

E-Seminar Title: First NSC E-Seminar No 1, 2007: The State's Role in Private Sector Development in New Nepal

Subject: Designated Discussant's Comment on Ms. Mallika Shakya's Paper

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1. While sitting with the computer to write belated comments on Mallika-jee's well-articulated and substantial paper on PSD, my eyes caught following three news reports of the day:
 - Up to 7 hrs. power cut a day in the country began since Phagun 2 and will reportedly continue until at least next four months;
 - Garbage dumped everywhere in the city is left uncollected for over a week, over a row between the KTM metropolis and the local residents at the dumping site at Okharpauwa, Nuwakot; and
 - FNCCI says the recent 29-day Terai unrest caused a loss of Rs.1 trillion to the nation's economy.

This is an indicative ground reality of the country. But this should not deter us from debating and dreaming about New Nepal's PSD vision. In fact, these crises have made people so much aware of the problems and potential of the country's development that it would now be impossible for the policymakers to ignore and dismiss their voices and grievances. Political awakening has led to socio-cultural and economic vigilance of the people, which, if mobilized with supportive policy back-up with clear vision and direction, would help strengthen and sustain political and economic democracy in the post-conflict Nepal.

2. The paper rightly stresses on sustainable economic growth as one of the three issues to be addressed in the aftermath of the popular movement and, as a way to attaining this, attaches great significance to PSD. Her adopting three-dimensional approach to analyzing PSD issue in Nepal is sensible, in that it has made the paper well-structured and focused. Taking the national scenario into account, her citing the success of BEE in South Africa to offset the trade-off between efficiency and equity is inspiring, though it would require a strong and united government and credible and efficient private sector. The Maoists economic agenda announced only other day does not give us a clearer picture as to how they will envision PSD, and their silence on FDI is especially tricky and even discouraging.
3. At the international level, the Paper rightly re-defines the role Nepal can play as a transit point between its two economic giants, described metaphorically as *Jholunge*. The paper correctly argues that Nepal can and should benefit from the

success of its immediate and regional neighbors, mainly for the FDI and technology transfer, by overcoming the dilemma of policy reversal, and should carefully craft a strategy to optimize its potential through focusing on its comparative advantage.

4. The paper has made a distinction between the ‘big’ and ‘small’ pillars of the private sector and argued that the former, rather than the latter, should seek FDI as a supplement rather than the substitute for local investment. Her suggestion to the policymakers that a ‘rigorous national learning system’ is required to prevent FDI turning into a unbridled monster is good, but needs to be sincerely followed by the local entrepreneurs and investors as well. Regarding the ‘small’ pillar, i.e. the MSMEs, I agree with her concept of capitalizing on ‘niche’ areas, to make them look comparatively attractive, rather than seeking unrealistic competition in price and quantity with the neighbors. Her showcasing the notion of ‘cultural capital’ for Nepal’s industrial resurgence is also very convincing.
5. On the whole, the Paper is good at exploring and analyzing the issues that trigger the state’s role in PSD in new Nepal. It attempts to touch many aspects including the role of cooperatives and MFIs as a missing link between agriculture and industries, and cites studies done by the World Bank to highlight how Nepal fares in doing business in the world. The conclusion that the country should now depart from a ‘bureaucracy-laden business-as-usual’ approach to a ‘new and rigorous’ strategy should also be taken positively by the PSD policymakers. However, we need to practically sit on the ground and start thinking of what that ‘new and rigorous’ strategy precisely means. For example, following through a ‘linear’ approach of policymaking and implementation, we have enacted so many laws relating to PSD (we have scored better than our neighbors in the region on legal front). We have joined WTO much earlier than many of our LDC counterparts and promised to comply with all of the obligations. We have policy pronouncements on PSD in each periodic plan and budget speeches. We have speedily embarked on privatization, with already 26 PEs transferred to the private sector. But the impact has not been positive so far on the macro economic level, though there has been a sharp increase in the shares of non-agricultural sector in the GDP over the past decade or so.
6. To conclude my observations, if we intend to bring this e-seminar to a practical conclusion, we need to lobby around to make sure there are a) a clearly and consensually drafted PSD strategy as a part of the 3-year Interim Plan that is underway in the NPC; b) a stable, competent and professionally sound bureaucracy, esp. within the key economic ministries such as MOICS and MOF; c) a credible and confident private sector inclusive but not confined to the clusters like FNCCI and CNI; and d) a stable and liberal political environment. For all this to happen, we should continuously strive for mainstreaming economic

development agenda into the political landscape of the country, and let economic agenda receive its due place in the whole scheme of the things. The euphoria that electing a CA in itself would resolve all problems is misleading and should be wiped out.