
Articulating and Mainstreaming Agricultural Trade Policy and Support Measures

An FAO study based on analyses for Bangladesh, Ghana, Nepal, Sri Lanka and Tanzania

Policy Brief 6 – Highlights of the country case study – Nepal. May 2011

Introduction

This brief presents key highlights of the Nepal case study under the FAO Project *Articulating and Mainstreaming Agricultural Trade Policy and Support Measures*. The objectives of the Project were to contribute to improving the process of: i) articulating trade policies consistent with overall development objectives; ii) articulating appropriate trade support measures; and iii) mainstreaming these policies and support measures into development frameworks such as the Poverty Reduction Strategy Paper (PRSP).

Mainstreaming of trade policies is defined as a process whereby trade policies are drawn from, and are consistent with, development strategies articulated in the apex policy framework such as the PRSP. In a mainstreamed process, policies, programmes and support measures are mutually consistent across key policy frameworks, create synergies and avoid inconsistencies. This is the sense in which mainstreaming has been analysed in the country case studies. The following policy frameworks were reviewed: three on trade policy (the trade chapter in the Three Year Interim Plan 2007-10 which is Nepal's PRSP, Nepal Trade Policy 2009 and Nepal Trade Integration Strategy 2010); three on agriculture (National Agriculture Policy 2004, agriculture chapter in the PRSP, and Agri-business Promotion Policy 2006); two on industrial policy (industry chapter in the PRSP and Nepal Industrial Policy 2010); and one food security policy (food security section in the PRSP).

Key highlights

Policy papers show considerable consistency on vision, goals and orientation – On the whole, there is considerable consistency on the overall vision,

goal and orientation of policies (e.g. contribute to growth and poverty reduction, inclusiveness, market-led growth, liberal economic and trade policies, increased role for the private sector). They also indicate a strategic shift towards supporting value-chains as a whole rather than concentrating efforts at the primary production end as was the case in the past.

But the 2009 trade policy focuses exclusively on exports and thus misses out on some broader development issues that trade policy needs to address – The trade chapter of the PRSP identified as one fundamental problem the trade sector's weak linkages with the domestic economy and raw materials, but provided no analysis or guidance on how this would be reversed. Indeed, many of Nepal's prominent export products that developed during the past 2-3 decades are heavy users of imported raw materials. Nepal's 2009 trade policy and 2010 integration strategy, both with exclusive focus on exports, also largely miss out on this "quality" of trade issue. For example, there are no serious analyses on what policies and incentives would encourage export-oriented industries that use local materials and have strong linkages. The exclusive focus of the trade policy on exports is one reason for missing out on these issues because many of the issues are related to importables, notably the food and agro-industry sub-sectors. These include, for example, the structure of import tariffs and protection, including tariff escalation, and incentives to import-competing industries. These are also important development issues for the agriculture and industrial policies. A trade policy is not an export policy and needs to be balanced in looking after the needs of all productive sub-sectors.

The desire to promote priority export products likely to be undermined by weak mainstreaming

process – While the trade chapter of the PRSP did not have a list of priority products, 19 such products were identified in the 2009 trade policy (and a similar list in 2010 trade integration document). This approach to focusing resources on selected products is consistent with similar practices in other countries. But the process needs to be improved considerably. First, it is not clear why the lists in the two trade papers that came within two years are not identical. Second, the 2010 industrial policy did not refer to the list in the 2009 trade policy and has its own list of priority products, but covering almost everything and thus undermining the very notion of priority. Third, agricultural policy does not have such a list, although both trade and industrial policies list many agricultural products. The experience with Nepal's 1995 Agricultural Perspective Plan, which took a similar approach of listing priority products is not positive, in large part due to lack of mainstreaming across policies. No attempt has been made in the trade or other policies to learn from that experience. There is thus a real risk that support to priority products – in whichever policy document they belong to – might continue to remain weak.

Should Nepal's PRSP be designed differently? - Nepal designated its 11th development plan as the PRSP. Being similar in design to the previous periodic plans, this differs considerably from the PRSPs in most other countries. While there are some advantages, having 20 or so separate, stand-alone sectoral chapters also comes with disadvantages. One is the challenge to ensure that policies at the sectoral and macro level, including trade policy, are mainstreamed consistently. In this format, mainstreaming essentially depends on the ability of the National Planning Commission to ensure coordination and synergy. The studies note several weaknesses on this. A related problem with this format is that there are often two policy documents – the chapters of the PRSP and respective national policies. Maintaining consistency between these two sets of papers

appears to be a challenge. An alternative format to the traditional plan is the focussed PRSPs like those in Ghana and Tanzania, for example.

Lack of baseline statistics on product-specific support is a serious handicap for prioritizing trade support measures – While policy papers specify priorities (e.g. export products), it is hard to discuss prioritization and resource reallocation for lack of disaggregated statistics on public outlays and incentives/subsidies. This is the situation across the board – from agricultural research, provision of industrial and export incentives, to commodity development. In trade policy and elsewhere, provisions are made for one or more incentive schemes, typically involving subsidies, and yet it is nowhere explained how these policies were determined nor if these schemes were effective in the past. With the increasing focus on value chains, statistics on outlays along the chains have also become essential, but are mostly missing currently.

The process of stakeholder consultations needs strengthening - Stakeholder consultations are increasingly being organized. But the quality of these meetings needs strengthening. In Nepal's case, participation of the private sector from the business and industry side has been strong but is lacking on civil society, farm organizations and independent analysts. The more serious issue is with the effectiveness of such meetings. Typically, not having prepared evidence-based briefs on the issues being debated and circulated in advance, stakeholders' inputs are limited. Interestingly, similar weaknesses were noted for meetings of inter-ministerial committees and task forces. In some cases, even important ministries have been missing altogether, e.g. the Ministry of Agriculture is not even represented in the high level Boards created in the 2009 trade and 2010 industrial policies, despite the fact that at least half of the targeted priority products are agricultural.

For details, see the three chapters on Nepal in the book *Articulating and Mainstreaming Agricultural Trade Policy and Support Measures*, edited by Ramesh Sharma and Jamie Morrison, 2011, FAO, Rome, available at <http://www.fao.org/economic/est/projects/en/>. Trade and Markets Division, FAO, Rome. The studies were supported by the Department for International Development (DFID) of the United Kingdom.