2026 Nepal Investment Climate Statement

Executive Summary

Nepal has an annual GDP of approximately $46.1 billion and total trade of $15.2 billion. Supported by its strategic location between India and China and significant hydropower potential, the country presents investment opportunities in:

- Energy
- Tourism
- Information and communications technology (ICT)
- Infrastructure and
- Agriculture

Nepal's political landscape shifted following youth-led protests in September 2025, initially sparked by a social media ban and expanding into broader demonstrations over corruption and unemployment. The unrest led to the resignation of Prime Minister K.P. Sharma Oli and the formation of an interim government led by former Chief Justice Sushila Karki to oversee snap elections. The March 2026 elections brought the Rastriya Swatantra Party (RSP) to power, led by Prime Minister Balendra Shah, who has pledged reforms focused on governance, jobs, and digitalization.

Despite these developments, Nepal's investment climate continues to be constrained by:

- Bureaucratic inefficiency
- Corruption
- Regulatory uncertainty and
- Inconsistent enforcement of laws

While foreign direct investment has increased, sustained reform remains limited by institutional capacity and political transitions. The United States is among Nepal's top ten foreign investors, accounting for approximately 4.2 percent of total foreign direct investment (FDI).

The RSP-led government has announced an ambitious reform agenda centered on digital governance, administrative streamlining, and improved service delivery, including plans to consolidate ministries and develop integrated platforms like a "One-Stop Service" for business registration, taxation, and banking. However, implementation remains at an early stage.

External support includes the Millennium Challenge Corporation's $550 million Compact with Nepal, supplemented by $197 million from the government (a total of $747 million investment), which focuses on electricity transmission and road maintenance to support economic growth and regional trade. Nepal currently generates approximately 3,798 megawatts of electricity, primarily from hydropower, and aims to expand capacity significantly by 2035.

Despite this potential and ongoing reform efforts, challenges including regulatory unpredictability, financial sector concerns linked to the country's 2025 FATF grey listing, and uncertainty over Nepal's 2026 LDC graduation continue to shape the investment environment. On May 15, 2026, the government requested a three-year extension of the preparatory period for its graduation from Least Developed Country (LDC) status, seeking to move the scheduled graduation date from November 24, 2026, to November 2029. In July 2026, the UN Committee for Development Policy (CDP) issued a "Crisis Assessment" document stating it would support the extension if Nepal developed and implemented a clear, time-bound plan to adjust and reprioritize its smooth transition strategy. On July 21, 2026, the United Nations Economic and Social Council took note of the CDP conclusions and recommended that the General Assembly act on the matter before November 24, 2026. Overall, Nepal offers strong long-term potential alongside persistent structural constraints for investors.

Section 1. Openness to, and Restrictions upon, Foreign Investment

Policies toward Foreign Direct Investment

The government recognizes that foreign investment will be critical to sustaining economic growth. While official rhetoric toward FDI remains broadly positive, this has yet to translate into consistent, meaningful policy action or a significantly improved investment climate.

The Investment Board Nepal (IBN), a high-level government body chaired by the Prime Minister, was formed in 2011 to promote economic development in Nepal. In addition to approving large-scale investment projects, the IBN is also the government's body charged with assessing and managing public-private partnership (PPP) projects. It has the task of attracting large foreign investors to Nepal and was a key organizer of the last three Investment Summits in 2017, 2019, and 2024. It is the primary point of contact for large investors (above NPR 6 billion, or about $39 million), especially those engaged in public infrastructure projects.

Organizational Structure and Mandate

The Investment Board of Nepal (IBN) operates directly under the Prime Minister's leadership and functions with a dual mandate as both a public-private partnership (PPP) agency and an investment promotion agency. Established under Nepal's Public-Private Partnership and Investment Act of 2019, IBN holds jurisdiction over projects valued at NPR 6 billion (about $39 million) and above. Projects below this threshold fall under the purview of relevant government ministries, departments, provincial governments, or local governments. IBN provides support to these entities for investment promotion and PPP projects while also developing policy and institutional frameworks that serve as model laws for provincial and local governments to follow.

Governance and Decision-Making

IBN's governance structure represents an extended form of the cabinet, ensuring high-level, fast-track decision-making. The prime minister serves as chair, with the finance minister as vice chair. Permanent members include the ministers of forestry, energy, and industry, while other ministers join based on agenda relevance. Additional members include the National Planning

Commission Vice Chair, the Central Bank Governor, and three independent experts with technical/engineering, finance, or legal expertise. IBN's CEO serves as secretary of IBN. This structure enables streamlined approval processes without files moving between multiple ministries, which previously caused delays of up to a year and deterred further investment.

Recent Government Commitment and Reform Initiatives

The new government has demonstrated full commitment to investment facilitation through its 100-point action plan, with two points directly related to IBN and approximately 14 additional points connected to IBN's work. A key priority is establishing a one-door approval system, a provision already included in IBN's founding act. The government has made a cabinet-level decision to implement this system through IBN, requiring amendments to the 2019 PPP and Investment Act, related rules, bylaws, and guidelines. This reform will streamline coordination among 14 different institutions, ministries, and departments directly linked to investment approval processes.

IBN's One-Stop Service Center and Digital Transformation

IBN is actively working to establish a one-stop service center within its office, supported by an automated digital system for fast-tracking approvals. This initiative draws on successful precedent – the CEO previously implemented a similar system that delivered 891 kilometers (about 554 miles) of road projects within six years, managing the following issues through a one-door approval process:

- Environmental
- Forest
- Land and
- Socio-political

Legal experts are currently preparing amendment proposals that will be presented first to the prime minister for concurrence, then to IBN for approval.

Sectoral Priorities and Project Selection

IBN works across nine thematic areas for investment promotion, with energy consistently serving as a priority sector alongside:

- Tourism
- ICT
- Transportation and
- Agriculture

Project selection aligns with the government's sectoral strategies and the National Planning Commission's plan. A special committee – chaired by the finance minister and including relevant sector ministers, the Investment Board CEO, and the Planning Commission Vice Chair – recommends which projects should utilize public funds versus private investment. This approach ensures IBN attracts investment in areas where the government faces resource constraints or seeks to mobilize private capital.

Supporting Investment Institutions

In addition to IBN, other institutions play supporting roles in Nepal's investment framework, including the Department of Industry (DOI) for mid-sized investments and the Nepal Business Forum (NBF) as a dialogue platform between the government and private sector, alongside active engagement from major business associations. The DOI, which falls under the Ministry of Industry, Commerce, and Supplies, is responsible for the implementation of industry-related policies and the rules and laws focused on strengthening Nepal's economy through industrial development. DOI approves any foreign investment project not exceeding NPR 6 billion (about $39 million).

The Nepal Business Forum (NBF) was formed in 2010 with the "aim of improving the business environment in Nepal through better interaction between the business community and government officials." The NBF does not meet regularly, and the U.S. Embassy is not aware of any formal mechanisms or platforms to enable ongoing dialogue, aside from the IBN, DOI, and the NBF. Local business associations such as the Federation of Nepalese Chambers of

Commerce and Industry (FNCCI), Confederation of Nepali Industries (CNI), and the Nepal Chamber of Commerce (NCC) maintain ongoing dialogue with the government, representing the private sector's views and requests for policy reforms.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign and domestic private entities have the right to establish and own business enterprises in Nepal and engage in various forms of remunerative activity. Outside of sectors restricted by the Foreign Investment and Technology Transfer Act (FITTA) of 2019 or other sector-specific laws, foreign investors may generally own up to 100 percent of a business. Certain sectors remain subject to foreign ownership limits and other regulatory requirements. Nepal permits FDI in specified primary agricultural activities for large industries that use agricultural technology or mechanization and export at least 75 percent of their production.

The sectors prohibited or restricted from foreign investment under FITTA include:

- Primary agricultural sectors including:
    - Animal husbandry
    - Fisheries
    - Beekeeping
    - Fruits
    - Vegetables
    - Oilseeds
    - Pulses
    - Dairy/milk industry and
    - Other primary agricultural production

  This exclusion does not apply to large industries that use agricultural technology or mechanization and export at least 75 percent of their production.

- Cottage and small industries

- Personal service businesses (e.g., haircutting, tailoring, driving)
- Arms and ammunition, bullets, gunpowder and explosives, nuclear, chemical and biological weapons, industries related to atomic energy and radioactive materials
- Real estate (excluding construction industries), retail business, internal courier services, local catering services, money exchange and remittance services
- Certain tourism-related services, including:
    - Travel agencies
    - Tourism, trekking, and mountaineering guides, and
    - Rural tourism, including arranging homestays
- Mass media (print, radio, television, and online news) and motion pictures in national languages
- Management, accounting, engineering, legal consultancy services, language, music, and computer training
- Consultancy services (restricted to 51 percent foreign ownership or less)
- Ride-sharing businesses (restricted to 70 percent foreign ownership or less)
- Aviation-related industries:
    - International airlines (restricted to 80 percent foreign ownership or less)
    - Domestic airlines (restricted to 49 percent foreign ownership or less)
    - Aviation training institutions (restricted to 95 percent foreign ownership or less)
    - Aviation repair and maintenance entities (restricted to 95 percent foreign ownership or less)

Investment proposals are screened by the DOI or the IBN to ensure compliance with the FITTA and other relevant laws. Historically, the lack of clear, objective criteria and timeframes for decisions has resulted in complaints from prospective investors, but anecdotal evidence suggests services to prospective investors through the One-Window Service Center at the DOI are slowly improving.

The IBN website provides resources to prospective investors including the Nepal Investment Guide. Similarly, the DOI maintains an informational website for investors.

U.S. investors are not disadvantaged or singled out relative to other foreign investors by any of the ownership or control mechanisms, sector restrictions, or investment screening mechanisms. U.S. companies often note that they struggle to compete with firms from neighboring countries when it comes to cost, but this is not a factor resulting from any specific government policy.

Business Facilitation

Government officials have proclaimed Nepal "open for business" and explicitly welcomed foreign investment. While the government appears enthusiastic in its efforts to attract foreign investors, the business community assesses that the reality has not yet matched the rhetoric. Three laws directly affecting foreign investment – FITTA, the 2019 PPP and Investment Act, and the Special Economic Zone Act of 2016 – were revised and passed by Parliament on July 1, 2024, but without time for sufficient stakeholder consultations or transparency in the process. Both foreign and domestic private sector representatives often state that the government has not done enough to improve the business environment. While welcome provisions were included in the FITTA – for example, a streamlined approval process and single window service center – an assessment of the true effects of the reforms awaits full implementation. Nepal does not participate in the WTO Investment Facilitation for Development Initiative.

After obtaining a letter of approval from the DOI or IBN, foreign companies are able to register for incorporation online through OCR's website. OCR's website includes an information portal, maintained by UNCTAD and the International Chamber of Commerce, with resources and information for potential investors interested in Nepal. According to the portal, registering a company takes "between three days and a week with the law authorizing up to 15 days." Independent think tanks, however, have noted the online system does not eliminate corruption, and bureaucrats frequently request additional documentation that must be submitted in person, rather than online.

Following the March 2026 elections, the RSP-led government introduced a 100-point mandate focused on improving productivity and the ease of doing business. To simplify the business lifecycle, the administration plans to empower the Department of Industry's One-Window Service Center with broader authority to fast-track approvals and registrations.

A central component of this roadmap is the proposed integration of tax, banking, and registration services into a single digital platform, supported by an Investment Board Nepal "One Door Approval System." To facilitate these reforms, the government has committed to enabling automated data interoperability between regulatory departments. These initiatives aim to foster entrepreneurship through a "Startup Fast Track" designed to reduce registration to 48 hours, while the introduction of digital counseling desks seeks to eliminate the role of third-party middlemen.

Section 2. Investment Agreements and Taxation Treaties

Nepal has five bilateral investment treaties (BITs) in force. Nepal does not have a bilateral investment treaty, free trade agreement, or bilateral taxation agreement with the United States, but it has a Trade and Investment Framework Agreement (TIFA).

Section 3. Legal Regime

Transparency of the Regulatory System

The government maintains an extensive framework of laws, policies, and regulations that frequently lack consistent enforcement. Frequent government changes and staff rotations within the civil service result in officials who are often unclear on applicable laws and policies or interpret them differently than their predecessors. Many foreign investors note Nepal's regulatory system relies largely on personal relationships with government officials, rather than systematic and routine processes. Consequently, legal, regulatory, and accounting systems often lack transparency and remain inconsistent with international norms. The World Bank gives Nepal a score of 1.75 (on a scale of one to five) on its Global Indicators of Regulatory Governance index and notes ministries in Nepal do not routinely create lists of "anticipated

regulatory changes or proposals" and do not have the "legal obligation to publish the text of proposed regulations before their enactment."

Historically, rule-making and regulatory authority resided almost exclusively with the central government in Kathmandu. Nepal's 2015 Constitution outlines a three-tiered federalist model. In 2017, seven provincial governments and 753 local government units were established. Foreign businesses can expect to continue to interact with bureaucrats at the central government level in the near term, as national regulations remain the most relevant for foreign businesses. However, this could change over time as provincial governments become more established.

Traditionally, once acts are drafted and passed by Parliament, it has been incumbent upon the related government agencies and ministries to draft regulations to enforce the acts. Regulations are passed by the cabinet and do not need parliamentary approval. Nepal still lacks an established mechanism or system for the review of regulations based on scientific or data-driven assessments, or for conducting quantitative analyses for such purposes. The World Bank notes that the government is not required by law to solicit comments on proposed regulations, nor do ministries or regulatory agencies report on the results of the consultation on proposed regulations.

Legal, regulatory, and accounting systems are neither fully transparent nor consistent with international norms. Though auditing is mandatory, professional accounting standards are low, and practitioners may be poorly trained. As a result, published financial reports can be unreliable, and investors often rely instead on businesses' reputations unless companies voluntarily use international accounting standards.

Publicly listed companies in Nepal are transitioning to the Nepal Financial Reporting Standards (NFRS) 2024, which officially replace the 2013 versions. These updated standards align with the International Financial Reporting Standards (IFRS) 2024, developed by the IFRS Foundation and the International Accounting Standards Board. Companies typically make their audited reports available to the public.

Draft bills or regulations are sometimes made available for public comment, although there is no legal obligation to do so. The government agency that drafts a bill is responsible for

undertaking a public consultation process with key stakeholders by issuing federal notices for comments and recommendations, although it is unclear in practice how many government agencies actually do so. Additionally, all parliamentarians are given copies of the draft bills to share with their constituencies. This applies to all draft laws, regulations, and policies. Parliamentary rules, however, require that draft amendments bills be proposed only within 72 hours of a bill's introduction, giving minimal time for lawmakers, constituents, or stakeholders to submit considered feedback.

Generally, the government agency that drafted the bill, legislation, policy, or regulation posts the actual draft (in the Nepali language) online. Once approved, the Department of Printing, an office that is part of the Ministry of Information and Communication, posts all acts online. Regulatory actions and summaries of these actions are available at the Office of the Auditor General and the Ministry of Finance (MOF). Both government agencies post periodic reports on the regulatory actions taken against agencies violating laws, rules, and regulations. Such summaries and reports are available online in Nepali.

Individual ministries are responsible for enforcement of regulations under their purview. The enforcement process is legally reviewable, making the agencies publicly accountable. Several government entities, including the Parliamentary Accounts Committee, the Office of the Auditor General, and the Commission for the Investigation of Abuse of Authority (CIAA), oversee the government's administrative and regulatory processes. The RSP-led government under Prime Minister Balendra Shah initially sought to create new mechanisms to strengthen anti-corruption and accountability efforts alongside existing bodies such as the Commission for the Investigation of Abuse of Authority (CIAA) and the Office of the Auditor General (OAG). It established an empowered Property Investigation Committee, led by a former Supreme Court justice, to investigate the assets of political figures and senior officials from 1991/92 onward, and planned to introduce whistleblower protection and conflict-of-interest laws. On June 10, however, Nepal's Supreme Court suspended the committee's work pending a full bench review of its constitutional validity.

Nepal's budget and information on debt obligations are widely and easily accessible to the public. The annual budget is substantially complete and considered generally reliable. Nepal's

supreme audit institution reviews the government's accounts, and its reports are publicly available.

International Regulatory Considerations

The 2015 BBIN (Bangladesh, Bhutan, India, and Nepal) Motor Vehicles Agreement, designed to enhance regional connectivity, currently operates as a trilateral arrangement among India, Nepal, and Bangladesh, with Bhutan serving as an observer. This structure allows implementation to proceed while maintaining broader regional cooperation.

In April 2025, member countries finalized protocols for cargo and passenger movement, notably eliminating transshipment requirements. Previously, goods had to be unloaded and reloaded onto local vehicles at borders – a process that increased time, costs, and risks. Direct border crossings are now expected to reduce logistics costs by approximately 20 percent.

To further streamline transport, the countries rolled out a unified digital E-Permit system and GPS-enabled electronic seals to minimize manual inspections. Concurrently, infrastructure upgrades were completed at key border points, including Sunauli–Bhairahawa and Kakarvitta–Phulbari, under the SASEC Action Plan. Together, these initiatives aim to transform regional transit and could increase intra-regional trade by up to 60 percent.

Nepal's regulatory system generally relies on international norms and standards developed by the United Nations, World Bank, World Trade Organization (WTO), and other international organizations and regulatory agencies.

Nepal joined the WTO in March 2004. According to its WTO accession commitments, the government agreed to provide notice of all draft technical regulations to the WTO Committee on Technical Barriers to Trade. However, government officials are unable to confirm whether this procedure is followed consistently.

Nepal ratified the WTO's Trade Facilitation Agreement (TFA) in 2017. According to the TFA Facility's website, Nepal has submitted provisions for all three categories, a key step for implementing TFA Category A, B, and C requisites.

Legal System and Judicial Independence

Nepal's civil and criminal legal systems are based on common law. Contract law is codified. In theory, contracts are legally enforceable, and a breach of contract can be challenged in a court of law. In practice, enforcement of contracts is weak. Nepal's contracts are guided by the Contract Act of 2000. Nepal does not have a commercial code. All civil courts are authorized to hear commercial complaints. A "commercial bench" has been established at the Supreme Court, but judges who preside on this bench are the same judges handling civil and criminal cases as well.

The judicial system is independent of the executive branch. Regulations or enforcement actions are appealable, and they are adjudicated in the national court system. In general, the judicial process is procedurally competent, fair, and reliable. In some isolated or high-profile cases, however, court judgments have come under criticism for alleged political interference favoring particular individuals and groups. There remains widespread public perception that bribery and judicial conflicts of interest affect some judicial outcomes. Some cases of bribery, nepotism, and other forms of misconduct have been documented, undermining public trust in the justice system and reinforcing perceptions of favoritism. State-owned enterprises (SOEs) or other government institutions are generally treated the same as private institutions, but some people assert that favorable treatment has been given to SOEs.

Laws and Regulations on Foreign Direct Investment

International investors have raised the issue of sovereign credit rating (SCR) since fiscal year 2018/19 for easier access to foreign loans. In November 2025, Fitch Ratings reaffirmed Nepal's Long-Term Foreign-Currency Issuer Default Rating (IDR) at BB- with a Stable Outlook. This rating has remained unchanged since Nepal's initial sovereign assessment in 2024; the fact that it was not downgraded despite the political and social disruptions of late 2025 served as a clear signal of resilience in the country's macroeconomic and external position. However, challenges regarding international financial compliance persist. Leading up to the 2024 Investment Summit, development partners urged Nepal to amend its anti-money laundering laws to avoid being "grey-listed" by the Financial Action Task Force (FATF). Following insufficient progress, the FATF officially grey-listed Nepal during its February 2025 plenary in Paris – a status

reaffirmed at the February 2026 meeting. This listing is expected to increase transaction costs with foreign banks and hinder FDI.

On March 6, 2025, Nepal's Parliament approved the "Economic and Business Environment Improvement and Investment Promotion Bill," aimed at improving the business climate and encouraging investment growth. Some of the major provisions of the new bill that are expected to have a positive impact on FDI include:

- Supporting outward investment
- Allowing Nepali industries to get loans from banks and financial institutions abroad, with the approval of Nepal's central bank
- Removing the 20 percent cap on company profits
- Enabling SEZs to house service-related industries such as ICT
- Allowing workers in Nepali companies to buy company stock
- Expanding the definition of FDI to allow foreign investors to purchase units in Specialized Investment Funds registered with the Securities Board of Nepal, creating a new channel for equity investment in Nepali industries, and
- Improving the ease with which Nepali companies can get domestic loans from Nepali BFIs by using Project Development Agreement (PDAs), SEZ agreements, and non-land fixed assets as collateral

Historically, Nepal's closed foreign exchange system prohibited domestic entities from investing abroad. This changed in December 2025, marking a shift from a restrictive "gatekeeper" model to a more facilitative regulatory environment.

Under the Fifth Amendment to the Nepal Rastra (Central) Bank's (NRB's) Foreign Investment and Foreign Loan Management Bylaws, any Nepali IT firm can now use an automatic foreign exchange facility to invest up to $20,000 abroad without prior NRB approval. Established exporters may invest up to 50 percent of their average foreign currency earnings from the previous three years (capped at $1 million) into foreign ventures.

The NRB has also decentralized the repatriation process by delegating approval authority for dividends and profits to the head offices of commercial banks. To ensure faster processing, these banks must now approve or deny requests within 15 days. This reform eliminates the need for case-by-case central bank permits, provided the funds return to the original source country.

Competition and Antitrust Laws

The Competition Promotion and Market Protection Board, composed of officials from various government ministries and chaired by the Minister of Industry, Commerce, and Supplies (MOICS), is responsible for reviewing competition-related concerns. However, private sector representatives argue that MOICS' Department of Supplies Management interferes with the free market. They claim it is used by businesses with political connections to target competitors, rather than protecting consumers.

Nepal's private sector is often influenced by business associations that limit competition from new market entrants in multiple sectors.

Expropriation and Compensation

The Industrial Enterprise Act of 2016 states that "no industry shall be nationalized." To date, there have been no cases of nationalization in Nepal, nor are there any official policies that suggest expropriation should be a concern for prospective investors. However, companies can be sealed or confiscated if they do not pay taxes in accordance with Nepali law, and bank accounts can be frozen if authorities suspect money laundering or other financial crimes.

Dispute Settlement

ICSID Convention and New York Convention

Nepal is a party to both the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). Nepal's Arbitration Act of

1999 allows the enforcement of foreign arbitral awards and limits the conditions under which those awards can be challenged.

Investor-State Dispute Settlement

As a party to the New York Convention, Nepal recognizes foreign arbitral awards as binding. The Agreement between the Government of India and the Government of Nepal for the Promotion and Protection of Investments also discusses arbitration as a means to resolve investment disputes.

In the past five years, there have been two key disputes concerning U.S. companies and a third dispute involving a large foreign company. In the first case, a U.S. company's subsidiary was criminally charged with VAT evasion for exporting services to its corporate headquarters (even though VAT is not owed on exports). In the second case, a U.S. company was levied taxes/penalties the business community asserts were exorbitant for failing to pay capital gains tax allegedly triggered by a restructuring of the parent company. In the third case, a foreign company faced a similar situation where the government levied fines for failing to pay capital gains tax owed by the seller of stock.

Companies allege a history of unwarranted tax inspections. Companies operating in Nepal say the Nepali government lacks clear, consistent tax policies, which leads to unpredictable tax treatment. Investors say the government aggressively levies high taxes, often in contravention of existing law and policy.

The government has announced a provision in the 2026/2027 budget allowing companies with outstanding tax disputes to settle them by paying assessed taxes plus a 1 percent fee, with all other assessed fines and penalties waived and judicial cases withdrawn upon payment.

International Commercial Arbitration and Foreign Courts

Apart from arbitration, U.S. Embassy Nepal is unaware of any alternative dispute resolution mechanisms available in Nepal. The government encourages disputes involving a foreign investor to be settled through mediation with the Department of Industry. If mediation is unsuccessful, cases may be settled either in a Nepali court or in another legal jurisdiction,

depending on the contractual agreement and investment amount. However, commercial disputes in Nepali courts often drag on for years.

Domestic courts have a history of siding with SOE and government entities in investment disputes. There have been cases where local courts refused to determine whether documents issued by an SOE were genuine.

Bankruptcy/Insolvency Regulations

Nepal does not have a single comprehensive bankruptcy law. The 2006 Insolvency Act provides guidelines for insolvency proceedings, while the General Code of 1963 covers additional bankruptcy-related matters. Creditors, shareholders, or debenture holders can initiate insolvency proceedings by filing a petition in court. If a company is solvent, its liquidation falls under the Company Act of 2006. If a company is insolvent (unable to pay its liabilities or with liabilities exceeding its assets), the Insolvency Act of 2006 applies.

The order of claimant priority is:

1. Government revenue
2. Creditors
3. Shareholders

The Company Act allows monetary judgments to be made in local currency. Firms or entrepreneurs who have declared bankruptcy are blacklisted from receiving loans for 10 years.

Section 4. Industrial Policies

Investment Incentives

The Nepal Laws Revision Act of 2000 eliminated most tax incentives. Exports are, however, still favored, as is investment in certain “priority” sectors, such as agriculture, tourism, and hydropower. Incentives for these sectors usually take the form of reduced or subsidized interest rates on bank loans. There is no discrimination against foreign investors with respect to investment incentives, export/import policies, or non-tariff barriers. The government also

offers tax incentives to encourage industries to locate outside the Kathmandu Valley. U.S. Embassy Nepal is unaware of the government issuing guarantees for FDI projects, but it has been open to joint financing arrangements.

Foreign Trade Zones/Free Ports/Trade Facilitation

In August 2016, Nepal's Parliament approved the SEZ Act, which provides numerous incentives for investors in SEZs, including:

- Exemptions on customs duties for raw materials
- Streamlined registration processes
- Guaranteed access to electricity and
- Prohibition of labor strikes

A revision to the SEZ Act in 2019 provided more incentives, including reducing the export requirement from 75 percent to 60 percent. The government maintains plans to have a network of up to 15 SEZs throughout the country, with one in Bhairahawa already operational and another in Simara partly operational. Both are located in southern Nepal near the border with India.

Performance and Data Localization Requirements

The government does not use "forced localization" policies designed to compel companies to relocate all or part of their global business operations within its borders.

Nepal also does not have any requirements for IT providers to turn over source code or provide access to encryption. In late 2018, parliament passed the Privacy Act and Nepal approved the Privacy Regulations in 2020. While the new regulations may clarify restrictions and responsibilities of companies around personal data management, Nepal has not previously had any regulations that would impede companies from freely transmitting customer or other business-related data outside Nepal. Nepal is in the process of drafting data protection bills.

On July 25, 2025, the e-Governance Board under the Prime Minister's Office released the draft "Personal Data Protection Policy–2082" for public consultation. The policy outlines essential frameworks for:

- Data classification
- Storage
- Collection and
- Transmission

It also signals that the government will draft new legislation and update existing laws to align with both national and international legal standards. However, it remains unclear whether future legislation will strike an appropriate balance between protecting data and enabling trusted cross-border data flows. The Ministry of Information and Communication (MoIC), formerly known as the Ministry of Communication, Information, and Technology, is the primary agency currently overseeing the enforcement of data protection and privacy standards, though some IT-related portfolios are shifting to the Prime Minister's Office following a June 2026 announcement consolidating government IT functions under the PMO.

Section 5. Protection of Property Rights

Real Property

The Secured Transactions Act (2006) applies to all transactions involving mortgages or liens where the effect is to secure an obligation with collateral, including:

- Pledges (when lender takes actual possession of goods)
- Hypothecation (when possession remains with the borrower)
- Hire-purchase
- Sale of accounts and secured sales contracts and
- Lease of goods

The government has established the Secured Transactions Registry Office for registering notices under this Act. Pursuant to this Act, the government may also designate any office to perform the notice registration function. There are no debt markets in which securitization (use of a physical asset to back up a financial instrument) would be used. However, physical assets, particularly property and land, are often used to secure personal and small business loans.

There are no exclusive regulations for land lease or acquisition by foreign or non-resident investors. Registering property requires four procedures that typically take six days to complete. The FITTA and related laws governing foreign investment clearly state that investors can own property, but the title rests with the business/company rather than the foreign investor in an individual capacity.

As part of Prime Minister Balendra Shah's 100-point reform agenda, the government has announced a comprehensive plan to modernize public land records and curb illegal encroachment, beginning with complete integrated digital data collection and verification of the status of landless squatters and unorganized settlers, eventually expanding into a 1,000-day project to create a GIS-based digital database for land management through models like land pooling.

For legally purchased property, ownership does not revert to other owners. But if that property remains unoccupied or unused for an extended period, there is the possibility that squatters may occupy and claim the land. Although such occupation is not legally enforceable, there are hundreds of cases of unsettled or unlawful occupation of property languishing in Nepal's court system.

In 2007, Nepal ratified the International Labor Organization's (ILO) Indigenous and Tribal Peoples Convention (1989), which guarantees the rights of indigenous peoples. U.S. Embassy Nepal is not aware of any legal case in Nepal citing this convention.

Nepal is not a party to the Convention on International Interests in Mobile Equipment (Cape Town Convention) or the Protocol on Matters Specific to Aircraft Equipment (Aircraft Protocol).

Intellectual Property

Legislative Environment

The MOICS Department of Industry oversees patent and trademark issues, while the Ministry of Culture, Tourism, and Civil Aviation handles copyright matters in Nepal. Nepal has a combined act on intellectual property (IP) – the Patent, Design and Trademark Act, 1965, which provides protection for industrial property, including patents, designs, and trademarks. Additionally, there is a separate copyright law – the Copyright Act of 2002. The existing Patent, Design and Trademark Act of 1965 is considered outdated, while the Copyright Act of 2002 covers most modern forms of authorship and provides for adequate periods of protection. Unlike other jurisdictions, trademarks must be registered in Nepal to be protected. Once registered, trademarks are protected for a period of seven years. To register for industrial designs and patents, an applicant must file formal applications with Nepal's Intellectual Property office.

Nepal is a member of the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO) and is a party to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Berne Convention. Nepal has yet to join the WIPO Copyright Treaty or the WIPO Performances and Phonograms Treaty.

Legislative Developments

In 2017, the government finalized an Intellectual Property Rights (IPR) Policy to serve as the foundation for new IPR legislation. In 2018, the government introduced a comprehensive draft law on IP, which is under governmental review. The proposed legislation aims to enhance existing IP laws and regulations and endeavors to codify all industrial property laws in one place. The United States provided extensive comments in 2019, and though Nepal claims to have included these inputs, there has been no follow-up or further engagement on the draft act. The Nepali government registered an intellectual property bill to amend and consolidate industrial property-related laws in the lower house on June 6, 2025, proposing reforms to prevent patent, trademark, and industrial property rights violations. The bill aimed to protect well-known international trademarks by allowing original owners to file a case against violators. The existing law has a "first-come, first-served" policy for registering trademarks, which has

discouraged established international/domestic brands from entering the market. The new bill (which remains pending) also proposes penalizing companies that intentionally imitate trademarks to mislead consumers. The government released a new draft intellectual property (IP) bill for public consultation in early July 2026. It is expected to proceed to the Cabinet for approval before being submitted to the lower house for consideration.

Infrastructure

The Department of Industry serves as a quasi-judicial body overseeing industrial property protection, dispute resolution, and administrative procedures. Currently, the Director General of the DOI manages matters related to patents, designs, and trademarks, facing burdensome administrative and judicial responsibilities. Experts advocate for establishing a dedicated tribunal, staffed by knowledgeable personnel, to handle IP cases. The absence of robust enforcement methods, coupled with the lack of a specialized appeal system, allows infringers to exploit loopholes for personal gain. Nepal's limited IP ecosystem faces significant challenges due to a lack of technically qualified examiners and the absence of a dedicated IP office. Examiners and officials are rotated very frequently, which hinders effective IP application examinations that require specialized expertise. Furthermore, the Director General, who is supposed to be the head of the IP office, also rotates frequently, sometimes every few months, and often lacks an IP background. These frequent rotations, combined with a lack of IP expertise, raise concerns about the importance Nepal places on fostering its innovation ecosystem. The United States Patent and Trademark Office (USPTO) has repeatedly raised concerns with Nepali government officials about the high turnover of trained technical IP examiners, which contributes to delays in adjudicating IP cases. The proposed IP bill envisioned establishing a separate Industrial Property Office to administer IP laws and take over the current responsibilities of the DOI in this area.

Enforcement

Enforcement of existing IPR violations in Nepal is challenging as law enforcement officials lack adequate training on IPR issues. Offenders can often evade prosecution due to lenient penalties under outdated laws, or by bribing officials as some have alleged. The private sector has limited awareness of IPR issues and the legal system, complicating efforts to combat the

sale of counterfeit and illicit goods. Unauthorized use of trademarks owned by multinational and national companies is increasing, and weak IPR enforcement adds to foreign companies' market entry challenges. The primary marketplaces in Nepal are flooded with counterfeit products, including:

- Electronic equipment
- Clothing
- Digital media
- Beverages and
- Pharmaceutical products

In August 2024, a foreign confectionery company prevailed in the Supreme Court of Nepal against a Nepali firm that had been using its trademark for similar products. The Court found that the foreign brand had been in use for decades and was widely recognized by consumers and ruled that another company could not adopt a similar-sounding name in a way that could mislead customers. This decision came after the foreign company lost in the lower courts. A U.S. beverage company has filed a comparable case in the Supreme Court of Nepal, alleging that a Nepali firm is using a similar brand name to confuse consumers.

The DOI has recently strengthened its enforcement of trademark protections, signaling a more proactive approach to safeguarding intellectual property rights. In March 2026, the DOI issued a formal public notice summoning 11 Nepali companies to respond to allegations of imitating well-known logos and brand names of multinational firms. Following limited compliance (only two firms responded by the April 9 deadline), the DOI advanced proceedings through default hearings for the remaining nine cases, a step that typically accelerates rulings in favor of rights holders. This action underscores the government's increasing willingness to take decisive measures against infringement and reinforces confidence in the enforcement environment for IP protection.

USPTO and U.S. Embassy Nepal have conducted many training courses on the various aspects of IPR policy for Nepali officials. These efforts resulted in Nepal's Cabinet approving an IPR policy in 2017 that has served as the foundation for new IPR legislation. USPTO and the U.S. Embassy

continue to advocate for stronger IPR protection in Nepal through the U.S.-Nepal Trade and Investment Framework Agreement (TIFA). Further, in March 2024, the U.S. Patent and Trademark Office (USPTO) and Nepal's Minister for Industry, Commerce and Supplies signed a Memorandum of Understanding (MoU) for bilateral cooperation in the protection of IP in Nepal. The MoU is intended to support the development of Nepal's intellectual property infrastructure.

For additional information about national laws and points of contact at local IP offices, please see WIPO's country profiles.

Section 6. Financial Sector

Capital Markets and Portfolio Investment

The Nepal Stock Exchange (NEPSE) is the only stock exchange in Nepal. The majority of NEPSE's 255 listed companies are hydropower companies and banks, with the NEPSE listings for banks driven primarily by a regulatory requirement rather than commercial considerations. There are few opportunities for foreign portfolio investment in Nepal. Foreign investors are not allowed to invest in the Nepal Stock Exchange nor permitted to trade in the shares of publicly listed Nepali companies; only Nepali citizens and Non-Resident Nepalis (NRNs) are allowed to invest in NEPSE and trade stock. The FITTA, however, allows for the creation of a "venture capital fund" to enable foreign institutional investors to take equity stakes in Nepali companies.

The Securities Board of Nepal (SEBON) regulates NEPSE, but the Board does little to encourage and facilitate portfolio investment. While both NEPSE and SEBON have been enhancing their capabilities in recent years, the U.S. Embassy's view is that the NEPSE is far from becoming a mature stock exchange and likely does not have sufficient liquidity to allow for the entry and exit of sizeable positions. Some experts have raised concerns about the MOF's degree of influence over both SEBON and NEPSE and have cited a lack of independence from government influence as an impediment to the development of Nepal's capital market.

Nepal moved to current-account convertibility when it accepted its obligations under Article VIII of the International Monetary Fund (IMF)'s Articles of Agreement. In line with this, the

government and NRB refrain from imposing restrictions on payments and transfers for current international transactions.

Credit is generally allocated on market terms, although special credit arrangements exist for farmers and rural producers through the Agricultural Development Bank of Nepal. Foreign-owned companies can obtain loans on the local market. The private sector has access to a variety of credit and investment instruments. These include public stock and direct loans from finance companies and joint venture commercial banks. Foreign investors can access equity financing locally, but to do so the investor must be incorporated in Nepal under the Companies Act of 2006 and listed on the stock exchange.

Money and Banking System

The NRB has promoted mergers in the financial sector and published merger bylaws in 2011 to help consolidate and better regulate the banking sector. As of May 2026, there were 20 commercial banks, 17 development banks, and 17 finance companies registered with the NRB. This total does not include other institutions that provide many of the functions of banks and financial institutions, such as microfinance institutions, savings and credit cooperatives, and NGOs. There are no legal provisions to defend against hostile takeovers, but there have been no reports of hostile takeovers in the banking system.

Nepal's poor infrastructure and challenging terrain have meant that many parts of the country have not had access to financial services. A 2015 study by the UN Capital Development Fund (UNCDF) reported that 61 percent of Nepalis had access to formal financial services (40 percent to formal banking). Following local elections in 2017, the government established 753 local government units and promised that each unit would be served by at least one bank, which it achieved in February 2025.

Nepal's banking sector is relatively healthy, though fragmented, and NRB bank supervision, while improving, remains weak, according to several private sector representatives, who attribute this weakness to political influence. The government hopes to strengthen the banking system by reducing the number of smaller banks, and it has actively encouraged consolidation of commercial banks; there are currently 20 commercial banks, down from 78 in 2012, due to

consolidation in the banking sector. Most banks locate their branches in and around Kathmandu and in the large cities of southern Nepal. Some banks are owned by prominent business houses, which could create conflicts of interest. There are also a large number of cooperative banks that are governed not by the NRB but by the Ministry of Agricultural, Land Management, and Cooperatives. These cooperatives compete with banks for customers. In recent years, several scandals have involved allegations that cooperative insiders and politicians "directed" lending to family-run conglomerates for personal benefit.

In January 2017, Parliament approved the Bank and Financial Institutions (BAFI) Act. First introduced in 2013, BAFI is designed to strengthen corporate governance by setting term limits for Chief Executive Officers and board members at banks and financial institutions. The legislation also aims to reduce potential conflicts of interest by prohibiting business owners from serving on the board of any bank from which their business has taken loans.

The NRB regulates the national banking system and functions as the government's central bank. As a regulator, NRB:

- Controls foreign exchange
- Supervises, monitors, and governs operations of banking and non-banking financial institutions
- Determines interest rates for commercial loans and deposits and
- Determines exchange rates for foreign currencies

As the government's bank, NRB:

- Manages all government income and expenditure accounts
- Issues Nepali bills and treasury notes
- Makes loans to the government and
- Determines monetary policy

Foreigners who are legal residents of Nepal with proper work permits and business visas are allowed to open bank accounts. Existing banking laws do not allow retail branch operations by

foreign banks, which compels foreign banks to set up a local bank if choosing to operate in Nepal. For example, Standard Chartered formed Standard Chartered Nepal. All commercial banks have correspondent banking arrangements with foreign commercial banks, which they use for transfers and payments. Standard Chartered is the only correspondent bank with a physical presence in Nepal and handles foreign transactions for the NRB. The Financial Action Task Force (FATF) and the Government of Nepal conducted a mutual evaluation in 2023. In February 2024, Nepal's parliament passed an anti-money laundering (AML) law to address most deficiencies identified in the mutual evaluation and try to avoid a FATF grey listing. FATF added Nepal to jurisdictions under increased monitoring (the grey list) in February 2025. Nepal risks losing its correspondent banking relationships due to its grey listing. The government must take serious steps to implement the AML law to reverse the grey listing.

Foreign Exchange and Remittances

Foreign Exchange Policies

The Foreign Investment and Technology Transfer Act (FITTA) allows foreign investors to repatriate all:

- Profits
- Dividends
- Funds from the sale of shares
- Loan repayments and
- Technology transfer payments

However, these transactions require multiple approvals, often taking months.

In practice, repatriation is difficult, time consuming, and not guaranteed. The NRB, which regulates foreign exchange, must approve the transactions alongside other government entities. For example:

- Telecommunications-related repatriation requires approval from the Nepal Telecommunications Authority (NTA).

- In joint ventures, the MOF must also grant approval.

Repatriation is expected to become easier once the Single Window Service Center (as provided by FITTA) is fully operational.

Currency Policies

Nepal's currency has been pegged to the Indian rupee (INR) since 1994 at a rate of 1.6 NPR to 1 INR. However, fluctuations in the Indian rupee against major world currencies also affect the Nepali rupee's valuation. According to the latest IMF Article IV Consultation Report on Nepal, Nepal's peg to the INR helps reduce exchange rate uncertainty for trade with India but has also contributed to an overvaluation of the Nepali rupee, potentially affecting Nepal's competitiveness.

Remittance Policies

Nepal's proposed fiscal year 2026/27 federal budget includes amendments to FITTA that would further simplify the requirements for profit and capital repatriation. The NRB had already begun decentralizing this process in December 2025 by delegating dividend and profit repatriation approval authority to the head offices of commercial banks, which must now approve or deny requests within 15 days. This reform eliminates the need for case-by-case central bank permits, provided funds are repatriated to the original source country.

Sovereign Wealth Funds

Nepal has no sovereign wealth funds.

Section 7. State-owned Enterprises (SOEs)

There are over 40 SOEs in Nepal, and SOEs such as the following play a dominant role in key sectors and exercise significant influence over contract awards, licensing decisions, and power purchase agreements, making them important gatekeepers for FDI and market access:

- Nepal Airlines Corporation
- Nepal Oil Corporation

- Nepal Telecom Corporation and
- The Nepal Electricity Authority

Since 1993, Nepal has initiated numerous market policy and regulatory reforms to open eligible government-controlled sectors to domestic and foreign private investment. These efforts have had mixed results. Most private investment has been made in manufacturing and tourism – sectors where there is little government involvement and existing state-owned enterprises (SOEs) are not competitive. Many state-owned sectors are not open for foreign investment. Information on the performance of Nepal's SOEs can be found in the Yellow Book, published annually by the Ministry of Finance.

Corporate governance of SOEs remains a challenge, and executive positions are often filled by individuals connected to politically appointed government ministers. Board seats are generally allocated to senior government officials, and the SOEs are often required to consult with government officials before making any major business decisions. A 2011 executive order mandates a competitive and merit-based selection process, but this has encountered resistance within some ministries. Third-party market analysts consider most Nepali SOEs to be poorly managed and characterized by excessive government control and political interference. According to local economic analysts, SOEs are sometimes given preference for government tenders, although official policy states that SOEs and private companies are to compete under the same terms and conditions. The IMF has recommended that SOEs undergo proper audits and emphasized that SOE-related fiscal risks remain elevated. The following SOEs require close monitoring to prevent spillover into public finances:

- The Nepal Electricity Authority
- Nepal Oil Corporation
- Nepal Airlines Corporation and
- Nepal Telecom

Private enterprises do not have the same access to finance as SOEs. Private enterprises mostly rely on commercial banks and financial institutions for business and project financing. SOEs, however, also have access to financing from state-owned banks, development banks, and other

state-owned investment vehicles. Similar concessions or facilities are not granted to private enterprises. SOEs receive non-market-based advantages, given their proximity to government officials, although these advantages can be hard to quantify. Some SOEs, such as the Nepal Electricity Authority or the Nepal Oil Corporation, have monopolies that prevent foreign competitors from entering those market sectors.

The World Bank in Nepal assesses corporate governance benchmarks (both law and practice) against the OECD Principles of Corporate Governance, focusing on companies listed on the stock market. Awareness of the importance of corporate governance is growing. The NRB has introduced higher corporate governance standards for banks and other financial institutions. Under the OECD Principles of Corporate Governance, the World Bank recommended in 2011 that the government strengthen capital market institutions and overhaul the OCR. Although some reforms were initiated, many were never finalized, and no reforms have been instituted at the OCR. The government has used the guidelines while drafting some policies, but the guidelines are barely implemented.

Privatization Program

The Privatization Act of 1994 authorizes and defines the procedures for privatization of SOEs to broaden participation of the private sector in the operation of such enterprises. 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.

Economic reforms, deregulation, privatization of businesses and industries under government control, and liberalized policies toward FDI were initiated in the early 1990s. During this time, sectors such as the following were opened for both foreign and domestic private investment:

- Telecommunications
- Civil aviation
- Coal imports
- Print and electronic media

- Insurance and
- Hydropower generation

The first privatization of an SOE was conducted in 1992 through a Cabinet decision (executive order). A total of 23 state-owned corporations have been privatized, liquidated, or dissolved, but the process has stagnated since 2008.

The last company to be (partially) privatized was Nepal Telecom in 2008 (although the government still holds a majority of the shares). Since then, no SOEs have been privatized. In the past, privatization was initiated with a public bidding process that was transparent and non-discriminatory. Procedural delays, resistance from trade unions, and a lack of will within the government have created obstacles to the privatization process. The Corporate Coordination and Privatization Division of the MOF is responsible for managing the privatization program.

Section 8. Corruption

Corruption is pervasive in several government processes, including licensing and procurement. The primary law used to combat corruption in Nepal is the Prevention of Corruption Act, 2002. This law prohibits the following in both the public and private sectors:

- Corruption
- Bribery
- Money laundering
- Abuse of office and
- Payments to facilitate services

According to a report by GAN Integrity, a company that works with businesses to mitigate corporate risk, “implementation and enforcement [of the Prevention of Corruption Act] is inadequate, leaving the levels of corruption in the country unchallenged.” The report notes that Nepal’s judicial system is “subject to pervasive corruption and executive influence,” that “corruption is rife among low-level [police] officers,” and that “Nepali tax officials are prone to

corruption, and some seek positions in the sector specifically for personal enrichment." The full report is available on GAN Integrity's website.

The CIAA is Nepal's constitutional body responsible for investigating corruption involving public officials. The 2015 constitution empowers the CIAA to investigate abuse of authority committed through corruption by persons holding public office. CIAA arrests and investigations historically tended to focus on lower-level government bureaucrats, but in recent years the CIAA has pursued several high-profile cases involving former ministers and senior bureaucrats, reflecting a more assertive approach to anti-corruption enforcement. In 2025, Nepal amended the Prevention of Corruption Act, 2002, and proposed amendments to the CIAA Act that would expand the CIAA's jurisdiction over Cabinet decisions and strengthen procurement oversight.

While anti-corruption laws extend to family members of officials and to political parties, there are no laws or regulations that are specifically designed to prevent conflicts of interest in the awarding of contracts or government procurement. Government officials are aware that there should be no conflict of interest when contracts are awarded, but the implementation is at the discretion of the concerned government agency.

The government does not require companies to establish codes of conduct. U.S. Embassy Nepal is not aware of private companies that use internal controls, ethics, and compliance programs to detect and prevent bribery of government officials. However, this does not mean that there are no companies that use such programs. Companies may consider adopting or reinstating such programs. NGOs involved in investigating corruption do not receive special protections. The IMF conducted a Governance and Corruption Diagnostic mission in Nepal from April 20 to May 6, 2026, to identify institutional weaknesses and mitigate systemic corruption risks under the Extended Credit Facility (ECF) program. The mission assessed public financial management, tax administration, and anti-corruption frameworks. As of August 2026, a prioritized roadmap of recommendations was being finalized.

Section 9. Political and Security Environment

Following the September 2025 uprising, the interim government prioritized restoring business confidence and security, citing $586 million in economic losses resulting from the protests.

During the height of the unrest on September 8 and 9, many businesses, industrial corridors, and private residences suffered damage from vandalism, arson, and looting. Losses impacted investor and private sector confidence, leading the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) to demand immediate state intervention to protect property rights and ensure that commercial hubs would not remain vulnerable during future civil demonstrations.

Following its March election victory, the new government sought to address these concerns by announcing a Private Sector Protection and Promotion Strategy (PSPP). This strategy guarantees the physical security of industrial infrastructure and private assets, backed by a new directive to the Ministry of Home Affairs to establish a rapid response mechanism for professional security within 30 days. By treating industrial areas and supply chains as high-security zones, the government aims to prevent the kind of blockades and property damage that paralyzed the economy during the Gen-Z movement.

Prior to travel, U.S. citizens should consult the U.S. Department of State's Travel Advisory for Nepal.

Section 10. Labor Policies and Practices

Nepal's labor market is characterized by skills mismatches, limited domestic employment opportunities, and substantial outward labor migration. Only 20 percent of Nepal's working-age population has a secondary education or higher, and the country's literacy rate is 76.3 percent. Vocational and technical training are poorly developed, and the national system of higher education is overwhelmed by high enrollment and inadequate resources. Many secondary school and college graduates are unable to find jobs commensurate with their education levels. Nepal's unemployment rate is 9.5 percent (19 percent for youth) based on 2024 statistics.

Limited domestic employment opportunities for skilled workers and higher wages abroad encourage both skilled and unskilled Nepalis to seek work overseas, primarily in:

- Qatar

- The United Arab Emirates
- Saudi Arabia
- Kuwait
- The Republic of Korea
- Japan and
- Malaysia

Millions more seek employment in India, which shares an open border with Nepal. The availability of higher wages outside of Nepal has contributed to domestic labor shortages, particularly in agriculture and construction, and many companies hire laborers from India who are willing to work for lower wages.

Restrictions on employing most non-Nepali workers can make it difficult for firms to address skills shortages. Except for Indian nationals, employment of foreigners requires Department of Labor approval. The Labor Act and Regulations of 2018 generally limit foreign workers to three years for non-specialized positions and five years for technical positions. These terms are renewable only after the employee has departed Nepal for at least one year, making it difficult for firms to retain needed staff.

Nepal's labor laws differentiate between layoffs and termination for cause. In some cases, Nepal's labor laws have forced companies to retain employees, even after a business has closed. Workers at SOEs often receive generous severance packages if they are laid off. Unemployment insurance does not exist. Many private enterprises hire workers on a contract basis for jobs that are not temporary in nature to avoid cumbersome labor laws. In some commercial banks and other businesses, security guards, drivers, and administrative positions are filled by contract workers.

The Industrial Enterprise Act of 2016 and the Labor Act of 2017 both include a "no work, no pay" provision, and the latter clarifies processes for hiring and firing employees. In practice, it remains difficult to fire workers in Nepal, and the Labor Act encourages the hiring of Nepali citizens wherever possible. Investors observe the current labor framework is largely tailored to manufacturing and lacks the flexibility required for sectors such as ICT. While the government's

new 100-point mandate prioritizes administrative efficiency, these specific labor rigidities remain a significant concern for the service and technology industries.

The Labor Act and the constitution protect workers' rights to establish and join trade unions and associations, although a May 3, 2026, government ordinance prohibits government employee membership in unions and participation in union activities. Total union participation is estimated at about one million, or about 10 percent of the total workforce. By law, labor unions in Nepal are independent of the government and employers. However, in practice, all labor unions are affiliated with political parties and have significant influence within the government. The Maoist-affiliated All Nepal Trade Union Federation (ANTUF) is the most active, and its organizing tactics have led to violent clashes with other trade unions in the past. The ANTUF and its splinter group, the ANTUF-R, are aggressive in their defense of members and frequently engage in disputes with management. Labor union agitation is often conducted in violation of valid contracts and existing laws, and unions are rarely held accountable for their actions.

Labor laws permit strikes, except by employees in essential services such as water supply, electricity, and telecommunications. Sixty percent of a union's members must vote in favor of a strike for it to be legal, though this law is often ignored. Laws also empower the government to halt a strike or suspend a union's activities if the union disturbs the peace or adversely affects the nation's economic interests; in practice, this is rarely done. Labor unions have staged frequent strikes, often unrelated to working conditions, although they have become less frequent and less effective in recent years. Political parties will frequently call for national strikes that are observed only in particular regions or that only last for a few hours. The SEZ Act prohibits workers from striking in any SEZ.

Collective bargaining is used only to establish workers' salaries. Trade unions, employers, and government representatives actively engage in this practice.

The Labor Act establishes separate dispute-resolution procedures for individual and collective disputes. For individual disputes, an employee must first submit a claim to the employer, which has 15 days to seek a resolution. Unresolved disputes may be referred to the Department of

Labor and subsequently appealed to the Labor Court. Collective disputes at businesses with 10 or more employees proceed to mediation and, if mediation fails, arbitration.

The Labor Act applies to:

- Companies
- Private firms
- Partnerships
- Cooperatives
- Associations or
- Other organizations in operation or established, incorporated, registered, or formed under prevailing laws of Nepal, regardless of whether they seek to earn a profit

The Labor Act does not apply to:

- The Civil Service
- The Nepal Army
- The Nepal Police
- The Armed Police Force
- Entities incorporated under other prevailing laws or situated in Special Economic Zones, to the extent separate provisions are provided, and
- Working journalists, unless specifically provided in the contract

Nepal's enforcement of regulations to monitor labor abuses and health and safety standards is weak. Operations in small towns and rural areas are rarely monitored. International labor rights are recognized within domestic law. No new labor-related laws have been enacted in the past two years.

The government does not fully meet the minimum standards for the elimination of trafficking in persons, though it is making significant efforts to do so. The definition of human trafficking under Nepal's Human Trafficking and Transportation (Control) Act (HTTCA) does not match the

definition of human trafficking under international law. In June 2020, Nepal formally acceded to the Palermo Protocol. Children in Nepal are engaged in child labor, including in the production of bricks, carpets, and embellished textiles, although the government claims to be serious about ending child labor. The Labor Inspectorate's budget, the number of labor inspectors, and relevant resources and training are all insufficient for effective enforcement of Nepal's labor laws, including those related to child labor. See the U.S. Department of State's most recent Human Rights Report and the U.S. Department of Labor's 2024 Findings on the Worst Forms of Child Labor.

Section 11. Contact for More Information

Political and Economic Section

U.S. Embassy Nepal

Contact the U.S. Embassy Nepal Political and Economic Section