

**E-Seminar Title:** Nepal PSD

**Subject:** Hydropower, Cultural Capital, and Political-Economy – February 19, 2007  
Deliberations

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Today's deliberations covered three subthemes – hydropower, cultural capital, and political economy, which are separately summarized below.

### **Deliberations on Hydropower**

Alok K. Bohara:

We already saw in previous comments of Mallika Shakya and Keshav Upadhyay some hints of problems in Nepal's hydro sector: regulatory delays, adverse price effect on local consumers, political instability, corruption, etc. I do not know what the answer is for our own internal housekeeping, for example, for or against FDI and/or expediting the regulatory process. But, the rising economic super power –India—is not certainly waiting around for Nepal to be the source of its energy needs. Any unnecessary regulatory mechanism to slowdown FDI in the hydro sector will hurt us from becoming a player in the emerging regional energy market. I am sure that the Indian economy's double digit growth and its rising energy consumption need have not gone unnoticed among the policy makers in Nepal. Pakistan is another potential market, and between the two of them, the South Asian region could be a vibrant market for energy exports and imports.

India has already begun to look into its insatiable energy need from a larger regional perspective, and Nepal may or may not factor into this equation. The choice is ours to make. From this perspective, the state's role is vital in developing the necessary groundwork to make us competitive in this vast energy market. To that end, making government actively involved in the FDI regulation may prove to be counter productive. India has increased its involvement in Bhutan's hydro sector, and is looking to import gas and electricity from Bangladesh and Myanmar. India is also looking to invest in a coal plant in Sri Lanka.

On the western front, Pakistan, Afghanistan, Tajikistan, and Kyrgyz Republic are assessing the prospect of exporting about 1000 MW of hydropower from Central Asia to South Asia with the possibility of importing gas from Iran and Turkmenistan. With a population of 1.5 billion people, this region (including SAARC) could be one of the largest markets for energy consumption. Thus, the regional trade in energy is not a distant hypothetical fantasy anymore. Within a decade or so, we may be seeing regional grid sharing and power trading all across the sub-continent.

Can Nepal afford not to join this regional energy market? What export policy does Nepal

need to facilitate such an option? What can we learn from Bhutan? Should we be focusing on Indian private ventures for our hydro developments? What could be an efficient energy trading model?

## **Deliberations on Cultural Capital**

Mallika Shakya:

While I totally agree with being cautious and preventing gender/ethnic inclusion from distorting the market, yet cultural capital can be a real potential for Nepal where branding the cultural/geographic products (handicraft, tourism and speciality goods like tea, coffee and carpets) for global niche markets is one of the most promising avenues for international competitiveness. At the moment, Nepal does this task haphazardly and is not very successful at it. One example comes to mind is that of a Bahun and a State bureaucrat trying to sell the ancient Sherpa heritage to elite culture connoisseurs without knowing one Sherpa word. The same Bahun can do it much better only if he is prepared to invest a couple of years learning about the Sherpa culture/history and another couple of years understanding the international clientele he is trying to serve.

Let me state another small example. One of the most important of Nepal's export is traditional handicraft. Here, by being ethnically insensitive, the State is losing out a lot. Over 85 per cent of the members of the Handicraft Association of Nepal (HAN) are Newar traditional artisans. But, their programs for developing international certification, copyrights and marketing are extremely haphazard, because the State does not appropriately recognize ethnic skills. The State definition of 'expertise' ends at formal mainstream school education. As a result, a superb master of statue-making fails to get government accreditation as a trainer/certifier if he/she does not have a diploma, although that is irrelevant for the area of expertise. What this has meant then is that a secretive, uncoded, monopolized, and hence rudimentary system of accreditation tightly controls the statue-making enterprise, which is a total loss for both the artisans and the State. The government can solve such a problem by offering more ethnically nuanced accreditation/training system, which on the one hand, will lead to formalization and hence wider access to ethnic skills, and on the other hand, will lead to better recognition to ethnic identities in society.

India has developed very sophisticated classical art academies which give credit to the masters of those arts, while giving a wide range of people access to those arts. Classical arts have helped tremendously in building an international brand of India and in marketing of not only specialty goods such as tea and herbs but also 'heavy' products such as Indian airlines and IT services. Cultural capital is very much part of the India brand.

I also believe that exploiting the potentials of cultural capital is healthier than a myopic focus on distribution at the expense of economic growth. While societies will continue to negotiate the shares of the pie, I think it is also important that each share also contributes creatively towards making the pie bigger.

## **Deliberations on Political Economy**

Bhuban B Bajracharya, Lead Researcher, Technical Review of School Education, ESAT/DANIDA:

The new political development has increasingly put the PSD under uncertainty. Though there is a realization that private sector is necessary, the likely inequality is taken as a political ploy for its rejection to backstage. Thus, there is also a need for strong analytical article showing enough evidence that the overall inequality does not negate the equality well at the higher level even for lower quintile groups ensuring better livelihood status. Further, the social protection measures compensate for and ensure the social service delivery reasonably at the higher level. The service delivery could even be better than that in socialistic economies. PSD also needs to highlight the public private partnerships in social service delivery so as to impress upon the general public that the profit motivated private sector will not leave the social service delivery behind. They are very much essential to be highlighted to stop the temptation to go for direct service delivery by the government machinery rather than through more market friendly measures.

Successful PSD assumes the existence of well developed regulatory system, and the role of the government's role in evolving such a rule based system needs to be highlighted to impress upon the populace that the government is not sitting silent and doing nothing before the market forces. It will give an impression that the government is fully aware of the concerns of disadvantaged communities and poorer section of the society and only thing is that such policies are to be market friendly. Let the government be smart enough in giving the message strongly that unleashing the private sector does not and will not lead to overlook the concerns of poorer section of the society.

The dislike for private schools and colleges in the name of more equal education (or equal opportunity to the education facilities) and in the face of limited public resource availability speaks these confusion and contradictions. Despite private schools sharing the obligation of the government in the drive for universal school education, in the absence of strong and effective regulatory mechanisms, private schools are also despised for brewing inequality in the society. How do we address this issue in the role of government in PSD?

Alok K. Bohara:

The Maoists have outlined their economic agenda and the corruption control has become one of their priority fields, to be followed by the radical land reform, and the regulation of the FDIs. Like everyone else, they also see hydro and tourism as our comparative advantage. They also profess a mixed economy, but with a protectionist flavor. However, I would like to focus on the corruption issue and provide some comments.

While speaking of the private sector development and the state's role, the issue of

transparency becomes a natural topic of focus. The newly passed Competitive Bill (February 2007) seems very comprehensive in its scope covering numerous angles such as, tied selling, bid rigging, cartel, collective price fixing, market restrictions, dial-system, market segregation, undue business influences, syndicate and exclusive dealing. The government must be congratulated for the announcement. But, it looks like a daunting task, and it will not be cheap. It will involve a sizable workforce to detect violations. The legal cost of prosecution will also have to be figured into the total enforcement cost. The stipulated fines of Rs 10K, Rs. 25K, Rs. 100K and even Rs. 300K don't seem severe enough, and are most likely to be internalized as a part of cost of doing business and will be passed on to the consumers in the form of higher price. Furthermore, these regulations are also likely to increase the rent seeking behavior of the government employees and increase the opportunity for corruption. The Competitive Bill needs to be equally matched by the other corruption control measures and transparency measures. A city like Bangalore, for example, reduced its low level rampant corruption by 30-40 % within a year or two by simply creating barriers between the "public" and "the clerks". For example, Instead of making the public stand in line to get government services (e.g., paying bills, registration renewal), the government instituted the envelop drop-in system. This type of e-governance system diminishes the contacts between the public and "the clerk-babus" and thus reduces the opportunity for bribery.

Advanced market economy like the US is also not immune to malpractices in government contract deals. Consider the following data: Of the \$380 billion government contract dollars in 2005, 20-30%, were rewarded without any genuine competition. But, unlike in a country like Nepal, there are civilian oversights of these activities, which include hearings at the congressional level. In 2005 alone, the Public Corruption Program convicted 759 cases out of 890 indictments. It is quite routine event to see the congressmen convicted and put in jail. Even the all-mighty Enron was brought down to its knee. Over 1000 government employees were convicted by the FBI just in the last one or two years. Thus, it would be useful to find out how the procurement practices are carried out at the government level in Nepal. How transparent are these bidding practices? Do we have any civilian oversight? Do we have any whistleblower law in Nepal? It would also be interesting to find out about the internal bidding mechanism of the government tender.

Mallika Shakya:

This article in Nepal Weekly by Rishikesh Dahal might be of interest to the participants on Maoist vision on PSD for New Nepal:

<http://www.kantipuronline.com/Nepal/artha.php>

This article reports that the Maoists commit to: (i) a mixed economy with individual rights to profit; (ii) transparency and corruption control; and (iii) revolutionary land reform (including scaling/upgrading of co-operatives). Sectorally, they seem to have picked up hydropower and tourism as potential growth-bearers and connectivity (e.g. an

ambitious east-west highway in the Mahabharata region) as a primary developmental goal on PSD. This shows signs of welcome pragmatic improvisations on Baburam Bhattarai's 'red' vision 12 years ago. 'Old wine, new bottle' might be too much of an expression, but save some logistical differences in modalities, a Maoist PSD agenda might not really be 'the new broom' either, which should actually leave policymakers a small space for policy maneuvering in the coming days.

Vijaya Sharma:

Nepal has indisputably experienced a shift towards left in the political balance of power, with the emergence of the Maoists as a big political force. In the changed political context, the designated discussants have raised concerns that the mainstream political parties, especially the Maoists, have not clarified their vision and economic agendas for the New Nepal. Will the economic liberalization that began in 1992 continue? What would be the parties' approach to private sector development?

What direction should the private sector development (PSD) take in Nepal, especially on the general pitfalls that Nepal should avoid in the areas of protection of private property rights, treatment of FDI vis-à-vis domestic sources of investment, the issue of social and gender inclusion in private enterprises, level of protection of domestic industries, and promotion of competitive business environment?