FINAL REPORT

DAAYITWA NEPAL PUBLIC POLICY FELLOWSHIP 2026

A POLICY RESEARCH REPORT ON

Improving Nepal's Investment Climate for Digital Exports: Tax Incentives and Profit Repatriation Reform

conducted as a part of the Daayitwa Nepal Public Policy Fellowship 2026, in partnership with the Ministry of Industry, Commerce and Supplies

June 2026 – September 2026

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Executive Summary

Nepal's digital services exports have grown into the country's largest export sector without having been designed for. The Institute for Integrated Development Studies valued them at 515.4 million United States Dollars in 2022 more than Nepal's leading merchandise export and the industry's own current estimate is close to one billion. That growth happened with minimal state facilitation, which is the fact this report takes as its starting point.

The central finding is that Nepal's fiscal incentives for digital exporters are not too small. They are too difficult to obtain reliably and too unstable to plan against. Four independent lines of evidence converge on this.

First, entitlements do not convert into cash. Exporter value added tax refunds are statutorily due within thirty days, yet overpaid tax is routinely carried into the following fiscal year under a government reserve heading; Inland Revenue Department officers acknowledge that refunds are difficult to execute and contesting a rejected refund requires depositing a quarter of the disputed sum merely to trigger review.

Second, the World Bank's Business Ready 2024 assessment places Nepal in the lowest global quintile for market competition a measure of the cost of operating within the rules, not of the rules' generosity.

Third, the 2019 Digital Nepal Framework under delivered against its own targets for reasons its successor document records: weak institutional ownership, poor inter agency coordination, resource constraints, and limited technical capacity. None of these is addressed by setting a new target, and the targets currently in circulation are themselves unreliable the figure attributed to Digital Nepal Framework 2.0 is lower than a single year of the sector's existing exports, while the Information Technology Decade figure is two orders of magnitude higher.

Fourth, when industry asked for a one percent corporate tax rate held for ten years, the government's June 2026 response adopted the refund automation and talent retention elements and declined the headline rate a revealed preference for facilitation over rate reduction that this report's evidence supports.

A fifth consideration bounds all of the above: with a single correspondent bank holding a physical presence for Nepal Rastra Bank's foreign transactions, and Nepal grey listed by the Financial Action Task Force since March 2025, there is a ceiling on what domestic process reform alone can deliver.

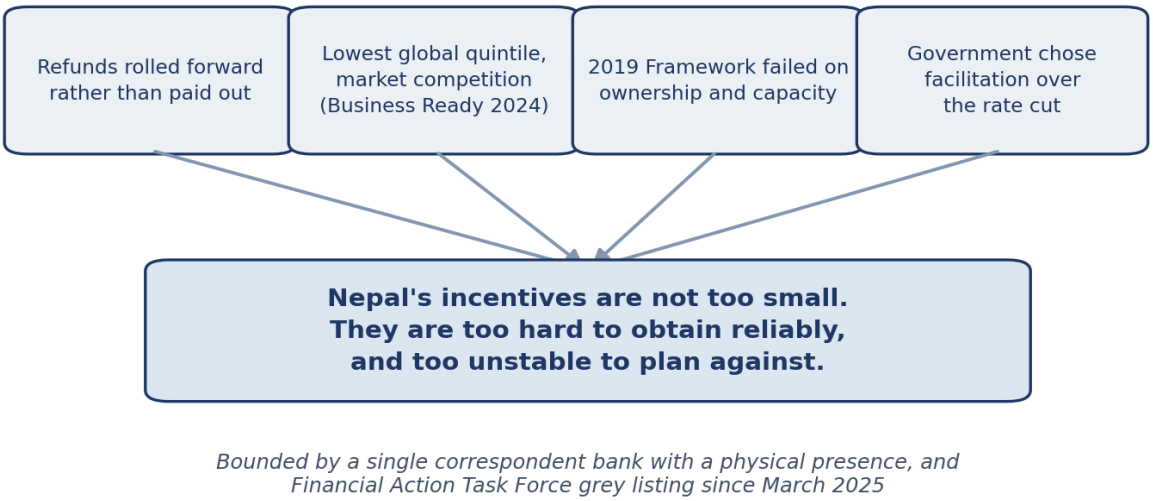

Figure 1. Four lines of evidence converging on the central finding.

Recommended actions

Short term, within the current fiscal year and using existing authority. Convene the cross border digital payments working group already proposed to FNCCI's Information and Communication Technology Development Committee the proposal exists and lacks only a convenor. Publish consolidated digital export tax guidance reconciling the Income Tax Act, the current Finance Act, and Inland Revenue Department circulars. Commission an official measurement of digital services exports; the sector's last comprehensive survey is four years old. Publish a compliance baseline for the fifteen working day repatriation standard. Convert the June 2026 acceptance of refund automation into a dated implementation commitment.

Mid term, over the remainder of the Sixteenth Plan period. Move the export concession from the annual Finance Act into standing statute, so that durability rather than level becomes the guarantee. Build a single window facilitation process for registration, refunds, and repatriation, funded through the Asian Development Bank's existing Country Partnership Strategy commitments. Create a proportionate pathway for firms without a three year export record. Reform the refund dispute deposit. Extend pre budget consultation to freelancers and early stage firms, who are represented by neither trade association.

Long term. Reconcile the competing export target figures onto a common baseline. Address the correspondent banking and Financial Action Task Force constraints through the Ministry of Finance and Nepal Rastra Bank. Build the institutional ownership the 2019 framework lacked. Pursue Double Taxation Avoidance Agreements. Shift evaluation from targets announced to entitlements actually accessed.

1. Introduction and Policy Context

Nepal's economy has long leaned on labour migration and remittances rather than on domestic investment or exports to sustain household consumption and growth. By 2023, remittances accounted for roughly a quarter of Nepal's GDP, and the World Bank has been explicit that this consumption led model is reaching its limits: migration and remittance flows are moderating even as the structural reforms needed to convert that inflow into productive investment have lagged. Digitally delivered services trade software development, IT enabled services, business process outsourcing, and digital freelancing is one of the few sectors the World Bank and Nepal's own IT industry point to as capable of absorbing skilled youth who would otherwise migrate, while generating foreign currency earnings without the land, energy, or logistics constraints that limit merchandise exports.[1]

The World Bank's most recent growth diagnostic for Nepal, 'Unlocking Nepal's Growth Potential,' devotes a dedicated chapter to the digital sector as a driver of growth and job creation, and separately flags that Nepal ranks in the lowest quintile globally on market competition under the Bank's B Ready 2024 assessment a signal that regulatory friction, not entrepreneurial capacity, is the binding constraint. This is the same diagnosis the fellowship proposal opened with: Nepal has the workforce and connectivity for digital exports, but the tax and repatriation architecture around that workforce remains fragmented across the Income Tax Act, the Industrial Enterprises Act 2020, Finance Act provisions issued annually, and Nepal Rastra Bank (NRB) circulars, creating exactly the kind of unpredictability that discourages both foreign investors and diaspora capital from backing export oriented digital firms. Because tax incentives and repatriation certainty are the two levers Ministry of Industries, Commerce and Supplies (MoICS) can most directly influence as opposed to broader constraints like electricity or connectivity they anchor this report's focus, consistent with the proposal's original problem statement.[2]

1.1 Alignment with the Sixteenth Five Year Plan and Supporting National Frameworks

The Council of Ministers approved Nepal's 16th Five Year Periodic Plan (2081/82–2085/86, i.e. FY2024/25–FY2028/29) with the overarching goals of 'Good Governance, Social Justice and Prosperity.' Its headline macroeconomic targets depend on precisely the kind of investment led, export oriented growth this report's proposal was built around, rather than continued reliance on remittance financed consumption. On the digital connectivity side specifically, the plan targets the enabling infrastructure preconditions for the digital export growth this report addresses, even though the plan document as reported does not appear to carry a standalone, quantified digital export or IT export target of its own.[3]

[1]Migration, remittances inflow key factor behind poverty reduction in Nepal: World Bank. (2025, March 24). The Rising Nepal. https://risingnepaldaily.com/news/59196

[2]World Bank. (2025). Nepal country economic memorandum 2025: Unlocking Nepal's growth potential. https://documents1.worldbank.org/curated/en/099032125103030263/pdf/P179761 430153ad 672c 4418 89c5 ef3740c65113.pdf

[3]Council of Ministers approves 16th Five Year Plan, aims to increase GDP to Rs 8.6 trillion after five years. (2024, May 14). Republica. https://myrepublica.nagariknetwork.com/news/council of ministers approves 16th five year plan aims gdp of rs 8 6 trillion after five years

Table 1. Headline targets of the Sixteenth Five Year Periodic Plan (2081/82–2085/86)

Indicator	Target over the plan period
Economic growth rate	7.3 per cent
Per capita income	From roughly USD 1,456 to USD 2,351–2,413
Poverty rate	From 20.3 per cent to 12 per cent
Investment required	Roughly Rs 11.1 trillion
Internet access	90 per cent of the population
Bank or financial institution access	85 per cent of families
Digital or IT export target	None stated as a standalone quantified target

Source: as cited at footnote 3.

The specific, quantified digital export targets MoICS need to work against instead sit in three complementary frameworks that operationalize the 16th Plan's growth ambition for this sector. Digital Nepal Framework 2.0, under preparation by the Ministry of Communications and Information Technology, sets a target first introduced through the FY2024/25 budget of Rs 30 billion in IT related service exports over ten years alongside 500,000 direct and 1 million indirect jobs; the same source candidly documents why the original 2019 Digital Nepal Framework under delivered against its 80 project target citing weak institutional ownership, poor inter agency coordination, resource constraints, and limited technical capacity which is directly relevant to how credible any new numeric target should be treated. Separately, the government's 'Information Technology Decade' (2081–2091) vision is considerably more ambitious, targeting Rs 3 trillion in ICT exports and 1.5 million jobs by the decade's end, built around a four pillar 'FASG' framework (Foundation, Access, Skills, Growth) that includes digital public infrastructure, connectivity expansion, workforce development, and private sector growth conditions.[4]

[4]Digital Nepal Framework 2.0: Preparations underway to boost IT export capacity. (n.d.). New Business Age. https://newbusinessage.com/news/43080/digital nepal framework 20 preparations underway to boost it export capacity/

Table 2. Digital export targets across the national frameworks

Framework	Period	Export target	Employment target
Sixteenth Five Year Periodic Plan	2081/82–2085/86	None stated	Not stated
Digital Nepal Framework 2.0	Ten years, introduced via the FY2024/25 budget	Rs 30 billion in IT related service exports	500,000 direct; 1 million indirect
Information Technology Decade	2081–2091	Rs 3 trillion in ICT exports	1.5 million
Policies and Programmes, FY2026/27	Annual	None stated; operational commitments only	Not stated

Sources: as cited at footnotes 3, 4 and 5. The two quantified targets differ by two orders of magnitude and it is not established that they share a common baseline.

Most recently, the government's Policies and Programmes for FY2026/27 presented to a joint sitting of the federal parliament by President Ramchandra Paudel on 11 May 2026 translated this ambition into a more immediate operational agenda: a legal framework for remote work that would allow Nepalis to work from within the country for foreign employers, high capacity data centres, expanded public digital infrastructure, and tax incentives for research and innovation in the IT sector, together with provisions for government co investment in IT research and development.[5]

Taken together, the 16th Plan supplies the macro level justification (investment led growth, digital connectivity as infrastructure), while Digital Nepal Framework 2.0, the IT Decade Vision, and the annual Policies and Programmes supply the sector specific, numeric targets MoICS can be held accountable against. The gap between the original Digital Nepal Framework's 2019 targets and its documented implementation shortfall is itself the strongest argument in this report for prioritizing administrative and procedural reform alongside any new tax concession, since target setting alone has not previously been the binding constraint.

[5]Government unveils plans to boost IT exports and digital economy. (2026, May 11). The Kathmandu Post. https://kathmandupost.com/national/2026/05/11/government unveils plans to boost it exports and digital economy

2. Methodology

This report follows the qualitative policy research design set out in the fellowship proposal: legal and legislative desk review supplemented by key informant interviews (KIIs) with policymakers at MoICS and the Department of Industry, NRB officials handling foreign exchange and repatriation approvals, IT entrepreneurs and founders, and independent tax professionals. The desk review draws on primary legal texts (the Foreign Investment and Technology Transfer Act 2019, the Industrial Enterprises Act 2020, the Income Tax Act, annual Finance Acts, and NRB bylaws and circulars) cross checked against secondary analysis from the World Bank, the Asian Development Bank (ADB), UNCTAD's Investment Policy Monitor, and Nepali business dailies, which is the mix of sources this report cites throughout.

Table 3. Evidence base

Layer	Sources
Primary legal texts	Foreign Investment and Technology Transfer Act 2019; Industrial Enterprises Act 2020; Income Tax Act; annual Finance Acts; Nepal Rastra Bank bylaws and circulars
Secondary analysis	World Bank; Asian Development Bank; UNCTAD Investment Policy Monitor; Nepali business dailies
Key informant interviews	MoICS and Department of Industry policymakers; Nepal Rastra Bank officials handling foreign exchange and repatriation approvals; IT entrepreneurs and founders; independent tax professionals

A second, smaller methodological point carried over from the proposal is the deliberate attention to the gap between de jure and de facto policy what the law and circulars formally permit versus what investors and firms report actually experiencing when they apply the rules. Nepal's recent reform pattern (Section 4) makes this distinction unusually important: several 2025–2026 amendments substantially liberalized the formal rules on outward investment and repatriation, but whether that liberalization has translated into faster, more predictable outcomes at the bank branch and tax office level is an implementation question that only interviews, not statutes, can answer. Within the overall two month timeline, this report therefore treats the desk review as establishing the de jure baseline and flags, wherever the literature already hints at friction (VAT and income tax refund delays, correspondent banking bottlenecks, documentation burden), the specific implementation questions the KII round should prioritize rather than treating those as settled findings.

3. Current Tax Incentives, Governing Legislation, and Gap Analysis

Nepal's tax treatment of digital exports has shifted materially over the last two budget cycles, and the two most recent Finance Acts illustrate how quickly the headline numbers move. The

FY 2025/26 budget offered a 75 per cent income tax waiver on revenue earned from IT service exports, effectively taxing export income at around 5 per cent, alongside a full five year income tax exemption for startups with annual turnover below NPR 100 million and a 3 per cent concessional loan facility for young entrepreneurs. The subsequent FY 2026/27 budget speech recalibrated this to a flat 50 per cent tax exemption on IT export income and, separately, made the value of 'sweat equity' received by Nepali IT professionals from foreign employers fully exempt from taxable income a provision aimed squarely at retaining technical talent that would otherwise be paid, and taxed, only abroad.[6]

Table 4. Tax measures for digital exporters across two budget cycles

Measure	FY2025/26 budget	FY2026/27 budget
Income tax on IT service export revenue	75 per cent waiver, giving an effective rate of about 5 per cent	Flat 50 per cent exemption
Startup income tax (annual turnover below NPR 100 million)	Full five year exemption	Not restated in this source
Concessional loan facility for young entrepreneurs	3 per cent	Not restated in this source
Sweat equity received from foreign employers	Not provided	Fully exempt from taxable income

Source: as cited at footnote 6. The headline export concession moved twenty five percentage points in a single budget cycle.

This is the fragmentation the original proposal identified: the operative incentive for a digital exporter in any given year is not written into the Income Tax Act itself but is set, and reset, through the annual Finance Act and budget speech, while the underlying eligibility and administrative machinery VAT zero rating, digital service tax treatment for non resident providers, refund procedure sits in separate instruments administered by the Inland Revenue Department (IRD).[7]

A firm advising itself on its effective tax rate has to reconcile at least three moving parts: the Income Tax Act's base rate, the current year's Finance Act concession, and IRD's administrative circulars on how to claim it, none of which is consolidated into a single digital export chapter or code.[8]

[6]Kathmandu Post. (2025, May 30). Budget 2025–26 introduces sweeping tax incentives for tech exports, startups and green hydrogen firms. https://kathmandupost.com/money/2025/05/30/budget 2025 26 introduces sweeping tax incentives for tech exports startups and green hydrogen firms while raising duties on alcohol tobacco and luxury goods

[7]Niti Partners & Associates. Nepal IT business incentives 2026. https://nitipartners.com/nepal it business incentives 2026/

[8]Kathmandu Post. (2025, May 30). Budget 2025–26 introduces sweeping tax incentives for tech exports, startups and green hydrogen firms. https://kathmandupost.com/money/2025/05/30/budget 2025 26 introduces sweeping tax incentives for tech exports startups and green hydrogen firms while raising duties on alcohol tobacco and luxury goods

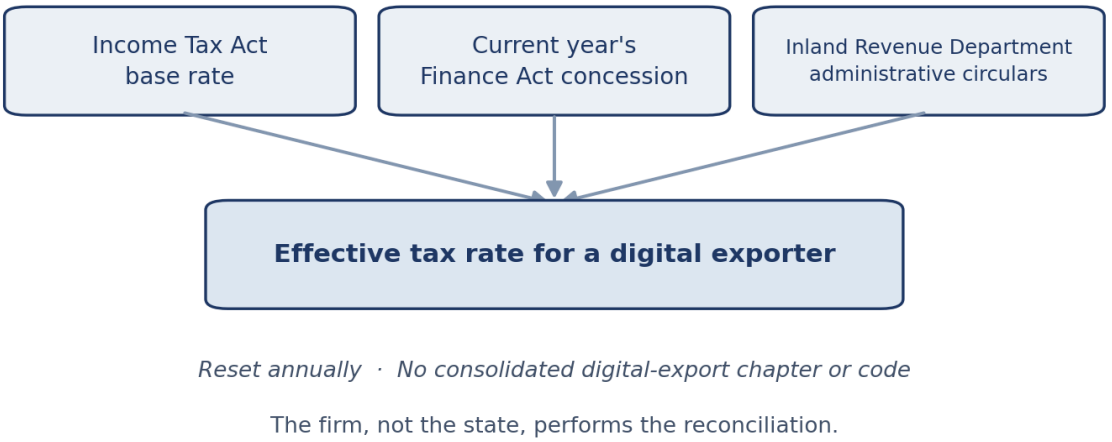

Figure 2. The three instruments a digital exporter must reconcile to establish its own effective tax rate.

On repatriation, FITTA 2019 Section 20 guarantees a foreign investor's right to repatriate dividends, profits, and capital, and this legal guarantee has not been in question. The practical gap the proposal identified is administrative: every outbound repatriation crosses two separate checkpoints tax compliance verification at IRD and foreign exchange clearance at NRB and for digital businesses whose value is concentrated in intangible IP and services rather than physical assets, valuation and documentation for these checkpoints has historically taken longer and been less standardized than for asset heavy exporters.[9]

A closely related and under examined gap is the tax refund system itself, which is where 'awareness gaps on the administrative part' bite hardest in practice. Nepal's VAT and income tax refund mechanisms are formally time bound the Inland Revenue Department is meant to process exporter VAT refunds within 30 days but independent reporting and academic work both describe a system where overpaid tax is routinely rolled forward into the next fiscal year under a 'government reserve' heading rather than paid out, where IRD officers themselves acknowledge refunds are difficult to execute in practice, and where disputing a rejected refund requires depositing a quarter of the disputed amount just to trigger administrative review. This is precisely the kind of de facto friction that a legal reading of FITTA Section 20 or the Finance Act's export concessions would not reveal, and it directly disadvantages smaller or newer digital exporters who lack the working capital to survive a multi year refund delay.[10]

On competitiveness, the World Bank's B Ready 2024 assessment placing Nepal in the lowest global quintile for market competition is a useful proxy for the 'competitive gap' the proposal asked about: it is not that Nepal's headline tax concessions (a 50 per cent export income exemption, a five year startup holiday) compare badly on paper with regional peers, but that the ease of actually operating within the rules registration, refund processing, documentation lags. This reframes the policy problem MoICS should prioritize: the

[9]LawAlpine. Repatriation of funds from Nepal 2026: FDI profits and capital (practitioner guide). https://lawalpine.com/blog/repatriation of funds from nepal fdi profits capital and royalties

[10]Nepali Times. Taxing process of fund reclaiming in Nepal. https://www.nepalitimes.com/latest/taxing process of fund reclaiming in nepal/

constraint is less 'Nepal's incentives are too small' and more 'Nepal's incentives are hard to access reliably,' a distinction the KII round with IRD facing tax professionals should test directly.[11]

4. Recent Reforms: The Nepal Rastra Bank Outward Investment and Repatriation Liberalisation

The most consequential recent reform for digital exporters is Nepal Rastra Bank's Fifth Amendment to the Foreign Loan and Investment Management Bylaws, 2078, issued 30 December 2025. The amendment is best understood as a shift from approval centric control to post transaction supervision: it removes the requirement for prior NRB approval on foreign equity inflows (including investments in existing companies and share transfers), and critically for repatriation decentralizes routine repatriation approvals from NRB's Foreign Exchange Department to the head offices of A class commercial banks, which must now clear complete applications within 15 working days. NRB approval is retained only for repatriation to a country other than the original source country, narrowing the central bank's direct gatekeeping role to a residual category of cases.[12]

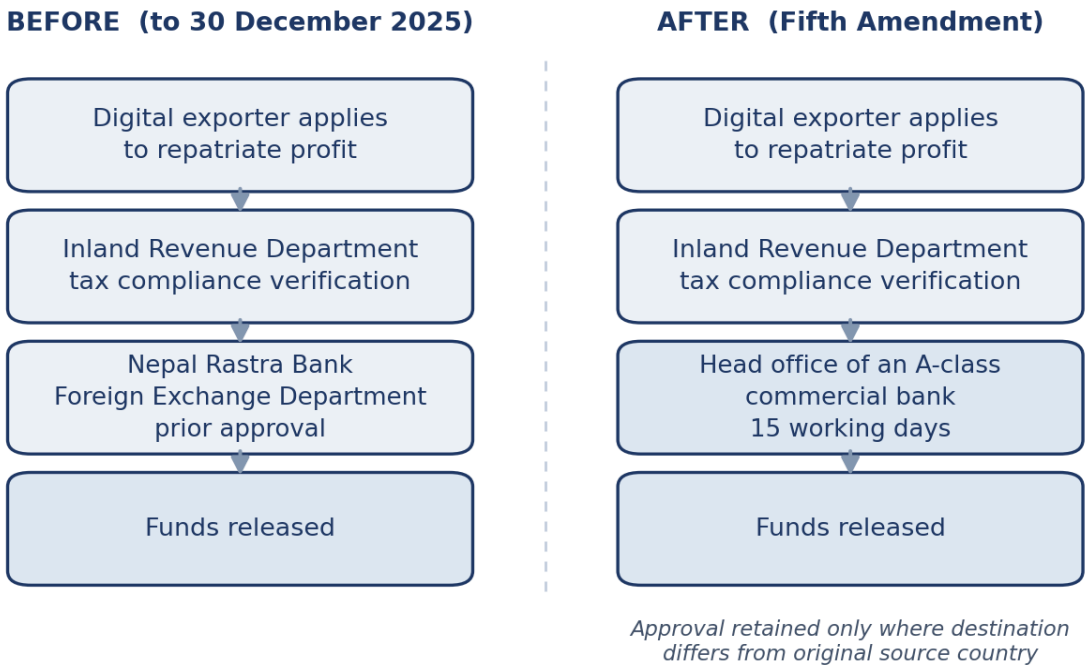

Figure 3. The profit repatriation pathway before and after the Fifth Amendment.

Table 5. What the Fifth Amendment changed

[11]World Bank. (2025). Unlocking Nepal's growth potential (Business Ready 2024 findings). https://documents1.worldbank.org/curated/en/099032125103030263/pdf/P179761 430153ad 672c 4418 89c5 ef3740c65113.pdf

[12]Niti Partners & Associates. (2025, December). NRB eases equity inflows, repatriation and outward investment. https://nitipartners.com/nrb eases equity inflows repatriation and outward investment/

Provision	Position before	Position after
Foreign equity inflows, including investment in existing companies and share transfers	Prior Nepal Rastra Bank approval required	Prior approval requirement removed
Routine repatriation approval	Nepal Rastra Bank Foreign Exchange Department	Head offices of A class commercial banks; complete applications cleared within 15 working days
Repatriation to a country other than the original source country	Not separately stated in this report	Nepal Rastra Bank approval retained
Documentation for repatriation	Not separately stated in this report	Audited or certified financial statements and a formal application under Schedule 16(a)

Source: as cited at footnotes 12 and 14.

On the outward investment side that the proposal specifically flagged, NRB's regulatory opening for the IT sector confirms the USD 1 million figure: Nepali IT companies with at least three consecutive fiscal years of foreign currency export earnings can now invest abroad up to the lower of USD 1 million or 50 per cent of their average foreign currency earnings over those three years, subject also to a paid up capital ceiling. IT companies that have not yet built a three year export track record are permitted a smaller USD 20,000 facility. NRB Governor Dr Biswo Nath Poudel confirmed both thresholds publicly at the amendment's announcement, and the same reform allows eligible IT firms to open branch or liaison offices abroad, a facility three companies had used to exchange a combined USD 2.5 million for overseas expansion as of late 2025.[13]

The gap between policy intent and operational clarity is where this reform still leaves work for MoICS to coordinate on. First, the USD 1 million facility is conditioned on three years of proven export earnings, which by construction excludes the earliest stage digital exporters and startups the fellowship proposal is most concerned with; there is no parallel facilitation window for pre track record firms beyond the flat USD 20,000 cap, so the reform's benefit accrues disproportionately to already established exporters rather than the new entrants MoICS wants to attract. Second, even the liberalized repatriation channel still requires audited or certified financial statements and a formal application under the bylaws' Schedule 16(a), meaning the documentation burden inside the 15 day bank approval window has not necessarily fallen even where the approval layer has been removed.[14]

[13]Republica. (2025, December 31). Nepal aims for Rs 300 billion in IT exports as NRB opens doors for overseas investment. https://myrepublica.nagariknetwork.com/index.php/news/nepal aims for rs 300 billion in it exports as nrb opens doors for overseas 56 61.html

[14]Infinity Corporate Solutions. Abroad investment by Nepalese IT companies: FERA and NRB rules 2025 guide. https://infinitynp.com/insights/abroad investment nepal it companies fera nrb

Third, banking sector bottlenecks sit outside NRB's bylaw and are harder to fix by amendment alone. The U.S. State Department's 2025 Investment Climate Statement notes that Standard Chartered remains Nepal's only correspondent bank with a physical presence handling foreign transactions for NRB, and that the Financial Action Task Force grey listed Nepal in March 2025 following a 2023 mutual evaluation a status that puts Nepal's correspondent banking relationships at risk regardless of how efficient the domestic repatriation approval process becomes. A digital exporter's repatriation is only as fast as the weakest link in this chain, and the correspondent banking and AML compliance risk is a constraint MoICS cannot resolve on its own; it requires continued inter agency coordination with NRB and the Ministry of Finance on AML implementation, which is consistent with what the proposal's RQ3 already anticipated.[15]

5. Private Sector Positions: NAS IT, CAN Federation, and FNCCI

The Nepal Association for Software and IT Services Companies (NAS IT) not CAN Federation is the source of the specific '10 year tax holiday and 8 per cent export incentive' proposal the research question named. NAS IT, a non profit representing roughly 80 member companies, submitted formal pre budget recommendations for FY2083/84 at a session chaired by its President, Gaurav Raj Pandey, in April 2026. The headline ask was a preferential 1 per cent corporate income tax on net profits for IT companies for 10 years framed by NAS IT as encouraging reinvestment in innovation and research and development rather than as a simple rate cut paired with an 8 per cent export incentive for foreign currency earning IT companies, explicitly pitched as necessary to offset Nepal's cost disadvantage against regional competitors such as Bangladesh and Vietnam. NAS IT's other asks included capping personal income tax for IT professionals at 25 per cent to curb brain drain, clearer VAT policy and a streamlined refund process for exporters, reservation of government IT contracts up to NPR 100 million for Nepali firms, a 30 per cent minimum local firm work share on large foreign led projects, and expanded DTAAs with the US, UK, and Australia.[16]

CAN Federation Nepal's larger, older IT trade body, representing over 1,500 firms and roughly 50,000 professionals put forward a near identical package at its own pre budget

[15]U.S. Department of State. (2025). 2025 investment climate statements: Nepal. https://www.state.gov/reports/2025 investment climate statements/nepal

[16]ICT Frame. (2026, April 27). NAS IT submits pre budget recommendations: Calls for 10 year tax holiday. https://ictframe.com/nas it submits pre budget recommendations/

seminar one month later, on 26 May 2026. The near total overlap between the two associations' asks, arriving within weeks of each other ahead of the same budget cycle, indicates either close coordination between NAS IT and CAN Federation or convergent industry consensus on these specific numbers. A KII with both associations' leadership should clarify which, since it changes how much independent evidentiary weight these two separate sources actually carry.[17]

Table 6. Private sector asks compared

Ask	NAS IT (April 2026)	CAN Federation (26 May 2026)	FNCCI ICT Development Committee (early 2026)
Corporate income tax	1 per cent on net profits for 10 years	Same	Not raised
Export incentive	8 per cent for foreign currency earners	Same	Not raised
Government contract reservation	Up to NPR 100 million for Nepali firms	Same	Not raised
Local work share on foreign led projects	30 per cent minimum	Same	Not raised
Double Taxation Avoidance Agreements	United States, United Kingdom, Australia	Same	Not raised
Personal income tax for IT professionals	Cap at 25 per cent	Not reported	Not raised
VAT policy and refunds	Clearer policy; streamlined refund process	Not reported	Not raised
Cross border digital payments	Not raised	Not raised	Multi stakeholder working group proposed
Membership base	Roughly 80 companies	Over 1,500 firms; roughly 50,000 professionals	Committee of FNCCI

[17]Nepalipatro / ICT Frame. (2026, May 26). Nepal global TechHub reforms: CAN Federation urges 1% corporate tax for IT. https://nepalipatro.com.np/share/news/e76f4245

Sources: as cited at footnotes 16, 17 and 19. Only the committee level submission places administrative friction ahead of tax rates.

Read against Section 3, this proposal is a useful gauge of the ambition versus friction gap the research question anticipated: neither association is asking MoICS to fix administrative friction as a first priority both are asking for incentive levels well beyond the 50 per cent export income exemption already enacted for FY2026/27. Whether the binding constraint on investment is really that tax rates remain too high, or whether as the refund and repatriation evidence in Sections 3 and 4 suggests the constraint is administrative unpredictability that a lower headline rate would not by itself resolve, is exactly the kind of question the planned KIIs with individual exporters (as distinct from their trade associations) should probe, since association level asks can diverge from what individual firms report experiencing operationally. Notably, the government's own June 2026 response welcomed the sweat equity and VAT refund automation elements of industry's asks specifically, while not adopting the 1 per cent / 10 year headline rate a signal that MoICS and the Ministry of Finance may already be making the same facilitation over rate cut judgment.[18]

On inclusion, it is worth flagging plainly that both NAS IT's and CAN Federation's proposals speak for their registered membership established, formally organized IT firms and are silent on the individual digital freelancers, informal exporters, and very early stage founders who make up a substantial share of Nepal's actual digital services exports but are not captured by a trade association built around firm membership. The 30 per cent local JV mandate and the NPR 100 million government contract reservation are also structured to benefit mid sized incumbents capable of bidding on public contracts, not the smallest exporters. A MoICS reform agenda drawing only on these two associations' asks risks under representing the informal and early stage segment this fellowship's problem statement was framed around, which argues for including at least one or two independent freelancer or early stage founder voices in the KII list rather than relying on trade association channels alone.

FNCCI's role has been more procedural than headline grabbing but is directly relevant to MoICS's coordination mandate. FNCCI's ICT Development Committee formally reviewed CAN Federation's E Commerce Directives 2082 policy recommendations in early 2026, and the recommendations submitted centered on structural friction rather than tax rates: the inability of Nepali digital businesses to process international payments efficiently because of foreign exchange restrictions, and a call for a multi stakeholder working group spanning MoICS, NRB, CAN Federation, CERT, and CSRI Nepal to build a phased, compliant framework for cross border digital payments. This is squarely within the coordination role the original proposal assigned to MoICS under RQ3, and suggests that a standing inter agency payments working group rather than a further tax concession may be the single highest leverage recommendation this research can put in front of the Ministry.[19]

[18]Everest Times. (2026, June). NAS IT hails establishment of IT sector as basis of economic transformation. https://www.everest times.com/2026/06/03/29807/

[19]Technology Khabar. (2026, January). CAN Federation submits E Commerce Directives 2082 policy recommendations to FNCCI ICT Development Committee. https://www.technologykhabar.com/2026/01/14/226916/

6. Investment Climate and Governance: The Asian Development Bank Perspective

The Asian Development Bank's new Country Partnership Strategy (CPS) for Nepal, covering 2025–2029 and unveiled in June 2025, commits up to USD 2.3 billion in concessional support (USD 1.91 billion in sovereign Asian Development Fund lending specifically earmarked for 2025–2028) around three priorities, the first of which is private sector led, employment intensive, green economic transformation. Under that priority, ADB has committed explicitly to improving the business climate, reducing the cost of doing business, and promoting private investment, including FDI, through streamlining Nepal's legal and regulatory frameworks. The same institutional target this report and the underlying fellowship proposal are aimed at, which positions MoICS's digital export reform agenda as something ADB's own strategy already has an appetite to support, including potentially through technical assistance.[20]

On the specific question of whether ADB frames private investment incentives and capacity building as competing or complementary levers, the CPS documentation and ADB's own commentary treat them as a combined package rather than as alternatives to weigh against each other: ADB describes its flexible approach as blending investment projects, policy based lending, and sector development programmes that combine reforms, capacity building, and infrastructure support together. Concretely, ADB has already begun piloting a merit based procurement evaluation system (prioritizing quality over lowest bid) on selected projects, is helping government agencies digitalize processes such as foreign investment clearance and environmental impact assessment, and is developing real time contract management and performance tracking tools with a pilot planned for 2026 capacity building work that is explicitly aimed at making Nepal's existing investment approval processes function better, rather than substituting for fiscal incentives.[21]

For MoICS, the practical implication is that a digital export reform package stands a better chance of attracting ADB co financing or technical assistance if it is framed the way ADB's own CPS is framed: as a combined package of a narrower, better targeted tax incentive (Sections 3 to 5) plus a digitalized, single window facilitation process for registration, refunds, and repatriation approval.

[20]Asian Development Bank. (2025, June 17). ADB launches new 5 year strategy for economic transformation in Nepal. https://www.adb.org/news/adb launches new 5 year strategy economic transformation nepal

[21]Fiscal Nepal. (2025, August 8). ADB's new CPS for Nepal targets climate resilience, job creation, SOE reform, and private sector growth. https://www.fiscalnepal.com/2025/08/08/21701/adbs new cps for nepal targets climate resilience job creation soe reform and private sector growth/

7. Analysis

The evidence assembled in Sections 3 through 6 points consistently toward a single conclusion: the binding constraint on investment in Nepal's digital exports is not the size of the fiscal incentive but the reliability with which that incentive can be obtained. On paper the package is substantial: the fiscal year 2025/26 budget waived seventy five percent of income tax on information technology service export revenue, exempted startups below one hundred million Nepalese rupees in turnover for five years, and offered a three percent concessional loan facility, while the fiscal year 2026/27 budget set a flat fifty percent export exemption and fully exempted sweat equity received by Nepali information technology professionals from foreign employers; Section 20 of the Foreign Investment and Technology Transfer Act 2019 guarantees repatriation of dividends, profits and capital, and that guarantee has never been in dispute. What the same sections document is the difficulty of converting these entitlements into cash: exporter value added tax refunds are statutorily due within thirty days yet are routinely carried into the following fiscal year under a government reserve heading, Inland Revenue Department officers themselves acknowledge that refunds are hard to execute, and contesting a rejected refund requires depositing a quarter of the disputed sum merely to trigger review, while every repatriation crosses two checkpoints tax compliance verification at the Inland Revenue Department and foreign exchange clearance at Nepal Rastra Bank whose valuation and documentation requirements were built around physical assets and sit awkwardly on firms whose value is intangible. Compounding this, the operative concession is not written into the Income Tax Act but set and reset through the annual Finance Act, a design that produced a twenty five percentage point swing for the same firms across consecutive budgets and that no increase in the rate would remedy. The pattern of reform has also favoured established firms over new entrants: Nepal Rastra Bank's Fifth Amendment of 30 December 2025 genuinely liberalized equity inflows and delegated routine repatriation approval to commercial banks under a fifteen working day standard, but conditioned its outward investment facility on three consecutive years of foreign currency export earnings, excluding by construction the early stage exporters this research was framed around the same segment absent from the membership of both trade associations whose pre budget submissions dominate the policy conversation. Those submissions converged on a one percent corporate tax rate held for ten years and an eight percent export incentive, yet neither placed administrative friction first, and the government's June 2026 response accepted the sweat equity and refund automation elements while declining the headline rate, revealing a preference for facilitation that the evidence supports and that FNCCI's Information and Communication Technology Development Committee, focused on cross border payment friction rather than tax rates, independently corroborates. Two constraints nonetheless cap what domestic reform can deliver: a single correspondent bank with a physical presence handling foreign transactions for Nepal Rastra Bank, and the Financial Action Task Force grey listing of March 2025.

8. Recommendations

These recommendations follow from the desk review and are calibrated to it. Where a recommendation depends on evidence the key informant interview round has not yet produced, that is stated. Sequencing reflects what the Ministry of Industries, Commerce and Supplies can convene or publish using existing authority, what requires legislative or inter agency machinery, and what requires treaty negotiation, institutional rebuilding, or resolution of constraints outside the sector.

Table 7. Recommendations at a glance

Horizon	Action	What it requires
Short term	Convene the cross border digital payments working group	Convening authority only; no budget, no legislation
Short term	Publish consolidated digital export tax guidance	An administrative act by the Ministry with the Inland Revenue Department
Short term	Publish a compliance baseline for the fifteen working day repatriation standard	Joint publication with Nepal Rastra Bank
Short term	Clarify the facility for firms without a three year export record	Published guidance from Nepal Rastra Bank
Short term	Convert refund automation acceptance into a dated timeline	A named delivery date and accountable agency
Mid term	Move the export concession into standing statute	Legislation; the rate itself remains a Ministry of Finance decision
Mid term	Build a single window facilitation process	Asian Development Bank technical assistance under the existing Country Partnership Strategy
Mid term	Create an entrant tier in the outward investment regime	Nepal Rastra Bank agreement
Mid term	Reform the refund dispute deposit	Amendment to the administrative review requirement
Mid term	Widen pre budget consultation beyond trade associations	A consultation channel reaching freelancers and early stage firms
Mid term	Agree a common definition of digital exports	Inter agency agreement across the Ministry, Nepal Rastra Bank and the Inland Revenue Department

Horizon	Action	What it requires
Long term	Reconcile the competing target architecture	Common baseline across Digital Nepal Framework 2.0 and the Information Technology Decade
Long term	Address correspondent banking and grey listing constraints	Ministry of Finance and Nepal Rastra Bank, on multi year timelines
Long term	Build the institutional ownership the 2019 framework lacked	A named owner, a budget line and staff
Long term	Pursue Double Taxation Avoidance Agreements	Treaty negotiation led by the Ministry of Finance
Long term	Shift evaluation from targets announced to entitlements accessed	New measurement of refund turnaround, approval times and take up

Each recommendation is expanded in the subsections below.

8.1 Short term: within the current fiscal year, using existing authority

1. Convene the cross border digital payments working group. CAN Federation has already proposed this to FNCCI's Information and Communication Technology Development Committee, with a membership spanning the Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank, CAN Federation, npCERT and CSRI Nepal. The proposal exists; what is missing is a convenor. The Ministry holds that mandate, and standing the group up requires no fiscal allocation and no legislative change. On the evidence in Sections 4 and 5, this is the highest leverage action available to the Ministry in the near term.

2. Publish consolidated digital export tax guidance. Section 3 establishes that a firm must currently reconcile the Income Tax Act base rate, the current year's Finance Act concession, and Inland Revenue Department administrative circulars, none of which is consolidated. A single published document reconciling these three, updated at each budget, is an administrative act. It does not change the law, and it removes a documented source of uncertainty.

3. Establish and publish a baseline for the fifteen working day repatriation standard. The Fifth Amendment set the standard in December 2025; no compliance data has been published. Without a baseline there is no way to determine whether delegation to A class commercial banks reduced turnaround or merely relocated the documentation burden to the bank stage. The Ministry should request and publish this jointly with Nepal Rastra Bank.

4. Clarify and publicise the facility available to firms without a three year export record. The entrant tier of the outward investment reform is materially smaller than the one million

United States Dollar facility and, on the evidence available, poorly understood. Clear published guidance costs nothing and partially addresses the exclusion identified in the analysis, pending the structural fix below.

5. Convert the June 2026 acceptance of value added tax refund automation into a published implementation timeline. The government has already welcomed this element of industry's asks. Naming a delivery date and an accountable agency is what distinguishes acceptance from implementation and, given the documented shortfall of the 2019 Digital Nepal Framework, the step whose absence has historically been the failure point.

8.2 Mid term: over the remainder of the Sixteenth Plan period

1. Migrate the digital export concession from the annual Finance Act into standing statute. This addresses the instrument problem directly. The specific rate is a fiscal decision for the Ministry of Finance; the recommendation here concerns durability, not level. A stable fifty percent carries more investment weight than a seventy five percent that may be halved at the next budget.
2. Build a single window facilitation process covering registration, refunds and repatriation approval. Section 6 establishes that the Asian Development Bank is already digitalising analogous processes including foreign investment clearance, and that its Country Partnership Strategy explicitly funds this class of work. The Ministry should approach the Bank for technical assistance on this basis rather than developing it unfunded.
3. Create an entrant tier in the outward investment and facilitation regime. The three year export earnings gate excludes precisely the segment this report is concerned with. Designing a proportionate pathway for firms without that record requires Nepal Rastra Bank agreement and should be a named agenda item for the working group above.
4. Reform the refund dispute mechanism. The requirement to deposit a quarter of the disputed amount to trigger administrative review is, on the evidence in Section 3, a working capital barrier falling hardest on the smallest exporters the firms least able to absorb a multi year delay and least able to fund a deposit to contest it.
5. Widen pre budget consultation beyond trade associations. Section 5 establishes that neither the Nepal Association for Software and IT Services Companies nor CAN Federation represents freelancers, informal exporters or pre registration founders. A consultation channel reaching them would change the composition of the asks the Ministry receives.
6. Agree a common definition of digital exports across the Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank, the Inland Revenue Department and industry. The report's own interview instrument identifies this as an open question. Targets, incentives and eligibility cannot be administered consistently against a term the responsible agencies define differently.

8.3 Long term: beyond the current plan period

1. Reconcile the competing target architecture. Digital Nepal Framework 2.0 carries a target of thirty billion Nepalese Rupees in information technology service exports over ten years with five hundred thousand direct and one million indirect jobs. The Information Technology Decade vision for 2081 to 2091 targets three trillion Nepalese Rupees in exports and 1.5 million jobs. Whether these measure the same thing on the same baseline is unresolved. Until it is, neither can function as an accountability instrument, because performance against one says nothing about performance against the other.

2. Address the correspondent banking and Financial Action Task Force constraints. Exiting the grey list and broadening correspondent banking relationships are Ministry of Finance and Nepal Rastra Bank matters on multi year timelines. The Ministry's role is to keep digital export sector impacts visible in that process, since Section 4 establishes that these constraints cap what any domestic reform can deliver.

3. Build the institutional ownership the 2019 framework lacked. The documented causes of that shortfall were weak institutional ownership, poor inter agency coordination, resource constraints and limited technical capacity. None is addressed by setting a new target. Each requires a named owner, a budget line and staff and their absence is the strongest evidence in this report that a further concession would not, by itself, change outcomes.

4. Pursue expansion of Double Taxation Avoidance Agreements. Both associations have asked for treaties with the United States, the United Kingdom and Australia. Treaty negotiation is inherently long horizon and sits with the Ministry of Finance, but industry demand for it is documented and consistent across both bodies.

5. Shift the sector's evaluation basis from targets met to entitlements accessed. The recurring finding across this report is that Nepal's stated commitments have outrun its delivery. Measuring refund turnaround, repatriation approval times, and the share of eligible firms actually claiming concessions would tell the Ministry something its current target architecture does not.

9. Conclusion

The question this research was commissioned to answer was how Nepal's tax and repatriation regime could better attract investment into digital exports. The desk review's most useful contribution is to show that the question, as commonly posed, is aimed slightly off target.

Nepal has not been reluctant to offer incentives. Over two budget cycles it has waived most tax on information technology export income, exempted startups for five years, exempted sweat equity, guaranteed repatriation in statute, dismantled prior approval requirements on equity inflows, delegated repatriation clearance to commercial banks under a fixed deadline, and opened a route for information technology firms to invest and establish offices abroad. Measured by policy output, this is an active reform agenda, not a passive one.

What the evidence does not show is that these commitments reliably reach the firms they were written for. A refund statutorily due in thirty days but carried into the next fiscal year is not a refund. A repatriation right that is legally unconditional but crosses two documentation checkpoints designed around physical assets is not frictionless for a business whose assets are intangible. A concession that changes by twenty five percentage points between budgets is not something a founder can plan against. The distance between what Nepal has legislated and what a digital exporter experiences runs through every section of this report, and it is a distance no increase in the headline rate would close.

That distance also explains why the loudest policy demand and the most promising policy response are not the same thing. Industry has asked for a lower rate held longer. The government's own June 2026 response reached instead for refund automation and a targeted talent exemption. On the evidence assembled here, the government's instinct is the better supported one and it is also the one the Asian Development Bank's existing programme is positioned to fund.

10. Annex A: Key Informant Interview Questionnaire

A.1 Nepal Rastra Bank (Foreign Exchange Management Department / Foreign Investment Division)

1. Since the Fifth Amendment to the Foreign Loan and Investment Management Bylaws (30 December 2025) delegated routine repatriation approvals to A class commercial banks, do you have data yet on average approval turnaround time, and how does it compare to the pre amendment baseline?
2. How is NRB monitoring or auditing commercial banks' compliance with the 15 working day approval window? What happens if a bank misses it?
3. For IT companies applying for the USD 1 million / 50% of three year export earnings outward investment facility: what is the single most common reason an application is delayed or rejected?
4. Is there any facilitation pathway for IT exporters who do not yet have three years of export earnings, beyond the flat USD 20,000 allowance?
5. How is NRB coordinating with the Inland Revenue Department to avoid a digital exporter's repatriation being held up by an unrelated tax compliance question?
6. Given Nepal's FATF grey listing and reliance on a single correspondent bank (Standard Chartered) for foreign transactions, what contingency exists if correspondent banking relationships come under further pressure?
7. What has been the practical effect, if any, of the FNCCI/CAN Federation proposal for a multi stakeholder working group on cross border digital payments? Has NRB been approached about this?
8. What single regulatory change would most reduce friction for digital exporters specifically, as distinct from FDI or trade generally?

A.2 Policymakers (MoICS, Department of Industry, National Planning Commission, Ministry of Finance)

1. How does MoICS currently define 'digital exports' for policy purposes does this match how NAS IT, CAN Federation, or NRB define the same term?
2. Which of the tax and repatriation frictions raised by industry (VAT refund delays, three year export earnings requirement, layered documentation) fall within MoICS's own authority to fix, versus requiring NRB, IRD, or Ministry of Finance sign off?
3. Is there an existing or planned inter agency coordination mechanism (working group, MoU, joint committee) specifically for digital export policy, distinct from general FDI facilitation?
4. How does the Rs 30 billion (10 year) Digital Nepal Framework 2.0 export target relate to the Rs 3 trillion IT Decade Vision target are these the same baseline, or do they measure different things?

5. What lessons has MoICS drawn from the original 2019 Digital Nepal Framework's implementation shortfalls, and what is concretely different this time in terms of ownership and resourcing?
6. Has MoICS evaluated NAS IT's and CAN Federation's proposed 1% corporate tax / 10 year holiday and 8% export incentive? What is the Ministry's position, and what would change that position?
7. Has MoICS engaged ADB, World Bank, or other development partners specifically on digital export facilitation (as distinct from general private sector development)?
8. What would MoICS consider a realistic, fundable reform to prioritize within the next 12 months, given current fiscal space and inter agency capacity?

A.3 Private Sector Associations (NAS IT, CAN Federation, FNCCI ICT Development Committee)

1. What data or costing underlies the specific 1% corporate tax rate and 8% export incentive figures in your pre budget recommendations? Is there a published or internal revenue impact estimate?
2. Roughly what share of Nepal's total IT/digital services exporters formal and informal does your membership represent?
3. Beyond tax rates, what are the top two or three operational frictions your members report most often: VAT refund delays, repatriation documentation, banking access, something else?
4. How would your members prioritize between a headline tax rate cut versus a faster, more predictable administrative process (registration, refunds, repatriation) if you had to choose one for the next budget?
5. What is the status of the proposed MoICS–NRB–CAN Federation–npCERT–CSRI Nepal working group on cross border digital payments?
6. How does your organization engage with, or represent, informal digital freelancers and very early stage founders who are not formal dues paying members?
7. Which regional competitor (India, Bangladesh, Vietnam, Philippines) do your members most often cite as a benchmark, and what specifically about that country's regime do they point to?

A.4 Corporate Lawyers (advising foreign invested and outbound Nepali IT firms)

1. Walk me through a recent client's repatriation process end to end where did the documentation burden or delay actually occur, and at which agency?
2. How burdensome, in practice, is establishing IP or intangible asset valuation for a digital business seeking DOI/IBN or NRB approval, compared to a manufacturing or asset heavy client?

3. Since the Fifth Amendment removed prior NRB approval for foreign equity inflows, has client side transaction time actually shortened, or has the documentation simply shifted to the bank stage?
4. For clients using the new outward investment facility (USD 1 million / branch office abroad), what is the most common structuring or compliance obstacle you see?
5. Have you advised any clients who structured operations through India specifically to avoid Nepal's double taxation exposure? What drove that decision?
6. What single legal or regulatory clarification would most reduce your clients' transaction costs?

A.5 Tax Lawyers and Tax Professionals

1. In practice, how long does a VAT or income tax refund take for an IT exporter client, from filing to funds received? How does this compare to the statutory 30 day timeline for exporters?
2. Is delayed refund treated by clients as a cash flow problem they plan around, or as a deterrent to claiming the refund at all?
3. How well do clients understand the current stack of incentives (50% income tax exemption, 5 year startup holiday, sweat equity exemption) is the more common problem eligibility, awareness, or documentation?
4. Do you see meaningful year to year uncertainty for clients because incentive levels are set through the annual Finance Act rather than a standing statute? Has any client delayed an investment decision for this reason?
5. What is your view on NAS IT's and CAN Federation's proposed 1% corporate tax rate is it fiscally realistic, and what would you expect the government's counter position to be?
6. What is the most common reason a refund or exemption claim gets rejected or disputed, and what does the appeal process actually look like for a client who pursues it?

A.6 Foreign and Diaspora Investors

1. What made you choose Nepal over other jurisdictions (or what almost stopped you)?
2. At the point of deciding to invest, how clear was it to you what tax incentives you would actually be eligible for, and for how long?
3. Have you attempted to repatriate profits, dividends, or capital yet? If so, what was that process like in practice, start to finish?
4. If you had to choose between a lower headline tax rate and a faster, more predictable administrative process, which would move your investment decision more, and why?
5. Did FITTA's Section 20 repatriation guarantee give you confidence at the time of investing, or did you discount it given the layered approval process?
6. What single change would most increase your willingness to invest further in Nepal's digital export sector?

A.7 Startups and Early Stage Digital Exporters

1. Are you currently claiming the tax incentives you are formally eligible for (startup holiday, export income exemption)? If not, why not?
2. Have you tried to claim a VAT or tax refund? What happened?
3. Do you meet the three year export earnings threshold for NRB's outward investment facility? If not, does that lockout affect your growth plans?
4. How do you currently receive foreign currency payments from clients through a bank, a payment platform, informally and what frictions do you face in that channel specifically?
5. Are you a member of NAS IT, CAN Federation, or any other trade association? If not, why not, and do you feel their advocacy reflects your situation?
6. What is the single biggest reason you would consider registering a business entity abroad instead of, or in addition to, operating from Nepal?
7. What would MoICS or NRB do realistically, within a year that would make the biggest difference to your business?

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