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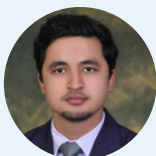


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Key Budget Highlights Every Startup Entrepreneur Should Know for Fiscal Year 2081/82 (2024/25)

1. Overview

Over the past decade, the Nepalese government has shown consistent support for Startups through its annual budgets and plans, leading to a significant expansion in the sector. However, despite these efforts, Nepal has yet to fully establish an environment conducive to nurturing innovative minds that can elevate the country's economy.

The Global Innovation Index (GII), published by the World Intellectual Property Organization (WIPO), reveals the most innovative economies in the world, ranking the innovation performance of around 132 economies while highlighting innovation strengths and weaknesses. In 2023, the GI, ranked Nepal 106th out of 132 economies for innovation inputs and 103rd for innovation outputs, placing the country overall between 103rd and 110th. These rankings indicate that, despite the Nepal government's efforts to foster innovation, inefficiencies in implementation are hindering the growth of the startup ecosystem in Nepal.

Globally, countries like Switzerland, Sweden, and the United States, consistently rank at the top of the Global Innovation Index (GII) due to their strong ecosystems that support research and development, robust educational institutions, and effective intellectual property laws. In the Asia-Pacific region, countries like Singapore and South Korea have created highly conducive environments for startups through government support, access to funding, and a focus on technology and innovation. To align with these trends and improve its ranking, Nepal should enhance its policies and infrastructure for startups, including clearer definitions, simplified funding procedures, and effective policy implementation. This will help create a more vibrant and competitive entrepreneurial landscape. Nevertheless, the Budget 2081/82 (2024/25) seems promising and supportive to build the Startup ecosystem strong.

2. Initiatives Undertaken By The Government Of Nepal

2.1 Financing Initiatives of the Startups

2.1.1 The Government of Nepal first envisioned the creation of a Fund to support Startups with concessional loan facilities, as part of its 15th five-year plan, covering fiscal years 2076/77 to 2080/81) (2019/2020 to 2023/2024). The initiative aimed to bolster entrepreneurial ventures across the country by providing financial support tailored to the unique needs of startups. This ambitious plan was set into motion in the fiscal year 2076/77 (2019/20), with an annual budget allocation of One Billion Nepalese Rupees dedicated to providing concessional loans based on the merits of startup projects. Recognizing the critical role of early-stage funding, the government maintained its commitment in subsequent budgets, earmarking Fifty Crore Nepalese Rupees as seed capital specifically for startups.

2.1.2 In addition, the government announced the establishment of a 'Challenge fund' worth One Billion Nepalese Rupees, a commendable initiative by the government aimed at providing financial support to the innovative projects. This fund seeks to provide financial support to innovative projects, to address significant gap in the financial ecosystem: the lack of collateral-free loan options for new businesses from traditional banks and financial institutions.

2.1.3 Further efforts were made to secure capital through venture capital funds and the establishment of business incubation centers across all provinces. Notably, in the fiscal year 2079/80 (2022/23), the government announced the establishment of the Kathmandu Incubation Centre and introduced incentives for Private Equity and Venture Capital (PEVC) to encourage investment in startups, aiming to build a robust entrepreneurial ecosystem. To support these initiatives, the government allocated a total of One Billion Nepalese Rupees for startups in the same fiscal year.

2.1.4 The loan facility was officially launched on Jestha 25, 2081 (June 7, 2024) by the Industrial Enterprise Development Institute (IEDI), an autonomous government entity. This followed an earlier notice on Magh 15, 2080 (January 29, 2024), which invited applications for the concessional loan and received 1,158 submissions. A total of 394 enterprises met the required criteria and were invited by IEDI to pitch their proposals. Subsequently, on Jestha 25, 2081 (June 7, 2024), a notice was issued listing the shortlisted candidates. After the pitch a total of 183 enterprises were ultimately selected, and the loans were disbursed accordingly. More recently, on Bhadra 11, 2081 (August 27, 2024), IEDI issued another notice inviting interested startups to submit their project proposals, for second round of loan disbursement, marking the next phase in the government's efforts to support innovative startups that face challenges in accessing traditional funding.

2.2 One Window Policy

Another critical aspect for startups is the administrative process of setting up a company. To address this, the government announced several key measures in the fiscal year 2078/79 (2021/22) budget speech to facilitate startups. Some key announcements included the introduction of a 'One-Window Policy' to streamline the registration and renewal process for startups, policy-level facilitation for foreign direct investment.

2.3 Definition of Startup

2.3.1 The Startup Enterprise Loan Scheme Procedure, 2079 (2022), approved on February 22, 2023 (10 Falgun 2079 B.S.), for the first time defines a startup as "any enterprise or business driven by novel innovation and creative ideas, managed by an entrepreneurial group, focused on the development, production, operation, and distribution of goods, services, or processes with high potential for scale up." The same definition is reiterated in the Startup Enterprise Loan Scheme Procedure, 2080 and 2081. However, Startup Enterprise Loan Scheme Procedure, 2081 (2024) provides additional definition of startup businesses as enterprise with the use of information technology and creative ideas. However, this broad definition lacks specificity, particularly regarding terms like "novel innovation" and "creative ideas."

2.3.2 The Startup Enterprise Loan Scheme Procedure, 2081 (2024) excludes following entities from the definition of startup enterprises for loan disbursement purposes:

- a. if the enterprise has not been legally registered in Nepal;
- b. if the enterprise is simply importing goods and services from abroad;
- c. if the enterprise has been blacklisted in the Credit Information Bureau;
- d. if the enterprise has been registered as a holding and investment company under the Industrial Enterprise Act, 2076 (2018).

2.3.3 Further, the Startup Enterprise Loan Scheme Procedure, 2081 (2024) set forths minimum standards that a startup business must meet to qualify for loan,

- a. must be less than ten years from the date of incorporation;
- b. must be a private firm, partnership, company or cooperative registered as an industry;
- c. have an annual turnover not exceeding fifteen (15) crores;
- d. must not be merged with existing enterprise or created through spinoff
- e. must have high potential to scale up by converting innovative and creative ideas.

2.3.4 The recent amendment in Industrial Enterprises Act, 2076 (2020) ("IEA"), dated 28 April 2024 (16 Baisakh 2081 B.S.), finally recognizes startups and has established a clear guidelines for their registration, operation, and promotion. The IEA outlines specific criteria for ventures to qualify as startups:

- a. must be registered as a new company, private firm, or partnership,
- b. must utilize innovation and technology in the production of goods or services,
- c. must demonstrate potential for rapid growth,
- d. must be less than ten years from the date of incorporation,
- e. must have an annual turnover not exceeding fifteen (15) crores.

2.4 Startup Policy 2080 (2023)

2.4.1 The Startup Policy 2080 ("Policy") aims to create a supportive environment for startups by providing a clear legal framework for their establishment, growth, and sustainability. With a focus on enhancing production and creating employment opportunities through entrepreneurial development, the Policy aims to propel Nepal's economy forward. The core focus of Policy are as follows;

- (i) driving production growth by supporting startup ecosystem that generate employment and contribute to the local economy,
- (ii) promoting the establishment and operation of startups through both local and foreign investment,
- (iii) encouraging partnerships that drive entrepreneurship development through innovation,
- (iv) offering financial concessions and improving access to finance for startups, ensuring that promising ventures have the resources to thrive.

2.4.2 A part of its strategic approach, the policy proposes the establishment of Nepal Startup Council, chaired by the Ministry of Industry, Commerce and Supplies, and formation of Startup Board led by CEO of Industrial Enterprise Development Institute. These institutions will play a key role in driving the growth of the startup ecosystem in Nepal.

2.4.3 The Policy envisages following criteria to qualify as a startup enterprise,

- a. must be less than ten years from the date of incorporation;
- b. must be a private firm, partnership, company or cooperative registered as an industry;
- c. must have an annual turnover not exceeding fifteen (15) crores;
- d. must not be merged with existing enterprise or created through spinoff;
- e. must be able to demonstrate high potential for scaling up by converting innovative and creative ideas into business enterprises.

2.4.4 The Startup Policy 2080 marks a significant milestone in fostering a conducive environment for startups, offering a robust framework that encourages innovation, investment, and collaboration. By addressing key areas such as financial access, entrepreneurial development, and sustainable growth, the policy aims to transform Nepal's startup ecosystem into a vibrant and competitive landscape. With this initiative, Nepal is positioning itself as a hub for innovative businesses, empowering entrepreneurs to drive economic growth and create meaningful employment opportunities. In line with this vision, the Budget 2081/82 (2023/24) has introduced several measures aimed at further strengthening the startup ecosystem.

3. Startup Related Matters Proposed By The Budget 2081/2082

3.1 For the fiscal year 2081/82 (2024/2025), the government has allocated Nepalese Rupees One billion towards a Startup Fund and announced plans to establish incubation centers in each province to support startups. The budget encourages local banks and financial institutions to extend loans to startups based on project collateral. To promote women entrepreneurship, the government has made provisions for the development of exhibition halls in Chobar, Kathmandu through public-private partnerships, alongside the promotion of a trade portal for branding women-made products, and establishment of a souvenir house for their sale.

3.2 Additionally, the Finance Act, 2081 (2024) has amended Section 57 of the Income Tax Act, 2058 (2002) to exempt startups from the change in control provision when new shareholders or partners are added without altering the existing shareholding structure or capital.

While the government has undertaken notable initiatives to support startups, further efforts are required to streamline laws and regulations, facilitating the entry, operation, and exit of startups from the market.

4. Way Forward

To cultivate a dynamic startup ecosystem, in Nepal, it is essential to address and streamline all stages of the business lifecycle – from transformation of innovative ideas to market entry, operation, and eventual exit. Enhancing the ecosystem requires simplifying the business establishment process, facilitating clear pathways for funding and investment, providing strong legal protections for intellectual property, and creating flexible and efficient exit strategies. By addressing following key issues will foster a more conducive environment for startups to thrive and drive innovation.

i. Streamline Startup Definition: Before the enactment of the Startup Enterprise Loan Scheme Procedure, 2079/80, (2022/23) Startup Policy, and the latest amendment on Industrial Enterprises Act, there was no exclusive legal definition or criteria for understanding the startup business in Nepal. While the current legal framework provides basic criteria, it remains insufficient to distinguish truly innovative or creative or scalable startup ventures. This ambiguity makes it difficult to assess which businesses qualify as startups. Clearer parameters are necessary to avoid confusion and ensure accurate identification and support for genuine startups.

ii. Registration Fee Waiver: Currently, companies in Nepal must pay company registration fees at the office of Company Registrar based on their authorized capital. For instance, a company with capital of One Crore Nepalese Rupees shall have to pay Sixteen Thousand Nepalese Rupees as company registration fee. The Government of Nepal temporarily waived these fees for fiscal year 2080/81 (2023/2024), providing financial relief to investors. However, this waiver was not extended in the fiscal year 2081/82 (2024/2025). Reintroducing the registration fee waiver for startups would provide vital support and help foster the growth of Nepal's startup ecosystem.

iii. Tax Holidays for Startups: The Finance Act, 2080 (2023) introduced first five years tax holidays for startup with annual turnover up to ten million Nepalese Rupees, focusing on innovation and technology. However, the Inland Revenue Department (IRD) has yet to define the criteria for availing this benefit. It is crucial to establish clear and flexible criteria for startups to avail themselves of this tax exemption. An important issue addressed by the Budget Speech, followed by an amendment proposed in Finance bill 2081 (2024), pertains to the 'Change in Control'. For more information on this please click on:

- pioneerlaw.com/resource/a-commentary-on-the-budget-speech-24-25
- [what-to-expect-from-nepals-2024-25-budget-and-finance-bill-a-tax-law-analysis](#) .

iv. Foreign Investment Threshold: The existing foreign investment laws require revision to better accommodate investments in startups, including those from Non-Resident Nepalese (NRNs). Amendments should allow foreign investments in startups without any thresholds and introduce an automatic approval process, regardless of the sector. Currently, the minimum foreign investment threshold is two crore Nepalese Rupees, except in the Information Technology (IT) sector, where this requirement has been lifted. Extending this exemption to startups would help bridge funding gaps and foster growth in the startup ecosystem.

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v. Flexibility in the Compliance Requirement: As per Social Security Act 2017 (2074), all business enterprises, irrespective of the headcount of employees, must register with Social Security Fund (SSF), except independent consultants. The obligation to enlist itself and its employee lies on employer. Therefore, in the event of default, the employer will be held liable. In this context, SSF may require such employer to

- (a) immediately enlist with SSF along with employee,
- (b) deposit contribution along with ten percent interest
- (c) pay the benefits to the outgoing employee of such amount that the employee would be eligible had he/she been enrolled with SSF. To provide relief for startup business, Government of Nepal could consider waiving compulsory SSF enlistment for first ten years from the date of a startup's establishment. For more details on SSF, refer to this link; <https://pioneerlaw.com/resource/50-queries-answered-social-security-fund/>.

vi. Exit from the Startup: To support the growth and sustainability of startups, it is essential to introduce flexible exit strategies. Current regulations often make it challenging for startups to close or transfer ownership smoothly. Simplified exit procedures, such as fast-track liquidation, simplified mergers, or acquisitions, would allow founders to pivot or wind down their businesses without excessive legal or financial burdens. Introducing these measures would promote innovation by reducing the risks associated with startup failure.

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