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Contribution by

Nepal

Building digital economy: Nepal's experience, good practices and way forward

Background

Technological innovations and the rise of digital labor platforms have made it easier for individuals to increase their earnings through profitable recreation. Such advancement has interconnected people and markets globally, which provide platforms for business-to-business (B2B), business-to-consumers (B2C), business-to-government (B2G), and government-to-government (G2G) connections. As a result, interconnectivity empowers companies with insights into consumer preferences, thereby enabling the development of products designed to meet market demands. The use of digital platforms, cloud computing, big data, open-source innovation, artificial intelligence, robotics, and algorithms has provided flexibility to the stakeholders – buyers, sellers and producers.

Nepal's effort toward the digital economy is the integration of planned initiatives that have envisioned higher technology uses to enhance trade, industry, and innovation. The government wants everyone to take the benefits of economic growth. In Nepal, the three layers of government (federal, provincial and local) and the private sectors are rigorously working to use digital technology to make this happen. The country stands on the point of cracking new opportunities in the digital age.

Experiences and Good Practices

Nepal has stepped into a pivotal shift through the use of technological advancement in the digital economy. The higher technology has generated sufficient opportunities in global markets, which Nepal is adopting in the trade and industry and other sectors of the economy. Government of Nepal has assimilated the fact that trade and industrialization are the matter of multisectoral concern, so the cooperation between governmental layers, private sector and development partners has been established. The Ministry of

Industry, Commerce and Supplies has been playing a leading role in modernizing the overall trade and industrial environment and encouraging innovation. Initiatives such as National Strategy on Development and Use of E-Commerce, 2020, Integrating Advanced Concepts of Industry 4.0 in Manufacturing Processes in NTIS 2023 to the economy and the Digital Nepal Framework (DNF) are some of the initiations taken by Government of Nepal. One-stop Service Centers, Electronic Single Windows, online platforms, etc. are facilitating smoother trade and foreign direct investment procedures.

Nepal has initiated the following good practices to develop and strengthen the digital economy:

- The Implementation of National Strategy on Development and Use of E-Commerce, 2020, has shown the dedication of the Government of Nepal to fostering digital solutions for economic growth.
- Government of Nepal, with the massive consultation with stakeholders has drafted E-Commerce bill to regulate and promote online trading activities, which is currently undergoing final stages of parliamentary deliberation.
- The government has launched NTIS, 2023, which includes the formulation and implementation of an Industry 4.0 Strategy as the prime responsibility of the Ministry of Industry, Commerce and Supplies.
- Ministry of Industry, Commerce and Supplies has implemented one-stop service center at Department of Industry to simplify the procedural complexity in trade and industrial sectors and online services facilitating foreign direct investment (FDI) approval processes.
- Nepal Trade Information Portal operated by Trade and Export Promotion Center is serving as a vital resource hub for comprehensive trade-related information.
- Government of Nepal has implemented National Trade Deficit Reduction Action Plan with a focus on promoting goods produced by women entrepreneurs and small industries through an electronic marketplace.
- The Piloting of innovative solutions such as the Electronic Cargo Tracking System (ECTS), Startup business promotion, and the

traceability system for organic orthodox tea to enhance product quality has initiated.

- Nepal has Established e-commerce portal "msmenepal.com" in collaboration with the Federation of Nepal Cottage and Small Industry (FNCSI) to promote domestic and international trade for small businesses.
- The government has formed National Trade Facilitation Committee to foster collaboration between government agencies and private sector stakeholders.
- The import-export regulations are published on the website, national trade repository is in operation to enhance accessibility to trade-related information and promote transparency.
- Nepal and India have signed in memorandum of understanding for cross-border digital payment, that has expected to ease digital transactions for business people, students, and tourists.
- Government of Nepal has invested in the capacity-building programs for the stakeholders across the trade ecosystem to train customs officials, border agencies, and private sector actors on digital trade procedures and technologies.
- Improving digitization of transport infrastructure and logistics processes is the regular activity of the government which includes the implementation of electronic tracking systems for cargo and digitizing transport documentation and payments.
- Nepal has taken several steps for the promotion of digital payments through various policy measures, which includes the launch of a national e-payment gateway and encouragement of mobile banking and mobile wallets, which are facilitated by digital payment providers such as Fone Pay, eSewa, Khalti, Prabhu Pay, IME Pay, SmartQR, and digital payment platforms of banks and financial institutions.
- According to the Nepal Telecommunication Authority, Nepal has 34.73 million subscribers in voice service with 25.22 million active subscribers in the domain of the voice service whereas Nepal has approximately 49 million total subscribers in the domain of broadband service with 28.8 million active subscribers. The population penetration based on total

subscribers for voice telephonic services and broadband services account for 119.19 percent and 139.63 percent respectively in 2023. The population penetration based on total subscribers depicts the glimpse of digital Nepal in near future.

Challenges

Nepal's journey towards a robust digital economy is marked by admirable steps, yet several challenges slowed its progress:

1. **Coordination Gaps and Limited Resources:** Despite governmental commitment, coordination gaps between stakeholders and limited resources obstruct effective trade facilitation efforts.
2. **Strengthening the E-commerce Ecosystem:** While Nepal has taken steps to strengthen its e-commerce ecosystem, challenges persist in areas such as infrastructure development, legislation, and access to financing. These hurdles hamper the full realization of the potential of digital commerce.
3. **Industry 4.0 Integration:** Nepal's ambition to integrate Industry 4.0 and 5.0 concepts into its production processes is commendable. However, the absence of a comprehensive strategy and investment plan, coupled with deficient infrastructure and systems, poses significant obstacles to this transition.
4. **Skill Enhancement Programs:** Investing in skill enhancement programs is crucial to bridge the digital divide and equip the workforce with the necessary competencies for the digital economy. Training initiatives tailored to the needs of various sectors can enhance the employability and productivity of workers in the digital era.
5. **Infrastructure Development:** Addressing infrastructure deficiencies, particularly in remote and underserved areas, is imperative to ensure widespread access to digital technologies and services. This includes expanding broadband connectivity, improving electricity supply reliability, and enhancing digital infrastructure resilience.
6. **Financing Constraints:** Access to financing remains a significant challenge for digital startups and enterprises. Developing mechanisms to

facilitate access to capital, such as venture capital funds and angel investment networks, can fuel innovation and entrepreneurship in the digital economy.

The way forward

To address the challenges hindering Nepal's development of a digital economy in a desired pace, a proactive and multifaceted approach is necessary.

1. **Legal and Regulatory Reforms:** Updating existing laws and enacting new legislation to provide clarity and safeguards for the digital landscape should be the first step of reform in Nepal. Key actions in this sector include amending the Electronic Transactions Act of 2008 to address data protection concerns, establishing protocols for data breach notifications, and mandating the localization of personal data storage.
2. **Investment in Industry 4.0 Technologies:** Nepal must formulate and implement robust strategies at both national and provincial levels to foster the adoption of Industry 4.0 technologies. This involves investing in research and development centers, establishing data repositories, and enhancing digital infrastructure to support innovation and connectivity. Embracing digital modeling, procuring necessary equipment, and developing national payment gateways are crucial steps in laying the groundwork for a thriving digital economy.
3. **Capacity Building and Skill Enhancement:** Prioritising capacity-building programs and skill enhancement initiatives is essential to empowering Nepal's workforce to adapt to the evolving demands of the digital age. Organizing training sessions and workshops on Industry 4.0 and 5.0 technologies will equip workers with the necessary skills to enter a digital economy.
4. **Strengthening Trade Facilitation Measures:** Nepal should continue to leverage its transit facilitation agreements with neighboring countries and implement measures to streamline cross-border trade procedures. Enhancements in risk management, authorized economic operators, and expedited shipments will facilitate smoother trade processes. The National Trade Facilitation Committee should play a central role in

overseeing the implementation of these strategies and coordinating inter-agency efforts to enhance trade facilitation.

5. **Improving coordination:** Improving coordination between different government agencies at federal level, federal, provincial and local level, and coordination between government agencies and the private sector is also needed to accelerate the digitalization process of the economy.

Conclusion

Nepal's journey toward building a vibrant digital economy is marked by proactive initiatives, strategic policies, and collaborative efforts aimed at leveraging technology for inclusive economic growth and trade facilitation. From spearheading the Nepal Trade Integration Strategy to promoting digital payments and streamlining trade processes through one-stop service centers, Nepal has demonstrated its commitment to embracing digital transformation. Despite challenges, including trade facilitation gaps and regulatory constraints, Nepal remains trustworthy in its pursuit of a prosperous future in the digital era. Through legal reforms, robust strategies, and capacity-building initiatives, Nepal is ready to unlock new opportunities and drive sustainable progress in the digital economy, positioning itself as a competitive player on the global stage.