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# Nepal - Mainstreaming trade policy

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## 1. Introduction

There is a renewed call for mainstreaming all important sectoral strategies and policies - such as national agricultural, industrial and trade policies - in the core national development framework, most notably the PRSP. In the context of trade, it is the trade policies that are to be mainstreamed. The recent initiative on Aid for Trade also makes a similar plea. Yet what exactly is this mainstreaming is not that obvious.

A commonly understood meaning of the term mainstreaming is that trade policies should be supportive of the core national development goals such as growth and poverty reduction. In a paper by UN ECA (UNECA 2004), the term is conceptualized as follows, "A working definition of the term mainstreaming trade policies in national development strategies involves the systematic promotion of mutually reinforcing policy actions across government departments and agencies, creating synergies in support of agreed development goals .... therefore, a deeper understanding of how trade policies can complement and reinforce policy actions across the board is an important step in achieving enhanced development results."

The key words are systematic promotion of mutually reinforcing policy actions, creation of synergies, and trade policies complementing and reinforcing policy actions in productive sectors. In this framework, trade policies and programmes need to support policies in productive sectors in a way that create positive synergies and avoid contradictions.

As other four case studies on this subject in this volume, a two-step approach is followed for the analysis. First, a reading is done of selected key national policy frameworks with a view to examine where and how trade and related policy issues

are articulated and outlined (Section 2). Four policy frameworks are covered: trade, agriculture, food security and industry. Section 3 then discusses several cross-cutting issues with a view to improving trade mainstreaming.

The background works leading to this and other papers under the FAO trade policy articulation project were undertaken by a team of analysts in Nepal on the basis of literature review, data analysis and stakeholder consultations. About 10 national experts contributed to the background work and papers. Many brainstorming meetings were held with government officers and non-state stakeholders for their views on policy mainstreaming.

## **2. Trade-related issues in national policy frameworks**

With a view to examining where and how trade and related policy issues in the context of agriculture and food security are mentioned and articulated, the following policy documents are reviewed: i) trade policy; ii) agricultural policy; iii) food security policy; and iv) industrial policy.

### **2.1 Trade policy**

There are three documents that are relevant for trade policy:

1. Trade chapter in the Three Year Interim Plan, 2007-10 (GoN 2007, TYIP07 in short), the current PRSP.
2. Nepal Trade Policy 2009 (GoN 2009, NNTP09 in short), and
3. Nepal Trade Integration Strategy 2010 (GoN 2010a, NTIS10 in short).

Of these, the NNTP09 can be considered to be the main trade policy, also being more recent than TYIP07. The NTIS10 is more useful as an export strategy and for action plans, and so is discussed in more detail in the next chapter on trade support measures. Nepal-India trade agreement is also an important trade policy framework in view of its significance on Nepal's trade policy options.

First, on the TYIP07 as a PRSP. Nepal's PRSP differs from typical PRSPs of other countries. The TYIP07 is the 11<sup>th</sup> periodic plan and looks similar, in presentation and content, to previous plans, with numerous sectoral chapters. In contrast, for example, the Ghana and Tanzania PRSPs in this volume are formulated differently. Ghana's PRSP is organised around three pillars, with all economic growth and productive sectors covered under Pillar 1, which is an agriculture-led growth strategy. Other relevant sectors are brought in, but within this framework and in support of this central focus. In Tanzania's case also, the PRSP is organized around some desired "outcomes", with various sectors coming into the picture only in

relation to their respective roles. In contrast, Nepal's TYIP07 comes into numerous sectoral chapters, one of them is on trade. As a result, maintaining synergy and avoiding contradictions (i.e. mainstreaming) is a much bigger challenge in Nepal's case.

As regards the overall development goal, the opening chapters of the TYIP07 and the sectoral chapters are consistent in that the main goals are economic growth, poverty reduction, inclusiveness, etc. The pervasiveness of "inclusiveness" as a goal in most chapters reflects the political changes that took place around 2006-07. There is little to comment on these goals except to note that the overall vision is consistent across sectoral policies.

The TYIP07's trade chapter begins by acknowledging that despite widespread economic and trade liberalization, income earnings and employment have not increased as expected. The reasons given are: i) limited industrial forward and backward inter-linkages; ii) limited utilization of local materials and inputs; and iii) low labour intensity in industrial activities. Also acknowledged is the geographical concentration of benefits from whatever trade did expand. This was said to be due to poor integration of export oriented industries with other sectors (agriculture, forestry, tourism, etc.) and the predominance of industries based on imported raw materials.

The challenge then is not merely whether Nepal's export trade expands but whether this trade is linked to the domestic resources and economy. There are several illustrations of Nepal's export trade surging up in the past, e.g. vegetable ghee to India, carpets, garments, handicrafts etc. and even acrylic yarn and copper products. There were reasons for this – in some cases driven by tariff differential between Nepal and India (e.g. vegetable ghee, acrylic yarn, copper, zinc oxide) and in others by special quotas, e.g. garments. In some other products, the comparative advantage is traditional skills, e.g. with woollen carpets and pashmina products. But these were also the industries that relied very heavily on imported raw materials. It is only in the case of agricultural products where exports were based on the Nepalese raw materials, e.g. tea, cardamom and ginger. The source of the strength of the handicrafts sub-sector was traditional skills but here too raw materials were mostly imported (e.g. metals, wool). The TYIP07 expresses a strong desire for changing the composition of export towards those that rely on local raw materials and resources as well as employment, so that trade contributes to poverty alleviation through linkages. It is against this goal that new trade policy need to be assessed.

The NNTP09 is Nepal's stand-alone trade policy. While the impression that comes out of trade policy in the TYIP07 is that the core concern is with fostering industry and trade strongly linked to domestic raw materials and resources, the NNTP09 gives an impression that the main concern is with expanding exports; the stated main objective is to raise the contribution of trade to economy, and through this to assist economic growth and poverty reduction.

A distinguishing feature of the NNTP09 is that it is a 100 percent export development policy. It is said in the background section that this trade policy is formulated with a view to rendering trade development sustainable by making export trade the principle basis for Nepal's trade policy. Accordingly, the NNTP09 does not address any issue on importables and import-competition. Why this is the case is not explained anywhere.

The NNTP09 comes with 13 policies and working policies, each with 8-10 points, for a total of 120 policy measures. These are all familiar policies and programmes many of which are also found in the TYIP07, as well as in trade policies of other countries. These include, for example, enhancing the role of the private sector, reducing transactions costs, providing various incentives, expanding market access through new trade agreements, establishing special export and economic zones, promoting services trade, developing human resource capability, and so on.

One other salient feature of the NNTP09 is fairly detailed product development programme, which amounts to one-third of the report. Identified products – 19 in total – are divided into two categories. Those in the first priority category, said to be products that are already established in export markets (plus also labour-intensive), will be developed as *Special Focus Area* products. These are garments, woollen carpets, *pashmina* and silk products, and handicrafts. Products in the second category are said to be those based on agriculture, forestry and handicrafts and with ample export potential. These will be developed as *Thrust Area Development* products. This category includes 15 products: tea, coffee, cardamom, ginger, vegetable seeds, lentil, honey, fresh vegetables, orange, leather, floriculture, herbs and oils, Nepali paper, wooden crafts and gems & stones. For each of these 19 products, the NNTP09 presents policies and programmes in 5-7 bullet points. In the case of the agricultural products, the NNTP09 also refers to Nepal Agriculture Perspective Plan or APP (APROSC-JMA 1995) and to recent agricultural policy, and calls for integrated development programmes.

The NNTP09 also makes provisions for various incentives to be provided to export-oriented industries and to exports. The next chapter on trade support measures discusses this topic in more detail. Briefly, these include dedicated funds (export promotion, product development, export guarantee scheme), infrastructures (export processing zones), subsidized loan, and miscellaneous facilities and incentives. These are also fairly well known incentive schemes. Unfortunately, not much is known about effectiveness of similar measures taken in the past as analyses and evaluation studies are rarely undertaken and published. In many places, these measures are stated in a general way, e.g. "will be facilitated", "will be encouraged" and so on, and so it all depends on what happens to implementation. Another comment worth making is the issue of the amount of resources that will be devoted to these programmes. There are a total of 19 priority products and if incentives involving cash and subsidy are given to all, these will be most likely distributed very thinly to

be effective. How decisions are made in the coming years on these implementation issues (e.g. in budget speeches) are going to determine the effectiveness of these measures.

The NNTP09 has constituted a 23 member Board of Trade under the chair of the commerce minister for overseeing policy and implementation issues. The Board is represented by five other ministries, but – and strangely - not the Ministry of Agriculture and Cooperatives (MoAC) despite the fact that 9 of the 19 priority products are agricultural. This is not a good sign for mainstreaming.

## **2.2 Agricultural policy**

How Nepal's agricultural policy defines the vision, strategy, policy and programmes matters greatly for trade policy given that so many agricultural products are designated as special products for export growth. Key agricultural policy documents are National Agriculture Policy 2004 (GoN 2004, NAP04 in short), agriculture chapter in three year plan (TYIP07) and Agri-business Promotion Policy 2006 (GoN 2006, ABPP06 in short). In introducing NAP04, it is said that it accepts the long-term vision and strategy of the 1995 APP but there has been a need for some reformulation in view of the recent developments like liberal economic environment, increased role for the private sector, and Nepal's commitments at the WTO and regional trade bodies. Its main objective is to contribute to food security and poverty alleviation through higher economic growth realized through commercial and competitive agricultural system. In the policy section, a total of 56 measures are presented under three policy categories: i) raising productivity and production; ii) developing commercial and competitive agricultural system; and iii) conservation and utilization of natural resources and environment.

Most of the policy measures and programmes are fairly general and well known. So what follows comments on a few selected measures of greater relevance to this paper. The NAP04 will continue pocket programmes, similar to that in the APP. Thus, a programme called Large Production Packets will be formulated under which infrastructures like roads, electricity, markets etc will be made available in an integrated way. Likewise, priority will be given to a programme for high value products along north-south and feeder roads, similar to the APP's programme for the hills and mountains. However, no specific criteria are specified to classify the products into high and low value. The NAP04 also provisions some incentive measures for private sector investment on commercial farming, processing and trade. This policy document also emphasizes import substitution, something the NNTP09 does not support, thus revealing an inconsistency in policy frameworks.

The ABPP06 further elaborates on some of the policies in the NAP04. It claims that it is formulated in order to provide momentum to agri-business promotion activities

as per the NAP04's objective of "making products competitive in regional and global markets by developing the bases of commercial and competitive agricultural system". Its three objectives are: i) to assist market-oriented and competitive agricultural production; ii) to contribute to capturing domestic markets and export promotion by developing agro-industry; and iii) to assist poverty alleviation through agri-business. One innovation of the ABPP06 that is not found in the NAP04 is the idea of growth centres and special production areas. The following three Special Production Areas, which will be coordinated with the Special Economic Zones of the industrial policy, will be delineated for the purpose of launching special programmes: i) Commercial Crop/Commodity Production Area; ii) Organic/Pest-free Production Area; and iii) Agriculture Products Export Area.

Most of the rest of the policy measures in the ABPP06, which number 44, elaborate the features of the production areas, infrastructures to be developed, and support and incentive measures to be provided. Briefly, these are facilities like business service centres, markets and collection points, provision of physical facilities like rural roads, loans based on group collateral, insurance schemes, and so on. It also specifies some incentive measures, notably reductions in customs duties for equipments, relief on electricity tariff, lease of land and waiving of land ceiling. But note that all these incentive and tax rebate policies are "subject to their inclusion" in the annual budget, i.e. these are not guaranteed.

As in many other developing countries, Nepal also embraced market-oriented principles and policies during the 1990s, and as a result state interventions and controls were reduced considerably. The role of the public sector was seen as a facilitator for the private sector and for service provision. These positions have been adopted in all subsequent policy frameworks. Thus, the TYIP07 emphasizes the role of cooperatives, private sector and local bodies in agriculture and notes that agriculture is gradually transforming towards commercialization from subsistence systems, with an emergence of cooperatives, private and community organizations and the corresponding shrinking of the government's role in the provision of services.

The long-term vision expressed in the agriculture chapter of the TYIP07 reads as follows, "to modernize and commercialize the agriculture sector, by acknowledging the APP and the National Agriculture Policy 2004 as the central policy for the development of agriculture". In support of that, five specific objectives are listed as follows:

1. To increase agricultural production and productivity.
2. To maintain food sovereignty by ensuring food security.
3. To make the agriculture and livestock sub-sectors competitive by transforming subsistence agriculture into commercial agriculture.
4. To increase employment opportunities for rural youths, women, *Madhesis*, persons with disability, Muslims and deprived groups.

5. To conserve, promote and utilize agricultural biodiversities through the development and dissemination of environment friendly technologies.

These are fairly standard objectives found in agricultural policies in other countries also, and need little comment. The second objective above - food sovereignty – can be an anomaly in that depending on how one defines this concept, it can have implications for policy.<sup>1</sup> The TYIP07's agriculture chapter does not elaborate this concept, nor in the chapter on food security. Policies and working policies are elaborated next. These are expressed in 80 bullet points under 18 sub-topics. These are also mostly well known development goals and programmes and need little comment.

All development plans and agricultural policies since 1995 have presented the APP as *the* agricultural development framework for Nepal. The APP approach with its priority outputs and priority inputs is in a way similar to that taken in the NNTP09. A 2006 evaluation of the APP implementation (APP-ISP 2006) is therefore instructive for the future of the trade policy also. Among other things, the study noted that during implementation neither the required resources could be mustered nor the true spirit of the APP could be put into place (more on this in the next chapter). Various reasons have been given for the weakness in implementation. These include lack of specific action plans to implement the programme, the political disruptions and conflicts, and the adoption of a highly devolved governance system in around 1999 that required some design changes. Also importantly, the APP is a multi-sector national agricultural development strategy and so its success hinged very much on synergies and effective coordination from different quarters – foremost, from ministries other than agriculture (e.g. rural roads, electricity, irrigation), the private sector and the NGOs.

The above is an illustration of the many programmes of this nature that go down poorly because ministries other than the lead ministry fail to accord necessary priority and resources as initially envisaged. There is a risk that the agricultural part of the NNTP09 might also share the same fate as the APP.

### **2.3 Food security policy**

Trade policy impacts on food security in various ways. In many other countries, food imports are regulated, or influenced, by trade policies with instruments like tariff and quota. In India and several east Asian countries, multiple trade interventions are used routinely to stabilize domestic food prices in the name of food security (Sharma and Morrison 2009). Nepal's situation is somewhat different in that due to

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<sup>1</sup> See food security sub-section below and the chapter on Ghana's trade policy for further discussion of this concept.

the porous border with India, trade policies have limited influence on food prices and supplies. Imports of food products from India are duty free and there is not much that can be done on that. From time to time, Nepal has also announced export restrictions (mostly bans) to maintain food supplies. This works to some extent as formal trade is restricted and informal trade discouraged as transactions costs go up.

In TYIP07, there is a section on food security, within Chapter 6 called *Social Justice and Inclusion*. Reference is also made to the interim constitution 2007 that recognized food sovereignty as a basic human right. But what this implies is not explained. Among the challenges listed are raising income sources of vulnerable groups, increasing productivity in both agriculture and non-agriculture, and maintaining a balance between self-reliance and food import dependency.

As it is the case in many places in TYIP07, statements made are not always clear and at times inconsistent. For example, the vision calls for ensuring food sovereignty right of *every individual* while the main objective aims at making the life of the *targeted people* healthy and productive by “improving national food sovereignty and food and nutrition situation.” Note a contradiction here – the vision targeting *every individual* while the objective speaking of *targeted people* (unless this refers to all Nepalese as the target group).

Also note an odd argument made. In the objective part, food security of individuals is said to be ensured by *improving* national food sovereignty. What is this national food sovereignty is not defined anywhere (note that the vision speaks of individual food sovereignty), but presumably this refers to high levels of self-sufficiency, because this is explicitly said in one of the objectives - to increase national self-reliance in basic food products. Indeed, this write-up itself is muddled because ensuring food security for targeted population groups does not necessarily require high level of national food self-reliance. Put together, it seems that the operational definition of national food sovereignty is higher self-reliance (how high?), which is not a well articulated view. Nepal's food self-reliance is already very high and this is acknowledged in the section on problems and challenges of the agriculture chapter, “although at the aggregate level the country appears to be self sufficient in food production, 55 districts are still food deficit.”

In view of the above, one conclusion is that there is a need for clarifying the concept of food security in Nepal's context, as well as that of food sovereignty as this has implications for policy.

Next in that food security section, there are a total of 14 bullet points for strategies and 31 bullet points for policies and working policies but do not provide any indication of priority and guidance to resource allocation. There are also hardly any policy measures that are trade-related and so obviously there is no possibility of any

contradiction with trade policy, which incidentally also does not address any food issue. The objective of raising incomes in agriculture and non-agriculture as a way to address food insecurity is consistent with the same objective stated in trade policy.

As regards synergy/contradiction, the above discussion points to two problems. First, trade policy should have addressed food issues. India is the main source for cereals and other basic foods for Nepal at the margin and during an emergency. This trade is free under Indo-Nepal trade agreement but gets disrupted when India implements export restrictions, as in 2008 and continued to 2010. In addition, India could also restrict the export of food items that it considers subsidized to consumers in India. For reasons like these, there is some apprehension in Nepal on full reliance on India for food import. This is a trade issue and could be handled from within the Indo-Nepal trade treaty, e.g. with some provisions that secure the supplies. There could be other trade issues on foods and other importables that might require similar attention. The TYIP07's food security chapter could have raised these as issues and then expect trade policy to contribute to resolving them, but it did not. Likewise, trade policy could also cover issues on foods and importables, rather than ignore completely these ground realities as is the case now.

## 2.4 Industrial policy

Industrial policy is relevant here because agro-industry is the backbone of industrialization and the objective is to export processed, value-added products. The TYIP07 has a stand-alone chapter on industry (Chapter 14). A new industrial policy has also been released in 2010 – Nepal Industrial Policy 2010 (GoN 2010, NIP10 in short). The TYIP07 enumerates many well known problems facing industries in Nepal, e.g. land-locked position and high cost, infrastructures, small size of the market, supplies of raw materials, electricity, political instability, strikes, closures, and so on. In the TYIP07, industry is referred to in a general way, “micro, cottage and small industries”, without any differentiation among the three categories – if any. This gives the impression that all policies (e.g. incentives) apply to all types of industry without differentiation (e.g. among cottage, small, medium or large).

The TYIP07's industry chapter could also have referred to the agriculture and trade chapters on policies on issues like priority industries and incentive measures (just as well these other two chapters could have done that). Instead, the issue of priority industries is left open when it says that sectors and products of comparative and competitive advantages will be identified, and, further, in reference to the programme, “to help dynamic industrial development by enhancing industrial linkages, and to promote investment by identifying high priority industries.” This is the same promise made in the agriculture and trade chapters of the TYIP07.

At the same time, the chapter mentions in various places the need for promoting (as written, “with extra emphasis”) industries that use local raw materials and thus

contribute to jobs and poverty reduction. But this is left vague, i.e. it is not clear how industries will be categorized for the purpose of “special treatment” and what are the elements of this special treatment (e.g. incentives).

While trade policy is mostly quiet on importables, the industry policy acknowledges the problem of import competition. It says that this competition will be managed through customs duties, anti-dumping duty and equalizing/ countervailing duty and competition provisions. On importables, one issue is the structure of tariff protection, namely whether it should seek selective protection, have low and uniform tariff, or an escalated structure. Neither the trade nor the industrial policy provides any guidance on this important issue. This issue is also linked to the use of domestic raw materials, which is stressed so much by all policy frameworks in their preamble sections but ignored subsequently in policy sections.

The NIP10 also makes provisions of several incentives to industries, such as the following:

- Reimbursing of customs and excise duties on imported raw materials, upon export, to industries selling their products to an Export Promotion House.
- Utilizing revenues from customs and excise duties on the production materials of intermediate goods for the production of exportable industrial goods.
- Adjusting (providing relief) customs and excise duties when an industry producing intermediate goods sells its products to other industries producing finished goods.
- Reimbursing excise duties if any other industry utilizes locally available raw materials, chemicals and packing materials, etc. on which excise duty is imposed.

Similar incentives are also announced in NNTP09, discussed further in the next chapter. These are fairly well known incentive schemes also found in industrial policies of many other countries. The basis for the incentives in the NIP10 is not known, nor is there any study in public domain commenting on the effectiveness of similar measures in the past. Not only is there a need for explaining why and how these measures will be effective, there is also a need for coordinating such policies across the three main sub-sectors – trade, agriculture and industry – because at the end of the day most of the products being targeted will be same.

As a last but important commentary, the NIP10 has constituted a 20 member Industrial Promotion Board under the chair of the industry minister for implementing the policy. The Board is represented by nine ministries, but not the MoAC – similar to the case with the Trade Board. This is very strange and almost by design undermines mainstreaming agriculture, industrial and trade policies.

### 3. Cross-cutting issues and concluding remarks

This paper reviewed in Section 2 key policy frameworks from the standpoint of mainstreaming agricultural trade policies, defined as a process whereby related policies and programmes are mutually consistent, create synergies and avoid inconsistencies. The review also included some commentaries on the policies. This section summarizes, also as concluding remarks, some cross-cutting issues on trade mainstreaming.

#### *The policy papers show considerable consistency on vision, goals and overall policy orientation*

Although there are several issues noted below, the policy papers show, on the whole, a great deal of consistency when it comes to the vision, goals and orientation. Thus, they all begin with some common objectives like contributing to economic growth, poverty reduction, and inclusive development. Likewise, all policy papers emphasize on market-orientation, liberal economic and trade policies, much reduced role for the state, and much stepped up role for the private sector, including cooperatives. There is also a shared desire for prioritization – focussing public resources and efforts to growth clusters and priority products. There is a notable strategic shift in emphasis from a predominantly production-focussed programme to one that addresses issues throughout the value chain – driven by market demand and export. There is a renewed debate taking place in Nepal, reflecting the large centre-left polity, on the role of the state in industry and agriculture. While this might influence some programmes and public spending, depending on which party leads the government, it is unlikely that the above policy paradigm and orientation will be reversed.

#### *Objectives and scope of trade policy – the NNTP09 is an export policy, not a complete trade policy*

Perhaps being a part of the PRSP, the fundamental concern expressed in the trade chapter of the TYIP07 is with the “quality” of trade - the desire to change the composition of exports towards products that have large economic linkages with domestic economy and raw materials and thus contribute to broad-based growth and poverty alleviation. This objective is consistent with the overall goals of the TYIP07, including “inclusiveness”. The NNTP09 also alludes to these goals, but the extent of the concern expressed seems to be much lesser than in the TYIP07. The main stated objective of the NNTP09 is “to assist economic growth and poverty alleviation by raising the contribution of trade to national economy”.

Although this shift in emphasis is noticeable in the NNTP09, the two documents are more or less consistent in focus or emphasis on export as the way ahead. Both see trade as being export, as issues on importables are not addressed at all. All 19

priority products in NNTP09 are export products (the TYIP07 does not get into this issue). The other recent trade policy document, the NTIS10, is also fully focussed on export products.

In contrast, the TYIP07 chapters on agriculture, industry and food security (and their stand-alone national policies) present a more balanced treatment of the two sides of trade. The NNTP09 does not say why it focussed fully on the export side only, as there are also issues on importables that a national trade policy needs to address. As an example, food supplies in Nepal, price stability and food security are influenced heavily by Indian trade policies and practices, and there are several issues there, some related to Indo-Nepal trade treaty. These need to be addressed by a trade policy. Likewise, the use of domestic versus imported raw materials by industries in Nepal – an issue that is given so much attention by the TYIP07 – is also influenced by the structure of import tariffs (see below), and should have been addressed by trade policy.

#### ***On identifying priority products and sub-sectors for special treatment***

It was noted in Section 2 that while the TYIP07's trade chapter does not list focus products, the NNTP09 does list 19 export products. The NTIS10 also lists 19 products and services, but only eight products in the NNTP09 appear there, excluding 11 others (discussed in more detail in the next chapter).

Many national trade policies around the world list selected products for special treatment for the simple reason that resources are scarce and need to be focussed on priority areas. So the approach taken by the NNTP09 is consistent with these practices. But an analysis of the documents raises some questions. First, the documents do not explain how these 19 products (and 23 in all including the list in NTIS10) were identified (presumably through internal consultations – see below). Second, one could ask if 19 are too many or just about right, but the answer to this depends on the first question. Third, industry policy also has a list of national priority industries in its Annex 1 which covers almost everything in agriculture, essentially undermining the very notion of priority (although one might say that for this reason all NNTP09 products are covered there). Fourth, NAP04 does not have such a list, although some products are identified in the agriculture chapter of the TYIP07.

From the mainstreaming standpoint, it would have been desirable that all policies share a common list of national priority products for the maximum effectiveness of resources and efforts. The success of the NNTP09 on the agricultural side will largely depend on what happens to supply-side, infrastructures and processing – all of which essentially fall under the mandates of the agriculture and industry ministries. As discussed in Section 2, the APP had taken this approach in designating 6-7 products as priority commodities. The APP was owned by the MoAC and yet did not turn out to be as effective because resources were not channelled to the priority

outputs as planned, notably by non-MoAC agencies. In view of this experience, there is no assurance that this time the MoAC will own the action plans listed for agricultural export products in NNTP09, or in NTIS10. The MoAC has a broader mandate, including for the more important food products and importables, and is unlikely to feel the same high priority for the export products. This is the impression that came out in background consultations undertaken for this paper.

As a small point relevant here, all policy frameworks have something to say about the principle of "comparative advantage", typically stating, "sub-sectors and products of comparative and competitive advantages will be identified." This might be a correct statement to make in the case of agricultural policy, but that is also said in other policies where special products are *already* listed and action plans drawn, notably in the trade policy, and to some extent in the industrial policy also. It is not clear in what sense this economic principle has been understood.

### ***The goal of increasing the use of domestic raw materials by export-oriented industries***

The TYIPO7's trade chapter identified as a serious challenge the limited industrial forward and backward linkages, including low utilization of local materials and inputs. One 2004 study that analysed precisely this issue (Upadhyaya 2004) had noted that domestic sourcing of raw materials by agro-industries fell from 72 percent in 1991/92 to 47 percent in 2001/02. Many industries in Nepal such as *vanaspati ghee*, tobacco, brewery, noodle, carpet, garment and *pashmina* depend heavily on imported raw materials. This is so for many reasons such as small scale and scattered pattern of production, lack of contract and cooperative farming and marketing practices, higher cost and poor quality of domestic raw materials, informal exports, and a mismatch of the timing of production and demand. There are also some trade issues. One is import tariff structure – the significant degree of tariff escalation whereby raw materials face none or little tariff while tariffs are higher on processed products. While the rationale for this policy is to encourage domestic processing industries, this also discourages the use of local raw materials. Rationalizing tariff structure to encourage the use of local raw materials is a difficult task, involving a trade-off between protecting primary agriculture versus processing industries. Export policy is also relevant here – whether or not to restrict the export of raw materials for the sake of local industrial use, e.g. in hides and leather, but this could well be for other products also such as ginger and cardamom.

On import substitution, this is not a favoured policy generally, and many trade policies around the world do recognize that message. Nevertheless, they do acknowledge that trade policy has a role to play in ensuring that domestic industries remain competitive, and do support prudent and limited protection to be granted selectively. In Nepal's case, the NNTP09 is quiet on import policies. On the other hand, both the agriculture and industry policies do expect some trade protection,

and in this sense there is some inconsistency across the three policies. There is a dearth of analyses as well as public debates in Nepal on this important issue. It is also not clear if the position taken by the NNTP09 is based on some analysis and debate, e.g. during stakeholder consultations.

### ***Effective stakeholder consultations as the way forward***

Stakeholder consultations are now the norm rather than exception. Typical consultations on government programmes and policies include government officers, private sector (mostly represented by FNCCI), civil society and experts. All policy papers reviewed earlier are said to have gone through this process. Inter-ministerial committees or *ad hoc* task forces can also be taken as part of this process.

The effectiveness of such meetings was one of the issues addressed during the background work for this paper. There were different views, with some considering the process as effective while others taking the meetings as mere formalities or perfunctory. The main conclusion was that such consultations are absolutely essential for a variety of reasons including to ensure that different views are heard and discussed – a big plus for improving on mainstreaming. Two issues in particular were prominent, and they are related. One is that in the case of the inter-ministerial meetings, ministries or agencies other than the lead ministry do not participate effectively in discussions. This happens for a variety of reasons such as limited interest on the subject, lack of familiarity due to poor preparation, lack of background analyses on issues discussed (highlighted below) and discussions being more hierarchical than knowledge and information based. In view of the importance of such consultations, some efforts are needed to improve their effectiveness.

In some cases, relevant ministries are not even involved to start with. Interviews for this paper revealed that the participation of the MoAC was either nil or limited in the formulation of the NNTP09 and NIP10. Perhaps reflecting that, the MoAC is not even represented in the high level Boards created in the NNTP09 and NIP10. And yet, the MoAC commitment is so vital for the success of both these policies. Earlier in 2003 also, the MoAC was not represented in the Steering Committee that oversaw the preparation of Nepal's trade competitiveness study.

### ***On the design of a PRSP - a traditional development plan or a different format?***

Nepal's PRSP, the TYIP07, is a collection of sectoral chapters, the same format as the previous development plans. This differs from most recent PRSPs in other countries. For example, Ghana's PRSP is designed around just three pillars, with "agriculture-led growth strategy" as the core and main theme under its Pillar 1. Various productive sectors contribute to that single goal, including trade policy. This has the advantage of not only giving focus but also ensuring synergies. In

contrast, it is difficult to ensure that synergy where there are 15 or so separate, stand-alone sectoral chapters. For the future, thus, there are two options: change the way a PRSP is designed, or significantly strengthen the role and capability of the National Planning Commission to ensure that synergy and focus. It came out during background consultations that, while formulating a plan, significant adjustments are often made to the sectoral papers at the very last moment of a process that already suffers from delays. As a result, cross-checking suffers considerably, resulting in many inconsistencies in the final versions.

A related problem in reviewing the policy documents is their duplication. For example, for each area covered (trade, agriculture and industry), there are two documents – the sectoral policies and the chapters in the TYIP07. They are not always consistent with each other. This also points towards choosing the first option above, i.e. rather than a conventional plan, do the PRSP in a different way (as in Ghana, Tanzania) and then issue stand-alone policy documents separately.

#### ***Dearth of policy studies, analyses and evaluation***

Even where all relevant officials and experts are represented, the quality of a consultation depends a lot on its preparation. One important element of that preparation is availability of background notes and analyses on the issues being discussed. On this, the record is said to be very poor. An attempt was made in the course of the background work to find some examples of analyses of options used in such consultations, e.g. when changing customs tariffs, or ascertaining rates of incentives or subsidies. The general impression gained was that these issues get discussed at inter-agency (or broader stakeholder level) meetings and decisions taken (Tiwari 2010). But there is no tradition of preparing evidence-based analysis or briefs on various options, nor of disclosing the background notes, if any, in the public domain. So it is very hard to know the basis for the decisions taken.

Outside of these more formal (and internal) processes, there is also a serious dearth of analyses on policy issues. For example, not a single study could be found that analysed the effectiveness of various incentive measures for industries and export. The government has for some years schemes to grant incentives to exports, e.g. through Nepal Trade Promotion Board, but little is known about their effectiveness through analyses available in the public domain. Thus, there is really no basis to say, for example, whether a tax relief of 30 percent, or 50 percent, is needed to ensure that it is an effective incentive for a private entity to invest on a cold storage. Yet, similar measures are announced time and again in national policies.

A considerable amount of analytical work was undertaken for preparing the 2003 trade diagnostics study (GoN 2003) and over a dozen background studies were prepared. In a repeat of the sad state of affairs, these background studies are not

available anymore for reading and reference.<sup>2</sup> It is not clear if similar background works were done in preparing the NNTP09 and NIP10 although a claim has been made that this was done also for the NTIS10. If undertaken, these were not available for review. Such studies could have shed light on the final policy choices made. For example, it would be of interest to find out why the NNTP09 decided to focus on the export trade only, and leave out completely all trade issues on importables. It is also possible that such a position came out of the stakeholder consultation process, but then the records of those meetings are not easy to find. It would have been interesting to know if the MoAC and industry ministry raised in such meetings such issues because their own policies do address some concerns with import-competition.

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<sup>2</sup> According to a MoCS officer interviewed, neither the MoCS ever asked the World Bank to submit the background papers nor did the World Bank itself submit the papers to the government.

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