



# Services Policy Review: Nepal



The Nepalese Economy has changed considerably since 1980. Agriculture has declined significantly as a component of GDP, while services output has expanded. In 1980 services accounted for only 26% of total output; this figure has grown to almost 51.2% in 2008, making it the largest sector in Nepal's economy. The services sector accounts for over 21% of employment and, according to national statistics, in 2006 accounted for over 75% of GDP growth. However, services exports have significantly underperformed compared to merchandise exports. Average annual growth over the 1995-2006 period for merchandise exports was positive at 7.7%, but negative at -7.2% for services exports.

The SPR provides a strategic overview of Nepal's services sector with a specific emphasis on the Tourism and IT sectors, two sub-sectors of key importance to Nepal's economy.

Tourism makes a direct contribution to the Nepalese economy through its foreign exchange earnings. Data analysis has shown however, that there have been no remarkable increases in foreign exchange earnings from tourism. Foreign exchange earnings from tourism as a percentage of GDP decreased from 3.4 per cent in the 2003/04 fiscal year to 1.3 per cent in the 2007/08 fiscal year. This situation indicates the need for remedial action to improve the contribution of the tourism sector.

Trade in the IT/ITES services sector has started growing, albeit not at the desired pace.

The influx of joint-venture software companies such as Pilgrim Software and Communication in the 1990s helped establish Nepal as a possible outsource destination for the IT and ITES sectors. The opportunity of outsourcing is tremendous for landlocked countries such as Nepal. Technology transfer, innovation/incubation, offshore destination centres and business process outsourcing are among the few avenues for which Nepal can prove its competence.

Recommendations have been proposed for Nepal to improve the contribution of these two sectors, which include:

- Introduce the tourism satellite account with classifications comparable with international practice.
- Since tourism plays a major role in poverty reduction, tourism activities should be extended to rural and remote areas. Further initiatives such as the Tourism for Rural Poverty Alleviation Programme are also necessary to alleviate poverty.
- Introduce new tourism products such as health and wellness tourism.
- Reduce environmental impacts to ensure long-term stability of biodiversity.
- Amend the IT policy urgently. Offer tax holidays through 2015 to IT services and review of import-export regime for IT equipment and services.
- Avoid conflicting roles and responsibilities among government bodies.
- Relax national policies relating to the mobility of foreign employees.
- Establish a revolving fund to help national companies acquire international certification of standards.
- Tailor vocational education to meet industry needs.
- Internet penetration should be increased.

