

**e-Seminar Title:** Nepal PSD

**Subject:** Education, Maoists' Vision, Hydropower, State Regulation and FDI – Summary of February 21, 2007 Deliberations

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Ambika Adhikari:

(Comments on Hydropower and FDI)

Sujeev Shakya's de-licensing proposal is innovative. India has experienced the dramatic improvement in economic output as a result of scrapping the license-Raj for industries since the 90's. However, in Nepal 's case hydropower sector is not a normal industry. It has deep security implications. In fact, this sector has been the bone of contention between India and Nepal for a long time. Many in Nepal feel it is the only tangible and realistic potential we have for our economic development. Nepal does not want to give that up so easily, but use it towards leverage whenever we wish to bargain with India. This psychology has cost us money and time, as the water continues to flow without being tapped for power.

I remember what Chandra Sekhar told a group of prominent Nepalis in the 90's when he was the Indian Prime Minister. His statement was something like "I heard about your hydro potential and India's power need when I was a teenager, I heard the same thing when I was a MP, and I am hearing the same story now I am the PM. You will not develop it yourself, and you will not allow us to develop it for you. You will remain poor, and you will also cause us to remain poor". This was frustration from a very powerful man, who could not break the barrier of mistrust Nepalis have for any Indian initiated development of our most coveted resource.

We need to let go of the mistrust with India and play with them on pragmatic level. While we must maintain control of the national priorities, we must work with Indian and other foreign investors on mutually beneficial grounds. We can not sit on the hydro-potential for ever. Nepal should also be very clear on what it wants. There will be cost of development. There will be loss of some control when you do a big trade. There will also be social perversions and environmental degradations that will accompany hydro development. We must assess them carefully and accept some costs.

Also to respond to Sujeev jee's assertion about shortening environmental assessment procedure, I beg to disagree. Nepal's geology is very fragile, its bio-diversity highly vulnerable, and the rural population powerless to block large developments. In fact, in the equation of power development, the local communities lose the most as the power is transmitted to urban areas and possibly to India, leaving the local communities to bear the brunt of the environmental damages, while most of the time not even getting any power. Even when power may be available, they can not afford the price.

During the late nineties, I was involved in the socio-environmental impact management of the Bhotekoshi power project during its developmental phase. I remember how the locals lost precious amenities, how their houses were creaked due to blasts during construction, and how they were displaced from the places of their adobe. The only gains were that some villagers got the menial jobs temporarily. I strongly believe that socioeconomic and bio-physical impacts of the large hydropower projects should be rigorously prepared, actively mitigated, and regularly monitored. State's regulatory roles are critical in this phase.

Mallika Shakya:

(Responses to Sujeev Shakya's comments on hydropower and FDI, which may be read under February 20 deliberations)

The policymakers and private sector leaders must disseminate the right information on hydropower projects so public thirst for information is quenched. Let me explain. I grew up reading in my textbooks that Nepal is the second largest source of hydropower in the entire world. As a grown-up, I now find my father taking early retirement from Nepal Electricity Authority (NEA) because of its budget crunch while my sister earns a 100% bonus from Statkraft. I do wonder what went wrong -- isn't this precisely the kind of 'inefficiencies' the 'market' was supposed to have taken care of?

I understand very well that alternative investment opportunities are high in advanced economies which skyrocket their net present values (NPVs) and make least developed countries' state guarantees less attractive. One solution might be to accept this at the face value and go with high NPVs factored in. But another solution might well be to seek local and regional funds which are the victims of the same evil. You rightly pointed out that Nepalese sit in a plot of land for years without building on it. Does this not, at least in principle, give a local visionary entrepreneur an opportunity to develop a local/regional hydro fund?

There also need to be a good enabling environment for a project to function, competitive bargaining platform to reach price equilibrium, and guarantee of property/profit rights to be able to commercially sustain. Other countries are surely mobilizing donor-granted cheaper money to lend to domestic power investors at commercially competitive rates while setting aside public funds for intangibles. Nepal's decision to go straight to IFC might be commercially sound, but IFC also has a 'frontier market division' who are interested in doing business with frontier economies like Nepal and they offer better terms and conditions. They are just not as close with the political power-holders as they should be.

FDI is directly connected with technology transfer. If we missed the technology lessons on how to build it locally next time -- they call it 'the Chinese lesson' -- we wasted our opportunity in real terms. This is where the State has a role. This is where the State should have a role, regardless of whether it is Red or Blue, at a point of time.

Mallika Shakya:

(Comments on the Maoists' vision)

I agree that there is policy uncertainty regarding the Maoists' vision, but I disagree that this should remain an overwhelming issue. Should this ambiguity not allow the policymakers a good pretext to assert their vision before they are pre-empted by either ultra-leftists or ultra-rightists? It is absolutely right that a debate on Maoism-vs-Capitalism is a non-starter. However, if we go a step below, it is not so black-and-white. It is largely about technical coherence of institutions, regulations and incentives. For example, if we want to develop niche products, which have been our competitive advantage throughout both Panchayat and Bahudal; the recipe does not necessitate a philosophical debate on left-vs-right. It is about ensuring that we develop effective certifying and market promotion agencies; avail appropriate financial instruments for transactions to happen; allow collaboration/innovation economics; develop a smooth supply chain.

Jagadish Upadhyay:

(JagadishJee has contributed the following responses to MallikaJee's comments on the Maoists' vision, which may be read in "February 19 deliberations.")

Unfortunately, the Maoists have said different things to different audiences and in different forums. Therefore, while we should hope for the best for PSD and for overall economic growth development following the experience of other countries, "policy uncertainty" should remain as an overwhelming issue until we see convincing evidence of their policy.

Alok K. Bohara:

Historically, education has been the best equalizer in many societies. Even the world capital of free market, America, provides free education up to the high school level for all of its citizens: rich, poor, whites, and non-whites. In Nepali case, despite much progress in the private education sector in the post-1990 democratic era, a dangerous segregation is taking place between the rich and the poor in the education sector. Wealthy families have access to high quality education offered by expensive private schools and colleges, whereas a vast majority of poor and disadvantaged students are stuck in the ailing public education sector.

The new government's attempt to chart a new educational strategy is a welcome sign. But, in the name of reform, imposing quotas, price control or nationalization will all be counter productive, and these overly restrictive regulations (especially banning or nationalization the private educational enterprise as proposed by the Maoists) are not the answer. The recent governmental ordinance, for example, requiring students to seek

governmental permission from the Ministry of Education to go abroad for studies is an example of populist desperation rather than a sound policy prescription.

In addition to having a capital flight to India, such policies will also deteriorate in-school services. It will discourage innovations and Nepali ingenuity in the production of education, which has been a hallmark of the post-1990 democratic era. The point is that a healthy private sector can be constructive in helping the public sector, and in my recommendation, I am drawing upon my proposal which argues for a trust fund to strike that balance.

The proposed system of trust fund uses five percent tax from the total revenue generated by the private schools and colleges (i.e., all higher institutions). There are 1.5 million students in eighty-five hundreds private schools, and 70,000 students go to about 250 private colleges. Using a conservative amount of Rs 1,500 as a monthly charge, the five percent tax revenue will yield about Rs 1.413 billion for the trust fund. The second portion of the trust fund relies on a ten percent levy –about Rs 1 billion-- from the sin taxes on alcohol, tobacco, and casinos. [These are good faith guesstimates.]

Jointly, the five-plus-ten tax system can raise Rs 2.413 billion worth for the trust fund.

Both sectors, being on the target list of the Maoists, should not mind contributing five and ten percent of their revenues respectively to this noble cause. In return, the government and the agitating student organizations should not be imposing too much unfair regulatory controls on them. The proposal then argues for allocating these monies to the graduates of the public schools for their higher level education, including the vocational trainings.

#### Vijaya Sharma:

On February 19, 2007 Mr. Bhuvan Bajracharya contributed his views on PSD in social service sector. It is a common knowledge that political parties have used schools and colleges as a training ground to groom young party activists. In addition, the Maoists have heavily interfered in the past years with the operations of even secondary schools and have argued for nationalization of primary and secondary schools.

Perhaps the most important criterion of measuring success of PSD in Nepal (at least in the near and mid-term) would be its impact on employment generation. For this, our educational system should be able to produce human resources that serve the need of the private sector. To better match supply with demand, I have argued for active involvement of private sector in developing and running a system of post-secondary vocational and training schools for producing mid-level technicians (read my views on this in the website of this seminar posted under “designated discussants’ comments”).

Participants with insights into the educational sector of Nepal could enlighten us with their valuable perspectives on the role of the government in promoting private sector participation in expanding schooling and educational system in Nepal.