

**TECHNICAL ASSISTANCE TO
THE KINGDOM OF NEPAL
FOR
ESTABLISHING ECONOMIC POLICY NETWORK
ADB/TA 4288 – NEP**

**PROCEEDINGS OF THE
WORKSHOP ON THEMATIC POLICY PAPERS
(Workshop #2)**

September 2005

TA Focal Unit/ MoF

Abbreviations

ADB	Asian Development Bank
BoI	Board of Investment
CNI	Confederation of Nepalese Industries
DCSI	Department of Cottage and Small Industry
EAPAD	Economic Affairs and Policy Analysis Division
EPN	Economic Policy Network
FCGO	Financial Comptroller General's Office
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GAN	Garment Association – Nepal
HMG/N	His Majesty's Government of Nepal
IIDS	Institute of Integrated Development Studies
IMF	International Monetary Fund
KCM	Kathmandu College of Management
MAN	Management Association of Nepal
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoFSC	Ministry of Forests and Soil Conservation
MoICS	Ministry of Industry, Commerce, and Supplies
MoLTM	Ministry of Labor and Transport Management
NATO	Nepal Association of Tour Operators
NCC	Nepal Chamber of Commerce
NCTTM	Nepal College of Travel and Tourism Management
NRM	Nepal Resident Mission
SAARC	South Asia Association for Regional Cooperation
SEZ	Special Economic Zone
TA	Technical Assistance
TU	Tribhuban University
UNDP	United Nations Development Programme
WTO	World Trade Organization

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I. INTRODUCTION

Workshop 2 of the Economic Policy Network was held on September 22, 2005 at the Grand Hotel, Tahachal. Three policy papers were presented at the workshop in parallel sessions as per the decision made at the 4th Steering Committee meeting held on August 8, 2005.

The program was divided into two sessions – a detailed presentation by the consultant on the report, followed by open floor discussion. The participants provided valuable comments and recommendations for further improvements on the report.

The policy papers are finalized once the comments from the workshop are incorporated in the report and submitted to the Economic Policy Network (EPN).

The drafts as well as finalized reports are posted under the 'Economic Policy Network' link within the Ministry of Finance (MoF) website at www.mof.gov.np. EPN Focal Unit would appreciate receiving comments and observations on these papers.

II. PRESENTATION OF POLICY PAPERS

The three policy papers presented at the workshop were: (i) *Enhancing Economic Diplomacy for Trade, Investment and Employment* commissioned by the Advisory Committee for Economic Policy on International Trade, Investment and Employment; (ii) *Sustaining Nepalese Garment Industry after Quota Abolition* commissioned by the Advisory Committee for Economic Policy on International Trade, Investment and Employment; and (iii) *Measures for Expanding Non-Tax Revenue* commissioned by the Advisory Committee on Macroeconomic Management.

A. Enhancing Economic Diplomacy for Trade, Investment and Employment

The policy study was carried out by EPN consultant and former Minister of Finance, Dr. Badri Prasad Shrestha.

The session was chaired by Dr. Mohan Prasad Lohani, Executive Director at the Institute for Sustainable Development.

The presentation basically summarized the chapters of the report covering the following core areas (outline of the presentation in annex 2A):

- Review of current activities
- Approach and objectives of economic diplomacy
- Institutional mechanism
- Promotional approach
- Overview of private foreign investment in Nepal, employment in foreign countries, and remittance.
- Promotional measures to be adopted by the government and private sector
- Potential sources for resource generation and rationalization of manpower deployment
- Rationalization of budgetary allocation
- Schematic presentation of information networking and dissemination

B. Sustaining Nepalese Garment Industry after Quota Abolition

The policy study was carried out by EPN Consultant Mr. Bijendra Man Shakya on behalf of the Garment Association - Nepal (GAN). Mr. Shakya is Chief of the WTO Cell at GAN.

The session was chaired by Mr. Bimal Prasad Wagle, Joint Secretary–Ministry of Industry, Commerce and Supplies (MoICS).

The presentation basically summarized the chapters of the report covering the following core areas (outline of the presentation in annex 2B):

- Post Multifibre arrangement issues
- Loss of guaranteed market access and its growing implications
- Sustaining garment industry in quota free trade
- Change in the export trend over the years
- Percentage of Nepal's share compared to other countries
- Need to introduce new strategies and ensure its implementability
- Major issues in trade without quotas and coping with them
- Internal bottlenecks
- Capacity building for survival
- Policy action matrix with detailed recommendations

C. Measures for Expanding Non-Tax Revenue

The policy study was carried out by EPN Consultant Mr. Madhab Prasad Ghimire on behalf of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). Mr. Ghimire is a former Regional Administrator of the Western Development Region and Financial Comptroller General of HMG/N.

The session was chaired by Mr. Tej Raj Shakya, Director General – Department of Small and Cottage Industries.

The presentation basically summarized the chapters of the report covering the following core areas (outline of the presentation in annex 2C):

- Definition of Non-tax revenue
- Contribution of non-tax revenue
- Trend of non-tax revenue in SAARC countries
- Sources of non-tax revenue
- Review of institutional arrangements
- Prospects for non-tax revenue
- Policy action matrix

III. DELIBERATIONS FROM THE FLOOR

A. Enhancing Economic Diplomacy for Trade, Investment and Employment

Following the presentation, the chairperson of the workshop opened the floor for observation, comment and queries from participants. Major interventions in its unedited versions are summarized below.

Mr. Nischal Nath Pandey presented a list of activities that are already performed by HMG/N. These actions included the recommendation made in this report referring to the high level taskforce, 1995 and Policy Study Group, 2002. He informed that the high level committee under the chairmanship of the prime minister and the standing committee are in existence and performing well. Level of income of some diplomatic establishments such as Malaysia and Doha has significantly increased. The necessary information along with legal provisions in Nepal are posted in the web pages. According to him, the major problem in the Foreign Service at present is the increased number of staff and government's operational budget.

Mr. Narendra Basnet was of the opinion that the thinly spreading of resources would not bring about the desired results. Hence, there is a necessity of identifying countries with high potential of investment and trade and prioritized accordingly. The one window system virtually does not exist in the country and the cumbersome procedures in government ministries and departments need to be corrected without further delay. There is an attitudinal problem in the Nepalese missions abroad. Thus, their level of knowledge regarding development programs in the country has to be upgraded and mission should be entrusted to work aggressively in disseminating information to prospective investors. Mr. Basnet was of the opinion that the proposed Board of Investment (BoI), under a separate study recently conducted by EPN should be regarded as supreme body in these matters. Thus the standing committee and other committees proposed in this report should complement the efforts of BoI.

Mr. Rajendra Bahadur Shrestha informed the house that seven trade representatives of FNCCI presently working in Japan, USA, Russia, China, France, Singapore and Qatar have demonstrated satisfactory performances in the field of trade and investment. Hence, building on these experiences, he was supportive of establishing a Private Sector Partnership Forum chaired by the Secretary of the Ministry of Foreign Affairs to arrive at a meaningful partnership.

Highlighting the shortage of skilled manpower in the ministry, Mr. Suresh Adhikary emphasized on capacitating the employees of Ministry of Foreign Affairs (MoFA) in the field of industry, trade, tourism and other concerned areas of economic diplomacy.

Dr. Bina Pradhan highlighted the necessity of orientation and motivation for the employees of embassies. She urged the diplomatic establishments to include gender and social inclusion along with the present involvement in political and economic aspects. The proposed economic units should be able to understand critical levels of changes and also carefully assess plan of actions produced by different sectoral organizations of HMG/N.

Sharing his own experiences during the initial phases of economic diplomacy at the MoFA, Mr. Stalin Man Pradhan emphasized the necessity of an International Relation Desk in the embassies. The performance of missions should be professionally evaluated on the basis of increase in foreign investment, trade and visitors to Nepal.

Mr. Vidya Nath Nepal had also several experiences to share during his tenure as the cultural attaché in the Nepalese embassy in New Delhi. He also presented an account of increase in Indian investment in Nepal through his teams exploratory visits to neighboring states like UP, Bihar and West Bengal.

Mr. Dipendra Bikram Thapa mentioned that there are 108 countries open for labor export from Nepal. As the prospects are seen higher after settlements in Iraq, HMG/N is considering positively allowing employment of Nepalese women in Kuwait. According to him approximately five to seven hundred people are flying out of the country every day in search of work in foreign countries. The problem of stranded people in foreign land is rapidly

increasing and Nepalese missions are facing difficulties to address crisis in absence of welfare officer, medical practitioner and shelter houses. The major functions of an embassy, according to him, should be to get engaged in preventive, promotional, curative, awareness raising and institutional building. Hence, he urged for the immediate implementation of legal provisions related to recruiting labor welfare officers in important diplomatic missions. The employment promotion office is currently raising over NRs. 100 million annually. Mr. Thapa wanted the above issues to be dealt with in the report with priority.

Ms. Chhaya Sharma requested to have right person at right places. The optimism, feeling of ownership and motivation is lacking in the ministry and embassies.

In order to derive anticipated results from adoption of economic diplomacy by MoFA and respective embassies in foreign lands, positioning of skilled and experienced personnel is a must. Thus, Mr. Dipendra Purush Dhakal was of the opinion that the manning of such positions should be through other concerned sectoral organizations of HMG/N as the orientation of MoFA officials are mostly on other non economic affairs. He wanted the study to carefully analyze and address this critical issue.

Mr. Navin Pokharel highlighted the lacking aspects in mission's activities and demanded for a tourism focus and better information sharing with prospective visitors which may not only contribute to increase the flow of tourists but also increase investment in the country.

At the end, the chairperson of the workshop, Dr. Mohan Prasad Lohani, suggested Dr. Shrestha to take all interventions into consideration to finalize his study. He also suggested him to revisit earlier reports that may help concretizing his recommendations further. Dr. Lohani congratulated him for the brilliant presentation and thanked all for their active participation.

B. Sustaining Nepalese Garment Industry after Quota Abolition

Following the presentation, the chairperson opened the floor for discussion to provide feedback on the policy papers. Excerpts of the comments in unedited form are summarized below:

- A long-term policy must be established, policy that changes every six months is very demotivating/demoralizing for the exporters.
- In case of post MFA, integration of production base and cluster development at macro level was also recommended.
- Implementability of the policy paper was questioned considering past experience on similar approaches.
- Absence of core government official in the workshop was commented stating that it shows lack of interest and commitment from the government side.
- Considering the rigid nature of the existing policy on tax, custom duty, including bank guarantee, there is very little or no scope for new comers.
- A group of participants associated with garment exports said that the revival of garment industry is possible provided that the policy recommended gets implemented soon.
- Concern over how soon the immediate recommendations were going to be implemented was also put forward.

- Lack of commitment from the Government was raised several times.
- The likely impacts of post MFA was determined before hand, however, the political instability of the country has fueled the growing deterioration. The growing conflict of the country gave wrong information to the world market, influencing their decision on having business contacts with the country.
- The geographical position of the country and absence of backward production system contribute to the high transaction and production cost. Therefore and effort should be made on introducing vertical production system in the country.
- Some favorable steps necessary to reduce the internal bottlenecks – provision by government to support the sector on adopting new technology, provision of more flexible VAT, income tax, and simplified and transparent procedures.
- Suggestion to provide specific outcome on the policy action matrix for easier understanding was recommended.
- Strong follow up from the government on the implementation of the policies, currently lacking, was requested to be included as recommendation in the report.
- One of the participants also requested ADB for funding the Special Economic Zone (SEZ).

Overall, the participants shared their experience and provided comments based on ground knowledge of the sector. There were few recommendations to improve the report further. The major concern of the group was on the implementation of the policy and the timeframe.

Mr. Bimal P. Wagle concluded the workshop by thanking the participants and informing that the concerns and questioned raised for government will be taken seriously and get implemented. The author, Mr. Shakya was requested to incorporate the comments and suggestions received in this meeting to finalize the report.

C. Measures for Expanding Non-Tax Revenue

Following the presentation, the chairperson, Mr. Tej Raj Shakya, opened the floor for discussion to provide feedback on the policy papers. Major interventions in its unedited version are summarized below.

Mr. Dileep Adhikary was of the view that non-tax revenue should be classified into government income and service income. He also opined that principal repayment should not be treated under non-tax revenue citing that the International Monetary Fund (IMF) has also treated it separately. Similarly, he opined that as the postal service is being privatized in other countries, the government may move in that direction so the revenue from this head is uncertain. Similarly, he was of the view that dividend should be distributed as per the decision of the Board without any government intervention. Finally, he concluded that non-tax revenue policy cannot be formulated in isolation—it should be guided by long-term perspective.

Mr. Kedar Man Singh Shrestha thanked the consultant for making the private sector aware of the non-tax revenue through this paper. He questioned the future viability of non-tax revenue in the current context which all the public enterprises are in trouble. He expressed the need to conduct revenue projection on the non-tax revenue heads. He also

emphasized systemic improvements and expressed that the Government's pricing policy is not clear. Explaining that the government's pricing policy has a direct impact on the price of goods which affects the private sector and consumers, he suggested involving all stakeholders in such decisions to make the process transparent. Pointing out fluctuations in non-tax revenue over the past 15 years, he expressed the need for the government to clearly indicate which sectors it will continue to operate in and which it plans on handing over to the private sector for management.

Mr. Krishna Acharya opined that as Nepal is now a member of the WTO, we cannot raise the fees on industry registration so revenue may not increase to the extent desired. He expressed that pricing should be cost based. He also explained that there are practical and bureaucratic difficulties in raising royalty from the mining sector. He also cited lack of clear demarcation of jurisdictions to raise non-tax revenue. Similarly, he expressed the need to share royalty revenue among the village, district and the central government.

Mr. Shree Dhar Gautam supported the suggestions made in the policy action matrix. He also suggested several ways to expand non-tax revenue such as, raising revenue from printing press, private courier, information technology etc, while regulating these sectors. Similarly he suggested introducing revenue stamp which would make things easier for consumers. He also suggested establishing a Postal Savings Bank. He also expressed the need to advertise money order services of the postal service to tap the financial resources of Nepali workers abroad. He expressed that while staff training within the Postal Services is vital to compete with the private sector it is hampered by lack of resources. He was also of the opinion that the Government should clearly specify which sectors/ services it will continue to manage and those that it will hand over to private sector.

Mr. Hem Aryal expressed the view that his ministry should be included as a responsible agency in the land sale/lease column in the policy action matrix as forest area covers almost 40% of the total area in Nepal. He opined that the forestry sector has a high revenue generating potential but it has not been utilized efficiently as royalty is set without doing any rate analysis. He expressed that community forestry is a major thrust in the country but due to problems in accounting—lack of mechanism to include the benefits taken by local users—it is not reflected in the national account. He opined that the central and local governments should enter into dialogue on revenue sharing as well as cost sharing.

Mr. Udbodh Rijal requested the author to clarify whether the revenue figures presented in the report are in real or nominal terms—he expressed that the figures in real terms would be more meaningful. He also opined that natural resources should be utilized in a sustainable manner, and expressed that revenue generation should not be the primary focus of the government.

Mr. Guna Raj Bhatta supported the suggestion to establish a Monitoring Unit at the MoF. He expressed that MoF should provide a guidelines on the pricing policy for rendering services based on cost accounting. He also expressed the need to add a representative from the Ministry of Law and Justice in the Revenue Advisory Committee to facilitate timely reforms in Acts and Regulations that govern non tax revenue. Similarly, he opined that fines should be imposed on an incremental basis to discourage repeat offenses.

Mr. Mohan Singh Khadka brought to light the agreement the Bureau has signed with India, regarding conformity stamp. He expressed that in the post WTO regime, conformity stamps will be an important source of non-tax revenue.

Ms. Laxmi Keshari Manandhar stressed the need for effective service delivery and a pricing policy based on quality of services.

Mr. Binod KC suggested that the government should have a clear investment policy regarding public enterprises, on interest rates, repayment schedule, and penalties for non-repayment on schedule.

Mr. Narayan Bajaj expressed that the government account is cash based which is creating problems. He expressed that the constraints indicated in the Policy Action Matrix should be reexamined as some of them are overlapping. For example he pointed out that the responsibility of the Tariff Advisory Committee and the Study Team has overlapped. He stressed the need for the government and public enterprises to be service oriented—if we want passports in 2 hours we can charge more and charge less for regular service. He expressed a lack of focus on natural resources and opined that political interference in policy formulation is hindering pro-development choices.

Dr. Puspa Kandel expressed that the study had been completed in one month so we should not expect the consultant to go into the details of all issues. He suggested recommending future studies on important issues. He also suggested that non-tax revenue should be defined in the text and explained that non-tax revenue is basically user charges, penalties and fines. He expressed the need to consult with User Committees when revising charges and fees. Dr. Kandel also expressed that the government lacks a clear pricing policy. He also expressed that the Bibliography should be revised. He expressed the need to strengthen the Revenue Advisory Committee. He also pointed out that central/ local revenue sharing is an issue and expressed the importance to relate non-tax revenue to service delivery. He also explained the restructuring will affect non-tax revenue, so the study needs to keep this in mind. He stressed the need for long term planning and pricing guidelines.

Mr. Surya Parajuli briefed about the legal rates and agreed that a full bench of the Supreme Court is necessary to revise rates. He explained that rates have not been revised since 2048. He also opined that service delivery should be the key for the revision of the rate. However he was of the opinion that penalties and fines should not be looked at as a source of revenue—such revenue is a by product of the judicial system. He also expressed the need for a special branch of police or other system to collect uncollected fines and forfeitures—currently a branch in District Court has the authority but it is not well equipped to carry out such duties.

Mr. Shital Sharma questioned the purpose of raising non-tax revenue and the justifications for increasing rates. He opined that government should not only look towards raising revenue but should also attempt to reduce costs. He opined that service delivery should be efficient and to achieve efficient service delivery he suggested providing performance based incentives to government employees.

Mr. Jush Shrestha explained that that Bhutan has increased the per capita income through hydroelectricity development and opined that Nepal should also exploit its hydroelectricity more vigorously. He also suggested that the idle land of the government should be properly utilized and suggested channeling government savings for development investment.

Upon the conclusion of the discussion, the Chairman asked the consultant to clarify any issues and Mr. Ghimire answered all queries.

Mr. Ghimire thanked the participants for taking interest in the report. He explained that as it was prepared in one month time it could not delve into detail on many areas. He thanked the participants for raising important issues like pricing policy, central/ local revenue sharing, and investment policy of the government. He also thanked the participants for the specific suggestions for improving the report and promised to incorporate to the best

possible, the suggestions in the final report. He also thanked the chairman for successfully steering the meeting

The chairman delivered the concluding statement. He emphasized the significance of the systemic improvement in non-tax revenue and also opined that the paper has created awareness in the government and the private sector about the user charges and the penalty covered in the non-tax revenue, which was otherwise a neglected area. He pointed out that there are several institutions involved in non-tax revenue and it is a complex task to discuss about the non-tax revenue. It is therefore necessary to enter into public private partnership in order to build up policy consensus. He thanked the consultant for his successful attempt to generate interest among the participants and hoped that the consultant will give careful consideration to the participant's suggestion and incorporate in the report to the extent feasible.

ANNEX 1: PROGRAM SCHEDULE

Function: Workshop on Policy Papers (#2)
Date: September 22, 2005
Venue: Grand Hotel, Tahachal

Program Schedule

0930 – 1000	Registration
1000 – 1045	Presentation of Policy Papers in Parallel Sessions <ul style="list-style-type: none">- <i>Enhancing Economic Diplomacy for Trade, Investment and Employment</i> (Dr. B.P. Shrestha) at the Diamond Hall- <i>Sustaining Nepalese Garment Industry after Quota Abolition</i> (Mr. Bijendra Man Shakya on behalf of GAN) at the Golden Ballroom- <i>Measures for Expanding Non-tax Revenue</i> (Mr. Madhab P. Ghimire on behalf of FNCCI) at the Rendezvous
1045 – 1100	Tea Break
1100 – 1300	Open Floor Discussion
1300	Lunch

ANNEX 2: OUTLINE OF PRESENTATIONS

Annex 2A: Enhancing Economic Diplomacy for Trade, Investment and Employment

Contents of the Study

1. Review of Major Current Activities
2. Approach and Objectives
3. Institutional Structure
4. Promotional Approaches
5. Potential Sources for Generation of Resources
6. Information Networking Modality

Annex I

Policy Action Matrix for Implementation and Operationalization of the Study

Annex II

Suggested Information on Nepal for Colloquium, Training, Briefing and Orientation of Embassies and Missions

Annex III

Illustrative Matrix of Promotional Activities by Specific Areas

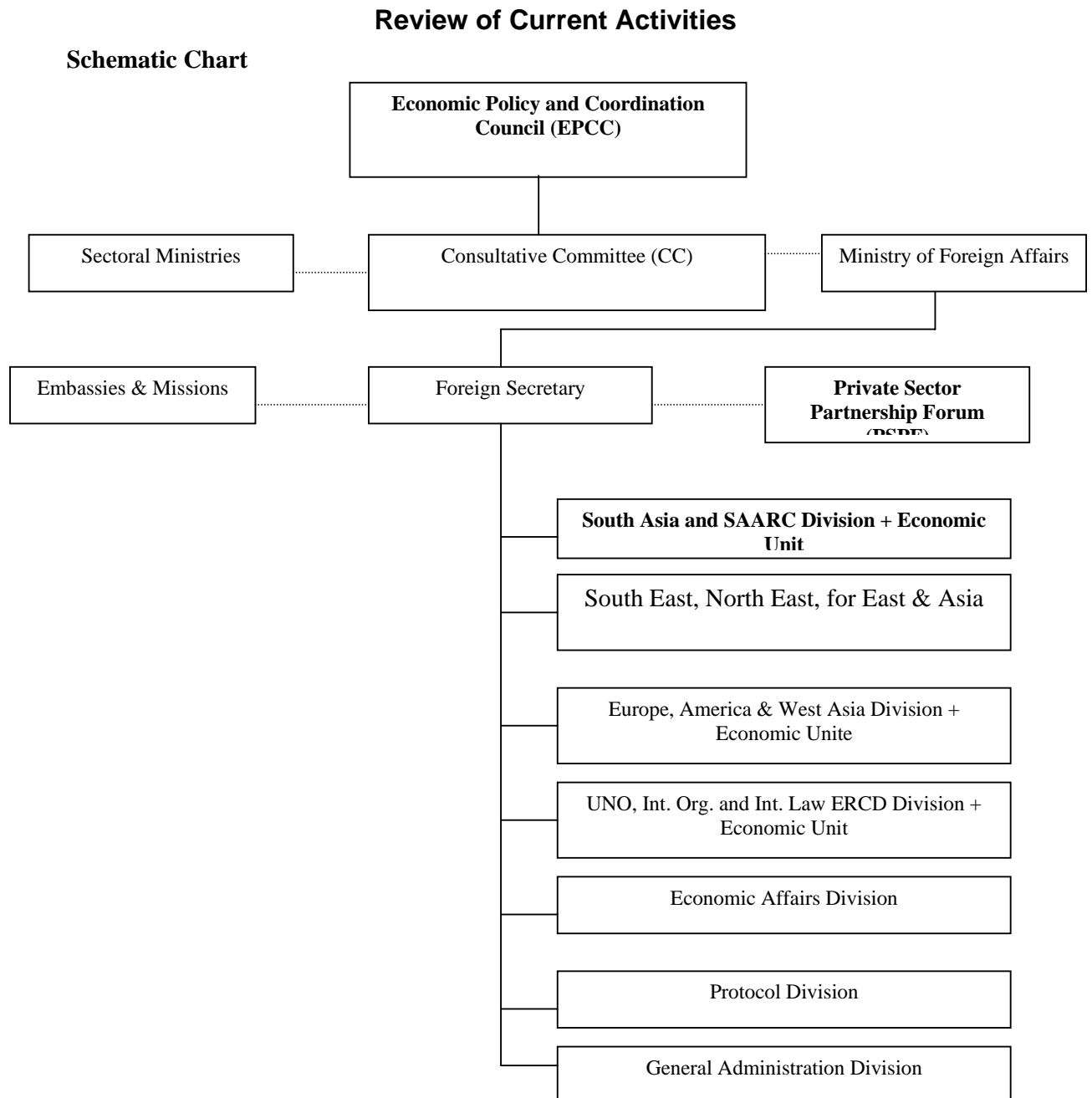
1. Review of Current Activities

- Economic diplomacy in the context of Liberalization and and globalization of the economy and emerging challenges and opportunities
- Two commendable works: High Level Task force (HLTF) 1995 and Policy Study Group (PSG), 2002
- HLTF Recommendations: Economic Relations and Coordination Division (ERCD) established with a Joint Secretary and three Under Secretaries.
- Two and a half years later, ERCD downgraded to a Section with one Under Secretary.
- Four Economic Counsellors posts created, appointed and posted.
- All the four Economic Counsellors were recalled and all the four posts of Economic Counsellors, cancelled.
- PSG Recommendation: External Economic Relations and Coordination Committee (EERCC) was constituted and remained non-functional after its first meeting more than two years ago.
- Multilateral Economic Affairs Division (MEAD) by name with any one Under Secretary.
- MOFA continues to remain structurally and functionally as it was before some initial thrusts.

2. Approach and Objective (Approach on Six Considerations)

- Mainstreaming Economic Diplomacy into total foreign policy
- De-compartmentalization of economic diplomacy within the MOFA
- Communications, coordination and cooperation between the MOFA and the sectoral Ministries
- Reorganization of the MOFA without much additional cost
- Rationalization of Embassies and Missions
- Partnership with the private sector

3. Institutional Mechanism Schematic Chart



4. Promotional Approaches

Foreign Trade

	<u>1994/95</u>		<u>2003/04</u>	
	India	Other countries	India	Other countries
Exports (%)	17.7	82.3	59.3	40.7
Imports (%)	30.8	69.2	58.7	41.3
			<u>2003/04</u>	
			India	Other SAARC countries
Exports (%)			97.57	2.43
Imports (%)			98.76	1.24

Private Foreign Investment, May 2003

Country	No. of Joint Venture	Authorized Capital (Rs. Million)
1. India	114 (28.6)	13,904 (25.4)
2. Other SAARC countries	10 (2.5)	433 (0.8)
3. ASEAN countries	11(2.7)	1,342 (2.5)
4. Japan	44 (11.1)	1,576 (2.9)
5. China	28 (7.0)	2,207 (4.0)
6. South Korea	21 (5.3)	611 (1.1)
7. Europe	86 (21.6)	8,356 (15.3)
8. USA	48 (12.0)	9,552 (17.5)
9. Others	36 (9.0)	16,722 (30.5)
Total	398 (100.0)	54,703 (100.0)

Employment in Foreign Countries

	Saudi Arabia	Qatar	Malaysia	55 other Countries	Total
1993/94 – 2002/03	1,01,449	82,072	1,08,455	54,073	3,46,049
%	(29.3)	(23.7)	(31.4)	(15.6)	(100.0)

Remittances

	1990/2000	2000/01	2001/02	2002/03
Balance on Goods & Services	-40.33	-47.15	-49.41	-63.24
Workers Remittances	36.82	47.21	47.53	54.20

Promotional Measures

1. Proper identification of potential areas by country and commodities
2. Partnership between government & private sector as the driving force
3. Government Level:
 - Economic and governance reforms
 - Mobilization of Embassies and Missions & Annual Program
 - Mobilization of 47 Honorary Consul Generals in 32 countries
 - Incentives to private sector promotional activities
4. Private Sector Level:
 - Promotional activities with specific objectives
 - Mobilization of private sector bilateral economic organization (MOU with 27 Chambers by FNCCI alone)
 - Mobilization of Honorary Consulates of 26 countries in Nepal
 - Joint Promotional activities through PSPF
 - Identification of issues and suggestions for their resolution.

5. Potential Sources for Resource Generation Rationalization of Manpower Deployment

Country	Ambassador	Minister	Minister Counselor	Counselor	Ministry Attaché	1st Sect.	2nd Sect.	3rd Sect.	Attaché	Total
1. Bangladesh	1		1					1	1	4
2. Belgium	1		1			2 x			1	5
3. China	1	1	1		1	1		1	2	8
4. Egypt	1					1			1	3
5. France	1			1				1		3
6. Germany	1		1					1	1	4
7. India	1	2 *	1	4	1	3		2	5	19
8. Japan	1		1						2	4
9. Malaysia	+		1+					1		2
10. Myanmar	1							1	1	4
11. Pakistan	1		1						1	3
12. Qatar	1					1			1	3
13. Russia	1					1		1		3
14. Saudi Arabia	1					1			1	3
15. Sri Lanka	1					1		1		3
16. Thailand	1					1		1	1	4
17. United Arab Emirates	+		1+				1			2
18. UK	1		1		1			1	1	5
19. USA	1		1		1	1		1		5
Total	17	3	11	5	4	13	2	4	19	87

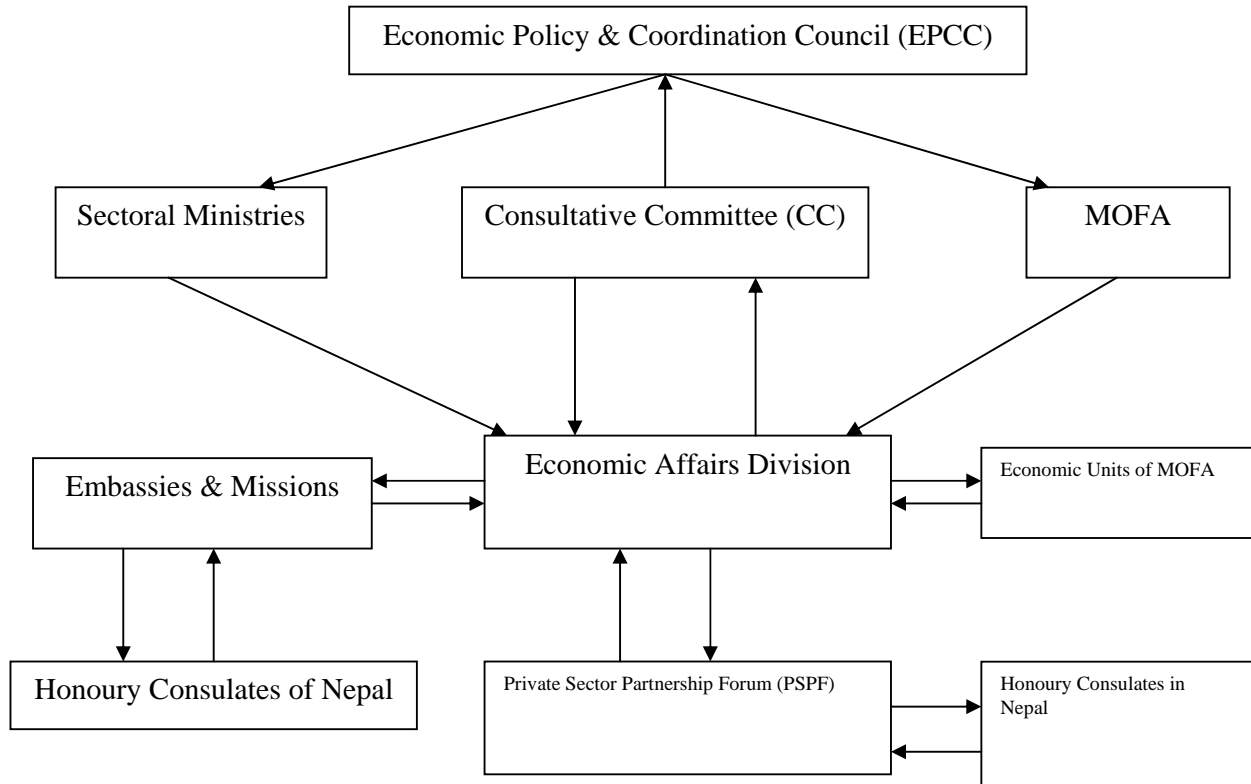
Rationalization of budgetary allocation

Budget Heads	Amount (Rs '000)	Percentage
<u>19 Royal Nepalese Embassies</u>		
1. Salary	75,391	16.54
2. Allowances	1,37,111	30.07
3. Rent	1,24,681	27.34
4. Utilities and Office Operation	1,08,866	23.87
5. Capital Expenditure	9,952	2.18
Total	4,56,001	100.00

Budget Heads	Amount (Rs. '000)	Percentage
<u>5 Royal Nepalese Permanent Missions</u>		
1. Salary	21,471	14.97
2. Allowances	56,494	39.40
3. Rent	42,874	29.90
4. Utilities and Office Operation	22,007	15.35
5. Capital Expenditure	541	0.38
Total	1,43,387	100.00

1. Adjustment of Allowances and its merits
2. Replacement by local staff
3. Short visits in place of residential staff
4. Budgetary allocation to promotional activities
5. Mobilization of private sector resources:
 - FNCCI collects 0.12% of FOB invoice while issuing certificate of origin
 - Carpet and Wool Development Board charges Rs 3 (up to 8 knot) and Rs 5 (above 80 knots) per sq. m. for GSP form
 - Garment Association of Nepal levies Rs 150 per one recommendation letter to customs on government exports of EU etc.
6. 20% additional changes by RN Honorary Consul Generals
7. Possibility of authorizing Embassies and Missions to charge some reasonable fees for certain services
8. Mobilization of NGOs/ INGOs and Friendship Organizations

6. Schematic Presentation of Information Networking & Dissemination



Annex 2B: Sustaining Nepalese Garment Industry after Quota Abolition

Sustaining Nepalese garment industry after quota abolition (Final draft)

As commissioned to Garment Association – Nepal (GAN),

a report prepared by

Bijendra Man Shakya

Consultant

Economic Policy Network (EPN Project)

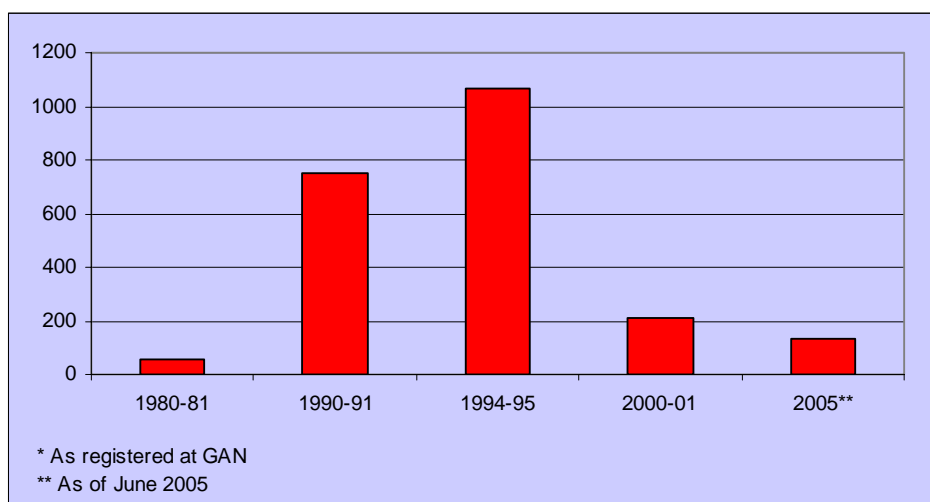
Ministry of Finance/HMG

Asian Development Bank (ADB)

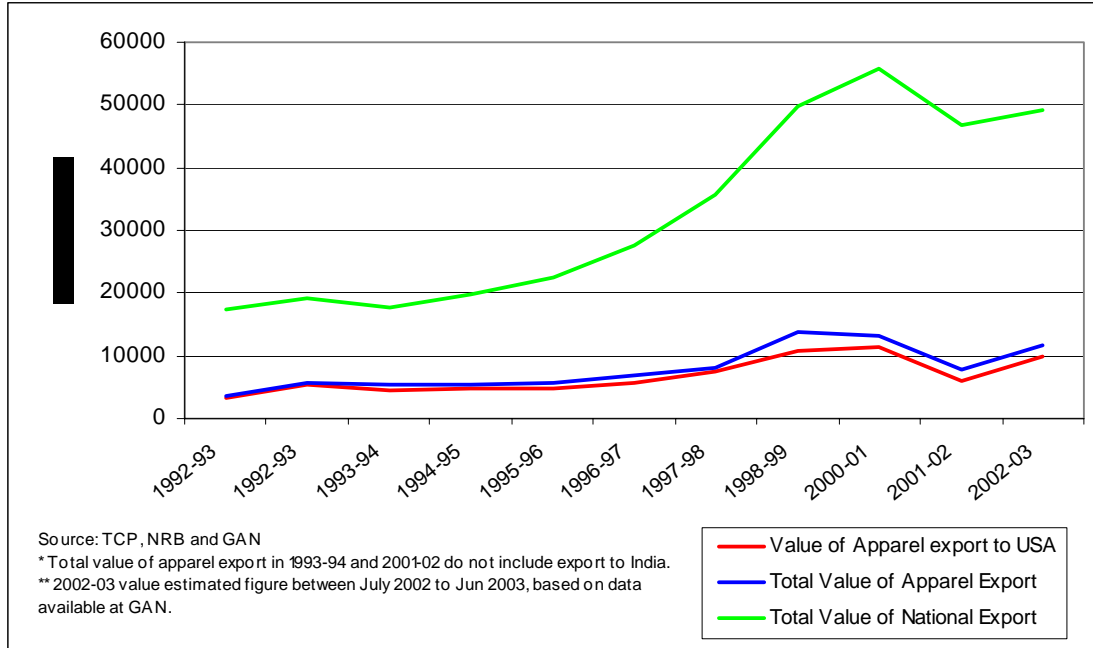
Political economy of trade in T & C

- Loss of quasi guaranteed market access with end of MFA regime.
- From managed trade to trade under market forces.
- Substitution of quotas by tariffs and other barriers.
- Stiff competition and complicated trading environment.
- Shift in competitive environment from cheap imports to high priced and high fashioned clothing in rich countries.

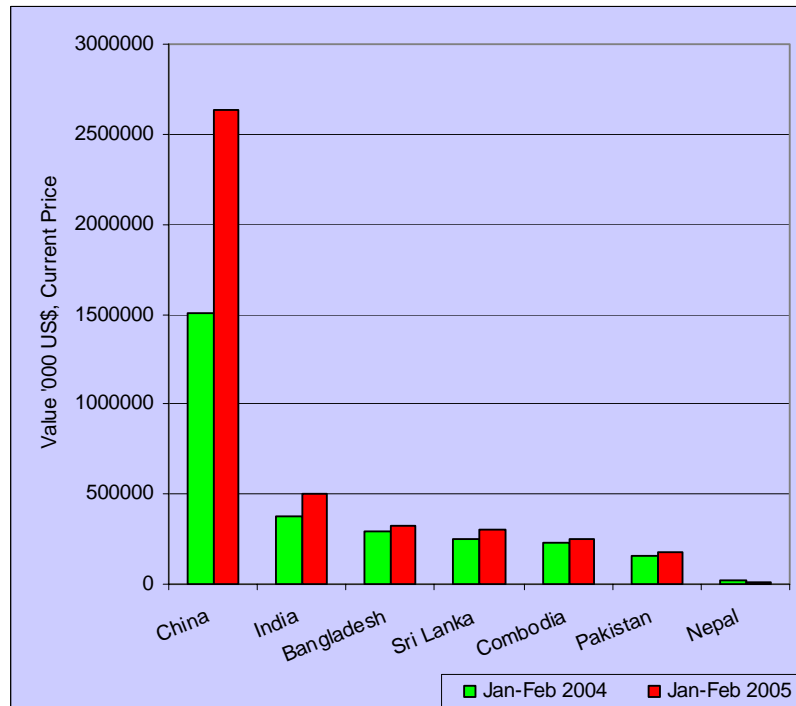
Number of Garment Industries



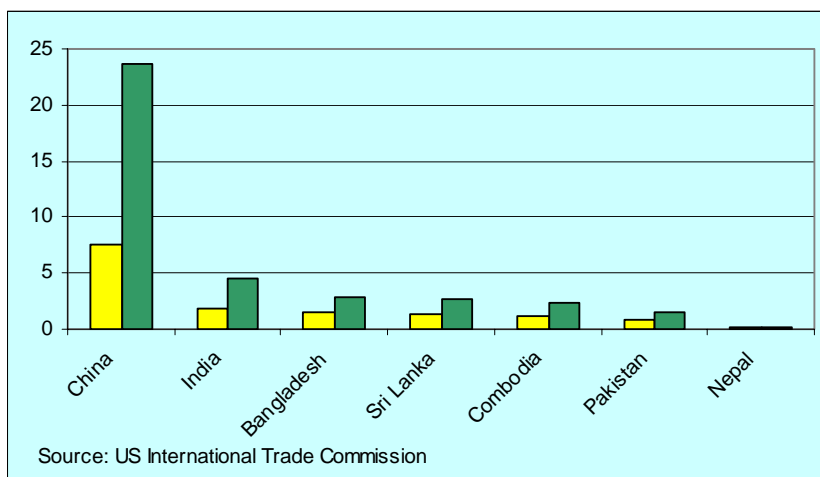
Performance of Nepal's Apparel Export Trade



US Apparel Import from Selected Asian Countries



Share of Selected Asian Countries in US Apparel import (Jan-Feb 2005 against Jan-Feb 2004)



Product-market mix analysis

- **Two distinguished markets:**
 - Preferential and non-preferential markets.
- **Variation in product concentration:**

Standardized commodity items to USA.

- Less value of fashion and design for marketing.
- Higher degree of competition.

Relatively higher priced items to EU.

Trade under different regimes

USA	EU	CANADA
MFN	<ul style="list-style-type: none"> ▪ GSP ▪ Derogation from GSP rules of origin (1997) ▪ EBA (2001) ▪ Derogation facility extended to Nepal in 1992 and 1994, and effective until 2006. 	GSP under Market Access Initiative for LDCs (2003)

Major issues in trade without quotas – I
Reduced number of countries for sourcing

- Discretionary power to buyers for sourcing. sourcing.
- Priority to countries with vertical production.
- Marginalization of Nepal's position:
 - no consolidated output and supply capacity;
 - lacks preferential market access;
 - no proximity to major markets; and
 - negative export growth continues.

Major issues in trade without quotas – II
Threat of the China syndrome

- Need to anticipate impact of China syndrome.
- China's share in Nepal's key product threatening (347/348 increased by 1500%)
- China's price advantage and subsidies to subside Nepal's duty advantage in EU.
- US safeguard action diverting trade.
- Positive effect from China safeguard inevitable.

Major issues in trade without quotas – III
Down spiral of the world apparel prices.

- Reasons for plummeting world price:
 - Over production;
 - No quota premiums;
 - No middlemen's role (reduced distribution cost);
 - Transformation of production to cheaper locations.
- World average apparel price down by 32% (1992 price)
- China's average price down by 48% (2001- 2004)
- Price declined by 58% on items interest to Nepalese traders (cotton trousers and shirts)

Major issues in trade without quotas – IV
Escalation of tariffs and NTBs

- More crucial to determine competitiveness.
- Tariff to escalate to undermine intense price competition and import surge in rich countries.
- Rich country average tariffs on apparel - 12%.
- Average US tariffs on Nepalese apparels - 15%.
- Arbitrary application of NTBs: Social compliance; work place code; etc.
- Requirement of eco-labeling and rules on use of chemicals.
- Respect to IP in T & C designs

US tariffs on major Nepalese apparel exports

Product code	Product description	Applied MFN (Total ad valorem equivalent)
620462	Women's/girls' trousers and shorts, not knitted, of cotton	Max. 16.60% - Min. 0.00% Av. 8.15%
620342	Men's/boys' trousers and shorts, not knitted or crocheted, of cotton	Max. 16.60% - Min. 0.00% Av. 8.96%
611020	Pullovers and similar articles, knitted or crocheted, of cotton	Max. 16.5% - Min. 5.0% Av. 10.50%
610910	T-shirts, singlets and similar garments, knitted or crocheted, of cotton	16.50%
620630	Women/girls' blouses and shirts, not knitted, of cotton	Max. 15.40% - Min. 9.00% Av. 3.50%
620640	Women's/girls' blouses and shirts, not knitted, of MMF	Max. 26.90% - Min. 4.00% Av. 14.63

Major issues in trade without quotas – V
Essence of preferential market access

- Proliferation of FTAs and RTAs.
- Discriminating non-members and against WTO principle.
- Complicating Nepal's position.
- Nepal losing level playing field.
- Favorable impact of GSP should not be undermined to off set higher output and transaction cost.
- Promising signs in EU. But.....?
- Should wait for US TRADE Act 2005?

Major issues in trade without quotas – VI
Erosion of preferential margin

- Strict rules of origin, restricting preference utilization.
- Low preference margin compared to Nepal's competitors in EU.
- Existing preference margin would depend on NAMA negotiation under DDA.
- DDA has, in principle, agreed to reduce high tariff, tariff peaks and tariff escalation.

Persistent internal bottlenecks and implementation problems

- Constraints to supply efficiency.
- Inadequate institutional and trade support services.
- Administrative complications.
- Policy drawbacks.
- Limitations to developing backward linkages.

Assumption of standard costing format for apparels

Description	Cost per pc of garment (Men's cotton trouser)	In percentage
1. Total raw material/accessories cost	US \$ 2.61	61.41%
2. Import expenses	US \$ 0.08	1.88%
3. Labor cost	US \$ 1.24	29.17%
4. Export expenses + Transport	US \$ 0.17	4.0%
5. Financing cost	US \$ 0.07	1.64
6. Sales commission	US \$ 0.08	1.88%
TOTAL COST	US \$ 4.25	100%

Capacity building to face post MFA situation

- *Exploitation of market access opportunities:*
 - Requires two separate marketing strategies.
- *Product innovation and skill development:*
 - Needs to focus from commodity items to high valued fashion items.
- *Adaptation to the changing trade environment:*
 - Institutional arrangement for perceiving rules on origin, social compliance, trade remedy measures under MTS and RTA/FTA.
- *Vertical production and industry consolidation:*
 - Materialization of GPZ and industry clustering.
- *Public-private sector partnership approach:*
 - Broadening role of RGEPC with more authority for effective networking.

Policy action matrix I: Solution to Supply side problems

Constraints	Action	Responsible body	Time frame
Non-competitive technology	Matching fund. Bank financing.	EPF/EPC NRB Commercial Banks	Immediate
Low labor productivity	Restructure textile training centre. Transfer ownership and location.	MoICS Dept. CSI	Short to medium term
High transaction and transit costs	Fully operate Birgunj ICD and modernize others.	MoICS	Immediate
Lack of direct mkt. and, observation of trade policy and buyers' requirements	Specialized cells to monitor international trade & marketing policies.	TPC GAN	Immediate

Policy action matrix II: Overcoming administrative complications

Constraints	Action	Responsible body	Time frame
Complicated bank financing	Prioritize garment sector. Make interest rate between 4-6%. Collateral for only funding loans. Encourage project loans. Pre/ post shipment financing.	NRB Commercial BANKS	Immediate
Cumbersome bank guarantee process for bonded warehousing/VAT	Approve single bank guarantee.	Dept. of Internal Revenue Dept. of Customs	Immediate
Refund of VAT	Refund within 30 days of request made for claim.	Dept. of Internal Revenue	Immediate
Discrepancy in recognizing export industry	Make standard rate for compulsory export volume for recognition.	Dept. of Customs. Dept. of Internal Revenue	Immediate

Policy action matrix III: Intervention in policy issues

Constraints	Action	Responsible body	Time frame
Rigid labour law	Amend labour law with hire and fire provision. Make provision of contract law.	MoLTM	Short time
Cumbersome income tax clearance	Impose income tax on flat rate basis on total export earning, not exceeding 0.75%. Collect income tax at source of export.	MoF	Immediate

Policy action matrix IV: Exploitation of market access opportunities

Constraints	Action	Responsible body	Time frame
Mismatch in marketing strategy	Separate strategies for preferential and non-preferential markets. Continuity to lobbying for US duty free treatment. Intensify promotions in preferential markets (EU). Establish separate EPC fund for EU market promotion.	MoICS EPF/EPC	Immediate
Lack of product innovation and skill development	Activate and restructure RGTC. Promote pvt. sector institutes. Introduce relevant fashion/design curriculum.	Dept. of CSI	Short term
Difficulty of WTO issues and market access negotiation	Coordinate between WTO div. MoICS and GAN. Alliance with LDCs for binding preferential market access.	MoICS GAN	Immediate

Policy action matrix V: Vertical production & industrial consolidation

Constraints	Action	Responsible body	Time frame
Limitations to developing backward linkage	Industrial policy with special focus on ancillary industries. Deemed export.	MoICS MoF	Short term
Lack of consolidated production and industrial clustering	Construction of GPZ. Technical body for GPZ operational and magn. Modality. Special labour law. Single window system for trade procedure. GPZ closer to Birgunj ICD. Bank financing for plant construction at GPZ.	MoICS NRB Commercial Banks	Shor term

Policy action matrix VI: Private-public partnership approach

Constraint	Action	Responsible body	Time frame
<p>Inadequate private-public sector partnership programme</p>	<p>Broaden role of RGEPC and give more authority.</p> <p>Give responsible for:</p> <ul style="list-style-type: none"> ■ Facilitating lobbying strategy for US duty free treatment; ■ Promotion in preferential markets (EU); ■ Expediting process for GPZ construction 	<p>MoICS</p>	<p>Immediate</p>

Thank you!

Annex 2C: Measures for Expanding Non-tax Revenue

Measures for Expanding Non-tax Revenue

Presented at the Final workshop

Economic Policy Network

Ministry of Finance/ Asian Development Bank

22 Sept., 2005

- **Madhab Prasad Ghimire**

Consultant

Background

- Several Reforms undertaken in 1990s-Trade, Industry, Foreign Exchange
- Institutional weaknesses remain
- Sound economic policy needed through public private policy dialogue

Methodology

- Study based on 1990-2004 period
- Published and unpublished information used
- Discussion with the officials of private and government organizations

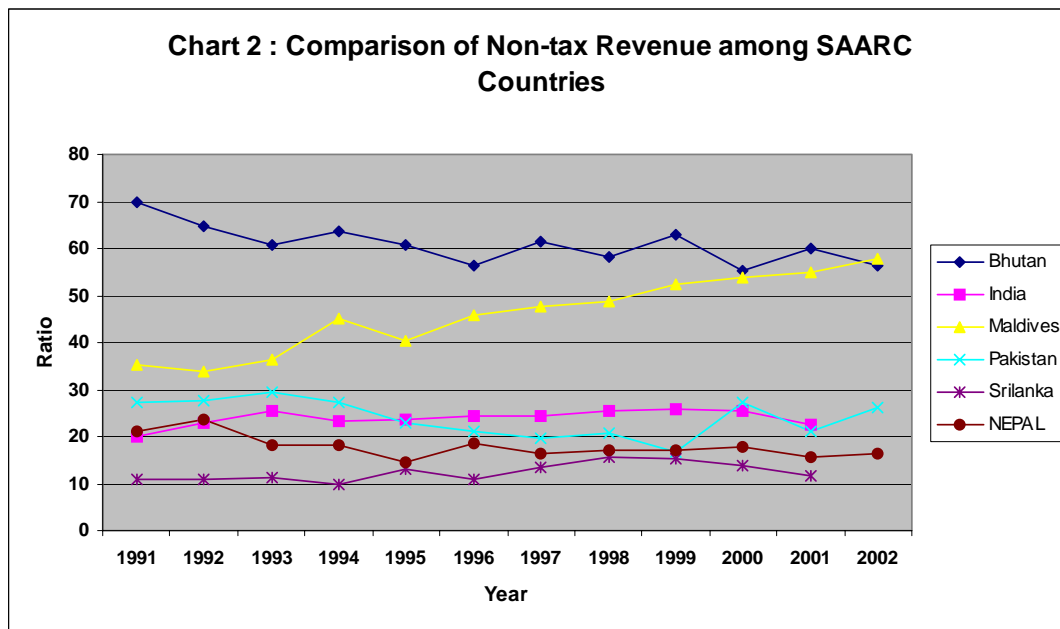
Non-tax Revenue

- Government seeks users charges from the beneficiaries for the services it provides and collects receipts from the sales of properties and commodities
- Seeks appropriate return on its investment in the form of dividends, and gets interest and principal for the government's loan investment
- Royalty from the use of natural resources

Contribution of Non-tax Revenue

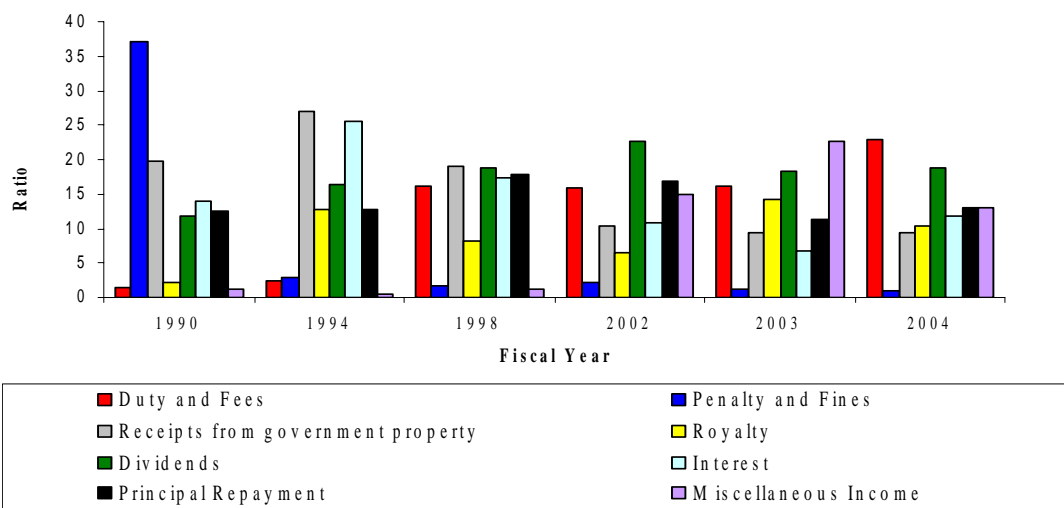
- Total Non-tax Revenue increased from Rs. 2 Billion (1990) to Rs. 14.16 Billion (2004) in 15 Years.
- Annual growth rate of Non-tax revenue (15.67%) is higher than the Tax revenue (14.71%) and Total revenue (14.78%)
- Ratio of Non-tax revenue to GDP increased from 2.0% (1990) to 2.99% (2004), which is higher than the Tenth Plan Projection of 2.8%
- Among the SAARC countries, Nepal has the second lowest ratio of total Non-tax revenue to Total revenue (average 17.89%)

Non-Tax Revenue of SAARC Countries



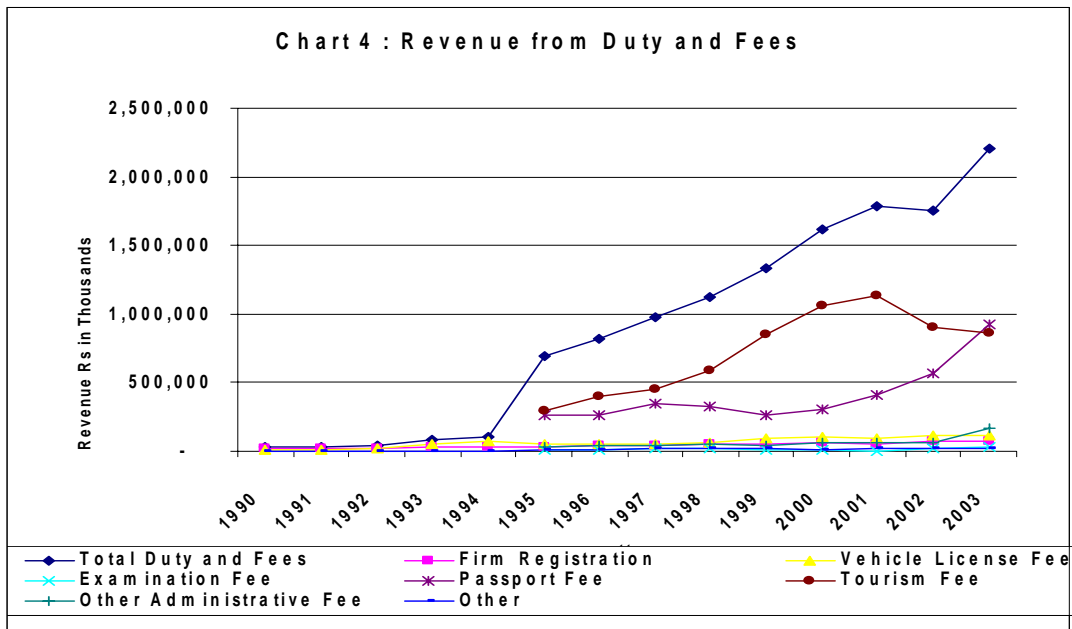
Sources of Non-tax Revenue

Chart 3: Ratio of the Sources of Non-tax Revenue (Selected Years)

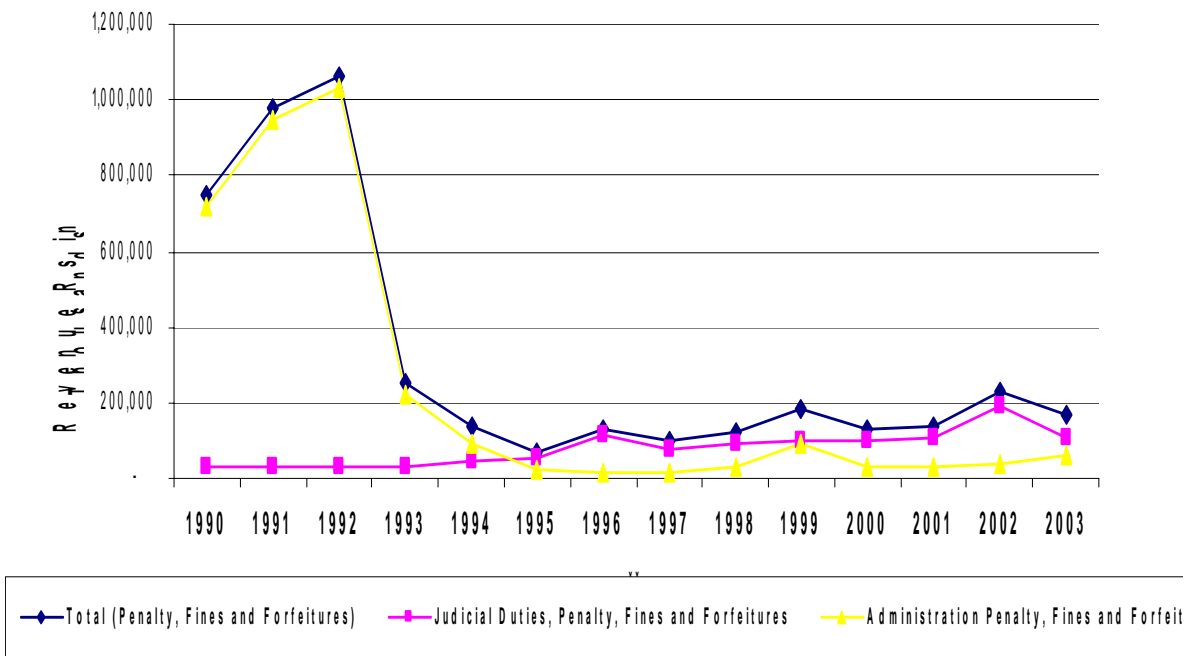


- Penalty and fines contributed 37% in 1990
- Receipts from government property 20% in 1990
- But in 2004, both have contributed about 10%
- Dividend, Interest and Principal contributed 38% in 1990, which increased to 54% in 1998, declined to 44% in 2004
- The significant contribution from miscellaneous income from 1.3 % in 1990 to 22.7 % in 2003 and 13% in 2004.

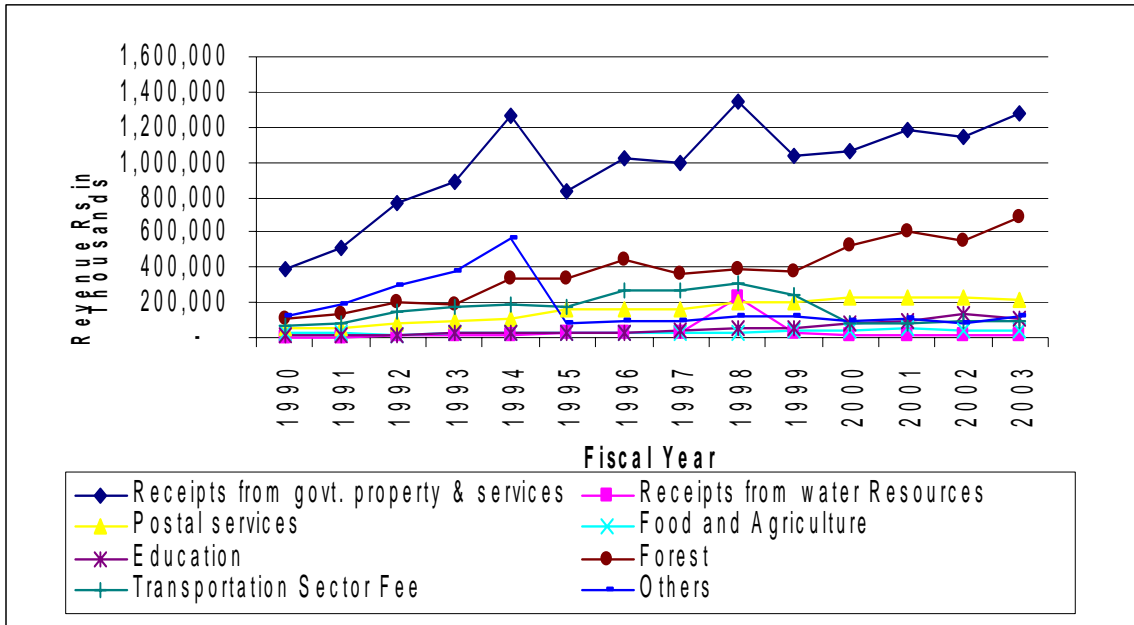
Duty and Fees



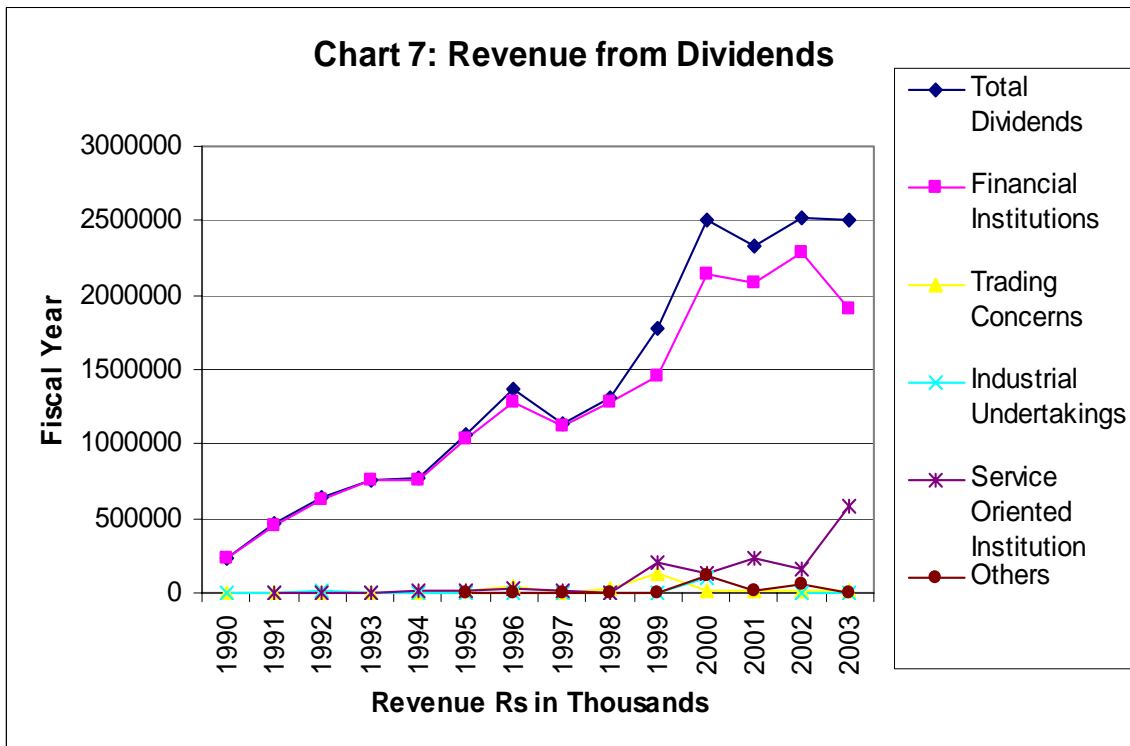
Penalty, Fines and Forfeitures



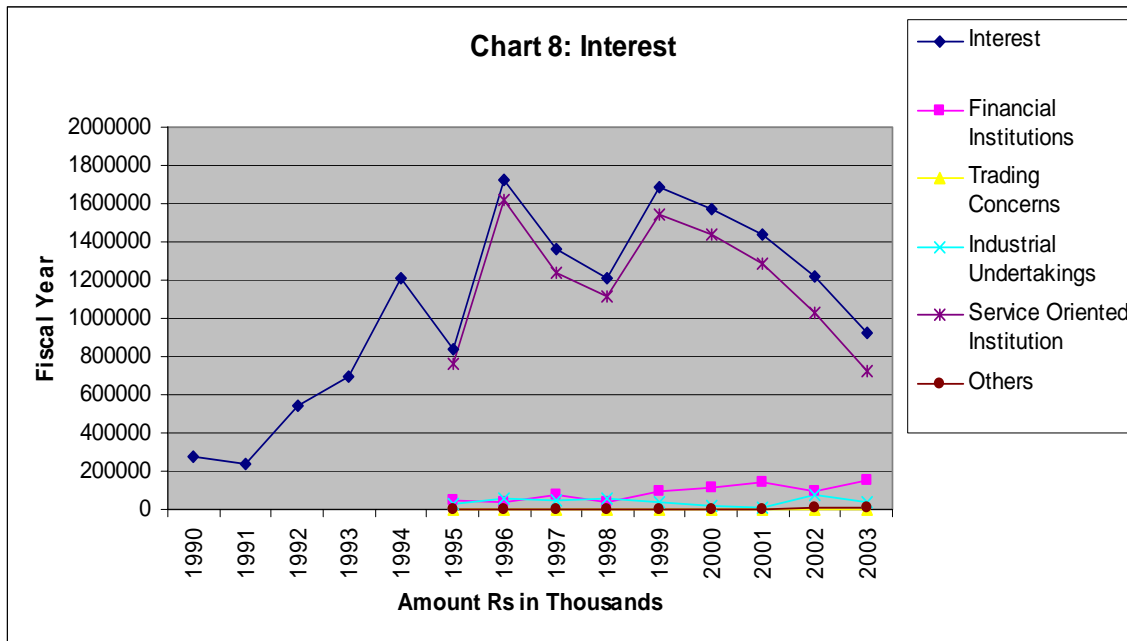
Receipts from sales of Government Property and Services



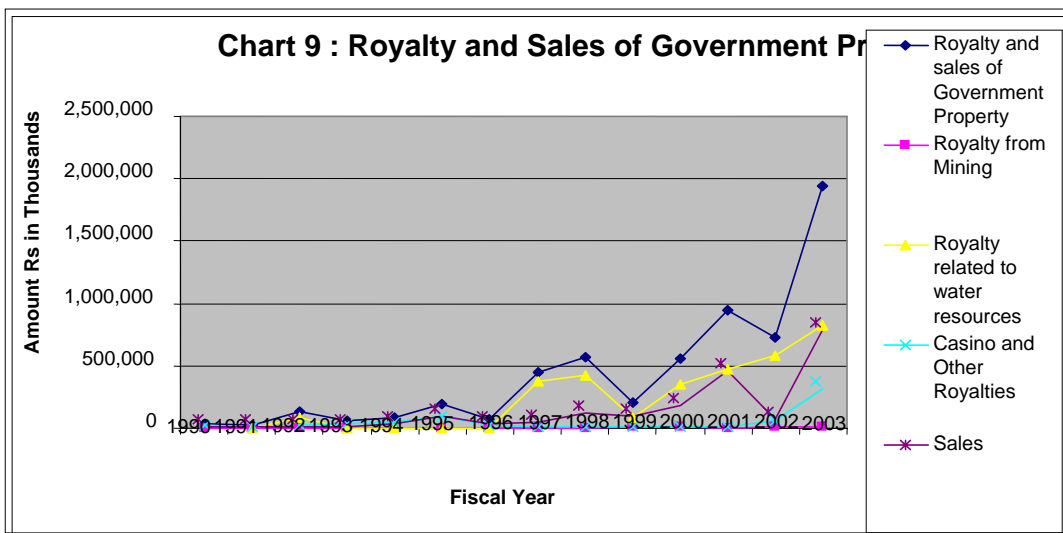
Revenue from Dividends



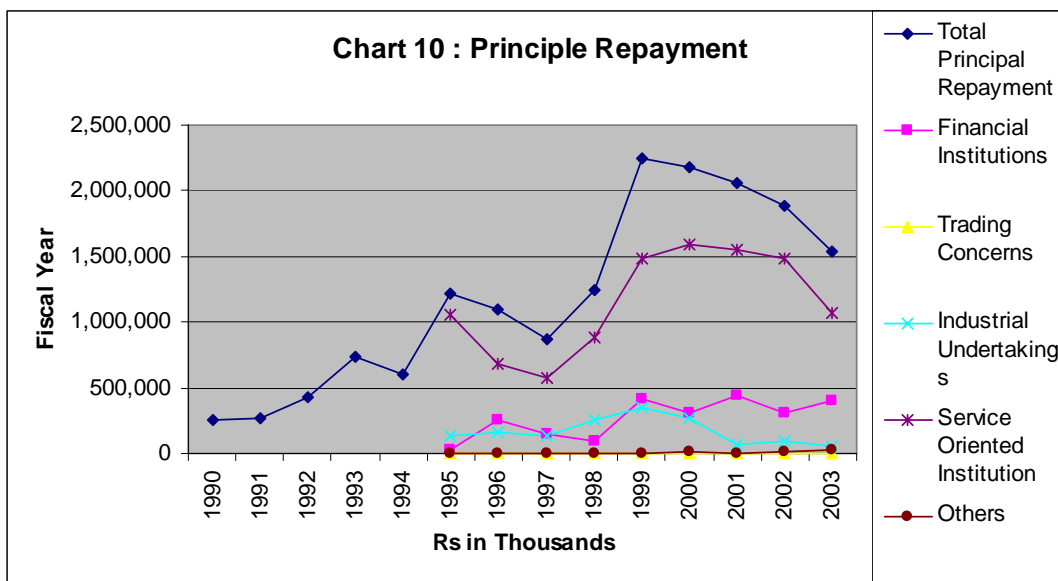
Interest



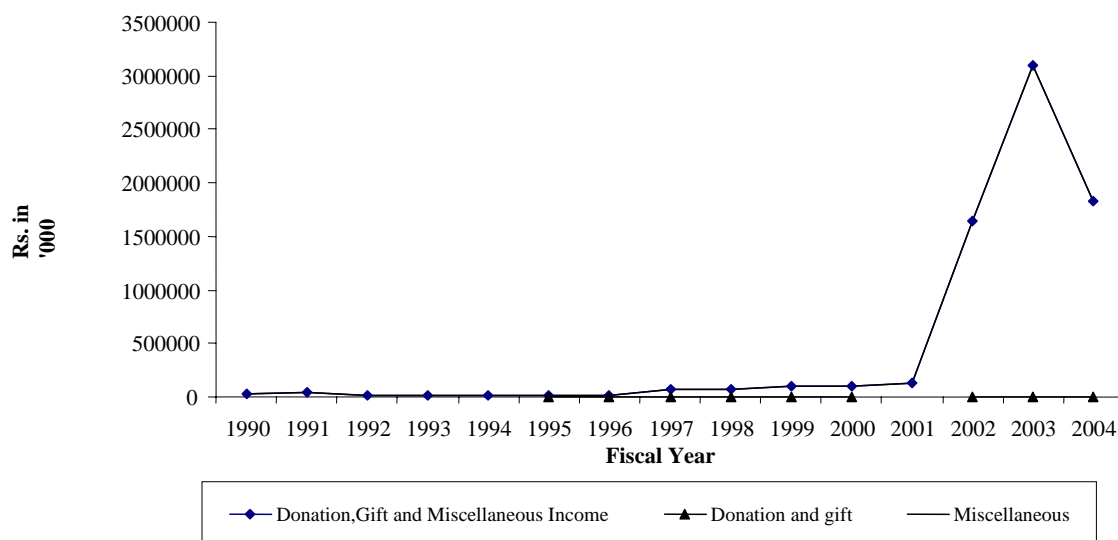
Royalty and Sales of Government Property



Principal Repayment



Miscellaneous income



Review of Institutional Arrangement

- 47 Revenue code numbers
- Hundreds of government offices to collect revenue
- No uniform time period for the updating of non-tax heads
- No uniform relation of fee and charges with cost structure
- Act and regulations need to be amended for charging fees and charges
- Government offices have no mechanism to review such charges on a regular basis.

- No institutional mechanism to monitor the non-tax revenue in a coordinated and integrated manner
- Service delivery part is not considered while raising fees

Prospects

On the basis of the analysis of the current status and trend and discussion with the stakeholders, prospects in Non-tax revenue heads is presented in tabular form. The table has also indicated short, medium and long term prospects and constraints

Please refer to the Executive Summary

Suggestions: Policy Action Matrix

1. Systemic Improvement (Part A)

- Rolling Revenue Planning to be formulated
- Add one member in the Revenue Advisory Committee to look into Non-tax revenue
- For the time being, study team may be constituted till the revenue advisory committee is formed
- Monitoring and evaluation unit at MOF
- Principal and guidelines suggested for the consideration of Revenue Advisory Committee and the study team

2. Specific Measures on each revenue heads (Part B)

Thank you

Annex 3: Participant Name List

Enhancing Economic Diplomacy for Trade, Investment and Employment

1. Mr. Sushil P. Sharma Dhungel, Joint Secretary, Ministry of Finance
2. Mr. Deependra B. Thapa, Director General, Dept. of Labor
3. Mr. S.K. Khanal, Under Secretary, MoLTM
4. Mr. Binod KC, Under Secretary, FCGO
5. Mr. Suresh Adhikari, Section Officer, MoFA
6. Mr. Narendra K. Basnyat, Vice President, CNI
7. Dr. Mohan P. Lohani, Executive Director, Institute of Sustainable Development
8. Mr. Vidya Nath Nepal, Vice President, Central for Public Policy Dialogue
9. Mr. Posh Raj Pandey, National Program Manager, Trade Related Capacity Building–UNDP
10. Ms. Chhaya Sharma, Founder/ Director, NCTTM
11. Mr. Basant Raj Mishra, President, NATO
12. Mr. Nishchal Nath Pandey, Executive Director, Institute of Foreign Affairs
13. Mr. Prem Lashkery, President, Nepal Bharat Friendship Society
14. Mr. Nabin Pokharel, Research Officer, Nepal Tourism Board
15. Mr. Birendra B. Deoja, Consultant, DEM
16. Mr. Ram N. Uprety, CEO, Bits & Bytes
17. Ms. Deepa Mainali, Photographer, Bits & Bytes
18. Dr. Badri P. Prasad Shrestha, EPN Consultant
19. Dr. Bina Pradhan, EPN Steering Committee expert
20. Mr. Rajendra B. Shrestha, EPN Consultant
21. Mr. Stalin Man Pradhan, EPN Consultant
22. Mr. Dipendra Purush Dhakal, Team Leader, EPN

Sustaining Nepalese Garment Industry after Quota Abolition

1. Mr. Bimal P. Wagle, Joint Secretary; MOICS
2. Mr. Kiran Saakha, President, Garment Association - Nepal
3. Mr. Prashant Pokharel, 1st Vice President, Garment Association - Nepal
4. Mr. Iman S. Lama, Treasurer, Garment Association - Nepal
5. Mr. Uday Raj Pandey, General Secretary, Garment Association - Nepal
6. Mr. Jaya Prakash Agrawal, Joint-Secretary, Garment Association - Nepal
7. Mr. Ratna P. Bhujju, Chief Executive, Garment Association - Nepal
8. Dr. Bhola Chalise, Consultant, WINROCK
9. Mr. Tulasi P. Uprety, General Manager, NCSID Bank
10. Mr. Kalyan K. Tamrakar, Immediate Past President, Handicraft Association of Nepal
11. Ms. Urmila Shrestha, President, Patan Business and Professional Women
12. Mr. Laxman N. Upreti, Executive Member, Management Association of Nepal
13. Mr. Balaram Rajbhandari "Hochimin"
14. Mr. Som Nath Lamichhane, Reporter, Rastriya Samachar Samiti
15. Ms. Pragati Shrestha, Student, KCM
16. Ms. Nirjala Pandey, Student, KCM
17. Ms. Shubham Ghimire, Student, KCM
18. Ms. Surachhya Bajracharya, Student, KCM
19. Ms. Shujata Limbu, Student, KCM
20. Ms. Bindiya Jha, Student, KCM
21. Mr. Sunny Khadka, Student, KCM
22. Mr. Sonam Tashi Gurung, Student, KCM
23. Mr. Yug Bajgain, Student, KCM

24. Mr. Bipul Singh, Economics Officer; ADB/NRM
25. Ms. Shreejana Rajbhandari, Program Operations Assistance, ADB/NRM
26. Mr. Bijendra Man Shakya, EPN Consultant

Measures for Expanding Non-tax Revenue

1. Mr. Guna Raj Bhatta, General Manager; Royal Drugs Ltd.
2. Mr. Tej Raj Shakya, Director General, DCSI
3. Mr. Shree Dhar Gautam, Director General, Dept. of Postal Services
4. Mr. Nanda Ram Sthapit, Director General, Dept. of Mines & Geology
5. Mr. Mohan Singh Khadka, DDG, Bureau of Standards & Metrology
6. Mr. Krishna Prasad Acharaya, Under Secretary, MoICS
7. Mr. Hem Lal Aryal, Under Secretary; MoFSC
8. Mr. Binod KC, Under Secretary, FCGO
9. Dr. Puspa Kandel, Reader, TU
10. Mr. Surya Parajuli, Civil Servant, Supreme Court
11. Mr. Kedar Man Singh, Senior Tax expert, FNCCI
12. Mr. K P Pandey, S. officer, FNCCI
13. Mr. Om Prakash Pudasaini, Joint Secretary, NCC
14. Ms. Laxmi Keshari Manandhar, President, KBPW
15. Mr. Narayan Bajaj, President, Institute of Chartered Accountants of Nepal
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