Table of Contents

A Report on the Status of Implementation of the Vienna Programme of Action in Nepal: Nepal's Mid-Term Review

1. Introduction

Landlocked Developing Countries (LLDCs) face unique challenges associated with their lack of direct territorial access to and from the sea, remoteness resulting in isolation from global markets and dependence on transit countries for transit transport for trade. The remoteness coupled with inadequate infrastructure and cumbersome transit procedures increase the total cost of transportation and trade transactions, reducing competitiveness of LLDCs in global markets. These challenges are major contributors to a difficult trade environment, low economic performance, and extreme poverty in LLDCs. Nepal is one of the twelve LLDCs in Asia and Pacific region, and typically suffers from aforementioned challenges. It is a mountainous country, landlocked between two emerging economic powers, India and China. The closest sea port to the Nepal border is the Kolkata Port in India which is about 730 kilometers away from the major entry-exit point of Birgunj. This distance adds the burden of cost and time to traffic-in-transit of Nepal in both import and export.

Recognizing these special challenges of LLDCs and the urgency for collaborative work to address them, the Almaty Program of Action (APoA) 2003-2013 was adopted and implemented. APoA first defined the needs and problems of LLDCs in matters of transit and trade. The Vienna Program of Action (VPoA) builds on the APoA and was conceptualized as an innovative, holistic and results-oriented 10-year program of action with additional distinctly defined priorities. The six priority areas of VPoA are: fundamental transit policy issues, infrastructure development and maintenance, international trade and trade facilitation, regional integration and cooperation, structural economic transformation, and means of implementation.

This report provides an assessment of implementation of VPoA in Nepal, including progress made till date, gaps and challenges that lie in the implementation and measures to be taken in the remainder of the period. The report reveals that Nepal has been able to undertake major efforts and achievement in trade and transit infrastructure, energy availability, ICT development, and is moving into the path of structural economic transformation through noteworthy reforms and successful economic diplomacy. However, Nepal needs stronger support from development partners to fully implement the activities under the priority areas of the VPoA in a targeted manner.

2. Mainstreaming of the Vienna Programme of Action into the National Development Plan

Trade is a key component of the Nepali economy. Hence, trade and other related sectors have been given high priority in the national plans and policies. A major development was the promulgation of Nepal's Constitution in 2015. The Constitution has provisioned for the formulation of sustainable socio-economic development strategies and programs, development of quality and sustainable physical infrastructures, promotion of exports, and mobilization of foreign capital and technological investment for these purposes.

Nepal is currently implementing its 14th Periodic Plan. The Plan aims to bring about socio-economic transformation by reducing poverty through a just and productive employment-oriented high economic growth. The strategies adopted by the Plan reflect the priority areas of the VPoA. These include: infrastructural development in the areas of energy, road and air transport, and ICT, structural economic change through the agricultural sector's transformation and expansion of tourism sector, industries and small and medium enterprises (SMEs), and sustainable and inclusive development, among others. The Plan has dedicated sections on trade and trade-related infrastructure with strategies for improvement. The Plan expects to facilitate and promote trade by improving connectivity along with transit by developing transportation facilities across borders. Additionally, energy and ICT are integral parts of Nepal's development plans, including the 14th Plan. Moreover, a strong focus has also been given to domestic and foreign investment as well as collaboration with the private sector to develop infrastructure and promote export of high-value products.

The Government of Nepal (GoN), which enjoys two-thirds majority in the Parliament, has a long-term goal of 'Prosperous Nepal, Happy Nepali'. To achieve this goal, in its Policy and Programmes and the first ever federal budget, the Government has set objectives of achieving high economic growth, balancing and strengthening the economy, and making it more inclusive and just by focusing on policies that promote innovation and encourage trade, investment, production, and creation of employment. Sectors of priority includes: physical infrastructure, energy, ICT, tourism, industry and agriculture. Connectivity features as the core agenda to achieve Nepal's development goals.

VPoA priorities are also well-reflected in Nepal's sectoral policies and strategies. Nepal's Trade Policy 2015 aims to achieve enhanced trade sector's contribution to the national economy by increasing exports of value-added competitive products and services in the world market, increasing access of goods, services, and intellectual property to regional and world markets, among others. The Nepal Trade Integration Strategy (NTIS) 2016 aims to enhance Nepal's export competitiveness by addressing seven cross-cutting strategic areas: trade capacity, trade and investment environment, trade and transport facilitation, standards and technical regulations, sanitary and phyto sanitary standards, intellectual property rights, and trade in services.

3. Coherence and linkages with the Post-2015 Development Agenda and other global processes

The new long-term development agenda of Nepal is derived from the national objective of reaching the middle-income status by 2030 by closing the gender, social and geographical gaps and moving towards shared prosperity. The VPoA is integral to the 2030 Agenda for Sustainable Development. So, Nepal underlines the timely, full and effective implementation of VPoA in full synergy and coherence with the 2030 Agenda and other relevant development agendas such as the Istanbul Programme of Action (IPoA). Fortunately, Nepal's goals in its new socio-economic era coincides with the ambition of the global community to implement and achieve the Sustainable Development Goals (SDGs) by 2030. The global ambitions are broadly aligned with the social, economic and environmental aspirations that Nepal has set for itself in its Constitution. Nepal continues to link annual budgets and programs in line with the SDGs. Moreover, Nepal builds on the lessons learned from the implementation of the Millennium Development Goals (MDGs) that taught the importance of mainstreaming long-term goals and targets for formulating and implementing interventions to meet targets and ensure efficient use of resources.

The SDGs have particular relevant targets that address VPoA priorities as integration of LDCs into regional and global markets is an important focus of the SDGs. SDG goal seven aspires to ensure access to affordable, reliable, sustainable and modern energy for all. Some of the proposed SDG 7 targets for Nepal by 2030 include: accessibility of 99 percent of households to electricity, per capita electricity consumption to reach 1500 kWh, 50% share of renewable energy in the total final energy consumption, and 50% electric vehicles in public transport system, among others. Similarly, SDG 9 aims for resilient infrastructure, inclusive and sustainable industrialization, and innovation. The targets and indicators for 2030 are to increase road density from 0.55 km/km^2 to 5 km/km^2, grow proportion of population covered by a mobile network and technology to 100 percent, and raise the share of industry in total output to 25 percent. Moreover, SDG 17 is about strengthening the means of implementation and revitalizing the global partnership for sustainable development. SDG 17 has 19 targets. Exact indicators for many are yet to be fully developed. Some existing ones include: increasing the total government revenue as a proportion of GDP, by source from 19.1% to 30%, the proportion of domestic budget funded by domestic taxes from 76% to 80%, ODA as a proportion of total domestic budget from 15.1% to 18%, FDI as a proportion of GDP (inward stock) from 29.1% to 35% by 2030 from the 2015 levels. Furthermore, the respective focus of SDGs 2, 8 and 10 is on ending trade restrictions and distortions in world agricultural markets, increasing Aid for Trade (AfT) support for LDCs, and implementing the principle of special and differential treatment for LDCs,.

As many of the SDGs are capital intensive, they require a reliable financing strategy with participation from the government, private sector, cooperatives, NGOs and development partners (DPs). The National Planning Commission (NPC) has taken the lead in continuously working with line Ministries, provincial and local governments, development partners and other stakeholders to implement and monitor the SDGs. This ensures that the programs related to the SDGs are built into the government and non-government level programs and that assistance is received to meet the financial gaps from development partners.

Additionally, Nepal has also integrated other international frameworks to accelerate the progress in the achievement of the SDGs and VPoA. As per the Addis Ababa Action Agenda, a framework for financing sustainable development, Nepal expects Official Development Assistance (ODA) that passes the scrutiny of cost effectiveness, relevance, and the value of debt and help fill critical gaps in knowledge, skills and finance.

Nepal ratified the Paris Agreement on climate change in October 2016, which was approved unanimously by the Legislative Parliament. The country has placed climate change adaptation at the centre of its development plans and policies. It aims to strengthen the implementation of Environment Friendly Local Governance (EFLG) framework at local levels to complement climate change adaptation, promote renewable energy technologies, and water conservation and greenery development. Nepal launched a process to formulate and implement the National Adaptation Plan (NAP), which will promote integration of climate change adaptation into sectoral policies, strategies, plans and programs.

The Government also works closely with UN agencies and other development partners and have developed the "National DRR Policy and Strategic Action Plan for Nepal (2017-2030)". This plan responds to the Sendai Framework for Disaster Risk Reduction (SFDRR) priority areas and aims to make Nepal a safer and resilient nation by 2030. Nepal's Disaster Risk Management action plan priorities are aligned with the priorities of SFDRR such as understanding disaster risk, strengthening disaster risk, governance to manage disaster risk, investing in disaster risk reduction for resilience, and enhancing disaster preparedness for effective response and to "Build Back Better" in recovery, rehabilitation and reconstruction.

4. Assessment of key economic, social and environmental development trends

Since the adoption of the Vienna Programme, Nepal has gradually picked up the pace of economic development and is moving into the path of structural economic transformation, not least due to the successful conclusion of the peace process, promulgation of the Constitution and formation of stable governments at all three levels: federal, provincial, and local. The overall growth of the GDP has been slow in the past decade as the average growth rate was only 4.3%. This level is not satisfactory as the Istanbul Plan of Action (IPoA) requires a growth rate of 7% for an LDC to graduate to become a developing country. However, Nepal achieved a high economic growth rate of 7.4% in FY 2016/17 which is expected to sustain at 5.9% in FY 2017/18. The gross capital formation to GDP ratio reached 45.7% in FY 2016/17 and is expected to increase further to 51.8% in FY 2017/18. The amount of Foreign Direct Investment (FDI) in Nepal increased three-folds from 17 billion NRs. in FY 2016/17 to 61 billion NRs. in FY 2017/18. Despite recent positive trends, Nepal's economic performance suffered adversely from the devastating earthquakes in 2015 and its aftershocks as well as subsequent serious disruption of supplies (including fuel and other essentials) at the southern border.

Moreover, Nepal is yet to achieve structural transformation of its economy. Agriculture's contribution to GDP has been decreasing and is estimated to be at around 27.6% for 2017/18. Agriculture supports two-thirds of the employment. However, with the increased focus on to expand production and supply, the contribution of agriculture is slowly reducing as it was recorded at 35% of the GDP in 2012 during the evaluation of APoA. Manufacturing, an important driver of economic transformation, faced some problem after the 2015 earthquake but has great potential with the availability of abundant resources and is slowly growing and contributing to the economy. This sector however does face a few constraints such as labor productivity, transport costs, investments and industrial relations. Due to some of the setbacks this sector currently contributes 5.4% to the GDP. The biggest contributor to the GDP is the service sector at 57.6% of the GDP. The following table summarizes some major macroeconomic indicators of Nepal.

Table 1Some major macroeconomic indicators of Nepal

Fiscal year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18[a]**
In NRs billion at 2000/01 prices					
GDP in basic prices	674.2	694.3	695.7	747.1	791.1
Agriculture	237.5	240.1	240.7	253.2	260.3
Industry	107.8	109.4	102.4	115.1	125.3
Services	357.7	374.3	383.1	411.6	438.9
GDP growth rate	5.7	3.0	0.2	7.4	5.9
Share of different sectors in real GDP (at current prices)					
Primary	33.2	32.4	32.2	29.4	28.2
Secondary	14.3	14.2	13.6	14.1	14.2
Tertiary	52.5	53.4	54.2	56.5	57.6
In nominal prices					
Total Trade (In NRs billion)	806.4	860.0	843.7	1063.1	1324.5
Export f.o.b	92.0	85.3	70.1	73.0	81.2
Import c.i.f.	714.4	774.7	773.6	990.1	1243.3
Total Expenditure (In NRs billion)	435.0	531.5	601.0	837.2	1082.9
Recurrent	303.5	339.4	371.3	518.6	738.9
Capital	66.7	88.8	123.3	208.7	234.6
Financing	64.8	103.3	106.4	109.9	109.4
Total Income (in NRs billion)	396.9	450.4	531.4	647.5	770.3
Revenue	356.6	405.9	482.0	609.2	730.1
Foreign Grants	34.0	36.4	32.5	31.9	15.3*
Foreign Loan	18.0	25.6	33.2	59.0	35.1*
Total Population (In million)	27.6	28.0	28.3	28.7	29.1
Per Capita GDP (USD)	725	766	748	866	1004
Exchange rate (NRs per 1 USD)	98.21	99.49	106.35	106.21	102.96

a Yearly preliminary estimate

* First eight months

Source: GoN, Ministry of Finance (MoF), Economic Survey 2017/18, Central Bureau of Statistics, National Accounts, Nepal Rastra Bank (NRB), Quarterly Economic Bulletin.

Nepal has continued to make significant improvements in other socio-economic indicators. Nepal achieved most of its MDGs despite the resource constraint. Nepal's Final Status Report of the MDGs shows that Nepal's achievements were remarkable in the areas of poverty reduction, school enrolment and gender equality in schools, child and maternal mortality, and access to drinking water and sanitation. Important reforms have helped to provide social support for vulnerable population. The Government has increased the minimum wage from NRs 9000 to NRs 13450 which is to be revised every two years according to the Labour Act. Nepal's transition into a federal structure is expected to address the issue but there are challenges, for example in ensuring efficient public service delivery. According to Nepal's Census Report of 2012, 17% of the population resided in the urban areas and the figure is now estimated to be approximately 40% with the conversion of several areas into new municipalities. The 2015's earthquakes and subsequent disruptions in supplies undermined Nepal's achievements of MDGs and set a challenging starting point for the pursuit of SDGs. The following table summarizes the status as of FY 2015/16 and the targets in the 14th Plan for various indicators.

Table 2: Status of 2015/16 and targets in the 14th Plan

Indicator	Status in 2015/16	14th Plan target
Annual average economic growth (%)	0.77	7.2
Annual average agricultural growth (%)	1.33	4.7
Annual average non-agricultural growth rate (%)	0.63	8.4
Inflation rate (%)	9.5	7.5
Life expectancy at birth (years)	69	72
Population below poverty line (%)	21.6	17
Human Development Index	0.54	0.57
GDP per capita (in NRs 000)	79.37	116.50
Population access to basic drinking water (%)	83.6	90
Net enrolment rate at secondary level (%)	37.7	45
Population with access to basic sanitation (%)	81	89
Number of district HQs with road connectivity	73	73
Access to internet service (% of population)	46.4	65
Installed capacity of electricity generation (MW)	851	2301
Population with access to electricity (%)	74	87
Irrigation (in lakh hectares)	13.92	15.20
Total length of regional and strategic road transport (KM)	27,495	29,495

5. Priority 1: Fundamental transit policy issues

As an LLDC, Nepal must rely on its transit countries for access to the global market. Following the adoption of VPoA, to address the issues of high transit and associated costs, Nepal has successfully concentrated its efforts in the area of improving fundamental transit policy through various bilateral and regional agreements, customs cooperation, and harmonization of standards, among others. Nepal's Trade Policy 2015 envisions the achievement of economic prosperity by enhancing trade sector's contribution to the national economy through export promotion. The Policy focus on strengthening supply-side capacity, increasing exports of value-added competitive products and services in the world market, increasing access of goods, services, and intellectual property to regional and world markets, trade mainstreaming in sectoral policies, aid for trade, etc. Building on the Policy, NTIS 2016 aims to enhance Nepal's export competitiveness by addressing seven cross-cutting strategic areas: trade capacity, trade and investment environment, trade and transport facilitation, standards and technical regulations, SPS, intellectual property rights, and trade in services and developing export strategies for selected products. Additionally, a new Transit Policy is also in the process of being drafted.

Nepal Trade and Transit Facilitation Committee (NTTFC), led by Secretary of Ministry of Industry, Commerce and Supplies (MoICS), has been formed to address the transit policy issues faced by the country. Similarly, a central-level Board of Trade chaired by the Minister for Industry, Commerce and Supplies, has been formed with the participation from the private sector, public sector as well as academicians to provide necessary assistance in trade and transit policy formulation, policy monitoring and inter-agency coordination.

In January 2017, the then Legislature-Parliament of Nepal endorsed the implementation of the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO). The TFA, if fully implemented, can reduce the trade cost by 14.3 percent and also reduce the number of days to import and export goods by 1-2 days. Following Nepal’s ratification of the TFA in January 2017, Nepal acceded to the Revised Kyoto Convention (RKC) in February 2017, and the parliament has ratified the RKC. Nepal also signed the BBIN MVA along with Bangladesh, Bhutan and India to further strengthen sub-regional connectivity.

India is Nepal’s largest trading partner and transit country. Measures have been taken to facilitate trade and transit with India. As per its provision, the Nepal-India Trade Treaty, 2009 was automatically renewed for additional seven years on 27 October 2016. Nepal and India also signed four Letters of Exchange (LoE) at the Commerce Secretary level that included: simplification of modalities for traffic in transit between Nepal and Bangladesh through Kakarbhitta-Bangladesh corridor, operationalization of traffic in transit between Visakhapatnam Port, India and Nepal (Amendment in Treaty of Transit), operationalization of rail transit facility through Singhbad for Nepal’s trade with and through Bangladesh, and operationalization of traffic in transit through rail transport to/from Visakhapatnam Port (amendment in Rail Services Agreement). Combined efforts from the governments of Nepal and India have resulted in the operations of Visakhapatnam as an additional Port, resulting in diversification of transit facilities for Nepal.

Under the Nepal-India Treaty of Trade and Nepal-India Treaty of Transit, the Nepal-India Inter Governmental Committee (IGC) and Inter-Governmental Sub- Committee (IGSC) were formed to discuss issues on trade, transit and cooperation to regulate unauthorized trade. The latest meeting of the IGC highlighted the growing trade deficit, need to promote export to address that deficit by removing tariff, para-tariff or non-tariff measures, identifying steps to resolve problems at border points, and agreed to review the existing trade, transit and rail service related treaties to unlock the immense potential lying between Nepal and India.

Nepal has raised the need for a trilateral Transit Arrangement among Nepal, Bangladesh, and India, an argument which was also highlighted during the latest IGC meeting between Nepal and India. As per the Trade and Transit agreement signed between Nepal and Bangladesh, Bangladesh has provided two ports since 1976 and five transit points for Nepali transit cargoes. However, only one land route is being utilized by Nepal at present. Hence, further steps would be needed to fully utilize the transit opportunities.

Similarly, Nepal-India Oversight Mechanism has been set up to take measures to facilitate implementation of ongoing bilateral projects within defined timeline. The meetings of the Mechanism have substantially focused on transit issues. The latest sixth meeting of the Oversight Mechanism was held in July 2018 in Kathmandu, Nepal. The meeting focused expediting the completion of all bilateral economic and development cooperation projects by addressing the challenges arising during the project implementation such as the cross-border rail projects, Integrated Check Points (ICPs), Terai Road Project, and Cross Border transmission lines, among others.

Nepal and India have also agreed to open three new air routes as per a meeting held between the Civil Aviation Authority of Nepal (CAAN) and Airports Authority of India in June 2018. Earlier, aircrafts flying from Nepal and passing through India's airspace were only allowed exit facilities across Janakpur, Bhairahawa, Nepalgunj and Mahendranagar. Now, following the discussions between the two parties, both entry and exit facilities will be available for Nepal across Biratnagar, Janakpur, and Mahendranagar. Nepal has also carried out reforms to improve roads that are most important for trade. Furthermore, Nepal concluded an agreement with India to develop inland waterways for cost-effective and efficient cargo movement, within the framework of trade and transit arrangements, providing additional access to sea for Nepal. A joint mechanism to prepare operation modality has been formed and work is already underway to carry out relevant study on both sides.

Significant measures in the direction of transit facilitation have also been taken with China. On March 2016, Nepal and China signed the Transit Transport Agreement. The Agreement takes note of the 1982 UN Convention on the law of the sea and recognizes Nepal's right to easy access to and from the sea and freedom of transit as an LDC. Nepal has already completed the draft of the protocol that will bring the agreement into effect and forwarded it to the Chinese side. The draft is being discussed with China.

In May 2017, Nepal signed the framework agreement on Belt and Road Initiative with China. The MoU signed between Nepal and China seeks to strengthen cooperation in connectivity sectors including transit transport, logistics systems, transport network and related infrastructure development such as railway, road, and civil aviation, among others. Moreover, during the recent high-level visit to China, the two countries have agreed to intensify enhanced connectivity, such as ports, roads, railways, aviation and communications within the overarching framework of trans-Himalayan Multi-Dimensional Connectivity Network. Furthermore, issues related to transit, trade and bilateral relations are also discussed through the joint-mechanism of Nepal-China Tibet Trade Facilitation Committee.

Many other significant reforms have been carried out. The e-Customs Master Pan has been implemented to initiate paperless customs procedures. The Department of Customs has installed a total of 18 automated web-based systems at border crossing points to speed up custom clearance and control illegal trade. Of the 18, 15 are ASYCUDA World, which is the latest system and 3 are ASYCUDA++. Moreover, a new Customs Act is also in the process of being drafted. Furthermore, Nepal is also on schedule for meeting various timelines of the Revised Kyoto Protocol.

To simplify customs clearance procedures and make more efficient for trade facilitation, Integrated Check Posts (ICPs) are being built in main border-crossing points between India and Nepal, namely Bhairahawa (Rupandehi), Nepalgunj (Banke) and Biratnagar (Morang). The ICP in Birgunj has also came into operation.Nepal also has four Inland Container Depots (ICDs) in operation, namely Bhairahawa, Birgunj, Biratnagar and Kakarbhitta (Jhapa). While Birgunj is railway-linked with Indian sea ports, all other ICDs are road-based. Moreover, while one Inland Dry Port in Birgunj (Parsa) is already in operation, three are under construction in Chobhar (Kathmandu), Timure (Rasuwa) and Tatopani (Sindhupalchowk), and a feasibility study is being conducted for additional port in Dodhara Chandani(Kanchanpur).

Nepal introduced a new version of HS Code in 2017, which is an extension of the 2012 version. The number of tariff lines have increased, and national headings have also been created. The Department of Customs also launched the EXIM code that came into force from 16 July 2017 and has envisioned some critical reform measures that are expected to control bogus firms and revenue leakage and introduce price uniformity in the market. The Government has expected that the enforcement of the EXIM code will facilitate trade by reducing the customs clearance process and time. This code will introduce the Authorized Operator/Trusted Traders program and CTD automation at the Kolkata port. Moreover, the issue of CTD has been discussed in the Nepal-India Inter-Governmental Sub-Committee (IGSC), on Trade, Transit and Cooperation to Control Unauthorized Trade, held in Kathmandu in April 2018. During the meeting Nepal requested India to share the EXIM code for CTD automation and further requested to consider the piloting of integrating information system at Birgunj ICP.

Moreover, an Electronic Cargo Tracking System (ECTS) was set up at the inland clearance depot in Birgunj. Under this system, the movement of Nepal bound cargo can be tracked from the Kolkata and Visakhapatnam port by the respective custom offices of the two countries through the electronic chip installed in the cargo container. The ECTS has been made mandatory from July 16, 2018 and traders can avail of this service by paying USD 45 per container. After signing up for the service, it will not be necessary to put additional locks by the port customs office on Nepal-bound cargoes to ensure the final delivery of goods. Additionally, the provision requiring the purchase of additional insurance in India on import of sensitive goods will remain optional.

Significant progress has also been made in the development of effective logistics systems by ensuring efficient transport and transit operations and promoting competition in the sector. In addition, the use of electronic platform for public procurement has helped to increase transparency and promote competition. In fact, the number of successfully closed bids was over 5000 between 2013 and 2016. This number has increased since then, especially after the Procurement Monitoring Office (PPMO) enforced comprehensive national e-GP system in 2015.

Various reforms have meant that indicators related to transit have also improved. While Nepal's overall ranking within the 'trading across borders' category in the Doing Business Report was 177 in 2014, it has climbed to the 76th position in the same category. The number of documents required for export and import were 11 in each case in 2014, the figures are 4 for export and 5 for import at present. Using the 2016-18 methodology, the time (in hours) to export and import in terms of border compliance has decreased from 64 hours in 2015 to 56 hours in 2018 and 66 hours in 2015 to 61 hours in 2018, respectively. On the other hand, for documentary compliance, the figures have remained the same for imports and increased for exports. In the case of costs to import and export, the figures have either remained the same or increased slightly from 2015 to 2018. Despite encouraging developments, Nepal still faces several challenges related to transit issues. One of the key challenges in addressing transit issues is that most transit countries for landlocked countries are themselves developing, and therefore, may not have sufficient infrastructure within themselves to support and facilitate for another country. This is true in the case for Nepal as well to some extent.

6. Priority 2: Infrastructure development and maintenance

Infrastructure is a key driver of trade as the level of infrastructural development directly affects the transport and transit procedures and policies made to improve trade. There is a need to focus on transport, ICT and energy infrastructure for overall trade promotion. Realizing the relevance in the trade sector, VPoA has added ICT and energy as new priority areas, which were not part of APoA.

6.1 Transport

One of the top priorities of the government to promote and expand trade is to develop transport infrastructure for better market access of Nepali goods and services. The main mode of transport for Nepal's trade is by road, which accounts for 92%, due to the lack of railway infrastructure and limited air connectivity. By FY 2017/18, length of strategic roads has increased to 29,639 km which includes 13,149 km black topped roads (the figure was 11,197 km in 2014), 6,956 km gravelled roads, and 9,534 km earthen roads. Nepal has given substantial focus in improving and building roads, including those under the Asian Highway network. Work is underway to make the East-West Highway of four lanes as procurement for some of the works have been started. A loan has already been negotiated to widen about 87 kilometres of the East-West Highway between Kanchanpur and Kamala. Work has also begun for the Birgunj-Patlaiya-Dhalkebar section of the Highway. Similarly, significant works have been carried out and is ongoing in the Galchhi-Trishuli-Rasuwagadhi highway connecting Nepal and China. While upgradation work of the Syabrubesi-Rasuwagadhi road is beginning soon, Nepal has already completed significant work in the remaining sections.

The work for constructing Fast Track (Nijgadh-Kathmandu) has started. Other roads such as Jogbani-Dharan, Kohalpur-Neplgunj, Bhairahawa-Butwal, and Narayanghat-Mungling are being improved. Works related to the development of Koshi, Kaligandai, and Karnali corridor roads extending from North to South are being expedited. The Department of Roads has initiated the public procurement process for the appointment of a contract to execute the Nagdhunga Tunnel Construction Project.

In addition to the national level programs and projects, roads are also being constructed through local level programs including reconstruction and rehabilitation, rural access program, local road, bridge and community access improvement program, and rural community infrastructure development program. Construction of 58,000 km road network was completed by 2016/17 through different local level programs including district, village and urban level road networks. Of the 58,000 km, 8148 km was in the mountain region, 31,988 km was in the hills and 17,864 km in the Terai.

Nepal has a total of 33 airports, including 1 international and 32 domestic airports. Works for three additional international airports have been set in motion among which Pokhara International Airport was started in April 2016 and an extension and upgrade of the Gautam Buddha International Airport in Bhairahawa is under progress. Moreover, the Government has invited Expression of Interest from global firms to build the Nijgadh International Airport. In the aviation transport services, Nepal had 19,560 registered flight carrier departures in 2014.

The Department of Railways was established in FY 2010/11 to implement railway infrastructure programs including the East-West Electric Railway and railway programs being built with assistance from India and China. Since then, noteworthy developments have taken place. A pre-feasibility study of the Kathmandu-Kerung railway has been completed by the China Railway First Survey Design Institute Group comprising of experts from Nepal and China, and official teams from both the countries have provided suggestions on the report. In another boost to regional connectivity, recently, India and Nepal signed an MoU on preliminary engineering-cum-traffic survey of the proposed Kathmandu-Raxaul railway line. This builds on the already successful developments that have been going on in building five cross-border railway lines between Nepal and India. The line from Janakpur to Jayanagar is expected to be completed within a year and the work has been ongoing on the Biratnagar Customs to Jogbani railway line. In the next phase, the remaining three railway lines are being built, including Kakarbhitta-Jalpaiguri, Bhairahawa-Nautanwa, and Nepalgunj-Nepalgunj Road, and the final location survey work is ongoing for all three lines. Efforts are ongoing to build the East-West Railway Project. Nepal's Railway Department has already completed the DPR of the Bardibas-Simara, Simara-Butwal and Bardibas-Kakadbhitta sections and the complete DPR is expected to be completed by this year.

Over the next five years the GoN expects to mobilize resources to the tune of USD 8.2 billion for road infrastructure, rail connectivity and transport sector management. The Government has put forward plans to develop important national highways as express highways and East-West and North-South roads of national importance as national strategic road network. There are plans to connect the centres of all local levels with black-topped roads in the next five years. To cater the needs of growing population, development of mass public transportation systems – bus-rapid transit (BRT), monorails, airports, and railways, including Mechi-Mahakali Railway, Kathmandu-Birganj Railway (Southern Part), and Rasuwagadhi-Kathmandu-Pokhara-Lumbini Railway (Northern Part), has been prioritised. Government recognizes the need to massively mobilize both the domestic and foreign investment in achieving its infrastructure development goals. The transport sector is open to both domestic and foreign investment. In this regard, PPPs are expected to be instrumental in realizing the financing and development of infrastructure projects.

6.2 Energy

Energy is a new addition to the priorities in the VPoA and this is a sector in which Nepal has garnered visible achievements. While in the past Nepal faced power shortages, recently, it has been able to solve the power crisis and declare an official end of load shedding. Nepal's key focus is on hydropower development as it can leverage the potential of developing the economically feasible 43,130 MW, through public and private investment in small, medium and large hydroelectricity projects. The Government is focusing its efforts on developing and expanding hydroelectricity and all types of renewable energy to provide clean energy to all households within the next three years and avail smooth electricity supply across Nepal within the next five years.

Population with access to electricity has reached 87% (69% grid and 18% off grid), and with this electricity consumption has been increasing. With the increasing demand in consumption, rising from 139 kWh in 2014 to 177 kWh per capita, there's been an increased investment in renewable energy, especially hydropower. A total of 88 projects are in operation: 15 under 1 MW capacity and 73 over 1MW, with a total installed capacity of 1060.78 MW as of May 2018. With the increased investment in electricity generation, Nepal is now free from its load shedding problems. Moreover, with the increasing supply for energy, the demand-supply gap has been reduced from 508.65 in 2016/17 to 463.6 MW in 2017/18. In addition, transmission lines have increased from 1987.36 in FY 2014/15 to 3496 circuit km in FY 2017/18.

Private sector of Nepal plays a vital role in hydropower development as it makes up nearly half of the total installed capacity. Moreover, while 2200 MW of hydropower projects are under construction, 1300 MW of hydropower projects have undergone power purchase agreement which are awaiting financial closure. The Department of Electricity Development, under the Ministry of Energy, Water Resources and Irrigation (MOEWRI), promotes private investor participation through the "One Window" service for the Independent Power Producers (IPPs). Additionally, the Alternative Energy Promotion Centre (AEPC), under the Ministry of Forest and Environment, promotes the use of renewable/alternative energy technology. The Investment Board Nepal (IBN) negotiates Public Private Partnerships (PPPs) projects and furnishes Projects Development Agreements (PDAs) for hydropower projects over 500 MW installed capacity. The Nepal Electricity Authority (NEA) is the state-owned, vertically integrated utility company with the mandate of generation, transmission and distribution of electricity in Nepal.

To further attract the private sector investment into the sector, Government provides various incentives in the form of income tax, depreciation provisions, VAT, and custom duties concessions. Tax rate for projects under the Build, Own, Operate and Transfer (BOOT) model is 20% rather than the normal 25% and income tax generated from export by the entity is also set at 20%. Hydropower generation and transmission companies listed in the Nepal Stock Exchange (NEPSE) receive 15% tax exemption. Companies that produce electricity through alternative/renewable sources (hydro, solar, wind or biomass) and started their commercial production and transmission before 12 April 2024 get a 100% tax exemption for the first 7 years and 50% for the following 3 years. Income source disclosure requirement is exempted for investment made in hydro power of national priority until 13 April 2019. VAT exemption is provided for equipment and machines, tubular batteries, solar lead batteries required by biogas, solar and wind energy industries. VAT exemption is also provided from import on machinery, equipment and tools for hydropower projects, based on the recommendation of the Alternative Energy Promotion Centre (AEPC) or Department of Electricity Development (DOED).

Concrete steps have been taken in terms of bilateral and regional energy co-operation. In November 2014, the South Asian Association for Regional Co-operation (SAARC) Framework Agreement on Energy Cooperation (Electricity), entered into force which paved way for relevant institutions in respective countries to develop transmission interconnectivity within the region to allow cross-border power supply.

In the same year, Nepal and India signed a Power Trade Agreement (PTA) making way for free trade of power. In 2018, Nepal and China signed a Memorandum of Understanding (MoU) for establishing a dialogue mechanism on energy cooperation, furthering commitment of enhancing cooperation and creating an avenue for collaboration in the sector. Moreover, on 10 August 2018, Nepal and Bangladesh signed a MoU for cooperation in the energy sector paving way for Nepal to export surplus electricity to Bangladesh.

Ministry of Energy, Water Resources and Irrigation launched a white paper in May 2018 with an aim to attain self-sufficiency in electricity through overall development of electricity sector, reduce trade deficit through the replacement of other sources of energy by electricity, expand internal and external market for electricity, and deliver sustainable, reliable and clean energy to people. The White Paper states that it has a target for per capita consumption of 700 kWh by 2023 and 1550 kWh by 2028. A target for energy generation has also been set for 3000 MW in the 3 years (2021), 5000 MW in 5 years (2023), and 10000 MW in 10 years (2028) with an additional 5000 MW imported from cross border. The White paper also incorporate 'One Province, One Mega Project' strategy to build one mega hydro or solar project in each of the seven provinces of the country. The white paper has stated Government's plan to amend Electricity Act and Nepal Electricity Authority Act and formulate the Renewable Energy Development Act. Immediate set up of Electricity Regulation Commission under the Electricity Regulation Commission Act, 2017 is planned. In addition, the Transmission System Master Plan (TSMP) released in July 2018 aims to develop 6867 km transmission lines across Nepal. Active involvement of the private sector through innovative PPP models has been planned by the Government as the main mechanism to finance energy infrastructure projects. Moreover, the decade 2019-2029 has been declared as the 'Energy and Water resource Decade'.

6.3 Information and Communication Technology (ICT)

ICT is one of the fastest growing sectors in Nepal. Therefore, several measures have been taken to develop ICT infrastructure in the country. At the beginning of 2014, the sector was targeted to make a total of 170 km long optical fibre, connecting 30 Community Information Centers (CIC) to improve information exchange with India, Bangladesh and Bhutan under the SASEC Information Highway Project. Similarly, under the Broadband Policy 2015, work has been started on the Information Highway with an objective to give access to connectivity to the people and local levels throughout the country. The service is aimed to cover all parts of the country with a target to be completed in the next two years.

The main objective of The Telecommunication service-based Radio Frequency Policy set in 2016 is to create level playing fields among telecommunication players in Nepal, implement technology neutrality in Nepal, bring spectrum efficient technology like 4G, maximize the usage of limited radio frequency, and fix bandwidth in new and existing frequency bands and assign minimum spectrum and maximum bandwidth. In addition, other legal provisions are being drafted, including the National Broadband Master Plan, the Telecommunications Frequency Distribution Regulation, and the Regulatory Framework for Mobile Portability. Moreover, building on the Trade Policy 2015, the GoN has identified IT services and business process outsourcing (BPO) in the Nepal Trade Integration Strategy 2016 as one of the three priority potential export service sectors.

A new Telecommunication Act and IT Act has also been drafted. The IT Act will be a first of its kind in Nepal that will act as an umbrella Act to regulate all aspects of this sector as a consolidated and integrated document. Nepal's main policy objectives in telecommunications include: universal access in rural areas: universal service obligation in urban areas, liberalization of all telecom services, open licensing regime except for systems requiring scarce resources, encourage private-sector participation and economic efficiency, and a technology neutral licensing regime.

In 2014, the Seventh amendment was made in the National Transmission Regulation 1995. There was a growth in this sector which is contributed by the increase in number of service providers and users due to the access to modern technology. By the first eight months of 2016/17, the total number of telephone lines has reached to 34,534,280 and telephone density reached to 130.35 percent. The number of land line telephone subscribers was 856,800 in 2014 while that of mobile phone stands at 37,772,000 as of May of 2018. Mobile network service has been extended to all 77 districts covering 90 percent of Nepal’s land area.

The number of internet subscribers had reached to 15,388,770 by the end of the 8 months of the FY 2016/17 from 8,782,936 in FY 2014/15, while its density stood 58.08 percent in 2016, showing a substantial increase from 33.15% in 2014. This number reached to 63.81 percent by the end of 2017. Broadband service has been expanded to 72 districts with 3143000 fixed broadband subscribers by May 2018.

For the growth of the telecom sector, the government has provided the following investment incentives: companies employing more than 300 Nepali nationals throughout the year receive a 10% tax rebate, concession based on establishment in specific areas (SEZ and IT park): 15% tax exemption for ICT industries listed in stock exchange.

Currently, mobile broadband has coverage of 45% of the total population and is targeted to reach 100% in the next five years, by 2022. Other five-year targets include: e-service delivery from 20% to 50%, fixed line broadband service from 16% to 40%and digital literacy rate from 40% to 80%.Moreover, Nepal’s ICT sector performed as one of the fastest emerging sectors and has shown immense potential for growth in upcoming years. Access to television and radio has reached around 80% and 90% of the population, respectively and is expected to reach 100% within the next few years. Internet penetration rate has drastically increased from 35.70% in 2014 to 62.94% in 2017.

7. Priority 3: International trade and trade facilitation

The Government of Nepal considers trade as one of the main drivers of economic growth and poverty reduction. Growth in trade has a direct impact on the integration of the national economy into the regional and international trading system. Since trade has a positive impact on economic development, poverty reduction and resource mobilization, the government has prioritized to expand the trade sector. The national development plans have defined trade as one of the strategic pillars for its aim to achieve inclusive growth and poverty reduction. To strengthen its trade position in the global market, Nepal joined the WTO in 2004 and became the first least developed country that acceded to WTO passing through stringent negotiation process. This section looks at how Nepal performed in international trade as well as what steps it took in trade facilitation.

7.1 International trade

Trade has a significant role in Nepal's economy. The volume of both import and export is increasing. Although export drastically dropped immediately after the Nepali economy suffered adversely from the devastating earthquake in 2015 and its aftershocks as well as subsequent serious disruption of supplies including fuel and other essentials at the southern border points, in the following years it has shown a positive growth trend in export and resumed its growth trajectory. The two main trading partners of Nepal are India and China which account for a combined value of US$ 440.9 million in Nepal’s exports and US$ 7.8 billion in Nepal’s imports. These two countries account for 85% of Nepal’s trade deficit.

With accession into the World Trade Organization (WTO), Nepal has been granted better access to the global market. However, due to inadequate investment supply-side constraints. Nepal has yet to realize the corresponding benefits from joining this global process. Though trade is a key component of the economy, trade deficit has posed challenge to Nepal’s development. After Nepal’s accession to the WTO, share of export in total trade has decreased from 28.3% in FY 2004/05 to 6.9% in FY 2016/17. On the other hand, share of import has increased from 71.7% in FY 2004/05 to 93.1% in FY 2016/17. As a consequence, export-import ratio has deteriorated from 1:2.5 in FY 2004/05 to 1:13.5 in FY 2016/17. The volume of trade has nearly trebled compared to the figures in 2011/12. However, in the last five years, imports have grown at a yearly average rate of 17% while exports have only grown at 0.5% on average. Size of total trade as per the economy was 56.3% and percentage of export and import to the GDP were 9.76% and 42.02% respectively in the first 8 months of 2016/17. Nepal’s trade performance is summarized in the table below.

Nepal’s trade scenario 2004/05 – 2016/17

Fiscal Year	Exports (NRs billion)	Imports (NRs billion)	Trade deficit (NRs billion)	Export-import ratio
2004/05	58.4	148.3	-89.9	1:2.5
2005/06	59.8	160.7	-100.9	1:2.7
2006/07	58.9	195.8	-136.9	1:3.3
2007/08	58.5	237.0	-178.6	1:4.1
2008/09	68.6	291.0	-222.4	1:4.2
2009/10	60.9	375.6	-314.7	1:6.2
2010/11	64.6	397.5	-333.0	1:6.2
2011/12	74.1	498.2	-424.1	1:6.7
2012/13	77.4	601.2	-523.9	1:7.8
2013/14	91.4	722.8	-631.4	1:7.9
2014/15	86.6	784.6	-697.9	1:9.1
2015/16	71.1	781.1	-710.0	1:11
2016/17	73.1	986.0	-912.8	1:13.5

The top five export items for 2016/17 were woollen carpets, readymade garments, hides and skins, lentils, and cardamom. The top five import items for the same year were mineral fuels, oils, distillation products, iron and steel, machinery, nuclear reactors and boilers, vehicles, and electronic equipment. The value of export items is significantly low as most of them consist of raw material and semi-processed goods rather than finished goods and the trade deficit increases due to increase in import in agro-based products and luxury goods.

Top destination countries and proportion of export trade for 2017

Country	Value (USD; millions)	Proportion
India	420.18	57%
USA	82.6	11%
Turkey	47.53	6.4%
Germany	29.10	3.9%
UK	25.36	3.4%

Top source countries and proportion of import trade for 2017

Country	Value (USD millions)	Proportion
India	6520	66%
China	1270	13%
UAE	175.09	1.8%
France	155.34	1.6%
Argentina	133.72	1.4%

The Nepal Trade Integration Strategy (NTIS) 2016 came into effect with a list of goods and services that have high export potential and those that can be import substitutions with a view to boost Nepal's exports. The priority export potential list includes-cardamom, ginger, tea, and medicinal and aromatic plants in agro-based products; fabrics, textile, yarn and rope, leather, footwear, pashmina, and carpets in craft and manufacturing products; skilled and semi-skilled labour, IT, BPO and IT engineering, and tourism in the service sector.

Merchandise products are receiving preferential treatment in trade. The volume of merchandise exports decreased from US$907.6 million in 2011 to USD 740.7 million in 2017. However, after 2015 the export trade increased by 12.8 percent in the first eight months of 2016/17 and reached Rs. 48.22 billion. The decrease mentioned above was caused due to the detrimental effects of the earthquake, trade disruptions and effects of the appreciation of the real exchange rate on the competitiveness of Nepali exports. Consequently, the imports increased from USD 5,916 million in 2011 to USD 10,038 million in 2017, an increase driven by manufacturing products. Export to India and China increased by 16.3% and 13.4%

respectively and imports for the same also increased by 59.0% and 17.5% respectively. Merchandise exports included noodles, wire, oil cake, rosin and juice to India; processed leather, handicrafts, readymade garments to China; and pulses, jewelleries, paper and handicrafts to other countries. Merchandise imports included petroleum products, billets, cements and machinery from India; machinery, their accessories, electric goods, communication equipment from China; and gold, edible oil, chemical fertilizers, transport vehicles and accessories from other countries.

According to the Global Access Index, Nepal's ranking on the Foreign Market Access Index moved third of 138 countries in 2013 to first of 136 countries in 2016. Tariffs for Nepal exports have gone down from 4.9 percent in 2011 to 2.5 percent in 2016, and index of margin of preference received by Nepal in destination markets increased from 80.6 in 2013 to 89.9 in 2016.The table below shows the Foreign Market Access Indicators for Nepal:

Nepal's Foreign Market Access Indicators

	2013		2016	
	Rank/138	Value	Rank/136	value
Foreign market access index (1-7)	3	4.7	1	6.46
Tariffs faced (%)	20	4.9	12	2.5
Index of margin of preference in destination markets (0-100)	2	80.6	2	89.9

Source: World Economic Forum, the Global Enabling Trade Report 2016

Despite Nepal's encouraging rankings in the above index, it has not been able to fully utilize its potential. The main challenge facing Nepal is to control the widening trade deficit and bring it to a affordable limit. The reason for the widening gap and the inability to limit it is that export is constrained by limited supply capacity including low increase in export prices, weak production and productivity, decrease in industrial products, weak quality testing and certification, poor labelling and packaging, insufficient trade infrastructure and inadequate institutional coordination among others.

7.2 Trade facilitation

The WTO Trade Facilitation Agreement (TFA) which aimed to benefit LDCs, has been ratified by the Legislative Assembly of Nepal on 13 January 2017. It covers most proposed procedures, outlining the importance of implementing a TFA to advance in trade and transport facilitation in the short as well as long term. Similarly, Parliament of Nepal has ratified the Body of the Convention and General Annex of the WCO Revised Kyoto Convention (RKC) on 9 September 2016. Furthermore, Nepal is in the final stage of developing Customs-related WTO Trade Facilitation Agreement measures and general annex of the Revised Kyoto Convention standards. The focus of the program is to enhance Risk-Based Customs clearance through legal framework and automation to ensure trade facilitation while maintaining adequate level of customs procedures with economic impact to support export.

The rate of implementation of the commitments can be measured in three categories as per the WTO TFA database. Category A shows the rate of implementation to date by the country, Category B shows the implementation in progress, by December 2020, without any support from external partners, and Category C shows the rate of implementation of the commitments upon the receipt of capacity building support from development partners. Based on the percentage of all notifiable items, Nepal has notified 2.1% of activities under Category A, 12.2% of activities under Category B and 85.7%.of activities under Category C.

Under the MOICS, a Trade and Export Promotion Centre (TEPC) has been established as a national trade promotion agency with the objective of promoting foreign trade in general and export trade in particular of the country. The Government of Nepal also launched the Nepal Trade Information Portal (NTIP) on 27 September 2016 to provide all trade related information on a single platform. It provides the business community with a secure and personalized single-entry point to all Nepal trade-related information such as, all regulatory requirements for trade, procedures and fees. It also has a searchable library resource for all available documents and material on trade in Nepal. The portal is based on the World Bank Trade Portal Toolkit, which has been successfully implemented in several developing countries to facilitate rapid deployment of national trade portals. NTIP will help improve the country's trade efficiency, empowering the trading community by providing immediate online access from a single source to all policies and procedures and other data necessary. This content will include, at a minimum: business and product information from traders, trade related regulations, directives or information from government agencies, requests from prospective buyers, promotional materials prepared by TEPC or other entities, service offerings and specifications from trade-related service providers, trade data sourced from relevant government sources, and guidance information captured from both domestic and international sources compiled by TEPC.

On the institutional front, a Board of Trade under the chairpersonship of Minister for Ministry of Industry, Commerce and Supplies has been constituted. The main functions of the Board are: to coordinate the implementation of the Trade Policy, to recommend the Government on policy reforms and advise the Government to resolve problems and difficulties with the implementation thereof. Similarly, Nepal Trade and Transit Facilitation Committee (NTTFC) constitutes for Trade Facilitation. The main objectives of the NTTFC are to assists the governments in implementation of policy reforms, monitor trade initiatives, and recommend new trade facilitation measures.

With the objective to enhance trade, Nepal has made efforts to develop the customs procedures and harmonize them with international standards. This has been realized through the Customs Reform and Modernization Strategies and Action Plan (CRMSAP), which was first launched in 2003, and has completed its fourth implementation phase from 2013-2017 and current CRMSAP has started from July 2017. The plan creates an environment conducive for economic prosperity by building a responsive customs administration that is recognized as a modern administration, fulfilling the needs of the new customers. The current implementation of the CRMSAP provides strategic direction to the government to meet the requirements of the WTO TFA and other international standards in trade facilitation. The main principles of this plan for the period 2017-2021 are: reduce compliance cost and time, help fair operations of the market, help export promotion, enhance risk management, create investment friendly environment, right taxation for sound fiscal framework, and coordination. Similarly, the development of Nepal National Single Window (NNSW) is in progress and is expected to be completed in 2019.

The updated National Trade Integration Strategy (NTIS) of 2016 seeks to address the outstanding trade and competitiveness challenges facing Nepal's export sector. This Strategy, thus, focuses on identifying actions to address protracted constraints in a number of cross-cutting areas. They include: institutional capacity building for trade, including capacity for trade negotiations, business environment for investment and trade, trade and transport facilitation, standards and technical regulations, sanitary and phyto-sanitary measures, intellectual property rights, and issues related to trade in service.

8. Priority 4: Regional integration and cooperation

A new addition as a separate priority in the VPOA, this section reports the progress made in promotion of regional integration in regional trade of various sectors and harmonization of policies to strengthen regional relations, competitiveness and value chain. Nepal has signed trade agreement with 17 countries including the United States, United Kingdom, Yugoslavia, India, Russia, South Korea, North Korea, Egypt, Bangladesh, Sri Lanka, Bulgaria, China, Czech Republic, Pakistan, Romania, Mongolia, and Poland. Of these countries, it has a trade and transit with 3 countries- India, Bangladesh and, most recently, China, which gives the country bilateral, regional and global market access. It is part of three Regional Trade Agreements (RTAs), South Asian Preferential Trade Agreement (SAPTA), South Asian Free Trade Agreement (SAFTA) and the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement (FTA).

The Fourth BIMSTEC Summit was held in Kathmandu, Nepal on 30th and 31st August 2018. The Summit released the Kathmandu Declaration which recognized special needs and circumstances of LDCs and LLDCs and highlighted the importance of multidimensional connectivity. The Summit agreed to expedite the process of concluding the BIMSTEC Coastal Shipping Agreement and the BIMSTEC Motor Vehicle Agreement. The member countries also agreed to enhance cooperation for development, access and sharing of affordable technologies – including for Micro, Small and Medium Enterprises for promoting sustainable development across sectors.

Similarly, Nepal has preferential trade agreement with India, which is reviewed every year and renewed periodically. India also provides duty free, market access for selected products and an open border access into the country. China provides zero-tariff access to 8030 export items as per the Letter of Exchange (LOE) between the two countries. The country also has a Bilateral Investment Promotion and Protection Agreement (BIPPA) with six countries namely, France, Germany, Britain, Mauritius, Qatar and Finland. These countries almost account for 44 percent of foreign investment in Nepal. A Double Tax Avoidance Agreement (DTAA) was also signed with ten countries. Several of Nepal's products also get preferential market access to developed countries under the Generalized System of Preferences (GSP). The European

Union (EU) has offered duty-free, quota-free market access to all export items under the ‘Everything but Arms’ (EBA) initiative. Nepal also signed Trade and Investment Framework Agreement (TIFA) with USA in April 2011. As Nepal is one of the founding members of South Asian Association for Regional Cooperation (SAARC), the country actively participates in the South Asian Free Trade Agreement (SAFTA) and the South Asia Trade Agreement in Services (SATIS). Nepal is also a participant as an observer in the Asia Pacific Trade Agreement (APTA) and signed an MOU in May 2017 for the framework agreement to join China’s ‘Belt and Road Initiatives’ (BRI). Of the country’s total trade, 78.3% is accounted for trade within the region.

9. Priority 5: Structural economic transformation

This section assesses the progress made in regard to structural economic transformation. Details covered in this section show the efforts in the area of economic diversification. The economy has been slowly moving away from a dominantly agricultural based economy to other sectors as well. The contribution of the agriculture sector to the GDP has been on a decline from 33.1% in 2014 to 27.6% at the current stage, while the contribution of the non-agricultural sector has been increasing from 66.9% in 2014 to 72.40%. The government has targeted to double the agriculture production in the next 5 years through modernization, diversification, commercialization and marketing. Moreover, the contribution of the service sector within the non-agricultural sector has been on the rise delivering Rs. 408 billion in 2017. Service sector has the largest contribution to the GDP which is equivalent to 57.6% as of 2017/18, with wholesale and retail trade as its main contributors at 13.3% of GDP, followed by real estate at 11.4%, transport storage and communications at 8%, education at 7.2%, health and social services at 6.6%, and financial intermediation at 6.3%. In the year 2013/14 manufacturing accounted for 6.4% of the GDP and declined to 5.4% in 2017. Several factors attributed for this decline such as inadequate investment, low labour productivity, high transport cost, decline in production due to power shortage, and poor labour-employer relations. However, the manufacturing sector has great potential as 6328 companies were registered by March 2016 and 41% of those belonged to the manufacturing sector. With the new federal system in place, the political stability has also contributed and encouraged the manufacturing sector towards a positive direction.

Tourism is one of the priority sectors in the Nepal’s economy. The contribution of tourism to the GDP is estimated to be at 4%for 2017. Tourism accounts for over 45 percent of the service exports, whereas BPO and IT sector, audio-visual products, music products and mode 4 skill labour are other potential growth sectors for services exports, according to a UNCTAD study released last year. There has been an increase in the number of incoming international tourists from 790,118 in 2014 to 940,218 in 2017. This sector accounts for almost 3.2% of total employment of the country and there’s a target set by the National Tourism Strategic Plan to create 898,000 employments by 2025 with the target of 2,522,000 tourist visits and an average stay of 15 days. The Plan also has a target to encourage tourist spending of $90 per day per tourist, achieve foreign exchange earnings from the sector to NRs 340 billion, and achieve the sector’s contribution to Nepal’s GDP to 9.3%. The government has signed separate MOUs with India and Pakistan for tourism facilitation and is in the process of signing similar MOUs with Sri Lanka, Thailand and Oman. Moreover, a promotional plan for tourism in the form of ‘Visit Nepal Year 2020’ has been announced recently.

To encourage structural transformation through the effective utilization of human resources, the Government has initiated the Prime Minister Employment Program to create more employment opportunities within the country. This program is being connected to commercial agriculture, irrigation, drinking water, river control, forest, tourism, transport infrastructure and other public construction sectors that are executed by three levels of the government.

10. Priority 6: Means of Implementation

An assessment of the means of implementation is important to ensure that Nepal meets SDG goals and also mobilizes resources to achieve VPoA priorities. According to a report published by the National Planning Commission on the status and roadmap for achieving SDGs, the preliminary estimate of the annual investment requirement for the entire SDG period, 2016-2030 ranges between 42 to 54 percent of GDP. The average requirement is estimated to be about NRs 1770 billion per year, or nearly 49 percent of GDP over the entire duration of the SDGs. This scale of investment shows that Nepal needs to mobilize all national and international sources, both public and private. In particular, Nepal requires large investments to develop its infrastructure. As the public resources are already over-stressed, it is important that external resources as well as FDI need to be channelled to unlock the constraints and promote industrialization and economic growth.

The primary responsibility to achieve the SDGs as well as address VPoA priorities rests with the Government. This requires that the Government scale up its investment and develop its capabilities, including human resources, for effective mobilization of investment. Domestic resource mobilization is an important indicator of this section. The partnership between the public sector and private sector is a mode of implementation to utilize domestic resources. The Gross Domestic Savings (GDS) did not see an improvement, reported as 10.9% in 2014 to 10.3% in FY 2016/17. However, there was an increase in Gross Domestic Investment (GDI), measured by gross capital formation. GDI was recorded (percentage of GDP) at 7.3% for the government and 26.5% for the private sector in FY 2016/17. The gross fixed capital formation also increased from 41% in 2014 to 43% in FY 2016/17.

Nepal has received support from various development partners through a broader framework of Aid for Trade (AfT) and the Enhance Integrated Framework (EIF) under the WTO framework. Line ministries have mobilized sectoral priorities for trade promotion to enhance capacity building of trade within the government and the private sector to build trade related infrastructure, address supply side constraints and overcome challenges arising from non-tariff measures. Latest reports show that the inflow of AfT was recorded at USD 400 million of which the highest contribution went to the transport sector totalling USD 87 million and the second highest contribution to the energy sector at USD 73 million.

The Official Development Assistance (ODA) which was USD 1074.06 million in FY 2015/16 reached USD 1394.6 million in FY 2016/17. Even though the GDP has increased over the past few years, the volume of ODA inflow has not decreased. The number of foreign aided projects increased from 369 in FY 2015/16 to 436 in 2016/17. On an average, each development partner (DP) is engaged with 9 different counterpart ministries/agencies. In addition, two-thirds of the ODA received came from India and China.

The top 5 multilateral DPs by disbursement for FY 2016/17 were: World Bank, Asian Development Bank, UN Country team, European Union and IFAD. The top 5 bilateral DPs for the same period were: USAID, United Kingdom, Japan, India and China. It is important to enhance aid utilization capacity while parallelly increasing the size of ODA so that it can prioritize VPoA agendas with greater focus. Within the SDG framework, developed countries need to fully implement their ODA commitments, including giving 0.7 percent of GNI as ODA to developing countries of which 0.15 to 0.20 percent should be provided to LDCs. In the case of Nepal, estimates show that the amount of ODA will have to double from the current levels for Nepal to meet the SDG goals by 2030.

The main guiding policy to mobilize foreign assistance in Nepal is the Development Cooperation Policy 2014. A high-level Development Cooperation Policy Implementation Committee has been formed with the Finance Minister as the Chairperson to implement this policy. The main objectives of this policy are to: mobilize external resources to achieve development goals stated in the periodic plans, ensure effective utilization of development cooperation, achieve development effectiveness by achieving 'best value for money', and reduce dependency on foreign aid to become a self-reliant economy.

Nepal treats FDI as an important complement for national capital formation. FDI was at an all-time high in FY 2016/17 at about USD 13.5 billion, showing a tremendous increase from 2013/14 that saw an FDI inflow of about USD 3.2 billion. The main sectors receiving FDI are energy, manufacturing, services, tourism and construction. Nepal implemented the Foreign Investment Policy 2015, which replaced the Foreign Investment and One Window Policy of 1992. It aims to make the national economy more competitive and dynamic by attracting foreign capital, technology, skill and knowledge and balancing Nepal's external trade. The policy has defined the foreign capital investment in the form of share investment, equity investment, and technology transfer including the licensing, franchising, assigning and knowledge sharing as act of technology transfer. The foreign investors are also classified as institutional investors, individual investors and non-resident Nepali (NRN) investors. To attract foreign investment to boost the economy, the government has constituted an Investment Board headed by the Prime Minister with the objective to facilitate investments in the high potential sectors in Nepal. Realizing the importance of foreign direct investment as well as technology and skill transfer, Nepal organized Investment Summit in 2017 which was attended by more than 250 institutional and individual investors from 23 countries who have made pledges in total investment intent worth USD 13.7 billion.

The government recognizes the private sector as the main driver of economic growth. Therefore, it aims to increase their investment to create jobs and increase growth by creating an investment friendly business environment, flexible labour laws, investment in infrastructure in its periodic plans, which is included in the latest 14th Plan. As the government considers the private sector as a partner of development, it will create an investment friendly environment and supply of public goods to attract private sector investment. The private sector is encouraged to co-finance selected projects through PPPs. Mechanisms like the Nepal Business Forum are encouraged to continue interaction between the government and private sector. The overall private sector investment constituted 22.79% of the GDP in FY 2014/15 and grew to 26.52% in FY 2016/17. Additional efforts made to involve private sector in the implementation of VPoA is through PPP in several public sectors that are in need of financial and managerial assistance. Technology and skill transfer through PPPs helps improve competitiveness in sectors such as energy, and telecommunication. Private sector representatives are also consulted while making policies and regulations by the government. The Government has focused on the Build-Own-Operate-Transfer (BOOT) model to finance large and small investments for infrastructure financing. Huge investments have come through this model in the hydropower sector. However, this model is yet to take shape in other sectors including transportation and industries.

In terms of bilateral and regional cooperation, mechanisms like the North-South, South-South, and Triangular Cooperation is being utilized for experience sharing and cooperation. Regional mechanisms like SAARC, BBIN, BIMSTEC, UNESCAP and Colombo plan are being pursued for assistance to enhance cooperation. The operationalization of LLDC Think Tank and the LDC Technology Bank in the recent years has enhanced scope for partnering and receiving relevant cooperation.

Nepal also has ties with several developing countries through bilateral agreements, with two of the main partners being India and China. China's 'Belt and Road Initiative (BRI)' is also significant for sustainable development and growth. Even though China and India are Nepal's biggest donors, they are not formally in the International Development Partners' Group or in the Local Donors' Meetings, where traditional donors and aid providers interact with the government. China and India rather use the phrase "South-South solidarity" or "neighbourly cooperation" for such cooperation.

11. Monitoring of implementation and review

As discussed earlier in the report, VPoA priorities and SDGs have been mainstreamed into national plans, policies and programmes. The NPC has taken the lead in continuously working with line ministries, provincial and local governments, external development partners and other stakeholders to implement and monitor these plans and programmes. In 2017, the NPC published a baseline report of the SDGs. Nepal was one of the early countries to prepare a National Report on SDGs. The Report has been useful in embedding SDGs into Nepal's 14th Plan which started from FY 2016/17 and subsequent budget and annual programs. Nepal was also one of the first countries to develop SDGs indicators. Nepal began the dissemination of the SDGs with the national stakeholders quite early and subsequently the Government has been able to forge strong partnerships with non-state actors (including the private sector, NGOs, co-operatives) on SDGs implementation. The NPC has come up with Evaluation Action Plan (2016-20) to enhance the national evaluation capacity and better target SDGs. Despite these efforts, there are still room for improvements in terms of monitoring the implementation of VPoA priorities in a targeted manner.

12. Conclusion and way forward

Nepal's status report of the implementation of VPoA shows that since the last assessment made for APoA, Nepal's economy has gone through many challenges, including the devastating earthquakes in 2015, subsequent serious disruption of supplies at the southern border points, and a transformation into a federal system of government. However, the report reveals the resilience of Nepal's economy with high economic growth rates in recent years and socio-political achievements. The report's assessment clearly shows the mainstreaming of VPoA priority areas into Nepal's development plans, policies, programmes, and strategies. A considerable amount of focus has been given to the new set of priorities, in particular the development of transport, energy and ICT infrastructure for trade and transit facilitation.

Despite positive developments, Nepal continues to face various constraints. Other than being landlocked, Nepal has a difficult terrain caused by the geophysical features such as mountains and hills that significantly add to the cost of developing infrastructure. Increasing trade deficit and limited trade diversification, both in terms of destination countries and products, has been another key challenge. Moreover, Nepal has not managed to utilize its full potential for exporting different categories of products, especially agriculture goods, where the country has to ability to become self-sufficient and utilizing the concessional market access provided by many trading partners. The assistance received from Aid for Trade (AfT) and other DPs, in particular, to develop hard part related to trade can be further enhanced. Additionally, efforts must be made to properly implement all bilateral, multilateral and regional agreements with external partners. Many policies under these treaties are in formulation stage. Measures must be taken to standardize, simplify and harmonize transactions between the countries to reduce time and cost of trade procedures.

Moreover, there are challenges regarding Nepal's possible graduation from the LDC status and loss of market access. Consideration on Nepal's graduation from the LDC status is deferred for now until 2021 on two basic premises: to see Nepal's performance under the new political climate and assess sustainability of the development progress over the past few years. If Nepal is found eligible for graduation again and recommended as such in 2021, all LDC-specific supports measures, particularly DFQF market access and AfT, will gradually phase out. This may not impact within the remainder of the VPOA but it holds special significance.

Even though there are several constraints Nepal needs to overcome, it is very optimistic about the opportunities that lie ahead. Nepal aspires to become an inclusive, equitable, and prosperous country by 2030 with the spirit of a welfare state. The political transition into a federal system and promulgation of the Constitution in 2015 favours a positive business environment. Consequently, several acts and regulations have been designed to promote business and trade in the country. The analysis of the past few years shows that the Government of Nepal is committed to an open and liberal economy and it's needless to say that the trade and investment policies in practice guarantee the protection of every foreign business. The biggest opportunity the government has set for itself is the strong support for rules-based trading system. In the days ahead, Nepal needs to take special measures to fully implement the VPoA. This could potentially include but may not be limited to: creating a national mechanism to further accelerate the implementation including by a better coordination among the relevant government agencies; continuation of mainstreaming the priorities in the new development plan taking initiatives at the regional (SAARC and BIMSTEC) level, etc.

Various reforms carried out since the adoption of VPoA provide lessons as well as good practices to address challenges associated with LLDCs. As such there are several key areas that could be included in the development of the outcome document of the Midterm Review. At the national level, focusing efforts on the development of transport, energy and ICT infrastructure can be path-breaking. A high degree of political commitment and encouragement to the private sector are fundamental prerequisites as is evident in the case of Nepal. At the regional level, strengthening of bilateral and regional cooperation in a harmonized way, recognizing of the problem of increasing trade deficit and efforts to address it, and increasing connectivity through cooperation in the areas of transport, energy and ICT are important.

At the global level, more needs to be done to in the area of South-South cooperation. For example: Nepal and other LLDCs need to fully utilize the work of the newly established International Think Tank for LLDCs in Mongolia. The main objective of the Think Tank is to "use top-quality research and advocacy to improve the ability of LLDCs to build capacity with a view to benefiting from international trade". It also seeks to enhancing competitiveness and economic diversification which are extremely important for Nepal and other LLDCs. Finally, LLDCs like Nepal still face resource constraints to develop their infrastructure and cooperation from DPs is extremely important to ensure that LLDCs have the necessary capability to overcome challenges and transform them into innovative opportunities.

The VPoA mentions specific actions from LLDCs, their transit countries and development partners and international organizations to fully implement to realize all the priorities and associated goals. The commitments from the transit countries and development partners are critical in supporting LLDCs in their efforts towards achieving the goals of the VPoA. In this regard, it is extremely important to realize all the commitments made by the transit countries and development partners, and also launch concrete and specific global initiatives to accelerate implementation of VPoA. The VPoA programme is ambitious and the LLDCs, including Nepal, have clearly showed their commitment to it. However, in the days ahead, it is important to create focused and well-resourced programmes to ensure that LLDCs are able to prioritize VPoA and successfully address its priorities in the face of competing demands within the country. Nepal has been successful in addressing the priorities of VPoA because it already has these priorities as part of national plans or reflected in the mainstreaming of SDGs. However, what would be more effective is mobilization of adequate resources form the development partner for successfully implementing VPoA. Equally important is localizing VPoA priorities to ensure that they are reflected in the priorities of local government. This is particularly pertinent to a country like Nepal that has recently undergone reform in its government system.

ACRONYM

AfT	: Aid for Trade
APoA	: Almaty Program of Action
APTA	: Asia Pacific Trade Agreement
ASYCUDA	: Automated System for Customs Data
BIPPA	: Bilateral Investment Promotion and Protection Agreement
BIMSTEC	: Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BPO	: Business Process Outsourcing
BRI	: Belt and Road Initiative
CRMSAP	: Customs Reform and Modernization Strategies and Aciton Plan
DPs	: Development Partners
DFTQC	: Department of Food Technology and Quality Control
DTAA	: Double Tax Avoidance Agreement
EIF	: Enhanced Integrated Framework
e-GP	: Electronic Government Procurement
FDI	: Foreign Direct Investment
FTA	: Free Trade Agreement
FY	: Fiscal Year
GDP	: Gross Domestic Product
GoN	: Government of Nepal
IBN	: Investment Board Nepal
ICT	: Information and Communication Technology
IGC	: Inter Governmental Committee
IGSC	: Inter Governmental Sub-Committee
IPoA	: Istanbul Plan of Action
kWh	: Kilowatt Hour
LDCs	: Least Developed Countries
LLDCs	: Landlocked Least Developed Countries
MDGs	: Millennium Development Goals
MoICS	: Ministry of Industry, Commerce and Supplies
MoU	: Memorandum of Understanding
MTS	: Multilateral Trading System
MVA	: Motor Vehicle Agreement
NEA	: Nepal Electricity Authority
NPC	: National Planning Comission
NRs	: Nepalese Rupees
NTIP	: Nepal Trade Information Portal
NTIS	: Nepal Trade Integrated Strategy
NTTFC	: Nepal Trade and Transit Facilitation Committee
ODA	: Official Development Assistance
PDA	: Project Development Agreement

PPP	: Public Private Partnership
PTA	: Power Trade Agreement
RKC	: Revised Kyoto Convention
SAARC	: South Asian Association for Regional Cooperation
SAFTA	: South Asian Free Trade Area
SAPTA	: SAARC Preferential Trading Arrangement
SATIS	: SAARC Agreement on Trade in Services
SDG	: Sustainable Development Goals
SEZ	: Special Economic Zone
SFDRR	: Sendia Framework for Disaster Risk Reduction
SME	: Small and Medium Enterprises
SPS	: Sanitary and Phytosanitary
TEPC	: Trade and Economic Promotion Centre
TFA	: Trade Facilitation Agreement
TSMP	: Transmission System Master Plan
TTA	: Transit Transport Agreement
UNCTAD	: United Nations Conference on Trade and Development
USD	: United States Dollars
VPoA	: Vienna Prgoram of Action
WTO	: World Trade Organization