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SIMPLIFYING BUSINESS



STARTUP BUSINESS FUND PROCEDURE IN NEPAL

ANALYSIS OF FUND MANAGEMENT PROCEDURE OF 2079
TARGETED AT STARTUPS

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STARTUP BUSINESS FUND PROCEDURE IN NEPAL

Startup Enterprise Fund Procedure, 2079 (2023) (the "**Procedure**"), which was approved on **10 Falgun 2079 (22 February 2023)** aims to facilitate the process of granting concessional loans, making it simple, transparent, and effective. The goal is to encourage aspiring entrepreneurs equipped with the latest knowledge, innovative thinking, skills, and abilities to participate in dynamic startup enterprises.

1. DEFINITION OF A STARTUP ENTERPRISE:

- 1.1. The Government of Nepal (the "**GoN**") defines a startup enterprise as any business or venture that operates with novel innovation and creative ideas by an entrepreneurial group. Such enterprises are engaged in developing, producing, operating, and distributing goods, services, or processes that have the potential for significant progress.

2. ELIGIBLE SECTORS FOR STARTUP INDUSTRIES:

- 2.1. Agriculture and poultry-based ventures
- 2.2. Forest-based enterprises dealing with herbs and forestry products
- 2.3. Tourism promotion, entertainment, and hospitality-related businesses

- 2.4. Science, technology, information, and communication technology-based ventures
- 2.5. Human health services-related enterprises
- 2.6. Education and educational institutions-related businesses
- 2.7. Accessible and safe travel and transportation-related ventures
- 2.8. Infrastructure construction-related enterprises
- 2.9. Automobile-related businesses
- 2.10. Initiatives aimed at improving traditional technology, production methods, and services
- 2.11. Mines and mining research and development-related businesses
- 2.12. Enterprises focused on facilitating domestic and daily affairs, ensuring ease, convenience, and safety
- 2.13. Food production and processing-based ventures
- 2.14. Initiatives related to waste management and environmental conservation

3. CRITERIA FOR APPLYING TO THE STARTUP ENTERPRISE FUND SCHEME, 2079:

- 3.1. Registered and in operation for no more than 7 years before the publication of the Procedure.

- 3.2. Fulfil at least 3 out of the following criteria 3.2.1 to 3.2.4, and 2 out of the following criteria 3.2.5 to 3.2.7:
- 3.2.1. Paid-up Capital: Paid-up capital not exceeding NPR 5 million (NPR 50 lakhs).
 - 3.2.2. Gross Income: Gross income not exceeding NPR 5 million (NPR 50 lakhs).
 - 3.2.3. Fixed Capital: Fixed capital (excluding land and building) not exceeding NPR 20 million (NPR 2 crore).
 - 3.2.4. Employment: Employing no more than 10 full-time employees.
 - 3.2.5. Use of Information Technology: Utilising information technology and innovation to address consumer needs.
 - 3.2.6. Allocation of Expenditure: Allocating at least 5% of total expenditure for product development, market research, and development.
 - 3.2.7. Intellectual Property Protection: Possessing registered intellectual property such as patents, designs, or software, or being eligible for registration.

4. OBLIGATIONS OF THE ENTREPRENEUR:

- 4.1. Use the loan amount solely for the purpose mentioned in the project.

- 4.2. Repay the instalment amount, along with the principal and interest of the loan, as per the agreement.
- 4.3. Provide necessary information and data during monitoring conducted by the committee and the bank.
- 4.4. Submit an annual progress report of the startup entrepreneurship to the committee secretariat and lending bank.
- 4.5. Display a board at the project site with the words "Government of Nepal's Subsidized Loan Facilities" for public awareness.
- 4.6. Comply with instructions given by the committee and the bank.

5. CONDITIONS UNDER WHICH STARTUP ENTERPRISES WILL NOT QUALIFY FOR THE LOAN:

- 5.1. Certain conditions may disqualify a startup enterprise from obtaining the loan:
 - 5.1.1. The enterprise is not legally registered in Nepal.
 - 5.1.2. The enterprise solely imports goods and services from abroad without utilizing local technology and innovation.
 - 5.1.3. The enterprise is a subsidiary company/firm of an existing business.

- 5.1.4. The enterprise or entrepreneur is blacklisted in the Credit Information Bureau.
- 5.1.5. The enterprise has not obtained a Permanent Account Number ("**PAN**") for taxation purposes.
- 5.1.6. The enterprise is classified as a medium-large holding company under the **Industrial Enterprises Act, 2076 (2020)** ("**IEA**").
- 5.1.7. The enterprise has been banned for other reasons under existing laws.

6. AMOUNT CHARGEABLE BY THE BANK FOR RECEIVING THE LOAN, THE FOLLOWING PROVISIONS APPLY:

- 6.1. The bank providing the concessional loan, based on the agreement between the entrepreneur and the bank, may charge an administrative/service tax at a maximum rate of 0.1% upon providing the concessional loan.
- 6.2. Additionally, the entrepreneur shall be entitled to receive a reward of 0.5% of the instalment amount from the principal amount.

7. LOAN PAYMENT DURATION:

- 7.1. The entrepreneur who has obtained the concessional loan in accordance with this Procedure must repay the principal amount and interest as per the terms of the payment agreement. However, should the entrepreneur wish to repay the debt before the agreed-upon time period, they may do so, and no excessive charges will be imposed.
- 7.2. If an entrepreneur fails to clear the loan principal and interest, they will be subject to default in accordance with the prevailing law, and the outstanding amount will be collected as a government loan.

8. SECURITY MEASURES FOR THE LOAN:

- 8.1. The bank will secure the loan in one of the following ways:
 - 8.1.1. Keeping the approved project as collateral to provide the concessional loan.
 - 8.1.2. Securing the loan with the Deposit and Credit Guarantee Fund, as prescribed by the prevailing law for providing loans under this procedure, and depositing the required fee while securing the loan.
 - 8.1.3. Alternatively, the bank may request the Deposit and Credit Guarantee Fund to

secure the loan on its behalf from the Nepal Rastra Bank ("NRB").

9. EVALUATION AND RECOMMENDATION PROCESS FOR PROPOSED PROJECTS:

- 9.1. The Executive Committee, or a sub-committee formed, will evaluate project proposals submitted through electronic means (as detailed under Schedule 1).
- 9.2. The loan concession request may be subject to multiple sub-committees depending on the proposed project's area.
- 9.3. The proposed project's sector expert, entrepreneurship expert, assigned bank for loan disbursement, and other members representing private industry professionals may be invited during the formation of sub-committees.
- 9.4. Evaluation will be based on criteria mentioned in Schedule 2, including innovative work, employment creation, market demand, labour and raw material sources, qualifications of the proposer, expansion potential, risk analysis, and other relevant discussions.

10. EVALUATION PROCESS AND DETAILS:

- 10.1. The subcommittee will submit the evaluated project report, along with the received amount,

to the Executive Committee.

- 10.2. The Executive Committee will prepare an integrated assessment report and select the best project proposal for recommendation.
- 10.3. If the amount required for the proposed project is less than the requested loan concession amount, the proposer may receive a lower loan based on justification.
- 10.4. Within 30 days of project submission, the selected proposals will be recommended for loan concession.
- 10.5. The Department of Industries ("**DOI**") will publish project details, accepted budget, and priority parameters on their website.
- 10.6. DOI will inform NRB about the selected proposer for loan concession.
- 10.7. NRB will immediately inform the granting bank about the recommendation and explanation for loan availability.
- 10.8. The selected proposer must contact the relevant bank regarding their loan concession selection; otherwise, the proposal will get automatically cancelled.
Cancelled proposals will be replaced with other high-scoring projects based on the integrated assessment report.

KEY CONTACTS

If you have any questions or would like to know how this might affect your business, get in touch with these key contacts



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