

National Assessment Report on the Implementation of Almaty Programme of Action



Government of Nepal

Kathmandu, 2013

Preface

United Nations Organizations organized series of conferences and suggested program of action in different platform to galvanize global partnerships to assist landlocked and transit developing countries so as to enhance the socio- economic condition of the Landlocked Developing Countries (LLDCs) and Least Developed Countries (LDCs). Among them some of the highly credible efforts are UN conferences on LDC issues, organized in 1981, 1990, 2001 and 2011. The International Ministerial Conference of Landlocked and Transit Developing Countries, Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation was held in Almaty, Kazakhstan from 25-29, August 2003, which adopted the Almaty Program of Action and the Almaty Declaration. Following this, UN-OHRLLS prepared the Road Map for the implementation of the Almaty Programme of Action, which was endorsed at the inter-agency meeting convened on 4 February, 2004.

The UN General Assembly, in its resolution 66/214 of 22 December 2011, decided to hold a comprehensive ten-year review conference of the Almaty Programme of Action in 2014, in accordance with paragraph 49 of the APoA, which has provision for a comprehensive review of the AoPA "at an appropriate time". Before that, the LLDCs are required to submit their national progress reports on the implementation of the APoA. In this connection, National Assessment Report on the Implementation of Almaty Program of Action in Nepal is prepared with consultation and participation of concerned agencies and institutions designated for implementation of APoA, especially, National Planning Commission (NPC), Ministry of Foreign Affairs (MoFA), Ministry of Finance, Ministry of Commerce and Supply (MoCS), Ministry of Physical Planning, Works and Transport Management and others stakeholders, including the private sector.

This report presents some of the major achievements made during the period of implementation of Almaty Programme of Action in Nepal. It tries to comprehensively and analytically assess the implementation of the APoA, share best practices and lessons learned, identify obstacles and constraints encountered in the process and shed light on emerging challenges and opportunities.

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Acronyms

APoA	Almaty Programme of Action
AfT	Aid for Trade
BIMSTEC	Bay of Bengal Initiatives for Multi Sectoral Technical and Economic Cooperation
BIPPA	Bilateral Investment Promotion and Protection Agreement
BOOT	Build Operate Own and Transfer
BOT	Build Operate and Transfer
DOC	Departments of Customs
DTTA	Double Tax Avoidance Agreement
DPs	Development Partners
GDP	Gross Domestic Product
GoN	Government of Nepal
FDI	Foreign Direct Investment
LDCs	Least Developed Countries
LLDCs	Land locked Least Developed Countries
MDGs	Millennium Development Goals
MOCS	Ministry of Commerce and Supplies
MOF	Ministry of Finance
MPPW	Ministry of Physical Planning Works and Transport
MTEF	Medium Term Expenditure Framework
NDF	Nepal Development Forum
NTIS	Nepal Trade Integration Strategy
ODA	Overseas Development Assistance
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SATIS	SAARC Agreement on Trade in Service
SEZ	Special Economic Zone
TRIPS	Trade-Related Intellectual Property Rights
TYP	Three Year Plan
TEPC	Trade and Export Promotion Center
NPC	National Planning Commission
PRSP	Poverty Reduction Strategy Paper
WTO	World Trade Organization
UNDP	United Nations Development Program
UNO	United Nations Organization
UN-OHRLLS	The Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

Table of Contents

- Preface
- Acronym
- Table of Content

1. Backdrop	1
1.1. Brief overview of Socio-Economic Development of Nepal and its Linkage to APOA.....	2
1.2. Brief Overview of Almaty Program of Action.....	4
2. Policy Measures Initiated During 2003-2012.....	6
3. Planning Process and Trend Analysis of Socio-economic Development	7
4. Infrastructure Development	8
5. Fundamental Transit Policy Issue.....	9
5.1. Critical Factors in Transit Policy Issues.....	9
6. International Trade and Trade Facilitation	10
6.1. Custom Reform Measures	12
7. Monitoring of Implementation and Review	13
8. Key Issues of Socio Economic Development.....	13
9. International Support Measures.....	14
10. Emerging Issues.....	15
10.1. Issues in Transit Policy	15
10.2. Issues in infrastructure.....	15
10.3. Issues in trade facilitation	16
10.4. Issues in relation with International Support Measures.....	16
10.5. Issues in Implementation and Review	17
11. Way Forward.....	17
12. Conclusion.....	19

National Assessment Report

On

Implementation of Almaty Programme of Action

1. Backdrop

The difficulties of being landlocked impinge on every aspect of the development process and poverty alleviation efforts of the landlocked developing countries. The unfavourable impact of landlocked condition on the progressive evolution of external trade is particularly severe. The additional transit transport costs, which landlocked countries must bear, constrain export promotion and development since this burden limits the range of potential exports and markets into which goods can be competitively and profitably traded. Similarly, the prices of imports also get escalated owing to high transport costs. High transport costs remain the most formidable obstacle to their equitable access to global markets and for being competitive as compared to other developing countries bordering with the sea. The main reason why landlocked developing countries continued to be marginalized from international trading system with a miserable share of world merchandise exports is thus attributable to the problem of cost effective transit transport system to the sea.

Nepal being a land-locked country suffers from high shipment cost, posing a big challenge to promote trade. The nearest sea port is 980 kilometres away from the Nepalese border. This remoteness is compounded by transportation and trade facilitation problems that add significant costs in the international trade in terms of additional charges and inordinate delays.

Inadequate infrastructure in rail transport, power grid connectivity, road transport, air transport and information and communications technology, lack of development of inland waterways and pipelines coupled with inadequate harmonized rules and procedures, meagre cross-border investment and private sector participation, are major problems faced by Nepal.

In view of the necessity to address the difficulties faced by LLDCs, United Nations, International Community, Development Partners and LLDCs themselves have shown serious interest to forge global partnership to assist LLDCs get integrated into the global trading system. The First International Ministerial Conference of land-locked developing countries and development partners was able to adopt Almaty Programme of Action (APoA) in 2003 to start something meaningful in this direction.

Even after coordinated efforts in addressing the special needs and problems of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation by implementing APoA, landlocked developing countries continue to face the particular problems linked to their geographical handicaps and vulnerabilities.

After around a decade of implementation of APoA, it is a high time to assess the country specific progress made by LLDCs prior to the comprehensive review. This would enable LLDCs to identify the gaps, prospects as well as challenges, and make recommendations to carry out the activities ahead to bridge such gaps, which would facilitate to adopt second generation reform measures before finalizing the successor programme of action.

As a member of LDC and LLDC group, Nepal is actively participating in UN Convention and associated platforms related to LDCs and LLDCs to enhance socio-economic aspects of the country. Nepal has internalized and streamlined APoA in national policies and programs, giving due consideration to the priority areas of APoA.

1.1. Brief overview of Socio-Economic Development of Nepal and its Linkage to APoA.

Nepal is relatively a small, mountainous landlocked country situated between India and China, two emerging economic powers of Asia. The nearest sea port from Nepal is Calcutta Port of India which is 980 kilometers from Birjung, a main transit point of Nepal. Population of Nepal is 26.4 million of which 17% resides in the urban areas (CBS, 2012). Due to the decade long conflict followed by political transition and structural problems of the economy, Nepal's economic performance remains slow in comparison with other LDCs of Asia. Nepal started modernization process since 1955 with the introduction of the first development plan. So far Nepal exercised 11 periodic plans and now it is in the final year of executing twelfth development plan, to be completed by July, 2013. The long-term vision of this plan is to "transform Nepal from a category of the least developed country to a developing country and build a prosperous, peaceful and just Nepal within two decades." To achieve this mission, the plan has adopted the objective of achieving employment centric, inclusive and equitable economic growth through implementing six different strategies ranging from attaining sustainable and broadbased economic development to ensuring good governance at all levels. The plan aims to increase economic growth at 5.5 percent on an average and envisions increasing employment and per capita income rate by 3.6 percent and 3.5 percent respectively. The plan has fixed the target of reducing poverty to 21 from the current 25.4 percent in line with the target set under MDGs (NPC, Economic Survey, 2012).

Despite more than six decades of development planning, Nepal's development performance remains unsatisfactory. Agriculture still remains the mainstay of its economy, contributing around 35 percent share in total GDP and generating almost 73 percent employment (Economic Survey 2012). However, due to inadequate irrigation facilities coupled with low availability of chemical fertilizers and limited mechanization as well as low level of specialization, agriculture production in Nepal remains at subsistence level. Manufacturing sector, which is regarded as the main driver of economic transformation in many LDCs, has not flourished to the extent desired. Growth of service sector is encouraging nowadays, but manufacturing sector has suffered even in the post conflict period because of the energy crisis

and lack of good industrial environment. The average growth rate of manufacturing sector over the last decade remained 0.3 percent, while its contribution to GDP shrank to 6.5 percent in 2011. GDP grew by 4.6 percent in Fiscal Year 2011/12. The average growth rate of GDP over the last ten years is around 4 percent, which is low compared to the 7 percent target set by Istanbul Plan of Action (IPoA) as a precondition for LDCs wishing to graduate by 2020 from the LDC category. Despite progress in reducing poverty, one fourth of the population still lives below the national poverty line. Per capita GDP reached US \$ 742 in the year 2011/12 which is merely two third of the threshold set for the graduation for the LDCs. Income inequality has slightly gone down in recent years in contrast to the earlier period. In contrast, social sectors like literacy rate, access to safe drinking water, sanitary services and maternal /child health (mortality rate) have shown improvements. According to the latest progress report on MDGs (MDGs Progress Report of 2010) out of the 8 goals, Nepal is likely to meet most of the indicators of the first 6 MDGs. However, additional efforts are necessary to achieve remaining two goals i.e. ensuring environmental sustainability and developing global partnership for development. The second need assessment study 2010 has unveiled that Nepal needs total resources of US \$ 17.5 billion to meet the remaining targets set under 8 different MDGs. To meet the resource gap, which is almost US \$ 5.6 billion, international support measures to Nepal need to be maintained and scaled up. Likewise, improving governance efficiency, controlling corruption and managing energy crisis are to be given due consideration along with the management of political transition. Presented below are some of the socio- economic indicators of Nepal:

Table 1. Socio Economic Indicators of Nepal

S.N.	Socio-economic indicators	2012
1	GDP growth rate (percent)	4.5
2	Poverty (percent)	25.1
3	Un employment rate (percent)	3.0
5	Marital mortality rate in 100 thousands	229
6	Access to safe drinking water(percent)	80
7	Literacy rate (primary level enrollment)	93
8	Access in sanitary service(percent)	43
9	Telephone Penetration rate(percent)	69.2
10	Electricity production(Mw)	693.6
11	Access in electricity service (percent)	56
12	Irrigation facility (Hectors).	1252476
13	Protected area (percent)	39.6
14	Length of road (Kilometers)	19,968

(Source the 10th Plan, TYIP II and Current TYP, Economic Survey, 2012, MIS, 2012 Nov)

Compared to economic indicators, social indicators are relatively more encouraging for Nepal. There has been significant improvement in health and education facilities leading to increase in the Human Development Index. Life expectancy and primary level enrolment has significantly improved. Basic health facilities have been made available throughout the country, including

remote area. However, significant reforms are yet to be put in place to improve the quality of education and health services.

1.2. Brief Overview of Almaty Program of Action

The international Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation was held in Almaty Kazakhstan on 25-29, August 2003. It was the first of its kind of conference dedicated towards supporting landlocked developing countries to effectively participate in the international trading system, through, among other things, establishing more effective and efficient transit systems. The Ministerial Conference adopted the Almaty Program of Action and the Almaty Declaration. Following this, UN-OHRLLS prepared the Road Map for the implementation of the Almaty Declaration and Programme of Action, which was endorsed at the inter-agency meeting convened on 4 February 2004.

The overarching goal of the Almaty Programme of Action is to establish a new global framework for developing efficient transit transport systems in landlocked and transit developing countries, taking into account the interests of both landlocked and transit developing countries. The major 8 objectives of APOA include:

- Secure access to and from the sea by all means of transport according to applicable rules of international law
- Reduce costs and improve services so as to increase the competitiveness of their exports
- Reduce the delivered costs of imports
- Address problems of delays and uncertainties in trade routes
- Develop adequate national networks
- Reduce loss, damage and deterioration en route
- Open the way for export expansion
- Improve safety of road transport and security of people along the corridors.

Nepal, as a landlocked least developed country, is characterized by a number of problems, namely, high transit transportation costs, declining trade volume, decreased foreign direct investment, high inflation, high current expenditure, increased unemployment, and low level of internal resource mobilization and lower rate of economic growth. Recently, several unprecedented incidences of global nature such as climate change, financial and food crisis, volatility in the supply and price of fuel, etc. have posed additional challenges on our development efforts. The position of geographical handicaps, and structural constraints of the

economy coupled with internal and external shocks and vulnerabilities have created enormous strains for smooth transformation of Nepal.

Against this backdrop, as a landlocked least developed country, Nepal acknowledges Almaty Programme of Action (AoPA) as highly important and relevant initiatives to promote LLDCs' trade and transit facilities and integrate their economies into the global economy. Since APoA was the first of its kind that provided the international community with a unique opportunity to galvanize international solidarity and partnership to assist landlocked developing countries to participate in the international trading system meaningfully, it has far-reaching significance in transforming the infrastructural bottlenecks through collective efforts.

Nepal is of the view that, proper implementation of APoA could be instrumental in addressing the challenges that most of the LDCs are facing at present. As the overarching objective of the APoA is to address the special needs of landlocked developing countries and establish a new global framework for action for developing efficient transit transport systems in landlocked and transit developing countries, Nepal is fully committed to implement most of the relevant actions set forth in the priority areas with enhanced cooperation from the transit neighboring countries and the international community as a whole.

Importance of stronger global partnership in transit transport cooperation: Need for partnership at bilateral, sub-regional and regional levels for efficient transit transport cooperation has been aptly highlighted in many international compacts, including in the APoA. Among other things, the APoA has acknowledged the importance of bilateral, regional and sub-regional cooperation as the “most important element” in establishing efficient transit transport systems and has further underlined that it must be promoted “on the basis of the mutual interests of both landlocked and transit countries”. Such partnership at bilateral and sub regional levels require support from multilateral financial institutions in meeting additional financial needs for development of efficient transit transport network and infrastructure. The partner countries and multilateral institutions can help the LLDCs to develop connectivity networks, improve border and transit infrastructure, establish the missing links and ensure the periodic maintenance of created infrastructure to a satisfactory level. The regional dimensions of cooperation are crucial for addressing the need of the LLDCs. The Almaty Programme of Action demands strengthening regional integration and further enhancement of connectivity. One important contribution of the Almaty Programme of Action is creating international understanding and forging a framework of cooperation in terms of improved transport and transit infrastructure to address the fundamental issues of the LLDCs. Most international compacts and agreements following Almaty have sought to incorporate paragraph on the importance of addressing the special needs of the landlocked developing countries towards helping them achieve the internationally agreed development goals. There is growing support from the development partners on enhancing support to transit and transport facilitation. Various multilateral development institutions like the ADB, World Bank, EU and the UN

bodies like UNCTAD, UNESCAP, UNIDO and WCO are taking up the lead role in supporting the trade and transit facilitation activities.

Review of Almaty Programme: There was a mid-term review of the APoA in 2007 during the UN General Assembly. Ten years down the road of the APoA, there are several lessons learnt from its implementation. Special needs of the landlocked developing countries should be addressed more vigorously through a new platform for effective international partnership in the comprehensive review of the APoA to be made in 2014. There is a need to broaden understanding on the status of implementation of Almaty Programme of Action, assess the transit transport cooperation in South Asia in the context of SAARC and other regional studies such as SAARC Multimodal Transport Study, Asia Highway and Railway networks, trade facilitation and border infrastructure, regional transport corridors etc, and chart a potential future Program of Action and a potential roadmap for regional cooperation in the creation, utilization and maintenance of transport and transit infrastructure.

2. Policy Measures Initiated During 2003-2012

Nepal has introduced and institutionalized several policy reforms endeavors and measures, since the adoption of APoA. First, it joined WTO in 2004 with a view to integrate its economy into the global economy. Following the membership of the WTO, Nepal introduced and modified many of its laws, regulations and procedures that mainly affect trade and transit, in consonance with WTO norms and principles. In this regard, almost two dozens of Acts, Regulations and Policies of the Government of Nepal have been promulgated updated and/or amended. Customs offices have been modernized and IT based system and tools have been gradually introduced and entrenched for speedy and scientific clearance of goods on the border. Procedures have been simplified and fees relating to export and import have been reduced and rationalized significantly. Harmonization, simplification and standardization of rules, documentation and working procedures have been pursued consistently so as to smoothen country's trade and transit across the border. Capacity of public and private sectors that are involved in trade and transit issues, have been strengthened through various means, including integrated training and joint programs and public-private dialogue (PPD). Efforts towards developing regional transport corridors and establishing Nepal as a transit point between the two most vibrant emerging economies of the north and south neighborhood are initiated.

As foreign investment is one of the important means to transfer capital, technology, management as well as technical know how from the outside world, Nepal has put forth several policy measures to increase the flow of foreign investment into the country. Recently, a high level Board of Investment has been created following the Board of Investment Act, 2011. The Board is supposed to facilitate domestic as well as international investors and enhance

investment from private, public and cooperative sectors, especially for construction of big infrastructures including transit and trade related infrastructure that are of national importance.

Several institutional, structural and procedural measures have been taken during the decade of Almaty Program of Action. These instruments includes; The 10th plan (PRSP), 2004 and current plan, Trade Policy, 2009; Industrial Policy 2010; Supply Policy, 2012; Public Procurement Act ,2007; Anti Corruption Act, 2003; Governance Act 2007, Foreign Direct Investment policy, 1992; Foreign Assistance Policy, 2001; Board of Investment Act, 2011 and Nepal Trade Integration Strategy,2010. Likewise, Institutional arrangements that have been designated to oversee the functions related to trade and transit include Office of the Prime Minister and Council of Ministers, National Planning Commission, Ministry of Commerce and Supplies, Ministry of Industry, Ministry of Co-operative and Poverty Alleviation, Ministry of Physical Planning and Works, Ministry of Communication and Information , Nepal Investment Board, Nepal Transit and Warehousing Management Company, Inter-Modal Transport Development Committee, Nepal Trade and Export Promotion Centre, provision of the position of an Economic Counsellor in Nepalese Missions in India, China and Switzerland, Trade Policy Analytical Wing (TPAW), Foreign Missions of Nepal in 22 countries, Board of Trade Bilateral Trade Agreements have been signed with several countries and Railway Service Agreement and Agreement to Establish Integrated Check Posts (land custom sites) on border have been concluded with India. BIPPA and DTAA are concluded with many countries. Likewise, Nepal became member of WTO, BIMSTEC, SAFTA, SATIS and WTO. In addition, in cross-cutting issues of socio- economic development initiatives are taken to link them to the priority areas of APoA.

3. Planning Process and Trend Analysis of Socio-economic Development

The paradigm of planning and decision-making approach has undergone significant change from top-down approach to participatory approach. The Interim Constitution of Nepal, 2006 and Governance Act, 2007 as well as other sectoral acts, rules and regulations are foundation of policy formulation in Nepal. Policy formulation and decision-making are broadly in line with the policy of liberalization, poverty alleviation, environment protection, decentralization, social inclusion and human right protection while interpreting values of good governance, equity and justice, decentralization and administrative competence. Planning and decision-making process are, moreover, based on SOP and participatory in approach. Wider participation of stakeholders, including media and civil society is mandatory in planning. National Planning Commission (NPC) leads the planning process by consulting concerned agencies and stakeholders.

4. Infrastructure Development

Nepal is constrained with limited resources and meager technical know-how, has not been able to launch large scale infrastructure development projects that are supportive for trade and transit facilitation. Due to fragile mountainous terrain, construction and maintenance of transport corridors across the country has been a big challenge for Nepal. The geographical situation and mountainous topography have not only made transportation of goods across the country very expensive, but also equally burdensome to a large extent. Despite these realities, Nepal, with the support Development Partners (DPs), has constructed four Inland Clearance Depots (Dry Ports), in major customs points on the southern border of the country. These Ports are found extremely useful for promoting its trade to neighboring countries. Recently, a new Dry Port is under construction in one of the major customs points in the northern part of the country at Larcha (Sinduplanchowk) which is aimed to give a boost to its export trade to China. Out of the five dry ports, all are road based, except one. Developing railways transit facilities from transit country and linking them directly with rest of the dry ports seems to be a daunting challenge for Nepal. Similarly, resource constraint has caused serious problem in developing, expanding and maintaining new transit corridors in different parts of the country. So far as air transport facilities are concerned, Nepal has only one international airport and around 3 dozens internal airports with modest facilities. Given the increased congestion following rising number of cargoes and passenger volume in the recent years, the international airport is in need of expansion and up-gradation. Some ongoing initiatives and activities in infrastructure development aimed at trade facilitation in Nepal include:

- Construction of four Inland Clearance Depots (Dry Ports) in major customs points on the southern border.
- A new Dry Port is under construction in one of the major customs points in the northern part of the country at Larcha of Sinduplanchowk district.
- Feasibility study of constructing new a dry port in Kapilbastu is completed.
- Construction of ICP in major 4 customs points on Nepal India border side are underway.
- Modernization of trade related laboratories are underway.
- One international airport and around 3 dozen of domestic airport with modest facilities.
- Construction of Special Economic Zones (SEP) in different parts of the country are under way. Construction work of Bhairahawa SEZ is in final stage
- Construction of a fast track between Kathmandu and Nijgadh, Bara, near Birjung gateway is underway.
- Opening up track of mid-hill Highway across the country is underway.
- The Government of India has brought out a plan to build cross-border railway links at five locations on the Indo-Nepal border.

5. Fundamental Transit Policy Issue

A number of South Asian Countries including Nepal require traveling vast stretches of other South Asian transit countries for their access to and from the sea. Despite development of bilateral, regional and international frameworks for transit, transport cooperation in the region, there are several bottlenecks in transport, transit and connectivity between these countries. Structural constraints coupled with paucity of harmonized policies and strategies are the main reasons for high cost of trade transaction and low volumes of intra-regional trade in the SAARC, which is below 5 percent of the region's total trade.

The high cost of transit has negative multiplier effects into the economy of Nepal. The cost of insurance, transport and transshipment add to escalate cost of transit and reduces competitiveness in trade. In addition, other enabling environments like customs cooperation, harmonization of standards, test and certifications, and mitigation of other non-physical barriers have stood as major challenges on the path of enhancing economic integration at the regional level.

Transit Treaty with different countries and international arrangements on trade and transit are main instruments to facilitate transit in Nepal. Some major instruments includes Nepal-India Trade Treaty, 2009; Nepal-India Transit Treaty, 2013; Nepal–China Trade and Payments Agreements, Nepal China Agreement on Road and Other Related Matters, 2002; Nepal Bangladesh Transit Treaty, 1976; Rail Way service Agreement between India and Nepal, Trade and Transit Right as envisaged in the Law of Sea, 1958 and Law of Open Sea, 1982; WTO agreements(GATT,GATS and TRIPS), Regional Agreements(BIMSTEC, SAFTA, SAITIS), BIPPA and Double Taxation Avoidance Agreements (DTAA), among others.

5.1. Critical Factors in Transit Policy Issues

Nepalese trade is mostly inclined with India and China. The Economic Survey, 2012 showed that 65 Percent of total Nepalese trade is with India. Nepal has a heavy dependence on the transit providing country, on its available infrastructure, political relations, peace and stability situation and administrative practices. Likewise, restricted choice of ports and routes, cumbersome transit processes including procedural controls, hassles in the form of multiple checking agencies, actual documentary requirements higher than those specified in the transit treaty, high insurance cost due to lack of competition and transshipment are some of the hindering factors for free flow of goods and reduce competitiveness of Nepal's trade.

Some major transit policy issues among others, includes:

- Concluding a framework agreement in South Asia which would include elements such as: harmonization of rules and procedures, mutual recognition of certificates and accreditation, licenses and policies, effective dispute settlement and risk management

systems, special rules for certain products, infrastructure up-gradation, particularly in the LDCs.

- Facilitating transportation of goods in transit for intra-regional as well as extra-regional trade in keeping with the spirit of Article V of the General Agreement on Tariffs and Trade (GATT) relating to “Freedom of Transit”
- Full implementation of SAFTA at the regional level and deepening regional economic integration.
- Simplifying and harmonizing transport, trade and customs regulations and procedures for the purpose of facilitation of goods in transit.
- Establishing an efficient, integrated and harmonized transit transport system in South Asia
- Designation of fixed transit transport routes with alternatives and provision of necessary facilities.
- Harmonization of rules, regulations and procedures for goods and vehicles, including customs procedure and traffic signal/rules, etc.
- Mutual recognition of certificates of vehicles’ roadworthiness, driving licenses, insurance policies, etc.
- Provision of multimodal transport facility within the region.
- Establishment of effective risk management and dispute settlement mechanism.
- Creation of national institutions for coordinating the implementation of relevant agreements.
- Special provisions for the transportation of time-sensitive goods such as drugs and perishable goods.
- Investment in infrastructure hardware as well as software.
- Quality of roads and railways
- Gauge compatibility.
- Use of ICT in trade administration.
- Controlling illegal trade across the boarder and its credible regulation.
- Looking at the possibility of concluding sub-regional transit agreements, involving three or more countries.

6. International Trade and Trade Facilitation

Government of Nepal has taken Trade and Transit as the engine of growth and a strategy for economic development and poverty reduction. Growth in trade has direct bearing on the integration of national economy into the multilateral trading system. Since trade generates positive impacts on resource mobilization, economic development and poverty reduction, GoN has accorded high priority to develop and expand the trade sector. Realizing the importance of trade sector in propelling economic growth, the current three-year national development plan

(2010-13) has recognized trade sector as one of the six strategic pillars, to achieve the goal of inclusive growth and poverty reduction. With a view to integrate its trade into global economy and take advantage from competitive market forces, Nepal joined WTO in April 2004 through accession. Nepal is the first least developed country that acceded to WTO passing through stringent negotiation process. The same year Nepal became a party to regional trade agreements namely SAFTA and BIMSTEC, and SATIS in 2010. Government of Nepal introduced Nepal Trade Integration Strategy, 2010 following new Trade Policy, 2009 with the view to enhance trade. Despite joining multilateral as well as regional trading blocs, and introducing new policies and strategies, Nepal's trade performance especially from the point of view of export promotion, still remains below satisfactory level. Trade and investment policy reforms and privatization initiatives have not resulted in strong economic development.

Currently total trade accounts almost 38 percent to the GDP. However, the gaps between the country's imports and exports are growing high, putting stress on the balance of payments. The share of exports to total trade decreased from 28.2 per cent in 2004/05, the year Nepal joined the WTO, to 14.5 per cent in 2010/11, in comparison to the increase in imports from 71.8 per cent to 85.9 per cent during the same period. The big gap between exports and imports to the proportion of 1:6 is not only creating huge trade deficit, it is also draining the foreign currency reserve of the country. The volume of trade deficit increased by 5 times reaching almost 4 billion US dollars in 2011 compared to the year 2004. In addition, Nepal's trade is highly concentrated into few limited items and markets. Ten major export items cover 40 per cent of the country's total trade.

The service sector has been the main driver of economic growth in Nepal at present. The service sector is now the largest sector in the economy in terms of share in GDP, contributing almost 49.8 percent, contributed is mainly by rapid growth in telecommunication, tourism and financial services. Nepal is undertaking serious efforts to facilitate international trade. Given the negative trade balance of approximately Rs.424 billions, several initiatives have been taken to facilitate trade and reduce trade deficit. Institutional and structural adjustments have been put in place. After Joining WTO in 2004, Nepal has significant improvement in trade volume, mostly imports, thus contributing to the trade deficit. Internal policies and institutional reforms and increased participation in the international and regional trade bodies have been geared up to promote trade. Ministry of Commerce and Supplies is designated as a pivotal organization to facilitate trade and all crosscutting issues related to trade. MOCS is co-coordinating with associated players and agencies to address their concerns. Key players include government agencies, international and regional trade related organization, private sector organizations, autonomous bodies and corporations.

Institutional, Structural and Procedural reforms have been initiated to promote and facilitate trade. Detail of such initiatives has been presented in transit policy issue section of this report. In addition, following measures in custom reforms is currently in operation:

6.1. Custom Reform Measures

Customs Act and Regulation, 2007, has been promulgated replacing Customs Act, 1962. This embraces trade facilitation standards, mostly in line with the Revised Kyoto Convention Standards.

- The number of documents to be submitted are reduced to 10 (down from 15) for imports, and to 9 (down from 14) for exports compared to 2003/04.
- Customs Clearance has been facilitated by automated customs cargo clearance system developed by UNCTAD, i.e., ASYCUDA, in major 13 Customs Offices accounting than 90 percent of the transaction.
- Major 10 Customs Offices use Broker Module of ASYCUDA, which allows Customs Brokers to lodge their declaration from the terminal provided by the Customs offices.
- Major 6 Customs offices apply Selectivity Module of ASYCUDA, which enable Customs offices to apply Risk-Based Clearance System.
- Major 5 Customs offices allow banks to collect duties and issue payment receipt on behalf of the Customs Office, which has reduced the processing steps and enhanced the transparency of the Customs operation.
- Nepal is the party to the International Convention on the Harmonized Commodity Description and Coding System" and WCO HS Classification has been used for the classification of goods.
- The simple average tariff for imports is 12.2% in 2011/12, down from 13.8% in 2002/03.
- Nepal removed Other Duties and Taxes (ODCs) and simplified its tariff structure. The ODCs that have been eliminated are Local development fees, the cigarettes and alcohol fees, and the alcohol control service fees.
- As a party to WTO, Nepal has incorporated all the provision on Customs Valuation in line with Article VII on the Implementation of WTO Valuation Agreement.
- Post Clearance Audit office has been established to enforce the Risk- Based Clearance System.
- Customs has a provision of holding regular Trade Facilitation meeting for stakeholders at central and field levels to provide avenues to the stakeholders to put forward their views and suggestions.
- Four Inland Container Depots have been constructed to facilitate cross border movement of cargoes.
- Client Service Center with a client friendly web site has been launched to give better access to information to the stakeholders.

7. Monitoring of Implementation and Review

Review of the progress of APOA is the responsibilities of partner countries as well as the relevant bodies and specialized agencies of the UN system. Hence, review of implementation is normally carried out at national, sub-regional, regional and global levels. Regular review of transit agreements may be necessary in order to make the bilateral or regional transit agreements compatible with the APOA objectives and forge better partnerships between LLDCs and transit providing countries. National Planning Commission, National Development Action Committee, Ministry Level Development Action Committees are designated to monitor overall socio-economic issues in Nepal. To monitor trade and trade-related issue in particular, following mechanisms, and arrangements are put in place:

- Two tiers of Intergovernmental Committees exist as per the provision of Trade Treaty concluded with India in 2009,
- National Trade and Transit Facilitation Committee has been established to look after and facilitate trade and transit related issues,
- Board of Trade,
- Nepal Business Forum,
- Participating and reporting at different transit related international conferences
- International Trade and Planning Division headed by Joint Secretary, MoCS
- Meeting with stakeholders,
- Trade Policy Analytical Wing(TPAW),
- Trade and Export Promotion Center.

SAARC Multimodal Transport Implementation Mechanism operates at two levels: the Trade Secretaries and Trade Ministers levels and designs suitable sub-regional and regional level programs and projects following which implementation is monitored. However, regional program /project formulation and national implementation of these entities to achieve regional goals have shown incompatibilities and inordinate delays in implementation.

8. Key Issues of Socio Economic Development

In spite of the various measures taken to enhance the socio-economic development of Nepal, no significant progress has been achieved. Structural constraints of the economy and the associated internal and external risks and vulnerabilities are particularly responsible for this state of affairs. Some major issues somehow similar to most of the LLDCs, among others include:

- Government policy has not been strong enough to support structural transformation of the economy and create a business environment conducive to productive investment.

- Inadequate physical infrastructure, particularly, electricity, roads, irrigation and laboratory for testing product standards. This is both about boosting private sector investment (where the largest increases are required) and increasing efficiency of public investment.
- Lack of efficient transit management and trade facilitation measures.
- Lack of competitive capacity.
- Poor industrial relations and labor market rigidities.
- Continuing political instability and impunity caused by prolonged political transition affecting rule of law and corruption control measures.
- Macroeconomic risks associated with the financial sector and domestic revenue base.
- Problem associated with effective mobilization of foreign assistance.

9. International Support Measures

Foreign assistance is expected to achieve MDG goals, reduce poverty, enhance transit transport development and ultimately enhance socio-economic condition of the nation. The fundamental guideline for foreign assistance is the Foreign Assistance Policy, 2001 which incorporates the different aspects of aid effectiveness. In this connection, the Aid Effectiveness Survey 2011 illustrates the potentials and constraints of foreign assistance. The ownership, Managing for Development Result (MfDR), Mutual Accountability, Aid Harmonization, and Aid for Trade indicators are not encouraging for achieving the goals of transit facilitation.

There is a growing concern among the development partners during the past few years on enhancing support to transit and transport facilitation. Most of the funding from the Development Partners is centered on the soft parts like capacity buildings, human resource development, and promotion of public-private dialogues and so on. However, the multilateral development financing agencies provided support to develop physical infrastructures as well. Foreign assistance mobilization in Nepal includes:

- Mobilization of bilateral and multilateral assistance from World Bank, ADB and other donors for the construction of ICD.
- Mobilization of AfT for different trade capacity building program
- Mobilization of WTO/EIF fund for policy reforms. Bilateral and EIF technical support for conducting study in different areas including trade and transit. The corridor concept has been taken as the basis for support by the DPs.
- Regional and national transport and trade facilitation projects are at various stages of implementation.
- ADB, World Bank, EU and the UN bodies like UNCTAD, UNESCAP, UNIDO, USAID and WCO are taking up the lead role in supporting the TF activities.
- WTO EIF Trust Fund and the bilateral technical and financial assistance from GIZ, USAID, and DFID are channelized for implementing the TF projects, among others.

10. Emerging Issues

These are some of the issues not incorporated in Almaty Programme of Action, but felt important at present. These include:

- Upgrading the production capacity and facility as well as quality enhancement of tradable services and products.
- International support measures in hardware (physical infrastructure such as roads, railways, ICD, labs, customs modernization) in addition to software.
- Regulation of ICT and e-governance to ensure transparency in trade regime.
- Enhance the transport corridor development concept as suggested by various studies like SAARC Regional Multimodal Transport Study (SRMTS) and others.
- Carry out Business Process Analysis for simplification, standardization of transit procedures and harmonize all along the customs territories.
- Diversify the transit corridors and create an environment of competition among various modes of transportation.
- Create a SAARC fund for financing the development and improvement of transport infrastructures in the region. Also upgrade and maintain the existing infrastructures and facilities in the region in a seamless manner.
- Enhance cooperation between G2G, G2B and B2B as part of South-South cooperation, nationwide and internationally
- Enhancement of Aid effectiveness (Aid for trade)
- Introduce EDI connectivity in the region for smooth flow of transit of goods.
- Operationalize the Infrastructure Window of SAARC Development Fund by making provisions of adequate funds to finance suitable regional infrastructure development /up gradation projects.

Some specific issues are observed in each priority area of APoA.

10.1. Issues in Transit Policy

- Proper implementation of different bilateral treaties in good faith.
- Low capacity for implementing National Policies.
- Inadequate utilization of assistance and technological support from different mechanism under the WTO.
- Integration of export product into transport corridor.
- Introducing New Export Import Act and Multimodal Transportation Act.
- Creation of Multi- Modal Transport Authority at the sub- regional and regional levels.
- Effective implementation of relevant international conventions related to road transport.
- Reducing procedural hassles and transaction costs both inland and in transit countries.
- Reforms on transit-related administrative procedures.

10.2. Issues in infrastructure

- Installment of integrated checkpoints at major customs points including quarantine, customs, archaeology, immigration etc.

- Urgent need for extension and up gradation of the international airport in view of increased cognition due to the rise in the volume of passengers and cargoes.
- Extension of rail transport in all feasible areas of the country.
- All ICD needs to be linked up with Rail Service as early as possible.
- Low utilization of foreign assistance in transit infrastructure building.
- Attracting FDI and private sector investment in more effective and efficient transit infrastructure building.
- Improvement of facilities in major trade and transport corridors.
- Early completion of fast track.
- Expedite mid - hill highway construction.
- Attracting more international resources for early completion of fast track and mid-hill highway.
- Regional and sub-regional transit corridors linking landlocked and transit providing countries.
- Arranging access to additional seaports for the smooth handling of cargoes.
- Further expansion of Dry Port in Far-western and northern part of the country.
- Developing inland waterways.
- Building second international airport and few regional airports in different parts of the country.
- Building petroleum pipeline between India and Nepal.
- Improving communication system at regional level.
- Tackling with energy crisis by increasing particularly, the hydropower production and also, increasing the proportion of renewable energy in the total the energy mix.

10.3. Issues in trade facilitation

- Further harmonizing, easing and simplifying customs procedures.
- Expanding Dry port facilities in remote parts of the countries.
- Early establishment of Integrated Checkpoints in major customs points
- Improving road connectivity within and outside (transit) the country.
- Improving transit formalities through integrated EDI connectivity within the region.
- Improving IT facility between transit providing and transit recipient countries.
- Improving capacity of human resources involved in transit handling.

10.4. Issues in relation with International Support Measures

- Additional and transparent mobilization of foreign assistances in trade infrastructure.
- Better and increased utilization of AfT for transit system development.
- Effective and consistent utilization of WTO/EIF fund for policy reforms and implementation.
- Mobilization of support for smoothening freight forwarding and clearing of transit cargoes.
- Mobilizing international support for simplifying, streamlining and standardizing import, export and customs procedures and related capacity building of human resources.

- Transit Transport Development Fund is needed at regional and global levels for LLDCs.
- Additional support in hardware (physical infrastructure) and software (capacity building of human resource working in government, private sector and related agencies with MoCS).

10.5. Issues in Implementation and Review

- Most of the mechanisms are at the formal level, hence require more active role to play.
- Mechanisms such as BOT, BOOT are almost defunct, so reviving and revitalizing the role and scope of BOT, BOOT is needed.
- Regional level periodic review is needed to assess transit-related issues.

11. Way Forward

As prescribed by the APoA, several initiatives have been taken in each priority area during this decade. However, the result of such initiatives is yet to come. Since Nepalese trade activities mostly conducted within and via SAARC countries, some trade facilitation issues are to be directly addressed to accelerate intra-regional trade. General concerns of Nepal in trade and transit facilitation within the region and beyond include:

- Internalization of Almaty Compact: One of the factors behind the slow implementation of the Almaty Program of Action is the poor internalization of the objectives and the five priorities of the compact. There is a problem of internalization of the Almaty Programme in national development plans and programs as its provisions are not clearly delineated.
- Linkage between Almaty Program and SAARC regional frameworks of cooperation in transport and transit issues.
- Ratification of key international instruments: Most South Asian countries have yet to ratify key international instruments for facilitation of transport and transit trade. The SAARC Member States should accede to the ten key international instruments for facilitation of transport and trade. Such instruments includes the Convention of Road Traffic, (1968), Convention of Road Signs and Signals (1968), Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention, 1975), Customs Convention on the Temporary Importation of Commercial Road Vehicles (1956), International Convention on the Harmonization of Frontier Control of Goods (1982), Convention on the Contract for the International Carriage of Goods by Road (CMR, 1956), International Convention to Facilitate the Crossing of Frontiers for Passengers and Baggage carried by Rail (1952), etc.

- Conclusion of a regional transit transport agreement: There is a strong case for a regional transport-transit agreement. Among other things, such agreement can include following key elements including harmonization of rules and procedures; mutual recognition of certificates, licenses and policies; effective dispute settlement and risk management systems, special rules for certain products, infrastructure up-gradation, particularly in Nepal and SAARC countries.
- Developing and implementing the key regional transport projects for facilitating the cross border movement of goods and passengers.
- Provision of multimodal transport facility
- Special provisions for the transportation of time-sensitive goods such as life-saving drugs and perishable goods
- Investment in infrastructure, especially in roadways, railways and custom-related infrastructure.
- Regional transshipment and transport agreement: Regional transshipment agreement would facilitate transportation of goods in transit for intra-regional as well as extra-regional trade. It would also help simplify and harmonize transport, trade and customs regulations and processes facilitating efficient movement of goods in transit. The regional transit agreement would also help designate fixed transit transport routes and provision of necessary facilities; harmonize rules, regulations and procedures for goods and vehicles, including customs procedure and traffic signals, mutual recognition of certificates of vehicles' roadworthiness, driving licenses, insurance policies. It could also establish an effective dispute settlement and risk management system on transit transport issues in the region.
- Easing port congestion: One of the recurring problems in transit transport cooperation in South Asia is the issue of congestion at the region's biggest and busiest ports.
- Better use of dry ports: Establishment of dry ports and integrated border facilities has become instrumental in improving the transit efficiency. There is room for further improving the clearance procedure and system in the dry port, notably in dry ports in the landlocked developing countries.
- Easing cumbersome transit processes: Establishment of a "single-window clearance" for transit documents in transit countries would be highly instrumental in this context. It will require reduction of excessive documentation applied in the transit processing. There is the possibility of moving towards a "paperless trading system", using e-governance system. Creation of a "single electronic window" would require making this happen.
- Upgrading customs and border facilities: Bulk of trade between the SAARC Member States takes place through land border stations. Similarly, there are other customs facilities that need to be upgraded.
- Harmonization of procedures and all along the customs territories.

- Modernization of customs and port operation with introduction of IT enabled services and introducing of the concept of web based Single Window that will allow the traders to submit the documents only once for all regulatory purposes.
- Diversify the transit corridors and create competition among various mode of transportation;
- Create an appropriate SAARC fund for financing the development and improvement of transport infrastructures in the region. Also upgrade and maintain the existing infrastructures and facilities;
- Enhancing cooperation between G2G, G2B and B2B as part of South-South cooperation.
- Operationalization of agreed transit routes: Delay in operationalization of agreed transit routes is limiting the opportunities for diversifying the transit potentials.
- Enhancing regional corridor system: Regional corridors would enhance better flow of goods and services, including in transit from and to the landlocked developing countries. The enhancement of the regional corridors would require designation of such corridors and require investment on infrastructure. Apart from developing new corridors, there is a need to improve the existing corridors to enhance the smooth flow of transit trade.

12. Conclusion

Given the geographical position of landlocked countries like Nepal, improvements of transit transport systems and mainly transport infrastructures are key to the economic development and the achieving competitiveness of their products in external trade. Efficient transport infrastructure and services are thus a vital prerequisite for the development of landlocked developing countries and their effective integration into the international trading system and the world economy. The deterioration of transport infrastructure is one of the main problems that affects both landlocked and transit developing countries. The broad use of information and communication technologies in the transit transport operations would greatly increase the efficiency of the existing transit facilities. Sub- regional and regional cooperation through proper transit and transport related agreements, mutual recognition of standards, accreditation and testing facilities are really important to facilitate and enhance trade in the LLDCs.

Nepal's economic performance with trade as an engine of growth is affected by weak infrastructure, in particular lack of energy and road infrastructure. Lack of internationally recognized standard certification system is a serious problem in the growth of trade. Another serious limitation is the weak conformity assessment facility and quality infrastructure in the country. Nepal needs more immediate support from its DPs to address problems directly related to trade and production capacity. The most urgent support is required in the infrastructure sector such as energy and transportation.

Nepal is making its best efforts to maximize the utilization of trade related foreign assistance. Aid for Trade instrument to increase the export efficiency of LLDCs, ensuring greater DFQF market access for their products of export potential is vital to improve export performance. However, Aid for Trade is still at a very low level. Only a few development partners have shown enthusiasm to come forward to meet Nepal's needs to develop major trade infrastructure to facilitate trade. This would require significant investments which the government alone will not be able to bear on its own. Therefore, the Government and development partners need to come together and jointly act in close coordination to implement projects related to the creation and maintenance of trade infrastructures. DPs need to reconsider to scale up their support to the cause of LLDCs. Demand driven and direct budgetary support could be the most effective ways for the optimum utilization of foreign assistance. Successor program of APoA to be framed after the comprehensive review should incorporate the real requirements of LLDCs like Nepal and devise the support measures in a pragmatic manner to include projects that directly contribute to build their capacity for utilization of available opportunities, hereby integrating into the global trading system for realizing more benefits.

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