Nepal Trade Integration Strategy 2010

Executive Summary and Action Matrix

Government of Nepal
Ministry of Commerce and Supplies

Kathmandu
2010

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The Prime Minister

KATHMANDU
NEPAL

June 15, 2010

MESSAGE

The historic political changes triggered by the People's Movement in 2006 has ushered the country into a new paradigm of political, social and economic landscapes. In this backdrop, the country has aspired a justifiable peace-dividend of the ongoing peace process to the common people. Achieving inclusive economic growth has remained the priority agenda in the development paradigm of Nepal which could be achieved through the development of export sector to a larger extent.

Nepal, with a variety of agro-climatic conditions, rich natural resources, and ancient cultural heritage, possesses huge export potentials of goods and services. These export potentials should be optimally harnessed for increasing the welfare of the people. Yet, due to weak linkages of trade with other sectors, Nepal's economic liberalization and accession to the WTO and regional trading blocs has largely remained under-utilized.

Now, this is high time to accord due priority to export business for achieving inclusive economic growth. The Government is committed to pursue pragmatic and outward looking policies that will provide impetus for advancing the trade development agenda. Mainstreaming of trade into the national development program is a key concern and requires a strong coordination mechanism. I understand that Nepal Trade Integration Strategy (NTIS) 2010 provides such a framework for the development of trade. The Government of Nepal shall adopt the recommended actions of NTIS into forth coming national development plans.

We look forward to the support and active engagement of our development partners in the promotion of Nepal's trade sector. I believe that such a collaborative effort will help us in building a 'New Nepal' that envisions shared prosperity and well being of all Nepalese citizens.

MKNepal

(Madhav Kumar Nepal)

Hon'ble Rajendra Mahto
Minister
Commerce and Supplies

Government of Nepal
Ministry of Commerce & Supplies
Singha Durbar, Kathmandu, Nepal

Phone: Office: 4211602
Res: 4470839
Fax: 977-1-4211602

Message from
The Hon'ble Minister for Commerce and Supplies

It is increasingly being realized that the trade sector can play an effective role in achieving sustainable and inclusive economic growth. It can successfully transform a traditional agrarian economy such as ours into a modern economy. The trade sector could be an agent of economic transformation in Nepal by following a dynamic trade policy. But it cannot be achieved in a vacuum. Rather, it should be supported by various enabling factors, including transit and transport infrastructure, a development-friendly investment climate, introduction of new technology in production, enhancement of productive capacities, and, last but not least, effective mobilization of overseas development assistance for advancing the trade development agenda.

Nepal Trade Integration Strategy (NTIS) 2010 has been prepared at a time when the trade and economic situation of the country portrays a bleak picture and there is need for addressing the key issues on the way of trade development. The NTIS 2010 indicates the priority actions of the Government of Nepal (GoN) in order to expand Nepal's trade, particularly export business. It highlights the relationships between the agencies concerned and tries to establish sectoral linkages to make the trade sector more competitive. It also identifies and suggests several ways and means to address the constraints faced by Nepal in harnessing benefits from the world trading system. No doubt, successful implementation of these recommendations will substantially contribute to our overall national development goals. However, this demands sizable resources, which the GoN alone cannot afford, and, in the future, we need to follow a partnership approach with the private sector and our development partners to achieve the intended objectives.

We look forward to very active participation of all stakeholders concerned, especially from our development partners, for the successful implementation of the NTIS 2010. The GoN is fully committed to implementing the NTIS 2010. Finally, on behalf the GoN, I invite all national and international partners to join hands in this initiative and make it a great success.

June 6, 2010

(Rajendra Mahto)

Government of Nepal
Ministry of Commerce And Supplies

SINGHA DURBAR
KATHMANDU, NEPAL

Foreword

Poverty alleviation and improvement in the living standard of people have remained prime agendas in the national development plans of Nepal since they were first launched in 1956. The development focus in the changing political and social settings relies on sustained and inclusive growth with wider participation of people from all segments of society. Export orientation of various sectors is very important to drive the economy to export-led growth and reach out to the rural population for sharing the benefits of trade. Recognizing the role of trade in economic growth, the Government of Nepal (GoN) brought out a new trade policy in 2009, which aims at making export trade competitive, pursuing, among others, the measures of product development, export promotion, and trade facilitation.

Nepal's exports growth remained below satisfactory level last decade despite continued efforts to harness benefits from the regional and multilateral trading systems. Major exportable items have witnessed sharp decline, thereby steadily raising the trade deficit. Political instability and continued conflict further eroded Nepal's export performance during the period. A silver lining in the deteriorated export performances can be traced in the ongoing peace and constitution-building process, which has unlocked prospects for building of New Nepal. However, to make it happen, the trade sector should get high priority on the country's development agenda. Hence, addressing the 'supply-side constraints' is imperative for achieving the desired economic growth through export orientation.

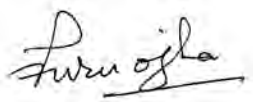
It is pertinent to note that the study undertaken for developing Nepal Trade Integration Strategy (NTIS) will create a base for the removal of the constraints and seize the opportunities of trade liberalization and integration of the Nepalese economy at regional and multilateral level. The NTIS 2010 is a follow-up to the earlier Nepal Trade and Competitiveness Study 2004, as substantial changes are taking place in the international trading regimes and the country has faced new challenges to streamline its trading practices. The accession of Nepal to the multilateral and regional trading systems during the mid 2000s has necessitated profound transformation of the trade sector in order to benefit from integration of the Nepalese trade and economy. The study charts out a course of action for the development of the country's export sector over the next three to five years, continued with capacity development actions and selected short- to medium-term priorities that are supportive of 'inclusive growth'.

I would like to thank the various institutions that put their sincere efforts to bring out this strategic document. The United Nations Development Programme, the Government of Finland, the UK's Department for International Development, the International Finance Corporation, and the International Trade Centre deserve special appreciation for their financial and substantive support in the preparation of the NTIS 2010. The private sector organizations and academia also deserve special appreciation for their support and feedback during the preparation of this strategy.

I am also thankful to all NTIS contributors and all the officials of the GoN who were involved in its preparation. Finally, I appreciate the hard work of my colleagues in this initiative, particularly Mr. Chandra Kumar Ghimire, Joint Secretary, Mr. Jib Raj Koirala, Under Secretary, Mr. Hemlal Devkota, Section Officer, MoCS, and Mr. Shiv Raj Bhatt, National Programme Manager of the Enhancing Nepal's Trade Related Capacity (ENTReC) Programme.

The GoN expects active participation of development partners, private sector organizations, and other stakeholders in the implementation of this strategy.

June 2010



(Purushottam Ojha)
Secretary

Table of Contents

Message from the Rt Hon'ble Prime Minister iii

Message from the Hon'ble Minister for Commerce and Supplies iv

Foreword v

Abbreviations and Acronyms viii

EIF National Steering Committee ix

Agencies and Individuals Consulted ix

Contributors x

Introduction 1

Four Capacity Development Objectives 2

Capacity Development Actions and Proposed Short- to Medium-term Priorities 4

Background. The 2000s: A decade of change 6

Expanding an 'Inclusive' Export Base: 19 export potentials 9

Attractive Markets and Market Access 14
- Most attractive markets 14
- Access to Indian markets 17
- Access to Chinese markets 17

NTBs and Other Cross-cutting Business Environment Constraints 19
- Investment environment 19
- Trade facilitation 19
- Technical standards 20
- Sanitary and phytosanitary measures 21
- Intellectual Property Rights 21
- Domestic service sectors regulations 23

Sector-specific Issues 24
- Sectoral issues 24
- Trade support network 24

Managing Aid for Trade and TRTA 25

Action Matrix: Part I: Consolidated cross-cutting actions 27

Action Matrix: Part II: SWOT analyses of 19 potential export sectors with recommended actions 37

List of Tables

Table 1	Balance of Payments, Current Accounts, 2002/03-2008/09, in US$ millions	6
Table 2	Main Nepalese Goods Exports, 2004-08, in US$1,000 by HS-2, HS-4 and HS-6 Codes	7
Table 3	Nepalese Goods Exports by Destination, 2004 and 2008, in US$1,000	8
Table 4	Number of HS-6 Products Exported and Average Number of Markets per Exported Products. Nepal Compared to Selected Countries, 2006	9
Table 5	19 Priority Export Potentials	10
Table 6	Export Potential and Socio-Eeconomic Impact of 19 Products and Services	11
Table 7	Export Potential compared to Socio-Eeconomic Impact 19 Export Potential Goods and Services	12
Table 8	Impact of 19 Export Potentials on Water and Electricity Resources	13
Table 9	Geographical Distribution of Top 10 Attractive Markets and Tariff Advantage or Disadvantage in Attractive Markets for 12 Goods and 3 Service Export Potentials	15
Table 10	10 Most Attractive Markets for 12 Goods and 4 Service Export Potentials	16
Table 11	Trade Facilitation: Nepal Compared to India and Bangladesh for 20' Container	20
Table 12	Recent Examples of SPS Issues Affecting Nepalese Agro-food Exports	21
Table 13	Possible IP Vehicles for 19 Export Potentials	22

Abbreviations and Acronyms

AfT	Aid for Trade
ANROPI	Association of Nepalese Rice, Oil and Pulses Industries
BoI	Board of Investment
BPO	Business Process Outsourcing
CIS	Commonwealth of Independent States
CMMI	Capability Maturity Model Integration
DADO	District Agriculture Development Office
DFID	Department for International Development
DFTQC	Department of Food Technology and Quality Control
DLS	Department of Livestock Service
DoA	Department of Agriculture
EIA	Environmental Impact Assessment
EIF	Enhanced Integrated Framework
ENTReC	Enhancing Nepal's Trade-related Capacity
EU	European Union
FDI	Foreign Direct Investment
FEC	Forward exchange contracts
FTE	Full-Time Equivalent
GAP	Good Agricultural Practice
GDP	Gross Domestic Product
GIs	Geographical Indications
GoN	Government of Nepal
IEE	Initial Environmental Evaluation
IFC	International Finance Corporation
IFEAT	International Federation of Essential Oils and Aroma Trade
IP	Industrial Property
IPM	Integrated Pest Management
IPPC	International Plant Protection Convention
IPR	Intellectual Property Rights
ISI	Indian Institute of Standards
IT	Information Technology
ITC	International Trade Centre
JABAN	Jadi Buti Entrepreneurs Association of Nepal
LDCs	Least Developing Countries
M&E	Monitoring and Evaluation
MFA	Multi-Fibre Agreement
MoCS	Ministry of Commerce and Supplies
MRLs	Maximum Residue Levels
NARC	Nepal Agricultural Research Council
NASSA	The National Association for Sustainable Agriculture, Australia
NBF	Nepal Business Forum
NBSM	Nepal Bureau of Standards and Metrology
NDF	Nepal Development Forum
NDP	Nepal Development Plan
NGO	Non-Governmental Organization
NIAs	National Implementation Arrangements
NIU	National Implementation Unit
NPC	National Planning Commission
NSC	National Steering Committee
NTBs	Non-Tariff Barriers
NTIS 2010	Nepal Trade Integration Strategy 2010
NTCDB	National Tea and Coffee Development Board
ODA	Overseas Development Assistance
OIE	Office International des Epizooties
PFA	Prevention of Food Adulteration
QMS	Quality Management System
R&D	Research and Development
RoOs	Rules of Origin
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SEZ	Special Economic Zone
SPS	Sanitary and Phytosanitary Standards
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TBT	Technical Barriers to Trade
TIA	Tribhuvan International Airport
TPC	Third Party Certification
TRIPS	Trade-Related Intellectual Property Rights
TRTA	Trade-Related Technical Assistance
TSIs	Trade Support Institutions
TSN	Trade Support Network
UNDP	United Nations Development Programme
USA	United States of America
WTO	World Trade Organization

EIF National Steering Committee

Chief Secretary, Government of Nepal	Chairperson
Secretary, Ministry of Commerce and Supplies (MoCS)	Member
Secretary, Ministry of Industry	Member
Secretary, Ministry of Foreign Affairs	Member
Secretary, Ministry of Finance	Member
Secretary, Ministry of Agriculture and Cooperatives	Member
Secretary, Ministry of Law and Justice	Member
Member Secretary, Secretariat of the National Planning Commission	Member
Deputy Governor, Nepal Rastra Bank	Member
President, Federation of Nepalese Chambers of Commerce and Industries	Member
President, Confederation of Nepalese Industries	Member
President, Nepal Chamber of Commerce	Member
Joint Secretary, Planning & International Trade Cooperation Division, MoCS	Member Secretary
Representative, UNDP Nepal-EIF Donor Facilitator for Nepal	Invitee Member

Agencies and Individuals Consulted

National Planning Commission, Ministry of Finance, Ministry of Agriculture and Cooperatives, Ministry of Industry, Ministry of Tourism and Civil Aviation, Ministry of Labour and Transport Management, Ministry of Information and Communication, Ministry of Law and Justice, Ministry of Education, Ministry of Health and Population, Ministry of Forest and Soil Conservation, Ministry of Federal Affairs, Constituent Assembly, Parliamentary Affairs and Culture, Ministry of Energy, Nepal Rastra Bank, Office of Attorney General, Nepal Bureau of Standards and Metrology, Department of Industry, Department of Food Technology and Quality Control, Department of Commerce, Department of Customs, Federation of Nepalese Chambers of Commerce and Industries, Confederation of Nepalese Industries, Nepal Chamber of Commerce.

Representatives of various bilateral chambers, commodities associations, academic institutions, professional organizations and media also participated in consultative workshops held in the course of preparation of the report.

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Contributors

(In alphabetical order)

Andreas Lendle, ITC, Market Analysis Section, Geneva

Andrew Masters, DFID, London

Bharat B. Thapa, Kathmandu

Binod Karmacharya, Kathmandu

Dermot Cassidy, Pretoria

Deva Bhakta Shakya, Kathmandu

Dilli Ghimire, Kathmandu

Govind Venuprasad, Geneva

Kerfala Conte, ITC, Geneva

Murari P. Gautam, Kathmandu

Pancha Ratna Shakya, General Secretary, Nepal-China Chambers of Commerce and Industry, Kathmandu

Paolo R. Vergano, FratiniVergano – European Lawyers, Brussels

Rajendra B. Shrestha, Kathmandu

Ramesh B. Munankarmi, Kathmandu

Ramesh C. Chitrakar, Kathmandu

Rishikesh R. Bhandary, Kathmandu

Sajjan Bar Singh Thapa, Legal Research Associates, Kathmandu

Sven Callebaut, Phnom Penh

Thierry Paulmier, ITC, Market Analysis Section, Geneva

Wim Douw, Investment Climate Advisory Services, World Bank Group

and

Thierry Noyelle, UNDP and MoCS Consultant and Team Leader

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Introduction

NTIS 2010

With more than 30 per cent of Nepal's population living below the poverty line and despite recent improvements, poverty reduction remains the greatest challenge for national development. Poverty reduction will require 'inclusive growth', which is predicated in part on improvements in political stability and governance. But 'inclusive growth' is itself a prerequisite to consolidating peace and security.

Using a broad definition of exports, to include not only export of goods and services, as traditionally measured, but export of labour services (captured under 'remittances') as well, the value of exports in 2008 was close to 45 per cent of GDP—with remittances representing three-fifths of the export base so defined *(more on this below)*. This number points to the very high degree of trade integration of the Nepalese economy. Looking forward, it also points to the fact that future trade integration and expansion has to be one of the key drivers of 'inclusive growth' in Nepal. 'Building a New Nepal' will require generating new jobs and new income for all, most importantly, among the most disenfranchised populations and regions. Nepal's strategy for the development of its export sector over the next five to ten years must be geared towards meeting this pressing need for inclusive growth.

Nepal Trade Integration Strategy 2010 (NTIS 2010) charts a possible course for the development of the country's export sector over the next three to five years, together with possible **capacity development Actions** and selected **short- to medium-term Priorities** that are supportive of 'inclusive growth'. It is the product of an effort led by the Ministry of Commerce and Supplies (MoCS), Government of Nepal (GoN), with financial and substantive support from United Nations Development Programme (UNDP), the Government of Finland, the United Kingdom's Department for International Development (DFID), the International Finance Corporation (IFC), and the International Trade Centre (ITC).

NTIS 2010 is a follow-up to the earlier Nepal Trade and Competitiveness Study 2004, which, in a like manner, sought to identify priority actions for the mid and late decade. The 2004 study was prepared at a time when domestic and international conditions were quite different. When the study was completed, Nepal was not yet a member of the World Trade Organization (WTO) and, surely, the mid and late decade turned out to be a period of profound transformation for the country to an extent no one could have predicted.

Finally, *NTIS 2010* is a critical building block in the GoN's efforts to strengthen its ability to coordinate and manage Trade-Related Technical Assistance (TRTA) and Aid for Trade (AfT) by implementing the mechanisms of the Enhanced Integrated Framework. Objectives and Actions identified in the *NTIS 2010* will be closely aligned with those identified in Nepal's forthcoming three-year Development Plan. In addition, once adopted by the GoN (Council of Ministers), the Strategy will serve as a single shared strategy to guide the efforts of the GoN, the Nepalese private sector, development partners (DPs), and all other stakeholders to develop an 'inclusive' trade sector for the future.

Four Capacity Development Objectives

Building a successful, competitive export sector in Nepal will require addressing four major challenges at once:

- Ensuring proper market access. Increasingly, this will require Nepalese negotiators to address issues related to non-tariff barriers (NTBs) and related regulatory and business environment issues that may affect Nepalese exports in importing markets. The importance of tariff negotiations will continue to decline as tariffs shrink for goods and lose their relevance for fast-growing service exports;
- Building domestic support institutions that can create a more friendly business environment and help Nepalese exporters address the challenges of the NTBs;
- Taking steps to strengthen the supply capacity of exporters, especially in sectors where they can enjoy a competitive advantage, be it in terms of production costs, quality of products, and/or productivity;
- Mobilizing Overseas Development Assistance (ODA) to assist in developing pertinent capacity.

NTIS 2010 identifies four objectives to respond to these capacity development challenges for the coming years:

- **Objective 1: Strengthen trade negotiations (especially bilateral).** The study identifies a list of 19 possible priority export potential sectors—goods and services—and priority attractive markets for such export potentials *(more on this later)*. Nepalese trade negotiators need to ensure that proper market access conditions for such export potentials prevail in their respective attractive markets. Bilateral market access negotiations are likely to be required in quite a few cases, though negotiations with and within regional groupings are also likely to play an important role. Some strengthening of policy research capacity especially in relation to trade negotiations may be required.

- **Objective 2: Strengthen the technical capacity of domestic non-tariff barrier (NTB) and other business environment supportive institutions.** Building a competitive, exportable supply capacity of goods and services from Nepal has become increasingly dependent upon the ability of the country's producers to meet the NTB market entry requirements of importing countries. Doing so requires putting in place a supportive domestic support infrastructure in areas of technical standards, sanitary and phytosanitary standards, trade facilitation, investment environment, intellectual property rights (IPRs), domestic service regulations, and others.

- **Objective 3: Strengthen the export capacity of 'Inclusive' export potential goods and services.** Nepalese policymakers might want to prioritize their attention on the 19 goods and services sectors identified as potential export sectors and ensure their success in their current or potential attractive destination markets. Doing so may require carrying out in-depth analyses of the individual sectors presented in the NTIS and ensuring those sectors benefit from proper sector-specific supportive measures. This, in turn, suggests that the Government's and private sector's initial focus under Objectives 1 and 2 will also need to target the areas of trade negotiations, trade-related policy reform or NTB institution-building that are most immediately pertinent to supporting those export potentials.

- **Objective 4: Strengthen the GoN's capacity to coordinate and manage Trade-Related Technical Assistance (TRTA) and Aid for Trade (AfT) and to implement the NTIS.** Progressing on Strategic Objectives 1, 2, and 3 will require resources from both the GoN and development partners. Under the terms of the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, much of the leadership for aid coordination and management is being shifted to the governments of beneficiary countries. This applies to the TRTA and AfT as well. The MoCS, on behalf of the GoN, needs to put in place a set of 'implementation arrangements' that will assist in formulating projects in support of the NTIS objectives, in securing, coordinating, and managing the TRTA resources and in monitoring results. The Ministry has already secured resources from the Enhanced Integrated Framework's Tier

1 funding to support the establishment of such arrangements. Coordination and management of aid in the trade sector are quite complex as they involve not simply coordinating and managing with and among development partners but also among the various line Ministries and agencies directly or indirectly involved in trade development. Experience from other least developed countries (LDCs) suggests that the shift to the new paradigm of aid coordination and management requires a large amount of capacity-building in the new implementation arrangements and that this need should not be underestimated.

NTIS 2010

Capacity Development Actions and Proposed Short- to Medium-term Priorities

Actions identified by the NTIS team to support the four capacity development objectives are consolidated in Action Matrix (Part I and Part II), presented at the end of this Executive Summary.

As suggested by Action Matrix, the business of developing a competitive export supply for the future can be wide-ranging and demanding. Many areas of capacity development are needed. But capacity development can be time-consuming as well as resource (human and financial) -intensive. Furthermore, resources needed to develop capacity—be they domestic or from ODA—are limited; therefore, their use must be prioritized. The multiplicity of required actions may lead to confusion as to where to begin. And the risk is that confusion may lead to inaction. And, yet, policymakers are under pressure to respond to short-term needs of income and job creation.

Ultimately, it is for Nepalese policymakers to chart a course through a rather rich agenda of actions, weighing in some of those factors and others as well. Nevertheless, the background studies prepared under the NTIS do suggest a possible short- to medium-term strategic course that would prioritize some key actions or areas of action, as follows:

1. Nepal should focus its short- to medium-term efforts on the proposed list of **19 export potential goods and services**—and among those, possibly even more so, on the groups of ***agro-food*** and ***services*** exports;

2. Nepalese trade negotiators should gain deeper knowledge of the attractive destination markets identified for each of the 19 export potentials in the NTIS and ensure favourable market access conditions in those markets. In most cases, this would include **enhanced bilateral negotiations** (possibly regional also). An appropriate agenda for such would need to be developed, with supportive analytical work as required. India and other SAARC countries, China, selected Gulf and Middle East countries should be priority targets;

3. Efforts to build a competitive export supply capacity in agro-food could initially focus on setting up a number of Good Agricultural Practices (GAPs), Integrated Pest Management (IPM) and Quality Management System (QMS) in selected agricultural commodities, to be accompanied by **Third Party Certification** (TPC) programmes to enhance the quality and quantity of supply and lower the current burden of SPS certification for exports. *NTIS 2010* proposes four sectors that could become initial targets for such programmes: **tea, lentils, cardamom,** and **ginger**. Such efforts could be supported by the introduction of **Geographical Indications** (GIs) for some of those commodities. Progress on regulations under the new Plant Protection Act, on amending the current Food Act, and on reviewing the Pesticides Act and Pesticides Rules should also be accelerated;

4. The creation of a **Board of Investment** (BoI) should be accelerated. Nepal is missing out on opportunities to attract FDIs, including the FDIs aimed at potential export sectors. There should be some alignment between the targeted sectors for investment campaigns and potential export sectors promoted under the NTIS;

5. Except for businesses located in the Kathmandu valley, trade information and trade support services trickle down rather poorly to businesses in most regions, including those in the export potential sectors that should be targeted. A **Trade Support Network** (TSN) should be organized and developed with an initial strong focus on building the capacity of product associations in the export potential sectors. A **re-definition of TEPC's functions and mission** and its restructuring should be accelerated as part of this effort;

6. To further build up export potential in the services sectors, efforts could focus on consolidating the gains from export of temporary labour services, including through **strengthened agreements with labour importing countries,** as well as capturing opportunities to move up the value chain by expanding supply capacity in the areas of information technology (IT) and business process outsourcing (BPO) services, engineering services, education services, and health services. This could be done by implementing a number of **recommendations suggested in the individual profiles for those sectors.** These efforts should be deployed in addition to the efforts currently underway in tourism, including Nepal's 2011 Year of Tourism campaign—a critical component of Nepal's export base. Establishment of a 'service export champion', currently sorely lacking, should also be considered;

7. **The Nepal Business Forum** should be established as soon as possible and its proposed Trade Sector Working Group used as an accountability mechanism for the GoN and the Nepalese business sector to monitor the implementation of the NTIS and the effectiveness of its results;

8. **Mechanisms for strengthened coordination and management capacity of AfT and TRTA** should be put in place in the GoN to ensure more effective mobilization and management of the ODA resources for trade. Commitment of the GoN to the NTIS objectives should be reflected in the forthcoming Nepal Development Plan (NDP) and Nepal Development Forum (NDF) and endorsed by the Council of Ministers. NTIS should be recognized by the GoN, the Nepalese business sector and DPs as a shared strategy to be used as a basis for future technical assistance support.

Initial actions that could be prioritized to support this short- to medium-term strategic course are highlighted in yellow in the action matrix.

Background
The 2000s: A Decade of Change[1]

The decade just ending has been witness to a profound transformation in Nepal's trade sector, one resulting partly from extensive changes in the terms of global trade and partly from the political crisis that affected Nepalese society during the mid-2000s.

Successive rounds of trade liberalization under the aegis of the WTO, including the end of the Multi-Fibre Agreement (MFA), extensive bilateral and regional trade liberalization, the emergence of Asia as a driving force in world trade–both as exporter and as importer, the opening of the Middle East and Gulf markets, or even the most recent opening of the Commonwealth of Independent States (CIS) countries and African markets are creating new trade opportunities every day. At the same time, domestic political challenges have put extreme pressure on a number of traditional Nepalese exports, especially semi-processed or processed goods dependent on tariff preferences, requiring access to an organized labour force, steady supply of energy and reliable transport. And yet, despite it all, Nepalese entrepreneurs have discovered new opportunities for export of both goods and services, possibly some that are less affected by civil unrest, troubled labour relations, or energy shortages.

Tables 1 and 2 capture some of the major shifts that have been underway during the closing decade. In term of exports, table 1 shows the growing importance of traditional services and labour services ('remittances') in Nepal's export basket.[2] In term of imports, Nepalese policymakers are increasingly becoming concerned about the growing trade deficit in goods. From a Balance of Payment's current accounts perspective, however, Nepal has roughly been in balance in recent years due in no small part to the fast-growing remittances of temporary Nepalese migrant workers.

Table 1:

Balance of Payments, Current Accounts, 2002/03-2008/09, in US$ millions

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	% change 2002-08
Goods exports, fob	655	751	106	854	876	958	913	39.3
Service exports	342	467	362	368	457	653	690	101.6
Net remittances	699	797	913	1,357	1,427	2,205	2,738	291.4
Total	1,697	2,015	1,381	2,578	2,759	3,816	4,340	155.8
Goods imports, cif	1,562	1,808	2,057	2,383	2,713	3,369	3,645	133.4
Service imports	251	343	390	448	576	824	826	229.0
Total	1,813	2,152	2,448	2,831	3,289	4,193	4,472	146.6
Source: Nepal Rastra Bank, Annual Reports								
Other net transfers (small) not shown								

Table 2 shows changes that have occurred in the basket of exported goods. Garment exports, which in 2004 still represented 26 per cent of all goods exports (though already in sharp decline from earlier years), were down to 11.5 per cent by 2008. Only a few HS-6 items have survived or even prospered in that sector (e.g. pashmina, wool products) in view of sharp changes in market access conditions. Carpets, a traditional Nepali export, also have been sharply affected by the changing conditions. And yet new goods export sectors have emerged during the period, including iron and steel products, plastic articles, coffee-tea-spices, and vegetables.

[1] See Chapter 1 of the full report for expanded discussion.

[2] Central Bank statisticians view 'remittances' as 'transfers', not exports or imports. The real issue in properly classifying remittances stems from the lack of robust statistical survey instruments to distinguish remittances of temporary migrant workers from remittances of foreign residents. The former represent sale of a service by a resident (in this case, a resident of Nepal) to a non-resident and falls, *stricto sensu*, within the definition of an export regardless of whether the production and sale of that service take place in Nepal or abroad. Sale of a service by the latter (in this case a Nepali who is a legal resident of another country) is not an export and should indeed be counted as a transfer. In the case of Nepal, it can safely be assumed that a large share of remittances is of the first kind.

Table 2:

Main Nepalese Goods Exports, 2004-08, in US$1,000 by HS-2, HS-4 and HS-6 Codes

Product	HS-codes	Exported value 2004	Exported value 2008	Share 2008	% Annual Growth 2004-08
All goods exports		681,380	962,459	100.0%	9.0%
Shown here		564,755	850,860	88.4%	10.8%
Iron and steel products	72, 73	27,581	149,430	15.5%	52.6%
Carpets	57	105,645	116,776	12.1%	2.5%
Garments	61, 62	178,408	110,162	11.4%	-11.4%
Pashmina	621410, 621420, 621490, 630120	18,691	22,074	2.3%	4.2%
Wool products	611011, 611012, 611691,611710, 650590	9,411	16,450	1.7%	15.0%
Plastics and articles thereof	39	37,039	66,057	6.9%	15.6%
Artificial staple fibres	55	25,118	52,457	5.5%	20.2%
Coffee, tea, spices	09	19,797	47,718	5.0%	24.6%
Large cardamom	090830	11,699	21,329	2.2%	16.2%
Tea	0902	4,896	16,805	1.7%	36.1%
Ginger	091010	2,518	8,130	0.8%	34.0%
Vegetables	07	Not available	Not available		
Lentils	071340	22,884	22,258	2.3%	-0.7%
Textile articles, sets, worn clothing, etc.	63	12,426	29,073	3.0%	23.7%
Copper and articles thereof	74	12,605	27,248	2.8%	21.3%
Beverages, spirits and vinegar	22	9,227	26,783	2.8%	30.5%
Artificial filaments	54	9,682	25,643	2.7%	27.6%
Animal, vegetable fats and oils, cleavage products, etc.	15	21,403	22,899	2.4%	1.7%
Essential oils, perfumes, cosmetics, toiletries	33	32,670	15,623	1.6%	-16.8%
Essential oils, nes	330129	259	1,001	0.1%	40.2%
Miscellaneous chemical products	38	4,896	14,672	1.5%	31.6%
Aluminium and articles thereof	76	5,961	14,624	1.5%	25.2%
Wadding, felt, nonwovens, yarns, twine, cordage, etc.	56	10,088	14,165	1.5%	8.9%
Residues, waste of food industry, animal fodder	23	5,576	13,783	1.4%	25.4%
Animal feed preparations, nes	32	3,681	12,199	1.3%	34.9%
Vegetable textile fibres, nes, paper yarn, woven fabric	53	15,563	11,894	1.2%	-6.5%
Instant noodles	1902	2,955	10,390	1.1%	36.9%
Electrical, electronic equipment	85	6,709	10,309	1.1%	11.3%
Pearls, precious stones, metals, coins, etc	71	7,619	10,252	1.1%	7.7%
Other export potential goods					
Medicinal herbs (combined with essential oils in other tables)	121190	1,604	2,991	0.3%	16.9%
Handmade paper (shown data do not cover all exports; see text)	481210	711	561	0.1%	-5.8%
Honey	0409	49	14	0.0%	-26.9%

Source: ITC, Trade Map 2004, 2008

Yellow highlights show potential export products included in the export potential assessment at HS-6 level. All data other than those for lentils are 'mirror data' (Nepal's export data). For more detailed HS-6 Code data, see the full report.

Changes in the Nepalese goods export basket have been accompanied by changes in destination markets. Table 3 shows the 20 largest importing markets of Nepalese goods. Besides the dramatic rise in the importance of the Indian market for Nepalese exports, the table shows the declining (or slow growing) importance of traditional 'Northern' export markets—especially EU and the USA–and the growing importance of new markets, especially those of Asia and the Middle East and Gulf regions.

Table 3:

Nepalese Goods Exports by Destination, 2004 and 2008, in US$1,000

No.	Importing Country	2004 Goods Import from Nepal	2004 % share of total	2008 Goods Imports from Nepal	2008 % share of total	% Annual Growth 2004-08
	Total	684,209		953,637		
1	India	342,883	50.1	632,095	66.3	15.5
2	EU	128,260	18.7	127,349	13.4	-0.2
3	USA	156,140	22.8	92,302	9.7	-12.3
4	Canada	11,328	1.7	14,559	1.5	6.5
5	Turkey	4,532	0.7	14,412	1.5	33.5
6	Japan	7,570	1.1	11,229	1.2	10.4
7	Switzerland	7,768	1.1	6,767	0.7	-3.4
8	China	8,231	1.2	5,983	0.6	-7.7
9	UAE	434	0.1	5,011	0.5	84.3
10	Egypt	0	0.0	4,782	0.5	very large
11	Australia	1,706	0.2	4,204	0.4	25.3
12	Philippines	15	0.0	3,647	0.4	294.9
13	Sri Lanka	78	0.0	3,566	0.4	160.0
14	Hong Kong	1,238	0.2	3,426	0.4	29.0
15	Sudan	8	0.0	3,350	0.4	352.4
16	Singapore	2,558	0.4	3,264	0.3	6.3
17	Bhutan	0	0.0	2,975	0.3	very large
18	Malaysia	282	0.0	1,975	0.2	62.7
19	Pakistan	3,710	0.5	1,450	0.2	-20.9
20	Mexico	986	0.1	1,419	0.1	9.5
Source: ITC Trade Map						
Blue: 30% or more increase; Yellow: decline						

Expanding an 'Inclusive' Export Base: 19 export potentials[3]

To foster the growth of an export base that can help Nepal in meeting its goals of poverty reduction and inclusive growth, the challenges are four-fold:

- Diversify and expand the basket of goods and services that are exported
- Diversify and expand the number of export destinations
- Move up the value chain
- Ensure that the goods and services export sectors that are expanding have a robust, positive impact on inclusive growth

Table 4:
Number of HS-6 Products Exported and Average Number of Markets per Exported Products. Nepal Compared to Selected Countries, 2006

Rank	Country	Number of HS-6 products exported	Average number of markets per product
1	USA	4,931	46.0
2	China	4,871	52.1
3	United Kingdom	4,819	38.5
12	Japan	4,539	22.2
19	Taipei (SARC)	4,261	20.4
24	Korea, Rep.	4,208	18.7
SAARC Countries			
11	India	4,582	25.8
60	Pakistan	2,252	8.7
65	Sri Lanka	2,037	5.1
83	Bangladesh	1,215	5.9
99	Nepal	821	2.8
176	Bhutan	104	1.1
200	Maldives	24	5.0
ASEAN Countries			
13	Singapore	4,392	16.1
25	Malaysia	4,177	12.7
27	Thailand	3,993	16.9
29	Indonesia	3,855	11.7
43	Viet Nam	3,072	8.1
59	Philippines	2,301	7.9
110	Myanmar	686	3.7
117	Cambodia	628	4.4
135	Lao PDR	359	3.0

Source: ITC, 2006 export data (direct and mirror)

Some of these challenges are well illustrated in table 4, which shows the number of HS-6 products exported by Nepal in 2006 and the average number of importing markets for such products. With a total of 861 HS-6 products exported to an average of 2.8 markets each, Nepal compares to most other LDCs in Asia region but falls short of more developed countries: USA (4,931 products to 46 markets on average), China PRC (4,871 products to 52 markets on average), the UK, or even India or Singapore. The need for services exports is not all that different: product diversification, market diversification and value chain improvements.

[3] See Chapter 2 of the full report for expanded discussion.

To meet the aforementioned objective of expanding an inclusive export base, 19 goods and services sectors were identified based on an initial assessment of export performance and some extensive discussions with Nepalese business community and government officials, including those from the MoCS. The list of 19 export potentials is shown in table 5. The table also lists another five sectors that emerged as possible export potentials from the fieldwork conducted by the consultants for the various chapters of *NTIS 2010*. Those are reviewed in the full report but not to the level of details brought to the 19 sectors discussed hereafter.[4]

Table 5:
19 Priority Export Potentials

No.	Agro-Food
1	Cardamom
2	Ginger
3	Honey
4	Lentils
5	Tea
6	Noodles
7	Medicinal herbs/essential oils
	Craft and Industrial Goods
8	Handmade paper
9	Silver jewelry
10	Iron and steel
11	Pashmina
12	Wool products
	Services
13	Tourism
14	Labour services
15	IT and BPO services
16	Health services
17	Education
18	Engineering
19	Hydro-electricity
	Other Potential Export Sectors
20	Transit trade services
21	Sugar
22	Cement
23	Dairy products
24	Transformers

To further assess export development opportunities for each product and service and their potential positive impact on socioeconomic development, four indexes have been developed:

- **Index 1** measures current export performance of Nepal in the given goods or services sector based on a composite indicator of 2008 export value and recent growth rate;
- **Index 2** measures current demand conditions for the given goods, using a composite indicator of size of importing markets, growth rates of those markets, and tariff advantage or disadvantage for Nepalese exporters. For services, the index is based on more limited data measuring the size and growth of world demand;[5]
- **Index 3** measures domestic supply capacity. The index represents a qualitative assessment of current and potential supply capacity based on extensive desk research and a survey of producers in the individual sectors by a team of consultants focusing on quality of products or services, productivity, cost competitiveness, and efficiency of supporting sectors;
- **Index 4** measures the potential socioeconomic impact of the sector on Nepal. It is a composite indicator of full-time equivalent (FTE) employment, participation of women in the sector, impact on poor regions, and impact on skill development.

Indexes 1, 2, and 3 are further combined into a single 'export potential index', which in turn can be looked at against the socioeconomic index. The findings are summarized in tables 6 and 7.

[4] Together, the 19 export potential sectors cover about 30 per cent of current goods exports and the vast majority of service exports (broadly defined to include exports of labour services). In term of merchandise exports, the assessment is that many of the selected sectors represent some of the most dynamic (or potentially dynamic) goods exports over the short and medium term. See discussion further below.

[5] Indexes 1 and 2 for goods are based on ITC's Trade Map data. Index 1 and 2 for services are based on balance of payment data and various other data sources.

Table 6:

Export Potential and Socio-Eeconomic Impact of 19 Products and Services

No.	Sector	Nepali exports, 2008 (US$ 1,000)	Index 1: Export performance	Index 2: World market conditions	Index 3: Domestic supply conditions	Overall export potential		Socio-economic impact
	Agro-Food							
1	Large cardamom	21,329	high	low	high	high		medium
2	Ginger	8,130	medium	low	medium	medium		medium
3	Honey	500	low	medium	medium	medium		medium
4	Lentils	22,258	medium	high	high	high		medium
5	Tea	16,805	high	low	medium	medium		high
6	Instant noodles	10,390	high	medium	high	high		low
7	Medicinal herbs/ essentail oils	11,000	low	medium	high	medium		high
	Craft and Industrial Goods							
8	Handmade paper	4,000	low	low	high	low		high
9	Silver jewelry	9,519	low	high	medium	medium		medium
10	Iron and steel products	149,394	high	high	high	high		medium
11	Pashmina products	22,074	medium	medium	high	medium		medium
12	Wool products	16,450	medium	high	medium	medium		high
	Services							
13	Tourism	352,000	high	high	high	high		high
14	Labour services	2,448,000	high	high	medium	high		high
15	IT & BPO services	10,000	medium	medium	medium	medium		medium
16	Health services	n/a	low	medium	low	low		low
17	Education services	10,000	medium	low	low	low		low
18	Engineering services	n/a	low	medium	medium	medium		low
19	Hydro-electricity	0	low	high	medium	medium		medium

Source: Export Potential Assessment (NTIS, Chapter 2)

Table 7:
Export Potential compared to Socio-Eeconomic Impact
19 Export Potential Goods and Services

Export Potential			Socio-Eeconomic Impact
Low	**Medium**	**High**	
	Tea		High
Handmade paper	Wool products	Tourism	
	Medicinal herbs	Labour services	
	Ginger		Medium
	Pashmina products	Large cardamom	
	Honey	Lentils	
	Silver jewelry	Iron and steel products	
	IT and BPO services		
	Hydro-electricity		
			Low
Health services	Engineering services	Instant noodles	
Education services			

Source: Export Potential Assessment (NTIS, Chapter 2)

Table 7 suggests that, with the exception of health or education services, the 17 other sectors have either medium or high export potential or medium or high socioeconomic impact or both. The fact that health and education services rank lower in the analysis does not necessarily mean they lack potential. The four indexes tend to favour short-term rather than long-term prospects from the point of view of Nepalese exporters. Certainly, education and, even more so, health services are fast-growing export businesses worldwide and can have a high employment and income effect on the exporting country. So, the finding simply says that conditions do not exist as of yet in Nepal to turn those two sectors into strong export potentials in the short term.

To make sure that the potential export sectors identified are not constrained by current critical resources bottlenecks, the team working on the export potential assessment also carried out a quick survey of water and electricity dependency of the 19 sectors. *(See table 8.)*

With the exception of iron and steel products and hydro-electricity, the 17 other export potentials have limited impact on those two resources, ranging from medium to mostly low. The dependency of hydro-electricity on water is not necessarily a negative development as water reservoirs can also help address irrigation needs. Clearly, lack of water is not an issue in Nepal. The issue is proper distribution for consumption and irrigation purposes.

Table 8:
Impact of 19 Export Potentials on Water and Electricity Resources

No.	Sectors	Electricity intensity	Water intensity	Overall resource intensity
	Agro-Ffood			
1	Large cardamom	low	medium	medium-low
2	Ginger	low	low	low
3	Honey	low	low	low
4	Lentils	medium	low	medium-low
5	Tea	low	low	low
6	Instant noodles	medium	medium	medium
7	Medicinal herbs/essential oils	low	low	low
	Craft and Industrial Goods			
8	Handmade paper	low	medium	medium-low
9	Silver jewelry	low	low	low
10	Iron and steel products	high	medium	medium-high
11	Pashmina products	medium	medium	medium
12	Wool products	medium	medium	medium
	Services			
13	Tourism	medium	medium	medium
14	Labour services	none	none	none
15	IT and BPO services	medium	low	medium-low
16	Health services	low	medium	medium-low
17	Education services	low	low	low
18	Engineering services	none	none	none
19	Hydro-electricity	low	high	medium

Attractive Markets and Market Access[6]

Most Attractive Markets

The export potential analysis presented in Chapter 2 of the full report includes identification of the ten most attractive markets for the 19 export potentials. The most attractive markets for goods exports are identified on the basis of a composite index, including:

- The size of the importing market for each good or service
- The rate of import growth in individual markets
- *Ad valorem* tariffs imposed on Nepalese exporters in individual markets
- The tariff advantage or disadvantage between Nepalese exporters and their top five competitors in those markets.

The most attractive markets for services exports are identified on the basis of more limited data with a composite index, including (in the best case):

- The size of the importing market
- The rate of growth of individual markets
- Some measure of market openness

The findings of this analysis for the 12 goods export potentials and four of the seven services export potentials are summarized in table 9. The table is in two parts. Part 1, 'Top 10 Attractive Markets by Export Potential Goods and Services by Region' (top 20 for labour services), shows the growing importance of 'new' markets, especially from the Middle East and Gulf regions as well as the South Asian, South-east and East Asian regions, in term of agro-food potential exports (half of the most attractive markets) and services exports (three-fifths of the most attractive markets). Traditional 'Northern developed markets' remain primary export destinations for many of the craft and industrial goods export potential (three quarters of the most attractive markets). Part 2, 'Tariff Advantage for Export Potential Goods in Top 10 Markets', applies to goods export only and shows that, in the great majority (87.5 per cent) of cases, Nepalese goods exporters do not benefit from a significant tariff advantage against their direct competitors. This is so either because they are competing with exporters from other LDCs that benefit from similar tariff advantages or simply because tariffs are very low as a result of multilateral trade negotiations. This confirms that the competitive advantage of Nepalese exporters must increasingly be based on their supply capacity (costs, productivity, and quality) and their ability to meet standards and address other NTBs. Table 10 shows the top 10 most attractive markets for each of the twelve goods and four service export potentials analyzed in table 9.

[6] See Chapters 2, 3, and 4 of the full report for expanded discussion.

Table 9:
Geographical Distribution of Top 10 Attractive Markets and Tariff Advantage or Disadvantage in Attractive Markets for 12 Goods and 4 Service Export Potentials

	Top 10 Attractive Markets by Export Potential Goods and Services by Region							Tariff Advantage for Export Potential Goods in Top 10 Markets		
	Middle East & Gulf	SAARC	SE & E Asia	Eastern Europe and CIS	Others	Subtotal	'Northern' developed countries	No tariff advantage (<+/-5%)	Tariff advantage (>+5%)	Tariff disadvantage (<-5%)
Cardamom	4	1	1		1		3	9	1	
Ginger	1	3	2				4	8	2	
Honey	1			2			7	4	6	
Lentils	6	2					2	10		
Tea	3	1		2			4	10		
Noodles				1	1		8	8	2	
Medicinal herbs			3	1			6	10		
Essential oils		1	2		1		6	9	1	
All agro-food	15	8	8	6	3	**40**	**40**	**68**	**12**	**0**
Handmade paper	3	1			1		5	9	1	
Silver jewelry			1				9	10		
Iron/steel	1	1	1	1			6	9	1	
Pashmina			2				8	10		
Wool products			1				9	8	2	
All craft / industrial goods	4	2	5	1	1	**13**	**37**	**46**	**4**	**0**
Labour services (top 20)	3		3	2			12			
Tourism	1		1	2	1		5			
Education		2	4	2	1		1			
Engineering	4	1	1		2		2			
All services	7	3	8	4	3	**30**	**20**			

Source: Export Potential Assessment (NTIS Chapter 2)

Table 10:
10 Most Attractive Markets for 12 Goods and 4 Service Export Potentials

	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10
Agro-food										
Cardamom	Pakistan	Saudi Arabia	UAE	UK	USA	Malaysia	Japan	South Africa	Kuwait	Oman
Ginger	India	Pakistan	Bangladesh	USA	Netherlands	UK	Malaysia	Germany	Yemen	Vietnam
Honey	UK	France	Japan	USA	Germany	Belgium	Poland	Australia	Saudi Arabia	Slovakia
Lentils	Turkey	UAE	Sri Lanka	Algeria	Iran	Egypt	Saudi Arabia	Spain	UK	Pakistan
Tea	Egypt	UAE	Russia	USA	UK	Iran	Pakistan	Germany	Kazakhstan	Australia
Instant Noodles	China	Indonesia	Japan	USA	Vietnam	South Korea	Philippines	Thailand	Russia	India
Medicinal herbs	USA	France	Germany	Vietnam	Singapore	Japan	Italy	Russia	Belgium	South Korea
Essential oils	Singapore	Switzerland	India	France	Germany	USA	UK	Japan	China	Mexico
Craft and Industrial Goods										
Handmade Paper	Denmark	Canada	Netherlands	Saudi Arabia	Nigeria	India	Quatar	Egypt	Japan	Malta
Silver Jewelry	Hong Kong	USA	Germany	UK	France	Denmark	Australia	Spain	Netherlands	Canada
Iron/steel	Germany	Belgium	Poland	India	UAE	UK	Thailand	France	Italy	Sweden
Pashmina	UK	Germany	Spain	France	Hong Kong	USA	Italy	Japan	China	Switzerland
Wool Products	Germany	France	UK	Italy	Spain	Japan	Canada	Belgium	USA	Hong Kong
Services										
Labour services (1-10)	USA	Russia	Switzerland	Saudi Arabia	Spain	Germany	Italy	Luxemburg	Netherlands	Malaysia
Labour services (11-20)	China	UK	France	Oman	Japan	Norway	Kazakhstan	Kuwait	South Korea	Belgium
Tourism	Germany	Saudi Arabia	USA	UK	France	Iran	China	Russia	Italy	Ukraine
Education	China	India	South Korea	Uzbekistan	Germany	Bolivia	Vietnam	Nepal	Lao PDR	Belarus
Engineering	UAE	China	India	Brazil	Quatar	USA	Nigeria	UK	Turkey	Saudi Arabia

Source: Export Potential Assessment (NTIS Chapter 2)

To confirm and learn more about those challenges, *NTIS 2010* takes a close look at the broad market access and supply development issues confronted by Nepalese exporters in the two neighbouring giant markets—India and China PRC *(Chapters 3 and 4 respectively)*, including for some of the export potential sectors identified in Chapter 2.

Access to Indian Markets

NTIS 2010 identifies some of the following issues:

- Nepal benefits from duty-free access for most of its goods exports, with some exceptions based on rules of origin (RoOs). However, similar benefits are also being extended to other LDCs or other countries through RTAs, leaving Nepalese exporters with little or no tariff advantage;
- Imposition of arbitrary duties and non-transparent application of duties by Indian customs;
- Application of non-WTO conformed duties and taxes by Indian states on Nepalese exports;
- SPS quarantine inspection and food testing facilities for Nepalese exports to India are available at only six of the 27 border crossings. This is a limitation. This constraint could be lowered by increasing the number of facilities, as well as introducing Good Agricultural Practices (GAPs) and related Quality Management Systems monitored under the TPC that would reduce the need for quarantine and individual testing of consignments;
- Weak SPS capacity in Nepal, limiting Nepalese exports and adding costs to Nepalese agro-food exports;
- High transport costs due in part to weak transportation infrastructure within Nepal;
- Transit through India for Nepalese exports beyond India still limited to Kolkata. Access to an additional port (Vishakhapatnam) has been agreed but has yet to be opened;
- Small size of Nepalese producers/exporters in view of demand in the very large Indian market.
- Lack of consistent quality is an issue, as is the absence of Nepalese branding and product recognition.

Access to Chinese Markets

NTIS 2010 observes that, while the value of SAARC countries' formal exports increased 156 per cent during the period 2004-08, the value of formal Nepalese exports has decreased during the same period. It is quite likely that this actually hides a large volume of informal, unrecorded trade, encouraged in part by the 1981 agreement between the two countries.

With this in mind, *NTIS 2010* also notes the following issues:

- There is a need to negotiate preferential tariffs. Nepal has tabled a list of 497 products and China is ready to offer duty-free on 286 products. Negotiations have yet to be completed, however;
- Nepalese exporters complain about arbitrary and non-transparent customs valuation;
- Nepalese exporters find the system of multiple import permits and licences required by China confusing and lacking transparency;
- RoOs, that are stringent for LDCs, including for Nepal, put a damper on certain exports;
- SPS requirements are rising and there is a lack of transparency and knowledge with respect to standards expected in China;
- Nepal needs to strengthen bilateral negotiation efforts through the Intergovernmental Trade Cooperation Committee;

- Road transport is difficult and the costs of trade facilitation and transport are high;
- Nepalese exporters find it difficult to ensure stable quantities and quality for such a huge market.

In short, these analyses point to the growing importance of NTBs in affecting the competitiveness of Nepalese producers in export markets, the challenges of building a competitive supply capacity in terms of cost, productivity, and quality and, with some exceptions, the decreasing importance of tariff advantages as a competitive tool. They also stress the importance of bilateral and regional negotiations in clarifying and/or lowering some of the NTBs (standards, RoOs, etc.), as well as the fact that NTBs create new demands on Nepalese producers and Nepalese trade support institutions. Analyses of barriers to export of labour services presented later suggest similar need for special attention to bilateral trade agreements. Quite possibly, these also suggest a need to strengthen trade negotiation capacity in the GoN as well as background research capacity to support those.

NTBs and Other Cross-cutting Business Environment Constraints[7]

NTIS 2010

Strengthening the competitiveness of Nepalese exporters, including in the 19 export potentials identified in *NTIS 2010*, will require legal and institutional development in Nepal in a number of areas that cut across many sectors, as well as possible interventions to remove bottlenecks that are sector-specific. Chapters 5 through 10 review 'cross-cutting' NTBs and other trade environment constraints, including:

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

Investment Environment

NTIS 2010 notes that FDI in Nepal is particularly low when compared to other LDCs. This is in no small part due to weak infrastructure, poor labour relations, political instability, and governance issues that affect the country. A number of these issues are being addressed very seriously among political parties as the country proceeds with its transition to a new political regime. Some will take time to resolve as they require substantial time and financial commitment.

Improvements suggested in the study include:

- Amending the draft Special Economic Zone (SEZ) bill to be followed by its voting and implementation. Proposed amendments include removing the 75 per cent export requirement for enterprises based in the zone, though duties and tariffs for domestic production would remain. Also, the proposal is to replace the positive list with a negative list;
- Creating a designated institution–Board of Investment (BoI)–to promote investment in Nepal;
- Establishing a professional one-stop investor facilitation service in the BoI and after-care policy advocacy through the Nepal Business Forum (NBF) *(more on the NBF below);*
- Developing capacity to conduct investment promotion in the BoI;
- Developing an investment promotion action plan for the BoI based on a clear industrial policy.

Trade Facilitation

Trade facilitation has improved in recent years, but Nepal remains at a comparative disadvantage when compared to India and Bangladesh. This is shown in table 11, which compares the days and costs for transport and clearing of comparable 20-foot containers.

[7] See Chapters 5, 6, 7, 8, 9, and 10 of the full report for expanded discussion.

Table 11:
Trade Facilitation: Nepal Compared to India and Bangladesh for 20' Container

	Nepal		India		Bangladesh	
	Days	Cost (US$)	Days	Cost (US$)	Days	Cost (US$)
Exports						
Document preparation, technical control, customs clearance	18	$589	10	$370	17	$410
Ports and terminal handling	4	$275	3	$175	5	$420
Inland transport and handling	19	$900	4	$300	3	$140
Total	41	$1,764	17	$945	25	$970
Imports						
Document preparation, technical control, Customs clearance	19	$600	12	$510	23	$590
Ports and terminal handling	4	$275	6	$200	4	$585
Inland transport and handling	12	$980	3	$250	2	$200
Total	35	$1,825	20	$960	29	$1,375

Source: World Bank, *Doing Business 2010*

Improvements suggested in the study include:

- Pursuing the recently launched Customs Modernization Programme 2009-13;
- Improving customs valuation;
- Developing post-clearance audit capability;
- Developing a risk management plan, including recognition of TPC, instead of batch testing of agro-food consignments;
- Strengthening the National Trade Facilitation Committee to improve inter-agency cooperation and coordination of border inspections;
- Establishing and strengthening food testing laboratories;
- Harmonizing computerized systems with India;
- Reviewing with India improvement in movement of rail wagons at Raxaul and improving access to Indian ports (under the Rail Service Agreement);
- Increasing transparency and allowing new entrants through review of the customs broker licensing.

Technical Standards

NTIS 2010 identifies some of the following needs:

- Proceeding with legal reforms and establishing a 'national accreditation board' separate from Nepal Bureau of Standards and Metrology (NBSM). Subsequently, ensuring the National Accreditation Board is recognized internationally;
- Implementing the WTO/TBT Agreement Code of Good Practice on Standards;
- Achieving international accreditation for a number of government and private sector laboratories, including NBSM and Department of Food Technology and Quality Control (DFTQC) laboratories;
- Registering private and international product/management system certifiers;

- Developing capacity of the TBT enquiry point, including capacity to provide Nepalese exporters with foreign regulations and standards affecting their exports;
- Improving awareness of standards among Nepalese producers and exporters.

Sanitary and Phytosanitary Measures

The ability of Nepalese exporters to meet the SPS requirements of importing countries is especially important in view of the opportunities for further growth in agro-food exports and the difficulties encountered by producers in this area in recent years. Table 12 shows selected examples of the recent SPS issues and the resulting lost exports.

Table 12:
Recent Examples of SPS Issues Affecting Nepalese Agro-food Exports

Product	Country/organization banning	Reason for ban	Period	Approximate value of exports lost
Ginger	India	Plant quarantine issues and later trade policy	Disruption occurred in 2004	NRs 1.6 billion
Honey	EU and Norway	Lack of monitoring programmes for pesticides and other residues	Since 2002/03, though partially circumvented by one producer/ exporter	NRs 76 million (approximately NRs 9.4 million for eight years)
Lentils	India	Quality tests and fumigation requirements	For approximately one year in 2003/04	NRs 100 million

NTIS 2010 identifies some of the following needs:

- Finalizing various legislative reviews, amending Acts, adopting implementing regulations as needed. Of particular importance are the Pesticides Act 1991 and Pesticides Rules 2050 (1994);
- Consolidating current 'focal/contact point' arrangements for SPS, including responsibilities for the WTO, Codex, OIE, IPPC, biosafety and biodiversity, currently distributed across DFTQC, DLS, DoA, and Ministry of Forest and Soil Conservation, into a unified biosafety agency to eliminate overlaps;
- Developing a clear policy on TPC. Developing traceability capability at grass roots level through private, NGO and government extension services. Expanding the use of GAP and IPM and GAP certification (possible use of the Malaysian system);
- Promoting organic certification;
- Developing an enabling environment for food production and processing, including access to clean air, treatment of water, and disposal of solid waste.

Intellectual Property Rights

NTIS 2010 notes the lack of awareness of intellectual property protections as a competitive advantage among Nepalese producers and the need for building a culture of intellectual property rights (IPRs) in Nepal among business, government, and legal professionals. Table 13 shows possible 'intellectual property vehicles' for the 19 export potentials.

Table 13:
Possible IP Vehicles for 19 Export Potentials

		Possible IP Vehicle	Comments	Governmental Action required
	Agro-food			
1	Cardamom	Trademark or Geographical Indication (GI)	GI if it has special/ specific quality	GI law needs to be legislated
2	Ginger	Trademark or Geographical Indication (GI)	GI if it has special/ specific quality	GI law needs to be legislated
3	Honey	Collective Mark or Geographical Indication (GI)	GI if it has special/ specific quality	GI law needs to be legislated
4	Lentil	Trademark		
5	Tea	Geographical Indication		GI law needs to be legislated
6	Instant noodles	Trademark		
7	Medicinal herbs and essential oils	Patent or Traditional knowledge (TK)	If invention, patent; otherwise TK	Indigenous knowledge law needs to be legislated
	Craft and Industrial Goods			
8	Handmade paper	Collective mark		Amend Industrial Property law to include provision for collective mark
9	Gems and jewelry	Traditional knowledge or design		Indigenous knowledge law needs to be legislated
10	Iron and steel			
11	Wool products	Collective mark, certification mark or trademark	Certification mark may be necessary to certify purity or no child labour	Amend Industrial Property law to include provision for certification mark
12	Pashmina	Collective mark and certification mark	Certification mark	Amend Industrial Property law to include provision for collective mark
	Services			
13	Tourism	Service mark and trademark		
14	Labour services	Service mark		
15	IT & BPO services	Trademark or service mark; Patent		
16	Healthcare	Service mark and trademark		
17	Education	Service mark and trademark		
18	Engineering	Service mark or trademark		
19	Hydro-electricity			

NTIS 2010 identifies a number of areas for intervention, including:

- Ensuring the Industrial Property (IP) Act complies with the TRIPS Agreement;
- Amending the IP Act to include collective and certification marks;
- Adopting new legislation covering Traditional Knowledge (TK) and Geographical Indications (GIs);
- Establishing a semi-autonomous agency to consolidate enforcement of IP and copyright. Changing the staffing regime for the new agency to emphasize skills and expertise (away from the civil servant mandatory rotation system);
- Creating public database of patents, etc.;
- Creating fiscal incentives to encourage Nepalese firms to utilize IPR protections and develop IPR products and services (e.g. tax holiday for trademark registration abroad, for R&D).

Domestic Service Sectors Regulations

NTIS 2010 identifies domestic service legislation and regulations often as the most critical barrier to their expansion in foreign markets. The study identifies a number of cross-cutting issues, including:

- Responsibilities that are scattered among 17 agencies/institutions and the lack of a single champion to promote services exports. The WTO Service Enquiry Point is weak. The TEPC focuses only on goods exports;
- Poor understanding of services sectors among policymakers due to poor statistical measurement instruments;
- Widespread need for reviewing and updating domestic regulations pertinent to individual service export sectors;
- Foreign exchange restrictions on Nepalese residents (US$2,000 per person), a hindrance to service export promotion, including tourism;
- Weak airport infrastructure;
- A weak and expensive Internet high bandwidth, a hindrance to many services (and goods) export sectors;
- The need to improve training of skilled labour to favour development of higher value added export services, including health, education, engineering, and others. Entry of skilled foreign professionals is often too restrictive, but they are key to assisting in skill upgrading;
- Insufficient use and understanding of IPRs as a competitive advantage *(also see the section on IPRs)*.

Sector-specific Issues[8]

Sectoral Issues

Notwithstanding the cross-cutting issues discussed in the previous sections, the study also identifies sector-specific issues for the 19 export potentials that require individual attention. These are summarized in the 19 sector profiles presented in Action Matrix Part II.

Admittedly, the coverage of sector-specific issues in the NTIS is limited. What is presented in the NTIS constitutes only initial profiles of strategic and policy needs in each of the 19 sectors. Some additional formulation of individual sector export strategies with supportive sector-specific policies might be required to ensure proper development of those sectors.

The sector-specific analyses also suggest that any capacity development work focusing on addressing cross-cutting NTB and business environment issues should clearly be supportive of the specific needs of the 19 priority sectors in the respective areas. For instance, to the extent that some of the most interesting opportunities in agro-food exports are primarily in key commodities, priority should be given to building up the SPS capacity in the area of plant protection, building up the IPR capacity in areas such as GIs, improving SPS inspection and quarantine procedures for those at border posts, etc.

Trade Support Network

Furthermore, the sector-specific analyses point to some additional shared needs in the area of business development services for exporters at grass roots level not discussed in the section on 'cross-cutting issues'. *NTIS 2010* takes a look at these in Chapter 11. These issues include:

- Most exporters lack good access to strong trade support services;
- The capacity and skills of trade support institutions (TSIs) need strengthening from the apex to the grass root level;
- There is a need for networking TSIs—government, business, and non-governmental organizations at the central, district, and grass root level as a tool both to ensure better flow of information and expertise down to the business community and to provide economies of scale in capacity-building programmes;
- The GoN needs to redefine the TEPC's mandate to fit within a network approach and restructure it so that the organization's staff and skills match its functions;
- There is a need for a stronger and more organized framework for business issue advocacy and dialogue between the government and the business community in the form of NBF;
- Dissemination of business and trade information at exporter level is weak;
- Exporters' managerial skills are limited;
- Exporters' skills in exploring new market opportunities are weak;
- Exporters need support on technology and design and to learn how to design and develop products to meet demand in importing markets;
- Exporters need more information about technical standards requirements under WTO, regional, and bilateral arrangements;
- The lack of extension services at producer level is particularly burdensome in agro-food exports *(see the section on SPS)*;
- The GoN should make stronger use of its overseas diplomatic missions to assist exporters in accessing overseas markets by posting trained commercial counsellors who would interact closely with the country's TSIs.

[8] See Chapters 2 and 11 of the full report for expanded discussion.

Managing AfT and TRTA[8]

Effective strategic development of Nepal's export sector will require enhanced ODA and improved coordination and management mechanisms on the part of the GoN and Nepal's trade stakeholders. As noted early in this Executive Summary, the environment for aid management has changed extensively since the mid-2000s and the pressure is on the GoN to put in place effective National Implementation Arrangements (NIAs) for AfT and TRTA. The process is already underway and includes:

- Setting up NIAs in line with those proposed under the Enhanced Integrated Framework (EIF), including:
    1. A National Steering Committee (NSC) chaired by the Chief Secretary;
    2. A National Implementation Unit (NIU) based in the MoCS, with associate members in key line Ministries ('extended' NIU);
    3. Technical Committees of key line Ministries to support the NIU;
    4. An EIF focal person to lead the NIU and liaise with DPs and Geneva/WTO/EIF and AfT Initiatives;
    5. A donor facilitator.
- Moving forward on organizing and launching the NBF to create a structured mechanism for dialogue between the Government and the business sector and an organized system for accountability of actions. The GoN will need to ensure that there is strong coordination between the work of the NBF's Working Group on Trade and that of the Technical Committees created under the EIF;
- Building the capacity of and support to the NIU and Technical Committees so that they can formulate a plan, secure funding, procure services and equipment, implement, and monitor and evaluate implementation of TA projects to support the objectives of *NTIS 2010*. Some small, quick-win proposals should be identified early on after the launch of *NTIS 2010* for formulation by members of the Technical Committees and implementation by relevant organizations to keep the momentum that has developed with the formulation of the NTIS and EIF Tier 1. Use of clear and transparent procurement and implementation procedures is critical;
- Strengthening coordination mechanisms among DPs and between them and the GoN during implementation of the NTIS. Experience elsewhere shows it is extremely important for the government to avoid a piece-meal, weakly coordinated approach to the formulation, funding, implementation, and monitoring of technical assistance. The GoN needs to institutionalize a regular process of consultation with and reporting to DPs. It needs to take the lead in making such coordination happen. In addition, DPs must coordinate and consult with each other and support the Government's efforts towards improved coordination. In this regard, the donor facilitator has a critical role to play in providing leadership among them during implementation;
- Developing a dedicated web platform to monitor progress and communicate achievements against the NTIS and NDP benchmarks and against Paris Declaration principles on aid effectiveness.

[9] See Chapter 12 for expanded discussion.

NEPAL TRADE INTEGRATION STRATEGY 2010
ACTION MATRIX PART I

CONSOLIDATED CROSS-CUTTING ACTIONS

NEPAL TRADE INTEGRATION STRATEGY 2010
ACTION MATRIX PART I: CONSOLIDATED CROSS-CUTTING ACTIONS

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 1: Strengthen trade negotiations (especially Bilateral)							
Trade Negotiations	Multilateral and Regional • Develop negotiation agenda and strategy and strengthen inter-ministerial consultation mechanisms	MoCS and concerned Ministries	Yes			2 years	
	Bilateral • Develop negotiation agenda and strategies and strengthen bilateral focus on potential export sectors	MoCS and concerned Ministries	Yes			2 years	
	India • Accelerate formalization of Nepalese transit cargo's access to a second eastern Indian port and a western Indian port	MoCS and concerned Ministries	Yes			1 year	
	• Review procedures relating to cross-border movement of rail wagons at Raxaul in the context of Rail Service Agreement	MoCS	Yes			2 years	
	• Negotiate increased and expedited transparency in applicable Indian customs rules, duties, procedures and non-discriminatory application of such. Create a system for Nepalese traders to report issues to MoCS	MoCS, MoF/DoC	Yes	Yes		2 years	
	• Negotiate elimination of fees and duties imposed by Indian states on Nepalese exports in contravention of WTO rules and commitments	MoCS, MoF	Yes			5 years	
	• Negotiate with India a more robust law enforcement against tampering of seals and cargo content within India and develop procedure for registering and addressing Nepalese traders' complaints	MoCS, MoF/DoC	Yes	Yes		2 years	
	• Establish a coordination committee with India to discuss harmonization of computerized customs systems	MoF/DoC, MoCS	Yes			2 years	
	• Negotiate increased number of Indian border points with ability to clear all cargo, including SPS-sensitive cargo, and develop integrated check-posts	MoCS, MoF/DoC, MoAC, MoI and line concerned Ministries	Yes	Yes	Yes	2 years	

NEPAL TRADE INTEGRATION STRATEGY 2010
ACTION MATRIX PART I: CONSOLIDATED CROSS-CUTTING ACTIONS

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 1: Strengthen trade negotiations (especially Bilateral)							
Trade Negotiations	China • Complete the (underway) negotiations on preferential tariff rates for Nepalese goods	MoCS and concerned Ministries	Yes			2 years	
	• Negotiate improved rules of origin	MoF/DoC, MoCS	Yes			2 years	
	• Negotiate improved access for selected Nepalese service exports (e.g. tourism, including passenger transport by road, health)	MoCS, MoTCA, line concerned Ministries	Yes			1 year	
	• Negotiate increased and expedited transparency in applicable Chinese customs rules, duties, procedures, standards, and negotiate non-discriminatory application of such. Create a system for Nepalese traders to report issues to MoCS	MoCS, MoF/DoC	Yes			2 years	
	Other Bilateral Negotiations • Negotiate additional bilateral agreements with labour-importing countries to assist with temporary migration of Nepalese workers	MoCS, line concerned Ministries	Yes			2 years	
	• Establish embassies or consular offices in main destinations for Nepal labour exports	MoFA, MoLTM					
	Cross-cutting • Develop negotiations skills and develop trade policy research capacity	MoCS/NIU and concerned Ministries	Yes	Yes	Yes	2 years	
Objective 2: Strengthen the technical capacity of domestic NTB and other business environment supportive institutions							
Investment Facilitation	• Formulate and adopt an Act establishing a Board of Investment (BoI)	MoI/Council of Ministers	Yes		Yes	2 years	
	• Establish BoI, provide budget, recruit qualified staff	MoI, MoF		Yes	Yes	2 years	

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 2: Strengthen the technical capacity of domestic NTB and other business environment supportive institutions							
Investment Facilitation	• Develop and implement capacity development programmes for BoI staff	BoI		Yes	Yes	5 years	
	• Establish one-stop investor facilitation service within BoI	BoI		Yes	Yes	2 years	
	• Amend and enact draft SEZ bill, including removal of 75% export requirement. Duties on domestic production to remain. Negative list to replace positive list	MoI		Yes		1 year	
	• Undertake rigorous investment benchmarking studies comparing Nepal to other locations	BoI, MoI, MoCS			Yes	2 years	
	• Develop a strategic investment promotion plan for Nepal	BoI, MoI		Yes	Yes	2 years	
	• Carefully review opportunity and merit of consolidating investment promotion and trade/export promotion functions in a single agency	MoI, MoCS	Yes	Yes	Yes	5 years	
	• Implement investment campaign in key target sectors, monitor results, improve approach	BoI		Yes	Yes	5 years	
	• Consider supplier development scheme linked to FDI in SEZ to promote local multiplier effect and technology transfer	BoI		Yes	Yes	5 years	
Trade Facilitation	• Implement Customs Reform and Modernization Plan 2009-13	MoF/DoC		Yes	Yes	5 years	IMF
	• Customs automation: Introduce new ASYCUDA modules, including selectivity module; redesign procedures; train staff	MoF/DoC		Yes	Yes	2 years	
	• Valuation: Improve valuation database and create interface with ASYCUDA; train staff	MoF/DoC		Yes	Yes	2 years	
	• Post-clearance audit: Build capacity within DoC; train staff	MoF/DoC		Yes	Yes	2 years	
	• Risk management: Formulate a risk management plan, including establishment of procedures, identification of monitoring indicators, and creation of unit; train staff	MoF/DoC	Yes	Yes	Yes	2 years	
	• Strengthen National Trade Facilitation Committee to improve inter-agency cooperation and coordination of inspection at border	MoCS, MoF/DoC		Yes		2 years	
	• Review licensing arrangements for customs brokers; increase transparency; allow for new entrants	MoF/DoC	Yes			2 years	
	• Formulate a master plan and improve physical facilities at border points (warehousing, cold storage)	MoF/DoC, MoC, concerned Ministries		Yes	Yes	5 years	ADB, GoI, PRC, GoN in different areas

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 2: Strengthen the technical capacity of domestic NTB and other business environment supportive institutions							
	• Further negotiations with India on movement of rail wagons and access to sea ports. See Objective 1						
Technical Standards	• Speed up revision of Act and Regulations on Nepal Standards	MoI, NSBM, MoCS	Yes			1 year	
	• Circulate draft revised Act, including among WTO member countries, as per WTO provision for comments	MoCS, MoI NBSM TBT Enquiry Point	Yes			2 years	
	• Nepal Council of Standards (NCS) to enforce 'Code of Good Practice for Preparation, Adoption and Application of Standards' and notify ISO/IEC	NCS		Yes	Yes	2 years	EU/UNIDO + ESCAP project
	• Post-clearance audit: Build capacity within DoC; train staff	MoF/DoC				2 years	
	• Establish a national accreditation board; establish affiliation to international accreditation bodies; start accreditation process within Nepal	MoCS, MoI		Yes	Yes	5 years	
	• Develop and maintain registry of private, government or NGO, domestic or international product/ system certifiers operating in Nepal	New National Accreditation Board		Yes		2 years	
	• Strengthen WTO/TBT Enquiry Point to assist in providing Nepalese exporters with information on standards to be met in importing countries; strengthen capacity of Enquiry Point to coordinate preparation of WTO notifications	MoCS, NBSM	Yes	Yes	Yes	2 years	
	• Raise awareness of exporters about product and process standards	NBSM, DFTQC, product associations		Yes	Yes	2 years	
	• Formulate national standards for products of export interest harmonized with ISO/CODEX/IEC standards	NBSM, DFTQC	Yes			5 years	
	• Accelerate accreditation of government and private sector laboratories, including NBSM and DFTQC laboratories. for product certification by internationally recognized accreditation bodies. In SPS, focus should be on accredited food testing, including MRL and microbiology	NBSM, DFTQC, other NGO or private sector organizations		Yes	Yes	5 years	EU/UNIDO and ESCAP project; WB; ADB
	• Facilitate establishment of specialized laboratories by product associations under the PPP approach for special purposes (e.g. collective mark, trademarks, non-destructive assessments, etc.)	Product associations, MoI, NBSM, DFTQC, MoCS		Yes	Yes	5 years	

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 2: Strengthen the technical capacity of domestic NTB and other business environment supportive institutions							
	• Accreditation of several ISO 9000, ISO 14000, SA 8000 certifiers, including possibly NBSM; review/address possible conflicts with standard setting role of NBSM	NBSM, other NGO or private organizations		Yes	Yes	5 years	EU/UNIDO and ESCAP project; WB; ADB
	• Accreditation of several HACCP and ISO 22000 certifiers, including possibly DFTQC; review/address possible conflicts with standard setting role of DFTQC	DFTQC, other NGO or private organizations		Yes	Yes	5 years	EU/UNIDO and ESCAP project; WB; ADB
Sanitary and Phytosa-nitary Measures	• Adopt Regulations under the new Plant Protection Act 2007	MoAC/PPD	Yes	Yes		Just completed	
	• Amend current Food Act 1966	MoAC/PPD/ DFTQC	Yes		Yes	2 years	FAO
	• Review Animal Health and Livestock Act 1998 and Nepal Veterinary Council Act B.S.2055 (2000)	DOLS	Yes		Yes	2 years	OIE
	• Review Pesticides Act 1991 and Pesticides Rules B.S.2050 (1994) to ensure that crop protection comply with changing and most stringent MRL requirements of trading partners	MoAC/PPD/ DFTQC	Yes		Yes	2 years	FAO + WHO (CODEX)
	• Strengthen WTO SPS Enquiry Point, including up-to-date website, staffing and procedures to answer queries, etc.	MoAC/PPD/ DFTQC		Yes	Yes	2 years	FAO + WHO (CODEX)
	• Launch internationally acceptable traceability systems based on GAP certification run through TPC. Could be launched initially for tea, lentils, cardamom, and ginger	PPP involving specialized NGOs, private sector and farmers, MoAC/ DFTQC	Yes	Yes	Yes	2 years	
	• Consolidate SPS focal points (currently spread among DFTQC, PPD, DoLA, MoFSC) in a newly created biosafety agency with specialized staff outside traditional public servant staff rotation system	DFTQC, PPD, DoLA, MoFSC	Yes	Yes	Yes	2 years	FAO
	• Launch efforts to promote enabling environment for food production and processing with focus on: clean air, potable water, proper treatment and disposal of soiled water and solid waste	Partnership between MoAC, MoH, NGOs	Yes	Yes	Yes	5 years	WHO

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 2: Strengthen the technical capacity of domestic NTB and other business environment supportive institutions							
Intellectual Property	• Amend (or legislate new) Industrial Property Act to include collective and certification marks and to comply with WTO TRIPS Agreement	MoI, MoCS	Yes		Yes	2 years	
	• Legislate Traditional Knowledge (TK) and Geographical Indication (GI) laws	MoI	Yes		Yes	2 years	
	• Strengthen capacity of current intellectual property offices, including training of staff, and equipment. Develop relevant registration databases	MoI, Ministry of FAPACA & Culture		Yes	Yes	2 years	
	• Launch awareness campaigns among businesses on the use of intellectual property protection as a competitive advantage, including among exporters in NTIS export potential sectors	MoI, Ministry of FACAPA & Culture		Yes	Yes	2 years	
	• Establish GIs for several export commodities	MoI, MoAC		Yes	Yes	2 years	
	• Establish an intellectual property training institute to train users, regulators, creators, judges, lawyers, and all who work on IP issues	MoI		Yes	Yes	5 years	
	• Consolidate all intellectual property and copyright matters in an intellectual property agency with specialized staff outside traditional public servant staff rotation system	MoI, Ministry of FACAPA & Culture	Yes	Yes	Yes	5 years	
Service Sectors Environment (cross-cutting)	• Establish a 'champion' institution to promote Nepalese service exports (current WTO Service Enquiry Point weak; TEPC focuses on goods; 17 uncoordinated agencies responsible for services)	MoCS and concerned Ministries		Yes		2 years	
	• Carry out detailed review of domestic laws and regulations pertinent to individual service sectors and their impact on service exports	MoCS and concerned Ministries		Yes	Yes	2 years	
	• Modify current restrictions on foreign exchange imposed on Nepalese residents ($2,000)	MoF, Nepal Rastra Bank	Yes			1 year	
	• Formulate regulations for full enforcement of the Telecommunications Act to heighten competition (and lower cost) of high band-width internet	MoIC, NTA	Yes		Yes	2 years	
	• Improve government statistical instruments to measure, forecast and monitor contribution of services and services exports to Nepalese economy	CBS Nepal Rastra Bank		Yes	Yes	5 years	
	• Upgrade airport infrastructure, including at TIA	MoTCA, CAAN		Yes	Yes	5 years	

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 3: Strengthen the export capacity of 'inclusive' export potential sectors							
Individual Priority Export Potential Sectors	• For possible actions in the 19 Priority Export Potential Sectors identified in *NTIS 2010*, see individual SWOT analyses with recommendations in Action Matrix Part II	MoCS, MoI, MoAC, product associations, others					Selected TA from USAID, GTZ, UNDP, ITC, AUSAID, UNCTAD, WB
	• Formulation of individual sector strategies and supportive policies for the 19 export potentials, as needed	MoCS, MoI, MoAC, product associations, others	Yes		Yes	2 years	
Trade Support Institutions	• Strengthen government-business policy dialogue through creation and effective operation of NBF	MoI, concerned Ministries, apex business organizations		Yes	Yes	Launched May 26, 2010	IFC/DFID
	• Merge the Export Promotion Forum (EPF) operated by FNCCI with NBF's Working Group on Trade and/or bring EPF under Working Group on Trade umbrella	MoI, MoCS, FNCCI		Yes		1 year	
	• Create structured network of trade support institutions (TSIs)	MoCS, selected govt agencies, apex business organizations, product associations, other business NGOs		Yes	Yes	2 years	
	• Clearly redefine mandate of TEPC, restructure TEPC and match staff and skills with clearly defined functions	MoCS, TEPC		Yes	Yes	5 years	
	• Use TSI network to develop TSI grass roots service capacity in areas of business and trade information, awareness of NTBs (especially standards), product design and development, technology, etc.	TSI Network		Yes	Yes	5 years	
	• Launch GAPs, food safety and quality management systems based on TPC for selected Nepalese agro-food exports	Cooperatives and farmers groups, specialized NGOs, product associations, specialized govt agencies	s	Yes	Yes	5 years	

Main Outcomes	Recommended Actions	National Partner(s)	Requirements			Possible Timeframe	Recent or Current TA
			Policy And Regulatory Development/ Reform	Institutional Strengthening/ Development	TA		
Objective 4: Strengthen GoN's capacity to coordinate and manage TRTA and AfT and to implement NTIS							
EIF National Implementation Arrangements	• Align priorities of *NTIS 2010* and 3-year NDP	NPC and MoCS	Yes		Yes	1 year	UNDP, DFID, Finland
	• Incorporate Trade Sector Strategic Priorities of GoN in Nepal Development Forum	NPC, MoF, and MoCS	Yes		Yes	1 year	UNDP, DFID, Finland
	• Get *NTIS 2010* approved by Council of Ministers	MoCS, GoN	Yes		Yes	1 year	UNDP, DFID, Finland
	• Establish effective NSC	MoCS, GoN		Yes	Yes	2 years	EIF Tier 1
	• Establish effective NIU located in MoCS with focal points in key Ministries, with staffing and procedures (procurement, M&E,…)	MoCS, concerned Ministries		Yes	Yes	2 years	EIF Tier 1
	• Establish effective NTIS Technical Committees. Provide strong linkages between NTIS Technical Committees and NBF Working Groups	MoCS, concerned Ministries		Yes	Yes	2 years	EIF Tier 1
	• NIU and Technical Committees to formulate and secure funding to implement *NTIS 2010* Actions	MoCS/NIU, Technical Committees		Yes	Yes	5 years	
	• NIU and Technical Committees to identify, formulate and secure funding for small, quick-win TA proposals early on after launch of *NTIS 2010* (in line with short- to medium-term priorities identified in NTIS)	MoCS/NIU, Technical Committees		Yes	Yes	1 year	
	• Institutionalize regular consultations between MoCS and development partners	MoCS, DPs		Yes	No	2 years	
	• Create a dedicated web platform to communicate and monitor progress against NTIS and NDP benchmarks and Paris Declaration	MoCS/NIU, DPs		Yes	Yes	2 years	

NEPAL TRADE INTEGRATION STRATEGY 2010
ACTION MATRIX PART II

SWOT ANALYSES OF 19 POTENTIAL EXPORT SECTORS WITH RECOMMENDED ACTIONS

NTIS 2010

1. CARDAMOM

Strengths	Weaknesses
➥ World's largest exporter of large cardamom ➥ Geo-climatic advantage in cardamom cultivation ➥ Typically planted in areas where nothing else grows; thus does not compete for land with other crops ➥ Major source of cash income for farmers despite price fluctuations ➥ Unlike many other agricultural products, dried cardamom keeps well; thus, minimal risks associated with physical loss during trade ➥ Nominal or zero tariff rates in most markets	➥ Lack of knowledge and adoption of best practice cultivation, quality improvement, and post-harvest handling ➥ Low quality of product ➥ Little or no incentive to boost quality ➥ High transportation costs ➥ Lack of collection centres at farm level ➥ Lack of storage facility at farm and trader level ➥ Illegal taxes and fees collected in districts
Opportunities	**Threats**
➥ Large scope for expanding production area and increasing productivity and quality ➥ Availability of new technologies like CO2 extraction for extracting essential oil ➥ Increasing adoption of improved processing technology; shift from traditional *bhatti* to improved *bhatti* drying system ➥ Potential for market development for large cardamom in markets where small green cardamom is consumed ➥ Branding in niche markets	➥ Farmers' indifference towards large cardamom because of *Chhirke*, *Phurke*, and *Jurjure* diseases and market volatility ➥ Farmers not organized for farming of and trading in cardamom ➥ Dominance by a single export market (India) ➥ Deteriorating transport infrastructures

Actions

- Strengthen the Cardamom Association to address the interest of all stakeholders involved in the value chain.
- Examine/implement programmes for aggregation and consolidation of the industry (cooperatives, marketing associations) so as to improve marketing efficiency and obtain third party certification (TPC).
- Work with traders/exporters to increase value addition activities within the country and reduce dependence on Siliguri (India) market.
- Promote large cardamom in markets that traditionally purchase small cardamom. Create a brand image for Nepal's large cardamom.
- Investigate possibility of creating a collective mark or a Geographical Indication (GI) for Nepal's large cardamom.
- Introduce improved farming and post-harvest practices in cardamom-growing areas.
- Widely introduce the *bhatti* drying technology to improve quality.
- Improve extension services and focus on eradication of crop diseases such as *Chhirke*, *Phurke*, and *Jurjure*.
- Ensure proper testing equipment in central and regional laboratories.
- Strengthen research and development (R&D) work and produce and distribute seed-based (opposed to sucker-based) quality planting materials on a large scale.
- Explore avenues for product diversification, catering to spice, essential oil, cardamom paper, incense, colour extraction industries.

2. GINGER

Strengths	Weaknesses
➥ Traditional crop skilfully incorporated into farming system ➥ Possibility of inter-cropping with maize, bean, and vegetables; so, a very profitable crop ➥ Very nominal labour cost for weeding ➥ Fertile red soil and hill climate of Nepal highly suitable for producing ginger with excellent aroma and other valuable chemical contents ➥ Preference for Nepalese ginger by consumers in domestic and export markets ➥ Ease of entry into ginger farming and marketing due in part to existence of established cooperatives for marketing the crop ➥ Significant contribution of this sector to farmers' income, employment, and overall rural development	➥ Perishable nature of product ➥ No permanent solution to the problem of *Gano Kuhine* (rhizome rot) and lack of technicians to deal with this problem ➥ No agro service centre for ginger ➥ Lack of good storage, including cold storage; so, high risk of post-harvest damage ➥ Lack of post-harvest technical services ➥ Intermittent listing of ginger as a restricted item by India
Opportunities	**Threats**
➥ Increasing use of crop by Ayurveda pharmaceutical industries in Nepal and India ➥ Promotion of new and diversified spices ➥ High potential for product diversification—jam, jelly, candy, sauces—and other opportunities for value addition ➥ Potential for increasing production area ➥ Government's classification of ginger as a high value crop and existence of supportive policies ➥ Introduction of Ginger and Spice Development Programme by Department of Agriculture (DoA) to provide technical support for farmers	➥ Very high price fluctuations ➥ High dependence of market price in Nepal on ginger production and pricing in India ➥ Indian government's discouragement of import of ginger from Nepal whenever Indian ginger production is high ➥ Loss of up to 30 per cent ginger in the field and during storage due to rhizome rot disease ➥ More efficient production in hilly areas of India as well as in Tibet

Actions

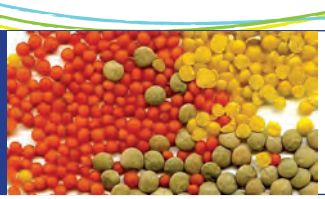
- Introduce higher yielding and better quality varieties of ginger. (The Government Ginger Research Farm has released a new improved variety suitable for Nepal's soil and climate that can maintain the Bose nature and quality of ginger. Multiplication of this seed can provide an excellent opportunity for improving the quality of Nepalese ginger.)
- Examine/implement programmes for aggregation and consolidation of the industry (cooperatives, marketing associations) so as to improve marketing efficiency and obtain TPC.
- Implement focused programmes to expand ginger farming areas, production, and yield in major areas/districts.
- Encourage contract farming for ginger.
- Provide training in post-harvest handling.
- Establish ginger collection centres (similar to vegetable collection centres) by involving farmers' groups, local government, DOA and traders.
- Conduct regular business meetings of entrepreneurs, investors, farmers, and technicians to address various production- and trade-related issues.
- Diversify into processing ginger extracts (oleoresin).
- Encourage processing of ginger for product diversification and value addition within the country, including simple drying.
- Resolve the unexpected and *ad hoc* import restrictions imposed by India through trade negotiations.

3. HONEY

Strengths	Weaknesses
➥ Abundance of natural flora and fauna ➥ Availability of appropriate climatic conditions ➥ Unique flavour due to climatic conditions and flora ➥ Very positive socioeconomic impact, especially income to poor landless farmers ➥ A lot of groundwork already done by different organizations in the past ➥ Involvement of a large number of entrepreneurs in the processing and marketing of honey ➥ High quality production ➥ Good relation between beekeepers and stakeholders	➥ Lack of facilities and equipment for good export quality honey ➥ Near saturation of domestic market and entrepreneurs' inability to find new markets other than India ➥ Non-inclusion of Nepal in the list of countries that are authorized to export honey to EU ➥ Absence of proper equipment and laboratory facilities to test for residue presence (MRLs)—a bottleneck for EU market and others ➥ Weak road/transportation access to pasture areas ➥ Lack of pasture management ➥ Small quantities of production
Opportunities	**Threats**
➥ Sale through tourism ➥ Organic and fair trade honey ➥ Relation with international buyers ➥ Growing consumption ➥ Growing number of commercial beekeepers	➥ Competition from both India and China in major markets ➥ Strikes and volatile political situation ➥ Use of pesticide in bee pasture area

Actions

- Provide support to growers in pesticide management and establish effective quality supervision and control systems.
- Submit a pesticide residue control plan to the EU and other honey importing countries.
- Strengthen testing laboratory capacity in the area of MRL.
- Set up internationally accredited laboratories that can certify produce for conformity with importing market standards.
- Acquire organic certification.
- Reduce import duties and VAT on packing materials and abolish other duties and charges.



4. LENTILS

Strengths	Weaknesses
➥ High quality product ➥ Good reputation of Nepali lentils in the world market. High appreciation in South Asia and the Middle East compared to bold lentils or lentils of other colours and quality. ➥ Use of modern technology (colour sensing, de-stoner) ➥ Long experience in exporting ➥ Easy availability of raw materials–80 per cent of national production concentrated in 10 districts ➥ Average yield higher than that of India ➥ Can be grown profitably even by small farmers in residual rice fallows with the existing soil moisture, thus saving on additional fertilizer, irrigation, and tillage	➥ Unavailability of expert technicians in time ➥ Labour scarcity and security issues ➥ Unavailability of quality inputs, specifically improved and suitable varieties of seeds ➥ Absence of local safety measures (police protection and security) ➥ Poor condition of roads to farming areas ➥ Containers for shipment are not easily available and are costly ➥ Lack of organized domestic markets for collection
Opportunities	**Threats**
➥ Coming up of large new markets ➥ Improving packaging ➥ Training of farmers in quality of product and crop farming ➥ Possibilities to boost yield through simple technology ➥ Huge markets in the neighbouring Bangladesh, Pakistan, and Sri Lanka	➥ Government policies such as export ban. ➥ Unstable government affecting production, procurement, marketing, and export ➥ Relatively high labour costs ➥ High susceptibility to pests and diseases ➥ Sharply increasing domestic prices due to overall food scarcity is draining exportable quantity ➥ Growing competition from Canadian and Australian exports in South Asian markets ➥ Increasing importance of SPS measures in importing markets

Actions

Export facilitation

- Under the GoN policy, classify lentils as exportable and refrain from imposing export restrictions (as was done in 2009).
- Examine/implement programmes for aggregation and consolidation of the industry (cooperatives, marketing associations) so as to improve marketing efficiency and obtain TPC.
- Develop quality certification to strengthen the image of Nepalese exports on world market.
- Strengthen quarantine treatment (fumigation) posts, with equipment and training, at the border.
- Conduct study tours of millers, exporters, and government officials to attractive overseas markets.
- Facilitate the Association of Nepalese Rice, Oil and Pulses Industries (ANROPI) to set up agents in key attractive markets.
- Improve lentil data generation and analysis at all levels. Separate lentil from 'pulses' categories at all administrative levels (MoAC, Nepal Agricultural Research Council [NARC], MoCS, Customs, TEPC, Central Bank, etc.).

Procurement facilitation

- Lower and then eliminate district taxes affecting export products.
- Establish a lentil market information system.

- Establish lentil wholesale markets in Bardia, Banke, Dang, Rupendehi, Chitwan, and Parsa, operating three months a year during and after harvest.
- Hold yearly meetings of stakeholders in Birgunj, Bhairahawa, and Nepalgunj.

Production expansion facilitation

- Strengthen monitoring and assistance from District Agriculture Development Office (DADO) to farmers, focusing on simplified technical recommendations (priming the seeds, flush irrigation, weeding).
- Strengthen the capacity of NARC Agronomy Division in charge of pulses in the area of lentils.
- The National Agriculture Research and Development Fund should pay priority attention to lentils and call for bids for conducting client-oriented research.
- Launch proactive and sustained improved seed production programmes as a major undertaking of the private sector, NARC and Nepal Seed Company.
- Strengthen private sector distribution of inputs (fertilizers and herbicide) with support from DADO and commercial banks.

5. TEA

Strengths	Weaknesses
➥ Very favourable climatic and geographical conditions for developing better quality and specialty product ➥ Code of conduct drawn up to achieve GAP/GMP and Fair Trade practices ➥ Farmers cooperatives willing to work together ➥ Contribution to poverty alleviation ➥ Environmentally friendly ➥ Growing demand in global market ➥ Institutions are in place to support the sector ➥ Private sector driven with donor support ➥ Government grants and subsidies on land lease, plant material, tools and machinery, loans at attractive interest rates ➥ Low labour cost	➥ Low yield of cultivation areas ➥ Poor quality chemicals (insecticides and pesticides), overuse, and incorrect application ➥ Lack of technical schools and weak research facilities ➥ No central auctioning system and inaccessibility of Nepalese tea to Indian auction markets ➥ Shortage of tea processing capacity with proper standards (Some factories and packing plants are unsuitable for tea processing and pose health hazards) ➥ Scarcity of skilled personnel and expertise ➥ Inconsistent quality of product to meet buyers' demand ➥ Lack of facilities and standardized quantities to prepare large consignments for export ➥ High transportation costs ➥ Irregular supply of electricity ➥ Financing difficulty ➥ Delayed VAT refunds ➥ Inadequate market information ➥ Lack of well-equipped and accredited laboratories ➥ Lack of a national organic certification system
Opportunities	**Threats**
➥ New and rapidly expanding global market for organic green tea ➥ Large areas with young tea bushes and availability of land for expansion and new planting ➥ Existence of new organically certified growing areas for bio-organic tea ➥ Good brand image, including GI, could be established, especially in view of the deteriorating image of Darjeeling (India) tea ➥ Support available for obtaining internationally recognized certification for new and existing factories ➥ World market prices are expected to rise	➥ Loss of credibility with major buyers due to poor performance by exporters, including failure to meet requirements of delivery samples ➥ Lack of human resources, especially in quality control and export marketing, contributing to loss of credibility ➥ Deteriorating infrastructure ➥ Very high dependence on Indian market

Actions

- Improve transportation of green leaf from farm to factory by: a) constructing access roads to tea plantation pockets; b) importing commercial vehicles suitable to the industry on duty-free basis; c) introducing improved plucking bags to keep the leaf intact.
- Encourage establishment of new factories to increase domestic capacity for processing green leaf.
- Improve quality control through measures such as farmers ensuring that their pluckers follow the practice of selective plucking and factories are very strict in their control of leaf intake and reject all unsuitable and damaged leaves at factory door.
- Increase vigilance on the indiscriminate use of chemicals and pesticides. Control import of inferior quality inputs (substandard and banned products).
- The NTCDB must develop a scheme to register all tea farmers and processors, however small their operation. Undertake regular inspections of premises so that inferior, substandard, and polluted products are not sent to market whether export or domestic.

- Encourage and assist medium and large export-oriented factories to obtain ISO/HACCP certification.
- Adjust processing practices to different seasons to make optimum use of the leaf quality and their inherent characters and bring out the maximum natural flavour, aroma, and strength.
- Strengthen the existing government food testing laboratories for certifying and conducting tests and analyses on residue level, heavy metal presence, and fungal infestation and issue internationally recognized reports.
- Develop a GI for orthodox tea areas similar to Darjeeling in India and Dimbula/Nuwara Eliya in Sri Lanka as a basis for branding and marketing such produce.
- Set up R&D institutional facilities (tea training centre or tea school) for further quality improvement and productivity growth.
- In order to improve transparency in marketing, quality, and prices, set up tea auctioning facilities and/or improve access to international auction centres.
- In order to tap new markets, identify product diversification opportunities-based trends in import volumes by target countries, taste preferences, tea grades demanded, etc.

6. INSTANT NOODLES

Strengths	Weaknesses
➥ Skilled manpower ➥ High investment in the latest technology ➥ Large production capacity already in place ➥ Well established domestic industry supplying raw materials and services	➥ Lack of skills in penetrating new markets ➥ India requires quality certification for each consignment and producers are not well prepared to meet this requirement ➥ Power cuts are a problem ➥ Difficulty in sourcing wheat flour, palm oil, and seasonings from countries other than India ➥ *Halal* certification not available for exporting to some Muslim and Arab countries
Opportunities	**Threats**
➥ A very good and expanding market in bordering Indian towns and world markets ➥ A large and expanding domestic market that can work as a cushion to buffer against possible export setbacks	➥ Political instability ➥ Insecurity ➥ Strikes and *bandhas* (shutdowns) ➥ Very high competition in domestic market ➥ Prevention of Food Adulteration (PFA) restrictions

Actions

- Encourage wheat flour mills to increase the utilization of their production capacity.
- Provide incentives for establishing new wheat flour mills in the country to lessen import dependency of noodle factories.
- Establish food laboratories for *Halal* certification and to meet the requirements under the PFA.

7. MEDICINAL HERBS AND ESSENTIAL OILS

Strengths	Weaknesses
➥ Availability of collectors and intermediary workers in wild herbs and organized human resources for production of essential oils ➥ Biodiversity in Nepal offers possibility to explore new and high-value products ➥ Proactive policy, directives, and regulations ➥ Production extension prospects through contract farming system and purchase assurance to farmers ➥ Cultivation and processing centres in more than 15 districts ➥ Organic certification from internationally recognized organizations of different countries having accreditation such as ECOCERT, NASSA, IFEAT, EFFEO, etc.	➥ Labour problems, in particular high wages compared to productivity ➥ High collection charges ➥ Weak knowledge of scientific agronomical practices and post-harvest technologies within the sector ➥ Inability to target attractive markets due to lack of exposure and lack of knowledge of international marketing practices ➥ High cost of suitable packaging materials ➥ Lack of technical and policy support for processing and exporting of herbal products and essential oils
Opportunities	**Threats**
➥ Increasing environment- and nature-conscious buyers ➥ Growing preference for organic and herbal-based products over synthetic products ➥ Gradual shifting from crude export to processing of herbal products and essential oils ➥ Strong government and donors	➥ Competition from India and China ➥ Low-price markets for chemical/synthetic substitutes ➥ High technical entry barriers with stringent rules for processed materials ➥ Question of sustainability of some raw materials

Actions

Product and Technology

- Support technology such as fractional distillation and steam processes for oil extraction to reduce material wastage and to lower the production costs.
- Encourage private sector investment in farming, processing, and production of forestry and herbal products for better use of resources.
- Facilitate internationally recognized product certification.
- Coordinate efforts of INGOs and NGOs in supporting production development and technological improvement. Emphasize a market-oriented approach.
- Initiate R&D efforts towards processed products such as perfumes, food flavouring elements, and fragrances.

Market Access

- Promote use of better packaging materials such as certified aluminium containers.

Institutional and Human Resource Development

- Establish specialized institutions in the Mid-Western Region to support economically deprived people from mountainous regions through development of herbs and aromatic plants and plant products. Collaboration with the Jadi Buti Entrepreneurs Association of Nepal (JABAN), Nepalgunj might be appropriate.

Business Environment

- Set up a national laboratory through public-private partnership (PPP) that issues internationally recognized product certificates. Such a laboratory should be supplemented by a branch in Nepalgunj.

- Review, simplify, and improve current procedures for collection, royalties, restrictions, EIA, IEE, processing, customs tariffs on inputs, and exporting of herbs and herb products. For example, if a laboratory is set up in Nepalgunj, the Department of Forestry should permit export on the basis of laboratory test and certification in Nepalgunj itself without visiting Kathmandu.
- Implement a policy and institutional system for issuing an internationally recognized organic certificate developed by the MoAC.
- Introduce a policy to intensify the use of raw herbs in production of essential oils and herbal products.
- Introduce collective patent rights to cover species of Nepali origin like Timur and others.
- Remove all district development taxes imposed on movement of herbs within Nepal.
- Strengthen bilateral negotiations with India and request the Government of India to (a) incorporate selected herbs in the list of importable items of Department of Plant Quarantine and (b) issue open transit movement permit to Nepalese herbs from one state to another.

8. HANDMADE PAPER AND PAPER PRODUCTS

Strengths	Weaknesses
➥ *Lokta* and *Argheli* are strong and unique raw materials ➥ Nepali *Lokta* paper is particularly strong due to its harvesting in high altitude ➥ Unique indigenous paper production technology is an important selling point ➥ Value added through unique artworks ➥ Strong and efficient cluster of artists and entrepreneurs	➥ Limited ability to meet large orders ➥ Weak design and product development capacity to meet demand of new markets ➥ Lack of training in design and product development ➥ Lack of proper marketing and promotion efforts, market information, and market contacts ➥ Lack of management skills in cottage industries
Opportunities	**Threats**
➥ High domestic market prospects for *Lokta* paper ➥ Foreign market prospects for value added paper products	➥ Price competition with similar products from China PRC, India, and Thailand ➥ Product designs not well protected from imitation by domestic and foreign producers ➥ Domestic threats stronger than international threats, in particular in terms of labour issues and strikes

Actions

Product and Technology

- Develop new nurseries and plantations for *Lokta* production through farmers' cooperatives and community forest users groups in as many districts as possible.
- Improve the paper supply capability by improving the processing system, including reducing wastage of raw material and improving the quality of paper. This could reduce wastage by 25 per cent and improve quality by 20 per cent.
- Develop use of alternative energy for processing (currently intensive use of wood-fuel).
- Support the development of new sources of raw materials such as *Ketuke*, banana, and bamboo.
- Support the development of new products that are marketable in developed countries.
- Support appropriate waste water treatment plants for paper-making factories.
- Use royalties collected from *Lokta* to finance training in *Lokta* collection, nursery management and cultivation, and for the development of a paper processing system.

Market Access

- Develop the trade promotion capacity of enterprises in the sector, including possibly support the costs of participation in international trade fairs, buyer-seller meetings, production of brochures, etc.

9. SILVER JEWELRY

Strengths	Weaknesses
➥ Good access to imported quality of sterling silver, gems, and semi-precious stones ➥ Skilled and efficient artists and craftspersons ➥ Unique arts, design, and product development expertise ➥ High value added (40 to 50 per cent of export value) ➥ Registered trademarks in markets ➥ Extensive exposure to international markets ➥ Joint efforts to develop designs with buyers ➥ Well-established markets, e.g. in Japan ➥ Product specialization and regular design development	➥ Lack of sophisticated new technology such as (a) laser machine for soldering, (b) casting equipment set, (c) modern software for design, (d) other innovative technical support for product development ➥ Lack of support for design and product development ➥ High costs of imported raw materials and packaging materials ➥ High cost in developing market linkages ➥ Difficulty in identifying matching partners ➥ Risks of single buyer to some exporters ➥ Lack of policy and institutional support to strengthen competitiveness ➥ No institution to certify genuine products
Opportunities	**Threats**
➥ Industry sources see the EU as the most promising market for newly created designs ➥ Many new and potential markets such as Russia, South Korea, and South Africa ➥ Japanese market is promising with new customers and demand for new items ➥ Niche products for Japanese market such as wedding rings ➥ Availability of trainable labour all over the country	➥ Difficulty in competing on price as overall economic environment has increased the costs of various components ➥ Threat from competitors in India, Thailand, Indonesia, and Mexico. ➥ Foreign competitors have imitated original Nepali designs ➥ Trade volumes do not support high costs of market penetration ➥ Mixing of cadmium has affected Nepal's reputation in market

Actions

Product and Technology

- Encourage establishment of internationally accredited testing laboratories for precious metal and gem stones.
- Encourage improvement of jewelry production through (a) creation of a jewelry school responsible for R&D and training, (b) matching fund to support investment in modern tools, equipment, etc. to upgrade quality, (c) dissemination of information technology, production process, raw materials, modern tools, equipment, market, designs, etc.
- Private firms and companies should dialogue and cooperate with government on urgent need to improve product.
- Reduce duties and taxes on import of equipment and tools.
- Develop gold, platinum, white gold, and titanium jewelry.

Market Access

- Facilitate Nepal's participation in specialized international trade fairs and exhibitions.
- Undertake market research periodically and disseminate findings to manufacturers and exporters.
- Organize buyer-seller meetings in Kathmandu and major markets abroad.
- Promote export of jewelry to India by including a special provision under the bilateral trade treaty.

10. IRON AND STEEL PRODUCTS

Strengths	Weaknesses
➥ Substantial investment from the private sector ➥ Up-to-date technology for producing quality products that meet market requirements ➥ Long experience in production and export management ➥ Strategic location for trade with India, Bhutan, Bangladesh, and Pakistan ➥ Several factories certified by the Indian Institute of Standards (ISI) and permitted to use the ISI mark ➥ Several factories approved for quality standards by Power Grid Corporation of India ➥ Cooperation by Hindustan Zinc Ltd in supplying zinc to Nepal ➥ Ability of Nepalese factories to deliver in time and in quantities requested ➥ Product costs slightly lower than those of Indian origin	➥ High dependency on transport provided by Indian companies ➥ High cost of pre-shipment financing ➥ Poor labour relations ➥ Low labour productivity
Opportunities	**Threats**
➥ Nepal-India Trade Treaty provides duty-free access to Indian market ➥ Tariffs are gradually being reduced in the regional markets, particularly Bhutan and Bangladesh ➥ Recent speedy development of infrastructure in Nepal, India, and Bhutan has increased market prospects ➥ Huge unmet demand in India, Bhutan, and other regional markets ➥ Possibility to improve labour productivity and workers' attitude if appropriate labour regulatory provisions are introduced	➥ High cost, unreliable, and inadequate electricity supply ➥ Frequent changes in Indian trade policies and frequent changes in the provisions of Nepal-India Trade and Transit Treaty ➥ Competition from Indian suppliers likely to get stiffer now that Bihar State Government has come up with a package of industrial incentives, including 20 per cent subsidies on plant and machinery purchases and tax holidays ➥ Political instability leading to insecurity, demand for bribes, labour strikes, civil unrest, etc.

Actions

- Streamline the duty drawback system.
- Streamline customs clearance procedures, including customs post open 16 hours/day and closed only on Sundays to match Indian schedule.
- Open additional customs transit points for land route to Bhutan (currently, only one border post allowed).
- Allow free transit of trucks on selected routes linking Nepal, India, and Bhutan.
- Provide adequate electricity supply. Give priority access (16 hours/day, 6-day-a-week) to export-oriented sectors.
- Streamline and lower the cost of pre-shipment financing. The current cost of L/Cs is too high.
- Revisit foreign exchange systems. Forward exchange contracts are too expensive.
- Review and update Nepal Export Promotion Act and Regulations.

11. CHYANGRA PASHMINA PRODUCTS

Strengths	Weaknesses
➥ Favourable climatic and geophysical conditions for *pashmina* production ➥ Well-developed skills and expertise ➥ Workers available on reasonable wages ➥ Established and reliable suppliers of raw materials ➥ Quality commitment and consistency ➥ Availability of large numbers of looms and equipment ➥ Capacity to meet the orders of fashion boutiques in assorted designs and quantities ➥ Innovative and new products supported by foreign designers and buyers ➥ Excellent, long-term relationship with buyers ➥ Good upstream linkages and product image	➥ High cost of new product development ➥ Difficulty in producing large volumes to serve big buyers ➥ Lack of high-skilled technicians in knitting plants ➥ Weak capacity for luxury packaging ➥ Lack of market networks and limited market information ➥ Absence of national infrastructure to support the sector ➥ Limited capacity to develop market-oriented designs and colour combinations
Opportunities	**Threats**
➥ New markets can be identified as there is always good demand for textile fashion products in world markets ➥ USA and Middle East are the most promising high-end markets ➥ EU has niche market for adapted new and quality products such as blankets and pullovers	➥ Strong price competition from India and China ➥ Lack of guaranteed and genuine raw materials ➥ Possibility of market resistance for low-priced imitation fibre products, in spite of the mechanism for the introduction of collective trademark being in place

Actions

Product and Technology

- Initiate *Chyangra* farming development activities on a pilot project basis at suitable locations to meet at least 20 per cent of the total *Pashmina* yarn requirement.
- Set up *Pashmina* processing plants on cooperative basis at appropriate locations (e.g. Upper Mustang, Mugu, Dolpa or Humla) to encourage poor livestock farmers in remote areas to enter into production.
- Implement a long-term sericulture project for the development of a silk sector in Nepal (*Pashmina* shawls usually contain 30 per cent silk), based on the findings of a recent feasibility study.
- Set up a national institute with appropriate laboratory testing capacity and research and training facilities to provide quality assurance for *Pashmina* and silk materials.
- Undertake a feasibility study to set up a *Pashmina* yarn spinning plant in Nepal.
- Undertake a feasibility study to set up a *Pashmina* knitting sector in Nepal.

Market Access

- Support marketing of a *'Chyangra Pashmina'* trademark in the most promising markets with support from the Chamber of Commerce and Nepalese diplomatic missions.
- Develop proper market research capacity to assist the sector in product design and development, as well as market promotion strategies and programmes. *Pashmina* is a fashion item that requires continuous market watch.
- Strengthen market linkages by organizing Nepal's participation in the most relevant international trade fairs and exhibitions in existing and promising new markets.

12. WOOL PRODUCTS

Strengths	Weaknesses
➥ Good infrastructure and sufficient investment ➥ Qualified designers and quality products ➥ Timely delivery ➥ Well-established relationships with buyers ➥ Good prospects in world market, particularly in the USA	➥ Lack of information on modern technology ➥ Seasonal business ➥ High dependence on wool importers on quality and grade assurance ➥ Weak knowledge of marketing techniques, weak business networking, and lack of information on modern technology ➥ High transportation costs ➥ No improved breed sheep farming initiative
Opportunities	**Threats**
➥ Prospective new buyers identified in the USA and the Netherlands ➥ Additional opportunities in Japan ➥ Different types of products, such as blankets and pullovers, in high demand in different markets ➥ Promising market for natural fibre products	➥ Continuously changing fashion products requiring continuous investment in product development and design ➥ Competition from Ecuador, Colombia, and Peru in the US market ➥ Increasing competition from China PRC ➥ Lack of protection of designs

Actions

Product and Technology

- Strengthen provision of reliable wool quality.
- Enhance grade testing laboratory facilities and certification capacity.
- Conduct a feasibility study for technology upgrading in felt products, including the possibility of introducing new stamping machines and other new technology.
- Launch improved-breed sheep (e.g. *Vyanglung*) farming projects as pilot projects with provision for wool collection, cleaning, scouring, and carding centres on regional basis.
- Establish high-tech yarn spinning plants through PPP of woolen knitting industries and exporters with government support and coordination.
- Establish a training and R&D institute to train workers in production, market-oriented design and colour combination, and use of machines and quality standards.
- Support introduction of computerized design and knitting technology.
- Improve the wool spinning system to supply colour blended and high quality yarns in assorted varieties and colours.
- Make provision for additional modern plants to provide dying services to small knitting factories.

Market Access

- Encourage strategic alliances between exporters and knitters in villages to increase outsourcing of knitting through collectors or institutions located in districts outside Kathmandu valley.

13. TOURISM

Strengths	Weaknesses
➥ Natural endowments ➥ Attractive trekking areas ➥ Rich in religious and cultural tourism ➥ Service-oriented and courteous people ➥ Innovative services and long experience of some travel operators	➥ Poor infrastructure, including electricity supply ➥ Insufficient and substandard airport infrastructure ➥ Weak national flag carrier ➥ Insufficient air capacity, both international and domestic (domestic mainly for trekkers) ➥ Shortage of professional and skilled human resources
Opportunities	**Threats**
➥ Expansion of air links due to liberalization and better infrastructure ➥ Discovery and launching of new trekking routes, especially in western Nepal ➥ Attracting Indian and Chinese tourists in other tourism activities as well	➥ Political instability and unfavourable travel advisories ➥ Internal disturbances such as strikes, bandhas, etc. ➥ Banks reluctant to invest in tourism sector due to political instability ➥ Deteriorating infrastructure ➥ Brain drain of qualified human resources

Actions

Infrastructure and Core Services

- Reinstate peace and security in the country. This is the number one requirement, especially in view of the forthcoming Nepal 2011 Tourism Year (eight 4-star hotels shut down during the conflict).
- Improve roads linking Kathmandu, Chitwan, Lumbini and Pokhara, the four main tourist destinations in the country.
- Improve airport infrastructure, including at TIA in Kathmandu and at airports in Pokhara and Bhairahawa.
- Improve communication infrastructure and provide 24-hour banking and medical services in Chitwan and Pokhara.
- Introduce an open sky policy to invite larger number of domestic and international airlines.
- Promote community-based rural tourism.

Market Access and Market Development

- Provide necessary incentives for the establishment of educational and training institutes for the sector.
- Improve branding and marketing of Nepal as a tourist destination, including by involving Nepalese missions abroad in promotion campaigns.
- Encourage cross-border tourism, including improvement in border immigration for increased inflow of tourists from India and China (strengthened negotiations with the Chinese authorities might be required). Chinese tourists face problems at Kodari border now and then. Open additional entry points in Jhulaghat and Baitadi.
- Reduce bureaucratic requirements for tourism entrepreneurs and tourists.
- Review the very high mountaineering royalties instituted by the GoN to climb Himalayan peaks. For instance, the US$50,000 fee per party to climb Mt. Everest has encouraged parties to climb from the Chinese side.
- Amend the now-defunct Hotel and Restaurant Act 2036 (1980).

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14. LABOUR SERVICES

Strengths	Weaknesses
➥ Temporary overseas employment has helped generate domestic employment and foreign exchange earnings and has been a major contributor to poverty reduction in Nepal ➥ Good quality of services provided by temporary migrant Nepalese workers ➥ Availability of training centres to prepare migrant workers before assignment	➥ Most temporary migrant workers are low-skilled ➥ Remittance are rarely invested in productive enterprises in Nepal ➥ Migration causes brain drain ➥ Lack of a clear government policy on manpower companies
Opportunities	**Threats**
➥ Improve skills of migrant workers to increase their potential salaries ➥ Channel more remittances into productive investments in Nepal ➥ Improve assistance to migrant workers through labour attachés in overseas diplomatic missions and bilateral agreements with host countries ➥ Migration can help build skills of workers (brain gain)	➥ High dependency on economic situation and immigration policies of receiving countries

Actions

- Improve consular services to assist Nepalese workers abroad, e.g. through increased number of relevant officers in Nepalese embassies in major host countries.
- Launch training programmes in various districts with the involvement of manpower companies, i.e. on PPP. Establish additional training centres, if necessary.
- Monitor and supervise existing training institutes for quality.
- Strengthen skill development programmes.
- Launch basic awareness and information programmes in the districts at the time of issuing passports.
- Increase awareness of the Foreign Employment Act 2007.
- Assess the need for a separate labour bureau for migrant workers and take necessary steps for the establishment of such a bureau.
- Put in place a mechanism to look at the complaints made by the workers returning before their contract period.
- Simplify bureaucratic procedures at government departments prior to departure and introduce one-stop payment of fees.
- Encourage and enable Nepalese manpower companies to visit the foreign companies concerned when problems arise.
- Improve channels for remitting earnings.
- Increase access of Nepalese women temporary migrants to overseas employment markets.
- Strengthen GoN's ability to negotiate bilateral agreements with receiving countries and use this as an opportunity to diversify destination markets.

15. IT AND BPO SERVICES

Strengths	Weaknesses
➥ Low labour costs ➥ Steady improvement in human resources and communication infrastructure ➥ Less affected by political disturbances, strikes, *bandhas*, etc. compared to other sectors ➥ Reduced income tax for IT services (20 per cent instead of 25 per cent) ➥ Located between two large outsourcing markets, viz. India and China ➥ Skilled and qualified manpower ➥ Proficiency in English (call centres)	➥ Limited and expensive bandwidth (five times more expensive than in India) due to lack of competition ➥ Poor infrastructure, i.e. electricity supply, availability of fuel for generators ➥ Cumbersome VAT refund process ➥ No facilitating regulation for outsourcing and call centres as export-based industry ➥ Lack of data on the sector ➥ Lack of double taxation agreements with exporting countries
Opportunities	**Threats**
➥ Global IT/BPO market is growing fast ➥ Opportunity to enter Indian and Chinese markets because of Nepal's location advantage and knowledge of languages (Hindi, English for Indian market) ➥ Opportunity for learning from joint venture partners (exposure in production, sales, and management)	➥ Political instability and security challenges ➥ Brain drain of skilled people

Actions

- Create conditions for a truly competitive telecommunications market. (The absence of a clear regulatory environment is an issue. The overlapping mandates of the Ministry of Information and Communications and the Ministry of Science and Technology are a problem.)
- Create a larger IT park with good infrastructural facilities (electricity and telecom in particular) and attractive to private investors. (The IT park outside Kathmandu is too small and can accommodate only up to 300 people.)
- Review tax structure and fiscal incentives for the sector.
- Reduce taxes on IT equipment (hardware and software) and facilitate VAT refund.
- Amend foreign exchange restrictions (The limit of US$2,000 per person going abroad is a hindrance to proper development of overseas business opportunities.)
- Collect data on the sector, e.g. through an extensive survey of IT/BPO companies with regular follow-up. Regularly monitor export values to increase public awareness of the economic importance and dynamism of the sector.
- Identify bottlenecks and possible government/donor interventions and strategies.
- Promote Nepal in India and elsewhere as an offshore destination for IT and BPO services.
- Encourage CMMI certification of enterprises in the sector. (CMMI is the international benchmark for quality and delivery. Only one Nepalese firm is currently certified.)

16. HEALTH SERVICES

Strengths	Weaknesses
➥ Enjoyable and suitable climatic conditions ➥ Low costs in some areas ➥ Availability of unique traditional Ayurvedic medicines ➥ Well-equipped operating rooms and laboratories in some hospitals, some of which are ISO 9001 certified ➥ Significant FDI from Indian healthcare providers	➥ Overall health system is underdeveloped ➥ Lack of a clear strategy supported by a clear policy ➥ Shortage of doctors and nurses in the country, also due to out-migration ➥ Unreliable energy supply and other infrastructural constraints ➥ Lack of air ambulance ➥ No international recognition of healthcare facilities as assurance of quality healthcare
Opportunities	**Threats**
➥ Establishment of more medical colleges, including for foreign students ➥ Linking tourism to health tourism ➥ Potential to attract patients towards Ayurvedic medicines	➥ Political instability ➥ Brain drain of skilled human resources

Actions

- Improve statistical data through surveys, including surveys of foreigners that received, or are receiving, medical services in the country.
- Undertake detailed study of export potentials and attractive markets.
- Revise existing health-related laws and introduce new ones required to promote health services in Nepal, including the export of this service.
- Strengthen training of medical personnel in Nepal, including easing entry of foreign medical practitioners to support improved medical education.
- Encourage procurement of new technology, equipment and medicines for Ayurvedic medical services.

17. EDUCATION SERVICES

Strengths	Weaknesses
➥ Good climatic conditions ➥ Low cost of living for students ➥ Some cost advantages for support staff ➥ Degrees can be recognized abroad (although with some difficulty) ➥ Collaboration with and investment by Indian colleges ➥ Nepalese students also benefiting from foreign schools set up in Nepal ➥ Positive side-effects for the health sector due to teaching hospitals	➥ Quality of education is only average ➥ High dependency on Indian students ➥ No worldwide recognition as an exporter of education ➥ Main reason for (Indian) students to study in Nepal is lack of seats in the home country, which could change
Opportunities	**Threats**
➥ Possibility of attracting more students from countries other than India, e.g. SAARC countries, especially Sri Lanka ➥ Potential for students from Middle East and Gulf countries ➥ Better and more stable recognition policies by India could be a major incentive for more Indian students and colleges to move to Nepal	➥ High dependency on diploma recognition policies and general education policies in India ➥ Political instability

Actions

- Seek improved international recognition of Nepal's degrees, in particular in India. Education exports stand or fall on international recognition of education.
- Improve quality of education through improved teaching. Facilitate access of foreign teaching staff.
- Enforce use of English language in education as prescribed under the relevant amendment of Nepal Education Act.
- Publicize educational opportunities available in Nepal in foreign markets.
- Improve statistical measurement of the sector through regular surveys across universities (number, country of origin of foreign students, fees paid, degree obtained, etc.).
- Discourage political interference in the education sector.
- Improve infrastructure in educational institutes, including public ones, especially at university level.

18. ENGINEERING SERVICES

Strengths	Weaknesses
➥ Availability of well-trained manpower ➥ Some expertise in development of engineering software and geo-technical services ➥ Good English language skills among professionals ➥ Expertise in rural engineering, land development, and road design and construction	➥ General lack of experience in large-scale projects for participation in international tenders ➥ Weak expertise in proposal preparation ➥ Lack of expertise in hydropower, irrigation, and water supply sectors
Opportunities	**Threats**
➥ Possibility of penetrating new markets (i.e. Japan for outsourcing of engineering designs) ➥ Collaboration with foreign companies ➥ Massive development of infrastructure and hydropower within the country ➥ Booming construction sectors in India, other SAARC countries, China PRC, Gulf countries, and others that rely on foreign manpower	➥ Brain drain of qualified and experienced manpower ➥ Political instability ➥ High level of corruption in construction sector

Actions

- Formulate a sector policy supportive of export of engineering and consulting services and supportive Act, as necessary.
- Inform professionals about outsourcing opportunities from Nepal (For example, ADF is completing an outsourcing job for a Dutch company and WELINK is exporting engineering software and carrying out consultancy for foreign companies from Nepal).
- Establish a consultancy development centre. (At present, Nepal has only a small desk at the Ministry of Physical Planning & Works to support this sector.)

19. HYDRO-ELECTRICITY

Strengths	Weaknesses
➥ Huge production potential, estimated at between 43 and 83 GW (some estimates are even significantly higher) ➥ Possible positive side-effects on irrigation and flood control ➥ In addition to exports, potential for improving local power supply with little trade-off (current demand in Nepal is less than 1 GW) ➥ Could improve navigation on major rivers such as the Kosi and the Ganga by raising dry season water level and help mitigate risks of flooding, including in India	➥ Possible negative impact on environment and on rural population (resettlements) ➥ Weak regulatory body in Nepal ➥ Long lead time of 10 or more years for large-scale projects ➥ Limited willingness of Indian investors to pay above-cost prices (though this apparently works in Bhutan) ➥ Policy, Acts, and Regulations currently in force are not investment-friendly.
Opportunities	**Threats**
➥ High demand in India, with current peak load deficit in northern India estimated at 5,500 MW ➥ Exports to Bangladesh, where the peak load deficit is also significant, is technically possible ➥ Potential for export to China PRC, but long distance to urban areas ➥ High potential for fiscal revenue generation if royalties or other forms of taxation are set properly ➥ Additional revenue could be generated through storage (e.g. combined with mainly coal-powered generation in India) ➥ Opportunities for export-oriented backward linkages through supply to energy-intensive industries	➥ Initial likely dependence on a single buyer (namely India) might create high financial risks for investors (whether foreign or Nepalese/private or public) ➥ Political instability could deter foreign investors ➥ Welfare gains may be small. They are only assured if buyers are willing to pay above-cost prices.

Actions

- Formulate a proper legal framework. New Draft Act before parliament needs improvements (e.g. requirement that at least 10 per cent investment in project be Nepali does not work for large projects due to lack of investment resources). Simplify the system of taxation and royalties to assure transparency for investors and also significant tax revenues.
- Overhaul the system of licence issuance for hydropower projects.
- Set up a planning body and develop a master plan (with focus not only on generation but also on transmission).
- Set up a regulatory body to facilitate negotiations with potential public or private foreign investors. Make available a single-window system for potential investors.
- Undertake studies that analyse the different financing and pricing options for some potential projects and their costs and benefits, including an assessment of how hydropower projects could be rewarded for positive externalities (such as irrigation and flood control). Also include an analysis of Bhutan's approach and why this approach has so far not been successful in Nepal.
- Accelerate negotiations with India to update the existing power trade agreement and other necessary arrangements.

Government of Nepal
Ministry of Commerce and Supplies

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