Footwear

Sectoral Analysis: Nepal

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Executive Summary

Nepal's footwear industry is small but growing, and has been identified as a priority export sector by the government. At present, the total domestic footwear industry is estimated to be worth about NPR 30 billion (US$278.1 million) annually and growing at a rate of roughly 20 percent a year. The industry employs an estimated 50,000 workers along the value chain, 30 percent of whom are women. The footwear sector is one of the craft and manufacturing sectors identified as a priority sector for export competitiveness under the National Trade Integration Strategy (NTIS) 2016.

Nepal's presence in footwear exports is very small. Nepal's footwear industry is a relatively small export industry, accounting for just 1.5 percent of the country's total exports in 2017. Total footwear exports by value were just US$11.1 million in 2017. Nepal is not a significant player in the global footwear value chain. The country's total HS 64 exports—one of the key export products globally—accounted for less than one-hundredth of 1 percent of the global footwear market by value in 2017. Export revenues have nearly halved since topping over US$20 million in 2013-14. Just one firm accounts for almost all the exports of this industry, and most exports go to India. Most Nepali footwear producers—modern manufacturers, semi-mechanized manufacturers and artisans—are not currently competitive in domestic, regional or global markets.

Similar to other light manufacturing sectors, Nepal's wage advantage in footwear is offset by its low firm-level productivity. Despite having a huge low-wage advantage (minimum wage of US$90 compared with US$138 in Bangladesh and US$239 in Vietnam), the footwear sector has not registered any significant export growth or foreign direct investment (FDI). Nepal's domestic footwear industry is characterized by low productivity, weak managerial skills, and small-scale, and non-exporting manufacturers struggling to compete against imported footwear. Unless productivity improves substantially, competition from other low-wage countries with higher productivity and larger economies of scale will likely dilute Nepal's competitiveness over time.

There are several economy-wide cross-cutting constraints that limit the competitiveness of light manufacturing industry, such as footwear. In general, the constraints on, and recommendations for, trade competitiveness in the footwear sector in Nepal can be extended to other light manufacturing industries. The key constraints relate to basic infrastructure (roads and electricity), access to land and finance, and the low availability of basic and managerial skills. Nepal's restrictive investment climate is a constraint that limits interest from foreign manufacturers in investing in Nepal. An inward-focused industrial policy will not help Nepal to introduce the competition necessary to create a healthy and more competitive industry. Trade policy needs to focus on reducing barriers to trade to deepen integration into these regional value chains: reducing tariffs to intermediate inputs, and adjusting export incentive schemes to be more accessible to young and small firms.

Most Nepali footwear producers are not positioned for growth. Most firms have poor bookkeeping and a lack of accounting. Production facilities are ill-suited for manufacturing and distribution, and conditions in many factories are poor, sometimes dangerous. Improving organizational and management practices are a critical first step in boosting efficiency and overall productivity.

Nepali footwear manufacturers need to start by improving basic organizational and management skills. There is a dearth of industry-ready education and skills, and an unavailability of trained manpower that impedes investment from both domestic and foreign companies in these sectors. It is pertinent to focus on basic requirements such as education and skills development to increase the pool of skilled manpower in the country across sectors. Developing capabilities in Nepal's small and medium-sized footwear manufacturers requires investment in improving managerial skills, upgrading quality standards, and modernizing production facilities to become safer and more efficient.

The Government of Nepal can help the domestic footwear industry by providing a vibrant trade policy to allow for deeper integration into regional value chains, opening up opportunities for FDI, and substantially improving the investment climate.

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Acronyms

CISE	Cash Incentive for Exports scheme
CTEVT	Council for Technical Education and Vocational Training
DOC	Department of Customs
DOE	Department of Education
DOI	Department of Industry
DOP	Dioctyl Phthalate
DSCI	Department of Small and Cottage Industries
FDI	Foreign Direct Investment
FMAN	Footwear Manufacturer's Association of Nepal
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GoN	Government of Nepal
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IPRs	Intellectual Property Rights
ISO	International Organization for Standardization
LFGMAN	Leather Footwear and Goods Manufacturer's Association of Nepal
MOICS	Ministry of Industry, Commerce, and Supplies
MOEST	Ministry of Education, Science, and Technology
MOF	Ministry of Finance
MOLE	Ministry of Labour and Employment
NABCB	National Accreditation Board for Certifying Bodies
NBSM	Nepal Bureau of Standards and Metrology
NRB	Nepal Rastra Bank
NPR	Nepali Rupee
NTIS	National Trade Integration Strategy
OHS	Occupational Health and Safety
PVC	Polyvinyl Chloride
PU	Poly Urethane
TPU	Thermoplastic Urethane
TRP	Thermoplastic Rubber Product

1. Global Footwear Industry Overview

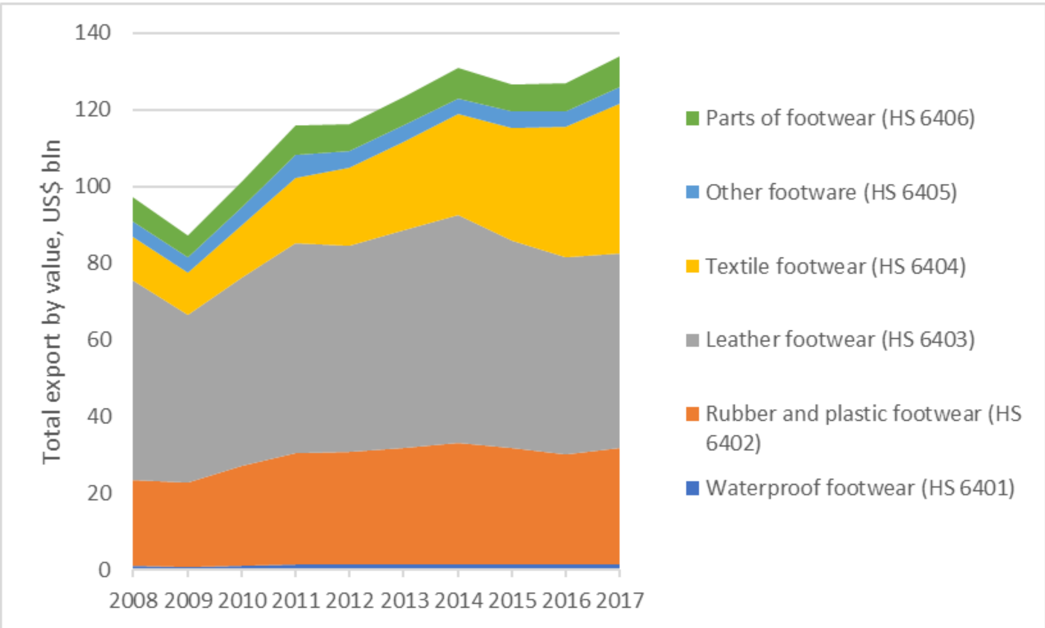
Global Overview

Global footwear exports are driven largely by European demand, accounting for over 40 percent of the market, and mainly served by countries with large-scale production capacities such as China and Vietnam. The global export market is large but it is difficult for new entrants to break into. Future opportunities to enter footwear GVCs will likely become even more challenging due to trends in technology, trade and clustering of production.

Supply

Total exports of all footwear, including 'footwear parts,' are estimated to be US$142.5 billion in 2017.[1] This marks a notable turnaround, with exports jumping 9.3 percent from 2016. Exports had been slumping globally since reaching a peak in 2014, but the experience has been heterogenous by product.

Figure 1: Total footwear exports (including parts) by value, US$ billion, 2008-17



Source: ITC Trade Map; total estimates based on reporting and non-reporting countries (mirror data).

Global footwear production is also characterized by the clustering of manufacturing. Table 1 shows exports of footwear, a market dominated by Chinese exports. Here, Vietnam and Indonesia have not had the same degree of success in attracting and establishing exporters. Italy's long-held position in leather and textile footwear is in part a reflection of the clustering of highly skilled shoemakers. Brands will seek out production from these clusters based on reputation—whether for expert craftsmanship, low-cost production, or other demonstrated expertise.

[1] Based on ITC TradeMap aggregate estimate of reporting and non-reporting countries.

Table 1: Top 5 exporters of HS 640419 - Footwear with outer soles of rubber or plastics and uppers of textile materials, 2016

Exporter	Export share, by value	Total exports, by value (US mln)	Export share, by volume	Total exports, by volume (pairs)
China	57.97%	$ 11,597.32	62.20%	1,368,934,629
Vietnam	11.70%	$ 2,341.15	8.44%	185,692,281
Italy	3.13%	$ 626.16	0.90%	19,838,693
Indonesia	2.89%	$ 577.80	3.10%	68,203,164
Germany	2.51%	$ 501.82	2.69%	59,234,473

Source: UN COMTRADE.

Demand

Demand in the European Union (EU 28) drives international trade, accounting for 44.2 percent of total imports by volume in 2017.[2] The world's top import destinations mostly rely on the same three major exporters—China, Italy, and Vietnam, with Indonesia becoming the fourth major trade partner for large importers. Intra-European demand has shown strong growth. Expectations of a continuous rise in demand for footwear are attributed to a confluence of global trends, namely population growth, the expansion of the global middle class, larger disposable incomes, and the global spread of fashion via entertainment and social media.

Major Trends and the Future of Footwear

The potential for developing countries to integrate into footwear global value chains (GVCs) and leverage them to create pro-poor growth is likely to become far more challenging

going forward. The trade patterns of the past 20 years are unlikely to persist in their current form. Expansion of GVCs has slowed with the global trade slowdown. Automation and disruptive technologies could also change the structure of the global industry. In advanced economies, value chains are being reshaped by e-commerce and social media. The global footwear industry is constantly evolving, with innovation a core function of major brands.

[2] Calculation based on UN COMTRADE and ITC statistics, with world aggregation represented by the sum of reporting and non-reporting countries.

2. Nepal Footwear Industry Overview

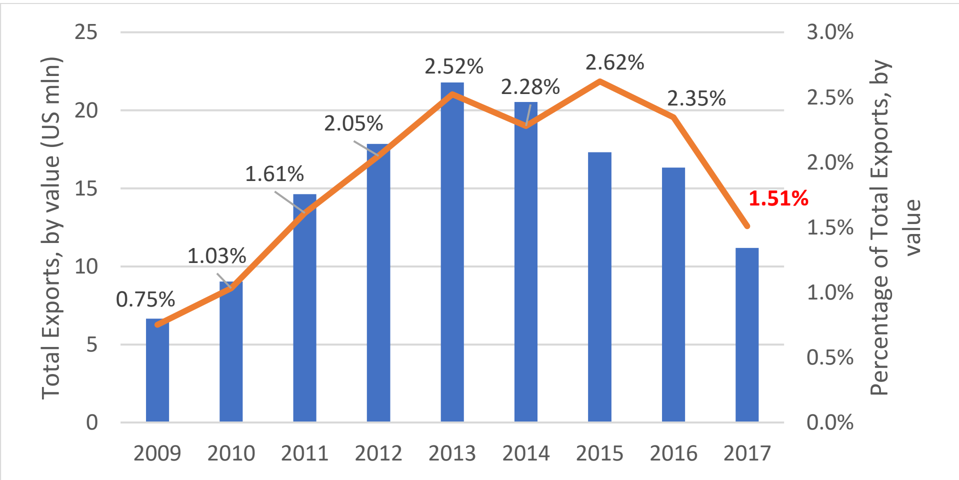
2.1. Trade Performance and Competitiveness Benchmarking

The footwear sector is primarily a domestic industry with domestic sales estimated at NPR 30 billion (US$278.1 million) annually and growing at a rate of roughly 20 percent a year, according to media reports based on information provided by the Footwear Manufacturer's Association of Nepal (FMAN) (Kathmandu Post 2017). It employs an estimated 50,000 workers along the value chain, despite anecdotal evidence suggesting a sharp contraction in total employment over the past three years (GIZ 2017).

The average Nepali citizen purchases 2.7 pairs of shoes a year, according to market research conducted by FMAN (Kathmandu Post 2017). Industry associations and manufacturers report that the popularity of local brands is rising but most consumers still aspire to own recognized international brand-name shoes, especially in the sports and casual shoe segment.

Exports are, however, very small, accounting for just US$11.1 million and 1.5 percent of the country's total exports in 2017. It is not a significant player in global footwear value chains. The country's total HS 64 exports accounted for less than one-hundredth of 1 percent of the global footwear market by value in 2017. Export revenues have nearly halved since topping over US$20 million in 2013 and 2014 (Figure 2).

Figure 2: Nepal's export performance in the footwear sector, 2009-17



Source: World Bank staff calculations using ITC TradeMap data.

Output has bounced back, with reported footwear exports by volume increasing sharply in 2017, despite a fall in overall export value. Nepal's footwear exports are highly concentrated in one product, namely footwear with textile uppers, excluding sports shoes. This type of shoe represented 16.7 percent of global footwear exports by value in 2017, but represented 96.0 percent of Nepal's total footwear exports.

Practically all of Nepal's formal exports can be attributed to Kiran Shoes Manufacturer, the producer of the 'GoldStar' brand. According to multiple sources interviewed for this report, Kiran Shoes accounts for between 90 and 99 percent of Nepal's annual exports. Until three years ago, Kiran Shoes had focused almost entirely on exporting to India.

Competition in the footwear manufacturing industry is intensifying in South and Southeast Asia, as countries seek to capitalize on production slowly shifting out of China. Nepal is in direct competition with relatively new entrants to the market, such as Lao PDR, Myanmar and Sri Lanka, as well as more established producers seeking to expand, such as Cambodia, India, Indonesia and Vietnam. As the World Bank Group's (WBG) 2018 Global Investment Competitiveness Report points out, low-cost labor is not in itself sufficient to attract investment. The Government of Nepal (GoN) will need to demonstrate stability and a commitment to reform, and facilitate a better investment climate, if it is to become more competitive in relation to regional peers.

Global brands known for outdoor and adventure equipment have established a presence in Nepal, but have not invested in manufacturing. Domestic lead firms are beginning to hire more women in production and administrative roles. Domestic brands are beginning to invest more time and resources in brand-building and e-commerce via social media platforms.

2.2. Major Features of the Sector and Firms in Nepal

2.2.1. *Low Wages*

Nepal's low wages are commonly overstressed as the country's comparative advantage in footwear manufacturing, and light manufacturing more broadly, but this has not resulted in attracting significant investment into the industry. A low-cost labor advantage is not sufficient for competitiveness in footwear manufacturing, as shown in Table 2.

Table 2: Minimum wage and footwear export performance, select countries

Country	Minimum wage (US$)	Year	Footwear export value growth, 2013-17 (%)
Bangladesh	138	2017	16
Cambodia	170	2018	16
China	847	2016	-3
Ethiopia	38	2013	1
Kyrgyzstan	195	2016	-3
Lao PDR	108	2015	8
Pakistan	142	2016	-5
Philippines	239	2017	1
Sri Lanka	63	2016	3
Vietnam	236	2017	14
Nepal	**90**	**2017**	**-5**

Source: World Bank staff calculations based on ILOSTAT,[3] various media sources.

2.2.2. *Types of Firms*

An estimated 1,500 manufacturers and non-mechanized producers operate in Nepal (GIZ 2017). Making a distinction between those that are industrial-scale manufacturers and those that are non-

[3] http://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page3.jspx?MBI_ID=435

mechanized footwear producers (i.e., hand-made production processes) is important in this context. Very few manufacturers, in the true sense of the word, exist in Nepal.

Input suppliers and backward linkages

Not being a large market, the number of domestic input suppliers is few. When manufacturers do import parts necessary for footwear production, import tariffs increase costs by as much as 16.6 percent.[4] Imported intermediates come predominantly from China and India.

Cottage industries and micro-enterprises

Of the estimated 1,500 footwear producers in Nepal, roughly 85 percent are single individuals who can be classified as a cottage industry or micro-enterprise (FMAN 2017). These individuals produce by hand an estimated 10 percent of footwear on the domestic market, equivalent to 3 million pairs (EPI 2017). These are mostly traditional decorative slippers, leather shoes and shoes made with natural fibers or felt (Searce Insights Research 2017). Many individuals are involved in the production of hand-made traditional footwear, often used in local festivals and cultural activities. Most micro-enterprise shoemakers produce low-quality, low-price leather shoes, almost entirely made by hand.

Small and medium-sized firms

An estimated 220 to 350 firms have the capacity to produce over 100 shoes a day, with just 15 domestic footwear producers with the capacity to produce over 500 pairs a day.

Large manufacturers/brands

Six producers have production capacity of over 10,000 pairs a day (EPI 2017)**, but much of this capacity is underutilized or idle for long periods.** Large firms are generally able to hire skilled workers from outside the country (e.g., India) to help improve productivity. Estimates are as high as 30 percent of skilled workers coming from India to work in the sector (Searce Insights Research 2017).

Retailers

Commercial areas in Nepal's cities and towns are full of footwear retail shops. Most of these shops sell a combination of Chinese, Indian and Nepali footwear, sourced from Kathmandu-based wholesalers. Replicas and pirated footwear are commonplace. Many of these retailers benefit from under-invoiced and under-valued footwear imports and sales, helping to reduce their purchasing price and tax responsibilities.

Authorized importers/distributors

Nepali import companies have signed authorized distribution agreements with major global brands, such as Adidas, North Face and Reebok. These include Chinese and Indian brands, although the number of authorized importers tends to be higher for these brands. Many of these agreements have only been reached in the past few years.

2.2.3. Major Actors

Box 1: Major actors in the domestic value chain and related regulatory agencies

Associations

Footwear Manufacturers Association of Nepal (FMAN)

Membership includes most of the largest footwear producers in the country. FMAN is actively engaged in advocacy in the policy sphere, working in coordination with the Federation of Nepalese Chambers of

[4] This figure is based on Nepal customs data for fiscal year 2072-2073 (2015/16).

Commerce and Industry (FNCCI). The association has proposed and received initial approval from relevant GoN authorities for the development of a footwear industrial zone/park.

Federation of Nepalese Chambers of Commerce and Industries (FNCCI)
FNCCI is the nationally and internationally recognized umbrella organization of the private sector in Nepal. Focused on promoting socioeconomic development through private sector-led economic growth, FNCCI's website claims the organization has 1,105 members, 880 of which are businesses.[5]

Federation of Handicrafts Association of Nepal (FHAN)
FHAN was established in 1972 to enhance and promote handicraft trade and industries. A non-profit organization of private sector businesses and artisans, FHAN aims to help its members improve productivity and explore new markets, as well as serving as a liaison between members and the GoN and NGOs.

Leather Footwear and Goods Manufacturing Association of Nepal (LFGMAN)
Membership is mostly older, smaller Kathmandu-based producers of leather goods, including footwear. LFGMAN operates mostly in coordination with FHAN.

Felt Industries Association of Nepal (FIAN)
Smaller than the other associations, membership of FIAN includes mostly handicraft producers of felt goods, including a range of felt slippers.

Manufacturers

Kiran Shoes Manufacturers
The only large-scale exporter of footwear products from Nepal, Kiran Shoes produces the popular brand GoldStar and exports primarily to India, although it has recently begun exporting smaller volumes of shoes to new markets, including Australia and Malaysia, among others. It mostly produces shoes with uppers made of textiles (HS 640419) and targets lower-income consumers in India and Nepal. It is a member of FMAN.

Shikhar Shoes
The company began by only producing leather shoes, but has since invested heavily to produce a full range of footwear for men, women and children. It focuses on the domestic market. According to its website, Shikhar produces 1,500 pairs of shoes a day, with the capacity to manufacture 5,000.[6]

Magic Footwear
Magic Footwear manufactures a wide range of men's and women's shoes. It upgraded functionally in the early 2000s with investments in EVA injected molds and then again in 2010 with the establishment of a polyurethane (PU) footwear-making unit. Magic also owns and operates retail 'presence points.'[7]

Government

Ministry of Industry, Commerce, and Supplies (MoICS)
This ministry was recently formed by merging the Ministry of Commerce and Supplies with the Ministry of Industry. The former had included footwear as one potential sector for export promotion under the National Trade Integration Strategy (NTIS), and the MoICS is now the ministry responsible for implementation and monitoring of the NTIS. It is also responsible for special industrial zones and the proposed footwear processing zone near Kathmandu valley.

Department of Small and Cottage Industries (DSCI)

[5] Information based on http://www.fncci.org/introduction-25.html
[6] Information based on http://shikharshoe.com/about-us
[7] Information based on http://magicfootwear.com.np/about.html

DSCI is the primary regulatory body for the small and cottage industries and also responsible for providing training and support to the small and cottage industries, including training on how to produce traditional footwear.

Trade and Export Promotion Centre (TEPC)
The TEPC under the MoICS is responsible for export promotion and helps formulate sector-specific policy and strategy. It also supports firms by providing information on market potential and international regulations, as well as helping producers participate in trade fairs.

Centre for Technical Education and Vocational Training (CTEVT)
The CTEVT provides training to prospective workers and collaborates with DSCI to train individuals in small and cottage industries.

Development Partners

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
GIZ used to support the footwear value chain via technical assistance under the Nepal-Germany Trade Promotion Program. However, the program has now closed.

Source: World Bank staff (EPI 2017).

2.2.4. Age of Firms

Most of the small and medium-sized footwear producers in Nepal are family-owned firms, having started operations 30 to 40 years ago. Unlike high-income countries where start-up footwear brands started by young entrepreneurs are increasingly common, most individuals that venture into footwear production in Nepal are unorganized and often informal. There are a small number of newer entrants to the market, and these companies are leveraging e-commerce and social media channels to build their brands and drive sales (e.g., The Factory Team, Paila, Jivanas).

2.2.5. Locations

Seventy percent of footwear is produced in Kathmandu (Searce Insights Research 2017)**, almost entirely in inner city locations with poor transport/distribution networks**. Most of these facilities are not purpose-built, but rather converted residential or commercial buildings. They lack access roads, loading docks and the necessary space for organized line production and inventory storage. Business centers in the Terai, nearer the Indian border, also have some production—specifically leather goods in Biratnagar and Birgunj. Discussions of a new special economic zone (SEZ) and a footwear industrial zone/park with purpose-built infrastructure and facilities are ongoing, but nonetheless in their early stages.

2.2.6. Production

Total production is estimated to be between 30 and 40 million pairs of shoes a year. FMAN estimates total production of 43.9 million pairs of footwear (including sandals and slippers)[8] and a total capacity of more than 110 million pairs. These estimates, however, appear high considering the constraints on productivity, including the lack of modern machinery, high worker turnover and a high degree of informality. Footwear manufacturers also report an inability to meet domestic demand, which would suggest excess capacity would be utilized if feasible.

Labor practices and occupational safety and health (OSH) are neglected in most facilities. Manufacturers list a shortage of skilled labor and high labor turnover, in part due to out-migration of young men, as a major constraint on growth. However, working conditions are often very

[8] See (Kathmandu Post 2017).

uncomfortable, if not dangerous, in many footwear production facilities. Buildings are overcrowded, poorly maintained and not properly ventilated. In addition, anecdotal evidence suggests that employers work around labor laws or simply ignore them, often failing to provide legally mandated benefits, and occasionally failing to pay wages in a timely manner.

2.2.7. Level of Sophistication and Efficiency

Except for a handful of top performing companies, most of Nepal's footwear production can be characterized as unsophisticated, with low productivity and poor efficiency. Most SMEs in the sector suffer from poor management and producers do not demonstrate a strategic approach to business development that incorporates global industry dynamics. Producers also do not have a sophisticated understanding of the opportunities that exporting could offer. Better value-added services needed by the footwear industry could help to boost the competitiveness of domestic producers. Other critical services are either not offered on the domestic market or are not sufficiently utilized by domestic footwear producers.

2.2.8. Gender Dynamics

Of the estimated 50,000 workers in the footwear industry, 30 percent are women (GIZ 2017). Female employment in the industry is likely to increase in the near term, as women have proven to be faster to learn and more reliable than their male counterparts. Labor migration, especially among young men, is also a major issue in Nepal.

2.3. Government Strategy for the Sector and Regulatory Environment

The GoN has prioritized the development of the domestic footwear manufacturing industry, envisioning it as a driver of job creation and export diversification. The GoN added footwear as a priority industry in its 2016 NTIS, and specifically identified footwear with textile uppers (HS 6404), the same type of shoe that Kiran Shoes exports, as the priority product group. The NTIS aims to increase production and exports through nine short-term (2016-17) and two medium-term (2018-20) actions, including providing market access through trade fairs, training courses, rationalizing tariffs, value-chain development and other strategic initiatives for the sector. It also emphasizes establishing a research institute and common production facilities in the longer run.

Most of Nepal's participation in the global footwear industry can be characterized within one segment, namely the production of unbranded footwear in traditional business models based on seasonal demand forecasting. This is common in most developing countries with small manufacturing sectors and limited capabilities. Most footwear is hand-made and not truly 'manufactured' in a modern, mechanized sense. Thus, job creation in the production and assembly of footwear is relatively low. However, the industry does provide jobs to many other actors specialized in different tasks along this value chain. These include livestock production, tanneries, wholesale raw material/input importers, raw material producers, hand-made production of traditional footwear, light manufacturing of unbranded leather shoes and sneakers, wholesale importers of unbranded footwear, and retailers.

Many of these individuals or firms are unregistered with the GoN, or operate with a high degree of informality. Value-chain linkages are difficult to establish and strengthen in this segment, because there is limited need for information exchange and collaboration between actors. Competition boils down to price, which has a direct impact on quality. SMEs in this segment are often family-owned businesses and have limited exposure to international best practice in management or production. Importers and retailers are currently best placed to capture value in this segment in the Nepalese context.

3. Challenges to the Footwear Sector

Earlier sections of this report have touched on many of the current constraints on growth and competitiveness of Nepal's footwear sector. Most of the domestic producers interviewed for this report cited shared constraints: unfair competition from under-invoiced/under-valued imports; no access to finance or special treatment for the import/purchase of modern machinery; and a lack of available skilled manpower. These issues are a common refrain in most value-chain analyses (Lemma 2017, Searce Insights Research 2017, FMAN 2017, GIZ 2017). The Nepal Country Private Sector Diagnostic (CPSD, 2018) points to an additional set of constraints related to the investment climate. All of these constraints are difficult to alleviate in the near term but will need to be dealt with as part of a long-term strategy.

Key Constraints

Challenge	Description
Management skills	• Management/ownership unresponsive or slow to respond to buyers • Lack of invoicing and record-keeping • Lack of professional business training/education • Poorly trained administrative staff • Limited/no internet presence; poorly designed and outdated websites • Lack of medium- or long-term business plans/strategy
Production costs	• Import duties on intermediate inputs (HS 6404) increases costs by an average of 13.3 percent • Small scale reduces bargaining power, results in high cost of stocking inputs for MSMEs • Lack of affordable, quality inputs on domestic market, results in lack of variety of inputs and reliance on wholesale importers
Connectivity and logistics	• Delays when importing needed raw materials and intermediate inputs • Inability to deliver goods on time • Reliance on transshipment through India, exacerbated by non-tariff barriers and anti-competitive behavior at the Indian border and along the Kathmandu-Kolkata corridor • Reliance on Kolkata Port • Poor road and rail connectivity to China
Skills	• National training programs not developed for modern manufacturing • Lack of internationally competitive designers • Lack of globally experienced footwear technologists • Lack of globally experienced floor and line managers • Lack of quality control specialists • Difficulty in maintaining quality at large scale
Location and facilities	• Few purpose-built facilities • Non-availability of industrial space for establishing manufacturing facilities • Outdated and poorly maintained facilities • Lack of sufficient space for optimal line organization • Lack of sufficient space for inventory storage

Bureaucratic red tape	• Lack of coordination between GoN agencies (e.g., Department of Industry [DoI] and Nepal Rastra Bank [NRB])[9] • Lack of one-window services and reliance on paper documentation
Investment climate	• Poor implementation of investment climate/ease of doing business reforms • Weaknesses in transportation infrastructure and energy shortages • Reliance on India (primarily) for road/rail/sea access to international markets • Lack of clarity on repatriation of earnings, equal treatment, most favored nation treatment and provision against nationalization of foreign investments (Paudel and Tiwari 2018) • Poor IPR protections, lack of trademark market surveillance and enforcement • Nepali firms not allowed to create subsidiaries in foreign countries
Occupational safety	• Inadequate enforcement of occupational safety standards

[9] See also (Gabi G. Afram, 2012), (Paudel and Tiwari 2018).

4. Recommendations

Many of the constraints faced by the footwear industry in Nepal are also equally applicable to the light manufacturing industry and businesses in general. There are therefore benefits in addressing some cross-cutting constraints at the economy-wide level, as these are prerequisites for all economic activity. These include constraints such as basic infrastructure (roads and electricity), as well as access to land, finance and basic skills. Similarly, in some cases, firms' capabilities gaps can be addressed through firm-level support programs, which can cover multiple sectors while also being tailored to sector-specific needs where necessary. Low productivity, lack of infrastructure, and poor access to markets and finance, coupled with weak managerial capabilities, are holding back the footwear sector in Nepal. The issues related to poor occupational and safety standards and labor practices need to be addressed in the near term to create a conducive work environment and increase the attractiveness of the footwear industry for better job creation.

The following recommendations are offered with a vision to near-term results (within three to five years). Broad recommendations, for example improving road infrastructure in remote regions or improving access to finance, have been elaborated in other documents and thus are not repeated here. Many of these recommendations combine the lessons from the analysis conducted by this study with those from other recent more general analysis on barriers to economic growth in Nepal, discussed in greater detail in Narain and Varela (2017); Lemma (2017); Cosic, Dahal and Kitzmuller (2017); FMAN (2017), EPI (2017); GIZ (2017); and Pazzini, Reyes and Varela (2016).

Key Recommendations

Issue	**Low productivity and product development capabilities**
Action	• Introduce Technology extension programs to assist firms acquire global technology and management practices knowledge • Reduce work-in-process by improving line organization, order tracking and material movement management • Improve inventory control • Improve production scheduling • Jointly organize design workshops from international experts and R&D centers • Establish exchange programs with international universities or scholarship programs recognized for competence in industrial engineering, footwear technology, and product design
Responsible Agency	• Department of Industry (DoI) • FNCCI and industry associations • Development partners/donors • Industry associations • CTEVT • Ministry of Education, Science, and Technology (MoEST) • Universities and colleges

Issue	**Weak managerial capabilities**

Action	• Introduce managerial capacity building program/grants to help firms acquire managerial best practices • Design basic financial literacy training workshop and/or online learning tool, which could include tax-related information and training for larger firms ○ Could develop additional modules on how to comply with GSP rules of origin, i.e., through improved bookkeeping and management of input certifications • Consider developing multi-year certificate program that would offer producers periodic training, mentorship, and free computer software for basic record-keeping • Develop (and/or subsidize) management training courses for lead firms that meet a new set of criteria to qualify for technical assistance • Coordinate with local learning organization/academia to develop free language courses focused on business etiquette, networking, and negotiation • Develop behavioral training program for young entrepreneurs and pilot the program in local universities
Responsible Agency	• DoI • DSCI • TEPC • CTVET • Development partners • FNCCI and industry associations • Trade attachés at foreign embassies

Issue	**Poor occupational safety practices and standards**
Action	• Organize industry-wide occupational health and safety training based on ISO 45001 or similar regional/international standard • Increase the number of unannounced inspections • Reduce fines and focus on capacity building, monitoring and evaluation of progress; close repeat offenders • Request to join ILO-IFC Better Work program, and begin necessary application procedures
Responsible Agency	• Nepal Bureau of Standards and Metrology • National Accreditation Board for Certifying Bodies • DoI • FNCCI and industry associations • International standards organizations • Development partners/donors

Issue	**Poor labor practices**
Action	• Prioritize areas for enforcement of the 2017 Labour Act to reduce/eliminate labor exploitation, protect the rights of citizens, and reduce the likelihood of disputes and disruptions
Responsible Agency	• Ministry of Labour and Employment (MoLE) • MoICS • International Labour Organization (ILO) • FNCCI

Issue	Underdeveloped e-commerce frameworks and support
Action	• Prioritize improvements to national and implementation of international payment gateways • Partner with universities to develop digital literacy and entrepreneurship programs o Translate e-commerce online courses/tutorials into local languages • Develop public service announcements/advertising supporting online trade and promoting e-commerce as a market channel for MSMEs • Establish a working group of experts (including digital incubators and entrepreneurs) to facilitate public-private dialogue, potentially through a revived Nepal Business Forum (NBF) • Develop ‘Introduction to e-Commerce’ training based on size and sophistication of firms, offering training of individual modules in-person or via streaming podcasts/video tutorials
Responsible Agency	• MoICS • MoF • Nepal Rastra Bank • Ministry of Information and Communication • Ministry of Science, Technology and Environment • Development partners

Issue	Limited~~ack of~~ FDI
Action	• Simplify processes for firms to transfer operational finances into the country and set strict timelines for each approval stage to eliminate delays • Simplify processes for repatriation of funds of multinationals • Increase transparency in firms’ approval, registrations and trademark registration processes
Responsible Agency	• DoI • NRB • MoF • FNCCI

Issue	Lack of quality intermediate inputs
Action	• Reduce or eliminate import tariffs on footwear parts classified under HS 6404 • Carry out analysis of input coefficients to determine which tariffs on intermediate inputs can be eliminated to reduce production costs without net welfare losses • Simplify the duty drawback system to ensure that micro- and small-sized enterprises, especially e-commerce based businesses, can participate in the scheme
Responsible Agency	• MoICS • Development partners

Issue	Too much focus on high-income markets
Action	• Identify non-traditional trade partners/countries that present greater trade complementarities, specifically lower- and middle-income countries with rising footwear consumption

	• Collect, translate, and disseminate market access guidelines and current market costs/options for shipment
Responsible Agency	• TEPC • FNCCI and industry associations • Development partners

Issue	**Ineffective export incentive schemes**

Action	• Simplify the filing process for the national Cash Incentive to Exports to ensure that micro- and small-enterprises have equal opportunity for participation
	  ○ Begin development of electronic application process to improve efficiency and transparency
	• Re-design export incentive schemes to allocate portion of CISE fund for participation in international trade fairs
	  ○ Develop criteria for firms to demonstrate commitment to exporting and improvements in quality for eligibility to participate in program
	• Increase support for commercialization of traditional products (hand-made footwear using locally sourced textiles, natural fibers, and/or felt) by MSMEs

Responsible Agency	• DoI • NRB • DSCI

Issue	**Need for footwear zone development**
Action	• Support industry associations in the legal procedures to establish a footwear zone and organize agreements necessary to construct common facility centers • Assess the possibility of developing an eco-friendly or green industrial zone to better attract FDI • Conduct a feasibility study on a public-private partnerships to construct joint warehousing operations near distribution and logistics hubs
Responsible Agency	• DoI • Local government • Industry associations • Development partners

Issue	**Transportation disruptions and anti-competitive behavior**
Action	• Continue crackdown on anti-competitive behavior in domestic transportation syndicates • Push for ratification and rapid implementation of Bangladesh-Bhutan-India-Nepal (BBIN) Motor Vehicle Agreement to ensure a level playing field and reduce anti-competitive behavior at the border, with the objective of reducing transport costs and improving connectivity
Responsible Agency	• Office of the Prime Minister and Council of Ministers • Department of Customs • Federal and local transportation authorities

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