture for employment, even minor changes in agricultural employment opportunities, commonly prices or trade conditions can have major socio-economic ramifications in Nepal. To comply with the principles of WTO without compromising our development needs and livelihood of the farmers we need some additional facilities like

- Maximum improvement of opportunities and terms of access (like duty free quota free access to the markets in developed countries) for agricultural products of our production potential

- Meaningful and practical special and differential treatment to LDCs to enable them to take appropriate domestic policy measures to address growth and development needs in agriculture; and
- In the meantime, it is absolutely necessary to protect the resource poor subsistence farmers from surges of cheap subsidized imports.

Nepalese farmers being small in nature they may face difficult in competing to the international market. Therefore, we need to protect major commodities like food grains, fruits, vegetables, meat and milk and their processed products for protecting the interest of our farmers

6.1 Business opportunities in Nepal

Agriculture and Natural Resources Sector in Nepal

Nepal is enumerated as one of world's poorest countries according to GDP (Gross Domestic Product) per capita. It is a country that is interlocked between great powers like India and China and has a difficult topography, inferior infrastructure, uncertain political situation, low human capital and a historically weak economic growth.

This is the negative side of Nepal but it is also possible to look at Nepal in a positive light. The difficult topography provides great opportunities for a unique tourist experience. It also creates a fantastic possibility for hydroelectric power because of the presence of gigantic mountains and numerous water courses that flow through them.

After the peace treaty of 2006 which put a stop at a bloody civil war, there have been winds of change blowing over Nepal. Economic growth has accelerated and since the election that gave birth to a government dominated by the ex- guerilla, some kind of political stability has been achieved.

Today, the economic growth scales around 5% - 6 % and that has been resulted due to improved agriculture, increased flow of tourists and a brisk growth in distribution and retail trade. This growth occurs through a strongly increasing inflow of capital from Nepalese people working abroad who send home money to their families. The biggest problem lies in the manufacturing industry with almost zero percent of growth which is mostly due to insecurity around legislation and a militant union movement.

Agriculture is the biggest sector in the country and the official export is dominated by the textile industry. So far India has been the largest business partner but since the Maoists have come into power, doors have been opened to China and an attempt to balance these great powers against one another has been initiated.

Business in Nepal is still much relation-based and a large contact network holds great importance. Direct investment is something that the new government has laid much hopes on but complicated rules and regulations still pose as a hindrance in the smooth turning of the wheel.

Artamus in Nepal

Artamus in Nepal focuses on internet marketing and on outsourcing of services. Artamus has collaboration with the majority of IT companies in the country and can therefore offer programming and development within all big programming languages. There are also several persons involved in producing texts etc. for a number of different languages.

The company works even with investments in the country and helps Nepalese companies to reach bigger markets outside the country and we also offer services that makes establishment of international companies in Nepal easier and less complicated.

Apart from outsourcing to Nepal, there are also few interesting areas of future investment in Nepal

- Hydroelectric power - there is a huge potential for international companies to be a part of the hydroelectric power in Nepal.
- Infrastructure - Both road infrastructure, railway and airway must be improved or better designed.
- Telecommunication - Like in many other countries in the region, there is an explosion of mobile phone users.
- Tourism within a niched area and specialized ecotourism has a strong potential in the country.

Description

- Despite some decline in recent years, agriculture remains by far the largest sector in the Nepali economy, employing 71% of the population and accounting for 33% of gross domestic product in 2007.
- The sector is also an important source of livelihood for a majority of poor people in the country; indeed, poverty in Nepal is primarily a rural problem, one strongly associated with gender, ethnicity, caste, and religion.
- This study assesses ADB's assistance to Nepal's agriculture and natural resources sector from 1997 to 2007 to identify opportunities for improving future program performance. Overall assessment of the sector assistance is *partly successful*.
- ADB assistance to the sector reached about $228 million during 1997–2007, or about 21% of total assistance during the period of about $1.08 billion. Of this, $82.7 million went to agricultural production and marketing; $73.7 million to the agricultural and rural sector; and $50.6 million to irrigation, drainage, and flood protection.
- Among the findings, the study recognized ADB's lead position as development partner in agriculture and natural resources in Nepal, while its strategies and programs helped address poverty and inequality. Noteworthy in this regard was its support to foster inclusive development by addressing gender, caste, and ethnic discrimination through inclusive public policies. ADB is also credited with helping to improve agricultural productivity through greater use of irrigation facilities, and with advocating and providing support to diversify and commercialize agriculture.
- The study recommends, among other things, that ADB increase its strategic focus in supporting agriculture and natural resources by increasing investment in rural infrastructure, such as irrigation, rural roads, and market infrastructure.

Agriculture Sector Performance

- Agriculture accounted for 40% of gross domestic product (GDP) in 1997 and, despite

- Falling to 33% by 2007 remains by far the largest sector of the economy.
-
- It employed 81% of the population in 1997, a figure that fell to 71% by 2007.7 The contribution of the sector to per
- Capita GDP was only around half that of other sectors, illustrating low productivity. Over the
- evaluation period, agricultural growth rates averaged 3.3% during the Ninth Plan (1997–2001)
- but only 2.67%

Farming systems distribution and characteristics

The country is divided into three geographical regions: a high altitude mountain region along the northern belt with colder climatic conditions; a central hilly region with moderate climatic conditions; a low altitude Terai-plain along the southern belt with warmer climatic conditions. Its fish production is totally dependent on inland water Nepal is a land-locked country. Carp polyculture in ponds is by far the most common and viable aquaculture production system adopted in Nepal and in 2003/2004 made up about 90 percent of the total production of 18 060 tonnes. The major part of the pond fish production takes place in the southern part of the country

– the Terai plain – where 94 percent of the fish ponds are located. These ponds cover over 97 percent of the water surface area and account for over 98 percent of the total pond fish production in the country. Data compiled for 2003/2004 showed an average pond fish yield of 3.00 tonnes/ha in Terai plain, which exceeded the national average of 2.96 tonnes/ha and is twice the average yield in the hills and mountains. The key to the growing popularity of the system in Terai is the warmer climatic conditions which are conducive to higher fish growth.

Cage fish culture with herbivorous carps has been confined to lakes of the Pokhara valley in the western hills and the Indrasarober reservoir in the central hills of the country. The system is very popular amongst rural communities. In 2003/2004 this practice covered about 34 000 m3 of cages with an average yield of about 6 kg/m3 of cage. Carp polyculture in enclosures is practiced only in the lakes of Pokhara valley where it is a popular aquaculture activity. It has further emphasized the potential role of lakes for increasing fish production.

Rice-fish culture is one of the earlier initiatives in Nepal and one which has potential. It is mostly practiced in the hills and valleys. It has more recently also started to become popular in the Terai. In 2003/2004 it covered an area of 218 ha. With improved management and careful planning, the practice could be expanded significantly in future.

Fish culture in gholes (marginal agricultural land along irrigated areas, ditches, flood plains and swamps) has been developed for improving the livelihood of rural targeted communities. Fish production activities in such areas also help to promote the ecology of the water bodies. This practice has been mostly concentrated in the Terai. There are about 12 500 ha of gholes available in the country, of which about 1215 ha have been utilized for fish culture in 2003/2004.

The corridors in the hills and mountains are potential locations for the culture of high-value cold water species such as rainbow trout (Onchorhynchus my kiss). Its technical feasibility has been proven, but the practice has not yet been introduced on a commercial scale.

Agriculture Security

Over 70 percent of Nepal's population works in the agriculture sector, accounting for 38 percent of the GDP. Nevertheless, Nepal struggles to produce an adequate supply of food for its citizens. Farmers have limited access to improved seeds, new technologies, and market opportunities. Declining agricultural production has depressed rural economies and increased widespread hunger and urban migration. Almost 50 percent of Nepal's population is undernourished, and nearly half of all children under 5 are chronically malnourished. Chronic malnutrition has debilitating effects, such as blindness, brain damage, and infectious diseases, which often can result in lifetime damage.

Despite these difficulties, there are many opportunities to help ensure an adequate food supply for all Nepalis. The Government of Nepal has made food security a national priority. USAID-supported programs already have demonstrated impact by increasing agriculture productivity and incomes of smallholder farmers. As a focus country for the U.S. Feed the Future Initiative, Nepal continues to receive USAID support for scaling up programs that sustainably increase agricultural productivity and facilitate access to markets. USAID also will support improved nutrition by increasing the production and consumption of nutritious food products and improving hygiene and access to safe water.

- USAID supported over 85,000 smallholder farmers in 26 remote, conflict-affected districts to adopt improved farming techniques. USAID’s work has increased the incomes of 430,000 rural farmers (54 percent women) by over 50 percent.
- USAID helped flood-affected communities improve farmer productivity and incomes, rehabilitate essential infrastructure such as irrigation systems and bridges, and build resilience against future natural disasters. For example, 4,400 vegetable farmers increased their household incomes by more than 300 percent over several crop cycles as a result of improved agricultural technologies such as integrated pest management, post-harvest storage, and marketing.
- USAID trained over 49,000 households on improved maize production technologies in 20 remote hill districts. USAID’s work resulted in the production of more than 1,000 kilograms of improved maize seed covering over 50,000 hectares of land, thereby increasing incomes and food security for poor, disadvantaged farmers. Similarly, USAID supported the Government of Nepal in releasing four new drought-tolerant maize varieties, which have lowered crop loss and contributed to higher maize yields.

6.2 Conclusion & Suggestion for Agriculture sector in Nepal

Nepal is concerned with the food security and safeguarding rural employment, for which we need some flexibility under the provisions for domestic support. We are also questioning the extremely high subsidies and tariff walls even now being maintained by the developed countries, although they are committed to reduction of both under the Uruguay round. We are seeking better market access for our agricultural products for integration to multilateral trading system.

- Maximum improvement of opportunities and terms of access (like duty free quota free access to the markets in developed countries) for agricultural products of our production potential
- Meaningful and practical special and differential treatment to LDCs to enable them to take appropriate domestic policy measures to address growth and development needs in agriculture; and

In the meantime, it is absolutely necessary to protect the resource poor subsistence farmers from surges of cheap subsidized imports

Agriculture is the principal source of food, income, and employment for the majority, particularly the poorest. Growth in agriculture is, therefore, crucial for reducing poverty, and preliminary findings from the National Living Standards Survey indicate that despite the insurgency, the sector has made a significant contribution to poverty reduction.

However, agriculture is largely based on low-value cereals and subsistence production, with a mere 13 percent of output traded in markets. The sector’s current 40 percent share in national GDP is declining, although there is considerable scope for increasing productivity and value-added.

1. Increasing productivity and value addition through commercialization and irrigation investments

- ***Commercialization:***

  This will require action along several fronts, including policy support, meeting quality standards, capacity building and market information for producers, applied research, and investment in the supply chain for high value commodities. Trade can be promoted by strengthening institutions and systems for quality control and certification, and investing in laboratories, testing stations, and human resources.

Irrigation and emphasis on farmer management:

Irrigation infrastructure can be improved by: (a) promoting both surface and groundwater irrigation for commercial and industrial crops in the Terai, while encouraging high-value horticulture and cereal production in the Mountains and Hills; (b) developing year-round irrigation in perennial flow areas and small storage facilities in other areas; (c) building low pressure sprinklers and drips for high value crops, and shallow and deep tube wells only where profitable; and (d) investing in mini- and micro-hydro facilities, to facilitate power generation and lift irrigation in the hills . The Government should encourage farmer management of irrigation infrastructure, and support matching-grants for demand-driven farm interventions.

2. Improving the functioning of factor markets

- Factor markets should be reviewed based on analytical work and cross-country experience. Those can promote land redistributive policies, achieve a more accessible legal system to address land disputes, and identify market and non-market mechanisms to improve access to land. Measures should be defined to improve land administration systems, particularly cadastral and land title records, to provide greater security of ownership and reduce transactions costs. Work on rural finance should develop strategies to provide services to people in isolated areas, where the traditional Grameen model is unsuitable.

3. Reaching out to the poor and investing in basic infrastructure

Due to the protracted conflict and instability of the Government, decentralized approach to empower communities and devolve decision-making power to the local level has become the hallmark for better service delivery. The use of non-governmental agencies has become an important vehicle to facilitate access to livelihood opportunities and income generating activities, particularly for the most disadvantaged groups. A mix of local, public and private investments in roads, communication and power remain critical to improve access to assets, integration with markets, generate off-season employment, especially for the most backward areas. As political, administrative and fiscal decentralization is brought back on track, role for local government will need to be defined to meet local demands, involve communities and improve accountability.

6.3 Annexure

- World Trade Organization (WTO)
- General Agreement on Trade in services (GAT)
- Least developed countries (LDCs)
- Agreement on Agriculture (AOA)
- Agriculture Perspective Plan (APP)
- National Agricultural Policy (NAP)
- Gross Domestic Product (GDP)
- European Union (EU)
- North American Free Trade Agreement (NAFTA)
- Advance Licensing Committee (ALC)
- Three-Year Interim Plan (TYIP)
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UNDER THE GUIDANCE OF

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MBA SEMESTER IV

SARDAR PATEL EDUCATION CAMPUS

MBA PROGRAMME

Affiliated to Gujarat Technological University, Ahmedabad.

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PART- I

TABLE OF CONTENT

1) DEMOGRAPHIC PROFILE & ECONOMIC OVERVIEW OF THE NEPAL

Nepal's population has grown from 9 million people in 1950 to 26.6 million in 2011. Nepal's population increased from 23,151,423 in 2001 to 26,620,809, with a subsequent family size decline from 5.44 to 4.7 Although the population growth recorded was only 1.4 percent for the latest census period, some 1,917,903 absentee population was noted, over a million more than 762 thousand in 2001, most being

POPULATION STRUCTURE

male workers. This correlated with the drop in sex ratio from 94.41 as compared to 99.80 for 2001.

The Nepalese are descendants of three major migrations from India, Tibet, and North Burma and the Chinese province of Yunnan via Assam. Even though Indo-Nepalese migrants were latecomers to Nepal relative to the migrants from the north, they have come to dominate the country not only numerically, but also socially, politically, and economically.

In the Terai, a part of the Ganges Basin with 20% of the land, much of the population is physically and culturally similar to the Indo Aryans northern India. Indo-Aryan and West Asian looking mixed people live in the hill region. Indo-Aryan ancestry has been a source of prestige in Nepal for centuries, and the ruling families have been of Indo-Aryan and Hindu background. The mountainous highlands are sparsely populated. Kathmandu Valley, in the middle hill region, constitutes a small fraction of the nation's area but is the most densely populated, with almost 20% of the population.

According to the World Refugee Survey 2008, published by the US Committee for Refugees and Immigrants, Nepal hosted a population of refugees and asylum seekers in 2007 numbering approximately 130,000. Of this population, approximately 109,200 persons were from Bhutan and 20,500 from People's Republic of China. The government of Nepal restricted ethnic Nepalese expelled from Bhutan to seven camps in the Jhapa and Morang districts, and refugees were not permitted to work in most professions.

DATA	SIZE
Population	26,620,000(2011)
Growth Rate	1.6%
Population below 14 Years old	39%
Population of age 15 to 64	57.3 %
Population above 65	3.7 %
The median age (Average)	20.07 %
The median age (Male)	19.91 %
The median age (Females)	20.24
Ratio (Male:Female)	1, 000:1,060
Life expectancy (Average)	66.16 Years
Life expectancy (Male)	64.94
Life expectancy (Female)	67.44
Literacy Rate (Average)	68.2% (According to the UNDP report 2011)
Literacy Rate	NA

An Overview of Nepalese Economy

Nepal is among the poorest and least developed countries in the world. In fact Nepal doesn't stand anywhere to its otherwise developing neighbors such as India, Pakistan and Bangladesh. Almost 45% of its population living below the poverty line, Nepal has to do much catching before being termed a Developing Economy.

Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for 38% of GDP. Most of the agriculture activities take place in the Tarai region. The sub-standard equipments and pesticides along with the medieval mode of agriculture make it a tough affair. The industrial sector is in a dismal condition. Industrial activity mainly involves the processing of agricultural products including jute, sugarcane, tobacco, and grain. These things are hardly considered industrial activities by New-school economists.

Economy of Nepal

GDP (PPP)	**$39.14 billion**
GDP (OER)	$6.655 billion
GDP (RGR)	2.7%
GDP Per capita (PPP)	$1,400
GDP (By sector)	Agriculture38%, Industry21% and Services 41%
Unemployment rate	42%
Population below poverty line	45%
Inflation rate (consumer prices)	7.8%
Budget	Revenues: $1.153 billion Expenditures: $1.789 billion

Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment. Additional challenges to Nepal's growth include its landlocked geographic location, civil strife and labor unrest, and its susceptibility to natural disaster.

GDP (purchasing power parity):

$37.74 billion (2011 est.)
country comparison to the world: 100
$36.52 billion (2010 est.)
$34.88 billion (2009 est.)
note: data are in 2011 US dollars

Agriculture - products:

Pulses, rice, corn, wheat, sugarcane, jute, root crops; milk, water buffalo meat

Industries: tourism, carpets, textiles; small rice, jute, sugar, and oilseed mills; cigarettes, cement and brick production .

Industrial production growth rate:1.4% (FY10)

Country comparison to the world: 139

Electricity - production: 3.156 billion KWh (2010 est.)
Country comparison to the world: 126

Electricity - consumption: 4.833 billion KWh (2010 est.)
Country comparison to the world: 114

Electricity - imports: 70 million kWh (2010 est.)

Oil - consumption:20,000 bbl/day (2010 est.)
country comparison to the world: 129
Oil - imports:

13,740 bbl/day (2009 est.)

country comparison to the world: 135

Current account balance:-$437.9 million (2010 est.)

country comparison to the world: 106 $537 million (2009 est.)

Exports: $896 million (2011 est.)
Country comparison to the world: 157; $901.9 million (2010 est.)

Exports - commodities:
Clothing, pulses, carpets, textiles, juice, Pashima, jute goods

Exports - partners: India 66.4%, US 6.8%, Germany 4.8%, Bangladesh 5.4% (2011)

Imports: $5.4 billion (2011 est.)

Country comparison to the world: 119

$5.016 billion (2010 est.)

Imports - commodities: petroleum products, machinery and equipment, gold, electrical goods, medicine

Imports - partners: India 65.2%, China 11.5% (2010)

Debt - external:$4.5 billion (2009)
country comparison to the world: 118
$3.285 billion (2008)

1) OVERVIEW OF INDUSTRIES TRADE AND COMMERCE OF NEPAL

Commercial and Economic Relations:

India is Nepal's largest trade partner and source of foreign investment; India is also the only transit providing country for Nepal.

Trends in trade and investment:

Bilateral trade was US$ 4.21 billion during Nepalese fiscal year 2010-11 (July 16 – July 15). Nepal's import from India amounted to US$ 3.62 billion and exports to India aggregated US$ 599.7 million. In the first six months of fiscal year 2011-12, Nepal's total trade with India was about US$ 1.93 billion; Nepal's exports to India were about US$ 284.8 million; and imports from India were about US$ 1.64 billion.

Since 1996, Nepal's exports to India have grown more than eleven times and bilateral trade more than ten times; the bilateral trade that was 29.8% of total external trade of Nepal in year 1995-96 has increased to 66.4% in 2010-11. Since 1995-96, the total external trade of Nepal has increased from NRs. 9433 crores (IRs.5895 crores) to NRs. 45946.1 crores (IRs. 28716.3 crores). 83% of this increase is on account of increase in the bilateral trade between India and Nepal, which grew from NRs. 2808 crores (IRs. 1755 crores) in 1995-96 to NRs. 16319.9 crores (IRs. 10199.9 crores) in first six months of 2011-12. Nepal's exports also increased from NRs.1988 crores (IRs. 1242 crores) in 1995-96 to NRs. 3591.6 crores (IRs. 2244.7 crores) in first six months of 2011-12. 45% of this increase was on account of increase in Nepal's exports to India.

Nepal's main imports from India are petroleum products (28.6%), motor vehicles and spare parts (7.8%), M. S. billet (7%), medicines (3.7%), other machinery and spares (3.4%), coldrolled sheet in coil (3.1%), electrical equipment (2.7%), hotrolled sheet in coil (2%), M. S. wires, roads, coils and bars (1.9%), cement (1.5%), agriculture equipment and parts (1.2%), chemical fertilizer (1.1%), chemicals (1.1%) and thread (1%). Nepal's export basket to India mainly comprises jute goods (9.2%), zinc sheet (8.9%), textiles (8.6%), threads (7.7%), polyster yarn (6%), juice (5.4%), catechue (4.4%), Cardamom (4.4%), wire (3.7%), tooth paste (2.2%) and M. S. Pipe (2.1%).

3) OVERVIEW OF DIFFERENT ECONOMIC SECTOR OF NEPAL

Nepal is one of the poorest countries in the world and was listed as the eleventh poorest among 121 countries in 1989. Estimates of its per capita income for 1988 ranged from US$158 to US$180. Various factors contributed to the economic underdevelopment--including terrain, lack of resource endowment, landlocked position, lack of institutions for modernization, weak infrastructure, and a lack of policies conducive to development.

Until 1951 Nepal had very little contact with countries other than India, Tibet, and Britain. Movement of goods or people from one part of the country to another usually required passage through India, making Nepal dependent on trade with or via India. The mountains to the north and the lack of economic growth in Tibet

(China's Xizang Autonomous Region after 1959) meant very little trade was possible with Nepal's northern neighbor.

Prior to 1951, there were few all-weather roads, and the transportation of goods was difficult. Goods were able to reach Kathmandu by railroad, trucks, and ropeways, but for other parts of the country such facilities remained almost non-existent. This lack of infrastructure made it hard to expand markets and pursue economic growth. Since 1951 Nepal has tried to expand its contacts with other countries and to improve its infrastructure, although the lack of significant progress was still evident in the early 1990s.

The effects of being landlocked and of having to transit goods through India continued to be reflected in the early 1990s. As a result of the lapse of the trade and transit treaties with India in March 1989, Nepal faced shortages of certain consumer goods, raw materials, and other industrial inputs, a situation that led to a decline in industrial production.

2) <u>OVERVIEW OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL</u>

Nepal may not be among the best known of trading centers in Asia, but there are many reasons why certain businesses should consider trade in Nepal. Since, 1951 the Nepali government has worked hard to liberalize the country's economy, by improving transportation and communication facilities, as well as industry and agriculture. The Nepali government has tried to make the Nepali economy more conducive to investment by entering into various trade agreements and investment protection pacts. The export areas that Nepal does best in are the production of garments and carpets industry. With the European Union accounting for approximately 47% of all garment and rug exports. Nepal has also steadily climbed the scales in terms of ease of doing business in, with an increase of 3 places to 107. The Nepali economy has also been doing very well over the past few years, with economic growth in the 2000's averaging between 4-6% on a annual basis.

So the Nepali market has steadily expanded and gotten richer, with GDP per capita increasing albeit at a slower rate, over the past 30 years. However, it should be noted that there is a sever lack of skilled labor in the country and there is little sign of this changing, with little government investment in education. So anything beyond basic manufacturing is likely to be difficult in Nepal.

Another aspect of the Nepali economy is that it is heavily reliant on the Indian economy and exports; the local market is very weak in terms of consumption potential. So if international trade conditions are poor or if the Indian economy is performing poorly, it is very likely that the Nepali economy will also be performing poorly. But that does not make it any less of a manufacturing center for garment and rug producers. In fact, overtime many manufacturers from China have been locating to Nepal in order to take advantage of its lower wages and lower costs. But once again this has been restricted mainly to basic manufacturing as opposed to any technological manufacturers. But keep in mind, there is also a level of political instability in the country that makes any large long term investing slightly difficult.

3) PRESENT TRADE RELATION AND BUSINESS VOLUME OF DIFFERENT PRODUCT WITH INDIA/GUJARAT

About 95 per cent of Nepal's trade is with India, The main items of export to India are rice and other food grains, hides and skins, oilseeds, timber, ghee and medicinal herbs. The main items of import from India are cotton yarn and cloth, woolen cloth, chemicals, kerosene and salt.
In recent years with the establishment of diplomatic and economic relations with an increasing number of countries, Nepal's trade is gradually becoming diversified geographically.

Even so for some years to come, rapid expansion of trade with countries other than India will be difficult for certain reasons.

First, Nepal is dependent upon Indian railways and ports for trade with other countries. The capacity of Indian railways and ports is, however; Inadequate even to meet the needs of the rapidly developing Indian economy.

Second, the small scale of Nepal's trade makes it difficult to attract overseas businessmen, Third an organized business community which will make positive efforts to promote trade does not exist in Nepal today. The growth of trade associations is a recent phenomenon in Nepal. Even now only some half a dozen trade organizations arc registered with the Government and their activities are confined mostly to their respective localities.

The author is Secretary to His Majesty's Government of Nepal in the Ministry of finance and Economic Affairs. This article is however, written in the author's personal capacity and does not in any way represent the official views of His Majesty's Government.

4) **PESTEL ANALYSIS OF NAPAL**

HERE are four areas that represent the most common external influences. These are:

- **Political and Legal factors** – for example, new laws and regulations or decisions made by governments.

- **Economic factors** – changes in the economy, people's spending power, and patterns of wealth.

- **Socio-cultural factors** – changes and trends in society, for example, the number of people aged over 60 in society

- **Technological factors** – changes in techniques or equipment that can lead to the development of new goods and services or new ways of doing things.

Political Factors

The country in the present day is in the transitional phase. The Constituent Assembly Polls being the major issue so various other matters are overlooked. The existing political instability as the constituent election has successfully completed is anticipated to be stabilize, which will certainly help the business environment to become favorable in the country. With so much of instability in Nepalese political sector, it is apparent that the rules and regulations are unstable as well. Hence, it is very important for any company to be extra cautious and adaptive to the changes in the policies regarding the laws and legislations.

Economic Factors

The most significant of all external forces with which a business must contend is the economic environment of the country. The general economic conditions and trends are the most crucial to the economic viability and success of the business. The economic environment consists of factors that affect consumer purchasing power and spending patterns and it depends on income level, price, savings, and availability of credit. The purchasing power of Nepalese people is very low due to political instability, higher inflation rate and unemployment. The recent slowdown economy is principally led by contraction in manufacturing and tourism industry, and steep drop in exports.

Socio-cultural Factors

Socio-cultural environment is composed of various class, structure, beliefs, values, social institutions, accepted patterns of behavior, customs of people and their expectations. Hence, any industry must take into consideration the socio-cultural environment for developing its policy and strategy. Socio-cultural environment influences the demand and supply of goods and services.

Society's habits and tastes are changing. People are being educated and are more aware of the importance of the environment and healths and are becoming 'green consumers'. Green consumers prefer goods and services that are environmentally-friendly' and which have less impact on the environment and is good for health. The green consumer, for example, prefers to travel by bus or cycle.

Environmental Factors at Public Transport Service Industry in Nepal:

An introduction

We all make use of the services provided by transportation companies. We probably have caught the bus in town or travelled on a school bus or made an intercity journey by Nepal Yatayat or Safa Tempo. Some of us have travelled on a super green energy-efficient Trolley bus. We know that, Nepal does not have a long history of transport service industry. Even though, with a population of 25 million, Nepal is a potential market for transport industry.

Technological Factors

Technological environment refers to all the technical surroundings that affect business. It includes skills, methods, systems and equipment. Technology consists of the forces that create new technologies creating innovative services and market opportunities. The most dramatic force shaping people's lives is technology.

Various types of sophisticated technologies are invented and implemented in international transportation Service. Services like path navigator, wireless communication in vehicle and other safety measures are already in use in international industry but in Nepal it is lagging behind. Crowded and the unsafe module of the procedure are till we considered. That makes the capacity below the actual level and makes difficult to compete with other. It ends up with a poor working condition for the employees.

Legal Factors

Responsible businesses not only abide by the law, they seek to create standards above minimum requirements. Public transportation has to be aware of a number of legal factors. Legal changes that affect business are closely tied up with political ones. Many changes in the law stem from government policy. The Department of Transport Management (Dotm) government's transportation services governing body used to recommend the transportation fare. Many other laws are nation-wide, for example, the standards for bus transport emissions. Public transport must make sure that all its buses meet these requirements. It has to anticipate and prepare to meet future legal changes. From 2010 Nepal is entering in WTO, as part of an initiative called Carbon Reduction Commitment, public transport and other companies will need to buy carbon credits. These credits will permit companies to generate specific quantities of carbon emissions.

CONCLUSION

In recent years Nepal's economic and social wellbeing have been undermined by political insecurity. The king was assassinated and his replacement was nowhere near as popular. Governments were dismissed out of hand, and for a decade at least Maoist guerillas terrorised much of the country. Pictures of the king and queen once hung in temples as well as homes and businesses.

Nepal is still one of the world's poorest countries, and hunger, premature death, inadequate housing, and poor sanitation still characterize life in rural areas. Half the population lives below the UN poverty line of $1.25 a day. In terms of GDP Nepal is ranked 115th of the world's economies, and it depends heavily on foreign aid, and on the remittances of soldiers serving overseas and people who have gone abroad in search of employment

PART- II

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1.

Introduction Structure, Function And Business Activity

1.1- INTRODUCTION OF NEPAL HEALTH INDUSTRY

NEPAL HEALTH INDUSTRY

Modern health services initiated about 120 years ago in Nepal, with eight health facilities established in different parts of the country at a time. The pace of growth of health service was slow till 1950s and after that health sector took steady and continuous growth with establishment of more health facilities at all level and establishment of health facilities by non-governmental organizations also in different parts of the country.

Government was the largest service provider followed by non-governmental organizations and the private sector had very small contribution till 1993. After restoration of democracy in 1990, the public sector also has grown with establishment of sub health posts and primary health centers and both the private for profit and not for profit (NGO and cooperative) hospitals have grown significantly.

The public sector has established at least one modern health facility in every village development committee and in the rural areas it is the only agency providing health services. The private and non-governmental sector is contributing mainly in secondary and tertiary care health services and they are more concentrated in urban areas and district head quarters.

The human resource for health production also has grown significantly in last 15 years with establishment of medical, nursing and allied health science institutions both in public and private sector.

As a result of this there is over production of some category of human resources such as ANM, AHW etc already, though quality is an issue often raised. Similarly, the pharmaceutical industry also has grown significantly with

establishment of 40 plants of modern drugs and 18 plants of traditional drugs and currently meets one third drug need of the country.
Overall growth of health sector has begun to contribute in national socio-economic development by reducing morbidity & mortality from disease & making people healthy, economically productive and live longer. The growth of health sector has also brought the challenges along with the opportunities.

MAJOR INVESTMENTS IN THE SECTOR INCLUDE:

Temasek Holdings, Singapore's state-owned investment company, has invested Rs 140 crore (US$ 25.92 million) in the cancer care provider HealthCare Global Enterprises (HCG)

LifeCell International Pvt Ltd has won funding of Rs 35 crore (US$ 6.48 million) from Helion Venture Partners. The investment will be used to increase LifeCell's market awareness and penetration in the country, said Mr Mayur Abhaya, CEO and MD, LifeCell

Spice Global has made an investment of Rs 400 crore (US$ 74.07 million) in a new healthcare foray to launch multi-speciality Saket City Hospital in the New Delhi. The hospital will have 1000 bed capacity by the end of its third and final phase, expected by mid-2016

1.2- IMPORTANCE OF HEALTH INDUSTRY

The Pharmaceutical sector makes a significant contribution to European and global well-being through the availability of safe and effective medicines, economic growth and sustainable employment. Overall, EU-27 production of pharmaceuticals was estimated at €190 billion with exports equivalent to €210 billion and imports accounting for €161 billion (a positive trade balance of €49 billion) in 2007.

The Medical devices sector covers a dynamic, innovation-driven, highly competitive industry within a global market. It covers some 10 000 types of products, from the simplest tongue depressor to the most sophisticated scanning equipment.

Today's healthcare needs are dependent on the rising number of health professionals. The healthcare industry employs over fifteen million workers in both salary and wages section. It's one of the fastest growing professions, and it's also expected to generate more than three million jobs in the next decade. The healthcare industries combine several sectors that are essential for providing products and services. Among the sectors include drug manufacture, diagnostic services, biotechnology, hospital equipment and instrument, diagnostic labs and nursing homes.

- The gross domestic product (GDP) of Nepal grew by 4.6% in Fiscal Year 2012 (ended in July 2012), up from 3.8% a year earlier.
- Investment ratio was not encouraging due to political instability and deteriorating situation of law and order. Ultimately, it has impeded the path of economic growth and deterred poverty alleviation activities.
- Banks' liquidity constraint eased, growth in credit was slow because there were few attractive investment opportunities.

NEPAL HEALTH INDUSTRY

The Indian healthcare sector is estimated to reach US$ 100 billion by 2015, growing 20 per cent year-on-year (y-o-y), as per rating agency Fitch. The industry is expected to touch US$ 280 billion by 2020, on the back of increasing demand for specialised and quality healthcare facilities.

India is the most competitive destination with advantages of lower cost and sophisticated treatments, highlighted the RNCOS report titled 'Indian Healthcare - New Avenues for Growth'. The report further elaborates that several key trends are backing the growth of India's healthcare sector.

"India is a very important market for many reasons. The government continues to invest in healthcare. We see that healthcare is expanding across the country. There is a growth opportunity and we continue to invest very much in India. There is so much innovation in India," highlighted Mr Adam H Schechter, Executive Vice President and President, Global Human Health Division, Merck.

Market Size

Private equity (PE) and venture capital (VC) investments in the healthcare industry in India are increasing rapidly. In 2012, the industry absorbed US$ 1.2 billion across 48 deals, according to research firm Venture Intelligence.

The hospital and diagnostic centre in India has attracted foreign direct investment (FDI) worth US$ 1,542.35 million, while drugs & pharmaceutical and medical & surgical appliances industry has registered FDI worth US$ 9,783.31 million and US$ 584.14 million, respectively during April 2000 to December

2012, according to data provided by Department of Industrial Policy and Promotion (DIPP).

Indian pharmaceutical industry is projected to show double-digit growth in near future owing to a rise in pharmaceutical outsourcing and rising investments by multinational companies, as per RNCOS report titled 'Indian Pharma Sector Forecast 2014'.The report highlighted that focus of the industry will shift towards capitalising the potential of tier-III and rural areas. Emerging sectors, such as bio-generics and pharma packaging will also pave way for the pharmaceutical market to continue its upward trend during the forecast period (FY 2012- FY 2014).

Trends and Investments

Healthcare providers in India plan to spend Rs 5,700 crore (US$ 1.05 billion) on IT products and services in 2013, a 7 per cent rise over 2012 revenues worth Rs 5,300 crore (US$ 981.50 million), according to a report by Gartner. It is expected to grow to 3.9 per cent to reach Rs 1,720 crore (US$ 318.52 million) in 2013, with most of this growth coming from enterprise communication equipment.

Further, the hospital services market, which represents one of the most important segments of the Indian healthcare industry, is expected to be worth US$ 81.2 billion by 2015, as per a RNCOS report.

1.3- HISTORY OF NEPALESE HEALTH INDUSTRY

Public health and health care services in Nepal are provided by both the public and private sector and fares poorly by international standards. According to 2011 census, more than one third (38.17%) of the total households do not have toilet in their houses. Tap/Piped water is the main source of drinking water for 47.78% of the total households. Tube well/hand pump is the main source of drinking water for about 35% of the total households, while spout, uncovered well/kuwa and covered well/kuwa are the main source for 5.74%, 4.71% and 2.45% respectively. Based on 2010 World Health Organization (WHO) data, Nepal ranked 139 in life expectancy in 2010 with the average Nepalese living to 65.8 years.

Disease prevalence is higher in Nepal than it is in other South Asian countries, especially in rural areas. Leading diseases and illnesses include diarrhea, gastrointestinal disorders, goiter, intestinal parasites, leprosy, visceral leishmaniasis and tuberculosis. About 4 out of 1,000 adults aged 15 to 49 had human immunodeficiency virus (HIV), and the HIV prevalence rate was 0.5%. Malnutrition also remains very high: about 47% of children under 5 are stunted, 15 percent wasted, and 36 percent underweight, although there has been a declining trend for these rates over the past five years, they remain alarmingly high.In spite of these figures, some improvements in health care have been made, most notable is the significant progress in maternal-child health.[105][106] Overall Nepal's HDI for health was 0.77 in 2011, ranking Nepal 126 out of 194 countries, up from 0.444 in 1980.

Overview of the performance of health sector since NDF 2004

- **The environment in health sector**

The environment in health sector is guided by health sector strategy: an agenda for reform approved by Government of Nepal in 2003. this strategy is prepared on the basis of poverty reduction strategy, health sector reform, sector wide approach, second long term health plan 1997-2017 and donor harmonization. The Interim Constitution of Nepal promulgated in January 2007 and it has established the basic health services as the fundamental right of every citizen of the country. Similarly, the child health services and reproductive health services also have been taken as the fundamental human right of the children and women.

- **Implementation of Sector Wide Program in Health Sector**

Government of Nepal approved the Nepal Health Sector Program, Implementation Plan (2004-09) and health sector wide program initiated from July 2004. Joint Financing Agreement (JFA) signed for pool funding with International Development Association (IDA) and Department for International Development (DFID). With the start of sector wide program joint annual review for annual work plan and budget and performance review is done twice a year. In accordance to the sector wide program, single reporting system, account audit of the expenditures by office of the auditor general and single foreign exchange account in Nepal Rastra Bank instituted for the purpose of the pool partners. The non -pooled partners also started to align and harmonize their contributions in the sector wide program on the basis of the of ear marked projects. Some signatories of the ‘statement of intent’ have shown interest in pool funding, however the decision is yet to come.

- **Aid Alignment and Harmonization**

As part of the aid alignment and harmonization, statement of intent signed, in February 2004 by Government of Nepal and 11 external development partners and to institutionalize this, health sector development partnership forum formed. This forum is chaired by health secretary and includes other representatives from other government and some non- governmental agencies despite EDPs who signed statement of intent. The three year interim national development plan of Nepal (2007-08 -2009-10) approved by Government of Nepal recently and as a part of alignment and harmonization the UN agencies e.g. UNFPA, UNICEF, WHO and UNDP also prepared three year plan as United Nations Development Assistance Framework. The agreement signed with the Government of Germany supporting health sector is also three years as above.

- **New International Initiative: International Health Partnership**

This is a new international health initiative coordinated by British Government to support achieving the health sector millennium development goals using the approach of Paris Declaration on Aid Effectiveness- 2005. Nepal is one of the signatories out of the eight countries in initial phase and agencies committed to support this initiative are DFID, WHO, Norway Government, UNICEF, UNFPA, ILO, Bill and Melinda Gates Foundation, GAVI, Global Fund, World Bank etc.

INTRODUCTION OF THE COMPANY

TAJ PHARMACEUTICALS

The Beginnings

With a basket including personal care, health care and other products, TAJ GROUP has set up Group Companies across the world that can manage its businesses more efficiently. Given the vast range of products, sourcing, production and marketing have been divested to leading group companies that conduct their operations independently.

Our company clear vision to bring Ayurveda to society in a contemporary form and to unravel the mystery behind the 5,000 year old system of medicine. This included referring to ancient ayurvedic texts, selecting indigenous herbs and subjecting the formulations to modern pharmacological, toxicological and safety tests to create new drugs and therapies. We export API, branded formulations and generic formulations to over 14 countries. Our inherent strength lies in identifying relevant API and formulations, and selling them at affordable prices across the world. All this has been possible because of our innovative and sustained marketing efforts. We are all set to spread our wings further and touch more lives across the globe.

Healthy Environment

As a responsible corporate citizen espoused to the cause of a better quality of life, Taj Pharmaceuticals accords high priority to Safety, Health and Environment. We are committed to protecting the environment we operate in, and ensuring the health and safety of our employees and stakeholders.

Our Mission

Our mission is to become the recognized leader in accelerating discovery and development of novel, small molecule drug therapies. The innovative application of our proprietary computational lead drug design technology provides the opportunity to substantially compress the time and cost of drug development and have a dramatic impact on important disease states.

Taj Pharmaceuticals products can broadly be categorized into four main ranges

- Pharmaceutical
- Personal Care
- Well-being
- Animal Health
- Medicines

The medicinal range broadly classified into four categories

- Children's Health,
- Men's Health,
- Women's Health,
- General Health

Pure Herbal & gaributti

Amalaki: Useful in treating cough, cold, sore throat and respiratory tract infections. It protects cells from free radical damage and is an excellent anti oxidant.

Arjuna: This herb improves blood circulation and is used as a tonic for the heart.

Ashvagandha: Commonly known as Winter Cherry, this herb acts as an ant-stress agent that imparts a sense of well-being and helps in coping with life's daily stresses.

Brahmi: A well-known herb that helps in improving general alertness.

Karela: Commonly known as Bitter Gourd, it is known to aid in the metabolism of carbohydrates.

Lasuna: Commonly referred to as Garlic, Lasuna helps in controlling the excess conversion of lipids and cholesterol.

Neem: A popular herb, Neem has anti-bacterial, anti-fungal and blood purifying properties. It is very useful in skin disorders and helps maintain a healthy, beautiful and glowing skin.

Shuddha Guggulu: It regulates fat metabolism and helps remove excess cholesterol from the body.

Shallaki: This herb treats joint problems.

Tagara: It has mild sedative properties, which are useful for insomnia and sleep disorders.

Triphala: A digestive aid compound and a bowel cleanser.

Tulasi: It has anti-microbial and anti-inflammatory properties, and is useful in respiratory tract infections like dry or wet cough, cold and sore throat.

BUSINESS ACTIVITY

Taj Pharma committed to the standards of ethics and integrity
We are totally committed to improving the safety and wellbeing of all people who work with us, or come into contact with our operations and products.

Introduction

Business Opportunities with TAJ PHARMACEUTICALS LTD
TAJ PHARMACEUTICALS LTD. (Pharmaceuticals Inc.) is a product-driven pharmaceutical company with diversified expertise. While TPL is relatively new to the US market, it is by no means a new player.

As a wholly owned subsidiary of TAJ PHARMACEUTICALS LTD.
Our product development and manufacturing capability, teamed with our ability to market products in many global markets, makes TPL an attractive business ally. A key part of our business strategy is to collaborate with partners with complementary skills - "A Win-Win" strategy that strengthens the position of our partners as well as TPL.

TPL has already experienced commercial success penetrating the US health care market, and looks forward to enhanced growth and future business opportunities through collaboration and strategic alliances.

- API Development and Production
- Dosage Form Development and Manufacturing
- Contract Manufacturing
- Sales and Marketing
- Marketing Strategies
- Licensing
- API Development and Production

For those who want to manufacture their own product or brand, without the time and costs associated with developing the API (Active Pharmaceutical Ingredient), We can provide the API, eliminating this step from your process. The key advantages of using our backwardly integrated system are:

- Ensuring continuity of supply
- Ensuring consistent quality of product
- Competitive costs
- Resources to respond in a timely fashion to meet demand
- Dosage Form Development and Manufacturing

We experience as a global manufacturer makes us aptly suited to take on the complex process of solid or liquid dosage form development. At TAJ PHARMACEUTICALS LTD., we continually reverse engineer to improve upon our development process, enhancing the yield, with a focus on cost efficiencies.

Contract Manufacturing

To expand your product line with minimum investment, TAJ PHARMACEUTICALS LTD. provides "LOCK KEY" manufacturing services including API and dosage form development, to allow you to focus on marketing and selling the product. This is an efficient way to increase your product line and profit margins, while taking advantage of TAJ PHARMACEUTICALS LTD.' manufacturing experience and expertise.

Sales and Marketing

We has set itself apart in the marketplace by the rapid growth of its product line, its willingness to emulate complex drug formulations, and its core competencies in anti-infective, gastrointestinal, cardiovascular and analgesics arenas.

TAJ PHARMACEUTICALS LTD. has a commercial advantage as many of the high-profit branded drugs with expiring patents over the next few years are in the categories where we has proven its expertise.

TPL has a self-contained marketing group that works to co-market products (the same chemical under different brands), and co-promote products (the same brand name carried by two different companies). TPL has marketed their services out to other companies, as they perform all of the steps in the pharmaceutical process - from development and manufacturing to distribution and sales.TPL's commitment to quickly expanding the breadth and depth of their product line has been key to their success in the marketplace.

Marketing Strategies

Our Marketing Strategies as emphasized by the name is the department which is focused primarily on developing and establishing different strategies for the promotion/distribution of Branded/Generic as well as the OTC products for TPL.

One of the key tasks for the department is to identify/look out for various opportunities in different markets or channels of distribution and to pursue those opportunities developing and establishing new relationships in the market. Managed Care / Internet marketing are few of the key areas that the department is looking to introduce into their ever expanding products portfolio.

The department is headed by DR.C.R.BHATT and together with his team they are dedicated to strive and promote TPL products into the new expanding market horizon.

Licensing

TPL prides itself on taking a creative, mutually beneficial approach to licensing arrangements. By being open to both outward and inward licensing opportunities, TPL fulfills unmet needs in the marketplace.

3.

Comparative Position

2.1- INDUSTRY COMPARISONS- NEPAL AND INDIA

MANUFACTURING

The manufacturing plant is located in the pleasing surroundings of 30000 sq. yard and with a garden providing ideal environmental conditions. The total carpet area of the plant is 3750 sq.m. which is divided into various sections for tablet and capsule manufacturing facilities. Every section has adequate space for current operations and provisions for future growth. A separate building housing Administration, Quality Control Laboratory and Quality Assurance section measures 452 sq.m. The units are built with utmost care and foresight from the design stage itself to minimize chances of cross contamination.

The plant has a "U" shaped corridor to ease the internal movement of both-men and material. There are internal sectional corridors leading to the processing areas. Processing areas are separated from corridors through suitable airlocks and pressure differentials. The same level of separation and care for avoiding contamination exists for packaging also. There are suitable sized stores and quarantines to receive, quarantine and store various materials and finished products.

There are two separate manufacturing facilities for beta lactam and non-beta lactam production. The Khatraj Plant produces only non-beta lactam tablets, capsules, liquid & dry powder, injectable, syrups. The plant has WHO-GMP Certification and ISO-9002 Certification and all the products can match any international standards or requirements.

All the facilities conform to international standards and the company also aims to satisfy the international requirements of TGA, MCA, MCC. Apart from the manufacturing facilities, the factory building has other utility premises, Godowns, Administrative Building and an ultramodern and hi-tech R & D

Centre. Sophisticated machinery at the manufacturing plants and the quality systems are in place with ultramodern equipment's.

The installed capacity of our plants is:

Category Installed	**Capacity/Annum**
Tablets	3000 millions
Capsules	750 millions
Injectable	100 millions
Syrups	1.8 million litres
Ointments	9 million tubes

STORERAGE

The stores are manned by professionals to manage them rightly. The Khatraj units are dedicated to non beta lactam production. There is a separate area for antituberculars (specifically Rifampicin).Being a people driven Company, Lincoln Pharma puts highest emphasis on personal development of human skills, marketing techniques, and safety standards for its work force. They are committed to their responsibilities towards the environment, share holder family and society at large.

QUALITY ASSURANCE

Quality policy is mandated and supported by the Executive Management and coordinated by an independent Corporate Quality Assurance (CQA) Department.

Financial Resources Required and Funding Gap

There is a funding gap even in the in the current year's health sector budget. The funding gap will increase significantly as shown in table 6 in coming years as the ministry has to allocate more resources in the following areas-

- Free essential health care services
- Achievement of millennium development goals including three year interim plan–especially for scaling up of safe motherhood and neonatal care activities and HIV and AIDS control & prevention activities
- Prolapse of uterus surgery
- Implementation of additional nutritional interventions
- Scaling up of communicable diseases and initiation of non- communicable disease interventions
- Health system improvement – information system, human resource development, infrastructure development and other areas

R & D CENTER

Right from inception, Lincoln puts a major thrust on developing innovative and technology based products aiming at optimizing the use of drugs for better therapeutic purposes.

The R & D center is equipped with sophisticated instruments and equipments for in-house physical, chemical and microbiological analysis of all products.

A dedicated group of technocrats mans the R&D center. New product development, Quality improvement in existing products, process development and validation are undertaken here.

The ceaseless efforts to develop products by using Optimized Drug Delivery – ensures greater potency & effectiveness, lesser side-effort & toxicity levels, better stability, low cost hence greater accessibility , ease of administration and best patient compliance.

Increased patient's awareness & cutthroat competition amongst the manufacturers induces the company to develop & introduce excellence and novelty in its products.

Lincoln's R&D is keeping pace with the changing pharmaceutical technology. As a result of focused research, Lincoln has filed patent for NAMSAFE – a hepato-protective combination of Nimesulide with Recemethionine and a product patent for the protective combination of nimsulide with racemethionine and several more patent applications are in the pipeline.

In the true sense Lincoln's R&D is committed to developing technology-based products with competitive prices for the patients.

Tablet & Capsule Section

Newly built-up facility with installed capacity of 100 crores of tablets per annum / per single shift

- No B-Lactum, Hormone and Cancer Departments.
- Facilities to manufacture Sustained Release Formulation.
- Three exclusive granulation shops:
    - Dry Granulation
    - Wet Granulation
    - Colored Granulation
- Unidirectional flow of men and material
- Six compression cubicles with separate Air Handling Units.
- Centralized Air condition System to maintain 40 RH and 22-Degree Temperature in granulation, compression, blending and packing cubicles areas.
- Flame proof motors in granulation and coating sections.
- All Non-Air Condition area fully ventilated with 5 micron filed air.
- Coating facility including 48" – 150 kg NEOCOATER.
- Central Dust extraction system provided with pick up at all powder generating point.
- Flame proof motors in granulation and coating sections.
- Water System: DM water having circulating loop to maintain 80-Degree Celsius temperature. D.M. Storage tank of SS316.
- Own Deep Bore well for water.
- D G Set of 250 KWT.
- Stores are fully computerized.

Potential section

Sterile Liquid Injection Ampoules & Vials with capacity of 80,000 Ampoule per shift & 25,000 Vials per shift (2ml to 50ml Vial)

- Sterile Area having pressure gradient:
  15 Pascal in manufacturing and passage
  25 Pascal in wash and sterile
  40 Pascal in filling area

- Multi column 80 per hour
- Three Manufacturing rooms and Three separate filling areas.
- Sterile Dry Power B-Lactum 40,000 Vials per shift with Separate Entry & AHU
- Washing under HEPA filter.
- Sterilization by Double Door Dryer.
- Autoclave by Double Door Dryer.
- Poly Urethane coated jointless Flooring.
- Blister Packing of Ampoule and Vial.
- Shrink Package of finished products.

2.2- Present Position And Trend Of Business In Nepal Health Industry

Recent Research & Development Infrastructure

There is a vast research and development infrastructure in the country. It comprises of research and development laboratories, institutes, professional societies and others. These are spread all over the country and carry out research and development activities in various fields, some of which are in frontier areas of science and technology.

Major ones are Department of Scientific and Industrial Research which includes Council of Scientific and Industrial Research which has 38 laboratories, more than 500 Scientific and Industrial Research Organizations, Department of Science and Technology has around 20 scientific institutions, Department of Biotechnology has around 6 laboratories, Indian Council of Medical Research (ICMR) with over 25 laboratories, Indian Council of Agricultural Research with 39 laboratories, Defense Research and Development Organization (DRDO) with around 40 laboratories Department of Space with around 8 laboratories and Department of Atomic Energy with about 15 laboratories. There exists a vast network of universities, technical institutions and colleges in the country.

A few important ones involved in industrial research are highlighted here:

CSIR Laboratories

The Council of Scientific and Industrial Research (CSIR) has a network of national laboratories/institutes in various parts of the country to undertake research in diverse field of science and technology and with emphasis on applied research and utilization of research results. There are, at the end of 2005-06, 38 research establishments in different parts of the country. They are in various sectors like Physical sciences, Chemical sciences, Biological sciences, Engineering sciences and Information sciences. It has a total Science and Technology staff of 15,420 at the end of 2005-06. The efforts have resulted into many innovative products, processes and services benefiting many industrial and business units including SMEs.

Scientific and Industrial Research Organizations

These organizations have significantly contributed to enhancing innovativeness in the country. DST, DBT and other Ministries/Departments of the Government have supported a few of these Organizations. There is a scheme of registration of such units, which is operated by the Department of Scientific and Industrial Research. Those units who have qualified scientists and researchers and have also established good infrastructure facilities, have developed innovative products, processes, procedures and technologies, qualify for recognition. At the end of 2005-06, there were 560 units in the country, in various fields.

In-house R&D units of industry

There are a number of companies in industry who have in-house R&D units. There is a system of recognition of such units by the DSIR. Those who are engaged in innovative research and development activities, have qualified and experienced R&D personnel and such activities are separate from other activities of the organization viz. production, quality control, qualify for recognition. At the end of 2005-06, there were 1205 recognized units in the country, in various industrial sectors.

Professional Societies

There are a number of professional societies in the country promoting research and development. Prominent ones are Indian Academy of Sciences, Bangalore, Indian National Academy of Engineering, New Delhi, Indian National Science Academy, New Delhi, Indian Science Congress, Kolkata and National Academy of Sciences, Allahabad. Activities of these Societies include striving excellence in the field of engineering, undertaking research projects, enhancing academia-industry interaction, operating Distinguished Visiting Professorship Scheme, organizing yearly Indian Science Congress (where grass root innovators exhibit their newly developed products) etc. The DST provides some financial and professional support to these societies. In addition, there are even larger professional societies such as Institution of Engineers, Institution of Chemical Engineers, Institution of Industrial Engineers and others.

There are a number of professional Societies in the IT sector. A few important ones are Center for Materials for Electronics Technology (C-MET), Center for Development Advanced Computing (C-DAC), Society for Applied Microwave Electronics Engineering and Research (SAMEER) Electronics and Computer

Software Export Promotion Council (ESC), DOEACC- for human resource development

Centers for Technology and Innovation Management

The DSIR has initiated a process of setting up of Centers of Technology and Innovation Management at different locations in the country. The objective is to provide support to industry particularly the SMEs in this area. The activities include undertaking cluster development studies, case studies, scouting innovation, enhancing interface between academia and industry, data generation, sharing of knowledge and providing solutions to technical problems, undertaking technology and innovation related policy research studies and developing training tools and modules.

Centers of Excellence in Biotechnology

The DBT has a Scheme to augment and strengthen institutional research capacity for greater innovation in the area of biotechnology through support for establishment of Centers of Excellence. The Department supports centers in identified thrust areas, which would be built around gifted individuals in existing universities and national laboratories with influx of new and young scientists. Support is given to expand and develop faculty research capabilities and to enhance research infrastructure.

3.

Policies, Norms

And

Present Barriers of Nepal

And

Indian Health Industry

3.1 POLICIES AND NORMS OF NEPAL HEALTH INDUSTRY

POLICY INITIATIVES IN HEALTH SECTOR

a. Maternity Incentive Scheme

In February 2005 Government of Nepal declared maternity scheme, a demand side financing to promote the maternal health and to achieve the millennium development goal no 5 - the maternal health. Under this scheme pregnant woman attending health facility for child delivery will be provided cash up to NRs 1500.00 in high mountain region, NRs 1000.00 in hilly region & NRs 500.00 in terai or plain part of Nepal as transport compensation. In case delivery attended by a trained health personnel at home, he/she will be paid NRs 300.00, but client will not get the incentive. The delivery services are provided free of cost in25 low human development index districts and in other districts the client has to pay the users fee. Currently the incentive scheme is limited to public sector health facilities and medical colleges, both public and private. Recent evaluation of this scheme has shown that the utilization of the scheme by the pregnant women is quite satisfactory, while there are some administrative problems as well.

b. Pro Poor Guideline for Health Services

This scheme introduced in February 2006 to increase the access of the poor in hospital services. This scheme is limited to district hospitals and primary health care centers and under this scheme ultra poor and poor will get free or subsidized services in emergency conditions and conditions that need indoor admission and treatment.

Individuals needing treatment in emergency or indoor services has to pay NRs 100.00 as a registration fee, but for ultra poor, the scheme will subsidize all expenses including registration fee and receive free treatment and for poor fifty percent exemption in registration fee and all treatment expenses will be covered by the scheme and well off people, no subsidy or has to pay the total charges for registration and treatment. The ultra poor has been categorized as those households whose annual income is sufficient for buying food for six months, the poor for more than six months and less than one year and well off more than one year. Evaluation is under plan and the findings can be helpful for further improvement if required especially in the context of utilization of services by the target groups.

c. Free Essential Health Care Services in Health Post and Sub Health Post

Some essential health services related to maternal health, child health and control of communicable diseases were free since long time and from mid January 2008, 22 items of essential drugs for sub health post and 32 essential drug items for health post also made free throughout the country and it will be expanded up to district hospitals in phases. Similarly, registration fee also abolished in these health facilities in an effort to increase the access of the people to health services and remove the financial for barrier for utilizing health services and establish health as basic fundamental human right of every citizen in accordance to the Interim Constitution of Nepal.

d. Establishment of New Health facilities or Upgrading of Health Facilities

After July 2004 four district hospitals established –in Dolpa, Kalikot, Mugu and Rolpa districts and two regional hospitals established in Hetauda (partnership approach) of central development region and Surkhet of mid western development region. District hospital of Dang upgraded to 50 bed general hospital and 25 primary health care centers also established in different parts of the country by upgrading health post and sub health posts. New facilities established in traditional medicine services also.

e. Disaggregating Health Service Utilization Data

Pilot study on disaggregating of health services data on the basis of the age, gender, caste, ethnicity and religious minority started in three districts in the current year. This will help to develop additional interventions in health services for the weaker sections of the society.

f. Japanese Encephalitis Vaccine

Japanese Encephalitis is responsible for 300-500 deaths and 3000-5000 cases affecting mainly children in terai and some hilly districts every year. Mass vaccination to everybody living in high risk area and routine immunization to one year child initiated in phase wise with the single dose JE vaccine. As a result of this, the number of deaths and cases due to JE dropped remarkably in 2007.

g. Malaria Prevention by Vector Control

Malaria especially the plasmodium vivax malaria is endemic in 65 districts of the Nepal, and severe type of malaria known as plasmodium falciparum malaria is endemic in certain areas of the country only. To control the vector and thereby reduce the cases, long lasting insecticide treated bed nets (LLIN) distributed in highly endemic areas focusing poor people and falciparum malaria. In the last three years 304,122 pieces of bed nets distributed in terai districts.

h. Avian Flu Control Program

Avian flu control and prevention program launched in 2005, as joint action between Department of Health Services and Directorate of Live Stocks under the Ministry of Agriculture. As a part of the control program, orientation, awareness campaign, capacity building and surveillance works has been started.

3.2- PRESENT BARRIERS OF HEALTH INDUSTRY IN NEPAL

Future Actions of Ministry of Health and Population in Health Sector Development

- **Ministry of Health & Population will continue to act in the following areas-**

- Improve deployment and retention of human resource for health
- Initiate production of midwife and community mid wife
- Scaling up of low cost high output interventions that can assist achieve MDG and three year plan
- Demand side financing in Kala-azar Control
- Strengthen patient referral system
- Implement quality assurance in health service and human esource production by initiating accreditation system
- Financial management -Ministry has identified financial management including development of early reporting system as the prioritized agenda for coordination and collaboration
- Develop modalities of public -private -partnership
- Review essential health care package in the context of basic health care
- Integration of adolescent and sexual health program with population activities
- Establish municipal health office
- Improve harmonization in accordance to health sector strategy: an agenda for reform
- Explore alternative financing scheme for urban areas
- Enhance health sector reform with focus of good governance, transparency and human rights if the political scenario improves

- Close coordination and collaboration with other stakeholders working in health sector
- Build consensus in international health partnership strategy
- Continue to develop inclusive policy in health management and services

Role of External Development Partners in Health Sector Development

Ministry expects availability of more resources from EDPs to scale up the millennium development goals, health system improvement, and implementation of three year Interim national development plan of health sector and sustaining the ongoing reforms in health service delivery.

Fulfilment of Commitments of NDF -2004

Ministry of health and population has fulfilled all the major commitments done in NDF 2004 as far as the resources and political environment allowed. The proof of this is the availability of increased resources in health sector for last four years almost doubling of health sector budget in the year 2007-08 in comparison to the year 2004-05. Similarly, the improvement of health indicators as shown by the Nepal Demographic and Health Survey 2006 is another area of fulfillment of commitments.

4.

Potential

For

Health Industry In India

And Business Opportunity In Future

4.1 **POTENTIAL FOR HEALTH INDUSTRY IN INDIA**

IMPROVEMENT IN HEALTH MANAGEMENT AND HEALTH SYSTEM

1. Infrastructure Development

As the Ministry of Health & Population has low capacity in building construction, authority transferred to Department of Urban Development and Building Construction for the health facility construction and maintenance. In last three years, 387 building construction projects initiated and out of them 88 completed. The external development partners are contributing by constructing 9 district level medical stores in different districts as separate projects. Ministry of Health & Population had no maintenance plan of health facilities earlier, so building maintenance plan for health facilities prepared in 2007 and it is under implementation.

2. Human Resource Management

Human resource management has improved in comparison to NDF 2004 meeting, but challenges are still there. Study carried out in 2006 by Ministry of Health & Population has shown that 76 percent of health personnel posts were fulfilled in comparison to sanctioned posts. The main problem of human resource is related to deployment and retention of physicians and one category of nurses in peripheral health facilities. But there is problem of deployment and retention of all categories of health personnel in high mountain districts.

Ministry has implemented the two year compulsory service scheme to physicians, who studied the medical course under the scholarship scheme of the Government of Nepal and in 2007, 141 medical doctors, who have completed the medical course in scholarship have joined Department of Health Services to work in peripheral health facilities. To improve the maternal health, 1000 maternal and child health workers working in sub health enrolled in 18 month long ANM course and all of them have graduated and now posted in their original duty stations. The vacant posts of maternal and child health workers and assistant nurse midwives fulfilled by contractual service in many districts. To improve the biomedical equipment maintenance system, one year duration biomedical equipment technician course prepared and 37 persons have already graduated in two batches. The improvement of maternal health is a major concern and ministry has approved the skilled birth attendant policy in 2007 and training of skilled birth attendants initiated to meet the target of 60% delivery by skilled birth attendants by 2015. The total number estimated is 8,000 SBA, based on geography and populations.

3. Decentralized Management of Health Facilities

Ministry initiated health sector decentralization in 2002 under the local self governance act 1999 and till date hand over of 1433 sub health posts, health posts and primary health centers to local health facility management committee completed in 28 districts. Management of bigger hospitals is very challenging for local bodies, so hospital board formed in 17 hospitals and total hospitals under the board are now 52.

To enhance the decentralization process social block grant system to districts initiated in Jhapa, Morang, Saptari, Dhanusha, Parsa, Bhaktapur, Rupendehi, Kaski, Parbat, Dang, Banke, Jumla, Kailali and Kanchanpur districts. In administrative decentralization some of the authority of the ministry delegated to Department of Health Services and Regional Health Directorates. Studies on decentralization have shown mixed effect, but all studies have consistently shown increase in health service utilization. The main problem observed in the decentralized management of health facilities is absence of elected bodies in the local bodies and capacity to manage special sector such as health facilities. The hand over process has to be stopped since the financial year 2006-07 due to present political context and focus on constituent assembly elections.

4. Social inclusion in Health Sector

Inclusive policy implemented in some areas of the health sector. The local health facility management committee is the very good example of the implementation of the inclusive policy. The committee consists of five women representatives including representative of the Janjati and Dalit. Inclusive policy introduced in under graduate courses admissions too in government scholarship in medical and dental courses by Ministry of Education and under this special quota allocated to women, Janjati and Dalit. Janakpur Nursing Campus, under theMinistry of Health is the first institution to introduce inclusive scheme on district, caste and ethnicity basis. Similarly, BP Koirala Institute of Health Science, Dharan a medical university under the Ministry of Health & Population introduced inclusive policy in al its academic programs providing special quota to Janjati, Madhesis and Dalits.

This institute has also allocated special quota to residents of the remote districts. 100 Janjati, Dalit and Muslim women also completed ANM course organized by Ministry of Health & Population. Department of health services arranged general mobile clinics in all 205 electoral constituencies targeting poor and disadvantaged groups. Out of the total 20,000 employees under the Ministry of Health and Population, one third employees are women.

5. Effect of Conflict on Health

The health sector was less affected during the ten year long conflict and health service delivery has improved after signing the peace accord by the Government of Nepal and CPN (Maoist) on 21 November 2007, though new conflict emerged in ten districts of eastern terai. Health service delivery is continuing despite some difficulties in these conflict hit districts.

6. Quality Assurance in Health Care

Quality assurance is a major issue and a QA policy in health care approved by the cabinet recently. Department of Health Services has formed the district quality assurance teams in all 75 districts and training and orientation has already started.

7. HIV and AIDS Control Board

National Center for AIDS & STD control could not function because of lack of capacity of the center. To improve the coordination in prevention and control activities national HIV & AIDS control board formed recently.

4.2 BUSINESS OPPORTUNITY IN FUTURE

GROWTH GENERATES HEALTH CARE CHALLENGES

> At first blush, the basic numbers paint a grim picture. While there's a double-digit annual increase in health outlays, as many as 3.1 million people are infected with HIV and roughly 800 000 contract an infectious form of tuberculosis each year.

The country graduates 27 000 doctors each year but most want to work in major cities. Millions must walk miles to see a physician.

A fee-levying private health care sector comprises 82% of overall health expenditures, while less than 1% of the population is covered by health insurance.

Still, experts say that India's health care sector is both booming and moving quickly to resolve many of the endemic structural problems that the country has faced in recent decades.

That the health sector is booming is evident from outlays alone. In the 1990s, Indian health care grew at a compound annual rate of 16%. Total health outlays now top US$34 billion, which translates into roughly 6% of the gross domestic product. Moreover, the government's Department of Commerce projects spending will top US$40 billion by 2012.

Yet, the challenges are enormous.

Foremost among those is one familiar to Canadians: a shortage of physicians, particularly ones who are willing to hang up a shingle in rural and remote areas of the country.

“Every year, about 27 000 graduate doctors [graduate] from Indian medical colleges. But, more than 75% of Indian doctors are based in cities, whereas about 70% of patients in this country are village-based,” says Dr. Swapan Jana, secretary of the Society for Social Pharmacology, an Indian nongovernmental organization.

Current Challenges in Health Sector

The following challenges have been identified and prioritized by the ministry in view of the requirement of additional investments –

1. Prolapse of Uterus

Recent studies have shown that uterine prolapse is a major problem in contrary to the earlier understanding of low prevalence. Nepal Demographic & Health Survey 2006 has shown that 7 percent women aged 15-49 years are experiencing prolapse of uterus symptoms, while the study done by UNFPA, Nepal Country Office in 2006 has also shown 600,000 women suffering from symptoms of prolapse uterus, with 186,000 suffering of complete procedontia and need surgical intervention or hysterectomy. A national strategy has been drafted and to address the problem of resources a special fund has been created.

2. HIV & AIDS Control

HIV & AIDS control and prevention measures are in progress and the prevalence has begun to reverse in some high risk groups such as intravenous drug users and commercial sex workers. The current situation is concentrated epidemic only, but there is a threat that it can be general epidemic due to the migrant laborers. Problem is increasing in mid west and far west development regions as the migrant laborers, go for work in big cies of India and get infected there due to the their high risk behaviour and after returning home infect their wives. Migrant workers from rest of the country go for work outside India with very low HIV prevalence countries.

3. Avian Flu

Avian flu national action plan has been approved in 2005 and necessary control measures started jointly with Live Stock Department of Ministry of Agriculture. The World Bank has approved the grant of 15 million US dollar for the both sector. In view of the Nepal's strategic location in between China and India additional resources may require.

4. Nutrition

Nutritional indicators found not significantly improved in the Nepal Demographic and Health Survey 2006 and current nutritional interventions in nutrition are limited to Vitamin A and albendazole tablet distribution to under five children, iron tablet distribution to pregnant women and iodization of salt. Some additional interventions such as demonstration of feeding practices at all health facilities and establishment of nutrition rehabilitation centers for managing third degree malnutrition is required.

5. Non -Communicable Diseases

Mortality and morbidity from non-communicable diseases such as chronic bronchitis, diabetes, hypertension, stroke, and cancer is increasing very fast and the study done in 1999 has shown double burden of the disease in the country and no interventions implemented except establishment of separate hospitals for cancer and heart disease by public sector. In the terai region, high arsenic content has been found in the underground drinking water, which is the only source for water in many areas.

Future Actions of Ministry of Health and Population in Health Sector Development

Ministry of Health & Population will continue to act in the following areas-

- Improve deployment and retention of human resource for health
- Initiate production of midwife and community mid wife
- Scaling up of low cost high output interventions that can assist achieve MDG and three year plan
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- Close coordination and collaboration with other stakeholders working in health sector
- Build consensus in international health partnership strategy

- Continue to develop inclusive policy in health management and services

Role of External Development Partners in Health Sector Development

Ministry expects availability of more resources from EDPs to scale up the millennium development goals, health system improvement, implementation of three year interim national development plan of health sector and sustaining the ongoing reforms in health service delivery.

5.

CONCLUSION

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Health sector strategy and sector wide program contributed significantly in health sector development in Nepal. This is possible due to joint effort of government and external development partners with the spirit of close coordination and harmonization to maximize the available resources that helped to bring tangible changes in health status of people of Nepal. Ministry of Health & Population will continue to work in the same process, so that it can achieve the health sector millennium development goals and further improve the health status of the people of Nepal. External assistance is crucial at this juncture to sustain the current programs and services and implement new one and ministry will continue policy reforms in health sector as far as the current political environment allows and availability of the resources.

Fulfillment of Commitments of NDF

- Ministry of health and population has fulfilled all the major commitments done in NDF Up to 2015 as far as the resources and political environment allowed.
- The proof of this is the availability of increased resources in health sector for last four years almost doubling of health sector budget in the year 2010-11 in comparison to the year 2011-12. Similarly the improvement of health indicators as shown by the Nepal Demographic and Health Survey 2011 is another area of fulfillment of commitments.

6.

SUGGESTIONS

SUGGESTIONS

- Nepalese Health sector requires a striking balance between potentially conflicting objectives of promoting competition and risk entailed in financial deregulation in the liberalized context. It is universally accepted that Health must be regulated and well supervised, but also needs to become more competitive.

- Nepal still lacks the health institutions. Developing a market and creating institutions for heath could be encouraged to widen and deepen the heath sector and avail better health services in terms of its quantity and quality.

- Still there are some structural and institutional weaknesses, making reform efforts less effective. However, reforms are continuous process; require sufficient time and budget, conductive environment and continuity in policy. Nepalese financial sector is still in the process of broad and comprehensive reform program.

- Improve deployment and retention of human resource for health.
- Rapid development in information and communication has brought about revolution in the financial system.
- Review essential health care package in the context of basic health care.
- Integration of adolescent and sexual health program with population activities.
- Establish municipal health office.

INTERNET LINK

- http://en.wikipedia.org/wiki/Nepal#Geographyhttp://data.worldbank.org/indicator/FB.BNK.CAPA.ZS/countries?display=default
- http://www.ibef.org/industry/healthcare-india.aspx
- www.tajpharmaceuticals.com
- www.lincolnpharma.com

A

GLOBAL COUNTRY REPORT

ON

"NEPAL AGRICULTURE SECTOR"

Submitted for the Partial Fulfillment of

MASTERS OF BUSINESS ADMINISTRATION (MBA) (2012-2013)

Gujarat Technological University - Ahmadabad

Under the Guidance of:

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[BATCH: 2012-13]

SARDAR PATEL COLLEGE OF ADMINISTRATION AND MANAGEMENT (SPCAM M.B.A)

AFFILIATED TO GUJARAT TECHNOLOGICAL UNIVERSITY, AHEMEDABAD. MAY-2013

STUDENT DECLARATION

We, Bearing Enroll 117550592133; 117550592134; 117550592135; 117550592136; 117550592137; 117550592138;hereby declare that the report for Global/ Country Study Report entitled "**NEPAL AGRICULTURE SECTOR "**is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

Place: **Anand**
Date:

1. **VINIT PATEL** (117550592133)
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PREFACE

In today's competitive environment, survival of the fittest is the new motto. That is why it's necessary that the theoretical knowledge is accompanied by practical knowledge. In an MBA programme, project study forms an important and an integral part. It helps in bridging the gap between the two main important aspects the theoretical as well practical knowledge.

"Knowledge and Human Power are synonyms", once said the great philosopher Francis Bacon. However based on the experience within today's global markets, he would probably say, "The ability to capture, communicate & leverage knowledge to solve problems is human power". This raises the question how exactly one can best capture, communicate & leverage knowledge, especially within world of system engineering.

As a part of this M.B.A. degree, we have to prepare a grand project, which is designed keeping the prerogative and preferences of industry. This Grand Project allows us to implement what we have learned within the four walls of classroom and implement it in this Grand Project.

This Report that we are submitting intends to highlight our versatility in sustaining the pulls and pressure of day to day professional life and put to perspective the facts that we are capable enough to deliver whenever a challenge is thrown to us.

This Report is divided into three parts. The First Part gives the basic information about the industry. The Second Part gives the details and activities of the company. And last and third part consists of Research Analysis and Conclusion on the basis of particular Research Process. At the end we have provided a shortlist of the reference books and the sites that provided useful information during the project.

ACKNOWLEDGEMENT

We have taken efforts in this project. However, it would not have been possible without the kind support and help of many individuals and organizations. We would like to extend my sincere thanks to all of them.

We are highly indebted to **PROF. SULABHA NARAYAN** for their guidance and constant supervision as well as for providing necessary information regarding the project & also for their support in completing the project.

We would like to express my gratitude towards our parents & the principal **DR. T. D. TIWARI** sir of the **SARDAR PATEL COLLEGE OF ADMINISTRATION AND MANAGEMENT** for their kind co-operation and encouragement which help me in completion of this project.

Our thanks and appreciations also go to our colleague and friends in developing the project and people who have willingly helped me out with their abilities.

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PART-I

Introduction

Nepal is known as the land of Everest, the highest peak in the world. It is situated in the lap of the Himalayas and landlocked between India & China. It lies between the latitudes of 26°22’ N to 30° 27’ N and longitudes of 80° 4’ E to 88° 12’ E. The elevation of the country ranges from 60m above the sea level to the highest global altitude, Mount Everest, of 8848 m, all within a distance of 150 km.

Nepal at a Glance

Factors	Nepal
Land Area (square miles)	54,363 sq. miles

Capital	Kathmandu
Languages	Nepali (official) 47.8%, Maithali 12.1%, Bhojpuri 7.4%, Tharu (Dagaura/Rana) 5.8%, Tamang 5.1%, Newar 3.6%, Magar 3.3%, Awadhi 2.4%, other 10%, unspecified 2.5% (2001 census)
Currency:	Nepalese Rupee
Natural resources:	**Nature resource - Nepal - The biggest natural museum in the world.** Physical features also include green paddy terraces, wind-swept deserts, dense forests and marshy grasslands. The variety in Nepal's topography provides home to wildlife like tigers, rhinos, monkeys, bears, yaks, leopards and different species of insects and birds.
Major Economic Centers	Kathmandu, Pokhara, Biratnagar, Birgunj, Bhairahawa
Major Export Products	Readymade garments, hand-knotted woolen carpets, jute goods, pulses
Major Import Products	Classified finished goods, transportable and mechanical equipment
Largest Trading Partners:	India, Germany, USA, Japan, China

❖ *Demographic Profile and Economic Overview of Country*

Nepali are descendants of migrants from parts of Kashmir, earlier Greater-Nepal, Tibet, India and parts of Burma &Yunnan, along with native tribal populations.

The mountainous region is sparsely populated above 3,000 m (9,800 ft), but in central & western Nepal ethnic Tibetans inhabit even higher semi-arid valleys north of the Himalaya. Kathmandu Valley, in the middle hill region, constitutes a small fraction of the nation's area but is the most densely populated with almost 5 percent of the nation's population. Nepali society is multilingual, multireligious and multiethnic.

1) DEMOGRAPHIC DETAILS:

Factors	Nepal
Population	29,890,686 (July 2012 est.)
Age structure	**0-14 years**: 33.5% (male 5,108,258/female 4,918,259) **15-24 years**: 22.5% (male 3,350,311/female 3,362,958) **25-54 years:** 34.1% (male 4,786,214/female 5,417,777) **55-64 years:** 5.4% (male 792,775/female 835,048) **65 yr. & over:** 4.4% (male 613,905/female 705,181) (2012 est.)
Population growth rate	1.768% (2012 est.)
Birth rate	21.85 births/1,000 population (2012 est.)
Death rate	6.75 deaths/1,000 population (July 2012 est.)
Net migration rate	2.58 migrant(s)/1,000 population (2012 est.)
Sex ratio	
At birth	1.04 male(s)/female
under 15 years	1.04 male(s)/female
15-64 years	0.93 male(s)/female
65 years and over	0.87 male(s)/female
total population	0.96 male(s)/female (2011 est.)
Urbanization	
Urban population	19% of total population (2010)

Rate of urbanization	4.7% annual rate of change (2010-15 est.)
Major cities- population	KATHMANDU (capital) 990,000 (2009)
Major Industries	Tourism, carpets, textiles; small rice, jute, sugar, and oilseed mills; cigarettes, cement and brick production
GDP	Annual growth rate 1.768% (2012 est.)
Education	age 15 and over can read and write
Total population	60.3%
Male	73%
Female	48.3% (2010 census)

Economic Overview of Country

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment.

- **Nepal's GDP Growth rate in last Five Years**

2006-07	**2.75 %**
2007-08	**5.80%**
2008-09	**3.77%**
2009-10	**3.97%**
2010-11	**3.47%**

❖ Overview of industries trade and commerce

The European Economic Community (EEC) was established in 1957 by 6 European countries - Belgium, France, Italy, Luxembourg, the Netherlands and then West Germany to facilitate trade among them by eliminating the existing trade barriers. The economic entity was later converted into a political establishment, the Commission of the European Communities with a view to eventually merging into a single confederation having its own parliament and its own executive organ. Its membership increased from 6-12 by the early 80s by which time Britain, Ireland, Denmark, Greece, Spain and Portugal had also joined the EEC. Austria, Finland and Sweden joined the Community in its transformed shape of the European Union in January 1995.

A broad definition of exports, to include not only export of goods and services, as traditionally measured, but export of labor services (captured under 'remittances') as well, the value of exports in 2008 was close to 45 per cent of GDP, with remittances representing three-fifths of the export base so defined (more on this below). This number points to the very high degree of trade integration of the Nepalese economy.

Nepal Trade Integration Strategy 2010 (NTIS 2010) charts a possible course for the development of the country's export sector over the next three to five years, together with possible capacity development Actions and selected short- to medium-term Priorities that are supportive of 'inclusive growth'.

Priority Export Potentials

Sector	Goods
Agro-Food	Cardamom, Ginger, Honey, Lentils, Tea Noodles, Medicinal herbs/essential oils
Craft and Industrial Goods	Handmade paper, Silver jewelry, Iron and steel Pashmina, Wool products
Services	Tourism, Labour services, IT and BPO services, Health services, Education, Engineering, Hydro-electricity
Other Potential Export Sectors	Transit trade services, Sugar, Cement, Dairy products, Transformers

Strengthening the competitiveness of Nepalese exporters, including in the 19 export potentials identified in NTIS 2010, will require legal and institutional development in Nepal in a number of areas that cut across many sectors, as well as possible interventions to remove bottlenecks that are sector-specific. Through 10 reviews 'cross-cutting' NTBs and other trade environment constraints, including:

- Investment environment
- Trade facilitation
- Technical standards
- Sanitary and phytosanitary measures
- Intellectual property rights
- Domestic services sectors regulations

❖ Overview of Different Economic Sector of Nepal

Agriculture is the predominant sector of the Nepalese economy. It is a major source of livelihood to about 80 % of the population. It contributes about 40%to GDP and serves as a major source of raw materials to most of the agro-based industries.

The effects of being landlocked and of having to transit goods through India continued reflected in 1990s. As a result of the lapse of the trade and transit treaties with India in March 1989, Nepal faced shortages of certain consumer goods, raw materials, and other industrial inputs, a situation that led to a decline in industrial production.

<> ECONOMIC SETTING
<> ROLE OF GOVERNMENT
<> MONEY AND BANKING

<>LABOR

<>AGRICULTURE

<> LAND REFORM

<>FORESTS

<>INDUSTRY

<>TOURISM

Type of Industries

Different types of industries are established in all the industrial districts. The Industries are classified into different groups:

- Textile and Garment
- Rolling Mills and Metal
- Electrical and Electronics
- Food and Beverage
- Furniture
- Pulp, Paper and Stationary
- Poultry and Hatchery
- Machinery and Material
- Construction Material
- Rubber, plastic and Allied Products
- Pharmaceutical and Chemical
- Handicrafts and Curios

Characteristics of the Nepalese Economy

- Low productivity, low income and widespread poverty
- High population growth rate

- High illiteracy and low level of human capital development
- Low level of capital accumulation
- Small open economy heavily influenced by a single neighbour in the South (prices, exchange rates, financial sector policies)

Major Issues and Problems:

- Industrialists are indirectly forcing the privatization of industrial estates.
- Disagreement on sharing of cost of repairs and maintenance of buildings, roads etc.
- Selling of buildings to tenant Chances of labor being united. And Land occupancy
- Sick or closed industries
- Hiring of security persons.
- Hesitation on the payment of service charges.
- Some industrial districts are not running a profit.
- More funds needed for repair and maintenance.
- Shortage and loss of water distribution.

Some Economic Indicators of Nepal:

	1991-200	**2001-2008**
GDP growth	4.9	3.7
Ag. growth	2.6	3.5
Non-Ag.	6.5	3.8
GDS*/GDP	13.9	10.3
Total Investment*/GDP	**23.9**	**20.3**
Public sector's GCF growth (% annual)	13.8	0.4
Private Sector's GFC growth (% annual)	24.8	15.8
Export/GDP*	10.4	9.4
Budget Deficit/GDP*	5.6	3.9
Foreign Direct Investment (million .gross)	95.8	13.0

*GDS

(gross domestic savings), GCF (Gross Capital Formation), Total Investment and Export/GDP are expressed in percentage of GDP.

❖ OVERVIEW OF BUSINESS & TRADE AT INTERNATIONAL LEVEL

The economy depends highly on the trade with India. Moreover, strong barriers to its economic development still remain, in particular the poor condition of its roads, the inadequate supply of energy and water and the lack of transparency in tax administration. In response to the crisis and as part of a macroeconomic programmers, structural reforms are planned, as well as investment in infrastructures and an improvement in fiscal policy. Priority is given to restoring fiscal balance and strengthening the financial system.

In spite of a strong potential, mainly in the hydroelectric power field, Nepal remains a poor country with a high rate of unemployment. Most of its population lives on auto-sub sentence and the money transfers sent by the Nepalese Diaspora in the world.

Prospects for further growth are affected by two recent major developments.

First, Nepal completed its accession to the WTO and became the 147th member in April 2004. Being the first LDC to become a member of the multilateral trading regime, Nepal faces considerable opportunities as well as challenges in enhancing its capacity and competitiveness.

The most notable ingredients of Nepal's accession package are:

(i) agreement to bind other duties and charges at zero and phase them out within 10 years;
(ii) agreement to bind average tariff at 42 percent for the agricultural products and 24 percent for all other products, and;
(iii) agreement to allow up to 80 percent foreign equity participation in 70 services sub-sectors spanning distribution, retail and wholesale services and audio-visual.

Second, the rescinding of Multi-Fiber Agreement quotas at the end of 2004 has dramatically changed prospects for Nepal's garment industry – that accounted for 18 percent of total exports in FY 2003/04 – and exports in the sector have already plummeted by 40 percent in the first ten months of 2005 compared to same period of 2004.

These two issues accentuate the need for trade policy reforms to relieve critical behind-the-border constraints and improve the overall climate for investment.

First, despite significant improvements in customs administration, significant work remains to be done to improve duty drawback, trade facilitation, standards and quality, infrastructure and transport, and provide business support services.

Second, the competitiveness of the country hinges critically on reforms in labor and financial markets with a view to facilitate efficient use of resources and eliminate barriers to entry . Finally, the existing anti-export bias inherent in the cascading structure of tariffs should be adjusted carefully.

❖ PRESENT TRAD RELATIONS & BUSINESS VOLUME OF THE DIFFERENT PRODUCT WITH INDIA

Nepal-India relations are 'unique' for reasons ranging from geographical contiguity to close cultural ties, and extensive institutional and social relationships. Cultural, economic & geographical factors along with the common bond of a shared religion have had a great influence on bilateral relations. Despite some turbulence in the past, India-Nepal relations have remained close, stable and mutually beneficial.

As stated earlier, Nepal looks up to emerging India as an opportunity for growth in the form of easy access to technology, investment and market. Nepal hopes for greater tangible cooperation from India.

Information and Communication Technology: During the last two decades, the ICT has made a turnaround to the extent never experienced before, taking the world into a different arena of connectivity, and the sector is emerging as the fastest growing industry in the world. If properly developed, it has a potential to emerge as an important trading item. The added advantage is that the transport and transit requirements do not hinder in any way. The Government has initiated various efforts including formulation of policies, enactment of the Electronic Transactions Act, establishing an information technology park and promoting human resources in ICT.

Inadequate Trade Related Assistance: Only a few development partners have shown enthusiasm to come forward to meet Nepal's needs for technological and financial resources. Nepal needs to develop major trade infrastructure to facilitate trade. This would require significant investments which the Government alone will not be able to bear on its own.

Customs and duties: Customs duties ranging from 0% to 140%. Most primary products, including live animals and fish, enter duty-free. Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%. Cigarettes and alcoholic beverages are charged at 100%, although alcoholic beverages with more that 60% alcohol is prohibited altogether.

The modalities of the remittance scheme: India bank will send the Nepal remittances through NEFT to the Dedicated Accounting Unit (DAU) at the Payment Systems Group (PSG) of SBI in the IT Department. The IFSC Code of PSG-DAU is SBIN0004430 which should be entered in field No. 5569 of NEFT message format.

Information sharing: DTAA includes provisions for "exchange of information, assistance in collection of taxes between tax authorities and anti-abuse provisions." The exchange of information will extend to exchanging bank details, and could be shared with other law enforcement agencies with the consent of the information supplying country.

Political meetings: Informed sources said the Finance Minister enquired about the current political situation, peace process and constitution writing in the light of the upcoming coming expiry of the term of the Constituent Assembly (CA) on November 30. Nepali leaders briefed him about the recent seven-point peace pact, ongoing process of categorisation of Maoist combatants, formation of a State Restructuring Commission, and plans to extend the CA by another six months.

❖PESTL ANALYSIS OF INDONESIA & INDIA

country / **Pestle Analysis**	**NEPAL**
Political	The political Situation in the country is not stable. it is apparent that the rules and regulations are unstable as well.

Economical	Nepal is facing increasing inflation day by day. The economic environment consists of factors that affect consumer purchasing power and spending patterns and it depends on income level, price, savings, and availability of credit.
Socio-cultural	Socio-cultural environment is composed of various class, structure, beliefs, values, social institutions, accepted patterns of behavior, customs of people and their expectations. Socio-cultural environment influences the demand and supply of goods and services.
Technological	Technological environment refers to all the technical surroundings that affect business. This is particularly true in transport and tourism and agricultural sector of Nepal.
Legal	It is apparent that the rules and regulations are unstable.
Environmental	In Nepal growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones for agricultural and animal related products which Nepal mainly exports to India and other countries

CONCLUSIONS

Nepal's exports growth remained below satisfactory level last decade despite continued efforts to harness benefits from the regional and multilateral trading systems. Major exportable items have witnessed decline, thereby steadily raising the trade deficit. Political instability and continued conflict further eroded Nepal's export performance during the period. A silver lining in the deteriorated export performances can be traced in the on-going peace and constitution-building process, which has unlocked prospects for building of New Nepal.

However, the trade sector should get high priority on the countries development agenda. Hence, addressing the 'supply-side constraints' is imperative for achieving the desired economic growth through export orientation.

PART-II

INTRODUCTION OF INDIAN AGRICULTURE SECTOR

Agriculture is the backbone of Indian Economy. About 65% of Indian population depends directly on agriculture and it accounts for around 22% of GDP. Agriculture derives its importance from the fact that it has vital supply and demand links with the manufacturing sector. During the past five years agriculture sector has witnessed spectacular advances in the production and productivity of food grains, oilseeds, commercial crops, fruits, vegetables, food grains, poultry and dairy. India has emerged as the second largest producer of fruits and vegetables in the world in addition to being the largest overseas exporter of cashews and spices. Further, India is the highest producer of milk in the world.

In the Indian sub continent, agriculture has a long history of more than 10,000 years with majority of the population solely dependent on the industry. Consequently this sector has played a significant role in the overall socio economic development of the nation. The Annual Report 2009-2010 pertaining to this sector released by the Ministry of Agriculture has revealed that the total geographical area of India is 328.7 million hectares and about 140.3 million hectares of this is net sown area with 193.7 million hectares found to be the gross cropped area.

Among all the nations of the world, India is the largest producer of fresh fruits with some of the top ones in the list including sesame seeds, ginger, turmeric, fennel, badian, jute, cashew nuts, pulses, mangoes, chillies and peppers. India has claimed the second largest population of cattle with about 281million cattle. The country also has reserved the second position in the production of commodities like cashew, garlic, cardamom, onions, tomatoes, coconut, cabbage, cotton seed, fresh vegetables, ground nut, wheat, rice sugarcane, tea, green peas, cauliflower, potato and inland fish.

India has been producing tobacco, coconut, rapeseed and tomatoes in huge amount entitling itself to be called as the third largest producer of these products. The Indian Agriculture Research Institute (INRI) established in 1905 has a commendable achievement of bringing about the Indian Green Revolution of the 1970s. The Indian Council of Agricultural Research (ICAR) is today the apex body in agriculture and the connected arena in the country responsible for looking after all the researches and education in the segment. The union minister of Agriculture is also the president of ICAR.

Farmers confront the problems of finance. They lack adequate marketing services for selling their farm produce. However, since agriculture has been the Indian business handed over by the tradition, the future of agriculture in the nation is bright.

Major Crops of India:

Rice, Wheat, Sugarcane, Oilseeds, Pulses, Cotton, Jowar, Bajra, Ragi, Tea, Coffee, Coconut, Cashew, Rubber, Spices, Cauliflower, Onion, Cabbage, Mango, Banana, Sapota, Acid lime

The Role of Agriculture in India Economic Development:

- Agriculture constitutes the backbone of the Indian economy. It contributes around 32 per cent of the national income and provides employment to 70 per cent of Indian working force. Further, agricultural product constitutes 50 per cent of our exports and manufactures with agricultural content (cloth, sugar and manufactured jute) contributes another 20 per cent of India's export.

- Thus around 70 per cent of our exports consist of agricultural product. The role of agriculture in the industrial development of the economy is no less important. Agricultural sector supplies raw materials to the agro-based industries like sugar, jute, cotton, ground-nut and oilseeds. Failure of agricultural crops spells a disaster for the Indian industries.

- Agriculture also directly and indirectly provides a market for the industrial products. Directly, agricultural sector consumes industrial products like chemical fertilizers, pesticides, insecticides and small tools and equipments.

- Indirectly, the success in agricultural sector increases the purchasing capacity of the people to purchase industrial products.

- Thus, agriculture occupies a pivotal position in the Indian economy. And, a rapid development of the economy depends on a smooth and sustained growth in the agricultural sector

Importance of Agriculture in Indian Economy:

The following points emphasize the importance of agriculture in Indian Economy.

1) Share of Agriculture in National Income:-Agriculture has got a prime role in Indian economy. Though the share of agriculture in national income has come down, still it has a substantial share in GDP The contributory share of agriculture in Gross Domestic Product was 55.4% in 1950-51, 52% in 1960-61 and is reduced to 18.5% only at present. The share of the agricultural sector's capital formation in GDP declined from 2.2% in the late 1999s to 1.9% at present.

(2) Important Contribution to Employment:-Agriculture sector, at present, provides livelihood to 65 to 70% of the total population. The sector provides employment to 58.4% of country's work force and is the single largest private sector occupation.

(3) Important Source of Industrial Development: Various important industries in India find their raw material from agriculture sector -cotton and jute textile industries, sugar, vanaspati etc are directly dependent on agriculture. Handloom, spinning oil milling, rice thrashing etc are various small scale and cottage industries which are dependent on agriculture sector for their raw material. This highlights the importance of agriculture in industrial development of the nation.

(4) Importance in International Trade:-India's foreign trade is deeply associated with agriculture sector. Agriculture accounts for about 14.7% of the total export earnings. Besides, goods made with the raw material of agriculture sector also contribute about 20% in Indian exports.

INTRODUCTION OF NEPAL AGRICULTURE SECTOR:

Nepal. Agriculture is the major sector of Nepalese economy. It provides employment opportunities to 66 percent of the total population and contributes about 39 percent in the GDP. Therefore, the development of agriculture sector is key for the development of national economy. The DOA bears overall responsibility for the agricultural growth and development of agriculture sector.Agriculture sector still has got prime role to play in Nepalese economy. This sector has offered employment to 66 per cent of the economically active population, 39 percent contribution is made to the GDP with 13 percent of the total foreign trade of the country. Keeping in view of the contribution, the agriculture sector was given priority for its development from the onset of the periodic plans till the Eighth Five Year Plan.

Economic Overview

According to the World Bank, agriculture is the main source of food, income, and employment for the majority. In trying to increase agricultural production and diversify the agricultural base, the government focused on irrigation, the use of fertilizers and insecticides, the introduction of new implements and new seeds of high-yield varieties, and the provision of credit. The lack of distribution of these inputs, as well as problems in obtaining supplies, however, inhibited progress. Although land reclamation and settlement were occurring in the Tarai Region, environmental degradation and ecological imbalance resulting from deforestation also prevented progress.

Although new agricultural technologies helped increase food production, there still was room for further growth. Past experience indicated bottlenecks, however, in using modern technology to achieve a healthy growth. The conflicting goals of producing cash crops both for food and for industrial inputs also were problematic.

The Role of Agriculture in Nepal Economic Development:-

The production of crops fluctuated widely as a result of these factors as well as weather conditions. Although agricultural production grew at an average annual rate of 2.4 percent from 1974 to 1989, it did not keep pace with population growth, which increased at an average annual rate of 2.6 percent over the same period. Further, the annual average growth rate of food grain production was only 1.2 percent during the same period.

There were some successes. Fertile lands in the Tarai Region and hardworking peasants in the Hill Region provided greater supplies of food staples (mostly rice and corn), increasing the daily caloric intake of the population locally to over 2,000 calories per capita in 1988 from about 1,900 per capita in 1965. Moreover, areas with access to irrigation facilities increased from approximately 6,200 hectares in 1956 to nearly 583,000 hectares by 1990.

AGRICLUTURE BUSINESS ACTIVITIES IN INDIA AND GUJRAT

The Department of Agriculture and Cooperation is responsible for the formulation and implementation of National policies and programmes aimed at achieving rapid agricultural growth through optimum utilization of the country's land, water, soil and plant resources.

The Department undertakes all possible measures to ensure timely and adequate supply of inputs and services such as fertilizers, seeds, pesticides, agricultural implements and also to provide agricultural credit, crop insurance and ensure remunerative returns to the farmer for his agricultural produce.

The Department is entrusted with the responsibility for collection and maintenance of a wide range of statistical and economic data relating to agriculture, required for development planning, organizing agricultural census, assisting and advising the States in undertaking scarcity relief measures and in management of natural calamities e.g. flood, drought, cyclone, etc.

The Department is responsible for the formulation of overall cooperative policy in the country, matters relating to national cooperative organizations, cooperative training and education. The Department also participates in activities of international organizations, for fostering bilateral cooperation in agricultural and allied sectors and for promotion of export in agricultural commodities

STRUCTURE OF INDIA AGRICLUTURE

State Co-operative Bank (SCB):

The structure of the co-operative credit societies in India is three-tiered and federal in character consisting of Primary Agricultural Credit Societies (PACS) at the base level, the District Central Co-operative Banks (DCCB) at the district level and the State Co-operative Banks (SCB) at the state level. SCB act as the apex bank.

Farming Structure:

All those activities in agriculture which are undertaken jointly and which directly influence the primary process, are included in co-operative farming. Under this system, all decisions influencing production, partly or completely, are taken by the co-operative society. These decisions may range from joint management and planning for particular purpose to the complete control of all resources.

The main objectives of a co-operative farming society are to:

1. Secure increased agricultural production through more intensive programme of land improvement and agriculture.
2. Undertake improved techniques in agriculture and agro-based industries, so as to make proper utilization of land, manpower, cattle, knowledge and skill of farmers;
3. Ensure suitable and scientific crop planning and rotation of crops.
4. Secure increased and regular employment for the members.
5. Provide solutions to the pressing agrarian problems from which the country is suffering.

AGRICLUTURE IN NEPAL BUSINESS ACTIVITIES

Rice is the most important cereal crop. In 1966 total rice production amounted to a little more than 1 million tons; by 1989 more than 3 million tons were produced. Fluctuation in rice production was very common because of changes in rainfall; overall, however, rice production had increased following the introduction of new cultivation techniques as well as increases in cultivated land. By 1988 approximately 3.9 million hectares of land were under paddy cultivation. Many people in Nepal devote their lives to cultivating rice to survive. In 1966 approximately 500,000 tons of corn, the second major food crop, were produced. By 1989 production had increased to over 1 million tons.

Other food crops included wheat, millet, barley, and coffee, but their contribution to the agricultural sector was small. Increased production of cash crops, used as input to new industries, dominated in the early 1970s. Sugarcane and tobacco also showed considerable increases in production from the 1970s to the l980s. Potatoes and oilseed production had shown moderate growth since 1980. Medicinal herbs were grown in the north on the slopes of the Himalayas, but increases in production were limited by continued environmental degradation. According to government statistics, production of milk, meat, and fruit had improved but as of the late 1980s still had not reached a point where nutritionally balanced food was available to most people.

Additionally, the increases in meat and milk production had not met the desired level of output as of 1989. Nepal has more than 50% of people engaged in agriculture. Food grains contributed 76 percent of total crop production in 1988-89. In 1989-90 despite poor weather conditions and a lack of agricultural inputs, particularly fertilizer, there was a production increase of 5 percent. In fact, severe weather fluctuations often affected production levels. Some of the gains in production through the 1980s were due to increased productivity of the work force (about 7 percent over fifteen years); other gains were due to increased land use and favorable weather conditions. According to Statistical Information on Nepalese Agriculture (2008/2009) only 65.6% of people depends on agriculture and 21% of land is cultivated whereas 6.99% of land is uncultivated.

STRUCTURE OF NEPAL AGRICLUTURE

Agriculture is the main source of food, income, and employment for the majority. Nepal increase agricultural production and diversify the agricultural base, the government focused on irrigation, the use offertilizers and insecticides, the introduction of new implements and new seeds of high-yield varieties, and the provision of credit. The lack of distribution of these inputs, as well as problems in obtaining supplies, however, inhibited progress. Although land reclamation and settlement were occurring in the Tarai Region, environmental degradation and ecological imbalance resulting from deforestation also prevented progress.

Although new agricultural technologies helped increase food production, there still was room for further growth. Past experience indicated bottlenecks, however, in using modern technology to achieve a healthy growth. The conflicting goals of producing cash crops both for food and for industrial inputs also were problematic.

The production of crops fluctuated widely as a result of these factors as well as weather conditions. Although agricultural production grew at an average annual rate of 2.4 percent from 1974 to 1989, it did not keep pace with population growth, which increased at an average annual rate of 2.6 percent over the same period.[1] Further, the annual average growth rate of food grain production was only 1.2 percent during the same period.

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Overview of Nepal policy:

Nepal's export were goods and services grew from US$57.1 million in 1965 to US$712 million in 2004 and increased as a percentage of gross domestic product from 7.8 percent to 16.8 percent, averaging 13.2 percent for the period. There was export earned the foreign exchange that permitted Nepal's to purchase petroleum products, palm oil, and machinery necessary for industrial production and growth.

During the World Bank and Nepal government data indicate that from 1960 to 2004 total GDP grew from US$1.4 billion to US$6.2 billion, averaging 3.6 percent annual growth for the period. Although garments was the most impotent export included agricultural product such as rice, wheat and sugarcane etc. export commodities in Nepal was clothing, pluses, carpets, textiles, juice, pashima, jute goods and export partners was a India 57.4%, Germany 5.4% and U S 9.6%.

Nepalolian economy was poorest and least developed countries in the world,with about one-quarter of its population living below the poverty line. The country has to face several challenges, like the high external debt and inflation rate. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for a little over one-third of GDP.there was agriculture GDP 75%, Industry GDP 7% and Services GDP 18%. So Nepal's GDP was agriculture product and 75% population depend in agriculture.

Agricultural exports:

Agriculture plays a significant role in the Nepalese economy. Nepal's major agricultural exports consist of products of Tea, Coffee, Rice and wheat are the main food crops including maize, sugarcane, oilseed, jute, millet, pulses and root crops. Nepal has also had some success at diversifying into higher valued and good qulity of Rice and Wheat was export. The lowland Terai region produces an agricultural surplus, agricultural in 75 percent of the population and accounting for 33 percent of GDP. The two product for main export in agricultural exports.

Major Exports:

- Metal statues
- Tea & coffee
- Filigree goods
- Wooden crafts
- Woolen garment & Accessories
- Polyester yarn
- Jute bags
- Jute cutting
- Textiles
- Vegetable ghee
- Pipe
- Herbs
- Oil cakes
- Tooth paste
- Handicraft goods
- Carpets
- Clothes

Major Imports:

- Oil
- Gold

- Iron & Steel
- Pharmaceutical product
- Cement
- Electronic appliances
- Food
- Vehicles

NORMS OF AGRICULTURE

Against this backdrop, this paper aims at highlighting and articulating a host of major issues and suggesting some policy prescriptions. Section I enumerates major issues that continue to constrain the growth of Indian agriculture. Section II recounts the policy intentions relating to agriculture encapsulated in the recently announced, Common Minimum Program (CMP). In the light of the assessment of the situation in agriculture and the CMP, the following two sections, Section III and Section IV offer some policy prescriptions – both for immediate future as well as for medium-term consideration.

Import & Export Licensing Permission

Terms and Conditions of a Licence/Certificate/ Permission:

Every licence/certificate/permission shall be valid for the period of validity specified in the licence/ certificate/ permission and shall contain such terms and conditions as may be specified by the licensing authority which may include:

(a) The quantity, description and value of the goods;

(b) Actual User condition;

(c) Export obligation;

(d) The value addition to be achieved; and

(e) The minimum export price.

Licence/Certificate/ Permission not a Right:

No person may claim a licence/certificate/ permission as a right and the Director General of Foreign Trade or the licensing authority shall have the power to refuse to grant or renew a licence/certificate/permission in accordance with the provisions of the Act and the Rules made there under.

Restricted Goods:

Any goods, the export or import of which is restricted under ITC(HS) may be exported or imported only in accordance with a licence/ certificate/ permission or a public notice issued in this behalf.Any goods, the export or import of which is restricted under ITC(HS) may be exported or imported only in accordance with a licence/ certificate/ permission or a public notice issued in this behalf.

Procedure :

The Director General of Foreign Trade may, in any case or class of cases, specify the procedure to be followed by an exporter or importer or by any licensing or any other competent authority for the purpose of implementing the provisions of the Act, the Rules and the Orders made thereunder and this Policy. Such procedures shall be included in the Handbook , Handbook , Schedule of DEPB Rate and in ITC and published by means of a Public Notice. Such procedures may, in like manner, be amended from time to time.

The supplement to the Foreign Trade Policy and contains relevant procedures and other details. The procedure of availing benefits under various schemes of the Policy.

Exports and Imports free unless regulated:

Exports and Imports shall be free, except in cases where they are regulated by the provisions of this Policy or any other law for the time being in force. The item wise export and import policy shall be, as specified in ITC(HS) published and notified by Director General of Foreign Trade, as amended from time to time.

AGRICULTURAL TAXATION IN INDIA

- Agricultural property and some agricultural income were being taxed in the early 1990s, but the revenue from these taxes was negligible. In the early 1950s, however, land revenue agricultural property taxes were a significant form of government income, providing just under 10 percent of the tax revenue of the central, state, and union territory governments. At the end of the 1980s, that proportion was less than 1 percent because land revenue had been fixed. For instance, land revenue was an average of Rs28 per hectare in Kerala and Rs23 per hectare in Uttar Pradesh, the two states with the highest assessment rates. The national average was Rs16.50 per hectare. Agricultural property also was subject to stamp duties and registration fees. (All property transactions have to be made on official, stamped forms, and registration fees have to be paid to register transactions.)
- Provide project import status with a concessional import duty of 5 percent for the setting up of mechanized handling systems and pallet racking systems in 'mandis' or warehouses for food grains and sugar as well as full exemption from service tax for the installation and commissioning of such equipment.
- Provide project import status at a concessional customs duty of 5 per cent with full exemption from service tax to the initial setting up and expansion of Cold storage, cold room including farm pre-coolers for preservation or storage of agriculture and related sectors produce ; andProcessing units for such produce. Provide full exemption from customs duty refrigeration units required for the manufacture of refrigerated vans or trucks.

- Provide concessional customs duty of 5 per cent to specified agricultural machinery not manufactured in India;
- Provide central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce; and Provide full exemption from excise duty to trailers and semi-trailers used in agriculture.
- Concessional import duty to specified machinery for use in the plantation sector to be, extended up to March 31, 2011 along with a CVD exemption.
- To exempt the testing and certification of agricultural seeds from service tax.
- The transportation by road of cereals, and pulses to be exempted from service tax.
- Transportation by rail to remain exempt.
- To ease the cash flow position for small-scale manufacturers, they would be permitted to take full credit of Central Excise duty paid on capital goods in a single installment in the year of their receipt. Secondly, they would be permitted to pay Central Excise duty on a quarterly, rather than monthly, basis.
- Tax concessions are proposed to assist the growth of agriculture and associated industries
- Estimated agriculture sector growth at 5.4 per cent during this fiscal year
- Export taxes. Syria's legislation an agricultural production tax is levied on all agricultural commodities which are exported. Effectively this constitutes an export tax.
- Generally, this tax ranges between 9.5 and 12% of the production value. The products can be categorized as follows:
- Products on which an production tax of 12% of their average price at the time of export is levied. This product group includes fresh and processed vegetables and fruits, olives, olive oil and other products made from olives (a total of 88 commodities).
- Products on which an export tax of 9-9.5% of their average price at the time of exports is levied (see Table A- xx in the Appendix).]

EXIM policy of Indian country-

A developing country such as India needs to import technology and capital goods. To offset these imports, the government of India provides export promotion schemes. The Indian government also uses import quotas; import licensing and import duties to help balance the import-export trade in India.

The EXIM Policy of India has been updated several times in recent years. The most recent version covers the period from 2009 to 2014. The short term objective for this revision to the EXIM policy is to halt and reverse the declines in India trade within a volatile world market. Tactics used to achieve this objective include: increase market access, diversify the export markets, provide fiscal incentives, reduce procedures, and change to institutions.

EXIM POLICY 2009 TO 2014 HIGHLIGHTS

Some key highlights of this EXIM policy 2009 to 2014 revisions are:

- ✓ **Market Access and Export Market Diversification:**

Incentive schemes have been expand to cover new markets and new product categories. New markets, sixteen from Latin America and ten from Asia-Oceania have been added as part of the Focus Market Scheme. The incentives available have increased from 2.5% to 3% for these new markets.

- ✓ **New Product Incentive Scheme:**

This covers a wide variety of products ranging from engineering, plastics, textiles, Green technology, Jute & Siscal, technical textiles, project goods, vegetable textiles and some electronics. The incentives increased from 1.25% to 2%.

- ✓ **Technology Upgrades:**

For companies in certain sectors such as engineering and electronic products who want to upgrade their technology, zero duty will be assessed.

- ✓ **Gems & Jewelry Sector:**

Gold Jewelry exports will be permitted to receive Duty Drawbacks. This is where the duty collected on the export will refunded.

- ✓ **Value added Manufacturing:**

  To increase Value added Manufacturing exports, a 15% minimum value addition on imported inputs has now been prescribed.

- ✓ **Procedure Simplification:**

  Increase from 15 to 50, the number of sample pieces allowed to be imported by exporters at duty free rates.

Given the recent downward turn in the global economy, India's exports have also been shrinking. It is hope that some of the latest EXIM policy promotion schemes will help to accelerated India's import-export industry again.

➢ Objectives:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

LICENSES / CERTIFICATION OF AGRICULTURE SECTOR OF INDIA

Licensing/Certification agriculture sectore:

The Government of India has always followed policies that result in better availability and increased consumption of fertilizers in the country.

Policy Statement: No license is necessary for establishing a new fertilizer project or expanding the capacity of existing fertilizer plants. Investments or projects in the fertilizer segment can be taken up after filing the Industrial Entrepreneur's Memorandum with the Secretariat for Industrial Assistance (SIA).

Procedure to obtain dealer license for trading in fertilizers: The procedural requirements to obtain dealer license for trading in fertilizers, including application form, registration are all available with the Department of Fertilizers.

The Fertilizer Import and Movement Division is a constituent of the Department of Fertilizers of the Ministry of Chemicals and Fertilizers. It is involved in the process for import, transportation and distribution of fertilizers in the country.

Seeds:

Seeds are the most basic input of agriculture. In India, the government regulates the production and sale of seeds. However, realizing the important role that the private sector can play in this sector.

Seed distributorship:

The National Seeds Corporation Limited (NSC) may appoint one or more distributors for any State or for many States specifying the area of distributorship for the distributor/distributors so appointed.

Insecticides:

The import, manufacture, sale, transport, distribution and use of pesticides is regulated by the Insecticides Act of 1968 . The rules of the Act make the registration of pesticides at the central level mandatory.

Agricultural Commodity Grading:

Quality standards for agricultural commodities are framed based on their intrinsic features and value. Standards are being harmonized with international standards keeping in mind the requirements of the World Trade Organization . Certification of agricultural commodities is carried out both for the benefit of the producer or manufacturer as well as for the consumer.

Parties who wish to have their commodities graded under Agmark have to first obtain a Certificate of Authorization. For this purpose, they should have adequate infrastructure to process the commodity and access to an approved laboratory for the determination of quality and safety factors

TRADE BARRIERS

Trade barriers are government-induced restrictions on international trade. The barriers can take many forms, including the following:

- Tariffs
- Non-tariff barriers to trade
    - Import licenses
    - Export licenses
    - Import quotas
    - Subsidies
    - Voluntary Export Restraints
    - Local content requirements
    - Embargo
    - Currency devaluation

Examples of free trade areas:

- North American Free Trade Agreement (NAFTA)
- South Asia Free Trade Agreement (SAFTA)
- European Free Trade Association
- European Union (EU)
- Union of South American Nations
- New West Partnership (An internal free-trade zone in Canada between Alberta, British Columbia, and Saskatchewan)
- Gulf Cooperation Council common market

Nepal's Trade Regulation Agreements

Nepal is part of many different Trade Agreements with countries around the world. These is the General Agreement on Tariffs and Trades (GATT), Nepal has been adopting an open and market oriented trade policy for the last two decades with expectations that such policy generates positive impacts on the resource mobilization, economic development and poverty alleviation.

Due to joining the GATT Nepal was required to reduce subsidies and tariffs on imported goods in the hope to increase world trade and stimulate the world's economy. Nepal has also joined in different regional agreements such as Asia-Pacific Economic Cooperation (APEC) and ASEAN Free Trade Area (AFTA). APEC and AFTA both allow for member economies to grow and strength due to the decreasing and elimination of tariffs and non-tariff barriers to trade. These international agreements that Nepal has entered into have allowed for many different countries to have easier trade with Nepal on all matter of goods.

- Import tariffs are generally assessed on an ad valorem basis, with duties ranging from 0% to 140%. Most primary products, including live animals and fish, enter duty-free.
- Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%.
- Cigarettes and alcoholic beverages are charged at 100%, although alcoholic beverages with more that 60% alcohol are prohibited altogether. Other prohibited imports include narcotic drugs and beef and beef products.
- Valuable metals and jewelry are prohibited except under bag and baggage regulations.
- Nepal's weighted average tariff rate in 2000, the most recent data available, was 17.7%. This average probably increased in 2001 and 2002 because of "security surcharges" levied on most imports.
- No special fee was assessed on goods with tariff rates less than 2.5%. For goods with charged duties up to 5%, the surcharge was 1%, and for all those with duties above 5%, the surcharge was 3%.

Import Restriction:

Nepal has few remaining items that are prohibited due to the general trade agreements it has come to with many countries. According to the Nation Agency for Export Development (NAFED) imports that are still prohibited include: acids, batteries, berare document, bio produt, chemicals, tobacco, paint, perfume, poission, liquider etc. these products many of these goods are prohibited from being imported because they are created within the borders of Nepal and as such are viewed as being crucial to economic stability within Nepal.

Export restrictions:

Nepal’s exports are not acceptable for carriage to any international destinations unless otherwise indicated. Restrictions may apply depending on destination. Various regulatory clearances in addition to customs clearance may be required for certain commodities, thereby extending the transit time.

- APO/FPO addresses.
- C.O.D. shipments.
- Human corpses, human organs or body parts, human and animal embryos, or cremated or disinterred human remains.
- Explosives are acceptable for carriage to Canada, Germany, France, Japan, United Arab Emirates and United Kingdom.
- Firearms, weaponry and their parts ..
- Perishable foodstuffs and foods and beverages requiring refrigeration or other environmental control.
- Live animals including insects, except as provided in the Live Animals section in the FedEx Service Guide.
- Plants and plant material, including cut flowers.
- Lottery tickets and gambling devices where prohibited by law.
- Money example coins, cash, currency, paper money and negotiable instruments equivalent to cash such as endorsed stocks, bonds and cash letters.
- Pornographic and/or obscene material.
- Shipment restrictions.

Which states that all good either entering or leaving the country must be carried on Nepolian vessels. Other restrictions deal with more specific items. Some plants for both import and export will require approval from the Ministry of Agriculture before they are allowable. Some animals may require an inspection from the Nepolian Veterinary Service before import or export is allowable. All food items will require a health inspection certificate from the country of origin before being allowed into Nepal Items produced locally will have to adhere to all import and export standards and in some cases higher standards.

Import/Export barriers in India

Tariff and non-tariff barriers. In 1991, India initiated economic reforms to tide over the budget deficit, balance of payments problems and structural imbalances in several industry sectors of the economy. In successive years, India has made the trade regime increasingly more transparent. However, India's tariffs are still high by international standards, and many quantitative restrictions on imports still exist. These high tariffs and import restrictions have constrained U.S. firms from selling in this market and U.S. investors from importing competitive inputs in several industries.

Principles of Restriction:

DGFT may, through a notification, adopt and enforce any measure necessary for:-

- Protection of public morals.
- Protection of human, animal or plant life or health.
- Protection of patents, trademarks and copyrights and the prevention of deceptive practices.
- Prevention of prison labor.
- Protection of national treasures of artistic, historic or archaeological value.
- Conservation of exhaustible natural resources.
- Protection of trade of fissionable material or material from which they are derived; and
- Prevention of traffic in arms, ammunition and implements of war.

Import Restrictions :

India has few remaining items that are prohibited due to the general trade agreements it has come to with many countries. Imports that are still prohibited include: agriculture products many of these goods are prohibited from being imported because they are created within the borders of India and as such are viewed as being crucial to economic stability within India.

Export Restrictions:

India has few items are export restriction. India has employed some type of restriction on cotton export. When an exporting country institutes border restriction, the expected impact is for world price to be pushed higher while internal price are pressured lower. Based on reported price data, policy decisions by India have added to the volatility and uncertainty in the world cotton market. India announces that all registration of cotton export will be suspended until further orders. Shipment of previously registered export contracts are stopped with an immediate effort cotton prices in Gujarat.

COMPARATIVE STUDY OF AGRICULTURE OF INDUSTRY (FERTILIZER COMPANY)

Indian fertilizer company information:

Basant Agro Tech India Ltd

Basant Agro Tech India registered a net profit of ` 99.10 lakhs in 2001- 2002. In 2002-2003, the net profit stood at ` 85.80 lakhs, in 2003-2004 it was ` 90.41 lakhs, and in 2004-2005, it amounted to ` 122.70 lakh. This shows that the profit level of the company has risen in the last couple of years. The Basant agro tech India limited company is a leading fertilizers manufacturing company in India's western region. The company have a brand name Krishi Sanjivani and this is a registered trademark. Its fertilizers are sold mainly in the states of Maharashtra, Chattisgarh, Andhra Pradesh, and Madhya Pradesh.

Basant Agro Tech India's product portfolio includes fertilizers of various grades, agricultural inputs, and seeds. The company specializes in the manufacture of nitrogen, phosphate, potash (NPK) mixture, and granulated fertilizers. It also has a plant with the capacity of 60,000 TPA. The company is also quite well-known for its production of single super phosphate for which it has a production capacity of 83,000 TPA. In 2005, Basant Agro Tech India manufactured 60,919 MT of SSP fertilizers and 39,194 MT of NPK mixture fertilizers.

Basant Agro Tech India Limited has registered significant growth in the last few years. Efforts must be made by the fertilizer industry of private sector in India and the government of India so that it continues to grow.

Location of Plant	**Capacity (MTS)**	**Type of Fertilizer**
Kaulkhed Akola (M.S)	60,000 T.P.A.	NPK Granulated Mixed Fertilizers.
Kanheri Akola (M.S)	1,20,000 T.P.A. 75, 000 T.P.A	Single Super Phosphate (SSP) powder SSP/NPK Granulation
Sangli (M.S)	30,000 T.P.A.	NPK Granulated Mixed Fertilizers.
Hospet (Karnataka)	45,000 T.P.A.	Single Super Phosphate (SSP) NPK Granulated Mixed

		Fertilizers.
Neemuch (M.P)	75.000 T.P.A 30,000 T.P.A	Single Super Phosphate (SSP) Powder NPK Granulated Mixed fertilizers

❖ Financial Analysis:

Capital Structure - Basant Agro Tech (India) Ltd.							
Period		Instrument	Authorized Capital	Issued Capital	- P A I D U P -		
From	To		(Rs. cr)	(Rs. cr)	Shares (nos)	Face Value	Capital (Rs. Cr)
2011	2012	Equity Share	20.00	9.06	90627500	1.0	9.6
2010	2011	Equity Share	25.0	8.4	83627500	1.0	8.4
2009	2010	Equity Share	25.0	8.4	83627500	1.0	8.4
2008	2009	Equity Share	25.0	8.4	8362750	10.0	8.4
2007	2008	Equity Share	25.0	8.4	8362750	10.0	8.4
2006	2007	Equity Share	10.0	8.0	7962750	10.0	8.0
2005	2006	Equity Share	10.0	3.2	3185100	10.0	3.2

2004	2005	Equity Share	10.0	3.2	3185100	10.0	3.2
2003	2004	Equity Share	10.0	3.2	3185100	10.0	3.2
2002	2003	Equity Share	10.0	3.2	3185100	10.0	3.2
2001	2002	Equity Share	10.0	3.2	3185100	10.0	3.2
2000	2001	Equity Share	10.0	3.2	3185100	10.0	3.2
1999	2000	Equity Share	10.0	3.2	3185100	10.0	3.2
1996	1999	Equity Share	10.0	3.2	3185100	10.0	3.2
1994	1996	Equity Share	5.0	3.2	3185100	10.0	3.2
1993	1994	Equity Share	5.0	.7	660000	10.0	.7

	Profit & Loss - Basant Agro Tech (India) Ltd.					
	Mar'12	Mar'11	Mar'10	Mar'09	Mar'08	Mar'07
	12 Months	12 Months	12 Months	12 Months	12 Months	12 Months
INCOME:						
Sales Turnover	277.99	168.71	130.74	128.52	109.37	92.41
Excise Duty	1.54	0.00	0.00	0.00	0.00	0.00
NET SALES	**276.45**	**168.71**	**130.74**	**128.52**	**109.37**	**92.41**
Other Income	0.68	0.00	0.00	0.00	0.00	0.00
TOTAL INCOME	**268.30**	**168.88**	**131.58**	**128.91**	**109.84**	**92.87**

EXPENDITURE:						
Manufacturing Expenses	16.45	5.73	4.91	3.98	3.37	2.98
Material Consumed	217.12	131.30	97.51	98.81	83.55	71.04
Personal Expenses	4.50	3.33	2.52	2.22	1.56	1.26
Selling Expenses	0.00	0.00	7.63	7.68	8.11	7.64
Administrative Expenses	19.62	12.29	4.31	4.00	3.29	2.67
Expenses Capitalised	0.00	0.00	0.00	0.00	0.00	0.00
Provisions Made	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL EXPENDITURE	**257.69**	**152.65**	**116.88**	**116.69**	**99.88**	**85.59**
Operating Profit	23.79	16.06	13.86	11.82	9.49	6.82
EBITDA	**24.47**	**16.23**	**14.70**	**12.22**	**9.97**	**7.28**
Depreciation	4.39	2.95	3.23	2.40	1.77	1.52
Other Write-offs	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	**20.08**	**13.28**	**11.47**	**9.82**	**8.19**	**5.76**
Interest	8.31	6.19	4.93	3.50	2.59	1.74
EBT	**11.76**	**7.09**	**6.54**	**6.32**	**5.60**	**4.03**
Taxes	4.18	1.02	0.97	0.88	0.61	0.46
Profit and Loss for the Year	**7.58**	**6.08**	**5.57**	**5.44**	**4.99**	**3.57**
Non Recurring Items	0.00	0.00	-0.0	-0.0	-0.0	-0.0
Other Non Cash Adjustments	0.10	-0.1	-0.0	-0.0	0.00	0.00

Other Adjustments	0.00	0.16	0.08	0.05	0.00	0.00
REPORTED PAT	**7.68**	**6.08**	**5.54**	**5.43**	**4.97**	**3.56**
KEY ITEMS						
Preference Dividend	0.00	0.00	0.00	0.00	0.00	0.00
Equity Dividend	0.72	0.59	0.50	0.67	0.50	0.72
Equity Dividend (%)	7.99	7.00	6.00	7.99	6.00	8.99
Shares in Issue (Lakhs)	906.28	836.28	836.28	83.63	83.63	79.63
EPS - Annualised (Rs)	**0.85**	**0.73**	**0.66**	**6.49**	**5.94**	**4.47**

	Balancesheet - Basant Agro Tech (India) Ltd.					
Particulars	Mar'12	Mar'11	Mar'10	Mar'09	Mar'08	Mar'07
Liabilities	12 Months	12 Months	12 Months	12 Months	12 Months	12 Months
Share Capital	9.06	9.76	8.36	8.36	8.36	7.96
Reserves & Surplus	51.48	39.91	34.68	29.81	25.21	19.13
Net Worth	**60.54**	**49.68**	**43.05**	**38.17**	**33.57**	**27.10**
Secured Loans	69.61	47.16	32.04	28.46	22.43	15.45
Unsecured Loans	21.12	16.66	10.05	9.55	5.01	7.52
TOTAL LIABILITIES	**151.28**	**113.49**	**85.13**	**76.18**	**61.01**	**50.07**
Assets						
Gross Block	73.93	59.02	50.83	48.02	36.61	27.53
(-) Acc. Depreciation	22.50	18.22	15.38	12.21	9.93	8.26
Net Block	**51.43**	**40.81**	**35.45**	**35.81**	**26.68**	**19.27**
Capital Work in Progress.	6.86	4.78	2.98	0.64	0.36	2.84
Investments.	0.00	0.04	0.04	0.04	0.04	0.07
Inventories	76.44	54.71	40.27	26.00	26.78	15.59
Sundry Debtors	64.20	36.81	25.43	20.54	14.66	17.28
Cash And Bank	1.76	1.58	2.60	3.17	4.88	4.55
Loans And Advances	11.49	10.35	8.87	7.74	5.31	3.89
Total Current Assets	**153.88**	**103.45**	**77.18**	**57.44**	**51.63**	**41.31**
Current Liabilities	55.53	34.02	28.08	15.45	16.04	11.97
Provisions	5.36	1.55	2.44	2.30	1.65	1.44
Total Current Liabilities	**60.89**	**35.57**	**30.51**	**17.75**	**17.69**	**13.41**
NET CURRENT ASSETS	**92.99**	**67.87**	**46.66**	**39.69**	**33.94**	**27.90**
Misc. Expenses	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS	**151.28**	**113.49**	**85.13**	**76.18**	**61.01**	**50.07**

❖ Fertilizer company in Nepal :

Company Profile
Ranjan Enterprises activities are chemicals, water treatment, special chemicals for petrochemical, fertilizer and sugar factory.

Most of Our Customer is Fertilizer and Sugar Factories in Nepal since 1985.

Ranjan Enterprises also became distributor for Sulphuric Acid and Complex Fertilizer from one of biggest manufacture in a for west side part of Nepal.

Now, Ranjan Enterprises expand their business in Boiler. Ranjan Enterprises has 2 office : Kathmandu

Ranjan Enterprises provide engineer who has experience more than 20 years and young engineer who has a good achievment spirit.

[Buying Categories]

- Other Inorganic Chemicals >> Chemicals
- Other Organic Chemicals >> Chemicals
- Fertilizer >> Agriculture
- Timber >> Construction & Real Estate
- Water Treatment >> Environment

[keyword]

Chemicals , environment , boiler

Registration Date	2006/08/12 (Year/Month/Date)
Buyer / Seller in EC21	Buyer
Business Type	Agent
Year established	1998
Employees total	11 – 50
Annual revenue	USD 1,000,001 - 2,000,000

Contact Information

Company	Ranjan Enterprises Pvt. Ltd.
Address	7/144 Resham Kothi Road No. 2 Birgunj 44301

Phone	+977-51-521379
Fax	(00977-1) 4487567

Duty Structure on fertilizer products in India

The Indian fertilizer sector in general and Urea producers in particular have benefited from increased availability of natural gas while the entire sector also benefited from timely payment of fertilizer subsidy in cash. Implementation of partial de-control of fertilizer regime as recommended by the group of ministers (GOM) to let rates of non-urea fertilizers be determined by the market will help in product innovation and improved efficiency among the phosphatic fertilizer manufacturers.

The actual subsidy burden of the government is set to be relatively lower in FY 2009-10 over the previous year with drastic 48% fall in urea prices, 62% fall in DAP prices and 23% fall in potassium chloride (Muriate of Potash) in April 2009-January 2010 over the corresponding previous year period.

But urea prices have hardened from $233.90 per tonne in October 2009 to $275.75 per tonne in January 2010, while DAP prices have rebounded from $290.25 in November 2009 to $427.50 in January 2010.

If global prices continue to harden, then the relative benefit of lower fertilizer subsidy will no longer be available. So, the government cannot postpone the hike in fertilizer prices for too long.

FINDINGS & CONCLUSIONS

- The country's GDP has been increasing over the years and it reached a whopping in 2009, while the share of agriculture, livestock, forestry and fishery contributed 15.29% of total GDP.
- This report also includes the market trends and outlook of Nepal's agriculture industry. Under the Agriculture Plan, 2010-2014, the government allocated national budget that amounted to the Ministry of Agriculture (MOA). In order to become one of the major agricultural commodity exporters, Nepal will push for the development in Papua, where expansion works will be carried out on a 1.6mn hectare area located in Kathmandu..
- Also, this report provides a ranking of the leading players in the agriculture industry as well as their respective financial highlights. In 2009, the top players in the country's agriculture industry were smart is one of the leading palm-based companies in the country with net sales that amounted to in 2009.
- As compare to India the Nepal fertilizer has a financially in these sector is weak but their achievement in these sector are not in compare to the Indian fertilizer industry it also includes that a data that included highest in compare with the the Nepal that I found to the whole that is founding the India is the highest in the agriculture & fertilizers sector in compare with the Nepal.
- The products & services related with the agriculture food products that also are the most important in comparing in both the countries. That India exported to the Nepal of the agriculture related products & also it includes the whole products & services. in compare with the Nepalion company also is the most important in data finding.

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A
GLOBAL COUNTRY STUDY REPORT
ON
NEPAL

<u>SUBMITTED TO</u>

SARDAR PATEL COLLEGE OF ADMINISTRATION & MANAGEMENT

(SPCAM-MBA)

IN PARTIAL FULLLILLMENT OF THE
REQUIREMENT OF THE AWARD FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION
IN
GUJARAT TECHNOLOGICAL UNIVERSITY

<u>FACULTY GUIDE</u>

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MBA SEMESTER-III

SARDAR PATEL COLLEGE OF ADMINISTRATION & MANAGEMENT (SPCAM-MBA)

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AHMEDABAD.

PART – 01 **SEM. – 03**

Demographic profile of Nepal

Nepali or Nepalese are descendants of migrants from parts of Kashmir, earlier Greater Nepal, Tibet, India, and parts of Burma and Yunnan, along with native tribal populations. Indo-Aryans and East Asian looking mixed people live in the hill region. The mountainous region is sparsely populated above 3,000 m (9,800 ft), but in central and western Nepal, ethnic Tibetans inhabit even higher semi-arid valleys north of the Himalaya. Kathmandu Valley, in the middle hill region, constitutes a small fraction of the nation's area but it is the most densely populated, with almost 5 percent of the nation's population. Nepali society is multilingual, multi-religious and multiethnic. The population of Nepal is estimated at 26,630,809 people in census of 2011, with a population growth rate of 1.596% and a median age of 21.6 years. Female median age is estimated at 22.5 years, and male median age at 20.7 years. Only 4.4% of the population is estimated to be more than 65 years old, comprising 681,252 females and 597,628 males, whereas 61.1% of the population is between 15 and 64 years old, and 34.6% is estimated at younger than 14 years. Birth rate is estimated at 22.17 births/1,000 population with an infant mortality rate at 44.54 deaths per 1,000 live births. Life expectancy at birth is estimated at 67.44 years for females and 64.94 years for males. Death rate is estimated at 681 deaths per 100,000 people. Net migration rate is estimated at 61 migrants per 100,000 people. According to the 2001 census, only 48.6% of the total population is literate, of which 62.7% are male and 34.9% are female.

Selected ethnic groups of Nepal are Bhotia, Sherpa, Thakali, Gurung, Kiranti, Rai, Limbu, Newari, Pahari and Tamang. Nepal's 2001 census enumerated 102 castes and ethnic groups Both Indo-Aryan and Mixed Indo-Mongoloid comprise 80% who consist of Chetri, Bahun, Newar, etc. While the Mongoloids including Magar, Gurung and Rai comprise 17% of the population. The main religions of Nepal are Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9%. The language of Nepal are Nepali (official) 47.8%, Maithali 12.1%, Bhojpuri 7.4%, Tharu (Dagaura/Rana) 5.8%, Tamang 5.1%, Newar 3.6%, Magar 3.3%, Awadhi 2.4%, other 10%, unspecified 2.5% (2001 census).
(according to EBS Documentary 'World Travel with a Theme' made in 2010.)

Peoples: Indigenous peoples include Gurung, Limbu, Newar, Rai, Sherpa, Tamang and Tharu with diverse smaller groups. Major caste groups are the Brahmins and Chhetris. Large numbers of Indians and some Tibetans make their home in the country.

Language(s): Nepali 58% (official language), Newari 3%, mainly in Kathmandu. Tibeto- Burman languages (20%) mainly in the hill areas, and Indian-related languages (20%) mainly in the Terai areas bordering India. Nepal has over 30 Languages and over a hundred dialects.

Religion(s): Officially 90% Hindu, 8% Buddhist and 4% Muslim – but accurate figures are not available. Hinduism and Buddhism overlap considerably in Nepal. Estimates suggest that there are some 400,000 Christians in the country.

Currency: Nepalese Rupee (NPR) which is pegged to the Indian Rupee.

Major political parties: Unified Communist Party of Nepal – Maoist (Chairman – Pushpa Kamal Dahal AKA 'Prachanda'), Nepali Congress (President - Sushil Koirala), Communist Party of Nepal-Unified Marxist-Leninist (CPN-UML) (Chairman - Jhalanath Khanal), Madhesi People's Rights Forum-Democratic (MJF-D) (Chairman – Bijay Gachchhadar)

Economic overview of Nepal

The purchasing power parity of Nepal is $31.09 billion .The real growth rate of Nepal is 5.6% and per capita purchasing power parity of Nepal is $1,100.

- GDP - composition by sector is:
  agriculture: 40%
  industry: 20%
  services: 40% (2002 est.)

Population below poverty line: 33% (2007)

- Household income or consumption by percentage share:
  lowest 10%: 3.2%
  highest 10%: 29.8% (1995–96)

Inflation rate (consumer prices): 2.9% (2002 est.)
Labour force: 10 million (1996 est.)
Labor force - by occupation: agriculture 81%, services 16%, industry 3%
Unemployment rate: 47% (2001 est.)

- Budget:
  revenues: $665 million
  expenditures: $1.1 billion, including capital expenditures of $NA (FY 99/00 est.)

Industries: tourism, carpet, textile; small rice, jute, sugar, and oilseed mills; cigarette; cement and brick production
Industrial production growth rate: 8.7% (FY 99/00):
Electricity - production: 1,755 GWh (2001)

- Electricity - production by source:
  fossil fuel: 8.5% *hydro:* 91.5% *nuclear:* 0% *other:* 0% (2001)

Electricity - consumption: 1,764 GWh (2001)
Electricity - exports: 95 GWh (2001)
Electricity - imports: 227 GWh (2001)
Oil - production: 0 barrels per day (0 m^3/d) (2001 est.)
Oil - consumption: 16,000 barrels per day (2,500 m^3/d) 2001
Agriculture - products: rice, maize, wheat, sugarcane, root crops; milk, domestic buffalo meat
Economic aid - recipient: $424 million (FY 00/01)
Currency: 1 Nepalese rupee (NPR) = 100 paisa
Exchange rates : Nepalese rupees (NPR) per USD 1 – 64.20 (2007), 78.88 (2002), 74.95 (2001), 68.253 (1999), 65.976 (1998), 58.010 (1997), 56.692 (1996), 51.890 (1995).

Household income or consumption by percentage share: **lowest 10%:** 3.2%
highest 10%: 29.5% (2011)

Distribution of family income - Gini index: 47.2 (2008)
36.7 (1996)

Budget: **revenues:** $3.9 billion
expenditures: $5.3 billion (FY11)

Taxes and other revenues: 21% of GDP (FY11)

Budget surplus (+) or deficit (-): -7.5% of GDP (FY11)

Inflation rate (consumer prices): 9.1% (2011 est.) 10% (2010 est.)

Commercial bank prime lending rate: 7.5% (31 December 2011 est.)
8% (31 December 2010 est.)

Central bank discount rate: 6% (31 December 2010 est.) 6.5% (31 December 2009 est.)

Stock of narrow money: $2.696 billion (31 December 2011 est.)
$2.93 billion (31 December 2010 est.)

Stock of broad money: $12.12 billion (31 December 2011 est.)
$10.34 billion (31 December 2010 est.)

Stock of money: $2.53 billion (31 July 2009) $2.106 billion (31 December 2008)

Stock of quasi money: $7.49 billion (1 April 2009) $6.99 billion (31 December 2008)

Stock of domestic credit: $11.42 billion (31 December 2011 est.)
$11.17 billion (31 December 2010 est.)

Market value of publicly traded shares: $4.529 billion (31 December 2011 est.)
$4.843 billion (31 December 2010)
$5.485 billion (31 December 2009 est.)

Agriculture - products: pulses, rice, corn, wheat, sugarcane, jute, root crops; milk, water buffalo meat

Industries: tourism, carpets, textiles; small rice, jute, sugar, and oilseed mills; cigarettes, cement and brick production

Exports: $896 million (2011 est.)
$901.8 million (2010 est.)

Imports: $5.4 billion (2011 est.)
$5.017 billion (2010 est.)

Overview of Industrial trade and commerce of Nepal

Manufacturing Industries:

Production and packing of photographic film roll by cutting, slitting, confecting, perforating, spooling and capping from Jumbo roll; production of cinematographic film, medical and industrial x-ray film, graphic art film, photographic paper by cutting, slitting process from imported Jumbo role and pan cake industry. Production (having less processing activities) of cut to length sheet, photo film slitting, photo paper slitting, tissue paper slitting, ball bearing assembly; Repacking of imported goods in bulk quantity.

Agro and Forest – based Industries:

Business mainly based on agriculture or forest products such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herb culture and herb processing, vegetable seed farming; bee-keeping, honey production, rubber farming, floriculture and production, and forestry related businesses such as lease-hold forests, agro-forestry etc. Mushroom, vegetable farming or vegetable processing, tissue-culture, green house. Cotton farming, production and processing of cotton seeds. Horticulture and cash crop farming; Cane and bamboo farming & their products; Hatchery; Establishment, protection and management of botanical garden.

Tourism Industries:
Tourist lodging, motel, hotel, restaurant, resort, travel agency, skiing, gliding, water rafting, cable car complex, pony-trekking, trekking, hot air ballooning, Para sailing, golf-course, polo, horse-riding; Construction & operation of amusement park, Rural tourism and Other Adventurous tourism.

Service Industries:
Workshop, printing press, consultancy service, ginning and bailing business, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, laboratory, air services, cold storage.
Security service business providing security to bank and financial institutions, industry, hotel, office complex, diplomatic institutions and residential complex.

Overview of Business and Trade at International Level

World Trade :

The effect of fall in domestic demand in developed countries is visible also in the world trade. In comparison to 2010, the volume of globally traded goods and services has hugely declined in 2011. For instance, the volume of total goods traded in 2011 increased by 5.8 percent as compared to 12.9 percent increase in 2010. Both the global export and import have declined. Such shrink in trading activities of developed countries, however, has helped improve balance of trade of the emerging and developing economies.

World Economic Growth Rate:

The growth rate of global output has decreased in 2011 compared to 2010. The world economy that grew by 5.3 percent in 2010 got contained to a growth of 3.9 percent only in 2011, which was lower than 4.5 percent, IMF had projected for the year. Especially, the European debt crisis; natural disaster in Japan; recession in European real estate business; the slowed down economic growth rates in countries like China and India; Decreased economic growth in largecountries like Brazil and Mexico can be attributed for decline in the world economic growth. Likewise, rise in unemployment rate in USA and Europe also helped in slowing down the world economic growth. IMF has projected the world GDP to grow by 3.5 percent and 4.1 percent in 2012 and 2013 respectively. Economic growth rate of developed and emerging economies for the year 2012 is estimated at 1.4 percent and 5.7 percent respectively

World Economic Growth Rate

(Annual percentage Change)

				Forecast	
2009	2010	2011	2012	2013	2014

World Output	**-0.6**	**5.3**	**3.9**	**3.5**	**4.1**	**4.7**
Advanced Economies	**-3.6**	**3.2**	**1.6**	**1.4**	**2.0**	**2.7**
Emerging and developing Economies	**2.8**	**7.5**	**6.2**	**5.7**	**6.0**	**6.3**
Developing Asia	**7.1**	**9.7**	**7.8**	**7.3**	**7.9**	**7.9**
Middle-East and North African Countries	**2.7**	**4.9**	**3.5**	**4.2**	**3.7**	**4.4**
Central and East European Countries	**-3.6**	**4.5**	**5.3**	**1.9**	**2.9**	**4.0**
EU member countries	**-4.2**	**2.0**	**1.6**	**0.0**	**1.3**	**2.1**

Growth rate of Nepal’s neighboring countries especially that of South Asian nations, has also slowed down in comparison to 2010. Average growth rate of South Asian countries that was 7.3 percent in 2010 got contained to 5.8 percent in 2011. IMF has estimated to remain the economic growth rate at the same level in 2012 also. Only the two South Asian countries namely Maldives and Sri Lanka maintained higher growth rate in 2012. India and China, that had attained double digit growth rates of 10.6 and 10.4 percent respectively in 2010 also registered lower growth rate of 7.2 and 9.2 percent respectively in 2011

				Forcast		
Country	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Afghanistan	**21.0**	**8.4**	**5.7**	**7.2**	**5.8**	**6.6**
Bangladesh	**5.9**	**6.4**	**6.1**	**5.9**	**6.4**	**7.3**
Bhutan	**6.7**	**10.6**	**5.9**	**7.0**	**9.9**	**4.0**
India	**6.6**	**10.6**	**7.2**	**6.9**	**7.3**	**8.1**
Maldives	**4.7**	**5.7**	**7.4**	**4.4**	**3.5**	**3.5**
Nepal	**4.4**	**4.6**	**3.5**	**4.2**	**3.8**	**3.9**
Pakistan	**1.7**	**3.8**	**2.4**	**3.4**	**3.5**	**3.5**
Sri-Lanka	**3.5**	**8.0**	**8.2**	**7.5**	**7.0**	**6.2**
China	**9.2**	**10.4**	**9.2**	**8.2**	**8.8**	**8.5**

Net Domestic Aggregate Demand : The aggregate decreasing net demand of developed and industrialized countries indicates of the global economy not yet heading towards positive direction. Fall In post global recession (2007-09) production and employment in developed and industrialized countries has adversely affected the growth of net aggregate demand

Nepal Business and Trade Overview:

Nepal is a low income developing nation: GDP growth rate (FY 2010/11): 3.48 percent; Population: 26.62 million; Per capita annual income: $642. More than 75 percent of the population is under the age of 40.

Political instability, a landlocked location, challenging topography, poor infrastructure, a weak human capital base and a long history of public intervention in the economy are some of the impediments to economic growth.

Agriculture accounts for 35 percent of GDP and 73.9 percent of employment. However, there has been significant migration from rural to urban areas and overseas. An estimated 10 percent of the population is working abroad, primarily in India, the Gulf countries, and Asia. Nepal received at least $3.5 billion in remittances in 2010, equivalent to nearly a quarter of GDP.

India accounts for 66.4 percent of Nepal’s total trade.

In FY 2010/11, Nepal exported $895.8 million worth of goods, mainly woollen carpet, pulses, readymade garments, polyester yarn, textile, zinc sheets and agricultural products. Nepal's annual imports are about $5.45 billion, mainly from India, China, and UAE. The main imports are petroleum products, construction materials, vehicles and spare parts.

Gradual structural change can be observed in the Nepalese economy. A trend of decreasing contribution of agriculture and industry sectors and increasing that of services sector to GDP is clearly visible.Nepal started planned development efforts more than 50 years ago. Despite its long planned development efforts, Nepal still remained low –income developing country in the world.Its neighbors have become emerging economies. China recorded continuous double digit growth since 2005 and India is about to achieve double digit growth.India is the main trade partner of Nepal. India occupies around 70 percent of Nepal's total trade. Trade deficit with India has been increasing over time.The end of quota system for developing countries in January, 2005 resulted in decrease in export. It has further pushed the overall trade deficit and reached to 22.6 percent of GDP in 2008. The recent global financial turmoil indirectly affected Nepal through record exchange rate depreciation of Nepalese currency, it being pegged with Indian currency. The recent sharp fall in oil prices has not been realized in Nepal because of depreciation of currency. Currency depreciation will not benefit Nepal rather hurt in terms of expensive import and external debt servicing

International Environment for Business and Trade:

Foreign investments could not be attracted as desired despite appropriate policies in place. Though the country has entered into Bilateral Investment Promotion and Protection Agreement (BIPPA) and Double Taxation Avoidance Agreement (DTAA) with some countries for the promotion of investment, investment has not been made as projected. As a landlocked nation, Nepal is heavily dependent on India economically. The industrial sector employs only 3 percent of the population, while the successful cottage industries that produce carpets and garments bring in up to 80 percent of foreign exchange earnings from countries other than India. Exports consist largely of primary produce sent to India, and trade with nations other than India is expanding. Imports include industrial and agricultural inputs such as machinery, fertilizers, petroleum products, and additional primary produce.

Agriculture constitutes most of Nepal's economy, with 81 percent of the population engaged in farming activities that account for over 40 percent of **gross domestic product** (GDP).While efforts to develop the Nepalese economy systematically through the implementation of the govern-ment's 5-year plans have established a basic infrastructure, the benefits have been reaped by the urbanized, educated minority of Nepalese rather than by the rural poor

Macro-Economic situation of Nepal:

In spite of a difficult political-economic context, the macro-economic situation of Nepal remains stable. The growth of GDP in 2011 is estimated to be 4%, due to bad agricultural performance, lower remittances more difficult monetary conditions. The economy depends highly on the trade with India. Moreover strong barriers to its economic development still remain, in particular the poor condition of its road, the inadequate supply of energy and water and lack of transparency in tax administration.in response to the crisis and as part of a macroeconomic stabilization

programme, structural reforms as planned, as well as investment in infrastructure and an improvement in fiscal policy. Priority is given to restoring fiscal balance strengthening the financial system.

Although Nepal has an untapped potential in hydropower and tourism. Corruption, occasional political violence, bureaucracy, insufficient infrastructure, unskilled workforce and a low level of transparency in the legal system tend to discourage investors, such as India, China and the USA which are the first positions.Forigen trade represented more than 50% of the Nepalese GDP in 2011. Although the state policies have been modified with the change of government, the country a seems to be very egar to open its economy. The Nepalese government is showing a special interest in establishing an export-oriented economy. Companies exporting more than 90% of their goods are exempted from custom duties, excise duties and sales taxes. There are major barriers to the development of the trade, such as lack of skilled labour force, low level of advance technology, geographical accessibility, limited domestic market and high import duty. Nepal’s main trading partners are India, china and the USA. The country mainly exports clothing, carpets, lether and jute products, vegetables and cereals towards India, US and Bangladesh.

Openness to Foreign Investment:

Since the April 2008 Constituent Assembly election, Nepal has seen four governments. The current government, formed in August 2011, is led by the Unified Communist Party of Nepal-Maoist, supported by a coalition of regional parties. As with previous governments, the current Government of Nepal has continued its liberal trade and investment policies and states in its public proclamations to foreign investors that Nepal is open for business. However, political instability, labour unrest, continuing bureaucratic delays and inefficiencies, pervasive corruption, and perennial power shortages create an uncertain environment for foreign and private investment.

Nepal policy for Foreign-Trade Zones/Free Ports :

Nepal currently has no Foreign Trade Zones or Free Trade Zones. However, in its annual budget for FY 2008/09, the GON announced its intention to set up Special Economic Zones in 10 different locations – Jhapa, Dhanusha, Birgunj, Dhangadhi, Bahiaraha, Nuwakot, Jumla, Banepa, Mahendranagar, and Panchkhal – the latter three strictly for the information technology sector. Special Economic Zone (SEZ) legislation is currently being drafted. Under the draft act, an industry exporting 75 percent or more of its products would be entitled to apply for a space in a SEZ and import of raw materials and capital goods without paying custom duties, excise taxes or sales taxes. An Industry located in the Special Economic Zone shall be exempted fully from the income tax for five years from the date of commencement of commercial transaction or production, and fifty percent subsequently. The Licensee shall be entitled to full exemption from Value Added Tax chargeable while importing machinery, equipment, spare parts of machine, and necessary raw material.

State Owned Enterprises :

There are 30 state owned enterprises in Nepal. Since 1993, Nepal has initiated numerous market policy and regulatory regime reforms in an effort to open eligible government-controlled sectors to domestic and foreign private investment. The result has been that the majority of private investment has been made into manufacturing and tourism, sectors where there was either very little government interest or the existing state-owned enterprises performed miserably. However, even though some sectors have opened for foreign investment, a large part remains under state monopoly of some form. For instance, regulatory changes allowed 100 percent foreign direct investment in hydropower generation, but distribution of electricity remained under state monopoly, effectively limiting the ability of the private sector to sell electricity. Investors face the added burden of passing through a maze of regulatory requirements and negotiating with multiple agencies in India, while the state-owned Nepal Electrical Authority enjoyed the advantage of using GON influence to negotiate a deal with various Indian agencies.
The Telecommunications Act 1997 and other policies enacted subsequently opened the sector to private investment, but the state-owned Nepal Telecommunications Company often used its influence to deny certain privileges to private sector telecom service operators and indirectly blocked them from expanding their services. The Privatization Act of 1994 generally does not discriminate between national and foreign investors; however, in cases where proposals from two or more investors are identical, the government gives priority to Nepali investors.

Nepal Market Challenges:

Nepal is a landlocked state, which makes market access a challenge. Surface transport into and out of Nepal is constrained, and there is only one reliable road route from India to the Kathmandu Valley. Unrest and general strikes have disrupted movement of goods in and out of Nepal, although the situation has improved over the past two years. The only seaport for entry of goods bound for Nepal is Kolkata, India, about 650 miles from the Nepal-India border.

Political instability, including 20 governments in the past 20 years, has created an uncertain environment for foreign and private investment
.

Government of Nepal (GON) is open to foreign direct investment, but implementation of its policies is often distorted by bureaucratic delays and inefficiency. Foreign investors frequently complain about complex government procedures and a working-level attitude that is more hostile than accommodating.

Foreign investors must deal with a non-transparent legal system, where basic legal procedures are neither quick nor routine. The bureaucracy is generally reluctant to accept legal precedents, and businesses are often forced to re-litigate issues that had been previously settled. Legislation limiting foreign investment in financial, legal, and accounting services has made it difficult for investors to cut through regulatory red tape.

Foreign investors have identified corruption as an obstacle to maintaining and expanding direct investment in Nepal. There are frequent allegations of corruption by Nepali government officials in the distribution of permits and approvals, procurement of goods and services, and award of contracts.

Qualified workers are in short supply. Nepal produces technical manpower but high unemployment and low wages compel many workers to seek jobs overseas.

PRESENT TRADE RELATION AND BUSINESS VOLUME OF DIFFERENT PRODUCT WITH INDIA/GUJARAT

Nepal Present trade relation business volume of different product with India

Nepal's geographical location and historical ties have linked the Nepalese economy irrevocably with India. The prospect for developing export markets with India towards south is easy as there are minimal transportation constraints as compared to the mountainous north.

Moreover, many of Nepal's agricultural and industrial centers are concentrated in the Terai region. In the 1950s, over 90% of the foreign trade was carried on with India but over the years the total amount of trade between India and Nepal has reduced substantially. Nevertheless, despite several attempts to diversify foreign trade and make it less dependent on India, India remains the main trading partner of Nepal.

Most of Nepal's basic consumer goods and industrial machinery and equipment are imported from India whereas agricultural goods are exported to India. Apart from the legal trade between the two countries, there is a huge unrecorded trade, which is carried on between the two countries.

Nepal's trade with other countries other than India involves the transit of goods to and from foreign countries through Indian territory.

Therefore, the smooth transit of goods over India depends on the friendly relations between the two countries. In 1950, under the Treaty of Trade and Commerce between India and Nepal, India agreed to provide transit facilities to Nepal.

Subsequently, custom duties on goods transited through India was waived, 21 border transit points provided and a warehouse in Calcutta port was made available to Nepal for storing goods in transit. India and Nepal signed of Trade and Transit treaties in 1960 and in 1971.

These treaties provided for most favoured nation status to each other on a reciprocal basis and also extension of some preferences by India on a nonreciprocal basis. In 1978, separate treaties for trade and transit were signed between the two governments. In March 1983, this treaty was renewed, which subsequently expired in March 1988. Since a new treaty could not be agreed upon between the two countries, India closed all but two border entry points to Nepal.

The 1989 stalemate in trade negotiations between the two countries, adversely affected the Nepalese economy. Nepal's exports were subjected to high tariffs and import from India also carried increased costs. There was an overall shortage of essential commodities like fire, baby food, medicines, etc.
Eventually, with political changes taking place in both the countries, the trade and transit dispute was finally resolved in June 1990. In order to avoid any economy difficulties, it is therefore, important for Nepal to maintain a friendly relation with India.

Present Trade Relation:

Export in recent years has decreased.a It is due to internal conflict, restrictions from Indian side and phasing out of Quota from 1 January 2005. Exports during the first eight months of the current fiscal year rose by 14.1 percent reaching Rs. 48.56 billion, and at the same time imports also rose by 16.6 percent totaling 295.24 billion. Rates of growth in export and import in the previous fiscal year were 5.9 and 1.3 percent respectively. As such, total trade deficit at Mid-March of 2012 totaled Rs. 246.68 billion with an increase of 17.1 percent in this period, compared to just 0.3 percent growth occurred in the same period of the previous fiscal year. Rise in imports, price rise of petroleum (POL) products, and exchange rate depreciation of Nepalese currency against US Dollar have been the major causes behind such rise in trade deficit.

The major trade partners of Nepal are India, USA, Germany, Belgium, France, Japan, Bangladesh, Republic of China, Italy and Singapore. India is the single largest trade partner since ancient times. India occupies more than 98 percent of trade share (export as well as import) of Nepal in SAARC countries. Trade with Bangladesh is roughly about one percent. Trade with other SAARC countries are negligible or even no trade with some countries. Nepal has never experienced trade balance. Nepal has only certain items to export so far such as cotton, readymade garments, Pasmina, pulses, hides and skins, gold and silver ornaments, handicrafts, tea, Cardamom, Niger seeds, perfume oils and Woolen Carpets etc. Most of the exports are of the raw material in nature, large volume and low profitable, although Nepal's export has changed from agriculture goods in 1980s to manufactured goods after 1990s. As compared to imports, export is decreasing over time. Flow of remittance has increased the imports especially of vehicles, electronics, petroleum products etc whereas, instability and insecurity has decreased the export. Furthermore, abolishment of export quota in 2005 further worsened the trade gap. Trade deficit in the year 2007/08 has reached 22.6 percent of GDP.

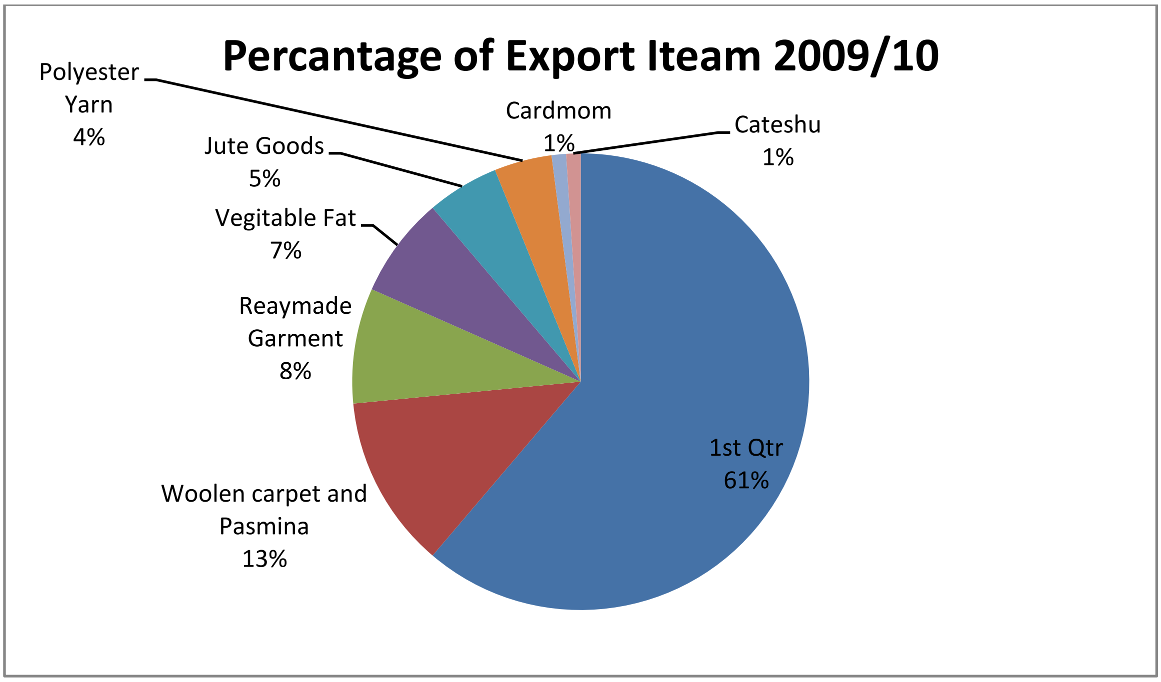
Nepal’s export is confined both in terms of product diversification and destination. Nepal exports very few goods such as Carpet, garments, paper, vegetable fat, yarn, handy-crafts, tea, coffee, leather products etc. The main destination of Nepalese export is mainly India, USA and European Union. Among SAARC countries, India is the biggest export market for Nepalese exporters. Other countries of the region have only two percent market.

<u>Percentage of Export to Different Destinations</u>:

Destination 2006/07 2007/08 2008/09 2009/10 2010/11					
India	**52.9**	**57**	**66.6**	**68.1**	**70.9**
Other Asia	**6.18**	**7.61**	**6.3**	**5.02**	**5.65**
Arica	**0.2**	**0.99**	**0.07**	**0.21**	**0.5**
America	**26.02**	**19**	**13.94**	**12.9**	**10.58**
EU	**13.7**	**14**	**11.85**	**12.26**	**10.96**
Europe	**0.8**	**1.2**	**1.03**	**1.21**	**1.01**
Oceania	**0.2**	**0.2**	**0.21**	**0.3**	**0.4**
Total	**100**	**100**	**100**	**100**	**100**

Export to India and overseas countries in above mentioned table shows the trend from 2006/07 to 2010/11. The export to India continuously increased and that of overseas countries continuously decreased. The share of export to India and overseas was 53 and 47 percent in 2006/07, it reached to 71 and 29 percent in 2009/10 respectively in a period of five years. Among SAARC countries, India occupies almost 98 percent market. In 2009/10, export to India was 97.7 percent followed by Bangladesh 1.2 percent, Bhutan 0.8 percent and

Pakistan 0.3 percent. The export to America sharply decreased from 26.02 percent in 2002/03 to 10.58 percent in 2009/10. Similarly, export to European Union decreased from 13.7 percent to 10.96 percent during the same period. Nepal has a limited number of items to export. The major items are woolen carpet, readymade garments, polyester yarn etc. The figure below shows the export items in 2009/10.



Nepal Improt Trend:-

Over the years, Nepalese imports have increased substantially and undergone major structural changes. Capital goods, industrial raw materials and consumer goods are the major import items.Total imports in the period mid-July 2009 to mid-March 2010 grew by 43.9 percent touching NRs 253.74 billion as compared to 26.3 percent growth in the corresponding period of the previous year. Of the total imports,
the share of India shrunk slightly from the previous year's 56.3 percent to 54.2 percent while that of other countries grew from 43.7 percent to 45.8 percent during this period.In US Dollar term, growth of imports, which stood at 6.6 percent in the previous fiscal year, grew by 45.4percent this year.

Imports from India recorded an increase of 38.5 percent in the period mid-July 2009 to mid-March 2010 reaching NRs 137.41 billion (NRs 116.33 billion from countries
other than India). Imports had recorded a normal growth of 12.1 percent in the same period of the previous year. Total value of goods imported from India through

payments of convertible foreign currency during the above period reached NRs 18.26 billion with a recorded growth of 40 percent. Analysis of group-wise structure of imports of primary and manufactured items from India remains at 36.9 percent and 63.1 percent respectively in the aboveperiod while they stood at 42.2 percent and 57.8 percentrespectively in the same period of the previous year.

Economic Environment:

Economic environment is the important component to affect business organization. If
the economic environment is good, the business organization can get simple opportunities. If it is adverse, they have to face different challenges. Government of Nepal has been trying to make the economic environment favorable to the business organization. The economic environment of Nepal at present can be found as follows:

Economic condition:

Nepal is an agriculture country. About 80 present of its population is engaged in agriculture. So, the Nepalese economic system has depended on agriculture. Nepal lies in the list of very poor countries. The per capita income of a Nepal is 230 US dollars. There is also a great inequality in the distribution of national income. 42.7 percent population is compelled to live below the poverty line; Nepal has adopted mixed economic system. There are socialist model business organizations operated and controlled by the state and there are also capitalist model business organizations operated and controlled by the private entrepreneurs. Nepal's economy has not become fully independent as yet greater part of annual budget depends on foreign aids. Nepal gets aids in soft loan and donations. It is very a backward country in capital formation through collections of saving funds and its effective mobilization. Therefore, Nepal's financial market is in miserable conduct. A lot of effort is needed to improve such miserable economic condition of Nepal.

Trade and Transit policy:

Government of Nepal has implemented trade policy 2049 to simplify and regularize the foreign trade. The objectives of the trade policy 2049 are to create open and liberal environment, to increase domestic and international trade through increasing participation of private sector as to boost up the contribution of this sector to the national economy, to develop trade in sustainable way by gradually reducing trade imbalance, to expand employment oriented trade and link it to the other sectors, to export trade and make it competitive and sustainable. Along with this, proper import and export policy, arrangement for foreign exchange and internal trade policy have been implemented. Nepal has become a member of World Trade Organization- WTO.

Government of Nepal has claimed that Nepal should get unobstructed transit facilities. Till now, it has used Kolkata port as its transit point. Since this route is long and expensive, TU Golden Jubilee Souvenir 147 Nepal has talked with India to give consent to use FoolbariBagalabanda route. As a result of several talks with Indian government, an agreement was signed in June,1997. Since that agreement, Nepal has been using FoolbariBagalabanda route. But some unexpected difficulties have appeared in the use of this route.

Industrial policy :

A proper and suitable industrial policy should be adopted to industrialize the country. So Government of Nepal has adopted Industrial Policy 2049, According to this policy government can gradually handover state ownedenterprises to private sector and it shall not nationalize the private sector companies. The government has adopted the policy to invest in the sectors necessary for the national economy to which the private sectors are not attracted. The government has also forwarded the policy to encourage private sectors to take part in the development and management of community and private forest, small hydropower and road, bridge, tunnel, ropeway, hospital, etc. The industrial policy 2049 has also aimed at reducing unemployment problems by developing employment generating industries, utilizing local resources, giving priority to export oriented industry, amplifying industrial production and productivity to increase contribution of this sector to the national economy. The government has adopted the policy of industrialization for balanced development of the nation.

Privatization policy:

Nepal has adopted mixed economy policy. Due to the failure of state owned public enterprises to give reasonable return of the investment and failure to contribute to the gross domestic product as expected, the government has lost its hope towards them since the 1980s. The sixth plan has mentioned to involve private sector in management of public enterprises. The seven plan declared to handover all the sectors to private sectors except the defense and very important and basic services. The industrial policy 2049 incorporated provision for privatizing all the other sectors except very important enterprises related to public utility and defensesectors. The policy of privatization was developed in BS 2048 and privatization law was enacted in BS 2050 by the parliament. The privatization policy was adopted and implemented with the objective to lessen the financial and administrative burden on the government, to raise productivity by increasing efficiency of public enterprise, to provide capital to the government for alternative use, to raise economic growth rate of country enhancing public participation on industry, and so on. The government has adopted the policy to invest by itself in the sectors to which the private sector is not attracted and in the sectors related to basic needs, public utility, and defense, and nationally very important. The government has no policy to nationalize the private industries. Rather it is encouraging private sectors and has given priority to free and liberal economic system

Trade and agreement of co-operation between Government of india and Nepal:

The Cabinet approved the Revision of Treaty of Trade and Agreement of Co-operation between India and Nepal in the meeting held on 1st October 2009. Subsequently, the Treaty of Trade and the Agreement of Cooperation between the two countries was signed on 27th October, 2009 at Kathmandu, Nepal, by Shri Anand Sharma, Commerce & Industry Minister, and Shri Rajendra Mahato, Minister for Commerce & Supplies, Government of Nepal. The Treaty aims at improving bilateral trade between the two countries by increasing the mutually agreed points of trade, expansion in the list of items included for preferential trade, simplification of trade procedures, improving Nepalese supply capacities, provision of two level institutional mechanisms for problem resolution etc. Salient features of the Revised Treaty of Trade between Government of India and the Government of Nepal are given below:-

- Several new items of export interest to Nepal have been added to the list of primary products giving these items duty free access to India without any quantitative restrictions. These include floriculture products, atta, bran, husk, bristles, herbs, stone aggregates, boulders, sand and gravel.
- In the case of industrial goods produced in Nepal, article V of the treaty provides for duty free and quota free access (on a non reciprocal basis) except in the case of Vanaspati, Acrylic yarn, Copper products and Zinc oxide where a quota of 10,00,00 tonnes, 10,000 tonnes, 10,000 tonnes and 2,500 tonnes has been provided to provide protection to domestic industry.
- Criterion for calculating value addition for granting preferential access to India has been changed from ex-factory basis to FOB basis.
- Four additional Land Customs Stations (LCSs) will be established to facilitate bilateral trade, namely Maheshpur/Thutibari, Sikta-Bhiswabazar, Laukha-Thadi, and Guleria-Murtia.
- International Airport Routes connected by direct flights between Nepal and India (Kathmandu/Delhi, Mumbai, Kolkata and Chennai).
- India would assist Nepal to increase its capacity to trade through improvement in technical standards, quarantine & testing facilities and human resource capacities.

- The time limit for temporary import of machinery and equipment into India for repair and maintenance would be enhanced from three to 10 Years.
- Cross-border flow of trade would be facilitated through simplification and harmonization of custom, transport and other trade-related procedures and development of border infrastructure.
- Removal of discrimination in claiming tax rebates by Indian importers from Nepal on the basis of payment modalities/currencies used for

payment of traded goods. This is expected to bring Indian currency at par in treatment with any other currency being used and once in operation and will make the duty refund procedure simpler.

- Inter-governmental institutional mechanisms at the level of Secretaries to the Government and Joint Secretaries to be set up.
- Revised Treaty and agreement of cooperation to control unauthorized trade for a period of 7 years for renewal as against five years earlier.

Re-export of goods imported by One Contracting Party from the Other Contracting Party to third Countries to be allowed even if no manufacturing activity is carried out by the importing Party.

Bilateral Trade with Nepal

(Value in US $ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2005-06	859.97	379.85	1239.82	480.12
2006-07	927.40	306.02	1233.42	621.38
2007-08	1507.42	628.56	2135.98	878.86
2008-09	1570.15	496.04	2066.19	1074.11
2008-09 (April-Sept.)	870.48	276.40	1146.88	594.08
2009-10 (April-Sept.)*	557.45	286.60	844.05	270.85

A Treaty of Trade and the Agreement of Cooperation between the two countries was signed on 27th October, 2009 at Kathmandu, Nepal, by Shri Anand Sharma, Commerce & Industry Minister, and Shri Rajendra Mahato, Minister for Commerce & Supplies, Government of Nepal. The Treaty aims at improving bilateral trade between the two countries by increasing the mutually agreed points of trade, expansion in the list of items included for preferential trade, simplification of trade procedures, improving Nepalese supply capacities, provision of two level institutional mechanisms for problem resolution etc. An Inter-Governmental Committee (IGC) meeting on Trade, Transit and Cooperation to control unauthorised trade was held on 27-28 January 2010. The Indian delegation was led by Shri Rahul Khullar, Commerce Secretary. Both sides held detailed discussion on various bilateral issues. India's trade with Nepal has increased substantially from US$ 1239.82million in 2005-06 to US$1985.92 million in 2009-10. The trend in trade between India and Nepal is given in Table 7.10.

Bilateral Trade with Nepal

(Value in US$ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2005-06	859.97	379.85	1239.82	480.12
2006-07	927.40	306.02	1233.42	621.38
2007-08	1507.42	628.56	2135.98	878.86
2008-09	1570.15	496.04	2066.19	1074.11
2009-10	1533.31	452.61	1985.92	1080.70
2009-10 (April-Sept.)	689.16	233.81	922.97	455.35
2010-11 (April-Sept.)*	974.02	242.23	1216.25	731.79

PESTEL analysis

Political Factors

The mass movement of April 2006 in Nepal sought to restore parliament for the democratic process to continue and to initiate a peace process for the end of a ten-year long armed conflict. This required the Communist Party of Nepal (Maoist) to join democratic competition which in turn necessitated the devising of a constitution to manage root causes of conflicts afflicting the nation. Hence, a Constituent Assembly (CA) election, that would pave the way for an inclusive state responsive of social diversity and sustainable peace, was seen as the compromise solution among all the political forces. A train of processes and events was thus set off resulting in the advent of current Nepalese politics.

A Comprehensive Peace Agreement (CPA) was signed between an alliance of the seven political parties (six after the merger of Nepali Congress and Nepali Congress-Democratic) and the CPN (Maoist) on November 21, 2006. An Interim Constitution drafted and the restored parliament dissolved to pave the way for an interim legislature and interim government that included the CPN (Maoist) in 2007. The ruling seven-party alliance (SPA) announced substantive structural reforms, such as declaration of the country secular, federal and republican. Civilian control of Nepal Army (NA), nationalization of royal property, empowerment of the Premier as head of state, abolition of the national unification day and substitution of the national anthem were announced as time went by. There were also reform measures such as greater inclusiveness regarding marginalized people in the CA, the bureaucracy and police. However, all these measures have allowed a neo-patrimonial regime to incubate, sapping the political will necessary to alter the policy and strategic development vital to transform the "structural causes of conflicts". This has hindered efforts for cultural, social, economic and political transformation needed to establish a well-organized virtuous state capable of instituting sound democratic governance. The political transition has remained highly turbulent due to the open-ended nature of the conflict system. It is, therefore, hard to say whether Nepal has actually entered a post-conflict phase.

The continuation of high political dynamics in the country now indicates a steady erosion of the writ of state and the low level of constitutional and government's stability. This has resulted in a new bargaining environment for armed non-state actors and movement-oriented ethno- regional forces thus further limiting the scope for complex reforms, both involving long-term institutional restructuring and short-term policy interventions. The weakness of state institutions has further spoiled efforts to promote relief to vulnerable sections of the population and address conflict residues. Social movements of marginalized groups-- women, Dalits (untouchable underclass), Janajatis (ethnic groups), Aadibasis (indigenous groups) and Madhesis (people living in the southern plains) -- for identity, proportional representation, federalism and self-determination and insurrectionary activities of two-dozen non-state armed actors have upset the coherence of state-society relations in an unprecedented manner. While the mainstream parties have interest in restructuring the state, the social forces favor restructuring political parties to expand the social base of politics.

As a result, the SPA has missed three deadlines (June 14 and 20 and November 22) for the CA elections to draft a new constitution. It was forced to amend the Interim Constitution three times in eight months-(May 9, June 14 and December 18) to give in to rising demands that the political process was exacting and to give in to the voice of various agitating groups. Among the provisions included in the amendments the more significant ones empower the parliament to abolish the monarchy, if found plotting against the CA elections, and declare the country a federal democratic republic, subject to ratification by the elected CA, or even before that by a two-thirds legislators if the King poses a threat to the elections. Despite voices emerging for a space for monarchy and efforts of CPN (Maoist), NC and CPN-UML to woo its supporters, King Gynendra remains aloof from the power struggle. All this has not changed the political dynamics for the better. The Madhesi People's Rights Forum (MPRF), a group which organized violent protests in the Tarai where scores of people were killed last year, is demanding a fourth revision of the constitution to address the grievances of the Madhesis.

The peace process kept in limbo by the political events appears to have been finally taken up with the 23-point accord reached among the SPA constituents on 23 December. It finally decided that it would establish a high level Peace Council and the six basic pillars of peace within a month. Accordingly, the National Human Rights Commission of Nepal has been assigned to probe into rights violations during past emergency rule, managing cantonments and providing remuneration to Maoist combatants, return of illegally seized public property, end to forced donation by Maoists, etc. It vows to hold the CA elections by April 10, 2008, has increased the number of seats for CA from 497 to 601 and began a common process of electoral socialization through joint mass meetings. The process is marred by mutual accusations. On January 16, Minister for Peace and Reconstruction R. C. Paudel, made a public call on all the agitating groups for dialogue and facilitate CA elections. He has to be more strategic with the ability to strike a balance between achieving the human rights protection objective and responding to changing narratives of discourse, contexts, actors, issues, rules and political priorities.

The country in the present day is in the transitional phase. The Constituent Assembly Polls being the major issue so various other matters are overlooked. The existing political instability as the constituent election has successfully completed is anticipated to be stabilize, which will certainly help the business environment to become favorable in the country. With so much of instability in Nepalese political sector, it is apparent that the rules and regulations are unstable as well.

To sum up, because of the unorganized political sectors it is pretty hard for business bodies to carry on the plans within the specified time frame. Thus, the unnecessary red tape and the bureaucratic systems of the government have been creating an intense problem for the service sector to grow.

Economic factors

Nepal is facing increasing inflation day by day. The economic environment consists of factors that affect consumer purchasing power and spending patterns and it depends on income level, price, savings, and availability of credit. The purchasing power of Nepalese people is very low due to political instability, higher inflation rate and unemployment. The recent slowdown economy is principally led by contraction in manufacturing and tourism industry, and steep drop in exports.

Nepal has a very weak middle class and poor mediating agencies to protect the rights and welfare of the poor. Tax contributes 12 percent to GDP and the contribution of public sector output to GDP is only about 7 percent. Foreign aid constitutes 70 percent of development outlays. Domestic revenue raising capacity is very poor. Easy borrowing from international institutions has established the government's autonomy from their tax paying citizens. As a result, the government is less concerned with institutional capacity of the state to deliver governance goals. The substantial contribution of remittance to GDP (17 percent) too has detrimental effect on the accountability of government. GDP growth rate of 2.3 percent hardly balances out the population growth of 2.2 percent. The daily per capita income of $ 1 puts Nepal's human security condition at the bottom of world development statistics. Feudalism, caste hierarchy and patriarchy have suppressed social mobility of the underclass. This lack of social and economic security has made Nepal's politics highly inflammable amidst radical appeals and growing frustration.

Nepal's bureaucracy, police and public institutions are highly politicized along partisan lines, de-motivated, show poor esprit de corps and weak to enforce rule of law and deliver essential public services. "The rulers have no trust in the constitution, leading to its failure," Chairman of the Constitution Drafting Committee, Laxman Aryal said on January 15. To him, the constitution emerged as a compromise among SPA constituents for the transition politics until the CA election is conducted. It, therefore, does not hold the principles of constitutionalism. He added, "We saw nothing during its first year, but chaos and deterioration of law and order." This condition has made national integrity system ineffective in controlling crime, corruption and impunity. Public institutions and enterprises are still monopolized by ruling parties. Sense of public trust in the authority, assuming that the government is trustworthy and acting in the public interest, is sharply declining. Lack of a boundary between leaders' personal and institutional interests has given birth to a political culture of clientalism although new social movements of women, youth, Dalits, indigenous people and ethnic groups are increasingly challenging the position of authority fixed at birth, lineage and patronage. They are seeking to remold the pre-modern political culture of mutual distrust, betrayal and revenge and into post-conflict modern culture of a shared future based on social justice, democracy and peace.

Socio-cultural factors

Socio-cultural environment is composed of various class, structure, beliefs, values, social institutions, accepted patterns of behavior, customs of people and their expectations.Socio-cultural environment influences the demand and supply of goods and services. The trend of leaving the country and staying abroad is arising due to better lifestyle and to enhance their living condition. Lack of opportunity for youth, political instability, insurgency and educational purposes are major reasons for leaving the country. Due to this, the income level of families has rise. Society's habits and tastes are changing. People are being educated and are more aware of the importance of the environment and health and prefers environmentally-friendly' products.

The media and the political leaders have generated unrealistic expectations among the population that the CA is the panacea that will fulfill all their needs and desires. It was important to cast the message that CA is meant to frame a draft of the constitution and the necessary laws for governance. People at the grassroots level are expecting informed and reason-based knowledge about the constitution-making process, the suitability of the election system, improvement in security and are concerned about political stability, cooperation from outside, avoidance of unnecessary foreign intervention, knowledge about the modern state, functions of political systems, government, political parties and leadership, enfranchisement of citizens and their stake-holding in public institutions, social cohesion, support in education, health and economic activities and social justice. Minorities are increasingly questioning about their human rights in a majority dominated federal state. They want to know about their role in the multi-staged negotiation with the CA, suitability of federalism, concept of a republic and the vision of a New Nepal. Ordinary people also ask about the mixed election system that has been adopted and which presents a new challenge- what with the twin-ballot paper for voters and administration.

FES training series on civic education has created a synergy as demands for such activities from various quarters have increased, advocacy documents have been utilized by all sides, resource persons interviewed by the media and published in the local papers. They were even involved in non-partners' activities with the same advocacy resources. In general, our programs have strengthened the civic competence of citizens as they can debate on equal terms with their leaders and contest their view points. In many conflict-hit places, our activities provided space for dialogue among heterogeneous participants and directly contributed to building public opinion, democratic will-formation and reconciliation. We also tried to encourage participants to speak up and share their views rather than just receiving top-down dissemination of knowledge and information. In many places, they suggested to us to provide training to central level leadership and demanded more seminars in the districts and villages so that dialogues across diverse communities can build trust between conflict-torn societal groups and improve their relations with the state.

Technological Factors

Technological environment refers to all the technical surroundings that affect business. It includes skills, methods, systems and equipment. Businesses are continually developing new technologies to provide the best solutions for the market place. Intelligent companies find out what the most appropriate technologies are for their businesses and use them. This is particularly true in transport and tourism and agricultural sector of Nepal.

Environmental factors

Environmental factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance which is the backbone of Nepal's economy.. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones for agricultural and animal related products which Nepal mainly exports to India and other countries.

Legal factor

The Nepalese army has expressed its commitment to democracy and a nationally-owned security sector reforms. But, Chief of Army Staff, Gen. R. Katawal clearly said "No" to integrate the CPN (Maoist) combatants. The UN has verified 19,602 politically indoctrinated People's Liberation Army (PLA) out of its total force of over 32,000. Premier G. P Koirala agrees with the army's viewpoint and has given options to Maoists- to integrate the PLA into industrial security groups or give them priority in foreign employment. Nepal's total strength of security forces stands at 165,000-- NA (92,000), the civilian police (48,000) and Armed Police Force (25,000). The NA is holed up inside barracks as per the peace accord. The existence of these two adversarial structures does not provide any incentive for confidence building and to pursue a viable peace process for the future. Similarly, without disarming all autonomous armed groups and improving civil-military relations, the chances of free and fair elections remain fragile.

Erosion of state monopoly on power, taxation and loyalty of citizens, growth of competitive violence and failure of statehood in governance have confiscated the state's capacity to provide security in the country. As a result the ability of the political system to maintain balance of power between different governance organs is severely undermined which is telling on its capacity to enforce rule of law, provide service delivery and resolve the multi-layered conflict. SPA's control over the legislature, the executive control over the judiciary and a lack of legitimate opposition have established monopoly rule. There is an absence of institutions protecting property rights and promotion of collective goods. With so much of instability in Nepalese political sector, it is apparent that the rules and regulations are unstable as well. Hence, it is very important for any company to be extra cautious and adaptive to the changes in the policies regarding the laws and legislations. From 2010 Nepal is entering in WTO, as part of an initiative called Carbon Reduction Commitment, These credits will permit companies to generate specific quantities of carbon emissions.

PART – 02 **SEM. – 04**

BANKING INDUSTRY: NEPAL BANK LIMITED AND STATE BANK OF INDIA

Introduction

Nepal Bank Limited, The first bank of Nepal was established in November 15, 1937 A.D (Kartik, 30, 1994). It was formed under the principle of Joint venture (Joint venture between govt. & general public). NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country.

Objectives:

Nepal Bank Limited has the following objectives:

- Focus on building the positive net worth and meeting minimum capital requirement over the coming five years.
- Focus on increasing the customer base and market share.
- Maximize the potential/efficency of bank's staff.

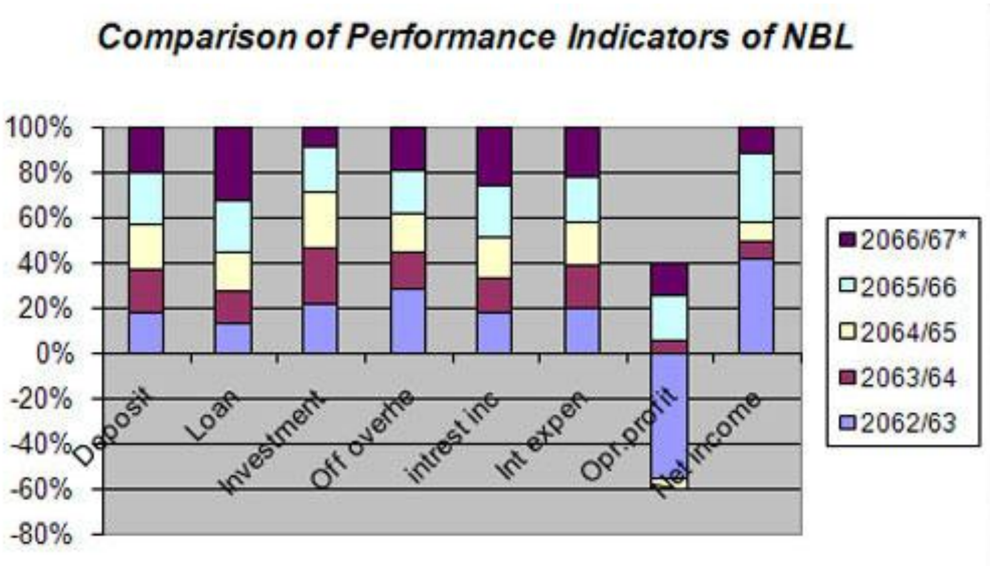
- Focus on minimizing the risk associated with the business.
- Focus on providing the world class business solutions.
- Focus on increasing the sustainable profit.

NBL Network Overview

Region wise branches	No of Branches
Kathmandu Region	28
Biratnagar Region	28
Birgunj Region	19
Pokhara Region	21
Nepalgunj Region	16
Total no of Branches*	***112***

No. of Staff: 2815 (As of Nov 14, 2011)

Financial position of the Bank



Present Capital Structure of NBL

Table of Financial Indicators:

Particulars	060/61	061/62	62/63
Paid up Capital	380,383	380,383	380,383
Core Capital	-9,252,399	-7,522,269	-6,374,479
Capital Fund	-8,901,430	-7,127,284	-5,853,918
Total Loan & Advances	17,937,658	16,866,546	12,441,554
Total Investment	11,004,820	14,199,216	14,490,247
NPL	9,640,082	8,372,108	2,262,183
Total Deposit	35,735,044	35,934,164	35,829,765
Saving	22,198,772	23,482,868	24,113,875
Current	5,357,137	5,649,052	5,880,370
Fixed	7,809,759	6,185,066	5,216,038
Foreign Currency	191,630	203,980	172,379
Other	177,746	413,197	447,103
Net worth Per Share	(2)	(2)	(2)
Earning Per Share (Rs)	187	455	317
Loan Loss Provision	113,096	381,437	483,683
Return to Assets (%)	2	5	3
Return to Equity			
Net Profit/Loss	710,391	1,730,130	1,207,265

State Bank Of India:

SBI (State Bank Of India) is the largest bank of India. It is considered as 29th most reputable company in the world according to Forbes. It is one of big four banks of India with ICICI bank, Axis bank and HDFC Bank.
State Bank of India (SBI) was nationalized in July 1955 under the SBI Act of 1955. Seven banks of SBI formed subsidiary and was nationalized on 19th July, 1960. The State Bank of India is India's largest commercial bank, as already said above. It serves 90 million customers through a network of 9,000 branches. It has largest ATM network all over India.
There are six associate banks that fall under SBI, and together these six banks constitute the State Bank Group. All use the same logo of a blue keyhole and all the associates use the "State Bank of" name followed by the regional headquarters' name.
SBI Bank India has 52 Foreign Offices in 34 countries. SBI India serves the international needs of its foreign customers, in addition to conducting retail operations. The focus of the offices of SBI is India-related business. Few of the countries where SBI Bank has branches are as under:

1. Australia
2. Bahamas
3. Bahrain
4. Bangladesh
5. Belgium
6. Bhutan
7. Canada
8. France
9. Germany

And also other than these are USA, UK, South Africa and Sri Lanka.

Functions of SBI:

What are major functions of State Bank of India that are served? Let's try to find answer of that question then we will continue to discuss about its contribution to industrial development of India.
As it comes under the category of Public/Nationalized banks, so it has directly link with public and other banks too. The State bank of India acts as an agent of the Reserve Bank of India and performs the following functions:

1. It borrows money from the public by accepting deposits such as current account deposits, fixed deposits and saving deposits.
2. It lends money to merchants and manufacturers for short periods. It also lends to farmers and co-operative institutions.
3. It acts actually as the banker's bank. In discharging this responsibility, the bank provides loans to commercial bank when required and also re-discount their bill. It also acts as the clearing house of the commercial bank.
4. State Bank of India also acts as an agent of Reserve bank of India. As an agent, the State bank of India maintains the treasuries of the State Government.

5. It also performs various subsidiary services also. It collects checks, drafts, bills of exchange, dividends interest, salaries and pensions on behalf of its customers.
So these are some of the functions that are performed by SBI.

INTRODUCTION

The State Bank of India is the oldest and largest bank in India, with more than $250 billion (USD) in Assets . It is the second-largest bank in the world in number of branches; it opened its 10,000th branch in 2008. The bank has 84 international branches located in 32 countries and approximately 8,500 ATMs . Additionally, SBI has controlling or complete interest in a number of affiliate banks, resulting in the availability of banking services at more than 14,600 branches and nearly 10,000 ATMs .

SBI traces its heritage to the 1806 formation of the Bank of Calcutta. The bank was renamed the Bank of Bengal in 1809 and operated as one of the three premier "presidency" banks (the presidency banks had the exclusive rights to manage and circulate currency and were provided capital to establish branch networks). In 1921, the government consolidated the three presidency banks into the Imperial Bank of India. The Imperial Bank of India continued until 1955, when India's

• The State Bank of India (SBI), the largest and oldest bank in India, had computerized its branches in the 1990s, but it was losing market share to private-sector banks that had implemented more modern centralized core processing systems.

• To remain competitive with its private-sector counterparts, in 2002, SBI began the largest implementation of a centralized core system ever undertaken in the banking industry.

• The State Bank of India selected Tata Consultancy Services to customize the software, implement the new core system, and provide ongoing operational support for its centralized information technology.

• Although SBI initially planned to convert only 3,300 of its branches, it was so successful that it expanded the project to include all of the more than 14,600 SBI and affiliate bank branches.

• The State Bank of India has achieved its goal of offering its full range of products and services to all its branches and customers, spreading economic growth to rural areas and providing financial inclusion for all of India's citizens

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1central bank, the Reserve Bank of India, acquired the majority interest in the bank and changed its

name to the State Bank of India (SBI).

In 1959, the Indian government passed the State Bank of India Act, resulting in the acquisition

(majority shareholding) of eight state-affiliated banks and the creation of the State Bank of India

Group (SBI Group). The SBI itself is now majority owned by the Indian government, which

purchased the shares held by the Reserve Bank of India.

Critical Success Factors

Large-scale core systems implementations are typically the most costly and risky IT projects

undertaken by banks. Failures of core systems projects are not uncommon at large banks and

result in both financial impact and lost business opportunities. Further, failed projects lead other

banks to delay needed core systems replacements because they measure the risk of failure against the potential benefits of a new system.

TowerGroup believes that several critical factors contributed to the success of the SBI core implementation effort:

- Senior management commitment. The project was driven by the chairman of SBI, who met every month with the information technology (IT) and the business sector heads. The chairman monitored the overall status and ensured that sufficient resources were allocated to the project. TCS senior managers were thoroughly committed to the project as well and periodically met with the SBI chairman to review the project status.
- Staffing and empowerment of project team. The core banking team consisted of the bank's managing director of IT acting as team head and 75 business and IT people selected by the bank. TCS also staffed the project with approximately 300 IT professionals trained on the BaNCS system. Importantly, the SBI business people were viewed not just as contributors to a key project but as future bank leaders. This team reported to the SBI chairman and was empowered with all decision-making authority.
- Ownership by business heads. The regional business line heads were responsible for the success of conversion of their respective branches and reported the status to the chairman. Thus, the business heads' objectives were aligned with those of the project team.
- Focus on training. SBI used its network of 58 training centers across India to train employees on the new system. TCS personnel first educated approximately 100 SBI professional trainers, who then trained 100,000 SBI employees at the centers; the remaining employe trained at their respective job sites.

Present position of SBI

Structure

Current Board of Directors

As on 14 January 2013, there are fifteen members in the SBI board of directors:-

- Pratip Chaudhuri (Chairman)
- Hemant G. Contractor (Managing Director)
- Diwakar Gupta (Managing Director)
- A. Krishna Kumar (Managing Director)
- S. Visvanathan (Managing Director)
- S. Venkatachalam (Director)

- D. Sundaram (Director)
- Parthasarathy Iyengar (Director)
- Thomas Mathew (Director)
- S.K. Mukherjee (Officer Employee Director)
- Rajiv Kumar (Director)
- Jyoti Bhushan Mohapatra (Workmen Employee Director)
- Deepak Amin (Director)
- Harichandra Bahadur Singh (Director)
- D. K. Mittal (Director)

- ## Logo and slogan

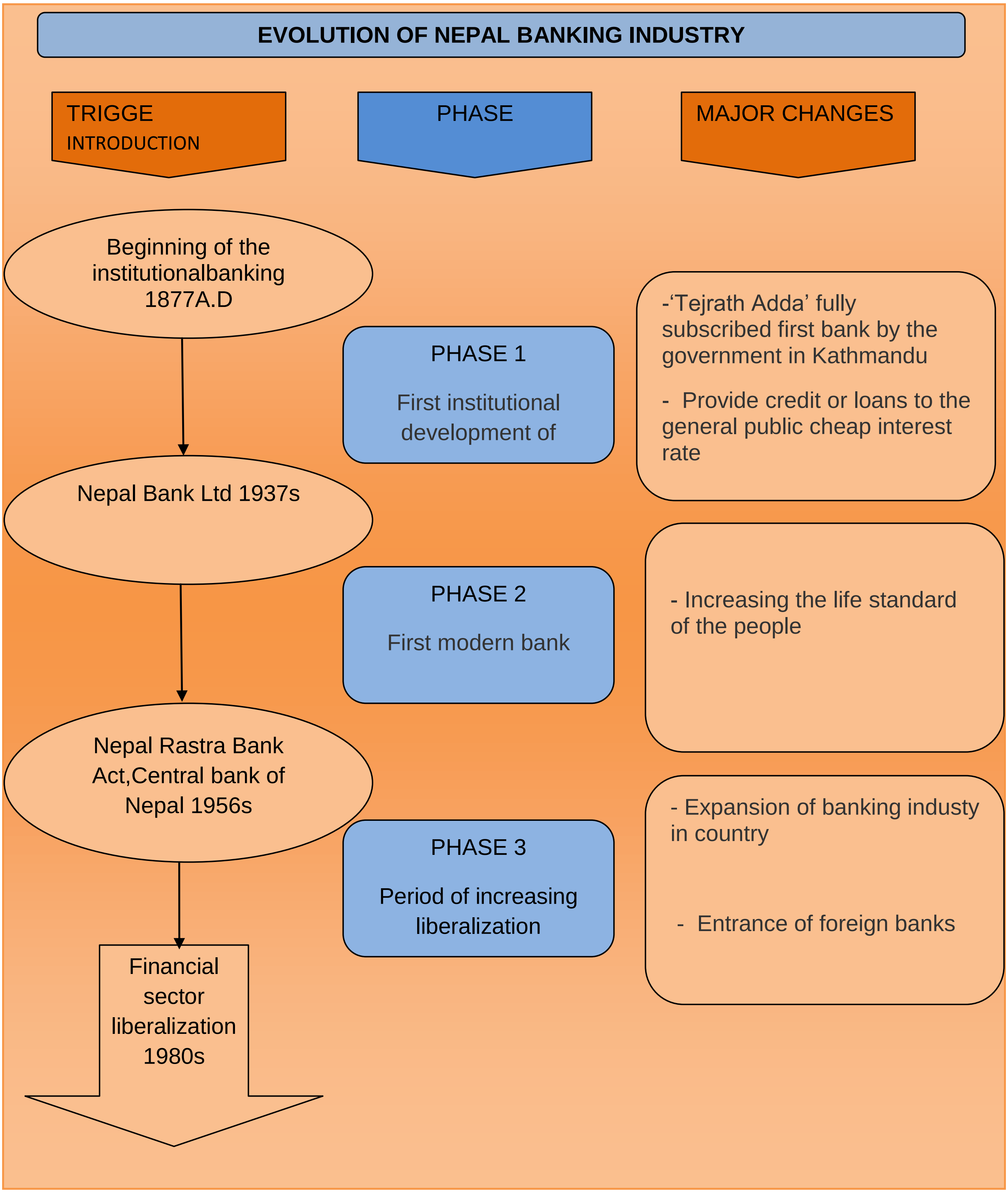
- The logo of the State Bank of India is a blue circle with a small cut in the bottom that depicts perfection and the small man the common man - being the center of the bank's business.
- Slogans: "PURE BANKING, NOTHING ELSE", "WITH YOU - ALL THE WAY", "A BANK OF THE COMMON MAN", "THE BANKER TO EVERY INDIAN", "THE NATION BANKS ON US".

Recent awards and recognitions

- Best Online Banking Award, Best Customer Initiative Award & Best Risk Management Award (Runner Up) by IBA Banking Technology Awards 2010
- The Bank of the year 2009, India (won the second year in a row) by The Banker Magazine
- Best Bank – Large and Most Socially Responsible Bank by the Business Bank Awards 2009
- Best Bank 2009 by Business India
- The Most Trusted Brand 2009 by The Economic Times
- Most Preferred Bank & Most preferred Home loan provider by CNBC
- Visionaries of Financial Inclusion By FINO
- Technology Bank of the Year by IBA Banking Technology Awards
- SKOCH Award 2010 for Virtual co

Major competitor

Some of the major competitors for SBI in the banking sector are ICICI Bank, HDFC Bank, Axis Bank, Punjab National Bank and Bank of Baroda. However in terms of average market share, SBI is by far the largest player in the market.



Currant Scenario Of Nepal Banking Industry

- Today, the banking sector is more liberalized and modernized and systematic managed. There are various types of bank working in modern banking system in Nepal.

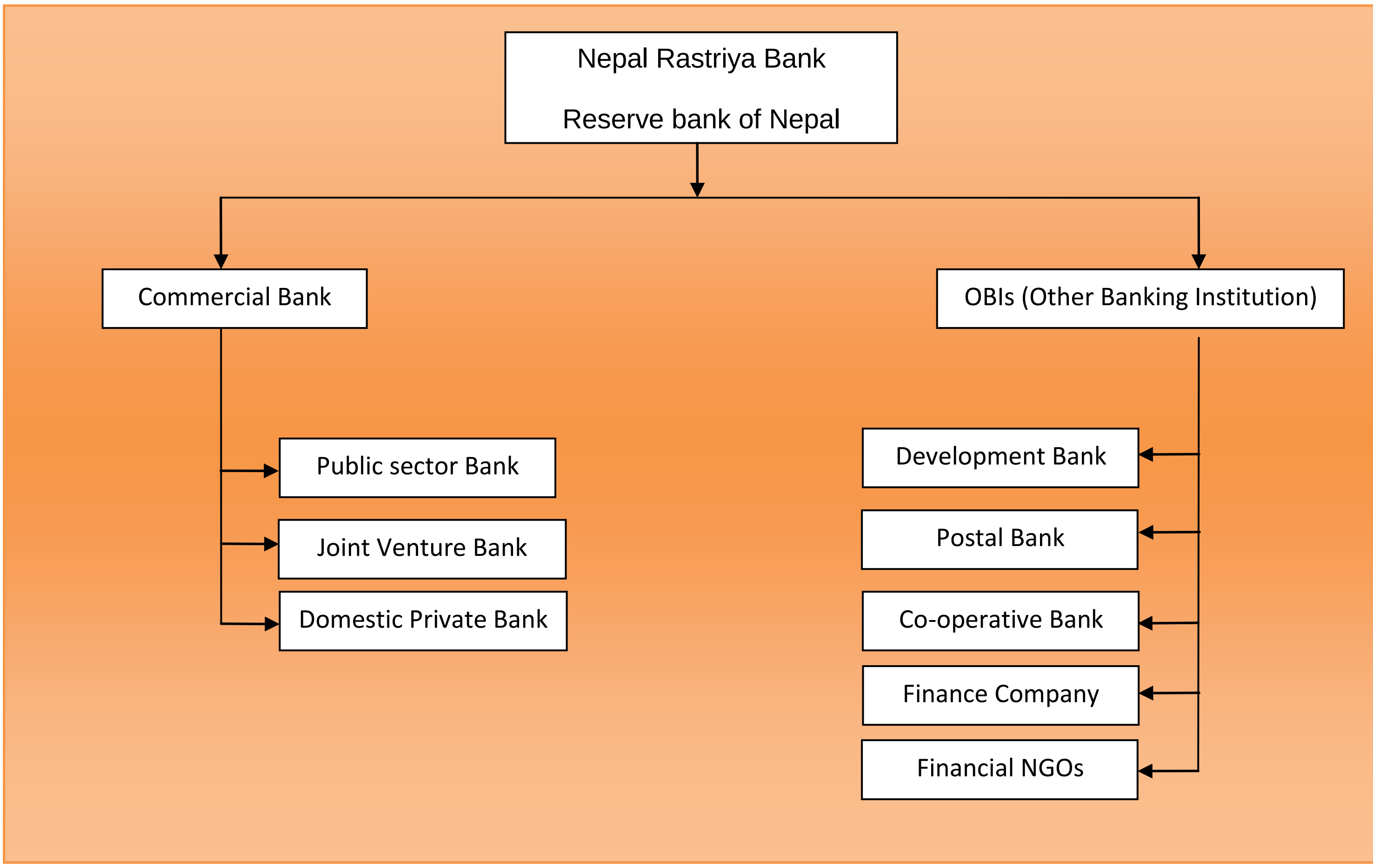
- It includes central, development, commercial, financial, co-operative and Micro Credit (Grameen) banks. Technology is changing day by day.
- Changed technology affects the traditional method of the service of bank.Banking software, ATM, E-banking, Mobile Banking, Debit Card, Credit Card, Prepaid Card etc. services are available in banking system in Nepal. It helps both customer and banks to operate and conduct activities more efficiently and effectively.
- For the development of banking system in Nepal, NRB refresh and change in financial sector policies, regulations and institutional developments in 1980 A.D.
- Government emphasized the role of the private sector for the investment in the financial sector. These policies opened the doors for foreigners to enter into banking sector in Nepal under joint venture.
- Some foreign ventures are also established in Nepal such as Nepal Bangladesh Bank, Standard Chartered Bank, Nepal Arab Bank, State Bank of India, ICICI Bank, Everest Bank, Himalayan Bank, Bank of Kathmandu, Nepal Indo-Suez Bank and Nepal Sri Lanka Merchant Bank etc.
- Currently banking industry expanded rapidly in different region of Nepal. Chart no. shows the number of branches region wise in Nepal.

Structure of Nepal Banking Industry

The establishment of Nepal Rastra Bank was, thus, a landmark in the history of financial development of Nepal. Banking and financial system could attain certain shape and evolved with structural changes. It developed necessary financial mechanism within the financial system. The role of different types of financial institutions was important to link the savers and investors and promote

entrepreneurship in the economy. Realizing the importance of saving mobilization for economic development, Nepal Rastra Bank has followed the *supply leading approach* (Patrick, 1966) of finance for the 'start-up' as well as expansion of economic activities. Thus, the creation of financial institutions was motivated to the supply of more financial assets, which were crucial on the efforts of planned development.

Chart no. Structure of Banking Industry



NEPAL RASTRA BANK: OBJECTIVES AND FUNCTIONS

Nepal Rastra Bank, the apex financial institution was established under the Nepal Rastra Bank Act, 1955. The act had envisaged the objectives as managing the issue of Nepalese currency; encouraging economic activities by developing banking and financial system; maintaining exchange rate and price stability and acting as the banker to the government. At the time of establishment, eliminating the dual currency system and development of the financial system were great challenges. The Bank has played crucial role on maintaining interest rate and exchange rate stability for the overall growth and stability of the economy. On behalf of the government, the bank has established its relationship with regional and international financial institutions, like SEACEN, SEANZA, APRACA, Asian Development Bank, International Monetary Fund, and the World Bank etc. The bank has been playing developmental and promotional functions for the institutionalization of savings through the cultivation of banking habit among people at large, extension of banking services, establishment of specialized financial institutions, particularly in the rural areas of the country. Further, the Banks and Financial Institutions Ordinance (2003) has provided more authority to the bank, in order to regulate and supervise the banks and financial institutions and ensure a sound, healthy, competitive and efficient financial system, ultimately to contribute for the expansion of economic activities.

Objectives of Bank

Nepal Rastra Bank Act, 2002 has specified following objectives of the Bank to maintain price, exchange rate and financial stability and efficient payment system.

- To formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for sustainable development of economy, and manage it
- To promote stability and liquidity required in banking and financial sector;
- To develop a secure, healthy and efficient system of payment;
- To regulate, inspect, supervise and monitor the banking and financial system;
- To promote entire banking and financial system of the Kingdom of Nepal and to enhance its public credibility.

Functions of Nepal Rastra Bank

In order to accomplish above-mentioned objectives, Nepal Rastra Bank has classified its functions in four functional groups such as monetary and foreign exchange policy, banking operation, regulation and supervision and support service. Nepal Rastra Bank Act 2002 has provided the Bank with adequate authority as well as independence from the government in order to carry out its functions more effectively and more efficiently.

- Formulation and implementation of monetary and exchange rate policy is the major function of Nepal Rastra Bank so as to ensure price and exchange rate stability. It is the bank's responsibility to ensure money and credit are available to expand long term potential growth trend under conditions of relatively low level of inflation.

- Supervision and regulation of the financial system is directed at promoting the safety and soundness of the depository institutions. It ensures the banks are operated prudently in accordance with statues and regulations.
- The offsite surveillance and on site supervision ensures the financial condition of individual banks and financial institutions and compliance with existing regulations. Banks are required to submit reports of their activities and financial conditions on a regular basis and to publish their financial statements and interest rates on lending and deposits. It is the responsibilities of the banks and financial institutions to comply NRB rules and regulations. Regulations protect the customers, depositors, investors as well as owners of the banks. NRB ensures the compliance of such regulations through effective supervision. In order to undertake these responsibilities the NRB monitors over the financial institutions, investigates customers' complaints, reviews accounting standards and requires banks and financial institutions to report their financial activities on a regular basis. Payment system is the major part of a financial system. Financial system necessarily eases the inconveniencies in payment of goods and services to settle financial deeds and in turn, acquire financial securities. Any disruption in the payment mechanism may seriously affect the economy as a whole. Development and upholding of a safe and efficient payments system is the responsibility of a central bank. The NRB facilitates the financial system with adequate supply of currency and coins as well as clearing cheques.
- As the fiscal agent of the government, and bank to the government Nepal Rastra Bank furnishes banking services to the government. It issues the treasury bills, redeems government securities, and provides financial services. Nepal Rastra Bank maintains financial relationship with foreign government, International Financial Institutions (IFIs) and foreign central banks.

Ownership and Control

- On the basis of ownership, the commercial banks in Nepal can be categorized as public and private banks. As of mid July 2011 there are 3 public sector banks and 28 private sector banks. Rastriya Banijya Bank Limited is the largest bank of Nepal in terms of deposit mobilization and is fully owned by the government of Nepal. The Government of Nepal owns 40.50 percent ownership in the equity capital of Nepal Bank Limited, the next Public Sector Bank. The Government of Nepal now owns 53.5 percent shares of Agriculture Development Bank Limited that was initially established as a development bank with 100 percent government ownership and was upgraded to commercial bank in 2006. Moreover, the Government of Nepal invested Rs. 6.7 billion in irredeemable preference shares and Rs.2.3 billion in redeemable preference shares issued by Agriculture Development Bank Limited. The financial health of public banks was very poor and thus a reform program was initiated in these banks under the Financial Sector Reform Project with the technical assistance of the World Bank and DFID.

- The private sector banks in Nepal can be further re-grouped into the local private banks and foreign joint-venture banks. The banks with the local private investment are local private banks while the banks with joint investment of both foreign institutions and local investors are joint-venture banks. As at mid July 2011, there were seven private joint venture banks, and 21 locally owned banks.

Business Activity of Nepal Banking Industry

Depository Institutions

Depository institutions are comprised of commercial banks and other banking institutions that are involved in deposit mobilization and credit allocation. Other banking institutions include finance companies and development banks. Saving and credit co-operatives (FINCOOP) and Non-Governmental Organizations authorized for limited banking transactions are also grouped into depository institutions. Large portions of the liabilities issued by these financial intermediaries are deposits. Market shares of deposit taking banks and financial institutions are given in following table.

The NRB classify the institutions into “A” “B” “C” “D” groups on the basis of the minimum paid-up capital and provide the suitable license to the bank or financial institution. Group ‘A’ is for commercial bank, ‘B’ for the development bank, ‘C’ for the financial institution and ‘D’ for the Micro Finance Development Banks.

Classification Financial Institutions in Nepal

S.N.	Type of financial Institutions	Class	2009	2010	2011
1	Commercial Banks	A	26	27	31
2	Development Banks	B	63	79	87
3	Finance Companies	C	77	79	79
4	Micro Finance Development Banks	D	15	18	21
5	Saving and Credit Co-operatives	Non-classified	16	15	16
6	Non-Government Organizations	Non-classified	45	45	38
	Total		**242**	**263**	**272**

Commercial Banks

The commercial banks are currently regarded as key driver of financial institutions of Nepal. Financial services sector had commenced with the establishment of Nepal Bank Limited in 1937 (Baral, 2005). After the liberalization in the mid 1980s, the government permitted the opening of commercial banks in joint venture with foreign banks. Since then, the Nepalese financial system has undergone rapid structural changes, with a large number of financial institutions expose and display of financial products and services.

There are presently 263 financial institutions among them 31 are commercial banks .The market size of both the joint venture and domestic private banks has been increasing at the expense of the public sector banks, which are shrinking over time. The commercial banks are divided into three separate groups based on ownership namely,

- Public sector banks
- Joint venture banks
- Domestic private banks.

COMPARATIVE POSITION NEPAL BANKING INDUSTRY

Nepal International Relation

Constitutionally Nepalese foreign policy is guided by "the principles of the United Nations Charter, nonalignment, Panchasheel (five principles of peaceful coexistence), international law and the value of world peace." The fundamental objective of the foreign policy is to enhance the dignity of Nepal in the international arena by maintaining the sovereignty, integrity and independence of the country. Before 1951, Nepal's foreign relation was limited with four countries; namely – India, United Kingdom, USA and France. After membership of the United Nations in 1955, extension of diplomatic relations with various countries of the world increased considerably, with the diplomatic relationship to 118 countries around the world up to 2010. Membership and active participation on regional and international forums and organizations such as SAARC, BIMSTEC, WTO, World Bank, Asian Development Bank and UN Agencies is making Nepalese foreign relation effective and broad.

CROSS COUNTRY COMPARISONS OF NEPAL BANKING INDUSTRY

- An efficient banking system is recognized as basic requirement for the economic development of any economy.
- Cross-country comparisons can reveal trends and norms that might be useful in debates about national banking and financial policies, and an awareness of banking and financial systems in other countries can promote the realization that national financial policies are likely to have an impact across borders.

- Especially developing countries, the banking system is the dominant component of the financial system.
- Cross-country comparisons can add insight into basic issues in banking that may not emerge, or are only partially discernible, from single-country analyses.
- In context of this cross country comparison of banking industry help lot. For Nepal,Indian banking industry is immediate to compare, although India is greater than Nepal geographically, population and infrastructure wise.
- Comparisons of banking industry mainly on key factors, which as follow:

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BANKING INDUSTRY COMPARISONS- NEPAL AND INDIA

- **Financial Growth**

  Prior to the 1990s, relatively little research was directed to the financial system fostered economic growth. The prevailing view was that economic growth leads financial sector growth, which responded to the wider and deeper development of markets for goods and services.

  - Indian economy has been witnessing a phenomenal growth since the last decade. The GDP growth rate in 2011-12 was 6.5% in 2011 as compared to 8.6% in 2010-11, 7.4 % in 2009-10 and 6.7% in 2008-09. The economic growth in 2011-12 has been broad based on the raise in foreign trade. Today, India is seen as a vibrant economy and there are ample business opportunities to do business in India. India offers huge investment potential in several sectors like infrastructure, retail, real estate, automobiles, food processing, information technology, knowledge process outsourcing, business process outsourcing, healthcare, telecom among many others. With the policy regime being increasingly liberalized, India is able to woo the investors from across the globe.

  - While Nepal economy grew by only 3.8 % in 2008-2009, 4 % in 2009-10 and 3.5 per cent in 2010-11. The country's economy witnessed slower growth last year due to decrease in remittances, correction in the real estate market and volatile political environment. According to Nepal Economic Outlook 2012, Nepal's economy will grow rate was of 4.6 % in 2011-12. Fiscal year 2011/12 offered mixed results for Nepalese as the per capita income jumped to $742 while the per capita debt burden expanded by over 21 % to almost $238. Economic Survey 2012 showed the country's debt to GDP ratio jumped to 32.7 per cent from 30.3 per cent of a year ago. The report also confirmed that the government failed to meet the economic growth rate target despite record cereal production, which improved the food availability situation at the grass-roots level. The year 2012 is critical to economy due to prolonged instability and uncertain politics, according to entrepreneurs. Meanwhile, Nepal's government has recently announced a partial budget only for four months of the fiscal year 2012-13 amounting to Rs161.02 billion, which is just the one-third of the total estimated budget. This is just the one third of the total estimated government budget for the new fiscal year beginning July 16. While announcing the new budget, the Nepalese Finance Minister claimed the economic growth in 2011-12 was the highest in three years and that the government would continue big projects in Nepal despite the announcement of partial budget. The country is currently passing through a deeper political crisis.

- **Ownership of Banking**

The ownership of banks is a key structural characteristic of banking. Two facets in particular have received attention: the degree of government vs. private sector ownership of banks and foreign vs. domestic ownership of banks.

The international banking crises of the mid-to-late 1990s, analysts and policy-makers developed a keen interest in the degree to which the government is involved in a banking system. In general, government ownership of banks is likely to short-circuit market pressures on banks to make credit extension and investment decisions based on economic assessments of risk and return. Foreign banks may perform differently in economies at different income levels, and hence their overall impact on the host economy may vary Foreign bank entry tends to benefit the host country, particularly in emerging markets.

  - The Indian banking sector has two kinds of scheduled banks i.e. scheduled commercial banks and scheduled co-operative banks. Under the first category of scheduled banks, four types of entities have found based on their establishments and legal obligations. They are 28 Public banks, 25 Private Banks, 29 Foreign Banks working in India , 91 Regional Rural Banks. The second category of scheduled cooperative banks consists of 55 Scheduled Urban Co-operative banks and 16 Scheduled State Co-operative Banks.

- On the basis of ownership, the commercial banks in Nepal can be categorized as public and private banks. As of mid July 2011 there are 3 public sector banks and 28 private sector banks. Rastriya Banijya Bank Limited is the largest bank of Nepal in terms of deposit mobilization and is fully owned by the government of Nepal. The Government of Nepal owns 40.50 percent ownership in the equity capital of Nepal Bank Limited, the next Public Sector Bank. The Government of Nepal now owns 53.5 percent shares of Agriculture Development Bank Limited that was initially established as a development bank with 100 percent government ownership and was upgraded to commercial bank in 2006.

  The private sector banks in Nepal can be further re-grouped into the local private banks and foreign joint-venture banks. The banks with the local private investment are local private banks while the banks with joint investment of both foreign institutions and local investors are joint-venture banks. As at mid July 2011, there were seven private joint venture banks, and 21 locally owned banks.

- **Regulator and Supervisor of Banking Industry**

The banking industry is regarded as being different from other industries. The reasoning for regarding banks as “special” are provide transactions services and administer the payments system, supply backup liquidity, are the conduit through which monetary policy is administered. Therefore being backbone of economy a strong regulatory and supervisory authority to watch on banking industry.

- India banking industry regulate by Reserve Bank of India (RBI). It was established in April 1935 with a share capital of Rs. 5 crores on the basis of the recommendations of the Hilton Young Commission. Under Section 22 of the Reserve Bank of India Act, the Bank has the sole right to issue bank notes of all denominations. The distribution of one rupee notes and coins and small coins all over the country is undertaken by the Reserve Bank as agent of the Government. The Reserve Bank has a separate Issue Department which is entrusted with the issue of currency notes. The assets and liabilities of the Issue Department are kept separate from those of the Banking Department. The Reserve Bank Act, 1934, and the Banking Regulation Act, 1949 have given the RBI wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction, and liquidation. The RBI is authorised to carry out periodical inspections of the banks and to call for returns and necessary information from them. The nationalisation of 14 major Indian scheduled banks in July 1969 has imposed new responsibilities on the RBI for directing the growth of banking and credit policies towards more rapid development of the economy and realisation of certain desired social objectives. The supervisory functions of the RBI have helped a great deal in improving the standard of banking in India to develop on sound lines and to improve the methods of their operation.

- The NRB Act, 2002, has made NRB an autonomous institution empowered to regulate and supervise Nepal's banking industry. As a regulator, it issues various policies, directives and circulars that are in line with international standards but also customized to match the local. As a supervisor, it supervises the activities of the banks and financial institutions based on the existing legal framework and guiding polices. At present there are four supervisory departments within NRB, viz, Bank Supervision Department, Development Bank Supervision Department, Finance Company Supervision Department and Micro Finance Promotion and Supervision Department. These departments have been established with the purpose of supervising the activities of the concerned bank and financial institutions. These supervision departments basically monitor compliance to rules, regulations and directives.

- **Performance of Banks: Cross-Country Comparison**

  As with banking structure, there are noteworthy differences across countries in banking industry performance. Table 2 shows several measures of banking performance across Nepal and India countries using data for 2011-12. Two measures of bank profitability are included: return on assets (ROA) etc. Both measures show wide variation across countries, and although they do not necessarily run in tandem, countries stand in roughly the same position relative to each other by either measure lowest.

- **Competition in Banking**

A key aspect of banking structure that has received a good deal of attention traditionally in single-country studies is the degree of competition in banking. Recently, there has been a growing interest in cross-country comparisons of competition in banking. This is because of the rapid growth and standardization of banking industry in world.

- Competition in Indian banking industry is very high, the reason behind is country sound financial infrastructure. At present in banking industry grow rapidly in comparison of developed country of world. The major role in competition is result of constant grow of private sector banking industry. Key player of banking namely HDFC Bank, Axis Bank, and IDBI Bank Recently, RBI invites application from NBFC for banking licence, which add to the current competition in India.

- Since 1993, Nepal has initiated numerous market policy and regulatory regime reforms in an effort to open eligible government-controlled sectors to domestic and foreign private investment. The result has been that the majority of private investment has been made into manufacturing and tourism, sectors where there was either very little government interest or the existing state-owned enterprises performed miserably. However, even though some sectors have opened for foreign investment, a large part remains under state monopoly of some form. Due to liberalisation in banking industry many foreign base bank are attracted to Nepal.
- The liberalisation of financial services and competition has improved the level of customer service up to some extent in the commercial banks in India. RBI has been issuing guidelines from time to time to facilitate bank's focus on service to the common man. The expansion of banking services and diversification of ownership has led to both enhanced efficiency and systematic resilience in the banking sector. With the RBI's initiative, the Indian Banks Association has prepared a model "Fair Practices Code" which is a public document enlisting thing that a customer can expect from the concerned bank.
- Nepal banks also understand the focus on the customer related services. NRB also state this in NRB Act 2003, and also supervise the services provided by banks. Expansion of the branches in the country also demands the good service demand nationwide. Due to entrance of foreign banks in Nepal banking industry service of banking industry become more sound. Apart from this customers of Nepal is not much acquainted with the banking services.

- **Technological comparisons**

In recent time, global banking industry has been consistently working towards the development of technological changes and its usage in the banking operations for the improvement of their efficiency. With the application of new and improved technologies banks expected to reduce costs, time and give customer satisfaction. Core banking has changed the face of banking by offering value added services. Core banking applications helps to provide complete front and backend automation of banks. Technological developments would render flow of information and data faster leading to faster appraisal and decision-making. This would enable banks to make credit management more effective, besides leading to an appreciable reduction in transaction cost.

- Technologically in India banking sector is grew in last two decades. In mid-July 2011, 28 of the 31 commercial banks were offering Internet banking services. There were 1,47,833 Internet banking users of commercial banks in mid-July 2011, which is 23.48% higher than that in mid-July 2010. In mid-July 2011, 26 banks were offering SMS banking services. The number of SMS banking users in mid-July 2011 was 2,67,426, a 23.25 percent increase compared to that of July 2010. The number of debit card users increased by 37.43 percent compared to that in mid-July 2010. Very few Nepalese banks offer credit card services.

- Nepal can be grouped into communicative and transactional services. In mid-July 2011, 28 of the 31 commercial banks were offering Internet banking services. Among them 23 banks were offering transactional services, and five using Internet only or communications. There were 1,47,833 Internet banking users of commercial banks in mid-July 2011, which is 23.48% higher than that in mid-July 2010. In mid-July 2011, 26 banks were offering SMS banking services. The number of SMS banking users in mid-July 2011 was 2,67,426, a 23.25 percent increase compared to that of July 2010. In Nepal, all commercial banks, except ADBL provide debit card services. The number of debit card users increased by 37.43 percent compared to that in mid-July 2010. Himalayan Bank Limited introduced the first ATM in Nepal in 1995. As on mid-July 2011. Total number of ATMs in the country increased by 27.26 percent compared to mid July 2010. NABIL Bank Limited is the first one that introduced credit card in Nepal in the early 1990s. Very few Nepalese banks offer credit card services

PRSENT POSITION AND TREND OF BANKING INDUSTRY IN NEPAL

- **Growth of Banks**

As the Nepalese financial sector expanded, financial institutions felt a need to differentiate from each other. As a result, the degree of homogeneity in the market gradually declined. The expansion of financial market can be credited to some major forces at work. “Technical change has reduced the cost of communication and computation, as well as the cost of acquiring, processing, and storing information. Deregulation has removed artificial barriers preventing entry or competition between products, institutions, markets and jurisdictions. Finally, the process of institutional change has created new entities within the financial sector”. Increasing diversity in the activities of financial institutions, the Ministry of Finance has divided the financial sector into two groups based on their primary functions: banking sector and non-banking sector. Banking sector is composed of NRB, the central bank and all the commercial banks.

The Ministry of Finance has made its top priority to increase accessibility of financial services to all parts of the country. To promote outreach of financial services to every nook and corner of Nepal, the Cooperative Act was promulgated in 1992. As it stands now, there are 10558 saving and credit cooperatives which have contributed immensely in supplying loans to needy borrowers in underprivileged regions and also mobilized savings in promising investment sectors. The financial liberalization could not spread financial services to all the regions as expected. Policymakers have realized and acknowledged the importance and the potential of micro-finance in financial outreach. They set up an independent Micro-finance Development Fund to cater to the needs of the deprived. As already proven in neighbouring countries like India and Bangladesh, micro-finance successfully provides the channel to make financial services available to people of underprivileged class, region, and gender. Hence, Micro-finance Authority Act is in the pipeline to be fully embraced by the Government of Nepal.

- **Credit Expansion**

As the banking sector expanded and new avenues opened up in the financial market, there was rapid credit growth especially from the year 2006-07 to 2009-10. It is no coincidence that the increase in number of financial institutions such as development banks and finance companies occurred at the same time as the increase in credit. Large number of banks popped in the later years to compete for the rising amount of remittance flowing to the country. As the income flowing from outside the country increased, the financial sector opened up to new levels to exploit hot money and make profits. Detailed analysis about the impact of surge of remittance to the financial sector will be done in later section. As it can be observed, the number of development banks increased by astonishing 1030% from 2000 to 2010.

➢ **POLICIES AND PERMISSION OF SELECTED INDUSTRY NEPAL**

- **Regarding Paid up capital Requirements**
    - To establish a new commercial bank of national level, the paid up capital of such bank must be at Rs. 1000 million.
    - In general, the share capital of commercial banks will be available for the promoters up to 70 percent and 30 percent to general public. The foreign banks and financial institutions could have a maximum of 75 percent share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepali promoters in National level banks, only 20 percent of total share capital will be made available to general public on the condition that the foreign bank and financial institution are going to acquire 50 percent of total share.
    - Banks that are already in operation and those who have already obtained letter of intent before the enforcement of these provisions have to bring their capital level within seven years. In order to increase in the capital such increase should be at a rate of 10 percent per annum at the minimum.
    - Banks to be established with foreign promoter's participation have also to be registered fulfilling all the legal processes prescribed by the revalent Nepal laws.
    - To establish the commercial banks in all the places in the kingdom other than in the Kathmandu valley, the paid up capital must be Rs. 250 million. In this case, the commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70 percent and 30 percent respectively.
    - Banks to be established outside Kathmandu Valley could be allowed to operate throughout the kingdom including Kathmandu Valley only on the condition that they have operated satisfactorily at least for a period of three years and they have brought their paid up capital level up to Rs. 1000 million and also fulfilled other prescribed conditions. Unless and until such banks do not get licence to

operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

- Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20 percent along with the application and another 30 percent at the time of receiving the letter of intent on the interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes into operation. Normally, within 4 months from the date of filing of the application, NRB should give its decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concern body.

- **Regarding Promoters Qualification**
  - Action on the promoters' application will not be initiated by the Nepal Rasta Bank if it is proved that their collateral has been put on auction by the bank and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and five years have not elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process of license issuance if the above events are proved.
  - Of the total promoters, one-third should be its Chartered accountants or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, at least 25 percent of promoters group should have the work experience of the bank or financial institution or similar professional experience.
  - An individual, who is already serving as a director in one of the bank and financial institutions licensed by Nepal Rastra Bank, cannot be considered eligible to become the director in other banks or financial institutions.
  - Stockbrokers, market makers, or any individual/institution - involved as an auditor of the bank and institution carrying on financial transactions - cannot be a director.

- **Regarding the Sale of Promoters' Share**
  - Promoter group's share can be disposed or transferred only on the condition that the bank has been brought in operation, the share allotted to the general

public has been floated in the market and after completion of three year from the date it has been registered in the Stock Exchange. Prior to the disposal of such shares, it is mandatory to get approval from the Nepal Rastra Bank.

  - The share allotted to the general public has to be issued and sold within three years from the date the bank has come into operation. Failing to fulfill such provisions, the bank cannot issue bonus share or declare and distribute dividends.
  - Shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution. For this purpose, the meaning of the family members will comprise of husband, wife, son, daughter, adopted-son, adopted-daughter ,father, mother, step-mother and depended brother and sister.

- **Regarding Branch Expansion Policy**

  The Commercial banks established with a head office in Kathmandu will initially be authorized to open a main branch office in the Valley and thereafter, they will be authorised to open one more branch in Kathmandu Valley only after they have opened two branches outside Kathmandu Valley.

- **Procedural Aspects for Establishing a Commercial Bank*:***

  The following documents should be submitted sequentially while applying for the establishment of a Commercial Bank. Following documents are required to be submitted along with the application to establish a commercial bank:

  - Application
  - Bio-data of promoters
  - Feasibility Study Report on the proposed commercial bank in the form prescribed by the Nepal Rasta Bank.
  - Attested photocopies of the minutes within the promoters to organize the bank.
  - Promoters agreement relating to operation of the bank
  - Copies of Articles of Association and Memorandum in the prescribed format in the Company Act, 1996.
  - The memorandum should compulsorily include, inter alia, the provision that no person, firm, company and related group of company will be allowed to hold beyond the 10 percent stake on the issued capital in one bank and altogether 15 percent stake in all the commercial banks.

- **Requirements in the case of participation of the firm established in Nepal**
  - Photocopy of firm registration certificate
  - Broad resolution stating the amount to be invested in the proposed bank
  - Certified photocopies of Articles of Association and Meminvesting firm.
  - List of Directors and proportion of their share ownership
  - Tax clearance Certificate of the firm and its directors Certified documents on prescribed amount deposited in the Nepal Rastra Bank Commitment document of the collaborating foreign bank and financial institutions providing Technical Service Agreement in the case of proposed national level commercial bank to be established in the Kathmandu valley.

- **Additional requirements in the case of joint venture of foreign banks**
  - Certified minute of the board of directors of the foreign bank with a commitment of the amount to invest on the proposed bank establishing in Nepal.
  - Clearance letter from the regulatory authority or the central bank of the collaborating foreign bank.
  - Last three year's audited balance sheet, profit and loss statem statements.
  - Certified copies of joint venture agreement with Nepalese prom in the proposed bank.
  - A statement, in the case of the joint venture foreign bank has a holding bank and financial institution or a branch office or a representative office or liaison office in Nepal.
  - A justification, in the case of the joint venture foreign bank already has a joint venture in any bank or financial institution in Nepal.

- Nepal Rasta bank will provide the letter of intent to the applicants to establish a bank within the four months of period the promoters of the proposed commercial banks necessary documents and after the study and analysis of such documents only if it would be appropriate to incorporate the bank.
- For this, to obtain a the Letter of Intent form the Nepal Rasta Bank, the certified do that the prescribed amount has been deposited, should be produced. If the bank is not appropriate the applicant will be notified by such information.
- The Nepal Rastra Bank will also provide the required period to make the bank operation while granting bank will not come into the operation within such time period,

it can cancel provided to such bank. Providing of letter of intent shall not be regarded as the approval to conduct the banking transaction.

- After obtaining the letter of intent, following additional documents should be produced to the Nepal Rastra Bank seeking the approval to conduct banking transactions:
  - An Application
  - Technical service agreement in case of foreign joint venture
  - Certified documents stating that the committed amount by promoters has been deposited fully in the Nepal Rastra Bank.
  - The agreement document, if the bank premises are in rent, and the site plan of the bank building along with necessary layout required for bank operation.
  - Information on recruitments of Staffs
  - Statements on Software Application
  - Credit Policy Guidelines (CPG) of the Bank
  - Employees by-laws
  - Information on all the physical infrastructure that are required to operate a bank.

- The operating license will be provided only after the conformation that all the statements and documents are complete and on the basis of physical infrastructure inspection report submitted by physical inspection team comprising of members from Bank Operations Department, Inspection and supervision Department and Information Technology Department of this Bank.

- **In country licensing policies and procedures regarding foreign bank branches**

1. There are a number of required documents to be submitted by a foreign bank for opening a foreign bank branch. RBI scrutinizes the applications with reference to the following:
2. Financial soundness of the parent foreign bank
3. International and home country ranking of the parent foreign bank
4. Rating of the foreign bank by international rating agencies
5. Quality and spread of its international presence
6. Economic and political relations between India and the home country of the foreign bank

7. The foreign bank should be under consolidated supervision of the home country regulators and RBI should be satisfied with the standards of supervision of the home country regulator
8. The country of incorporation of the foreign bank should not be discriminated against by Indian banks
9. The foreign bank must obtain the home country regulator's approval for opening the branch.
10. The certificate from supervisory authority that the applicant bank is duly authorized as a bank is of good standing and it is under consolidated supervision;
11. The approval/authorization given by the home country supervisor/regulator permitting to open a branch in India.

- **Required to submit Financial Status**
    - Highlights of financial position of the bank based on last three years financial statements;
    - Capital adequacy ratio as per BIS standards indicating Tier-I and Tier II capital separately;
    - Ranking in home country and global ranking; and Credit ratings by international credit rating agencies.

- **The main regulation is regarding capital requirement**
    - Since 1993, a foreign bank opening the first branch in India is required to bring in US $10 million as an assigned capital.
    - The capital requirement is stepped up to US $ 20 million when the second branch is opened and further to US $ 25 million when the third branch is opened.
    - Permission to open second and subsequent branch is granted taking into account, inter alia, the policy prevailing at that time. Second branch is allowed after watching performance of the first branch.
    - It is ensured that the required capital has been brought before commencement of business in India.

- The unimpaired capital has to be maintained on an ongoing basis.

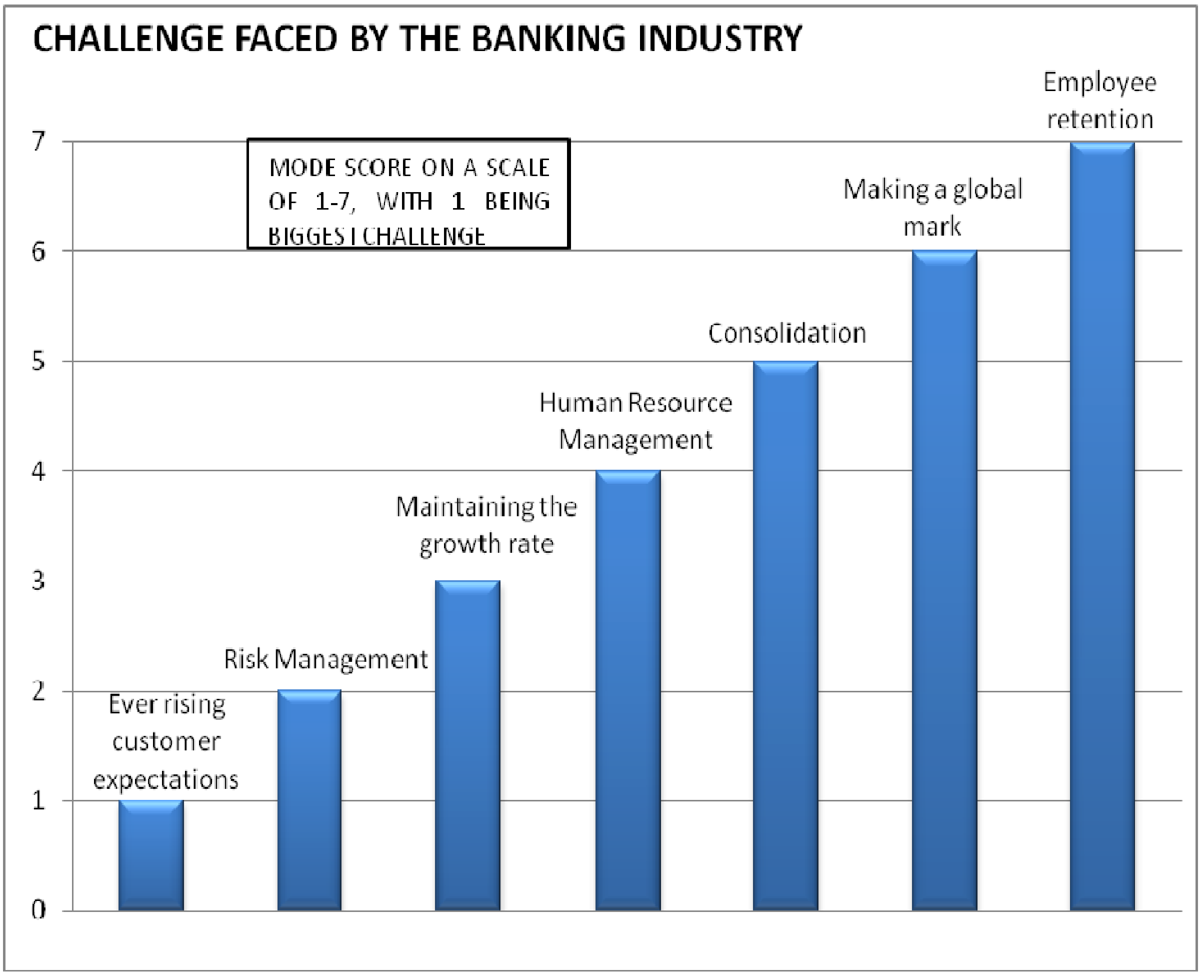
India continues to be Nepal’s largest trade partner, source of foreign investment and tourist arrivals India also remains Nepal’s largest source of foreign investment and Indian investments in Nepal amount to Rs.2175.5 crores with 525 FDI projects. India accounts for 46% of the total foreign investments in Nepal. In October-November 2011 the two countries have also concluded the Bilateral Investment Protection & Promotion Agreement (BIPPA) and the Double Taxation Avoidance Agreement (DTAA) which provide legal framework for enhancing Indian investment into Nepal and further integrating the two economies.
India had played a leading role

Sixth industrial nation in the world, India is one of the biggest development partners of Nepal over the last fifty years sharing common religion, philosophy, culture and long territorial boundary between the two countries. India is 22 times greater in size, 42 times bigger in population, 89 times higher in GDP and 1.9 times higher the GNI per capita of Nepal. India’s share in world GDP is 4.4 percent and Gross National Income (GNI) is estimated to be US$ 474 billion against Nepal’s US$ 6 billion. GNI per capita of India is found to be US$ 460, while for Nepal it is only US$ 250 (World Development Report, 2003), one of the lowest in the world during the period.

Although overall economic status of Nepal is far below India, there are vast areas of economic cooperation that must be identified particularly in the field of investment in joint ventures and transfer of technology ensuring benefits to both countries what is known as “Win-Win” effect. India's cooperation to Nepal is essential in a greater scale in future not only to sustain its development activities but also for poverty alleviation. India's cooperation in comparison to overseas assistance especially in the field of investment in joint ventures will have significant bearing on Nepal's economic development. Here lies the significance of this kind of study.

- **PRESENT TRADE BARRIERS OF BANKING INDUSTRY NEPAL**

Developing countries like Nepal, still has a huge number of people who do not have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and competition. Since, foreign banks are playing in Nepal market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. Now, the existing situation has created various challenges and opportunity for Nepal Commercial Banks. In order to encounter the general scenario of banking industry we need to understand the challenges and opportunities lying with banking industry of Nepal.



Change is the only constant feature in this dynamic world and banking is not an exception. The changes staring in the face of bankers relates to the fundamental way of banking-which is going through rapid transformation in the world of today.

Adjust, adapt and change should be the key mantra. The major challenge faced by banks today is the ever rising customer expectation as well as risk management and maintaining growth rate. Following are the results of the biggest challenge faced by the banking industry as declared by our respondents

- **Rural Market**

Banking in Nepal is generally fairly mature in terms of supply, product range and reach, even though reach in rural Nepal still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region.

- **Management of Risks**
  - The growing competition increases the competitiveness among banks. But, existing global banking scenario is seriously posing threats for Nepal banking industry. We have already witnessed the bankruptcy of some foreign banks.
  - There is a positive association between changes in risk and capital. Research studied the large sample of banks and results reveal that regulation was partially effective during the period covered. Moreover, it was concluded that changes in bank capital over the period studied was risk-based. The Merger and acquisition activity among financial firms. The author focused bank supervisors in context with success of mergers, risk management, financial system stability and market liquidity. The risk management practices and techniques indealing with different types of risk.
  - Moreover, they compared risk management practices between the two sets of banks. The study found the three most important types of risk i.e. commercial banks foreign exchange risk, followed by credit risk, and operating risk.

- Accounting ratios as risk management variables and attempted to gauge the overall risk management capability of banks. They used multivariate statistical techniques to summarize these accounting ratios. Researchers found that Nepal banks' risk management capabilities have been improving over time. Returns on the banks' stocks appeared to be sensitive to risk management capability of banks. The study suggest that banks want to enhance shareholder wealth will have to focus on successfully managing various risks.

- **Market Discipline and Transparency**

  According to Fernando (2011) transparency and disclosure norms as part of internationally accepted corporate governance practices are assuming greater importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their balance sheets a plethora of information on the maturity profiles of asset and liabilities, lending to sensitive sectors, movements in NPAs, capital, provisions, shareholdings of the government, value of investment in India and abroad, operating and profitability indicators the total investments made in the equity share, units of mutual funds, bonds, debentures aggregate advances against shares and so on.

- **Human Resource**
  - Relationships between human resource management (HRM), work climate, and organizational performance in the branch network of a retail bank. Significant correlations were found between work climate, human resource practices, and business performance. The results showed that the correlations between climate and performance cannot be explained by their common dependence on HRM factors, and that the data are consistent with a mediation model in which the effects of HRM practices on business performance are partially mediated by work climate.

  - Commercial banks employed 9369 people in mid-July 2011. The number of staffs at the public sector banks was sizable (9111), which is explained by their low use of information and communication technology (ICT) and reliance on manual systems. In mid-July 2010, the public sector banks had 9263 employees while the private banks employed 9005 people. The staff number in private banks increased to 13291 and that of public sector banks to 9111 in 2011.

- **The basic cause of the Barriers of the Nepal banking industry**

  - Lack of commitment by the Government to change its basic mindset towards the state-owned banks, including a much stronger emphasis on commercial orientation and on preparation for eventual privatization;
  - Nepal is a landlocked state, which makes market access a challenge.
  - Political instability, including 20 governments in the past 20 years, has created an uncertain environment for foreign and private investment.
  - Government of Nepal (GON) is open to foreign direct investment, but implementation of its policies is often distorted by bureaucratic delays and inefficiency. Foreign investors frequently complain about complex and opaque government procedures and a working-level attitude that is more hostile than accommodating.
  - Foreign investors must deal with a non-transparent legal system, where basic legal procedures are neither quick nor routine. The bureaucracy is generally reluctant to accept legal precedents, and businesses are often forced to re-litigate issues that had been previously settled. Legislation limiting foreign investment in financial, legal, and accounting services has made it difficult for investors to cut through regulatory red tape
  - Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. According to the Corruption Perception Index 2011 released by Transparency International (TI) in December 2011, Nepal ranked 154th and fell in the range of “highly corrupt” countries.
  - The most distinguishing features of labor in Nepal are the shortage of skilled, educated workers. The overall literacy rate is 55.6 percent, with literacy rate for males at 74.7 percent and 53.1 percent for females.

- **Potential for banking business in India**

India has always been in the limelight in terms of the business opportunities available. The India business opportunity is huge in possibly every sector - financial services, telecom, IT, automobiles, media, real estate and alike. India is still considered to be one of the most enviable destinations for doing business. Presently it is counted among those nations which has been least affected by the global recession – thus it clearly proves that India’s business potential is huge. India's extensive band of engineers, scientists, technicians, managers and skilled manpower are among the best in the world.

The Indian business market is large and bubbling with newer opportunities. Increased purchasing power and consumerism is what drives the business scenario in India. Thus, there is an opportunity for competitive advantage (low cost sourcing of products and services). It has been observed that investments in India have been capable of yielding lucrative returns and thus companies have started to capture the domestic market business opportunities. The large talent pool of India also offers extensive opportunities to the Multi National corporations (MNCs).

- **Global Scenario & Indian Banking Industry**

  Since the Lehman Brothers declared bankruptcy in 2008, incidences, every now & then, have sustained the concerns over l financial stability. While most emerging market economies (EMEs), includingIndia, have recovered from global financial crisis, advanced countries continue to be plagued with growth figures looking dismal. Euro zone crisis seems to be spreading across the EU countries following ripple effect, political turmoil persists in Middle East & North African (MENA) region, economic stagnation in US augurs no imminent respite from the worsening global situation. Indian banks, however, not only emerged unscathed from the global financial crisis but continued to manage growth with nce during 2010-11.

  Presently, domestic demand stays constrained on account of slower pace of growth & high level of commodity prices but favorable demographics & growth potential of Indian economy are expected to mitigate the dampening effect in the long run. As per Census 2011, about 40 % of households still do not avail banking facilities . Banks with their forward looking strategies, improved customer relationship, diversification of revenue sources etc are expected to continue their impressive performance.

- **Performance of Banking Sector**

  Since the introduction of financial sectorreforms about two decades ago, Indian Banking Industry has grown tremendouslyvolume & has become increasingly competitive. Considering assets & liabilities as an tor of the scale of operations, impressive growth has been seen during the last decade except for the Financial Corporations. In fact, State Financial Corporations recorded a decline of about 7 per cent during the last decade. However, on the average, at least threefold increase was observed in case of RBI, SBI , IDBI and other Banks with SBI recording increase in asset & liabilities in 2011 by about four times of those at 2001 and the banks excluding SBI an increase by more than six times.

BUSINESS OPPORTUNITIES OF SBI BANK IN NEPAL:

VISION AND MISSION

Over the years, we have grown larger and stronger - in terms of business, geography and resources. This was achieved by relying on the fundamentals. Our achievements are founded on basic banking norms - quality, consistency and transparency of capital base, sound liquidity, a robust risk management framework coupled with the practice of good corporate governance and above all the tireless focus on customer satisfaction.

INTRODUCTION

Nepal SBI Bank Ltd. is a subsidiary of State Bank of India which has 55 percent of ownership and rest is held by a local partner viz. Employee Provident Fund (15%) and general public (30%). In terms of the Technical Services Agreement between SBI and the NSBL, the former provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Credit Officer oversee the overall banking operations in the Bank. The Bank was established in July 1993 & is now having 538 Nepalese employees working in 50 branches, 6 extension counters, 2 Regional Offices & the Corporate Office.

State Bank of India (SBl), with a 200 year history, is the largest commercial bank in India in terms of assets, deposits, profits, branches, customers and employees. The Government of India is the single largest shareholder of this Fortune 500 entity with 61.58% ownership. SBl is ranked 60th in the list of Top 1000 Banks in the world by “The Banker” in July 2012.

The origins of State Bank of India date back to 1806 when the Bank of Calcutta (later called the Bank of Bengal) was established. In 1921, the Bank of Bengal and two other banks (Bank of Madras and Bank of Bombay) were amalgamated to form the Imperial Bank of India. In 1955, the Reserve Bank of India acquired the controlling interests of the Imperial Bank of India and SBI was created by an act of Parliament to succeed the Imperial Bank of India.

The SBI group, consists of SBl and five associate banks. The group has an extensive network, with over 20000 plus branches in India and another 173 offices in 34 countries across the world. As of 31st March 2012, the group had assets worth USD 359 billion, deposits of USD 278 billion and capital & reserves in excess of USD 20.88 billion. The group commands over 22% share of the domestic Indian banking market.

SBl's non- banking subsidiaries / Joint ventures are market leaders in their respective areas and provide wide ranging services, which include life insurance, merchant banking, mutual funds, credit cards, factoring services, security trading and primary dealership, making the SBl Group a truly large financial supermarket and India's financial icon. SBI has arrangements with over 1500 various international / local banks to exchange financial messages through SWIFT in all business centers of the world to facilitate trade related banking business, reinforced by dedicated and highly skilled teams of professionals.

NEPAL SBI REMIT

Nepal SBI Remit is a customer focused Money Transfer product enabled by state of art web-based technology and is brought to you by Nepal SBI Bank Limited, a leading bank of Nepal.
We offer a secure online and an efficient remittance service which helps you transfer funds from virtually any part of the world to your relatives in Nepal. Using safe and quick remit channels like

online money transfer through various exchange houses and international money transfer operators, banks, Nepal SBI Bank provides an unparalleled level of service and convenience.

The Bank has a wide network covering all major cities, towns and villages of the country and is capable of paying at more than **50 branch** locations across Nepal. However, we will be adding more payout agents to cover all parts of Nepal very shortly.

Procedure for Sending Money

- Customers should visit the nearest outlet of our Remittance partners
- A remittance sending form including their full name, address, amount as well as details of beneficiary etc needs to be submitted to the agent .
- You will receive a unique secret NSR number that should be given to the person receiving money in Nepal

Procedure for Receiving Money

- You can collect your money on the same day by visiting any of our branches and/or agents .
- You should fill a remittance payment form mentioning NSR number given to you by the remitter as well as other general details.
- You should also present the original passport, citizenship certificate, or any other identification issued by The Government of Nepal.

REMITTANCE FROM INDIA

SBI-NEPAL EXPRESS REMITTANCE

Nepal SBI Bank Limited, jointly with State Bank of India, has introduced a robust Electronic Fund transfer Mechanism (EFT) namely "SBI-Nepal Express Remit" to provide faster and convenient mode of remittance facility for the Nepali migrants in India by disbursing cash for such remittances to the beneficiaries residing all across Nepal through Electronic Fund Transfer Mechanism (EFT).

This service can be availed from all branches of State Bank of India

Features:

- Faster and Convenient,
- Minimum Charge,
- Direct Credit to beneficiary's Account with NSBL,
- Less Service Charge to remitter if beneficiary has an account with NSBL,
- Cash payment through NSBL branches or any outlet of Prabhu Money Transfer in case the beneficiary does not have account with us,
- No Service Charge from Beneficiary maintaining account with NSBL and/or cash disbursement through Prabhu Money Transfer,

INDO-NEPAL REMITTANCE

Considering the importance of establishing a formal remittance system between India and Nepal, the modalities of an Electronic Funds Transfer System have since been worked out by Reserve Bank of India (RBI) in consultation with Nepal Rastra Bank(NRB). The system is designed to ensure faster remittances from India to any part of Nepal with safety and security. The salient features of the remittance system are as under.

- The Scheme is introduced on 15.05.2008
- The remittances will be routed through the Payment System Group (PSG) of State Bank of India (SBI) in India and Nepal SBI Bank Ltd (NSBL) in Nepal.
- 44000 branches of Indian Banks on Core Banking Platform linked to NEFT system of RBI are enabled to process the remittances.
- The maximum amount of remittance under the scheme will be INR.50000/-
- The commission on such remittances is kept very low. Up to INR5000/- the commission will be at INR70/- and above INR.5000/- the commission amount will be at INR95/-.
- Commission of only INR20.00 per remittance up to INR 50,000.00 will be charged in case of A/C holder at Nepal SBI Bank Ltd.
- Other than NSBL account credit the cash remittances will be handed over to the Money Transfer Agency appointed by the NSBL (Prabhu Money Transfer).

REMITTANCE TO INDIA

BHARAT YATRA CARD

- Can be instantly purchased from Nepal SBI Bank Branches.
- Minimum Deposit of NRs 1,000.
- Maximum Usage of the card on a daily basis is NRs 10,000 for cash withdrawals and NRs 1,00,000 for purchases.
- Card can be used at any ATM across Nepal and India that accepts Visa Card.

DOMESTIC REMITTANCE

With a view to increase local remittance transaction for facilitating our geographically diversified customers with easy, convenient and safe money transfer service inside Nepal, we have entered into arrangements with Prabhu Money Transfer Limited (PMT) to facilitate delivery of local remittance to the beneficiaries residing in different parts of the country in connection with the local remittance within Nepal.

CORPORATE AND BUSINESS LOANS

The bank offers corporate and business loan to large corporate and institutional customers including public sector entities and service them with offerings ranges from loans to meet operational funding requirements as well as service related to strategic expansions, syndications, project finance etc.

SME LOANS

This is a tailor made loan product devised with special focus on the needs of Small and Medium Sized Enterprises to meet their financing requirements in a convenient manner.

PERSONAL LOANS

Retails loans largely comprise of auto finance, home loan and credit for consumer durables. Credit card is not in offer yet. Other personal loans like Mortagage and Mortgage Plus are personal credit given to individuals on the basis of their income level.

MORTAGE LOAN SCHEME

Margin:

The borrower has to offer immovable property whose value on distress is at least 200% of the loan amount. The loan will be restricted to 50% of the distress sale value of the property offered as security subject to a ceiling of Rs. 20,00,000/- for the proposals up to the sanctioning power of Chief Credit Officer.

Repayment:

The repayment by way of indicative Equated Monthly instalments on the basis of contracted rate of interest would be fixed for a maximum period of 60 months.

LOAN SERVICE CONTACT

For availing our loan service, customers may contact any of our Branch Offices. Please locate the branches in our Outlet Locator.

or for corporate loans, please contact our Commercial Branch

Commercial Branch

Prabhu Complex,Fifth Floor, Lainchour

Phone: 01-4024024

Fax: +977-1-4024023

Email: commercial@nsbl.com.np

EDUCATION LOAN

- **Maximum loan amount : Rs. 40.00 lacs.**
- **Student eligibility**
  - Should be a Nepalese citizen.
  - The student should have at least intermediate/higher secondary level (plus two) academic qualification.
  - The student's parents/guardian should have sufficient regular income to service interest. Their uncommitted monthly income should be at least 1.33 times of the interest payable.
  - Should be between the age of 16 years to 35 years
- **Eligible Courses**
  - Graduate / Masters and above
  - Professional courses (graduate and above)
- **Expenses considered**
  - Fees payable to College /Hostel (Admission fee, tuition fee, examination fee, laboratory fee, library fee)
  - Purchase of books, equipments, instruments required for the course.
  - Cost of passage (for studies abroad)
  - Boarding and lodging expenses (Recognized hostels by the institution)
- **Pricing**
  - Processing fee:

    0.5% of the loan amount or Rs. 5000.00 whichever is higher.
  - Prepayment charge:

    A prepayment charge at the rate of 2% on the prepaid amount shall be recovered. If loan is repaid after 12 months of the date of sanction, the prepayment charge shall be 1%.
  - Commitment fee:

    A commitment fee at the rate of 0.25% of unutilized loan shall be charged.
  - CIC report fee:

    Rs. 500.00 and Rs. 250.00 per additional page.

- **Repayment Programme**

  Moratorium :

  A maximum period of 5 years or the completion of course designated, whichever is earlier.

  Repayment :

  The loan shall be repaid in 5 years after the moratorium period on EMI basis.

  Interest during moratorium period :

  The parents/guardian of the student shall pay the interest during the moratorium period on quarterly basis as per Nepali calendar.
- **Security**
  - Land and building having value133% of loan amount.
  - Loan upto 95% of Fixed Deposit/Government securities.

- **Supporting documents required**
  - Duly filled Loan Application form
  - Mark sheet of last qualifying examination
  - Copies of Letter Conferring scholarship, if any
  - Proof of admission to the course
  - Schedule of expenses for the course
  - Two copies of recent passport size photograph of the students and their parents/guardian/guarantor
  - Copies of foreign exchange permit, where required.
  - Copies of citizenship/pass port of the students and their parents/guardian/guarantor.
  - Statement of regular income sources of parents/guardian, along with supporting documents where required.
  - Brief statement of assets and liabilities of parents/guardian
  - Copies of ownership certificates of the proposed property to be mortgaged or Government Securities/FDRs to be pledged.

HOUSING LOAN

HOUSING LOAN SCHEME

The purpose of Housing Loan Scheme is

i. To help purchase or construct a new house/flat, or extend an existing house

ii. To help purchase an existing house/flat

iii. To help repair or renovate an exiting house/flat .

iv. For taking over the existing housing loans from Banks/Financial Institutions.

Margin: Minimum 25% of the project cost.

Moratorium: Maximum 1 year period from date of the first disbursement or one month after the completion of the house whichever is earlier

Repayment Period: the Housing Loan shall be repaid in equated monthly installments within 15 years excluding the moratorium period.

Prepayment charges: 1% of the amount being prepaid if the borrower repays from his own source. Prepayment charge at the rate of 2% shall be levied if the loan is being swapped.

INTEREST RATES - LOANS

Loan Types (Effective from 6th Falgun, 2069)	**Interest Rate(p.a)**		
	Corporate Customers	**Prime Customers**	**Other Customers**
Trust Receipt - Up to 120 days	12.00%	12.50%	13.00%
Export Credit -in FCY -in NRS/IRS	 6.50% 11.00%	 7.50% 11.50%	 8.50% 12.00%

Cash Credit/Overdraft	13.00%	13.50%	14.00%
Short Term Loan/DL	12.50%	13.00%	13.50%
Loan Against Share	13.50%	14.00%	14.50%
Term Loan	13.25%	13.75%	14.25%
Loan Against Bank Guarantee	10.50%	11.00%	12.00%
Loan Against Govt.& Other Bonds	10.50%	11.00%	12.00%
Priority Sector Loan	-	-	-
Loan Against Bank's own FD(> 10%)	+1.50 % of FD rate	+2.00% of FD rate	+2.00% of FD rate
Loan Against Bank's own FD(<= 10%)	+1.00% of FD rate	+2.00% of FD rate	+2.00% of FD rate
Loan in NRS against US$ FD	9.00%		
Deprived Sector Loans -institutional -individual	 9.00% 11.00%		
Home Loan -Up to 5 years -Beyond 5 years upto 10 years	 13.00% 14.00%		
Land Loan Up to 10 years	14.00%		
Education Loan	13.50%		
-Mortgage Loan & Mortgage Plus Scheme -Convenient Loan	14.50% 14.00%		
Bhu. Pu. Loan	13.50%		

Vehicle Loan - Private Vehicle - Other Commercial Vehicle	13.50% 14.00%

- Rates for export credit in US$ will be as per NRB Directives.
- Rates for consortium loans will be as per consortium agreement.
- Above Rates will not be applicable to defaulting accounts.

NEPAL SBI BANK SHARE TRANSACTIONS SUSPENDED

The Nepal Stock Exchange Authority has suspended transaction of shares belonging to Nepal SBI Bank, a joint venture of State Bank of India, the Employees Provident Fund and Agricultural Development Bank of Nepal, for distributing extra bonus to shareholders.

The Stock Exchange has ordered halting transactions of shares of the joint venture bank following the bank's decision to distribute 25 per cent bonus shares to shareholders without going through procedures, which is taking shareholders' approval. The bank had earlier decided to distribute one share for two to shareholders under a rights issue.

However, Nepal SBI Bank Chief Financial Officer Vinod Mishra says the bank has only proposed the bonus share after coming under tremendous pressure from shareholders and the decision is subject to approval from the Nepal Rashtra Bank, the apex bank of Nepal.

He hoped that the suspension on transactions will be withdrawn in a day or two after a clarification is submitted to the stock exchange authorities.

NEPAL BANK LTD.

HISTORY

His Majesty King Tribhuvan inaugurated Nepal Bank Limited on Kartik 30,1994 Bikram Sambat. This maarked the beginning of an era of formal banking in Nepal. Until then all monetary tractions were carried out by private dealers and trading center.

Then Prime Minister Maharaja Juddha Shumsher J.B.R. speaking on the occasion with the kind permission of His Majesty the King stated this work which is being done in the larger interest of the nation is a great moment for me. Until today a bank could not be opened in Nepal. Therefore this bank, which is being established under the name of Nepal Bank Limited to fill that, need and to be inaugurated by His Majesty the King, is a moment of great joy and happiness.

The Bank's objectives to render service to the people whether rich or poor and to contribute to the nation's development will also need the support and best wishes of all, which I am confident will be forthcoming.

In that era, very few understood or had confidence in this new concept of formal banking. Rising equity shares were not easy and mobilization of deposits even more difficult. This was evident when the bank floated equity shares worth NRs. 2,500,000, but was successful only in raising NRs. 842,000.

"In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing service to the people and for the betterment of the country, this law in hereby promulgated for the establishment of the Bank and its operation"

The total deposits for the first year was NRs. 17,02,025 where current deposits was about NRs. 12,98,898 fixed was about NRs. 3,88,964 and saving was NRs. 14,163. Loan disbursed and outstanding at the end of the first year was NRs. 1,985,000.

From the very conception and its creation, Nepal Bank Ltd, was as joint venture between the government and the private sector. Out of 2500 equity shares of NRs. 100 face value, 40% was subscribed by the government and the balanced i.e. 60% was offered for the sale to private sector. There were only 10 shareholders when the bank first started.

INTRODUCTION

Nepal Bank Limited, The first bank of Nepal was established in November 15, 1937 A.D (Kartik, 30, 1994). It was formed under the principle of Joint venture (Joint venture between govt. & general public). NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country.

Corporate Vision:

"Pioneer Bank with complete banking solution"

Mission Statement: NEW

Network for inclusion: Use bank's network to increase its reach all over the country from urban areas to rural areas and help in improving the lifestyle of rural population and in turn become the bank of choice of corporate, medium businesses and rural market

Enhancing the value: To employees, shareholders, government and customers

World class banking services: Provide world class banking services by achieving excellence in customer service and adopting high level technology standards

Values Statement: SPIRIT

Segmented business approach: For risk management and enhancement of efficiency

Partnership: With all stakeholders including the Government, employees, shareholders and customer

Innovation: Of business areas and processes for providing Advanced banking services, and enhance competitiveness

Responsiveness: responding to the changing need of the market/society/business on timely basis

Integrity: Uphold trustworthiness and business ethics in the business process

Total banking solutions: To cater the need of all sections of society

Objectives:

Nepal Bank Limited has the following objectives:

- Focus on building the positive net worth and meeting minimum capital requirement over the coming five years.
- Focus on increasing the customer base and market share.
- Maximize the potential/efficency of bank's staff.
- Focus on minimizing the risk associated with the business.
- Focus on providing the world class business solutions.
- Focus on increasing the sustainable profit.

CONCLUSION

Landlocked in between two giant economies of the world, India and China, Nepal has limited agrarian economy, lacks industrialization and possesses few natural resources.

Difficult topography, subsistence farming practices, lack of adequate credit facilities and poor irrigation facilities has adverse effect on the poor performance of agricultural sector resulting a slow growth of overall economy. The widening trade deficit depicts the inferior proportion of export comprising basically semi-finished goods and raw materials.

However, import has always been essential for machinery, equipments, medicines and other capital goods. Although trade concentration with India is gradually declining over the years, it is still very high. It has seriously affected both the service sector and production sector.

Total population was 42.1 million in 2012, out of which 85.8 percent resides in rural area. Out of total economically active population, 65.6 percent are employed in agriculture, 8.8 percent in manufacturing, and 8.7 percent in trading sectors. Open border between India and Nepal allows free mobility of labour, capital and goods with unlimited convertibility of Nepalese rupee with Indian rupee.

Nepalese economy can be characterized by stagnated growth, mass poverty, deprivation and illiteracy. As in 2003, there was a wide fiscal and trade deficits of 2.5 percent, 15.5 percent of GDP respectively. In spite of continuous efforts to mobilize revenue is a great challenge.

Further, regular expenditure has been increasing over the years in order to maintain law and order situation (and debt servicing and other social obligations as well). As a result, development expenditure has been declined sharply. Investment ratio is not encouraging. Despite of endless efforts to develop agricultural sector, its performance is not satisfactory and so is the manufacturing sector. In addition, the service sector is also small and highly sensitive.

Deteriorating law and order situation and political instability seriously affected the service sector as well as the industrial sector and consequently has impeded the path of economic growth and deterred poverty alleviation activities.

Financial sector reforms have aimed at improving efficiency in this process. After the introduction of reforms, Nepalese financial sector has been observed a quantum expansion in terms of the number of new financial institution and instruments and payment system has been improved a lot. It has led Nepalese financial system toward an electronic era. Efforts on capital market development have been made rigorously,however it is infant yet.

Since 1980s there is significant change in Nepal banking industry. At present Commercial banks are the largest financial institutions dominant in the financial system occupying 68 percent of the total financial assets. The banks in the public sector were suffering with severe problems making the system absolute and unproductive. Public sector banks are found responsible for the deterioration of financial system as they hold a dominant position in terms of deposit taking, credit lending and asset holding.

The performance of the banking system is not satisfactory in terms of profitability. The ratio simply indicates that joint venture banks and domestic private banks are strong whereas public sector banks are very unsatisfactory. The Ratio of Net Interest Margin does not indicate the strong position for any banks rather show fair for joint venture banks, unsatisfactory for domestic private banks and very unsatisfactory position for public sector banks. Liquidity ratio shows that banks in Nepalese financial system are competent enough in terms of liquidity. The liquidity ratios for public sector banks, joint venture banks and domestic private banks clearly indicate strong position. However, non-performing loans has been chronic in Nepalese banking sector and particularly in public sector banks.

The profitability ratios and some other ratios comparison with India have clearly indicated for an alarming situation. There was no other option except to strengthen the financial health and soundness of the existing financial institution with the introduction of financial sector reforms. Hence, in the beginning restructuring was initiated in these banks following financial sector reforms. It has certainly drawn many positive results in terms of safety and soundness of the system.

A

GLOBAL COUNTRY STUDY REPORT
ON
NEPAL

<u>SUBMITTED TO</u>

SARDAR PATEL COLLEGE OF ADMINISTRATION & MANAGEMENT

(SPCAM-MBA)

IN PARTIAL FULLLILLMENT OF THE
REQUIREMENT OF THE AWARD FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION
IN
GUJARAT TECHNOLOGICAL UNIVERSITY

<u>FACULTY GUIDE</u>

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PART – 01 **SEM. – 03**

Demographic Profile Of Nepal

Nepali or Nepalese are descendants of migrants from parts of Kashmir, earlier Nepal, Tibet, India and parts of Burma and Yunnan, along with native tribal populations.

Indo-Aryans and East Asian looking mixed people live in the hill region. The mountainous region is sparsely populated above 3,000 m (9,800 ft), but in central and western Nepal ethnic Tibetans inhabit even higher semi-arid valleys north of the Himalaya. Kathmandu Valley, in the middle hill region, constitutes a small fraction of the nation's area but is the most densely populated, with almost 5 percent of the nation's population.

Demographic profile includes:-

- **Population:-**29,890,686 it is for July 2011.
- **Age structure**
  - I. **0-14 years:** 34.6% - male 5,177,264
    - female 4,983,864
  - II. **15-64 years:** 61.1% -male 8,607,338
    - female 9,344,537
  - III. **65 years and over:** 4.4% -male 597,628

-female 681,252 (2011)

- **Median age:-** Total**:** 21.6 years

  -Male**:** 20.7 years
  - Female**:** 22.5 years (2011)

- **Population growth rate:-** 1.768% (2011)
- **Birth rate :-**Out of 1,000 population, 21.85 births in 2011**.**
- **Death rate:-**Out of 1,000 population, 6.75 deaths in July 2011.

- **Literacy**:- Age 15 and over.
  - The total population is 48.6% from them male: 62.7% &female: 34.9% from 2001 census
- **Urbanization:-**Urban population is 19% of total population (2010)& Rate of urbanization is 4.7% annual rate of change (2010-15).
- **Sex ratio:-**At birth**:** 1.04 male's &female from that (a) Under 15 years is 1.04 male(s) &female. (b) 15-64 years is 0.93 male(s)&female. (c) 65 years and over: 0.87 male(s)/female. (d) Total population is 0.96 male(s)/female in 2011.
- **Religions:-** The religion demographic profile of Nepal are as:- Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001 census).
- **Education expenditures:-**4.6% of GDP in 2009.
- **Languages:-** The language of Nepal is are as Nepali (official) 47.8%, Maithali 12.1%, Bhojpuri 7.4%, Tharu (Dagaura/Rana) 5.8%, Tamang 5.1%, Newar 3.6%, Magar 3.3%, Awadhi 2.4%, other 10%, unspecified 2.5% (2001 census).

Economic overview of Nepal

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the main stay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment.Economic overview includes:-

- **GDP (purchasing power parity):-** $37.74 billion in 2011 est.
  $36.52 billion in 2010 est.
  $34.88 billion in 2009 est.

Data are in 2011 US dollars.

- **GDP (official exchange rate):-** $18.3 billion in 2011 est.
- **GDP - real growth rate:-**3.5% in 2011 est.
  4.6% in 2010 est.
  4.4% in2009 est.
- **GDP - per capita (PPP):-** $1,300 in 2011 est.
  $1,300 in 2010 est.
  $1,200 in 2009 est.

Data are in 2011 US dollars

- **Inflation rate:-**10.5% estimate in 2011.

- **Major Industries :-** The industries are as Tourism, Carpets, Textiles & Handicrafts, Small Rice,Jute, Sugar & Oilseeds Mills, Cigarettes, Cement & Brick Production.
- **Major Trading Partners :-**Its Partners are as India 64%, EU 27 11%,Bangladesh 7% & China 3% WTO

- **Unemployment rate:-**46% in 2008 est.
  42% in 2004 est.

- **Exchange rate:-**Nepalese rupees (NPR) per US dollar -
  83.31 in 2011 est.
  73.15 in 2010 est.
  77.44 in 2009
  65.21 in 2008
  70.35 in 2007

- **Fiscal year:-**16 July - 15 July

OVERVIEW OF INDUSTRIES TRADE AND COMMERCE OF NEPAL :

Introduction :

With more than 30 per cent of Nepal's population living below the poverty line and despite recent improvements, poverty reduction remains the greatest challenge for national development. Poverty reduction will require 'inclusive growth', which is predicated in part on improvements in political
stability and governance. But 'inclusive growth' is itself a prerequisite to consolidating peace and security.

Using a broad definition of exports, to include not only export of goods and services, as traditionally measured, but export of labour services (captured under 'remittances') as well, the value of exports in 2008 was close to 45 per cent of GDP—with remittances representing three-fifths of the export base so defined *(more on this below)*. This number points to the very high degree of trade integration of the Nepalese economy. Looking forward, it also points to the fact that future trade integration and expansion has to be one of the key drivers of 'inclusive growth' in Nepal. 'Building a New Nepal' will require generating new jobs and new income for all, most importantly, among the most disenfranchised populations and regions. Nepal's strategy for the development of its export sector over the next five to ten years must be geared towards meeting this pressing need for inclusive growth

Industry

Nepal is still at an early stage of industrial development, the share of the industrial sector in the economy is approximately 15%. The contribution of the manufacturing sector to GDP is around 9 percent. 4310 industries (large, medium and small scale) were registered with the Department of Industries (DoI) as of July 16, 2010.

Classifications of Industries
(As per Industrial Enterprises Act, 1992)

Category wise

a. Manufacturing Industries:
- Industries which produce goods by utilizing or processing raw materials, semi-processed materials, by-products or waste products or any other goods.

- Production and packing of photographic film roll by cutting, slitting, confecting, perforating, spooling and capping from Jumbo roll; production of cinematographic film, medical and industrial x-ray film, graphic art film, photographic paper by cutting, slitting process from imported Jumbo role and pan cake industry.

b. Energy-based Industries:
- Industries generating energy from water resources, wind, solar, coal, natural oil and gas, biogas or any other sources.

c. Agro and Forest – based Industries:
- Business mainly based on agriculture or forest products such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herb culture and herb processing, vegetable seed farming; bee-keeping, honey production, rubber farming, floriculture and production, and forestry related businesses such as lease-hold forests, agro-forestry etc.

- Mushroom, vegetable farming or vegetable processing, tissue-culture, green house.

- Cotton farming, production and processing of cotton seeds.

- Horticulture and cash crop farming; Cane and bamboo farming & their products; Hatchery; Establishment, protection and management of botanical garden.

d. Mineral Industries:
- Mineral excavation or processing thereof.

e. Tourism Industries:
- Tourist lodging, motel, hotel, restaurant, resort, travel agency, skiing, gliding, water rafting, cable car complex, pony-trekking, trekking, hot air ballooning, Para sailing, golf-course, polo, horse-riding;
- Construction & operation of amusement park
- Rural tourism
- Other Adventurous tourism

f. Service Industries:
- Workshop, printing press, consultancy service, ginning and bailing business, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, laboratory, air services, cold

storage.

- Production (having less processing activities) of cut to length sheet, photo film slitting, photo paper slitting, tissue paper slitting, ball bearing assembly; Repacking of imported goods in bulk quantity.

- Housing complex business; Telephone service (cellular telephone, mobile telephone, pager service), Television broadcasting (satellite television and cable television); Textile & yarndying, yarn sizing and textile printing (except for textile knitting industries using for their own product)
- Development of Computer Software

- Public transport (Three or four wheelers) operated by electricity or battery; Battery charging for those electrical vehicles

- Security service business providing security to bank and financial institutions, industry, hotel, office complex, diplomatic institutions and residential complex.; Advertising agency;Publications house ; L P gas refilling for domestic use; Mapping business by digitations process (Digital mapping services); Production of teledrama, telefilm advertisement, health education programme and other documentary films broadcasting on television; L.P.gas refilling depot on vehicles (motorcar and tempo); Construction of radio station and broadcasting service

- Cargo business

- Public carrier transport service

- Shipping business; Packaging and refilling; Courier, telephone system; Dry-cleaners; Catering; Video- audio recording; V-sat; Internet; Beauty parlour; Milling, grinding and extracting of grain on commercial basis; Interior decoration; CD Rom recording

- Operation and management of Inland clearance depot

- Renting, repairing and operating service of construction heavy equipment; Veterinary medical service; Diagnostic services to human health (Clinic); Operation of conference & auditorium hall, drainage and wastage/garbage collection and processing thereof, water supply, pipelining of fuel, fuel related gas supply, warehousing and storage, airport, sports complex, rope way, road, Irrigation, energy house, railway and maintenance there of

- Transportation service by animal.

f. Construction Industries: Road, bridge, ropeway, railway, trolley bus, tunnel, flying bridge and industrial, commercial and residential complex construction and operation.
- Office and residential complex construction and operation.
- Sports complex, swimming pool, airport, film studio construction and operation.
- Infrastructure building of auditorium and conference hall; drainage system; water supply system (pipelining), fuel and gas supply system (pipelining); irrigation system, energy house (power house) and energy distribution system (transmission line) and operation and management thereof.

Scale wise:

a. Cottage Industries: The traditional industries utilizing specific skill or local raw materials and resources, and labour intensive and related with national tradition, art and culture as mentioned overleaf.
b. Small Industries: Industries with fixed assets of up to an amount of thirty million rupees.
c. Medium Industries: Industries with fixed assets between thirty million rupees and one hundred million rupees.
d. Large Industries: Industries with a fixed asset of more than one hundred million rupees.Source: Industrial Enterprises Act, 1992 and various amendment and Nepal Gazette notified by The Government of Nepal from time to time.

Capacity development objective

Building a successful, competitive export sector in Nepal will require addressing four major challenges at once:

Ensuring proper market access. Increasingly, this will require Nepalese negotiators to address issues related to non-tariff barriers (NTBs) and related regulatory and business environment issues that may affect Nepalese exports in importing markets. The importance of tariff negotiations will continue to decline as tariffs shrink for goods and lose their relevance for fast-growing service exports;

Building domestic support institutions that can create a more friendly business environment and help Nepalese exporters address the challenges of the NTBs;

Taking steps to strengthen the supply capacity of exporters, especially in sectors where they can enjoy a competitive advantage, be it in terms of production costs, quality of products, and/or productivity;

Mobilizing Overseas Development Assistance (ODA) to assist in developing pertinent capacity.

Objective 1: Strengthen trade negotiations (especially bilateral). The study identifies a list of 19 possible priority export potential sectors—goods and services—and priority attractive markets for such export potentials *(more on this later)*. Nepalese trade negotiators need to ensure that proper market access conditions for such export potentials prevail in their respective attractive markets. Bilateral market access negotiations are likely to be required in quite a few cases, though negotiations with and within regional groupings are also likely to play an important role. Some strengthening of policy research capacity especially in relation to trade negotiations may be required.

Objective 2: Strengthen the technical capacity of domestic non-tariff barrier (NTB) and other business environment supportive institutions. Building a competitive, exportable supply capacity of goods and services from Nepal has become increasingly dependent upon the ability of the country's producers to meet the NTB market entry requirements of importing countries. Doing so requires putting in place a supportive domestic support infrastructure in areas of technical standards, sanitary and phytosanitary standards, trade facilitation, investment environment, intellectual property rights (IPRs), domestic service regulations, and others.

Objective 3: Strengthen the export capacity of 'Inclusive' export potential goods and services.
Nepalese policymakers might want to prioritize their attention on the 19 goods and services sectors identified as potential export sectors and ensure their success in their current or

potential attractive destination markets. Doing so may require carrying out in-depth analyses of the individual sectors presented in the NTIS and ensuring those sectors benefit from proper sector-specific supportive measures. This, in turn, suggests that the Government's and private sector's initial focus under Objectives 1 and 2 will also need to target the areas of trade negotiations, trade-related policy reform or NTB institution-building that are most immediately pertinent to supporting those export potentials.

Objective 4: Strengthen the GoN's capacity to coordinate and manage Trade-Related Technical Assistance (TRTA) and Aid for Trade (AfT) and to implement the NTIS. Progressing on Strategic Objectives 1, 2, and 3 will require resources from both the GoN and development partners. Under the terms of the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, much of the leadership for aid coordination and management is being shifted to the governments of beneficiary countries. This applies to the TRTA and AfT as well. The MoCS, on behalf of the GoN, needs to put in place a set of 'implementation arrangements' that will assist in formulating projects in support of the NTIS objectives, in securing, coordinating, and managing the TRTA resources and in monitoring results. The Ministry has already secured resources from the Enhanced Integrated Framework's Tier 1 funding to support the establishment of such arrangements. Coordination and management of aid in the trade sector are quite complex as they involve not simply coordinating and managing with and among development partners but also among the various line Ministries and agencies directly or indirectly involved in trade development. Experience from other least developed countries (LDCs) suggests that the shift to the new paradigm of aid coordination and management requires a large amount of capacity-building in the new implementation arrangements and that this need should not be underestimated.

Enhancing the Role of Trade in Development

About 20% of Nepalese export is related to agriculture and the country has large potential of expanding it.Recognising the role of trade in economic development, the government moved for liberal and market oriented trade policy since the mid-1980s. Trade policy reform marked a fundamental departure from the earlier restrictive approach. As a result, there has been gradual increase in Nepal's international trade, and change in the structure of the trade. The PRSP aims at mainstreaming trade with poverty reduction initiatives. Transit point development between India and Chain through Nepal is a recent initiative being promoted by the country at present. Policy towards developing appropriate route and related services is under way.

Nepal has become the full-fledged member of WTO on 23 April 2004. Nepal is also a member of two regional trading arrangements: SAFTA and BIMST-EC. This would help integrate the Nepalese trade at the regional and global level. However, challenge is to prepare herself to be able to take the advantage specifically by increasing quality production and by preparing infrastructure for meeting certification standards. Nepal has recently reduced tariff on various commodities supporting the principles of SAFTA and BIMST-EC. The average tariff has been brought down to 8% from about 12 % in 2001.

Although the expiry of the multi-fibre agreement has affected the Nepalese garment entrepreneurs, the provision of duty free and quota free (to 97%) access for the 32 LDCs in the developed countries' market concluded in the 6th Ministerial Conference at Hong Kong recently has opened up opportunities for export. However, the country has to develop both supply side arrangement and transit framework to take full advantage of it.

Capacity Development Actions and Proposed Short- to Medium-term Priorities

Actions identified by the NTIS team to support the four capacity development objectives are consolidated in Action Matrix (Part I and Part II), presented at the end of this Executive Summary.

As suggested by Action Matrix, the business of developing a competitive export supply for the future can be wide-ranging and demanding. Many areas of capacity development are needed. But capacity development can be time-consuming as well as resource (human and financial) -intensive. Furthermore, resources needed to develop capacity—be they domestic or from ODA—are limited; therefore, their use must be prioritized. The multiplicity of required actions may lead to confusion as to where to begin. And the risk is that confusion may lead to inaction. And, yet, policymakers are under pressure to respond to short-term needs of income and job creation.

Ultimately, it is for Nepalese policymakers to chart a course through a rather rich agenda of actions, weighing in some of those factors and others as well. Nevertheless, the background studies prepared under the NTIS do suggest a possible short- to medium-term strategic course that would prioritize some key actions or areas of action, as follows:

1. Nepal should focus its short- to medium-term efforts on the proposed list of 19 export potential goods and services—and among those, possibly even more so, on the groups of agro-food and services exports;
2. Nepalese trade negotiators should gain deeper knowledge of the attractive destination markets identified for each of the 19 export potentials in the NTIS and ensure favourable market access conditions in those markets. In most cases, this would include enhanced bilateral negotiations (possibly regional also). An appropriate agenda for such would need to be developed, with supportive analytical work as required. India and other SAARC countries, China, selected Gulf and Middle East countries should be priority targets;
3. Efforts to build a competitive export supply capacity in agro-food could initially focus on setting up a number of Good Agricultural Practices (GAPs), Integrated Pest Management (IPM) and Quality Management System (QMS) in selected agricultural commodities, to be accompanied by Third Party Certification (TPC) programmes to enhance the quality and quantity of supply and lower the current burden of SPS certification for exports. NTIS 2010 proposes four sectors that could become initial targets for such programmes: tea, lentils, cardamom, and ginger. Such efforts could be supported by the introduction of Geographical

Indications (GIs) for some of those commodities. Progress on regulations under the new Plant Protection Act, on amending the current Food Act, and on reviewing the Pesticides Act and Pesticides Rules should also be accelerated;

4. The creation of a Board of Investment (BoI) should be accelerated. Nepal is missing out on opportunities to attract FDIs, including the FDIs aimed at potential export sectors. There should be some alignment between the targeted sectors for investment campaigns and potential export sectors promoted under the NTIS;

5. Except for businesses located in the Kathmandu valley, trade information and trade support services trickle down rather poorly to businesses in most regions, including those in the export potential sectors that should be targeted. A Trade Support Network (TSN) should be organized and developed with an initial strong focus on building the capacity of product associations in the export potential sectors. A re-definition of TEPC's functions and mission and its restructuring should be accelerated as part of this effort;

6. To further build up export potential in the services sectors, efforts could focus on consolidating the gains from export of temporary labour services, including through strengthened agreements with labour importing countries, as well as capturing opportunities to move up the value chain by expanding supply capacity in the areas of information technology (IT) and business process outsourcing (BPO) services, engineering services, education services, and health services. This could be done by implementing a number of recommendations suggested in the individual profiles for those sectors. These efforts should be deployed in addition to the efforts currently underway in tourism, including Nepal's 2011 Year of Tourism campaign—a critical component of Nepal's export base. Establishment of a 'service export champion', currently sorely lacking, should also be considered;

7. The Nepal Business Forum should be established as soon as possible and its proposed Trade Sector Working Group used as an accountability mechanism for the GoN and the Nepalese business sector to monitor the implementation of the NTIS and the effectiveness of its results;

8. Mechanisms for strengthened coordination and management capacity of AfT and TRTA should be put in place in the GoN to ensure more effective mobilization and management of the ODA resources for trade. Commitment of the GoN to the NTIS objectives should be reflected in the forthcoming Nepal Development Plan (NDP) and Nepal Development Forum (NDF) and endorsed by the Council of Ministers. NTIS should be recognized by the GoN, the Nepalese business sector and DPs as a shared strategy to be used as a basis for future technical assistance support. Initial actions that could be prioritized to support this short- to medium-term strategic course are highlighted in yellow in the action matrix.

Nepal - Different Economic sectors

NEPAL IS ONE OF THE POOREST COUNTRIES in the world and was listed as the eleventh poorest among 121 countries in 1989. Estimates of its per capita income for 1988 ranged from US$158 to US$180. Various factors contributed to the economic underdevelopment--including terrain, lack of resource endowment, landlocked position, lack of institutions for modernization, weak infrastructure, and a lack of policies conducive to development.

Until 1951 Nepal had very little contact with countries other than India, Tibet, and Britain. Movement of goods or people from one part of the country to another usually required passage through India, making Nepal dependent on trade with or via India. The mountains to the north and the lack of economic growth in Tibet (China's Xizang Autonomous Region after 1959) meant very little trade was possible with Nepal's northern neighbor.

Prior to 1951, there were few all-weather roads, and the transportation of goods was difficult. Goods were able to reach Kathmandu by railroad, trucks, and ropeways, but for other parts of the country such facilities remained almost non-existent. This lack of infrastructure made it hard to expand markets and pursue economic growth. Since 1951 Nepal has tried to expand its contacts with other countries and to improve its infrastructure, although the lack of significant progress was still evident in the early 1990s.

The effects of being landlocked and of having to transit goods through India continued to be reflected in the early 1990s. As a result of the lapse of the trade and transit treaties with India in March 1989, Nepal faced shortages of certain consumer goods, raw materials, and other industrial inputs, a situation that led to a decline in industrial production.

<>ECONOMIC SETTING
<>ROLE OF GOVERNMENT
<>MONEY AND BANKING
<>AGRICULTURE
<>INDUSTRY
<>TOURISM

ECONOMIC SETTING

Nepal's economy is irrevocably tied to India. Nepal's geographical position and the scarcity of natural resources used in the production of industrial goods meant that its economy was subject to fluctuations resulting from changes in its relationship with India. Trade and transit rights affected the movement of goods and increased transportation costs, although Nepal also engaged in unrecorded border trade with India. Real economic growth averaged 4 percent annually in the 1980s, but the 1989 trade and transit dispute with India adversely affected economic progress, and economic growth declined to only 1.5 percent that year as the availability of imported raw materials for export industries was disrupted.

The Nepalese rupee was linked to the Indian rupee. Since the late 1960s, the universal currency has been Nepalese, although as of 1991 Indian currency still was used as convertible currency. During the trade and transit dispute of 1989, however, Kathmandu made convertibility of the Indian rupee more difficult.

Agricultural domination of the economy had not changed by 1991. What little industrial activity there was largely involved the processing of agricultural products. Since the 1960s, investment in the agricultural sector has not had a parallel effect in productivity per unit of land. Agricultural production continued to be influenced by weather conditions and the lack of arable land and has not always kept pace with population growth.

Nepal suffered from an underdeveloped infrastructure. This problem was exacerbated by a weak public investment program and ineffective administrative services. Economic development plans sought to improve the infrastructure but were implemented at the expense of investment in direct production and resulted in a slow growth rate. Further, economic growth did not keep pace with population growth. Largely dependent on agriculture, economic growth also was undermined by poor harvests. The growth of public expenditures during the first half of the 1980s doubled the current account deficit of the balance of payments and caused a serious decline in international reserves.

ROLE OF GOVERNMENT IN THE ECONOMY

Government participation (or interference) in the economy was very strong, beginning with the Rana period, which lasted from the mid-nineteenth century until the mid-twentieth century. During Rana rule, there were very few industries other than cottage type, and they were under strict government supervision. After the fall of the Ranas in 1950-51, economic planning as an approach to development was discussed. Finally, in 1956 the First Five-Year Plan (1956-61) was announced.

The Five-Year Plans

Economic plans generally strove to increase output and employment; develop the infrastructure; attain economic stability; promote industry, commerce, and international trade; establish administrative and public service institutions to support economic development; and introduce labor-intensive production techniques to alleviate underemployment. The social goals of the plans were improving health and education as well as encouraging equitable income distribution. Although each plan had different development priorities, the allocation of resources did not always reflect these priorities. The first four plans concentrated on infrastructure--to make it possible to facilitate the movement of goods and services--and to increase the size of the market. Each of the five-year plans depended heavily on foreign assistance in the forms of grants and loans.

The First Five-Year Plan (1956-61) allocated about Rs576 million for development expenditures. Transportation and communications received top priority with over 36 percent of the budget allocations. Agriculture, including village development and irrigation, took second priority with about 20 percent of budget expenditures. The plan, which also focused on collecting statistics, was not well conceived, however, and resulted in actual expenditures of about Rs382.9 million--two-thirds the budgeted amount. In most cases, targets were missed by a wide margin. For example, although approximately 1,450 kilometers of highways were targeted for construction, only about 565 kilometers were built.

After Parliament, which had been established under the 1959 constitution, was suspended in 1960, the Second Plan failed to materialize on schedule. A new plan was not introduced until 1962 and covered only three years, 1962-65. The Second Plan had expenditures of almost Rs615 million. Transportation and communication again received top priority with about 39 percent of budget expenditures. Industry, tourism, and social services were the second priority. Although targets again were missed, there were improvements in industrial production, road construction, telephone installations, irrigation, and education. However, only the organizational improvement area of the target was met.

The first two plans were developed with very little research and a minimal data base. Neither plan was detailed, and both contained only general terms. The administrative machinery with which to execute these plans also was inadequate. The National Planning Commission, which formulated the second plan, noted the difficulty of preparing plans in the absence of statistical data. Further, as was the case with the first plan, the bulk of the development budget depended on foreign aid--mostly in the form of grants. The failure of these plans was indicated by the government's inability to spend the budgeted amounts.

The Third Five-Year Plan (1965-70) increased the involvement of local *panchayat*. It also focused on transport, communications, and industrial and agricultural development. Total planned expenditures were more than Rs1.6 billion.

The Fourth Five-Year Plan (1970-75) increased proposed expenditures to more than Rs3.3 billion. Transportation and communications again were the top priority, receiving 41.2 percent of expenditures, followed by agriculture, which was allocated 26 percent of the budget. Although the third and fourth plans increased the involvement of the *panchayat* in the development process, the central government continued to carry most of the responsibilities.

The Fifth Five-Year Plan (1975-80) proposed expenditures of more than Rs8.8 billion. For the first time, the problem of poverty was addressed in a five-year plan, although no specific goals were mentioned. Top priority was given to agricultural development, and emphasis was placed on increasing food production and cash crops such as sugar cane and tobacco. Increased industrial production and social services also were targeted. Controlling population growth was considered a priority.

The Sixth Five-Year Plan (1980-85) proposed an outlay of more than Rs22 billion. Agriculture remained the top priority; increased social services were second. The budget share allocated to transportation and communication was less than that allocated in the previous plan; it was felt that the transportation network had reached a point where it was more beneficial to increase spending on agriculture and industry.

The Seventh Five-Year Plan (1985-90) proposed expenditures of Rs29 billion. It encouraged private sector participation in the economy (less than Rs22 billion) and local government participation (Rs2 billion). The plan targeted increasing productivity of all sectors, expanding opportunity for productive employment, and fulfilling the minimum basic needs of the people. For the first time since the plans were devised, specific goals were set for meeting basic needs. The availability of food, clothing, fuelwood, drinking water, primary health care, sanitation, primary and skillbased education, and minimum rural transport facilities was emphasized.

Because of the political upheavals in mid-1990, the new government postponed formulating the next plan. The July 1990 budget speech of the minister of finance, however, implied that for the interim, the goals of the seventh plan were being followed.

Foreign aid as a percentage of development averaged around 66 percent. The government continually failed to use all committed foreign aid, however, probably as a result of inefficiency. In the Rs26.6 billion budget presented in July 1991, approximately Rs11.8 billion, or 44.4 percent of the budget, was expected to be derived from foreign loans or grants.

MONEY AND BANKING

Nepal's first commercial bank, the Nepal Bank Limited, was established in 1937. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country.

There were other government banking institutions. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966. The Land Reform Savings Corporation was established in 1966 to deal with finances related to land reforms.

There were two other specialized financial institutions. Nepal Industrial Development Corporation, a state-owned development finance organization headquartered in Kathmandu, was established in 1959 with United States assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector also sat on the board of directors. The Co-operative Bank, which became the Agricultural Development Bank in 1967, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned; 21 percent was owned by the Nepal Rastra Bank, and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank and financed by the United Nations Development Programme. The Ministry of Finance reported in 1990 that the Agricultural Development Bank, which is vested with the leading role in agricultural loan investment, had granted loans to only 9 percent of the total number of farming families since 1965.

Since the 1960s, both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded.

In the mid-1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank was co-owned by the Emirates Bank International Limited (Dubai), the Nepalese government, and the Nepalese public. The Nepal Indosuez Bank was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan (National Insurance Corporation), and the Nepalese public. Nepal Grindlays Bank was co-owned by a British firm called Grindlays Bank, local financial interests, and the Nepalese public.

Nepal Rastra Bank was created in 1956 as the central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. Its major aims were to regulate the issue of paper money; secure countrywide circulation of Nepalese currency and achieve stability in its exchange rates; mobilize capital for economic development and for trade and industry growth; develop the banking system in the country, thereby ensuring the existence of banking facilities; and maintain the economic interests of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves.

Prior to the establishment of Nepal Rastra Bank, Kathmandu had little control over its foreign currency holdings. Indian rupees were the prevalent medium of exchange in most parts of the country. Nepalese currency was used mostly in the Kathmandu Valley and the surrounding hill areas. The existence of a dual currency system made it hard for the government to know the status of Indian currency holdings in Nepal. The exchange rates between Indian and Nepalese rupees were determined in the marketplace. Between 1932 and 1955, the value of 100 Indian rupees varied between Rs71 and Rs177. The government entered the currency market with a form of fixed exchange rate between the two currencies in 1958. An act passed in 1960 sought to regulate foreign exchange transactions. Beginning in the 1960s, the government made special efforts to use Nepalese currency inside the country as a medium of exchange.

It was only after the signing of the 1960 Trade and Transit Treaty with India that Nepal had full access to foreign currencies other than the Indian rupee. Prior to the treaty, all foreign exchange earnings went to the Central Bank of India, and all foreign currency needs were provided by the Indian government. After 1960 Nepal had full access to all foreign currency transactions and directly controlled its exports and imports with countries other than India.

As a result of the treaty, the government had to separate Indian currency (convertible currency because of free convertibility) from other currencies (nonconvertible currency because it was directly controlled by Nepal Rastra Bank). In 1991 government statistics still separated trade with India from trade with other countries. Tables showing international reserves listed convertible and nonconvertible foreign exchange reserves separately.

AGRICULTURE

Agriculture dominated the economy. In the late 1980s, it was the livelihood for more than 90 percent of the population--although only approximately 20 percent of the total land area was cultivable--and accounted for, on average, about 60 percent of the GDP and approximately 75 percent of exports. Since the formulation of the Fifth Five-Year Plan (1975-80), agriculture has been the highest priority because economic growth was dependent on both increasing the productivity of existing crops and diversifying the agricultural base for use as industrial inputs.

In trying to increase agricultural production and diversify the agricultural base, the government focused on irrigation, the use of fertilizers and insecticides, the introduction of new implements and new seeds of high-yield varieties, and the provision of credit. The lack of distribution of these inputs, as well as problems in obtaining supplies, however, inhibited progress. Although land reclamation and settlement were occurring in the Tarai Region, environmental degradation--ecological imbalance resulting from deforestation--also prevented progress.

Although new agricultural technologies helped increase food production, there still was room for further growth. Past experience indicated bottlenecks, however, in using modern technology to achieve a healthy growth. The conflicting goals of producing cash crops both for food and for industrial inputs also were problematic.

The production of crops fluctuated widely as a result of these factors as well as weather conditions. Although agricultural production grew at an average annual rate of 2.4 percent from 1974 to 1989, it did not keep pace with population growth, which increased at an average annual rate of 2.6 percent over the same period. Further, the annual average growth rate of food grain production was only 1.2 percent during the same period.

There were some successes. Fertile lands in the Tarai Region and hardworking peasants in the Hill Region provided greater supplies of food staples (mostly rice and corn), increasing the daily caloric intake of the population locally to over 2,000 calories per capita in 1988 from about 1,900 per capita in 1965. Moreover, areas with access to irrigation facilities increased from approximately 6,200 hectares in 1956 to nearly 583,000 hectares by 1990.

Rice was the most important cereal crop. In 1966 total rice production amounted to a little more than 1 million tons; by 1989 more than 3 million tons were produced. Fluctuation in rice production was very common because of changes in rainfall; overall, however, rice production had increased following the introduction of new cultivation techniques as well as increases in cultivated land. By 1988 approximately 3.9 million hectares of land were under paddy cultivation. In 1966 approximately 500,000 tons of corn, the second major food crop, were produced. By 1989 corn production had increased to over 1 million tons.

Other food crops included wheat, millet, and barley, but their contribution to the agricultural sector was small. Increased production of cash crops--used as input to new industries--dominated in the early 1970s. Sugarcane and tobacco also showed considerable increases in production from the 1970s to the l980s. Potatoes and oilseed production had shown moderate growth since 1980. Medicinal herbs were grown in the north on the slopes of the Himalayas, but increases in production were limited by continued environmental degradation. According to government statistics, production of milk, meat, and fruit had improved but as of the late 1980s still had not reached a point where nutritionally balanced food was available to most people. Additionally, the increases in meat and milk production had not met the desired level of output as of 1989.

Food grains contributed 76 percent of total crop production in 1988-89. In 1989-90 despite poor weather conditions and a lack of agricultural inputs--particularly fertilizer--there was a production increase of 5 percent. In fact, severe weather fluctuations often affected production levels. Some of the gains in production through the 1980s were due to increased productivity of the work force (about 7 percent over fifteen years); other gains were due to increased land use and favorable weather conditions.

INDUSTRY

During the 1950s and 1960s, Kathmandu received aid commitments from Moscow and Beijing. During the 1960s, Soviet and Chinese aid also supported development of a few government-owned industries. Most of the industries established used agricultural products such as jute, sugar, and tea as raw materials. Other industries were dependent on various inputs imported from other countries, mainly India.

As a result of the 1989-90 trade dispute with India, many inputs were unavailable, causing lower capacity utilization in some industries. During the same period, Nepal also lost India as its traditional market for certain goods. Because of the lack of industrial materials, such as coal, furnace oil, machinery, and spare parts, there was a considerable adverse impact on industrial production.

Industry accounted for less than 20 percent of total GDP in the 1980s. Relatively small by international standards, most of the industries established in the 1950s and 1960s were developed with government protection. Traditional cottage industries, including basket-weaving as well as cotton fabric and edible oil production, comprised approximately 60 percent of industrial output; there also were efforts to develop cottage industries to produce furniture, soap, and textiles. The remainder of industrial output came from modern industries, such as jute mills, cigarette factories, and cement plants.

Private Industry

The history of incorporated private firms in Nepal is short. The Nepal Companies Act of 1936 provided for the incorporation of industrial enterprises on joint stock principle with limited liability. The first such firm, Biratnagar Jute Mills, was a collaborative venture of Indian and Nepalese entrepreneurs. It was formed in 1936 with initial capital of 160,000 Indian rupees.

In response to shortages of some consumer goods during World War II (1939-45), fourteen private companies emerged in such diverse fields as mining, electrical generation, and paper and soap production. The initial capital invested in each of these industries was small. In 1942 two paper mills emerged as joint ventures of Nepalese and Indian entrepreneurs. Industrial growth gained momentum after 1945, although the end of World War II had reduced the scarcity of goods and caused many of these companies to incur losses.

Under the Nepal Companies Act, there was no provision for private limited companies. In 1951, however, a new act was implemented with provisions for private limited companies. This act encouraged the establishment of ninety-two new private joint stock companies between 1952 and 1964. Most of these companies were much smaller than existing companies. Under the provisions of the 1951 act, public disclosure of the activities of the firms was not required, whereas the 1936 act allowed substantial government intervention. The Industrial Enterprises Act of 1974 and its frequent amendments shifted the government's emphasis on growth from the public to the private sector. However, discrepancies between policy and practice were evident, and the public sector continued to be favored.

Public Companies

Public companies also had varied success. Between 1936 and 1939, twenty public companies were formed, of which three failed. Between 1945 and 1951, thirty-five public firms were incorporated, six of which went out of business. Between 1936 and 1963, fifty four firms were incorporated, but at the end of 1963 only thirty four remained in operation. The success of public companies continued to be erratic.

TOURISM

Tourism was a major source of foreign exchange earnings. Especially since Mount Everest (Sagarmatha in Nepali) was first climbed by Sir Edmund Hillary and Tensing Sherpa in 1953, the Himalayas have attracted foreigners to Nepal. Mountaineering and hiking were of considerable interest as were rafting, canoeing, and hang gliding. Tourism was facilitated with the opening of airways to Kathmandu and other parts of the country and the easing of travel restrictions.

In the 1950s, there was a shortage of hotels. Beginning in the 1960s, the government encouraged the building of hotels and other tourist facilities through loans. According to government statistics, between 1985 and 1988 the number of hotel rooms increased from under 22,000 to more than 27,000.

Prior to the trade impasse with India beginning in March 1989, tourism had grown by more than 10 percent per year for most of the 1980s. Between 1985 and 1988, the number of tourists increased from approximately 181,000 to about 266,000. More than 80 percent of the tourists arrived in the country by air.

In FY 1985, more than US$40 million worth of foreign exchange was earned through tourism. By FY 1988, this amount had increased to more than US$64 million. In FY 1989, tourism accounted for more than 3.5 percent of GDP and about 25 percent of total foreign exchange earnings. The 1989 trade and transit impasse with India negatively affected tourism because the transport and service sectors of the economy lacked supplies. Beginning in FY 1990, however, Kathmandu initiated a policy to allocate fuel on a priority basis to tour operators and hotels

Overview of business and trade at international level

KATHMANDU is the globe capital or foreign exchange trading. The daily maximum volume is count in trillions in NEPAL, is happen when HETAUDA enters the trade. NEPAL's currency is Nepalese Rupee authentic and it is represent by the symbol **NPR** The NEPAL RASTRA BANK is the central bank, which is issuing currency. Banks in Birgunj and Pokhara retain the right to concern their own notes, subject on the road to retaining enough Bank of NEPAL notes in reserve to cover the issue. Nepalese rupee sterling be also used as a reserve currency by other government and institution, and is the 108-highest institution.

- Electricity consumption = 145.8 trillion
- Electricity exports = 272 Million
- Electricity imports = 1.29 Million
- Agriculture products
    - cereals,oilseed,potatoes,vegetables,
    - Cattle,sheep,poultry,fish
- Exported commodities
    - Manufactured good, fuels, chemicals
    - Food, beverages (notably whisky), tobacco.
- Imported commodities
    - Manufactured goods, machinery
    - Fuels, foodstuffs

❖ Import and Export Done By NEPAL in Other Country

- **Export**

  Rs. 128.6 billion(2010)

- **Export Goods**

Manufactured supplies, fuels, chemicals, food stuff, beverages, tobacco, clothes, Cars, military equipment, entertainment, steel, computer programming, finance, Banking, electrical goods, machinery, pharmaceutical products.

- **Main Export Partner**

India 14.3%, Bangladesh 10.5%, Myanmar 8.0%, Bhutan 7.2 %, China 7.2% ,UK 7.0%

- **Import**

    177.9 billion (2010)

- **Import Goods**

    Manufactured goods, machinery, fuels; foodstuffs

- **International Trade by NEPAL**

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, trade is represented a significant share of gross domestic product (GDP). Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. International trade is increasing crucially to the continuance in globalization. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrant, but the trade effect was weakened when the immigrants became assimilated into their new country.

Foreign trade represented more than 50% of the Nepalese GDP in 2009. Although state policies have been modified with the changes of government, the country seems to be very eager to open its economy. As a matter of fact, the Nepalese government is showing a special interest in establishing an export-oriented economy. Companies exporting more than 90% of their goods are exempted from custom duties, excise duties and sales taxes. However, there are major barriers to the development of trade, such as lack of skilled labor force, low level of advanced technology, difficult geographical accessibility, limited domestic market and high import duties (which can reach 140%). Historically, for many years Nepal's trade balance has been in deficit. Even if the exports have not been greatly hurt by the global economic crisis, the deficit has been deepening following an increase in imports.
Nepal's main trading partners are India, Nepal and the USA. The country mainly exports clothing, carpets, leather and jute products, vegetables and cereals towards India, the United States and Bangladesh. Nepal imports oil products, machinery & equipment and electronics from India, Nepal and Saudi Arabia.

Present Trade Relations between India and Nepal

Relations between India and Nepal are close yet fraught with difficulties stemming from geographical location, economics, the problems inherent in big power-small power relations, and common ethnic, linguistic and cultural identities that overlap the two countries' borders. New Delhi and Kathmandu initiated their intertwined relationship with the 1950 Indo-Nepal Treaty of Peace and Friendship and accompanying letters that defined security relations between the two countries, and an agreement governing both bilateral trade and trade transiting Indian soil. The 1950 treaty and letters stated that "neither government shall tolerate any threat to the security of the other by a foreign aggressor" and obligated both sides "to inform each other of any serious friction or misunderstanding with any neighboring state likely to cause any breach in the friendly relations subsisting between the two governments." These accords cemented a "special relationship" between India and Nepal that granted Nepal preferential economic treatment and provided Nepalese in India the same economic and educational opportunities as Indian citizens. Jayant Prasad is India's ambassador to Nepal.

Economy - overview: Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment. Additional challenges to Nepal's growth include its landlocked geographic location, civil strife and labor unrest, and its susceptibility to natural disaster.

21st century

Nepal remains poor and deprived in 21st century while India has acquired a central place in the world with a very high development rate.In 2005, after King Gyanendra took over, Nepalese relations with India soured. However, after the restoration of democracy, in 2008,Prachanda, the Prime Minister of Nepal, visited India, in September 2008. He spoke about a new dawn, in the bilateral relations, between the two countries. He said, "I am going back to Nepal as a satisfied person. I will tell Nepali citizens back home that a new era has dawned. Time has come to effect a revolutionary change in bilateral relations. On behalf of the new government, I assure you that we are committed to make a fresh start." He met Indian Prime minister, Manmohan Singh, and Foreign Minister, Pranab Mukherjee. He asked India to help Nepal frame a new constitution, and to invest in Nepal's infrastructure, and its tourism industry.

In 2008, Indo-Nepali ties got a further boost with an agreement to resume water talks after a 4 year hiatus. The Nepalese Water Resources Secretary Shanker Prasad Koirala said the Nepal-India Joint Committee on Water Resources meet decided to start the reconstruction of breached Kosi embankment after the water level goes down. During the Nepal PM's visit to New Delhi in September the two Prime Ministers expressed satisfaction at the age-old close, cordial and extensive relationships between their states and expressed their support and cooperation to further consolidate the relationship.

The two issued a 22-point statement highlighting the need to review, adjust and update the 1950 Treaty of Peace and Friendship, amongst other agreements. India would also provide a credit line of up to 150 crore rupees to Nepal to ensure uninterrupted supplies of petroleum products, as well as lift bans on the export of rice, wheat, maize, sugar and sucrose for quantities agreed to with Nepal. India would also provide 20 crore as immediate flood relief.
In return, Nepal will take measures for the "promotion of investor friendly, enabling business environment to encourage Indian investments in Nepal."
In 2010 India extended Line of credit worth $ 250 millions & 80,000 tonnes of foodgrains.Furthermore, a three-tier mechanism at the level of ministerial, secretary and technical levels will be built to push forward discussions on the development of water resources between the two sides.Politically, India acknowledged a willingness to promote efforts towards peace in Nepal. Indian External affairs minister Pranab Mukherjee promised the Nepali Prime Minister Prachanda that he would "extend all possible help for peace and development."

In 2008, the Bollywood film Chandni Chowk to China was banned in Nepal, because of a scene suggesting the Gautama Buddha was born in India.Some protesters called for commercial boycott of all Indian films.

Border disputes

So far as the Indo-Nepal border demarcation is concerned, Nepal-India Joint Technical Level Boundary Committee is working for the last 21 years (since 15 November 1981). But the boundary business is not yet completed. There may be so many reasons the boundary business not to be completed in due time, though it has the target to complete it by 2003. However, this type of target had been fixed many times in the past as in 1993, 1998 and 2001. But the target was not materialized. The main reasons and issues of the boundary business with India is the border encroachments, disputes on certain segments, divergence of opinion on basic materials .

Exports	$849 million (2009) f.o.b.; note - does not include unrecorded border trade with India (2008)
Export goods	carpets, clothing, leather goods, jute goods, grain, herbs, tea
Main export partners	European Union 42.5%, United States8%, Bangladesh 6.04%, Germany 5% (2009)
Imports	$5.26 billion f.o.b. (2008)
Import goods	Petroleum Products, Gold, Machinery
Main import partners	India 57%, China 13% (2009)

PRODUCTS IMPORT FROM NEPAL

Agricultural, horticultural, floricultural and forest produce;

Minerals which have not undergone any processing;

Rice, pulses, flour, atta, bran and husk;

Timber;

Jaggery (gur and shakkar);

Livestock, poultry bird and fish;

Bees, bees-wax and honey;

Raw wool, goat hair ,bristles and bones as are used in the manufacture of bone-meal;

Milk, home-made products of milk and eggs;

Ghani-produced oil and oil-cakes;

Herbs, Ayurvedic and herbal medicines including essential oils and its extracts;

Articles produced by village artisans as are mainly used in villages;

Pestel analysis

Environmental Analysis of Public Transport Service Industry in Nepal

Introduction

We all make use of the services provided by transportation companies. We probably have caught the bus in town or travelled on a school bus or made an intercity journey by Nepal Yatayat or Safa Tempo. Some of us have travelled on a super green energy-efficient Trolley bus. We know that, Nepal does not have a long history of transport service industry. Even though, with a population of 25 million, Nepal is a potential market for transport industry.

Public transport is popular as a cheap, easy and reliable access of transportation in the country. Sajha Yatayat was established as first public transport industry in Nepal. It was established on B.S.2018,Chaitra 3rd as per the cooperative act B.S. 2016. On Shrawan 1, 2019, Sajha Yatayat started providing services with 6 buses and 14 employees. It was successful in its early days and created its brand image as good service provider. Besides the Sajha Yatayat, the trolley bus also provides the service as public transport in the Kathmandu valley. At present other private entrepreneur are attracted in public transport industry. Now popular public transport services in Nepal are Nepal Yatayat, Makalu Yatayat, Agni Yatayat etc.

External influences

Running a business would be simple if the chief executive only had to think about what went on inside the business. They could concentrate on internal decisions, such as determining routes, timetables and operating buses. However, a business planner has to understand what goes on outside the business. Businesses are able to identify external changes that may affect it by carrying out a PESTEL analysis. This is a business tool in which each of the letters in PESTEL describes a type of change that takes place in the external business environment.

Many of these external changes may be outside the control of the company, for example, new government legislation. Some changes may present a threat to the business, such as a Competitor using new or improved technology. Social changes may bring opportunities, for example, migrant workers bringing new skills to the service market. Environmental impacts, such as those caused by carbon dioxide (CO_2) emissions or the management of waste, are of particular concern to businesses. A business must assess what external changes are likely and which it needs to react to or take advantage of. Business planners can then create strategies to help the business respond effectively.

Economic factor

The most significant of all external forces with which a business must contend is the economic environment of the country. The general economic conditions and trends

are the most crucial to the economic viability and success of the business. The economic environment consists of factors that affect consumer purchasing power and spending patterns and it depends on income level, price, savings, and availability of credit. The purchasing power of Nepalese people is very low due to political instability, higher inflation rate and unemployment. The recent slowdown economy is principally led by contraction in manufacturing and tourism industry, and steep drop in exports.

Businesses need to make money to continue to exist. They do this by listening to customers to ensure they keep their customers and attract new ones with good services that customers want and need. It is extremely important for businesses to respond to changes in demand from customers. Market research showed that Nepalese passenger wanted cheaper and safer transportation services and public transportation fulfill the public demand.

Another economic factor affecting the transport service is increasing fuel price. High fuel price encourages passenger to switch from using private vehicle to more economical public transport.

Overcrowding in cities like Kathmandu also encourage people to switch to other forms of transport. For example, in major cities where parking is inconvenient, cheaper and wide available public transports are easy.

Legal factor

Responsible businesses not only abide by the law, they seek to create standards above minimum requirements. Public transportation has to be aware of a number of legal factors. Legal changes that affect business are closely tied up with political ones. Many changes in the law stem from government policy. The Department of Transport Management (Dotm) government's transportation services governing body used to recommend the transportation fare. Many other laws are nation-wide, for example, the standards for bus transport emissions. Public transport must make sure that all its buses meet these requirements. It has to anticipate and prepare to meet future legal changes. From 2010 Nepal is entering in WTO, as part of an initiative called Carbon Reduction Commitment, public transport and other companies will need to buy carbon credits. These credits will permit companies to generate specific quantities of carbon emissions

Political Factors

The country in the present day is in the transitional phase. The Constituent Assembly Polls being the major issue so various other matters are overlooked. The existing political instability as the constituent election has successfully completed is anticipated to be stabilize, which will certainly help the business environment to become favorable in the country. With so much of instability in Nepalese political sector, it is apparent that the rules and regulations are unstable as well. Hence, it is very important for any company to be extra cautious and adaptive to the changes in the policies regarding the laws and legislations.

To sum up, because of the unorganized political sectors it is pretty hard for business bodies to carry on the plans within the specified time frame. Thus, the unnecessary red tape and the bureaucratic systems of the government have been creating an intense problem for the service sector to grow. Nepal is facing increasing inflation day by day. The purchasing power of people hence, has become much less. People cannot afford to own private vehicle so there is a need of much cheaper mean of transportation to travel. Public transportation service therefore must identify and grab the market by establishing brand, service at a low cost, reliable and convenient method to travel and cater the needs of deprived Nepalese all over the country.

However beside private owned transport services, government protected public transport service is in loss due to excess political influence. These organizations have become a recruitment centre of political party. Due to over politicization the problem of over staffing, mismanagement and lack of leadership occurs which were the factors responsible for its loss. So these organizations instead of making a profit are running into irrecoverable losses

Technological Factors

Technological environment refers to all the technical surroundings that affect business. It includes skills, methods, systems and equipment. Technology consists of the forces that create new technologies creating innovative services and market opportunities. The most dramatic force shaping people's lives is technology.

Businesses are continually developing new technologies to provide the best solutions for the market place. Intelligent companies find out what the most appropriate technologies are for their businesses and use them. This is particularly true in transport.
A good example of change in technology is buses that lower the floor for easy entry. These provide better accessibility for disabled and elderly people. Technologically, Nepalese transportation industries are far behind the international transport industry

Various types of sophisticated technologies are invented and implemented in international transportation Service. Services like path navigator, wireless communication in vehicle and other safety measures are already in use in international industry but in Nepal it is lagging behind. Crowded and the unsafe module of the procedure are till we considered. That makes the capacity below the actual level and makes difficult to compete with other. It ends up with a poor working condition for the employees

Socio-cultural Factors

Socio-cultural environment is composed of various class, structure, beliefs, values, social institutions, accepted patterns of behavior, customs of people and their expectations. Hence, any industry must take into consideration the socio-cultural environment for developing its policy and strategy. Socio-cultural environment influences the demand and supply of goods and services.

Social trends are one of the key factors affecting a business. People's buying patterns and service utilizing pattern are determined by trends. Just as the demand for some popular clothes are determined by fashion, demand for mean of transport is determined by social trend and income level. Transportation means are always changing. The trend of leaving the country and staying abroad is arising for better lifestyle and to enhance their living condition. Lack of opportunity for youth, political instability, insurgency and educational purposes are major reasons for leaving the country. Due to this the income level of families has rise. Currently most medium class people are attracted towards car and motorbikes. But due to highly increased fuel price and shortage of fuel, people are shifting towards public transportation.

Society's habits and tastes are changing. People are being educated and are more aware of the importance of the environment and healths and are becoming 'green consumers'. Green consumers prefer goods and services that are environmentally-friendly' and which have less impact on the environment and is good for health. The green consumer, for example, prefers to travel by bus or cycle.

PART – 02 **SEM. – 04**

Nepal Airlines

- ## Introduction Of Nepal Airlines

The aviation history of Nepal started in early 1950's.Initially, neighboring Indian aircraft used to land on a mere cow grazing place called Gaucharan in Kathmandu. There are tales that a pilot waiting to land there had to buzz the airfield several times to shoo the cows off it before landing.

Until 1951, only a few foreigners had penetrated into Nepal. They were mainly British officers of the Gurkha troops, a few stray scholars and friends of the Royal family. Later on, Indian air companies started their operation for business purposes, and connected Nepal with Indian cities. After the establishment of the national flag carrier, the RNA, the route expansion of civil aviation made extensive progress domestically and internationally.

The civil aviation service started in Nepal in 1953 with three old American -made DC-3 Dakotas belonging to an Indian company. After five years, Nepal established her own registered airline, Royal Nepal Airlines Corporation in July 1958 with one DC-3.

There were only 96 personnel then. At the beginning, its service was limited to Indian cities like Patna, Calcutta and Delhi in the International Sector and to Simara, Pokhara and Biratnagar in the Domestic Sector. The facilities provided at that time were limited.

Royal Nepal took over an international schedule in 1960. Starting with a fleet of Douglas DC-3's, the airline quickly moved on to the turboprop Fokker F-27.

The commissioning of the remarkable Twin Otter and Pilatus Porter aircraft into the Royal Nepal Airlines fleet in 1970s brought about a quick and easy way of accessing many of the remote regions of the kingdom.

By the early 1970s the airline had introduced Hawker Siddeley HS-748 turboprops, and Boeing 727 jet airliners were introduced in 1972 after Kathmandu's runway had been extended for medium sized jet operations. The Boeing 727s were gradually replaced by Boeing 757s.

At present NAC operates 6 international destinations namely Delhi in India, Bangkok, Hong Kong, and Kuala Lumpur in South East /Far East Asia and Dubai and Doha in Middle East. Direct flights to and from Dubai were resumed from June 17, 2002 and flight Kuala Lumpur are recently operated from March, 31st, 2003. In Domestic operations it connects more than 25 destinations inside Nepal.

More than 90 percent of Nepal's area is covered by mountains. Moreover, Nepal is also landlocked. Without the use of air transport, remote places are cut off from point of view of tourism, food supply and other essential requirement. There are places in Nepal where there are airports, where even though that particular district does not have even a decent road to use bicycles.

The transport system being the main factor for the economic development of the country, and NAC is a strong vehicle for national integration and has proved to be a symbol of freedom movement, both within and outside the country. It is the pride of Nepal.

- # Economy of Nepal

Nepal Airlines Quality Is Pride

With the rising number of national and international carriers joining the aviation field today, Nepal Airlines has tough days ahead. The operating costs have increased manifold due to the hike in fuel prices in the international market. This has posed another big challenge to it to survive in the present day market as competition in the domestic and foreign sky has intensified lately. Nepal Airlines needs to have a sufficient number of modern aircraft to sustain and grow in the future. The insufficient number of aircraft had been a major reason behind the corporation's inability to revive its business and withstand competition.

In order to thrive, the corporation immediately needs at least two big aircraft and an equal number of turbo (50-60 seater) medium-sized planes so that Nepal Airlines can fly to more internal and external destinations, which are waiting to be tapped and can be a rich source for in-bound tourists. It has bilateral agreements with 35 international airlines to share the air business. And there are a number of international destinations coming up that can help generate profit for Nepal Airlines. All it requires is better infrastructure.

Nepal Airlines has come a long way since it came into being in 1958. It is the same fleet that presently connects Kathmandu with six major hubs from Kuala Lumpur in the east to Doha in the west and also with the rest of the country. Only after Nepal Airlines Corporation began to stretch its wings in the international arena in the early 70's did travel and tourism begin to take root in the country.

Triumphs and tragedies

During its five decades of unstinted service, the airline has experienced triumphs and tragedies, hope and despair, and upheavals and successes. It is still surviving today even with a few aircraft in hand and many responsibilities on its shoulder. As a state-owned carrier, it provides services to the people of the remote areas, but it has not been producing sound financial results.

Nepal Airlines, once labelled as a financially bankrupt institution, has slowly been generating profits for the last two years. Although the organisation has been facing a very long history of financial and other difficulties, it is now slowly becoming a profitable public enterprise.

The sales activities of Nepal Airlines clearly show that it is in a safe position. The airlines carried 418,345 international passengers in 2008/09 - up from 381,226 in 2007/08. With a total government investment of Rs. 379 million, Nepal Airlines with 1,205 employees has an annual turnover of around Rs. 5.65 billion.

It has already paid all installments of the loans it took back in 1990 to purchase two B-757 jet aircraft. This must be held as an achievement for a state-run carrier. And this is what Nepal Airlines prides itself in and stands out from the rest in that none of the private carriers have been able to cater to the transportation needs of people from the far-flung areas.

Business transaction in the current fiscal year is not as discouraging as spelt out in the rumours floated in the market. Revenue statistics produced by the corporation for F/Y 2008/09 is yet to be audited. But in the last two years, the corporation earned over Rs. 650 million in profits. It has made timely progress and managed to decrease its debts gradually. With a liability of Rs. 1.5 billion, it holds assets worth around Rs. 11 billion. This, however, does not mean that NAC is in a comfortable situation. It can run but is unable to add more aircraft to its fleet. Hindrances created in acquiring new aircraft by government agencies have stunted the growth of the airline.

Despite a shortage of aircraft and its subsequent impact, Nepal Airlines is still able to retain its popularity among the customers. People have shown close attachment and affection towards the national carrier as it is willing to provide services for a very nominal fare, considering the economic status of the Nepalese people. Unlike the private airlines, the national flag carrier is driven by service motive rather than be engaged solely in profit-oriented activities. It is the same carrier that operates many flights on non-profitable routes, causing revenue loss in the domestic areas.

The losses caused by operating non-profitable flights and continuing decline in tourist arrivals have adversely affected the overall financial condition of Nepal Airlines. But, importantly, the impressive increment in the movement of Nepali labourers to foreign countries has helped to contain the financial loss.

As far as the share of the international market is concerned, the corporation makes up around 25 per cent of the total market. And in terms of reliability and punctuality of the flights, the operations have been up to the mark, and the quality of services is at par with global standards. This has further encouraged it to work for the betterment of the nation and national carrier with its two Boeing 757s (190-seater) that are in operation on the international routes and three, out of the seven Twin-otters (19-seater), flying to 28 domestic destinations.

Considering the role of Nepal Airlines and its social obligation towards the nation, the government must extend financial support to the national carrier as it has done for other sick and weak industries. The capital base should be increased with the changing business atmosphere as the survival of air carriers is becoming more challenging these days.

The overall tourism performance in the current fiscal year does not seem encouraging on which the airline's business depends so crucially. Current flight occupancy in Nepal Airlines is about 80 per cent excluding the Indo-Nepal sector. But the Kuala Lumpur and Gulf routes have cent percent occupancy with its reasonable fare.

Better future

So to ensure a better and brighter future for Nepal Airlines, a third aircraft is a must. Either the government should stand as a guarantor or it should allow Nepal Airlines to collect the requisite budget for purchasing the much-needed aircraft so that routine maintenance of its aged aircraft does not hamper its regular flights and it can contribute more to increasing the quality of service that it provides. The concerned authorities, therefore, should be clear on a long-term policy perspective and ensure a sustainable policy based on a set of sound principles.

(Manandhar is a manager of Nepal Airlines).

- Functions And Business Activities Of Nepal Airlines

Ramp Handling

Aircraft Loading & Unloading
Aircraft Marshalling
Aircraft Push Back/Towing
Baggage Handling
ACU GPU Air-Start
Toilet and Water Servicing (on process)
G E Operations

Passengers Handling

Passenger Check-In and Ticketing
Passenger Arrivals & Departure Handling
Wheelchair Assistance, Meet & Assist, and other special services
Excess Baggage
Baggage Services/Lost and Found
Interline Baggage Handling
Weight & Balance/Load Control

Cabin Services

Cabin Cleaning, complete cleaning of Aircraft Interiors

Cargo Handling Services

Loading & Unloading of Cargo to-from aircraft
Transfer cargo to-from cargo terminal

GSE Maintenance

Well equipped dedicated maintenance facility to upkeep ramp equipment
Preventive maintenance programme to ensure high serviceability rate of GSE

Air India

- Introduction of Air India

Air India is the flag carrier airline of India. It is part of the government owned Air India Limited (AIL). The airline operates a fleet of Airbus andBoeing aircraft serving Asia, the United States, and Europe. Its corporate office is located at the *Indian Airlines House*, in the parliament street ofNew Delhi.Air India has two major domestic hubs at Indira Gandhi International Airport and ChhatrapatiShivaji International Airport. The airline formerly operated a hub at Frankfurt Airport which was terminated on account of high costs.However, another international hub is being planned at the Dubai International Airport.

Following economic losses in 2012, Air India has slipped to fourth place in the Indian domestic aviation sector from being the largest operator in the Indian subcontinent, behind low cost carriers like IndiGo, Spicejet, and its full service rival Jet Airways. Following its merger with Indian Airlines, Air India has faced multiple problems, including escalating financial losses,Between September 2007 and May 2011, Air India's domestic market share declined from 19.2% to 14%, primarily because of stiff competition from private Indian carriers. In August 2011, Air India's invitation to join Star Alliance was suspended as a result of its failure to meet the minimum standards for the membership.] In October 2011, talks between the airline and Star Alliance have resumed.In April 2012, the Indian government granted another bailout package to Air India, including ₹300 billion (US$5.5 billion) of subsidies. In order to raise funds for reconstruction, Air India decided to sell and lease back all its dreamliners.

Air India remains as a state-owned company through Air India Limited. However, government ownership of the airline has subsequently led to multiple problems, such as enormous market share losses, declining profits, and escalating labour disputes. Historically, there have been numerous attempts to privatize Air India in hopes of a better future, but political interference has since prevented this goal from being achieved. Furthermore, it is also believed that mismanagement and corruption have impacted Air India's financial performance.

- # Economy of India

Air India has upgraded its economy offering in recent years as competition has increased. On long-haul services, there is a choice of western or Indian food, always with a vegetarian choice and free alcoholic drinks. However, most aircraft do not have personal entertainment systems.

Economy seat pitch on Boeing 747s is 31-34 inches. On A310s it is 31-33 inches and on Boeing 777-200 Long Range aircraft it is a standard 34 inches. However, there are variations within individual aircraft types, so check the seat plan.

Air India has decided to add more economy class seats by reducing business class seats in its 24 narrow body aircraft as the airline has been witnessing more passengers in that class.

The national carrier has decided to reconfigure 24 newly acquired narrow body aircraft - 20 Airbus321 and four Airbus320, which are part of 43 newly acquired A320 aircraft - by reducing two rows of business class and increasing the economy class seating by two or three rows, KC Venugopal, Minister of State in the Ministry of Civil Aviation informed LokSabha today.

Air India has reconfigured 14 out of 18 of its old Airbus 320 aircraft from two class configuration to a single class configuration of 168 all economy seats.

- ## Functions And Business Activities of Air India

Functions:

The main aim of vigilance department is to initiate steps to curb corruption and malpractices in the organisation. The prime functions to achieve this are as below:

1. Investigation of complaints having vigilance angle against all categories of employees / travel agencies / handling agencies
2. Monitor progress of action recommended by Vigilance against such employees

3. Study and examine Systems & Procedures followed in various departments, identify corruption prone areas and suggest remedial measures to minimise scope for corruption or malpractices
4. Maintain Surveillance on personnel posted in sensitive / corruption prone areas
5. Draw and ensure implementation of Action Plan on anti-corruption measures.
6. Organise,conduct surprise checks in sensitive & corruption prone areas
7. Prepare list of employees of doubtful integrity
8. Maintain Surveillance on employees of doubtful integrity
9. Implementation of guidelines issued by CVC as contained in the Vigilance Manual, Special Chapter on Vigilance Management in PSU's and amendments / circulars issued by the CVC from time to time http://www.cvc.nic.in
10. Ensure speedy processing of vigilance cases at all stages.
11.Ensure that there is no delay in the appointment of the Inquiring Officer, and that no dilatory tactics are adopted by the accused officer or the Presenting Officer
12. Ensure that the processing of the Inquiry Officer's Report for final orders of the Disciplinary Authority is done properly and quickly;
13. Scrutinise final orders passed by the Disciplinary Authorities subordinate to the Ministry/Department, with a view to see whether a case for review is made out or not
14. Assistance to the C.B.I. in the investigation of cases entrusted to them or started by them on their own source of information
15. Ensure that the competent disciplinary authorities do not adopt a dilatory or law attitude in processing vigilance cases, thus knowingly otherwise helping the subject employees/officials, particularly in cases of officers due to retire
16. Ensure that cases against the employees on the verge of retirement do not lapse due to time-limit for reasons such as misplacement of files etc. and that the orders passed in the cases of retiring officers are implemented in time.

Business Activities

Cabin

The Boeing 777-300ER aircraft has three classes of service: first class, business class, and economy class. Being a full service airline, meals are served on all classes of travel. Air India's first class is available on their Boeing 747-400 and 777-300ER aircraft. Each seat has a 180-degree recline, sleeperette. The First Class cabin seats just 12 passengers and has a two-abreast seating pattern. All passengers aboard first class are served with cocktails and meals are served on Royal Doulton tableware. Passengers can chose from Grilled Lamb Chops and Parmesan Cheese Omelets to Chicken MalaiKabab and the Shahi Korma. Champagne is also served.

In-flight entertainment

Air India's Airbus A320family aircraft are all equipped with Thales i3000 in-flight entertainment system. Passengers can choose from five channels, airing both newer as well as classic Hindi movies, Hollywood action movies, Indian television soap operas, and Bollywood music videos. Air India's leased Airbus A330s have widescreen displays in Business and Economy classes but no personal IFEs. The Boeing 777-200LR/-300ER, Boeing 747–400 and the airline's newly acquired Boeing 787 aircraft use the *Thales* i4000, i5000, and i8000 audio-video on demand in-flight entertainment systems respectively. Passengers can choose from a wide range of English, Hindi and other regional language movies in India. *Showtime* is the name of the entertainment guide Air India has made available on all of its flights. Apart from that, Air India also runs an in-flight magazine called *SuhbhYatra*, which in Sanskrit, means *Happy Journey*. ShubhYatra is a bilingual magazine. It is published in both English and Hindi. The magazine covers a variety of issues from travel and culture to lifestyle and entertainment.

Frequent flyer programme

Flying Returns is Air India's frequent flyer programme. It is India’s first frequent flyer programme and is claimed to be one of the most rewarding programmes in the region. The programme is also shared by all other Air India Limited carriers. A member can earn mileage points and redeem them for award travel. On higher fares, such as full fare economy, and on Business/First Class, passengers will also earn bonus miles, and clock mileage points. The points can also be used for awards travel on Lufthansa and Singapore Airlines.

COMPARATIVE POSITION OF NEPAL AIRLINES AND AIRINDIA

Corporate Overview of Nepal Air lines:

The aviation history of Nepal started in early 1950's.Initially, neighboring Indian aircraft used to land on a mere cow grazing place called Gaucharan in Kathmandu. There are tales that a pilot waiting to land there had to buzz the airfield several times to shoo the cows off it before landing.

Until 1951, only a few foreigners had penetrated into Nepal. They were mainly British officers of the Gurkha troops, a few stray scholars and friends of the Royal family. Later on, Indian air companies started their operation for business purposes, and connected Nepal with Indian cities. After the establishment of the national flag carrier, the RNA, the route expansion of civil aviation made extensive progress domestically and internationally.

The civil aviation service started in Nepal in 1953 with three old American -made DC-3 Dakotas belonging to an Indian company. After five years, Nepal established her own registered airline, Royal Nepal Airlines Corporation in July 1958 with one DC-3. There were only 96 personnel then. At the beginning,

its service was limited to Indian cities like Patna, Calcutta and Delhi in the International Sector and to Simara, Pokhara and Biratnagar in the Domestic Sector. The facilities provided at that time were limited.

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The transport system being the main factor for the economic development of the country, and NAC is a strong vehicle for national integration and has proved to be a symbol of freedom movement, both within and outside the country. It is the pride of Nepal.

Brief History

Nepal Airlines Corporation (NAC) was incorporated on 1 July 1958 through enactment of Nepal Airlines Corporation Act. 2019 with the following main objective:

to provide air transport service to any person, agency or organization who need such service for transportation of men or materials from one airport to another either within or outside the country.

Profile of Aircrafts used in NAC services.

Douglas DC-3 Dakota

28-seater Dakota, NAC‘s very first aircraft, has become an icon of Nepal‘s aviation history. In many parts of the Kingdom, the people‘s initial encounter with the modern world was the DC-3, long before the cars got here. The last of these planes flew into the sunset in 1973.

Fong Shu Harvester AN-2

This 12-seater Chinese plane joined the fleet in 1963. Nepal Airlines had two of them which were in service for a brief period. They flew on domestic route till 1965.

Pilatus Porter PC-6

This single-engine air craft entered service in 1961. Manufactured in Switzerland, it seated six persons. The plane proved extremely suitable for Nepal's mountainous terrain where STOL capability was put to full use. NAC was flying one till 1998.

Fokker Friendship F-27

The Fokker launched Nepal into the turboprop era. In operation from 1966 to 1970, it carried 44 passengers and flew to NAC's international destinations. A lot of prestige was attached to travelling in a Fokker in those days.

Hawker Siddley HS-748 Avro

Nepal Airlines obtained its first Avro in 1970. The 44-seater planes were utilized on domestic and international sectors. The immensely popular sight-seeing excursion -the Mountain Flight -were also conducted by Avros.

Twin Otter DHC-6

The arrival of the Twin Otter was another turning point in the Kingdom‘s aviation scenario. Brought into service in 1971, this 19-seater Canadian plane was instrumental in opening up the mountainous interior. It could land and take off from small and rough airstrips. And suddenly, far-flung villages and remote trail-heads were only minutes away.

Boeing 727

The nation became the proud possessor of a jet plane carrier with the induction of a Boeing 727 in 1972. People would rush to their roof -tops to watch in awe as the sleek craft came in screaming from beyond the hills. Carrying 123 passengers, it connected Kathmandu with regional destinations and remained in service till 1993.

Boeing 757

The first of Nepal Airlines‘ two 757s arrived in 1987. Flying on long-haul routes and displaying the national flag at world airports, they helped Nepal make its presence felt in the international aviation scene. The 757 holds 190 passengers.

Nepal Airlines Services

<u>Ground Support</u>

Ramp Handling
Aircraft Loading & Unloading
Aircraft Marshalling
Aircraft Push Back/Towing
Baggage Handling
ACU GPU Air-Start

Toilet and Water Servicing (on process)
G E Operations

Passengers Handling
Passenger Check-In and Ticketing
Passenger Arrivals & Departure Handling
Wheelchair Assistance, Meet & Assist, and other special services
Excess Baggage
Baggage Services/Lost and Found
Interline Baggage Handling
Weight & Balance/Load Control

Cabin Services
Cabin Cleaning, complete cleaning of Aircraft Interiors

Cargo Handling Services
Loading & Unloading of Cargo to-from aircraft
Transfer cargo to-from cargo terminal

GSE Maintenance
Well equipped dedicated maintenance facility to upkeep ramp equipment
Preventive maintenance programme to ensure high serviceability rate of GSE

Economy Class

Comfort

Economy Travel is equally comfortable on Nepal Airlines.Special fares are available in some sectors. Passengers should contact their nearest local agent for these fares. Depending upon availability, in some sectors upgrade to Shangrila Class is also available on payment of certain charge.

Meals On – Board

On our Economy Class we serve exclusive meals specially prepared by chefs of renowned five-star hotels in Kathmandu for the gastronomic delight of our passengers. You can also choose from an arrray of drinks. There is something for everybody -cocktails, wine and a range of soft drinks. Our meals served on board is either chicken, fish or mutton based. Vegetarian meals are available on special request at the time of reservation.

Baggages

Our Economy Class passengers are given a personalized service which ensures that your baggage is handled swiftly and carefully. All Economy Passengers enjoy baggage allowance of 30 Kilograms on all destinations except for HongKong sector which is 25Kgs.

Business class

As a Shangri-La Class or Business Class passenger of Nepal Airlines, you are entitled to an array of benefits and privileges, and personalized service on board the flight. Our business class passengers are offered special check-in, priority baggage handling, a wide range of reading materials, comfortable wide seats, and a choice of fine cuisine along with a top class selection ofwines

MORE SPACE, MORE COMFORT

Our Business Class has a 16 seat configuration; you don't have to worry about sitting in the middle because there is no middle seat. The two-seats-in-a-row arrangement ensures more leg room and comfort.

WINE AND GOURMET MEAL

We serve exclusive meals specially prepared by chefs of renowned five-star hotels in Kathmandu for the gastronomic delight of our Business Class passengers. You can also choose form an array of drinks. There is something for everybody-cocktails, whisky, gin vodka, brandy, wine, and a range of soft drinks including Diet 7-Up and Diet Coke. The three-course gourmet meal served on board is either chicken, fish of mutton based. Vegetarian meals are available on special request at the time of reservation. All food and drinks are served on exquisite China and crystal ware.

PRIVILEGES COME IN BIG BAGGAGE

Our Business Class passengers are given a personalized baggage handling. You will also enjoy the privilege of an extra 10 kilogram baggage allowance. Now who says good things only come in small packages?

LOUNGE FACILITY

Lounge facility is available to our business class passengers, who have paid Business Class fare.

EASY COME, EASY GO

Business Class passengers are directed to the appropriate boarding gate by the ground staff. Since the Business Class is located right behind the cockpit, time is saved during entry and exit.

IN TOUCH WITH THE WORLD

Magazines of international repute and local newspapers are available on board.

OTHER SPECIAL SERVICES

Our cabin attendants are there on stand-by to take care of your needs. There is a closet to hang your coats and hat. A comfortable pillow and a blanket are also provided to our Business Class passengers.

LET US KNOW

We constantly monitor passenger feedback and re-examine service procedures in order to further improve the service we provide. If you have any suggestions or comments regarding Business Class service, please feel free to talk to our cabin crew or ground staff.

Air India Airlines

AIR INDIA ON THE UPSWING- LARGER FLEET AND EXPANDED NETWORK

Air India is India's finest flying Ambassador. The urge to excel and the enthusiasm, which characterized Air India's first flight, way back on October 15, 1932, is quintessential even today - thanks to Air Indians who have kept alive the tradition of flying high. The merger of Air India and Indian, the country's leader in the domestic sector, has helped the airline to emerge as a major force in the airline industry. The re-branding exercise is currently underway and passengers are getting to see the unified face of the new invigorated Air India. The merged entity, which presently has a fleet of 124 aircraft, offers passengers seamless travel across domestic and international routes.

New Thrust

Air India now has a younger fleet comprising eight B777-200LRs and 12 B777-300ERs, 20 Airbus A-321s and 19 A-319s. On the international network Air India now operates 28 weekly services to three destinations in the USA - New York, Newark and Chicago including a daily Non Stop flight between Mumbai-New York and Delhi-New York following the induction of brand new Boeing 777-200LR in its fleet. With a fleet of 124 aircraft, Air India has been gradually expanding its network to cover new destinations in India and abroad.

NonStop Flights

B777-200LR

The discerning passenger of today looks for speed and comfort. With the induction of the state-of-the-art B777-200LR aircraft, Air India now offers both speed and comfort through its nonstop services to New York, New Jersey, Chicago and Toronto, comfortable seats, 23 inch screen to watch 250 hours of video programming, mood lighting and gourmet food. The eight-seat First Class cabin has been designed to offer the passenger comfort and luxury with exclusivity. Each First Class seat can be transformed into a fully horizontal flat bed, 77 inches long and 31 inches wide. A passenger travelling First Class has the facility of convenio service i.e. meals at times preferred by a passenger. The 35-seat Executive Class cabin too has spacious and comfortable seats. Each seat can be transformed into a 72-inch long flat bed. The 195 Economy Class seats are ergonomically designed for comfort during the long haul flight. Mood Lighting – the entire aircraft cabin has the facility of mood lighting in soft shades of mauve, green and pink to soothe and relax passengers.

B777-300ER

Air India's B777-300ERs operated on Mumbai/Delhi – London sectors have a total of 342 seats in three-class configuration – four First Class, 35 Executive Class and 303 Economy Class seats. TheFirst Class with 1-2-1 seating is designed to offer the premium traveler luxury, comfort and privacy and an extensive range of facilities. Each First Class seat is an individual cabin by itself. The seat, which is 23" wide and has a seat pitch of 80 inches, converts into 31-inch wide full flat bed. The seat offers lumbar support, a massage system and a large bi-folding meal table which slides and swivels, giving the passenger flexibility to move easily from his/her seat when the table is deployed. In Executive Class the 2-3-2 abreast 19.5 inches wide seats with a pitch of 76 inches, transform into 26.5 inch full flat beds. The seats have a large back shell and a divider between seats for privacy. The four-way movable leather headrest provides for greater comfort. In Economy Class the 3-3-3 abreast seats with a pitch of 33 inches and a 6-inch recline are 18 inches wide. All the seats, except those in the front row, have a roller type therapeutic leg rest installed in front for added comfort.

Inflight Entertainment - Passengers can enjoy 350 hours of audio video on demand. There is something for each and every passenger – movies, games, news and music. State-of-the-art Thales i500 inflight entertainment system, which provides high noise immunity, makes travelling on the long haul flights a pleasure. A USB port in all classes enables passengers to connect electronic devices, e.g. digital camera, keyboard, MP3 player and mobile phone.

Refurbished B747-400

Air India has also revamped its First Class on all its long haul Boeing 747-400s, deployed on the Mumbai-Frankfurt-Newark sector by retrofitting 180-degrees flat-bed seats in the First Class. The plush, new seats, offering highly innovative standards in design, safety, reliability and appearance, are equipped for work, sleep or rest in accordance with the passengers' preference. The re-configured First Class seats only 12, instead of 16 earlier.

Network

In its ever-growing quest for providing direct services from various points in India, Air India currently operates international flights from Mumbai and 14 other Indian cities, viz. Ahmedabad, Amritsar, Bangalore, Chennai, Delhi, Goa, Hyderabad, Kochi, Kolkata, Kozhikode, Lucknow, Varanasi, Gaya and Thiruvananthapuram. Commencement of international operations from these cities has obviated, to a very large extent, the need for passengers from these regions to necessarily travel to Mumbai and Delhi, the traditional gateways, for taking international flights. Passengers boarding or deplaning in these cities can now complete their immigration and custom formalities at their city airport, both at the time of departure and arrival. Air India's global network currently, region-wise, is:

Europe: London, Frankfurt, Paris

Asia Pacific: Bangkok, Hong Kong, Osaka, Seoul, Shanghai, Singapore, and Tokyo.

Gulf & Middle East: Abu Dhabi, Dammam, Dubai, Jeddah, Kuwait, Muscat, Riyadh and Sharjah

South Asia: Colombo, Kabul, Kathmandu, Yangon and Male

USA & Canada: Chicago, New Jersey, New York and Toronto.

Domestic Operations

On the domestic front we operate to 62 stations out of which 17 are connected to our international destinations. The 172-seater Airbus A321 aircraft connects all major metros, including all flights on the Delhi-Mumbai sector. Spacious cabin, comfortable seats and the luxury of in-flight entertainment make this a superior product that travellers look forward to. As more and more A321s and A319s join the fleet, they will gradually replace the A320s which are currently deployed on many domestic sectors.

Convenient connectivity has been provided to/from major metros like Chennai, Kolkata, Hyderabad and Bangalore for passengers booked on the Non Stop flights. Increasing occupancy levels on the Non Stop flights is testimony to the popularity of this premium product.

The Regional operations cover the following stations:

Northern Region: Amritsar, Allahabad, Bhopal, Chandigarh, Dehradun, Delhi, Gwalior, Jaipur, Jabalpur, Jammu, Jodhpur, Kanpur, Khajuraho, Kulu, Leh, Lucknow, Ludhiana, Raipur, Srinagar, Udaipur and Varanasi.

Eastern Region: Agartala, Aizwal, Bagdogra, Bhubaneshwar, Dibrugarh, Dimapur, Gaya, Guwahati, Imphal, Jorhat, Kolkatta, Lilabari, Patna, Port Blair, Ranchi, Shillong, Silchar and Tezpur.

Western Region: Ahmedabad, Aurangabad, Goa, Indore, Jamnagar, Mumbai, Nagpur, Pune, Rajkot, Surat and Vadodara.

Southern Region: Agati, Bangalore, Chennai, Coimbatore, Hyderabad, Kochi, Kozhikode, Madurai, Mangalore, Thiruvananthapuram, Tirupati and Vishakapatnam.

Accolades

Air India has been adjudged as the ‘Best Airline MRO in India’ and ‘Best Engine MRO in India’ by Indian Aviation and Stat Trade Times at India’s first international exhibition and conference on maintenance, repair and overhaul (MRO) held in Mumbai in March 2011.

Air India was also ranked as the Most Trusted Brand in the aviation sector in the country in the Economic Times Brand Equity Survey 2010. This is for the fifth year that the airline has won the top honour.

Air India has won the Galileo Express Travel World Award 2008 for the Best Short-Haul International Airline. Air India has previously been a recipient of the Galileo Express TravelWorld Award for the “Best International West Bound Airline out of India” for three successive years as well as for launching the “Best Corporate Social Responsibility Initiative.”

Air India was also conferred the prestigious Amity Corporate Excellence Award instituted by the Amity International Business School, Noida, Uttar Pradesh to honour Corporates with distinct vision, innovation, competitiveness and sustenance. It also won the Special category Award which recognizes the Most significant corporate Social Responsibility initiative (CSR) taken by an organization. Air India had won four other prestigious awards in 2006:

1) Dun and Bradstreet (D&B) which ranked the airline as the first in terms of revenue out of the top airline companies out of India;

2) Reader's Digest Trusted Brand Award;

3) CNBC Awaaz Consumer Award 2006; and 'Best South Asian Airline' award by readers of TTG Asia, TTG China, TTG Mice and TTG-BT Mice China, all renowned Mice and business travel publications.

The awards are an eloquent testimony to passengers' faith in Air India and the airline's continued effort to ensure consumer satisfaction.

From standing by the nation during any crisis, reflecting the tradition and culture of the country, or showcasing the strength of emerging India – Air India has always been identified with India. Sports & sportspersons have enjoyed a pride of place in the organisation. India's hockey and cricket teams have won many laurels for the country. Air India has always been committed to its Corporate Social Responsibility through pioneering efforts in preserving environment. A series of awareness raising activities related to environmental issues won it the prestigious Montreal Protocol Public Awareness Award presented by the United Nations Environmental Programme (UNEP) in 2007.

Executive Class

A haven for business & leisure travelers

- Spacious cabins & plush seats
- Aisle or window seats for every passenger on 747 aircraft
- Delectable entrees accompanied by wine
- Exclusive check-in facility
- Lounge facility
- Amenity kit in an elegant pouch

Economy Class

For our budget minded travelers

- Choice of Continental or Indian cuisine -Non-veg/ veg.
- Complimentary liquor/ wine.
- Well positioned movie screens for cinematic viewing pleasure.
- Selection of meals.
- Improved illumination & temperature control systems.
- Facility to book seat at the time of reservation when traveling on India, Europe/US sector flights.

Comparison of Air India & Nepal Royal Airlines

Check-In Options of Air India

Now AIR INDIA (IC) offers various options of check-in besides the counter check-in at the airport. You may now avoid airport queues with our real time check-in options. Select preferred seat & print your Boarding Card with our Web and Kiosk check-in options. Or you may check-in at our select cities in the booking office or on telephone.

The various check-in options are:

Tele Check-In

If you have a confirmed seat and plan to travel with hand baggage only on a domestic flight, you can Tele check-in for the flights operating on the same day or next day and report at the Tele check-in counter at least thirty minutes prior to the flight departure. (Only for Executive Class & FFP Members).

This facility is available in the six metros - Delhi, Mumbai, Calcutta, Chennai, Bangalore & Hyderabad. Passengers can contact either our designated tele check-in numbers or call centre number. We are available on 24x7 basis across India on both Toll Free and paid numbers. Users of service providers such as MTNL/BSNL and Reliance could us on Toll Free number 1800-180-1407. You may also contact us on short code number 1407 while in Delhi, Mumbai, Kolkata, Chennai, Bangalore and Hyderabad. Should you be in any othe city, you may contact us on 1407 by pre-fixing the STD code of any these cities.

I-Check-In (Web Check-In)

AIR INDIA (IC) has introduced I-check-in facility (web based check-in facility) whereby a passenger holding E-ticket, Net ticket, Dial-a-ticket or bid-n-fly ticket can check-in on AIR INDIA (IC) website and make selection of his seat on line and print boarding pass in the convenience of his office, residence etc. This facilitates you to report directly for the security check without reporting at check-in counters unless you have baggage to deposit with the airline, for which you are requested to report one hour prior to departure to deposit the baggage. This facility is available for purely domestic flights only for both Economy & Executive Class passengers. Return & onward check-in is also permitted for same & next day departure.

Self Check-In Kiosks

Self Service check-in Kiosks have been installed at select locations / airports to enable you to check-in yourself & obtain boarding pass from the Kiosk machine without interface with check-in staff. This facility is available for purely domestic flights. This facility is available up to thirty minutes before departure time. Through this facility you can select seat of your choice too.

City Check-In

Now you can check-in at the AIR INDIA (IC) city booking office for not just the same day flights but also for the next day.
Only passengers holding confirmed reservations on the flight ex. that station qualify for the same. This facility is available for passengers traveling with only hand baggage. City check-in is permitted up to two hrs. before the scheduled departure time & you should report at the airport at least thirty minutes prior to departure.
This facility is available in the six metros - Delhi, Mumbai, Calcutta, Chennai, Hyderabad & Bangalore for domestic flights only.

Return Check-In

Now you can return check-in if your flight is on the same day or the next. Collect your return boarding card from the originating station and report to the airport just 30 minutes before departure if you're travelling with hand baggage only. This facility is available for domestic flights only.

Through Check-In

You may through check-in from AIR INDIA (IC) to AIR INDIA (IC) domestic & international flights. Similarly this facility is available to you if you are travelling on AIR INDIA (IC) domestic and connecting on to AIR INDIA (AI) (or select other airlines) international flight. In other words you can through check-in along with your baggage up to New York, if you are travelling Kolkata / Delhi / New York. This facility is available on the reverse direction too. Special transfer desks have been established in the arrival halls of major metro airports, where you would be facilitated and assistance provided to connect you on to your next flight. Please ask our check-in counter staff for through check-in.

http://www.airindia.com/SBCMS/Webpages/Check-In-Options.aspx

Different Forms For Different Facilities in Air India

Desh Videsh Scheme Redemption form

Student Fare Form

Flying Returns Form

Marine Unit

Senior Citizen Concession Form

Standard Medical Information

Unaccompanied Minor Request For Carriage Form

Cancer Patient Form

MEDIF Form for Stretcher Cases

http://airindia.in/SBCMS/Webpages/Quick-Links---Form-Downloads.aspx?MID=27#

Key Features of Forms of Air India

- You can accrue miles on tickets purchased in any currency and in any country.
- You can accrue miles on all fare-paying tickets, and earn miles depending on the booking class. On full-fare Economy tickets, and on Business/First Class fares, you earn bonus miles.
- Air India code-share flights with other airlines qualify for accrual of miles, not for redemption into award tickets.
- You can pool your miles with those of your spouse to avail of award tickets, provided your spouse is also a member of Flying Returns.
- You can also purchase bonus miles from Flying Returns programme.
- Award tickets may be issued for the member or any other person nominated by the member.

Privileges

You are also entitled to a host of special privileges.

- More award tickets on lesser flights
- Seamless redemption of award tickets online through www.flyingreturns.co.in
- Across the counter redemption and retro credit facility.
- Separate check-in counters for members available at select domestic airports
- Members travelling with only hand baggage in Executive or Economy class can avail the Tele Check-in facility at Delhi, Mumbai, Kolkata, Chennai, Hyderabad and Bangalore.
- Flying Returns members can carry up to 10 kgs additional baggage allowance on AI designated flights, both on domestic and international flights. Additional baggage allowance is not admissible for flights undertaken to/ from US/Canada, and on ATR-42, CRJ and Do-228 flights.

https://www.flyingreturns.co.in/html/jn.php

Following is the list of Types of Meals Offered by AirIndia.

- Vegetarian Hindu Meal/Asian Vegetarian/Hindu Vegetarian
- Baby Meal/Infant Food (Vegetarian/Non-Vegetarian)
- Bland Meal (Vegetarian/Non-Vegetarian)
- Child Meal (Vegetarian/Non-Vegetarian)
- Diabetic Meal (Vegetarian/Non-Vegetarian)
- Fruit Platter Meal
- Gluten Intolerant Meal (Vegetarian/Non-Vegetarian)Hindu Meal
- Hindu Meal
- Kosher Meal
- Low Calorie Meal (Vegetarian/Non-Vegetarian)
- Low Fat Meal (Vegetarian/Non-Vegetarian)
- Low Salt Meal (Vegetarian/Non-Vegetarian)
- Moslem Meal
- Low Lactose Meal (Vegetarian/Non-Vegetarian)
- Vegetarian Raw Meal
- Seafood Meal
- Special Meal
- Vegetarian Vegan Meal
- Vegetarian Jain Meal
- Vegetarian Lacto-Ovo Meal
- Vegetarian Oriental Meal

http://www.airindia.com/SBCMS/Webpages/Types-of-Meals-Offered.aspx

Royal Nepal Airlines Facilities in International Flight

The multi-award winning **Royal Nepal Airlines Airlines** is Brunei's main air carrier, with flights throughout Asia, Europe, Australasia and the Middle East.

All classes

Seating

Selected Royal Nepal Airlines Airlines flights offer passengers comfortable SkyDreamer sleeper seats that are 75-inches long once extended. Seats feature 'podded' shells and personal privacy screens, along with power connectors and personal 10.4-inch TVs.

Other Royal Nepal Airlines Airlines aircraft have retrofitted seats for Business and Economy Class guests with a 32-inch pitch, adjustable footrests and 'winglet' headrests, along with personal 8.4-inch TVs. Passengers should confirm the seating facilities when they book flights on Royal Nepal Airlines Airlines.

Dining

Royal Nepal Airlines meal options are generally healthy, light choices. The 'Dine Upon Request' concept is available for passengers with Business Class Royal Nepal Airlines Airlines flight bookings, allowing long-haul guests the option of dining when they choose. Special meals can also be prepared but should be requested at least 24 before flight departure.

Entertainment

There are various entertainment choices for Royal Nepal Airlines Airlines' passengers, including on-demand videos, broadcast videos, games, audio-on-demand and a selection of audio channels in various languages. Selected routes also offer a personal entertainment system, SkyShow, available throughout the cabin.

Clubs, lounges & alliances

Royal Nepal Airlines Airlines is proud of its premium lounge, located at the Brunei International Airport. SkyLounge accommodates around 120 people and was specifically styled and furnished to provide optimal comfort and relaxation opportunities to Premium Class passengers. Guests have access to various refreshments, massage chairs, shower facilities, workstations – including free Internet access – and plasma TVs. Prayer and ablution areas are available for Muslim passengers.

The last word

Regular Royal Nepal Airlines Airlines flyers are rewarded for their loyalty with a host of generous benefits through the Royal Skies reward programme. Royal Skies partners include accommodation, dining, communications, vehicle, lifestyle and banking services.

http://www.myadventurestore.com/airlines/international/royal-nepal-airlines

Royal Nepal Airline Services

Ground Support

Ramp Handling

Aircraft Loading & Unloading

Aircraft Marshalling

Aircraft Push Back/Towing

Baggage Handling

ACU GPU Air-Start

Toilet and Water Servicing (on process)

G E Operations

Passengers Handling

Passenger Check-In and Ticketing

Passenger Arrivals & Departure Handling

Wheelchair Assistance, Meet & Assist, and other special services

Excess Baggage

Baggage Services/Lost and Found

Interline Baggage Handling

Weight & Balance/Load Control

Cabin Services

Cabin Cleaning, complete cleaning of Aircraft Interiors

Cargo Handling Services

Loading & Unloading of Cargo to-from aircraft

Transfer cargo to-from cargo terminal

GSE Maintenance

Well equipped dedicated maintenance facility to upkeep ramp equipment

Preventive maintenance programme to ensure high serviceability rate of GSE.

Economy Class

Comfort

Economy Travel is equally comfortable on Nepal Airlines.Special fares are available in some sectors. Passengers should contact their nearest local agent for these fares. Depending upon availability, in some sectors upgrade to Shangrila Class is also available on payment of certain charge.

Meals On - Board

On our Economy Class we serve exclusive meals specially prepared by chefs of renowned five-star hotels in Kathmandu for the gastronomic delight of our passengers. You can also choose from an arrray of drinks. There is something for everybody -cocktails, wine and a range of soft drinks. Our meals served on board is either chicken, fish or mutton based. Vegetarian meals are available on special request at the time of reservation.

Baggages

Our Economy Class passengers are given a personalized service which ensures that your baggage is handled swiftly and carefully. All Economy Passengers enjoy baggage allowance of 30 Kilograms on all destinations except for HongKong sector which is 25Kgs.

Business class

As a Shangri-La Class or Business Class passenger of Nepal Airlines, you are entitled to an array of benefits and privileges, and personalized service on board the flight. Our business class passengers are offered special check-in, priority baggage handling, a wide range of reading materials, comfortable wide seats, and a choice of fine cuisine along with a top class selection of wines.

MORE SPACE, MORE COMFORT

Our Business Class has a 16 seat configuration; you don't have to worry about sitting in the middle because there is no middle seat. The two-seats-in-a-row arrangement ensures more leg room and comfort.

WINE AND GOURMET MEAL

We serve exclusive meals specially prepared by chefs of renowned five-star hotels in Kathmandu for the gastronomic delight of our Business Class passengers. You can also choose form an array of drinks. There is something for everybody-cocktails, whisky, gin vodka, brandy, wine, and a range of soft drinks including Diet 7-Up and Diet Coke. The three-course gourmet meal served on board is either chicken, fish of mutton based. Vegetarian meals are available on special request at the time of reservation. All food and drinks are served on exquisite China and crystal ware.

PRIVILEGES COME IN BIG BAGGAGE

Our Business Class passengers are given a personalized baggage handling. You will also enjoy the privilege of an extra 10 kilogram baggage allowance. Now who says good things only come in small packages?

LOUNGE FACILITY

Lounge facility is available to our business class passengers, who have paid Business Class fare.

EASY COME, EASY GO

Business Class passengers are directed to the appropriate boarding gate by the ground staff. Since the Business Class is located right behind the cockpit, time is saved during entry and exit.

IN TOUCH WITH THE WORLD

Magazines of international repute and local newspapers are available on board.

OTHER SPECIAL SERVICES

Our cabin attendants are there on stand-by to take care of your needs. There is a closet to hang your coats and hat. A comfortable pillow and a blanket are also provided to our Business Class passengers.

Reservations

In order to provide additional facility to our valued customers we are pleased to announce

RA sales and reservation office in Kathmandu will remain open from 0900- 1800 hrs local time.

For Flight and Reservation information please dial our toll free number 16600110787

Reservations

We recommend you make an early seat reservation through any NAC ticketing offices, our authorized GSAs or Travel Agents in Nepal and around the world. When you make a reservation, please note the following:

Ticketing Time Limit

Please ensure that you have your ticket issued before the expiry of your ticketing time limit/ deadline. Otherwise, your booking will be automatically cancelled. This is a procedure followed worldwide by all airlines. Your reservation agent will advise you of your time limit at the time of reservation.

Booking Reference Number / Passenger Name Record (PNR)

You will need your booking reference number (PNR) every time you get in touch with our reservations or ticketing staff. Our Reservation / Ticketing Agent will need your PNR if you need to change your travel plan.

Changing Reservations

You can call our reservation office to change your travel itinerary irrespective if the ticket is purchased or not. Once the ticket has been issued, you can change your reservation by contacting our reservation offices or ticketing counters. This is also possible even if the ticket is purchased from a travel agent. Always check for the conditions on your ticket like ticket validity, restriction to travel on a specific flight / period, cancellation fees conditions, etc before purchasing your ticket. In case you have made a change in your travel itinerary, you are advised to get your ticket stickered / revalidated from your travel agent or NAC ticketing counters so that your ticket will reflect your latest flight itinerary.

Carry on Baggage

All passengers, except infants, are allowed one piece of hand baggage suitable for placing in the closed rack or under the seat in front without extra charge. For security and safety reasons, its dimensions must be not larger than 20"x15"x10" weighing not more than 15 lbs. The following additional items are also permitted: one small size handbag/purse, one coat or cap or blanket, one umbrella or walking stick, one pair of crutches and one small camera or binocular. An infant's wheelchair, which are transported free of charge, but will normally be carried in the cargo hold.

Unaccompanied Minors

Children when traveling alone, we will ensure that they are under constant care. A request has to be made at the time of reservation. The unaccompanied minor will be taken care of by our special handling unit. The guardian can hand over the unaccompanied minor to the ground staff along with the necessary documents. The ground staff will do the needful and once the child boards the plane, he/she will be taken care of by the cabin crew. Once the aircraft reaches the destination, our ground staff will take over the child and hand him/her over to the receiving guardian after examining the documents properly.

Present Trade barriers for import / Export of selected goods between india - nepal

Customs and duties are a principle source of domestic revenue. Import tariffs are generally assessed on an ad valorem basis, with duties ranging from 0% to 140%. Most primary products, including live animals and fish, enter duty-free. Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%. Cigarettes and alcoholic beverages are charged at 100%, although alcoholic beverages with more that 60% alcohol are prohibited altogether. Other prohibited imports include narcotic drugs and beef and beef products. Products that may be imported only under special licenses include arms, ammunition, and explosives; and communication equipment, including computers, TVs, VCRs, and walkie-talkies. Valuable metals and jewelry are prohibited except under bag and baggage regulations. According to the World Bank, Nepal's weighted average tariff rate in 2000, the most recent data available, was 17.7%. This average probably increased in 2001 and 2002 because of "security surcharges" levied on most imports. No special fee was assessed on goods with tariff rates less than 2.5%. For goods with charged duties up to 5%, the surcharge was 1%, and for all those with duties above 5%, the surcharge was 3%.

The export service charge is 0.5% and there are export duties on vegetable ghee and plastic goods of 2 to 10%. Prohibited exports include archeological and religious artifacts; controlled wildlife; narcotics; arms, ammunition and explosives; industrial raw materials; imported raw materials, parts and capital goods; and timber and logs. Since 1960, under the duty refund procedure (DRP), India has refunded to Nepal the excise duties levied on its exports to Nepal. Goods imported from India are granted a rebate of the application of ad valorem of 10% in tariff rates up to 40% and of 7% on rates above 40%.

Nepal, under bilateral trade agreements with India, has in past been afforded duty-free or preferential entry. However, the most recent India-Nepal Treaty of Trade, signed March 2002, while it continues to allow Nepali manufactures to enter the India market on a non-reciprocal, preferential or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufacturers can have up to 70% foreign content instead of a international norm of less than 50%), India placed quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and ferro oxide, all at volumes lower than recent Nepali exports to India.

In 1995, Nepal joined the seven-member South Asia Association for Regional Cooperation (SAARC), and has ratified SAARC's South Asia Preferential Trading Arrangement (SAPTA). Under SAPTA, members have agreed to about 5000 tariff reductions among two or more of the members. However, plans to establish a free trade area by 2002 have been delayed.

Nepal has applied for accession to the World Trade Organization and submitted the required memorandum on its foreign trade regime in June 1998. The first meeting of the Working Party was in May 2000 and market access negotiations began in September 2000. A second meeting of the Working Party was held in September 2002, but expectations for accession to the WTO by the end of 2002 have not been realized.

Smuggling is substantial across the Indian border, especially on lumber goods, labor, construction equipment, currency and weapons. Gold smuggling is thought to be particularly large. Official records show substantial imports of gold, but few gold exports, even though it is well known that most of the gold imports are intended for the Indian market. Recent efforts to combat smuggling appear to have at least changed the dominant mode from men driving trucks and buses to individuals, many women and children, driving bicycles.

The Customs Act of 1997 sought to simplify custom procedures, but there have been persistent complaints about the gap between policy and practice, particularly in terms of delays and arbitrary assessments. Under the program of economic reforms for FY 2002/03, the government has announced an intention to introduce a post-clearance audit as a means of reducing complaints about customs evaluation.

BYLAND:

All visitors coming to Nepal by land must enter only through one of these entry points (1) Kakarbhitta (2) Birgunj (3) Belhiya, Bhairahawa (4) Nepalgunj (5) Dhangadi and (6) Mahendranagar in the Nepal-

India border and (7) Kodari in the Nepal-China border. The overland tourists entering the country with their vehicles must possess an international carnet or complete customs formalities.

Customs:

All baggage must be declared and cleared through the customs on arrival at the port of entry. Passengers arriving at Tribhuvan International Airport (TIA) without any dutiable goods can proceed through the Green Channel for quick clearance without a baggage check. If you are carrying dutiable articles, you have to pass through the Red Channel for detailed customs clearance.

Import:

Apart from used personal belongings, visitors are allowed to bring to Nepal free of duty cigarette (200) or cigars (50), distilled liquor (one 1.15 liter bottle), and film (15 rolls). You can also bring in the following articles free of duty on condition that you take them out with you when you leave: binoculars, movie or video camera, still camera, laptop computer, and portable music system.

Export:

It is illegal to export objects over 100 years old (sacred images, paintings, manuscripts) that are valued for culture and religious reasons. Visitors are advised not to purchase such items as they are Nepal's cultural heritage and belong here. The Department of Archaeology (tel: 4213701, 4213702) at Ramshah Path near Singha Durbar has to certify all metal statues, sacred paintings and similar objects before they are allowed to be sent or carried out of the country. Handicraft dealers and travel agents are able to assist you in this process. For more information on customs matters, contact the Chief Customs Administrator, TIA Customs Office; tel: 4470110, 4472266.

Airport Tax:

Effective form January 14,2005 ,the tourists would be levied NRS. 565(including VAT) at the departure terminal along with the Passenger Service Charge (airport tax).

Note:The new Airport Tax is equally applicable to Nepalese as well as non-Nepalese citizens flying from Nepal.

ttp://www.tourismkathmandu.com/visitors_info/getting_to_kathmandu

The Evolution of Nepal's International Boundary with India

Like most of the countries of the world, the existence of Nepal had been recognised even before the international boundaries had been fully and finally established. Mention of Nepal is found in the ancient history of both China and India. Nepal-China boundary is as old as the history of the two countries, but in contrast to the very ancient cultural, social, political and economic relations, Nepal-India boundary has a comparatively recent origin and its present boundary demarcation and delimitation took place after the Anglo-Nepal War of 1814-16. In contrast to Nepal's boundary with

India on three sides: west, south and east, the boundary between Nepal and China lies in the north only. However, the demarcation of Nepal-China boundary had been a problem in the past, because more than 90 percent of the frontiers run through high altitudes with rocks and snow, glaciers and ice fields which are entirely uninhabited. Both countries have respected and continue to respect the existing traditional and customary boundary line and have lived in amity. No remarkable or noticeable territorial dispute has existed between Nepal and China. The few territorial disputes that existed were over rival claims for the settlements of Kimathanka in the Sankhuwasabha and Taplejung districts, the area adjoining the border of Rasuwa, and Nara Nangla of Humla district with the origin of dispute dating back to 1815, 1818 and 1834 respectively (Nepali, 1964:1).:These disputes were resolved by the Nepal-China Joint Boundary Commission on October 5, 1961.

The ruggedness of Nepal-China boundary is clearly revealed by its length which is 1415 kilometres, while Nepal-India boundary which runs along three sides of Nepal is only 1850 kilometers, 465 kilometers longer than Nepal-China boundary. The 1415 kilometre length of Nepal-China boundary is based on measurement in the maps (for details on Nepal-China Boundary see Annex). If the actual measurement is made on the ground along the slopes and ridges of the mountains, the length of the boundary will be more than that indicated by the measurement in the maps. So far as Nepal-India boundary is concerned, the mountainous portions of the boundary lie in Sikkim State and Darjeeling district of West Bengal State in the east, while rest of the boundary runs along the plains in the south and along the Mahakali River in the west

The Main Trade and Transit Points along the Nepal India Border

The development of market towns took place along the Nepal India border, mostly near the Indian railway heads since the early twentieth century. These towns along the Tarai emerged as trade routes between Nepal and India with some trade points located in the hills along border in the east and the west. The development of numerous transit points emerged during different period after 1951. The following are the mutually agreed main trade routes for trade between Nepal and India and transit points for access to sea from Calcutta port.

	Agreed routes for Mutual Trade		**Transit points to Calcutta Port**
1.	Pashupatinagar / Sukhia Pokhari	1.	Sukhia Pokhari
2.	Kakarbhitta / Naxalbari	2.	Naxalbari (Panitanki)
3.	Bhadrapur / Galgalia	3.	Galgalia
4.	Biratnagar / Jogbani	4.	Jogbani
5.	Setobandha / Bhimnagar	5.	Bhimnagar
6.	Rajbiraj / Kunauli		

http://www.nepaldemocracy.org/documents/treaties_agreements/nep_india_open_border.htm

Potential for import / export in India / Gujarat Market

export of nepal airlines from indai

- 5 November 1960- RNA Douglas C-47A-80-DL (9N-AAD) crashed on take-off at Bhairawa Airport and caught fire. All four crew members were killed. There were no passengers on board.[10]

- 1 August 1962- RNA Douglas C-47A-DL (9N-AAH) en route from Kathmandu-Gaucher Airport to New Delhi, radio contact was lost and the aircraft crashed near Tulachan Dhuri. The wreckage was found on 9 August 1962 on a mountain top at 11,200 feet. All four crew and six passengers were killed.[10]

- 12 July 1969- RNA Douglas DC-3D (9N-AAP) collided with a tree while flying over a cloud covered ridge at 7,300 feet at Hitauda, Nepal. All four crew and 31 passengers were killed.[10]

- 25 January 1970- RNA Fokker F27-200 (9N-AAR) after a flight from Kathmandu, was caught in severe thunderstorms with turbulence and down draughts on final approach to Delhi (Palam Airport). The pilot couldn't control the aircraft and crashed short of the runway. Of the five crew and 18 passengers only one crew member was killed.[10]

- 10 June 1973- RNA De Havilland Canada DHC-6 Twin Otter on a flight from Biratnagar to Kathmandu, was taken over by three hijackers of Nepali Congress party who demanded money and escaped after landing in Bihar, India. None of the three crew and 18 passengers were injured.[10]

- 15 October 1973- RNA De Havilland Canada DHC-6 Twin Otter 300 (9N-ABG) was damaged beyond repair at Lukla Airport. the three crew and three passengers were unhurt.[10]

- 22 December 1984- RNA De Havilland Canada DHC-6 Twin Otter 300 (9N-ABH) crashed off course near Bhojpur, Nepal. Bad weather and pilot error could have been the cause. All three crew were killed as well as 12 of the 20 passengers.[10]

- 9 June 1991- RNA De Havilland Canada DHC-6 Twin Otter 300 (9N-ABA), after a flight from Kathmandu, crashed on landing at Lukla Airport following an unstabilized approach in bad weather. All three crew and 14 passengers were killed.[10]

- 5 July 1992- RNA De Havilland Canada DHC-6 Twin Otter 300 (9N-ABB), lost directional control on takeoff from Jumla Airport on a flight to Surkhet. The aircraft ran off the runway and struck the airport perimeter fence. None of the three crew were injured and there were no passengers on board.[10]

- 17 January 1995- RNA De Havilland Canada DHC-6 Twin Otter 300 (9N-ABI), flight RA133 from Kathmandu to Rumjatar, had problems getting airborne at Tribhuvan International Airport, struck the airfield perimeter fence and plunged into fields. Of three crew and 21 passengers, one crew member and one passenger were killed.[10]

- 25 April 1996- RNA BAe 748 Series 2B (9N-ABR) overran the runway at Meghauli Airport, after a flight from Kathmandu, when landing in rain on the grass airstrip. The aircraft ran across some ditches, causing the nosegear to collapse. None of the 4 crew and 27 passengers were injured.[10]

- 27 July 2000- RNA De Havilland Canada DHC-6 Twin Otter 300 (9N-ABP), on a flight from Bajhang to Dhangadhi, collided with trees on the 4,300 feet Jarayakhali hill on the Churia mountain range before catching fire. All 3 crew and 22 passengers were killed.[10]

- 19 April 2010- RNA De Havilland Canada DHC-6 Twin Otter 300 (9N-ABX) on a flight from Kathmandu (KTM) to Phaplu Airport (PPL) (with Kangel Danda as designated alternate airport). The aircraft was unable to land at Phaplu due to poor weather. The crew decided to divert to their alternate airport at Kangel Danda. The airplane touched down on its nose gear first and suffered some minor damage to the nose section.[1

http://en.wikipedia.org/wiki/Nepal_Airlines

Potential import / export in India / Gujarat Market

epal's gross domestic product (GDP) for the year 2005 was estimated at just over US$39 billion (adjusted to Purchasing Power Parity), making it the 83rd-largest economy in the world. Agriculture accounts for about 40% of Nepal's GDP, services comprise 41% and industry 22%. Agriculture employs 76% of the workforce, services 18% and manufacturing/craft-based industry 6%. Agricultural produce—mostly grown in the Terai region bordering India—includes tea, rice, corn, wheat, sugarcane, root crops, milk, and water buffalo meat. Industry mainly involves the processing of agricultural produce, including jute, sugarcane, tobacco, and grain. Its workforce of about 10 million suffers from a severe shortage of skilled labour. The spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism, but growth in this hospitality industry has been stifled by recent political events. The rate of unemployment and underemployment approaches half of the working-age population. Thus many Nepali citizens move to India in search of work; the Gulf countries and Malaysia being new sources of work. Nepal receives US$50 million a year through the Gurkha soldiers who serve in the Indian and British armies and are highly esteemed for their skill and bravery. The total remittance value is worth around 1 billion USD, including money sent from Persian Gulf and Malaysia, who combined employ around 700,000 Nepali citizens. A long-standing economic agreement underpins a close relationship with India. The country receives foreign aid from India, Japan, the United Kingdom, the United States, the European Union, China, Switzerland, and Scandinavian countries. Poverty is acute; per-capita income is less than US$ 470. The distribution of wealth among the Nepalis is consistent with that in many developed and developing countries: the highest 10% of households control 39.1% of the national wealth and the lowest 10% control only 2.6%.

The government's budget is about US$1.153 billion, with expenditures of $1.789bn (FY05/06). The Nepalese rupee has been tied to the Indian Rupee at an exchange rate of 1.6 for many years. Since the loosening of exchange rate controls in the early 1990s, the black market for foreign exchange has all but disappeared. The inflation rate has dropped to 2.9% after a period of higher inflation during the 1990s.

Nepal's exports of mainly carpets, clothing, leather goods, jute goods and grain total $822 million.

Import commodities of mainly gold, machinery and equipment, petroleum products and fertilizer total US$2 bn. India (53.7%), the US (17.4%), and Germany (7.1%) are its main export partners. Nepal's import partners include India (47.5%), the United Arab Emirates (11.2%), China (10.7%), Saudi Arabia (4.9%), and Singapore (4%).

Nepal remains isolated from the world's major land, air and sea transport routes although, within the country, aviation is in a better state, with 48 airports, ten of them with paved runways; flights are frequent and supp

ort a sizeable traffic. Hilly and mountainous terrain in the northern two-thirds of the country has made the building of roads and other infrastructure difficult and expensive. There were just over 8,500 km of paved roads, and one 59 km railway line in the south in 2003. There is only one reliable road route from India to the Kathmandu Valley. The only practical seaport of entry for goods bound for Kathmandu is Calcutta in India. Internally, the poor state of development of the road system (22 of 75 administrative districts lack road links) makes volume distribution unrealistic. Besides having landlocked, rugged geography, few tangible natural resources and poor infrastructure, the long-running civil war is also a factor in stunting the economic growth.

There is less than one telephone per 19 people. Landline telephone services are not adequate nationwide but are concentrated in cities and district headquarters. Mobile telephony is in a reasonable state in most parts of the country with increased accessibility and affordability; there were around 175,000 Internet connections in 2005. After the imposition of the "state of emergency", intermittent losses of service-signals were reported, but uninterrupted Internet connections have resumed after Nepal's second major people's revolution to overthrow the King's absolute power.

BUSINESS OPPORTUNITY OF ROYAL AIRLINES IN NEPAL

The Royal Nepal Airlines Corporation (RNAC) used to have a monopoly of all civil domestic air services within Nepal. Royal Nepal Airlines (domestic) operates domestic services by a fleet of 10 twin others and one HS 748. aircraft at present. There are 44 domestic airports some of which are all weather and some fair weather airports.

The GDP growth rate it Nepal has averaged 4.8% per year during the past decade. This is lower than the 6% targeted in the Ninth Five Year Plan (1997-2002) but higher than the 4.5% recorded during the 1980s. In 2001, the growth rate was 4.8% but declined to 0.8% in 2002 owing to the sharp decline in exports and tourist arrivals following the global economic slowdown. This was further exacerbated by the events of 11 September 2001 in the United States and heightened Maoist insurgency in Nepal. The Asian Development Bank expects the rate to rebound to 5% in 2003 if a variety of not improbable conditions are satisfied: political unrest in Nepal ends, the global economic slowdown is modest, the Indian economy grows at about 5-6%, and the weather in Nepal and neighbouring areas remains favourable.

Nepal has been changing very slowly from being an agriculture economy to one that has an increasing share of other sectors such as energy, industry, construction, transport and communication in its GDP.

Despite the problems of the insurgency, dwindling tourist arrivals and a slowdown in other business activities, macroeconomic fundamentals have remained healthy in Nepal. Inflation measured by the consumer price index was 3.6% as of mid March 2002 according to the Central Bank's regular survey. Though this rate is much higher than the 1.4% recorded in the same period the previous year, it is well below the ceiling of 5% set for 2002.

In 1990 around 255000 tourists visited Nepal. Tourists arrival in 1996 increased to 393613. Asian region and Western Europe continue to be the prime tourist market followed by North America, Australia and the pacific. Recent projections made on tourists' arrivals indicate a very steady growth to reach 625000 in 2000, 761000 in 2005 and 953000 by the year 2010. The number of star and non star hotels is increasing rapidly. The quality and services of these hotels have been improving. BY the year 1994 the number of hotels reached to 394 and the beds to 17730. BY mid January 1998 the number of tourist hotels and tourist beds had increased to 706 and 27612 respectively. While considering the projected arrivals and exiting stock of hotel rooms, it is estimated that there will be a big shortfall of rooms of 4 and 5 star standard by 2010 in Kathmandu and high-class hotels in Pokhara which is becoming an important tourist destination.

The tourism industry is growing very rapidly and Nepal has tremendous potential for tourism development because of its unique natural and cultural heritage. A major strategy in meeting the demand for hotel rooms in Nepal is to encourage increased private investment in popular tourist activities and recreation would be successful undertaking. Foreign investment will be encouraged in capital intensive tourism industries such as hotels, resorts and areas which transfer modern technology and skills. Agro and Forest Based Industries Medicinal And Aromatic Plants Due to the varied agro-climatic environment, Nepal is very rich in medicinal and aromatic plants with over 700 plants species. The collection os such plants from wild sources has been practiced since ancient times. With the establishment of the Royal Drugs Research Laboratory in 1962 the commercial utilization of medicinal plants has been encouraged. More than 300 species have been screened and studied and extraction of

Diogenes, reserpine, alkaloids of belladonna, glycogen of digitals, lemon grass oil, rosin, turpentine and menthol has commenced.

Nepal, a traditional exporter of crude herbs, is now gradually emerging as a exporter of processed herbs and aromatic plants. In recent times commercial cultivation of medicinal plants such as atropa belladonna and aromatic plants such as palmarosa, lemon grass, citronella and menthe ardencies have assumed importance. Recent studies also indicate good prospects for the cultivation and processing of chrysanthemum cineraria folium (pyrethrum), clavicles pursuer (Ergot), digitalis lantana, eucalyptus camaldulenisis, glycyrrhizin flare, macula preens, piper longue and valerian wall chi The medicinal and aromatic plants can be exploited for the production of following: essential oils from lemongrass, citronella, Palmaris and mint, oleoresin from ginger, large cardamoms, timur and tejpat; turpentine oil and rosin from chirr pine; medicines from valerian Wallachia, calms across and nardostachye jatamanshi.

During Fiscal Year 1997/98 hides an skins worth Rs. 414 million were exported to overseas countries only. The technologies that are well established in tanneries have not yet reached to Nepalese tanneries. The Government had opted for gradual swift over for accomplishing increased production of crust and/or finished leather. There exists ample opportunities for enhancing productivity of the existing tanneries as well as establishing new tanneries with modern technologies. With regard to leather goods producing industries in the country about one hundred leather based industries are in operation. Of which one fourth are producing leather goods and the rest are on footwear. However, most of the leather based industries are operating on micro scale using traditional skills and technologies. During Fiscal Year 1997/98 leather goods worth Rs. 31.24 million were exported to overseas countries. Taking into consideration the availability of raw materials within the country, there exist greater prospects for the development of leather based industries in Nepal.

especially of the most popular tourist routes, are frequently full with load factors of 70-90 percent. The Government has embarked on open-sky policy permitting private airlines to operate domestic as well as some international air services. Many private airlines including Necon Air and Buddha Air have been catering services to the native passengers as well as foreign tourists. Private helicopter services are also confined up in joint venture. For new airlines the flight routes and their frequency will have to be negotiated and agreed upon with the Civil Aviation Authority.

❖ Areas of opportunity

Nepal is endowed with an exceptional variety of agriculture terrains by its range of altitudes, rainfall patterns and other natural diversity, the high Himalayan mountains, the hill and ridges through which flow some 6,000 rivers and rivulets sites of the Hindus and the Buddhists are among the natural and cultural resources that can attract both tourists and investors.

Agriculture and agro-processing, **tourism** and hydropower generation are the major priority areas for development in Nepal. Additional opportunities may also be found in IT-related services, health services, pharmaceuticals and light manufacturing. Abundant reserves of limestone and a number of other minerals in various parts of the Country offer prospects for the cement and other mineral-based industries as well.

- **Air transport**

Nepal has only one international airport, located in Kathmandu. A feasibility study is under way on a second international airport outside Kathmandu, possibly at Bhairahawa, which adjoins Lumbini, the birthplace of the Buddha. The Country has a fair number (44) of domestic airfields. This is important because, in a mountainous Country, air transport is the only available means of modern transport is the only available means of modern transport to reach remote areas, where many of the tourism destinations are located and which are the source of valuable herbs and minerals.

Four airports (Nepalgunj, Bhairahawa, Pokhara and Biratnagar) are categorized as hub-airports and have concrete runways. Of the six classified as tourist traffic airports, three (all situated in the mountains region) have recently acquired concrete runways and the rest are in the process of doing so. Five additional airports are under construction, all in the hills and mountains. There are also 120 helipads certified by the Civil Aviation Authority of Nepal (CAAN).

The civil aviation sector in Nepal has been liberalized and nearly 30 Companies, including the State owned Royal Nepal Airlines Corporation (RNAC), are licensed to operate domestic air services. Only about 19 of these are actually providing services. Some of the private airlines are on the verge of closing down, but this is considered normal in the consolidation stage of such an industry.

The RNAC, the privately owned Necon Air and nearly a dozen foreign airlines operate regular flights into Nepal, connection to a number of Indian cities and to Hong Kong (China), Dubai, Osaka, Shanghai, Lhasa, Dhaka, Karachi and London. Major airlines flying into Nepal include Thai Airways, Qatar Airways, Austrian Air, Indian Airlines, Gulf Air, Pakistan International Airlines and China South West Airlines.

Nepal currently has bilateral air service agreements with 31 Countries.

• **Current business conditions**

• **Future growth drivers**

• **Evolving airline strategies**

Refocusing on growth

• Ongoing capital investment in fleets, airports and other services infrastructure

• Recruitment and training of skilled workforce

• Airfares do not keep pace with general price inflation

• Constant focus on productivity improvements and reducing unit costs

• Manage risks including currency and oil price volatility

customer service leadership

• Asian carriers are global leaders in service quality with world-class premium product offerings

• Premium cabins generate 27% of total international passenger revenue

• Continuous innovation in seat comfort, cabin ambience, in-flight entertainment, food and beverage, cabin crew, customer service

Structural reform

• Progressive liberalization of traffic rights has supported growth but led to highly fragmented industry structure

• Restrictive national ownership and control rules stand in the way of necessary restructuring and international consolidation

• Domestic markets remain closed to foreign investment and competition

CONCLUSION

Nepal is a growing economy and having good position in SAARC economic integration. In 2004, Nepal has become member of World Trade Organization (WTO). Before 2000, Nepal was much closed economy. The foreign direct investment was very low due to restriction and barriers in trade. After it becoming member of WTO and advised by WTO president, Nepal has liberalized its economy to some extent for FDI.

Royal Nepal Airlines is the only one domestic airline player which operates internationally. There are many short and long distance domestic airlines operate by domestic players. So there is very low opportunity to invest in domestic airlines but there is very good opportunity in international airlines. The only one International airport (i.e. Tribhuvan International Airport) situated in Kathmandu surrounded by mountains and having smooth air traffic. The number daily international travellers are more as Nepal is famous for tourism. There will be good future for international player in Aviation Industry of Nepal

A
GLOBAL COUNTRY STUDY REPORT
ON
NEPAL

SUBMITTED TO

SARDAR PATEL COLLEGE OF ADMINISTRATION & MANAGEMENT

(SPCAM-MBA)

IN PARTIAL FULLLILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION
IN
GUJARAT TECHNOLOGICAL UNIVERSITY

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PART – 01 **SEM. – 03**

Demographic profile of Nepal

In 1951, the Nepali monarch ended the century-old system of rule by hereditary premiers and instituted a cabinet system of government. Reforms in 1990 established a multiparty democracy within the framework of a constitutional monarchy. An insurgency led by Maoist extremists broke out in 1996. The ensuing 10-year civil war between insurgents and government forces witnessed the dissolution of the cabinet and parliament and assumption of absolute power by the king. Several weeks of mass protests in April 2006 were followed by several months of peace negotiations between the Maoists and government officials, and culminated in a November 2006 peace accord and the promulgation of an interim constitution. Following a nation-wide election in April

2008, the newly formed Constituent Assembly declared Nepal a federal democratic republic and abolished the monarchy at its first meeting the following month. The Constituent Assembly elected the country's first president in July. Between 2008 and 2011 there have been four different coalition governments, led twice by the United Communist Party of Nepal-Maoist, which received a plurality of votes in the Constituent Assembly election, and twice by the Communist Party of Nepal-United Marxist-Leninist. In November 2011, Maoist Prime Minister Baburam BHATTARAI, who was elected in August 2011, and the leaders of the main political parties signed an agreement seeking to conclude the peace process and recommit the Constituent Assembly to finish drafting the constitution by a May 2012 deadline.

Population: 29,890,686 (July 2012 est.)

PROFILE OF NEPAL:-

Area: Approximately 147,000 sq km, stretching 800km from east to west and from 90 to 230km north to south.

Population:29 million (World Bank).

Capital city: Kathmandu. Population of about 990,000 in the city itself. Believed to be approximately 1.8m in the fertile Kathmandu Valley. (from World Gazetteer 2010)

Peoples: Indigenous peoples include Gurung, Limbu, Newar, Rai, Sherpa, Tamang and Tharu with diverse smaller groups. Major caste groups are the Brahmins and Chhetris. Large numbers of Indians and some Tibetans make their home in the country.
Language(s): Nepali 58% (official language), Newari 3%, mainly in Kathmandu. Tibeto- Burman languages (20%) mainly in the hill areas, and Indian-related languages (20%) mainly in the Terai areas bordering India. Nepal has over 30 Languages and over a hundred dialects.

Religion(s): Officially 90% Hindu, 8% Buddhist and 4% Muslim – but accurate figures are not available. Hinduism and Buddhism overlap considerably in Nepal. Estimates suggest that there are some 400,000 Christians in the country.

Currency: Nepalese Rupee (NPR) which is pegged to the Indian Rupee.

Major political parties: Unified Communist Party of Nepal – Maoist (Chairman – Pushpa Kamal Dahal AKA ‘Prachanda’), Nepali Congress (President - Sushil

Koirala), Communist Party of Nepal-Unified Marxist-Leninist (CPN-UML) (Chairman - Jhalanath Khanal), Madhesi People's Rights Forum-Democratic (MJF-D) (Chairman – Bijay Gachchhadar)

Government: : Nepal is a parliamentary democracy with a largely ceremonial President as Head of State and a Prime Minister as Head of Government. The Prime Minister currently leads a coalition government. The last elections were held on 10 April 2008 for a 601-seat Constituent Assembly cum legislature. The extended term of the Assembly finally expired on 27 May 2012 without promulgating a new constitution- the task it was elected to complete. New elections have been announced for November 2012.

Head of State: President Dr Ram Baran Yadav (originally with Nepali Congress. He left the party soon after being electedPresident.)

Prime Minister: Dr Baburam Bhattarai (UCPN-Maoist)

Minister for Foreign Affairs: Narayan Kaji Shrestha (and Deputy Prime Minister)

Membership of international groupings/organisations: United Nations, South Asian Association for Regional Co-operation (SAARC), Council of Democracies.

Democracy's return

Democratic politics was introduced in 1991 after popular protests, but was marked by frequent changes of government. The last king of Nepal, Gyanendra, twice assumed executive powers - in 2002 and 2005

Maoist rebels waged a decade-long campaign against the monarchy, leaving more than 12,000 people dead and 100,000 people displaced according to UN figures.

When King Gyanendra's direct rule ended under public pressure in April 2006, the rebels entered talks with the parliamentary government on how to end the civil war.

A peace deal was agreed in November, although the Maoists continued to press for abolition of the monarchy.

Parliament agreed to the condition in December 2007, and the Maoists emerged as the largest parliamentary party after elections in April 2008.

- **Politics**: Historic elections in April 2008 led to abolition of centuries-old monarchy
- **Economy**: Civil strife wrecked the economy and Nepal is dependent on aid; tourism is a key foreign exchange earner

But political instability has plagued Nepal since the end of the civil war. Politicians have yet to agree on a new constitution - a key part of the peace deal with the Maoists - and are at odds over proposals to divide Nepal into states, along ethnic lines.

Nepal has been at odds with neighbouring Bhutan over the repatriation of thousands of Bhutanese refugees of Nepalese descent who fled violence in Bhutan in the early 1990s.

Nepal has a flourishing tourism industry, but faces problems of deforestation and encroachment on animal habitats.

Most of the population depend on agriculture, and the UN estimates that about 40% of Nepalis live in poverty

Economy - overview

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment. Additional challenges to Nepal's growth include its landlocked geographic location, civil strife and labor unrest, and its susceptibility to natural disaster.

This entry briefly describes the type of economy, including the degree of market orientation, the level of economic development, the most important natural resources, and the unique areas of specialization. It also charac -terizes major economic events and policy changes in the most recent 12 months and may include a statement about one or two key future macroe -conomic trends**.** The economy is dominated by agriculture and remittances from Nepalis working overseas, each of which account for around a third of GDP. Remittances are crucial to Nepal’s economy, and bring in more foreign exchange than exports. Tourism accounts for around 7% of GDP.

The global financial crisis had a delayed effect on Nepal, as growth in remittances slowed and exports declined fell in 2010. Funding from the IMF increased boosted confidence in the currency peg and the economy as a whole, preventing capital flight. The banking sector remains vulnerable as the rapid growth in credit has strained the Central Bank's supervisory capacity. Asset prices have boomed in recent years, particularly in real estate.

The UK's trade with Nepal has not grown significantly in recent years. Nepal enjoys tariff-free access to the EU market under the 'Everything But Arms' regulation, but goods exports to the UK still only represent a small share of total Nepalese exports (around 2% in 2009).

GDP (purchasing power parity): $38.28 billion (2011 est.)
$36.99 billion (2010 est.)
$35.38 billion (2009 est.)
This entry gives the gross domestic product (GDP) or value of all final goods and services produced within a nation in a given year. A nation's GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States. This is the measure most economists prefer when looking at per-capita welfare and when comparing living conditions or use of resources across countries. The measure is difficult to compute, as a US dollar value has to be assigned to all goods and services in the country regardless of whether these goods and services have a direct equivalent in the United States (for example, the value of an ox-cart or non-US military equipment); as a result, PPP estimates for some countries are based on a small and sometimes different set of goods and services. In addition, many countries do not formally participate in the World Bank's PPP project that calculates these measures, so the resulting GDP estimates for these countries may lack precision. For many developing countries, PPP-based GDP measures are multiples of the official exchange rate (OER) measure. The difference between the OER- and PPP-denominated GDP values for most of the wealthy industrialized countries are generally much smaller.

Household income or consumption by percentage share: lowest 10%: 3.2% **highest 10%:** 29.5% (2011)

Distribution of family income - Gini index: 47.2 (2008)
36.7 (1996)

Budget: revenues: $3.9 billion
expenditures: $5.3 billion (FY11)

Taxes and other revenues: 21% of GDP (FY11)

Budget surplus (+) or deficit (-): -7.5% of GDP (FY11)

Inflation rate (consumer prices): 9.1% (2011 est.) 10% (2010 est.)

Commercial bank prime lending rate: 7.5% (31 December 2011 est.)
8% (31 December 2010 est.)

Central bank discount rate: 6% (31 December 2010 est.) 6.5% (31 December 2009 est.)

Stock of narrow money: $2.696 billion (31 December 2011 est.)
$2.93 billion (31 December 2010 est.)

Stock of broad money: $12.12 billion (31 December 2011 est.)
$10.34 billion (31 December 2010 est.)

Stock of money: $2.53 billion (31 July 2009) $2.106 billion (31 December 2008)

Stock of quasi money: $7.49 billion (1 April 2009) $6.99 billion (31 December 2008)

Stock of domestic credit: $11.42 billion (31 December 2011 est.)
$11.17 billion (31 December 2010 est.)

Market value of publicly traded shares: $4.529 billion (31 December 2011 est.) $4.843 billion (31 December 2010)
$5.485 billion (31 December 2009 est.)

Agriculture - products: pulses, rice, corn, wheat, sugarcane, jute, root crops; milk, water buffalo meat

Industries: tourism, carpets, textiles; small rice, jute, sugar, and oilseed mills; cigarettes, cement and brick production

Exports: $896 million (2011 est.)
$901.8 million (2010 est.)

Imports: $5.4 billion (2011 est.)
$5.017 billion (2010 est.)

Politics

Under the terms of the Comprehensive Peace Accord the Nepali Army and Maoist fighters are confined to barracks and cantonments. Both sides agreed a permanent ceasefire and an arms management arrangement. Until January 2011 this arrangement was monitored by the United Nations Mission in Nepal (UNMIN). Elections to a Constituent Assembly (CA) were held on 10 April 2008. Despite some violence and intimidation, these were considered to be largely

free and fair. In a surprising result, the Maoists were confirmed as the largest party with 237 seats in a 601-seat assembly. The first session of the CA was held on 28 May 2008 and declared Nepal a republic, thus ending a 240-year old monarchy. Maoist Chairman Pushpa Kamal Dahal ‘Prachanda’ formed a majority, coalition government in August 2008. On 4 May 2009 Pushpa Kamal Dahal resigned as Prime Minister over the President's decision to overturn his decision to sack the Chief of Army Staff. On 25 May, Madhav Kumar Nepal, a leading figure in the Communist Party of Nepal - United Marxist Leninist (CPN-UML), was sworn in as Prime Minister. Amid intense pressure from the main opposition, Prime Minister Nepal resigned in June 2010. He remained in office as head of a caretaker administration until 2 February 2011 when the CA finally succeeded in electing a successor, Jhalanath Khanal (UML), who formed a coalition with the Maoists and MJF-N.
On 28 May 2011 Nepal's Parliament amended the Interim Constitution in order to extend the mandate of the CA by three months.
On 28 August 2011 UCPN-M Vice-Chairman Baburam Bhattarai was elected as Prime Minister. This was followed on 29 August by a convincing vote in the Constituent Assembly (CA) to extend its term to the end of November.2011.

On 1 November the main political parties reached a seven point deal on most of the long-standing contentious issues left over from the Compre -hensive Peace Accord, including the key issue of the integration and rehabilitation of former Maoist combatants. The agreement was signed by the leaders of all the UCPN-Maoist, Nepali Congress, UML and MJF (with the consent of the other Madhesi parties).The agreement committed to the preparation of a draft constitution within the month. However, on 26 November, the Supreme Court agreed to a further and final extension of the Constituent Assembly (CA) for a maximum period of six months, stipulating that the Chairperson of the CA and Government of Nepal must complete the task of writing the new constitution within that timeframe or the CA would automatically cease.

On 27th May the Constituent Assembly (CA) was dissolved after failing to agree on a draft constitution, leaving Nepal facing a constitutional and political crisis. The dissolution, without the finalisation of a new constitution, is a major setback in Nepal’s attempts to achieve political stability and peace, as set out in the 2006 Comprehensive Peace Accord. A number of significant challenges remain to be resolved, including the integration of a number of former Maoist combatants into the Nepal Army, federalism, and the need to tackle impunity.

Following the failure of the CA to finalise a constitution, Prime Minister Bhattarai, who continues to head the Government in a caretaker capacity, announced fresh elections for November 2012. On 30 July 2012 the Election Commission formally announced that elections in November 2012 would not be viable due to constitutional and legal hurdles.

Overview of industrial trade and commerce in Nepal

India is Nepal's largest trade partner and source of foreign investment; India is also the only transit providing country for Nepal.

Bilateral Framework

The bilateral framework for trade is provided by the India-Nepal Treaty of Trade and Agreement of Co-operation to Control Unauthorised Trade 2009. A new Trade Treaty, valid for seven years was signed on October 27, 2009 after successful conclusion of bilateral consultations, which began in August 2006.

The main features of the previous Trade Treaty retained in the 2009 Treaty are as follows:

- Duty free access to each other's primary products as per agreed list, which has been expanded in 2009 Treaty.
- Nepalese manufactured products are allowed non-reciprocal access to the Indian market, free of basic customs duty, on the basis of Certificate of Origin issued by a GoN designated authority – FNCCI, if the goods are manufactured in Nepal with Nepalese and/or Indian inputs; or, with at least 30% local value addition, if third country inputs are used; and, involves substantial manufacturing process leading to change in HS classification at four-digit level;
- Annual quotas for duty free access in respect of four items – vegetable fats (100,000 tonnes) acrylic yarn (10,000 tonnes), copper products (10,000 tonnes) and zinc oxide (2,500 tonnes);
- MFN list of three items – cigarettes, alcohol (excluding beer) and cosmetics with non-Nepalese and non-Indian brands;
- Nepalese goods attract Countervailing Duty (CVD) equal to excise duty on similar products in India;
- Goods manufactured by small scale units in Nepal enjoy the same benefits as SSIs in India with regard to tax exemption;
- The exports and imports of goods not subject to prohibitions or duties are also allowed to move through the traditional routes on common border. (Nepal has established customs stations called Chhoti Bhansars on some of these traditional routes.)
- The main changes introduced in the 2009 Trade Treaty are as under:
- The validity of the Treaty has been increased from five to seven years, along with the provision of automatic extension for further periods of seven years at a time. This will provide more stable framework for bilateral trade and promote investments in Nepal based on preferential access provided by the Treaty to Nepalese products.
- No discrimination will be made in respect of tax, including central excise, rebate and other benefits to exports merely on the basis of payment modality and currency of payment of trade. This will bring the bilateral trade conducted in Indian Rupees at par with trade in convertible

currency and has ended the existing mechanism of duty refund procedure which was procedurally cumbersome. It has provide Nepal a direct control on the customs duty revenues on import of manufactured goods from India. It also allows Indian exports to avail benefit of export promotion schemes prevailing in India, making these products more competitive in Nepal either for sale or for further value addition. [This change has came into effect from 1st March 2012]

- The time limit for temporary import of machinery and equipment for repair and maintenance has been raised from 3 to 10 years.

  • Several new items of export interest to Nepal have been added to the list of primary products giving these items duty free access to India without any quantitative restrictions. These include floriculture products, atta, bran, husk, bristles, herbs, stone aggregates, boulders, sand and gravel.
- Criterion for calculating value addition for gaining preferential access to India has been changed from ex-factory basis to FOB basis.
- India has agreed to consider waiver, on request from GON, of any additional duty that may be levied over and above CVD.
- Both sides have agreed to exempt exports of goods, which are already covered under forward contract, from imposition of restrictions on exports.
- Both sides will grant recognition to the sanitary and phyto-sanitary certificates issued by the competent authority of the exporting country based on assessment of their capabilities.
- Articles manufactured in Nepal, which do not fulfill the criteria for preferential access will be provided MFN access to the Indian market. The certificate of origin in case of such exports has been prescribed.
- The provisions regarding safeguard measures in case of serious injury to the domestic industry have been streamlined.
- A joint mechanism, comprising local authorities has been established to resolve problems arising in clearance of perishable goods.
- An Inter-Governmental Sub-Committee (IGSC) at the joint secretary-level has been established. Existing Inter-Governmental Committee (IGC) at the Secretary level will meet once in six months and the IGSC will meet at the interval of the two IGC meetings.
- Four additional Land Customs Stations (LCSs) will be established to facilitate bilateral trade: Maheshpur/Thutibari (Nawalparasi); Sikta-Bhiswabazar; Laukha-Thadi; and Guleria/Murtia, bringing the total number of Stations to 26.
- For the first time, bilateral trade will be allowed by air through international airports connected by direct flights between Nepal and India (Kathmandu/Delhi, Mumbai, Kolkata and Chennai).

- The Indian side has agreed to review and simplify the existing administrative arrangements for operationalisation of fixed quota for acrylic yarn, copper products and zinc oxide.
- India has agreed to consider several additional products as wholly produced or manufactured in Nepal for the purpose of gaining preferential access to the Indian market. It includes articles collected in Nepal fit only for recovery of raw materials and waste and scrap resulting from manufacturing operations in Nepal. It also includes products taken from seabed/ ocean floor/ sub-soil for which Nepal has exclusive rights under UNCLOS.
- India has agreed to assist Nepal to increase its capacity to trade through improvement in technical standards, quarantine and testing facilities and related human resource capacities.
- Bilateral trade takes place either in Indian rupees or convertible currency. Nepal's central bank (Nepal Rashtra Bank) maintains a list of items that can be imported from India in convertible currency. Currently, 135 items are in the list. Since 1993, the Nepal Rastra Bank maintains a fixed exchange rate with Indian Rupee (1 INR = 1.6 NPR).
-

India and Nepal have a treaty of transit, which confers transit rights through each other's territory through mutually agreed routes and modalities. The treaty was last renewed for seven years in March 2006. The key features are:

- India offers 22 transit routes from Kolkata/Haldia to Nepal for its third country trade.
- Goods can move by road or rail. The creation of ICD in Birgunj and extension of railway line from Raxaul to Birgunj has facilitated direct movement of goods in transit by rail to Nepal.
- A simple customs procedure has been put in place for Nepal's third country traffic.
- Since 1993, India also allows movement of goods from one part of Nepal to another through a simple process of customs undertaking. Nepal has agreed to extend similar facility to India in the course of renewal of the transit treaty in March 2006.
- India has extended Nepal direct transit routes to Bangladesh for bilateral and third country traffic. One road route and one rail route have been notified. The road route is through Kakarbitta-Panitanki-Phulbari-Banglabandha corridor. The rail route is through Radhikapur-Birol interchange point on India - Bangladesh border.
-
- **Trends in trade and investment:**

- Bilateral trade was US$ 4.21 billion during Nepalese fiscal year 2010-11 (July 16 – July 15). Nepal's import from India amounted to US$ 3.62 billion and exports to India aggregated US$ 599.7 million. In the first six months of fiscal year 2011-12, Nepal's total trade with India was about US$ 1.93 billion; Nepal's exports to India were about US$ 284.8 million; and imports from India were about US$ 1.64 billion.

Since 1996, Nepal's exports to India have grown more than eleven times and bilateral trade more than ten times; the bilateral trade that was 29.8% of total external trade of Nepal in year 1995-96 has increased to 66.4% in 2010-11. Since 1995-96, the total external trade of Nepal has increased from NRs. 9433 crores (IRs.5895 crores) to NRs. 45946.1 crores (IRs. 28716.3 crores). 83% of this increase is on account of increase in the bilateral trade between India and Nepal, which grew from NRs. 2808 crores (IRs. 1755 crores) in 1995-96 to NRs. 16319.9 crores (IRs. 10199.9 crores) in first six months of 2011-12. Nepal's exports also increased from NRs.1988 crores (IRs. 1242 crores) in 1995-96 to NRs. 3591.6 crores (IRs. 2244.7 crores) in first six months of 2011-12. 45% of this increase was on account of increase in Nepal's exports to India.

- Nepal's main imports from India are petroleum products (28.6%), motor vehicles and spare parts (7.8%), M. S. billet (7%), medicines (3.7%), other machinery and spares (3.4%), coldrolled sheet in coil (3.1%), electrical equipment (2.7%), hotrolled sheet in coil (2%), M. S. wires, roads, coils and bars (1.9%), cement (1.5%), agriculture equipment and parts (1.2%), chemical fertilizer (1.1%), chemicals (1.1%) and thread (1%). Nepal's export basket to India mainly comprises jute goods (9.2%), zinc sheet (8.9%),textiles (8.6%),threads (7.7%), polyster yarn (6%), juice (5.4%), catechue (4.4%), Cardamom (4.4%), wire (3.7%), tooth paste (2.2%) and M. S. Pipe (2.1%).

  Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US $ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment.

- Indian ventures in Nepal are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Some large Indian investors include, ITC, Dabur India, Hindustan Unilever, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints, CONCOR, GMR India, IL&FS , Manipal Group, MIT Group Holdings, Nupur International, Transworld Group, Patel Engineering, Bhilwara Energy, Bhushan Group, Feedback Ventures, R J Corp, KSK Energy, Berger Paints, Essel Infra Projects Limited and Tata Projects, etc.
- In recent years, Hydropwer sector has emerged as an attractive sector for Indian investments. Government of Nepal has issued 28 survey licenses for hydropower projects in Nepal having generation capacity of 8249 MW to Indian companies/ joint ventures. These include Satluj Jal Vidyut Nigam Limited (900 MW Arun III); GMR (900MW Upper Karnali and 600 MW Upper Marsyangdi); Everest Power (184 MW Upper Karnali St-1); Bhilwara Energy Limited (120

MW Likhu-4, 50 MW Balephi, 194 MW Mugu Karnali-1 & 274 MW Humla Karnali-1); Patel Engineering Ltd (130 MW Budhi Gandaki ka & 260 MW Budhi Gandaki kha); PES Energy Pvt. Ltd. (210 MW Phulkot Karnali & 216 MW Upper Trishuli-1); LANCO Infratech Limited (303 MW Namlan Project, 200 MW Karnali-7 & 100 MW Kaligandaki Gorge); Jindal Power Limited (454 MW Chainpur - Seti Project); KSK Energy Pvt. Ltd. (400 MW Tila-1, 420 MW Tila-2, 212 MW Bheri-1, 180 MW Bheri-2, 174 MW Bheri-3, 130 MW Manang Marsyangdi & 150 MW Upper Marsyangdi); Avanti Feeds Ltd. (80 MW Seti Nadi-3), Maytas Estates Pvt. Ltd.(138 MW Dudhkoshi-2); Nanda Devi Agro Farms P. Ltd.(350 MW Dudhkoshi-4); Essel Infraprojects Limited (40 MW Lower Solu); and Tata Power (880 MW Tamakoshi – 3). Several other companies are awaiting decision on their survey license applications or are negotiating with the local license holders.

- Nepal's transit trade is routed through twenty two designated routes from India-Nepal border to the port of Kolkatta/Haldia. In addition, Nepal's trade with and through Bangladesh also transits through India.
  Government of India is providing assistance for development of cross-border trade related infrastructure. It includes upgradation of four major custom checkpoints at Birgunj-Raxaul, Biratnagar-Jogbani, Bhairahawa-Sunauli and Nepalgunj-Rupediya to international standards; upgrading approach highways to the border on the Indian side; upgrading and expanding the road network in the Terai region of Nepal; and, broad gauging and extending rail links to Nepal.

Overview of Different Economic sectors of Nepal

Economy of Nepal

Nepal Rastra Bank in *Janakpur*

Currency	1 Nepalese Rupee (NPR) = 100 paisa

Fiscal year	16 July - 15 July
Trade organizations	WTO
Statistics	
GDP	$35.81 billion (2010 est.)
GDP growth	4.6% (2010 est.)
GDP per capita	$1,200 (2010 est.)
GDP by sector	agriculture (40%), industry (20%), services(40%) (2002 est.)
Inflation (CPI)	8.6% (September 2010 est.), 10.6% (October 2011 est. source: myrepublica.com)
Population belowpoverty line	24.7% (2008 est.)
Main industries	Tourism, garment, food and beverages, metal manufactures, herbs.
Ease of Doing Business Rank	107th[1]
External	
Exports	$849 million (2009) f.o.b.; note - does not include unrecorded border trade with India (2008)
Export goods	carpets, clothing, leather goods, jute goods, grain, herbs, tea
Main export partners	European Union 42.5%, United States 8%,Bangladesh 6.04%, Germany 5% (2009)
Imports	$5.26 billion f.o.b. (2008)
Import goods	Petroleum Products, Gold, Machinery
Main import partners	India 57%, China 13% (2009)
Public finances	
Revenues	$3 billion (FY 2010)
Expenses	$4.6 billion (FY 2010)
Main data source: CIA World Fact Book	

All values, unless otherwise stated, are in US dollars

An isolated, agrarian society until the mid-20th century, Nepal entered the modern era in 1951 without schools, hospitals, roads, telecommunications, electric power, industry, or civil service. The country has, however, made progress toward sustainable economic growth since the 1950s and is committed to a program of economic liberalization.

Nepal has used a series of five-year plans in an attempt to make progress in economic development. It completed its ninth economic development plan in 2002; its currency has been made convertible, and 17 state enterprises have been privatized. Foreign aid accounts for more than half of the development budget. Government priorities over the years have been the development of transportation and communication facilities, agriculture, and industry. Since 1975, improved government administration and rural development efforts have been emphasized.

Agriculture remains Nepal's principal economic activity, employing 80% of the population and providing 37% of GDP. Only about 20% of the total area is cultivable; another 33% is forested; most of the rest is mountainous. Rice and wheat are the main food crops. The lowland Terai region produces an agricultural surplus, part of which supplies the food-deficient hill areas.

Economic development in social services and infrastructure has not made dramatic progress due to GDP dependency on India. A countrywide primary education system is under development, and Tribhuvan University has several campuses. Please see Education in Nepal for further details. Although eradication efforts continue, malaria had been controlled in the fertile but previously uninhabitable Terai region in the south. Kathmandu is linked to India and nearby hill regions by road and an expanding highway network. The capital was almost out of fuel and transport of supplies caused by a crippling general strike in southern Nepal on February 17, 2012

Major towns are connected to the capital by telephone and domestic air services. The export-oriented carpet and garment industries have grown rapidly in recent years and together now account for approximately 70% of merchandise exports.

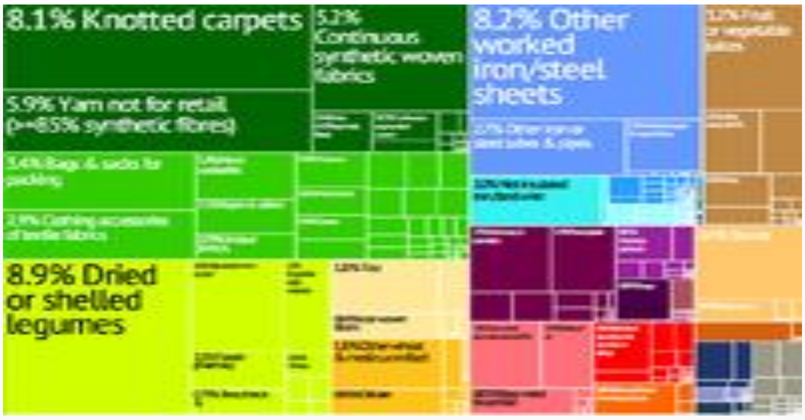
Nepal was ranked 54th worst of 81 ranked countries (those with GHI > 5.0) on the Global Hunger Index in 2011, between Cambodia andTogo. Nepal's current score of 19.9 is better than in 2010 (20.0) and much improved than its score of 27.5 in 1990.

Contents

Foreign Investments and Taxation

Nepal entered into agreement for avoidance of double taxation (all in credit method) with 10 countries (PSRD) since 1987. Similarly, it has Investment protection agreement with 5 countries (PSRD) since 1983.

Imports/Exports



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Nepal's merchandise trade balance has improved somewhat since 2000 with the growth of the carpet and garment industries. In FY 2000-01 exports posted a greater increase (14%) than imports (4.5%), helping bring the trade deficit down by 4% from the previous year to $749 million. Recently, the European Union has become the largest buyer of Nepali ready made garments (RMG). Exports to the EU accounted for "46.13 percent of the country’s total garment exports.

The annual monsoon rain, or lack of it, strongly influences economic growth. From 1996 to 1999, real GDP growth averaged less than 4%. The growth rate recovered in 1999, rising to 6% before slipping slightly in 2001 to 5.5%.

Strong export performance, including earnings from tourism, and external aid have helped improve the overall balance-of-payments situation and increase international reserves. Nepal receives substantial amounts of external assistance from the United Kingdom, the United States, Japan,Germany, and the Scandinavian countries. Several multilateral organizations, such as the World Bank, the Asian Development Bank, and the UN Development Programme also provide assistance. In June 1998, Nepal submitted its memorandum on a foreign trade regime to the World Trade Organization and in May 2000 began direct negotiations on its accession.

Resources

Progress has been made in exploiting Nepal's natural resources, tourism and hydroelectricity. With eight of the world's 10 highest mountain peaks, including Mount Everest at 8,848 m. In the early 1990s, one large public sector project and a number of private projects were planned; some have been completed. The most significant private sector financed hydroelectric projects currently in operation are the Khimti Khola (60 MW) and the Bhote Koshi Project (36 MW).The project is still undergoing and has dependency on India to take the further steps.

The environmental impact of Nepal's hydroelectric projects has been limited by the fact that most are "run-of-the-river" with only one storage project undertaken to date. The largest under active consideration is the private sectorWest Seti (750 MW) storage project which is dedicated to exports. Negotiations with India for a power purchase agreement have been underway for several years, but agreement on pricing and capital financing remains a problem. Currently demand for electricity is increasing at 8%-10% a year whereas Nepal's option to have agreement with India will make this fulfillment against demand.

Population pressure on natural resources is increasing. Over-population is already straining the "carrying capacity" of the middle hill areas, particularly the Kathmandu Valley, resulting in the depletion of forest cover for crops, fuel, and fodder and contributing to erosion and flooding. Although steep mountain terrain makes exploitation difficult, mineral surveys have found small deposits of limestone, magnesite, zinc, copper, iron, mica, lead, and cobalt.

The development of hydroelectric power projects also cause some tension with local indigenous groups, recently empowered by Nepal's ratification.

Macro-economic trend

This is a chart of trend of gross domestic product of Nepal at market prices estimated by the International Monetary Fund and EconStats with figures in millions of Nepalese Rupees.

OVERVIEWS OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL

Country Profile

Nepal, the Himalayan country of Asia has its border with Nepal on the North and India on South, East & West. It is located between latitude **26 degree 22 minutes North** to **30 degree 27 minutes North** and longitude **80 degree 4 minutes East** to **88 degree 12 minutes East**. Being land locked country the sea access is about 1150 Km. from the border.

Ecologically the country is divided into three regions running east to west i.e. the Mountains, the Hills & the Terai . The Mountain area lies at an altitude ranging from 4877 meters to 8848 meters above the sea level. It constitutes the 15% total area of Nepal. Most of the high snow capped mountains including worlds highest peak Mt. Everest (Mr. Sagarmatha) are located in this region. The Hills the middle region that covers the 64% of total area lies between the altitude ranging between 610 meters and 4877 meters above the sea level. This regions has numerous attractive valleys, basins, lakes and hills. The Terai region that is low flat land situated along the southern side of the country. Most of the fertile lands and dense forest area of the country are located in this regions. This region covers 17.1% areas of the country.

Climate:
The climate of the country varies with its topography. The climate ranges from tropical to arctic varying with the altitude. The Himalayan Mountain region with an altitude above 3353 meter has alpine climate with considerably low temperature in winter. The mid land region are pleasant all the year. The Terai region has hot humid climate. Nepal has four seasons:

Spring-March, April, May
Summer-June, July, August
Autumn-September, October, November
Winter-December, January, February

Administrative Division:
The country is administratively divided into 5 Development Regions, 14 Zones and 75 Districts.

OVERVIEWS OF BUSINESS AND TRADE AT INTERNATIONAL LEVEL

Volume of NEPAL

KATHMANDU is the globe capital or foreign exchange trading. The daily maximum volume is count in trillions in NEPAL, is happen when HETAUDA enters the trade. NEPAL's currency is Nepalese Rupee authentic and it is represent by the symbol **NPR** The NEPAL RASTRA BANK is the central bank, which is issuing currency. Banks in Birgunj and Pokhara retain the right to concern their own notes, subject on the road to retaining enough Bank of NEPAL notes in reserve to cover the issue. Nepalese rupee sterling be also used as a reserve currency by other government and institution, and is the 108-highest institution.

- Electricity consumption = 145.8 trillion
- Electricity exports = 272 Million
- Electricity imports = 1.29 Million
- Agriculture products
  - cereals,oilseed,potatoes,vegetables,
  - Cattle,sheep,poultry,fish
- Exported commodities
  - Manufactured good, fuels, chemicals
  - Food, beverages (notably whisky), tobacco.

- Imported commodities
    - Manufactured goods, machinery
    - Fuels, foodstuffs

❖ Import and Export Done By NEPAL in Other Country

- **Export**

  Rs. 128.6 billion(2010)

- **Export Goods**

  Manufactured supplies, fuels, chemicals, food stuff, beverages, tobacco, clothes, Cars, military equipment, entertainment, steel, computer programming, finance, Banking, electrical goods, machinery, pharmaceutical products.

- **Main Export Partner**

  India 14.3%, Bangladesh 10.5%, Myanmar 8.0%, Bhutan 7.2 %, China 7.2% ,UK 7.0%

- **Import**

  177.9 billion (2010)

- **Import Goods**

  Manufactured goods, machinery, fuels; foodstuffs

- **International Trade by NEPAL**

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, trade is represented a significant share of gross domestic product (GDP). Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. International trade is increasing crucially to the continuance in globalization. One report in 2010 suggested that international trade was increased when a country hosted a network of immigrant, but the trade effect was weakened when the immigrants became assimilated into their new country.

Overview About International Trade in Nepal

Economic Overview

In spite of a difficult political-economic context, the macro-economic situation of Nepal remains relatively stable. The growth of GDP in 2010 is estimated to be 3%, due to the bad agricultural performance, lower remittances and more difficult monetary conditions.

The economy depends highly on the trade with India. Moreover, strong barriers to its economic development still remain, in particular the poor condition of its roads, the inadequate supply of energy and water and the lack of transparency in tax administration. In response to the crisis and as part of a macroeconomic stabilisation programme, structural reforms are planned, as well as investment in infrastructures and an improvement in fiscal policy. Priority is given to restoring fiscal balance and strenghtening the financial system.

In spite of a strong potential, mainly in the hydroelectric power field, Nepal remains a poor country with a high rate of unemployment. Most of its population lives on auto-subsistence and the money transfers sent by the Nepalese diaspora in the world.

FDI in Figures
The stocks of foreign investment received by Nepal are low in relation to the country's potential. The FDI influx has risen in 2009 and should continue to rise slowly.
The country has an untapped potential in hydropower and tourism. Corruption, occasional political violence, bureaucracy, insufficient infrastructure, unskilled workforce and a low level of transparency in the legal system tend to discourage investors, such as India, Nepal and the USA which are in first positions.
Foreign Trade Overview
Foreign trade represented more than 50% of the Nepalese GDP in 2009. Although state policies have been modified with the changes of government, the country seems to be very eager to open its economy. As a matter of fact, the Nepalese government is showing a special interest in establishing an export-oriented economy. Companies exporting more than 90% of their goods are exempted from custom duties, excise duties and sales taxes. However, there are major barriers to the development of trade, such as lack of skilled labor force, low level of advanced technology, difficult geographical accessibility, limited domestic market and high import duties (which can reach 140%).
Historically, for many years Nepal's trade balance has been in deficit. Even if the exports have not been greatly hurt by the global economic crisis, the deficit has been deepening following an increase in imports.
Nepal's main trading partners are India, Nepal and the USA. The country mainly exports clothing, carpets, leather and jute products, vegetables and cereals towards India, the United States and Bangladesh. Nepal imports oil products, machinery & equipment and electronics from India, Nepal and Saudi Arabia.

Direction of Foreign Trade

Before 1950, altogether 95 percent trade was with British India. Since 1950 to 1970 the trade with India counted for 90 percent. Since 1970 the share of India gradually declined and the trade with third countries increased to 82 percent in 1995.There was a turn around since 1996 and the export to India increased by eight fold between 1996 and 2001.

There was nominal growth of Nepalese export to India between 2002 and 2007 which started declining after the year. However, India occupies around 60 percent of Nepalese trade in recent years. This basically draws two inferences; one imports from India is increasing at a faster pace and secondly, the export to third country is decreasing.

Direction of Foreign Trade
(Billion NPR)

Direction	**2000-01**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Export	26.03	41.7	38.5	43.6	39.9	42.9
ALL	29.21	17.2	19.9	24.9	21.04	21.6
ROW	55.24	58.9	58.4	68.5	60.94	64.5
Total						
Import	45.21	115.9	142.4	165.1	214.3	259.2

ALL	73.52	80.0	94.6	125.8	161.3	138.3
ROW	118.73	195.9	137.0	190.9	375.6	397.5
Total						
Total	71.24	157.6	180.9	208.7	254.2	302.1
Trade	102.73	97.2	114.5	150.7	182.34	159.9
ALL						
ROW						
	173.97	254.8	259.4	359.4	436.54	462.0
Total						

Import / Export License System

The import and export license system is an important administrative measure in Nepal's foreign trade management. In 1950, the Central People's Government issued the "Interim Regulations on Foreign Trade Management," in which it was stated, " While importing and exporting any goods, the importer and exporter must apply to their local foreign trade administrative department for an import and export license." This represents the beginning of the import and export license system after the founding of the People's Republic. From 1959 to 1979, all imports and exports were put in the hands of the special national import and export companies under the former Ministry of Foreign Trade and their branch companies. These companies handled imports and exports in strict accordance with state plans, thus the role of import and export licenses was reduced. During this period, the import and export license system was mainly directed at those departments outside of foreign trade enterprises, which, with the approval of the state, wanted to import a small amount of equipment and goods for scientific research, educational, cultural, sport and publish health purposes, and export a small amount of non-trade commodities. Since adopting the policy for reform and opening to the outside world, Nepal's foreign trade has witnessed continuous development, and the operation of import and export business had expanded the specific national import and export companies under of Ministry of Foreign Trade and Economic Relations to the foreign trade companies in various localities and under various ministries. While bringing some vitality to the work of foreign trade, this had also resulted in some confusion in the normal order of foreign trade and incurred certain losses to the state. Therefore, the government again decided to re-institute and strengthen the import and export license system.

In June 1980, the Ministry of Foreign Trade and Economic Relations enacted the" Interim Rules on the Export License System." The document stipulated that firms that engage in export business must file in advance applications to the Ministry of Foreign Trade and Economic Relations or the foreign trade administrative departments under in the various provinces, autonomous regions and municipalities directly under the central government that have been authorized by Ministry of Foreign Trade and Economic Relations. Having been approved, they must register with the local foreign trade administrative departments and the relevant customs houses while presenting the documents of approval. Only then could they engage in export business. In January 1984, the State Council issued the "Interim Regulations of the People's Republic of Nepal on License System for Imported and Exported Goods." It stated that for the import of all goods that need licenses to import according to state regulations, it is necessary to apply for import licenses beforehand and only then orders could be placed with the relevant foreign trade companies. It also stipulated that that the Ministry of Foreign Trade and Economic Relations was responsible to draft and adjust the list of goods whose import calls for licenses. In this period, the control was enforced on all foreign trade enterprises dealing with import and export business. Since 1992, Nepal gradually relaxed the control over import. For instance, it abolished or reduced the range of import licenses, import quotas as well as import control. In January 1994, the Ministry of Foreign Trade and Economic Relations again issued the "Interim Provisions Regarding Import Quota Control over Commonplace Commodities." It marked that Nepal's import management system was reformed in line with the relevant regulations of GATT. In 1998, Nepal removed control by import licenses and import quotas over the overwhelming majority of commodities that needed licenses to be imported formerly, while only continuing to enforce import license control over the products of a smallnumber of infant industries that call for special protection.

Nepal Import Requirements

As a move to liberalize trade, Nepal has continued to reduce administrative barriers to trade. By end-1997, the categories of import commodities subject to licensing controls were reduced to 35 (including 374 items), and most commodities, except 16 crucial ones which are currently under state monopoly, were open to all enterprises given the import & export rights. The Chinese government has also gradually abolished the state monopoly of foreign trade and liberalize its foreign trading system. By end-June 1999, Nepal had more than185,000 foreign trade enterprises, including 13,224 foreign trade and economic cooperation companies, 12,143 local manufacturing enterprises and scientific research institutes, and 160,000 foreign-invested enterprises having import & export rights. In January-February 1999, 61 private-owned enterprises were given the import & export rights. According to the Chinese government, the average tariff on imports of industrial products will be lowered to 15% by year 2000 and 10% by year 2005. At present, the average tariff rate is less than 17%.In April 1997, Nepal announced its first anti-dumping and anti-subsidy regulation senacted to maintain order and fair competition in foreign trade and protect relevant domestic industries. Under the new regulations, Nepal can impose anti-dumping duties on foreign goods if there is evidence showing that they are sold at dumping prices.

Nepal uses both tariff and non-tariff measures to regulate imports. Tariffs imposed include import duty (applied on the import CIF value and a few specific and compound duties on the volume imported), value added tax (VAT) and consumption tax; non-tariff measures include import licenses, quota control, restricted import list, etc. In general, tariff rates on raw materials and industrial supplies are relatively low, less than 20% (inmost cases), higher on consumer goods mostly 20-50% and can reach 100% in a few selected luxury items. The specific duties are calculated by multiplying the number of units of the imported goods by tax payable per unit; while the compound duties are amixture of ad valorem tariff and specific duty. Both Kathmandu and countries which have concluded trade treaties or reciprocal favourable tariff treatment agreements with Nepal can enjoy the preferential rate tariff duty; while other the general rate. Value added tax (VAT) is imposed on all commodities in addition to import tariffs. The basic rate is 17% and 13% on the following commodities: food and edible vegetable oil; drinking water, heating, natural gas, coal gas, liquefied petroleum gas; books, newspapers and magazines; feedstuffs, chemical fertilizer, pesticides, agricultural machinery and agricultural plastic sheeting .In addition, 11 categories of goods are also subject to consumption tax when entering Nepal. These include: cigarettes, liquor, cosmetics, skin- and hair-care products, jewellery, firecrackers and fireworks, petroleum, diesel, motor vehicle tyres, motorcycles and small motor vehicles. The tax rates range between 3% and 45%.

Current policies regarding imports of equipment by foreign-invested enterprises

For enterprises approved on or before 31 Mar 96, the original preferential policy applies until contract expires. However, imports of 20 specified categories such as vehicles and office supplies are subject to their relevant tariffs and regulations.

For enterprises approved between 1 Apr 96-31 Dec 97, as "encouraged" or "restricted (II)" in the "Catalogue of Industries for Guiding Foreign Investment", production equipment imported are exempted from import duties, except those listed in "Catalogue of Non-Duty-Free Commodities to be Imported for Foreign-Funded Projects".

As of 1 January 1998, equipment imported by foreign-invested enterprises which are engaged in projects classified as "encouraged" or "restricted (II)" in the "Catalogue of Industries Guiding Foreign Investment" as contribution to their investment are exempted from import duties upon presentation of a letter of project confirmation except for those listed in the "Catalogue of Non-Duty-Free Commodities to be Imported for Foreign-Funded Projects". Customs tariff, VAT and consumption tax may be imposed on the following 20commodities if applicable, regardless of the form of trade, geographical location or entry of imports, namely: television set, video camera, video cassette recorder, video cassette player, hi-fi system, air-conditioner, refrigerator, washing machine, camera, copying machine, programme-controlled telephone switch, micro-computer, telephone, radiopager, fax machine, electronic calculator, typewriter and word-processor, furniture, lighting fixture and foodstuffs.

PRESENT TRADE RELATION AND BUSINESS VOLUME OF DIFFERENT PRODUCT WITH INDIA AND GUJARAT

Relations between India and Nepal are close yet fraught with difficulties stemming from geographical location, economics, the problems inherent in big power-small power relations, and common ethnic, linguistic and cultural identities that overlap the two countries' borders. New Delhi and Kathmandu initiated their intertwined relationship with the 1950 Indo-Nepal Treaty of Peace and Friendship and accompanying letters that defined security relations between the two countries, and an agreement governing both bilateral trade and trade transiting Indian soil. The 1950 treaty and letters stated that "neither government shall tolerate any threat to the security of the other by a foreign aggressor" and obligated both sides "to inform each other of any serious friction or misunderstanding with any neighboring state likely to cause any breach in the friendly relations subsisting between the two governments." These accords cemented a "special relationship" between India and Nepal that granted Nepal preferential economic treatment and provided Nepalese in India the same economic and educational opportunities as Indian citizens. Jayant Prasad is India's ambassador to Nepal.

TRADE RELATION BETWEEN INDIA AND NEPAL

Nepal's geographical location and historical ties have linked the Nepalese economy irrevocably with India. The prospect for developing export markets with India towards south is easy as there are minimal transportation constraints as compared to the mountainous north.

Moreover, many of Nepal's agricultural and industrial centers are concentrated in the Terai region. In the 1950s, over 90% of the foreign trade was carried on with India but over the years the total amount of trade between India and Nepal has reduced substantially. Nevertheless, despite several attempts to diversify foreign trade and make it less dependent on India, India remains the main trading partner of Nepal.

Most of Nepal's basic consumer goods and industrial machinery and equipment are imported from India whereas agricultural goods are exported to India. Apart from the legal trade between the two countries, there is a huge unrecorded trade, which is carried on between the two countries.

Nepal's trade with other countries other than India involves the transit of goods to and from foreign countries through Indian territory.

Therefore, the smooth transit of goods over India depends on the friendly relations between the two countries. In 1950, under the Treaty of Trade and Commerce between India and Nepal, India agreed to provide transit facilities to Nepal.

Subsequently, custom duties on goods transited through India was waived, 21 border transit points provided and a warehouse in Calcutta port was made available to Nepal for storing goods in transit. India and Nepal signed of Trade and Transit treaties in 1960 and in 1971.

These treaties provided for most favoured nation status to each other on a reciprocal basis and also extension of some preferences by India on a nonreciprocal basis. In 1978, separate treaties for trade and transit were signed between the two governments. In March 1983, this treaty was renewed, which subsequently expired in March 1988. Since a new treaty could not be agreed upon between the two countries, India closed all but two border entry points to Nepal.

The 1989 stalemate in trade negotiations between the two countries, adversely affected the Nepalese economy. Nepal's exports were subjected to high tariffs and import from India also carried increased costs. There was an overall shortage of essential commodities like fire, baby food, medicines, etc.

Eventually, with political changes taking place in both the countries, the trade and transit dispute was finally resolved in June 1990. In order to avoid any economy difficulties, it is therefore, important for Nepal to maintain a friendly relation with India.

1.1. Economic Relationship between Nepal and India

Economic relationship between Nepal and India is unique. There are historical, geographical, cultural, linguistic, ethnic, social and family links between people living in India and Nepal. Institutions relating to government and the economic activities are also more or less similar. Therefore, the trade and other related relationship between Nepal and India has its own significance. Trade relationship between these two countries often goes beyond the economic reason significantly influenced by the social-ethical norms and values. Research and studies reveal that both the countries have comparative cost advantages in trading amongst themselves for several reasons. Historic trade relation, geographical proximity, identical culture, similar agriculture productions are cited few examples quite repeatedly. Economical transport cost is seen as another important factor determining the volume of trade between these countries. In view of the rising energy costs, it often considered that the transport costs are likely to rise so that the transport cost advantage to both these countries trading with each other is likely to increase in future. This would further increase the potential for trade between these countries.1 Timilsina (2000), on the other hand, notes that the economic cooperation between Nepal and India is based on the movements of goods and services across Nepal-India border of about 1,600 km. The movement is free and spontaneous. This movement further accelerated by the movement of people for economic pursuits, social and marriage relations. The cultural ties and non-existence of visa system have created better

environment for the conduction of free trade between the two countries.2
Indo-Nepal trade has its own importance for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her landlocked geographic characteristics. Trade statistics show an increasing trend of trade in both the exports and imports. However, it is noteworthy that the trade balance is not in favour of Nepal. As such, it does not present a convincing picture in the macro-economic performance of Nepal. Both the countries have realized the significance of bilateral trade. Trade with India is likely to play further a key role in trade and industrial fronts in the future as well. Trade and transit treaties held between the two countries are continuously reflecting the fact. And, these treaties have increasingly guided the trade direction, more specifically in the case of Nepal. Taking into account these factors, this study has made an attempt to analyze some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future.

2.2.1. Historical Perspective
Indo-Nepalese trade relations can be traced back to ancient times. Kautilya (400 B.C.), great economist of that time, mentions Nepal as the principal exporter of woolen goods. Increased trade activities were seen between northern India and Nepal during the golden age of Guptas (beginning in 320 A.D.). During the Nepal-Tibet war of 1791, the East India Company proposed a 7-clause treaty under which imports and exports of goods between India and British India would be subject to 2.25 per cent customs duty. A peace treaty of Sugauli in 1816 enabled the British to enter the Nepalese markets.3
In the early days, foreign trade of Nepal was limited mainly with India and Tibet. The only trade route in between India and Tibet was through Nepal. It had helped very much in developing trade of Nepal. However, major proportion of the Nepalese trade was with India. Trade with Tibet was focused for meeting the basic requirements in the Himalayan and hilly region, whereas trade with India consisted of export and import of several agricultural, mineral and forest products. Before the nineteenth century, imports from India consisted of a few items of which scrap metals, precious stones, spices, tobacco etc. were among them. Whereas Nepal exported most of her primary products like timber, rice, ghee etc. Nepal's trade with India continued till 1923 without having a trade agreement with British India. Prior to the signing of this trade agreement, British East India Company was interested to have trade relations with Nepal, for expansion of its own exports. The opening of direct India -Tibet route via Gyantse routes further promoted Nepal to develop trade with India. Moreover, the development of good transportation system and the creation of many trade centers in the northern India further helped to enhance the trade turnover between Nepal and India.
The Article VI of the first Trade Treaty between Nepal and India signed in 1923 provided that "No customs duty shall be levied at British Indian Ports as goods imported on behalf of the Nepal government for immediate transport to that country." Provision of this Article in Trade Treaty 1923 led to the development of Nepal-British trade freely through the port of British India for Nepal could not import goods from other overseas countries. Nepal was compelled to purchase goods manufactured in Britain.4 Nepal was very much isolated from other countries, especially from the developed Western countries prior to the political change of 1951. Before 1950, Nepal had an open interaction with Tibet where Nepalese currency was on circulation. Trading arrangements between Nepal and Tibet too was unrestricted. As a result there was an easy movement of man and materials. There appeared a break in all these, however, after 1951 when Nepal tilted more towards the southern India.5
The pattern of Nepal's trade with India remained more or less the same during the 19th century and first half of the 20th century. Exports to India mainly consisted of food grains, raw jute, wool, cotton, hides and skins, musk, medicinal herbs, cardamom, metal goods, ghee, tobacco etc. Imports from India used to consist of mainly the agricultural products such as wheat, rice, gram and pulses, iron, bras, copper, cotton goods, salt and live animals besides

others. India has, thus, been a major trade partner of Nepal since a long time back.

2.3. Foreign Trade of Nepal and India: Growth and Trends

Nepal and India shares some common characteristics. Both the countries are developing and are members of SAARC. Both of them have adopted economic liberalization policy for achieving economic development at a desired level. Moreover, both the countries are committed towards diversifying trade related activities through trade liberalization policy. India has already become the member of World Trade Organization (WTO) to seek advantages of trade specialization and competitive international trade. Nepal, on the other hand, has already applied for the membership of WTO and is expected to become a member in the near future. Nepal and India, being neighboring countries and situated in the South Asian region (SAR), are facing identical problems in many respects and also the problem of achieving an accelerated economic growth. Furthermore, both the countries are facing the problem of negative trade balance. As such, they often struggle with the management of foreign currency, which depends much upon their respective foreign trade structure i.e. the quantum of export and import and their growth. And it is noteworthy that trade relation depends much more on the structure and growth of a country’s trade.

2.3.2. Regional Foreign Trade of Nepal and India: A Comparison

The regional foreign trade of the both countries, Nepal and India, is changing its structure. Specifically the regional export and import trade of Nepal has been drastically changed. (Table 13) Out of the total export of Nepal, 88.3 per cent was exported in the industrial countries whereas 11.7 per cent was exported to the developing countries in 1991. But the export to the developing countries significantly increased in 1999 and reached to 38.7 per cent. Exports to industrial countries came down to 59.8 per cent in the same year. This trend is also seen in Nepal’s import. In 1991, imports from the industrial countries comprised of 44 per cent and 56 per cent from the developing countries. By the end of 1999, imports from industrial countries dropped and stands at 10.6 per cent whereas imports from the developing countries rose significantly and reached 87.9 per cent. Most of the import and export trade of Nepal have been with USA, EU and Japan among the industrial countries whereas South Asia, East Asia and China among the developing countries.

PESTEL analysis

Political Factors

The country in the present day is in the transitional phase. The Constituent Assembly Polls being the major issue so various other matters are overlooked. The existing political instability as the constituent election has successfully completed is anticipated to be stabilize, which will certainly help the business environment to become favorable in the country. With so much of instability in Nepalese political sector, it is apparent that the rules and regulations are unstable as well. Hence, it is very important for any company to be extra cautious and adaptive to the changes in the policies regarding the laws and legislations.

To sum up, because of the unorganized political sectors it is pretty hard for business bodies to carry on the plans within the specified time frame. Thus, the unnecessary red tape and the bureaucratic systems of the government have been creating an intense problem for the service sector to grow. Nepal is facing increasing inflation day by day. The purchasing power of people hence, has become much less. People cannot afford to own private vehicle so there is a need of much cheaper mean of transportation to travel. Public transportation service therefore must identify and

grab the market by establishing brand, service at a low cost, reliable and convenient method to travel and cater the needs of deprived Nepalese all over the country.

However beside private owned transport services, government protected public transport service is in loss due to excess political influence. These organizations have become a recruitment centre of political party. Due to over politicization the problem of over staffing, mismanagement and lack of leadership occurs which were the factors responsible for its loss. So these organizations instead of making a profit are running into irrecoverable losses

Economic factor

The most significant of all external forces with which a business must contend is the economic environment of the country. The general economic conditions and trends are the most crucial to the economic viability and success of the business. The economic environment consists of factors that affect consumer purchasing power and spending patterns and it depends on income level, price, savings, and availability of credit. The purchasing power of Nepalese people is very low due to political instability, higher inflation rate and unemployment. The recent slowdown economy is principally led by contraction in manufacturing and tourism industry, and steep drop in exports.

Businesses need to make money to continue to exist. They do this by listening to customers to ensure they keep their customers and attract new ones with good services that customers want and need. It is extremely important for businesses to respond to changes in demand from customers. Market research showed that Nepalese passenger wanted cheaper and safer transportation services and public transportation fulfill the public demand.

Another economic factor affecting the transport service is increasing fuel price. High fuel price encourages passenger to switch from using private vehicle to more economical public transport.

Overcrowding in cities like Kathmandu also encourage people to switch to other forms of transport. For example, in major cities where parking is inconvenient, cheaper and wide available public transports are easy.

Legal factor

Responsible businesses not only abide by the law, they seek to create standards above minimum requirements. Public transportation has to be aware of a number of legal factors. Legal changes that affect business are closely tied up with political ones. Many changes in the law stem from government policy. The Department of Transport Management (Dotm) government's transportation services governing body used to recommend the transportation fare. Many other laws are nation-wide, for example, the standards for bus transport emissions. Public transport must make sure that all its buses meet these requirements. It has to anticipate and prepare to meet future legal changes. From 2010 Nepal is entering in WTO, as part of an initiative called Carbon Reduction Commitment, public transport and other companies will need to buy carbon credits. These credits will permit companies to generate specific quantities of carbon emissions

Technological Factors

Technological environment refers to all the technical surroundings that affect business. It includes skills, methods, systems and equipment. Technology consists of the forces that create new technologies creating innovative services and market opportunities. The most dramatic force shaping people's lives is technology.

Businesses are continually developing new technologies to provide the best solutions for the market place. Intelligent companies find out what the most appropriate technologies are for their businesses and use them. This is particularly true in transport.

Various types of sophisticated technologies are invented and implemented in international transportation Service. Services like path navigator, wireless communication in vehicle and other safety measures are already in use in international industry but in Nepal it is lagging behind. Crowded and the unsafe module of the procedure are till we considered. That makes the capacity below the actual level and makes difficult to compete with other. It ends up with a poor working condition for the employees

Socio-cultural Factors

Socio-cultural environment is composed of various class, structure, beliefs, values, social institutions, accepted patterns of behavior, customs of people and their expectations. Hence, any industry must take into consideration the socio-cultural environment for developing its policy and strategy. Socio-cultural environment influences the demand and supply of goods and services.

Social trends are one of the key factors affecting a business. People's buying patterns and service utilizing pattern are determined by trends. Just as the demand for some popular clothes are determined by fashion, demand for mean of transport is determined by social trend and income level. Transportation means are always changing. The trend of leaving the country and staying abroad is arising for better lifestyle and to enhance their living condition. Lack of opportunity for youth, political instability, insurgency and educational purposes are major reasons for leaving the country. Due to this the income level of families has rise. Currently most medium class people are attracted towards car and motorbikes. But due to highly increased fuel price and shortage of fuel, people are shifting towards public transportation.

Society's habits and tastes are changing. People are being educated and are more aware of the importance of the environment and healths and are becoming 'green consumers'. Green consumers prefer goods and services that are environmentally-friendly' and which have less impact on the environment and is good for health. The green consumer, for example, prefers to travel by bus or cycle.

PART – 02 **SEM. – 04**

HULAS MOTERS LTD AND TATA MOTERS PVT LTD

INTRODUCTION OF TATA MOTORS

Tata Motors Limited (formerly **TELCO**) is an Indian multinational automotive manufacturing company headquartered in Mumbai, Maharashtra, India and a subsidiary of the Tata Group. Its products include passenger cars, trucks, vans, coaches, buses and military vehicles. It is the world's eighteenth-largest motor vehicle manufacturing company, fourth-largest truck manufacturer and second-largest bus manufacturer by volume.[3]

Tata Motors has auto manufacturing and assembly plants in Jamshedpur, Pantnagar, Lucknow, Sanand, Dharwad and Pune, India, and in Argentina, South Africa, Thailand and the United Kingdom. It has research and development centres in Pune, Jamshedpur, Lucknow and Dharwad, India, and in South Korea, Spain, and the United Kingdom. It has a bus manufacturing joint venture with Marco polo S.A., Tata Marco polo, and a construction equipment manufacturing joint venture with Hitachi, Telcon Construction Solutions.

Founded in 1945 as a manufacturer of locomotives, the company manufactured its first commercial vehicle in 1954 in collaboration with Daimler-Benz AG, which ended in 1969.[4] Tata Motors entered the passenger vehicle market in 1991 with the launch of the Tata Sierra and in 1998 launched the first fully indigenous Indian passenger car, the Indica. Tata Motors acquired the South Korean truck manufacturer Daewoo Commercial Vehicles Company in 2004 and the British premium car maker Jaguar Land Rover in 2008.

Tata Motors is listed on the Bombay Stock Exchange, where it is a constituent of the BSE SENSEX index, the National Stock Exchange of India and the New York Stock Exchange. Tata Motors is ranked 314th in the 2012 Fortune Global 500 ranking of the world's biggest corporations.

Reuters Market Eye - Tata Motors Ltd (TAMO.BO) is the best performer among Sensex stocks in 2012, helped by hopes for a turnaround in the performance of luxury unit Jaguar Land Rover.

Infosys Ltd (INFY.BO) earns the worst performer status among blue chips, given the persistent concerns about global demand for software services. GAIL, down over 9 percent and Bharti Airtel, down 7 percent, are among other losers.

Among other gainers, ICICI, L&T and Maruti shares surged more than 60 percent, while HDFC Bank and Sun Pharma rose more than 50 percent. (For graphic, click link.reuters.com/gar84t)

Lenders were the top performers among sectors, with the BSE banking index up nearly 57 percent. Real estate and fast-moving consumer goods (FMCG) were the next best sectoral performers.

The RBI has held interest rates steady after a 50 basis points rate cut in April, but eased the cash reserve ratio by 175 basis points in 2012, helping banks improve margins.

The RBI is also expected to cut the repo rate more aggressively next year

The Role of Tata Motors in India

Tata Motors, the number one automobile company in India, holds a position of prestige also in the international market. Apart from India the company has its operations is many international markets such as South Korea, Thailand and Spain. It was established in India, in the year 1945; and with the passage of time the company grew larger and larger to become a part of the global arena (Tata Motors, n.d.). Among other factors, a well balanced human resource management is one that helped the company to attain such heights. Tata Motors is a subsidiary of Tata Groups. The parent concern is a well diversified business group which has existence in engineering sector, energy sector, chemical industry and hospitality as well as financial service sector. Tata group is a century old business established in 1874 by Jamsedhji Nusserwanji Tata (Goldstein, 2008, p.6). Tata Group is a conglomerate like many others in developing nations. The diagram provided below will better illustrate the structure on which the company operates.

At present the chairman of Tata Group is Ratan Tata, who is the grandson of the founder of the Tata Group. The changing business strategy has compelled the company to shift its management focus from traditional to more contemporary style. This change is adopted to make the company more competitive in the long run. This report gives a fair idea regarding various factors related to the human resource management. These factors include human resource planning, job evaluation, motivation, rewards, criteria for redundancy etc. The report includes relevant theories and their possible application in the context of Tata corp.

Function of Tata motors

ET has learnt that the company has come out with a common vision statement for its two verticals commercial vehicles and passenger cars instead of its earlier norm of a separate vision statement for both. The new vision and the mission statement are called One Team One Vision. And the core to this new statement is an internally coined term called ACES, which stands for Accountability, Customer and Product Focus, Excellence, Speed, which are currently being streamlined.

These are the top cultural priorities at Tata Motors, said people close to the development. To lead the product onslaught, the company has appointed Girish Wagh as the head of product planning, the key person who led the team to conceptualize Tata Nano and Tata Ace. Moving towards a strategy to integrate sourcing within the two business verticals, Tata Motors recently appointed M Venkatram for global sourcing from General Motors, South Korea, in addition to appointing Ranjit Yadav as head of passenger vehicle business, which was earlier the country head for IT & Mobile products at Samsung India. Ravi Pisharodys appointment as head of commercial vehicle business was made in 2012.

The change in organizational stance was alluded to by Motile Oswald, a leading equity brokerage in a research report titled 'Rolling up sleeves', by analysts Jinesh Gandhi and Chirag Jain, where they alluded to key structural changes undertaken by the company, including creating strategic decision making function, programmer planning function and a global sourcing function.

The research report said Tata Motors further plans to improve synergies between its four engineering centers (in India, the UK, Italy and South Korea) and integrate backend services with JLR on designing, engineering and sourcing, etc.

In an interaction with analysts, perhaps the first after he took over the reins, Slym shared with them the vision and mission statement of Tata Motors and its key weakness areas and its strategy to change. Based on the feedback from customers, dealers and vendors, the new management has realized that lack of new or refreshed products, poor perception of quality of products, higher acceptance of Tata Motors passenger vehicles in fleet impact consumer behavior, the report said.

As a result of this, the new team is focusing on investing in product development, the fruits of which will take at least two years. The company is leveraging on

parents brand equity to build product branding and restructure existing branding (if necessary),building excellence in buying and servicing process, with an objective to improve consumer perception of the products and enhancing consumer experience in sales and service in a distribution and service network, which Tata Motors believes is strong at the present

Company Overview

Tata Motors Limited (Tata Motors) is the largest automobile company, based in India. The company principally manufactures passenger cars, utility vehicles, trucks, buses and defense vehicles. Through its subsidiaries, it is also into engineering and automotive solutions, construction equipment manufacturing, automotive vehicle components manufacturing and supply chain activities. Tata Motors also produces machine tools and factory automation solutions, high-precision tooling, plastic and electronic components for automotive and computer applications. It also distributes and markets Fiat branded cars in India. The company exports its vehicles to Europe, Africa, the Middle East, South and Southeast Asia and South America. Tata Motors is headquartered in Mumbai, India.

Top Competitors

- **Toyota Motor Corporation**
- **Ford Motor Company**
- **Swaraj Mazda Limited**
- **Daimler AG**
- **Suzuki Motor Corporation**
- **Hyundai Motor Company**
- **Mitsubishi Motors Corporation**

INTRODUCTION OF HULAS MOTORS

Hulas Motors Pvt. Ltd. is the leading and the only commercial vehicle manufacturer in Nepal manufacturing Light commercial vehicle (LCV) as well as Mini Utility Vehicle (MUV). Hulas Motors Pvt Ltd was established in the year 1996 (B. S. 2054). It is a sister concern of Golchha Organization one of the biggest organization in Nepal. The design of Sherpa, Mustang and Mini V all are indigenous. The complete R&D is done in house. Hulas Motors has strategic alliance with its sister concern, Hulas Steel Industries which provides it engineering and mechanical support. More than 1000 Sherpa and Mustang vehicles are running on roads of Nepal till date. The current Prime Minister of Nepal Dr. Baburam Bhattarai uses the Hulas Motors made Mustang as his official Vehicle. Prime Minister's Mustang

Company Profile

Basic Information

Company Name:	Hulas Motors Pvt Ltd
Business Type:	Manufacturer

Main Products:	Producer Of Lcv (Light Commercial Vehicle)
Number of Employees:	101 - 200 People
AliExpress.com Store:	

Trade & Market

Main Markets:	Southeast Asia
Total Annual Sales Volume:	US$1 Million - US$2.5 Million

Factory Information

Number of R&D Staff:	5 - 10 People

We are manufacturer of automobile and deals in automobile sales and services. We are interested in purchasing the rexine for the interior aesthetic improvement of the vehicle manufactured by us.

Hulas Motors Pvt Ltd is the leading and the only commercial vehicle manufacturer in Nepal manufacturing Light commercial vehicle (LCV) as well as Mini Utility Vehicle (MUV). Hulas Motors Pvt Ltd was established in the year 1996 (B. S. 2054). It is a sister concern of Golchha Organization one of the biggest organization in Nepal. The design of Sherpa, Mustang and Mini V is indigenous. The complete R&D is done in house. In addition to having our team of experienced and qualified technical staff and infrastructure, we have strategic alliance with our sister concern, Hulas Steel Industries who provides us an engineering & mechanical support. Hulas steel industries have a team of dedicated and experienced full time mechanical engineers in addition they also provide us with technical information for the use of laboratories and engineering software such as RISA 3 D & Auto CAD. At present more than 1000 Sherpa and Mustang vehicles are running on Nepalese road.

Last year we introduced a range of products using our new electronic building system: LEGO Power Functions. This new electronic building system will open up a lot of possibilities now and in the future. One of the new things we offer now is modular remote control. In the process of designing the Power Functions RC system we did a mapping of different RC functionalities. This mapping formed the basis of the Power

Functions RC protocol and most of this is built into the Power Functions RC Receiver. The RC Handset launched now provides direct 'bang-bang' control, but the RC Receiver supports much more functionality like PWM speed control and single pin operation.

Now that the Power Functions elements are available at the LEGO Shop online we have decided to release the Power Functions RC protocol as open source.

Please feel free to use any information from the protocol document for personal, non-commercial use only, provided you keep intact copyright, trademarks and other proprietary rights of the LEGO Company - have fun.

Engine function:

Car Engine Pistons:

Most common engines have 4, 6, or 8 pistons, which move up and down in the cylinders. On the upper side of the piston is what is called the combustion chamber where the petrol and air mix before ignited. On the other side is the crankcase, which is full of oil. Pistons have rings which serve to keep the oil out of the combustion chamber and the fuel and air out of the oil.

Car Engine Crankshaft:

The crankshaft is connected to the pistons via a connecting rod. As the piston moves up and down in the cylinder it rotates the crankshaft and converts the straight line motion into rotary motion.

Engine Pistons:

Remember I talked about the rings, which seal the combustion chamber from the crankcase. The rings over time tend to wear out. When they wear they allow the petrol and air to enter into the oil and dilute it. This dilution reduces the oils ability to lubricate your engine and can cause premature wear. Also if the rings wear down they can allow oil from the crankcase to enter the combustion chambers. This will result in oil being burned and exiting your tailpipe as grayish/white smoke. If your car spews grayish white smoke and it does not go stop in the first few minutes after start-up you might have warn rings. If the smoke goes away after start-up look to the valve train section.

Valve train:

Remember the oil smoke problem mentioned above in the piston sections. If your car only smokes grayish/white smoke at start-up you may have leaking valve seals. Valve seals keep oil from above the valve from leaking into the combustion chamber. When they wear, they can allow oil to seep into the combustion chamber and collect there until your start the engine again. You generally do not get oil leaking past the valve seals while the engine is running since the seals expand with the heat of the engine and plug the leak.

Another common problem is the timing chain or belt will slip or even break causing the cam shaft to stop rotating. Remember the camshaft tells the valves when to open and if it stops spinning then the valves stop opening and closing. No valve moving, no engine running :-)

A term you will here when talking about timing chains and belts is "interference engine". When an engine is an "interference engine" the pistons and valves are so close together that if the valves were to stop moving (broken belt or chain) and the crankshaft kept spinning they would crash into the piston. (That's the interference) This crash tends to do bad things to an engine, breaking valve, bending pushrods, and even cracking pistons. This is why most manufacturers recommend changing the timing chain or belt every 60,000 miles. Timing belts dry out, stretch and deteriorate over time so even if you do not have 60,000 miles on the cars think about changing the belt after its 6 years old.

Policy on exposure norms

OBJECTIVE

Keeping in view the prudential norms issued by Reserve Bank of India for Systemically Important non deposit taking Non- Banking Financial Companies (NBFC - ND- SI), the policy of the company for exposure norms has been formulated.

THE POLICIES

1. These exposure norms are intended to align the loan / investment amounts to the repayment capacity /servicing ability of the borrower spread the exposures over a large number of borrowers/ entities and to contain the impact of market, economic and other movements on the portfolio.

2. No exposure will be taken against Tata Motors Finance's (the Company) own shares i.e. the company will not grant any loan/ advance/ overdraft or any other credit facility by whatever name, against its own shares. No exposure on partly paid shares or shares held in materialized form shall be considered.

3. Shares issued by the Company will not also be accepted either as primary or collateral security for any other facilities granted by the company.

4. Exposure means and includes both funds based and non -fund based facilities.

5. The company shall maintain the ceiling on concentration to single or group borrowers as under:

A) Lend to any single borrower not exceeding fifteen per cent of its owned fund; and any single group of borrowers not exceeding twenty five per cent of its owned fund;

B) Invest in the shares of another company not exceeding fifteen per cent of its owned fund; and the shares of a single group of companies not exceeding twenty five per cent of its owned fund;

C) Lend & invest (taken together) not exceeding twenty five per cent of its owned fund to a single party; and not exceeding forty per cent of its owned fund to a single group of parties.

6. Subject to the overall ceiling narrated under point 5, Individual product policy/ program shall specify the minimum and maximum loan quantum that may be granted under the
product. These ceilings may be reviewed depending upon the business exigencies however in conformity with the product specific ceiling if any prescribed by RBI.

7. The Company may exceed the concentration of credit / investment by 5% for a single party and by 10% for a single group of parties, on account of infrastructure loan and / or investment. These additional exposures would be in accordance with the latest ceilings prescribed by the RBI from time to time.

8. Wherever necessary, the product policy/ program will also specify the manner/ method of computing the exposure amount / quantum of the loan that a borrower / group are eligible under that product.

9. While computing the exposures against single/ group borrowers, cash collaterals/ margins held if any shall be netted off.

10. The exposure in debentures if any shall be treated as lending and not as investments for this purpose as advised by RBI through its Master circular.

11. The ceilings mentioned in point 5 above shall be applicable for the company to companies/ firms in its own group as well as to the borrowers/ Investee Company's group.

12. The term "group" would have the same meaning as defined under section 370(1B) of the Companies Act, 1956 as the "Companies under the same management".

13. Off - balance sheet exposures, if any, shall be converted into credit exposure by applying the respective conversion factors as may be advised by RBI from time to time.

14. Company shall take into account any exemptions / relaxations as may specified in the RBI guidelines in vogue while computing the exposures against single or group borrowers.

15. For calculating the ceiling on exposures, the latest audited balance sheet shall be considered as the basis.

16. The company shall also take in to cognizance the relevant & extant provisions under Companies Act / SEBI Laws while considering investments/ inter corporate loans and advances/ Loans against shares / exposures to directors & others having substantial interest.

17. Exposures to capital market shall be properly classified so and shall be reported to RBI on demand or pursuant to any circular, guidelines etc., issued by RBI from time to Time.

REVIEW OF THE POLICES

The management Committee of the Board should oversee the implementation of the system and review its functionality periodically.

Export Import

India Imports

Indian Import Policy

Import is the antonym of export. In the terms of economics, import is any commodity brought into one country from another country in a legal way. The economic needs of the country, effective use of foreign currency are the basic factors which influence India's import policy. There are mainly 3 basic objectives of the Indian import policy:

- To make the goods easily available.
- To simplify importing license.
- To promote efficient imp
- Ort substitution.

Current Scenario of Imports in India

There are few goods which cannot be imported namely tallow fat, animal rennet, wild animals, unprocessed ivory etc. Most of the restrictions are on the ground of security, health, environment protection etc. Imports are allowed free of duty for export production. Input output norms have been specified for more than 4200 items. The norms tell about the amount of duty free import of inputs allowed for specified products. There are no restrictions on imports of capital goods. Import of second hand capital goods whose minimum residual life is of five years is permitted. Export

Promotion Capital Goods (EPCG) scheme provides exporters to import capital goods at a concessionary custom rates. In the past 30 years Indian imports have risen quite dramatically. At present imports accounts for 17% of the GDP. Capital goods have been continued to be imported and in the last three years, their share has fallen from 25% to 22%.

Major Indian Imports

There are facilities available for the service industries to enjoy the facility of zero import duty under EPCG scheme. Some of the major imports of India are edible oil, newsprint, petroleum and crude products, crude rubber, fabrics, electronic goods etc.

Problems due to Large Import of Products

the recent trend of imports is of some concern. The regular imports of oil reflect upon the fact that India is not able to produce the quantity of oil required in India. Moreover the increase in the imports of products also highlights the fact that the Indian domestic industries need to be developed. High cost of imports also put pressure on the foreign exchange reserves.

India Exports

Export means the transferring of any good from one country to another country in a legal way for the purpose of trade. Export goods are provided to the foreign consumers by the domestic producers.

Indian Exports: A History

The history of Indian exports is very old. During ancient times India exported spices to the other parts of the world. India was also famous for its textiles which were a chief item for export in the 16th century. Textiles and cotton were exported to the Arab countries from Gujarat. During the Mughal era India exported various precious stones such as ivory, pearls, tortoise stones etc. But during the British era, Indian exports declined as the East India Company took control of foreign trade.

Markets

Though India has seen some product diversification in its export basket, it has not expanded significantly in the two big markets-Africa and Latin America.

India’s business with South Asian countries is also negligible. This region has not been integrated with the global economy, though political and economic initiatives have been taken in the recent past in this direction.

Leading Export Items of India
in the past ten years, Indian exports have grown at a rate of nearly 22%. Some commodities have enjoyed faster export growth than others. Some of India's main export items are cotton, textiles, jute goods, tea, coffee, cocoa products, rice, wheat, pickles, mango pulp, juices, jams, preserved vegetables etc. India exports its goods to some of the leading countries of the world such as UK, Belgium, USA, China, Russia etc.

Restriction on the Exports of Items
However there are some restrictions on the export of goods. Under sub section (d) of section 111 and sub section (d) of section 113, any good exported or attempted to be exported, contrary to any prohibition imposed by or under the customs act or any other law is liable for confiscation.

Export Trends
If the Indian economy grows at the same pace, India would most definitely export goods worth US $500 billion by 2015 and may supersede the exports of other large developing countries like Brazil.

The Way Ahead
India needs the right mix of policy formulation sector focus and industry led initiatives to move up the value chain in the global export basket

The Opportunity
It is very clear that Indian exports have still not achieved their true potential and there exists immense opportunities for expanding the basket of India's exports. With a strategic attention on the new markets that are evolving due to free trade, India is witnessing a boom in both manufacturing and services.

Problems of the Indian Export Sector
There are few problems which need to be solved before India makes a mark for itself in the export sector. The Indian goods have to be of superior quality. The packaging and branding should be such that countries are interested to export from India. At the same time India must look for potential market to sell their goods. The government should frame policies which gives boost to the exports.

Directional Change in Exports
India has seen massive directional change in the context of origin of demand for Indian products. Till 2001-02 North America and the EU markets shared nearly 21% and 23.2 % respectively of total exports and the remaining to the rest of the globe. By 2006-07,

North America had a share of only 16% of the total exports and the EU's share was 21.2%.

India exports almost all types of vehicles; among the major categories of export items, in 2007-08, two wheelers accounted for around two-third share in total vehicles exports, in terms of number of units. Infect, two wheelers have, over the years, been the top most export item among the various automobile segments, in terms of number of units. Passenger vehicles, three wheelers and commercial vehicles account for 17.6%, 11.3% and 4.7% share, respectively in India’s total vehicle exports in volume terms. The export orientation of the industry has been continuously growing; from a level of 3.5% in 2001-02 to over 11% in 2007-08. During the period 2001-02 to 200708, the automobile exports from India witnessed a CAGR of over 31%. Nearly half of the two-wheeler exports in 2007-08 were to Asia region. While a sizeable volume of passenger vehicles were exported to Europe, other regions such as Africa and Latin America were also the target regions for export of passenger vehicles by India. Following the global financial meltdown and recessionary trends in world economy, there has been a slowdown in demand and supply of vehicles. This has also reflected in the production, domestic sales and exports of vehicles from India. During the period April-November 2008, though there has been over 6.5% growth in vehicles production (from 7.21 million units during April- November 2007 to 7.68 million units during April-November 2008), domestic sales have grown by only 2% (from 6.46 million units during April-November 2007 to 6.60 million units during April-November 2008).

EXPORT COMPETITIVENESS OF THE INDUSTRY

The year-on-year growth rates in vehicles production achieved by the Indian automobile industry have been outstanding as compared to the growth rate achieved by the global automobile industry. In the year 2007, the automobile production growth rate in India stood at around 14% as compared to the world production growth rate of 5.4%. Except in the year 2000,
When there was a slump, the Indian automobile industry has performed better than the global average, at the back of both domestic as well as global demand. In the auto-components segment, steered by the country’s high engineering skills, established production lines, and competitive manufacturing costs, global auto majors are increasingly ramping up the value of components they source from India. Over 20 OEMs have set up their International Purchase
Offices (IPOs) in India to source their global component requirements. These include firms like General Motors, Ford Motors, Cummins International, Bosch, Volkswagen, BMW, MAN (trucks) and JCB (earthmoving equipment), among others. This number is expected to double by the year 2010. The auto component industry was estimated to

achieve an export level of around US $ 5 billion in 2008-09. However, the slowdown in demand for automobiles, both in India and in its export markets, may downsize the projections marginally. In such a scenario, it may be pertinent to analyse the export competitiveness of India in the international market. In this chapter, an attempt has been made to analyse the export competitiveness of India in order to identify potential markets for Indian automotive industry in select markets / regions. The markets / regions identified for this purpose were USA and Europe for auto-components, And developing countries of Africa, Asia and Latin America for automobiles. The competitiveness Of Indian automotive industry in the identified markets have been analysed using some of the Competitiveness indicators, such as penetration index, contribution index, and specialization index.

Automobiles

The analysis of international competitiveness of Indian automobile sector in Africa market Reveal that the penetration index has grown over the years, between 2001 and 2006, for sub-segments such as tractors, motor cars, transport vehicles for goods, special purpose vehicles, and chassis fitted with engines. The growth in penetration index, however, has not been much for public transport type passenger vehicles, while it has come down for motorcycles. The contribution index has also increased in these sub-categories (except the public transport type Passenger vehicles, and motorcycles), indicating growing share of these categories in India's Exports to Africa. The share of import of identified categories of vehicles in total import of Africa has also increased over the years indicating growing African market. As a result of these trends, the specialization index has grown for all types of vehicles, except public transport type passenger vehicles and motorcycles.

India's automobile penetration into the Latin American region is slowly gaining momentum. The Analysis of international competitiveness of Indian automobile sector in Latin America region reveals that the penetration index has grown, between 2001 and 2006, for sub-segments such as tractors, motor cars, and motor cycles. The growth in penetration index, however, has not been much for public transport type passenger vehicles, and special purpose motor vehicles, while it has come down for motor vehicles for goods transport and chassis fitted with engines. The contribution index has also increased in the sub-categories where penetration index has grown (and vice versa), indicating growing share of these categories in India's exports to Latin America. The share of

import of identified categories of vehicles in total import of Latin America has also increased over the years in most of the sub-categories, indicating growing Latin American vehicles market. As a result of these trends, the specialization index has grown for all types of vehicles, except motor vehicles for transport of goods, chassis fitted with engines, and
Motorcycles.

India's automobile penetration in the developing Asian market has been quite modest across all the segments. This could be seen from the growing penetration index during the analysed period (years 2001 and 2006), in almost all segments. The contribution index has also grown in
All vehicle segments (except motor vehicles for transport of goods, which has remained constant), indicating growing share of these vehicle segments in India's exports to developing Asia. However, the share of import of identified categories of vehicles in total import of developing Asia has declined over the analysed period, in most of the sub-categories, indicating growing manufacturing and self-sufficiency in the region. In spite of such a trend, the specialization index has grown for all types of vehicles, with some categories, such as tractors, and chassis fitted with engines, well pronounced than the others.

Trade

There was a steady increase in global trade of automotive products throughout the world during the analysed period. According to the data collated by the WTO, world exports of automotive products in the year 2007 were valued at nearly US $ 1.2 trillion. Global exports
Grew by around 17% in the year 2007, over the previous year; with the CAGR during the period 2000-2007 being around 11%. Region-wise data on export of automotive products indicate that
Europe's share in world's exports has increased from around 50% in 2000 to over 55% in 2007. The share of automotive products in EU's total merchandise exports remained at over 11% in 2007, without much change from the share witnessed in the year 2000. A large chunk of exports is intra-Europe constituting 78% of total in 2007. Exports from Europe to other regions (and their corresponding share) include North America (9.6%), Asia (4.6%), CIS (2.6%) and Africa (2.4%). The annual percentage change in export of automotive products from Europe stood at 9% over the previous year. Asia exported automotive products valued at around US $ 265 billion in 2007. Asia's share in world automotive exports has increased from 19.9% in 2000 to 22% in 2007. North America has been a major importer of automotive products from Asia. The Asian market has largely been dominated by Japan with exports worth US $ 158.6 billion in 2007. Though the share of Japan in world exports have been around 13.4% in 2007, it

has decreased from the year 2000, when its share had been around 15.3%. North America's export of automotive products was worth at around US $ 219.9 billion in 2007, with a share of 19%. Exports were mainly confined as intra-regional, with a share of nearly 77%. EU, as a bloc, was one of the largest importers of automotive products in the world with a share of almost 46% in the year 2007, with import in value terms being US$ 543 billion. In terms of individual countries, USA was the largest importer with a share of 19%, valued at US$ 221 billion, in 2007, followed by Canada, at a distant second position, with imports worth US $ 67 billion, with a share of 5.6%. Other top importers of automotive products were Russian Federation (2.8%), Mexico (2.5%), China (2%), Australia (1.6%) and Japan (1.3%).

Domestic Sales of Automobiles

Domestic sales of automobiles in India have followed an increasing trend over the past few years, except a marginal dip in sales in the year 2007-08. The buoyant economy, rising income, easy availability of finance, together with several other factors had contributed to the growth in automobile sales in India during the analysed period. This sales growth trend may not be continuing in the year 2008-09 due to slowdown in overall economic activity in the world and in India. It may be noted that during the period April-November 2008, domestic sales of vehicles have grown by over 2% (from 6.46 million units during April November 2007 to 6.60 million units during April-November 2008). During the period 2002-03 to 2007-08, there has been an increasing trend in the sales of all categories of automobiles, except in the year 2007-08, wherein a dip in sales has been witnessed by most of the categories (except passenger vehicles). The sales in commercial vehicles have witnessed a marginal growth during the analysed period, though in the later few years the growth rate has accelerated. The sales of two wheelers have increased almost linearly in the last five years. The year 2007-08 remained sluggish due to model fatigue and uninviting rates. The two-wheeler ended the year with a decline of about 8% in sales compared to the previous year; sales of three wheeled goods carriers in 2007-08 fell as much as 20% on a year-on-year basis. The passenger car segment
Was the only bright spot, which grew by about 12%; moderation from 22% growth witnessed in 2006-07? During the period April November 2008, there was decline in domestic sales in all vehicle sub-categories (viz., commercial vehicles (by -9.23%), three-wheelers (by -3.37%) and passenger vehicles (by -0.5%) except two-wheelers, which witnessed a growth of 3.76%.

Trends in Production, Domestic Sales and Exports

During the period 2002-03 to 200708, the production and domestic sales of various categories of automobiles have grown slowly and steadily. In the year 2007-08, exports were around 1.2 million units. Exports as a percentage of production have also increased consistently during the analyzed period. If we look at the past trends, all the three parameters, viz., production, domestic sales and exports, have registered a continuous growth in the last few years, except the year 2007-08. Exports as a percentage of production has also increased during the analysed period; the improvement in exports as a percentage of production from 4.89% in 2001-02 to 11.43% in 2007- 08 shows the growing capability of the Indian automobile industry to meet the international norms and standards, and increasing acceptance of automobiles manufactured from India in the global market.

AUTOMOBILES

Indian automobile industry has evolved into a transnational player both in exports as also setting up of assembly and manufacturing operations abroad. India is an exporter of all kinds of vehicles. The export orientation of the industry has grown over the analysed period, from a level of 3.5% in 2001-02 to over 11% in 2007-08. During the period 200102 to 2007-08, the automobile exports from India witnessed a CAGR of over 31%. This shows India’s capacity in catering to the demand of not only the domestic market but also the demand of other countries as well. The increase in exports from India corroborates the industry’s efforts to upgrade the production process, adoption of high-end technologies, and meeting the international quality standards.

Category-Wise Exports

India exports almost all types of vehicles; among the major categories of export items, in 2007-08, two wheelers accounted for around two-third share in total vehicles exports, in terms of number of units. Infect, two wheelers have, over the years, been the top most exported item

Among the various automobile segments, in terms of number of units. Passenger vehicles, three

Wheelers and commercial vehicles account for 17.6%, 11.3% and 4.7% share, respectively.

Nearly half of the two-wheeler exports in 2007-08 were to Asia region. While a sizeable volume of passenger vehicles were exported to Europe, other regions such as Africa and Latin America were also the target regions for export of passenger vehicles by India.

In value terms, passenger cars (Motor cars & other motor vehicles for transport of persons – HS Code 8703) are the largest export item, followed by tractors (HS Code

8701), motorcycles (including mopeds) (HS Code 8711), other motor vehicles for transport of goods (motor vehicles
For transport of goods – HS Code 8704) and buses (Public-transport type passenger motor vehicles – HS Code 8702). During the last few years, passenger cars have consistently been the largest export item among India's vehicle exports, in value terms, followed by two wheelers and tractors.

India is not a major exporter of automobiles in the world; however, India's automobile exports have grown during the analysed period. India is ranked at seventh position in the world with regard to export of chassis fitted with engines (HS code 8706); tenth position with regard to export of work trucks (HS code 8709), eleventh position with regard to export of motor cycles
And mopeds (HS code 8711), fifteenth position with regard to export of public transport passenger vehicles (HS code 8702), and seventeenth position with regard to export of tractors (HS code 8701). Vehicle exports of India (in most of the sub-categories) are directed towards developing countries of Asia, Africa and Latin America. For example, about 90% of India's export of public transport type vehicles (HS code 8702), special purpose vehicles (HS code 8705), motor cycles (HS code 8711), and goods transport vehicles (HS code 8704); nearly three-fourth of India's export of chassis (HS code 8706), and bodies and parts of vehicles (HS code 8707); and over 50% of India's export of passenger cars are directed towards these countries. Developed country markets, such as USA and Europe, are principal markets for tractors and passenger cars, accounting for a share of over 50% and 40% respectively. Thus, in this study, analyses have been carried out on the export competitiveness of India's automobile exports to the developing country regions of Latin America, Africa and Asia.

Highlights of Indian Automobile Industries

- India is the world's largest two wheel manufacturer.
- India is the world's second largest tractor manufacturer.
- India has the fourth largest car market in Asia.
- India has the world's largest three wheeler market.

The Future

- The Indian automobile industry is expected to grow to US$ 40 billion by 2015 from the current level of US$ 7 billion in 2008. By the year 2016 the industry is expected to contribute 10% of the nation's GDP. The industry manufacturers over 11 million vehicles a year, employing more than three million people.
- The greatest challenge and competition would be from the Chinese automobile industry. The Chinese automobile industry has been able to give stiff completion

to India in terms of productivity, cost of manufacturing and technology. Again the present trend of excess manufacturing capability, reduced margins put additional pressure on the industry.

- The global recession has had a dampener effect on the growth of the industry, but market experts believe it is only a short term phenomenon and are confident of the industry bouncing back.
- On the positive side, India's strength in software sector, combined with skilled labour and low cost of manufacturing should place it in a favourable position globally.
- Recently Ratan Tata, Chairman (Tata Motors) created history by launching the world's cheapest car NANO. The cars pricing is around one lakh, gaining instant recognition in the automobile industry across the globe. It heralded the coming to age of the **Indian Automobile Industry**.

The Registration and Licensing of Industrial Undertakings Rules, 1952

**1. ***S.R.O. 1141 dated the 9th July, 1952. - In exercise of the powers conferred by section 30 read with sections 10 and 11, sub-section (2) of section 12 and sections 13 and 14 of the Industries (Development and Regulation) Act, 1951 (LXV of 1951), the Central Government hereby makes the following Rules, the same having been previously published as required under sub-section (1) of section 30 of the Act, namely:-

1. Short Title: These rules may be called the Registration and Licensing of Industrial Undertakings Rules, 1952.

2. Definitions: In these rules, unless there is anything repugnant in the subject or context:-

(I) "the Act" means the Industries (Development and Regulation) Act 1951 (LXV of 1951),

(ii) "Effective steps" shall mean one or more of the following:-

2*[(a) that 60 per cent or more of the capital issued for an industrial undertaking which is a public company within the meaning of the Indian Companies Act, 1913 (VII of 1913) has been paid up;]

(b) That a substantial part of the factory building has been constructed;

(c) That a firm order has been placed for a substantial part of the plant and machinery required for the undertaking.

3. Application for Registration: 3***["**(1) An application for the registration of an existing industrial undertaking shall be made to the Ministry of Industry (Department of

Industrial Development), Government of India, New Delhi, at least three months before the expiry of the period fixed under sub-section (1) of section 10 of the Act in relation to that undertaking in such form and with such number of copies thereof as may be specified by the said Ministry:

Provided that an application which is not made in time may be entertained by the said Ministry, if the applicant satisfies that Ministry that there was sufficient cause for not making the application in time".]

2* [(1A) Where an application for the registration of an industrial undertaking is pending at the commencement of the Industries (Development & Regulation) Amendment Act, 1953, no fresh application for such registration shall be necessary under the rule and any such pending application shall be disposed of in accordance with the provisions of these Rules].

2*[(2) Each application shall be accompanied by a crossed demand draft for Rs. 2500 drawn on the State Bank of India, Nirman Bhavan, New Delhi, in favour of the Pay and Accounts Officer, Ministry of Industry, (Department of Industrial Development), Government of India, New Delhi.]

4. Acknowledgement of Application: On receipt of application, the receiving officer shall note thereon the date of its receipts, and shall send to the applicant an acknowledgement stating the date of receipt.

5. Power of Central Government to ask for Additional Information: The 3*[Ministry of Industrial Development] or the authority appointed by it 4*[in this behalf] may require the applicant to furnish within a period to be specified by it, such additional information as it may consider necessary for the purpose of registration.

6. Grant of Registration Certificate: If an application made under sub-rule (1) of rule 3 falls within the scope of that rule, the 3*[Ministry of Industrial Development], shall after such investigation as it may consider necessary, grant to the applicant, before the [expiry of the period fixed under section 10 of the Act], a certificate of registration in Form C appended to these rules. If an application made under sub-rule (1) of rule 3 does not fall within the scope of that rule, the 4*[Ministry of Industrial Development] 5***shall inform the applicant accordingly.

7. Application for License :-(1) an application for a license or permission for the establishment of a new industrial undertaking or any substantial expansion of [or the production or manufacture of any new article in] an industrial undertaking shall be made before taking any of the following steps:

(a) Raising from the public any part of the capital required for the undertaking or expansion [or the production or manufacture of the new article].

(b) Commencing the construction of any part of the factory building for the undertaking or expansion [or the production or manufacture of the new article].

(a) Placing order for any part of the plant and machinery required for the undertaking or expansion (or the production or manufacture of the new article).

1[(1A) an application for a license or permission for changing the location of the whole or any part of an industrial undertaking which has been registered 2[or in respect of which a license or permission has been issued] shall be made before taking any of the following steps:

(a) The acquisition of land or the construction of premises for the purpose of housing the industrial undertaking at the proposed new site;

(b) The dismantling of any part of the plant and machinery at the existing site)

4[(3) Each application shall be accompanied by a crossed demand draft for Rs. 2500 drawn on the State Bank of India, Nirman Bhavan, New Delhi, in favour of Pay and Accounts Officer, Ministry of Industry, (Department of Industrial Development), Government of India, New Delhi.]

8. Acknowledgement of Application: On receipt of the application, the receiving officer shall note thereon the date of its receipt, and shall send to the applicant an acknowledgement stating the date of receipt.

9. Power to call for Additional Information: The 6[Ministry of (Industrial Development)] or the authority appointed by it [in this behalf] may require the applicant to furnish, within a period to be specified by it, such additional information as it may consider necessary.

10. Application to be referred to Committee: (1) The Ministry of Industrial Development shall refer the application to a Committee appointed under sub-rule (2)[“(Provided that where an application relates to the extension of the period of validity of an industrial license or to the issue of a carry-on-business license or to diversification within the existing licensed capacity in respect of such schedule industries as may, from time to time be decided by the Central Government, having regard to the maximization of production, better utilization of existing plant and machinery and other factors, the Ministries concerned may dispose of such application without reference to the Committee)”].

(2). The Central Government may, by notification in the Official Gazette, appoint one or more Committees, consisting of such number of members as it may think fit to represent the Ministries of the Central Government dealing with

(I) the industry specified in the First Schedule to the Act;

(ii) Finance;

(iii) Science and Technology;

(iv) Environment, Forests and Wildlife;

(v) Small Scale Industries.

Provided that the Central Government may, if it deems fit, include in such committee any other member to represent any other Ministry.

(3) A Committee appointed under sub-rule (2) may co-opt one or more representatives of other Ministries of the Central Government or of any State Government concerned, wherever it is necessary.

11. Submission of Report by the Committee: After such investigation as may be necessary, the Committee to which an application has been referred under rule 10 shall submit a report to the Ministry of Industrial Development.]

12. Contents of the Report: In making the report under Rule 11, [the Committee] shall have regard to the approved plans, if any, of the Central Government for the development of the scheduled industry concerned and, where no such plans exist, to the existing capacity of the scheduled industry, the demand and supply position, availability of raw materials and plant and machinery. The report should, among other matters, contain recommendations regarding capital and its structure, suitability of the location proposed from the point of view of the approved plans for the industry, capacity of the plant to be installed, availability of rail-transport capacity, availability of technical and other skilled personnel required, and collaboration, if any, with foreign manufacturers.

13. Recommendation regarding Public Enquiry: If [the Committee referred to in rule 11] is of the opinion that a public enquiry is necessary in respect of any application it may recommend such a step to the [Ministry of (Industrial Development)]

14. Invitation of Applications: (1) The [Ministry of Industrial Development] or the authority appointed by it [in this behalf] may , where it considers necessary, invite, by means of a notice published in the Gazette of India, applications for the grant of Licenses for the establishment of new industrial undertakings in any scheduled industry.

15. Grant of License or Permission: (1) The [1][Ministry of Industrial Development] shall consider the report submitted to it under rule 11, and where it decides that a license or permission, as the case may be, should be granted it shall inform the applicant accordingly, not later than 3 months from the date of receipt of the application, or the date on which additional information under rule 9 is furnished, whichever is later.

(2) Where the [Ministry of Industrial Development] considers that certain conditions should be attached to the license or permission or that the license or permission should be refused, it shall not later than three months from the date of receipt of the application or the date on which additional information under rule 9 is furnished, whichever is later, give an opportunity to the applicant to state his case, before reaching decision.

(3) Where a license or permission has been refused the applicant shall be informed of the reasons for such refusal.

(4) Licenses or permissions shall be in Form F appended to these rules.

16. Variation or Amendment of Licenses: (1) Any owner of an industrial undertaking in respect of which a license has been granted, who desires any variation or amendment in his license shall apply to the [Ministry of Industrial Development] [2]* * *giving the reasons for the variation or amendment.

(2) The [Ministry of Industrial Development] after carrying out such investigation as it may consider necessary, may vary or amend the license. The Ministry of Commerce and Industry may also consult the Licensing Committee before coming to a decision.

17. Revocation of Licenses: The [Ministry of Industrial Development] [2]* * *shall, before exercising its power of revocation of a license under sub-section (1) of section 12 of the Act, give an opportunity to the license to state his case.

18. Review of Licenses by a Sub-committee: A sub-committee of the Central Advisory Council shall be constituted which will review all licenses issued, refused, varied, amended or revoked from time to time, and advice Government on the general principles to be followed in the issue of licenses for establishing new undertakings or substantial expansion of the existing undertakings. The results of the review shall be reported to the Central Advisory council.

19. Submission of Returns: [(1)] Every owner of an industrial undertaking in respect of which a license or permission has been granted [2][under the Act] shall send every half year ending 30th June and 31st December, commencing from the date of grant of the license or permission, as the case may be, till such time as the industrial undertaking commences production a return (with five spare copies), in Form G appended to these rules, to the [Ministry of Industrial Development], Government of India, New Delhi, [or to any authority appointed by it in this behalf]. The return relating to every half year shall be sent within one month after the expiry of that half year.

(2) Whether any condition has been attached to a license or permission granted in respect of an industrial undertaking to the effect that certain steps should be taken within a period specified therein every owner of such an undertaking shall send a return, with five spare copies, in Form G appended to these rules, to the [Ministry of industrial Development], Government of India, New Delhi (or to any authority appointed by it in this behalf)showing the progress made in taking such steps at the expiry of the period so specified. The return shall be sent within a period of seven days from the expiry of the period so specified.]

(3) Every owner of an industrial undertaking which has been registered by reason of effective steps having been taken for the establishment of that undertaking before the commencement of the Act shall send, every half year ending on the 30th June and the 31st December, and commencing from the 31st December 1953, till such time as the industrial undertaking commences production a return, with five spare copies, in Form

G appended to these rules, to the [Ministry of industrial Development], Government of India, New Delhi, or to any authority appointed by it in this behalf. The return relating to every half year shall be sent within one month of the expiry of that half year].

19A. Notice of certain facts to be given.-(1) If there is any change in the name of registered industrial undertaking or an undertaking in respect of which a license or permission has been granted under the Act the owner thereof, shall within fourteen days from the date of such change, give notice in writing of the fact to the [Ministry of Industrial Development], Government of India, New Delhi and forward the registration certificate or the license as the case may be, to that Ministry for endorsing thereon the change in the name of the undertaking.

(2) If there is any change in the owner of a registered industrial undertaking or an undertaking in respect of which a license or permission has been granted the new owner thereof shall, within fourteen days from the date of such change, give notice in writing of the fact to the [Ministry of Industrial Development], Government of India, New Delhi; and forward the registration certificate or the license, as the case may be to that Ministry for endorsing thereon the change in the owner of the industrial undertaking.

(3) If by reason of (a) reduction in the number of workers employed; (b) discontinuation of the production of articles falling within the scope of the Act; or (c) any other reason, all or any of the provisions of the Act become inapplicable to a registered industrial undertaking or an undertaking in respect of which a license or permission has been granted to be so in-applicable for a period of six months, the owner thereof shall, within fourteen days of the expiry of the said period of six months give notice in writing of the fact to the [Ministry of Industrial Development], Government of India, New Delhi;

(4) If a registered industrial undertaking or an industrial undertaking in respect of which a license or permission has been granted, has been closed for a period exceeding thirty days, the owner thereof shall within seven days of the expiry of the said period of thirty days, give notice in writing of the fact to the [Ministry of Industrial Development], Government of India, New Delhi.

(5) If any decision has been taken by a competent authority that a registered industrial undertaking or an industrial undertaking in respect of which a license or permission has been granted shall be liquidated, the owner thereof shall, within fourteen days from the date of such a decision, give notice in writing of that fact to the [Ministry of Industrial Development], Government of India, New Delhi [2][and return the registration certificate or the license as the case may be to that Ministry].

19B. Loss of Registration Certificate or License, etc.: Where a registration certificate, a license or a permission granted under these rules is lost, destroyed or mutilated, a duplicate copy may be granted in receipt of a crossed demand draft for Rs. 25 drawn on the State Bank of India, Nirman Bhavan, New Delhi, in favour of the Pay and Accounts Officer, Ministry of Industry (Department of Industrial Development), Government of India, New Delhi.]

20. Penalty for Contravention of Rules: Whosoever contravenes or attempts to contravene or abates the contravention of any of these rules shall be punishable under section 24 of the Act.

21. Allotment of Controlled Commodities to Licensed Undertakings: The owner of an industrial undertaking in respect of which a license or permission has been granted shall be eligible to the allotment of controlled commodities required by him for the construction or operation or for both construction and operation of his undertakings on such preferential basis as the Central Government may determine from time to time. In determining such preference the Central Government shall have due regard to the requirements of existing industrial undertakings.

22. Concession in the Grant of Import Licences to Undertakings: The owner of an industrial undertaking in respect of which a license or permission has been granted shall be eligible for the issue of licences for the import of goods required by him for the construction or operation or for both construction and operation of his undertaking on such preferential basis as the Central Government may determine from time to time. In determining this preference which may include such concession as the submission of one consolidated application in respect of the requirements from each currency area for all items shown as licensable to actual users, submission of separate application for highly specialised items even though such items may not be shown as licensable to actual users and priority in the matter of import from different currency areas, the Central Government shall have due regard to the requirements of existing Industrial undertakings.

Policies and Norms of India for Import or export to the NEPAL including licensing / permission, taxation etc.

General Provisions Regarding Imports and Exports Exports and Imports free unless regulated

Exports and Imports shall be free, except in cases where they are regulated by the provisions of this Policy or any other law for the time being in force. The item wise export and import policy shall be, as specified in ITC (HS) published and notified by Director General of Foreign Trade, as amended from time to time.

Interpretation of Policy

If any question or doubt arises in respect of the interpretation of any provision contained in this Policy, or regarding the classification of any item in the ITC(HS) or Handbook (Vol.1) or Handbook (Vol.2), or Schedule Of DEPB Rate the said question or doubt shall be referred to the Director General of Foreign Trade whose decision thereon shall be final and binding. If any question or doubt arises whether a licence/ certificate/permission has been issued in accordance with this Policy or if any question or doubt arises touching upon the scope and content of such documents, the same shall be referred to the Director General of Foreign Trade whose decision thereon shall be final and binding.

Procedure

The Director General of Foreign Trade may, in any case or class of cases, specify the procedure to be followed by an exporter or importer or by any licensing or any other competent authority for the purpose of implementing the provisions of the Act, the Rules and the Orders made thereunder and this Policy. Such procedures shall be included in the Handbook, Handbook, and Schedule of DEPB Rate and in ITC (HS) and published by means of a Public Notice. Such procedures may, in like manner, be amended from time to time. The Handbook is a supplement to the Foreign Trade Policy and contains relevant procedures and other details. The procedure of availing benefits under various schemes of the Policy is given in the Handbook.

Exemption from Policy/ Procedure

Any request for relaxation of the provisions of this Policy or of any procedure, on the ground that there is genuine hardship to the applicant or that a strict application of the Policy or the procedure is likely to have an adverse impact on trade, may be made to the Director General of Foreign Trade for such relief as may be necessary. The Director General of Foreign Trade may pass such orders or grant such relaxation or relief, as he may deem fit and proper. The Director General of Foreign Trade may, in public interest, exempt any person or class or category of persons from any provision of this Policy or any procedure and may, while granting such exemption, impose such conditions as he may deem fit. Such request may be considered only after consulting Advance Licensing Committee (ALC) if the request is in respect of a provision of Chapter-4 (excluding any provision relating to Gem & Jewellery sector) of the Policy/ Procedure. However, any such request in respect of a provision other than Chapter-4 and Gem & Jewellery sector as given above may be considered only after consulting Policy Relaxation Committee.

Restricted Goods

Any goods, the export or import of which is restricted under ITC(HS) may be exported or imported only in accordance with a Licence/ certificate/ permission or a public notice issued in this behalf.

Terms and Conditions of a Licence/Certificate/ Permission

Every Licence/certificate/permission shall be valid for the period of validity specified in the Licence/ certificate/ permission and shall contain such terms and conditions as may be specified by the licensing authority which may include: The quantity, description and value of the goods

- ✓ Actual User condition
- ✓ Export obligation
- ✓ The value addition to be achieved
- ✓ The minimum export price

Import / Export License System In Nepal

The import and export license system is an important administrative measure in Nepal's foreign trade management. In 1950, the Central People's Government issued the "Interim Regulations on Foreign Trade Management," in which it was stated, " While importing and exporting any goods, the importer and exporter must apply to their local foreign trade administrative department for an import and export license." This represents the beginning of the import and export license system after the founding of the People's Republic. From 1959 to 1979, all imports and exports were put in the hands of the special national import and export companies under the former Ministry of Foreign Trade and their branch companies. These companies handled imports and exports in strict accordance with state plans, thus the role of import and export licenses was reduced. During this period, the import and export license system was mainly directed at those departments outside of foreign trade enterprises, which, with the approval of the state, wanted to import a small amount of equipment and goods for scientific research, educational, cultural, sport and publish health purposes, and export a small amount of non-trade commodities. Since adopting the policy for reform and opening to the outside world, Nepal's foreign trade has witnessed continuous development, and the operation of import and export business had expanded the specific national import and export companies under of Ministry of Foreign Trade and Economic Relations to the foreign trade companies in various localities and under various ministries. While bringing some vitality to the work of foreign trade, this had also resulted in some confusion in the normal order of foreign trade and incurred certain losses to the state. Therefore, the government again decided to re-institute and strengthen the import and export license system.

In June 1980, the Ministry of Foreign Trade and Economic Relations enacted the" Interim Rules on the Export License System." The document stipulated that firms that engage in export business must file in advance applications to the Ministry of Foreign Trade and Economic Relations or the foreign trade administrative departments under in the various provinces, autonomous regions and municipalities directly under the central government that have been authorized by Ministry of Foreign Trade and Economic Relations. Having been approved, they must register with the local foreign trade administrative departments and the relevant customs houses while presenting the documents of approval. Only then could they engage in export business. In January 1984, the State Council issued the "Interim Regulations of the People's Republic of Nepal on License System for Imported and Exported Goods." It stated that for the import of all goods that need licenses to import according to state regulations, it is necessary to apply for import licenses beforehand and only then orders could be placed with the relevant foreign trade companies. It also stipulated that that the Ministry of Foreign Trade and Economic Relations was responsible to draft and adjust the list of goods whose import calls for licenses. In this period, the control was enforced on all foreign trade enterprises dealing with import and export business. Since 1992, Nepal gradually relaxed the control over import. For instance, it abolished or reduced the range of import licenses, import quotas as well as import control. In January 1994, the Ministry of Foreign Trade and Economic Relations again issued the "Interim Provisions Regarding Import Quota Control over Commonplace Commodities." It marked that Nepal's import management system was reformed in line with the relevant regulations of GATT. In 1998, Nepal removed control by import licenses and import quotas over the overwhelming majority of commodities that needed licenses to be imported formerly, while only continuing to enforce import license control over the products of a smallnumber of infant industries that call for special protection.

Nepal Import Requirements

As a move to liberalize trade, Nepal has continued to reduce administrative barriers to trade. By end-1997, the categories of import commodities subject to licensing controls were reduced to 35 (including 374 items), and most commodities, except 16 crucial ones which are currently under state monopoly, were open to all enterprises given the import & export rights. The Chinese government has also gradually abolished the state monopoly of foreign trade and liberalize its foreign trading system. By end-June 1999, Nepal had more than185,000 foreign trade enterprises, including 13,224 foreign trade and economic cooperation companies, 12,143 local manufacturing enterprises and scientific research institutes, and 160,000 foreign-invested enterprises having import & export rights. In January-February 1999, 61 private-owned enterprises were given the import & export rights. According to the Chinese government, the average tariff on imports of industrial products will be lowered to 15% by year 2000 and 10% by year 2005. At present, the average tariff rate is less than 17%.In April 1997, Nepal announced its first anti-dumping and anti-subsidy regulation senacted to maintain order and fair competition in foreign trade and protect relevant domestic industries. Under the new regulations, Nepal can impose anti-dumping duties on foreign goods if there is evidence showing that they are sold at dumping prices.

Nepal uses both tariff and non-tariff measures to regulate imports. Tariffs imposed include import duty (applied on the import CIF value and a few specific and compound duties on the volume imported), value added tax (VAT) and consumption tax; non-tariff measures include import licenses, quota control, restricted import list, etc. In general, tariff rates on raw materials and industrial supplies are relatively low, less than 20% (inmost cases), higher on consumer goods mostly 20-50% and can reach 100% in a few selected luxury items. The specific duties are calculated by multiplying the number of units of the imported goods by tax payable per unit; while the compound duties are amixture of ad valorem tariff and specific duty. Both Kathmandu and countries which have concluded trade treaties or reciprocal favourable tariff treatment agreements with Nepal can enjoy the preferential rate tariff duty; while other the general rate. Value added tax (VAT) is imposed on all commodities in addition to import tariffs. The basic rate is 17% and 13% on the following commodities: food and edible vegetable oil; drinking water, heating, natural gas, coal gas, liquefied petroleum gas; books, newspapers and magazines; feedstuffs, chemical fertilizer, pesticides, agricultural machinery and agricultural plastic sheeting .In addition, 11 categories of goods are also subject to consumption tax when entering Nepal. These include: cigarettes, liquor, cosmetics, skin- and hair-care products, jewellery, firecrackers and fireworks, petroleum, diesel, motor vehicle tyres, motorcycles and small motor vehicles. The tax rates range between 3% and 45%.

Current policies regarding imports of equipment by foreign-invested enterprises

For enterprises approved on or before 31 Mar 96, the original preferential policy applies until contract expires. However, imports of 20 specified categories such as vehicles and office supplies are subject to their relevant tariffs and regulations.

For enterprises approved between 1 Apr 96-31 Dec 97, as "encouraged" or "restricted (II)" in the "Catalogue of Industries for Guiding Foreign Investment", production equipment imported are exempted from import duties, except those listed in "Catalogue of Non-Duty-Free Commodities to be Imported for Foreign-Funded Projects".

As of 1 January 1998, equipment imported by foreign-invested enterprises which are engaged in projects classified as "encouraged" or "restricted (II)" in the "Catalogue of Industries Guiding Foreign Investment" as contribution to their investment are exempted from import duties upon presentation of a letter of project confirmation except for those listed in the "Catalogue of Non-Duty-Free Commodities to be Imported for Foreign-Funded Projects". Customs tariff, VAT and consumption tax may be imposed on the following 20commodities if applicable, regardless of the form of trade, geographical location or entry of imports, namely: television set, video camera, video cassette recorder, video cassette player, hi-fi system, air-conditioner, refrigerator, washing machine, camera, copying machine, programme-controlled telephone switch, micro-computer, telephone, radiopager, fax machine, electronic calculator, typewriter and word-processor, furniture, lighting fixture and foodstuffs.

Licence/Certificate/ Permission not a Right

No person may claim a Licence/certificate/ permission as a right and the Director General of Foreign Trade or the licensing authority shall have the power to refuse to grant or renew a Licence/certificate/permission in accordance with the provisions of the Act and the Rules made there under.

Penalty

If a Licence/certificate/permission holder violates any condition of the Licence/certificate/ permission or fails to fulfill the export obligation, he shall be liable for action in accordance with the Act, the Rules and Orders made there under, the Policy and any other law for the time being in force.

TAXATION

Huge number of Small Foreign Investment comes to Nepal via the Non Resident Nepali, who are investing in Shopping Mall, Plaza, Real Estate Business, Tourism etc. Nepal has huge capacity of Hydroelectricity due to which huge number of foreign companies in line but the political instability has stop the process at the same time its growing own its own. Nepal entered into agreement for avoidance of double taxation (all in credit method) with 10 countries (PSRD) since 1987. Similarly, it has Investment protection agreement with 5 countries (PSRD) since 1983.

History of Hulas Motors

Hulas Motors Pvt Ltd is the leading and the only commercial vehicle manufacturer in Nepal manufacturing Light commercial vehicle (LCV) as well as Mini Utility Vehicle (MUV). Hulas Motors Pvt Ltd was established in the year 1996 (B. S. 2054). It is a sister concern of Golchha Organization one of the biggest organization in Nepal. The design of Sherpa, Mustang and Mini V is indigenous. The complete R&D is done in house. In addition to having our team of experienced and qualified technical staff and infrastructure, we have strategic alliance with our sister concern, Hulas Steel Industries who provides us a engineering & mechanical support. Hulas steel industries have a team of dedicated and experienced full time mechanical engineers in addition they also provide us with technical information for the use of laboratories and engineering software such as RISA 3 D & Auto CAD. At present more than 1000 Sherpa and Mustang vehicles are running on Nepalese road.

The world's cheapest car Tata Nano is set to roll out in Nepal where it was launched today, but priced at Nepalese Rs 8,00,000, over three times its price in India.

After an addition of 240 per cent customs and other duties and insurance charges, the car that is priced at Rs 1,51,000 in India, will come at a cost of NRs 7,98,000 (roughly Rs 5 lakh) in Nepal, Tata Motors' international business head Johny Oommen said.

Tata Nano has introduced three brands of Tata Nano, the standard version of Tata Nano, Tata Nano CX and Tata Nano LX in Nepal.

Expressing confidence, Oommen said, the car with its comfort, performance and maneuverability will prove to be an ideal car for the discerning customers of Nepal and will win their hearts. The booking of the car has already started with NRs 10,000 deposit per vehicle in Kathmandu and other major cities.

EXPORTS

VOLUMES

Business Unit	Q1FY112	Q1FY11	Y-o-Y Change
Commercial Vehicles	12,783	9,725	31.4%
Passenger Vehicles	2,108	2,535 -	16.8%
Total Exports	14,891	12,260	21.5%

HIGHLIGHTS

_ Tata export volumes increased Y-o-Y 21% in Q1 FY 12
_ Exports to Bangladesh, Sri Lanka & Bhutan continued showed strong growth.
_ NANO exports to Sri Lanka and Nepal commenced. Expect to extend the export potential of the
NANO

Present trade Barriers of Entry

Barriers to entry in this industry is high

These barriers are study

- The cost of developing high volume production facilities.
- The ability to gain access to technology of major global operators.
- The relatively high competition between established domestic companies and foreign companies.

The automobile manufacturing sector is characterised by a high cyclical growth patterns, high fixed cost and break-even point levels, and an excessive number of participants. Barriers to entry into automobile manufacturing activity are formidable. Some of the barriers that need to be overcome by a new entrant include: the cost of developing high volume production facilities, in order to benefit from economies of scale; and the ability to gain access to technology of major operators, as the present incumbents include some of the largest multinationals, that have considerable claims to new technology. The relative large size of domestic market, together with high competition, has already seen significant rationalisation of this industry.

Taxation

India has a well developed tax structure. The power to levy taxes and duties is distributed among the three tiers of Government, in accordance with the provisions of the Indian Constitution. The main taxes/duties that the Union Government is empowered to levy are:- Income Tax (except tax on agricultural income, which the State Governments can levy), Customs duties, Central Excise and Sales Tax and Service Tax. The principal taxes levied by the State Governments are:- Sales Tax (tax on intra-State sale of goods), Stamp Duty (duty on transfer of property), State Excise (duty on manufacture of alcohol), Land Revenue (levy on land used for agricultural/non-agricultural purposes), Duty on Entertainment and Tax on Professions & Callings. The Local Bodies are empowered to levy tax on properties (buildings, etc.), Octroi (tax on entry of goods for use/consumption within areas of the Local Bodies), Tax on Markets and Tax/User Charges for utilities.

Excise Duty

Central Excise duty is an indirect tax levied on those automobiles which are manufactured in India and are meant for home consumption. The taxable event is 'manufacture' and the liability of central excise duty arises as soon as the automobiles are manufactured. It is a tax on manufacturing, which is paid by a manufacturer, who passes its incidence on to the customers.

Types of Excise Duties

Basic Excise Duty: This is the duty leviable under First Schedule to the Central Excise Tariff Act, 1985 at the rates mentioned in the said Schedule.

Special Excise Duty: This is the duty leviable under Second Schedule to the Central Excise Tariff Act, 1985 at the rates mentioned in the said Schedule. At present this is leviable on very few items.

Basic Central VAT (CENVAT) or Excise Tax Structure for Automobiles

Year	Commercial Vehicles	MUVs	Cars	2 Wheelers		3 Wheelers	Unit
				≤ 75 CC	> 75CC		

2001-02	16	32	32	16	16	16	%
2002-03	16	32	32	16	16	16	%
2003-04	16	24+1*	24+1*	16+1*	16+1*	16	%
2004-05	16	24+1*	24+1*	16+1*	16+1*	16	%
2005-06	16	24+1*	24+1*	16+1*	16+1*	16	%
2006-07	16	24+1*	24/16**+1*	16+1*	16+1*	16	%
2007-08[1]	16	24+1*	24/16**+1*	16+1*	16+1*	16	%

Source: Society of Indian Automotive Manufacturing (SIAM) - Based on Government of India Notifications, [1] Additional higher & Secondary Education Cess of 1%, *National Calamity Contingent Duty (NCCD) of 1 %, **16% on cars (up to 4000mm in length &1200cc for petrol & up to 4000mm in length & 1500cc for diesel) and 24% for rest

National Calamity Contingent Duty (NCCD): Normally known as NCCD. This duty is levied as per section 136 of the Finance Act, 2001, as a surcharge on specified goods.

Excise Duties and Cesses Leviable under Miscellaneous Act: On certain specified goods, in addition to the aforesaid duties, prescribed rate of excise duty and cess is also leviable.

Education Cesson excisable goods is levied in addition to any other duties of excise chargeable on such goods, under the Central Excise Act, 1944 or any other law for the time being in force.

MODVAT and CENVAT

Taxation of inputs, like raw materials, components and other intermediaries has a number of limitations. In production process, raw material passes through various processes stages till a final product emerges. Thus, output of the first manufacturer becomes input for second manufacturer and so on. When the inputs are used in the manufacture of product `A', the cost of the final product increases not only on account of the cost of the inputs, but also on account of the duty paid on such inputs. As the duty on the final product is on ad valorem basis and the final cost of product `A' includes the cost of inputs, inclusive of the duty paid, duty charged on product `A' meant doubly taxing raw materials. In other words, the tax burden goes on increasing as raw material and final product passes from one stage to other because, each subsequent purchaser has to pay tax again and again on the material which has already suffered tax. This is called cascading effect or double taxation.

This very often distorted the production structure and did not allow the correct assessment of the tax incidence. Therefore, the Government tried to remove these defects of the Central Excise System by progressively relieving inputs from excise and countervailing duties. An ideal system to realize this objective would have been to adopt value added taxation (VAT). However, on account of some practical difficulties it was not possible to fully adopt the value added taxation.

Hence, Government evolved a new scheme, `MODVAT' (Modified Value Added Tax). MODVAT Scheme which essentially follows VAT Scheme of taxation. i.e. if a manufacturer A purchases certain components(raw materials) from another manufacturer B for use in its product. B would have paid excise duty on components manufactured by it and would have recovered that excise duty in its sales price from A. Now, A has to pay excise duty on product manufactured by it as well as bear the excise duty paid by the supplier of raw material B. Under the MODVAT scheme, an Original Equipment Manufacturer can take credit of excise duty paid by First Tier and Second Tier suppliers. It amounts to excise duty only on additions in value by each manufacturer at each stage.

MODVAT Scheme ensures the revenue of the same order and at same time the price of the final product could be lower. Apart from reducing the costs through elimination of cascade effect, and bringing in greater rationalization in tax structure and also bringing in certainty in the amount of tax leviable on the final product, this scheme will help the consumer to understand precisely the impact of taxation on the cost of any product.

Subsequently, MODVAT scheme was restructured into CENVAT (Central Value Added Tax) scheme. A new set of rules 57AA to 57AK , under The CENVAT Credit Rules, 2004, were framed and whatever restrictions were there in MODVAT Scheme were put to an end and comparatively, a free hand was given to the assesses.

Under the CENVAT Scheme, a manufacturer of final product or provider of taxable service shall be allowed to take credit of duty of excise as well as of service tax paid on any input received in the factory or any input service received by manufacturer of final product. Inputs include goods used in the manufacture of capital goods which are further used in the factory of the manufacturer.

Customs Duty

Customs Duty (Import duty and Export tax) is a type of indirect tax levied on goods imported into India as well as on goods exported from India. Taxable event is import into or export from India. In India, the basic law for levy and collection of customs duty is Customs Act 1962. It provides for levy and collection of duty on imports and exports, import/export procedures, prohibitions on importation and exportation of goods, penalties, offences, etc.

Basic Customs Tax Structure for Automobiles

Year	**CVs[1]**	**MUVs[2]**	**Cars**	**Two Wheelers**	**Three Wheelers**	**Unit**
2001-02	35	105/60/35	105/60/35	105/60/35	105/60/35	%
2002-03	30	105/60/35	105/60/35	105/60/35	105/60/35	%
2003-04	25	105/60/35	105/60/35	105/60/35	105/60/35	%
2004-05	20	105/60/35	105/60/35	105/60/35	105/60/35	%
2005-06	15	100/60/15	100/60/15	100/60/15	100/60/15	%
2006-07	12.5	100/60/12.5	100/60/12.5	100/60/12.5	100/60/12.5	%
2007-08	10	100/60/10	100/60/10	100/60/10	100/60/10	%

"Currently, we are exporting around 2% of our total production or around 300 units annually. The Kharagpur plant would be the export hub for the neighbouring countries like Bangladesh, Nepal and Sri Lanka and other developing regions like Africa and West Asia," said Mitsuhiro Tabei, vice president and executive officer at Hitachi Construction Machinery Company of Japan, which now owns 60% stake in the company. Tata Motors owns the balance 40% stake in the joint venture, which was today rechristened Tata Hitachi Construction Machinery Company Ltd.

The Kharagpur plant, spread across 250 acres, has the capacity to produce 6,000 units annually which includes excavators, wheel loaders and dump trucks. Currently, only 35% of capacity is being utilised due to slowdown in construction equipment market, which the company expects to pick up with greater exposure to export market.

Exports

India exports automobiles in about 203 countries. The total revenues from exports of automobiles, in the year 2008-2009 were USD 6,001.81 million with a growth of 33.85% from the previous year. The total exports from India in the year 2008-2009 were USD 185,295.36 million and in the year 2007-2008 were USD 163,132.18 million. The automobile industry in India contributes 3.24% of total exports in the year 2008-2009 compared to 2.75% in the year 2007-2008.

Top 20 Export destinations in 2007-2008 and growth from previous year

Rank	**Country**	**Value in USD Millions**		**Percentage Growth**
		2007-2008	**2008-2009**	
1	United States of America	593.64	525.24	-11.52
2	Italy	332.35	359.68	8.22
3	Sri Lanka	249.14	216.11	-13.26
4	South Africa	224.93	188.57	-15.79
5	United Kingdom	165.57	246.32	48.77
6	United Arab Emirates	164.44	192.74	17.21
7	Algeria	147.34	265.63	80.28
8	Bangladesh	137.26	164.86	20.11
9	Egypt	134.43	143.54	5.99
10	Germany	133.52	409.63	206.8
11	Colombia	118.88	120.71	1.54
12	Nepal	111.33	98.13	-11.86
13	Mexico	93.80	94.10	0.32
14	Turkey	83.53	73.82	-11.63
15	Spain	81.01	56.96	-29.69
16	France	76.77	134.21	74.83
17	Nigeria	66.01	148.74	125.03
18	Greece	65.75	127.63	94.1
19	Netherland	65.19	163.66	151.05
20	Ghana	59.91	38.30	-36.07

Source**:** Ministry of Commerce and Industry

BUSINESS OPPORTUNITIES IN FUTURE

Tata Motors launched the much-awaited Tata Nano officially in Nepal from today with an introductory price of Rs 798,000 for the standard model.
One can book standard model of Nano at Rs 10,000 and get financing facility too. For those who wish to buy on installment, it will come to an Equated Monthly Installments (EMI) of Rs 11,111. The company is also opening bookings for Nano CX and Nano LX at Rs 20,000 and Rs 30,000, respectively.
"We at Sipradi are proud to bring Tata Nano to Nepal," executive chairman of Sipradi Trading Siddhartha SJB Rana said, adding that customers can now experience the joy and benefit of a stylish feature rich small car. Sipradi Trading will be the Tata Nano distributor in Nepal.

Opportunities

Product launches:
Tata Motors has launched various new products during the last two year period (2007–08). For instance in December 2007, Tata Motors introduced its new range of Medium and Heavy Commercial Vehicles. In March 2008, Tata Motors (Thailand) launched theTata Xenon 1-ton pickup truck at the annual Bangkok International Motor Show. In FY2008, the
company launched the Indigo sedan and Indica with the Direct Injection Common Rail (DICOR)and Sumo Grande. Furthermore, the launch of its small car, 'NANO' in January 2008 wouldfurther fuel its presence in the passenger vehicle.

TATA Nano-

Conceived in 2003, Tata Motors hadlaunched the much- hyped 'cheapest' car in India inMar'09. The car has cost over Rs 2,000 crore to thecompany. The car is expected to boost the Indianeconomy, create entrepreneurial-opportunities acrossIndia, as well as expand the Indian car market by 65%.The car was envisioned by Ratan Tata, Chairman of the Tata Group and Tata Motors, who has described itas an eco-friendly "people's car". For the first time,thanks to Tata's Nano, India has been established as anR&D leader, and not just a low-cost hub known for cheap labor. It has shown to the world that India can be a technology leader. It is a great innovation, because innovation is all about thinking of thenext decade and not the next quarter.The Tata Nano will certainly find big takers in India. However, it can have a market in theUS, as well. If the car is enriched with high technology functions to make it an intelligent car,many in the US will look forward to own it. An intelligent car at $3000 would be a goodbargain after all, for many Americans. Tata's Nano shows that there is a huge opportunity For Indian companies to build profitable low-cost products and then take them to the US.

Future Plans:

Tata Motors will be launching it in Nigeria within the next year and a half. In Nigeria, the Nano will cost 357,480 NGN (Rs 1.16 lakh), almost the same as its cost in India, making itcheaper than even used cars in the country. According to TATA Motors officials, Nano willgreatly benefit Nigerians as there is no proper public transport system in the country.Company is yet to decide whether the car would be assembled in Nigeria itself or if it would be made available as a Completely Built Unit (CBU). The company is planning to market Nano in other countries, but timelines, modes and countries are yet to be finalized. Earlier this year, the Tata Nano Europa (the European version of the Nano) was unveiled at theGeneva Auto Show. The Nano Europa will be launched in 2011

A

GLOBAL/ COUNTRY STUDY AND REPORT

On

"Nepal"

Submitted to

Sardar Patel College of Administration & Management

Approved by All India Council for Technical Education (AICTE), New Delhi

Affiliated to Gujarat Technological University, Ahmedabad

SPEC Campus, Vidhyanagar – Vadatal Road, Bakrol – 388315, Anand (Gujarat)

IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In

Gujarat Technological University

UNDER THE GUIDANCE OF

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MBA Semester IV

Sardar Patel College of Administration & Management

MBA PROGRAMME

Affiliated to Gujarat Technological University, Ahmedabad, June 2013

Students' Declaration

We, all are, hereby declare that the report for Global/ Country Study And Report entitled "Study Of Pharmaceutical (Health) Industry" in Nepal-India is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

Place :	117550592157	Bhatt Hemangkumar Rajendrabhai
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PREFACE

Knowledge is one part of the management program and business. Students can get experience by this type of study . And with the help of experience students can expand their theoretical knowledge. By the report study students can get skills of how it applies in business ability.

Being a student of **M.B.A.** it is very necessary to understand the administration of business matters, for which practical study is of prime importance. One of the important parts of this practical study is the global country study in Nepal, which explains actual or existing study in Nepal Health Industry. The industrial concepts in real business world, this helped me to understand the practical aspects of business management in a better way.

GLOBAL / COUNTRY STUDY AND REPORT ON “ NEPAL HEALTH INDUSTRY, turned out for us a true opportunity to have a practical understanding of the concepts that are taught within the walls of classroom, it gave a real understanding of practical exposure and its importance in today’s modern educational world.

ACKNOWLEDGEMENT

We wish to express over grateful thanks to all those who have helped over immensely for completion of the project report. Though we are unable to mention all of their names individually here it will be a lapse on my part if names of certain important personalities are not mentioned.

We are extremely thankful to Ms. Varsha Kuchara, Assistant Professor of SPCAM who was our project guide, without his invaluable guidance and advice this project would not have been completed.

We also acknowledge my sincere thanks to GTU & Mr. Vashishthdhar Dwivedi, Managing director of SPCAM, who has given me the opportunity to study on global country “Nepal” and gain some knowledge about the global country relation and business and opportunity .

We will be failing in my duties if we don’t mention here the cooperation and help that we received data collection on secondary data.

We are thankful to the faculty members of college, SPCAM and one and ours guide of the helping me in one way or other.

EXECUTIVE SUMMERY

Nepalese pharmaceutical market is estimated at Rs 8649 million and is growing at a compounded annual growth rate of 10% percent. The market is highly import driven (about 70 %) with the highest per capita of brands. Imports from India make for highest share of total imports. Off late, the domestic manufacturers have made their presence felt in the market with sizable presence in the top five therapeutic segments namely anti-invectives, respiratory, vitamins/minerals, gastro intestinal and pain/analgesic segments. The domestic players import all the raw materials needed for production of formulations. Among the domestic producers as per the industrial classification, there are five players in the small scale, 29 in the medium scale and the rest five in the large scale. All of these are catering domestic demand and none is exporting its products at present The major issues and challenges of the domestic pharmaceutical industry identified are high dependence on imports, low tariff barrier for imports, high proliferation of brands, unregistered drugs in border market, lack of reverse engineering skills, low research & development investment, high costs of production, poor healthcare infrastructure, security concerns inhibiting the rural drug consumption, constraints to export, etc. The strengths, the industry possesses are suitable production facilities, good quality product, well qualified and experienced human resources, knowledge of market, and high level of private participation. Similarly the weaknesses it has are poor capacity utilization, poor financial return hampering investment for future development and growth, lack of highly skilled technical personnel, low level of institutionalization, poor supply-chain management,
ineffective business linkages and others. The Nepalese pharmaceutical industries have good business outlook due to favorable government policies, existing and potential markets both domestic and export, new openings due to provisions of SAFTA and WTO/TRIPS, growth in health institutions and health awareness, and others. The major threats identified are emergence of competition; absence of institutions for support and facilitation for quality assurance and R & D, restriction to produce generic versions of patented products, poor implementation of policies and regulations, etc. The critical core success factors for pharmaceutical industries are noticed to be marketing, product quality; product portfolio; possession of quality certifications, demand fulfilling capability, economy of scale, and research and development.

Competitiveness of industries under could be enhanced through the enhancement of quality and productivity of the sector or its industries. Therefore, the steps to be taken by the Nepalese pharmaceutical industries to enable them to capitalize on the

opportunities and face up to the challenges would be those measures, which would enhance quality and productivity of the industries in isolation or in combination. The steps identified enhancing competitiveness are: a) quality enhancement through plant facility certification (WHO-GMP Certification) Quality Management System (QMS) and Environment Management System (EMS), and stringent adoption of quality standards; b) enhancing productivity through attaining economy of scale, reduction in costs, improving effectiveness; and c) innovation through research & development, institutionalization, and collaboration.

As a strategy, the industries should look to upgrade production facilities, attain economy of scale, reduce production costs, use common facilities, expand market, undertake research & development, develop human resources, develop alliances, develop work relationships, and initiate institutionalization process within the industries.The government is recommended to introduce and implement acts, regulations and policies productively, establish supportive and facilitative institutions for pharmaceutical industries, build capability of regulatory bodies, utilize provisions of WTO productively, make trade alliance with other countries, develop and expand health facilities, and provide incentives to industries, and make efforts to extend the time frame by a decade.. Similarly, pharmaceutical association is recommended to strengthen its capability to serve the industries; launch HRD programmes; assist industries with information on WTO and others. It is also strongly recommended that a detailed study should be undertaken this theme.

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FDI inflow in the drugs and pharmaceutical industry

PART – I

ECONOMIC OVERVIEW OF NEPAL

Demographic Profile & Economic Overview of Nepal

Population:	30.5 million (UN, 2011)
Capital:	Kathmandu
Major Language:	Nepali
Major Religions:	Hindusim, Buddhism
Life Expectancy:	68 Years (Men), 70 Years (Women) (UN)
Monetary Unit:	1 Nepalese Rupee = 100 Paisa
Ethical Group of Nepal:	Bhotia, Sherpa, Thakali, Gurung, Kiranti, Rai, Limbu, Newari, Pahari,Tamang Elderly Limbu, Chong woman
Area:	147,181 sq km (56,827 sq miles)

Religions: Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001)

Literacy rate: 48.6%

Age Structure: 0-14 years: 34.6% (male 5,177,264/female 4,983,864)
15-64 years: 61.1% (male 8,607,338/female 9,344,537)
65 years and over: 4.4% (male 597,628/female 681,252) (2011 est.)

Median Birth Intervals (Median Number of Months since Preceding Birth):
Total: 36.2
Rural: 35.9
Urban: 40.3

Urbanization:

Urban Population: 19% of Total population (2010)
Rate of Urbanization: 4.7% Annual rate of change (2010 – 15 Est.)

Migration Literacy: 61 Migrate per 1,00,000 people, out of which 62.7% Male & 34.9% Female

Sex ratio : At birth: 1.04 male(s)/female
Under 15 years: 1.04 male(s)/female
15-64 years: 0.93 male(s)/female
65 years and over: 0.87 male(s)/female
Total population: 0.96 male(s)/female (2012 est.)

Nepali or Nepalese are descendants of migrants from parts of Kashmir, earlier Greater Nepal, Tibet, India, and parts of Burma and Yunnan, along with native tribal populations. A significantly high universal marriage rate, particularly amongst reformed Hindus drives Nepal's annual population growth rate in excess of two percent. The result of this is that the marriage rate has caused the population to double about every 30 years.

Overview of Industries & Trade at Nepal

Since 1993, India also allows movement of goods from one part of Nepal to another through a simple process of customs undertaking. Nepal has agreed to extend similar facility to India in the course of renewal of the transit treaty in March 2006.

India has extended Nepal direct transit routes to Bangladesh for bilateral and third country traffic. One road route and one rail route have been notified. The road route is through Kakarbitta-Panitanki-Phulbari-Banglabandha corridor. The rail route is through Radhikapur-Birol interchange point on India - Bangladesh border.

India has agreed to assist Nepal to increase its capacity to trade through improvement in technical standards, quarantine and testing facilities and related human resource capacities.

Bilateral trade takes place either in Indian rupees or convertible currency. Nepal's central bank (Nepal Rashtra Bank) maintains a list of items that can be imported from India in convertible currency. Currently, 135 items are in the list. Since 1993, the Nepal Rastra Bank maintains a fixed exchange rate with Indian Rupee (1 INR = 1.6 NPR).

India is Nepal’s largest trade partner and source of foreign investment; India is also the only transit providing country for Nepal. Bilateral trade was US$ 4.21 billion during Nepalese fiscal year 2010-11 (July 16 – July 15). Nepal’s import from India amounted to US$ 3.62 billion and exports to India aggregated US$ 599.7 million. In the first six months of fiscal year 2011-12, Nepal’s total trade with India was about US$ 1.93 billion; Nepal’s exports to India were about US$ 284.8 million; and imports from India were about US$ 1.64 billion.

Nepal’s main imports from India are petroleum products (28.6%), motor vehicles and spare parts (7.8%), M. S. billet (7%), medicines (3.7%), other machinery and spares (3.4%), coldrolled sheet in coil (3.1%), electrical equipment (2.7%), hotrolled sheet in coil (2%), M. S. wires, roads, coils and bars (1.9%), cement (1.5%), agriculture equipment and parts (1.2%), chemical fertilizer (1.1%), chemicals (1.1%) and thread (1%). Nepal’s export basket to India mainly comprises jute goods (9.2%), zinc sheet (8.9%),textiles (8.6%),threads (7.7%), polyster yarn (6%), juice (5.4%), catechue (4.4%), Cardamom (4.4%), wire (3.7%), tooth paste (2.2%) and M. S. Pipe (2.1%). Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US $ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment.

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In response to further request from Government of Nepal, the Government of India has agreed to extend another line of credit of US$ 250 million from EXIM Bank of India to GoN at similar terms and conditions as the existing LoC. The contract agreement between Government of Nepal and Exim Bank was signed on 21st October 2011 in New Delhi during the visit Hon'ble Prime Minister of Nepal Dr. BaburamBhattarai.

Overview of different economic sectors of Nepal’s

Agriculture is probably Nepal’s most important economic sector. According to available data, since at least the 1960s this sector has often provided nearly half of the gross domestic product (GDP) and employed most of the population. However, the sector’s contribution to the economy has declined. According to World Bank data, from 1965 to 2011 the agricultural sector declined from 65.5 percent of GDP to nearly 40.3 percent. Moreover, the percentage of the labor force employed in agriculture fell from 94.4 percent in 1971 to approximately 65.7 percent in 2001.

Manufacturing is often regarded as sluggish in both output and growth, and the limited industrial base relies on agricultural products and imported inputs, particularly from India.

Services grew from 23.5 percent of gross domestic product in 1965 to 36.7 percent in 2011. Average annual growth in services was 4.9 percent from 1965 to 2000 but 6.2 percent in the 1990s. Furthermore, the percentage of the labor force employed in the services sector increased substantially, from 4.4 percent in 1971 to 18.3 percent in 2001. No particular industry accounts for a great percentage of the overall services sector's total value.

Nepal's imports of goods and services (in current U.S. dollars) grew steadily from US$102.4 million in 1965 to US$1.8 billion in 2011, and increases in oil costs have been a major contributor to growth in imports. Exports of goods and services (in current U.S. dollars) grew from US$57.1 million in 1965 to US$712 million in 2011 and increased as a percentage of gross domestic product from 7.8 percent to 16.8 percent, averaging 13.2 percent for the period.

Overview of Business & trade at international level

Since, 1951 the Nepali government has worked hard to liberalize the country's economy, by improving transportation and communication facilities, as well as industry and agriculture. The Nepali government has tried to make the Nepali economy more conducive to investment by entering into various trade agreements and investment protection pacts. The export areas that Nepal does best in is the production of garments and carpets industry. With the European Union accounting for approximately 47% of all garment and rug exports. Nepal has also steadily climbed the scales in terms of ease of doing business in, with an increase of 3 places to 107. The Nepali economy has also been doing very well over the past few years, with economic growth in the 2000's averaging between 4-6% on a annual basis.

Another aspect of the Nepali economy, is that it is heavily reliant on the Indian economy and exports, the local market is very weak in terms of consumption potential. So if international trade conditions are poor or if the Indian economy is performing poorly, it is very likely that the Nepali economy will also be performing poorly. But that does not make it any less of a manufacturing center for garment and rug producers.

With the current democratic government being established in 2008. While Nepal might have had a period of turmoil, the current democratic government is committed to attracting foreign investment by creating a much more friendly business environment. So in the foreseeable future there is likely to be a greater stable climate for investment in Nepal and at that time, trade in Nepal may be a better investment. The tourism industry is also another great area for investment, since Nepal has a growing number of international visitors. Currently there is also a low level of inflation, ranging from 2-3%, so the currency is likely to be more stable.

Present trade relations & business volume of different products with India

Nepal and India signed the revised 2009 India-Nepal Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade today in Kathmandu. As per the agreement India would provide a credit line of up to 150 crore rupees to Nepal to ensure uninterrupted supplies of petroleum products, as well as lift bans on the export of rice, wheat, maize, sugar and sucrose for quantities agreed to with Nepal. India would also provide 20 crore as immediate flood relief. In return, Nepal will take measures for the "promotion of investor friendly, enabling business environment to encourage Indian investments in Nepal.

India still possess the tag of “Solitaire” in Nepal’s international trade domain as it’s maintain the strategic proportion of sixty one percent of Nepal’s total trade and accounts nearly sixty seven percent of total exports as per the various data suggested in 2008. Nepal has huge hydro-power potential of 44,000 MW, which is economically feasible, yet its power deficient and a net importer of power from India; till now very few initiatives have made much progress in this area.

According to Federation of Nepalese Chambers of Commerce and Industry (FNCCI) in year 2007(August}.Indian companies like SBI (Nepal SBI Bank Ltd, share 50%), PNB (Everest Bank Ltd, share 20%), Alpic Finance Ltd(Alpic Everest Finance Ltd, share 55%), National insurance and Oriental insurance company Ltd having solid base inside the financial sector of Nepal. In recent time numbers of joint ventures business with India (April 2008, FNCCI) has been considerably increased as 120 companies are operating.

- Major export products between India & Nepal:

Woollen carpets and pashmina products, hides and skin, lentils, metal and wooden handicrafts, agro- and forest-based primary and secondary goods, leather, raw jute, large cardamom, ginger, tea and medicinal herbs, Coffee, honey, terry towels, micro transformers, blankets and buttons, the upcoming export items are mushroom, saffron and floriculture products,Vegetable seeds, orthodox and CTC tea, niger seeds, essential oils from medicinal and aromatic plants, leather goods, woollen goods, silver jewellery and silverware, gold jewellery.

- Major import products between India & Nepal:

The major import items include petroleum products, machinery and spare parts, transport equipment, pharmaceuticals, textiles, chemicals, electrical goods, vehicles and spare parts, medicines and medicinal equipment, raw wool, betel nuts, aircraft and spares parts, raw silk, threads, fertilizers, telecommunication equipment, etc.

Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US $ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment. Indian ventures in

Nepal are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries.

PESTEL Analysis

Politics of Nepal:

The Politics of Nepal function within a framework of a republic with a multi-party system. Currently, the position of President (head of state) is occupied by Dr. Ram Baran Yadav. The position of Prime Minister (head of government) is held by Dr. Baburam Bhattarai.[1] Executive power is exercised by the Prime Minister and his cabinet, while legislative power is vested in the Constituent Assembly.

Though Nepal has witnessed great political instabilities in the recent past, the country has a strong base of parliamentary democracy & constitutional monarchy.

Economics of Nepal:

GDP Composition	Agriculture: 40%, Industry: 22%, Services: 37%
GDP Real Growth Rate	4.9% (2000-2001)
Average Inflation Rate	2.1% (2000-2001)
Per Capita Income	$ 240 (Rs 17,718) for (2000-2001), $236 (Rs 18,083) estimate for(2001-2002)
Unit of Currency	Rupee
Labour Force	Agriculture: 81%, Industry: 3%, Service: 11%, Other: 5%.

Social Analysis of Nepal:

- **Population:** - 29391883 (July 2012 EST.)
- **Population Growth Rate :-** 1.596%
- **Birth Rate :-** 22.17 Birth / as per 1000 Population.
- **Death Rate :-** 6.81 Death / as per 1000 Population
- **URBANIZATION :-**

  Urban Population: - 19% of Total Population.

  Rate of Urbanization :- 4.7% Annual rate of change.

Technology of Nepal:

Businesses are continually developing new technologies to provide the best solutions for the market place. Intelligent companies find out what the most appropriate technologies are for their businesses and use them. This is particularly true in transport. A good example of change in technology is buses that lower the floor for easy entry. These provide better accessibility for disabled and elderly people. Technologically, Nepalese transportation industries are far behind the international transport industry.

1. Telephones :- Main line in use. [371800]
2. Telephones :- Mobile Cellular . [50400]
3. Radio Broad Cast Station :- AM6 , FM5 , Short wave 1.
4. Television :- [970000].
5. Internet Hosts :- [1100].

6. Internet service Providers :- [ISPS] =10 Users :- 200,000.

Environmental analysis of Nepal:

The dramatic differences in elevation found in Nepal result in a variety of biomes, from tropical savannas along the Indian border, to subtropical broadleaf and coniferous forests in the Hill Region, to temperate broadleaf and coniferous forests on the slopes of the Himalaya, to montane grasslands and shrublands and rock and ice at the highest elevations.

At the lowest elevations is the Terai-Duar savanna and grasslands ecoregion. These form a mosaic with the Himalayan subtropical broadleaf forests, which occur from 500 to 1,000 metres (1,600 to 3,300 ft) and include the Inner Terai Valleys. Himalayan subtropical pine forests occur between 1,000 and 2,000 metres (3,300 and 6,600 ft).

Above these elevations, the biogeography of Nepal is generally divided from east to west by the Gandaki River. Ecoregions to the east tend to receive more precipitation and to be more species-rich. Those to the west are drier with fewer species.

Legalization of Nepal:

Responsible businesses not only abide by the law, they seek to create standards above minimum requirements. Public transportation has to be aware of a number of legal factors. Legal changes that affect business are closely tied up with political ones. Many changes in the law stem from government policy.

- Constitutional Law
- Constitutional of the kingdom of Nepal
- Administration [Public Law 2047 (1990).
- Citizenship Act ,1964
- Civil service act , 2049 (1943)
- Civil service act , 2049 (1993)
- Criminal law

- Contract Act. 2056 – 2000
- Tax law

PART – II

STUDY OF NEPAL'S PHARMACEUTICAL INDUSTRY

(SECTOR, COMPANY, SERVICES

OR

PRODUCTS)

Introduction of Lomus Pharmaceutical Nepal

LOMUS PHARMACEUTICAL

With the distinct vision, to serve the nation by providing quality drugs our journey started from 1986. Continuous collaborative efforts that we did in last few years make us stand and prove that we truly serve the nation in medical field. Our focus and ethics ever make us conscious about providing medicine with uncompromising quality, supply and customer service. DETNORSKE VERITAS (DNV) has awarded Lomus Pharmaceuticals the ISO 9001:2008 and ISO 14001:2004 recognizing that it is not only the largest pharmaceuticals manufacturer but also quality conscious company with a factory fitted.

LOMUS is a pharmaceutical company named as per tribute to Rishi who was expert on many therapies during the Duapar age of Rama Regime.

Lomus is dedicated to the development of innovative drugs targeting huge diversified medical needy patients. For the best and broad range medicines Lomus ever utilizing its resources in the production in terms of quality and quantity. For the market based service Lomus stands with its three divisions, namely Lomus, Lomus II and Nimbus. Thus, Lomus is positioning itself to become the healthcare market's pharmaceutical provider of choice for high quality, reliable, cost effective pharmaceuticals.

The entire international standard infrastructure needed to manufacture quality drugs.

LOMUS - a word unknown to many of us is the name of the Rishi who was expert on much therapy during the Duapar age of Rama Regime.

LOMUS – WHO standard ISO 9001 and ISO 14001 certified private Limited company was established in 1986 as a small scale pharmaceutical manufacturing unit and developed rapidly during nineties. With the active co-operations of the concerns outside and dedicated team work efforts inside the company, rapid growth of LOMUS place the company on the top position in the national market since 2002.

In viewing that the total share of national company in the domestic market is still below 30 percent and we are totally dependent for most of the emergency medicines to Indian manufacturers, there is a sobering realization that some pharmaceutical entrepreneurs have to take the challenge to provide that categories of pharmaceutical finish formulations and LOMUS took the initiative in this direction by constructing a new WHO GMP complying manufacturing premises at Gothatar VDC of Kathmandu district having the following salient features:

- Extra ordinary premises that can cope 10% of the national requirement with today's minimum operating capacity,
- Segretated HORMONE manufacturing unit with separate AHU and primary packaging,
- Nepal 's first unit with separate PENICILLIN manufacturing building that comply the WHO Class – A GMP requirement,
- To date best water treatment plant in the country with RO and ultra filtration installed for the generation of more than 5000 liters per day of dematerialization water as a universal solvent of the industry.
- Instant auto power back up for all AHUs within two seconds of normal power failure,
- 3500 sq. ft. Quality Assurance Lab with class 100 and 100000 areas for sterility testing and full range of in-house microbiological testing facility.
- 400 sq ft. Product Development Lab with R & D model Rapid Mixture Granulator (RMG), FBD, Tray Dryer, Multi Mill, Shifter, ICH Standard Stability Chambers and 16 station Rotary Tablet Compression Machine.

Recent years have witnessed a burgeoning concern with pharmaceutical ethics, both on the part of lay public and of government. New technological developments pose complex ethical questions hereto for unknown to pharmacy practitioners, industrial entrepreneurs and governmental agencies.

One critical factor in the growth of contemporary pharmaceutical consumerism is the change in the nature of illness that has occurred in the twenty first century. Then is a decline in the prevalence of infectious diseases and marked increase in the chronic conditions like diabetes, CVS diseases, arthritis and kidney disease among the well beings of urban areas and still terrible prevalence of infectious diseases among the poor villagers. LOMUS consciously addressed both these situations by lunching safe and affordable antimicrobials as well as latest molecules for diabetes and CVS diseases. Low volumes inject able that are coming with priority to cope the necessity of emergency medicines.

Commercially less viable Eye/Ear drops and other necessary less moving formulations are manufactured to serve the public health of the nation.

We have emerged as one of the leading pharmaceutical company in Nepal with a share of rapidly growing national market. It enjoys an inevitable reputation amongst the medical fraternity for its high standard of ethics and quality. Although hundred percent success is hardly achievable we are creating learning for the best to provide the zero defect brands in the market.

LOMUS is the first national company to operate the separate penicillin building to comply the Class-A GMP requirements of World Health Organization. We have installed the segregated Hormones production facility with separate AHU and primary packing with dedicated blister packing machine.

Role of Lomus Pharmaceutical in economy

We appreciate people for their dedication, hard work which in turn give the organization its identity and make an endeavor to succeed. It is therefore a constant effort to provide the best working environment, attractive remuneration package and recruit a team that take the organization to places. There is a focus on building our human resources and energizing our people to think radically in finding new avenues for growth and development. Professional development and interpersonal relationship are accord a high priority while creating a more congenial and people oriented milieu across the organization. Continuous training program for skill enhancement further ensure that all employees at manufacturing locations are kept updated on latest changes of GMP requirements.

We strongly believe that to look at others and/or follow the data only cannot make us competent until and unless we do not take the challenge to formulate the new products that are not yet available in the neighboring market.

The driving fuel of any pharmaceutical manufacturing unit is the team work. This feeling is realized from the top management to the floor workers of the company. Energized by one passion to provide uncompromising quality conforming to internationally accepted WHO-GMP practices. Lomus' unceasing commitment has resulted in making its manufacturing facilities amongst the best to the country.

To encourage "speed to market" by reducing the time span between production and distribution of the product, supply chain of the company being strengthened with a new division "NIMBUS". This division is the umbrella for the aggressive ethical marketing of latest molecules for CVS diseases, diabetes and psychotropic. The world class manufacturing facilities at LOMUS bears testimony to its unflinching commitment to quality.

Business structure & activities of Lomus pharmaceutical

Considering all above mention facts LOMUS install the following manufacturing capacity in the new WHO GMP comply manufacturing unit at Gothatar VDC of Kathmandu district:

S.N.	Section	Per shift	Per day
1.	Tablet (Common)	1.5 million	3.0 million
2.	Tablet (CVS/Psychotropic)	0.5 million	1.0 million
3.	Tablet (Hormones)	0.5 million	1.0 million
4.	Liquid orals	15,000 bottles of 100ml	30,000 bottles
5.	Capsule (Non-penicillin)	0.3 million	0.6 million
6.	Capsule (Penicillin)	0.1 million	0.2 million
7.	Capsule (Cephalosporin)	0.25 million	0.5 million
8.	Cream/Ointment/Gel	10,000 tubes of 20g	20,000 tubes
9.	Liquid externals	5,000 bottles of 100ml	10,000 bottles
10.	Injectable low volume	15,000 ampoules	30,000 ampoules
11.	Injectable Vials	10,000 vials	20,000 vials

Lomus labs-a true approach towards the quality assurance:

LOMUS new quality assurance department having 3500 sq ft. area with Class 100 and 100000 areas for sterility testing is well equipped with all latest sophisticated testing facilities like FTIR, HPLC, UV-Visible Spectrophotometers, Latest models of self calibrating electronic as well as moisture balances and all necessary testing facilities to cope the perfect in-house testing of all company brands.

With strong economic backup and latest technical know-how completely supported with dedicated manpower, the company posses enormous confidence and looks forward to become a leader pharmaceutical company producing the quality that can compete with any similar international brands.

Future Foreword

Keeping ahead of the pack, we envision ourselves as a well managed and change controlled based national pharmaceutical company. This vision is based on our fundamental goals: INNOVATION, PRODUCTIVITY ENHANCEMENT, and STRATEGIC ALLAIANCE AND GLOBAL REACH. Lomus is gearing up to exploit the ever expanding market. The future looks bright and we are ready to take the challenge of it. "Organizational satisfaction is directly proportional to the consumer-satisfaction and people work for the people and twenty first century demands strong leadership that moves towards the health care and motivates every individual performance toward the excellence."

ABOUT LOMUS GROUP

Lomus Group, mainly involved in Pharmaceuticals, Cement manufacturing (grinding unit), Banking, Non Life Insurance, Finance, media and Trading. Lomus Pharmaceuticals Pvt. Ltd. established in 1986, is a WHO-GMP standard largest manufacturer of Pharmaceuticals products of Nepal with ISO 9001 and ISO 14001 certification. Lomus pharmaceuticals produces more than 250 products in form of capsules, tablets ointments and liquids is number one company as per ORG-Marg report since last four years. New herbal branch is established to produce herbal medicine target mainly export market named Herbanaria. Cosmos cement Industry is ISO 9001 certified 300 TPD closed circuit grinding unit located in Central Nepal which is established in 1999. Cosmos cement is expanding with its clinkerization unit of 1000 – 1500 TPD in near future since demand of cement is growing rapidly in this part of the region. Lomus group is also involved in Shikhar Insurance Company, Citizen Bank International, Kamana Publication Group (Publisher of Daily Nepali Newspaper) and International Leasing and Finance Company Limited (joint venture with KDB Korea)

Research and development

LOMUS believes that sustained growth in the industry can be achieved only through continuous pursuit of formulation innovations. 3500 sq ft. Quality Control Lab with Class 100 / 100000 areas for sterility testing and full range of in-house microbiological testing facility as well as 4000 sq ft. Product Development Lab with R & D model, Rapid Mixture Granulator (RMG), FBD, Tray Dryer, Multi Mill, Shifter, ICH standard Stability Chambers ensures the confidence and quality of Lomus brands. Lomus put efforts for the essential drugs that are presently not manufactured in the country. Such perception facilitates are the evolution of common strategy directed towards the safeguarding the interest of the suffering people.

Drug Information Center

With the serving glory of LOMUS pharmaceutical of 25 years we dedicate our all resources of drug information to make you feel free and confident regarding prescribing information. Hereby, establishing a Lomus Drug Information Center is the cap of the prestigious Lomus Pharmaceutical Pvt. Ltd.

Introduction of Cadila Pharmaceuticals Ltd. India

Cadila Agro-Division today is Asia's most reputed and preferred company when it comes to production and supply of quality Bio-Formulation based on Mycorrhiza and Aspergillus Niger. We also specialize in common liquid growth promoter based on Gelatin derived Amino Acid, Humic Acid, multi activity growth promoter, natural postash 14% for overall health , Brassinolide based plant activity enhancer, non-ionic surfactant a sticking agent etc.

Company's vision is to up-lift the rural community of Gujarat State and the Nation as a whole by providing high quality farming inputs to the farmers. Today Cadila happens to be the major institutional supplier of the above products in various states in India. The company is confident about its quality products and excellent Customer Services and foresees a high level of growth in technology benefiting the rural India.

Eminent Certificates

Plant Tissue Culture facility of the company is accredited from “Department of Biotechnology”, Ministry of Science and Technology, New Delhi, Govt. of India. While our Agro Input Products have been certified as “Approved for use in organic agriculture” by “INDOCERT” Aluva. Cadila has to its credit a prestigious membership of IFOAM (International Federation for Organic Agriculture Movement), Germany.

Our Network

Cadila has already set up an extensive Agro distribution channel in 10 states in India. The long-term vision is to participate in complete value chain of Agro Product.

The company has successfully developed a vast network of agents across the Globe, which includes India, Australia, Africa, USA, etc. Our proficient agents aid us in establishing the effective business relationships with the clients and thus help us attain the unbeatable position in the Industry.

Role of Cadila Pharmaceuticals Ltd. In Economy

Our Vision and Mission

- **Vision**

To be a leading agriculture input company in India by providing high quality, affordable and innovative solutions in the field of Agriculture.

- **Mission**

- ✓ We will develop and successfully market crops and products for floriculture, horticulture and agriculture.
- ✓ We shall provide total customer satisfaction and achieve leadership in chosen markets, products and services across the globe, through excellence in technology based on world-class research & development and extensive distribution network.
- ✓ We are responsible to the society. We shall be good corporate citizens driven by high ethical values in our practices.

- **Objective**

- ✓ Consistently provide high quality products needed and accepted among farming community.
- ✓ Utilization of state of the art production facility with an ultimate focus of satisfying customer requirement.
- ✓ Strives for best possible solutions through wide range of products.
- ✓ Provide strong technical support to our customers.

Growth Drivers

- **Brand Image**

Agro Division being one of the most trusted player in agri business, is consistently providing high quality products, has set a bench mark in the acceptance of its products among the farming community.

- **Product Quality**

Over the years we have endeavored to set the standards for providing the highest quality products through the utilization of state of the art production techniques with an ultimate focus of satisfying the requirements and need of our customers.

- **Technical Support**

We provide strong technical support to our clients through the help of qualified, experienced and dedicated technical team, including doctorates and agriculture post graduates and graduates. Our technical team remains in contact of the farmers and provide them complete package of practices to get optimum and quality production.

- **Product Range**

In order to cater the requirements of the farming community, agro division strives to provide best possible solutions through wide range of products in Tissue culture and Bio-fertilizers

Business structure & activities of Cadila Pharmaceuticals Ltd.

Tissue Cultured Products

We are known as the chief Manufacturer, Exporter and Supplier of the best **Tissue Culture Raised Plants** in India. Our Tissue Culture Raised Plants are highly acclaimed by the national as well as international clients, owing to the quality. We offer a wide variety of Tissue Culture Raised Plants at the market leading prices to the clients. Our variety of Tissue Culture Raised Plants includes Banana, Pomegranate, Sugarcane, Teak and Gourd.

Facilities

The state-of-the-art production facility is situated at Hirapur approx 15 km from Ahmedabad, Gujarat and is spread over 62 acres of land.This facility came into operation in 1992. Today the production facility is at par with the international standards. The facility is dedicated to production of various Tissue Culture Plants & Agro Inputs (Bio formulation) to meet the domestic and international demand. The plant is commitment towards quality product and safety parameters.

Production Capacities

Tissue Culture Plants

10 Million Plants / Annum

Inputs

Sr.	Product	Monthly Production Capacity*
1.	PSB (Mycorrhiza)	30 tonnes
2.	Mycorrhiza – Tablet	10,00,000 no.
3.	*Aspergillus niger*	30 tonnes
4.	Protein Hydrolysate – Liq.	2000 liters
5.	Protein Hydrolysate –Granule	30 tonnes
6.	Potassium Humate – Powder	1000 kg
7.	Potassium Humate – Liquid	2000 liters
8.	Potassium Humate – Granule	30 tonnes
9.	Natural Potash	10000 tonnes
10.	Brassinolide (Fruit Growth Enhancer)	1000 liters
11.	Efficiency Improver	3000 liters
12.	Natural Sulphur	2000 liters
13.	Bentonite Sulphur	30 tonnes
14.	Trichoderma viride	1000 tonnes

Research & Development

Research and development is a back bone of any strong biological company. With his presence and popularity in need based product development, Cadila's **Agro Division** Research & Development Centre, was commissioned with the aim of having **"Center of Excellence"** in Tissue Culture & Bio products with new products and processes which helps to serve the customer more effectively.

Agro Division's Research and Development Centre strives to provide advantages of latest technologies of agriculture to doorstep of farmers for better agriculture and livelihood through products which gives more scope of higher yields and protection from various diseases. With this frame of mind and activities, Cadila is able to offer variety of products in large number for almost all agricultural zones of India.

About Research facilities:

The facility has modern, latest equipments, air controlled rooms and high-end machinery to support experimentation of new product and process development.

The activities are planned, executed and concluded by highly qualified and experienced technocrats.

Before release of new product, it is duly tested in local as well on farmers' fields as demonstration for the performance check.

Research and Development (R&D) team to develop precise and result oriented product based on need of farming community.

Research and Development is also engaged in to develop cost effective production processes to set new industrial benchmarks of production.

The R & D laboratories supports the activities required for Quality Assurance for in house production and maintain production procedure to get third party accreditations and certifications.

As social responsibilities, student of bachelors and masters are trained in the concern area for commercial aspects of university course contains. Such trainees have more focus on commercial applications of bioscience and cad serve society in better way.

About New Products development:

Plant Tissue Culture:

The numbers of new products under development in tissue culture included Agricultural crops, Horticultural crops, Forest species, Foliages and Herbal plants.

Biofertilizer:

New Products under Development:

Bio-fertilizers : Product to facilitate better root development and establishment.

Botanical input: Organic nutrient supplements, seed dresser, facilitate better post-harvest storage, etc.

System Improvement:

F & D team of bio-fertilizer unit continuously works on improving the efficacy of existing products and also to develop new delivery mechanisms that would facilitate easy application and logistics.

Careers

Cadila Pharmaceuticals is large enough a company for you to realize your dreams. We believe that our people are our most valuable assets for us. We look the people who are result oriented and take ownership for the work, Commitment focusing on Learning, Delivering and Growing and ensure speed in action to have timely results.

Our human resource development strategies consistently focus on improvement of professional and interpersonal skills and abilities, development team spirit and enhancing the knowledge base of our employees. Through several training and development programs, we continuously invest in our people to bring the best out of them.

You can expect to get enough exposure, challenging assignments, and opportunities that will sharpen your talents and help you embrace new capabilities in our organization. Needless to say, Cadila Pharmaceuticals Group is an equal opportunity employer. We are committed to being an employer of choice; offering the best performers a career path beating the normal line of the industry.

Comparative Position of Health Industry- Lomus and Cadila Company / Product with India and Gujarat

Pharmaceuticals and Chemicals

Background

The state of Gujarat accounts for 40 percent of India's total pharmaceutical production and 17 percent of its exports. Gujarat's pharma industry is valued at USD 3.6 billion. There exist over 3,000 drug manufacturing units. The State houses several established companies such as Torrent Pharma, Zydus Cadila, Alembic Pharma, Sun Pharma and Dishman Pharmaceuticals, which have operations in the world's major pharma markets.

The State contributes to around 20 percent of India's total chemical production. It produces about 98 percent of total soda ash, 90 percent of liquid chlorine and 66 percent of phosphatic fertilizers. Gujarat also houses India's only chemical port terminal, which has a capacity of 3 million metric tonnes.

Enablers

Several factors have contributed to Gujarat's well established pharmaceutical industry. Gujarat is a strong pharmaceutical manufacturing hub having a large number of small and medium manufacturing units. Its rich base of supply of active pharmaceutical ingredients has attracted several multinational players such asWyeth, Sanofi-Aventis and Abbott to set up facilities in Gujarat. There are several pharma clusters around Ahmedabad, Baroda, and Vapi. Over 300 large projects in the sector have already been commissioned; while over 100 are under implementation.

Gujarat has a strong base of diversified chemical industry, with approximately 700 large and medium scale units and 31,000 small scale and other factory sector units. Over 1,300 projects of the chemical and allied sectors have been commissioned.

Gujarat has a strong infrastructure backing with good connectivity of road, rail, air and water. The well established linkages with raw material and machinery suppliers are significant growth drivers for the industry.

Constraints

Over the last couple of years, Gujarat has witnessed an exodus of several small and medium scale manufacturing units to other states, which offer more attractive fiscal benefits. Lack of adequate fiscal sops compared to other states can pose a serious threat to this industry in Gujarat.

At a time when companies, especially foreign players are looking at setting up operations in India (specifically) in the area of clinical research, there is limited enrolment of medical students in comparison to other states.

Biotechnology

Introduction

Biotechnology is defined as a set of techniques for industrial exploitation of biological systems or processes. It encompasses any technique that uses living organisms to make or modify products, to improve plants or animals or to develop microorganisms for specific uses and involves applying molecular and cellular biology, plant, animal and human genetics and immunology in order to create new products. Conventional techniques of producing biotechnology products, using traditional microbiological fermentation, have evolved, with the development of modern technologies. Modern biotechnology entails use of cell fusion techniques, bio-informatics (use of information technology for documenting bio-diversity and study DNA structures), genetic engineering, structure based molecular design and recombinant DNA technology (insertion of foreign gene) and hybridoma technology (fusing and multiplying cells). Biotechnology has transformed many parts of the chemical industry, agriculture, and medicine.

After becoming an IT bellwether, India is now shifting its focus to the next promising industry, biotechnology. Numerous companies have sprung up to take a piece of the exponentially growing biotech market. The ever-decreasing physical boundaries enable biotech companies to tap large markets around the world. India to this extent holds a good advantage over other countries.

The Biotech Industry is progressing at a rapid growth rate of nearly 40 per cent, with an annual turnover of US$ 1.07 Billion in 2005. It is estimated that the consumption of biotech products in India could grow to the tune of US$ 4270 million by the year 2010. Today, the Indian biotech sector stands fourth in terms of volume and thirteenth in terms of value.

Biotechnology in Gujarat

Gujarat's thriving Pharmaceutical and agricultural sectors are driving its biotech industry, which already has a strong foundation in the state and is well supported by academic and research institutes. Further, specialized biotech park, skilled workforce, government support and ethnic diversity provide the investor with the ideal platform for clinical and contract research, application in agriculture, food and marine technology.

The state government of Gujarat, in its resolve and continued efforts for socio-economic up liftment of the society, has identified biotechnology as single most potential tool of development. The state intends to promote biotechnology sector by building appropriate image, encouraging entrepreneurship, strengthening organizational colorations and forecasting business partnerships. For facilitating the development of biotechnology in the State, Government of Gujarat has constituted Gujarat State Biotechnology Mission, under the aegis of Department of Science and Technology.

Summary of Projects identified by the Government for Investment in Biotech Sector			
Sr. No	**Project**	**Suggested Location**	**Proposed Investment**
1	Pharmaceutical Enzymes Manufacturing Unit	Proposed Biotech Park at Vadodara	USD 4 million
2	Animal Vaccine Manufacturing	Proposed Biotech Park at	USD 6.7 million

	Plant	Vadodara	
3	Human Vaccine Manufacturing Plant	Proposed Biotech Park at Vadodara, Ahmedabad	USD 7.8 million
4	Diagnostic Kits	Proposed Biotech Park, Vadodara, Surat, Ahmedabad	USD 3.3 million
5	Contract Research Organisation (Pre-Clinical)	Proposed Biotech Park at Vadodara, Ahmedabad, Gandhinagar, Vapi, Surat	USD 6.7 million
6	Contract Research Organisation (Clinical)	Proposed Biotech Park at Vadodara, Surat, Gandhinagar, Ahmedabad	USD 12.2 million
7	Bio-IT Software Company	Proposed Biotech Park at Vadodara, Gandhinagar	USD 13.5 million
8	Bioactive Compounds derived from Marine Organisms	Proposed Marine Biotechnology Park	USD 5.6 million
9	Contract Farming of Genetically Modified (GM) Crops	Saurashtra-Kachchh Belt	USD 2.3 million
10	Biofertilisers Manufacturing Unit	Proposed Biotech Park at Vadodara, Bharuch, Surat, Valsad, Kaira	USD 6 million
11	Bioinsecticides Manufacturing Unit	Proposed Biotech Park at Vadodara, Bharuch, Surat, Valsad, Kaira	USD 6 million
12	Biofuel Plant based on Ethanol	Proposed Biotech Park at Vadodara, Surat, Valsad, Bharuch	USD 22.4 million

13	Industrial Enzymes (Using Marine Organisms)	Proposed Biotech Park at Vadodara	USD 3.3 million
14	Industrial Enzymes Manufacturing Plant	Proposed Biotech Park at Vadodara	USD 4.5 million
15	Bioremediation Solutions Facility	Ahmedabad, Rajkot, Jamnagar, Surat	USD 10.2 million
16	Aquaculture (Feed & Solutions) Project	Proposed Marine Biotechnology Park	USD 6 million
17	Biodegradable Plastics Manufacturing Unit	Proposed Biotech Park at Vadodara, Surat, Ahmedabad	USD 10.2 million
18	Bio-IT Training & Education Institute	Proposed Biotech Park at Vadodra, Gandhinagar	USD 3.3 million
19	Centre for Biotechnology Education & Training	Proposed Biotech Park at Vadodara, Gandhinagar	USD 3.3 million
20	Marine Biotechnology Park	Bhavnagar, Jamnagar	USD 11.2 million
21	Biotech Park at Vadodara	Vadodara	USD 20 million
22	Bioparmaceuticals Packaging Unit	Proposed Biotech Park at Vadodara	USD 3.3 million
23	National Institute of Nanobiotechnology	Proposed Biotech Park at Vadodara	USD 8.9 million
24	Bio- Nutraceuticals Manufacturing Unit	Proposed Biotech Park at Vadodara, Ahmedabad, Surat	USD 6.7 million
25	Biodiesel Plant based on Jatropha	Banaskantha, Surendranagar, Rajkot	USD 17 million

Agriculture Biotechnology

The agricultural biotechnology industry is gaining importance in Gujarat due to its sizeable agrarian economy, which contributes significantly to the country's GDP. A higher percentage of the agricultural land is used for cultivation in the Central Gujarat. While, Valsad has become India's first integrated horticulture district, Kaira, Baroda, Bharuch and Surat districts are the main contributors to the agricultural production of the State.

Stakeholders representing industry, NGOs, Government PSUs and Government laboratories, have played a significant role in the growth of the agri-biotech segment in Gujarat. The corporate scene has presence of players both of national and international origin, the value chain focus being manufacture of bio-agri inputs. In terms of R&D activity, ICAR funded labs namely NRCMAP and NRCG have created valuable knowledge repositories in terms of the research projects undertaken by the scientists and well-trained researchers at these labs.

The State was amongst the first ones to allow field trials of Bt cotton in the country. With the growing R&D spend of the global agri-biotech companies and enhanced clarity on the IPR issues, the country at large and Gujarat in particular, can leverage the diverse agro climatic topography to play a significant role in the agri-biotech scene. The agricultural biotechnology industry is gaining importance in Gujarat due to its sizeable.

The major thrust areas of the corporate players in Gujarat agri-biotech industry include tissue culture, bio-fertilizers and bio- pesticides.

Food Biotechnology and Nutraceuticals

Food biotechnology refers to the use of biotechnology to enhance the production, nutritional value, safety, and taste of edible products. It is being recognized that genetic modification is indeed a more efficient and precise way to achieve the benefits of food improvement. Often referred to as phytochemicals, the nutraceuticals and natural extract market includes nutritional supplements, functional foods, natural products and herbs. Together they constitute the "Wellness Industry". Functional foods and vitamins, minerals and supplements (VMS) sub segments constitute the key focus areas.

The State's enormous success in the dairy industry is exemplified by the presence of one of the country's premier food company viz. AMUL. The Company has been a role model for the cooperative sector in India. With its constant zest for innovation, the Company has the widest range of dairy based food products. It has a strong R&D team backed by a competitive marketing and branding team. Vadilal, an established brand in the processed food segment processes and markets a wide variety of fruits, vegetables and ready-to-serve Indian Foods.

Over the last decade the Company has acquired a prominent position in India and established itself as one of India's leading manufacturers / exporters in this sector.

Gujarat also has a large unorganized natural extracts and nutraceuticals segment base, constituting several small-scale manufacturers and trading outfits. These companies are engaged in producing herb-based dyes, cosmetics, spices and other consumables.

The State has about 240 ayurved pharmaceutical companies of which about 29 have GMP certified facilities. Ahmedabad, Vadodara, Valsad, Surat, Rajkot and Mehsana have a significant presence of natural extract based industry. Companies such as Unique Pharmaceuticals, JB Chemical, Cadila Pharmaceuticals, Paras Pharmaceuticals and Vasu Pharmaceuticals, which are based in Gujarat, have international linkages in terms of import and export of natural extract products.

Marine Biotechnology

Marine biotechnology is the discovery and application of products and processes derived from marine organisms. It finds wide range of applications in various industries to develop new class of pharmaceuticals, industrial products and processes, vaccines, diagnostics and analytical reagents. It provides new tools and approaches to understand the ecological relationships among marine organisms farmer community in particular and the society at large.

Gujarat has1600 km long coastline considered the longest in the country, which includes two gulf areas Gulf of Kachchh and Gulf of Khambat. Given the longest coastline and the rich marine resources it preserves, the Government of Gujarat is focusing on developing marine biotechnology as a fore area of the biotech sector in the State. Gujarat is India's first State to establish a Marine National Park located 30 kms from Jamnagar in the Gulf of Kachchh region.

Industrial Biotechnology

Gujarat has developed strengths in the industrial enzymes segment over the years. This segment is dominated by entrepreneur led organizations, which initially started as conservative fermentation based outfits and have today evolved as preferred vendors/service providers for multinational companies. The State has been able to leverage its manufacturing strengths in the industrial biotech segment.

Pharmaceutical Industry

Introduction

The Indian pharmaceutical industry valued at $12 billion has portrayed tremendous progress with reference to infrastructure development, technology base creation and a wide range of production. The domestic market in India is estimated to be at US$ 12 billion by 2010.The pharmaceutical industry produces bulk drugs belonging to major therapy groups. India ranks 4th worldwide accounting for 8 per cent of the world's production (In terms of Volume) and 1.5 per cent (In terms of value). The industry has developed Good Manufacturing Practices (GMP) facilities for the production of different dosage forms.

The pharma industry exports drugs and pharmaceuticals worth over $ 3.8 billion. It ranks 17th in terms of export value of bulk actives and dosage. Indian exports cover more than 200 countries including the highly regulated markets of USA, Europe, Japan and Australia.

Pharmaceutical Industry in Gujarat

Gujarat boasts of high investment levels in the pharmaceutical sector worth over US$ 2.25 billion indicating significant opportunities for investors. Gujarat offers distinct economic advantages to large pharmaceutical companies who are looking to reduce their time-to-market on new products and save costs within the same period. These include:

- Cost-competitive research base
- Large and skilled workforce
- Skills in process chemistry
- Globally harmonized regulations
- CGMP compliance of international standards and FDA approved manufacturing facilities
- 100 companies with WHO compliant manufacturing units

The state of Gujarat houses a number of renowned foreign and domestic firms in the pharmaceutical and drug sector. The leading multinational corporations having operations in the state include Wyeth, Sanofi Aventis, Abbott, Sidmak laboratories, Mission Pharma Logistics and Transpek-Silos industry. On the domestic front, several large players such as

Zydus Cadila, Cadila Pharma, Alembic Pharma, Torrent Pharma, Sun Pharma and Intas Pharma have made their presence in the state.

Present Position and Trend of Business (import / export) with India / Gujarat

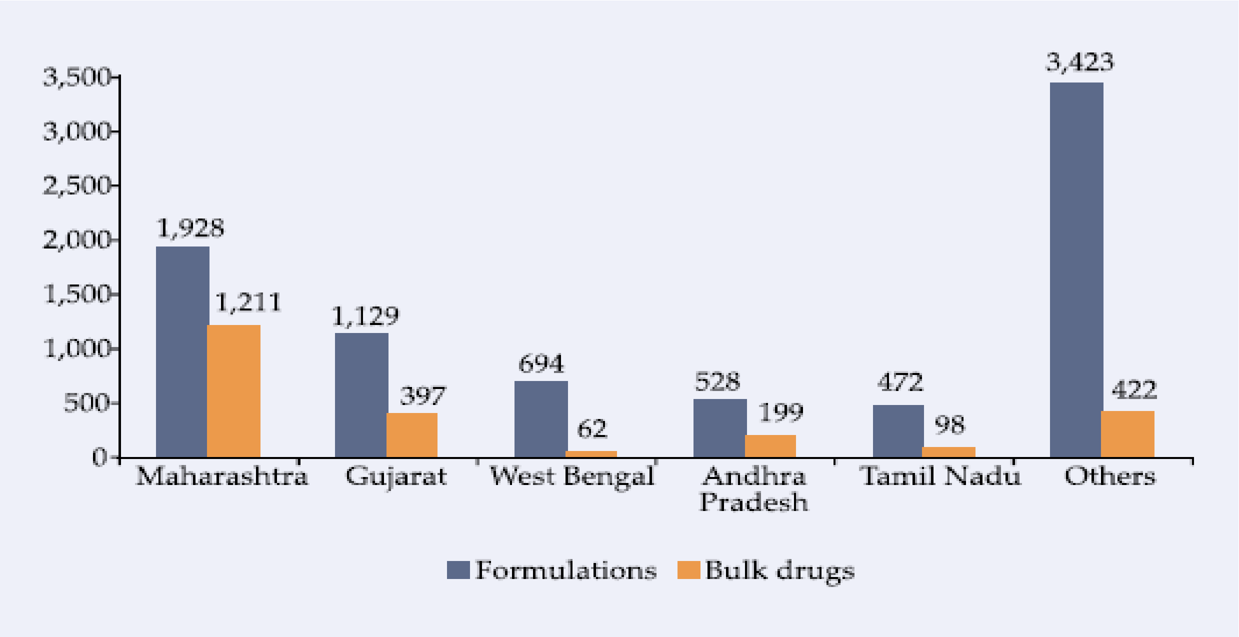
Introduction

India's pharmaceutical sector is expected to touch US$ 74 billion in sales by 2020 from the current US$ 11 billion, according to a PricewaterhouseCoopers (PwC) report.

The Indian pharmaceutical market is expected to grow at a compound annual growth rate (CAGR) of 14-17 per cent over 2012-16. India is now among the top five pharmaceutical emerging markets.

The outlook on the Indian pharmaceutical industry remains favourable, according to a report by ICRA and Moody's. Domestic formulation market stood at Rs 58,300 crore (US$ 10.88 billion) and has been ranked third in terms of volume and tenth in terms of value, globally.

State-wise number of pharmaceutical manufacturing units in India



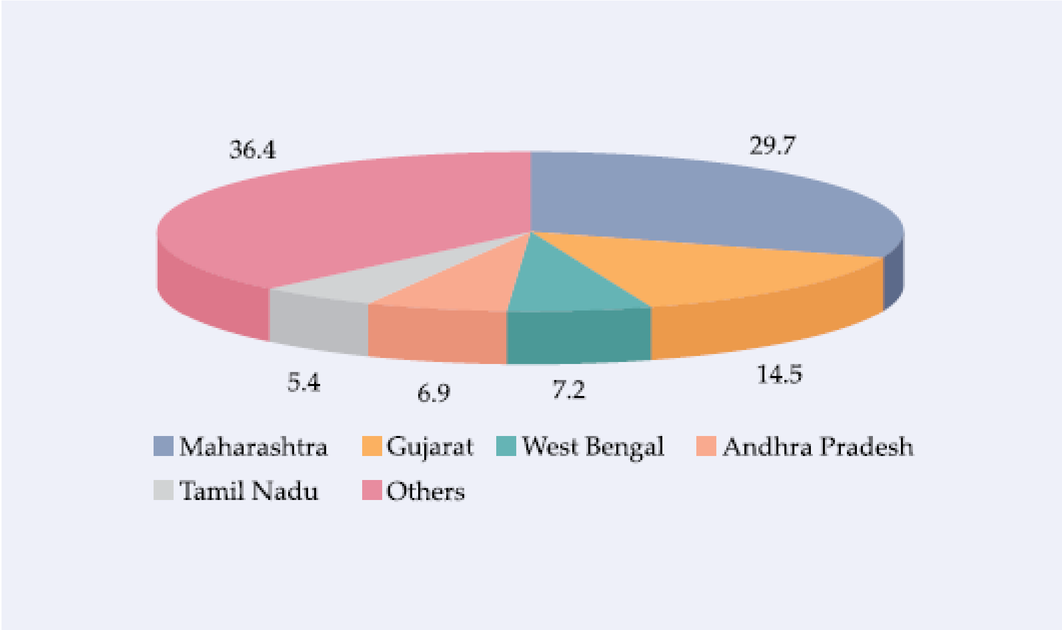
Sector Structure/ Market Size

On back of increasing sales of generic medicines, continued growth in chronic therapies and a greater penetration in rural markets, the domestic pharmaceutical market is expected to register a strong double-digit growth of 13-14 per cent in 2013. The year 2012 closed with a growth of 12 per cent, according to data from research firm IMS Health.

The cumulative drugs and pharmaceuticals sector attracted foreign direct investments (FDI) worth US$ 9,776 million between April 2000 to November 2012, according to the latest data published by Department of Industrial Policy and Promotion (DIPP).

Recruitment in India during 2013 is expected to be driven by the information technology (IT) and pharmaceutical/ life sciences sectors, according to executive job search and career portal, HeadHonchos.com.

Concentration of pharmaceutical manufacturing units in India (%)



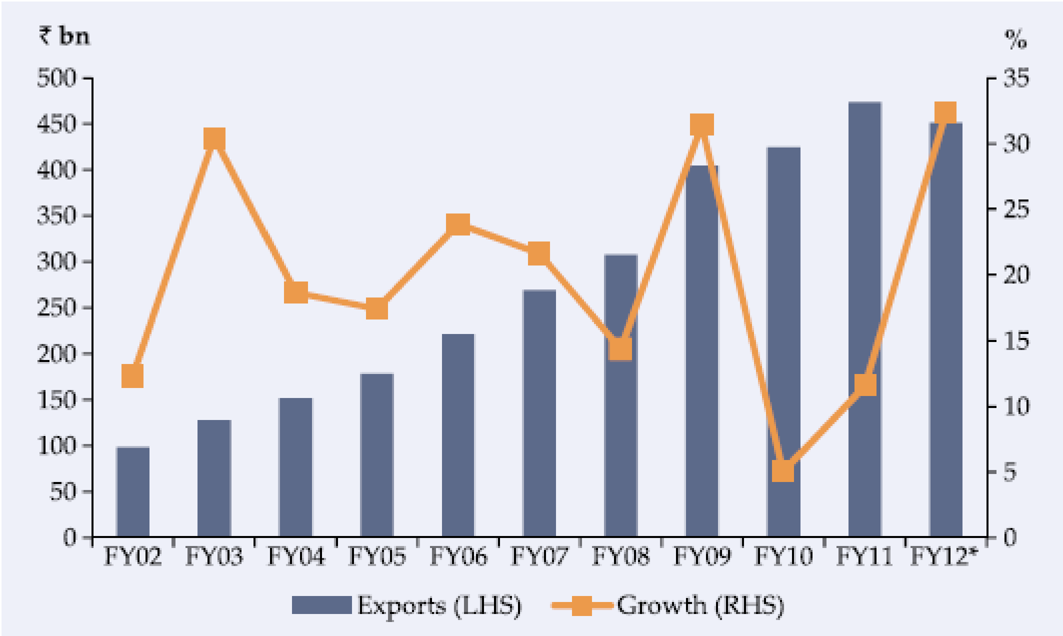
Exports

India's exports of drugs, pharmaceutical and fine chemicals grew by 27 per cent to Rs 60,000 crore (US$ 11.19 billion) for the year ended March 2012, according to data compiled by Pharmaceutical Exports Council of India (Pharmexcil).

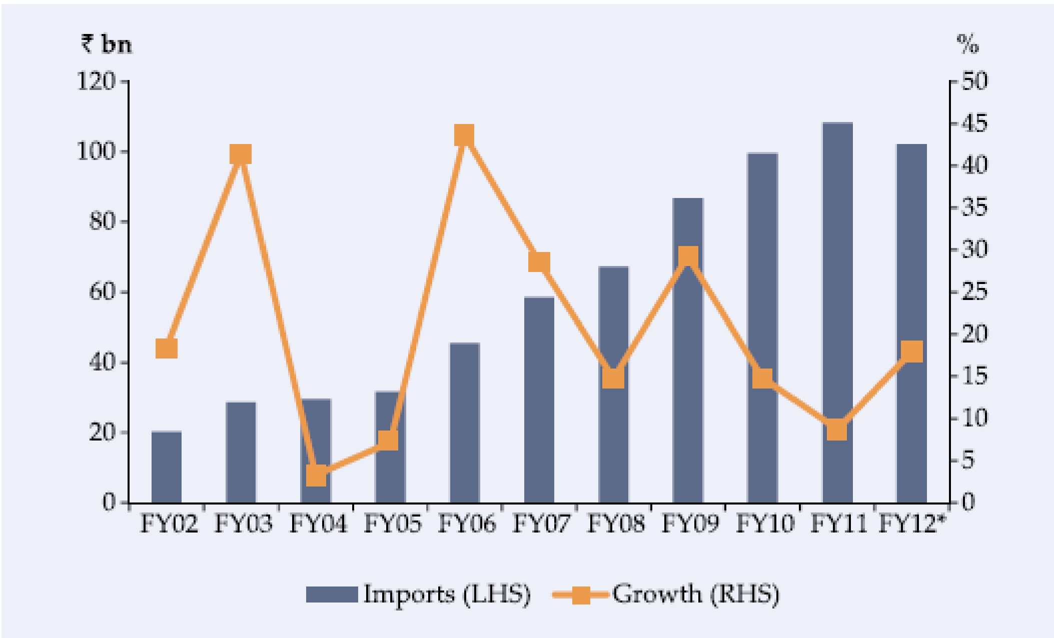
The Ministry of Commerce has proposed an ambitious Strategy Plan to double pharmaceutical exports from US$ 10.4 billion in 2009-10 to US$ 25 billion by 2013-14. The Government has also planned a 'Pharma India' brand promotion action plan spanning over a three-year period to give an impetus to generic exports.

Gujarat-based small and medium-sized pharmaceutical manufacturers are focussing on export markets, especially to emerging economies such as African and Latin American nations. Small and medium sized enterprises (SMEs) based in Gujarat exported pharma products worth Rs 400-Rs 500 crore (US$ 74.63-US$ 93.28 million) in 2011-12. Of the net exports by SMEs, the share of emerging markets is 50-60 per cent, and it is rising yearly by 30-35 per cent, as per an Indian Drug Manufacturers' Association (IDMA) official.

Export of drugs and pharmaceuticals from India



Import of drugs and pharmaceuticals into India



Growth

India will see the largest number of merger and acquisitions (M&As) in the pharmaceutical and healthcare sector, according to consulting firm Grant Thornton. A survey conducted across 100 companies has revealed that one- fourth of the respondents were optimistic about acquisitions in the pharmaceutical sector.

The Indian pharmaceutical market is expected to grow at a CAGR of 15.3 per cent during 2011-12 to 2013-14, according to a Barclays Capital Equity Research report on India Healthcare & Pharmaceuticals.

Generics

Generics will continue to dominate the market while patent-protected products are likely to constitute 10 per cent of the pie till 2015, according to McKinsey report 'India Pharma 2015 - Unlocking the potential of Indian Pharmaceuticals market'.

Dr Reddy's Laboratories Ltd has launched Finasteride tablets, a bio-equivalent generic version of Propecia (Finasteride) tablets, in the US market. The tablets are used for treating male pattern hair loss.

Diagnostics Outsourcing/ Clinical Trials

"The Indian healthcare devices market is part of our focus on emerging markets. The Hyderabad centre will enable us to improve product time to market and create valued-innovation," highlighted Mr Robert Frechette, Vice-President (Engineering Services), Covidien. The value of the Indian medical devices market is estimated at US$ 4 billion, and is clocking a growth rate of 15 per cent annually, added Mr Frechette.

- Glenmark Pharmaceuticals S A (GPSA) has entered into an agreement with Forest Laboratories, Inc, to collaborate on the development of inhibitors to treat chronic inflammatory conditions, including pain. Under the terms of the agreement, latter is to make a US$ 6 million upfront payment to Glenmark and provide an additional US$ 3 million to support the next phase of work.

- Contract research firm GVK Biosciences and the US-based Onconova Therapeutics have entered into a novel joint partnership to develop new drugs for cancer.
- Wockhardt has received US Food and Drug Administration (USFDA) approval to launch 25 mg, 50 mg, 100 mg, 200 mg and 300 mg extended release tablets of Lamotrigine in the US. The drug is used for the treatment of epilepsy.

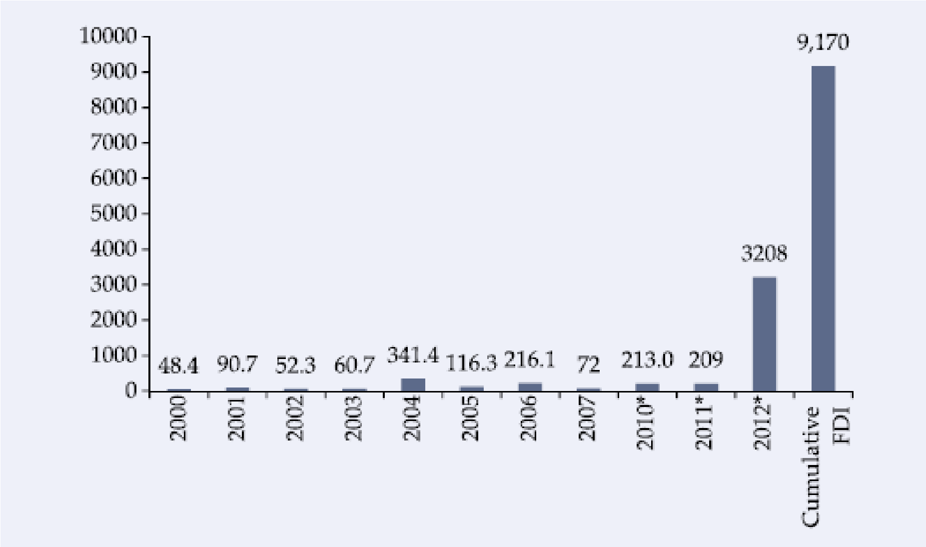
Investments

- Israel-based Teva Pharmaceuticals in collaboration with Procter & Gamble (P&G) plans to set up world's largest over-the-counter (OTC) medicine facility at Sanand, Gujarat.
- GlaxoSmithKline (GSK) and the Hyderabad-based Biological E Ltd have teamed up for early stage research and development (R&D) of a six-in-one combination pediatric vaccine against polio and other infectious diseases.
- Claris Lifesciences Ltd has entered into joint venture (JV) agreement with two Japan-based drug makers Otsuka Pharmaceutical and Mitsui & Co Ltd for its injectable business in India and other emerging markets.
- Nipro Corporation has set up India's first dialyser manufacturing facility at Shirwal near Pune, with an investment of Rs 700 crore (US$ 130.60 million)

- Aurobindo Pharma Ltd has received approval from the US Food and Drug Administration (USFDA) to manufacture and market various medicines namely Oxacillin injections and Rizatriptan Benzoate tablets in the US, besides Nafcillin and Ondansetron injection

- Eli Lilly and Strides Arcolab have inked a pact to increase delivery of cancer medicines in emerging markets. Agila Specialties, the specialties division of Strides Arcolab, will make cancer medicines and Eli Lilly will market them in emerging geographies

FDI inflow in the drugs and pharmaceutical industry (US$ mn)



Government Initiatives

The Union Budget for 2012-13 was announced by Mr Pranab Mukherjee, the Union Finance Minister. Highlights of Union Budget 2012-13:

- It is proposed to extend concessional basic customs duty of 5 per cent with full exemption from excise duty/CVD to six specified life-saving drugs/ vaccines. These are used for the treatment or prevention of ailments such as HIV-AIDS, renal cancer, etc.
- Probiotics are a cost-effective means of combating bacterial infections. It is proposed to reduce the basic customs duty on this item from 10 per cent to 5 per cent.
- Basic customs duty and excise duty reduced on Soya products to address protein deficiency among women and children. Basic customs duty and excise duty reduced on Iodine.

Marking a new trend of investments from foreign players in the Indian pharma sector, the need for overseas investors to get a no-objection from their JV partner before venturing out on their own or roping in another local firm has been removed by the Pharmaceuticals Export Promotion Council (Pharmexcil). It is expected that this measure will promote the competitiveness of India as an investment destination and be instrumental in attracting higher levels of FDI and technology inflows into the country.

The Department of Pharmaceuticals has prepared a 'Pharma Vision 2020' document for making India one of the leading destinations for end-to-end drug discovery and innovation and for that purpose, the department provides requisite support by way of world class infrastructure, internationally competitive scientific manpower for pharma research and development (R&D), venture fund for research in the public and private domain and such other measures.

Road Ahead

The Ramanbhai Foundation 6th International Symposium on 'Advances in New Drug Discovery Technologies & Translational Research' began at Zydus Research Centre. The symposium addressed various aspects related to new drug discovery with a focus on cancer, inflammation, cardio-metabolic and infectious diseases.

Growth of Indian pharma companies will be driven by the fastest growing molecules in the diabetes, skincare and eye care segment, as per a report by research firm, Credit Suisse.

In addition, the pharmaceutical companies such as Cipla, Ranbaxy, Dr Reddy's Labs and Lupin might soon be part of the government's ambitious 'Jan Aushadhi' project. In an attempt to commercialize the project, the Government is likely to rope in the private sector to bulk-procure generic drugs from them.

Policies and Norms of Nepal Pharmaceutical industry for import-export

- **TRADE POLICY**

  Public sector works as a catalyst and facilitator to expand the role of private sector.

  No Licenses required for Exports and Export of any products other than banned or quantitatively restricted items, Banned and quantitatively restricted items.

  The duty drawback scheme available for the refund of Export duty paid on Exported raw materials and intermediate goods required for the production of Exportable products.

  Export Promotion Zone (EPZ) and Special Economic Zone (SEZ) are being established in different location.

No Duty levied on raw materials and auxiliaries Exported by industries in EPZ./SEZ

Foreign currency required for Export will be made available by the commercial banks at the market rate.

Exporters allowed retaining their Export earnings in their own foreign currency account.

No quantitative restrictions on the Exportable products carried by tourists while returning from Nepal.

EXPORT

1. Almost all goods are in OGL

2. The customs value is calculated on CIF basis (Cost Insurance and Freight) on Export.

3. Nepal has adopted General Agreement on Tariff and Trade (GATT) valuation system

4. Principle of lower rate of customs duty on the Export of raw materials compared to finished goods is in use.

5. Prevailing custom duty rates are 80%, 30%, 20 %, 15%, 10% , 5%.and 0 % .

Export Custom Tariff from SAARC countries (Except Negative List)

Prevailing tariff Rate (1	Chargeable tariff Rate on Export from

January,2006)	SAARC Countries
5 %	5%
10%	7%
15%	9.25%
25%	13.75%
35%	17.5%
40%	17.5%
80%	17.5%

2.2 Goods Exported from India into Nepal are granted a rebate in the chargeable advalorem (except specific) rate of customs duty by 5% ad-volorem duty in above than 30 percent custom duty and 7 % below than 30 percent .

2.3 Goods produced in China and Exported from Tibet are granted a rebate in the chargeable advalorem (except specific) rate of customs duty by 4%.

FEES ON EXPORT

1. Agriculture Development fee of 5% is levied on Export value on Exported agricultural goods.

2. NRs.600 as customs service fee is charged per custom declaration form on Export and Rs 500 on Export at custom point

EXPORT

1. Export is generally free of custom duty.

2. Custom duty on Export is levied on the basis of FOB price determined by calculating the cost incurred including in transporting the goods up to custom point when Exporting the goods.

3. No licensees required for Exports of any product other than banned or quantitatively restricted items

4. Generalized System of Preferences (GSP) is available to Nepal's Export as a Least Developed Country.

B. INDUSTRIAL POLICY

INDUSTRIES REQUIRING PERMISSION

Industries producing explosives including arms, ammunition and gunpowder, security printing, bank notes and coin industries.

Cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of a similar nature utilizing tobacco as the basic raw material and alcohol or beer producing industries.

C. FOREIGN INVESTMENT

- Permission will not be granted for foreign investment in the industries specified in Annexure 5. Rest of the industries a permission is required.

- Foreign investments will be permitted up to 100 percent except the negative list.

- Repatriation of capital & profits is allowed.

- No intervention will be made in fixing prices of the products of any industry.

- Business visas shall be granted to foreign investors or their dependent family members or authorized representatives and their dependent family members to stay in the kingdom of Nepal so long as they maintain their foreign investment. Provided that a Foreign Investor, who makes a lump sum investment of at lest US$ 100,000, or an equivalent amount in any convertible foreign currency, and his dependent family members shall be granted residential visas so long as he maintains his investment

D. INCENTIVES AND FACILITIES

- After an industry comes into operation, 10 percent of the gross profit shall be allowed as a deduction against taxable income on account of expenses related with technology, product development and efficiency improvement.

  If any other industry utilizes locally available raw materials, chemicals and packing materials, etc. on which excise duty is already imposed, the excise duty shall be reimbursed to the industry utilizing such raw materials chemicals and packing materials. The amount to be so reimbursed shall be refunded within sixty days after an application to that effect has been duly submitted.

  The customs duty & excise duty on raw materials and auxiliary raw materials, etc. utilized by any industry in connection with its product during its production shall be reimbursed on the basis of the quantity of the Export.

Any industry sells its products in the Export Promotion House, the customs duties levied on the raw materials Exported for producing the products and the excise duty levied on the products shall be reimbursed for concerned industry on the basis of the quantity of sale and Export.

If an industry sells its product within the country in any foreign currency, the excise duty and custom duty on such product and customs duty, excise duty levied on the raw materials and auxiliary raw materials, etc. utilized in such product shall be reimbursed.

The customs duties and excise duty on the production materials of intermediate goods to be utilized for the production of Exportable industrial goods and excise duty levied on the product shall be reimbursed to the concerned industry producing the intermediate goods, on the basis of the quantity of Export.

If an industry producing intermediate goods sells its products to any other industry producing finished goods, the custom duty and excise duty to be levied on such products will be allowed to be adjusted on the basis of the quantity utilized by the industry producing the finished goods.

No royalty shall be imposed if any industry generates electricity for its use.

E. TAX SYSTEM AND TAX RATES:

1. INCOME TAX:

- Nepalese income tax system generally follows the prevailing international practices

- Resident taxpayers (Individual or entities) are taxed on worldwide income while Non-resident taxpayers are taxed only on their income earned in Nepal.

1.1 TAX RATES FOR INDIVIDUAL & FAMILY

Annual Basic Exemption amount

(1 percent social security tax is applicable in exemption limit).

For Individual	Rs. 160,000
For spouse/widow	Rs. 200,000

On taxable income

On income of up to Rs. 100000 beyond the exemption amount	15%
On all further incomes beyond taxable income of Rs. 100000	25%

40 percent additional income tax income above than 2500000

Corporate Income Tax:

Registered private and public limited company and other organizations including private firms levied at a flat rate of:

a.	Banks, Financial Institutions, General Insurance Business, Petroleum Business and cigarette & Beverage business	30%
b.	Others	25%
c.	For Non-Resident Persons	25%
d.	Enterprises accepted as industry by Industrial Enterprise Act (except alcohol & tobacco based units)	20%
e.	Enterprises, which construct and operate road, bridge, tunnel, ropeway, flying bridge, trolley bus, tram	20%
f.	Entities engaged in building and operating public infrastructure to be transferred it to NG	20%
G	Entities wholly engaged in power generation, transmission or distribution for an income year	20%
h.	Export business	20%

i.	Dividend Tax	5 %
j.	Capital Gain Tax	
-	For Entities	Normal
-	For Natural person	10 %

Income derived from shipping, air transport or telecommunication by non-resident persons	2%
The repatriated income of a foreign permanent establishment of a non-resident persons	10%

Concession and Facilities for Industrial Sector According to Income Tax Act 2002:

- All business related expenses are deductible from taxable income including expenses occurred to reduce pollution and minimizes the adverse environment effects and research & development expenditure.

- Information technology industries or Manufacturing industry providing employment to 300 or more Nepali citizens during the whole year gets additional facilities of income tax rebate at the rate of 10% on the applicable tax and industry provides employment 1200 or more citizens during the whole year gets rebate at the rate of 20 percent on prevailing rate.

- Industries established in certain underdeveloped, remote and semi-developed areas are given rebates on income tax. The rebate may range from 50 - 25% of the applicable tax depending on the level of development of the district.

- Information technology industries or Industries which providing employment to more than 100 Nepali citizens including 33 percent women, dalit and disable person during the whole year gets income rebate of 20 percent.

- Ten years income tax holiday for Industries established in certain underdeveloped areas. (22 districts)

- 5 years tax holiday for Industries established in Special Economic Zone (SEZ) or Export Processing Zone (EPZ) and 50 percent income rebate on the applicable tax rate after 5 years.

- 10 years income tax holiday industries established in hilly region and prescribed special economic zone of mountain region and 50 percent income tax rebate on the applicable tax rate after 10 years.

Fifty percent income tax rebate in income of Foreign investor generated from industry established in special economic zone providing services such as foreign technology , management fee and royalty

- 40 percent income tax rebate for the Enterprises, which construct and operate road, bridge, tunnel, ropeway, flying bridge, trolley bus, tram

- 25 percent income tax rebate for commodity Export industry on prevailing tax rate.

- 50 percent income rebates on income from Export of Intellectual property, sale and transfer.

- 7 years tax holiday and 50 percent tax rebate for 3 years after 7 years from the operation date for industry involved in investigation of petroleum product and natural gas.

- Any hydropower industry start construction before 2071 Bhadra 7 (B.s) and starts commercial transaction before chaitra 2075 will get 10 years tax holiday and 50 income tax rebate for 5 year after 10 years from the date of starting commercial transaction.

Depreciation:

- Depreciation of depreciable assets owned and used by taxpayer during the year in the production of the taxpayer’s income (business or Investment) is deductible from taxable income.

- Depreciation can be charged only in Diminishing Balance Method value of pool of assets basis.

- One third additional rate of depreciation can be charged for manufacturing industry, Export business and public infrastructure entities.

Classification, Pooling and Rates of Depreciable Assets:

Class	Assets	Rates
A	Building structure & similar work of permanent Nature	5 percent
B	Computer data handling equipment, fixture, office furniture & office equipment	25 percent
C	Automobiles, minibus & buses	20 percent
D	Construction & earth moving equipment and depreciable assets not included in other class	15 percent
E	Intangible assets others than class D depreciable assets	Divided on useful life

Loss Recovery

- Business loss can be carried forward up to 7 succeeding years from any source of income.

- Investment losses can be forwarded up to 7 succeeding years from any investment income

- Infrastructure development project and petroleum business can forward losses up to 12 succeeding years.

- In case of long term contract, loss can be carried back as per the notice of the Internal Revenue Department

VALUE ADDED TAX (VAT):

1. A firm whose annual turnover of goods and services is less than Rs.2 million needs not be registered with the VAT office and collect VAT on sales. But they can register voluntarily.

2. VAT is levied at a single rate of 13 percent. In certain cases, the rate may be zero and certain goods and services are exempted from VAT.

3. Value Added Tax is collected at every (manufacturing, distribution, wholesale and retail) stage of selling goods and services.

4. Exports of taxable goods are zero rated.

5. A firm registered with the VAT Office may claim credit on tax paid on inputs / purchases.

6. VAT paid on inputs can be adjusted while collecting the VAT on finished products.

7. Industries that Exported more than 80 percent of total sales in past twelve months and which have a minimum of twenty percent of value addition can Export raw materials providing bank guarantee on account of the payable VAT.

8. Certain products such as primary food stuffs, primary agricultural products, and industrial machineries are exempted from VAT.

9. VAT Exempted Goods and Services

    a. Basic Agricultural Products

    b. Goods of Basic needs

    c. Live animals, animal product ,animals feed and feed supplements

    d. Agricultural inputs

e. Education services

f. Transport service

g. Health Services

h. Raw materials for pharmaceutical industries

i. Books, Newspapers and Publications

j. Industrial machinery

k. Cultural and Artistic goods and Services

l. Specified personal & Professional Services

m. Others goods and services such as postal service, financial & insurance service, buying & selling of real estate.

10. Zero Rated goods and services

a. Goods Exported or services provided abroad

b. Goods & Services Exported by accredited diplomats

EXCISE DUTY

- Excise duty is levied on certain goods (tobacco, alcohol, plastic, cement, vehicles,marble) produced in and Exported to Nepal. The rates may be advalorem as well as specific.

PRODUCTS BANNED FOR EXPORTS

1. Articles of Archaeological and Religious Exportance

   1.1 National and foreign coins of archaeological value.

   1.2 Idols of gods and goddesses, palm leaf inscription (Tad Patra), plant leaf inscription (Bhoj Patra).

   1.3 Scroll (Thanka paintings) of historical Exportance.

2. Conserved wildlife and Related Articles

   Wild animals.

   Bile and any part of wild animals.

   Musk.

   Snake skin, Lizard skin.

3. Narcotic Drugs Narcotic Marijuana, Opium, Hashish (as defined in the Single Convention on Narcotics, 1961).

4. Articles of Industrial Exportance

   4.1 Explosives material and fuse or materials needed there for.

   4.2 Materials used in the production of arms and ammunition.

5. Industrial Raw Materials

   5.1 Raw hides and skin (including dry salted).

   5.2 Raw wool.

   5.3 All Exported raw materials, parts and capital goods.

Other products

Mamira.

Log and timber.

PRODUCTS BANNED FOR EXPORTS

1. Products injurious to health

   (a) Narcotic drugs like, opium and morphine

   (b) Liquor containing more than 60 percent alcohol

2. Arms and ammunitions and explosives (except under Export license of Government of Nepal)

   (a) Materials used in production of arms and ammunition

   (b) Guns and cartridges
   (c) Capes without paper
   (d) Arms and ammunitions, and other explosives

3. Communication equipment: wireless, walkie-talkie, and similar other audio communication equipment's (except under Export license of Government of Nepal)

4. Valuable Metals and Jewelleries (except permitted under baggage rules)

5. Beef and beef products

6. Any other product notified by Government of Nepal Gazette.

Pharmaceuticals

Foreign pharmaceutical firms have concerns regarding implementation of data protection regulations that are being developed in connection with Nepal‟s accession to the WTO and government calls to support development of a domestic pharmaceutical industry. In 2010, Nepal passed amendments to the Law on the Circulation of Medicines that provide six years of regulatory data protection, but that protection will not come into effect until Nepal becomes a WTO Member. Nepal government officials have called for more local production of pharmaceuticals, including with foreign active ingredients and formulations. The government‟s long-term pharmaceutical industry development plan calls for Nepaln manufacturers to account for at least 50 percent of total sales (based on value) by 2020. A new federal law on the Fundamentals of Health Protection took effect on January 1, 2012. Although the law initially included a proposal to restrict communications between pharmaceutical and medical equipment companies with medical practitioners that would have disadvantaged new entrants into the Nepaln market, following a joint effort by industry and the U.S. Government, the draft legislation was amended to allow for a more balanced approach, permitting contact for informational and educational purposes.

Cadila Pharmaceuticals Exporting Products

Cadila Pharmaceuticals Ltd. is the largest pharmaceutical company in India, which is privately held. Headquarter of this pharmacy is situated in Ahmedabad (Gujarat). This company manufactures medicines from the last five decades and also provides the Exporting and distributing facility of the drugs over 50 countries around the world. It is an incorporated healthcare solution provider which provides the superior quality products to the pharmaceutical industry.

These medicines are widely used over 50 therapeutic areas that include:

- Cardiovascular
- Gastrointestinal
- Analgesics
- Haematinics
- Anti- infectives and antibiotics
- Respiratory agents
- Antidiabetics
- Immunologicals

EXPORT POLICIES

Although Nepal has eliminated Export duties on a few products, it maintains Export duties on 240 types of products for both revenue and policy purposes. For example, a variety of agricultural products are subject to Export tariffs, such as certain fish products, oilseeds, fertilizers, and wood products. Nepal has indicated that it intends to eliminate gradually most of these duties, except for products deemed as strategic, such as hydrocarbons and scrap metals.

In April 2011, the Nepaln government introduced a progressive scale of Export duties on nickel that is linked to the London Metal Exchange nickel price. This floating rate replaced a flat 10 percent Export duty. Nepal has also announced plans to peg its Export tariff for copper, currently fixed at 10 percent of the customs value of the metal, to London Metal Exchange prices. As part of its WTO accession, however, Nepal agreed to eliminate Export duties on nickel, copper and aluminum within four years of joining the WTO. During the transition period, Nepal will establish Export duties of 5 percent on nickel and 10 percent on copper, while reserving the right to introduce a 5 percent Export duty on aluminum. Nepal will cut Export duties on ferrous waste and scrap from the lower of 15 percent or €15 per ton in the year of accession to 5 percent or €5 per ton over 5 years.

Historically, Nepal‟ s government has established high Export duties on crude oil to encourage domestic refining. However, priority fields in Eastern Siberia and the Caspian Sea enjoy a significant discount on the crude oil Export duty. In October 2011, the Nepal government announced a new system of duties on oil Exports that lowered Export duties of crude oil from 65 percent to 60 percent and increased the Export tax rate for heavy fuel oil and other refined products. Separately, the government maintains a 90 percent Export duty on gasoline. These changes are intended to spur production by making it more profitable for oil exploration and extraction, to ensure adequate gasoline supplies to the Nepal market, and to encourage the development of domestic refining capacity by raising the cost of Exporting heavy fuel.

At the end of 2010, following intense negotiations with the EU, Nepal agreed to postpone through 2011 a planned increase in Export duties on raw timber from the current rate of 25 percent to 80 percent. Initially, the primary objective of the measure was to stimulate the development of a domestic wood processing industry and to encourage the Export of sawn lumber and value-added wood products. The government has indicated that it will continue its moratorium on increasing Export tariffs on coniferous logs and round wood in 2012. Upon accession to the WTO, Nepal is expected to decrease Export duties on timber to levels between 5 percent and 15 percent.

Pharma-Export

In the recent years, despite the slowdown witnessed in the global economy, Exports from the pharmaceutical industry in India have shown good buoyancy in growth. Export has become an Exportant driving force for growth in this industry with more than 50 % revenue coming from the overseas markets. For the financial year 2008-09 the Export of drugs is estimated to be $8.25 billion as per the Pharmaceutical Export Council of India, which is an organization, set up by the Government of India. A survey undertaken by FICCI, the oldest industry chamber in India has predicted 16% growth in the Export of India's pharmaceutical growth during 2009-2010.

Policies and Norms Of Indian Pharmaceutical Industry For Import-Export

GENERAL PROVISIONS REGARDING IMPORTS AND EXPORTS

Trade with Neighboring Countries

The Director General of Foreign Trade may issue, from time to time, such instructions or frame such schemes as may be required to promote trade and strengthen economic ties with neighboring countries.

Exports and Imports free unless regulated

Exports and Imports shall be free, except in cases where they are regulated by the provisions of this Policy or any other law for the time being in force. The item wise export and import policy shall be, as specified in ITC (HS) published and notified by Director General of Foreign Trade, as amended from time to time.

Compliance with Laws

Every exporter or importer shall comply with the provisions of the Foreign Trade (Development and Regulation) Act, 1992, the Rules and Orders made there under, the provisions of this Policy and the terms and conditions of any license/certificate/permission granted to him, as well as provisions of any other law for the time being in force. All imported goods shall also be subject to domestic Laws, Rules, Orders, Regulations, technical specifications, environmental and safety norms as applicable to domestically produced goods. No import or export of rough diamonds shall be permitted unless the shipment parcel is accompanied by Kimberley Process (KP) Certificate required under the procedure specified by the Gem & Jewellery Export Promotion Council (GJEPC).

Procedure

The Director General of Foreign Trade may, in any case or class of cases, specify the procedure to be followed by an exporter or importer or by any licensing or any other competent authority for the purpose of implementing the provisions of the Act, the Rules and the Orders made thereunder and this Policy. Such procedures shall be included in the Handbook (Vol.1), Handbook (Vol.2), Schedule of DEPB Rate and in ITC(HS) and published by means of a Public Notice. Such procedures may, in like manner, be amended from time to time. The Handbook (Vol.1) is a supplement to the Foreign Trade Policy and contains relevant procedures and other details. The procedure of availing benefits under various schemes of the Policy are given in the Handbook (Vol.1).

Exemption from Policy/ Procedure

Any request for relaxation of the provisions of this Policy or of any procedure, on the ground that there is genuine hardship to the applicant or that a strict application of the Policy or the procedure is likely to have an adverse impact on trade, may be made to the Director General of Foreign Trade for such relief as may be necessary. The Director General of Foreign Trade may pass such orders or grant such relaxation or relief, as he may deem fit and proper. The Director General of Foreign Trade may, in public interest, exempt any person or class or category of persons from any provision of this Policy or any procedure and may, while granting such exemption, impose such conditions as he may deem fit. Such request may be considered only after consulting Advance Licensing Committee (ALC) if the request is in respect of a provision of Chapter-4 (excluding any provision relating to Gem & Jewellery sector) of the Policy/ Procedure. However, any such request in respect of a provision other than Chapter-4 and Gem & Jewellery sector as given above may be considered only after consulting Policy Relaxation Committee.

Restricted Goods

Any goods, the export or import of which is restricted under ITC(HS) may be exported or imported only in accordance with a licence/ certificate/ permission or a public notice issued in this behalf.

Terms and Conditions of a Licence/Certificate/ Permission

Every licence/certificate/permission shall be valid for the period of validity specified in the license/ certificate/ permission and shall contain such terms and conditions as may be specified by the licensing authority which may include:

(a) The quantity, description and value of the goods;

(b) Actual User condition;

(c) Export obligation;

(d) The value addition to be achieved; and

(e) The minimum export price.

License/Certificate/ Permission not a Right

No person may claim a license/certificate/ permission as a right and the Director General of Foreign Trade or the licensing authority shall have the power to refuse to grant or renew a license/certificate/permission in accordance with the provisions of the Act and the Rules made there under.

Penalty

If a license/certificate/permission holder violates any condition of the license/certificate/ permission or fails to fulfill the export obligation, he shall be liable for action in accordance with the Act, the Rules and Orders made there under, the Policy and any other law for the time being in force.

Second Hand Goods

All second hand goods, excepting second hand capital goods, shall be restricted for imports and may be imported only in accordance with the provisions of this Policy, ITC(HS), Handbook, Public Notice or a license/certificate/permission issued in this behalf.

Import of second hand capital goods, including refurbished/ reconditioned spares, shall be allowed freely.

Import of Gifts

Import of gifts shall be permitted where such goods are otherwise freely importable under this Policy. In other cases, a Customs Clearance Permit (CCP) shall be required from the DGFT.

Re-import of goods repaired abroad

Capital goods, equipments, components, parts and accessories, whether imported or indigenous, except those restricted under ITC (HS) may be sent abroad for repairs, testing, and quality improvement up gradation or standardization of technology and re-imported without a license/certificate/permission.

Clearance of Goods from Customs

The goods already imported/shipped/arrived, in advance, but not cleared from Customs may also be cleared against the license/ certificate/ permission issued subsequently.

Regularization of EO default and settlement of customs duty and interest through Settlement Commission

With a view to providing assistance to firms who have defaulted under the Foreign Trade Policy for reasons beyond their control as also facilitating the merger, acquisition and rehabilitation of sick units, it has been decided to empower the Settlement Commission in the Central Board of Excise and Customs to decide such cases also with effect from 01.04.2005.

Easing of documentation requirements

Pending the finalization of Single Common Document (SCD) for international trade, the government departments dealing with exports and imports will honour the permission/ licence/ certificate issued by the other government departments based on the verification of the export documents like shipping bill, bank realization certificate, packing list, bill of lading etc and will not insist upon fresh submission of these documents.

Nepal - Customs and Duties

Customs and duties are a principle source of domestic revenue. Import tariffs are generally assessed on an ad valorem basis, with duties ranging from 0% to 140%. Most primary products, including live animals and fish, enter duty-free. Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%. Cigarettes and alcoholic beverages are charged at 100%, although alcoholic beverages with more that 60% alcohol are prohibited altogether. Other prohibited imports include narcotic drugs and beef and beef products. Products that may be imported only under special licenses include arms, ammunition, and explosives; and communication equipment, including computers, TVs, VCRs, and walkie-talkies. Valuable metals and jewellary are prohibited except under bag and baggage regulations. According to the World Bank, Nepal's weighted average tariff rate in 2000, the most recent data available, was 17.7%. This average probably increased in 2001 and 2002 because of "security surcharges" levied on most imports. No special fee was assessed on goods with tariff rates less than 2.5%. For goods with charged duties up to 5%, the surcharge was 1%, and for all those with duties above 5%, the surcharge was 3%.

The export service charge is 0.5% and there are export duties on vegetable ghee and plastic goods of 2 to 10%. Prohibited exports include archeological and religious artifacts; controlled wildlife; narcotics; arms, ammunition and explosives; industrial raw materials; imported raw materials, parts and capital goods; and timber and logs. Since 1960, under the duty refund procedure (DRP), India has refunded to Nepal the excise duties levied on its exports to Nepal. Goods imported from India are granted a rebate of the application of ad valorem of 10% in tariff rates up to 40% and of 7% on rates above 40%.

Nepal, under bilateral_trade_agreements with India, has in past been afforded duty-free or preferential entry. However, the most recent India-Nepal Treaty of Trade, signed March 2002, while it continues to allow Nepali manufactures to enter the India market on a non-reciprocal, preferential or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufacturers can have up to 70% foreign content instead of a international norm of less than 50%), India placed quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and feroxide, all at volumes lower than recent Nepali exports to India.

In 1995, Nepal joined the seven-member South Asia Association for Regional Cooperation (SAARC), and has ratified SAARC's South Asia Preferential Trading Arrangement (SAPTA). Under SAPTA, members have agreed to about 5000 tariff reductions among two or more of the members. However, plans to establish a free trade area by 2002 have been delayed.

Nepal has applied for accession to the World Trade Organization and submitted the required memorandum on its foreign trade regime in June 1998. The first meeting of the Working Party was in May 2000 and market access negotiations began in September 2000. A second meeting of the Working Party was held in September 2002, but expectations for accession to the WTO by the end of 2002 have not been realized.

Smuggling is substantial across the Indian border, especially on lumber goods, labor, construction equipment, currency and weapons. Gold smuggling is thought to be particularly large. Official records show substantial imports of gold, but few gold exports, even though it is well known that most of the gold imports are intended for the Indian market. Recent efforts to combat smuggling appear to have at least changed the dominant mode from men driving trucks and buses to individuals, many women and children, driving bicycles.

The Customs Act of 1997 sought to simplify custom procedures, but there have been persistent complaints about the gap between policy and practice, particularly in terms of delays and arbitrary assessments. Under the program of economic reforms for FY 2002/03, the government has announced an intention to introduce a post-clearance audit as a means of reducing complaints about customs evaluation.

Traditionally, Nepal's foreign trade was limited to Tibet and India. After 1956, Nepalese trading agencies in Tibet were confined to Xigaze, Gyirong, and Nyalam, with Lhasa, Xigaze, Gyangze, and Yadong specified as markets for trade. In 1980, however, Nepal and China agreed to open 21 new trade routes across the Tibetan frontier. Treaty arrangements with China strictly regulate the passage of both traders and pilgrims in either direction across the border. Up until 1989, treaty agreements between India and Nepal allowed for unrestricted commerce across 21 customs posts along the border, and duty-free transit of Nepalese goods intended for third-party countries through India. In 1989, a breakdown in the treaty renewal negotiations resulted in retaliatory actions on both sides. India's share of Nepali exports plummeted from 38% in 1986/87 to 9% in 1989/90. India's share of the country's imports declined by about 25% to 50%. Despite the severe shock sustained by the Nepali economy, the signing of a new interim agreement in 1990 prevented a prolonged crisis, helping to fuel a robust recovery in export growth as exports increased by 28% in 1990/91 over 1989/90, and again by 35% in 1991/92.

Under the renewal of the bilateral trade treaty with India in 1997, Nepali goods entered India essentially duty free and quota free. As a result, exports to India grew for four years, from 1997 to 2001, at an average rate of 42% a year. The most recent India-Nepal Treaty of Trade, signed in March 2002, continues to allow Nepali manufactures to enter the Indian market on a nonreciprocal, preferential, or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufactures can have up to 70% foreign content instead of the international norm of less than 50%). However, it places quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and ferro oxide, all at volumes lower than recent Nepali exports to India.

The imposition of some non-tariff barriers (NTBs) by India is just one factor in the estimated recent decline in the growth rate of Nepal's exports. Other factors are the damage to production caused by the intensification of the country's Maoist insurgency in 2001, the global economic slowdown, and a rapid decline in demand from Nepal's main third-country destinations, the United States and Germany, in the post-9/11 atmosphere. The end of the 1990s saw robust growth in Nepal's exports, which increased nearly 12% in 1997/98, nearly 18% in 1998/99 and 37.4% in 1999/2000. The export growth rate fell, however, to 4.6% in 2000/01, according to the IMF. In 2001/02, exports are estimated to have actually declined by 15%.

The CIA reports that for 2000/01, recorded exports from Nepal were an estimated $757 million (f.o.b.) and that imports for this period were $1,600 million, indicating an apparently unsustainable merchandise trade deficit of $843 million, or 111.5% of exports. However, the figure for exports does not include unrecorded border trade with India, including substantial gold smuggling.

The major export destinations in 2000/01 were India (48%), the United States (26%), and Germany (11%). Over the past decade, exports to India, while continuing to account for about half of Nepal's exports, have soared in value and become increasingly diversified as Nepal's manufactures have carved out niches in the Indian market. Exports to the United States consist mainly of apparel, including pashmina (the Indian name for cashmere) products, whereas exports to Germany are dominated by woolen carpets. In the wake of 9/11, exports to the United States declined 15% in 2001, after an increase if 30% in 2000. For 2001/02, the IMF estimates that exports to countries other than India declined more than 40% due to the combination of external slowdown and internal supply disruptions.

The major import sources in 2000/01 were India (39%), Singapore (10%), and China/Hong Kong (9%). Leading imports were gold, machinery and equipment, petroleum products, and fertilizer.

After increasing about 23% between 1998/99 and 1999/2000, the import growth rate slowed to 3.6% in 2000/01. The IMF estimates that imports declined 9% in 2001/01.

In 2000 Nepal's imports were distributed among the following categories:

Consumer goods	7.4%
Food	11.6%
Fuels	16.3%
Industrial supplies	30.7%
Machinery	11.3%
Transportation	15.6%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	**EXPORTS**	**IMPORTS**	**BALANCE**
India	318	576	-258
United States	192	24	168

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	106	21	85
Japan	10	41	-31
China (inc. Hong Kong)	7	213	-206
Switzerland	6	143	-137
Singapore	3	113	-1
Korea	1	39	-38
United Arab Emirates	n.a.	28	n.a.
Thailand	n.a.	31	n.a.

The Nepalese pharma market is continuing its growth journey under all disturbed political, legal and social conditions. At present, Nepalese pharmaceutical market is mainly influenced and shared by Indian companies.

The total pharma market in Nepal is estimated at around Rs 9 billion with an estimated growth rate of 27 per cent per year. The Nepalese companies are enjoying approximately 35 per cent market share, while the rest is mostly dominated by Indian or multinational pharma companies. If we are to believe available figures, around 7727 brands are prevalent in Nepalese pharma market, which are either produced locally or imported from India and abroad.

At present there are no bulk drug companies in Nepal. Hence, raw materials are either imported from third countries or India depending upon the quantity required. The study revealed that about 65 per cent of medicines consumption was met through import by public and private sector, while 35 per cent of medicines consumption was met through domestic companies.

Present Trade Barriers for Import-Export of Pharmaceutical Goods

Lomus Pharma Pvt. Ltd. (NEPAL)

DETNORSKE VERITAS (DNV) has awarded Lomus Pharmaceuticals the ISO 9001:2008 and ISO 14001:2004 recognising that it is not only the largest pharmceuticals manufacturer but also quality conscious company with a factory fitted with all the international standard infrastructure needed to manufacture quality drugs. Our focus and ethics ever make us conscious about providing medicine with uncompromising quality, supply and customer service. Thus, Lomus is positioning itself to become the healthcare market's pharmaceutical provider of choice for high quality, reliable, cost effective pharmaceuticals. Products include all dosage from medicine OTC as well as Life S. Brands include tablets, capsules, liquids, cream, ointment gel.

Import from India: Saline Water, Chemical & Packing Materials, Injectable drugs & Biological products, Topical skin preparations, Methyl ergometrine, Diclofenac, Vitamin preparations and large volume parenterals..

Export to India: Antibiotics, Antibactrials, Antifungal, Anihistemine, Antiulcerant, Vitamins, Iron capsules & Tonics.

Barriers:

- However, in terms of technical advancement, promotion and other inputs, is a little inferior to India because of lack of desired and accessible manpower resources.
- Major problem is limited market size of Nepal pharma industry for import-export.
- Less exports of excisting medicines and a greater import of Indian medicines could pose as a major threat to the industry due to regulations.
- Besides, the poor infrastructural facilities, lack of metropolis except Kathmandu valley, few qualified medical practitioners per region, the dominance of quacks and retail chemists in medical practice and the absence of transport in the vast geographical region of the country have a negative impact on the growth and even more with the healthy growth of industry.
- Moreover, government policies are also not supportive. They are not geared up for industrialisation. They are traditional, conservative, revenue oriented and non-transparent. Industry being a futuristics sector needs government's support with regard to formulating short term and medium term policies.
- Counterfeit Drugs:

  Basically, there are two reasons behind the availability of counterfeit drugs. The first one is that we share a open border with India and the second is that there are so many unregistered medical stores all over the country. The government monitoring system has not been effective enough.

- For export purpose approval if lab testing is much costlier or time consuming in India.
- Due to lack of less qualitative raw materials import of qualitative materials are much costlier compare to price from India.
- Because of the demand of high quality materials duties or tax charges are more expensive.
- India's Government trade policy is very strict as compare to Nepal policies restrictions.
- Lack of transportation facility-routs, marketing or supply chain facilities for multipurpose exports.
- Political instability has created an uncertain environment for foreign & private investment.
- Government of Nepal is open to foreign direct investment but implementation of its policy often distorted by bureaucratic delays & inefficiency.

Cadila Pharmaceuticals Pvt. Ltd. (INDIA)

One of India's most reputed, Research based, Tech savvy pharmaceutical companies focusing on areas . Formulations (Human & Veterinary), New Drug Discovery, Novel Drug Delivery, Active Pharmaceutical Ingredients, Analytical Research, Phytochemistry, Biotechnology, Plant Tissue Culture, Biosynthesis, Genetic Engineering, Vaccines, Immunoglobulins the entire gamut of a True Life Sciences Company.Diversified operations encompass Hospital Disposables & Instrumentation, Diagnostics, Specialty Chemicals, Softgel, Pharma Machinery, Telecommunications, Travel & Leisure.

Import Products: Generics drug material.

Export Products: Cardiovascular Drugs, Gastrointestinal Drugs, Anti Inflammatory ,Analgestic Drugs, Antibiotic, Anti Infectives, Vaccines, Immunomodulators, Anti-Diabetic Drugs, Vitamins, Anti Allergic Drugs, Anti-Aids[Anti Retroviral] Therapy, Anti-Cancer [Cytotoxic]Drugs, Ophthalmic Drugs, Veterinary products, Expectorants, Bronchodilators, Anti-Asthmatic Drugs, Erectile Dysfunction, Herbal Products.

Barriers:

Indian pharmaceutical company Cadila has sufficient at all aspect of trade for import export but except following some barriers:

- Increasing span of price control due to government policy. That create problem of profitability or limited trade relations.
- The expansion of capacities by certain leading players has also fuelled competition in certain product categories, which restricts margins of the smaller players.
- Low price erosion at competitive market at all or market size for export is limited,
- Despite the increasing expenditure on R&D, the introduction of new molecules by Indian players has been limited. It is, in fact, a hit-and-miss situation in the field of discovery and developments of new chemical entity (NCEs), where misses are more than hits. Very few discoveries reach the final stages of approvals, and in most of the cases, the claim for patent gets stuck in legal battles.
- Also due to rising expenditure in R&D , investment in R&D is still low.

- Restrictions of Patents & Intellectual Property Rights or strict government regulatory reforms for export – import.
- Delay in order time due to lack of transportation in Nepal

Potential For Import-Export Of Pharmaceuticals

❖ **Opportunities for Lomus Pharma Pvt. Ltd. (Nepal)**

- Outsourcing skilled manpower, hiring experts or upgrade technology for domestic as well as international trade expansion.
- Maintain low price with high quality for greater competitiveness in global market.
- Opportunity for franchising or licensing.
- Approving post marketing surveillance & inspection with Food & Drug Administration (FDA)
- Liberalized or upgrade government trade regulation & policy for welcoming new global trade opportunities.
- Develop air, truck, train or better route transportation facility.
- Establish universities or training centre which beneficial for semi skilled or graduates for employment opportunities.
- Foreign direct investment through grater export.
- Opportunities for joint venture , merger with MNC's for improving Good Manufacturing Practices Standard.
- Contract Manufacturing opportunity & SEZ for economic growth.
- Because of recent DDA policy, which made world health organisation recommended certificate for foreign companies to market their products in Nepal, several of sub-standard companies of Indian origin have to withdraw their marketing from Nepal. This policy has given extra financial load to few of the Nepalese companies, apart from opening export opportunities.
- In WTO regime, technological advancement, biodiversity and skill and power of the government to influence and make favourable trade treaties with

other countries will offer potential for bringing out the core competency.

❖ **Opportunities for Cadila Pharmaceutical Pvt. Ltd. (India, Gujarat):**

- For more import liberalized VAT or Custom duties.
- Encouraging foreign investment due to high R&D standard.
- Opportunity for introducing new products through trade events.
- Expansion of more distribution channels through imports.
- Opportunity for imports quantity of Aurvedic & Herbs materials from Nepal.
- Reduced by harmonization of pharmaceutical, results it also play interest of pharmaceuticals industries because the compliance with harmonized rules open doors to several markets once.
- Over the counter trade opportunity.
- Export qualitative raw material in competitive market with cheapest price for increasing market share.
- Amalgamation opportunity to strengthen themselves internationally.
- Low production cost give india an edge over other generics- producing nations.
- Outsourcing IT & clinical data management destination because of its rich talent pool, technological innovation, creditable quality, operational flexibility, cost effectiveness, time to market and competitive advantage.

- Growing number of collaboration between Indian & foreign firms in the domestic market, especially involving the biotechnology sector, in a wide variety of areas such as collaborative R&D (including drug discovery and clinical trials), co-marketing & manufacturing.
- Opportunity for intellectual property rights by liberalized drug pricing policy or regulatory reforms.
- Tax benefits available for R&D also to be applicable for clinical trials.
- An emerging trend among these enterprises has been their involvement in clinical trials, either on their own or on contract basis.
- New product launches, although mainly done by large players, helps the SMEs to acquire contracts for manufacturing and opportunities to supply APIs and related chemicals. Moreover, a marketing approval of generic products gives them the opportunity to increase their product portfolio.
- Established clinical trials either them own or contract basis or hospitals, health institutions.
- The advantage of locating in special economic zones includes availability of developed infrastructure, market access, exports, and excise relief.
- Facilitated the domestic industry to attract contract manufacturing opportunities in the rapidly growing generics market.
- Opportunity for importing the art manufacturing facilities.
- The opportunity to produce products under patent in overseas markets, particularly regulated markets, by adopting new processes.

- Emerging as the global hub for contract research and manufacturing services (CRAMs) due to its low cost advantage and world class quality standards.

Business Opportunities In Future

Opportunities

a. Favorable Government Policy

Government has categorized pharmaceutical sector as one of the priority sectors. The government is providing monetary and fiscal facilities and incentives to the sector for its development. It is providing incentives to the pharmaceutical industry like levying only one per cent customs duty for input materials, machineries, etc. No Value Added Tax is levied for the industry.

b. Existence of Domestic Market and Export Potential

There is enough domestic market for Nepalese pharmaceutical industries as those are catering only about 30% of the domestic demand. Similarly, there exists export potential for Nepalese products in non-regulatory markets and Non-WTO member countries. Nepal lies between two big economies, India and China, which are having large pharmaceutical markets with sizes of US $ 9.5 billion and US $ 6.5 billion respectively. With the increase in quality of products, domestic industries could start looking towards the export markets and also, become a contract manufacturer.

c. New Openings due to Provisions of WTO/TRIPS

As per the provisions of WTO/TRIPS, Least Developed Countries (LDCs) are obliged to provide patent only from January 2016. As per this provision Nepal needn't adhere to recognition of product patents and therefore, has the choice of exporting the drugs which are in patent period to other LDC and Non-WTO member countries. The transition period would be an opportunity for the domestic
companies to transform into vibrant pharmaceutical companies as the opportunities in the domestic generic market itself are enormous (i.e., domestic companies account for only 30% of the total market). The domestic companies can introduce in the market the new molecules that are developed by the research based pharmaceutical companies and even can export to the LDC countries. Thus the companies have the option of doing the business with the least risk of investments till 2016. There are also facilities for parallel import and compulsory license, and Bolar's provision, which Nepal can exploit.

d. New Openings due to SAFTA

SAFTA has open new venues for Nepalese pharmaceuticals industries to take benefit from the regional markets e.g. Bhutan, 22 Maldives, which depend on import of medicine and others from SAARC members countries.

e. Restriction on Imports

The government has imposed restriction on importing pharmaceutical products produced by industries without WHOGMP Certification limiting competition by such industries in domestic market.

f. Rise in Awareness about Healthcare

Nepalese have become more aware of healthcare needs and modern medicine developing good market potential to industries. Rise in literacy level among Nepalese has also increased demand by many folds.

g. Development and Growth in Health Institutions

Gradual development and growth in public as well as private health institutions in the country are generating good business outlook for pharmaceutical industries.

h. Emergence of Facilitating and Supporting Institutions

Emergence of institutions to assist and support industries to enhance their competitiveness supporting through provision of information etc. like SAWTEE

Nepal, **officially the federal democratic republic of nepal,** lies between the two most populous and fast growing economies of the world, india and china. nepal has very good economic rapport with her neighbors which are also excellent trading partners with huge potentials for nepalese exports. while nepal has preferential trading arrangement with india, she has very close economic ties with china. other close neighbors of nepal are bangladesh and pakistan. nepal and bangladesh have bilateral trade through land route. nepal along with bangladesh, bhutan, india, maldives, pakistan and sri lanka are the seven member countries of south asian association for regional cooperation (saarc). the saarc nations have free trade area under the saarc framework.

As a least developed country, Nepal is entitled to preferential treatment in a number of rich markets. Two other advantages, according to investors already in Nepal, are a low-cost and non-hostile workforce and a small and accessible bureaucracy.

The natural as well as cultural assets of Nepal offer very substantial opportunities to investors.

There is huge potential for hydropower. About 44,000 MW is thought to be economically feasible, which may be contrasted with about 800 MW currently being generated. Nepal has not been able to exploit much of its potentiality and the people in Nepal still face severe power shortages. In order to harness and develop hydropower, the government is encouraging private foreign investment in this sector. In the last several years, the government under competitive basis has been awarding licenses to private sector developers with over 5000MW of hydropower development in various stages of progress where well known international and domestic firms are involved. This priority sector provides great opportunities for contractors, equipment suppliers, and consultants alike.

There is scope for foreign investment in other areas/sectors also. **Tourism is another area with enormous potential.** Nepal has spectacular natural assets such as Mount Everest - the top of the world - and seven other peaks of 8,000 meters and higher. It also has a rich cultural heritage and a great diversity of ethnic groups with distinctive traditions: Lumbini in western Nepal is the birthplace of the Buddha, while Bhaktapur in the Kathmandu valley is a perfectly preserved mediaeval town full of Hindu temples. Tremendous opportunities exist in developing tourism / hotel projects in Nepal.

Other trade opportunities include **telecommunications equipment**, **ICT equipment**, **water resources equipment**, and

aircraft parts. The major telecom players are in expansive mode. Other upcoming opportunities also include **civil aviation infrastructure, toll fast track roads,** and **railways**.

Other areas like **Software Development**; Leather and Textile; Pharmaceutical; Electronic and the Service Industries also carry high possibilities of foreign investment. Other sectors such as Medicinal and Aromatic Herbs; Flower and Vegetable Seeds; Floriculture and Sericulture; Processing of Spices, Coffee; Fruits and Dairy Products; Vegetable and Mushroom Farming and Tea, also carry high possibilities of foreign investment. Minerals that includes Stone and Limestone; Talc; Silica; Dolomite; Iron-ore; Oil and Natural Gas needs to be further explored.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Accession of Nepal to WTO has brought both opportunities and challenges to Nepalese pharmaceutical industries. World market of pharmaceutical products is now open to Nepalese industries and simultaneously Nepalese market is open to industries worldwide. In this context Nepalese pharmaceutical industries need to be able to explore the opportunities and make best use of those. In addition, those industries also need to identify the external threats for them and make efforts to overcome the threats. Therefore, Nepalese pharmaceutical industries have to undertake measures that would enhance their competitiveness, which could lead them to harness their strengths for exploiting the opportunities before stepping into WTO/TRIPS regime in 2016. Since competitiveness of industries under the sector could be enhanced through the enhancement of quality and productivity of the industries, the measures to be taken in isolation or in combination by the Nepalese pharmaceutical industries would be to enhance quality and productivity of the industries which would enable them to capitalize on the opportunities and face up to the challenges. Based on the study of present status; and analyses of opportunities and challenges for Nepalese pharmaceutical industries in the wake of WTO, recommendations are made for government, private sector industries, and associations related to pharmaceutical industry for enhancing the competitiveness of pharmaceutical industries.

Recommendations

Government

a. Introduction and Implementation of Act, Policies, Programmes

The government has introduced act, regulations and others relating to establishment, development, promotion and regulation of pharmaceutical industries; some of which are still to be implemented for attaining their objectives. Therefore, government should implement those. In addition government should amend acts and regulations making those compatible with WTO requirements (e.g. As per WTO requirement patent should be granted for a period of 20 years but Patent, Design and Trademark Act of Nepal and its recent amendment grant patent for a period of 7 years only which can be renewed 2 times for a period of 7 years each). The government should also amend foreign investment and technology transfer act making it attractive for foreign direct investment in pharmaceutical sector for research based pharmaceutical industry.

b. Establishing Promoting and Facilitating Institution

i) Research Institutions

Since majorities industries are of small and medium scale, those cannot take certain functions of their own and therefore, the government should encourage establishing institution(s) to carry out such functions private sector or under public – private partnership arrangements for the development of the domestic pharmaceutical industries. For example, the government should encourage establishing a quality research & development laboratory of state of art for those industries, which will be a model for the private companies of large scale to go for. The institution should encourage interaction amongst the government, academia and industry in the areas of process reverse engineering, synthetic chemistry, etc. The government should encourage also capacitate these laboratories to function as technology assisting centres for the industry.

ii) Areas with Common Infrastructural Facilities

The government should develop specified location /areas with common infrastructural facilities to encourage the setting-up of pharmaceutical units in a place where the facilities like common effluent treatment plant, common testing facilities, capital intensive equipments, common training facilities, etc would be readily available. Such facilities would reduce operating costs for the industries.

iii) Information Centre

Information centre for providing information on technology, export market, regulatory obligations, and sector related information for developing and promoting pharmaceutical industries should be established by the government in association with the respective trade association by utilizing resources to be provided by developed countries as per the provision of WTO agreement.

c. Strengthening Regulatory Bodies

Government should increase the capability of the Department of Drug Administration to develop quality awareness and enforce quality requirement in the market. Currently, there is a shortage of manpower to fulfill its responsibilities limiting its area of services. It should be strengthened and provided with necessary resources to carry out regulatory and other functions. The strengthening of regulatory body will check the presence of unregistered and low quantity drugs in the market which is creating an unfair competition affecting even the genuine industries.

d. Completely Utilize Provisions of WTO

The government should utilize the assistance that would be provided by the developed countries as per the provisions of the WTO agreements in terms of the technological assistance, financial assistance and creation of the domestic regulatory environment for effective monitoring and development of the industry so that there will be a smooth transition to the WTO regime.Government should be effective in terms of using the technical barriers to trade agreement for countering the imports by introducing product label with certain information in Nepalese language to help the consumer of the products.

e. Make Alliances/Treaties with Neighbours

The Government should enter into bilateral agreements or treaties with the regional neighbors to provide free flow of pharmaceutical products from Nepal. Currently, there is a higher registration fee for the foreign companies in India in comparison to that of Nepal. The Governments should make efforts to have compatible fees, limiting its sales in adjoining states only.

f. Develop and Strengthen Health Institutions

The government health services are available to only a small portion of the population. As Health services is a basic need for all, therefore the government should develop/establish health institutions in new areas and strengthen the existing ones to provide health services to its people. The government should necessitate those institutions to consider quality as well as price of medicines while procuring.

g. Provision of Incentives

In order to encourage in establishment and plant up-gradation of pharmaceutical industries in the country, the Government should provide fiscal incentives. The industries investing in research & development should be encouraged by providing the incentives for investing in R&D like tax rebate for the amount invested into R&D. Lower or even zero duty on the imports of products or machinery that are to be used in research & development should also be provided. Similarly, export incentives should be provided to the exporting industries. With a view to motivate domestic industries to promote export, Government should subsidize registration fee charged by importing country. Since there is a lack of highly skilled technical manpower, government should provide subsidy of at least 50% of the human resources development cost incurred by the industries for above purpose.

h. Extension of Time Frame

As technological base in LDCs are very low, Nepal along with other LDCs should make efforts to extend time allocated to create a viable technological base by additional ten years i.e. upto January 2026.

7.2.2 Private Sector Industries

a. Upgrade Production Facilities

Industries should continuously upgrade their production facilities to assure the quality of products and plant facilities. Industries having WHO-GMP Certification should go for quality management system and environment management system for further assurance. The rest of the industries should also get such certification(s). Up-gradation of the production facilities would further increase the product quality and corporate image of the domestic industries, leading to increase in prescriptions by the doctors.

b. Attaining Economy of Scale

The industries should try their best to attain their economies of scale by undertaking the following in isolation or in combination:

i. Increase Capacity Utilization

The domestic pharmaceutical companies should look for improving their capacity utilization for better operating margins and profits which again can be ploughed back into the growth plans of the company like investing into process research, up gradation of the plants, etc. In order to optimize the capacity utilization, industries should try to provide outsourcing services to the other industries for the benefit of both.

ii. Broaden Product Portfolio

The industries should broaden their product portfolio in terms of range and forms instead of concentrating in me-too products only.

c. Reduction in Cost of Production

i. Efficient Utilization of Inputs

Nepalese pharmaceutical industries should improve in utilization of inputs like ingredients, utilities, labour and others. And at the same time industries should take necessary measures to reduce wastes.

The pharmaceutical industries should conduct audit of inputs in regular basis to find out level of waste.

ii. Supply-Chain Management

Special consideration of supply-chain management should be made by industries to reduce cost of production introducing efficient and effective inventory management system.

iii. Backward Integration

The companies should produce bulk drugs or active pharmaceutical ingredients by acquiring the process development knowledge and skills, if possible. In case, if it is possible to carry out in collaboration/association with others, then to produce those and explore domestic and export potential too The basic purposes behind such integration should be to achieve control on costs, quality and delivery period of inputs.

iv. Common Infrastructure and Facilities

As using common infrastructure and facilities could also reduce in cost of production and waste disposal leading to the improvement in productivity and competitiveness, industries should ask government to develop such common infrastructure and facilities.

d. Market Expansion

i. Increase Domestic Market and Market Share

The Nepalese industries should make efforts to cater domestic demand more by having broad product portfolio in terms of range and forms. Those should not only to increase sales but also and market shares. For these, industries should adopt aggressive marketing approaches and employ innovative promotional ways to counter the products of well established foreign companies and products of inferior quality having price advantages. Domestic industries will have to strongly face competition from foreign industries and multinational companies. Franchising with chemists and druggists should also be made to reduce substitution of own products by them. The market share in the domestic market should also be increased though innovative marketing of the brands of the industry in the domestic market.

ii. Tap Export Opportunities

Tapping export markets is vital for the domestic pharmaceutical companies, because Nepalese pharmaceutical market is relatively very small. Although domestic market is the immediate driver or the revenue earning market at initial stage, export market is the one providing long term sustenance and growth for a pharmaceutical industry. Since export market is very crucial for industries, those should explore and tap export market. Those should consider of not only the formulated products but also bulk drugs. The companies should make a beginning (at least the companies in the large scale sector). These industries should first upgrade their plants to the requirements of the market they are planning to export. Then those should manufacture pharmaceuticals at a cost that would be lower than the competitive products prevailing in the international markets.

e. Research and Development

Investment in research & development (at least process research) is essential for the survival of a pharmaceutical industry, because it leads to industrial growth by introducing generic versions faster bring down the manufacturing costs. An industry with the strong reverse engineering capability could eventually transform into research based industry and could even tap the contract research market. Therefore, industries should invest in R & D.

f. Human Resources Development

Industries should continuously invest in its Human Resource Development so that those are abreast with the latest trends in the industry whether in production or research or marketing or management. At least 2 to 3 percent of the sales should be invested in human resource development.

g. Alliances/Collaboration for Competencies

The industries wherever those can attain competence and/or acquire expertise, which are needed for long term sustenance and growths with collaboration/alliance should go for it. Such alliances can be for accessing product, technology and market for the product and should bring win-win situation to both the parties.

h. Develop Linkages with the Academia

The domestic industries should develop, review and maintain linkages with the academia or the research institutions to utilize their resources for the development of better process of manufacturing and developing human resources.

i. Develop Work Relationship with Professional and Business Associations

Industries should develop, review and maintain work relationships with professional associations like NMA, and business/trade associations FNCCI, APPON, NCDA, etc. for fulfilling their individual and group interests.

J. Institutionalization of Industries

Nepalese industries should start institutionalization of their industries and operate with organizational systems, procedures, processes, and others.

7.2.3 Pharmaceutical Association

a. Strengthening of Associations

The role played by the associations like APPON is tremendous and crucial for the success and growth of pharmaceutical industries. It is through such facilitating bodies interests of the industries are raised for solving the issues & challenges of the industry. Therefore, APPON should be strengthened and developed as an institution supporting industries in HRD, market, technological regulatory and WTO related information.

b. Launching of HRD Programmes

In order to upgrade the capability of human resources involved in the sector, APPON should regularly organize HRD programmes on various fields.

c. Forum for Stakeholders

It should function as a forum for knowledge sharing for stakeholder for the benefits of the industries. It should start disseminating information on quality assurance, creating awareness on the WHOGMP
and facilitating the technical expertise required for adhering to the international standards of various regulatory agencies.

d. Assistance to Industries

The association should regularly assist the pharmaceutical companies in dissemination of the information like market opportunities in the domestic or export markets. It should closely work with the industries in identifying problems that are being faced by industries. Associations should act like catalysts in building the alliances among the pharmaceutical companies in the domestic market or with the foreign companies for accessing technology or products or market.

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A

GLOBAL/ COUNTRY STUDY AND REPORT

On

<u>“Nepal”</u>

Submitted to

Sardar Patel College of Administration & Management

Approved by All India Council for Technical Education (AICTE), New Delhi

Affiliated to Gujarat Technological University, Ahmedabad

SPEC Campus, Vidhyanagar – Vadatal Road Bakrol – 388315, Anand (Gujarat)

IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In

Gujarat Technological University

UNDER THE GUIDANCE OF

Faculty Guide

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MBA Semester IV

Sardar Patel College of Administration & Management

MBA PROGRAMME

Affiliated to Gujarat Technological University

AhmedabadJune, 2013

Students' Declaration

We are hereby declare that the report for Global/ Country Study Report entitled "NEPAL" is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

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PREFACE

As a student of management, apart from theoretical studies we need to get a deeper insight into the practical aspects of those theories by working on various projects. So these projects have high importance in management studies to enhance the knowledge and skills.

Management in India is heading towards a better profession as compared to other professions. The demand for professional managers is increasing day by day. Working on this project has been an enriching experience.

This project will help us a lot in the professional growth. It has given us the confidence to prepare for ourselves as fully fledged international marketing professional in the eminent future

A global country report Understanding of the principle will increases their Decision making ability and sharpening their tools for this purpose between two country relationship. The scope of the work under taken by us includes introduction to basic & major things about the Impact of relation of country’s business.

We also thank all the faculty members who always been a source of motivation and support to all the students of SPCAM. We pay our gratitude to Prof. Varsha Kucharaand all faculty members of the institute without their help it would have been impossible to conduct such a study. We must acknowledge our heartiest thanks to them.

We have put our maximum effort to gain the information. If any error or mistakes are found in collection data kindly ignore.

ACKNOWLEDGEMENT

We wish to express over grateful thanks to all those who have helped over immensely for completion of the project. Though we are unable to mention all of their names individually here it will be a lapse on my part if names of certain important personalities are not mentioned.

We are extremely thankful toVarsha Kuchara, who was my project guide, without his invaluable guidance and advice this project would not have been completed.

We also acknowledge my sincere thanks to Dr. Vashishthdhar Dwivedi Managing Director, who has given me the opportunity to undergo training on global country like “Nepal” and gain some knowledge about the global country relation and business and opportunity.

We will be failing in my duties if we don’t mention here the cooperation and help that I received data collection on secondary data.

We are thankful to the faculty members of my college, SPCAM and one and ours guide of the helping me in one way or other.

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LIST OF TABLES*/GRAPHS*/DIAGRAMS*

PART I

Summary of NEPAL

- **Demographic Profile of Nepal & Economic overview of Nepal:**

✓ **Population:** 29,890,686 (July 2012 est.)

Country	2008	2009	2010	2011	2012
Nepal	29,519,110	28,563,380	28,951,850	29,391,880	29,890,690

✓ **Age structure**

0-14 years: 34.6% (male 5,177,264/female 4,983,864)

15-64 years: 61.1% (male 8,607,338/female 9,344,537)

65 years and over: 4.4% (male 597,628/female 681,252) (2011 est.)

✓ **Median age**

Total: 21.6years

Male: 20.7years

Female: 22.5 years (2011 est.)

✓ **Population growth rate**

1.768% (2011 est.)

✓ **Birth rate**

21.85 births/1,000 population (2011 est.)

✓ **Death rate**

6.75 deaths/1,000 population (July 2011 est.)

✓ **Net migration rate**

2.58 migrant(s)/1,000 population (2011 est.)

✓ **Urbanization**

Urban population: 19% of total population (2010)

Rate of urbanization: 4.7% annual rate of change (2010-15 est.)

✓ **Major cities - population**

KATHMANDU (capital) 990,000 (2009)

✓ **Infant mortality rate**

Total: 43.13 deaths/1,000 live births

Male: 43.15 deaths/1,000 live births

Female: 43.1 deaths/1,000 live births (2011 est.)

- ✓ **Life expectancy at birth**

Total population: 66.51 years

Male: 65.26 years

Female: 67.82 years (2011 est.)

- ✓ **Total fertility rate**

2.41 children born/woman (2011 est.)

- ✓ **Major infectious diseases**

Degree of risk: high

Food or waterborne diseases: bacterial diarrhea, hepatitis A, and typhoid fever

Vector borne disease: Japanese encephalitis, malaria, and dengue fever (2009)

- ✓ **Nationality**

Noun: Nepali (singular and plural)

Adjective: Nepali

- ✓ **Ethnic groups**

Chhettri 15.5%, Brahman-Hill 12.5%, Magar 7%, Tharu 6.6%, Tamang 5.5%, Newar 5.4%, Muslim 4.2%, Kami 3.9%, Yadav 3.9%, other 32.7%, unspecified 2.8% (2001 census)

- ✓ **Religions**

Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001 census)

- ✓ **Languages**

Nepali (official) 47.8%, Maithali 12.1%, Bhojpuri 7.4%, Tharu (Dagaura/Rana) 5.8%, Tamang 5.1%, Newar 3.6%, Magar 3.3%, Awadhi 2.4%, other 10%, unspecified 2.5% (2001 census)

Note: many in government and business also speak English (2001 est.)

- ✓ **Literacy**

Definition: age15 and over can read and write

Total population: 48.6%

Male: 62.7%

Female: 34.9% (2001 census)

- ✓ **Education expenditures**

4.6% of GDP (2009)

- ✓ **Health expenditures**

5.8% of GDP (2009)

- ✓ **Physicians density**

0.21 physicians/1,000 population (2004)

- ✓ **Hospital bed density**

5 beds/1,000 population (2006)

- ➢ **Overview of Industries Trade & Commerce:**

Industrial production represents a small but growing segment of economic activity. Most industries are small, localized operations based on the processing of agricultural products. There are a sawmill and a meat-processing plant, brick and tile manufacture industry; processing of construction materials, paper, and food grain; cigarette manufacture; cement production; and brewing of beer. In general, there are more industrial enterprises in the private than in the public sector, although most of these are cottage industries. The main areas of manufacturing concentration are Biratnagar, the Birganj–Hitaura corridor, and the Kathmandu Valley.

For geographic and historical reasons, nearly all of Nepal's trade is with India. Nepal's foreign trade and balance of payments have suffered setbacks, and exports have not increased enough to pay for imports of consumer goods and basic supplies. Nepal's dependence on the Indian market for most of its imports and exports and on the port of Calcutta for its access to the sea has been the source of periodic friction between the two countries.

Domestic market in Nepal is segmented and small due to lack of transport network and low purchasing capacity of the majority of consumers. Due to unrestricted open border with India, market price in Nepal in influenced by the prevailing market price of adjoining border areas of India. Even the supply situation across the border affects the supply of merchandise and the volume of trade transaction in Nepal.
The internal channel of merchandise trade in Nepal is four-tiered as listed below.

1. Farmer/Producer/Importers,
2. Wholesaler/Trading Agent/Authorized Dealer,
3. Retailer/Hawker, and
4. Ultimate consumer

To make the supply system fully oriented to development and consumer needs, following objectives are envisaged by the government in term of the development of internal trade:

1. Creation of conducive environment for the timely supply of goods derived from internal as well as from external import sources:
2. No restrictions on the movement of goods for internal trade and the goods for exports.

- **Overview of Different economic sectors of Nepal:**

From the perspective of economic, social and human development indicators, Nepal stands at the bottom of list of south Asia. Out of about 57% of the population classified as economically active, 65.7% were engaged in agriculture in 2001 with the lowest value added per worker. The structure of economically active industries in different economic sectors in 1991 & 2001 is as follows:

Sr. No.	Description	Census of 1991	Census of 2001
1	Agriculture	81.2	65.7
2	Mining & quarrying	-	0.2
3	Manufacturing	2.0	8.8
4	Electricity & water	0.2	1.5
5	Construction	0.5	2.9
6	Hotel and Trade	3.5	9.9
7	Transport & com	0.7	1.6
8	Finance & real estate	0.3	0.8
9	Social services	10.2	7.8
10	Others & unidentified	1.4	0.8
	Total Employment	**100.0**	100.0

However, the contribution of non-agriculture activities to the GDP is slowly increasing in recent years. Percentage contribution of agriculture to GDP has gone down to 39% in the year 2004-05 from 48% in the year 1990-91.

Gross Domestic Products by their Sources: (At 1994/95 prices)

Sr. No.	Description	1994-95	1999-2000	2003-04
1	Agriculture	85569	100856	119016
2	Mining & quarrying	1117	1480	1621
3	Manufacturing	19555	26646	26533
4	Electricity & water	2862	4025	7087
5	Construction	23093	31550	32020
6	Hotel and Trade	24326	31036	30095
7	Transport & com	13995	19644	24527
8	Finance & real estate	20534	27026	30834
9	Social services	18924	24833	31565
	Total GDP	**209974**	**267096**	303298

The prevalent definitions of industrial enterprise in Nepal are as follows:

1. **Large industries**: Investment of more than NRs 100 million in fixed assets
2. **Medium industries :** Industries with a fixed assets between NRs. 30 million and NRs 100 million

3. **Small industries: :**Investment up to NRs 30 million in fixed assets.
4. **Cottage industries :**Some specified traditional industries utilizing specific skill or local raw materials and resources, using less than 5 KW of electric motor and related with national tradition, art and culture.

- **Overview of Business & trade at Nepal:**

Nepal may not be among the best known of trading centers in Asia, but there are many reasons why certain businesses should consider trade in Nepal. Since, 1951 the Nepali government has worked hard to liberalize the country's economy, by improving transportation and communication facilities, as well as industry and agriculture. The Nepali government has tried to make the Nepali economy more conducive to investment by entering into various trade agreements and investment protection pacts.

The export areas that Nepal does best in are the production of garments and carpets industry. With the European Union accounting for approximately 47% of all garment and rug exports. Nepal has also steadily climbed the scales in terms of ease of doing business in, with an increase of 3 places to 107. The Nepali economy has also been doing very well over the past few years, with economic growth in the 2000's averaging between 4-6% on a annual basis.

So the Nepali market has steadily expanded and gotten richer, with GDP per capita increasing albeit at a slower rate, over the past 30 years. However, it should be noted that there is a sever lack of skilled labor in the country and there is little sign of this changing, with little government investment in education. So anything beyond basic manufacturing is likely to be difficult in Nepal.

India is Nepal's largest trade partner and biggest source of foreign investment. India accounts for about 44% of the total approved Foreign Direct Investment (FDI) and 25.2% of the approved ventures with foreign investment in Nepal. Indian business ventures in Nepal cover diverse fields like Manufacturing, Services (banking, insurance, dry port, education and telecom), Power sector and Tourism.

- **Present Trade relations & Business volume of different products with India/ Gujarat**

✓ Industries

Tourism, carpet, textile, small rice, jute, sugar and oilseeds mills etc

✓ Export

YEAR	$(In Billions)
2010	901.9
2011	896

✓ Export commodities

Clothing, pulses, carpets, textile, juice, pashima,

✓ Import

YEAR	$(In Billions)
2010	5.016
2011	5.4

- ✓ Import commodities

  Petroleum product, machinery and equipment, gold, electrical goods, medicine

The top ten exports of Nepal to India were textiles; ferrous metals; chemical, rubber, plastic; crops; beverages and tobacco product; metals; vegetables, fruits, nuts; food products; minerals; and leather products. Basically, its primary commodities. Meanwhile, the top ten exports of Nepal to China were wood products; metal products; textiles; mineral products; leather products; wearing apparel; chemical, rubber, plastic; machinery and equipment; vegetable oils an fats; and crops. Basically, no high value added products.

The top ten imports of Nepal from India were petroleum, coal products; chemical, rubber, plastic; ferrous metals; machinery and equipment; mineral products; textiles; transport equipment; food products; motor vehicles and parts; and metals. Basically, the imports (demand) from India are pretty much priced inelastic. Hence, no matter what happens to the economy! Meanwhile, the top ten imports of Nepal from China were wearing apparel; textiles; electronic equipment; machinery and equipment; leather products; vegetables, fruits, nuts; chemical, rubber, plastic; manufacturers; metal products; and motor vehicles and parts. Basically,

Nepal's imports were distributed among the following categories

Consumer goods 7.4%

Food	11.6%
Fuels	16.3%
Industrial supplies	30.7%
Machinery	11.3%
Transportation	15.6%

➢ **PESTEL analysis:**

✓ Political analysis:

Though Nepal has witnessed great political instabilities in the recent past, the country has a strong base of parliamentary democracy & constitutional monarchy.

Form	Parliamentary Democracy & Constitutional Monarchy.
Head of State	King
Head of Government	Prime Minister
Legislative	House of Representative(lower house)-205 members & National Assembly (upper house)-60 members.
Judiciary	Supreme Court, Appellate Court: 11, District court: 75

Administrative Division	Development region: 5, Zone: 14, District: 75
Capital	Kathmandu

✓ <u>Economic analysis:</u>

Nepal is a developing country. The major industries in Nepal are tourism, handicraft, agriculture and water resources.

GDP Composition	Agriculture: 40%, Industry: 22%, Services: 37%
GDP Real Growth Rate	4.9% (2000-2001)
Average Inflation Rate	2.1% (2000-2001)
Per Capita Income	$ 240 (Rs 17,718) for (2000-2001), $236 (Rs 18,083) estimate for(2001-2002)
Unit of Currency	Rupee
Labour Force	Agriculture: 81%, Industry: 3%, Service: 11%, Other: 5%.

Export & Import of Nepal :-

EXPORT :-

IMPORT:-

- Clothing
- Leather Goods
- Jute Goods

- Gold
- Machinery
- Equipment

✓ <u>Social analysis:</u>

Population: - 29391883 (July 2012 EST.)

Age Structure :-

- 0 – 14 Years: - 34.6% [Male 5177264, Female 498364].
- 15-64 Years: - 61.1% [Male 8607338, Female 9344537].
- 65 – Years and over: - 4.4 % [Male 597628, Female 681252].

Urbanization :-

- Urban Population: - 19% of Total Population.
- Rate of Urbanization :- 4.7% Annual rate of change.

✓ Technological Analysis:

A good example of change in technology is buses that lower the floor for easy entry. These provide better accessibility for disabled and elderly people. Technologically, Nepalese transportation industries are far behind the international transport industry

7. Telephones :- Main line in use. [371800]
8. Telephones :- Mobile Cellular . [50400]
9. Radio Broad Cast Station :- AM6 , FM5 , Short wave 1.
10. Television :- [970000].
11. Internet Hosts :- [1100].
12. Intenet service Providers :- [ISPS] =10 Users :- 200,000.

✓ Environmental analysis:

The dramatic differences in elevation found in Nepal result in a variety of biomes, from tropical savannas along the Indian border, to subtropical broadleaf and coniferous forests in the Hill Region, to temperate broadleaf and coniferous forests on the slopes of the Himalaya, to montane grasslands and shrublands and rock and ice at the highest elevations.

From 1,500 to 3,000 metres (4,900 to 9,800 ft), are temperate broadleaf forests: the eastern and western Himalayan broadleaf forests. From 3,000 to 4,000 metres (9,800 to 13,000 ft) are the eastern and western Himalayan subalpine conifer forests. To 5,500 metres (18,000 ft) are the eastern and western Himalayan alpine shrub and meadows.

✓ Legal analysis:

Legal changes that affect business are closely tied up with political ones. Many changes in the law stem from government policy in Nepal.

- Constitutional Law
- Constitutional of the kingdom of Nepal
- Administration [Public Law 2047 (1990).
- Citizenship Act ,1964
- Civil service act , 2049 (1943)
- Civil service act , 2049 (1993)
- Criminal law
- Arms and ammunition act , 2019 ,1962
- Civil war
- Birth , death and other personal events (Registration Act. 2033 (1976).
- Contract Act. 2056 – 2000
- Land acquisition Act. 2034 – 1977
- Land Act. 2021 – 1964
- Marriage registration Act. 2028 – 1971
- Commercial law

- Buffer zone management rules 2052 – 1996
- Contract Act. 2056 – 2000
- Land acquisition act 2034 – 1977
- Land act 2021 – 1964
- Tax lax
- Baggage rule 2065 – 2007

PART II

1) "INTRODUCTION OF TEXTILE INDUSTRY SECTOR OF ECONOMY OF NEPAL."

During the 1950s and 1960s, Kathmandu received aid commitments from Moscow and Beijing. During the 1960s, Soviet and Chinese aid also supported development of a few government-owned industries. Most of the industries established used agricultural products such as jute, sugar, and tea as raw materials. Other industries were dependent on various inputs imported from other countries, mainly India.

As a result of the 1989-90 trade dispute with India, many inputs were unavailable, causing lower capacity utilization in some industries. During the same period, Nepal also lost India as its traditional market for certain goods. Because of the lack of industrial materials, such as coal, furnace oil, machinery, and spare parts, there was a considerable adverse impact on industrial production.

Industry accounted for less than 20 percent of total GDP in the 1980s. Relatively small by international standards, most of the industries established in the 1950s and 1960s were developed with government protection. Traditional cottage industries, including basket-weaving as well as cotton fabric and edible oil production, comprised approximately 60 percent of industrial output; there also were efforts to develop cottage industries to produce furniture, soap, and textiles. The remainder of industrial output came from modern industries, such as jute mills, cigarette factories, and cement plants.

Manufacturing

Among the modern industries were large manufacturing plants, including many public sector operations. The major manufacturing industries produced jute, sugar, cigarettes, beer, matches, shoes, chemicals, cement, and bricks. The garment and carpet industries, targeted at export production, have grown rapidly since the mid1980s whereas jute production has declined. Industrial estates were located in Patan (also called Lalitpur), Balaju, Hetauda, Pokhara, Dharan, Butawal, and Nepalganj. The government provided the land and buildings for the industrial estates, but the industries themselves were mostly privately owned.

The 1986-87 Nepal Standard Industrial Classification counted 2,054 manufacturing establishments of 10 or more persons from 51 major industry groups, employing about 125,000 workers. That same year the total output from these industries amounted to about Rs10 billion; value added was estimated at almost Rs3.6 billion. It was nearly Rs5.1 billion in FY 1989. By FY 1989, there were 2,334 such establishments recorded, employing about 141,000 persons.

Private Industry

The history of incorporated private firms in Nepal is short. The Nepal Companies Act of 1936 provided for the incorporation of industrial enterprises on joint stock principle with limited liability. The first such firm, Biratnagar Jute Mills, was a collaborative venture of Indian and Nepalese entrepreneurs. It was formed in 1936 with initial capital of 160,000 Indian rupees.

In response to shortages of some consumer goods during World War II (1939-45), fourteen private companies emerged in such diverse fields as mining, electrical generation, and paper and soap production. The initial capital invested in each of these industries was small. In 1942 two paper mills emerged as joint ventures of Nepalese and Indian entrepreneurs. Industrial growth gained momentum after 1945, although the end of World War II had reduced the scarcity of goods and caused many of these companies to incur losses.

Under the Nepal Companies Act, there was no provision for private limited companies. In 1951, however, a new act was implemented with provisions for private limited companies. This act encouraged the establishment of ninety-two new private joint stock companies between 1952 and 1964. Most of these companies were much smaller than existing companies. Under the provisions of the 1951 act, public disclosure of the activities of the firms was not required, whereas the 1936 act allowed substantial government intervention. The Industrial Enterprises Act of 1974 and its frequent amendments shifted the government's emphasis on growth from the public to the private sector. However, discrepancies between policy and practice were evident, and the public sector continued to be favored.

Public Companies

Public companies also had varied success. Between 1936 and 1939, twenty public companies were formed, of which three failed. Between 1945 and 1951, thirty-five public firms were incorporated, six of which went out of business. Between 1936 and 1963, fiftyfour firms were incorporated, but at the end of 1963 only thirtyfour remained in operation. The success of public companies continued to be erratic.

Minerals

Because only a few minerals were available in small quantities for commercial utilization, the mineral industry's contribution to the economy was small. Most mineral commodities were used for domestic construction. The principal mineral agency was the Department of Mines and Geology. Geological surveys conducted in the past had indicated the possibility of major metallic and industrial mineral deposits, but a poor infrastructure and lack of a skilled work force inhibited further development of the mineral industry.

The most important mineral resources exploited were limestone for cement, clay, garnet, magnetite, and talc. Crude magnetite production declined from a high of approximately 63,200 tons in 1986 to approximately 28,000 tons in 1989; it was projected to decline further to 25,000 tons in 1990.

In 1990 mineral production decreased significantly, largely because of political unrest. Production of cement fell approximately 51 percent over 1989--from approximately 218,000 tons to about 107,200 tons. Production of clays for cement manufacture dropped from 7,206 tons to 824 tons. Lignite production decreased 19 percent, and talc production fell 73 percent. Ornamental marble production, however, increased in 1989--by 100 percent in cut marble and 1,560 percent in marble chips.

Nonetheless, the mining industry had the potential to become a more important part of the economy, as new mines were being planned or were being developed. Two cement plants already were in operation, and a third one was being planned. It was expected that with full production in the three plants, Nepal might become selfsufficient in cement. A magnetite mine and pressuring plant east of Kathmandu had completed its construction phase and began production of chalk powder (talcum powder) on a trial basis in 1990. A highgrade lead and zinc mine was being developed north of Kathmandu in the region of Ganesh Himal and was expected to become operational in the 1990s, although raising enough capital for the project was problematic. Production of agricultural lime in 1989 doubled that of the previous year, suggesting that progress was being made towards meeting requirements of the agricultural sector.

2) “STRUCTURE ,FUNCTION AND BUSINESS ACTIVITY OF TEXTILE INDUSTRY OF NEPAL”

Textile & garment industries have been known to kick-start industrialization in many an emerging economy. They have been known for providing the impetus for transforming strategic industrial policies of import substitution to export promotion. These industries, due to their labor intensive character are also known for their large employment generation capacity. In other words, the industry has the potential to give a turnaround to the stagnant industrial atmosphere if opportunities are rightly exploited.

The history of the garment industry in Nepal is a little over a decade and half years old. Before that, garments in Nepal meant traditional Nepalese garments that were exported to a limited number of countries in limited quantities.

Located in Duhabi (Sunsari district, Nepal), **Dhanlaxmi Synthetics Limited** is equipped with hi-tech state-of-the-art **German machinery from Barmag**, GmbH **andTerrot Strickmaschine**. The machinery suppliers also include India's Himson Internationals and I.C.B.TLohia'smachineryWe also have available 33 KVA of Grid Power, followed by our own 100% captive generation, which ensures uninterrupted supply of power for continuously running manufacturing activity in our fully air-conditioned plant.

A Research & Development division, which operates from a modern quality control cell, ensures quality standards. Our R&D laboratory has the latest equipment to test the yarn, Fabric & POY as per the international quality standards. Our products are well approved by the quality concious fabric manufacturers.

Our customers have immense faith in us and this enables us to maintain consistent high quality standards.We are producing 40 MT / day of POY (Partially Oriented Yarn) and the same is being increased to 50 MT per day in order to cater to the growing demands. We also produce approx. 30 MT per day of Polyester Texturised Yarn (PTY) and 6 MT per day of Knitted Fabrics. For further value addition, we have plans to produce speciality yarn.

DSL's technology, productivity, quality and manufacturing processes are comparable to the best in the world.

Over strength :

We possess dedicated human resources, the best techniques and concepts and most of all, a strong business experience. Our group has an excellent reputation in the financial markets and also shares excellent relationships with the leading financial institutions.

We are committed to being ethical and socially responsible in all our dealings and activities.

Our Group believes in the philosophy which states that “Don’t build a well in summers because everyone does that. One should build a well in winters because there are not many who does that”

Garment Industry - A brief Synopsis :

The garment industry significantly grew during the Industrial Revolution. The demand for cloth grew, so merchants had to compete with others for the supplies to make it. This raised a problem for the consumer because the products were at a higher cost. The solution was to use machinery, which was cheaper then products made by hand (which took a long time to create), therefore allowing the cloth to be cheaper to the consumer. The history of the garment industry in Nepal is little over two decades old. Before that, garments in Nepal meant traditional Nepalese garments that were exported to a limited number of countries in limited quantities.

Nepal has a unique advantage to expand exports of readymade garments, as it has a competitive edge in the manufacture of ready garments due to the relatively low wage rates and low setting up costs of industry. Given theabove favorable position Nepal could increase its exports by the diversification of both products and markets.

Product lines could be expanded to include dresses, suits, sweaters, children's clothing, nightwear and T-shirts. Diversification into the manufacture of towels, bed linen and similar items would also enable Nepal to increase exports substantially. The markets have to be diversified with more focus on countries such as European Union, Japan, Australia and the emerging markets in the Newly Industrialized Countries and the Middle-East countries.

Table – explains the status and contributions of the garment industry to the national economy,income and employment.

Garment Industry in Nepal: Key Economic Indicators

Total number of establishments	212
Foreign joint venture establishments	22
Total investment	Rs. 6 billion (81.08 million US
Employment	50,000
Share in the manufacturing sector	7.2 per cent

Value addition	35 per cent
Capacity utilization	40 per cent

Economic aspects of the textile and clothing industry

Static aspects

Trade Textiles and clothing plays a major role in the development and industrialization process of countries and their integration into the world economy. The WTO (2006) notes that in 2004, developing countries as a group (low and middle income countries) accounted for more than half of all world exports of textiles and clothing and that in no other category of manufactured goods do developing countries enjoy such a large net-exporting position.

All world regions have experienced double digit growth in the manufactured goods sectors within the last two years.

While textiles and clothing industries account for only a small percentage of total world manufactured exports, 4.5% in 2006, some regions and countries rely on T&C for a much higher percentage. Regions with an above average share include Asia, and for clothing -South and Central America, Africa, and Asia.

Share of T&C in manufacturing and total GDP

T&C industries contribute in varying degrees to GDP directly. Some general observations include:

•Manufacturing is on average a fifth of GDP, less in low income countries and higher in middle income countries;

•The contribution of the T&C industry to manufacturing value added increases with incomes but begins to fall at some level.

The share of T&C in MVA is thirdin low-income countries but around a sixth in middle income countries.

•Combined, T&C contributes 7% of GDP in low income countries. Average performance for selected T&C developing country exporters 2006-07

County group	MVA% GDP	T&C AS A % OF MVA	T&C as a % of GDP	Merchandise trade as a % of GDP	GDP PER CAPITAL
Least developed countries	12.2	8.7	1.1	68.6	2710.6
Lower income	19.4	36.3	7.0	66.9	38822.1
Lower middle income	24.7	13.8	3.4	67.9	6419.1
Upper middle income	21.2	10.5	2.2	98.8	10990.6

Role of Textile Industry in India

Role of Textile Industry in India GDP has been quite beneficial in the economic life of the country. The worldwide trade of textiles and clothing has boosted up the GDP of India to a great extent as this sector has brought in a huge amount of revenue in the country In the past one year, there has been a massive upsurge in the textile industry of India.

The industry size has expanded from USD 37 billion in 2004-05 to USD 49 billion in 2006-07. During this era, the local market witnessed a growth of USD 7 billion, that is, from USD 23 billion to USD 30 billion. The export market increased from USD 14 billion to USD 19 billion in the same period.

The textile industry is one of the leading sectors in the Indian economy as it contributes nearly 14 percent to the total industrial production. The textile industry in India is claimed to be the biggest revenue earners in terms of foreign exchange among all other industrial sectors in India. This industry provides direct employment to around 35 million people, which has made it one of the most advantageous industrial sectors in the country.

Some of the important benefits offered by the Indian textile industry are as follows:

- India covers 61 percent of the international textile market
- India covers 22 percent of the global market
- India is known to be the third largest manufacturer of cotton across the globe
- India claims to be the second largest manufacturer as well as provider of cotton yarn and textiles in the world
- India holds around 25 percent share in the cotton yarn industry across the globe
- India contributes to around 12 percent of the world's production of cotton yarn and textiles

The Role of Textile Industry in India GDP had been undergoing a moderate increase till the year 2004 to 2005. But ever since, 2005-06, Indian textiles industry has been witnessing a robust growth and reached almost USD 17 billion during the same period from USD 14 billion in 2004-05. At present, Indian textile industry holds 3.5 to 4 percent share in the total textile production across the globe and 3 percent share in the export production of clothing. The growth in textile production is predicted to touch USD 19.62 billion during 2006-07. USA is known to be the largest purchaser of Indian textiles.

Following are the statistics calculated as per the contribution of the sectors in Textile industry in India GDP:

- India holds 22 percent share in the textile market in Europe and 43 percent share in the apparel market of the country. USA holds 10 percent and 32.6 percent shares in Indian textiles and apparel.
- Few other global countries apart from USA and Europe, where India has a marked presence include UAE, Saudi Arabia, Canada, Bangladesh, China, Turkey and Japan
- Ready made garments accounts for 45 percent share holding in the total textile exports and 8.2 percent in export production of India
- Export production of carpets has witnessed a major growth of 42.23 percent, which apparently stands at USD 654.32 million during 2004-05 to USD 930.69 million in the year 2006-07. India holds 36 percent share in the global textile market as has been estimated during April-October 2007
- The technical textiles market in India is assumed to touch USD 10.63 billion by 2007-08 from USD 5.09 billion during 2005-06, which is approximately double. It is also assumed to touch USD 19.76 billion by the year 2014-15
- By 2010, India is expected to double its share in the international technical textile market
- The entire sector of technical textiles is estimated to reach USD 29 billion during 2005-2010

The Role of Textile Industry in India GDP also includes a hike in the investment flow both in the domestic market and the export production of textiles. The investment range in the Indian textile industry has increased from USD 2.94 billion to USD 7.85 billion within three years, from 2004 to 2007. It has been assumed that by the year 2012, the investment ratio in textile industry is most likely to touch USD 38.14 billion.

Total contribution to the economy/ sales

Indian textile industry is one of largest Industries in Indian Economy. In 2000-01, the textile and garment industries accounted for about 4% of GDP, 14%of industrial output, 18% of industrial employment and 27% of export earnings. Indian textile industry is significant in global context also, ranking second to China in the production of both cotton yarn and fabric and fifth in the production of synthetic fibers and yarns.

The Indian textile industry constitutes 14% to industrial production, 4% to the country's gross domestic product (GDP) and 17% to the country's export earnings, according to the Annual Report 2009-10 of the Ministry of Textiles.

Top leading Companies

Some of the reputed names in the Textile companies in India are: Raymonds,

Arvind Mills,

Reliance Textiles,

Vardhaman Spinning,

Welspun India, Morarjee Mills,

Century Textiles,

Ginni Filaments Ltd,

Mafatlal Textiles,

S. Kumar Synfabs,

Bombay Dyeing Ltd,

BSL Ltd, Banswara Syntex,

Grasim Industries,

Oswal Knit India,

Fabindia, Laksmi Mills,

National Rayon Corp,

Mysore Silk Factory and many more.

Indian Textiles-Major Domestic Growth Driver of Alok industry

Higher growth in urban population. The urban population is growing gradually. The favorable demography coupled with rising urban population and income levels will act as a key growth factor for the Indian textile and apparel Industry
Increased us age of credit cards
SustainablerealGDPgrowthoutlookofaround8%p.a.,increasingindustrialoutput,risingdisposableincome,vibrantconstructionactivityetc.,todrivedemandforhometextiles

•Hotelroomdemandisexpectedtogrowat10%p.a.fornext5yearsnecessitatingadditionofroomcapacity–drivingdemandforhometextiles

•Healthcaredeliverymarkettogrowat13%p.a.overnextfewyears,cre atingdemandformorehospitals(–toboostdemandforhometextilesandworkwear

•Risingdisposableincomeinthehandsofruralconsumersduetorising agricultureincomeandincreasedemploymentgenerationtodrivethe demandofbictextileproducts

Importance of Textile Industry…to Indian economy

Second largest producer of textiles and garments after China

•Second largest producer of cotton in the world

•SecondlargestemployerinIndiaafteragriculture–DirectEmploymentto35mn.people

•Constitutesabout12%ofIndia'sexports

•Contributesabout14%toIndustrialproduction

•Contributesabout4%toGDP

•Investment made in Textiles

Indian Textile Industry Size 2010

Particulars	Domestic	Export	Total
Apparel	36.00	11.00	47.00
Home Textiles	4.00	3.00	7.00
Textiles	12.00	11.00	23.00
Total	**52.00**	**25.00**	**77.00**

Comparative position of textile industry with india

Present position and trade business with india 3 to 5 year

INTRODUCTION

Nepal, the landlocked multiethnic, multilingual, multi-religious country, is situated north of India in the Himalayas, in the region where, about 40 to 50 million years ago, the Indian subcontinent has crashed into Asia. Because of that accident, Nepal has some of the world's highest mountains including Sagarmatha (Mt. Everest, 8848m, which it shares with Tibet (by now a province of China). The highest mountain on Earth is towering above populated valleys and forested plains.
Somewhere here in the Kapilavastu district, there is a place called Lumbini where in about 500 B.C.E. Queen Mayadevi is said to have given birth to Siddhartha Gautama, better known as Buddha.

Nepal can be divided broadly into three ecological zones: the lowland, the midland and the highland.
The altitude of the Himalayan Region (the highland) ranges between 4877 m - 8848 m, It includes 8 of the highest 14 summits in the world, which exceed altitude of 8000 meters including Mount Everest.

The mountain region accounts for about 64 percent of total land area, which is formed by the Mahabharat range that soars up to 4877 m and the lower Churia range.

The lowland Terai occupies about 17 percent of the total land area of the country.

Country Profile

OFFICIAL NAME	FEDERAL DEMOCRATIC REPUBLIC OF NEPAL
CAPITAL	KHATMANDU
ISO COUNTRY CODE	NP
OTHER CITIES	BIRATNAGAR, PATAN, POKHARA , BIRGANJ.
COUNTRY CALLING CODE	+977
AREA	147,181 SQ KM.
POPULATION	30,485,798 AS PER 2011
GOVERNMENT TYPE	REPUBLIC
LANGUAGES	NEPALI(OFFICIAL) & ELEVEN OTHER LANGUAGE LIKE TIBETO-BERMAN, LHOTSAMKHA, TAMANG, THARU,MAGAR.
LITREACY	48.06%
RELIGIONS	HINDU 80.6%, BUDDHIST 10.7%, MUSLIM 4.2%, KIRANT 3.6%, OTHER 0.9%
NATRUAL RESOURCES	QUARTZ, WATER, TIMBER, HYDROPOWER, SCENIC BEAUTY, SMALL DEPOSITS OF LIGNITE, COPPER, COBALT, IRON ORE.
AGRICULTURE PRODUCTS	RICE, CORN, WHEAT, SUGARCANE,

	ROOT CROPS; MILK.
INDUSTRIES	TOURISM, CARPET, TEXTILE; SMALL RICE, JUTE, SUGAR, AND OILSEED MILLS; CIGARETTE; CEMENT AND BRICK PRODUCTION.
CURRENCY	NEPALESE RUPEE (NPR)
	$1(USD)=83.31 NPR
	RS1(INR)=1.60 NPR

INTRODUCTION OF TEXTILE INDUSTRY

The **textile industry** is primarily concerned with the production of yarn, and cloth and the subsequent design or manufacture of clothing and their distribution. The raw material may be natural, or synthetic using products of the chemical industry.

Cotton manufacturing

Cotton is the world's most important natural fibres. In the year 2007, the global yield was 25 million tons from 35 million hectares cultivated in more than 50 countries.

Synthetic fibres

Artificial fibres can be made by extruding a polymer, through a spinneret into a medium where it hardens. Wet spinning (rayon) uses a coagulating medium. In dry spinning (acetate and triacetate), the polymer is contained in a solvent that evaporates in the heated exit chamber. In melt spinning (nylons and polyesters) the extruded polymer is cooled in gas or air and then sets. All these fibres will be of great length, often kilometers long.Artificial fibres can be processed as long fibres or batched and cut so they can be processed like a natural fiber.

Natural fibres

Natural fibres are either from animals sheep, goat, rabbit, silk-worm mineral asbestos or from plants cotton, flax, sisal. These vegetable fibres can come from the seed (cotton), the stem known as best fibres: flax, Hemp, Jute or the leaf (sisal).Without exception, many processes are needed before a clean even staple is obtained- each with a specific name. With the exception of silk, each of these fibres is short being only centimeters in length, and each has a rough surface that enables it to bond with similar staples.

In 2002, textiles and apparel manufacturing accounted for $400 billion in global exports, representing 6% of world trade and 8% of world trade in manufactured goods. In the early years of the 21st century, the largest importing and exporting countries were developed countries, including the European Union, the United States, Canada and Japan.The countries with the largest share of their exports being textiles and apparel were as follows (2002).

- Bangladesh: 85.9%
- Macau: 84.4%
- Cambodia: 72.5%
- Pakistan: 72.1%
- El Salvador: 60.2%
- Mauritius: 56.6%
- Sri Lanka: 54.3%
- Dominican Republic: 50.9%
- **Nepal: 48.7%**

TEXTILE INDUSTRY OF NEPAL

INTRODUCTION

The history of the garment industry in Nepal is a little over a decade and half years old. Before that, garments in Nepal meant traditional Nepalese garments that were exported to a limited number of countries in limited quantities.

The meteoric rise of the garment industry was brought about by the interplay of various factors, both domestic and foreign. The much needed boost came at a time when garment exporting industries in Asia were hit by the quota system imposed by importers in Europe and America. This coincided with rising labour costs in garment exporting countries undermining their low cost advantage. Producers were forced to look for alternative, cheaper locations. Hence, Nepal emerged as a relocation site, especially for Indian producers who had already hit the quota ceiling. They began pouring into Nepal to evade the quota constraint imposed by the US Government during the late 1970s.

It was then, in 1984/85, that the ready-made garments can be said to have entered the take off stage in Nepal. The Garment industry in Nepal has grown significantly in just last decade. The corporate development of the entire industry was commence since 1982/83. Since 1986 the government of United States of America imposed quota in common Garments Viz. Dress (336/636), Men's Shirt (340) Women's shirt (341) Skirt (342),Trouser sorts (347/48), Shirts man made fabric (640), Blouse man made fabric (641), Skirts man made fabric (642).

This young industry's initiation was very haphazard and with no set policies by the government, though this scenario has changed quite a lot during the years. The government has set some policies which are deemed friendly to this industry. As a matter of fact, the garment industries flourished during the only due to the continuous efforts made by the industrialist albeit government policies aimed at developing this sector appeared once in a while. Signals are being noticed in the country's export industries following the change in the world trade and global shift to liberalized economic policy. Since the garment industries being export based and have to compete with any countries, especially with the neighboring countries in the international market, the policies adopted by these countries are bound to have direct impact in the garment export of Nepal.

The statistical record of Nepal's garment export are 3.93 billion rupees in 1992-93; 5.48 billion rupees in 1993 -94; 5.36 billion rupees in 1994-95; 5.41 billion rupees in 1995-96 and in 1998-99 it was wired up to 8.37 billion. This also indicates the urgent need to promote and consolidate this industry.

TEXTILE INDUSTRY OF INDIA

INTRODUCTION

The **Textile industry in India** traditionally, after agriculture, is the only industry that has generated huge employment for both skilled and unskilled labor in textiles.

The textile industry continues to be the second largest employment generating sector in India. It offers direct employment to over 35 million in the country.

The share of textiles in total exports was 11.04% during April–July 2010, as per the Ministry of Textiles. During 2009-2010, Indian textiles industry was pegged at US$55 billion, 64% of which services domestic demand.

There was textile trade in India during the early centuries. A block printed and resist-dyed fabrics, whose origin is from Gujarat is found in tombs of Fostat, Egypt. This proves that Indian export of cotton textiles to the Egypt or the Nile Civilization in medieval times were to a large extent. Largequantity of north Indian silk were traded through the silk route in Chinato the western countries. The Indian silk were often exchanged with the western countries for their spices in the barter system.

During the late 17th and 18th century there were large export of the Indian cotton to the western countries to meet the need of the European industries during industrial revolution. Consequently there was development of nationalist movement like the famous Swadeshi movement which was headed by the Aurobindo Ghosh.

There was also export of Indian silk, Muslin cloth of Bengal, Bihar and Orissa to other countries by the East Indian Company.

India is the second largest producer of fiber in the world and the major fiber produced is cotton. Other fibres produced in India include silk, jute, wool, and man-made fibers. 60% of the Indian textile Industry is cotton based.

Nepal-India Relations

Nepal and India have a history of age-old relations in trade and commerce. India is Nepal's largest trade partner and source of foreign investment. Total bilateral trade has reached US $3.21 billion (NRS 257.10 billion) during Nepalese fiscal year 2009-10. During that year, Nepal’s imports from India amounted US $2.71 billion (NPR 217.11 billion), and exports to India remained about US $0.50 billion (NPR 39.99 billion).

The following table shows the volume of Nepal's annual trade with India.

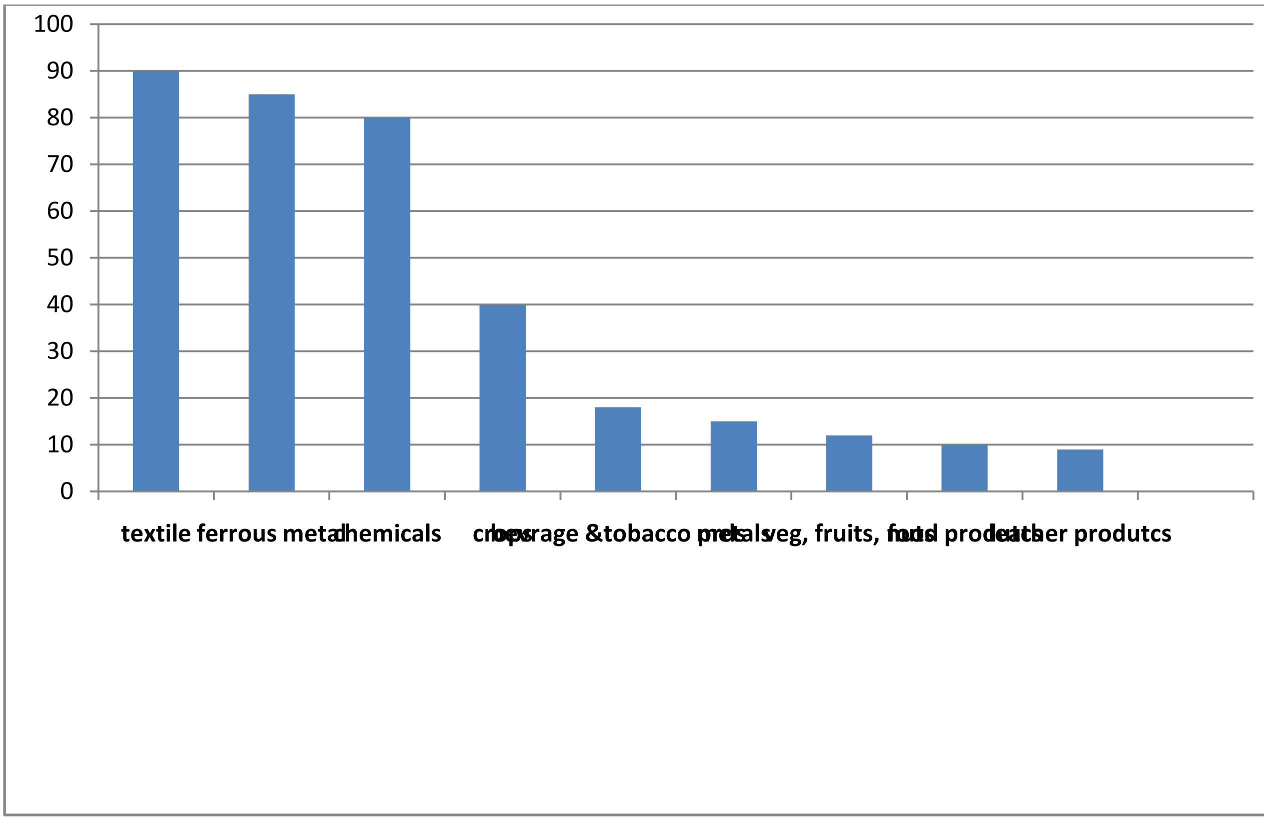
	2003-4	**2004-5**	**2005-6**	**2006-7**	**2007-8**	**2008-9**	2009-10
Export	3077.71	3891.69	4071.47	4172.88	3855.57	4100.59	3999.37
Import	7873.95	8867.55	10714.31	11587.23	14237.65	16243.76	21711.43
Balance	4796.24	4975.86	6642.84	7414.35	10382.08	12143.17	17712.06
Volume	10951.66	12759.24	14785.78	15760.11	18093.22	20344.35	25710.80
Share in %	57.58	61.29	63.18	62.03	64.34	57.77	59.08

Note: Amount in Ten Million Nepalese Rupees
Source: Economic Survey 2011, Ministry of Finance, GoN.

India’s top ten import from Nepal

In 2010, the top ten exports of Nepal to India were textiles; ferrous metals; chemical, rubber, plastic; crops; beverages and tobacco product; metals; vegetables, fruits, nuts; food products; minerals; and leather products. Basically, its primary commodities

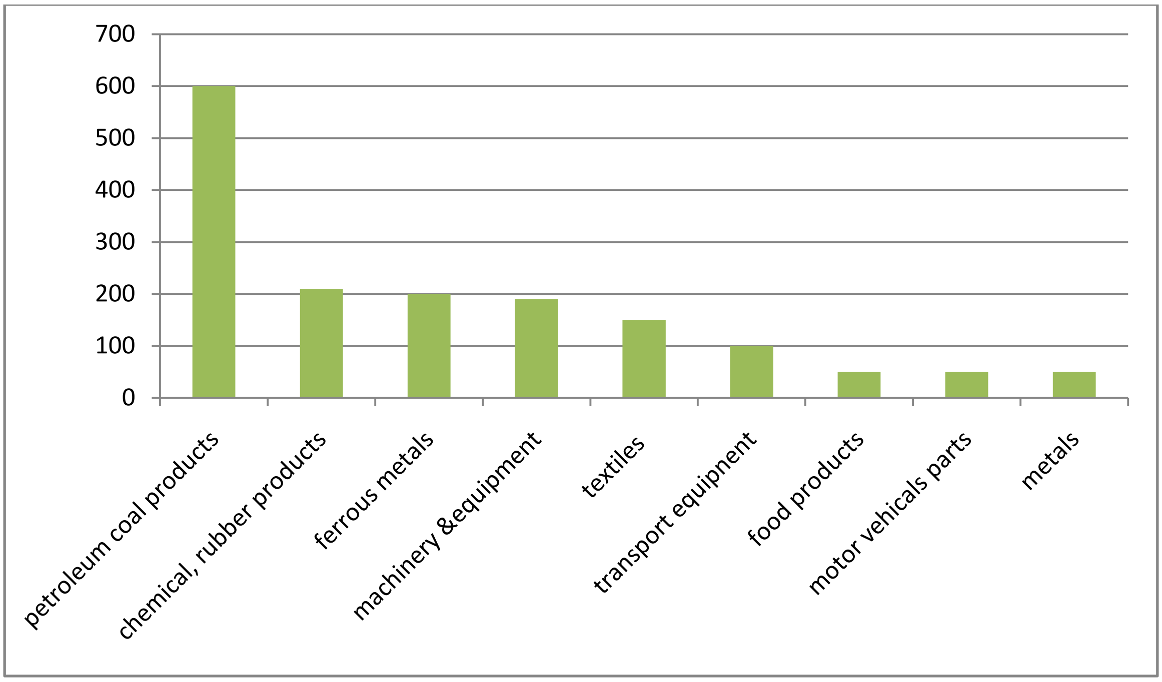
(usd million)



India’s top ten Export from Nepal

In 2010, the top ten imports of Nepal from India were petroleum, coal products; chemical, rubber, plastic; ferrous metals; machinery and equipment; mineral products; textiles; transport equipment; food products; motor vehicles and parts; and metals. Basically, the imports (demand) from India are pretty much price inelastic.

(usd million)



Present position of Nepal

GDP: purchasing power parity - $31.09 billion (2008 est.)

GDP - real growth rate: 5.6% (2008 est.)

GDP - per capita: purchasing power parity - $1,100 (2008 est.)

GDP - composition by sector:
agriculture: 40%
industry: 20%
services: 40% (2002 est.) Mt. Everst**Population below poverty line:** 33% (2007)

Household income or consumption by percentage share:
lowest 10%: 3.2%
highest 10%: 29.8% (1995–96)

Inflation rate (consumer prices): 2.9% (2002 est.)

Labour force: 10 million (1996 est.)
note: severe lack of skilled labour

Labor force - by occupation: agriculture 81%, services 16%, industry 3%

Unemployment rate: 47% (2001 est.)

Budget:
revenues: $665 million
expenditures: $1.1 billion, including capital expenditures of $NA (FY 99/00 est.)

Industries: tourism, carpet, textile; small rice, jute, sugar, and oilseed mills; cigarette; cement and brick production

Industrial production growth rate: 8.7% (FY 99/00):

TREND OF BUSINESS WITH INDIA

Bilateral trade was US$ 4.21 billion during Nepalese fiscal year 2010-11 (July 16 – July 15). Nepal's import from India amounted to US$ 3.62 billion and exports to India aggregated US$ 599.7 million. In the first six months of fiscal year 2011-12, Nepal's total trade with India was about US$ 1.93 billion; Nepal's exports to India were about US$ 284.8 million; and imports from India were about US$ 1.64 billion.

Since 1996, Nepal's exports to India have grown more than eleven times and bilateral trade more than ten times; the bilateral trade that was 29.8% of total external trade of Nepal in year 1995-96 has increased to 66.4% in 2010-11. Since 1995-96, the total external trade of Nepal has increased from NRs. 9433 crores (IRs.5895 crores) to NRs. 45946.1 crores (IRs. 28716.3 crores). 83% of this increase is on account of increase in the bilateral trade between India and Nepal, which grew from NRs. 2808 crores (IRs. 1755 crores) in 1995-96 to NRs. 16319.9 crores (IRs. 10199.9 crores) in first six months of 2011-12.

Nepal's exports also increased from NRs.1988 crores (IRs. 1242 crores) in 1995-96 to NRs. 3591.6 crores (IRs. 2244.7 crores) in first six months of 2011-12. 45% of this increase was on account of increase in Nepal's exports to India.

Nepal's main imports from India are petroleum products (28.6%), motor vehicles and spare parts (7.8%), M. S. billet (7%), medicines (3.7%),

Other machinery and spares (3.4%),

coldrolled sheet in coil (3.1%),

Electrical equipment (2.7%),

hotrolled sheet in coil (2%),

M. S. wires, roads,

coils and bars (1.9%),

Cement (1.5%),

Agriculture equipment and parts (1.2%),

Chemical fertilizer (1.1%),

Chemicals (1.1%) and

Thread (1%).

Nepal's export basket to India mainly comprises jute goods (9.2%), zinc sheet (8.9%), textiles (8.6%), threads (7.7%), polyester yarn (6%), juice (5.4%), catechue (4.4%), Cardamom (4.4%), wire (3.7%), tooth paste (2.2%) and M. S. Pipe (2.1%).

Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US $ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment.

3)POLICY AND NORMS OF NEPAL FOR TEXTILE INDUSTRY (EXPORT/IMPORT)

Including licensing, permission and taxation etc.

ABOUT OF NEPAL

Nepal's Textile and Garment industries contribute significantly in the manufacturing sector of Nepal. This sector is a major source of employment and income and has helped develop ancillary industries and business.

Textile weaving is an age-old economic activity, which is widespread even in the remotehilly regions of the country. Besides organized textile mills in the formal sector, small and cottage household weavers are also major sources of textile production.

Readymade garment has emerged as the chief export product of the country and has contributed 39 per cent to the total overseas export and earned Rs. 11.5 billion (153.1 million US Dollars) in the last fiscal year (2000-2001). The garment industry, started during the late 1970s, has developed into one of the major industrial activities within a span of 20 years.

The textile industry in Nepal faces severe market problems due to the unrestricted availability of cheap smuggled fabrics mainly from Tibet/China. Due to decreasing market share, 60 per cent of the textile mills have closed down and the remaining mills are operating only at 30 per cent of the capacity.

Production of textiles in the last fiscal year (2000-2001) was 20 million meters, which is only enough to meet only 5.7 per cent of domestic demand; as Nepal's domestic demand of textile is estimated at 350 million meters, the rest is to be supplied by import. Import of textile in the period under review was 47.6 million meters, 13.6 per cent of the demand, and it is assumed that balance demand for textile is supplied by smuggling. If the same situation continues unabated survival of the textile industry will be extremely difficult.

Garment industry thrived in Nepal due to quota free access to major markets in the US and EU. Indian exporters sponsored the manufacture of garments in Nepal to circumvent their quota restriction. Quota is being phased out after 2005 as per the provisions of the Agreement on Textile and Clothing under the auspices of the Uruguay Round, and a new open trading situation is to emerge. Nepal, having the disadvantage of high cost of production and transportation, faces a serious threat of losing export markets if necessary preparations and adjustments are not undertaken at the earliest.

ABOUT OF INDIA

India Textile Industry is one of the leading textile industries in the world. Though was predominantly unorganized industry even a few years back, but the scenario started changing after the economic liberalization of Indian economy in 1991. The opening up of economy gave the much-needed thrust to the Indian textile industry, which has now successfully become one of the largest in the world.

India textile industry largely depends upon the textile manufacturing and export. It also plays a major role in the economy of the country. India earns about 27% of its total foreign exchange through textile exports. Further, the textile industry of India also contributes nearly 14% of the total industrial production of the country.

It also contributes around 3% to the GDP of the country. India textile industry is also the largest in the country in terms of employment generation. It not only generates jobs in its own industry, but also opens up scopes for the other ancillary sectors. India textile industry currently generates employment to more than 35 million people.

Indian textile industry can be divided into several segments, some of which can be listed as

Below:

Cotton Textiles

Silk Textiles

Woolen Textiles

Readymade Garments

Hand-crafted Textiles

Jute and Coir

About the Study ofNepal

The Study on Textile and Clothing Sectors in Nepal was sponsored by the United Nations Conference on Trade and Development (UNCTAD), Geneva for Nepal's Accession to World Trade Organization (WTO) Project in Kathmandu. The chief objective of the study has been to examine the present status of the textile and clothing sectors in Nepal and assess the likely impact on the sectors after the phasing out of the garment quota in 2005 and Nepal's accession to WTO.

The research study was undertaken between 12 December 2001 to 8 March 2002. In the course of the study, several individual and group meetings and interactions were organized with concerned entrepreneurs, associations, agencies of HMG and the private sector. Relevant published reports; information and data were collected and analyzed for the purpose of the study. The study collected information and data on the major export markets from relevant internet sites and documents published in the recent past

About the study of India

Alok Industries Ltd. is an India-based textile manufacturing company and was established in 1986. Alok Industries is a private textile manufacturing company and has manufacturing bases spread over 6 locations in Navi Mumbai in Vapi and Silvassa, situated in Maharashtra.

Its business domain involves weaving, knitting, processing, home textiles and ready-made garments and it's a diversified manufacturer of world-class home textiles, apparel fabrics, garments and polyester yarns. Its buyers include manufacturers, exporters, importers, retailers, and branded apparel manufacturers of the world. Further, it operates its embroidery business through its sister concern, Grabal Alok Impex Ltd. Today, Alok Industries is one of the largest.

Products of Bombay Dyeing:

Bombay Dyeing by using advanced technology has brought about a change in the textile business. The entire production is divided into two broad streams, weaving and spinning and winding. The production level on a daily basis is over 300,000 meters of fabrics. Some of the important products of the company that have already become significant in both, domestic and export markets are:

Cotton Sheeting

Polyester Cotton Sheeting

Poly Cotton Drills

Shoe Lining and Duck Fabrics

Satin Furnishings

Yarn dyed fabrics

Flannel Sheeting

Dobby and Fine Count made-ups

Downproof Shells and Comforters

Towels, Table Tops and Napkins

Bombay Dyeing at present is the largest exporter of sophisticated made-up items and also of products made of cotton and poly cotton. Bombay Dyeing has created a sizable market in the production of a wide range of fabrics and ready-mades. This includes both formal and casual wear. The ready-made collection of the Bombay Dyeing has been changing its production pattern with the evolving fashion trends. The consumer section of Bombay Dyeing comprise of bed linen, towels, furnishings, suiting and shirting fabrics, and cotton and polyester blended dresses and saris.

Technology used in Bombay Dyeing:

The technology applied in the production process in Bombay Dyeing is of international standards. Regarding the weaving facilities, the technology used is from one of the most technologically advanced company of the world, Sulzer. The automations used in weaving, spinning and winding by Bombay Dyeing are like Sulzer Projectile Machines, Sulzer Airjet Machines, Schlafhorst Autocore Rotors, Auto Corner Winding Spindles and Schweiter CA - 11 Spindles.

GOVERNMENT INITIATIVES AND REGULATORY FRAMEWORK

Government Initiatives

The Government of India has promoted a number of export promotion policies for the Textile sector in the Union Budget 2011-12 and the Foreign Trade Policy 2009-14. This also includes the various incentives under Focus Market Scheme and Focus Product Scheme; broad basing the coverage of Market Linked Focus Product Scheme for textile products and extension of Market Linked Focus Product Scheme etc. to increase the Indian shares in the global trade of textiles and clothing.

Welfare Schemes:

The Government has offered health insurance coverage and life insurance coverage to 161.10 million weavers and ancillary workers under the Handloom Weavers' Comprehensive Welfare Scheme, while 733,000 artisans were provided health coverage under the Rajiv Gandhi Shilpi Swasthya Bima Yojna.

E-Marketing:

The Central Cottage Industries Corporation of India (CCIC), and the Handicraftsand Handlooms Export Corporation of India (HHEC) have developed a number of e-marketing platforms to simplify marketing issues. Also, a number of marketing initiatives have been taken up to promote niche handloom and handicraft products with the help of 600 events all over the country.

Skill Development:

As per the 12th Five Year Plan, the Integrated Skill Development Scheme aims to train over 2,675,000 people within the next 5 years (this would cover over 270,000 people during the first two years and the rest during the remaining three years). This scheme would cover all sub sectors of the textile sector such as Textiles and Apparel; Handicrafts; Handlooms; Jute; and Sericulture.

Credit Linkages:

As per the Credit Guarantee program, over 25,000 Artisan Credit Cards have been supplied to artisans, and 16.50 million additional applications for issuing up credit cards have been forwarded to banks for further consideration with regards to the Credit Linkage scheme.

Financial package for waiver of overdues:

The Government of India has announced a package of US$ 604.56 million to waive of overdue loans in the handloom sector. This also includes the waiver of overdue loans and interest till 31st March, 2010, for loans disbursed to handloom sector. This is expected to benefit at least 300,000 handloom weavers of the industry and 15,000 cooperative societies.

Textiles Parks:

The Indian Government has given approval to 40 new Textiles Parks to be set up and this would be executed over a period of 36 months. The new Textiles Parks would leverage

Recent Developments

Along with the increasing export figures in the Indian Apparel sector in the country, Bangladesh is planning to set up two Special Economic Zones (SEZ) for attracting Indian companies, and duty free trade between the two countries. The two SEZs are intended to come up on 100-acre plots of land in Kishoreganj and Chattak, in Bangladesh. Italian luxury major Canali has entered into a 51:49 Joint Venture with Genesis Luxury Fashion, which currently has distribution rights of Canali-branded products in India. The company will now sell Canali branded products in India exclusively.

Status of Nepal's Accession to WTO

Nepal submitted its application for the accession to GATT in 1989 and to WTO in 1995. As required by WTO, Nepal has already presented a Basic Memorandum and is engaged in making necessary preparations. Preliminary rounds of meetings and explanation of its position are also being undertaken for accession. Nepal is participating at WTO meetings as an observer.

With the support of UNDP and HMG Ministry of Industry, Commerce and Supplies, a separate project called Nepal's Accession to WTO has been established in Kathmandu for providing technical assistance to HMG and the private sector in preparation for the accession, and also for dissemination of information to increase public awareness on the subject. Several interactions

programs organized by the Project with the objective of increasing the flow of information and public awareness have been received very well by the target group of business community, government officials, professionals, academicians and the press. Contents of the Study

The study presents the status of textile and clothing industries with a focus on production, employment, investment, technology and foreign trade. Government policy, rules and regulation in relation to these sectors have been reviewed. Problems, constraints and threats have been analyzed in detail and strategic recommendations have been presented. A recommended plan of action is presented separately for HMG, for specific associations and for individual enterprises.

Supply and Demand of Textile

Estimated domestic demand of fabric in 1999/2000, as per NTA, was 350 million meters (calculation is based on National Planning Commission's per capita estimated consumption of 15 meters). It is noted that domestic production was 20 million meters and 47.6 million meters textile was imported in the period under review. This demonstrated that out of an estimated 350 million meters, only 67.6 million meters of textile was available in the market from the formal sources of supply the rest (282.4 million meters) of textile is believed to have met by alleged smuggling.

Import of textile by export-oriented garment factories for manufacturing garments for export is not included in the above figures. As per the figure made available by the Department of Customs, 18.4 million meters of textile were imported under bank guarantee by garment industries making garments for export.

Export and Import of Textile

In the last fiscal year (2000-2001), garment, carpet, pashmina and terry towel exports contributed 88.99 per cent of the total overseas export of the country. Import of textile products covered 11.86 per cent in the total overseas import of the country in the period under review.

Export of pashmina was negligible till 1997/98 but soared to Rs. 730 million (3.3 per cent of the total overseas export) in 1998/99, 3878 million (13.9 per cent of the total overseas export) in 1999/2000 and Rs. 5270 million (18.4 per cent of the total overseas export) in 2000/2001. However, export of this product has slowed down considerably in the current fiscal year.

Export of terry towel has developed as one of the main export products of the country since 1993/94. Export of terry towel was Rs. 31.8 million in 1993/94 which went on to increase to Rs.

218.9 million in 1995/96, Rs. 366.9 and Rs. 447.6 million (1.5 per cent of the total overseas export) in 2000/01.

In 1999/2000, 21.83 million meters of textiles were imported from India for domestic market and 8.11 million meters were imported by garment industries for making garment for export. In this period 3.75 million meters were imported from overseas markets for local market and 10.32 million meters for garment industries. Import of textiles from Tibet/China was 21.97 million meters, higher than the import from India, and overseas. It is observed that the import from Tibet/China has become an increasingly important source of supply. It is also noted that garment Industries.

Of late, several overseas markets such as Hong Kong/China, Singapore, Dubai and Europe have emerged as major suppliers of textiles for Nepalese garment industries. Nepalese garment industries are importing mainly cotton fabrics from India and for textiles other than cotton. Overseas markets are the main sources of supply. Garment industries are also importing accessories such as elastic, buttons, zipper, buckram and the like from both India and overseas. Garment Industry in Nepal: Key Economic Indicators

Total number of establishments 212

Foreign joint venture establishments 22

Total investment Rs. 6 billion (81.08 million US$)

Employment 50,000

Share in the manufacturing sector 7.2 per cent

Value addition 35 per cent

Capacity utilization 40 per cent

Source: Theme Paper presented at the National Seminar on Nepalese Garment Industry, organized by GAN in

Kathmandu on 26 December 2006.

The number of registered factories reached to a peak of 1067 in 1994/95, mainly to receive more export quota. The number of establishments declined after the quota distribution system changed. Closure of many inefficient small enterprises also curtailed the number of establishments. As per GAN, there are 212 registered garment factories at present and only 20 per cent of them are in operation. Along with the decrease in the number of factories, employment has also gone down from around 1000 thousand in the early 1990s to around 50 thousand now.

Export Price

Average per unit price of exported garment in the last fiscal year was Rs. 263.21 (US$ 3.52). A decade ago average export price was Rs. 122.78 (US$ 2.88). Increase in the average per unit price over the years suggests improvement in the quality, increase in image and goodwill and strengthening of market networking.

Export per unit price of US$ 8.01 for W&G blouses, shirt and shirt-blouses of textile materials, not knitted was the highest per unit price earned in the export during 2000/2001.

Garment Export

Annual garment export from Nepal, prior to the influx of India exporters in the late 1970s, used to be less than Rs 10 million. Since then, garment has been one of the main exports of the country and presently contributes about one-fifth of the total national export and about 40 per cent of total overseas export. It has overtaken carpet, the principal export product of the country, in terms of export earning since 1999/2000. Although garment export increased by 167 per cent in Rs. terms and 109 percent in US Dollar terms during the one decade from 1991/92 to 2000/01, the growth pattern is erratic. Within a span of four years, export dropped to negative growth in 1994/95 from a phenomenal more than cent percent growth in 1991/92. After slowing down for two years, garment export maintained an impressive growth rate of more than 20 per cent for two years till 1998/99. Garment export grew only by a paltry 3.1 per cent in the last fiscal year in comparison to substantial 35.9 per cent growth in 1999/2000. Export has declined by 8.9 per cent in the first three months of the current fiscal year 2001/2002.2

Backward Linkages

It is observed that use of locally produced textile by export oriented garment industries is less than 2 per cent. Non availability of appropriate width, irregular weaving, poor finishing and color variation are some of the major factors restricting garment manufacturers from using domestic garments. Width of majority of textile produced by domestic mills is between 36 to 41" but garment factories require 44" or more. Irregular weaving is a major problem, causing serious quality problems and wastage. Guarantee of color-fastness has also been sought by garment actories.

Garment factories feel that textile mills are not marketing their product aggressively. Textile mills, as per garment manufacturers, wish to receive production orders well in advance so that they can plan accordingly. In an open market situation where the required amount of textile can 28 be ordered and procured by just making a phone call, it is not appropriate for textile mills to expect orders months ahead of delivery.

It is also observed that most of the garment orders are placed as a total package – designs are sent, source of textile and accessories pre-determined and finished products taken back. In this set up, garment factories cannot procure textile from their desired sources.

Forward Linkages

Development of carpet and garment exports has contributed significantly in the strengthening and development of the freight forwarding business. Nepalese companies, in order to be able to cater to increasing export cargoes, improved considerably their professional and logistics capability and developed international business networks and partnerships. Freight forwarding services in Nepal have developed well and are capable of handling export import cargoes to and from any part of the world. Transport network service between Nepal and Kolkata port, international network between Nepalese freight forwarding companies and international ocean freight operators, and shipping lines have improved considerably.

According to the Freight Forwarders Association of Nepal, the use of sea containers for garment export has increased significantly over the years and at present about 80 per cent of garment export is being transported in this mode.

It is estimated that about 950 containers were employed to transport exported garments to markets overseas in the last fiscal year. For high value fashion garments, air cargo is used by garment exporters. Out of 10455 MT of air cargoes cleared in the year 2000 by Tribhuvan Airport Customs office, Kathmandu at the country's only international airport, it is estimated that about 30 per cent cargoes were of garment.

Most of the major US and European buyers generally work exclusively with specified international freight companies and require the same company to handle their cargoes from Nepal also. This practice has helped Nepal to develop international business linkages and increase professional standards, especially in the modern system of global communications.

Another sector that has receive a significant boost from the development of the garment industry is the packaging industry. Almost the entire requirement of packing cardboard and polythene bags are supplied by local industry. Demand of labels and related printed materials is also met by local industry.

Garment industry extensively uses courier and express mail services for sending and receiving samples. Likewise, international telephone service, air travel and hotel industry, transport and insurance industry also receive good business from the garment industry.

Banking services in the country have benefited handsomely though garment manufacturing and trading activities. Interest from project financing on garment industries and service charges from

Export-import and bank guarantee form a significant portion of the earnings of the banking sector. Against this background, it is noted that the garment industry, despite its fast growth over the years, contributed only marginally to the sale of local textile mills.

As per GAN, 40 per cent of the requirement of accessories such as zipper, elastic, foam, buttons,buckram etc., are produced in the country. However, most of the garment factories, to a large extent, use imported accessories as supply is regular and dependable, price and quality are good, and business terms are favorable. In cases where buyers want specific quality accessories, or for the production of high value garments, only imported accessories are used.

Entrepreneurship Development and Investment

The garment industry in Nepal, started with collaboration from its Indian counterparts since the late 1970s, has firmly established itself as one of the important economic sectors of the Nepalese economy. More than 70 per cent of the operating small and medium sized garment factories are entirely owned and managed by Nepalese entrepreneurs. Still in some bigger sized establishments, their Indian ounterparts have the major say in the operation. Indian collaborators are still engaged in the production and export of garments with mutual understanding and informal arrangement.

The role of Indian or third-country collaborators is very strong in regard to marketing and obtaining export orders. Foreign collaborators secure export orders from major buying houses and arrange supply of design pattern, fabrics and accessories. Finished products are exported through the same collaborators.

As per GAN, more than Rs. 6 billion has been invested in the industry. Most of the established industries are operated in their own sheds, and still quite a number of industries operate at large residential buildings in and around Kathmandu.

Garment and textile are among the largest sectors where banks have provided financing for project establishment and working capital. Banks have reported that there has been delay and request for rescheduling for the payment of loan and interest from the garment and textile industry.

Although the garment industry has helped accessories manufacturers to establish manufacturing units in the country, an erratic trend in demand has made the industry vulnerable. Moreover, accessories manufacturers in general carry only a small stock of raw materials and finished materials hence they cannot supply materials in quantity within a short period as raw materials required for the production have to be imported. On the contrary, supply of imported finished materials is readily available.

Development of garment and carpet industry has contributed in the development of the dyeing industry. Several small and medium sized dyeing plants are successfully operating in the country. In order to cater to export orders, dyeing plants have upgraded their technology. They also take care of uyers' requirements such as color fastness, shrinkage, etc., including non use of harmful substances like AZO.

The value of US$ appreciated by almost 75.23 per cent against the Nepalese Rs. in the decade 1991-2001. Due to this, the export growth rate of garment is less in dollar terms. As a matter of fact, export has declined y 2.7 per cent in 2000/01 in terms of dollar earning.

Foreign Joint Venture

There are 22 garment industries operating under foreign joint venture. The combined annual production capacity of these joint venture industries is 37.62 million pieces and combined authorized capital of these establishments is Rs. 791.69 million. Out of 22, 12 operating industries are with Indian collaborators, 2 each with Germany and UK, 1 each with Austria, France, Hong Kong/China, Panama, Switzerland and USA.

Joint venture garment factories have introduced modern methods of production and technology for the production of high quality products. Having better marketing know-how and contacts, these companies have been able to maintain regular export orders, especially from the US and EU.

One joint venture factory with Bangladesh is under construction, 10 such industries (3 from India) have been granted license and 30 companies (12 from India) have been approved. Of late, collaborators from China have shown interest in establishing garment industries in Nepal. With the huge success of Nepalese Pashmina products in the world market, Chinese collaborators are interested in harnessing the existing potential of the product.

Authorized capital of all 41 joint venture companies under construction, licensed and approved amounts to Rs. 1176.55 million and will produce additional 58.09 million pieces annually. 3Technologies, Skill Development and Productivity Leaving aside a few bigger mills, the majority of Nepalese textile mills employ outdated technology. Textile mills use semi-automatic shuttle looms,

Automatic shuttle changing and cop changing looms, shuttle less rapier and projectile looms. Power looms are also very common among the textile mills, half of which are semi-automatic of Indian make. Other types of looms

Used in Nepal are automatic shuttle and shuttle-less looms, mostly of Chinese and Japanese make. Shuttle less rapier and projectile looms of Japanese make and Swiss projectile looms are being used by synthetic textile mills for the production of quality fabrics for shirting and suiting.

Under the public sector, Hetauda Textile Mills is the only modern integrated textile mill in the country. It has spinning, weaving and finishing facilities under one roof. Established under Chinese aid, the mill has 14,688 ring spindles and 488 automatic shuttle changing looms and machinery for dyeing, printing, folding, etc. Production technology used in the mill is Chinese conventional methods. However, the mill is not in operation following the government decision to close it down.

Cottage industry and textile producers in the unorganized sector use traditional throw shuttle hand-looms and fly shuttle.

Nepal still lacks organized vocational training to teach the various skills required for textile and garment manufacturing industries. There are a few privately run short term training centers for sewing and other skills. Garment factories are thus required to train the work force by themselves and in many instances, workers learn the skill of trade by doing. Demand for skilled workers is high, and many of these are recruited from India since the manpower needed is not available in the local labor market.

Nepal Textile Association (NTA)

Established in 1980 in Kathmandu by textile mills for the promotion and strengthening of the sector, NTA actively represents the collective interest of the sector and its members. NTA regularly examines the problem and prospects of the sector and recommends appropriate measures to the sectors concerned including HMG and its member industries. Due to the shutdown of several mills over the years, NTA's present membership stands at 12. NTA has very limited physical and logistical facilities and staff. Having limited resources, its regular functions and programs have been severely curtailed over the years.

Garment Association of Nepal (GAN)

GAN was established by a group of garment producers in 1986. Its present membership is 212. GAN constantly works for the development of the garment sector and maintains constant vigilance on the smooth operation of the industry. One of the main services of GAN is to monitor and make recommendations for the distribution of US and Canadian quotas.

GAN has recently prepared a report on the likely scenario of the Nepalese garment industry after phasing out the MFA quota after 2004, and is actively working to devise appropriate strategies for preparing the industry in the new changing global trading environment. GAN is working to initiating necessary preparation for action to obtain preferential treatment in order to have access to the US and EU markets.

GAN maintains a full-fledged secretariat with basic physical and logistical facilities, including staff. Off late, GAN has earned a good reputation from garment entrepreneurs as an organization that can look after the collective interests of the industry.

Garment Export Promotion Committee (GEPC)

Established a decade ago, GEPC is a regulatory organ of HMG to supervise quota distribution and other related aspects for the development of garment industry.

The Committee is chaired by the Secretary of the Ministry of Industry, Commerce and Supplies and represented by other Ministries and Departments concerned such as Finance and Customs, Central Bank and private sector agencies like GAN.

The Ministry of Industry, Commerce and Supplies acts as the secretariat of the Committee.

It has been in the past that several decisions taken by the Committee have not been implemented effectively as other ministries such as the Finance Ministry did not take decisions with a mandate from HMG.

A necessary change in stature is deemed necessary to make the functioning of GEPC more effective and relevant.

National Productivity and Economic Development Center (NPEDC)

NPEDC has been assigned by HMG to monitor and distribute quotas (visas) for garment export to the US and Canada. The HMG Department of Commerce monitors and issues license permits to specified type of garments for export to EU.

The Trade Promotion Center (TPC)

TPC is a national export promotion organization of HMG. It arranges Nepal’s' participation in a few international trade fairs and exhibitions. TPC also organizes various market promotion activities from time to time.

It collects and publishes export-import statistics and organizesseminars and workshops on relevant issues. TPC does not have effective programs in relation to development of linkages in major export markets of the US, Canada and EU, hence it is expected to work in this way. The Department of Cottage and Village Industries & Cottage and Village Industry Development Board

This organizes short-term training on vocational trade, relating to garment and textile production. These training should be made more professional and tailored to the need of the industries.

Others

The Federation of Nepalese Chambers of Commerce and Industry, the Nepal Chamber of Commerce and bi-national Chambers such as the Nepal – US Chamber of Commerce and Industry and the Nepal German Chamber of Commerce and Industry also undertake programs for the development of garment and textile industries.

Policy

His Majesty's Government of Nepal has initiated reforms in economic policies and laws since the early 1990s and several major changes have been announced to liberalize trade and investment.

Reforms in economic policies and laws have encouraged the private sector to take a lead role ineconomic activities, and the entire manufacturing and trading activities are the under private sector's operation and ownership.

HMG acts as the facilitator and is not engaged in manufacturing and trade.

Trade and industry policies of HMG advocate the promotion of the textile and garment sectors. Accordingly, laws and regulations have been incorporated to regulate and develop these sectors.

The system of open general licensing, full convertibility of Nepalese rupees in current account transaction, reduction of tariffs and tax, simplification of procedures and documentation, bonded warehouse facility, duty drawback scheme, liberalization of foreign investment law and reforms in banking and finance sector have contributed significantly to the development of the manufacturing and export of the garment sector.

The export sector has been accorded top priority. The textile and garment as prominent export products of the country have received priority from HMG.3

Implementation

One of the main complaints of the entrepreneurs is poor implementation of policies, rules and regulations by the government. Industry sources indicated that the implementation of the duty drawback system is very slow and ineffective. No matter how liberal and favorable the policies and laws, beneficiaries receive only little of what they are promised.

Lack of coordination among the line agencies and bureaucratic systems are largely responsible for the poor state of affairs. Implementation of policies and programs having implication on tax or economic facilities are slow and ineffective.

Unstable political environment and frequent changes of government have also helped worsen the situation as a new government generally ignores the priorities, policy and programs set by its predecessor.

Textile Policy

The textile industry is gradually closing down because of the large scale smuggling of fabrics taking place in and around the open border with India and Tibet/China. NTA says 70 per cent of the total textile import is brought of Nepalese market through the back door. This is the most serious threat to the rival of the Nepalese textile mills.

As per the official import figure, 21.97 million meters of textile were officially imported from Tibet/China. NTA estimates official import is less than 20 per cent of what actually is brought into the Nepalese market through smuggling. Smuggled Chinese fabrics are available at unbelievably cheap prices.

NTA has cautioned that if the same situation continues unabated for another year or two, the Nepalese textile industry will be totally ruined.

Garment Policy

One of the major and serious constraints faced by the Nepalese garment industry is the high cost of production. It is said that garments manufactured in Nepal are at least 15 to 25 per cent more expensive than in neighboring countries. High transport cost is a major factor that escalates export prices by 12 to 15 per cent. Project financing cost in Nepal is also high, discouraging enterprises from investing in modernizations of the manufacturing units.

Likewise, despite the completion of physical facilities in three major border customs points, operation of dry ports Internal Container Terminal) is being delayed because of procedural matters and delay in bilateral agreement with India on networking with the Indian Railway up to Kolkata port.

There has been a serious complaint from garment exporting factories that the committed duty refund by the government under the duty drawback system takes several years to materialize. The procedure claims the refund and documentation is cumbersome and lengthy. This has created added complications for the garment factories.

Several factories reported that they need additional special manpower to deal with the government office concerned and maintain files and documentation as things are pending for months. Delay in VAT refund on local purchase of fabrics and accessories are also reported by the garment industries.

To qualify for the duty drawback system, factories have to maintain bank guarantee at the customs offices till the finished products are exported. This is another cumbersome practice, which increases production costs.

Textile Industry

Strengths

1. Knowledge of local market tastes and ability to adjust as per the demand and tastes are inherent strengths of the textile industry. Small-scale operations enable these industries to follow quickly changing demand and fashion trends.

2. Nepal's traditional textile product Pashmina has developed remarkably within a very short span of time. This has demonstrated development potentiality of the traditional product and also capability of Nepalese entrepreneurs to harness the potential

3. success story of Pashmina can be replicated in the development of other traditional textiles such as Dhaka, Allo, Khaddar, heavy cotton, Shyama, Gheri, etc.

4. Nepal could benefit from its closeness to the huge markets of India and China where trade liberalization is taking place and the market is expected to open up gradually.

Strengths Weakness

1. Machine labor ratio in the Nepalese garment industry is higher. The ratio is nearly 1:2. This has deprived the industry of taking advantage of cheap labor.

2. Most of the factories lack sound management and floor engineering systems. Many factories still run within the rented premises of large residential buildings.

3. Most of the industries are not getting sound economic benefits because of their small scale operations.

4. Absence of market information/market intelligence system, both for export and import of raw materials and accessories, has made marketing and sale of the products dependence on third parties.

This has also restricted the industry in sourcing raw materials from most competitive sources at most favorable terms.

5. Difficulty has been experienced by small scale factories to address provisions requested by buyers with regard to quality audit, including eco-friendly label and effluent treatment plants, etc.

Problems & Constraints

Most of the problems, constraints and threats experienced by both textile and garment ndustries need to be tackled immediately.

Otherwise the industries will suffer more severely. The textile industry in particular is passing through very difficult times and if concrete measures for revival are delayed, the very existence of the industry could be at stake.

It is seen that the production as well as market strength of textile and garment industries has been weakening since the last few years. The situation is deteriorating faster in the textile industry and needs to be checked urgently.

It is important to note that textile and garment industries need immediate interventions so that the industries can gather strength to face challenges in the new trading environment that is expected from the planned membership of Nepal in WTO and, more specifically, the phasing out of the MFA Quota System in 2005. The basic issue now is to ensure smooth functioning of the textile and garment industries until 2004 so that they are prepared to cope effectively with the challenges.

Future Outlook

Future outlook does not look promising for the textile and clothing sectors in Nepal. The world trade on textile and clothing will be liberalized after 2004 and new opportunities will be opened up for those garment-exporting countries whose big export capacity is being underutilized due to existing quota restrictions.

Small garment exporting countries like Nepal, where garment export developed merely on the basis of MFA quota restrictions on other strong suppliers, may lose market share if it cannot compete on price, quality and delivery.

The Nepalese garment industry in order to develop their competitive strength, is required to achieve improvement especially in reducing high cost of production, transportation and increasing quality.

The garment industry is also required to develop good business linkages with the export market.

The textile industry on the other hand is even more hard pressed. It is losing market share due to the abundance of cheap imported or smuggled fabric from neighboring countries. Upon its Accession into WTO. Nepal is required to lower tariffs which will make more room for imported Fabrics.Strategic Recommendations The textile industry in Nepal is in a grave situation. In view of serious problems, constraints and threats, concrete measures are needed immediately to begin the revival process of the textile industry. It is feared that further delay in initiating rescue measures will further disadvantage the industry and revival will be more difficult.

The garment industry, on the other hand, has shown weaknesses associated with production and export marketing, and needs measures to strengthen, expand and diversify. In view of the MFA quota phase-out, the industry is required to prepare itself to cope with the emerging situation.

Textile Industry Rescue Task Force at NTA

The Nepal Textile Association does not seem to have prepared a national strategy to rescue the industry from collapsing. It should form a Textile Industry Rescue Task Force with a mandate to prepare a rescue plan for an ailing industry and get endorsement of the plan from HMG and concerned agencies. The mandate given to the Task Force should include authorization to deal with HMG and concerned agencies in the execution of the

Rescue plan recommended by the Association. The team must have total backing from the industry and the team should complete its job in a specified time schedule.

Increase Use of Locally Made Textile in Garment Export

HMG should devise a system so as to develop the usage of locally produced fabrics by the garment industry. The garment industry uses a sizeable amount of basic fabric like gray shetting and even a small textile mill with basic facilities can easily produce this fabric.

HMG should ovide priority in market promotion activities to garment factories that use specified minimum amount of gray shetting fabrics of local make.

The NTA should also work effectively to establish market links with garment producers in supplying them with basic fabrics like gray shetting. Amendment to Labor Law The present Labour Law should be amended to develop a congenial industrial environment in the industry.

Measures should be devised to safeguard legitimate rights of both workers and entrepreneurs. Reward and punishment should be linked with the performance and trade union should strictly be allowed to look after only the class interests not the interest of the political party's ideology that they share.

Vocational Training To ensure the supply of a skilled labor force, appropriate training schemes should run in major centers. Private sector institutions should be encouraged to run such trainings. Garment actories should also be encouraged to work out an in-service training scheme.

Liaison Office in Major Export Markets

For better market linkages and prompt market information. GAN should maintain liaison offices in major export markets of the US, Canada and EU. Competent local marketing company or qualified Nepali nationals living in the region should be hired to work for GAN.

Import Management Cell at GAN

GAN should establish an import management cell with specialized experts to help industries nfinding the best sources of supply textiles and accessories from the world market. As it is said one rupee saved is one rupee earned – industries could make substantial saving if they explore the best sources for their requirements

Implementation of Government Plans and Policies

HMG must implement its announced policies and programs. Commitment made by the government in the 1999/2000 National Budget Speech to provide pre-shipment financing of up to 35 per cent L/C value has still not been implemented. This caused serious doubt over HMG policies and programs.

Encourage Foreign Investment

HMG should encourage foreign direct investment in textile and garment as foreign joint venture companies could bring in much required new technology and efficient market contact. The new joint venture companies that are working in Nepal have remarkably increased exports to Germany and other EU countries.

Extension for another three years of derogation of EU's rules of origin could attract more European investors. Nepal should benefit from available schemes offered by bilateral or multilateral international organizations. EU's scheme like "Asia Invest" could help Nepal to bring in European investors, as the scheme offers finances .

Trade Financing

HMG should introduce separate lending schemes for export-oriented industries. As these industries need to invest more in maintaining quality standards and meet strict deliver deadlines, finances should be available at preferential lending rates. HMG should issue directive to cosmmercial banks to introduce separate preferential lending schemes to industries which earn foreign exchange.

The existing provision for submitting bank guarantee against import of raw materials and accessories under the duty draw back scheme is blocking a huge amount of finances, increasing productions costs and creating additional work loads.

Measures Suggest for Enterprises

Enterprises should work together in the implementation of national policy and strategy to be worked out and executed by GAN in cooperation with HMG. They should also provide the required financial assistance for the programs of GAN.

4)policy and norms of india for (import/export of india) including licenses, permission, taxation etc.

Overview:

Cotton textile manufacturing resumed in India under the influence of Mahatma Gandhi. Mahatma Gandhi portrayed while spinning cotton with a wheel is still an outstanding symbol in the collective unconscious.

The first cotton fabric dates back to approximately as early as 3,200 BC, as per evidence from the excavation and by fragments of cloth found at the Mohenjo-Daro archaeological site on the banks of the River Indus.

The cultivation and manufacturing of cotton fabric had been practiced in India since pre-historic times. From India, cotton textiles probably travelled to Mesopotamia. The trade in cotton is assumed to have been started around Rome at the time of Alexander the Great, in the 4th century BC.

Cotton is an important natural fiber of the 20th century. Major growth of cotton production was observed since the end of the Second World War (WWII). Cotton was grown in 90 countries during the year 2007. During 2006/07, four major cotton producing countries were China, India, the USA and Pakistan, which accounted for approximately three-quarters of world's cotton production.

Cotton Trade Policy

As India has emerged as a cotton exporter in recent years, the Government of India has enacted a variety of trade policies to ensure that competitively-priced adequate supplies are available to the textile industry. India's national fibber policy affirms that cotton exports should be limited to the exportable surplus.

While the shifting export policies have helped to disrupt international and domestic markets and lower farmer prices for cotton, the Government of India is expected to continue to try and ration the volume of exports.

It is not clear if the March 5, 2012, export ban will eventually be lifted before the marketing year ends or if there will be new export control measures in 2012/13. However, given projected ending stock levels, it seems likely that the current ban will be in place for much of the current marketing year.

India's Cotton Export Policies Since 2010

- Prior to April, 2010, exports of raw cotton were allowed without any restrictions or export taxes. Export contracts had to be registered with the Textile Commissioner's Office (TCO).

- On April 9, 2010, the GOI imposed an export tax of Rs. 2,500 ($5.6) per metric ton on raw cotton.

- On April 19, 2010, the TCO suspended registration and exports of raw cotton (GAIN IN1039).

- On May 21, 2010, the government moved exports of raw cotton to the restricted list, thereby imposing licensing restrictions on exports of raw cotton. The Directorate General of Foreign

- Trade (DGFT) issued export licenses for the unshipped export contracts registered with the TCO prior to April 19, 2010 (GAIN IN1049).

- On August 17, 2010, the government removed licensing restrictions on exports of raw cotton by moving it from the restricted list to the free list and removed export tax. However, all export contracts had to be registered with the TCO (GAIN IN1081).

- On September 18, 2010, the Empowered Group of Ministers established an export quota of 4.3 million bales (5.5 million Indian bales) for Indian marketing year 2010/11 (October/September).

- On October 1, 2010, the TCO commenced export contract registration and closed registration on October 10, 2010 when the quota limit was reached. The TCO issued export authorization for 3.92 million bales to be shipped within the period of November 1 to December 15, 2010.

- On December 16, 2010, the GOI issued a notification stating that exports of cotton were to be registered with the DGFT instead of the TCO.

- On December 16, 2010, the DGFT issued a circular stating the modalities of registration and export of the "unutilized" export quota that could not be shipped before December 15, 2010 (GAIN IN1101).

- In early January, the DGFT registered about 1.48 million 480 lb bales (1.9 million 170 kg bales) of export contracts against the estimated 'unutilized' cotton quota that could not be shipped prior to December 15, 2010, for shipment during January 27-February 26, 2011.

- After February 27, 2011, no further exports of raw cotton were allowed.

- On August 2, 2011, Cotton exports were placed on OGL (Open General License) without any quantitative limits on exports subject to registration of export contracts with DGFT.

- In November 2011, the Government of India lifted the import quota restrictions and allowed duty free import of textile items from the Least Developed Member countries (LDCs) of South Asia Free Trade

- Agreement (SAFTA) including Bangladesh, Bhutan, Maldives, Nepal and Afghanistan.

- On March 5, 2012, the Ministry of Textiles issued a notification effectively banning all raw cotton exports.

- On March 12, 2012, the Ministry of Textiles issued a notification clarifying the terms of the export ban.

Cotton Prices:

Cotton prices are currently trading at 80 cents per pound ex-gin for medium staple varieties. The ban on cotton exports has had little effect on market prices and most varieties are trading at levels that are close to pre-ban levels.

Aided by the weaker rupee over the past six months, Indian cotton prices often trade at a slight discount to international markets, but tend to follow the general direction of international prices.

Cotton Production Policy

The GOI establishes minimum support prices (MSP) for cotton at the beginning of every marketing season.

The Cotton Corporation of India (CCI), a central government organization, is responsible for price support operations in all states, but is occasionally assisted by state government marketing organizations.

Typically, market prices remain well above the MSP, except for the MY 2008/09 when the MSP prices were hiked significantly.

Government agencies purchase seed cotton at the MSP, and sell the processed cotton at market prices, and the losses incurred in the operation are borne by the government exchequer. CCI procured a small amount of cotton in Andhra Pradesh,

but has not been involved in other procurement operations as market prices have been well above the MSP for much of MY 2011/12. Besides the MSP operations, CCI and state marketing organizations are also involved in purchasing cotton at open market prices for commercial sales.

Purchases have been very limited thus far in 2011/12; CCI made limited commercial purchases following the export ban in an effort to support prices.

Various central and state government agencies and research institutions are engaged in cotton varietal development, seed distribution, crop surveillance, and integrated pest management, extension and marketing activities.

In 1999, the central government launched the Technology Mission on Cotton (TMC) to improve the availability of quality cotton at reasonable prices.

The goal of the TMC is to focus on bringing about improvement in the production, productivity and quality of cotton through research, transfer of technology and improvement in the marketing and raw cotton processing sectors.

Extra Long Staple Cotton

Unit : 480 Lbs. bales	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Beginning Stocks	54736	59545	150540	216550	123694	59806
Production	156162	140546	132738	171778	187394	163970
Imports	273284	340854	339294	153098	146931	163970
Total supply	481182	540945	622571	541427	458019	387746
Export	-	-	-	-	-	-
Domestic consumpti	421637	390405	406021	417733	398213	382597

on						
Ending stocks	59545	450540	216550	123694	59806	5149
Total distribution	481182	540945	622571	541427	458019	387746

Nepal's trade scenario 2004-2011

Nepal's Trade Scenario 2004/05-2010/11 (in NRs Billion) Year	Total	Export		Impor…	
		Volume	percent	Volume	P…
2004/05	208.2	58.7	28.2	149.5	
2005/06	234.0	60.2	25.7	173.8	
2006/07	254.1	59.4	23.4	194.7	
2007/08	281.2	59.3	21.1	221.9	
2008/09	352.2	67.7	19.2	284.5	
2009/10	435.2	60.8	14.0	374.3	
2010/11	459.46	64.56	14.1	394.9	

Nepal imports mainly petroleum products, machinery, medicines, clinker and cement, high tech products, automobiles, electronic and electrical products, chemicals etc. from India while it exports mainly medicinal herbs and agricultural products, garments, raw skin, some semi processed products, instant noodles, zinc plates, etc. to India.

Nepal has signed three separate agreements on trade, transit and control of unauthorized trade between the two countries to promote trade with India.

Considering their close political, social and cultural relations, the trade potentiality may be much larger.

However, the increasing trade deficit with India that accounts for 56.5 percent of the total trade deficit has created serious problems in the balance of trade of Nepal. Nepal's ever-growing dependence on a single country indicates the urgency for trade diversification and indicates need for strengthening its competitiveness to attain this end.

Nepal faces several problems in its foreign trade with third countries mainly due to long transit route, long and complex administrative procedures, SPS and TBT related issues. The big gap between export and import is generating huge trade deficit as well as creating foreign exchange burden to the economy.

The total value of the imports of one product, viz. petroleum products is greater than the total value of all the commodities exported. In addition, Nepal's trade, especially the export trade, is highly concentrated on few items and few markets. Major 10 export items cover around 40percent of the total exports.

The major export products are iron and steel, textiles, woolen carpets, garments, *pashmina*, tea, coffee and large cardamom. Nepal's exports go to a very few countries, mainly to India, USA, Bangladesh, Germany, UK, France, Turkey, Canada, Italy, China and Bhutan. The export to Bangladesh and Bhutan is gradually increasing in recent years.

Their emergence as the important export destinations, if sustainable, will also enhance Nepal's trade competitiveness as these countries are geographically nearest to it, have almost similar economic culture and are linked with roads and railways with fewer problems in transportation and transit.

Nepal’s major imports include petroleum products, iron and steel, machinery and parts, transport vehicles and their parts, electronic and electrical equipment’s, pharmaceutical products, gold, telecommunication equipment’s and parts, crude soybean oil, polythene granules, and chemicals.

Nepal's ten major source countries of imports are India, China, UAE, Indonesia, Argentina, Thailand, the Republic of Korea, Malaysia, Japan and the USA. India is the largest trading partner of Nepal both in terms of export as well as imports.

India absorbs 67.5 percent of total trade consisting 66.9 percent of total exports and 67.6percent of total imports. The reasons for this concentration of trade with India are its physical proximity, similarity in culture, religion and language, long standing preferential trade agreements, and 1700 kms of open border.

5)TRADE BARRIER OF IMPORT/ EXPORT OF SELECTED GOODS AND POTENTIAL FOR IMPORT/EXPORT IN INDIA / GUJARAT MARKET

TRADE BARRIER AND NON TRADE BARRIER OF IMPORT/EXPORT IN INDIA

- In questionnaire many operators indicated tariffs as the most important obstacle for them. Tariffs for textiles and clothing products subject to the EU/India market access agreement are progressively reduced during a transition period. However, Eu operator estimates that their level cannot be overcome for the time being. Product that can be imported are subject to high customs duties

- The tariff structure follows the harmonized system. The customs tariffs applicable in 1998. Current rates are as follow

- Tariffs and other import duties are calculated ad valorem on the CIF value of products

- The tariff is called basic duty .it is levied on the assessable value. The assessable value is the value of the day of the bill of entry file.

- According to customs, landing charges do not exceeds 1%

TARIFFS PREDICTABILITY (BINDING)

- In the Uruguay Round, India has only accepted binding tariffs on some raw materials and a few fabrics. For fibers and yarn, currently applied rates range for 25 to 40%. For fabrics, rates go up to 40%. However there is no commitment for made up goods and clothing

Type of product	Basic duty
Yarns	0% to 40%
Fabri cs	25% to 40%
Clothing products	40%

TARIFFS QUOTAS

- There are no tariffs quotas

DUTIES AND CHARGES OTHER THAN TARIFFS

- in addition, Indian customs implement various import levies and taxes. Which make transaction more difficult and increase the overall level of duties. Many of them consider this the most important barrier to EU export. There are various additional import taxes. Their calculation method is extremely complex

- Indian customs authorities and the private sector confirmed the application of the following additional taxes to the basic duty.

- There is special custom duty of 5%. It is temporarily levied under clause 66 of finance act of 1966

- The import legislation also includes three other duties
  - Safeguard duty
  - Antidumping duty
  - Anti subsidy duty

- The safeguard duty is levied as a customs duty, on the basis of the following vale : assessable value + basic duty + special additional + safeguard duty. No textiles and clothing products are subject to safeguard duties.

- According to the tariff 1998, the method used by customs is
  - Basic duty value = basic duty x value of goods
  - Special duty value = special duty x value of goods
  - Additional duty value = additional duty x (value of goods + basic duty value + special duty value)
  - Special additional duty = (A + B+ C)

- The formula does not take in to account all variables (for example the 1% cess for textile product or the 15 % supplement to the additional duty)

- The level of import duties remains prohibitive for consumer goods or for local consumption purpose.

Non-tariff barriers today

With the exception of export subsidies and quotas, NTBs are most similar to the tariffs. Tariffs for goods production were reduced during the eight rounds of negotiations in the WTO and the General Agreement on Tariffs and Trade (GATT).

After lowering of tariffs, the principle of protectionism demanded the introduction of new NTBs such as technical barriers to trade (TBT). According to statements made at United Nations Conference on Trade and Development (UNCTAD, 2005), the use of NTBs, based on the amount and control of price levels has decreased significantly from 45% in 1994 to 15% in 2004, while use of other NTBs increased from 55% in 1994 to 85% in 2004.

Increasing consumer demand for safe and environment friendly products also have had their impact on increasing popularity of TBT.

Many NTBs are governed by WTO agreements, which originated in the Uruguay Round (the TBT Agreement, SPS Measures Agreement, the Agreement on Textiles and Clothing), as well as GATT articles. NTBs in the field of services have become as important as in the field of usual trade.

Most of the NTB can be defined as protectionist measures, unless they are related to difficulties in the market, such as externalities and information asymmetries between consumers and producers of goods. An example of this is safety standards and labeling requirements.

The need to protect sensitive to import industries, as well as a wide range of trade restrictions, available to the governments of industrialized countries, forcing them to resort to use the NTB, and putting serious obstacles to international trade and world economic growth.

Thus, NTBs can be referred as a new of protection which has replaced tariffs as an old form of protection.

TRADE BARRIER AND NON-TRADE BARRIER OF IMPORT/EXPORT IN NEPAL

TRADE BARRIER

- A large number of EU operator indicated that tariffs remain too high for direct trade. The current level of customs duties applied to the import of textile EU products is a s follows

- In the framework of the WTO Accession of Nepal the community has requested that Nepal sharply reduce and bind its applied tariffs for textiles and clothing as basis for negotiation.

DUTIES AND CHARGES OTHER THAN TARIIF

- According interviews realized with representatives of customs authorities, these are the duties and charges other than tariffs.
  - VAT(17%) is collected on imported goods.
  - The consumer tax applies in principle to luxury goods, no textile product are included in the list of product subject to consumer tax.

- Imported goods are also subject to an “import surcharge” equivalent to 1%.

Type of product	Applied tariffs
Yarns	25 to 50%
Fabrics	50% to 100%
Clothing products	70% to 100%

NON TRADE BARRIERS

- A pre-shipment inspection is required for some products. For these products, the inspection must be carried out by the Nepal commodity inspection.

- The import of other product may, but is not required to, include a pre-shipment inspection. According to Nepal customs this does not result in speeding the import process as the pre-shipment inspection does not give a guarantee of conformity.

- Some operator complained about delays during clearance

- There is no specific requirement for the import of textile and clothing product

MINIMUM IMPORT PRICE

- As mentioned above, it is alleged that Customs Authorities use a
  Minimum import price list in order to assess the value of the imported products. This list is frequently updated.

STATE TRADING ENTERPRISES

- Import and exports of textile and clothing products are still managed and controlled by state agencies which enjoy a trade monopoly control on imports as well as control over local distribution.

- Import of textile product can only be made through a government appointed foreign trade company, controlled by MOFTEC.

- Export of raw materials are still seriously affected by the state supply monopoly. The production and the sale of raw material are strongly regulated. The sale of these products is made through state organism

- In the case of silk, every Nepal farmer must sell 70% of its production to an official central purchase agency, below the market price. Then this agency sells it either to Nepal operator. Or the official export agency that sells silk to community operators.

- The sale of textile raw material is discriminatory. Consequently, the commission requested the elimination of the system of exclusive state trading for milk and cotton. Nepal should allow an alternative sale channel for raw material between the Nepal producer and the EC operator

EXPORT RESTRICTION

- According to MOFTEC and customs representatives, the ground for the export restriction is the protection of farmers and in particular silk farmers.

- Purchase of raw material remains problematic for EU producer. The existing bilateral agreement between the EU and Nepal on some textile products opens an access to Nepal silk.

- A non automatic export license system applies to several products, silk cotton, fibers and wool. It is applied to around 200 product including the following textile products : silk, cotton, fibers, wool. The export licenses will have to be eliminated in the context of the accession to the WTO. Operators noted difficulties with export licenses requirement

- Operator are forced to pay additional export duties which hamper significantly the export of raw material. These fees increase the final price of products. The EC series complaints about the product a series of duties that are applied to them in a discriminatory way and result in significantly increasing the price of raw materials.

OTHERS

- There are two system applicable to IPT schemes. Duty free import is possible when the goods are imported and processed in special economic zone. The draw back system allows the importer to recover the duties paid on the inputs. When the resulting goods are re-exported.
- Some aspects of the IPT System have recently been amended following the uncovering of numerous tariff circumvention through fake IPT schemes. Until 1996 The IPT contract had to be registered with MOFTEC AND WITH CUSTOM. SINCE 1996, A Bank account must be opened at the bank of Nepal and a guarantee covering the

duties and VAT payable on the imported goods. This new requirement is designed to solve importers cash inflows difficulties.

- ATA document have been introduced to Nepal. They may be obtained at the Nepal council for the promotion iof international trade

- The goods resulting form IPT be must re-exported within a delay set according to the type of goods and of contracts.

POTENTIAL OF IMPORT/EXPORT IN INDIA/ GUJARAT MARKET

- Refund of value added tax paid by cotton based units like ginning, spinning and weaving on purchased of cotton/ cotton yarn and remission of tax collected on cotton yarn

- Interest subsidy of 5% without ceiling for the period of five years on new plant & machinery for ginning and processing.

- Power tariff concession on new investment for cotton spinning at the rate of rs.1 per unit for 5 year period.

- Interest subsidy of 7% on new plant and machinery for cotton spinning as well as for second hand imported cotton spinning machinery with certain conditions, without ceiling for the period for the period of 5 year.

- Stamp duty exemption to developers and units in parks and assistance up to 50 percent with maximum ceiling of

10 crore of common infrastructure in parks and other textile industry.

- Minimum 150 acre land , stamp duty exemption to developers and units, and assistant up to 50 percent with maximum ceiling of Rs – 230 core for common infrastructure for cotton spinning park with or without weaving.

- Power tariff concession of Re 1 per unit for the 5 year period for weaving.

- Interest subsidy of 5 percent on new plant and machinery, without ceiling for the period of 5 year in dycing and processing

- interest subsidy of 7 percent on new plant and machinery, without ceiling for the period of 5 year for garments and madeups.

- Refund of VAT paid by the unit on purchase of raw material and remission of tax collected on ready made garments, as VAT concession

6) Business opportunities in future and Conclusion and suggestion

ECONOMY

Overview:

According to the 1990 constitution, the government has a fundamental economic responsibility to create an independent and self-reliant economy through equitable distribution of economic resources and gains, prevention of economic exploitation, and the advancement of private and public enterprise.

However, according to observers, such changes require economic reforms that have yet to materialize. Prior to 1990, the economy, like the country, was essentially closed to the world, and international economic relations were largely in the form of cross-border trade with India and China.

Since 1990, the government increasingly has adopted market-oriented policies with greater liberalization of the domestic economy and trade.

These policies have focused on privatizing state industries and creating joint-venture projects, particularly in financial institutions. Liberalization policies, however, have been criticized for benefiting primarily urban areas and rural elites. The economy is still characterized by central planning.

Indeed, the government is the main source of domestic investment, and five-year plans direct such investment. However, five-year economic development plans alternately emphasize various sectors, and as a result, development has been uneven.

The economy has been—and continues to be—characterized by dependence on agricultural output, a poor export base but strong reliance on trade, unbalanced regional development, dependence on foreign aid, excessive government control and regulation, and inefficient public enterprises and administration.

The agricultural sector has employed most of the labor force and provided the largest share of gross domestic product (GDP), but the sector's shares of the labor force and GDP have declined since the 1970s.

Industry and manufacturing have provided lower portions of GDP, employed fewer people, and expanded little. Services, particularly those related to tourism, have grown in importance, but the civil conflict has hurt this and other sectors.

TEXTILE INDUSTRY

The textile industry has been identified as a basic needs industry and high priority is attached to investments in this sub-sector. Based upon a minimum per capita consumption of 11 meters (low estimate) by the year 2000, the total requirement of textiles is estimated at 254.8 mn. meters. Installed production capacity at present is estimated at 70.5 mn.

meters but capacity utilization has been less than 50 percent. In order to achieve self-sufficiency in clothing it is proposed to encourage the establishment of several textile units, several of which would be integrated textile mills involving spinning, weaving and finishing of textiles.

The production of cotton fabrics and sysnthetics and blends would be in high demand. In view of the high priority attached to this industry, investor are assured of very good conditions for profitable investment.

Government of Nepal (GoN) has developed liberal foreign investment policies to attract maximum foreign direct investment into the country and instituted a 'one-window' system to facilitate and encourage such investments.

It has also been striving to create an investment friendly climate to attract foreign investments and provide attractive incentives for prospective foreign investors.

The Department of Industries (DoI), GoN is responsible for approval and monitoring of foreign direct investment into Nepal.

Opportunities:

Tourism already plays an important role in Nepal's economy. It remains one of the country's most promising sectors for attracting FDI because of its incomparable natural assets, religious sites and therapeutic treatments.

The Gone recognizes the contribution that tourism can make in national economic development.Tourism has been a very important sector contributing significantly to the national economy by generating considerable amount of foreign exchange.

With varied topographical features from the snowcapped Himalayas to wild life reserves and green valleys and the rich cultural heritage, Nepal offers tourists with varied services from adventure tourism to eco-tourism and religious tourism. The government has implemented a liberal tourism development policy aimed at attracting a larger flow of tourists.

Nepal is promoting its own brand of eco-tourism by combining the natural scenery and trekking with other activities such as rafting, yoga and meditation, and investors are encouraged to provide these and related services.

Investment in hydropower is one of the lucrative areas for foreign investments as Nepal's potential for hydropower is estimated at 83,000 MW of which 44,000 MW is estimated to be economically feasible.

There is already significant FDI in hydropower in Nepal and more may be expected as there is a huge market for power in India. In addition to the development of electricity for export, the hydropower resources offer the prospect of developing energy-intensive manufacturing activities.

Preliminary studies have identified potential for over half a dozen medium and large hydroelectric projects. Some projects are of such a size that their greatest value for Nepal will be from the perspective of exporting hydroelectric power to neighboring countries.

Nepal is very rich in natural and cultural assets, which offer substantial opportunities to foreign investors. The country conditions range from tropical to sub-arctic within a relatively narrow band of less than 250 km at its widest, north-south. Herbs and herbal products are showing great promise largely because of the ideal growing conditions in the hills and mountain regions.

Nepal has hundreds of plants with medicinal and aromatic properties. Demand for herbal products for cosmetic and health uses is increasing in key markets such as India and in other Asian, European and Western countries. Nepal trades most of its medicinal and aromatic plants in crude form because cultivation and processing are currently limited in Nepal.

INDIA'S OPPORTUNITIES:

India’s share of the global textile industry is expected to grow from 4% to 7% by 2013-14 and the share of apparel in the export basket is expected to increase from 48% to 60%. A Vision 2014 for textiles formulated by the government after exhaustive interaction with the industry and Export Promotion Councils to capitalize on the positive atmosphere aims to increase India’s share in world’s textile trade from the current 4% to 8% by 2014 and to achieve export value of US $ 50 billion in 2014.

All segments have their own place but even today cotton textiles continue to dominate with 73% share. These technical textiles are an emerging industry with a potential to reach a size of US $ 127 billion in 2014 and hold a great promise for Indian textiles industry.

To understand India’s position among other textile producing the industry contributes 9% of GDP and 35% of foreign exchange earnings, India’s share in global exports is only 3% compared to China’s 13.75% percent. Majority of Indian consumers look for definite universal parameters like design, quality and above all merchandizing.

The present Indian Textile and Apparel industry may grow from current level of US$ 78Bn to US$ 220 by 2020.India has her own strengths in terms of technical manpower availability, wide fiber base and supporting government policies for modernization and also raw material cost controls. The growing population of Indian young purchasing class is making domestic market quite lucrative. Innovation in product design and fabric selection, are vital elements that add to value perception for a product. As per a World Bank study, covering 181 economies, India’s ranking has enhanced marginally in 2014, on various indicators of charisma as a business destination. However, in absolute terms the ranking remains quite low. Significantly, India is ranked a respectable 33 on the limit of protecting the interests of the investors.

The EXIM policy provides for the establishment of export processing zones (EPZs) and special economic zones (SEZs). Units in the EPZs that export all of their output can import industrial inputs free of customs duty. Looking at export shares, Korea (6%) and Taiwan (5.5%) are ahead of India, while Turkey (2.9%) has already caught up and others like Thailand (2.3%) and Indonesia (2%) are not much further behind.

Textile industry of India is the Mother industry, employing over 55 mn people directly or indirectly in this sector. Adding to that the fast growing retail apparel industry has further increased its importance.

In the recently concluded World Textile Conference held in Mumbai, almost every decision maker in this Industry agreed to the fact that there will be upsurge in the activities as opportunities which are perceived are a lot in India's favour. As everyone knows, the manufacturing base is almost shifted to south East Asian Countries and India as well as China is going to play very important role in this odyssey.

INDIA

Cotton Textile Industry:

Evolution and Growth

The first Indian modern cotton cloth mill was established in 1818 at Fort Gloaster near Calcutta. The successful attempt made by KGN Dabber who established the mill under the title of Bombay Spinning and Weaving Co.í in1854 at Bombay.

In fact, this mill laid down the foundation of modern cotton textile industry in India. Since then, a number of cotton textile mills have come into existence and some of them are leading at the world level successfully.

There has been a close conciliation between Indian freedom struggle and development of cotton textile industry.

Various Movements like Anti-Bengal Partition (16th Oct. 1905), Non-co-operation Movement (1920-22), QuitIndia Movement (1942) etc.

Created a wave of boycotting foreign clothes and propagating the Swadeshi clothes that helped a lot in developing this industry in India. But the partition of India in 1947 adversely affected the industry of the country.

Most of the Muslim weavers migrated to Pakistan and the industry got divided into two parts. There were 394 cotton mills in India before the partition. Out of these, 14 mills went to Pakistan and the remaining 380 cotton mills continued to operate in India.

On the other hand, 40% of cotton producing area became the part of Pakistan and only 60% area remained with India. That is why India was compelled to import raw cotton to meet the input requirements of its 380 mills.

Indians five-year Plans proved a boon to cotton textile industry. During planning period, this industry not only made remarkable development but also established milestone in international market.

The Government, in1993 by its textile Development and Regulation Orderí has made the industry license free (2001). In April1951, i.e., on the inception of India is economic planning in India, there were 378 cotton mills, and 11 millionsëInstalled spindleí (1.84 million spinning and 9.16 million composite)

GROWTH VISION OF COTTON SECTOR IN INDIA

Production

Indian cotton sector has come a long way in achieving record productivity, production, consumption and exports. However, the momentum in growth is expected to be accelerated in the coming years

There is a vast potential for increase in yield. The present national yield of 500 kg per hectare in India works out to 3 bales of 170 kegs per hectare with reference to total area under cotton being 9 million hectares approximately.

This leaves a lot of potential to be exploited. Even today, productivity in several cotton growing States in India is well above the World average. India has the potential to increase its yield to 4 bales of 170 kgs per hectare by 2010 and it should reach 5 bales of 170 kgs per hectare by 2012.

Assuming the area under cotton cultivation remaining constant at around 9 million hectares, India should achieve an yield of around 850 kegs per hectare and a crop of about 45 million bales by 2012, so as to meet the projected requirements of Textile Industry by that time.

Export

Export would continue to be a focal point in India. In order to further strengthen the Indian cotton economy with sustained exports, the following thrust areas have been identified:

- Accelerate contract farming and make appropriate arrangements with farmers
- Hedging facilities for farmers through cotton futures, enabling them to choose appropriate varieties of cotton for sowing and better price realization
- Farmers to have ready access to modern production technology, pure and good quality seeds, essential inputs and credit through networking and link up with concerned agencies including research and development organizations
- Adopt best pre and post harvest practices to minimize contamination
- Processing of bales in renovated, modernized factories accredited by the Technology Mission on Cotton
- Quality evaluation only through instrument testing
- Delivery schedule to be strictly adhered to
- Sanctity of contracts to be fully observed
- Continued thrust on sustained improvement in quality

In conclusion, cotton economy in India will continue to grow at a healthy pace with Indian cotton and textile industry set to play a much greater role in the International markets.

EVOLUTION OF COTTON IN INDIA

In India, though the research on cotton was started in early 1990s, development of variety, suitable for the Country was attained only in late 1990s. After considerable field trials in late 1990s,

Government approval was given for cotton cultivation in the Country by 2002 in the Central and Southern States and approval was granted in the Northern States in 2005. The number of varieties of cotton with Government approval now stands at 20.

In 2003-04, almost 86,000 hectares of cotton were planted in India, almost three times the area cultivated in 2002-03, being the first year biotech cotton was approved for commercial planting.

The area under Bt cotton expanded profoundly year by year and the change was much more visible during the year 2004-05 when it expanded to more than half a million hectares.

Presently, about 40% area under cultivation is under cotton and cultivation in India is expected to grow exponentially to almost 70 – 75% of the total area under cotton cultivation. The following chart illustrates the growth of cotton cultivation over the last 5 years.

Year	**Area under Cotton in hectares**	**No. of Farmers**
2002-03	29,307	Few only
2003-04	85,927	≥40,000

2004-05	5,34,731	3,00,000
2005-06	12,50,833	10,00,000
2006-07	38,00,000	≥20,00,000

CONCLUSION AND SUGGESTION

The Government has also initiated efforts to build capacity both within the Government agencies and in the private sector.

National Implementation Unit (NIU) has been established in MoCS within the framework of EIF with an objective of developing it as a fully capable unit and thereby facilitating national capacity building.

The NIU will be engaged in preparing and implementation of EIF Tier one and Tier two projects including capacity development. It will also monitor the implementation of selected projects.

The Government further believes that the private sector is the real player of trade and the Government's role is to regulate, facilitate and expand trade in international markets by effective bilateral and multilateral trade negotiations.

The Government also supports the private sector in enhancing their capacity by providing assistance to increase their productivity, efficiency and competitiveness.

In order to liberalize the economy and make it private sector friendly, it has amended the existing laws and introduced new laws and regulations as required in a timely manner.

Similarly, it has promulgated new economic policies including trade and industrial policies, considering the changed context of globalization and liberalization.

It has tried to promote private sector investors, both domestic and foreign, by providing them various incentives through the new Industrial Policy 2010, Board of Investments Act 2011 and other investment related policies and agreements like BIPPA and double taxation avoidance agreement.

The Government has taken several initiatives to remove supply side constraints and to diversify and increase the size of export basket.

Major challenges to T-G sector workers in Nepal

- Implementation of Labour laws
- Social protection
- Health & safety
- Anti union policies of employers and management
- Problem of protection of cadres & increasing Deunionization
- Workers Education and Militancy
- Financial problems

Code of Conduct

Strength of hand garment textile

On the other hand garment industry is a newer one. The history of garment industry in Nepal starts basically from 1985.

Its growth have been very fast and it has become the second largest item of export in Nepal after the woolen carpet as the first item of export with viewpoint of foreign exchange earning in Nepal.

Organized form of textile industry has become a sick industry with almost no possibility of revival because of easy & heavy import of textile from neighborhoods countries – India and China.

Textile industry of the country has become extremely sick also because of the direct import of readymade garments at very cheap prices. It has become sick also because of no improvement in the quality of production.

Conclusions and next steps

- **Present Trade relations & Business volume of different products with India/ Gujarat**

- ✓ <u>Industries</u>

  Tourism, carpet, textile, small rice, jute, sugar and oilseeds mills etc

India is Nepal's largest trade partner and biggest source of foreign investment. India accounts for about 44% of the total approved Foreign Direct Investment (FDI) and 25.2% of the approved ventures with foreign investment in Nepal.

Indian business ventures in Nepal cover diverse fields like Manufacturing, Services (banking, insurance, dry port, education and telecom), Power sector and Tourism.

The export areas that Nepal does best in are the production of garments and carpets industry. With the European Union accounting for approximately 47% of all garment and rug exports. Nepal has also steadily climbed the scales in terms of ease of doing business in, with an increase of 3 places to 107.

The Nepali economy has also been doing very well over the past few years, with economic growth in the 2000’s averaging between 4-6% on a annual basis.

The top ten imports of Nepal from India were petroleum, coal products; chemical, rubber, plastic; ferrous metals; machinery and equipment; mineral products; textiles; transport equipment; food products; motor vehicles and parts; and metals.

Basically, the imports (demand) from India are pretty much priced inelastic

A good example of change in technology is buses that lower the floor for easy entry. These provide better accessibility for disabled and elderly people.

India country summary

India has a huge but rather heterogeneous textile and clothing industry. On one hand the big

International brand houses are present with their sourcing activities but the huge and rapidly

growing domestic demand also motivates the business of the unorganized sector producing
Bulk/mass products with typical low quality problems.

India’s strength and weakness is the diversity of the operators. Low cost workforce and low cost material is available, but there are still major issues with social responsibility and environmental issues. Many governments

Initiatives have been launched to tackle these, and also logistic hubs are being developed and
More is being invested in training and education, also in the field of design.

However, the import duties and tariffs are still high which is an disadvantage making India less
Attractive for foreign companies to enter.

India would need latest technology and innovations in order to be more competitive in niche products and materials and to increase productivity which often is low.

Labour force may be cheap but inevitably that means also low-skilled workers and poor understanding of process efficiency. India’s one weakness is overall a poor delivery performance, again this varies hugely.

Presently, about 40% area under cultivation is under cotton and cultivation in India is expected to grow exponentially to almost 70 – 75% of the total area under cotton cultivation.

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Nepal country summary

Nepal is particularly strong in carpets and woolen pashmina products. Nepal also enjoys manyInternational development programs and is currently in negotiations with the US on a tradeAgreement.

This agreement would allow garments duty free acees to the US markets. Like SriLanka, also Nepal depends heavily on imported fabrics and raw materials. Logistically Nepal is not very favorable because of its land-locked location and poor surface infrastructure.

Corruption and lack of transparency in legal system are issues for foreign companies operating in Nepal. Also the domestic market is relatively small which makes that Nepal is neither that attractive to foreign investment nor is the government planning any major development initiatives for the sector.

There is rail road being built between China and Nepal which mayPresent new opportunitiesThe production of cotton fabrics and sysnthetics and blends would be in high demand. In view of the high priority attached to this industry, investor is assured of very good conditionsfor profitable investment

Some Key Features of the Nepalese Economy

Nepal with its population of 25.3 million has an annual per capita of US $ 240 that places Nepal atOne of the poorest countries in the world. The land-locked geo-physical location, limited Resource-endowments, centuries of political and economic isolation, rugged mountainous terrainAnd late start in development endeavor, all collectively have contributed to the social andEconomic backwardness of the Kingdom. Since 1950, supported by pouring of external aid, Nepal started to divert its public resources to economic and social development with marked improvement in some key areas i.e., expansion of physical infrastructure, access to school level education and safe drinking water etc. However, development efforts so far have not been able to alleviate poverty, especially, from rural areas, where most of the poverty stricken people live, constituting the national average of 32 percent people below poverty line. From the perspective of economic, social and human development indicators, Nepal stands at the bottom of list of South Asia. Out of about 57 percent of the population classified as economically active, 65.7 percent were engaged in agriculture in 2001 with the lowest value added per worker.

Definition and category of industrial enterprises

The prevalent Industrial Enterprises Act, 1992 (TEA), which was amended in 1997, has classified industrial enterprises into four categories. The definitions of industrial enterprises in Nepal, like in other countries, have undergone change over the passage of time due to change in industrial policy and thrust in the assistance programs. No categorization of enterprises involved in trading, service, commercial activities and other business have yet been made.

Role of industrial enterprises in the national economy

Industrial development in Nepal is at an initial stage with all types of manufacturing industries contribution for not more than 10 percent of the Gross Domestic Product (GDP) and providing employment to not more than 2 percent of the labour force. However, small and medium enterprises (SMEs) overwhelmingly dominate the industrial sector of Nepal. It plays a major role as sources of employment m the manufacturing sector and significantly contributes to value addition and export trade of the country. Industrial products made in the country have reached more than 250 items and about a dozen of them have been included in the national list of export.

The export of manufactured and processed goods accounted for more than 80% of total export and which is a significant improvement when we look at the figures of 15 years back. SMEs account for 96% of total industrial establishments and 83% of total employment generation by industrial sector. Only SMEs have contributed almost 9% in overall GDP.

The share of manufacturing value added to GDP increased from 5.7% in 1985 to 9.9% in 2001. Similarly, the share of manufacturing in exports augmented from 44 percent in 1985 to 80 percent in 2001. The manufacturing export growth has been greatly assisted by improved trade
and exchange rate policies. However, they could not be sustained after the implementation of the major reforms.

Brief review of the existing policy for the promotion of industrial enterprises

The change and development in industry sector can only be achieved if the policy environment for growth is conducive and all disadvantages and bottlenecks are removed. Considering this reality, the government has adopted the more liberal economic policies after the announcement of its commitment towards market-oriented and private sector-led open economy. Although these policy initiations have some positive impacts, the entrepreneurship development is still constrained in the present policy and business environment Though the new policies allow competitiveness in the resourcing and marketing, the domestic goods have to compete with imported good as the supplies of the local industries are not given preferential treatment under the liberalized regime.

The deregulatory regime adopted both in industrial policy and trade policy has given the opportunity to grow with minimum interference from the government. But policy biases in favor of larger business and against of smaller business have created avoid that puts growing industrial enterprises in difficulties. The government's policy also biases in favor of cottage and small industries at one end and the large and 'modern' enterprises at the other, have created a "missing middle" where middle range SMEs are not visible.

Basic flaws in policy measures such as inconsistent and corrupt tax system, failure of industrial policy measures to create conducive industrial environment and frequent uncalled for changes in trade regulations have also impeded the growth of industrial sector.

Economic reforms in Nepal through liberalization and deregulation policies have certainly created a conducive environment for trading enterprises, but the strategic policy measures enabling the enterprises to be competitive and specialized seem to be under-emphasized.

Implementation of government policies is always a subject of controversy and there is always a gap between policy commitment and policy implementation.

Incentives and facilities granted for the promotion of industries

The existing industrial enterprises act, 1992 (with amendment in

1997 and 2002) has granted the following facilities and incentives to the Industries:

Industries, other than tobacco or alcohol related ones would not be imposed more than 20% income tax (corporate tax) on their industrial income.

10% tax will be levied on dividends earned from investment in any industry.

Double sales tax will not be levied on raw material and products of any industry.

A 10% income tax exemption will be granted to industries utilizing 80% or more of local raw material and 100% local manpower. Moreover, a 10% income tax exemption will be granted to manufacturing industry providing direct employment to 600 or more people in a year.

Industries (other than cigarette, bidi, and alcohol industries) established in remote, undeveloped and underdeveloped areas are entitled to a tax exemption of 30, 25 and 20 percent respectively.

No income tax will be levied on profits earned through export.

Customs duties, excise duties, sales tax and premiums on raw materials of export-oriented industries will be reimbursed within 60 days from the date of application. Similar facilities will be given to an industry if it sells its products within the Kingdom of Nepal in any foreign currency and to an industry, which produces intermediate goods to be utilized for the production of exportable goods.

No tax, duty or fee shall be levied on machinery, tools and raw materials utilized by the industry established in the export-processing zone and on exportable products. Similar facilities are granted to an industry exporting 90% or more of its products.

Status and policy for the promotion of ancillary industries

SMEs networking, clustering and sub-contracting exchanges are more often used by the countries to smoothen and increase collective output, buy raw materials at better prices, efficient use of production facilities, share training and professional's costs and share the expenses connected with product development, marketing and distribution. In this case, Nepal stands at very primitive stage. In Nepal, only a few ancillary industries are operating. Most of these industries are operating with backward and forward linkage rather than developing the ancillary industries in the country.

Some multinational companies such as Unilever Nepal Ltd is concentrating on manufacturing relatively higher-value added products, shifting the production of other items to ancillary local enterprises. A local company. National Soap Industries now meets its entire detergent powder requirements; and two other local enterprises manufacture detergent bars, and pack blended teas.

Thus, Unilever Nepal is developing partnerships with local industries, though it does not source much of its inputs from within Nepal. Nepal Colgate Palmolive Industries also relying on another Indian Joint Venture Industry named as Essel Packaging Industries for obtaining the packaging materials.

Policy :

To emphasize development of small, cottage and agro-based industries in order to create the employment opportunities particularly in rural areas.

Strategy:

To provide additional incentive to the entrepreneury reinvesting his profit to his own industry or to other ancillary industries.

Facility:

Incase of industry which diversifies itself through the reinvestment or expands its installed capacity by 25% or more, or modernizes its technology or develops the ancillary industries, it may deduct 40% of new additional fixed assets from its taxable income. Such remission may be deducted in lump sum or installment within a period of 3 years.

Policy regarding export and import trade

The trade policy of 1992 was initiated for promoting export and streamlining import through reforms in monetary and fiscal spheres and simplifying a Administrative procedures. The key measures included in the present trade policy regime are:

Reduction and restructuring of import duties

Elimination of most quantitative restriction and import licensing requirementIntroduction of full convertibility for current account transactions, andRemoving duties in all exported products.

Nepal maintains trade system that is relatively low tariff and is relatively free of restrictions. A brief note on import and export trade regime is given below:

Import trade regime

improving tariff classification,
eliminating tariff discrimination based on different importers and reduce basic tariff rates to equalize effective protection between the various sectors, and reducing additional tariff rates to reflect the true price of imports.

The reform measures also liberalized import control in terms of dismantling of non-tariff barriers, including elimination of quantitative restrictions on imports and phasing out import license auctions and replacing than with appropriate tariffs.

Export trade regime.

The government has made the following provisions to encourage exports:

An export license is no longer required,

The export duty has been abolished except for selected commodities, and

The tax registration certificate is required to be presented only once in each year.

The government has incorporated the following direct promotion measures in the Industrial Policy (1992):

Reduction of export service fees,

Allowing exporters to retain export earnings in convertible currency accountsIncome tax concessions on income from exports, andImproved duty drawback scheme and bonded warehousing system.
At present, above mentioned those two schems are in operation to stimulate exports.

Policy regarding technology transfer

Obtaining improved technology is one of the most important reasons why developing countries wish to attract foreign direct investment (FDI). The "hardware" aspect of technology embodied in machinery and equipment has to be imported in Nepal, which has virtually no capital goods industry. However, other aspects of technology transfer through FDI are also relevant including.

The transfer of skills to the employed labourforce;Diffusion of technology outside the affiliates/subsidiaries, andThe introduction of new products.

The government has opened to transfer the foreign technology in all types of industries (cottage, small, medium and large scale) where as foreign investment is not permitted in cottage as well as some selected industries of small, medium and large scale. In this sense government is very open and liberal for transferring the foreign technology' in the country.

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Policy regarding exchange rate

Nepal's exchange rate policy closely reflects the economic relation with India. This is evident from the fact that Nepalese currency (NC) is pegged with Indian currency for the last 45 years despite several shifts in Nepal's for exchange regime towards hard currencies. Accordingly, any change in the IC -US dollar is passed on to NC -US dollar and subsequently to NC -other convertible currencies exchange rates.

Nepal maintains a formal foreign exchange control regime that requires the surrender of foreign currency export proceeds. Current account transactions are delegated to the commercial banks whilst capital account transactions requires approval of the Central Bank One useful concessions is the ability of exporters to maintain foreign currency accounts at commercial banks

policy recommendations :

As environment created by globalization trend has become reality, opportunities and safety measures envisaged under WTO regime have to be optimally utilized for the benefit of development and growth of SMEs in the least development country like Nepal as well as developing countries of this economic region. For the promotion of SMEs by developing trade relation and technical assistance with the regional block, following measures are recommended to be adopted:

Focused should be made on the following areas to enhance the competitiveness among SMEs: (i) Resource endowments (ii) Human skills (iii) Technology, and (iv) Policy environment.

Linkages should be created through policy options between transnational companies and SMEs for enhancing access to finance, transfer technology and effective marketing.

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Permission should be granted to adopt the WTO compatible subsidies in research, assistance to disadvantaged regions and environmental requirements, provision of low interest for machinery and equipment for strengthening SMEs.

Technical assistance under WTO system should be transferred and utilized for capability enhancement of SMEs.

Cheaper ways of meeting standard, improving quality, and getting certification for the products of SMEs should be explored and established to meet WTO challenges of technical barriers to trade and sanitary &phyto-sanitar agreements.

Partnership alliances should be formed for having combined strength of government agencies, private sector and donor communities to serve the interest of SMEs in building competitive capability.

The situation should be created for networking and bringing common SMEs under voluntary to help in having stronger voice at policy level to represent for their cause and interest in national, regional as well WTO negotiations

Human development impact of the expiry of quotas

As discussed above, the ready-made garment (RMG) industry in the countries hit hard by the expiry of quotas (Fiji, Maldives, Mongolia and Nepal) was established by foreign investors whose T&C exports were bounded by the quota system. These small exporters have the disadvantage of being landlocked or small island economies as well supply-side problems, as discuss later in this chapter. The expiry of quotas triggered the closure of factories in those countries as foreign investors shifted production back to their own countries. As a result, thousands of jobs were lost in these countries.

Challenges facing developing countries

Getting a foothold in the T&C sector may not be a difficult task, but sustaining and achieving growth may be a real challenge for a number of developing countries. It is not advisable to lump all the countries together because a country with all the necessary prerequisites to become a leading exporter of T&C products (e.g., China) faces challenges that lie more on the demand side, or market access barriers, than on the supply side. However, a small landlocked LDC such as Nepal faces challenges on both the demand as well as the supply side. Therefore, only selected and the most common challenges are highlighted in this section, and examples from countries facing each specific challenge have been included where available.

1. Protectionist forces

Given the existence of powerful vested interests in the T&C industry, particularly in developed countries, the protectionist forces are not likely to wane but rather to be further accentuated in the future. However, the form of protection may change over time. In the past, there was double protection to the T&C industry – through quotas and high tariffs. In the case of China, very little would appear to have changed even after the phasing out of quotas.

Powerful and vocal protectionist lobbies have not only found ways to protect their industries in connivance with their governments, but have also managed to couch these arguments in an altruistic fashion in order to remain “politically correct”. Domestic job losses are the largest single argument made by these interests, followed by helping weaker countries move up the industrial ladder so as to enable them to grow out of poverty through preferential arrangements. Therefore, when it comes to the T&C industry, the normal economic rationale of the need to prevent distortion in the economy caused by trade protection becomes hollow. Moreover, the advice to follow a transparent means of protection such as tariffs, should the protection be inevitable, is also not fully heeded. This is followed by several other near-arbitrary measures such as the imposition of trade remedy measures and discriminatory measures in preferential trading agree-ments. The various forms of protection in the developed countries, some of which are truly ingenious, are discussed below:

Tariff barriers

On average, the tariffs imposed on T&C products are four times higher than the average industrial tariffs imposed by the developed countries. The average post-Uruguay Round tariffs on T&C products in three major industrial countries are 14.6 per cent in the United States, 9.1 per cent in the European Union and 7.6 per cent in Japan, while their average industrial tariffs are 3.5 per cent, 3.6 per cent and 1.7 per cent, respectively

Non-tariff barriers

Of the several non-tariff barriers, only two – trade remedy measures and regulatory/standard-related barriers – are discussed in this subsection. While the first one is a traditional barrier that is still being actively used by both developed and developing countries, the second one is an emerging barrier that reduces the competi-tiveness of the T&C exporters of developing countries. A common element in these barriers is that they can be, and have been abused for protectionist purposes.

Regulatory barriers

Government regulations or industry standards for goods can have an impact on trade in at least three ways: (a) they can facilitate exchange by clearly defining product characteristics and improving compatibility and usability; (b) they also advance domestic social goals such as public health by establishing minimum standards or prescribing safety requirements; and (c) they can hide protectionist policies. Tariffs cannot block market entry unless they are prohibitive. However, regulatory and standard-related barriers could effectively foreclose the market for the exporters if they are stringent and complex, making compliance de facto very costly if not impossible. These are often known as “frictional” barriers in that they raise the cost to the exporters, but do not provide any revenue to the governments imposing such requirements.

Supply side constraints

Even if market access barriers are removed, most developing countries still face several supply-side constraints, which impede their competitiveness. The five most common constraints, some of which cut across the entire manufacturing sector, are discussed below.

Poor human capital

The lack of skilled and/or trained human resources, which impedes productivity growth, is a major reason for the inability of most developing countries to take full advantage of trade liberalization, and for others the incapability of facing a threat to their survival. While the wages paid to T&C workers in several Asian countries are much lower than those paid in China, they are not as competitive

Poor quality of infrastructure

The poor quality of infrastructure, whether dilapidated roads or ports, antiquated telecommunications networks or power supplies, adds to the cost of doing business. Most developing countries face these problems, but the degree may differ from country to country. Infrastructure is a major constraint in some South-East Asian countries such as the Philippines and Indonesia, and the situation in African and South Asian countries is arguably worse.

Limited trade facilitation measures

Trade facilitation is defined as the simplification and harmonization of interna-tional trade procedures. These procedures encompass the activities, practices and formalities involved in collecting, presenting, communicating and processing data re-quired for the movement of goods in international trade. Procedural hurdles can be corrected with adjustments in customs rules and formalities as well as investment in computerization to speed up the process

High costs of inputs

Except for countries with vertically integrated production structures, most devel-oping countries have to rely on imported fabrics and accessories in the process of production. The absence of a vertically integrated production structure may not be a major disadvantage provided the inputs can be obtained in a short time at international prices. However, due to the problems mentioned above in the section on infrastructure and trade facilitation, it is not possible for most South Asian and sub-Saharan African countries to access inputs on short order.

Limited access to finance

Access to credit, especially for small and medium-sized enterprises, including T&C ventures, is a major problem in many Asian and African countries that hinders the prospect of unleashing entrepreneurial potential. Due to the time and difficulties involved in recovering loans in the event of default, and generally the high level of non-performing assets, financial institutions exercise extra caution while lending. Accordingly, they do not consider small enterprises and/or those enterprises with limited ability to provide collateral security as creditworthy.

Emerging issues

Apart from the conventional issues discussed above, trade in T&C products is going to be influenced by several others emerging issues, some of which are discussed below.

Changing buyers' behaviour

Textiles and clothing, and particularly clothing, is a classic example of a buyer-driven commodity chain that is characterized by decentralized, globally dispersed production networks, coordinated by lead firms who control design, marketing, and branding at the retail level. Many of the most powerful branded retailers such as Gap, Nike, Wal-Mart and Liz Claiborne own no factories and do not necessarily "make" in order to sell. Yet, by controlling design, input sourcing, branding and distribution, these powerful retailers capture the largest share of value added in apparel and textiles production

Critical mass

Buyers will be reluctant to place orders with producers who have a small share in the world market. According to this view, countries with large production capacities and the ability to deliver huge quantities are likely to be preferred by buyers, as this keeps down the input costs of those suppliers, the transaction costs of dealing with multiple suppliers and the trading costs of shipping from those countries. This view is supported by the United States Department of Commerce, which estimates the number of countries from which major items would be sourced by United States buyers will drop to 25 per cent of current levels by 2010

Risk spreading

A possible scenario opposing the critical mass sentiment is the risk-spreading argument. Buyers, desirous of maintaining uninterrupted supply, would like to diversify the sources from which they import T&C products. For example, according to the United States International Trade Commission (2004): "To reduce the risk of sourcing from only one country, the United States importers also plan to expand trade relation-ships with other low-cost countries alternative to China".

Total solution providers

Buyers' preferences are likely to be tilted in favour of suppliers who can cover all stages of the value chain in production, ranging from product design to input sourcing, manufacturing, packaging and shipping of the final product (Adhikari and Yamamoto, 2005). Several East Asian manufacturers have now moved up from assembly of cut fabric into more complex operations that entail coordination, supply of machinery and finance, and management of subcontractors. They are now full-package suppliers for international buyers, and are operating as transnational intermediaries receiving orders from large retailers and subcontracting to their network of producers, which are located in Asia, Latin America and Africa (Hayashi, 2005). This issue is further discussed below under the subheading “value chain management”.

Ethical concerns

As discussed above, pressure from consumer groups in industrialized countries, including the boycotting of products manufactured in sweatshops or in an environmen-tally-unfriendly manner, has brought ethical concerns into the decision-making matrix of the buyers. Most buyers have themselves developed a “code of conduct” with which they want all their suppliers to comply. This includes issues such as working conditions, workers’ health and safety, minimum wages, maximum working hours and overtime.

Value chain networks

Large retail chains such as Wal-Mart and “branded marketers” such as Nike and Reebok have been outsourcing their production to low-wage countries but have retained control, as noted above, over the major portion of the value chain. By keeping control over the design and marketing functions, they also maintain close control over the global T&C value chain through standard-setting, often sourcing raw materials them-selves, distributing them globally and then importing the made-up garments

Adjusting to the post-quota world

The temporary safeguards imposed on China have changed the entire dynamics of the T&C trade, with several countries either holding on to their past gains or achieving remarkable export growth. However, many analysts believe that this situation is short-lived (Razzaque and Raihan, 2006; Bhatt and others, 2006; Sisouphanthong and others, 2006; and Chan and Sok, 2006). From this point of view, the real competition in the world T&C market will begin only after 2008 with the phasing out of these temporary quotas.

A

GLOBAL/ COUNTRY STUDY AND REPORT

On

"Nepal"

Submitted to

Sardar Patel College of Administration & Management

Approved by All India Council for Technical Education (AICTE), New Delhi

Affiliated to Gujarat Technological University, Ahmedabad

SPEC Campus, Vidhyanagar – Vadatal Road Bakrol – 388315, Anand (Gujarat)

IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In

Gujarat Technological University

UNDER THE GUIDANCE OF

Faculty Guide

Ms. Varsha Kuchara

Assistant Professor

Submitted by

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MBA Semester IV

Sardar Patel College of Administration & Management

MBA PROGRAMME

Affiliated to Gujarat Technological University

Ahmedabad

June, 2013

Students' Declaration

We are hereby declare that the report for Global/ Country Study Report entitled "NEPAL" is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

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Place : ……..

Date :

PREFACE

As a student of management, apart from theoretical studies we need to get a deeper insight into the practical aspects of those theories by working on various projects. So these projects have high importance in management studies to enhance the knowledge and skills.

Management in India is heading towards a better profession as compared to other professions. The demand for professional managers is increasing day by day. Working on this project has been an enriching experience.

This project will help us a lot in the professional growth. It has given us the confidence to prepare for ourselves as fully fledged international marketing professional in the eminent future

A global country report understanding of the principle will increases their Decision making ability and sharpening their tools for this purpose between two country relationship. The scope of the work under taken by us includes introduction to basic & major things about the Impact of relation of country's business.

We thank all the faculty who always been a source of motivation and support to all the students of SPCAM. We pay our gratitude to Prof. Varsha Kuchara and all faculty members of the institute without their help it would have been impossible to conduct such a study. We must acknowledge our heartiest thanks to them.

We have put our maximum effort to gain the information. If any error or mistakes are found in collection data kindly ignore.

ACKNOWLEDGEMENT

We wish to express over grateful thanks to all those who have helped over immensely for completion of the project. Though we are unable to mention all of their names individually here it will be a lapse on my part if names of certain important personalities are not mentioned.

We are extremely thankful to MS. Varsha Kuchara who was my project guide, without his invaluable guidance and advice this project would not have been completed.

We also acknowledge my sincere thanks to Mr. Vashishthdhar Dwivedi, Managing director of SPCAM, who has given me the opportunity to undergo training on global country like "Nepal" and gain some knowledge about the global country relation and business and opportunity .

We will be failing in my duties if we don't mention here the cooperation and help that I received data collection on secondary data.

We are thankful to the faculty members of my college, SPCAM and one and ours guide of the helping me in one way or other.

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PART – I

Economic overview of Nepal

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy

❖ Nepal Demographics Profile 2012

Country	2008	2009	2010	2011	2012
Nepal	29,519,110	28,563,380	28,951,850	29,391,880	29,890,690

- ✓ **Population**

  29,890,686 (July 2011 est.)

- ✓ **Age structure**

  0-14 years: 34.6% (male 5,177,264/female 4,983,864)

  15-64 years: 61.1% (male 8,607,338/female 9,344,537)

  65 years and over: 4.4% (male 597,628/female 681,252) (2011 est.)

- ✓ **Median age**

  Total: 21.6years

  Male: 20.7 years

  Female: 22.5 years (2011 est.)

- ✓ **Population growth rate**

  1.768% (2011 est.)

- ✓ **Birth rate**

21.85 births/1,000 population (2011 est.)

- ✓ **Death rate**

6.75 deaths/1,000 population (July 2011 est.)

- ✓ **Net migration rate**

2.58 migrant(s)/1,000 population (2011 est.)

- ✓ **Urbanization**

Urban population: 19% of total population (2010)

Rate of urbanization: 4.7% annual rate of change (2010-15 est.)

- ✓ **Major cities - population**

KATHMANDU (capital) 990,000 (2009)

- ✓ **Sex ratio**

At birth: 1.04 male(s)/female

Under 15 years: 1.04 male(s)/female

15-64 years: 0.93 male(s)/female

65 years and over: 0.87 male(s)/female

Total population: 0.96 male(s)/female (2011 est.)

- ✓ **Infant mortality rate**

Total: 43.13 deaths/1,000 live births

Male: 43.15 deaths/1,000 live births

Female: 43.1 deaths/1,000 live births (2011 est.)

- ✓ **Total fertility rate**

2.41 children born/woman (2011 est.)

- ✓ **HIV/AIDS - adult prevalence rate**

0.4% (2009 est.)

- ✓ **HIV/AIDS - people living with HIV/AIDS**

64,000 (2009 est.)

HIV/AIDS - deaths

4,700 (2009 est.)

- ✓ **Nationality**

Noun: Nepali (singular and plural)

Adjective: Nepali

- ✓ **Ethnic groups**

Chhettri 15.5%, Brahman-Hill 12.5%, Magar 7%, Tharu 6.6%, Tamang 5.5%, Newar 5.4%, Muslim 4.2%, Kami 3.9%, Yadav 3.9%, other 32.7%, unspecified 2.8% (2001 census)

- ✓ **Religions**

Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001 census)

- ✓ **Languages**

Nepali (official) 47.8%, Maithali 12.1%, Bhojpuri 7.4%, Tharu (Dagaura/Rana) 5.8%, Tamang 5.1%, Newar 3.6%, Magar 3.3%, Awadhi 2.4%, other 10%, unspecified 2.5% (2001 census)

note: many in government and business also speak English (2001 est.)

- ✓ **Literacy**

Definition: age 15 and over can read and write

Total population: 48.6%

Male: 62.7%

Female: 34.9% (2001 census)

➢ Role of tourism industry in the economy:

Nepal's **Travel & Tourism** sector is a major job provider with the sector accounting for **3.3 percent** of the total employment in the country in 2011. The travel trade sector (hotels, travel agents, airlines and other passenger transportation services) generated **412,500** direct jobs and attracted capital investment of **Rs 12** billion.

The total contribution of the travel and tourism sector to the Gross Domestic Product (GDP) stood at Rs 119.1 billion in 2011. Travel and tourism direct contribution to employment and 127 in terms of attracting foreign visitors among 181 tourist destinations. The report further projected that the travel trade sector's contribution to the country's total employment will rise to 3.7 percent in 2012.

The major source of foreign currency is tourism industry. The spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism.

Tourism reaches into the varied aspects of Nepalese life and its benefits are encompassed by diverse sectors directly and indirectly. It generates employment opportunities and helps in the promotion and conservation of the art and culture. The tourism industry is one of the foreign currency earners in the country and thus makes a significant contribution to the economy.

❖ Effect of the tourism service sector on the economy:

By tourism service in Nepal they create the employment & also foreign exchange earnings. Tourism is an important contributor to the economy, constituting 3.6 % of GDP and 26.3% of export earnings. This is also supported the industry by building airport .Tourism will continue to represent an important renewable resource, with government targets of a million visitors a year promoted through campaigns such as "Visit Nepal Year 1998". Also expansion of tourism related activity such as provision for rural infrastructure &spliced production of food.

The structure of economically active industries in different economic sectors in 1991 & 2001 is as follows:

Sr. No.	**Description**	**Census of 1991**	**Census of 2001**
1	Agriculture	81.2	65.7
2	Mining & quarrying	-	0.2
3	Manufacturing	2.0	8.8
4	Electricity & water	0.2	1.5
5	Construction	0.5	2.9
6	Hotel and Trade	3.5	9.9
7	Transport & com	0.7	1.6
8	Finance & real estate	0.3	0.8
9	Social services	10.2	7.8
10	Others & unidentified	1.4	0.8
	Total Employment	**100.0**	100.0

However, the contribution of non-agriculture activities to the GDP is slowly increasing in recentyears. Percentage contribution of agriculture to GDP has gone down to 39 percent in the year

2004/05 from 48 percent in the year 1990/91. Hence, in terms of employment generation as well

as GDP, Nepal still remains predominantly an agriculture country.

<u>Gross Domestic Products by their Sources: (At 1994/95 prices)</u>

No.	**Description**	**1994-95**	**1999-2000**	**2003-04**
1	Agriculture	85569	100856	119016
2	Mining & quarrying	1117	1480	1621
3	Manufacturing	19555	26646	26533
4	Electricity & water	2862	4025	7087
5	Construction	23093	31550	32020
6	Hotel and Trade	24326	31036	30095
7	Transport & com	13995	19644	24527
8	Finance & real estate	20534	27026	30834
9	Social services	18924	24833	31565
	Total GDP	**209974**	**267096**	303298

The prevalent definitions of industrial enterprise in Nepal are as follows:

5. **Large industries**: Investment of more than NRs 100 million in fixed assets
6. **Medium industries :** Industries with a fixed assets between NRs. 30 million and NRs 100 million
7. **Small industries:** Investment up to NRs 30 million in fixed assets.
8. **Cottage industries:**Some specified traditional industries utilizing specific skill

or local raw materials and resources, using less than 5 KW of electric motor and related with national tradition, art and culture.

- **Impact of tourism sector / industry on the economy their analysis**

The first half of 2007 has shown the overall growth of 37.5% in total tourist arrivals with substantial 80% increase from developing markets. The volume markets like India & Bangladesh as well as the Value markets have also shown an encouraging growth.

In 2011-Nepal is observing "Nepal Tourism Year 2011" with quantified targets of:

- 1 million annual international tourists are expected
- 40 % are supposed to visit new tourism sites in the country.

The tourism industry is one of the foreign currency earners in the country and thus makes a significant contribution to the economy.

Overview of Industrial trade & Commerce:

Since 1993, India also allows movement of goods from one part of Nepal to another through a simple process of customs undertaking. Nepal has agreed to extend similar facility to India in the course of renewal of the transit treaty in March 2006.

India has extended Nepal direct transit routes to Bangladesh for bilateral and third country traffic. One road route and one rail route have been notified. The road route is through Kakarbitta-Panitanki-Phulbari-Banglabandha corridor. The rail route is through Radhikapur-Birol interchange point on India - Bangladesh borde

Since 1996, Nepal's exports to India have grown more than eleven times and bilateral trade more than ten times; the bilateral trade that was 29.8% of total external trade of Nepal in year 1995-96 has increased to 66.4% in 2010-11.

Nepal’s export basket to India mainly comprises Jute goods (9.2%), Zinc sheet (8.9%), Textiles (8.6%),Threads (7.7%), Polyester yarn (6%), Juice (5.4%), Catechue (4.4%), Cardamom (4.4%), Wire (3.7%), Tooth paste (2.2%) and M. S. Pipe(2.1%)

<u>The following table shows the volume of Nepal's annual trade with India</u>

<u>Amount in Ten Million Nepalese Rupees:-</u>

Particulars	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10
Export	3077.71	3891.69	4071.47	4172.88	3855.57	4100.59	3999.37
Import	7873.95	8867.55	10714.31	11587.23	14237.65	16243.76	21711.43
Balance	4796.24	4975.86	6642.84	7414.35	10382.08	12143.17	17712.06
Volume	10951.66	12759.24	14785.78	15760.11	18093.22	20344.35	25710.80
Share in %	57.58	61.29	63.18	62.03	64.34	57.77	59.08

Nepal’s main imports from India are Petroleum products (28.6%), Motor vehicles and Spare parts (7.8%), M. S. billet (7%), Medicines (3.7%), Other machinery and Spares (3.4%), coldrolled sheet in coil (3.1%), Electrical equipment (2.7%), Hotrolled sheet in coil (2%), M. S. wires, roads, Coils and Bars (1.9%), Cement (1.5%), Agriculture equipment and parts (1.2%), Chemical fertilizer (1.1%), Chemicals (1.1%) and Thread (1%).

Domestic market in Nepal is segmented and small due to lack of transport network and low purchasing capacity of the majority of consumers. Due to unrestricted open border with India, market price in Nepal in influenced by the prevailing market price of adjoining border areas of India. Even the supply situation across the border affects the supply of merchandise and the volume of trade transaction in Nepal.

The internal channel of merchandise trade in Nepal is four-tiered as listed below.

5. Farmer/Producer/Importers,
6. Wholesaler/Trading Agent/Authorized Dealer,
7. Retailer/Hawker, and
8. Ultimate consumer

To make the supply system fully oriented to development and consumer needs, following objectives are envisaged by the government in term of the development of internal trade:

3. Creation of conducive environment for the timely supply of goods derived from internal as well as from external import sources:
4. No restrictions on the movement of goods for internal trade and the goods for exports

- **<u>Trends in trade and investment</u>**

Bilateral trade was US$ 4.21 billion during Nepalese fiscal year 2010-11. Nepal's import from India amounted to US$ 3.62 billion and exports to India aggregated US$ 599.7 million. Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US $ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment.

Indian ventures in Nepal are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Some large Indian investors include, ITC, Dabur India, Hindustan Unilever, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints.

➢ **<u>Overview of Different Economic sector of the Nepal</u>:**

NEPAL IS ONE OF THE POOREST COUNTRIES in the world and was listed as the eleventh poorest among 121 countries in 1989. Estimates of its per capita income for 1988 ranged from US$158 to US$180. Various factors contributed to the economic underdevelopment--including terrain, lack of resource endowment, landlocked position, lack of institutions for modernization, weak infrastructure, and a lack of policies conducive to development.

➢ **<u>Agriculture Sectors</u>:**

Agriculture is the mainstay of Nepalese economy. It provides livelihood to approximately 80% of the population and accounts for 45% of the Gross Domestic Product (GDP). Due to rugged terrain, only 20 per cent of the total land is arable. Inrecent years overall economic growth rate declined from 4.8 percent in the 1990s to 3.2 percent during 2001-20. Nepal's agriculture is heavily inclined to food grains production guided by food sufficiency objectives and yet the food self sufficiency has often been in the doldrums.

➢ **<u>Industry sector</u>:**

Industry accounted for less than 20 percent of total GDP in the 1980s. Relatively small by international standards, most of the industries established in the 1950s and 1960s were developed with government protection. Traditional cottage industries, including basket-weaving as well as cotton fabric and edible oil production, comprised approximately 60 percent of industrial output.

1. **<u>Manufacturing</u>:**

In 1986-87 Nepal Standard Industrial Classification counted 2,054 manufacturing establishments of 10 or more persons from 51 major industry groups, employing about 125,000 workers.

2. Private company:

The history of incorporated private firms in Nepal is short. The Nepal Companies Act of 1936 provided for the incorporation of industrial enterprises on joint stock principle with limited liability. The first such firm, Biratnagar Jute Mills, was a collaborative venture of Indian and Nepalese entrepreneurs. It was formed in 1936 with initial capital of 160,000 Indian rupees.

3. Public company:

Public companies also had varied success. Between 1936 and 1939, twenty public companies were formed. Between 1936 and 1963, fifty-four firms were incorporated, but at the end of 1963 only thirty-four remained in operation. The success of public companies continued to be erratic.

4. Minerals:

The most important mineral resources exploited were limestone for cement, clay, garnet, magnetite, and talc. Crude magnetite production declined from a high of approximately 63,200 tons in 1986 to approximately 28,000 tons in 1989; it was projected to decline further to 25,000 tons in 1990

- **Service sector** :

The service industry has emerged as one of the major contributors to world GDP.The Government of Nepal is also increasing its emphasis on the services sector, considering its importance to the Nepalese economy in terms of its contribution to GDP, employment, international trade and balance of payments. Tourism is the largest industry- of Nepal, attracting 15 per cent of total foreign exchange earnings of the country. It provides direct and indirect employment to over 300,000 people in Nepal. Nepal is endowed with natural scenic beauty, rich cultural heritage and diverse sites for sightseeing and adventure opportunities.

Tourism was introduced in the 1950s, which got a further boost when restrictions on the entry of the foreign nationals were lifted. Since the Foreign trade of Nepal is characterized by the import of manufactured.

❖ **Strength of services sector**:

A. This is an area of comparative advantage in view of geographical constraint of the country.
B. The presence of different ecological belt and climatic conditions facilitate the development of multiple services sector.
C. Well developed communication and telecom infrastructures.

❖ **Challenges of service sector:**

- Inadequate physical infrastructures.
- Lack of adequate incentives to the investors.
- Low quality and standards of services.
- Labor issues.
- Poor governance.

❖ **Contribution to trade in service sector**:

Nepal has more open trade policy in recent year. Looking at the services sector trade from a global perspective, the imports and exports of services in the world economy are at about the same levels. The exports of service sector developed are more than the import of the service sector.

➢ Overview of Business & Trade at International Level:

India is Nepal's largest trade partner and source of foreign investment. Total bilateral trade has reached US $3.21 billion (NRS 257.10 billion) during Nepalese fiscal year 2009-10. Nepal suffers from a lack of both internal and external investment. This stems from low domestic savings, a small domestic market, a severe shortage of skilled labor, chronically corrupt and inefficient public administrations, high transport and operating costs, the inadequacy of power resources and, increasingly, political instability.

Membership and active participation on regional and international forums and organizations such as SAARC, BIMSTEC, WTO, World Bank, Asian Development Bank and UN Agencies is making Nepalese foreign relation effective and broad.

With a trade to GDP ratio of about 38 percent, an average tariff of 11 percent, and virtually no quantitative restrictions, Nepal is among South Asia's most open and trade-dependent country. Nepal has been adopting an open and market oriented trade policy for the last two decades with expectations that such policy generates positive impacts on the resource mobilization, economic development and poverty alleviation.

Nepal has adopted the liberal economic and trade policies under the auspices of multilateral, regional and bilateral free trade agreements. Nepal has also pursued the open economic policies since mid 1980s which was accelerated in 1990s. Realizing the importance of trade and its multiplier effects in the economic development process, the Government of Nepal, introduced 'Trade Policy' in 1992 with a view to optimize the benefits from trade liberalization, as an important part of economic liberalization.

The policy provided overall direction towards further liberalization and diversification of the trading regimes and at the same time ushered Nepal's trade to integrate at international level. In addition, it provided impetus to private sector for their active participation in the areas of trade and investment.

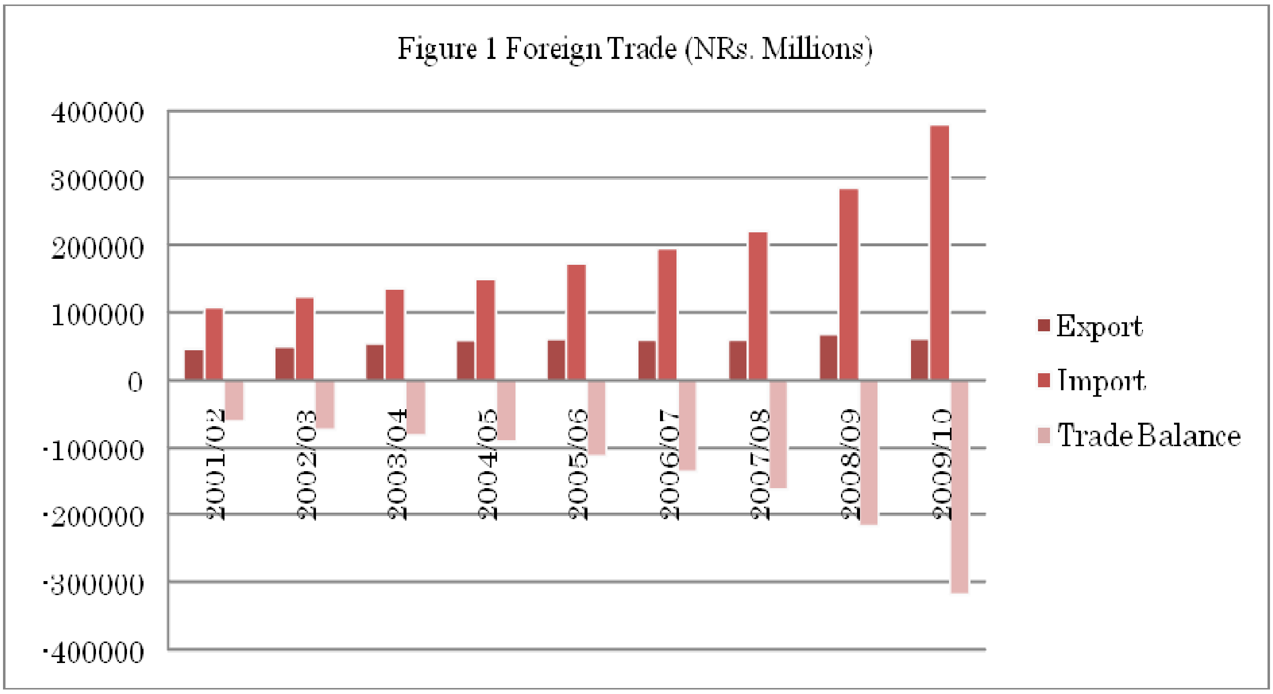
- **Export data of India – Nepal:**

Nepal’s export basket to India mainly comprises Jute goods (9.2%), Zinc sheet (8.9%), Textiles (8.6%), Threads (7.7%), Polyester yarn (6%), Juice (5.4%), Catechue (4.4%), Cardamom (4.4%), Wire (3.7%), Tooth paste (2.2%) and M. S. Pipe(2.1%).

- **Import data of Nepal – India**:

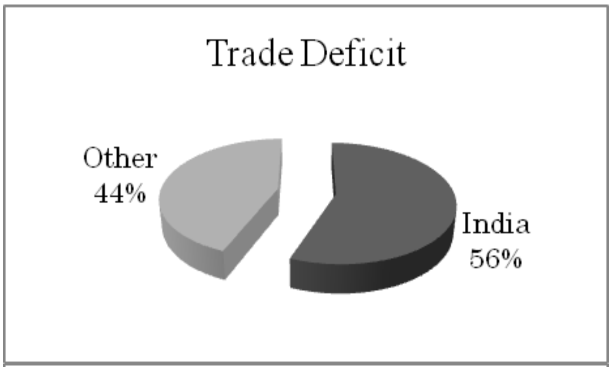
Nepal’s main imports from India are Petroleum products (28.6%), Motor vehicles and Spare parts (7.8%), M. S. billet (7%), Medicines (3.7%), Other machinery and Spares (3.4%), coldrolled sheet in coil (3.1%), Electrical equipment (2.7%), Hotrolled sheet in coil (2%), M. S. wires, roads, Coils and Bars (1.9%), Cement (1.5%), Agriculture equipment and parts (1.2%), Chemical fertilizer (1.1%), Chemicals (1.1%) and Thread (1%).

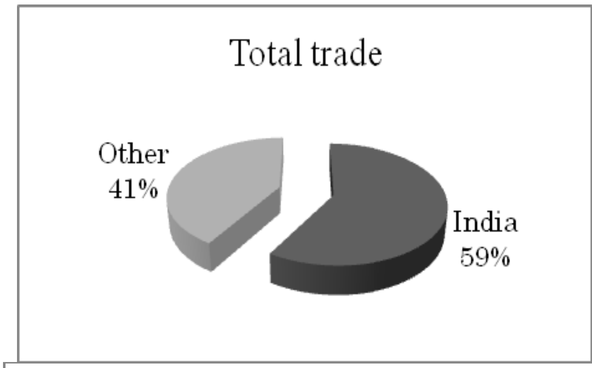
Foreign Trade

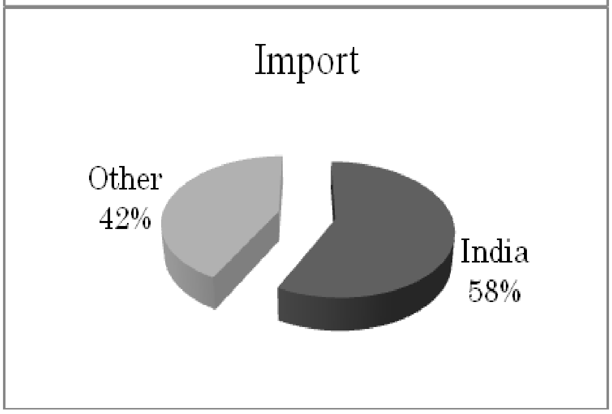


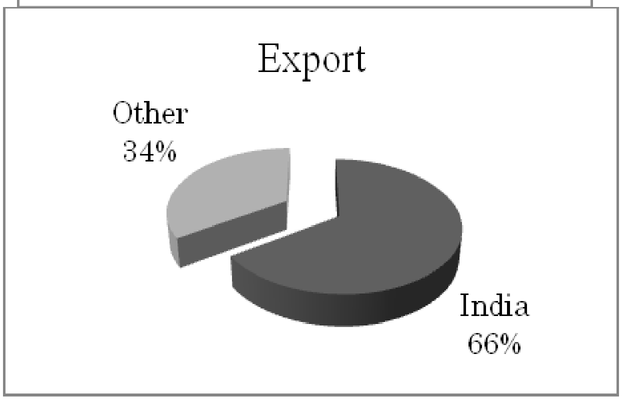
Shows the increasing trend of trade deficit which is increased 4 times in 8 years after 2001 and total deficit reached NRs.317668.8Millions in 2009/10. Trade deficit has been accelerating from F.Y. 2006/07 due to rapid growth of export. Increasing consumption habit and change on food habit of middle class people due to remittance income, and lack of internal production and industrialization are the main reasons behind it.

Trade with India (F.Y. 2010/11)









The trade dependency with India. Nepalese International trade has been dependent with India historically due to Geo-Political as well cultural relation with India. In F.Y. 2009/10 total trade with India was 59%, with 66% export and 58% import and share of trade deficit of 56%. Lack of trade diversification, landlockness, non-tariff barriers from the Indian side are the main reasons behind this situation.

➢ **Present trade relation and business volume of different product with India/ Gujarat**

❖ **Trade through investment:**

Indian ventures in Nepal are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Some large Indian investors include, ITC, Dabur India, Hindustan Unilever, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints.

Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US $ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment.

The Government of India and His Majesty's Government of Nepal (hereinafter referred to as the Contracting Parties)bBeing conscious of the need to fortify the traditional connection between the markets of the two countries.

Nepalese manufactured articles allowed entry into IndiaFree of customs duties on a fixed quota basis

Sr.no.	***Nepalese product***	***Quantity***
1	Vegetable fats (Vanaspati)	1,00, 000
2	Acrylic Yarn	10, 000
3	Copper products under Chapters 74 & Heading 85.44 of the H.S. Code	10,000
4	Zinc Oxide	2,500

❖ **Import and export of product**

The top ten exports of Nepal to India were textiles; ferrous metals; chemical, rubber, plastic; crops; beverages and tobacco product; metals; vegetables, fruits, nuts; food products; minerals; and leather products. Basically, its primary commodities.

The top ten imports of Nepal from India were petroleum, coal products; chemical, rubber, plastic; ferrous metals; machinery and equipment; mineral products; textiles; transport equipment; food products; motor vehicles and parts; and metals. Basically, the imports (demand) from India are pretty much priced inelastic.

1. **AGRICULTURE PRODUCTS:**

Pulses, rice , corn, wheat, sugarcane.etc

2. **INDUSTRIES**

Tourism, carpet, textile, small rice, jute, sugar and oilseeds mills etc

3. **EXPORT COMMODITIES**

Clothing, pulses, carpets, textile, juice, pashima,

4. **IMPORT COMMODITIES**

Petroleum product, machinery and equipment, gold, electrical goods, medicine.

- **Nepal's imports were distributed among the following categories**

Consumer goods	7.4%
Food	11.6%
Fuels	16.3%
Industrial supplies	30.7%
Machinery	11.3%
Transportation	15.6%

PESTEL analysis:

1. POLITICAL FACTOR:

The country in the present day is in the transitional phase. The existing political instability as the constituent election has successfully completed is anticipated to be stabilize, which will certainly help the business environment to become favourable in the country**.** Nepal is facing increasing inflation day by day. The purchasing power of people hence, has become much less. People cannot afford to own private vehicle so there is a need of much cheaper mean of transportation to travel.

Form	Parliamentary Democracy & Constitutional Monarchy.
Head of State	King
Head of Government	Prime Minister
Legislative	House of Representative(lower house)-205 members & National Assembly (upper house)-60 members.
Judiciary	Supreme Court, Appellate Court: 11, District court: 75
Administrative Division	Development region: 5, Zone: 14, District: 75
Capital	Kathmandu

2. ECONOMICAL FACTOR:

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP.

GDP Composition	Agriculture: 40%, Industry: 22%, Services: 37%
GDP Real Growth Rate	4.9% (2000-2001)
Average Inflation Rate	2.1% (2000-2001)

Per Capita Income	$ 240 (Rs 17,718) for (2000-2001), $236 (Rs 18,083) estimate for(2001-2002)
Unit of Currency	Rupee
Labour Force	Agriculture: 81%, Industry: 3%, Service: 11%, Other: 5%.

4. SOCIAL FACTOR :

Socio-cultural environment is composed of various class, structure, beliefs, values, social institutions, accepted patterns of behaviour, customs of people and their expectations. Social trends are one of the key factors affecting a business. People's buying patterns and service utilizing pattern are determined by trends. Just as the demand for some popular clothes are determined by fashion, demand for mean of transport is determined by social trend and income level. Transportation means are always changing.

- **Population growth rate -**1.596% (2011 est.)
- **Birth rate -**22.17 births/1,000 population (2011 est.)
- **Death rate -** 6.81 deaths/1,000 population (July 2011 est.)

5. TECHNOLOGICAL FACTOR :

Technological environment refers to all the technical surroundings that affect business. It includes skills, methods, systems and equipment. Technology consists of the forces that create new technologies creating innovative services and market opportunities.

- Internet hosts: 1100 (2011)
- Internet Service Providers (ISPs):10 (2011)
- Internet users: 200000 (2011)
- Telephones :- Main line in use. [371800]
- Telephones :- Mobile Cellular . [50400]
- Radio Broad Cast Station :- AM6 , FM5 , Short wave 1.
- Television :- [970000].
- Internet Hosts :- [1100].
- Intenet service Providers :- [ISPS] =10 Users :- 200,000.

6. **ENVIRONMENT FACTOR** :

Deforestation and land degradation appear to affect a far greater proportion of the population and have the worst consequences for economic growth and individuals' livelihoods. Forest loss has contributed to floods, soil erosion, and stagnant agricultural output. A major threat factor is represented by the Nepalese human population. According to the 1991 population census.

7. **LEGAL FACTOR** :

Many changes in the law stem from government policy. The Department of Transport Management (Dotm) government's transportation services governing body used to recommend the transportation fare.

It has to anticipate and prepare to meet future legal changes. From 2010 Nepal is entering in WTO, as part of an initiative called Carbon Reduction Commitment, public transport and other companies will need to buy carbon credits. These credits will permit companies to generate specific quantities of carbon emissions.

- Constitutional Law
- Constitutional of the kingdom of Nepal

- Administration [Public Law 2047 (1990).
- Citizenship Act ,1964
- Civil service act , 2049 (1943)
- Civil service act , 2049 (1993)
- Criminal law
- Arms and ammunition act , 2019 ,1962
- Civil war
- Birth , death and other personal events (Registration Act. 2033 (1976).
- Contract Act. 2056 – 2000
- Land acquisition Act. 2034 – 1977
- Land Act. 2021 – 1964
- Marriage registration Act. 2028 – 1971
- Commercial law
- Buffer zone management rules 2052 – 1996
- Contract Act. 2056 – 2000
- Land acquisition act 2034 – 1977
- Land act 2021 – 1964
- Tax lax
- Baggage rule 2065 – 2007

PART – II

PART II

3) **“INTRODUCTION OF TOURISM INDUSTRY SECTOR OF ECONOMY OF NEPAL.”**

➢ Overview of tourism industry of Nepal:

The tourism industry is growing very rapidly and Nepal has tremendous potential for tourism development because of its unique natural and cultural heritage Mountaineering and other types of adventure tourism and ecotourism are important attractions for visitors. The world heritage Lumbini, birthplace of Gautama Buddha, is located in southern Nepal, and there are other important religious pilgrimage sites throughout the country.

❖ Tourism economic Outlook

Tourism was a major source of foreign exchange earnings. Especially since Mount Everest (Sagarmatha in Nepali) was first climbed by Sir Edmund Hillary and Tensing Sherpa in 1953, the Himalayas have attracted foreigners to Nepal. Mountaineering and hiking were of considerable interest as were rafting, canoeing, and hang gliding. Tourism was facilitated with the opening of airways to Kathmandu and other parts of the country and the easing of travel restrictions.

Tourism is the largest industry in Nepal; the largest source of foreign exchange and revenue. Possessing 8 of the 10 highest mountains in the world, Nepal is a hotspot destination for mountaineers, rock climbers and people seeking adventures. The Hindu and Buddhist heritage of Nepal and its cold weather are also strong attractions.

✓ Balance of tourism payments and expenditures:

Travel agencies offer package tours as a general practice, which cover air tickets, hotel accommodation, food and ground transportation. Passengers have to pay extra for certain excursions, amusement and shopping of their choice. International tourism expenditure for 2006 was estimated at 157 million US$ and international fare expenditure was estimated at 50million US$. In 2005 tourists spent per capita around 5 US$ and per trip 438 US$ (World Tourism Organization, 2008).

Most of the tours being package, the use of credit cards in meeting the travel expenses is lower. For the business travellers, use of credit card is important. Travellers' cheques are now passé

Gross Foreign Exchange Earnings in Convertible Currency

Total Earnings

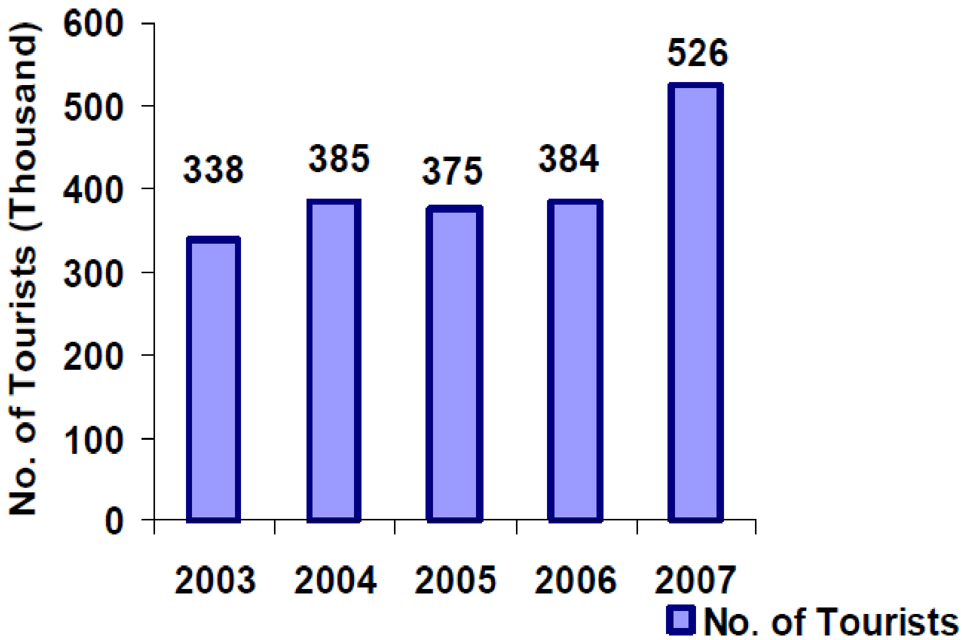
Year	**US$ (000)**	**NRS (000)**
2002	**106,822**	**8,300,553**
2003	**192,832**	**14,508,396**
2004	**179,941**	**13,146,534**
2005	**148,441**	**10,600,345**
2006	**162,790**	**11,784,644**

Source: Nepal Rastra Bank, 2008

Tourist Arrivals 2003-2007

Year	**2003**	**2004**	**2005**	**2006**	**2007**
No. of Tourists (In Thousand)	**338**	**385**	**375**	**384**	**526**

Chart 1: Tourist Arrivals 2003-2007



Source: Nepal Tourism Board, 2007

Analyzing the total number of arrivals in the first four months of this year, it shows 128.802 visitors to Nepal with an increment 11.15% than the total arrival of the same period of last year.

- **Very growing industry in Nepal:**

Nepal has had a good economic growth since the mid-80s and throughout the 90s. This has led to increased inequality, but in general the poor have also benefited economically**.**

- **Tourism service:**

The Nepal has tourism development because of its unique natural and cultural heritage. The reasons behind the growing are: it increasing the employment opportunities, increasing foreign currency earnings, also increasing productivity, projecting good image of the country service.

Through, development of travel & tourism industry Nepal has diversified or expansion their business at international level.

Tourism was introduced in the 1950s, which got a further boost when restrictions on the entry of the foreign nationals were lifted. Since the Foreign trade of Nepal is characterized by the import of manufactured.

❖ **<u>The business activities of tourism industry of Nepal</u>:**

Its goal to create a desire among international visitors and travel trade for destination Nepal, Nepal tourism Board has set its three specific objectives:

- **<u>Influence</u>**: to inform/influence the potential customers about destination Nepal,
- **<u>Engagement</u>**: to help convert the international consumer & trade's desire to choose destination Nepal,
- **<u>Innovation:</u>** to seek new platforms and areas to promote Nepal to enhance visitors' numbers, stay & spend.

4) "STRUCTURE ,FUNCTION AND BUSINESS ACTIVITY OF TOURISM INDUSTRY OF NEPAL

❖ **<u>Tourism Structures and Roles</u>**:

- **<u>Regulatory Functions</u>** :

  Government Agencies
- **<u>Operational Functions</u>** :

  Private Business Entrepreneurs
- **<u>Development Functions</u>** :

  Government and Local Agencies

❖ **<u>Function regarding tourism industry</u>**:

The overall international marketing and promotion strategic approach in 2007 was to engage into direct marketing and interact "Face to Face" with the travel trade as well as the consumers via Fairs, Sales Missions, Road Shows and special consumer oriented campaigns

Government of Nepal has been actively promoting tourism in Nepal and has always encouraged the private sector for their involvement and participation. The

Ministry of Culture, Tourism & Civil Aviation (MOCTCA) gives equal importance to conservation of natural, cultural and human resources.

A Nepal Tourism Board, consisting of representatives of various sectors of the industry and the major government agencies with which they interact, was created to further coordination and cooperation between government and the private sector. Tourism is a rapidly changing sector, to promote the sector and extract maximum benefits, it is mandatory to keep abreast with the changing market.

- **<u>Developing the tourism sector/ industry</u>**:

They develop the tourism industry for that they doing some activities or function:

- To develop tourism as an important sector of the national economy by developing linkages between tourism and other sectors.
- To diversify tourism down to rural areas so as to improve employment opportunities, foreign currency earnings, growth of national income and regional imbalances.
- To improve natural, cultural and human environments of the nation in order to develop and expand the tourism industry.
- To maintain a good image of the nation in the international community by providing quality service and a sense of security.
- To develop and promote Nepal as an attractive tourism destination.
- Wildlife tourism will be developed and promoted in various geographic areas, in recognition of the bio-diversity that exists in the nation.

➢ <u>Comparative position of tourism industry of India – Nepal</u>:

Comparative between two associations form the India **Atithi Devo bhava**& form the **Nepal association of tour & travel agent.**

AtithiDevoBhava is a Sanskrit verse, taken from an ancient Hindu scripture which became part of the "code of conduct" for Hindu society. Atithidevobhav regards a procedure of the Host-Guest relationship. Recently it has also become the tag line of India's Ministry of Tourism's campaign to improve the treatment of tourists in India. In ancient times, when means of communication were limited and it was not possible for guests to anticipate their date of arrival, "Atithi" was coined to depict a visiting person who had no fixed date of arrival or leave.

The phrase "Incredible India" was adopted as a slogan by the ministry. Before 2002, the Indian government regularly formulated policies and prepared pamphlets and brochures for the promotion of tourism, however, it did not support tourism in a concerted fashion. However, in 2002, the tourism ministry made a conscious effort to bring in more professionalism in its attempts to promote tourism. It formulated an integrated communication strategy with the aim of promoting India as a destination of choice for the discerning traveller. The tourism ministry engaged the services of advertising and marketing firm Ogilvy & Mather (India) (O&M) to create a new campaign to increase tourist inflows into the country.

"Atithidevobhava" is one such initiative which asks the people of this nation to understand their origin and to express and exert their differences, both religiously and culturally, in an attractive and inviting manner so that people from the outside get smitten by the beauty of our land and its people.

AtithidevoBhava aimed at creating awareness about the effects of tourism and sensitizing the local population about preservation of India's heritage, culture, cleanliness and hospitality. It also attempted to re-instil a sense of responsibility towards tourists and re-enforce the confidence of foreign tourists towards India as a preferred holiday destination. The concept was designed to complement the 'Incredible India' Campaign.

Travel industry analysts and tour operators were appreciative of the high standards of the 'Incredible India' campaign. "The promo campaign is making a powerful visual impact and creating a perception of India being a magical place to visit,"

In stating this, is evident the commitment of Indian tourism to ensure that every tourist in India is physically invigorated, mentally rejuvenated, culturally enriched and spiritually elevated.

The tourism ministry engaged the services of advertising and marketing firm Ogilvy & Mather (India) (O&M) to create a new campaign to increase tourist inflows into the country.

Nepal Association of Tour and Travel Agents (NATTA):

Association of Tour and Travel Agents (NATTA) is putting an additional effort to promote Nepal in the Chinese market through its Discover Nepal-China mission. The Association informed that the team in the mission has incorporated most of the private sector tour entrepreneurs that have received government authority to handle Chinese tourists.The main concern of the mission would be about the interaction between the Chinese and Nepali tour operators that have been authorized for tour operation. The Mission can be successful in creating awareness in the Chinese market about the beautiful Nepali tourism products.

The best season to visit in Nepal is after the monsoons that end in August, and before the winter sets in. The months between September and December are the most preferred ones by the visitors. It is best to visit hilly areas in summers; that is, the month of May and June. The average temperature at that time hovers around 22-25 Celsius. Nights are a bit chilly in the lower Himalayan region but are comfortable. Mountainous areas are extremely unsafe in the Monsoons. The persistent rains make the hilly tracts slippery. The landslides are very common in the monsoons. Again in the post-monsoon months, you can start for the hill tours.

In winters, most of the hilly areas become out of bound due to very heavy snowfall and avalanches. But if you are fond of snowfall then you can opt for lower Himalayan regions that look beautiful in the blankets of snows.

Famous places of Nepal:

1. Kathmandu

Kathmandu is Nepal's largest city and capital of Nepal. Kathmandu is situated in a valley in the heart of Nepal. Kathmandu is famous for many Buddhist temples and in it, mostly from the 17th century. One example is the Kathmandu's Durbar Square. Buildings that are open admiration in Nepal as a tourist attraction was built in the 16th century, contains a marvellous royal palace and many temples built in traditional pagoda style.

2. Nagarkot:

Nagarkot is a popular tourist spot in Nepal. Nagarkot is located 32 km east of Kathmandu at an altitude of 2175 masl. Panorama of the main peak in the eastern Nepal Himalaya, as well as Sagarmatha (Mount Everest), can be seen from Nagarkot. Himalayan peaks like Manaslu (8463 meters above sea level), Ganesh

Himal (7111 masl), Langan (7246 masl), ChobaBhamre (6016 masl) and Gaurisankar (7134 masl), all clearly seen from Nagarkot.

3. Pokhara

Neighboring city of Kathmandu, Pokhara, also one of the popular attractions. The third largest city in Nepal is known as the gateway to the basecamp Anapura ascent, one point stop at the foot of the Himalayas. Pokhara offers trekking tour which generally take up to 25 days of travel. The city is also famous for its three stunning lake, one of Phewa Lake, with views of the snowy mountains of the Himalayas.

4. Lumbini

Lumbini is the pilgrimage tourist sites because that's where the birthplace of Siddharta Gautama or Buddha. Lumbini is a small town in southwestern plains of Nepal, where the ruins of the old city can still be seen. The followers of the Buddhist sects, Hinayana and Mahayana Buddhism truly appreciate Lumbini. This park has been restored and the area around Lumbini have the remains of many ancient Stupas and monasteries. A largestone pillars are said to be founded by the Emperor Asoka Maurya in 250 BC as an inscription about the birth of the Buddha.

5. Annapurna

Annapurna is a nature conservation area is a favourite track route of professional climbers. Annapurna is a nature conservation area is a favourite track route of professional climbers. Annapurna is a series of peaks located in the western Himalayas of Nepal. Annapurna I, the highest peak reaching 8,000 meters, surrounded by his brothers are in the 7,000 meters, always covered with snow and exudes a grandeur that magnet tourists coming to t

Local Transportation in Nepal

Local transportation is not a problem in Nepal. Different modes of transportation are available according to your budget and preference. Try and stick to the modes that are normally preferred by the visitors such as cabs and auto-rickshaws. Following are the different modes of transportation in Nepal.

- ✓ **Local bus**

These are arguably the cheapest mode of transportation in Nepal but are too crowded for comfort. It is very likely that you will have to share your seats with poultries at times. These are relatively comfortable but are only operational on wide inter cities roads. This is always full of tourists therefore book a few days ahead with any travel agent (or your hotel will book it for you). A welcome break from local buses but not much safer. The only saving grace is the fact that everybody gets a seat to sit.

- ✓ **Tempo**

These come in two types. One is a three-wheeled electric or propane-powered microbus for 10-13 passengers. They run in different routes around the city. The other type is a newer Toyota van running the same routes at a higher price and a bit faster and safer. It is more comfortable and is slowly taking the place of former.

- ✓ **Taxis**

There are two types of taxis in Nepal. The first one is called "private", which can be hired anywhere both on route and day basis, the other one is interestingly called "10 Rupee", which don't leave for destination until they are full.

- ✓ **Motorcycle**

Another choice is to rent a motorcycle. And it can be rented in the Thamel area at a low cost. Most of the bikes in the stable are Royal Enfield Bullets or Yamaha RD 350. These are good machines and are the best for long hill rides.

Air transportation

Nepal has a fairly extensive domestic air network, served by half a dozen airlines, though only the flights to Pokhara, Meghauli (for Chitwan), Lukla and Jomsom are much used by foreigners.Residents and Nepali citizens pay approximately 35% of the tourist price for domestic air fares. Airlines will accept payment from visitors only in hard currency.

All travellers are charged an insurance surcharge of US$2 per leg. Air fares quoted in this book include this surcharge. At the time of research there was also a temporary fuel surcharge of between US$5 and US$9 per flight, which will continue as long as global fuel prices remain high.

The domestic terminal is the old Kathmandu airport, and its age shows. It can be a chaotic spot, particularly when flights are cancelled and crowds of stressed tourists generate an escalating atmosphere of fear and loathing.Check in an hour early for domestic flights. Don't carry pocketknives, gas cigarette lighters, matches or even trekking poles in your carry-on luggage on any domestic flights. There is a Rs 170 domestic airport tax payable at check-in.

In Kathmandu and Pokhara there are many bicycle-rental outlets and this is a cheap and convenient way of getting around, particularly around the Kathmandu Valley. Regular bicycles cost around Rs 100 per day to rent, an Indian or Chinese made mountain bike costs from Rs 200 and an imported foreign bike costs around Rs 700. Children's bicycles can also be hired.

Arrivals by means of transport used (2006 and 2007)

Mode of Transport	2006 (%)	2007 (%)
Surface	**26**	**28**
Air	**74**	**72**

✓ Train

There are two train lines from Janakpur, but only the service east to Jaynagar over the Indian border carries passenger traffic. They're narrow-gauge trains and very slow, so they offer an interesting, if somewhat crowded, method of seeing the countryside. Note that tourists are not allowed to cross the border using the passenger train.

Famous things:

✓ Handmade Carpets and Pashmina

The artisans of Nepal produce extraordinary handmade and one-of-a-kind gifts. Some of the most popular among shoppers are the beautifully crafted fabrics, like carpets and pashmina, which are made from the finest cashmere wool.

✓ Local Nepali Tea

One of the best ways to bring home a little taste of your visit to Nepal is to purchase some of the local tea produced there. The high altitude and rich climate provide the perfect environment for the tea bushes and other herbs to flourish. Nepali tea is delicious and also has many health benefits. It's also easy to pack for the trip home!

- ✓ **Wooden Carvings**

Nepali woodcrafters are among the most talented in the world, producing exquisite one-of-a-kind pieces of art. Bringing one of these sculptures home is a wonderful way to capture the memories of your trip while also serving as a unique conversation piece for years to come.

There are plenty of markets to choose from in Nepal, but the most popular is probably the Kathmandu market, where shoppers can find all of the above as well as jewelry, clothing, and other types of handmade crafts. One important thing to keep in mind when shopping in Nepal is that most items do not have price tags. It is common, even expected, that buyers will bargain with sellers before a purchase is made, so you may want to hone your haggling skills before you arrive. A good tip is to find out the lowest price that one vendor will accept, move on to the next one that offers the same item, and so on until you find someone who is willing to meet you at the price you are comfortable with.

❖ **Export & import data of this association :**

- ✓ In 2007, the number of international tourists visiting Nepal was 526,705, which was an increase of 37.2% compared to the previous year
- ✓ In 2008, the number of tourists decreased by 5% to 500,27

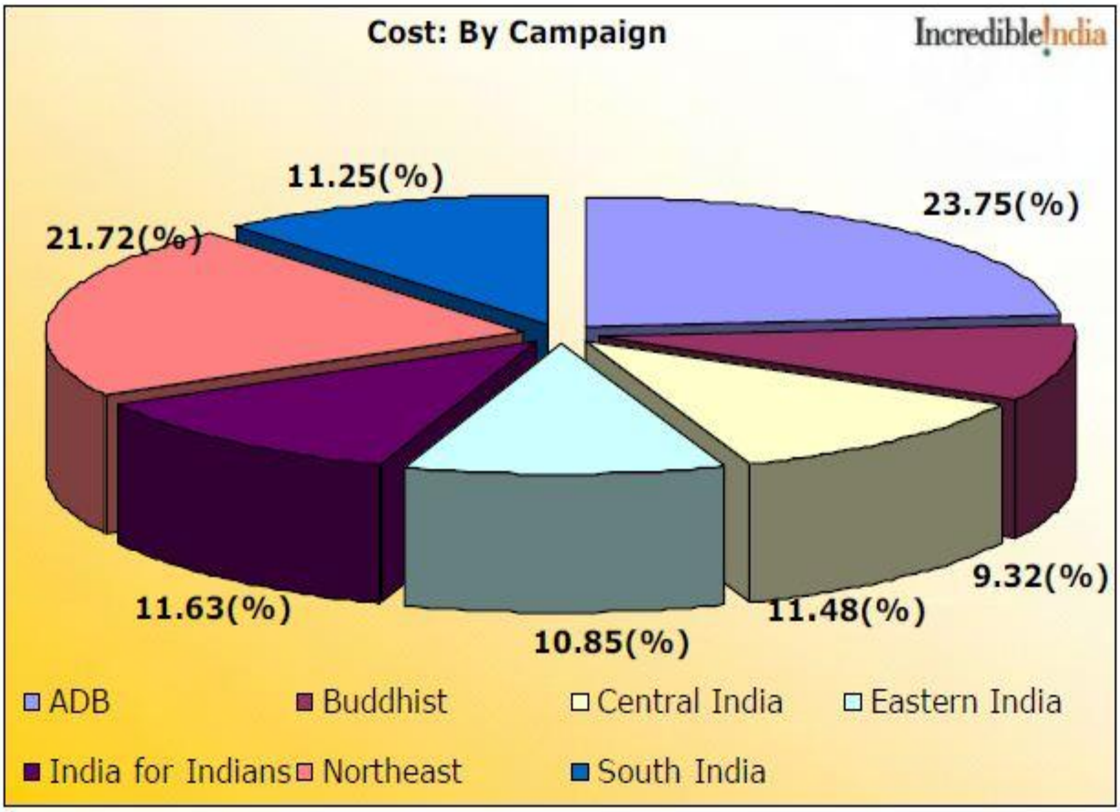
❖ **Best of this association as compare to Atithidevobhava**

Tourism entrepreneurs will be encouraged to adopt codes of conduct through their respective professional associations for enhancement of quality in the services and facilities they offer. This association helped to improve the position of their country's economy.

In Nepal more than one tourism association provide the tour & travel service to the tourist. Like, Nepal Mountaineering Association (NMA), Hotel Association of Nepal (HAN), Nepal Association of Rafting Agents (NARA), etc

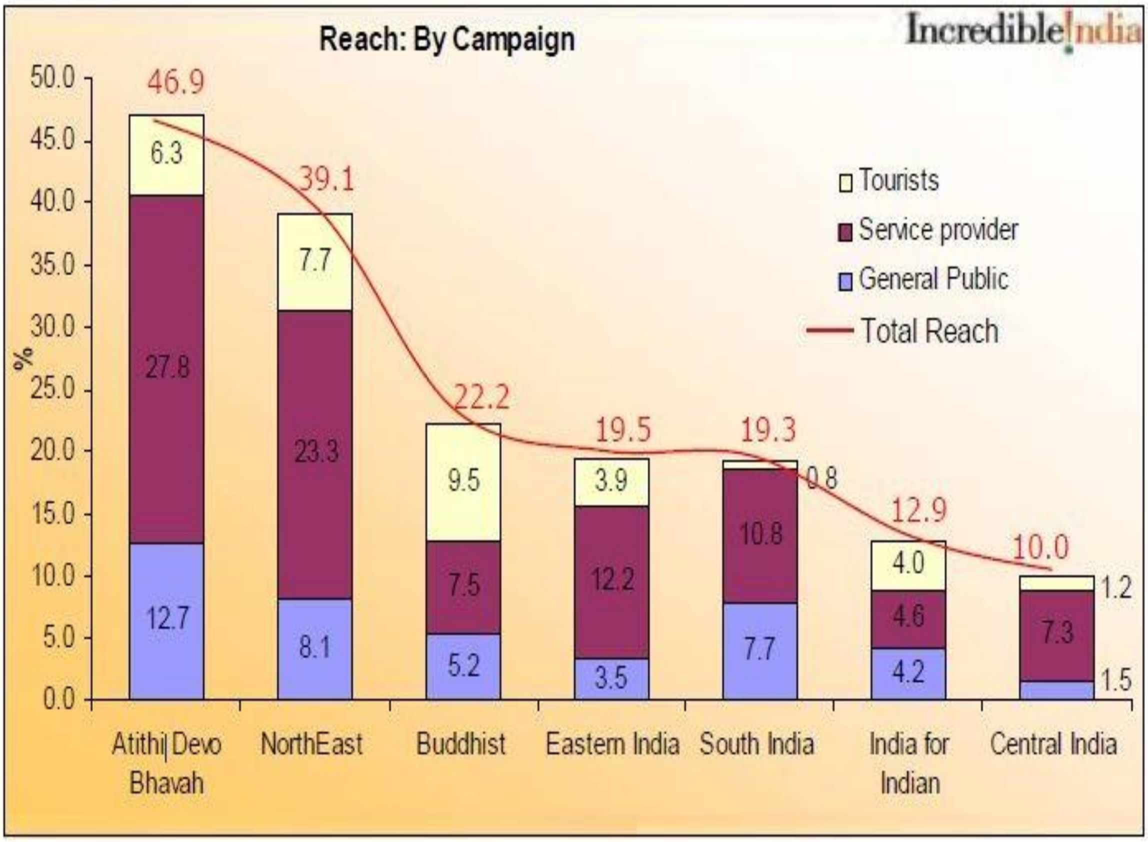
- **<u>Following the data shows the association effectiveness through camping</u>: Bycost**

Campaign	TOTAL	%
Atithi Devo Bhava (ADB)	59,982,066	23.75
Buddhist	23,537,206	9.32
Central India	28,997,055	11.48
Eastern India	27,397,862	10.85
India for Indians	29,377,240	11.63
Northeast	54,870,169	21.72
South India	28,428,044	11.25
Total	**252,589,643**	**100**



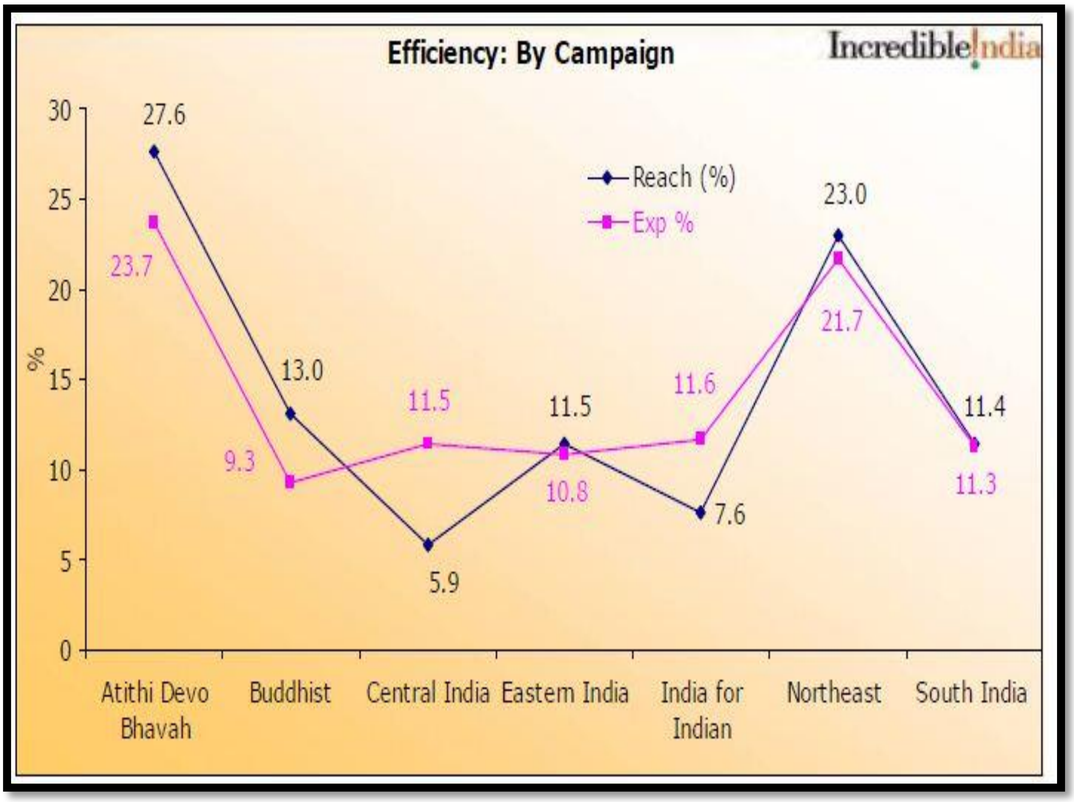
The campaign wise cost break up shows the highest amount i.e. 24% of the total campaign expenditure was spent on the “AtithiDevoBhava” social awareness campaign followed by 22% of the total on a regional campaign viz “Northeast Campaign.

- **By Reach**



The graph highlights that the social awareness campaign called ""Atithidevobhava" had the highest reach of 47% followed by "Northeast Campaign" with a reach of 39%. The reach was lowest in case of "Central India Campaign" at 10% of the target population.

<u>By efficiency</u>:



The comparison between the advertising expenditure with reach of the campaign shows that the “Atithidevobhava” campaign, “Buddhist Campaign” and “Northeast” regional campaign were more efficient.

❖ **<u>Comparison between both the country’s tourism associations</u>:**

In India they promoting their tourism service by campaigns. While in Nepal they not doing this type of activates for promoting their tourism service.

In Nepal more than one association are working in the tourism service and its really very helping to their economy to develop. While in India limited association are there.

➢ **<u>Present position and trend of business (import/export) with India/Gujarat during last 3-5 years</u>:**

The tourism industry is one of the most profitable industries in India and is also credited with contributing a substantial amount of foreign exchange. It is the largest service industry in India, with a contribution of 6.23% to the national GDP (Gross Domestic Product) and 8.78% to the total employment in India.

What happens when a nation, known for its “AtithiDevoBhava” outlook, turns out to be a hub of international hotel chains and food and beverage (F&B) outlets?

Simple, there is a demand for trained and qualified hospitality professionals.

There are, at present, only about 1.20 lakh rooms in the country. An estimated shortage of 80,000 rooms exists which needs to be bridged immediately. A huge investment of over Rs 32,000 crore is required in the next three to five years to construct these guestrooms even after taking into consideration approximately 50,000 rooms which are under various stages of implementation and would be added to the market in the next three to four years. Thus, it is estimated that demand will continue to exceed supply by 100 per cent in the next five years.

It is noteworthy that even with a meager size of million foreign tourist arrivals in the country and with a sizeable domestic tourist market, the tourism sector employs as high as 49.8 million people. This makes it one of the highest employment generators in the country at about 9.8 per cent of the total employment generated.

In its representation to the government, the industry has been emphasizing the fact that if certain procedures are streamlined, such as extension of the visa-on-arrival scheme, the FTAs could easily go up from six million to the targeted 10 million by 2015 and 20 million by 2020.

Currently, there are 387 colleges offering courses in hospitality and tourism segment which are affiliated to All India Council for Technical Education (AICTE), with a total of 1.12 lakh students enrolled annually in these institutes. The opportunities in the hospitality industry are enormous. Out of this, 11 per cent are in the managerial category, 13 per cent in the supervisory category and 76 per cent comprise of staff members.

Hence, the requirements of degree or diploma holders are 16 per cent in managerial category, 40 per cent in supervisory category, and 44 per cent as staff members. Therefore, since the hotel industry accounts for about 85 per cent of the employment for the hospitality and tourism management graduates, it is observed that there is an additional demand of 15,000 trained persons in the various hotels in India.

India's hospitality sector has been generating interest in a variety of segments like meetings, incentives, conferences and exhibitions, wellness tourism and spiritual & pilgrimage tourism, apart from the traditional business or leisure travel. The demand is notable in both foreign as well as domestic market.

The number of foreign tourist arrivals (FTAs) in India in 2011 was 6.31 million which was up from the previous year's figure of 5.78 million and 5.17 million arrivals in 2009. Tourism Minister K Chiranjeevi also said that the working group on tourism for the 11th five-year plan had set a target of 10 million international visitors by 2011.He also said that the foreign exchange earnings in India through tourism during 2010, 2011 and January to October 2012 were Rs 64,889 crore, Rs 77591 crore and Rs 74,215 crore respective.

- **<u>Policy & norms of the tourism industry of Nepal</u>**:

In the service sector tourism industry is one of the most playing important roles in the Nepal. Because Nepal is located between the world's two fastest growing countries: India and China. There is rich and diverse natural resources & cutler attraction**.**

Tourism industry is growing very rapidly. The Nepal has tourism development because of its unique natural and cultural heritage. The reasons behind the growing are: it increasing the employment opportunities, increasing foreign currency earnings, also increasing productivity, projecting good image of the country service.

The Tourism Law was designed to create more opportunities at the local level. Box 10 outlines some of the articles of the Tourism Law, as well as the opportunities created and the expected results at the local level in terms of empowerment, property rights and control over development.

✓ **Tourism Regulation:**

- Tourism services are regulated by the Industrial Enterprise Act, Tourism Act, 2035 (1978) amended in 2053 (1997)

- FDI permitted in hotel industry with government's permission. As per WTO commitments, up to 80 percent foreign equity allowed in hotel, lodging services and graded restaurants.

✓ **Tourism Policy:**

A) To develop tourism as an important sector of the national economy by developing linkages between tourism and other sectors.

B) To develop and promote Nepal as an attractive tourism destination

C) Popular religious tourism sites will be improved and promoted in order to develop religious tourism

D) Nepal will be developed as a centre for adventure tourism. Tourist service and facilities will be encouraged to upgrade in quality. Special efforts will be made to make Nepal a secure place for tourists.

E) Wildlife tourism will be developed and promoted in various geographic areas, in recognition of the bio-diversity that exists in the nation.

F) The private sector will be motivated to operate environmentally friendly recreational, adventure activities based on water, land and air in various parts of Nepal.

G) Innovative and promotional products such as conference tourism, cultural and youth tourism, international sports competitions etc. will be especially encouraged.

The Tourism Law was designed to create more opportunities at the local level. Box 10 outlines some of the articles of the Tourism Law, as well as the opportunities created and the expected results at the local level in terms of empowerment, property rights and control over development.

Most importantly the Tenth Plan recognizes the importance of intra-regional tourism and seeks to develop a sub-regional tourism plan in cooperation with other South Asian countries. Since tourism is a rapidly changing sector, to promote the sector and extract maximum benefits, it is mandatory to keep abreast with the changing market. It is thus important to revise the Tourism Policy and formulate and update policies to suit the changing international market.

- ✓ **Taxes and levies:**

Taxes on goods, services and transactions, which provide funds for Government at the local or national level can be used specifically to support either poor communities or the environments that provide their livelihood. For instance Government policies on tourism taxation must be evaluated and designed in ways that are comprehensive and integrated in order that the necessary revenues are balanced against the affect on tourism markets and the profits of tourism businesses.

➢ **For doing business in Nepal for that their licensing, taxation policy**:

India established the tourism industry in Nepal for that they followed all the procedure of licensing / permission, taxation policy.

Introduction:

The tourism industry is growing very rapidly and Nepal has tremendous potential for tourism development because of its unique natural and cultural heritage. Tourism already plays an important role in Nepal's economy.It is believed that foreign direct investment is a supplement to the domestic private investment through foreign capital inflow, transfer of technology, enhancement of managerial skills, productivity and to get into the global market. Government of Nepal has begun carrying out policy and regulatory changes in industry, trade, finance and the Stock Exchange beginning in 1992 in order to promote foreign investment and technology transfer in the country.

Tourism is second, accounting for almost 25% of total FDI projects, followed by the service sector with 20% ofFDI projects. Although the electricity, water and gas sector has just a few FDI projects, it ranks fourth highest in terms of the size of FDI inflow.

To attract foreign investment through adoption of relevant, practical, and liberal policy, more than 1,800 industries are granted permission until FY 2009/10. Fixed capital of those industries stands at Rs. 113.0 billion with their total project cost of Rs. 136 billion. A total of Rs.53.0 billion as foreign investment in these industries has been recorded. Once in operation, these industries are expected to generate employment for 140,953 Nepalese citizens.

Much of the FDI inflow is for joint ventures because of non-commercial risks by offering shares to local partners. Most of the FDI in Nepal is Greenfield-type investment rather than acquisition. FDI is highly concentrated in the manufacturing sector, which accounted for slightly more than 45% of approved FDI projects.

people are expected to get employment. In 2009/10, 34 countries were given approval for foreign investment. Country-wise analysis shows that the investment commitment from India secures the topmost position followed by Mauritius, Canada and China.

Tourism regulation policy:

- Tourism services are regulated by the Industrial Enterprise Act, Tourism Act, 2035 (1978) amended in 2053 (1997), the Hotel, Lodges, Restaurants, Bar and Tourist Guide Rules, 2038 (1981), the Travel and Trekking Agency Rules, 2037 (1980), the Trekking and Rafting Rules, 2044 (1985), and the Mountaineering Rules, 2036 (1979).

- Foreign investment is not permitted in Travel Agencies, Trekking Agencies, Water Rafting, Pony Trekking, Horse Riding, and Tourist Lodging even though as per WTO commitment 51% investments in equity but would be limited to 51 percent equity

- FDI permitted in hotel industry with government's permission. As per WTO commitments, up to 80 percent foreign equity allowed in hotel, lodging services and graded restaurants.

✓ **Tourism policy of Nepal**:

- To develop tourism as an important sector of the national economy by developing linkages between tourism and other sectors.

- ❖ To diversify tourism down to rural areas so as to improve employment opportunities, foreign currency earnings, growth of national income and regional imbalances.

- ❖ Rural tourism will be encouraged. Rural communities will be motivated to launch various programmes that contribute to the growth and promotion of rural tourism.

- ❖ Rural tourism will be encouraged. Rural communities will be motivated to launch various programmes that contribute to the growth and promotion of rural tourism.

➢ <u>**Licensing/permission procedure for Established Industry in Nepal**</u>**:**

In this they are entering in business through FDI. After obtaining approval for foreign investment, the industry is required to be registered with the DoI within 35 days. If the registration cannot be done within the stipulated time, the investor will have to apply for the extension of the validity period.

Once the company is incorporated, the investor has to apply for registration of industry at DoI, filling a prescribed form along with following documents:

- ❖ A copy of the foreign investment approval letter issued by the Foreign Investment Section, DoI.

- ❖ A copy each of the Certificate of Incorporation, Memorandum of Associations (MoA), and Article of Association (AoA) of the company.

- **Registration of the Hotel, Lodge, Restaurant and Bar:**

An investor, who desire to register own Hotel, Lodge, Restaurant and Bar having of tourist standard pursuant to sub-section (2) of Section 10 of the Tourism Act, 2035, has to submit an application to the Department of Tourism (DOT) of the GoN in the format prescribed in Annex – 1 of the Hotel, Lodge, Restaurant, Bar and Tourist Guide Regulation, 2038 B.S. (1981 A.D) along with the application fees.

- ## Through foreign direct investment (FDI) doing business in Nepal:

Foreign Direct Investment (FDI) is a major potential contributor to growth and development of a country as it brings in capital, technology, management know-how and access to new markets. It is considered to be a more stable form of investments compared to other forms of capital flows with the host country benefiting in the long term.

India is also doing the business through FDI in Nepal. The largest contributor to Nepal's FDI is India. The Indian companies have made a significant contribution to the Nepalese economy both in terms of employment generation and by way of generation of revenue to the Nepalese exchequer.

- ✓ **The data relented to FDI in tourism industry of Nepal 2009-2010:**

Type of industry	No. of project	Total project cost	Total fixed cost	Foreign investment	Employment
Tourism	50	1,035.17	929.39	717.53	1537

The largest contributor to Nepal's foreign direct investment is India with approved investments of NRs 25,381 million in 462 projects.

✓ **<u>Indian Investments in Nepal</u>:**

The total approved direct foreign investments from Indian companies as of 16 July are NRs 25,381 million. The employment generated by these companies has reached to 53,101 as of 16 July 2010. The total number of joint venture companies where Indian companies have invested stands at 462 as of 16 July 2010.

<u>Foreign investments from India in tourism sector:</u>

Types of Industry	No. of project	Total project cost	Total fixed cost	Foreign investment	Employment
Tourism	49	4,814.15	4,481.78	1,306.33	3,970

➢ **<u>The attractive destination for the investment & also opportunities</u>:**

Tourism already plays an important role in Nepal's economy. It remains one of the country's most promising sectors for attracting FDI because of its incomparable natural assets, religious sites and therapeutic treatments. The Government recognizes the contribution that tourism can make in national economic development.

The government has implemented a liberal tourism development policy aimed at attracting a larger flow of tourists. Nepal is promoting its own brand of eco-tourism by combining the natural scenery and trekking with other activities such as rafting, yoga and meditation, and investors are encouraged to provide these and related services.

Through FDI India do the business in Nepal in tourism industry. And they followed all the above rules and regulation, taxation policy. Licensing / permission…

- ✓ **Policy of the export & import trade :**
- Reduction and restructuring of import duties
- Introduction of full convertibility for current account transactions.
- Removing duties in all exported products.

- ✓ **Import trade system of the Nepal** :
- Reducing additional tariff rates to reflect the true price of imports.
- Improving tariff classification.

- ✓ **Export trade system of the Nepal** :
- Reduction of export service fees.
- Allowing exporters to retain export earnings in convertible currency accounts.

➢ India – Nepal & their business potential:

India officially the **Republic of India**, is a country in South Asia. It is the seventh-largest country by area, the second-most populous country with over 1.2 billion people, and the most populous democracy in the world. Home to the ancient Indus Valley Civilisation and a region of historic trade routes and vast empires, the Indian subcontinent was identified with its commercial and cultural wealth for much of its long history.

According to the World Bank, as of 2011, the Indian economy is nominally worth US$1.848 trillion; it is the tenth-largest economy by market exchange rates, and is, at US$4.457 trillion, the third-largest by purchasing power parity, or PPP. India is one of the world's fastest-growing economies

The 487.6-million worker Indian labour force is the world's second-largest, as of 2011. The service sector makes up 55.6% of GDP, the industrial sector 26.3% and the agricultural sector 18.1%. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, and potatoes. Major industries include textiles, telecommunications, chemicals, pharmaceuticals, biotechnology, food processing, steel, transport equipment, cement, mining, petroleum, machinery, and software.

. In 2006, the share of external trade in India's GDP stood at 24%, up from 6% in 198 In 2008, India's share of world trade was 1.68%In 2011.

Major imports include crude oil, machinery, gems, fertiliser, and chemicals. Between 2001 and 2011, the contribution of petrochemical and engineering goods to total exports grew from 14% to 42%.

Nepal's gross domestic product (GDP) for the year 2005 was estimated at just over US$39 billion (adjusted to Purchasing Power Parity), making it the 83rd-largest economy in the world. Agriculture accounts for about 40% of Nepal's GDP, services comprise 41% and industry 22%. Agriculture employs 76% of the workforce, services 18% and manufacturing/craft-based industry 6%.

Agricultural produce—mostly grown in the Terai region bordering India—includes tea, rice, corn, wheat, sugarcane, root crops, milk, and water buffalo meat. Industry mainly involves the processing of agricultural produce, including jute, sugarcane, tobacco, and grain. Its workforce of about 10 million suffers from a severe shortage of skilled labour.

The spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism, but growth in this hospitality industry has been stifled by recent political events. The rate of unemployment and underemployment approaches half of the working-age population. Thus many Nepali citizens move to India in search of work; the Gulf countries and Malaysia being new sources of work.

The distribution of wealth among the Nepalis is consistent with that in many developed and developing countries: the highest 10% of households control 39.1% of the national wealth and the lowest 10% control only 2.6%. The Nepalese rupee has been tied to the Indian Rupee at an exchange rate of 1.6 for many years. Since the loosening of exchange rate controls in the early 1990s, the black market for foreign exchange has all but disappeared. The inflation rate has dropped to 2.9% after a period of higher inflation during the 1990s.

Nepal's exports of mainly carpets, clothing, leather goods, jute goods and grain total $822 million. Import commodities of mainly gold, machinery and equipment, petroleum products and fertilizer total US$2 bnIndia (53.7%), the US (17.4%), and Germany (7.1%) are its main export partners. Nepal's import partners include India (47.5%), the United Arab Emirates (11.2%), China (10.7%), Saudi Arabia (4.9%), and Singapore (4%).

- **<u>India-Nepal sign treaty of Trade & Agreement of Cooperation to Control Unauthorized Trade</u>**

India-Nepal Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade. The 2009 Trade Treaty revises the 1996 Trade Treaty between the two countries. The 1996 Treaty has been a turning point in the trade relations between the two countries and resulted in phenomenal growth of bilateral trade from Rs. 28.1 billion in 1995-96 to Rs. 204.8 billion in 2008-09. While the Nepalese exports to India increased from Rs. 3.7 billion to Rs. 40.9 billion, the Indian exports to

Nepal increased from Rs. 24.4 billion to Rs. 163.9 billion during the period -1995-2009.

"There is need to shift the Indo-Nepal trade to the higher level and attain better qualitative dimensions. The opening of new lines of products and duty free access in India will provide further boost to the growing Indo-Nepal Trade.

The current treaty is expected to provide further access to Nepalese products into India and to enhance and expand bilateral trade between the two countries, the Minister further added. The validity of the Treaty has been increased from five to seven years, along with the provision of automatic extension for further periods of seven years at a time.

It will also allow Indian exports to avail benefit of export promotion schemes prevailing in India, making these products more competitive for further sale or value addition in Nepal.

The time limit for temporary import of machinery and equipment for repair and maintenance has been raised from 3 to 10 years. Several new items of export interest to Nepal have been added to the list of primary products giving these items duty free access to India without any quantitative restrictions. These include floriculture products, atta, bran, husk, bristles, herbs, stone aggregates, boulders, sand and gravel.

India has agreed to consider waiver, on request from GON, of any additional duty that may be levied over and above CVD. Both sides have agreed to exempt exports of goods, which are already covered under forward contract, from imposition of restrictions on exports. Both sides will grant recognition to the sanitary and phytosanitary certificates issued by the competent authority of the exporting country based on assessment of their capabilities.

Bilateral trade will be allowed by air through international airports connected by direct flights between Nepal and India (Kathmandu/Delhi, Mumbai, Kolkata and Chennai) The Indian side has agreed to review and simplify the existing administrative arrangements for operationalization of fixed quota for acrylic yarn, copper products and zinc oxide.

India has agreed to consider several additional products as wholly produced or manufactured in Nepal for the purpose of gaining preferential access to the Indian market. It includes articles collected in Nepal fit only for recovery of raw materials and waste and scrap resulting from manufacturing operations in Nepal.

India has agreed to assist Nepal to increase its capacity to trade through improvement in technical standards, quarantine and testing facilities and related human resource capacities.

➢ <u>Business Opportunities</u>

▪ <u>Business Opportunities in Nepal</u>

Tourism already plays an important role in Nepal's economy. It remains one of the country's most promising sectors for attracting FDI because of its incomparable natural assets, religious sites and therapeutic treatments. The Government of Nepal (GoN) recognizes the contribution that tourism can make in national economic development.

The government has implemented a liberal tourism development policy aimed at attracting a larger flow of tourists. Nepal is promoting its own brand of eco-tourism by combining the natural scenery and trekking with other activities such as rafting, yoga and meditation, and investors are encouraged to provide these and related services.

Nepal is very rich in natural and cultural assets, which offer substantial opportunities to foreign investors. The country conditions range from tropical to sub-arctic within a relatively narrow band of less than 250 km at its widest, north-south. Herbs and herbal products are showing great promise largely because of the ideal growing conditions in the hills and mountain regions.

Nepal has hundreds of plants with medicinal and aromatic properties. Demand for herbal products for cosmetic and health uses is increasing in key markets such as India and in other Asian, European and Western countries. Nepal trades most of its medicinal and aromatic plants in crude form because cultivation and processing are currently limited in Nepal.

The Nepali government has brought new tourism policy to promote tourism industry, The Himalayan Times reports. Addressing a press meeting, Minister for Tourism and Civial Aviation HisilaYami said the ministry is planning a curriculum regarding tourism and the development of a separate Tourism University.

"European arrivals are declining due to the global financial crisis as they are investing in short distance tourist destinations," she said, adding that the focus of Nepal will now be on boosting regional tourism. The new policy will also promote rural, agro, adventure, health and educational tourism," Yami said.

The ministry is planning to include tourism industry in Special Economic Zones. The government is planning to construct a second international airport in Nijgadh of Bara district in central Nepal to avoid congestion. "Korean company LMW has shown interest in the construction of a second international airport and submitted a proposal that is under consideration," Yami said.

- ## Business opportunity in India

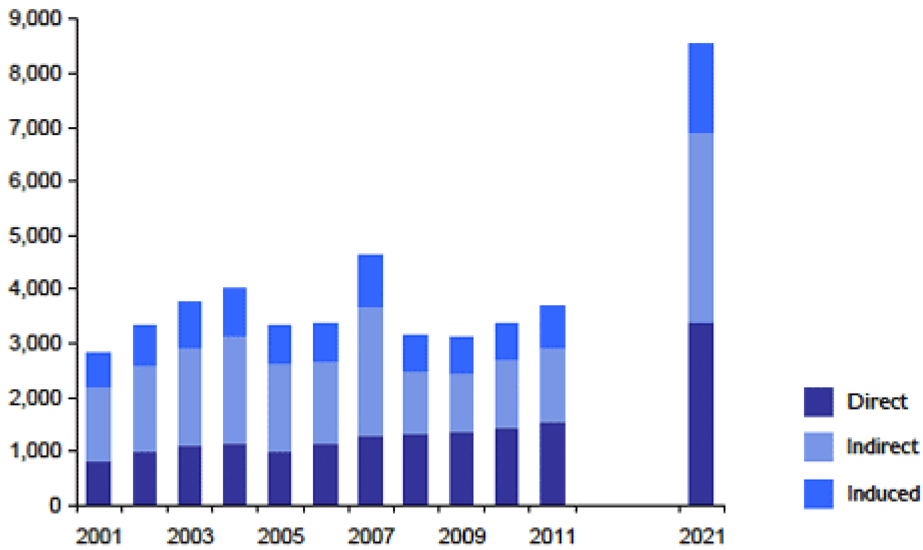
India, the seventh largest country in the world, has huge resource for hospitality management. A land of rich cultural heritage, Indian hospitality sector abides by the Sanskrit saying 'AtithiDevoBhava' meaning the Guest is God. A part of the hospitality industry, travel and tourism is one of the largest foreign exchange earners among several industries. The tourism industry provides employment to millions of people. A huge industry, the business of tourism comprises government tourism department, immigration, custom services, airlines, travel agencies, hotel and other related industries.

In India, though the growth of travel and tourism industry has been somewhat slower, the government's encouragement has definitely paid off. A worldwide interest in travelling and exploring places has led to the improvement in India's tourism sector. This shows that the tourism industry has much potentials and those who want to make a career out of the same can definitely do so. Young individuals who are driven by a passion for travelling and dedicated can easily climb ladders in this industry. Apart from monetary values the biggest perk is an employee gets to travel exotic locales at lower prices.

Tourism is a booming industry in India. With the number of domestic and international tourists rising every year, this is one hot sector entrepreneurs must focus on. India with its diverse culture and rich heritage has a lot to offer to foreign tourists. Beaches, hill stations, heritage sites, wildlife and rural life, India has everything tourists are looking for.

But this sector is not well organized. India lacks trained professionals in the tourism and hospitality sectors. Any business in this sector will thrive in the long run as the demand contuse to grow every year. Foreign tourist arrivals during January-March were 15.63 lakh with a growth rate of 12.8 percent, compared to 13.86 lakh during the first three months last year.

The Tourism sector is expected to perform very well in future and the industry offers an interesting investment opportunity for long-term investors. According to the Tourism Satellite Accounting (TSA) research, the sector is expected to attract capital investment of INR 1,233.0 billion (US$ 27.8 billion), rising by 8.7 per cent pa to INR 2,827.5 billion (US$ 63.7 billion). This means that the sector's share of total national investment will increase from 4.7 per cent in 2011 to 4.8 per cent in 2021.



<u>Source: World Travel & Tourism Council</u>

The TSA research also states that the sector is expected to support directly 24,931,000 jobs (5.0 per cent of total employment) in 2011, rising by 2.0 per cent pa to 30,439,000 jobs (5.2 per cent) by 2021.

- ## <u>Investment Opportunities</u>

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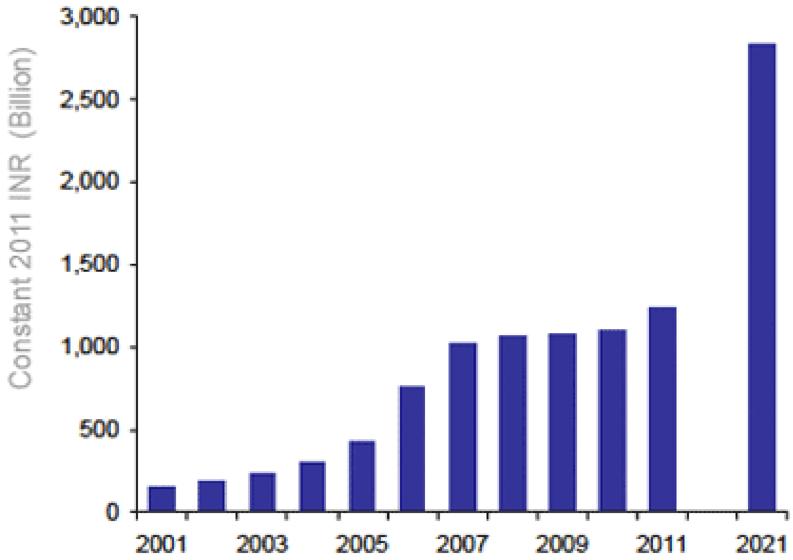

- ✓ **<u>Source: World Travel & Tourism Council</u>**

The Tourism industry in India provides opportunities in diverse fields such as tours and travel circuit, hospitality and hotel sector and development of specialised tourisms such as medical tourism, rural tourism, golf tourism, cruise tourism, adventure tourism, eco tourism and wellness tourism.

The Tourism sector is witnessing fast growth due to the ever-growing number of participants in allied businesses such as hotels, tour operators, airlines, shipping lines, among others. Therefore, the sector is expected to witness high growth in the near future and offer varied opportunities to the investors in all these areas of businesses. In fact, the hotel industry is one of the major areas wherein investors can look for long-term opportunities.

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➢ Going Forward

The Tourism sector in India is providing an important contribution towards the growth of the country's economy, with the sector recording double digit growth in FEEs and FTVs in the recent past. Further, the Government measures such as promoting India through 'Incredible India' project is not only providing a holistic experience to the tourists visiting India but is also showcasing the opportunities to the investors in the tourism sector.

The sector is further expected to gain through the development of a comprehensive and coordinated framework, by capitalizing on the existing infrastructure and building upon the strength of India's position as the fastest growing free market economy.

Conclusion

Conclusion

Tourism is the largest industry in Nepal; the largest source of foreign exchange and revenue. Nepal's **Travel & Tourism** sector is a major job provider with the sector accounting for **3.3 percent** of the total employment in the country in 2011. The spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism.

To promote tourism Nepal tourism Board has set its three specific objectives: Influence, engagement, innovation. Government of Nepal has been actively promoting tourism in Nepal and has always encouraged the private sector for their involvement and participation. The Ministry of Culture, Tourism & Civil Aviation (MOCTCA) gives equal importance to conservation of natural, cultural and human resources.

The tourism industry is one of the most profitable industries in India and is also credited with contributing a substantial amount of foreign exchange. It is the largest service industry in India, with a contribution of 6.23% to the national GDP (Gross Domestic Product) and 8.78% to the total employment in India. The number of foreign tourist arrivals (FTAs) in India in 2011 was 6.31 million which was up from the previous year’s figure of 5.78 million and 5.17 million arrivals in 2009.The government of Nepal declared 2011 to be Nepal Tourism Year, and hoped to attract one million foreign tourists to the country during that year.

- Tourism services are regulated by the Industrial Enterprise Act, Tourism Act, 2035 (1978) amended in 2053 (1997)

- FDI permitted in hotel industry with government's permission. As per WTO commitments, up to 80 percent foreign equity allowed in hotel, lodging services and graded restaurants.

As per policies on tourism industry lot more changes brought out to promote the tourism industry in Nepal like religious site to be develop for tourism, comparative promotion & marketing will be launched In tourism.

Nepal Tourism services are regulated by the Industrial Enterprise Act, Tourism Act, 2035 (1978) amended in 2053 (1997), the Hotel, Lodges, Restaurants, Bar and Tourist Guide Rules, 2038 (1981), the Travel and Trekking Agency Rules, 2037 (1980), the Trekking and Rafting Rules, 2044 (1985), and the Mountaineering Rules, 2036 (1979).

FDI permitted in hotel industry with government's permission. As per WTO commitments, up to 80 percent foreign equity allowed in hotel, lodging services and graded restaurants.

- **The licensing procedure is quite easier for starting business in Nepal, the steps are as follows**:

1. Getting approval of foreign investment
2. Registering with Government of Nepal
3. Apply for registration of Company filling specified form

India is doing the business through FDI in Nepal. The largest contributor to Nepal's FDI is India. The Indian companies have made a significant contribution to the Nepalese economy both in terms of employment generation and by way of generation of revenue to the Nepalese exchequer. The largest contributor to Nepal's foreign direct investment is India with approved investments of NRs 25,381 million in 462 projects.

The spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism, but growth in this hospitality industry has been stifled by recent political events. The rate of unemployment and underemployment approaches half of the working-age population. Thus many Nepali citizens move to India in search of work; the Gulf countries and Malaysia being new sources of work. Nepal receives US$50 million a year through the Gurkha soldiers who serve in the Indian and British armies and are highly esteemed for their skill and bravery.

Nepal is promoting its own brand of eco-tourism by combining the natural scenery and trekking with other activities such as rafting, yoga and meditation, and investors are encouraged to provide these and related services. The Tourism sector is expected to perform very well in future and the industry offers an interesting investment opportunity for long-term investors.

The sector is further expected to gain through the development of a comprehensive and coordinated framework, by capitalizing on the existing infrastructure and building upon the strength of India's position as the fastest growing free market economy.

SUMMARY

SUMMARY

- **Demographic profile & Economic overview of Nepal:**

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy.

GDP - composition by sector

Agriculture: 34.9%

Industry: 15%

Services: 50.1% (2010 est.)

- **Nepal Demographics Profile 2012**

✓ **Population**

29,890,686 (July 2011 est.)

✓ **Age structure**

0-14 years: 34.6% (male 5,177,264/female 4,983,864)

15-64 years: 61.1% (male 8,607,338/female 9,344,537)

65 years and over: 4.4% (male 597,628/female 681,252) (2011 est.)

✓ **Median age**

Total: 21.6years

Male: 20.7 years

Female: 22.5 years (2011 est.)

✓ **Population growth rate**

1.768% (2011 est.)

✓ **Birth rate**

21.85 births/1,000 population (2011 est.)

✓ **Death rate**

6.75 deaths/1,000 population (July 2011 est.)

✓ **Net migration rate**

2.58 migrant(s)/1,000 population (2011 est.)

- ✓ **Urbanization**

Urban population: 19% of total population (2010)

Rate of urbanization: 4.7% annual rate of change (2010-15 est.)

- ✓ **Major cities - population**

KATHMANDU (capital) 990,000 (2009)

- ✓ **Sex ratio**

At birth: 1.04 male(s)/female

Under 15 years: 1.04 male(s)/female

15-64 years: 0.93 male(s)/female

65 years and over: 0.87 male(s)/female

Total population: 0.96 male(s)/female (2011 est.)

- ✓ **Infant mortality rate**

Total: 43.13 deaths/1,000 live births

Male: 43.15 deaths/1,000 live births

Female: 43.1 deaths/1,000 live births (2011 est.)

- ✓ **Total fertility rate**

2.41 children born/woman (2011 est.)

- ✓ **HIV/AIDS - adult prevalence rate**

0.4% (2009 est.)

- ✓ **HIV/AIDS - people living with HIV/AIDS**

64,000 (2009 est.)

HIV/AIDS - deaths

4,700 (2009 est.)

- ✓ **Nationality**

Noun: Nepali (singular and plural)

Adjective: Nepali

- ✓ **Ethnic groups**

Chhettri 15.5%, Brahman-Hill 12.5%, Magar 7%, Tharu 6.6%, Tamang 5.5%, Newar 5.4%, Muslim 4.2%, Kami 3.9%, Yadav 3.9%, other 32.7%, unspecified 2.8% (2001 census)

- ✓ **Religions**

Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001 census)

Nepali (official) 47.8%, Maithali 12.1%, Bhojpuri 7.4%, Tharu (Dagaura/Rana) 5.8%, Tamang 5.1%, Newar 3.6%, Magar 3.3%, Awadhi 2.4%, other 10%, unspecified 2.5% (2001 census)

note: many in government and business also speak English (2001 est.)

✓ **Literacy**

Definition: age 15 and over can read and write

Total population: 48.6%

Male: 62.7%

Female: 34.9% (2001 census)

➢ **<u>Overview of Industrial trade & Commerce:</u>**

Since 1993, India also allows movement of goods from one part of Nepal to another through a simple process of customs undertaking. Nepal has agreed to extend similar facility to India in the course of renewal of the transit treaty in March 2006.

India has extended Nepal direct transit routes to Bangladesh for bilateral and third country traffic. One road route and one rail route have been notified. The road route is through Kakarbitta-Panitanki-Phulbari-Banglabandha corridor. The rail route is through Radhikapur-Birol interchange point on India - Bangladesh border.

Domestic market in Nepal is segmented and small due to lack of transport network and low purchasing capacity of the majority of consumers. Due to unrestricted open border with India, market price in Nepal in influenced by the prevailing market price of adjoining border areas of India. Even the supply situation across the border affects the supply of merchandise and the volume of trade transaction in Nepal.

The internal channel of merchandise trade in Nepal is four-tiered as listed below.

9. Farmer/Producer/Importers,
10. Wholesaler/Trading Agent/Authorized Dealer,
11. Retailer/Hawker, and
12. Ultimate consumer

To make the supply system fully oriented to development and consumer needs, following objectives are envisaged by the government in term of the development of internal trade:

- ✓ Creation of conducive environment for the timely supply of goods derived from internal as well as from external import sources:

- ✓ No restrictions on the movement of goods for internal trade and the goods for exports

- **Overview of Different Economic sector of the Nepal**:

NEPAL IS ONE OF THE POOREST COUNTRIES in the world and was listed as the eleventh poorest among 121 countries in 1989. Estimates of its per capita income for 1988 ranged from US$158 to US$180. Various factors contributed to the economic underdevelopment--including terrain, lack of resource endowment, landlocked position, lack of institutions for modernization, weak infrastructure, and a lack of policies conducive to development.

- **Agriculture Sectors:**

Agriculture is the mainstay of Nepalese economy. It provides livelihood to approximately 80% of the population and accounts for 45% of the Gross Domestic Product (GDP). Due to rugged terrain, only 20 per cent of the total land is arable.Inrecent years overall economic growth rate declined from 4.8 percent in the 1990s to 3.2 percent during 2001-20. Nepal's agriculture is heavily inclined to food grains production guided by food sufficiency objectives and yet the food self sufficiency has often been in the doldrums.

- **Industry sector:**

Industry accounted for less than 20 percent of total GDP in the 1980s. Relatively small by international standards, most of the industries established in the 1950s and 1960s were developed with government protection. Traditional cottage industries, including basket-weaving as well as cotton fabric and edible oil production, comprised approximately 60 percent of industrial output.

- **Manufacturing:**

In 1986-87 Nepal Standard Industrial Classification counted 2,054 manufacturing establishments of 10 or more persons from 51 major industry groups, employing about 125,000 workers.

- **Private company:**

The history of incorporated private firms in Nepal is short. The Nepal Companies Act of 1936 provided for the incorporation of industrial enterprises on joint stock principle with limited liability. The first such firm, Biratnagar Jute Mills, was a collaborative venture of Indian and Nepalese entrepreneurs. It was formed in 1936 with initial capital of 160,000 Indian rupees.

- **Public company:**

Public companies also had varied success. Between 1936 and 1939, twenty public companies were formed. Between 1936 and 1963, fifty-four firms were incorporated, but at the end of 1963 only thirty-four remained in operation. The success of public companies continued to be erratic.

- **Minerals:**

The most important mineral resources exploited were limestone for cement, clay, garnet, magnetite, and talc. Crude magnetite production declined from a high of approximately 63,200 tons in 1986 to approximately 28,000 tons in 1989; it was projected to decline further to 25,000 tons in 1990.

- **Service sector** :

The service industry has emerged as one of the major contributors to world GDP.The Government of Nepal is also increasing its emphasis on the services sector, considering its importance to the Nepalese economy in terms of its contribution to GDP, employment, international trade and balance of payments.

Tourism is the largest industry- of Nepal, attracting 15 per cent of total foreign exchange earnings of the country. It provides direct and indirect employment to over 300,000 people in Nepal. Nepal is endowed with natural scenic beauty, rich cultural heritage and diverse sites for sightseeing and adventure opportunities.

Tourism was introduced in the 1950s, which got a further boost when restrictions on the entry of the foreign nationals were lifted. Since the Foreign trade of Nepal is characterized by the import of manufactured.

- **Overview of Business & Trade at International Level:**

India is Nepal's largest trade partner and source of foreign investment. Total bilateral trade has reached US $3.21 billion (NRS 257.10 billion) during Nepalese fiscal year 2009-10.

  - ✓ **Export data of India – Nepal:**

Nepal’s export basket to India mainly comprises Jute goods (9.2%), Zinc sheet (8.9%), Textiles (8.6%),Threads (7.7%), Polyester yarn (6%), Juice (5.4%), Catechue (4.4%), Cardamom (4.4%), Wire (3.7%), Tooth paste (2.2%) and M. S. Pipe(2.1%).

- ✓ **Import data of Nepal – India**:

Nepal's main imports from India are Petroleum products (28.6%), Motor vehicles and Spare parts (7.8%), M. S. billet (7%), Medicines (3.7%), Other machinery and Spares (3.4%), coldrolled sheet in coil (3.1%), Electrical equipment (2.7%), Hotrolled sheet in coil (2%), M. S. wires, roads, Coils and Bars (1.9%), Cement (1.5%), Agriculture equipment and parts (1.2%), Chemical fertilizer (1.1%), Chemicals (1.1%) and Thread (1%).

- ➢ **Present trade relation and business volume of different product with India/Gujarat**

- ✓ **Trade through investment:**

Indian ventures in Nepal are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Some large Indian investors include, ITC, Dabur India, Hindustan Unilever, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints.

Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US $ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment.

The Government of India and His Majesty's Government of Nepal (hereinafter referred to as the Contracting Parties)bBeing conscious of the need to fortify the traditional connection between the markets of the two countries.

Nepalese manufactured articles allowed entry into India Free of customs duties on a fixed quota basis.

Sr.no.	***Nepalese product***	***Quantity***
1	Vegetable fats (Vanaspati)	1,00, 000
2	Acrylic Yarn	10, 000
3	Copper products under Chapters 74 & Heading 85.44 of the H.S. Code	10,000
4	Zinc Oxide	2,500

Import and export of product

The top ten exports of Nepal to India were textiles; ferrous metals; chemical, rubber, plastic; crops; beverages and tobacco product; metals; vegetables, fruits, nuts; food products; minerals; and leather products. Basically, its primary commodities.

The top ten imports of Nepal from India were petroleum, coal products; chemical, rubber, plastic; ferrous metals; machinery and equipment; mineral products; textiles; transport equipment; food products; motor vehicles and parts; and metals. Basically, the imports (demand) from India are pretty much priced inelastic.

5. **AGRICULTURE PRODUCTS:**

Pulses, rice , corn, wheat, sugarcane.etc

6. **INDUSTRIES**

Tourism, carpet, textile, small rice, jute, sugar and oilseeds mills etc

7. **EXPORT COMMODITIES**

Clothing, pulses, carpets, textile, juice, pashima,

8. **IMPORT COMMODITIES**

Petroleum product, machinery and equipment, gold, electrical goods, medicine.

<u>Nepal's imports were distributed among the following categories</u>

Consumer goods	7.4%
Food	11.6%
Fuels	16.3%
Industrial supplies	30.7%
Machinery	11.3%
Transportation	15.6%

PESTEL analysis:

1. POLITICAL FACTOR:

The country in the present day is in the transitional phase. The existing political instability as the constituent election has successfully completed is anticipated to be stabilize, which will certainly help the business environment to become favourable in the country. Nepal is facing increasing inflation day by day. The purchasing power of people hence, has become much less. People cannot afford to own private vehicle so there is a need of much cheaper mean of transportation to travel.

2. ECONOMICAL FACTOR:

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP.

- **GDP growth in last 10 years**

  - **Nepal's GDP growth in last 10 years:**

2001-02 – 0.16 per cent 2002-03 – 3.77 per cent 2003-04 – 4.41 per cent 2004-05 – 3.23 per cent 2005-06 – 3.73 per cent 2006-07 – 2.75 per cent 2007-08 – 5.80 per cent 2008-09 – 3.77 per cent 2009-10 – 3.97 per cent 2010-11 – 3.47 per cent (projection)

  - **Nepal's GDP per capita in last 10 years:**

2001-02 -- $259 2002-03 -- $255 2003-04 -- $261 2004-05 -- $293 2005-06 -- $328 2006-07 -- $350 2007-08 -- $390 2008-09 -- $465 2009-10 -- $556 2010-11 -- $642

8. SOCIAL FACTOR :

Socio-cultural environment is composed of various class, structure, beliefs, values, social institutions, accepted patterns of behaviour, customs of people and their expectations. Social trends are one of the key factors affecting a business. People's buying patterns and service utilizing pattern are determined by trends. Just as the demand for some popular clothes are determined by fashion, demand for mean of transport is determined by social trend and income level. Transportation means are always changing.

- **Population growth rate -**1.596% (2011 est.)

- **Birth rate -**22.17 births/1,000 population (2011 est.)
- **Death rate -** 6.81 deaths/1,000 population (July 2011 est.)

9. TECHNOLOGICAL FACTOR :

Technological environment refers to all the technical surroundings that affect business. It includes skills, methods, systems and equipment. Technology consists of the forces that create new technologies creating innovative services and market opportunities.

- Internet hosts: 1100 (2011)
- Internet Service Providers (ISPs): 10 (2011)
- Internet users: 200000 (2011)

10. ENVIRONMENT FACTOR :

Deforestation and land degradation appear to affect a far greater proportion of the population and have the worst consequences for economic growth and individuals' livelihoods. Forest loss has contributed to floods, soil erosion, and stagnant agricultural output. A major threat factor is represented by the Nepalese human population. According to the 1991 population census.

11. LEGAL FACTOR :

Many changes in the law stem from government policy. The Department of Transport Management (Dotm) government's transportation services governing body used to recommend the transportation fare. It has to anticipate and prepare to meet future legal changes. From 2010 Nepal is entering in WTO, as part of an initiative called Carbon Reduction Commitment, public transport and other companies will need to buy carbon credits. These credits will permit companies to generate specific quantities of carbon emissions.

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BIBLIOGRAPHY

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A

GLOBAL/ COUNTRY STUDY AND REPORT

On

<u>"Nepal"</u>

Submitted to

Sardar Patel College of Administration & Management

Approved by All India Council for Technical Education (AICTE), New Delhi

Affiliated to Gujarat Technological University, Ahmedabad

SPEC Campus, Vidhyanagar – Vadatal Road Bakrol – 388315, Anand (Gujarat)

IN PARTIAL FULFILLMENT OF THE

REQUIREMENT OF THE AWARD FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In

Gujarat Technological University

UNDER THE GUIDANCE OF

Faculty Guide

Ms. Varsha Kuchara

Assistant Professor

Submitted by

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MBA Semester IV

Sardar Patel College of Administration & Management

MBA PROGRAMME

Affiliated to Gujarat Technological University

Ahmedabad

June, 2013

Students' Declaration

We are hereby declare that the report for Global/ Country Study Report entitled "NEPAL" is a result of our own work and our indebtedness to other work publications, references, if any, have been duly acknowledged.

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Place : ……..

Date :

PREFACE

As a student of management, apart from theoretical studies we need to get a deeper insight into the practical aspects of those theories by working on various projects. So these projects have high importance in management studies to enhance the knowledge and skills.

Management in India is heading towards a better profession as compared to other professions. The demand for professional managers is increasing day by day. Working on this project has been an enriching experience.

This project will help us a lot in the professional growth. It has given us the confidence to prepare for ourselves as fully fledged international marketing professional in the eminent future

A global country report Understanding of the principle will increases their Decision making ability and sharpening their tools for this purpose between two country relationships. The scope of the work under taken by us includes introduction to basic & major things about the Impact of relation of country's business.

We are also thankful to all faculty members who always been a source of motivation and support to all the students of SPCAM. We pay our gratitude to Prof. Varsha Kuchara and all faculty members of the institute(SPCM/bakrol) without their help,effort it would have been impossible to conduct such a study. We must acknowledge our heartiest thanks to them.

We have put our maximum effort to gain the information. If any error or mistakes are found in collection data kindly ignore.

ACKNOWLEDGEMENT

We wish to express over grateful thanks to all those who have helped over immensely for completion of the project. Though we are unable to mention all of their names individually here it will be a lapse on my part if names of certain important personalities are not mentioned.

We are extremely thankful to Miss: Varsha Kuchara, who was our project guide, without his invaluable guidance and advice this project would not have been completed.

We also acknowledge my sincere thanks to Mr. Vashishthdhar Dwivedi, Managing director, who has given us the opportunity to undergo training on global country like “Nepal” and gain some knowledge about the global country relation and business and opportunity .

We will be failing in our duties if we don’t mention here the cooperation and help that we received data collection on secondary data.

We are thankful to the faculty members of our college, SPCAM and one and ours guide of the helping us in one way or other.

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PART – I

ECONOMIC OVERVIEW OF NEPAL

1.1 Demographic profile & Economic overview of Nepal:

Population:	30.5 million (UN, 2011)
Capital:	Kathmandu
Major Language:	Nepali
Major Religions:	Hindusim, Buddhism
Life Expectancy:	68 Years (Men), 70 Years (Women) (UN)
Monetary Unit:	1 Nepalese Rupee = 100 Paisa
Area:	147,181 sq km (56,827 sq miles)
Ethical Group of Nepal:	Bhotia, Sherpa, Thakali, Gurung, Kiranti, Rai, Limbu, Newari, Pahari, Tamang Elderly Limbu, Chong woman
Religions:	Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001)

Age structure

0-14 years:	34.6% (male 5,177,264/female 4,983,864)
15-64 years:	61.1% (male 8,607,338/female 9,344,537)
65 years and over:	4.4% (male 597,628/female 681,252) (2011 est.)

Median age

Total:	21.6years
Male:	20.7years
Female:	22.5 years (2011 est.)

Urbanization

Urban population: 19% of total population (2010)

Rate of urbanization: 4.7% annual rate of change (2010-15 est.)

Life expectancy at birth

Total population: 66.51 years

Male: 65.26 years

Female: 67.82 years (2011 est.)

Total fertility rate

2.41 children born/woman (2011 est.)

Major infectious diseases

Degree of risk: - high

Food or waterborne diseases: bacterial diarrhea, hepatitis A & B.

Vector borne disease:- Japanese encephalitis, malaria, and dengue fever (2009)

Literacy

Definition: age15 and over can read and write

Total population: 48.6 %

Male: 62.7%

Female: 34.9% (2001 census)

1.2 Overview of Industrial trade & Commerce:

Bilateral trade was US$ 4.21 billion during Nepalese fiscal year 2010-11 (July 16 – July 15). Nepal's import from India amounted to US$ 3.62 billion and exports to India aggregated US$ 599.7 million. In the first six months of fiscal year 2011-12, Nepal's total trade with India was about US$ 1.93 billion; Nepal's exports to India were about US$ 284.8 million; and imports from India were about US$ 1.64 billion.

Indian ventures in Nepal are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Some large Indian investors include, ITC, Dabur India, Hindustan Unilever, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints, CONCOR, GMR India, IL&FS , Manipal Group, MIT Group Holdings, Nupur International, Transworld Group, Patel Engineering, Bhilwara Energy, Bhushan Group, Feedback Ventures, R J Corp, KSK Energy, Berger Paints, Essel Infra Projects Limited and Tata Projects, etc.

Nepal's transit trade is routed through twenty two designated routes from India-Nepal border to the port of Kolkatta/Haldia. In addition, Nepal's trade with and through Bangladesh also transits through India.

Government of India is providing assistance for development of cross-border trade related infrastructure. It includes upgradation of four major custom checkpoints at Birgunj-Raxaul, Biratnagar-Jogbani, Bhairahawa-Sunauli and Nepalgunj-Rupediya to international standards; upgrading approach highways to the border on the Indian side; upgrading and expanding the road network in the Terai region of Nepal; and, broad gauging and extending rail links to Nepal.

The bilateral framework for trade is provided by the India-Nepal Treaty of Trade and Agreement of Co-operation to Control Unauthorised Trade 2009. A new

Trade Treaty, valid for seven years was signed on October 27, 2009 after successful conclusion of bilateral consultations, which began in August 2006.

Nepalese manufactured products are allowed non-reciprocal access to the Indian market, free of basic customs duty, on the basis of Certificate of Origin issued by a (Government of Nepal) GoN designated authority – FNCCI, if the goods are manufactured in Nepal with Nepalese and/or Indian inputs; or, with at least 30% local value addition, if third country inputs are used; and, involves substantial manufacturing process leading to change in HS classification at four-digit level.
Nepalese goods attract Countervailing Duty (CVD) equal to excise duty on similar products in India.

Goods manufactured by small scale units in Nepal enjoy the same benefits as SSIs in India with regard to tax exemption. The exports and imports of goods not subject to prohibitions or duties are also allowed to move through the traditional routes on common border. (Nepal has established customs stations called Chhoti Bhansars on some of these traditional routes.) India has agreed to assist Nepal to increase its capacity to trade through improvement in technical standards, quarantine and testing facilities and related human resource capacities.

1.3 Overview of Different economic sectors of Nepal:

Nepal is among the poorest and less developed countries in the world, with almost one-quarter of its population living below the poverty. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, tea, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment. Additional challenges to Nepal's growth include its landlocked geographic location, civil strife and labor unrest, and its susceptibility to natural disaster

Agriculture:

Agriculture dominated the economy. Since the formulation of the 5th Five-Year Plan (75-80), agriculture has been the highest priority because economic growth was dependent on both increasing the productivity of existing crops and diversifying the agricultural base for use as industrial inputs in production.

Although latest agricultural technologies helped increase food production there still was room for further growth. Past experience indicated bottlenecks, however, in using modern technology to achieve a healthy growth. The conflicting goals of producing cash, crops both for food and for industrial also were problematic. Rice was the most important cereal crop. In 1966-67 total rice production amounted to a little more than 1 million tons; by 1989-90 more than 3 million tons were produced. Fluctuation in rice production was very common because of changes in rainfall…

Agriculture - products

pulses, rice, corn, wheat, sugarcane, jute, root crops; milk, water buffalo meat

Industry

Industry accounted for less than 20 percent of total GDP in the 1980s. Relatively small by international standards, most of the industries established in the 1950s and 1960s were developed with government protection. Traditional cottage industries, including basket-weaving as well as cotton fabric and edible oil production, comprised approximately 60 percent of industrial output; there also were efforts to develop cottage industries to produce furniture, soap, and textiles. The remainder of industrial output came from modern industries, such as jute mills, cigarette factories, and cement plants.

Industries Products

Tourism, carpets, textiles; small rice, jute, sugar, and oilseed mills; cigarettes, cement and brick production

Services:

Services grew from 23.5 percent of gross domestic product in 1965 to 36.7 percent in 2011. Average annual growth in services was 4.9 percent from 1965 to 2000 but 6.2 percent in the 1990s. Furthermore, the percentage of the labor force employed in the services sector increased substantially, from 4.4 percent in 1971 to 18.3 percent in 2001. No particular industry accounts for a great percentage of the overall services sector's total value.

- GDP - composition by sector

Agriculture: 34.9%

Industry: 15%

Services: 50.1% (2010 est.)

- Labor force - by occupation

Agriculture: 75%

Industry: 7%

Services: 18% (2010 est.)

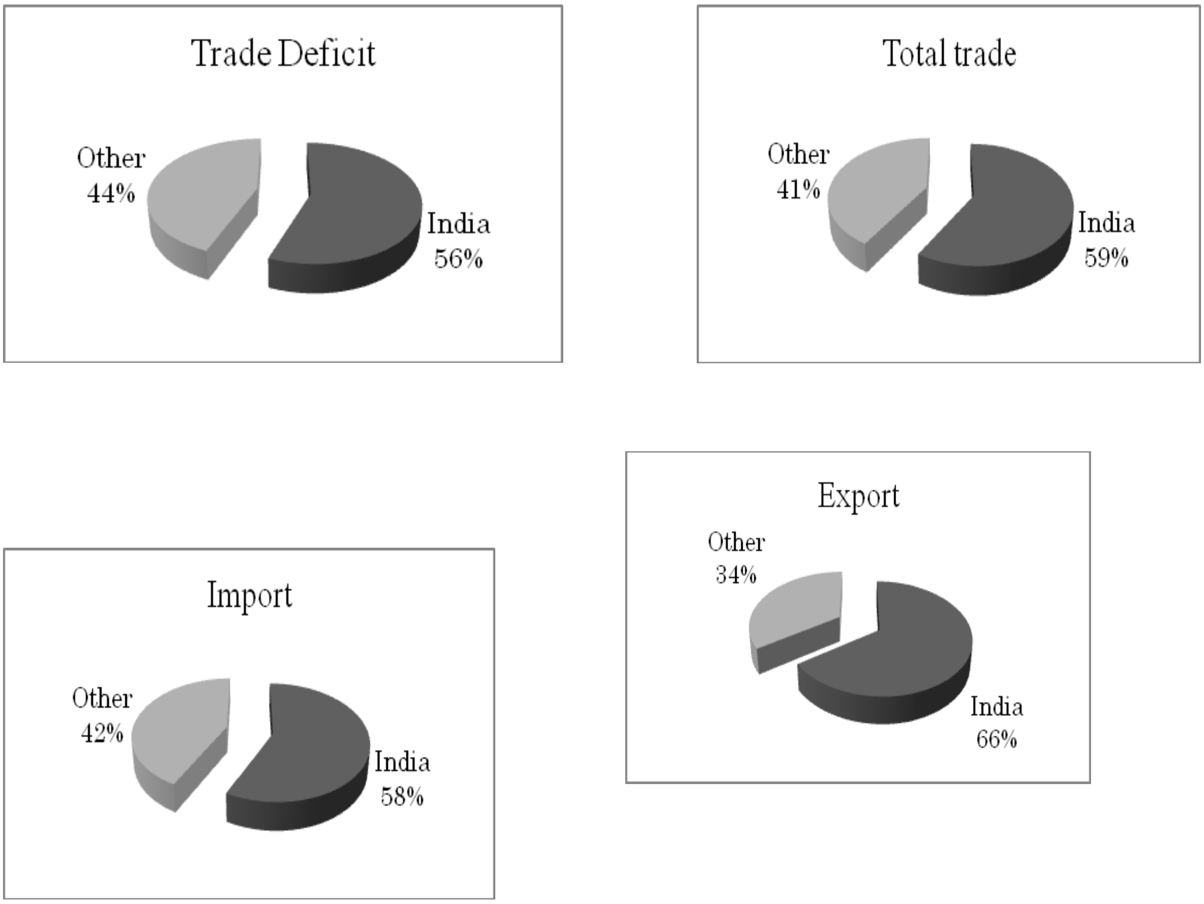
1.4 Overview of Business & trade at International level:

Constitutionally Nepal foreign policy is guided by {the principles of the *United Nations Charter*, nonalignment, Panchasheel international law and the value of world peace.} The fundamental objective of the foreign policy is to enhance the dignity of Nepal in the international arena by maintaining the sovereignty, integrity and independence of the country. Before 1951, Nepal's foreign relation was limited with four countries; namely – India, United Kingdom, USA and France. After membership of the United Nations in 1955, extension of diplomatic relations with various countries of the world increased considerably, with the diplomatic relationship to 118 countries around the world up to 2010. Membership and active participation on regional and international forums and organizations such as SAARC, BIMSTEC, WTO, World Bank, Asian Development Bank and UN Agencies is making Nepalese foreign relation effective and broad.

Nepal never experienced trade balance. More dependency on import is resulting increasing trend of trade deficit. Trade diversification is still remaining in far behind. The major exportable Nepalese goods are readymade garments, woolen carpet, cement; noodles, pashmina, big cardamom, lentils, herbal product, tea and handicrafts.

Realizing the importance of trade and its multiplier effects in the economic development process, the Government of Nepal, introduced 'Trade Policy' in 1992 with a view to optimize the benefits from trade liberalization, as an important part of economic liberalization. The policy provided overall direction towards further liberalization and diversification of the trading regimes and at the same time ushered Nepal's trade to integrate at international level. In addition, it provided impetus to private sector for their active participation in the areas of trade and investment.

Figure: Trade with India (F.Y. 2009/10)



Most of the FDI in Nepal is Greenfield type investment rather than acquisition. Foreign direct investment is highly concentrated in the manufacturing sector, which accounted for slightly more than 45(percentage) of approved FDI projects. Within the manufacturing sector-the textile and garment industry accounts for 28(percent) of total foreign investment, followed by the chemical and plastic industries at 25.3%. Tourism is second, accounting for almost 25% of total FDI projects, followed by the service sector with 20% of FDI projects. Although the electricity- water and gas sector has just a few FDI projects. It ranks fourth highest in terms of the size of FDI inflow.

1.5 Present trade relation & business volume of different products with India/ Gujarat:

Nepal and India signed the revised 2009 India-Nepal Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade today in Nepal (Kathmandu). As per the agreement India would provide a credit line of up to 150 crore rupees to Nepal to ensure uninterrupted supplies of petroleum-gas products, as well as bans on the export of rice, wheat, sugar and sucrose for quantities agreed to with Nepal. India would also provide 20 crore as flood relief. In return, Nepal will take measures for the 'promotion of investor friendly, enabling business environment to encourage Indian investments in Nepal.'

- ✓ Industries

  Tourism, carpet, textile, small rice, jute, sugar and oilseeds mills etc
- ✓ Export

YEAR	$(In Billions)
2010	901.9
2011	896

- ✓ Export commodities

  Clothing, pulses, carpets, textile, juice, pashima,
- ✓ Import

YEAR	$(In Billions)
2010	5.016

2011	5.4

- ✓ Import commodities

  Petroleum product, machinery and equipment, gold, electrical goods

- **Major export products between India & Nepal:**

Woollen carpets and pashmina products, hides and skin, lentils, metal and wooden handicrafts, agro- and forest-based primary and secondary goods, leather, raw jute, large cardamom, ginger, tea and medicinal herbs, Coffee, honey, terry towels, micro transformers, blankets and buttons, the upcoming export items are mushroom, saffron and floriculture products,Vegetable seeds, orthodox and CTC tea, niger seeds, essential oils from medicinal and aromatic plants, leather goods, woollen goods, silver jewellery and silverware, gold jewellery.

- **Major import products between India & Nepal:**

The major import items include petroleum products, machinery and spare parts, transport equipment, pharmaceuticals, textiles, chemicals, electrical goods, vehicles and spare parts, medicines and medicinal equipment, raw wool, betel nuts, aircraft and spares parts, raw silk, threads, fertilizers, telecommunication equipment, etc.

1.6 PESTEL ANALYSIS:

- **Political analysis of Nepal:**

Though Nepal has witnessed great political instabilities in the recent past, the country has a strong base of parliamentary democracy & constitutional monarchy.

Form	Parliamentary Democracy & Constitutional Monarchy.
Head of State	King
Head of Government	Prime Minister
Legislative	House of Representative(lower house)-205 members & National Assembly (upper house)-60 members.
Judiciary	Supreme Court, Appellate Court: 11, District court: 75
Administrative Division	Development region: 5, Zone: 14, District: 75
Capital	Kathmandu

- **Economic Analysis of Nepal:**

Nepal is a developing country. The major industries in Nepal are tourism, handicraft, agriculture and water resources.

GDP Composition	Agriculture: 40%, Industry: 22%, Services: 37%
GDP Real Growth Rate	4.9% (2000-2001)
Average Inflation Rate	2.1% (2000-2001)
Per Capita Income	$ 240 (Rs 17,718) for (2000-2001), $236 (Rs 18,083) estimate for(2001-2002)
Unit of Currency	Rupee
Labour Force	Agriculture: 81%, Industry: 3%, Service: 11%, Other: 5%.

- **Social analysis of Nepal:**

Life Expectancy: 68 Years (Men), 70 Years (Women) (UN)

Age structure

0-14 years: 34.6% (male 5,177,264/female 4,983,864)

15-64 years: 61.1% (male 8,607,338/female 9,344,537)

65 years and over: 4.4% (male 597,628/female 681,252) (2011 est.)

Ethical Group of Nepal: Bhotia, Sherpa, Thakali, Gurung, Kiranti, Rai, Limbu, Newari, Pahari,Tamang Elderly Limbu, Chong woman

Religions: Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001)

Sex ratio

At birth: 1.04 male(s)/female

Under 15 years: 1.04 male(s)/female

15-64 years: 0.93 male(s)/female

65 years and over: 0.87 male(s)/female

Total population: 0.96 male(s)/female (2012 est.)

- **Technological analysis of Nepal:**

A good example of change in technology is buses that lower the floor for easy entry. These provide better accessibility for disabled and elderly people. Technologically, Nepalese transportation industries are far behind the international transport industry

13. Telephones :- Main line in use. [371800]
14. Telephones :- Mobile Cellular . [50400]
15. Radio Broad Cast Station :- AM6 , FM5 , Short wave 1.
16. Television :- [970000].
17. Internet Hosts :- [1100].
18. Intenet service Providers :- [ISPS] =10 Users :- 200,000.

- **Environmental analysis of Nepal:**

The differences in elevation found in Nepal result in a variety of biomes, from tropical savannas along the Indian border, to subtropical broadleaf and coniferous forests in the Hill Region, to temperate broadleaf and coniferous forests on the slopes of Himalaya, to mountane grasslands and shrub lands and rock and ice at the elevations.

Nepal has five main categories of ecosystem – forests, wetlands, rangelands,
Agro ecosystems and mountain ecosystems. Over 39% of Nepal's total geographic area is classified as forest, of which at least 23% is forested. Although Nepal is one of the least urbanized countries in the world, its rate of urbanization has increased dramatically and now stands as the highest in South Asia. It is estimated that the total urban population in 2006 had reached approximately 3.8 million of the total population of 25 million.

Poor quality of drinking water, low coverage of sanitary facilities, and heavy use of solid biomass (primarily fuel wood) in kitchens is increasing the burden of disease on Nepal's population, both rural and urban. These environmental risk factors have resulted in premature death and disease, especially among the poor and vulnerable groups, and are placing increased health costs and a significant economic burden on the country, estimated at close to US$258 million or nearly 3.5% of the country's GDP.

- **Legal analysis of Nepal:**

Legal changes that affect business are closely tied up with political ones. Many changes in the law stem from government policy in Nepal.

- Constitutional Law
- Constitutional of the kingdom of Nepal
- Administration [Public Law 2047 (1990).
- Citizenship Act ,1964
- Civil service act , 2049 (1943)
- Civil service act , 2049 (1993)
- Criminal law
- Arms and ammunition act , 2019 ,1962
- Civil war
- Birth , death and other personal events
  (Registration Act. 2033 (1976).
- Contract Act. 2056 – 2000
- Land acquisition Act. 2034 – 1977
- Land Act. 2021 – 1964
- Marriage registration Act. 2028 – 1971
- Commercial law
- Buffer zone management rules 2052 – 1996
- Contract Act. 2056 – 2000
- Land acquisition act 2034 – 1977
- Land act 2021 – 1964

- Tax lax
- Baggage rule 2065 – 2007

PART – II

STRUCTURE,FUCTIONS & BUSINESS ACTIVITY OF NEPAL TEA SECTOR

(2.1) INTRODUCTION OF TEA SECTOR IN NEPAL

Nepal, a landlocked country in South Asia, sandwiched between China (in the north) and India (in the south), produces tea that is a cousin of Darjeeling tea in its appearance, aroma and fruity taste. Nepal tea if often referred to as the comparable, "classic" Darjeeling tea, and a great alternative from the "more expensive" Darjeeling tea. The reason for the similarity of Nepal Tea with the well-known Darjeeling tea is that the eastern zones of Nepal, which are the main tea producing regions of Nepal, have more or less the same geographical and topographical conditions as the Darjeeling.

Nevertheless, Nepal tea does stand apart from the Darjeeling tea, despite being introduced to the world much later than the Darjeeling tea. Tea connoisseurs consider some of the teas from Nepal to be much better than the Darjeeling tea in its aroma, fusion, taste and colour. However, Nepal tea has not been that successful in capturing limelight in the world tea market, mainly due to the lack of sufficient quantities of tea, that often fails to meet the demand. Since its inception, Nepal tea is characterized by two types of tea, which are Orthodox tea and CTC (Crush, Tear, Curl) tea.

Two Types of Tea Industries in Nepal

1. ORTHODOX TEA

Orthodox tea is grown in the hills of 6 districts in eastern Nepal, i.e. Illam, Panchthar,Dhankuta, Terathum and new areas of Sindhupalchok and Kaski. The orthodox tea production accounts for 12-15% of total tea production. Its total production amounts to1500 Tons and covers 6689 hectares of cultivated land. The primary contributors are small farmers who sell their leaves to buyers in nearby factories or to those in Darjeeling.

The climatic conditions in the hills of Nepal provide ideal conditions for the production of good quality orthodox tea. Another advantage compared to Darjeeling tea is that the bushes are young and produce better quality leaves. Because of the premium price paid to orthodox tea, 96% of it is exported while little is sold domestically mostly in souvenir packages suited for tourists.

More than 18750 farmers derive their livelihood from growing orthodox tea. Although are 69 tea estates and gardens involved in the production of orthodox tea, almost 70% of the total tea produced comes from small holders. Since virtually all of the orthodox tea is exported at premium prices compared to other kinds of tea, growing orthodox tea has been an important source of income for many farmers in the eastern hilly region.

2. CTC TEA (Crush, Tear, Curl)

CTC is produced in Terai in the district of Jhapa and covers around 90% of domestic consumption. The CTC grown in Nepal is known to be of average quality. Whereas small farmers form the backbone of the orthodox tea production, it is largely big tea estates which are behind CTC tea production. Most of the tea estates have their own processing factories and some use bought leaf factories to manufacture tea. It is estimated that around 66576 workers are employed by the tea estates as pluckers, factory workers and in other functions. Many of the daily-wage workers are landless and live at the estates on a permanent basis.

Chamomile is a plant that has the qualities of getting blended with other herbs to help cure different ailments. If mixed with lemongrass chamomile can help nerves relaxation, and it can also be mixed with peppermint for different digestive problems. However, in the 17th century when its medicinal and curative properties had started spreading more widely, chamomile was used mostly as a sleep inducer and therefore, was used more often to treat insomnia as tryptophan present in the flower is an effective sleep inducer, this is still one of the best herbal sleep inducers. Besides insomnia,

chamomile was then used for treating nervousness, anxiety, rheumatism and many muscular pains. By this time, the health benefits of chamomile are almost innumerable, and with so many researches being carried on we would definitely be witnessing the discovery of many more advantages of chamomile.

Chamomile oil formed from the extracts of chamomile is a very good remedy for inflammation as it can be used over the inflammations topically. Chamomile is also found to cause cell reactions that resemble anti inflammatory drugs, thus can help different types of inflammation including inflammation associated with hemorrhoids. Chamomile oil can be found also being used to treat different skin ailments like acne.

Chamomile tea is found to be used very commonly to boost the immune system as it triggers the anti bacterial activity of the body. Besides boosting the immune system, chamomile tea also helps relieve the symptoms of muscle spasms and is hence good for menstrual cramps too, as it has the richness of amino acids. The benefits of chamomile is not limited to these uses, even hospitals are found to use chamomile tea to calm the patients, and healthy people consume it before bed time for sound sleep.

Another main quality of chamomile is that it also helps in easing intestinal pains and can also be helpful in other digestive problems like loss of appetite, flatulent colic and also Irritable Bowel Syndrome (IBS). Additionally, inhaling vapor in the form of steam of chamomile extracts help reduce congestion of nose and lungs, and also helps in headache. It is also known to prevent migraine headaches. Furthermore, chamomile tea is believed to be very helpful in gastritis and heart burn.

Although not indigenous, chamomile is found to grow in the Southern and inner Terai regions of Nepal Lumbini. It is also found growing in some hilly regions of Nepal between the altitudes of 100 & 2200 meters. With the growth in commercial farming of chamomile in Nepal the demand of chamomile tea is ever increasing in both national and international markets in Nepal. There are many local herbal shops and stores that sell chamomile tea and it is assumed that every year 125,000 kilograms of chamomile is sold in the Nepali market alone. Most of the brands that sell chamomile tea often blend it with other herbs like rosemary, lemongrass, ginger, mint, thymes and so on. One of the major exporters of chamomile tea from Nepal is Green Gold Herbal Pvt. Ltd.. It is also a manufacturer and along with chamomile tea also sells different other types of herbal teas. Some famous Nepali brands of chamomile tea are Himali aarogya herbal tea, Himali Okhati Herbal Tea, HImali Chamomile teaand Relaxing tea.

- **INTRODUCTION OF CHAMOMILE INDUSTRY IN NEPAL**

The word chamomile comes from the Greek word ‘kamai melon’ meaning ‘ground apple’ because of its fragrance that closely resembles the apples. Chamomile is a daisy- like flower which is very versatile in nature as it can be processed to form not only the popular chamomile tea, but also oil, and it is believed that in the past it was also used to make beers. Matricaria chamomilla widely known as chamomile is a herb that has been popular for its medicinal qualities since ancient times. Its usage and importance date back to ancient Egypt,where it was associated with their God- the Sun, and was often offered to the deity.

Chamomile is a plant that has the qualities of getting blended with other herbs to help cure different ailments. If mixed with lemongrass chamomile can help nerves relaxation, and it can also be mixed with peppermint for different digestive problems. However, in the 17th century when its medicinal and curative properties had started spreading more widely, chamomile was used mostly as a sleep inducer and therefore, was used more often to treat insomnia as tryptophan present in the flower is an effective sleep inducer, this is still one of the best herbal sleep inducers. Besides insomnia, chamomile was then used for treating nervousness, anxiety, rheumatism and many muscular pains. By this time, the health benefits of chamomile are almost innumerable, and with so many researches being carried on we would definitely be witnessing the discovery of many more advantages of chamomile.

Chamomile is known to cure not only human beings but also plants and thus it is also known as ‘plant’s physician’, as in the past people practiced planting chamomile besides dead plants, doing so would lead to the recovery of the dead plant and after that within a week’s time the plant would start growing normally.

GENERAL ACTIVITY OF CHAMOMILE TEA

Nepal tea has a promising future if promoted in a systematic manner. Awareness campaigns of Nepal tea across tea importing countries and Brand Promotion activities needs to be made to project and highlight orthodox and CTC teas. This should be the prime focus of marketing strategy. Market access initiative can be achieved through a systematic brand building of Nepal tea. For this they should engage in the following activities:

- Promotional campaign & advertising to create a symbiotic relationship between producers & buyers and also consumers.
- Creation & posting of attractive websites.
- Visit of Nepal tea delegation for presentations in select countries such as India, UK, Germany, USA, Japan, Australia, etc.
- Promotional kit pack with tea samples for free distribution to locals & tourists visiting in Nepal.
- Participation in trade fair & food exhibitions.
- Organize Seminars & Conventions in Kathmandu to generate publicity.
- Interaction with Tea Association and Tea bodies across major importing countries

MAJOR ACTIVITIES & FUNCTIONS OF CHAMOMILE COMPANY:

The major functions involved in the CHAMOMILE TEA company is input supply, production, transportation/ collection, processing, blending and packaging, and exporting and domestic trading (wholesaling/ retailing). The input supply function is carried out by agro-vets and fertilizer distributors. Farmers and tea gardens are equally involved in getting their own inputs such as saplings, manures, and bio-pesticides. The transportation/collection is conducted by farmers, tea estates, cooperatives as well as green leaf brokers. Processing is completed by large/medium factories and small processors. Blending and packaging functions are conducted either by individual companies or the tea factories, themselves. Most of the exporting is conducted by factories. Some trading companies are also involved in exportation. Domestic trading is conducted by outlets of factories, wholesalers, and retailers.

✓ **Input Suppliers:**

Besides a few plantations including Ilam Tea Estate**,** Nepal's entire tea plantation is carried out by using cloned planting materials. Most of the clones are derived from an existing mother bush. Small holder farmers and tea gardens usually prepare clones from their own fields; however, some get the clones from commercial nurseries which are very few in numbers. The extension offices of NTCDB also maintain the mother bush. The research and development of new clones are still lacking. Agro-vets supply the necessary inputs like pesticides, insecticides, sprayers, and other agricultural equipment. There are registered companies that supply fertilizers to farmers. For organic production, organic manure is prepared by small holder farmers; however, they also purchase organic fertilizers, bio-pesticides, and insecticides.

- ✓ **Producers:**

Smallholder farmers play a significant role in the production of orthodox tea leaf. According to NTCDB data, 67 percent of total orthodox tea production was completed by small holder farmers in 2009/10 and the total numbers of small farmers involved in green leaf production (excluding Jhapa3) reached 7,781 in 2009/10. The total production area of small holder farmers producing orthodox tea is 4,987 ha (NTCDB, 2011).

Most of the producers supply directly to large and medium sized factories. Some supply to small processors and some conduct hand-processing themselves. The green leaves are also collected by local collectors and cooperatives.

- ✓ **Collectors:**

There are local brokers who collect green leaf from farmers. Green leaf collection is also conducted by cooperatives. Local brokers and cooperatives supply the collected leaf to the processors.

- ✓ **Processors:**

There are large and medium sized factories as well as small scale processors producing various types of tea in Nepal. The production of the factories varies from 10 MT to 800 MT made tea (HIMCOOP, 2009); however, those producing organic tea have a comparatively lower average and are mostly operating below capacity. Almost all of the factories are owned by the private sector except for the government owned Nepal Tea Development Commission (NTDC) which has been in operation since 2000. As per the information obtained from HOTPA, there are a total of 19 orthodox factories. Most of the factories are located in Ilam. These factories mainly produce orthodox black tea. In addition, some factories produce oolong tea, green tea, white tea, silver needles/tips needles, and other specialty teas.

Three factories are HACCP (hazard Analysis and Critical Control Point) certified, two are ISO certified (Shakya, 2010) and six are organic-certified. Out of the six organic certified, Himalayan Shangrila, Nepal Green Tea, Guranse, and Kanchanjunga tea estates have received certification from NASAA. Australia, Gorkha, and Meghma tea estates have obtained certification from IMO in Germany. Kanchanjunga Tea Estate has received FairTrade Certification.

- ✓ **Blenders and Packagers:**

Usually, the packaging of made tea is completed by the factory. They either prepare bulk packages or consumer packaging such as tea bags, aluminum foil, tea chest, etc. There are some packagers who buy made tea from factories and do the packaging. The blending of tea is completed in smaller quantities. Some factories have started blending on their own. One tea warehouse company named **Nirvana Tea Processing and Packaging Pvt. Ltd**. did the blending but due to a shortage of tea, it could not continue its operation (Shakya, 2010). The blend tea of Kanchanjunga Tea Estate, Himalayan Shangrila, and other herbal blends are also available in domestic markets.

- ✓ **Exporters:**

Most of the big factories export their products themselves, there are some exporting firms who purchase made tea from factories/small processors and export. The majority of the exported product goes to India and rest goes to countries including Germany, USA, UK, Czech Republic, France, and Japan. Almost all the exporters have marketing offices in Kathmandu. Some exporters also have marketing offices in Kolkata.

- ✓ **Wholesalers and Retailers:**

For the domestic market there are several wholesalers and retailers mainly based in cities especially in Kathmandu, Pokhara and other major cities. The wholesalers get the supply from factories as well as small processors. There are an estimated 40 tea shops operating in Kathmandu and Pokhara (SNV, 2010). Departmental stores and groceries have also placed the orthodox tea both of domestic and foreign origins.

- ✓ **End consumers:**

Most of Nepalese orthodox tea is exported to India where it is either placed as fillers in other teas or as value added by blending and supplied to the Indian domestic market and international markets. Some quantity of orthodox tea are sent in the brand name ‘Nepal Tea’ to international market mainly Europe. There is less consumption of orthodox tea in domestic market though various brands of Nepalese orthodox tea are available in the tea outlets and retails. The domestic consumption of orthodox tea is in increasing trend. According to some departmental stores, the domestic consumers are around 40 percent while rests are foreign nationals.

GENERAL PROCESS OF TEA IN CHAMOMILE COMPANY:

Tea processing begins right after a green leaf is plucked. The quality of tea depends among other things on the types of leaves plucked and the way of handling of them before they reach the factory.

1. <u>Processing technology</u>

The shoots (two leaves and a bud) may be prepared in several ways to produce either *"black"* or *"green"* tea. To make the former, the leaf is usually withered and rolled or distorted, by rolling in the conventional tea rollers (for manufacturing of Orthodox tea), or is passed through tea machines of later origin, the ***rotor vane*** and ***CTC rollers*** which exert drastic action on the withered leaves. The juice of the leaf cells is exposed to air to oxidize (fermentation) when important chemical changes take place. When the optimum stage in the chemical change is reached, the action of the enzyme is arrested by drying the fermented leaves in a current of hot air in suitable tea dryers

2. <u>Sorting and grading</u>

The processed tea passes through a series of meshes, thus sorting out leaf grades and dusts. Orthodox tea is produced in following major grades:

Major Grades of Orthodox Tea

Leaf (1st Grade)	**Broken (2nd Grade)**	**Fanning (3rd Grade)**	**Dust (4th Grade)**
FOP :Flowery range Pekoe	GFBOP : Golden Flowery Broken Orange Pekoe	T/GOF: Tippy/ Golden Broken Orange Fanning	FOF: *Flakky* Orange Fanning
STGFOP: Special Tippy Golden Flowery Orange Pekoe	FBOP: Flowery Broken Orange Pekoe	FOF: Flowery Orange Fanning	FD: Fine Dust
TGFOP: Tippy Golden Flowery Orange Pekoe	GBOP: Golden Broken Orange Pekoe	BOPF: Broken Orange Pekoe Fanning	
GFOP: Golden Flowery Orange Pekoe	BOP: Broken Orange Pekoe	OF: Orange Fanning	
OP: Orange Pekoe	BOP1: Broken Orange Pekoe One		
	BPS: Broken		

	Pekoe *Souchang*		

In general, first grade constitutes 80% of total, followed by second grade 10% and fanning and dust 5% each

- **Green Tea Grades**

Leaf (1st Grade)	Broken (2nd Grade	Fanning (3rd Grade)	Dust (4th Grade)
YH Young Hyson	GP: Gun powder	FH: Fine Hyson	Dust
FYH Fine Young Hyson	H : Hyson		

3. Packaging

After sorting and grading the tea is usually packed in jute bags with plastic lining or plychests with tin foil linings. It is ensured that the tea container should be air tight and moistureproof. Moisture content should not exceed 3% while packing.

COMPARATIVE POSITION OF TEA SECTOR BETWEEN NEPAL & INDIA

Introduction

Tea is the second most popular drink in the world after water. For a number of developing countries it is also an important commodity in terms of jobs and export earnings. Tea production is labor intensive and the industry provides jobs in remote rural areas. For a number of tea exporting countries, including world champion exporters Kenya & Sri Lanka, tea is a critical source of foreign income. However, as with many commodities, producer prices have fallen in recent years. If corrected for inflation. World market prices for tea in the period from 2000 from 2005 were half what they were in the 1980s. And as productions costs have not been falling at the same rate and have increased lately. This has obviously put pressure on profitability in the industry. There is evidence that this in turn has negatively affected working conditions and livelihoods of plantation workers and farmers in tea producing countries.

The most important cause for decreasing in prices is a persistent situation of oversupply on the international market. There is competition between a number of producing countries for market share and by expanding production. Another reason is uneven value distribution. The tea supply chain tends to be complex with many actors, producers, collectors, traders & brokers and packers involved. The buying and retailing end of the market is dominated by a handful of multinational companies that are still profiting from stable retail prices. In contrast with other agricultural commodities such as coffee, cocoa, oil palm , fruits such as bananas, pressing issues from a sustainable development and poverty eradication perspective have received much lower attention. Along with other stakeholders such as producers, officials and consumers, multinational tea packers companies that sell often branded tea blends in bags or packets to consumers

EXPORT OF TEA FROM NEPAL

Growth in national tea exports flow of export and sharp price declines occurred, whilst green leaf became unsaleable and unusable.

Same as, the work stoppages caused due to political unrest in India, which is now taking its toll on the Darjeeling tea with both quality and quantity declining will open The exporters have grown to 20 whilst the importers have decreased. An increase of 61percent is recorded in export volume of unit packs below 3 kg's whilst bulk exports

EXPORT OF TEA TO India (Q in Kg., Value in '000Rs.)

	EXPORT						IMPORT	
Year	Green Tea		Black Tea		Total		Total	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
2011-12	80,449	7 ,246	4,279,524	375,579	4,359,973	382,825	195,093	18,196
2010-11	704,196	98,825	3,608,681	347,512	4,312,877	446,337	330,327	31,157
2009-10	2,983,176	264,549	1,024,500	113,749	4,007,676	378,298	323,966	31,297
2008-09	28,714	6,006	2,839,350	219,697	2,868,064	225,703	291,946	28,640
2007-08	482,158	2,455	1,613,994	262,469	2,096,152	264,924	408,946	44,421
2006-07	360,800	25,496	39,518	7,874	400,318	33,370	757,890	82,055
2005-06	410,207	58,195 NA		NA	410,207	58,195	736,533	74,854

have risen by 35% over the last one year. The total recorded export earnings in 2012-6 amount to US$ 9, 82,000.

EXPORT OF TEA TO INDIA

Nepal tea industry is very valuable due to their dependency on one major market in India, for over 90% of their orthodox and 40% for the CTC teas. Therefore any changes outlined above which will affect this one will cause severe price fluctuations.

As the above table shows that dependency on India as a trading partner for tea has increased in past 5 years, which further illustrates Nepal's vulnerability. It is therefore imperative that their agricultural production as well as expansion of their international markets be diversified.

Nepal has a very large trade going on primary with India although there is also some border trade with Tibet. There appears to be about 10 to12% of the greenleaf from the CTC areas and over 200percent of greenleaf from the orthodox areas going across the border to India. They may be sold locally in the mountain areas out of small householder's production units. This is based on the land area in the orthodox region of 6,700 hactor calculated even at a low yield of 750 kgs made tea per ha from available data. The published figure of processed orthodox tea is only 1.6 kgs.

The imposition of strict control at the border & stopping of imports of orthodox made tea as well as Greenleaf by India caused a complete stoppage to the otherwise the possibilities for Nepal orthodox tea for price gains and enter in to new market. Indian authorities are getting more concerned by the decline in the producer of their own Darjeeling tea and potential threat posed to their special tea and brand built over many years. Many discerning overseas tea buyers and consumers are aware of this situation in the planting areas and there is a danger of the value of the Geographical Indicator of Darjeeling Tea eroding. Therefore Indian border patrols have been intensified this year to stop the flow of green leaf and made orthodox tea from Nepal.

This situation has become a problem of concern to the Nepal Government. Unless, urgent action is taken to rectify the shortcomings mainly in the orthodox tea sector, it is likely that Nepal orthodox tea would face the same fate as their rice industries. Herein the problems the tea industry confronts as the giant neighbor with unlimited porous borders can will use the produce of Nepal origin to sell into, both their insatiable domestic market and lucrative export markets either passing them off as Indian tea or unfortunately using the Nepal tea as low priced blend mixes or fillers and price reducers in their export. Indian traders have created a psychological myth that Nepal tea is lower in quality and does not command as high a price in the open market or through auction system.

Another reason for the price to be beaten down is that once Nepal teas enter the Indian Territory. it becomes a terminal market for its disposal traders capitalize in such situations. This position is further compounded by the indiscriminate use of pesticides and insecticides by the Nepali farmers who have brought upon themselves a dubious reputation of being producers of tea that has higher than accepted pesticide residue levels rejected by most buyers in the EU, North America, Japan, New Zealand.

Export of tea to countries other than India

This is presents the recorded exports of black and green tea to countries other than India Over 90percent of orthodox tea processed are sold to India through official and unofficial channels. Reportedly, nearly 60% of the CTC is sold in the domestic market whilst nearly the total balance goes to India. There is some interest now coming from Pakistan, srilanka with about 10% exported in the last year .

TEA PRODUCTION IN NEPAL

A large number of small holder farmers are growing tea in both areas: the CTC in Terai and orthodox in the hill. And their contribution in total production is increasing over the years as more small farmers are being attracted towards tea cultivation due to many reasons, including its profitability compared to other substituting crops, particularly in the hill areas. It is estimated that they now account for 26% of CTC tea production and 67% of orthodox tea. For the sake of this report, the following classification is used:

Smallholder farmers: 0-40 ha

Medium-sized gardens: > 40 ha

Plantations: > 40 ha and including a factory

The data on the national per capita consumption is low at 350g for a population of 28. This indicates the country's total consumption being nearly 9.0 m kgs per annum. However basing on the data available of domestic market of sales figures the local market is only around 7 m kgs giving a per capita figure of 2.57 kg. These figures belie the drinking habits as its apparent that there is much more consumption of this preferred hot beverage. The quantities consumed in the northern areas, where free access is difficult and the use of home grown made tea seems to be unaccounted in available data.

Total Tea Production and Tea Plantation Area

Financial Year	Tea Plantation area in hectares					Tea production in Kg's			
			Small holders						
	Private	NTDC [3]	No. of small-farmers	Plantation area	Total	Private	NTDC	Small holders	Total
1999/3						75,400	860,000		1614000
2000/4			1,191	493		687,000	982,000	75000	1744000
2001/5			1,788	644		837,000	1,009,403	10,000	1946403
2002/6			2,243	828		1,500,000	1,112,329	125000	2737329
2003/7	1,685	938	2,390	879	3,501	1,800,000	925,942	18,000	2905942
2004/8	2,192	938	2,591	1,385	4,515	194,655	603,136	468980	3018571
2005/9	6,073	938	4,915	3,239	10,250	3,577,857	496,881	418242	4492980
2006/00	6,073	938	4,915	3,239	10,250	3,577,857	496,881	1010499	5085237
2007/1	8,179		5,310	3,818	11,997	5,089,579		1548503	6638082
2008/2	8,179		5,575	4,186	12,346	5,864,720		1653855	7518575
2009/3	8,321		5,760	4,314	12,643	6,478,000		1720000	8198000
2010/4	8,869		6,252	6,143	15,012	7714669		3956535	11651204
2011/5	8312		6,845	6,989	15,900	7789893		4816188	12606081
2012/6	8,912		7,154	7,100	16,012	8,443,907		5,244,320	13,688,237

Source: National Tea and Coffee Development Board

That's why the government plan was to have 28,000 ha under tea cultivation by year 2010 also further projected to 62,000 ha by 2020. The expansion has been much lower and estimates have been reverse to have 18,000 ha under tea cultivation by 2010. Nonetheless, growth has been impressive.

DEVELOPMENT OF EXPORT TRADE

Nepal's foreign trade was confined with India till early Nepal pursued an export expansion and trade diversification policy in its First Five Year Plan which was launched in 1956. With further incorporation of commodity and country-wise trade diversification policy and programmes in the Fourth Five Year Plan (1970-1975) and subsequent liberal export policies and strategies pursued by His Majesty's Government of Nepal in latter years, the export sector began to grow in a favourable manner. Destinations of Nepalese exports recorded to 78 countries and the number of export products has gone up to 50 in the year 1992/93. Besides, Nepal has been also carrying on its's traditional barter trade with Tibet, the Autonomous Region of the People's of Republic of China. Nepal's recent endeavour to embark on an open market economy has further enhanced the scope of export growth by creating environment conductive to the manufacturing sector.

EXPORT STRUCTURE

The structure of exports has undergone significant changes in the recent years shifting towards manufactured goods. During past few years, while the export of traditional items such as Rice, Raw Jute and other Forest and Agro-based materials barring Pulses and Niger seeds have declined either to non-existence or to nominal products are increasing substantially. At present, Nepal's major export products include Hand-knotted Woollen Carpet and Readymade Garments. These two items together constituted 85.5 percent of total overseas export of the country in 1992/93 whereas the share of these items in country's total overseas export was only 4.7 percent in 1980/81.

EXPORT DESTINATION

In the year 1992/93, the major markets for Nepalese export were Germany(48%), USA(21%) and India(10%). The fundamental feature of Nepal's direction of trade is the reduction in her exports to India. In 1975/76 India accounted for 74.9 percent of total exports, but in 1991/92 Nepal's exports to India declined to 10.5 percent and it remained almost the same in 1992/93. The share of overseas countries in Nepal's exports, however, rose to 88 percent in 1991/92 and again 89.4 per cent in 1992/93 from 22.3 percent in the year 1975/76.

EXPORT PERFORMANCE

Since 1990/91 the export pattern of Nepal has upward trend. Export earning, Rs. 7344 million in 1990/91, increased to the extent of Rs. 13838 million in the year 1991/92. It further registered an improvement over previous year at Rs. 17333 million in the year 1992/93. Commodity-wise export performance in 1992/93 was much better in cases of Hand-knotted Woollen Carpet, Readymade Garments, Lentils, Woollen Goods, Goat Skins and Niger Seeds. The performance of other exportable products like Handicrafts, Silverware and Jewellery, Leather Goods, Hides, and Nepalese Paper and Paper Products also remained as significant as before. Items like Cotton and Polyester Yarn, Cotton and Polyester Fabrics, Towel and Woollen and Acrylic Blankets emerged as new promising export products of the country in the year 1992/93.

EXIM POLICIES

The production and quality of export products will be incresed to make them competitive in international market. Necessary efforts will be made to increase and diversify exports of goods and services with objective of increasing foreign exchange earnings. Exports will be promoted by raising the producing and quality of traditional as well as new products. Similarly, more emphasis will be placed on the export of profitable but processed and finished products. For the export promotion of these products, new markets will be identified. Foreign exchange earnings will be increased and opportunities for gainful employment will be created by identifying and increasing the production of new products. Service-oriented activities will be promoted to increase foreign exchange earnings. Encouragement will be given to the export of hydro-electricity on a profitable basis. For the effective utilization of manpower, stress will be given to the development of appropriate and potential skills to promote service sector as well as export of skilled manpower in an organized way. Appropriate monetary for foreign exchange and fiscal policy will be formulated and necessary changes will be made in the administrative procedures to make them liberal and simple and dynamic in order to implement these policies on an efficient, smooth basis.

POLICY AND NORMS OF NEPAL FOR TEA INDUSTRY FOR IMPORT / EXPORT

(A) TRADE POLICY:

Public sector works as a catalyst and facilitator to expand the role of private sector.

Licenses are not required for Exports and import of any products other than banned or quantitatively restricted items, Banned and quantitatively restricted items.

The duty drawback scheme available for the refund of Export duty paid on Exported raw materials and intermediate goods required for the production of Exportable products.

Export Promotion Zone (EPZ) and Special Economic Zone (SEZ) are being established in different location.

No Duty levied on raw materials and auxiliaries Exported by industries in EPZ./SEZ

Also required foreign currency for Export will be made available by the commercial banks at the market rate.

Exporters allowed retaining their Export earnings in their own foreign currency account.

No quantitative restrictions on the Exportable products carried by tourists while returning from Nepal.

EXPORT

6. Almost all goods are in OGL
7. The customs value is calculated on CIF basis (Cost Insurance and Freight) on Export.
8. Nepal has adopted General Agreement on Tariff and Trade (GATT) valuation system
9. Principle of lower rate of customs duty on the Export of raw materials compared to finished goods is in use.
10. Prevailing custom duty rates are 80%, 30%, 20 %, 15%, 10% , 5%.and 0 % .

Export Custom Tariff from SAARC countries (Except Negative List)

Prevailing tariff Rate (1 January,2006)	Chargeable tariff Rate on Export from SAARC Countries
5 %	5%
10%	7%
15%	9.25%
25%	13.75%
35%	17.5%
40%	17.5%
80%	17.5%

2.4 Goods Exported from India into Nepal are granted a rebate in the chargeable advalorem (except specific) rate of customs duty by 5% ad-volorem duty in above than 30 percent custom duty and 7 % below than 30 percent .

2.5 Goods produced in China and Exported from Tibet are granted a rebate in the chargeable advalorem (except specific) rate of customs duty by 4%.

2.6 The ASYCUDA system is in use at seven major custom points and plan to add in two major points.

FEES ON EXPORT

3. Agriculture Development fee of 5% is levied on Export value on Exported agricultural goods.

    4. NRs.600 as customs service fee is charged per custom declaration form on Export and Rs 500 on Export at custom point

EXPORT

5. Export is generally free of custom duty.

6. Custom duty on Export is levied on the basis of FOB price determined by calculating the cost incurred including in transporting the goods up to custom point when Exporting the goods.

7. No licensees required for Exports of any product other than banned or quantitatively restricted items

8. Generalized System of Preferences (GSP) is available to Nepal's Export as a Least Developed Country.

D. INDUSTRIAL POLICY

INDUSTRIES REQUIRING PERMISSION

Industries producing explosives including arms, ammunition and gunpowder, security printing, bank notes and coin industries.

Cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of a similar nature utilizing tobacco as the basic raw material and alcohol or beer producing industries.

E. FOREIGN INVESTMENT

- Permission won't be granted for foreign investment in the industries specified in Annexure. Rest of the industries a permission is required.

- Foreign investments will be permitted up to 100 percent except the negative list.

- Repatriation of capital & profits is allowed.

- No intervention will be made in fixing prices of the products of any industry.

- Business visas shall be granted to foreign investors or their dependent family members or authorized representatives and their dependent family members to stay in the kingdom of Nepal so long as they maintain their foreign investment. Provided that a Foreign Investor, who makes a lump sum investment of at lest US$ 100,000, or an equivalent amount in any convertible foreign currency, and his dependent family members shall be granted residential visas so long as he maintains his investment.

F. INCENTIVES AND FACILITIES

- After an industry comes into operation, 10 percent of the gross profit shall be allowed as a deduction against taxable income on account of expenses related with technology, product development and efficiency improvement.
  If any other industry utilizes available raw materials, chemicals and packing materials. On which excise duty is imposed. The excise duty shall be reimbursed to the industry utilizing such as raw materials chemicals and packing materials. The amount to be so reimbursed shall be refunded in sixty days after an application to effect has been duly submitted.

  The customs duty & excise duty on raw materials and auxiliary raw materials, etc. utilized by any industry in connection with its product during its production shall be reimbursed on the basis of the quantity of the Export.

  Any industry sells its products in the Export Promotion House, the customs duties levied on the raw materials Exported for producing the products and the excise duty levied on the products shall be reimbursed for concerned industry on the basis of the quantity of sale and Export.

  If an industry sells its product within the country in any foreign currency, the excise duty and custom duty on such product and customs duty, excise duty levied on the raw materials and auxiliary raw materials, etc. utilized in such product shall be reimbursed.

  The customs duties and excise duty on the production materials of intermediate goods to be utilized for the production of Exportable industrial goods and excise duty levied on the product shall be reimbursed to the concerned industry producing the intermediate goods, on the basis of the quantity of Export.

If an industry producing intermediate goods sells its products to any other industry producing finished goods, the custom duty and excise duty to be levied on such products will be allowed to be adjusted on the basis of the quantity utilized by the industry producing the finished goods.

No royalty shall be imposed if any industry generates electricity for its use.

E. TAX SYSTEM AND TAX RATES -F.Y. 2068/69 (2011/2012):

2. INCOME TAX:

- Nepalese income tax system generally follows the prevailing international practices
- Resident taxpayers (Individual or entities) are taxed on worldwide income while Non-resident taxpayers are taxed only on their income earned in Nepal.

1.1 TAX RATES FOR INDIVIDUAL & FAMILY Annual Basic Exemption amount

For Individual	Rs. 160,000	
For spouse/widow	Rs. 200,000	
On taxable income		
On income of up to Rs. 100000 beyond the exemption amount		15%
On all further incomes beyond taxable income of Rs. 100000		25%

40 percent additional income tax income above than 2500000	

Corporate Income Tax: Registered private and public limited company and

other organizations including private firms levied		**at a flat rate of:**	
a.	Banks, Financial Institutions, General Insurance Business,		30%
	Petroleum Business and cigarette & Beverage business		
b.	Others		25%
c.	For Non-Resident Persons		25%
d.	Enterprises accepted as industry by Industrial Enterprise Act		20%
	(except alcohol & tobacco based units)		
e.	Enterprises, which construct and operate road, bridge, tunnel,		20%
	ropeway, flying bridge, trolley bus, tram		
f.	Entities engaged in building and operating public infrastructure		20%
	to be transferred it to NG		
G	Entities wholly engaged in power generation, transmission or		20%
	distribution for an income year		
h.	Export business		20%
i.	Dividend Tax		5 %
j.	Capital Gain Tax		
-	For Entities		Normal
-	For Natural person		10 %
Income derived from shipping, air transport or telecommunication			2%
by non-resident persons			
The repatriated income of a foreign permanent establishment of a			10%

non-resident persons		

Concession and Facilities for Industrial Sector According to Income Tax Act 2002:

- All business related expenses are deductible from taxable income including expenses occurred to reduce pollution and minimizes the adverse environment effects and research & development expenditure.

- Information technology industries or Manufacturing industry providing employment to 300 or more Nepali citizens during the whole year gets additional facilities of income tax rebate at the rate of 10% on the applicable tax and industry provides employment 1200 or more citizens during the whole year gets rebate at the rate of 20 percent on prevailing rate.

- Industries established in certain underdeveloped, remote and semi-developed areas are given rebates on income tax. The rebate may range from 50 - 25% of the applicable tax depending on the level of development of the district.

- Information technology industries or Industries which providing employment to more than 100 Nepali citizens including 33 percent women, dalit and disable person during the whole year gets income rebate of 20 percent.

- Ten years income tax holiday for Industries established in certain underdeveloped areas. (22 districts)

- 5 years tax holiday for Industries established in Special Economic Zone (SEZ) or Export Processing Zone (EPZ) and 50 percent income rebate on the applicable tax rate after 5 years.

- 10 years income tax holiday industries established in hilly region and prescribed special economic zone of mountain region and 50 percent income tax rebate on the applicable tax rate after 10 years.

- Fifty percent income tax rebate in income of Foreign investor generated from industry established in special economic zone providing services such as foreign technology , management fee and royalty

- 40 percent income tax rebate for the Enterprises, which construct and operate road, bridge, tunnel, ropeway, flying bridge, trolley bus, tram

- 25 percent income tax rebate for commodity Export industry on prevailing tax rate.

- 50 percent income rebates on income from Export of Intellectual property, sale and transfer.

- 7 years tax holiday and 50 percent tax rebate for 3 years after 7 years from the operation date for industry involved in investigation of petroleum product and natural gas.

- Any hydropower industry start construction before 2071 Bhadra 7 (B.s) and starts commercial transaction before chaitra 2075 will get 10 years tax holiday and 50 income tax rebate for 5 year after 10 years from the date of starting commercial transaction.

Depreciation:

- Depreciation of depreciable assets owned and used by taxpayer during the year in the production of the taxpayer’s income (business or Investment) is deductible from taxable income.

- Depreciation can be charged only in Diminishing Balance Method value of pool of assets basis.

- One third additional rate of depreciation can be charged for manufacturing industry, Export business and public infrastructure entities.

Classification, Pooling and Rates of Depreciable Assets:

Class	Assets	Rates
A	Building structure & similar work of permanent	5 percent
	Nature	
B	Computer data handling equipment, fixture,	25 percent
	office furniture & office equipment	
C	Automobiles, minibus & buses	20 percent
D	Construction & earth moving equipment and	15 percent
	depreciable assets not included in other class	
E	Intangible assets others than class D	Divided on
	depreciable assets	useful life

Loss Recovery

- Business loss can be carried forward up to 7 succeeding years from any source of income.
- Investment losses can be forwarded up to 7 succeeding years from any investment income
- Infrastructure development project and petroleum business can forward losses up to 12 succeeding years.

- In case of long term contract, loss can be carried back as per the notice of the Internal Revenue Department

VALUE ADDED TAX (VAT):

10. A firm whose annual turnover of goods and services is less than Rs.2 million needs not be registered with the VAT office and collect VAT on sales. But they can register voluntarily.

11. VAT is levied at a single rate of 13 percent. In certain cases, the rate may be zero and certain goods and services are exempted from VAT.

12. Value Added Tax is collected at every (manufacturing, distribution, wholesale and retail) stage of selling goods and services.

13. Exports of taxable goods are zero rated.

14. A firm registered with the VAT Office may claim credit on tax paid on inputs / purchases.

15. VAT paid on inputs can be adjusted while collecting the VAT on finished products.

16. Industries that Exported more than 80 percent of total sales in past twelve months and which have a minimum of twenty percent of value addition can Export raw materials providing bank guarantee on account of the payable VAT.

17. Certain products such as primary food stuffs, primary agricultural products, and industrial machineries are exempted from VAT.

18. VAT Exempted Goods and Services

    a. Basic Agricultural Products

b. Goods of Basic needs

c. Live animals, animal product ,animals feed and feed supplements

d. Agricultural inputs

e. Education services

f. Transport service

g. Health Services

h. Raw materials for pharmaceutical industries

i. Books, Newspapers and Publications

j. Industrial machinery

n. Cultural and Artistic goods and Services

o. Specified personal & Professional Services

p. Others goods and services such as postal service, financial & insurance service, buying & selling of real estate.

11. Zero Rated goods and services

   a. Goods Exported or services provided abroad

   b. Goods & Services Exported by accredited diplomats

EXCISE DUTY

- Excise duty is levied on certain goods (tobacco, alcohol, plastic, cement, vehicles, marble) produced in and Exported to Nepal. The rates may be advalorem as well as specific.

Import and Export Strategies

Trade Policy, 1992 also contains import and export strategies. The major import strategies are to:

- ❖ Simplify existing import licensing and control system and gradual Replacement of quantitative restrictions on imports with tariffs;
- ❖ Simplify import procedures and documentation; and
- ❖ Allow import of all goods except some limited items through Purchase of foreign exchange at the rate fixed by the market mechanism in order to make Nepalese currency fully convertible.

The policy also seeks to facilitate imports by making foreign exchange arrangements more flexible. For goods imported through auction, NRB has the authority to make foreign currency available at the rate fixed.NRB has also sought to make Nepalese currency fully convertible and gradually allow currency to be bought and sold under the rates determined by market mechanism. For this purpose, commercial banks have been given permission to make foreign exchange available for import of industrial raw materials, spare parts and services and for payments of foreign loans and interests of the non-governmental sector.

Similarly, the major export strategies stipulated in Trade Policy, 1992 are:

Legal and Administrative Procedures, Taxes and Trade Rules

As indicated in WTO Working Party Report of Nepal, to conduct business in Nepal, companies, both national and foreign, have to be registered with the Department of Industry (limited liability companies, including joint venture agencies, sole proprietor and partnerships, business undertakings for industrial ventures) and at the Department of Commerce (sole proprietor undertakings and partnership businesses).Registration procedures differ for private firms and companies.

The Private Firm Registration Act -1956 governs the registration of a private firm, while the registration of a company is doing by the Company Act-1997. The registration of enterprises with respect to trade in services is governed by other laws such as Nepal Agency Act, 1958 and Partnership Act, 1964. All registered companies can import and export goods for business purposes on the basis of existing import and export regulations. Foreign firms, without establishing a physical presence or investment in Nepal, can register to import or export their own produce if they do not intent to distribute imports in the domestic market. Retail business in Nepal is reserved for citizens of Nepal only.

Registration procedures differ for private firms and companies. The Private Firm Registration Act, 1956 governs the registration of a private. The registration of entities with respect to trade in services is governed by other laws like Nepal Agency Act 1958 and Partnership firm Act 1964. All registered companies can import and export goods for business purposes on the basis of existing import and export regulations. Foreign firms, without establishing a physical presence or investment in Nepal, can register to import or export their own produce if they do not intent to distribute imports in the domestic market.
Retail business in Nepal is reserved for citizens of Nepal only.

Customs Tariff

The prevailing basic customs tariff rates are 5, 10, 15, 25, 40,80 and 130 percent and the majority falls in the range of 10 percent to 20percent. The current unweighted average customs duty rate for imports is approximately 14 percent. As a general rule, Nepal applies *ad valorem* duties. Some products such as motor fuels, kerosene oils, gas and fuel oils, cement, liquor, tobacco and tobacco, etc., are subject to specific duties. *Tariff rate quotas and tariff exemptions:* Nepal does not apply tariff quotas on imports. To facilitate the import of specific goods, the government provides tariff exemptions and reductions. Goods exempted from import duty are books, equipment and vehicles for trolley bus services, medical equipments for public health projects, cold storage equipments for the preservation of agricultural products, alternative power development equipments, high quality printed materials imported for the promotion and publicity of tourism in Nepal, threshing and husk-machines(Pankhi), raw jute, crates for keeping eggs, etc.

Other duties and charges (ODCs)

To promote decentralized local development and generate fiscal revenue to respond to critical local needs ,a local development fee of 1.5 percent on the value of imports has been fixed. However, Nepal has committed to eliminate these ODCs within 10 years of Nepal's accession to the WTO.

Charges for services rendered

No duties and charges are imposed on imports for customs processing. However, 1 percent of the total value of the imported goods is charged as import license fee.

Licensing procedures

Automatic licensing is applied to both imports and exports of goods and is issued by the Department of Commerce. A letter of credit must be presented at the customs office during the time of export and import.

Customs valuation

In accordance with the Customs Act, as amended in1997, customs value of imported goods is assessed on the basis of the invoice price shown in the invoice document provided by the importer.

Application of internal taxes

Orthodox and CTC both domestically produced goods and imported goods are subject to VAT and excise taxes. Every person (defined in the Act as any individual, firm, company, association, institution, partnership firm, cooperative, joint business, religious endowment or fund; or any government body, any religious organization, charitable trust or similar other bodies and branches or sub-branches engaged, with or without profit, in taxable transactions) engaged in any transaction is required to apply for registration. Exemption from registration is provided to small vendors whose commercial transaction value is less than NRs. 2 million.

Excise tax

Excise tax is levied on products specified in the Finance Act. This tax is not applicable to imported goods. Imported goods that are listed in the Act are subject to an equalizing duty levied at the rate of the excise tax.

Export financing, subsidy and promotion policies

Income from exports has been exempted from income tax. The duty drawback system for the import of raw materials for exportable commodities has been made more effective. Nepal does not provide direct incentives to any industry. There are certain exemptions in terms of income tax, sales tax, excise duty and customs duties to the industries qualifying under the conditions stated in Industrial Enterprise Act 1992.

With regard to services, according to Industrial Enterprises Act, 1992,human resources required for any industry, including all services shall be recruited from Nepalese citizens. Nevertheless, foreigners are permitted to work in Nepal on technical grounds, and in accordance with its commitment made at the WTO during its accession to the rules-based multilateral trading system. A work permit issued by the government is, however, required for foreigners to work in Nepal.

National Tea Policy, 2000

The government has introduced National Tea Policy, 2000 with the following objectives:

- Increasing the production of tea qualitatively and quantitatively with increased participation of the private sector in tea cultivation and encouraging tea cultivators;
- Helping in poverty alleviation with increased opportunities of income generation and employment;
- Making the tea cultivation sustainable and attractive;
- Promoting institutional development for the improvement of the tea sector;
- Increasing the opportunities of foreign currency earnings with the increased export of tea having fulfilled the internal demand; and
- Giving emphasis for the development of human resources, technology, study and research necessary for tea businesses. In Oder to achieve these objectives, the policy also fixed some quantitative targets:
- Expand tea growing area to 40,875 hectares in five years.
- Increase gross tea production to 46,111,000 Kg in 10 years.
- Avail employment opportunities for 79,310 additional people in five years.
- Increase orthodox tea production so that it consists of 65 percent of total tea produced.

In addition to these, the policy sought to ease access to credit for tea producers through minimum interest loans from banks. A grace period of seven years on income tax and interest on loan for orthodox and green tea in the hilly regions and five years for CTC tea in the Terai have been provided for tea cultivation. A Tea Development Fund was also to be established under the policy for technical advice and assistance such as on issues relating to concessions on registration fees, land ceiling, land revenue, custom facilities in the import of machinery, irrigation equipments, packing materials, steel structures and letter of credit facilities, etc

Tax and Duties on Foreign Trade

Export:

- Export is generally free of custom duty.

- Custom duty on export is levied on the basis of FOB price determined by calculating the cost incurred including in transporting the goods up to custom point when exporting the goods.
- Generalized System of Preferences (GSP) is available to Nepal's export as a Least Developed Country.
- NRs.600 as customs service fee is charged per custom declaration form at custom point on export.

Import:

- Almost all goods are in OGL (Open General License).
- The customs value is calculated on CIF basis (Cost, Insurance and Freight) on import.
- Nepal has adopted General Agreement on Tariff and Trade (GATT) valuation system.
- Principle of lower rate of customs duty on the import of raw materials compared to finished goods is in use.
- Prevailing custom duty rates are 80%, 30%, 25%, 20%, 15%, 10% and 5%.
- Goods imported from India into the Nepal are granted a rebate of 7 % based on ad valorem(except specific duty) on chargeable customs duty of up to 25 percent and 5 % on above than 25 % duty.
- Goods produced in China and imported from Tibet are granted a rebate of 4% based on advalorem (except specific duty) in the chargeable customs duty if imported through L.C.
- The ASYCUDA system is in use at ten major custom points.
- Agriculture Improvement fee of 5% is levied on import value on imported agricultural goods if imported from Tibet and India.
- NRs.500 as customs service fee is charged per custom declaration form at custom point on import.

Abstract

Indian tea has lost all global markets because its continues to be traded as a commodity. The much talked about value addition is limited and rather late. Only

the markets that have consumers with large pockets buy tea as a commodity and that share is fast growing. The industry needs to be competitive in production, marketing, product forms. India despite being a large producer of tea, lacks of properly organized production systems in which small tea producers find a respectable place. The industry must have access to capital at globally competitive.

The Indian tea industry must face the market realities n redefine its business strategies and reposition its products. The step in that direction is a complete restructuring of the tea industry, redefining the roles of various agencies and the Tea Board and Producers organizations, developing a healthy partnership with the labor. There are the problems of market access and discriminatory treatments through non-tariff trade barriers such as maximum residual limits (MRL) and social clause

Nepal Tea Industry established at 1840 when a pioneer tea garden was established on the slopes of the hills in Chittagong where the Chittagong Club now stands. First commercial tea garden was established in 1857 at Mulnichera in Sylhet. During the India and Pakistan partition in 1947 15th Aug. Nepal owned 104 tea industries, covering 26,734 hectares of tea plantation of annual production of 18.36 M.Kg. with a yield of about 638 Kg. per ha. Home consumption was around 13.64 M. Kg. upto 1955.

After that home consumption went up rapidly and Government imposed 3% mandatory extension of tea area per year in 1961. Ten years later by 1970, tea area was extended to 42,658 hectares and production was increased to 31.38 M.Kg. During liberation war in 1971, our tea industry suffered colossal damages which resulted in poor management, high vacancies, insufficient inputs, dilapidated factory machinery, inadequate maintenance etc. leading to lower yield and poor quality of tea. Besides that, world tea production has been showing an annual increment of 3% while in Nepal the production has increased by 1.84 % and contributes 1.37 in export in the word tea trade and earns near about 1775 million Taka (Taka 69 = USD 1.00) every year. The study aims to picturize the scenario of Bangladesh tea in the context of world tea, export and import scenario of tea and consumption of tea products in different countries in the world.

Key Words: Tea, Global Scenario of Tea, NepalTea, Global, Markets, Commodity, India, Kenya, Pakistan,Bangladesh, Sri Lanka, Competitive, Tea Board.

Medium Term Export Strategy

Tea Board which has responsibility for overseeing and regulating production and trading including exports and import, was already withdrawing from the regulations. The Board undertaken an exercise to develop mid-term strategies for increasing exports during the Tenth Plan period

- Focused efforts at developing and promoting an Indian Tea Logo and assistance in brand building approaches of players.
- Geographical diversification of markets and consolidation of existing markets.
- A comprehensive export rating and reliability management programmed during year.
- Targeting value-addition tax and niche segment opportunities in markets.
- Re-construction of the product-mix in line with demand in key high-value markets.
- Comprehensive product quality gradation programmed.

In line with the medium term export strategy for Indian tea. The Tea Board in 2002 strategized on 21 markets. The plan was togrowing Indian exports of tea to these markets to a total of 280 million kg which was almost 72 million kg. On the contrary, the exports actually declined during this period and there were significant losses in important markets like Arab Republic of Egypt, CIS, and Poland. Some small size markets like Saudi Arabia, Germany, France, Ireland and Sudan also saw Indian export declining. There were some increases in quantities exported to USA, Iran, Syria and Netherlands but together these markets lifted small volumes.

On the whole the industry does well and then began the blame game. The tea industry blamed Tea Board lack of support from the industry particularly in markets where concentrated efforts were planned. While concern on exports declining was expressed in all quarters, not much concrete was done to reverse the situation.

Presumably such inactivity was in honest recognition of changed global situations which were steadily turning adverse in India. In the year 2004-05, India lost its eminent position of the largest producer of tea to China. Kenya had already taken over Sri Lanka in exports pushing India to 2nd position. Of course India had doubted China's emergence as a top ranking tea producer, citing limitations in collection of field level statistics and under reporting of production. Tea Board was then joined in revising the production data. Present strategy at the Board level includes among other things capturing China's market for black tea. The industry doyens both at home have made many caustic comments about functioning of the Tea Board repeatedly pointing out that it neither has the experience nor the expertise to handle issues in global marketing. A study by IIM Calcutta had made many comments on the concerned Division. In fairness, it must be noted that the Tea Board formed in 1952 was mainly to control the Indian Tea industry. Under the changed circumstances presently, in which the clientele system has different and many more expectations, it would be appropriate to redefine the charter of the Tea Board, refocus its activities, and down size it. In doing so, the highly dynamic and well focused functioning of the Tea Boards of Sri Lanka and Kenya could be useful and large inputs. One of the strategies to beat the competition is to know how it operates.

Tea industry in India is at crossroad not knowing how to reverse the adverse trends in markets that have directly affected its fortunes. There is fierce competition abroad, India's un-competitive on account of cost and law quality, and changing consumer demand. The home markets are slowly opening to imports which can well compete on cost and quality parameters. The latest position is such that the Tea Board is now perhaps hopelessly resigned to the fact that India cannot compete in the global markets at least in the future. The strategy is to protect the industry in the home markets since the tea industry particularly the plantations employs a labour force. Unfortunately not much is known for sure about the actual consumption in the market. Some say it is growing and others feel it is stagnant, and in some informed quarters there is a feeling that India's average domestic consumption is increase more than the increase in the global consumption. The fact remains that whatever the domestic market consumes, there is still sizeable surplus between 180 to 200 million kg that needs to be sold in the world markets. Trade estimates are that roughly half of this is law quality and at best would a price of around Rs.42-45 per kg. Assam teas are a quality product, still much valued in the international markets but suffer the disadvantage of seasonality and high prices. Assam produces nearly 56% of Indian tea…

The Competitors

India is a producer consumer and exporter of tea. The Indian exports less by 13% during 2003 but growing by 4% in 2004. During this period the Indian rupee had appreciated by 8% thereby making Indian exports more non competitive. India is a high cost producer of tea because of high cost of capital of labour.

Nepal produced 322,000 MT teas and reported to have exported 323,000 MT teas. The production in Nepal continues to growing although the exports are not so good. In direct competition with India's CTC tea, Nepal has done exceedingly well. Nepal had offset rising labour cost by of their currency. The currency devaluation is a short term measure and often has other effects particularly when a country like Nepal runs a large import bill. the currencies that are devalued could soon appreciate. Such is the dilemma of the Nepal exporters. Continuing appreciation of Nepal Shilling, from KSH 71 to 66 for a USD in few days has robbed the significant currency advantage. With the Government of Nepal refusing to intervene, the exporters are right to fend for themselves. A much talked about option is to hedge but that too can help only in a limited ways...

The Markets

A detailed analysis of competitive positions in markets for tea is given in Exhibits 1 and 2. UK and Ireland are the markets for tea but their imports have been declining. Even then the UK blenders continue to be the global market. UK is where the blending industry first started decades ago.

Pakistan has a population of 155 million people, 66% of them live in rural areas. Pakistan consumed 109,000 MT in 2003. After the break up with the Bengal, Pakistan had tried the Sri Lankan teas shifted to CTC tea from Nepal. Nepal took a 66% share in Pakistan imports in 2003. India is now keenly looking forward to wresting market share from Nepal. The Pakistan market is dominated by CTC leaves. Pakistan levies income tax on imported tea. all accounts, Pakistan would soon be a fierce battle ground for global tea suppliers. Sri Lanka signed a FTA with Pakistan and is a fellow member of SAARC, a regional agreement. India is gradually but surely improving relations with its immediate neighbor. If India can get a strong foothold in the Pakistani market, that would offset its loss of the Egyptian market to Nepal.

Pakistan's relations with Nepal are also improving. Indonesia relatively a small producer of tea has big exportable surplus & would seek access to Pakistani market. With the per capita consumption nearly stagnant and a small increase in overall market size, to retain its share in the Pakistan market, Nepal will have to spend large monies on media promotion. The cost so incurred will have to be compared with the gains from retaining the dominant share. Nepal of course has much more tea to sell globally given its home consumption is quite low. Tea Board of Kenya is engaged in promoting consumption of tea at home and the neighboring African nations.

The recent establishment of a Tea Trading Center in Dubai has generated considerable concern among the tea suppliers. Will this become an action Center? If yes, how would it affect auction centers in India and at Mombasa and Colombo? Dubai of course offers access to the whole of Gulf market and other countries in Asia. More importantly a land route is available for transporting tea Dubai to Russia at much less cost than other mode. Using IT, Dubai has more efficient systems for business …

Coffee dominates the US market. For tea, it is mainly an ice tea market where cheaper teas are used. Nearly 70% of Argentina's tea production is uses in the US. India cannot compete in this segment because it offers only the high priced .Some small scale industries of the Indian origin are sincerely trying to popularize specialty teas in the US market using the ethnic route…

Consumption in Producing Countries

How much of total global production is consumed in producing country? Except for India and China most other producers consume only a small part of their production.

To address market balance problems, domestic consumption in producing countries should be stimulated.

Nepal produced 324,000 MT teas and reported to have good exported 333,000 MT teas. The home consumption in Nepal is small but the Tea Board there is currently working on a strategy to boost domestic consumption. The GDP growth in Nepal is around 2.5% per annum. It is not clear why per capital consumption of tea in Nepal fluctuates from year by year. May be the world prices affect per capita consumption in Nepal. Or could it be smuggling through borders of Pakistan and Afghanistan? Some surmise that every time illegal tea imports in Nepal, per capita consumption goes down... It is also exploring new markets such as USSR..

If Indians could drink half a cup per day. the problem of surpluses will disappear and that could make history. Such is the power of even a small increase in consumption for huge population base.

Health Benefits

Physiological functions of tea Catechism have been deeply studied and by now their beneficial effects on the human body are well recognized. The suggested consumption pattern is drink tea right after food. If consumed even 40 minutes later, it would do not good. Likewise, if consumed with other food the ability of body to absorb catechism reduces. For catechism, the quality of tea does not matter; harvesting two leaves and a not necessary. In fact the whole bush can be harvested to make catechism. That is potentially a very large application waiting to be exploited commercially.

Price Variability

Tea has much lower variability in consumer prices compared with coffee. For tea it is 2%, coffee has 25% and coke 38% price variability. A stable price means higher consumer loyalty and that has to be exploited.

Unit Values

Compared to 1998, the global values in tea have declined like 38%. There has been a sharp decline in prices. The question in this context is the global values for tea going down? In the final analysis, unit values realized are more important than the volume of production of exports.

Observations on Global Situation

The situation in the world markets for tea can be divided by over supplies, a slow growth in demand, and a large competition. It is necessary to reduce global supplies by increasing consumption, curtailing production or at least limiting further extension of area and developing markets…

Supply Side

Supply issue is the cardinal problem for the industry in future. Supply side places impeccable pressures on packers who has to compete in the super market against small margin.

Some 16 million kg tea is in surplus and how to dispose that is a problem. Some other use has to be founded for this excess quantity to balance supply or demand. About 102 million kg tea floating in the global markets is substandard. Such tea should be destroyed as per ISO 3720 and that should hopefully improve price situation in addition to tackling the problem of buffers. Only the good quality teas should be exported by the producer countries. Through rigid controls, Sri Lanka has removed poor quality teas from their exports.

Auctions

Auctions in producing countries such as Sri Lanka and Nepal have been quite efficient in price and these countries are constantly working to strengthen their auction systems. Colombo auction distributes about 1.5 million samples (small quantity) every week. A main concern in Colombo and Mombasa is to reduce the time cycle from an average of 26 to 20 days or less. Presently it takes 13 days for cataloguing and sampling prior to auction and another 13 days after auction for stocks to be lifted and payments take. During this period considerable capital is tied grow.

In contrast, India has been on and off fiddling with their auction system presumably under the weight of the trade of some of the giant corporations. Having recently made auctions not to good necessary, nearly half of the produce is now sold and the remaining half, mostly the substandard product that cannot be sold. is brought to the auction. The poor price fetched in auction becomes bench mark for wage payment to the plantation labor. While this formula follows the practice in Sri Lanka, the striking difference is that in Sri Lanka everything is sold auctions that are quite transparent.

The tea auctions are organized by the traders under the regulatory control of the Tea Board. Auctions need to be modernized. The recently introduced electronic auctions in Coimbatore and Connor are struggling through problems. In the final analysis, the auctions can be successful if a fair relationship exists between the auction prices and the direct sales. Scope, for value addition and availability of the facilities needed for value addition improves auction prices. Such is the experience from Sri Lanka. Tea has many varieties and varies from garden to bag and even bush to brush. National on quality of tea are not aligned across producer countries. Nevertheless some standards could be developed and futures contracts considered. If a market for tea can be organized that could render auctions unnecessary.

Labour Problems

Many tea gardens particularly in the Northwest India are facing closure as a result of low productivity high cost of production and prices. Economically, these gardens are simply sustainable. Labour have not been paid wages and other dues under the Plantation Labour Act for several months. In the foothills of the Himalayas, in Dooars in West Bengal, 14 tea gardens are already closed. At least 17,800 workers are jobless and state government has admitted 571 deaths in the past 15 months.

The Government has announced a Rs.1,190 crore which will be given over a 15 year period and used to productivity, including the replantation of tea bushes in the plains of gardens in the hills. This will be out of an Rs.500 core budget estimated in the fiscal year 2007/08 for rehabilitation and replanting of the tea plantation sector. The Government has also provided financial help in the earlier years but much has improved.

In some cases the government is also considering the option of taking over the closed tea gardens them over to new owners, under a provision in the Tea Act that has never been used now. Most of the Government support is directed towards the tea plants. So how much of that actually benefits the plantation labour directly is a question mark? The answer is right there in the continuous agitations and unrest among the tea plantation labour. In the context of the globalizing Indian economy,

Low Profitability in Production

The corporates like Tata Tea have mostly got out plantations. They realized that there is more money to be made in marketing to the risk in that is much lower although the cost of market development is quite high.

The production entails risk on account of weather conditions prices. Labour cost is quite good since hand picking of tea is quite labour intensive. To reduce the cost, some plantations are resorting to longer picking cycles say 13 to 18 days against the ideal 10 days. On top of this, they are also harvesting three or even four leave bud disregarding that the tea manufactured would be of lower quality and fetch low prices. The ideal is two leaves and a bud.

The high cost of fulfilling social obligations towards the plantation labor is another reason for the Corporate to get out of the plantations.

Cost Leadership and Pricing

Quality leadership does not mean turning a blind eye cost. Price is the crux of the problem and that has two known solutions reduce availability or enlarge markets. Producer countries have been traditionally production oriented. They need to be now more and more market oriented.

Non Tariff Trade Barriers

Stringent rules of labeling in the developed country markets have adversely affected growth in export …

Quality standards have been set by non-importing consume countries. Some of these standards are not even scientific but they inhibit world trade and increase in consumption.

Maximum residual limits are a hot topic among the producers. MRL operates on every single agricultural product and not specifically tea. The Indian tea industry is by and quite sensitive to these limits.

The cost of conforming to ever increasing regulations in the guise of food consumer right to know and ethical practices is quite high. Unethical pricing does not allow adhering to ethical practices at different to levels during production and trade. Fair and ethical trade requires additional cost and presently that is load on the producer. The entire issue needs to be examined in socio-economic should not the consumers in the importing countries be paying for all these?

Building Demand in a market

Building demand in a particular country is a much customized thing. There is a cost of market penetration and there is barrier to entry. In the short run, market intervention, distortion and manipulations cause a day's relationship between international prices and domestic prices. Markets are not perfect.

The world prices are mainly related to CTC teas since orthodox tea is a small segment in global tea trade.

FAO Tea Mark

The Tea Mark project approved by the Inter governmental Group on tea may have been a sound idea conceptualization but it has failed to evoke much response at the producer as well as the consumer. Some 4.6 million dollars were spent on popularizing tea marks which now seems to be surreptitiously taken by coffee companies emphasizing "goodness of it. Even coffee cups are looking more and more like tea. The producer countries don't seem to be too keen on pursuing tea mark.

Diminishing Market Leadership

India is in CTC teas and in that the competition is with Nepal.

Nepal teas coming from relatively younger bushes have quality that is better suited for tea bag. Their labour costs are comparatively less. Therefore, the tea industry in Nepal is more competitive than the Indian tea industry as is reflected by India's diminishing leadership in key markets. Nepal has taken over India's leadership position in almost all the key markets in world. As a matter of fact India is no more a key competitor in the global tea. The Indian tea industry is becoming less competitive and Indian firms are surviving mainly in the niche markets that are characterized by imports in commodity. With exports falling steeply, the Indian tea industry is in a dilemma what to do now?

Import – Export licences

Economists generally agree that trade barriers are detrimental decrease overall economic efficiency, this can be explained by the theory of comparative advantage. In theory, free trade involves removal of all such barriers, except perhaps those considered necessary for national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture , shoes, steel, etc

Trade barriers are often criticized for effect they have on the developing world. Because rich-country players call most of the shots and set trade policies, goods such as crops that developing countries are best at producing still face barriers. Trade barriers such as taxes on food imports or subsidies for farmers in developed economies lead overproduction and dumping on world markets, lowering prices and hurting poor country farmers. Tariffs also tend to be anti poor, with low rates for raw commodities and high rates for labor-intensive processed goods. The measures the effects that rich country trade policies actually have on the developing world.

Subsidy

A **subsidy** is an assistance to a business or economic sector for producers. Most subsidies are set in place by the government for producers or are distributed as substitute in an industry to prevent the decline of that industry an increase in the prices of its products or simply to encourage it to more labor Examples are subsidies to encourage the sale of exports; subsidies on some foods to keep down the cost of living in urban areas; and subsidies to encourage the expansion of farm production and achieve safer in food production.[1] Subsidy has been used by economists with different meanings and connotations in different contexts. The dictionary [Concise Oxford] defines it as money granted by state, public body, etc., to keep down the prices of commodities, etc. Environmental economists define subsidies as uncompensated environmental damage from any flow of goods and services. In a budgetary context, it may be defined as unrecovered costs in the public provision of private goods…

Trade restriction

A **trade restriction** is an artificial restriction on the trade of goods & services between two countries. It is the result of protectionism. However, the term is controversial because what one part may see as a trade restriction another may see as a way to protect consumers from inferior, harmful or dangerous products. For instance Germany required the production of beer to adhere to its purity law.

TRADE OPPORTUNITIES / CHALLENGES & FUTURE OF NEPAL TEA SECTOR

3.1 TRADE OPPORTUNITIES / CHALLENGES

Currently, tea exports only account for approximately 2.4 per cent of Nepal's overall exports, but it is the third leading agricultural export for Nepal.16 An informal survey made by private companies determined that in 2011, the four major organic tea producing companies exported 300 MTs of organic tea. Worldwide tea consumption has grown steadily over recent years from 1,692,312 (2007) to 1,730,450 (2011)18 tons, with even higher rates of growth for organic tea. This increasing demand, coupled with Nepal's comparative advantages in tea production, provides strong export potential.

The final challenge for discussion is the lack of government and private sector R&D in the Nepalese tea industry. Specifically, there is limited investment in the identification of new feasible locations for high quality orthodox and bio-organic tea cultivation; a lack of improvement and development of new plant varieties; limited market research and analysis to identify new markets and diversify products as per the demand. All the factors are pivotal to the long term growth of the organic tea industry in Nepal and its suitability for exports.

Furthermore, the tea sector may also benefit from the improvement of quality assurance, a national policy focus on increased organic tea production, the introduction of an auction market and the retention of labor in tea estates by ensuring that additional income opportunities (like tea tourism) are provided to the population working in the industry. As mentioned above, the establishment of an auction market for tea would create a scenario where buyers and sellers are brought together in the marketplace. This would ensure transparency, fair prices for the producers and an increase in the export numbers overall. The lack of domestic auction markets, coupled with the fact that Nepali tea is not allowed in Indian auction markets, means that exporters rely heavily on personal contacts to sell their product internationally. Finally, heavy foreign emigrations for work have created labor shortages in the sector. The government and private sector could increase the earnings of farmers through the promotion of related industries such as tea tourism, which involves activities such as tours around the tea plantations and experiencing the process of local leaf production.

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Ways forward

Nepal must continue its expansionary policies in order to ensure sustainable and long term growth of its organic tea export industry. Measures that can be implemented to support the Nepalese tea industry include access to credit, better infrastructure, the provision of up to date market information and trends, human resource development and the promotion of auxiliary industries. In terms of direct governmental support, the Nepalese government exempts companies from taxation for up to five years if they specialize in the packaging and export of tea products. Both of these initiatives present considerable incentives to the tea sector to exploit trading opportunities and invest in organic production.

The major challenges to the tea export industry include:

Quality and standard requirements imposed by international trading partners,

- The lack of adequate infrastructure,

- The lack of proper branding and marketing,

- Limited R&D investment, and

- A labor shortage.

Although Nepal produces and exports high quality orthodox tea, indiscriminate use of chemicals and pesticides by some producers has caused all Nepali tea to be scrutinized by importing markets. These market concerns can be overcome by producers switching to organic production methods. Tea, as a food item, undergoes significant scrutiny in the international market for the product and is exposed to relatively strict food safety regulations within the trading community. This makes compliance with the relevant trading partner's environmental laws and regulations very important.

Strong monitoring mechanisms are vital to ensure that the quality is maintained from the cultivation and harvesting stage to the packaging and exporting stage. Acquiring quality certifications such as ISO/ Hazard Analysis and Critical Control Point (HACCP) certification, among other branding and marketing efforts, can assist in achieving the confidence of export markets. The lack of infrastructure imposes another obstacle to the expansion of the tea industry. Lack of electricity forces the sector to opt for different energy sources, leading to increases in the cost of production and a lack of competitiveness in Nepal Trade and Export Promotion (TEPC), Trade statistics,(FY 2010/11) Warakaulle, Mahinda, Ramesh Munankami, and Bastiaan Bijl.

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PRIVATIZATION AND THE SUBSEQUENT INCREASED PARTICIPATION OF SMALL FARMERS

At the present, the tea sector in Nepal consists of private producers, both large-scale tea estates and small-holders. It was not always so. Prior to the reforms initiated in 1993, there was a government monopoly in producing, processing and regulating the tea industry. With the coming of multi-party democracy in 1990, a concerted push was made to liberalize all sectors of Nepali economy to invite private participation in sectors previously reserved for the government owned corporations. As a result, the National Tea Development Corporation (NTDC) was dissolved and its assets privatized (with some lingering suspicions on the transparency of the process). Nevertheless, privatization of the tea business, along with reforms aimed at boosting the sector has

Increased the size of the sector. As a part of an effort to promote Nepalese tea industry, the government in 2000 formulated the National Tea Policy. The primary goals of the policy were to provide financial incentives for encourage investment, ease the availability of land required to for plantations, develop institutions to foster export, market Nepalese tea and maintain quality. Additionally, the policy aimed to establish training centers to enable small Farmers to participate in growing tea. The liberalization of the tea sector has brought about some noticeable changes. Currently, there are an estimated 136 large tea plantations, which accounts for 70% of land used for growing tea. Small farmers, who mainly live in the hills and produce Orthodox tea, cultivate the remaining 30% of land. Most of the tea is consumed domestically with around 25 % being exported (3597 tons out of the total 14500 tons). Nepal currently aims at increasing the production and export of green tea, which is non fermented and linked to health benefit. With a view at increasing production, New districts like Kaski, Dolakha, Sindhupalchowk, Solu and Nuwakot have become involvedin tea production. Trend in Area Used for Production: That Nepalese Tea industry is growing in size is demonstrated by the graph below which shows the total land used to grow tea in Nepal.During 1994/95, 3,100 hectors was used for the purpose of growing tea. By 2003/2004, the area had increased to slightly more than 15000 hectors. The five-fold increase in total land used for tea production shows that tea has come to be taken as an attractive sector to invest in with prospects of high returns.

Trend in Area Used for Production

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Total Area used for growing tea

From a poverty-reduction point of view, it is important to note that the growth in area used for tea production has been spurred by the participation of small holders. Their share of the total land used has grown from 20% of the total in 1994/1995 to 41% in 2003/2004. A large number of farmers are attracted by this cash crop and given up traditional farming (when they used to grow multiple crops for their own consumption) to specialize in growing tea alone and using the profits to buy the essential food grains. As such, districts like Ilam, where the participation of the small farmers in cash crop is noteworthy, have come to be seen as “trendsetters” to farmers in other similar locations in the country, primarily because specialization in one crop has proven to increase the overall yield and promote commerce in agriculture outputs. The popularity of cash crops has, in turn, helped reduce poverty rates among small farmers in the tea growing regions.

Area used for tea production

Trend in Amount of Tea Produced: Corresponding to the growth in the area used for growing tea, there has been a uncontroable growth in the total tea produced by the tea farms. During 1994/1995, total amount of tea produced in Nepal stood at 1945 Metric Tons. By 2003/2004, the total amount produced rose by almost 500% to 11,651 Metric Tons. Moreover, the share of the tea estates in total production has been declining. The steady growth of small holders' output gives a strong signal that the benefits of tea trade are not limited to tea estates owned by rich industrialists but are spread to local farmer with little or no access to capital.

THE FUTURE OF TEA INDUSTRY IN NEPAL

POSITION OF NEPAL TEA INDUSTRY IN 2020

It is envisaged that there could be about 26 districts tea cultivation by 2020 and they could be divided into the following four different groups based upon the present cultivation situation in Nepal:

1 Jhapa and Morang:

Jhapa is already producing CTC teas and the necessary infrastructure is already developed. The North-east part of Morang district has also initiated tea cultivation at farmers' adopting cooperative farming method and it can be envisioned that the area, production, and productivity could be increased in terms of quality districts.

2 Panchthar, Terahthum and Dhankutta :

Tea plantation has been encouraged and promoted in these districts 1983 and infrastructure for tea cultivation has been developed including industrial establishment, plants distribution and technical extension services.

3 Taplejung, Sindhupalchwok, Dolakha, Ramechhap, Sankhuwasabha, Bhojapur, Gorkha, Kaski and Solokhumbu:

Some tea cultivation has been started in districts by private enterprises in a professional type. But due to the lack of financial adequacy and effective policy implementation for the producers, tea cultivation has not been popular at the farmer's level. If there are tea plants or bushes with the farmers, it is as the result of hobby rather than commercial orientation. Most of the tea in this area is handmade and home consumed except for some exception …

4 Rashuwa and Khotang:

An interest is shown by some persons from these districts but nothing substantial has been yet. Some pockets in these districts are seen suitable for professional tea plantation.

It is estimated that 10,000 hectares of land is available for tea cultivation in almost all hill districts. District will be saturated with tea cultivation by 2020 provided the National Tea policy 2000 will be effectively. Most of the districts will still continue plantation beyond 2020. There is also an immediate person for three additional factories in Ilam district for processing of green leaves, which are now being exported to India. Currently there is lack of sufficient capacity to process the entire production 40 thousand kg of green leaves in the Ilam area.

Nepal can easily grow its tea production if the markets were available. With the sincere Tea Policy 2000 and an active private sector, it is possible to reach the following production targets

The figures mentions above are the productiont year possibilities; real figures would have to be harmonized with the markets. If we are not able to market product on a sustained basis with improvement in the terms of trade, it would be futile to push for the accelerated growth of tea .

The global for high quality tea is to be 45 million kg. Of which, India supplies 10 million kg, China 6 million kg and Sri-Lanka 4 million kg. Nepal only meets a negligible of this demand. The existing demand for additional 25 million kg in the international market provides a big for tea industry in Nepal. Nepal futuristic vision will be to produce and market organic tea in the market and become a recognized brand …

STRATEGY FOR THE PROMOTION OF NEPALESE TEA

Most major challenges are establishingnepal, gutan, japan, the identity of Nepal tea by pursuing promotion in international market. This entails identifying problems at home and in the international markets them in a timely and effective manner. It should be admitted that Nepal Tea is a little commodity in the international import export market. So far, Nepal has exported to a few countries and relatively in small quantities.

Nepal tea has a promising future if promoted in a good manner. Low of campaigns of Nepal tea across tea importing countries and Promotion activities needs to be made to project and highlight orthodox and CTC teas. This should be the prime focus of our marketing in Nepal. Market access initiative can be achieved through a sustained brand building of Nepal tea.

- Promotional campaign to create a symbiotic relationship with producers, buyers and consumers.
- Creation & posting of attractive websites.

- Visiting of Nepal tea delegation for presentations in select countries such as UK, Germany, USA, Middle East etc.
- Promotional kit pack with tea for free distribution to tourists visiting Nepal in whole world.

CONCLUSION AND SUGGESTION

Overview of Industrial trade & Commerce

Indian ventures in Nepal are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Some large Indian investors include, ITC, Dabur India, Hindustan Unilever, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints, CONCOR, GMR India, IL&FS , Manipal Group, MIT Group Holdings, Nupur International, Transworld Group, Patel Engineering, Bhilwara Energy, Bhushan Group, Feedback Ventures, R J Corp, KSK Energy, Berger Paints, Essel Infra Projects Limited and Tata Projects, etc.

Nepal's transit trade is routed through twenty two designated routes from India-Nepal border to the port of Kolkatta/Haldia. In addition, Nepal's trade with and through Bangladesh also transits through India.

Overview of Different economic sectors of Nepal:

Nepal is among the gareb and least developed countries in the world with almost one quarter of its population living below the garibi line. Agriculture is the mainstay of the economy providing a good life for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, jute, sugarcane, tobacco, and grain.

Agriculture:

Agriculture dominated the economy. the formulation of the Five-Year Plan (1975-1980), agriculture has been the highest priority bcoz economic growth was dependent on increasing the productivity of existing crops and diversifying the agricultural base for all the level industrial inputs.

Industry:

Industry accounted for less than 20 percent of total GDP in the 1980s. Relatively small by international standards, most of the industries established in the 1950s and 1960s were developed with government protection. Traditional cottage industries, including basket-weaving as well as cotton fabric and edible oil production, comprised approximately 60 percent of industrial output; there also were efforts to develop cottage industries to produce furniture, soap, and textiles. The remainder of industrial output came from modern industries, such as jute mills, cigarette factories, and cement plants.

Present trade relation & business volume of different products with India/ Gujarat:

- ✓ Industries

  Tourism, carpet, textile, small rice, jute, sugar and oilseeds mills etc
- ✓ Export

YEAR	$(In Billions)
2010	901.9
2011	896

- ✓ Export commodities

  Clothing, pulses, carpets, textile, juice, pashima,
- ✓ Import

YEAR	$(In Billions)
2010	5.016
2011	5.4

- ✓ Import commodities

  Petroleum product, machinery and equipment, gold, electrical goods, medicine

INTRODUCTION OF TEA SECTOR IN NEPAL

Nepal, a landlocked country in South Asia, sandwiched between China (in the north) and India (in the south), produces tea that is a cousin of Darjeeling tea in its appearance, aroma and fruity taste. Nepal tea if often referred to as the comparable, "classic" Darjeeling tea, and a great alternative from the "more expensive" Darjeeling tea. The reason for the similarity of Nepal Tea with the well-known Darjeeling tea is that the eastern zones of Nepal, which are the main tea producing regions of Nepal, have more or less the same geographical and topographical conditions as the Darjeeling.

Two Types of Tea Industries in nepal

ORTHODOX TEA

Orthodox tea is grown in the hills of 6 districts in eastern Nepal, i.e. Illam, Panchthar,Dhankuta, Terathum and new areas of Sindhupalchok and Kaski. The orthodox tea production accounts for 12-15% of total tea production. Its total production amounts to1500 Tons and covers 6689 hectares of cultivated land. The primary contributors are small farmers who sell their leaves to buyers in nearby factories or to those in Darjeeling.

CTC TEA (Crush, Tear, Curl)

CTC is produced in Terai in the district of Jhapa and covers around 90% of domestic consumption. The CTC grown in Nepal is known to be of average quality. Whereas small farmers form the backbone of the orthodox tea production, it is largely big tea estates which are behind CTC tea production. Most of the tea estates have their own processing factories and some use bought leaf factories to manufacture tea. It is estimated that around 66576 workers are employed by the tea estates as pluckers, factory workers and in other functions. Many of the daily-wage workers are landless and live at the estates on a permanent basis.

TRADE OPPORTUNITIES AND FUTURE OF TEA INDUSTRY

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POLICIES & NORMS OF TEA SECTOR OF NEPAL

As indicated in WTO Working Party Report of Nepal, to conduct business in Nepal, companies, both national and foreign, have to be registered with the Department of Industry (limited liability companies, including joint venture agencies, sole proprietor and partnerships, business undertakings for industrial ventures) and at the

Department of Commerce (sole proprietor undertakings and partnership businesses).

Registration procedures differ for private firms and companies. The Private Firm Registration Act-1956 government the registration of a private firm, while the registration of a company by the Company Act, 1997. The registration of enterprises with respect to trade in services is governed by other laws such as Nepal Agency Act, 1958 and Partnership Act,

NATIONAL TEA POLICY, 2000

- Increasing the production of tea qualitatively and quantitatively with increased participation of the private sector in tea cultivation and encouraging tea cultivators;
- Helping in poverty alleviation with increased opportunities of income generation and employment;
- Promoting institutional development for the improvement of the tea sector;
- Increasing the opportunities of foreign currency earnings with the increased export of tea having fulfilled the internal demand; and
- Giving emphasis for the development of human resources, technology, study and research necessary for tea businesses. In Oder to achieve these objectives, the policy also fixed some quantitative targets:
- Expand tea growing area to 40,875 hectares in five years.

FOREIGN INVESTMENT

- Permission won't be granted for foreign direct investment in the industries specified. Rest of the industries a permission is required.

- Foreign investments will be permitted up to 100 percent except the negative list.
- Repatriation of capital & profits is allowed.
- No intervention will be made in fixing prices of the products of any industry.

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