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The footwear sector in Nepal

A Value Chain Analysis

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ACRONYMS

BMZ	German Federal Ministry for Economic Cooperation and Development
CSIDB	Cottage & Small Industry Development Board
CSIO	Cottage & Small Industry Office
CFC	Common Facility Centre
CTEVT	Centre for Technical Education and Vocational Training
DoCSI	Department of Cottage & Small Industry
DoC	Department of Customs
EA	External Assistance
FA	Felt Association
FGD	Focus Group Discussions
FMAN	Footwear Manufacturer's Association of Nepal
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FY	Fiscal Year
GON	Government of Nepal
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GDP	Gross Domestic Product
HS Code	Harmonised Code
IC	Indian Currency
KTM	Kathmandu
LFMAN	Leather Footwear Manufacturer's Association of Nepal
LFGMAN	Leather Footwear and Goods Manufacturer's Association of Nepal
MoE	Ministry of Education
MoI	Ministry of Industry
MoF	Ministry of Finance
MoC	Ministry of Commerce
NTIS	Nepal Trade Integration Strategy
NRB	Nepal Rastra Bank
NS	National Standard
NPR	Nepali Rupees
PM	Programme Manager
PO	Programme Officer

PVC	Poly-Vinyl Chloride
RoW	Rest of the World
SWOT	Strengths, Weaknesses, Opportunities and Threats
SPO	Senior Programme Officer
TPP	Trade Promotion Programme
TOR	Terms of Reference
TEPC	Trade and Export Promotion Centre
TDS	Tax Deduction at Source
TQM	Total Quality Management
USD	United States Dollar
UK	United Kingdom
USA	United States of America
UAE	United Arab Emirates
VCA	Value Chain Analysis
VC	Value Chain



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EXECUTIVE SUMMARY

With increasing choices, growing fashion consciousness and rising health awareness, the global demand for footwear has been increasing. The global footwear market has been steadily increasing, with production reaching 22 billion pairs in 2013 and new importers rapidly entering the global market.



Context of the Study

The Nepal-German Trade Promotion Programme (TPP) is implemented under the guidance of the Government of Nepal, Ministry of Commerce supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). The Programme, now in its extension phase, is pursuing its objective of implementing the Nepal Trade Integration Strategy (NTIS) to improve the trade-related environment and to strengthen the export potential of the footwear value chain in order to integrate it into the regional and international markets so that the benefits to Nepalese entrepreneurs and enterprises can be maximised.

In this context, a study was carried out to 'study and analyse the value chain of the footwear sector and set the basis for identifying appropriate interventions for the promotion of the footwear sector' from March to April 2016. Following the GIZ approach of value chain analysis, i.e. Value Links methodology, the study covered both organised and unorganised footwear associations, exporters, enablers and supporters or service provider at large-, medium- and small-scale levels.

The study team employed the approach and methodology of desk work, including visiting several websites, consultation with stakeholders, data collection and analysis, preparation of draft report, validation workshop and final reporting.

Background

With increasing choices, growing fashion consciousness and rising health awareness, the global demand for footwear has been increasing. The global footwear market has been steadily increasing, with production reaching 22 billion pairs in 2013 and new importers rapidly entering the global market.

The footwear sector in Nepal was enlarged after the privatisation of the Government of Nepal (GoN)-owned Bansbari Shoes Factory. Currently, 1,500 companies are manufacturing 30 million pairs of different types of footwear annually. This sector is providing employment to 60,000 persons, 30 per cent of whom are women and among them 20 per cent of women are in administrative jobs.

Of the domestic market, 42 per cent is covered by Nepalese footwear, whereas the remaining 58 per cent is covered by imported footwear. Export of footwear increased by 198.54 per cent in terms of value and 135.72 per cent in terms of volume in five years (2011/12–2014/15). This sector is contributing towards narrowing down the trade deficit of the country.

One of the primary actors in the footwear value chain are the input (raw material) suppliers. In Nepal, 22 companies are producing raw materials, whereas 58 companies are importing them. Similarly, marketing of footwear is being done by wholesale and retail traders, foreign dealers or export agents. Altogether 71.36 per cent of the final consumers are Nepalese, while 28.64 per cent are international consumers. Of the international consumers, 28.62 per cent are Indian consumers and 0.02 per cent are consumers of countries other than India.

The study identified the key constraints of the footwear sector as follows:

- **Production and productivity:** Shortage and high turnover of skilled labour; prolonged power cuts; lack of segregated skill development curriculum; non-development of footwear zones; lack of security in large industries (employing more than 500 workers); expensive imported raw materials; lack of well-equipped common facility centres (CFCs), including quality testing laboratories; supply of substandard raw materials by importers; higher tariff rates on import of some raw materials than on finished products; lack of technology to measure the amount of leather imported; lack of provision of soft loans, e.g. like those for hydropower projects; lack of

strict labour laws; lack of risk-bearing ability in industries for contract manufacturing for foreign industries; and under-utilisation of the leather goods manufacturing centre under the Department of Cottage and Small Industries (DoCSI).

- **Domestic marketing:** Free import and sale of pirated footwear brands in the domestic market; difficulty to ensure collective trademark and National Standard (NS) mark for Nepalese footwear; and inability to compete with global manufacturers in terms of design.
- **Global marketing:** Lack of knowledge of the strategy to access the international market; lack of opportunity to participate in international trade fairs; lack of business meetings and interactions between foreign importers and Nepalese manufacturers; very little exchange visits between domestic and international footwear manufacturers; low quality, design and volume of production to approach the international market; no export subsidy like those offered by competitors in the neighbouring countries and absence of subsidy for Indian Currency (IC)-using exporters; high import tariff rate of the biggest global importer, i.e. USA (10 per cent on leather shoes, 35 per cent on canvas shoes and 6 per cent on welted leather); stiff competition in the international market in terms of design and production volume.
- **Value chain enabling environment:** Weak control on import of footwear of pirated brands; silence of the NTIS 2016 on development of small- and micro-level manufacturers, handicrafts and felt-based footwear; non-availability of data on production quantity of Nepalese footwear and the exact number of manufacturers of all types of footwear.

After analysing the key constraints, the study suggests the following short- and medium-term intervention strategies:

1. For development organisations:

- Support participation of manufacturers and exporters in international trade fairs for market promotion and for capacity development as well as exposure to major footwear production countries to learn the best practices;
- Provide international market information, including information on tariff and market

access strategy to manufacturers;

- Organise study tours and exposure visits for exporters/manufacturers in:
 - The countries where footwear import is increasing rapidly;
 - The countries which are the top footwear importers.
- Organise business meetings for interaction between foreign importers and Nepalese manufacturers and exporters;
- Support in capacity building of skilled designers;
- Provide training in marketing, market access strategy and export process to manufacturers and exporters;
- Provide Total Quality Management (TQM) training to manufacturers;
- Support Trade and Export Promotion Centre (TEPC) and manufacturers/exporters in identification of international markets;
- Provide high-level technology support to the manufacturers and exporters; and
- Establish three common facility centres with high-tech machineries—one in Kathmandu and one each in regions like Biratnagar, Chitwan, Birgunj or Butawal.

2. For GoN ministries and agencies:

- Joint and strong monitoring by the GoN and footwear associations to control import and sale of pirated brands of footwear;
- Maintain a tariff rate of below 5 per cent so that the tariff difference between raw materials and finished products is 15 per cent;
- Support commercialisation of traditional products (handicrafts-based, natural fibre and felt-based products);
- Design and implement skill segregated curriculum for the footwear sector;
- Produce highly skilled labour with segregated skills strengthening each input level (Production, Marketing, Distribution etc.) of the value chain;
- Establish permanent training institutes with industrial environment and design curriculum for existing engineering colleges and develop skilled human resources for the sector;
- Provide soft loans to small manufacturers;
- Develop footwear zones;
- Establish well-equipped CFCs with laboratories;
- Enforce strict labour laws to ensure regular

and contract manufacturing from foreign manufacturers;

- Continue the current provision of 1 per cent import tariff on machinery;
- Provide rebate on IC exports and on exports like those offered by neighbouring competitors;
- Impose differential tariffs on the raw materials imported by importers for further trading and those imported by footwear industries; and
- Link the unused leather goods production centre under the DoCSI to footwear associations for skill training.

3. For Industries/associations and private sector:

- Accept only quality raw materials;
- Concentrate on quality and designs based on international demand;
- Develop industrial infrastructures and equip the production plan with machines to produce high quality goods;
- Acquire land on instalment basis for the development of footwear zones;
- Cooperate and collaborate with small manufacturers for export;
- Coordinate collective purchase of raw materials so that quality is ensured and price is low; and

- Establish cordial working relationship for collective manufacturing to meet bulk demand; and
- Support internalisation of collective trademarks.

Conclusion and Recommendations

The footwear sector is quite encouraging and a large number of manufacturers are entering this business. A joint action plan should be prepared for all stakeholders and service providers for the successful implementation of the NTIS 2016. A detailed national survey has to be carried out to find out the exact number of Nepalese manufacturers, volume of Nepalese production, potential for employment, per capita consumption and issues of the sector. The stakeholders or service providers need to decide who should take this responsibility.

1. GENERAL INTRODUCTION

The main objective of the value chain analysis of the footwear sector is to carry out a detailed study and analysis of the value chain and set bases for identifying appropriate interventions for the promotion of the footwear sector.



1.1 Background

This study was commissioned by the Nepal-German Trade Promotion Programme (TPP), which is implemented under the guidance of the Government of Nepal (GoN), Ministry of Commerce (MoC) and supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). The Programme aims to aid the implementation of the Nepal Trade Integration Strategy (NTIS).

Weak political will and commitment, as well as lack of coordination among ministerial units, were found to be the biggest challenges in the implementation of the NTIS 2010. So, the GoN reviewed its implementation status and updated it. In the NTIS 2016, it reduced the number of prioritised products (goods and services) for export promotion, from 19 to 12.

The TPP covers three areas of action aiming at the integration of the NTIS into the regional and international markets to maximise benefits for Nepalese entrepreneurs and enterprises. The three areas of action are:

- i) successful implementation of the NTIS;
- ii) improving the trade-related environment; and
- iii) strengthening the export potential of selected value chain.

Footwear (HS Code: 6404) is one of the value chains supported by the TPP.

1.2 Objectives of the Study

The main objective of the value chain analysis of the footwear sector is to carry out a detailed study and analysis of the value chain and set bases for identifying appropriate interventions for the promotion of the footwear sector by following the GIZ approach of value chain analysis, viz. Value Links methodology.

The specific objectives of the study are to:

- Identify the opportunities, constraints and chain-level issues that are affecting the overall performance so that they can be addressed for smooth functioning of the value chain;
- Identify the major stakeholders, including service providers, in the footwear sector;
- Examine the existing production and productivity and the possibility to increase both;
- Find out current market opportunities (national and global) with average market value and potential value in five years;
- Identify current infrastructure and potentiality for upgrading;
- Analyse the general cost of production and value addition at each level of the chain; and

The TPP's understanding of the value chain is based on the definition given in the GIZ Value Links manual, which is as follows:

- a sequence of related business activities (functions) from the provision of specific inputs for a particular product to primary production, transformation and marketing up to the final sale of the particular product to the consumer;
- the set of enterprises (operators) that performs these functions, i.e. manufacturers, processors, traders and distributors of a particular product. Enterprises are linked by a series of business transactions in which the product is passed on from primary manufacturers to the end consumer; and
- a business model for a particular commercial product. This business model allows defined customers to be reached using a particular technology and a particular way of coordinating production and marketing between several enterprises.

- Explore the major concerns or issues that need to be addressed by different service providers and stakeholders.

1.3 Scope of the Study

The scope of this study covered the following:

1.3.1 Organised and unorganised footwear manufacturers' level:

Some large-, medium- and small-scale companies manufacturing leather footwear were consulted for:

- Identification of major footwear manufacturing companies and drawing up their list in consultation with the Footwear Manufacturers' Association of Nepal (FMAN);
- Identification of all primary actors along the value chain, their respective roles and existing relationships;
- Identification of enablers and supporters along the value chain, their respective roles and the need to promote and upgrade the value chain; and
- Identification of existing input supply, production and marketing chain, along with the actors involved and their functional relationships, and the existing constraints and opportunities for upgrading and strengthening the existing footwear value chain in relation to input supply, production and marketing.

1.3.2 Footwear association level:

FMAN, Nepal Leather Footwear Producers Association (LFPAN) of indigenous artisans (association for small-scale footwear manufacturers) and Felt Association were consulted for:

- Identifying issues or concerns and constraints and opportunities concerning policy environment, infrastructure, backward and forward linkages between value chain actors, value chain governance, value chain enabling environment and sector upgrading;
- Finding out the current coordination and linkage mechanisms with value chain enablers and service providers to maximise benefits to manufacturers;
- SWOT analysis of footwear sector;

- Listing the details of exporters of footwear; and
- Identifying and listing the names of value chain enablers and supporters, including private and public sectors.

1.3.3 Footwear exporter level:

- Identifying the export process, current destinations, types of footwear exported, volume and value of export;
- Identifying constraints and opportunities in relation to export; and
- Identifying existing competitors in the global market and market access strategy.

1.3.4 Enablers and supporters or service providers at footwear sector level:

- Identifying the nature of support and future plans of support to improve the footwear sector; and
- Collecting feedback, suggestions and recommendations from different stakeholders and service providers for designing an intervention strategy.

1.3.5 Global level:

The global demand and supply conditions of footwear were studied and potential markets were identified by visiting several websites.

1.4 Study Approach and Methodology

To carry out a value chain analysis of the footwear sector, we adopted the approach of study in line with the GIZ Value Link Manual, viz. value chain mapping, quantifying and describing value chain in detail, economic analysis of value chain, market research and constraint analysis. Similarly, the vision and objectives were elaborated and action strategies were developed by adopting the following methodology:

A. Value chain mapping

Visual value chain mapping requires background information on the mapping process, tools, identification of stakeholders involved in the different steps of the chain, as well as their functions and relationships. So, the following methodology was employed in the value chain mapping:

1.4.1 Collection and review of documents:

Relevant documents were collected from

different sources and were reviewed for compiling background information. (For the list of documents reviewed, *see annex I.*)

1.4.2 Consultation with stakeholders and service providers:

After review of relevant documents, consultations were held with various stakeholders and service providers for administering the questionnaires or checklists. (For the list of people and organisations consulted, *see annex II.*)

1.4.3 Development of questionnaires or checklists:

After desk review and consultations with stakeholders and service providers, questionnaires and checklists were developed for each category of stakeholders, for example questionnaires for Focus Group Discussions (FGDs) with manufacturers and individual interview questionnaires for manufacturers, exporters and service providers. (For questionnaires, *see annexes III-1 to III-4.*)

1.4.4 Data collection:

Data were collected by administering structured questionnaires or checklists on both organised and unorganised manufacturers. In addition, an FGD was carried out with 41 manufacturers. (*See annex II.*)

Individual interviews were done with wholesalers, retailers, raw material suppliers, service providers and value chain enablers or supporters. (*See annex II.*)

1.4.5 Data analysis and initial value chain mapping:

The collected data were analysed and value chain mapping (with functions and operators) was done with illustration of visual diagrams and a narrative description of the chain. The value chain mapping includes the product flow from the raw material stage to the end market and how the industry functions.

B. Quantifying and describing value chain in detail

For the identification of the actors involved in the different steps of the chain, the volume of footwear production, the domestic market share and export of footwear, the enablers and services, and the factors

hindering the chain were identified through data collection (1.4.4) and data analysis (1.4.5). The analysis of opportunities and constraints focused on identifying systemic chain-level issues. The number of operators and their linkages was drawn in map and volume of production was also included.

C. Economic analysis of value chain

For economic analysis of the footwear value chain, the information received through data collection was analysed and several manufacturers were consulted. After consultations and analysis, the direct production cost of footwear, gross margin and value added were calculated and validated in consultation with FMAN members.

D. Market research

For the promotion of footwear value chain, a short market research was done to find out the global production and marketing of footwear, national export and import conditions, and domestic supply-side conditions by visiting several websites and collecting export and import data from the TEPC. (See the web links visited in *annex I.*)

E. Constraint and opportunity analysis

The constraints that are hindering the production and marketing and the enabling factors and the opportunities ahead were analysed at consultation meetings with manufacturers, enablers and service providers.

F. Visioning

The five-year visioning of the sector was done in consultation with the FMAN and validated at a validation workshop based on the increasing global demand and marketing, increasing domestic production and export, the GoN initiative through the NTIS 2016, and the current Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis.

G. Setting objectives and their indicators

Based on the five-year vision, objectives and objective-level, indicators of the footwear sector were set for a period of five years in consultation with FMAN and value chain enablers and validated at the validation workshop.

H. Designing action strategies

The action strategies for meeting the objectives,

elaborated under the NTIS 2016, were validated at the validation workshop.

I. Validation of data and value chain re-mapping

The findings i.e., the value chain mapping and enabling recommendations were presented at a validation workshop held on April 21, 2016. The participants of the workshop were the relevant persons and organisations. Based on the feedback received at the validation workshop, re-mapping was done.

J. Final report

After the feedback received at the validation workshop, adjustments were done and the final report was prepared and submitted to the TPP in an electronic version.

1.5 Limitations of the Study

Lack of records: There are no accurate records of total volume of production of footwear or the total number of unorganised manufacturers in the country. Neither the Company Registrar's Office nor the Cottage & Small Industry Development Board/Cottage & Small Industry Office (CSIDB/CSIO) had any record of footwear manufacturers in the country. So, the study had to rely solely on the secondary data that was generated last year by the HELVETAS Employment Fund and the perceptions of the people consulted.

No single umbrella organisation: Not all small-, medium- or large-scale footwear manufacturers were organised under a single association. There are at least three footwear value chain associations in Nepal including FMAN, Felt Association and Leather Footwear and Goods Manufacturers Association of Nepal (LFGMAN). The Felt Association and the association of indigenous traditional footwear manufacturers were hesitant to take part in discussions.

Hesitation to meet the study team: The team approached several footwear manufacturers and raw

material importers but most of the stakeholders except for a few manufacturers hesitated to meet the team for discussion. So, the study was concluded with discussions with limited numbers of manufacturers and raw material importers.

1.6 Organization of Report

This report is divided into six chapters. Chapter one is the introductory chapter and contains the background, objectives, scope and limitations of the study. Chapter two consists of information on global footwear production, marketing conditions like global export and import, including fastest-growing importing countries and major consumer countries. Chapter three covers the NTIS 2016, an overview of the national context of the footwear sector, domestic production, export performance including types of footwear exported and current export destinations, import conditions, trade balance, domestic supply-side conditions including policy framework, infrastructure conditions, socioeconomic impact, competitive advantages and sustainability aspect. Chapter four is an analysis of the value chain with an overview, value chain mapping, functions, primary and supporting actors, and value chain enablers. The fifth chapter deals with value chain governance, economy of value chain, key constraints and opportunities, and SWOT analysis of the footwear sector. The sixth chapter is about the intervention strategies of different stakeholders and service providers, including conclusion and recommendations.



2. OVERVIEW OF FOOTWEAR SECTOR AT INTERNATIONAL LEVEL

As per World Footwear Yearbook 2014, the global footwear trade set a new record in 2013. Exports reached 14.4 billion pairs, amounting to US\$119 billion, which is up by 7 per cent and 12 per cent respectively over the previous year.



2.1 Global Production

The global production of footwear reached 22 billion pairs in 2013. In terms of geographic regions, Asia is the major producer, with 87 per cent of global production. Within Asia, North Asia, with 70 per cent of the world production, is the largest footwear manufacturing region in 2014 (IBIS Global Footwear Manufacturing and Market Research Report, October 2014). China, which manufactures about 14 billion pairs of shoes, or an estimated 64.35 per cent of total world production, is the largest producer in the global footwear industry. Furthermore, China has the highest rate of footwear consumption. South East Asia is the second largest region in terms of footwear manufactured, making up about 11 per cent of the total footwear manufactured.¹ It is expected that Asia Pacific will remain the focus of footwear manufacturers due to the cheaper cost of production than in other regions.

The world over, footwear companies manufacture a wide range of footwear for men, women and children, designed for fashion, sports or work. They manufacture footwear made of rubber or plastic, with plastic or fabric uppers, and rubber and plastic protective footwear, house slippers and slipper socks.

Table 1 shows the ten leading footwear manufacturing countries.

As shown in table 1, China, with two-thirds of the total global production, is the leading footwear producer. With 14.2 million pairs, China covered nearly 65 per cent of the global footwear production in 2013.

2.2 Global Marketing of Footwear

2.2.1 Global export condition

As per World Footwear Yearbook 2014, the global footwear trade set a new record in 2013. Exports reached 14.4 billion pairs, amounting to US\$119 billion, which is up by 7 per cent and 12 per cent respectively over the previous year. The cumulative growth over the last decade reached 71 per cent in terms of volume and 143 per cent in terms of value.

According to the market report titled Global Footwear Market: Industry Analysis, Size, Share, Growth, Trends and Forecast 2014–2020, published by the Transparency Market Research, the global footwear market was valued at US\$ 198,782.9 million in 2014 and is expected to reach US\$ 220,227.9 million by

Table 1: Ten leading footwear manufacturing countries in the world

S.N.	Country	Pairs (in million)	Pairs (in million)	Pairs (in million)
	Year	2010	2013	2014
1	China	12,597	14,200	15,700
2	India	2,060	2,065	2,065
3	Brazil	894	900	900
4	Vietnam	760	770	910
5	Indonesia	658	700	724
6	Pakistan	292	370	386
7	Turkey	174	300	320
8	Bangladesh	NA	298	315
9	Mexico	244	245	245
10	Italy	203	202	197

Source: World Footwear Yearbook 2014 by APICCAPS, www.statista.com, cited in March 2016

1. Source: Global Footwear Manufacturing Market Research Report | Jan 2016, IBIS World:

Table 2: Leading footwear exporting countries in the world, 2013

S.N.	Export Volume		S.N.	Export Value	
	Leading countries	Pairs (in Million)		Leading countries	Sale (in US\$)
1	China/Hong Kong	10,891	1	China/Hong Kong	52,993
2	Vietnam	650	2	Italy	10,722
3	Italy	220	3	Vietnam	10,030
4	Belgium	196	4	Belgium	4,688
5	Germany	187	5	Germany	4,446
6	Indonesia	178	6	Indonesia	3,755
7	India	173	7	Netherlands	3,201
8	Netherlands	156	8	Spain	3,036
9	UK	144	9	France	2,717
10	Spain	140	10	Portugal	2,305
11	France	88	11	India	2,268
12	USA	83	12	UK	1,876
13	Portugal	74	13	Romania	1,304
14	Romania	53	14	USA	1,165

Source: World Footwear Yearbook 2014 by APICCAPS

Source of export value in US\$: <https://issuu.com/391038/docs/snapshot/7?e=0/10750642>

Table 3: Status of footwear export by types in global market by 10 leading exporters

SN	Types of footwear	Volume (in %)	Value (%)
1	Waterproof	1	1
2	Rubber/plastic	57	32
3	Leather	14	43
4	Textile	22	19
5	Others	6	5

Source: World Footwear Yearbook 2014 by APICCAPS

Table 3.1: Status of footwear export-HS code 6404 by 10 leading countries 2014

SN	Countries	Value of export (in 000 USD)	Volume of export (in tons)	Share of world export (in %)
1	China	11,942,927	1,027,358	44.6
2	Vietnam	3,667,129	120,611	13.7
3	Belgium	1,930,035	56,185	7.2
4	Germany	1,137,691	37,334	4.2
5	Indonesia	1,065,775	58,619	4.0
6	Italy	790,232	14,207	2.9
7	Netherlands	691,139	25,974	2.6
8	France	615,982	16,588	2.3
9	Spain	564,360	22,038	2.1
10	Hong Kong- China	524,449	18,147	2.0

Source: www.trademap.org, cited in April 2016

2020, growing at 1.72 per cent during the same period. In the global market, in terms of the type of footwear exported by the top ten leading exporters, the highest volume is taken by rubber and plastic footwear and in terms of value the highest percentage is that of leather footwear.

Table 3 shows the proportions of different types of footwear exported by top ten leading exporters in the global market.

The export value of footwear (HS Code 6404) was US\$26,547,317 thousands in 2014 and the average growth rate was 18 per cent in value and 8 per cent in volume during 2010-2014. The annual growth value is 20.9 per cent in 2013-2014.² This means that the global footwear market is increasing. The ten lead exporters of HS 6404 in 2014 are shown in table 3.1.

2.2.2 Global import condition

The share of footwear imports is increasing every year, with the total value of footwear import reaching US\$133.2 billion in 2014. There are several fast-growing footwear importing countries around the world.

Table 4 shows the value of global imports by 10 leading countries in 2014.

Most of the global footwear is imported under HS code 6404. Import of global footwear under HS 6404 was valued at US\$26,081,962,000 in 2014, with average growth rate of 19 per cent in value and 5 per cent in volume during 2010–2014.

Table 4.1 (next page) shows 10 leading footwear importing countries under HS code 6404 in 2014.

The global footwear market is driven by factors such as demand for new footwear designs, awareness of healthy and active lifestyle, increasing population, propensity of people to spend more and emerging retail outlets. The market is also facing some constraints, which is slowing down its growth. Rising prices of raw materials and increasing environmental concerns are the main constraints of the global footwear market. However, there are also wide opportunities such as consumers' changing lifestyle and fashion trends, emerging role of e-commerce and increasing number of new brands in the market, all of which are likely to boost the demand for footwear market in the coming years.

The footwear market has been divided into three segments: footwear type, consumer group, and geography. The "footwear type" is sub-divided into athletic footwear and non-athletic footwear. The athletic footwear segment, again, offers four categories of products, viz. insert shoes, sports shoes, hiking shoes and backpack boots.

Table 4: Ten leading footwear importing countries in 2014

SN	Countries	Import value in 2012 (in million USD)	Import Value in 2014 (in million USD)	Share in world import (in percentage)
	World	117.6	133.2	
1	USA	24.9	27	20.3
2	Germany	9.1	11	8.3
3	France	6.5	7.7	5.7
4	UK	6.1	7.2	5.4
5	Italy	5.8	6.5	4.9
6	Japan	5.9	5.8	4.4
7	Hong Kong	4.8	4.6	3.5
8	Netherlands	3.5	4.2	3.2
9	Belgium	3.1	3.7	2.8
10	Russia	4.3	3.7	2.8

Source: http://www.trademap.org/Country_SelProduct_TS.aspx

2. www.trademap.org, cited in April 2016

Table 4.1: Status of footwear import under HS code 6404 by 10 leading countries in 2014

SN	Countries	Import value (in '000 USD)	Import volume	Volume units	Share of world imports (in percentage)
1	USA	4,957,769	602,886,901	Pairs	19.4
2	Germany	2,144,000	103,656	Tons	8.0
3	Japan	1,726,614	109,071	Tons	6.5
4	France	1,542,547	72,437	Tons	5.8
5	UK	1,524,394	89,952	Tons	5.7
6	Italy	1,004,995	45,643	Tons	3.8
7	Spain	956,611	61,494	Tons	3.3
8	Belgium	893,559	75,776,353	Pairs	3.6
9	Netherlands	815,840	41,862	Tons	3.1
10	Korea Republic	660,376	27,659	Tons	1.7

Source: www.trademap.org, Cited in April 2016

Table 5: Leading footwear consuming countries in the world

SN	Leading country	Pairs (in million)	Pairs (in million)
		2010	2013
1	China	2,700	3,678
2	USA	2,335	2,285
3	India	2,034	2,068
4	Brazil	780	816
5	Japan	693	674
6	Indonesia	627	540
7	UK	504	447
8	Russian Federation	NA	434
9	Germany	385	407
10	France	415	402
11	Spain	427	279

Source: World Footwear Yearbook 2014 by APICCAPS <https://issuu.com/391038/docs/snapshot/7?e=0/10750642>

The global footwear market is also segmented into three consumer groups: men, women and children. Globally, men account for the largest share in the footwear market (52 per cent), followed by women (36 per cent) and children (12 per cent). This growth is attributed to the increasing global population.

Furthermore, the market is segmented by geographic regions, which consist of North America, Asia Pacific, Europe and the Rest of the world (RoW). In the overall footwear market, the Asia Pacific accounts for the highest share in terms of volume from 2014 to 2020, whereas North America accounts for the highest share in value.³

2.2.3 Consumption

The footwear market growth rate was analysed and forecasted as 1.72 per cent and 1.58 per cent in terms of value and volume respectively during 2014–2020 (Transparency Market Research). In general, the global consumption of footwear has steadily been increasing, except in a few countries.

Table 5 shows the consumption of footwear by 11 leading countries.

The geographical patterns of consumption show strong dynamism over the last four years. Asia increased its share in the world total from 49 per cent to 51 per cent. China led footwear consumption in volume, while consolidating its position over the previous years, followed by the USA and India.

Global footwear market by type:

- Athletic
- Non-athletic

Global footwear market by gender:

- Men (52%)
- Women (36%)
- Kids (12%)

Global Footwear Market by geography:

Over the last decade:

- Asia increased the export volume, with 61 per cent (US\$72.6 billion) in value;
- Europe noted reduction in quantity from 44 per cent to 35 per cent (US\$41.6 billion) in in value;
- Europe is the highest exporter in terms of price, from US\$19 per pair in 2003 to US\$26 per pair in 2013; and
- Asia, with below US\$6 per pair, is the smallest exporter in terms of price.

(Source: *World Footwear Yearbook 2014*, APICCAPS)



3. Source: <http://www.transparencymarketresearch.com/pressrelease/footwear-market.htm>

3. FOOTWEAR IN NEPAL

This sector is providing employment to 60,000 people, of whom 30 per cent are women. Furthermore, about 20 per cent of women are employed in administrative positions.



3.1 Overview of Footwear Sector in National Context

Nepalese consumers' choice of footwear has been constantly widening with changing fashion trends, growing awareness and their increasing economic status. At the same time, the domestic production capacity has also been increasing. The domestic market coverage by domestic products is 42 per cent in 2014/15. Because of the increasing fashion consciousness and open market economy, 58 per cent of the domestic market share is covered by imported footwear.

This sector is providing employment to 60,000 people, of whom 30 per cent are women. Furthermore, about 20 per cent of women are employed in administrative positions. The natural fibre- or felt-based footwear offers more employment opportunities for women.

Every year Nepalese youth receive skill development training conducted either by the manufacturers or by GoN agencies in the form of on-the-job training or through formal training courses.

In contrast to the growing environmental concern in the global footwear market, the Nepalese footwear market has minimum impact on the environment. This is supported by the fact that half of the production process of the Nepalese footwear is manual and consumes minimal amount of electricity. Also, the cut leather pieces are safely disposed of, synthetic cut pieces are recycled, no noise or smoke is emitted and there is minimum water consumption. The small amount of bad smoke emitted during the production process is limited to the production places.

3.2 Domestic Production, Manufacturers and Marketing

3.2.1 Overview of production and domestic market coverage

It is estimated that there are more than 1,000 organised and approximately 500 unorganised but

traditional footwear manufacturers in Nepal. The total annual footwear production is estimated to be 30 million pairs (Five-Year Strategic Plan 2014, prepared by the HELVETAS-Employment Fund for FMAN). The private sector claims that both production and consumption figures have gone up considerably since 2014. The exact figures, however, could not be produced due to lack of a national footwear database. As per the estimated production in 2014 and import-export records of 2014/15, 71.36 per cent of the total production is consumed within the domestic market.

The domestic market coverage is also calculated by deducting the export of 2014/15 from domestic production estimate of 2014 and adding the import of 2014/15. So, based on the estimated annual production of 30 million pairs, domestic coverage by Nepalese footwear is calculated to be 42 per cent, besides the claim of 65 per cent coverage by the private sector.

3.2.2 Footwear manufacturers in Nepal

As of August 2014, a total of 206 companies are registered as footwear and leather goods manufacturing companies with the Company Registrar Office and 850 footwear manufacturing enterprises are registered with the DoSCI and CSIDB.

Four types of manufacturers are organised under the following three private sector umbrella organisations:

- **FMAN:** A total of 63 footwear manufacturers are organised under the umbrella of Footwear Manufacturers' Association of Nepal (FMAN). Almost all large- and medium-scale leather goods manufacturers are organised under it. More than 70 per cent of the total footwear production in Nepal comes from these 63 companies. Their footwear and leather good products are marketed in domestic and international markets. Most of the leather goods manufacturers and one or two footwear manufacturers from Nepal have stepped in the international market.
- **LFMAN:** Some 40 footwear manufacturers are organised under the umbrella of Nepal Leather

Footwear Association (LFMAN), formed by traditional artisans. Basically, these manufacturers are traditional footwear manufacturers scattered in and around Kathmandu valley. They manufacture leather footwear on a small scale and sell them in the domestic market, including in the interior parts of the country. They have still not been able to make inroads in the global arena.

- **Felt Association:** Some 70 companies are organised under the Felt Association of Nepal. These companies manufacture several felt-based products and export them to the USA and European markets like Denmark and Germany. Among the 70 member companies, around 50 companies manufacture 200,000 pairs of felt footwear, amounting to NRs. 100,000,000 annually and export them.
- **Unorganised manufacturers:** There are a large number of unorganised micro-level manufacturers scattered all over the country. Records of the exact number of manufacturers and volume of production are not available. It is roughly estimated that approximately 150 manufacturers are manufacturing natural fibre-based and leather footwear.

It is also estimated that 90 per cent of the total production is covered by 65 to 70 FMAN member companies and more than 99 per cent of export is covered by one or two manufacturers that are under HS 6404 which is the global classification code for footwear manufacturing. The manufacturers are classified as:

- **Large manufacturers:** There are six large manufacturers with daily production capacity of above 10,000 pairs of footwear. For example Kiran Shoe Manufacturers produce above 25,000 pairs of its Gold Star brand per day. For details of large-scale footwear manufacturers in Nepal, *see annex V*.
- **Medium manufacturers:** There are 15 medium manufacturers who have production capacity of above 500 pairs of footwear. For details of medium-scale footwear manufacturers, *see annex IV*.
- **Small manufacturers:** There are around 300 small manufacturers all over the country that have daily production capacity of approximately 100 pairs of footwear.
- **Micro-level manufacturers:** There are around

1,200 micro-level manufacturers all over the country which manufacture 500 to 6,000 pairs of footwear annually. This level includes manufacturers of natural fibre- and felt-based shoes.

3.2.3 Types of footwear manufactured in Nepal

The following types of footwear are manufactured in Nepal:

- **Footwear with outer soles of rubber or plastic:** low price, high volume production and export;
- **Footwear with outer soles of leather or composition of leather and uppers of textile materials:** medium price, medium volume of production and low volume of export;
- **Sports footwear, including tennis shoes, basketball shoes and gym shoes, with outer soles of rubber or plastic:** medium price and high volume of production and medium volume of export.

Other footwear classified under HS 6404

- **Leather footwear:** high price and low volume of production and almost no export;
- **Ladies sandals:** low price and low scale of production;
- **Different types of slippers:** low price and low production;
- **The other types of footwear produced in Nepal are felt and natural fibre-based:** medium price, very little production and export.

3.2.4 Export performance of Nepal

Footwear export has been increasing every year, except in FY 2013/14. The export volume is 6,331,672 pairs in FY 2011/12 and 8,593,169 pairs in FY 2014/15. The export destination has always been a single country, India, which takes up more than 99 per cent of the total export.

Table 6 shows the export performance of footwear for four years.

Only two of the 1,500 footwear manufacturers had export capacity under HS 6404.

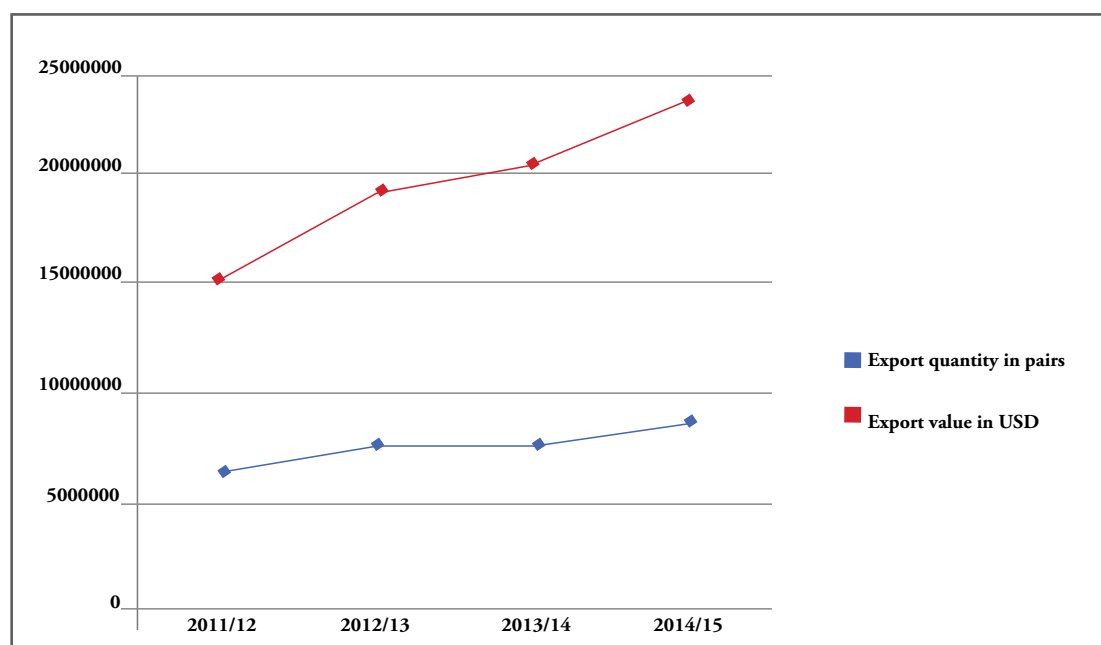
As shown on table 6, this sector has contributed significantly to export with 52.62 per cent of export value (in US dollars) and 35.72 per cent in volume in the last five years (from 2011/12 to 2014/15). The

Table 6: Export performance of Nepalese footwear

Export performance over four years					Up or down from FY 2011/12 to 2014/015 (in per cent)
	2011/2012	2012/2013	2013/2014	2014/2015	
Export quantity (in pairs)	6,331,672	7,597,964	7,343,619	8,593,169	35.72 (Increase in volume)
Export value (in '000 NPR)	1,357,553	1,702,452	1,965,494	2,363,112	74.07 (Increase in value)
Export value (in '000 USD)	15,219	19,211	20,368	23,227	52.62 (Increase in value) ⁴
Footwear under HS code 6404- Footwear, with Outer Soles of Rubber, Plastics, Leather or Composition Leather and Uppers of Textile Materials					
Export quantity (in pairs)	5,470,122	6,845,699	7,120,196	8,411,867	53.78 (Increase in volume)
Export value (in '000 NPR)	1,274,851	1,638,155	1,938,117	2,346,329	84.05 (Increase in value)
Export value (in '000 USD)	14,292	18,485	20,084	23,062	61.36 (Increase in value)
Exchange rate	89.20	88.62	96.50	101.74	

Source: TEPC

Export performance of Nepalese footwear over the last four years



Source: TEPC

4. Exchange rate NRB 2011/12 NRs. 89.20, 2012/13 NRs. 88.62, 2013/14 NRs. 96.50 and 2014/15 NRs. 101.74

figure (in page 29) shows the increasing trend.

At the same time, for the footwear under HS code 6404 within four years, the export volume increased by 53.78 per cent and the value (in US dollar) by 61.36 per cent.

Furthermore, the Felt Association is exporting 200,000 pairs of felt-based footwear to European countries and Japan. The demand for felt-based footwear is high in Europe.

3.2.5 Types of exported products

Many varieties of footwear are produced in the country, such as waterproof footwear with outer soles and rubber and plastic uppers, footwear with textile uppers, sports footwear incorporating a protective metal toe-cap or fabric, leather footwear, sandals, canvas shoes having upper cotton parts, footwear incorporating a protective metal toe-cap, footwear covering the ankle but not covering the knee, footwear with upper straps or thongs assembled to the sole by means of plugs, footwear with outer sole of leather and uppers which consist of leather strap across the instep and around the big toe, footwear covering the ankle with outer sole of leather and many others. Almost all types of products with 90 per cent men's segment are exported, but as per TEPC records, the major exports under HS 6404 are:

- Sports footwear, including tennis shoes, basketball shoes and gym shoes, with outer soles of rubber or plastic and uppers of textile materials;
- Footwear, with outer soles of rubber or plastic and uppers of textile materials; and
- Footwear, with outer soles of leather or

composition leather and uppers of textile materials.

3.2.6 Current export destinations

As per TEPC records, India is the major market for Nepalese footwear (over 99 per cent of Nepal's exports in terms of value and volume) in 2014/15.

The other destinations are Japan, Thailand, China, the UK, the USA, Belarus, Bhutan, Israel, Brazil, Kenya, Canada, France, Germany, the Netherlands, Australia, Portugal and Spain. A small amount of exports were to these countries in 2014/15.

The export price of HS 6404 product to India on average is US\$2.74, whereas it is US\$6.09 in the case of other destinations.

3.2.7 Potential market destinations

Gulf countries seem to be highly potential markets for Nepalese footwear, but the requirement of certification of *Halal* leather-based materials is a major constraint for market penetration into the Gulf market. Besides India, potential destinations for Nepalese footwear are the European countries and the top ten footwear importing countries of Asia (namely Japan, Hong Kong, South Korea, China, the UAE, Turkey, Singapore, Vietnam, Saudi Arabia and Kazakhstan). The other potential destinations are Iran, Mauritania, Myanmar, Kyrgyzstan, Kazakhstan, Somalia, Gambia, Tanzania, Ghana, Guinea, Yemen, Kenya, Congo, Syrian Arab Republic, Cameroon, Djibouti, Cambodia, Nigeria, Vietnam, Sierra Leone, North Korea, Sri Lanka, Bahrain and the UAE. These are the fastest-growing countries in footwear import.⁵

Table 7: Footwear export by destinations in FY 2014/15

Countries of export	Export volume (in pairs)	Export value (in USD)
Total export	8,593,169 (100%)	23,227
India	8,586,294 (99.92%)	23,201
Rest of the world	6,875 (0.08%)	26
Footwear under HS 6404		
Total export under HS 6404	8,411,867 (100%)	23,062
India	8,410,185 (99.98%)	23,053
Overseas-Japan	1,682 (0.02%)	9

Source: TEPC

5. Source: www.worldsrichestcountries.com



3.3 Import Condition

Because of the increasing fashion consciousness and open market economy, 58 per cent of the domestic market is covered by imported footwear, whereas domestic production covers the remaining 42 per cent. As per TEPC records, 29,540,154 pairs of footwear were imported into Nepal in 2014/15. Of this, 62 per cent comes from China, P.R., and the rest of the imports are from India, Thailand, Korea, and the rest of the world.

Table 8 shows the import data of all types of footwear and footwear under HS 6404 for four consecutive years, i.e. from 2011/12 to 2014/15.

While, table 8 shows that, from FY 2011/12 to 2014/15, the import volume of all types of footwear reduced by 34 per cent, but import value increased by 0.25 per cent in terms of US dollar. At the same time, the imported footwear under HS 6404 decreased by 66 per cent in terms of volume and 39 per cent in terms of value (in US dollar).

3.4 Trade Balance

This sector is contributing to the country's economy by narrowing the trade deficit. The rate at which the export is growing is much higher than the import. Furthermore, the increase in footwear export and the concomitant decrease in import under HS code 6404 are encouraging, compared to overall footwear export and import in terms of value and volume. So, upgrading footwear value chain can contribute to the country's economy in terms of trade balance.

After the privatisation of the GoN-owned Bansbari Shoes Factory, a number of private sector factories emerged in this sector. Currently, around 1,500 manufacturers are estimated to be manufacturing 30

million pairs of footwear⁶ annually in Nepal. More than 95 per cent of footwear for school and other formal dresses are covered by Nepalese products, and more than 42 per cent of domestic footwear market is covered by domestic products. Nepalese Footwear Association has prepared a strategic plan to cover 80 per cent of the domestic market by the end of 2018. The domestic demand is increasing because of cheaper price and durability of the Nepalese footwear products.

3.5 Footwear sector under the Nepal Trade Integration Strategy (NTIS) 2016

The GoN has reviewed the NTIS 2010 and reduced the number of prioritised products and services from 19 to 12 in the updated the NTIS 2016. It has identified footwear as one of the export potential products. The NTIS 2016 targets to increase production from 30 million pairs to 45 million pairs and increase exports from 7.8 million pairs to 12 million pairs by 2020 through nine short-term and two medium-term actions with the following overall results:

- Export to GDP ratio of 9 NTIS 2016 goods will be increased from 2.13 per cent in 2013 to 4 per cent by 2020 by strengthening the product and value chain development; and
- Trade-related cross-cutting issues will be further improved and enhanced by 2020 compared to 2014.

The NTIS 2016 has laid down the outcomes and actions for enabling the footwear sector and for increasing production and exports in five years. For details, *see annex VIII*.

As per the above matrix, five of the nine short- and two medium-term actions require external support for implementing the NTIS 2016.

Objectives of the NTIS 2016

The overall objectives of the NTIS 2016 are:

- Strengthen trade and export enabling environment;
- Focus on product development and strengthen supply capacity of priority products;
- Strengthen institutional capacity, trade negotiation and inter-agency coordination; and
- Build and enhance trade-related infrastructure.

6. Source: Five-Year Strategic Plan for LFGMAN, prepared by HELVETAS

Table 8: Import condition of footwear

Import over four years					Difference from FY 2011/12 and 2014/15
	2011/2012	2012/2013	2013/2014	2014/2015	
Import quantity (in pairs)	44,453,623	43,416,994	42,056,231	29,540,154	34% (Decrease in value)
Import value (in '000 NPR)	2,219,708	2,510,663	2,832,349	2,538,178	14% (Increase in value)
Import value (in '000 USD)	24,885	28,331	29,351	24,948	0.25% (Increase in value)
Imported Footwear under HS code 6404					
Import quantity (in pairs)	18,453,375	1,686,227	5,400,500	6,258,772	66% (Decrease in volume)
Import value (in '000 NPR)	1,097,224	1,157,704	524,240	759,437	31% (Decrease in value)
Import value (in '000 USD)	12,301	13,064	5,433	7,464	39% (Decrease in volume)
Exchange rate	89.20	88.62	96.50	101.74	

Source: TEPC

Table 9: Trade balance

Years	Export			Import			Difference in export and import 2010/11-2014/2015		
	Pairs	Value in USD in '000	Value in NRs. in '000	Pairs	Value in USD in '000	Value in NRs. in '000	In volume	In value '000 NPR	In value '000 USD
2011/12	6,331,672	15,219	1,357,553	44,453,623	24,885	2,219,708	38,121,951 deficit	862,155 deficit	9,665 deficit
2012/13	7,597,964	19,211	1,702,452	43,416,994	28,331	2,510,663	35,819,030 deficit	808,211 deficit	9,120 deficit
2013/14	7,343,619	20,368	1,965,494	42,056,231	29,351	2,832,349	34,712,612 deficit	866,855 deficit	8,983 deficit
2014/15	8,593,169	23,227	2,363,112	29,540,154	24,948	2,538,178	20,946,985 deficit	175,066 deficit	1,721 deficit

Source: TEPC

4. VALUE CHAIN MAPPING AND ANALYSIS

More than 36 types of raw materials, including leather, sole, resin, lining, interlining, Poly Vinyl Chloride (PVC) sole, nylon net, rubber, elastic, cloth lace and chemicals, are used as inputs in footwear production.



4.1 Overview

The value chain mapping of the footwear sector describes the functional sequence of the footwear business flow that takes place from the input supply to the end market. During the FGDs, the members of FMAN presented this flow as shown in Figure 1.

Of the imported raw materials, 75 per cent travel in a minimum of two steps from the foreign producers' gate to domestic importers and wholesalers to reach footwear manufacturers, and around 25 per cent of the manufacturers directly import raw materials to their factories. Domestic raw materials travel both ways: direct to manufacturers and through wholesalers/retailers.

Similarly, the final footwear product travels two to three steps from the factory gate to the end market. In the case of exports, the export agents or foreign dealers involve in export and reach the final consumers through wholesalers and retailers. In the same way, domestic products travel in two steps to reach the end market through wholesalers and retailers.

The supply chain of raw materials, production and supply chain of footwear and marketing chain of footwear, including their value addition, in each step of the chain and their forward and backward linkages are dealt with separately.

Figure 2 shows the input supply chain in the footwear sector.

The basic functions involved in input chain are production, import or local collection and utilisation in footwear manufacture: the major actors involved are raw material manufacturers, domestic and international importers, clearing agents and transporters; and the end market are the Nepalese footwear manufacturers. In the case of domestic products, raw materials are either supplied to manufacturers directly with minimal intermediaries or through wholesale traders at the factory price. The wholesale traders get 2 to 5 per cent bonus from manufacturers.

Another mapping format is followed by other functions like footwear production, trade/end markets—both domestic and international—and ends with consumers—both domestic and international. Altogether 42 per cent of the domestic market was covered by the 1,500 domestic manufacturers who sold 71.36 per cent of their products here. One or two manufacturers exported in large quantities to India and a few small manufacturers exported to other overseas destinations. The export percentage to overseas market is 0.02 per cent, whereas export to India is over 99 per cent.

Figure 3 shows the production and supply chain of footwear VC.

Figure 1: Functional sequence of footwear

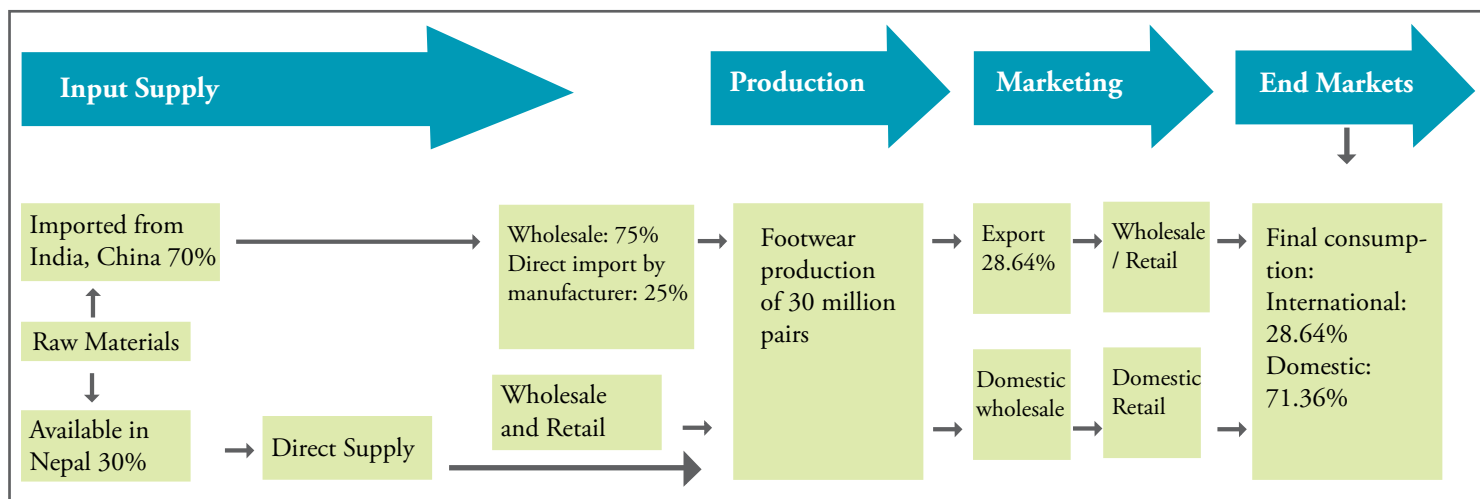


Figure 2: Supply chain of raw materials

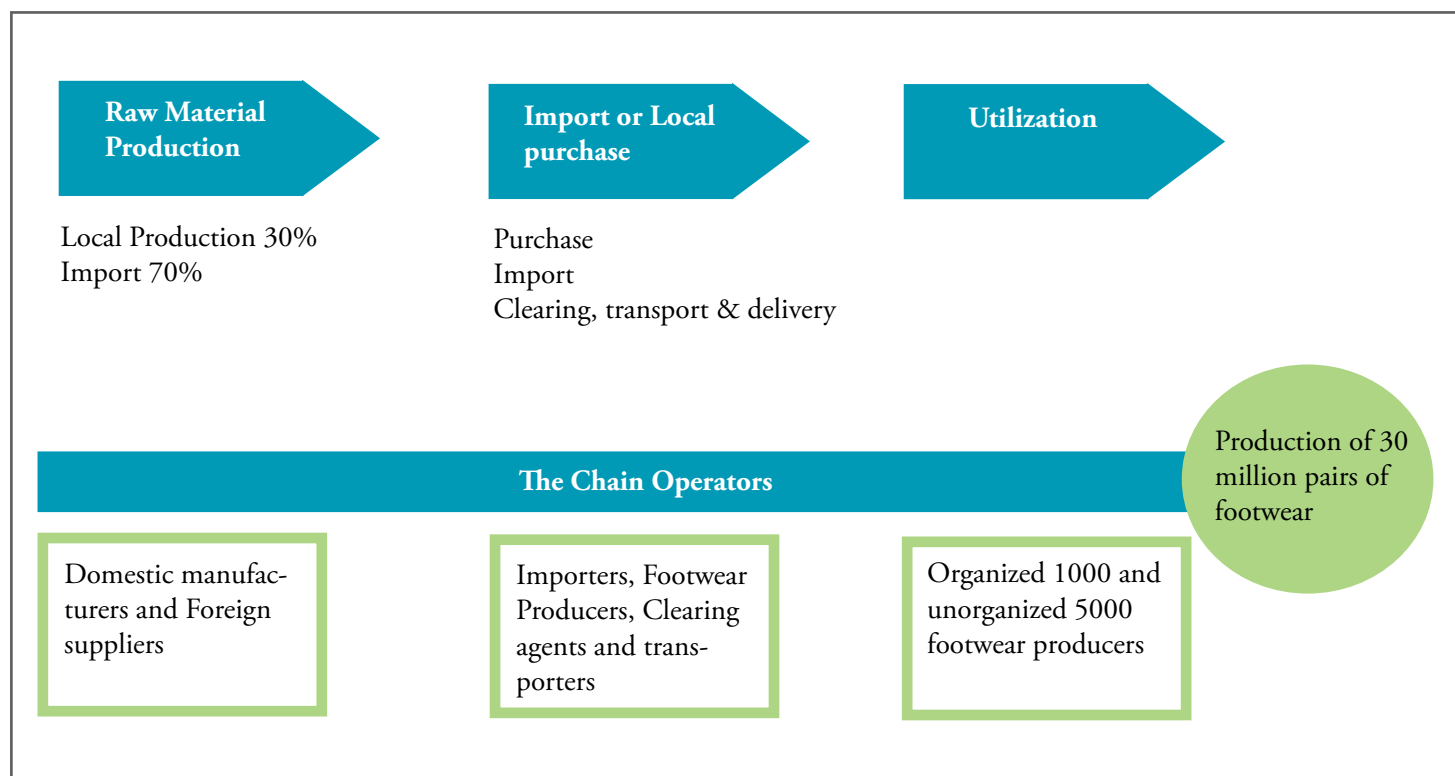
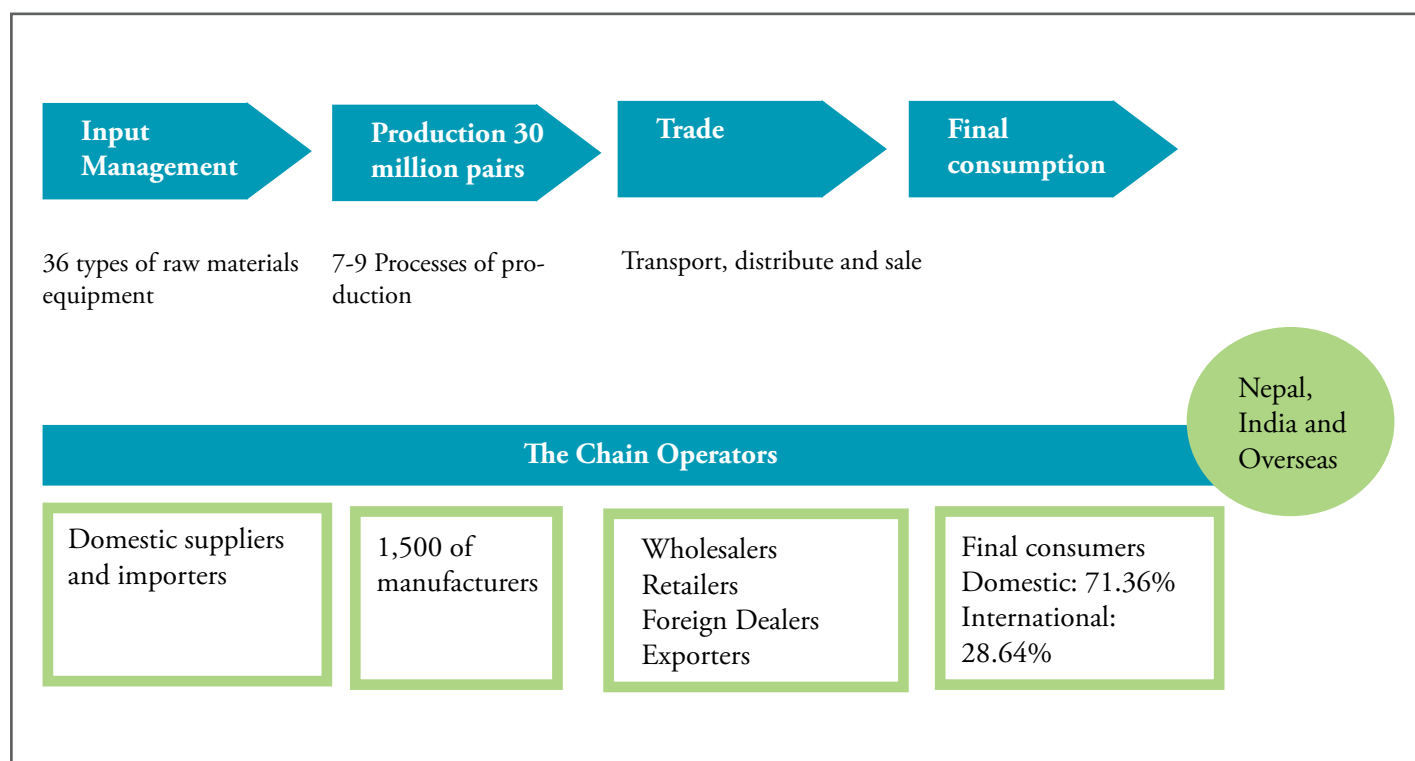


Figure 3: Combined production and supply chain of footwear



As shown in figure 3, there are four basic functions in production and marketing: raw material management, production, trading and consumption. The chain operators involved are raw material supplier-both domestic and importers, manufacturers, wholesalers, retailers, foreign exporters and export agents, and the final consumers.

Figure 4 shows the operators in marketing with three basic functions, starting from finished products to trading to final consumption. Footwear products travel from the factory gate to the end market through three major marketing channels, namely product collectors, exporters (or foreign dealers for foreign end markets/consumers) and wholesale traders and retailers to reach the domestic end market-the consumer.

4.2 Value Chain Mapping

An integrated value chain mapping with the functions of input supply, production, marketing and end market with the primary value chain operators, value chain enablers and supporters/service providers is shown in figure 5 in the next page.

The integrated value chain mapping in figure 5 shows all the components: input supply, production, trading, and forward, backward, vertical and horizontal linkages between different value chain operators. This also shows the involvement of enablers and support-

ers in the strengthening and improvement of the value chain.

Due to the absence of baseline research, the exact number of manufacturers is not available. Since there are several small manufacturers all over the country which are not registered but are producing footwear traditionally, the number of manufacturers is estimated by the FMAN members and some value chain enablers and supporters.

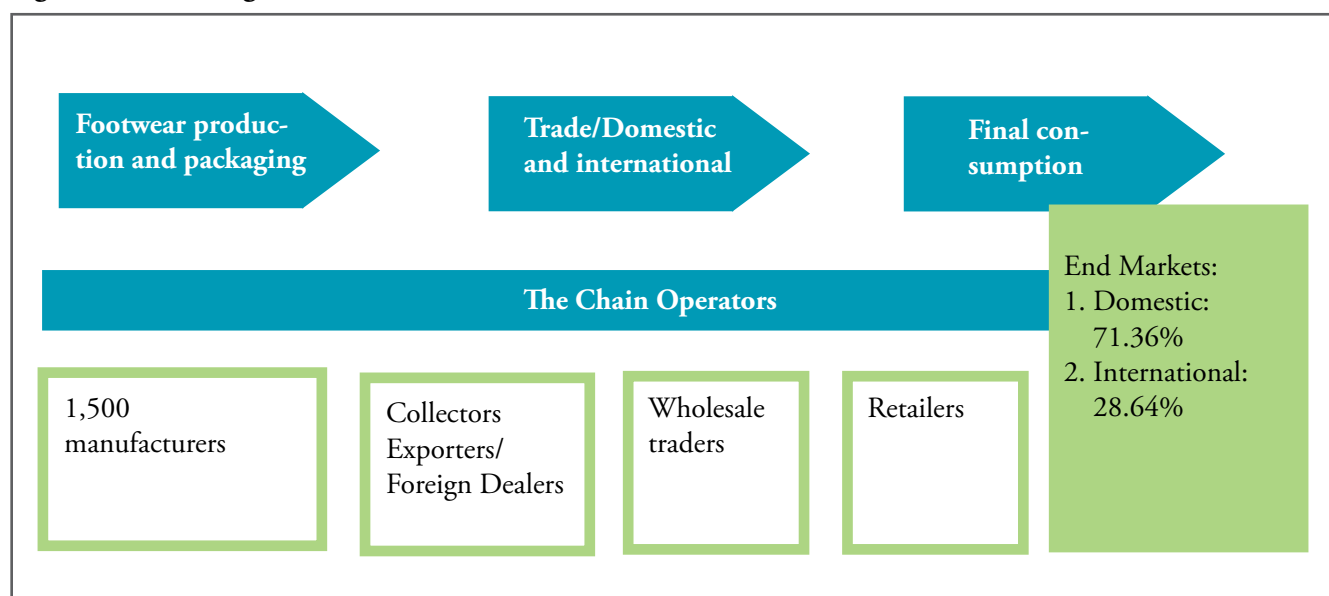
Similarly, the volume of production of all types of footwear is estimated based on the experience of FMAN members and export record authenticated by the TEPC.

4.3 Functions

The major steps in the footwear value chain are: input supply, production/packaging, transportation, exporting and domestic trading (wholesale/retail).

More than 36 types of raw materials, including leather, sole, resin, lining, interlining, Poly Vinyl Chloride (PVC) sole, nylon net, rubber, elastic, cloth lace and chemicals, are used as inputs in footwear production. The major parts of sole, packaging materials, label, lace and cloth and some types of leather are manufactured locally. The input supply function is carried out by raw material importers, who import 70 per cent of the required raw materials from either

Figure 4: Marketing Chain of Footwear



China or India and distribute them to manufacturers directly or through wholesalers. The other input suppliers are domestic manufacturers of raw materials who produce and supply to manufacturers either directly or through wholesalers. Footwear production is done by large-, medium- and small-level factories and micro-level small manufacturers, including traditional manufacturers. Also, there are around 50 companies which produce felt-based products, including footwear. Packaging is done by manufacturers themselves. Most of the exports are done by factories themselves. Some trading companies are also involved in export. Domestic trading is conducted by factory outlets, Nepali Jutta Ghar, wholesalers and retailers.

4.4 Actors

4.4.1 Primary value chain actors

A brief description of the actors involved in the footwear value chain is given below:

4.4.1.1 Input suppliers

The input suppliers in the footwear value chain are the domestic suppliers of raw materials, who supply 30 per cent of the total demand. Other major actors are importers of raw materials, who import from China or India. Altogether 25 per cent of large manufacturers also import required raw materials directly.

The list of domestic input suppliers is given in *annex VI*.

Figure 5: Value chain mapping of footwear

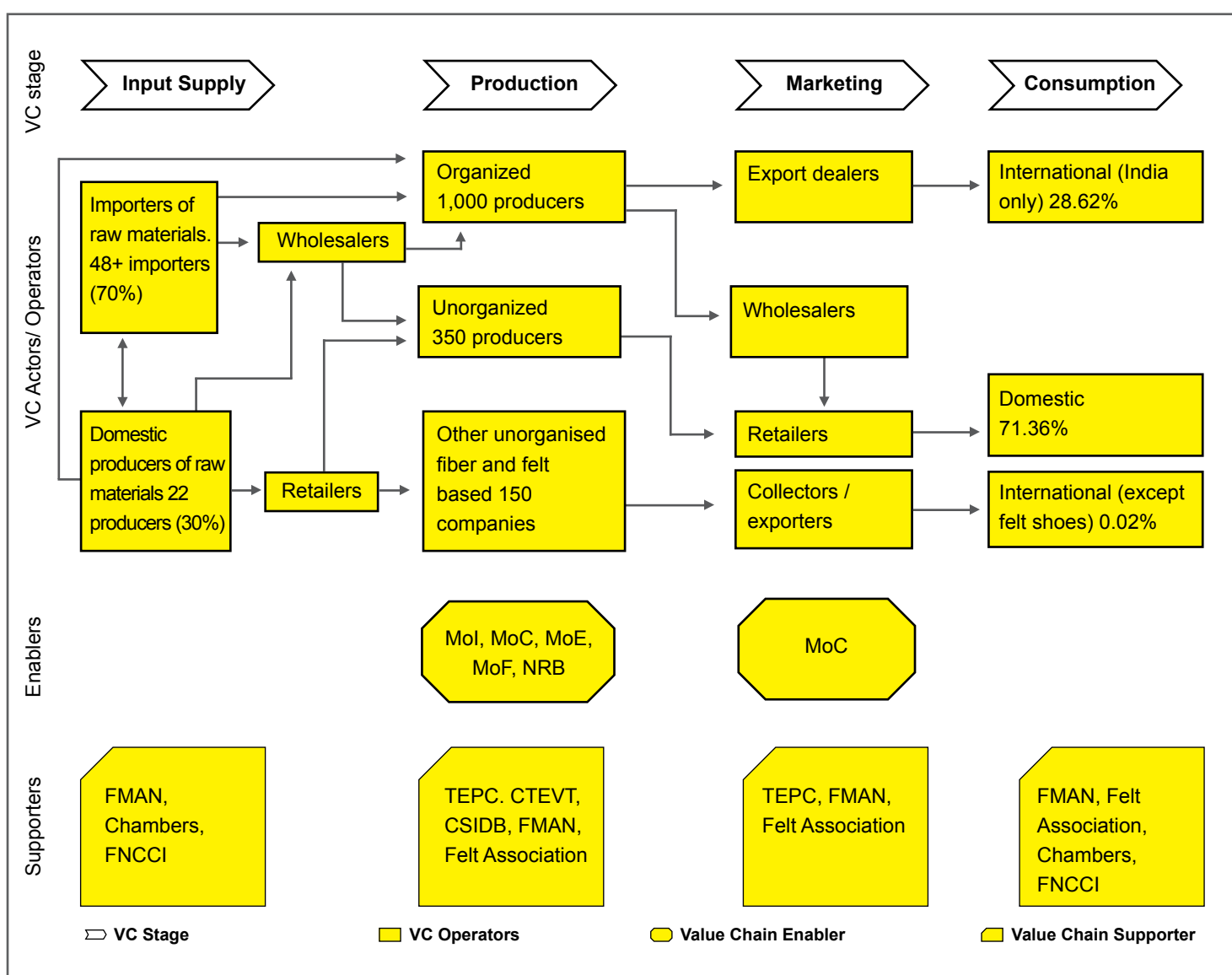


Table 10 shows that the margin of input supplier is a uniform 20 per cent whether it is imported or locally produced, but domestic production entails no transaction cost. On average, the factory gate prices of domestic products are 90 per cent cheaper because of the absence of transaction cost. Nepalese products can be purchased at the transaction costs equivalent to those of imported ones, but the quality of the imported products is lower. The input importers reported that difficulties in transportation from China and huge volume of stock block their money.

Position of input suppliers in the value chain:

The value chain operators were of the view that input suppliers were strong actors in the footwear value chain. They travel one step backward of the value chain up to the manufacturer level and two to three steps forward to the wholesalers, retailers and sometimes direct to the manufacturers. They can play an important role in quality supply and time-management. They have high level of price fixing and bargaining capacity.

4.4.1.2 Footwear manufacturers

There are around 1,500 Nepalese footwear manufacturers, out of which 6 are large manufacturers whose production capacity is above 10,000 pairs per day. 15 are medium category manufacturers whose capacity is between 500 and 1,000 pairs per day, while around 300 are small manufacturers whose production capacity is between 100 and 500 pairs per day and roughly 1,200 are micro-level manufacturers, including felt-based manufacturers, artisans and traditional manufacturers with production capacity between 500 and 10,000 pairs per annum. Around 65 footwear manu-

facturers can manufacture 90 per cent of domestic production and 70 per cent of them are clustered in Kathmandu, Biratnagar, Birgunj and Butwal. They are manufacturing 30 million pairs of different types of footwear annually.

Position of manufacturers in the value chain:

According to some value chain operators, the majority of the manufacturers, including micro-level and artisan-level ones, are relatively weak actors in price fixing and price bargaining. They travel one step backward to input suppliers and one step forward to end consumers. The major large- and medium-scale manufacturers travel backward - one or two steps up to input suppliers and raw material suppliers and forward - again two to three steps up to domestic wholesale traders, exporters or foreign dealers and end consumers. Relatively, they are strong actors in terms of market intelligence and influence, price bargaining and policy influence, but a large number of low profile manufacturers seem to be weak in investment capacity, market access, skill and policy influence.

4.4.1.3 Wholesale traders

Wholesalers are the immediate first step forward actors in the value chain, and most of the large- and medium-scale manufacturers depend on them for distribution of footwear to domestic retailers. So, wholesalers travel one step backward to manufacturers and one step forward to retailers. A few wholesalers travelled forward up to foreign dealers and exported the footwear products.

Wholesale traders are also strong chain operators or actors in the value chain. They have strong capac-

Table 10: Cost and margin of input supply

SN	Input source	Material cost at factory gate (in NRs.)	Value added during import management function (in %)	Value added during transport, clearing and delivery (in %)	Per cent of importers/producer's margin (in %)	Total price increased in purchase price (in %)
1	Purchase from China (factory gate)	100	45	45	20	110
2	Purchase from India (factory gate)	100	45	45	20	110
3	Domestic production	100	0	0	20	20

ity for market intelligence, developing market access strategies, price bargaining and influencing the market segment.

4.4.1.4 Retailers

The retailing function is mainly carried out by retailers, but some large- and medium-scale manufacturers have established common retail outlets in the name of Nepali Jutta Ghar, which sells 2 per cent of the total manufactured products.

A large number of micro-level manufacturers retail their products. They do not need other actors in their value chain. The retailers have direct forward linkage with the end market/consumers. They are also highly influential on consumers. Except micro-level manufacturers, who sell direct to consumers, retailers travel one step backward to approach wholesalers and one step forward to the final consumers. They are also relatively weak in influencing the overall market.

4.4.1.5 Indian dealers

Indian dealers are used by only one large producer, Kiran Shoes Manufacturers, which collect footwear from the factory gate and export them directly to India. In this line, they travel one step backward to manufacturers and one step forward to wholesalers. They are quite powerful value chain actors in influencing Nepalese manufacturers and Indian market.

4.4.1.6 Export agents

Very few manufacturers were using some export agents who collected footwear from the factory gate and exported them to the international market. Export agents are highly strong actors in the footwear value chain, and they have high market intelligence. They are very important actors who develop strategies for accessing the global footwear market. They travel one step backward to manufacturers and one step forward to international dealers.

4.4.1.7 Collectors/exporters for natural fibre- and felt-based footwear

The other value chain actors in the footwear sector are the collectors. They collect natural fibre- and felt-based footwear and export them to European countries, the USA and Japan.

4.4.1.8 End market/final consumers

The final end markets of Nepalese footwear are mainly domestic consumers who consume 71.36 per cent of domestic production. Domestic consumers mainly consist of school students (for school uniform), young people, above 30 years, elderly people, Nepali Army and Nepal Police (for uniform) and women (for ladies sandals), who find Nepalese footwear cheaper and more durable than foreign footwear products.

Another end market for Nepalese footwear is India, where 28.62 per cent of the products are exported through export agents and Indian dealers in various states. Mainly petro-chemical-based footwear like those with outer soles of rubber or plastic, outer soles of leather or composition of leather and uppers of textile materials and tennis shoes, basketball shoes and gym shoes, with outer soles of rubber or plastic are exported to India. The Indian market is vast and has high potential for Nepalese footwear market.

The other destinations are Japan, Thailand, China, the UK, the USA, Belarus, Bhutan, Israel, Brazil, Kenya, Canada, France, Germany, the Netherlands, Australia, Portugal and Spain, with a little exports in 2014/15.

The export price to India is US\$2.7 on average whereas to other destinations it is US\$3.80.

4.4.2 Enablers and facilitators of value chain

Many government ministries and departments, footwear-specific organisations, INGOs and business organisations have been, or are being, involved in the development of the footwear sector and have been, or will be, conducting various activities at different levels of the footwear value chain in accordance with the NTIS 2016. The GoN ministries like MoC, Ministry of Industry (MoI) and its agencies have updated the NTIS 2010 and prepared several actions for product development and export diversification for the period 2016–2020.

The enablers and facilitators are summarised below:

4.4.2.1 Government ministries and departments:

The MoC and TEPC are directly involved in providing support to the footwear sector and are responsible for formulating and executing policy at the national



level. The MoC is the leading ministry for the implementation of the NTIS, whereas TEPC is the leading organisation for the execution of export promotion and for providing skill training to the workforce.

4.4.2.2 MoI, DoCSI/CSIDB:

The MoI is the leading ministry in the policy formulation and monitoring of policy under the overall industrial sector, including footwear. The Department of Cottage & Small Industry (DoCSI) and Cottage & Small Industry Development Board (CSIDB) are the main executing organisations that provide skill training to small manufacturers all over the country and manage small industries. The Company Registrar's Office is responsible for the administration and regulation of footwear companies.

4.4.2.3 Ministry of Education/CTEVT:

For design and delivery, skill training is required by small-, medium- and large-scale manufacturers so that the labour crisis under the footwear sector is normalised with new employment opportunities for Nepalese and so that Indian labour force is gradually replaced. The Ministry of Education (MoE)/Centre for Technical Education and Vocational Training (CTEVT) is responsible for providing the essential training to the above-mentioned manufacturers.

4.4.2.4 MoF and DoC:

The role of MoF and DoC is to fix tariff on import of raw materials and control import of pirated footwear. Similarly, they need to continue their current responsibility of export facilitation.

4.4.2.5 Nepal Rastra Bank:

The Nepal Rastra Bank is responsible for providing soft loans to small and medium manufacturers so that they can have access to productive technology.

4.4.2.6 Footwear-specific organisations

Nepal Footwear Manufacturers' Association (FMAN): The large, medium and small footwear manufacturers organised themselves into a private association, FMAN, fifteen years ago. About 63 footwear manufacturers and leather goods manufacturers are actively working for the improvement of the sector and are trying to ensure their rights, apart from increasing domestic supply and export. They have an important role in the successful implementation of the NTIS 2016, which consists of employment creation, ensuring quality production, acquiring a common trademark for Nepalese footwear, assisting the GoN in controlling import of footwear of pirated brands and monitoring the market.

At the same time, the FMAN is lobbying with the GoN for soft loans for small manufacturers, establishment of CFCs, skill development in market intelligence, establishment of a footwear research centre and development of supply chain strategy so that trade deficit is reduced through increase in exports and decrease in import, as well as increase in the domestic market share of Nepalese footwear.

Nepal Leather Footwear Association: This organisation is similar to FMAN, but it has a low profile and works as a leather footwear manufacturers' umbrella association. Some 40 small manufacturers are organised under the association, which works for the benefit of indigenous artisans who produce leather footwear on small scale.

Felt Association: A total of 70 manufacturers of felt-based products are organised for their collective development and to increase employment and export of felt-based products. Among them 50 companies are manufacturing and exporting felt-based footwear to European countries, the USA and Japan. Felt Association is one of the support organisations for felt-based manufacturers and works closely with the MoC/TEPC.

4.4.2.7 International nongovernmental organisations:

Nepal-German Trade Promotion Programme: TPP will be supporting in the implementation of the NTIS 2016 for Nepal's integration into regional and international markets. Product development, market access, quality standards, and marketing of goods and services of Nepalese enterprises require:

- (i) improving the implementation of the trade strategy;
- (ii) improving the trade-related environment; and
- (iii) strengthening the export potential in the footwear value chain.

HELVETAS-ENSSURE Programme: The ENSURE project is being jointly implemented with CTEVT for enhancing skills through training to generate employment. Currently, the project is in the preparation phase, and it is considered as a possible service provider in the footwear value chain.

4.4.2.8 Other business-related organisations

FNCCI: Federation of Nepalese Chambers of Commerce and Industry (FNCCI) is an overall umbrella organisation of Nepalese businesses and industries formed for supporting the creation of industrial relationship and business development. This organisation also works for the benefit of footwear entrepreneurs.

Chamber of Commerce: The Chamber of Commerce is working for the benefit of the footwear sector by promoting and protecting trade, commerce and industry for the development of linkages between several commercial and industrial communities within and outside the country.

4.5 Value Chain Governance

The Nepalese footwear trade is mainly led by Indian dealers or importers in Delhi, Uttar Pradesh, Bihar, West Bengal and South India. As over 99 per cent of the exports go to India, the price is usually determined jointly by Indian importers or agents and manufacturers based on the quality of product. Payment is done mostly on credit. The relationship between exporters and importers is quite stable.

The largest exporter of Nepalese footwear is Kiran Shoe Manufacturers. The Indian importers/agents do not have a choice on the types of shoes they import; so, they purchase all the shoes of the Gold Star brand, which is very popular in India. Export environment is not yet favourable for other manufacturers.

Domestic trade is done through wholesalers, retailers, locally owned sales outlets and common outlets. So, price is determined by manufacturers and payment to wholesalers and retailers is made on short-term credit.

The relationship between manufacturers, wholesalers and retailers is stable. The relationship between manufacturers and workers seems to be very weak; mistrust exists between them because of the low scale of payment. There is high turnover of labour because of which the manufacturers frequently face shortage of workforce.

4.6 Horizontal and Vertical Linkages

Vertical linkages: Vertical linkages can be attained through cooperation between different actors, who enjoy the benefit of skill transfer among themselves.

In the footwear value chain, vertical linkages exist between input suppliers, footwear manufacturers and domestic traders. In the case of export, a vertical linkage exists between manufacturers and exporters or Indian dealers in the case of export to India and other dealers or collectors in the case of overseas exports.

Domestic raw material manufacturers supply raw materials to manufacturers directly or through dealers with the payment mechanism of 2.5 per cent to 5 per cent bonus on the sales amount. Importers of raw materials also supply raw materials to manufacturers directly or through dealers. Usually, payment is done on credit. Sometimes, the relationship between input suppliers and manufacturers is strained due to late payment of credit purchases.

Kiran Shoe Manufacturers export to India directly through Indian dealers who have linkages and experience of product branding in India. So, their linkages are quite strong and stable. Some sales are made through other export agents or overseas exporters. The linkage between manufacturers and export agents, however, is not stable. This linkage is random and export destinations are also not fixed. Overall, there are good vertical linkages between manufacturers and Indian dealers but weak verti-

cal linkages between manufacturers, traders other than the previously mentioned Indian dealers and overseas exporters.

Horizontal linkages: Horizontal linkages represent the relationships between different actors operating at the same level of the value chain. It can be seen at footwear manufacturers' level, where various producer-based associations are actively working. The association members organise meetings periodically and share the status of production, input procurement and output marketing. The manufacturer-based umbrella associations are:

- FMAN, with membership of 63 large, medium and small footwear manufacturers who manufacture over 70 per cent of the footwear in Nepal, more than 99 per cent export is done by the members of this umbrella association.
- LFMAN is an indigenous craftsmen's association and umbrella association of 40 odd small leather footwear manufacturers scattered in and around the Kathmandu valley. Hundred per cent of their products are marketed directly to domestic consumers.
- Felt Association is also another umbrella association which works for the benefit of felt-based manufacturers. 50 companies are manufacturing felt-based footwear and exporting them to European countries, the USA and Japan.

Development partners, HELVETAS and GIZ are supporting the footwear sector. HELVETAS has been helping develop skilled labour force.



1. Raw Material Management



2. Finalising Design



3. Cutting



4. Upper Stitching



5. Lasting

The following steps are adopted for the production of Nepalese footwear:

Steps of machine and manual mixed.

1. Raw Material Management
2. Finalising Design
3. Cutting
4. Upper Stitching
5. Lasting
6. Pasting Sole
7. Finishing (Polishing)
8. Price Tagging
9. Packaging
10. Marketing

The footwear with outer sole of rubber or plastics, tennis shoes, basketball shoes and gym shoes, with outer soles of rubber or plastic and slippers production are mainly machine centered. Outer soles of leather or composition of leather and uppers of textile materials, felt, fibre or natural fibre based footwear are produced in manual only, or manual and machine method.



10. Marketing



9. Packaging



8. Price Tagging



7. Finishing (Polishing)



6. Pasting Sole

5. ANALYSIS AND FINDINGS

...the GoN and donors invested in the development of the skills of the Nepalese youth, which were needed in the Gulf countries and not in the skills utilised within Nepal. Scarcity of labour force is a bottleneck.



5.1 Overview

Out of the total 1,000 organised footwear manufacturers, only one or two large-scale manufacturers export petro-chemical-based and sports footwear which are under HS code 6404. Over 500 small entrepreneurs manufacture leather, natural fibre- and wool-based footwear, which are collected by traders for export to European and other far-off destinations. Manufacturers with high investment are providing employment to up to 2,500 workers. Labour productivity is estimated to be 1:3 pairs in manual and 1:10 pairs in manual plus machine methods.

Basically, footwear manufacturing is labour-intensive with the possibility of high percentage of women workers. Some manufacturers have more than 90 per cent women workers. In general, 30 per cent women workers are estimated to be working in the manufacturing of factory-based footwear. Furthermore, most of the skilled workers in the unorganised sector of footwear production based on natural fibre and wool are women.

Approximately 60,000 workers are estimated to be employed in this sector, but up to 30 per cent of skilled workers are Indian. Manufacturers are investing in the development of the skills of Nepalese workers, but the trend of going abroad after gaining some experience is a bottleneck on the supply side.

Manufacturers complained that the GoN and donors invested in the development of the skills of the Nepalese youth, which were needed in the Gulf countries and not in the skills (except a small number by HEL-VETAS/Employment Fund) utilised within Nepal. Still, scarcity of labour force is a bottleneck. Owing to this, the high demand for footwear from India could not be met.

Nepal's major competitors in the global market are China and India, and the competition is in terms of price, design, quality and volume. One of the factors that increase price in Nepal is the power cut. Exporters/manufacturers reported that the power cut increases the energy cost by 35 per cent because

of the use of diesel plants for energy (1 hour=600 litres of diesel).

Tariff is another factor affecting global competition in terms of price. More than 99 per cent of Nepal's footwear exports are to India. The GoN provides rebate only against the payment received in US dollars, whereas foreign competitors exporting to India are supported by their governments. The major exporters have branded their products in India and are paying TDS (Tax Deductible at Source) in both Nepal and India.

Footwear industries require 36 types of raw materials -70 per cent of which are imported - for, five to nine processes of production. The GoN has not yet identified the nature of raw materials for this sector. The import taxes on some of the raw materials are higher than the cost of the finished product, which is affecting the cost of production and global competition.

Generally, there is a high competition in the quality of export footwear of synthetic, nylon and some leather-based raw materials, with 20 per cent cost in labour charge in Nepalese footwear production process. So, strong GoN support is required.

5.2 Socio-economic and Environmental Impact

The study team, in consultation with various stakeholders and value chain enablers, identified the following socio-economic impact in the footwear sector of Nepal:

- **Employment and job creation:** This sector is gradually increasing employment opportunities. Currently, around 60,000 persons are employed in the production sector alone. Employment is even higher in sectors of import of raw materials, export of footwear and internal marketing.
- **Gender impact:** This sector provides income opportunities to women. In the production sector, which entails about seven to nine processes, 90 per cent of the processes are women-friendly. Some of the manufacturers had more than 90

per cent women employees: on average around 30 per cent in labour and around 20 per cent in administrative jobs. The natural fibre- and felt-based footwear production has more opportunities for female employees.

- **Skill development and skill transfer:** Manufacturers are providing on-the-job skill training and, with the involvement of skilled Indian labour, there is a possibility of transferring designers' skills to Nepalese labour. The LFGMAN, through its five-year strategic plan, aims to develop the skills of 23,000 youth through the manufacturers associated with it, supported by donors. These strategic plans will result in an overall of 100,000 youths acquiring skills.
- **Energy and water consumption:** Most of the production processes are manual and labour-intensive and do not require water and energy. Even some manufacturers who had installed high-tech machines had processes that included more than 50 per cent of manual labour. 90 per cent of the manufacturers reported little effect of power cuts. So, energy consumption is negligible. However, some big manufacturers claimed that they had to spend 600 to 700 litres of diesel per hour for power generation during power cuts, which increased the energy cost by 35 per cent.
- **Environmental impact:** This sector has relatively little adverse environmental impact. The cut pieces of leather are safely disposed of and synthetic cut pieces are recycled. Almost no noise and smoke is generated and some bad smell that is generated is limited to production areas.

5.3 Areas of Competitive Advantage in Global Market

The study team identified the following competitive advantages of Nepalese footwear:

Handmade products: Consumers in European countries and the USA are highly interested in handmade items. The natural fibre- or felt-based footwear are products unique to Nepal. There are

no competitors for such products anywhere in the world. At the same time, other raw material-based footwear are also mainly handmade. If proper marketing can be done, Nepalese handmade footwear may gain easy access to the global market.

Pure leather products: Nepal has the capacity to prepare 100 per cent leather-based footwear, which are very cheap and eco-friendly.

5.4 Sustainability of Production and Supply (export)

In general, products should be competitive in terms of price and quality. This calls for the following considerations:

- Support for participation in international trade fairs for international market promotion;
- Development of footwear zones and CFCs;
- Incentive in export;
- Skill development of Nepalese youth;
- Implementation of collective trademark for Nepalese footwear;
- Facilitation for acquiring an NS trademark;
- Modernisation of footwear industries at international level; and
- Promotion of cooperation and collaboration between industries and small manufacturers.

5.5 Analysis of Cost of Production, Margin and Value Addition

Several types of footwear are being manufactured in Nepal. The production cost, margin and value addition could not be analysed for each type of shoes, sandals and slippers. Only those types of footwear were considered for analysis which were manufactured in Nepal and were exported or had export potential such as footwear with outer soles of rubber or plastic and leather or composition of leather. Tables 11, 12, 13, 14 and 15 show the production cost and gross margin, including value addition.

Table 11: Production cost and margin analysis of men's leather or composition of leather shoes (economic quality)

Direct cost of a pair	Explanation	Per pair production cost (NPR)
Required raw materials	Upper leather, inner lining with shocks, insole with top-up and counter, leather lining, Polyurethane (PU) sole, chemicals, finishing polish, lace and other small material	585
Labour cost up to lasting	In the overall process, steps like upper and lining cutting by hand, including colouring, folding, marking and stitching, Skiving, stitching by machine, insole, top-up and counter-cutting by hand, insole fitting, top-up and counter fitting on upper, bottoming and sole pasting, shocks lining, label teaching/screen printing, shock lining, gluing shock lining gluing and fixing	130
Operational cost	All overheads	30
Final product packaging	Packing box, support and wrapping paper	20
Interest	Interest on investment	4.50
Depreciation	In machine, building and equipment	5
Direct tax	As per GoN rules	9.50
Utilities cost	Rent, power, water, etc.	10
Total per pair production cost		794
Per pair selling price from the factory gate		1,000
Gross margin		206
Gross margin in selling price (factory gate)		25.94%
Value addition	(Selling price: raw material cost)*100/production cost	52.26%

Source: Study survey, 2016.

This category of footwear is common in Nepal and is targeted towards the people above 30 years of age. Most of the medium-, small- and micro-level manufacturers manufacture these types of footwear, targeting the domestic market.

Table 12: Production cost and margin analysis of men's leather or composition of leather shoe (Medium quality)

Direct cost of a pair	Explanation	Per pair production cost (NPR)
Required raw materials	Upper leather, inner lining with shock, insole with top-up and counter, leather lining, PU sole, chemicals, finishing polish, lace and other small materials	900
Labour cost up to lasting	In total process, manual steps like upper and lining cutting, including colouring, folding, marking and stitching, skiving, stitching by machine, insole, top-up and counter- cutting by hand, insole fitting, top-up and counter-fitting on upper, bottoming and sole pasting, shocks lining, label teaching/screen printing, shock lining, gluing, shocks lining, gluing and fixing	227
Operational cost	All overheads	30
Final product packaging	Packing box, support and wrapping paper	20
Interest	Interest on investment	4
Depreciation	In machine, building and equipment	5
Direct tax	As per GoN rule	10
Utilities cost	Rent, power, water, etc.	10
Total per pair production cost		1,206
Per pair selling price from the factory gate		1,500
Gross margin		294
Gross margin in selling price (factory gate)		24.38%
Value addition	(Selling price- raw material cost)*100/production cost	49.75%

Source: Study survey, 2016.

This product is also targeted at the domestic market, especially for middle class people who wear these with formal dresses. Generally, middle class people above 30 years buy these types of products.

If quality and volume could be scaled up, then both products shown in tables 14 and 15 could become high export potentials. The global market also shows that only 14 per cent of the total market is for leather footwear and in terms of value 43 per cent comes under this category.

Table 13: Production cost and margin analysis of men's sports footwear composition of leather, rapine, cotton and nylon, textile (high class)

Direct cost of a pair	Explanation	Per pair production cost (NPR)
Required raw materials	Upper leather, inner lining with shock, insole with top-up and counter, nylon and cotton lining, net cotton fabric, PU sole, chemicals, finishing, lace and other small materials	800
Labour cost up to last-ing	In total production process	287
Operational cost	All overheads	60
Final product packaging	Packing box, support and wrapping paper	25
Interest	Interest on investment	5
Depreciation	In machine, building and equipment	5
Direct tax	As per GoN rules	10
Utilities cost	Rent, power, water, etc.	10
Total per pair production cost		1,202
Per pair selling price from factory gate		1,500
Gross margin		298
Gross margin in selling price (factory gate)		24.79%
Value addition	(Selling price: raw material cost)*100/production cost	58.24%

Table 14: Production cost and margin analysis of men's sports footwear composition of leather, cotton and nylon, textile (middle class)

Direct cost of a pair	Explanation	Per pair production cost (NPR)
Required raw materials	Upper leather, inner lining with shock, insole with top-up and counter, nylon and cotton lining, net cotton fabric, PU sole, chemicals, finishing, lace and other small materials	630
Labour cost up to last-ing	In total production process	250
Operational cost	All overheads	60
Final product packaging	Packing box, support and wrapping paper	25
Interest	Interest in investment	5
Depreciation	In machine, building and equipment	5
Direct tax	As per GoN rules	10
Utilities cost	Rent, power, water, etc.	10
Total per pair production cost		994
Per pair selling price from the factory gate		1,200
Gross margin		206
Gross margin in selling price (factory gate)		20.72%
Value addition	(Selling price: raw material cost)*100/production cost	57.34%

Source: Study survey, 2016.

As deemed under the NTIS 2016 - 2020 for diversifying export destinations, the above types of footwear can be considered to have more export potential.

Table 15: Production cost and gross margin of kids shoes for school uniform: Leather or composition of leather/textile

Cost of a pair	Explanation	Kids Shoes 10-13*, cost of production (in NPR)	School dress shoes 1-5*, cost of production (in NPR)	School dress shoes for Adults 6-10*, cost of production
Required raw materials	Leather upper, resin, PVC sole etc.	190	275	380
Labour cost up to lasting	In total production process	80	100	130
Operational cost	All overheads	20	20	20
Final product packaging	Packing box, support and wrapping paper	14	20	20
Interest	Interest on investment	5	5	5
Depreciation	In machine, building and equipment	5	5	5
Direct tax	As per GoN rules	8	8	8
Utilities cost	Rent, power, water, etc.	8	8	8
Total per pair production cost		330	441	576
Total per pair selling price from factory gate		400	550	700
Gross margin		70	109	124
Gross margin is per cent in selling price		21.02%	24.72%	21.53%
Value addition	(Selling price: raw material cost)*100/production cost	63.63%	62.36%	55.55%

* Size of shoes

Source: Study survey, 2016.

5.6 Key Challenges and Opportunities

5.6.1 Production and productivity

Challenges	Opportunities
Shortage and sustenance of skilled labour with upper stitching and lasting skills and designers is a key issue. Also, skill training at CTEVT doesn't take place in an industrial environment.	CTEVT is one of the enablers of the footwear sector and the GoN is taking initiative for required skill development for footwear production.
The skill training curriculum is lump sum for all the processes, where the required level of skill for certain key production processes is lacking. So, segregated curriculum is needed.	DoCSI is taking initiative for curriculum development.
Long duration of power cuts either increases the production cost or hampers production.	A number of hydropower projects are being constructed and the GoN has declared significant reduction in load shedding hours within a few years.
Development of footwear zones has not materialised.	Nepalese investors are attracted towards footwear manufacturing and the number of manufacturers is increasing.
As per GoN rules, there should be a security post whenever over 500 workers are employed, but it has not happened, and there are some industries with as many as 2,500 workers.	Provision of soft loan of NRs. 100–500 thousands through the DoCSI in 26 districts.
Imported raw materials are 100 per cent costlier than the factory price. Buffalo leather is exported to India in wet blue stage without any value addition, which is afterwards imported with quality tanning.	
The investment capacity of manufacturers in this sector differs widely. Some have invested millions and some have invested low amount. Because of this, they are not able to invest in productive hi-tech machines and equipment. So, lack of well-equipped common facility centres is hampering the quality and quantity of footwear production.	
To meet international standards, quality test laboratories are required, but not all manufacturers can invest in such laboratories. At the same time, felt-based manufacturers are facing problems in measuring the size of footwear as per European standards.	
Supply of substandard raw materials by importers.	
More tariff rate on import of some raw materials compared to finished products.	
The raw materials imported for trading, manufacturing and for importers' consumption in their industries are subject to similar tariff.	
Lack of machines for measuring amount of leather traded remains a cause of quantity not being equal to the amount paid for.	
Lack of provision of soft loan for manufacturers like those in hydropower projects.	
A number of foreign importers are coming forward for contract manufacturing, but because of lack of strict labour laws like those in garment industry in Bangladesh, Nepalese footwear manufacturers hesitate to take the risk of contract manufacturing.	

5.6.2 Domestic Market

Challenges	Opportunities
Free import and sale of pirated brands of footwear in the market without any quality assurance and uncontrolled price	Increasing trust in Nepalese footwear as cheaper and durable
Difficulty in acquiring a collective trademark	Increasing road facilities to approach interior parts of domestic end markets
Difficulty in acquiring NS mark for Nepalese footwear	Improving designs
Under-utilisation of the leather goods manufacturing unit of the DoCSI	
Inability of Nepalese footwear to compete in designs as desired by large numbers of the youth	

5.6.3 Export Market

Challenges	Opportunities
Lack of knowledge about the international market access strategy	The NTIS identifies footwear as export potential goods for 2016-2020
Lack of opportunity to participate in international trade fairs	GIZ initiative to support implementation of the NTIS 2016 for the promotion of footwear export
Lack of interactions or business meetings between Nepalese manufacturers and exporters and foreign importers	Increasing global and domestic demands
Very little exchange visits between domestic and international footwear manufacturers	Opening of new borders with China as trading route by GoN as an effort of trade diversification
Low quality, design and volume of production to approach international markets	
No export subsidy like those provided to competitors in other countries (India provides incentive of up to 6% and China up to 17% to footwear exporters. Nepal does not provide subsidy for IC-using exporters.)	
High rate of import tariff in the biggest global importer, USA (leather shoes: 10%, canvas: 35% and welted leather: 6%)	
High competition in international market with design, production volume and marketing intelligence	

5.6.4 Value chain enabling environment and policy

Challenges	Opportunities
Weak control on import of footwear of pirated brands	NTIS 2016–2020 as a golden opportunity for Nepalese footwear
The NTIS 2016 does not speak about the development of small and micro-level manufacturers who are scattered all over the country.	FNCCI, TEPC and MoC coordinating and increasing business relationship and environment
Absence of a plan to support manufacturers of felt-based footwear, which manufacture around 200,000 pairs of footwear annually and export them to European countries, the USA and Japan, and felt-based footwear products are not considered as footwear and an export potential.	FMAN, LFMAN and Felt Association actively working for the benefit of member manufacturers
Handicrafts-based footwear manufacturers are not addressed, despite their being major exporters in overseas markets, although on small scale.	TEPC taking care of skill development training
Unavailability of the data on quantity of Nepalese footwear manufactured and on the exact number of manufacturers of all types of footwear	GIZ initiative to support footwear export MoI, MoF, DoC have become responsible for enabling footwear sector

5.7 SWOT Analysis

Strength (Internal situation)	Weaknesses (Internal situation)
<ul style="list-style-type: none"> • Positive environment for footwear sector and entry of new manufacturers • Possibility to start production with low investment • Labour-intensive and cheap labour cost (manual 1:3 pairs and auto machines 1:10 pairs means 20% of total production cost) • Female worker-friendly • Low energy requirement • Easy to manage adverse environmental impact • Easy access to raw materials (30% in Nepal and 70% in India and China) • Possibility to develop skills of the youth within three to six months • Increasing export • Lessening import and narrowing percentage of trade deficit 	<ul style="list-style-type: none"> • More than 99% of Nepal's exports are to India and the GoN provides rebate only against payment in US dollars. In contrast, other competitors are supported by their governments. The major exporters have branded their products in India and are paying TDS in both Nepal and India. • Footwear industries require 36 types of raw materials (80% imported), whereas the GoN has not yet identified the nature of raw materials for this sector. The import taxes on some raw materials are higher than the price of the finished product, which is affecting the production cost and global competition. • The free import and sale of pirated brands in the market without any quality guarantee and uncontrolled price are bottlenecks in the domestic market. Joint and strong monitoring by the GoN and footwear association is needed to control the import of pirated brands and to promote domestic product. • The investment in this sector ranges from NRs. 50,000 to millions. There are some machines like imported leather measuring machine, logo embroidery machine, lasting machine, stitching machine and quality test laboratory. There is deficit of common facility centres where all these facilities are available.
Opportunities (External environment)	Threats (External environment)
<ul style="list-style-type: none"> • Increasing global fashion consciousness in footwear • Fashion of using different types of footwear for different purposes • Increasing global demand for footwear, with an annual growth rate of 1.90% • Increasing global demand for Nepalese footwear in several countries • Asia is the largest footwear manufacturing and exporting region, with 42% coverage in global export and both production and export growth rates are increasing in Nepal. • Possibility to enter bigger global markets since Nepal has experience with the ten leading importer countries. • There is still domestic market gap of 58%. • The realisation that Nepalese footwear is cheap and durable. • Several domestic raw material manufacturers are being established. 	<ul style="list-style-type: none"> • The major competitors in the global market are China and India, and the competition is in terms of price, quality and volume of supply. The factors responsible for increase in price in Nepal are energy, due to energy generation through diesel because of increasing power cuts and tariff on raw materials. • Easy entry of low quality but high priced footwear, without the country of origin mark. • Pirated brands of footwear are destroying the domestic market, weakening Nepalese trade balance. • The policy to provide security post to the manufacturers having more than 500 workers is not being implemented. • High labour turnover

6. INTERVENTION STRATEGY, CONCLUSION AND RECOMMENDATIONS

Five-year vision of the sector has been set as: 'Nepalese footwear in 80 per cent of Nepalese feet and 12 million pairs of Nepalese footwear in foreigners' feet'.



6.1 Vision

Based on the increasing global demand and marketing, as well as increasing domestic production and export, the NTIS 2016, challenges, opportunities and SWOT analysis, and in consultation with footwear manufacturers, five-year vision of the sector has been set as: 'Nepalese footwear in 80 per cent of Nepalese feet and 12 million pairs of Nepalese footwear in foreigners' feet'.

6.2 Objective

The main objective of the footwear manufacturers is: 'to increase footwear production, domestic market coverage, export to diverse destinations, narrowing trade deficit and employment for Nepalese in footwear sector'.

Indicators:

The following indicators are suggested to achieve the objective:

- Annual domestic footwear production increased from 30 million pairs to 45 million pairs;
- Number of export-oriented footwear companies increased to 10;
- Export increased from 8.6 million to 12 million pairs, with diversification of export destination and increase in overseas export so that India's share is reduced to 70 per cent; and
- Employment opportunity increased from 60,000 to 120,000 and dependency on Indian labour force reduced from 30 per cent to 10 per cent.

6.3 Intervention Strategy

Looking at the key constraints, opportunities, SWOT analysis, vision and goal, the following intervention strategies are suggested for the GoN and its agencies, industries and associations, and development organisations, under the actions targets of the

NTIS 2016 (The basis of this section is the NTIS 2016):

6.3.1 Intervention strategies for development organisations

Short-term strategies:

Action strategy 1: Export of footwear diversified, thereby share of export to India dropped to 70 per cent:

More than 99 per cent of the footwear exports are to a single country, India. Diversification does not mean reducing the volume of export to India, but it means increasing access to other market destinations. For this, the following interventions are required:

- Support participation of manufacturers and exporters in international trade fairs for market promotion;
- Provide international market information, including on tariff and market access strategy;
- Organise exposure or study visits for exporters/manufacturers in
 - The countries where footwear import is increasing rapidly
 - The countries which are the top footwear importers; and
- Organise business meetings for interactions between Nepalese manufacturers and exporters and foreign importers

Action strategy 2: Workers provided training by CTEVT:

- Support skill development of designers and link them with technology for competitive quality production for product development so that Nepalese products can compete with foreign ones.

Action strategy 3: Separate sector policy and strategy developed:

- Support the GoN for detailed study of the footwear sector to find out the exact number of manufacturers and volume of production and formulate separate policies and strategies.

Action strategy 4: Supply chain strategy developed and implemented:

- Support the GoN in the development of a supply chain strategy.

Action strategy 5: FMAN capacity in the area of business intelligence and marketing developed:

- Provide training in marketing, market access strategy and export process to manufacturers and exporters.
- Provide Total Quality Management (TQM) training to manufacturers.
- Support TEPC and manufacturers/exporters in identifying international market and support market promotion.

Medium-term strategies:

Action strategy 1: A strong research institute established to support technological development and innovation:

- Provide high-level technology support to institutes.

Action strategy 2: Common production facilities set up with GoN support:

- Cooperate with the GoN to establish three common facility centres with high-tech machinery—one in Kathmandu and two in two regions like Biratnagar, Chitwan, Birgunj or Butwal.

6.3.2 Intervention strategy for GoN ministries and agencies to increase export

- Conduct joint and strong monitoring by the GoN and the footwear associations to control pirated brands of footwear and promote domestic products.
- List out the nature of required raw materials and maintain import tariff rate below 5 per cent and a minimum difference of 15 per cent between raw materials and finished products in import tariff.
- Support commercialisation of traditional products (handicrafts-based, natural fibre- and felt-based) to business scale to fulfil demand.

The current domestic production capacity is still unknown and a 2014 study (Strategic Plan [FMAN 2071]) estimates over 30 million pairs. No new estimate could be done without a further survey. As per TEPC records, about 8.6 million (28.64 per cent) pairs were exported in 2014/15. The domestic market coverage is estimated to be 42 per cent (as per

production estimate in 2014), so that 58 per cent of the domestic market is still available. The following actions can increase annual production and export:

- **Production of highly skilled workforce (designers):** The lack of highly skilled designers has hampered production. There are no institutions for developing designers in Nepal. Most of the designers are imported from India. Frequent turnover of designers is affecting the quality and supply of products. So, like in India and China, the GoN needs to include footwear designing in the education curriculum of the CTEVT.
- **Design of curriculum:** Although a separate curriculum has been designed for skill development with the support of HELVETAS, segregation by skills and implementation of the curriculum are still needed.
- **Permanent training institute with industrial environment for the development of skilled workforce:** The footwear sector is labour-intensive, but manufacturers, whether natural fibre-based or leather- and petrochemical-based, are suffering from shortage of skilled labour. Basically, the upper stitching and shoes lasting skills are highly scarce. In the coming five years, manufacturers need additional 100,000 skilled workers (Strategic Plan, LFGMAN). So, the GoN needs to establish training centres with industrial environment or set up such centres within the existing engineering colleges to support national industries and create employment for the Nepalese youth.
- **Soft loans for small manufacturers:** As in hydropower projects, a provision of soft loan to small manufacturers through the Nepal Rastra Bank is recommended to motivate them to increase production and supply.
- **Development of footwear zones:** The manufacturers are scattered over a large area, which has made it difficult, if not impossible, to provide security and other facilities to them. Frequent power cuts are a cause of increase in price and constraint on production. So, the GoN needs to provide manufacturers with land on instalment basis to develop footwear zones, as well as industrial security and relief from power cuts.
- **Establishment of well-equipped CFCs:** There are some machines and other facilities which are needed by all levels of manufacturers, such as leather measuring machine, logo embroidery machine, lasting machine, stitching machine, size measuring equipment for felt-based footwear in European sizes and quality test laboratory. However, not all manufacturers have the capital to invest in such machinery. So, CFCs, where all can share facilities for meeting their requirements, should be built to improve production and supply.
- **Enforce stricter labour laws:** Because of lack of strict labour laws like those in the garment industries in

Bangladesh, Nepalese footwear manufacturers are not ready to take the risk of contract manufacturing and are thus losing opportunities. So, the GoN should enforce strict labour laws for encouraging the sector.

- The current provision of 1 per cent import tariff on machinery should be continued.
- Provide rebate on exports like those provided to competitors in the neighbouring countries and also provide for IC export.
- The raw materials imported for further trading and those by imported by footwear industries should be dealt with separately by reducing import tariff so that manufacturers get cheaper raw materials.
- The under-used leather goods production centre under DoCSI should be linked with footwear associations for skill training.

6.3.3 Intervention strategy for industries/associations and private sector

- Accept only quality raw materials by not depending solely on agents.
- Concentrate on quality and international demand-based designs.
- Develop industrial infrastructures like management of quality machines for international standard industries.
- Acquire land (either lease or buy) on instalment basis for the development of footwear zones.
- Cooperate and collaborate with small manufacturers in export.
- Establish a system for collective purchase of raw materials so that quality is ensured and price is relatively cheap.
- Establish cordial working relationships among manufacturers so that collective production can be done if there is bulk order from the international market.
- Support internalisation of collective trademarks.

6.4 Conclusion and Recommendations

To sum up, the scenario of the footwear sector in Nepal is encouraging and a number of manufacturers are entering this business. Based on this, the study makes the following recommendations:

- All stakeholders, enablers and service providers should prepare a joint action plan as per the above intervention strategies for successful implementation of the NTIS 2016.
- Nepal lacks a database of Nepalese footwear manufacturers and volume of production by type. So, a detailed national-level survey of this sector is required to find out the exact number of Nepalese manufacturers, volume of production, employment potential, per capita consumption and issues of the sector. The stakeholders or service providers need to decide who should be given this responsibility.
- Establishment of footwear zones, support for international marketing, skill development, introduction of the Nepalese youth in the footwear sector and implementation of collective trademark and NS trademark can make this sector sustainable.

ANNEXES



Annex I: List of documents reviewed and web sites visited

- Value Link Manual GIZ
- Project Factsheet TPP
- Value chain analysis of Churi in Nepal -MoI and GIZ
- Footwear Chapter of Draft NTIS
- Five year's strategic plan for LFGMAN prepared by HELVETAS Employment Fund 2015
- Export and import record of 2010/11–2014/15 from GoN-TEPC
- World Footwear Yearbook 2014 by APICCAPS
- World Yearbook 2012
- IBIS-Global footwear manufacturing and market research report Oct 2014.
- The Transparency Market Research has published a new market report titled “Global Footwear Market - Industry Analysis, Size, Share, Growth, Trends and Forecast 2014 - 2020.”

The following web links were visited:

Global Footwear Manufacturing Market Research Report | Jan 2016, IBIS World:

<http://www.ibisworld.com/industry/global/global-footwear-manufacturing.html>

http://www.worldsrichestcountries.com/top_footwear_importers.html

<http://www.transparencymarketresearch.com/pressrelease/footwear-market.htm>

www.statista.com

www.trademap.org

<http://worldfootwear.com/news.asp?id=656>

<http://worldfootwear.com/news.asp?id=656> World Footwear weekly newsletter (Dec 29, 2014)

Annex II:List of Individuals and Organisations Consulted for Study

A. List of participants for FGD – Dhulikhel

S.No.	Name	Name of Company
1	Mr. Ram Krishna Prasai	Shikhar Shoes Industries
2	Mr. Rabin Kumar Shrestha	Coseli Chala Jutta Udhyog
3	Mr. Kiran Kumar Dangol	FHAN Vice President
4	Mr. Hom Nath Upadhyaya	Base Footwear Pvt. Ltd.
5	Mr. Sanjib Mishra	Research Person
6	Mr. Bir Mani Bajracharya	Human Fit Craft
7	Mr. Krishna Kumar Phuyal	Cross Road
8	Mr. Manoj Kumar Shrestha	Sky Shoes Industries Pvt. Ltd.
9	Mr. Nawaraj Gautam	Takura Shoes Pvt. Ltd.
10	Mr. Surendra Niraula	Gold Star
11	Mr. Pramod Kumar Mahato	Samrat Shoes Pvt.Ltd.
12	Mr. Rishi Raj Ghimire	Modern Shoes Udhyog
13	Mr. Mahesh Paudyal	Sagarmatha Footwear
14	Mr. Sangita Kakariya	Shikhar Shoes Industries
15	Mr. Nirmala Shrestha	New Lotus Foot Wear
16	Mr. Yogendra Pandey	Everest Nepal Co.
17	Mr. Ganga Shrestha	Boss Shoes Pvt. Ltd.
18	Mr. Rudra Neaupane	Run Shoes Industries
19	Mr. Ram Krishna Shrestha	Typical Footwear Pvt. Ltd.
20	Mr. Nirmal Humagain	Unique Shoes
21	Mr. Rabindra Rijal	Life x Varieties Shoes
22	Mr. Dinesh Shrestha	Black Horse Shoes
23	Mr. Chin Bahadur Shrestha	Black Horse Shoes
24	Mr. Saurabh Shrestha	Research Person
25	Mr. Kalidas Gotama	K.D. Shoes
26	Mr. Bharat Prasad Shrestha	Nepal Shoes Factory
27	Mr. Naniraj Ghimire	Subhakamana Footwear
28	Mr. Rajan Kumar Shrestha	Smart Shoes
29	Mr. Uttam Prasad Adhikari	Chitwan Footwear
30	Mr. Jeevan Kumar Shrestha	Smart Shoes
31	Mr. Sambhu Prasad Timalina	Shubha Lavh
32	Mr. Gyanendra Prasad Dahal	Megha Shoes
33	Mr. Sabin Karki	Noorin Company
34	Mr. Dipendra Thapa	D.M.S. Boot Industries P.L.
35	Mr. Madan Shrestha/Om Pd. Shrestha	M.B.T. Group
36	Mr. Gautam Lama	
37	Mr. Chok Kumar Shrestha	Kalika Footwear

S.No.	Name	Name of Company
38	Mr. Amit Shah	Nepal Leather Craft
39	Mr. Sanjib Kumar Shrestha	Research Person
40	Mr. Anu Basnet	FMAN
41	Mr. Biplav Man Singh	Guest

B. Non-member producers (Small)

S.No.	Name	Company	Designation	Address
1	Mr. Kalendra Ramtel	Chature Leather Shoe Centre	Proprietor	Lokanthali-Bhaktapur
2	Mr. Raju Magarati	Krishna Shoe Shop	Proprietor	Thimi, Bhaktapur
3	Mr. Bharat Rokka	Bharat Shoe Centre	Proprietor	Patan Dhoka, Lalitpur
4	Mr. Dhruva Surkheta	Pyara Mount footwear	Proprietor	Gwarko, Lalitpur
5	Mr. Anil Kumar Mijar	Playboy Shoe Centre	Proprietor	Budhanilkantha
6	Mr. Bhaktiram Nepali	Bhakti Shoe Centre	Proprietor	Baluwakhani, KTM
7	Mr. Indra Ramtel	R.K. Leather Shoe Centre	Proprietor	Kapan, KTM
8	Mr. Ramesh Ramtel	RRC Footwear	Proprietor	Kapan, KTM
9	Mr. Lila Tolangi	Panchthar Lila Shoe Centre	Proprietor	Akashe Dhara KTM
10	Mr. Dev Raj Adhikary	Avatar Poly Ind.	Proprietor	Chabahil, KTM

C. Individual producers

S.No.	Name of respondent	Company	Designation
1	Mr. Surendra Prasad Dahal	Leather wings	Proprietor
2	Mr. Surendra Niroula	Kiren Footwear	HR Manager
3	Mr. Dipendra Thapa	DMS Boot Industry	Proprietor
4	Mr. Nirmal Humagain	Unique Shoes	Proprietor
5	Mr. Bhim Lal Poudel	Royal Footwear Industries	Proprietor
6	Mr. Promod Mohotto	Samrat Shoe	Proprietor
7	Mr. Mahesh Poudel	Sagarmatha Footwear	Proprietor
9	Mr. Nirmala Shrestha	New Lotus Footwear	Proprietor
10	Mr. Dinesh Shrestha	Black Horse Shoes	Proprietor
11	Mr. Jeevan Kumar Shrestha	Samrat Shoes	Proprietor
12	Mr. Saurabh Shrestha	Nepal Shoes Factory	Proprietor
13	Mr. Shubha Kumar	Footwear Product Nepal	Proprietor
14	Mr. Kalidas Goutam	K.D. Shoes	Proprietor
15	Mr. Gyanendra Pd. Dahal	Megha Shoes	Proprietor
16	Mr. Hom Nath Upadhyaya	Base Footwear	Proprietor
17	Mr. Sabin Karki	Noorin Company	Proprietor
18	Mr. Rabin Shrestha	Coseli Chala Jutta Udhyog	Proprietor

S.No.	Name of respondent	Company	Designation
19	Mr. Ram Krishna Prasain	Shikhar Shoes	Proprietor
20	Mr. Sambhu Timisina	Subha Lav Industry	Proprietor
21	Mr. Madan Shrestha	BMT	Proprietor
22	Mr. Yogendra Pandey	Everest Footwear	Proprietor
23	Mr. Ram Krishna Shrestha	Typical Footwear	Proprietor

D. Raw material Importers

S.No.	Name	Company	Designation
1	Mr. Kumar Lamichane	Alta Vista Trading Co. Ltd	Proprietor
2	Mr. Devendra Shrestha	Alok Trade Concern	Proprietor

E. VC Enablers:

S.No.	Name	Organization	Designation
1	Mr. Buddhi Pd. Upadhyaya	MOC	Under Secretary
2	Mr. Bimal K. Nepal	TEPC	Deputy Executive Director
3	Mr. Kewal Bista	TEPC	Senior Officer
4	Mr. Govinda Acharya	TEPC	Section Officer

F. Service Providers

S.No.	Name	Organization	Designation
1	Ms. Banu Shrestha	HELVETAS	In-charge-ENSSURE Program
2	Ms. Himadri Palikhe	Nepal-German TPP	SPO
3	Mr. Anup Acharya	Nepal-German TPP	PO

G. VC Supporters

S.No.	Name	Organization	Designation
1	Mr. Rabin K. Shrestha	FMAN	Chairperson
2	Mr. Hom Nath Upadhyaya	FMAN	Ex-Chairperson
3	Mr. Manoj Kumar Shrestha	FMAN	Secretary General
4	Mr. Naresh Raj Shrestha	Felt Association	Chairperson
5	Mr. Ramhari Tolang, Paragon Footwear	LFMAN	Ex-Chairperson

Annex III: List of 6 large manufacturers

SN	Name of company	Address	Contact person
1	Kiran Shoe Manufacturers	Dhumbarahi, Kathmandu PO Box 3787	Mr. Amir Bikram J.B. Rana
2	Shikhar Shoe Industry Pvt Ltd.	Goldhunga, Kathmandu PO Box 1266	Mr. Ram Krishna Prasain
3	Surabhi Polymers Pvt. Ltd.	Morang, Biratnagar	Mr. Binaya Chaudhary
4	Jayshree Polymers Pvt. Ltd.	Morang, Biratnagar	Mr. Pankaj Agrawal
5	Birat Shoe Company Ltd.	Balaju, Kathmandu	Mr. Birat Thapa
6	Modern Slipper Industry Pvt. Ltd.	Balaju, Kathmandu	

Annex IV: List of medium-level manufacturers

SN	Name of Company	Address	Contact Persons
1	Base Footwear Pvt Ltd	Gousala, Kathmandu	Mr. Hom Nath Upadhayay
2	Royal Footwear Industry	Kathmandu	Mr. Bhim Lal Poudel
3	Run Shoes	Thimi, Bhaktapur	Mr. Rudra Prasad Neupane
4	K.D. Shoes Industry	Kathmandu	Mr. Kali Das Gotame
5	Famous Footwear	Kathmandu	Mr. Jhabi Lal Paudal
6	Chitwan footwear	Kathmandu	Mr. Uttam Adhikary
7	N.K.C. Shoes Industry	Kathmandu	Mr. Jhalak K.C.
8	National Footwear Industry	Kathmandu	Mr. Shobhakar Paudel
9	Nepal Shoes factory	Kathmandu	Mr. Bharat Pd. Shrestha
10	Maruti Shoe Industries Pvt. Ltd	Kathmandu	Mr. Bashu Dev Acharya
11	Noorin Company	Kathmandu	Mr. Sabin Karki
12	Koseli Leather shoes	Balaju, Kathmandu	Mr. Rabin Kumar Shrestha
13	Sky Shoes	Kathmandu	Mr. Manoj Kumar Shrestha
14	Leather Wings	Narayan Gopal Chowk, Kathmandu	Mr. Surendra Prasad Dahal
15	Supreme Rubber Industry	Kathmandu	Mr. Rajan Kumar Poudel

Annex V: List of major input producers/suppliers (domestic)

SN	Name and Address	General Supplies
1	Bajra Footwear Pvt. Ltd., Balaju, Kathmandu-Rabin Kumar Shrestha	Sole
2	B.P. Plastic, Budhanilkantha, KTM	Sole
3	Manakamana Polymer Industry, Thulobharyang, KTM	Sole
4	Ananika Footwear, Bhaktapur	Sole
5	Pasa Footwear, Lalitpur	Sole
6	United Tanning, Biratnagar	Leather
7	Pioneer Tanning, Biratnagar	Leather
8	Nepal Tanning, Biratnagar	Leather
9	Universal Tanning, Biratnagar	Leather
10	Premier Leather, Birgunj	Leather
11	Narayani Leather, Birgunj	Leather
12	Standard Leather, Birgunj	Leather
13	Everest Tanning, Birgunj	Leather
14	Surbir Polymer, Morang	Glue
15	Anmol Packaging P. Ltd., Dhapakhel, Lalitpur	Packaging material
16	Bhairab Box-Dhungeadda, KTM, Keshav	Packaging material
17	Bishnu Laxmi Packaging, Satungal KTM, Bekha Narayan	Packaging material
18	Subedi Label, Keshav Subedi	Label
19	Lalit Mundre, Maharajgunj, KTM	Shoe laces
20	BP Footwear, Budhanilkantha	Shoe laces
21	Several manufacturers in Lubhu, Kathmandu	Cloth
22	Yeti Plastic, Hetauda	Rexin

Annex VI: Major footwear manufacturers (which produce 70%) in Nepal

S.N.	Firm Name	Contact person
1	Ajanta Enterprises Pvt. Ltd	Mr. Kedar Prasad Ojha
2	Base Footwear Pvt. Ltd.	Mr. Hom Nath Upadhayay
3	Banjade Shoes Industries Pvt.Ltd	Mr. Suraj Banjade
4	Birat Shoe Company Ltd.	Mr. Birat Thapa
5	Chitawan Footwear	Mr. Uttam dhikari
6	Coseli Chala Jutta Udhyog	Mr. Rabin Kumar Shrestha
7	D.M.S. Boot Industries Pvt. Ltd.	Mr. Deependra Thapa
8	Dhananjaya Footwear	Mr. Indra Prasad Guragai
9	Export Shoes	Mr. Shambhu Dhital
10	Famous Footwear	Mr. Jhabi Lal Paudal
11	F.R. Sports Pvt.Ltd.	Mr. Sita Ram Katel
12	Fit Well Shoes Pvt. Ltd.	Mr. Sitaram Chalise
13	Himal Footwear	Mr. Govinda Dhakal
14	Jayshree Polymers Pvt. Ltd	Mr. Pankaj Agrawal
15	K. D. Shoes Industries	Mr. Kali Das Gotame
16	Kalika Footwear	Mr. Rajan Shrestha
17	Kiran Shoe Manufacturers	Mr. Amir Bikram J.B. Rana
18	Laligurans Footwear	Mr. Krishna Kumar Phuyal
19	Leather Wings	Mr. Shurendra Pd. Dahal
20	Life x Varieties Shoe Footwear	Mr. Ramshran Rijal
21	Makalu Footwear	Mr. Bishwojyoti Prasain
22	M B T Group Pvt Ltd	Mr. Om Prasad Shrestha
23	Mega Shoes	Mr. Ganendra Dahal
24	National Footwear Industries	Mr. Shobhakhar Paudel
25	National Leather Industries	Mr. Prakash Nath Dhungel
26	Nepal Footwear Industries	Mr. Krishna Prasad Mainali
27	New Lotus Footwear	Mr. Nirmala Shrestha
28	N. K. C. Shoes	Mr. Jhalak K.C.
29	Nepal Shoes Factory	Mr. Bharat Pd. Shrestha
30	Pasha Footwear Industries	Mr. Suresh Nyachyo
31	Sanjeev Footwear Pvt. Ltd.	Mr. Kewal Raj Shrestha
32	Shikhar Shoe Indu. Pvt. Ltd.PO Box1266	Mr. Ram Krishna Prasain
33	Shubhakamana Footwear Pro. Nepal	Mr. Nani Raj Ghimire
34	Shubha Labha Footwear	Mr. Shambhu Timalisina
35	Surabhi Polymers Pvt. Ltd.(hilife)	Mr. Binaya Chaudhary
36	Smart Shoes	Mr. Rajan Kumar Shrestha
37	Sky Shoe Industries Pvt. Ltd.	Mr. Manoj Kumar Shrestha
38	Sunrise Footwear Pvt.Ltd	Mr. Nawa Raj Gautam
39	Typical Footwear	Mr. Ram Krishna Shrestha

40	The Right Shoes Pvt. Ltd.	Mr. Rudra B. Thapa
41	Unique Shoes	Mr. Nirmal Humagai
42	Royal Shoe	Mr. Bhimlal Poudel
43	Run Shoe Industries	Mr. Rudra Prasad Neupane
44	Sagarmatha Footwear	Mr. Mahesh Poudel
45	Boss Shoe Industries Pvt. Ltd	Mr. Ganga Shrestha
46	Samrat Shoes	Mr. Kiran Kumar Banset
47	Yeti Footwear Pvt. Ltd	Mr. Raju Kandel
48	Morden Shoe Udhyog	Mr. Roshan Babu Ghimire
49	Shikhar Shoes Pvt. Ltd	Mr. Ram Krishna Prasain
50	Maruti Shoe Industries pvt. Ltd	Mr. Bashu Dev Acharya
51	Manakamana Poly Industries Pvt. Ltd	Mr. Krishna Ghimire
52	Right Shoes Industries Pvt. Ltd	Mr. Deepak
53	Star Shoes Production	Mr. Rajan Gautam
54	Noorin Company Pvt. Ltd	Mr. Sabin Karki
55	Everest Nepal Footwear	Mr. Yogendra Panday
56	Samrat Shoes Pvt. Ltd	Mr. Pramod Kumar Mahato
57	Namaste Footwear Pvt.Ldt	Mr. Diwakar Giri
58	Black Horse Industries	Mr. Chin Bahadur Shrestha

Annex VII: Action Matrix under Footwear Sector in NTIS 2016

Outcome/Action	Baseline	Target	Responsible Agency
Outcome 14: Footwear Production and export significantly increased	Nepal produces around 30 million pairs of footwear annually and the country exported around 7.8 million pairs in 2013; current export earnings is estimated at 21 million USD	At least 45 million pairs of footwear produced and around 12 million pairs exported annually	MoI, TEPC, FMAN, private sector
Short-term Actions: 2016-2017			
Action 1: Conduct regular trade fairs and market surveys	At present more than 90% of Nepalese footwear exports go to India	Export of footwear diversified, thereby share of export to India dropped to about 70%	TEPC, FMAN
Action 2: Incorporate footwear (and also other NTIS products) in CTEVT training courses	Workers are given on-the-job training, which is expensive for companies	Workers provided training in footwear by CTEVT	CTEVT, MoE, MoI
Action 3: Take strong anti-piracy measures against counterfeit imports	Cheap pirated shoes have been major competitors for Nepalese authentic brands	Pirated footwear controlled and effective competition established	MoI, MoC
Action 4: Rationalise tariff rules	At present, tariffs on raw materials are higher than those on finished goods	Tariff rates on imported raw materials will be rationalised	MoF, DoC
Action 5: Develop a separate sector policy and strategy	The footwear sector lacks sector policy and strategy	Separate sector policy and strategy developed	MoI, TEPC, FMAN
Action 6: Establish a strong supply chain of the sector	The sector lacks a well-developed supply chain	A supply chain strategy developed and implemented	MoI, TEPC, FMAN
Action 7: Ensure easy access to finance for investing in machinery and technology	Small manufacturers cannot access bank financing to invest in equipment	A soft loan programme established to support investment financing for small manufacturers	MoF, NRB
Action 8: Provide incentives for investment in technology and machinery at par with neighbouring competitors	Incentives for investment are not comparable with those offered by India, Bangladesh, Pakistan, Sri Lanka or China	Incentives to support investment in the sector at par with neighbouring competitors ensured	MoF, MoI
Action 9: Empower LFG-FMAN to provide useful business intelligence to the private sector for both domestic and export markets	FMAN capacity to provide business intelligence is weak	FMAN capacity in the area of business intelligence and marketing developed	FMAN, TEPC

Outcome/Action	Baseline	Target	Responsible Agency
Medium-term Actions: 2018-2020			
Action 1: Establish a footwear research institute to support the sector	The sector lacks the support of a footwear research institute	A strong research institute established to support technological development and innovation	MoI, FMAN
Action 2: Establish common production facilities	There is no common facility to provide small manufacturers access to production equipment	Common production facilities set up with support from GoN	MoC, MoI

Source: NTIS 2016

