

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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Some Notes on Economic Agenda of Nepalese Political Leadership:

- Certainly, the topic of Private Sector Development is the most relevant and pertinent in the present context of Nepal going through the Turmoil brought by popular political movement. We, therefore, have to assess this topic in the perspective of agendas put forward by the politician in their endeavor of building or restructuring the nation.
- As mentioned in the paper Nepal has witnessed three major movements within half century but still there seems uncertainty on the confidence towards economic delivery. During the recent past popular movement, the stand taken by Federation of Nepalese Chamber of Commerce and Industry, the only umbrella organization claiming to be the representative of Private Sector Business Community in the country seems to have been weak and confusing to support or oppose the ongoing movement.
- The reason could be two fold: one, Nepalese Private Sector being reluctant for dynamic change preferring to maintain their existing privilege in status quo in the national productive system, and two, Political leaders are not driven by the economic agenda with clarity on the role of Private Sector to encourage them in the process of nation building.
- It has been felt in the aftermath of past political movements in the country that vote banks with short-term populist policy actions are getting preference over longer-term sustainable productive system aiming to encourage Private Sector Investment in creating economic growth.
- In this context, it is very clear that the sustainable Peace with Political Stability in the country itself depends largely upon the national consensus on the universal question of Equity versus Growth. In Nepal, it always have been the Equity in the form of popular political slogan put ahead of the Growth for the popular movement, which again led way for another movement.
- Therefore, this time, for the sustained peace and stability in the country, economic growth is to be the primary agenda of the nation creating and strengthening the system side by side for its equitable distribution. It is then the Private Sector Development can draw needed attention of policy makers.

- The word of consensus compromise between Growth and Equity could only be the creation of Employment in the country. Therefore, all the national policies must integrately be directed towards creating all sorts of job in all segments of the society whether in manufacturing or service related industries or agro based or technology-based activities. So the policy choice is not on labor intensive or capital intensive neither on domestic investment or foreign investment nor large-scale or small-scale entrepreneurships.
- In the same way, we should not keep on merry-go round in the name of inclusiveness and exclusiveness but create and provide works and jobs to all Nepalese in all parts of the country enabling all to be economically productive. Economic engagement for their share of return to uplift their standard in life is to be the bottom-line of policy courses.
- It is accepted globally particularly after the failure of command economy that business is not to be done by government. Government has so many other things to do. Non-government agencies doing business for profit are the private sector. Therefore, government's responsibility of economic growth is to be discharged through the efficient functioning of private sector. Government must succeed to get the desired outcome of economic growth through the performance of private sector. The only instrument left for the government in this direction is through the pragmatic Policy Strategy and its effective enforcement which are reflected in the form of –
 - regulatory and institutional mechanism to guide / control / monitor the private sector business,
 - incentive provisions to encourage private sector for investment / innovation / entrepreneurship,
 - supportive measures creating physical infrastructures, negotiating for external market access, promoting for market opportunities,
 - facilitative measures for access to capital, technology, and skill
 - protective measures for risk minimization and competitiveness by macro-economic stability, and enabling environment.

Therefore, the role of government in delivering economic output happened to be relatively indirect in the countries relying on market mechanism. So it has been obvious in getting priority of social agenda over economic agenda in countries of poverty and deprivation including Nepal.

Some Notes on Technical Aspects of Private Sector Development Strategy:

- Nepal's private sector are still at primary stage of development from the perspective of corporate culture and management, and also not well organized for their strengthened advocacy to influence state policy. Private sector consultation and input for policy formulation are still adhoc, uninstitutionalized, and voluntary. Therefore, the Private Sector Development Strategy, first, has to take into

consideration in institutionalizing the consultation process in economic policy formulation in order to build confidence among private sector.

- Private Sector Development needs stability in state policy particularly macro-economic policy and sectoral economic policies in order to let the investors feel safe on their investment and reliability on the incentives. Due to political instability in the country during the past, credibility of the state system has substantially been eroded. Therefore, in Nepal, the changed leadership is supposed to face the challenge of regaining credibility on their policy announcement irrespective of its merit.
- Though majority of people in Nepal are economically engaged in agricultural farming, they have not yet been able to consider themselves as being in business and as an entrepreneur. The main reason being the farming activity considered as livelihood activity rather than a commercial activity. Therefore, the Private Sector Development Strategy has to give due place considering this group as the main force in private sector. Business support services and institutions in hedging, grading, cleaning, packaging, and labeling can be major program in evolving farming enterprises.
- One more step is the support in adding intangible value based on ethno-culture-heritage and geography both in agro based and industry based Nepalese products to fetch prime price in regional and international market. I fully agree in the paper as Nepal's comparative advantage lies on Niche Products. However branding such products for premium price in external market is beyond the capacity of domestic private sector. It is where the strategy must focus on the role of multi-national companies to benefit from the increasing opportunity brought by globalization.
- State role is still very much needed in Nepal in investing in massive way in building physical infrastructure particularly transport, communication, and energy. Without cost effective availability of these basic infrastructure private sector cannot be competitive in their production.
- In the context of geographical location of Nepal between the two fastest growing largest economies of the world, the policy strategy has to pin down in getting spill over economic benefit from the process of economic integration between China and India which is bound to take place for the sustainment of their growth. Cross border integration even in production process by flow of goods, services, technology, and investment has to be the Nepalese strategy involving private sector along China, Nepal, and India. Brand of Himalayan products could be of great interest to both China and India whose product components could be in all three countries on the basis of comparative advantages.
- In the context of Nepal's recent popular movement, awaiting the formation of government with participation from all parties including revolutionaries, Private Sector Development heavily depends on the state guarantee to protect domestic as

well as foreign investment and role of political parties in balancing interest of their trade unions to the comfort of investors in business enterprises for their competitiveness.