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Strengthening the Role of the Private Sector in Export and Investment Promotion and in Technology and Skill Development

In this note I focus on the need of strengthening the role of the private sector in export and investment promotion and in technology and skill development programs. Since the economic liberalization that began in 1992 with changes in industrial policy, foreign investment policy, and trade policy, governmental and semi-governmental agencies have been entrusted the tasks of promoting exports and industrial investment. Private sector agencies like the Federation of Nepalese Chamber of Commerce and Industry (FNCCI), the Chamber of Commerce, the garment manufacturers' association, and the carpet manufacturers' association have barely been given any significant role. Their representation in Trade Promotion Board, Industrial Promotion Board, One-Window System, Industrial Enterprise Development Institute, and National Productivity and Economic Development Center is either nil or minimal.

Reforming macroeconomic policies and improving business environment are important, but also important are the functions of disseminating information on business climate, exploring and developing export markets, providing services to potential investors and exporters, and advocating and lobbying for policy changes. Experiences of countries like Hong Kong, Singapore, Malaysia, and Ireland suggest that these functions are likely to be more efficiently executed by private sector agencies than governmental agencies.

The private sector is the final user of the services of promotional agencies, and it more intimately knows the dynamics of the market. Therefore, relative to private sector, governmental and semi-governmental agencies are likely to do a poorer job of identifying the areas, the sectors, and the products that need to be prioritized for optimal allocation of budgetary expenses for export and investment promotion. Also, governmental agencies have to operate within government rules that lack the necessary flexibility of quickly adapting to changes in market conditions. An even bigger limitation of a governmental agency is its work culture; the officials tend to behave more as regulators than facilitators. There are often inter-agency rivalries and clashes among government line agencies on perceived encroachment of authority of one agency by another. The above limitations adversely affect the efficacy of promotional programs run by governmental agencies.

It may be desirable to create a mainly privately run institution for export and investment promotion. To make such an institution effective and credible to the prospective investors and importers, (1) the institution needs to be constituted under a separate charter, (2) it should be led by a reputed person from the private sector who is appointed by the prime

minister, (3) its board of directors should compose of representatives from private sector trade and manufacturers' associations and from related governmental agencies, (4) it needs to be supported with grants from the government, (5) it needs to have a periodic oversight of the government in the form of representation in the board and in the form of financial and performance audits, and (6) it needs to be permitted to charge fee for its services. Such a proposal will necessitate reconfiguration of organizations like Export Trade Promotion Board, Trade Promotion Center, Industrial Promotion Board, and One-Window System.

Nepal's manufacturing base and export products are characterized by a very low technological level of production. There is almost total absence of firm-based skill or technological development programs. There is also an apparent mismatch between the needs/demands of the industrial sector and programs of various governmental agencies that are engaged in science, technology, and skill development, like RONAST, RECAST, Food Research Laboratory, Royal Drugs Research Lab, skill training programs of the Department of Labor and the Department of Cottage and Small Industries, etc. A three-pronged approach may be necessary in this regard: (1) Provide incentives to firms for targeted programs of in-firm skill development, apprenticeship, and technology adaptation or innovation. (2) Involve FNCCI, subsector associations, and private industry on planning, designing, and developing schools and training programs for generating middle-level technical human resources, by enrolling high school graduates and imparting them one and two-year courses that are directly applicable to the industry. Nepal may learn from experiences of other countries like Chile. (3) Facilitate import and transfer of technology and conduct programs of productivity improvement through FNCCI and/or industry associations.

Finally, in the light of fact that Nepal is embarking on a federal system of governance, some of the functions of the central government may be transferred to provincial governments. Such likely functions could be the above-mentioned in-firm skill development programs, the technical schools for mid-level technicians, and also policy issues related to agriculture development and land reform.