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Nepal – Articulating trade-related support measures for agriculture

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1. Introduction

That Nepal – a landlocked and least-developed country with almost two-third of the land area being hills and mountains – faces many challenges in building its productive capacities and infrastructures is well known. These are critical requirements for trade competitiveness. In addition, there are many challenges on improving soft infrastructures like policies, institutions and regulatory frameworks. This is a long list and a difficult task, and will require lots of resources and time. This will also require a sound process for articulating support measures and prioritizing them.

It is for this reason that this study on trade support measures was conceived within an analytical framework that also included related studies on trade policy issues and trade policy mainstreaming, discussed in the previous two chapters. The background work that contributed to this chapter consisted of literature review, brainstorming sessions among consultants engaged with the FAO project, and with government officers and broader stakeholders. Relevant national policy documents, mainly covering trade and agriculture, were reviewed and used for the consultations. Insights were also gained from several current and retired government officials who were involved in the policy processes in one way or other.

The primary focus of this study is on the *process* of articulating trade-related support measures (TRSMs). Accordingly, Section 2 reviews current practices for articulating TRSMs and implementing them, covering both the more traditional trade-related topics and agriculture-specific support measures. Section 3 concludes with some commentaries on some issues identified in Section 2.

As explained in the synthesis paper (Chapter 4), this case study uses the term TRSM instead of Aid for Trade (AfT) for two reasons. One is that AfT is limited to external funding while TRSM does not make that distinction and covers all support measures irrespective of the source of funding. The other reason is that TRSMs as used here are meant to cover all products and sub-sectors, including importables, whereas AfT is often seen as support to exports, although this is not very clear from the WTO Task Force report on AfT. Aside from these, there are no differences between the two terms. The six categories of the scope of the AfT are comprehensive in covering both trade-specific measures and productive sectors like agriculture and industry.

2. Current practices for identifying trade support measures

This section is divided into two parts. The first sub-section analyses some trade policy documents, notably those that are primarily geared towards the identification of TRSMs. These are: i) national trade policies (Three Year Interim Plan 2007-2010 and 2009 trade policy); ii) Nepal Trade and Competitiveness Study, 2003; and iii) Nepal Trade Integration Strategy, 2010. It also reviews the IF/EIF process. The second sub-section focuses on agriculture and provides a flavour of how agricultural projects are identified and formulated within the process led by the Ministry of Agriculture and Cooperatives (MoAC).

2.1 The process of articulating support measures in the area of trade

Trade policies – three-year interim plan and 2009 trade policy

The Three Year Interim Plan 2007-2010 (GoN 2007, TYIP07 in short) is Nepal's PRSP. Its Chapter 15 covers trade and provides vision, strategy and policy guidelines. Subsequently in 2009, a new national trade policy was released (GoN 2009, NNTP09 in short). Both these documents were reviewed in the previous two chapters from the standpoint of the themes addressed there, and so the commentary below will be brief and focussed on TRSMs. The TYIP07 begins by identifying a number of weaknesses of a structural nature in the trade sector of Nepal, and thus where efforts need to be focussed on. These include: i) limited forward and backward linkages of export-oriented industries; ii) limited utilization of local materials and inputs; iii) low labour intensity of industrial production; and iv) regional and geographical imbalance in the distribution of export industries and benefits from trade.

These challenges are well articulated. They point to the need for a fundamental rethinking on trade policy. These imply that it is not just enough that Nepal's total volume of export trade expands but what matters is the composition of that trade,

towards products and sub-sectors that are more closely linked to domestic resources and economy. Indeed, several of Nepal's top exports in the past two decades or so can be considered to have weak linkages with rest of the economy. Some of these thrived with India as the sole market because of substantial differences in raw material tariffs between India and Nepal (e.g. vegetable *ghee*, processed metal products). But this is changing fast as India has been reducing its own tariffs. Likewise, garment industry was another sector that thrived on the back of market access quotas under the multi-fibre agreement, which no longer exists now. The strength of some other industries lies on Nepal's traditional skills, a comparative advantage, and will remain robust even though such industries may be heavy users of imported raw materials (e.g. carpets, handicrafts made of metals). Most of the rest of the export products are agricultural and based on domestic products and raw materials, e.g. tea, cardamom and ginger. In these cases, the issue is lack of processing and value addition. From the preamble part of the TYIP07, it is clear that there is a strong desire for changing the composition of exports along this line so that trade can contribute to growth and poverty reduction.

As regards TRSMs, the TYIP07 presents many policies and programmes, in 27 bullet points. One category of these support measures is trade and economic policies, on which the following points are stressed: maintaining liberal, competitive and market-oriented foreign trade regime, promoting exports of products linked to domestic resources, supporting value addition, and appropriate structure of incentives for export-oriented and supporting industries. Then there are proposals for establishing trade infrastructures, such as special economic zones, export processing centres and industrial clusters, industrial villages, dry ports and link roads. A third category of support measures is grants and incentives for developing and operating these infrastructures when linked to export, e.g. export-oriented Industrial Development Fund and continuing with the Export Promotion Fund. Finally, there are several measures related to regulatory and legislative frameworks and laws (e.g. product standards, TRIPS-related brands and GIs, Competition Act, trade remedy measures, etc).

The NNTP09 essentially follows-up on these strategies and policies. The one major difference is that it goes on to identify 19 specific export products for special attention. A similar approach has also been taken in another important trade document, the 2010 trade integration study. In view of the centrality of these works for the theme of this paper, these initiatives are discussed below in some detail, along with the IF/EIF process within which these works were undertaken.

Nepal trade and competitiveness study 2003 (NTCS03)

The process of preparing the NTCS03 began in 2002 with the GoN requesting the WTO IF Working Group to undertake a DTIS as the first step in the IF process. Several background studies were done during the second half of 2002. The work was guided

by a National Steering Committee appointed by the GoN under the Chairmanship of the Secretary MoICS.[1] The Steering Committee included representatives from government agencies (the MoCS, MoF, NPC, NRB, and from private sector bodies like the Chambers of industry and commerce and academia). The report was finally discussed at a national conference chaired by the Vice Chairman of NPC and was finalized after incorporating comments, and subsequently approved by the GoN in October 2003.

Bulk of the NTCS03 was devoted to addressing various cross-cutting issues vital for productivity growth and competitiveness, such as trade facilitation (customs, transport), regulatory frameworks, FDI and labour market. Only one chapter addressed product- and sub-sector-specific issues (Chapter 8), covering carpet industry, garments, tea processing, agriculture, tourism and hydropower. In agriculture, aside from tea, "rest of the agriculture" was discussed as one sub-sector, addressing constraints and opportunities.

The topics addressed by the NTCS03 can be grouped into two categories: i) policy, institutional and regulatory reforms of a general nature (e.g. customs and labour market reforms, trade facilitation, policy coherence); and ii) measures specific to products and sub-sectors covered. It specified responsible units also, e.g. policy reform measures to be carried out by the GoN and a variety of assistance to be provided from outside, notably the six IF agencies. The NTCS03's Action Matrix had a total of 31 projects and 60 different activities, with time-bound commitments (five of immediate terms, four short-terms, 20 medium-terms and two long-terms for technical assistance).

A considerable amount of analytical work was undertaken for preparing the NTCS03, involving many national and outside experts, led by the World Bank staff and consultants. Over a dozen background studies were done on subjects ranging from sector studies, trade policy, institutions and trade treaties, investment climate, trade performance and price competitiveness, labour and land markets, poverty analysis to macroeconomic update and WTO accession. In a repeat of the sad state of affairs in this area, these background studies are not available anymore for reading and reference.[2] This in itself is an important lesson for future collaborations like this as much knowledge base is simply lost and out of reach of the Nepalese researchers.

[1] The following illustrates how difficult it is to manage a programme like this - during the duration of the study, the there were three successive transfers of the Secretaries in the MoCS and so there were three different chairmen of the Steering Committee.

[2] According to the MoCS officers 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 MoCS.

On the implementation status of the Action Matrix, while some progress has been made, the overall implementation remains unsatisfactory. As of August 2009, out of 60 activities in the matrix, eight have been completed, the process initiated for 26 others, 14 are partially implemented and 12 activities were yet to begin for various reasons. Some of the activities also became irrelevant, e.g. garment quota allocation after the lapse of the multi-fibre agreement (MFA) in 2006.

One criticism of the NTCS03 formulation process was total absence of the MoAC in the Steering Committee formed to guide the study despite all that is said about the importance of agriculture. There are some views on this. One is that the MoCS traditionally does not consider that the MoAC has anything to do with trade. Thus, MoAC participation was not considered essential, nor an useful contribution expected. Another view is that this merely reflected lack of interest on the part of the MoAC on trade issues, primary production being its main mandate. As a result, it is generally felt, *ex post*, that agriculture was undermined by the NTCS03. Agriculture sector, despite its declared lead role in the economy, was identified by the NTCS03 as only a "potential" growth sector while hydropower – with hardly any trade - was identified as a "key" sector. Indeed, it is said now that participation of other ministries in the NTCS03 process was also very poor, essentially reducing it to a one-ministry effort. Even on this, many hold that the entire work was conceived, led and executed by donors and outside consultants, with the MoCS staffs essentially playing no role on policy and technical matters.

The IF/EIF process

Nepal's involvement with the IF process began in the early 2000s with an agreement to conduct the above said DTIS (NTCS03). At the same time, a project funded by UNDP under the IF Window I was implemented with a small budget of USD 38 000 for activities like training, seminar, study tour and knowledge sharing. Subsequently in January 2005, a larger project (USD 665 000) under IF Window II was approved to implement various recommendations of the NTCS03. It was designed to assist enhancement of institutional capacities, improve trade facilitation, strengthen SPS, TBT and TRIPS enquiry points, and establish an export financing mechanism. These activities were continued until 2009 under a new project, Enhancing Nepal's Trade Related Capacity (ENTReC), as part of the IF with the support from UNDP.

In May 2007, a package of recommendations was adopted at the WTO to start the implementation phase of the EIF, with the IF core agencies agreeing to increase their contribution to the IF Trust Fund. At the same time, the GoN was also engaged in strengthening its institutional arrangements so as to benefit from the EIF. Accordingly, a National Steering Committee (NSC-EIF) was formed in June 2008 for implementing the EIF activities. It is chaired by the Chief Secretary of the

GoN and represented by Secretaries, high level officials from the relevant agencies and private sector. At its second meeting, the following Inter-ministerial Technical Committees (IMTCs) were formed to strengthen national implementing mechanism:

1. Agriculture, Agro-industry and SPS, chaired by Secretary, MoAC.
2. Private Sector Development (Manufacturing, SMEs, SEZ/EPZ and TBT), chaired by Secretary, Ministry of Industry.
3. Legislation and Intellectual Property Rights (IPRs), chaired by Secretary, Ministry of Law and Parliamentary Affairs.
4. Services and Taxation, chaired by Secretary, Ministry of Finance.
5. Cross-Cutting Issues and Trade-related Infrastructure Development, chaired by Secretary, MoCS.

The IMTCs will be represented from the government and private sectors. Each technical committee will be responsible for designing project proposals in its area of competence. These proposals will be submitted to the NSC-EIF for final approval. The committees can also form Technical Sub-Committees when required. Recently, a National Implementation Unit (NIU), as a management unit of EIF, has also been established at the MoCS. The GoN has appointed the Secretary of the MoCS as the EIF Focal Point, making the person responsible for all EIF activities. The NSC-EIF has asked the focal person to take lead, discuss issues with local development partners and report back to it. Other developments include the designation of a donor facilitator for which UNDP was selected at a donors meeting in December 2008, replaced by Germany at a similar meeting in November 2010.

The 2010 update – Nepal Trade Integration Strategy (NTIS10)

The NTIS10 is considered to be the follow-up to the NTCS03 and claims to take into account new developments in the domestic and international scene. Its focus is fully on export trade and discusses capacity building priorities, cross-cutting issues and actions. It is also seen as a framework for operationalizing the AfT within the EIF framework, as well as a single shared strategy to guide the efforts of the GoN, the private sector, development partners and all other stakeholders. Almost half of the NTIS10's 58 page document is devoted to specific actions – first as cross-cutting issues in Action Matrix I and then recommended actions for 19 potential export sectors in Action Matrix II, these also being the features of a typical DTIS.

If the GoN were to follow the approach taken of focussing resources to identified priority products, as recommended in the NTIS10, as well as in the NNTP09 and in agriculture (e.g. in the APP, discussed below), the selection of these products becomes an important issue. As discussed below in the agricultural section, where ministries tend to list priority products differently in their own policy frameworks,

efforts will be diluted. For this reason, some discussion of this topic is pertinent here.[3]

It was only one year before that the NNTP09 identified a list of products and sub-sectors for special attention. By some strange coincidence, both list exactly 19 products. But there is a big difference – only eight products in NNTP09 are included in NTIS10, with 11 others excluded (Table 1). And then, seven sub-sectors are added in the NTIS10 that are not in the NNTP09. Four new products have been identified in the NTIS10 – noodles, silver jewellery, iron & steel and wool products (and the seven services sub-sectors). All in all, there are 30 products and sub-sectors in the two policy frameworks.

TABLE 1:

Products and sub-sectors identified for development in two policy frameworks

Product/ sub-sector	2009 Trade Policy	2010 NTIS	Product/sub-sector	2009 Trade Policy	2010 NTIS
Garments	√		Herbs and oils	√	√
Carpets	√		Local paper	√	√
Pashmina	√	√	Wooden crafts	√	
Handicrafts	√		Gems & stones	√	
Tea	√	√	Noodles		√
Coffee	√		Silver jewellery		√
Cardamom	√	√	Iron/steel		√
Ginger	√	√	Wool products		√
Veg. seeds	√		Tourism 1/		√
Lentils	√	√	Labour1/		√
Honey	√	√	IT1/		√
Vegetables	√		Health1/		√
Orange	√		Education1/		√
Leather	√		Engineering1/		√
Floriculture	√		Hydropower1/		√

[1]/These are services sub-sectors
Source: NTP 2009 and NTIS 2010.

Even ignoring the services sub-sectors, this difference in the two lists can create some difficulty in implementation. For example, substantive product development responsibilities fall under the MoAC and MoI and not the MoCS. But then, which list should they use in allocating resources, given that resources are limited? It is not

[3] It is very common to find in national trade policies across the developing world a list of such products (strategic, lead, priority, special) identified for special treatment. This also mirrors the approach in the WTO of designating some products as being special and sensitive. This is an important issue because resources are scarce and have opportunity costs.

clear why prominent products with export potential like coffee and leather were dropped out in the NTIS10. It is said that these 19 goods and services sectors were identified in order to meet the stated objective of "expanding an inclusive export base" on the basis of an initial assessment of export performance and extensive discussions with Nepalese business community and government officials. So these were the bases for the listing. But why this list differs from that in the NNTP09 is not said anywhere.[4] It is also said in the NTIS10 that five other products/sectors also emerged as possible export potentials from the fieldwork, but are not pursued for now (sugar, cement, dairy products, transformers, and transit trade service).

Table 2 provides an idea of the range of actions recommended in the NTIS10 for the targeted agricultural products. For five such products (cardamom, ginger, lentils, honey and tea), a total of 55 actions are recommended.

In a way, the actions recommended are generally well known, but given that this is the main theme of this paper, some commentary is useful. First, the list of actions is fairly comprehensive, ranging from strengthening value chains to creating brand names. Second, while some of them are relatively easy to implement (e.g. organizing stakeholders' associations), others are difficult in terms of time and cost, e.g. the systemic problems of R&D, technology and agronomy. As an example, it has been well known for many years that honey export suffered from pesticide residues, among others, but it is exceedingly difficult to ensure that no pesticide is used in the area where honey is produced. Third, the NTIS10 merely recommends the actions without getting into the question of why even the easier among them have not been implemented all these years. As an example, the problems confronting the tea sector are well known and many papers on tea have been listing the same actions for several years now (e.g. Thapa 2004). There is no reason why things will be different from now. It would have been useful if NTIS10 was accompanied by background papers explaining why even simple, well-identified things do not get done for years.

Fourth, and for the same reason as above, there are serious doubts about the implementation of some of the actions related to policy change (as against those requiring investment). An example is the removal of local taxes when goods are transported within Nepal, or that on a position on export restriction (tax, ban) of lentils and other foodstuffs. And lastly, many of the actions listed as provision of "incentives" for attracting private sector investment in capital and technology (e.g. for product diversification – # 5 in Table 2) are both uncertain and vague. In Nepal, there is a tradition of announcing incentives of this nature, notably in budget speeches, but there is not a single study available in public domain that tells whether these incentives have worked or not, or even whether these have

[4] Indeed, in the entire NTIS10 document, the only one place where NNTP09 is referred to is in the foreword by the Secretary of the MoCS; one would normally expect to see many references.

TABLE 2:
Illustration of the product-specific actions recommended in the NTIS10

Broad areas of actions	Proudcts mentioned
1. Organizing and strengthening producer associations, and value-chain stakeholders	Cardamom, ginger, lentil
2. Addressing collection problem through cooperatives, contract farming, creating markets	Cardamom, ginger, lentil
3. Brand, geographical indication (GI), IPR	Cardamom, tea
4. Agronomy, better farming practices, extension R&D, seeds, varieties	All
5. Product diversification – incentives and technology	Cardamom, ginger
6. Post-harvest technology – drying, storage, transport	Cardamom, ginger, tea
7. Special production areas (land use policy)	Ginger
8. Testing equipment, labs, accreditation service, SPS	Honey, cardamom, tea, lentil
9. Incentives for investment in processing, technology	Tea
10. Export bans and taxation policies	Lentils
11. Domestic taxes	Lentil, ginger
12. Duty on raw materials, duty drawbacks	Tea, honey

Source: Based on Action Matrix, Part II of NTIS (2010)

been provided or not in the first place. As a result, more promises of incentives and subsidies are not taken seriously.

From the standpoint of TRSMs, therefore, the situation is one where constraints have been identified and actions recommended, but left with a sense of ambiguity and uncertainty on details and implementation. Note that these were also more or less the same actions identified in the NTCS03, and in other policy documents. Improvements could have been made in subsequent policy documents by being more specific and supported by analyses that show what worked and will work and what did not work and so will not be pursued.

The NTIS10 has made substantive expectations from the MoAC (e.g. in areas 4, 6 and 7 in Table 2, and indeed in all agricultural development programmes). But it is also known that the MoAC has a different priority, e.g. when it comes to the R&D and extension programmes, it is the food sector that receives the most attention. Some commentary on this in the NTIS10 would have been useful – for example, what are the exact expectations from the trade side, and what alternatives are considered (e.g. separate dedicated funds for these products that will not be reprioritized by the MoAC). One might just dismiss this comment saying that the NTIS10 is a government programme and the MoAC is also equally committed to that. The ground reality is different - at least this has been different so far. The MoAC is likely to see things differently this time too – it was not even represented in the preparation of the NTCS03, nor is represented in the high-level Board of Trade in NNTP09 or in a similar body under the 2010 industrial policy. Securing effective participation of other ministries in the trade programme is not a trivial issue, as the example of the APP shows (below).

2.2 Illustrations of trade-related initiatives and projects in agriculture

The above discussion covered the articulation of TRSMs in national processes led by the MoCS. This section focuses on agriculture, and on processes led by the MoAC. With that many donors and projects, the approaches to identifying and implementing agricultural projects vary considerably. One also finds in Nepal many models of support delivery by CSOs. All in all, therefore, there is a lot to learn from these approaches. In the short space available, what follows presents three illustrations of TRSMs focussed on agriculture.

Developing high value commodities (HVCs) – one priority output of the Agriculture Perspective Plan (APP)

What happened to the HVC programme in the context of the APP (APROSC-JMA 1995) is highly relevant for the theme of this paper because the strategy and actions envisaged for export products in trade policies, reviewed above, are very similar to those intended in the APP. If it works in one, it will work in the other.

HVCs were one of the outputs identified by the APP for investment priority. The HVCs included citrus throughout the hills, apple in the inner Himalayan zone, off-season vegetables in the hills and Tarai, vegetable and flower seeds in the hill and mountains, apiculture in the hills and mountains and raw silk in the hills. One reason for targeting these products was the high growth potentials grounded in Nepal's comparative advantage from agro-ecological diversity.

Three groups of activities in particular were envisaged to spur the commercialization of the HVCs: i) integrated approach in production; ii) post harvest operations; and iii) marketing. The APP stressed on dealing simultaneously in all the three areas. The success of the programme, or lack of it, thus needs to be assessed on this ground.

According to an evaluation study (APP-ISR 2006), on overall public investment, the Interim APP had projected investment requirement for the HVCs of about Rs 862 million over the five year period or about Rs 168 million per year. In the Ninth Plan, government development budget allocated to the HVCs amounted to about Rs 50 million per year, and about Rs 92 million in the Tenth Plan, well below the APP's estimated annual requirements. The conclusion reached was that from the investment perspective, HVCs were not prioritized as envisaged by APP. The study also notes that investment did not always yield a return. For example, despite the fact that over the period of the Interim APP to date (1997/98 to 2004/05) the research agency, NARC, invested almost Rs 100 million rupees in horticultural research, no new varieties of fruit or vegetables were released over the period (APP-ISR 2006).

On policies, the overall observation made was that, in general, most of the policy measures for the promotion of HVCs have not been implemented effectively.

The key production strategy was to improve road connectivity, harness scale economies through production in blocks supported by irrigation, technology and farm organizations, and reduce transaction costs by removing legal/administrative restrictions that come on the way and deter free movement of goods across the country. These measures are meant to minimize risk in production, processing and marketing. In all these areas, something was done but not enough to make an impact. Implementation was weak, notably in the designation of pocket areas, provision of institutional credit and generation of appropriate technology.

The APP evaluation also notes a number of problems on the institutional side. For instance, it had envisaged the establishment of a small HVC Unit within MOAC, but was not established. As a result, the APP priority programme tended to be diluted within many other programmes at the centre and districts. Likewise, at exactly the time when the citrus programme required emphasis as per the APP, the government terminated the National Citrus Development Programme, but corrected this to some extent a few years later in 2004. The APP also proposed to establish Agriculture Services Centres at the market assembly centres of the programme blocks but this did not happen.

Nepal's Agri-business Promotion Policy 2007 (ABPP07) reiterated the APP strategy and made further commitments. It said that market network to connect commercial agricultural pocket areas of north-south highway and near feeder roads will be developed, production zones for special agricultural commodities expanded and services provided, collection centres near production zones established and markets in nearby urban areas organized. Further, tariff rebates for the operation of cold store and wholesale markets will be provided. One could only hope that these well recognized problems and issues will be dealt with seriously this time.

In closing, there are also many success stories too. For example, the APP evaluation remarked that some programmes implemented by CSOs have been effective in this area, e.g. CEAPREAD's work on vegetables and vegetable seed and FORWARD's work on livestock. These also demonstrate that there are models that can be emulated for providing services to rural areas and for organizing production and marketing.

Agricultural commercialization projects

Diversification away from subsistence farming, commercialization and value addition are elements of the core strategy for agriculture found in all policy frameworks (national plans, and agriculture and trade policies). This is typically seen as moving to cash crops but also applies equally to the food sub-sector. The new framework for commercialization is value chain, with interventions covering all stages of the chain, not just production. Two relatively large scale projects on commercialization are being implemented by the MoAC: Commercial Agriculture

Development Project (CADP) funded by the ADB (ADB 2006); and Project for Agricultural Commercialization and Trade (PACT) funded by the World Bank (World Bank 2009). The brief account below illustrates, rather sadly, that the process of articulation, formulation and implementation of these critical interventions have been rather complex and lengthy, and thus one message is that simplifying the process is as important as mobilizing funds for the TRSMs.

The projects emerged from long-standing consensus in the MoAC that the way forward is diversification and commercialization, as was also stressed by the 1995 APP. The work begins with a concept paper by the MoAC that is shared with the NPC and DPs for an informal consent. When the feedback is positive, the note is further refined and sent to the finance ministry for officially sharing with the DPs. Once a donor picks up the idea, the project formulation process begins, with background studies, analytical works and project preparation, typically with a technical assistance grant. At the same time, a National Steering Committee is formed where major design issues like scope, components, institutional arrangements and governance issues are discussed frequently, including with larger body of stakeholders. Further steps include appraisal by the DP and final negotiations, endorsement by the NPC, and loan signature.

It is evident that the entire process for funding goes through a lengthy cycle involving 15-16 process steps lasting 6-7 years (Box 1 for CADP). The other project, PACT, also underwent through similar steps, taking six years from the concept to financing agreement. Long bureaucratic cycles of both the DPs and government cause delays. Political developments add their own toll, at times even deadlocks. Another concern is with the quality of inter-ministerial and stakeholder consultations. Aside from frequent changes in staffs, these meetings at times can be fairly perfunctory, with many members not showing the required interest and contributions. Protracted rounds of revisions remain the hallmark of project preparation and appraisal. For example, the PACT project is said to have been substantially scaled down to almost half from what was initially envisaged in terms of funding, scope and components. From the standpoint of trade, the MoAC process may also be faulted in not having links with the trade process, including trade policy and diagnostics studies. This has the risk, *inter alia*, of the project focusing too much on the production side and less on marketing and trade aspects.

On a positive note, these projects made a significant contribution in Nepal in defining more concretely the concept of public-private partnership in agribusiness development. Both the CADP and PACT have incorporated, in their design, strong components for supporting the private sector investment proposals in activities that contain "public good" element while being an apparent private sector venture for profit-making. Such investment proposals would be financed (up to 50 percent of investment) on a grant basis by the "Fund" created by the projects. In addition, in the CADP, this component is implemented by a private sector entity called *Commercial*

Box 1:

CADP - Process steps from 2001 to 2007

1. Project concept paper → 2. Fact Finding Mission → 3. Project preparation technical assistance → 4. Background study (social surveys and analysis) → 5. donor review mission → 6. Loan Fact Finding Mission → 7. Iterative consultations → 8. Follow-up Fact Finding Mission → 9. ADB Management Review Meeting → 10. Appraisal mission → 11. Staff Review Committee Meeting → 12. Grant Negotiations → 13. ADB Board consideration/approval → 14. Approval by the NPC → 15. Grant agreement.

Agricultural Alliance established as a not-for-profit entity under the Company Act. Lastly, the PACT, being formulated after Nepal's WTO accession, explicitly refers to issues like competitiveness in cost and quality for trade integration.

Aside from implementing the projects, there is a big payoff from analytical works trying to learn lessons and best practices on several innovative features being tried in these projects.

Responding to SPS-related problems

It is a common knowledge that the wide gap between the levels of technical standards called for in the WTO SPS Agreement and those that Nepal can meet currently is a major impediment to agricultural exports. Among others, the studies by Karki *et al.* (2004), Mahato *et al.* (2004) and KC *et al.* (2004) on trade in food products, in live animals and livestock products and in plants, respectively, document known cases and anticipated impediments on trade expansion. The sudden disruptions to trade due to recent animal and human health scares that spread rapidly across borders have alarmed Nepalese officials, business community and consumers. Nepalese agricultural exporters to India have also had many bitter frustrations trying to meet standards imposed by India, which are often seen as being ad hoc and unreasonable, e.g. the new regulation in 2000 requiring the mandatory test of imported plants and products in designated laboratories that are located far away from the border. Outside of India, Mahato *et al.* (2004) report, for example, unsuccessful efforts to export butter to Tibet and honey to Norway, for reasons of lack of convincing systems of quality control, and official inspection and certification.

While much of this has been known for some years, the point being made here is the nature of response from the Nepalese side, which may be characterized as

a "disjointed incrementalist approach", thus undermining the cost effectiveness of the response.

For food and agriculture, the institution responsible in this area is the Department of Food Technology and Quality Control (DFTQC) under the MoAC. Its goal has been to develop capacity for laboratory accreditation and mutual recognition agreements (MRAs) as recommended in the SPS Agreement. Over the past decade or so, it has benefited from a number of donor-supported assistance programmes. It received a non-project grant from the Japanese agency, JICA, for the construction of a building to house a well equipped modern food laboratory. Three other projects, from UNIDO, EC-WTO and PTB-Germany, have also supported DFTQC through laboratory equipments and human resource trainings in a complementary manner. The DFTQC is now said to be close to fulfilling necessary conditions for laboratory accreditation and is expected to get one soon from the Indian national accreditation bureau. This is expected to pave the way for the long-sought MRA with India.

Notwithstanding this progress now, if one were to look back towards the beginning some 10-12 years, the question that comes to mind is why the government could not respond to the challenge with a large, comprehensive and holistic project or programme when the payoff to that investment was known to be immense. Resources should naturally have been channelled to this activity as a matter of priority. Instead, what happened was the execution of a host of small and disjointed components, some of which within the larger projects under the MoCS (and the MoI) or its Departments. The DFTQC and the issue of food standards and quality were not the principal targets of the parent projects. No comprehensive blueprint was developed but rather small interventions were made continually, thus undermining the returns.

Another source of frustration has been the lack of response in the form of assistance from the bilateral trade partner with whom Nepal faced a specific SPS-related problem. The SPS Agreement strongly encourages richer trading partners to solve issues like these through assistance. For example, it is learnt that Nepal's request for assistance to establish a quality control and certification system following the SPS-related rejection of honey was not responded by Norway. Likewise, India's response to assist Nepal on laboratory accreditation and MRA has been said to be lukewarm for years.

3. Conclusions

Nepal faces many challenges in mobilizing and channelling external and internal (public and private) resources for trade development. Supply-side capacity building and infrastructures top the list of the needs. But many "soft" infrastructures such as policies, institutions and regulations are also lacking. To be able to do all that

effectively, a sound process needs to be followed for identifying and prioritizing TRSMs. That framework is "mainstreaming" support measures – a process that follows from, and is consistent with, key national policy frameworks, including development, trade, industry and agriculture. It was in this context that Section 2 reviewed current practices and issues on identifying support measures. Several issues and problems were discussed there. Without repeating them, this concluding section notes some further issues of a more cross-cutting nature.[5]

Agreement on priority export products

All major policy frameworks reviewed have either listed priority products for special treatment or indicated that these should be identified based on some criteria. The rationale for prioritization is to focus limited public resources on high potential areas. Product development requires efforts of more than one ministry and so a consensus among ministries is essential. Table 1 earlier showed that this congruence was lacking, even within trade policy frameworks prepared almost together (e.g. only eight products in NNTP09 are included in NTIS10 while 11 others excluded, and four new added in NTIS10). The PRSP's (TYIP07) trade chapter does not identify such products but its agriculture chapter does, several of which are also found in the trade policies. The APP's HVCs, which were identified primarily based on trade potentials, also differ from those in the trade policies. One main reason for the discrepancy is that Nepal's trade policy is focused fully on exports while the agriculture policies include foods and importables.

If one were to count all individual products in these policy frameworks, the list becomes too long, essentially undermining the very notion of targeting resources on priority products. The issue is one of allocation of resources and efforts. In the APP, the rationale for limiting to only 4-5 HVCs was expressed as follows: "One critical problem for the APP is to set priorities that will limit the number of commodities emphasized to allow adequate scale economies in the scarce research, extension, market development, and administrative services so essential to the development of the HVCs. This need to set priorities and to specialize is apparent in both the public and private sectors". As discussed earlier, actual allocation of resources during implementation deviated from this APP view.

As supply-side constraints are the primary impediments, the mere listing of agricultural products in the trade policy documents will have little significance unless the same products are given high priority in the agriculture and other policy documents. This does not seem to be the case, including for some other reasons noted below.

[5] The previous two chapters on Nepal also discuss issues useful for this chapter.

Incentives, encouragement, facilitation, emphasis, and so on

The NNTP09 makes provisions for incentives in several places, notably in its Section 4.5 - *additional incentives to export-oriented industries* – but also in product development programmes. A sample of such statements are shown in Box 2.

Box 2:

incentives to export-oriented industries provisioned in NNTP09

- An Export Guarantee Scheme to be introduced (Section 4.5.1)
- Incentives to be given for value addition to products currently exported in raw form
- For products with long production cycle (e.g. tea, coffee), arrangements to be made for leasing land for commercial farming (Section 4.5.1)
- A Product Development Fund to be established for transporting raw materials to processing centres (Section 4.5.2)
- Ancillary industries that supply raw materials to industries in export and special Zones to be encouraged (Section 4.7.2)
- Export Promotion Fund to be used for new technology adoption and upgrading of production process (Section 4.8.2)
- Industries in Export Processing Zones to be allowed to sell a certain percent of their products in domestic market (Section 4.12.1)
- Export of processed leather and leather goods to be encouraged (leather section)
- Subsidized loan facility for import of machineries and equipments (leather section)
- Facilities and incentives to be provided to investments considering those provided by neighbouring countries.

These proposals merit some commentaries. First, it is not explained anywhere why these measures were selected, although these are fairly well known and standard incentive schemes also found in trade policies of many other countries. It would have been useful to know what other measures were considered and debated, and why some were dropped and others retained. Presumably these were identified by committees and stakeholders, but there were no records or analyses that would explain the rationale and reasons for the choices made. Second, while policy documents pronounce such measures, these become hard commitments only when announced in annual budgets. So the private sector needs to wait until such a time to find out about the incentives. Based on the experience from Nepal and elsewhere, it is also critical that for these measures to be effective, the incentives provided have to be sufficiently attractive. It is not just about the presence of the measure but its effectiveness, and that will depend on the extent of the incentive granted, e.g. a 30 percent subsidy on loan or a 20 percent tax break, but not lower parameters. This is a difficult task of fine-tuning the critical parameters, and requires strong analytical units in the ministries, something that is sorely lacking now. In its

absence, these are going to be settled through committees and task forces, most likely with little evidence-based analyses.

Third, there is the issue of priority and allocation of incentives. One or more incentives are provisioned in all 19 prioritized products. Seen individually, these may make sense. But seen collectively, one could ask how is it possible to provide incentives to everything when available resources (including revenue foregone) are limited. In the past, for political or other reasons, some commodities were favoured (e.g. tea) over others (e.g. ginger). When incentives are rationed across all products, the size of the incentive could turn out to very small and ineffective. These are difficult policy issues and unlikely to be addressed well without some serious analytical work.

Futile to try to define the scope of TRSM or AfT for quantification of the flow

In the course of the background work and consultations that contributed to this paper, some time was spent on discussing the "scope" of the AfT or TRSM, with a view to contributing to measurement and monitoring of the AfT flow. This proved to be a futile exercise. First, it was not possible to compile AfT outlays for Nepal because complete information was simply not available or accessible in key ministries. Second, it appeared that almost everything can be said to be AfT or TRSM. This is more so in a country like Nepal where supply-side capacity building and infrastructures are the key constraints. The APP model of agricultural development, for example, considers roads, electricity and irrigation as the key priority inputs for product development.

Lack of baseline statistics on product-specific supports makes it difficult to discuss the issue of prioritization of resources

There is a serious dearth of statistics on product-specific public outlays. One example is research budget. All policies and action plans for priority products (e.g. tea, cardamom) call for improving technology. Yet, there is no statistics on how much is currently spent on what, and so no basis for reallocation or expansion of resources to conform to new priorities. The same could be said of many other public outlays that can be linked to commodities, including subsidies. For example, it is not known how much of the incentives granted (including revenue foregone) is actually utilized by a priority product. A related issue is quantifying the allocation of public support along the value chain of a given product. It is generally held that much of such support goes to primary production and little to the subsequent stages. If this imbalance is to be rectified, the above information is essential. The agricultural commercialization projects – the CADP and the PACT – provide an opportunity to generate valuable information like these.

Greater collaboration is needed among ministries, in particular among trade, industry and agriculture

This has been a recurring issue and also came up in stakeholder meetings held in preparing this paper. As noted above in the IF/EIF sub-section, the view is that the MoCS does not consider MoAC as a "relevant" ministry when it comes to formulating trade policy as exemplified by the MoAC's absence in high-level board and steering committee. This needs to be rectified if progress is to be made on mobilizing the MoAC support to the priority export products identified in the trade policies. This will avoid the fate of the APP, particularly its priority commodities that suffered from lukewarm support from other ministries. The previous chapter (mainstreaming) noted that the process in place currently at the National Planning Commission (NPC) for finalizing mainstreamed trade and agricultural plans/policies is fairly weak. However, there is some hope on this with the new arrangement of IMTCs (see IF/EIF section above) with the MoAC Secretary chairing one committee. The outcome however will depend largely on the initiative of the MoAC itself.

Stepping up of bilateral and regional projects and programmes

And a last point – given the backward state of its own infrastructures and landlocked status, it is very important for Nepal to be pro-active in urging donors and regional trade partners to do more on cross-border and regional infrastructures and other cooperation initiatives like those in the SPS and R&D. This is the only way to reduce trade costs and be competitive, including in neighbouring markets that are growing rapidly. There are promises made in the bilateral and regional agreements like SAPTA and BIMSTEC for doing more on these, and Nepal needs to be proactive in mobilizing donors and regional partners to do more on these.

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